

Activity Report 2015/2016

Chair of Corporate Finance
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Excellence in
Management
Education

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FOREWORD



Finance is an applied branch of economics that studies the ways in which individuals, business entities, and other organizations allocate resources over time and make decisions in the presence of the uncertainty. The Chair of Corporate Finance at the WHU focuses broadly on the study of how corporations raise capital and make investment decisions and the consequences of these decisions.

We strive to produce a broad range of finance-related research that addresses topics of interest to academic researchers, practitioners, and policy makers. Current research topics include the analysis and international comparison of corporate governance indices & firm value, gender issues in executive compensation, mergers and acquisitions, CSR activities at the corporate level, executive compensation and the evolution of corporate ownership. We communicate that research both through scientific journal publications, consulting regulatory agencies and corporations, and through the contribution to WHU's rigorous MBA and Executive Education programs. We also train and mentor future finance scholars through our doctoral program.

Vallendar, September 2016

A handwritten signature in black ink, appearing to read 'B. Yurtoglu'. The signature is fluid and cursive, written on a white background.

Prof. Dr. Burcin Yurtoglu



1. TEAM



Professor Dr. Burcin Yurtoglu
Chairholder

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Burcin Yurtoglu (Ph.D. University of Vienna, Austria; Habilitation, University of Vienna, Austria) is Professor at WHU – Otto Beisheim School of Management, where he holds the Chair of Corporate Finance since October 2010. Before joining the WHU, Prof. Yurtoglu served on the faculty of the University of Vienna, Department of Economics. During his academic career, he was a visiting scholar at the Cambridge University (Judge Business School), Science Center Berlin (WZB), Central European University (Budapest), Sabanci University (Istanbul) and Fudan University (Shanghai).

He has conducted research and consulting projects with major companies, regulatory agencies, and research centers in Austria, Turkey and at the IFC, the World Bank.

His research interests include corporate governance, corporate finance and competition policy with a focus on emerging markets. He has published in international journals including the Economic Journal, European Economic Review, Journal of Corporate Finance, Journal of Econometrics, Journal of Law and Economics and many others.



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Guosong Xu joined the chair in September 2014 as a research assistant. His research interests include behavioral corporate finance and M&A. He received his B.A in Economics at East China University of Science and Technology in Shanghai and his MSc in management at ESSEC Business School Paris, where he worked as a research assistant in the Department of Finance and the Chair of Financial Reporting. In 2013 he joined the MBA program at Booth School of Business, Chicago, USA as a visiting student. He was awarded the 2008 National Scholarship by the Chinese Education Ministry. Guosong worked as a junior analyst at Lazard Financial Advisory in Paris.

2. TEACHING

2.1 MASTER OF SCIENCE PROGRAM

Advanced Corporate Finance
Fall Term 2015, 2 SWS

This course examines how financial decisions, such as capital structure, payout policy and fund raising, can affect the value of a firm. It starts with a broad overview which looked at institutional differences across major governance and financing regimes. Then the first part studies the effects of taxes and bankruptcy costs, agency problems and information asymmetries on corporate financial policy and thus firm value. The second part of the lectures focus on product market interactions and mergers and acquisitions.

Sustainable Finance I
Spring Term 2016, 2SWS

Economic, social and environmental dimensions of sustainability and potential impacts for financial institutions, Role of banks; Sustainability in lending and underwriting; Role of asset management industry; SRI strategies: Best-in-Class, Norms-based screening, Exclusions or negative screening, CM & APL, ESG integration, Engagement and Voting, Impact Investing; The Social Stock Exchange; Social Impact Measurement and Reporting Initiatives; Sustainability in bond markets; Sustainability in project finance.

Sustainable Finance II
Spring Term 2016, 1,3SWS

Application of Topics analyzed in the course Sustainable Finance I through interaction with practitioners and case studies.

Competition and Regulation
Spring Term 2016, 2,5 SWS

This course is an introduction to the basic issues of competition policy (also called "antitrust policy") and regulation. We shall mainly use extremely simple economics concepts and economic models to analyze competition policy issues. While the issues are relevant from an antitrust economics perspective, the business students will have the possibility to analyze the economics behind a large variety of strategic corporate choices and practices.

2.2 FULL-TIME MBA PROGRAM

Managerial Finance
Spring Term 2016, 3 SWS

This course covers the foundations of financial decision making and of global financial markets. The theoretical guideline of the course is inspired by paradigms, neoclassical economics as well as behavioral economics. Besides classical class teaching, case studies were solved and presented by groups of students. The course was rounded off by a two guest lectures.

2.3 PART-TIME MBA PROGRAM

Managerial Finance
Spring Term 2016, 2 SWS

This course covers the foundations of financial decision making and of global financial markets. The theoretical guideline of the course is inspired by paradigms, neoclassical economics as well as behavioral economics. Besides classical class teaching, case studies were analyzed and discussed with groups of students.

3. THESES

3.1 BSc PROGRAM

Leonard Wittek
Wertanalyse bei einer Corporate Strategie mit
Schwerpunkt auf Serial Akquisitionen

Tobias Weiner
Determinants of the Structure of the Board of
Directors

Robert Vossebürger
Determinants of the Corporate Governance
Systems: the Influence of Culture, Law and
Politics

Maximilian Albert
Analyse der Target Leverage Ratio

Philipp Klaus
EU Corporate Governance Framework

Daniel Niessen
Do CSOs of US based pharmaceutical companies
with a higher ratio of long-term incentive
compensation to total compensation make better
acquisitions than CEOs with a lower ratio?

Ling Xu
The Relationship between Gender Diversity on Boards
and Firm Performance: Empirical Evidence from
China

3.3 FULL-TIME MBA PROGRAM

Gupte Abhijeet
Building up of an Operational Due Diligence practice
for EY Germany-Switzerland-Austria region

Ke Xu
Stock Evaluation in the Chinese Stock Market

Lisa Scherer
The impact of Behavioral Finance on Investors' Investment Decision Making

Philipp Pfitzner
Alternative Methods for Evaluating the Cost of Equity of German Banks during the Euro-Crisis

3.2 MSc PROGRAM

Philip Schnorpfel
Investment-Cash Flow Sensitivity - A Focus on the
Panel-Data Econometrics Involved

Ralf Conen
Hubris, Causality between Top Management
Characteristics and Premiums in M&A



3.4 DOCTORAL PROGRAM

Supervision

Harun Akbas

Working Title: *Three Essays on Corporate Governance in Turkey*

Driven by the financial crisis occurred in the beginning of 21st century which endangered global financial stability and development, reforms in corporate governance become an essential issue since it is directly related to long-term productivity and sustained growth. The importance of corporate governance especially in emerging markets increased tremendously and due to its importance, corporate governance is a mainstream concern according not only to scholars and shareholders but also whole society. With this motivation, I would like to investigate the corporate governance issues in a cumulative thesis format in Turkey. This thesis will consist of three papers which analyze different aspects of corporate governance in Turkey. After an introductory chapter, the first paper investigates the link between corporate governance and the cost of capital; the second paper examines whether corporate governance structures determine the level of capital expenditures and whether they influence the relationship between the availability of internal funds and investment opportunities and investment expenditures. The third and last paper studies the factors which are likely to explain the ownership structures in Turkey and their change over time.

Stevan Bajic

Working Title: *CSR & Corporate Performance* & *CSR & Cost of Dept.*

The research project has the goal to enlighten what effects Corporate Social Responsibility (CSR) has on corporate financial (CFD) performance. CSR encompasses corporate policies for incorporating environmental, social and governance (ESG) considerations into the business practice of a firm. The proposed papers in this domain target various goals. The first is to clarify through which channels CSR can impact a firm's performance. Particular focus will lay on the Corporate Governance pillar and markets where this question has been less of an interest in the literature so far, e.g. Emerging Markets. One further area which still holds a knowledge vacuum, in our view, is the relation of CSR to corporate debt, particular to corporate credit risk. With an increasing interest in responsible business cultures and Socially Responsible Investments (SRI), corporate debt is at crossroads. Does it pay or harm the performance if an investor's bond investment is ESG compliant? Can a firm with good CSR policies reduce the firm risk and

thus the default risk of the bond? We aim to fulfill the need of corporates to understand how their CSR policies impact their financial performance as well as document to investors how ESG compliant investments bear on their financial bottom line.

Dietlinde Schumacher

Title: *(The Lack of) Corporate Investment in the Low Interest Rate Euro Zone Environment*

Analysis of corporate investment behavior of firms in the euro zone, which have been faced with extremely low interest rates in the recent past. Extension of McLean and Zhao's (2014) work on US corporate investment by replication the methodology employed and applying it to European businesses.

Sabrina Wieland

Title: *Does corporate governance really matter? – Essays on the influence of management and stakeholder orientation on financial performance*

"Section 161 of the German Stock Corporation Act and the underlying German Corporate Governance Code require that managers run a company in the interests of the whole company, taking into account the interests of all stakeholders, hence ensuring long-term success and sustainable value creation for the company. Among such stakeholders are external stakeholders, such as shareholders, creditors, suppliers, customers and the state as well as internal stakeholders, such as employees and management. Although German companies are legally bound by the code and endeavour to meet stakeholder expectations there exists a poor connection between theoretical concepts and practical implementation. This is due to the current inability to access if an overall business strategy was stakeholder friendly and whether such a strategy led to higher overall financial performance. This project aims to address this issue by providing an empirical investigation into companies achieving high stakeholder satisfaction, their business strategies and if they are financially out performing companies with low stakeholder satisfaction. Primarily the project focuses on internal stakeholders, namely employees, providing an in-depth analysis of the relationship between employee satisfaction and financial performance, which is then correlated with capital structure. Furthermore, it examines the influence of demographic and job-related characteristics such as gender diversity, tenure, and compensation of management on financial performance. This investigation will in the future allow companies to implement corporate governance practices capable of simultaneously achieving high stakeholder satisfaction and financial performance."

Guosong Xu
Vertical Integration and Investment Dynamics under uncertainty

This paper explores a fundamental question: does vertical integration affect investment during economic uncertainty? Under the framework of Dixit & Pindyck (1994), uncertainty increases the investment inaction range of firms facing irreversible investment. Vertically integrated firms with ex-ante larger asset-specific investment will confront a particular hit in an uncertainty shock. I draw evidence from the oil industry to empirically address this prediction.

Co-Supervision

Samah Adel Ibrahim
Working Title: *Assessing the Readiness of the Egyptian Market for Derivatives: A Proposed Derivatives Market in Egypt.*

Anastasia Belyh
Title: *Social Entrepreneurship and economic & social development*

Santo Centineo
Essays in Empirical Corporate Finance: Family Firms, Investment Decisions and Performance

Antonio de Vito
Taxation and Profit Shifting: Much ado about nothing?

Paul Gebhard
Title: *Distress risk and cross-sectional returns: International evidence*

Ruth Kümmerle (Dissertation July 2016)
Illiquid Life Insurance Investments in a Portfolio Context

Xiaomin Lin
Working Title: *Shareholder-initiated Class Action Lawsuits of the U.S. listed Foreign Firms: Country Spillover Effects of Financial Fraud*

Dirk Saßmannshausen
The Impact of Decision Makers on the Success of Venture Capital Investments

Alexander Witkowski
How credit rating shocks affect CSR Engagements

Mathias Schmidt (Dissertation in Nov. 2015)
Pricing and liquidity of complex and structured derivatives



4. TEACHING INNOVATION

During December 2014 a professional education consultant was invited to analyze the conventional lecture approach in the Advanced Corporate Finance class with the objective to achieve improvements in learning outcomes. The consultant took part in some of the lectures and analyzed several elements including the social and communicative interactions between student and teacher, and student and student, the sense of instructor control, and group dynamics of the class. Subsequent meetings with the consultant induced several changes and these will be reflected in the design of forthcoming classes.



5. RESEARCH

5.1 WORKING PAPERS

“Firm-Level Heterogeneity of Clawback Provisions,” with Michael H.R. Erkens and Ying Gan.

“The Effect of Corporate Governance on Firm Value and Profitability: Time-Series Evidence from Turkey,” with Melsa Ararat and Bernard Black.

“Which Aspects of Corporate Governance Matter in Emerging Markets: Evidence from Brazil, India, Korea, and Turkey,” (April 30, 2015). Northwestern Law & Econ Research Paper No. 14-22; ECGI - Finance Working Paper; U of Michigan Law & Econ Research Paper, joint with B. Black, Antonio Gledson De Carvalho, V. S. Khanna and W. Kim, Available at SSRN: <http://ssrn.com/abstract=2601107>.

“Corporate Governance Indices and Construct Validity,” joint with B. Black, Antonio Gledson De Carvalho, V. S. Khanna and W. Kim.

“R&D Investments, Profitability and Regulation of the Pharmaceutical Industry,” (November 27, 2014). Joint with I. Goncharov and J. Mahlich, Available at SSRN: <http://ssrn.com/abstract=2531467>.

“Family Matters: Theory and Evidence from Turkish Business Groups,” (1925-2012), joint with A. Karaevli.

“Corporate Governance, Business Groups, and Market Value: Time-Series Evidence from Turkey,” joint with M. Ararat and B. Black, (June 11, 2014). Northwestern Law & Econ Research Paper No. 13-19; ECGI - Finance Working Paper. Available at SSRN: <http://ssrn.com/abstract=2277768>.

5.2 PRESENTATIONS AND DISCUSSIONS BY GUSONG XU

2015:
Causal Inference Workshop at Northwestern University (Chicago)

2016:
FMA Doctoral Student Consortium (Helsinki)
21st Spring Meeting of Young Economists (Lisbon),

International Conference of the French Finance Association (Liege)

Conference on Empirical Legal Studies in Europe (Amsterdam)

WHU AWARDS
Dean's Fund (1,000 euros), WHU – Otto Beisheim School of Management, 2016

5.3 GUEST LECTURES

For the research seminar finance, addressed all faculty members and doctoral students, Burcin Yurtoglu organized the following guest lectures:

Fall 2015:

Ruediger Fahlenbrach, Swiss Finance Institute, Ecole Polytechnique Fédérale de Lausanne
How Do Investors and Firms React to an unexpected Currency Appreciation Shock?

Spring 2016:

Eva Schliephake, University of Bonn
Unique Equilibrium in a Model of Contingent Capital

Yupana Wiwattanakantang, National University of Singapore
Exit in Family Firms

The following guest speakers gave lectures as part of the Sustainable Finance II Course in the Master in Finance Program:

Tasso Enzweiler, Enzweiler & Partner
“The EAA: A Contribution to the Stability of the Financial Market. An Expert Update and Review of Wind-down Process and Progress after 5 years”

Dr. Holger Himmel, PwC
“Sustainability: Integrated Reporting and Broader Implications”

Prof. Dr. Bolko von Oetinger, WHU
“Social Responsibility – A Perspective from a Corporate Foundation”

The following guest speakers gave lectures as part of the Full-Time MBA Program:

Hans-Jörg Naumer, Allianz Global Investors Europe GmbH
“Behavioral Finance”

Michael Adams, Deutsche Bank
„Banks and Hedging“

6. SERVICES PROVIDED TO THE SCHOOL

6.1 INVOLVEMENT ON UNIVERSITY COMMITTEES, INCLUDING AD HOC COMMITTEES

Academic Director Master in Management
Academic Director Master in Finance
Deputy Chairman of the PhD Examination Board
Elected Member of the Senate
Beratendes Mitglied in der Kommission zur Sicherung der guten Wissenschaftlichen Arbeit
Mitglied Unterausschuss des Promotionsausschuss
Member of the Examination Board Full-Time MBA Program

6.2 SERVICES PROVIDED TO WHU CENTERS

Lectures for the WHU on Finance Programm
"Kreditrisiko"
"Corporate Governance"

6.3 SUCCESSFUL FUNDRAISING ON BEHALF OF WHU

To improve academic studies on the theme „Bad Banks“ Professor Yurtoglu wrote a case study for the First Winding-up Agency (EAA):
Risk mitigation as an entrepreneurial function
Donated with 15.000€



7. COMMUNITY OUTREACH

Workshop on Executive Compensation and Corporate Governance (Erasmus University)

Editorial board member (Journal of Social Research, Corporate Board, Management and Organization Review, Global Finance Journal, Journal of Capital Markets Studies)

Member of the Scientific Board: GEABA, Turkish Corporate Governance Association

Conference Organizer: 17th Workshop on Corp. Governance and Investment (September - 2016 Istanbul)

In line with current developments in the area Corporate Finance, we view society's demands for individual and corporate social responsibility as alternative responses to market and distributive failures. We draw on recent research in the psychology and economics of prosocial behavior to shed light on this trend and the underlying mix of motivations. Viewed from this lens, sustainability becomes a central theme in the clarification of the business goals of corporations and, hence integrated to different extents in all courses offered at the Chair of Corporate Finance.

7.1 Academic Advisor to Angel Wings Entrepreneurship Fund

Burcin Yurtoglu acts as an academic advisor to the Angel Wings Entrepreneurship Fund (AWEF, <http://angelwingsventures.com/>) which is the first Turkey focused social impact investment fund seeking to deliver financial, social and environmental returns through investments in innovative early stage (startup – micro) and development stage (small) enterprises (SMEs).

The objective of the fund is to connect capital markets with exceptional business ideas, the business culture of the West with high-growth promise of the East thereby creating higher, fairer and social returns for all stakeholders. The fund is built on the premise that financial returns can be achieved together with social and environmental benefits through the application of ethical, social and environmental standards along with an industry-selective investment approach that emphasizes companies with high levels of research and development (R&D) and strong product offerings. The Fund is supported by '1514 Venture Capital Support Program' of TUBITAK (The Science and Technological Research Council of Turkey).





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