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Ph.D. Dissertation Defense

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Degree:	Doctor of Philosophy
School/Department.:	School of Business / Business Administration
Date:	Wednesday, April 5, 2023
Time:	10 am –12 pm
Location:	Babbio 641
Title:	Three essays on monitoring, control, and governance in public markets
Chairperson:	Dr. Stefano Bonini, Finance, School of Business
Committee Members:	Dr. Anand Goel, Finance, School of Business
	Dr. Majeed Simaan, Finance/FE, School of Business
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Abstract

The three essays presented in my dissertation proposal examine the role of coordination, monitoring and corporate governance in public markets. They explore the effects of debt ownership coordination costs, CEO control on product issuance, mergers and acquisition, loan contract and CEO dismissal.

The first essay, *"The effect of CEO power on CEO dismissal: Evidence from debt covenant structure"* proposes that CEO power is a driving force for CEO dismissal. A powerful CEO is capable of extracting value from lenders by negotiating weaker covenants in loan contracts. However, this leads to higher risk taking and results in a higher likelihood of the CEO being fired. Using a novel dataset of CEO succession events, we show CEO firing to be correlated with weaker lender protection that recovers after CEO dismissal. The economically significant negative relation between the entrenchment index (proxy for CEO power) and covenant strictness further supports our theory that value transfer from creditors due to CEO power has the flip side of increasing the probability of CEO dismissal. Controlling for several covariates for CEO, firm and loan characteristics, we find our results to be robust and consistent.

Second essay, *"Homophily and Merger Dynamics"*, examines the role of homophily by proposing a multi-factor comprehensive metric between the CEOs of the acquirer and the target firms, as a causal determinant of mergers and acquisitions (M&A). We find strong evidence that higher homophily among the two CEOs increases the likelihood of M&A deal initiation and completion. When homophily is high, deals are more likely to be paid in cash, exhibit significantly larger long term value creation and are less subject to ex-ante overpricing as measured by ex-post goodwill write-offs. These results suggest that greater multi-dimensional similarity between CEOs creates trust, reduces information asymmetry, and facilitates effective communication, leading to greater shareholders value.

Third essay, "*Heterogeneity in CDS coverage*", studies the cause of disparity in Credit Default Swap (CDS hereafter) coverage. We show that heterogeneous demand for insurance is causally related to the structure of bond ownership. In particular, the number of investors holding the underlying bond (breadth) and the concentration of ownership (depth) affect the demand for CDS. Our results support a renegotiation risk hypothesis suggesting that fragmented ownership hampers the bondholder's ability to renegotiate in distress due to excessive coordination costs which leads to increased demand for external insurance. We perform multiple endogeneity tests to support causality including lead-lag regressions, border discontinuity and using the Big-Bang protocol as an exogenous shock to the cost of insurance.