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ETHICS AND COMPENSATION SATISFACTION DIFFERENCES BETWEEN MEXICO & THE USA

Jon Austin Gastrock, University of Texas at Dallas
Alyssa Neely, University of Texas at Dallas
Alejandro Barrerea, University of Texas at Dallas
Mayra Resendez, University of Texas at Dallas
Antonio Lopez, University of Texas at Dallas
Claudia Reyes, University of Texas at Dallas
Daniel Flores, University of Texas at Dallas

ABSTRACT

In the current paper we examine variations in ethics and compensation satisfaction differences between business people in Mexico and the USA. We find that the customer service constructs are quite different between Mexico and the USA. We also found large differences in the dominant compensation satisfaction levels between the two countries and cultures. We also found differences in terms of whether assessments are done in rural, suburbs, or urban areas – with larger variations within the countries than between the countries.

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THEORIES OF JUSTICE AND MORAL BEHAVIOR

Khalid M. Dubas, Mount Olive College
Saeed M. Dubas, University of Pittsburg at Titusville

ABSTRACT

This article describes numerous principles, behavior/choice criteria, and three theories of moral behavior and justice. The fundamental principle of morality is that it must be useful for the society. A more moral society is more successful than a less moral society. Here we discuss these three frameworks or theories: moral foundations theory, transcendental institutionalism, and realization-focused comparative framework. The first framework is descriptive and it derives its fundamental ideas from the works of David Hume, Jonathan Haidt, Jesse Grahm, etc. The other two frameworks are prescriptive in nature. The transcendental institutionalism derives its inspiration from the works of Thomas Hobbes, Jean-Jacques Rousseau, Immanuel Kant, John Rawls, while the realization-focused framework originated from the works of scholars like Adam Smith, Marquis de Condorcet, Jeremy Bentham, Mary Wollstonecraft, Karl Marx, John Stuart Mill, Kenneth Arrow, Amartya Sen, etc. The moral foundations theory provides a primary role to instincts and emotions while the last two frameworks provide a greater role to reason and reasoning. Arguments are presented that the transcendental institutionalist framework may be superfluous and should be replaced entirely by the realization-based comparative framework for practical attempts to reduce manifest injustice and to enhance justice.

MARIJUANA: LEGALIZE, DE-CRIMINALIZE, OR PROSECUTE?

Robert B. Matthews, Sam Houston State University

ABSTRACT

Several states have taken steps to end or limit prosecution for sale, possession, and/or consumption of marijuana. Because federal law continues to outlaw marijuana, this creates a significant conflict of laws problem. How should it best be resolved? Should marijuana be legalized, should it remain technically illegal but be decriminalized, or should the trend be reversed and drug laws be strictly enforced? This paper examines both the legal issues and the practical experience of other jurisdictions as a basis for a proposed resolution.

DO VALUES CHANGE OVER TIME? AN EXPLORATARY STUDY OF BUSINESS MAJORS

Lynn Bible, Fayetteville State University
Hani Tadros, Fayetteville State University

ABSTRACT

Value can be defined in a variety of different ways, but can be summarized as the attitudes, beliefs, and principles which guide an individual in making decisions based on how the ultimate outcome effects themselves. Research has found that values and ethical behavior can be changed through experiences and education. Ethics and values have become important issues in recent years due to the exposure created from accounting misconduct and misrepresented financial statements from some of the United States' largest companies. At the center of this are the managers who prepare and approve the financial statements and the accountants who audit the financial statements. Mean-level changes and rank-order changes in values were obtained from business majors in 2004 and in 2010 using the Schwartz (1992) Value Survey. Our results show that both mean-level changes and rank-order changes occurred for individual values of business majors over time. Furthermore, higher-order value dimensions also changed, with male business majors showing the greatest amount of change.

EXECUTIVE COMPENSATION AT BANKS RECEIVING FEDERAL ASSISTANCE UNDER THE TROUBLED ASSET RELIEF PROGRAM (TARP)

Clayton M. Winkelvoss, Elon University
Anthony J. Amoruso, Elon University
Jonathan Duchac, Wake Forest University

ABSTRACT

The recent recession in the US economy was triggered by a severe financial crisis that threatened a collapse of the American banking system. The banking industry has subsequently faced intense political and regulatory scrutiny, with one of the primary targets being executive compensation. As a result, limits were placed on executive compensation at banking institutions bailed out by the federal government under the 2008 Troubled Asset Relief Program (TARP). This paper reviews the contractual issues affecting the compensation of bank executives and analyzes the compensation policies of the largest banks receiving government bailout money under TARP. We report that CEO pay, particularly incentive compensation in the form of bonuses and stock-based compensation, decreased markedly following the bailout. Thus, it appears that compensation was reduced at most TARP recipient banks following the government bailout of the banking industry.

INTRODUCTION

The recent recession in the American economy represents the largest economic downturn since the Great Depression. While many factors contributed to the slump, the banking industry has faced some of the most serious criticism due to the subprime mortgage meltdown, the collapse of the housing market, and stagnation of the credit markets. In order to stem the crisis and restore credit markets, the US Congress approved a $700 billion bailout package in late 2008 to stabilize the financial sector (Herszenhorn, 2008). A significant feature of this plan was the Troubled Assets Relief Program (TARP), which was designed to buy troubled assets from financial institutions that had been weakened by the subprime mortgage crisis. Purchasing these assets allowed banks to stabilize their balance sheets and avoid further losses (Congressional Budget Office, 2009). However, taxpayers were outraged when they discovered the levels of compensation received by executives of struggling financial institutions. In March 2009, for example, executives from insurer AIG received a combined $165 million in compensation after AIG had received a substantial infusion of TARP funding to avoid bankruptcy. This situation triggered heightened public scrutiny of the legitimacy of rewarding financial executives considered to be responsible for policies that led their firms into financial difficulty (Reddy & Bendavid, 2009).

This study examines the compensation policies of banks receiving the largest levels of TARP funding in order to gain insight into the effects of the financial crisis and increased public scrutiny on levels of executive pay. We focus on the three-year period around the financial crisis of 2008 in order to evaluate the change in compensation policies of TARP recipients. While non-banking institutions ultimately participated in the TARP program (e.g. AIG and certain US automobile companies), we focus exclusively on banks in order to retain industry homogeneity in our sample. Our results indicate that most banks decreased CEO pay throughout the three years of the study, particularly incentive compensation such as bonuses and stock options. However, we find that the decrease in pay was greater following the heightened public scrutiny that followed the disclosure of sizable AIG compensation in early 2009 and the modification of TARP to establish limits on executive pay for recipients of bailout funds.

LITERATURE REVIEW

Agency Costs and Compensation

The contractual motivations for the elements of executive compensation are commonly traced to Jensen and Meckling's (1976) seminal work on agency theory, which presumes a conflict of interests between the goals of principals and the goals of agents who work on their behalf. Their theory holds that, in order to minimize agency costs, contracts should provide incentives for managers (agents) to subordinate their personal interests in order to serve the interests of their principals. The goal of contracting is to structure the contractual relationship so that an agent will make choices that maximize the principal's welfare.

Agency costs are ultimately the result of a separation of ownership and control between the managers who operate the firm and the shareholders and creditors who effectively own the firm. Fama and Jensen (1983) show that organizations where such a separation exists are able to function because of effective contract structures where the monitoring and implementation of decisions are separated.

In order to mitigate the agency costs discussed by Jensen and Meckling and bridge the gap between ownership and control, owners of firms provide compensation packages to managers. Iacobucci (1998) reaffirmed the agency costs that result from the separation of ownership and control. Because managers may only have a minor interest in the firm's profits, it is possible that they will manage in their own interests rather than in the best interests of the firm. Restated, minimal managerial ownership may result in the manager failing to bear the full costs of his or her detrimental behavior to the firm.

One problem with agency costs, as identified by Iacobucci (1998), is the possibility of inefficient investments by the managers of firms. Suppose, for example, that risk-averse managers want to do all they can to retain their jobs. Without incentives to guide them otherwise, these managers would be tempted to make safe, less-profitable investments rather than risky, profit-maximizing investments. According to portfolio theory, the optimal portfolio for any investor would involve diversification across the different securities of multiple firms. Because managers cannot diversify their compensation risk across many firms, they must be compensated in some way for this excess risk in one company (Fama, 1980). Ultimately, the investment risk choices of a company, as controlled by the managers of a firm, are a result of the compensation packages in place (John, Saunders, and Senbet, 1994).

To deter managers from shying away from risky but potentially profitable investments, two primary methods of incentive compensation exist: bonuses and stock-based compensation. Bonuses offered to executives are commonly based on annual profits, therefore they provide managers with an immediate pay-out associated with short-term benefits to the firm. Alternatively, stock-based compensation ties executive compensation to longer-term changes in shareholder wealth associated with movements in a firm's stock price. Whereas risk-averse managers might be unwilling to make profitable, risky investments if compensation consists primarily of guaranteed salary, bonus compensation provides an opportunity to share in the potential profits generated by riskier investments. Similarly, stock-based compensation encourages managers to make higher-risk investments in order to share in potentially greater increases in future stock prices.

Growth in Executive Compensation

While stock-based awards are theoretically intended to give managers incentives that align their interests with shareholders (Hall & Liebman, 1998), stock compensation is also viewed as part of a competitive compensation package (including salary and bonuses) that serves as a means of attracting and retaining corporate talent (Westphal & Zajac, 1994). As the market for top executive talent has grown more competitive, firms have been forced to ratchet up the value of their packages. Executive compensation is often set in response to benchmarking surveys across industries, with compensation below the 50^{th} percentile being labeled "below market" (Jensen & Murphy, 1990).

Apart from outlining the methods used to compensate executives, Iacobucci (1998) also discusses the effects of disclosing compensation information. He noted that two elements, specifically, attract public outrage: how executives are paid and how much executives are paid. Both of these elements are affected by disclosure. Some analysts argue that disclosure results in lower pay than would normally be offered due to political pressures and the public outrage that would result. Although it may prove profit maximizing, undesirable political effects would result from paying managers the optimal amount with optimal incentives. Iacobucci, on the other hand, argued that disclosure would have an opposite effect, driving up executive compensation.

TARP and the Federal Bailout

The Troubled Asset Relief Program was authorized as part of a sweeping government bailout of the U.S. financial system known as the Emergency Economic Stabilization Act of 2008 (EESA). While the total bailout was breathtaking in its scope, with the Federal Reserve alone committing more than $7 trillion to prop up the financial sector, the TARP program became the public symbol of the government's direct intervention to save the banking system. Congress originally authorized $700 billion under the program, but that amount was subsequently reduced to $475 million by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Through May 2013, roughly $419 billion had actually been disbursed, of which $351 billion had been repaid. When all is said and done, the most recent estimates of the net cost to the government from the TARP bailouts range between $21 billion, projected by the Congressional Budget Office (CBO), and $47 billion, estimated by the Office of Management and Budget (CBO, 2013).

In early 2009, the American Recovery and Reinvestment Act (ARRA) was enacted, amending the EESA and adding restrictions on executive pay for recipients of TARP funds. This modification set limits on bonus payments, established a cap on compensation for senior executives of certain TARP recipients, and instituted a "clawback" provision permitting the recovery of any incentive compensation paid to executives that was calculated from inaccurate information. Prior studies have examined the impact of TARP compensation restrictions on the willingness of companies to participate in the program and their likelihood of repaying funds (Cadman, Carter & Lynch, 2012), as well as the impact of TARP on the compensation-related disclosures and corporate governance of firms receiving exceptional assistance under the program (Bannister, Newman & Peng, 2012). Our study extends the literature by further examining changes in the compensation practices of firms participating in TARP.

METHODOLOGY

Sample and Data Collection

We collect compensation data from all commercial banks that accepted TARP funds of $400 million or more. While other non-banking institutions ultimately participated in TARP, we exclude these firms in order to focus on a homogeneous industry for purposes of evaluating compensation policy. Table 1 summarizes the 32 largest banking institutions that were TARP recipients, and the level of funding received. Compensation data for fiscal years 2007 through 2009 were collected from proxy statements filed with the Securities and Exchange Commission and publicly-available through the SEC's EDGAR database for the 32 banking institutions that accepted TARP funds of $400 million or more. It should be noted that three of the 10 largest recipients of TARP funds were investment bank holding companies prior to October 2008: J.P. Morgan Chase, Goldman Sachs, and Morgan Stanley. These three institutions were allowed to change their regulatory status to bank holding companies in late September 2008. Of the 32 companies selected for this research, 29 are commercial lending banks throughout the entire period studied.

Data Analysis

Table 1 shows the largest TARP recipients and the funding they received under the program. Among the 32 companies observed in Table 1, there is a large gap between the company that received the most TARP funds – Citigroup with $50 billion – and the company that received the least in funding – First BanCorp with $400 million. While Citigroup's TARP funding may seem exorbitant, Citigroup was also the second largest commercial bank at the time. The median for the 31 banks that we analyze was $2.5 billion, and the average was approximately $7.26 billion. In total, TARP funding for these 32 institutions totaled just over $225.1 billion.

While the gap between TARP recipients is drastic, the compensation received by CEOs of these companies is less scattered. Table 3 shows the total CEO compensation declared by all banks in 2007 and 2008. From 2007 to 2008, total compensation decreased by approximately $153 million, or -32.61%, from $447.5 million to $316.6 million. The median and mean for total compensation in 2008 were $5,947,475 and $10,213,283, respectively. In 2007, the median and mean were $9,145,674 and $14,433,897, respectively. In 2007, Goldman Sachs awarded its CEO the largest compensation package of any other company totaling just under $54 million. American Express awarded the largest compensation package among non-investment banks at $52.8 million. M&T Bank awarded the smallest compensation package at $1.15 million. In 2008, American Express issued the largest compensation package – $43.4 million – exceeding that of Goldman Sachs, which totaled $42.9 million. The smallest compensation package in 2008 was issued by Capital One and totaled $68,344.

Table 1
Largest Financial Services Recipients of TARP Funding
($400 Million or Greater in Funding)

Company	TARP
Citigroup	45,000,000,000
Bank of America	45,000,000,000
JP Morgan*	25,000,000,000
Wells Fargo	25,000,000,000
Goldman Sachs*	10,000,000,000
Morgan Stanley*	10,000,000,000
PNC	7,579,200,000
U.S. BanCorp	6,599,000,000
SunTrust Banks	4,850,000,000
Capital One	3,555,199,000
Regions Financial	3,500,000,000
Fifth Third	3,408,000,000
American Express	3,388,890,000
BB&T	3,133,640,000
Bank of New York Mellon	3,000,000,000
KeyCorp	2,500,000,000
CIT Group	2,330,000,000
Comerica	2,250,000,000
State Street	2,000,000,000
Marshall & Isley	1,715,000,000
Northern Trust	1,576,000,000
Zions Bancorporation	1,400,000,000
Huntington Bancshares	1,398,071,000
Discover Financial Services	1,224,558,000
Synovus Financial Services	967,870,000
Popular, Inc.	935,000,000
First Horizon National Corporation	866,540,000
M&T Bank Corporation	600,000,000
Associated Banc-Corp	525,000,000
First BanCorp Holding Company	424,174,000
City National Corporation	400,000,000
Webster Financial	400,000,000

*Investment bank holding company until September 2008
Source: ProPublica (2013)

Table 2
Total CEO Compensation for 2007-2009

Company	2007	2008	2009
Citigroup	$3,164,320	$38,237,437	$125,001
Bank of America	23,646,455	9,857,723	0
JP Morgan	28,887,532	35,764,557	1,000,000
Wells Fargo	14,797,458	9,768,935	18,683,386
Goldman Sachs	53,966,198	42,946,801	600,000
Morgan Stanley	41,790,854	1,235,097	800,000
PNC	18,623,679	11,958,853	14,622,450
U.S. Bancorp	6,473,874	6,987,092	5,915,491
SunTrust Banks	4,610,877	8,091,887	5,705,945
Capital One	17,084,879	68,344	6,000,020
Regions Financial	19,370,602	6,807,662	7,654,129
Fifth Third	10,044,801	2,980,259	5,142,925
American Express	52,798,543	43,393,172	10,312,560
BB&T	7,339,926	6,478,689	2,738,024
Bank of New York Mellon	24,802,106	14,183,633	13,558,951
KeyCorp	9,145,674	6,727,671	5,032,214
CIT Group	11,865,079	5,383,517	803,077
Comerica	7,717,890	5,947,475	3,332,188
State Street	26,966,097	24,517,276	1,000,000
Marshall & Isley	4,295,574	3,449,755	1,312,496
Northern Trust	15,887,713	8,379,651	8,465,989
Zions Bancorporation	1,597,961	1,499,926	1,312,493
Huntington Bancshares	2,209,964	1,884,117	2,189,304
Discover Financial Services	21,796,421	2,431,000	5,627,613
Synovus Financial Corporation	1,926,255	3,057,187	928,200
Popular, Inc.	1,524,291	1,395,622	742,200
First Horizon National Corporation	3,183,109	3,323,284	4,618,269
M&T Bank Corporation	1,152,716	869,808	2,675,013
Associated Banc-Corp	2,460,741	2,776,841	2,592,514
First BanCorp Holding Company	2,912,424	2,057,905	781,046
City National Corporation	5,406,782	4,150,608	4,028,526
Webster Financial	2,336,077	2,510,559	2,163,398
Median	**$8,431,782**	**$5,665,496**	**$2,706,519**
Mean	**$14,055,840**	**$9,972,573**	**$4,389,482**

Table 3
Mean and Median Compensation Components for 2007-2009

	2007	2008	2009
Salary			
Mean	$865,810	$907,403*	$1,113,235
Median	875,109	914,117	953,364
Bonus			
Mean	1,872,991	45,570*	271,140
Median	-0-	-0-	-0-
Stock			
Mean	11,317,039	9,019,600	3,005,107**
Median	7,451,782	4,772,996	1,753,218
Total Compensation			
Median	14,055,840	9,972,573**	4,389,482**
Mean	8,431,782	5,665,496	2,706,519

*Mean differs from prior year at 0.05 level of significance
** Mean differs from prior year at 0.01 level of significance

Table 2 lists total compensation for all sample firms during the period 2007-2009, ranking in decreasing order based on the level of TARP funding received. Table 3 reports means and medians for each of the elements of executive compensation for each year. From 2007 to 2008, average total compensation declined by 29% from $14.1 million to just below $10 million. By 2009, average total compensation had fallen to $4.4 million, a drop of more than 50% from the prior year and more than two-thirds below the levels of 2007. In each year, total compensation was significantly lower than the preceding year at the 0.01 level based on a paired two-sample t-test for means.

While it is clear that total compensation was falling for the sample of TARP recipients through the period of the financial crisis, the manner in which compensation changed is reflected in the elements of executive pay. On a percentage basis, salary changed less than any other component of compensation. Annual salary increased by approximately 5% from 2007 to 2008 a change that, while economically modest, is statistically significant at the 0.05 level. Average salaries increased at a greater rate in 2009, rising from $907,403 to $1,113,235, a rise of 13%. While the percentage change between 2008 and 2009 was greater than in the preceding year, the difference in average salary is statistically insignificant. This is due to the extreme variation in compensation policy among sample firms. The two largest banks in the sample, Citigroup and Bank of America, were recipients of exceptional assistance and thus subject to the compensation cap instituted by ARRA of $500,000 per year. Both of these institutions slashed CEO pay to an even lower level than required under Treasury guidelines. Bank of America, for example, went from reporting the highest annual salary among sample firms of $1.5 million in both 2007 and 2008 to completely eliminating CEO cash compensation in 2009. Many other firms in the sample, which were not subject to the ARRA cap, increased CEO pay in 2009.

While annual salaries generally increased throughout the sample period, incentive compensation declined substantially, driving the drop in total compensation. Bonuses experienced the largest percentage change of all forms of compensation. In 2008, the initial year of the financial crisis, the average bonus plummeted by more than 97% from the prior year, a change that is statistically significant at the 0.05 level. While bonuses recovered slightly in 2009, the average amount was still more than 85% below 2007 levels and did not vary significantly from 2008 levels. Stock-based compensation also fell, but the change did not happen as quickly as the drop in bonuses. The 20% decrease in equity awards from 2007 to 2008 is not statistically significant. The next year, however, stock-based awards fell by another two-thirds, an amount that is statistically significant at the 0.01 level. In effect, the financial crisis, in conjunction with the policies associated with the Troubled Asset Relief Program, triggered a dramatic drop in the level of incentive compensation paid to bank executives.

The changing make-up of CEO compensation over this time period is illustrated in Figures 1, 2, and 3, which show the percentage breakdown of total compensation between salary, bonus, and stock-based awards.

Figure 1
Compensation Elements in 2007

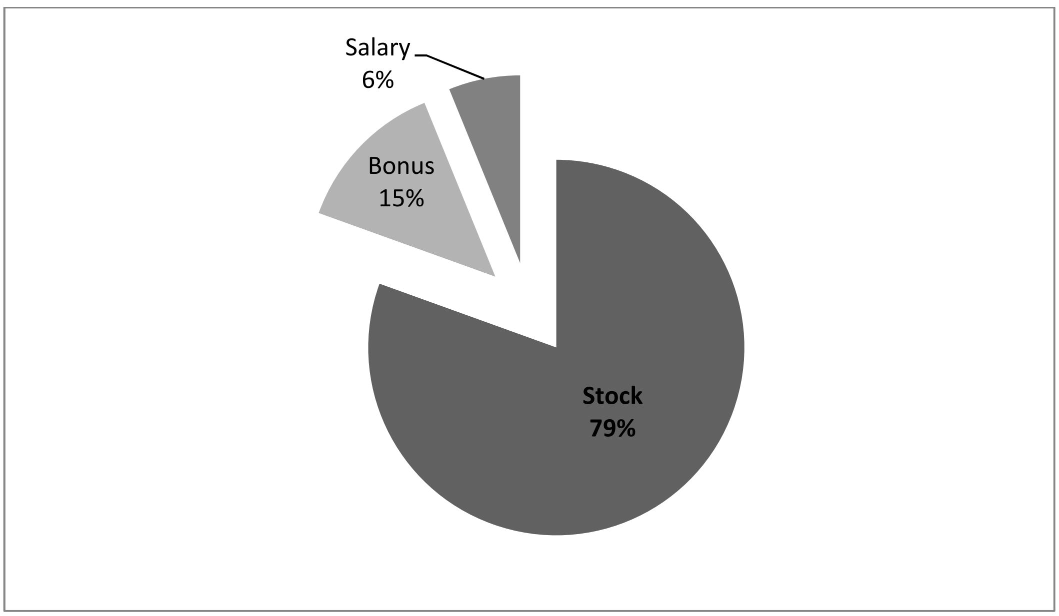

Figure 1 shows the relative proportions of CEO compensation elements prior to the financial crisis. Salary represents the smallest component, just 6% of total pay. The remaining 94% was comprised of incentive compensation, with annual bonuses providing 15%, and the remainder coming from stock compensation. Total incentive compensation fell significantly in the following year (2008) as seen in Figure 2. Bonuses shrunk to 1% of executive pay, while salaries increased to 9% of total compensation, a result of a modest increase in 2008 salaries combined with a 29% drop in total compensation. Stock-based awards grew to 90% of compensation, driven by a reduction in overall CEO pay.

Figure 2
Compensation Elements in 2008

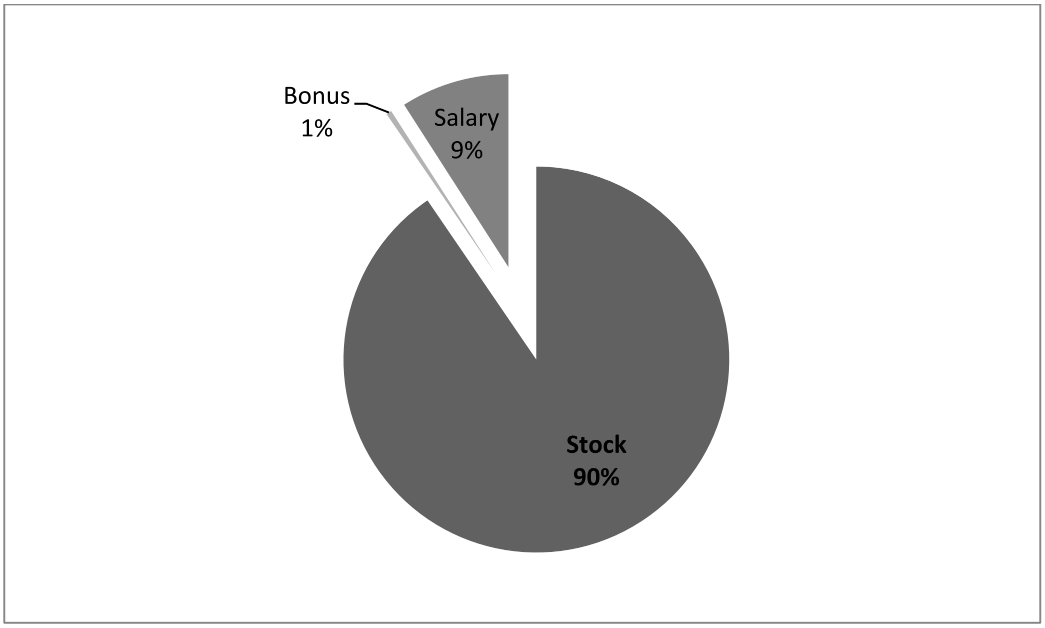

Figure 3
Compensation Elements in 2009

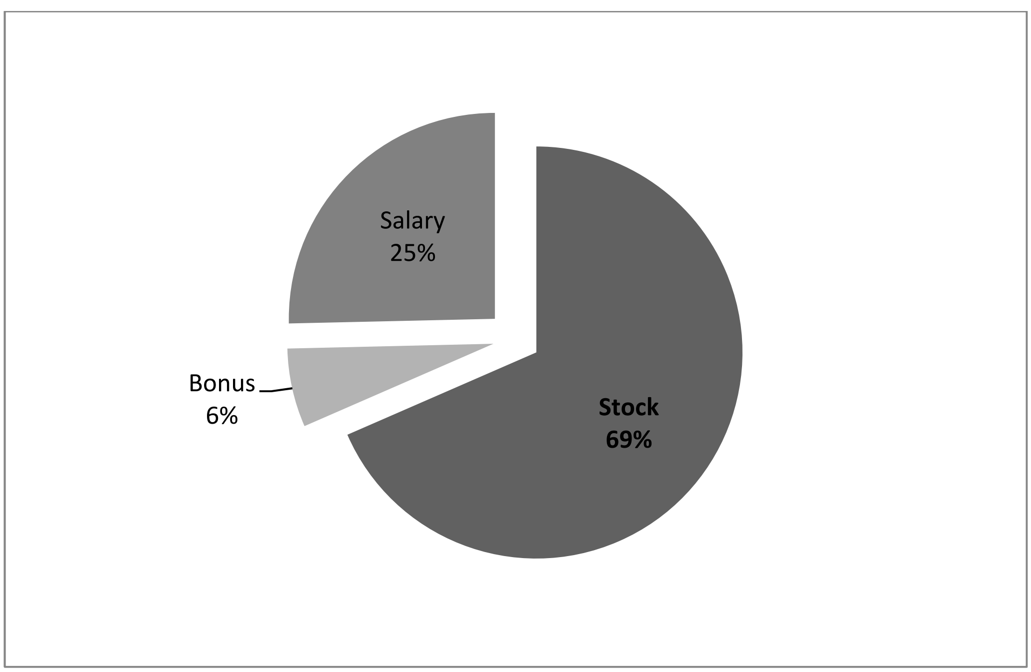

Figure 3 depicts CEO compensation in the first year following the implementation of TARP. Once again, changing proportions are affected by the shrinking total amount of executive pay packages. In 2009, salaries increased to 25% of average annual CEO pay. As a result, incentive compensation dropped to its lowest level during the period of our study, with stock-based awards comprising only 69% of the total compensation. Bonuses recovered slightly, but were still down from their high of 15% in 2007.

Table 4
2009 Compensation Elements

Company	Salary	Bonus	Stock Awards	Stock Options
Citigroup	$125,001	-	-	-
Bank of America	-	-	-	-
JP Morgan	1,000,000	-	-	-
Wells Fargo	5,600,000	-	$13,083,386	-
Goldman Sachs	600,000	-	-	-
Morgan Stanley	800,000	-	-	-
PNC	2,750,000	-	8,061,442	$3,811,008
US Bancorp	915,491	-	2,500,000	2,500,000
SunTrust Banks	1,077,300	-	1,365,395	3,263,250
Capital One	-	-	2,000,019	4,000,001
Regions Financial	995,000	-	4,716,067	1,943,062
Fifth Third	2,108,747	-	2,209,403	824,775
American Express	1,201,923	$5,125,000	-	3,985,637
BB&T	900,000	373,691	582,334	881,999
Bank of New York Mellon	1,000,000	2,625,000	4,929,467	5,004,484
KeyCorp	1,642,731	-	1,247,483	2,142,000
CIT Group	803,077	-	-	-
Comerica	985,000	-	1,801,280	545,908
State Street	1,000,000	-	-	-
Marshall & Isley	875,000	-	437,496	-
Northern Trust	900,000	-	2,597,068	4,968,921
Zions Bancorporation	875,000	-	437,493	-
Huntington Bancshares	1,114,409	550,000	124,210	400,685
Discover Financial Services	1,000,000	-	4,627,613	-
Synovus Financial Corp.	928,200	-	-	-
Popular, Inc.	741,600	600	-	-
First Horizon	830,769	-	3,787,500	-
M&T Bank Corporation	675,000	-	2,000,013	-
Associated Banc-Corp*	1,086,092	-	1,326,702	179,720
First BanCorp	778,846	2,200	-	-
City National Corporation	978,528	-	1,175,002	1,874,996
Webster Financial	1,335,800	-	827,598	-

Table 4 shows the detailed breakdown of CEO pay at each of the sample firms in 2009, the first full year following the implementation of TARP, ranked in decreasing order based on the level of TARP funding received. A striking feature of this data is the elimination of bonuses for the vast majority of banks. Bonuses are awarded based on annual performance. Because 2008 and early 2009 were characterized by poor economic performance in the financial sector, declining bonuses are consistent with the contractual motivations of incentive compensation. Another notable development is the elimination of stock-based compensation at many of the largest TARP recipients. These are the firms that received the most public scrutiny during the financial crisis. Citigroup and Bank of America, both of which reported no stock compensation in 2009, were recipients of "exceptional assistance," which subjected them to the most stringent compensation restrictions enacted by the ARRA in 2009. The other three large recipients reporting no stock-based compensation – JP Morgan, Goldman Sachs, and Morgan Stanley – were all investment banks prior to the financial crisis and received particular criticism for their roles in developing and promoting the complex financial instruments believed to have contributed to the collapse of the housing market and the subsequent financial crisis. Of the three elements of executive compensation, salary remained the most stable, rising moderately over the period surrounding the financial crisis and only being drastically cut at a relatively small number of banks. It takes a certain degree of knowledge and skill to run a company, and salary is intended to compensate executives for these traits and for the high level of effort involved. The consistency in salaries from 2007 through 2009 also reflects the inherent difficulties of managing a bank through a period of crisis and provides a base level of compensation that is not directly tied to financial performance.

CONCLUSION

The changes in compensation among TARP recipients during the three years around the 2008 financial crisis appear to be consistent with agency theory, which suggests that compensation should rise during economic upturns and fall during economic downturns. Additionally, compensation should be highest for the best-performing banks and lowest for the least healthy banks. In 2007, prior to the start of the financial crisis, compensation was higher throughout the industry than in subsequent years. When bank performance declined as the financial crisis unfolded in 2008, compensation also decreased. These trends are consistent with agency theory. Based on 2009 data, the industry experienced further declines in executive pay, which was to be expected during the Great Recession. Incentive compensation, in particular, dropped substantially. The largest reductions in compensation occurred at the largest troubled banks, specifically Citigroup and Bank of America – recipients of exceptional levels of TARP funding that became subject to the most stringent compensation restrictions enacted in 2009. Overall, executive pay at banks receiving federal bailouts fell during the financial crisis and following the implementation of TARP.

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