Internet Appendix A71: Executive Overconfidence

A71.1 Illustrative Pitch Template Example Reverse-engineered from a paper Introduction

This pitch is reverse engineered from the Introduction section in: Huang, Ronghong and Tan, Kelvin Jui Keng and Faff, Robert W., CEO Overconfidence and Corporate Debt Maturity (October 29, 2015). Journal of Corporate Finance, Forthcoming. Available at SSRN: http://ssrn.com/abstract=2311530 or http://dx.doi.org/10.2139/ssrn.2311530

<table>
<tr><td>Pitcher's Name</td><td>Robert Faff</td><td>FoR category</td><td>Executive Overconfidence</td><td>Date Completed</td><td>25/9/15</td><td>Location</td></tr>
<tr><td>(A) Working Title</td><td colspan="5">CEO Overconfidence and Corporate Debt Maturity</td><td></td></tr>
<tr><td>(B) Basic Research Question</td><td colspan="5">Whether and to what extent, the overconfidence of CEOs, affects a firm's debt maturity decisions.</td><td>Introduction: para #1</td></tr>
<tr><td>(C) Key paper(s)</td><td colspan="5">Malmendier, U., & Tate, G. (2008). Who makes Acquisitions? CEO Overconfidence and the Market's Reaction. Journal of Financial Economics, 89(1), 20-43.
Malmendier, U., Tate, G., & Yan, J. (2011). Overconfidence and Early-life Experiences: The Effect of Managerial Traits on Corporate Financial Policies. Journal of Finance, 66(5), 1687-1733.
Landier, A., & Thesmar, D. (2009). Financial Contracting with Optimistic Entrepreneurs. Review of Financial Studies, 22(1), 117-150.</td><td>Introduction: para #4
Introduction: para #5
Introduction: para #6</td></tr>
<tr><td>(D) Motivation/Puzzle</td><td colspan="5">Our understanding of the industry- and firm-level determinants of debt maturity structure is well established in terms of traditional finance theory. More recently, researchers have focused attention on the agency problem between stockholders and managers by examining how CEOs affect the corporate debt maturity decision at a personal level. While these studies typically maintain the broad framework of "neoclassical" executive rationality, a behavioral finance perspective embracing the concept of overconfidence suggests alternative considerations that potentially offer important new insights.</td><td>Introduction: para #1</td></tr>
<tr><td>THREE</td><td colspan="5">Three core aspects of any empirical research project i.e. the "IDioTs" guide</td><td></td></tr>
<tr><td>(E) Idea?</td><td colspan="5">We argue that overconfident CEOs believe that they can enhance stockholder value by taking on more short-term debt. This is because overconfident CEOs overestimate the probability that they can refinance short-term debt with lower costs when favorable news arrives in the future.</td><td>Introduction: para #7</td></tr>
<tr><td>(F) Data?</td><td colspan="5">US market with a sample of 4,309 firm-year observations from 2006 to 2012</td><td>Introduction: para #7</td></tr>
<tr><td>(G) Tools?</td><td colspan="5">(1) measure overconfidence based on executive option exercise behavior and includes a comprehensive set of control variables
(2) follow Malmendier and Tate (2005, 2008) by using revealed beliefs from executives' option exercise behavior to identify overconfident CEOs.
(3) novel method, distinguishing newly-contracted short-term debt from previously-contracted longer-term debt.</td><td>Introduction: para #6
Introduction: para #7
Introduction: para #10</td></tr>
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Template taken from Faff, Robert W., Pitching Research (January 11, 2015). Available at SSRN: http://ssrn.com/abstract=2462059 or http://dx.doi.org/10.2139/ssrn.2462059

TWO	**Two** key questions	
(H) What's New?	(1) A behavioral finance perspective embracing the concept of overconfidence suggests alternative considerations that potentially offer important new insights. (2) Despite the large amount of research investigating the concept and impact of overconfidence in financial decision-making, its influence on debt maturity structure remains largely unexplored. (3) Explore the main channel of short-term debt used by overconfident CEOs, by more finely partitioning measurement of debt maturity into two components: (a) newly-contracted short-term debt (ST, i.e. debt due in less than 12 months) and (b) the maturing of previously-contracted longer-term debt (excluding ST).	Introduction: para #1 Introduction: para #6 Introduction: para #8
(I) So What?	(1) Overconfidence has been shown to have a substantial impact on corporate decision-making. (2) Rule out six alternative explanations for the documented relation between short maturity and CEO overconfidence: (a) insider information; (b) risk tolerance; (c) past performance; (d) taxes and dividends; (e) board pressure; (f) a supply side story in which lenders are reluctant to extend longer-term loans to overconfident CEOs. Also, results are not solely concentrated in firms with low liquidity risk. (3) Overconfident CEOs are willing to accept short-term debt, despite the strongly held view that short-term debt is an extremely powerful tool to monitor management. (4) Taken together, our findings offer one possible explanation of why firms hire overconfident CEOs despite the concern that they might be value destroying in M&As.	Introduction: para #3 Introduction: para #9 Introduction: para #11 Introduction: para #11
ONE	**One** bottom line	
(J) Contribution?	(1) contributes to the literature on debt maturity structure at the individual decision-maker level, rather than at the industry or firm levels. (2) 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) helps further bridge the gap between behavioral finance and corporate financing decisions. We show that the effect of overconfidence is not only related to the choice (debt vs. equity) and level of financing (leverage), but also extends to the choice of maturity.	Introduction: para #10

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