



Original analysis on the latest happenings in the CFO industry

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Study: Higher-paid consultants tend to recommend higher CEO compensation

Regulators tend to see conflicts in cross-selling by multi-service firms, and new research suggests single-service firms might have conflicts, too.



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Executive compensation consultants who receive higher fees for their service tend to recommend higher CEO compensation and also get more repeat work, [a Journal of Management Accounting Research study](#), published by the American Accounting Association, found.

For every 1% increase in average executive compensation consulting fee, or \$1,770, CEO compensation triples, to \$4,474, the study of 313 publicly-traded corporations found.

"When compensation consultants receive higher executive compensation fees, they are more inclined to recommend higher CEO pay," researchers Jeh-Hyun Cho of Arizona State University, Jeong-Hoon Hyun of NEOMA Business School in France, and Iny Hwang and Jae Yong Shin of Seoul National University, Korea said.

They are also more likely to get repeat business with the client, according to a meta-analysis the researchers conducted on past studies.

The higher consulting fees don't typically deter repeat work because they remain low enough to be considered immaterial to corporations.

"The fact that boards rarely mention executive compensation (EC) fees as a major consultant selection criterion implies that charging a higher EC fee does not necessarily result in less chance of retention," the researchers said. That raises "the possibility that successful EC consultants could charge higher fees without fear of being replaced."

Cross-selling curbs

The findings suggest Congress and the Securities and Exchange Commission (SEC) miss the mark in their efforts to eliminate conflicts of interest between EC consultants and corporations.

Previous efforts to curb conflicts focused on cross-selling, in which consulting firms gave higher CEO pay recommendations in exchange for the chance to provide other, more lucrative, consulting services to corporations.

As rules took effect taking aim at these arrangements by requiring fees to be disclosed once EC consulting reached a certain threshold, consulting firms avoided the disclosures by spinning off their EC work into stand-alone firms.

It's with these stand-alone firms that the researchers are seeing the relationship between EC consulting fees and higher compensation recommendations.

"Our research reveals high EC fees are not the negligible factor they're thought to be in CEO compensation," the researchers said. "There's no reason to think this less true for single-purpose consultancies exempt from fee disclosure than for the multi-service providers in our study."