



Spring Term 2015 (FS 2015)

**Doctoral Seminar Empirical Research Executive Compensation,  
Corporate Governance, & Corporate Transparency**

**Course schedule and reading list**

**1) Session and exercise schedule**

<b>Session</b>	<b>Day</b>	<b>Time</b>	<b>Room</b>
1	Tuesday, March 24	10.30 - 12.00	KOL-G-212
2	Tuesday, March 24	13.00 - 15.00	KOL-G-212
Research Seminar Prof. Guay	Tuesday, March 24	16.15 - 17.45	PLM F 103/104
3	Wednesday, March 25	10.30 - 12.00	KOL-G-212
4	Wednesday, March 25	13.30 - 15.30	KOL-G-212
5	Wednesday, March 25	16.00 - 17.30	KOL-G-212
6	Thursday, March 26	10.30 - 12.00	KO2-F-152
7	Thursday, March 26	13.30 - 15.00	KO2-F-152
8	Thursday, March 26	15.30 - 17.00	KO2-F-152

On Tuesday, March 24, Prof. Guay will present his latest research paper in the IBW's Research Seminar in Accounting, Auditing & Governance (AAG) (see [www.business.uzh.ch/professorships/managerialaccounting/lehre/aag.html](http://www.business.uzh.ch/professorships/managerialaccounting/lehre/aag.html)), the seminar talk is considered as a part of the doctoral seminar.

**2) Seminar content**

The course seminar discusses recent empirical research in the area of executive compensation. This course is targeted towards doctoral students in Accounting, Finance, and Economics who want to conduct empirical research in this area.

**Session 1: Overview**

Lecture on "Introduction to Executive Compensation, Governance, and Financial Transparency" (Wayne Guay).





## **Session 2: Introduction to Agency Conflicts between managers, directors, shareholders, and creditors**

### Required readings:

Jensen, M.C., Meckling, W.H., 1976. Theory of the firm: managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics* 3, 305-360.

Armstrong, C., Guay, W., Weber, J., 2010. The role of information and financial reporting in corporate governance and debt contracting. *Journal of Accounting and Economics* 50, 179-234. [emphasis on Sections 2 and 3]

### Additional readings:

Demsetz, H., Lehn, K., 1985. The structure of corporate ownership: causes and consequences. *Journal of Political Economy* 93, 1155-1177.

Adams, R., Hermalin, B. and Weisbach, M., 2010. The Role of Boards of Directors in Corporate Governance: A Conceptual Framework and Survey. *Journal of Economic Literature*, 48(1): 58–107.

Fama, E., Jensen, M., 1983. Separation of ownership and control. *The Journal of Law and Economics* 26, 301-325.

Jensen, M., 1986, Agency costs of free cash flow, corporate finance, and takeovers, *American Economic Review* 76, 323-329.

Myers, S.C., Majluf, N., 1984. Corporate Financing and investment decisions when firms have information investors do not have. *Journal of Financial Economics* 13, 187-221.

## **Workshop: “Why Do CEOs Hold So Much Unconstrained Equity?”**

## **Session 3: Measurement and Determinants of CEO Incentives**

### Required readings:

Core, J., Guay, W., 1999. The Use of Equity Grants to Manage Optimal Equity Incentive Levels. *Journal of Accounting and Economics* 28, 151-184

Guay, W. An Empirical Analysis of Convexity in the Relation Between CEOs' Wealth and Stock Price. *Journal of Financial Economics* 53 (1999): 43-71.

### Additional readings:

Lambert, R., Larcker, D., Verrecchia, R., 1991. Portfolio considerations in valuing executive compensation. *Journal of Accounting Research* 29, 129-149.

Core, J., Guay, W., 2002. Estimating the value of employee stock option portfolios and their sensitivity to price and volatility. *Journal of Accounting Research* 40, 613-630.

Core, J., Guay, W., Larcker, D., 2003. Executive compensation and incentives: a survey. *Economic Policy Review*, 9: 27-50.



Himmelberg, C., Hubbard, G., and Palia, D., 1999. Understanding the determinants of managerial ownership and the link between ownership and performance. *Journal of Financial Economics* 53, 353-384.

Peters, F., and Wagner, A., 2014. The Executive Turnover Risk Premium. *Journal of Finance* 69, 1529-1563.

Hayes, R., Lemmon, M., and Qiu, M., 2012. Stock options and managerial incentives for risk taking: Evidence from FAS 123R. *Journal of Financial Economics* 105, 174-190.

#### **Session 4: Measurement and Determinants CEO Pay**

##### Required readings:

Canyon, M., J. Core, and W. Guay, 2011. Are US CEOs Paid More Than UK CEOs? Inferences From Risk-Adjusted Pay?, *Review of Financial Studies* 24: 402-438.

Core, J., W. Guay, and R. Verrecchia, 2003. Price versus Non-Price Performance Measures in Optimal CEO Compensation Contracts, *The Accounting Review* 78: 957-981.

Armstrong, C., J. Core, and W. Guay, 2014. Why Do Some CEOs Hold So Much Equity?, working paper.

##### Additional readings:

Lambert, R., Larcker, D., 1987. An analysis of the use of accounting and market measures of performance in executive compensation contracts. *Journal of Accounting Research* 25, 85-129.

Core, J., Guay, W., 2010. Is pay too high and are incentives too low: A wealth-based contracting framework. *Academy of Management Perspectives* 24, 5-19.

Core, J., Holthausen, R., Larcker, D., 1999. Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics* 51, 371-406.

Hall, B. and K. Murphy, 2002. Stock options for undiversified executives. *Journal of Accounting & Economics* 33, 3-42.

Albuquerque, A., De Franco, G., and Verdi, R., 2013. Peer choice in CEO compensation. *Journal of Financial Economics* 108, 160-181.

Murphy, K. 2012. Executive Compensation: Where We Are, and How We Got There, Working paper, USC.

#### **Session 5: CEO Incentives and Behavior**

##### Required readings:

Armstrong, C., Jagolinzer, A., Larcker, D., 2010. Chief Executive Officer Equity Incentives and Accounting Irregularities. *Journal of Accounting Research* 48, 225-271.

Armstrong, C., Vashishtha, R., 2012. Executive stock options, differential risk-taking incentives, and firm value. *Journal of Financial Economics* 104, 70-88.



Additional readings:

Coles, J., Daniel, N., Naveen, L., 2006. Managerial incentives and risk-taking. *Journal of Financial Economics* 79, 431-468.

Sundaram, Rangarajam, and David Yermack, 2007. Pay me later: Inside debt and its role in managerial compensation, *Journal of Finance* 62, 1551-1588.

Core, J., 2010. Discussion of Chief Executive Officer Equity Incentives and Accounting Irregularities, *Journal of Accounting Research* 48: 273-287.

Hazarika, S., J. Karpoff, and R. Nahata, 2012. Internal corporate governance, CEO turnover, and earnings management, *Journal of Financial Economics* 104: 44-69.

**Session 6: Board Structure and the Information Environment**

Required readings:

Armstrong, C., J. Core, and W. Guay, 2014. Do Independent Directors Cause Improvements in Firm Transparency?, *Journal of Financial Economics* 113: 383-403.

Cremers, M., L. Litov, and S. Sepe, 2014. Staggered Boards and Firm Value, Revisited, Working paper. University of Notre Dame.

Additional readings:

Bushman, R., Chen, Q., Engel, E., Smith, A., 2004. Financial accounting information, organizational complexity and corporate governance systems. *Journal of Accounting and Economics* 37, 167-201.

Armstrong, C., K. Balakrishnan, and D. Cohen, 2012. Corporate governance and the information environment: Evidence from state antitakeover laws. *Journal of Accounting and Economics* 53, 185-204.

Larcker, D., Rusticus, T., 2010. On the use of instrumental variables in accounting research. *Journal of Accounting and Economics* 49, 186-205.

Linck, J., Netter, J., Yang, T., 2008. The determinants of board structure. *Journal of Financial Economics* 87, 308–328.

Masulis, R., C. Wang, and F. Xie, 2012. Globalizing the boardroom – The effects of foreign directors on corporate governance and firm performance. *Journal of Accounting and Economics* 53, 527-554.

**Session 7: Shareholder Governance**

Required readings:

Ertimur, Y., F. Ferri, and D. Oesch, 2013. Shareholder Votes and Proxy Advisors: Evidence from Say on Pay. *Journal of Accounting Research* 51, 951-996.

Armstrong, C., Gow, I., Larcker, D., 2012. The efficacy of shareholder voting: evidence from equity compensation plans. *Journal of Accounting Research* 51, 909-950.



Additional readings:

Cai, J., Garner, J., Walking, R., 2009. Electing Directors. *Journal of Finance* 64, 2389-2421.

Larcker, D., A. McCall, and G. Ormazabal, 2014, Outsourcing Shareholder Voting to Proxy Advisory Firms, Working paper, Stanford University.

Ertimur, Y., Ferri, F., Muslu, V., 2011. Shareholder Activism and CEO Pay. *The Review of Financial Studies* 24, 535- 592.

**Session 8: Student presentations of own research**