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## Star CEOs may not be worth their pay: report

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By Herbert Lash

NEW YORK (Reuters) - Chief executives who become celebrities may earn more than the performance of the companies they run merit, according to a new study.

Companies enjoy less than stellar profits and stock prices tend to suffer after their leaders have won "CEO of the year" contests, the study by academics in the August/September issue of the Academy of Management Journal said.

"Throwing money at the stars isn't necessarily the best avenue to guarantee success," said Timothy Pollock, a professor at Pennsylvania State University and a co-author of the study which looked at scores of the most highly regarded CEOs in the United States.

"Paying for stardom can be overrated, at least in the CEO ranks," Pollock cautioned. "Don't just look at who's anointed, look at a real history of performance."

Chief executives who are not getting any press often top the rankings of various studies that are not in the limelight, he said. The super-charismatic and photogenic CEOs gracing the covers of Fortune and BusinessWeek might be exciting, but their firms might not be turning in great performances, he said.

"Do your due diligence and don't get starstruck," Pollock said in an interview.

The study said that although certifications, as it called winning a CEO media contest, appear to generate abnormal, positive returns when they are first announced, their longer-term impact seems to be negative.

"Overall, our results provide cautionary information for corporate pay policies," said the study, titled "The Burden of Celebrity: The Impact of CEO Certification Contests on CEO Pay and Performance."

The argument that company boards should pay exorbitant compensation to attract and retain star CEOs "may be somewhat misplaced, especially given the heightened investor expectations," the study said.

The other co-authors of the study were James Wade of Rutgers University, Joseph Porac of New York University and Scott Graffin of University of Georgia.

The study examined 195 recipients in the CEO of the Year competition run by the Financial World magazine from 1992 -- when regulatory compensation disclosure greatly increased -- to 1996.

Among the winners were Jack Welch, General Electric Co.'s former CEO, Maurice Greenberg of American International Group and Roberto Goizueta of Coca-Cola Co., all highly regarded CEOs.

While celebrity status brings star CEOs more pay than their peers, they suffer more as well if their company's performance lags, Wade said.

"In some sense there is a dark side to the star status," Wade said in an interview. "Expectations are built up. When you don't meet the expectations you get punished, when you do, you get a bonus."

Moreover, better pay for CEOs trickles down to lower levels, Wade said.

Yet the study found that companies run by contest winners, on average, were no more profitable than other firms, either in the remainder of the award year or in later years.

But winning a contest helped to boost a recipients' compensation over and above performance differences between firms run by winners or non-winners. This suggests that "profitability need not be very high for CEOs to capitalize on their celebrity

status," the study said.

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