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CEO-To-Worker Pay Ratio, Say On Pay Votes, and Executive Compensation

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Abstract

This study investigates the extent to which the CEO-to-Worker pay ratio affects shareholders' say on pay votes and consequently examine whether shareholder opposition to pay gaps influence future CEO compensation. The effects of the implementation of the CEO-to-Worker pay ratio disclosure rule (2017) and the Portland Surplus tax (2018) are also discussed. We employ a large and up-to-date sample of US Russell 3,000 companies with 13,885 firm-year observations from 2011 to 2018. We develop and employ a unique measure of the CEO-to-Worker pay ratio allowing us to study time-periods for which data is not available. Using different quantitative estimation methods, we found that the CEO-to-Worker pay ratio is significantly and positively associated with shareholder dissent votes and that a pay gap opposition from shareholders is negatively and significantly associated with future CEO compensation. In addition, mandatory disclosure of the CEO-to-Worker pay ratio has increased the number of shareholder dissent votes the year after its implementation in 2017. By contrast, companies identified by the Portland Surplus tax have not shown higher shareholder dissent votes nor lower future CEO compensation compared to the Russell 3,000 companies. This study has important implications for the corporate governance literature, corporate directors, and policymakers.

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