EMLYON Business School - Grenoble Ecole de Management
Finance Workshop

May 25th 2023 – Room A 235
EMLYON Business School, 23 Avenue Guy de Collongue 69130 Ecully

09:45: Welcome coffee

10h00: Aurélien BAILLON

Title: Follow the money, not the majority: Incentivizing and aggregating expert opinions with Bayesian markets

Abstract: For some questions, such as what the best policy to address a problem is, it is uncertain if the answer will ever be known. Asking experts yields two practical problems: how can their truth-telling be incentivized if the correct answer is unknowable? And if experts disagree, who should be trusted? This paper solves both problems simultaneously. Experts decide whether to endorse a statement and trade an asset whose value depends on the endorsement rate. The respective payoffs of buyers and sellers indicate whom to trust. We demonstrate theoretically and illustrate empirically that « following the money » outperforms selecting the majority opinion.

10h30: Carole BERNARD

Title: Can an Actuarially Unfair Tontine Be Optimal?

Abstract: A one-period tontine is a collective investment fund in which every participant enters with an initial contribution, but only those participants who are still alive at maturity are entitled to receive a share of the total fund value. A vast literature proposes various sharing rules using as a main criterion the actuarial fairness of the payout, i.e., the sharing is done in such a manner that participants have the same (unconditional) expected return. We revisit this point and suggest alternative sharing rules that aim at being better suited to investors. Specifically, we discuss how to share mortality risk using as a fairness criterion equality in expected utility among participants. A main finding is that we show that in a competitive market only (asymptotically) actuarially fair tontines are viable.

11h00: Yang CAO

Title: The Information Value of M&A Press Releases

Abstract: How do managers comment on merger transactions? By analyzing initial public announcements of mergers and acquisitions (M&As) between 1995-2020 and extracting the linguistic sentiment from statements made by managers of acquirer and target firms, we provide new evidence on the informational value of M&A disclosures. We find that positive target sentiment results in positive returns for the target, while sentiment disagreement with the acquirer is associated with lower target returns. Further, the positive target sentiment increases the likelihood of merger completion and shortens the time to deal completion. We decompose acquirer sentiment into manipulative and fundamental components and demonstrate that acquirer CEOs with low confidence produce M&A statements that are more manipulative. This suggests that sentiment in M&A disclosures does not only contain information on fundamentals and managerial attitudes but that it may be manipulated to protect the personal interests of managers.

11h30: Benoit CHEVALIER-ROIGNANT

Title: When and how should an incumbent respond to a potentially disruptive event?

Abstract: Incumbent digital firms take different approaches to respond to the competitive threat posed by newcomers, in particular acquiring the startup vs raising one's game. Incumbents must decide on an appropriate response, yet often fail to do so in due course due to a phenomenon known as 'incumbent inertia." I investigate the tradeoffs faced by incumbents in such situations. I cast the incumbent digital firm's choice as a real-options problem specifying the conditions under which the incumbent ignores the threat or decides to either acquire the innovative startup or raise its game. Incumbent inertia may arise if the incumbent waits until the market is ripe or if the incumbent is ambivalent about the appropriate response, i.e., if the various responses generate payoffs that are nearly equal. Different circumstances explain this latter scenario, depending on the magnitudes of the acquisition and implementation costs and on the respective (option) values of either response. This second rationale has not previously been identified as a cause for incumbent inertia in the literature

12h00 – 14h00: Lunch break, Eurest restaurant, building B

14h00: Marielle DE JONG

Title: Global Bond Allocation Using Duration Times Spread

Abstract: The duration times the credit spread of a bond, denoted DTS, is an effective proxy for its price variance. On an aggregate level, the measure is key to specifying the covariance between bond prices as well. Using a sample of government bond market indices, the author shows that the duration and spread, both on an index level, explain the largest share of the price variance and covariance between government bond markets. The bonds in the indices are denominated in local currency and are hedged against exchange-rate risk. The findings provide new insights for managing bond risk in globally invested portfolios.

14h30: Olivier LE COURTOIS

Title: Making the Implicit Explicit: A Performance Indicator for the Assessment of Uncertain Prospects

Abstract: We introduce a new performance indicator, which is a semimoment below the max (SMBM) that generalizes semivariance beyond the max. SMBM can help to reconcile several discrepancies of sequential economic behaviors. Specifically, we discuss its application with respect to prospect theory, incentive effect, regret theory, and framing effect. Not only this indicator can be used as a ranking tool in a broad variety of economic situations, but we can also use it to conduct a type of reverse engineering that allows to make explicit the implicit distributions that are perceived by decisionmakers when they assess economic prospects.

15h00: Shibashish MUKHERJEE

Title: An American Abroad: The Effects of US Directors' Foreign Experience on Firm Internationalization Strategy

Abstract: The paper examines the effects of directors' prior foreign board experience on firm internationalization strategy. Using data from 3,068 US-listed firms between 2003 and 2015, we find that US directors' foreign board experience in code law countries negatively affects the degree of internationalization of the firm, but not the US directors' board experience in common law countries. This result suggests that US directors provide negative advice regarding the firm's internationalization strategy, reducing foreign assets, foreign income, and closing subsidiaries abroad. We further show the type of foreign experience and the current board position of code law-experienced directors matter. Code law-experienced directors with non-executive foreign experience and those with current independent director positions have a stronger negative impact on the firm's internationalization strategy. Finally, we show that firms with code law-experienced directors take less risk, invest more in R&D, and have higher dividend payouts.

15h30: Daniela SCHOCH

Title: Merger Rhetoric and the Credibility of Managerial Synergy Forecasts

Abstract: Managers frequently project high synergistic gains when announcing M&As. This paper analyzes when promised synergies are value-relevant. Using text analytical methods, we find a positive relationship between synergy projections and announcement returns only when promised numerical projections are credible, e.g., when accompanied by thorough verbal explanations and low impression management. Furthermore, credibility increases when concrete instead of embellishing language is used. Hence, the more precise the information that firms disclose is, the more trust they foster in the underlying logic of the deal. Generally, investors seem to see through vacuous statements and value substance over form and verboseness of M&A announcements.

16h00: Jan SCHNITZLER

Title & Abstract: To Be Confirmed

16h30: End of the workshop