

CEOs Off the Clock

CEOs take time off too. In last month's column, I wrote about vacations and differences in the number of employer-awarded vacation days and the share of those days actually used by employees.



Cornell University
ILR School
Institute for Compensation Studies

Kevin F. Hallock

Donald C. Opatrny '74 Chair,
Department of Economics
Cornell University

Joseph R. Rich '80 Professor,
Departments of Economics and HR Studies
Cornell University

Director,
Institute for Compensation Studies,
Cornell University

Member,
2012 WorldatWork Society
of Certified Professionals Board

This month, I am focusing on some of the nonwork activities of CEOs.

Economists are often accused of being obsessed by the idea that individuals seek to maximize their income, but in reality, that's not quite right. Economists think about how individuals "maximize utility" (something similar to happiness). Utility can be gained from things like leisure time, material possessions, money and other things, including doing good for others or spending time with family. There is new and interesting academic work on

how executives spend their time and the personal choices they make to maximize utility.

Pay Mix

From a compensation point of view, one issue that has been at the forefront with respect to executives is perks — how perks are paid, why and the method of accounting for them. For example, some critics have argued against specific off-the-clock perks to executives, such as country club memberships, because the optics aren't right. Plus, they say it may not be an efficient way to pay. In my January 2011 *workspan* column, "The Disconnect Between Employer Cost and Employee Value," I argued that sometimes organizations pay employees in a certain form of compensation that costs the employer more than the value (or utility) that the employee gets. Holiday hams may be an example.

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(See "Is There Deadweight Loss in Holiday Rewards?" December 2011 *workspan*). Club memberships for CEOs may be another. The average share of CEO compensation paid in perks is shrinking and the country club membership in particular appears to be going the way of tube TVs and cassette tapes.

Jets and Vacation Homes

One CEO compensation perk that has also received increased scrutiny but is surviving better than club memberships is the use of private aircraft. Private aircraft is obviously a much more pleasant and efficient way to travel. I have done it a few times and can assure you it is awesome. Some believe it is a silly entitlement, while others argue that this perk is necessary for security reasons, especially for high-profile executives who are constantly in the public eye. They also argue that it's a more efficient use of a CEO's time (something I have thought long and hard about in many a crowded airport lounge while waiting for my delayed flight). Whatever the rationale, the use of private aircraft, along with financial planning and private security, are among the few remaining perks to some executives.

For the creative academic, one CEO's corporate jet perk is another scholar's research opportunity. Using primary data on corporate jet flight histories and real-estate records, David Yermack recently wrote "Tailspotting: How Disclosure, Stock Prices and Volatility Change When CEOs Fly to Their Vacation Homes" (National Bureau of Economic Research working paper, March 2012). Yermack argues that CEOs spend more time away from the office when their ownership in the firm is lower. This may suggest a separation of ownership and control problem (when the incentives of the CEO are less aligned with that of the owners because the CEO owns less of the firm). The CEO's utility from additional work hours may be lessened.

Yermack also concludes that CEOs' vacation schedules and corporate news disclosures are linked. Companies release good news just before CEOs leave for vacation and release

substantially more news when the CEO returns. Less news is released while the CEO is away and stock prices are less volatile.

Executives and Leisure Time

In a related April 2012 paper, "Executives' 'Off-The-Job' Behavior, Corporate Culture and Financial Reporting Risk" (National Bureau of Economic Research working paper), Robert Davidson, Abbie Smith and Aiysha Dey consider other off-the-clock behaviors of CEOs and their effects on company outcomes. In particular, the authors study two types of nonwork behavior: one is prior legal issues, the other is ownership of luxury goods (what they define as a measure of frugality). They go on to find out if these are related to financial reporting risk and fraud by the executive and his/her team.

Davidson, Smith and Dey document that CEOs and CFOs who have a legal record (including driving under the influence, other drug charges, domestic violence, disturbing the peace and speeding tickets) are more likely to perpetuate fraud as defined by being named for fraudulent reporting by the U.S. Securities and Exchange Commission.

A second interesting point is related to CEOs who are defined by the authors as frugal; that is, they have fewer luxury goods, such as expensive boats, cars and homes. The authors find that CEOs who are defined as frugal are less likely to preside over subordinates who have been linked to fraud or reporting problems in the firm. They do not, however, find a direct link to being frugal and the CEO's own likelihood of fraud or reporting errors. Also, with respect to the mix of compensation, the authors find that for unfrugal CEOs (those with more luxury goods), an increasing likelihood of fraud over time is related to increases in equity-based incentives.

There is a lot of attention paid to the compensation and performance of CEOs and other highly ranked executives. Exciting research is now expanding the analysis by widening the definition of compensation and including CEOs' off-the-clock decisions about how they maximize their personal utility. The results have interesting implications with respect to company performance, compensation and corporate culture. **WR**



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