

Ilona Babenko

Department of Finance, W.P. Carey School of
Business, Arizona State University

Office: 480-965-1036
Fax: 480-965-8539
Ilona.Babenko@asu.edu

Education

Ph.D. Finance

University of California at Berkeley, 2006

- Dissertation: “Agency costs, executive compensation, and firm's choice of payout and financing policies”
- Fellowships: Dean Witter 2001-2005, Crawford fellowship for women 2003 (university wide), the Center for Social Responsibility fellowship 2002, the Institute of Business and Economic Research fellowship 2005

M.S. in Physics

University of Minnesota, 2001

Appointments

Associate Professor, Finance Department, Arizona State University, 2013 – present.

Visiting Professor, Finance Department, Bocconi University, 2015-2016

Assistant Professor, Finance Department, Arizona State University, 2009 –2013.

Assistant Professor, Finance Department, HKUST, 2006 – 2009

Peer-Refereed Publications

“Will I Get Paid? Employee Stock Options and Mergers and Acquisitions,” with Fangfang Du, and Yuri Tserlukevich, 2021, *Journal of Financial and Quantitative Analysis* 56, 29 - 64.

“Do CEOs Affect Employees’ Political Choices?” with Viktor Fedaseyev and Song Zhang, 2020, *Review of Financial Studies* 33, 1781–1817.

“Is Market Timing Good for Shareholders?” with Yuri Tserlukevich and Pengcheng Wan, 2020, *Management Science* 66, 3542–3560.

“Idiosyncratic Cash Flows and Systematic Risk,” with Oliver Boguth and Yuri Tserlukevich, 2016, *Journal of Finance* 71, 425-456.

“Do Non-Executives Employees Have Information? Evidence from Employee Stock Purchase Plans” with Rik Sen, 2016, *Management Science* 62, 1878–1898.

“Money Left on the Table: An Analysis of Participation in Employee Stock Purchase Plans,” with Rik Sen, 2014, *Review of Financial Studies* 27, 3658-3698.

“The Credibility of Open Market Share Repurchase Signaling” with Yuri Tserlukevich and Alexander Vedrashko, 2012, *Journal of Financial and Quantitative Analysis* 47, 1059-1088.

“Employee Stock Options and Investment,” with Michael Lemmon and Yuri Tserlukevich, 2011, *Journal of Finance* 66, 981-1010.

“Share Repurchases and Pay-Performance Sensitivity of Employee Compensation Contracts,” 2009, *Journal of Finance* 64, 117-151.

“Analyzing the Tax Benefits from Employee Stock Options” with Yuri Tserlukevich,” 2009, *Journal of Finance* 64, 1797-1825.

“Market Timing with CAY” with Sandro Andrade and Yuri Tserlukevich,” 2006, *Journal of Portfolio Management* 32, 70-80.

Invited Publications

“Employees Donate More to Their CEOs’ Preferred Political Candidates” with Viktor Fedaseyeu and Song Zhang, 2016, *Harvard Business Review*, Oct 17.

Working Papers and Work-in-Progress

1. “Executives in Politics,” 2019, with Viktor Fedaseyeu and Song Zhang

- *FIRS, Finance Down Under (Best Paper Award), SFS Cavalcade, EFA, Santiago Finance Workshop, featured in Harvard Law Forum Blog, revise and resubmit Management Science*

The share of former corporate executives in federal elected office increased from 13.3% in 1980 to 21.1% in 2014. This increase was partly driven by greater exposure to competition from China and increase in federal regulation. When executives win elections and when Congress passes legislation introduced by them, their firms experience significant positive stock returns. Textual analysis indicates that bills introduced by businessman politicians exhibit a more negative attitude toward China and have fewer regulatory restrictions than bills introduced by non-businessman politicians. Finally, businessman politicians vote for legislation supported by pro-business interest groups but against legislation supported by labor unions.

2. “Debt Financing and Risk Management,” 2020, with Hendrik Bessembinder and Yuri Tserlukevich

-*IDC Financial Economics Conference*

We study detailed data on bank lending agreements and derivative positions of U.S. oil and gas producers. Using the emergence of fracking technology as an exogenous shock to firms' financing needs, we document sharp increases in debt financing accompanied by increased hedging activity. Loan contracts often include covenants that commit borrowers to specific hedging policies, with the majority specifying an explicit minimum. Firms with such contractual hedging commitments have lower borrowing costs and perform better during the COVID-19 pandemic. The results imply that firms' observed hedging decisions reflect in part binding creditor commitments that effectively mitigate potential agency conflicts.

3. “Regulating CEO Pay: Evidence from Nonprofit Revitalization Act,” 2020, with Benjamin Bennett and Rik Sen

Using compensation data for 14,765 nonprofit organizations during 2009-2017, we find that CEO pay drops by 2-3% when new legislation adopted in New York reduces the ability of CEOs to influence their own pay. Despite cuts in pay, CEOs do not exert lower effort, measured by the number of hours they work per week. Further, nonprofit performance improves, as reflected in larger donor contributions, more volunteers, and greater revenues. We show that these results are consistent with the predictions of a principal-agent model with compensation rigging. Overall, regulation that targets the pay-setting process can be effective at improving organizational outcomes.

4. “Management (of) Proposals,” 2019, with Rik Sen and Goeun Choi

-AFA, FIRS, Adam Smith, Minnesota Corporate Finance Conference, Indian School of Business Conference, University of Alberta Corporate Finance Conference

Using shareholder voting records on management proposals, we find evidence of vote manipulation by management as there are significantly more proposals that narrowly pass than narrowly fail. The strategic behavior by management is more pronounced for firms with low institutional ownership and for proposals receiving a negative ISS recommendation. We identify new mechanisms by which executives influence the outcome, such as meeting adjournment and selective campaigning. Finally, the market reacts more positively to the narrow failure of management proposals than to their passage. Combined with our theoretical model, these results imply that managerial influence on the voting process is value-destroying.

5. “Dynamic Competition and Expected Returns,” 2018, with Oliver Boguth and Yuri Tserlukevich

-AEA, University of Washington Finance Conference, Gerzensee Summer Finance Symposium

Using a dynamic model, we show why asset pricing tests that use one-dimensional measures of competition, such as industry concentration or mark-ups, can produce conflicting results. Within an industry, firms invest when the underlying product demand is high and divest when it is low, resulting in an inverse *U*-shaped relation between industry profitability and systematic risk. Conditional on profitability, industries with more irreversible investment are less competitive and more risky. Finally, the systematic risk within each industry is path-dependent because a history of past profitability affects the value of investment options. Our empirical approach exploits changes in oil prices to show the dynamic effect within industry and uses a measure of trade flows between economic sectors to show the cross-industry effect.

6. “Pay for Complexity,” 2021, with Benjamin Bennett and Zexi Wang

We show that firm complexity has increased over the last two decades and examine whether this trend is contributing to the rising CEO pay in the United States. To proxy for complexity, we use a text-based measure extracted from 10-K reports and a firm-level geographic dispersion constructed from location data of firm establishments. We find that CEOs of more complex firms earn more, with a 10% pay premium for a one standard deviation increase in complexity. Firm complexity does not appear to foster managerial entrenchment. Instead, the evidence points to greater managerial talent and effort explaining the pay premium.

7. “Clawback Provisions,” 2014, with Benjamin Bennett, John Bizjak and Jeffrey Coles

- EFA, WFA

In a comprehensive sample of company-adopted clawback provisions for S&P 1,500 firms, reported usage climbs from less than 1% in 2000 to over 60% in 2013. Firms are more likely to adopt a clawback provision and the clawback to cover more misdeeds when there is more scope for executive malfeasance and imprudent risk-taking is more likely, executives have compensation-related reasons to misrepresent performance; and the board is more likely to enforce the policy. Adoption of a clawback is subsequently associated with higher executive pay and proportionally more performance-based pay.

Executives respond to clawbacks by lowering firm risk, cutting investment, and reducing R&D.

8. **“Embracing Risk: Hedging Policy for Firms with Real Options,”** with Yuri Tserlukevich, 2014, working paper

- *AFA, FIRS, EFA*

We analyze the dynamic risk management strategy of firms that face a tradeoff between minimizing the costs of financial distress and maximizing financing for future investment. Costly external financing of lumpy investment discourages full hedging because hedging can increase the financing costs and decrease the probability of investment. First, we show that firms with safe assets can choose to hedge more aggressively than firms with risky assets. Second, firms prefer to hedge systematic rather than firm-specific risk, even when hedging technologies for both types of risk are available and equally costly. Third, it is optimal not to hedge when cash savings are low and do not cover investment needs. Therefore, more constrained firms may appear to hedge less aggressively. Our theory generates comprehensive results consistent with actual hedging policies, and without relying on the costs of risk management.

9. **“Information Acquisition and Corporate Debt Illiquidity,”** with Lei Mao, 2017, working paper

-*SFS Cavalcade, AEA, EFA, Cambridge Corporate Theory Symposium*

Models based on asymmetric information predict that debt is least sensitive to private information and cannot explain the illiquidity of corporate debt in secondary markets. We analyze security design with moral hazard and offer a new explanation. First, the optimal compensation contract creates incentives for the manager to engage in risk-shifting, making her interests congruent with those of shareholders. Second, because debtholders are negatively affected by risky investments, they have an incentive to acquire information and discipline the manager. Debtholders' information acquisition solves the moral hazard problem, but makes debt less liquid than equity. Debt illiquidity covaries with credit risk.

Selected Seminars and Presentations

- | | |
|------|---|
| 2020 | 2020 RAPS/RCFS Winter Conference, IDC Financial Economics Conference 2020, University of Melbourne, Lancaster University, SEC, Arizona State University, University of Alberta*, University of Groningen*, University of New South Wales, Exeter University, University of Bristol, Lancaster University, Manchester University |
| 2019 | AFA 2019, Adam Smith 2019, FIRS 2019, Finance Down Under 2019, 2019 ABFER Conference* |
| 2018 | Santiago Finance Workshop 2018, 2018 TAU Finance Conference in Israel, NFA 2018, EFA 2018*, University of Washington Summer Finance Conference 2018*, Mitsui Finance Symposium 2018, University of Minnesota Corporate Finance Conference 2018, AEA 2018, SFS Cavalcade 2018*, University of Amsterdam, Florida State University, University of Alabama, Imperial College of London, University of Alberta Corporate Finance Conference 2018, BEROC keynote lecture, CICF 2018*, CAF Indian School of Business* |
| 2017 | Cambridge University, Warwick Business School, UNSW, SFS Cavalcade 2017, |

- 25th NES Conference, University of Illinois at Urbana-Champaign, AFA 2017, Finance Down Under 2017, Florida State University SunTrust Beach Conference 2017, Drexel Corporate Finance Conference 2017, Beyster Compensation Symposium 2017, McGill University*, Helsinki School of Business*
- 2016 Tel Aviv Finance Conference 2016, Labor and Finance Conference at University of Colorado Boulder 2016, Labor and Finance Conference in Capri 2016, EFA 2016, AEA 2016, Utah Winter Finance Conference 2016, Bocconi University*, Vienna University, University of Rome III, BERO C
- 2015 Finance Down Under 2015, EFA 2015, FIRS 2015, Western Finance Association 2015, Cambridge Corporate Theory Symposium 2015, Bocconi University, University of Manheim*, Humboldt University*, Warwick Business School*, Rutgers University*
- 2014 AFA 2014, EFA* 2014, FIRS* 2014, Rochester University*, University of Maryland*, Georgia State Finance Symposium, BERO C 2014 conference, DePaul University, HKUST* University
- 2013 WFA 2013, EFA 2013, AFA 2013, FIRS* 2013, UBC Summer Finance Conference* 2013, Stanford University*, UC Berkeley*, Tilburg University, Erasmus University, University of Minnesota*, IE Business School
- 2012 EFA 2012*, FIRS* 2012, UBC Winter Finance Conference 2012, University of Southern California conference, Leland-Rubinstein UC Berkeley conference, Texas A&M University, CAF Indian School of Business Research Conference 2012, Purdue University, Simon Fraser University, Copenhagen Business School, New Economic School 20th Anniversary Conference, BI Norwegian School of Management
- 2011 AFA 2011, University of Michigan, Australian National University Summer Camp*, Beyster Ownership Symposium, Caesarea Center 8th Annual Conference at IDC 2011, University of Washington St. Louis*, Finance Down Under 2011, Nanyang Technological University, Singapore Management University, National University of Singapore, Oklahoma Risk Management Conference*, University of Hong Kong*, HKUST*, UNSW*, University of Sydney*, UT Sydney*
- 2006-2010 EFA 2008, AFA 2009 in San Francisco, Carnegie Mellon University, CAF Indian School of Business Research Conference, New Economic School, Simon Fraser University, University of Arizona, University of Colorado at Boulder, University of Florida, HEC University of Lausanne, Arizona State University, University of Michigan*, University of Southern California*, University of Miami, UBC Winter Finance Conference*, Cornell University*, University of Utah*, University of Lausanne*, University of North Carolina Tax Symposium, University of South Carolina, University of Wisconsin, Madison, UC Berkeley, FMA Conference Orlando Top 10% Section*, City University of Hong Kong*, HKUST Symposium, Australian National University, Nanyang Technological University, Notre Dame University, HKUST, Hong Kong University, National University of Singapore, Melbourne Business School, York University, NHH Bergen, Stockholm School of Economics, Universitat Pompeu Fabra

*presented by co-author

Grants and Awards

Best Paper Award at Finance Down Under 2019 conference

Outstanding Doctoral Faculty Award 2018-2019

Referee of the year for Review of Corporate Finance Studies 2018

Arditti Center for Risk Management Award (\$12,500), 2014

Fidelity Fellowship in Equity Compensation Research for the study of broad-based equity compensation in America (\$25,000), awarded by Fidelity Investments and Rutgers School of Management and Labor Relations, 2012

J. Robert Beyster Faculty Fellowship (\$25,000) and J. Robert Beyster Visiting Assistant Professor title (the highest honor awarded to one fellow each year) for the study of employee ownership, profit sharing, and broad-based options, 2011

CERG Competitive Research Grant (HK\$480,000), RPC Competitive Research Grant (HK\$150,000), DAG Research Grant (HK\$100,000), 2007-2009

Recognition for Teaching Excellence (HKUST MBA Program), 2009; Best Teaching Award, 2003, (Masters of Financial Engineering program), UC Berkeley

Media Coverage

Harvard Law School Forum on Corporate Governance and Financial Regulation

Dec 12, 2017 “Executives in Politics” [Link](#)

Harvard Law School Forum on Corporate Governance and Financial Regulation

Aug 12, 2016 “Will I Get Paid? Employee Stock Options and Mergers and Acquisitions” [Link](#)

Harvard Law School Forum on Corporate Governance and Financial Regulation

Aug 28, 2016, “Do CEOs Affect Employee Political Choices?” [Link](#)

Valueedgeadvisors.com Aug 30, 2016 “Do CEOs Affect Employee Political Choices?” [Link](#)

The New York Times Sep 6, 2016 “Whom to Vote For? Employees Tend to Follow Their Leader” [Link](#)

Fortune.com Sep 6, 2016 “How CEOs Influence Their Employees’ Political Views” [Link](#)

Chiefexecutive.net Sep 7, 2016 “How CEOs Influence Employees’ Political Views” [Link](#)

Marketwatch.com Sep 15, 2016 “Employees’ Political Contributions Mirror the CEO’s, Study Finds” [Link](#)

SiriusXM Satellite Business Radio Sep 15, 2016 live show “In the Workplace” powered by the Wharton School, aired on Channel 111

USA Today Sep 29, 2016 “Wells Fargo May Not be the End: Clawbacks Expected to Become a Bigger Issue” [Link](#)

Washington Post Oct 19, 2016 “CEOs’ political leanings can influence how employees vote” [Link](#)

Teaching Experience

Bocconi University

Finance 3: Empirical Corporate Finance (doctoral)

Arizona State University

FIN 361: Advanced Managerial Finance

Required corporate finance course for undergraduate finance majors

FIN 782: Theory of Corporate Finance

Core finance class on theory of corporate finance for doctoral students

FIN 786: Empirical Methods in Corporate Finance (co-teaching)

Core finance class for doctoral students

Hong Kong University of Science and Technology

MBA Corporate Finance

Required core corporate finance course for MBA level students

Advanced Topics in Financial Management

Elective for MBA level students and required finance course for Master of Science students.

Professional and Academic Activities and Service

Ad Hoc Referee: *Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Journal of Financial and Quantitative Analysis, Management Science, Review of Finance, Review of Corporate Finance Studies, Critical Finance Review, Journal of Law and Economics, Journal of Empirical Finance, Journal of Banking and Finance, Journal of Corporate Finance, Journal of Business Finance and Accounting, Review of Financial Economics, International Review of Finance, British Journal of Industrial Relations, Multinational Finance Journal, International Review of Financial Analysis*

Refereeing Awards: *Referee of the Year 2018 for Review of Corporate Finance Studies*

Discussant: *MFA 2021, FDU 2020, FIRS 2019, Finance Down Under 2019, SFS Cavalcade 2018, NFA 2018, UBC 2018, AFA 2017, Beyster Symposium 2021, 2017, EFA 2016, WFA 2015, SEC Conference on Financial Regulation 2014, HKUST Finance Symposium 2013, WFA 2012, Sonoran Desert Finance Conference 2012, HKUST Finance Symposium 2010, HKUST Finance Symposium 2009, HKUST Finance Symposium 2007, China International Conference 2010, FMA European 2007*

Session Chair: *WFA2019, EFA 2015, 2012 International Association for the Economics of Participation and Beyster Symposium*

Keynote Speaker: *annual retreat of the FREE network 2018, a joint initiative by SITE (Stockholm), BEROC (Minsk), BICEPS (Riga), CEFIR (Moscow), CenEA (Szczecin), ISET (Tbilisi) and KSE (Kiev).*

Board member: *Labor and Finance Group since 2017*

Associate Editor: *Journal of Corporate Finance 2018-2019, Multinational Finance Journal 2011-2015*

Track Chair: *FMA 2017, Midwest Finance Association 2020*

Associate Chair: WFA 2021

Member of Paper Selection Committees: WFA 2017-2019, TAU 2020, FIRS 2016-2019, *Finance Down Under* 2014-2019, EFA 2011-2019, Cambridge Corporate Theory 2017-2018, FIRCG Corporate Governance Conference 2016, *Sonoran Desert Finance Conference* 2012-2019, *China International Conference* 2011, *Northern Finance Association* 2011-2016, *SFS Cavalcade* 2011, *FMA Asia Pacific* 2016

External Dissertation Reviewer: *Nanyang Technological University, University of Vienna*

Grant Reviewer: *Hong Kong Government (HKSAR)*

Service for Arizona State University

On sabbatical leave during 2015-2016

Department undergraduate committee (chair)	2017 to 2019
School undergraduate committee (member)	Fall 2018
Member, Finance Department Doctoral Committee	2009 to 2018
Member, Promotion and Tenure Committee	2014 to 2018
Member, Department Chair Search Committee	2010 to 2011
Member, Finance Department Recruiting Committee	2009-10, 2018-19
Departmental Seminar coordinator	2010 to 2011
Bettis Scholar Seminar coordinator	2010 to 2011
Brown-Bag Series seminar organizer	2009 to 2010

Ph.D. Dissertation and Masters' Thesis Committees

Goeun Choi (5th year student)	2017 to 2019
Fangfang Du (Co-chair, placed at California State University Fullerton)	2014 to 2018
Anthony Rice (4 th year student)	2019 to 2019
Hong Zhao (placed at Neoma Business School, France)	2015 to 2016
Richard Walton (placed at Pepperdine University)	2014 to 2015
Kirak Kim (Co-chair, placed at University of Bristol)	2009 to 2012
Benjamin Bennett, (placed at Ohio State University, now at Tulane)	2012 to 2014
PengCheng Wan (placed at KeyBank)	2010 to 2015
Frank (Zhichuan) Li (placed at University of Western Ontario)	2010 to 2012
Brian Young (placed at Mississippi State University)	2009 to 2011
Mao Lei (placed at Warwick Business School)	2007 to 2011
Elizaveta Bradulina (chair of Master's thesis committee)	2007 to 2009

Hobbies: Badminton, dancing, zumba, hiking, cycling, ballet