The Politics of Executive Pay in the United Kingdom and the United States

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Abstract

This article examines the rise of the issue of executive pay as a political issue in the United Kingdom and the United States. Both countries eventually adopted "say on pay," a legislative measure requiring listed companies to give shareholders a non-binding vote on the pay packages of top executives. The UK first extended this right to shareholders in 2002; the US followed eight years later. Interest groups that favored say on pay – institutional investors – were of secondary importance to the passage of the bills. The left in opposition is a loud advocate for the extension of shareholder rights. The left in government, however, resists them unless pushed by public opinion. Political parties do not in fact channel public opinion in the area of executive pay regulation – instead, they follow it. The politics of extending new rights over the setting of executive pay is driven primarily by sustained public outrage.

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Introduction

The adoption of a law requiring "say on pay" at publicly listed companies creates a significant new shareholder right: that of being able to vote on executive pay. In this sense, say on pay goes beyond the past regulatory instruments used to reinforce shareholder oversight of managers, such as disclosing more information on pay packages or allowing them to claw back pay-outs subsequently discovered to have been based on spurious financial results. Say on pay creates a direct mechanism for shareholder voice on pay packages. This grant of power falls short of shareholder control over pay packages: both the United Kingdom and the United States have adopted laws on say on pay that do not require boards to follow the decision of the votes. Yet one of the few empirical studies of the passage of say on pay in the UK found that the very existence of say on pay does in fact create greater sensitivity of CEO pay to poor performance, particularly among firms which experience high levels of voter dissent from board proposals (Ferri and Maber 2012).[1] Scholars of corporate law fiercely debate the normative desirability of say on pay, with disagreements centering on whether shareholders have the capacity to use say on pay votes to exercise effective oversight of managers and boards (Gordon 2009, Bainbridge 2009). Proponents and detractors agree, however, that say on pay represents a substantial transfer of power from managers to shareholders (Thomas et al. 2012).

Political scientists who have written about financial reform in the United States have thus far been dismissive of say on pay. First, because the vote is not binding on boards, the right is seen as "merely" symbolic politics (Suarez 2011). Moreover, scholars note that say on pay does not substantially affect the ability of managers to influence the composition of their own boards of directors, which is the core of managerial power in American firms (Cioffi 2010). These observations may well be valid. It is clear that say on pay is chosen by politicians to respond to popular outrage about perceived abuses in executive pay, and the grant of power it entails is certainly limited. However, the import of institutional changes is often difficult to observe in the short-term. And even short-term studies of impact in the US and the UK have found that say on pay votes have an effect at firms who receive negative

[1] Say on pay does not appear to have an impact on the overall growth in executive compensation. However, it does increase the ability of shareholders to restrain poor performance (Ferri and Maber 2012).

votes, or even negative voting recommendations from proxy services (Thomas et al. 2012, Ferri and Maber 2012).

This article does not take a position on the effects of say on pay. What it does instead is to use the development of say on pay in the UK and the US, the two most important liberal market economies, to consider the ways in which political parties, interest groups, and the public interact in the process of institutional change in corporate governance regulation.[2] This literature has focused overwhelmingly on the question of whether institutional change in corporate governance is caused primarily by the action of political parties or of interest groups (Gourevitch and Shinn 2005, Cioffi 2010). Proponents of the political party perspective emphasize the causal weight of the preferences of parties in trying to appeal to the values of their constituents (Cioffi and Höpner 2006) or to the median voter (Roe 2012) to design corporate governance reforms. Interest group theorists focus instead on the changing political strength of groups with substantial stakes in these reforms, notably institutional investors, in accounting for shifting regulatory outcomes (Lütz and Eberle 2008, Engelen et al. 2008, Widmer 2011). Largely ignoring the literature on how policy agendas are set (Jones and Baumgartner 2005, Culpepper 2011, Woll 2012), neither of these dominant perspectives in political economy gives much of a role for shifts in public opinion, except as they operate through political parties.

This article argues that political parties do not in fact channel public opinion in the area of executive pay regulation – instead, they follow it. Parties of the left are indeed the natural advocates of moving the rules governing executive compensation from the private governance to public regulation. Yet, like their counterparts on the right, left governments are hesitant to pass such laws because of their uncertainty over the economic consequences of such changes. They will use their position on reform to extract reforms from business lobbies – the natural opponents of such reforms – and to place rightist parties at a disadvantage. Once in power, though, left governments will only pass an extension of rights like say on pay under pressure of sustained public concern about executive pay. Without such pressure, they will prefer to defer to business lobbies, which warn about the costs of such regulation to national economies. Thus governments of the left are more likely than center-right parties to favor say on pay legislation. But the causal reason for the passage of such laws is the combination of a

[2] As of this writing, in addition to the US and the UK, governments had adopted say on pay policies in the Netherlands (2004), Australia (2004), Sweden (2006), Norway (2007), and Belgium (2012) (Thomas et al. 2012). The UK bill on say on pay was the first to be adopted anywhere. The comparison here focuses on the British and American cases because of their comparability in terms of political party systems and majoritarian institutions that (until recently) rarely featured coalition governments. Given the vast size of the London and New York stock markets, these are also the most significant cases of say on pay.

government of the left with sustained political salience of the issue. Neither political salience nor a government of the left is likely, alone, to ensure passage of such a law.

In the first section of the paper, I position this discussion of the politics of executive pay within existing social science research on interests involved in corporate governance reform. The second section presents empirical evidence from press analysis of the trends in the political salience of executive pay in the United Kingdom and the United States. Case studies of how executive pay policy developed in light of public attention to the issue in these countries comprise the next two sections of the paper. A final section concludes.

Partisan Preferences vs. Partisan Pragmatism in Executive Pay Politics

Policies of executive pay are part of the general politics of corporate governance, which has been the subject of concentrated interest in social science over the past decade. This literature is sometimes cast as a debate between those who see the locomotive force of reform as being political parties and those who look instead to the action of interest groups. Mark Roe (2003, 2012), for example, depicts the major conflicts of capitalism as being about the position of the median voter – the farther to the left the median voter in a society, the more we observe restrictions on the trading of companies in order to facilitate the functioning of welfare capitalism. John Cioffi and Martin Höpner (2006, Höpner 2007) focus not on the median voter, but on how parties develop programmatic interests in using corporate governance rules to respond to the demands of their core constituents. In particular, they claim that changes in the economic structure of the advanced capitalist countries create incentives for Social Democratic voters to prefer increased greater transparency.[3]

Against this partisan trend of analysis, Peter Gourevitch and James Shinn (2005) have argued that the real battles are not between political parties, but among interest groups: those of entrenched managers, institutional investors, and labor unions. Under the coalitional argument of Gourevitch and Shinn, parties merely ratify the deals on corporate control cut across these groups. There are three potential coalition partners highlighted in this sort of analysis: shareholders, managers, and workers. Workers and their unions can join with managers to form a corporatist coalition, disadvantaging minority shareholders. Alternatively, they may take the side of shareholders against management, when the structure of their pension funds is such as to make them more interested in transparency (say, of executive

[3] See also Schnyder (2011) for an alternative view of party preferences.

salaries) than employment protection. This is a transparency coalition with strong interest in the area of executive compensation. The growth in the visibility and action of institutional investor in recent years leads us to expect them to be the interest group actors with both the resources and the capacity to weigh heavily in debates about executive pay (Lütz and Eberle 2008, Engelen et al. 2008).

Unlike other areas of corporate governance regulation, which are generally contested in hushed committee rooms rather than plenary debates, the politics of executive pay takes place under the scrutiny of the voting public. Thus, we should expect the politics of rights-expansion in executive pay to look different than low-profile issues. Indeed, some scholars studying the rise in political salience creates its own political considerations (Culpepper 2011, Woll 2012). In this article we are particularly interested in how the structural interests of parties and interest groups interact in the rise in political salience. Do politicians and interest groups cause, or merely respond to, increases in salience?

What makes a policy field salient in the first place? We lack a good general theory of where salience comes from, as its sources are contingent (Jones and Baumgartner 2005). However, executive pay shares with other privately regulated types of governance the following asymmetry: when it becomes politically salient, it almost always as a result of some perceived *failure* of the private regulation system. It is hard to conceive of privately set CEO pay capturing the public interest because it is seen to work so efficiently to set the appropriate incentives for performance.[4] The question of how transformative this failure likely to be tied up with an idea identified by Frank Baumgartner (2012: 18) as the "the degree of discredit to the status quo" created by the original problem. If executive pay becomes durably salient through a scandal that exposes a severe misfit between governance institutions and the behavior they are supposed to encourage, that will cast severe discredit on those institutions. Thus we expect significant turning points of battles over executive pay to emerge as the result of scandals that call the institutions of private governance of executive compensation into question.

Left parties have historically been comfortable with the language of rights expansion, but shareholder rights are actually pro-capitalist rights: strengthening the hand of owners against those who run firms. The expansion of shareholder rights entailed in say on pay laws is a difficult proposition. The political party most likely to expand such rights is wary of what such rights entail in domains outside executive pay, and the organized representatives who

[4] In an empirical analysis of all press coverage of executive pay in the United States between 1990 and 2010, Kuhnen and Niessen (2012) report that positive coverage of executive pay is a rarity.

stand to gain the most from an expansion of such rights (institutional investors) are only allies of convenience for the left. This means that we only expect the left to seize on rights for shareholders as a way to take votes from the right; not as a part of a core appeal to a new constituency. In other words, we expect the left to extend shareholder rights not for reasons of fundamental change in the preferences of their voters, as in Cioffi and Höpner (2006), but instead on more pragmatic and electoral grounds.

The interests of the left in government, moreover, may be quite different from the left in opposition. The left in opposition is free to take positions solely with regard to future electoral considerations, and its primary concern is only the effects of its discourse in disadvantaging the right. The left in government, by contrast, has to worry not only about electoral advantage vis-à-vis the right party, but also because of its interactions with business, on whose investment decisions it depends for eventual reelection (Lindblom 1977, Offe 1984). Because it does not have a deep ideological commitment to extending the rights of shareholders – one consequence of which might be to undermine the power in the firm of its historical ally, labor – we do not expect governments of the left will want to antagonize business to extend such rights (Engelen et al. 2008). Thus, the question of shareholder rights extension for the left will not be determined by any underlying ideological commitment, but instead by weighing the political gains of regulating executive pay versus the costs of alienating organized business. It is only under the continued pressure of persistently high political salience that we expect left governments to move towards say on pay.

For political parties of the right, which typically favor market regulation, the rise of executive pay as a political issue is more of a challenge than for the left. Interest groups seeking industry self-regulation or the writing of voluntary codes of conduct will be the natural allies of the right. Managerial groups are the most obvious providers of such codes (Lütz et al. 2011). Yet institutional investors are also potential allies, in situations in which they prefer non-regulation to regulation. The political problem on the right comes when there is a conflict between the demands of managers – a core supporter of the right on many issues – and shareholders. We might expect liberal parties (in multi-party systems) and in conservative parties with a strongly pro-market ideology (in two-party systems) to be capable of supporting say on pay. But for mainstream center-right conservative parties, the old managerial alliance is likely to trump the new appeal of a shareholder alliance. Thus, we expect governments of the center-right to oppose the extension of say on pay under most circumstances.

Comparative Political Salience

How can we know the political issues about which voters are concerned? We can of course ask them, through public opinion surveys. And for issues routinely judged to be of importance, good information on such issues is available for most advanced industrial countries through surveys. But we cannot get good data through these means about issues that are not typically regarded as being among the "most important problems" facing a nation. Thus, survey research provides a poor window onto the emergence of political issues over time. Executive pay is such an issue. Absent survey research panels, an excellent measure of policy salience – that is, how much voters care about one political issue relative to others – is press coverage (Smith 2000, Jones and Baumgartner 2005, Culpepper 2011). The assumptions involved in using such measures are not heroic. We need simply to believe that newspapers are interested in writing more articles about the issues in which they think voters are most interested.

To compare the political salience of executive pay in the three countries, I used the Lexis-Nexis database to search for comparable pay-terms in one leading broadsheet newspaper of each country. For the United States, I used the *New York Times*, widely considered the most influential American newspaper. The *Times*, like most American broadsheets, is considered by specialists to have a left-of-center political orientation. I therefore compared coverage with the leading left-of-center newspaper in the United Kingdom (*Guardian*).[5] As I will discuss below, I also searched identical terms in the leading business newspapers in each country: the *Wall Street Journal* and the *Financial Times*.[6] The editorial pages of these business newspapers lean to the center-right. As I discuss below, the comparison did not show any meaningful difference between the papers of different political orientation in either temporal or comparative trends in salience.

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[5] The search terms used were "executive compensation" OR "executive remuneration" OR "executive pay." The total number of articles published (which is the denominator of the proportion shown in figure 1) was not directly available, because LexisNexis Academic does not return the number of articles published in a given newspaper in a given year beyond a threshold of three thousand articles, and all of these newspapers publish more than three thousand articles per year. To establish the denominator of the total articles published year for the *New York Times* and the *Guardian,* I therefore used the following estimation procedure. Lexis-Nexis is able to generate the total articles published in a paper for one week; so the number of articles published in four given weeks (February 8-14; May 8-14; July 28-August 3; and September 19-25) were averaged, and then multiplied by fifty-two.

[6] The *Wall Street Journal* is not available through Lexis-Nexis, and it was searched using the Factiva database of Dow Jones. The Factiva database includes the total number of articles published in the Journal each year, and this was used the denominator for the percentage of coverage.

[Figure 1 here]

Figure 1 tells us that the political salience of executive pay in Britain and the United States were subject to substantial variation in peaks before 2000, with a strong convergence on high salience between 2007 and 2010 (leading up to and following the international financial crisis of 2008). The y-axis measures percentage of coverage; so this figure provides a rough indicator of how many articles appeared in each country dealing with executive pay, as a percentage of the overall number of articles that appeared in a given year. In the United Kingdom, executive pay receives markedly higher press coverage than in the US (as a percentage of overall articles) until 2006. At that point the trends in the two countries converge, and the level of American coverage overtakes coverage in Britain.

One potential objection to using newspapers associated with the center-left is that they may frame the news in a particular way. That is, rather than reflecting the concerns of the public, they may reflect the agenda of the newspaper publisher. Thus it would be better to see if these leading left-wing newspapers are giving the issue the same play as papers of the center-right. To consider this hypothesis, I display the press coverage of the same issues in center-right, business-oriented newspapers: the *Wall Street Journal* and the *Financial Times*. I was unable to get data from the Wall Street Journal after 2008, rather than through 2010, so I only show coverage through that year.

[Figure 2 here]

As Figure 2 shows, the comparative and temporal trends in coverage in business newspapers (of the right) in the two countries very closely track those observed in the generalist papers (of the left). The one significant difference between the two sorts of papers is to be found on the y-axis: each of the business newspapers carries many more (often twice as many) articles on executive pay as generalist newspapers. This is consistent with the composition of their readership – we should expect no one to be more interested in the issue of executive compensation than the executives who are the recipients of that compensation. What these data clearly suggest is that the temporal change in coverage of executive pay is not a product of newspapers sympathetic to the politics of the left, whose editors might have a political agenda to accord especially heavy coverage to executive pay scandals. The upticks in attention are common to newspapers on the right and on the left. I focus on the generalist

measures more than the business newspaper measures in this article because they seem more likely to be a better representation of general, rather than specialist, interest in the subject.

Fat Cats and Say on Pay in the UK

The data displayed in Figures 1 and 2 suggest that executive pay was a higher salience issue in the United Kingdom than in the United States until about 2006, three years after say on pay was passed in the UK. This is true despite the fact that CEO salaries are lower on average in the UK than in the US. Throughout the time period, however, the place of executive pay in the two national political discourses have tracked rather closely. It is during the exceptional periods –when national discourse focuses on distinctly national scandals that capture public attention – that we observe substantial political action. This section and the next argue that these changes have similar dynamics in both countries: an unexpected event (retrospectively redefined as a scandal) comes to change the character of political discourse. This change represents a reputational loss for business and a win for parties of the left, which are able to score political points on the weaknesses of business. Left parties, however, do not act immediately on their proposed reforms on taking government. They only respond to a later significant increase in scandal to pass laws say on pay.

The high-profile pay event that durably changed the British politics of executive pay would become known as the affair of Cedric the Pig. In 1994, CEO Cedric Brown of the newly privatized company British Gas received a 75 percent raise over the previous year. Brown's entire pay package was £475,000 (roughly equivalent to $1 million in 2012), which would be an unexceptional *bonus* (on top of salary) in a top financial firm in London or New York today. The utility companies, which had been privatized under the Conservative government, were likely a particular focus of public attention in their pay practices because of their formerly public character. This was not a legal scandal in the sense in which laws were broken. However, the shareholders' meeting of British Gas in 1995 became a national topic of discussion, as outraged shareholders brought a pig to the meeting nicknamed "Cedric the Pig."

As seen in Figure 1, the salience of executive pay in 1995 was substantially higher than in any other year, in either Britain or the US, between 1990 and 2010; it was even higher than the fever pitch of US concern with executive pay in the wake of the financial crisis in 2009. The case of Cedric the Pig coincided with the entrance of the word "fat cat" into British press discourse about executive compensation, an occurrence that went hand in hand with an

explosion of public interest in executive pay. As Figure 3 shows, the (American) *New York Times* was more likely to use the word "fat cat" than either of the British newspapers (the *Guardian* or the *Financial Times*) in the early 1990s. Once the British Gas case came to light, however, the usage of the term "fat cat" soared in the British newspapers, while it remained stable in the US. The center-left paper (the *Guardian*) used it much more than the center-right paper (*FT*) from 1995 to 2000, but after that the two papers tracked each other closely.

[Figure 3 here]

The 1995 eruption of public interest would prompt the Conservative government of John Major to ask the Confederation of Business Industry (CBI) to put together a code of practice for executive pay (Jones and Pollitt 2003). The Greenbury Report was the result of this request. The Greenbury Report called for companies to disclose salary, pension benefits, and perquisites. However, the Conservative government, like the CBI that assembled and supported the Greenbury Committee, did not want the requirements of the Report incorporated into law, but wanted them to remain voluntary. Neither, moreover, did the two leading institutional investor organizations in the UK: the National Association of Pension Funds (NAPF) and the Association of British Insurers (ABI), each of which had nominated a member of the Greenbury Committee. Thus at this moment, the burst in salience prompted a government response. But because the government of the right and the main institutional investor interest groups agreed on the desirability of keeping requirements voluntary, there was no resulting legislation.

We can observe from the data in Figure 1 that the salience of executive pay declined after 1995. However, it left an enduring gift for the Labour Party in opposition: the 'fat cat' trope. Figure 3 shows that the number of references to fat cats continued to climb in executive pay coverage through 1997, even as the overall number of references to executive pay in the British press declined. 'Fat cats' were a club for Labour to use against the Conservatives until the election of a Labour government in 1997. Once in power, however, executive pay had diminished in public salience. Labour in government faced a different set of incentives than had Labour in opposition.

Indeed, the first Blair Labour government lasted from May 1997 to June 2001, when the government was re-elected with another strong majority. During the first four years of Labour in government, successive Industry Ministers periodically raised the issue of introducing say on pay votes. But New Labour was burnishing its 'pro-business' image, and

business organizations firmly opposed the passage of say on pay (Brown 2000). Thus the government opted for a societal consultation document on the desirability of say on pay, which it continued to leave dormant while public interest in executive pay steadily declined from 1997-2000. So long as public interest lagged, the "New Labour" incentive prevailed in the Blair government, trumping its earlier requests to pass say on pay. The government even dropped the "say on pay" consultation document from the parliamentary docket, allegedly "to avoid alienating business voters in advance of the May general election" (Ferri and Maber 2012: a8).

Government interest in requiring say on pay only revived when the salience of the issue began to mount after loudly criticized severance and pension awards granted to Lord Simpson, the departing CEO of Marconi, who left his company in the fall of 2001 with a handsome compensation package of £2.8 million, even though Marconi was in dire straits after his tenure (Treanor and Wray 2001). Activist investor groups, particularly the National Association of Pension Funds (NAPF), used the Marconi case to reinforce their call from the government for legislative action. As a methodological question, it is worth pausing to consider how much this interest group activity might have been behind the rising salience of executive pay in Britain after 2000, which we can clearly observe in Figure 1. If the rise in public interest was only a response to interest group activity, then it is clear that interest group activity would be the causal variable of interest. To consider this issue, Figure 4 displays the patterns of news coverage that included and excluded references to institutional investors in articles dealing with executive pay.

[Figure 4 here]

Figure 4 contains strong evidence that public interest in executive pay, as reflected in press coverage, was little affected by the activity of institutional investors. The dashed line in Figure 4 represents all the articles appearing the *Guardian* that dealt with executive pay, and the solid line represents all such articles, excluding those that mentioned the two largest institutional investors – the NAPF and the ABI – as well as ISS, the proxy voting group that lobbies for shareholder rights. This figure shows that even at the height of institutional investor activism in from 2001 to 2003, articles dealing with these groups represented only about ten percent of the total articles on executive pay. This does not suggest such interest groups are not powerful in the making of policy; these data have nothing to say about that

issue. But what the figure does suggest is that interest groups do not have much influence in setting the salience of such issues through their activism.

Pressed by the attention to the issue paid to the Marconi scandal and other payouts to fired CEOs, the Labour government finally announced it was adopting say on pay in June, 2002. “We've been calling for a vote for some time. The sooner it happens the better. It has already taken three years,” an NAPF spokesperson said (Ward and Treanor 2002). The Association of British Insurers (ABI), thought the government’s measure did not go far enough, lamenting that the bill was not binding on boards (Francis 2001). And indeed, if concerted lobbying pressure from institutional investors were a sufficient condition for significant legal change, it would already have happened back in 1998, when the NAPF came out in favor of a shareholder vote on pay packages, supported by Chancellor of the Exchequer Gordon Brown (Wighton and Martinson 1998). But as we have seen, Labour in government was keen not to antagonize business. The co-occurrence of interest group support and a left government was not enough to lead to the adoption of say on pay in 1998, because the public had lost interest in the topic. It was only when a series of scandals reignited sustained public interest in the issue that the Labour government finally adopted this new shareholder right. It is unlikely a government of the right would have passed such reforms – but nor would a government of the left, absent durably high political salience.

Enron and the Transformation of Executive Pay Politics in the US

Since 1938, the US has encountered only two periods of potential regulatory innovation in the area of executive compensation. Both were products of surges in political salience of the topic, and politicians of the American left attempted to capitalize politically on both. Yet only the second period, from 2002-2010, created a durable change in political salience that would compel governments of the left to follow through on threats to legislate. As in Britain, the left favored more regulation, and the right opposed it.

1991-1993: From Left in Opposition to Left in Government

In the US, partisan political entrepreneurs have followed press attention to executive pay, and presumably public attention to the issue, rather than determining it. We can clearly see this pattern at work in the period from 1991-1993. In 1991, Democratic Senator Carl Levin first responded to press coverage of the issue by holding congressional hearings; presidential candidate Bill Clinton picked up the same issue in an economic policy speech later that year.

But only in 1992, as a result of the trip of President George Bush to Japan, did the issue capture public attention. Regulatory and legal change rapidly followed this rise in salience. But the issue almost immediately receded in public interest, and the pre-existing balance of interest group power reasserted itself, even within the Democratic Party.

1992 was a presidential election year in the United States. Yet the ephemeral burst of attention that executive pay received in this year was not a product of politicians trying to seize on the issue. Instead, the press interest in the issue of executive pay blossomed in the wake of President George H.W. Bush's decision to take "a retinue of highly paid executives on his [January 1992] trip to Japan, where company chiefs are paid far less [than in the US]" (Lohr 1992). Why this generated public interest is difficult to demonstrate empirically. It may be that the trip brought together the executives who were receiving high pay packages with an image of Japan – widely regarded as the economy to emulate in that period – as one in which economic success was not conjoined with vertiginous disparities of pay. For whatever reason, the vignette captured public attention: *The Washington Post*, for example, ran eighteen articles on executive pay during the entire year of 1991; in 1992 it ran seventeen articles on executive pay in the first two months alone.

Democratic Senator Carl Levin, whose position as subcommittee chair allowed him to convene public hearings on the issue, immediately seized on this opportunity to pressure the SEC to change the rules of executive pay. At the end of January, during these hearings, Levin's fellow Democrat, David Pryor summarized the position of his party on the issue of executive pay: "This is a classic example of one of those issues that Congress does not want to touch. We do not feel we have the expertise. However, this issue is leaving us no options. We are going to be involved" (Cowan 1992). Rather than face the possibility of legislation from Congress, the SEC in mid-February announced plans to require greater disclosure of the compensation of senior managers. The new regulations expanded the types of compensation that were required to be included in company reports, forcing companies to make public in their proxy statements clear information about the salaries, severance packages, and retirement benefits of senior executives. It was only when the SEC finally adopted the rules in October 1992 that Senator Levin agreed not to pursue legislation (Labaton 1992).

Another Democratic politician – presidential candidate Bill Clinton – had also tried to seize on the issue of executive pay prior to its rise in salience. The Clinton campaign proposal to limit the deductibility of executive compensation from corporate taxes to salaries of one million dollars was virtually ignored in the press. In a speech on economic policy in October 1991, Clinton proposed to limit the ability of companies to make corporate pay deductible

from their tax liabilities. According to Lexis Nexis, Clinton's campaign promise that "there should be no more deductibility for irresponsibility" was mentioned only twice in the print media between the day he gave the speech in October 1991 and the election in November 1992. One article was in the *Washington Post*, the day after he gave the speech at Georgetown; the other was in a March 1992 article in *USA Today* entitled "Little Debate on CEO Pay" (Osborn 1992). Salience does not appear on this account to be a product of the action of leftist politicians, so much as a resource they use when it becomes available to them.

Levin continued his battle to reform executive pay into 1993 with a proposal that aimed at extracting further change from regulators. Levin introduced a bill to the Senate to force the Federal Accounting Standards Board (FASB), a regulator responsible to the SEC, to change the way in which companies treated stock options. Simply stated, the proposal was to require companies to expense those costs – that is, to declare options as a charge against earnings on the balance sheet. This would have made accounting practice consistent with their tax treatment, in which companies were allowed to deduct them as an expense. FASB responded with a proposed rule change. This engendered a lobbying campaign against the rules change led by the American Chambers of Commerce, the Business Roundtable, and representatives of high technology companies. FASB withdrew the change after a year, following a bipartisan vote in the Senate against the bill of 88-9 (with Levin in the small minority). In December 1993, Clinton himself asked Levin to "cease and desist" his campaign in favor of the FASB rule change (Lessard 1993). As can be seen from Figure 1 in the previous section, public salience had long since moved away from the issue of executive pay. Under such conditions of low public interest, the Clinton administration apparently saw little to gain by supporting this reform.

2002-2010: Enron and the Increasing Returns to Durably High Salience

The bankruptcy of the energy company Enron in December 2001 breathed new life into the issue of executive pay in American political discourse. In fact, it resulted in what scholars of American politics call issue intrusion, in which an entirely new issue forces itself durably onto the political agenda (Jones and Baumgartner 2005). What this meant is that the issue of executive pay could have a lasting payoff for partisan entrepreneurs on the left. Whereas Carl Levin's ability to extract concessions on executive pay were temporary – due to the one-time shock of public interest in the issue of executive pay in 1992 – Enron and its aftermath made executive pay an issue that could pay dividends for Democrats, and one on which they would

pressure to legislate once they took control of the presidency. Under these conditions, the sort of bipartisan drubbing that Levin ran into in the FASB case became less likely.

The Enron scandal enabled the passage of the Sarbanes-Oxley bill in 2002, often cited as the landscape-changing legislative act of American corporate governance (see Cioffi (2010) for a discussion). Yet Sarbanes-Oxley had little direct impact on the rules of executive pay. The effect of Enron, qua scandal, was to change both the level and tenor of press interest in the issue of executive pay. This is empirically demonstrable through a content analysis of press coverage pre- and post-scandal. The analysis examines the composition of press coverage in the *New York Times* in years close to the Enron crisis, but in which the press coverage could not have been about the Enron scandal itself, which came to light at the end of 2001. The content analysis evaluates articles from 1999 and 2000 to examine the pre-Enron (low salience) period of press coverage in the United States, and then compares them with articles from two years from after the Enron case itself had subsided, but while public interest in executive pay continued to be intense (2005 and 2006). 2005 and 2006 were marked by no major accounting scandals – nothing close to the order of magnitude of Enron – but they did involve regulatory changes in the US that strengthened legislation governing executive pay.[7]

I established a list of criteria for evaluating articles, which were coded independently by a research assistant.[8] The sample comprised all *New York Times* articles returned by Lexis-Nexis for these years in a search using the terms [“executive compensation” or “executive remuneration” or “executive pay”]; this was a total of 466 articles. Articles were coded as having one of four primary frames; articles that could not be attributed to one of the four primary frames were coded as “other.” “Scandal” refers to articles dealing primarily with a pay-related scandal; “legal commentary” refers to articles dealing primarily with ongoing legislation related to executive pay; “social commentary” refers to articles that mainly discuss the social phenomenon of executive pay without linking it to a particular episode of malfeasance; and “specific company” refers to articles dealing solely with the pay policies of

[7] In a separate analysis of the press coverage of executive pay in the United States, drawing entirely on machine coding of negative references, Kuhnen and Niessen (2012) find that 2005 had the lowest number of negative references to executive pay in national newspapers of any of the post-Enron years. We can therefore take the following estimates as a conservative representation of the extent to which scandal dominated press coverage of executive pay post-Enron.

[8] This analysis draws on Culpepper (2011). These articles were retrieved using LexisNexis academic, and non-articles (letters to the editors, business briefs, business digests, and obituaries) were excluded. My thanks to Guillaume Liegey for excellent research assistance.

individual companies, without reference to either scandals or broader trends in pay patterns. Figures 5 and 6 depict the results from this content analysis.

[Figures 5 and 6 here]

Even though regulatory reform had intensified in the post-Enron period, this is not the most striking finding of the content analysis. The most important difference between the low and high salience periods is the treatment of pay 'scandals.' This is not because American average executive pay was higher in 2005-2006 than it had been in 1999-2000. In fact, executive pay as a proportion of average worker pay in the United States reached its peak in 2000, and fallen well back by 2005. Still, in 2005 and 2006, nearly thirty percent of the articles on executive compensation referred to scandals. The tenor of these articles was also politically unfavorable for the business lobby, as many articles concentrated on the substantial pay packages of CEOs as they left their company, raising questions about the propriety of such remuneration. Thus Enron was a nightmare from the perspective of opponents of executive pay regulation in the United States. It created a sustained public interest in the issue of executive compensation, and at the same time it appears to have changed the tenor of press scrutiny in a way that did not put executive pay in a positive light. The familiarity of Enron to the American public gave journalists a quick way to communicate the stakes of business scandals and the distorted incentives sometimes associated with executive compensation.

Just as the case of Cedric the Pig energized the Left in Britain, so did Democrats in the United States seize on the post-Enron perceptions of executive remuneration. Representative Barney Frank responded to this shift of incentives, using his position as the senior Democrat on the House Financial Services Committee to push for the introduction of "say on pay" in the US. Frank fired a shot across the bow of business organizations in 2005, when they were testifying about their high costs of complying with the Sarbanes-Oxley Act. "At least in one area of some importance to [executives] – setting their own salaries – Sarbanes and Oxley might as well be Donald and Daisy Duck, because nobody lays a glove on these people when it comes to setting their own salaries. This is something we have to address" (Block and Orol 2005). In November, Frank introduced a say on pay bill to the House, but given the minority status of the Democrats, the bill died in committee.

This episode raises concerns about the endogeneity of press coverage and political action, which the content analysis allows us to put to rest. A potential objection to using

newspaper coverage as a measure of political salience is that coverage is driven by debates in the legislature. If a bill is debated in parliament, then there is likely to be some press coverage of it. Thus one might reasonably wonder if press coverage is a better measure of legislative and regulatory activity than it is of real public interest in an issue. It is doubtless correct that political responses to public salience create their own effect on press coverage. There is no good way to control for this endogeneity, because some of the press interest in a given political issue has to do with the perceived interest of readers in that political issue. Yet the content analysis compares periods of low and high salience; we can use this analysis to isolate the articles that cover legislative and regulatory activity in the high salience period. If one subtracts the articles on law-making activity from the total articles on executive pay, do the periods that I characterize as high salience still look markedly different than those that I characterized as having low salience?[9]

In fact, the articles on legal coverage in this period of regulatory change still constituted only eleven percent of the overall articles retrieved by the search on executive pay for 2005 and 2006. When we exclude all articles about legal reforms, there were still twice as many articles in the *New York Times* on the subject of executive pay as during the pre-Enron period. It would appear that public concern about executive pay, as expressed by press coverage of the issue, captured the attention of politicians; not the other way around.

Having identified this issue as one with which to attack the Republicans, Democrats repeatedly pushed for say on pay against a Republican government. In April 2007, Frank's bill passed the (now Democrat-led) House. Business groups opposed the bill, with the president of the Business Roundtable testifying that "corporations were never designed to be democracies…. While shareholders own the corporation, they do not run it." The bill went to the Senate, where the opposition of the Republican White House and business lobbying kept it from passing.

Executive pay, and attention to it, became deeply tied up with the international financial crisis that broke out in 2008. This was true in the UK as well as in the US: the trends in political interest in executive pay converged as a result of the economic crisis, as Figure 1 makes clear. At this point of extremely high salience in both countries, differences in partisan control of the executive and legislative branches still continued to have a visible impact on policy outcomes. The Emergency Economic Stabilization law, passed by the US

[9] Note that the choice of the years 2005 and 2006, are if anything biased *in favor* of finding that most press coverage is driven by activity in Congress itself because those years featured far more regulatory activity in executive pay than 1999-2000.

Congress in October 2008, nevertheless excluded a "say on pay" provision, at the behest of congressional Republicans. Yet rising public attention to the issue of executive pay, facilitated by control of the Democrats in both the executive and legislative branches from January 2009, led to rapid adoption of new rules on executive compensation. The stimulus bill passed in February 2009 introduced harsh pay limits on executives at companies that received federal assistance. These reforms, championed by Barney Frank's counterpart in the Senate, Christopher Dodd, exceeded those requested by the Obama administration, and included a "say on pay" requirement for companies that had received government money through the Obama stimulus bill (Solomon and Maremont 2009, Tse 2009). The two reformers joined to enact the Dodd-Frank law in the summer of 2010, and the requirement to allow "say on pay" was finally imposed on all listed companies in the US.

The durable change in political salience created by Enron sheds light on the different fates of executive pay reform under two Democratic presidents, Bill Clinton and Barack Obama. As candidates, both Clinton and Obama tried to seize on the subject of executive pay as one on which to make political appeals. Once in office, however, the two presidents cooled on prospect of pushing such regulation against business opposition. When Carl Levin tried to pass reforms in the early 1990s, he ran into bipartisan opposition as soon as the public attention to executive pay abated in 1993. Barney Frank and Chris Dodd, his counterparts as Democratic executive pay issue-entrepreneurs a decade later, still had to face the formidable lobbying efforts of the Business Roundtable and the American Chamber of Commerce. Frank lost several battles on say on pay, when Republicans had the votes to stop him, even under conditions of high political salience. And even once Obama took office, Chris Dodd's reforms on pay went beyond what the Democratic White House wanted. Yet, because the issue was of tremendous high political salience throughout 2009, Obama carried through with his support of 'say on pay,' and Dodd-Frank passed into law. This was a different landscape than the one in 1993, and the political salience of executive pay is what enabled a left government in the US to follow through on its promise to create this new shareholder right.

Conclusion

The results in this paper support the claim of Cioffi and Höpner that political parties of the left are more likely to push for corporate governance reforms than are parties of the right, and that political parties are more likely than interest coalitions to be the prime carriers of reform initiatives. Once executive pay becomes an issue of high political salience, parties of the left

have an incentive to use executive pay policies as a means to attract voting support from an outraged electorate. It is true that interest groups, particularly institutional investors, try to make public claims to attract attention when they think the public is on their side (Engelen et al. 2008). But as we saw through an examination in trends in salience in the British case, the activity of institutional investors does not appear to account for rises in the salience of the issue. Moreover, in both the American and the British cases, we saw that political entrepreneurs on the left tried to make an issue of executive pay as a way to attract votes. But these strategies were only successful when some sort of scandal event led to a changed representation of executive pay in the press. Parties of the left did not lead this process. They simply rode on the back of public outrage.

Governments of the left tend to push for such reforms pragmatically, and only under conditions of rising political salience of the issue. Bill Clinton in 1993 and Tony Blair in 1998 had both run for office by trying to bludgeon their opponents on the right with the issue of executive pay. Yet once in office, their reformist zeal faded, and they postponed or abandoned proposed reforms in the face of declining political salience of the issue. The Labour government in Britain, which was elected in 1997 using the rhetorical excesses of fat cats as one of its appeals, was extremely slow to legislate on say on pay. Governments of the left only extended the right of say on pay to shareholders in the UK in 2002 and the US in 2009-10, as public anger on the issue of executive pay became a potent political issue. The left in government will indeed act on executive pay, but only as long as the public is screaming for a legislative response.[10]

The selection of cases in this article means that we should be cautious in generalizing this claim, as the governments of Bill Clinton and Tony Blair were self-consciously centrist in their political positioning. Thus, critics may respond, it is hardly surprising that the pioneers of the "third way" attempted to appease business interests once in power. However, even the left in these countries is moderate during the period under study, the political bias of both of these countries tilts in favor of shareholder protection, at least in international comparison. The UK was the first major country to pass a law requiring say on pay, and its corporate governance practices are considered among the most shareholder-friendly in the world (Armour et al. 2003). This may mean that Britain and the United States are more likely

[10] Parties of the right are also sensitive to public demands for political action. Governments of the right prefer that business solve its own problems, rather than regulating a response. This was the imperative of the Conservative government in the UK in 1995, following the scandal of Cedric the Pig, and it resulted in the self-regulatory responses of the Greenbury committee.

to be propitious terrain for pro-shareholder reform, even under a centrist. This is ultimately an empirical question, and one that requires further research.

The passage of of say on pay in the two largest liberal market economies marks a significant legal step in favor of granting more voice to shareholders. As was noted at the outset of the article, however, the consolidation of these rights is far from secure. Further research is surely called for on the consequences of the misfit between the parties that passed these reforms and the prominent interest groups that supported them: those of institutional investors. Past extensions of rights passed by the left, notably labor rights, were supported on the ground by labor unions. It is not clear if the new shareholder rights created by say on pay will be subject to the same sort of interest group and political party cooperation that pertained between unions and left parties.

It is likely that the consolidation of these rights will depend on the extent to which institutional investors and parties of the left develop a common view about shareholder rights. If they do develop such a common perspective, institutional investor groups may be able to serve as societal relays that link citizens, qua shareholders, to political parties of the left that claim to legislate with their interests in mind. This could mark a significant change in the constituency of the left. But given the distance between interest groups and parties in this arena in recent years, the more likely outcome is that new rights will be extended, or buttressed, only in the face of sustained public outrage.

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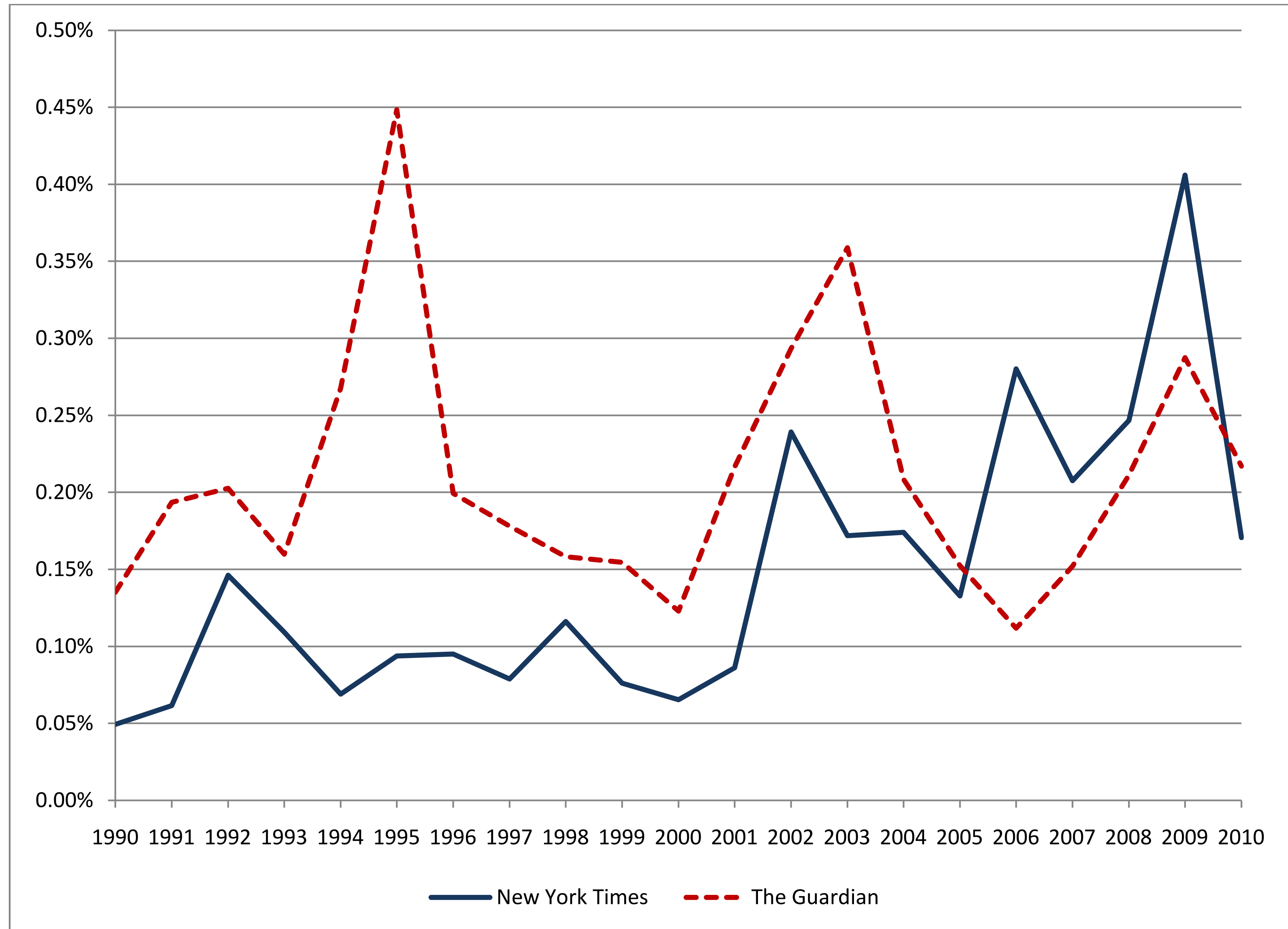
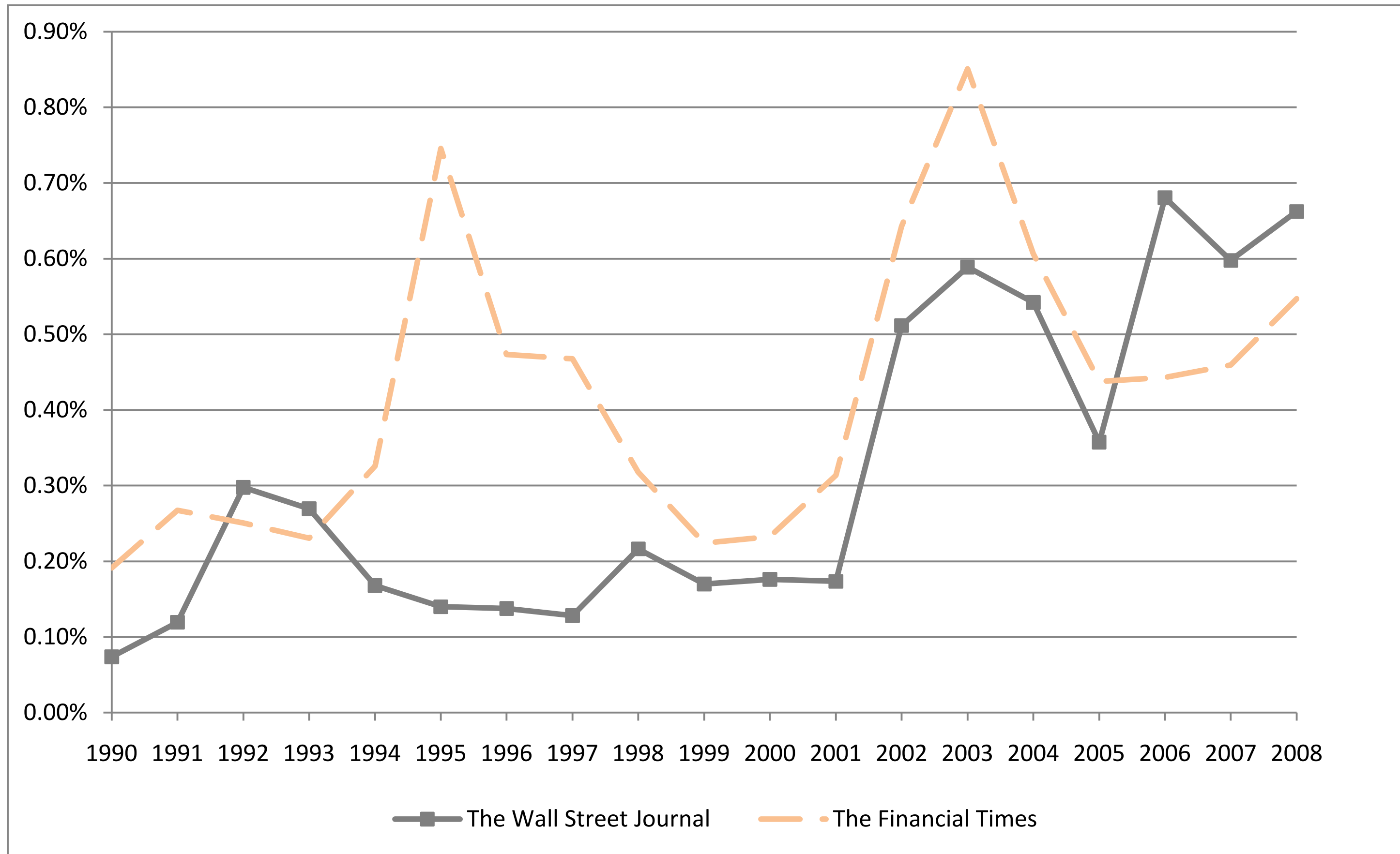
Figure 1: **Comparative Trends in the Political Salience of Executive Pay**



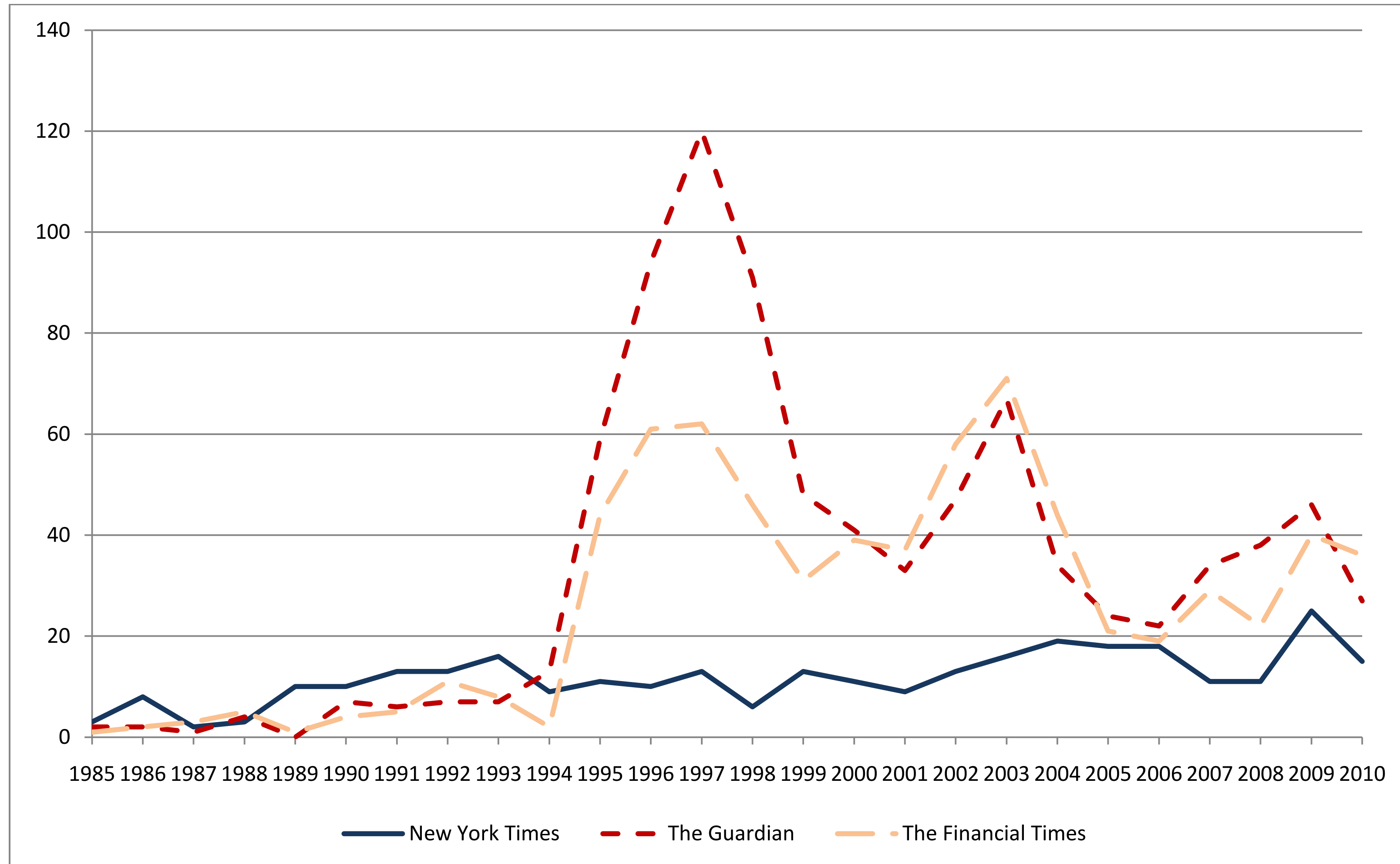
Source: Lexis Nexis.

Figure 2: **Business Press Coverage of Executive Pay**



Source: Lexis Nexis and Factiva.

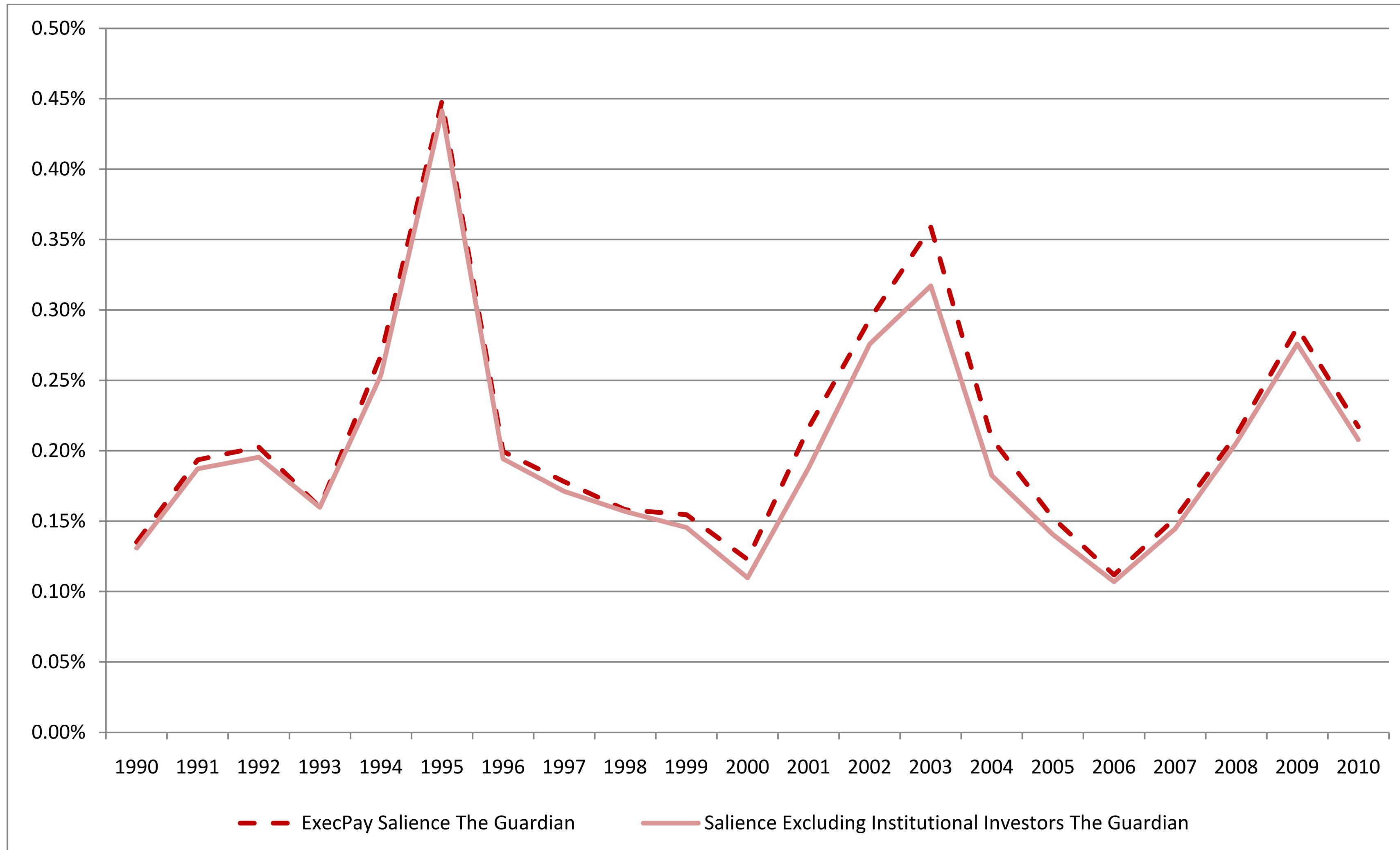
Figure 3: **The Rise of the "Fat Cat" Trope in British Press Discourse**



Note: The y-axis refers to the number of articles appearing that use the words "fat cat" in combination with bonus or remuneration or pay.

Source: Lexis Nexis.

Figure 4: **Press Coverage of Executive Pay, with and without Institutional Investors**



Source: Lexis Nexis.

Figure 5: **Press Coverage of Executive Pay, NYT, 1999-2000**

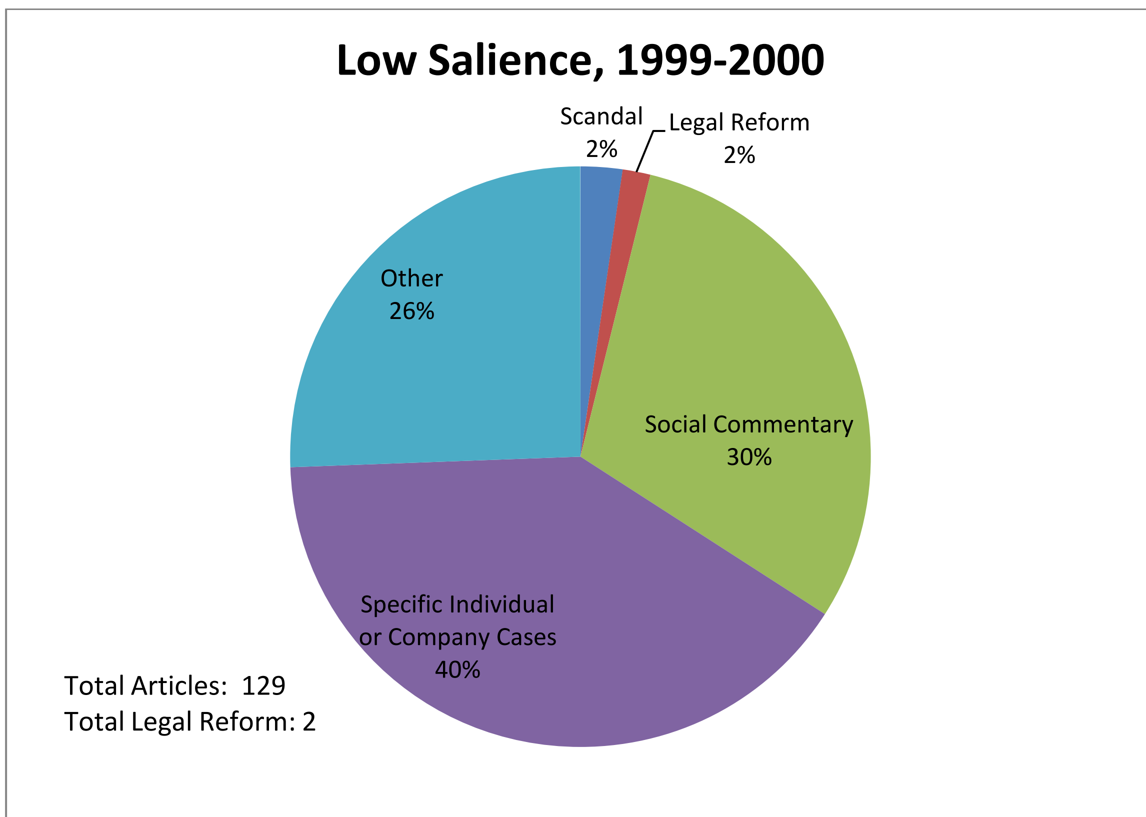


Figure 6: **Press Coverage of Executive Pay, NYT, 2005-2006**