

Chair of Empirical Corporate Finance



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Management
Education

Activity Report 2012/2013



Activity Report

October 2012 until September 2013

Chair of Empirical Corporate Finance

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Dear friends and partners,

With the academic year 2012/13, the Chair of Empirical Corporate Finance has now completed its first academic year that was not characterized by the tasks and duties of establishing the chair. As most courses have been developed during the first 19 months, we were now able to approach new research projects. This report contains a brief overview of the most important areas in research and teaching.

For the first time, we offered courses in all WHU programs, including the BSc. ("Corporate Finance"), MSc. ("Advanced Valuation"), 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"). A guest lecture was held by Dr. Markus Mentz, Partner at Oliver Wyman.

The chair is committed to high quality research in the area of empirical corporate finance. Research papers and book chapters have been published in renowned international journals and books 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 board structures), and bond financing.

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

Vallendar, September 2013



Christian Andres





Ulrich Hofbaur (Research Assistant), Prof. Dr. Christian Andres (Chairholder), Anja Ziegler (Personal Assistant)

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, Germany. 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, U.K., and at the University of Florida, Gainesville, U.S.A.

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 Business Finance & Accounting, the Journal of Corporate Finance, and the Journal of Empirical Finance, among others, and contributed book chapters to a number of international books.



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

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Research Interests:

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

In his dissertation project Mr. Hofbauer 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.

Anja Ziegler
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Teaching in the academic year 2012/2013 was done by Prof. Dr. Christian Andres.

It covered the BSc-, MSc-, MBA-, Part-Time MBA, and Executive MBA-program. Courses were held in English. The following table provides an overview of the courses offered:

	Fall Term 2012 (Lecture)	Spring Term 2013 (Lecture)
BSc		Corporate Finance
MSc	Advanced Valuation	
Full-Time MBA	Corporate Finance	
Part-Time MBA		Corporate Finance
EMBA		Corporate Finance
Master of Law and Business		Corporate Governance
European Summer Program		Finance

BSc, content of teaching:

Corporate Finance

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:

Advanced Valuation

Course structure:

- Discounted Cash Flow Valuation
- Estimating Risk Parameters and Costs of Financing
- Valuation Using Multiples
- Market Efficiency and Event Studies

Teaching Methods:

- Interactive development of main results
- Discussions of major economic implications
- Analysis of spread sheet based applications

Theories:

- Discounted Cash Flow (DCF) Valuation
- Capital Asset Pricing Model (CAPM) and Multi Factor Models
- Event Study Methodology
- Valuation Multiples

Literature:

Damodoran, Aswath (2012): Investment Valuation, 3rd. ed. John Wiley + Sons, New York

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

PT-MBA, content of teaching

Corporate Finance
(see Full-Time MBA)

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



Students in front of the bull and bear at the Frankfurt Stock Exchange (company visit)

**D.
Doctoral Dissertation
(external)**



**Dipl.– Volkswirt
Johann Benesch**
PhD-Student



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Research Interests:

- Family Businesses
- Restructuring
- Private Equity

“In my PhD project I want to analyze how family firms react to crises and compare their responses to nonfamily firms. I will investigate the data in terms of: firm performance; investments; debt; CEO turnover; changes in payout policies; consequences on employment, and restructuring in general.

The main hypothesis is that, since families are long-term investors and so they are less exposed to short-term market pressure, family firms should behave more conservatively than non-family firms during crises.”

- Andres, C., Cumming, D., Karabiber, T. and Schweizer, D. (2013) "Do Markets Anticipate Capital Structure Decisions? - Feedback Effects in Equity Liquidity", forthcoming *Journal of Corporate Finance*
- 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), 620-645
- Andres, C., Caprio, L. and E. Croci (2013) "Restructuring in Family Firms: A tale of two crises" in: M. Belcredi and G. Ferrarini (Eds.), "Boards and shareholders in European listed companies. Facts, context and post-crisis reforms", Cambridge University Press, 2013
- C. Andres, A. Betzer, M. Doumet and P. Limbach (2013) „Auswirkungen guter Corporate Governance und Compliance auf den Unternehmenswert“, *Kölner Schriften zum Wirtschaftsrecht (KSzW)*, 92-96
- Andres, C. (2011) "Family Ownership, Financing Constraints and Investment Decisions", *Applied Financial Economics* 21 (22), 1641-1659
- Andres, C., Betzer, A. and van den Bongard, I. (2011) „Das Ende der Deutschland AG“ (The Demise of Germany Inc.), *Kredit & Kapital* 44 (2), 185-216
- Achleitner, A. K., Andres, C., Betzer, A. and Weir, C. (2011) "Wealth Effects of Private Equity Investments on the German Stock Market", *European Journal of Finance* 17(3), 217-239

- Andres, C. (2011) „Wertorientierte Steuerung und Bewertung von Familienunternehmen“, in: T. Siegert, M. Schenk and M. Weber (Eds.), „Eigenkapital - Kapitalmarkt und Unternehmenssteuerung“, 65. Deutscher Betriebswirtschaftler-Tag 2011, Verlagsgruppe Handelsblatt
- Andres, C., Betzer, A. and Gider J. (2011) "Buyouts Around the World“, in: D. Cumming (Ed.), "The Oxford Handbook of Private Equity“, Oxford University Press, 2011
- Andres, C., Betzer, A. and Limbach, P. "The Impact of Intermediaries' Reputation on the Pricing and Performance of U.S. High-Yield Corporate Bonds“, BAI-Newsletter I/2011 (March), 25-29

The following new working papers were generated:

- "Open Market Share Repurchases in Germany: A Conditional Event Study Approach" (C. Andres, A. Betzer, M. Doumet and E. Theissen)
- "Is Busy Really Busy? Board Governance Revisited" (C. Andres, I. van den Bongard and M. Lehmann)
- "Should I Stay or Should I Go? Former CEOs as Monitors" (C. Andres, E. Fernau and E. Theissen)
- "Dividend Policy, Corporate Control and Tax Clienteles - The Case of Germany" (C. Andres, A. Betzer and M. Goergen)
- "The New Conservatism: Structure and Information Content of Quarterly Dividends“ (C. Andres and U. Hofbauer)

Service to the Scientific Community

- Applied Financial Economics
- European Journal of Finance
- Financial Markets and Portfolio Management
- Financial Management Association Annual Meeting
- German Finance Association Annual Meeting
- International Journal of Managerial Finance
- Journal of Banking and Finance
- Journal of Business Finance & Accounting
- European Journal of Finance
- sbr—Schmalenbach Business Review

G.
Talks/Conferences

Conference/Institution	Title
European Meeting of the Financial Management Association, Luxembourg	Annual Meeting
Financial Management Association, Atlanta	Annual Meeting
German Finance Association, Wuppertal	Annual Meeting



WHU Research Seminar in Finance
(FoKo of the Finance Group)

The Finance Groups provides a Research Seminar which was held once a week during the academic year 2012/2013.

Following researchers /scientists were invited:

Name	Title
Erik Theissen University of Mannheim	The Market Reaction to Corporate Disclosure
Ulrich Hofbauer WHU	Sequential Patterns in Quarterly Dividend Changes and the Corresponding Stock Markets Reactions
Jos van Bommel University of Luxembourg	Monte Carlo Valuation of Derivatives
Burcin Yurtoglu WHU	Firm-Level Corporate Governance and Market Value: Evidence from Turkey
Josef Zechner WU Wien	Granularity of Corporate Debt: Theory and Tests
Heiko Jacobs University of Mannheim	Losing Sight of the Trees for the Forest? Attention Shifts and Pairs Trading
Andreas Hackethal / Steffen Mayer Goethe Universität	Passive Aggressive: Index-Linked Securities and Individual Investors
Jörg Rocholl ESMT Berlin	Flight to Where? Evidence from Bank investments During the Financial Crisis

Name	Title
Denis Schweizer WHU	Executive Compensation and informed Trading in Acquiring Firms around Merger Announcements
Morten Bennesen INSEAD	Estimating the Value of the Boss: Evidence from CEO Hospitalization Events
Thomas Stoeckl Innsbruck University	Price efficiency and trading behavior in limit order markets with competing insiders
Peter Limbach Karlsruhe Institute of Technology	KIT Mind the Gap! The Age Difference Between the CEO and Chair
Dion Bongaerts Rotterdam School of Management ERIM	Can alternative business models discipline credit rating agencies?
Hannes Wagner Università Bocconi	Wrath of the Titans - CEO disciplining the World's largest Firms
Günter Franke Universität Konstanz	Pre Crisis-Tranching and Pricing in CDO-Transactions
Hans Degryse KU Leuven & Tillburg University	Suffrage Institutions and Financial Development: Does the Middle Class Have a Say?
Dennis Dlugosch WHU	Relation between Equity Home Bias and Ambiguity Aversion: An International Study

- 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)
- Inga van den Bongard (University of Mannheim)

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 will contribute 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.



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