

**THE DETERMINANTS AND PERFORMANCE
CONSEQUENCES OF THE CEO PAY SLICE**

Helen Spiropoulos

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Supervisory Panel:

Zoltan P. Matolcsy

Martin Bugeja

Stephen Taylor

ABSTRACT

There is an emerging literature which focuses on the proportion of the CEO's pay as a percentage of all senior executives' pay (the CEO pay slice). This literature tests the association between the CEO pay slice and different economic activities but stays silent on the key drivers of the observed variations in the CEO pay slice. This thesis develops a theoretical framework for the economic determinants of the CEO pay slice (CPS) and tests this framework using a sample of 9,978 U.S. listed firms for the period 2001-2010. This thesis also provides evidence on the performance consequences of firms with an inefficient CPS. The findings in this thesis indicate that the CPS reflects rational allocation of decision authority between the CEO and senior executives. This allocation of decision authority is driven by firms' economic characteristics including the degree of business diversification, R&D intensity, and growth options. The CPS also reflects the market for CEO talent. There is limited evidence that an inefficient CPS is related to subsequent firm performance. No relation is found between inefficient CPS and accounting returns, however a negative relation is found between inefficient CPS and subsequent market returns. This thesis finds no evidence supporting the alternative managerial power explanation of the CPS as no relation is found between the CPS and proxies for CEO power, or between the CPS and subsequent accounting or market based firm performance. The findings in this thesis are consistent with respect to a number of sensitivity tests.

Keywords: Executive compensation; CEO compensation; Information Asymmetry

CERTIFICATE OF ORIGINAL AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

Helen Spiropoulos

Date:

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