Online Supplementary Appendix for

Say on Pay Votes and CEO Compensation: Evidence from the UK

Section A1: Additional Market Reaction Tests

Since it was largely unexpected and it represented a substantial increase in the probability of say on pay regulation, the June 25, 2002 event is an ideal setting for an event study. In this appendix, we also examine four prior events that either increased or decreased (arguably to a lesser extent) the probability of say on pay regulation as well as one subsequent event (Parliament's approval of say on pay on July 25, 2002). These events (identified through a search of Lexis-Nexis) and a list of coincident and potentially confounding events are described in Panel A of Appendix Table I.

Following Cai and Walkling (2011) and Larcker et al. (2011), we investigate whether the market reaction to these events is associated with excess CEO pay. Consistent with Core et al. (1999) and subsequent research, we compute excess pay as the residual from annual cross-sectional regressions of the natural log of total compensation on key economic determinants – namely, size (the natural log of sales), performance (ROA and annual stock returns), the market-to-book ratio, and industry indicators. Event-day abnormal returns are computed relative to an equally-weighted market index of all UK firms in our sample.

Similar to Cai and Walkling (2011), in Panel B we compare the event-day raw and abnormal returns of firms in the top and bottom quartiles of excess CEO pay. We find that, for events 5 and 6 (i.e., submission of say on pay to Parliament and subsequent Parliamentary approval), firms in the top quartile of excess CEO pay experience significantly positive raw and abnormal returns that are 0.69% (event 5) and 0.93% (event 6) higher than those experienced by firms in the bottom excess CEO pay quartile (both differences significant at the 1% level).[1] No abnormal returns are observed on the other event dates.

The analyses reported in Panel C are similar to those in Larcker et al. (2011). First, we present cross-sectional regressions of abnormal returns on excess CEO pay, size, momentum, and book-to-market. These analyses confirm the significant positive association between excess CEO pay and abnormal returns for event 5 (June 25, 2002), while the positive coefficient on excess CEO pay for event 6 is no longer significant at conventional levels (p-value = 0.19). As in Panel A, no abnormal returns are observed on the other event dates. Second, in the last row of Panel B, we report the results of a single pooled-multi-event regression, where we multiply abnormal returns by negative one for events associated with a decrease in the probability of regulation (Events 2 and 3) and we cluster the standard errors by date to correct for cross-sectional dependence (Larcker et al., 2011). We continue to find a positive association between excess CEO pay and abnormal returns (p-value = 0.029).

[1] For comparison, using a similar design, Cai and Walkling (2011) report a difference of 0.64% around the passage of a say on pay bill by the House of Representatives in the United States.

Section A2: Examples of Changes to Compensation Policies in Response to Shareholder Pressure

A. <u>Changes to severance contracts</u>

Reduction of notice periods to 12 months
"…as requested by some shareholders, Stephen Thomas and the Company agreed an amendment to his contract to reduce the notice period [from 24 months] to 12 months." *Luminar plc, Annual Report 2004*

"Shareholders should note that…the executive directors have agreed to reduce the notice periods of their contracts to twelve months." *Whitbread plc, Annual Report 2003/2004*

"Dr Garnier and Mr Coombe have agreed to changes in their own contractual terms without compensation…including the reduction of contractual notice period from 24 to 12 calendar months." *GlaxoSmithKline plc, Annual Report 2003*

Reduction of notice periods upon change in control to 12 months
"…following consultation with major shareholders, the service contract of Alain Levy, CEO EMI Music, was amended as from 1 April 2004 [to reduce his severance payment upon a change in control to from 24 to 12 months]" *EMI Group plc*, *Annual Report 2004*

"…following consultation with some of the Company's major shareholders … in the event of termination of employment within 12-months of a change of control…the amount payable is reduced from two years' to one year's salary and the cash equivalent of one year's pension, car and other contractual benefits." *Shire Pharmaceuticals Group plc, Annual Report 2003*

B. <u>Changes to performance-based vesting conditions in equity plans</u>

Elimination/Reduction) of Retesting Provisions
"…The Remuneration Committee has taken into account the wishes of shareholders and this option to the Group Managing Director will not allow re-testing of the performance target." *Berkeley Group Holdings plc, Annual Report 2004*

"Shareholders should note that… the Remuneration Committee has endorsed the policy that performance conditions applying to executive share options should not be subject to retesting" *Whitbread plc, Annual Report 2003/2004*

"… following consultation with major shareholders…it was agreed that …options granted from 2004 onwards will not be subject to re-testing..." *Millennium & Copthorne Hotels plc*, *Annual Report 2003*

"The Remuneration Committee, after consultation with some of its major institutional shareholders in 2003, has decided that, for options granted under the scheme from 2004 onwards, the performance condition should be retested once only, at five years after the grant…Any new option scheme established in the future will not contain a retesting feature." *Shire Pharmaceuticals Group plc, Annual Report 2003*

"Shareholders' views of the appropriateness of re-testing…have evolved since the plan was approved…in 2001. The Committee is aware of these views and has considered whether the policy of allowing two re-testing opportunities for future grants of options should continue…The conclusion of the review was that for grants made in 2004, one re-test only will be allowed at the end of year five…A further review…will take place prior to any grant of options in 2005." *Bae Systems plc, Annual Report 2003*

Introduction of tougher performance-based vesting conditions

"Prior to 2003…in order for the options to vest in full, EPS growth had on average to be at least 3 percentage points per annum more than the increase in the UK Retail Prices Index (RPI) over any 3-year performance period. For the 2003 grant, vesting increases on a straight line basis for EPS performance between the hurdles set out in the table below.

Annualized growth in EPS	Percentage of award vesting
>RPI+5%	100%
RPI+4%	75%
RPI+3%	50%
<RPI + 3%	0%

This performance condition is substantially consistent with UK shareholder guidelines and expectations and is considerably more demanding than any operated by other global pharmaceutical companies." *GlaxoSmithKline plc, Annual Report 2003*

"Comparative performance was previously measured by reference to the FTSE 100 but the Committee concluded that the measurement of performance against the performance comparator group of [international] pharmaceutical companies…would provide a better assessment of the company's performance." *GlaxoSmithKline plc, Annual Report 2003*

"Following consultation with principal shareholders… awards were granted to executive directors under the Performance Share Plan for which the eventual quantum capable of exercise will be determined by a TSR ranking relative to a comparator group of 18 other defense and aerospace companies operating in the international arena…Use of a sectoral comparator group was considered by our principal shareholders and institutional investor bodies to be more appropriate than using the FTSE 100 as had been the case historically with awards under this plan." *Bae Systems plc, Annual Report 2003*

"The committee considered moving from the FTSE Global telecoms Sector Index to the FTSE Index [as comparator to assess relative TSR performance], but during consultations shareholders expressed the view that they would prefer to retain the existing comparator group." *Cable & Wireless plc, Annual Report 2004*

C. <u>Initiatives to increase executives' ownership</u>

"Following consultation with some of its major shareholders and the subsequent revision of the design of the Plan, the Company asked shareholders in 2003 to approve a Deferred Bonus Plan…This Plan provides for participants to use up to 50% of their annual bonus to buy shares in the company. The company will match any shares bought, but the matched shares will vest for executive directors only if the company's EPS grows more than 15% in excess of RPI over a 3-year period" *Shire Pharmaceuticals Group plc, Annual Report 2003*

"The Committee has consulted with the Company's principal shareholders and, taking into account their views, proposes to make the following changes…awards under the 2002 Cash Plan will, in future, be made in shares, subject to the achievement of TSR performance targets, rather than in cash." *Wolseley plc, Annual Report 2004*

D. Changes to annual bonus plans

"…the Remuneration Committee has taken into account the concerns of shareholders regarding the uncapped nature of the Executive bonus arrangements and has decided to alter the structure of the bonus to reflect these concerns… In anticipation of the future change in policy, the Executives agreed to the introduction of a retrospective cap on bonuses [equal to] 300% of salary. However, for the year ended 30 April 2004, where the Remuneration Committee did in fact determine a bonus greater than 200% of salary…, they decided of their own volition to cap the bonus payment at 200% of salary." *Berkeley Group Holdings plc, Annual Report 2004*

"Bonuses for executive directors will in future be based on the out-turn in the Group's profits compared to the budgeted profits approved by the Board at the beginning of the financial year. This replaces the FTSE 100 share index multiplier approach adopted in the past which was criticised during the review process." *Freeport plc, Annual Report 2004*

E. Consultation/communication with shareholders

"The remuneration policy…was finalised after undertaking an extensive consultation process with shareholders and institutional bodies. During the year the Chairman of GlaxoSmithKline and the Chairman of the Committee met shareholders representing nearly half of [equity] capital…as a result [the Committee] has instigated a major shift in the way GlaxoSmithKline sets the remuneration of its most senior executives…"*GlaxoSmithKline plc, Annual Report 2003*

"This [new] policy was formulated … in response to concerns raised by shareholders at the 2003 AGM and was only finalised after extensive consultation with the Company's major shareholders and institutional shareholder bodies..." *Berkeley Group Holdings plc, Annual Report 2004*

"On 10 November 2003 the Company announced that it would instigate a review of its remuneration policy…This review has involved communicating with representatives of the Company's leading investors and seeking their views on all aspects of remuneration. Having considered these views, the Company has implemented a number of changes that are described below…The Chairman of the Remuneration Committee will always be available to hear investors' views on remuneration matters and can be contacted via the Company Secretary." *Freeport plc, Annual Report 2004*

"The chairman of the company ensures that the company, through the committee, maintains contact with its principal shareholders about remuneration matters. To this end, the committee consulted during the year in connection with the introduction of the new executive share option scheme which was duly approved at the 2004 AGM." *Cobham plc, Annual Report 2004*

"In line with company policy, extensive consultation took place with the company's principal shareholders…as well as institutional investor bodies. Taking on board views expressed during the consultation process, a number of modifications were made to the application of the Executive Share Option Plan and the Performance Share Plan." *Bae Systems plc, Annual Report 2003*

"As part of its continued review of executive remuneration policy…the Chairman consulted a number of the Company's principal institutional shareholders and other major institutional bodies…" *International Power plc, Annual Report 2003*

"During the year the Committee has undertaken a full review of executive remuneration. To address structural concerns raised by major shareholders changes have been made to certain elements of the package, and these are detailed in this report … Throughout the process the Committee has consulted with major shareholders to ensure their support for the approach taken." *Barratt Developments plc, Annual Report 2004/2005*

"During the year, the Remuneration Committee reviewed the current remuneration structure. A number of changes are proposed as a result of this review. These changes have been discussed with leading shareholders and their representative bodies, who have been generally supportive." *Cable & Wireless plc, Annual Report 2004/2005*

"We plan to seek shareowner approval for a number of changes at our Annual General Meeting in 2004 … Before finalising the proposals, the Committee sought the views of a number of major shareowners, as well as the Association of British Insurers (ABI) and National Association of Pension Funds (NAPF). Following this consultation the Company took the comments from shareowners and investment committees into account in developing its remuneration arrangements." *Cadbury Schweppes plc, Annual Report 2003*

"The 2004 LTIP was approved by shareholders at the EGM on 24 February 2004. Prior to the EGM, the Company conducted a full consultation with major shareholders and shareholder bodies which ensured that the terms of the Plan were acceptable to the majority of shareholders by percentage holding and complied with corporate governance best practice." *Berkeley Group Holdings plc, Annual Report 2004*

"In determining the performance measure for the Executive Share Option Plan, the Committee took the view that our major investors believe EPS to be a key indicator of long-term financial performance…" *Bae Systems plc, Annual Report 2003*

Section A3: Bonus Pay in the UK Pre- and Post- Say on Pay Legislation

Panels A and B of Table VII report the breakdown of pay into its various components and suggest that in our sample salaries are the dominant component of cash pay (about three fourths).

In our regression analysis, similar to other studies (e.g., Dechow et al. 1994; Core et al. 1999), we focus on cash pay (salary plus bonus) to allow for the possibility that salaries, at least to some extent, may be performance-sensitive. CEO salary increases tend to be discretionary (none of 150 UK firms we analyzed links yearly salary increases explicitly to inflation or some other formula) and some firms indicate that firm performance is one of the factors that they take into account when revising the CEO's salary.[2]

Nevertheless, to ensure that our results are not driven by salaries, we repeat the analysis in Table IX using only bonus pay. As reported in Appendix Table II, we obtain similar results. This is not surprising given that fixed effects absorb cross-sectional, performance insensitive variation in salaries leaving behind what largely amounts to bonuses.

[2] For example, AMEC plc in its 2002 Annual Report states: "The base salaries…are reviewed annually, having regard to personal performance, company performance and competitive market practice, as determined by external research" (p. 44).

Section A4: Controlling for Unobservable Contemporaneous Changes in the UK Governance Environment

A major challenge in pre-post studies is to attribute the documented effects to the event of interest rather than to other factors that affect all firms. We address this possibility by examining a control sample of UK firms not subject to say on pay because they are traded on the AIM, a sub-market of the London Stock Exchange with a more flexible regulatory system than the Main Market. We obtain from Hemscott/Morningstar a sample of about 900 AIM firms with CEO cash compensation data (the dataset does not contain data on the value of equity compensation) for at least one year between 2000 and 2005. After imposing the condition that firms have the required data in both the pre- and post-periods, we end up with a sample of 243 AIM firms (yielding more than 1,100 observations in the regression analysis).

The evidence presented in Panel A of Appendix Table III indicates that the increased sensitivity of CEO cash compensation to poor operating performance documented in Table IX is observed only for firms subject to say on pay (i.e., Non-AIM UK firms). For AIM firms, the sensitivity of CEO pay to its economic determinants does not change after the introduction of say on pay.

AIM firms, by their very nature, differ systematically from firms traded on the major exchanges.[3] In particular, they tend to be substantially smaller and less profitable. In our sample, AIM firms' sales range between 5 and 500 million pounds (with a mean of 36 million) and the mean (median) ROA is -6.7% (1.2%). AIM firms also tend to have higher growth opportunities (mean and median market-to-book ratios are 4.4 and 1.6, respectively) and higher CEO ownership (mean and median of 8.4% and 3.1%, respectively).[4] However, these differences do not necessarily affect the validity of using AIM firms as a control group. In a differences-in-differences design, the levels of the variables need not be the same across the treated and untreated groups. The key identification assumption is that, in the absence of treatment (i.e., the introduction of say on pay regulation), the coefficients for the treated (i.e., non-AIM UK firms) and the untreated (AIM UK Firms) would have behaved similarly.

Moreover, as discussed in the manuscript (see footnote 25),within the non-AIM sample the effect of say on pay does not depend on institutional ownership, firm size, or board independence, implying that differences in these and other correlated characteristics are unlikely to drive the difference-in-difference result in Panel A of Appendix Table III. Finally, recognizing size to be both a key difference and a proxy for a number of related economic characteristics, we repeat the analysis in Panel A of Appendix Table III, limiting the AIM UK and non-AIM UK samples to the region where the size distributions overlap (i.e., the region of common support, which occurs between 5 and 500 million pounds). The results, reported in Panel B of Appendix Table III, are unchanged. While the AIM sample is admittedly not a perfect control sample, the test is consistent with an increase in the sensitivity of CEO pay to poor operating performance only for firms subject to the say on pay regulation.

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[3] Mallin, C. and Ow-Yong, K. (2008) Corporate governance in alternative investment market (AIM) companies, The Institute of Chartered Accountants of Scotland, Edinburgh, Scotland.

[4] We do not have access to governance data for AIM firms, except for 70 AIM firms covered in BoardEx. For these AIM firms, on average, 43% of the directors on the board are independent and institutional blockholders own 28% of equity. Comparative figures of 50% and 28% for UK firms on the Main Market suggest limited differences at least in terms of these two governance characteristics.

Appendix Table I. **Additional Market Reaction Tests**

Panel A: Events signaling changes in the probability of say on pay regulation*

Event	Description	Date	Effect on Pr(Regulation)
[1]	The press reports that the Department of Trade and Industry (DTI) is considering say on pay regulations.	6/13/1999	Increase
[2]	The DTI announces that it will defer its decision on say on pay until at least October when Parliament re-adjourns.	7/25/2000	Decrease
[3]	Say on pay is dropped from the list of topics for the coming Parliamentary session. According to the press, the government wants to avoid alienating business voters in advance of the May general election.	10/29/2000	Decrease
[4]	The DTI announces a say on pay consultation document inviting comments on the draft regulations.	10/19/2001	Increase
[5]	The DTI submits say on pay regulation to the Parliament (to be debated in July).	6/25/2002	Increase
[6]	The UK Parliament approves say on pay.	7/25/2002	Increase

*Identified by searching Lexis-Nexis using various combinations of the words “remuneration,” “compensation,” “pay,” “government,” “Department of Trade and Industry,” “DTI,” “legislation,” and “regulation.”

Event	Market commentary / Possible confounding events*
[1]	The FTSE 100 falls 54.7 points to 6,430.1. The FTSE 250 edges 0.7 higher to 5,818.2. Wal-Mart makes a surprise bid for Asda.
[2]	The FTSE 100 trades within a narrow range, closing 9.4 higher at 6,390.7 – essentially flat. The FTSE 250 closes down 16.9 at 6,805.
[3]	The London market trades in a narrow range all day with limited volume. Many trading desks are empty as the south of England suffers its worst storm since 1987. The FTSE 100 closes 21.9 ahead at 6,388.4. The FTSE 250 is up 20.8 at 6.589.5.
[4]	The FTSE 100 index falls 98.3, or 1.9 per cent, to 5,017.7. The FTSE 250 loses 66.8, or 1.2 per cent, to 5,391.9. Among the reasons for the market decline are (i) unease with the continuing war on terrorism and (ii) an anthrax scare affecting the UK Parliament. Internationally, the German IFO business climate index comes in much lower than expected, while inflation data from the US come in higher than expected. Domestically, Rolls-Royce announces a largely expected restructuring plan, which includes 5,000 job losses.
[5]	The FTSE 100 falls 3.8 to 5,661.9. The FTSE 250 falls 3.6 to 6,336.9. Media stocks dominate as the worst performers in the FTSE 100, amid renewed concerns about the extent of the downturn in television advertising.
[6]	Investors respond positively, though cautiously, to strong performance on Wall Street. London's initially cautious response is a reflection of the news, announced after US markets closed, that the US Securities and Exchange Commission is investigating accounting procedures at AOL Time Warner's online division. At the end of the session the FTSE 100 is up 188.8, or 5 per cent, at 3,965.9. The FTSE 250 moves up 68.1, or 1.5 per cent, to 4,653.8.

*Identified by searching the "Stock Markets: London Stock Exchange" section of the *Financial Times* for the next day after each event. This section of the newspaper reports the aggregate market activity for the previous day (in our case, the event day) and contains a short commentary, often a single sentence, speculating on the cause of that activity.

Panel B: Raw and Abnormal Event-Day Returns by Excess Pay Quartiles

			Raw Returns (p-values) by Excess Pay Quartile			Abnormal Returns (p-values) by Excess Pay Quartile		
Event	**Effect on Pr(Regulation)**	**N**	**Q1 (Low)**	**Q4 (High)**	**Difference (Q4 - Q1)**	**Q1 (Low)**	**Q4 (High)**	**Difference (Q4 - Q1)**
[1]	Increase	343	-0.08% (0.606)	0.09% (0.574)	0.18% (0.446)	-0.03% (0.876)	0.15% (0.356)	0.18% (0.446)
[2]	Decrease	298	-0.09% (0.615)	0.03% (0.858)	0.12% (0.629)	-0.07% (0.709)	0.05% (0.757)	0.12% (0.629)
[3]	Decrease	298	0.04% (0.871)	0.27% (0.215)	0.24% (0.448)	-0.27% (0.216)	-0.04% (0.866)	0.24% (0.448)
[4]	Increase	499	-0.24% (0.320)	**-0.51%** **(0.033)**	-0.27% (0.423)	0.19% (0.425)	-0.08% (0.738)	-0.27% (0.423)
[5]	Increase	545	0.00% (0.996)	**0.69%** **(<.001)**	**0.69%** **(0.005)**	**-0.39%** **(0.023)**	**0.30%** **(0.087)**	**0.69%** **(0.005)**
[6]	Increase	589	**1.17%** **(<.001)**	**2.09%** **(<.001)**	**0.93%** **(0.003)**	**-0.48%** **(0.035)**	**0.45%** **(0.047)**	**0.93%** **(0.003)**

Panel C: Regression of Abnormal Event-Day Returns on Excess Pay and Control Variables

			Regression Coefficients (p-values)			
Event	**Effect on Pr(Regulation)**	**N**	**Excess Pay**	**Size**	**BM**	**Momentum**
[1]	Increase	343	0.22% (0.125)	**-0.25%** **(<.001)**	0.18% (0.277)	-0.29% (0.282)
[2]	Decrease	298	-0.07% (0.658)	0.05% (0.450)	0.15% (0.355)	0.53% (0.138)
[3]	Decrease	298	0.00% (0.991)	0.00% (0.990)	0.12% (0.503)	0.19% (0.628)
[4]	Increase	499	0.04% 0.836	**-0.17%** **(0.009)**	**-0.04%** **(0.026)**	**-1.01%** **(0.033)**
[5]	Increase	545	**0.30%** **(0.025)**	**0.17%** **(<.001)**	0.00% (0.943)	**0.85%** **(0.003)**
[6]	Increase	589	0.22% (0.197)	**0.37%** **(<.001)**	**0.05%** **(0.015)**	-0.20% (0.587)
[1 - 6]	N/A	2,572	**0.18%** **(0.029)**	0.07% (0.538)	0.00% (0.950)	-0.09% (0.767)

This table presents an event study around six events that (arguably) signaled changes in the probability of say on pay regulation. Since the analyses in this appendix do not utilize severance data, for this test we examine an expanded sample of up to 589 firms (depending on data availability). Panel A provides a description of the six events. Event 5 is the June 25, 2002 announcement examined in the manuscript.

Panel B reports the mean values of *Raw Returns* and *Abnormal Returns* for the highest and lowest *Excess Pay* quartiles. *Raw Returns* is the event-day return (source: Datastream). *Abnormal Returns* is the abnormal event-day return relative to an equally-weighted market index of all firms in our sample (source: Datastream). *Excess Pay* is the residual from annual cross-sectional regressions of the natural log of total compensation on size (the natural log of sales), performance (ROA and 1-year stock returns), market-to-book, and industry dummies. For events 4 – 6, we use BoardEx compensation data for our annual cross-sectional excess pay regressions (all other variables are from Datastream). For event 4, we use observations from fiscal 2000. For event 5, we focus on fiscal 2001 observations with annual reports filed before June 1, 2002. For event 6, we focus on fiscal 2001 observations. Events 1-3 precede the start of the BoardEx database. For these events, we use 1997 data generously supplied by Martin Conyon and Kevin J. Murphy and described in Conyon and Murphy (2000). Data availability differs across the events, explaining the differences in sample size. P-values are based on two-tailed heteroskedastic-robust *t*-statistics. Values that are statistically significant at the 10% level appear in bold.

Panel C reports the results of six cross-sectional regressions and one pooled regression. For the cross sectional regression, we estimate the equation $Abnormal\ Returns_i = \delta_0 + \delta_1 Excess\ Pay_i + \delta_2 Size_i + \delta_3 BM_i + \delta_4 Momentum_i + \varepsilon_i,$ where i denotes firm i. For the pooled regression, we estimate the pooled analog: $Abnormal\ Returns_{i,t} = \delta_0 + \delta_1 Excess\ Pay_{i,t} + \delta_2 Size_{i,t} + \delta_3 BM_{i,t} + \delta_4 Momentum_{i,t} + \varepsilon_{i,t}$, where i denotes firm i and t denotes event 1, 2, 3, 4, 5, or 6. For the pooled regression, when t = 2 or 3, $Abnormal\ Returns_{i,t}$ is multiplied by negative one. *Size* is the natural logarithm of market value (in millions) measured 6 months prior to day t (source: Datastream). *BM* is the ratio of book value to market value measured 6 months prior to day t (source: Datastream). *Momentum* is the market-adjusted return over the prior six months (source: Datastream). For the cross-sectional regressions (pooled regression), we report p-values based on two-tailed heteroskedastic-robust (date-clustered) *t*-statistics (Larcker et al., 2011). Values that are statistically significant at the 10% level appear in bold.

Appendix Table II. **Determinants of CEO Bonus Pay in the UK Pre- and Post- Say on Pay Legislation**

	Y = Ln (1 + CEO Bonus)								
	Pre Period			**Post Period**			**Difference Post - Pre**		
Variable	**Coeff.**		**P val**	**Coeff.**		**P val**	**Coeff.**		**P val**
Post Period				0.16		0.17	0.16		0.17
Trend	0.29	***	0.00	0.19	**	0.05	-0.10		0.33
Industry-Adjusted Returns^{+}	0.52	**	0.02	0.09		0.63	-0.43		0.12
Industry-Adjusted Returns^{-}	2.27	***	0.00	1.77	***	0.00	-0.50		0.31
Industry Returns	1.43	***	0.00	0.75	***	0.00	-0.68		0.15
Industry-Adjusted ROA^{+}	6.96	***	0.00	5.54	***	0.00	-1.42		0.29
Industry-Adjusted ROA^{-}	0.16		0.89	6.32	***	0.00	6.16	***	0.00
Industry ROA	8.70	***	0.00	8.13	***	0.00	-0.57		0.68
Ln Sales	-0.15		0.34	-0.16		0.33	-0.01		0.85
Market-to-Book Ratio	0.03	**	0.02	0.03		0.16	0.00		0.78
CEO Ownership	0.24		0.79	-1.07		0.41	-1.31		0.28

This table reports results from estimating the following OLS panel regression on a sample of 3,305 firm-year observations over the period 2000-2005:

$$\text{Ln}(1 + \text{CEO Bonus}_{it}) = \delta_i + (1 - \text{Post}_{it})\left[\sum_{j=1}^{10} \alpha_j \times \text{Pay Determinants}_{j,it}\right] + \gamma\, \text{Post}_{it} + \text{Post}_{it}\left[\sum_{j=1}^{10} \beta_j \times \text{Pay Determinants}_{j,it}\right] + \varepsilon_{it}.$$

The dependent variable is the natural logarithm of 1 + *CEO Bonus*. *Post* is an indicator variable equal to 1 (0) for observations occurring in the 2003-2005 (2000-2002) period. The set of *Pay Determinants* are defined as follows: *Trend* = fiscal year minus 1999 (2002) in the pre- (post) period; *Industry-Adjusted Returns*$^{+(-)}$ = the difference between *Raw Returns* and *Industry Returns* if positive (negative), and 0 otherwise; *Industry Returns* = mean *Raw Returns* for all firms in the same BoardEx industry code; *Industry-Adjusted ROA*$^{+(-)}$ = the difference between *ROA* and *Industry ROA* if positive (negative), and 0 otherwise; *Industry ROA* = mean *ROA* for all firms in the same BoardEx industry code; *Ln Sales* = the natural logarithm of lagged annual revenues; *Market-to-Book Ratio* = the lagged ratio of the market to the book value of equity; *CEO Ownership* = the lagged percentage of the firm's equity held by the CEO. The coefficients α (β) measure associations between CEO bonus pay and its economic determinants for the pre- (post-) say on pay observations. The coefficients δ_i are firm fixed effects and the coefficient γ detects whether say on pay resulted in a one- time, performance independent shift in the average level of CEO bonus pay. *, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively (based on a two-tailed test). Reported P-values are based on heteroskedasticity-adjusted standard errors clustered by firm.

Appendix Table III. **Determinants of CEO pay in the UK Pre- and Post- Say on Pay Regulation: AIM UK Firms vs. Non-AIM UK Firms**

Panel A: Full Sample

	Y = Ln (CEO Cash Pay)									
	AIM UK Firms				Non-AIM UK Firms				Non-AIM UK Firms – AIM UK Firms	
	Pre Period	Post Period	Difference Post - Pre		Pre Period	Post Period	Difference Post - Pre		Difference in Difference	
Variable	Coeff.	Coeff.	Coeff.	P val	Coeff.	Coeff.	Coeff.	P val	Coeff.	P val
Post Period		0.27 *	0.27	0.07		0.12	0.12	0.35	-0.15	0.67
Trend	0.10 **	0.05 ***	-0.06	0.30	0.09 ***	0.08 ***	0.00	0.80	0.05	0.37
Industry-Adjusted Returns $^{+}$	0.08 ***	0.03	-0.05	0.14	0.04	0.04	-0.01	0.87	0.04	0.45
Industry-Adjusted Returns $^{-}$	0.02	0.00	-0.01	0.91	0.09	0.25 ***	0.16 *	0.05	0.17	0.26
Industry Returns	0.03	-0.05	-0.09	0.51	0.01	0.10 **	0.09	0.29	0.18	0.26
Industry-Adjusted ROA $^{+}$	0.67 **	0.99 ***	0.32	0.29	0.94 ***	1.06 ***	0.12	0.63	-0.20	0.61
Industry-Adjusted ROA $^{-}$	0.00	-0.11	-0.11	0.59	-0.26	0.69 **	0.95 ***	0.00	1.06 ***	0.00
Industry ROA	0.61 **	1.03 ***	0.42	0.27	0.91 ***	1.07 ***	0.16	0.55	-0.26	0.58
Ln Sales	0.11 **	0.12 **	0.02	0.49	0.08 ***	0.06 **	-0.02	0.13	-0.03	0.23
Market to Book	0.00	0.00	0.00	1.00	0.00 **	0.01 *	0.00	0.48	0.00	0.50
CEO Ownership	0.12	0.12	0.00	0.99	0.06	0.08	0.02	0.93	0.02	0.96

This table reports results from estimating the following OLS panel regression on a sample of 4,459 firm-year observations over the period 2000-2005:

$$\text{Ln(CEO Cash Pay}_{it}) = \delta_i + \text{AIM}_i \times [(1\text{-Post}_{it}) \times (\textstyle\sum_{j=1}^{10} \alpha_j \times \text{Pay-Determinants}_{j,it}) + \gamma\,\text{Post}_{it} + \text{Post}_{it} \times (\textstyle\sum_{j=1}^{10} \beta_j \times \text{Pay- Determinants}_{j,it})] +$$

$$+ (1\text{-AIM}_i) \times [(1\text{-Post}_{it}) \times (\textstyle\sum_{j=1}^{10} \varphi_j \times \text{Pay- Determinants}_{j,it}) + \lambda\,\text{Post}_{it} + \text{Post}_{it} \times (\textstyle\sum_{j=1}^{10} \theta_j \times \text{Pay- Determinants}_{j,it})] + \varepsilon_{it}$$

Ln(CEO Cash Pay) is the natural logarithm of *CEO Cash Pay. AIM* is an indicator variable equal to 1 for UK firms traded on the Alternative Investment Market (AIM) and 0 for all non-AIM UK firms. All other variables are defined in Tables VIII and IX of the manuscript. This table reports coefficients, pre-post differences in coefficients, and differences in pre-post differences across the AIM and non-AIM UK subsamples (i.e., “differences-in-differences”).

*, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively (based on a two-tailed test). Reported P-values are based on heteroskedasticity-adjusted standard errors clustered by firm.

Panel B: Common Support Sample

	Y = Ln (CEO Cash Pay)									
	AIM UK Firms				Non-AIM UK Firms				Non-AIM UK Firms – AIM UK Firms	
	Pre Period	Post Period	Difference Post - Pre		Pre Period	Post Period	Difference Post - Pre		Difference in Difference	
Variable	Coeff.	Coeff.	Coeff.	P val	Coeff.	Coeff.	Coeff.	P val	Coeff.	P val
Post Period		0.28 *	0.28	0.07		0.14	0.14	0.36	-0.14	0.47
Trend	0.10 **	0.05	-0.06	0.30	0.09 ***	0.08 ***	0.00	0.87	0.05	0.38
Industry-Adjusted Returns +	0.08 ***	0.03	-0.05	0.14	0.02	0.04	0.02	0.71	0.07	0.25
Industry-Adjusted Returns -	0.02	0.00	-0.02	0.91	0.10	0.21 ***	0.12 *	0.24	0.13	0.42
Industry Returns	0.03	-0.05	-0.08	0.51	0.00	0.07	0.07	0.49	0.15	0.35
Industry-Adjusted ROA +	0.67 **	0.99 ***	0.32	0.29	0.73 **	1.03 ***	0.30	0.34	-0.02	0.95
Industry-Adjusted ROA -	0.00	-0.11	-0.11	0.60	-0.32	0.67 **	0.99 ***	0.01	1.10 ***	0.01
Industry ROA	0.61 **	1.03 ***	0.42	0.27	0.68 *	1.16 ***	0.48	0.20	0.06	0.91
Ln Sales	0.11 **	0.12 **	0.02	0.51	0.09 ***	0.06 *	-0.03	0.16	-0.05	0.14
Market to Book	0.00	0.00	0.00	0.99	0.00 *	0.01	0.00	0.87	0.00	0.87
CEO Ownership	0.12	0.12	0.00	0.99	0.07	0.00	-0.07	0.74	-0.07	0.83

This table reports results from estimating the following OLS panel regression on a sample of 2,257 firm-year observations over the period 2000-2005:

$$\text{Ln(CEO Cash Pay}_{it}) = \delta_i + \text{AIM}_i \times [(1\text{-Post}_{it}) \times (\textstyle\sum_{j=1}^{10} \alpha_j \times \text{Pay-Determinants}_{j,it}) + \gamma\, \text{Post}_{it} + \text{Post}_{it} \times (\textstyle\sum_{j=1}^{10} \beta_j \times \text{Pay- Determinants}_{j,it})] +$$

$$+ (1\text{-AIM}_i) \times [(1\text{-Post}_{it}) \times (\textstyle\sum_{j=1}^{10} \varphi_j \times \text{Pay- Determinants}_{j,it}) + \lambda\, \text{Post}_{it} + \text{Post}_{it} \times (\textstyle\sum_{j=1}^{10} \theta_j \times \text{Pay- Determinants}_{j,it})] + \varepsilon_{it}$$

Ln(CEO Cash Pay) is the natural logarithm of *CEO Cash Pay. AIM* is an indicator variable equal to 1 for UK firms traded on the Alternative Investment Market (AIM) and 0 for all non-AIM UK firms. All other variables are defined in Tables VIII and IX of the manuscript. This table reports coefficients, pre-post differences in coefficients, and differences in pre-post differences across the AIM and non-AIM UK subsamples (i.e., “differences-in-differences”).

*, **, *** indicate statistical significance at the 0.10, 0.05, and 0.01 levels, respectively (based on a two-tailed test). Reported P-values are based on heteroskedasticity-adjusted standard errors clustered by firm.