**Relative Performance Benchmarks: Do Boards Get It Right?**

HBS Working Paper #17-039

Paul Ma, Jee Eun Shin, and **Charles C.Y. Wang**

Accounting & Management

November 2016

<http://www.hbs.edu/faculty/Publication%20Files/17-039_1f470674-7d42-4b4c-83bc-859bf592e753.pdf>

**Executive Summary:**

The explicit usage of relative performance based (RPE) grants has been steadily increasing. The common wisdom behind such grants is that they help induce costly effort from the CEO either within a contracts or tournaments-based framework. This paper is the first to assess the efficacy of firms' self-reported RPE benchmarks in filtering out the common component of stock returns as disclosed in their proxy statements, analyze their implications for firm performance, and examine the factors that drive differences in benchmarking quality of their chosen benchmarks. Findings raise questions about the appropriateness of index-based benchmarks for RPE contracts in lieu of a specific peer set.