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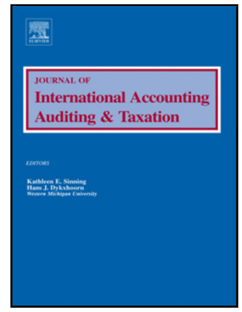

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Executive Compensation Disclosure and Private Control Benefits: A Comparison of U.S. and Canadian Dual Class Firms

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Abstract
Prior research on the cross-country variation of reporting choices induced by managerial incentives to extract private benefits is limited in its use because the research often used accounting measures that had limited empirical correlations with direct estimates of private control benefits. This study attempts to resolve the void in the literature by using a measure of compensation disclosure that has been shown to be directly correlated with excess compensation. The evidence shows that while compensation disclosure choices in dual class share firms tend to be more opaque, they are lesser so in a relatively weaker investor protection environment. This is consistent with the explanation that a weaker investor protection environment magnifies the perception of agency costs associated with dual class equity, inducing such firms to be less opaque in their disclosures in an attempt to mitigate this perception. Based on prior literature, Canada and the U.S. are used to proxy for weak and strong investor protection environments respectively. The study also provides evidence that institutional blockholders encourage compensation disclosure transparency but lesser so in Canada.

Keywords
Private benefits, Compensation disclosure, Dual class shares, Canada, Institutional investors

1 Introduction

Managers often have superior information about firm performance than outside investors. Strong accounting regulations and external auditors should ensure that managers' accounting decisions and disclosures reflect firms' underlying business economics. However, accounting regulation or auditing is often imperfect. In the presence of these imperfections, managers often tradeoff between making disclosure choices to