

[April 23 und 24. 2004 in Bendorf \(Rhine\)](#)

The following presentations were held and discussed in Bendorf (Rhein) on April 23 and 24, 2004:

1. Management Board compensation and stock options

Prof. Dr. Michael Adams, University of Hamburg

Starting from the United States, astronomical increases in executive board remuneration have also occurred in Germany in recent years. The median total compensation (excluding fringe benefits and pensions) was \$ 8.602 million for CEOs of American companies in 2004, £ 2.808 million for British CEOs and € 2.687 million for German CEOs. In 1992, compensation in the United States was \$ 2 million. The pioneers of the increase in remuneration in Germany were the board members of Mannesmann AG, Deutsche Bank AG, DaimlerChrysler AG and Deutsche Telekom AG. What was previously only possible to acquire as a result of generations of successful entrepreneurship, was now brought together by salaried managers in a few short years with the help of complex stock option plans that were carefully kept secret from the owners in the first years. With stock option plans, a procedure was often chosen without any objective reason, which was associated with a maximum tax penalty for the shareholders. It is also noteworthy that the hundreds of millions of euros in compensation can be taken from the owners without any consideration in the form of an increase in company value. Based on many details of the stock option programs used in practice, the lecture showed that the remuneration systems are not structured that they actually convey the incentive improvements for the board members that are intended for them, but can essentially only be understood as looting procedures. Based on an economic and legal individual analysis, it was shown that stock option plans based on the model of DaimlerChrysler AG represent remuneration excesses that are based on the failure of the respective corporate control structures, as evidenced by the approximately three quarters lower remuneration in comparable companies such as BMW AG, which operates under efficient private control. The extreme incomes of the beneficiary board members are also not the result of an international competitive market for particularly talented managers who can be founded on the theory of superstars applicable to world-famous artists and media figures. Rather, it is about the self-service of direct private shareholders' control deprived of board members. The supervisory bodies of publicly owned companies are not sufficiently steadfast. The German special path of codetermination in the Supervisory Board has the effect of weakening control and has only led to option programs being extended to a broad range of employees.

2. Relevance of heterogeneity and non-linearity in outlet-specific price-sales functions

Prof. Dr. Harald Hruschka, University of Regensburg

Studies that have dealt with the determination of outlet-specific price-sales functions can be divided into two groups. One group focuses on recording the heterogeneity of the outlets with regard to the coefficients of price-sales functions and assumes (log) linear functional forms. The second group of investigations in turn uses different methods, which guarantee a high degree of flexibility with regard to the functional form, but are limited to homogeneity (ie the same effect pattern across all outlets). Both approaches therefore ignore the other, possibly important aspect, which is why it seems obvious to add heterogeneity to a flexible, non-linear price-sales function. The study presented here is a multi-layer perceptron with a layer of hidden units, the latter in the form of logistical functions. In addition to this heterogeneous flexible price-sales function, linear and multiplicative functions, both in a homogeneous and in a heterogeneous variant, are also considered. All heterogeneous price-sales functions are based on the assumption that the outlet-specific coefficient vectors are multivariate-normal. This means that each outlet-specific coefficient depends on the data of all outlets and allows the estimation by a Markov Chain Monte Carlo (MCMC) method. The model estimates relate to sales and price data for 9 orange juice brands from 81 outlets. Between 61 and 88 weeks per outlet and brand results in at least 4,941 observations per brand. The expected value of the total sum of squares across all outlets serves as the statistical evaluation criterion for each model. After that, the heterogeneous linear price-sales function performs significantly better than the homogeneous multiplicative model and the homogeneous perceptron. This initially seems to support the view that non-linearity becomes unimportant when considering heterogeneity. However, the results for the heterogeneous multiplicative model and the heterogeneous perceptron show for the available data that, from a statistical point of view, models that allow both heterogeneity and non-linearity are clearly superior. The decision relevance of the estimated price-sales functions is discussed with regard to the problem of determining a uniform price for all outlets. Solving this problem requires knowledge of the price elasticity of total sales across all outlets. A statistically superior price-sales function is relevant to this decision problem if the elasticities implied by it differ from those of a simpler function. For the analyzed data, taking heterogeneity and flexible non-linearity into 8 out of 9 brands leads to different results in terms of price elasticity. Both aspects therefore prove to be relevant for setting uniform prices.

3. Auctions and corruption

Prof. Dr. Elmar Wolfstetter, Humboldt University Berlin

In many auctions, the auctioneer is an agent of the buyer or seller. This delegation often leads to corruption. Corruption means that the auctioneer manipulates the auction rules for the benefit of a single bidder and pays for this service. The lecture analyzed the highest price auction when bidders expect the auctioneer to be bribed. The nature of the corruption has been shown to depend on the distance between the two highest commandments. The auction game has two subgames. After the corruption subgame was solved, it was shown how the expectation of corruption changes the behavior of the bidders. The perfect balance of the game generally only has solutions in mixed strategies. These balances have probability masses on high bids.

4. Quality of accounting and auditing - are the current reform considerations appropriate?

Prof. Dr. Ralf Ewert, University of Frankfurt am Main

The accounting scandals of recent years have sparked considerable regulatory activity at national and international levels. The measures considered by the respective standard setters sometimes include drastic changes to the rules relevant for the statutory audit and accounting. The lecture dealt with the question to what extent such regulations can be justified by the results of economic research (theoretical and empirical). This question was examined on the basis of three aspects (prohibition of auditing and advice from the same client, external forced rotation of the auditor, restriction of options for external accounting). Regarding the ban on testing and advice, a variety of empirical studies initially show that the suspected negative impact on the independence of the auditor and thus on the quality of the accounting cannot be confirmed - many recent works even suggest the opposite. These results were explained and classified on the basis of a game theory model. Regarding the external forced rotation, recent empirical work shows that there is more of a positive relationship between the term of the mandate and the quality of the attestations or the accounting. Finally, the issue of restricting voting rights based on a capital market model with rational expectations of market participants was discussed. Numerous interdependencies and influencing factors were identified, which can counteract the originally intended improvements in the information content of external accounting. Overall, it turned out that the regulatory measures are far less convincing from an economic point of view than one would think at first glance.