

2009 JAAF Symposium

An International Perspective on Executive Compensation and Performance Evaluation



Institutional Investors, Managerial Ownership and
Executive Compensation

Surya Janakiraman, Suresh Radhakrishnan and Albert Tsang

Discussion by Andrea Sironi

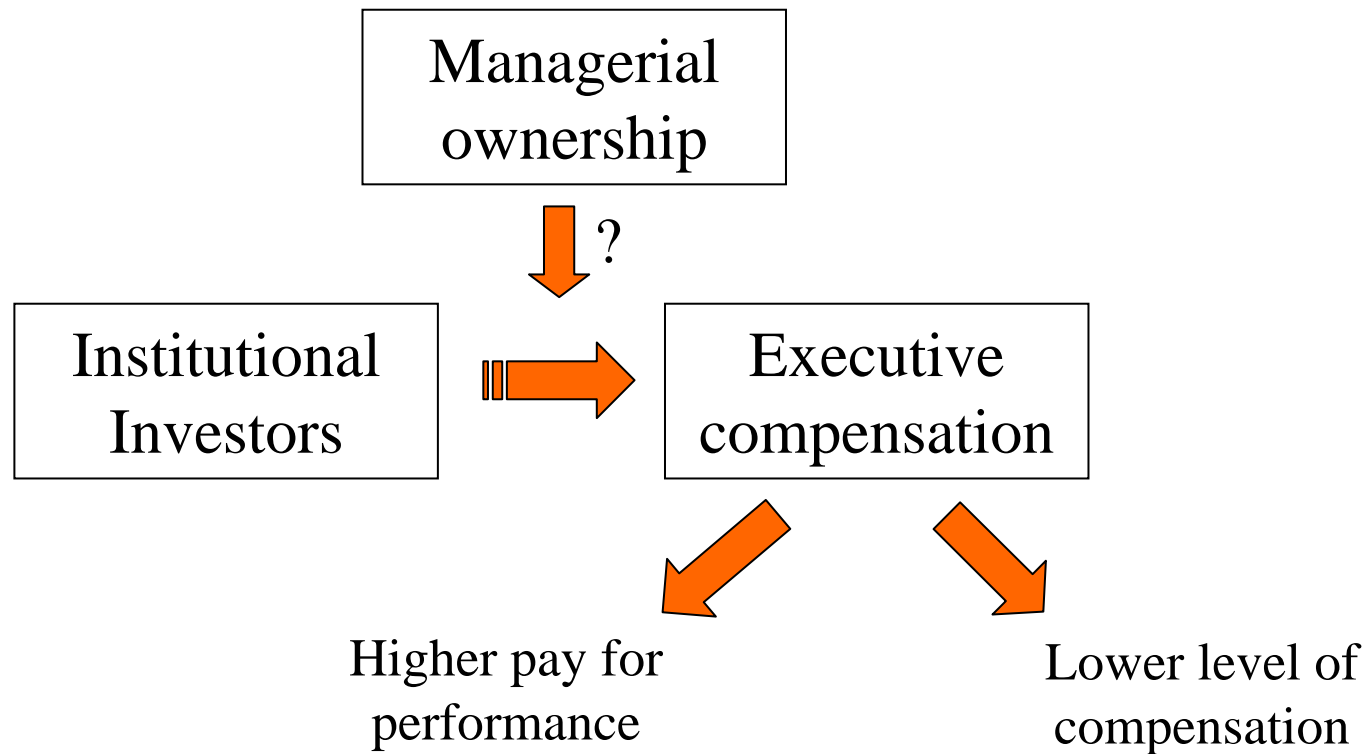
SDA Bocconi

Agenda



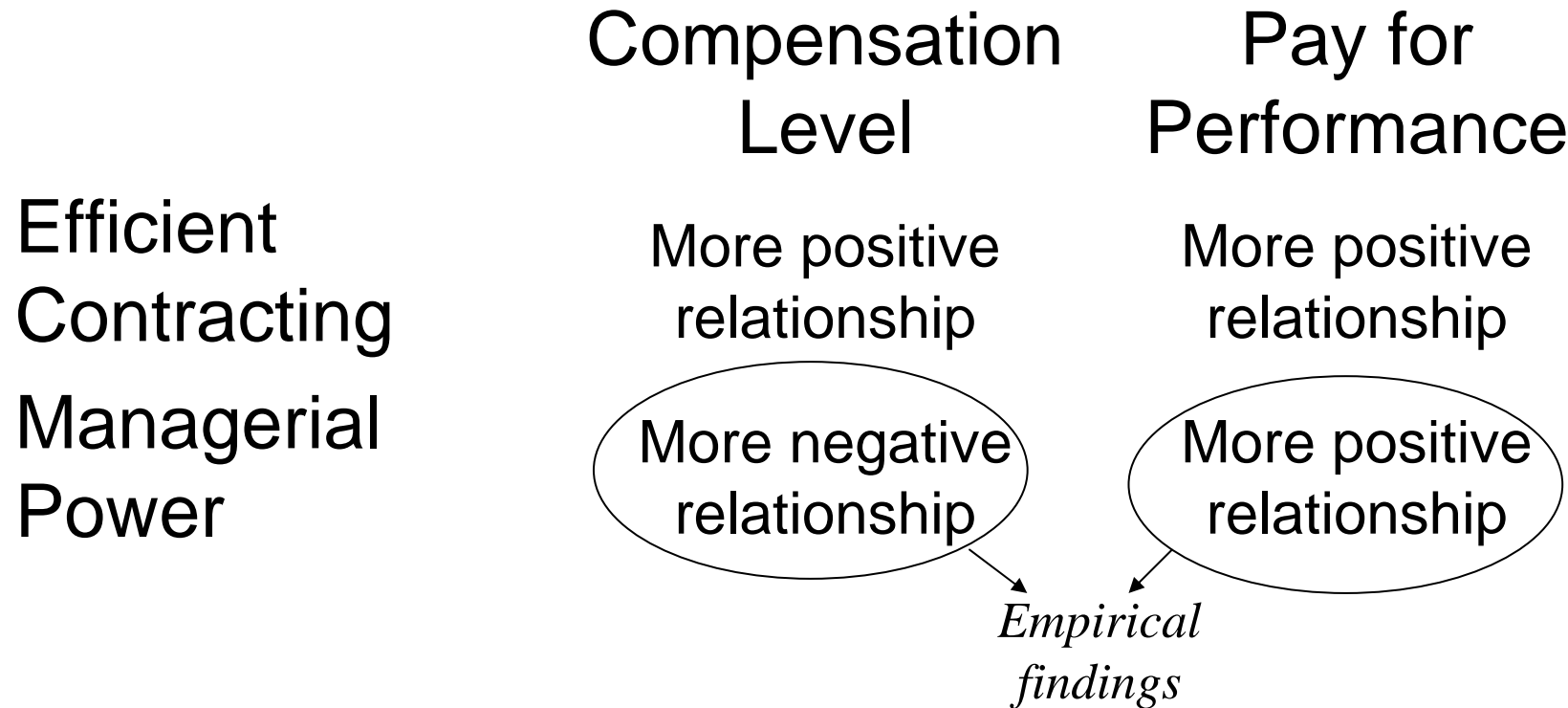
- Research question
- Relevance & underlying economic rationale
- Empirical strategy
- Contribution
- Suggestions for improvement

Research question



Relevance & underlying economic rationale

Impact of Large Institutional Investors on firms with lower managerial ownership



Empirical strategy



- Multivariate regressions where compensation sensitivity to performance and compensation level are regressed on interactive variables with managerial ownership dummies (groups)
- Sample period from 1993 to 2008 of US listed firms
- Sample of 50,423 firm year observations
- 1,350 firms
 - 463 from S&P 500
 - 357 from S&P Mid Cap
 - 530 from S&P Small Cap

Contribution



- Rigorous & robust empirical analysis
- “Hot” topic – especially after the recent financial crisis - related to a corporate governance issue
- Original empirical results with relevant potential theoretical and policy implications
- Insights on the validity of the managerial power and efficient contracting theories

Suggestions for improvement



- Financial crisis \Rightarrow dummy for banks?
- Low adj. R2 for multivariate regression with pay for performance \Rightarrow any missing explanatory factor?
- Explicit control variable for size of firms (only indirectly captured by market cap. \Rightarrow not always related, e.g. internet bubble)
- Any control variable for risk of firms (e.g. stdev of ROA or stdev of stock returns) \Rightarrow executive compensation increasingly based on risk-adjusted results (e.g. financial firms)

Suggestions for improvement



- Better explain why not a continuous variable for managerial ownership
- Only 3 groups for managerial ownership with largest > 5% \Rightarrow many firms with more than 10%
- Emphasis on policy implications of empirical results \Rightarrow e.g. selectively promote role of institutional investors for low managerial ownership firms?