6th Erasmus Corporate Governance Conference

June 16, 2023

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16 June 2023

Introduction

We would like to welcome you as a participant in the 6th edition of the Erasmus Corporate Governance Conference. This conference brings together leading scholars from the field and consists of the presentation and discussion of 27 excellent papers from the current research frontier on Executive Compensation or Corporate Governance. The keynote speech will be given by Dirk Jenter from London School of Economics.

This one-day event is organized by the finance department at Erasmus University Rotterdam. We thank the Tinbergen Institute and the Erasmus Research Institute of Management (ERIM) for providing financial support. We sincerely hope you will enjoy this conference, and we look forward to exciting presentations and fruitful discussions.

Kind regards,

Ingolf Dittmann
(Chair)

Sebastian Gryglewicz

Sebastian Pfeil

Program committee

Jihun Bae

Adriana Breaban

Giovani Cocco

Fabrizio Core

Michael Erkens

Marc Gabarro

Ying Gan

Li He

Daniel Metzger

Mikael Paaso

Anjana Rajamani

Daniel Urban

Patrick Verwijmeren

Sebastian Vogel

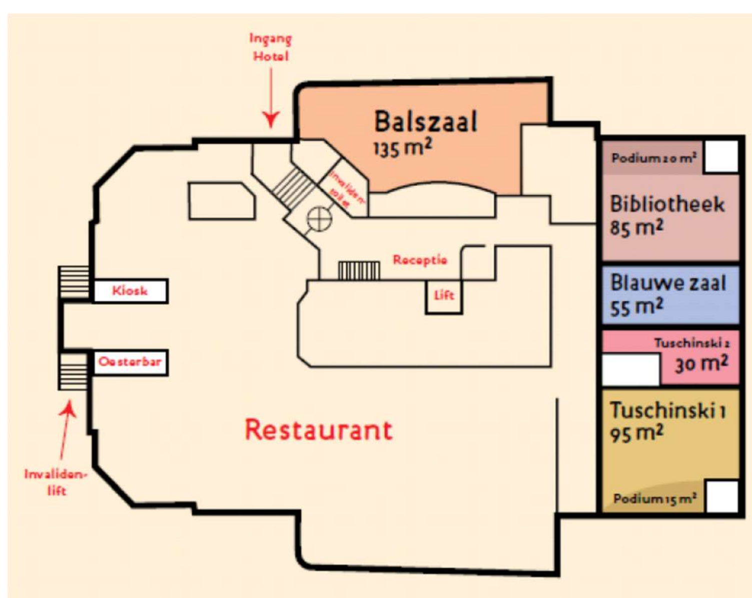
Vadym Volosovych

Guosong Xu

Haikun Zhu

Program overview

The conference venue is Hotel New York, Rotterdam. Hotel New York is situated in the former headquarters of the Holland-America Line on the Kop van Zuid neighborhood. Kop van Zuid is a redeveloped dockland area hosting some of Rotterdam's most striking architecture. The program is divided in three parallel sessions which will take place in three rooms on the ground floor: Balszaal, Biblotheek, and Blauwe Zaal.



			Balszaal	Bibliotheek	Blauwe Zaal
09:00	–	10:00	Keynote speech		
10:30	–	12:30	Sustainability	Diversity and Gender	Incentives I
13:30	–	15:30	Social Preferences	Equity Incentives	Incentives II
16:00	–	18:00	Board of Directors	Employees	Blockholders

The Tuschinski I room will be used for the breaks and catering. Lunch will be provided at 12:30 at the Hotel Restaurant.

After the last session, you are invited to participate in a short walking tour of the interesting area of Rotterdam around the conference venue. It starts at 18:15 in front of Hotel New York and ends at 19:00.

The conference will finish with dinner in the restaurant of Hotel New York starting at 19:15.

Detailed program

9:00 – 10:00, Balszaal: Keynote speech
The Market for CEOs
Dirk Jenter, London School of Economics

10:30 – 12:30, Balszaal: Sustainability
Chair: Magdalena Rola-Janicka

The CEO Compensation Sustainability Goals' Disconnect: Evidence from the Oil & Gas Industry
Sudheer Chava, **Lubomir Litov**, Runzu Wang, and Bing Xu
Discussant: Anjana Rajamani

Executive Compensation With Socially Responsible Shareholders
Pierre Chaigneau and **Nicolas Sahuguet**
Discussant: Thomas Geelen

Sustainable Organizations
Thomas Geelen, Jakub Hajda, and **Jan Starmans**
Discussant: Magdalena Rola-Janicka

10:30 – 12:30, Bibliotheek: Diversity and Gender
Chair: Christoph Schneider

Racial Prejudice in the Workplace and Firm Boycotts
Isaac Hacamo
Discussant: Daniel Urban

Gender of firm decision-makers and within-firm wage disparity
Manthos D. Delis, Iftekhar Hasan, Maria Iosifidi, **Panagiotis Politsidis**, and Anthony Saunders
Discussant: Tanja Artiga Gonzalez

Gender, performance, and promotion in the labor market for commercial bankers
Marco Ceccarelli, Christoph Herpfer, and Steven Ongena
Discussant: Christoph Schneider

10:30 – 12:30, Blauwe Zaal: Incentives I

Chair: Tim Eisert

Did Western CEO Incentives Contribute to China’s Technological Rise?
Bo Bian and **Jean-Marie Meier**
Discussant: Haikun Zhu

Private Equity and Corporate Borrowing Constraints: Evidence from Loan Level Data
Sharjil Haque, Young Soo Jang, and **Simon Mayer**
Discussant: Guosong Xu

Recessions, Bank Distress & Managerial Incentives to Innovate
Petra Sinagl and Jiawei (Brooke) Wang
Discussant: Tim Eisert

13:30 – 15:30, Balszaal: Social Preferences

Chair: David Yermack

A Theory of Fair CEO Pay
Pierre Chaigneau, Alex Edmans, and Daniel Gottlieb
Discussant: Sebastian Pfeil

The Shared Cost of Pursuing Shareholder Value
Michele Fioretti, **Victor Saint-Jean**, and Simon C. Smith
Discussant: Naciye Sekerci

CEO Social Preferences and Layoffs
Marius Guenzel, Clint Hamilton, and Ulrike Malmendier
Discussant: David Yermack

13:30 – 15:30, Bibliotheek: Equity Incentives

Chair: Oliver Spalt

Private Benefits of Influence
Anna Abate Bessomo
Discussant: Jing Zeng

Are share repurchase decisions influenced by equity-based compensation Insights from the corporate calendar
Ingolf Dittmann, Amy Yazhu Li, Stefan Obernberger, and **Jiaqi Zheng**
Discussant: Tomislav Ladika

Dynamic Incentive Effects of Dual-Class Shares: Theory and Evidence
Doron Levit, Roni Michaely, and **Hyunseob Kim**
Discussant: Oliver Spalt

13:30 – 15:30, Blauwe Zaal: Incentives II
Chair: Swarnodeep Homroy

Competition for talent and cyclical malpractice in corporate governance
Alvaro Remesal
Discussant: Spyros Terovitis

Lying to Speak the Truth: Selective Manipulation and Improved Information Transmission
Paul Povel and **Günter Strobl**
Discussant: Simon Mayer

Stemming the Tide: Overlapping Boards and Reduced Employee Flows
Taylor Begley, Peter Haslag, and **Daniel Weagley**
Discussant: Swarnodeep Homroy

16:00 – 18:00, Balszaal: Board of Directors
Chair: Vincenzo Pezone

Do Institutional Directors Matter?
Heng Geng, **Harald Hau**, Roni Michaely, and Binh Nguyen
Discussant: Florian Peters

Venture Capitalist Directors and Managerial Incentives
Lubomir P. Litov, Xia (Summer) Liu, **William Megginson**, and Romora E. Sitorus
Discussant: Egle Karmaziene

CEO Turnover and Director Reputation
Felix von Meyerinck, Jonas Romer, and **Markus Schmid**
Discussant: Vincenzo Pezone

16:00 – 18:00, Bibliotheek: Employees
Chair: Jasmin Gider

Do Employee Interests Affect Target Board Decisions about Acquisition Offers? Evidence from Changes in Unemployment Insurance
Lixiong Guo, Jing Kong, and Ronald W. Masulis
Discussant: Daniel Metzger

Closing the Revolving Door
Joseph Kalmenovitz, Siddharth Vij, and Kairong Xiao
Discussant: Xingchen Zhu

When Employees have their Say on Capital Structure: Evidence from a Quasi-natural Experiment
María Gutiérrez-Urtiaga, Sofía Martínez, and **Antonio Vazquez**
Discussant: Jasmin Gider

16:00 – 18:00, Blauwe Zaal: Blockholders
Chair: Torsten Jochem

Governance reallocation by institutional owners
Sergio J. Garcia, **Jose M. Martin-Flores**, and Alvaro Remesal
Discussant: Shuo Xia

Blockholder Representation on the Board - Theory and Evidence
Samed Krüger, **Peter Limbach**, and Paul Voss
Discussant: Patrick Verwijmeren

The Role of Passive Ownership in the Era of Say-on-Pay
Kiseo Chung and **Hwanki Brian Kim**
Discussant: Torsten Jochem

Abstracts

9:00 – 10:00, Balszaal: Keynote speech
The Market for CEOs
Dirk Jenter, London School of Economics

The evidence suggests that CEOs have first-order effects on firms, which makes an efficient assignment of CEOs to firms important. This process has been studied much less than, for example, CEO pay. As a result, it remains unclear how efficient the market for CEOs is and what models best describe it. This keynote reviews recent evidence on the types of CEOs selected by different firms, the selection process itself, how it is affected by constraints on CEO pay, the implications for the allocation of talent, and promising directions for future research.

10:30 – 12:30, Balszaal: Sustainability
Chair: Magdalena Rola-Janicka

The CEO Compensation Sustainability Goals' Disconnect: Evidence from the Oil & Gas Industry
Sudheer Chava, **Lubomir Litov**, Runzu Wang, and Bing Xu
Discussant: Anjana Rajamani

Using novel hand-collected data of managerial annual incentive plans (AIP) goals in 1994-2020, we characterize the presence of sustainability compensation targets. We show that sustainability targets are often quantified with corresponding overall weight in the incentive plan instead of rarely observed sustainability modifiers. Examining Fortune 250 firms, we find that such sustainability goals are uncommon and available in about 8% of the sample as recent as 2020. Moreover, most such firms are in the oil & gas industry. Turning exclusively to the latter, we show that sustainability goals are only effective in reducing CO2 emissions, environmental penalties, and toxicity emissions for past polluters. No such effect is present in green innovation. Our results suggest that sustainability compensation goals are valuable if implemented in firms with high past pollution levels, exclusively, consistent with optimal contracting. Since sustainability goals are associated with slower sales growth and lower profitability, therefore boards need judiciously apply such contracts. Using firm inclusion in the Board Accountability Project and state adoption of director duties statutes as well as industry sustainability compensation practices as instruments for adopting sustainability targets, we confirm that our results are causal.

Executive Compensation With Socially Responsible Shareholders
Pierre Chaigneau and **Nicolas Sahuguet**
Discussant: Thomas Geelen

We study how a socially responsible board, which represents the firm's shareholders, can align the manager's interests in a principal-agent model with ESG ratings and scores. When the board is more (less) socially responsible than investors who set the stock price, incentives are based on the stock price and ESG scores (earnings). Thus, ESG-based compensation and socially responsible investors are substitutes, and the compensation contract's complexity only increases when the board and investors have different social preferences. It is easier to align interests when stock market investors are more socially responsible than the board. The firm's manager, who understands how ESG scores are constructed, will game the methodologies. In some circumstances, this inefficiency can be mitigated by relying on multiple scores based on different methodologies. This has normative implications for the regulation and harmonization of ESG ratings.

Sustainable Organizations
Thomas Geelen, Jakub Hajda, and **Jan Starmans**
Discussant: Magdalena Rola-Janicka

We analyze how stakeholders such as employees, managers, and investors shape organizations when they are pro-social. Our findings challenge the notion that pro-social stakeholders always improve an organization's sustainability. Instead, they demonstrate that conflicts of interest arising from differences in pro-social preferences can result in pro-social stakeholders losing control rights and influence, an effect that ultimately reduces the sustainability of organizations. Our findings shed light on recent trends in stakeholder engagement and provide conditions under which pro-social stake-holders either benefit or harm the sustainability of organizations.

10:30 – 12:30, Bibliotheek: Diversity and Gender

Chair: Christoph Schneider

Racial Prejudice in the Workplace and Firm Boycotts
Isaac Hacamo
Discussant: Daniel Urban

I investigate the impact of contemporary grassroots boycotts on addressing racial discriminatory practices within a fi rm. Introducing new data on allegations of racial prejudice in the workplace, I show that when these allegations are more (randomly) prominent to prospective employees and consumers, foot traffic declines by 4-5% at stores located in predominantly non-white, young, or low-income zip codes. Additional results show that information cascades among internet platforms, shedding light into the mechanisms of a modern grassroots boycott. A randomized survey experiment confirms that consumers boycott a fi rm after learning about allegations of workplace racial prejudice, but not for other types of complains.

Gender of firm decision-makers and within-firm wage disparity
Manthos D. Delis, Iftekhar Hasan, Maria Iosifidi, **Panagiotis Politsidis**, and Anthony Saunders
Discussant: Tanja Artiga Gonzalez

We empirically examine the hypothesis that the gender of firm decision makers, i.e., small firm owners and large firm board directors, significantly affects within-firm wage disparity, defined as the ratio of decision makers' to average employees' compensation. Using unique data for both small and large firms, we find that female decision makers lower within-firm wage disparity. We identify skill/specialization level of decision makers as a key reason for this relation, based on the important role of R&D and innovation. We also identify a moderating role for proxies for business ethics, such as poor financial-reporting quality and other types of misconduct.

Gender, performance, and promotion in the labor market for commercial bankers
Marco Ceccarelli, Christoph Herpfer, and Steven Ongena
Discussant: Christoph Schneider

Using data from the U.S. syndicated loan market, we find women under-represented among senior commercial bankers. This gap persists due to unequal promotion rates for men and women at the same institution in the same year and cannot be explained by different individual or managerial performance. The gap is more influenced by individuals than institutions, with senior bankers showing assortative matching when changing jobs and perpetuating the promotion gap from their previous workplace. Our findings suggest that the gender gap may be partially attributed to women taking on more family care responsibilities. Hard credentials or female leadership at the top of banks do not alleviate the gender gap, but targeted gender discrimination lawsuits have resulted in increased promotion of women.

10:30 – 12:30, Blauwe Zaal: Incentives I

Chair: Tim Eisert

Did Western CEO Incentives Contribute to China's Technological Rise?
Bo Bian and **Jean-Marie Meier**
Discussant: Haikun Zhu

We study the role of Western CEO incentives in fostering the technological rise of China. Due to China's quid pro quo policy, foreign multinationals face a trade-off between the short-term benefits of accessing China's vast market and the long-term costs of transferring technology to China. Leveraging microdata on the global patent network, we construct multiple measures to describe technological interactions between US firms and over 70 countries. We find that firms managed by CEOs with high-powered incentive contracts form more partnerships with China and transfer more technology to China. These firms subsequently lose R&D human capital to China and face more patenting competition from China, suggesting negative long-term consequences in innovation. We provide evidence consistent with the myopia-inducing instead of the effort-inducing property of high-powered CEO incentives. The paper reveals an important real effect of CEO incentives and highlights a novel channel behind China's technological catch-up. Our findings have wide policy implications, informing both the future design of CEO compensation packages and the regulatory architecture concerning technological interactions with China.

Private Equity and Corporate Borrowing Constraints: Evidence from Loan Level Data
Sharjil Haque, Young Soo Jang, and **Simon Mayer**
Discussant: Guosong Xu

How do private equity (PE) investors affect firms' borrowing constraints, debt structure, and leverage dynamics? In this paper, we examine this central question by analyzing a large and novel database of PE-backed, bank-reliant, small and middle market firms in the U.S. using administrative firm-bank-loan level data. We show that PE owners improve cash flow pledgeability, thereby allowing PE-backed firms to borrow against cash flow. Relative to comparable non PE-backed firms that primarily rely on asset-based debt, PE-backed firms use more cash flow-based debt, and exhibit a higher sensitivity of borrowing and investments to changes in earnings. We also document that PE owners inject equity and stabilize earnings under distress, two potential mechanisms explaining PE-backed firms' access to cash flow-based debt. We propose a simple theoretical framework to rationalize our results. Our findings have novel implications for our understanding of how PE investors affect firm policies, outcomes, and exposure to economic shocks.

Recessions, Bank Distress & Managerial Incentives to Innovate
Petra Sinagl and Jiawei (Brooke) Wang
Discussant: Tim Eisert

Recessions shake financial markets. Are managerial incentives to innovate impacted by crises and resulting bank distress? We show that exogenous shocks to CEO option pay awarded in bad times lead to firms producing more patents in future years. These results are consistent with risk-averse managers choosing to innovate more in bad times, which is when conventional projects are riskier due to the overall higher systematic risk in markets. Benefits of choosing the 'safer' conventional project shrink in bad times. In normal times (i.e., unconditionally), increasing CEO option pay does not impact future firm innovation. We also show that when managers are more risk averse or have more 'skin in the game,' increasing their option pay reduces future firm innovation, consistent with higher risk-sharing costs.

13:30 – 15:30, Balszaal: Social Preferences

Chair: David Yermack

A Theory of Fair CEO Pay
Pierre Chaigneau, Alex Edmans, and Daniel Gottlieb
Discussant: Sebastian Pfeil

This paper studies optimal executive pay when the CEO is concerned about fairness: if his wage falls below a perceived fair share of output, the CEO suffers disutility that is increasing in the discrepancy. Fairness concerns do not lead to fair wages always being paid – to induce effort, the firm threatens the CEO with unfair wages if output is sufficiently low. The optimal contract sometimes involves performance shares: the CEO is paid a constant share of output if it is sufficiently high, but the wage drops discontinuously to zero if output falls below a threshold. Even if the incentive constraint is slack, the optimal contract continues to involve pay-for-performance, to address the CEO's fairness concerns and ensure his participation. Thus, the firm can implement strictly positive levels of effort "for free." This rationalizes pay-for-performance even if the CEO is intrinsically motivated and does not need effort incentives.

The Shared Cost of Pursuing Shareholder Value
Michele Fioretti, **Victor Saint-Jean**, and Simon C. Smith
Discussant: Naciye Sekerci

Using quasi-experimental variations from the timing of firms' Annual General Meetings (AGMs), we propose a portable framework to infer shareholders' preferences and influences on firms' prosocial decisions and apply it to covid-related donations, recent private sanctions on Russia, and firms' prosocial stances over 2012-19. Image gains due to AGMs' media exposure drive shareholders synonymous with a firm, like closely-connected individuals, to support costly prosocial changes, while others, like financial corporations, oppose them. Influence supporting these changes considerably lowers earnings: pursuing the values of (some) shareholders has distributional costs, which the monitoring of large shareholders motivated by heterogeneous preferences could prevent.

CEO Social Preferences and Layoffs
Marius Guenzel, Clint Hamilton, and Ulrike Malmendier
Discussant: David Yermack

We study whether CEO social preferences influence firm decision-making with respect to employees, using a new dataset on layoff announcements by U.S. public firms. We first document sizable frictions in firms' layoff decisions: after exogenous CEO changes, new CEOs make more, and shareholder value-increasing, layoffs. Consistent with social preferences arising through social interactions, CEOs become more reluctant to make layoffs over their tenure as they form more connections inside the firm. This effect is amplified for "difficult-to-implement" layoffs during recessions, of socially and geographically close employees, and during the holiday season. Finally, we document a personal cost of firing for CEOs in the form of accelerated long-run mortality.

13:30 – 15:30, Bibliotheek: Equity Incentives

Chair: Oliver Spalt

Private Benefits of Influence
Anna Abate Bessomo
Discussant: Jing Zeng

Influence over the manager's incentives is sufficient for large shareholders, so called blockholders, to extract excess value per share, i.e. private benefits. This holds even if control is divorced from ownership. As blockholders and management interact repeatedly, private benefit extraction is shaped by their dynamic relationship and embedded in a repeated game setting. Which outcomes can be supported then depends crucially on the expected length of this relationship which is closely connected to the blockholder's investment strategy: as opposed to passive investors, locked into the relationship with the manager, active investors can exit a firm at will. This lack of commitment to not exit limits the active investor compared to her passive investing counterpart. Relying on indirect influence to earn private benefits induces inefficiencies in the solution to the managerial moral hazard problem. These inefficiencies can be eased by using bonus payments at the discretion of the blockholder through relational contracts instead of contracted for incentive pay tied to public revenues.

Are share repurchase decisions influenced by equity-based compensation Insights from the corporate calendar
Ingolf Dittmann, Amy Yazhu Li, Stefan Obernberger, and **Jiaqi Zheng**
Discussant: Tomislav Ladika

This study examines whether the CEO uses share repurchases to sell her equity grants at inflated stock prices, a concern regularly debated in academics, politics, and the media. We document that the positive correlation between share repurchases and equity-based compensation can be explained by the corporate calendar — the firm's schedule of earnings announcements and blackout periods. Accounting for the corporate calendar, share repurchases are no longer correlated with the granting or vesting of equity. Instead, the granting as well as vesting of equity increases the CEO's likelihood to set up a buyback program when it benefits long-term shareholder value. Moreover, the firm is generally more likely to announce a buyback program when the CEO buys equity and less likely to repurchase shares when the CEO sells equity. Overall, our results suggest that equity-based compensation promotes the adoption of value-increasing buyback programs, but it does not affect the execution of these programs.

Dynamic Incentive Effects of Dual-Class Shares: Theory and Evidence
Doron Levit, Roni Michaely, and **Hyunseob Kim**
Discussant: Oliver Spalt

This paper studies dynamic effects of dual-class shares on entrepreneurial effort and corporate agency costs both theoretically and empirically. Dual-class shares provide strong incentives by protecting the entrepreneur from being fired in the future. As the firm matures, however, increasing agency costs erode the value added from the heightened incentives. Using new panel data on US public firms' voting rights spanning 1971–2020, we find that: (i) the voting premium of dual-class firms increases over firm maturity; (ii) the market reacts positively to relatively young single-class firms switching to dual-class but significantly less so to mature single-class firms switching; (iii) young dual-class firms have higher valuations than young single-class firms but the wedge shrinks over time and eventually reverses; (iv) dual-class firms' investment and employment changes are less sensitive to investment opportunities; and (v) dual-class firms are more likely to generate patents with citations. As a whole, the combination of theoretical and empirical results is consistent with treatment effects of dual-class shares rather than selection, and provides new policy implications.

13:30 – 15:30, Blauwe Zaal: Incentives II

Chair: Swarnodeep Homroy

Competition for talent and cyclical malpractice in corporate governance
Alvaro Remesal
Discussant: Spyros Terovitis

We present a model that rationalizes the cyclical nature of executive compensation and malpractice. The model features a principal-agent setting where effort and misreporting incentives are at conflict and managerial talent is a scarce asset. In the optimal contract, investors exploit a combination of short-term bonuses and investment in monitoring, but competition for managerial talent exacerbates malpractice and increases incentive pay. Malpractice dampens the efficient reallocation of assets, which supports regulations that modulate executive pay and corporate governance. Embedded into a dynamic general equilibrium with household savings and endogenous rates of return, the model reproduces the build-up of malpractice during expansions and its reduction after declines in aggregate output.

Lying to Speak the Truth: Selective Manipulation and Improved Information Transmission
Paul Povel and **Günter Strobl**
Discussant: Simon Mayer

We analyze a principal-agent model in which an effort-averse agent can manipulate a publicly observable performance report. The principal cannot observe the agent's cost of effort, her effort choice, and whether she manipulated the report. An optimal contract links compensation to the eventually realized output and, in certain situations, to the (possibly manipulated) report. We show that the optimal contract may incentivize selective manipulation of an unfavorable report by an agent who exerted a high level of effort. Doing so can convert a "falsely" negative report into a positive one, thereby making the report more informative about the agent's effort choice.

Stemming the Tide: Overlapping Boards and Reduced Employee Flows
Taylor Begley, Peter Haslag, and **Daniel Weagley**
Discussant: Swarnodeep Homroy

Using résumé data on over 45 million U.S. workers, we find that the flow of employees between a pair of firms sharply drops by around 20-30% when the firms start to share a director on their boards. We find no trend prior to initiation, and the reduced flows persist throughout the overlapping period. This relationship is stronger in settings where firms are more likely to benefit from lower competition for each others' employees: between firms with a similar workforce, located in the same geographical area, and of similar size, between firms in the same product market, and between firms with greater historical flows of employees between the two companies. The drop in flows are most pronounced for high-skilled employees who are likely more costly to replace. The results suggest shared directors facilitate cooperative behavior in the labor market.

16:00 – 18:00, Balszaal: Board of Directors

Chair: Vincenzo Pezone

Do Institutional Directors Matter?
Heng Geng, **Harald Hau**, Roni Michaely, and Binh Nguyen
Discussant: Florian Peters

The past two decades saw a substantial increase in institutional equity ownership, but the prevalence of institutional directors in U.S. public firms is unclear. Using a novel dataset, we examine the role of institutional directors with the following findings. First, institutional board representation is extremely low relative to the extensive institutional ownership. Second, banks, sophisticated funds, and certain activist shareholders are much more likely to have board representation, whereas the largest retail funds are rarely represented in boardrooms. Third, we fail to find evidence that institutional directors represent a relevant channel of influence for common institutional shareholders to coordinate firm policies.

Venture Capitalist Directors and Managerial Incentives
Lubomir P. Litov, Xia (Summer) Liu, **William Megginson**, and Romora E. Sitorus
Discussant: Egle Karmaziene

We examine the effect of board members with venture capital experience (VC directors) on executive incentives at non-venture-backed public firms. VC directors serving on the compensation committee are associated with greater CEO risk-taking incentives (vega) and pay-for-performance sensitivity (delta). These effects are more substantial if VC directors are from highly reputable VC firms. Using availability of direct flights to VC hub cities and annual estimates of VC dry powder per industry as instruments, we show that these results are causal. In addition, VC directors are more focused on growth performance goals in CEO compensation contracts. We also document that prior finding of greater research intensity and innovation when VC directors serve on boards of public firms is partly explained by increased risk-taking incentives of the CEO instilled by such directors. Lastly, we find that having VC directors on nominating and/or governance committees is associated with a higher likelihood of forced CEO turnover.

CEO Turnover and Director Reputation
Felix von Meyerinck, Jonas Romer, and **Markus Schmid**
Discussant: Vincenzo Pezone

This paper analyzes the reputational effects of forced CEO turnovers on outside directors. Directors interlocked to a forced CEO turnover experience large and persistent increases in withheld votes at subsequent re-elections relative to non-turnover-interlocked directors. Reputational losses are larger for turnovers with a higher potential for disrupting a firm's management, for directors favorably inclined to the CEO, and for directors with a committee-based responsibility for monitoring the CEO. Our results imply that the average forced CEO turnover signals a governance failure at the board level, and that shareholders rely on salient actions to update their beliefs about directors' hidden qualities.

16:00 – 18:00, Bibliotheek: Employees

Chair: Jasmin Gider

Do Employee Interests Affect Target Board Decisions about Acquisition Offers? Evidence from Changes in Unemployment Insurance
Lixiong Guo, Jing Kong, and Ronald W. Masulis
Discussant: Daniel Metzger

We explore whether employee interests affect the evaluation of acquisition offers by target boards of directors. Exploiting changes in state unemployment insurance (UI) as sources of exogenous variation in worker unemployment costs, we find that lower unemployment costs increase acquisition activity. Adoption of state constituency statutes strengthens this relation. Boards of target firms having high labor intensity, low short-term institutional ownership, headquartered in low population or high social capital counties, and with female independent directors, more often strongly weight employee interests. Higher UI levels are also associated with larger post-acquisition layoffs. Our evidence supports theories rationalizing target boards' consideration of employee interests.

Closing the Revolving Door
Joseph Kalmenovitz, Siddharth Vij, and Kairong Xiao
Discussant: Xingchen Zhu

Regulators can leave their government position for a job in a regulated firm. Using granular payroll data on 23 million federal employees, we uncover the first causal evidence of revolving door incentives. We exploit the fact that post-employment restrictions on federal employees, which reduce the value of their outside option, trigger when the employee's base salary exceeds a threshold. We document significant bunching of employees just below the threshold, consistent with a deliberate effort to preserve the value of their outside option. The effect is concentrated among agencies with broad regulatory powers, minimal supervision by elected officials, and frequent interactions with high-paying industries. In those agencies, 32% of the regulators respond to revolving door incentives and sacrifice 5% of their wage potential to stay below the threshold. Consistent with theories of regulatory capture, we find that revolving regulators issue fewer rules and rules with lower costs of compliance. Using our findings to calibrate a structural model, we show that doubling the duration of the restriction will reduce the incentive distortion in the federal government by 2.7%, at the cost of modest decline in labor supply to the public sector. Combined, our results shed new light on the economic implications of the revolving door in the government.

When Employees have their Say on Capital Structure: Evidence from a Quasi-natural Experiment
María Gutiérrez-Urtiaga, Sofía Martínez, and **Antonio Vazquez**
Discussant: Jasmin Gider

We examine changes in the capital structure of small private firms when employees are granted decision rights through representation on the board of directors. Swedish law grants employees the right to have representatives on the board of directors when the firm has more than 25 employees. We exploit this discontinuity using firm-level data on small Swedish private firms and find evidence that employee representation at the board level results in significant decreases in the debt-to-equity ratio. Nevertheless, employee representatives are a minority of the board and have limited voting power. Therefore, we argue that the increase in bargaining power necessary to alter the capital structure of the firm comes from unions having access to additional information provided by the employee board representatives. The stronger effects for the subset of firms where information asymmetries between the firm and the employees are more severe is consistent with the information channel mechanism.

16:00 – 18:00, Blauwe Zaal: Blockholders

Chair: Torsten Jochem

Governance reallocation by institutional owners
Sergio J. Garcia, **Jose M. Martin-Flores**, and Alvaro Remesal
Discussant: Shuo Xia

We study the governance consequences of institutional investors' monitoring reallocation. Given the endogenous nature of investors' monitoring, we rely on RegSHO Pilot program as an exogenous shock to the external governance of Pilot firms, for which short-selling threats increase. A heightened short-selling threat alleviates the need for direct monitoring, allowing monitoring-prone institutional investors to reallocate efforts to other portfolio firms outside the regulation (i.e., Non-pilot firms). Non-pilot firms experience shareholder-friendly changes in governance when their institutional investors have more room for reallocating monitoring. These governance changes do not lead to managerial short-termism and have a positive market response.

Blockholder Representation on the Board - Theory and Evidence
Samed Krüger, **Peter Limbach**, and Paul Voss
Discussant: Patrick Verwijmeren

We present a model that helps explain why only few blockholders seek board representation despite little direct costs. In the model, inefficiently few blockholders take a board seat because it signals adverse information to outside investors, lowering trading profits. However, once taken, board seats commit blockholders to stay invested and monitor management. In light of our results, negative stock returns to appointments of blockholder-directors need not reflect rent extraction but are in line with blockholders improving performance. We present evidence consistent with our model's predictions using German data, which mitigates endogeneity concerns and provides considerable variation in blockholders.

The Role of Passive Ownership in the Era of Say-on-Pay
Kiseo Chung and **Hwanki Brian Kim**
Discussant: Torsten Jochem

This paper studies the effects of passive ownership on CEO compensation by exploiting recurring Russell index assignments during the Say-on-Pay era. This setup allows us to draw a causal relationship between passive ownership and parts of CEO compensation that better align incentives when it has become more feasible for shareholders to voice their opinion on executive compensation. We find that an increase in passive ownership leads to greater use of performance-vesting provisions and relative performance evaluation, higher delta, and a shift from cash toward equity awards but does not impact compensation complexity. We also discuss proxy voting, private engagement, and large ownership stake as possible mechanisms. Overall, we find that passive funds play pivotal roles in nudging CEO compensation towards reducing agency conflict through direct and indirect channels.

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Notes

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