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

UNIVERSITÄT MANNHEIM

SEMINAR THESIS
Fall Term 2020
(As of 30. November 2020)

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: Board Expertise: Do Directors from Related Industries Help Bridge the Information Gap?

Supervisor: Mattia Colombo

Boards of directors play a central role in corporate decision making. The corporate governance literature identifies two main functions of the board of directors: monitoring (Hermalin and Weisbach, 1998) and advice to senior management (Adams and Ferreira, 2007). Particularly, a growing number of studies in the corporate finance literature has analyzed the effect of director connections on firms' investment decisions (Cai and Sevilir, 2014).

A recent study by Dass et al. (2014) shows that directors coming from related industries, i.e. upstream/downstream firms, provide better advice to the management and bridge the informational gap between vertically related firms. Specifically, these directors carry relevant knowledge about their industries and a valuable Rolodex. As a result, firms that appoint directors from related industries experience an increase in Tobin's Q and returns on assets. Furthermore, firms experience positive abnormal returns around the appointment dates of directors from related industries.

Goals/Requirements:
The goal of this seminar thesis is to examine whether directors from related industries affect firms' policies. The student is expected to replicate the empirical analysis of Dass et al. (2014), using more recent board data for U.S. firms from BoardEx and Compustat. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. All databases are accessible via the university network or online.

Introductory Literature:

- Adams, R., Ferreira, D., 2007. A theory of friendly boards. Journal of Finance 62, 217–250
- Cai, Y., & Sevilir, M. (2012). Board connections and M&A transactions. Journal of Financial Economics, 103(2), 327–349.
- Dass, N., Kini, O., Nanda, V., Onal, B., & Wang, J. (2014). Board Expertise: Do Directors from Related Industries Help Bridge the Information Gap? Review of Financial Studies, 27(5), 1533–1592.
- Myers, S., Majluf, N., 1984. Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics 50, 1421–1460.

Topic 2: Financial Expertise of Directors

Supervisor: Mattia Colombo

Boards of directors play a central role in corporate decision making. The corporate governance literature identifies two main functions of the board of directors. On the one hand, directors monitor executives on behalf of shareholders (Hermalin and Weisbach, 1998). On the other hand, directors provide valuable advice and expertise to senior management (Adams and Ferreira, 2007).

A large literature in corporate governance has focused on the particular role played by bank-related directors. If firms are financially constrained because of asymmetric information, bank-related directors enable firms to raise external funds to finance value-creating projects (Myers and Majluf, 1984). Alternatively, bank-related directors may provide excessive loans at the expense of shareholders and promote empire building (Jensen and Meckling, 1976; Malmendier and Tate, 2005). Güner et al. (2008) test these two hypotheses empirically and find that bank-related directors lead to lower investment-cash flow sensitivity and an increase in lending. The effect is more pronounced for less financially constrained and lower investment opportunities firms.

Goals/Requirements:
The goal of this seminar thesis is to examine whether directors with financial expertise affect firms' financing and investment. The student is expected to replicate the empirical analysis of Güner et al. (2008), using more recent data for U.S. firms from BoardEx and Compustat. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods. All databases are accessible via the university network or online.

Introductory Literature:

- Adams, R., Ferreira, D., 2007. A theory of friendly boards. Journal of Finance 62, 217–250
- Güner, A. B., Malmendier, U., & Tate, G. (2008). Financial expertise of directors. Journal of Financial Economics, 88(2), 323–354.
- Hermalin, B., Weisbach, M., 1998. Endogenously chosen boards of directors and their monitoring of the CEO. American Economics Review 88, 96–118.
- Jensen, M., Meckling, W., 1976. Theory of the firm: managerial behavior, agency costs and ownership structure. Journal of Financial Economics 3, 305–360.
- Malmendier, U., Tate, G., 2005. CEO overconfidence and corporate investment. Journal of Finance 60, 2661–2700.
- Myers, S., Majluf, N., 1984. Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics 50, 1421–1460.

Topic 3: CEO Gender and Corporate Finance Decisions

Supervisor: Luisa Unda

Given the documented gender differences in traits such as conservatism, overconfidence, and risk tolerance, a growing body of literature has investigated whether corporate polices and outcomes are affected by the gender of the firm's executives and directors (e.g., Francoeur et al. 2008; Krishnan and Parsons 2008; Huang and Kisgen 2013; Palvia et al., 2015; Faccio et al. 2016).

Francoeur et al. (2008) document that gender diversity in top management may constrain agency costs and have a positive effect on risk-adjusted stock returns. The findings reported in Krishnan and Parsons (2008) indicate that firms with female executives and top managers make more cautious and conservative decisions with respect to financial reporting practices. Huang and Kisgen (2013) find that firms with female CEOs and CFOs are less likely to make acquisitions and less likely to issue debt than male-led firms, suggesting men exhibit relative overconfidence in significant corporate decision making compared to women. Palvia et al (2015) report that female-led banks hold higher levels of capital and are therefore more conservative. Finally, Faccio et al (2016) document that firms run by female CEOs have lower leverage, less volatile earnings, and a higher chance of survival than otherwise similar firms run by male CEOs.

Goals/Requirements:
The goal of this seminar thesis is to examine corporate financial and investment decisions made by female executives compared with male executives. The student is expected to replicate the empirical analysis of Huang and Kisgen (2013), using 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, BoardEx, SDC. All databases are accessible via the university network or online.

Introductory Literature:

- Faccio, M., Marchica, M.T. and Mura, R., 2016. CEO gender, corporate risk-taking, and the efficiency of capital allocation. Journal of Corporate Finance, 39, pp.193-209.
- Huang, J. and Kisgen, D.J., 2013. Gender and corporate finance: Are male executives overconfident relative to female executives?. Journal of Financial Economics, 108(3), pp.822-839.
- Palvia, A., Vähämaa, E. and Vähämaa, S., 2015. Are female CEOs and chairwomen more conservative and risk averse? Evidence from the banking industry during the financial crisis. Journal of Business Ethics, 131(3), pp.577-594.

Topic 4: CEO Narcissism and the M&A Process

Supervisor: Luisa Unda

The manner in which CEO personality traits affect company policies has recently emerged as a topic of interest in academic research. A common personality trait examined in the literature regarding corporate decisions is narcissism. Narcissists leaders can cause suboptimal group decision outcomes by dominating the decision process without incorporating feedback (Nevicka et al. 2011). Ham et al. (2018) document that firms led by more narcissistic CEOs deliver lower profitability and operating cash flows relative to firms led by less narcissistic CEOs. Similarly, narcissistic CEOs undertake excessive investment, and deliver lower future profitability for shareholders (Ham et al., 2013), and they can distort financial information available to investors by positively managing earnings (Capalbo et al., 2018).

Regarding the merger and acquisition process, Chatterjee and Hambrick (2007) find that narcissistic CEOs are more likely to undertake frequent and larger acquisitions, develop highly dynamic and grandiose strategic initiatives, and ultimately deliver to shareholders greater fluctuations in performance. Aktas et al (2016) suggest that although narcissism is often considered a negative trait, it may have positive aspects, and they find that higher levels of target CEO narcissism are associated with higher bid premiums.

Goals/Requirements:
The goal of this seminar thesis is to examine whether and how CEO narcissism influences the merger and acquisition process. The student is expected to replicate the study of Aktas et al. (2016), using data for U.S. firms. Consistent with this study, CEO narcissism is measured by the prevalence of personal pronoun usage in earnings conference calls. Empirical work for this topic requires the use of statistical software (e.g., Stata), manipulation of data, and the application of econometric methods and text extraction procedures. The empirical work requires the use of the following databases: SDC, Thomson Reuters. All databases are accessible via the university network or online.

Introductory Literature:

- Aktas, N., E. Bodt, H. Bollaert, and Roll R., 2016. CEO narcissism and the takeover process: From private initiation to deal completion, Journal of Financial and Quantitative Analysis, Vol. 51, 113–37.
- Chatterjee, A. and Hambrick, D.C., 2007. It's all about me: Narcissistic chief executive officers and their effects on company strategy and performance. Administrative Science Quarterly, 52(3), pp.351-386.
- Ham, C., Seybert, N. and Wang, S., 2018. Narcissism is a bad sign: CEO signature size, investment, and performance. Review of Accounting Studies, 23(1), pp.234-264.

Topic 5: CEO Power and CEO Compensation

Supervisor: Luisa Unda

CEO power is defined as the capacity to influence and make corporate decisions. This influence is likely to be strengthened by the CEO's official positions in the firm or by the CEO's internal connections to other corporate leaders. Corporate governance critics have argued that powerful CEOs abuse their influence to obtain unwarranted compensation. However, high amounts of compensation paid to powerful CEOs could be warranted if the compensation is a reward for their better managerial talent. Prior research finds that powerful CEOs receive a compensation premium; that is, the level of total compensation is higher for more-powerful CEOs than for less-powerful CEOs (Murphy, 1985; Core et al., 1999; Morse et al., 2011).

The academic literature presents two main views of the power premium. The managerial ability view argues that the power premium is compensation for managerial talent, which is priced in the managerial labor market (Graham et al., 2012). In particular, ability matching theory postulates that managerial talent is tenure-invariant and more-talented managers are matched with larger firms (Rosen, 1981, 1982; Gabaix and Landier, 2008; Baranchuk et al., 2011). Therefore, more-talented managers are given more authority and greater compensation because they contribute more to firm performance than do less-talented managers. In contrast, the managerial power view argues that the CEO power premium is evidence of rent-extraction ability, a factor that is increasing with the CEO's incumbency. This is because powerful CEOs can exert influence in selecting new directors who oversee the compensation arrangements of these CEOs (Shivdasani and Yermack, 2002). Song and Wan (2019) provide evidence more in line with the managerial ability view, which states that higher compensation for powerful CEOs reflects better CEO talent rather than an abuse of CEO power.

Goals/Requirements:
The goal of this seminar thesis is to examine the relation between managerial power and compensation of CEOs. The student is expected to replicate the study of Song and Wan (2019), using data for European 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. All databases are accessible via the university network or online.

Introductory Literature:

- Baranchuk, N., MacDonald, G. and Yang, J., 2011. The economics of super managers. The Review of Financial Studies, 24(10), pp.3321-3368.
- Morse, A., Nanda, V. and Seru, A., 2011. Are incentive contracts rigged by powerful CEOs?. The Journal of Finance, 66(5), pp.1779-1821.
- Song, W.L. and Wan, K.M., 2019. Does CEO compensation reflect managerial ability or managerial power? Evidence from the compensation of powerful CEOs. Journal of Corporate Finance, 56, pp.1-14.

Topic 6: Powerful CEOs, Network Connections and Corporate Performance

Supervisor: Luisa Unda

Executives and directors of major corporations are linked in many ways. They may serve together on the board of directors of another company or they may have worked together, either as employees or directors, in the past. They may also be connected outside their employment networks. Or, they may have graduated from the same educational programs. Such network connections between the management groups of different firms may increase value for shareholders by creating conduits through which valuable information can flow from one firm to another. However, pre-existing network connections between executives and directors within a firm may undermine independent corporate governance; thus, reducing firm value.

Firms with powerful CEOs may add more connected directors for reasons that are beneficial from shareholders' perspective: such firms may exploit the CEO's network in hiring directors to minimize search costs or exploit inside information about director quality. Friendly boards may improve value by providing better policy advice if (powerful) CEOs are reluctant to share private information with independent directors (Adams and Ferreira, 2007; Schmidt, 2009). However, powerful CEOs may also use their increased bargaining power over the selection process to shift board composition toward their preferences and, in particular, to weaken future board monitoring (Hermalin and Weisbach, 1998). Fracassi and Tate (2012) test whether CEO-director connections impact firm value, and find that firms with powerful CEOs are significantly more likely to add new outside directors with pre-existing network ties to the CEO. They also report that firm value improves when independent directors with ties to the CEO leave the board, and that firms in which a high percentage of independent directors have external network ties to the CEO make more frequent acquisitions than firms with fewer CEO-director connections.

Goals/Requirements:
The goal of this seminar thesis is to examine whether network connections between management and potential directors influence director selection and subsequent firm value and M&A transactions. The student is expected to replicate the study of Fracassi and Tate (2012), using 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: BoardEx, SDC, CRSP, Compustat, RiskMetrics. All databases are accessible via the university network or online.

Introductory Literature:

- Cai, Y. and Sevilir, M., 2012. Board connections and M&A transactions. Journal of Financial Economics, 103(2), pp.327-349.
- Fracassi, C., 2017. Corporate finance policies and social networks. Management Science, 63(8), pp.2420-2438.
- Fracassi, C. and Tate, G., 2012. External networking and internal firm governance. The Journal of Finance, 67(1), pp.153-194.

Topic 7: Societal Trust and Stock Market Reactions

Supervisor: Luisa Unda

Investors are more likely to closely follow a firm's earnings announcements and react strongly to the information therein when they face greater information asymmetry and perceive a higher probability of managerial opportunism. Trust plays a more important role in poorer information environments. Trust, which reflects "the subjective probability individuals attribute to the possibility of being cheated" (Guiso et al., 2008), has the potential to influence investors' attitude toward and reaction to corporate earnings announcements, but its actual impact can be difficult to predict ex-ante.

Shareholders in more trusting countries are less concerned about expropriation by corporate insiders and are more likely to hold the view that managers are trustworthy and forthright (Guiso et al., 2008). To the extent that trust improves the perceived credibility and, hence, the precision and importance of the new information from the investors' perspective, investors in more trusting countries could respond in a more vigorous fashion to corporate earnings announcements. Pevzner et al. (2015) find a positive relation between trust and abnormal return volatility and trading volume, indicating that trust affects investors' perception of corporate financial reporting and enhances their reaction to earnings announcements. Nonetheless, a negative relation could emerge if investors in more trusting countries have less demand for information and, thus, pay less attention to earnings announcements.

Goals/Requirements:
The goal of this seminar thesis is to investigate the effect of societal trust on investor reactions to corporate earnings announcements. The student is expected to replicate the empirical analysis of Pevzner et al. (2015). Trust measures will be constructed based on the survey data. 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: Bloomberg, I/B/E/S, Datastream, Worldscope, World Values Survey. All databases are accessible via the university network or online.

Introductory Literature:

- Bottazzi, L., Da Rin, M. and Hellmann, T., 2016. The importance of trust for investment: Evidence from venture capital. The Review of Financial Studies, 29(9), 2283-2318.
- Georgarakos, D. and Pasini, G., 2011. Trust, sociability, and stock market participation. Review of Finance, 15(4), 693-725.
- Guiso, L., Sapienza, P. and Zingales, L., 2008. Trusting the stock market. the Journal of Finance, 63(6), 2557-2600.
- Pevzner, M., Xie, F. and Xin, X., 2015. When firms talk, do investors listen? The role of trust in stock market reactions to corporate earnings announcements. Journal of Financial Economics, 117(1), 190-223.

Topic 8: Social Capital and Firm Performance: The Value of CSR during Low-Trust Periods

Supervisor: Luisa Unda

Social capital, in addition to financial capital, can be an important determinant of firm performance. Empirical identification of the effect of social capital on firm performance is however challenging. First, social capital is a broadly defined concept, and hence its measurement is not straightforward. Second, without exogenous variation in firm-level social capital, it is difficult to attribute changes in performance to changes in social capital. To address the first challenge, empirical work in economics (Sacconi and Degli Antoni, 2011) suggests that a firm's CSR activities are a good proxy for its social capital. This metric is motivated by the definitions of CSR, which generally involve aspects of civic engagement, shared beliefs, and disposition towards cooperation between the firm and its stakeholders. To address the second challenge, recent work in finance (Lins et al., 2017) employs a period during which public trust in corporations, capital markets and institutions, declined unexpectedly.

Importantly, building of firm-specific social capital can be thought of as an insurance policy that pays off when investors and the overall economy face a severe crisis of confidence. Lins et al (2017) provide evidence that firm-specific social capital, built up through CSR activities, pays off during a period when the importance of trust increases unexpectedly, namely the 2008–2009 financial crisis. In particular, the authors find that firms with high CSR ratings outperform firms with low CSR ratings during the crisis by at least four percentage points, after controlling for a variety of firm characteristics and risk factors.

Goals/Requirements:
The goal of this seminar thesis is to examine whether the trust between a firm and both its stakeholders and investors, built through investments in social capital, pays off when the overall level of trust in corporations and markets suffers a negative shock. The student is expected to replicate the empirical analysis of Lins et al. (2017), using data for European firms. In addition to the financial crisis period, students are encouraged to examine the effect of Brexit and/or Covid-19 as low-trust periods. 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: MSCI ESG, CRSP, Compustat. All databases are accessible via the university network or online.

Introductory Literature:

- Deng, X., Kang, J.K. and Low, B.S., 2013. Corporate social responsibility and stakeholder value maximization: Evidence from mergers. Journal of financial Economics, 110(1), pp.87-109.
- Guiso, L., Sapienza, P. and Zingales, L., 2004. The role of social capital in financial development. American Economic Review, 94(3), pp.526-556.
- Lins, K.V., Servaes, H. and Tamayo, A., 2017. Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. The Journal of Finance, 72(4), pp.1785-1824.
- Servaes, H. and Tamayo, A., 2013. The impact of corporate social responsibility on firm value: The role of customer awareness. Management Science, 59(5), pp.1045-1061.