



Activity Report 2013/2014
Chair of Empirical Corporate Finance

Prof. Dr. Christian Andres

Excellence in
Management
Education

Chair of Empirical Corporate Finance

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Content

A.	Chair	4
B.	Team	5
C.	Teaching	9
D.	Publications & Working Papers	15
E.	Refereeing	16
F.	Talks/Conferences	16
G.	Contributions to WHU Development	17
H.	Cooperation in Research	19
I.	Sustainability	19

A. Chair

Dear Friends and Partners,

Over the academic year 2013/14, the Chair of Empirical Corporate Finance has again contributed to WHUs mission to provide excellent education and research output. This report contains a brief overview of the most important activities in teaching, research, and services to the school.

We offered courses in the BSc. ("Corporate Finance"), MSc. ("Corporate Governance"), Full-Time and Part-Time MBA ("Corporate Finance"), the Kellogg-WHU Global Executive MBA ("Corporate Finance") and MLB ("Corporate Governance") programs, as well as modules in WHUs international European Summer MBA program ("Finance"). Guest lectures were held by Karin Himmelreich (MPTransaction) and Daniel Ternes (Flick Gocke Schaumburg). In early 2014, the Chair received the Best Teacher Award for the BSc. course "Corporate Finance" for the year 2011.

We are committed to high quality research in the area of empirical corporate finance. Research papers have been published in renowned international journals such as the Journal of Banking & Finance and the Journal of Corporate Finance, and working papers have been presented at international conferences. Current research projects are focused on the areas of payout policy, corporate governance (with a focus on M&A activity), and bond financing.

In terms of services to WHU, the Chair serves as Director of Assurance of Learning (AoL). In this context, we have made tremendous progress in refining the school's AoL process to further improve the learning environment at WHU. In July 2014, Lennart Ulrich joined the Chair of Empirical Corporate Finance and will support us in the future development of AoL.

I would like to thank Anja Ziegler, Ulrich Hofbaur, and Lennart Ulrich for their support during the past 12 months.

Vallendar, September 2014



B. Team

Prof. Dr. Christian Andres
Professor of Empirical Corporate Finance



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Research Interests:

- Corporate Governance
- Executive Compensation
- Family Ownership & Control
- Payout Policy
- Capital Structure

Christian Andres is full professor of Empirical Corporate Finance at WHU-Otto Beisheim School of Management, Vallendar, Germany. Before joining WHU he has held appointments at the universities of Bonn and Mannheim. He holds a master's degree in economics and a PhD in finance from the University of Bonn. During his academic career, he spent several months as a visiting scholar at the University of Sheffield, UK, and the University of Florida, Gainesville, USA.

His primary research interests are in the areas of empirical corporate finance and corporate governance, with an emphasis on payout policy, private equity, and family ownership and control. He has published in academic journals such as the *Journal of Banking & Finance*, the *Journal of Business Finance & Accounting*, the *Journal of Corporate Finance*, and the *Journal of Empirical Corporate Finance*, among others, and contributed book chapters to a number of international books.

Dipl.-Wi.-Ing. Ulrich Hofbaur
Research Assistant



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Research Interests:

- Payout Policy
- M&A and LBOs in particular
- Corporate Governance

In his dissertation project Mr. Hofbaur analyzes the quarterly structure of firm-level dividend policy of firms located in the US. In detail, his project addresses the question of whether corporate dividend decisions are related to the recent history of dividend changes of the respective corporation. Hence, using the individual time-series information of dividend decisions this thesis aims to evaluate existing theories of the determinants of dividend decisions.

M. Sc. Wi.-Ing. Lennart Ulrich
Research Assistant



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Research Interests:

- Investor Activism
- M&A
- Bond Markets
- Corporate Governance

In his dissertation project Mr. Ulrich analyzes the implications of payout policy on debtholders' wealth. In detail, his project addresses dividend policy and share repurchases of firms located in the US as well as in Europe. Credit Default Swaps (CDS) proxy for debtholders' wealth, since they are more liquid and standardized than corporate bonds. This thesis contributes to the literature on shareholder-bondholder conflicts and considers the signaling as well as wealth transfer hypothesis.

Anja Ziegler
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C. Teaching

Teaching in the academic year 2013/2014 was done by Prof. Dr. Christian Andres.

It covered the BSc-, MSc-, MBA-, Part-Time MBA, Full-Time MBA, Executive MBA-, and MLB-program. Courses were held in English.

The following table provides an overview of the courses offered:

Program	Fall Term 2013	Spring Term 2014
BSc		Corporate Finance
MSc	Corporate Governance (MIF)	
Part-Time MBA	Corporate Finance	
Full-Time MBA		Corporate Finance
Executive MBA		Corporate Finance
Master of Law and Business		Corporate Governance
Tepper Program (IR)		Finance

BSc, Content of Teaching

Corporate Finance (joint with Prof. Nihat Aktas):

The course has the following structure:

- Introduction to financing instruments
- Capital structure and Modigliani-Miller
- Optimal amount of debt
- Valuation methods in practice
- Payout policy
- Private Equity and Security Sales by Public Companies

Teaching Methods:

- Interactive development of main results
- Discussions of major economic implications
- Applications using spread sheets

The course applies following theories:

- Modigliani-Miller theorem
- Capital structure models (tradeoff and pecking order theory)
- Risk-adjusted cost of capital (CAPM)
- Valuation of firms (WACC, APV)
- Theories explaining payout policy

Literature:

Brealey, Richard A., Stewart C. Myers und Franklin Allen (2010): Principles of Corporate Finance 10. Ed. - internat. Ed., Boston, McGraw Hill,

MSc, Content of Teaching

Corporate Governance:

The course has the following structure:

The module offers a theoretical and empirical analysis of the main corporate governance issues where corporate governance refers broadly to the mechanisms which deal with the principal-agent problems between the insiders and the outsiders of corporations. The module looks at the variety of legal systems and other institutions, ownership structures, boards of directors, executive compensation, the relationship between corporate governance and firm value, and governance regulation. A strong

emphasis is put on the analysis of how and through which channels corporate governance matters for firm-level and country-level economic performance and whether firm-level actions are effective.

Teaching Methods:

- Interactive Lecture
- Case Studies
- Guest Speaker

The course applies following theories:

- Agency Theory
- Game Theory
- Econometric Techniques

Literature:

Goergen, Marc (2012). International Corporate Governance, Pearson. Additional material will be provided as handouts or downloads.

Part-Time/Full-Time MBA, Content of Teaching

Corporate Finance:

Course structure:

This course covers the basic principles of corporate finance and develops the necessary practical tools for financial decisions and corporate valuation. After a brief introduction which motivates the goals of a firm against the background of different corporate governance regimes, we will take a closer look at financing alternatives (debt and equity) and develop an understanding of the security issuance process (IPOs). We will then discuss determinants of the optimal debt/equity mix and the consequences for a firm's cost of capital.

Teaching Methods:

- Class Teaching
- Cases
- Group Discussion

Learning Goals:

To develop an understanding of different financing sources and their implications, become familiar with the concept of weighted average costs of capital (WACC), become sensitive to the role of agency problems and information asymmetries in a corporate environment and their impact on financing conditions.

Theories:

- Agency Theory
- CAPM
- NPV calculations
- WACC

Literature:

Brealey, Richard A., Myers, Stewart C., and Allen, Franklin (2011): Principles of Corporate Finance, 10th edition, McGraw-Hill, New York

EMBA, Content of Teaching

Corporate Finance:

Course structure:

This course covers the basic principles of corporate finance and further develops the necessary practical tools for financial decisions and corporate valuation. After a brief introduction, which motivates the goals of a firm against the background of different corporate governance regimes, we will take a closer look at the determinants that affect the debt/equity choice. In this context, we will discuss practical guidelines to derive the cost of capital for single projects and for the whole firm. In addition, the course will provide an overview of a firm's external financing alternatives (debt and equity), with a focus on the security issuance process (IPOs). Additional topics include payout policy (including the choice between stock repurchase and dividends), select issues in corporate governance as well as a brief introduction into mergers and acquisitions (M&A).

Teaching Methods:

Combination of classical classroom teaching, group work on cases, and discussions.

Final Exam:

The final exam is a take-home examination.

Literature:

Cases

MLB, Content of Teaching

Corporate Governance:

Course structure:

In this course, conflicts of interest will be analyzed within the firm and discuss mechanisms to mitigate these problems. Since corporate governance mechanisms vary around the world, the course will briefly present definitions and the underlying concepts and cover the main taxonomies of corporate governance systems developed by financial economists and legal scholars. In addition, the relationship between firm value and corporate governance practices and investor protection will be discussed. The empirical evidence will be critically assessed on the importance and effectiveness of various corporate governance devices. Special emphasis will be on ownership structures and large shareholder monitoring, the market for corporate control, shareholder activism, the board of directors, codetermination, and executive compensation.

Teaching Methods:

The teaching method will be a combination of classical classroom teaching, group work on cases, presentation and discussion.

European Summer School – Tepper-Program

Finance:

Course Structure

This course introduces participants to stylized facts about financial system architecture in Europe, differences in financing patterns between US and European corporations - including the role of private and public bond and equity markets - as well as recent changes in corporate governance regulation and investor protection. Against this background, the implications for the financing of European corporations and the possibility of convergence of financial systems will be discussed.

Content

- A brief overview of financial system architecture
- Differences between the European and the US financial system
- Investment behavior of private and institutional investors
- Differences between European and US investment behavior and equity financing alternatives

This year, the chair organized a company visit at Commerzbank AG in Frankfurt/Main. Joachim Heppe, Deputy Head DCM Bonds & Head Syndicate and Dominic Müller, Director DCM Loans were holding talks about Corporates & Markets – Debt Capital Markets (JH) and Current Developments in the Loan Capital Markets (DM).

Students had the possibility to visit the trading floor and to talk to several representatives of Commerzbank.



D. Publications/Working Papers

The following publications have been generated in the academic year 2013/2014:

- Andres, C., Fernau, E., and Theissen, E. (2014) "Should I Stay or Should I Go? Former CEOs as Monitors", **Journal of Corporate Finance**, forthcoming
- Andres, C., Cumming, D., Karabiber, T., and Schweizer, D. (2014) "Do Markets Anticipate Capital Structure Decisions? - Feedback Effects in Equity Liquidity", **Journal of Corporate Finance**, 27, p. 133-156
- Andres, C., Betzer, A., and Limbach, P. (2014) "Underwriter Reputation and the Quality of Certification: Evidence from High-Yield Bonds", **Journal of Banking & Finance**, 40, p. 97-115
- Andres, C., van den Bongard, I., and Lehmann, M. (2013) "Is Busy Really Busy? Board Governance Revisited", **Journal of Business Finance & Accounting**, 40 (9-10), p. 1221-1246
- Andres, C., Betzer, A., Haesner, C., Theissen, E., and van den Bongard, I. (2013) "The Information Content of Dividend Surprises: Evidence from Germany", **Journal of Business Finance & Accounting** 40 (5-6), p. 620-645

Working Papers:

- Andres, C., Betzer, A., Goergen, M., and van den Bongard, I., "Dividend Policy, Corporate Control and the Tax Status of the Controlling Shareholder".
- Andres, C., Doumet, M., Fernau, E., and Theissen, E., "The Lintner Model Revisited: Dividends versus Total Payouts".
- Andres, C., Betzer, A., Doumet, M., and Theissen, E., "Open Market Share Repurchases in Germany: A Conditional Event Study Approach".
- Andres, C., Betzer, A., and Limbach, P., "Delegated Monitoring: the Effectiveness and Pricing of Bond Indenture Trustees".
- Andres, C., and Hofbaur, U., "Do What You Did Four Quarters Ago: Trends and Implications of Quarterly Dividends".
- Andres, C., Betzer, A., and Doumet, M., "Measuring Abnormal Credit Default Swap Spreads".

E. Refereeing

Service to the Scientific Community

- Applied Financial Economics
- British Journal of Management
- Financial Management Association Annual Meeting
- German Finance Association Annual Meeting
- International Journal of Managerial Finance
- Journal of Banking and Finance
- Journal of Corporate Finance
- Journal of Business Finance & Accounting

F. Talks/Conferences

Conference/Institution	Title
German Finance Association, Wuppertal	Annual Meeting
Financial Management Association, Chicago	Annual Meeting

G. **Contributions to WHU Development**

WHU Research Seminar in Finance

The Finance Groups provides a research seminar, which was held once a week during the academic year 2013/2014.

Following Researchers/Scientists were invited:

Ulrike Malmendier, UC Berkeley, Learning from Inflation Experiences

Dan Li, The University of Hong Kong, Correlated HFT Strategy

Marion Declerck, University of Lille, Product Market Competition and Merger Activity

Wenxuan Hou, Edinburgh University, The role of dissenters in boards: Evidence from outside director activism

Christian Koziol, Universität Tübingen, The Risk of Low Volatility Stocks: A Theoretical Explanation for an Empirical Puzzle

Philipp Geiler, EMLYON, Are Female Top Managers Really Paid Less?

Hendrik Hakenes, University of Bonn, Regulatory Capture by Sophistication

Bernd Rudolph, LMU München, Mindesteigenkapitalvorschriften für Banken im Lichte des Kapitalkostenkonzepts

Yishay Yafeh, Hebrew University, Business Groups in the United States: A Revised History of Corporate Ownership, Pyramids and Regulation, 1930-1950

Alexander Kempf, University of Cologne, Are Financial Advisors Useful? Evidence from Tax-Motivated Mutual Fund Flows

Francois Derrien, HEC Paris, The effects of investment bank rankings: evidence from M&A league tables

Mark Wahrenburg, Goethe University, Information Asymmetry around Operational Risk Announcements

Christine Zulehner Goethe Universität Frankfurt, SAFE, Competition in Austrian Treasury Auctions

Prof. Dr. Roland Füss, Swiss Institute of Banking and Finance s/bf – HSG, University of St. Gallen, Why Do Local House Prices React so Differently to a Monetary Stimulus?

Prof. Dr. Marco Becht, University libre de Bruxelles, Does Mandatory Shareholder Voting Prevent Bad Acquisitions?

Ernst Maug, University of Mannheim, Labor Representation in Governance as an Insurance Mechanism

Alexander Groh, EMLYON, Same Rules, Different Enforcement: Market Abuse in Europe

Serif Aziz Simsir, Sabanci University, Deal Initiation in Mergers and Acquisitions

Henry Servaes, London Business School, Distressed Acquisitions



H. Cooperation in Research

André Betzer (Schumpeter School Wuppertal)

Ettore Croci (Università Cattolica Milan)

Douglas Cumming (York University)

Markus Doumet (University of Mannheim)

Erik Fernau (University of Mannheim)

Marc Goergen (Cardiff Business School)

Peter Limbach (Karlsruhe Institute of Technology)

Erik Theissen (University of Mannheim)

Inga van den Bongard (University of Mannheim)

I. Sustainability

The chair of Empirical Corporate Finance deals with issues of long-term sustainability is research and teaching, as well as in operational matters.

In recent years, corporate governance has become the topic of an intense debate among academics and practitioners. Several research papers deal with questions of how organizational structures in corporations can assure that the right incentives for managers to lead companies responsibly are in place and how control structures should be shaped. These research projects include issues such as transparency, executive compensation, and board structures.

In addition, the chair contributes a course on "Corporate Governance" to the Master in Finance program. In the course, students should develop an understanding of important issues in corporate governance and of its relevance in a social, political, and economic context.

Finally, the chair has adopted a paperless filing system and aims at preserving natural resources in its organizational processes.