SESAMI Research Seminar

Tuesday, 25 December, 2018
11:00-12:00
Main Building 208 of Kobe University

Does Compensation Disclosure Lead to Better Job Performance?

Evidence from the Mandatory CFO Pay Disclosure

Professor Nancy Su
Department of Accountancy
Lingnan University
Hong Kong

Abstract

The 2006 SEC rule, by changing the definition of Named Executive Officers, for the first time mandated the disclosure of CFO compensation. We exploit this setting and use a difference-in-differences research design to study the impact of CFO compensation disclosure on CFO job performance. We hypothesize that the disclosure of CFO compensation information, by facilitating shareholder monitoring of the board and motivating the board to improve CFO compensation contract design, leads to better CFO job performance in providing high-quality financial reports. Analyses support our prediction: The treatment firms, which, under the 2006 rule, start to disclose CFO compensation information, compared to the control firms, which were already disclosing CFO compensation prior to 2006, experience a significant improvement in financial report quality as exhibited in the reduced frequency of both accounting restatements and internal control weaknesses, as well as improved accrual quality. Further strengthening our conclusion, the improvement in CFO performance in financial reporting for the treatment firms is more pronounced for firms with younger CFOs, firms with CFOs subject to weaker internal monitoring, and firms facing higher litigation risk. We contribute to the disclosure literature by showing a causal impact of compensation disclosure on job performance. Our findings also have regulatory implications.

Contact
email address : takada@pearl.kobe-u.ac.jp (Tomomi TAKADA, Associate professor of Kobe University)
Tel: 078-803-6952 (Research Assistants' Room, Graduate School of Business Administration Kobe University)