# 2017 Annual Meeting of the Corporate Finance Research Group

University of Adelaide Business School

15-16 June, 2017

On behalf of the 2017 Program Committee members *Alfred Yawson (Chair), Ralf-Yves Zurbrugg, Jean Canil, David Michayluk and Reza Bradrania* FIRN welcome to Adelaide and the 6th meeting of FIRN Corporate Finance researchers.

Thank you to The University of Adelaide Business School and the University of South Australia who have worked together in preparing this year's program.

These topic-specific research meetings aim to:

- help develop the depth and quality of local research in the field;
- help develop a vibrant and collegial Australian research community
- help connect well-known international academic and journal editor with the local corporate finance community; and
- help create greater exposure of current research being conducted across FIRN institutions.

Once again a large number of submissions were submitted which continues to reflect the growing breath of work being undertaken by our member researchers. Six (6) very interesting papers have been selected for presentation in addition to presentations by each of our international guests. Group discussion of all presentations is strongly encouraged.

## *Keynote Presenters*

**Paul Brockman** is a Senior Associate Dean for Faculty and Academic Affairs at Le High University and holds the Joseph R. Perella and Amy M. Perella Chair. Paul's research focuses primarily on corporate decision making. He is interested in examining the context (e.g., philosophical, psychological, historical, institutional) in which business decisions are made, implemented, and interpreted by capital markets.

**Vidhan Goyal** is a Professor of Finance at Hong Kong University of Science and Technology. Professor Goyal's research interests are in capital structure, corporate governance, and debt contracts. His research papers have been published in top academic journals including the Journal of Business, Journal of Finance, Journal of Financial Economics, Journal of Financial and Quantitative Analysis, Review of Finance, Journal of Financial Intermediation, Financial Management, and Journal of Corporate Finance. Professor Goyal has also contributed a chapter to the Handbook of Empirical Corporate Finance.

## Program: Thursday, 15 June, 2017

| | | |
|---|---|---|
| 12:00 – 12:50 | *Welcome Lunch* | |
| 12:50 – 1:00 | Welcome Address | |
| 1:00 – 6:00 | **Session Chair:** | ***Chelsea Liu (Adelaide)*** |
| 1:00 – 1:50 | Paper: | ***Manager-Board Collusion and Compensation*** |
| | Authors: | Almazan, A. *(University of Texas, Austin)* and Kang, C. *(UNSW)* |
| | Presenter: | **Chang-Mo Kang** *(UNSW)* |
| | Discussant: | **Chander Shekhar** *(University of Melbourne)* |
| 1:50 – 2:40 | Paper: | ***Passive Institutional Ownership and Executive Compensation: Monitoring or Crowding Out?*** |
| | Authors: | Wong, K. *(University of Hong Kong)*; Long, Y. *(Hong Kong Baptist University)* and Zhou, X. *(ANU)* |
| | Presenter: | **Xianming Zhou** *(ANU)* |
| | Discussant: | **Mark Humphrey-Jenner** *(UNSW)* |
| 2:40 – 3:00 | *Afternoon tea* | |
| 3:00 – 4:00 | **Keynote Address 1: Paul Brockman *(Le High University)*** | |
| 4:00 – 4:50 | Paper: | ***Pension Deficits and the Design of Private Debt Contracts*** |
| | Authors: | Balachandran, B. *(La Trobe)*; Duong, H.N. *(Monash)* and Vu, V.H. *(University of Newcastle)* |
| | Presenter: | **Van Hoang Vu** *(University of Newcastle)* |
| | Discussant: | **Shams Pathan** *(UQ)* |
| 4:50 – 5:10 | *Coffee break* | |
| 5:10 – 6:00 | Paper: | ***Media News Coverage and Corporate Leverage Adjustments*** |
| | Authors: | Dang, T.L. *(University of Danang)*; Dang, V.A. *(University of Manchester)* and Nguyen, L. *(La Trobe)* |
| | Presenter: | **Lily Nguyen** *(LA TROBE)* |
| | Discussant: | **Sigitas Karpavicius** *(University of Adelaide)* |
| 8:30 – 10:30 | *Group Dinner at Africola* | |

## Program: Friday, 16 June, 2017

| | | |
|---|---|---|
| 8:30 – 12:00 | **Session Chair:** | ***Victoria Clout (UNSW)*** |
| 8:30 – 9:20 | Paper: | ***Making Sense of Shareholders' Say-on-Pay Vote: The role of short- term investors*** |
| | Authors: | Pathan, S. *(UQBS)* and Fernandez-Mendez, C. *(University of Oviedo)* |
| | Presenter: | **Shams Pathan** *(UQBS)* |
| | Discussant: | **Xianming Zhou** *(ANU)* |
| 9:20 – 9:40 | *Coffee break* | |
| 9:40 – 10:40 | **Keynote Address 2: Vidhan Goyal *(HKUST)*** | |
| 10:40 – 11:30 | Paper: | ***Labor Unemployment Benefits and Corporate Takeovers*** |
| | Authors: | Lixiong, G. *(UNSW)* |
| | Presenter: | **Lixiong Guo** *(UNSW)* |
| | Discussant: | **Andrey Golubov** *(University of Toronto)* |
| 12:00 | *Bus to Waterfall Gully* | |
| 12:30 | *Group Lunch at Waterfall Gully* | |

## Keynote Presenter Abstracts

**Paul Brockman**

***It's All in the Name: Evidence of Founder-Firm Endowment Effects***

We show that founder-named firms are 8% less valuable than non-founder-named firms, and that founder-named-and-managed firms are 21% less valuable than their non-founder-named-and-managed counterparts. We posit that these discounts are caused by founders who operate their eponymous firms more from a "current personal use" perspective than from a "potential market exchange" perspective (Kahneman, 2011). We test and confirm several direct implications of this endowment effects hypothesis. We examine alternative explanations - dual class structures, differential voting/cash flow rights, corporate opacity, CEO overconfidence, weak internal governance - and find that none of these alternatives can account for our endowment-related results.

**Vidhan Goyal**

***Credit Supply and Capital Structure***

In this talk, I will present some new evidence on the effect of supply shocks on financing decisions of firms. The first set of results assesses the importance of global liquidity conditions in driving the debt finance of companies in emerging Asia. The second set of results focuses on examining the effect of shocks to the information environment in equity markets for debt supply and financing of firms. We will conclude with a discussion of the importance of supply frictions in the financing of firms.

## FIRN Presenter Abstracts

***Manager-Board Collusion and Compensation***

We examine the design of board compensation in a setting in which shareholders delegate to the board the tasks of CEO monitoring and setting the CEO's compensation. While high pay-for-performance board compensation induces intense board monitoring, under some conditions, it can also induce undesirable collusion between the board and the CEO. Motivated by this trade-off, our empirical analysis documents the systematic differences in board compensation across industries and cross-sectional differences in board compensation that can be associated with the ability of CEO to engage in risk-seeking activities. In particular, we find that boards receive less pay-for-performance compensation in firms for which R&D investments are less likely to be productive and in firms in which executives may easily engage in financial speculation, e.g., banks.

***Passive Institutional Ownership and Executive Compensation: Monitoring or Crowding Out?***

By using the Russell 1000/2000 index reconstitutions to identify exogenous variations in passive institutional ownership, we examine the impact of institutional investors on executive compensation. Our key finding is that passive institutional ownership is strongly negatively related to executive ownership. In relation to this observation, we further find that while higher passive ownership leads to a structural change in compensation from cash to stock options, the pay-performance relationship is weakened due to reduced stock holdings by managers. Our results do not support a presumed monitoring role by passive institutional investors. Instead, they are consistent with a strong crowding out effect: managerial ownership declines in response to increased demand for the stock by institutional investors.

***Making Sense of Shareholders' Say-on-Pay Vote: The role of short term investors***

The present study analyses the causes and effects of say on pay vote decisions taken by US listed companies from 2011 to 2015 with a especial emphasis on the role played by short term investors in the say on pay process. Using an unbalanced panel of 6449 firm year observations corresponding to 2191 firms we analyze in the first place, the determinants of both the proportion of assent say on pay vote and the frequency chosen by the shareholders to cast their vote and in the second place the market reactions surrounding the say on pay event and the subsequent evolution of CEO pay and corporate governance risk after say on pay vote. Our results indicate that the market reacts positively to say on pay vote especially when there is a substantial opposition to the executives' remuneration plan in a firm dominated by short term investors with a CEO paid above the standard for comparable firms. We observe that shareholders' opposition to the firms' executive remuneration plan is stronger when the CEO pay is high. We also obtain evidence that the proportion of dissent say on pay vote is higher in firms dominated by short term institutional investors and firms that present a significant corporate governance risk. There is also consistent evidence that dissent say on pay vote leads to subsequent reductions in CEOs remuneration and to lower corporate governance risk. Especially interesting is the role of short term investors in the say on pay process that is more driven by the seeking of corporate governance improvements rather than remuneration reductions of highly paid CEOs. Our results are robust to multiple measures of CEO pay and institutional investors' time horizon.

***Media News Coverage and Corporate Leverage Adjustments***
We examine the impact of the media on firms' dynamic leverage adjustments. Using an international sample of media news coverage across 39 countries over the 2000–2010 period, we find that the media's news is positively related to the speed of leverage adjustment. This finding is consistent with the notion suggests that the media helps lower firms' costs of adjustments toward their optimal capital structures. We further find evidence in support of two underlying mechanisms through which the news media affects leverage adjustments: information dissemination and monitoring. Overall, our results are consistent with the dynamic trade-off theory of capital structure.

***Pension Deficits and the Design of Private Debt Contracts***
We find a positive relation between the amount of pension deficits and the cost of bank loans. Our results hold controlling for endogeneity. Borrowers with larger pension deficits are also more likely to have collateral, more covenant restrictions, and shorter loan maturity. In addition, they have a higher likelihood of violating loan covenants. Further, we find that the effect of pension deficits on the cost of borrowing is stronger among firms with severe financial constraints, more information asymmetry problems, and higher pension investment risk. Collectively, these findings indicate that pension deficits represent an additional source of risk priced by creditors.

***Labor Unemployment Benefits and Corporate Takeovers***
Takeovers are often followed by layoffs of workers. However, little is known about how potential unemployment benefits to laid-off workers affect a firm's likelihood of being acquired and the synergy of the deal. We exploit changes in state unemployment insurance laws as a source of variation in labor unemployment benefits. We find that higher unemployment benefits increase the likelihood of firms being acquired, particular for labor intensive firms, firms in industries with high layoff rates, unionized firms, and firms with higher spending on corporate social responsibility. Moreover, we find that labor unemployment benefits also affect the synergy of the M&A deals, both the bidder's announcement returns and the combined bidder and target firm's announcement returns are higher when the target firm's state unemployment benefits are higher. Our findings suggest that labor unemployment benefits have a significant impact on takeover outcomes and state unemployment insurance laws have an unintended consequence on takeovers.