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Mar. 09, 2017

The sun always rises. Time is unidirectional. Financial wealth can beget greed. All are fundamental truths of the universe. With regard to the last, is it possible to theorize on the link between performance-based corporate executive compensation and accounting fraud?

How do we determine what separates Chief Executive Officers (CEO) such as Jeffery Skilling and Kenneth Lay from the failed conglomerate Enron from perceived highly successful CEO's such as Jack Welch at General Electric? All of the former corporate executives were handsomely compensated in company stock options, so is it really possible to derive a correlation between corporate pay metrics and fraud? We dive deeper for answers.

Stock Options Rising as a Percentage of Total Pay

A 2014 Harvard University study concluded that the average CEO compensation makeup for a Standard & Poor's 500 company was comprised of 57.2 percent stock award and options. This statistic asserts that the average S&P 500 corporation compensates its CEO primarily through a channel directly associated with the company's financial performance. The same study concluded that only 11.6 percent of the median compensation package for a CEO of an S&P 500 company was through his or her base salary.

Linking Empirical Evidence

In 2007, Jared Harris and Philip Bromiley, professors at Darden and Merage business

executive compensation is above 76 percent option-based.

Continue reading the full article at https://www.bna.com/company-safe-link-b57982084820.

Accounting