Companies that pay their CEO modestly perform better

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UK firms overpay CEOs when compared to European neighbours

Companies who pay their CEOs more modestly perform better financially, according to new research from Vlerick Business School.

The study examined the pay levels and habits of CEOs and CFOs in 861 companies in the major stock indexes across Europe, including the FTSE 100 and 250 in the UK, the OMXS60 in Sweden and all listed firms across Germany, France, Netherlands and Belgium.

Using firm performance data to calculate what companies should be paying their CEOs, researchers found that firms with better financial performance tended to pay their CEOs less than others.

Analysis of the data also revealed that UK companies, along with those in Germany, overpay their CEOs in comparison with other countries – and that there were more cases of CEO overpayment in firms with more widely dispersed share ownership, another feature of UK companies.

Professor Xavier Baeten, who conducted the study, says,

“This paints a very clear picture showing that UK companies significantly overpay their CEOs in comparison to other major nations in the EU. They are not paid more because they perform better, but because, amongst other things, CEOs in the UK have more control over the company as a whole relative to European firms due to wider dispersion of share ownership.”

The study also found that, taking into account fixed remuneration, short-term incentives and share option grants, UK CEOs are paid 94 times more than the average worker in their firm, and that although CEO pay in the UK had dropped slightly this year to a median of €4.3m, this figure rose to €4.9m when adjusted for the effect of the Brexit vote on the British pound.

Baeten adds, “Taking everything into consideration it is clear that UK companies should look closely at how they pay their CEOs – not just how much but also how their pay packages are structured. The best performing companies in this study tended to pay their CEOs a little less, and they also tended to pay more of their package as fixed salary and less in the form of variable, share-based, remuneration.

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For more information on the study, or to speak to Professor Xavier Baeten about the results, please contact Ian Hawkings at BlueSky PR – ian@bluesky-pr.com or call +44 (0)1582 790 704