ABSTRACTS EXTRACTS

CORPORATE CAPITAL BUDGETING PRACTICES: THE RELATIVE INFLUENCE OF THE NATURE OF THE FIRM AND NATIONAL-DEVELOPMENT LEVEL

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In evaluating the association between capital-budgeting (CB) practices and the characteristics of the firm and its managers with firm performance in a developed country and an emerging country, this paper seeks to disentangle the effects of key drivers of CB sophistication. The relative sophistication of the firms conducting the CB and the level of country development are embedded using 150 companies from each country. Findings demonstrate that CB practices are more influenced by firm size and sophistication in both countries and should help determine whether focus of development should be on individual firms or will raising the country development level, raise the performance of all corporations.

CAN THE DESIGN OF EQUITY-BASED COMPENSATION LIMIT INVESTMENT-RELATED AGENCY PROBLEMS?

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We investigate the association between managerial investment behaviour and CEO incentives derived from compensation contracts. Based on a sample of the largest two hundred Australian firms over the period 2010 to 2014, we find that investment inefficiency, proxied by investment-cash flow sensitivity, is reduced through the strategic design of CEO equity compensation. The positive sensitivity of investment to cash flow decreases as the use of equity grants increases, indicating greater interest alignment between management and shareholders. The decreased investment-cash flow sensitivity also occurs when using a longer vesting duration and a graded vesting pattern (benefits gradually vest throughout the vesting period), suggesting that enhanced horizon incentives align managers' interest with long-term firm value. We also find that the investment-cash flow sensitivity is reduced when attaching performance hurdles to equity grants, especially the long-term hurdles, implying substantial financial incentives provide incremental interest alignment and correspondingly reduces investment-related agency problems. We note that CEO power has a moderating effect on our regression results. When CEOs have relatively higher power, the utility of equity compensation becomes inadequate to reduce investment-cash flow sensitivity. Overall, the results are consistent with the agency cost explanation that firms can strategically design equity-based compensation to reduce investment-related agency problems.

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