

ABSTRACTS**1. BEHAVIORAL DECISION-MAKING PERSPECTIVES ON MERGER SITUATIONS**

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ABSTRACT

This paper seeks to identify biases and heuristics that affect managerial decision-making in the context of mergers and acquisitions (M&As). We argue that such biases influence decision processes in numerous ways, in particular during the information processing and choice phase. These effects lead to sub-optimal decision outcomes, such as the overestimation of synergy potentials that can be generated from a transaction, or the failure to plan the post-merger integration phase of a transaction thoroughly enough. By relating these sub-optimal decision outcomes to the behavioral literature on decision-making, we provide a theoretical basis for the explanation of the impact of biases and heuristics on M&A decisions.

Keywords: Behavioral Decision-Making; Mergers and Acquisitions; Biases and Heuristics

2. BANKRUPTCY PREDICTION IN THE HIGH-TECH INDUSTRY

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ABSTRACT

This study examines the accuracy with which financial ratios predict bankruptcy in the high-tech industry. The prediction model is based on a sample of 120 companies (60 bankrupt and 60 matching non-bankrupt companies) during the period 2000-2002 for which six financial ratios were employed. The ratios were calculated from financial statements one and two years prior to bankruptcy. Similar studies were conducted by other authors in different industries such as retailing and manufacturing but this is the first study conducted on the high-tech industry. The model's predictability is tested by using 20 bankrupt and 20 matching non-bankrupt firms after 2002, and was found to accurately predict 85 percent of the bankruptcy and non-bankruptcy cases.

Keywords: Bankruptcy Prediction, High-Tech Industry

3. WHY DO FIRMS OFFER ORIGINAL DIVIDEND REINVESTMENT PLANS (ODRIPs)?

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ABSTRACT

We examine the determinants of a firm's decision to offer Original Dividend Reinvestment Plans (ODRIPs) by investigating the cross-sectional differences in financial characteristics between firms that offer ODRIPs and firms that do not. Employing logit regression models, we find that financial characteristics such as market value of equity, insider shareholding, book to market ratio, and dividend payout ratio are statistically significant in explaining a firm's DRIP adoption. We do not find that firm's indebtedness, measured by long-term debt ratio, is significant in DRIP adoption decisions, however. These

results suggest that economies of scale in marketing and maintaining ODRIPs, insider ownership, growth opportunities, and the informative content of dividends are major driving forces behind ODRIP adoption.

Keywords: Original Dividend Reinvestment Plans; Dividend Policy; Firm Size; Insider Ownership; Growth Opportunities; Cross-Sectional Analysis

4. THE INFLUENCE OF LEGAL PROTECTION OF SMALL SHAREHOLDERS ON THE DEVELOPMENT OF EQUITY MARKETS: THE GERMAN FINANCIAL MARKET PROMOTION LAWS

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ABSTRACT

The corporate governance literature discusses extensively the effect of shareholder protection on the development of equity markets. In many instances it has been shown that better investor protection leads to an increase in the number and value of initial public offerings, and an increase in the overall market capitalization (see LaPorta, Lopez-de-Silanes, Shleifer and Vishny 1997, 1999a, 1999b, 2000). All previous studies select a broad approach and test the hypothesis across many countries using some form of legal index to control for the amount of investor protection both, in terms of pure existence and law enforcement. This paper uses a specific chain of events to examine the direct effect of investor protection reform. The events that are used are the implementation of Germany's Finanzmarktförderungsgesetze (financial market promotion laws) in 1990 and 1994. Those two pieces of legislation were directly aimed at making the German equity market more attractive to foreign and especially domestic individual investors. Using Deutsche Bundesbank data, I find that the number and the value of IPOs significantly increased since the implementation of these laws. In addition, the amount of equity investments by domestic and foreign non-banks also significantly increased.

Keywords: Investor Protection; Regulation; Financial Markets; Initial Public Offerings

5. THE IMPACT OF FUND SPONSORSHIP ON FUND EXPENSES IN INSTITUTIONAL AND RETAIL FUND MARKETS

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ABSTRACT

This paper conducts an exploratory assessment of the expenses of mutual funds operated by financial services firms by examining expenses in the retail and institutional investor markets. Our findings suggest that funds operated by financial firms generate savings in fund administration, but only pass a portion of these savings to investors through lower expenses. Additionally, we demonstrate that these savings are independent of fund structure. Finally, we demonstrate markedly different pricing practices between the retail and institutional markets for funds operated by financial firms.

Keywords: Mutual funds, financial institutions, fund expenses

6. TESTING SHAREHOLDER WEALTH MAXIMIZATION THEORIES OF HEDGING

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ABSTRACT

Using a sample of oil and gas exploration and production companies, I conduct two tests to examine the shareholder wealth maximization theories of hedging (Smith and Stulz, 1985, Froot, Schrafstein, and Stein, 1993, and Leland, 1998). In the test of the determinants of corporate hedging, this study presents strong evidence to support the Smith and Stulz, 1985 and Froot et al., 1993 theories. The test of the relation between changes in hedging and changes in the determinants of hedging also support shareholder wealth maximization theories of hedging.

Keywords: theories of hedging, shareholder, hedging

7. ENGLISH PROFICIENCY AND WAGE DYNAMICS OF MEXICAN IMMIGRANT WORKERS: SYNTHETIC COHORT APPROACH

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ABSTRACT

Using the synthetic cohort data drawn from the 1990 and 2000 Census PUMS, this paper investigates how the wage dynamics of Mexican immigrant workers differ across gender and groups with different English proficiency. The major findings are as follows. First, education, especially the college education, plays more significant role in the wages for proficient workers than for non-proficient workers. The implication of this result is that in the absence of English proficiency, educational attainment itself may not be valued in the U.S. labor market. Second, the changes in the mean hourly wages are higher for male workers than female workers with comparable English proficiency; for workers with higher education within the same English ability group; and for non-proficient workers within same gender group. The last finding that non-proficient workers are better rewarded from the labor market in the form of higher level of changes in the mean wage may be the result from the changes for the relatively lower level of wages, not necessarily implying that non-proficient workers' wages have improved more than those of English proficient workers. One conjecture worth considering for this result is the change of demand for the low wage workers in the U.S. labor market. Third, male workers are rewarded more than female workers at the mean of work experience. Although the marginal returns to work experience at the mean is far greater for proficient workers in the male sample, the same is not true for female sample.

Keywords: Wage, Mexican immigrant worker, English proficiency, educational attainment

8. THE HIDDEN FACTORS OF CORPORATE GOVERNANCE: THE CASE OF ENERGY FIRMS

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ABSTRACT

The debate over the adequacy of corporate governance is not a new phenomenon. Specifically, the New York Stock Exchange (NYSE) has periodically amended and supplemented corporate governance standards for nearly 150 years. There has also been a distinguished tradition among institutional investors (and particularly CALPERS) of lobbying firms and regulatory agencies for a more autonomous boardroom configuration. The issue of independent corporate governance configuration has taken renewed importance in the past few years in the academic and popular press and in governmental policy circles in the aftermath of recent corporate scandals. The boardrooms are now under intense pressure to

review their modus of operandi and adopt proactive measures to avert another Enron's type debacle. In an investigation of energy firms, it is shown in this study that although a structurally independent boardroom configuration is a step in the right direction, it is not however the only sine qua non condition for improved corporate governance performance. The argument is made that effective corporate governance spans beyond boardroom structural considerations to also include qualitative human cognitive considerations.

Keywords: corporate governance, standards

9. AN ECONOMIC MODEL OF CONSUMER DECISIONS ON ONLINE PURCHASING: IDENTIFICATION OF RESEARCH OPPORTUNITIES

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ABSTRACT

The proposed theoretical model identifies the benefits and costs that are implicitly considered by consumers in choosing between online and offline purchasing. The benefits are in terms of rich information at very low marginal search costs compared to offline shopping, combined with a price difference in favor of the online product. On the other hand, for products that require more sensory perceptions for consumer decisions than can be communicated via the Internet, there are likely to be more costs than benefits from shopping online. Generally, the possible costs are associated with lagged delivery, and the relatively greater risks of post-transaction dissonance from online purchasing compared to the offline alternative. Such risks are shown to be attributable to a lack of online experience, a lack of sensory perception, and financial risks. The proposed theoretical model identifies opportunities for empirical research on online shopping constraints for improved evaluative dimensions to marketing strategy formulation in e-commerce.

Keywords: online purchasing, e-commerce

10. A RATIONALE FOR THE MARKET MAKER STRUCTURE

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ABSTRACT

We show that even in a symmetric information economy, a market maker can solve a free-rider problem that exists in the competitive limit order book market. Since individual investors assume that their own trade has no effect on market liquidity, they disregard it when maximizing their expected utility. A monopolist market maker that exerts search and promotion costs to increase trading volume can solve the free-rider problem. Under some circumstances, the benefits of solving the free-rider problem outweigh the costs of having a market maker who collects a fee. The theoretical results have both policy and empirical implications for financial markets.

Keywords: Market Maker, Liquidity, Volume, Free-rider, Risk Sharing

11. IS THE SURVIVAL OF SMALL COMMERCIAL BANKS THREATENED? A COMPARATIVE PERFORMANCE EVALUATION OF U.S. COMMERCIAL BANKS: 1997-2002

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ABSTRACT

We use profit efficiency (PROFFEF), return-on-assets (ROA), credit risk, efficiency ratio, and revenue growth as criteria for evaluating two categories of small banks. One category is very small banks (assets less than \$25 million). The other is small banks (assets less than \$1 billion). We compare their performance with those of medium-size banks (assets between \$1 billion and \$5 billion) and large banks (assets greater than \$5 billion) for the period 1997 to 2002.

Small and very small banks were the least profit efficient according to PROFFEF analysis and least profitable according to ROA analysis, and achieved the lowest revenue growth. Even though they registered the highest level of non-interest income, the enormity of their negative performance in such important areas as efficiency, profitability, and revenue growth lead us to conclude that very small banks and to a large extent, small banks are vulnerable to the increased competition offered by deregulation, technological advances, e-commerce and negative economic situation such as the current recession. Our observations lead us to believe that while some well-managed small banks will survive, the survival of small U.S. commercial banks is in jeopardy.

Keywords: Profit efficiency, Return-on- assets, Commercial banking, Net interest income, Non interest income, non-current loan, loan-loss reserve
