

Public Abstract

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The two essays of my dissertation examine issues concerning CEO compensation. First, I examine the use of relative performance evaluation (RPE), asymmetry in pay for skill/luck, and compensation benchmarking for a sample of firms involved in a spinoff. The spinoff affects firm characteristics that influence the use of these compensation practices. I find that RPE is used for post-spinoff CEOs, but not pre-spinoff CEOs. This result is consistent with RPE being more prevalent as performance benchmark firms are easier to identify. Post-spinoff CEOs are also paid asymmetrically for luck where they are rewarded for good luck but not punished for bad luck. Both pre- and post- spinoff CEOs receive similar levels of compensation benchmarking.

Second, I study the role of reference points in CEO compensation. Using two samples, I identify multiple reference points and link the reference points to the behavioral phenomena of prospect theory and anchoring-and-adjusting. In a sample of CEOs who move from one company to another (mover sample), I estimate the CEOs' expected gain or loss in compensation as a result of the move, but do not find the effects of the expected gain or loss to be consistent with prospect theory preferences. Also in the mover sample, I find evidence of anchoring-and-adjusting where the compensation of the incoming CEO's predecessor (anchor) affects the compensation of the incoming CEO. Lastly, I find evidence that fiscal year high and low prices act as reference points where drops from the fiscal year high price to the fiscal year end price result in larger decreases in compensation than increases in compensation from the fiscal year low price to the fiscal year end price, consistent with prospect theory.