

Hosmer Luncheon Series / October 20, 2009

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**Performance Targets in Annual Bonus Plans During a Recession:
Survey Evidence on the Discontinuity in Earnings Distributions**

We examine how firms set performance targets in annual bonus plans in response to the recession of 2008–2009. Our main findings based on survey evidence from 793 entities are as follows. First, we find a very high frequency of earnings targets set at zero and low frequency of loss targets suggesting that the widely documented discontinuity at zero in the distribution of reported earnings extends to ex ante earnings targets. Moreover, earnings targets set at zero are more difficult to achieve than other targets suggesting that firms are reluctant to set negative earnings targets and prefer instead zero targets even if losses are far more likely. Second, we also show that the average difficulty of earnings targets has increased as a result of the recession. Relative to non-recessionary periods, a greater proportion of our sample entities fail to meet their 2008 earnings targets and the average ex ante likelihood of meeting 2009 targets is lower as well. Third, we compare bonus weights on financial performance targets (as opposed to nonfinancial targets and subjective evaluations) in 2007 and 2009 bonus plans and find that the weight on financial performance targets increased significantly from 2007 to 2009.