Better than Empire: Active Corporate Restructuring and CEO Compensation

Professor Jim Walsh, University of Michigan

Abstract: Long alert to the personal benefits that accrue to CEOs who pursue an "empire building" strategy, we have not considered that shrinking a firm can also provide a reason to increase a CEO's pay. In fact, growing and shrinking a firm may be quite lucrative for a CEO. Twenty-eight percent of our sample of 1,287 CEOs acquired and divested assets during their time in office between 1992 and 2005. This activity increased their compensation by $2.64 million more than those who acquired assets, $3.38 million more than who divested assets and $3.92 million more than those who did no restructuring. Moreover, we found this compensated practice to be associated with measures of CEO entrenchment. Until we learn more about who pursues this strategy, how they legitimate their decisions, and why directors see fit to reward them for this activity, a firm's stakeholders would do well to carefully scrutinise any CEO who launches such an active restructuring strategy.

Prof. Walsh embeds this study as a 'talk within a talk', in which he will reflect more broadly on what orient our work and how we make a difference in research, teaching, and service.

Presenter: Jim Walsh (PhD, Northwestern University) is an Arthur F Thurnau Professor and the Gerald and Esther Carey Professor of Business Administration at the University of Michigan’s Ross School of Business. Jim's research interests lie in the area of corporate governance. Initially doing work within the neo-classical model of the firm, he has expanded his conception of governance to more broadly consider the purposes and accountability of the firm in society. Jim was a founding co-editor of the Academy of Management Annals, a Senior Editor and Associate Editor-in-Chief of Organisation Science, a Consulting Editor for the Academy of Management Review, and an Associate Editor for the Strategic Management Journal. Currently the Dean of the Fellows Group of the Academy of Management, he recently completed his service as the Academy’s 65th president. The Academy of Management is comprised of nearly 20,000 management scholars from over 100 countries.

Date: 1 February 2013
Time: 12 –1:30pm (90 minutes presentation) Sandwich reception provided
Venue: BUSN 142 Case Study Room
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