CEO Marketability, Employment Opportunities, and Compensation: Evidence from Compensation Peer Citations*

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Abstract

We provide evidence that the 2006 compensation-peer group disclosure rule increased the transparency and efficiency of the executive labor market. We base our analysis on the insight that the breadth with which other companies cite a firm as a compensation peer provides information about its executives’ outside opportunities. Executives at firms with more citations are more likely to leave their current firms or to receive compensation increases. Relatedly, executives whose firms are cited more experience an increase in the equity-based component of CEO compensation, which could be useful for retaining sought-after executives. We provide further evidence using a difference-in-differences framework that the greater transparency increased labor market mobility and put upward pressure on overall CEO compensation levels. This last result is noteworthy given that the intent of the rule was to ensure that firms do not abuse compensation benchmarking to justify higher executive compensation.

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Abstract

We provide evidence that the 2006 compensation-peer group disclosure rule increased the transparency and efficiency of the executive labor market. We base our analysis on the insight that the breadth with which other companies cite a firm as a compensation peer provides information about its executives’ outside opportunities. Executives at firms with more citations are more likely to leave their current firms or to receive compensation increases. Relatedly, executives whose firms are cited more experience an increase in the equity-based component of CEO compensation, which could be useful for retaining sought-after executives. We provide further evidence using a difference-in-differences framework that the greater transparency increased labor market mobility and put upward pressure on overall CEO compensation levels. This last result is noteworthy given that the intent of the rule was to ensure that firms do not abuse compensation benchmarking to justify higher executive compensation.