

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

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## Abstract

We investigate the impact of firms' prestige on CEO compensation and find that CEOs of more prestigious firms earn less. Specifically, total CEO pay is on average 9% lower for firms listed in Fortune's ranking of America's most admired companies. We suggest that CEOs derive benefits from working for a company that enjoys public admiration, and that boards extract pay concessions for these benefits. Our identification strategy is based on a regression discontinuity around the top 100 ranking. We perform a range of robustness checks and can exclude many alternative explanations, including that prestige just proxies for better corporate governance, for increased exposure of the pay setting process to media attention, or for talent in the managerial labor market.

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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 benefits that CEOs derive from the public prestige of their firms as a factor that allows prestigious firms to reduce the level of CEO compensation. Specifically, we hypothesize that CEOs value not only their direct, monetary compensation, but also the social status they obtain through the prestige of their firms, and that they are willing to trade off a part of their monetary compensation against the benefits of working for a prestigious firm.<sup>1</sup>

The notion that wages involve compensating differentials not only for the attractiveness of a job, but also for the social status associated with the job goes back to Adam Smith and Max Weber.<sup>2</sup> The implications of a trade-off between monetary compensation and non-monetary rewards from a job were explored in a later theoretical literature (see Weiss and Fershtman (1998) for a survey). However, we are not aware of any empirical evidence based on field data that documents such a trade-off. In this paper, we show that CEOs of publicly listed firms are willing to exchange monetary compensation for non-monetary benefits from social status. CEO compensation provides an excellent environment to study the hypothesized trade-off, because CEOs receive significant media attention and are most likely sensitive to status concerns.

We investigate the relationship between firm prestige and CEO pay for the entire ExecuComp universe for the period from 1992 to 2010 and use media rankings of firms as a status symbol valued by CEOs.<sup>3</sup> Media rankings are suitable, because they possess three characteristics that identify social status according to Heffetz and Frank (2008): Status is (1) positional in that it relies on a ranking of individuals, (2) desirable for the individual, and (3) scarce. Our baseline ranking is Fortune’s top 100 list of “America’s Most Admired

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<sup>1</sup>Anecdotal evidence suggests that this is also the case for the academic market. ? report on compensation of full professors at all major public and private schools in the US adjusted for cost-of-living. Interestingly, they find that out of 86 research institutions, Harvard (Stanford, Yale, MIT) ranks only 75 (77, 43, 80) in this list. Similar evidence is available for the UK, where “Oxford and Cambridge are able to lure staff with lower salaries for the privilege of working at institutions with great reputations” (?).

<sup>2</sup>See the passage from Adam Smith above. Weber (as cited in Weiss and Fershtman (1998), p. 804) develops the notion that status and monetary compensation are distinct categories of rewards and that monetary compensation can only partially substitute for social status.

<sup>3</sup>By contrast, Malmendier and Tate (2009) and other contributions in the literature study prizes awarded to CEOs (i.e., “superstar CEOs”), not prizes awarded to firms (i.e. “superstar firms”) which is our focus. We discuss the implications of the difference between superstar CEOs and superstar firms below.

Companies”. We argue that appearing in Fortune’s and other widely-publicized media rankings fulfills all three requirements: It is positional and scarce by construction, and desirable for CEOs who arguably value the inclusion in rankings and enjoy the pride of working for a prestigious firm. Our notion is that CEOs care intrinsically about the ranking membership of their firms and that media rankings establish a status symbol with a value that depends, among other aspects, on its visibility.

We find that CEOs of admired companies earn on average 9% less compared to CEOs of companies that are not admired after controlling for a range of other factors. Alternative rankings yield similar and often quantitatively stronger results: For example, CEOs of prestigious firms earn 15.4% less than those of non-prestigious firms if we define prestige based on Forbes’ Most Reputable Companies ranking. The effect is also stronger for higher positions in the ranking, i.e. CEOs of top 75 or top 50 companies are willing to give up more compensation relative to CEOs of firms further down in the ranking.

We employ several identification strategies. Our main strategy is based on a regression discontinuity around the top 100 rank. Arguably, it is the top 100 firms that receive most media attention and it might be particularly beneficial for a CEO to work for a top 100 firm. Hence, there should be a jump in CEO pay around the top 100 rank. This is indeed what we find using regression discontinuity estimation. Our results also hold if we match firms that enter the ranking to control firms and if we only compare newly hired CEOs at prestigious firms to those at non-prestigious firms. Finally, we run the baseline regression with firm and CEO-firm fixed effects; the results still obtain.

To check whether our result is driven by status preferences, we match company and CEO-level data with state-level data from the general social survey (GSS), which provides information about the status preferences of the population surveyed in the state of a firm’s headquarters. We find that the main effect we document is always stronger for firms headquartered in states where the population has stronger status preferences, which supports the social-status hypothesis. Our results are also stronger in prestigious industries and in industries in which status is scarce, as indicated by a small number of prestigious firms.

Furthermore, we hypothesize that strong and independent boards are better able to extract a wage concession from CEOs for the benefit of working for a prestigious firm, whereas weak boards leave the prestige benefits to the CEO as a rent. In line with this view, we find that the effect of prestige on compensation is concentrated in well-governed firms, particularly in firms with independent compensation committees and with small boards. At the same time, we can rule out that media rankings just proxy for corporate governance by showing that the proxies we employ for good governance are not significantly related to a firm’s probability of appearing in the rankings.

We also investigate whether career concerns can explain our result. According to the career-concerns hypothesis, CEOs believe that the managerial labor market interprets working for a prestigious firm as a signal of CEO talent. CEOs may therefore sacrifice income at a prestigious firm today and expect higher compensation in more lucrative employments in the future.<sup>4</sup> The evidence for the career-concerns hypothesis is weak. We do find that younger CEOs sacrifice more compensation for working for a prestigious firm compared to old CEOs, which supports the career concerns hypothesis since younger CEOs should have stronger career concerns. However, the difference between old and young CEOs is only marginally significant and the negative effect of prestige on compensation is statistically and economically still significant for older CEOs and for a subsample of CEOs who retire after their current position. CEO turnover is insignificantly lower at prestigious firms, which casts doubt on the notion that CEOs use prestigious firms as a starting point for finding a better-paid employment later. Finally, we note that the finding that CEO pay drops discontinuously at rank 100 is difficult to explain based on career concerns because the signal value to the labor market is unlikely to jump discontinuously as well. Overall, career concerns do not seem to be able to explain our main result.

We investigate a range of other candidate explanations that could imply a negative relationship between firm prestige and CEO compensation. Being ranked may expose firms to public limelight and increase the potential loss of reputation for directors who award excessively high compensation packages, leading them to reverse pay policy. However, the prestige effect is concentrated in firms with below-median excess compensation and those with below-median increases in compensation before they enter the ranking. These observations are inconsistent with the limelight explanation.

If association with a prestigious firm provides incentives, then CEOs of prestigious firms may receive less incentive compensation and a high fraction of fixed salary. They may therefore demand a lower risk premium and lower total pay. Investigating the different components of CEO pay shows that this is not the case. We find no evidence that firm prestige substitutes for explicit incentive provision. It is also not plausible that firms pay CEOs less because they pay them indirectly with perks. We would expect perks to be used more in poorly governed firms (although the evidence for this association is weak, see Rajan and Wulf (2006); Yermack (2006)). Hence, well-governed firms would need to substitute the lower level of perks with higher cash pay. This is unlikely, given that the reduction in pay for ranked firms is concentrated in well-governed firms.

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<sup>4</sup>The importance of career concerns for the managerial labor market was already emphasized by Fama (1980) and developed theoretically by Gibbons and Murphy (1992), Dewatripont, Jewitt, and Tirole (1999), and Holmstrom (1999).

Ranking memberships may be endogenous, since they depend at least partly on past performance. However, performance, public visibility, or other variables that are potential drivers of firm prestige as well as compensation would induce a *positive* relationship between compensation and prestige, whereas we find a *negative* relationship. This potential endogeneity is therefore not a concern in our setting.

We also reconsider Max Weber’s notion that wealthy, high-status individuals may deliberately eschew high monetary compensation as a signal of their status. However, such a signal would also be available to CEOs of poorly governed firms and this explanation is therefore difficult to sustain given our results on independent compensation committees and small boards.

Finally, we show that our results survive a battery of robustness checks. We can rule out that the effect we find is driven by founder CEOs, CEO ownership, blockholders, differences in firm complexity, or a correlation between firm prestige and “glamour stocks” that enjoy high valuation ratios.

The analysis in this paper contributes to several strands of the literature. The most closely related literature analyzes the impact of CEOs winning prestigious business awards on their compensation. Malmendier and Tate (2009) find that “superstar CEOs” who win prestigious business awards extract compensation benefits. Our results complement theirs by showing that “superstar firms” that enter prestigious business rankings pay their CEOs less. While Malmendier and Tate (2009) find that their effect is stronger in poorly governed firms, the effect we document is stronger in well governed firms. Overall, the literature on prize-winning CEOs suggests that higher CEO status makes the CEO more powerful and leads to higher compensation levels.<sup>5</sup> Our setting is different from that analyzed in the literature, because “superstar CEOs” own their prizes, which increases CEOs’ bargaining power. By contrast, firm prestige is a status symbol to which the firm controls access, which strengthens the position of the board of directors relative to the CEO.

This paper identifies how non-monetary characteristics of the firm affect CEO compensation. The only other paper we are aware of that makes a similar point is ?, who find that CEOs are paid more if the firm’s headquarters are located in a polluted or high-crime environment.

To the best of our knowledge, ours is the first paper to provide field evidence on the trade-off between status and monetary rewards. Huberman, Loch, and Önküler (2004) report an experiment in which they show that individuals are willing to give up monetary rewards for

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<sup>5</sup>Wade, Porac, Pollock, and Graffin (2006) and Graffin, Wade, Porac, and McNamee (2008) also 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. ? finds that CEOs who win prestigious business awards increase their risk-taking.

being celebrated as a “winner,” even though they have no monetary or other benefit from their winner-status within the experiment or outside.

Most of the previous literature on status concerns and pay differentials focuses on incentives based on two different theoretical approaches.<sup>6</sup> Tournament theory holds that increased pay disparity can serve to enhance incentives, whereas social comparison theory and the notion of inequity aversion imply that higher pay disparity destroys incentives.<sup>7</sup> These contributions do not address the implications of status concerns for the level of compensation, which is our focus. 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, which is consistent with our main hypothesis.

Finally, 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 (see the surveys by Murphy (1999, 2012) and Frydman and Jenter (2010)). 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. 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 show that the participation constraint of the CEO is binding in well-governed firms, an observation that provides support for efficient contracting theories for this subset of companies.

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<sup>6</sup>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.

<sup>7</sup>Ederer and Pataconi (2010) introduce status concerns into a tournament model and show that the usefulness of pay disparities is reduced and may lead to inefficient outcomes. 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.

## 2 Data and summary statistics

### 2.1 Media rankings

We use media rankings of firms to capture firm prestige. Media rankings are based on surveys among company representatives, analysts, and consumers in the U.S. The results of these surveys are aggregated into rankings, which are regularly published in widely read 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 rely on Fortune's Most Admired Companies ranking (FTMA) as our benchmark ranking, because it is constructed from responses of directors and business analysts, arguably a more important reference group for CEOs than the groups used for some of the other rankings; the FTMA ranking is also available for the longest time period. To create an overall ranking of the most admired companies within the U.S., Fortune asks executives, outside directors, and financial analysts to select ten companies out of the Fortune 1000 which they admire most based on eight different attributes using a scale of zero (poor) to ten (excellent). The attributes that determine the ranking comprise the quality of management; quality of products or services; financial soundness; innovativeness; long-term investment; ability to attract, develop, and keep talented people; community and environmental responsibility; and use of corporate assets. It is unlikely that a company can actively influence its inclusion in the FTMA ranking on a short term basis. First, the survey questions and variables cannot be easily influenced as they are determined by a third party (i.e., Hay Group on behalf of Fortune). Second, it is almost impossible for a company to find out the names of all executives, directors, and financial analysts who are surveyed and to influence them correspondingly.<sup>8</sup>

We manually collect FTMA rankings from 1990 to 2010. Overall, the number of companies included in the ranking varies from 305 to 593. This variation is mainly driven by the number of industries included in the pool. Even though most industries are covered by the FTMA ranking, a large fraction of ranked companies come from industries such as manufacturing, business equipment, and materials. To obtain a first impression of the firms (not) appearing in the FTMA ranking, Appendix A.1 contains a list of firms that appear regularly and never in the FTMA ranking, respectively. Examples of companies that are regularly included in the ranking are firms like Apple and Coca Cola.

Further rankings that we include in our analysis are Forbes' ranking of America's Most Reputable Companies (FBMR), Fortune's list of the 100 Best Companies to Work for

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<sup>8</sup>Further information on Fortunes' procedure to classify the most admired companies is provided by the Hay Group (<http://www.haygroup.com/Fortune/results/faqs.aspx>.)

(FTBC), Bloomberg Businessweek’s Best Global Brands ranking (BBW), and Barron’s Most Respected Companies ranking (BMR). A detailed description of these rankings is included in Appendix A.2.

In untabulated results, we investigate the time-series variation of the rankings and compute the probability that a ranked firm appears in the same ranking in the subsequent year. We find that the probability of a firm to re-appear in the FTMA ranking in the subsequent year after its initial ranking is 67%. We observe the highest probability of reappearance in a ranking from one year to the next for the BBW ranking (92%), while it ranges from 75% (FTBC) to 86% (BMR) for the other rankings. We conclude that there is reasonable time series variation of firm rankings, particularly for the benchmark FTMA ranking.

## 2.2 Compensation data

Data on CEO compensation are obtained from ExecuComp. ExecuComp contains annual compensation data for the top five directors of 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 compute “other pay,” as the difference between total pay and the sum of salary, bonus, option grants, and stock grants. The value of “other pay” includes items such as perquisites and contributions to 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*, afterward. We follow Walker (2009) and adjust the total pay variable *tdc1* from its pre-2006 format to the new format: Before 2006 ExecuComp’s data item *tdc1* was supposed to capture the total compensation given to the CEO in 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 multiply the target number of performance shares granted to the CEO (ExecuComp variable *shrtarg*) by 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 can use *tdc1* as provided in ExecuComp.

Similarly, the pre-2006 data item *rstkgrnt* (restricted stock) indicates 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*.<sup>9</sup> Overall, our main sample consists of 23,262 firm-year observations during 1992 to 2010 and covers 3,241 unique firms.

## 2.3 Summary statistics

Descriptive statistics for compensation data as well as for rankings and control variables are provided in Panel A of Table 1. Mean total compensation in our sample is about 4.5 million USD, while median compensation is lower at 2.4 million USD. For restricted stock grants, we obtain an average (median) value of 0.93 (0.00) million USD.

Overall, descriptive statistics on compensation data are in line with previous work on CEO compensation based on ExecuComp data (e.g., ?), although our data extend over a longer period.

Table 1 indicates that about 7% of all firm-year observations are from firms that appear in the FTMA ranking in the respective year. This fraction tends to be lower for the other survey-based rankings as they are available for shorter periods of time or include fewer firms to start with. Finally, results in Table 1 suggest that firms that appear in the FTMA ranking are more likely to be part of the S&P500 index than firms that do not appear in this ranking. We also compute correlations between all main variables used in the later analysis (not tabulated) and find the highest correlations between sales and market capitalization (0.72), and between total compensation and, respectively, sales (0.51) and market capitalization (0.58; all variables in logarithms). All other correlations are below 0.50.

In Panel B of Table 1, we investigate univariate differences in our main control variables 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 and standard deviation of returns are lower than those of non-prestigious firms. Differences in corporate governance variables do not show a unified picture. Prestigious firms are more likely to have independent boards, but at the same time their boards are larger and busier than those of non-prestigious firms. In addition, prestigious firms are more often characterized by CEO duality and have a higher G-Index. In contrast, their E-Index tends to be lower. Taken together, the results show that prestigious firms tend to perform better and are larger than non-prestigious firms, while there is no clear picture regarding differences in corporate governance.

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<sup>9</sup>In one robustness check, we restrict our sample to the pre-2006 period. Results are not affected.

### 3 The impact of firm prestige on compensation

To investigate our main conjecture that firm prestige is negatively related to CEO compensation, we first conduct a multivariate analysis in Section 3.1. Identification strategies are presented in Section 3.2. In Section 3.2.1, we run a regression discontinuity analysis to identify our main effect. In Section 3.2.2, we provide cross-sectional evidence that status concerns can explain our main result. In Section 3.3 we analyze how the relationship between prestige and compensation compares for different rankings.

#### 3.1 Baseline results

Table 2 contains the main analysis of this paper. The main dependent variable is the logarithm of total compensation and the independent variable of interest,  $Prestige_{i,t-1}$ , is a dummy variable that is equal to one if a firm appears in the FTMA ranking in the previous year, and zero otherwise. Furthermore, we include several firm-specific and market-wide variables measured as of time  $t - 1$  as controls: 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 are 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 logarithms of lagged firm sales and lagged market value as well as sales growth in year  $t - 1$ . These variables are used as measures for firm complexity, firm size, and growth opportunities (e.g., Baker, Jensen, and Murphy (1988)), and are shown to influence executive compensation (e.g., Murphy (1999)). Principal-agent theory suggests that compensation depends critically on firm risk, because CEOs demand a risk premium for accepting higher firm risk (e.g., Lambert, Larcker, and Verrecchia (1991)). We therefore include the standard deviation of a firm's daily stock returns in the previous year,  $FirmRisk_{i,t-1}$ . 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 executives' outside options. A detailed description of the main variables is provided in Appendix A.3. All regressions include year and industry fixed effects based on the Fama-French 48 industry classification. Standard errors are clustered at the firm level.

In Panel A of Table 2, we estimate the regressions for the whole sample of ExecuComp firms from 1992 to 2010. We use different definitions of firm prestige based on the FTMA ranking to make sure that our results do not depend on exactly how firm prestige is defined. In column 1 (2, 3, 4) of Panel A,  $Prestige_{i,t-1}$  is equal to one if a firm appears in the FTMA Top 100 (75, 50, 25) ranking in the previous year, and zero otherwise. We find that

firm prestige is significantly negatively related to CEO compensation for all cutoffs. The coefficients are statistically significant at the 1% level and the results are also economically significant. They suggest that total compensation is by on average 9.0% to 13.7% lower if a CEO works for a prestigious firm. The effect tends to increase with the rank of the firm. While prestigious firms in the Top 100 ranking pay their CEOs 9% less (column 1), prestigious firms in the Top 25 ranking pay their CEOs almost 14% less (column 4).

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. The average scores range from one (lowest prestige) to nine (highest prestige) and are rounded at two digits; firms rarely obtain the best score of nine. In column 5 (6, 7) of Panel A,  $Prestige_{i,t-1}$  is equal to one if a firm has an average score equal to or larger than 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 -5.2% to -14.5% for higher scores. This pattern confirms that the more prestigious a firm is, the less it pays its CEO compared to other firms.

Next, we look at the direct impact of a firm's rank instead of a dummy variable specification. In column 8 (9, 10) of Table 2 we define  $Prestige_{i,t}$  to be 101 (76, 51) less a firm's absolute rank in the top 100 (top 75, top 50) of the Fortune Most Admired Companies ranking, i.e. the best firm in each group always gets assigned the highest rank number. We perform this transformation to ensure consistency regarding the sign of the coefficients. This specification allows us to investigate how important a ranking increase is as opposed to ranking membership per se. The coefficients are always negative, as expected, and higher in absolute value for ranks closer to the top: while CEOs in the top 100 give up 0.2% of compensation on average for a one-notch increase in their rank, CEOs in the top 50 give up 0.4%. Hence, moving up a rank within the top 50 is twice as valuable as compared to moving up a rank in the top 100. These findings mirror those for the FTMA dummy and for the score and show that CEOs are willing to give up more compensation for an increase in the rank of their firms if they are already closer to the top of the ranking.

The impact of prestige on compensation is also economically large if compared to the impact of other variables. To see this, we compare the impact of prestige with the impact of other determinants of compensation studied in the literature (e.g., Core, Holthausen, and Larcker (1999)). Our findings suggest that doubling firm-risk from the median level of 33.7% to 67.4% corresponds to an increase in compensation of 4%. Outperforming the stock prices of other firms in the industry by 100% would result in an increase in compensation of only 1.8%.<sup>10</sup> A decline in compensation by 9% (the effect size found above for entering the top

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<sup>10</sup>The median of  $FirmRisk$  is 0.337 from Table 1 and the coefficient on  $FirmRisk$  is 0.118, so we obtain

100 ranking) would also result from a substantial decline in market value by 43% or a decline in sales of 68%.<sup>11</sup>

We find an impact of lagged pay of 0.54. The lagged dependent variable should capture a large fraction of unobserved, firm-specific factors present in previous years' pay and should be a good substitute for firm fixed effects.<sup>12</sup> CEOs are paid more after higher stock returns. There is a negative and significant impact of lagged ROA on total compensation, which is surprising, but consistent with findings from the prior literature (see Core, Guay, and Larcker (2008)). This finding 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 the higher ROA resets the benchmark.<sup>13</sup> The proxies for firm size and growth opportunities are significantly and positively related to total compensation. Furthermore, younger CEOs (under 60 years of age) are paid about 4.9% more, presumably because they receive more deferred compensation or because competition for the talent of less specialized, younger CEOs is more intense.

To make sure that our results are not only due to the ongoing relationship between CEOs and their firms, in Panel B of Table 2, we estimate the same regressions as in Panel A, but restrict the sample to the first year after a new CEO enters a firm. The drawback of this type of analysis is that we lose about 90% of all observations, since we restrict the sample to CEO turnover events. Nevertheless, results in Panel B still suggest that firm prestige is negatively related to CEO pay. Although the results become economically stronger, we do not obtain significant coefficients for all specifications anymore. However, even based on this very small sample, the results are still statistically significant for columns 2 and 6 at the 5%-level and for columns 1, 5, and 8 at the 10%-level. Taken together, the results in Panels A and B support our main hypothesis that firm prestige is negatively related to CEO pay.

In Panel C of Table 2, we analyze the impact of firm prestige on the compensation of other employees of the firm. If firm prestige delivers utility to CEOs and allows corporate boards to pay CEOs less, then a similar effect should also exist for other directors and employees. Thus, we now first investigate compensation of all top five directors except for the CEO as reported in ExecuComp. Specifically, we compute average total compensation of all other

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$0.337 \times 0.118 = 0.04$ . The statement for industry-adjusted returns follows directly from the coefficient of 0.018 in Table 2.

<sup>11</sup>The coefficients on  $\ln(\text{Sales})$  ( $\ln(\text{MValue})$ ) are 0.079 (0.160). Hence, we obtain a decline in compensation of 9% from  $\Delta \ln(\text{Sales}) = -1.14 = 0.079/0.090$ . After the decline, sales therefore have to be  $\exp(-1.14)$  or 0.32 of what they were before, a decline by 68%. The calculation for  $\ln(\text{MValue})$  follows analogously.

<sup>12</sup>Below, we also drop lagged pay as a control and estimate the regressions with firm fixed effects. Results are not affected.

<sup>13</sup>Consistent with this argument, in untabulated results, we find a significant positive relation between CEO pay and contemporaneous return on assets.

directors at a firm and use it as the dependent variable instead of CEO pay. Second, we use the ratio of a firm's wage and salary related expenses (Compustat item *xlr*) divided by the firm's total sales (item *sale*) as a proxy for the wages earned by all employees. As this variable is a ratio, in this case we estimate a Tobit model. Otherwise, we use the same baseline model as in Panel A, but adjust lagged pay according to the dependent variable.

Results in Panel C show a consistently negative impact of firm prestige on other directors' and employees' compensation. Similar to our results for CEOs, these groups earn less at prestigious firms. The point estimates are somewhat smaller, but in half of the cases still statistically significant. This result suggests that firms' also extract concessions from other managers and non-executive employees. However, given that CEOs are more likely to be easily associated with the firm they run than other managers, pay concessions that can be extracted from other managers are likely to be smaller than those that are extracted from the CEO.

Finally, in Panel D we use a similar approach to Malmendier and Tate (2009) and investigate changes in total and cash compensation for different event windows surrounding the year in which a firm enters or leaves the FTMA Top 100 Ranking. Total compensation decreases for the year after which a firm appears in the FTMA ranking or drops out of the ranking, but the differences are not statistically significant. Cash compensation decreases for the year after which a firm appears in the FTMA ranking and increases for the year after a firm drops out of the FTMA ranking. The pay increase after a firm drops out of the ranking is not statistically significant, while the pay decrease after entering the ranking is also statistically significant at the 10% level.

Taken together, the results in Table 2 support our main hypothesis that CEOs value not only their explicit monetary compensation, but also the benefits they obtain from working for a prestigious firm. These results are consistent with the view that firm prestige is a status symbol to which the firm controls access, and boards of prestigious firms extract pay concessions from CEOs.

## 3.2 Identification Strategies

The previous analysis relies on a comparison of firm-years in which firms are included in the FTMA ranking with firm-years in which firms are not included in this ranking. However, there may be unobservable differences other than firm prestige between firm-years in which a firm is included in the ranking and firm-years in which it is not included. In this section we address the identification problem arising from such potential unobserved effects.

### 3.2.1 Regression Discontinuity Analysis

Our first identification strategy is based on a regression discontinuity design. The news media tend to focus only on the top 100 firms of the FTMA ranking, which then receive a lot of attention and coverage.<sup>14</sup> In addition, companies frequently issue press releases if they appear in a top 100 ranking.<sup>15</sup> We did not find any newspaper or press release that would cover firms ranked outside the top 100 and we infer that the public does not pay much attention to these firms. We therefore hypothesize that CEOs should be particularly keen to work for a firm in the top 100 ranking because these firms are much more visible. Accordingly, boards should extract larger pay concessions if their firm is included in the top 100 ranking, giving rise to a discontinuity in CEO pay around rank 100. As it is almost impossible for boards to influence the ranks of their firms, the variation in treatment around rank 100 can be considered a randomized experiment that can be used for identification: prestige falls discontinuously at rank 100, while there is no plausible reason to expect that other unobservable characteristics that might drive prestige and compensation show a similar discontinuity.<sup>16</sup>

The results of the regression discontinuity analyses are summarized in Figure 1 and in Table 3. Regression discontinuities can be explored using non-parametric regressions or linear regressions. ? point out that both methods can lead to biased estimators, because we estimate regressions with boundary points. To ensure robustness of our results, we therefore apply both methods.

For the non-parametric regressions, we first provide a visual impression in Figure 1 which is based on a kernel regression to the right and the left of the rank-100 cutoff. The regression only includes firms that are ranked between 90 and 110 to make sure that they are basically identical with respect to all other firm characteristics and are just differently affected by the treatment, i.e., inclusion in the top 100 ranking. Figure 1a displays the results for total dollar compensation. We observe a jump in total compensation around the top 100 rank. Firms ranked between 90 and 100 pay their CEOs less than firms ranked between 101 and 110. Figure 1b displays the results for residual compensation which is defined as the residual from

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<sup>14</sup>For example, news blogs on the 2013 FTMA ranking involve a discussion of different companies included in the top 100 (<http://www.geekwire.com/2013/fortune-mostadmired-companies-amazon-3rd-microsoft-17th/>). Large newspapers like the New York Times or Wall Street Journal do not print the entire ranking, but include information on rankings in the top 100 in company reports.

<sup>15</sup>For example, Eaton Corp and J.P. Morgan report on all company awards within the top 100, see <http://www.eaton.com/Eaton/OurCompany/Careers/awards/index.htm>. and <http://careers.jpmorgan.com/experienced/jpmorgan/jobs/responsible/diversity/awards>.

<sup>16</sup>In Panel B of Appendix A.1 we provide a list of firms that experience the largest drop in average CEO pay in years when these firms are ranked in the top 100 compared to years when they are ranked outside of the top 100.

running the main regression in Table 2, except that we do not include the FTMA dummy. We again observe a jump around rank 100. In the next step, we run placebo regressions using rank 80 and rank 120 as thresholds. Figure 1c presents the analysis for firms ranked between 70 and 90, using 80 as a threshold, and Figure 1d does the same for firms ranked between 110 and 130, using 120 as a threshold. There are no discontinuities around these cut-offs, supporting the notion that the cut-off at 100 is unique.<sup>17</sup>

Panel A of Table 3 presents the results of the non-parametric regression discontinuity analysis on which Figure 1 is based. There is a drop in total compensation of almost \$4 million and a drop in residual compensation of 26.6% around the threshold (FTMA rank 100). Local Wald tests indicate that the differences around the threshold are statistically significant at the 5%-level for total compensation and at the 10%-level for residual compensation. While the choice of kernel usually has little impact on the robustness of the result (?), the choice of bandwidth is important. We use the optimized bandwidth following ?. In addition, we increase (decrease) the bandwidth by a factor of 1.5 (0.5) to ensure robustness. We still obtain significant results for total compensation and residual compensation if the bandwidth is increased by 1.5. If we decrease the bandwidth by 0.5, the results are still significant for residual compensation, while they are insignificant for total compensation. We expect a decline in statistical significance, because a lower bandwidth reduces the amount of information used in the estimation. In columns 3 and 4 of Panel A, we report placebo regressions using rank 80 and rank 120 as thresholds. As expected, we do not observe any significant changes around these cut-offs.

Results from a linear regression discontinuity analysis are presented in Panel B of Table 3. We include only data points within different intervals of the prestige rankings (see Cunat, Gine, and Guadalupe (2012) for a similar approach). In each column, we restrict the sample to different symmetric windows around the top 100 rank and rerun the main regression from Table 2 for all firms in the restricted sample. In column 1 of Table 3, we start with a broad window and include all companies that appear in the FTMA ranking during the sample period. We obtain a significant and negative estimate of -12.0% for the impact of ranking membership on total compensation, which is similar to our previous results in Table 2. The effect is similar if we shrink the window to firms ranked between 0 and 200 only (column 2) or to firms ranked between 50 and 150 (column 3). If we restrict the window further to all firms ranked between 90 and 110, we still observe an economically meaningful albeit statistically insignificant difference of 13.6% in total compensation of CEOs working for firms below and above the threshold, respectively.

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<sup>17</sup>We also checked cut-offs around rank 10 and rank 50. We find a small but insignificant jump around the top 10 ranking, and no jump around rank 50.

In Panel C of Table 3, we run a matched sample analysis for the same variations in window sizes as in Panel B. We use firm size, year, and industry as matching criteria.<sup>18</sup> In contrast to Panel B, the matched sample analysis allows us to compare only firms around the threshold that are of similar size and in the same industry. Furthermore, we only compare firms within the same year, which ensures that firms were included in the ranking at the same point in time. The results show that, for all matching criteria and window sizes, we still obtain a negative impact of firm prestige on total compensation. The point estimates are similar to our baseline result; however, not all of them are statistically significant anymore.

Taken together, the results in Table 3 and Figure 1 provide a unified picture. They suggest that being included in the FTMA top 100 ranking allows firms to reduce CEO compensation.

### 3.2.2 Cross sectional differences in status concerns

We now turn to a cross-sectional analysis of differences in status concerns among geographical regions and industries. Our goal is to provide further evidence that CEOs are willing to sacrifice income in exchange for an enhanced social status. Under the social-status hypothesis, status-related effects should be larger if CEOs live in an environment in which status concerns are stronger. Previous papers document the impact of a firm’s local environment on CEO decision making and behavior (?). We argue that our effects should be stronger for the subset of CEOs who work in geographical regions where status concerns are stronger. Furthermore, we expect our results to be stronger in prestigious industries, as CEOs who value prestige should self-select to work in these industries. Finally, the value of firm prestige should be higher in industries with only a handful of prestigious firms, because in these industries prestige is more scarce.

**Status concerns in the general population.** We collect data on status concerns across the states of the U.S. from the General Social Survey (GSS). This survey is conducted among the U.S. population and elicits opinions on different topics such as religion, politics, and cultural values. For each state, we compute the fraction of survey respondents who agreed to one of the following survey questions:

1. “I am proud to be working for this organization.” (*Pride*)
2. “I would turn down another job that offered quite a bit more pay in order to stay with this organization.” (*Loyalty*)

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<sup>18</sup>In unreported results, we use combinations of firm size, firm performance, and the G-Index as well as year and industry as matching criteria. The results obtain.

3. “Only if differences in income and social standing are large enough is there an incentive for individual effort.” (*Social Standing*)

We label these questions as “Pride”, “Loyalty”, and “Social Standing”, respectively, for easier reference.<sup>19</sup> We interpret agreement with any of these statements as an indication for stronger status concerns in the population. Under the social-status hypothesis, CEOs who work in a state where the population has higher status concerns should be more willing to give up income to work for more prestigious firms. We define dummy variables based on each of these questions. These variables equal one if the fraction of respondents who affirmed these statements is above the median for the entire United States, and zero otherwise. We match these state-level dummy variables to the company data by the state in which firms have their headquarters.<sup>20</sup> This provides us with measures of status concerns within the population around a firm’s headquarters.

In column 1 (2, 3) of Table 4, we define the dummy variable *StatusConcern* as described above. In each case, *StatusConcern* is interacted with *Prestige*. Under the social-status hypothesis, we expect a negative coefficient on the interactive term that is larger in absolute value than on the interaction between *Prestige* and *NoStatusConcern*. The Wald-test reported at the bottom of the table tests whether the effect of *Prestige* differs significantly between firms with headquarters in states with above-median status concerns and states with below-median status concerns.

In all three regressions we find that the coefficient estimates are much larger in absolute value and economically more significant on the interactions of *Prestige* with *StatusConcern* than on the interaction with *NoStatusConcern*, as predicted by the social-status hypothesis. The Wald test indicates that the difference is also statistically significant for questions 1 (“Pride”) and 2 (“Loyalty”). Interestingly, we do not find a significant difference for question 3 (“Social Standing”), which explicitly asks for income differences, too.

**Status concerns across industries.** Next, we look at status differences across industries to further investigate the status concerns hypothesis. CEOs who self-select to work in more admired industries probably also have stronger status concerns. We collect data from a Gallup poll on industry admiration that is conducted every year since 2001. This poll covers 25 different industries and is based on the following question: “For each of the following business sectors in the United States, please say whether your overall view of it

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<sup>19</sup>Specifically, we use GSS variables *PROUDORG*, *STAYORG*, and *USCLASS*.

<sup>20</sup>The GSS is conducted every two years for question 3, and we interpolate between adjacent years to obtain annual data and match them to the company data by state and year. Questions 1 and 2 were only asked once, so we assign the values obtained from the survey where the respective question was asked to the entire sample period.

is very positive, somewhat positive, neutral, somewhat negative or very negative.” For each industry, we compute the fraction of survey respondents who indicate that they are “very positive” towards this industry. We expect to find stronger results for CEOs working in strongly admired industries, as CEOs in these industries self-selected to work in highly regarded industries, i.e. for them public admiration and eventually social status concerns are more important. In column 4 of Table 4, industry admiration varies by industry and year, while in column 5 we construct a purely cross-sectional measure of industry admiration, which allows us to also include earlier years in the estimation for which no Gallup poll is available.

In column 6 of Table 4, we use a Herfindahl Index to compute the concentration of prestigious firms in each industry. If there are only few prestigious companies in a given industry, boards should be able to extract larger pay concessions from CEOs as compared to industries where several prestigious firms exist. Therefore, we expect our results to be stronger in industries with above median concentration of firm prestige.

Finally, in a different version of the same argument we identify firms that enjoy less admiration and appreciation because they provide “sinful” goods and services, such as alcohol, tobacco, and gaming. We would expect that CEOs who self-select to work in these industries are less concerned about prestige and public admiration than those who belong to other industries. We adopt the “sin industry” classification of Hong and Kacperczyk (2009) in column 7 and define *StatusConcern* to be zero for CEOs working for firms in such industries.

Results in columns 4 to 7 of Table 4 suggest that our results are indeed stronger for firms in admired industries, for firms in industries where fewer firms are prestigious, and in industries that do not offer “sinful” goods and services. For all measures, the coefficient estimates are much larger in absolute value and economically more significant for the interactions of *Prestige* with *StatusConcern* than on the interaction with *NoStatusConcern*, as predicted by the social-status hypothesis. However, the differences are statistically significant only for the classification of firms into “sin industries” and other industries, suggesting that CEOs with strong status concerns avoid working for firms in these industries. Taken together, these results provide further support for the social-status explanation.

### 3.3 Alternative media rankings

So far, all our results are based on Fortune’s ranking of America’s Most Admired Companies (FTMA). We now turn to an analysis of other media rankings. Specifically, we run the same regressions as in Table 2, but construct the dummy variable  $Prestige_{i,t-1}$  based on the other

media rankings described in the data section. Column 1 (2) of Table 5 repeats the results for the FTMA Top 100 (Top 50) ranking from Table 2 to facilitate comparisons. 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 negative impact of firm prestige on CEO compensation. The effect is not statistically significant which might be due to the short sample period for which the FBMR ranking is available. Economically, the coefficients indicate that CEOs earn about 15.4% to 19.0% less if they work for a firm in the FBMR ranking. 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. The coefficient on firm prestige is statistically significant and negative; it suggests about 20% lower pay for CEOs of firms that are rated as “best to work for”.

In column 7, we set  $Prestige_{i,t-1}$  equal to one if a firm appears in the Bloomberg Businessweek’s Best Global Brands (BBW) 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. We obtain a large negative coefficient on firm prestige, although it is not significant at conventional levels. A similar result obtains 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.

Taken together, results in Table 5 show that our main effect holds for several highly publicized rankings. We obtain negative coefficients for all rankings, indicating about 10% to 20% lower compensation of CEOs working for a firm included in a ranking.

## 4 Alternative explanations

In this section, we investigate alternative explanations for the link between firm prestige and compensation. In Section 4.1, we investigate which variables explain firm prestige to see whether these variables might also explain compensation and offer alternative explanations for our main finding. In Section 4.2 we analyze how the relationship between prestige and compensation depends on corporate governance. In Section 4.3, we analyze career concerns as a possible driver of our main result. In Section 4.4, we investigate whether ranking inclusion leads to a possible limelight effect that might reduce CEO pay due to higher public scrutiny. Finally, in Section 4.5, we look at different pay components to investigate whether status substitutes for incentive pay.

## 4.1 Determinants of prestige

We hypothesize that prestige is mainly driven by past performance, public visibility, and corporate governance. In Table 6, we explain and test each of these hypotheses in turn for five definitions of prestige based on the various rankings by running probit regressions of a dummy variable that indicates index membership on a range of explanatory variables.

Arguably, the rankings all depend on some measure of past performance. For example, the survey underlying the FTMA ranking refers to the quality of management and the quality of the products and services a company provides, the BBW ranking depends on the valuation of brands, and the BMR ranking depends on the recognition of a company in the business community. Therefore, we use past accounting performance as measured by last year's industry-adjusted ROA, last year's industry-adjusted stock-market return, and last year's sales growth as explanatory variables. Results show that two of the five rankings, namely those provided by Fortune magazine (FTMA and FTBC), are positively influenced by past industry-adjusted accounting performance, whereas the BBW ranking is negatively related to performance and the other two rankings are unaffected.<sup>21</sup> Surprisingly, past stock market performance and past sales growth are not strongly related to prestige. For the FTMA ranking, the impact of past industry-adjusted stock returns and sales growth on the likelihood of ranking membership is even significantly negative.

The visibility of a company should be important because survey respondents are more likely to recognize and admire companies that easily come to mind. In all likelihood, these are large companies. We include the log of the market capitalization of the firm and the log of sales to proxy for size. Both measures have the expected signs and the market capitalization of the firm is significantly positively related to inclusion in four out of five rankings, confirming the expected relationship. Regarding other control variables in our main regression, we do not find a strong relationship between firm risk, market-to-book ratio, or CEO age and ranking membership.

Finally, we investigate if ranking membership is related to corporate governance. We hypothesize a positive relationship, because corporate governance failures are associated with a negative shock to a firm's reputation. Thus, well-governed firms should be appreciated and admired for above-average compliance with accepted standards of good corporate governance. We use seven governance measures, which we will also use in the next section to investigate the relationship between compensation, prestige, and governance. (1) We fol-

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<sup>21</sup>In unreported results, we include lagged three-year performance instead of one year performance. This addresses concerns that it takes longer than one year for reputation rankings to react to firm performance. We obtain insignificant coefficients on three-year performance except for the FTBC ranking where the coefficient is significantly positive. Also, using raw performance measures instead of industry-adjusted measures does not change our results.

low Ferris, Jagannathan, and Pritchard (2003) and use IRRC data to construct the dummy variable *IndComm*, which is equal to one if the majority of members of the compensation committee is independent, and zero otherwise. (2) We adopt a measure of excess CEO compensation, *ExcessPay*, as suggested by Core, Holthausen, and Larcker (1999). Furthermore, it has been shown that large boards and busy boards are weak monitors (Core, Holthausen, and Larcker (1999) and Fich and Shivdasani (2006)). Therefore, we use (3) *BusyBoard* and (4) *LargeBoard*, which are equal to the number of outside board seats and to the number of board members, respectively. (5) The literature argues that CEO duality weakens the ability of the board to monitor the CEO and leads to poor corporate governance (Shivdasani and Yermack (1999) and ?). We define *CEO/Chair* as a dummy variable that equals one if the CEO is also the chair of the board, and zero otherwise. (6) We also include the Gompers, Ishii, and Metrick (2003) governance index, *G-Index*, and (7) the Bebchuk, Cohen, and Ferrell (2009) entrenchment index, *E-Index*.

We find that there does not seem to be a strong relationship between these seven measures of corporate governance and firm prestige.<sup>22</sup> Companies are more likely to be included in the FTBC ranking if they have independent compensation committees. Companies with less busy boards are more likely to enter the FTMA and FTBC ranking. In contrast, companies with CEO duality are more likely to enter the FBMR ranking. We conclude from these analyses that the quality of a firm’s corporate governance does not have an unambiguous impact on the probability of inclusion in one of the media rankings. Therefore, media rankings do not just proxy for good corporate governance.

## 4.2 Prestige and corporate governance

The effect of prestige on compensation should be particularly pronounced in well governed firms, because it requires that boards extract pay concessions from CEOs and do not leave the non-monetary benefits from prestige as a rent to CEOs. We hypothesize that extracting these concessions requires strong governance, in particular of the pay-setting process.

We use the same proxies for the quality of corporate governance as in Section 4.1 and interact these governance variables with  $Prestige_{i,t-1}$ . We then use Wald coefficient tests to investigate whether our results are stronger for better governed firms compared to poorly governed firms.

Table 7 shows the results. In our context, the best governance proxy is arguably the independence of the compensation committee. Based on prior work, (e.g., Rosenstein and Wyatt (1990)), we expect compensation contracts to be more efficient if the compensation

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<sup>22</sup>We do not include *G-Index* and *E-Index* in columns 2 and 5 as they are not available for the time period that is covered by the FBMR and BMR ranking (i.e. post 2006).

committee is independent. In column 1, *GoodGov* (*PoorGov*) is equal to one if the majority of a firm’s compensation committee is independent (dependent), and zero otherwise. We find that independent compensation committees at prestigious firms pay their CEOs about 12% less, while there is no significant impact of firm prestige on CEO pay if the compensation committee is not independent. This difference is statistically significant at the 1% level. Hence, boards with independent compensation committees are able to force their CEOs to give up income in exchange for their association with a prestigious firm.

In column 2 (3), *GoodGov* (*PoorGov*) is equal to one if the number of board members (number of board members’ outside appointments) is below (above) 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)). Thus, we conjecture that large and busy boards are less likely to set contracts efficiently and to eventually 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 (column 2) and non-busy (column 3) boards, while we find weaker effects if boards are busy or large. Wald coefficient tests show that the difference between firms with small boards and firms with large boards is also statistically significant.

In column 4, we investigate whether our results are stronger for firms with lower levels of excess CEO compensation. Following Core, Holthausen, and Larcker (1999), we define excess compensation as the residual from a regression of total compensation on the determinants of pay. We define a dummy variable, *GoodGov* (*PoorGov*), which is equal to one for all firm years with excess compensation below (above) the sample median. The results in column 4 show that the effect is concentrated in firms with below-median excess compensation and insignificant in firms with above-median excess compensation. While the difference is substantial in economic terms (7.6% vs. 2% lower pay), the effect is not statistically significant in this case. This result is also important because it shows that the decline in compensation associated with prestige cannot be interpreted as a correction of previously awarded excessive compensation, an aspect we explore further in Section 4.4 below.

In column 5, *GoodGov* (*PoorGov*) is equal to one if a CEO is not (is) at the same time chairman of the board, and zero otherwise. We expect that 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. The coefficient estimates are in line with this notion and suggest that a CEO who is not chairman gives up almost twice as much pay compared to a CEO who is also chairman, but the difference is not statistically significant.

Finally, in columns 6 and 7, we investigate CEO entrenchment and the relevance of external corporate governance by including the Gompers, Ishii, and Metrick (2003) governance

index as well as the Bebchuk, Cohen, and Ferrell (2009) entrenchment index. 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. Presumably, the governance aspects covered by the governance index and the entrenchment index are not as important for CEO compensation as compared to the independence of the compensation committee.

Taken together, results in Table 7 show that the negative impact of firm prestige on CEO pay is mostly concentrated in well governed firms, which limit the scope of the CEO to extract the benefits from firm prestige as a rent. These results also help us to rule out the Weberian explanation mentioned in the introduction that high-status CEOs may want to display their status by demanding lower pay. The empirical prediction for the relationship between prestige and compensation is the same from this hypothesis as from the social-status hypothesis. However, this alternative explanation does not predict that the relationship between prestige and pay depends on the quality of corporate governance, because the opportunity to signal a higher status would also be available to the CEOs of poorly governed firms. Finally, recall from the discussion of Table 6 above that we can also rule out that prestige just proxies for good governance, because all governance proxies that lead to significant differences for our main result in this section (i.e., *IndComm* and *LargeBoard*) are not significantly related to the probability of inclusion in the FTMA ranking in the first place.

### 4.3 Career concerns

In this section we investigate whether CEOs may be willing to sacrifice current income at a prestigious firm because they believe that the managerial labor market interprets firm prestige as an indicator of CEO talent and CEOs receive higher pay in a later employment at a less prestigious firm. Career concerns should be stronger for younger CEOs compared to older CEOs and weaker for CEOs who are close to retirement (Gibbons and Murphy (1992)). Furthermore, if career concerns are the main driver of our results, we would expect that CEOs use prestigious firms to start off their careers and switch to more profitable jobs more frequently than CEOs at non prestigious firms. Thus, we would expect that CEO turnover is higher at prestigious firms. Enhanced career opportunities could also be reflected in the number of outside board appointments. Therefore, we test whether CEOs of prestigious firms receive more outside board appointments. Finally, results should also be weaker for CEOs with a longer tenure on their jobs as the marginal benefit of an additional year of work at a prestigious firm should decrease. They should also be weaker for CEOs who have been recruited from outside the company, because these CEOs have already proven

to be successful in the managerial labor market and may put less value on the signal from firm prestige.

Results on tests of the career concerns hypothesis are presented in Table 8. In column 1, we split the sample at the median CEO age and create dummy variables for all CEOs who are 55 years or younger (*CareerConcerns*) and those who are older than 55 years (*NoCareerConcerns*), respectively. We then interact these dummy variables with  $Prestige_{i,t-1}$ . Results show that the negative impact of firm prestige on CEO pay is statistically significant for both subgroups. However, the effect is larger for younger CEOs compared to older CEOs, which may indicate that career concerns do play a role for younger CEOs. It may also indicate that older CEOs are more entrenched, potentially because they gradually succeed in placing more directors on the board who agree to their compensation demands. A Wald coefficient test shows that this difference between older and younger CEOs is marginally significant at the 10% level.

In column 2, we restrict the sample to those CEOs who retire after their current employment using the ExecuComp variable *reason*. We lose about three quarters of the observations for this regression. The coefficient on  $Prestige_{i,t-1}$  declines, but is still negative with a t-statistic of  $-1.83$ . We interpret this result as further support for the social-status hypothesis, as CEOs who expect to retire should be less affected by career concerns.

In column 3, we run a logit regression with CEO turnover as the dependent variable. We include the same control variables as in the baseline regression. We find that CEO turnover is about 3% lower in prestigious firms although the coefficient is not statistically significant. This result casts doubt on career concerns being the main driver of our results, because we would expect higher turnover at prestigious firms from CEOs seeking to realize a return on their human capital investment.

In column 4, we use the number of a CEO's outside board appointments as the dependent variable. We obtain a negative but insignificant coefficient on  $Prestige_{i,t-1}$ . Thus, working for a prestigious firm does not increase the number of outside board appointments, which weakens the career concerns hypothesis.

Finally, in column 5, we interact the impact of prestige with a dummy which is based on CEOs with lower (higher) than median tenure. In column 6, interactions are based on whether the CEO was hired from inside (outside) the firm, respectively. Our results show that there are no significant differences between both subsamples. Given the weak cross-sectional differences between subsamples with strong and weak career concerns, we conclude that career concerns are unlikely to be the main driver of our results.

In additional tests, we check whether CEOs receive more profitable jobs after their current position. Using data from BoardEx, we are able to track 345 CEOs and extract information

on their next job’s total compensation. We find that both, CEOs from prestigious and CEOs from non-prestigious firms, earn less after their current position. The difference between the change in compensation for CEOs of prestigious and non-prestigious firms is not statistically significant. However, given the small number of observations for which we are only able to obtain information, we decided not to exploit these data any further.

Overall there is little support for the career-concerns hypothesis as an alternative explanation for our main result.

#### 4.4 The limelight hypothesis

An alternative interpretation of our results is that firms that appear in the ranking are exposed to more publicity and enter the public limelight when they are first ranked. Consequently, prestigious firms are more visible and under higher public scrutiny and may thus pay their CEOs less because they are more likely to face public outrage. In that case, firm prestige would lead to lower CEO pay because of public scrutiny rather than status concerns of the CEO. Boards of prestigious firms may just be more reluctant to grant CEOs large compensation packages and may be inclined to reverse previously awarded excessive compensation.

A first indication that the limelight hypothesis is unlikely to explain our results is already provided in column 4 of Table 7, where we show that the prestige effect is concentrated in firms with below-median excess compensation, which is inconsistent with the notion that ranking membership alerts boards to pay closer attention to excessive compensation.<sup>23</sup>

Nevertheless, it might still be the case that boards revert previously awarded compensation to avoid public outrage (Bebchuk and Fried (2004)), even though the compensation increases may have been economically justified and therefore do not show up as excess compensation. Such a publicity effect might set in precisely with the higher media coverage at rank 100. Thus, the regression discontinuity results are consistent with a limelight explanation, even though they are not consistent with prestige being a proxy for corporate governance.

Table 9 addresses these concerns in three ways. In column 2 (3), we lag the FTMA top 100 dummy by two (three) years. We would expect that the limelight effect is strongest immediately after the firm enters the ranking and should not be present two or three years later. Our results show that we still obtain a significantly negative coefficient on firm prestige,

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<sup>23</sup>The limelight hypothesis emphasizes the impact of directors’ reputational concerns and we treat it as distinct from the governance-related hypotheses developed in Section 4.2. Theoretical work by Levit and Malenko (2013) shows that reputational mechanisms have an ambiguous impact on corporate governance outcomes. In our context, directors may want to develop a reputation for not being restrictive on CEO pay if such a stance enhances their employment opportunities.

which is of similar magnitude to the baseline effect in column 1. In columns 4 to 6, we interact  $Prestige_{i,t-1}$  with two dummy variables indicating whether a firm had above or below median growth in total compensation over the past 2, 3, or 5 years before it entered the ranking. In addition, we also include the change in pay over the corresponding time period as a control variable. Our results show that the effects tend to be stronger in firms with *lower* increases in total compensation than in firms with higher increases in total compensation. This observation contradicts the idea that firms entering the limelight attempt to revert previously awarded large compensation increases. Rather, this result is consistent with our earlier observation that the prestige effect is strongest in well governed firms, in which boards have enough power to extract the prestige premium from the CEO and which also have lower increases in compensation before entering the ranking. Finally, in column 7, we include firm visibility, measured by the number of analysts following a particular firm, as an additional control variable. We find that firm visibility indeed reduces CEO pay by 3%. However, the impact of firm prestige,  $Prestige_{i,t-1}$  on CEO pay remains unaffected in both, economic and statistical terms.

Taken together, the results suggests that firm prestige does not proxy for higher public scrutiny on CEO pay, even though our measure of visibility itself does have a measurable impact on compensation (see column 7), consistent with the outrage hypothesis.

## 4.5 Prestige as a substitute for incentive provision

Conventional principal-agent theory suggests that risk-averse CEOs are paid more if they obtain a larger portion of their pay in the form of risky, typically equity-based, compensation because they value one dollar of stock or stock options less than one dollar of fixed compensation.<sup>24</sup> 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. Otherwise, social benefits substitute for monetary compensation without affecting the total utility associated with holding on to the job as CEO and, accordingly, without affecting the importance of the threat of dismissal.

Hence, casting this caveat aside, we may assume that firm prestige provides incentives to CEOs, and that these status-induced incentives substitute for incentive pay. Based on these premises, higher firm prestige may reduce equity-related compensation. Consequently, prestigious firms would then have to only pay a lower risk premium to their CEOs, which would in turn reduce total CEO compensation. According to this substitution hypothesis,

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<sup>24</sup>See Lambert, Larcker, and Verrecchia (1991) and Hall and Murphy (2002) for a calibration-based analysis of executives' valuation of stock and stock options.

total compensation falls because fixed compensation increases, but by less than equity-based compensation falls.

In contrast, we expect exactly the opposite based on the social-status hypothesis. 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. We therefore expect that fixed compensation is lower at prestigious firms. At the same time, under the social-status hypothesis we expect deferred compensation to be unaffected.

To shed light on this question, we investigate the impact of firm prestige on different components of pay. The results are presented in Table 10. 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 lagged pay,  $Pay_{i,t-1}$ , now reflects the same component as 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 has a significant and negative impact on 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 lower in prestigious firms than in non-prestigious firms (column 5). Restricted stock grants (column 6) as well as pay-for-performance sensitivity (column 7) are not significantly affected by firm prestige.<sup>25</sup> Finally, coefficients on control variables are similar to the coefficients obtained in the previous tables.

Taken together, the results in Table 10 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 and the pay performance sensitivity (PPS) is identical. Both observations are inconsistent with the substitution hypothesis. Thus, there is no evidence that status considerations substitute for other forms of providing incentives.

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<sup>25</sup>We compute pay-for-performance sensitivity (PPS) as in Edmans, Gabaix, and Landier (2009). As some of the variables required to compute PPS are not available after the major relaunch of ExecuComp in 2006, the data on PPS ends in 2006. The number of observations entering the regression in column 7 is therefore lower than the number of observations in columns 1 to 6.

## 4.6 Other potential explanations

In this section we consider further alternative explanations for our result of a negative impact of firm prestige on CEO compensation. For example, CEOs who own a large fraction of their firms' cash flows already, such as 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 again total CEO compensation. Results in column 1 of Table 11 show that including lagged CEO ownership does not affect our main result. We still find the same impact of firm prestige on total compensation. The influence of ownership on compensation is negative as predicted and statistically significant, but economically insignificant: an increase of ownership by 1% leads to a reduction in compensation of 0.4% per year.

In column 2 of Table 11 we add an additional control variable *CEOFounder*, which equals one if the CEO is also the founder of the firm. If prestigious firms were more likely to be run by founder CEOs, our main result might be driven by the fact that founder CEOs earn less than non-founder CEOs (?). As expected, our results show that founder-CEOs earn less than other CEOs. The effect is economically moderate with -2.1%, but statistically highly significant. The coefficient on  $Prestige_{i,t-1}$  remains almost unaffected and is still highly significant.

Malmendier and Tate (2009) show that firms whose CEOs win prestigious business awards have a lower fraction of blockholders. We find that the same holds for prestigious firms (see Table 1). To make sure that our results are not driven by differences in blockholder ownership, we include the number of blockholders as a control variable in column 3 of Table 11. The coefficient on  $Prestige_{i,t-1}$  is still significant and negative.

It could also be the case that firm prestige and CEO compensation are both driven by glamour 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 expected future compensation, for example if they own a lot of restricted stock and options already. Therefore, we rerun the main regression and include firms' lagged market-to-book ratio as an additional control variable. Results in column 4 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 total compensation.

In column 5 of Table 11, we restrict the sample to firms that are part of the S&P 500. Table 1 shows that 84.3% of firms in the S&P 500 are ranked in the FTMA Top 100 ranking and 25.7% of the non-ranked companies are in the S&P 500. Hence, prestige is strongly related to index membership. We therefore rerun the baseline regression for a

sample restricted to S&P 500 firms to make sure that our results do not simply pick up effects related to index membership. This way, we lose about 70% of the sample. However, we still find a negative impact of firm prestige on annual CEO pay (-8.9%), which is significant at the 1%-level and almost identical to the result for the full sample.

In column 6 of Table 11, we include a measure of firm complexity as an additional control variable. One might argue that prestigious firms are easier to manage because they are less complex, which would then lead to lower CEO compensation in these firms. To address this concern, we compute the geographical dispersion of a firm as a Herfindahl-Hirschman Index using geographical segment data on firm sales available in Compustat Global. The geographical dispersion is used as a measure of external complexity by ?. As expected, we find that less complex firms indeed pay their CEOs less. However, this does not affect the impact of firm prestige on CEO pay.

Finally, an additional concern may be that CEOs who care more about prestige could also be more likely to end up working for prestigious firms and more willing to give up compensation for the status associated with firm prestige than an average CEO would be. We consider this to be a slightly different interpretation of our results, which we cannot rule out. It only means that the CEOs who do not work for prestigious firms may not be willing to give up pay for prestige if given the opportunity. Our main result is not affected by this interpretation, which implies that prestigious firms match with CEOs with a preference for a particular form of non-monetary compensation.

## 5 Robustness checks

In the following, we run several robustness checks regarding the econometric specification of the main regression. One concern may be that ranking memberships proxies for unobserved firm characteristics or for unobserved characteristics of the firm-CEO match. In column 1 of Table 12 we therefore repeat the baseline regression with firm fixed effects, so that our results rely only on within-firm variation. The numerical value of the coefficient of interest is unchanged and still significant at the 5%-level. An even stronger test introduces fixed effects for firm-CEO matches. Column 2 of Table 12 shows the results: the coefficient is still negative and significant at the 10%-level.<sup>26</sup> We therefore conclude that the effect we observe cannot be attributed to a correlation between firm prestige and unobserved fixed effects.

In column 3 of Table 12, we estimate the baseline regression but exclude lagged total pay. Our results become economically stronger with a coefficient of -0.14 compared to -0.09 in the baseline regression in Table 2. Most of the other coefficients increase in absolute

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<sup>26</sup>Our results (not tabulated) also obtain if we include CEO fixed effects or location fixed effects.

value by a factor of about 2, which is consistent with the coefficient estimate on lagged total compensation of 0.55 in Table 2. In column 4, we include lagged pay of the CEO instead of lagged pay at the same firm as a control variable. Our results remain similar. In columns 5 and 6, we cluster standard errors by year, and by firm and year, respectively. We obtain slightly larger standard errors, but the point-estimate on the impact of firm prestige on CEO compensation remains significant at the 1%-level.

Results in Table 1 suggest that firm prestige is strongly related to firm size as larger firms are more likely to appear in one of the survey-based prestige rankings. Therefore, we control for lagged firm size in the 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 7 of Table 12. In column 8 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 9 and 10 of Table 12, we investigate the temporal stability of our results. In column 9, we construct two dummy variables based on the median year in the sample (i.e, 2002) and interact them with  $Prestige_{i,t-1}$ . 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 10, we restrict the sample to the time period before 2006 because in that year 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 the main regression for the time period before 2006 only. Although we lose about 30% of the observations, we still find a significantly negative impact of firm prestige on total compensation.

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 (?) or by erroneous data points. In column 11 of Table 12, we truncate the overall distribution of CEO pay at the top and bottom 1% without any consequence for our main result. In column 12 we truncate the annual distribution of CEO pay at the top and bottom 1%. Again, our results remain stable.

## 6 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 and sometimes stronger results obtain for other rankings. We argue that CEOs obtain social status from heading prestigious firms because they value their social status and being included in a highly visible media ranking serves as a status symbol that simultaneously enhances and displays their status. Accordingly, boards can extract pay concessions for these benefits.

Endogeneity concerns are not a major issue in our context. 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 the opposite of what we find.

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 strong 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.

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# A Appendix

## A.1 Firms in (not in) FTMA ranking

Panel A of this table presents the 20 firms that appear in the FTMA ranking most often as well as 20 randomly selected firms that never appear in the FTMA ranking. In Panel B, we look at a subset of firms that center around the main cut-off of the top 100 rank. It presents the 20 firms with the largest pay drop (in thousand dollars) between years in which the firm is ranked 90-100 and years in which it is ranked 101-110.

Panel A		
	Frequently ranked in FTMA	Never ranked in FTMA
1.	Abbott Laboratories	Ameren Corp.
2.	Alcoa Inc.	Avery Dennison Corp.
3.	AMR Corp.	Block (H&R) Inc.
4.	Apple Inc.	DTE Energy Co.
5.	Berkshire Hathaway Inc.	Ecolab Inc.
6.	Boeing Co.	Hasbro Inc.
7.	Caterpillar Inc.	Hershey Co.
8.	Chevron Corp.	Lincoln National Corp.
9.	Coca-Cola Co.	Mattel Inc.
10.	Colgate-Palmolive Co.	Molson Coors Brewing Co.
11.	Deere & Co.	Motorola Solutions Inc.
12.	Dow Chemical Co.	Nicor Inc.
13.	E. I. du Pont de Nemours and Co.	Pall Corp.
14.	Eli Lilly and Co.	Radioshack Corp.
15.	Exxon Mobil Corp.	Rockwell Automation Inc.
16.	Hewlett-Packard Co.	Rowan Companies Inc.
17.	International Business Machines Corp.	Schlumberger Ltd.
18.	Johnson & Johnson	Snap-On Inc.
19.	Kroger Co.	Torchmark Corp.
20.	Target Corp.	Williams Cos Inc.

Panel B			
	Companies around Top 100	$\Delta$ Pay (90-100;101-110)	Percentage Change (%)
1.	Aetna Inc.	-2,298	-14.3
2.	Arrow Electronics Inc.	-260	-5.5
3.	Ball Corp.	-4,233	-47.4
4.	Boeing Co.	-7,248	-52.4
5.	Burlington Resources Inc.	-1,620	-46.7
6.	Carmax Inc.	-,1089	-21.3
7.	Conagra Foods Inc.	-1,778	-34.7
8.	Con-Way Inc.	-596	-12.21
9.	Deere & Co.	-5,450	-69.7
10.	HCA Holdings Inc.	-21,642	-76.8
11.	Heinz (H.J.) Co.	-3,926	-56.0
12.	Home Depot Inc.	-19,142	-67.4
13.	Iron Mountain Inc.	-1,503	-51.4
14.	Lauder (Estee) Cos. Inc.	-9,695	-54.3
15.	Northrop Grumman Corp.	-2,251	-12.1
16.	Readers Digest Association Inc.	-1,201	-43.9
17.	Springs Industries	-549	-42.9
18.	VF Corp.	-349	-8.9
19.	Walgreen Corp.	-2,476	-52.4
20.	Washington Mutual Inc.	-12,974	-66.9

## A.2 Description of further media rankings

### (1) *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 the FBMR ranking from copies of Forbes magazine.

### (2) *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 for 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 magazine. Data are available from 1998 on.

### (3) *Bloomberg Businessweek Best Global Brands ranking (BBW):*

Each year starting in 2001 Bloomberg Businessweek publishes the 100 most valuable global trademarks. 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 BBW ranking as published in Business Week from 2001 to 2009.

### (4) *Barron's Most Respected Companies ranking (BMR):*

This 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.

### A.3 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.
$FTBC_{i,t}$	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.
$FBR_{i,t}$	Dummy variable equal to one if firm $i$ appears in Forbes's Most Reputable Companies ranking in year $t$ , and zero otherwise. Source: Forbes.
$BWB_{i,t}$	Dummy variable equal to one if firm $i$ appears in Bloomberg Businessweek's Best Global Brands ranking in year $t$ , and zero otherwise. Source: Businessweek.
$BMR_{i,t}$	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 I/B/E/S 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.
$FirmRisk_{i,t}$	Annualized standard deviation of firm $i$ 's stock return. Source: CRSP.
$CEO < 60_{i,t}$	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 · # 25) scaled by total assets. We drop observations with $MB > 10$ . Source: Compustat.
$CEOOwn_{i,t}$	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.
$CEOFounder$	Dummy variable equal to one if CEO is the founder of a firm, and zero otherwise. Source: hand collected
$Blockholder$	Number of all block holders for a given firm-year. Source: WRDS
$SinIndustry$	Dummy variable equal to one if a firm's industry is classified as tobacco, alcohol production, or gambling, and zero otherwise. Source: Compustat.

Variable	Definition
<i>IndCommittee</i>	Percentage of independent members of a compensation committee. Source: Risk Metrics
<i>BusyBoard</i>	Number of outside appointments of all board members of a firm. Source: Risk Metrics.
<i>ExcessComp<sub>i,t</sub></i>	Total compensation less predicted compensation derived from our main regression (see Table 4).
<i>LargeBoard</i>	Number of board members of a firm. Source: Risk Metrics.
<i>CEO/Chair</i>	Dummy variable equal to one if CEO of a firm is also a chair of the board, and zero otherwise. Source: Risk Metrics.
<i>G – Index</i>	Corporate governance index as in Gompers, Ishii, and Metrick (2003).
<i>E – Index</i>	Entrenchment index as in Bebchuk, Cohen, and Ferrell (2004).
<i>CEOTurnover</i>	Dummy variable equal to one if CEO is replaced at a firm, and zero otherwise. Source: ExeCucomp.
<i>Ind.Concentration(HHI)</i>	Herfindahl Hirschman Index computed on the basis of geographical segment sales data of a firm. Source: Compustat.

**Table 1: Descriptive statistics and univariate differences.** Panel A presents summary statistics for all variables used in the analysis. Compensation data are obtained from ExecuComp. The sample extends from 1992 to 2010. Panel B presents differences for the control variables between ranked and non-ranked firms. All control variables are defined in A.3.

Panel A	Mean	S.D.	Median	1 <sup>st</sup> Perc.	99 <sup>th</sup> Perc.	Obs
<i>TotComp</i> <sub><i>i,t</i></sub> (in '000)	4515.31	10066.93	2405.21	218.87	31367.64	23,262
<i>Options</i> <sub><i>i,t</i></sub> (in '000)	1870.32	7638.18	499.06	0.00	19542.96	23,029
<i>Salary</i> <sub><i>i,t</i></sub> (in '000)	666.30	344.66	618.68	50.00	1650.33	23,262
<i>Bonus</i> <sub><i>i,t</i></sub> (in '000)	561.55	1480.05	200.00	0.00	5000.00	23,262
<i>RestrStock</i> <sub><i>i,t</i></sub> (in '000)	926.39	5236.67	0.00	0.00	10780.00	24,471
<i>OtherPay</i> <sub><i>i,t</i></sub> (in '000)	504.00	1469.72	80.21	0.00	5424.24	22,628
<i>Options</i> (%) <sub><i>i,t</i></sub>	28.6	27.6	24.0	0.0	94.1	22,996
<i>Salary</i> (%) <sub><i>i,t</i></sub>	31.7	23.3	25.2	1.1	99.7	23,229
<i>Bonus</i> (%) <sub><i>i,t</i></sub>	15.1	17.4	10.2	0.0	72.2	23,229
<i>RestrStock</i> (%) <sub><i>i,t</i></sub>	13.5	20.7	0.0	0.0	79.2	22,995
<i>OtherPay</i> (%) <sub><i>i,t</i></sub>	11.1	16.5	3.5	0.0	73.5	22,595
<i>FTMA100</i> <sub><i>i,t</i></sub>	0.07	0.25	0.00	0.00	1.00	23,262
<i>FBR100</i> <sub><i>i,t</i></sub>	0.02	0.14	0.00	0.00	1.00	6,140
<i>FTBC100</i> <sub><i>i,t</i></sub>	0.03	0.16	0.00	0.00	1.00	16,991
<i>BBW</i> <sub><i>i,t</i></sub>	0.08	0.19	0.00	0.00	1.00	14,355
<i>BMR</i> <sub><i>i,t</i></sub>	0.01	0.10	0.00	0.00	0.00	8,854
<i>ROA</i> <sub><i>i,t</i></sub> <sup>adj</sup>	-0.00	0.10	0.00	-0.45	0.22	23,180
<i>Ret</i> <sub><i>i,t</i></sub> <sup>adj</sup>	0.04	0.95	-0.01	-1.05	2.01	23,262
<i>Ln(Sales)</i> <sub><i>i,t</i></sub>	7.15	1.44	7.11	3.59	10.11	23,164
<i>Ln(MValue)</i> <sub><i>i,t</i></sub>	7.35	1.54	7.30	3.67	11.00	23,255
<i>SalesGr</i> <sub><i>i,t</i></sub>	0.12	0.83	0.08	-0.47	1.14	23,158
<i>FirmRisk</i> <sub><i>i,t</i></sub>	0.40	0.26	0.34	0.11	1.34	23,235
<i>CEO &lt; 60</i> <sub><i>i,t</i></sub>	0.71	0.45	1.00	0.00	1.00	23,262
<i>SP500</i> <sup>ranked</sup>	0.84	0.37	1.00	0.00	1.00	1,527
<i>SP500</i> <sup>nonranked</sup>	0.26	0.44	0.00	0.00	1.00	21,735
<i>IndCommittee</i>	0.93	0.17	1.00	0.33	1.00	14,956
<i>ExcessPay</i>	-0.000	0.713	-0.003	-1.888	1.925	23,262
<i>BusyBoard</i>	6.93	6.72	5.00	0.00	29.00	17,130
<i>LargeBoard</i>	9.48	2.77	9.00	5.00	18.00	17,130
<i>CEO/Chair</i>	0.62	0.49	1.00	0.00	1.00	17,130
<i>G - Index</i>	9.30	2.64	9.00	4.00	15.00	15,097
<i>E - Index</i>	2.60	1.35	3.00	0.00	6.00	17,448
<i>Blockholder</i>	22.199	15.495	20.580	0.000	63.600	2,456
<i>CEOTurnover</i>	0.11	0.32	0.00	0.00	1.00	23,343

**Table 1: Continued.**

Panel B	FTMA100=0 (1)	FTMA100=1 (2)	Difference (3)	t-stat (4)
<i>ROA<sup>adj</sup></i>	-0.006	0.023	0.029	10.46
<i>Ret<sup>adj</sup></i>	-0.015	-0.043	-0.028	-2.53
<i>Ln(Sales)</i>	7.022	9.005	1.983	37.22
<i>Ln(MValue)</i>	7.203	9.482	2.279	32.05
<i>SalesGr</i>	0.126	0.094	-0.032	-3.91
<i>FirmRisk</i>	0.407	0.302	-0.105	-15.00
<i>CEO &lt; 60<sub>i,t</sub></i>	0.711	0.678	-0.033	-1.63
<i>IndCommittee</i>	0.930	0.941	0.011	1.69
<i>ExcessPay</i>	0.011	0.020	0.009	0.19
<i>BusyBoard</i>	6.475	12.619	6.144	14.99
<i>LargeBoard</i>	9.345	11.217	1.872	12.15
<i>CEO/Chair</i>	0.619	0.699	0.080	3.57
<i>G - Index</i>	9.275	9.674	0.399	2.27
<i>E - Index</i>	2.606	2.465	-0.141	-1.66
<i>Blockholder</i>	23.808	10.891	-12.917	-10.36
<i>CEOTurnover</i>	0.112	0.111	-0.001	-0.23

**Table 2: Firm Prestige and CEO Pay.** Panel A presents regressions with  $\ln(TotComp + 1)_{i,t}$  as the dependent variable. The main independent variable,  $Prestige_{i,t-1}$ , is a dummy variable indicating membership in the Fortune Most Admired Companies ranking (FTMA). 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),  $Prestige_{i,t-1}$  is equal to one if firm  $i$  receives a score of at least 6 (7, 8) in Fortune’s Most Admired Companies ranking in year  $t-1$ , and zero otherwise. In column 8 (9, 10),  $Prestige_{i,t-1}$  is equal to  $101 - (76, 51)$  less the rank of the company in the FTMA Top 100 (75, 50). All control variables are described in Section A.3. In Panel B, we restrict the sample to the first year a new CEO is assigned to a firm. In Panel C, we use average director compensation as the dependent variable in columns 1 to 5 and a firm’s wage and salary related expenses divided by its total sales as the dependent variable in columns 6 to 10. Panel D presents average total and cash compensation for a two year time window surrounding a firm’s first appearance in or disappearance out of the FTMA Top 100 ranking. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level.  $t$ -statistics are provided in parentheses.

Panel A	FTMA Dummy				FTMA Score			FTMA Rank		
	100 (1)	75 (2)	50 (3)	25 (4)	$\geq 6$ (5)	$\geq 7$ (6)	$\geq 8$ (7)	100- Rank (8)	75- Rank (9)	50- Rank (10)
Whole sample										
$Prestige_{i,t-1}$	-0.090 (-3.44)	-0.104 (-3.35)	-0.090 (-2.44)	-0.137 (-2.28)	-0.052 (-2.57)	-0.108 (-3.48)	-0.145 (-1.80)	-0.002 (-3.27)	-0.002 (-2.78)	-0.004 (-2.39)
$Pay_{i,t-1}$	0.544 (23.32)	0.544 (23.33)	0.544 (23.36)	0.544 (22.38)	0.545 (23.35)	0.544 (23.34)	0.545 (23.40)	0.544 (23.32)	0.544 (23.34)	0.544 (23.37)
$ROA_{i,t-1}^{adj}$	-0.170 (-2.47)	-0.168 (-2.44)	-0.166 (-2.40)	-0.164 (-2.38)	-0.171 (-2.48)	-0.168 (-2.43)	-0.163 (-2.37)	-0.168 (-2.44)	-0.166 (-2.41)	-0.165 (-2.39)
$Ret_{i,t-1}^{adj}$	0.018 (2.88)	0.018 (2.89)	0.018 (2.91)	0.018 (2.92)	0.018 (2.91)	0.018 (2.89)	0.018 (2.93)	0.018 (2.88)	0.018 (2.90)	0.018 (2.91)
$LN(Sales)_{i,t-1}$	0.079 (9.63)	0.078 (9.55)	0.078 (9.45)	0.077 (9.41)	0.080 (9.81)	0.078 (9.55)	0.077 (9.39)	0.078 (9.53)	0.078 (9.47)	0.078 (9.43)
$LN(MV\ value)_{i,t-1}$	0.160 (12.35)	0.160 (12.41)	0.158 (12.44)	0.157 (12.49)	0.159 (12.29)	0.160 (12.44)	0.157 (12.43)	0.160 (12.48)	0.159 (12.49)	0.158 (12.51)
$SalesGr_{i,t-1}$	0.004 (0.87)	0.004 (0.88)	0.004 (0.90)	0.004 (0.90)	0.004 (0.88)	0.004 (0.88)	0.004 (0.91)	0.004 (0.88)	0.004 (0.89)	0.004 (0.90)
$FirmRisk_{i,t-1}$	0.118 (3.79)	0.118 (3.80)	0.117 (3.78)	0.118 (3.80)	0.117 (3.76)	0.118 (3.81)	0.118 (3.79)	0.118 (3.81)	0.118 (3.81)	0.118 (3.80)
$CEO < 60_{i,t-1}$	0.049 (3.85)	0.049 (3.85)	0.049 (3.86)	0.049 (3.91)	0.049 (3.85)	0.049 (3.85)	0.049 (3.88)	0.049 (3.85)	0.049 (3.86)	0.049 (3.88)
Adj. $R^2$	0.594	0.594	0.594	0.594	0.594	0.594	0.594	0.594	0.594	0.594
Observations	23,262	23,262	23,262	23,262	23,262	23,262	23,262	23,262	23,262	23,262

**Table 2: Continued.**

Panel B	FTMA Dummy				FTMA Score			FTMA Rank		
First year	100	75	50	25	$\geq 6$	$\geq 7$	$\geq 8$	100-Rank	75-Rank	50-Rank
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
<i>Prestige<sub>i,t-1</sub></i>	-0.182 (-1.68)	-0.271 (-2.03)	-0.145 (-1.25)	-0.261 (-1.25)	-0.135 (-1.71)	-0.306 (-2.25)	-0.127 (-0.52)	-0.004 (-2.02)	-0.004 (-1.70)	-0.005 (-1.26)
Controls	yes									
Adj. $R^2$	0.437	0.438	0.436	0.436	0.437	0.439	0.436	0.437	0.436	0.436
Observations	2,167	2,167	2,167	2,167	2,167	2,167	2,167	2,167	2,167	2,167

Panel C	Other Directors					Other Workers				
Other employees	FTMA 100 (1)	FTMA 75 (2)	FTMA $\geq 6$ (3)	FTMA $\geq 7$ (4)	100- Rank (5)	FTMA 100 (6)	FTMA 75 (7)	FTMA $\geq 6$ (8)	FTMA $\geq 7$ (9)	100- Rank (10)
<i>Prestige<sub>i,t-1</sub></i>	-0.041 (-2.31)	-0.052 (-2.43)	-0.015 (-1.14)	-0.045 (-2.12)	-0.001 (-2.13)	-0.015 (-2.44)	-0.008 (-1.14)	-0.013 (-2.39)	-0.008 (-1.20)	-0.000 (-0.51)
Controls	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Adj./Pseudo $R^2$	0.682	0.682	0.682	0.682	0.682	0.424	0.423	0.424	0.423	0.423
Observations	20,190	20,190	20,190	20,190	20,190	3,578	3,578	3,578	3,578	3,578

Panel D	Before Change (1)	After Change (2)	Difference (3)	t-stat (4)
Total Comp. <sup>in</sup> [-1, 1]	11335.24	11204.82	-130.42	- 0.11
Total Comp. <sup>out</sup> [-1, 1]	10082.99	9625.48	-457.51	-0.34
Cash <sup>in</sup> [-1, 1]	2859.61	2444.40	-415.21	-1.86
Cash <sup>out</sup> [-1, 1]	2000.32	2138.77	138.45	0.71

**Table 3: Regression Discontinuity Analysis** Panel A presents results from a kernel regression using a triangular kernel and the optimized ? bandwidth (bw=1). We modify the optimized bandwidth by factors of 1.5 and 0.5 to ensure robustness of our results. A sharp regression discontinuity design is assumed, where the treatment variable (FTMA ranking) jumps from one to zero at rank 100 (columns 1 and 2), 80 (column 3) and 120 (column 4), respectively. z-statistics are provided in parentheses. In columns 1 and 3 (2 and 4) we use total compensation (residual compensation) as the assignment variables. Panel B presents regressions with  $Ln(TotComp + 1)_{i,t}$  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 Top 100 ranking (FTMA 100). The sample is restricted to all firms that ever appeared in the FTMA ranking (column 1), to all firms ranked between 0 and 200 (column 2), to all firms ranked between 50 and 150 (column 3), and to all firms ranked between 90 and 110 (column 4), respectively. We use the same set of control variables as in Table 2. Panel C presents results from a matched sample analysis. We use firm size, industry and year as matching criteria. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses in Panels B and C.

Panel A	Top 100		Placebo Test	
Non-parametric RD	Pay (1)	Residual Pay (2)	Top 80 (3)	Top 120 (4)
$Prestige_{i,t-1}$ (bw=1)	-3985.96 (-2.33)	-0.266 (-1.74)	169.26 (0.09)	97.58 (0.07)
$Prestige_{i,t-1}$ (bw= 1.5)	-2669.34 (-1.96)	-0.305 (-2.27)	847.02 (0.59)	76.85 (0.06)
$Prestige_{i,t-1}$ (bw=0.5)	-1850.72 (-0.67)	-0.248 (-2.02)	1611.36 (0.48)	933.28 (0.43)
Observations	494	486	494	494

Panel B	All ranked	[200;0]	[150;50]	[110;90]
Linear RD	(1)	(2)	(3)	(4)
$Prestige_{i,t-1}$	-0.120 (-3.16)	-0.099 (-2.55)	-0.128 (-2.96)	-0.136 (-1.55)
Controls	yes	yes	yes	yes
$Adj.R^2$	0.317	0.287	0.273	0.253
Observations	4,153	3,169	1,842	424

Panel C	All ranked	[200;0]	[150;50]	[110;90]
$Prestige_{i,t-1}$	-0.125 (-2.35)	-0.068 (-1.12)	-0.141 (-2.07)	-0.134 (-0.44)
Controls	yes	yes	yes	yes
$Adj.R^2$	0.252	0.241	0.248	0.161
Observations	2,003	1,811	972	176

**Table 4: Status Concerns.** This table presents regressions with  $\ln(TotComp + 1)_{i,t}$  as the dependent variable in all columns. The main independent variable,  $Prestige_{i,t-1}$ , is a dummy variable equal to one if a firm belongs to the FTMA Top 100 ranking, and zero otherwise. We use the same set of control variables as in Table 2. In columns 1 to 3 (4 to 5), we split the sample into US regions with high and low status concerns according to the median GSS (Gallup) variables *PROUDORG*, *STAYORG*, and *USCLASS*. In column 6, we split the sample into subsamples based on median prestige dispersion (based on the Herfindahl Index). In column 7, we set *NoStatusConcern* equal to one if a firm operates in a sin industry as defined by Hong and Kacperczyk (2009). All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	Pride (1)	Loyalty (2)	Social Standing (3)	Star Industry (TC) (4)	Industry (C) (5)	Prestige Dispersion (6)	Sin Industry (7)
$Prestige \times StatusConcern$	-0.199 (-3.39)	-0.180 (-2.99)	-0.123 (-2.61)	-0.231 (-1.77)	-0.147 (-2.12)	-0.103 (-2.10)	-0.096 (-3.58)
$Prestige \times NoStatusConcern$	-0.023 (-0.86)	-0.055 (-1.75)	-0.079 (-2.31)	-0.062 (-0.71)	-0.077 (-0.73)	-0.082 (-2.92)	0.088 (1.65)
$StatusConcern_{i,t}$	-0.011 (-0.73)	0.009 (0.59)	0.063 (4.31)	0.079 (1.65)	0.103 (1.07)	-0.177 (-1.43)	0.162 (0.88)
$Pay_{i,t-1}$	0.544 (23.62)	0.545 (23.07)	0.545 (23.71)	0.631 (8.92)	0.566 (9.13)	0.544 (23.32)	0.544 (23.34)
$ROA_{i,t-1}^{adj}$	-0.155 (-1.69)	-0.146 (-1.58)	-0.155 (-1.68)	-0.313 (-2.27)	-0.324 (-2.77)	-0.171 (-2.47)	-0.172 (-2.49)
$Ret_{i,t-1}^{adj}$	0.011 (1.74)	0.011 (1.65)	0.011 (1.76)	0.016 (0.87)	0.025 (1.52)	0.018 (2.88)	0.018 (2.93)
$\ln(Sales)_{i,t-1}$	0.080 (7.69)	0.083 (7.93)	0.083 (8.06)	0.070 (3.19)	0.064 (3.77)	0.079 (9.62)	0.079 (9.67)
$\ln(MValue)_{i,t-1}$	0.156 (11.24)	0.152 (10.81)	0.152 (10.87)	0.125 (2.97)	0.174 (4.83)	0.160 (12.36)	0.160 (12.35)
$SalesGr_{i,t-1}$	0.007 (1.22)	0.007 (1.24)	0.007 (1.25)	0.021 (0.62)	0.000 (0.06)	0.004 (0.87)	0.004 (0.85)
$FirmRisk_{i,t-1}$	0.095 (2.73)	0.096 (2.72)	0.089 (2.59)	0.069 (1.00)	0.083 (1.32)	0.118 (3.80)	0.116 (3.76)
$CEO < 60_{i,t-1}$	0.047 (3.43)	0.045 (3.31)	0.048 (3.56)	0.089 (2.32)	0.074 (2.14)	0.049 (3.85)	0.049 (3.88)
Adj. $R^2$	0.596	0.593	0.595	0.632	0.601	0.594	0.596
Observations	16,348	16,166	16,426	2,774	4,728	23,262	23,262
Wald test	7.87	3.47	0.60	1.18	0.34	0.15	9.90
p-value	0.01	0.06	0.44	0.28	0.56	0.69	0.00

**Table 5: Alternative Rankings.** This table presents regressions with  $\ln(TotComp + 1)_{i,t}$  as the dependent variable. The main independent variable,  $Prestige_{i,t-1}$ , is a dummy variable indicating whether a firm belongs to the Fortune Most Admired Companies Top 100 ranking (FTMA 100), the Fortune Most Admired Companies Top 50 ranking (FTMA 50), the Forbes Most Reputable Companies Top 100 ranking (FBMR 100), the Forbes Most Reputable Companies Top 50 ranking (FBMR 50), the Fortune Best Companies to Work for Top 100 ranking (FTBC 100), the Fortune Best Companies to Work for Top 50 ranking (FTBC 50), the Business Week Best Global Brands ranking (BBW), and the Barron's Most Respected Companies ranking (BMR). We use the same set of control variables as in Table 2. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	FTMA 100 (1)	FTMA 50 (2)	FBMR 100 (3)	FBMR 50 (4)	FTBC 100 (5)	FTBC 50 (6)	BBW (7)	BMR (8)
$Prestige_{i,t-1}$	-0.090 (-3.44)	-0.090 (-2.44)	-0.154 (-1.57)	-0.190 (-1.32)	-0.197 (-3.49)	-0.200 (-2.29)	-0.213 (-1.56)	-0.127 (-0.87)
$Pay_{i,t-1}$	0.544 (23.32)	0.544 (23.36)	0.583 (15.20)	0.584 (15.13)	0.544 (19.46)	0.545 (19.56)	0.550 (18.37)	0.579 (15.19)
$ROA_{i,t-1}^{adj}$	-0.170 (-2.47)	-0.166 (-2.40)	-0.235 (-2.36)	-0.235 (-2.35)	-0.174 (-2.22)	-0.177 (-2.25)	-0.171 (-2.16)	-0.241 (-2.57)
$Ret_{i,t-1}^{adj}$	0.018 (2.88)	0.018 (2.91)	0.005 (0.62)	0.005 (0.62)	0.015 (2.14)	0.015 (2.16)	0.012 (1.77)	0.014 (2.01)
$\ln(Sales)_{i,t-1}$	0.079 (9.63)	0.078 (9.45)	0.056 (4.09)	0.055 (4.00)	0.072 (7.95)	0.072 (7.91)	0.078 (8.24)	0.071 (5.88)
$\ln(MValue)_{i,t-1}$	0.160 (12.35)	0.158 (12.44)	0.153 (8.26)	0.153 (8.14)	0.166 (10.72)	0.164 (10.73)	0.152 (9.86)	0.142 (7.60)
$SalesGr_{i,t-1}$	0.004 (0.87)	0.004 (0.90)	0.007 (2.44)	0.007 (2.44)	0.005 (0.75)	0.005 (0.80)	0.004 (0.66)	0.006 (2.00)
$FirmRisk_{i,t-1}$	0.118 (3.79)	0.117 (3.78)	0.081 (1.86)	0.081 (1.84)	0.098 (3.00)	0.097 (2.98)	0.078 (2.37)	0.082 (1.94)
$CEO < 60_{i,t-1}$	0.049 (3.85)	0.049 (3.86)	0.032 (1.61)	0.032 (1.64)	0.047 (3.06)	0.047 (3.08)	0.037 (2.31)	0.033 (1.90)
Adj. $R^2$	0.594	0.594	0.627	0.627	0.584	0.584	0.594	0.625
Observations	23,262	23,262	6,140	6,140	16,991	16,991	14,355	8,854

**Table 6: Determinants of Ranking Membership.** This table presents coefficients of a probit regression with firm prestige as the dependent variable. The dependent variables are dummy variables equal to one if a firm is part of the FTMA 100, FBMR 100, FTBC 100, BBW, and BMR ranking, respectively, and zero otherwise. All independent variables are described in Appendix A.3. All regressions include year and industry fixed effects. z-statistics are provided in parentheses.

	FTMA 100 (1)	FBMR 100 (2)	FTBC 100 (3)	BBW (4)	BMR (5)
$ROA_{i,t-1}^{adj}$	0.988 (1.77)	0.171 (0.06)	3.749 (3.44)	-4.762 (-2.48)	4.402 (1.15)
$Ret_{i,t-1}^{adj}$	-0.197 (-2.88)	-0.365 (-0.93)	-0.213 (-1.52)	-0.168 (-0.47)	0.037 (0.13)
$SalesGr_{i,t-1}$	-0.329 (-2.44)	-0.713 (-0.81)	-0.299 (-0.96)	-0.136 (-0.19)	-1.706 (-0.93)
$Ln(Sales)_{i,t-1}$	0.464 (7.81)	4.067 (8.43)	0.046 (0.36)	0.439 (1.37)	-1.158 (-1.37)
$Ln(MValue)_{i,t-1}$	0.567 (10.01)	-0.001 (-0.00)	0.881 (6.87)	1.943 (5.95)	6.741 (5.71)
$FirmRisk_{i,t-1}$	-0.305 (-1.34)	0.794 (0.95)	0.350 (1.17)	0.608 (0.64)	1.879 (0.62)
$MB_{i,t-1}$	0.092 (2.77)	0.375 (1.63)	0.077 (1.26)	0.509 (3.33)	-0.796 (-2.19)
$CEO < 60_{i,t-1}$	-0.130 (-2.17)	-0.311 (-0.90)	-0.151 (-1.05)	0.459 (1.50)	0.276 (0.42)
$IndComm.$	-0.056 (-0.82)	-0.322 (-0.37)	0.563 (3.23)	-0.393 (-1.18)	1.809 (1.11)
$ExcessPay$	-0.053 (-1.53)	-0.324 (-1.50)	-0.056 (-0.77)	0.135 (1.12)	0.017 (0.05)
$BusyBoard$	-0.012 (-2.65)	0.013 (0.36)	-0.048 (-4.07)	0.010 (0.42)	-0.045 (-0.75)
$LargeBoard$	0.008 (0.58)	0.107 (1.06)	0.029 (0.99)	-0.063 (-0.85)	-0.373 (-1.99)
$CEO/Chair$	-0.056 (-0.86)	0.638 (1.78)	0.049 (0.35)	0.197 (0.63)	0.589 (0.81)
$G - Index$	0.006 (0.34)		-0.003 (-0.07)	0.086 (0.96)	
$E - Index$	0.018 (0.57)		0.064 (0.84)	-0.353 (-2.24)	
$PseudoR^2$	0.454	0.640	0.226	0.621	0.788
Observations	8,734	3,386	7,391	3,610	3,234

**Table 7: Corporate Governance and the Impact of Firm Prestige on CEO Pay.**

This table presents regressions with  $\ln(\text{TotComp} + 1)_{i,t}$  as the dependent variable. The main independent variable,  $\text{Prestige}_{i,t-1}$ , is a dummy variable equal to one if a firm belongs to the FTMA Top 100 ranking, and zero otherwise. We use the same set of control variables as in Table 2. In each regression, we interact  $\text{Prestige}_{i,t-1}$  with a measure of good, respectively, poor corporate governance. In column 1,  $\text{GoodGov}$  is equal to one if the compensation committee of the company is independent, and zero otherwise. In column 2,  $\text{GoodGov}$  is equal to one if the number of board members is smaller than (larger or equal to) the median number of board members in the sample, and zero otherwise. In column 3,  $\text{GoodGov}$  is equal to one if the number of outside appointments of all board members is smaller than (larger or equal to) the median number of outside appointments in the sample, and zero otherwise. In column 4,  $\text{GoodGov}$  is equal to one if excess pay at a firm is smaller than (larger or equal to) median excess pay in the sample, and zero otherwise. In column 5,  $\text{GoodGov}$  is equal to one if the CEO is not at the same time chairman of the board, and zero otherwise. In column 6,  $\text{GoodGov}$  is equal to one if the G-Index of a firm is smaller than (larger or equal to) the median G-Index of 9 in the sample, and zero otherwise. In column 7,  $\text{GoodGov}$  is equal to one if the E-Index of a firm is smaller than (larger or equal to) the median E-Index of 3 in the sample, and zero otherwise. The opposite definitions hold for  $\text{PoorGov}$ . All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	Ind. Comm. (1)	Large Board (2)	Busy Board (3)	Excess Pay (4)	CEO Chair (5)	G- Index (6)	E- Index (7)
$Prestige_{i,t-1} \times GoodGov$	-0.121 (-3.52)	-0.235 (-2.38)	-0.121 (-2.44)	-0.076 (-1.99)	-0.140 (-2.13)	-0.084 (-2.13)	-0.110 (-3.36)
$Prestige_{i,t-1} \times PoorGov$	0.057 (0.95)	-0.046 (-1.64)	-0.084 (-2.59)	-0.020 (-0.88)	-0.078 (-2.49)	-0.064 (-1.78)	-0.063 (-1.40)
$PoorGov_{i,t}$	-0.047 (-2.79)	-0.007 (-0.48)	0.084 (5.29)	0.952 (79.20)	0.031 (2.03)	0.036 (2.51)	0.053 (4.41)
$Pay_{i,t-1}$	0.544 (17.19)	0.545 (18.34)	0.543 (18.34)	0.510 (24.93)	0.541 (17.81)	0.520 (17.41)	0.547 (20.15)
$ROA_{i,t-1}^{adj}$	-0.241 (-2.55)	-0.219 (-2.42)	-0.181 (-2.02)	-0.138 (-2.63)	-0.223 (-2.36)	-0.136 (-1.33)	-0.165 (-1.73)
$Ret_{i,t-1}^{adj}$	0.064 (4.82)	0.048 (4.67)	0.049 (4.72)	0.018 (4.19)	0.050 (4.38)	0.041 (4.16)	0.044 (4.91)
$LN(Sales)_{i,t-1}$	0.081 (7.37)	0.085 (7.99)	0.076 (7.20)	0.084 (14.09)	0.085 (7.60)	0.088 (8.07)	0.085 (8.54)
$LN(MValue)_{i,t-1}$	0.162 (9.10)	0.159 (9.65)	0.155 (9.39)	0.157 (14.89)	0.160 (9.45)	0.165 (9.52)	0.156 (9.99)
$SalesGr_{i,t-1}$	-0.011 (-0.31)	-0.019 (-0.73)	-0.015 (-0.55)	0.009 (2.66)	-0.020 (-0.75)	-0.000 (-0.04)	-0.003 (-0.30)
$FirmRisk_{i,t-1}$	0.068 (1.71)	0.092 (2.30)	0.094 (2.38)	0.045 (2.13)	0.097 (2.14)	0.145 (3.05)	0.135 (3.01)
$CEO < 60_{i,t-1}$	0.046 (2.96)	0.043 (2.98)	0.041 (2.84)	0.073 (7.86)	0.049 (3.25)	0.058 (3.69)	0.043 (3.01)
Adj. $R^2$	0.575	0.578	0.579	0.775	0.570	0.573	0.584
Observations	15,107	17,130	17,130	23,262	15,908	15,097	17,448
Wald test against $H_0 : Prestige \times GoodGov = Prestige \times PoorGov$							
F-score	7.85	6.30	0.49	1.31	1.07	0.16	0.73
p-value	0.01	0.01	0.48	0.25	0.30	0.69	0.39

**Table 8: Career Concerns.** This table presents regressions with  $\ln(TotComp + 1)_{i,t}$  as the dependent variable in all columns except for columns 3 and 4, where CEO turnover and the number of CEO's outside board memberships are the dependent variables, respectively. The main independent variable,  $Prestige_{i,t-1}$ , is a dummy variable equal to one if a firm belongs to the FTMA Top 100 ranking, and zero otherwise. We use the same set of control variables as in Table 2. In column 1, we split the sample at the median age of a CEO (i.e., 55 years). In column 2, we restrict the sample to all firms whose CEOs retire after their current position at the firm. In column 3, the dependent variable is equal to one if a new CEO is appointed in a given year, and zero otherwise. In column 4, the dependent variable is the number of a CEO's outside board memberships. In columns 5 and 6, we split the sample into subsamples based on whether the CEO has high or low tenure (cutoff at the sample median), and whether the CEO was hired from inside or outside the firm, respectively. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	Age	Reti- ment	CEO Turnover	Outside Appointm.	Tenure	Out- sider
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Prestige</i> × <i>CareerConcern</i>	-0.148 (-2.98)				-0.095 (-2.46)	-0.092 (-2.39)
<i>Prestige</i> × <i>NoCareerConcern</i>	-0.050 (-1.97)				-0.098 (-3.03)	-0.104 (-1.94)
<i>NoCareerConcern</i>	-0.043 (-3.75)				-0.005 (-0.42)	0.097 (5.46)
<i>Prestige</i> <sub><i>i,t-1</i></sub>		-0.062 (-1.83)	0.038 (0.80)	-0.034 (-0.39)		
<i>Pay</i> <sub><i>i,t-1</i></sub>	0.544 (23.32)	0.676 (14.57)	0.055 (4.47)	-0.235 (-8.10)	0.526 (21.51)	0.501 (17.87)
<i>ROA</i> <sub><i>i,t-1</i></sub> <sup>adj</sup>	-0.169 (-2.44)	-0.259 (-1.44)	-0.428 (-4.50)	-1.696 (-7.92)	-0.178 (-2.50)	-0.286 (-2.84)
<i>Ret</i> <sub><i>i,t-1</i></sub> <sup>adj</sup>	0.018 (2.84)	0.002 (0.11)	-0.025 (-2.37)	-0.054 (-1.01)	0.018 (2.88)	0.016 (1.90)
<i>Ln(Sales)</i> <sub><i>i,t-1</i></sub>	0.080 (9.70)	0.054 (3.26)	0.089 (5.36)	0.252 (8.90)	0.083 (9.72)	0.093 (8.62)
<i>Ln(MValue)</i> <sub><i>i,t-1</i></sub>	0.160 (12.37)	0.136 (5.33)	0.065 (3.89)	-0.063 (-2.11)	0.166 (12.21)	0.174 (10.06)
<i>SalesGr</i> <sub><i>i,t-1</i></sub>	0.004 (0.88)	-0.015 (-0.39)	-0.066 (-1.55)	-0.486 (-4.63)	0.004 (0.75)	0.001 (0.08)
<i>FirmRisk</i> <sub><i>i,t-1</i></sub>	0.119 (3.83)	0.037 (0.53)	-0.080 (-1.75)	0.229 (2.31)	0.116 (3.68)	0.095 (2.33)
<i>CEO</i> < 60 <sub><i>i,t-1</i></sub>		0.027 (1.31)	-0.175 (-6.40)	0.975 (16.49)	0.040 (2.96)	0.040 (2.35)
Adj. <i>R</i> <sup>2</sup>	0.594	0.679	0.134	0.049	0.588	0.585
Observations	23,262	5,674	14,836	23,343	22,412	11,988
Wald test	3.33				0.00	0.04
p-value	0.07				0.94	0.85

**Table 9: Limelight.** This table presents tests of the limelight hypothesis. The dependent variable is  $\ln(TotComp+1)_{i,t}$ . The main independent variable,  $Prestige_{i,t-1}$ , 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 2. Column 1 presents our baseline result. In column 2 (3), we lag the main variable,  $Prestige_{i,t-1}$ , by two (three) years. In column 4 (5, 6), we interact  $Prestige_{i,t-1}$  with two variables indicating whether the change in total compensation over two (three, five) years before the firm entered the ranking was above or below the sample median and control for changes in total compensation over the same time period instead of including the level of lagged pay. In column 7, we control for firm visibility measured by the number of analysts following a firm. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	Higher Lags of Prestige			Changes in Pay before Rank			Visibility
	Base- line (1)	Lag 2 Yrs (2)	Lag 3 Yrs (3)	$\Delta$ Pay [t-1;t-2] (4)	$\Delta$ Pay [t-1;t-3] (5)	$\Delta$ Pay [t-1;t-5] (6)	VFA (7)
$Prestige_{i,t-1}$	-0.090 (-3.44)						-0.089 (-3.39)
$Prestige_{i,t-2}$		-0.084 (-3.34)					
$Prestige_{i,t-3}$			-0.087 (-3.10)				
$Prestige_{i,t-1} \times \Delta Pay^{low}$				-0.243 (-2.45)	-0.164 (-1.70)	-0.163 (-1.97)	
$Prestige_{i,t-1} \times \Delta Pay^{high}$				-0.074 (-1.92)	-0.055 (-1.33)	-0.066 (-1.47)	
$\Delta Pay^{high}$				0.003 (0.07)	0.084 (1.45)	0.041 (0.71)	
$VFA_{i,t-1}$							-0.031 (-2.17)
$(\Delta)Pay_{i,t-1}$	0.544 (23.32)	0.546 (22.60)	0.537 (20.57)	0.036 (5.79)	0.046 (7.54)	0.050 (9.46)	0.544 (23.34)
$ROA_{i,t-1}^{adj}$	-0.170 (-2.47)	-0.210 (-2.90)	-0.236 (-3.10)	-0.413 (-3.87)	-0.433 (-3.71)	-0.481 (-4.16)	-0.163 (-2.34)
$Ret_{i,t-1}^{adj}$	0.018 (2.88)	0.016 (2.46)	0.014 (2.09)	0.024 (4.24)	0.017 (3.02)	0.016 (2.53)	0.018 (2.85)
$\ln(Sales)_{i,t-1}$	0.079 (9.63)	0.081 (9.42)	0.087 (9.29)	0.188 (12.30)	0.198 (12.23)	0.196 (18.13)	0.079 (9.54)
$\ln(MValue)_{i,t-1}$	0.160 (12.35)	0.160 (11.86)	0.160 (11.31)	0.329 (20.36)	0.320 (19.30)	0.322 (18.13)	0.161 (12.44)
$SalesGr_{i,t-1}$	0.004 (0.87)	0.001 (0.11)	0.004 (1.11)	0.000 (0.09)	0.004 (0.89)	0.005 (1.06)	0.004 (0.87)
$FirmRisk_{i,t-1}$	0.118 (3.79)	0.106 (3.36)	0.081 (2.53)	0.252 (5.61)	0.206 (4.69)	0.178 (3.68)	0.116 (3.73)
$CEO < 60_{i,t-1}$	0.049 (3.85)	0.046 (3.53)	0.044 (3.21)	0.055 (2.64)	0.054 (2.42)	0.039 (1.57)	0.048 (3.81)
Adj. $R^2$	0.594	0.596	0.600	0.455	0.460	0.473	0.594
Observations	23,262	20,807	18,259	20,122	17,582	13,186	23,262
Wald test against $H_0 : Prestige \times \Delta Pay^{high} = Prestige \times \Delta Pay^{low}$							
p-value				0.10	0.29	0.28	

**Table 10: Firm Prestige and Components of Pay.** This table presents regressions for different components 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 we use 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), in column 6 we use the logarithm of restricted stock (rstk+1), and in column 7 we use pay-for-performance sensitivity computed as in Edmans, Gabaix, and Landier (2009). The main independent variable,  $Prestige_{i,t-1}$ , is a dummy variable equal to one if a firm belongs to the FTMA Top 100 ranking, and zero otherwise. We use the same set of control variables as in Table 2. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

	Cash (1)	Sal (2)	Bon (3)	Opt (4)	Oth (5)	Rstk (6)	PPS (7)
$Prestige_{i,t-1}$	-0.058 (-3.27)	-0.059 (-4.30)	-0.024 (-0.36)	-0.134 (-1.34)	-0.060 (-1.69)	-0.016 (-0.16)	0.229 (0.99)
$Pay_{i,t-1}$	0.736 (32.87)	0.779 (30.00)	0.451 (43.94)	0.437 (42.50)	0.652 (75.36)	0.522 (53.97)	0.476 (4.07)
$ROA_{i,t-1}^{adj}$	-0.253 (-5.30)	-0.062 (-1.38)	-0.693 (-3.97)	-0.455 (-2.08)	-0.239 (-2.15)	-0.308 (-1.66)	0.894 (0.89)
$Ret_{i,t-1}^{adj}$	0.006 (1.97)	0.011 (2.90)	0.033 (2.28)	-0.001 (-0.07)	0.018 (2.09)	0.036 (1.58)	-0.190 (-1.80)
$LN(Sales)_{i,t-1}$	0.059 (7.63)	0.027 (3.64)	0.154 (6.79)	0.027 (0.94)	0.141 (10.72)	0.264 (10.52)	-0.351 (-1.83)
$LN(MValue)_{i,t-1}$	0.017 (2.72)	0.022 (4.14)	0.045 (2.02)	0.441 (14.31)	0.049 (3.97)	0.048 (1.92)	-0.355 (-2.31)
$SalesGr_{i,t-1}$	-0.004 (-0.73)	0.007 (1.26)	-0.020 (-0.46)	-0.005 (-0.21)	-0.005 (-0.77)	-0.027 (-1.06)	-0.133 (-1.27)
$FirmRisk_{i,t-1}$	-0.013 (-0.68)	-0.018 (-1.29)	-0.072 (-0.85)	0.315 (3.22)	-0.182 (-3.75)	-0.346 (-4.01)	0.870 (1.91)
$CEO < 60_{i,t-1}$	-0.016 (-1.84)	-0.005 (-0.71)	-0.031 (-0.88)	0.494 (10.40)	-0.073 (-3.67)	0.256 (6.15)	0.137 (0.52)
Adj. $R^2$	0.652	0.681	0.481	0.337	0.678	0.443	0.269
Observations	23,553	23,553	23,553	22,816	22,072	23,053	17,367

**Table 11: Alternative Explanations.** This table investigates alternative explanations for our main result. The dependent variable is  $\ln(TotComp + 1)_{i,t}$ . The main independent variable,  $Prestige_{i,t-1}$ , 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 2. In columns 1 and 2 we add CEO ownership and a dummy variable indicating founder CEOs as additional control variables, respectively. In column 3, we include the number of blockholders as an additional control variable. In column 4, we add a firm's market-to-book ratio as an additional control variable. In column 5, we restrict the sample to firms in the S&P500 index. In column 6, we control for the geographical dispersion of firms' activities using a Herfindahl-Hirschman index based on geographical segment sales. All regressions include year and industry fixed effects. Standard errors are clustered at the firm level. t-statistics are provided in parentheses.

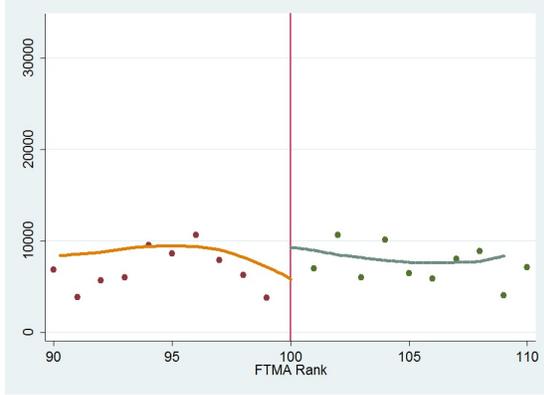
	CEO Own. (1)	CEO Founder (2)	Block- holders (3)	MTB (4)	SP 500 (5)	Firm Complexity (6)
$Prestige_{i,t-1}$	-0.090 (-3.44)	-0.079 (-3.01)	-0.227 (-2.90)	-0.089 (-3.45)	-0.089 (-2.83)	-0.091 (-3.48)
$Pay_{i,t-1}$	0.543 (23.22)	0.534 (20.42)	0.460 (9.56)	0.537 (23.29)	0.514 (10.15)	0.543 (23.48)
$ROA_{i,t-1}^{adj}$	-0.166 (-2.41)	-0.144 (-1.68)	-0.008 (-0.02)	-0.165 (-2.38)	0.007 (0.04)	-0.150 (-2.14)
$Ret_{i,t-1}^{adj}$	0.018 (2.88)	0.021 (2.71)	0.034 (1.25)	0.019 (3.11)	0.049 (2.51)	0.018 (2.91)
$LN(Sales)_{i,t-1}$	0.079 (9.63)	0.082 (8.64)	0.071 (2.23)	0.079 (8.21)	0.110 (5.78)	0.072 (8.23)
$LN(MValue)_{i,t-1}$	0.160 (12.34)	0.159 (10.71)	0.216 (5.07)	0.165 (12.52)	0.111 (4.33)	0.153 (10.94)
$SalesGr_{i,t-1}$	0.004 (0.88)	0.000 (0.03)	0.023 (0.27)	0.003 (0.73)	0.010 (0.19)	0.004 (0.91)
$FirmRisk_{i,t-1}$	0.118 (3.80)	0.145 (3.55)	0.100 (0.99)	0.121 (3.77)	0.112 (1.34)	0.115 (3.71)
$CEO < 60_{i,t-1}$	0.047 (3.67)	0.052 (3.59)	0.053 (1.51)	0.047 (3.77)	0.022 (0.93)	0.048 (3.73)
$CEO_{own}_{i,t-1}$	-0.004 (-2.02)					
$MB_{i,t-1}$				-0.004 (-0.51)		
$CEO_{founder}$		-0.021 (-4.14)				
$Prestige \times Blockholder$			0.049 (0.49)			
$Blockholder$			-0.078 (-1.33)			
$Ind.Concentration(HHI)$						-0.028 (-1.65)
$Adj.R^2$	0.594	0.587	0.520	0.595	0.482	0.595
Observations	23,262	18,186	2,456	23,113	6,870	23,228

**Table 12: Robustness Checks.** This table presents robustness checks with  $\ln(TotComp+1)_{i,t}$  as the dependent variable. The main independent variable,  $Prestige_{i,t-1}$ , 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 2. In columns 1 and 2, we include firm and CEO-firm fixed effects, respectively. In column 3, we exclude the lagged dependent variable. In column 4 we include lagged pay of the same CEO instead of lagged pay at the firm. In columns 5 and 6, we cluster standard errors by year and by year and firm, respectively. In column 7 we add squared firm size as an additional control variable. In column 8, we sort firms into size deciles and replace lagged firm size by dummy variables for each but one size decile. In column 9, we add dummy variables for time periods before and after the median year of the sample (2002), and interact them with ranking membership. The year 2002 itself is included in *bef02*. In column 10, we restrict the data to all years before 2006. In column 11 we exclude the top and bottom 1% of total compensation, and in column 12 we exclude the top and bottom 1% of total compensation in each year. All regressions include year and industry fixed effects. If not indicated differently, standard errors are clustered at the firm level. t-statistics are provided in parentheses.

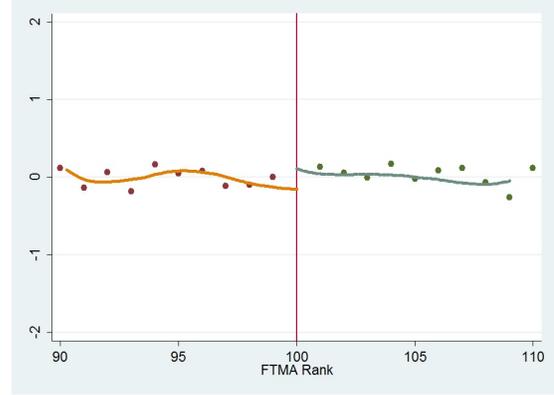
	FFE	CEO Firm	No lag	Lagged	Year	TwoWay	Firm	Size	Temp.	Year	Drop	Drop
	(1)	(2)	Pay	CEO Pay	Clst	Clst	Size <sup>2</sup>	Deciles	Stab.	< 2006	1% Outl.	1% Outl.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
$Prestige_{i,t-1}$	-0.090 (-2.14)	-0.058 (-1.74)	-0.142 (-3.21)	-0.080 (-3.41)	-0.090 (-3.10)	-0.090 (-2.90)	-0.082 (-3.17)	-0.075 (-2.94)		-0.058 (-1.98)	-0.088 (-3.83)	-0.071 (-3.32)
$Prestige \times bef02$									-0.069 (-2.18)			
$Prestige \times aft02$									-0.111 (-2.94)			
$Aft02$									0.199 (6.27)			
$ROA_{i,t-1}^{adj}$	0.221 (2.31)	0.176 (2.34)	-0.346 (-3.19)	-0.135 (-1.88)	-0.170 (-2.38)	-0.170 (-2.23)	-0.180 (-2.61)	-0.143 (-2.10)	-0.170 (-2.46)	-0.077 (-0.85)	-0.286 (-5.24)	-0.265 (-5.09)
$Ret_{i,t-1}^{adj}$	0.009 (1.59)	0.06 (1.18)	0.024 (4.34)	0.020 (3.37)	0.018 (2.18)	0.018 (2.20)	0.018 (2.87)	0.019 (2.92)	0.018 (2.89)	0.027 (2.71)	0.017 (3.05)	0.017 (2.82)
$LN(Sales)_{i,t-1}$	0.044 (1.71)	-0.018 (-0.83)	0.193 (12.43)	0.090 (10.59)	0.079 (9.02)	0.079 (8.46)	0.080 (9.73)	0.062 (7.93)	0.079 (9.63)	0.081 (8.28)	0.095 (12.28)	0.083 (11.52)
$LN(MVvalue)_{i,t-1}$	0.278 (15.54)	0.264 (14.22)	0.325 (19.66)	0.149 (11.21)	0.160 (15.15)	0.160 (11.61)	0.193 (5.65)	0.160 (5.65)	0.160 (12.34)	0.161 (10.28)	0.189 (19.11)	0.178 (19.80)
$SalesGr_{i,t-1}$	0.005 (0.90)	0.006 (1.38)	0.010 (1.19)	0.003 (0.67)	0.004 (0.98)	0.004 (0.94)	0.004 (0.85)	0.005 (1.01)	0.004 (0.88)	0.002 (0.23)	0.003 (0.67)	0.002 (0.54)
$FirmRisk_{i,t-1}$	0.045 (1.29)	0.048 (1.61)	0.299 (6.41)	0.103 (3.30)	0.118 (2.79)	0.118 (2.81)	0.120 (3.86)	0.124 (4.20)	0.118 (3.79)	0.134 (3.17)	0.174 (5.55)	0.156 (5.16)
$CEO < 60_{i,t-1}$	0.041 (2.31)	-0.033 (-1.83)	0.060 (2.49)	0.040 (3.18)	0.049 (4.68)	0.049 (3.73)	0.049 (3.85)	0.048 (3.83)	0.049 (3.85)	0.055 (3.59)	0.046 (4.12)	0.039 (3.85)
$Pay_{i,t-1}$		0.031 (1.24)		0.551 (23.50)	0.544 (33.45)	0.544 (23.17)	0.544 (23.34)	0.540 (23.33)	0.544 (23.33)	0.533 (19.96)	0.435 (29.07)	0.482 (37.09)
$LN(MVvalue)_{i,t-1}^2$				-0.002 (-0.99)								
Adj. $R^2$	0.658	0.727	0.416	0.609	0.594	0.594	0.594	0.602	0.594	0.577	0.611	0.621
Observations	23,452	23,262	23,452	22,773	23,262	23,262	23,262	23,257	23,262	15,771	22,898	22,488

Size deciles included in Column (9), p-value of Wald test for  $Prestige \times bef02 = Prestige \times aft02$ : 0.82

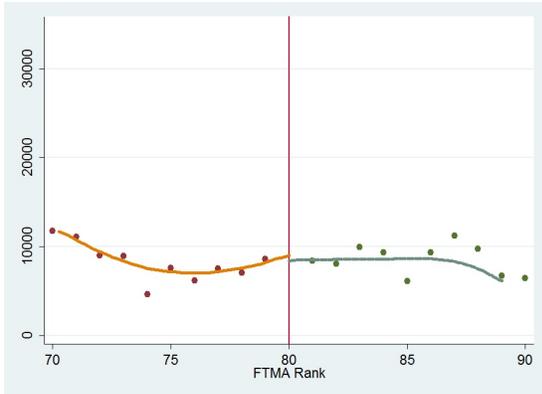
**Figure 1: Discontinuity at Top 100.** This graph presents the result of two local polynomial regressions based on total compensation and residual compensation, defined as the residual of a regression of total compensation on performance, size, risk, and age of the CEO.



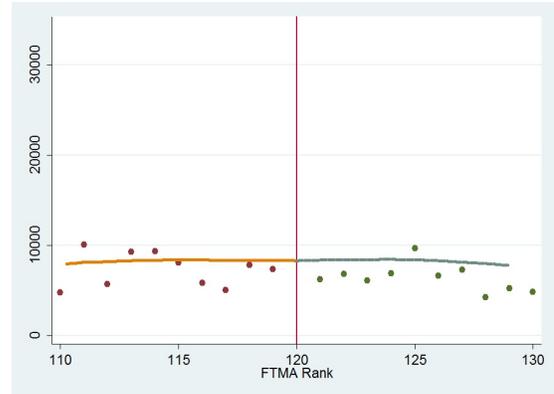
**Figure 1a.** The figure displays non-parametric estimates for total compensation around the cut-off, which is set to 100 in the FTMA ranking. The sample comprises all firms ranked between 90 and 110.



**Figure 1b.** The figure displays non-parametric estimates for residual compensation around the cut-off, which is set to 100 in the FTMA ranking. The sample comprises all firms ranked between 90 and 110.



**Figure 1c.** The figure displays non-parametric estimates for total compensation around the cut-off, which is set to 80 in the FTMA ranking. The sample comprises all firms ranked between 70 and 90.



**Figure 1d.** The figure displays non-parametric estimates for total compensation around the cut-off, which is set to 120 in the FTMA ranking. The sample comprises all firms ranked between 110 and 130.