



CEO Performance Pay

Does it really matter?

01.

MOTIVATION & LITERATURE

What are researchers doing?



PERFORMANCE **PAY**



WORK

Everyone gets > minimum wage



GET PAID

Why work harder if not compensated?



WORK HARDER

Performance PAY!



WORK

CEO's get paid a lot



GET PAID

Mostly performance pay



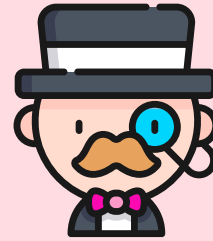
What Now

Does the firm become more productive?

Do they have the same decision making process?



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Does CEO performance pay lead to higher firm returns?

Is performance pay used to reward high firm returns?

Current Literature



Negative Effects

London Stock Exchange: CEO performance compensation in excess of industry averages negatively impacts short run returns. Balafas & Florackis (2013)



Macro Market Forces

Inflation, market demand, gdp growth, wage growth, supply demand.
(Kaplan, 2008)

BUT CEO PAY IS GOING UP!?!?!?

Since late 1990s
(Bereskin & Cicero, 2012)



CEO Power

If I have more say over my pay, I will pay myself more
(Essen et al. 2015)

02.

DATA & METHODS



What am I doing?



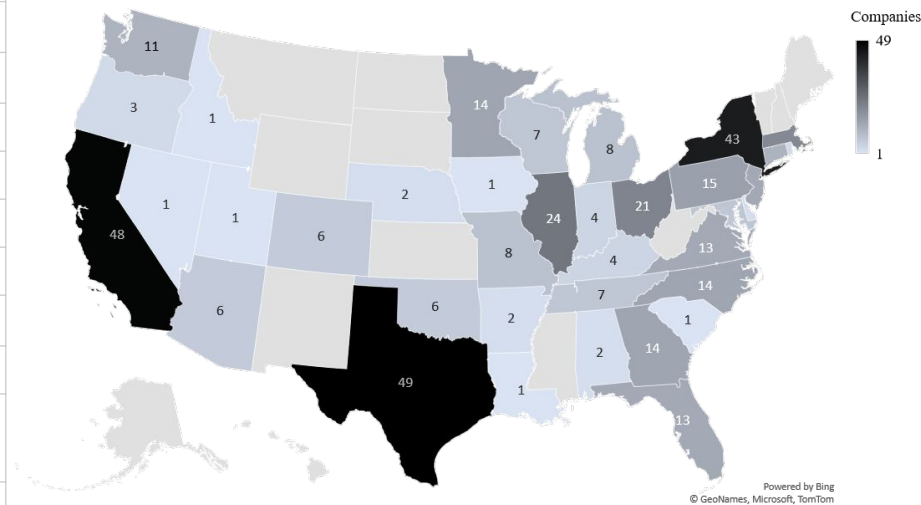
DATA

Table IV: Companies In Each Sector

Sector	ID	Count
Consumer	1	50
Consumer Discretionary	2	14
Consumer Staples	3	34
Energy	4	33
Financials	5	68
Health Care	6	42
Industrials	7	54
Information Technology	8	55
Materials	9	25
Telecommunications Services	10	4
Utilities	11	30
Total		409

Notes: Sectors are separated and labeled by the S&P 500 index. 91 companies are removed from the 500 index due to the dataset only going from 2008 to 2018 while the company data is from 2023. WRDS CRSP Execucomp Merged.

Figure II: Represented States



METHODOLOGY

Returns at t+1, independent variables at t

$$(1) \text{ RETURNS}_{i,t+1} = \alpha + \beta \text{STOCKOPT_MIL}_{i,t} + \gamma \text{STO_CH_PER}_{i,t} + \delta \text{SALARY_THOU}_{i,t} + \theta \text{SAL_CH_PER}_{i,t} + \sum_{2008}^{2018} \varphi \text{YEAR}_i + \sum_1^{38} \omega \text{STATEID}_i + \sum_1^{11} \sigma \text{SECTOR_CODE}_i + \varepsilon_{i,t}$$

Returns at t, independent variables at t

$$(2) \text{ RETURNS}_{i,t} = \alpha + \beta \text{STOCKOPT_MIL}_{i,t} + \gamma \text{STO_CH_PER}_{i,t} + \delta \text{SALARY_THOU}_{i,t} + \theta \text{SAL_CH_PER}_{i,t} + \sum_{2008}^{2018} \varphi \text{YEAR}_i + \sum_1^{38} \omega \text{STATEID}_i + \sum_1^{11} \sigma \text{SECTOR_CODE}_i + \varepsilon_{i,t}$$

$$i) \text{ RETURNS} = \alpha + \beta \text{STOCKOPT_MIL}_{i,t} + \varepsilon_{i,t}$$

$$ii) \text{ RETURNS} = \alpha + \beta \text{STOCKOPT_MIL}_{i,t} + \gamma \text{STO_CH_PER}_{i,t} + \varepsilon_{i,t}$$

$$iii) \text{ RETURNS} = \alpha + \beta \text{STOCKOPT_MIL}_{i,t} + \gamma \text{STO_CH_PER}_{i,t} + \delta \text{SALARY_THOU}_{i,t} + \varepsilon_{i,t}$$

i) ii) iii) all contain fixed effects like (1) and (2)

03.

RESULTS



Do I agree with researchers?



Table II: OLS Main Regression Results

Independent Variable	Return _{t+1}			
	Model I	Model II	Model III	Model IV
STOCKOPT_MIL	-0.144	-0.11	-0.00214	-0.000123
	-0.126	-0.235	-0.983	-0.999
STO_CH_PER		-0.0185*	-0.0213**	-0.0215**
		-0.076	-0.045	-0.039
SALARY_THOU			-0.439**	-0.446**
			-0.015	-0.019
SAL_CH_PER				0.00328
				-0.94
Constant	-37.80***	-37.90***	-34.19***	-34.14***
	0	0	-0.001	-0.001
R ²	0.126	0.126	0.127	0.127
Sample Size	3829	3829	3829	3829
Year Fixed Effects	Yes	Yes	Yes	Yes
State Fixed Effects	Yes	Yes	Yes	Yes
Sector Fixed Effects	Yes	Yes	Yes	Yes
p-values in parentheses				
* p<0.1 ** p<0.05 *** p<0.01				

Note: Returns are at time $t+1$ while other dependent variables are at time t . The regression uses robust standard errors and adjusted R squared.

Table III: OLS Regression Results

Independent Variable	Returnst			
	Model I	Model II	Model III	Model IV
STOCKOPT_MIL	0.0728	-0.00452	0.0473	0.0721
	-0.268	-0.946	-0.534	-0.354
STO_CH_PER		0.0431***	0.0419***	0.0378***
		0	0	0
SALARY_THOU			-0.21	-0.293*
			-0.166	-0.053
SAL_CH_PER				0.0356
				-0.35
Constant	4.359	4.585	6.404	7.07
	-0.593	-0.57	-0.436	-0.39
R2	0.254	0.258	0.259	0.259
Sample Size	4020	4020	4020	4020
Year Fixed Effects	Yes	Yes	Yes	Yes
State Fixed Effects	Yes	Yes	Yes	Yes
Sector Fixed Effects	Yes	Yes	Yes	Yes

p-values in parentheses

* p<0.1 ** p<0.05 *** p<0.01

Note: Returns are at time t in the same period as other dependent variables. The regression uses robust standard errors and adjusted R squared.

04.

OPEN QUESTIONS

What Next?



QUESTIONS FOR FURTHER RESEARCH

Is simple firm return a good proxy for firm performance?

How to measure long term unobservable firm values and performance?

Firm level fixed effects?

Interaction terms between stock options and each sector?

05.

CONCLUSION



IN SUMMARY

Negative relationship between CEO performance compensation percentage change and short term future firm returns.

Positive relationship between CEO performance compensation percentage change and current firm returns.

THANK YOU

Q & A

