

# ESSAYS IN CORPORATE FINANCE

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The first essay investigates the effect of social ties between board members on firm policies. Previous literature shows that social ties between the CEO and independent directors are associated with weak board monitoring. However, the direction of causality still remains an open question. The causal view maintains that social connections to the CEO can cause independent directors to soften discipline due to their homophilic biases and therefore weaken monitoring quality. The symptomatic view suggests that the presence of CEO-friendly board members and weak monitoring can simply be simultaneous byproducts of weak governance, giving the illusion that CEO-connections result in weak monitoring. To distinguish between these two views we examine how monitoring is affected from the social network of independent directors, who have no connections to the CEO. If friendliness towards the CEO causes lax oversight, we expect friendliness among exclusively connected independent directors to do just the opposite—cause stronger monitoring. However, we find almost no evidence that exclusive social connections among independent directors have any effect on monitoring quality although they are common. We also find that the previously documented negative effect of CEO-independent director connection on monitoring is driven by independent directors with connections only to the CEO and not to any other independent directors. We also find that the presence of these directors is highly associated with weak governance and a higher proportion of co-opted board members. These findings suggest that the adverse effect of social connections

between the CEO and independent directors on monitoring is likely to be the manifestation of existing agency problems but not the cause.

The second essay examines the relation between stock repurchases and investment efficiency. With a sample period from 1971 to 2014, we find that stock repurchases reduce investment when firms are likely to over-invest. The results imply that repurchasing stock reduces free cash flow and decreases related agency problems. We build a causal link between stock repurchases and investment efficiency by applying propensity score matched and difference-in-differences analyses to control for endogeneity issues. The results suggest that stock repurchases improve investment efficiency, consistent with the free cash flow hypothesis.