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The Effects of Executive Compensation Structure on Shareholder Wealth and Company Performance

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**THE EFFECTS OF EXECUTIVE COMPENSATION STRUCTURE
ON SHAREHOLDER WEALTH AND COMPANY PERFORMANCE**

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Corporate executives are paid at extremely high levels compared to lower-level employees, especially in the United States, and their level of compensation usually does not change based on company performance with respect to competitors, but rather with changes in their company's stock price. It is well known that executive compensation among U.S. corporations is comprised mostly of stock options, sometimes up to 90% of overall compensation (EDGAR 2003). These stock options allow executives, namely chief executive officers (CEOs), to cash in big bucks during good times and risk zero losses during bad times. I use principal-agent theory and past literature to hypothesize the pattern of changes in shareholder wealth, and in reported earnings, from 1993-2001 for 20 U.S. "blue chip" companies. Using simple linear regression analysis, I find that differences in CEO compensation structure have no significant effects on shareholder wealth and reported earnings. I also find that companies whose CEOs sell an unusually high value of stock options suffer a significant decline in shareholder value in the following year. Policy implications, based on my findings and other literature, are also discussed.