

MASTER'S THESIS

The association between CEO compensation structure and firm decision

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**The Association between CEO Compensation
Structure and Firm Decision**

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**A thesis submitted in partial fulfillment of the requirements
for the degree of
Master of Philosophy**

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ABSTRACT

In this study, I examine the relation between CEO compensation structure (CS) and firm decisions including internal decisions (financing, investing and operating decisions) and external decisions (financial analysts and stock-holders' decisions). I argue that the influence of CEO compensation on firm decisions varies according to its structure level. Consistent with this prediction, I find that higher CS increases CEO's incentive to manipulate accounting earnings through technical accounting choices. Moreover, I also find that higher CS will likely encourage CEO to decrease the debt to equity ratio by financing internally or by issuing stock. Regarding investment decisions, CEOs with higher CS attempt to boost stock price by over investing in advertising, R&D, and capital expenditures. Furthermore, CS is also likely to motivate CEO to take action portfolios that boost stock price. Finally I find that higher CS likely encourages CEO to take action portfolios that attract more financial analysts.

Keywords: CEO compensation structure; firm decisions; internal decisions; external decisions; incentives

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