Perks and Company Performance

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Bachelor Thesis

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Executive summary

1 Problem

There is an ongoing academic discussion whether perquisite consumption has an impact on the performance of a company or not. When companies disclosed executive compensation in their annual proxy statements, shareholders reacted negatively on excessive perk disclosure, for example the personal use of company aircraft. The central question is if this assumption still holds for today or not.

2 Research objective

This paper conducts a range of tests based upon perk consumption by NEOs of S&P 100 companies, as disclosed in annual proxy statements filed pursuant to Securities and Exchange Comission (SEC) regulations. In difference to other studies like Yermack (2006), Core and Guay (1999), Rajan and Wulf (2005) which focused and commented mainly on personal use of corporate aircraft, I try to examine a wider range of perks and tested additionally the impacts of car allowance, financial planning services, personal security programs, relocation expenses and club memberships on companies' stock prices.

In addition I wanted to find out if the adaption of new compensation disclosure rules by the SEC in 2006 with lower disclosure requirement thresholds has an impact of shareholder reactions, because a lot of companies have to disclose allowed perks initially with the new rules.

3 Proceeding

The paper focuses on the association between perquisite consumption and company performance and compares different versions as first disclosures and normal disclosures and different time horizons in the period between 2001 and 2008.

The paper is organized as follows. After the introduction section which gives an overview of the topic and explains the most important terms the reader finds in Section i an overview of theories and implications of perks and constructs a connection to the studies of perquisites developed in the past years to understand more clearly the role of perquisites in managerial compensation. The data description Section (ii) describes the dataset and the methodology. Section iii (Statistical analysis and interpretation) presents the statistical analysis and regressions in four parts with expectations, results and interpretations. Section iv concludes the main results and interpretations and gives a summary of the most interesting topics for further research questions.

4 Results

The analysis of 91 S&P 100 companies on the influence of perquisite consumption found the following results.

The data indicate that more than 94% of the companies allowed their NEOs at least one form of perquisite consumption in 2008, up from a frequency below 51% in 2001, the first year of the included sample period.

Its findings are a slight 0.25% average stock price drop on the release date of a first disclosure of perquisites by a company to its shareholders, a 2.78% average drop around the date of disclosures of perks allowing companies in

2001 and a 1.85% average increase in share prices for the same period in 2008.

Regression models of the amount of perquisites consumption, the share price performance and different other control variables for firm size and board structure do not show significant associations. The perk values have significant impacts on share prices only in a few special cases mostly in the early years of the period and around the release dates of first disclosures.

The relatively small impact that perk consumption seems to have can be explained by several reasons. First and most importantly, the high frequency of disclosed perk consumption in the latest years have established perk consumption in the mind of the shareholders as a natural thing. Second, the argumentation of companies allowing their NEOs perquisites has been concentrated on the security aspect; arguments are supported by the terrorist attacks in 2001, higher criminality rates and other reasons. Third, the media has discussed the managerial excesses in a large way with articles in which they open up the sight of the shareholders for the most immense perks of namable CEOs, what led companies to allow only necessary perks and those in a reasonable way.