Public Abstract
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Title:FOUR ESSAYS IN EMPIRICAL CORPORATE FINANCE AND FINANCIAL MARKETS: SOCIAL CAPITAL, CORPORATE RISK-TAKING, EXTERNAL FINANCING, AND FINANCIAL MARKET DEVELOPMENT

This dissertation consists of four essays examining a range of topics in empirical corporate finance and financial market. The first essay is titled “I Get By With A Little Help From My Friends: CEO Social Capital And Corporate Risk Taking” and provides the first direct empirical evidence of a strong causal relationship between previously unexamined factor - CEO social capital, defined as aggregate benefits of social obligations and informal contacts formed through social networks – and corporate risk-taking. Using a large panel of companies from 41 countries for the period 1999-2012, the paper documents a significant positive relationship between CEO social capital and corporate risk-taking. The evidence also suggests that the association between the social capital and corporate risk-taking is weaker for female-tied networks. More importantly findings show that this increase in risk-taking caused by social capital is value-enhancing. The results are robust to alternative proxies of risk-taking, model specifications, and variety test of endogeneity.

The second essay – “Managerial Social Capital, the Cost of Equity and the Demand for Internal Financing” – examines the effects of managerial social capital on the firm’s implied cost of equity capital and demand for liquidity. The paper documents that social capital reduces the implied cost of capital as well as the marginal propensity to save cash. The evidence also suggests that the association between social capital and the cost of equity is stronger in underdeveloped financial markets and in markets characterized by weak legal protection of investors. In addition, marginal effect of social capital in reducing the cost of equity is stronger for constrained firms with good investment opportunities. The paper also shows that gender-specific social ties have important implications for the cost of equity.

The third essay, “Social Capital, Investments and External Financing”, examines the effects of managerial social capital on investment and external finance sensitivities to cash flow and Q. Using a large cross-country sample of companies and traditional investment-Q framework, the paper finds that social capital reduces a firm’s dependence on internally generated cash. The study also documents that social capital is positively associated with investment sensitivity to Q. Social capital positively affects external finance-Q and negatively – external finance-cash flow sensitivities. These effects of social capital are stronger in markets characterized by weak legal protection of investors. Our results are also consistent with the prediction that social capital has important implications for firm performance.

Finally, the fourth essay, titled “Social Capital and Financial Development”, examines the empirical question of whether managerial social capital affects financial development. Utilizing a large cross-country sample for the period 1999-2012, the paper provides evidence that social capital positively affects financial development. The results also suggest that casual, non-professional ties are the most efficient forms of social capital that have the strongest implications for financial markets.