M&A and CEO Compensation:

Does Peer Benchmarking of CEO Pay Matter?

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Despite the 2006 SEC mandate requiring firms to report their compensation peers in their proxy statements, we find that CEOs use acquisitions as an opportunity to increase their benchmark pay unjustly. In addition, acquiring CEOs receive additional pay for completing acquisitions. These acquisition-related pay effects occur regardless as to the acquiring CEO's pay relative to the median CEO pay of their peer firms. We find the acquirer CEOs' pay inflation is mitigated when CEOs do not chair the board and in the presence of increased governance in the form of more concentrated institutional ownership and less busy boards.

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1. Introduction

Prior research indicates that despite poor acquisition-related performance, acquiring CEOs, with power, extract rents in the form of large bonuses, options, and equity grants for completing acquisition deals (Datta, Iskandar-Datta, and Raman, 2001; Bliss and Rosen, 2001; Grinstein and Hribar, 2004; Harford and Li, 2007). To improve transparency, in 2006, the Securities Exchange Commission (SEC) mandated a compensation disclosure regulation that requires firms to include a Compensation Discussion and Analysis (CD&A) section and a list of peer firms used to benchmark their CEO compensation in the proxy statement.[1] While the regulation has resulted in penalizing CEOs for poor post-acquisition performance (Wang, Wang, and Wangerin, 2020), the literature on peer benchmarking finds that some CEOs inflate their pay unjustly by choosing peer firms with highly paid CEOs (Bizjak, Lemmon, and Nguyen, 2011; Faulkender and Yang, 2010, 2013). Since acquisitions tend to increase the size of the firm and possibly change the scope of operations, they provide an opportunity for CEOs to change peer firms and, consequently, the benchmark compensation.[2] This study examines whether the 2006 SEC disclosure requirements have curbed acquiring CEOs from being unjustly rewarded by completing acquisition deals.[3]

In order to attract and retain executive talent, firms select peer firms with similar sizes and in a similar industry to develop a benchmark for CEO compensation. A focal firm's CEO

[1] See SEC final rules 33-8732a (https://www.sec.gov/rules/final/2006/33-8732a.pdf), Item 402(b)(2)(xiv), August 29, 2006.

[2] According to Equilar, "companies often approach peer group selection based on criteria from a prior year. However, many quickly discover that a number of factors, such as mergers and acquisitions, changes in business strategy, and significant changes in revenue can significantly alter the composition of a company's peer group." See https://www.equilar.com/resource/3-importance-of-adapting-to-peer-group-changes.html.

[3] It is unlikely that CEOs actively seek to consummate acquisitions with the sole purpose of influencing their peer group and, consequently, their pay. However, if an acquisition opportunity presents itself, our study asks whether CEOs behave in an opportunistic manner and use the acquisition as an excuse to inflate their benchmark pay, especially when the SEC has mandated disclosure of the list peer firms in the proxy statement.

with pay below the median pay of the firm's peer group (hereafter, below-median CEO) is usually considered as receiving below market pay. In contrast, a focal firm's CEO with pay above the firm's peer median pay (hereafter, above-median CEO) is considered to be paid competitive pay (Bizjak, Lemmon, and Naveen, 2008). In this context, there are two channels through which acquisitions can influence a CEO's pay. The direct channel relates to CEOs receiving additional pay during acquiring years for completing an acquisition. The indirect channel relates to the impact of acquisitions on median peer pay due to changes made to the peer group membership by acquiring CEOs.

We focus on acquisitions with a target size of over $100 million in capitalization to capture the effect of the acquisition on CEO compensation. To ensure that our tests capture the CEOs' incentives to obtain a pay raise through acquisition, we require CEOs to be present from prior to the announcement of the acquisition until the year after the acquisition is completed. Our overall sample consists of 7,478 firm-year observations containing 1,093 acquisitions. After controlling for CEO Delta, CEO Vega, firm size, leverage, cash flow, performance, board, and CEO characteristics (tenure and duality), including year and industry fixed effects, we find that above median CEOs are approximately 2%-3% more likely to announce an acquisition relative to below median CEOs. Although the above result is statistically significant, the relatively small magnitude of the difference in the likelihood between the two groups of CEOs implies that, on average, the two subgroups are equally likely to engage in acquisitions. The above median CEOs have little room to receive further pay increases, and the acquisition gives them an opportunity to change their peer group and possibly increase the median peer pay. The below median CEOs may also benefit from an acquisition if they are able to benchmark their pay against a higher paid peer group resulting from a change in peer firms that is induced by an acquisition.

To understand the incentives within each subgroup of CEOs, we define a variable *Paygap* as the log of median peer pay/CEO pay, where the median peer pay and CEO pay are total compensation, including salary, bonus, non-equity incentive plan compensation, the fair value of stock awarded under plan-based awards, the fair value of options granted, all other compensation, and the total portion of deferred earnings reported as compensation. Below (above) median CEOs will have a *Paygap* > (<) 0. If a CEO's pay is far below their peer median pay, they are more likely to have opportunities to receive pay increases through the benchmarking process without acquisitions. In comparison, a below-median CEO whose pay is closer to the peer median pay is paid near market wage and has relatively less room for a pay increase. We conjecture that below-median pay CEOs with a smaller *Paygap* are more likely to engage in acquisition to increase their pay. In contrast, a CEO who is paid far above her peer median pay will likely have an incentive to engage in an acquisition to increase the median peer pay to avoid potential outrage costs (Bebchuk, Fried, and Walker, 2002; Bebchuk and Fried, 2003). Our results confirm our conjecture concerning CEOs with below-median peer pay. Specifically, among the below-median CEOs, the likelihood of announcing an acquisition increases by 7.20% if the CEO's pay is one unit closer to their median peer. In the case of above-median CEOs, we find that the likelihood of engaging in an acquisition does not depend upon their pay gap. Because above-median CEOs are already benchmarked above their median peer pay, they have a greater incentive to announce an acquisition regardless as to how far above their pay is relative to the median peer pay.

Next, we examine whether acquisitions impact acquiring CEOs' compensation benchmark pay through a revision in peer group membership (i.e., indirect effect on CEO pay). After controlling for year and industry fixed effects and known factors that affect CEO pay, the

regression results for the overall sample indicate that median peer pay is 3.5% higher in acquisition completion years when compared to the years when there are no acquisitions. We do not find any significant difference in the impact of acquisitions on median peer pay between the two subgroups of CEOs.

Acquisitions have an indirect effect on CEO pay through their effect on the benchmark median peer pay and a direct effect if CEOs are compensated for completing an acquisition. We use contemporary peer median pay to control for the indirect effect of peer benchmarking on CEO total pay. Using the overall sample, we find that the CEO total pay is significantly positively related to median peer pay (i.e., significant at the 1% level) confirming the presence of the peer benchmarking process. Among the CEO subgroups, the above-median CEOs' pay is more sensitive to an increase in median peer pay relative to below-median CEOs. In contrast, the direct effect on compensation for above-median CEOs is lower compared to that of below-median CEOs. To measure the direct effect of acquisitions on CEO total pay, we use dummy variables *Aq_ann* and *Aq_com* to indicate acquisition announcement years and completion years, respectively. We find that CEOs also receive higher pay during acquisition completion years (i.e., significant at the 1% level).[4] The results in our study are robust even after controlling for industry tournament incentives.[5]

While the above results indicate that acquiring CEOs benefit financially from completing acquisitions, they do not indicate whether acquiring CEOs exhibit opportunistic behavior and revise their peers to inflate their pay. To answer this question, we follow the methodology in Faulkender and Yang (2010) and examine the mean and median pay differences between the

[4] Untabulated results show similar findings in acquisition announcement years.
[5] In the context of our study, where CEO pay is benchmarked with a peer group, CEOs may exhibit an incentive to "play" an industry tournament to garner higher pay (Coles, Li, and Wang, 2018).

selected peer firms and the propensity score-matched unselected peer firms. We use the pay differences in non-acquiring years as a control sample to detect the presence of an incremental effect in acquiring years. Our results indicate that the mean and median pay differences in the acquiring years are significantly greater than in the non-acquiring years. The tendency described above is evident among both below- and above-median CEOs. The mean and median differences are more pronounced among firms that have busy boards, where CEOs are also chairing the board, and when institutional ownership is less concentrated. Our results indicate that poor monitoring and greater CEO power cause CEOs to inflate their peer median pay when engaging in an acquisition.[6]

Our final test examines the acquisition performance measured by the abnormal buy-and-hold returns (BHARs) after acquisition completion. The mean post-merger BHARs over a two-year period is -3.20% with $p<0.05$ suggesting that, on average, acquirers underperform in the post-acquisition period after controlling for factors known to affect performance. On average, post-merger BHARs for acquirers with CEOs paid above (below) the median peer pay is -4.89% (-1.68%). After controlling for deal characteristics known to affect acquisition performance, firm characteristics, and industry and year fixed effects, we find that the BHARs during the 24-month post-acquisition period are significantly negatively related (at the 10% level) to the pre-announcement CEO *Paygap* for above- and below-median CEOs. The performance within the above- and below-median CEO subgroups depends upon the CEO's *Paygap*, and CEOs who are paid closer to their peer median pay complete acquisitions that perform better than those paid far less or more than their peer median pay.

[6] See https://veritasecc.com/insights/how-is-ceo-compensation-affected-by-corporate-mergers-and-acquisitions/.

Our study contributes to three strands of literature. The literature that examines the impact of acquisitions on CEO compensation indicates that CEOs with little equity-based compensation prior to an acquisition decision do not exhibit incentives to make value-enhancing acquisitions (Lewellen, Lorderer, and Rosenfeld, 1985; Datta et al., 2001). In the presence of equity-based incentives, Harford and Li (2007) find that the negative impact on CEOs' existing portfolios of equity-based compensation due to poor acquisition performance is entirely compensated by the flow of new equity and option grants they receive upon completing an acquisition. Aside from equity-based compensation, powerful CEOs are shown to extract rents in the form of large bonuses (Grinstein and Hribar, 2004). The above studies examine the relation between CEO compensation and acquisitions without the 2006 SEC mandate requirement related to compensation transparency. After 2006, firms that use compensation peer groups to benchmark CEO pay are required to disclose peer firms and provide a rationale in the selection of peer firms in their proxy statements. We add to this stream of research and demonstrate that increased transparency and CEO pay benchmarking do not deter some CEOs from unfairly extracting higher rents for acquisitions that do not enhance shareholder wealth.

In addition, we add to the literature in peer benchmarking. Prior studies in this area of research indicate the presence of both talent-based motives in pay setting (Bizjak et al., 2008; Albuquerque, De Franco, and Verdi, 2013), as well as opportunistic behavior on the part of CEOs (Bizjak et al., 2011; Faulkender and Yang, 2010, 2013). We add to this literature by examining the impact that acquisitions have on median peer pay and CEO pay. Since acquisitions are a legitimate reason to change peer group membership, CEOs may behave in a self-interested manner by choosing peers with highly paid CEOs when equally qualified firms with lower paid CEOs were available. We find that, on average, CEOs exhibit opportunistic

behavior when choosing their peers in the years they complete an acquisition regardless as to whether the CEOs are paid below their median peer pay or above prior to announcing an acquisition,

Finally, we add to the literature related to acquisitions and tournaments. Hasan, Navone, To, and Wu (2020) confirm that acquirers with greater (internal) tournament incentives engage in risk-taking behavior that results in lower announcement returns.[7] In contrast, Nguyen, Phan, Phan, Tran, and Vo (2020) find that senior executives engaged in internal tournaments have a greater incentive to engage in (risky) value-enhancing acquisitions and are more likely to be promoted. These authors also find that CEOs playing an industry tournament as described in Coles, Li, and Wang (2018) exhibit a greater likelihood of making poor acquisitions with larger tournament prizes. We find that CEOs' pay relative to their median peer pay is an additional factor that impacts CEOs' likelihood to announce acquisitions, CEOs' pay after acquisitions, and acquiring firms' post-acquisition performance.

The rest of the paper is presented follows. Section 2 contains the relevant literature and the hypotheses that form the basis for our tests. Section 3 presents the sample selection procedure, variable definitions, and descriptive statistics. Section 4 provides the results regarding the impact of acquisitions on median peer pay and CEO pay. Section 5 includes a robustness test with industry tournaments as an additional control variable. Section 6 provides evidence regarding CEOs unjustly choosing peers to inflate their pay, while Section 7 discusses post-acquisition performance. Section 8 provides our concluding remarks.

[7] These authors follow Burns, Minnick, and Starks (2017) and define pay gap as the ratio between a CEO's total compensation package and the mean VP's total compensation package.

2. Related literature and hypothesis development

2.1 Peer benchmarking of CEO compensation and acquisition propensity

Mergers and acquisitions represent significant corporate investments that increase company size and possibly change the scope of operations of the acquiring firm. The increased size and complexity of the integrated firm provides a natural opportunity for an acquiring firm's CEO and board to restructure CEO compensation (Harford and Li, 2007). If CEO compensation is benchmarked with a peer group, this restructuring is likely to be accompanied by a change in the composition of the peer group after the completion of an acquisition. In addition, and unrelated to peer benchmarking, acquiring CEOs may also receive a pay increase through bonuses for completing the deals (Grinstein and Hribar, 2004).

We argue that the likelihood of announcing an acquisition depends upon the acquiring CEO's pay relative to the median pay of the acquiring firm's peer group. Our arguments are based on the findings in the peer benchmarking literature. Firms tend to choose peer firms that are larger in size and have CEOs with higher total pay (Bizjak et al., 2008; Schneider, 2021). A peer group that includes larger firms with highly paid CEOs helps focal firm CEOs to negotiate higher compensation. CEOs paid below their target pay percentile tend to receive higher pay increases than those whose pay is above their target pay percentile (Bizjak et al., 2011).[8] Based on these observations, we expect the benchmarking process will facilitate higher pay increases to below-median paid CEOs rather than above-median paid CEOs. Regardless as to the CEOs' pay relative to their target, Bizjak et al. (2011) find that only a third of the pay gap is closed through the benchmarking process.

[8] Target pay is the percentile in the distribution of peer pay against which a focal firm's CEO's pay is benchmarked. Some firms report target pay in their proxy statements.

Relative to below-median CEOs, above-median CEOs are likely to be more concerned about stakeholders' perceptions of their pay. We expect above-median CEOs to be more likely to pursue an acquisition than below-median CEOs, as an acquisition may increase firm size or the target firm may be in another industry eliciting a change in the acquiring firm's peer group. In other words, an acquisition is likely to cause peer group turnover that may increase the median peer pay and reduce the pay gap between the CEO's pay and the median peer pay. We state part of our first hypothesis:

H1a: Above-median CEOs will be more likely to announce an acquisition when compared to below-median CEOs.

The incentive to announce an acquisition may vary among CEOs within each subgroup. Among the below-median paid CEOs, Bizjak et al. (2008) determine that CEOs with pay farther below their peer median receive more compensation through the benchmarking process compared to those paid closer to the median. Below-median CEOs paid closer to their peer median are likely to benefit more from a revision in their peer group as the revision results in an increase in median peer pay (i.e., a higher benchmark pay). Acquisitions provide a legitimate reason to restructure peer groups. Thus, we expect that of the below-median paid CEOs, CEOs paid closer to the median peer pay will be more likely to announce an acquisition compared to CEOs paid far less than their peer median pay.

Unlike the below-median paid CEOs discussed above, the above-median paid CEOs as, a group receive, competitive pay. It is likely to be a hard sell to convince their boards to provide a pay raise, especially when proxy advisors provide external governance. To mitigate a potential

outcry by shareholders, these CEOs may be able to reduce their *Paygap* if an acquisition results in a peer group revision that increases the median peer pay. Thus, we expect above-median paid CEOs, CEOs paid higher than median peer pay, to be more likely to announce an acquisition compared to CEOs paid closer to their peer median pay. We state the second part of our first hypothesis:

H1b: The closer (farther) the below- (above) median CEOs' pay is to their peer median, the more likely it is for such a CEO to announce an acquisition.

2.2 Peer benchmarking of CEO compensation and acquisitions

There is extensive evidence that CEOs of larger firms receive greater compensation.[9] Prior literature holds that CEOs use acquisitions to increase firm size to increase their compensation (Grinstein and Hribar, 2004; Harford and Li, 2007; Bliss and Rosen, 2001). The size of these bonuses is positively related to deal size and time-to-complete a deal. Harford and Li (2007) find that CEOs are richly rewarded with substantial new stock and option grants for growth through acquisitions.

The relationship between acquisitions and CEO pay in the above studies pertain to a period prior to 2006 when peer benchmarking was not as prevalent or explicitly reported in proxy statements. Since the 2006 SEC disclosure mandate, acquiring firms' CEOs have fallen under the rubric of peer benchmarking and scrutiny by stakeholders.[10] Because CEOs' peer

[9] Examples of few studies include Cole and Mehran (2016), Frydman and Saks (2010), Gabaix and Landier (2008), Hubbard and Palia (1995), and Jensen and Murphy (1990).
[10] For example, see Ertimur, Ferri, Oesch (2013) and Malenk and Shen (2016).

benchmarked pay increases are relatively more permanent, we study whether an acquisition, a non-regular event, causes a significant increase in benchmark pay.

Even with the 2006 SEC disclosure mandate that requires firms to report their peers in the proxy statement, Faulkender and Yang (2013) find that firms actively added companies with higher CEO pay and dropped peer firms with lower pay. Because acquisitions increase the size of the acquiring firm, CEOs may make changes to peer firms to increase their benchmark pay in the event of an acquisition. Thus, an indirect channel for an acquiring CEO to receive a pay raise results from an increase in the median peer benchmark pay due to acquisition-related changes in the membership of the peer firms. Since firm size is positively correlated with CEO pay, we conjecture that the median peer pay will be higher in acquiring years than in non-acquiring years. Thus, we state part of our second hypothesis:

> H2a (Indirect channel): Relative to the median peer pay in non-acquiring years, median peer pay is higher at the end of the year an acquisition is completed.

A direct channel is when acquiring CEOs receive a pay raise in the acquiring year for exerting effort and completing an acquisition deal. It is well recognized that the process from the initiation of an acquisition until completion takes a lot of effort on the part of CEOs and executives who are part of the C-suite. Furthermore, due to the integration costs associated with large acquisitions, firms typically do not engage in more than one acquisition in a given year. Acquiring CEOs are compensated with a bonus (Grinstein and Hribar, 2004) or with stocks and stock options (Harford and Li, 2007) in the year of acquisition completion. Thus, regardless as to whether CEOs are paid below or above their median peer pay prior to completion of an

acquisition, we argue that the board of directors will give CEOs extra compensation in addition to any indirect effects due to peer benchmarking. We state the second part of our second hypothesis as follows:

> H2b (Direct channel): Relative to CEO pay in non-acquiring years, CEO pay is higher at the end of the year an acquisition is completed.

2.3 Peer benchmarking of CEO compensation and acquisition performance

The literature on benchmarking of CEO compensation indicates the presence of both talent-based motives in pay setting (Bizjak et al., 2008; Albuquerque et al. 2013), as well as opportunistic behavior on the part of CEOs (Bizjak et al., 2011; Faulkender and Yang, 2010, 2013). If peer groups are chosen to compensate and retain talented CEOs, we would expect these talented CEOs to complete acquisitions that yield positive abnormal performance during the post-acquisition period. In contrast, opportunistic CEOs will likely legitimately use acquisitions to change their peer group to enhance their pay further. We argue that these CEOs, who behave unethically, are unlikely to complete acquisitions that enhance shareholders wealth. We state part of the third hypothesis:

> H3a: Talented (opportunistic) CEOs complete acquisitions that yield abnormal post-acquisition performance that (do not) enhances shareholder wealth.

Among those CEOs who are paid below their median peer pay, CEOs with pay farther below their median peer pay expect to receive higher pay increases through the peer

benchmarking process (Bizjak et al., 2008). CEOs with pay closer to their median peer pay are paid closer to their market wages. We conjecture that the below-median CEOs whose pay is closer to the median peer pay will be motivated to engage in better performing acquisitions to justify a pay increase. Alternatively, CEOs with above peer median pay are likely to use acquisitions to increase median peer pay and close their *Paygap*. Since acquisitions increase the size of the acquiring firm, these CEOs may be motivated to include larger firms with higher paid CEOs in the peer group. Focal firm CEOs who are paid far above their peer median will be able to justify an increase in benchmark pay only if they complete acquisitions that are relatively superior to other above-median CEOs who are paid less. Based on our definition of *Paygap* and the above reasoning, we state the second part of our third hypothesis as follows:

H3b: Acquisition performance is negatively related to the pre-acquisition announcement CEO *Paygap*.

3. Sample, variable definition, and descriptive statistics

3.1 Sample construction

We use peer group data for .fiscal years 2009-2018 provided by Institutional Shareholder Services (ISS). We require that focal firms have accounting information from Compustat and stock price information from the Center for Research in Security Prices (CRSP). We also require both focal firms and their peer firms have executive compensation data available from ExecuComp. We define a year as an acquisition announcement (completion) year for a company if the company had one or more acquisitions announced (completed) in that year. The sample of acquisitions comes from the Securities Data Company's (SDC) U.S. Mergers and Acquisitions

Database. We select domestic mergers and acquisitions with effective dates from 2009-2018. We require: 1) the acquirers are publicly traded U.S. companies on the AMEX, Nasdaq, or NYSE and are covered by CRSP and Compustat during the event window, 2) the acquisitions must not be spinoffs, recapitalizations, self-tenders, exchange offers, repurchases, minority stake purchases, acquisitions of remaining interest, or privatizations, 3) the transaction is completed, 4) the acquirers owned 100% of the shares of the target after deal completion, 5) the target or acquirer must not be an American depository receipt (ADR), Real Estate Investment Trust (REIT), or closed-end fund, 6) the deal has the transaction value reported and the transaction value is greater than $100 million, and 7) the number of days between the announcement and the completion dates is greater than or equal to zero. After removing missing data for analysis, we have 7,478 firm-year observations in our final sample.

3.2 Variable measurement

3.2.1 Dependent variables

We define an indicator variable *Aq_ann* as equal to one if an acquisition is announced in fiscal year *t* and zero otherwise. Because any direct and indirect effects of acquisitions on CEO pay is affected only after the completion of acquisitions, we define an indicator variable *Aq_com* as equal to one if an acquisition is completed in fiscal year *t* and zero otherwise. We define CEO pay as the logarithm of CEO total compensation, including salary, bonus, non-equity incentive plan compensation, the fair value of stock awarded under plan-based awards, the fair value of options granted, all other compensation, and the total portion of deferred earnings reported as

compensation.[11] The *Median Peer Pay* is the logarithm of the median peer firms' CEO total compensation.

We measure post-completion abnormal stock returns as the performance metric.[12] Following Oler (2008) and Savor and Lu (2009), we compute buy and hold returns and matching firms to examine acquirers' stock performance. To measure a benchmark return, we construct the industry, size, and book-to-market portfolios. We first group firms that had no acquisitions in the prior three years in the same industry into five size portfolios. We then select the best matches on book-to-market from the same size quintile as the acquirer's matching firms.[13] We select up to 24 firms for each acquirer and then select the top four firms as a matching portfolio. Instead of holding a matching portfolio unaltered throughout the examination period, we update each acquirer's matching portfolio every year at the beginning of July. Abnormal buy-and-hold returns (*BHAR*) are computed by subtracting the average buy-and-hold returns of the acquirer's top four matching firms from the acquirer's buy-and-hold returns over the same holding period. Let $\overline{R_{i,t}}$ denote the mean return of the acquirer *i*'s matching portfolio at time *t* and $R_{i,t}$ denote the raw returns of the acquiring firm *i* at time *t.* The abnormal buy-and-hold returns are computed for a holding period t_1 to t_2 (24 months), as follows:

$$BHAR^{i}_{t1,t2} = \prod_{t=t1}^{t2}\left(1 + R_{i,t}\right) - \prod_{t=t1}^{t2}(1 + \overline{R_{i,t}}) \quad (1)$$

[11] CEO pay is measured as of 2020 dollars.
[12] We do not consider accounting performance because CEOs who behave in an opportunistic manner can potentially engage in earnings management to influence accounting performance measures. Long-term stock returns based performance measure is not likely to be manipulated by CEOs.
[13] Another approach is to compare the focal firm's performance relative to their peer group. Focal firms use a set of peer firms as compensation peers and another set, with the possible overlap of firms, as relative performance evaluation (RPE) peer firms. In the absence of data on RPE peers, we used this method.

where t_1 and t_2 represent the beginning and ending of the holding period where t_1 = effective month+1 and t_2 = effective month+ 24.

3.2.2 Explanatory variable

Our primary variable of interest is a CEO's pay relative to the median CEO pay of their compensation peer group. We use the definition of relative pay as described in Bizjak et al. (2008). Specifically, for each firm *i* in fiscal year *t*, we define the variable $Paygap_{it}$ as the median peer CEO compensation divided by the CEO pay of the focal firm. The value of *Paygap* is greater than zero for CEOs paid below their median peer CEO pay. For CEOs paid above their median peer CEO pay, the value of *Paygap* is less than zero. For acquisition performance analysis, we use *Paygap* at the end of the fiscal year prior to an acquisition announcement (denoted as *Preann_Paygap*) to capture CEO's incentive.

3.2.3 Control variables - Firm characteristics

Following prior literature, we control for firm characteristics and CEO and board characteristics in our regression analysis for the overall sample.[14] We include one-year lagged values of log assets ($Asset_{t-1}$), log sales ($Sales_{t-1}$), leverage ($Leverage_{t-1}$), cash flow ($Cash_{t-1}$), sales growth ($Sales\ Growth_{t-1}$) and market-to-book ($MKBK_{t-1}$).[15] To capture the impact of performance, we include concurrent values of stock returns (*Stockret*), value-weighted excess returns (*Vw_xret*), and return on assets (*ROA*). We control for risk using stock return volatility (*StdStockret*) and ROA volatility (*StdROA*) measured over the previous five years. Variables that

[14] Core, Holthausen, and Larcker (1999).
[15] See Smith and Watts (1992) or Lewellen, Loderer, and Martin (1987) for a discussion of the relationship between these variables and executive compensation.

measure the impact of CEO characteristics include *CEO Duality* (i.e., an indicator variable that is equal to one when the CEO is also the chair of the board) and the logarithm of CEO tenure (*CEO Tenure*). The variables that capture the effect of governance are the logarithm of the number of board directors (*Board Size*) and the percent of independent directors on the board (*Ind_Board*).[16] In our acquisition performance analysis, we include several variables to control for the acquiring firm and deal characteristics that are standard in the literature (Fuller, Netter, and Stegemoller, 2002; Moeller, Schlingemann, and Stulz, 2005). Specifically, we include Acquirers *NOA*, accruals (*Accruals*), Sales Growth (*Sales Growth*), prior 12-month price run-up (*Momentum*), relative size of the target (*Relsize*), stock acquisition (*Stockoffer*), if the target is a private company (*Privtg*), a subsidiary (*Subtg*), whether the acquirer and target are from different industries (*Difind*), and international acquisitions (*Intldiv*). The construction of these variables is defined in the appendix. All of the regressions control for year and industry fixed effects with robust standard errors clustered at the firm level. Except for the indicator variables, all of the dependent and control variables are winsorized at the 1st and 99th percentiles.

3.3 Descriptive statistics

Table 1, Panel A presents the summary statistics of our overall sample of 7,478 firm-year observations. The median focal firm CEO pay is $4.27 million (i.e., $e^{8.359}$) and the median peer CEO pay is $5 million. A higher median peer CEO pay relative to focal firm CEO pay indicates that, on average, focal firms tend to benchmark their CEO pay with peers with higher CEO pay. The overall sample has a median *Paygap* of 1.11 (i.e., $e^{0.103}$) indicating that median peer CEO

[16] More entrenched CEOs are expected to extract higher rents (Brick, Palmon, and Wald, 2006). Thus, we expect compensation to be positively related to *Duality* and *Tenure*. As CEOs face additional monitoring, they expect to be more highly compensated (Hermalin and Weisbach, 2012; Bizjak et al., 2008; Faulkendar and Yang, 2013). Thus, we expect a positive relationship between compensation and independent directorship.

pay is greater than focal firm CEO pay. The median *Industry Paygap* of 1.070 indicates that the second highest CEO in the same industry as the focal firm earns pay that is 2.91 times (i.e., $e^{1.070}$) that of the overall sample median focal firm CEO's pay. The median age of the CEO is 57 years and the median tenure is seven years. The median board size is ten members. The firm characteristics of the overall sample indicate a median sale of $2.22 billion, a market-to-book ratio of 2.41, an ROA of 5.1%, sales growth of 5.4%, ROA volatility of 2.9%, stock returns of 12.8%, and volatility of 32.9%. Our overall sample firm characteristics are similar to the sample in Faulkender and Yang (2010) and Wang et al. (2020).

Insert Table 1 about here.

Table 1, Panel B presents a subsample comparison of below and above peer median paid CEOs partitioned based on *Paygap* at year *t*-1. Among the below peer median paid CEOs, the average *Median Peer Pay* is 1.71 times that of focal firm *CEO Pay* (i.e., $e^{0.538}$). In contrast, the average focal firm *CEO Pay* is 1.43 times their average *Median Peer Pay* (1.e., $1/e^{-0.356}$). The above differences are significant at the 1% level. On average, the above peer median paid CEO is older, has a longer tenure in the focal firm, sits more often on the board as a chair, and has a larger board with more independent directors. On average, the above-median paid CEO manages a larger firm with a higher market-to-book ratio, ROA, and sales growth. The average returns and return volatility are, however, not significantly different between the two subsamples.

Table 1, Panel C reports the descriptive statistics for firm-year observations with one or more acquisition completions and those without acquisition completion. The average *Paygap Prior to Acquisition Announcement* is 0.058 and is significantly lower (at the 1% level)

compared to 0.192 in the non-acquiring years. A larger *Paygap* implies that, on average, the CEO has more room for pay increases through the peer benchmarking process. A lower *Paygap* implies that CEOs receive market wages and have little room for a pay raise (i.e., in acquiring years). The focal firm's average sales, market-to-book, ROA, and sales growth are significantly higher in the acquiring years. The differences in firm characteristics between non-acquiring and acquiring years are similar to Wang et al. (2020).

Table 1, Panel D provides the descriptive statistics of a total of 1,093 acquisitions for subsamples based on below and above peer median paid CEOs. We find that relative to the above peer median paid CEOs, below peer median paid CEOs complete larger acquisitions and a smaller fraction outside their own industry. There is no significant difference between the two groups in terms of focal firm characteristics.

4. Main results

4.1 Paygap and the likelihood of announcing an acquisition

We use the following logit specification to test hypothesis H1a:

$$Aq\_ann_{i,t} = \alpha_1 + \beta_1 Above_{i,t} + X_{i,t-1}^{'} A + Ind\ FE + Year\ FE + \varepsilon_{i,t} \quad (2)$$

where $Aq\_Ann_{i,t}$ is an indicator variable that is equal to one if firm *i* has announced an acquisition in year *t* and zero otherwise. $Above_{i,t}$ is an indicator variable that is equal to one if the CEO pay of firm *i* in year *t* is greater than the *Median Peer CEO Pay* (*Paygap* < 0) and zero otherwise, $X_{i,t-1}^{'}$ is the vector of the pre-announcement, fiscal year end control variables that include firm characteristics (*Sales*, *Leverage, Cashflow, and* Vw_xret), CEO characteristics (*Age, Duality* and

Tenure), and board characteristics (*Board Size* and *Ind_Board*). We augment Equation (1) with *CEO Delta* and *CEO Vega* as additional control variables. Hypothesis H1a predicts $\beta_1 > 0$.

To test hypothesis H1b, we use the following logit specification:

$$Aq\_ann_{i,t} = \alpha_1 + \beta_1 Paygap_{i,t-1} + X'_{i,t-1}A + Ind\ FE + Year\ FE + \varepsilon_{i,t} \quad (3)$$

where the control variables are the same as in Equation (2). The variable *Paygap* is the pre-announcement pay gap. In Hypothesis H1b, we predict the closer the below-median CEOs' pay is to their peer median pay, the more likely it is that such a CEO will announce an acquisition (i.e., $\beta_1 < 0$). Hypothesis H1b also states that the farther the above-median CEOs' pay is to their median peer pay, the more likely it is that such a CEO will announce an acquisition. Because the value of *Paygap* < 0 for CEOs with pay above their median peer pay, we predict $\beta_1 < 0$ for the above-median CEOs subsample as well.

Table 2 presents the results from the logit regression specifications given in Equations (2) and (3). Columns 1-4 contain the results for the overall sample, the subsample of observations for CEOs with below-median peer pay, and for CEOs with above-median peer pay, respectively, without the augmented set of variables. Columns 5-8 provide the regression results with the augmented set of control variables. Columns 1 and 5 indicate that the above-median CEOs have a greater likelihood of announcing an acquisition (significant at the 1% and 10%, respectively). Since acquisitions provide a valid reason to change the peer group, the above-median CEOs exhibit a greater likelihood of announcing an acquisition to bring the peer median pay (i.e., benchmark pay) more in line with their pay. Columns 2 and 6 indicate that the coefficient on *Paygap* for the overall sample is -0.1454 and -0.1584, respectively (significant at the 1% level).

The negative sign indicates that the likelihood of a CEO announcing an acquisition is higher the closer the CEOs' pre-announcement total compensation is to the respective median peer pay. Columns 3 and 7 indicate that the coefficient on *Paygap* is -0.2263 and -0.3645 (significant at the 1% level) for CEOs with below-median peer pay. That is, the closer the below-median CEOs' pay is to their peer median, the more likely it is that such a CEO will announce an acquisition. Columns 4 and 8 indicate that the likelihood of announcing an acquisition by an above-median CEO is not significantly related to their pay gap. Our results support H1a and part of H1b.

Insert Table 2 about here.

4.2 Impact of an acquisition on the Median Peer Pay

We use the following panel regression specification to test hypothesis H2a:

$$Med\_Peerpay_{i,t} = \alpha_2 + \beta_2 Aq\_com_{i,t} + Y_{i,t}^{'} B + Ind\ FE + Year\ FE + \varepsilon_{i,t} \quad (4)$$

where $Y_{i,t}^{'}$ is the vector of the contemporaneous control variables that include the lagged values of firm characteristics (*Stockret*, *Sales*, *Market to Book Ratio, ROA, Sales Growth, Leverage*, *StdROA, and StdStockret*), CEO characteristics (*Age, Duality*, and *Tenure*), and board characteristics (*Board Size* and *Ind_Board*).[17] Hypothesis H2a predicts that $\beta_2 > 0$.

Table 3 presents the results for the specifications in Equation (4). Columns 1, 2, and 3 contain the results for the overall sample and the subsample of observations for the below-

[17] We follow Faulkender and Yang (2010) regarding contemporary stock returns, but use lagged values of firm characteristics as the control variables. This is because the financial variables of the firm would not yet be available to the compensation committee.

median and above-median CEOs, respectively. The results for the overall sample indicate that β_2= 3.49% and is significant at the 1% level. The subsample analysis in Columns 2 and 3 reports that acquisition completion tends to increase in the median peer pay for both subsamples of CEOs. The above results support Hypothesis H2a. Our results indicate that when compared to non-acquisition years, median peer pay is higher at the end of an acquisition year for all CEOs regardless as to their relative pay prior to the year the acquisition is completed. While acquisitions are associated with higher median peer pay, our results do not indicate whether the peer group that is chosen in an acquisition year is done unjustly. We address this concern in Section 6.

Insert Table 3 about here.

4.3 Impact of an Acquisition on CEO Pay

We use the following panel regression specification to test hypothesis H2b:

$$CEO\_pay_{i,t} = \alpha_2 + \beta_3 Aq\_com_{i,t} + Z_{i,t-1}^{'} C + Ind\ FE + Year\ FE + \varepsilon_{i,t} \quad (5)$$

where $Z_{i,t-1}^{'}$ is the vector of one-period lagged control variables that include firm characteristics (*Stock Returns*, *Median Peer Pay*, *Sales*, *MKBK*, *ROA*, *Sales Growth*, *Leverage*, *StdROA*, and *StdStockret*), CEO characteristics (*Age*, *Duality*, and *Tenure*), and board characteristics (*Board Size* and *Ind_Board*). Note that we have included *Median Peer Pay* in Equation (t) to control for the effect of routine adjustments to CEO pay due to the benchmarking process. Thus, the coefficient on the variable *Median Peer Pay* captures the effect of the peer benchmarking

process on CEO pay. We expect a positive relation between *CEO Pay* and *Median Peer Pay*. Hypothesis H2b predicts $\beta_3 > 0$.

Table 4, Column 1 serves as a benchmark regression to document the effect of peer benchmarking on CEO compensation for the overall sample. We find that *CEO Pay* is positively related to the *Median Peer Pay* (significant at the 1% level). A 1% increase in *Median Peer Pay* results in an approximately 0.53% increase in *CEO Pay*. Columns 2-4 report the results for the specification in Equation (5). We find that *CEO Pay* is significantly higher (at the 1% level) in the acquiring years for all samples. In each of the Columns 2-4, the effect of peer benchmarking continues to retain the magnitude (a range from 0.53% to 0.56%) with significance at the 1% level. As expected, *CEO Pay* is positively related to *Sales*, *MKBK*, *Tenure*, *Board Size*, and *Ind_Board*. The positive coefficient on *Tenure* is statistically significant (at the 1% level) only in the sample of CEOs with above-median peer pay. Overall, the above results support H2b.

To examine the impact of performance on *CEO Pay*, we follow Harford and Li (2007) and augment Equation (5) as follows:

$$CEO_{pay_{i,t}} = \alpha_3 + \beta_3 Aq_{com_{i,t}} + \beta_4 Posret_{i,t} + \beta_5 Negret_{i,t} + \beta_6 Posret * Aq_{com_{i,t}} + \beta_7 Negret * Aq_{com_{i,t}} + Z'_{i,t-1} D + Ind\ FE + Year\ FE + \varepsilon_{i,t} \quad (6)$$

where *PosRet* (*NegRet*) is equal to one if the stock return for year *t* is greater than zero (less than zero) and zero otherwise. A value of $\beta_4 > 0$ indicates that CEOs are rewarded for good performance. Since *NegRet* < 0, the coefficient $\beta_5 > 0$ indicates that CEOs are penalized for poor performance. β_6 and β_7 estimate the incremental impact of acquisition performance on the

current year's *CEO Pay*. Table 4, Columns 5-7, present the results for the specification in Equation (6).

Insert Table 4 about here.

We find *CEO Pay* is higher in the year an acquisition is completed as evidenced by $\beta_3 > 0$ and is significant at the 1%, 10%, and 5% levels in the overall, below, and above-median samples, respectively. A value of $\beta_4 > 0$ (significant at 5% and 1% levels) suggests that CEOs are rewarded for good performance. We find that $\beta_5 > 0$ and is significant at the 1% level only among below-median CEOs. That is, below-median CEOs are penalized for poor performance. The coefficient β_5 is not significantly different from zero for the above-median CEOs sample implying that above-median CEOs are not penalized for poor performance. We do not find any impact of acquisition performance on *CEO Pay*.

To gain further insight into the impact of acquisitions on the components of *CEO Pay*, we examine stock and option compensation and report the results in Table 4, Panel B, and for salary and bonus in Table 4, Panel C. We suppress the control variables for brevity. Among all the pay components, we find that only the options component of below-median CEOs' pay is higher during acquiring years. While this result is consistent with the findings in Harford and Li (2007), the positive coefficient on the variable *Aq_Com_NegRet* indicates that CEOs are punished for poor acquisition performance, consistent with Wang et al. (2020). We find that CEOs' stock compensation and salary components are positively related to their *Median Peer Pay* regardless as to *Paygap*. The option component of below-median CEOs is positively related to their median

peer pay. The option component of above-median CEOs is not sensitive to median peer pay. The bonus component of both below and above-median CEOs is not related to their median peer pay.

5. Robustness and additional analysis

It is possible that our results may not hold if a CEO's incentive is to engage in an industry tournament (Coles et al., 2018) instead of peer benchmarking. The above concern is based on recent literature that examines CEOs' incentives to engage in acquisitions to secure a pay raise relative to the highest paid CEO in the industry (Hasan et al., 2020; Nguyen et al., 2020). To avoid problems related to outliers, as in Coles et al. (2018), we choose the second highest pay in the industry-size matched firms (denoted as *Industry_max2*) and measure *Industry Paygap* as log(*Industry_max2*/*CEO Pay*). In order to ensure that CEOs have the opportunity to play the industry tournament, we restrict our sample to observations where *Industry Paygap* > 0.

The logit regressions in Table 5, Panel A include the pre-acquisition announcement *Industry Paygap* as an additional control variable. Except for the loss in statistical significance on the coefficient on *Above*, the results are robust to the inclusion of *Industry Paygap*, *CEO Delta*, and *CEO Vega*. The results pertaining to the impact of acquisitions on median peer pay and CEO pay are reported in Table 5, Panel B. The results indicate that the findings in Tables 3 and 4 are robust to the presence of an opportunity for CEOs to engage in an industry tournament.

Insert Table 5 about here.

Our next analysis focuses on acquisition related peer group changes and pay inflation with propensity score matching. The results in Sections 4.2 and 4.3 indicate that *Median Peer*

Pay (i.e., indirect effect) and *CEO Pay* (direct effect) are higher in the acquiring years relative to the non-acquiring years for both below- and above-median CEOs. As mentioned earlier, mergers and acquisitions provide a natural opportunity for an acquiring firm's CEO and board to restructure CEO compensation (Harford and Li, 2007). In the context of peer benchmarking of CEO compensation, acquiring firm CEOs and board of directors, along with their compensation consultants, are likely to change the composition of the peer group to match the characteristics of the combined entity. In this section, we examine whether acquiring CEOs use acquisitions as an opportunity to inflate their pay by choosing peer firms with more highly paid CEOs.

We follow the methodology in Faulkender and Yang (2010) and employ the propensity score approach. Specifically, we estimate the following discrete choice model:

$$
\begin{aligned}
&Chosen\ as\ peer_{ij} \\
&\quad = \Phi\big[a + \beta_1 Match\ (two-digit\ industry_{ij} \\
&\quad + \beta_2 atch\ (three-digit\ industry_{ij} + \beta_3 Abs\big(Sales\ Difference_{ij}\big) \\
&\quad + \beta_4 Dummy\big(Assets\ within\ 50-200\%_{ij}\big) \\
&\quad + \beta_4 Dummy\big(Market\ Cap\ within\ 50-200\%_{ij}\big) \\
&\quad + \beta_5 Match\big(CEO\ as\ Chair_{ij}\big) + \beta_6 Match\big(Match\ S\&P\ 400_{ij}\big) \\
&\quad + \beta_7 Match\big(Match\ S\&P\ 500_{ij}\big) + \beta_8 Match\big(Match\ S\&P\ 900_{ij}\big) \\
&\quad + \beta_9 (Number\ of\ Peers) + \epsilon_{ij}\big]
\end{aligned}
\tag{7}
$$

where the dependent variable takes a value of one if the potential peer *j* is chosen to be a member of the compensation peer group for firm *i* and zero otherwise. Independent variables include

whether the potential peer has the same two- and three-digit SIC code, the absolute value of the difference between the focal firm and a potential peer firm in sales, whether the potential peer is with 50%-200% of the firm along with assets and market capitalization, whether both the potential peer and focal firm CEO are chairmen of the board, and whether the potential peer and the focal firm are members of S&P 400, S&P 500, and S&P 900 firms. We cluster standard errors at the firm level. The results are presented in Table 6, Panel A.

The results in Column 1 indicate that companies in the same industry (two- and three-digit SIC code) are similar in size (sales, assets, and market capitalization) and CEOs of both are chairmen of the board of directors. Firms look for talent among firms with similar visibility as indicated by their match in terms of S&P 400, S&P 500, and S&P 900 firms. As in Faulkender and Yang (2010), the null hypothesis is that CEO pay of the potential peer has no influence in the focal firm's peer selection after controlling for factors known to affect peer selection. In Column 2, we find that the coefficient on total CEO compensation of the potential peer firm significantly (at the 1% level) influences the choice of a peer by the focal firm.

Having shown that peer compensation is a significant factor in the construction of focal firm peer groups, we use the pay difference of the non-acquiring years as a base and test whether the bias in selecting peers is greater during the acquiring years. Table 6, Panel B indicates that the mean and median bias in the difference between the chosen peer and the best-matched, but unselected peer is significantly greater (at the 1% level) in the acquisition years when compared to the non-acquisition years. Both the below-median and above-median CEOs tend to choose peers to inflate their pay unjustly.

Table 6, Panel B presents additional analysis to ascertain whether governance and CEO duality play a role in the bias in peer selection. We use two proxies to measure governance: busy

boards and institutional ownership. Several studies examining the adverse effects of multiple directorships have shown that directors who sit on multiple boards do not have as much time to perform their monitoring duties (Fich and Shivdasani, 2006; Falato, Kadyrzhanova, and Lel, 2014; Ahn, Jiraporn, and Kim, 2010). We define a variable *Busy Board* as the fraction of a board with directors holding three or more directorships. Our second proxy, institutional ownership, is the Herfindahl Index of holdings among institutional shareholders. Higher values of institutional ownership indicate the presence of institutional owners as efficient monitors (Hartzell and Starks, 2003) or their influence on enhancing transparency (Boone and White, 2015). For the overall sample, on average, the mean (median) difference between the selected peers and the propensity score matched unselected companies in CEO total compensation is $831,770 ($897,900). The same mean (median) difference for the acquiring years and the non-acquiring years is $1,104,180 and $791.03, respectively, suggesting that firms tend to select peer firms with higher paid CEOs in the event of an acquisition. For the above and below peer median samples, we find similar results. In addition, our results suggest that the bias in pay is significantly greater when focal firm boards are busy and provide less monitoring ($1,182,680 vs. $688,600), when the focal firm CEO is also the chairman of the board (i.e., greater CEO power) ($964,560 vs. $826,630), and when focal firms have lower than median institutional ownership concentrations (i.e., less monitoring) ($1,234,700 vs. $660,500).[18] These results indicate that acquiring CEOs choose their peer firms to inflate their pay unjustly and that better governance tends to curb the extent of pay CEOs extract.

Insert Table 6 about here.

[18] See Hartzell and Starks (2003), Core et al. (1999), Fich and Shivdasani (2005, 2006), and Coles, Daniel, and Naveen (2008).

6. Acquisition performance

In the previous section, we demonstrate that acquiring CEOs extract excessive rents through their choice of peers in the acquisition completion year. It is possible that this excess compensation is paid to retain talented CEOs and these CEOs complete acquisitions that enhance shareholder wealth. In contrast, if the excess rents in the acquiring years are extracted by opportunistic CEOs, we expect that the acquisitions may not enhance shareholder wealth. In this section, we examine the abnormal buy-and-hold stock performance of acquisitions over a two-year period after acquisition completion.

Table 7, Panel A presents the univariate results to test Hypothesis H3a. The mean (median) two-year buy-and-hold returns during the post-acquisition completion period indicate a loss in shareholder wealth of 3.2% (5.9%) that is significant at the 5% level (*t-value* = -2.02). To test the relative performance within each subsample of CEOs, we use the following specification to test Hypothesis H3b:

$$BHAR_{i,t} = \alpha_5 + \gamma_2 Paygap_{i,t} + \Gamma_{i,t}^{'} F + \Delta_{i,t}^{'} G + Inf\ FE + Year\ FE + \varepsilon_{i,t} \quad (8)$$

where $Paygap_{i,t}$ is the pre-announcement *Paygap* associated with the acquisition completed in year *t* by firm *i*, Γ is a vector of deal-related control variables (including *Industry Paygap*), and Δ is a vector of CEO and board related control variables.[19] The results are reported in Table 7,

[19] Because pre-announcement *Paygap* is one of the reasons CEOs announce an acquisition, we associate the same motivation and use pre-announcement *Paygap* as an explanatory variable in the specification in Equation (7).

Panel B. Our results support H3a that opportunistic CEOs complete acquisitions that yield abnormal post-completion performance that does not enhance shareholder wealth.

The difference in average long-term performance between the two subsamples is reported in Column 1. We find no statistically significant difference in the acquisition performance between the below- and above-median peer pay groups of CEOs. This result is consistent with the univariate results in Table 7, Panel B. The results for relative acquisition performance are reported in Columns 2, 3, and 4. The results for the overall sample in Column 2 indicate that the long-term acquisition performance is not statistically significantly related to *Paygap*. The results in Columns 3 and 4 indicate that the mean long-term buy-and-hold abnormal returns are more positive the closer a below-median CEO's pay is to their peer median. The above result is statistically significant at the 10% level. This result supports our conjecture that the below-median peer pay CEOs whose pay is closer to the median peer pay will be motivated to engage in better performing acquisitions to justify a pay increase over and above the increases due to the peer benchmarking process (see Tables 3 and 4, Panels A and B). Our results also support the argument that focal firm CEOs who are paid far above their peer median will be able to justify an increase in benchmark pay (see Table 3) only if they complete acquisitions that are relatively superior to other above-median CEOs who are paid less. Taken together, our results support Hypothesis H3.

Insert Table 7 about here.

7. Conclusion

Prior studies that examine the impact of acquisitions on CEO pay show that acquiring firms' CEOs receive additional pay for completing an acquisition (Datta et al., 2001; Bliss and Rosen, 2001; Grinstein and Hribar, 2004; Harford and Li, 2007). In addition, Harford and Li (2007) find that acquiring CEOs' equity-based incentives are ineffective as the loss in value in their existing portfolio of stock and options due to poor post-acquisitions is compensated by the option and stock grants they receive for completing acquisitions. The findings are based on sample periods prior to the 2006 SEC mandate that requires firms to provide greater transparency as to how they compensate their CEOs. Wang et al. (2020) find that post-2006 SEC mandate acquiring CEOs' pay-for-performance sensitivity is restored, and CEOs are punished with lower pay for making poor acquisitions.

Our study examines acquisitions as another channel that acquiring CEOs can use to enhance their pay. The 2006 SEC mandate requires firms to report their compensation peer firms used for benchmarking CEO pay. Because acquisitions tend to increase the size of the acquiring firm and possibly the scope of the acquisition is in a different industry, acquiring CEOs have a legitimate reason to change the membership of their peer group to reflect the new business condition. CEOs may use higher benchmark pay to negotiate higher pay for themselves. We demonstrate that despite increased transparency, CEOs choose peer firms with higher paid CEOs when other (propensity score-matched) firms with lower paid CEOs were available (Bizjak et al., 2011; Faulkender and Yang, 2010, 2013) and they complete poorly performing acquisitions. Our study calls into question the efficacy of the 2006 SEC disclosure mandate and suggests that reform may be necessary after more than a decade in existence.

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Appendix

Acquisition Activity		
Aq_com	Dummy variable set to one if there is an acquisition completed during the fiscal year.	SDC
Aq_ann	Dummy variable set to one if there is an acquisition announced during the fiscal year.	SDC
Compensations		
Peer Paygap$_{t-1}$	A pay gap measure defined as the natural logarithm of the median peer CEO pay divided by a firm's CEO pay, both at year *t*-1.	ExecuComp
Above	Dummy variable set to one if Peer Paygap$_{t-1}$>0.	ExecuComp
Industry Paygap$_{t-1}$	A pay gap measure defined as the natural logarithm of the second largest CEO pay in the same Fama French 30 industries divided by a firm's CEO pay, both at year *t*-1.	ExecuComp
CEO Pay$_t$	The natural logarithm of the sum of salary, bonus, option awards, stock awards, non-equity incentive plan compensation, change in pension value, non-qualified deferred compensation earnings and all other compensation in year *t*.	ExecuComp
CEO Stock$_t$	The natural logarithm of stock awards in year *t*.	ExecuComp
CEO Option$_t$	The natural logarithm of option awards in year *t*.	ExecuComp
CEO Salary$_t$	The natural logarithm of salary in year *t*.	ExecuComp
CEO Bonus$_t$	The natural logarithm of bonus in year *t*.	ExecuComp
Median Peer Pay$_{t-1}$	The natural logarithm of the median peer CEO pay in year *t*-1.	ExecuComp
CEO Delta	A measure of the sensitivity of the value of the CEO's equity holdings to a one percent change in the stock price,	Compustat, CRSP, ExecuComp
CEO Vega	A measure of the sensitivity of the value of the CEO's equity holdings to a one percent change in the volatility of stock prices.	Compustat, CRSP, ExecuComp
CEO Characteristics		
CEO Age	The natural logarithm of age of the CEO.	ExecuComp
CEO Tenure	The natural logarithm of the years as CEO in the company.	ExecuComp
CEO Duality	A dummy variable equal to one when the CEO is also the Chairman of the Board (and zero otherwise).	ExecuComp

Corporate Governance		
Board Size	The natural logarithm of the number of board members.	ISS
Ind_Board	Dummy variable set to one if the board is independent.	ISS
Busy Board	The fraction of a board with directors holding three or more directorships.	ISS
Concentration of IO	Herfindahl Index of holdings among institutional shareholders.	ISS
Firm Characteristics		
$Logsales_{t-1}$	The natural logarithm of a firm's sales revenue in millions of dollars in year *t*-1 (SALE).	Compustat
$MKBK_{t-1}$	The ratio of the market value of equity to the book value of equity at year *t*-1's end ([CSHO*PRCC_F+TL+PSTKL-TXDITC]/AT).	Compustat
ROA_{t-1}	Return on assets calculated as the ratio of income before extraordinary items (IB) to total assets (AT) in year *t*-1.	Compustat
$Salesgrowth_{t-1}$	The sale growth rate in year *t*-1.	Compustat
StdROA	Standard deviation of ROA in the past five years.	Compustat
$Stockret_t$	Annual stock return in year *t*.	CRSP
$PosRet_t$	If $Stockret_t > =0$, then $PosRet_t = Stockret_t$, else $PosRet_t = 0$.	CRSP
$NegRet_t$	If $Stockret_t <0$, then $NegRet_t = Stockret_t$, else $NegRet_t = 0$.	CRSP
StdStockret	Standard deviation of ROA in the past five years.	Compustat
Acquisition Variables		
Performance Measure		
Post-eff BHAR	Acquirers' post-acquisition BHARs (1-24 months).	CRSP
Peer Paygap Variables		
Preann_paygap	A pay gap measure defined as the natural logarithm of the median peer CEO pay divided by a firm's CEO pay, both prior to the acquisition announcement.	ExecuComp
Above_Ann	Dummy variable set to one if the median peer CEO pay is greater than the acquirer's CEO pay prior to the deal announcement.	SDC
Deal Characteristics		

Relsize	Deal value reported by SDC divided by the acquirer's market cap.	SDC
Stockoffer	Dummy variable set to one if the acquirer offers only its own voting stock as consideration for the acquisition.	SDC
Privtg	Dummy variable set to one if the target firm is a private company.	SDC
Subtg	Dummy variable set to one if the target firm is a subsidiary.	SDC
Difind	Dummy variable set to one if the acquirer and the target are from different industries.	SDC
Intldiv	Dummy variable set to one if the acquirer and the target are from different countries.	SDC
Firm Characteristics		
Acquirer noa	Acquirer net operating assets [(d6-d1-d32) - (d6 - d34 - d9 - d38 - d130 - d60)] / d6_pre1.	Compustat

Acquirer accruals	Total Accruals are defined following Richardson, Sloan, Soliman, and Tuna (2005), as: TACC = ΔWC + ΔNCO + ΔFIN, where: Δ = change from prior year to current year, WC = working capital = current operating assets (COA) less current operating liabilities (COL), COA = current assets (ACT) – cash and short-term investments (CHE), COL = current liabilities (LCT) – debt in current liabilities (DLC), NCO = non-current operating assets (NCOA) – non-current operating liabilities (NCOL), NCOA = total assets (AT) – current assets (ACT) – other investments and advances (IVAO), NCOL = total liabilities (LT) – current liabilities (ACT) – long-term debt (DLTT), FIN = financial assets (FA) – financial liabilities (FL), FA = short-term investments (IVST) + other investments and advances (IVAO), and FL = long-term debt (DLTT) + debt in current liabilities (DLC) + preferred stock (PSTK). Simplifying, accruals are calculated as: ΔAT - ΔCHE - ΔLT + ΔIVST - ΔPSTK, scaled by lagged total assets (AT). We replace missing values for PSTK, LT, and RECTA with zeros to avoid losing data.	Compustat
Acquirer Sales Growth	Current year sales (SALE) less prior year sales divided by prior year sales.	Compustat
Acquirer Momentum	Buy-and-hold acquirer returns, accumulated from month -12 to the closest month-end at least 30 days before the announcement of the acquisition.	Compustat

Table 1. Univariate Statistics

Table 1, Panel A presents the summary statistics of our overall sample of 7,478 firm-year observations. Panel B reports a subsample comparison of below and above-median CEOs, partitioned based on pre-acquisition announcement *Paygap*. Panel C provides the descriptive statistics for the acquiring and non-acquiring years. Panel D presents the descriptive statistics of a total of 1,093 acquisitions for subsamples based on below and above-median CEO pay. All variables except for dummy variables *Aq_ann* and *Aq_com* are winsorized at the top and bottom 1%.

Panel A. All firm sample						
			Acquisition Activity			
Variable	**N**	**Mean**	**Median**	**90th Pctl**	**10th Pctl**	**Std Dev**
			Compensation Characteristics			
CEO Pay$_{t-1}$ (log)	7,699	8.293	8.359	9.381	7.117	0.876
Median Peer Pay$_{t-1}$ (log)	7,699	8.471	8.517	9.284	7.611	0.630
Paygap$_{t-1}$	7,699	0.173	0.103	0.960	-0.512	0.619
Industry Paygap$_{t-1}$	7,691	1.151	1.070	2.228	0.145	0.813
CEO Delta (log)	6,956	5.513	5.503	7.237	3.784	1.372
CEO Vega (log)	5,442	4.206	4.456	6.182	2.018	1.826
			CEO Characteristics			
CEO Age (log)	7,478	4.036	4.043	4.174	3.892	0.117
CEO Tenure (log)	7,478	1.944	1.946	2.890	1.099	0.737
CEO Duality	7,478	0.517	1.000	1.000	0.000	0.500
			Corporate Governance			
Board Size (log)	7,478	2.299	2.303	2.639	1.946	0.245
Ind_Board	7,478	0.844	0.857	0.917	0.750	0.067
			Firm Characteristics			
Logsales$_{t-1}$	7,478	7.761	7.705	9.779	5.811	1.551
MKBK$_{t-1}$	7,478	3.696	2.413	6.878	1.099	4.393
ROA$_{t-1}$	7,478	0.048	0.051	0.132	-0.028	0.081
Sales Growth$_{t-1}$	7,478	0.075	0.054	0.287	-0.130	0.216
StdROA$_{t-1,t-5}$	7,478	0.050	0.029	0.119	0.008	0.059
Stockret	7,478	0.162	0.128	0.617	-0.276	0.386
StdStockret$_{t-1,t-5}$	7,478	0.415	0.329	0.758	0.144	0.321

Panel B. Descriptive statistics for acquiring and non-acquiring years					
	Below-median		Above-median		
	Acquisition Activity				
Variable	**N**	**Mean (1)**	**N**	**Mean (2)**	**Diff (1-2)**
Aq_com	4,439	0.112	3,039	0.156	-0.0439***
Aq_ann	4,439	0.141	3,039	0.191	-0.0498***
	Compensation				
$Paygap_{t-1}$	4,439	0.538	3,039	-0.356	0.894***
Industry $Paygap_{t-1}$	4,436	1.424	3,034	0.756	0.668***
CEO Pay_{t-1} *(log)*	4,439	7.918	3,039	8.828	-0.910***
Median Peer Pay_{t-1} *(log)*	4,439	8.460	3,039	8.478	-0.0185
CEO Delta (log)	3,963	5.290	2,788	5.809	-0.519***
CEO Vega (log)	3,118	3.966	2,162	4.514	-0.548***
	CEO Characteristics				
CEO Age (log)	4,439	4.032	3,039	4.043	-0.0106***
CEO Tenure (log)	4,439	1.911	3,039	1.994	-0.0830***
CEO Duality	4,439	0.482	3,039	0.569	-0.0876***
	Corporate Governance				
Board Size (log)	4,439	2.278	3,039	2.331	-0.0526***
Ind_Board	4,439	0.840	3,039	0.851	-0.0107***
	Firm Characteristics				
$Logsales_{t-1}$	4,439	7.570	3,039	8.040	-0.470***
$MKBK_{t-1}$	4,439	3.457	3,039	4.045	-0.588***
ROA_{t-1}	4,439	0.043	3,039	0.054	-0.0110***
Sales $Growth_{t-1}$	4,439	0.065	3,039	0.089	-0.0246***
$StdROA_{t-1,t-5}$	4,439	0.051	3,039	0.048	0.00329*
Stockret	4,439	0.169	3,039	0.153	0.0158
$StdStockret_{t-1,t-5}$	4,439	0.418	3,039	0.411	0.00661

Panel C. Subsamples comparison of below and above-median CEOs

	Non-Acquiring Years		Acquiring Years		
Acquisition Activity					
Variable	**N**	**Mean(1)**	**N**	**Mean(2)**	**Diff (1-2)**
Aq_com	6,509	0.000	969	1.000	-1
Aq_ann	6,509	0.036	969	1.000	-0.964***
Compensation					
$Paygap_{t-1}$	6,509	0.192	969	0.058	0.134***
Industry $Paygap_{t-1}$	6,501	1.170	969	1.039	0.131***
CEO Pay_{t-1} *(log)*	6,509	8.236	969	8.633	-0.397***
Median Peer Pay_{t-1} *(log)*	6,509	8.434	969	8.693	-0.259***
CEO Delta (log)	5,856	5.445	895	5.897	-0.452***
CEO Vega (log)	4,550	4.123	730	4.608	-0.485***
CEO Characteristics					
CEO Age (log)	6,509	4.037	969	4.032	0.00474
CEO Tenure (log)	6,509	1.951	969	1.902	0.0490
CEO Duality	6,509	0.520	969	0.502	0.0180
Corporate Governance					
Board Size (log)	6,509	2.293	969	2.342	-0.0484***
Ind_Board	6,509	0.843	969	0.855	-0.0128***
Firm Characteristics					
$Logsales_{t-1}$	6,509	7.691	969	8.227	-0.536***
$MKBK_{t-1}$	6,509	3.664	969	3.910	-0.246
ROA_{t-1}	6,509	0.045	969	0.062	-0.0166***
Sales $Growth_{t-1}$	6,509	0.072	969	0.092	-0.0193**
$StdROA_{t-1,t-5}$	6,509	0.051	969	0.042	0.00861***
Stockret	6,509	0.163	969	0.156	0.00779
$StdStockret_{t-1,t-5}$	6,509	0.421	969	0.377	0.0437***

Panel D. Descriptive statistics of a total of 1,093 acquisitions for subsamples based on below and above-median CEO pay

	Below-median		Above-median		
Deal Characteristics					
	N	**Mean(1**	**N**	**Mean(2)**	**Diff (1-2)**
Relsize	576	0.218	517	0.163	0.055**
Stockoffer	576	0.024	517	0.023	0.001
Privtg	576	0.321	517	0.342	-0.021
Subtg	576	0.429	517	0.433	-0.005
Difind	576	0.368	517	0.427	-0.060*
Intldiv	576	0.208	517	0.240	-0.032
Firm Characteristics					
Acquirer NOA	576	0.609	517	0.633	-0.024
Acquirer Accruals	576	0.035	517	0.047	-0.012
Acquirer Sales Growth	576	0.100	517	0.107	-0.008
Acquirer Momentum	576	0.043	517	0.090	-0.047*

Table 2. Probability of making acquisition announcement

This table reports the results from the logit regression specifications given in Equations (1) and (2). All variables except *Above* are winsorized at the top and bottom 1%. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variables are defined in the appendix.

	Overall	**Overall**	**Below**	**Above**	**Overall**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Variables	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***
Above	0.1319***				0.0932*			
	(3.28)				(1.95)			
$Paygap_{t-1}$		-0.1454***	-0.2263***	0.1496		-0.1584***	-0.3645***	0.1834
		(-4.15)	(-3.61)	(1.33)		(-3.90)	(-4.79)	(1.42)
CEO Delta					0.0698**	0.0698**	0.0638*	0.1026**
					(2.47)	(2.48)	(1.89)	(2.25)
CEO Vega					-0.0023	-0.0058	0.0218	-0.0396
					(-0.14)	(-0.36)	(0.97)	(-1.59)
$Logsales_{t-1}$	0.1855***	0.1872***	0.1934***	0.1868***	0.1648***	0.1632***	0.1719***	0.1463***
	(8.93)	(9.07)	(7.84)	(6.33)	(6.21)	(6.17)	(5.45)	(3.82)
$Leverage_{t-1}$	0.1317	0.1198	-0.1463	0.3677*	0.0938	0.0945	-0.1259	0.2829
	(0.86)	(0.78)	(-0.74)	(1.66)	(0.52)	(0.52)	(-0.55)	(1.09)
$Cashflow_{t-1}$	0.3404	0.3431	0.3706	0.3421	0.4749	0.4770	0.3553	0.5093
	(1.20)	(1.20)	(1.07)	(0.82)	(1.41)	(1.41)	(0.84)	(1.02)
Vw_xret_{t-1}	0.1240***	0.1201***	0.1466**	0.0990	0.1211**	0.1094**	0.1503**	0.0697
	(2.76)	(2.66)	(2.50)	(1.41)	(2.35)	(2.11)	(2.10)	(0.91)
CEO Age	-0.3926*	-0.4137*	-0.3867	-0.4276	-0.3563	-0.3723	-0.4666	-0.2289
	(-1.74)	(-1.85)	(-1.47)	(-1.30)	(-1.36)	(-1.43)	(-1.46)	(-0.61)
CEO Tenure	-0.0753	-0.0757	-0.1131*	-0.0278	-0.1286**	-0.1282**	-0.1861**	-0.0547
	(-1.52)	(-1.53)	(-1.85)	(-0.38)	(-2.17)	(-2.16)	(-2.57)	(-0.62)
CEO Duality	0.0059	0.0076	-0.0006	0.0150	0.0195	0.0159	0.0190	0.0047
	(0.17)	(0.21)	(-0.01)	(0.30)	(0.45)	(0.37)	(0.36)	(0.08)
Board Size	0.0037	-0.0060	0.0946	-0.1762	0.0808	0.0760	0.1722	-0.0787
	(0.03)	(-0.05)	(0.68)	(-1.02)	(0.58)	(0.55)	(1.04)	(-0.37)
Ind_Board	0.7405*	0.6801*	0.4854	0.7998	0.6663	0.5774	-0.1683	1.4034**
	(1.95)	(1.82)	(1.07)	(1.43)	(1.52)	(1.33)	(-0.33)	(2.02)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-1.6401*	-1.4207	-1.4222	-1.1737	-2.0395*	-1.7965	-0.7889	-2.7977
	(-1.66)	(-1.45)	(-1.25)	(-0.79)	(-1.76)	(-1.55)	(-0.57)	(-1.61)
Observations	7,422	7,422	4,393	3,029	5,227	5,227	3,078	2,149

Table 3. Impact of acquisition on median peer compensation

This table presents the results of the impact of acquisitions on *Median Peer Pay* based on Equation (3). All variables except *Above* are winsorized at the top and bottom 1%. Firm-clustered standard errors are employed. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variables are defined in the appendix.

	Overall	**Below**	**Above**
	(1)	**(2)**	**(3)**
Variables	***Median Peer Pay***	***Median Peer Pay***	***Median Peer Pay***
Aq_com	0.0349***	0.0371**	0.0356**
	(2.92)	(2.44)	(2.13)
$Stockret_t$	0.0199	0.0092	0.0322
	(1.57)	(0.56)	(1.64)
$Logsales_{t-1}$	0.3147***	0.3153***	0.3196***
	(47.40)	(43.70)	(36.45)
$MKBK_{t-1}$	0.0107***	0.0097***	0.0119***
	(6.38)	(4.83)	(5.60)
ROA_{t-1}	-0.0326	0.0855	-0.1553
	(-0.36)	(0.85)	(-1.08)
$Sales\ Growth_{t-1}$	0.0108	-0.0258	0.0716**
	(0.46)	(-0.86)	(2.18)
$Leverage_{t-1}$	0.1668***	0.1238**	0.2438***
	(3.35)	(2.17)	(3.68)
$StdROA_{t-1,t-5}$	0.1829	0.3096*	0.0720
	(1.31)	(1.90)	(0.39)
$StdStockret_{t-1,t-5}$	0.0316	0.0009	0.0833**
	(1.29)	(0.03)	(2.43)
CEO Age	0.0431	0.0007	0.1182
	(0.58)	(0.01)	(1.17)
CEO Duality	-0.0002	0.0031	-0.0012
	(-0.02)	(0.24)	(-0.08)
CEO Tenure	0.0069	0.0223	-0.0079
	(0.42)	(1.17)	(-0.37)
Board Size	0.0730*	0.0518	0.1174**
	(1.78)	(1.15)	(2.19)
Ind_Board	0.1029	0.0423	0.2993
	(0.80)	(0.30)	(1.59)
Year Fixed Effects	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes
Constant	5.2540***	5.4912***	4.6620***
	(14.41)	(12.44)	(10.21)
Observations	7,478	4,439	3,039
R-squared	0.7003	0.6781	0.7356

Table 4. Impact of peer benchmarking and acquisition on CEO compensation based on Equations (4) and (5)

Panel A reports the regression results examining the impact of peer benchmarking and acquisition on *CEO Pay*. Panels B and C provide the regression results examining the impact of peer benchmarking and acquisition on *CEO Pay* components: *Stock* and *Option* in Panel B and *Salary* and *Bonus* in Panel C. All variables except *Aq_com* are winsorized at the top and bottom 1%. Firm-clustered standard errors are employed. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variables are defined in the appendix.

Panel A. Impact of peer benchmarking and acquisition on *CEO Pay*

	Overall	**Overall**	**Below**	**Above**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Variables	***CEO Pay***	***CEO Pay***	***CEO Pay***	***CEO Pay***	***CEO Pay***	***CEO Pay***	***CEO Pay***
Aq_com		0.1178***	0.1167***	0.0684***	0.0945***	0.0867*	0.0825**
		(4.62)	(3.23)	(2.71)	(2.86)	(1.90)	(2.24)
PosRet					0.1214***	0.0936**	0.2145***
					(3.91)	(2.37)	(5.41)
NegRet					0.3303***	0.4610***	0.1410
					(4.60)	(5.19)	(1.45)
*PosRet*Aq_com*					0.0924	0.0692	-0.0419
					(1.35)	(0.68)	(-0.54)
*NegRet*Aq_com*					-0.0314	-0.2030	0.0754
					(-0.19)	(-0.87)	(0.35)
$Stockret_t$	0.1765***	0.1752***	0.1759***	0.1946***			
	(7.50)	(7.47)	(5.87)	(6.64)			
Median Peer Pay$_t$	0.5384***	0.5344***	0.5580***	0.6516***	0.5349***	0.5583***	0.6514***
	(14.31)	(14.21)	(12.61)	(16.37)	(14.20)	(12.61)	(16.38)
$Logsales_{t-1}$	0.1613***	0.1590***	0.1252***	0.1165***	0.1577***	0.1230***	0.1168***
	(7.42)	(7.30)	(4.17)	(7.15)	(7.21)	(4.08)	(7.18)
$MKBK_{t-1}$	0.0051*	0.0053*	0.0003	0.0072***	0.0052*	-0.0001	0.0072***
	(1.66)	(1.74)	(0.07)	(2.79)	(1.67)	(-0.01)	(2.80)
ROA_{t-1}	0.2900*	0.2707	0.2934	0.0758	0.2409	0.2348	0.0809
	(1.71)	(1.58)	(1.39)	(0.44)	(1.41)	(1.11)	(0.47)
Sales Growth$_{t-1}$	0.0449	0.0411	0.0070	-0.0477	0.0469	0.0160	-0.0484
	(1.00)	(0.92)	(0.11)	(-0.99)	(1.05)	(0.25)	(-0.99)
$Leverage_{t-1}$	0.2775***	0.2739***	0.3805***	0.0783	0.2821***	0.3954***	0.0756
	(3.01)	(2.98)	(3.23)	(0.93)	(3.07)	(3.35)	(0.90)
$StdROA_{t-1,t-5}$	0.0313	0.0426	0.2610	-0.4803**	0.0713	0.3215	-0.4843**
	(0.14)	(0.20)	(0.92)	(-2.06)	(0.33)	(1.12)	(-2.08)
$StdStockret_{t-1,t-5}$	0.0689	0.0711	0.0096	0.0902*	0.0773*	0.0191	0.0880*
	(1.57)	(1.62)	(0.21)	(1.76)	(1.76)	(0.42)	(1.70)

CEO Age	0.0610	0.0646	0.0435	0.0400	0.0549	0.0281	0.0435
	(0.37)	(0.39)	(0.21)	(0.31)	(0.33)	(0.14)	(0.33)
CEO Duality	-0.0007	-0.0001	-0.0381	0.0177	0.0003	-0.0376	0.0177
	(-0.03)	(-0.00)	(-1.32)	(1.11)	(0.01)	(-1.30)	(1.11)
CEO Tenure	0.0648**	0.0667**	0.0376	0.0709***	0.0660**	0.0381	0.0716***
	(2.21)	(2.28)	(1.06)	(2.63)	(2.26)	(1.08)	(2.65)
Board Size	0.1703**	0.1711**	0.1963**	0.0329	0.1688**	0.1926**	0.0336
	(2.39)	(2.41)	(2.33)	(0.51)	(2.38)	(2.29)	(0.53)
Ind_Board	1.1649***	1.1476***	1.2689***	0.3717*	1.1409***	1.2608***	0.3739*
	(3.95)	(3.94)	(3.52)	(1.67)	(3.92)	(3.51)	(1.68)
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.8920	0.9361	0.8805	1.7172***	1.0305	1.0398	1.6836**
	(1.12)	(1.18)	(0.90)	(2.59)	(1.30)	(1.08)	(2.51)
Observations	7,478	7,478	4,439	3,039	7,478	4,439	3,039
R-squared	0.5093	0.5112	0.4683	0.6055	0.5117	0.4699	0.6056

Panel B. Impact of peer benchmarking and acquisition on *CEO Stock and CEO Option*

	Overall	**Below**	**Above**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Variables	***CEO Stock***	***CEO Stock***	***CEO Stock***	***CEO Option***	***CEO Option***	**CEO Option**
Aq_com	0.2646*	0.2269	0.2152	0.5629***	0.6913***	0.4763
	(1.74)	(1.03)	(1.05)	(2.75)	(2.63)	(1.59)
PosRet	-0.0185	-0.0564	0.1730	-0.1363	-0.3743*	0.3606
	(-0.13)	(-0.30)	(0.77)	(-0.86)	(-1.95)	(1.35)
NegRet	-0.2960	0.2041	-0.9917**	1.1878***	1.5283***	0.5362
	(-0.84)	(0.45)	(-2.16)	(3.16)	(3.37)	(0.88)
Aq_Com_PosRet	0.3868	0.4490	0.0624	-0.4708	-0.5235	-0.6293
	(1.14)	(0.90)	(0.13)	(-0.91)	(-0.84)	(-0.84)
Aq_Com_NegRet	-0.4866	-1.8870*	1.2420	3.2233***	3.4343**	2.5513*
	(-0.58)	(-1.79)	(0.95)	(3.14)	(2.50)	(1.72)
Median Peer Pay$_t$	0.6387***	0.7212***	0.8693***	0.4866***	0.5315***	0.3952
	(3.74)	(3.61)	(3.70)	(2.79)	(2.72)	(1.50)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-5.2618*	-5.8657	-2.8948	2.6862	1.3436	5.5417
	(-1.68)	(-1.62)	(-0.75)	(0.87)	(0.40)	(1.07)
Observations	7,478	4,439	3,039	7,478	4,439	3,039
R-squared	0.1242	0.1334	0.1152	0.1226	0.1146	0.1554

Panel C. Impact of peer benchmarking and acquisition on *CEO Salary and CEO Bonus*

	Overall	**Below**	**Above**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Variables	***CEO Salary***	***CEO Salary***	***CEO Salary***	***CEO Bonus***	***CEO Bonus***	**CEO Bonus**
Aq_com	0.0237	0.0343	0.0090	0.0223	-0.0734	0.1166
	(0.98)	(0.90)	(0.39)	(0.22)	(-0.56)	(0.82)
PosRet	-0.0094	-0.0101	0.0119	0.2055**	0.2194*	0.1912
	(-0.45)	(-0.38)	(0.43)	(2.09)	(1.70)	(1.25)
NegRet	0.0904	0.1399*	0.0136	0.4376**	0.7165***	-0.0532
	(1.46)	(1.72)	(0.16)	(2.10)	(2.68)	(-0.17)
Aq_Com_PosRet	-0.0326	-0.0960	-0.0255	-0.0544	-0.0726	0.0488
	(-0.58)	(-1.05)	(-0.43)	(-0.21)	(-0.21)	(0.13)
Aq_Com_NegRet	-0.0237	0.0973	-0.2125	-0.8085	-1.5452*	0.0044
	(-0.16)	(0.41)	(-1.55)	(-1.31)	(-1.82)	(0.01)
Median Peer Pay$_t$	0.1672***	0.1541***	0.2374***	0.1327	0.0963	0.1169
	(5.85)	(4.03)	(7.51)	(1.18)	(0.71)	(0.85)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	1.5236*	0.9670	2.7275***	-3.4510*	-3.1089	-4.3235*
	(1.81)	(0.83)	(5.26)	(-1.85)	(-1.46)	(-1.79)
Observations	7,478	4,439	3,039	7,478	4,439	3,039
R-squared	0.3000	0.2413	0.4084	0.0472	0.0476	0.0612

Table 5. Robustness and additional analysis

This table presents the results for robustness and additional analysis. Panel A reports the results from the logit regression specifications given in Equations (1) and (2) with *Industry Paygap* in the prior year as an additional control variable, Panel B provides the results of the impact of acquisitions on *Median Peer Pay* based on Equation (3) and the results of the impact of peer benchmarking and acquisitions on CEO compensation based on Equations (4) and (5). All variables except for *Above* and *Aq_com* are winsorized at the top and bottom 1%. Firm-clustered standard errors are employed. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variables are defined in the appendix.

Panel A. Robustness: Probability of making acquisition announcements								
	Overall	**Overall**	**Below**	**Above**	**Overall**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**
Variables	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***	***Aq_ann***
Above	0.1069**				0.0877			
	(2.36)				(1.63)			
$Paygap_{t-1}$		-0.1539***	-0.2528***	0.1455		-0.2064***	-0.4574***	0.1612
		(-3.25)	(-3.22)	(1.23)		(-3.89)	(-4.91)	(1.22)
Industry $Paygap_{t-1}$	-0.0429	0.0100	0.0283	0.0056	-0.0097	0.0641	0.1102*	0.0321
	(-1.26)	(0.24)	(0.54)	(0.09)	(-0.24)	(1.39)	(1.85)	(0.45)
CEO Delta					0.0699**	0.0676**	0.0543	0.1038**
					(2.46)	(2.39)	(1.60)	(2.26)
CEO Vega					-0.0025	-0.0050	0.0240	-0.0396
					(-0.15)	(-0.31)	(1.05)	(-1.58)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Constant	-1.4872	-1.4256	-1.4618	-1.1537	-2.0038*	-1.9033	-0.9339	-2.8518
	(-1.50)	(-1.45)	(-1.29)	(-0.77)	(-1.71)	(-1.63)	(-0.68)	(-1.63)
Observations	7,414	7,414	4,390	3,024	5,226	5,226	3,077	2,149

Panel B. Robustness: Impact of acquisitions on *Median Peer Pay* and *CEO Pay*						
	Overall	**Below**	**Above**	**Overall**	**Below**	**Above**
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Variables	***Median Peer Pay***	***Median Peer Pay***	***Median Peer Pay***	***CEO Pay***	***CEO Pay***	***CEO Pay***
Aq_com	0.0379***	0.0374**	0.0416**	0.0894***	0.0876*	0.0662*
	(3.09)	(2.44)	(2.37)	(2.65)	(1.91)	(1.72)
PosRet				0.1136***	0.0906**	0.2096***
				(3.61)	(2.25)	(5.30)
NegRet				0.3437***	0.4612***	0.1621
				(4.67)	(5.15)	(1.61)
Aq_Com_PosRet				0.0849	0.0791	-0.0531
				(1.18)	(0.78)	(-0.60)
Aq_Com_NegRet				-0.0377	-0.2048	0.0706
				(-0.22)	(-0.87)	(0.32)
Median Peer Pay				0.5250***	0.5551***	0.6494***
				(13.88)	(12.49)	(15.97)
Other Controls	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Constant	5.3054***	5.5029***	4.7692***	1.1771	1.0901	1.7816***
	(14.43)	(12.44)	(10.28)	(1.48)	(1.12)	(2.66)
Observations	7,223	4,402	2,821	7,223	4,402	2,821
R-squared	0.6980	0.6767	0.7382	0.5115	0.4676	0.6206

Table 6. Peer selection bias

Panel A presents the results of the probit regressions based on Equation (6). The dependent variable, Chosen, is equal to one if a potential peer (all firms in the Executive Comp dataset) is chosen as a compensation peer by a disclosing firm and zero otherwise. Total CEO's compensation of peer firm (*Peer Pay*) is from the matching year and is measured in a log of thousands of dollars. Match (two-digit industry) and Match (three-digit industry) are one if a potential peer is in the firm's two-digit and three-digit industry, respectively, and zero otherwise. Absolute Sales Difference is the absolute value of the difference in sales. Dummy (size within 50–200%) is one if the sizes (assets and market cap) of the firm and the potential peer are within 50%-200% of each other and zero otherwise. Match (CEO is chair) is one when CEOs of both the firm and its potential peer are chairmen of the board of directors and Match (CEO is not chair) is one when both CEOs are not chairmen. Match (S&P 400 membership), Match (S&P 500 membership), and Match (S&P 900 membership) are one when both the firm and its potential peer are S&P Mid Cap 400, S&P 500 Index components, and S&P 900 Index components, respectively, and zero otherwise. Number of peers is the number of compensation peers chosen by the firm. Panel B reports the mean and median differences between the selected peers and the propensity score matched unselected companies in CEO total compensation. The differences are expressed in thousands of dollars. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Panel A. Probit regressions

Variables	**(1)** **Chosen**	**(2)** **Chosen**
Ln(Peer Pay)		0.3386***
		(106.28)
Match (two-digit industry)	3.3490***	3.3950***
	(627.65)	(632.05)
Match (three-digit industry)	4.0071***	3.9549***
	(27.68)	(27.41)
Absolute Sales Difference	-1.0656***	-1.0679***
	(-249.35)	(-248.68)
Dummy (Assets within 50–200%)	0.5824***	0.5837***
	(103.18)	(103.19)
Dummy (Market cap within 50–200%)	0.2183***	0.2312***
	(39.16)	(41.32)
Match (CEO is chair)	0.3146***	0.2888***
	(50.72)	(46.38)
Match (CEO is not chair)	-0.0578***	-0.0447***
	(-8.88)	(-6.83)
Match (S&P 400 membership)	0.2763***	0.2618***
	(25.44)	(24.07)
Match (S&P 500 membership)	1.2793***	1.0389***
	(198.02)	(152.24)
Match (S&P 900 membership)	0.0587***	0.2183***
	(6.09)	(22.30)
Number of peers	0.0404***	0.0393***
	(237.28)	(228.23)
Constant	-5.8086***	-8.5828***
	(-742.22)	(-309.86)
Observations	26,589,122	26,533,837

Panel B. Mean and median of the difference between the chosen peer and the best matched, but unselected peer

	Overall Sample			
	Overall Sample	Non-Acquiring Years	Acquiring Years	
	(n=7,448)	(n=6,479)	(n=969)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	831.77	791.03	1,104.18	-313.15***
Median of dollar pay difference ($000)	897.90	863.96	1,124.79	-260.8***
	Below-median			
	Below-median	Non-Acquiring Years	Acquiring Years	
	(n=4,419)	(n=3,943)	(n=421)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	835.03	793.93	1,160.11	-366.18***
Median of dollar pay difference ($000)	884.51	856.06	1,109.54	-253.48**
	Above-median			
	Above-median	Non-Acquiring Years	Acquiring Years	
	(n=3,029)	(n=2,556)	(n=473)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	827.02	786.58	1,045.54	-258.96*
Median of dollar pay difference ($000)	917.42	876.08	1,140.78	-248.11**
	Busy Boards			
	Overall Sample	Busy Board	Non-Busy Board	
	(n=3,030)	(n=1461)	(n=1569)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	926.83	1,182.68	688.60	-494.08***
Median of dollar pay difference ($000)	945.12	1,171.72	734.11	-437.61***
	Duality			
	Overall Sample	Duality	Non-Duality	
	(n=7,448)	(n=3,848)	(n=3,600)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	831.77	880.81	779.36	-101.45
Median of dollar pay difference ($000)	897.90	964.56	826.63	-137.93**
	Institutional Ownership			
	Overall Sample	Low Inst Own. Concentration	High Inst Own. Concentration	
	(n=1304)	(n=656)	(n=648)	
	(1)	(2)	(3)	Diff (2)-(3)
Mean of dollar pay difference ($000)	949.34	1,234.70	660.50	-574.20***

Median of dollar pay difference ($000)	899.35	1,167.50	627.90	-539.60***

Table 7. Acquisition performance

Panel A presents the univariate results for *Post-eff BHAR*. Panel B reports the regression results of *Post-eff BHAR* on the explanatory variables for 1,093 acquisitions from 2008-2018 based on Equation (7). All continuous variables are winsorized at the top and bottom 1%. Firm-clustered standard errors are employed. The *t*-statistics are provided in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively. Variables are defined in the appendix.

Panel A. Univariate results for overall acquisitions sample							
Variable	**N**	**Mean**	**Median**	**90th Pctl**	**10th Pctl**	**Std Dev**	**t-value**
Post-eff BHAR	1,093	-0.032	-0.059	0.590	-0.645	0.523	-2.02
		Below-median			**Above-median**		
Variable	**N**	**Mean (1)**	**t-value**	**N**	**Mean (2)**	**t-value**	**Diff (1-2)**
Post-eff BHAR	576	-0.017	-0.740	517	-0.049	-2.230	0.032

Panel B. Impact of *Paygap* on post-acquisition performance (*Post-eff BHAR)*				
	Overall	**Overall**	**Below**	**Above**
Variables	**(1)** ***Post-eff BHAR***	**(2)** ***Post-eff BHAR***	**(3)** ***Post-eff BHAR***	**(4)** ***Post-eff BHAR***
Above_Ann	-0.0359			
	(-0.95)			
Preann_Paygap		-0.0412	-0.1048*	-0.1777*
		(-1.07)	(-1.66)	(-1.80)
Industry Paygap	-0.0139	0.0130	0.0117	0.0453
	(-0.51)	(0.39)	(0.25)	(1.05)
Relsize	0.0473	0.0581	0.1009	-0.0303
	(0.63)	(0.78)	(0.90)	(-0.37)
Stockoffer	-0.1226	-0.1244	-0.0471	-0.0769
	(-1.11)	(-1.11)	(-0.28)	(-0.61)
Privtg	0.0888**	0.0857*	0.0717	0.1048
	(2.02)	(1.96)	(1.18)	(1.63)
Subtg	0.0438	0.0426	0.0285	0.0578
	(1.03)	(1.01)	(0.44)	(1.02)
Difind	-0.0261	-0.0292	-0.0356	-0.0382
	(-0.76)	(-0.85)	(-0.72)	(-0.87)
Intldiv	-0.0824**	-0.0822**	-0.0156	-0.1304***
	(-2.12)	(-2.13)	(-0.25)	(-2.62)
Acquirer NOA	-0.1458*	-0.1515*	-0.1377	-0.1412
	(-1.73)	(-1.82)	(-1.16)	(-1.34)
Acquirer Accruals	-0.1559	-0.1646	-0.2009	-0.2419
	(-0.78)	(-0.84)	(-0.76)	(-0.92)
Acquirer Sales Growth	0.0470	0.0402	0.0798	0.0206
	(0.49)	(0.43)	(0.67)	(0.14)
Acquirer Momentum	0.0420	0.0350	0.1552*	-0.1157
	(0.64)	(0.53)	(1.85)	(-1.22)
Year Fixed Effects	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes
Constant	0.7078***	0.7303***	1.0566***	-0.4676***
	(4.42)	(4.59)	(3.36)	(-2.62)
Observations	1,093	1,093	576	517
R-squared	0.0463	0.0464	0.0563	0.0996