

Internet Appendix A89 CEO Compensation

A89.1 Illustrative Pitch Template Example

Pitcher's Name	Muhammad Atif	FoR category	Compensation and Cash Holding	Date Completed	30 Jan 2016
(A) Working Title	CEO Compensation and Firm's Cash Holding				
(B) Basic Research Question	Does equity-based compensation influence a firm's cash holding?				
(C) Key paper(s)	<p>1. Liu, Y. & Mauer, D.C. (2011) "Corporate cash holdings and CEO compensation incentives", <i>Journal of Financial Economics</i>, vol. 102(1): 183-198.</p> <p>2. Tong, Z. (2010) "CEO risk incentives and corporate cash holdings", <i>Journal of Business Finance & Accounting</i>, vol. 37(9-10): 1248-1280.</p> <p>3. Xu, P.T. (2013) "Managerial incentives and a firm's cash flow sensitivities", <i>International Review of Economics & Finance</i>, vol. 27: 80-96.</p>				
(D) Motivation/Puzzle	Cash holding is the "life blood" of any organisation in running their day-to-day affairs. Using internally available cash saves the transaction costs of raising the external funds. According to the succinct rule of finance, managers are carers of shareholders wealth, but sometimes they squander the funds (cash) of shareholders for their personal benefits by engaging in opportunistic behaviour, investing in value-destroying acquisitions and ventures and preferring risk-eschewing attitudes. This behaviour of agents increases agency problems in firms. Equity-based compensation is considered appropriate solution to align the interest of managers and shareholders. This research investigates the problem in unique features of Australia by considering the effects of binding vote regulation.				
THREE	Three core aspects of any empirical research project i.e. the " IDioTs " guide				
(E) Idea?	Does CEO equity compensation matter for cash holding in a firm? Equity-based compensation has either positive or negative relations with the holding of liquid assets. This study uses the ratio of cash and marketable securities to total assets as a measure of dependent variable, while equity-based compensation as independent variable. This study would explore the shock to compensation and cash holding as a result of binding vote regulation in Australia.				
(F) Data?	<p>(1) Country/Setting: 1.1 Australia environment is unique in terms of statutes and market practices since the <i>Australian Remuneration Act 2011</i>, the "two strike rule" provides the right to shareholders to give dissenting votes (binding-votes) on an annual remuneration report. If the vote exceeds 25% for two consecutive years, then the new board is stipulated as per law, unlike the US where shareholders have an advising vote.</p> <p>1.2 We have different measures due to non-availability of vega and delta data. I will use value of options, shares and LTIP offered to CEOs as equity compensation and salary, bonus and allowances as direct compensations.</p> <p>Unit of analysis: Individual firms. Sample period: 2004–2015. Sampling interval: Annual. Type of data: ASX listed firm.</p> <p>(2) Sample size: 500 firms (10000 firm year observations)</p> <p>(3) Dataset: Panel</p> <p>(4) Data Sources: SIRCA, Morningstar DatAnalysis Premium. Data availability: Data is available through Griffith University subscription, with</p>				

	<p>a few exceptions. Hand-collection of data: Yes, for any missing firm year observation data. Timeframe: Griffith University subscribes to mentioned databases, so no major delays are expected. Research assistance: No major assistance required. Funding/grants: N/A. Novel new data: No</p> <p>(5) Missing data/observations: Yes, Missing year values are expected and will be collected from annual reports or company websites. Database merging and Cleansing: Yes, the researcher may need to update the ASX codes in SIRCA while merging data from other real time databases.</p> <p>(6) Will your “test” variables exhibit adequate (“meaningful”) variation to give good power? Yes. Quality/reliability of data: Databases used for this study enjoy a good reputation in the financial press for their reliability and quality.</p> <p>(7) External validity: No. Data and setting is unique in Australia because of non-binding statute and limitation on availability of risk-based CEO incentives (vega and delta) in Australia. Value of shares and options given to CEO, s are available. Construct validity: Since data is from reliable sources, it is expected to be accurate and produce nuanced results.</p>
(G) Tools?	<p>Empirical framework: (1) Baseline estimation through Panel fixed effect regression. (2) Difference in difference (DID) to explore the effects of regulatory change and to address endogeneity concern. Econometric software: STATA licenced version purchased from vendor. Knowledge of implementation of econometric: Assistance required to implement the advance statistical tests. Compatibility of data with framework: Data is arranged as required for framework to estimate. Statistical validity: No.</p>
TWO	Two key questions
(H) What’s New?	<p>(1) This study uses Australia because of the difference in settings and limitation on the US findings generalisability. (2) This research explores the relationship between CEO equity pay and cash holding by analysing the effects of binding-votes in Australia after 2011. (3) Additional analysis through difference-in-difference technique to check exogenous shock of “two strike” rule before and after 2011.</p>
(I) So What?	<p>CEO equity compensation and cash holding provide an opportunity for outside stake-holders to assess the risk-taking and risk-averse (opportunistic) attitude of managers. By having more, clear information, investors can decide to invest in firms or vice versa. Governing boards and responsible committees for compensation can devise more acceptable pay structure for managers which is acceptable for shareholders.</p>
ONE	One bottom line
(J) Contribution?	<p>This is the first study in the Australian setting to explore the effects of CEO compensation and cash holding using data after and before the binding-vote regulation (unlike the prior US research). It also contributes additional analysis of exogenous shock through “difference-in-difference” tool to have nuanced results and implications.</p>
(K) Other Considerations	<p>Collaboration: Not desired. Idea, Data, Tools: Feedback to improve and assistance required from internal econometrician. Target Journal: ‘A’ ranked, Accounting and Finance (AFAANZ). Realistic/Sufficiently ambitious: This is a new idea and a novel country, with a different setting and additional analysis, which makes the target journal an achievable goal. No result risk: Low. Competitor risk: High: This is an unexplored area and there are more researchers in field who can grab the idea. Obsolescence risk: Compensation is an extensively debated topic in top tier journals because it has been area of interest in the financial press with different aspects since the GFC and the discussion is expected to continue with more pace in the future. Other risks: Data: Merging data from different databases may pose a risk of inappropriateness. Scope: Appropriate coverage.</p>