CEO Pay Ratios Impact Investment Decisions

Making CEO pay ratios public could impact the market. A study in the Journal of Management Accounting Research finds that disclosing a high ratio between a chief executive officer's pay and median employee pay at a company prompted participants in an experiment to deem a CEO's pay unfair. The more unfairness they saw, the less likely they were to want to invest in the company. Just disclosing CEO pay that was above the average in the industry, without the ratio, didn't have the same impact. "If companies are concerned about negative public perceptions, our results suggest that pay ratio disclosures may be better able than current CEO pay disclosures at shaming companies into restraining CEO pay," authors Khim Kelly of University of Waterloo and Jean Lin Seow of Singapore Management University write.(rachel.feintzeig@wsj.com; @rachelfeintzeig)

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