Conference Agenda

Overview and details of the sessions of this conference. Please select a date or room to show only sessions at that day or location. Please select a single session for detailed view (with abstracts and downloads if available).

Register New Login  Conference Time: 08/Sept/2015 12:23:18 am GMT

Conference Overview

Date: Saturday, 12/Sept/2015

8:00am - 9:15am  Registration and arrival coffee

Welcome and opening remarks
Professor Thomas Noe, Said Business School, University of Oxford
IFABS 2015 Oxford Conference Chair
Professor Meryem Duyguun, University of Hull Business School
President, IFABS

9:15am - 9:30am  Session Chair: Professor Meryem Duygun, University of Hull Business School, United Kingdom

Country governance and U.S. multinational company subsidiary location decisions
Atanas Mihov1, Leonid Sang1, Detelina Styoyanova2
1Federal Reserve Bank of Richmond, United States of America; 2Florida State University, United States of America

Using a novel, large firm-level data set, we examine how country governance quality affects U.S. multinational companies' expansion decisions into foreign markets. The analysis shows that country governance is indeed an important factor for firms' location choices. Specifically, using instrumental variable regressions among other econometric techniques, we show that firms tend to operate and have more subsidiaries in countries with good governance. The effects are stronger for dimensions such as control, corruption regulation, rule of law, and government effectiveness as compared to others such as voice and accountability and political stability. In addition, we document important interaction effects between country governance and corporate governance, suggesting that U.S. multinationals with bad corporate governance are more likely to operate in locations with bad country governance. Importantly, we provide evidence that multinational firm location decisions have real corporate implications, with firms operating in countries with poor governance having lower value and increased risk.

9:30am - 11:00am  SAT1-01: Special Session on Governance, Location and Distance

Nelson Mandela Lecture Theatre

Travel distance and firm valuation: International evidence
Marc Steffen Rapp1, Thomas Schmid2, Daniel Urban3
1Philipps-Universität Marburg, Germany; 2Hong Kong University, Hong Kong; 3Technische Universität München, Germany

Board members often cover large travel distances when they simultaneously serve in several firms. Based on a novel board dataset covering 35,000 firms across 54 countries, we show that travel distance signals board member quality as we find that longer travel distances are correlated with higher firm valuation. This effect stems from superior matching between firms and board members. We further document that busyness on average reduces firm valuation. Distant board members, however, more than compensate for negative effects of busy board members.

9:00am - 10:30am  Session Chair: Raghavendra Rau, University of Cambridge-Judge Business School, United Kingdom

When and why do controlling shareholders expropriate?
Yan-Leung Cheung1, Raghavendra Rau1, Aris Stouraitis2, Weiqiang Tan3
1University of Cambridge-Judge Business School, United Kingdom; 2Hong Kong Institute of Education; 3Hong Kong Baptist University

Studies of the incentives behind the expropriation of minority shareholders of publicly listed firms by their controlling shareholders focus on the publicly listed firm's performance or characteristics and treat the controlling shareholder as a black box. In this paper, we examine when and why controlling shareholders expropriate by linking the ex ante perception that the publicly listed firm will be expropriated to the performance of its controlling shareholder. We analyze pairs of publicly listed firms and their non-listed parents and assess expropriation by examining cash balances on the publicly listed firm's balance sheet (their level and market valuation using the Faulkender and Wang (2006) model), and intra-group loans from the publicly listed firm to its parent (direct fund transfers and market valuation of the receivables generated by these transfers). Across all four measures, our results are consistent with more tunneling out of the publicly listed firm occurring when its controlling shareholder is under-performing.

9:30am - 11:00am  SAT1-02: Life cycle dynamics and financial distress

Rhodes Trust Lecture Theatre

The industry life-cycle, debt market conditions and the acquisition motive for going public
Magnus Blomqvist
Audencia Nantes - School of Management, France

This study argues that the initial public offering (IPO) market is an efficient tool to facilitate industry restructuring. Firms operating in declining industries are 68% more likely to conduct acquisitions the year following their initial public offering compared to firms operating in growing industries. Firms in low-growth industries behave in a peculiar way. First, their going public to acquire decision is not aligned with the industry's overall M&A activity. Second, they are more likely to go public during times of low debt market liquidity to acquire compared to growth firms. I argue that firms in low-growth industries are forced by low debt market liquidity to access the equity market to obtain deal financing. The pattern is mainly driven by small firms that are more likely to be financially constrained. This is consistent with the pecking order theory of capital structure.

Corporate life-cycle dynamics of cash holdings
Wolfgang Drobetz1, Michael Halling1, Henning Schroeder2
1Stockholm School of Economics, Sweden; 2University of Hamburg, Germany

This paper shows that the corporate life-cycle is an important dimension for the dynamics and valuations of cash holdings. Our results indicate that firms' cash policies are markedly interacted with their strategy choices. While firms in early stages and post-maturity stages hold large amounts of cash, cash ratios decrease when firms move towards maturity. Much of this variation in cash holdings is attributable to a changing demand function for cash over the different life-cycle stages. Trade-off and pecking order motives are of different importance for cash policies dependent on a firm's life-cycle stage. An additional dollar in cash is highly valuable for introduction and growth firms, while a dollar in cash adds, on average, less than a dollar in market value for firms in later life-cycle stages, most likely due to increasing agency problems. Most of the dynamics in cash holdings are observed at life-cycle transition points rather than during the different life-cycle stages. Finally, the secular trend in cash holdings seems strongly attributable to increases in cash in the introduction and the decline stage.

9:00am - 10:30am  Session Chair: Shantanu Banerjee, Lancaster University, United Kingdom

In the path of the storm: Does financial distress cause non-financial firms to risk-shift?
Oksana Pryshchepa1, Kevin Aretz2, Shantanu Banerjee3
1Audencia Nantes, France; 2Florida State University, United States of America; 3Florida State University, United States of America

This paper shows that the corporate life cycle is an important dimension for the dynamics and valuations of cash holdings. Our results indicate that firms' cash policies are markedly interacted with their strategy choices. While firms in early stages and post-maturity stages hold large amounts of cash, cash ratios decrease when firms move towards maturity. Much of this variation in cash holdings is attributable to a changing demand function for cash over the different life-cycle stages. Trade-off and pecking order motives are of different importance for cash policies dependent on a firm's life-cycle stage. An additional dollar in cash is highly valuable for introduction and growth firms, while a dollar in cash adds, on average, less than a dollar in market value for firms in later life-cycle stages, most likely due to increasing agency problems. Most of the dynamics in cash holdings are observed at life-cycle transition points rather than during the different life-cycle stages. Finally, the secular trend in cash holdings seems strongly attributable to increases in cash in the introduction and the decline stage.
Impact of ownership and CEO gender on firms’ efficiency in corrupted operating environment: Is bread gained by deceit sweet to a man?

Jan Hanousek1, Jiří Tresl2, Anastasiya Shamshur3

1 Charles University, Prague, Czech Republic; 2University of Nebraska; 3Norwich Business School

In this study, we explore effects of bribery environment on firm efficiency. We employ a unique data set to comprehensively test the theoretical predictions set forth by both the empirical and theoretical literature. Our panel dataset covers 14 Central and Eastern European countries with over 76,000 firm-level observations from 2000 to 2013. Combining two different data sources we overcome data limitations and methodological deficiencies in previous studies. Our results support the general wisdom on the effects of bribery while shedding new light on efficiency of firms operating in corrupted environments. In particular, we study the interaction of bribery environment with firm ownership and CEO gender, respectively. When foreign company owners operate in higher bribery environments, bribery undercuts its efficiency. However, a fully owned subsidiary offsets the negative effect. Lastly, female CEOs perform on average worse in corruption environment compared to a man.

Do corruption matter for analysts’ earnings forecasts?

Emmanuel C Manatzasakis, Anna Bagtsasarina

University of Sussex, United Kingdom

The purpose of this paper is to quantify the impact that corruption has on the MNE’s entry mode, their propensity to innovate in foreign countries and their propensity to share knowledge with home firms.

Entry mode, corruption and innovation: New evidence from Eastern Europe

Meryem Duygu1, Vania Sena2, Mohamed Shaban3

1 University of Hull, United Kingdom; 2University of Essex, UK; 3University of Sheffield, UK

This paper builds on these studies and suggests that by influencing the entry mode into a country, corruption may influence the propensity of the affiliates to share knowledge with local firms. In particular, we study the interaction of bribery environment with firm ownership and CEO gender, respectively. When foreign company owners operate in higher bribery environments, bribery undercuts its efficiency. However, a fully owned subsidiary insulates themselves from a certain type of corruption. However, this entry mode may reduce the capability of the affiliates to share knowledge with home firms.

Financial synergies and the organization of bank affiliates: A theoretical perspective on risk and efficiency

Elisa Luciano1, Cias Whiborg2

1 University of Torino, Italy; 2Chapman University, CA

We analyze theoretically bank’s choice of organizational structures in branches or subsidiaries in the presence of government bailouts and default costs. We compare with stand-alone banks. These structures are characterized by different arrangements for internal insurance of affiliates against default. The cost of debt and leverage are endogenous. For moderate bailout probabilities, subsidiary structures, wherein the two entities provide mutual internal insurance under limited liability, have the highest private group value, but also the highest risk taking as measured by leverage and expected loss. We explore also the impact on social values and policy implications of "ring-fencing" of affiliates.

Financial distress risk in initial public offerings: How much do venture capitalists matter?

William L. Megginson1, Antonie Meles2, Gabriele Sampagnaro2, Finanzca Verdiolo3

1University of Oklahoma, USA; 2University of Naples, Italy; 3Kingston University of London

Using a sample of 1,593 US firms that went public between 1990 and 2007, we find that VC-backed IPOs experience lower levels of financial distress risk post-offering than comparable non-VC-backed IPOs. After controlling for endogeneity, we find that this result is related to two main factors. First, the screening done by VC-investors involves selecting firms with specific characteristics that should lead to a lower risk of financial distress, both during the financial period and after the IPO. Second, VCs reduce risks when they supply portfolio firms with the needed equity capital to expand their business and with coaching, monitoring and valuable business contacts. As a consequence, the level of financial soundness of firms brought public with VC-backing is likely to be higher than that of non-VC-backed firms, although their financial soundness at the VC’s investment date is analogous to that of non-VC-backed firms.

Bank rescues, risk taking, and rent seeking

Thomas Kick1, Michael Koetter2

1Deutsche Bundesbank, Germany; 2Frankfurt School of Finance and Management and IWH, Germany

We test if increased bank bailout prospects distort the competitive conduct of banks. We use regional political and past bailout traits to identify bailout expectations of both sound and distressed German banks between 1995 and 2010. Beyond moral hazard effects in terms of risk taking, we show that higher bailout prospects also increase market power. Whereas moral hazard applies to any banking type, competitive distortions are most severe among small, regional lenders. Bailouts of large banks by the Federal Market Stabilization Fund amplified competitive distortions.
**M&A In tough times**

Carlo Chiarella, Stefano Gatti

Oxford University - Geography Department, United Kingdom

How does M&A activity change in periods of high uncertainty? This paper studies the impact of uncertainty on the timing and the quality of deals first by tracking the volume of deals in periods of uncertainty, then by asking whether transactions announced during periods of uncertainty are fundamentally different in terms of performance from those undertaken in more quiet periods and finally exploring possible explanations. Evidence is consistent with the view that if uncertainty seems to de-incentivize internal growth, it also creates opportunities. Periods of high uncertainty, which are defined on the basis of the VIX index, are associated with lower M&A activity. Yet, while deals announced in uncertain times show lower announcement return, both their long-run stock performance and operating performance are superior. Acquirers in periods of higher uncertainty benefit mainly from a more disciplined planning and execution of the deal, and to a smaller extent by negotiating from a stronger bargaining position.

**What determines M&A legal and financial advisors’ competitiveness in an international financial centre: Using China’s going out policy as a natural experiment**

Bryane Michael

York University - Geography Department, United Kingdom

Roughly 60 of all publicly announced advisors to China’s Going Out M&A transactions from 2000 to 2014 from international financial centres (representing over 70% of deal value). Why did advisors, located so far away from both acquirer and target, manage to dominate the M&A advisory market in the early stages of Going Out? What can we learn from the smaller advisors located outside of these financial centres who managed to capture a growing share of this business in Going Out’s later stages? In this paper, we hypothesize the existence of a “legal complexity externality” – that had the effect of increasing a financial centre’s ability to attract international business. We look at the way that Going Out advisors have responded to advisory opportunities using what management theorists call “blue ocean strategy.” We show that relationships across geography changed, as large global advisors lost their share of advisory business to advisors outside of international financial centres due to the interplay of these legal complexity externalities and blue ocean strategies. As cities helps foster changes in the law governing Going Out transactions – and as financial and legal advisors adapted their strategies to compete – cities gained or lost Going Out business. We provide 5 recommendations to existing and aspiring international financial centres looking to capture a larger share of global M&A and other investment advisory business.

**Political turnover, ownership, and corporate investment**

Jerry Cao, Brandon Julio, Yecheng Leng, Bill Zhou

1 Singapore Management University, Singapore
2 University of Oregon, USA

We examine the impact of political influence and ownership on corporate investment by exploiting the unique way provincial leaders are selected and promoted in China. The tournament-style promotion system creates incentives for new provincial governors to exert their influence over capital allocation, particularly during the early years of their term. Using a neighboring-province difference-in-differences estimation approach, we find that there is a divergence in investment rates between state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs) following political turnover. SOEs experience an abnormal increase in investment by 6.0% in the year following the turnover, consistent with the incentives of a new governor to stimulate investment. In contrast, investment rates for non-SOEs decline significantly post-turnover, suggesting that the political influence exerted over SOEs crowds out private investment. The effects of political turnover on investment are mainly driven by normal turnovers, and turnovers with less-educated or local-born successors. Finally, we provide evidence that thePrepareOfCompetitiveness the turnaround of provincial governors represent a misallocation of capital as measures of investment efficiency decline post-turnover.

**Real economy effects of short-term equity ownership**

John Thanassouls, Babak Somekh

1 University of Warwick, United Kingdom
2 University of Haifa, Israel

Investor time horizon varies by company, industry and economic system. In this paper we explore the importance of this variation by studying the impact of shareholder time horizon on the investment decisions of the firms they own, and externalities on the wider market. We demonstrate theoretically that short-term shareholders cause Boards to care about the path of the stock price, leading firms to pursue investments for signalling reasons at the expense of long-term value. We demonstrate that short-termism has spillover effects, leading to higher costs of equity capital; bubbles in the price of input assets; and predictable excess returns. We formulate testable predictions within and across countries and evaluate these using existing evidence coupled with a new dataset on owner duration of U.S. and Germanic firms.

**Employment protection legislation and credit access in Europe**

Andrea Mroczka, Daniela Maresch

1 Cranfield University, United Kingdom
2 Johannes Kepler Universitats Linz, Austria

The aim of our research is to investigate the impact of employment protection legislation on the firms’ credit access. This research is the first to address this topic by examining the impact of hiring and dismissal regulations on the probability of being denied credit or to be discouraged from applying for a loan in twelve EU countries. We find that greater flexibility in hiring employees and in structuring their working hours reduces the probability that firms experience inaccessibility to credit. We also find that these flexibility clauses are significantly more related to employment protection in countries with higher unemployment rates.

**Defined-benefit pension plans and financial asset liquidity: The role of employees’ bargaining power**

Bihong Huang, Xiaolin Qian, Lewis H.K. Tam

University of Macau, Macau S.A.R. (China)

Using pension data from IRS 5500 filings and the two-stage least-squares (2SLS) regression, this paper studies the impact of bargaining interactions between employers and employees on the firms’ financial decisions. We find that the DB-Plan coverage is significantly and positively related with employees’ bargaining power gauged by both industry-level and firm-level indicators. Firms with higher DB-Plan coverage are more likely to maintain smaller cash holding but higher debt ratio so as to raise the position on the bargaining table. Such linkage is stronger for the financially-constrained firms. Moreover, firms offering higher DB-Plan coverage are inclined to pay cash rather than equity in M&A. Finally, we test the stock price informativeness and crash risk to rule out the alternative explanation of information asymmetry.

**Outside employment opportunities, employee productivity, and debt discipline**

Jayant R. Kale, Harley E. Ryan, Lingling Wang

1 Northeastern University; 2 Georgia State University; 3 Tulane University, United States of America

Using a sample of over 99,000 firm year observations encompassing more than 13,800 firms from 1978 to 2007, we analyse how changes in labor
market conditions influence the disciplining effect of debt on employee productivity. We document that better (worse) outside employment opportunities strengthen (weaken) the disciplinary effect of debt on employee productivity. The influence of outside employment options on leverage-productivity relation is robust to various controls for endogeneity, including using instrumental variables, a quasi-natural experiment, both firm and industry-level analyses, alternative model specifications, and controls for employees’ work conditions. Altogether, our findings highlight the importance of labor market conditions on the efficacy of corporate financial policies and our understanding of how these policies influence economic outcomes.

Refreshments break

**SAT2-01: Institutions, incentives and organisations**

Session Chair: Michel Habib, University of Zurich, Switzerland

**Institutional development and business group affiliation value: Theory and evidence**

Vijaya Bhaskar Marisetty1, Poonam Mehra2, Narahari Hansoge3

1RMIT University, Australia; 2NIITIE, India; 3Indian Institute of Management, Trichy

**Managerial incentives, risk aversion and corporate policy decisions**

Helen Mary Roberts, Scott McKnight

University of Otago, New Zealand

**Multifaceted transactions, incentives, and organizational form**

Michel Habib

University of Zurich, Switzerland

**SAT2-02: Private equity and entrepreneurship**

Session Chair: Dawei Fang, University of Gothenburg, Sweden

**Financing and mode of entry in foreign markets**

Neelam Jain

City University London, United Kingdom

We study the mode of entry decision of a multinational firm with and without financing constraints on the local firm. We find that the multinational’s expected profits are a discontinuous function of its belief about demand in one mode of entry. These discontinuities are due to the endogeneity of reservation utilities as well as the interaction between an agency problem and a game. Financing constraints lead to an increase in the multinational’s profits from joint venture, while its profits from foreign direct investment decrease if the probability of high demand is low but increase otherwise. Examples show that joint venture arises for a larger set of beliefs when the local firm is financially constrained. This effect is strengthened as technology transfer increases, fixed cost of entry increases and as the multinational’s cost advantage decreases.

**Capital formation and financial intermediation: The role of entrepreneur reputation**

Spencer Martin, Emma Li

Univ of Melbourne, Australs

Recently a new type of institution has emerged, crowd funders. These entities: 1) channel capital to create intellectual property; 2) gather information on project and entrepreneur quality; and 3) gauge demand information directly from individuals to improve the efficiency of capital allocation. Data from crowd funder Kickstarter allow new insight on capital formation and the role of entrepreneurial reputation in the venture funding process. This source includes all cases where entrepreneurs try yet fail to raise funds, a feature heretofore unavailable to researchers. We find that both positive and negative reputation acquisition significantly change measures of capital raising success.

**Dry powder and short fuses: Private equity funds in emerging markets**

Dawei Fang

Department of Economics, University of Gothenburg

Private equity (PE) investors in emerging markets often prefer funds with a “short fuse,” i.e., a much shorter lifespan than their developed market counterparts. However, based on a simple agency model, we show that, unless managerial compensation is sufficiently concavified, the short fuse can exacerbate agency conflicts by encouraging the manager to burn money quickly. The money burning incentives produced by the short fuse can be countered by concavifying compensation or by lengthening the fuse. When PE funds target at projects with high profitability potential, concavifying compensation is unattractive to PE managers because it forces them to concede rents to investors. Thus, when the capital market is competitive, the equilibrium financing arrangement coincides with the long-fused convex-compensation contracts used in developed markets. Thus, our model predicts that the growth in competition for PE funds in emerging markets will lead to the adoption of the long-lifespan PE contracts typical in developed PE markets.

Shareholders’ scrutiny and the relation between political contributions and firm performance

Antonios Siganos

University of Glasgow, United Kingdom

This study focuses how significant an effect shareholder scrutiny has on managers’ political contributions. Unlike in the US, UK party funding regulations indicate that firms are more likely to make contributions to politicians for their benefit rather than due to agency, since managers need approval from their shareholders before contributing funds to political parties. We support our hypothesis by showing that listed firms that make political contributions outperform counterfactual non-contributing firms. The outperformance is more prominent for contributions to the governing party, and for donations of a significant amount. We further explore the relation between political contributions and firm performance within unlisted firms. Unlisted firms have a relatively small number of shareholders and face little media coverage, and it is therefore less likely that shareholders would scrutinize managers to the same extent as in listed firms. Managers of unlisted firms are therefore expected to contribute to politicians in line with their political convictions. We empirically support this hypothesis.

**What constitutes too-big-to-jail?**

Hansoo Choi1, Hyong-Goo Kang2, Changmin Lee3

1Korea Institute of Public Finance; 2Hanyang University Business School, Korea, Republic of (South Korea); 3Hanyang University Business School, Korea, Republic of (South Korea)

This paper investigates judicial size premium, the judicial bias in favor of large economic organizations. The Korean judiciary favors chaebols (large family business groups); convicted chaebol-related defendants receive 9.9%p more jail-sentence suspension and 19 month shorter jail term than
The culture of corruption and the value of corporate governance
Nishant Dass1, Vikram Nanda2, Steven Xiang3
1Georgia Institute of Technology, United States of America; 2University of Texas at Dallas, United States of America

We present evidence on the relation between local corruption and firm value in the United States. We show that managers of firms that are located in more corrupt states are also likely to engage in more corrupt practices. This suggests that evidence of local corruption by public officials is indicative of a local "culture of corruption". Using difference-in-differences tests, we show that, after the passage of the Sarbanes-Oxley Act that curbed bribery by U.S. firms in foreign countries, firms headquartered in more corrupt states lost the most value (Tobin's Q). The culture of corruption is also associated with more agency problems. For instance, the passage of anti-takeover laws hurt firm performance in more corrupt states while the passage of Sarbanes-Oxley Act lowered discretionary accruals of earnings mainly by firms located in these states. Overall, our findings suggest that corruption hurts economic activity not only due to rent-seeking public officials but also on account of social norms and mores that are more accepting of corrupt activities.

Capital control, fund flows and the exchange rates
Jianhua Gao1, Ning Guo2, Jiuyuan Huang3, Zongxin Qian4
1Renmin University of China, China; 2People's Republic of; 3Citib Group, London; 4Renmin University of China, China; People's Republic of; 5Renmin University of China, China, People's Republic of

This article decomposes the excess returns of international capitals into three components: capital controls, stock market risk premium, and currency risk premium. We base our study on the VAR-MGARCH-DCC models and conclude that both the stock market risk premium and the currency risk premium directly affect capital flows, but, surprisingly, capital controls affect capital flows in an indirect way: capital controls first have significant influence on currency risk premium, and then currency risk premium alters capital flows. The dynamic conditional correlation of capital controls and currency risk premium is always significantly positive. Additional evidence concentrates on the capital control channel, which is how capital controls affect capital flows: time dummies about monetary policies or exchange rate floating range increasing have nearly no explanatory power. However, the differential of onshore official guide exchange rate and onshore market price can predict currency risk premium and policy changes. This phenomenon supports that capital controls affect foreign exchange markets through changes of currency risk premium, but not merely the amount of controlling. On the other hand, above empirical results also demonstrate that international capital flows into China mainly attracted by carry trades. To stabilize capital flows, the best strategy is not to constrain the capital flow volume or limit official guide exchange rate. Instead, it would be more effective to liberalize local interest rate market to eliminate carry trades.

A tale of fragmentation: The Euro-area corporate bond market
Andrea Zaghini
Bank of Italy, Italy

Corporations of different euro-area countries faced noticeably different costs of funding in the bond market during the prolonged period of financial instability which started in 2007. We identify the determinants of corporate bond yield spreads in order to isolate country-specific effects, as indicators of market fragmentation. Our evidence hints at a disorderly process of reassessment of corporate credit risk since 2007 with country-specific spreads vis-à-vis Germany becoming strongly positive for issuers located in other euro-area countries. After the introduction of the OMTs by the ECB, such spreads declined considerably but do not disappear.

Does internal board monitoring affect the debt maturity? A natural experiment
Onur Kemal Tosun1, Lemna Senbet2
1University of Warwick, United Kingdom; 2University of Maryland, USA

The managerial agency issue between manager and investors can be controlled by debtholders via short term debt as it provides an external control on managers via frequent renegotiation of the debt contract. Alternatively, increased board independence can mitigate the managerial agency problem by establishing a stronger and effective internal monitoring mechanism of managers. So, strong corporate governance can substitute the maturity structure of debt, or vice versa, in terms of managerial control. In this paper, we investigate the effect of internal board monitoring on firms' debt maturity structure. We exogenously identify internal monitoring via board independence and estimate its real impact on maturity using Sarbanes-Oxley Act of 2002 and the Securities and Exchange Commission regulations as exogenous shocks to board structure in a natural experiment.
setting. Supporting the managerial agency theory, our findings indicate that firms have debt with longer maturity as board independence increases and internal monitoring becomes stronger. Our original results stay unchanged after implementing placebo tests and controlling for the CEO ownership, bond ratings and CEO duality. We also provide more insight into this relation by considering different aspects of debt issuance, organizational structure and as well as the times with financial crises. Our findings stay robust even on the new data issuance while the results are even stronger for conglomerate firms. We find the relation between internal monitoring and debt maturity becomes less clear during times of financial instability.

Does more transparency and disclosure necessarily enhance firm performance?
Suman Banerjee1, Ronald Masulis2, Sarmistha Pal1
1University of Wyoming, United States of America; 2UNSW, Australia; 3University of Surrey, United Kingdom

The present paper provides new evidence that the introduction of transparency and disclosure rules may not necessarily boost firm performance. Focusing on the introduction of the Transparency and Disclosure (T&D) reforms initiated in Russia in 2002, we use data on staggered implementation of the reform by two types of Russian firms over 2003-07. Firms listed only in Russian domestic stock exchanges and firms that listed both in domestic and various foreign stock exchanges prior to the reform exhibited operating performance (i.e., EBIT/Assets) of Russian only domestic-listed firms, whereas had some positive impact on their valuation (e.g., Tobin’s Q). Weak tax enforcement in the pre-reform period made it possible for managers to inflate earnings, which was no longer possible after the T&D reform was implemented. Further analysis showed that state-controlled domestic Russian firms experienced a drop in EBIT and did not experience any improvement in market valuation in the post-reform era. In contrast, better governed Russian firms did not experience a drop in EBIT and they were the only ones to experience significantly higher market valuation in the post-reform era.

11:15am - 12:45pm
Seminar Room A

SAT2-06: Dividend policy
Session Chair: María Gutiérrez Urriaga, Universidad Carlos III de Madrid, Spain

Does dividend tax impede competition for corporate charters?
Tat-kei Lai1, Travis Ng2
1Copenhagen Business School, Denmark; 2The Chinese University of Hong Kong, Hong Kong

Agency problems can be exacerbated by both dividend tax and takeover regulations. We show that if the reduction of both factors exhibits complementarily in reducing agency costs, then dividend tax impede the jurisdictional competition among states for corporate charters. Focusing on weaker competition, states have lower incentives to produce good corporate laws, in turn weakening corporate governance among the corporations. Examining the differential responses across firms with a different number of anti-takeover provisions to the dividend tax cut under the 2003 Jobs and Growth Tax Relief Reconciliation Act, we find evidence in support of such a complementarily.

External financing from dividends: Evidence from Japanese business groups
Abhinav Goyal1, Cal Muckley2, Jun “QJ” Qian3, Hassan Tehrani4
1University of Liverpool, United Kingdom; 2University College Dublin; 3Shanghai Advanced Institute of Finance, Shanghai Jiaotong University; 4Boston College

With a large sample from Japan during the period of 1990-2012, we find firms that belong to business groups (‘keiretsu’) pay more cash dividends than firms not affiliated with any group. The difference between the two groups of firms is greater when the dividend-receiving firms have better investment opportunities, are in financial distress, or when the linkage between them is stronger. Using exogenous changes to taxes on corporate dividends and differences-in-difference and falsification tests, we further establish that keiretsu firms’ dividend payouts have a causal impact on receiving firms’ investment and debt policies. Our results highlight the importance of inter-firm financing, especially during periods of high external financing costs, even for firms in a developed economy.

11:15am - 12:45pm
Andrew Cormack

SAT2-07: Behavioural finance
Session Chair: Maurizio Montone, Erasmus University Rotterdam, Netherlands, The

Optimistic disclosure tone and conservative debt policy
Ali Ataullah1, Andrew Vivian1, Bin Xu2
1Loughborough University, UK; 2Queen’s University Belfast, UK

We examine the relation between managerial overconfidence and debt conservatism (i.e. the low-leverage puzzle). Our analysis suggests that optimistic tone, our novel time-varying overconfidence measure, significantly decreases leverage. This evidence supports the proposition that overconfident managers who consider external financing as unduly costly use debt conservatively. This reduced reliance on external financing can be explained by our further evidence that optimistic tone significantly increases cash holdings and decreases dividend payment. The negative tone-leverage relation is stronger in the presence of high insider purchase of own stocks which confirms that optimistic tone reflects managerial overconfidence. This study suggests that managerial overconfidence can help explain the low-leverage puzzle.

Rational dividend addiction in banking
Benoit d’Udekem
Universe Libre de Bruxelles, Solvay Brussels School of Economics and Management, Belgium

Bank’s cut dividends with great reluctance, as if addicted to them. Their apparent addiction is a major cause of concern for regulators because it could endanger the whole banking system. However, banks may be rational in maintaining elevated dividends if agency costs are high and dividends substitute for shareholder monitoring. Banks may rely on persistent dividend policies to uphold a reputation among investors, especially during crises, when issuing equity becomes illiquid. In support of this hypothesis, we find that during and after the financial crisis, dividend persistence increases with the severity of agency costs to which banks are subject; it decreases in the presence of concentrated shareholders, except when stress is acute. By contrast, share repurchases also substitute for shareholder monitoring but trigger no addiction.

12:45pm - 2:00pm
Entrance Hall

SAT3-01: Special Session on Governance and Acquisitions
Session Chair: Sara B. Moeller, University of Pittsburgh, United States of America

CEO traders and corporate acquisitions
Henry Leung, Jeffrey Tse, Joakim Westerholm

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This paper investigates whether the personal trading decisions in all stocks CEOs trade are related to their corporate acquisition decisions. We find that the personal trading performance of CEOs is significantly and positively related to the short-term market reaction to their mergers and CEOs exhibiting greater turnover on their personal common equity portfolios undertake acquisitions more frequently. In particular, there is strong evidence that CEO risk aversion, measured by the information ratio, is a significant determinant of trading and acquisition frequency.

What determines the effectiveness of non-executive directors’ monitoring? Evidence from UK M&As

Zhou Feng, Carol Cadgett
University of Reading, United Kingdom
This study investigates the drivers of effective monitoring by non-executive directors, and also examines how the drivers are affected by the recent financial crisis. We find that effective monitoring by non-executives is mainly driven by stock ownerships, and as shown by a positive relationship between stock ownerships and bidder’s abnormal returns, while cash incentive is not effective. Independent board has no impact on bidder’s abnormal returns. However, that passive non-executives may be present in the board. We also find that the non-executive directors’ monitoring effectiveness has no improvement after two years of the onset of financial crisis.

Globalization, country governance, and corporate investment decisions: An analysis of cross-border acquisitions

Sarah B. Moeller1, Jesse Ellis2, Frederik P. Schlingemann3, Rene M. Stulz4
1University of Pittsburgh, United States of America; 2North Carolina State University, United States of America; 3University of Pittsburgh, United States of America and Erasmus University, The Netherlands; 4The Ohio State University, United States of America and National Bureau of Economic Research, United States of America
Using a sample of cross-border acquisitions from 56 countries from 1990-2007, we find that acquirers from better governed countries gain more from such acquisitions and their gains are higher when targets are from worse governed countries. Other acquirer country characteristics, including the indices for laws protecting investors, the earlier literature focuses on, are not consistently related to acquisition gains. However, globalization leaves a strong mark on acquisition returns. Acquisition returns are affected by global factors at least as much as they are by acquirer country factors. First, across all acquisitions, the acquirer’s industry and the year of the acquisition explains more of the stock-price reaction than the country of the acquirer. Second, for acquisitions of private firms or subsidiaries, acquirers gain more when acquisition returns are high for acquirers from other countries. A country’s governance and global mergers and acquisitions activity are important predictors of mergers and acquisitions activity in that country. Finally, we find strong evidence that at the firm-level better alignment of interests between insiders and minority shareholders is associated with greater acquirer returns and weaker evidence that this effect mitigates the adverse impact of poor country governance for the bidder.

Do private equity funds benefit from their relationships with financial advisors in M&A transactions?

Stefan Morkoetter, Thomas Wetter
University of St Gallen, Singapore

Are private equity backed initial public offerings any different? Timing, information asymmetry and post-IPO survival

Dimitra Michaila
University of Luxembourg, Luxembourg School of Finance

Regulating private equity

Sung Eun (Summer) Kim
University of California, Irvine, United States of America

Cash-flow sensitivities and financial constraints on credit ratings

Chih-Chung Chien1, Shikuan Chen2, Ming-Jen Chang3
1Department of Finance, Asia University, Taiwan, Republic of China; 2Department of International Business, National Taiwan University, Taiwan, Republic of China; 3Department of Economics, National Dong Hwa University, Taiwan, Republic of China
We investigate whether migration of firms’ credit ratings imposes greater financial constraints on the cash-flow sensitivities of various uses of cash flow. We decompose cash flow into a transitory and a permanent component and focus on both the short-term and long-term financial constraint effect of credit ratings. We find that downgrades in credit ratings are significantly less favorable in terms of firms’ willingness to allocate cash flow toward permanent investment and increase cash flow to transitory cash savings. Our findings inform the debate on whether downgrades in firms’ credit ratings should accumulate liquidity as a buffer against future financial constraints.

Policy initiatives and firms’ access to external finance: Evidence from a panel of emerging Asian economies

Udichibarna Bose, Ronald MacDonald, Serafeim Tsoukas
University of Glasgow, United Kingdom

This paper analyses the impact of policy initiatives co-ordinated by Asian national governments on firms access to external finance, using a unique firm-level database of eight Asian countries - Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand over the period of 1996-2012. Using a difference-in-differences approach and controlling for firm-level and macroeconomic factors, the results show a significant impact of policy on firms choice to external finance. Firms increased their uptake of long-term debt, while decreased their short-term debt. After splitting firms into constrained and unconstrained, using several criteria, the results document that unconstrained firms benefited significantly in obtaining external finance, compared to their constrained counterparts. Finally, we show that the increase in access to external finance after the policy initiative helped firms to raise their investment spending.

The real effects of credit constraints: Evidence from discouraged borrowers in the euro area

Klaas Muller1, Annalisa Ferrando2
1Ghent University, Belgium; 2European Central Bank
This paper uses a new survey-based data set and a model with strong theoretical underpinnings to explain the characteristics and behaviour of discouraged borrowers in the euro area. The results show that more borrowers are discouraged when the average interest rate charged by banks in a country is higher. In line with the trade-off theory, higher effective tax rates lead to lower discouragement. We show that discouragement has strong negative effects on employment growth (-3.4%), investment growth (-4.7%) and asset growth (-2.9%) due to the lack of access to bank finance in the two years following the discouragement. Furthermore, we estimate that the majority of discouraged borrowers would be unable to get a loan if they would apply. Consistent with this low loan approval likelihood, discouraged borrowers tend to be relatively risky firms.

Corporate governance and cash flow manipulation: Evidence from India

Neerav Nagar1, Mehul Raithatha2
1Indian Institute of Management Ahmedabad, India; 2Indian Institute of Management Indore, India
In this paper, we examine whether the firm-level corporate governance measures and regulatory reforms constrain cash flow manipulation. We focus on an emerging market, India where corporate governance and regulations are weak, and business groups and founding owners dominate the corporate landscape. We find that cash flow manipulation is likely to increase with an increase in the promoters’ shareholding. Further, board
diligence and better audit fail to curb such manipulation. Our findings suggest that managers seem to move from earnings management towards cash flow manipulation. However, we do find that such manipulation has gone down in the recent years, and diligent boards constrain it, possibly due to the recent steps taken by the Indian Government for improving the corporate governance environment in India.

The board monitoring and Information disseminations in financially constrained firms
Sanjay Banerji1, Meryem Duygu2, Mohamed Shaban3
1University of Nottingham, UK; 2University of Hull, UK; 3University of Sheffield, UK
In this paper we show how the interactions between incentives and asymmetric information force financially constrained firm to disseminate information so as to secure financing. Firms denied credit due to both lack of information about the probability of success and incentive concerns by the lenders. Hence, firms before IPO or other major financing could choose information structure of the precision of information content of disclosures. Our finding is that firms with very large or small internal wealth or equity may not spend resources on designing information structure but those in the intermediate wealth level may opt to do so. Also, passive boards without technical directors may not choose a transparent information system and firms with higher costs of effort may even engage in jamming signals leading to destruction of information.

The causal effect of dynastic control on performance
Laurent Bach
Stockholm School of Economics, Sweden
The conventional wisdom is that dynastic control provides sharp incentives to entrepreneurs ex-ante, when founders run firms in anticipation of their progeny being in-charge once they retire, and bad management ex-post, when untrained heirs take over. Using data on Swedish private firms and the individuals who control them, I construct a cross-sectional measure of owners’ dynastic intentions based on the presence in the board of young relatives of the current chairman, and provide instruments for dynastic control using the chairman’s family characteristics. My estimations rule out any significant effect, positive or negative, of dynastic control on firm profitability.

20:00 - 21:00
Lecture Theatre 05
SAT3-05: Financial crisis
Session Chair: Madhu Kalimipalli, Wilfrid Laurier University, Canada
Bad assets options and bank resolution in Europe: Lessons learned in and after the 2008 financial crisis
Karsten Pastemann
BDO Germany and Frankfurt School of Finance & Management
For the new European Commission, implementation and enforcement of the Banking Union within the eurozone is currently a key priority. The ‘new normal’ in European financial markets includes the Single Resolution Mechanism, directly coordinating resolution plans and crisis management at significant banks. Present efforts are mainly directed towards minimum technical standards. However, the fundamental question of how to orderly unwind a bad assets portfolio without the usage of public funds remains partly addressed only. While a uniform approach to any bad asset does not seem to be applicable, certain lessons learned from previous financial crises may contribute to a selection of reduction strategies. This paper draws upon experience from portfolio reduction strategies applied at European bad banks in the aftermath of the 2008 financial crisis.

Private or public debt? Effect of crisis on financial intermediation
Madhu Kalimipalli1, Adam Huang2, Subhankar Nayak1, Latha Ramesh3
1Wilfrid Laurier University, Canada; 2University of Waterloo; 3University of Houston
How did the crisis impact financial intermediation? We address this question by studying a unique market segment, viz. foreign debt issued in the U.S, which grew in size despite the financial crisis and hence affords an interesting case for the study of intermediation during the crisis. Using an extensive sample of bond issuers for 28,915 (6,110) Yankee (144A) bond issues by 1,355 (1,531) issuers from 66 (94) different countries between 1990 and 2013, we examine the debt choice, pricing and market timing between public (Yankees) and private (Rule 144A) debt issuers for foreign firms. To the extent that foreign firms heavily rely on 144A debt as a funding option, our study overall sheds light on the role of Qualified Institutional Buyers (QIBs) in providing intermediation in the 144A market and especially during the crisis.

21:00 - 22:00
Seminar Room A
SAT3-06: Political influence
Session Chair: David Feldman, UNSW, Australia
Republican managers & innovation
Bater Alhassali, Mohammad Almarzouq
Kuwait University, Kuwait
We examine how managers’ political orientations and ideologies affect a major corporate policy decision, innovative production. We conjecture that Republican managers are likely to carry conservative personal philosophies which will spill over into their corporate decision-making. Using the personal political contributions of managers and the September/11 Attacks as an exogenous shock to conservatism, we find that over the 1992-2006 period firms with Republican CEOs and managers produced less innovation as measured by the number of patents produced and the number of new products that the firm markets.

Firm performance, political influence and external shocks
Laura Solanko1, Vadim Sokoly2
1BOFIT, Bank of Finland; 2Higher School of Economics, Moscow
Using representative survey data on manufacturing firms and the official registry data, we study how firms’ political influence at the regional level affect firms’ financial performance. We find that firms with political influence exhibit higher profitability but also retain larger cash holdings. We also find that politically influential firms are not more likely to take bank credit, but where they do so, they tend to enjoy longer maturities. Furthermore, after conditioning on the level of the regional institutional development we find that the significant impact of the firms’ regional political influence is present only in regions with poor institutions and is almost absent in the regions with high level of democracy/market freedom. Most importantly, we are able to show that firms’ political influence was likely to be lower during the survey’s last year of the 2008 economic crisis. These findings suggest that having regional political political influence may turn out to be detrimental when faced with a sudden, exogenous shock.

Pollitically motivated corporate decisions: Evidence from China
David Feldman, Jiaying Li, Konark Saxena
UNSW, Australia
Two conflicting hypotheses affect the effect of political phenomena on corporate decisions: uncertainty regarding outcomes reduces economic activity, and 2. agency driven incentives increase economic activity. Further assertions suggest that under democratic elections the former hypothesis prevails and under autocratic promotions the latter does. Indeed, Julio and Yook (2012) found that democratic elections are associated with reductions in corporate investments. In this paper we investigate the effect of promotions to the Chinese National Congress on Chinese corporate decisions. We use the Chinese National Congress as an exogenous shock to promotions. We find that firms with Republican CEOs and managers produced less innovation as measured by the number of patents produced and the number of new products that the firm markets.

22:00 - 23:00
Andrew Cormack
SAT3-07: Credit rating, bonds and securitization
Session Chair: Hamid Driss, Saint Mary's University, Canada
How did the crisis impact financial intermediation? We address this question by studying a unique market segment, viz. foreign debt issued in the U.S, which grew in size despite the financial crisis and hence affords an interesting case for the study of intermediation during the crisis. Using an extensive sample of bond issuers for 28,915 (6,110) Yankee (144A) bond issues by 1,355 (1,531) issuers from 66 (94) different countries between 1990 and 2013, we examine the debt choice, pricing and market timing between public (Yankees) and private (Rule 144A) debt issuers for foreign firms. To the extent that foreign firms heavily rely on 144A debt as a funding option, our study overall sheds light on the role of Qualified Institutional Buyers (QIBs) in providing intermediation in the 144A market and especially during the crisis.
How do firms decide where to issue? Lessons from corporate onshore and offshore bond finance in Asian emerging markets

Paul Mizen1, Eli Remolona2, Frank Packer3, Serafeim Tsoukas3
1University of Nottingham; 2Bank for International Settlements; 3University of Glasgow, United Kingdom

Corporate bond issuers in emerging economies in Asia have often had a choice between an onshore market and an offshore one. Many issued offshore, but issuers increasingly turned to the onshore market. To what extent was this due to the development of the onshore market? How much depends on the global search for yield or more open capital markets? This paper investigates systematically what factors have influenced this choice between markets for issuers in seven emerging economies -- Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore and Thailand. For variables measuring market depth and liquidity, the availability of hedging instruments, and the size of the investor base, we rely on BIS statistics that have not been used in this literature before. We combine these market-level data with firm-level data in an unbalanced panel for the seven countries covering the period 1995 to 2012. We control for variables representing agency, static trade-off and risk management theories of the capital structure. Our results show that the choice between onshore and offshore markets has changed over time in large part because of the increased depth of the onshore market. The effect is stronger in economies with more open capital accounts. The firms that benefit from such market development tend to be the unseasoned issuers rather than the seasoned ones.

Determinants of primary market spread of securitization: A panel data study

Mohammed Hariri Bakti
Universiti Teknologi Malaysia Melaka, Malaysia

Malaysian firms have been reported involved in Asset Back Securities since 1986s when Cagamas is a pioneer. This research aims to examine the factor influencing primary market spread. Least square method and regression analysis are applied for the study period 2004-2012. The result shows two determinants in internal regression model influence or contribute to the primary market spread and are statistically significant in developing the securitization in Malaysia. It can be concluded that leverage and liquidity significantly contribute to the determinant primary market spread in internal regression model and interest and inflation significant in external regression model. From four hypotheses, three hypotheses support that the determinants have a relationship with primary market spread.

Are credit rating agencies still relevant? Evidence on certification from Moody's credit watches

Hamdi Driss1, Nadia Massoud2, Gordon Roberts2
1Sargi Mary’s University, Canada; 2York University, Canada

Using firms with Moody’s issuer-level, watch-preceded rating downgrades between 1992 and 2011 as a benchmark, we document that firms with watch-preceded rating confirmations (firms for which original ratings are confirmed after a credit watch warning) experience an increase in long-term financing, investment, and profitability following the credit watch period. Financially constrained firms with confirmed ratings substantially increase their long-term financing after the watch period, indicating that rating agencies can help alleviate firm capital constraints. These findings suggest that rating agencies have real effects on firm behavior, and that a credit watch with direction downgrade is an effective certification mechanism.

Trade-off theory vs. the pecking order hypothesis: Evidence from Japan

Konstantinos Voytinas, Richard Werner
University of Southampton, United Kingdom

This paper investigates the explanatory power of the two predominant theories in the area of capital structure, the trade-off theory and the pecking order hypothesis, in accounting for financial policy decisions of Japanese corporations. This is achieved through the use of a “horse race” test similar to the one utilized in the seminal papers of Shyam-Sunder and Myers (1999) and Frank and Goyal (2004). This is the first paper to take into consideration the effect of monetary conditions and financial constraints on the performance of these two theories. The data set used includes 1528 public and 2143 companies and covers the turbulent period of 1980-2007, thus using 60,037 data points. Our findings show that economic conditions affect the performance of the two models. The pecking order hypothesis works best during the high growth period of the 1980s while the trade-off theory is the best performer during the stagnant growth period of the 1990s and the subsequent credit crunch. Our results also show that the trade-off theory works best for companies with low levels of leverage while the pecking order hypothesis performs best for private companies and companies with high levels of leverage.

Capital structure and financial flexibility: Expectations of future shocks

Costas Lambrinoudakis1,2, Michael Neumann3, George Skidopoulos1,2
1Queen Mary University of London, United Kingdom; 2University of Piraeus, Greece; 3Dimensional Fund Advisors

We test one of the main predictions of the financial flexibility paradigm that expectations about future firm-specific shocks affect the firm’s leverage. We extract the expectations of small and large future shocks from the market prices of equity options. We find that expectations for future shocks decrease leverage and are statistically significant even when we control for traditional determinants and endogeneity. Moreover, they have a first-order effect to capital structure decisions affecting more the small and financially constrained firms. Our findings confirm De Angelo et al. (2011) model predictions and evidence drawn from surveys that managers seek for financial flexibility.

Collateral channels

Gabor Pinter, Saleem Bahaj, Angus Foulis
Bank of England, United Kingdom

Does an increase in land prices directly expand corporate investment and job creation by allowing businesses to borrow more against their collateralizable real estate, or does it indirectly expand corporate activity by allowing company directors to take on more mortgages that they subsequently reinvest into their businesses? Our unique combination of datasets including firm-level accounting data matched with transaction-level mortgage data allows us to identify whether the collateral channel propagates land price shocks into corporate activity directly via corporate borrowing or indirectly via household borrowing. Thus we are able to provide a more detailed analysis of the important links between real estate markets, household indebtedness, corporate indebtedness and the wider economic activity.
Knighthoods, damehoods, and CEO behaviour
Konrad Ratji1, Linus Siming2
1Norwegian School of Economics; 2Bocconi University
We study whether and how politicians can influence the behaviour of CEOs and firm performance with prestigious government awards. We present a simple model to develop the hypothesis that government awards have a negative effect on firm performance. The empirical analysis uses two legal reforms in New Zealand for identification. Knighthoods and damehoods were abolished in April 2000 but reinstated in March 2009. The findings are consistent with the predictions of the model. The results suggest that government awards serve as an incentive tool through which politicians influence firms in favour of employees to the detriment of shareholders.

CEO overconfidence or stock mispricing and growth? Reexamining the effect of CEO option exercise behavior on corporate investment
Jie Cao
Chinese University of Hong Kong, Hong Kong S.A.R. (China)
Malmendier and Tate (2005) use CEO late option exercise to proxy for unobservable CEO overconfidence and argue that managerial overconfidence can account for investment distortions. By breaking the market-to-book ratio into rm mispricing, industry mispricing, and growth opportunities, we nd that industry mispricing and growth opportunities ince both CEO option exercise and corporate investment. When rms are overvalued or have better growth opportunities, CEOs are more likely to postpone their option exercise and at the same time invest more using internal cash. Moreover, CEO late option exercise fails to explain investment decisions after controlling for mispricing and growth opportunities.

Product market linkages and managerial risk taking
Jayant Kale1, Simi Kedia2, Ryan Williams3
1Northeastern University, United States of America; 2Rutgers Business school, United States of America; 3University of Arizona, United States of America
A firm’s customers and suppliers make relationship-specific investments (RSI) whose value reduces if the firm undertakes risky investments. We hypothesize that the risk-taking incentives in the firm CEO’s compensation will lower the RSI by firms up and down in the vertical channel. We provide significant evidence that customer/supplier RSI declines with the risk-taking incentives of CEO. Moreover, we nd that RSI is more sensitive to the CEO’s risk-taking incentives when they are more likely to increase the firm’s cash flow volatility. Our ndings are robust to correcting for endogeneity and several measures for RSI and risk taking.

The impact of corporate governance mandates on firm-level foreign exchange exposure
Ulrich Hega1, Elaine Huston2, Elaine Laina3
1INSEAD, Paris, France; 2Monash University, Melbourne, Australia; 3Trinity College Dublin, Ireland
We examine whether firms’ management of foreign exchange risks improved as a result of the enhanced monitoring provisions in the Sarbanes-Oxley mandates and related stock exchange listing rules. Using a sample of 533 US non-financial firms over the period 2002 to 2007, we show that firms with lower levels of adherence had higher foreign exchange exposure. This reversed post-SOX, as the firms improved their level of compliance, their exposure fell. We nd that this risk-reduction effect is much stronger for small firms. We also nd that greater board independence is associated with lower post-SOX exposure. Our ndings contribute to the debate on the benefts and costs of SOX: the improved management of foreign exchange risks is a previously unrecognised beneft of the mandates.

Do friendly boards have an influence on corporate financing policy? Evidence from French listed firms
Cédric Van Appelghem1, Aurélie Sannajust2, Samir Trabelsi3
1Université Paris 2 Panthéon-Assas, France; 2Université Jean Monnet Saint-Etienne (COACTIS), France; 3Brock University, Canada
Our work shows that board friendliness toward the Chief Executive Officer (CEO) increases leverage. This is consistent with Resource Dependence Theory which conceives the board as a strategic interface between the firm and its environment. Complementary tests show that this relation depends on ownership concentration: Firms with higher ownership concentration face a decrease in leverage. Taken together, our results suggest that it is necessary for researchers to have a contingent vision of the effects of board composition on corporate governance.

Shareholder rights and engagement at European general meetings
Luc Renneboog1, Peter Szilagyi2
1Erasmus University, Netherlands; 2University of Cambridge, UK; 3Central European University, Hungary
This paper examines shareholder voice at company general meetings in Europe. Using management and shareholder proposals submitted in 17 countries, we investigate whether dissent against management is affected by meeting, proposal and firm characteristics, as well as the various regulatory provisions that have been argued to affect meeting access and participation. We nd that while shareholder engagement at European meetings remains limited, it tends to be well-placed. Shareholders are most likely to act on anti-takeover devices and executive compensation, and submit their own proposals against large and poorly performing firms. Critically, national regulation plays a major role in galvanizing shareholders, lending strong support to the European Commission’s Shareholder Rights Directive, and the broader pro-shareholder regulatory trend that has emerged post-crisis worldwide. We find that shareholders use their voice more at the firm level when concerned about the institutional environment at the country level, and the quality of minority investor protection in particular. We conclude that shareholder engagement at company general meetings is a part of good governance, and regulators should go beyond minimum standards proactively to support shareholder rights.

Optimal security design under asymmetric information and profit manipulation
Kostas Koufopoulos1, Roman Koehan2, Giulio Trigilia3
1University of Piraeus, Greece; 2University of Warwick, United Kingdom; 3University of Warwick, United Kingdom
We consider a model of external financing in which entrepreneurs are privately informed about the quality of their projects and seek funds from competitive financiers. The literature restricts attention to monotonic or ‘manipulation-proof’ security designs and finds that straight debt is the uniquely optimal contract. Monotonicity is commonly justified arguing that it would arise endogenously if the entrepreneur can manipulate profits before contract’s maturity.

We characterize the optimal contract when entrepreneurs can restrict their earnings. Straight debt is often suboptimal and never uniquely optimal. The optimal contract is non-monotonic and involves profit manipulation in equilibrium. It can be implemented as debt with a strictly positive performance-based bonus.

Political connections and financial stability
Kentaro Asai
The University of Chicago, United States of America
This paper documents multiple channels through which lobbying activities of US large financial institutions affect their risk profiles utilizing the data from 2003 to 2014. I find that observed risk profiles are negatively associated with lobbying activities after 2008. Moreover, an event study around announcements of major bailout plans in 2008 reveals that politically connected firms experienced larger drops in their credit risk after the announcements of bailouts. In order to verify whether sharp drops in credit risks are associated with changes in firm fundamentals or creditors’ beliefs about default risks, I develop the quantitative model of a firm’s risk-taking subject to a run that predicts the set of rationalizable risk profiles at firm level. The calibrated model implies that lobbying activities affect firm primitives to induce the potential for high default risk and asset volatility to occur. This is a rather consistent with the prevalent view that lobbying activities weaken the impact of regulatory function to prevent financial institutions from taking risk excessively. However, I also provide evidence that lobbying activities bolster the impact of regulatory function to calm down creditors’
Informal origin, performance and conduct: Firm-level evidence from the Balkans
Georgios Panos1,2, Leonr Klapper3, Ouana Dimtrak4
1University of Glasgow, United Kingdom; 2The World Bank; 3University of London, United Kingdom
In the last two decades, the Balkan counties have been a laboratory of business environment and financial sector reform in the post-communist and the post-conflict transition processes. The main aim was to support formal business operation and performance, as well as to prevent the old norms of informal business conduct. Using data from more than 5,000 firms in eight Balkan countries we examine three hypotheses related to the performance and behaviour/conduct of firms that stems from the informal sector. Our results indicate that firms of informal origin perform better in terms of sales and employment growth, as well as exporting activity. Moreover, we find a positive relationship between access to finance among informal firms and their performance, which becomes stronger for young firms of informal origin. We interpret this as in accordance with a competitive view of informality in the Balkans. Finally, we test whether informal forms of conduct persist among formerly informal firms. Our results strongly reject this hypothesis.

3:45pm - 5:15pm
Lecture Theatre 05
SAT4-05: Law and finance
Session Chair: Jane Frecknnal-Hughes, Hull University Business School, United Kingdom
Regulatory competition and the market for corporate law
Ofer Eldan1, Lorenzo Magnolli2
1Yale School of Management, United States of America; 2Yale University
Do private family firms rely on internal finance to grow? Evidence from different legal origins
Ignacio Requena
Universidad de Salamanca, Spain
Finance and legal form: Their roles in models of internationalisation
Jane Frecknall-Hughes1, Peter Buckley2
1Hull University Business School, United Kingdom; 2Leeds University Business School

3:45pm - 5:15pm
Seminar Room A
SAT4-06: Culture, relationship and ownership structure
Session Chair: Masayo Shikimi, Nagasaki University, Japan
Pyramidal group structure and bank risk in Thailand
Yupa Wiwattanakantang1, Pramuan Bunkanwanich2, Jyoti Gupta2
1NUS Business School, Singapore; 2ESCp Europe, France
Is culture converging the banking industry? A cross-country analysis
Mohamed Azim Gulamhussen1, Carlos Manuel Pinheiro2, João Teodósio3
1ISCCTE Business School, Instituto Universitário de Lisboa; 2Caixa Geral de Depósitos, Portugal; 3Instituto Politécnico de Santarém

The Structure of Corporate Holdings and Corporate Governance: Evidence from India
Swarndeep Homrny1, Shantanu Banerjee2
1Lancaster University, United Kingdom; 2Lancaster University, United Kingdom
Bank relationships and cash holdings: Evidence from Japanese firms
Masayo Shikimi
Nagasaki University, Japan

3:45pm - 5:15pm
Andrew Cormack
SAT4-07: Governance and M&As
Session Chair: Paul Alexander Borochin, University of Connecticut, United States of America
The impact of changes in Japanese tender offer regulations on gains to shareholders and on the operating performance of a target
Kazunori Suzuki1, Timothy A. Kruse2
1Waseda University, Japan; 2Xavier University, USA
The Japanese market for corporate control has undergone remarkable growth following the 1990 introduction of mandatory bid rules (MBR) regulating tender offers. Initial MBR regulation allowed more freedom to a bidder to conduct a partial tender offer without squeeze-out. There were two important revisions to the MBR. Share based squeeze-out rules were introduced in 1999. Then, in 2006, amendments increased the protection of targets' minority shareholders, limiting the ability of acquirers to offer squeeze-outs at a smaller control premium (sometimes at a price below the market). We examine 622 tender offers between 1991 and 2011. Over time, there have been fewer offers without squeeze-out and/or discounted offers that expropriate minority shareholders. However, significant increases in bid premiums materialized only after the 2006 regulatory changes. There are 252 tender offers without squeeze-out, where a target firm kept listed on the stock exchange after the completion of a tender offer. The merit of having a large sample of listed target is that we are able to trace the operating performance and share price of the target long after the completion of a tender offer. Japan’s experience will serve to deepen the understanding of the regulators in European countries and in emerging markets that adopt MBR.

The role of corporate governance for acquisitions by the emerging market multinationals: Evidence from India
Burcin Coı1, Kaustav Sen2
1Pace University, United States of America; 2Pace University, United States of America
Acquisitions by emerging market firms of targets located in developed markets have increased drastically over the recent years. Using firm-level data spanning 2001-2010, we find that firm-level corporate governance of Indian firms improve after acquiring developed-market (DM) targets relative to domestic targets. Additionally, we find that the improvement in firm-level governance is higher when the developed market target countries have better investor protection. We also find that these firms exhibit higher valuation after the acquisition.

Alternative corporate governance: Domestic media coverage of mergers and acquisitions in China
Paul Alexander Borochin1, Weihua Cu2
1University of Connecticut, United States of America; 2University of Xiangtan, China
A test analysis of domestic Chinese newspaper articles on 797 proposed mergers shows that media in developing countries are quantifiably susceptible to pressure: media coverage is more favorable for deals consistent with government objectives and involving powerful local firms. However, we also find that media tone can affect the outcome of proposed M&A deals by informing the market. We identify this effect using the exogenous shock to market-driven governance from the Split-Share Structure Reform in 2007. Negative tone during negotiation coverage also predicts long-term performance for the bidder. Despite biased coverage, domestic media in developing countries can function as an alternative channel for corporate governance.

7:00pm - 9:30pm
Gala Dinner at Lady Margaret Hall
Date: Sunday, 13/Sept/2015
8:00am - 9:30am
Nelson Mandela Lecture Theatre
SUN1-01: International IPOS
Session Chair: Marc Goergen, Cardiff University, United Kingdom
Does institutional participation enhance IPO performance? Evidence from the Indian capital market
Chinmoy Ghosh1, Arnab Bhattacharya2, B B Chakrabarti2, Milena Petrova4
1Stanford University; 2Indian Institute of Management Kolkata; 4University of Texas, United States of America;
University of Xiangtan, China; 2University of Xiangtan, China; 2University of Xiangtan, China; 2University of Xiangtan, China;
University of Xiangtan, China; 2University of Xiangtan, China; Ourania Dimitraki,ucchini
08:00am - 09:30am Rhodes Trust Lecture Theatre

Executive retention and accelerated option vesting

Torsten Jochem, Tomislav Ladika, Zacharias Sautner

This paper examines the role played by foreign venture capital firms (VCs) in affecting the IPO premium of US IPO firms. We find that US VC-backed IPOs benefit from the foreignness of the VC syndicate (via the presence and distance of foreign VCs), which generates ample growth potential for investee firms, which in turn translates into a higher IPO premium. More precisely, we find evidence of a non-linear relationship between foreign VCs and the IPO premium; the latter first increases with the foreignness of the VC syndicate, and then decreases. While the initially positive effect of foreign VCs lends support to the resource-based and institutional theories, the subsequently negative effect suggests that greater presence and distance reduce the VC syndicate's effectiveness in properly monitoring the IPO firm. Our findings also indicate that foreign VCs foster the foreign business activities of US IPO firms, and that after controlling for the endogenous determination of foreign business activities, greater foreign VC presence and distance combined with the IPO firm's foreign business activities increase the IPO premium.

Executive compensation and political sensitivity: Evidence from government contractors

Brandy Hadley

California State University, San Bernardino, United States of America

Using federal contractor data, this paper examines the political costs hypothesis through the impact of government scrutiny and political sensitivity on executive compensation. The political cost hypothesis posits that firms subject to government scrutiny take actions to deflect potential negative government reactions which can result in increased political costs for the firm. Results suggest that government contractor firms with the most political sensitivity (i.e., firms with government contracts that are most visible and comprise significant portions of their revenue) pay lower total (and excess) compensation to their CEOs, but with larger portions of cash, leading to lower long-term CEO wealth performance sensitivity. However, politically sensitive contractors with significant targeting power (due to concentration, contractual contributions), are actually paid greater executive compensation than other politically sensitive firms. These findings provide insight into the effects and limitations of additional government monitoring of executive compensation.

Compensation of nonexecutive directors in financial firms prior to the onset of the financial crisis

Jose Filipe Abreu, Mohamed Azzim Gulamhussen

European Central Bank, Germany; Vlerick Business School

Compensation of bank managers has been in the public eye since the inception of the 2007-9 financial crises. Misalignment of incentives has been at the heart of public debates on the issue. In the aftermath of the financial crisis, regulators rushed to develop rules that impose limitations on compensation of senior executives. Academics sought to find explanations and derive policy implications. We contribute to this debate and literature by studying compensation of nonexecutive directors in a sample of U.S. publicly listed banks from 2000-9. Nonexecutive directors are expected to act on behalf of principals to monitor agents. Our findings indicate a steady increase in the compensation of nonexecutive directors in financial firms and a significant role on firms’ market value. The use of incentive-based compensation (both cash bonus and equity) for nonexecutive directors seems to be negatively related to market value whereas the experience of nonexecutive directors is positively related to the market value. We hypothesise that the impact of nonexecutive directors’ characteristics on firms market value is channelled through the compensation of executive directors. Our findings have regulatory and academic implications.

The impact of internationalisation on zero leverage: Evidence from the UK

Eleni Chatzivgeri, Panagiotis Dountis-Chariotis, Sheeja Sivaprasad

University of Westminster, United Kingdom

There is an ongoing debate in the capital structure literature as to the direction of the effects of internationalisation on firm debt. Despite the increasing attention on the role of internationalization in firms’ capital structure decisions, and the increasing adoption of zero leverage policies by multinationals, no study attempts to explain the effect of multi-nationality on the zero leverage decision. This study explores the relationship between the level of internationalization and zero leverage using a large panel of UK companies, while controlling for various company-related factors. We find strong evidence that multi-nationality affects the propensity of firms to have zero leverage and that this decision is affected by industry specificities.

The leverage, pricing and return puzzle in leveraged buyouts: The impact of competition

Nicholas Geoffrey Craen, Reiner Braun, Anna Gerl

Vanderbilt University, United States of America; Technische Universität München, Germany

We investigate how the competition for buyout targets between private equity funds drives the relationship between deal leverage and performance. For targets acquired through investment bank auctions, a higher level of debt measured with respect to fundamentals (Debt / EBITDA) is associated with a higher purchase price and lower returns. This is consistent with the view that improving credit market conditions decrease the relative advantages between private equity fund managers and, thus, the sellers of the target firm ultimately benefit from easy credit. Our results are distinct from changes in deal prices driven by private equity fundraising and the results are robust to alternative proxies for the competitiveness of deals. Finally, we show that the choice to pursue auction deals in particularly loose credit markets, when expected returns are low, is positively related to proxies for agency conflicts between fund managers and fund investors.

Zero-leverage puzzle: An international comparison

Sadok El Ghoul, Omrane Guedhami, Chuck Kwok, Xiaoan Zheng

University of Alberta, Canada; University of South Carolina; University of Nottingham Ningbo, China

Using a large sample of firms from developed and developing countries over the 1990 to 2010 period, we document evidence of zero-leverage firms having significantly lower after-market volatility and liquidity than non-anchor IPOs. The anchor IPOs also outperform non-anchor IPOs in the long run, although they drop significantly in underpricing. Overall, our evidence is consistent with the theory of zero-leverage firms being driven by government monitoring, which is an important determinant of the decision to go public abroad. Finally, we show that the decision to list in the US differs from that of other major financial markets.

Going public abroad

Cecilia Caglio, Kathleen Weiss Hanley, Jennifer Marietta-Westberg

1 Federal Reserve Board of Governors; 2 Lehigh University, United States of America; 3 Securities and Exchange Commission

This paper examines the decision to go public abroad using a sample of 21,809 IPOs. Although only 6% of initial public offerings are offered abroad, these represent approximately 13% of total IPO proceeds. We show that the home country's market characteristics but also the extent to which it is financially integrated with the world economy. In addition, we provide evidence that the decisions of whether to go public abroad and where to list as well as the amount of proceeds raised are determined by the presence of global underwriters. We find that alleviating informational and regulatory and academic implications.

Foreign business activities, foreignness of the VC syndicate, and IPO performance

Salim Chahine, Samer Saade, Marc Goergen

1 American University of Beirut, Lebanon; 2 Cardiff University, United Kingdom

This paper examines the access to foreign capital. The presence of a foreign VC in a firm's ICA is positively related to the number of foreign VC investors in the firm, yet the level of foreign activity is not always associated with a higher IPO premium. Furthermore, we find that foreign VCs are more likely to invest in firms with a higher level of foreign activity, which is consistent with the resource-based and institutional theories. Our findings suggest that greater presence and distance reduce the VC syndicate's effectiveness in properly monitoring the IPO firm. Our findings also indicate that foreign VCs foster the foreign business activities of US IPO firms, and that after controlling for the endogenous determination of foreign business activities, greater foreign VC presence and distance combined with the IPO firm's foreign business activities increase the IPO premium.

8:00am - 9:30am Edmond Safra Lecture Theatre

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around the world. Further, we find strong and robust evidence that in countries with high scores on Schwartz’s Conservatism and Mastery indices as well as high levels of trust, firms are more likely to employ a zero-leverage policy, after controlling for various firm- and country-level determinants of leverage. Finally, we find that firms with zero leverage have a lower cost of equity capital in countries where a zero-leverage policy is more compatible with the local culture.

**Session Chair:** Hisham Farag, University of Birmingham, United Kingdom

**Institutional investors connectedness and firm value**

Emanuele Baij1, Nicoletta Marinelli2

1Università di Bologna, Italy; 2Università di Macerata, Italy

This paper investigates the role of the institutional blockholder’s connectedness, as measured by the number of co-ownership ties, over the firm value. We gauge the connectedness of institutional investor residing to the centrality measures by using the social network analysis. Using thirty thousand firm-year observations from the US market, we find that block-holdings from more central institutional investors are associated with higher Tobin’s Q. This effect is robust to other alternative specifications of the network centrality’s explanatory power. Indeed we show that the institutional centrality displays an effect over and beyond the investor portfolio characteristics, such as the size of funds managed, the weight of the shareholding, the degree of diversification, as well as the dispersion of multiple block-holdings or the investor type.

**Agency versus hold-up: On the impact of binding say-on-pay on shareholder value**

Alexander Florian Wagner1,2, Christoph Thomas Wenk1

1University of Zurich, Switzerland; 2Swiss Finance Institute

Many countries are planning to introduce new or to alter existing say-on-pay laws. The general thrust of recent regulatory developments in this respect is to further strengthen shareholder power. A set of policy experiments in Switzerland sheds light on the hitherto mostly theoretical argument that shareholders may, in fact, prefer to have limits on their own power. The empirical evidence suggests a trade-off. On the one hand, binding say-on-pay provides shareholders with an enhanced ability to ensure alignment. On the other hand, when shareholders can (partially) set pay ex post, this may distort ex ante managerial incentives for extra-contractual, firm-specific investments. Thus, shareholder power reduces agency costs, but accentuates hold-up problems. These findings inform the design of policy.

**Board diversity and financial fragility: Evidence from European banks**

Hisham Farag1, Chris Mallin2

1University of Birmingham; 2University of East Anglia

In the wake of the recent debt crisis in Europe, we investigate the influence of board diversity on both financial fragility and performance of European banks over the period 2004-2012. Corporate governance codes in Europe recommend unitary and dual-board systems; therefore, we believe that the influence of board diversity may vary across different governance mechanisms and that our studies have addressed the variations and their influence on financial fragility across European countries. The results of the system GMM estimator show that diversity-financial fragility relationship is non-linear as appointing additional female directors at a critical mass of 23.6% has a negative and significant influence on banks’ vulnerability to financial crisis across unitary boards. Similarly, beyond a critical mass of 18.2% and 23.2% female directors, appointing additional female directors on the supervisory and management boards respectively may decrease financial fragility across dual boards. Furthermore, we find that high risk and more financially fragile banks are less likely to appoint female directors due to the perception that females are more risk-averse and would tend not to condone more risky decisions. Our empirical results provide support for the recent calls for more board diversity by various governments and the EU. Moreover, the relationship between board diversity and financial fragility may potentially have important implications for the stability and confidence in European banking sector.

**Corporate social responsibility, corporate governance and cost of equity: A cross-country comparison**

Wolfgang Breuer, David Rosenbach, Astrid Salzmann

RWTH Aachen University, Germany

The paper examines the effects of firm-level corporate governance mechanisms in cooperation with country-level legal protection of investors on the choice of CSR engagement and firms’ cost of equity capital. After controlling for endogeneity, causation and selection bias, our results show a decreasing effect of firms’ cost of equity capital in CSR. In particular, we find that this relation is notably strong when country-level legal protection of investors is high. Conversely, the relative importance of firm-level corporate governance is especially high in countries with weak legal protection of investors.

**Corporate social responsibility and tax avoidance: An international evidence**

Abdullah Alsada1, Azi Jafar2, M.Shahid Ebrahim3

1Umm Al-Qura University, KSA and Bangor University, United Kingdom; 2Bangor University; 3Durham University

Using a cross-country dataset, this study examines the link between corporate social responsibility (CSR) and tax avoidance. It questions whether socially responsible firms report higher profits to better balance the interests of various stakeholders, or whether firms engage in CSR when maximising shareholders’ wealth. The empirical analysis is conducted on a sample of firms domiciled in 12 countries for the period of 2005-2011. Our results show a significant and positive association between CSR engagement and tax avoidance. This indicates that firms with higher CSR scores are more likely to engage in tax avoidance, providing evidence in support of the view of ‘organised hypocrisy’ which illustrates that a gap exists between corporate talk and action. Our results are also consistent with the perspective of shareholder theory implying profit maximisation is the main social responsibility that firms aim to achieve. Furthermore, home-country characteristics are important in determining the link between CSR and tax avoidance.

**Family control and corporate social responsibility**

Sadok El Ghoul1, Omrane Guedhami2,3, Chuck Kwok2, He Wang2

1University of Alberta; 2University of South Carolina, United States of America

We examine the impact of family control on corporate social responsibility (CSR) performance. Using newly collected data on the ultimate ownership structure of publicly traded firms in nine East Asian economies, we find that family control is associated with lower CSR performance, consistent with the expropriation hypothesis of family control. The negative relationship between family control and CSR is robust to alternative CSR measures, alternative estimation methods, and a different definition of family firms, as well as to endogeneity tests, subsample tests, comparisons with other large shareholders, and comparisons with family firms from other countries. In additional analyses, we find that CSR underperformance is more pronounced in family firms with greater agency problems and in countries with weaker institutions. These findings contribute to understanding the determinants of CSR and highlight the importance of corporate governance and the institutional environment in improving CSR performance of family-controlled firms.

**Family control and corporate social responsibility**

Sadok El Ghoul1, Omrane Guedhami2,3, Chuck Kwok2, He Wang2

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**Trust and corporate cash holdings**

Even Dundj, Ning Zhang

Queen’s University, Canada

We examine the relation between the level of trust in a country and corporate cash holdings. Agency theories predict that shareholders in countries with low levels of societal trust will pressure firms to disgorge cash. Prescriptive savings estimates predict that firms located in countries with less trusting societies will hoard more cash in order to compensate for reduced access to capital markets. The first theory predicts a positive relation between trust and corporate cash holdings while the second theory predicts a negative relation between these two variables. Using data on firms located in 54 countries around the world, this study finds evidence in favor of the agency theory and in particular, their prudence and temperament. Under this motive, the firm-level demand for savings and cash-holding decisions is driven by determinants similar to those that drive the demand for savings by households and their holdings of cash. Our empirical results suggest that, in our sample of private firms, this novel precautionary motive naturally accentuates hold-up problems. These findings inform the design of policy.

**Private firms’ cash holding decisions: The role of risk attitudes**

Valerio Poti

University College Dublin, Ireland

In this paper, we examine cash holding determinants using a large dataset of private firms from 15 European countries. Since, in this type of firms, there is an incomplete separation of the finances of key stakeholders from the finances of the firm, we complement the precautionary motive traditionally considered in the corporate finance literature, which typically takes the form of the hedging motive advocated by Asharya et al. (2007), with an additional precautionary risk motive that takes into account stakeholders’ risk attitudes. Under this motive, the firm-level demand for savings and cash-holding decisions is driven by determinants similar to those that drive the demand for savings by households and their holdings of cash. Our empirical results suggest that, in our sample of private firms, this novel precautionary motive naturally

complements or even supplants the traditional one, which is hard to reconcile with evidence on a negative relation between cash holdings and both investment and leverage.

**Real asset liquidity, cash holdings, and the cost of corporate debt**
Ali Nejdalmalayeri, Adam Usman
Oklahoma State University, United States of America

We show analytically that there exits a nonlinear (U-shaped) relationship between credit spreads the liquidity of the market for real assets. We empirically verify that indeed there is an interior optimum level of market liquidity at which credit spreads are at their lowest. Our results are particularly pronounced for leveraged and high-growth options firms. We further find that cash holdings do affect the influence of real asset liquidity on credit spreads. However, this interaction (i.e., substitution) between cash holding and real asset liquidity only significant when liquidity is high.

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**8:00am - 9:30am**

**SUN1-07: Earnings and information**
Session Chair: Giulio Trigilia, Warwick University, United Kingdom

**Valuation of IPOs with negative earnings**
Severin Johannes Zörgiebel
Goethe University Frankfurt, Germany

IPO firms are in general new to the market and presumably more opaque compared with other public companies. Determining the value of these firms is challenging and even more difficult when firm financials are weak or income is even negative. Compared to the current literature, this paper values IPOs especially with negative earnings by using a variety of different and novel techniques. The results generated by these models suggest that firms with negative income are valued higher compared with other IPO firms. Increased marketing efforts of venture capitalists and investment banks explain a large portion of the result of why firms with negative income have higher valuations. According to the findings, venture capitalists and underwriters have market power to generate high perception of IPOs and create investor demand to boost valuation. In addition, these high valued IPOs tend to underperform in the long-run as valuation premia converge toward peer levels.

**Detecting earnings management: A stochastic frontier analysis approach**
Seraina C. Anganagnostopoulou, Mike G. Tsionas
Athens University of Economics and Business, Greece

In this paper, we apply Stochastic Frontier Analysis (SFA) in order to detect earnings management by modeling economic profitability as a function of reported accounting profitability, as well as firm and industry-specific proxies for economic rents, and also previous period true profitability. The model we build makes the assumption that the direction of earnings management is inherently unknown, expecting that managers (i) may not misreport at all, (ii) may be upwards biased or (iii) may be downwards biased. Our study contributes to previous research by modeling the behavior of true economic profitability using SFA, which further permits statistically modeling this behavior as a function of reported earnings, by considering true profitability to be inherently and ex ante unobservable, while making no initial assumptions about the direction of earnings management. Our model further accounts for noise in the modeling of true earnings, in the context of arguments in past research supporting that true earnings management actually may not be really observable even ex post. This modeling process additionally allows us not to make any assumptions about a linear behavior of what is considered to be ‘normal’ profitability, and further accounts for all possible forms of earnings management.

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**9:30am - 11:00am**

**Nelson Mandela Lecture Theatre**

**Keynote Presentation by Professor Colin Mayer, Said Business School**
Session Chair: Thomas Noe, University of Oxford, United Kingdom
Presentation title: Ownership Matters

**11:00am - 11:15am**

**Entrance Hall**

**Refreshments break**

**11:15am - 12:45pm**

**Nelson Mandela Lecture Theatre**

**SUN2-01: Special Session on Financial Distress and Lending Limits**
Session Chair: Ralph De Haas, EBRD, United Kingdom

**Bank debt and trade credit for SMEs: International evidence**
Guillaume Andrieu1, Raffaele Stagliano1, Peter Van Der Zwaan2
1Erasmus School of Economics, The Netherlands; 2Goethe University Frankfurt, Germany

This paper examines the links between firm age, firm size and the ability to obtain capital in a sample of European SMEs. The results indicate that age and size are positively linked to debt capacity. Furthermore, our analysis reveals that it is crucial to distinguish between bank debt financing and trade credit. The results of simultaneous analysis show that trade credit is positively related to bank credit financing, thus providing empirical support for the complementarity of these forms of financing.

**Political connections, informational asymmetry, and the efficient resolution of financial distress**
Sanjay Banerji1, Madhav Aney2
1University of Nottingham, United Kingdom; 2Singapore Management University, Singapore

We show that securities issued by a distressed firm, often through exchange offers, provide the most efficient resolution of financial restructuring. This paper examines the links between firm age, firm size and the ability to obtain capital in a sample of European SMEs. The results indicate that age and size are positively linked to debt capacity. Furthermore, our analysis reveals that it is crucial to distinguish between bank debt financing and trade credit. Young and small firms are more subject to denial due to the higher moral hazard they represent for a bank. Only very young firms are more constrained for trade credit. The results of simultaneous analysis show that trade credit is positively related to bank credit financing, thus providing empirical support for the complementarity of these forms of financing.

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**11:15am - 12:45pm**

**Rhodes Trust Lecture Theatre**

**SUN2-02: Executive pay and performance**
Session Chair: Jean Milva Canil, University of Adelaide, Australia

**Executive compensation and open market share repurchases**
Waqar Ahmed
University of Warwick, United Kingdom

The extant literature views open market share repurchase announcement either as signals of firm undervaluation or as being agency driven. This paper seeks to test whether the market distinguishes between the two motives by observing the underlying managerial wealth incentives. In theory,
better convergence between executive and shareholder wealth interests and risk preferences should lower agency costs thus increasing the perceived credibility of managements’ share buyback announcement. My results show that executive compensation arrangements play an important role in explaining the market reaction to, and actual share repurchase decisions of, firms that announce buyback programs. In addition, I show the effect of executive compensation arrangements are stronger for firms that suffer from information asymmetry or are undervalued. This study makes an original contribution to the literature by demonstrating that the market approximates the value signalling effect of a buyback announcement by observing the underlying managerial repurpose incentives and responds accordingly.

The impact of foreign government investments on corporate performance: Evidence from the US
Elvira Sojli, Wing Wah Tham
Erasmus University, Netherlands, The Foreign and politically connected large investors, like foreign government investors, improve firm value through the provision of foreign market access and government-related contracts. In the short run, the market welcomes foreign government investments in expectation of potential monitoring and internationalization benefits. In the long run, the target firms’ degree of internationalization and Tobin’s q increase substantially after foreign government investments. The increase in q is directly related to the number of government-related contracts granted by the investing countries. The target companies contribute to the investors’ markets by transferring technological know-how, increasing their competitiveness, and providing certification for their markets.

Equity-based pay and performance declines
Jean Milva Canil, Bruce Rosser
University of Adelaide, Australia
This article explores both the timing and choice of equity-based pay when firms experience an abrupt decline in industry-adjusted stock returns. We find that boards proactively adjust equity-based pay in the year prior to the decline. Using a difference-in-difference design which exploits the introduction of FAS 123R, we also find that the source of decline determines the prior choice of equity-based pay. Boards tend to grant stock prior to a decline in operating performance (economic decline) but tend to grant options prior to lower operating performance (financial decline). Further, firms making the correct adjustments are found to outperform those that do not for at least three years following the decline. Collectively, our results suggest that the choice of equity-based pay is particularly important when firms experience abrupt declines.

Political connection and overinvestment: Evidence from China
Zhicheng Zhang
University of Geneva, Switzerland
I study how political connections can impact a firm’s financing and investment decisions, and lead to a firm’s overinvestment reflected in negative abnormal returns. Based on the shock of the credit supply in China 2009, I compare the behavior of political connected firms with non-connected ones before and after the event. Political connected firms are pressured to borrow more and invest more. This increase of investment leads to negative abnormal stock returns as a consequence of value destroying (overinvestment).

Political money contributions of US IPOs
Dimitrios Giounopoulos1, Antonios Kallis2, Konstantinos Kallis3
1University of Sussex, United Kingdom; 2University of Sussex, United Kingdom; 3University of Sussex, United Kingdom
We produce the first study to explore the effect of political money contributions on IPO valuation. Drawing evidence from the U.S., we show that both lobbying and PAC expenditure pay off on issue day as donors incur less underpricing, an effect that can be amplified by contribution size and strategically targeting of recipients. Donor IPOs also experience negative offer price revisions and lower aftermarket volatility. Collectively, our results offer new empirical grounding to information asymmetry and bookbuilding theories.

Inter-firm networks: Three US auto manufacturing giants and their suppliers
Sayan Chakraborty2, Arnab Bhattacharjee1, Roger Calantone2, Taps Mais2,3
1Heriot-Watt University, United Kingdom; 2University of Sussex, United Kingdom; 3Michigan State University
There is substantial interest in the current literature -- spanning finance, management sciences and economics -- on the network structures between business firms. In this context, very important question centres around the factors that affect the stability and resilience of inter-firm networks. What kind of network structure offers the best ability to withstand financial shocks, or what network would offer the best advantage against credit constraints? How close are these linkages related to director or ownership networks? What roles do relationships with principal suppliers or customers pay? Are the networks driven by supply-side or demand-side linkages? In this paper we examine the network links between 3 major US auto manufacturers and their intermediate suppliers. We develop and apply methodology that captures the latent linkages between firms based on a financial risk model. Our findings highlight new evidences on financial decision making and financial strategies for those firms, in terms of how they benefit from network externalities.

Revisited role of industrial specialization in cross-border mergers and acquisitions from developed countries (European Union) to emerging countries
Xuehua (Danny) GU
Eurofides, CERAG,CNRS, University of Grenoble, France
Cross-border mergers and acquisitions (CBM&As) to emerging countries have increased phenomenally but our knowledge is still very limited to the announcement effects of the M&As to emerging countries. This paper contributes to the fewer M&As and diversification literature concerning the announcement effects to emerging countries. By using a unique M&A sample containing 1,732 completed M&As from 15 most developed countries in European Union to 18 emerging countries, we find CBM&A to the emerging countries increased acquiring shareholders’ wealth significantly. However, comparing to CBM&A inside European Union, we find the cumulative abnormal returns are significantly lower. We further explore market price reactions by focusing on the role of industrial specialization, and our empirical results reveal industrial specialization is valued negatively by the markets. Our findings suggests adopting industrially diversified M&As to emerging countries should be the immediate concerns for those acquiring firms in the developed countries.
Two sides of the same coin: Disentangling the coinsurance effect and the diversification discount in M&A transactions

Christoph Kaserer, Mario Fischer, Patrick Biestien
Technische Universität München, Germany

This paper contributes to the vast literature on the effects of corporate diversification by showing that there always coexists a bright side (coinsurance effect) and a dark side (diversification discount) of internal capital markets. By analyzing the effect of the combined firm in U.S.-based M&A transactions on the ex-ante cost of capital, we show that it can be split up in two offsetting components. First, we identify the existence of a statistically and economically significant coinsurance effect. At the same time, however, we also identify the existence of a potentially offsetting, statistically and economically significant diversification discount. Second, we show that which of the two effects dominates in a given transaction is contingent on whether the acquiring firm has a track record on how efficiently handle internal capital market. These results hold against a battery of robustness tests.

Does corporate financial risk management add value? Evidence from cross-border mergers and acquisitions

Yesin Zeng1, Zhong Chen2, Bo Han3
1ICMA Centre, Henley Business School, University of Reading, Reading, United Kingdom; 2ICMA Centre, Henley Business School, University of Reading, Reading, United Kingdom; 3College of Business, Central Washington University

We study the effect of financial hedging on firm performance with a sample of 1,369 cross-border mergers and acquisitions (M&As) initiated by S&P 1500 firms between 2000 and 2014. Our results show that derivatives users have higher acquirer cumulative abnormal returns (CARs) around deal announcements than non-users, which translates into a $174.3 million-per-shareholder gain for an average-sized acquirer. Related to the CAR improvement, acquirers with financial hedging programs also have lower implied stock volatilities and higher deal completion probabilities than those without such programs. In addition, financial hedging reduces acquirers’ default risk and their cost of capital. Finally, we find that financial hedging has a long-term effect on acquirer firm value such that derivatives users have better post deal long-run performance than non-users. Overall, our findings provide new insights on a link between corporate financial hedging and investment decisions.

11:15am - 12:45pm
Seminar Room A

SUN2-06: Information and responsibility

Session Chair: John Bernard Holland, Glasgow University, United Kingdom

Short on drugs: Short selling during the drug development process

Henk Berkman, Marco Eugster
The University of Auckland, New Zealand

Announcements related to the drug development process can have profound impacts on the market valuations of firms operating in the pharmaceuticals and healthcare industries. This can create substantial opportunistic opportunities for sophisticated investors who possess superior information or analytical abilities. We document that one particular subgroup of sophisticated investors, short-sellers, appears to profit from these opportunities. We find that short sales rise substantially in the days leading up to drug development announcements with the most negative announcement returns. This effect is much less pronounced or non-existent for similar events with the most positive announcement returns.

Peers effects of corporate social responsibility

Jie Cao1, Hao Liang3, Xintong Zhan2
1Chinese University of Hong Kong, Hong Kong S.A.R. (China); 2Singapore Management University; 3Chinese University of Hong Kong, Hong Kong S.A.R. (China)

We investigate how firms react to their peers' adoption of corporate social responsibility (CSR) by using a regression discontinuity design that relies on "locally" exogenous variations of CSR generated by shareholder proposals that pass or fail by a small margin of votes. Specifically, we find that peers of a voting firm who passed a close-call CSR proposal experience lower announcement returns and higher following-year CSR scores compared to those of a voting firm that marginally failed a CSR proposal. Such effects are stronger in peer firms with higher competitive pressure, better CSR performance relative to the voting firm, and a more pronounced negative cumulative abnormal returns and smaller CSR improvement in peer firms with higher financial constraints. Taken together, our empirical results show that peer effects play an important role in shaping firms' CSR performance and further confirm the argument that CSR has strategic value.

Understanding the ‘market for information’ through field research and theoretical development

John Bernard Holland
Glasgow University, United Kingdom

Understanding the ‘market for information’ through field research and theoretical development

Abstract 28 July 2015

The ‘market for information’ (MFI) is a hidden but substantial mechanism in the world of accounting and finance connecting information about companies to the stock market via intermediaries. The MFI covers many firms, intermediaries, and financial institutions in globally connected financial centres. It is a core structure and mechanism for valuation, assurance and governance. The paper seeks to extend understanding of the ‘market for information’ (MFI) through field research and theoretical development.

Field studies are used to develop an ‘empirical narrative’ for MFI structure, process and outcomes. This reveals that the MFI involves economic, knowledge and social processes in production, exchange, and use of information between agents such as company management, analysts and fund managers. Structure in the form of knowledge, social and organisational context is central to ongoing MFI economic processes and decisions between MFI agents in the MFI. Outcomes include changes in markets, firms and others.

The empirical narrative is further developed using insights from major information and knowledge failures in the MFI during: the ‘dot.com’ boom; the Enron case; and during the great financial crises (GFC). The problems and periods of change were key empirical means to understand interactions between MFI social structure, knowledge, actions (economic and social) and outcomes as the problems and change processes rendered visible the previously invisible.

Finance theory provides a traditional way to interpret empirical findings. However, there are major limitations to this conventional theoretical approach. Major failures in this market and in understanding the MFI during the financial crisis have been attributed in part to this conventional framework.

The paper develops a new conceptual framework or ‘theoretical narrative’ to extend understanding of the MFI empirical insights. Stones (2005) ‘strong structuration’ theory and related literature are employed to interpret ongoing MFI processes and structures. Stones (2005) ‘quadrantive framework’ and cycle are also to explore major problems and longer term structure of the MFI. This can be related to finance theory explanations and shows the combined relevance of new theoretical sources to the study of accounting and finance phenomena.

Finally, the paper demonstrates that a coherent combination of new empirical narrative and theoretical narrative is essential to develop policy prescriptions and new regulation to deal with problems and change in the MFI. In particular this provides the frame to propose changes in the ‘world of information’ and in (concentrated and elite) social structures at the MFI.

Key words: Information, governance, markets, institutions, knowledge, social, theory, policy

11:15am - 12:45pm
Seminar Room A

SUN2-07: Financial markets

Session Chair: Helen Popper, Santa Clara University, United States of America

Information networks and co-operation in financial markets: An experimental analysis

Andrea Teglio1, Gianluca Grimaldi1,2, Ivan Barreda Tarrazona3, Andrea Mormone1
1Universitat Jaume I, Spain; 2Institute for the World Economy, Kiel, Germany; 3Chinese University of Hong Kong, Hong Kong

We study experimentally the implications of the possibility to share information among small groups of imperfectly informed traders prior to the opening of the financial market. We study how sensitive this pre-play cooperation device is to the presence of better informed (privileged) groups of traders and how it affects traders’ behaviour ex-ante. Our results indicate a persistent use of the pre-play cooperation device, independently of the presence of better informed groups, and a reinforcement of the cooperation in the more cooperative groups in the past and in those outperforming other groups in their market. Individuals do not seem to use information sharing as a way to address inequality between their group and the market. However, they reduce information sharing when their own earnings is below the group average. Nor do individuals act to redress inequality between their own earnings, or their group earnings, and privileged traders’ earnings. On the other hand, we find robust evidence consistent with the idea that group success matters for individuals. The higher one's group payoffs, and the lower the market average payoffs, the higher the probability to share information. Interestingly, this effect is only significant when privileged traders are present. Moreover, not surprisingly, namely, the observation of cooperative behavior by other group members in the past — exerts stronger statistical effects in markets with privileged traders; while individual
altruism, measured through a four-item scale involving dictator-like decisions, exerts significant effects only in markets without privileged traders. Overall, we conclude that pro-social preferences such as inequality aversion and, even more markedly, group attachment, influence individuals' decisions as to whether to share information. Finally, we find that low-quality information is revealed with higher frequency and we also find an interesting asymmetry in the sharing of good vs. bad signals. As bad news anticipates a bear market, in which making high profits is more difficult, due to limitations in short-selling, agents more often reveal information that anticipates a bad state of the world than a good one.

Advertising, attention, and financial markets
Florens Focke, Stefan Ruenzi, Michael Ungeheuer
University of Mannheim, Germany
We investigate the impact of product market advertising on investor attention and financial market outcomes. Using daily advertising data allows us to identify short-term effects of advertising. We measure daily investor attention based on the company's number of Wikipedia page views. We show that TV and newspaper advertising have a positive impact on short-term investor attention. They also positively influence turnover and liquidity, but the effects are not economically significant. Most importantly, asset prices are not influenced by advertising in the short run. These findings are different from studies using yearly advertising expenditures and suggest that attempts to temporarily inflate stock returns via short-term adjustments to advertising are ineffective.

Return comovement
Helen Popper¹, David Parsley²
¹Santa Clara University, United States of America; ²Vanderbilt University, United States of America
Using a new gauge of return comovement in a panel of 33 economies with stock exchanges operating over the period 1995 to 2013, we find that crises and the stability of international macroeconomic policy arrangements are important determinants of return comovement. These variables, along with stock market turnover, overshadow the empirical relevance of international differences in country risk, corruption, and investor protections.

Buffet lunch
SUN3-01: Panel on "Do banks fail because they comply with governance codes?"
Session Chair: Robert May, University of Oxford, United Kingdom
Panelists:
Colm Mayer, Said Business School, University of Oxford, UK
Paul Pitt Moxey, London South Bank University, UK
Shann Turnbull, International Institute for Self-governance, Australia
Panel on "Do banks fail because they comply with governance codes?"
Shann Turnbull
International Institute for Self-governance, Australia

SUN3-02: Culture, criminal behaviour and firm value
Session Chair: Vikram Nanda, UT Dallas, United States of America
Who does the FDIC sue – Looters, gamblers, or insurers?
Ken Okamura¹, Christoffer Koch²
¹University of Oxford, United Kingdom; ²Federal Reserve Bank of Dallas
We show that the FDIC pursues cases against the directors and officers of failed commercial banks that are predictable from published regulatory filings on an ex ante basis and not just because they represent "deep pockets" that help to mitigate the loss to the FDIC. We analyze all 408 U.S. commercial banks that were taken into receivership by the FDIC between 2007-2012. We find evidence consistent with looting or gambling for resurrection among the banks whose directors and officers are sued. This behavior appears to be curbed post 2010 Q2.

M&A deal initiation and managerial motivation
Chunling Xia, Jana Fidrmuc
Warwick Business School, University of Warwick, United Kingdom
On a hand-collected sample of around 1000 US publicly listed target firms, we show that target versus bidder initiated M&A deals differ in two main respects. First, target initiated deals have higher insider and executive management ownership that motivates the board and management to engage in the sale. Second, target initiated firms are more levered and seem to have higher growth options. This suggests that an important motivation behind the board's decision to initiate a sale of their firm is to preserve growth options in a situation with debt overhang. Moreover, target initiated deals grant their CEOs more stocks and options just before the deal announcement, which should increase the alignment of interest between the CEO and shareholders during the acquisition negotiations. A complementary analysis, comparing the group of deal firms (together target and bidder initiated firms) to other non-deal firms that remained publicly listed, shows that the differences between deals versus non-deal firms are much larger relatively to the differences within the deal firms based on deal initiation.

Criminal politicians and firm value: Evidence from India
Vikram Nanda¹, Ankur Pareek²
¹UT Dallas; ²Rutgers Business School
Using unique datasets on the criminal background of Indian politicians and details on investment projects by Indian firms, we provide comprehensive evidence on the effects of criminal/corrupt politicians on firm value and investments. We use a regression discontinuity approach and focus on close elections to establish a causal link between the election of criminal politicians and firms’ value and investment decisions. The election of criminal politicians leads to lower election-period and project-announcement stock-market returns for private-sector firms based in the district. There is a sharp decline in the total investment by private sector firms in criminal-politician districts. Interestingly, criminal politicians appear to offset the decline in private-sector investment by a roughly equivalent increase in investment by state-owned firms. Corrupt politicians are less destruclive of value when their party is in power and when they occupy ministerial positions.

Firm size and firm’s debt with banks: A dangerous liaison?
Marko Petrovic, Andrea Teglio, Simone Alfarano
University Jaume I, Spain
This paper investigates the distribution of bank debt among big Spanish companies. We observe a very fat tailed distribution of bank debt, especially long-term, showing that bank debt is significantly concentrated among few big Spanish firms. In particular, the concentration of long-term bank debt is the highest among all other assets or liabilities in companies’ balance sheets. The highest ratio of bank credit over total assets is found in the biggest companies, especially in terms of total assets. On the other hand, trade credit is more equally distributed among Spanish firms. This capacity of big firms to attract bank credit could be one of the explanations for power law distribution in firms’ size. In order to understand the effects of bank credit allocation among firms in the Spanish economy, we study the performance of companies, ranked according to the amount of received bank credit. We find that, before the crisis, firms that got more bank credit had also the higher growth rate of total assets, but during the crisis (and up to now) this relation has been completely inverted, showing a huge shrinking in total assets of firms that had been

Session Chair:
Paul Pitt Moxey, London South Bank University, UK
Colin Mayer, Saïd Business School, University of Oxford, UK
Session Chair:
Jay Dahya, Baruch College Zicklin School of Business, University of America
Session Chair:
Vikram Nanda, UT Dallas, United States of America
more financed by banks.

**Institutional reform and the related party transactions: Evidence from China**

Wen-Sheng Wang, Jung-Hua Hung

National Central University, Taiwan, Republic of China

This study investigates the impacts of the institutional reform on firms’ tunneling behavior. Using a sample of Chinese listed firms from 2003 to 2013, we find that the institutional reform restrains listed firms from conducting self-dealing transactions and this effect is much stronger in non-SOEs. Moreover whether the controlling shareholder of non-SOEs is the domestic legal person or the foreign legal person, the tunneling behavior is significantly reduced. Further evidence shows that firms controlled by the domestic legal person can release the tunneling behavior whether they are under good governance mechanisms or not; while firms controlled by the foreign legal persons decrease their tunneling behavior in firms with multiple large shareholders, higher contestability and both well-developed and under-developed regions. Our results have some implications for policy makers.

**Do investors follow directors?**

Jay Daughoy, Richard Herron

Baruch College Zicklin School of Business, United States of America; Babson College, United States of America

Using over 5 million fund-director observations, we show that funds make larger initial equity investments in companies on the arrival of a new director with whom the fund had a prior equity relation. Larger fund investments occur when followed directors previous firm outperforms in terms of both operating and stock price performance. There is little evidence that this outperformance carries over to their new firms.

**Solving the SMEs’ extreme debt conservatism puzzle**

Hesham El kalak, Robert Hudson

University of Hull, United Kingdom

This paper investigates the reasons for SME's choice of being debt-free in their capital structure. Furthermore, we study to what extent different SME size segments (namely micro, small, and medium) affect the debt-free decision. We use a dataset of 95,450 firm-year observations of which there are 18,764 debt-free firm-year observations. We find that borrowing constraints and financing activities play a significant role in the debt-free capital structure decisions of the SME. A surprising result is that a large number of debt-free SMEs pay significantly higher dividends than their counterparts with debt. Finally, we find that non-tax debt shields, pension obligations, and lease commitments do not play a significant role in explaining the debt-free policy.

**When do owners prefer longer debt maturity? International evidence from SE Asia**

Sorin Rizeanu, Sodak El Ghouri, Omore Guedham

1University of Victoria, Canada; 2University of Alberta, Canada; 3University of South Carolina, USA

A firm’s debt maturity is often considered an indication of its governance health, as banks will impose shorter maturities on firms that call for increased monitoring. However, in many countries, bondholders benefit from the existence of private networks, commonly including banks and other financial institutions, thus accessing long-term debt despite likely corporate governance concerns. We focus on large firms from SE Asia, for which extensive evidence proves the existence of such private networks of influence. We show that in these countries a higher separation of ownership and control rights is significantly associated with the use of longer debt maturity, evidencing that firms with less developed corporate governance frameworks will prefer longer maturities in order to avoid bank supervision. The effect is particularly notable when the largest owner is a widely held corporation.

**Family-run firms: Growth and financing choices**

Antoine Renucci

Université de Pau et des Pays de l'Adour, France

I model the growth and financing choices by the head of the family of a family-run firm. Specifically, I examine the following trade-off. On the one hand, letting family members participate in decision making allows the head of the family to develop family members’ self esteem, a distinctive dimension of the head of the family’s “nurturing” role emphasized by the anthropology literature. On the other hand, that decreases the firm’s growth potential since decision making within the family is impaired by (i) emotionally-based conflict, (ii) the fact that the views of expressed family members are weighted equally rather than on their relative merits, and (iii) the fact that family members have differing agendas. I first show how the head of the family’s decision to pursue high growth versus low growth depends on family size, composition (age, gender, etc.), and on cultural norms. Then, I relate this choice to the decision to sell the firm out, approach a venture capitalist, or approach a bank.

**From avoidance to asset? The effect of tax avoidance on corporate innovation**

Jasmin Adler, Mintra Dwarkasing, Narly Dwarkasing

1University of Bonn, Germany; 2VU University, The Netherlands

We empirically investigate the impact of tax avoidance on corporate innovation. On the one hand, tax avoidance may be conducive to long-term investment because it increases internal funds and thereby alleviates financing constraints. On the other hand, tax avoidance may hamper innovation due to decreasing corporate transparency and agency conflicts. We find evidence in favor of the latter: exploiting exogenous variation in tax avoidance introduced by the so-called Check-the-box regulations in 1997 in the US, we document a negative effect of tax avoidance on innovation, which is statistically and economically significant. This negative effect is amplified for firms with weak governance but less pronounced for firms with strong governance. This suggests that tax avoidance can create costs.

**Managerial share ownership, life cycle theory and dividend policy in an imputation tax environment**

Balasingham Balachandran, Arifur Khan, Paul Mathre, Michael Theobald

1La Trobe University, Australia; 2Deakin University; 3University of Birmingham

Australia provides a unique experimental setting to examine the roles of the earned/contributed capital mix and managerial share ownership in dividend policy as it has a full imputation tax environment in contrast to the classical tax environment in US. In an imputation environment where imputation credits are available, we find that firms with franking credits available are more likely to pay dividends and have higher payout ratios. We further show that profitability plays a more significant role than the earned (contributed capital mix on the likelihood of paying a dividend and upon the determinants of the dividend payout ratio in contrast to the findings of Dewenter and Stulz (2006) in the US. We also find that managerial share ownership is positively related to the probability of paying a dividend and to the determinants of the dividend payout ratio, in contrast to the findings of Rossell (1982) in the US. The study conclusively demonstrates that the tax system can have significant impacts upon corporate dividend policy.

**The effect of the VAT rate on tax evasion: Evidence from the restaurant industry in Greece**

Nikolaos Artavanis

University of Massachusetts Amherst, United States of America

This paper examines the effect of Value-Added Tax (VAT) rate changes on tax evasion in an environment of limited tax-shifting opportunities. We focus on the recent VAT rate reduction in the Greek restaurant industry (August 2013) and implement a difference-in-difference methodology using large fast-food restaurants as the control sample, because they exhibit high constraints on under-reporting. We find that the reduction of the VAT rate for non-alcoholic sales from 23% to 13% increases the reported sales to inputs ratio, which we use as a measure of hidden sales uncovering, by 11.9% on average. This result is consistent with VAT rate targeting, the partial adjustment of VAT revenues to the lower tax rate, in order to maintain a reasonable VAT ratio (revenues to credits) and avoid signaling evading behavior to tax authorities. We also document the reverse effect for the VAT rate increase in September 2011. The effect is more pronounced for small firms and less for alcoholic sales. Given the dominant role of these firms in the industry, we show that (i) the partial downward adjustment of VAT revenues and (ii) the higher direct taxes from the increase in reported sales can offset the fiscal cost from the rate reduction.
The role of cornerstone and strategic investors in IPO survival
Susanne Espenaltau1, Arif Khansef2, Abdulkadir Mohamed3, Brahim Saadoun4
1The University of Manchester, United Kingdom; 2The University of Manchester, United Kingdom; 3The University of Manchester, United Kingdom; 4The University of Liverpool, United Kingdom

We examine the impact of the allocation of initial public offerings (IPOs) to specific investor groups on post-IPO performance in terms of how long an IPO remains listed. We focus on the Hong Kong IPO market, where detailed data on share allocation are publicly available. In this context, we assess the roles of so-called cornerstone and strategic investors in IPOs, who agree with the issuers a specified investment in the IPO and enter into lock-up periods. We find that the presence, number and lock-up periods of strategic investors, and the prevalence of foreign strategic investors, significantly increase IPO survival (delay the time to delisting). By contrast, the impact of cornerstone investors is at best marginally significant. Our results are robust to using different measures of survival.

Conservation and international IPO underpricing
Thomas Boulton1, Scott Smart2, Chad Zutter3
1Miami University, United States of America; 2Indiana University, United States of America; 3University of Pittsburgh, United States of America

We study the impact of country-level accounting conservatism on IPO underpricing. Examining 10,103 IPOs from 36 countries, we find that the timely incorporation of news into earnings, both good and bad, is negatively correlated with underpricing. Most notably, IPOs are underpriced less in countries where the incremental speed of bad news recognition relative to good news recognition (i.e., conservatism) is greater. These findings indicate that conservatism is an efficient contracting mechanism that constrains managerial opportunism and reduces bias in accounting measures leading to an increase in information asymmetry and, therefore, the relation between conservatism and underpricing is stronger in countries that promote the rule of law, which suggests that conservatism helps mitigate the need to underprice to insure against future liability.

Pricing people-risk: Evidence from financial institutions
José Manuel Feria-Dominguez, Enrique Jiménez-Rodríguez, Pilar Camacho-Rubio
Pablo de Olavide University of Sevilla, Spain

Although people are the most important asset for companies, they are also a source of risk. People-risk involves both intentional and unintentional behavior, which results in operational losses for firms. The global financial crisis has highlighted not only the importance of business ethics but also the people-risk management in the banking industry. Therefore, the main goals of this paper are manifold: to identify four different people-risk categories (Internal Fraud, Employment Practices and Workplace Safety, Clients, Products and Business Practices and Execution, Delivery and Process Management), and to quantify the exposure to such risk by applying the concept of Value at Risk (VaR), giving rise to People-VaR. Moreover, this measure can be used as a key performance indicator (KPI) for sound management practices, and to support banks in their People-Risk management. The People-VaR is calculated on the basis of past five years' return on capital (RAROC) as is commonly used in the banking sector. The People-VaR is then adapted by using the People-VaR in order to evaluate people risk-adjusted performance. This paper highlights the strategic role that both magnitudes can play for designing the firm’s Balance Scorecard (BSC) and monitoring its value creation.

Role of institutions in the finance-growth dynamics: New evidence from Transition Countries
Ayse Ulukhan Demir
University of Leicester, United Kingdom

This study provides a new evidence on the relationship between financial development and economic growth for 26 transition countries under two groups, namely Commonwealth Independent States (CIS) and Central Eastern European (CEE) covering the period 1996-2013. The main contribution of the study is to investigate the role of institutions in shaping the finance-growth dynamics in the countries of interest. The results imply that in both CIS and CEE, an improvement in political and legal institutions has a remedial effect in the growth effects of financial development in line with the views of law and finance and finance and interest groups theory. The more clear-cut threshold effects in CIS can be explained with the poor initial conditions that were prevalent in these countries in terms of political system and legal framework leading financial system to be more responsive to a change in institutional quality which in turn enhance economic growth.

Politics, judicial independence and corporate finance in China
Zhangkai Huang1, Lixing Li2, Guanrong Ma3
1Tsinghua University, China; People’s Republic of; 2Beijing University, China, People’s Republic of; 3Renmin University, China, People’s Republic of

Lack of judicial independence impairs legal justice and crushes investor confidence. Using recent political turmoil in China, we show that when the political system has excessive power and overrides the judicial system, it may pose a threat to the government. This generates incentives of the government to loosen its grip of the judicial system in order to maintain checks and balances to measure judicial independence in China by looking at whether the provincial police chief controls the Communist Party’s Politics and Law Committee. We show that lack of judicial independence has an adverse effect on firm’s financing and investment behavior.

Agency costs, financial contracting and the Muslim world
M. Shahid Ebrahim1, Aziz Jaafar2, Philip Molyneux3, Murzah Salih4
1Durham University, United Kingdom; 2Bangor University, United Kingdom; 3Bangor University, United Kingdom; 4Bank Negara Malaysia (Malaysia Central Bank), Malaysia

This study provides a new evidence on the relationship between financial development and economic growth for 26 transition countries under two groups, namely Commonwealth Independent States (CIS) and Central Eastern European (CEE) covering the period 1996-2013. The main contribution of the study is to investigate the role of institutions in shaping the finance-growth dynamics in the countries of interest. The results imply that in both CIS and CEE, an improvement in political and legal institutions has a remedial effect in the growth effects of financial development in line with the views of law and finance and interest groups theory. The more clear-cut threshold effects in CIS can be explained with the poor initial conditions that were prevalent in these countries in terms of political system and legal framework leading financial system to be more responsive to a change in institutional quality which in turn enhance economic growth.
This paper studies agency cost of debt as a market imperfection impeding efficient financial contracting and thus economic growth. We investigate whether cultural factors such as the prohibition of interest have hindered the development of the Muslim world. We employ a simple capital structure model in an agency theoretic framework, in conjunction with a rational expectations setting, to illustrate this religious injunction to be welfare-enhancing. We propose a more efficient quasi-equity financing alternative for employment. Lastly, we attribute Muslim woes to weak-property rights and deficiency of Islamic rulings (fiqh) in the development of new financial instruments, institutions and markets.

**SUN4-02: institutional investors**

Session Chair: Samreen Malik, New York University (Abu Dhabi), United States of America

A large but mysterious foreign investor: An empirical analysis of the largest sovereign foreign wealth fund investing in the Japanese stock market

Yoshikatsu Shinozawa

SOAS, University of London, United Kingdom

The objective of this paper is to identify what characteristics of a firm attract the largest sovereign foreign wealth fund investing in Japanese shares and to examine the possible impact on the target share performance. The focus of this paper is on the sovereign wealth fund ranked as the fifth largest shareholder in the Tokyo stock market whereas the published literature on this subject usually uses the aggregated data of various sovereign wealth funds investing in many host countries. Using sample firms from the top 500 companies in the Tokyo market from 2008 to 2013, the panel data analysis shows that the SWF prefers relatively small value shares with high ROE from the large cap market index. The analysis also provides little evidence of superior returns of the target firms, suggesting no impact on these target firms. All in all, the investment strategy and subsequent impact of the SWF in Japan should not cause concerns about political interference.

**Pension funding status and the costs of bank loans**

Balasingham Balachandran1, Hui Duong², Yan Xu²

1La Trobe University, Australia; 2Monash University, Australia

We examine how the funding status of defined benefit pension plans affects the cost of bank loans for all US non-financial and non-utility firms from 1982 to 2013. We find a positive relation between the amount of pension deficit and the cost of bank loans. This relation is observed only amongst firms with pension deficit. Loans to these firms also tend to be smaller and of shorter maturity. The effect of pension deficits on the cost of borrowing is driven by firms with high degrees of financial constraint and weaker governance. Overall, our findings indicate that pension deficits represent an additional component of risk that is priced in private loans.

**An empirical analysis of changes in the relative timeliness of issuer-paid vs. investor-paid ratings**

Erik Berwart¹, Massimo Guidolin², Andrea Middione3

1SIBF, Chile; 2Bocconi University, Italy; 3University of Cyprus, Cyprus

We investigate the lead-lag relationships between issuer-paid and investor-paid credit rating agencies (CRAs), after the regulatory reforms in the U.S. (2002-2006) - including watchlists and outlooks. First, we find a weaker lead effect of investor-paid over issuer-paid CRAs after 2002, causally turned bi-directional. Second, issuer-paid CRAs behave less conservatively with outlook changes than rating changes. Third, investor-paid downgrades are associated with more negative, statistically significant abnormal stock returns, than issuer-paid downgrades. Results support the hypothesis that issuer-paid CRAs improved their ratings’ timeliness with recently implemented tighter regulations. However, differences in abnormal returns imply that investor-paid rating actions carry superior information.

**Corporate takeovers and activist hedge funds**

Samreen Malik1, Mustafa Disli2, Anthony Murray3

1New York University (Abu Dhabi), United States of America; 2Gent University; 3New York University (Abu Dhabi)

This paper studies whether the hedge fund activism aimed at forcing a sale of a target firm generates higher cumulative abnormal returns for the shareholders of the acquiring company than an acquisition of the target company through a tender offer? Using an event study, we evaluate the cumulative abnormal returns around the announcement date for the shareholders of the acquiring firm and compare the results for two different acquisition processes. The results indicate that relative to tender offers, hedge fund activism tends to generate higher cumulative abnormal returns for the shareholders of the acquiring company. This paper contributes to the debate surrounding hedge fund activism and its economic implications.

**SUN4-03: Information asymmetry and disclosure**

Session Chair: Manu Gupta, Virginia Commonwealth University, United States of America

Information asymmetry and financial reporting effectiveness

Taufique Samdani

IESEG School of Management, France

This paper examines whether financial reporting effectiveness is sensitive to information asymmetry. Effectiveness is operationalized in terms of timeliness of market price adjustment to information in financial reports. An analysis of a quasi-natural experiment—an initial public offering (IPO) market regime with reduced information production, or greater information asymmetry, followed by a regime with greater information production, or reduced information asymmetry— reveals that post-IPO return volatility in firms with earnings yield (EY) greater than the industry’s is greater in the regime with greater information asymmetry than in the regime with reduced information asymmetry. The findings, robust to endogeneity, suggest that financial reporting effectiveness in newly listed firms is sensitive to information asymmetry, independently of accounting standards and financial reporting quality.

**Bad news disclosure and national elections: International evidence**

Qingyuan Li¹, Li1, Li2, Xu³

1Wuhan University, China; 2Wiltfr Laurier University, Canada; 3Washington State University, USA

We investigate whether managers withhold bad news around national elections in 37 countries over the period of 1982-2009. National elections create political uncertainty, which increases managers’ incentives to temporarily restrict the flow of negative information about the firms under their control. The result will be fewer large stock price declines around national elections, followed by an increase in large price declines after elections. Consistent with the prediction, we find that firm stock is less likely to crash surrounding national elections, and are more likely to crash in the period after elections.

**Cross-country variability in cost of raising equity: Evidence from seasoned equity offerings**

Manu Gupta, Puneet Prakash, Nanda K. Rangan

Virginia Commonwealth University, United States of America

We examine how country-level governance affects the cost of raising equity. Using data on seasoned equity offerings from 35 nations, we find that the underwriting spread is determined by the litigation risk of issue certifiers, and offer underpricing is largely determined by the investment risk of the equity issue. Certification by underwriters is more credible under strong legal enforcement, resulting in less underpricing. Furthermore, underpricing spread increases with enhanced legal enforcement, offsetting the reduction in underpricing associated with strong enforcement. Our study offers insight into the effects of legal enforcement and regulatory policy on the cost of raising equity.

**SUN4-04: Liquidity**

Session Chair: Sebastian Infante, Federal Reserve Board, United States of America

Commonality in liquidity: Evidence from the First Transatlantic Exchange

Mohamed Mekhaimer1, Pankaj Jain2, Sandra Mortill2

1Clarkson University, United States of America; 2University of Memphis, United States of America

In this paper, we use the introduction of the first transatlantic trading platform NYSE Arca Europe (NAE), as an exogenous shock to examine the impact of market design on commonality in liquidity. We find that commonality in liquidity increases significantly for stocks traded in the NAE, specifically, the introduction of the transatlantic NAE trading platform increases the common movement of NAE stocks with NAE aggregate liquidity while their comovement with the home market aggregate liquidity remains unchanged. Further, we find that the commonality in liquidity remains unchanged for matched non-NAE control sample stocks. Our results are robust to different methods for computing commonality, different liquidity proxies and across size quintiles. We conclude that market design and trading infrastructure has a significant impact on commonality in liquidity.
The second wave of global liquidity: why are firms acting like financial intermediaries?

Andrew Powell1, Julian Caballerol2, Ugo Panizzi2
1Inter American Development Bank, United States of America; 2Inter American Development Bank, United States of America; 3Graduate Institute, Geneva

Recent work has pointed to non-financial firms acting like financial intermediaries particularly in emerging economies. Corporates have been issuing large amounts in foreign currency and at the same time increasing liquid assets. In this paper we corroborate these findings but then ask the question, why is this happening? Drawing on the corporate finance and other recent work we suggest various possibilities. Our results suggest there is evidence for carry-trade activities but focused in countries with higher capital controls. This paper also provides evidence for such activities given other potential motives. We posit this phenomenon is due more to the reaction of countries in the face of low global interest rates, QE and strong capital inflows into incomplete markets or the retreat of global banks due to impaired balance-sheets or tighter regulations.

To what extent does liquidity affect M&A’s method of payment and performance? Evidence from China

Junhong Yang1, Alessandra Guariglia1, Jie (Michael) Guo2
1Sheffield University Management School, University of Sheffield, United Kingdom; 2Department of Economics, University of Birmingham, United Kingdom; 3Durham Business School, Durham University, United Kingdom

Using a panel of Chinese listed firms over the period 1998-2011, we examine the extent to which corporate liquidity impacts firms’ acquisition decisions, method of payment choice, and performance following mergers. We find that cash-rich firms, and especially those that are more subject to tunneling, are more likely to attempt acquisitions. Furthermore, given the high opportunity cost of cash they face, as their investment opportunities rise, financially constrained firms become less likely to use cash payments in acquisitions. Our last set of results highlights the under-performance of cash acquisitions in both the short- and long-term.

Liquidity windfalls: The consequences of repo rehypothecation

Sebastian Infante
Federal Reserve Board

This paper presents a model of repo rehypothecation in which dealer intermediates fund and collateralize between cash lenders (e.g., money market funds) and ultimate investors (e.g., hedge funds). Dealers take advantage of their position as intermediaries, setting different repo terms with each counterparty. In particular, the difference in haircuts represents a positive cash balance for the dealer that can be an important source of liquidity. The model predicts that dealers with higher default risk are more exposed to runs by collateral providers than to runs by cash lenders, who are compensated ex post from a dealer’s default. In addition, collateral providers’ repo terms are sensitive to changes in a dealer’s default probability and its correlation with the collateral’s outcome, whereas cash lenders’ repo terms are unaffected by these changes. The paper also studies setting in which repo terms are driven by prime brokerage clients’ desire to source assets for short positions. This paper rationalizes the difference in haircuts observed in bilateral and tri-party repo markets, reconciles the partial evidence of the run on repo during the recent financial crisis, and presents new empirical evidence to support the model’s main prediction on haircut sensitivities.

SUN4-05: Financing decisions, compensation and shareholders’ value

Session Chair: Daeyoun Kim, The University of Texas at Austin, United States of America

Leverage and employee compensation in the banking sector

Ata Can Berty, Burak R. Uras
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This paper investigates the empirical relationship between financial structure and employee compensation in the banking industry. Using an international panel of banks, we show that well-capitalized banks pay higher wages to their employees. Our results are robust to the inclusion of various bank and country-level control variables, bank-year, and country fixed effects and alternative proxies of bank leverage and alternative employee compensation measures. We address endogeneity concerns by using lagged variables and implement a 3-step Heckman analysis. In order to account for the positive association between capital and employee compensation, we also illustrate a stylized 3-period model. High compensations in the financial industry received increasing criticism over the course of years following the great recession, whereas capitalization of banks have been encouraged. Our paper is the first to highlight that there is an empirically visible trade-off between the two that policy need to pay attention.

Connectedness and SME finance: Evidence from post-communist economies

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Building on two distinct but relevant streams of literature, i.e. financial development and institutional economics, this study aims to investigate the role of interpersonal-connectedness in gaining access to formal finance for SMEs and its allocative consequences in 28 post-communist economies (PCEs) of the former Soviet Union and eastern Europe. Enterprise access to formal finance is generally lower in emerging economies: almost one-third of enterprises in emerging economies cite lack of external finance as either the main or a severe obstacle to their operation and growth (Bedik and Demirgüç-Kunt, 2008). Poor access to formal financial services is, in part, due to limited formal financial services in emerging countries meaning that the wholesale bank-based capital markets are less developed. Our results are robust to alternative measures of leverage and alternative fixed effects. In particular, SMEs accounting for more than 95 percent of enterprises, banks cannot fully utilise the law of large numbers to exploit the economies of scale and enjoy associated diversification benefits when lending to SMEs as they do with retail clients (Bedik, 2013). Consequently, lending to SMEs is riskier, explaining lower supply and higher cost of loans to the sector (Berger et al., 2000).

A more recent approach adds an additional dimension to this explanation by highlighting the role of institutional and political factors in the economic process. The institutional approach describes modern market-based economies as comprising of anonymous markets, impersonal bureaucratic organisations, and communitarian institutions that depend upon interpersonal networks (Dacquola, 2005; Weber, 1968). Entrepreneurial decisions respond to market prices, rules, and regulations, which signal incentives and set the parameters of enterprises and their interactions. Interpersonal networks, in the form of collection of networks and an aggregation of reputations, will emerge to resolve allocative and redistributive questions, including access to formal finance.

Political establishment is also less impartial, affecting economic outcomes formally through red tape, and informally through individual connections and interpersonal relations. Growing evidence suggests that political connections play an important role in gaining access to formal finance, and that larger enterprises gain more benefit from such connections (La Porta et al., 2002; Facco et al., 2006; Li et al., 2006; Ayagui et al., 2010).

Entrenched elites may influence business environment by adopting formal rules and regulations to protect their rent-seeking interests, creating unfavourable constraints and obstacles for the operation of enterprises. This may result in a culture of favouritism and bribery, further suppressing efficient market-based impersonal exchange and resource allocation (Feddeker et al., 1999, p.734). International evidence shows that smaller firms suffer more from such constraints (Shiller and Weder, 2003).

Alternative views, however, exist on the ultimate impact of corruption and rent-seeking behaviour on resource allocation and social welfare. It can be argued that because successful firms generate more surplus, they can better afford to offer bribes and kickbacks and gain advantageous access to scarce resources such as bank finance, resulting in a socially beneficial outcome (Duvanova, 2012; 2014; p. 300; Li, 1996; 1998). This view,
however, ignores interpersonal nature of relationships between public officials and entrepreneurs when supposedly ‘impersonal’ bureaucratic organisations do not enjoy full credibility. Interpersonal networks will be used more often when impersonal markets are suppressed, rent seeking behaviour is prevalent, and rules and laws are dysfunctional (Dasgupta, 2005).

But, soliciting bribes is not costless for corrupt bureaucrats even under these circumstances: there is always a danger that they may be caught in the process (Duwanova, 2014; 300). (Unless of course there is a complete failure of state and relevant bureaucratic institutions, in which case, corruption becomes endemic and possibly overt.) To minimise this risk, they are more likely to cooperate with people whom they know well and can trust. Hence, having right contacts and interpersonal connections becomes more valuable than simply affording explicit monetary payments as bribes.

Although interpersonal links may require some form of eventual pecuniary reward in exchange for favours, mutual unpaid obligations may dominate when one has contacts as these can be used repeatedly in future and may produce potentially continuous benefits to the parties involved in the network. Importantly, not all entrepreneurs are fortunate to have economically beneficial interpersonal networks, and, the most valuable networks are also the most exclusive.

Belonging to a single network may also open access to other networks as some entrepreneurs will have membership to multiple networks. For example, an entrepreneur may gain an indirect access to formal finance through his connections with a government official. Interpersonal and exclusive nature of such personal networks indicate that a small number of strategically well-connected entrepreneurs can often seize a disproportionately large share of common resources and opportunities, resulting in allocative inefficiency (McKeen, 1992). This compares to large anonymous market-based exchange systems which are more efficient because “the best” buyer or seller may not be a part of exclusive networks (Serageldin and Grootaert, 2001, p.55).

Despite the intensification of market-based exchanges and improving credibility of formal bureaucratic organisations in most of the PCEs, evidence suggests that public officials and civil servants in otherwise impersonal bureaucratic organisations still personalise their positions by using the rigidity of rules and regulations as an excuse for rent-seeking (Duwanova, 2012, 2014) – a phenomenon Rose (2001) described as an institutional failure; and smaller enterprises are affected disproportionately more by these institutional constraints (Ruziev and Midmore, 2015; Schiffer and Weder, 2003).

Overall macroeconomic conditions such as per capita income levels, depth of financial sector development, and progress made in banking and enterprise reforms vary significantly amongst the PCEs. An important indicator of this is that the aggregate indicators are rather broad and do not fully reflect more specific institutional and financial constraints that SMEs face. For example, while more developed financial systems generally offer better access to financial services, aggregate measures of financial development such as private sector credits, broad money, banking sector assets etc do not provide enough information about breadth and quality of financial depth, and neglect, for example, the proportion of economically active entities responsible for the utilisation of available formal finance (Caessens and Perotti, 2007, p. 751).

The data used in this study comes from the 2011-2014 Business Environment and Enterprise Survey (BEEPS V) - a joint initiative by the European Bank for Reconstruction and Development (EBRD) and the World Bank, which covers more than 14,000 enterprises in 28 PCEs of the former Soviet Union and Eastern Europe. Since SMEs are not scaled down versions of large enterprises and hence face qualitatively different obstacles for their operation and growth, we extracted a sub-sample containing only SMEs from the original data for the purpose of this study. There are over 11,000 SMEs in our sub-sample, so the size of the dataset is relatively large. The target variables such as interpersonal links, corruption etc come from the government-enterprise relations section of the survey. In terms of the estimation methodology, we employ multivariate probit models to test our hypotheses, including sophisticated Heckman-type selection models to control for possible sample selection and omitted variable biases (Cavaluzzo and Wolken, 2005; Cameron and Trivedi, 2010; Wooldridge, 2002).

The study finds that despite being positively and significantly associated with improved access to bank finance, various measures of interpersonal connectedness are not associated with SME growth, with implications for resource allocation. Findings of the study have further important policy relevance. For example, given the unequal distribution of formal finance between SMEs and large enterprises, policy-makers in emerging economies mostly focus on increasing the flow of formal finance to the SME sector. However, the finding of this study suggest that, policy-makers should be concerned not only about measures that facilitate increased availability of formal finance, but also, and more importantly, about longer-term improvements in capacity building such as establishing more transparent financial systems and more efficient bureaucratic organisations, leading to more efficient allocation of formal finance.

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Board classification and shareholder value: Evidence from a natural experiment

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This study examines the shareholder value impact of board classification. Prior studies find a negative correlation between classified boards and shareholder value, but do not establish causality. A concern is that the negative association can be interpreted as either a negative shareholder value effect of classified boards or as an equilibrium corporate governance phenomenon, resulting in contradictory policy implications. This study contributes direct and causal evidence using a natural experiment based on corporate law amendments that impose a board classification change. The market reaction surrounding legislative events identifies a perceived shareholder value difference between board classification. The results suggest that the market perceives classified boards as reducing shareholder value and declassified boards as improving it. This evidence is consistent with shareholder activists’ argument that board decategorization benefits shareholders.

SUN4-06: Financial instruments and risk exposure

Session Chair: Sean Pinder, The University of Melbourne, Australia

Sovereign to corporate risk spillovers

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We document significant spillover effects from sovereign to corporate bond risk. We document a significant risk premium effect from the first Greek bailout on April 11, 2010, which represents a unique unexplained shift in the perception of sovereign risk of all European countries. A ten percent increase in sovereign credit risk raises corporate credit risk on average by 1.1 percent after the bailout. These effects are more pronounced in countries that belong to the Eurozone, that are more financially distressed and that have weaker property rights. Financial dependence, public ownership and the sovereign ceiling are channels that enhance the sovereign to corporate risk transfer.

Actual share repurchases, price efficiency, and the information content of stock prices

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We examine the impact of actual share repurchases on stock prices using several measures of price efficiency and manually collected data on repurchases by both U.S. and U.S. stocks between 2004 and 2010. We find that share repurchases make prices more efficient. In particular, share repurchases increase the accuracy of the stock price after negative information comes to the market. We conclude that share repurchases make prices more informative by providing price support at fundamental values. We find no evidence that managers use share repurchases to manipulate prices before selling their equity holdings or that share repurchases incorporate private information.

Exchange-rate pass-through and exposure under various oligopolistic frameworks

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We discuss the implications of exchange rate movements on competition, profits and prices into a unified framework of markets of differentiated goods under imperfect competition. We develop and empirically test two novel and more realistic models of exporting firms to study pass through and exchange rate exposure. We explore the impact of exchange rate fluctuations on the between-and within competition in price and quantity setting models. The models are empirically tested to confirm our theoretical hypotheses as these are derived from our models.

An analysis of real options in a natural setting

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While the theoretical literature on real options is voluminous, much of the examination of that literature relies on qualitative case-study evidence. We exploit the features of the game of limited overs cricket, and in particular the use of the Duckworth-Lewis-Stern system of dynamic benchmarking which is formally integrated into that game, to provide a quantitative analysis of the central role of real option strategies in a natural setting.

SUN4-07: Agency, valuation and innovation

Session Chair: Vicky Kiose, Exeter University, United Kingdom

Influencing control: Jawboning in risk arbitrage

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This is the first study on a relatively new phenomenon of "activist risk arbitrage," in which some shareholders attempt to change the course of an announced M&A deal through public campaigns and appraisal appeals in order to profit from improved terms for either target or acquirer shareholders. Compared to conventional (passive) risk arbitrageurs, activist arbitrageurs are more likely to select deals that are susceptible to managerial conflicts of interest, including going-private deals, "friendly" deals, and deals with below announcement premiums. While activist risk arbitrage does not significantly change the probability of deal completion, it increases the sensitivity of deal completion to market price signals. Finally, activist risk arbitrage yields significantly higher returns than passive arbitrage, with little incremental deal risk.

S-curve approach in young firms valuation

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Fundamental valuation of companies in the early stage of their development gains little support from the mainstream valuation theory. The standard set of fundamental valuation inputs (Damodaran 2009) in case of newly established firms becomes unattainable or unreliable. Since s-curve is frequently used to describe economic or natural phenomena which obey the logistic growth law, the valuation model presented in this paper uses s-shaped patterns for cash flow projection. As a result the valuation model enables alternative value drivers’ description regarding firm’s capacity to
grow and cash flow momentum. The example of CCC valuation gives many insights into the subject of young firms valuation and risk analysis.

**The big innovation bang**

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This paper investigates the role of stock market development on innovation. With a quasi-natural experiment I exploit the London Big Bang, a large and exogenous shock to stock-market regulation that occurred in the United Kingdom in 1986 and show that improved stock market conditions foster innovation. In particular, firms belonging to more external finance dependent industries increase their innovation output following the deregulation. I identify a possible mechanism through which a more efficient stock market has a positive effect on innovation: whereas firms belonging to low external finance dependent industries and firms belonging to high external finance dependent industries raise equity after the deregulation, only the latter issue less long term loans.

**Defined benefit pension schemes, excess cash and agency problems**

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This study investigates the intervening effect of defined benefit (DB) pension schemes on irregular payouts of excess cash. The evidence indicates that the existence of DB schemes lowers both the propensity and the magnitude of excess cash distributed to shareholders. Further study reveals that DB schemes also help to limit the scope of over-investment problems. Firms with DB schemes spend significantly less surplus cash on subsequent investments than firms without DB schemes. Nevertheless, this study also justifies the Pension Regulator's concern that managers distribute funds that could potentially be used to fund DB schemes. The evidence is found that transitory cash flow shocks will be paid out to shareholders in spite of DB schemes.