

Are you a CEO who wants a pay raise? Say these magic words



Steve Mollenkopf, CEO of San Diego-based Qualcomm, received \$17.6 million in 2015. He told the U-T last year, "When we are running the business, we are looking at things that can either help us in a negotiation or drive shareholder value."

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New research shows that CEOs hoping for a boost in compensation should make the case with two words in particular — shareholder values.

A recently published study by Taekjin Shin, an assistant professor at San Diego State University's Fowler College of Business Administration, found that when CEOs listed "shareholder value" as a top priority in investor letters, their compensation rose by an average of \$116,000 per year.

Meanwhile, board members are less generous to those who cite other priorities, such as customer loyalty, employee retention or increasing market share.

Shin, who co-authored the study with Jihae You of Louisiana State University's Ricks Department of Management, said excessive pay for top management is a long-time issue, but the mechanisms causing the salary boosts had yet to be examined.

"Nobody really looked into the question, in a systematic way," Shin told Data Watch. "We wanted to see what really happens to the CEOs, in terms of their financial interest, when they publicly support shareholder value."

The study found that the author of the letter was irrelevant in terms of compensation decisions. Even when written by another employee or public relations consultants, a letter to investors is widely recognized as a direct message from company leadership that reflects the CEO's own views and opinions.

The research, which was published in the Journal of Management Studies, analyzed more than 2,300 letters to shareholders, written between 1998 and 2005, from nearly 350 S&P 500 companies.

Shin and You controlled for factors such as stock performance, CEO tenure and company size. Packages included salaries, bonuses, the value of stock-option grants, restricted stock grants and long-term incentive plans.

Shin said the results make sense, since leaders in any industry — not just on Wall Street — will tailor their messages to appeal to a particular audience.

"In the political realm, if the people care about jobs, then a politician will say something about jobs," he said. "It's the same practice here. Investors want to hear about investors' money so if CEOs have the right language, the board tends to be more generous when deciding on a CEO's compensation."

In addition to shareholder-friendly keywords and phrases, Shin said the language itself gives the appearance of competency, control, financial savviness and leadership, which board members are likely to reward.