



Are all perks solely perks? Evidence from corporate jets☆

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ABSTRACT

While shareholders have strong incentives to limit value-destroying perquisite consumption, it is challenging to identify such perquisites. Many corporate assets that enable forms of perquisite consumption also provide operational benefits. Corporate jets represent a potent example. We find business-related flights increase firm performance. Our results also highlight the channels through which jet use can either enhance or destroy firm value. Consistent with the benefits of information gathering and monitoring, firms with soft and complex information that is difficult to transmit remotely are more likely to fly to company subsidiaries and plants, and these flights positively affect firm value. In contrast, among firms with weak governance structures where flights are more likely motivated by agency factors, jet use is more likely to be value-decreasing. The ability to differentiate has important implications in today's activism environment.

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1. Introduction

As demonstrated by Jensen and Meckling (1976), non-owner managers rationally consume perquisites at the expense of shareholders, and this perquisite consumption negatively affects firm value. In fact, the value-destructive nature of perquisite consumption motivates much shareholder activism. However, many perks are not solely perks. Nicer office space can enhance employee productivity, chauffeur-driven cars can improve executive efficiency, and corporate jets enable valuable time-savings. Many corporate assets that enable forms of perquisite consumption also provide substantial operational benefits.

Because of the duality of many perk-enabling assets, calls to abolish such forms of executive perquisite consumption must be viewed with some caution. The extent to which decreases in such assets will enhance shareholder value is intrinsically related to the operational benefits the assets provide. While these ideas have been recognized since Jensen and Meckling (1976), data limitations have limited a direct examination of such benefits. The objective of this paper is to take advantage of a setting in which rich data enables us to isolate the operational benefits of one particularly salient perk-enabling asset and thus to inform this debate.

Our empirical analysis focuses on a corporate asset that is highly visible and widely recognized for its perquisite properties, but also valued as a means to increase efficiency: corporate jets. The availability of detailed corporate jet flight data enables us to identify uses of corporate jets that are more likely driven by operational needs, versus those driven by perquisite consumption. Jets are often singled out as an egregious example of perquisite consumption, with many arguing that their use should be

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curtailed.¹ *Yermack (2006)* focuses on CEOs' personal use of company jets and finds that it is associated with significantly lower firm value, where the decreases in value likely stem from the direct costs of this perquisite as well as from the signaling effect of other agency problems in the firm. Consistent with this *Edgerton (2012)* finds that firms divest corporate jets after being acquired by a private equity firm. However, the sample firms in *Edgerton (2012)* may not be representative of an average corporate jet user, as by construction firms acquired by private equity are likely characterized by higher agency costs.

We begin by examining trends in corporate jet use, an analysis that is motivated by changes over time in investor attention to agency-related issues. The dramatic increases in shareholder activism over the past decade have increasingly constrained firms' ability to engage in value-destroying perquisite consumption. Consistent with this, *Fig. 1* shows that over the 2006–2015 period the percent of S&P1500 firms with classified boards fell steadily from 55% to 35%. In strong contrast, the percent of firms with corporate jets has not followed a similar trajectory. The percent of S&P1500 firms whose proxy statements indicate the usage of corporate jets has remained relatively steady at approximately 50%.² This suggests that while some firm managers may be overconsuming corporate jets in ways that decrease firm value, this is perhaps not the case for the majority of public firms.

Because of the greater accessibility of private jet airports (estimated to be three times as many as commercial airports) and streamlined boarding procedures, jets yield considerable time savings for executives, and the increased efficiency should contribute positively to firm value. Using a unique dataset that contains detailed information on corporate jet flights, we examine the determinants and value implications of different types of corporate jet travel. We hypothesize that business-related flights will be concentrated in firms that would benefit most from such travel. We define business flights as flights between corporate headquarters and locations where the company has a plant or subsidiary. Among such flights, the time savings afforded by private jets are substantial: nearly half are between two locations on which no direct commercial route is available, and the best commercial alternative takes approximately twice as much time as the private jet flight. Actual time savings are likely far greater once the other time demands of commercial flight travel, such as security checks, are considered. Based on compensation figures for the median CEO of an S&P500 company, each hour of time savings has a value of over \$2000.³ For management with high opportunity cost of time, flights that would otherwise not make sense become feasible. Moreover, by cutting the travel time and increasing convenience, corporate jets can encourage executives to undertake trips they would otherwise avoid. As noted by *Giroud (2013)*, a suboptimal level of travel by senior executives reflects an agency cost. We thus conjecture that corporate jets increase the propensity of management to engage in business-related travel.

We contrast business flights with flights to resort locations, which are arguably less likely motivated by business purposes.⁴ While perquisite-type flights receive considerable attention, we find that only about 10% of all flights represent flights to resort locations.⁵ In spite of the popular attention to the personal use of corporate jets, this seems to represent a small minority of their use (a point that is even stronger if one considers the fact that many industry conferences, which are valuable for networking and other information-related reasons, are held in resort locations). We find substantial differences between the determinants of the business versus personal flights. Consistent with the effects of soft and complex information, companies with higher R&D spending tend to take more business-related flights. In contrast, consistent with the effects of governance and CEO entrenchment, we observe more resort flights among companies with longer CEO tenure and with a dual class share structure.

We conjecture that the value effects of these flights are influenced by at least two factors. First, corporate jet flights to remote business locations should be more valuable among companies with high costs of transmitting information remotely. Specifically, firms with soft and complex information, with expansive and diverse business lines, and that are geographically disperse, likely face challenges in accurately conveying information within the firm, for example between divisions and headquarters. In such cases, the value of on-site visits to overcome information asymmetry is particularly valuable. Second, corporate jet flights are less likely to be value-increasing among trips that are motivated by executives' private benefits, where such benefits include both outright perquisite consumption and more subtle forms such as pursuit of individual agendas and career goals. For example, it is possible that managers retain corporate jets under the guise of efficiency, but the trips taken by executives largely serve to curry favor with divisional management (see, e.g., *Duchin and Sosyura, 2013; Xuan, 2009*). Under this scenario, the operational benefits yielded by jets are more likely to be marginal. We posit that executive misuse of corporate jets is more likely a problem among poorly governed firms, where it is more likely that flights are taken with a motive other than maximization of firm value.

Across our entire sample, we find that business-related corporate jet flights have a significantly positive effect on operating performance.⁶ Moreover, the positive effects are strongest among firms most likely to benefit from such travel, i.e., firms with diverse business lines and greater internal information asymmetry. Among such firms, we find significantly greater positive effects on both market-to-book and operating performance. In contrast, among firms with weaker corporate governance structures, the effects of flights on both firm value and firm operating performance are diminished. In these cases, the relation between business-related flights and firm value and performance are either non-existent or negative, which suggests that these flights appear to be motivated to some extent by agency-type issues.

¹ For example, see <http://fortune.com/2015/01/27/ceo-corporate-jet-perks/>, and <http://www.wsj.com/articles/SB10001424052748703551304576260871791710428>

² As discussed in more detail later, this 50% statistic under-represents the total number of companies relying on corporate jets.

³ This calculation is based on median CEO compensation in 2014 of \$5.3 million, and this assumes working 50 h per year, a 60-hour work week.

⁴ The extent to which some of resort flights represent trips with a business purpose, such as industry conferences, biases us against finding systematic differences between determinants of the subsidiary versus resort flights.

⁵ Flights to resort locations can potentially understate the extent of personal flights, for example if CEOs travel to vacation homes in locations that are not classified as resort locations, or overstate the extent of personal flights, for example if industry conferences are held in resort locations.

⁶ As discussed in more detail later, findings are all based on empirical specifications that account for any potential endogeneity between corporate jet travel and firm value.

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