

Internet Appendix A156: CEO Overconfidence Illustrative Reverse Engineered Pitch Template Example

Pitcher's Name	Beiqi Lin [4th year Hons joint winner, UQBS 2017 comp]	FoR category	CEO Overconfidence	Date Completed	20 April 2017
(A) Full Reference	Ronghong Huang, Kelvin Jui Keng Tan, Robert W. Faff, CEO overconfidence and corporate debt maturity, Journal of Corporate Finance, Volume 36, February 2016, Pages 93-110. [reverse engineered]				
(B) Basic Research Question	To what extent does CEOs overconfidence affect the decision of a firm's debt maturity?				
(C) Key paper(s)	<p>1, Landier, A., Thesmar, D., 2009. Financial contracting with optimistic entrepreneurs. Rev. Financ. Stud. 22 (1), 117–150.</p> <p>2, Malmendier, U., Tate, G., 2005. CEO overconfidence and corporate investment. J. Financ. 60 (6), 2661–2700</p> <p>3, Brockman, P., Martin, X., Unlu, E., 2010. Executive compensation and the maturity structure of corporate debt. J. Financ. 65 (3), 1123–1161</p>				
(D) Motivation/Puzzle	<p>Many recent research give their attention to the agency problem between managers and stockholders by evaluating how CEOs influence the decision of corporate debt maturity at a personal level. Overconfidence occurs when individuals overestimate their own abilities and will commonly result in unrealistic optimism. Prior studies identify that overconfident CEOs have the tendency to overestimate their firm performance and ability to generate returns when they have access to internal funding; biased managers tend to use more debt financing as they believe that the firm is more profitable. However, the relationship between overconfidence CEOs and decision on debt maturity is under-explored. Therefore, exploring the relationship would be beneficial to understand overconfidence CEOs' debt decision and substantial impact on firm debt decision-making based on their liquidity risk.</p>				
THREE	Three core aspects of any empirical research project i.e. the "IDioTs" guide				
(E) Idea?	<p>The core idea of this study is that firms that hire overconfident CEOs are more likely to select a shorter debt maturity structure by using a greater proportion of short-term debt. Besides, this is applicable for both firms with low and high liquidity risk.</p> <p>The main hypotheses claimed by the author was that under similar financial, corporate scale and other conditions, overconfident managers prefer a shorter debt maturity structure when compared to non-overconfident managers. The key dependent variable was overconfidence CEOs and the key independent was debt maturity.</p>				
(F) Data?	<p>US data were used in this study. It was critical as the study was regional based and no strong evidence of similarity across nations was shown in previous study. The basic unit of analysis employed in this study was firm and thus the data was firm specific. The data included annual observations of the firms' performance from 2006 to 2012. The sample size used was 4309 firms. The data is a panel dataset and the followings are the sources of the data:</p> <ol style="list-style-type: none"> 1, Executives' stock and option holdings from ExecuComp 2, Financial and accounting information is obtained from Compustat, 3, Monthly stock prices are from CRSP. 4, Yields on long-term government bonds are from the St. Louis Federal Reserve Bank website <p>It is noteworthy to mention that no hand collected data was used and there wasn't any missing data. Last but not least, construct validity might be one of the data obstacles as the use of longholder proxy to determine overconfident CEOs might be insufficient as other factors like long-term growth opportunity may drive the results.</p>				
(G) Tools?	<p>The overconfident CEOs identifying method is an empirical research design which was proposed by Malmendier and Tate (2005, 2008). It was mainly based on revealed beliefs from executives' option exercise behaviour. It is a regression model approach and neither survey instruments nor interview were needed. Econometric software was used and the results were found to be compatible with empirical framework. Lastly, statistical validity is not an issue in this study as all results were found to be significant.</p>				

TWO	Two key questions
(H) What's New?	The idea in this study is novel in examining the channel through which overconfident CEOs make decision about the debt maturity structure of their firms and connects behaviour finance with corporate debt financing. This study distinguishes newly-contracted short-term debt from previously contracted longer-term debt and this has not been done in any previous research. The "Mickey Mouse" diagram is shown below.
(I) So What?	The answer of this study helps identifying exactly how and to what extent do overconfident CEOs affect debt maturity of a firm. Based on this, high liquidity risk firm might have to reconsider hiring overconfident CEOs as they tend to adopt short term debt which could result in high repayment or rollover difficulties.
ONE	One bottom line
(J) Contribution?	The three key contributions are as follow: 1, This study contributes to the literature on debt maturity structure at the individual decision-maker level, rather than at the industry or firm levels. 2, This study is the first study to examine the channel through which overconfident CEOs execute the debt maturity structure decision through a novel method, distinguishing newly-contracted short-term debt from previously contracted longer-term debt. 3, This study helps further bridge the gap between behavioural finance and corporate financing decisions.
(K) Three Key Findings	The three key findings are as follow: 1, Overconfident CEOs prefer shorter-term debt 2, Corporates with overconfident CEOs are more likely to adopt shorter debt maturity structure by employing a larger proportion of short-term debt which, by definition, due within 12 months 3, The behaviour of overconfident CEOs mentioned above is not hindered by corporate which has high liquidity risk and also involved in such financing strategy

Mickey mouse diagram:

