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Most Admired Companies' Performance and Compensation During 2007-2009 Recession

Abstract

This study investigates financial performance and compensation of chief executive officer (CEO) of the world's 50 most admired companies and their matched not-admired peers during 2007-2009 recession. The study has two purposes. The first purpose is to examine whether these 50 high-reputation companies are truly admirable, i.e., outperforming their competitors during this worst recession since World War II. The second purpose is to investigate how well these companies aligned the compensation of their CEO with firms' performance during this recession. Financial performance is based upon financial statement data, seven financial ratios, and changes in these ratios that measure profitability, solvency and CEO power. This study uses t-test and Wilcoxon rank-sum test to examine the differences in performance and compensation between these two groups. It uses a correlation analysis to investigate the relationship between CEO compensation and firm's performance. There are two significant findings. First, most admired companies had significantly better financial performance, i.e., higher profitability, solvency and CEO power than their matched firms during the recession. Second, most admired companies' CEO compensation had a stronger correlation with their net income and revenue than that of their matched peers. The first finding has an implication for investors, and the second finding has an implication for other companies to emulate this exemplary compensation practice. This study is the first one to focus on performance and CEO compensation of these 50 most admired companies during these tough and trying years.

Keywords: Admired companies, performance, compensation, recession, profitability, reputation