Excessive or Essential: Executive Compensation in Public Corporations
An Overview of Trends and a Meta-Analysis of the Efficacy of different Compensation Plans

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Executive Summary

I. Policy Questions
How has the amount, distribution and structure of executive compensation changed over the past 20 years? What effect, if any, do these factors have on the financial returns of corporations? Finally, are there any clear actions that should be taken to alter executive compensation practices? Who, if anyone, should enact these changes?

II. Background
A widely publicized figure states that the average chief executive officer is paid 263 times more than the average worker per year. In an economic climate where unemployment is hovering around 9%, many of America’s economic leaders, including former Treasury Secretary Hank Paulson, have called executive compensation excessive. This opprobrium has only increased after government bailouts of the financial, insurance and automotive industries, where some executives received eight figure compensation packages.

Over the past 20 years, executive compensation at very large corporations has moved from straightforward salary and bonus packages to complicated incentive based formulas. These incentive packages usually include a mix of stock and stock options, on top of the traditional salary and bonus payments. The inclusion of stock and options led to unprecedented annual payouts, in some cases totaling in the ten’s of millions of dollars for a single executive. Many observers believe that the size and structure of these compensation packages encourage shortsighted financial decisions and even corporate malfeasance. However, a large body of research shows that higher compensation is associated with higher corporate profits and better overall financial performance (see Meta-Analysis on page 12 for more information).

III. Research and Methods
Two approaches were used to address my policy question. First, I assembled a brief overview of recent executive compensation trends. Second, I created a meta-analysis looking at different forms of pay, and their relationship to corporate financial success.

To analyze compensation trends, I used data from the Compustat Database, which covers the S&P 1500 list of publicly traded companies over a 16-year period from 1994 to 2009. For the purpose of this memo, executives means CEO’s, CFO’s and the three highest earning individuals at each firm. I calculated and graphed the median and mean compensation figures for each year included in the dataset. These data were then subdivided by industry, and by CEO vs. non-CEO. I also broke out different forms of compensation, to map trends in salary, bonus, incentives and total compensation. Finally, I looked at pay distributions by year, to determine the actual “landscape” of executive compensation.

For my meta-analysis, I chose empirical studies that used regression modeling to establish causal relationships between forms of executive pay and corporate performance. Using the results of their regressions, I looked at four specific areas; salary and bonus, stock, stock options, and total pay. In total, I used 24 studies spanning 1980-2009. Using
the vote-counting method, I took the relevant results from each study, and built a chart showing the relationship between the variable and corporate performance.

IV. Findings
Median executive compensation today is a little under $1.5 million a year. The majority of that income comes from salary, followed by stock and/or options and an annual bonus. When adjusted for inflation, median executive compensation at the largest public companies was relatively stable over the last 16 years. However, a handful of incredibly high-earners have walked away with tens, and sometimes hundreds, of millions of dollars a year. These high-earners never made up more than 1% of the total executives in the S&P 1500, but did have a substantial impact on the average executive compensation package. CEO’s made more than most of their peers, but also experienced more volatility in their compensation. Finally, there are major differences in pay between industries. Information based industries, like communications and finance, paid their executives far more than their peers producing tangible goods.

The 24 studies analyzed here show little disagreement about pay and outcomes. Across all the categories, more is generally better. That is, the larger the compensation, the better the corporate outcomes. As these studies were regression based, they accounted for other variables like company size and other factors that might obscure the effects of pay. However, in about one out of three cases, the studies found that higher compensation didn’t result in better outcomes. This result is surprisingly uniform across all the different types of pay. Looking at nuances did seem to provide consistently different results across the studies. When CEO’s or companies were divided into low or high performing categories, corporate outcomes change relative to compensation levels. Low performing companies and low performing CEO’s did not respond as well to higher compensation.

V. Recommendations

1. Boards of high-risk companies, particularly in the financial industry, should decrease equity offerings to their executive teams. Equity based compensation is the primary driver of the largest compensation packages. The efficacy of compensation at these high levels is by no means clear and research is beginning to show that it may be deleterious to firm performance.

2. Further research on pay sensitivity must be done on the top 5% of earners. Shareholders and corporate boards should know the marginal value of their investment in their executive team, especially when compensation packages total in the 100’s of millions of dollars.
3. If Congress chooses to pass legislation on executive compensation, they should put an additional tax on the equity holdings of the top 1% of earners. The top 1% of executives earned over $15 million each and as a group took home over $2 billion in total compensation in 2009. The majority of this compensation came in the form of equity. This small group is capable of bearing more tax burden, and it may incent them away from taking on such large equity stakes. With growing deficits, public outrage and the small number of individual affected, the time may be right for an additional tax on these high earners.
I. Policy Question

How has the amount, distribution and structure of executive compensation changed over the past 20 years? What effect, if any, do these factors have on the financial returns of corporations? Finally, are there any clear actions that should be taken to alter executive compensation practices? Who, if anyone, should enact these changes?

With growing concern over the scale of executive compensation, few are looking to objective data on pay trends. Up to date, non-partisan information on the topic is difficult to find, especially within an analytic context. Specifically, I am investigating how executive compensation has evolved over the last 20 years. Has the total amount of compensation changed for most executives? What does the distribution of pay look like? Has pay moved up uniformly, or have a few executives made up the majority of the gains? How have the constituent parts of compensation packages (salary, bonus, and equity based incentives) changed? Are there differences between industries? Finally, how have these changes influenced corporate success? Is there anything that can, or should, be done to change compensation practices? If change is needed, who should act?

II. Background

The Controversy

Executive compensation is once again at the forefront of American discourse. As the United States rises out of one of the worst economic downturns in decades,¹ many are questioning executive compensation practices² at the world’s largest corporations and the role compensation may play in organizational mismanagement.³

A widely publicized figure states that the average chief executive officer is paid 263 times more than the average worker per year.⁴ In an economic climate where unemployment is hovering around 9%,⁵ many of America’s economic leaders, including former Treasury Secretary Hank

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Paulson, have called executive compensation excessive.\textsuperscript{6} Even in the years preceding the current economic crises, the scale of executive pay has offended the sensibilities of a range of individuals from executives and politicians to governance experts and ethicists to the average American.\textsuperscript{7} This opprobrium has only increased after government bailouts of the financial, insurance and automotive industries, where some executives received eight figure compensation packages.

\textit{What Research Tells Us}

Over the past 20 years, executive compensation at very large corporations has moved from straightforward salary and bonus packages to complicated incentive based formulas.\textsuperscript{8} These incentive packages usually include a mix of stock and stock options, on top of the traditional salary and bonus payments. The inclusion of stock and options led to unprecedented annual payouts, in some cases totaling in the ten’s of millions of dollars for a single executive.\textsuperscript{9} Many observers believe that the size and structure of these compensation packages encourage shortsighted financial decisions and even corporate malfeasance.\textsuperscript{10} \textsuperscript{11} \textsuperscript{12} 

A growing body of literature is lending credence to these concerns. Behavioral economists, like Dan Ariely, make the argument that large executive compensation packages end up distracting corporate leaders from the actual task of running a company.\textsuperscript{13} Several recent studies indicate that executives may not all respond to incentives in the same way. Kedia and Burns (2006) demonstrated empirically that stock heavy compensation packages encourage financial misreporting,\textsuperscript{14} while Li and Yu (2009) found that some CEO’s seem to show no response to higher earnings.\textsuperscript{15}

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Furthermore, a large body of research indicates that performance plays a small role in the value of executive compensation. Tosi et al. found that nearly 40% of CEO compensation can be accounted for by the size of the corporation. After looking at 137 studies and 47 covariates, the relationship between CEO pay and performance is “weak at best.” Only about 4% of CEO pay can be attributed to their success in the position. Industry norms, company size, market capitalization and several other indicators were better predictors of how much executives took home than their individual performance.

However, not everyone agrees that compensation is broken. Over 30 years of research indicate that higher pay is significantly related to a variety of positive corporate outcomes (see Meta Analysis on page 13). There is a strong theoretical argument for large equity offerings as well. By tying compensation to stock price, some argue, corporations can alleviate the classic “principal-agent dilemma.” In this model, corporations intrinsically face a dilemma. The shareholders who own the company (the principals) lack the expertise and the capability to run the organization. Therefore, they must choose executives to act on their behalf (the agents). Executives have different interests than shareholders. At heart, executives are interested in enriching themselves and keeping their jobs, regardless of what’s best for the shareholders. By giving executives stock, they become shareholders as well. Therefore, both parties have the same interests in mind.

The Arguments for and Against Change

If one thing unites executive compensation research, it is disagreement. Differences in reporting standards over time, a reluctance to share information, statistical challenges and knee-jerk reactions to high payouts make the study of compensation a highly polarized field. These arguments go beyond the data and enter the realm of morality, fairness and ideology.

One side argues that executives are worth every penny. These titans of industry run complex, international firms, and belong to a small, elite group of individuals. In order to get this level of talent, corporations must offer large compensation packages to stay competitive.

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17 ibid


20 ibid
Furthermore, if they perform well, the value to shareholders is enormous. It is only fair to share those gains with executives.

On the other side of the fence, people see large payouts as ineffective and unethical. For many in this group, the idea that executives make tens and even hundreds of millions of dollars is unacceptable. Can any human being really be worth $100 million a year? Furthermore, high compensation may have serious negative implications on equity and distribution in our society as a whole.


23 ibid


This fundamental argument illustrates the complexity of executive compensation. Leaving the efficacy of compensation structures aside, the issue has moral and societal implications that complicate nearly every argument. While it may be impossible to fully reconcile these two positions, any real changes to executive compensation must come from compromise.

**III. Research and Methods**

In approaching this multi-faceted issue, I adopted two separate, but related, approaches. To put the issue into perspective, I assembled a brief overview of recent executive compensation trends. This review does not make any causal claims, but simply outlines major changes in compensation distribution, structure and scale. Next, I created a meta-analysis looking at different forms of pay, and their relationship to corporate financial success. A meta-analysis allows me to look at dozens of different published papers, and to combine their results into a single summary of the field.

**Compensation Trends Data Sources**

The figures used in this report derive from the Compustat Database and cover the S&P 1500 list of publically traded companies (this includes the largest companies traded on the NYSE Euronext or NASDAQ OMX exchanges) over a 16-year period from 1994 to 2009. For the purpose of this memo, executives means CEO’s, CFO’s and the three highest earning individuals at each firm. All numbers are adjusted for inflation using the 2010 figures released by the Bureau of Labor Statistics.
The data collected by Compustat is taken directly from Security and Exchange Commission (SEC) filings. Annual proxy statements, specifically SEC Form DEF 14A, give valuable insights into top executives’ salaries, bonuses, options, stock awards, non-equity incentive plans, pensions and other forms of compensation.

The Compustat Database is one of the few publically available databases where these proxy forms are aggregated in a uniform fashion, and is widely used in executive compensation research. While this sample is by no means comprehensive, it does represent some of the world’s largest corporations and a broad cross section of industries. As this data is widely available, some have argued that Compustat listed companies may behave differently than other publicly listed companies, as they receive more scrutiny.27 However, the accuracy, size and consistency of reporting used by Compustat make it the best source available on executive compensation.

Compensation Trends Analysis

My approach to analysis is relatively simple. I calculated and graphed the median and mean compensation figures for each year included in the dataset.28 These data were then subdivided by industry, and by CEO vs. non-CEO. I also broke out different forms of compensation, to map trends in salary, bonus, incentives and total compensation. Finally, I looked at pay distributions by year, to determine the actual “landscape” of executive compensation.

Meta-Analysis Data Sources

After establishing what executive compensation looks like at the world’s largest corporations, I looked at what research shows about the relative effects of different types of compensation packages. Specifically, I looked for empirical studies that used regression modeling to establish causal relationships between forms of executive pay and corporate performance using the same methodology as Beach et al. (2005).29 Using the results of their regressions, I looked at four specific areas; salary and bonus, stock, stock options, and total pay. I excluded studies before 1980, both to keep the findings relevant and to reflect modern statistical techniques. Additionally, I deliberately chose to include a range of years, to see if there were any emerging trends in compensation research.

These measures were defined uniformly (with some minor variances) across all the studies I used. Definitions for salary and bonus, stock and total pay were easy to compare across studies. Only options differed in the way they were calculated. However the overall trend toward options being a positive or negative incentive is probably not effected by the use of different valuation


28 Total compensation, for the purposes of this memo, means salary, bonus, other annual income, total value of restricted stock granted, total value of stock options granted (using the Black-Scholes method), long-term incentive payouts, and all other income noted on SEC Form DEF 14A

techniques. Measurement of corporate performance was also relatively uniform across the studies. Stock price, market capitalization and sales growth were used to varying effects in each of the studies.

Meta-Analysis Techniques

In total, I used 24 studies spanning 1980-2009. After closely reading each study, I found regression results across my four categories (salary and bonus, stock, stock options, total pay and governance). Using the vote-counting method, I took the relevant results from each study, and built a chart showing the relationship between the variable and corporate performance. A “+” indicates that an increase in that type of compensation resulted in higher corporate returns, while a “-” indicates that an increase in that type of pay had a negative effect on corporate returns. All results were included, regardless of significance. However, a “*” was included for <.10 significance, and “**” indicates significance at a <.05 or below level.

IV. Compensation Trends

Total Compensation

Total compensation for most executives has remained constant over the last 17 years, as shown by the relatively flat median line in Figure 1 (representing the median compensation for the top five executives of Fortune 1500 Companies from 1994-2009). However, the far more volatile average total compensation indicates another trend: outliers.

![Figure 1: Average and Median Executive Total Compensation for S&P Fortune 1500 Companies from 1994-2009](image)

Figure 2 tracks the largest individual annual compensation package for a top five executive across this same Fortune 1500 dataset, which peaks in 1998 and again in 2001. It is important to note that many of the extreme gains seen in this dataset are the result of the stock holdings and/or options valuations, not necessarily realized cash gains. In the majority of cases, these high earners, and the outliers in general, come from the financial sector.
Figure 3 shows how few executives realized these kinds of large gains. A handful of these pay “outliers” made more than thirty times what other executives did in 2005. Of the 9,131 executives analyzed here, the median individual cleared almost $1.5 million dollars in 2005, while 10 of their peers made over $50 million.
The “long-tail” of executive compensation seen in 2005 is found throughout the Compustat dataset. By removing the highest earners, a clearer picture of executive compensation appears. Figure 4 shows the distribution of compensation in 2009, without the top 10% of earners.

![Figure 4: Distribution of Executive Total Compensation for S&P Fortune 1500 Companies in 2009 without the Top 10%](image)

Total compensation for the bottom 90% of earners barely exceeds $5 million dollars a year. While this is still a substantive amount, these executives are predominately in their peak earning years, and are running some of the largest corporations in the world.

**Compensation Drivers**

Salary, bonus, restricted stock, stock options and a variety of other payments go into total compensation. To better understand changes in compensation over time, it is useful to see how these individual factors have fluctuated. Figure 5 shows trends in median and average salaries and bonuses for the top five executives over the last 17 years.

![Figure 5: Average and Median Salaries and Bonuses for S&P Fortune 1500 Companies from 1994-2009](image)
Salaries are relatively frozen across the board, but bonuses experienced a significant spike in the early 2000s, only to come crashing down at the close of 2006. Stocks and options, in general, remained constant for the majority of executives, even through the recession (see Figure 6).

![Figure 6: Average and Median Stock/Options for S&P Fortune 1500 Companies from 1994-2009](image)

*Compensation by Industry*

Different industries have different ranges of compensation. Figure 7 shows average compensation levels for a variety of major industry groups.

![Figure 7: Average Executive Total Compensation for S&P Fortune 1500 Companies in 2009 for Various Industry Groups](image)
These groups were chosen to represent a range of different types of companies, and to show the variation within certain sectors. Investment banking executives, on average, earn more than 2.5 times what their peers at commercial banks make on an annual basis. Generally, companies that produce physical products have much lower executive compensation packages than their peers in entertainment, finance, insurance and communications. As shown in Figure 8, these trends are reflected in the median total compensation as well, demonstrating that each of these industries have relatively uniform pay distributions. Each industry group is clustered around the same average and median total compensation package. Most of these differences are accounted by level of equity based compensation. Investment banks, telecommunication firms and media firms have the largest incentive based compensation schemes in the S&P 1500.

**Figure 8: Median Executive Salary for S&P Fortune 1500 Companies in 2009 for Various Industry Groups**

*CEO Compensation*

Total CEO compensation has remained relatively constant since 1994 (see figure 7), except for a handful of executives at the top 50 companies who far out earned their peers. These high-earners, primarily from the financial sector, pushed average CEO compensation to more than twice the median.
Salaries for CEO’s and other executives have also remained constant, with a persistent gap of several hundred thousand dollars (see figure 8). Interestingly, CEO salary declined more in the early 2000’s than the salary of other executives. This trend toward volatility is reflected across the board for CEO’s, both in median and means.

The majority of CEO’s enjoyed bonuses on par with their fellow executives. However, a few CEOs at the top public companies took home large enough bonuses to push the average CEO bonus to twice the median CEO bonus. Stocks and options follow a nearly identical trend.
Summary of Compensation Trends

Median executive compensation today is a little under $1.5 million a year. The majority of that income comes from salary, followed by stock and/or options and an annual bonus. When adjusted for inflation, median executive compensation at the largest public companies was relatively stable over the last 16 years.

However, a handful of incredibly high-earners have walked away with tens, and sometimes hundreds, of millions of dollars a year. These high-earners never made up more than 1% of the total executives in the S&P 1500, but did have a substantial impact on the average executive compensation package. In some cases, these pay outliers pulled the average to nearly double the median. The majority of these high-earners came from the financial sector.

CEO’s made more than most of their peers, but also experienced more volatility in their compensation. Finally, there are major differences in pay between industries. Information based industries, like communications and finance, paid their executives far more than their peers producing tangible goods.

IV. Meta-Analysis

Table 1 summarizes the studies used in the meta-analysis. The 24 papers I chose were published from 1980-2009. I deliberately used papers published over a range of years to determine if research trends indicated significant changes in the effects of different forms of compensation. Unfortunately, some of the most recent work included has not yet been published in peer-reviewed journals. I was also unable to find any regression-based papers analyzing data beyond 2005.
All the included studies looked at a variety of different types of companies, and used some form of regression analysis. Importantly, these studies only consider the incentives and outcomes of executives at large corporations. Definitions of salary and bonus, stock, and total pay were easy to compare across studies. Only options differed in the way they were calculated. However the overall trend toward options being a positive or negative incentive is probably not affected by the use of different valuation techniques. Measurement of corporate performance was also relatively uniform across the studies. Stock price, market capitalization and sales growth were used across all the studies.

Using the vote-counting method, I took the relevant results from each study, and built a chart showing the relationship between the variable and corporate performance. A “+” indicates that an increase in that type of compensation resulted in higher corporate returns, while a “-” indicates that an increase in that type of pay had a negative effect on corporate returns. All results were included, regardless of significance. However, a “*” was included for <.10 significance, and “**” indicates significance at a <.05 or below level. In some cases, the sign of the coefficient was changed to account for different ways of defining growth.
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### Table 2. Compensation Variables and Positive Firm Outcomes

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<tr>
<td>Core et al.</td>
<td>-*</td>
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<td>-*</td>
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<tr>
<td>Himmelberg et al.</td>
<td></td>
<td>+*</td>
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<tr>
<td>Bryan et al.</td>
<td></td>
<td></td>
<td>+**</td>
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</tbody>
</table>

Note: A “+” indicates that the study showed a positive correlation between the variable and higher corporate returns, while a “-” shows that the variable was correlated with lower corporate returns. A “*” indicates significance at the .1 level and “**” indicates significance at the .05 level.
Table 2. Compensation Variables and Positive Firm Outcomes
Continued

<table>
<thead>
<tr>
<th>Monetary Compensation</th>
<th>Equity Based Compensation</th>
<th>Total Pay</th>
</tr>
</thead>
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<tr>
<td>Salary and Bonus</td>
<td>Stock</td>
<td>Stock Options</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Salary+Bonus+Stock+Options+Other Pay</td>
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<tr>
<td>Frye</td>
<td>-* in 1992</td>
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<tr>
<td></td>
<td>+** in 1999</td>
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</tr>
<tr>
<td>Brick et al.*</td>
<td>+*</td>
<td>+*</td>
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<td>Lilling</td>
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<tr>
<td>Duffhues and Kabir</td>
<td>-**</td>
<td>-**</td>
</tr>
<tr>
<td>Hallock et al.</td>
<td>+* for High Performing Managers</td>
<td>+* for High Performing Managers</td>
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<td></td>
<td>-* for Low Performing Managers</td>
<td>-* for Low Performing Managers</td>
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<tr>
<td>Cornett et al.</td>
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<tr>
<td>Fahlenbrach</td>
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<tr>
<td>Li and Yu</td>
<td>+* for High Performing Firms</td>
<td>+* for High Performing Firms</td>
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<td></td>
<td>-* for Low Performing Firms</td>
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<td>Choe et al.</td>
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<td>Included</td>
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<td>Significant</td>
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<tr>
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<td>46%</td>
</tr>
<tr>
<td>Percentage Significant (Included Studies)</td>
<td>92%</td>
<td>92%</td>
</tr>
<tr>
<td>Percentage Significant (Included All Studies)</td>
<td>39%</td>
<td>43%</td>
</tr>
</tbody>
</table>

Note: A “+” indicates that the study showed a positive correlation between the variable and higher corporate returns, while a “-” shows that the variable was correlated with lower corporate returns. A “**” indicates significance at the .1 level and “***” indicates significance at the .05 level.
Monetary Compensation Results

Across the board, studies demonstrated that higher salaries and bonuses resulted in better corporate outcomes, even when controlling for potentially confounding variables (like corporation size, or stock prices). Eight of the twelve studies found that more money resulted in higher corporate valuations. The negative results were scattered across years, so it is unlikely that they represent any periodic trend in compensation.

The most interesting result was found by Hallock et al., who found that high-performing CEO’s, based on their model, responded better to incentives than low-performing CEO’s. While this may seem obvious, few models take the time to break out different types of executives. As demonstrated in the next sections, the majority of the interesting results in compensation research examine heterogeneity among executives.

Equity Based Compensation Results

The more is better trend continues with equity based compensation. Seventy percent of the studies found that more equity meant better returns. Again, the negative results were spread across the decades, with no particular concentration in one period.

The most telling results were from the more nuanced studies. Both Beaty and Zajac, and Li and Yu found differing results from different types of firms. Results indicate that low-risk companies benefit more from equity based compensation than high-risk companies. Adding more complexity, firms with greater stock gains may be better off using equity compensation than those with low returns. This might seem self-apparent, but these issues are ignored in other studies.

Total Pay Results

Total pay had the highest number of positive results, with 75% of studies indicating that higher total pay resulted in better corporate outcomes. This doesn’t come as much of a surprise considering that the major constituent parts of total pay (salary, bonus, equity compensation), were mostly positive in the other studies. In the one more detailed study, Hallock et al. measured a significant difference between high-performing executives and low-performing executives.

Summary of Meta-Analysis Results

In summary, each category had at least 11 studies that found some result and at least 10 of those studies found a statistically significant trend. Also of note is the consistency of results. Considering the results span 30 years worth of compensation, the studies show little disagreement about pay and outcomes.

Across all the categories, more is generally better. That is, the larger the compensation, the better the corporate outcomes. As these studies were regression based, they accounted for other variables like company size and other factors that might obscure the effects of pay. However, in about one out of three cases, the studies found that higher compensation didn’t result in better
outcomes. This result is surprisingly uniform across all the different types of pay. Looking at nuances did seem to provide consistently different results across the studies. Whenever a research team decided to break executives or corporations into different categories, a significant result was found.

V. Integration and Recommendations

After looking objectively at nearly twenty years of compensation trends and considering twenty-five years of research on the effectiveness of incentives, it is easy to see why most corporations choose to pay their executives so much money. Generally, research shows that paying executives well pays shareholders well. Compensation data shows that corporations took this message to heart. Even in the worst years, overall executive compensation grew faster than inflation.

However, the tides are shifting. New work in behavioral economics and traditional economics is changing the way compensation is viewed. As researchers dive deeper into the specifics, trends that were once clear are becoming murky. Equity based incentives always work, except for when they don’t. As Beatty and Zajac found, high-risk companies may not be wise to compensate their executives with significant amounts of equity. In their work, large amounts of equity actually encouraged executives to take excessive risks in some situations and not enough risk in others. However, compensation trends show that some of the highest risk industries, like investment banking, provide the largest equity based compensation packages.

After considering these lessons, I recommend the following actions:

1. Boards of high-risk companies, particularly in the financial industry, should decrease equity offerings to their executive teams. Equity based compensation is the primary driver of the largest compensation packages. The efficacy of compensation at these high levels is by no means clear and research is beginning to show that it may be deleterious to firm performance.

2. Further research on pay sensitivity must be done on the top 5% of earners. Shareholders and corporate boards should know the marginal value of their investment in their executive team, especially when compensation packages total in the 100’s of millions of dollars.

3. If Congress chooses to pass legislation on executive compensation, they should put an additional tax on the equity holdings of the top 1% of earners. The top 1% of executives earned over $15 million each and as a group took home over $2 billion in total compensation in 2009. The majority of this compensation came in the form of equity. This small group is capable of bearing more tax burden, and it may incent them away from taking on such large equity stakes. With growing deficits, public outrage and the small number of individual affected, the time may be right for an additional tax on these high-earners.
VI. References


