Boards' Dual Role of Advising and Monitoring CEOs, Earnings Management, and CEO Turnover Decisions

ABSTRACT

We study the determinants of the optimal board composition and its relation to the CEO's compensation, the quality of financial statements, and the CEO turnover decision from a lens of boards' dual role of advising and monitoring CEOs. We find that the board composition affects the overall informativeness of accounting information as an assessment tool and the efficiency of related decisions. The central mechanism is that board advising makes a firm's output more informative about the CEO's effort and fit, whereas board monitoring plays an important role in enhancing the quality of financial reporting that reflects the firm's output by mitigating manipulation. Our analyses shed light on cross sectional variation of board composition and its equilibrium association with the CEO's compensation, the quality of financial statements, and the board's CEO turnover decision across firms and industries (e.g., startups vs. established corporations, growth vs. value firms, CEO characteristics, etc.). Such findings provide novel empirical predictions.

BIO

Tae Wook (Ryan) Kim is a visiting assistant professor at the University of Texas at Dallas. Previous to joining the University of Texas at Dallas, he was a professor at the University of Hong Kong. He holds PhD In Accounting from Carnegie Mellon University, AM in Statistics from Harvard University, and BBA in Business Administration and BA in Economics from Seoul National University. His research interests lie in financial reporting, corporate governance, managerial compensation, standard setting and regulation, ESG, and information economics.

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