

Code: **FFM001**
 Person ID: **744**
 Abstract ID: **716**

Day: **Thursday April 1, 2004**
 Hour: **16:30 - 18:00**
 Room No: **335**

An Integrative Approach to the Determinants of Private Equity Fundraising

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This paper builds on previous papers about private equity fundraising in two ways. Firstly, a micro and macroeconomic theoretical base is developed to support the empirical model proposed. Secondly, new explanatory variables that are related to the private equity process itself are added, thus completing the set of variables, which were basically macroeconomic and environment-related variables, introduced in previous papers. In this way, the paper contributes to the absence of literature in this issue. The data is based on seventeen countries of the European Union. Evidence is found of the positive and significant effect of lagged aggregated investments and divestments on new funds raised, together with GDP growth and the evolution of gross domestic savings.

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The Effect of the Equity Based Managerial Remuneration of the Quality of Joint Venture Decisions

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This study examines the shareholder wealth implications of Joint ventures involving UK companies. Joint ventures (JV) are significant corporate investment decisions. They are an alternative means of corporate growth to mergers and acquisitions and they are related to corporate strategy in particularly on entering new markets or business areas.

There is a large body of academic research on the shareholder wealth implications of takeovers and mergers as a means of corporate growth but the evidence from the effect of JVs is relatively limited and mainly derive from studies in the US market. In the area of JVs, prior research has looked at the effect of JV decisions on shareholder wealth and the determining factors such as industry relation to the parent companies and locality of the operations. This study will shed more light on the significance and the effect of JV decision on shareholder wealth by providing fresh and more recent evidence from the UK. It will also provide additional evidence on the growing body of academic research related to the effectiveness of the structure of managerial remuneration. We investigate the wealth implication of JV decisions for the shareholders of the parent companies and their determining factors and we compare this to alternative modes of corporate growth such as takeovers and mergers. Additionally, we examine the effect of the proportion of the equity based compensation (EBC) in the executives' payment packages on the quality of JV decisions. This will provide a useful insight on the level of the effectiveness of the EBC part of executive remuneration on the quality of managerial decision.

We expect that if grants of options and other non-pecuniary element of managerial compensation is an effective means of aligning managerial and shareholders' interests, the shareholder wealth implications of JV decisions is significantly higher for companies with higher proportion of EBC in managerial remuneration than those with lower proportion.

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Bankruptcy Probability Changes and the Differential Informativeness of Bond Upgrades and Downgrades

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Prior studies have found that stock returns around announcements of bond upgrades are insignificant, but that stock prices respond negatively to announcements of bond downgrades. This asymmetric stock market reaction suggests that bond downgrades are timelier than upgrades. This study investigates this conjecture by examining changes in firms' probabilities of bankruptcy around rating change announcements. The results indicate that the probability of bankruptcy decreases before bond upgrades, but not after. By contrast, the probability of bankruptcy increases both before and after bond downgrades. Additional tests reveal that the differential informativeness of upgrades and downgrades is not caused by differences in pre-rating change voluntary disclosures by upgraded and downgraded firms, or by differences in the intra-quarter timing of upgrades and downgrades. The result that bond downgrades are timely indicators of deterioration in firms' financial prospects is likely to be of interest to regulators such as the U.S. Securities and Exchange Commission, who are currently investigating the rating agencies' role in the capital markets.

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Some Evidence about How Corporations Perceive the Success in M&A

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Financial analysts, academics and media often warn about the risks inherent to Mergers & Acquisitions (M&A). In fact, failures are not uncommon in corporate M&A. Several studies concluded that M&A usually provide negative returns to the shareholders of the bidder corporations both in the short and medium terms. Other studies, using financial indicators such as return on investment (ROI), also suggested a negative performance from M&A deals. However, the success definition in M&A goes beyond the conclusions of that type of studies. After all, despite financial markets pressure, numbers are not everything in corporations' existence.

The aim of this paper is to discuss how corporate managers measure the success in M&A. We carried on a global study about M&A in Portugal, using the

questionnaire methodology, which included the assessment of success by corporate managers. Some questions were made such as Hunt (1987) to make possible further comparisons between Portugal and the United Kingdom (UK). We also used some other evidence, brought by international consulting firms, to assess how much our findings could differ from other scenarios.

Keywords: Mergers & Acquisitions (M&A), M&A evaluation, Portugal, UK.

Code: **FFM005** Day: **Friday April 2, 2004**
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Valuing Entrepreneurial Investments: The Venture Capitalists' Approach

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Valuing high-growth, high-uncertainty firms, characterised by a unique business concept, significant growth opportunities, and/or no real positive cash flows to show the profit potential of the venture, is a major challenge faced by most venture capitalists (Gompers (1995)). Unlike for an investment in publicly traded securities for which there exists a well-defined pricing mechanism, it is difficult to find an objective valuation for the investment holdings of a venture capital fund. The valuation of individual unquoted investments is, thus, a very complicated process, subject to the discretion and judgment from the part of the venture capitalist. Recently, growing criticism and increasing interest are observed regarding the valuation of the private equity and venture capital portfolios of high-tech, high risk, high growth venture investments (EVCA (2001), Millner (2002), Blaydon & Horvath (2002)). Consequently, the underlying goal of the empirical analyses included in this paper corresponds exactly with revealing the valuation methodology operated by venture capitalists when determining or reconsidering the valuation for each venture investment held in portfolio.

Code: **FFM006** Day: **Friday April 2, 2004**
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Attitudes To Risk: An Applied Principal-Agent Analysis of Venture Capital Contracting In High-Technology Enterprises

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This paper uses primary source data on investors and investees, in high technology firms, to examine two risk classes (agency and business risk) within an applied principal-agent setting. It is found that investor and investee rankings of investment opportunities are statistically significant. Further, they are very similar, using a statistical measure of concordance. This finding is illustrated by a new graphical device. Views on factors which are important to risk appraisal were also found to be statistically significant for both investors and investees. However, judgments were significantly discordant in this case. This is illustrated graphically, and discussed. Investors were found to be more

concerned with agency risk, attaching to effects like motivation, empowerment and alignment, then investees. Investees were more concerned with business risk, attaching to effects like market opportunities. The principal-agent framework is thereby confirmed as appropriate to this form of investor-investee contracting.

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The Management of Interest Rate Risk: Evidence from UK Companies

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This paper presents the results of a survey research into the interest rate risk management practices of UK companies. Further, it evaluates the extent to which corporate characteristics such as size and leverage influence management practice. The results suggest that interest rate risk is more important to UK companies than exchange rate risk and that companies rely extensively on financial derivatives to manage this risk. Companies, however, lack formal reporting and controlling systems in place to monitor derivative activity. Further the new hedge accounting standard, IAS 39, may curb managerial practices. Finally, corporate practice differs, based on size, constraints imposed by loan covenants and the presence of specialist treasury departments in companies.

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Economic Consequences of SFAS 133 On Risk Management

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This paper adds to the existing literature on economic consequences of accounting regulation by exploring whether compliance with SFAS 133 regarding „Accounting for Derivative Instruments and Hedging Activities“ determined firms to deviate from their prior risk management policies of foreign exchange exposure, as predicted by managers, analysts, and academics at the time the new standard was issued. In addition, I investigate what are the determinants of the magnitude and sign of changes, by modeling separately the likelihood of positive and negative deviations. I hypothesize that after SFAS 133 adoption in 2001, the extent of increase (decrease) in the intensity of hedging activity with derivatives depends on the extent to which prior to adoption a firm has displayed a high ability to effectively hedge and also to the extent that a firm was engaged in managing entity level risk, as opposed to micro-hedging. The results are largely consistent with predictions, and provide some evidence that SFAS 133 did have an economic impact. These results, however, are not robust to the all specifications of variable measurement employed in prior literature and used to determine firms' benchmark risk management policy. Among the variables likely to influence reporting choices in post adoption period, the ability to effectively hedge is consistently found to

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