SURAT TUGAS

No : **48** /PSDM/STEI/III/2023
Hal : Sebagai Peserta

Berdasarkan fungsi, tugas pekerjaan, wewenang dan tanggung jawab, dengan ini menugaskan kepada:

Nama	:	Nelli Novyarni, S.E., M.Si.
NIDN	:	0306117501
Jabatan	:	Dosen Tetap Yayasan

Untuk melaksanakan tugas mengikuti kegiatan:

Nama Kegiatan	:	International Seminar Series 2023: CEO Compensation: Evidence From The Field
Tanggal Kegiatan	:	07 Maret 2023
Penyelenggara	:	Fakultas Ekonomi Universitas Negeri Jakarta

Demikian surat tugas ini dibuat untuk segera dilaksanakan dengan penuh tanggung jawab.

Jakarta, 06 Maret 2023
SEKOLAH TINGGI ILMU EKONOMI INDONESIA

Joko Bagio Santoso,SE., MM
Kepala Bagian PSDM

CERTIFICATE OF ATTENDANCE

442/UN39.5.FE/DL.17/2023

International Seminar Series 2023

CEO Compensation: Evidence from The Field

Speaker

Prof. Dirk Jenter

(London School of Economics)

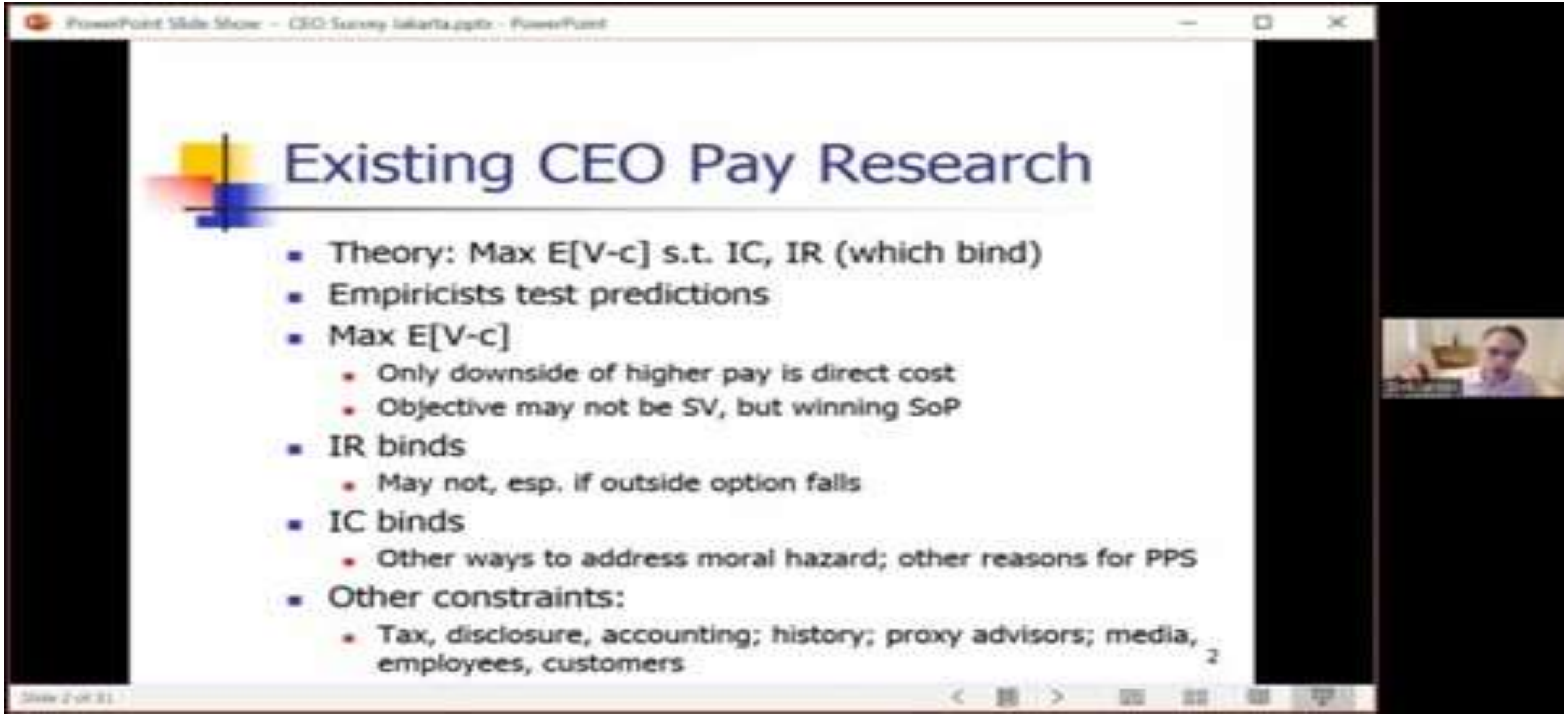
Tuesday, 7 March 2023

This is to certify that

NELLI NOVYARNI

has participated in this seminar as **PARTICIPANT**

Dean	Seminar Chair
Prof. Dr. Ari Saptono, M.Pd.	**Prof. Dr. Suherman, M.Si.**
Faculty of Economics UNJ	*Head of S1 Management Study Program FE UNJ*


Existing CEO Pay Research
Theory: Max E[V-c] s.t. IC, IR (which bind)
Empiricists test predictions
Max E[V-c]
Only downside of higher pay is direct cost
Objective may not be SV, but winning SoP
IR binds
May not, esp. if outside option falls
IC binds
Other ways to address moral hazard; other reasons for PPS
Other constraints:
Tax, disclosure, accounting; history; proxy advisors; media, employees, customers
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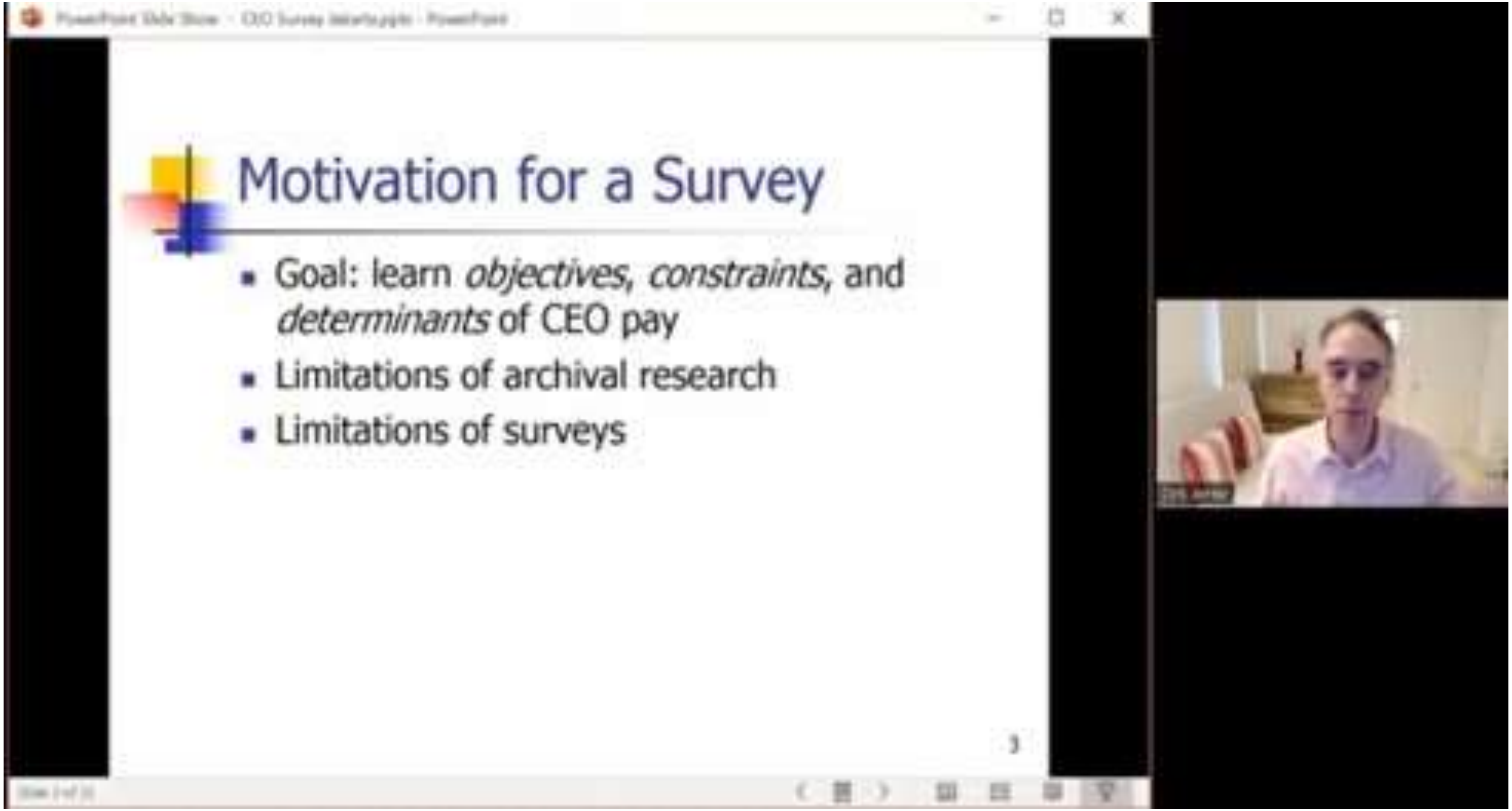
Motivation for a Survey
Goal: learn objectives, constraints, and determinants of CEO pay
Limitations of archival research
Limitations of surveys
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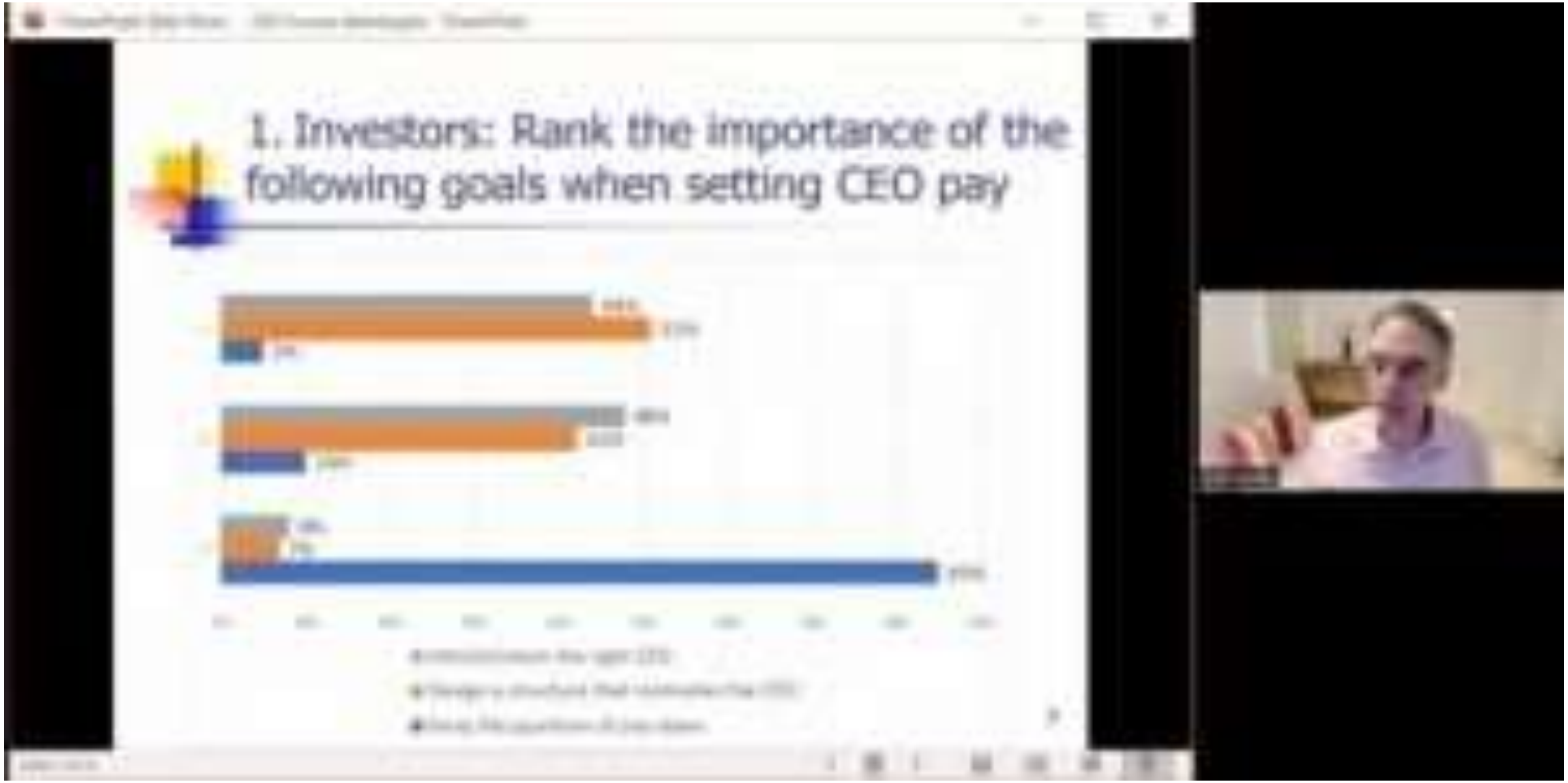
Survey Basics

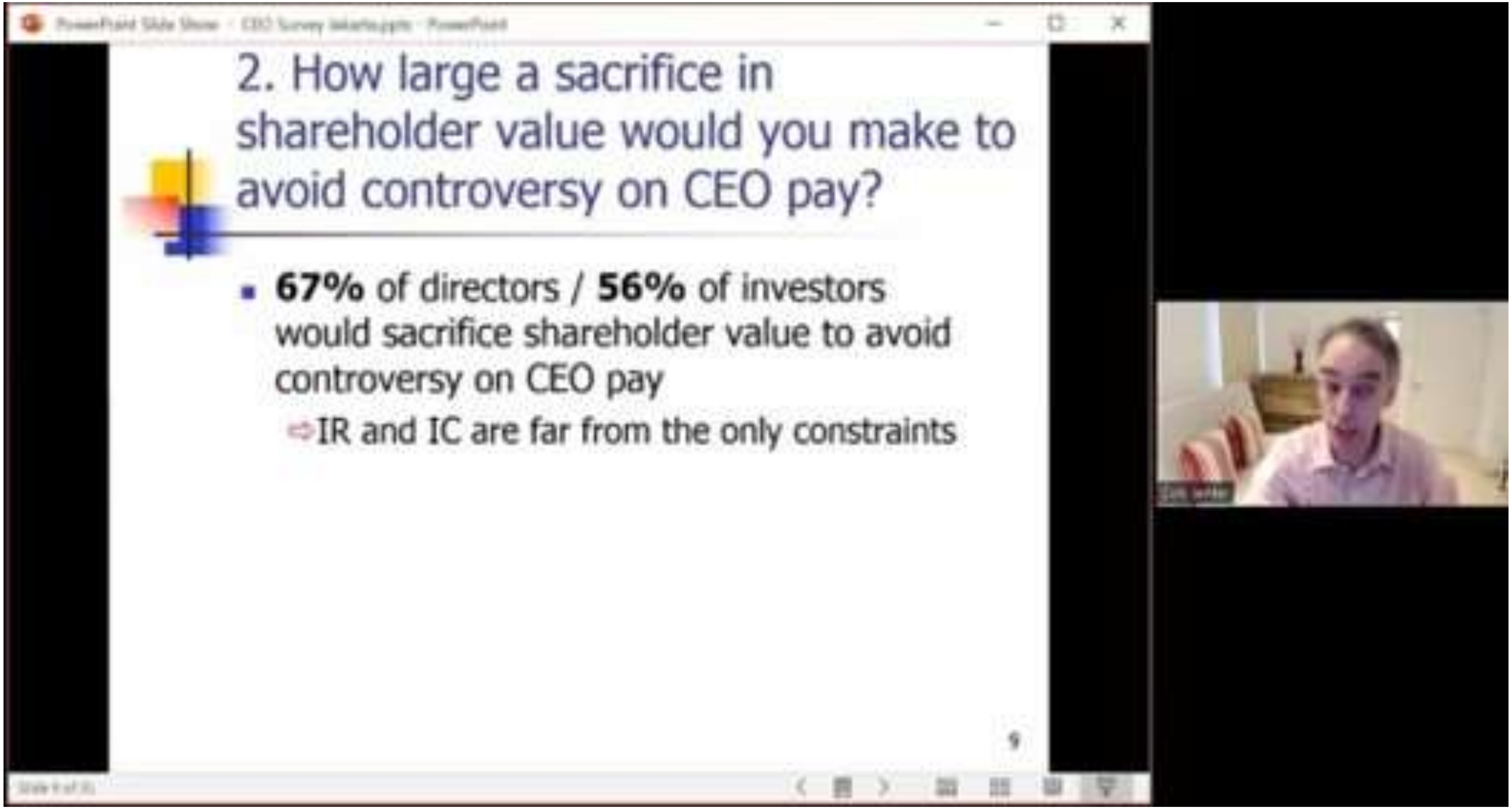
- Directors
  - NEDs of FTSE All-Share Companies
- Investors
  - Fund managers, CIOs, and CG professionals at asset managers / asset owners who invest in UK
- (Limited demographic data)

- In most models, there's a single "principal": boards acting on behalf of shareholders
- The literature recognizes agency problems: boards don't act on behalf of shareholders
  - But boards and investors may view the world differently


1. Investors: Rank the importance of the
following goals when setting CEO pay

The Objective Function

- Reducing the level of pay is third-order vs.
  - Getting the right CEO (Gabaix and Landier, 2008)
  - Motivating the CEO (Edmans and Gabaix, 2011)
- Boards focus on IR, investors more on IC
  - Weak boards
  - Uninformed boards
  - Uninformed investors
    - "This is becoming a joke. Good people are leaving the plc world for private equity in droves. And governance people should get a proper job. I feel strongly about this"


2. How large a sacrifice in shareholder value would you make to avoid controversy on CEO pay?
67% of directors / 56% of investors would sacrifice shareholder value to avoid controversy on CEO pay
⇨IR and IC are far from the only constraints
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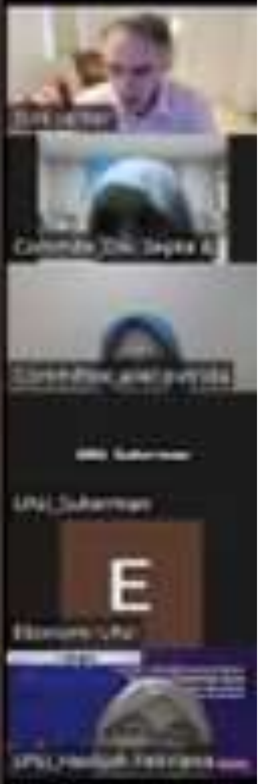
2b. How important is it to avoid controversy with the following parties?

	Directors	Investors
(Other) Investors	$\boxed{1.24}$	0.24
Employees	0.66	$\boxed{1.26}$
Proxy Advisors	0.44	-0.12
Customers	0.18	1.14
Policymakers	-0.01	0.92
Media	-0.06	0.17

- Boards think that shareholders hinder maximization of shareholder value
  - "Shareholders appoint RemCos and then often seek to micromanage their duties"



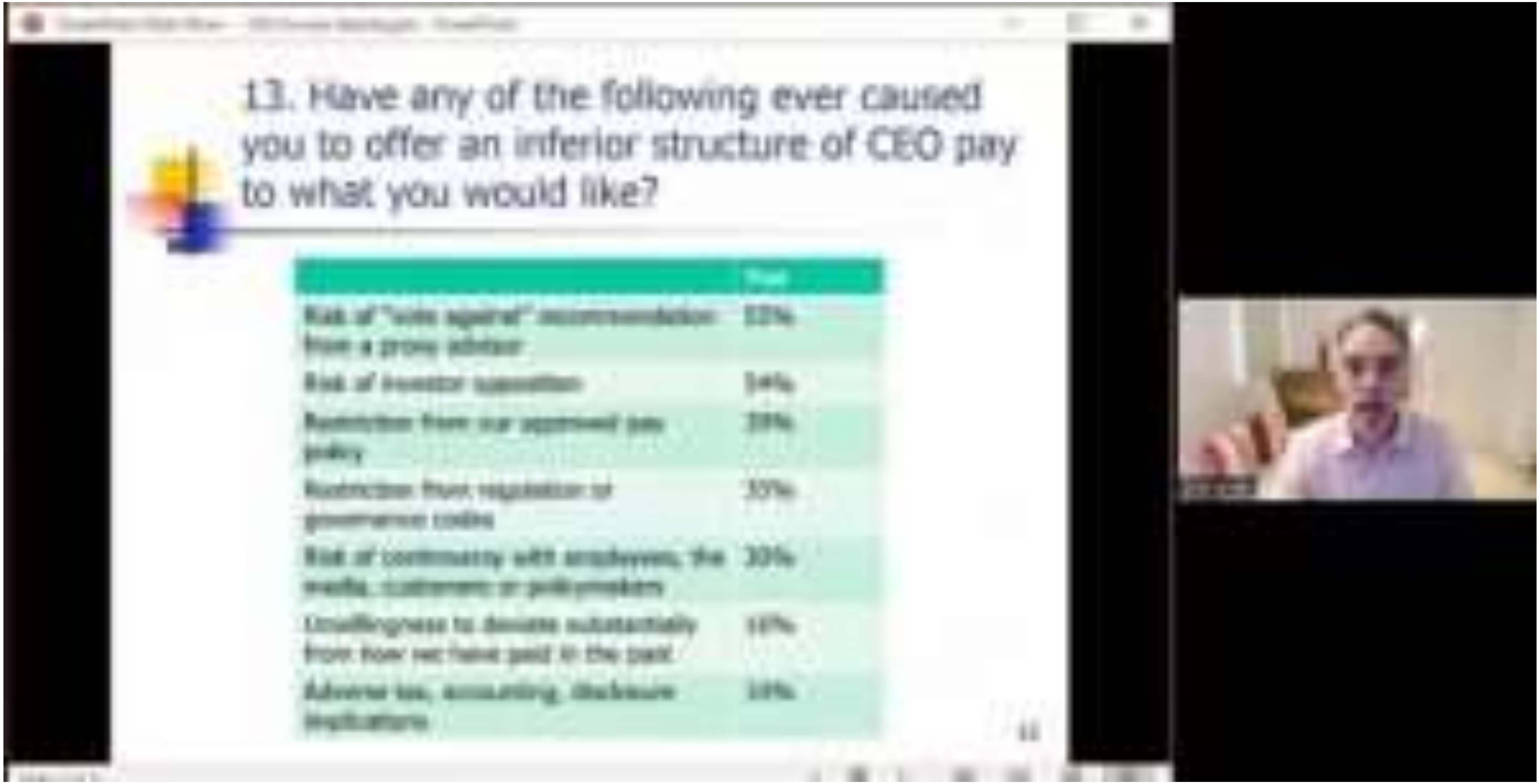
12. Have any of the following ever caused you to offer a lower quantum of CEO pay than you would like?

	Yes
Risk of investor opposition	59%
Risk of "vote against" recommendation from a proxy advisor	55%
Restrictions from our existing approved pay policy	44%
Risk of controversy with employees, the media, customers or policymakers	37%
Unwillingness to deviate substantially from what we have paid in the past	29%

12b. Did this lower quantum ever lead to the following consequences?

	Yes
The CEO was less motivated	42%
There were no adverse consequences	41%
We hired a less expensive CEO	12%
The CEO left	7%

- Boards had greater latitude to cut pay than expected?
- Efficiency wages, but due to "fairness"?
  - "He was navigating in a highly volatile and complex situation. He still did the job, but his morale was affected negatively." "There is first a test of pay fairness by the CEO, then after that, for most CEOs, it is about building reputation for the company and latterly themselves"


13. Have any of the following ever caused you to offer an inferior structure of CEO pay to what you would like?

13b. Was the structure inferior in the following ways?

	Directors
We followed market practice more	71%
We offered less upside for good performance	66%
We used (more) performance conditions	57%
We made incentives more long-term	38%
We made incentives more short-term	13%

- Boards feel pushed into a one-size-fits-all model

3. How important are the following factors in determining the target quantum of pay for a new CEO?

	Directors	Investors
The new CEO's ability	1.28	1.49
CEO pay at peer firms	0.82	0.46
How attractive our firm is to run	0.76	0.60
The new CEO's other employment options	0.35	0.26
The new CEO's pay in their previous position	0.28	-0.21
How financially motivated the new CEO is	0.08	-0.23
The outgoing CEO's pay	-0.01	-0.55

- Peer pay matters beyond labor market reasons
- Investors view labor market factors as less important

4. What causes you to increase the target quantum of pay for an incumbent CEO?

	Directors	Investors
Good recent CEO performance	0.96	1.05
Increase in firm size	0.37	0.17
Increase in pay at peer firms	0.27	-0.17
Increased threat of CEO leaving	0.25	-0.06
Change in attractiveness (e.g. prestige, risk, complexity) of CEO job at your firm	0.22	0.23
Other changes that reduce the attractiveness of the pay package	-0.11	0.01
Change in attractiveness (e.g. prestige, risk, complexity) of CEO job at other firms	-0.28	-0.37

PowerPoint Slide Show - CEO Survey Jakarta.pptx - PowerPoint

Why should recent performance affect (target) pay?

Text fields & interviews:

- Actual *pay* matters, not just *portfolio incentives*
- CEOs care less about *changes in wealth*, but about *recognition*
  - "Just deserts" – discretionary decision
  - Sense of worth, affirmation, reputation

⇨ *f(w-Ref)* rather than *u(c)* determines recognition (?)

Summary

- Boards set pay under many more constraints than just IR and IC
  - These constraints bind and affect both level and structure
  - Main constraint on boards is from investors
- Investors want tougher incentives and lower pay
  - Boards perceive stronger labor market pressures
  - Disagreement, not necessarily agency problems
- Financial incentives are not viewed as first-order motivators for CEOs
  - Actual pay matters, not portfolio incentives; for ex-post recognition rather than consumption
- Fairness matters – "inefficient" risk-sharing on both up- and downside