Executive Pay, Equity, and Cross-Border Transactions:
An Examination of Ownership Decisions

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We examine the acquisition of equity interests in non-domestic firms over the period from 1998 through 2009. We find an inverse relationship between executive salary and the percentage of equity acquired. However, contrary to previous work in the agency and entry mode space, we find no associations between stock option and common equity holdings and the percentage of equity purchased in international transactions. These findings suggest that the antecedents for entry mode selection (shared-control versus full-control) may differ from the antecedents for ownership decisions once a cross-border transaction has been selected.

INTRODUCTION

The choice of a mode of entry into a foreign market can have a significant impact on a firm's operations and performance (Brouthers, Brouthers, & Werner, 2002). Given the importance of entry mode selection, there is significant interest in the where, why, and how of firm expansion (Lin & Cheng, 2013). However, while examining the antecedents of entry mode choice, the majority of studies have relied on transaction cost theory (TCA) (Coase, 1937; Williamson, 1975; Williamson, 1979), the resource-based view (RBV) (Barney, 1991; Peteraf, 1993), institutional theory (Selznick, 1948), and Dunning's (1988) eclectic framework (OLI) (Brouthers & Hennart, 2007; Datta, Musteen, & Herrman, 2009). Few studies have considered corporate governance and firm internationalization (Hitt, Tihanyi, Miller, & Connelly, 2006; Luo, Zhao, & Du, 2005), and, to our knowledge, even fewer have examined how firm top management team (TMT) compensation packages influence entry mode choice (Datta et al., 2009). This literature gap provides an opportunity for novel studies utilizing an agency theory perspective to enhance our understanding of entry mode choice and cross-border transactions.

While IB scholars have expanded our grasp of entry mode choice, agency theorists have been advancing the literature on the relationship between executive compensation and a wide range of business outcomes including product recalls (Wowak, Mannor, & Wowak, 2015), firm performance (Jensen & Murphy, 1990; Tosi, Werner, Katz, & Gomez-Mejia, 2000), firm risk (May, 1995), and risk-adjusted performance (Sanders & Hambrick, 2007). This literature examines various forms of pay, which include salary, bonus, option awards, stock awards, and other compensation, and how these forms of compensation, individually, or collectively, influence executive performance and preferences related to strategic decisions. Recently, there has been considerable interest across academic disciplines, most

notably accounting (Carter, Lynch, & Zechman, 2009), finance (Wright, Kroll, Krug, & Pettus, 2007), and management (Sanders & Hambrick, 2007), related to the impact that executive compensation has on strategic decisions, firm policies, and firm risk. Datta, Iskandar-Datta, and Raman (2001) found a positive relationship between equity-based compensation and executive effort to seek acquisition targets with greater growth potential and associated risk. Sanders and Hambrick (2007) found that CEO stock options lead executives to "swing for the fences" (p, 1061), by leading to an increased propensity to accept high-risk projects.

Since different forms of compensation, particularly option-based incentives, encourage executives to accept projects with uncertain payoffs, the entry mode choice space is an interesting area of inquiry since there is considerable literature discussing the differences in risks across the various forms of entry modes including exporting, greenfields, alliances, joint ventures (JVs), and acquisitions. It is surprising that there has been limited cross-over between agency theory tenets and foreign entry mode selection decisions (Datta et al., 2009), especially since managerial incentives and their related payoff structures can significantly influence executive risk preferences and firm decisions. As such, we seek to determine if executive pay packages explain additional variance above and beyond the extant antecedents in the entry mode literature.

Against this backdrop, we argue that managerial compensation and common stock ownership may influence cross-border investment decisions. In this paper, we examine the percentage of equity purchased by U.S. domestic firms in cross-border transactions (CBTs) (i.e., target firms were firms that had headquarters outside of the United States). Our focus is on the review of acquisitions within the entry mode literature and is based on fundamental concepts of the broader entry mode choice literature. We posit that TMT compensation schemes influence the percentage acquired in CBTs.

The contributions of this paper are three-fold. First, since much of the extant executive compensation literature is fairly myopic concentrating on only CEO compensation, we extend our focus to include the top five executives, which collectively serve as the top management team. Incorporating the rest of the TMT captures broader swath of the key decision makers in an organization (Carpenter & Sanders, 2004). Second, given the considerable amount of research indicating that executive compensation packages influence strategic decisions, an agency theory perspective applied to the foreign market entry strategies is a logical extension. A better understanding of the relationship between compensation packages and strategic decisions, specifically foreign market entry, is paramount if compensation packages are to be used to encourage specific corporate behavior. Third, the entry mode literature typically focuses on the decision to enter a new market through either shared-control (licensing or joint ventures) or full-control (greenfield investment or acquisitions) entry modes. Musteen, Datta, and Herrmann (2009) relied on this dichotomy in their study of 118 non-diversified, manufacturing firms during the 1990s. They examined the relationship between long-term incentives (options, restricted stock, and other long-term pay) and shared-control versus full-control decisions, and found that long-term incentives were related to full-control entry modes. This supports agency theory logic that executive pay influences managerial preferences for different entry modes, which differ on various dimensions including time horizon (Krychowski & Quelin, 2010), flexibility (Brouthers & Brouthers, 2001), initial resource commitment (Buckley, Clegg, & Wang, 2002), exit cost (Anderson & Gatignon, 1986), and transaction cost (Zollo & Singh, 2004). This line of research indicates that managerial incentives can entice managers to select one entry mode alternative over another, and that one of the key factors in such a decision hinges on ownership preferences. However, the research examining the level of ownership within an entry mode once it is selected is sparse. This is potentially due to usage of binary dependent variables in this literature. Since our focus on a singular segment of the entry mode choice spectrum, specifically the selection of an acquisition, we can concentrate on whether or not the documented antecedents of entry mode choice (full-control versus shared-control) are also the antecedents of the percentage of equity purchased in acquisitions.

We begin this paper with a brief discussion of agency theory, executive compensation packages, and the effects of these compensation packages on firm risk. Following this review, we briefly discuss entry mode literature. Next, we develop three hypotheses related to executive compensation packages and

CBTs. We then discuss our empirical model, as well as sources of data, and variable construction. Finally, we offer conclusions and thoughts about future research.

LITERATURE REVIEW

There has been a considerable discussion in the entry mode choice literature of the dissimilar risks and rewards of full and partial entry modes. It has been widely argued that shared-control entry modes are less risky than full-control modes for a number of reasons (Datta et al., 2009). For example, researchers posit that full-control entry modes require a higher initial resource commitment than shared-control entry modes (Anderson & Gatignon, 1986; Buckley et al., 2002; Contractor & Lorange, 1988; Hill, Hwang, & Kim, 1990). The underlying logic is that in shared-control entry modes such as joint ventures or partial equity purchases, partner firms jointly contribute assets and capital, which minimizes the resource commitment of each partner. Since fewer resources are committed, there is less risk associated with shared-entry mode choices. In addition, more significant upfront resource commitments also add risks beyond the initial outlay. It is argued that lower upfront resource commitments related to shared-control entry modes generally generate lower exit costs (Anderson & Gatignon, 1986; Kotabe & Ketkar, 2009). Likewise, as a result of lower resource commitments, shared-control entry modes generally offer more firm flexibility (Brouthers & Brouthers, 2001).

In large part, these divergent resource requirements form the underlying logic behind the real options (RO) literature. "Real options" (Myers, 1977) refer to the usage of option theory to rank investment alternatives. For instance, as firms make small investments to gain entry to a market or to develop a new prototype (Krychowski & Quelin, 2010), they create the ability to evaluate the evolving circumstances. Like stock options, which require a premium for the option to buy or sell a security at a specific price in the future, investments in the international joint ventures or partial acquisitions give firms the ability to keep the initial investment of each project low while maintaining the option to make additional investments over time should opportunities present themselves (Buckley & Tse, 1996; Folta, 1998). Some theorists posit that a real option approach, where firms participate in shared-control entry as opposed to full acquisitions, minimizes risk from any particular venture (Brouthers, Brouthers, & Werner, 2008) and allows firms considerable flexibility. Therefore, "Real options not only enable firms to capture the value of growth opportunities in case of favorable circumstances; they also limit downside risks in case of unfavorable conditions" (Krychowski & Quelin, 2010, p. 70).

Moreover, full-control entry modes are considered riskier than shared-control entry modes due to the higher resource commitments related to the underlying characteristics of common business transactions. For example, purchasing a controlling interest in a target firm often requires a considerable acquisition premium to entice target shareholders to approve the transaction (Jensen, 1993; Slusky & Caves, 1991). There are also significant transaction costs which further increase the resource commitment during acquisitions (Zollo & Singh, 2004). Furthermore, there are considerable risks associated with the accurate valuation of the target firm given the information asymmetries between acquirer and acquiree TMTs (Fishman, 1989; Lee & Lieberman, 2010), thus requiring considerably more due diligence efforts. Individually and collectively, these factors increase the likely costs associated with full-control entry modes and, as such, increase the risks associated with this entry mode alternative.

HYPOTHESIS DEVELOPMENT

Agency theorists assert the principal-agent relationship, if left without appropriate control mechanisms, could have a profound impact on firm strategy. Without proper control by the board, or some of other stakeholder groups (shareholders, institutions, bondholders, founding families) the firm will incur agency costs (adverse selection and moral hazard) (Sanchez-Marin & Baixauli-Soler, 2014). Managers may take advantage of information asymmetries to build empires (Jensen & Murphy, 1990) through diversification and restructuring strategies (Amihud & Lev, 1981; Bethel & Liebeskind, 1993),

reinvest cash instead of distributing it to shareholders (Brush, Bromiley, Hendrickx, 2000), or increase their own compensation (Bebchuk & Fried, 2003).

To align interests between TMTs, employees, and shareholders, firms employ compensation packages and develop organizational structures that seek to minimize agency costs. Since shareholders and boards have difficulty observing the behavior of executive management teams, outcome-based contracts appeared to be the logical choice to encourage goal alignment (Eisenhardt, 1989). During the late 1980s and 1990s there was an explosion of option grants to executives, but recent changes in accounting for option expenses and harder economic times have slowed the use of options. Nonetheless, options still generally constitute a significant portion of executive compensation packages (Balsam, 2007).

Salary and the Percentage of Equity Acquired in Cross-Border Transactions

Agency theorists argue that compensation schemes composed primarily of salary provide TMTs with little incentive to take risk (Jensen & Meckling, 1976). While TMTs are still concerned about effectively guiding their firms, agency theorists contend that TMTs' worries center around maintaining the firm's going concern status (Cadsby, Song, and Tapon, 2007). The underlying logic is that TMTs paid in only salary focus on protecting their employment and the accompanying salary (Brown, 2014). In addition to protecting personal benefits in the short-term, risk aversion is also seen as a way to protect long-term interests. For instance, it is particularly important to maintain firm performance relative to its peers (Wright et al., 2007) since underperformance could hurt future job possibilities (Balsam, 2007). Given the preference for risk aversion, as well as the fact that salary streams are generally unaffected by fluctuations in firm performance, we hypothesize that TMTs paid primarily in the form of salary will seek to minimize firm risk and thus, they will prefer less equity ownership over more equity ownership. On this basis we hypothesize:

> H1: TMT salary will be negatively associated with the percentage of equity acquired in CBTs.

Option-Based Incentives and the Percentage of Equity Acquired in Cross-Border Transactions

A plethora of research suggests that the addition of option-based incentives to executive pay packages encourages the acceptance of risky projects. Researchers have found relationships between option-based pay and corporate investments, financial leverage, and numerous other proxies for firm risk. For example, scholars have found positive relationships between option holdings and firm debt (Cohen, Hall, & Viceira, 2000), the level of capital expenditures (Sanders & Hambrick, 2007), and risky oil exploration projects (Rajgopal & Shevlin, 2002). Coles, Daniel, and Naveen (2006) found that as equity incentives increase, TMTs allocate more resources to risky R&D projects and less to PP&E, which is inherently less risky. Coles et al. (2006) also found a positive relationship with sales concentration, which is riskier than a diversified sales portfolio. These managerial decisions reflect managerial preferences for risk-taking when given equity-based incentives.

While many find positive associations between option-based pay and riskier strategic initiatives, others find that managerial preferences for risk manifest themselves in accounting decisions. For example, researchers have found a positive association with the likelihood of fraud allegations (Denis, Hanouna, & Sarin, 2006), earnings management (Bergstresser & Philippon, 2006), and aggressive accounting policies (Burns & Kedia, 2006). Still others have found positive relationships between option-based compensation and risk, as measured by the volatility of stock returns or return on assets (ROA) (Chen, Steiner, & White, 2006; Wright et al., 2007). In studies of volatility, risk is often operationalized as the standard deviation of stock or ROA returns, where wider distributions indicate higher risk.

However, the studies that are most closely related to this study examine stock option pay and entry mode choice. In a study of manufacturing firms, Musteen et al. (2009) examined whether CEO compensation influences the selection of full-control or shared-control entry modes. They found that full-control entry modes were more likely when CEO compensation schemes consisted of higher weightings of long-term incentives, which they classified as the combination of options, equity holdings, and other

long-term incentives. This implies that options and equity holdings encourage managers to select riskier entry alternatives, with longer investment horizons such as greenfields and acquisitions, while other forms of pay like salary would encourage the usage of less-risky entry modes like joint ventures and licensing agreements. In a related article, Datta et al. (2001) found a positive relationship between equity-based compensation and acquisition targets with higher growth opportunities and higher risk. Providing further support, Sanders and Hambrick (2007) found that option-based pay encourages CEOs to "Swing for the fences" (p, 1061) and to make high-variance bets.

Given this evidence showing a positive association between option-based pay and firm risk, we argue that the option-based incentives will encourage riskier strategic decisions and thus larger equity investments in foreign firms. Therefore, we hypothesize the following:

> H2: *TMT option-based compensation will be positively associated with the percentage of equity acquired in CBTs.*

Ownership Incentives and the Percentage of Equity Acquired in Cross-Border Transactions

Ownership incentives, which we define as restricted stock and common stock holdings, are other instruments that influence managerial decision-making. Equity holdings offer a payoff structure that is quite different from payoffs offered by salary and option-based incentives. Salary is paid regardless of firm performance and hence it is unlikely to encourage risk-taking. Option-based incentives, on the other hand, exhibit an asymmetric payoff structure that allows TMTs to benefit from surges in stock price, but largely protects TMTs from stock declines since risk is shared with the shareholders and bondholders (Anderson, Mansi, & Reeb, 2003). Similar to option-based incentives, common stock holdings allow TMTs to participate in stock price increases along with common shareholders. However, option-based pay and common stock holdings differ in the relative exposure to downside risk. Common stock and restricted stock holdings exhibit a symmetric payoff structure that more closely aligns the risk and reward preferences of TMTs with common shareholders (Burns & Kedia, 2008; Matta & McGuire, 2008). In short, TMTs share both positive and negative effects of stock price movements.

Previous studies support the hypothesis that managerial ownership aligns managerial interests with shareholder interests (Lewellen, Loderer, & Rosenfeld, 1985). Consistent with agency logic, studies focused on the relationship between equity-based incentives and firm risk have documented positive associations between managerial equity ownership and firm risk. Firm risk has been measured in capital structure (leverage) and firm variance (Agrawal & Mandelker, 1987), as well as acquisition (Amihud & Lev, 1981), corporate entrepreneurship (Zahra, 1996; Brown, 2012), and corporate diversification (Eisenmann, 2002) decisions. Accordingly, scholars have posited that executive common stock holdings align TMT and shareholder risk preferences (Agrawal & Mandelker, 1987); the preponderance of empirical evidence supports this position (Eisenmann, 2002).

Given the increased risk that accompanies larger equity acquisitions versus smaller equity acquisitions, as well as the literature supporting the notion that TMT equity positions encourage risk-taking, we hypothesize that there will be a positive linkage between TMT equity ownership and the percentage of ownership acquired in CBTs. On this basis we hypothesize the following:

> H3: *TMT common stock ownership will be positively associated with the percentage of equity acquired in CBTs.*

DATA DESCRIPTION

For the purpose of this study, financial and executive compensation data were drawn from the Compustat and Execucomp databases, respectively. Our sample consisted of financial and TMT executive compensation data for all the firms the ExecuComp database who made full or partial acquisitions over the eleven-year period from 1998 through 2009.

In addition, we relied upon transaction data from Capital IQ (a division of Standard and Poor's) transactions database. The sample consisted of 1,462 observations and is summarized in Tables 1 and 2.

Table 1 shows that the distribution of observations across the sample time period is fairly even. As Table 2 illustrates, the sample provided information from a wide range of industries. The majority of the transactions (67%) came from SIC codes 20 through 39. In 17% of the observations, domestic firms acquired partial interests as opposed to 100% equity. As noted by Erramilli and Rao (1993), and Chari and Chang (2009), U.S. firms have a preference for full-control and this percentage in the total sample is consistent with prior work.

TABLE 1
SAMPLE DISTRIBUTION BY YEAR

Year	n	%
1998	67	4.6%
1999	99	6.8%
2000	114	7.8%
2001	92	6.3%
2002	93	6.4%
2003	108	7.4%
2004	145	9.9%
2005	163	11.1%
2006	176	12.0%
2007	156	10.7%
2008	159	10.9%
2009	90	6.2%
	1462	100.0%

TABLE 2
SAMPLE DISTRIBUTION BY INDUSTRY

Industry	n	%
Agriculture, Forestry & Fishing (SIC 1-10)	11	0.8%
Mining (SIC 11-14)	46	3.1%
Construction (SIC 15-19)	3	0.2%
Manufacturing (SIC 20-39)	984	67.3%
Transportation, Communications, Electric, Gas, and Sanitary Services (SIC 40-49)	48	3.3%
Wholesale Trade (SIC 50-51)	60	4.1%
Retail Trade (SIC 52-59)	37	2.5%
Finance, Insurance, and Real Estate (SIC 60-67)	9	0.6%
Services (SIC 70-89)	260	17.8%
Public Administration (SIC 91-99)	4	0.3%
	1462	100.0%

We relied upon the following regression model to test our hypotheses.

Share of Equity Acquired (in time t+1)
$= b_0 + b_1$Acquirer Firm Size $+ b_2$Acquirer Firm Industry $+ b_3$Year $+ b_4$Acquirer Firm Corporate Governance $+ b_5$Acquirer Firm Foreign Experience $+ b_6$Target Country Risk $+ b_7$Target Country Market Potential $+ b_8$Asset specificity $+ b_9$Acquirer TMT Bonus $+ b_{10}$Acquirer TMT Restricted Stock $+ b_{11}$Acquirer TMT Age $+ b_{12}$Acquirer Slack $+ b_{13}$Acquirer Leverage $+ b_{14}$Acquirer TMT Options $+ b_{15}$Acquirer TMT Salary $+ b_{16}$Acquirer TMT Common Equity Holdings $+ \varepsilon$ (all in time t)   (1)

Dependent Variable
Following Chari and Chang (2009), Chen and Hennart (2004), and others, we measure our dependent variable as the percentage of equity acquired in cross-border transactions.

Independent Variables
Consistent with prior literature, we relied upon salary, option value and common stock holdings data for TMTs from the CompuStat Execucomp database. Each variable was measured in the year prior to the CBT. Execucomp utilizes the Black and Scholes option pricing model (Black & Scholes, 1973) to estimate option values. In hypothesis 1, our independent variable was salary compensation in dollars (aggregated across the TMT). In hypotheses 2 and 3, we used option value in dollars and common stock holding value as our independent variables, respectively. Total compensation includes salary, bonus, non-equity incentive plan compensation, grant-date fair value of option awards, grant-date fair value of stock awards, deferred compensation earnings reported as compensation, and other compensation (Chen et al., 2006; Harris & Bromiley, 2007; Sanders & Hambrick, 2007).

Control Variables
We controlled for firm size because size influences a firm's flexibility, strategy, and resource availability (Burns & Kedia, 2008; Erickson, Hanlon, & Maydew, 2006; Miller, Wiseman, & Gomez-Mejia, 2002; Sanders & Hambrick, 2007). We measured firm size as the log of the number of employees of each firm in the year prior to each transaction. We utilized Two digit SIC codes to control for differences across industries captured by the sample (Burns & Kedia, 2008). Two-digit SIC codes control variables were included in all models in this analysis. Also, since we pooled data over an 11-year period, we controlled for the time period by created dummy variables for each year, using 1998 as the reference year.

Moreover, since agency theorists posit that bonuses can serve as a mechanism to foster goal alignment between the TMTs and shareholders (Carter et al., 2009) and that bonuses can entice executives to take risks with firm assets (Moradi, Salehi, & Zamanirad, 2014), we control for the average dollar value of bonuses to the TMTs in the year prior to each transaction. We included a control for differences in corporate governance since some researchers have found that corporate governance influences firm performance and earnings management (Cornett, Marcus, & Tehranian, 2008; Gompers, Ishii, & Metrick, 2003). We utilized the Gompers Governance Index, which includes 24 governance rules related to shareholders rights, as our measure of corporate governance (Gompers et al., 2003). We included controls for the availability of resources. We controlled for financial leverage, which was the ratio of interest bearing liabilities to shareholders equity (Bergstresser & Philippon, 2006; Burns & Kedia, 2008; Coles et al., 2006), and slack, which was estimated by taking working capital as a percentage of sales (Finkelstein & Hambrick, 1990). Both financial leverage and slack are proxies for the resources that managers can allocate to equity acquisitions. We also controlled for TMT age since research indicates that managers become more risk averse as they age (Hambrick & Mason, 1984; Herrmann & Datta, 2005).

Prior entry mode choice literature has employed TCE, RBV, institutional theory, as well as the OLI framework (Brouthers & Hennart, 2007). Accordingly, since we have hypothesized that executive compensation and common stock holdings influence entry mode decisions, we have controlled for some of more established entry mode antecedents from the extant literature to isolate the incremental impact of

pay mix and stock ownership of TMTs. TCE theorists have argued that asset specificity (Williamson, 1985) is related to preferences for full-control entry modes (Brouthers, Brouthers, & Werner, 2003; Erramilli & Rao, 1993), while RBV theorists have argued that asset specificity is within the resource-based framework and can contribute to a competitive advantage (Barney, 1991). Therefore, we have controlled for asset specificity. Since the investment in R&D represents a firm's commitment to the development of specialized assets (Houston & Johnson, 2000), we have measured asset specificity by calculating R&D as a percentage of sales (R&D/sales or R&D Intensity) in the year prior to each transaction. TCE and RBV theorists posit that firms with greater proprietary assets may seek greater equity positions to control partner opportunism and to have more control over key resources (Chari & Chang, 2009). Following Chari and Chang (2009) and Chari, Devaraj, and David, (2007), we replaced missing R&D data with zero values since the absence of R&D expense reporting reflects immateriality with respect to R&D spending. Likewise, TCE and RBV researchers have theorized that internal uncertainty at an acquirer influences entry mode choice. International experience is often used as a measure of internal uncertainty in these literature streams (Zhao, Luo, & Suh, 2004). For the purpose of this study, we have measured international experience as the number of joint ventures or acquisitions over the 3 years prior to the date of the transaction. Finally, consistent with TCE and institutional theory, we added controls for external uncertainty, which included variables for target market potential and country risk. Researchers theorize that as external uncertainty increases, firms will shy away from more resource intensive full-control and select shared-control entry modes. We have measured target market potential as 3-year average GDP per capita during the three-year period prior to the transaction (Chari & Chang, 2009). These data were part of the International macroeconomic data set compiled by the Economic Research Service of the United States Department of Agriculture. In order to estimate country risk, we relied upon total country risk and risk premium estimates. Since a country's credit rating incorporates risks in factors such as GDP, external debt, level of economic development, default history, real growth rate, and the inflation rate (Antonio, 2003), sovereign debt ratings provide the foundation for capturing and quantifying county risk. Given a country's credit rating, one can estimate the country risk by observing the yield on a country's sovereign debt. We relied upon country risk premiums estimated by Aswath Damodaran of New York University (NYU) as of January of 2010.

TABLE 3
DESCRIPTIVE STATISTICS AND CORRELATION COEFFICIENTS [A, B, C]

	Mean	S.D.	1	2	3	4	5	6
1 Percentage Acquired	89.98	22.88	1					
2 Country Risk	4.98	11.04	0.31 **	1				
3 Corporate Governance	9.21	2.62	0.02	0.04	1			
4 Acquirer Size	44.96	115.28	-0.12 **	-0.10 **	0.00	1		
5 Asset Specificity	7.26	16.67	-0.16 **	-0.03	0.14 **	0.29 **	1	
6 International Experience	1.36	2.13	-0.03 *	-0.04	-0.01	0.33 **	-0.05 *	1
7 Country GDP Per Capita	30.48	11.89	0.26 **	0.78 **	0.03	-0.06 **	-0.05 *	0.01
8 TMT Bonus	773.54	1890.35	-0.04	0.01	-0.06 *	0.26 **	0.14 **	0.08 **
9 TMT Restricted Stock	609.44	5196.15	0.08 **	0.07	-0.05 *	-0.16 **	0.17 **	-0.01
10 TMT Age	59.86	6.16	-0.05 *	0.03	0.11 **	0.20 **	0.23 **	-0.1 **
11 Acquirer Slack	2.35	2.25	-0.10 **	-0.06 **	0.16 **	0.51 **	0.39 **	0.08 **
12 Acquirer Leverage	48.27	51.48	-0.14 **	-0.08 **	0.02	0.26 **	0.27 **	0.01
13 TMT Salary in $	511.83	234.63	-0.15 **	-0.06 **	0.06 *	0.72 **	0.18 **	0.27 **
14 TMT Options in $	1915.65	4989.05	0.03	-0.02	-0.04	0.06 **	-0.06 *	-0.03
15 TMT Common Equity in $	4606.79	30248.94	-0.06 **	-0.02	-0.05 *	0.23 **	-0.01	0.17 **

		7	8	9	10	11	12	13	14
1	Percentage Acquired								
2	Country Risk								
3	Corporate Governance								
4	Acquirer Size								
5	Asset Specificity								
6	International Experience								
7	Country GDP Per Capita	1							
8	TMT Bonus	-0.04	1						
9	TMT Restricted Stock	0.08 **	-0.32 **	1					
10	TMT Age	-0.06 **	0.19 **	-0.11 **	1				
11	Acquirer Slack	-0.07 **	0.19 **	-0.18 **	0.19 **	1			
12	Acquirer Leverage	-0.07 **	0.22 **	-0.19 **	0.16 **	0.37 **	1		
13	TMT Salary in $	0.01	0.16 **	-0.14 **	0.16 **	0.41 **	0.20 **	1	
14	TMT Options in $	-0.06 **	0.51 **	-0.32 **	0.22 **	0.06 *	0.06 **	-0.02	1
15	TMT Common Equity in $	0.00	0.11 **	-0.07 **	0.00	0.04	0.07 **	0.26 **	-0.01

[A] $p<.05$ *, $p<.01$**
[B] $N=1462$
[C] Bonuses, restricted stock, salaries, options, stock ownership, and GDP per capita values were in thousands of dollars. Size represented the number of employees in thousands. The Gompers index was a count index based on 24 corporate governance variables. International experience was a count variable capturing the number of cross-border transactions. TMT age was in years. All other variables were percentages.

Table 3 provides descriptive statistics and the correlation coefficients of the variables in this study. Due to space constraints, SIC and year dummies were not shown. As one might expect, we find a strong correlation ($r =.72$, $p<.01$) between the average salary across the TMT and firm size. We also find a statistically significant relationship between TMT salary and international experience ($r =.27$, $p<.01$), which highlights the relationship between certain forms of experience (i.e., experience in cross-border transactions) and fixed pay. Additionally, we note a strong correlation between 3-year GDP per capita and country risk ($r =.78$, $p<.01$).

METHODOLOGY

Endogeneity occurs when an independent variable is correlated with the error term (Wooldridge, 2006). It creates biased estimates in statistical models which might lead researchers to make incorrect causal inferences from data (Stock & Watson, 2007). Thus, given our usage of observational data, as well as our quest to answer questions related to causality, we have explored the issue of endogeneity in our models (Bascle, 2008). We have hypothesized that executive compensation packages influence strategic decisions (such as entry mode selections), but we are cognizant of the possibility that the past strategic decisions may influence executive compensation packages as well. In short, since compensation structures and strategic initiatives are choice variables, our analysis may encounter endogeneity problems (Erickson et al., 2006).

We have attempted to control for endogeneity by utilizing lagged values in our models and by selecting control variables that are proxies for determinants of compensation packages (Erickson et al., 2006). We have added controls for firm size, industry, and corporate governance. We included a one-year lag between our executive compensation observations and our dependent variable. For example, if there was a transaction that occurred in 1999, we regressed the executive compensation in the previous period

(1998). By using a lagged dependent variable we address simultaneous causality because the impact of the transaction will not have an impact on compensation paid one-year prior. This allows us to better isolate the casual relationship between compensation packages and the percentage acquired in cross-border transactions.

In this paper, we relied upon ordinary least squares (OLS) regression to examine the relationship between executive pay mix and common stock holdings and the ownership acquired in completed, CBTs. Since numerous researchers have employed Tobit regression when incorporating a dependent variable measuring percentage ownership (Pan, 2002; Chari & Chang, 2009; Cuypers & Martin, 2010), we also considered Tobit regression, which is sometimes known as "censored" regression (Amemiya, 1984). However, according to Sigelman & Zeng (1999), "Theoretically the standard Tobit model is applicable only if the underlying dependent variable contains negative values that have been censored to zero in the empirical realization of the variable." (p. 170) Maddala (1992), echoes a similar sentiment when he asserts that when an individual's decision dictates when values are zeros, Tobit models are not appropriate. Given this, as well as the underlying characteristics of our dependent variable, we have solely relied upon OLS regression in our analysis. Our OLS regression results are shown in Table 4.

We conducted a variety of statistical tests and analytical procedures to ascertain if there were violations of the underlying assumptions in OLS regression analysis. For each variable in the analysis, we reviewed skewness and kurtosis measures, as well as various scatter diagrams to address the normality of data distributions. After a thorough review, variables were transformed as appropriate. Following the variable transformations, we eliminated cases that exceeded acceptable influence (Cook's Distance and DFBetas) and leverage thresholds. We reviewed residual plots and conducted Breusch-Pagan/Cook-Weisburg and Cameron and Trivedi's decomposition tests and found evidence of heteroskedasticity. As such, we utilized the robust command in Stata so that our regression models incorporated robust standard errors. Similar to the cluster option in Stata, the robust command relaxes the assumptions that errors are both independent and identically distributed and is appropriate since numerous firms have made multiple acquisitions during the sample period. We follow Folta & Miller (2002), and Chari and Chang (2009) in this regard. Finally, we conducted collinearity diagnostics by computing variance inflation factors (VIF) and eigenvalues and found no evidence of multicollinearity in our sample.

Two-stage, hierarchical regression models were employed to test each hypothesis. First, we tested the validity of our control model. Then, we tested the association between pay mix explanatory variables and dependent variable for the percentage of equity acquired.

RESULTS

Table 4 details the results of our OLS regression analysis examining the influence of salaries, options, and stock ownership on the percentage of equity acquired in international transactions. Model 1, which is our control model, was statistically significant (p<.01) and had an r-square of .206. Consistent with prior research in the entry mode literature, antecedents that are heavily utilized in TCA, RBV, institutional theory, and Dunning's OLI framework are statistically significant. For instance, control variables for country risk (p<.01), asset specificity (p<.01), and GDP per capita (p<.05) were all statistically significant. We also found that TMT age (p<.10) was also significant and negative implying that TMTs get older they become more risk averse and participate in transactions where less equity is purchased.

TABLE 4
EFFECTS OF COMPENSATION AND EQUITY OWNERSHIP ON THE PERCENTAGE ACQUIRED IN INTERNATIONAL TRANSACTIONS

	Model 1 Control Model	Model 2 Percentage Acquired
Constant	5.620 ***	6.120 ***
Country Risk	5.050 ***	5.020 ***
Corporate Governance	-0.510	-0.340
Acquirer Size	-0.270	1.820 *
Asset Specificity	-2.770 ***	-3.140 ***
International Experience	-0.310	-0.390 **
Country GDP Per Capita	2.220 **	2.380
TMT Bonus	0.260	0.330
TMT Restricted Stock	1.150	0.770
TMT Age	-1.880 *	-1.160
Acquirer Slack	1.350	1.540
Acquirer Leverage	0.010	0.000
Industry	Included	Included
Year	Included	Included
TMT Salary in $		-2.990 ***
TMT Options in $		-0.460
TMT Common Equity in $		0.100
F-Value	4.780 ***	4.740 ***
R-Square	0.206	0.211
Adjusted R-Square	0.163	0.167
Change in R-Square		0.005 ***
*p<.10 **p<.05, ***p<.01		
	N = 1462	

Model 2, which introduced our independent variables, was also statistically significant explaining an additional .5% of the variance of dependent variable. Again, the control variables measuring country risk (p<.01), asset specificity (p<.01), and GDP per capita (p<.05) were statistically significant, as was our measure for firm size (p<.10) and international experience (p<.10).

In hypothesis 1, we tested the relationship between salary value and the percentage acquired in international transactions. We argued that as salary pay increases the percentage acquired in international acquisitions should decline. As shown in model 2, there was a statistically significant, inverse relationship between salary and percentage of equity purchased. Therefore, hypothesis 1 was supported. To increase the robustness of our findings we also ran regression models with a salary as a percentage of total compensation measure, CEO salary only, manufacturing firms only, as well as service firms only. However, the results were not significant, which indicates that one should take caution when interpreting the empirical evidence supporting hypothesis 1.

In hypotheses 2, the option value variable was not significant indicating that option values in the TMT executive packages were not associated with the percentage acquired in international transactions in our sample. Thus hypothesis 2 was not supported. Similar to our analysis in hypothesis 1, we also incorporated an option value as a percentage of total compensation measure and various other models with CEO data and industry variations as well. These measures and models were not significant suggesting that option compensation is not related to percentage acquired in CBTs.

Our final hypothesis examined the relationship between equity ownership and the percentage acquired in international transactions. We argue that the more symmetric payoff structure of equity ownership justifies its own analysis in a hypothesis separate from options, which were tested in hypothesis 2. We hypothesized that TMT equity ownership would be inversely related to the dependent variable because managers experience the direct effects of stock prices fluctuations (increases and decreases equally). We find that TMT stock ownership is not associated with the dependent variable. Thus, hypothesis 3 was not supported.

DISCUSSION

Our main objective was to utilize an agency theory lens to examine the relationship between executive compensation and CBTs. We found support for hypothesis 1, which tested the relationship between TMT salary and the percentage acquired in CBTs. The additional variance that was explained was quite small (an additional .5%) and was potentially related to the large sample size. However, these results should be noted. First, these findings highlight the need for more empirical tests examining the relationship between agency tenets and entry mode choices. Further research is necessary to extend the theoretical foundation in this area. Second, these findings suggest that the antecedents to entry mode selection (JV versus acquisitions), may differ from the antecedents to the percentage of equity purchased when an acquisition of equity is the desired entry mode. Previous research indicates that long-term incentives (options, restricted stock, and other long-term incentives) influence managerial preferences for shared versus full-control entry modes (Musteen et al., 2009; Datta et al., 2009). Relying on similar agency logic, and testing the relationship between executive pay and ownership variables and the percentage of ownership in cross-border acquisitions, we were unable to replicate these results.

We believe that the inability to replicate previous studies may reflect the inherent control differentials between 1) the entry decision: joint venture vs. acquisition, and 2) the choice to acquire a minority or controlling interest (if acquisition is selected). When selecting a JV or an acquisition, managers compare the costs and benefits of building a new entity from scratch with a partner versus acquiring similar capabilities from an existing firm. Prior to the creation of the new entity, JV partners determine the resource (assets and/or funds), and know-how contribution of each partner, as well as the new entity's goals, structural foundations, and useful life. The impact and control inherent in being involved in such negotiations prior to the birth of a new JV makes it possible to obtain or perceive more operational control than is recognized by the percentage of ownership alone. This may narrow the perceived differential between the joint venture and the acquisition of equity in an existing entity. As such, executive compensation schemes may motivate executives enough to favor the riskier acquisition option.

When selecting a minority or controlling interest in an acquisition, managers perform the same cost-benefit analysis. However, the differential between cost/benefits of the JV and acquisition and the cost/benefit of the minority/controlling acquisition may not be symmetrical. Since an acquisition requires the purchase of equity of an existing firm, the acquirer doesn't not exercise the same proportional control as a JV with the same ownership interest. The acquiree has a history of operations, which reflects institutional characteristics and constraints that the acquirer likely cannot control, especially at lower levels of equity ownership. Thus, if external assets held by another firm are strategically relevant, the impact of pay scheme may be muted. The strategic importance of the targeted assets may necessitate heavy ownership control to mitigate any potential problems stemming from target firm. If this is the case, then motivation stemming from pay schemes may only be relevant for assets that are tangential or exploratory in nature. This could potentially explain why managerial pay and equity ownership has an

impact on the shared-control versus full-control decision, but not on the minority versus controlling interest decision in a cross-border transaction.

LIMITATIONS AND FUTURE RESEARCH

We note that a few limitations warrant further discussion and, if addressed in future research, would further the literature on the important topic of executive compensation and CBTs. First, we do not control for accounting considerations related to Statement of Financial Accounting Standards No. 115 (FAS 115), which provides guidance for the classification of inter-corporate investments (i.e., how varying percentage interests are reflected and carried on acquirer balance sheets). Given FAS 115 classification guidelines, TMTs may have the incentive to manipulate ownership percentages of inter-corporate investments to maximize the earnings of the firm. Thus, accounting treatment may be another factor that influences entry mode investments. Future research in accounting may uncover some other factors related to accounting guidelines that influence strategic decisions. Second, we recognize that there are numerous other control variables from TCE, agency, and institutional theories, as well as the OLI framework, upon which we could have drawn. Additional variables from the broader entry mode literature would positively contribute to the field. Third, as with many other studies, this study may suffer from selection bias in that we only incorporated observations where cross-border transactions were completed. We note that this bias omits a valuable segment of the potential transaction universe that may provide valuable information on the logic that scuttles some potential transactions. Finally, our data set does not contain ex-ante project-specific risk and return assumptions used by management. While we incorporate country-level risk/benefit measures, project-specific synergies and other risk/benefit factors are not captured. Future research that incorporates such key determinants will yield valuable insights about the decision making process.

CONCLUSION

Using entry mode and agency theory studies, and the investigation of a focused segment of the entry mode spectrum, we examine the risk/benefit analysis in the entry mode decision-making process. Our findings suggest that the antecedents of equity acquisition percentages are not the same as antecedents to the shared-control versus full-control decision. This contradicts fundamental agency theory logic and opens a discussion related to the relevance of behavioral theories in the entry mode literature or problems with the conceptualization of the benefits/risks inherent in entry mode alternatives. In recent research supporting this notion, theorists have integrated behavioral constructs into the agency model (Gomez-Mejia & Wiseman, 1997; Finkestein, Hambrick, & Cannella, 2009; Pepper & Gore, 2015), which contributes to a more holistic view of executive decision making process. It is likely that TMT risk preferences influence perceptions of the risk and return profiles of a firm's investment universe, thus potentially leading to decisions that contradict existing theory. Alternatively, these findings may indicate that researchers have an overly simplistic view entry mode alternatives. For instance, many researchers view full acquisitions to be riskier than joint ventures due to the differential in the initial resource commitment. However, this view may overlook other factors like the potential cash flow benefits, synergies, or intellectual property protection, which weigh in the decision process. As such, we believe this study is an important part of the theoretical development of entry mode selection logic, which integrates theory from executive pay, entry mode choice, and managerial decision-making.

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