AN UNFAIR RAP FOR CEO PERKS?
Two researchers insist they're not all bad

Traditional theory in corporate finance teaches that executive perquisites are signs of excess that don't help a company. Private jets, chauffeured limousines, and other nonmonetary rewards, if it is argued, are wasteful spending that saps the stockholders' loyalty and patience. Is the theory wrong? Amid juicy tales of missappropriation by ex-Tyco International CEO Dennis Kozlowski and others, a new study by Kathryn R. S. Rajan at the International Monetary Fund and John Wolf at the Wharton School offers surprising findings. The researchers analyzed confidential info from compensation consultants Hewitt Associates Inc.; the data covered 300 U.S. corporations from 1986 to 1999. As it turns out, those that offer more perks than others don't always fall into the classic profile—companies with much free cash flow and few prospects. For example, of the 14 industries ranked by the authors, No. 3 is communications (table), a highly competitive sector with ample room to grow. Equally important, the researchers argue, a blanket indictment of perks is unwarranted. They find that companies offer perks for reasons other than the private benefit of the recipient. Those include the lift that perks can supply to managerial productivity, which also benefits the company. For example, Rajan and Wolf note that larger outfits offer their CEOs company planes when that can save time. Company jets are less common at corporations headquartered in highly populated areas and close to major airports. Similarly, CEOs located in more densely populated regions with large commuter lines are the more likely to have chauffeured service provided.

The researchers also suggest that companies give perks to raise managers' effectiveness, since the status that comes with perks shows pecking order and conveys authority. And if CEOs value their standing in the company, then perks can motivate them more cost-effectively than the cash equivalent. To be sure, the darker side of perks is that pure greed will never go away. But Rajan and Wolf's work suggests that the public outrage perks can create should be weighed against the added efficiency and managerial effectiveness they generate.

HIRE AMERICA IN 2004
Multinationals plan to create jobs at home

Large multinationals intend to put out the "help wanted" sign for larger numbers this year. What's more, they are looking for U.S. workers to fill most of the positions. Those findings are the results of a PricewaterhouseCoopers survey of senior executives at U.S. multinational companies. The consulting firm's Management Resources survey for the first quarter of this year showed 66% of the 177 respondents intend to increase their overall workforce in the next 12 months. That's up from 37% a year ago. Among businesses that plan to hire, the average increase in payrolls is 4.4%. The survey should help to allay fears that outsourcing is crowding the U.S. to lose out on the hiring gains. More than 75% of the new jobs will be in the U.S., with the remainder in foreign countries. Nearly three-quarters of the intended hiring abroad is for the purpose of serving local markets, said executives. In other words, companies are responding to improving business prospects around the world, just as they are in the U.S., by adding workers to serve those markets. All in all, according to Management Barometer survey director Pete Collins, just 7% of the planned hiring will have the potential to replace U.S. jobs.

CONFIDENCE SHAKERS
Consumers are ruffled by more than numbers

On May 25, the Conference Board reported its confidence index rose to 93.2 in May, up from 93.0 in April. But the reading is still below those for December and January, in part, says the board, because of higher gasoline prices and "escalating tensions overseas." That reasoning echoes research done by Robert Keyfitz, a senior economist at the World Bank. He found noneconomic factors, particularly the war in Iraq, can curb consumer confidence. In an article in Business Economics, Keyfitz examined how economic and noneconomic factors account for the volatility in the confidence index from 2001 to 2003. Keyfitz created a proxy index for economic confidence, which used four components—growth in real per capita income, asset prices, the jobless rate, and inflation. He subtracted that from the reported confidence data to create an index based on non-economic shocks such as the Iraq war. The economic proxy trended lower for most of the time (chart), but the noneconomic index swung sharply. In Keyfitz's view, "the deprecation in confidence is largely explained by noneconomic factors." Keyfitz estimates that a 1% increase in the reported confidence index raises consumer spending by $1.1 billion, a relationship that holds true even when the intangible factors are not pocketbook issues. He calculates that "war jitters" and fears about weapons of mass destruction cut real consumer spending by $40.6 billion in 2001 and 2003, subtracting a small but still significant 0.3% from spending over the two years.