UNIVERSITY OF ALBERTA

CPA Speaker Series:

Shane Dikolli,

University of Virginia

The Disaggregation of Accounting Performance in Tests of Relative Performance Evaluation

Friday, December 8, 2023
2:00 PM - 3:30 PM
Location: BUS 3-06

ABSTRACT

This study examines how boards implement Relative Performance Evaluation (RPE) in designing CEO compensation, with a focus on their treatment of market and industry-based risks. While RPE theory suggests that boards should filter out uncontrollable economic factors to isolate a CEO's skill, it remains unclear whether boards differentiate between market and industry-based risks. Utilizing a novel methodology to disaggregate systematic performance into market and industry components, our empirical analysis finds evidence for market-based RPE, but not for industry-level RPE. This pattern is particularly prominent in mid-tenured CEOs and those operating in positive-growth industries. Our findings suggest that boards may allow CEOs to selectively engage with industry risks while shielding them from market risks. The study contributes to the RPE literature by introducing a more precise measure of firm performance and by elucidating how boards may apply RPE selectively, thereby informing ongoing debates on the efficacy of CEO compensation practices.

Department of Accounting & Business Analytics
Alberta School of Business
College of Social Science & Humanities
Business Building, University of Alberta, Edmonton, AB, Canada T6G 2R6