ESSAYS IN CORPORATE FINANCE

by

Nam Le

A DISSERTATION

Presented to the Faculty of
The Graduate College at the University of Nebraska
In Partial Fulfillment of Requirements
For the Degree of Doctor of Philosophy

Major: Business

(Finance)

Under the Supervision of Professor Julian Atanassov

Lincoln, Nebraska
May, 2021
ESSAYS IN CORPORATE FINANCE
Nam H. Le, Ph.D.
University of Nebraska, 2021

Advisor: Julian Atanassov

The first essay studies the impact of labor mobility risk on corporate dividend policy. I argue that a stringent labor mobility regime reduces the risk of losing human capital and trade secrets to rivals, thus reducing uncertainty and making dividends payment more feasible. Consistently, I find that stronger enforceability of Non-compete Agreements leads to a higher propensity to pay dividends and dividend amounts. Additional analyses indicate that the increase in dividend is concentrated in firms that are more concerned with human capital and trade secrets protection, i.e. firms with a highly-skilled workforce, firms whose profitability depends on the secrecy of their innovation process and firms that face cash-rich rivals. In a channel analysis, I document that stronger NCA enforceability reduces firms’ earnings uncertainty, which in turn leads to the increase in dividends.

In the second essay, we examine the effect of rival’s cash holdings on corporate innovation. To establish causality, we employ an instrumental variable approach and use the American Jobs Creation Act as an exogenous shock to rivals’ cash holdings. We find that when rivals hoard more cash, firms apply for significantly more patents, but generate fewer citations. Furthermore, the economic value of patents increases, suggesting that they help firms gain crucial advantages in the product market. Exploring the mechanisms, we find that the positive effect of Rivals’ Cash on the number of patent applications is much stronger when the labor mobility regime is less stringent. Finally, using tariff
reductions as an exogenous variation to competition, we find that competition amplifies
the positive effect of Rivals’ Cash on the number of patents but alleviates the negative
effect on the number of citations per patent. Overall, the results suggest that financial
policies of rivals play an important strategic role in shaping corporate innovation.

The third essay examines the impact of product market competition on firms’
composition of liquid asset. We use fluidity as a proxy for product market competition
and also exploit an exogenous shock to competition following a reduction in industry
import tariff rates. When the threat of competition increases, we find firms increase their
short-term investments, not pure cash. Further, we explore possible explanations for this
behavior. We rule out a valuation explanation as we documented that the market’s
valuation of short-term investments is lower than that of pure cash when competition
increases. Instead, we show evidence of the mimicking behavior, namely firms’ liquid
asset composition is influenced by that of rivals. When competition increases, we find
firms do not change their mimicking of cash but they increase their mimicking of short-
term investments.
Acknowledgments

I am forever indebted to my committee members, Professors Julian Atanasssov, Geoffrey Friesen, Emre Unlu, Julie Wu, and Mary McGarvey, whose wisdom, patience and continued support have guided me through the doctoral program. I would like to thank my life-long mentor, Professor Robert Schwebach, for showing me the academic path and for always believing in me. I also would like to thank my two excellent classmates, Megan Rainsville and Bektemir Ysmailov. Each of you has been a good friend to me and gave me great help during our doctoral journey. For everyone whose name is not mentioned here but played a role in my pursuit of this degree, I sincerely thank you!

Dedications

This dissertation is dedicated to my parents and grandpa, Thanh Le, Hien Le and Hai Le for their love, support, and sacrifices. My parents used to work 12 hours a day, 7 days a week in our family’s convenience store to support my upbringing. I wish nothing but to make them proud. I also want to dedicate this dissertation to the love of my life, Tammie Nguyen, who always has to put up with my occasional absence from reality whenever I think about my research. Having a partner who sits on the computer 12 hours a day and types on his keyboard at 1 a.m. must have been hard, but she has shown nothing but unconditional love, support, and patience. Going forward, I hope I would be able to spend less time on the computer and more time with her.