

THE ROLE OF THE MEDIA IN EXECUTIVE PAY: EVIDENCE FROM THE UK

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Abstract

Using a large sample of FTSE All-Share companies between 2002 and 2013 we study the impact of media coverage on executive compensation. We assess whether

- 1) excessive levels of executive compensation are associated with negative media coverage;
- 2) negative media coverage towards executive compensation acts as a constraint on compensation levels;
- 3) negative public opinion towards executive compensation affects certain components of the compensation package.

Drawing on 10,808 newspaper articles in national, regional and local UK newspapers we find that the media identifies firms with excessive compensation levels. However, subsequent corrective action is taken by firms that are not targeted by the media. Further, general negative public opinion has an impact on compensation levels, especially on equity-linked pay. A shift towards cash pay after high levels of negativity in the media suggests the presence of moderate compensation camouflage. We conclude that the media acts as an effective watchdog in reporting excess pay but does not act as an effective governance mechanism in curbing it.