

'Overpaid' CEOs Stay 'Overpaid'

By [DANA MATTIOLI](#)

Chief executives who are paid generously at the outset will get the biggest pay increases and the smallest pay cuts over the course of their tenure, regardless of company performance, according to a new study.

The study, which appears in the current issue of the *Academy of Management Journal*, analyzed the compensation of 590 CEOs of public companies in office for at least four years from 1996 to 2005. Compensation includes the aggregate value of all salaries, bonuses, restricted stock grants, long-term incentive plan payouts and stock-option grants.

The study found that when a CEO is "overpaid"—earning more than his peers within his industry—he tends to get the most liberal raises in subsequent years. Underpaid CEOs tend to get the most modest increases, and the most severe pay cuts.

"CEOs paid really generously at the outset go on throughout their entire tenures to get the biggest raises year after year after year," says Donald Hambrick, one of the study's authors and a management professor at Pennsylvania State University. If the study were to be conducted with more recent data, Mr. Hambrick says he thinks the same findings might persist, however they could be more muted.

Many companies and boards became more serious about pay for performance during the recession, and boards have since revised contracts to be more shareholder friendly. Warren Neel, executive director of the Corporate Governance Center at the University of Tennessee, says boards now scrutinize pay for performance more intensely and often question what a compensation committee presents to them.

"I think boards are getting better at this," says Mr. Hambrick.