There are two essays in this dissertation.

In the first chapter, I first build a model to investigate firms’ earnings management behavior and the bargaining process between firms and unions. The outcome for bargaining is specified by Nash Bargaining solutions and firms have incentives to report lower earnings after unionization to prevent unions from demanding high wages, pensions, and other benefits. In the same spirit as Stein (1989), in equilibrium, firms’ earnings management incentive is anticipated and adjusted for by the union and the market. However, firms cannot commit not to do earnings management ex-ante. Empirically, I employ the data on union elections to verify predictions from the model. Compared with firms that just fail to pass the unionization with a small margin of votes around 50%, those who just pass engage in significantly less earnings management. For firms that barely pass the election, the pre-determined firm characteristics one year before unionization are not significantly different from those that just fail to pass. I do not find any evidence that unionized firms conduct significantly less earnings management before unionization. The main result that firms’ earnings management is significantly lower for firms just above the cutoff is robust and not spurious. In summary, I document robust evidences on the causal effect of unionization on earnings management.

Regarding the second chapter, “Incentive Contracting with Multiple Directorships”, I focus on a feature of the outside director market, that is, a director can simultaneously work for several companies. I build a model to investigate the relationship between incentives (Pay-Performance Sensitivity) that are offered by different companies and the number of directorships an outside director holds. Theoretically, I find that the relation between incentives and the number of directorships depends on whether efforts across directorships are substitutable or complementary and on the degree of substitutability. I also extend the model to endogenize the optimal number of directorships that an outside director holds and its determinants. The optimal number of directorships is decreasing in the outside director’s degree of risk aversion and companies' riskiness and is increasing in the outside director's ability.