

## Accounting Research Workshop (ARW) – winter term 2018/19

**Speaker:** Prof. Matthias Mahlendorf

**University:** Professor for Managerial Accounting, Frankfurt School of Finance & Management

**Date:** 12. February 2019

**Subject:** "CEO Power and Target Ratcheting Asymmetry Reversal"

**Abstract:** Prior literature has documented that targets are often ratcheted upwards. This means that targets are increased more after a positive deviation of actual versus target than they are decreased after a failure to achieve the target. We theorize that this effect is highly conditional upon the power of the respective executive. Specifically, we suggest that very powerful CEOs can reverse the asymmetry (i.e. stronger downward adjustment than upward adjustment). Using data from Incentivelab and Compustat as well as hand collected data from the proxy statements, we first estimate ratcheting for the overall sample and find significant asymmetry that leads to increasing bonus targets over time. Second, we investigate the subsample of more powerful CEOs and find evidence the opposite ratcheting asymmetry. The results are robust for different proxies of CEO power and different statistical estimation approaches. In line with the retention argument that companies allow successful managers more rent extraction, our additional analyses find that the strength of the ratcheting coefficients vary depending on return on sales, but the opposite asymmetry for powerful vs. non-powerful CEOs still occurs. In further analysis we find that also the dynamic updating of analyst forecasts is strongly conditional upon CEO power, which suggest that CEO power extends beyond the dynamics of internal targets adjustments.



We were pleased that we could welcome Prof. Mahlendorf at the Accounting Research Workshop at the faculty of Business Administration and wish him all the best for his future work and research projects.