

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

Office: 480-965-1036
Fax: 480-965-8539
Iлона.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
- MS Physics University of Minnesota, 2001
- BA Physics Belarus State University, with Honors, 1999

Appointments

- Associate Professor, Finance Department, Arizona State University, 2013 – present.
- Assistant Professor, Finance Department, Arizona State University, 2009 – 2013.
- Assistant Professor, Finance Department, HKUST, 2006 – 2009.

Research Interests

Financial Contracting, Executive and Non-Executive Compensation, Capital Structure and Payout, Household Finance, Theoretical and Empirical Corporate Finance

Peer-Refereed Publications

- “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.

Working Papers and Work-in-Progress

1. “*Do Non-Executives Employees Have Information? Evidence from Employee Stock Purchase Plans*” with Rik Sen, 2012, working paper
- Revise and resubmit at *Management Science*, presented at FIRS 2013, American Finance Association 2011, and the Rothschild Caesarea Center 8th Annual Conference IDC

Using novel data on employee stock purchase plans (ESPPs), we show that aggregate purchases of company stock by lower-level employees predict future stock returns. Firms in the top half of ESPP purchases outperform those in the bottom half by 6 to 8% in the year after purchase. The relation between ESPP purchases and future stock returns is stronger for firms with high information asymmetry. Further, we find that high ESPP purchases are associated with a lower likelihood of adverse corporate events in the future, such as earnings restatements and breaks in strings of consecutive earnings increases. We argue that these findings support the hypothesis that lower-level employees have information about future firm performance, and we examine and reject a number of alternative explanations. Our results have implications for firms using employees as a source of capital, accounting issues related to expensing of equity-based compensation, and market efficiency.

2. “Is Market Timing Good for Firm Shareholders?” 2012, with Yuri Tserlukevich and PengChen Wan, working paper

- *presented at the Financial Intermediation Research Society Meeting 2012, American Finance Association Meeting 2013*

We challenge the view that equity market timing always benefits shareholders. By separating the effect of stock mispricing and firm's equity decisions triggered by mispricing, we show that shareholders prefer share repurchase timing to issuance timing and can be worse off after the issuance of overvalued stock by a firm. Our theory can be used to infer firms' true maximization objectives from their observed market timing strategies. We argue that the popularity of stock buybacks, the low frequency of seasoned equity offerings, and the observed post-event stock return patterns can be rationalized based on managers' average preference for current firm shareholders.

3. “Money Left on the Table: An Analysis of Participation in Employee Stock Purchase Plans,” with Rik Sen, 2013, working paper

- *revise and resubmit at *Review of Financial Studies*, presented at CAF (ISB) Summer Research Conference 2012, scheduled for presentation at FIRS 2014*

We analyze participation decisions in employee stock purchase plans. These plans allow employees to buy company stock at a discount from the market price and resell it immediately for a sure profit. Although an average employee stands to gain \$3,079 annually, only 30% of individuals take advantage of this risk-free opportunity. Participation is more likely among employees who are familiar with stocks, more educated, less financially unconstrained, and those who make fewer errors in valuing financial securities. Our results suggest that compensation plans requiring active decisions by individuals can result in poor financial outcomes for employees of lower socioeconomic status.

4. “Idiosyncratic Cash Flows and Systematic Risk” with Oliver Boguth and Yuri Tserlukevich, 2013, working paper

- *revise and resubmit at *Journal of Finance*, presented at Western Finance Association 2013, European Finance Association 2013*

Asset pricing anomalies appear in a dynamic framework if unpriced idiosyncratic cash flow shocks contain information about future priced risk. A positive idiosyncratic shock decreases the sensitivity of firm value to priced risk factors and simultaneously increases firm size. Therefore, a model with idiosyncratic shocks can explain size and value premia, as well as the negative relation between idiosyncratic volatility and stock returns. We show that real options can decrease firm's systematic risk and magnify the size of asset pricing anomalies. More generally, our results imply that any economic variable correlated with the history of idiosyncratic cash flow shocks can be successful in explaining expected stock returns.

5. “Clawback Provisions,” 2012, with Benjamin Bennet, John Bizjak and Jeffrey Coles, working paper

- *presented at the European Finance Association Meeting 2012, Western Finance Association 2013*

In a comprehensive sample of company-adopted clawback or “recoupment” provisions for S&P 1,500 firms, reported usage climbs over the decade from less than 1% in 2000 to almost 50% in 2011 (70% for S&P 500 firms). Firms are more likely to adopt a clawback provision when: there is prior executive malfeasance at the firm; malfeasance is harder to detect; there is more scope for malfeasance; governance is “better”; and executives have compensation-related reasons to misrepresent firm performance. The policy extends to more employees and covers more components of compensation when the firm is more complex and when there is more potential for employee malfeasance. Adoption of a clawback is associated subsequently with higher executive pay, proportionally more equity-based executive pay, and higher executive turnover.

6. “Embracing Risk: Hedging Policy for Firms with Real Options,” with Yuri Tserlukevich, 2013, working paper

- *presented at the UBC Winter Finance Conference 2012, American Finance Association 2014 Meeting*

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.

7. “Adverse Selection, Equity Issues, and Compensation Signaling,” 2012, working paper

- *presented at the Indian School of Business CAF Summer Research Conference 2010 and Finance Down Under Conference 2011*

This paper shows that issuing shares to firm employees instead of outside investors mitigates the adverse selection problem and lowers cost of capital. For a firm that repeatedly needs funds, the incentives to grant overvalued equity to employees are reduced because employees can rationally deprive the firm of fairly-priced financing after a poor stock price performance. The model explains stylized facts, such as a positive relation between risk and incentives, improvements in operating performance after stock-based grants, and systematic overvaluation by employees of their equity-based compensation. Additionally, it shows that combining outside equity financing with stock-based grants to employees allows the firm to signal value and to price new equity issues more favorably. Empirical evidence provides support to the main predictions of the model.

8. “Debt Covenants and Firm’s Commitment to Optimal Investment,” with Kirak Kim and Yuri Tserlukevich, 2012, working paper

We argue that the serial correlation of firm profits is an important determinant of the ex ante design of debt covenants. By modeling the agency conflict between shareholders and bondholders in the incomplete

contracting framework, we show that covenants are more valuable in firms with the higher profit serial correlation. Using a large sample of private debt contracts, we find that firms that have unique investment opportunities tend to adopt less restrictive covenants and are also less likely to have a covenant. Additionally, the stock market reaction to loan initiation suggests that tight covenants may be bad news for high-growth and low profit-correlation firms.

9. “Why do specialist managers run diversified firms?” with Claudia Custodio, and Beatrice Mariano, 2013, working paper.

This paper documents that specialist CEOs run a significant and increasing proportion of conglomerates (over 50% in 2002), despite having more firm and industry-specific skills as opposed to general and transferable skills. In order to understand what factors drive diversified firms to appoint a specialist CEO, we develop a principal-agent model in which a specialist or generalist manager allocates resources across different divisions. Divisions differ in their investment opportunities, and managerial performance is project-specific. First, we predict that specialist managers are matched to conglomerates with either high or low dispersion in investment opportunities and perform better in such conglomerates. Second, we predict that specialist managers run smaller and more focused conglomerates. Last, we anticipate a generalist pay premium that increases with the dispersion in investment opportunities. We test these predictions in the sample of S&P 1500 conglomerates and find empirical evidence consistent with them.

Selected Seminars and Presentations

- 2014 AFA 2014 in Philadelphia, FIRS in Quebec City (scheduled), Rochester University* (scheduled), University of Maryland* (scheduled), Georgia State Finance Symposium (scheduled)
- 2013 WFA 2013, EFA 2013 in Oxford, AFA 2013 in San Diego, Stanford University*, UC Berkeley*, Financial Intermediation Research Society* (FIRS) 2013 in Dubrovnik, Tilburg University, Erasmus University, University of Minnesota*, IE Business School
- 2012 EFA 2012 in Copenhagen*, UBC Winter Finance Conference, University of Southern California conference, Leland-Rubinstein UC Berkeley conference, Financial Intermediation Research Society* (FIRS) in Minneapolis, 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 University of Michigan, Australian National University Summer Camp*, Beyster Ownership Symposium, Caesarea Center 8th Annual Conference at IDC 2011, University of Washington St. Louis*, AFA 2011 in Denver, Finance Down Under Conference 2011 in Melbourne, 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*
- 2010 Carnegie Mellon University, CAF Indian School of Business Research Conference, New Economic School, Simon Fraser University, University of Arizona
- 2009 AFA 2009 in San Francisco, University of Colorado at Boulder, University of Florida, HEC University of Lausanne, Arizona State University, University of Michigan*, University of Southern California*

2006- EFA 2008 Greece, University of Miami, UBC Winter Finance Conference*, Cornell
2008 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

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

Teaching Experience

Arizona State University

FIN 361: Advanced Managerial Finance

Required corporate finance course for undergraduate finance majors

FIN 790: Theory of Corporate Finance

Core finance class on theory of corporate finance 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, Journal of Business Finance and Accounting, Review of Financial Economics, International Review of Finance, British Journal of Industrial Relations, Multinational Finance Journal

Discussant: *HKUST Finance Symposium 2013, WFA Annual Meeting 2012, Sonoran Dessert Finance Conference 2012, HKUST Finance Symposium 2010, HKUST Finance Symposium 2009, HKUST Finance Symposium 2007, China International Conference 2010, FMA European 2007*

Session Chair: *2012 International Association for the Economics of Participation and Beyster Symposium*

Associate Editor: *Multinational Finance Journal for 2011-2013*

Member of Paper Selection Committees: *2011-2014 European Finance Association, 2012-2013 Sonoran Dessert Finance Conference, 2011 China International Conference in Finance, 2011-2014 Northern Finance Association, 2011 SFS Cavalcade Conference*

External Dissertation Reviewer: *Nanyang Technological University*

Service for Arizona State University

Member, Finance Department Doctoral Committee member	2009 to 2014
Member, Promotion and Tenure Committee	
Member, Department Chair Search Committee	2010 to 2011
Member, Finance Department Recruiting Committee	2009 to 2010
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

Kirak Kim (placed at University of Bristol): (Co-chair of dissertation committee)	2009 to 2012
Ben Bennet, 4 th year student	2012 to 2014
PengChen Wan, 4th year student	2010 to 2014
Frank (Zhichuan) Li (placed at <i>University of Western Ontario</i>)	2010 to 2012
Brian Young (placed at <i>Mississippi State University</i>)	2009 to 2011
Mao Lei (placed at <i>Warwick Business School</i>)	2007 to 2011
Elizaveta Bradulina (chair of Master's thesis committee)	2007 to 2009

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