X Christmas Workshop in Accounting and Finance

December 21, 2023, School of Economics and Management, U. Minho

Scientific Committee: Paulo Alves, Gilberto Loureiro
Tiago Pinheiro, Miguel Sousa

NIPE Centre for Research in Economics and Management
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Universidade do Minho
Escola de Economia e Gestão

Program

8.50am – 9.00am	Opening remarks
9.00am – 9.50am	*“The world’s most ethical companies financial performance”* **Nélson Areal**, Ana Carvalho
9.50am – 9.55am	Mini-Break
9.55am – 10.45am	*“Firm growth potential and option returns”* Panayiotis Andreou, Turan Bali, Anastasios Kagkadis, Neophytos Lambertides
10.45am – 11.15am	Break
11.15am – 12.05pm	*“The pricing of sustainable syndicated loans”* **Paulo Alves**, Jorge Gonçalo, João Pinto
12.05pm – 12.10pm	Mini-Break
12.10pm – 1pm	*“Investment and financing decisions under constrained demand”* Paulo Pereira, Artur Rodrigues
1pm-2.30pm	Lunch
2.30pm-3.20pm	*“The Leicester-Pearson Phenomenon”* **David Cardoso**
3.20pm-3.25pm	Mini-Break
3.25pm-4.15pm	*“The Impact of Gender Pay Transparency Policy on the Antecedents of Pay Equality”* **Leonor Soares**
4.15pm-4.20pm	Concluding remarks

List of Participants

Paulo Alves	Católica Porto Business School
Nélson Areal	School of Economics and Management, Universidade do Minho
Alcino Azevedo	Aston Business School
David Cardoso	Aston Business School
Pedro Coelho	School of Economics and Management, Universidade do Minho
Céu Cortez	School of Economics and Management, Universidade do Minho
Gonçalo Faria	Católica Porto Business School
Anastasios Kagkadis	Lancaster University Management School
Gilberto Loureiro	School of Economics and Management, Universidade do Minho
Bernardo Marques	Católica Porto Business School
Liudmila Nikalayeva	
Paulo Pereira	Faculdade de Economia do Porto
João Pinto	Católica Porto Business School
Artur Rodrigues	School of Economics and Management, Universidade do Minho
Ana Sá	Faculdade de Economia do Porto
Ana Paula Serra	Faculdade de Economia do Porto
Florinda Silva	School of Economics and Management, Universidade do Minho
Leonor Soares	Lancaster University Management School
Miguel Sousa	Faculdade de Economia do Porto

List of Abstracts

The world’s most ethical companies financial performance, **Nélson Areal**, Ana Carvalho
The financial consequences of embracing ethical conduct in business remain a point of contention in the literature. We discuss why ethical companies can have advantages over others by exploring three concurrent dimensions: organizational values, stakeholder management, and good reputation. We evaluate the long-term financial performance of the World’s Most Ethical Companies, a list devised by Ethisphere, using a calendar time portfolio returns. We compare the performance of these companies to a matching sample and, following Mitton (2022), perform a large study to examine the impact of methodological choices when constructing the matching sample on the results. Overall, we show that the portfolio of these companies overperform the market, and through specification tests show evidence that they overperform portfolios of matched samples.

Firm growth potential and option returns, Panayiotis Andreou, Turan Bali, **Anastasios Kagkadis**, Neophytos Lambertides
We find a negative cross-sectional relation between firm growth potential and future returns on delta-hedged equity options. We investigate three economic mechanisms: overpricing due to investors' speculation on positive jumps or hedging against negative jumps, overpricing due to investors' chasing high market beta, and rational incorporation of negative volatility risk premium. We show that option return predictability is largely driven by retail investors' overreacting to recent cases of high growth potential and subsequent positive jumps and hence overpaying for the call options of growth-oriented firms. Overall, we provide novel insights into how investors perceive the uncertainties associated with real options.

The pricing of sustainable syndicated loans, **Paulo Alves**, Jorge Gonçalo, João Pinto
This paper provides a comparative analysis of sustainable and conventional syndicated loan spreads and pricing. Using a cross-section of 24,962 syndicated loan tranches closed between 2018 and 2022 in OECD countries, we show that sustainable and conventional loans are differently priced, spreads of sustainable versus conventional loans do not differ significantly, and banks rely on contractual, macroeconomic, bank syndicate structure, and borrowers’ characteristics when pricing sustainable tranches. At the deal-level, our results do not support the hypothesis of sustainable debt financing as a mechanism for reducing firms’ funding costs. We also find that economies of scale, institutional, and information asymmetry arguments affect firms’ choice between sustainable and conventional syndicated deals.

Investment and financing decisions under constrained demand, Paulo Pereira, **Artur Rodrigues**
This paper investigates the effects of the existence of an output cap along with an upward reflecting barrier on demand. In our model, the output cap arises from the finite capacity of the firm, leading to a portion of the potential demand remaining unsatisfied. Simultaneously, the reflecting barrier represents a realistic scenario in which some of this unsatisfied demand (the potential demand exceeding the barrier) opts for alternative consumption choices. Such a model is especially pertinent in the context of infrastructure projects, such as airports. The model is also extended to accommodate the possibility to invest in expanding the scale, eliminating both the cap and the upward reflecting barrier. The main outcomes of the model may assist decision-makers in determining the optimal investment and formulating financing policies.

The Leicester-Pearson Phenomenon, **David Cardoso**

Managers are more likely to be fired when firms perform poorly. However, real-world examples suggest that some firms may have an incentive to replace the manager when the firm starts performing exceptionally well. I propose an explanation based on the differences of managerial skillsets using a continuous time model where a firm faces cash-flow uncertainty and managerial moral hazard. When the firm performance is bad, the shareholder is less likely to fire the incumbent manager if the incumbent's skillset is predominantly independent from cash-flows. In this case, the incumbent's skillset works as a safe asset that contributes with a constant input to cash-flow growth. However, if the firm performance improves, the shareholder values a skillset that can vary with the levels of cash-flows. In this case, the incumbent is likely to be replaced if the outsider's skillset generates a stronger variable contribution to cash-flow growth. The likelihood of dismissal increases when the agents' discount rate decreases, the incumbent's risk aversion and effort costs increase, the outsider's risk aversion and costs of effort decrease. Cash-flow uncertainty has a non-monotonic effect over the dismissal decision.

The Impact of Gender Pay Transparency Policy on the Antecedents of Pay Equality, **Leonor Soares**

Prior research on the effectiveness of gender pay transparency policies concludes that despite evidence of the gender pay gap shrinking following their implementation, wage outcomes for women do not necessarily improve in the short run. Rather, these policies often work by constraining wage growth for males. I examine changes in firm behaviour following the introduction of a gender pay transparency policy in the UK. Specifically, I focus on the adoption of actions aimed at improving workplace gender equality following a mandate for firms with at least 250 employees to report their gender pay gap annually. I investigate whether firms respond to the gender pay disclosure mandate by adopting non-wage actions that, according to UK Government guidelines, serve to promote workplace gender equality. Overall, my work speaks to the adoption of real actions that, in the longer run, should reduce the gender pay gap by increasing female pay rates rather than by constraining pay growth of men.