

DOCTORAL THESIS

Essays on overlapping institutional investors along a supplier: customer relationship

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Date of Award:
2014

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ABSTRACT

This study consists of two essays. In the first essay, I examine whether the overlap in institutional investors between the supplier and its customer can be an efficient monitoring mechanism in the product market. Using a large sample of supplier–customer relationships for the period 1980–2011, I provide the following evidence. First, a high level of overlapping institutional ownership mitigates the adverse effect of asymmetric interdependence between supplier and customer on their firm performance. Second, relationship-specific investments and partnership duration are identified as underlying channels through which overlapping institutional ownership mitigates the adverse effect of asymmetric interdependence on partners' performance. Third, overlapping institutional ownership is negatively associated with accounts receivable when the supplier is more financially constrained than the customer, suggesting that overlapping institutional ownership improves the efficiency of trade credit allocation. These findings survive out of a series of robustness checks. The findings of this study highlight that the overlap in institutional investors between supplier and customer plays as an efficient monitoring mechanism in the product market.

In the second essay, I examine the informational role of overlapping transient institutional investors who hold stocks of both the firm and its customers in disseminating customer information to the firm's bond market and document four findings. First, I find that overlapping transient institutional ownership significantly alleviates the prediction of lagged customer-portfolio bond returns to supplier bond returns even after controlling for the interaction effect between stock market and bond market. This finding survives out of a series of robustness checks. The alleviation effect is more pronounced for firms with high customer concentration and low customer industry competition, or with non-investment grade. Second, I find that overlapping transient institutional ownership represents more than a mere proxy for investor attention and leads to information advantage over overlapping institutional bondholders. Third, I find that current customer-portfolio return is significantly associated with the trading volume of overlapping transient institutional investors in the bond market, suggesting that overlapping transient institutional investors indeed take customer information into account when they trade bonds of suppliers. Fourth, I examine the real effect of customer information on bondholders and find that customer bond return is significantly related to the supplier's future operating performance, which is an important predictor of credit risk. Overall, my results show that overlapping transient institutional shareholders take economically linked information into account when they trade in the bond market and improve the informativeness of bond price.

Keywords: supplier–customer relationships, overlapping institutional investors, monitoring mechanism, bond price informativeness

ACKNOWLEDGEMENTS

I would like to express my appreciation to my prior principal supervisor, Professor Stephen Yan-Leung Cheung, for his constant supports and encouragements. I am also indebted to my current principal supervisor, Dr. Bingbing Hu, for her valuable comments and great encouragement. I would like to express my deep gratitude to Professor In-Mu Haw, for his patient guidance, enthusiastic encouragement and insightful comments on my research. I am grateful to Professor Zhijun Lin, head of Department of Accountancy and Law, Dr. Wenming Wang, Dr. Weiqiang Tan, Dr. Fang Zhang and other faculties at School of Business, Hong Kong Baptist University. I would like to offer my special thanks to the thesis examiners, Dr. Liu Zheng, associate professor at City University of Hong Kong, Professor Woody Wu at Chinese University of Hong Kong, Dr. Byron Song, associate professor at Hong Kong Baptist University for their valuable comments and suggestions. I would like to extend my thanks to Ph.D. students and Research Assistants at School of Business, Hong Kong Baptist University, for joyful moments I shared with them.

I wish to acknowledge the help provided by executive staffs at School of Business and Graduate School, Hong Kong Baptist University. Finally, I would like to acknowledge the support of my family during my learning journey. All errors are mine.

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