The 11th Corporate Finance Day Proceedings

September 19th, 2013

Conference venue:
Place du XX Août, 7
B- 4000 Liège

Organizing Committee:
Professor Marie Lambert
Professor Aline Muller

BNP PARIBAS FORTIS

TranSeo AISBL
European Association for SME Transfer

Welcome address

"The theory of Corporate Finance addresses a very broad range of questions including capital budgeting decisions, financial and capital structure of the firm, corporate social responsibility (CSR), and firm valuation.

In the context of the recent financial crisis, should we remember that the objective of debt, equity and derivative markets is to help allocate capital within an economy. Especially, the question of financial markets' ability to determine the "true" risk of a financial instrument is central. Financial managers need to determine their firms' cost of capital for capital budgeting decisions: when evaluating risky investment projects, they have to consider the returns shareholders will expect, returns that obviously depend on the expected riskiness of the project. Similarly, performance of mergers and acquisitions, initial or seasoned equity offerings as well as firm-level exposures must be analyzed. There is thus a compelling need to estimate risk levels and to incorporate any (future) change in the firm or in the firms' environment. Besides, given the current socio-economic context and the importance given to corporate social responsibility, do CSR and good governance have an impact on firm performance?

Progress has moreover been made in research on Venture Capital and Entrepreneurship and especially on issues such as how could we facilitate business transfers? How could we reduce the price expectation mismatch between buyers and sellers of a SME business? Are the SMEs sufficiently capitalized? How could we reduce the 'equity gap' and favor venture capital investments?

Corporate Finance research covers all these challenges faced regularly by corporate managers in their financial decisions. In rapidly changing financial markets, corporate finance managers have to share a strategic view of financial management.

HEC-Management School of the University of Liège had the great pleasure to host this year's Annual Corporate Finance Day on September 19, 2013. The Corporate Finance Day is a top quality 11-year old international conference on corporate financial management issues in Europe. This one-day conference aims at providing a stimulating academic and social event where researchers in the field of corporate finance and related study areas can interact and present their work. It was organized in previous years by very prestigious universities in Europe.

The conference addressed important issues in Corporate Finance and centered on discussions around Venture Capital and Entrepreneurship, Equity Management of Listed Companies, Corporate Loan Market, Corporate Risk, Financial Distress, Corporate Social Responsibility and Good Governance, Mergers, Acquisitions and Buyouts and Firm-level Risk Exposures.

The Keynote Speaker for this event was Professor Theo Vermaelen, The Schroders Chaired Professor of International Finance and Asset Management, INSEAD. He shared with us his view on buybacks around the world.

Many high quality papers were submitted. The papers have been blind reviewed and graded according to several criteria (topic relevance and originality, paper execution quality, interpretation and contribution). The refereeing process of the conference was particularly competitive and strict.

We expect that the papers presented at the conference will make a significant contribution to the Corporate Finance research field."

The 11th Corporate Finance Day Organizing Committee

HEC ULg
Management School - University of Liege

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Keynote address

Buybacks Around the World
Professor Theo Vermaelen (INSEAD, Fontainebleau, France)
4.00 PM – 5.30 PM, Salle académique

Theo Vermaelen is Professor of Finance at INSEAD where he teaches in MBA and Executive programmes. He is also Professeur Invite at the Luxembourg School of Finance. He is a graduate from the Department of Applied Economics at the Catholic University of Leuven (Commercial Engineer) and obtained an MBA and PhD in Finance from the Graduate School of Business, University of Chicago. While he specializes in teaching corporate finance, since 2012 he co-teaches the Business and Society core course in the INSEAD MBA program.

Dr Vermaelen started his career at the University of British Columbia, Canada in 1979 and joined the finance faculty of the Catholic University of Leuven, Belgium, in 1982. From 1987 on he has been on the faculty at INSEAD. He has also been a visiting professor at the London Business School, UCLA and is a regular visitor at the Graduate School of Business, University of Chicago.

He has published numerous articles on share buybacks, dividend policy, capital structure, death spiral convertibles, initial public offerings, mergers and acquisitions in leading academic journals, including the Journal of Finance, the Journal of Financial Economics, The Review of Financial Studies and the Journal of Banking and Finance. He is co-editor of the Journal of Empirical Finance. He is a consultant to various corporations and government agencies and Programme advisor of the Amsterdam Institute of Finance, a financial training institute that specializes in courses for investment bankers.

He is also the portfolio manager of the PV Buyback USA fund, a fund that invests in firms that buy back their own stock because they believe their shares are undervalued. He is a member of the Board of ECMI.

At INSEAD he is the program director of the Advanced International Corporate Finance program and has directed various programs for banks including Van Lanschot, Mees Pierson, JP Morgan, Deutsche Bank and BBL. His current research includes research on share buybacks, equity rights issues, acquisition finance and contingent capital, in particular the design of coco bonds.

Buybacks Around the World

Alberto Manconi (Tilburg University, The Netherlands),
Urs Peyer (INSEAD, Fontainebleau, France) and
Theo Vermaelen (INSEAD, Fontainebleau, France)

This paper documents that outside the U.S. short-term returns around share repurchase announcements are positive, although only about half the size as in the U.S. Long-run abnormal returns after buyback announcements follow the same pattern in non-U.S. firms as document by prior literature for U.S. firms extending the buyback puzzle to the global level. Cross-country differences in corporate governance quality and regulatory differences can explain variation in the short- and long-run abnormal returns. Globally, long-run abnormal returns are related to an undervaluation index (Peyer and Vermaelen, 2009, RFS) consistent with the interpretation that managers are able to time the market.

Keynote address

Best Practices in SME Valuation – How to Solve the Price Expectation Mismatch between SME Sellers and Buyers
Transeo AISBL, BNP Paribas Fortis and HEC-ULg
5.30 PM – 6.15 PM, Salle académique

Transeo AISBL is the European Association for SME Transfer experts (private sector, institutions and academics - 42 Members from 15 countries). The objective is to gather experts in sale/ acquisition of SMEs and to work on solutions to improve SME transfers. In 2011, a Transeo study pointed out the "price expectation mismatch" as the major "deal-breaker" (obstacle to the success of a business transfer deal). Transeo launches the 2nd edition of the "Transeo Academic Awards": the objective of the contest is to reward the best academic papers on business transfer. More info? www.transeo-asssociation.eu

BNP Paribas Fortis is a Belgian bank, member of BNP Paribas group. BNP Paribas Fortis offers an unrivalled range of core banking solutions through a vast network of dedicated professionals and business centres all over Belgium. With a clear focus to follow the strategy of its corporate clients, BNPPF provides them with a swift access to tailor made and reckoned Investment banking, Acquisition Finance, Corporate Finance and Structured Finance solutions. BNPPF takes full benefit of the vast international presence of the BNP Paribas Group to accompany its clients when doing business abroad. Both the awarded expertise and the global network positions BNP Paribas Fortis as the undisputed leader in the banking industry in Belgium.

BNP PARIBAS
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Joint research project between HEC-ULg, BNP Paribas Fortis and Transeo

In 2013-2014, Transeo AISBL, BNP Paribas Fortis and HEC-ULg will focus on the definition of best practices for the valuation of small and medium-sized enterprises (SMEs) in case of business transfers at national level or cross-border level.

The research project aims at identifying the deal-breakers in SME business transfers coming from a price expectation mismatch between potential buyers and sellers. The study will come up with a valuation matrix where best practices for reducing valuation mismatch would be detailed by type of transfer (family transfer, MBO, MBI) and origin of the deal.

Contacts

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Benoît Mélot - Directeur Commercial Banking (Liège-Namur-Luxembourg) BNP Paribas Fortis

List of participants

Name	University	Email	
Yan **Alperovych**	EMLYON Business School (France)	alperovych@em-lyon.com	Paper presentation A1 Paper discussion C1 Session chair A1
Kevin **Aretz**	Manchester Business School (UK)	Kevin.Aretz@mbs.ac.uk	Paper presentation B2 Paper discussion C2 Session chair C2
Tarik **Bazgour**	HEC-ULg (Belgium)	Tarik.Bazgour@ulg.ac.be	Paper discussion B2
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Evy **Bruyland**	Ghent University and Vlerick Business School (Belgium)	Evy.Bruyland.@ugent.be	Paper presentation B2 Paper discussion B2
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Anantha Krishna **Divakaruni**	Vlerick Business School (Belgium)	Anantha.Krishna@vlerick.com	Paper presentation A3
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Thomas **Lambert**	Louvain School of Management - UCL (Belgium)	Thomas.Lambert@uclouvain.be	Paper presentation A3 Paper discussion B3
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Mathias **Schmit**	Free University of Brussels (Belgium)	Mathias.Schmit@ulb.ac.be	Paper presentation B1 Paper discussion B1
Danielle **Sougné**	HEC-ULg (Belgium)	Danielle.Sougne@ulg.ac.be	Session chair B3
Agnieszka **Trzeciakiewicz**	The University of Hull (UK)	a.Trzeciakiewicz@hull.ac.uk	Paper presentation C2 Paper discussion A2
Yannick **Van Landuyt**	K.U. Leuven (Belgium)	Yannick.Vanlanduyt@kuleuven.be	Paper presentation B3
Charles **Van Wymeersch**	Investsud SA	charles.vanwymeersch@unamur.be	Paper discussion A1 Session chair B1
Teng **Wang**	Rotterdam School of Management, Erasmus University (The Netherlands)	tengwang@rsm.nl	Paper presentation B1 Paper discussion A3

Special thanks to session chairs

Name	University	Email	Session
Yan **Alperovych**	EMLYON Business School (France)	alperovych@em-lyon.com	A1 – Venture Capital and Entrepreneurship
Antonio **Cosma**	University of Luxembourg (Luxembourg)	Antonio.Cosma@uni.lu	A2 – Equity Management of Listed Companies
Christophe **Godlewski**	EM Strasbourg (France)	godlewski@unistra.fr	A3 – Corporate Loan Market
Charles **Van Wymeersch**	Investsud SA	charles.vanwymeersch@unamur.be	B1 – Corporate Risk
Georges **Hübner**	HEC-ULg (Belgium)	g.hubner@ulg.ac.be	B2 – Financial Distress
Danielle **Sougné**	HEC-ULg (Belgium)	Danielle.Sougne@ulg.ac.be	B3 – Corporate Social Responsibility and Good Governance
Eric **de Bodt**	SKEMA Business School, Univ. Lille Nord de France (France)	eric.debodt@batd.eu	C1 – Mergers, Acquisitions and Buyouts
Kevin **Aretz**	Manchester Business School (UK)	Kevin.Aretz@mbs.ac.uk	C2 – Firm-level Risk Exposures

Program

8.15 am	8.30 am	Registration and Coffee (Room: Salle académique)
8.30 am	9.00 am	Welcome address Professor Danielle Sougné, President of the Finance and Law Department, HEC-ULg Professor Marie Lambert, Financial Analysis and Corporate Finance, HEC-ULg (Room: Salle académique)
9.00 am	10.30 am	Parallel sessions A (A1, A2, A3)
10.30 am	11.00 am	Coffee break (Room: Salle des professeurs)
11.00 am	12.30 pm	Parallel sessions B (B1, B2, B3)
12.30 pm	2.00 pm	Lunch (Room: Salle des professeurs)
2.00 pm	3.30 pm	Parallel sessions C (C1, C2)
3.30 pm	4.00 pm	Coffee break (Room: Salle des professeurs)
		Closing ceremony
4.00 pm	5.30 pm	"Buybacks around the world", Keynote address by Professor Theo Vermaelen, The Schroders Chaired Professor of International Finance and Asset Management, INSEAD, Fontainebleau (Room: Salle académique)
5.30 pm	6.30 pm	"Best practices in European SME valuation", joint research project between HEC-ULg, BNP Paribas Fortis and Transeo (Room: Salle académique)
6.30 pm	8.00 pm	Closing address and Reception (Room: Salle des professeurs)

Program sessions

Sessions (time)	1	2	3
Sessions A (9.00 am - 10.30 am)	Venture Capital and Entrepreneurship (Salle académique)	Equity Management (Salle de l'horloge)	Corporate Loan Market (Salle des lumières)
Sessions B (11.00 am - 12.30 pm)	Corporate Risk (Salle de l'horloge)	Financial Distress (Salle académique)	CSR and Good Governance (Salle des lumières)
Sessions C (2.00 pm - 3.30 pm)	Mergers, Acquisitions and Buyouts (Salle de l'horloge)	Firm-level Risk Exposures (Salle des lumières)	

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Sessions A

A1	Venture Capital and Entrepreneurship *Room: Salle académique*	
Session Chair	**Yan Alperovych**	**EMLYON Business School (France)**
Venture capital-backing and public investor: Belgian evidence	**Yan Alperovych**, Georges Hübner and Fabrice Lobet	EMLYON Business School (France)
Discussant	David Devigne	Vlerick Business School (Belgium)
Dynamic matching of supply and demand: The impact of VC investor's origin and portfolio company's characteristics	**David Devigne** and Sophie Manigart	Vlerick Business School (Belgium)
Discussant	Yaping Mao	Tilburg University (The Netherlands)
Portfolio optimization and the cost of capital for the entrepreneur	**Thomas Bonesire**, Georges Hübner and Roland Gillet	HEC-ULg (Belgium)
Discussant	Charles Van Wymeersch	Investsud SA and University of Namur (Belgium)

A2	Equity Management of Listed Companies *Room: Salle de l'horloge*	
Session Chair	**Antonio Cosma**	**University of Luxembourg (Luxembourg)**
Real options and the option to withdraw: Evidence from open market share repurchases	**Mark Mietzner**	FIF Institute - Zeppelin University (Germany)
Discussant	Antonio Cosma	University of Luxembourg (Luxembourg)
Corporate governance of cross-listed A- and H-share firms	**Shan Li**, Paul Brockman and Ralf Zurbruegg	University of Adelaide (Australia)
Discussant	Agnieszka Trzeciakiewicz	University of Hull (UK)
The role of segmentation and investor recognition through the lens of cross-listing activity	Francesca Carrieri, **Xavier Mouchette** and Aline Muller	HEC-ULg (Belgium)
Discussant	Mark Mietzner	FIF Institute - Zeppelin University (Germany)

A3	Corporate Loan Market *Room: Salle des lumières*	
Session Chair	**Christophe Godlewski**	**EM Strasbourg (France)**
The global corporate loan market and syndicate formation: A network perspective	**Martha G. Contreras**, Stéphanie Kleimeier and Jaap Bos	SBE Maastricht (The Netherlands)
Discussant	Christophe Godlewski	EM Strasbourg (France)
A union of three partners: How do relationships among PE-sponsors, lenders and target-firms influence the costs of LBO financing?	**Anantha Krishna Divakaruni** and Miguel Meuleman	Vlerick Business School (Belgium)
Discussant	Hao Liang	Tilburg University (The Netherlands)
Reforming finance under fragmented governments	Francesco Di Comite and **Thomas Lambert**	Louvain School of Management - UCL (Belgium)
Discussant	Teng Wang	Rotterdam School of Management, Erasmus University (The Netherlands)

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Session A1 - Venture Capital and Entrepreneurship

Venture Capital-Backing and Public Investor: Belgian Evidence

Yan Alperovych (EMLYON Business School),
Georges Hübner (HEC-ULg, Maastricht University and Gambit Financial Solutions) and
Fabrice Lobet (Free University of Brussels)

Using the dataset of 315 SMEs, which received venture capital financing during the period 1998-2007, and several carefully constructed control samples this study sheds new light on the implications of investor type on efficiency patterns of Belgian entrepreneurial SMEs during first 3 years after the initial capital injection. There are three main findings. First, we observe increases in efficiency of venture capital-backed firms. Firms financed by private funds show higher efficiency levels and changes relative to their publicly-backed peers. Second, regression analyses indicate that for venture capital-backed firms public backing translates into statistically and economically significant reductions of efficiency. Finally, venture capital in general does not imply better efficiency patterns of the portfolio firms in comparison to their non-venture-backed peers. At the very least, better efficiency with respect to the control group might be observed for the privately-backed SMEs but this result is not stable.

Dynamic Matching of Supply and Demand:
The Impact of VC Investor's Origin and Portfolio Company's Characteristics

David Devigne (Vlerick Business School) and
Sophie Manigart (Vlerick Business School and Ghent University)

Analysing 1770 venture capital (VC) investments in young technology based companies, of which 20% by cross-border VC firms and 7% by local branches, we show that VC firm's geographic heterogeneity impacts the matching with companies both from the supply side (i.e. the VC investors) as from the demand side (i.e. the companies). From a supply perspective, we argue that foreign VC firms use several strategies to mitigate liabilities of foreignness (LOF). We confirm that cross-border VC firms preferably match with lower information asymmetry companies. This effect disappears when controlling for co-investor characteristics. Cross-border VC firms have a higher probability to invest with local investors, with larger investment syndicates and with more experienced investors. We further demonstrate that investing through a local branch as opposed to form a foreign head office allows foreign VC firms to exhibit the same investment behaviour as domestic VC firms. We thereby exhibit that local and more resourceful co-investors or establishing a local presence mitigate LOF and enable cross-border investors to invest in the same companies as domestic VC firms. From the demand perspective, we show that less developed companies have a higher probability to match with domestic VC firms as opposed to cross-border VC firms. Moreover, seed stage companies in which only cross-border VC firms co-invest have a higher probability to attract a local VC firm as opposed to other cross-border VC firms. Our results hence display that entrepreneurs dynamically assess their companies' resource gaps and consequently target VC investors with specific geographic origins based upon the required resources.

Portfolio Optimization and the Cost of Capital for the Entrepreneur

Thomas Bonesire (HEC-ULg),
Roland Gillet (Paris 1 Panthéon-Sorbonne) and
Georges Hübner (HEC-ULg, Maastricht University and Gambit Financial Solutions)

This paper studies the situation of an entrepreneur considering to finance her own investment project characterized by its non-tradability on the market and by its indivisibility. We rely on the investor's mean-variance framework and provide a framework to identify the entrepreneur's optimal portfolio allocation and her cost of capital (hurdle rate). We find that the entrepreneur's optimal portfolio is related to the optimal portfolio of an unconstrained investor with a similar risk aversion. We develop the entrepreneur's optimal investment curve in the mean-variance framework and show that it is related to the equivalent of the investor's Capital Market Line. Our framework provides a cost of capital for the entrepreneur that is positively influenced by her risk aversion, the project variance and the project size. In a later stage, we include an illiquidity premium and a borrowing constraint to our initial framework and find that the project illiquidity has a larger impact on the entrepreneur's cost of capital that the borrowing constraint. We perform a numerical analysis in order to test our theory. We obtain an entrepreneur's cost of capital of 4.12% per quarter for our base case. We also find that the entrepreneur is able to strongly decrease her cost of capital when combining her project with other assets.

Session A2 - Equity Management of Listed Companies

Real Options and the Option to Withdraw: Evidence from Open Market Share Repurchases

Mark Mietzner (FIF Institute, Zeppelin University)

A fairly large number of share repurchase programs are announced but not completed. In this paper, we explore the distinguishing characteristics of firms that completed or withdrew their repurchase programs. Our findings help further understanding of the economic reasons why firms would withdraw previously announced buyback programs. Based on our sample of 818 completed and 101 withdrawn share repurchases, we show a significant drop in systematic risk for repurchasers. This suggests that completed share buybacks are a response to deteriorating investment opportunities. In contrast, the systematic risk of non-repurchasing firms decreases prior to the announcement, followed by an increase that peaks during the event period. This finding suggests that firms withdraw their stock repurchase intentions when growth options move into the money.

Corporate Governance of Cross-listed A- and H-share Firms

Shan Li (Business School, University of Adelaide),
Paul Brockman (College of Business and Economics, Lehigh University, Bethlehem) and
Ralf Zurbruegg (Business School, University of Adelaide)

We examine the impact of cross-listing on firm-specific information utilizing the unique features of the Chinese capital markets. By separating the trading activity of domestic Chinese investors from that of foreign non-Chinese investors, we are able to isolate each investor group's relative ability to impound firm-specific information into stock prices. We show that the cross-listed H-shares traded by foreign investors incorporate significantly more firm-specific information than their A-share counterparts traded by domestic Chinese investors. We find a similar pattern between H-shares and A-shares even after a 2007 regulatory change that allowed domestic Chinese investors to trade in the H-share market. This finding suggests that while institutional factors (e.g., stricter listing rules, stronger investor protection) can explain some of the benefits of cross-listing, foreign investors' ability to produce firm-specific information plays a separate and distinct role in generating cross-listing benefits. The level of information improvement due to foreign investors depends on the quality of the cross-listed firm's corporate governance.

The Role of Segmentation and Investor Recognition through the Lens of Cross-Listing Activity

Francesca Carrieri (McGill University, Desautels Faculty of Management),
Xavier Mouchette (HEC-ULg) and
Aline Muller (HEC-ULg and Maastricht University)

We focus on the price effects occurring around cross-listing and examine whether the segmentation hypothesis is a relevant driver of price effects, whether the improvement in the information environment subsumes these effects, and to what extent changes in cross-listing activity in the home country of the underlying security impact both channels. Results show overall support for both hypotheses and also reveal that preceding cross-listing activity has a significant impact. With more cross-listing activity, the benefits driven by the segmentation hypothesis are reduced while the influence of higher investor recognition on price effects strengthens. We also highlight significant differences due to the firm's size, a country's corporate governance and across host exchanges and financial markets.

Session A3 - Corporate Loan Market

The Global Corporate Loan Market and Syndicate Formation: A Network Perspective

Martha Gabriela Contreras (Maastricht University, School of Business and Economics),
Stéphanie Kleimeier (Maastricht University, School of Business and Economics) and
Jaap Bos (Maastricht University, School of Business and Economics)

We empirically explore the global corporate loan market. Collaboration among loan lead arrangers through syndicated loans has contributed to the development of a complex social network of banks, but how does this complexity affect syndicate structure, i.e. given the social network of banks, how does the loan syndicate look? We observe that syndicate composition depends on information asymmetry and credit risk, with information asymmetry being about the borrower and within the syndicate. We find that syndicates with structurally- important lead arrangers issue loans to opaque borrowers and stay away from syndicating risky loans as an attempt to retain and possibly improve their network positions within the social network of lead arrangers, where syndicate composition also serves as a moderating mechanism to reduce agency problems among lead arrangers. Our innovation in this study is that we characterize banks according to their structural position in the social network formed by lead arrangers in the global loan market.

A Union of Three Partners: How do Relationships among PE-sponsors, Lenders and Target-Firms Influence the Costs of LBO Financing?

Anantha Krishna Divakaruni (Vlerick Business School) and
Miguel Meuleman (Vlerick Business School)

Previous studies have highlighted the influential role of private equity (PE) sponsor reputation on the terms and costs of loans used to finance leveraged buyouts (LBO). However, it is unclear whether lenders financing these LBOs enjoy similar power and reputational advantages in the loan market, and whether they are capable of countering the reputation of PE-sponsors successfully by levying higher loan spreads. Using a sample of 3,567 LBO tranches involving US-based target portfolio firms, we first estimated the extent of single and multiple lending relationships among PE-sponsors, whereby the former represents the scope of relational embeddedness of every PE-sponsor whereas the latter embodies their individual reputation in the LBO loan market. We use a similar framework to determine the magnitude of market power and dependence of lenders on PE-sponsors. Our results demonstrate that LBO financing costs are lower when lenders have a better diversified loan portfolio and furthermore when competition from other potential lenders is higher. Conversely, LBO loans are more expensive when PE-sponsors and lenders are dependent on each other for subsequent LBO deals. We also investigate past loan transactions between lenders and target-firms to conclude that prior relationships between them play a significant role in determining the costs of LBO loan financing.

Reforming Finance under Fragmented Governments

Francesco Di Comite (Louvain School of Management – UCL) and
Thomas Lambert (Louvain School of Management – UCL)

Over the last few decades many countries have liberalized their financial sector, but the progress has not been homogeneous across countries. What may explain their differences in financial reform zeal? In this paper we focus on one particular channel and propose a stylized model to answer this question based on the interaction between lobbying activities and different measures of government fragmentation. We show that the observed differences in reform activity can be explained by the presence of fragmented governments, in which several small parties are vulnerable to lobbying activities. We test our hypothesis using a panel of OECD countries for 30 years and find that indeed government fragmentation hinders the pursuit of financial reforms. In addition, we focus on a specific dimension of financial regulation, shareholder protection, and find further evidence of a negative impact of government fragmentation on reform. Our results are robust to a large set of controls, including the proportionality of the electoral system, federalism, and population heterogeneity.

Sessions B

B1	Corporate Risk *Room: Salle de l'horloge*	
Session Chair	**Charles Van Wymeersch**	**Investsud SA and University of Namur (Belgium)**
Impact of financial crisis on firms' capital structure in UK, France and Germany	**Ortenca Kume** and Abdullah Iqbal	Kent Business School (UK)
Discussant	Mathias Schmit	Solvay Brussels School of Economics and Management - ULB (Belgium)
Ponzi or not Ponzi in banking: Cash-flow statement analysis	Thierry Denuit and **Mathias Schmit**	Solvay Brussels School of Economics and Management - ULB (Belgium)
Discussant	Ortenca Kume	Kent Business School (UK)
Do firms spread out bond maturity to manage their funding liquidity risk?	Lars Norden, Peter Roosenboom and **Teng Wang**	Rotterdam School of Management, Erasmus University (The Netherlands)
Discussant	Shan Li	University of Adelaide (Australia)

B2	Financial Distress *Room: Salle académique*	
Session Chair	**Georges Hübner**	**HEC-ULg (Belgium)**
Distressed bidders: Acquisition timing and firm recovery	**Evy Bruyland**	Vlerick Business School (Belgium)
Discussant	Eric de Bodt	Université Lille 2 - Skema Business School (France)
Pricing of distress in bank stocks. Evidence from Europe	Edward Altman, Francesca Campolongo, **Janko Cizel** and Herbert Rijken	VU Amsterdam (The Netherlands)
Discussant	Evy Bruyland	Vlerick Business School (Belgium)
Do stock returns really decrease with default risk? New international evidence	**Kevin Aretz**, Chris Florackis and Alexandros Kostakis	Manchester Business School (UK)
Discussant	Tarik Bazgour	HEC-ULg (Belgium)

B3	Corporate Social Responsibility and Good Governance *Room: Salle des lumières*	
Session Chair	**Danielle Sougné**	**HEC-ULg (Belgium)**
The foundations of Corporate Social Responsibility	**Hao Liang** and Luc Renneboog	Tilburg University (The Netherlands)
Discussant	Thomas Lambert	Louvain School of Management - UCL (Belgium)
Employment protection legislation and firm profitability	**Yannick Van Landuyt**, Nico Dewaelheyns and Cynthia Van Hulle	K.U. Leuven (Belgium)
Discussant	Balbinder Singh Gill	Ghent University (Belgium)
Human capital bankruptcy costs, terms of employment and capital structure: an empirical analysis	**Balbinder Singh Gill**	Ghent University (Belgium)
Discussant	Rosy Locorotondo	K.U. Leuven (Belgium)

HEC ULg
Management School - University of Liege

Session B1 - Corporate Risk

Impact of Financial Crisis on Firms' Capital Structure in UK, France, and Germany

Abdullah Iqbal (Kent Business School) and
Ortenca Kume (Kent Business School)

World economies experienced a major financial and banking crisis during the first decade of 21st century. This study examines the impact of this financial crisis on capital structure decision of UK, French and German firms. Our results show that firms first increase their leverage ratios from pre-crisis (2006 and 2007) to crisis (2008 and 2009) years and then decrease it in the post-crisis (2010 and 2011) years. Firms use both debt and equity to manage their capital structure however, they rely more heavily on short term debt rather than long term debt during the crisis years. Our results also reveal that firms with lower than sector average capital structure ratios in the pre-crisis years gradually increase their leverage during crisis and post-crisis years. However, firms with higher than sector average capital structure ratios in the pre-crisis years steadily decrease their leverage by improving their equity levels.

Ponzi or not Ponzi in Banking: Cash-Flow Statement Analysis

Thierry Denuit (CERRE) and
Mathias Schmit (Free University of Brussels)

Traditional performance indicators, based on accounting information contained in balance sheets and income statements, overlook one key aspect of a bank's performance: its ability to generate cash from core activities. To assess any sources of cash generated, in accordance with IAS 7, we restructure and analyse the cash flow statements of the EU's 25 largest banks that published cash-flow statements between 2005 and 2011. We find that all banks in our sample accumulated negative free cash flow over the period reviewed, including sometimes from their operational business. We analyse dividend policies and assess the extent to which banks generated enough cash through their operational business to pay out dividends. We conclude that assessments of banks' financial performance based on a cash-flow analysis can produce results that differ substantially from those suggested in the literature.

Do Firms Spread Out Bond Maturity to Manage their Funding Liquidity Risk?

Lars Norden (Rotterdam School of Management, Erasmus University),
Peter Roosenboom (Rotterdam School of Management, Erasmus University) and
Teng Wang (Rotterdam School of Management, Erasmus University)

We investigate whether and how firms manage their funding liquidity risk by spreading out the maturity of bonds. We find that larger, more leveraged, less profitable, growth-oriented, and non-bank dependent firms exhibit the largest maturity dispersion of outstanding bonds. Such dispersion is maintained by frequently issuing sets of bonds with different maturities. We further find that more bond maturity dispersion results in higher funding availability and lower funding costs. The effects are stronger for firms that face more funding liquidity risk. The evidence suggests that spreading out bond maturities is an effective corporate policy to manage funding liquidity risk.

Session B2 - Financial Distress

Distressed Bidders: Acquisition Timing and Firm Recovery

Evy Bruyland (Ghent University & Vlerick Business School)

Analysing the timing of corporate acquisitions in a recovery process, we focus on pre- and post-acquisition restructuring adopted by 295 distressed bidders and track their recovery three years post-acquisition. Distressed bidders concentrate both on asset divestment and investment, and their organizational change strategy is most likely funded through divestitures, debt and equity restructuring. However, only half of them recover. Recovered bidders are associated with a higher intensity of operational restructuring, asset sales, capital expenditure, dividend cuts and share repurchases prior to undertaking acquisitions. These restructuring activities may improve the firm's efficiency and cash flow, and stakeholders' credibility prior to a risky and costly acquisition. Interestingly, recovered bidders continue implementing similar restructuring activities post-acquisition. Hence, acquisitions could be economically beneficial to various stakeholders when part of an overall recovery strategy rather than as a last resort.

Pricing of Distress in Bank Stocks: Evidence from Europe

Edward Altman (Stern School of Business, New York University),
Francesca Campolongo (European Commission, Joint Research Centre, Ispra),
Janko Cizel (Vrije Universiteit Amsterdam) and
Herbert Rijken (Vrije Universiteit Amsterdam)

This paper studies the extent to which the market valuations of bank capital reflect the prospects of bank-specific financial distress. To this end we estimate two models. In the first, we explore the determinants of 174 distress events that occurred in European banks during the period 2007-2012. Second, we model the cross-sectional distribution of market valuation of European banks. We show that market valuations are consistent with the drivers of bank-specific financial distress during the crisis period (2008-2012). However, the consistency between the two is absent in the market valuations prior to the crisis, suggesting that market seemed to underestimate the prospect of negative credit risk realizations. We use this observation to explain the widely publicized sector-wide drop in European bank market-to-book capital ratios during the 2007-2012 period as the consequence of markets beginning to price-in the bank credit risk.

Do Stock Returns Really Decrease with Default Risk? New International Evidence

Kevin Aretz (Manchester Business School),
Chris Florackis (University of Liverpool Management School) and
Alexandros Kostackis (Manchester Business School)

In stark contrast to economic intuition, prior research on U.S. data usually finds a flat, negative or hump-shamped relation between various measures for default risk and the cross-section of stock returns (e.g., Campbell et al. (2008), George and Hwang (2010), etc.). To test whether this non-positive relation is robust out-of-sample, Gao et al. (2013) measure the default risk of firms from 39 countries using Moody-KMV's Expected Default Frequency (EDF). Supporting the U.S. evidence, they find a flat relation between their default risk measure and stock returns, which turns significantly negative among small market capitalization stocks. Our paper is in the spirit of the Gao et al. (2013) paper. In particular, we also study non-U.S. data to verify the relation between default risk and stock returns. However, in contrast to Gao et al. (2013), we use a reduced-form, instead of a structural, estimate of default risk. Empirical evidence on U.S. data find that reduced-form estimates are far better suited to forecast bankruptcy than structural estimates, with the reduced-form estimates often attracting twice the forecasting power of the structural estimates; see, for example, Bharath and Shumway (2008). An additional advantage is that reduced-form estimates are more capable of reflecting cross-country variations in the bankruptcy process, induced, for example, through different institutional settings or bankruptcy laws. See, for example, Franks et al. (1996) and Franks and Davydenko (2008) on differences in the bankruptcy process across France, Germany, the U.K. and the U.S.

Session B3 - Corporate Social Responsibility and Good Governance

The Foundations of Corporate Social Responsibility

Hao Liang (Tilburg University and John M .Olin Center, Harvard University) and
Luc Renneboog (Tilburg University and European Corporate Governance Institute)

We investigate the roles of legal origins and political institutions – widely believed to be fundamental determinants of economic outcomes – in corporate social responsibility (CSR) and economic sustainability. We argue that CSR is a crucial path to sustainability, and document significantly high correlations between country-level sustainability ratings and various extensive firm-level CSR ratings with global coverage. We contrast different views on legal origins and political institutions in relation to their implications on the shareholder-stakeholder tradeoff. Various evidence -- though may be contradictory to conventional wisdom -- suggest that: (a) Legal origins are more basic sources of CSR than firms' financial and operational performance. (b) However, among different legal origins, the English common law – widely believed to be mostly shareholder-oriented – fosters CSR least, while companies under the Scandinavian legal origin assume most social responsibilities. (c) Political institutions – democratic rules and constraints to political executives – are not the preconditions of CSR and sustainability, and can sometimes even hinder CSR implementation. Our results are robust after controlling for corporate governance, cultures, firm-level financial performance and constraints, and different indices of political institutions.

Employment Protection Legislation and Firm Profitability

Yannick Van Landuyt (K.U. Leuven), Nico Dewaelheyns (K.U. Leuven) and
Cynthia Van Hulle (K.U. Leuven)

This study examines the effect of employment protection legislation (EPL) on firm performance. Using a panel dataset of 12,773 Belgian small and medium-sized firms between 2000 and 2009, we compute several company-specific measures of a firm's exposure to EPL. The empirical results show that firms are more profitable when they are faced with less hiring and firing costs by employing relatively more blue-collar workers than their industry peers. Firms that attempt to be more flexible by hiring more temporary workers, however, do not significantly outperform their competitors.

Human Capital Bankruptcy Costs, Terms of Employment and Capital Structure: An Empirical Analysis

Balbinder Singh Gill (Ghent University)

Based upon a large dataset of workforce characteristics of private firms in Belgium, this paper examines whether human bankruptcy costs are large enough to offset the benefits of debt by using three employment terms: total labor costs per employee, employee layoffs and use of temporary workers. This paper finds that employees in firms with higher levels of debt are compensated for the increased risk of bankruptcy or financial distress. Highly leveraged firms are more likely to layoff a large number of employees. Firms with high levels of debt are not likely to use more seasonal workers. The results do not conform to the notion that when human bankruptcy costs are large enough then they can offset the benefits of debt. This paper further pays special attention to the influence of highly risk-averse employees, works councils and unemployment risk in determining the relation between capital structure choice and terms of employment.

Sessions C

C1	Mergers, Acquisitions and Buyouts *Room: Salle de l'horloge*	
Session Chair	**Eric de Bodt**	**Université Lille 2 (France)**
Rival reactions	Nihat Aktas, **Eric de Bodt** and Richard Roll	Université Lille 2 - Skema Business School (France)
Discussant	Virginie Mataigne	Ghent University (Belgium)
The wealth effects of horizontal acquisitions on rivals: Distinguishing between public, private and subsidiary targets	**Virginie Mataigne**, Sophie Manigart and Mathieu Luypaert	Ghent University (Belgium)
Discussant	Yan Alperovych	EMLYON Business School (France)
Do managers manipulate accounting numbers prior to Management Buyouts?	**Yaping Mao** and Luc Renneboog	Tilburg University (The Netherlands)
Discussant	Corneel Defrancq	Vlerick Business School and K.U. Leuven (Belgium)

C2	Firm-level Risk Exposures *Room: Salle des lumières*	
Session Chair	**Kevin Aretz**	**Manchester Business School (UK)**
Insider trading and the likelihood of corporate insolvency: Evidence from UK firms	Aydin Ozkan, Jannine Poletti-Hughes and **Agnieszka Trzeciakiewicz**	University of Hull (UK)
Discussant	Kevin Aretz	Manchester Business School (UK)
Cracks in the crystal ball: What happens to firms' foreign exchange rate exposure when forecasters don't agree about the future	**Julien Poncelet**, Aline Muller, Willem F.C. Verschoor and Remco Zwinkels	HEC-ULg (Belgium)
Discussant	Janko Cizel	VU Amsterdam (The Netherlands)
Does the renegotiation of financial contracts matter for firm value? Empirical evidence from Europe	**Christophe Godlewski**	EM Strasbourg Business School (France)
Discussant	Martha G. Contreras	Maastricht University (The Netherlands)

Session C1 - Mergers, Acquisitions and Buyouts

Rival Reactions

Nihat Aktas (SKEMA Business School, Univ. Lille Nord de France),
Eric de Bodt (SKEMA Business School Univ. Lille Nord de France) and
Richard Roll (UCLA Anderson, Los Angeles)

Mergers and acquisitions (M&As) are major events, reshaping competition among related firms (traditionally called rivals). Despite their seeming importance, most M&As studies have found only a limited empirical impact on rival stock prices. Our paper revisits this issue using a novel approach to characterize the degree of interactions among related firms based on their stock return correlations after controlling for market and industry price movements. Our approach filters out firms that are not related and distinguishes business partners from direct competitors. The results indicate that M&A announcements are on average bad news for both business partners and direct competitors of the acquirer. This provides significant evidence that M&As reinforce an acquirer's competitive advantage, a validation of the competitive pressure hypothesis.

The Wealth Effects of Horizontal Acquisitions on Rivals:
Distinguishing between Public, Private and Subsidiary Targets

Virginie Mataigne (Ghent University),
Sophie Manigart (Ghent University) and
Mathieu Luypaert (Vlerick Leuven Gent Management School)

This study investigates the wealth effects of 182 European horizontal acquisitions in the manufacturing industry on rivals of the merging firms, thereby distinguishing between acquisitions of public, private and subsidiary targets. Based on a case-by-case investigation of the European Commission, over 800 publicly-listed rivals were identified. The event study around acquisition announcement indicates that especially rivals of private targets gain upon acquisition announcement but not rivals of public or subsidiary targets. We hence contribute to the acquisition literature by highlighting that acquisitions of private and of subsidiary targets, which until now have been treated as a single category, have different effects on rival returns. We argue that motives for acquiring a private, public or subsidiary target are highly distinct and consequently affect rival firms differently. Compared to acquirers of private companies, acquirers of publicly-traded firms are prone to agency risks and hubris, while acquirers of subsidiary targets are mainly buying poorly performing lines of business. Different motives explain differences in wealth effects.

Do Managers Manipulate Accounting Numbers Prior to Management Buyouts?

Yaping Mao (Tilburg University) and
Luc Renneboog (Tilburg University)

To address the question whether managers manipulate the accounting numbers prior to management buyouts (MBOs), we use an industry-adjusted buyout-specific approach and answer this question positively. In UK buyout companies, negative earnings manipulation (understating the earnings prior to the deal) often occurs, both by means of accrual management and real earnings management. We demonstrate that MBOs are significantly more frequently subject to manipulation than leveraged buyouts (LBOs) in which the management will not be involved subsequent to the buyout transaction. By means of a two-stage instrumental variables approach, we examine competing incentives affecting the degree and size of earnings manipulation: the management engagement incentive leads to negative earnings manipulation. Our evidence implies that the (ex ante) perceived likelihood that an MBO will be undertaken has a strong significant effect on negative earnings management, while the external borrowing of the buyout company is not determined by standard capital structure factors, such as earnings numbers. The evidence of balance sheet manipulation is squared with this insignificance of external financing incentive. The implementation of the revised Company Code on Corporate Governance 2003 has reduced the degree of both accrual and real earnings management in MBOs.

Session C2 - Firm-level Risk Exposures

Insider Trading and the Likelihood of Corporate Insolvency: Evidence from UK Firms

Aydin Ozkan (The University of Hull),
Jannine Poletti-Hughes (Management School University of Liverpool Liverpool) and
Agnieszka Trzeciakiewicz (The University of Hull)

This paper investigates the relation between insider trading and the likelihood of insolvency. Using a unique dataset of 474 UK non-financial firms, of which 117 filed for insolvency between 2000 and 2010, we show that insider trading characteristics increase the predictive power of insolvency prediction models. The results indicate that although insider trading is generally associated with a lower likelihood of insolvency, the relationship is reversed during the six month period before firms file for insolvency. While the earlier trades seem to be motivated by superior information held by insiders, insider trading closer to the insolvency date is possibly initiated by signalling motives to influence market perception in an attempt to avert insolvency.

Cracks in the Crystal Ball: What Happens to Firms' Foreign Exchange Rate Exposure when Forecasters don't Agree about the Future

Aline Muller (HEC-ULg),
Julien Poncelet (HEC-ULg),
William F.C. Verschoor (Erasmus School of Economics, Erasmus University Rotterdam) and
Remco C.J. Zwinkels (Erasmus School of Economics, Erasmus University Rotterdam)

We examine the exposure of U.S. multinationals to unexpected exchange rate movements. Based on a sample of 1675 U.S. firms operating in Europe and in Japan our results confirm previous evidence that disaggregating total exchange rate changes in expected and unexpected exchange rate movements leads to better-performing models. Theory expects that investors lend more credibility to forecasts communicated by expert panels when they display a low dispersion, hinting to agreement among experts, than when they display a higher dispersion. When uncertainty is higher, and when the informational content of these forecasts may be considered as less meaningful, investors should be reluctant to incorporate experts' anticipations in stock market values. Based on a our time-varying estimates of the probability of agreement among experts, we find concluding empirical evidence in favor of this hypothesis.

Does the Renegotiation of Financial Contracts Matter for Firm Value? Empirical Evidence from Europe

Christophe J. Godlewski (University of Haute Alsace &
EM Strasbourg Business School - LaRGE Research Center)

By using a sample of bank loan renegotiations by European firms, I show that the renegotiation of financial contracts matters for firm value. I find that amendments to financial covenants and to loan amounts increase the cumulative abnormal returns of a borrowing firm by 10% to 15%. Early and less frequent renegotiations of bilateral loans with short maturities also imply a positive stock market reaction. Amendments signaling the early accrual of new and positive information allow increasing firm value. The renegotiation of financial contracts bears a certification role, while contracts become more efficient over time, to the benefit of shareholders.

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