Ph.D. Dissertation Defense

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Degree:	Doctor of Philosophy
School/Department.:	School of Business / Business Administration
Date:	Friday, April 21, 2023
Time:	4:00 pm – 6:00 pm
Location:	https://stevens.zoom.us/j/91649589287
Title:	Three Essays on CEO Compensation, CEO Ownership and Market Feedback Effect
Chairperson:	Dr. Suman Banerjee, Finance, School of Business
Committee Members:	Dr. Anand Goel, Finance, School of Business
	Dr. Ye Wang, Finance, School of Business
	Dr. Jordan Suchow, Information Systems, School of Business

Abstract

In the first essay, "*Quality of Corporate Governance, CEOs' Opportunity Costs, and Compensation Structure*", we find that CEO ownership level is strongly negatively related to the quality of corporate governance. Further, we argue that higher liquidation of shareholdings lowers the CEO's wealth-performance sensitivity; hence, the compensation committee needs to give more incentive compensation to keep the wealth-performance sensitivity at the optimal level. We find that CEO incentive intensity is positively associated with the quality of corporate governance. However, we show that even if they earn higher incentive compensation, CEOs with lower stock ownership have lower wealth-performance sensitivity. We use the passage of the Sarbanes-Oxley Act (henceforth, SOX) as a quasi-natural experiment to mitigate the causality concern between corporate governance, the CEO's stock ownership, and the compensation structure. Our results have important implications for contracting mechanisms related to mitigating agency problems.

In the second essay, "*Location Matters: The Impact of Local Air Quality on CEO Compensation Structure*", we try to explore whether top executives demand a premium for working in poor air quality locations. We model, hypothesize, and show that they do. The compensation structure is tilted towards more fixed pay. This is the case even if we exclude polluting firms. We mitigate causality and identification concerns by (inter alia) using a quasi-natural experiment: the acid rain project. The impact of pollution increases with managerial bargaining power, as captured through CEO power, managerial ability, and outside opportunities. The latter being captured with the staggered passage of the inevitable disclosure doctrine. Environmental consciousness in the media also increases this effect. These findings are consistent with policy, investor, and corporate goals of mitigating environmental damage.

In the third essay, "*Coordinating Product Market Strategies Using Market Feedback*", we develop a model where firms learn from stock price movements about their product market competitors. The firm uses market feedback to adjust its best responses to its rivals' strategies, and these adjustments help to increase profits. We find consumers are worse off. To understand the role of information, we consider two scenarios: first, a public-private, and second, a public-public combination. We find firms are better off and consumers are worse off in the second relative to the first scenario. The informed investor earns less in the second scenario implying that, in equilibrium, she picks one stock to trade. We find market feedback is socially valuable. Our results have important normative implications: we highlight the partial irrelevance of direct regulatory efforts and the role of corporate taxes in mitigating consumers' resentments in a free-market economy.