

Performance measures in senior executive incentive contracts for platform businesses

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BACKGROUND

- Common performance management is incongruent with the strategic demands placed on platforms
- Increased complexity caused by the importance of network effects and the resulting competitive dynamics
- Amplified horizon problem caused by the chicken and egg problem and platforms' vulnerability to short-term exploitation

HYPOTHESIS & FINDINGS

- H1: Platforms rely on fewer performance measures... ✓
 - H2a: Platforms rely less on bottom-line oriented performance measures... ✓
 - H2b: Platforms rely more on top-line performance measures... ✗
 - H2c: Platforms rely more on non-financial performance measures... ✗
- ... in executive incentive contracts

METHODOLOGY

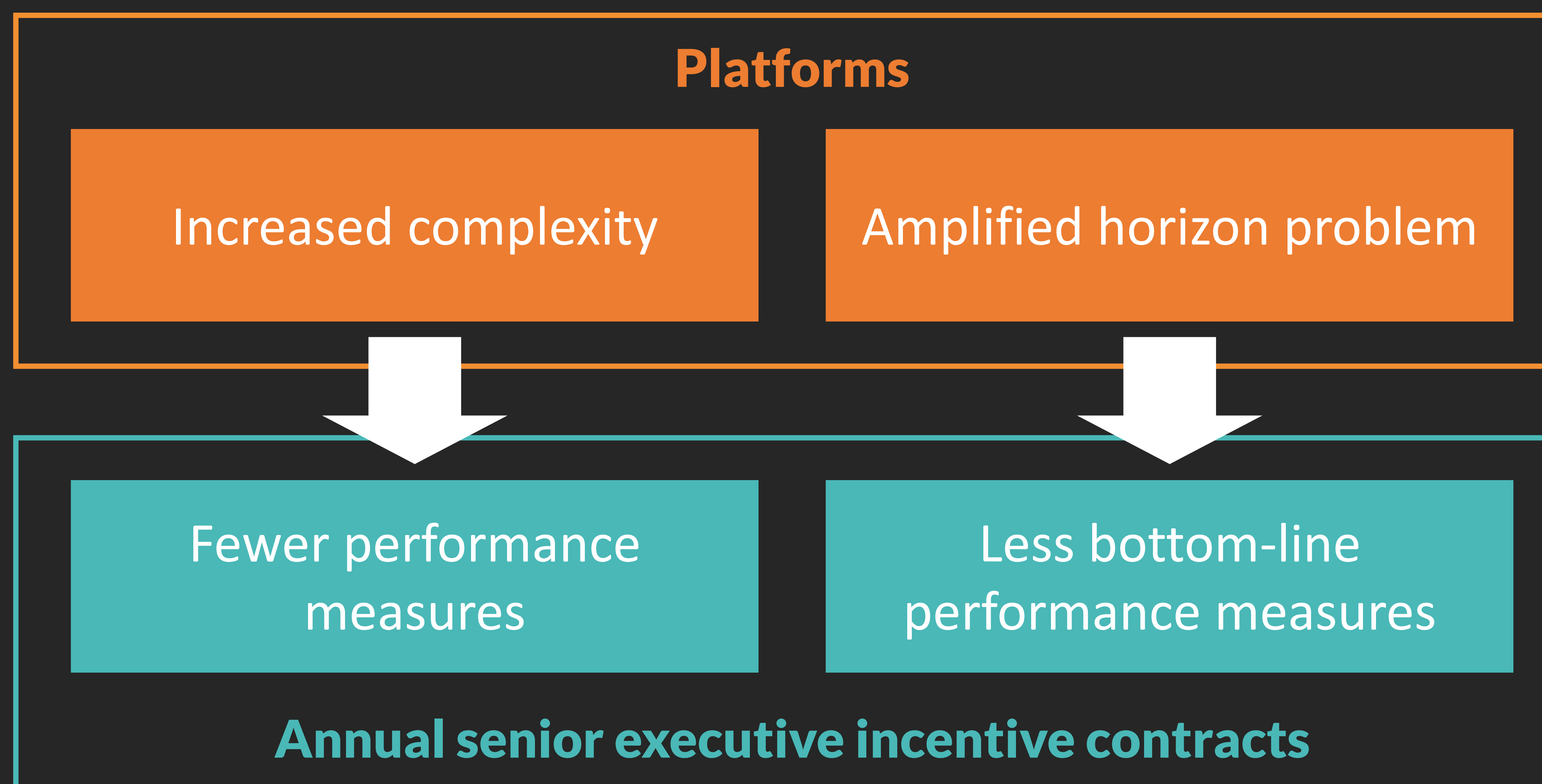
Data

- Performance measures of senior executive incentive contracts from proxy statements
- Sample: S&P500 + extra platforms
- Platform coding: Lists by Evans and Gawer (2016) and Cusumano, Gawer, and Yoffie (2019)

Analysis

- OLS regression
- $$\# \text{ PM/Share of bottom line/top line/nonfinancial PM} = \text{Platform dummy} + \text{controls}$$

Platforms use fewer performance measures and rely less on bottom-line-oriented performance measures in their annual incentive contracts for senior executives



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Tables

SHARE COMPANIES USING SPECIFIC PERFORMANCE MEASURES

	Total sample	NON-PLATFORM (478 firms)	PLATFORM (37 firms)
Accounting measures			
Sales / Sales Growth	52.8%	52.7%	54.1%
EPS / EPS Growth	46.4%	49.0%	13.5%
Operating income or income before tax	39.2%	40.2%	27.0%
Cash flow	29.3%	30.5%	13.5%
Return on invested capital	21.2%	22.4%	5.4%
EBITDA	19.0%	18.2%	29.7%
Operating margin	11.5%	11.9%	5.4%
Net income	11.1%	11.3%	8.1%
Return on equity	10.1%	10.9%	-
Return on assets	4.7%	5.0%	-
Non-Accounting measures			
Stock price return	64.7%	65.3%	56.8%
Non-financial strategic objectives	22.9%	23.4%	16.2%
Subjective evaluation	21.7%	20.1%	43.2%
Customer satisfaction	8.0%	8.2%	5.4%
Efficiency or productivity	6.8%	7.1%	2.7%
Employee development and training	6.2%	6.7%	-
Environment, Health and Safety	6.2%	6.7%	-
Workforce diversity	5.8%	5.6%	8.1%

AVERAGE PROPORTION OF PERFORMANCE MEASURE TYPES

	NON-PLATFORM (478 firms) Mean (Std. Dev.)	PLATFORM (37 firms) Mean (Std. Dev.)
Number of performance measures	5.27 (2.311)	3.378 (3.094)
Share of bottom-line measures	0.438 (0.219)	0.245 (0.232)
Share of top-line measures	0.129 (0.135)	0.193 (0.257)
Share of nonfinancial measures	0.226 (0.23)	0.244 (0.318)

REGRESSION OUTPUTS

Dependent variable	(1) Number of measures	(2) Share bottom-line measures	(3) Share top-line measures	(4) Share nonfinancial measures
Platform	-1.276*** (0.449)	-0.098*** (0.038)	0.014 (0.025)	-0.009 (0.042)
Distress	-1.713 (1.705)	0.403*** (0.147)	-0.073 (0.095)	0.012 (0.165)
Regulated	1.534*** (0.462)	-0.167*** (0.04)	-0.076*** (0.024)	0.381*** (0.061)
Cyclical	0.113 (0.091)	-0.72*** (0.136)	0.01* (0.005)	0.009 (0.009)
Uncertainty	-60.638** (26.117)	-3.496 (2.262)	-1.245 (1.454)	-5.845** (2.571)
Size	-0.005 (0.091)	0.009 (0.008)	-0.016*** (0.005)	0.001 (0.009)
Market-to-book ratio	-0.001 (0.003)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
R&D-to-sales ratio	-2.83* (1.473)	-0.573*** (0.112)	0.432*** (0.073)	0.495*** (0.129)
Employees-to-sales ratio	-69.648** (32.568)	4.369 (3.000)	7.643*** (1.823)	-4.008 (3.230)
Constant	7.213*** (1.27)	0.205 (0.125)	0.277*** (0.069)	0.347*** (0.126)
Industry controls	Yes	Yes	Yes	Yes
Observations	515	515	515	515
R-squared	0.117	0.284	0.272	0.151

Notes:
Industry controls are selected using a stepwise regression.
Standard errors are shown in parentheses.
* p < 0.10; ** p < 0.05; *** p < 0.01