

Executive Overconfidence and Compensation Structure

Vikram Nanda
Rutgers Business School

Abstract

We examine the impact of overconfidence on compensation structure. We test alternative hypotheses, drawing upon and extending existing theories. Our findings support the exploitation hypothesis: firms offer incentive-heavy compensation contracts to overconfident CEOs to exploit their upwardly-biased views of firm prospects. Overconfident CEOs receive more option- intensive compensation and this relation increases with CEO bargaining power. Exogenous shocks (SOX and FAS 123R) provide additional support for the findings. Overconfident non- CEO executives also receive more incentive-based pay, independent of CEO overconfidence, buttressing the notion that firms tailor compensation contracts to individual behavioral traits such as overconfidence.

Speaker's profile:

Prof Vikram Nanda holds the Al Gamper Chair in Finance. Before joining Rutgers Business School in 2013, he held academic positions at Georgia Tech, Arizona State University, University of Michigan and the University of Southern California.

Professor Nanda has a broad range of research interests and he has published several scholarly articles in journals such as the Journal of Finance, Review of Financial Studies, and Journal of Financial Economics. His work on multi-market trading received the best paper award at the market microstructure symposium sponsored by WFA-RFS-NYSE (1991). His articles at the Journal of Finance have been nominated twice for the Smith Breeden prize (1993, 1995) and he has twice received research awards from the Q-Group for his work on hedge funds. He has regularly served on the program committees for meetings of the Western Finance Association, the European Finance Association and the Financial Intermediation Research Society.

He is the co-author of a book on financial strategy, Finance for Strategic Decision-Making with M.P. Narayanan, 2004, John Wiley & Sons, Inc. He has also contributed articles to non-academic publications such as Barron's.

Click here for complete profile:

<http://www.business.rutgers.edu/faculty-research/directory/vikram-nanda>