

f **R**

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D B

Productivity, Profits and Pay

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Cagliari, May 29th, 2010

Crucial topic before and after the crisis ^f **R** **D B**

- *Before*: excessive risk taking deemed to be induced by bankers' **pay**.
- *After*: exit strategy requires sustainable growth, hence **productivity** gains, while capital ratios of banks can be increased by reinvesting **profits**.
- Much uninformed debate on the scope for policy intervention in this domain: from ceilings to CEOs pay to fiscal incentives to productivity-related pay.

The two reports

1. Murphy, Conyon, Fernandes, Ferreira, Matos:

- CEO pay and firm performance
- Differences between financial and non-financial industry
- Problems in bonus schemes:
 - Asymmetry
 - Performance Measurement

2. Lucifora, Bryson, Freeman, Perrotin, Pellizzari:

- Workers pay and firm performance
- Causal link from pay to productivity
- How do different incentives schemes affect productivity
- How to increase coverage

In between workers and CEOs

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- When performance-related pay is for both CEOs and workers, only for CEOs or only for workers?
- Relativities in compensation. Why CEOs are paid so much relative to the other workers?
- Preliminary lessons from Italian policy experiment: are fiscal incentives efficient in promoting productivity related pay?
- Drawing on a survey of managers carried out by Manageritalia for fRDB (many thanks!).

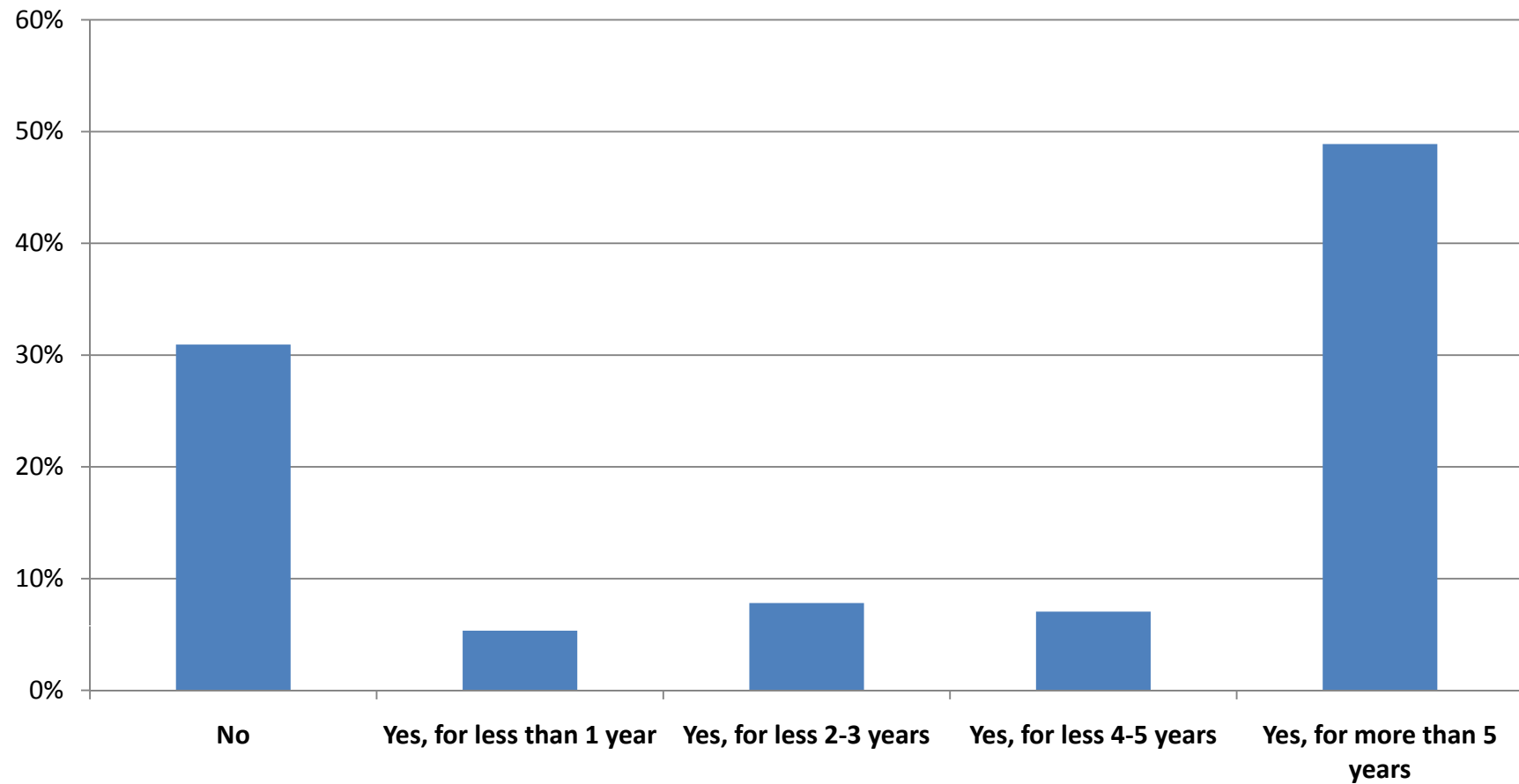
Manageritalia data

- Manageritalia is a national association which represents over 35.000 middle and top managers in Italy (private sector, mainly services)
- Three years ago Manageritalia launched a survey which provides data on manager characteristics and behaviour every year (data used also in Xth fRDB Conference)
- The 2010 survey is based on 1200 interviews from all Italian regions and nine industries
- Additional questions (incentives, productivity related pay, fiscal incentives) introduced just for this conference. Today presented for the first time.

Not many new adoptions of performance-related pay (PRP)

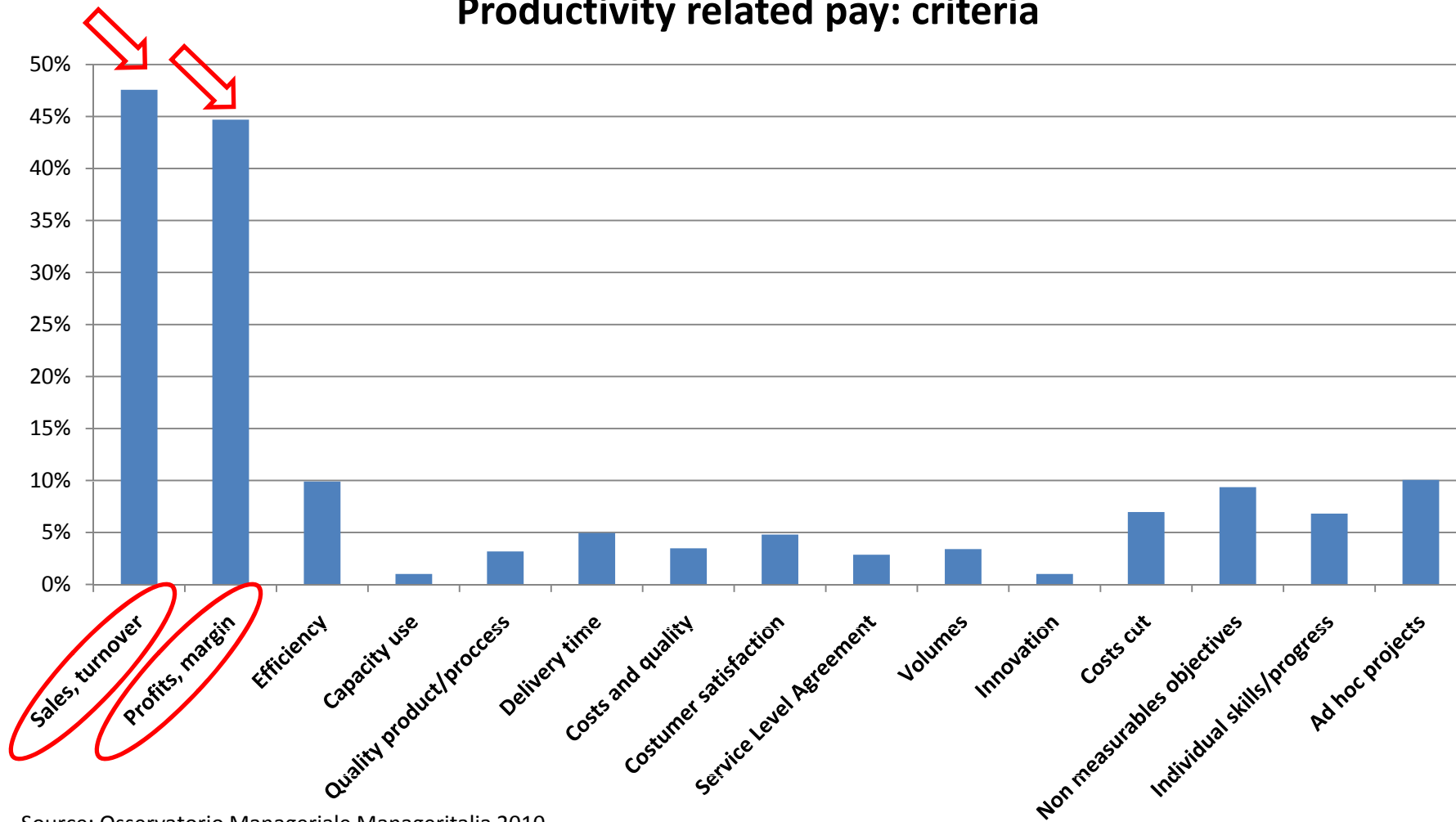
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Managers and performance related pay



Which type of performance?

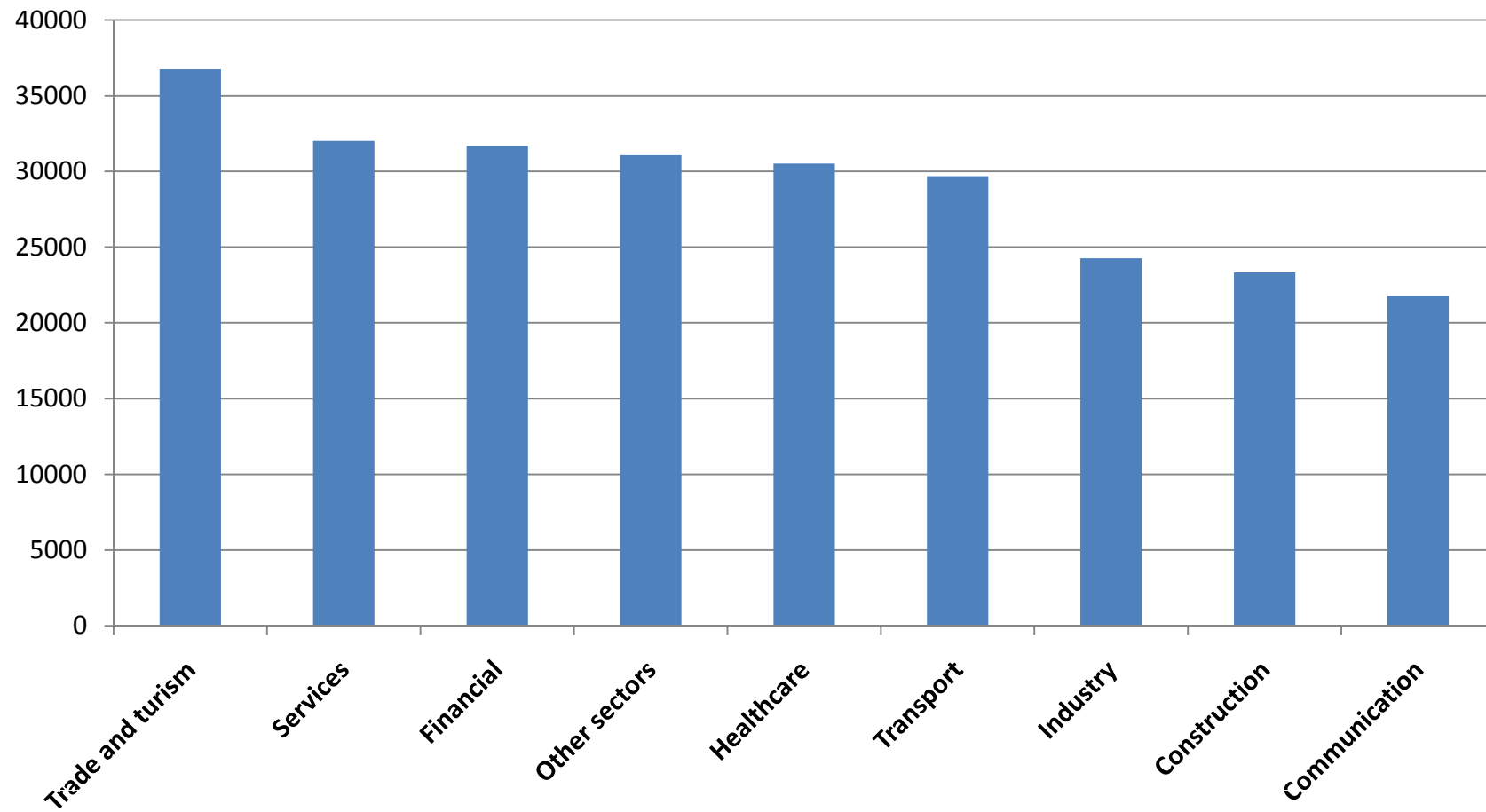
Productivity related pay: criteria



Source: Osservatorio Manageriale Manageritalia 2010

How much? Yearly variable pay

Managers PRP (mean)

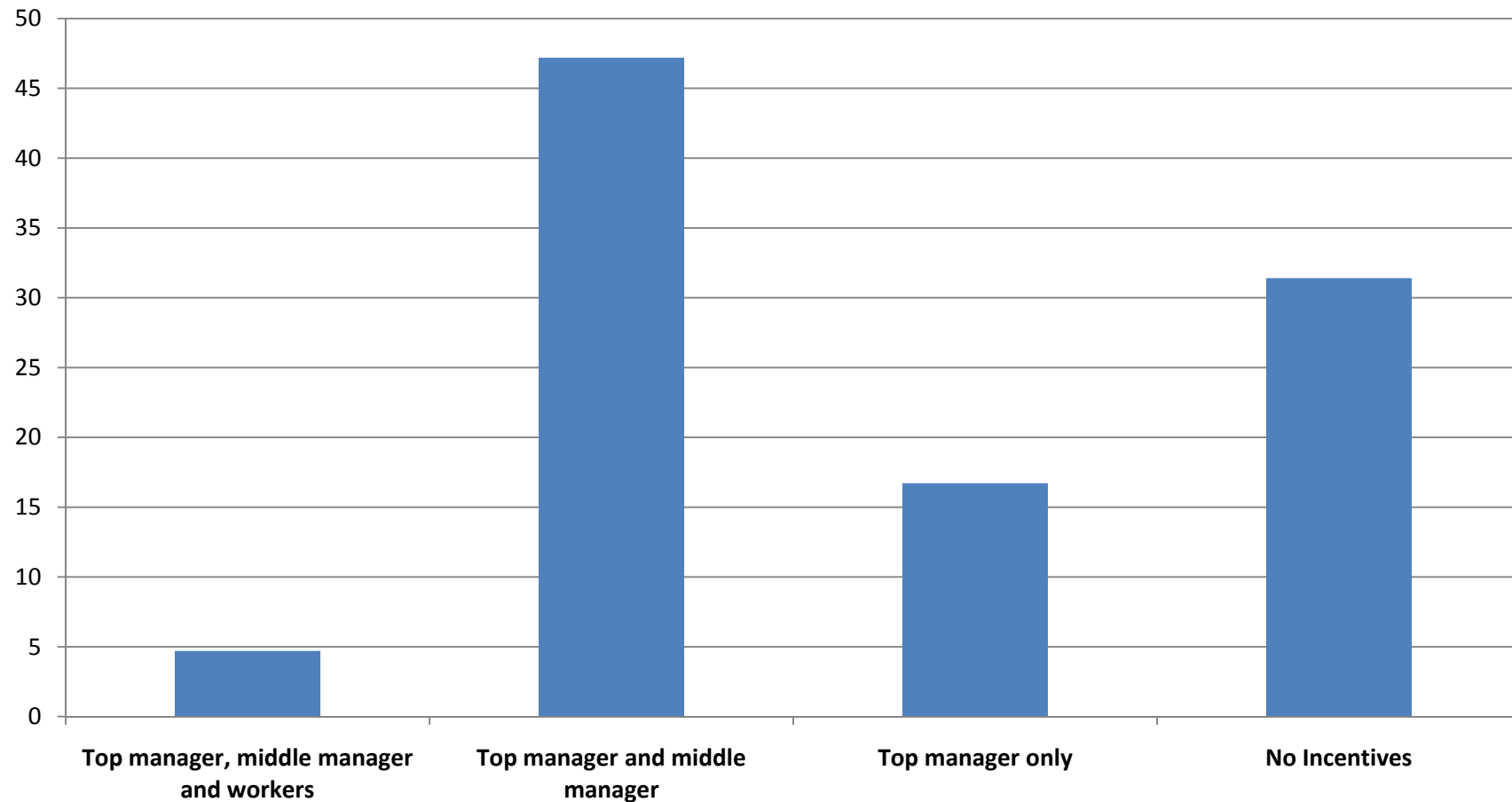


Source: Osservatorio Manageriale Manageritalia 2010
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A few with schemes for all workers

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Performance related pay: managers and other employees



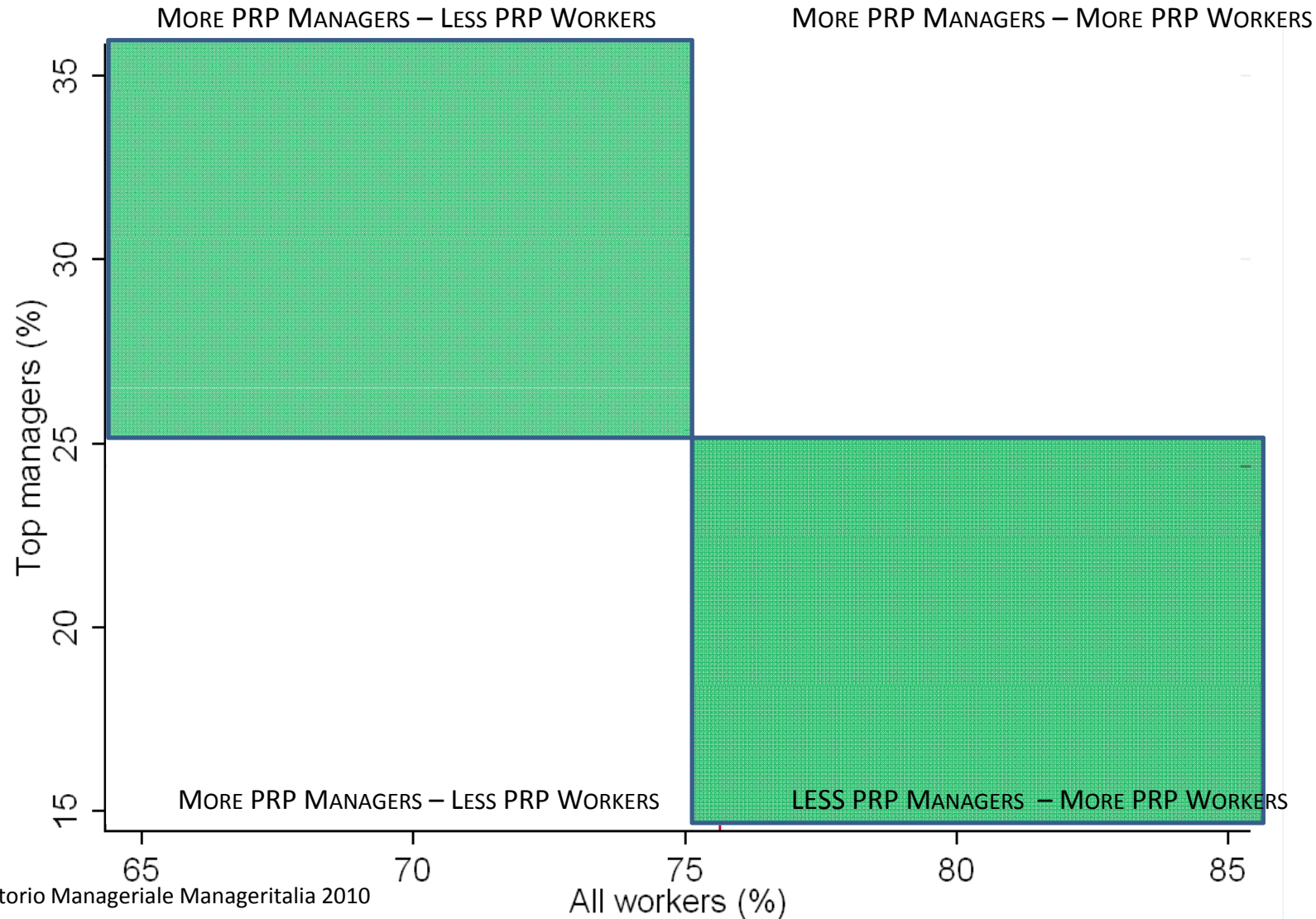
Source: Osservatorio Manageriale Manageritalia 2010
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Manager vs Workers

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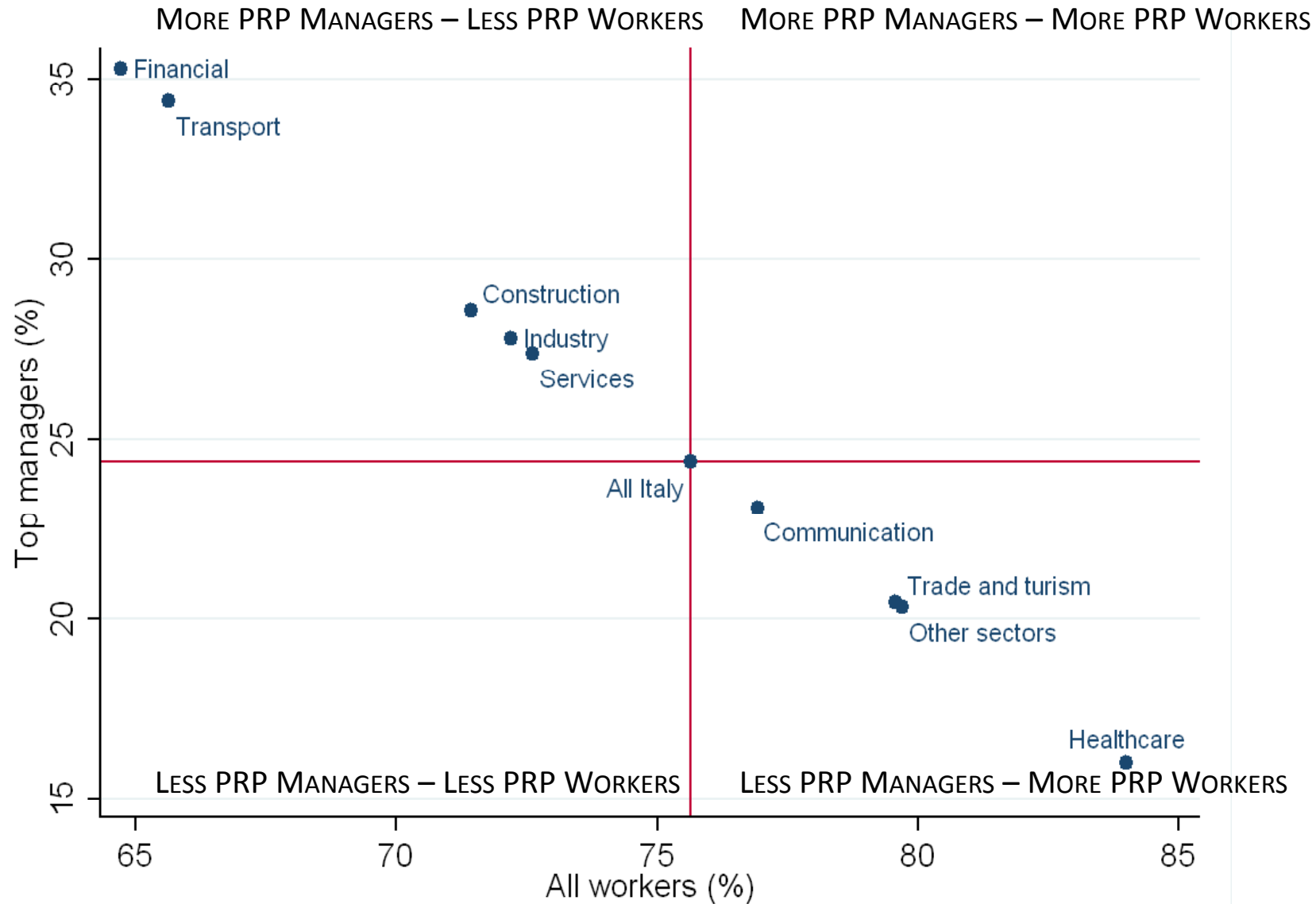


Fonte: Osservatorio Manageriale Manageritalia 2010
Cagliari, 29 Maggio, 2010

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Managers and other workers

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Why managers paid so much more? ^f **R** **D B**

- Executives can be paid up to 500 times more than average worker. Key factor behind rise in inequality is top 0.05% pay.
- Three explanations offered in report # 1 for high and rising pay of CEOs
 - **Rent extraction**: CEOs have the power to influence their own pay.
 - **Efficient contracting**: Principal-agent problem. Incentives to optimize firm's value.
 - **Perceived cost of options**: (according to accounting rules predating the crisis).

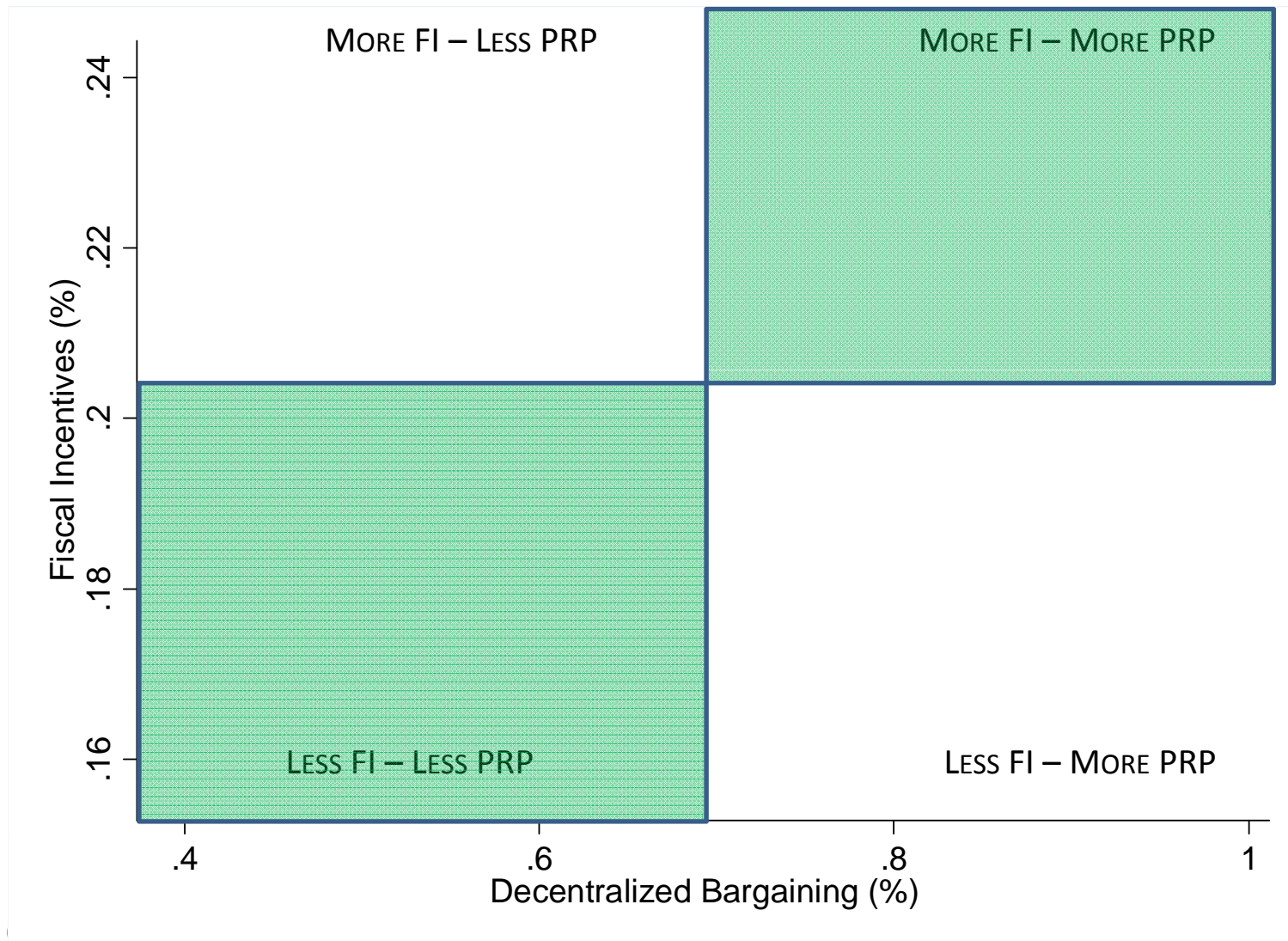
It is ultimately a matter of rents

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- Power-rents are crucial in inducing the adoption of *efficient contracts*, they know what the company can afford, so they extract the maximum rents for themselves
- Low *perceived costs* do not explain why also the non-bonus component of pay has not declined together with the rise in bonus schemes.
- Reducing rents (more competition in product markets, better regulation in the financial sector, e.g., wrt “too big to fail”) would reduce pay gap.

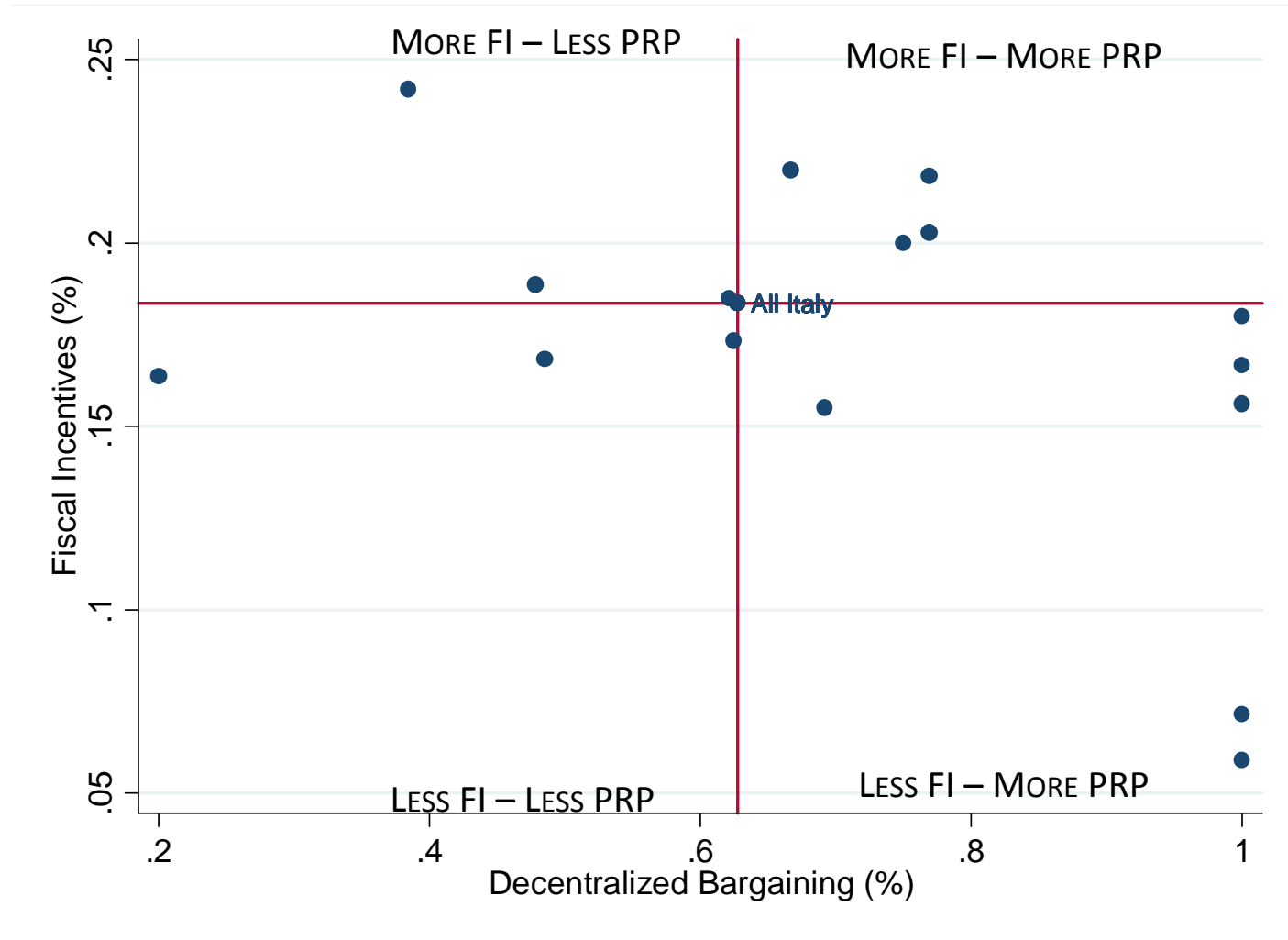
Do fiscal incentives (FI) matter?

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Key questions for the day

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- Is PRP efficient from a private standpoint? And from the social standpoint? Does it increase productivity, pay and profits?
- If so, why is not so much widespread? Which policies could increase the number of firms and workers involved?
- Should PRP be regulated? Where? How?
- Rules: one hour report presentation, 30 (15+15) minutes discussants, one hour discussion. Final panel. And for survivors.....

Thank you!

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