The Impact of Equity-based Remuneration on Corporate Risk Strategy in the Australian Mining Sector

PhD Thesis

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__________________________
Will Charles Mackay

6th October 2015
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Abstract

This study empirically examines whether CEO and director equity-based compensation influenced the risk strategy of listed Australian mining sector companies during 2004 to 2013, and whether risk strategy influenced shareholder value creation. The study had three broad objectives. The first was to identify the changes in remuneration structure for the CEO and directors that caused the increase in total compensation throughout this period. Following from the observed growth in equity-based compensation from part one, the second objective was to develop hypotheses to test the relationship between various forms of equity-based compensation and corporate risk strategy, and factors identified from agency and behavioural agency theories that influence firm risk taking and risk management decisions. The third objective was concerned with developing testing hypotheses to examine whether risk taking and risk management is connected to shareholder value creation.

The contribution of the study include integrating theories concerned with management equity compensation, firm risk strategy and shareholder value, and to provide insights to enable enhanced understanding of current equity-based compensation practice and corporate risk strategy within the Australian mining sector.

The study uses a pooled data set covering the ten year period 2004 to 2013. This comprises mining sector companies listed on the Australian Stock Exchange.
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List of Acronyms

AASB  Australian Accounting Standards Board
AMEX  American Stock Exchange
AMS   Australian Mining Sector
APC   Australian Productivity Commission
ASIC  Australian Securities And Investment Commission
ASX   Australian Stock Exchange
BAT   Behavioural Agency Theory
CalPERS California Public Employees’ Retirement System
CAPM  Capital Asset Pricing Model
CEO   Chief Executive Officer
CG    Corporate Governance
CGPR  Corporate Governance Principles And Recommendations
CLERP 9 Corporate Law Economic Reform Program
COSO  Committee Of Sponsoring Organisations Of The Treadway Commission
Cth   Commonwealth Of Australia
EBC   Equity-Based Compensation
EDR   Executive And Director Remuneration
EU    European Union
FASB  Us Financial Accounting Standards Board
GDP   Gross Domestic Product
GFC   Global Financial Crisis
GIC   General Industry Classification
JORC  Joint Ore Reserves Committee
KMP   Key Management Personnel
LTI   Long-Term Incentive
NED   Non-Executive Directors
NYSE  New York Stock Exchange
OLS   Ordinary Least Squares
R&D   Research And Development
RMRM  Risk Management Relevance Model
SARs  Stock Appreciation Rights
SEC   Securities And Exchange Commission
SFAF  Statements Of Financial Accounting Standards
SOX   Sarbanes Oxley Act Of 2002
SPE-PRMS Society Of Petroleum Engineers Petroleum Reporting Management System
STI   Short-Term Incentive
UK    United Kingdom
US    United States Of America