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

UNIVERSITÄT MANNHEIM

SEMINAR THESIS
Fall Spring Term 2023
(As of 24. November 2022)

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. To demonstrate econometric skills, it is recommended that students have approved CC503: Applied Econometrics.
- 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).

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[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 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 and Compustat. All databases are accessible via the university network or online. Data on boards and board committees will be provided.

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.

Topic 4: Managerial Attributes and Executive Compensation

Supervisor: Luisa Langer

The existing literature documents that observable firm characteristics (e.g., firm size and performance) and managerial characteristics (e.g., tenure and gender) partially explain the variation in executive pay. However, there is not much research on the impact of unobservable firm and managerial characteristics, such as latent managerial skills, on compensation.

According to Bertrand and Schoar (2003), managers vary in style and differ in the aggressiveness of their investment and financing choices. This raises the question as to whether managers with different styles or traits are remunerated accordingly. Graham, Li and Qiu (2012) examines the role of firm and manager fixed effects in explaining executive compensation and find that the majority of the variation in executive pay can be explained by time-invariant firm and managerial effects. The authors note that substantial heterogeneities among firms and managers could result from differences in corporate culture and in managers' latent traits, such as innate ability, personality, risk aversion, etc., none of which can be easily observed or measured.

Goals/Requirements:

The goal of this seminar thesis is to examine the role of firm- and manager-specific heterogeneities in executive compensation. The student is expected to replicate the empirical analysis of Graham, Li and Qiu (2012), 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, and CRSP. All databases are accessible via the university network or online.

Introductory Literature:

- Core, J.E., Guay, W. and Larcker, D.F., 2008. The power of the pen and executive compensation. *Journal of Financial Economics*, 88(1), pp.1-25.
- Graham, J.R., Li, S. and Qiu, J., 2012. Managerial attributes and executive compensation. *The Review of Financial Studies*, 25(1), pp.144-186.
- 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.

Topic 5: Corporate Policies and CEO Political Preference

Supervisor: Luisa Langer

Prior finance research shows that personal political preferences are associated with the investment decisions of individual investors (Kaustia and Torstila, 2011; Bonaparte et al., 2012) and money managers (Hong and Kostovetsky, 2012), as well as with the forecasts of equity analysts (Jiang et al., 2014). Similarly, one could argue that the political orientation of managers is associated with their financial conservatism. This is likely to be induced by managers' personal ideologies and values, which determine both the direction of political orientation and the degree of financial conservatism.

Hutton, Jiang, and Kumar (2014) examine whether the political orientation of top corporate managers influence firm capital structure and investment policies. Specifically, the authors argue that Republican managers, who are likely to have conservative personal ideologies, adopt and maintain more conservative corporate policies. The authors find that firms with Republican managers have lower levels of corporate debt, lower capital and R&D expenditures, and less risky investments. Furthermore, these policies are associated with lower volatility and higher profitability, at least in the short run.

Goals/Requirements:
The goal of this seminar thesis is to examine the relation between the personal political orientation of firm managers and corporate policies. The student is expected to replicate the empirical analysis of Hutton, Jiang and Kumar (2014), 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 and CRSP. All databases are accessible via the university network or online. Data on CEOs political contributions can be manually obtained from the U.S. Federal Election Commission.

Introductory Literature:

- Hong, H. and Kostovetsky, L., 2012. Red and blue investing: Values and finance. *Journal of Financial Economics*, 103(1), pp.1-19.
- 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.
- Kaustia, M. and Torstila, S., 2011. Stock market aversion? Political preferences and stock market participation. *Journal of Financial Economics*, 100(1), pp.98-112.

Topic 6: CEO Deal-Making Activities and Compensation

Supervisor: Luisa Langer

Prior research provides evidence that acquiring CEOs are rewarded for mergers, even if the transactions are not successful (e.g., Harford and Li, 2007; Grinstein and Hribar, 2004; Bliss and Rosen, 2001). Yet, it is unclear whether acquiring CEOs are being paid for the deal itself or for possible by-products of the acquisition, such as increases in firm size or complexity.

Fich, Starks and Yore (2014) study the specific motivations for executing deals that are not generally subject to changing size and complexity (e.g., joint ventures, strategic alliances, seasoned equity offerings, and spin-offs), and investigate their relation to market expectations and CEO compensation. By examining the reasons given by compensation committees to justify CEO pay increases, the authors reveal that performance-based justifications are mentioned significantly less often by boards of deal-making companies. Instead, the boards of these firms cite their CEOs' deal- making activities or leadership skills to explain their compensation decisions. In multivariate analyses, Fich et al. (2014) show that deal making is associated with CEO pay raises.

Goals/Requirements:
The goal of this seminar thesis is to empirically study compensation decisions for CEOs that execute deal-making activities such as joint ventures and SEOs. The student is expected to replicate the empirical analysis of Fich, Starks and Yore (2014), 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: SDC, CRSP, and Compustat. All databases are accessible via the university network or online.

Introductory Literature:

- Fich, E.M., Starks, L.T. and Yore, A.S., 2014. CEO deal-making activities and compensation. *Journal of Financial Economics*, 114(3), pp.471-492.
- Grinstein, Y. and Hribar, P., 2004. CEO compensation and incentives: Evidence from M&A bonuses. *Journal of Financial Economics*, 73(1), pp.119-143.
- Harford, J. and Li, K., 2007. Decoupling CEO wealth and firm performance: The case of acquiring CEOs. *The Journal of Finance*, 62(2), pp.917-949.

Topic 7: Institutional monitoring and M&A activities

Supervisor: Luisa Langer

Several studies theorize that, through activism, intervention, and monitoring, large shareholders, such as institutional investors, can enhance the value of the firm (Shleifer and Vishny, 1986; Maug, 1998; Kahn and Winton, 1998). Nonetheless, empirical evidence on the role of institutions in improving shareholder wealth is mixed. Most studies track institutional ownership relative to a public firm's outstanding common equity. The logic behind this measure is that the more equity the institution holds, the more likely it is that the firm pays attention to this investor. This logic, however, ignores the possibility that even if the firm has to pay attention to an institution because it holds an important block of the firm's shares, the institution might not be interested in monitoring the firm. This could happen because relative to the institution's own portfolio, the firm might not be an important holding.

To investigate this issue, Fich, Harford and Tran (2015) propose a new way to proxy for the effect of institutional investors. The authors measure institutional ownership relative to the institution's entire portfolio and hypothesize that the more funds an institution invests in a given firm, the more likely the institution is to monitor that firm. Their results show that in merger and acquisition (M&A) transactions, monitoring institutions of the target firm are associated with a higher probability of deal completion, a higher bid premium offered for the target firm, an increased likelihood that the bid for the target firm is revised upward, and a lower acquirer return. These findings support the view that institutional monitoring heightens when the target firm represents a top allocation of funds in the institution's portfolio.

Goals/Requirements:
The goal of this seminar thesis is to examine the role of institutional investors in the M&A process. The student is expected to replicate the empirical analysis of Fich, Harford and Tran (2015), 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: SDC, Compustat, and CRSP. All databases are accessible via the university network or online.

Introductory Literature:

- Fich, E.M., Harford, J. and Tran, A.L., 2015. Motivated monitors: The importance of institutional investors′ portfolio weights. *Journal of Financial Economics*, 118(1), pp.21-48.
- Greenwood, R. and Schor, M., 2009. Investor activism and takeovers. *Journal of Financial Economics*, 92(3), pp.362-375.
- Harford, J., Jenter, D. and Li, K., 2011. Institutional cross-holdings and their effect on acquisition decisions. *Journal of Financial Economics*, 99(1), pp.27-39.
- Maug, E., 1998. Large shareholders as monitors: Is there a trade-off between liquidity and control?. *The Journal of Finance*, 53(1), pp.65-98.

Topic 8: Acquisitions and Stock Overvaluation

Supervisor: Luisa Langer

Shleifer and Vishny (2003) claim that overvalued firms can increase shareholder wealth by using their stock as currency to purchase less overvalued firms. The existence of relative overvaluation between the acquirer and target stocks before the announcement is a necessary, but not a sufficient, condition for the acquisition to benefit acquirer shareholders. For acquirer shareholders to benefit from using their overvalued stock as currency in an acquisition, the acquirer must be able to lock in its relative stock overvaluation by negotiating a favorable exchange ratio (i.e., pay a low premium) or by generating substantial synergies.

Fu, Lin and Officer (2014) show that overvalued acquirers often significantly overpay for the targets they purchase, and, more important, these acquisitions generate negative synergies in the post-acquisition years. This results in substantial declines in the value of the acquirer's stock over the bid period and negative long-run abnormal stock returns that appear larger in magnitude than necessary to correct ex-ante overvaluation. The authors also show that acquirer CEOs extract considerable rewards for themselves despite the poor performance for their shareholders, highlighting an agency concern that is potentially exacerbated by weak corporate governance.

Goals/Requirements:
The goal of this seminar thesis is to examine the wealth effects of acquisitions for overvalued acquirers. The student is expected to replicate the empirical analysis of Fu, Lin and Officer (2014), using 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: SDC, CRSP, and Compustat. All databases are accessible via the university network or online.

Introductory Literature:

- Fu, F., Lin, L. and Officer, M.S., 2013. Acquisitions driven by stock overvaluation: are they good deals?. *Journal of Financial Economics*, 109(1), pp.24-39.
- Moeller, S.B., Schlingemann, F.P. and Stulz, R.M., 2005. Wealth destruction on a massive scale? A study of acquiring-firm returns in the recent merger wave. *The Journal of Finance*, 60(2), pp.757-782.
- Savor, P.G. and Lu, Q., 2009. Do stock mergers create value for acquirers?. *The Journal of Finance*, 64(3), pp.1061-1097.