



2009 JAAF SYMPOSIUM

Paper Discussion

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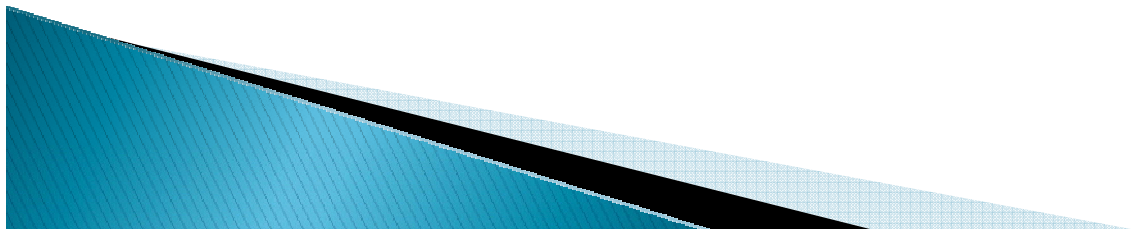
Literature Review – Hypotheses 1 / 4

PAY for PERFORMANCE LINK

- ▶ Crisis of principal–agent theory, shift to managerial power theory
- ▶ MCGG strongly advocates the alignment between executive pay and performance



Hypothesis (H1): Companies that disclose that they reward executive directors based on firm or individual performance have stronger pay-for-performance relationship.



Literature Review – Hypotheses 2 / 4

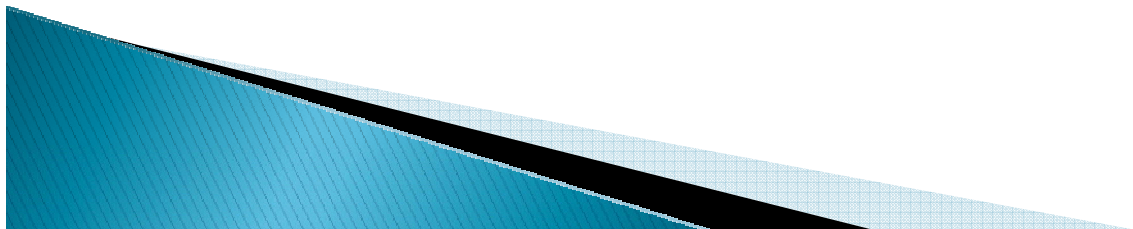
RC STRUCTURE and PERFORMANCE-RELATED PAY

- ▶ RC should be independent from executives' influence
- ▶ RC independence influences pay-for performance sensitivity (US, UK)



Composition vs Best Practices

Hypothesis (H2): Companies with good remuneration committee structures have stronger pay-for-performance relationship than their counterparts with poorly structured remuneration committee.



Literature Review – Hypotheses 3 / 4

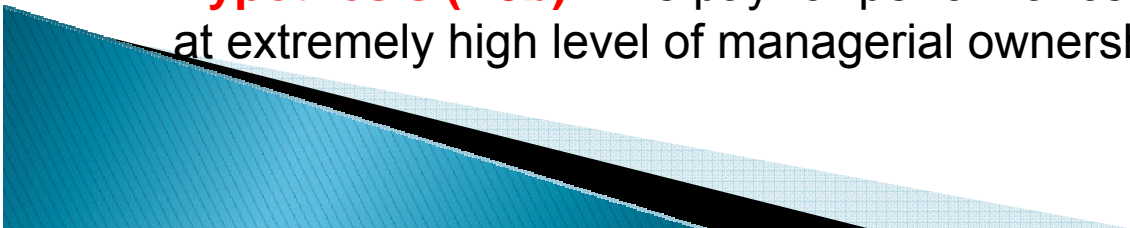
OWNERSHIP STRUCTURE and PERFORMANCE RELATED PAY

- ▶ **Managerial ownership influences the level of executive pay and pay-for-performance relationship; mixed results:**
 - CEO remuneration is a decreasing function of the CEO's ownership
 - Executives who are majority shareholders, pay themselves more
 - (US, ASIA)
- ▶ **Mixed Evidence – relevance of both MP and PA theories**



Hypothesis (H3a): The pay-for-performance relationship is stronger as managerial ownership increases.

Hypothesis (H3b): The pay-for-performance relationship is weakening at extremely high level of managerial ownership.



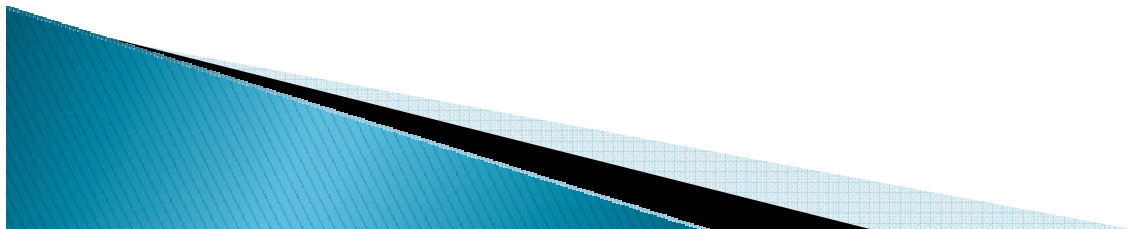
Literature Review – Hypotheses 3 / 4

OWNERSHIP STRUCTURE and PERFORMANCE RELATED PAY

- ▶ What happens when corporate ownership is controlled by non-management blockholders as institutions ? (US, UK, ASIA)
 - Control
 - CEO Remuneration



Hypothesis (H3c): The pay-for-performance relationship is stronger in companies with higher non-management blockholder ownership.

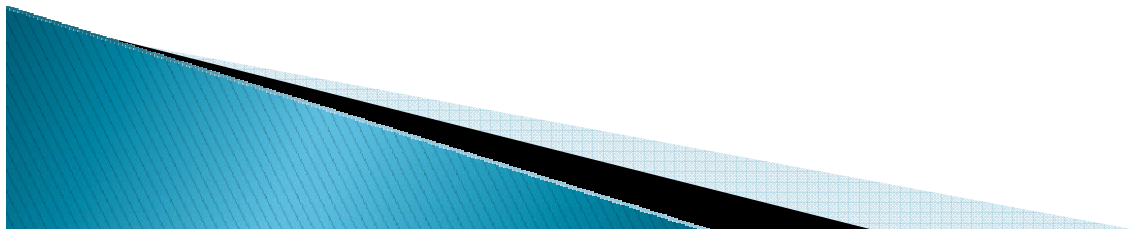


Modeling Pay-for-Performance

PAY for PERFORMANCE ELASTICITY

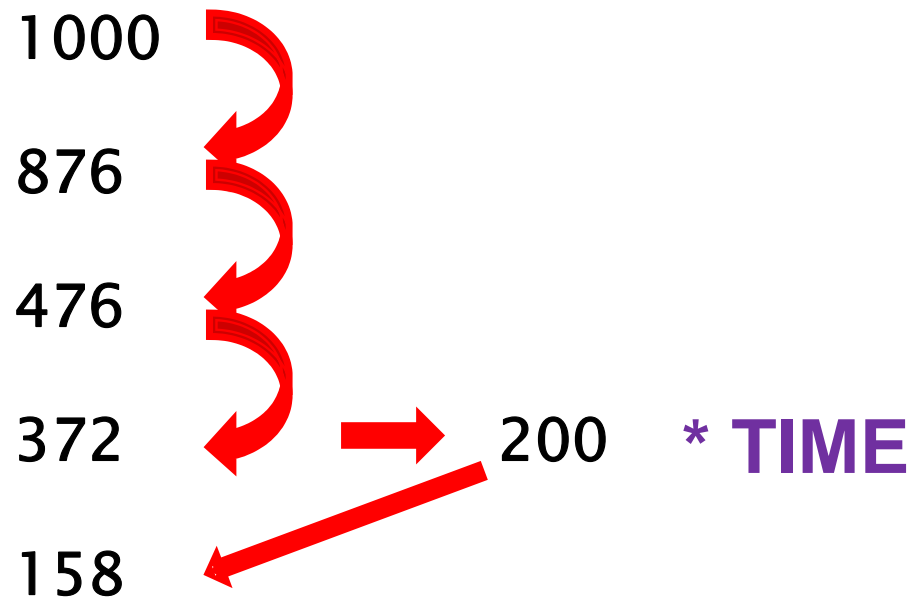
$$\Delta \ln \text{PAY}_{it} = \alpha + \beta_1 \ln(1 + \text{RET}_{it}) + \beta_2 \ln(1 + \text{RET}_{it-1}) + u_{it}$$

- * Add details in the model description and provide motivation of selection

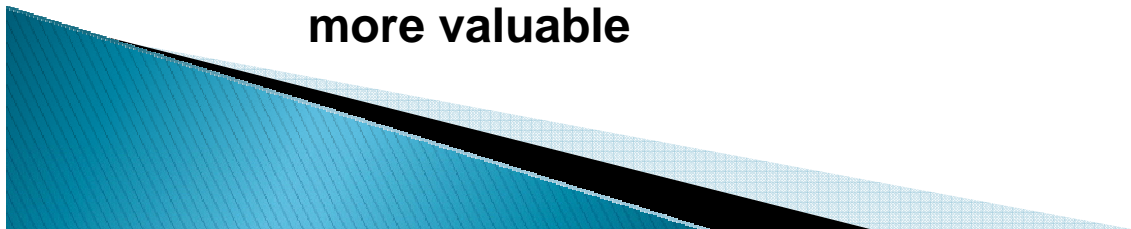


Sample and Data

EXCLUSION CRITERIA



* By completing the sample analysis, statistical results will be more valuable

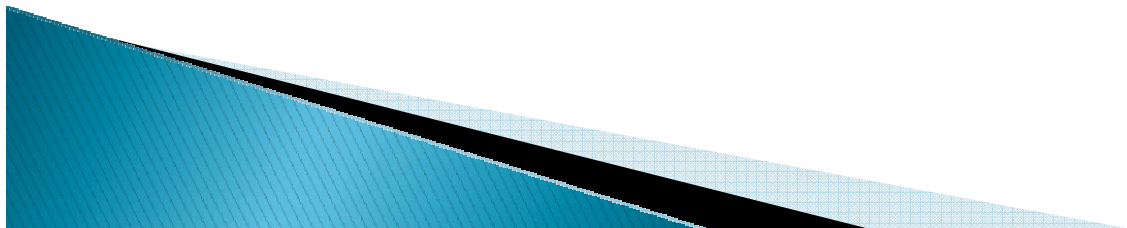


Findings 1 / 2

Table 3 : Pay-Performance Elasticity Partitioned by Performance-Based Pay and Non-Performance-Based Pay Companies and Full Sample

Variables (1)	Performance Based (2)	Non-Performance Based (3)	Full Sample (4)
Constant	0.063*** (3.67)	0.036 (1.59)	0.055*** (3.91)
Change in shareholder wealth (t)	0.074* (1.83)	-0.010 (-0.18)	0.039 (1.13)
Change in shareholder wealth (t-1)	0.090* (1.83)	0.100 (1.47)	0.095** (2.34)
R-square	0.029	0.018	0.022
F-value	5.35	1.08	4.15
N	198	118	316

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

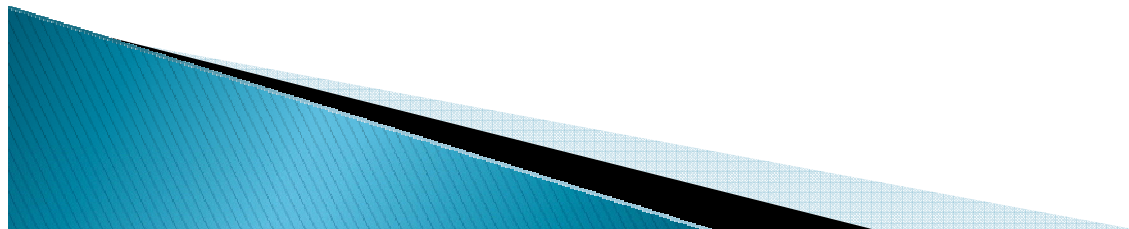


Findings 1 / 2

Table 4 : Pay-Performance Elasticity Partitioned by Good and Poor Remuneration Committee Structure

Variables (1)	Remuneration Committee Structure	
	Good (2)	Poor (3)
Constant	0.068*** (3.50)	0.039* (1.96)
Change in shareholder wealth (t)	0.062 (1.45)	0.020 (0.40)
Change in shareholder wealth (t-1)	0.138** (2.28)	0.062 (1.11)
R-square	0.042	0.010
F-value	4.09	0.91
N	157	159

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level



Findings 1 / 2

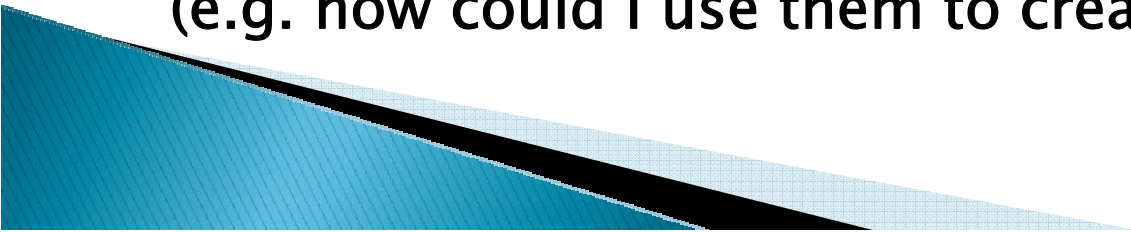
Table 5 : Pay-Performance Elasticity Partitioned by Levels of Managerial Ownership

Variables	Managerial Ownership		
	Below 10 percent (2)	10 to 35 percent (3)	Above 35 percent (4)
Constant	0.021 (0.66)	0.024 (1.06)	0.098*** (4.80)
Change in shareholder wealth (t)	0.148** (2.03)	-0.017 (-0.31)	0.013 (0.25)
Change in shareholder wealth (t-1)	0.008 (0.08)	0.132** (2.19)	0.089 (1.63)
R-square	0.045	0.050	0.015
F-value	2.51	2.41	1.41
N	95	88	133

t-statistics are in parentheses. ***, ** and * denote significance at the 0.01, 0.05 and 0.1 level

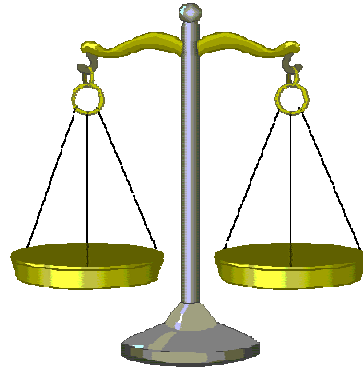
* Valuable finding

Suggestions for Improvement 1 / 2

- ▶ Firms' Analysis – distinguish between sectors
 - ▶ Since limitation of the sample, include some qualitative methods (e.g. interviews or case studies) to support findings
 - ▶ Discussion – how the context affects findings
 - ▶ Pay-for-Performance & Compensation consultants
 - ▶ Pay-for-Performance & Risk
 - ▶ Which are the practical implication of these findings (e.g. how could I use them to create alignment)
- 

Suggestions for Improvement 2/2

**CEO
REMUNERATION
ISSUE**



**PERFORMANCE
MEASUREMENT
SYSTEM**

- ▶ Understanding the equilibrium, it means to understand both
- ▶ Performance measurement vs performance measurement and management