Pride and Prestige: Why Some Firms Pay Their CEOs Less*

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Abstract

We investigate the impact of measures of firms' prestige on CEO compensation and find that CEOs of more prestigious companies earn less. For example, total CEO compensation is on average 9% lower for firms rated among Fortune's ranking of America's most admired companies. We suggest that CEOs derive social benefits in the form of an enhanced social status if they work for a company that enjoys public admiration, and that boards extract pay concessions for this non-monetary benefit. Results obtain only for firms with independent compensation committees and other measures of strong boards, presumably because weak boards leave rents to powerful CEOs. The effect also obtains for alternative measures of firm prestige and for younger CEOs. We perform a range of robustness checks and can exclude several alternative explanations, including that CEOs wish to signal higher status through lower pay, or that results are driven by owner-CEOs who forego higher compensation.

Keywords: CEO compensation, status, social benefits, firm prestige

JEL classifications: G30, M52

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1 Introduction

> "To excel in any profession, in which but few arrive at mediocrity, it is the most decisive mark of what is called genius, or superior talents. The public admiration which attends upon such distinguished abilities makes always a part of their reward." Adam Smith, Wealth of Nations, chapter 10.I.

In this paper we propose social benefits that CEOs derive from the public prestige of their firms as a factor that influences the level of CEO compensation. Thus, we contribute to the question of what explains the cross-sectional variation in CEO compensation. The vast literature on executive compensation has made significant progress on this question in recent years, for example by analyzing the market for CEO talent and by identifying the importance of corporate governance as a factor that explains pay levels.[1] Still, conventional theories of executive compensation seem to be limited in their ability to explain the variation in CEO pay, suggesting that many as yet unidentified factors influence compensation.[2] Similarly, the debate on whether contracting about executive compensation conforms to the tenants of the efficient contracting paradigm remains inconclusive, in particular regarding the level of pay, because it is difficult to measure CEOs' outside options to decide whether CEOs extract rents or whether they simply earn a competitive wage in the managerial labor market. Our approach allows us to make a contribution to both questions.

We hypothesize that CEOs value not only their monetary compensation, but also the social benefits they obtain through the prestige of their firms. Our baseline measure of firm prestige is whether firms are ranked in Fortune's list of America's most admired companies and we find that CEOs of admired companies earn on average 9% less compared to CEOs of companies that are not ranked in this index. Our interpretation is that CEOs do not only care about their monetary compensation but also about their social status, and that firm prestige is a status symbol that has a direct benefit to CEOs.

[1] See Core, Holthausen, and Larcker (1999) for an early analysis of the impact of corporate governance on CEO compensation. The assignment models of Gabaix and Landier (2008), Eisfeldt and Kuhnen (2010), and Terviö (2009) explain the relationship between CEO pay, firm size, and the firm's life cycle. See the surveys by Murphy (1999) and Frydman and Jenter (2010) for the general state of the literature on CEO compensation.

[2] Economists have traditionally emphasized the structure of compensation relative to the level of compensation. See O'Reilly and Main (2010) and Tosi, Werner, Katz, and Gomez-Mejia (2000) for surveys of the literature that conclude that conventional theories, particularly contracting models based on the principal-agent paradigm, have only limited explanatory power.

If boards are sufficiently strong and independent, they extract a wage concession from CEOs for this non-monetary benefit. By contrast, weak boards leave the status benefits to the CEO as an additional rent. We therefore find that the skimming approach and the efficient contracting approach to CEO pay are both empirically relevant, yet for different subsets of firms. Our inference is based on the observation that our effect can be explained by a cross-sectional variation in CEOs' outside options.

The notion that wages involve compensating differentials not only for the attractiveness of a job but also for the public prestige associated with the job goes back to Adam Smith and Thomas Hobbes.[3] Max Weber defines status as "an effective claim to social esteem in terms of negative or positive privileges" and develops the notion that status and monetary compensation are distinct categories of rewards and that monetary compensation can only partially substitute for social status.[4]

We adopt the perspective of Heffetz and Frank (2008), who survey the literature and propose three identifying characteristics of status. Status is (1) positional in that it relies on a ranking of individuals, (2) desirable for the individual, and (3) scarce (i.e., non-tradeable; see Truyts (2010) and Weiss and Fershtman (1998) for other surveys). Modern social psychology links the positional aspect to social comparison theory, which holds that individuals have an intrinsic need to evaluate their options and abilities relative to those of others, in particular their peers, in order to stabilize a positive self-image.[5] The desirability of status and individuals' demand for positional goods have been documented in a number of studies.[6] Status fulfills its role only if it is visible and if it is scarce, which implies that symbols that display status publicly must be

[3]See the passage from Adam Smith above. Chapter 10 of the "Wealth of Nations" is devoted to wage setting and develops the theory of compensating differentials. Hobbes's assertion that "men are continually in competition for honour and dignity" is cited by Heffetz and Frank (2008). Hyman (1942) is the earliest modern empirical treatment of status we could trace.

[4]See Weiss and Fershtman (1998) for a discussion of Weber's approach. The citation from Weber (1922) is taken from their article (p. 804).

[5]See Festinger (1954) for the classic formulation and Buunk and Gibbons (2007) for a modern treatment of social comparison theory. See Tajfel (1982) and Collins (1996) for the notion of a positive self-image, which individuals obtain from being admired, respected, and positively distinguished from other members of their peer group.

[6]For our purposes, we do not distinguish between status symbols and positional goods. Alpizar, Carlsson, and Johansson-Stenman (2005), Carlsson, Johansson-Stenman, and Martinsson (2007), and Johansson-Stenman and Martinsson (2006) both show based on survey data that cars serve as positional good. The former paper argue that even leisure and insurance can serve this purpose. Based on data from the World Value Survey, Salinas-Jimenez, Artes, and Salinas-Jimenez (2011) argue that eduction is a positional good from which individuals derive less well-being if others attain the same level of education.

in limited supply or at least expensive.[7] We conclude from the prior literature that rankings such as Fortune's list of America's most admired companies or Forbes' list of America's most reputable companies satisfy all three criteria, because rankings are clearly positional, there is agreement that the characteristics on which companies are ranked are positive and highly desirable, and appearance and position in rankings are by construction scarce.

More recently, economists have picked up the implications of status seeking by individuals for economic welfare, economic growth, and for the efficiency of resource allocation.[8] Their starting points are usually that status is in fixed supply so that competition for status is an economically wasteful zero-sum game, and that status considerations create an externality with resulting distortions in resource allocation.[9] They usually take the existence of a trade-off between monetary compensation and non-monetary social benefits as given.

Despite this tradition in the literature and the wide-spread modeling strategy that assumes that individuals are willing to trade off higher social status for lower income, empirical evidence for this hypothesis is still scarce. Huberman, Loch, and Önküler (2004) report an experiment in which they show that individuals are willing to give up monetary rewards for being celebrated as a "winner," even though they have no monetary or other benefit from their winner-status within the experiment or outside. To the best of our knowledge, ours is the first study that shows that a group of individuals is willing to give up a substantial amount of income for achieving higher social status based on field data. While there is anecdotal evidence in other areas - e.g., faculty members at ivy league schools earn less than their colleagues at lower-tier schools - we are not aware of systematic research that documents a similar effect.[10]

We investigate the relationship between firm prestige and CEO pay for the entire

[7] Frey and Neckermann (2008) show how size and publicity of awards are both important for the desirability of awards as status symbols.

[8] An early contribution is Hirsch (1976), who argues that scarcity of positional goods leads to "social limits to growth." Fershtman and Weiss (1993) develop a model in which status seeking by workers leads to an inefficient allocation of labor and Fershtman, Murphy, and Weiss (1996) show how growth may be negatively affected by status concerns. By contrast, Fershtman and Weiss (1998) show that status concerns may serve to provide incentives for social-mindedness, which may enhance welfare.

[9] Becker and Rayo (2007), Chen and Li (2009), and Henrich and Gil-White (2001) all take evolutionary game theory and evolutionary psychology as a starting point to argue why apparently inefficient strategies of individuals are evolutionary stable and can therefore survive in the long term.

[10] The academic environment also admits another explanation: people may invest in their careers when they are young and are willing to accept a lower salary at a prestigious school in order to increase their probability of moving on to higher-paying jobs later on. We argue later that our results cannot be explained exclusively by such career concerns.

ExecuComp universe for the period from 1993 to 2010. We use the Fortune most admired companies ranking as our baseline measure of firm prestige, because it seems to resemble the important features of a status symbol most closely since it is compiled from survey responses by executives, directors, and financial analysts, groups that CEO are most likely to consider as their peers. In a second step we use other rankings of firm prestige. Appearing in these rankings is positional, desirable, and also scarce.

We find that total compensation is lower for all rankings, with an impact that ranges from -8.9% for the Fortune ranking to -21.2% for the Forbes ranking. The effect is also stronger for higher positions in the ranking, i.e. CEOs of top 50 or top 75 companies are willing to give up even more compensation relative to CEOs of firms further down in the ranking. If we break up total compensation into components of pay, we find that all components of pay decline, but the results are significant only for the cash component of pay and "other compensation," which comprises perquisites and pension and retirement plans. Given that companies usually use cash compensation for retention purposes to meet CEOs' outside options, and deferred pay to implement incentives, this result supports our hypothesis that the interaction between compensation and firm prestige is mainly due to the fact that CEOs of prestigious firms have subjectively less attractive opportunities outside of their own firms.

The reduction of compensation for CEOs of prestigious firms is concentrated in firms with good corporate governance, which we measure with a range of indicators reflecting the quality of corporate governance that have been suggested in the literature. The most important one for our purposes is the independence of the compensation committee. Whereas CEOs of firms with independent compensation committees earn 13% less if they head a top-ranked firm, their peers at top-ranked firms without independent compensation committees actually earn insignificantly more than CEOs of non-ranked firms. This finding is important for two reasons. First, it contradicts Max Weber's notion that wealthy, high-status individuals may deliberately eschew high monetary compensation as a signal of their status, because this signal would also be available to CEOs of poorly governed firms (see Weiss and Fershtman (1998) for a discussion of Weber's views). Secondly, it shows that, in the parlance of contracting theory, it is really the participation constraint of the CEO that is binding in well-governed firms, which provides some support for efficient contracting theories for this subset of companies. Finally, we subject our findings to a battery of robustness checks and can rule out that the effect we find is driven by size, S&P 500 index membership, CEO ownership, a correlation between firm prestige and "glamor stocks" that enjoy high valuation

ratios, or a reduction of risk premia because status incentives substitute for deferred compensation.

We are not the first to employ the notion of status concerns in executive compensation. However, most of the literature on status concerns and pay differentials focuses on incentives.[11] Two different theories address pay disparity within the board from an incentive perspective. First, tournament theory holds that increased pay disparity can serve to enhance incentives. Second, social comparison theory and the notion of inequity aversion also allow for the possibility that higher pay disparity destroys incentives.[12] The empirical literature on whether tournament-type incentives and pay disparities within the board enhance or decrease performance is still inconclusive.[13] This strand of the literature is entirely concerned with the incentive implications of status concerns and does not address the implications of status concerns for the level of CEO compensation.

Some papers analyze the implications of CEO status concerns for executive compensation. O'Reilly, Main, and Crystal (1988) and Belliveau, O'Reilly, and Wade (1996) both find evidence for the influence of CEO status relative to the status of other board members or of the chairman of the compensation committee on CEO compensation, which is consistent with the general notion that high-status individuals are economically more successful (see Ball, Eckel, Grossman, and Zame (2001) for experimental evidence).

Shemesh (2010) finds that CEOs who win prestigious business awards in major publications increase their risk-taking. Hayes and Schaefer (2009) analyze the implications of relative income concerns for CEO pay dynamics in a theoretical model. In their specification, relative income in itself is a status symbol. From this perspective, firm prestige and a high income may be substitutes in their role as signals of CEO status.

Finally, a related literature analyzes the impact of CEOs winning prestigious business awards on compensation and firm performance. Graffin, Wade, Porac, and Mc-

[11] See Auriol and Renault (2008) and Kosfeld and Neckermann (2011) on status concerns in incentive contracts generally and Giannetti (2011) for an argument how benchmarking against other firms emerges in optimal executive compensation contracts.

[12] Economic models also imply that compensation becomes more equal in a static context if individual have status concerns, see Auriol and Renault (2008).

[13] Ederer and Patacconi (2010) introduce status concerns into a tournament model and show that the usefulness of pay disparities is reduced and may lead to inefficient outcomes. Kale, Reis, and Venkateswaran (2011) show that pay inequality in the board leads to higher turnover, which may be indicative of inequality aversion. Fredrickson, Davis-Blake, and Sanders (2010) also analyze pay dispersion among top executives and find negative performance implications, whereas Kale, Reis, and Venkateswaran (2009) present evidence that tournament incentives improve firm performance.

Namee (2008) find that winners of the "CEO of the year" contest as well as other members of their management team derive benefits in the form of higher compensation from these awards. Wade, Porac, Pollock, and Graffin (2006) and Malmendier and Tate (2009) both find that "superstar CEOs" who win prestigious business awards extract compensation benefits, and their companies underperform subsequently. Hence, this literature together with the literature summarized in the previous paragraph suggests that higher CEO status makes the CEO more powerful and leads to higher compensation levels. By contrast, we analyze firm prestige, which the CEO would forfeit in case she loses her association with the firm. Hence, our results suggest that firm prestige improves the bargaining position of the board of directors relative to the CEO, albeit only if the board is sufficiently independent.

The argument develops as follows. Section 2 explains the construction of our data set and our proxies for firm prestige. Section 3 contains the analysis and the main results of the paper. Section 4 presents a range of robustness checks and Section 5 concludes. Some technical aspects of the data are explained in the Appendix in further detail.

2 Data and summary statistics

2.1 Compensation data

Data on CEO compensation are obtained from ExecuComp. ExecuComp contains annual compensation data of the top five directors for each company in the S&P1500. The data comprise the value of total pay (ExecuComp variable *tdc1*), as well as the value of each component of pay: salary, bonus, option grants, and stock grants. We add "other pay," which is computed as the difference between total pay and salary, bonus, option grants, and stock grants. The value of "other pay" includes items such as perquisites and pension and retirement plans.

Due to a major change of some ExecuComp variables in 2006, there are several data adjustments that we need to apply. As a measure of the Black Scholes value of stock options granted to a CEO in a given year (options), we use data item *opt_blk_valu* before 2006 and its post-2006 equivalent, *option_awards_fv*. We follow Walker (2009) and adjust the total pay variable *tdc1* from its pre-2006 format to the new format. As noted by Walker (2009), before 2006 ExecuComp's data item *tdc1* was supposed to capture the total compensation given to the CEO that year, but in fact it did not

measure the ex-ante value of performance shares. Therefore, we first subtract the value of long term incentive plans (ExecuComp variable *ltip*), which measures the ex-post value of performance shares from *tdc1*. Then, we use a firm's year-ending stock price to compute the ex-ante value of performance shares in a given year, which is added to *tdc1*. For the post-2006 period we use *tdc1* from ExecuComp.

Similarly, the pre-2006 data item *rstkgrnt* (restricted stock) indicated the value of non-performance contingent stock awards but not that of performance shares. For the period 2006 to 2010 a different data item (*stock_awards_fv*), measures all stock awards (restricted stock plus performance shares). We construct a comparable variable for the pre-2006 period by adding the value of performance shares to data item *rstkgrnt*.[14] Overall, our compensation data consists of 25,064 firm-year observations during 1992 to 2010 and covers 3,241 unique firms.

2.2 Proxies for firm prestige

Our main proxies for firm prestige are based on surveys among companies and consumers in the U.S. These surveys provide a direct estimate of how well respected and admired a firm is relative to all other firms. The results of these surveys are aggregated into rankings which are regularly published in U.S. business magazines such as Fortune, Forbes, Barron's, or Business Week. We manually collect these rankings from printed editions of these magazines. We use all surveys on firm prestige that are available for a reasonable period of time.[15] In addition, we use data from Compustat and I/B/E/S to construct alternative proxies for firm prestige based on firms' annual reports and analyst recommendations.

We use the *Fortune ranking of America's Most Admired Companies (FTMA)* as our main proxy for firm prestige. The FTMA ranking was first published in the Fortune magazine in 1983. To create an overall ranking of the most admired companies within the U.S., executives, outside directors, and financial analysts are asked to select ten companies they admire most based on eight different attributes using a scale of zero (poor) to ten (excellent). These attributes comprise the quality of management; quality of products or services; financial soundness; innovativeness; long-term investment;

[14] In our later analysis, we restrict our sample to the pre-2006 period as a robustness check. Our results are not affected.

[15] Further surveys that we we did not include because they are available only for a short time period include Bloomberg's "Best Places to Launch a Career" (2006 to 2009), Forbes' "Best Companies for Job Offers" (2011 only), and Forbes' "Most Valuable Trademarks" (2010 to 2011).

ability to attract, develop, and keep talented people; community and environmental responsibility; and use of corporate assets. The final score is received by averaging the individual scores obtained from these attributes. Overall, the number of companies in the published ranking varies from 305 to 593 over the period 1990 to 2010. This variation is mainly driven by the number of industries included in the pool. We manually collect Fortune rankings from 1990 to 2010 from printed editions of Fortune magazine. We then create a dummy variable, $Prestige_{i,t}$, which is equal to one if firm i appears in Fortune's most admired companies ranking in year t, and zero otherwise. We use this ranking as our main proxy for firm prestige, because it is constructed from responses of directors and business analysts, arguably a more important reference group for CEOs than employees or customers.

As an alternative proxy for firm prestige, we use the *Forbes ranking of America's Most Reputable Companies (FBMR)*. The FBMR ranking is computed by the Reputation Institute. It is based on a survey among consumers on their trust, esteem, admiration and good feeling towards different companies. The total number of companies in this ranking varies between 75 firms in 2008 and 153 firms in 2009. We manually collect data on the FBMR ranking from Forbes magazines where it is published since 2006.

Our third proxy for firm prestige is based on *Fortune's list of the 100 Best Companies to Work for (FTBC)*. Companies are eligible for consideration in the FTBC ranking if they have more than 500 (from 1998 to 2002) or 1000 employees (since 2003) and if they have been operating since more than 7 years. Two thirds of the final ranking are based on the results of an employee survey, i.e. the "Great Place to Work"-Institute's "Trust Index," which measures employees' trust in their companies' management, camaraderie, and their pride of working for their employer. The other third of the final ranking is based on an employer survey, which investigates the company's workplace culture and human resource policies. The FTBC ranking is manually collected from copies of Fortune magazines. Data are available from 1998.

Our fourth proxy for firm prestige is based on the *Bloomberg Businessweek Best Global Brands ranking (BWB)*. Bloomberg Businessweek annually publishes the 100 best global trademarks starting in 2001. Only brands that generate more than 20% of their sales in countries other than their home countries and publish their marketing expenses are considered. To obtain the ranking, brands are rated according to the net present value of the brand's expected future earnings. We manually collect the BWB ranking as published in Business Week from 2001 to 2009.

Our last survey based proxy for firm prestige is based on *Barron's Most Respected Companies ranking (BMR)*. The BMR ranking is based on a survey among investors on how much they respect a particular company. In order to calculate an overall score for each company, decreasing values are assigned to investors' assessments of a company as "highly respected", "respected", "somewhat respected", or "not respected". Only the 100 largest companies worldwide in terms of market capitalization at the end of the preceding year are considered. Data on BMR rankings are manually collected from Barron's. The ranking was first published in 2005.

Another proxy for firm prestige is its *visibility among financial analysts (VFA)*. A company that is more visible to a broader set of investors might arguably be more prestigious than a company that is barely known. We download data on analyst coverage for all firms covered in ExecuComp from I/B/E/S. Specifically, we compute the number of analyst recommendations (I/B/E/S variable "*numrec*") for each firm and year in our sample.

In a similar vein, one might argue that firms are more visible if they advertise more. Due to large advertising expenditures, that generally transfer a positive image of a firm, more people are aware of a firm and might appreciate the firm's products. Thus, it might be more prestigious for a CEO to work for such a firm as compared to working for a firm that has no positive image in the broader population. We use *advertising expenditures* (Compustat variable *xad*) scaled by a firm's total assets (Compustat variable *at*) from Compustat as an alternative proxy for firm prestige. Unfortunately, data on advertising expenditures are only available for a subset of the firms in our sample.

2.3 Summary Statistics

We start our empirical analysis by computing descriptive statistics and correlations for compensation data as well as our proxies for firm prestige and control variables. Descriptive statistics are provided in Panel A of Table 1.

— Please insert TABLE 1 approximately here —

Note that we use a longer time period of compensation data as compared to previous studies (i.e., we use ExecuComp data beyond 2005) which requires us to adjust total compensation and restricted stock grants as described in the data section. Therefore, we carefully compare the distribution of all compensation variables used in our analysis with the previous literature. Mean total compensation in our sample is about 4.5 million

USD, while median compensation is slightly lower with 2.4 million USD. For restricted stock grants, we obtain an average (median) value of 0.93 (0.00) million USD. These values are very comparable with Peters and Wagner (2011) who also use these variables, but for a sample ending in 2005. Peters and Wagner (2011) report average (median) total compensation of 4 (2.1) million USD. As executive compensation increases over time, it might not be surprising that we get slightly higher but still comparable values. Furthermore, results in Table 1 show that stock option grants on average amount to 29% of total compensation, while the fraction of restricted stock grants is lower at 13% in our sample. Summarizing, descriptive statistics on compensation data are in line with previous work on CEO compensation based on ExecuComp data (e.g., Dittmann and Maug (2007), Peters and Wagner (2011), Kuhnen and Niessen-Ruenzi (2011)), although our data extends over a longer sample period. Furthermore, descriptive statistics on our control variables also compare very well to the previous literature.

Regarding our proxies for firm prestige, results in Table 1 indicate that about 6% of all observations appear in the FTMA ranking. This fraction is lower for the other survey-based rankings as they are available for a shorter period of time. Finally, results in Table 1 suggest that firms that appear in the Fortune most admired companies ranking are more likely to be part of the S&P500 index (83.2% of all ranked firm-year observations) than firms which do not appear in the Fortune most admired companies ranking (25.6% of all non-ranked firm-year observations).

In Panel B of Table 1, we compute correlations between all main variables used in our analysis. Results show that correlations are generally low, so that multicollinearity is not an issue in our multivariate analysis. Furthermore, most proxies for firm prestige are significantly positively correlated. Correlation is highest between the Forbes most reputable companies ranking and Barron's most respectable companies ranking ($\rho = 0.29$), while it is lowest and insignificant between advertising expenditures and all other proxies for firm prestige. This suggests that at least our survey based proxies all capture a common aspect of firm prestige. Still, correlations between survey based proxies for firm prestige are not high. This might be due to the fact that the surveys are run among different groups of a firm's stakeholders (executives, employees, analysts, and customers). Thus, they might capture different aspects of firm prestige depending on which group has been surveyed. Finally, firm size is significantly positively related to all proxies for firm prestige except for advertising expenditures. As large firms are more likely to be ranked in a business magazine's list of admired companies, this points out

the need to properly control for firm size in all our regressions. Still, we would like to emphasize that a potential confounding effect of firm size on firm prestige would always work against us as size is positively related to executive compensation.

To get a first (non-parametric) impression on differences in executive compensation between prestigious and non-prestigious firms, we conduct double sorts on firm size and firm prestige. Specifically, we sort firms into deciles based on their size and based on whether they appear in the Fortune Most Admired Companies Top 100 Ranking. As indicated by the results in Table 1, about 83% of all ranked firms are part of the S&P500 index. Therefore, to obtain a reasonable distribution of prestigious and non-prestigious firms for each size decile, we restrict the sample to firms that are part of the S&P500 index. Otherwise, the lowest size deciles would only comprise a handful of ranked firms, which would make it hard to test for statistical differences. Then, we compute average compensation for all deciles and groups of prestigious and non-prestigious firms. Size decile one contains the smallest 10% of firms in the S&P 500, while size decile ten contains the largest 10% of firms in the S&P 500. We test for differences between prestigious and non-prestigious firms for each size decile based on two-sided t-tests. Results are presented in Table 2.

— Please insert TABLE 2 approximately here —

Results in Table 2 suggest that total compensation almost monotonically increases across size deciles for prestigious as well as non-prestigious firms, which is in line with the previous literature.

More importantly, in seven out of ten size deciles, total compensation is lower for prestigious firms than for non-prestigious firms. The difference is statistically significant for size deciles eight and nine. In size decile five, total compensation is significantly larger for prestigious firms than for non-prestigious firms. In all other cases, the differences are not statistically significant.

In Panel B of Table 2, we investigate differences in other firm characteristics such as return on assets (ROA), sales, and stock returns between prestigious and non-prestigious firms. We find that prestigious firms have significantly higher ROAs, while their annual stock returns are significantly lower than those of non-prestigious firms. Furthermore, prestigious firms are larger in terms of both, sales and market value, than non-prestigious firms. At the same time, their growth rates of sales are lower than those of non-prestigious firms.

Taken together, results in Panel B of Table 2 underline the importance of controlling for differences in firm performance and firm size between prestigious and non-prestigious firms when investigating the impact of firm prestige on CEO pay.

3 Analysis and main results

3.1 Baseline results

To investigate our main conjecture that firm prestige is negatively related to CEO compensation, we now turn to a multivariate analysis. Our dependent variable is the logarithm of total compensation. We then construct a dummy variable, $Prestige_{i,t-1}$, equal to one if a firm appears in the FTMA ranking in the previous year, and zero otherwise. Furthermore, when predicting compensation of firm i's CEO in year t, we include controls for firm-specific and market-wide variables measured as of time $t-1$ that may influence CEO pay. Core, Holthausen, and Larcker (1999) show that there is a strong relationship between current and lagged CEO pay. Therefore, the lagged value of total compensation, $Pay_{i,t-1}$, is included. Since better performing managers get paid more, we also include industry adjusted measures of lagged firm performance (stock return and return on assets) as control variables. We also include the logarithm of lagged firm sales, lagged market value as well as sales growth in year $t-1$. These variables have been used as measures for complexity, firm size, and growth opportunities (e.g., Baker, Jensen, and Murphy (1988)), and have been shown to influence executive compensation (e.g., Murphy (1999)). Finally, we include a dummy variable equal to one if the CEO of a firm is younger than 60 years, and zero otherwise. This allows us to control for age-dependent heterogeneity in the executives' outside options and career concerns (Gibbons and Murphy (1992), Kuhnen and Zwiebel (2009)). A detailed description of our main variables in Appendix 6.2. All regressions include year and industry fixed effects (Fama-French 48). Standard errors are clustered at the firm level.

— Please insert TABLE 3 approximately here —

In Panel A of Table 3, we estimate our regressions for the whole sample of ExecuComp firms from 1993 to 2010. We use different definitions of firm prestige based on the FTMA ranking to make sure that our results do not depend on how firm prestige is defined. In columns 1 (2, 3, 4) of Panel A, $Prestige_{i,t-1}$ is equal to one if a firm appears in the Fortune Top 100 (75, 50, 25) most admired companies ranking in the

previous year, and zero otherwise. We find that firm prestige is significantly negatively related to CEO compensation for all cutoffs used in these columns. The results are also economically significant. They suggest that total compensation is lowered by 8.9% to 13% on average, if a CEO works for a prestigious firm. Interestingly, the effect tends to increase with the rank of the firm. While prestigious firms in the Top 100 ranking pay their CEOs about 9% less, prestigious firms in the Top 25 ranking pay their CEOs about 13% less. This result also holds if $Prestige_{i,t-1}$ is not based on the ranking itself, but on the score that underlies the Fortune ranking. This score ranges from one to nine while firms rarely get the best score of nine. In columns 5 (6, 7, 8) of Panel A, $Prestige_{i,t-1}$ is equal to one if a firm gets a score of 5 (6, 7, 8) in the previous year, and zero otherwise. We still find a significantly negative impact of firm prestige on CEO pay. The coefficients monotonically decline (increase in absolute value) from -2.3% to -12.6% for higher scores. This pattern implies that the more prestigious a firm is, the less it pays its CEO.

Regarding our control variables, we find an autocorrelation of lagged pay and current pay of 0.55. Thus, the lagged dependent variable should capture a large fraction of unobserved, firm-specific factors present in previous year's pay and should be a good substitute for firm fixed effects.[16] Furthermore, we find that CEOs get paid about 1.6% more after better firm performance measured by stock returns. This difference is significant at the 5% level. Note that similar to the prior literature (see Core, Guay, and Larcker (2008)) we find a significantly negative impact of lagged ROAs on total compensation. This might be due to a ratcheting effect, i.e. past ROAs set a benchmark for current performance and pay declines with higher past performance because it resets the benchmark.[17] Our proxies for firm size and growth opportunities are significantly and positively related to total compensation which is also consistent with prior literature. Finally, our results show that younger CEOs are paid about 5.8% more, presumably because they receive more deferred compensation.

There may be a concern that the results we have obtained so far pertain to the ongoing relationship between CEOs and their firms and are not determined at the initial pay setting process when a new CEO is hired by a firm. Therefore, in Panel B of Table 3, we estimate the same regressions as in Panel A, but restrict our sample to

[16] In our robustness section, we also estimate the regressions with firm fixed effects. Our results are not affected.

[17] In unreported results, we find a significantly positive relation between CEO pay and contemporaneous return on assets.

the first year after a new CEO has been assigned to a firm only. The drawback of this type of analysis is that we lose about 90% of observations as we basically restrict the sample to CEO turnover events. Results in Panel B still suggest that firm prestige is negatively related to CEO pay. Although the results get economically stronger, we do not obtain significant coefficients for all specifications anymore. The results are still statistically significant for columns 2, 6, and 7.

Taken together, results in Table 3 support our main hypothesis that firm prestige reduces CEO pay. The effect is economically and statistically significant. On average, CEOs make wage concessions of about 9% for being head of one of the most admired companies in the United States, which equals $216.000 for the median firm.

So far, our results are derived based on one survey based proxy for firm prestige, i.e. Fortune's ranking of America's Most Admired Companies. We now turn to an analysis of different proxies for firm prestige to make sure that our results do not depend on one survey-based measure only. Specifically, we run the same regressions as in Table 3, but construct our dummy variable $Prestige_{i,t-1}$ based on alternative measure of firm prestige as described in the data section.

— Please insert TABLE 4 approximately here —

As a benchmark, column 1 (2) of Table 4 again present the result we obtain if prestige is defined according to whether a firm appears in the FTMA Top 100 (Top 50) ranking. In column 3 (4), $Prestige_{i,t-1}$ is equal to one if a firm appeared in the FBMR Top 100 (Top 50) ranking, and zero otherwise. We find a significantly negative impact of firm prestige on CEO compensation. The effect is also economically significant, indicating that CEOs earn about 21 to 25% less if they work for a prestigious firm. In column 5 (6), $Prestige_{i,t-1}$ is equal to one if a firm appeared in the FTBC Top 100 (Top 50) ranking, and zero otherwise. Again, we find that the coefficient on prestige is not only highly significant at the 1%-level (FTBC top 100) or at the 5%-level (top 50), but also economically large. The coefficient on firm prestige is significantly negative and suggests about 20% lower pay for CEOs of prestigious firms. This finding suggests that not only rank-and-file employees but even CEOs are willing to give up substantial compensation for working for companies that are rated as "best to work for."

We expect that the prestige of firms is driven by brand awareness and the public visibility of the firms, among others. In column 7, we therefore set $Prestige_{i,t-1}$ equal to one if a firm appears in Business Week's Best Global Brands (BWB) ranking, and zero otherwise. A strong brand should have a positive impact on a firm's image and

thus make it more prestigious not only for customers, but also from the perspective of CEOs working for these companies. Indeed, we obtain a negative coefficient on firm prestige, although it is not significant at conventional levels. A similar result is obtained in column 8, where $Prestige_{i,t-1}$ is equal to one if a firm appears in Barron's Most Respected Companies (BMR) ranking, and zero otherwise.

Finally, we investigate two non-survey based proxies of firm prestige. Specifically, in column 9 we set $Prestige_{i,t-1}$ equal to one if a firm is covered by analysts, and zero otherwise. Analyst coverage should contribute to a firm's visibility on the market, which arguably makes it more attractive to work for from the perspective of a CEO. Furthermore, in column 10, $Prestige_{i,t-1}$ corresponds to a firm's lagged advertising expenditures scaled by its total assets. These non-survey based variables are arguably coarser proxies for firm prestige as they are not based on individual judgments regarding the reputation of or admiration for a firm. Also, it is less clear that the criteria of positionality and scarcity apply to these measures in the same way as they apply to ranking-based measures. Nonetheless, we find a significantly negative impact of these proxies on CEO compensation.

Overall, results in Table 4 strengthen the conclusion that firm prestige is negatively related to CEO compensation. Most importantly, our results hold for a variety of proxies for firm prestige. We obtain a negative (and mostly significant) coefficient for all proxies of firm prestige indicating about 10 to 20% lower compensation of CEOs working for a prestigious firm. As data availability is best for Fortune's most admired company ranking, which is available since 1990, we use this ranking as the main proxy for firm prestige in our further analysis.

3.2 Firm prestige, types of pay, and corporate governance

We now turn to an analysis of the impact of firm prestige on different types of pay. It is conceivable that different levels of pay reflect different structures of pay. More specifically, conventional principal-agent theory suggests that CEOs are paid more if they obtain a larger portion of their pay in the form of deferred compensation because they value one dollar of stock or stock options less than one dollar of fixed compensation because of the exposure to firm-specific risk associated with stock-based compensation. Hence, to the extent that firm prestige provides incentives to CEOs and these status-induced incentives substitute for deferred compensation, higher firm prestige may reduce deferred compensation and the risk premium paid to CEOs, thereby reducing

total compensation. According to this substitution hypothesis, total compensation falls because fixed compensation increases, but by less than deferred compensation falls.

In contrast, according to our hypothesis, we expect that fixed compensation is lower at prestigious firms, because status concerns work through the outside option of the CEO and the board's objective to retain the CEO, and retention objectives are mainly reflected in fixed compensation. At the same time, we expect deferred compensation to be unaffected.

To shed light on the question of whether CEOs of prestigious firms receive compensation different from those of non-prestigious firms, we investigate the impact of firm prestige on different components of pay.

— Please insert TABLE 5 approximately here —

In column 1, we use the logarithm of cash compensation (i.e., the sum of salary and bonus payments + 1) as the dependent variable. We use the same control variables as in the previous tables but adjust lagged pay, $Pay_{i,t-1}$, according to the dependent variable. $Prestige_{i,t-1}$ is equal to one if a firm appears in the FTMA Top 100 ranking, and zero otherwise. Results in column 1 show that firm prestige is significantly negatively related to cash compensation. Specifically, CEOs earn about 6% less cash if they work for a prestigious firm. A similar result obtains if salary is used as the dependent variable (column 2). We do not find a significant impact of firm prestige on bonus payments or on stock option grants (columns 3 and 4), although the coefficients are still negative. Other pay, which should be considered part of fixed compensation as it comprises pay components such as perquisites, personal benefits, and retirement plans, is also significantly lower in prestigious firms than in non-prestigious firms (column 5). Restricted stock grants (column 6) are not significantly affected by firm prestige. Finally, coefficients on our control variables are similar to the coefficients obtained in the previous tables.

Taken together, our results in Table 5 contradict the substitution hypothesis. The coefficients on all components of pay are negative. In particular, cash compensation and salary are significantly lower at prestigious firms than at non-prestigious firms, which is inconsistent with the substitution hypothesis.

In the next step, we test for whether the impact of firm prestige on compensation depends on the quality of corporate governance. According to our main hypothesis, firm prestige lowers compensation only for firms with good governance, particularly for firms with independent compensation committees. These firms are characterized by a

more independent and efficient pay setting process and should realize that their prestige lowers the compensation required to meet the CEO's outside options.

A further motivation to study the interaction of our main effect with corporate governance is that it helps us to distinguish an alternative interpretation of this effect. High-status CEOs may want to display their social status by demanding lower pay.[18] Such a signaling of high status could not be emulated by low-status CEOs who would find it too costly to forego the additional salary because their marginal utility of status is much lower compared to their marginal utility of wealth. The empirical prediction following from this hypothesis is the same for the relationship between prestige and compensation, but it cannot explain why this relationship depends on the quality of corporate governance. More specifically, the signaling argument is based on CEOs' inclination to signal and does therefore not depend on the bargaining strength of the CEO relative to the board of directors.

We use several proxies for the quality of corporate governance and interact these governance variables with our measure of firm prestige, $Prestige_{i,t-1}$. We then use Wald coefficient tests to investigate whether our results are stronger for better governed firms compared to poorly governed firms.

— Please insert TABLE 6 approximately here —

In column 1, *GoodGov* (*PoorGov*) is equal to one if a CEO is (is not) at the same time chairman of the board, and zero otherwise. It has been argued in the literature that CEO duality weakens incentives of the board to monitor a CEO and thus leads to poor corporate governance (Shivdasani and Yermack (1999) and Ryan and Wiggins (2004)). Thus, a CEO who is also chairman of the board has more power to set his own pay and is thus less likely to receive lower pay due to firm prestige. Our results support this notion. The negative impact of firm prestige on CEO pay is only observed for firms in which the CEO is not chairman of the board, while it is insignificant for firms with CEO duality. According to a Wald coefficient test, the difference between the impact of prestige on CEO pay in well governed versus poorly governed firms is significant at the 5% level. We also find a positive impact of CEO duality on CEO pay. Specifically, CEOs earn about 3% ($135,833) more if they are at the same time chairman of the

[18] This notion goes back at least to Max Weber's analysis of the interrelationship of monetary and non-monetary reward systems, see Weiss and Fershtman (1998) for a discussion. Weber's theory may add to the discussion of CEOs with one-dollar salaries (Loureiro and Makhija (2010) and Zhang (2010)).

board. This result compares very well to Core, Holthausen, and Larcker (1999), who find a difference of $152,577.

In column 2 (3), *GoodGov* is equal to one if the number of board members (number of board members' outside appointments) is below the median, and zero otherwise. According to the previous literature, corporate boards have a strong impact on CEO compensation (Core, Holthausen, and Larcker (1999) and Chhaochharia and Grinstein (2009)). Furthermore, it has been shown that large boards and busy boards are weaker monitors (Core, Holthausen, and Larcker (1999) and Fich and Shivdasani (2006)). Thus, we conjecture that large and busy boards are less likely to set contracts efficiently and pay their CEOs less if the firm is prestigious. Our results support this view. We find that the impact of firm prestige on CEO pay is significantly negative for firms with small and non-busy boards, while we find no significant impact of firm prestige on CEO pay if boards are large and busy. Wald coefficient tests again show that the difference between well-governed and poorly-governed firms is statistically significant.

In our context, the best governance proxy is arguably the independence of the compensation committee as it should be most closely related to efficient pay setting. In column 4, *GoodGov* is equal to one if the majority of a firm's compensation committee is independent, and zero otherwise. We follow Ferris, Jagannathan, and Pritchard (2003) and use IRRC data to construct a dummy variable equal to one if the majority of members of the compensation committee is independent, and zero otherwise. In line with the previous literature (e.g., Rosenstein and Wyatt (1990)), we expect compensation contracts to be more efficient if the compensation committee is independent. Our results support this conjecture. Independent compensation committees at prestigious firms pay their CEOs about 15% less, while there is no significant impact of firm prestige in CEO pay if the compensation committee is not independent. This difference is statistically significant at the 1% level according to a Wald coefficient test.

In columns 5 and 6, we investigate CEO entrenchment and the relevance of external corporate governance. We follow the literature by including the Gompers, Ishii, and Metrick (2003) governance index as well as the Bebchuk, Cohen, and Ferrell (2009) entrenchment index in our analysis. We set *GoodGov* equal to one if a firm's governance (entrenchment) index is below the median value of nine (three) in our sample, and zero otherwise. We still find a larger impact of firm prestige on CEO pay for well governed firms, but the difference to poorly governed firms is not statistically significant.

Finally, in column 7, we analyze the relative power of the CEO compared to other board members. We follow Bebchuk, Cremers, and Peyer (2011) and compute a measure

of CEO centrality. Specifically, we compute the fraction of CEO pay relative to the total compensation of all top five managers as reported in ExecuComp. We then set *GoodGov* equal to one if the CEO pay slice is lower than 50%, and zero otherwise. Our results again show that firm prestige has a significantly negative impact on CEO pay for firms with good corporate governance, while there is no such effect for poorly governed firms.

Taken together, results in Table 6 show that the negative impact of firm prestige on CEO pay is almost entirely driven by well governed firms.

4 Robustness checks

4.1 Director pay and alternative explanations

If the concerns about firm prestige and status reflect bargaining pressure on the CEO, then this pressure should also be visible for other directors. Therefore, we now turn to an analysis of the impact of firm prestige on compensation of all other top five directors (except for the CEO) as reported in ExecuComp. Specifically, we compute average total compensation of all other directors at a firm and use it as the dependent variable in our regression. We use the same baseline model as in Table 3 but adjust lagged pay according to our dependent variable. Results are presented in column 1 of Table 7.

— Please insert TABLE 7 approximately here —

Results in column 1 show a negative impact of firm prestige on other directors' compensation. Similar to our results for CEOs, directors earn significantly less at prestigious firms. However, the point estimate is somewhat smaller (-0.03) and statistical significance is only marginal at the 10% level.

In the next step, we turn to an analysis of alternative explanations that might explain our result of a negative impact of firm prestige on CEO compensation. For example, CEOs of firms who own a large fraction of the firm's cash flows already, e.g. founder-CEOs, may be willing to give up current compensation because they receive some of their compensation through stock returns rather than through direct compensation. We therefore include lagged stock ownership as an additional control variable and expect a negative coefficient. The dependent variable is total CEO compensation. Results in column 2 of Table 7 show that including lagged CEO ownership does not affect our main result. We still find an economically and statistically significant negative

impact of firm prestige on total compensation. However, a decline of total compensation by 0.3% for an increase of ownership by 100%, or about 0.003% per 1% increase in ownership, is economically insignificant.

It could also be the case that firm prestige and CEO compensation are both driven by whether firms are glamor firms, i.e., firms with a high market-to-book ratio. These firms often make headlines because of their high expected growth potential. CEOs in such firms may give up some current compensation in return for higher future compensation, for example if they own a lot of restricted stock and options already, which would not be covered by our measure of total compensation. Note that we already control for past stock returns and CEO ownership, which should pick up the effect that firms become more visible because their market valuation has increased dramatically over the past year and the fact that CEOs with more stock ownership expect to be rewarded in the future. Nevertheless, we rerun our regression and include firms' lagged market-to-book ratio as an additional control variable. Results in column 3 show that we still find a significantly negative impact of firm prestige on CEO pay, while the market-to-book ratio has no impact on compensation.

In the next step, we investigate if concerns about firm prestige depend on CEOs' age as younger CEOs arguably care more about working for a prestigious firm than CEOs who are already close to retirement. Specifically, it may be the case that younger CEOs buy higher lifetime income by joining prestigious firms as a means to achieve higher compensation later on. To investigate this question, we split the sample at the median CEO age into two subsamples and create dummy variables for all CEOs who are 55 years old or younger and those who are older than 55 years, respectively. We then interact these dummy variables with our measure of firm prestige, $Prestige_{i,t-1}$. Results in column 4 show that the negative impact of firm prestige on CEO pay is statistically significant at the 1%-level for both subgroups. Interestingly, the effect is almost twice as large for younger CEOs compared to older CEOs. A Wald coefficient test shows that this difference is statistically significant at the 10% level.

In column 5 of Table 7, we estimate our regression with firm fixed effects as prestige may be related to unobserved variables that influence a firm's admiration amongst directors and financial analysts as well as its compensation. We find that the coefficient estimate on firm prestige is virtually unchanged. The t-statistic drops to 2.14, but still indicates statistical significance at the 5% level.

Finally, in column 6 of Table 7, we restrict our sample to firms that are part of the S&P 500 only. Table 1 shows that 83.2% of firms in the S&P 500 are ranked in the

FTMA Top 100 ranking and 25.6% of the non-ranked companies are in the S&P 500. Hence, prestige is strongly related to index membership. We do not expect a problem from this relationship because size is positively related to prestige, so that selection in favor of larger companies works against our main hypothesis. To be safe about our benchmarking procedure, we nevertheless re-run our analysis for S&P 500 firms only in order to make sure that our results do not simply pick up effects related to index membership. This way, we lose about 70% of our sample. However, we still find a significantly negative impact of firm prestige on CEO pay (-0.078), which is significant at the 1%-level.

4.2 Further robustness checks

In this section, we use different model specifications to investigate the robustness of our main result.

— Please insert TABLE 8 approximately here —

In column 1, we estimate our baseline regression but exclude lagged CEO pay. Our results become economically stronger with a coefficient of -0.138 compared to -0.089 in our baseline regression in Table 3. Most of the other coefficients increase in absolute value by a factor of about 2, which is consistent with our coefficient estimate on lagged total compensation of 0.55 in Table 3.

In columns 2 and 3, we cluster standard errors by year, and respectively, by firm and year. We obtain slightly larger standard errors, but our point-estimate on the impact of firm prestige on CEO compensation remains significant at the 1%-level.

Results in Table 2 suggest that firm prestige is strongly related to firm size as larger firms are more likely to appear in one of our survey based prestige rankings. Therefore, we control for lagged firm size in our main regressions. To control for non-linear size effects that might be picked up by firm prestige in a linear specification, we introduce a quadratic term for firm size as an additional control variable in column 4 of Table 8. In column 5 we insert dummy variables for size deciles as a non-parametric way to control for firm size. The negative impact of firm prestige on total compensation is virtually unchanged.

In columns 6 and 7 of Table 8, we investigate the temporal stability of our results. In column 6, we construct two dummy variables at the median year in our sample (i.e, 2002) and interact them with our measure of firm prestige, $Prestige_{i,t-1}$. For both time

periods, we find a negative coefficient on firm prestige which is significant at the 5%-level for the earlier time period until 2002 and significant at the 1%-level for the later time period from 2003 onwards. The effect for the later time period appears somewhat larger, although a Wald coefficient test suggests that the difference between both time periods is not statistically significant. In column 7, we restrict our sample to the time period before 2006. In 2006, ExecuComp changed the composition of some data items so that several adjustments need to be made if data is used beyond 2005 (see Section 2). To make sure that our results are not driven by these adjustments, we re-estimate our regression for the time period before 2006 only. Although we lose about 30% of our observations, we still find a significantly negative impact of firm prestige on total compensation.

Finally, in order to control for the influence of outliers on our results, we truncate the sample and drop the CEOs with the largest and the smallest values for total compensation. This should alleviate concerns that our results are driven by CEOs with one-dollar salaries (Loureiro and Makhija (2010) and Zhang (2010)). In column 8 of Table 8, we truncate the distribution of CEO pay at the top and bottom 1% without any consequence for our main result. In column 9 of Table 8, we truncate the annual distribution of CEO pay at the top and bottom 1%. Our results remain stable.

5 Conclusion

We investigate the relationship between CEO compensation and firm prestige and find that CEOs of firms that are ranked in the Fortune 100 most admired companies ranking earn on average 9% less than CEOs of non-ranked companies after controlling for other factors that affect compensation. Similar results obtain for other proxies of firm prestige. We conclude from this observation that CEOs obtain social benefits from heading prestigious firms and that boards can extract pay concessions for these benefits. Our interpretation is that CEOs value their social status and working for a prestigious firm serves as a status symbol that simultaneously enhances and displays their status.

In our particular case, we are not concerned that our results are subject to endogeneity concerns. It is clearly possible that firm prestige is driven by CEOs' actions, such as spending more on advertising and improving relationships with financial analysts and customers. However, CEOs should then earn more as a reward for successfully increasing the prestige of the firm, which is opposite to what we find.

This finding has implications for the efficiency of allocation for CEO talent. A recent literature investigates the allocation of CEOs to firms in the context of assignment models where firms compete for general CEO talent or for CEOs with particular profiles, and CEOs compete for the best-paid positions they can obtain.[19] Following the logic of the labor allocation model of Fershtman and Weiss (1993), status considerations based on firm prestige may lead to distortions away from efficient matching. Prestigious firms have to spend less resources on compensating CEOs and therefore employ more talented CEOs than in an efficient equilibrium, while simultaneously driving up the price for CEO talent, leaving less prestigious firms with inefficiently low-talented CEOs.

Our second finding is that the negative impact of firm prestige on compensation is concentrated in well-governed firms, an effect that shows up particularly if we measure the quality of governance by the independence of the compensation committee. We conclude from this observation that only sufficiently strong boards can extract pay concessions from CEOs and that weaker boards leave the social benefits from working for a prestigious firm to the CEOs as a rent.

This observation poses the more general question about the extent to which boards can extract the benefits from firm prestige and the implications these pay concessions have for incentives. The economic literature on social status emphasizes the incentives that may be generated by the desire to hold on to status symbols. However, firm prestige would provide such additional incentives only to the extent that the social benefits from firm prestige are *not* compensated through lower compensation, because the threat of being dismissed is muted for a CEO whose compensation is already close to her outside option. Further theoretical research should address these issues.

[19] See footnote 1 for the literature on assignment models.

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6 Appendix

6.1 Firms in (not in) FTMA ranking

Most frequently ranked in FTMA	Never ranked in FTMA
Abbott Laboratories	Altera Corp.
Aetna Inc.	Ameren Corp.
Alcoa Inc.	Aon Corp.
American Express Co.	AutoZone Inc.
AMR Corp.	Avery Dennison Corp.
Apple Inc.	Bed Bath & Beyond Inc.
AT&T Inc.	Big Lots Inc.
Beam Inc.	Block (H&R) Inc.
Berkshire Hathaway Inc.	Carnival Corp.
Boeing Co.	CBS Corp.
Caterpillar Inc.	CenturyLink Inc.
Chevron Corp.	Cincinnati Financial Corp.
Coca-Cola Co.	Citrix Systems Inc.
Colgate-Palmolive Co.	DTE Energy Co.
Deere & Co.	Ecolab Inc.
Dow Chemical Co.	Freeport-McMoran Copper & Gold Inc.
E. I. du Pont de Nemours and Co.	Frontier Communications Corp.
Eli Lilly and Co.	Hasbro Inc.
Exxon Mobil Corp.	Hershey Co.
General Dynamics Corp.	Huntington Bancshares Inc.
General Electric Co.	Janus Capital Group Inc.
Goodyear Tire & Rubber Co.	KLA-Tencor Corp.
Herman Miller Inc.	Lincoln National Corp.
Hewlett-Packard Co.	Linear Technology Corp.
Illinois Tool Works Inc.	Mattel Inc.
International Business Machines Corp.	Molex Inc.
J. C. Penney Company Inc.	Molson Coors Brewing Co.
Johnson & Johnson	Monster Worldwide Inc.
Johnson Controls Inc.	Moody's Corp.
Kimberly-Clark Corp.	Motorola Solutions Inc.
Kroger Co.	Nabors Industries Ltd.
Leggett & Platt Inc.	Nicor Inc.
Lockheed Martin Corp.	NiSource Inc.
McKesson Corp.	Novellus Systems Inc.
Motorola Mobility Holdings Inc.	Pall Corp.
New York Life Insurance Co.	Pinnacle West Capital Corp.
Northrop Grumman Corp.	PPL Corp.
Northwestern Mutual Life Insurance Co.	Progressive Corp.
Occidental Petroleum Corp.	RadioShack Corp.
PepsiCo Inc.	Rockwell Automation Inc.
Procter & Gamble Co.	Rowan Companies Inc.
Safeway Inc.	Schlumberger Ltd.
Target Corp.	Sigma-Aldrich Corp.
Texas Instruments Inc.	Snap-On Inc.
United Parcel Service Inc.	Tiffany & Co.
United Technologies Corp.	Torchmark Corp
V.F. Corp.	Watson Pharmaceuticals Inc.
Wal-Mart Stores Inc.	Williams Cos Inc.
Weyerhaeuser Co.	Xilinx Inc.
Xerox Corp.	Zions Bancorporation

6.2 Description of main variables

Variable	Definition
$LN(TotComp)_{i,t}$	Log of total pay in year t ($ln(tdc1+1)$). Source: Execucomp (item $tdc1$).
$LN(Options)_{i,t}$	Log of Black-Scholes value of options granted in year t (thousand \$'s) Source: Execucomp (items blk_valu & $option\_awards\_fv$).
$LN(Salary)_{i,t}$	Log of salary in year t ($ln(salary+1)$). Source: Execucomp
$LN(Bonus)_{i,t}$	Log of bonus in year t ($ln(bonus+1)$). Source: Execucomp
$LN(OtherPay)_{i,t}$	Ln($TotalCompensation_t$ - $Salary - Bonus_t$ - $Options_t$ - $Stock_t$)
$FTMA_{i,t}$	Dummy variable equal to one if firm i appears in Fortune's most admired company ranking in year t, and zero otherwise. Source: Fortune magazine.
$FTBC_{i,t}$	Dummy variable equal to one if firm i appears in Fortune's best companies to work for ranking in year t, and zero otherwise. Source: Fortune magazine.
$FBMR_{i,t}$	Dummy variable equal to one if firm i appears in Forbe's most reputable company ranking in year t, and zero otherwise. Source: Forbes magazine.
$BWB_{i,t}$	Dummy variable equal to one if firm i appears in Business Week's best global brands ranking in year t, and zero otherwise. Source: Business Week.
$BMR_{i,t}$	Dummy variable equal to one if firm i appears in Barron's most respected companies ranking in year t, and zero otherwise. Source: Barron's.
$VFA_{i,t}$	Dummy variable equal to one if firm i is covered by at least one analyst according to the I/B/E/S database (variable $numrec$), and zero otherwise. Source: I/B/E/S.
$ROA_{i,t}^{adj}$	Return on assets of firm i less return on assets of all firms in the same FF48 industry. Source: Execucomp (item roa).
$Ret_{i,t}^{adj}$	Annual stock return of firm i less equal weighted stock return of all firms in the same FF48 industry. Source: CRSP/Compustat.
$CEO<60_{i,t}$	Dummy variable equal to one if CEO's age <60 years and zero otherwise. Sources: Execucomp.
$LN(Sales)_{i,t}$	Log of firm sales (plus one) in millions. Source: CRSP/Compustat
$LN(MValue)_{i,t}$	Log of market value of firm i in year t ($Ln(MValue+1)$. Source: CRSP/Compustat.
$SalesGr_{i,t}$	Sales growth of firm (%). Source: Execucomp (item $salechg$).
$MB_{i,t}$	Market to book ratio of firm (%). MB is measured as assets (Compustat data # 6) less book value of equity (Compustat data #60) plus market value of equity (Compustat data #199 $\cdot$ # 25) scaled by total assets. We drop observations with MB >10. Source: Compustat.
$CEOwn_{i,t}$	CEO ownership in percent (Execucomp variable $shrownpc$). Source: Execucomp.
$SP500$	Dummy variable equal to one if a firm belongs to the S&P500 index, and zero otherwise. Source: CRSP.

Table 1: **Panel A: Descriptive Statistics.** Panel A of this table presents summary statistics for all variables used in our analysis. Compensation data are obtained from ExecuComp. The sample goes from 1993 to 2009.

Panel A	Mean	S.D.	Median	1^{st} Perc.	99^{th} Perc.	N
$TotComp_{i,t}$(in '000)	4527.796	10018.671	2399.452	200.000	32060.141	24861
$Options_{i,t}$(in '000)	1874.163	7565.799	494.549	0.000	19559.082	24620
$Salary_{i,t}$ (in '000)	665.438	344.576	619.231	0.001	1653.200	24861
$Bonus_{i,t}$(in '000)	571.549	1655.700	201.171	0.000	5000.000	24861
$RestrStock_{i,t}$(in '000)	926.133	5223.817	0.000	0.000	10771.600	24619
$OtherPay_{i,t}$(in '000)	508.255	1526.702	79.846	0.000	5620.387	24181
$Options(\%)_{i,t}$	28.5	27.7	23.8	0.0	94.4	24571
$Salary(\%)_{i,t}$	31.9	23.6	25.3	0.8	99.8	24791
$Bonus(\%)_{i,t}$	15.2	17.5	10.2	0.0	72.3	24791
$RestrStock(\%)_{i,t}$	13.4	20.7	0.0	0.0	79.3	24549
$OtherPay(\%)_{i,t}$	11.1	16.5	3.5	0.0	74.4	24111
$FTMA100_{i,t}$	0.064	0.245	0.000	0.000	1.000	24861
$FBMR100_{i,t}$	0.011	0.103	0.000	0.000	1.000	6420
$FTBC100_{i,t}$	0.025	0.158	0.000	0.000	1.000	17964
$XAD_{i,t}$	0.033	0.044	0.015	0.000	0.214	7697
$ROA_{i,t}^{adj}$	-0.006	0.107	0.003	-0.464	0.220	24754
$Ret_{i,t}^{adj}$	0.039	0.969	-0.007	-1.051	2.054	24861
$MB_{i,t}$	1.906	1.553	1.450	0.740	7.657	24839
$Ln(Sales)_{i,t}$	7.157	1.456	7.130	3.492	10.108	24758
$Ln(MValue)_{i,t}$	7.323	1.575	7.290	3.378	10.998	24839
$SalesGr_{i,t}$	0.124	0.814	0.077	-0.494	1.169	24749
$CEO < 60_{i,t}$	0.710	0.454	1.000	0.000	1.000	24861
$SP500^{ranked}$	0.832	0.374	1.000	0.000	1.000	1597
$SP500^{nonranked}$	0.256	0.436	0.000	0.000	1.000	23243

Table 1: **Panel B: Correlations.** Panel B of this table presents correlations between our main variables of interest. * indicates significance at the 5% level.

Panel B	LN (TotComp)	FTMA 100	FBMR 100	FTBC 100	BWB	BMR	VFA	XAD	ROA^{adj}	Ret^{adj}	LN (Sales)	LN (MValue)	Sales Gr.	CEO <60
LN(TotComp)	1													
FTMA100	0.23*	1												
FBMR100	0.09*	0.19*	1											
FTBC100	0.08*	0.22*	0.07*	1										
BWB	0.13*	0.20*	0.17*	0.17*	1									
BMR	0.12*	0.21*	0.29*	0.09*	0.28*	1								
VFA	0.07*	0.05*	0.04*	0.03*	0.04*	0.03*	1							
XAD	-0.04*	0.02	0.01	-0.00	0.06*	-0.04*	0.00	1						
ROA^{adj}	0.11*	0.07*	0.013*	0.06*	0.04*	0.03*	0.11*	0.02*	1					
Ret^{adj}	0.02*	-0.02*	-0.01	-0.01	-0.01	-0.00	-0.01	-0.04*	0.01*	1				
LN(Sales)	0.51*	0.32*	0.12*	0.12*	0.14*	0.09*	0.02*	0.06*	0.20*	-0.04*	1			
LN(MValue)	0.58*	0.40*	0.16*	0.19*	0.23*	0.23*	0.09*	-0.05*	0.29*	-0.01*	0.72*	1		
SalesGr.	-0.00	-0.02*	-0.01	-0.01	-0.01	-0.00	-0.02*	-0.02	-0.01*	0.02*	-0.07*	0.02*	1	
CEO<60	0.02*	-0.03*	0.00	-0.00	0	-0.01	-0.00	0.00	-0.04*	0.01	-0.05*	-0.03*	0.03*	1

Table 2: **Double sorts.** Panel A of this table presents double sorts on firm size and firm prestige. Firm size is measured by a firm's market value. Firm prestige is measured by a dummy variable equal to one if a firm is part of the Fortune Top 100 most admired companies ranking, and zero otherwise. We report average total compensation (variable *tdc1*) for each size decile and depending on whether a firm appears in the Fortune Top 100 most admired companies ranking (*FTMA100=1*) or does not appear in that ranking (*FTMA100=0*), respectively. The sample is restricted to S&P500 firms only to get a reasonable distribution of ranked companies in each size decile. The number of observations is displayed in parentheses. Panel B of this table presents differences in our control variables between ranked and non-ranked firms.

Panel A	FTMA100=0	FTMA100=1	Difference	t-stat
	(1)	(2)	(3)	(4)
Size Dec. 1	2910.89	2678.34	-232.55	-0.28
	(865)	(20)		
Size Dec. 2	4283.92	4922.38	638.46	0.95
	(844)	(51)		
Size Dec. 3	5154.62	4463.62	-691.00	-0.85
	(814)	(91)		
Size Dec. 4	6608.98	5202.44	-1406.54	-0.62
	(801)	(97)		
Size Dec. 5	6189.30	7655.20	1465.90	2.17
	(795)	(107)		
Size Dec. 6	7901.75	7715.21	-186.54	-0.18
	(778)	(126)		
Size Dec. 7	8776.33	9616.85	840.52	0.77
	(738)	(165)		
Size Dec. 8	10485.44	8170.43	-2315.01	-3.37
	(652)	(254)		
Size Dec. 9	15727.14	12256.60	-3470.54	-1.80
	(501)	(402)		
Size Dec. 10	20512.57	18286.31	-2226.26	-1.50
	(375)	(549)		
Panel B	FTMA100=0	FTMA100=1	Difference	t-stat
	(1)	(2)	(3)	(4)
ROA^{adj}	0.008	0.022	0.014	6.62
Ret^{adj}	-0.015	-0.045	-0.030	-2.12
$Ln(Sales)$	8.124	9.121	0.996	36.07
$Ln(MValue)$	8.601	9.986	1.385	46.27
$SalesGr$	0.114	0.091	0.023	2.39

Table 3: **Firm Prestige and CEO Pay.** Panel A of this table presents regressions with $Ln(TotComp)_{i,t}$ as the dependent variable. The main independent variable, $Prestige_{i,t-1}$, is a dummy variable constructed based on the Fortune most admired companies ranking. In Column 1 (2, 3, 4), $Prestige_{i,t-1}$ is equal to one if firm i belongs to the Top 100 (75, 50, 25) most admired companies in year t-1, and zero otherwise. In Column 5 (6, 7, 8), $Prestige_{i,t-1}$ is equal to one if firm i gets a score of at least 5 (6, 7, 8) in Fortune's most admired companies ranking (FTMA) in year t-1, and zero otherwise. In Panel B, we run the same set of regressions as in Panel A but restrict the sample to the first year a new CEO is assigned to a firm. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-stats in parentheses.

Panel A: Whole sample	FTMA 100 (1)	FTMA 75 (2)	FTMA 50 (3)	FTMA 25 (4)	FTMA 5 (5)	FTMA 6 (6)	FTMA 7 (7)	FTMA 8 (8)
$Prestige_{i,t-1}$	–0.089	–0.102	–0.086	–0.126	–0.023	–0.056	–0.103	–0.126
	(–3.49)	(–3.36)	(–2.45)	(–2.25)	(–1.32)	(–2.78)	(–3.45)	(–1.64)
$Pay_{i,t-1}$	0.550	0.550	0.550	0.550	0.550	0.550	0.550	0.550
	(24.28)	(24.28)	(24.30)	(24.32)	(24.33)	(24.30)	(24.29)	(24.33)
$ROA^{adj}_{i,t-1}$	–0.204	–0.202	–0.199	–0.198	–0.201	–0.205	–0.202	–0.197
	(–3.03)	(–3.00)	(–2.96)	(–2.94)	(–2.99)	(–3.05)	(–3.00)	(–2.93)
$Ret^{adj}_{i,t-1}$	0.016	0.016	0.017	0.017	0.017	0.017	0.016	0.017
	(2.02)	(2.02)	(2.04)	(2.05)	(2.06)	(2.04)	(2.03)	(2.06)
$LN(Sales)_{i,t-1}$	0.090	0.089	0.089	0.088	0.090	0.091	0.089	0.088
	(9.89)	(9.82)	(9.74)	(9.70)	(9.66)	(10.01)	(9.82)	(9.68)
$LN(MValue)_{i,t-1}$	0.142	0.142	0.140	0.139	0.139	0.141	0.142	0.139
	(11.49)	(11.49)	(11.47)	(11.49)	(11.40)	(11.52)	(11.50)	(11.44)
$SalesGr_{i,t-1}$	0.010	0.010	0.010	0.010	0.010	0.010	0.010	0.010
	(1.72)	(1.72)	(1.73)	(1.73)	(1.73)	(1.72)	(1.72)	(1.73)
$CEO < 60_{i,t-1}$	0.058	0.058	0.059	0.059	0.059	0.058	0.058	0.059
	(4.60)	(4.60)	(4.62)	(4.66)	(4.65)	(4.61)	(4.61)	(4.65)
Adj. R^2	0.578	0.578	0.578	0.578	0.578	0.578	0.578	0.578
Observations	24861	24861	24861	24861	24861	24861	24861	24861
Panel B: First year								
$Prestige_{i,t-1}$	–0.159	–0.235	–0.080	–0.136	–0.106	–0.180	–0.266	0.034
	(–1.50)	(–1.79)	(–0.72)	(–0.70)	(–1.43)	(–2.13)	(–2.01)	(0.16)
Controls	yes	yes	yes	yes	yes	yes	yes	yes
Adj. R^2	0.392	0.392	0.391	0.391	0.392	0.393	0.393	0.391
Observations	2386	2386	2386	2386	2386	2386	2386	2386

Table 4: **Alternative Proxies for Firm Prestige.** This table presents regressions with $Ln(TotComp)_{i,t}$ as the dependent variable. The main independent variable, $Prestige_{i,t-1}$, is a dummy variable constructed based on whether a firm belongs to the Fortune most admired companies (FTMA) Top 100 ranking (Column 1), the Fortune most admired companies (FTMA) Top 50 ranking (Column 2), the Forbes most reputable companies (FBMR) Top 100 ranking (Column 3), the Forbes most reputable companies (FBMR) Top 50 ranking (Column 4), the Fortune best companies to work for (FTBC) Top 100 ranking (Column 5), the Fortune best companies to work for (FTBC)Top 50 ranking (Column 6), the Business Week Best Global Brands (BWB) ranking (Column 7), the Barron's most respected companies (BMR) ranking (Column 8), the visibility of a firm among financial analysts (VFA) measured by whether it is covered by at least one analyst (Column 9), and a firm's advertising expenditures (Compustat item *xad*), scaled by its total assets, (Column 10) in year t. We use the same set of control variables as in Table 3. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-stats in parentheses.

Panel A	FTMA 100	FTMA 50	FBMR 100	FBMR 50	FTBC 100	FTBC 50	BWB	BMR	VFA	XAD
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
$Prestige_{i,t-1}$	–0.089	–0.086	–0.212	–0.252	–0.205	–0.195	–0.190	–0.122	–0.032	–0.479
	(–3.49)	(–2.45)	(–2.01)	(–1.73)	(–3.54)	(–2.11)	(–1.42)	(–0.83)	(–2.12)	(–1.68)
$Pay_{i,t-1}$	0.550	0.550	0.573	0.574	0.553	0.554	0.556	0.579	0.550	0.528
	(24.28)	(24.30)	(15.17)	(15.08)	(20.79)	(20.90)	(19.42)	(16.55)	(24.31)	(15.86)
$ROA^{adj}_{i,t-1}$	–0.204	–0.199	–0.209	–0.208	–0.201	–0.203	–0.201	–0.229	–0.186	–0.123
	(–3.03)	(–2.96)	(–2.11)	(–2.09)	(–2.63)	(–2.66)	(–2.60)	(–2.50)	(–2.75)	(–0.90)
$Ret^{adj}_{i,t-1}$	0.016	0.017	0.000	0.000	0.013	0.013	0.009	0.010	0.017	0.005
	(2.02)	(2.04)	(0.01)	(0.01)	(1.35)	(1.36)	(0.95)	(0.80)	(2.04)	(0.24)
$Ln(Sales)_{i,t-1}$	0.090	0.089	0.088	0.087	0.090	0.089	0.095	0.089	0.087	0.092
	(9.89)	(9.74)	(5.31)	(5.22)	(8.61)	(8.56)	(9.15)	(6.09)	(9.52)	(5.26)
$Ln(MValue)_{i,t-1}$	0.142	0.140	0.127	0.126	0.142	0.139	0.129	0.124	0.139	0.136
	(11.49)	(11.47)	(7.43)	(7.31)	(9.83)	(9.78)	(8.70)	(7.27)	(11.43)	(6.87)
$SalesGr_{i,t-1}$	0.010	0.010	0.012	0.012	0.011	0.011	0.008	0.009	0.010	–0.033
	(1.72)	(1.73)	(1.81)	(1.81)	(1.37)	(1.39)	(1.13)	(1.74)	(1.72)	(–1.39)
$CEO < 60_{i,t-1}$	0.058	0.059	0.038	0.039	0.057	0.058	0.050	0.045	0.058	0.060
	(4.60)	(4.62)	(1.81)	(1.83)	(3.80)	(3.82)	(3.09)	(2.46)	(4.62)	(2.53)
Adj. R^2	0.578	0.578	0.607	0.607	0.571	0.571	0.582	0.606	0.578	0.530
Observations	24861	24861	6420	6420	17964	17964	15123	9304	24861	7697

Table 5: **Firm Prestige and Types of Pay.** This table presents regressions with different types of compensation as the dependent variable. In column 1, we use the logarithm of cash (salary+bonus+1) as the dependent variable, in column 2 we use the logarithm of (salary+1), in column 3 the logarithm of (bonus+1), in column 4 the logarithm of the Black-Scholes option value, in column 5 we use the logarithm of all other types of pay (=tdc1-options-stock-salary-bonus+1), and in column 6 we use the logarithm of restricted stock (rstk+1). The main independent variable, $FTMA_{i,t}$, is a dummy variable equal to one if a firm belongs to the Fortune most admired companies Top 100 ranking, and zero otherwise. We use the same set of control variables as in Table 3. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-stats in parentheses.

	Cash	Sal	Bon	Opt	Oth	Rstk
	(1)	(2)	(3)	(4)	(5)	(6)
$FTMA100_{i,t-1}$	–0.060	–0.060	–0.011	–0.099	–0.065	–0.026
	(–3.42)	(–4.53)	(–0.17)	(–1.01)	(–1.93)	(–0.27)
$Pay_{i,t-1}$	0.736	0.780	0.447	0.432	0.650	0.518
	(35.41)	(33.86)	(45.34)	(43.56	(77.59)	(55.32)
$ROA^{adj}_{i,t-1}$	–0.258	–0.060	–0.706	–0.423	–0.150	–0.231
	(–5.76)	(–1.44)	(–4.25)	(–2.04)	(–1.41)	(–1.36)
$Ret^{adj}_{i,t-1}$	0.003	0.007	0.035	–0.007	0.013	0.018
	(0.34)	(0.83)	(2.56)	(–0.34)	(1.41)	(0.92)
$LN(Sales)_{i,t-1}$	0.061	0.031	0.152	0.039	0.142	0.256
	(8.55)	(4.60)	(7.03)	(1.46)	(11.13)	(11.00)
$LN(MValue)_{i,t-1}$	0.017	0.020	0.047	0.412	0.059	0.075
	(2.70)	(3.67)	(2.21)	(14.45)	(4.85)	(3.29)
$SalesGr_{i,t-1}$	–0.002	0.007	–0.017	0.003	–0.006	–0.036
	(–0.52)	(1.37)	(–0.43)	(0.14)	(–0.89)	(–1.32)
$CEO < 60_{i,t-1}$	–0.010	0.001	–0.035	0.504	–0.066	0.262
	(–1.09)	(0.11)	(–1.00)	(10.81)	(–3.33)	(6.46)
Adj. R^2	0.639	0.671	0.470	0.333	0.670	0.435
Observations	25160	25160	25160	24383	23564	24638

Table 6: **Firm Prestige and Corporate Governance.** This table presents regressions with the logarithm of compensation as the dependent variable. The main independent variable, $Prestige_{i,t-1}$, is a dummy variable constructed based on whether a firm belongs to the Fortune most admired companies Top 100 ranking. We use the same set of control variables as in Table 3. In column 1 (CCH), we interact our main independent variable with a dummy variables equal to one if a CEO is (is not) at the same time chairman of the board, and zero otherwise. In column 2 (LBD), we interact it with dummy variables equal to one if the number of board members is larger (smaller or equal to) than the medium number of board members in our sample, and zero otherwise. In column 3 (BBD), we interact it with dummy variables equal to one if the number of outside appointments of all board members is larger (smaller or equal to) than the medium number of outside appointments in our sample, and zero otherwise. In column 4 (ICC), we interact it with dummy variables equal to one if the compensation committee of the company is (is not) independent, and zero otherwise. In column 5 (HGI), we interact it with dummy variables equal to one if the Gindex of a firm is larger (smaller or equal to) than the medium Gindex of 9 in our sample, and zero otherwise. In column 6 (HEI), we interact it with dummy variables equal to one if the Eindex of a firm is larger (smaller or equal to) than the medium Eindex of 3 in our sample, and zero otherwise. In column 7 (CPS), we interact it with dummy variables equal to one if the CEO pay slice is larger than (smaller or equal to) fifty percent, and zero otherwise. At the bottom of this table, we conduct Wald coefficient tests against the following null hypothesis H_0: $Prestige * GoodGov = Prestige * PoorGov$. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-stats in parentheses.

	CCH	LBD	BBD	ICC	HGI	HEI	CPS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$Prestige_{i,t-1} \times GoodGov$	–0.139	–0.246	–0.153	–0.130	–0.082	–0.112	–0.069
	(–3.51)	(–3.15)	(–2.93)	(–3.61)	(–2.10)	(–3.53)	(–2.45)
$Prestige_{i,t-1} \times PoorGov$	–0.042	–0.049	–0.043	0.060	–0.064	–0.066	0.015
	(–1.13)	(–1.70)	(–1.14)	(1.03)	(–1.88)	(–1.53)	(0.23)
$PoorGov_{i,t}$	0.030	–0.009	0.066	–0.050	0.027	0.047	0.768
	(1.89)	(–0.59)	(3.35)	(–2.74)	(1.83)	(3.81)	(34.56)
$Pay_{i,t-1}$	0.531	0.531	0.532	0.532	0.528	0.557	0.452
	(17.45)	(17.54)	(15.09)	(16.72)	(17.02)	(20.22)	(22.24)
$ROA^{adj}_{i,t-1}$	–0.248	–0.242	–0.160	–0.242	–0.215	–0.222	–0.278
	(–2.57)	(–2.50)	(–1.41)	(–2.39)	(–2.24)	(–2.40)	(–3.96)
$Ret^{adj}_{i,t-1}$	0.052	0.052	0.054	0.069	0.040	0.046	0.023
	(4.43)	(4.43)	(4.08)	(4.36)	(4.21)	(5.37)	(3.76)
$LN(Sales)_{i,t-1}$	0.088	0.089	0.095	0.087	0.091	0.088	0.112
	(7.20)	(7.15)	(6.96)	(6.65)	(8.02)	(8.68)	(11.50)
$LN(MValue)_{i,t-1}$	0.160	0.161	0.145	0.161	0.152	0.146	0.158
	(9.55)	(9.54)	(6.97)	(8.95)	(8.73)	(9.09)	(13.65)
$SalesGr_{i,t-1}$	–0.006	–0.006	0.006	0.005	0.007	0.005	0.015
	(–0.22)	(–0.20)	(0.19)	(0.13)	(0.70)	(0.54)	(1.42)
$CEO < 60_{i,t-1}$	0.057	0.052	0.063	0.053	0.065	0.047	0.045
	(3.65)	(3.35)	(3.70)	(3.22)	(4.24)	(3.29)	(3.80)
Adj. R^2	0.560	0.560	0.557	0.556	0.562	0.579	0.643
Observations	16408	16408	13074	14285	16197	18381	21308
Wald test against $H_0 : Prestige \times GoodGov = Prestige \times BadGov$							
F-score	4.43	6.01	3.33	8.99	0.13	0.78	1.29
p-value	0.035	0.014	0.068	0.003	0.715	0.377	0.256

Table 7: **Alternative Explanations.** This table presents various checks for alternative stories. In column (1), the dependent variable is the logarithm of total compensation of all other directors reported in ExecuComp except for the CEO. In column (2), we estimate the same specification as in Table 3 but add CEO ownership as an additional control variable. In column (3), we estimate the same specification as in Table 3 but add a firm's market to book ratio as an additional control variable. In column (4) , we split the sample into subsamples based on the median age of a CEO (i.e., 55 years). In column (5), we estimate the regression with firm fixed effects. In column (6), we restrict the sample to firms in the S&P500 index. All regressions include year and industry (except for column (6)) fixed effects. Standard errors are clustered at the firm level. t-statistics in parentheses.

	Other Directors	CEO Own.	MTB	CEO Age	FFE	SP 500
	(1)	(2)	(3)	(4)	(5)	(6)
$Prestige_{i,t-1}$	–0.030	–0.089	–0.087		–0.087	–0.078
	(–1.73)	(–3.49)	(–3.50)		(–2.14)	(–2.62)
$Prestige \times YoungCEO$				–0.147		
				(–3.07)		
$Prestige \times OldCEO$				–0.049		
				(–1.94)		
$OldCEO_{i,t}$				–0.053		
				(–4.65)		
$ROA^{adj}_{i,t-1}$	–0.224	–0.200	–0.216	–0.203	0.237	–0.013
	(–4.59)	(–2.98)	(–3.19)	(–3.01)	(2.45)	(–0.08)
$Ret^{adj}_{i,t-1}$	0.026	0.016	0.017	0.016	0.005	0.050
	(5.13)	(2.02)	(2.06)	(1.99)	(0.72)	(2.59)
$LN(Sales)_{i,t-1}$	0.076	0.090	0.097	0.091	0.097	0.107
	(6.71)	(9.88)	(8.75)	(9.98)	(3.47)	(5.66)
$LN(MValue)_{i,t-1}$	0.157	0.142	0.138	0.142	0.230	0.095
	(10.24)	(11.48)	(10.34)	(11.49)	(11.25)	(3.80)
$SalesGr_{i,t-1}$	0.018	0.010	0.009	0.010	0.007	0.036
	(1.16)	(1.72)	(1.59)	(1.74)	(1.03)	(0.92)
$CEO < 60_{i,t-1}$	–0.016	0.057	0.057		0.060	0.031
	(–1.85)	(4.45)	(4.51)		(3.20)	(1.40)
$Pay_{i,t-1}$	0.503	0.549	0.544	0.550		0.551
	(26.22)	(24.17)	(24.11)	(24.29)		(10.88)
$CEOwn_{i,t-1}$		–0.003				
		(–1.78)				
$MB_{i,t-1}$			0.007			
			(0.88)			
Adj. R^2	0.672	0.578	0.579	0.578	0.634	0.499
Observations	21670	24861	24708	24861	25064	7299
p-value of Wald test for $Prestige \times YoungCEO = Prestige \times OldCEO$: 0.061						

Table 8: **Robustness Checks.** This table presents robustness checks with $Ln(TotComp)_{i,t}$ as the dependent variable. The main independent variable, $FTMA100_{i,t-1}$, is a dummy variable equal to one if firm i belongs to the Fortune Top 100 most admired companies in year $t-1$, and zero otherwise. We use the same set of control variables as in Table 3. In column (1), we exclude the lagged dependent variable. In columns (2) and (3), we cluster standard errors by year and by year and firm, respectively. In column (4) we add squared firm size as an additional control variable. In column (5), we sort firms into size deciles and replace lagged firm size by dummy variables for each size decile. In column (6), we compute two dummy variables for time periods before and after median year in our sample (i.e., 2002), respectively, and interact them with our measure of firm prestige. The year 2002 itself is included in $bef02$. In column (7), we restrict our data to all years before 2006. In columns (8) and (9) we exclude the top and bottom 1\% of total compensation or total compensation in each year, respectively. All regressions include year and industry fixed effects. If not indicated differently, standard errors are clustered at the firm level. t-statistics in parentheses.

	No lag Pay	Year Clst	TwoWay Clst	Firm Size^2	Size Deciles	Temp. Stab.	Year <2006	Drop 1% Outl.	Drop Yr 1% Outl.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
$Prestige_{i,t-1}$	–0.138	–0.089	–0.089	–0.089	–0.081		–0.055	–0.081	–0.071
	(–3.16)	(–3.18)	(–2.98)	(–3.54)	(–3.21)		(–1.97)	(–3.54)	(–3.31)
$Prestige \times bef02$						–0.068			
						(–2.23)			
$Prestige \times aft02$						–0.109			
						(–2.95)			
$Aft02$						0.285			
						(6.78)			
$ROA^{adj}_{i,t-1}$	–0.448	–0.204	–0.204	–0.203	–0.204	–0.203	–0.137	–0.359	–0.328
	(–4.22)	(–3.56)	(–3.21)	(–3.00)	(–3.10)	(–3.02)	(–1.60)	(–6.88)	(–6.70)
$Ret^{adj}_{i,t-1}$	0.024	0.016	0.016	0.016	0.017	0.016	0.027	0.023	0.023
	(3.03)	(1.41)	(1.45)	(2.02)	(2.13)	(2.02)	(3.25)	(4.44)	(4.14)
$LN(Sales)_{i,t-1}$	0.209	0.090	0.090	0.090	0.067	0.090	0.088	0.103	0.094
	(13.32)	(10.85)	(9.79)	(10.07)	(8.03)	(9.90)	(8.29)	(13.57)	(13.41)
$LN(MValue)_{i,t-1}$	0.293	0.142	0.142	0.140		0.142	0.143	0.173	0.155
	(17.79)	(12.57)	(10.26)	(3.85)		(11.48)	(9.47)	(18.60)	(18.67)
$SalesGr_{i,t-1}$	0.017	0.010	0.010	0.010	0.008	0.010	0.011	0.007	0.005
	(1.77)	(2.00)	(1.90)	(1.72)	(1.58)	(1.72)	(1.08)	(1.61)	(1.18)
$CEO<60_{i,t-1}$	0.079	0.058	0.058	0.058	0.058	0.058	0.063	0.051	0.048
	(3.30)	(5.39)	(4.39)	(4.60)	(4.59)	(4.61)	(4.19)	(4.60)	(4.78)
$Pay_{i,t-1}$		0.550	0.550	0.550	0.546	0.550	0.542	0.429	0.489
		(40.03)	(25.62)	(24.25)	(23.25)	(24.28)	(19.85)	(28.65)	(39.20)
$LN(MValue)^2_{i,t-1}$				0.000					
				(0.05)					
Adj. R^2	0.395	0.578	0.578	0.578	0.587	0.578	0.563	0.599	0.615
Observations	25064	24861	24861	24861	24842	24861	17013	24434	24157
Size deciles included in Column (5), p-value of Wald test for $Prestige \times bef02 = Prestige \times aft02$: 0.370									