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Are Perks Purely Managerial Excess?

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Abstract

A widespread view is that executive perks exemplify agency problems—they are a route through which managers misappropriate a firm's surplus. Accordingly, firms with high free cash flow, operating in industries with limited investment prospects, should offer more perks, and firms subject to more external monitoring should offer fewer perks. The evidence for agency as an explanation of perks is, at best, mixed. Perks are, however, offered in situations in which they enhance managerial productivity. While we cannot rule out the occasional aberration, and while we have little to say on the overall level of perks, our findings suggest that treating perks purely as managerial excess is incorrect.

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