CPA Research Speaker Series (Accounting)

Alberta School of Business
Department of Accounting, Operations, and Information Systems

Presents:

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University of Oregon

Topic:

Stock-price-based compensation and managerial short-termism

Friday, December 1, 2017
2:30pm – 4:00pm
BUS Room 4-04 (CA Conference Room)

ABSTRACT

This paper presents a two period agency model of stock-price-based managerial compensation with limited commitment to contract terms. Stock price is informative of the uncertain payoff from the manager's long-term effort, but also incorporates signals that are relevant for firm valuation but irrelevant for gauging managerial effort. The paper shows that a more informative stock price can reduce the manager's long-term effort as it facilitates the firm owner to capture more of the resulting return through renegotiated wages (i.e., the manager is held up). As the stock price becomes a more accurate forecast of the future cash flows, the equilibrium firm profit may decrease and diverge from the manager's equilibrium efforts.

(Copies of the paper are attached electronically)