

# An Analysis of the Relationship Between CEO Tenure and Compensation and Firm Performance

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## ABSTRACT

*This paper presents empirical evidence related to connection between the length of time a CEO is at the helm of a firm and his/hers compensation, and his/her performance. This paper demonstrates that there is room for concern that the theory and the reality are not as well aligned as despite the large number of studies and efforts aimed at improving it.*

*JEL Classification: J33, J26, J32, L41, L21, L25*

*Keywords: CEO Management Compensation and Performance, Management Age and Tenure of Service, Principle-Agent Theory*

## INTRODUCTION

Despite the substantial increase in interest and studies related to improving corporate governance and CEO performance, recent decades continue to witness a serious turmoil in these areas. Corporate boards have tried various incentives to align the interests of shareholders and management. The failure of many of these incentives to prevent disasters like those that devastated prominent financial institutions and others in the first decade of the 21<sup>st</sup> century and in previous decades was blamed on a variety of reasons. The reasons often mentioned include improper monitoring of management's misconduct on erroneous and excessive focus on Stock Options with short-term perspectives to name a few. One of the contributions of this paper is that it is showing that the dynamics of management's concerns keep shifting as the manager's tenure in the firm is changing. This is further complicated by dynamic exogenous uncertainties that shift over time. This paper adds important insights and discussions that can improve our understanding of previous studies result and remaining challenges. However, the results suggest that if the CEO has survived the "early probation" and has an opportunity to serve longer and, thus, gain more experience or obtain additional support from board members and feels more secure in his/her longevity prospects at the firm's helm, this CEO becomes more capable to improve firm's performance while exposing it to less risk. However, the results are not uniform and they raise additional directions for future research. The paper proceeds as follows. A brief review of the literature relevant to his paper is presented in section II. The empirical tests relating age, tenure, compensation, and firm performance are presented in the section III. A discussion of implications and summary are offered in the final section.

### **Empirical Tests. A Brief review of Literature Relevant to This Study**

*Motivation and issues raised by earlier studies:* Numerous studies have examined ways to align the interest of the agent with those of the principal. Jensen and Meckling (1976) defined this as an agency problem that is due to both parties being rational, maximizing their own self-interests. Many studies followed in finance and economics, as well as in other disciplines (Veliyath, 1999; Lane, Cannella, and Lubatkin, 1998; Mueller and Lawrence, 1997; Veliyath, 1999; Mishra, Heide, and Cort, 1998; Barkema and Gomez-Mejia, 1998) to name a few. Barkema and Gomez-Mejia (1998) report that they found over 300 studies related to various aspects of the principal-agent relationship. There are also some studies trying to explore the relationship between the board and CEO compensation. Hermalin (2005) argues that the trend that more outside directors sitting in the board is accompanied by higher CEO compensation. Many of these studies search for the best mechanism to motivate the manager to act in the best interests of the principal. The asymmetry in information observable by the principal with regard to the agent's efforts and risk taking (both of which

the agent may want to minimize) makes performance-based contracts necessary. For example, some incentive packages are designed by including stock and options, aiming to align CEOs' personal wealth along with shareholder's wealth. Veliyath(1999). Unraveling different models of the relationship, Coles, Daniel, and Naveen (2006) find that there is a positive relationship between stock volatility and pay-for-performance sensitivity, providing some grounds for the argument that firms can tie CEOs' compensation with stock or stock options. Other studies find that commonly used performance contracts (stock options, tournament-based salary increase, golden parachutes, etc.) are not very effective in aligning the interests of shareholders and managers. Jensen (2005) has studied the issues raised by CEO's tendency to boost short-term stock prices to increase their benefits from the options they are holding in their compensations packages.

Hence, the empirical tests that are reported here in this paper, look at the firm's performance and the CEO's tenure at the helm of the firm and the various types of the compensation package (total compensation, bonuses, stock options etc).

### **Empirical Tests and Results**

The sample data for our analysis is obtained from the ExecuComp database (1993-2003). From the database, we extract only the data containing age information and then use it as our sample. Panel A and Panel B in Table 1 illustrates that the firm and compensation characteristics of the total sample (16,639) is not significantly different from those of our sample (6,321). Thus, our results have implications that can also be relevant to firms that did not report information about their CEO's age. We find that the CEO's age was fairly similar, regardless of how long the individual had been CEO of that firm.

We see for Table 1 (Panel A) that although the entire sample was much larger (16,639 observations) that the subsample that had "tenure" data are fairly similar in firm size and performance. Here it allows us to go into further analysis with a subsample that has the tenure data (321 observations). The mean average sales were rather similar in the subsample and the whole sample for which it was taken (\$ 4.7 billion mean and \$1.39 billion median in the tenure subsample, compared to \$3.93 billion mean and \$1.07 billion median sales in the whole sample). In the assets categories, the median assets size in the "tenure" subsample was \$1.39 billion, and \$1.28 billion in the complete "whole" sample. In the age categories, the median age in the tenure subsamples was 63 years, which was higher than the median age of 58 years in the whole sample. Likewise, size with (sales, and assets) in both groups were rather similar, but in the subsample with information about CEO's, his/her average age was about 5 years older than the whole sample. Table 2 show that the CEO's tenure increased so did the salary and total compensation, but, interestingly, also the firm performance improved, as demonstrated by the EPS and growth rate of EPS and sales. Not surprisingly, so did the increase of firm's tendencies to grow in asset size. But the improvements slow down when the CEO's tenure is 10 years or more. The relative ratio of non-salary component to total compensation also demonstrated an increase as the CEO's tenure gets longer. Finally, EPS was worse (mean 0.12 and median 0.63 and negative growth rate of EPS in Panel A) for "beginner" CEOs at the firm was reported for the group as the CEO's tenure in the firm was less than 3 years, as shown in the table.

The data are collected for every CEO in ExecuComp for each year 1993-2003. Annual R&D expense is obtained from COMPUSTAT. SALES represents the net annual sales in millions of dollars as reported by the company. SALECHG is the year-to-year percentage change in SALES. ASSETS represents the total assets in millions of dollars. ASSETCHG is the year-to-year percentage change in ASSETS. OIBD represents the operating income before depreciation in millions of dollars. OIBDCHG is the year-to-year percentage change in OIBD. EPS represents the earnings per share excluding extraordinary items and discontinued operation in dollars and cents. EPS is the year-to-year percentage change in EPS. CEO\_AGE is the CEO's age in the year when the CEO takes that position. CEO\_Tenure is computed as the difference between the year at which the CEO assumes that position and the year in which the CEO steps down. R&D expense represents all costs incurred relating to development of new products or services in millions of dollars. SALARY and BONUS represents the dollar value of the base salary and a bonus (cash and non-cash) in thousands of dollars earned by the CEO during the fiscal year. Total\_Compensation represents their total compensation comprised of salary and bonus. Total\_Compensation1 is the total compensation for the individual

year, comprised of salary, bonus, other annual compensation, total value of restricted stock granted, total value of stock options (using Black-Scholes), long term incentive payouts, and all other compensation.<sup>1</sup> Total\_Compensation2 is the total compensation for the individual year comprised of salary, bonus, other annual compensation, total value of restricted stock granted, net value of stock options exercised, and all other compensation. Number\_Option\_Grants represents the aggregate number of stock options/stock appreciation rights granted in thousands. Value\_Option\_Grants represents the aggregate value of stock options granted to the CEO during the year as valued using S&P's Black-Scholes methodology in thousands of dollars. SHROWN represents the aggregate number of shares owned by the CEO excluding stock options in thousands. SHROWNPC represents the percentage of the company's shares owned by the CEO. SAL\_PCT is the year-to-year percentage change in salary. RD\_RATIO is defined as R&D expense over total expense where total expense is computed as the difference between Net Sales (Item 12 in COMPUSTAT) and Operating Income before Depreciation (Item 13 in COMPUSTAT). RD\_RATIO1 is defined as R&D expense over total revenue. RD\_RATIO2 is defined as R&D expense over Earnings before Interest and Taxes (EBIT). RD\_RATIO3 is defined as R&D expense over Earnings before Interest (EBITDA). Panel A reports summary statistics of the full ExecuComp sample while Panel B contains only CEOs with both starting year and ending year as CEO to compute the CEO tenure.

**Table 1: Descriptive statistics of CEOs and firms**

Panel A. Full ExecuComp Sample						
	#of Obs	Mean	Median	Std Dev	Min	Max
SALES	16,639	3,932.96	1,072.18	10,635.09	0.00	244,524.00
SALECHG	16,593	17.98	8.69	82.99	-100.00	6,001.53
ASSETS	16,646	9,256.22	1,277.44	38,585.55	3.43	1,097,190.00
ASSETCHG	16,627	21.45	8.11	104.47	-97.48	6,389.02
OIBD	16,415	720.31	158.15	2,363.99	-5,743.00	61,188.00
OIBDCHG	15,549	31.45	11.11	1,114.73	-10,229.81	125,060.00
EPS	16,616	2.11	1.29	40.24	-231.67	2,795.00
EPSCHG	14,096	25.19	10.79	894.83	-23,050.00	42,900.00
CEO_AGE	8,112	57.61	58.00	7.87	31.00	89.00
CEO_TENURE	6,321	10.18	8.33	7.75	0.10	54.61
R&D_EXPENSE	6,586	158.93	21.85	582.16	0.00	8,900.00
SALARY	16,663	581.43	525.00	322.97	0.00	5,294.10
BONUS	16,663	604.36	300.00	1,479.60	0.00	102,015.16
TOTAL_COMPENSATION	16,663	1,185.80	838.83	1,604.33	0.00	102,448.77
TOTAL_COMPENSATION1	16,501	4,187.68	1,816.67	12,091.24	0.00	655,448.00
TOTAL_Compensation2	16,663	3,590.37	1,304.91	12,826.96	0.00	706,119.85
Number_Option_Grants	16,663	188.13	56.00	606.13	0.00	20,664.63
Value_Option_Grants	16,501	2,294.92	487.46	9,937.89	0.00	600,347.36
SHROWN	16,346	2,415.09	214.24	22,789.55	0.00	1,321,271.32
SHROWNPC	8,110	5.87	2.00	8.90	0.002	64.20
SAL_PCT	15,787	22.85	6.25	245.92	-100.00	18,050.51
RD_RATIO	6536	0.09	0.03	0.14	0	1.93
RD_RATIO1	6573	0.20	0.03	3.29	0	237.85
RD_RATIO2	6585	1.22	0.16	93.72	-756.29	7503.05
RD_RATIO3	6536	-4.57	0.14	328.31	-26,355.60	108.23
Panel B. Sample Used in Analyses						
	#of Obs.	Mean	Median	Std Dev	Minimum	Maximum
SALES	6,318	4,716.75	1,390.64	11,931.47	0.00	174,694.00
SALECHG	6,301	17.47	8.33	73.48	-100.00	3,614.50
ASSETS	6,319	9,552.68	1,585.58	35,764.94	3.43	716,937.00
ASSETCHG	6,314	19.68	7.46	80.09	-97.48	3,179.63
OIBD	6,214	831.89	205.80	2,494.15	-5,743.00	42,342.00
OIBDCHG	5,895	41.30	10.78	1,655.37	-4,481.96	125,060.00
EPS	6,307	1.21	1.33	3.94	-231.67	25.29

<sup>1</sup> For the Black\_Scholes Methodology refer to [http://umi.compuSTAT.com/docs-mi/help/blk\\_schol.htm](http://umi.compuSTAT.com/docs-mi/help/blk_schol.htm)

EPSCHG	5,375	18.34	9.61	826.40	-13,800.00	42,900.00
CEO AGE	1,004	62.39	63.00	7.65	31.00	83.00
CEO TENURE	6,321	10.18	8.34	7.76	0.11	54.62
R&D EXPENSE	2,591	214.50	24.62	732.80	0.00	8,900.00
SALARY	6,321	598.78	541.82	335.80	0.00	4,000.00
BONUS	6,321	566.38	300.00	1,030.08	0.00	15,550.00
TOTAL_COMPENSATION	6,321	1,165.16	855.19	1,215.20	0.00	16,700.00
TOTAL_COMPENSATION1	6,232	3,933.51	1,744.08	11,961.40	0.00	655,448.00
TOTAL_COMPENSATION2	6,321	3,719.58	1,360.69	12,542.96	0.00	655,448.00
Number_Option_Grants	6,321	158.07	48.00	421.37	0.00	10,000.00
BLK_VALUE	6,232	1,919.37	388.79	7,122.05	0.00	244,538.69
SHROWN	6,128	1,939.99	185.05	15,269.06	0.00	787,055.60
SHROWNPC	2,650	5.39	1.90	8.55	0.002	64.20
SAL_PCT	5,857	18.61	5.65	135.64	-100.00	7,140.63
RD_RATIO	2,580	0.08	0.03	0.13	0	1.25
RD_RATIO1	2,583	0.25	0.02	4.89	0	237.85
RD_RATIO2	2,591	3.16	0.18	147.45	-67.25	7,503.05
RD_RATIO3	2,580	-10.04	0.14	518.90	-26,355.60	67.09

Table 2 reports that the median (mean) age of the CEO if the CEO's tenure is less than three years is 60.00 (59.44), the median (mean) age of the CEO if the CEO's tenure is between three and five years is 59.00 (60.48), the median (mean) age of the CEO if the CEO's tenure is between five and ten years is 61.00 (60.62), and the median (mean) age of the CEO if the CEO's tenure is greater than ten years is 65.00 (64.41). However, we find considerable differences in various parameters when we differentiate the sample into four groups. Group 1 with the CEO serving three years or less, Group 2 with the CEO serving over three years and less than five years, Group 3 with the CEO serving five to ten years, and Group 4 with the CEO serving over ten years.

**Table 2: Descriptive statistics of CEOs and firms by CEO tenure (based on the data described in Table1).**

Table 2. Panel A. CEO Tenure Less Than Three Years						
	#of Obs.	Mean	Median	Std Dev	Min	Max
SALES	778	4,228.36	926.22	12,575.20	0.00	170,064.00
SALECHG	774	23.94	5.22	156.52	-100.00	3,614.50
ASSETS	779	8,251.10	871.16	41,840.52	5.88	716,937.00
ASSETCHG	779	24.00	4.34	116.62	-96.94	1,853.57
OIBD	761	674.23	104.79	3,024.08	-5,743.00	42,342.00
OIBDCHG	680	7.86	5.84	177.88	-2,275.59	2,281.50
EPS	777	-0.12	0.63	9.00	-231.67	12.32
EPSCHG	564	-36.85	-4.88	500.23	-4,366.67	4,125.00
CEO AGE	79	59.44	60.00	7.42	43.00	75.00
CEO TENURE	780	1.72	1.74	0.76	0.11	2.99
R&D EXPENSE	381	187.48	24.00	732.70	0.00	7,400.00
SALARY	780	514.80	439.08	318.83	0.00	2,007.69
BONUS	780	484.25	178.54	1,035.54	0.00	11,000.00
TOTAL_COMPENSATION	780	999.05	642.83	1,206.88	0.00	11,464.68
TOTAL_COMPENSATION1	763	4,574.37	1,543.37	12,566.33	0.00	193,784.12
TOTAL_COMPENSATION2	780	2,670.42	1,010.12	5,362.73	0.00	70295.92
LTIP	780	88.90	0.00	517.00	0.00	6,189.00
Number_Option_Grants	780	256.39	54.45	742.53	0.00	10,000.00
Value_Option_Grants	763	2,741.50	338.18	11,256.58	0.00	182,319.44
SHROWN	718	1,052.39	100.00	3,769.06	0.00	36,777.56
SHROWNPC	218	4.62	1.33	8.05	0.01	49.4
SAL_PCT	663	71.68	11.40	352.52	-96.51	7,140.63
RD_RATIO	379	0.09	0.04	0.14	0	0.84
RD_RATIO1	380	0.23	0.03	2.09	0	39.84
RD_RATIO2	381	0.22	0.13	4.91	-32.4	74.18
RD_RATIO3	379	-0.42	0.11	13.28	-256.28	17.81

Panel B. CEO Tenure Between Three and Five Years (3&lt;= CEO tenure &lt;5)

	#of Obs	Mean	Median	Std Dev	Min	Max
SALECHG	803	14.07	6.83	48.23	-100.00	808.71
ASSETS	812	5,923.75	1,508.12	17,983.83	6.27	213,016.00
ASSETCHG	810	14.70	5.68	50.09	-97.48	596.63
OIBD	808	591.63	170.29	1,473.48	-653.00	18,228.00
OIBDCHG	760	16.37	9.09	185.31	-1,661.61	3,619.99
EPS	810	0.80	1.03	3.31	-51.40	25.29
EPSCHG	649	-29.25	6.25	577.62	-10,200.00	6,020.00
CEO AGE	96	60.48	59.00	6.19	46.00	74.00
CEO TENURE	813	4.06	4.03	0.60	3.00	5.00
R&D EXPENSE	374	205.08	20.63	700.85	0.00	5,152.00
SALARY	813	529.47	500.00	289.99	0.00	3,660.51
BONUS	813	451.14	226.62	828.97	0.00	11,861.65
TOTAL_COMPENSATION	813	980.61	721.02	957.69	0.00	12,961.65
TOTAL_COMPENSATION1	803	3,268.50	1,609.81	6,115.48	0.00	116,091.76
TOTAL_COMPENSATION1	813	2,788.24	1,114.33	7,734.79	0.00	150,817.35
LTIP	813	112.97	0.00	612.30	0.00	11,739.33
Number_Option_Grants	813	154.24	50.00	369.74	0.00	4,907.95
Value_Option_Grants	803	1,634.47	408.16	5,268.31	0.00	114,818.60
SHROWN	783	1,022.73	94.00	3,447.93	0.00	34,796.76
SHROWNPC	259	5.19	1.40	9.70	0.002	61.4
SAL_PCT	758	27.07	6.71	133.76	-100	2,072.21
RD_RATIO	374	0.08	0.03	0.13	0	1.09
RD_RATIO1	369	1.00	0.02	12.69	0	237.85
RD_RATIO2	374	20.36	0.18	387.96	-20.15	7,503.05
RD_RATIO3	374	-70.11	0.14	1,362.84	-26,355.60	19.68

Table 2. Panel C. CEO Tenure Between Five and Ten Years (5&lt;= CEO tenure &lt;10)

	#of Obs	Mean	Median	Std. Dev	Min	Max
SALES	2,266	5,550.69	1,615.46	14,382.15	0.00	174,694.00
SALECHG	2,265	17.45	7.71	63.66	-100.00	1,550.90
ASSETS	2,266	11,667.26	1,962.45	38,603.48	3.43	485,014.00
ASSETCHG	2,266	21.45	7.15	99.73	-78.17	3,179.63
OIBD	2,221	1,066.23	244.80	3,053.79	-2,424.40	33,997.00
OIBDCHG	2,132	27.32	10.07	458.59	-4,481.96	19,886.31
EPS	2,260	1.46	1.52	2.55	-32.35	18.17
EPSCHG	1,967	45.21	8.80	1,125.64	-8,520.00	42,900.00
CEO AGE	331	60.62	61.00	7.46	31.00	80.00
CEO TENURE	2,266	7.42	7.50	1.44	5.00	9.99
R&D EXPENSE	826	325.42	35.31	1,016.88	0.00	8,900.00
SALARY	2,266	609.70	555.01	312.84	0.00	2,500.00
BONUS	2,266	577.31	324.96	999.59	0.00	15,550.00
TOTAL_COMPENSATION	2,266	1,187.02	888.55	1,181.17	0.00	16,250.00
TOTAL_COMPENSATION1	2,236	3,698.03	1,784.14	7,638.64	0.00	141,675.58
TOTAL_COMPENSATION2	2,266	3,626.20	1,425.47	10,147.57	0.00	170,383.28
LTIP	2,266	243.05	0.00	1,005.94	-2,360.93	24,137.03
Number_Option_Grants	2,266	136.78	50.00	324.31	0.00	5,907.16
Value_Option_Grants	2,236	1,751.48	417.08	5,674.84	0.00	113,609.84
SHROWN	2,213	625.75	124.17	1,909.72	0.00	33,130.64
SHROWNPC	794	3.49	1.11	6.66	0.003	56.00
SAL_PCT	2,120	11.51	6.25	54.72	-100.00	1,728.58
RD_RATIO	820	0.08	0.03	0.12	0	1.25
RD_RATIO1	824	0.07	0.02	0.16	0	2.75
RD_RATIO2	826	0.24	0.23	2.39	-40.63	14.38
RD_RATIO3	820	0.19	0.17	2.31	-30.21	39.84

Table 2. Panel D. CEO Tenure Greater Than 10 Years (10 &lt;= CEO tenure)

	#of Obs.	Mean	Media	Std Dev	Min	Max
SALES	2,462	4,191.30	1,407.14	9,850.00	0.50	165,013.00

SALECHG	2,459	16.57	10.28	40.32	-90.85	841.09
ASSETS	2,462	9,215.14	1,559.55	35,258.80	6.13	642,191.00
ASSETCHG	2,459	18.32	9.49	46.49	-66.55	1,112.57
OIBD	2,424	746.75	227.14	1,931.51	-1,714.00	37,966.00
OIBDCHG	2,323	72.07	12.60	2,596.25	-1,736.92	125,060.00
EPS	2,460	1.55	1.47	1.96	-16.28	14.98
EPSCHG	2,195	22.50	11.90	610.33	-13,800.00	16,433.33
CEO AGE	498	64.41	65.00	7.55	42.00	83.00
CEO TENURE	2,462	17.42	14.68	7.61	10.00	54.62
R&D EXPENSE	1,010	137.47	19.76	364.52	0.00	3,696.00
SALARY	2,462	638.23	584.89	366.17	0.00	4,000.00
BONUS	2,462	620.39	350.00	1,108.84	0.00	15,000.00
TOTAL_COMPENSATION	2,462	1,258.62	935.05	1,309.72	0.00	16,700.00
TOTAL_COMPENSATION1	2,430	4,168.70	1,816.06	15845.09	28.00	655,448.00
TOTAL_COMPENSATION2	2,462	4,445.46	1,500.49	16710.38	28.00	655,448.00
LTIP	2,462	187.92	0.00	1200.41		31,325.00
Number_Option_Grants	2,462	147.78	40.00	368.69	0.00	5,943.65
Value_Option_Grants	2,430	1,909.87	358.30	7,162.94	0.00	244,538.69
SHROWN	2,414	3,706.32	427.71	23,986.69	0.00	787,055.60
SHROWNPC	1,379	6.63	2.60	9.13	0.003	64.20
SAL_PCT	2,316	7.16	4.69	37.53	-100.00	1,020.01
RD_RATIO	1,007	0.08	0.02	0.12	0	0.86
RD_RATIO1	1,010	0.14	0.02	0.75	0	12.30
RD_RATIO2	1,010	0.30	0.16	5.40	-67.25	144.08
RD_RATIO3	1,007	0.31	0.13	2.89	-17.05	67.09

We also find that the earnings and sales of the firms with short serving CEOs (Group 1) have actually been falling relative to those firms belonging to other groups. The first three columns in Table 3 demonstrate the comparison between Group 1, 2, and 3. The differences in the sales and EPS are negatively significant. Whereas in Groups 3 and 4 (with longer serving CEO's), the earnings, assets, and sales were growing more impressively. In Group 2, the result was less deterministic.

The differences were also noticeable with respect to CEO compensation (salary and non-salary components) with the CEO's compensation in the early stage in that position being much more dependent on performance incentives. Those with longer tenure with the firm find their salary component and overall compensation increasing relative to those individuals with briefer tenure, although the distinction was not uniform.

The columns reports the mean difference of the variables concerning the CEO tenure. For example, the difference between CEOs with five and ten years and those with CEO tenure greater than ten years, etc. The t-statistics appear in parentheses.

**Table 3: Comparison of firm and CEO compensation variables by CEO tenure.**

(based on the data described in Table 1).

	3>CEO Tenure 3<= CEO Tenure <5	vs. CEO	3>CEO Tenure 5<= CEO Tenure <10	vs. CEO	3>CEO Tenure 10<CEO Tenure	vs. CEO	3<= CEO Tenure <5 Tenure <10	vs. CEO	5<= CEO Tenure <5 Tenure <10	vs. CEO	
SALES	-222.30 (-0.40)		-1,322.00* (-2.44)		37.06 (0.08)		-1,100.00* (-2.51)		259.35 (0.69)		1,359.40** (3.76)
SALECHG	9.87 (-1.68)		6.49 (1.12)		7.37 (1.30)		-3.38 (-1.56)		-2.50 (-1.33)		0.88 (0.56)
ASSETS	2,327.30 (1.43)		-3,416.00* (2.00)		-964.00 (-0.58)		-5,744.00** (-5.59)		-3,291.00** (-3.46)		2,452.10* (2.27)
ASSETCHG	9.30* (2.05)		2.55 (0.55)		5.68 (1.33)		-6.75* (-2.47)		-3.63 (-1.82)		3.13 (1.36)
OIBD	82.60 (0.68)		-392.00** (-3.06)		-72.53 (-0.62)		-474.60** (-5.72)		-155.10* (-2.39)		319.47** (4.22)

OIBDCHG	-8.51 (-0.89)	-19.46 (-1.62)	-64.20 (-1.18)	-10.95 (-0.91)	-55.70 (-1.03)	-44.75 (-0.82)
EPS	-0.91** (-2.66)	-1.58** (-4.82)	-1.67** (-5.12)	-0.66** (-5.19)	-0.75** (-6.13)	-0.09 (-1.33)
EPSCHG	-7.61 (-0.25)	-82.07* (-2.49)	-59.36* (-2.4)	-74.46* (-2.19)	-51.75 (-1.92)	22.71 (-0.80)
CEO AGE	-1.04 (-1.01)	-1.18 (-1.26)	-4.97** (-5.44)	-0.14 (-0.19)	-3.93** (-5.48)	-3.79** (-7.11)
R&D EXPENSE	-17.60 (-0.34)	-137.90** (-2.67)	50.02 (1.27)	-120.30* (-2.38)	67.61 (1.78)	187.95** (5.05)
SALARY	-14.67 (-0.96)	-94.90** (-7.27)	-123.40** (-9.08)	-80.23** (-6.63)	-108.80** (-8.66)	-28.53** (-2.89)
BONUS	33.11 (0.70)	-93.06* (-2.22)	-136.10** (-3.04)	-126.20** (-3.52)	-169.2** (-4.62)	-43.07 (-1.4)
TOTAL_COMPENSATI ON	18.44 (-0.34)	-188.00** (-3.81)	-259.60** (-5.13)	-206.40** (-4.94)	-278.00** (-6.51)	-71.60 (-1.98)
TOTAL_COMPENSATI ON1	1,305.9** (2.59)	876.34 (1.82)	405.65 (0.73)	-429.5 (-1.59)	-900.2* (-2.33)	-470.7 (-1.31)
TOTAL_COMPENSATI ON2	-117.8 (-0.35)	-955.8** (-3.33)	-1,775** (-4.58)	-838* (-2.43)	-1,657** (-3.83)	-819.3* (-2.06)
LTIP	-24.06 (-0.85)	-154.1** (-5.49)	-99.01** (-3.25)	-130.1** (-4.32)	-74.95* (-2.32)	55.13 (1.72)
Number_Option_Grants	102.15** (3.45)	119.61** (4.36)	108.60** (3.93)	17.46 (1.19)	6.45 (0.43)	-11.00 (-1.09)
Value_Option_Grants	1,107.00* (2.47)	990.01* (2.33)	831.62 (1.92)	-117.00 (-0.53)	-275.40 (-1.17)	-158.40 (-0.84)
SHROWN	29.66 (0.16)	426.63** (2.91)	-2,654.00** (-5.22)	396.97** (3.06)	-2,684.00** (-5.33)	-3,081.00** (-6.29)
SHROWNPC	-0.57 (-0.71)	1.12** (4.38)	-2.01** (-3.37)	1.70** (2.63)	-1.44* (-2.30)	-3.14** (-9.21)
SAL_PCT	44.61** (3.07)	60.18** (4.38)	64.52** (4.71)	15.57** (3.11)	19.91** (4.05)	4.34** (3.06)
RD_RATIO	0.01 (1.04)	0.01 (1.79)	0.01 (0.86)	0.00 (0.59)	-0.003 (-0.42)	-0.008 (-1.34)
RD_RATIO1	-0.77 (-1.14)	0.16 (1.54)	0.09 (0.88)	0.93 (1.41)	0.86 (1.30)	-0.07** (-2.88)
RD_RATIO2	-20.14 (-1.00)	-0.01 (-0.05)	-0.07 (-0.26)	20.12 (1.00)	20.05 (1.00)	-0.06 (-0.34)
RD_RATIO3	69.69 (0.99)	-0.62 (-0.91)	-0.73 (-1.07)	-70.31 (-1.00)	-70.43 (-1.00)	-0.11 (-0.92)

The preliminary findings suggest that early in their career as the firm's CEO, the executive is still on probation, and their employment is likely to be terminated if the firm's performance is weak. Hence, this CEO has not had enough time yet to build a "friendlier" board that would be more willing to make their pay more secure in terms of salary. However, if the CEOs have managed to prove themselves with better performing earnings and sales growth, their tenure will become longer and their ability to earn the confidence and support of the board for higher pay and other "non-probationary" components of their total package improves. Thus, it is possible that the finding from previous studies that boards that are friendlier to their CEO are more common in firms with stronger performance does actually suggest the reason is that this CEO has served longer by passing the preliminary "probation." Hence, those CEOs have proved themselves already and earned the shareholder's trust gaining more ability to change the composition of the board in their favor. It is not clear, however, from our results thus far whether there is an optimal tenure threshold or benchmark beyond which the CEO gets too complacent and if the firm's performance suffers behind such a tenure length threshold for CEOs who serve very long terms. It is also not clear if the CEO has served in a similar position elsewhere prior to coming to the firm. Does prior overall experience of the CEO play a role or is it only their tenure at this firm that is relevant? As yet, we have not tested for this effect.

## SUMMARY

The paper suggests that the “time factor” is important. Earlier studies have already shown that there are problems in a solution that offers the manager bonuses or stock options that can be easily exercised soon or during a rising stock. This can motivate the manager to take short-term actions to boost the stock price enabling them to make a quick gain from these options. The empirical results support the theory models that underpin many of the compensation and corporate governance packages in today’s corporate world. One of the empirical results suggest a benefit to a compensation package that has a longer horizon, supporting the findings from theoretical models that it is better to have an incentive scheme contingent on future returns. The empirical findings also confirm our (and those offered by some previous studies) predictions that after developing a “friendly” relationship with the board and gaining experience and surviving some of the challenges facing the firm, the CEO who serve longer periods for the firm do produce better results- but the improvement is not monotonous and wears out after some time. The empirical results also demonstrate that the compensation reality is not clear-cut. It contains ambiguities that sometimes complicate the implications and suggestions for better connections between compensation and CEO performance. However, the empirical findings that were presented here, as well as the assumptions underpinning our model can, hopefully, lead to further studies that would address and benefit from the current study.

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