Abstract:

The SEC issued new disclosure rules for executive compensation in 2006 (SEC, 2006). These rules require companies to quantify total compensation, cash and noncash, for the first time. Our study attempts to test whether the executive pay-for-performance relationship has strengthened as the result of these rules by comparing compensation structures between time periods 2003-2005 and 2006-2008. We find strengthened pay-for-performance relationship of executive noncash compensation after 2006 SEC new disclosure rules. However, the new rules did not cause overall executive compensation to be more sensitive to performance. The increase in pay-for-performance sensitivity of noncash compensation is matched by a similar decrease in the pay-for-performance sensitivity of cash compensation. It seems that in responding to the new rules, corporations merely shift attention from cash pay to noncash portion of the compensation. The study also finds preliminary evidence that after 2006 the total compensation per SEC filings captures the pay-for-performance relationship better than the total compensation estimated by ExecuComp.