

CEOs rewarded for wrong kind of growth, study finds

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Growth is good, right? Not always.

But [compensation](#) committees still tend to reward CEOs when their companies grow due to [investments](#) – even though that has been found to hurt long-term shareholder value – rather than only rewarding growth due to improved profitability, says a paper co-authored by a professor at the University of Toronto's Rotman School of Management.

The practice sends CEOs a message to grow at all costs, while hurting chances for companies to further improve shareholder value. Still, corporate boards may not realize what they're doing, say the study's authors.

"Most people don't look long-term," says Partha Mohanram, an associate professor of accounting at the Rotman School who also holds the CGA Ontario Professorship in Accounting, who wrote the paper with Sudhakar Balachandran of Columbia Business School. "We're not alleging these guys are doing this on purpose -- far from it. We just think this is a fallacy many people fall for."

The paper confirmed past research showing the best kind of growth for improved shareholder value comes from increased profitability, while investment-related growth destroys value.

The authors carried out their studies using a sample of companies with [CEO](#) compensation data on Execucomp, which tracks executive

compensation among the S&P 1500 listed firms. Compensation was correlated to growth and different types of growth.

Although CEOs who improved their companies' profitability were rewarded, the researchers found that those who grew through increased investment actually got greater rewards. Companies with more value-oriented institutional investors showed a stronger link between improved compensation and profitability-related growth and a negative link between compensation and investment-driven [growth](#).

"It's good to grow," says Prof. Mohanram, "but you have to grow in a way that adds value for shareholders."

More information: The complete study is available at:
[www.rotman.utoronto.ca/newthin ... execcompMohanram.pdf](http://www.rotman.utoronto.ca/newthin...execcompMohanram.pdf)

Provided by University of Toronto, Rotman School of Management

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