CEO Salary: An Analytical Debate

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Abstract- Salaries given to CEOs are constantly debated. The CEO's salaries are too high from the median and lowest salary of the management cadre in some organizations. It is hugely criticized by activists, shareholder activists and different bodies which oppose the capitalist approach to the economy. An analytical study provides insights into the factors determining CEO salaries.

Indexed Terms- CEO; Salary; Regression Analysis; Cross-sectional data; Panel data; Time Series data.

I. INTRODUCTION

CEO salary, of late, has become a topic of debate. Even this has generated corporate governance issues. It does get some relevance from an economic point of view. Some stakeholders and analysts have started talking about median salary as a benchmark of the CEO salary. There are different aspects of this. It is debated how much salary should be justified. The debate gets murkier when people realise that CEOs and people in the top order not only draw a heavily skewed salary but do not even mind claiming incentives and increments when companies have not performed well on the financial parameters.

The application of some analytics can best defend the debate on CEO salary. Linking CEO salary with performance makes a logical deduction. Performance is also very subjective. Loyalty and consistency in the organization are also additional virtues which may be part of the analysis of the CEO's salary.

An HR consultant tried to do some study on that. He gathered the following information from the past instances of CEO salary and their possible predictors.

ceoten	Tenure of CEO in the current org
comten	Company Tenure
mktval	Market Value of the firm
sales	Sales
salary	Salary of CEO

II. LITERATURE REVIEW

Regression analysis is always an excellent tool for analytics for quantitative data. Regression is applied to a wide range of topics, including bank performance [1], valuation studies [3]-[7]-[8], a discrepancy in loan repayments [15]-[16]-[9]-[10]-[11] or dividend distribution decisions [22].

Regression analysis is performed on the cross-sectional data [19]-[31]-[28]-[12]-[13]-[14]. It is performed on the panel data [29]-[2]-[4]-[5]-[17]-[18]-[20]-[21]-[27]-[29]-[30]. The regression analysis can also be done using time series data [24]-[25]-[26]-[23].

III. ISSUES TO BE SOLVED

a) Try to establish the association between CEO salary and identified predictors.
b) Log transformation has been strongly advised to discipline the data measured on different scales and needs to be brought to a common platform. Suggest the impact of log transformation on the regression model building.
c) Please find the relevant predictors and their relative importance in determining the CEO's salary.
d) As a consultant, one needs to find that the existing data support the hypotheses that the CEO's salary is linked to the firm's performance and loyalty. Describe the answer.
e) Predict the CEO's salary range if all the predictors are at their median levels.

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