Internet Appendix A94: Corporate Governance and Debt
A94.1 Illustrative Pitch Template Example

Pitcher's name	Nargess Mottaghi Golshan	FoR Category	Corporate Governance	Date Completed	21/1/2016
Working Title	Executive Compensation and Debt				
Basic Research Question	How does debt affect executive compensation contracts?				
Key Papers	John and John (1993). "Top Management Compensation and Capital Structure", The Journal of Finance 48(3) 949-974 Ortiz-Molina, Hernan. "Executive compensation and capital structure: The effects of convertible debt and straight debt on CEO pay." Journal of Accounting and Economics 43, no. 1 (2007): 69-93.				
Motivation/ Puzzle	Previous studies made a strict assumption on the linearity of the relation between debt and pay-for-performance sensitivity of the executive compensation (for example, Grossman and Hart, 1982; Jensen, 1986; John and John, 1993; Ortiz-Molina, 2007; Papa and Speciale, 2011; Lin et al., 2012). While a group of studies found that debt adversely affects pay-for-performance sensitivity of the executive compensation contract (Grossman and Hart, 1982; Jensen, 1986; John and John, 1993; Bathala and Moon, 1994; Ortiz-Molina, 2007), another group found a positive relationship (Papa and Speciale, 2011; Lin et al., 2012). In this research paper, I propose a theoretical model that allows three investment opportunities with different risk levels to be available to the firm. This theoretical model may explain the mixed results of the previous studies. It also provides a convenient framework to empirically test if a non-linear relationship exists between debt and pay-for-performance sensitivity of executive compensation contracts by using a threshold regression model.				
THREE					
Idea	Testing a non-linear relationship between debt and pay-for-performance sensitivity of the executive compensation contracts				
Data	Setting: US data, Data Availability: Since 1992, Unit of analysis: firm-year observations Sampling: Annual Sample size: 14.600 observations after ignoring missing data Data Source: ExecuComp and Compustat				

Tools	Panel Threshold Regression Model studies by Hansen (1999) Software: SAS, R Statistical Package
TWO	
What's New	The idea of a non-linear relationship and the possible sources of non-linearity has not been explored yet. The non-linear relationship can explain the mixed results in the literature as well.
So What?	This study has important theoretical, empirical and policy implications. Firstly, it will extend the theoretical model of John and John (1993) to include three investment options. These options include: a zero-risk, a low-risk and a high-risk project. Secondly, the empirical results will confirm the role of debt in solving agency problems between equity-holders and executives. Hence, it will provide the board of directors and regulators with an important policy-setting mechanism. This study aims to show that a carefully designed executive compensation contract, which has taken the firm's capital structure and its strategic orientation into consideration, is another tool for the board of directors to solve the agency conflicts between equity-holders, debt-holders and executives
Contribution	1- Building a theoretical model for the non-linear relationship between debt level and pay-for-performance sensitivity of the executive compensation plans 2- Connecting two streams of literature on executive compensation and firms' strategic orientation
Other Considerations	**Is collaboration needed/desirable?** Idea: no Data: no Tools: Yes, an econometrician collaboration is required due to the sophisticated panel data threshold regression model **Target Journals:** Journal of Financial Econometrics, Journal of Corporate Finance **Risk Assessment:** 1. No result: LOW, since some primary analysis has been performed 2. Competition: HIGH, a very topical area, need to keep an eye open on new publications in this area 3. Obsolescence: LOW, Financing decisions effects on executive compensation packages has long been a puzzle in the corporate governance area since Jensen and Meckling (1978) paper