ESSFM 2016 Corporate Finance Informal Evening Sessions

Date:	Monday 25 July	Tuesday 26 July	Wednesday 27 July	Thursday 28 July
Room:	**Bern**			
20:30-21:00	**Farzad Saidi (University of Cambridge)** "Life Below Zero: Negative Policy Rates and Bank Risk Taking"	**Pat Akey (University of Toronto)** "Policy Uncertainty, Political Capital, and Firm Risk-Taking"	**Adrien Matray (Princeton University)** "Ripple Effects of Noise on Corporate Investment"	**AVAILABLE**
21:00-21:30	**Andrea Polo (Universitat Pompeu Fabra and Barcelona GSE)** "Monetary Policy at Work: Security and Credit Application Registers' Evidence"	**Sapnoti Eswar (University of Cincinnati)** "Does Financial Innovation Enhance or Inhibit Real Innovation?"	**Margarita Tsoutsoura (University of Chicago)** "Shirking (or Not) in Family Firms"	**Kelly Shue (University of Chicago)** "Consistent Good News and Inconsistent Bad News"
21:30-22:00	**Max Bruche (Cass Business School, City University London)** "Pipeline Risk in Leveraged Loan Syndication"	**Clemens Otto (HEC Paris)** "Hold-up and Investment: Empirical Evidence from Tariff Changes"	**Evgeny Lyandres (Boston University)** "Misvaluation of investment options"	**Tony Cookson (University of Colorado - Boulder)** "A Text-Based Analysis of Corporate Innovation"
Room:	**Thun**			
20:30-21:00	**Marcus Opp (UC, Berkeley)** "Only time will tell"	**Enrico Perotti (University of Amsterdam and CEPR)** "The (Self-)Funding of Intangibles"	**Rafael Matta (University of Amsterdam)** "Liquidity Runs"	**Christine A. Parlour (UC Berkeley)** "Banks Behaving Badly"
21:00-21:30	**Sergio Vicente (Universidad Carlos III de Madrid)** "Risk-taking and joint liquidity and capital regulation"	**Mike Burkart (Stockholm School of Economics, Swedish House of Finance and CEPR)** "Activism and Takeovers"	**David Martinez-Miera (Universidad Carlos III de Madrid)** "Bank Capital Regulation with Unregulated Competitors"	**Guillaume Vuillemey (HEC Paris)** "Derivatives and Interest Rate Risk Management by Commercial Banks"
21:30-22:00	**Silvio Petriconi (Bocconi University)** "Endogenous Market Participation, and Bank Capital Structure"	**Uday Rajan (University of Michigan)** "Conflicting Relationships"	**Maria Chaderina (WU Vienna University of Economics and Business)** "(Idiosyncratic) Credit-spread Risk and the Dynamics of Liquidity, Leverage and Maturity of Debt"	**José Azar (IESE Business School, Universidad de Navarra and Charles River Associates)** "Portfolio Diversification, Market Power, and the Theory of the Firm"

ESSFM 2016 Corporate Finance Informal Evening Sessions

Monday 25 July

20.30 – 21.00

Room: Bern

“Life Below Zero: Negative Policy Rates and Bank Risk Taking”

Presenting author: Farzad Saidi (University of Cambridge)

Co-authors: Florian Heider (ECB and CEPR) and Glenn Schepens (ECB)

Abstract: This paper investigates the impact of negative policy rates on banks' risk taking in the syndicated-loans market. Existing work on the bank risk-taking channel focuses on lower but positive interest rates and, thus, offers little guidance for environments in which short-term rates can become negative. For identification, we exploit the inability of banks to pass on negative rates to depositors, which creates differences in the pass-through of negative policy rates across banks with differential reliance on deposit funding. Combining bank and firm balance-sheet data with transaction-level loan data allows us to assess the riskiness of firms that receive new loans from banks with different deposit ratios before and after policy rates become negative. For a ten percentage-point increase in the lender's deposit ratio, a reduction of the policy rate governing central-bank deposits from 0 to -0.2% in our sample period leads to an increase of at least 12% in the standard deviation of the return on assets of borrower firms. The treatment effect increases when borrowers are isolated from a change in the policy rate because they are located in a different currency zone. Finally, a placebo at the time when policy rates fall - but are still positive - shows no effect.

20.30 – 21.00

Room: Thun

“Only time will tell”

Presenting author: Marcus Opp (UC, Berkeley)

Co-authors: Florian Hoffmann (Universität Bonn) and Roman Inderst (Goethe Universität Frankfurt and CEPR)

Abstract: This paper analyzes the implications of the notion ``Only time will tell'' for optimal contract design in principal-agent frameworks. Formally, we explicitly characterize the optimal timing and contingency of deferred compensation in settings where informative signals about the agent's action arrive over time. First, due to bilateral risk-neutrality and limited liability of the agent, one can often restrict attention to maximal-incentives contracts. These are contracts that only stipulate date-t rewards to the agent for the history with the highest likelihood ratio over all possible date-t histories. Second, the typically unique payout time t is then determined by the trade-off between the benefit of more informative performance signals and the cost of agent impatience.

We apply this framework to the financial sector to evaluate recent regulatory proposals mandating the deferral of bonus payments and claw-back clauses in the financial sector. In this natural application, the costly action of the agent, such as a bank CEO, affects the arrival-time distribution of bank failure. We show that a mandated minimum-deferral requirement typically increases risk-taking. However, this can be mitigated if deferral requirements are coupled with restrictions on the contingency of bonus payments; in other words, through clawback provisions.

21.00 – 21.30

Room: Bern

“Monetary Policy at Work: Security and Credit Application Registers’ Evidence”

Presenting author: Andrea Polo (Universitat Pompeu Fabra and Barcelona GSE)

Co-authors: Jose Luis Peydro (Icrea-UPF, CREI, Barcelona GSE, CEPR) and Enrico Sette (Bank of Italy)

Abstract: The potency of the bank lending channel of monetary policy may be limited if for example banks hoard the liquidity in, or do risk-shifting with, securities. We analyze the transmission channel of monetary policy focusing on banks’ securities trading, in addition to lending, in turn allowing us to also test the empirical importance of some key financial frictions and channels. Not only do we analyze the overall effects of monetary policy on securities holdings and credit supply, but also the heterogeneous effects depending on: (i) bank capital; (ii) security and loan yields; (iii) crisis vs. normal times; (iv) haircuts to obtain (ECB) public liquidity; (v) accounting and regulatory differences in banking vs. trading book.

For identification, we exploit, since the creation of the euro, the security and credit registers owned by the central bank of Italy, a bank dominated economy. The supervisory registers contain – at the security (ISIN) level – all securities investments of all Italian banks, including e.g. yields, ratings and maturity at the security-bank-month level, and apart from the granted loans, contain loan applications and loan rates at the firm-bank-month level.

We find the following results. First, in both normal and crisis times, when monetary policy (respectively conventional and unconventional) becomes softer, banks increase their holdings of securities. Effects are stronger in crisis times for securities than for credit supply. Second, in crisis times, low capitalized banks prefer buying securities than increasing credit supply to firms (not due to lack of good loan applications). Moreover, lower capitalized banks buy less risky securities, which is inconsistent with the risk-shifting hypothesis. Our results suggest that the main channels at work are access to public liquidity and risk-bearing capacity (not regulatory arbitrage). Finally, in normal times, low capitalized banks increase more the supply of credit and to higher-risk borrowers, while they prefer securities with lower yield (consistent with using security portfolio to rebalance the higher risk they get on the loan portfolio).

21.00 – 21.30

Room: Thun

"Risk-taking and joint liquidity and capital regulation"

Presenting author: Sergio Vicente (Universidad Carlos III de Madrid)

Co-author: Demian Macedo (Universidad Carlos III de Madrid)

Abstract: We analyze the problem of a regulator that sets both capital and liquidity requirements to maximize social welfare in a framework in which a bank decides the level of solvency risk facing a risk-return trade-off, and of liquidity risk by holding cash. Capital requirements reduce the bank's solvency risk-taking through a "skin-in-the-game" channel, but are constrained by a shadow social cost of substituting deposits for capital. Liquidity requirements reduce the likelihood of failing due to early deposit withdrawals, but also penalize the bank's investment in profitable loans, raising solvency risk level above the laissez-faire level. We find a positive feedback loop between liquidity and capital requirements. A raise of liquidity requirements increases the likelihood of surviving early withdrawals, which increases the marginal value of reducing solvency risk. Hence, capital requirements should be increased if liquidity requirements do. Also, an elevation of capital requirements increases the bank's skin-in-the-game without altering the opportunity cost of liquidity, therefore reducing the negative impact of liquidity on the bank's solvency risk-taking incentives. Hence, liquidity requirements should be raised following a raise of capital requirements. This relation suggests that capital and liquidity requirements should be pro-cyclical: cheaper capital in booms should lead to higher capital requirements, which should be coupled with higher liquidity requirements.

ESSFM 2016 Corporate Finance Informal Evening Sessions

21.30 – 22.00

Room: Bern

"Pipeline Risk in Leveraged Loan Syndication"

Presenting author: Max Bruche (Cass Business School, City University London)

Co-authors: Frédéric Malherbe (London Business School and CEPR) and Ralf Meisenzahl (Federal Reserve Board)

Abstract: Using novel data, we examine the syndication process for leveraged loans. We provide empirical evidence that when placing loans with investors, arrangers use the syndication process to learn about the underlying demand for the loan. We document frequent and significant adjustments to the terms of the loans during this process, which reveals substantial uncertainty about demand. For underwritten loans (which account for at least 40 percent of the loans in our sample), it is not just the borrower but also the arranging bank who is exposed to this uncertainty for the deals in its pipeline, and hence to "pipeline risk," even when it ends up holding no part of the final loan. In such deals, arrangers can end up having to retain a larger share of the loan than anticipated if market participants turn out to have no appetite for the loan in question.

21.30 – 22.00

Room: Thun

"Endogenous Market Participation, and Bank Capital Structure"

Presenting author: Silvio Petriconi (Bocconi University)

Co-authors: Elena Carletti (Bocconi University and CEPR) and Robert Marquez (UC Davis)

Abstract: We present a model of optimal bank capital structure where there is limited participation in financial markets by investors. Investors face a cost of becoming "sophisticated" and must decide whether to incur the cost and become equity holders, thus earning possibly a higher return, or remain unsophisticated and invest only in secure assets, such as bank deposits. We show that banks always choose to raise some deposit-based financing, but this amount depends on how high expected project returns are, as well as how variable they may be. When project returns are very high, banks fund themselves with just enough capital that they eliminate all bankruptcy risk, thus having a "safe" capital structure. For more intermediate ranges, banks find it optimal to choose a risky capital structure that employs leverage (i.e., deposits) and is thus subject to default. Essentially, banks trade off two effects: using leverage allows banks to increase shareholder returns, but increases bankruptcy risk. Banks' capital structure decisions are socially optimal, so that any binding capital requirements distort the equilibrium allocation of capital away from what is socially optimal. We extend the model to study how bank heterogeneity, in terms of some banks having access to projects of either a higher average return or lower risk, affects banks' optimal capital structures and the equilibrium returns to bank capital.

Tuesday 26 July

20.30-21.00

Room: Bern

"Policy Uncertainty, Political Capital, and Firm Risk-Taking"

Presenting author: Pat Akey (University of Toronto)

Co-author: Stefan Lewellen (London Business School)

Abstract: We document a new "policy sensitivity" channel of corporate political contributions. Firms that are highly sensitive to government policy uncertainty have a stronger incentive to contribute to political candidates, and these firms' risk-taking and performance should be more affected by the gain or loss of a political connection relative to less-sensitive firms. We verify these patterns in the data using a sample of close U.S. congressional elections. We first show that policy-sensitive firms donate more to candidates for elected office than less-sensitive firms. We then show that plausibly exogenous shocks to policy-sensitive firms' political connections produce larger subsequent changes in these firms' investment, leverage, firm value, operating performance, CDS spreads, and option-implied volatility relative to less-sensitive firms. Our results represent the first attempt in the literature to disentangle the effects of policy sensitivity and political connectedness on firms' risk-taking and performance and suggest that many existing results in the political connections literature are driven by policy-sensitive firms.

ESSFM 2016 Corporate Finance Informal Evening Sessions

20.30 – 21.00

Room: Thun

"The (Self-)Funding of Intangibles"

Presenting author: Enrico Perotti (University of Amsterdam and CEPR)

Co-authors: Robin Doettling and Tomislav Ladika (both University of Amsterdam)

Abstract: U.S. corporations now invest more in intangible capital than traditional CAPEX, a transformation empirically associated with greater cash holdings. A common view is that intangible investment reduces debt capacity and may induce precautionary choices to avoid financial constraints. Our insight is that firms retain cash partly because the creation of intangibles does not require large scale investment, as innovation is achieved by the commitment of skilled human capital. We model how firms' payout and cash holding policies depend on the composition of their investment. Innovative employees may walk away with intangible knowledge, so firms ensure retention by granting deferred equity compensation. Interestingly, retaining cash and repurchasing shares enhances the value of employees' unvested equity, thus reducing total compensation costs. Our empirical evidence shows that high intangibles firms engage in less up-front investment than firms with more tangible assets, but are not more financially constrained. High intangibles firms also grant more deferred equity and prioritize repurchases over dividends, in line with our model's predictions.

21.00 – 21.30

Room: Bern

"Does Financial Innovation Enhance or Inhibit Real Innovation?"

Presenting author: Sapnoti Eswar (University of Cincinnati)

Co-author: Lora Dimitrova (University of Exeter)

Abstract: We present evidence that financial innovation plays a role in increasing the level of real, innovative activity. We focus on non-financial firms' innovation performance, measured by patent-based metrics, and employ an exogenous change in the market for over-the-counter (OTC) derivatives in 1987. Distance from financial centers is used as an instrument for the likelihood of derivatives use. We find that firms with higher likelihood of derivatives use innovate more and have higher quality of innovations. The relationship is stronger for firms that are more likely to have an existing relationship with dealers or banks. Furthermore, we find that these results are driven by a greater ability of financially-constrained firms to invest in more risky ventures such as innovative projects.

21.00 – 21.30

Room: Thun

"Activism and Takeovers"

Presenting author: Mike Burkart (Stockholm School of Economics, Swedish House of Finance and CEPR)

Co-author: Samuel Lee (Santa Clara University)

Abstract: A key challenge for outside governance is the dual free-rider problem: Dispersed shareholders neither sell their shares unless the price fully reflects the expected value improvement nor participate in the costs if they retain their shares. We show that the basic outside governance strategies of hostile takeovers and shareholder activism are polar approaches to this problem, the returns to which exhibit opposite comparative statics with respect to the scope for improvement. We use this insight to show that activists may be most effective when, instead of restructuring assets themselves, they simply broker control. The theory predicts that takeover activism is highly profitable; activism correlates positively (negatively) with mergers (hostile bids); activist-bidder collaboration can improve welfare; and decoupling cash flow and voting rights can reduce the misalignment of interests.

21.30 – 22.00

Room: Bern

"Hold-up and Investment: Empirical Evidence from Tariff Changes"

Presenting author: Clemens Otto (HEC Paris)

Co-author: Thorsten Martin (HEC Paris)

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Abstract: We provide empirical evidence that hold-up problems in vertical production chains impede corporate investment. The theoretical literature has long recognized that hold-up problems can distort investments. The empirical evidence, however, is scarce. In this paper, we exploit changes in the relative bargaining power of suppliers and customers due to sudden, large changes in U.S. import tariffs as a source of variation in the severity of hold-up problems. As predicted by theory, we find that customer firms increase capital expenditures after tariff reductions in their suppliers' industries -- and the opposite effect for tariff increases. Consistent with tariff changes affecting hold-up problems (rather than simply coinciding with changes in investment opportunities), we find that the effect on customers' capital expenditures is stronger for firms with lower bargaining power ex ante and only present if the suppliers produce specific rather than generic inputs.

21.30 – 22.00

Room: Thun

“Conflicting Relationships”

Presenting author: Uday Rajan (University of Michigan)

Co-authors: Tamas Batyi and Christine Parlour (both UC Berkeley)

Abstract: We model the relationship between a client and a broker-dealer who provides two services. First, it provides financial advice by constructing a bespoke strategy for coping with future financial contingencies the client may face. Unknown to the client, the adviser may already have another client, which limits the amount of effort he is willing to invest on each customer. Second, the broker-dealer implements the strategy by selling a security to the client over-the-counter. The markup charged to the client on the security includes the adviser's fee. As a result, the markup in the OTC market depends on the length of time a client has been with an adviser, the severity of her needs, and the size of the client relative to the client's portfolio. The model has implications for the markups on simple versus complex products, and on one-shot versus repeated transactions. Increased competition among broker-dealers leads to less effort being spent on new clients, which leads to more hedging failures. However, the benefit of retaining existing clients increases, leading to greater effort and better outcomes for these clients.

ESSFM 2016 Corporate Finance Informal Evening Sessions

Wednesday 27 July

20.30 – 21.00

Room: Bern

“Ripple Effects of Noise on Corporate Investment”

Presenting author: Adrien Matray (Princeton University)

Co-authors: Olivier Dessaint (University of Toronto), Thierry Foucault (HEC Paris and CEPR) and Laurent Frésard (University of Maryland)

Abstract: Firms reduce investment in response to non-fundamental drops in the stock price of their product-market peers, as predicted by a model in which managers rely on stock prices as a source of information but cannot perfectly filter out noise in prices. The model also implies the response of investment to noise in peers' stock prices should be stronger when these prices are more informative, and weaker when managers are better informed. We find support for these predictions. Overall, our results highlight a new channel through which non-fundamental shocks to the stock prices of some firms influence real decisions of other firms.

20.30 – 21.00

Room: Thun

“Liquidity Runs”

Presenting author: Rafael Matta (University of Amsterdam)

Co-author: Enrico Perotti (University of Amsterdam and CEPR)

Abstract: We analyse bank runs under uncertainty over asset liquidity, and show how the risk of losses upon premature loan termination produces a unique run equilibrium, where inefficient runs occur even under minimal fundamental risk.

The model refines the bank run framework by introducing actual bankruptcy rules on mandatory stay, such that default occurs before all illiquid assets are sold. Since less liquid assets are not available for running depositors, asset liquidity risk has a concave effect on run incentives, unlike fundamental risk. Runs are rare when asset liquidity is abundant, become more frequent as it falls and decrease again under very low asset liquidity. The optimal social choice limits inessential runs by offering a higher rollover yield. However, the private choice minimizes funding costs, tolerating more frequent runs.

21.00 – 21.30

Room: Bern

"Shirking (or Not) in Family Firms"

Presenting author: Margarita Tsoutsoura (University of Chicago)

Co-authors: Morten Bennedsen (INSEAD) and Daniel Wolfenzon (Columbia Business School)

Abstract: This paper uses variation in employee absence in private firms to investigate how organizational structures affect worker effort. Using a novel data set for absenteeism in a sample of 2,600 private Danish firms we derive a number of contributions: First, in our benchmark analysis we show that employees in family firms are less absent. We control for firm specific variation across industries, size, and profitability.

Furthermore, we control tasks and worker individual characteristics such as age and gender. Second, we confirm the result using hospitalization as an exogenous shock to absenteeism. Third we investigate if differences in work effort (absenteeism) are due to employee selection or firm culture and find that the majority of the effect is a firm culture effect.

21.00 – 21.30

Room: Thun

"Bank Capital Regulation with Unregulated Competitors"

Presenting author: David Martinez-Miera (Universidad Carlos III de Madrid)

Co-author: Eva Schliephake (University of Bonn)

Abstract: We analyze optimal capital regulation of imperfectly competitive banks that are confronted with competition from non-regulated banks. We show that tightening bank capital regulation reduces the social cost of bank defaults but can also result in lower bank lending. A competitive non-regulated banking sector can reduce the negative impact of lower bank lending and, thereby, can allow for stricter bank regulation. We show how in regulated banking sectors with high market power, an increase in competition from non-regulated banks results in tighter optimal bank regulation and higher welfare. However, in regulated banking sectors with lower market power, an increase in competition from non-regulated banks may lead to looser capital regulation and lower welfare.

21.30 – 22.00

Room: Bern

“Misvaluation of investment options”

Presenting author: Evgeny Lyandres (Boston University)

Co-authors: Egor Matveev (University of Alberta) and Alexei Zhdanov (Penn State University)

Abstract: We study whether investment options are fairly priced by market participants. For this purpose we build and estimate a structural real option model of optimal investment in the presence of demand uncertainty. We then classify stocks into under- and overvalued based on the difference between the model-implied and the observed firm values. A long-short strategy that buys stocks classified as the most undervalued by the model and shorts the most overvalued ones generates annualized factor alphas from major asset pricing models that range between 11% and 18% for equally-weighted portfolios and between 4% and 14% for value-weighted ones. Cross-sectional regressions of returns on measures of misvaluation and firm characteristics yield similar results. One interpretation of these findings is that investors have difficulties valuing investment options, which leads to mispricing in equity markets that is gradually corrected over time. This conjecture is supported by our evidence that the relation between mispricing and future returns is much stronger among stocks that are likely endowed with higher fractions of investment options.

21.30 – 22.00

Room: Thun

“(Idiosyncratic) Credit-spread Risk and the Dynamics of Liquidity, Leverage and Maturity of Debt”

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Presenting author: Maria Chaderina (WU Vienna University of Economics and Business)

Abstract: I study the joint dynamics of leverage, maturity and liquidity choices of a firm. Long-term debt is safer as it limits the firm's exposure to roll-over losses driven by credit spread risk, but short-term debt gives firms more flexibility in reducing leverage. As a result, firms have positive cash and debt balances, firms closer to default prefer short-term debt, relation between leverage and maturity is positive, and maturity structure is non-evenly spread-out. Higher volatility of cash flows makes firms riskier and they opt for shorter-maturity debt, while higher idiosyncratic volatility of credit spreads makes firms chose longer-term borrowing and higher cash balances.

Thursday 28 July

20.30 – 21.30

Room: Bern

AVAILABLE

20.30 – 21.00

Room: Thun

"Banks Behaving Badly"

Presenting author: Christine A. Parlour (UC Berkeley)

Co-authors: Jiakai Chen (UC Berkeley) and Uday Rajan (University of Michigan)

Abstract: We consider the interaction between bank regulation, the shadow banking sector, and real investment. In our model, banks have projects of varying productivity. Project default is more costly to the regulator than the bank in a good macro state, because of the potential for systemic risk. Conversely, increased investment is more valuable to the regulator than the bank in a bad macro state. A regulator sets capital and liquidity requirements to try and align private and social costs and benefits. However, a bank has the option to move some assets of the balance sheet and raise financing from the

shadow banking sector instead. Shadow banking is unregulated, and so costly for the regulator. We identify the nature of the assets on and off the balance sheet and determine circumstances under which regulating on-balance-sheet activities can lead to more risk being taken off the balance sheet.

21.00 – 21.30

Room: Bern

“Consistent Good News and Inconsistent Bad News”

Presenting author: Kelly Shue (University of Chicago)

Co-authors: Rick Harbaugh and John Maxwell (both Indiana University)

Abstract: Good news is more persuasive when it is more consistent, and bad news is less damaging when it is less consistent. We show when Bayesian updating supports this intuition so that a biased sender prefers more or less variance in the news depending on whether the mean of the news exceeds expectations. We apply the result to selective news distortion of multiple projects by a manager interested in enhancing the perception of his skill. If news from the different projects is generally good, boosting relatively bad projects increases consistency across projects and provides a stronger signal that the manager is skilled. But if the news is generally bad, instead boosting relatively good projects reduces consistency and provides some hope that the manager is unlucky rather than incompetent. We test for evidence of such distortion by examining the consistency of reported segment earnings across different units in firms. As predicted by the model, we find that firms report more consistent earnings when overall earnings are above rather than below expectations. Firms appear to shift the allocation of overhead and other costs to help relatively weak units in good times and relatively strong units in bad times. The “mean variance news preferences” that we identify apply in a range of situations beyond our career concerns application, and differ from standard mean-variance preferences in that more variable news sometimes helps and better news sometimes hurts.

ESSFM 2016 Corporate Finance Informal Evening Sessions

21.00 – 21.30

Room: Thun

"Derivatives and Interest Rate Risk Management by Commercial Banks"

Presenting author: Guillaume Vuillemey (HEC Paris)

Abstract: We introduce interest rate derivatives in a model of bank capital structure. Distinct motives to engage in risk management imply that both increases and decreases in the short rate can be hedged. Moreover, derivatives are a partial substitute to financial flexibility for risk management. Substitutability implies that derivatives users are more leveraged and have a more pro-cyclical lending policy. These predictions are consistent with the data and have novel testable content.

21.30 – 22.00

Room: Bern

21.30 – 22.00

"A Text-Based Analysis of Corporate Innovation"

Presenting author: Tony Cookson (University of Colorado - Boulder)

Co-authors: Gustaf Bellstam and Sanjai Bhagat (both University of Colorado Boulder)

Abstract: We utilize analyst reports of S&P 500 firms during 1990-2012 to construct a text-based measure of innovation using topic analysis techniques. Based on the nature of the text, the measure captures corporate innovative output (e.g., systems, products, technologies) rather than inputs. The measure is broad based and applies well to innovations that cannot be patented. Quantitatively, the text-based measure of innovation empirically matches the R&D boom and bust of the 1990s and 2000s, and describes cross-industry patterns of corporate R&D expenditure. Within firm, the innovation measure forecasts future expenditures on R&D, even holding constant current R&D intensity. Turning to the value implications, the text-based innovation measure is robustly related to greater future operating performance and growth opportunities for up to four years. Finally, these value implications hold just as strongly for non-patenting firms, a sub-sample where innovation is uncorrelated with R&D intensity. Taken together, our findings provide insight into the value of innovation more broadly, not just innovation that can be patented.

ESSFM 2016 Corporate Finance Informal Evening Sessions

21.30 – 22.00

Room: Thun

“Portfolio Diversification, Market Power, and the Theory of the Firm”

Presenting author: José Azar (IESE Business School, Universidad de Navarra and Charles River Associates)

Abstract: This paper documents a large increase in overlapping ownership over the last two decades, and develops a model of firm behavior in which managers take these overlaps into account, even without direct communication from shareholders. In general equilibrium oligopoly/oligopsony, firms also take into account that shareholders are consumers and workers. I introduce new indices that capture the internalization effects from consumer/worker control. The solution to the model is independent of the choice of numeraire, which was a major drawback of previous models of general equilibrium with imperfect competition that assumed profit maximization.

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