



CEO Pay – A Practitioner Survey

- Directors
 - NEDs of FTSE All-Share Companies
- Investors
 - Fund managers, CIOs, and CG professionals at asset managers / asset owners who invest in UK
- Goals:
 - To understand the **objectives, constraints, and determinants** of CEO pay
 - To improve economic models of CEO pay



Diverging views

- Directors and investors disagree
 - Directors focused on attracting and retaining the right CEO
 - Lowering pay would demotivate and result in worse hiring
 - Investors most concerned about incentivizing CEOs
 - Believe pay is too high and could be reduced without much harm
- Agreement that minimizing pay is least important
- Directors view institutional investors as the main obstacle to setting optimal CEO pay



Directors' model of CEO behavior

- CEOs expect to be paid “fairly” – what CEOs believe they deserve
 - If not ⇒ CEO demotivated, strained relationship with board
- What determines perception of fairness?
 - CEO pay at peer firms
 - “Why does she earn more than me?”
 - Firm performance
 - “Why I am not being rewarded?”



Three notions of “fairness”

1. CEOs expect to be paid “fairly”
2. Internal “fairness” matters
 1. CEO vs. other top executives
 2. CEO vs. rank-and-file employees
3. “Fair” for CEOs to share investors’ pain (and gains)