

The Impact of Board of Directors on CEO Compensation: Evidence from the UK

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Abstract : The paper investigates whether the board of directors plays a monitoring role or not in CEO compensation for the UK firms during the eve of the recent financial crisis, 2004-2008. The use of heteroscedastic and autocorrelated error consistent estimation of the panel data shows, surprisingly, that four board characteristics variables are found to play a significant role in increasing the level of CEO compensation. This insightful result would suggest evidence of the managerial power theory in general and the cronyism hypothesis in particular. Moreover, the interesting evidence supporting managerial power perspective is that CEO-Chair duality reduces long-term compensation while increasing short-term compensation, thus suggesting that CEOs are risk averse who prefer short-term compensation to long-term compensation. Finally, consistent with the agency perspective board size is found to increase all compensation variables as expected.

Keywords : corporate governance, CEO compensation, board of directors, internal governance mechanisms, agency theory, managerial power theory, cronyism hypothesis

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