WHEN MORE IS NOT ENOUGH: EXECUTIVE GREED AND ITS INFLUENCE ON SHAREHOLDER WEALTH

Research that will appear later this year in the *Journal of Management* shows that CEO greed (excessive pay) is associated with reduced shareholder wealth. The article also finds that managerial discretion exacerbates the negative relationship between excessive CEO pay and shareholder return. In contrast, the authors found that excessive CEO pay was not as detrimental to shareholder wealth in situations where CEOs have longer tenure or in companies with strong, independent Boards of Directors.

Key Takeaways:

- Excessive CEO pay can harm shareholder wealth.
- Managerial discretion exacerbates the harm that excessive CEO pay can have on shareholder wealth.
- CEO tenure mitigates the likelihood that excessive CEO pay will harm shareholder wealth.
- Strong, independent Boards mitigate the likelihood that excessive CEO pay will harm shareholder wealth.

Using Execucomp, researchers collected data on 409 firm-executive combinations across the years 1997-2006 for S&P 1500 companies. The authors collected compensation data for CEOs and the next highest paid executive. From this data, the authors concluded that a wide range of CEO greed exists across CEOs and organizations, and that these results were consistent across a broad range of industries.

CEO greed (or excessive CEO pay) was examined using the CEO's relative compensation from three distinct measures: (1) relative dollar value of perquisites and other personal benefits; (2) ratio of CEO cash compensation to the next highest paid executive in the firm; and, (3) CEO pay not explained by key factors such as firm size, prior year's firm performance, firm risk, firm sales growth, CEO age, CEO tenure, CEO role on the board, percentage of outsiders on the board, and percentage of directors who are relatives of current executives on the board. The analysis also statistically accounted for aspects of the environment (e.g., industry), the firm (e.g., size and ROA), and the CEO (e.g., CEO hubris, salary, bonus, option rewards, and ownership percentage).

Source: Haynes, K., Campbell, J., & Hitt, M. (2015). When more is not enough: Executive greed and its influence on shareholder wealth. *Journal of Management*, In Press.