10th Annual Corporate Finance Conference
(Exeter, 14-15 September 2023)
Conference Programme

Conference venue: Reed Hall, Streatham Drive, Exeter EX4 4QR

14 September 2023 (Thursday)

9:00-9:20 *Registration, tea, and coffee* (Reed Walter Daw Room and 1st floor foyer)

9:20-11:10 *Session 1, Welcome & distinguished speakers' presentations* (Upper Lounge)
Session chair: Enrico Onali

- 9:20-9:30: Welcome (**Enrico Onali and Grzegorz Trojanowski**)
- 9:30-10:20: Philipp Krueger, **Daniel Metzger**, Jiaxin Wu, ***"The Sustainability Wage Gap"***

  Using administrative employer-employee matched data, we provide evidence that workers earn substantially lower wages in firms that operate in more sustainable firms and sectors. Sustainability is measured using commercial ESG ratings, greenhouse gas emissions, and through a survey. We hypothesize that this Sustainability Wage Gap arises because workers with preferences for sustainability accept lower wages to work in more environmentally sustainable firms. Examining both cross-sectional time-series heterogeneity, we find that the wage gap is larger for high-skilled workers and increasing over time. Using a battery of additional tests, we argue that our results are difficult to reconcile with many alternative interpretations suggested in prior research.

  Keywords: wage differentials, allocation of talent, human capital, sustainability, ESG, CSR

  Discussant: Chi-Yang Tsou
- 10:20-11:10: Shiqi Chen, **Bart Lambrecht**, ***"The Optimal Size, Financing and Liability of Partnerships"***

  This paper studies the optimal size, financing and investment policies of professional General Partnerships and LLPs. The optimal size of partnerships that are capital constrained is determined not only by partners' contribution to output, but also by the equity capital and personal guarantees they provide to the partnership. A partnership that maximizes the value per partner wishes to keep the number of partners inefficiently small to avoid dilution, but capital constraints may enforce a larger size or more debt that may be secured by personal guarantees. Partnerships taking on risky debt do not provide personal guarantees to avoid incurring liquidation and bankruptcy costs on partners personal assets. We compare the financing and investment policies of partnerships with the efficient policies that maximize the partnership's total value.

Keywords: investment, debt, partnership, liability, personal guarantee, financing constraint

Discussant: Jesse Wang

11:10-11:30 ***Coffee break*** **(Reed Walter Daw Room and 1st floor foyer)**

11:30-12:50 ***Session 2 – Competitive papers*** **(Upper Lounge)**

Session chair: Fangming Xu

- 11:30-12:10: Ilona Babenko, Benjamin Bennett, **Jesse Wang**, ***"Does Enhanced Disclosure Curb CEO Pay? Evidence from a Modern Information Technology Improvement"***

  We provide evidence that enhanced corporate disclosure curbs CEO pay. Using a difference-in-differences design around the staggered implementation of SEC EDGAR system from 1993 to 1996, we find that CEO pay declines by approximately 7-10% following EDGAR implementation. The effect concentrates in equity-based pay and is stronger for CEOs in the upper part of the compensation distribution. Changes in compensation mix also translate into weaker compensation incentives (delta and vega). Further, enhanced corporate disclosure has an unintended effect on voluntary CEO turnover, which increases following EDGAR adoption. Finally, our results suggest that disclosure-related changes in compensation incentives and voluntary CEO turnover have negative implications for firm value.

  Keywords: executive compensation, CEO pay, disclosure, governance reform, CEO turnover

  Discussant: Tracy Yue Wang

- 12:10-12:50: Roni Michaely, **Silvina Rubio**, Irene Yi, ***"Voting Rationales"***

  We examine why institutional investors vote the way they vote on director elections, using a novel dataset on voting rationales provided by institutional investors. We find that the most important reasons for opposing directors are board independence, board diversity, tenure, firm governance, and busyness. Further, institutional investors are increasingly voting against directors to hold them accountable for failure to address environmental and social issues. We find that institutional investors' concerns are well-grounded: companies with low board gender diversity receive more rationales on board diversity, similar for companies with long director tenure and busy directors. Finally, companies with high dissent voting related to board diversity, tenure, and busyness improve their board composition in the following year. Evidence shows that voting rationales contain useful information for firms about investors reason for opposing directors, providing an effective low-cost strategy to promote good governance practices in their portfolio companies.

Keywords: institutional investors, voting, voting rationales, corporate governance

Discussant: Katharina Lewellen

12:50-13:40 *Lunch* (Reed Walter Daw Room and 1st floor foyer)

13:40-15:20 *Session 3 – Distinguished speakers' presentations* (Upper Lounge)

Session chair: Pengguo Wang

- 13:40-14:30: Laurent Fresard, Loriano Mancini, **Enrique Schroth**, ***"How Do Firms Choose between Growth and Efficiency?"***

  We estimate the unobservable effort that firms put into boosting their efficiency. Identification comes from a model in which firms accumulate capital but also choose a flow of effort that controls efficiency period by period. Model estimates show that, for all cohorts and industries, young firms choose relatively more growth and old firms choose more efficiency. Amongst young firms, higher capital growth predicts higher markups in the long-term, but increases the risk of not surviving into maturity. Our model estimates help explain the priced firms' exposures to the profitability and investment risk factors of the investment CAPM.

  Keywords: efficiency, growth, short-term effort, investment, estimation

  Discussant: Grzegorz Pawlina

- 14:30-15:20: **Juanita González-Uribe**, Robyn Klingler-Vidra, Su Wang, Su Wang**, *"Reducing Entrepreneurial Capability Constraints: The Broader Role of Venture Capital Due Diligence"***

  In leading-edge economies, high-growth entrepreneurship has been declining in recent decades. What causes this skewness in young business growth? We hone in on entrepreneurial capability constraints and use a natural experiment to demonstrate their role in explaining the tendency of young firms to achieve high growth, even in advanced economies. We leverage novel data from a seed venture capital fund in the UK that randomly assigns applicants to due diligence, which plausibly helps founders build capabilities even if ultimately ejected for investment. The findings shed light on the broader role of venture capital due diligence on companies outside their portfolios.

Keywords: due diligence, high-growth entrepreneurship, entrepreneurial capabilities constraints, innovation, startup, venture capital

Discussant: Shantanu Banerjee

15:20-15:40 ***Coffee break*** **(Reed Walter Daw Room and 1st floor foyer)**

15:40-17:00 ***Session 4 – Competitive papers*** **(Upper Lounge)**

Session chair: Jason Cen

- 15:40-16:20: **Yafei Zhang**, ***"Dispersion across CLOs on Marking Corporate Loans"***

  Using a novel dataset that contains loan valuations marked by collateralized loan obligations (CLOs), I find that dozens of CLOs can invest in a same loan, and they often mark the loan in different values. The dispersion is due to their diverse information, not performance manipulation, agreement to disagree, or limited attention. CLOs' diverse information is partly substitutable to the information produced by rating agencies and complementary to that produced by stock analysts. Diversely informed CLOs trade strategically with higher frequencies and lower amounts. Dealers cannot differentiate CLOs' diverse signals, leading to an adverse selection concern and reduced loan liquidity.

  Keywords: CLO, disagreement, fair value, loan liquidity, securitization

  Discussant: Min Park

- 16:20-17:00: **Sonny Biswas**, Kostas Koufopoulos, Anjan Thakor, ***"Can Information Imprecision Be Valuable? The Case of Credit Ratings"***

  We develop a model that explains two stylized facts – the coarseness of credit ratings relative to the underlying default probabilities, and the countercyclical nature of ratings precision. The imprecise nature of coarse ratings arises from the revenue-maximizing behavior of rating agencies, but it may maximize net social surplus. There is scope for regulation since the private outcome may differ from the socially desirable outcome – the planner puts a ceiling (floor) on the fee if the desired outcome is coarseness (precision). We derive predictions consistent with conflicting empirical evidence on the effects of competition on the degree of coarseness and offer guidance for sharper empirical tests.

  Keywords: credit ratings, coarseness, information precision, adverse selection, effort moral hazard

  Discussant: Enrique Schroth

19:00- ***Conference dinner*** **(by invitation only, transportation arrangements TBC; Pool House Restaurant, Lympstone Manor, Courtlands Lane, Exmouth EX8 3NZ)**

15 Sep 2023 (Friday)

9:00-9:30 *Tea and coffee* (Reed Walter Daw Room and 1st floor foyer)

9:30-10:50 *Session 5 – Competitive papers* (Upper Lounge)

Session chair: Lora Dimitrova

- 9:30-10:10: Justin Chircop, Douglas Cumming, **Monika Tarsalewska**, Agnieszka Trzeciakiewicz, ***"Political Risk and Wage Theft"***

  We study the effect of firm-level political risk on wage theft. We measure firm-level political risk using a measure developed by Hassan et al. (2019) and wage theft using data from the US Department of Labour. We find novel evidence of the consequences of an increase in political risk. While it is expected that political risk affects real investment decisions it also has implications in the form of wage theft. We show that firms that experience an increase in political risk have higher wage theft. Using the redrawing of US congressional districts as plausible exogenous variation we show that this relation is likely causal. This effect is short-term and is attenuated in the presence of major customers and government contractors.

  Keywords: political risk, wage theft, firm-level

  Discussant: Daniel Metzger

- 10:10-10:50: **Shiqi Chen**, Hui (Frank) Xu, ***"Industry Dynamics and Capital Structure (Non)Commitment"***

  We develop a competitive equilibrium model of leverage and industry dynamics absent of equity holders' commitment to future debt levels. Shareholders determine the debt adjustment together with production, entry and exit decisions in response to firm-specific technology shocks. Non-commitment gives rise to debt issuance, which increases the cost of debt financing. Consequently, the entry barrier is raised, hindering entries into the market. Meanwhile, the resultant higher output price alleviates debt-equity conflicts for firms already in the industry. More importantly, non-commitment increases the mass of high-leverage firms, reshaping the distribution of the firm universe and escalating industry turnover and leverage. The results are aligned with empirical distribution features, suggesting debt-equity conflicts at the firm level can have a profound influence on industry dynamics.

  Keywords: capital structure, leverage ratchet effect, industry dynamics, product market competition

  Discussant: Sonny Biswas

10:50-11:10 *Coffee break* (Reed Walter Daw Room and 1st floor foyer)

11:10-12:50 ***Session 6*** **(Upper Lounge)**

Session chair: Paula Hill

- 11:10-12:00: **Katharina Lewellen**, Gordon Phillips, Giorgo Sertsios, ***"Control Without Ownership: Governance of Nonprofit Hospitals"***

  The paper provides a comprehensive analysis of the governance structures of nonprofit hospitals and hospital systems. We adapt the framework used to analyze for-profit governance by incorporating nonprofit objectives and legal constraints. Combining various data sources, we study both the internal governance tools (boards of directors, incentive contracts) and external tools (market for corporate control). Nonprofit boards are unusually large, include more independent and non-independent directors, and face weak external oversight. The disciplinary market for corporate control is less active: nonprofits with poor financial performance are half as likely to be acquired or closed than for-profits, and weak performance on non-financial goals has no effect on either event. CEO pay and turnover are sensitive to financial performance but are unresponsive (or less responsive) to nonfinancial goals, including the quality of medical treatment, patient satisfaction, and charity provision. We conclude that nonprofit governance structures lack the attributes that the literature has traditionally associated with 'good governance.'

  Discussant: Neslihan Ozkan

- 12:00-12:50: Xiao Cen, Yue Tsu, **Tracy Yue Wang**, "***Corporate Diversity Culture Spillover"***

  We study the spillover of corporate diversity culture among interacting firms. To identify the cultural transmission channels, we explore the entry of a "Million Dollar Plant" (MDP) in a county and examine how the diversity culture of the MDP's parent company influences the evolution of the diversity culture of local employers and their parent companies. Using data from the U.S. Census, we find that when a more (less) pro-diversity firm opens an MDP in a county, local gender wage gap decreases (increases). Labor market competition is a key channel behind these effects. Next, we examine whether changes in the local employer's gender wage gap would lead to broad changes in the diversity culture of their parent companies. We find evidence of diversity culture spillover beyond gender wage gap and beyond the MDP entry areas. The spillover is stronger when learning within the internal networks of a local employer's parent company is stronger. But broad cultural spillover occurs only when the company's top leaders are receptive to the diversity culture of the MDP's parent company.

  Key words: diversity, DEI, gender wage gap, labor market competition, organizational learning

  Discussant: Amadeo De Cesari

12:50-13:40 ***Lunch*** **(Reed Walter Daw Room and 1st floor foyer)**

13:40-15:45 ***Session 7 – Competitive papers and conference close*** **(Upper Lounge)**

Session chair: Jae Yung Kim

- 13:40-14:20: Kevin Aretz, Hening Liu, **Kevin Schneider**, ***"Corporate Real Decisions, Dynamic Operating Leverage, and Seasonalities Everywhere"***

  We theoretically show that in a world with seasonal output prices and inventory building, firms optimally build up output inventories toward their high-price seasons. Heeding that strategy, they generate endogenous similar seasonality in their sales but inverse seasonalities in their operating leverage and expected returns. Crucially, higher inventory costs lower optimal inventory building, dampening the endogenous seasonalities. Supporting our theory, our empirical work reveals that seasonal firms build up inventories toward their high-sales seasons; high seasonal inventory holdings predict low stock returns; and those same holdings condition the seasonal-sales, same-calendar-month, momentum, and ROE anomalies.

  Keywords: asset pricing, real options, seasonalities, dynamic operating leverage, output inventories

  Discussant: Bart Lambrecht

- 14:20-15:00: Min Fang, Po-Hsuan Hsu, ***Chi-Yang Tsou***, ***"Pollution Abatement Investment under Financial Frictions and Policy Uncertainty"***

  This paper examines how financial frictions and policy uncertainty jointly influence firms' investments in pollution abatement. Our data analyses suggest that financially constrained firms are less likely to invest in pollution abatement and are more likely to release toxic pollutants, with this pattern intensified by policy uncertainty surrounding future environmental regulations, as measured by "close" gubernatorial elections or uncertainty revealed in firms' earnings conference calls. We then develop a general equilibrium model with heterogeneous firms, including both financially constrained and unconstrained firms, in which financially constrained firms face increased marginal costs of finance from pollution abatement. These costs are further amplified by policy uncertainty, reducing firms' incentives to prevent pollution. Therefore, the aggregate effect of environmental policies depends on the distribution of financial frictions and policy uncertainty.

  Keywords: financial frictions, firm heterogeneity, policy uncertainty, pollution abatement

  Discussant: Chendi Zhang

- 15:00-15:40: **Lora Dimitrova**, Margaret Fong, ***"Executive Visibility: A Worthwhile Investment or a Futile Pursuit"***

This study examines the relationship between executive visibility and investor attraction, using SPACs as a laboratory. Visibility is measured through press, internet, and social media. The research shows that highly visible executives raise 35.8% more funds and complete IPOs in a third less time than less visible executives. Greater visibility is linked to increase in short-term returns at merger announcement, but this is not sustained over time. Institutional investors trade on visibility by selling SPACs led by less visible executives and investing in those led by highly visible ones, attracting retail investors and securing their exit strategy before merger completion.

Keywords: executives, visibility, reputation, SPACs

Discussant: Juanita González-Uribe

- 15:40-15:45: Conference close (**Grzegorz Trojanowski**)

Session timings

Competitive paper talks: Presentation + discussion + Q&A (20-10-10) – 40 minutes per paper

Distinguished speaker's talks: Presentation + discussion + Q&A (30-10-10) – 50 minutes per paper