

Executive Pay and Performance

in the UK 1994-2002

By

Paul Gregg

CMPO

University of Bristol

P.Gregg@bristol.ac.uk

Sarah Jewell

CMPO

University of Bristol

S.L.Jewell@bristol.ac.uk

and

Ian Tonks

Xfi

University of Exeter

I.Tonks@ex.ac.uk

April 2005

Abstract

This paper examines the relationship between executive compensation and company performance for a sample of large UK companies over the period 1994-2002. The relationship is examined against a background of a series of reports into corporate governance mechanisms in UK companies. We provide evidence on the movement in the pay-performance sensitivity over time, and we identify an asymmetric relationship between pay and performance up to 2000. In years in which stock returns are high, pay-performance elasticities are high, but we find that executive pay is insensitive to performance in those periods when stock returns are low. This suggests that over time there is little relationship between pay and performance. We also explore the heterogeneity of the pay-performance relationship across firms, and find that board structure, firm size, industry and firm risk all have an effect on executive compensation.

Keywords: Executive compensation, pay and performance

JEL Classification:

Contact Author: Ian Tonks, Xfi Centre for Finance and Investment, University of Exeter, Rennes Drive, Exeter EX4 4ST; Tel. 01392-263462