

Project Title
CEO Compensation Consultants
Investigators
Jenny Chu, Jonathan Faasse, and P. Raghavendra Rau
Faculty/Department
Cambridge Judge Business School

1. Activities and Achievement Questionnaire

Non-Technical Summary

A 1000 word (maximum) summary of the main research results, in non-technical language, should be provided below. It should cover the aims and objectives of the project, main research results and significant academic achievements, dissemination activities and potential or actual impacts on policy and practice.

Aim, objectives and results

In July 2009, the SEC announced additional disclosure rules requiring firms that purchase other services from their compensation consultants to disclose fees paid for both compensation consulting and other services. This exogenous requirement dramatically increased both the turnover of compensation consultants and the number of consulting firms in the industry. After the rule change, client firms that switched to specialist consultants paid their chief executive officers (CEOs) more than a matched sample of firms that remained with multi-service consultants. Compensation consultants retained solely by the board are associated with lower pay levels than a propensity-score matched sample of firms with management-retained consultants.

Academic achievements, dissemination and impacts

Our study finds strong empirical evidence for the hiring of compensation consultants as a justification device for higher executive pay.

2. Dissemination

A. Please outline any specific plans you have for further publication and/or other means of dissemination of the outcomes and results of the research.

We are planning to send this paper to a top accounting journal within the next month.

B. Please provide names and contact details of any non-academic research users with whom the research has been discussed and/or to whom results have been disseminated.

3. Outputs

Please give full details of the outputs which should accompany this report. For each research paper, please, provide:

- a) the title (Paper attached)
- b) an abstract
- c) web link where the paper can be downloaded
- d) bibliographical reference in case the paper is accepted for publication.
- e) details regarding conferences or seminars where the paper has been presented.

Paper title: Do compensation consultants enable higher CEO pay?

New evidence from recent disclosure rule changes

Abstract: In July 2009, the SEC announced additional disclosure rules requiring firms that purchase other services from their compensation consultants to disclose fees paid for both compensation consulting and other services. This exogenous requirement dramatically increased both the turnover of compensation consultants and the number of consulting firms in the industry. After the rule change, client firms that switched to specialist consultants paid their chief executive officers (CEOs) more than a matched sample of firms that remained with multi-service consultants. Compensation consultants retained solely by the board are associated with lower pay levels than a propensity-score matched sample of firms with management-retained consultants. Finally, CEOs at firms that start hiring compensation consultants experience an increase in pay relative to a propensity-score matched sample. Overall, our study finds strong empirical evidence for the hiring of compensation consultants as a justification device for higher executive pay. For other outputs (such as software, datasets), please, provide a description of the output and a web link through which the output can be downloaded. If a web link is not available then provide an electronic copy with this report. If the grant included arranging conferences, please complete the separate conference form as well.

4. Major difficulties

Please detail below any major difficulties, scientific or administrative/logistical, encountered during your research and comment on any consequent impact on the project. Further details can be included in section 11 at the end of this report, including any advice you might have for resolving such problems in future projects.

5. Other issues and unexpected outcomes

Please describe any outcomes of your research, beneficial or otherwise that were not expected at the outset or other issues which were important to the research, where these are not addressed above. Further details can be included in section 11 at the end of this report.

6. Nominated Rapporteur

Please suggest the name of one person who would be suitable to act as an independent rapporteur for your project. Please state full address, email and telephone number.

Laura Starks, UT Austin, Laura.Starks@mcombs.utexas.edu
Patricia Dechow, UC Berkeley, patricia_dechow@haas.berkeley.edu

7. Nominated User Rapporteur (Optional)

Please suggest the name of one non-academic user who would be suitable to act as an independent rapporteur for your project. Please state full address, email and telephone number.

8. Web Links

Please insert here any web links to relevant outputs and web pages.

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9. End-of-Award Report

This final section can be used to provide any additional information that may be relevant.

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