7th Erasmus Corporate Governance Conference

June 13, 2025

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13 June 2023

Introduction

We would like to welcome you as a participant in the 7th 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 Nadya Malenko from Boston College.

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,

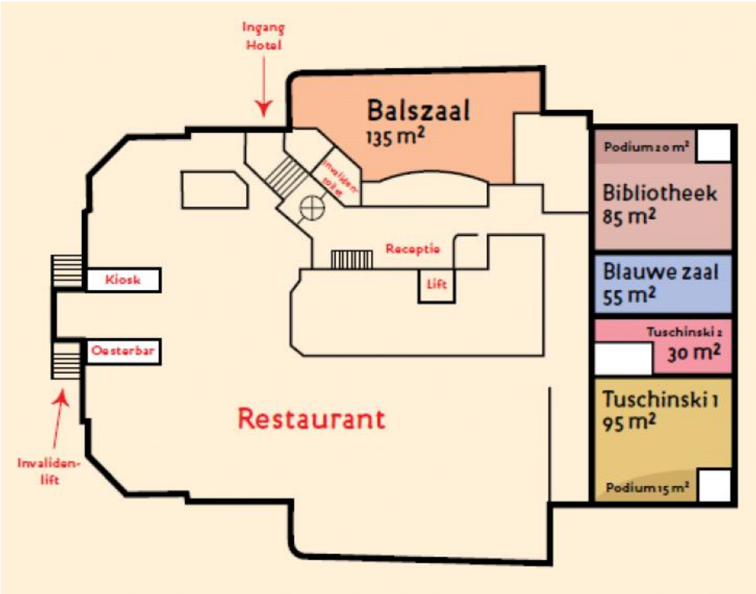
Ingolf Dittmann
(Chair)

Sebastian Gryglewicz

Clemens Mueller

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 (Ballroom), Tuschinski I, and Blauwe Zaal (Blue Room).



Conference Timing and Rooms

			Ballroom	Tuschinski I	Blue Room
09:00	–	10:00	Keynote speech		
10:30	–	12:15	Politics	Boards	Governance
13:30	–	15:15	Sustainability	Incentive Contracts	Acquisitions and Restructuring
15:45	–	17:30	Monitoring	Executive Compensation	Labor

The Bibliotheek (Library) will be used for the breaks and catering. Lunch will be provided at 12:15 at the Hotel Restaurant.

After the last session, you are invited to participate in the social program. It starts at 17:45 in front of Hotel New York and ends at 19:45.

The conference will finish with dinner in the restaurant of Hotel New York starting at 20:00.

Program

Keynote Address Room: Ballroom **9:00 – 10:00** **Nadya Malenko** Boston College "Shareholder heterogeneity and corporate democracy"
Break **10:00 – 10:30**
Parallel Session 1 **10:30 – 12:15**

Politics in Governance **Room:** Ballroom **Chair:** Miriam Schwartz-Ziv	**Boards** **Room:** Tuschinski 1 **Chair:** Lakshmi Naaraayanan	**Governance** **Room:** Blue Room **Chair:** Stefan Obernberger
Political Bias in the Coverage of Corporate Misconduct: Effects on Employees and Managers **Stefan Petry**, Minjia Zhang, Maria Teresa Marchica Discussant: Thomas Lambert	*Voting and Trading on Public Information* Markus Parlasca, **Paul Voss** Discussant: Yenan Wang	*The G in ESG: How good are the governance ratings in ESG ratings?* **Kornelia Fabisik** Discussant: Felix von Meyerinck
The Interplay between Political Democracy and Corporate Democracy: The Role of CEO Weijia Zhi, **Menghan Zhu** Discussant: Mancy Luo	*Complementarity in Director Productivity Within Boards: Evidence from Firm-Director Matching and Pay* **Chang-Mo Kang**, Zonghe Guo, Breno Schmidt, Rik Sen Discussant: Francisco Urzua	*The Stick or the Carrot? The Role of Regulation and Liquidity in Activist Short-Termism* **Adrian Aycan Corum** Discussant: Florian Hoffmann
MAGMGA: Making Annual General Meetings Great Again Yuanzhi Li, **David Yermack** Discussant: Miriam Schwartz-Ziv	*Board Gender Quotas and Female Borrowing: Evidence from Loan-Level Data* **Fabrizio Core**, Angelo D'Andrea, Tim Eisert, Daniel Urban Discussant: Lakshmi Naaraayanan	*Agency Problems in Corporate Foundations* **Sangeun Ha** Discussant: Stefan Obernberger

Lunch 12:15 – 13:30		
Parallel Session 2 13:30 – 15:15		
Sustainability **Room:** Ballroom **Chair:** Igor Kadach	**Incentive Contracts** **Room:** Tuschinski 1 **Chair:** Ekaterina Neretina	**Acquisitions and Restructuring** **Room:** Blue Room **Chair:** Torsten Jochem
Sustainable Investing and Market Governance **Alvin Chen**, Deeksha Gupta, Jan Starmans Discussant: Lin Shen	*When losses no longer loom large: Age and the certainty effect on CEO risk-taking* **Steffen Brenner**, Jeppe Christoffersen, Torben Andersen, Thomas Plenborg Discussant: David Schindler	*Poison Bonds* Rex Wang Renjie, **Shuo Xia** Discussant: Jana Fidrmuc
Are Bankrupt Firms Environmentally Dangerous? Yaniv Grinstein, **Yelena Larkin** Discussant: Marco Ceccarelli	*Escaping Pay-for-Performance* Jason Chen, **Jakub Hajda**, Joseph Kalmenovitz Discussant: Tomislav Ladika	*Restructuring Outcomes under Cross-security Debt Ownership* **Gosia Ryduchowska**, Moqi Groen-Xu Discussant: Mattia Colombo
ESG Metrics in Executive Compensation: a Multitasking Approach Vikas Agarwal, **Juan-Pedro Gomez**, Kasra Hosseini, Manish Jha Discussant: Igor Kadach	*Corporate Lobbying of Bureaucrats* Michelle Lowry, **Ekaterina Volkova** Discussant: Ekaterina Neretina	*CEO Incentives and Acquisitions: Evidence from the Pay Ratio Disclosure Mandate* Sudipto Dasgupta, **Tao Shu**, Yuxuan Zhu Discussant: Torsten Jochem

Break **15:15 – 15:45**		
Parallel Session 3 **15:45 – 17:30**		
Monitoring **Room:** Ballroom **Chair:** Alex Young	**Executive Compensation** **Room:** Tuschinski 1 **Chair:** Vathunyoo Sila	**Labor** **Room:** Blue Room **Chair:** Nicolas Eugster
Fund Family Dynamics: A Closer Look at Monitoring by Index and Active Funds **Abed El Karim Farroukh**, Jarrad Harford Discussant: Oğuzhan Karakaş	*Racial diversity and inclusion without equity? Evidence from executive compensation* Felipe Cabezon, Eliezer Fich, **Lubomir Litov** Discussant: Daniel Urban	*Executive Incentives and Strategic Talent Acquisition: Evidence from Poaching* Matthew Bloomfield, Thomas Bourveau, Xuanpu Lin, Guoman She, **Haoran Zhu** Discussant: Frank Moers
Control Motivations and Firm Growth **Raffaele Corvino**, Andrew Ellul, Alessio Piccolo, Stefano Sacchetto Discussant: Eliza Pazaj	*A New Measure of Overconfidence: Deducing the Board Perspective on CEO Optimism and Miscalibration* **Sebastian Pfeil**, Ingolf Dittmann Discussant: Vincenzo Pezone	*Time to Innovate* **Sunwoo Hwang**, Sooji Kim Discussant: Teodora Tsankova
Do Index Funds Monitor? Revisited **Todd Gormley**, Hwanki Brian Kim Discussant: Alex Young	*Share the gain but not the pain: Managerial rent extraction and the manager-worker pay growth gap* Jie He, Lei Li, **Rik Sen**, Tao Shu Discussant: Vathunyoo Sila	*Executive Talent Allocation across Family Business Group Affiliates* Jinzhao Du, **Ronald W. Masulis**, Peter Pham, Jason Zein Discussant: Nicolas Eugster
Social Activity: Cruise Ship **17:45 – 19:45**		
Dinner @ Hotel New York **20:00 – 22:00**		

Program with Abstracts

9:00 – 10:00, Ballroom: Keynote speech

Shareholder heterogeneity and corporate democracy
Nadya Malenko, Boston College

Many corporate governance discussions have traditionally focused on shareholders with aligned preferences and on how governance mechanisms can address conflicts between shareholders and management. More recently, attention has shifted to disagreements among shareholders themselves, especially on contentious issues like environmental and social policies. In response, a growing strand of the governance literature has explored shareholder heterogeneity and its implications for financial markets and governance mechanisms, such as shareholder voting and board oversight. This heterogeneity also suggests a changing role for asset managers. To better reflect the diversity of investor preferences, asset managers have started decentralizing stewardship within fund families – delegating authority to individual funds or directly to investors through mechanisms like pass-through voting. The industry has also responded by offering a wider range of funds tailored to different investor values. This talk will start by highlighting some broad insights from the recent literature on shareholder heterogeneity, and then turn to asset managers and the implications of decentralization, pass-through voting, and fund proliferation for their role in governance.

10:30 – 12:15, Ballroom: Politics in Governance

Chair: Miriam Schwartz-Ziv

Political Bias in the Coverage of Corporate Misconduct: Effects on Employees and Managers
Stefan Petry, Minjia Zhang, and Maria Teresa Marchica
Discussant: Thomas Lambert

We document a political bias in the media coverage of corporate violations and examine how it affects the company's labor force. Media outlets with a political leaning that is incongruent with that of the firm tend to write articles with a more negative tone when covering the company's misconduct. This worsens the employees' perception of their employer, senior managers, and expectations about the company's future, negatively affecting their productivity. It also amplifies the negative effects of low abnormal stock market performance on the likelihood of top management dismissal.

The Interplay between Political Democracy and Corporate Democracy: The Role of CEO
Weijia Zhi, and **Menghan Zhu**
Discussant: Mancy Luo

We examine the role of CEOs in the interplay between political democracy and corporate democracy. Analyzing a sample of CEOs from publicly traded U.S. companies, we find that lifetime exposure to political democracy is associated with their workplace democracy behavior. This is evidenced by increased delegation during conference calls, stronger performance-based incentives for subordinates, and reduced information asymmetry between CEOs and their subordinates. The results also hold if we use an alternative measure, employee conditions, to assess CEOs' workplace democracy behavior. The effect is driven by CEOs' pre-existing preferences developed before joining the firm and has effects beyond CEO-firm sorting explanation. Using the framework of Rotemberg and Saloner (1993) to identify post-matching firm environment changes, we show that such preferences are persistent. We investigate alternative explanations and demonstrate that the results are not explained by exposure to different cultural dimensions. Finally, we show that CEOs' exposure to democracy shapes their pro-democracy attitudes, reflected in their tone during business communications and their firms' participation in democracy-supporting social movements.

MAGMGA: Making Annual General Meetings Great Again
Yuanzhi Li, and **David Yermack**
Discussant: Miriam Schwartz-Ziv

We study companies' decisions about holding annual shareholder meetings on-line during the Covid pandemic and returning to classical in-person meetings post-pandemic. Among S&P 1500 companies, the frequency of virtual meetings shot up from less than 10 percent to more than 80 percent in the first year of the pandemic, with only gradual reversion to in-person meetings since then. Partisan politics has significant associations with these decisions. In-person meetings are more likely for companies that have Republican CEOs, and for companies with headquarters located in jurisdictions that vote Republican. Effects are stronger when Republican affiliation is defined only with respect to the 2016 and 2020 election cycles when the candidacy of Donald Trump upended traditional party affiliations of many voters. Corporate democracy therefore seems to have been swept up by the tides of contemporary political feuds and culture wars.

10:30 – 12:15, Boards, Room: Tuschinski 1

Chair: Lakshmi Naaraayanan

Voting and Trading on Public Information

Markus Parlasca, and **Paul Voss**

Discussant: Yenan Wang

This paper studies how public information, such as proxy advice, affects shareholder voting and, thus, corporate decision-making. Although public information improves the voting decisions of uninformed shareholders, it also induces privately informed shareholders to sell their shares rather than to vote. As a result, public information impairs information aggregation by voting but improves information aggregation by trading. We show that, overall, public information can undermine corporate decision-making. Furthermore, the effect of more precise public information on corporate decision-making is non-monotonic. Our results give rise to new empirical predictions and have implications for regulation.

Complementarity in Director Productivity Within Boards: Evidence from Firm-Director Matching and Pay

Chang Mo Kang, Zonghe Guo, and Rik Sen

Discussant: Francisco Urzua

Unlike top executives who receive widely varying compensation, outside directors of a firm typically earn roughly equal pay. We propose a novel explanation: strong complementarity among directors' efforts creates a scenario where a board's overall productivity depends on its least talented member. This interdependence makes equal pay optimal in a competitive director market that aims to maximize collective effectiveness. Our model predicts that while larger firms attract higher-talent directors who tend to sit on multiple other boards, all corporate boards include at least one director serving exclusively on that board. Empirical analysis of S&P 1500 firms from 2006 to 2020 supports these predictions. We also find evidence for additional predictions: (1) board compensation rises with firm size, (2) directors of larger firms hold more directorships, typically at other large firms, and (3) boards of larger firms show greater variation in their directors' number of other board positions and total compensation from these roles. These findings underscore the importance of strong complementarity and teamwork in board effectiveness, advancing our understanding of firm-director matching and compensation.

Board Gender Quotas and Female Borrowing: Evidence from Loan-Level Data
Fabrizio Core, Angelo D'Andrea, Tim Eisert, and Daniel Urban
Discussant: Lakshmi Naaraayanan

We study how female board representation affects banks' propensity to lend to female-led firms. Using the introduction of a mandatory gender quota in Italy as well as loan-level data, we find that once banks increase female board representation, they lend more to female firms, both in terms of the extensive and intensive margins. These lending relationships do not produce more non-performing exposures. We also find evidence consistent with spillover effects of the board gender quota to rank-and-file employees as banks promote more women responsible for setting lending policies.

10:30 – 12:15, Governance, Room: Blue Room

Chair: Stefan Obernberger

The G in ESG: How good are the governance ratings in ESG ratings?

Kornelia Fabisik

Discussant: Felix von Meyerinck

I study the quality of the governance pillar of environmental, social, and corporate governance (ESG) ratings. Since 2018, ESG integration strategies, many of which rely on ESG ratings, have dominated the ESG investing sphere. I examine the governance ratings' ability to provide useful information to shareholders. My results not only suggest rather limited success in predicting relevant firm outcomes (such as financial-statement restatements, governance incidents, class action lawsuits, operating performance, firm value, stock returns, and credit ratings), but in the case of most raters, I identify multiple instances of counterintuitive results, that is, with the opposite direction of the effect.

The Stick or the Carrot? The Role of Regulation and Liquidity in Activist Short-Termism

Adrian Aycan Corum

Discussant: Florian Hoffmann

I study a model of activist short-termism, where the activist can sell his stake in the target before the impact of his intervention is realized. Changes in liquidity or policies that make activists exit harder can increase firm value if there is only moral hazard (where activists intervention creates more value if he exerts effort) or only adverse selection (where some interventions destroy value while others create value). However, these changes destroy total firm value when both moral hazard and adverse selection are present. Policies that reward long-termism can destroy total firm value, but with a lower likelihood. The reason behind these implications is that when the moral hazard problem is binding, a higher number of value-destroying activists results in a higher probability of effort by the value-creating activists, and as a result of this higher effort, average firm value strictly increases.

Agency Problems in Corporate Foundations

Sangeun Ha

Discussant: Stefan Obernberger

I study whether corporate foundations facilitate controlling shareholders of related firms to concentrate ownership at the expense of philanthropic purposes. Using the 2013 Fair Trade Act amendment in Korea, which aimed to reduce controlling shareholders' ownership concentration in large business groups (chaebols), I conduct difference-in-differences tests and find that corporate foundations of exposed chaebols increased ownership in member firms by 5%, particularly where controlling shareholders had greater direct control. Corporate foundations reduced philanthropic expenses and the member firms' value of cash donations decreased by 1%. Results suggest that resources in corporate foundations are extracted to benefit controlling shareholders, undermining donation value for minority shareholders.

13:30 – 15:15, Sustainability, Room: Ballroom

Chair: Igor Kadach

Sustainable Investing and Market Governance
Alvin Chen, Deeksha Gupta, and Jan Starmans
Discussant: Lin Shen

This paper examines how sustainable investing affects the traditional governance role of financial markets. We show that stronger pro-social preferences among informed investors can reduce price informativeness about managerial effort toward improving financial performance, thereby increasing the cost of incentive provision. While this creates an agency cost, it can paradoxically generate positive real effects: because firms generating negative externalities face higher agency costs, purely financially motivated shareholders have incentives to reduce externalities to enhance price informativeness for governance purposes. Our results reveal an inherent link between firms' environmental and social (the "ES" of ESG) and governance (the "G" of ESG) outcomes. We also identify a novel complementarity between voice and exit in reducing firm externalities—pro-social investors' exit decisions prompt financial investors to exercise voice—in contrast to the conventional view of these strategies being substitutes.

Are Bankrupt Firms Environmentally Dangerous?
Yaniv Grinstein, and **Yelena Larkin**
Discussant: Marco Ceccarelli

As firms file for bankruptcy, environmental problems come to light. Are these problems chronic or acute? To address the question, we examine emission and production data of bankrupt facilities between 2007 and 2019, using a dynamic diff-in-diff analysis. We show that bankrupt facilities are larger, more stagnant, inefficient, and more polluting relative to their industry peers, consistent with a chronic effect. We also examine whether environmental problems exacerbate around bankruptcy, but do not find significant increase in emission levels either before, during, or after bankruptcy. Taken together, this evidence supports the idea that environmental problems in bankrupt firms are chronic; but legal, financial, and environmental regulations help prevent these issues from becoming more acute.

[ESG Metrics in Executive Compensation: a Multitasking Approach]
Vikas Agarwal, **Juan-Pedro Gomez**, Kasra Hosseini, and Manish Jha
Discussant: Igor Kadach

We model the multitasking nature of managerial incentives when ESG metrics are introduced jointly with standard financial or market metrics in executive compensation. Building on insights from multitasking theory, we predict that pay-performance sensitivity or dollar delta of standard metrics should optimally decrease when value-adding but less measurable ESG goals are introduced in executive pay. Empirical tests support the existence of a significant opportunity cost for the effort of executives to improve ESG metrics that firms mitigate by decreasing incentives to achieve standard metrics. Consistently, the downward adjustment in dollar delta of standard metrics is shown to be larger when the number of ESG metrics increases, they are less material to the firm, or less measurable. The tests show differential effect of E, S, and G metrics on the delta of standard metrics. Overall, the evidence is consistent with efficient contracting in the presence of multitasking.

13:30 – 15:15, Incentive Contracts, Room: Tuschinski 1

Chair: Ekaterina Neretina

When losses no longer loom large: Age and the certainty effect on CEO risk-taking

Steffen Brenner, Jeppe Christoffersen, Torben Andersen, and Thomas Plenborg
Discussant: David Schindler

While prospect theory suggests that loss aversion inhibits risk-taking among managers, research in the psychology of aging indicates that this bias diminishes with age. This contrasts with the commonly observed trend of older CEOs engaging in less risk-taking. We propose that this discrepancy is due to the influence of age on another key, yet less emphasized, component of prospect theory: the certainty effect. Our experiment on Danish CEOs' investment decisions confirms this hypothesis. While older CEOs are significantly less loss-averse, they place greater weight on certainty, making them more likely to abstain from investments. The certainty effect outweighs loss aversion, resulting in consistently lower risk-taking among older CEOs. A risk-taking task that is not influenced by either of the two biases fails to reveal age differences. We discuss the relevance of prospect theory in understanding decision-making among older executives.

Escaping Pay-for-Performance

Jason Chen, **Jakub Hajda**, and Joseph Kalmenovitz
Discussant: Tomislav Ladika

Should we pay regulators for performance? We address the question using a unique dataset that tracks the careers of 26,000 senior federal regulators. They are the highest-ranking bureaucrats in the federal government who collectively oversee all its regulatory activities. We exploit a major reform that switched most senior regulators to a pay-for-performance system. Using a difference-in-differences framework, we find that the reform accelerated the revolving door of affected regulators, who voluntarily left for the private sector. To understand this unexpected response, we build a structural model which highlights two crucial features: government pay is capped, and regulators can accept a private sector job with uncapped pay. Performance pay may induce more effort, but since regulators risk hitting the pay cap, they prefer to move to the private sector where effort is rewarded even more. Estimating our model, we find that 21% of executive pay in the federal government is performance-based. Moreover, performance pay has a large quantitative impact: a 1% increase in pay-for-performance will increase effort by 0.04% and exits by 7.2%. We design alternative executive pay packages, combining a stronger pay-for-performance component with a higher pay cap, to increase regulatory effort without accelerating the revolving door. Overall, our results shed light on the benefits and drawbacks of performance-based pay for regulators.

[Corporate Lobbying of Bureaucrats]

Michelle Lowry, and **Ekaterina Volkova**

Discussant: Ekaterina Neretina

We find that 80% of companies that lobby Congress also lobby executive agencies. Although executive agencies are not beholden to companies for campaign contributions, the agencies are nevertheless influenced by lobbying: companies' lobbying leads to more favorable rules, more special exemptions, more government contracts, and more favorable decisions on enforcement actions. Agencies' bestowment of favors appears to be motivated by opportunities within the private sector: lobbying is significantly greater among agencies that have stronger revolving door relations with the private sector. Following a negative exogenous shock to agency power, the Supreme Court's Chevron decision, firms engaged in agency lobbying experienced negative abnormal returns, underscoring the strategic value of lobbying agencies.

13:30 – 15:15, Acquisitions and Restructuring, Room: Blue Room

Chair: Torsten Jochem

Poison Bonds

Rex Wang Renjie, and **Shuo Xia**

Discussant: Jana Fidrmuc

This paper documents the rise of "poison bonds"—corporate bonds that allow bondholders to demand immediate repayment in change-of-control events. The share of poison bonds among new issues has grown substantially in recent years, from below 20% in the 1990s to over 60% since the mid-2000s, predominantly driven by investment-grade issues. We show that a key factor behind this rise is shareholders' aversion to poison pills, leading firms to issue poison bonds as an alternative. Moreover, our analysis suggests that this practice can entrench incumbent managers and destroy shareholder value. Holding a portfolio of firms that remove poison pills but promptly issue poison bonds generates negative abnormal returns of −7.3% per year. Our findings have important implications for the agency theory of debt: (i) more debt may not discipline the management; and (ii) even without financial distress, managerial entrenchment can lead to agency conflicts between shareholders and creditors.

Restructuring Outcomes under Cross-security Debt Ownership

Gosia Ryduchowska, and Moqi Groen-Xu

Discussant: Mattia Colombo

Lending to distressed firms is a concentrated market with very few players. The presence of the same group of creditors in multiple assets creates incentives for inter-security bargaining. Using a novel dataset of the universe of holdings and transactions in Norwegian bonds, we document large overlaps in ownership between senior and junior defaulting bonds of the same issuer, as well as between different issuers of defaulting bonds. Overlapping stakes are associated with significant faster resolution, both within and across issuers. Within firm, large overlap stakes are also significantly related to higher recovery rates for both classes; common ownership in different defaulting issuers do not predict changes in recovery rates on average. Our results suggest that common lenders negotiate across securities and change restructuring outcomes.

CEO Incentives and Acquisitions: Evidence from the Pay Ratio Disclosure Mandate
Sudipto Dasgupta, **Tao Shu**, and Yuxuan Zhu
Discussant: Torsten Jochem

We find that the sensitivity of CEO pay to firm size (pay-size sensitivity) drops by 60% after the first-time disclosure of a relatively higher CEO-worker pay ratio following the 2017 Pay Ratio Disclosure Mandate. The sensitivity of CEO "flow" pay to positive performance ("upside" pay-performance sensitivity) also declines by 86%, while downside pay-performance sensitivity remains unchanged. These results are consistent with greater public attention to CEO compensation in high pay ratio firms curbing CEO pay growth. We show that the change in pay sensitivities is associated with a shift in the type of M&A deals firms engage in, as well as the market reaction to deal announcement. Specifically, firms engage in fewer (more) larger (smaller) deals of higher (lower) quality. These results suggest that the weaker link between firm size and pay encourages CEOs to switch screening effort from smaller deals to large deals, as they can no longer benefit from undertaking large-scale but potentially value-destroying deals to the same extent. Our results provide novel evidence on how arguably exogenous changes to the drivers of CEO compensation affect CEO decisions and firm outcomes. We provide a simple model showing that while the magnitude of pay-size sensitivity affects the allocation of screening effort between large and small deals, the magnitude of "upside" pay-performance sensitivity is irrelevant.

15:45 – 17:30, Monitoring, Room: Ballroom
Chair: Alex Young

Fund Family Dynamics: A Closer Look at Monitoring by Index and Active Funds
Abed El Karim Farroukh, and Jarrad Harford
Discussant: Oğuzhan Karakaş

Index funds in the US manage 35% of the aggregate mutual fund assets under management (AUM), and fund families offering both index and active funds manage 77% of the aggregate AUM. We study monitoring by index and active funds and find that a significant portion of what appears as looser monitoring by index funds can be attributed to fund family effects. Lack of resources does not explain pro-management preferences at fund families, but attracting 401(k) flows can explain part of the effect. Overall, the results shift the focus from individual fund-level analysis to broader fund-family dynamics when assessing mutual fund monitoring effectiveness.

Control Motivations and Firm Growth
Raffaele Corvino, Andrew Ellul, Alessio Piccolo, and Stefano Sacchetto
Discussant: Eliza Pazaj

This paper investigates how the control motivations of large shareholders affect firm growth through their influence on financing decisions. We use family blockholding as our laboratory since these blockholders have strong preferences to keep a tight grip on firm control. Using data on a large panel of European private firms, we estimate a structural model of firm control, financing decisions, and managerial effort in a setting with corporate taxation, costly bankruptcy, adverse selection, and agency issues to explain why firms with a control-motivated blockholder growless compared to firms without such type of shareholders. The structural model allows us to disentangle control motivations from other frictions of importance. Our estimates indicate that family blockholders' reluctance to issue equity and dilute control explains 66% of the growth differential between firms with control-motivated blockholders and those without in our sample.

Do Index Funds Monitor? Revisited
Todd Gormley, and Hwanki Brian Kim
Discussant: Alex Young

This paper reassesses index investing's impact on corporate governance. After correcting several flaws in the Heath, Macciocchi, Michaely, and Ringgenberg (2022) empirical specification, we find different results. Our analysis reconciles conflicting findings in the literature and casts doubt on the claim that index funds do not monitor companies and that their growth harms firm performance. We also discuss why that paper's other findings cannot be interpreted as evidence that indexers do not monitor. Finally, we provide guidance for future researchers by showing why difference-in-differences specifications can differ from instrumental variable estimations when using Russell index switches for identification.

15:45 – 17:30, Executive Compensation, Room: Tuschinski 1

Chair: Vathunyoo Sila

Racial diversity and inclusion without equity? Evidence from executive compensation
Felipe Cabezon, Eliezer Fich, and **Lubomir Litov**
Discussant: Daniel Urban

The structure of managerial compensation, excluding CEOs, varies by ethnicity and race. Black, Hispanic, and Asian C-suite executives receive less equity-based pay than their White counterparts. As minority executives' tenure increases or they move to firms with minority CEOs or firms near recent Black Lives Matter events, pay structure similarity improves. When this similarity increases, the pay gap between White and minority executives tightens, firm performance improves, financial fraud declines, and the CEO-to-median-worker pay ratio narrows. Race-based pay disparities are influenced by both minority executives' preferences and corporate cultures where the idiosyncratic backgrounds of different executives take time to coalesce.

A New Measure of Overconfidence: Deducing the Board Perspective on CEO Optimism and Miscalibration
Sebastian Pfeil, and Ingolf Dittmann
Discussant: Vincenzo Pezone

This paper analyzes optimal compensation contracts when managers are overconfident. We separate the two components of overconfidence: optimism (overestimation of expected firm value) and miscalibration (underestimation of the firm value's volatility). We calibrate a stylized principal-agent model to the each of the observed contracts of 3.370 CEOs from 2008 to 2021 to obtain the optimism and miscalibration measures. In our empirical study, we find that CEO miscalibration is correlated with leverage and debt issue, whereas CEO optimism is correlated with R&D expenditures.

Share the gain but not the pain: Managerial rent extraction and the manager-worker pay growth gap
Jie He, Lei Li, **Rik Sen**, and Tao Shu
Discussant: Vathunyoo Sila

We investigate whether managerial rent extraction plays a role in the increasing manager-worker pay disparities in public firms. Utilizing granular individual-level compensation data from the U.S. Census Bureau, we find that managers experience substantially higher pay growth than rank-and-file workers during our sample period, even after accounting for worker composition changes. While pay growth differences align with market movements — as suggested by models like Gabaix and Landier (2008) — we also uncover evidence in support of managerial rent extraction. A rent extraction model predicts that pay growth disparities are asymmetrically more sensitive to positive idiosyncratic stock returns than to negative ones, and that this asymmetry is absent for returns driven by observable industry or market factors. These predictions are confirmed empirically. Additionally, we demonstrate that the asymmetry in pay growth disparities increases following exogenous reductions in corporate governance and is more pronounced in firms with less external monitoring by analysts or unions. Overall, our results suggest that rent extraction is one of the factors that contributed to the rising CEO-worker pay ratio.

15:45 – 17:30, Labor, Room: Blue Room

Chair: Nicolas Eugster

Executive Incentives and Strategic Talent Acquisition: Evidence from Poaching

Matthew Bloomfield, Thomas Bourveau, Xuanpu Lin, Guoman She, and **Haoran Zhu**

Discussant: Frank Moers

We examine the relation between relative performance evaluation ("RPE") in executive pay plans and labor talent poaching of rank-and-file employees. Using resume data, we document that RPE-using firms hire significantly more labor talent away from their RPE peers than from their other industry rivals. This effect is most pronounced among hard-to-replace employees (i.e. higher skilled and longer tenured employees). Collectively, the evidence suggests that firms poach hard-to-replace labor talent away from their RPE peers in order to harm the peers' performance outcomes, thereby improving the focal firm's relative performance (and thus the CEO's compensation).

Time to Innovate

Sunwoo Hwang, and Sooji Kim

Discussant: Teodora Tsankova

We leverage Korea's 52-hour workweek law and a regression discontinuity design to show the positive impact of reduced labor time on corporate innovation. Effective July 2018, the law leads to an immediate fall in working hours and a rise in innovation output by the end of 2019, only in light manufacturing, a sector heavily reliant on labor-driven innovation. This effect is attributed to suboptimal pre-law time allocation, as evidenced by the lack of significant changes in output, labor input, and capital input. It is more pronounced in establishments where innovation incentives complement increased non-labor time and less so in those where other forms of slack serve as substitutes. The pre-law suboptimality is explained by structural inertia and not by agency conflicts.

Executive Talent Allocation across Family Business Group Affiliates

Jinzhao Du, **Ronald W. Masulis**, Peter Pham, and Jason Zein

Discussant: Nicolas Eugster

Utilizing executive movements across listed firms globally, we investigate how family business groups allocate human capital among affiliated firms. We find groups use internal labor markets (ILMs) to source executive talent, with 30% of executive movements originating at other affiliates. Despite having greater demand for executive talent, group firms hire significantly fewer executives from the external labor market than comparable standalone firms. This external hiring rises in poor performance periods. Reallocation of group talent is towards younger and bottom-of-pyramid affiliates, and weaker performing affiliates receiving group capital. Summarizing, family business groups maintain active ILMs that reallocate executive talent to support their affiliates.

Program committee

Jihun Bae

Dyaran Bansraj

Giovanni Cocco

Mattia Colombo

Fabrizio Core

Marc Gabarro

Ying Gan

Ran Guo

Li He

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