FAKULTÄT FÜR BETRIEBSWIRTSCHAFTSLEHRE
Lehrstuhl für Corporate Finance
Prof. Ernst Maug, Ph.D.

UNIVERSITÄT MANNHEIM

SEMINAR THESIS
Fall Spring Term 2022
(As of 25. November 2021)

Students who want to write a seminar paper at the Chair for Corporate Finance should satisfy the following prerequisites:

- Proficiency in Microsoft Excel and willingness to become acquainted with statistical analysis software (e.g., students are expected to enroll in FIN 604 Stata course)
- Solid command of English
- Ability to conduct empirical research
- Good knowledge of research methods

Seminar thesis topics are empirical studies in corporate finance, which will need to be completed in eight weeks. Therefore, while reading research papers and conducting literature-based research in is important, the emphasis is on collecting data from databases and conducting empirical analyses.

The thesis must be written in English. Specific requirements are noted in the individual topic descriptions.

Please refer to the information available on our homepage at https://www.bwl.uni-mannheim.de/en/finance/teaching/master/seminar-thesis-1/, especially the document "General Guidelines for the Corporate Finance Seminar".

Topic 1: Financing labor: Do financing constraints affect firm-level employment decisions?

Supervisor: Minrui Gong

The 2007-08 financial crisis and the subsequent economic recession led to a surge of unemployment in numerous countries worldwide. Since then, a growing body of literature has attempted to establish a link between financial market imperfections and firms' employment decisions. Evidence shows that financing constraints have a strong negative impact on firm-level employment (Chodorow-Reich, 2014; Duygan-Bump, Levkov, & Montoriol-Garriga, 2015; Falato & Liang, 2016; Giroud & Mueller, 2017).

A recent study by Benmelech, Bergman, and Seru (2021), implementing an empirical setting developed by Almeida et al. (2011), shows that the need of refinancing maturing long-term debt leads to reduced employment. This effect cannot be solely explained by decreased internal funds, which indicates that accessibility to external funds has a direct impact on employment.

Goals/Requirements:

The goal of this seminar thesis is to establish a causal link between financing constraints and firm-level employment decisions. The student should replicate the empirical analysis of Benmelech, Bergman, and Seru (2021), using fundamental data of European firms from Compustat and macroeconomic data from other sources. Students have the option to conduct a difference-in-difference analysis similar to Almeida et al. (2011) as a robustness test. Empirical work for this topic requires the use of statistical software (e.g., Stata) and application of econometric methods. The Compustat database is accessible via the university network.

Introductory Literature:

- Almeida, H., Campello, M., Laranjeira, B., and Weisbenner, S. (2011). Corporate Debt Maturity and the Real Effects of the 2007 Credit Crisis. *Critical Finance Review*, 1, 3-58.
- Benmelech, E., Bergman, N., & Seru, A. (2021). Financing Labor. *Review of Finance*, 1365-1393.
- Chodorow-Reich, G. (2014). The Employment Effect of Credit Market Disruptions: Firm-Level Evidence from the 2008-9 Financial Crisis. *The Quarterly Journal of Economics*, 1-59.
- Duygan-Bump, B., Levkov, A., and Montoriol-Garriga, J. (2015). Financing Constraints and Unemployment: Evidence from the Great Recession. *Journal of Monetary Economics*, 89-105.
- Falato, A., and Liang, N. (2016). Creditor Rights Increase Employment Risk? Evidence from Loan Covenants. *The Journal of Finance*, 2545-2590.
- Giroud, X., and Mueller, H. M. (2017). Firm Leverage, Consumer Demand, and Employment Losses during the Great Recession. *The Quarterly Journal of Economics*, 271-316.

Topic 2: Less is more: Does divestiture lead to more efficient divisional investment policy?

Supervisor: Minrui Gong

Lang and Stulz (1993) find a negative correlation between Tobin's Q and firm diversification. Later commonly known as the "conglomerate discount" or "diversification discount", this finding inspired a plethora of research. Evidence shows that, within a multidivisional firm, a phenomenon called "corporate socialism"—where high-growth divisions cross-subsidize low-growth divisions—leads to inefficient investment and destroys firm value (Shin & Stulz, 1998; Scharfstein, 1998).[1]
Previous literature typically compares the market value of a conglomerate firm to the market value of a group of matched standalone firms, each replicating one segment of the conglomerate.[2] This cross-sectional approach may suffer from endogeneity problems and imperfect matching. To address these concerns, Dittmar and Shivdasani (2003) adopt a time-series approach. They examine the impact of divesting a segment on the conglomerate's investment decisions and document a substantial increase in post-divestiture investment efficiency. Moreover, this improvement is associated with a decrease in the diversification discount, i.e., it is value-enhancing.

Goals/Requirements:
The goal of this seminar thesis is to examine whether divesting a segment improves investment efficiency of a conglomerate. The student should replicate the empirical analysis of Dittmar and Shivdasani (2003), using more recent US data from Compustat and SDC. Empirical work for this topic requires the use of statistical software (e.g., Stata) and application of econometric methods. All databases are accessible via the university network or via an on-campus terminal.

Introductory Literature:

- Dittmar, A., and Shivdasani, A. (2003). Divestitures and Divisional Investment Policy. *The Journal of Finance*, 2711-2743.
- Lang, L. H., and Stulz, R. M. (1993). Tobin's Q, Corporate Diversification and Firm Performance. NBER Working Paper Series.
- Scharfstein, D. S. (1998). The Darkside of Financial Capital Markets II: Evidence from Diversified Conglomerates.
- Shin, H.-H., and Stulz, R. M. (1998). Are Internal Capital Markets Efficient? *The Quarterly Journal of Economics,* 1-22.
- Stein, J. C. (2003). Agency, Information and Corporate Investment. In Handbook of the Economics of Finance (pp. 111-165).

[1] For a detailed review of both theoretical and empirical works regarding internal capital markets, see Stein (2003).
[2] See, e.g., Berger & Ofek (1995).

Topic 3: CEO Compensation and M&A deals

Supervisor: Luisa Langer

Prior research indicates that CEO compensation packages increase with firm size, which indirectly rewards CEOs for undertaking mergers and acquisitions. Despite large compensation packages, shareholders of acquiring firms do not typically profit from these merger deals. For example, Moeller et al. (2003) report substantial negative announcement returns and substantial losses to large acquiring firms. The apparent misalignment between compensation practice and M&A outcomes warrants a closer look at the practice of rewarding CEOs for undertaking M&As.

Denis et al. (1997) and Datta et al. (2001) look at CEO compensation and ownership structures before M&A deals and show that increased insider ownership and equity-based compensation improve long run post-acquisition performance. Bliss and Rosen (2001) show that CEO compensation typically increases after bank mergers even if the acquirer's stock price declines. Rose and Shepard (1997) show that diversified firms tend to have higher CEO compensation, although the difference appears to be due to managerial ability. Grinstein and Hribar (2004) find that CEOs who have more power to influence board decisions receive significantly larger bonuses. The authors report that CEOs with more power also tend to engage in larger deals relative to the size of their own firms, and the market responds more negatively to their acquisition announcements.

Goals/Requirements:
The goal of this seminar thesis is to examine CEO compensation after completed mergers and acquisitions. The student is expected to replicate the empirical analysis of Grinstein and Hribar (2004), using more recent data for U.S. firms. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: ExecuComp, Compustat, CRSP, and SDC. All databases are accessible via the university network or online.

Introductory Literature:

- Bliss, R.T. and Rosen, R.J., 2001. CEO compensation and bank mergers. *Journal of Financial Economics*, 61(1), pp.107-138.
- Cyert, R.M., Kang, S.H. and Kumar, P., 2002. Corporate governance, takeovers, and top-management compensation: Theory and evidence. *Management Science*, 48(4), pp.453-469.
- Grinstein, Y. and Hribar, P., 2004. CEO compensation and incentives: Evidence from M&A bonuses. *Journal of Financial Economics*, 73(1), pp.119-143.
- Hartzell, J.C., Ofek, E. and Yermack, D., 2004. What's in it for me? CEOs whose firms are acquired. *The Review of Financial Studies*, 17(1), pp.37-61.

Topic 4: CEO Political ideology and M&A decisions

Supervisor: Luisa Langer

CEO political ideology extends to their firms' financial and investment decisions. Ideology refers to the belief system that captures one's values and shapes opinions and attitudes toward various aspects of society and its customs and institutions, ranging from politics and economics to religion (Converse, 1964, Jost, 2006). While ideology is a multidimensional concept, many individuals self-identify along the liberal-conservative or left-right continuum, because their stand on many issues can be described from that perspective.

The political orientation of managers is correlated with their financial conservatism. Hutton et al. (2014) test whether the personal political ideology of CEOs influences the level of financial conservatism in their firms. Their results show that firms with Republican CEOs exhibit more conservative corporate policies in the form of lower leverage ratios, lower capital and R&D expenditures, less risky investment, higher dividend payouts, and greater profitability. Francis et al. (2016) show that firms with politically partisan CEOs are associated with higher level of tax sheltering as compared to firms with neutral CEOs. Elhanas and Kim (2017) find that Republican CEOs are less likely to engage in M&A activities. When they do undertake acquisitions, they are more likely to use cash as the method of payment, and their targets are more likely to be public firms and to be from the same industry.

Goals/Requirements:
The goal of this seminar thesis is to examine the relation between CEO political ideology and their firms' investment decisions, particularly their M&A decisions. The student is expected to replicate the empirical analysis of Elnahas and Kim (2017), using more recent data for U.S. firms. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: Compustat and SDC. These databases are accessible via the university network or online. Data on CEOs political contributions can be manually obtained from the Federal Election Commission.

Introductory Literature:

- Elnahas, A.M. and Kim, D., 2017. CEO political ideology and mergers and acquisitions decisions. *Journal of Corporate Finance*, 45, pp.162-175.
- Francis, B.B., Hasan, I., Sun, X. and Wu, Q., 2016. CEO political preference and corporate tax sheltering. *Journal of Corporate Finance*, 38, pp.37-53.
- Hutton, I., Jiang, D. and Kumar, A., 2014. Corporate policies of Republican managers. *Journal of Financial and Quantitative Analysis*, 49(5-6), pp.1279-1310.
- Unsal, O., Hassan, M.K. and Zirek, D., 2016. Corporate lobbying, CEO political ideology and firm performance. *Journal of Corporate Finance*, 38, pp.126-149.

Topic 5: CEO Age and M&A behavior

Supervisor: Luisa Langer

Existing theories offer several reasons for why CEO age should matter for merger and acquisition (M&A) deals. Compensation benefits associated with empire-building suggest CEOs have greater incentives to pursue acquisitions earlier in their career. However, career concerns may make younger CEOs reluctant to jeopardize future earnings, and therefore avoid risky activities. The changes in personal characteristics that occur with age can also affect a CEO's acquisition propensity. For example, Bertrand and Mullainathan (2003) argue that CEOs have a preference for the quiet life. These preferences likely increase with age. As people grow older, energy levels decline (Roberts and Rosenberg, 2006; Harman, 1991).

Serfling (2014) provide evidence on the relation between CEO age and risk-taking behavior. Consistent with the prediction that CEOs take fewer risks as they age, Serfling (2014) reports a negative relation between stock return volatility and CEO age, a negative relation between CEO age and both investment in R&D and operating leverage. Further, firms managed by older CEOs are more diversified across business segments, and conditional on CEOs making acquisitions, older CEOs are more likely to make diversifying acquisitions. Yim (2013) document that a firm's acquisition propensity is decreasing in the age of its CEO: a firm with a CEO who is 20 years older is 30% less likely to announce an acquisition. This negative effect of CEO age on acquisitions is strongest among firms where CEOs likely anticipate or can influence high post-acquisition compensation and is absent for other investment decisions that are not rewarded with permanent compensation gains.

Goals/Requirements:
The goal of this seminar thesis is to examine whether CEO age affects M&A acquisition propensity. The student is expected to replicate the empirical analysis of Yim (2013), using more recent data for U.S. firms. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: Compustat, SDC and CRSP. All databases are accessible via the university network or online.

Introductory Literature:

- Custódio, C. and Metzger, D., 2013. How do CEOs matter? The effect of industry expertise on acquisition returns. *The Review of Financial Studies*, 26(8), pp.2008-2047.
- Serfling, M.A., 2014. CEO age and the riskiness of corporate policies. *Journal of Corporate Finance*, 25, pp.251-273.
- Yim, S., 2013. The acquisitiveness of youth: CEO age and acquisition behavior. *Journal of Financial Economics*, 108(1), pp.250-273.

Topic 6: CEO Overconfidence and Corporate Investments

Supervisor: Luisa Langer

Prior research suggests that personal characteristics of managers matter. There are findings on managerial fixed effects (Bertrand and Schoar, 2003); on managerial overconfidence proxies relating to firm behavior (Malmendier and Tate, 2005, Malmendier and Tate, 2008); and on CEO characteristics in private equity firms being related to outcome success (Kaplan et al., 2012).

One important link between investment levels and cash flows is the tension between the beliefs of the CEO and the market about the value of the firm (Malmendier and Tate, 2005). Overconfident CEOs systematically overestimate the return to their investment projects. If they have sufficient internal funds for investment and are not disciplined by the capital market or corporate governance mechanisms, they overinvest relative to the first–best. If they do not have sufficient internal funds, however, they are reluctant to issue new equity because they perceive the stock of their company to be undervalued by the market. As a result, they curb their investment. Additional cash flow provides an opportunity to invest closer to their desired level.

Goals/Requirements:
The goal of this seminar thesis is to examine the association between firm corporate investment and CEO overconfidence. The student is expected to replicate the empirical analysis of Malmendier and Tate (2005), using more recent data for U.S. firms. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: Compustat, Execucomp, and BoardEx. All databases are accessible via the university network or online.

Introductory Literature:

- Adams, R.B., Almeida, H. and Ferreira, D., 2005. Powerful CEOs and their impact on corporate performance. *The Review of Financial Studies*, *18*(4), pp.1403-1432.
- Bertrand, M. and Schoar, A., 2003. Managing with style: The effect of managers on firm policies. *The Quarterly Journal of Economics*, *118*(4), pp.1169-1208.
- Malmendier, U. and Tate, G., 2005. CEO overconfidence and corporate investment. *The Journal of Finance*, 60(6), pp.2661-2700.
- Malmendier, U. and Tate, G., 2008. Who makes acquisitions? CEO overconfidence and the market's reaction. *Journal of Financial Economics*, *89*(1), pp.20-43.
- Malmendier, U., Tate, G. and Yan, J., 2011. Overconfidence and early-life experiences: the effect of managerial traits on corporate financial policies. *The Journal of Finance*, *66*(5), pp.1687-1733.

Topic 7: Gender diversity in the boardroom and firm performance

Supervisor: Luisa Langer

The gender diversity of the board is a central theme of governance reform efforts worldwide. Prior research examines whether board gender diversity matters in terms of board governance, and how gender diversity is associated with firm performance. While a large literature shows that women behave differently in a variety of settings, it is not clear ex-ante whether women should also be expected to behave differently than men in the boardroom.

The literature on board gender diversity has mixed results. Adams and Ferreira (2009) find that CEO turnover is more sensitive to stock performance and directors receive more equity-based compensation in firms with more gender-diverse boards. However, the average effect of gender diversity on firm performance is negative. This negative effect is driven by companies with fewer takeover defenses. Overall, these results highlight the importance of addressing the endogeneity of gender diversity in performance regressions.

Goals/Requirements:
The goal of this seminar thesis is to examine the effect of board gender diversity on board inputs and firm performance. The student is expected to replicate the empirical analysis of Adams and Ferreira (2009), using more recent data for U.S. firms. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: ExecuComp, Compustat, CRSP, and BoardEx. All databases are accessible via the university network or online.

Introductory Literature:

- Adams, R.B. and Ferreira, D., 2009. Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, 94(2), pp.291-309.
- Adams, R.B. and Funk, P., 2012. Beyond the glass ceiling: Does gender matter?. *Management Science*, 58(2), pp.219-235.
- Joecks, J., Pull, K. and Vetter, K., 2013. Gender diversity in the boardroom and firm performance: What exactly constitutes a “critical mass?”. *Journal of Business Ethics*, 118(1), pp.61-72.
- Schwartz-Ziv, M., 2017. Gender and board activeness: The role of a critical mass. *Journal of Financial and Quantitative Analysis*, 52(2), pp.751-780.

Topic 8: CEO Compensation and Board Structure Requirements

Supervisor: Luisa Langer

The decision of how to compensate the CEO is delegated to the board of directors. On the one hand, many scholars point to the labor market for talent as the major force that determines the level and design of compensation contracts (e.g., Himmelberg and Hubbard, 2000; Gabaix and Landier, 2008). On the other hand, several scholars argue that the delegation mechanism has a crucial effect on CEO compensation, and that board decisions with respect to compensation can deviate considerably from labor market values (e.g., Fama and Jensen, 1983; Jensen, 1993; Bebchuk and Fried 2004).

Chhaohharia and Grinstein (2009) examine whether compliance with board requirements influences CEO compensation decisions. To measure the level of compliance, the authors focus on three board structure variables required by the Sarbanes-Oxley Act and the new rules of the major exchanges: (1) the requirement for a majority of independent directors, (2) the requirement for an independent nominating committee, and (3) the requirement for an independent compensation committee. Using a difference-in-difference approach, Chhaohharia and Grinstein (2009) find that firms that did not comply with these requirements significantly decreased CEO compensation in the period after the rules went into effect, compared to the complying firms. The decrease is about 17%, after considering firm performance, size, time-varying shocks to different industries during that period, firm fixed effects, and other variables affecting compensation that changed during that time.

Goals/Requirements:
The goal of this seminar thesis is to examine whether board requirements affect CEO compensation decisions. The student is expected to replicate the empirical analysis of Chhaohharia and Grinstein (2009), using recent data for U.S. firms. The student could use the additional governance requirements introduced by the Dodd-Frank Act in 2010. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. The empirical work requires the use of the following databases: ExecuComp, Compustat, and BoardEx. All databases are accessible via the university network or online.

Introductory Literature:

- Chhaochharia, V. and Grinstein, Y., 2009. CEO compensation and board structure. *The Journal of Finance*, 64(1), pp.231-261.
- Core, J.E., Holthausen, R.W. and Larcker, D.F., 1997. Corporate governance, CEO compensation, and firm performance. CEO Compensation, and Firm Performance, *Journal of Financial Economics* 51, pp.371–406.
- Guthrie, K., Sokolowsky, J. and Wan, K.M., 2012. CEO compensation and board structure revisited. *The Journal of Finance*, 67(3), pp.1149-1168.