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PhD in Management

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Essays in Corporate Finance

ABSTRACT

This dissertation bundles three essays in the area of corporate finance. It deals with two main issues: capital structure decisions in financially distressed firms and the role of the investor identity on the acquisition performance.

The first essay is a literature review about equity issues as a means to recover from financial distress. The study provides, firstly, an overview of the extant literature on capital structure theory and financial distress in order to deepen the understanding of how a firm can resolve its financial constraints. On the one hand, some of the most important contributions in capital structure theory are reviewed with a specific focus on equity issues. On the other hand, financial distress is discussed examining the main solutions adopted by distressed firms in order to reorganize (i.e. formal in court proceedings and private reorganizations). Finally, it is discussed a possible gap in capital structure theory and financial distress literature arguing that most of previous research, in the attempt to explain the occurrence of equity issues, just focused on firm specific determinants. With the aim to provide a further perspective for future research, the study examines a series of contributions that consider how capital structure decisions can be affected by external determinants related to the legal system in which the firm operates. These works are aggregated to the discussion in order to suggests a conceptual framework suitable to explain equity issues in financial distress through the integrations of capital structure theory with Law literature.

The second essay is a theoretical and empirical investigation on equity issues in distressed firms. Specifically, I explore the effectiveness of equity issue as a means to recover from distress. I argue the relationship between equity issues and recovery controlling for the legal system in which the firm operates. Central to the thesis is the role of the Bankruptcy Law on the firm's propensity to issue equity which varies according to the legal protection of the creditors. Controlling for this exogenous factor allows me to explain how recovery is affected by the issuance of equity. This study contributes to both

capital structure theory and financial distress literature providing evidence on how the capital structure decision to issue equity can drive the process of firm's recovery from distress. Then, it suggests an alternative explanation of the decision to issue equity in distress arguing the relevance of the legal system as a determinant of this choice. The hypotheses are tested on a sample of 70 firms that recovered from financial distress in 49 countries. The sample is divided in to 34 distressed firms who recovered issuing equity and 36 firms who recovered without an equity issue. Results show that the legal system matters for understanding the occurrence of equity issues in distress; they are more likely to occur in countries with a debtor friendly legal system. Conditionally to the incidence of the law on the firm's choice to issue equity, equity issues positively affect the firm's recovery from distress.

The third study is a theoretical and empirical examination about the relationship between the buyer identity and the acquisition performance. This relationship is argued advancing and testing the idea that different identities of the buyer, specifically strategic or financial investors, have different effects on the performance of the target firm after an acquisition. We suggest that the different resource and knowledge base of the buyer, i.e. its identity, drives the target performance: on the one hand it affects the innovative output and so the patenting activity of the target, on the other hand it has an impact on the economic results of the acquired firm. This study contributes to literature on M&A by providing a complementary explanation of M&A performance, unraveling how the identity of the buyer can play a significant role in driving post-acquisition performance. Moreover, it suggests a more complete analysis of the deal's output considering both the innovative and the economic output. The study relies on a sample of 234 acquisitions in any industry completed between 2006 and 2011. Results show that the identity of the buyer has a direct effect on the performance of the target firm after the acquisition. The results also highlight how identity has a different impact regarding to the different measures of performance: whilst the strategic buyers, moved by the interest for additional knowledge and technology, tend to integrate their capabilities with target fostering innovative processes and improving the innovative performance, the financial buyers use to undertake deals in order to maximize their profits at the expense of the innovative performance. Different evidences emerge for the economic performance of the involved firm which is positively affected by financial buyers respect to strategic ones since they induce the target firm to undertake highly risky and long term investments in R&D.

The two papers of this dissertation have been presented at international Conferences on management such as EURAM 2014 (European Academy of Management) and BAM 2015 (British Academy of Management). The papers will be submitted to journals soon.