UNIVERSITY OF MANNHEIM
Business School

CHAIR OF FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

Master's Theses FSS 2022

<u>Topic S1: Institutional investors and ESG: The role investment horizons</u>

Classification: Empirical Topic

Advisor: Frederik Horn

For decades, the dominant view on the purpose of a company has been to only serve the best interest of the shareholders. Friedman (1970) distilled this view in the famous quote "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits […]". Recently, policy makers and the public have increasingly called on companies to consider all stakeholders in their decision-making. These calls have been met by a surge in ESG investment vehicles as well as vows by institutional investors to pressure companies into incorporating ESG dimensions in their long-term goals. However, finance research has not conclusively established whether institutional investor engagement indeed improves a firm's CSR profile or should be considered green washing. Promisingly, Chen et al. (2019) argue that institutional investors in fact increase CSR activities of firms. Similarly, Chava (2014) suggests that a negligence of CSR activities by a firm increases its cost of capital as institutional investors shun these companies. Yet, these papers neglect the heterogeneity of investment objectives among financial institutions.

Kim et al. (2019) propose that the investment horizon of institutional investors determines their incentive to pressure firms into engaging in CSR activities. Institutional investors with a long-term investment horizon can benefit more from CSR activities as they might mitigate litigation risk and increase long-term shareholder value. However, despite the practical importance of the topic, the author's analyses remain shallow. Hence, it would be interesting to utilize alternative providers of ESG ratings, include more recent years, and to analyze in greater detail which ESG dimensions long-term institutional investors target.

First, the student should provide a comprehensive survey on the academic literature of the relationship between institutional ownership and firm's CSR performance. Second, the student should replicate the main findings of Kim et al. (2019). Next, she should extend the analysis to include more recent years as well as alternative ESG measures (Refinitiv). Furthermore, the student should explore which subdimensions of ESG institutional investors target. Depending on the student's progress, other extensions are also possible.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP, Thompson Reuters, MSCI KLD, and Eikon Refinitiv. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Chava, S. (2014). Environmental externalities and cost of capital. *Management Science*, *60*(9), 2223-2247.

Chen, T., Dong, H., & Lin, C. (2020). Institutional shareholders and corporate social responsibility. *Journal of Financial Economics*, *135*(2), 483-504.

Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, *13*.

Kim, H. D., Kim, T., Kim, Y., & Park, K. (2019). Do long-term institutional investors promote corporate social responsibility activities?. *Journal of Banking & Finance*, *101*, 256-269.

Topic S2: Does CSR create firm value? Exploring the role of customer awareness

Classification: Empirical Topic

Advisor: Frederik Horn

Finance research is divided on the question whether corporate social responsibility (CSR) activities create firm value. On the one hand, the traditional view argues that CSR must be necessarily value destroying as it is costly (Friedman, 1970). On the other hand, proponents of the stakeholder view of a firm assert that a firm's CSR activities can for example increase perceived product quality (Fisman et al., 2007), minimize a firm's litigation risk, and reduce cost of capital (Chava, 2014). Hence, CSR activities might be actually value enhancing.

Servaes and Tamayo (2013) propose that the impact of CSR activities is only positive if customers are aware of a firm's efforts. This seems intuitive as customers can only value CSR when making purchasing decisions if they know about these activities. Conversely, for companies with a prior bad reputation, CSR does not positively affect firm value. However, the paper leaves many open questions. How robust are their findings to alternative CSR measures? Which components of CSR matter the most for improving firm value? Do CSR disasters have a similar impact?

First, the student should provide a comprehensive survey of the academic literature of CSR performance and firm value. Second, the student should replicate the main findings of Servaes and Tamayo (2013). Third, she should extend the original analysis by including more recent years in the analysis and utilizing the Refinitiv data for robustness. Finally, the student should address the questions that were left unanswered by the authors. Depending on the student's progress, other extensions are possible.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP, MSCI KLD, and Eikon Refinitiv. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Chava, S. (2014). Environmental externalities and cost of capital. *Management science*, *60*(9), 2223-2247.

Fisman, R., Heal, G., & Nair, V. B. (2007). *VA Model of Corporate Philanthropy*. V Working Paper. Columbia University.

Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, *13*.

Servaes, H., & Tamayo, A. (2013). The impact of corporate social responsibility on firm value: The role of customer awareness. *Management Science*, *59*(5), 1045-1061.

Topic S3: Teamwork in the Financial Industry: A Sociopsychological Perspective

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

There is an overwhelming trend in the mutual fund industry toward team-management. The finance literature, however, has generated inconsistent results with respect to the relative performance of team vs. individual-managed mutual funds bias (e.g. Chen et al. 2004; Bär, Kempf and Ruenzi, 2011; Partel and Sarkissian, 2017). The current project revisits this topic from a social psychological perspective.

Specifically, the student has the following three tasks:

(1) Review the finance literature on team vs. individual-management in the mutual fund industry
(2) Review the social psychology literature on perceptions of team vs individual
(3) Replicate the main findings in one of the key papers
(The specific paper choice will be decided in consultation with me.)
(4) Extend the analysis in the key paper to study whether team management exacerbates social psychological biases found at the individual level.
(The specific extension choices will be decided in consultation with me.)

Data:

Mutual fund data can be downloaded from the university's databases.

Requirements:

The student needs to have a very good grasp of econometrics and be comfortable with large datasets and programming in Stata. Prior experience with mutual fund data (e.g. CRSP or Morningstar) will be helpful for the project.

Introductory Literature:

Bär, M., Kempf, A., & Ruenzi, S. (2011). Is a team different from the sum of its parts? Evidence from mutual fund managers. *Review of Finance,* 15(2), 359-396.

Chen, J., Hong, H., Huang, M., & Kubik, J.D. (2004). Does fund size erode mutual fund performance? The role of liquidity and organization. *American Economic Review,* 94(5), 1276-1302.

Saurin, P. & Sarkissian, S. (2017) To group or not to group? Evidence from mutual fund databases. *Journal of Financial and Quantitative Analysis,* 52(5), 1989-2021.

Disclaimer:

My co-author and I are currently working on this topic.

Topic S4: Gender Diversity in Economic and Finance Professions

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

Gender diversity in the economic and finance professions has been at the spotlight of social and political discourse, as well as the behavioral and experimental economics literature. One strand of this literature focuses the "first chance" – whether emales are promoted to and supported in highly ranked professional roles. A more recent investigation focuses on the "second chance" – how females fare after failures and misconducts. This project focuses on the second chance.

The literature has not reached consensus on how females fare after professional missteps in economic and finance professions. One study by Egan, Matvos, and Seru (2017) suggests the existence of a "gender punishment gap" in the financial industry by showing that, following an incident of misconduct, female y financial advisers are more likely to lose their jobs and less likely to find new jobs relative to their male counterparts. However, other studies in experimental economics show that a gender punishment gap might not exist, since women are more likely to be protected from negative feedbacks (e.g. Jampol & Zayas, 2021).

The current project aims at empirically investigating whether there is a gender gap in rebounding after failure in the economic and finance professions. The student will perform a similar analysis to that of Egan, Matvos, and Seru (2017) on a different dataset that I provide. (A replication is not necessary.)

Data:

I will provide the student with a novel dataset that includes events of professional setbacks at the individual level. To conduct the appropriate empirical analysis, however, the student will need to collect some complementary data via Google search.

Requirements:

The student needs to have a good knowledge of econometrics and Stata programming.

Introductory Literature:

Egan, M.L., Matvos, G., & Seru, A. (2017). *When Harry fired Sally: The double standard in punishing misconduct*. No. w23242. National Bureau of Economic Research.

Jampol, L., & Zayas, V. (2021) Gendered white lies: Women are given inflated performance feedback compared with men. *Personality and Social Psychology Bulletin,* 47(1), 57-69.

Disclaimer:

My co-author and I are currently working on this topic.

Topic S5: Social Inequality and the Financial Market

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

There is a growing debate about income inequality in the United States (Acemoglu and Autor, 2011). In theory, capital markets may reduce income inequality by punishing firms that exacerbates such inequality, e.g. those with a higher ratio of CEO salary to the salary of the median worker. The question is, does the capital market care about income inequality?

Pan et al. (2022) investigated this question and found that firms disclosing higher pay ratios experience significantly lower abnormal announcement returns, and that this reaction is particularly strong in more inequality averse regions.

In the current project, the student should

(1) Conduct a literature review on the market response to income and wealth inequality
(2) Replicate the main finding of Pan et al. (2022)
(3) Conduct an extension to this study.
(The specific topic of extension will be decided in consultation with me.)

Data:

For the replication part, the student will need to collect a dataset on CEO pay ratio. For the extension part, I will provide a data source. Alternatively, the student can also collect his or her own data depending on the topic pursued.

Requirements:

The student needs to have a very good grasp of econometrics and be comfortable with large datasets and programming in Stata.

Introductory Literature:

Acemoglu, D., & Autor, D. (2011). Skills, tasks and technologies: Implications for employment and earnings, in Ashenfelter Orley and David Card ed.: Handbook of Labor Economics, Vol. 4B, 1043–1171.

Pan, Y., Pikulina, E., Siegel, S., & Wang, T. Y. (2020). Do Equity Markets Care About Income Inequality? Evidence from Pay Ratio Disclosure. *Journal of Finance, forthcoming*.

Disclaimer:

I am currently working on this topic.

Topic S6: Education Systems and the Wealth of Nations

Education systems vary widely across different countries. How do these differences in education systems contribute to the difference in competitiveness and wealth accumulation of nations? This project aims at answering this question.

The student will review the related literature in education and economics, develop sensible hypotheses about how different education systems may potentially impact the economic outcomes of different countries, and test these hypotheses using empirical data.

Requirement:

This is an intellectually challenging project. The student should be willing and able to tackle intellectual challenges, both independently and in collaboration with me.

While I will provide support and consultation at all stages of this project, the student should be at the position to develop their own theory about the topic. Developing good theories requires that student has a deep understanding about the Western society and cares about its most urgent problems. Some background in social sciences and humanities would be a great asset, e.g. psychology, philosophy, sociology, and political sciences.

The student should be willing to read a large amount of text, including books and academic papers, and be able to extract the essential themes in an efficient manner. Ideally, this project can be used to accumulate intellectual capital for the student's future research.

To design a viable empirical strategy, the student needs to have a very good grasp of econometrics and be comfortable with large datasets and programming in Stata. In particular, the student should understand the common identification strategies covered in Empirical Finance.

I welcome students with a diverse or non-traditional educational background to apply, esp. students who have personally experienced different education systems, and those who have gone through the German apprenticeship training (Ausbildung).

Last but not least, German language skill is a plus (though not an absolute must) in this project, as part of the literature is in German.

Disclaimer:
My co-author and I are currently working on this topic. Since the project is at its early stage, potential PhD students are welcome to join us on this endeavor.

Topic S7: Do female mutual fund managers investor more socially responsible?

Classification: Empirical topic

Advisor: Leah Zimmerer

Niessen-Ruenzi and Ruenzi (2018) show that female fund managers show more persistent investment styles and fund performances than male fund managers. The performance of female fund managers is virtually identical compared to male fund managers. Niessen-Ruenzi and Ruenzi (2018) conclude that "if anything, fund investors should prefer female fund managers". However, there are less inflows into female-managed funds compared to male-managed funds. Based on the evidence of Niessen-Ruenzi and Ruenzi (2018) it seems like that there is an irrational gender bias against female fund managers (e.g., Becker 1971).

Research has demonstrated that women show a higher level of altruism and are more socially-minded than men (e.g. Bertrand, 2011). This raises the question of whether female fund managers choose different stocks and industries compared to male fund managers. If female fund managers invest into different stocks this might explain the difference in inflows.

The importance and volume of socially responsible investments have grown dramatically over the last decade. According to Morningstar, the total amount of assets held by ESG-focused index funds has doubled in the past three years. This raised the question whether we see different inflows for female- and male-managed ESG funds in more recent year?

The first goal of the thesis is to replicate the main findings of Niessen-Ruenzi and Ruenzi (2018) including more recent years and to explore whether we see changes over time.

The second goal of the thesis is to examine whether female fund managers invest more into socially responsible stocks and are more likely to be managers of socially responsible investing funds. Do we see different inflows for ESG funds that are female-managed and for those funds that have a male fund manager?

Requirements:

The empirical work requires the use of large databases, i.e. CRSP. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Marianne, B. (2011). New perspectives on gender. *Handbook of labor economics* (Volume 4), 1543-1590. Elsevier.

Hong, H., & Kostovetsky, L. (2012). Red and blue investing: Values and finance. *Journal of Financial Economics* 103, 1–19.

Niessen-Ruenzi, A., & Ruenzi, S. (2019). Sex matters: Gender bias in the mutual fund industry. *Management Science*, *65*(7), 3001-3025.

Topic S8: Early-life natural disaster experiences by CEOs and corporate decisions

Classification: Empirical topic

Advisor: Leah Zimmerer

A growing body of research demonstrates that manager-specific characteristics and preferences affect the performance of firms and their policy choices. Bertrand and Schoar (2003) show that older generations of CEOs appear overall more conservative in their decision-making. Benmelech and Frydman (2015) present evidence that CEOs who served in the military are less likely to be involved in corporate fraudulent activity and perform better during industry downturns. Thus, those papers, among others, show that CEOs have an impact on firm performance.

Bernile et al. (2017) use early-life natural disaster experiences by CEOs as a measure of CEOs' risk attitude and analyze the impact on various firm decisions and outcomes. They find that the impact of early-life natural disasters depends on the severity of the natural disaster. If CEOs experienced disasters without extremely negative consequences, they behave more aggressively. CEOs who experienced disasters with extremely negative consequences behave more conservatively.

The first goal of the thesis is to replicate the main findings of Bernile et al. (2017) including more recent years.

Dessaint and Matray (2017) analyze how recent hurricanes affect the risk perception of managers whose firms are located in a neighboring county of the counties hit by the hurricane. They find that managers overreact to this salient event: Managers express more concerns about potential hurricane risks and increase the firm's cash holdings in the subsequent year.

The second goal of the thesis is to analyze whether CEOs who witness the extreme downside of disasters show higher overreaction compared to CEOs with early-life exposure to natural disasters without extremely negative consequences.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Benmelech, E., & Frydman, C. (2015). Military CEOs. *Journal of Financial Economics*, *117*(1), 43-59.

Bernile, G., Bhagwat, V., & Rau, P. R. (2017). What doesn't kill you will only make you more risk-loving: Early-life disasters and CEO behavior. *The Journal of Finance*, 72(1), 167-206.

Bertrand, M., & Schoar, A. (2003). Managing with style: The effect of managers on firm policies. *The Quarterly Journal of Economics,* 118(4), 1169-1208.

Dessaint, O., & Matray, A. (2017). Do Managers Overreact To Salient Risks? Evidence From Hurricane Strikes. *Journal of Financial Economics*, 126(1), 97–121.