



CERF Mid-Term Award Form

1. Personal Details

Name and Address Please include, name address, position and contact email	Raghavendra Rau Cambridge Judge Business School University of Cambridge
Signature (to confirm submission of this form)	
Date	27 March 2013

2. Research Update

Research Title and Abstract Please tell us your CERF Funded Research Title and Abstract	<p>Why do firms hire compensation consultants?</p> <p>Existing studies using 2006-7 data on compensation consultants are inconclusive on whether compensation consultants are hired to justify raising CEO pay (the rent extraction hypothesis). Using an expanded sample from 2006-2012, we find new evidence that contradict previous findings and provide strong support for the rent extraction hypothesis.</p> <p>Specifically, we find that CEOs at firms with compensation consultants enjoy</p>
---	---



	<p>higher pay levels even after controlling for economic and governance characteristics. We also find that consultants retained solely by the board are associated with lower pay levels than those retained by management. Furthermore, firms that start hiring compensation consultants for the first time experience an increase in pay compared to a propensity-score matched sample. After the consultants are hired, firms where CEOs enjoy a greater increase in pay are less likely to turnover consultants the following year. Finally, the implementation of mandatory disclosure of other services provided by compensation consultants in 2010, which removed a potential avenue of conflict of interest for board-retained consultants, resulted in increased use of consultants directly retained by management. We also find that after this further disclosure rule change, consultants retained solely by the board are now associated with lower pay levels than those retained by management. Taken together, our study finds strong empirical evidence for the hiring of compensation consultants as a justification device for higher executive pay.</p>
<p>Milestones to date</p> <p>Please tell us if there are any</p>	<p>We will have the final draft of this paper ready to go by mid-April and are hoping to submit it by the end of April to one of the top 3 journals in finance.</p>



significant developments in your research (publication of a paper, seminar or conference presentations, creation of or participation in working groups etc., Please itemise each impact.	
--	--

3. Weblinks to your work

We would like to provide CERF Managers with links to the research output of CERF Funded Projects. Please can you indicate (where possible) links to your outputs, (aside from publications please also include seminars and other academic activities). Please note these links will be used on the CERF website.

The final version of this paper is not yet complete, so we have not submitted it anywhere.
--

4. Additional information

Is there any other information you would like to share with us about your work to date?

--	--

Please return completed form to The Administrator, admin@cerf.cam.ac.uk