QJFA

Quarterly Journal of Finance and Accounting

Volume 58 Issue 4 Fall 2020

Creighton UNIVERSITY

The Q-Theory Model: Evidence from the U.S. Market and non-U.S. Markets

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Abstract

We examine the ability of an investment-based asset pricing model, q-theory, to explain the cross-section of stock returns for U.S. and non-U.S. markets. We conduct tests of the model's ability to explain asset-pricing anomalies associated with momentum and asset growth and find that the q-theory model outperforms the Fama-French three-factor model in the U.S. and beyond. The results support the use of q-theory to obtain returns for application to stock valuation, portfolio performance evaluation and capital budgeting decisions.

Keywords: asset pricing, Q-theory of investment, cross section of expected returns, asset growth, momentum

JEL Classifications: G12, G15

The Gender Contribution to the Corporate Goverance and the Corporate Performance (Lessons from the E.U.)

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Abstract

We investigate whether gender can be considered part of the corporate governance structure and, accordingly, its real impact on corporate performance. Based on our analysis of 21,382 European companies and 2,159 ones in the U.K., we focus on the impact of mandatory female percentages (pink quotas) based on the proposed EU directive, which aims to push female representation toward their natural percentage of the home population. We find that gender explains differences among the corporate governance solutions as adopted at national level. This fact holds regardless of whether the specific country has already adopted any regulation in accordance with the EU proposal. In fact, governance choices are more rooted into the country culture, although the single national governance schemes differentiate whether the managerial roles are mainly covered by females or males. The EU directive appears to be unable to reduce the gaps between the schemes of governance adopted across the EU, as there is no economic incentive to do so. Indeed, gender and governance do contribute to capital intensity of EU companies and their funding, as suggested by previous literature, but have no impact on corporate ROI or its persistence. Surprisingly, far from it, we find that female gender attracts more equity capital, regardless of the operating risk level. However, there is evidence that in the unregulated U.K. market, gender does influence ROI.

Keywords: gender, corporate governance, corporate performance, creditworthiness

JEL Classifications: G30, G32, G38, M10

A Synthesis of Capital Budgeting Techniques Around the World: 1990-2018

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ABSTRACT

We present a synthesis of 46 capital budgeting surveys from around the world. We find that some recommended capital budgeting techniques are widely used in many countries, such as Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period (PB), Scenario Analysis and Sensitivity Analysis. However, cost of capital best practice, i.e., calculating weighted average cost of capital (WACC), as an input in capital budgeting techniques is not used by the majority of firms. An average of 34% of firms across surveys do not even compute a cost of equity required in calculating WACC. Only a small minority of firms use more advanced techniques, such as Economic Value Added (EVA) and simulation analysis. These results show that financial educators have a long way to go in matching up financial practices with the theory via financial education.

Keywords: cost of capital, cost of equity, capital budgeting, discount rates, project valuation, survey, cross-country comparison, financial techniques, synthesis

JEL Classifications: G31; G32; G12; F30; G30

Stock Repurchases and the Components of Equity Compensation: The Impact of SFAS 123R

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ABSTRACT

This paper uses an exogenous change in accounting regulations to test the extent to which previously documented associations between stock repurchases and equity compensation practices are driven by the transitory regulatory environment rather than fundamental economic motivations. We show that the pre-SFAS 123R positive association between repurchases and stock option compensation was context specific and no longer holds in the post-SFAS 123R period. Our results suggest that the associations reported between option compensation, long-term equity compensation and repurchases in the pre-SFAS 123R period are sensitive to model specification arising from multi-collinearity, sample period and option compensation measurement. Overall, any substitution effect that may have existed between compensation components is substantially diminished in the post-SFAS 123R period.