

The Two Words That Earn CEOs a Pay Raise

Study finds that executives who name shareholder value as key priority receive larger pay increases



Rise of activist shareholders such as William Ackman of Pershing Square Capital Management have resulted in a push for changes to lift returns at companies.

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For chief executives, two words can lead to a pay raise: shareholder value.

A newly published study of shareholder letters and executive compensation finds that CEOs who name shareholder value as their primary objective in investor letters received larger increases in their annual pay packages than chiefs who cited other priorities, such as improving customer loyalty or increasing market share.

The study, recently published in the *Journal of Management Studies*, examined 2,373 letters to shareholders from 590 CEOs of S&P 500 companies between 1998 and 2005. Authors Taekjin Shin of San Diego State University and Jihae You of Louisiana State University determined that corporate leaders who explicitly communicated their interest in maximizing shareholder value received higher annual compensation increases. The pay packages included salaries, bonuses, the value of stock-option grants, restricted stock grants and long-term incentive plans.

After controlling for company size, stock performance, the chief executive's tenure and other factors, CEOs could count on an additional \$116,000 for every mention per 1,000 words of boosting the company's share value.

The explanation isn't simply that CEOs are ingratiating themselves to corporate boards and compensation committees, Mr. Shin said. Instead, the leaders are using language that signals the appearance of competence and control.

"Top corporate managers' use of language that is congruent with a prevailing norm leads the boards of directors to evaluate the managers more favorably and to grant a higher level of compensation," he and Mr. You note in their paper, "Pay for Talk: How the Use of Shareholder-Value Language Affects CEO Compensation."

Connoisseurs of CEO communications might assume that "shareholder value" is part of nearly every chief executive's letter-writing lexicon. But Mr. Shin says fewer than half of the shareholder letters in the study ever mentioned the principle.

Times have changed in the past decade with the rise of activist shareholders such as William Ackman of Pershing Square Capital Management LP, who likes to take large positions in companies and then push for changes to lift returns. Indeed, in 2005, there were just 616 mentions of "shareholder value" on corporate earnings calls with analysts and investors; by 2015, that number rose to 3,756 mentions of those buzzwords, according to data from Factiva.