

Do Professional Negotiators Extract Rents on Behalf of their Client CEOs?

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Abstract:

The paper investigates the influence of professional negotiators (agents) on CEOs' compensation and employment contracts. Although these agents negotiate better employment contracts on behalf of their client CEOs relative to a control sample, several of these contractual differences are attributable to firm and executive characteristics. The first year compensation for CEOs who hire these professional negotiators is higher by about \$12.8 million relative to control firms. Of this amount, about \$4.5 million is attributable to proxies for the candidate CEO's talent and opportunity wage. Thus, a significant portion of this excess compensation paid to these CEOs remains unexplained although such CEOs pay is generally more sensitive to performance relative to control firms. Further analysis suggests that firms run by CEOs who use professional negotiators do not under-perform in the future, suggesting that professional negotiators are not necessarily extracting rents at the expense of firms' shareholders.

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1.0 Introduction

An emerging practice in the CEO pay-setting process is that prospective CEOs hire talent agents to negotiate the terms of their employment contract with company management. While such agents are common in the sports and the entertainment industry, the use of dealmakers to negotiate CEO pay is only a recent phenomenon. The demand for such agent negotiators, also popularly known as “super lawyers,” has risen sharply in recent years as CEO turnover has accelerated in the last decade and major corporations increasingly look to hire CEOs from outside the firm (Schellhardt 1998; Khurana 2002; Hermalin 2004; and Murphy and Zabochnik 2004a).

Jensen, Murphy and Wruck (2004) identify Joseph Bachelder as perhaps the most famous hired professional negotiator in the U.S., well known for his ability to negotiate attractive compensation contracts for his client CEOs. The financial press and the academic case study literature are replete with stories about generous pay packages, perquisites and other contracting arrangements that negotiators like Bachelder are able to extract from the firm on behalf of the CEO (Fredman 2001; Sachdev 2003; Barro, Hall and Zimmerman 2004). There are several reasons why this is possible. First, a professional negotiator is hired by the candidate CEO to negotiate the compensation contract after the company has already selected the candidate for the position of CEO. Hence, bargaining power in the negotiation rests with the candidate CEO rather than the firm. Second, the negotiator usually negotiates not with the compensation committee or the CEO search committee but with the company’s general counsel or head of human resources, who might have strong incentives to please their new boss and consequently, acquiesce to every request. Third, the presence of the negotiator makes it easier for the CEO to escalate his/her demands without bearing any reputation costs of hard-nosed negotiations. The negotiator often urges the candidate CEO to not settle for less than the maximum compensation that has been obtained by anyone else remotely comparable to the CEO. Finally, the negotiator’s legal fees run upwards of a \$1,000 per hour and such fees are often paid by the firm, and not the CEO, even though the negotiator represents

the executive and not the firm. It is also likely that some of these negotiators charge a fixed percentage of the negotiated compensation package, making them even more like their counterparts in the sports and entertainment fields, who typically command anywhere from 7 to 20 percent of their clients' salaries (National Law Journal 1997). As observed in a recent article:

The average fee for the 10 lawyers in Bachelder's firm ranges from \$460 to \$500 an hour. Bachelder's own fee is about double that, usually paid by the company doing the courting. Stucker's fee is a percentage of the total package, which can add up to a hefty amount. However, Stucker explains, "For those who need help to make the biggest decision in their life on a six-day basis, they're going to compensate us accordingly." – Chief Executive Nov 2001

Jensen et al. (2004) characterize the hiring of such negotiators to negotiate CEO pay as one obvious example of how CEOs skim rents from their new employer. However, the CEOs and their negotiators argue that such compensation arrangements are reasonable and not excessive for two reasons. First, these CEOs are superstars and managing large complex organizations is a difficult task that deserves higher compensation (Rosen 1981; Bachelder 2005). That is, organizations have increased in size, value and complexity over the years and today's CEO has to contend with increased media visibility, greater pressure from stakeholders, and a host of complex strategic, operational and financial issues. Second, the negotiators are merely trying to arrange the best possible price the competitive labor market can bear for high quality managerial talent (Fredman 2001; Bachelder 2003).

Despite the controversial role played by negotiators in determining the terms of CEO employment, academic scrutiny of their involvement is surprisingly absent in the literature. In this paper, we focus on three well known negotiators, Joseph E. Bachelder and his leading competitors, Robert J. Stucker and Lawrence K. Cagney (collectively labeled BSC), and examine three related questions: (i) Is there evidence that CEOs who use these negotiators (hereafter BSC CEOs) are able to obtain generous non-pecuniary (employment contracts) or pecuniary compensation (pay)?, (ii) If so, whether such 'excess'

compensation reflects compensation for the candidate CEO's talent or opportunity wage? and (iii) Is the hiring of a BSC CEO associated with economically significant rent extraction? ¹

The results suggest that CEO employment contracts where these negotiators are involved appear to have more clauses tilted in favor of the CEOs than a control sample of contracts of incoming CEOs not represented by negotiators. However, after controlling for differences in firm characteristics such as size, operating environment and executive characteristics such as talent, we find that only seven of the 44 clauses examined are biased in favor of BSC's clients: longer duration of contracts, "make whole" arrangements, guaranteed bonuses, higher minimum annual goal-based incentives, accelerated equity vesting, access to a company plane, and excise tax recapture.

The first year pay, composed of salary, bonus, and other equity grants, of the average BSC CEO is higher by \$12.8 million relative to control firms after accounting for standard economic factors that affect total compensation such as firm size, investment opportunity set, firm performance, and firm risk. To assess whether the compensation associated with BSC is a manifestation of weak governance, we introduce several governance proxies in the total pay regression (g-index, shares owned by public pension funds, number of board meetings, the presence of an interlocked CEO, division of CEO and Chair positions). While we find that the "excess" compensation associated with the presence of BSC is not a manifestation of weak governance (\$12.3 million after controlling for governance), the compensation associated with BSC is decreasing in proxies for governance quality. That is, while firms that hire BSC CEOs are not characterized by weak governance (relative to the control sample), BSC are still able to exploit the governance of the courting firm in their negotiations.

We recognize that the involvement of BSC in the negotiation process is unlikely to be a random event, in that talented CEOs who would like to join larger firms might want to seek out these negotiators

¹ We consider rent extraction to consist of (i) 'excess' compensation or an unexplained decrease in pay for performance sensitivity (PPS) or relative performance evaluation (RPE) relative to a control sample after controlling for the standard set of economic, agency, and executive specific determinants; and (ii) absence of superior future performance in the firm run by the new CEO. We also define a nuanced version of rent extraction labeled "economically significant rent extraction" as a state jointly characterized by both rent extraction and the destruction of shareholder wealth.

(or vice-versa). Hence, the “excess” compensation attributable to these negotiators may represent fair compensation for the talent of the CEOs they represent. CEO talent is inherently unobservable to the outside researcher and hence, difficult to control for. Despite this challenge, we follow Fee and Hadlock (2003), Milbourn (2003), Murphy and Zabochnik (2004b), and Rajgopal, Shevlin and Zamora (2005) and introduce several proxies that capture a CEO’s talent in the total pay regressions: (i) if the CEO is hired from outside the firm; (ii) if the CEO holds a similar title with his/her previous employer (i.e., has CEO specific human capital); (iii) if the CEO’s last position was in the same industry (has industry human capital); (iv) the number of media mentions in the popular and business press, and (v) the past firm performance of CEO’s prior employer.

Introducing this set of talent proxies and controlling for existing firm pay practices (including the pay of the outgoing CEO) and the executive’s opportunity cost (the annual pay the new CEO received in his prior job and the amount of unexercisable in-the-money options the executive forfeited by leaving his/her previous employer) reduces the “excess” compensation attributable to BSC’s involvement by \$4.5 million. However, \$8.3 million of “excess” compensation attributable to BSC (\$7.8 million of which is equity compensation) remains unexplained in the compensation regressions. To determine whether such ‘excess’ compensation is indeed rent extraction or a manifestation of a higher level of pay-for-performance, we examine variation in pay-for-performance sensitivity (PPS) and relative performance evaluation (RPE) across firms, across time, and across samples. In particular, we use cross-sectional, pooled, and difference-in-difference estimates of the levels of PPS and RPE present in the compensation of BSC and control sample CEOs. We find higher levels of ongoing PPS and slightly lower levels of RPE relative to a control sample and relative to *ex ante* sample differences. Taken together, we interpret our findings of: (a) an association between BSC and ‘excess’ pecuniary and non-pecuniary compensation, (b) a negative relation between such ‘excess’ compensation and governance quality, and (c) decreased RPE as weak evidence of rent extraction.

To investigate whether such rent extraction is economically meaningful, we conduct two tests. First, we examine whether firms that hire BSC CEOs report inferior future performance. We find that

when future ROA is used as the performance metric, BSC CEOs out-perform their control sample counterparts, but when stock returns are used as the performance metric BSC CEOs perform in-line with their counterparts and the Fama French (1993) factors. Interestingly enough, both the three and five day stock price reactions surrounding the appointment of a BSC CEO are positive and both statistically and economically significant relative to a control sample of the appointment of non-BSC CEOs. The increase in the return surrounding the appointment of a BSC CEO, the increase in future operating performance, and the lack of increase in future stock returns are consistent with investors revising their expectation about future firm performance upward when the BSC CEO is appointed. Thus, we conclude that the collective evidence is inconsistent with the assertions that negotiators are extracting *economically significant* rents from the courting firm. In the second test, we examine whether the presence of negotiators inflicts negative externalities on peer firms by implicitly increasing the benchmarks used in compensating CEOs (Bizjak et al. 2004). However, we are unable to document any relation between excess pay for BSC CEOs and subsequent changes in compensation for other peer CEOs in the same industry. Thus, the increased compensation for BSC CEOs does not precipitate any economy wide rent extraction.

Our paper contributes to the extant literature in several ways. Our paper is among the first to provide empirical evidence on the role played by professional negotiators in the CEO pay setting process. More important, our paper contributes to the continuing debate on whether CEO compensation practices in the U.S. are characterized by efficient contracting or rent extraction (e.g., Bebchuk and Fried 2004; Jensen et al. 2004). The presence of these professional negotiators provides arguably one of the most powerful settings to detect rent extraction. It may not be surprising that incoming CEOs represented by negotiators generally fare better in compensation negotiations. However, the surprising finding to us is that, contrary to claims by Jensen et al. (2004), even in extreme cases where compensation contracts are most likely to be characterized by rent extraction, we are unable to document evidence of economically meaningful rent extraction. Additionally, our paper is comprehensive in that we collectively examine all three elements of executive contracting (pecuniary compensation, non-pecuniary compensation, and pay-

for-performance sensitivity and relative performance evaluation) in one paper and such an integrated focus provides us with greater power to distinguish between potential rent extraction and contracting tradeoff explanations relative to prior work.

The remainder of the paper is organized as follows. Section 2 introduces the three negotiators, discusses the negotiation process surrounding the CEO employment contract, and describes the hypotheses tested in the paper. Section 3 presents data on the sample, the key legal components of CEO employment contracts, and compares the components of contracts negotiated by BSC relative to a control sample. Section 4 documents the excess compensation and differences in pay for performance sensitivity associated with BSC while section 5 discusses tests designed to assess whether the presence of BSC results in firm value destruction. Section 6 presents some concluding remarks.

2.0 Institutional Background and Hypotheses

2.1 Professional Negotiators

Lawyers have perhaps always been involved in negotiating terms of CEO employment agreements. Thus, the use of legal counsel to help design and verify employment contracts is perhaps not a recent phenomenon. However, it is important to realize that services provided by lawyers who act as negotiators are quite different from what is typically considered legal counsel. Traditional lawyers tend to focus on the legality and enforceability of an employment contract whereas professional negotiators are directly involved in negotiating the financial terms of the contract. A review of the literature (both academic and the legal and business press) suggests that the advent of professional negotiators can be traced to four recent trends. First, the increased mergers and acquisition (M&A) activity during the 1970s fueled demand for outside CEO succession and in turn, pay negotiators. In particular, the increased frequency of corporate takeovers led to demands from top executives for "golden parachute" clauses or sizable balloon payments in their employment agreement triggered by some career-altering event (Duch 1997). Second, increased CEO turnover in recent times and demand for outside CEOs has led to the movement of top executives among the nation's biggest companies (Hermalin 2004, Murphy and

Zabojnik 2004a). Huson, Parrino and Starks (2001) find that the frequency of forced turnover and outside succession has increased in the mid 1990s relative to the early 1970s. This created a demand for corporate headhunters, who in turn, recommend that the incoming CEO hire a new specialist, the CEO agent, for negotiations with prospective employers (Whitford 1998, Khurana 2002). Third, Hermalin (2004) reports that CEO tenure in the United States has fallen over time. Hence, CEO candidates might not want to leave a position of relative security without a commensurate reward or a guarantee of protection if things don't work out with the new employer. Professional negotiators are arguably in a better position to negotiate such protection from the prospective employers. Fourth, another contributing factor was the bullish stock market of recent years. According to Joseph Bachelder, the real boom for agent-attorneys came "about 15 years ago, when the stock market itself began to directly influence the size of the executive pay packages. . . . The stakes have simply become huge" (Duch 1997).

2.2 Professional Negotiators - Bachelder, Stucker and Cagney

We identified Joseph Bachelder and Robert Stucker as our initial set of professional negotiators. Several articles in the business press (e.g., Schellhardt 1998; Sachdev 2003) cite these two lawyers as leading CEO compensation negotiators. In addition, Joseph Bachelder has a Harvard Business School case written about him (Barro, Hall and Zimmerman 2004). Besides these lawyers, we identified six other negotiators cited in an article in the National Law Journal (1997) as well-known specialists in executive compensation: David Anderson, Henry Blackiston, Lawrence Cagney, Linda Rappaport, Thomas Roberts and Jonathan Zorn. However, an extensive search of the SEC's Edgar database, the employment contracts on The Corporate Library's database, Google, and LexisNexis resulted in seven usable sample observations for Lawrence Cagney but none for the other five lawyers. Hence, we focus on Bachelder, Stucker and Cagney and label this elite group of lawyers as "BSC" or "negotiators" throughout the paper. We describe the background of these attorneys in the following section.

Joseph E. Bachelder is an attorney based in New York City who has made his career negotiating employment contracts between large corporations and their senior executive management. He represents

clients in matters related to both initial employment and severance. On his firm's website, www.jebachelder.com, Bachelder indicates that he has represented executives in matters involving several prominent companies such as AT&T, Bank of America, Campbell Soup Company, Gillette, IBM, Morgan Stanley, Philip Morris, Sunbeam, and others. Now 71 years old, Bachelder has represented executives in contract negotiations since 1980 and is reputed to be a hard-nosed negotiator (Anders 2003). He is also known to employ highly sophisticated methods to secure the most favorable terms for his clients. For example, he employs a mathematician who helps calculate the value of executive benefits such as forfeited pensions and option grants from the CEO's previous employer (Anders 2003). Such calculations enable Bachelder to ask the candidate CEO's new employer to "make whole" these forfeited benefits. Bachelder is also a public advocate of the high compensation levels currently paid to senior executives. While testifying before Congress in 2003, Bachelder rallied to chief executives' defense, portraying them as "fiduciaries of enormous masses of capital whose pay is set equitably in a free market."

Robert J. Stucker, often portrayed as Bachelder's leading competitor, is the chairman of the law firm Vedder Price Kaufman & Kammholz and is nationally recognized as a tough professional negotiator in the recruitment and employment arrangements for CEOs. His resume posted on the law firm's website (www.vedderprice.com) lists assignments in the area of new CEO compensation and employment arrangements at companies such as Albertson's, Cable & Wireless, Campbell's Soup, Delta Air Lines, Electronic Data Systems, Hershey Foods, Home Depot, Honeywell International, J.C. Penney, Levi Strauss, Mattel, 3M, Pharmacia, Quaker Oats, R.R. Donnelley, Tyco, The Gap, and SPX Corporation.

Lawrence Cagney is a partner at Debevoise and Plimpton LLC (www.debevoise.com) and chairs the firm's Executive Compensation and Employee Benefits Group. His clients include executives placed at Disney, American Airlines, Chrysler, Hilton Hotels, and Starwood Hotels. Both *Chambers USA* (2005) and *The Best Lawyers In America* (2005- 2006, 2007) rank Cagney as a leader in employee benefits and executive compensation law.

Before we leave this section, it is important to consider what makes these lawyers “super.” We conjecture that (i) the services these lawyers provide is different from those provided by traditional lawyers (e.g., Bachelder employs a mathematician to price forfeited options and pensions); and/or (ii) these lawyers gained notoriety following some particularly successful negotiations or following their representation of especially well-known managers. We do present empirical evidence that CEOs represented by BSC are able to extract favorable terms and higher compensation later in the paper.² In that sense, we validate the premise that BSC are perhaps “super.” However, disentangling reason (i) from (ii) in a convincing manner is empirically difficult. For our analyses, we take the “super” nature of these lawyers as a given and proceed to investigate whether their involvement is associated with rent-extracting incoming CEOs.

2.3 The negotiation process and hypotheses

Anders (2003) reports that pay negotiators like BSC often arrive at a point of vulnerability for a corporation, when its board is hoping a seamless change in leadership will steady the firm and chart a new course. Thus, by the time the professional negotiator gets involved, the headhunters have identified the CEO, the directors have made up their minds, the candidate CEO is willing, and it is up to a professional negotiator such as BSC to close the deal. Further, Khurana (2002) reports that boards of directors tend to pick charismatic candidate CEOs from a closed “socially matched” group, who are then treated with deferential reverence by the board during the courting process. This process enables professional negotiators to have significant leverage in the bargaining process and exert pressure on the board of directors to acquiesce to their demands.

In addition, the negotiators have tacit knowledge of the latest trends in executive compensation and which parameters of the employment contract or compensation package could be negotiated upward. Fredman (2001) reports that the specialized knowledge about CEO pay trends and contractual terms that negotiators such as BSC bring to negotiations on behalf of the CEO is especially important because most

² To the extent that the CEOs hired by our control firms hired equally “super” lawyer agents this would bias against finding excess compensation or favorable contracts for CEOs represented by BSC.

negotiations between the candidate and the courting company are conducted at top speed, sometimes in less than a week. Hence, there is little time for the courting employer to research comparable compensation packages. Thus, negotiators can exploit their awareness of latest compensation trends in their negotiation with courting firms.

While some CEOs retain the services of negotiators, Jensen et al. (2004) report that compensation committees rarely hire their own expert negotiators. Most times, the incoming CEO negotiates not with the compensation committee but with the general counsel of the firm or an executive such as the VP of Human Resources who will end up reporting to the CEO. Consequently, these executives at the firm have obvious incentives to please their new boss by being generous with the financial arrangements in the negotiation process. Jensen et al. (2004) quote the following passage to illustrate the negotiation process:

Mr. Bachelder takes private delight in spotting the other side's weaknesses during negotiations. "Joe took me aside after one contract," says Michael Valentino, an executive who has worked at several drug companies, and told me: 'I knew on Day One that we were going to get you everything you wanted.' When Mr. Valentino asked why, Mr. Bachelder told him that the hiring company had mistakenly put its general counsel in charge of the talks. "When this is over, you're going to be that guy's boss," Mr. Bachelder explained. "He knows that. He can't fight you too hard on anything."

Such a lop-sided negotiation process can be viewed as an agency problem where the incoming CEO has so much more bargaining power, vis-à-vis the directors of the company. The outcome of such negotiations can be an over-generous pay package and contractual terms of employment for the candidate CEO. Thus, our first hypothesis is:

H₁: The involvement of professional negotiators in pay negotiations is associated with excess compensation and contractual terms that are favorable to the CEO.

The above arguments suggest that BSC facilitate incoming CEOs in extracting rents from their courting employers. However, the negotiators and the CEOs themselves propose several counter-arguments that justify the employment terms and compensation negotiated by BSC as consistent with an efficient contracting hypothesis (see Bachelder 2005 for more on these arguments):

(i) *Free market*: There is a free market in CEO talent and to attract a superior candidate the courting company must throw in a sweetener. Likewise, if the incumbent company wants to retain the CEO, it has

to make a counteroffer to match or better the outside offer. This bargaining game between the CEO and his/her employer can often result in what might ostensibly look like excess pay but is merely a reflection of the CEO's market value (or opportunity wage) in the managerial labor market. However, Jensen et al. (2004), Bebchuk and Fried (2004), Khurana (2002) and several others dispute the notion that CEOs actually operate in an "arms-length" labor market where they do not exercise undue influence on their compensation.

(ii) Scarce CEO talent: CEOs possess significant bargaining power with their employers because the supply of potential CEOs who possess the skills required to manage large complex firms is very limited. In particular, the candidate CEO of a large firm has to (i) master the business operations of large enterprises; (ii) understand and oversee complex financial structures; (iii) attract, motivate and retain talented people; (iv) manage a group of diverse stakeholders such as suppliers, equity analysts, organized labor, regulators, and the media and finally, and (v) face the burden of increased pressure to perform due to greater expectations.

(iii) CEO pay relative to market value: CEO pay is a relatively minor proportion of firm value. Bachelier (2003) argues that Jack Welch's pay over his career would be approximately 0.25% of the General Electric's market value as of September 2001. In an interview with the *Financial Times* of London conducted by Skapinker (2004), Bachelier is quoted as saying,

"Consider this. An asset manager will get one per cent of the assets under his management. A hedge fund manager will make even more than that... The median cash pay - salary and bonus - of the chief executives of the top 1,000 US companies last year was \$1.4 million. The median market value of those companies was \$2 billion. The average chief executive earned 0.07 per cent of what the company was worth."

(iv) Turn around specialists: CEOs who hire such negotiators likely represent a self-selected group of executives. They typically include a large fraction of outsiders, who might be hired to turn around the hiring firms (supported by Table 1 to follow). Accepting the CEO position at a large ailing company will place the incoming CEO's reputation at risk and they may demand favorable contracts and compensation to offset such reputational risk. Thus, it might be necessary to pay the negotiator's fees to attract the talented CEO to the firm. The above arguments suggest the following hypothesis:

H₂: Any ‘excess’ compensation or better contractual terms not explained by the standard set of economic, agency, and executive specific determinants represents a premium for CEO talent or the CEO’s opportunity wage.

While the first two hypotheses have focused on compensation at a point-in-time, two alternative explanations for finding ‘excess’ compensation in any given year are as follows. First, the amount of ‘excess’ compensation is transitory in that it is restricted to the year in which the new CEO is hired (akin to a signing bonus). Because we focus primarily on the first-year’s compensation of the CEO, a one-time bonus payment that forms part of first-year compensation may show up as “excess” compensation in the empirical work although such bonus is not expected to recur in the future. Second, the amount of ‘excess’ compensation is the result of higher levels of pay-for-performance sensitivity and/or relative performance evaluation imposed on the BSC CEO. That is, “excess” pay for the BSC CEO might still be efficient as long as such pay is more sensitive to firm performance. In particular, we would expect pay to be more sensitive to performance if managers represented by negotiators are hired for turnaround situations.

These explanations suggest the following hypotheses:

H₃: Any ‘excess’ compensation associated with BSC is transitory and does not persist over the executive’s tenure at the firm.

H₄: Any ‘excess’ compensation associated with BSC represents higher levels of pay-for-performance sensitivity and/or relative performance evaluation.

Thus far, our hypotheses have focused on the existence and determinants of ‘excess’ pay. In fact, some might argue that it is hardly surprising to observe that incoming CEOs who are represented by negotiators fare better in compensation negotiations than CEOs who are represented by less than super attorneys. In our view, the bigger contribution of our paper lies in testing whether the presence of such negotiators is associated with rent-extracting CEOs. In particular, the fact that the negotiator deals with the VP of human resources or the firm’s general counsel, whose incentives will not be likely aligned with those of shareholders, suggests that there may be an agency problem in such firms. Furthermore, considering that the board of directors sanctions such an arrangement, the existence of a negotiator who is paid by the firm may reflect poor governance quality at the firm leading us to hypothesize that incoming CEOs exploit existing agency problems (weak boards) to extract rents from their new employers. In this

manner, instances where the CEO hired a professional negotiator to negotiate his/her pay provide an exceptionally powerful setting to test whether executive contracting is characterized by rent extraction.

However, merely documenting the existence of such ‘excess’ compensation as in H3 and H4 does not provide sufficient evidence of economically significant rent extraction. Rather, we argue that economically significant rent extraction is better characterized by both meaningful ‘excess’ compensation and shareholder wealth destruction. Thus, we formulate our fifth hypothesis in terms of potential value destruction by the BSC CEO at the expense of the firm and its shareholders, and the fact that the stock market may anticipate such value destruction when the new CEO is announced or in subsequent months.

H₅: BSC CEOs are associated with i) a negative market reaction on the CEO appointment date or ii) inferior levels of future firm operating and stock return performance.

3.0 Data and CEO employment agreement

3.1 Sample

Our treatment sample is comprised of incoming CEOs who have retained Bachelder, Stucker or Cagney as their lawyer to negotiate the employment contract.³ To obtain our sample we compile a list of potential candidates from data on the websites of the law firms of these attorneys, The Corporate Library, LexisNexis, the SEC's EDGAR filings and Google searches. For a CEO to be part of our sample we require any two of three items: year of agreement, firm name, or executive name. This search process results in a list of 124 unique firms which used BSC in at least one transaction (including those not involving executive compensation). Of these, we are able to identify CEO compensation agreements and

³ BSC are also known to have negotiated termination agreements for CEOs when they leave their former employer (Fredman 2001). Note that these deals are different from severance agreements negotiated ex ante before the CEO joins the firm. A search for such ex post termination agreements yielded 14 observations. Apart from one case (Dick Grasso for NYSE), the other 13 represent CEO terminations at public firms. We did not investigate ex post terminations, but focused instead on BSC involvement in incoming CEO negotiations for three reasons. First, termination payments are not captured by the EXECUCOMP database. While hand collecting such data for the treatment sample (BSC clients) should be trivial, hand gathering termination data for a credible control sample of CEO terminations not negotiated by BSC is likely to be a time-consuming and expensive venture (see Yermack 2005a for a discussion on severance packages). Second, even if we do find excess severance benefits for BSC clients it would be very difficult to test whether such excess is consistent with value destruction. This is because any future firm performance that we examine subsequent to severance would be contaminated by the performance attributable to the incoming CEO. Third, most incoming CEO employment contracts that we examined already covers extensive ex ante provisions on termination benefits. Hence, our study implicitly considers some termination benefits (ex ante but not ex post).

the respective executives in 48 firms. Our ability to identify negotiator clients is limited, as the identity of BSC clients is covered by lawyer-client confidentiality. We eliminate 14 firms because of data-availability constraints highlighted in panel A of Table 1 resulting in 34 usable observations related to BSC. Panel B of Table 1 lists the CEOs (along with the hiring firm) considered for our empirical analyses.

A couple of observations about the sample are worth noting. First, the sample includes a very large fraction of outsiders. Thus, a disproportionate number of such CEOs are likely appointed in non-routine successions. Second, several of these managers may have been hired to turn the firm around. For example, Louis Gerstner was hired by IBM from RJR Nabisco in 1993 to turn around IBM at a point in time where the company was especially vulnerable in key markets. Similarly, Michael Jordan was brought in to restructure the ailing Westinghouse Electric Corporation in 1993 and Michael Armstrong was hired to turn AT&T around in 1997. Third, accepting the CEO position at IBM or Westinghouse in 1993 or at AT&T in 1997 was arguably risky. Hence, in the upcoming analysis of contracts, we might expect CEOs represented by negotiators to receive contracts with better terms and higher levels of compensation purely because the hiring firm is financially distressed and must pay the executive a premium for risking his/her reputation in performing the turnaround. Consequently, in our empirical tests we control for several firm and CEO characteristics to isolate the contractual differences attributable primarily to the negotiators.

3.2 Features of contracts

To provide descriptive evidence on the contractual provisions negotiated by these professional negotiators, we read through available employment contracts for several clients of BSC.⁴ To find CEO employment agreements, we examine the hiring firm's 10-K filings over four fiscal years surrounding the date the executive became CEO. We compare the features of these employment contracts to those of a

⁴ Schwab and Thomas (2006) provide a more detailed analysis of the key legal characteristics of 375 employment contracts between some of the largest 1500 public corporations and their Chief Executive Officers. Our objective is to compare the characteristics of employment and severance contracts signed by BSC versus a control sample rather than to comprehensively describe such contracts.

matched sample of control firms.⁵

We identify a set of control firms comprising the four closest matches to our treatment firms based on calendar year the executive became CEO, industry classifications as per Fama and French (1997), and the market value of equity (*MVE*) at the end of fiscal year prior to CEO appointment. The reason we obtain more than one control firm for each treatment firm is because not all firms disclose detailed CEO employment agreements (Gillan, Hartzell and Parrino, 2005). For each of the four closest matched control firms, we examine the SEC filings over the four years surrounding the hiring year and classify disclosures relating to the CEO's employment agreement into three mutually exclusive categories: (1) the CEO employment agreement is available, (2) the employment agreement for the CEO's previous position in the firm is available, or (3) a general employment agreement without specific compensation numbers and/or without specific names or positions is available. Within the four potential matched firms for each treatment firm, our first choice for a control contract is one where a CEO agreement (category 1 disclosure) is available. If the first four closest matches based on MVE either do not disclose their CEO agreements or only disclose general agreements (category 3), we consider the next closest firm (based on MVE) that reports a CEO agreement (category 1 or 2 disclosure). After excluding duplicate observations, where a control firm is matched to more than one treatment firm, this procedure produces 128 executives as possible candidates for our control sample. Of these, we are able to locate a category (1) or (2) contract for 94 executives, 34 of which are for clients of BSC. We keep one control firm for each of the 34 treatment firms based on proximity to size. Due to lack of data availability for two firms we obtain a control sample of 32 contracts not negotiated by BSC.⁶

Panels A and B of Table 2 present a comparison of the key components in CEO employment agreements between the treatment firms (negotiated by BSC) and control firms: (i) length (in pages) and duration of contracts (in months); (ii) make whole awards; (iii) minimum incentive awards; (iv) front-

⁵ It is plausible that some of the features of the contracts may be implicit and not explicit. Our tests depend on explicit mention of various provisions that we compare between the treatment and control firms. Hence, to the extent implicit provisions are pervasive our tests will be biased.

⁶ We were unable to find control contracts for two firms because these contracts were signed in 1991 and 1992, that is, before the EDGAR database of the SEC started tracking company filings.

loading of benefits; (v) perquisites; (vi) faithful agent and non-compete provisions; (vii) narrowly defined severance events; and (viii) change of control provisions. We highlight statistically significant differences in the frequency of clauses found in the employment contracts negotiated by BSC compared with the control firms:

(i) Length and duration: The data reveals that contracts signed by BSC are longer in length relative to the control firms (20.09 pages versus 15.38 pages, t-statistic for the difference is -2.45). Moreover, BSC sign contracts for a longer duration relative to the control sample (52.59 months relative to 33.5 months, t-statistic for the difference is -3.65).

(ii) Make whole awards: Fredman (2001) states that a central concept in Bachelder's negotiations involves the idea of "make-whole" awards—agreements by the hiring companies to make accommodations to the executives in amounts equal to the forfeited equity and other benefits that were provided by their former employers. Some contracts also allow the CEO to sell his house to the firm should he be unable to sell it on the open market within a specified period of time after relocation. The data reveals that 41% of BSC contracts contain a make-whole arrangement whereas only 3% of the control firm contracts that we examine carried such a provision (t-statistic of the difference = -4.07).

(iii) Bonus and minimum incentive awards: Almost all the BSC contracts we reviewed (79%) include a guarantee of a bonus or an incentive award for the first year of employment relative to 9% of the control firm contracts (t-statistic for the difference is -7.91). Most, but not all, include no provisions for a pro-rating of the term of first-year employment. Thus, contracts executed in the later part of the year included awards for an operating period on which the incoming CEO could potentially have had no impact. Over the entire length of the CEO's tenure, the average BSC firm promises a minimum annual incentive equal to 86% of the base salary if annual goal-based incentives are met. This compares with 33% of base salary for the control firms. The difference between these salary multiples is statistically significant (t-statistic = -3.93). Note, however, that there is no statistical difference between BSC firms and control firms in the frequency of clauses that explicitly ban a pay cut (59% for BSC relative to 47% for control firms, t-statistic for the difference = -0.96).

(iv) *Front loading of benefits*: 76% of BSC contracts, versus 41% of control firm contracts, include provisions for the accelerated crediting of pension benefits under the companies' Supplemental Executive Retirement Plans ("SERP") or the equivalent thereof (t-statistic of the difference = -3.13). Among the examples encountered were (i) an immediate credit of pensions for years not worked for the courting company; and (ii) a credit for pensions related to the years worked with the previous employer times a multiple in excess of one (1.5 times or 2 times). Further, 47% of BSC contracts, versus 19% of the control firm contracts, contain provisions that entitle the CEO to an unconditional retirement payout regardless of the reason for termination (t-statistic = -2.52). Additionally, 97% of BSC contracts include schedules of options and other equity grants that allow such equity to vest early upon some trigger such as a severance or a change in the control of the firm. Only 69% of the control sample contains a similar provision (t-statistic for the difference = -3.28).

(v) *Perquisites*: Yermack (2005b) reports that the use of a company plane is an important perquisite considered by market participants in that firms disclosing the personal use of company planes as a CEO benefit experience a negative market reaction to such a disclosure. In our sample, 29% of BSC clients will have unlimited access to a company plane relative to only 6% of the control group (t-statistic for difference = -2.52). There is no statistical difference between BSC and control firms in terms of the rights to sell the executive's residence to the firm, access to the company car, club membership reimbursements, access to a personal financial planner, or vacation time.

(vi) *Faithful agent and non-compete*: These clauses typically include representations by the CEO that he would dedicate himself to the affairs and operations of the business. In a like manner, they contain warranties that the CEO would not compete with the firm within a specified time period or work for competitors upon termination of his employment. Results presented in Panel B of Table 2 reveal no statistical difference between the BSC and control groups in terms of (i) the existence of a non-compete clause; (ii) the maximum number of months after termination that the non-compete clause applies for; (iii) the existence of a confidentiality clause; and (iv) whether the executive needs board approval before joining the board of directors of another firm.

(vii) Narrowly defined severance events: All BSC contracts include some form of provision regarding executive severance compared to 91% of control firms (t-stat for difference is -1.85). These provisions include very specific clauses on what constitutes a forfeiture of benefits defined under the contract. Severance for “cause,” from the company’s standpoint, is defined as a criminal conviction of the CEO (all control firms but 97% of BSC firms contain such a clause, t-statistic = 0.95) or a violation of code of conduct or negligence of duties (58% for the control firms versus only 38% for BSC firms, t-statistic for difference = 1.61). A CEO would only forfeit benefits in the event that he left the company without “good reason” or was dismissed “with cause.” Interestingly, the term “cause” was defined to include felony, moral turpitude, gross neglect and willful negligence on the executive’s part. However, “good reason” would include relatively minor events such as a reduction in the executive’s title or responsibilities (94% of BSC contracts versus 90% of control firm contracts, t-statistic for the difference = -0.6) or requiring the executive to relocate more than a certain number of miles from the company’s location (85% of BSC contracts versus 73% of control firm contracts, t-statistic for the difference = -1.18). Thus, for example, the executive would keep his benefits if he were not re-appointed as the CEO or was forced to move to a different location but the company could deny benefits to the executive only if the CEO were found guilty of a felony.

(viii) Change of control provisions: Change in control provisions typically entail continuation of benefits accruing to the CEO even after a firm changes hands in a merger or an acquisition. We find that all BSC CEOs have such provisions in place whereas only 88% of the control firms do. This difference is statistically significant at the 5% level (t-statistic = -2.17). However, there is no difference in the period over which CEOs continue to get these benefits after change of control (28.76 months for BSC firms versus only 27.72 months for control firms, t-statistic for difference = -0.29). Moreover, the monetary benefits promised after change of control, expressed as multiples of salary and bonus, are not statistically different between the BSC firms and the control firms, but the level of salary and bonus paid to BSC CEOs exceeds that of the control group (as discussed later in section 4) resulting in significantly higher pay due to BSC CEOs upon change of control.

In addition, BSC CEOs avoid paying excise taxes on their severance packages as the firms either gross up the payments to compensate the CEO for the excise taxes or agree to pay the excise tax themselves. Furthermore, firms that bear excise tax obligations on behalf of the CEOs would not be able to claim the portion of the severance payment that exceeds the threshold as a corporate tax deduction. Excise taxes arise if the firm's severance package for the departing CEO were to exceed a certain threshold under the tax rules (section 280G of the tax code) often referred to as a "parachute payment." Only 12% of BSC CEOs as opposed to 38% of control firm CEOs would have to bear excise tax obligations themselves. This indicates that a relatively higher percentage of BSC firms are willing to bear additional costs in the event of severance.

In sum, a review of the contractual features suggests that BSC negotiate more favorable employment contracts for their client CEOs relative to contracts of control firms.

3.3 Contract differences or omitted firm characteristics?

While it might be tempting to attribute the favorable contracts signed by BSC to rent extraction, these contract differences might merely represent omitted factors associated with optimal contracting between the CEO and the firm. That is, the differences in contracts are attributable more to the systematic differences that exist between the two samples.

Panel C of Table 2 presents evidence on this explanation. In particular, we focus on cases where statistically significant univariate differences in contract clauses between BSC and the matched contracts were reported in Panel A of Table 2 and examine whether these differences hold after controlling for firm and executive characteristics. To accomplish this, we regress contract provisions on a dummy variable, BSC, that is set to one when BSC are involved and zero otherwise, and use several proxy variables to control for both firm and executive characteristics.

A practical difficulty with such an analysis is that explicit CEO employment contracts either do not exist or are unavailable from public data sources for all CEOs (Gillan, Hartzell and Parrino 2005). Hence, a regression analysis of contract characteristics on the BSC dummy and control variables has to address potential self-selection associated with the availability of a contract. To do so, we follow the

Heckman two-step procedure. In particular, column (1) of Table 2 (Panel C) reports results of the first stage regression where we fit a probit selection model to assess whether or not a firm had a contract. In the second stage OLS regressions reported in the other columns (2) – (14), we use the inverse Mill's ratio estimated from column (1) as a control variable to account for self-selection involved in finding an employment contract. In addition to the self-selection problem discussed above, contractual differences may also arise due to the forces that prompted the CEO change. For example, contractual differences may arise depending on whether the CEO turnover was forced or not (see Jenter and Kanaan 2006). Hence, we also control for variables that capture the likelihood of forced CEO turnovers.

Note that the number of observations used in the first stage regression in column (1) is 162. This sample is derived as in Section 3.2. For our second stage analysis, however, we restrict our attention to 34 BSC firms and 32 control firms (recall that we are unable to obtain control firms for two BSC firms) to conserve time associated with identifying the existence and terms of individual contracts for all possible control firms.

The choice of instruments in the various columns of Table 2 (Panel C) deserves further elaboration. Following prior research on executive contracts (Gillan et al. 2005) we control for firm characteristics using natural logarithm of total assets (*LogTA*), volatility of the firm's operating environment, proxied by stock return volatility, prior firm operating performance (*Ind. Adj. ROA*) and prior firm stock return performance (*CAR(-24,-7)*). Note that explicit controls for prior performance are especially important in our setting because a number of BSC firms appear to be troubled firms. We separate the prior firm stock return performance into positive CARs and negative CARs as Jenter and Kanaan (2006) find that the effect of firm performance on CEO forced turnover is much stronger for firms with negative firm-specific performance. They also find that peer firm performance has a significant effect on CEO dismissals. Therefore, we include industry stock return performance (*Industry Return (-24,-7)*) to control for differences in peer performance. Additionally, to control for the fact that ailing firms may pay a premium for a turn around CEO or corporate savior (Khurana 2002), we include

Ind Adj Altman-Z as a measure of firm distress.⁷ We also control for a firm's governance structure proxied by the extent of pension fund ownership (*Pensions*) and whether the CEO is interlocked with the board members of the firm (*Interlocked*). Following Gillan et al. (2005), we also include managerial ownership at the time of joining (*CEOOwn*) because we expect that, on average, a CEO who owns a larger fraction of the firm's stock will be more willing to maintain an implicit relationship rather than enter into an explicit employment contract as his/her incentives are at least partially aligned with those of the firms. Next, we consider the bargaining power of the new hire by including a dummy variable (*Outsider*) that captures whether the CEO was hired from outside the firm. We assume that internal hires probably will not have as much bargaining power as an executive hired from outside, making it less likely that the firm will give the internal hire a substantially new contract. Recognizing that firms may need to provide an added incentive to lure high talent executives who already hold the title of CEO in another company we include *CEO of Prior Employer*, a dummy variable that is set to one if the hired CEO held the same title, as another instrument. One way to provide such an incentive is to grant added job security and perquisites via a contract. We also account for whether the CEO has industry knowledge (*Industry Knowledge*) based on whether he came from the same two-digit SIC industry code because firms are likely to prefer CEOs from the same industry and offer contractual benefits to attract them. Following Rajgopal et al. (2005) we control for executive talent by including the number of press mentions the executive received in his prior position (*Articles*) (see Section 4.2 for more details).⁸

Column (1) of Table 2 (Panel C) suggests that CEOs of smaller firms, firms that are financially distressed, firms that hire CEOs from outside the firm, and firms that hire more reputed CEOs are more

⁷ Consistent with prior work, we compute Altman-Z as follows: $Altman-Z = 1.2 * (data179/data6) + 1.4 * (data36/data6) + 3.3 * (data18+data16+data15)/data6 + 0.6 * (data199*data25)/data181 + data12/data6$. A lower Altman-Z score reflects a higher distress risk. All data item numbers referred above are COMPUSTAT data items.

⁸ A comparison of factors hypothesized by Gillan et al. (2005) to affect the existence of a CEO employment contract with our variables indicates the following omissions in our research design: board independence, CEO age, incentive to total pay, CEO salary, industry homogeneity, and industry survival rate. Note that we have proxied for board independence via the presence of interlocked directors and have included Altman Z as measure of firm survival/distress. We did not include CEO age because we encounter too many missing observations. CEO salary and incentive to total pay are omitted because we believe that pay and contract terms are jointly determined and hence endogenous to the existence of a contract and contract terms. Industry homogeneity is already addressed in our study by picking a control firm for every treatment firm matched on industry membership. Moreover, we also control for industry stock return performance.

likely to have an explicit employment contract. The Pseudo-R-square from the probit model is 35% giving us some assurance that we are able to capture cross-sectional determinants of employment contracts. The multivariate comparisons reported in the other columns comprise 66 observations comprising 34 BSC firms and 32 of the closest matches on size, industry, and calendar year matches (see Section 3.2 for more details). These comparisons suggest that significant differences between BSC and others remain for eight of the 13 univariate differences reported in panel B. That is, the presence of negotiators is more likely to result in (i) lengthy contracts; (ii) contracts of longer duration; (iii) a make-whole arrangement; (iv) guaranteed bonus; (v) accelerated equity vesting in the event of severance or change in control; (vi) use of company plane; (vii) larger minimum incentive awards; and (v) excise tax provisions at severance. Hence, differences in five of the 13 contract provisions were accounted for predominantly by differences in the size and volatility in operating environments of the BSC and control firms. Although the contract-based evidence appears to support the rent extraction hypothesis at first blush, a careful multivariate comparison of contract terms between BSC and matched firms tempers that first impression somewhat. In the following section, we investigate whether BSC extract superior compensation packages for CEOs in dollar terms.

4.0 Compensation Analyses

In this section, we examine the entry (first-year) pay packages of CEOs represented by BSC relative to a control sample. In contrast to the matched sample of 34 firms used in the prior analyses related to employment contracts, we identify a broader set of 382 control firms for our upcoming compensation analyses with a view to improve the power of our tests. In particular, we retain all firms that hired a new CEO in the same Fama-French (1997) industry and calendar year as the treatment firm. We eliminate (i) firms without sufficient compensation, financial data and stock return data, (ii) firms without CEO start dates, and (iii) firms that experience CEO turnover of 200% or more during a year. We further draw our control sample without replacement with respect to firms and executives, this

ensures that each firm and executive appears only once in the control sample. This selection procedure leaves us with 382 control firms over the time period 1992 and 2004.

4.1 Do BSC CEOs get more compensation than their control counterparts?

We begin with univariate comparisons of compensation and firm characteristics between the treatment firms (i.e., firms that hire CEOs who use BSC) and control firms. Results presented in Table 3 indicate substantial differences between the two samples in terms of both compensation and firm characteristics. Panel A shows that BSC CEOs dominate the control sample CEOs in terms of total compensation and its three components: salary, options and restricted stock. For example, the first year total compensation of an average (median) BSC CEO is \$21.19 million (\$13.39 million) relative to \$5.65 million (\$2.31 million) for the control sample CEO. Panel B indicates that when compared to the control firms, BSC firms are larger both in terms of market value and assets (t-statistic for difference is -2.73 and -1.74 respectively) but are otherwise similar in terms of continuing investment opportunities, financial distress, ROA, stock return performance over the year prior to CEO arrival (*RET*), and risk characteristics as determined by volatility of ROA and past stock returns.

Although the stock return performance for the prior year (*RET*) does not appear to differ between the treatment and control firms, returns accumulated over different time windows reveal a somewhat different picture. In particular, the average cumulative abnormal return (*CAR*) using CRSP value-weighted index returns over the months -24 to -7 (where month 0 is the month when the new CEO joins the courting firm) for a BSC firm is -27.68% relative to -4.49% at the control firm (t-statistic for the difference = 2.32). However, there is no difference in *CARs* over months -6 to +11 or over +12 to +36. These return patterns convey four plausible interpretations. First, the board of the directors of the courting firm perhaps seeks out well-known or reputed CEOs to turn around the falling stock performance of their firm. Second, BSC could potentially exploit the falling stock return performance at the courting firm to extract better contractual and compensation terms for their clients from the board of the courting firm. Third, note the absence of a difference between the stock return performance of the BSC firms from the control firms over the -6, +11 and +12, +36 window. Lastly, the 11-day buy-and-hold market

adjusted returns surrounding the announcement date of the new CEO is larger for BSC CEOs than their control counterparts, suggesting that the market expects (conditional on the new CEO) a larger change in the future performance of firms that hire BSC clients relative to control firms. These issues are discussed in greater length in section 5.

Column (1) of Table 4, Panel A presents the results of a regression of total CEO compensation for the BSC sample and the control sample (34 BSC and 382 control firms) on several firm-specific variables that are known to explain compensation levels. In particular, we use the following variables that are hypothesized by past research (Core, Holthausen and Larcker 1999) to determine compensation levels: lagged size (*LogTA*), investment opportunity set (*Investment Opportunities*), lagged operating performance (*ROA*), and firm risk proxied by standard deviation of ROA and stock returns (*Std Dev of ROA*, *Std Dev of RET*). In addition, we control for differences in compensation levels depending on whether the CEO turnover is routine or forced. It is plausible that incoming CEOs may find firms that dismiss their prior CEOs as more risky and hence, demand higher compensation for bearing the additional risk. Because it is difficult to identify whether CEO turnovers are forced or routine, we use two proxies identified by Jenter and Kanaan (2006) as key determinants of forced turnovers. First, we include prior stock return performance (*CAR (-24,-7)*) and separate it into positive and negative CARs as Jenter and Kanaan (2006) find that forced CEO turnover is more strongly associated with negative CARs than positive CARs. Second, we include peer stock return performance (*Industry Return (-24,-7)*) as firms with poor relative performance are more likely to dismiss their CEO.

To control for the fact that distressed firms may pay a premium to hire a turn around CEO or corporate savior (Khurana 2002) we also include *Altman-Z* in the regression. Consistent with prior work (Core et al. 1999, Hayes, Hillegeist and Keating 2005), larger firms, firms with more volatile operating performance and distressed firms pay their CEOs less (t-statistics on *Log(TA)*, *Std. Dev. Of ROA*, and *Altman-Z* are 7.79, 2.46, and 2.27 respectively, see column 1). More interesting, after controlling for the above variables, the presence of BSC adds \$12.8 million to a CEO's first year total compensation (t-

statistic = 6.53). Thus, it appears that BSC are able to extract significant excess compensation for their client CEOs.

4.2 *Is the excess pay due to weak governance structures?*

We next investigate whether the excess compensation attributable to BSC is due to the presence of weak governance structures that CEOs, in general, exploit to extract greater compensation. To check this alternative explanation, we introduce several governance proxies such as (i) the percentage of shares held by public pension funds (*Pensions*) identified by Cremers and Nair (2005); (ii) the number of board meetings held during the fiscal year (*Number of Meetings*); (iv) whether the CEO is interlocked with any member of the board (*Interlocked*); (v) whether the new CEO is also chair of the Board (*IsChair*); and (vi) *G-Index* compiled by Gompers, Ishii and Metrick (2003) which serves as a proxy for whether the governance environment is a democracy or a dictatorship from the shareholder's viewpoint. Because we do not have data for *G-index* for our entire sample of firms, we code these governance variables as zero for firms without available data and include the dummy variables $D_{G-Index}$ that is set to one for firms with data available and zero otherwise. This specification, called modified zero-order regression (Greene 1993), addresses the selection bias related to coverage of the two data sources while maintaining sample size.

Results in column (2) of Table 4, Panel A do not appear to support the hypothesis that the excess compensation due to BSC is a broader phenomenon attributable to weak corporate governance. Inconsistent with this hypothesis, we find that the coefficient on BSC decreases only slightly to \$12.4 million in column (2) from \$12.8 million in column (1), suggesting that the “excess” compensation paid to the BSC CEO is not a manifestation of weak governance. The only governance variable that is significant is the number of board meetings (coefficient = 403.88, t-statistic = 2.72). This relation appears to be the opposite of what we would expect if rent extraction due to weak governance were the dominant explanation.

We also explore whether the ‘BSC effect’ is exacerbated by the weak governance at the courting firm. That is, we examine whether the amount of pay associated with the involvement of BSC is

decreasing in the quality of governance. To test this hypothesis, we interact the BSC dummy with the governance proxies, *Pensions*, *Number of Meetings*, *Interlocked*, *IsChair* and *G-Index* and re-estimate the regressions in Table 4. The ‘weak governance hypothesis’ predicts that the coefficient on *BSC*Pensions* is negative, *BSC*Number of Meetings* is negative, *BSC*Interlocked* is positive, *BSC*IsChair* is positive and *BSC*G-Index* is positive.

Results for including these variables in the pay regressions are shown in Panel B of Table 4 (specifications follow Panel A columns 4 through 6). Consistent with the weak governance hypothesis, the incremental pay associated with BSC is decreasing in the percent of the firm held by pension funds (*Pensions*), our proxy for active shareholder monitoring. In particular, for a 1% increase in pension fund holdings the total pay associated with BSC falls by \$3.3 million. This is both economically and statistically significant, as it suggests that a 5% stake by pension funds can completely offset the increase in compensation associated with the use of a professional negotiator. The coefficient on *BSC*Interlocked* is also positive but statistically significant for salary (t-stat of 2.80) but weakly significant in equity compensation and total pay regressions. Thus, BSC CEOs who are interlocked with board members in their first year earn on average \$40 million more than BSC CEOs who are not interlocked.⁹ The coefficient on the interaction term with G-Index is positive and significant for the total pay regressions, again consistent with the professional negotiators’ ability to extract more compensation in poorly governed firms. The coefficient on the interaction term, *BSC*IsChair*, is negative and statistically significant, inconsistent with the predictions.

The coefficient on the main BSC effect is statistically significant and suggests BSC CEOs earn on average about \$15 million more than control sample CEOs after controlling for governance at the courting firm (t-stat of 1.74). In sum, we interpret the evidence as suggesting that while firms that hire BSC CEOs do not have lower levels of governance relative to control firms, BSC exploit the governance structures at the courting firm when negotiating with the Board. The evidence also suggests that the

⁹ The coefficient on *BSC*Interlocked* should be interpreted with caution as only one BSC CEO is interlocked with the Board.

presence of actively monitoring shareholders can help attenuate the incremental pay earned by CEOs who hire professional agents. These results emphasize the importance of strong governance in the pay setting process.

4.3 Could excess pay represent a talent premium?

A significant issue with respect to the compensation regressions reported in the prior section is that the involvement of BSC in contract negotiations is not randomly distributed in the data. For example, talented CEOs might seek out BSC to represent them (or vice-versa) and the “excess” compensation attributed to the negotiator might merely represent a premium for the CEO’s talent. Rosen (1981) describes how talented superstars are compensated disproportionately more than the next best employee. Although finding defensible proxies for CEO talent is non-trivial, several papers in the literature (Fee and Hadlock 2003; Milbourn 2004 and Rajgopal, Shevlin and Zamora 2005) suggest potential solutions to this problem.

Consistent with Fee and Hadlock (2003), Milbourn (2004), Murphy and Zabochnik (2004b), and Rajgopal et al. (2005), we proxy for CEO talent in several ways: (i) whether the CEO is appointed from outside the firm (*Outsider*); (ii) if the executive was a CEO of the previous employer (*CEO of Prior Employer*); (iii) if the executive’s previous employer comes from a firm that shares the same Fama-French (1997) industry membership (*Industry Knowledge*); (iv) the number of articles containing the CEO’s name that appear in the major U.S. and global business newspapers and business wire services as identified through searches of the *LexisNexis* database (*Articles*) in the three years before joining the new firm; and (v) the stock return performance of the CEO’s previous employer in the three years prior to joining the new firm (*CARPrior*). As with the G-Index variable, we code this variable as zero when stock return performance is unavailable and include the dummy variable *Public* that is set to one when the data is available. Consistent with these papers, we argue that more talented CEOs are likely to be appointed from the outside and/or likely to be cited and recognized by the business press more often than less talented CEOs. Moreover, we expect stock returns of firms run by more talented CEOs to dominate returns of less talented CEOs over the three-year period prior to joining the new employer.

Fee and Hadlock (2003) suggest that the characteristics of the previous employer and the compensation forfeited by the candidate executive at the previous employer can potentially explain compensation contracting for new CEO hires. In the spirit of Fee and Hadlock (2003), we supplement these proxies for CEO talent with two other proxies: (i) the amount of equity forfeited by the candidate CEO with the previous employer, measured as the value of the in-the-money unexercisable options during the final year the executive left his prior employer if he/she was an external hire and 0 otherwise (*Forfeit*); and (ii) compensation for the previous year with the previous employer (*CompPrevPos*). *CompPrevPos* and *Forfeit* are only available when the CEO's prior employer was in the S&P1500 universe and the executive was listed as a top officer. We set *CompPrevPos* and *Forfeit* to zero when they are unavailable. Also, as with the G-Index variable, we include a dummy variable (*S&P*) that is set to zero when *CompPrevPos* and *Forfeit* are unavailable.

Lastly, we include another variable that might potentially account for legitimate reasons why we might find "excess" compensation: the level of total compensation of the incumbent CEO at the hiring firm (*CompPrevCEO*). This variable serves as a control for differences in a firm's existing compensation policy. For a number of firms total compensation for the outgoing CEO (*CompPrevCEO*) is not available and as before, we code them as zero but include in the regression specification a dummy variable D_{PREV} that is set to 1 when *CompPrevCEO* is available, 0 otherwise.

Descriptive data reported in panel C, Table 3 suggest that CEOs that use BSC are more talented than their counterparts. In particular, 85% of BSC CEOs are outsiders relative to only 29% for the control sample (t-statistic for the difference = -7.12), and more of the BSC clients are former CEOs (35% relative to 14% of the control group, t-statistic for difference = -3.21). However, we observe more intra-industry movement among CEOs in the control sample relative to BSC sample (83% in control group relative to 38% in the BSC group, t-statistic for the difference = 6.54). The evidence suggests that BSC CEOs are generalists who are hired to run larger and more diverse firms relative to the control group. This is consistent with a shift in the importance of managerial specific human capital relative to firm- or industry-specific human capital when compensating managers (Murphy and Zabojnik 2004b). The average BSC

CEO is cited in 37.12 Articles in the previous three years relative to only 13.85 mentions for control sample CEOs (t-statistic for the difference = -3.94). There appears to be no statistical difference between the stock return performance of the former employer over the three fiscal years prior to CEO appointment between the CEOs of BSC and the control firms. Somewhat surprisingly, fewer of the BSC CEOs come from the S&P 1500 group of firms (44% versus 78% for the control group, t-statistic for the difference = 4.48). A closer look reveals that several of BSC clients were not top five officers at other S&P 1500 firms. In particular, BSC clients such as Bob L. Nardelli, CEO of The Home Depot, and W James McNerney Jr., CEO of Minnesota Mining and Manufacturing were divisional presidents at General Electric before they become CEOs and were hence excluded from EXECUCOMP which captures compensation data for only the top five highly compensated officers at S&P 1500 companies.

We found compensation and option details for the previous employer (previous CEO) in only 298 (334) cases for the control group and 15 (31) cases for the treatment group. There is no statistical difference in the average total compensation and equity forfeited with the previous employer between the BSC and control sample. However, the median total compensation given up is higher for BSC clients than the control sample. We suspect that this absence of a statistical difference in average compensation numbers is driven by excess variability in the compensation forfeited in these samples. To address this, we compute the ratio of total compensation at the new employer for the first year to the total compensation for the previous year (*CompRatio*) with the old employer and then compare the difference between these ratios for the control and the BSC group. The standard deviations of the ratios are much smaller than those of the dollar compensation amounts. Consistent with intuition, we find that the BSC CEOs receive 11.54 times their previous compensation, relative to 3.13 times for the control firms CEOs (t-statistic of the difference = 3.93). Lastly, we find no significant differences in the amount of unexercisable options in the previous firm forfeited by the CEO. Overall, we find significant differences

in several talent proxies across BSC and control firms, which could potentially contribute to the excess compensation documented in Panel A of Table 4.¹⁰

Columns (3) and (4) of Table 4, Panel A present results from the compensation regression after introducing the above mentioned proxies for CEO talent. Column (3) shows that after controlling for talent, ‘excess’ pay attributable to BSC falls to \$9.4 million and that CEOs hired from outside the company, CEOs that are more visible in the press, and CEOs whose previous employer was publicly traded are compensated more than their peers (t-statistics of 1.82, 3.53, and 1.88 respectively). However, after controlling for the opportunity cost to the new CEO of leaving his/her previous position (*Forfeit* and *CompPrevPos*) and the existing pay practices of the firm (*CompPrevCEO*), column (4) shows that the “excess” compensation attributable to the negotiator drops to \$8.3 million suggesting a significant portion of the excess pay attributable to the negotiator is driven by CEO talent and proxies for the CEO’s opportunity wage. Further, most of the premium attributable to the talent variables is driven by the equity component of total compensation (see column 6). Additionally, forfeited options and the amount of pay of the previous CEO explain variation in total first year compensation at the new firm. The inclusion of these omitted variables in the earlier specifications leads to a significant negative coefficient on *G-index* (t-statistic of -1.90, see column 4), which is evidence that firms with weaker governance structures pay higher compensation, consistent with CEOs exploiting weak governance. Compensation of the CEO in his/her prior position (*CompPrevPos*) is highly significant (t-stat of 14.37) when salary is the dependent variable, suggesting that the Board may use the executive’s previous salary as a reference point in setting his new salary. Compensation of the incumbent CEO also loads significantly across all specifications. Specifically, the coefficient on *CompPrevCEO* where Total Compensation is the dependent variable is

¹⁰ Inferences in Table 4 are robust to iterated deletion of variables, year and industry fixed effects, size matching, and restricting the sample to include only firms above median size or only executives hired from another firm. We also repeat the analyses in Table 4 by selecting a random sample of 34 firms with the necessary data and rerunning the regressions 10000 times. We then construct empirical distributions of OLS coefficients and compute each coefficient’s empirical p-value. Inferences based on these empirical p-values are quantitatively unchanged, suggesting that our results are not influenced by a small sample size.

0.36 (t-statistic = 2.59) indicating that even after controlling for other factors that determine compensation, incoming CEOs are paid about 39% of pay obtained by the previous CEO.

Thus, while BSC CEOs compensation is significantly higher than their control counterparts due to differential talent, we still observe that \$8.3 million of “excess” compensation attributable to BSC remains unexplained.¹¹ Whether such rent extraction results in value destruction for the firms’ shareholders is examined in more detail in section 5.

4.4 Endogeneity

The involvement of BSC in the pay setting process is likely to be endogenous in that professional negotiators may seek out CEOs with expected higher compensation or the CEO’s hiring of the negotiator may be a function of expected pay. In section 4.2 we considered the endogenous relations indirectly by controlling for proxies that capture a CEO’s talent that in turn is related to expected compensation (see also Table 3 Panel C). However, this does not fully control for the endogenous relations between CEO compensation and the involvement of negotiators and hence, our inferences are likely to suffer from biased coefficient estimates. To address endogeneity concerns, we adopt a two-staged least squares approach where we consider the determinants of compensation and the decision to use a negotiator simultaneously. Specifically, the first equation is a regression of CEO pay on firm specific characteristics that are known to determine CEO compensation (i.e., variables represented in Table 4 column 4, *BSC* and variables starting with *Outsider* and ending with *S&P*CompPrevPos*). The second equation is a probit regression of the likelihood of an agent’s involvement on CEO characteristics (i.e., CEO Compensation and variables starting with *Outsider* and ending with *S&P*CompPrevPos* presented in Table 4 column 4).

The two equations are estimated simultaneously using the two-stage-probit-least-squares (2SPLS) approach detailed in Maddala (1983) for systems with an endogenous continuous variable and an endogenous binary variable. For parsimony we do not tabulate but summarize our findings. The main

¹¹ We also control for the capital market’s perception of CEO talent by including the 11 day market reaction surrounding the announcement of a new CEO as a control variable in regressions reported in Table 2 (Panel C) and Table 4. While the coefficient on the announcement period return is significantly positive, inferences from untabulated results are qualitatively similar to those previously reported.

BSC effect remains significantly positive for total compensation and equity compensation (2SPLS adjusted t-stat of 4.13 and 4.19). However, the coefficient on BSC in the salary regression is significantly negative (t-stat of -3.31) suggesting that BSC CEOs earn lower salaries than their counterparts. This is consistent with a substitution effect between non-performance and performance sensitive pay for BSC CEOs. In sum, the 2SPLS results suggest that the positive coefficient on BSC is not an econometric artifact and remains significant after controlling for endogeneity bias associated with the CEO's decision to hire a professional negotiator.

4.4 Pay for performance

In this section we consider yet another approach to examine whether compensation contracts negotiated by professional negotiators represent rent extraction. We investigate whether the pay-for-performance sensitivity of firms where BSC is involved is different from those of the control sample and if any *ex ante* differences change once a BSC CEO is hired. Specifically, we follow Rajgopal, Shevlin and Zamora (2005) and estimate the following median regression:¹²

$$\Delta Total\ Compensation_{jt} = \beta_0 + \beta_1 BSC_{jt} + \beta_2 \Delta SW-Firm_{jt} + \beta_3 \Delta SW-Market_{jt} + \beta_4 \Delta SW-Firm * BSC_{jt} + \beta_5 \Delta SW-Market * BSC + \beta_6 \Delta SW-Firm * Controls + \beta_7 \Delta SW-Market * Controls + Industry\ dummies_j + Year\ dummies_t + error_{jt} \quad (1)$$

In equation (1), $\Delta Total\ Compensation$ is the change in total CEO compensation, $\Delta SW-Firm$ ($\Delta SW-Market$) is the change in shareholder wealth of the firm (market) measured as the beginning-of-the-year market value of firm's (CRSP VW-Index's) equity multiplied by the firm's (CRSP VW-index) return for the fiscal year. β_2 captures pay-for-performance sensitivity (PPS). Consistent with the arguments in Janakiraman, Lambert, and Larcker (1992), if the compensation committee partially filters out market-wide performance out of executive compensation, we expect β_3 to be negative but less than β_2 in absolute magnitude. That is, relative performance evaluation (RPE) is present in compensating managers. If the compensation contract for BSC CEOs is designed to extract rents from the firm, we would expect β_4 to non-positive (i.e., BSC clients are insulated from PPS) and β_5 to be non-negative (i.e.,

¹² Median regressions are particularly useful in the presence of outliers that is common in compensation data (Aggarwal and Samwick (1999)).

market performance not filtered out in compensating managers or less RPE). We control for several other forces that influence the pay-for-performance sensitivity by interacting $\Delta SW-Firm$ with the control variables. In particular, we control for firm size ($LogMV$) and variability of dollar returns (Variance of SW) using the cumulative distribution function of these variables consistent with Baker and Hall (2000), Core and Guay (2001) and Aggarwal and Samwick (1999). We also consider governance structures that are known to influence both pay-for-performance sensitivity and RPE. That is, we interact both $\Delta SW-Firm$ and $\Delta SW-Market$ with four governance proxies (i) whether the CEO is also chair of the board ($IsChair$); (ii) the number of board meetings ($Number\ of\ Meetings$); (iii) the percentage of top five officers who have interlocked relationships ($PctInterlock$); and (iv) the percentage of members who are on the board ($PctOnBoard$). We add Fama and French (1997) industry dummies and year dummies to control for differences in pay levels across industries and time (Murphy 1999).

Column (1) of Table 5, panel B presents results from a cross-sectional PPS regression for the BSC and control executives' first whole year, defined as the fiscal year in which the executive spends greater than six months in office. The coefficients on $\Delta SW-Firm * BSC$, and $\Delta SW-Market * BSC$ are both significantly negative suggesting that, in the first-year cross-section, executives that use BSC are subject to lower PPS but to higher RPE and hence this pattern does not completely fit with a rent extraction story. These results remain even after controlling for talent proxies (results not tabulated).

Because column (1) considers only the first year cross-section, we are unable to distinguish between (i) effects due to BSC; (ii) effects related to the characteristics of firms that hire BSC's clients, and (iii) transitory effects due to BSC only in the year his client is hired. For example, it is well known that first year compensation might include a signing bonus or a mega grant of options that is arguably a reward for the human capital that the CEO brings to the firm and as such will not covary highly with post-hire performance. To account for this, we augment equation (1) by introducing a dummy variable, $FirstYrObs$, as a control variable, both by itself and as an interaction to the $\Delta SW-Firm$ and $\Delta SW-Market$

terms.¹³

Results from this expanded specification using compensation and performance data for the first year and beyond for the BSC and the control sample are presented in Column (2) of Table 5, Panel B. The sample size for this analysis is 1618 observations, of which 133 (1485) observations pertain to BSC (control) sample. Note that the coefficient on *BSC* is significant at 1% level and is \$2.6 million suggesting that, ceteris paribus, the executives who use BSC in our sample earn \$2.6 million more per year than our control sample. Moreover, the coefficient on *BSC*FirstYrObs* is also significant at the 1% level and is approximately \$5.2 million. This coefficient can be interpreted as additional signing bonus (or one time initial payment) earned by the average executive using BSC.

The positive and significant coefficient on *ΔSW-Firm * BSC* and the negative and significant coefficient on *ΔSW-Firm * FirstYrObs * BSC* suggests that the BSC CEOs' pay is subject to more PPS than our control sample on an ongoing basis but not during the year of appointment. Like Column (1), the regression reported in column (2) is estimated only over the period where the BSC client is CEO of the firm. Hence, we are unable to distinguish between PPS and RPE effects attributable to the use of BSC and PPS and RPE effects unique to the type of firms that hire these CEOs.

To control for the firm-specific PPS and RPE we first examine the PPS of outgoing CEOs. The regression in column (3) is estimated on the pay of the outgoing CEOs in the year of and prior to his/her exit. The objective is to determine whether firms that eventually hire a BSC client pay their previous CEOs more than the previous CEOs of the control sample. In this manner we identify any potential *ex ante* systematic differences between control and treatment samples. The results show, that even before BSC and their client arrives on the scene, previous CEOs, on average, receive \$0.9 million more than the control sample's previous CEOs (positive and significant coefficient on *BSC*). Moreover, the outgoing CEO's pay for the firm where BSC is eventually involved exhibits more PPS (positive and significant coefficient on *ΔSW-Firm * BSC*) and more RPE (negative and significant coefficient on *ΔSW-Market **

¹³ Note that *FirstYrObs* is an indicator variable equal 1 if the CEO is a current BSC CEO or a control sample CEO and if it is the first fiscal year in which the executive spends greater than six months in office

BSC). These *ex ante* differences between samples suggest that the higher PPS and RPE observed *ex post* may simply be an artifact of the firm's existing compensation practices. We investigate this next using a difference-in-difference specification.

We combine compensation to incoming and outgoing CEOs for both the BSC and the control sample to isolate how much of the BSC effect is due to BSC *per se* and how much is due to compensation processes that were in place before the negotiators arrival (see regression results in column (4)). This entails three way interactions that capture if the CEO is an incoming CEO (*Incoming* dummy variable) and if the CEO is a BSC client (*BSC* dummy variable). The coefficients on these three way interaction terms provide us with difference-in-difference comparisons between the treatment sample and control sample. The model in column (4) suggests that the excess pay of roughly \$7 million attributable to the BSC in column (1) can be roughly decomposed into three parts: (i) \$ 0.79 million per year (coefficient on *BSC*) represents “excess annual pay” that was already in place at the firm that BSC's client eventually joins; (ii) \$2.12 million per year is the increase in annual pay attributable to BSC (coefficient on *BSC * Incoming*); and (iii) \$4.32 million is the first year bonus attributable to the BSC (coefficient on *BSC * FirstYrObs*).

The PPS coefficients can also be similarly decomposed into three parts: (i) firms that hire BSC clients have greater PPS relative to the control sample even before the BSC client CEO joins the firm (coefficient on $\Delta SW-Firm * BSC$ is positive); (ii) PPS for new CEOs is low in general (the negative and significant coefficient on $\Delta SW-Firm * Incoming$) and; (iii) the BSC CEO's PPS is statistically higher than the PPS of a control sample new CEO (coefficient on $\Delta SW-Firm * Incoming * BSC$ is positive and significant at the 1% level). Collectively, these three pieces of evidence suggest that the firm that hires a CEO who retains a negotiator has higher PPS relative to the control sample *a priori*, and this difference increases after the BSC CEO is hired.

Turning to the RPE coefficients, we find (i) firms that hire BSC clients already have higher RPE than the control sample even before the BSC client joins the firm (note the negative coefficient on $\Delta SW-Market * BSC$); (ii) firms that hire BSC clients impose marginally lower RPE on their new CEOs (note

the positive coefficient on $\Delta SW\text{-Market} * Incoming * BSC$); and (iii) BSC clients experience higher levels of RPE in their first year (note the negative coefficient on $\Delta SW\text{-Market} * FirstYrObs * BSC$).

In summary, results in column (4) present a picture where the negotiator primarily affects his client CEO's first year compensation. We find higher levels of ongoing PPS and a minor decrease in RPE for the negotiator's clients relative to a control sample and after controlling for *ex ante* differences. Such higher levels of ongoing PPS are generally consistent with the earlier observation that several BSC clients are hired to turn ailing companies around.

5.0 Is the presence of professional negotiators associated with value destruction?

The evidence thus far points to some support for "excess" compensation, both in higher levels of non-pecuniary (more friendly contracting provisions) and pecuniary (higher levels of "excess" pay) compensation as well as reduced pay for performance sensitivity in the year of appointment of BSC CEO and consistently lower relative-performance-evaluation. As mentioned before, the finding that incoming CEOs represented by negotiators fare better in compensation negotiations than CEOs may not be surprising to some readers. Having said that, it is quite plausible that the "excess" compensation we find may simply be indicative of optimal contracting- or an omitted risk factor- rather than rent extraction. We turn next to an investigation of whether the presence of such negotiators is associated with significant economic rent extraction both at the firm level and economy wide.

5.1 Professional negotiators and future firm performance

In this section, we examine whether the presence of negotiators is associated with value destruction at the firm level beyond the excess compensation paid to the CEOs documented before. We follow Core, Holthausen, and Larcker (1999) to assess whether BSC CEOs are associated with negative future abnormal stock return and operating performance. Note the difference between these two performance measures. Using stock returns as a measure of future performance may result in lower power in discriminating between efficient contracting and rent extraction because a test based on stock returns is a joint test of stock market efficiency and contracting efficiency. For example, even if rent

extraction were the true state of the world, investors in an efficient stock market might anticipate such rent extraction and already factor it into the existing stock price. As a result, future stock returns could be unrelated to the existence of the negotiator, even if such lawyers extract rents from the firm on behalf of their CEO clients. Thus, an examination of future stock returns, in isolation, cannot rule out rent extraction even if evidence supports otherwise. Earnings-based performance metrics such as ROA (measured as income before extraordinary items scaled by total assets) suffer less from the problem of anticipating rent extraction but have problems of their own. In particular, ROA is inherently backward looking and is hence likely to lag stock returns in information content. Moreover, incoming CEOs could take discretionary accounting decisions such as big-baths to manipulate future ROA. We hope that a combined analysis of these two performance measures can shed some light on whether the excess compensation for BSC clients represents rent extraction.

Table 6 presents results related to a regression of future ROA (*ROA 1yr*, *ROA 3yr*, *ROA 5yr*) and future buy and hold return (*RET 1yr*, *RET 3yr*, *RET 5yr*) on a negotiator dummy variable (*BSC*) that captures the involvement of BSC along with the standard control variables known to affect future performance. In particular, we include *LogMV* (a size proxy), standard deviation of ROA (*Std Dev of ROA*), and current ROA (*ROA*) in the future ROA regression and standard deviation of stock returns (*Std Dev of RET*), market to book ratio (*MTB*) and current fiscal year returns (*RET*) in the future stock return regressions.

Results in column (1) and (2) reveal a positive association between the BSC dummy and future ROA although there is no such association for ROA over periods longer than three years. This suggests that CEOs associated with BSC are associated with improved short run future operating performance. Our inferences are unchanged even after including proxies for CEO talent in the empirical specification (results not reported).¹⁴ Columns (4)-(6) suggest that the involvement of a negotiator is not associated with one-year to five-year ahead future stock returns. Also, the coefficient on the negotiator dummy

¹⁴ The only variable that loads (positively) in the augmented specification is the ROA performance of the CEO with his/her previous employer and the CEO announcement period return. This positive association could be interpreted as evidence that talented CEOs positively influence their new employers' operating performance.

(*BSC*) is statistically insignificant suggesting that the presence of a CEO associated with BSC neither increases nor destroys value. The introduction of several CEO talent variables in the ROA and future stock return regressions provides no incremental explanatory power either. In sum, we are unable to find evidence of value-destruction associated with BSC negotiated contracts.

5.1.1 A closer look at stock return performance

Table 7 presents a closer look at the stock return performance of the BSC firms. In a departure from the prior sampling procedure, we consider all firms on EXECUCOMP with available data between 1992-2004 that have new CEOs intersected with data on CRSP and COMPUSTAT. The control sample is formed as before without replacement with respect to executive and firm and we eliminate control firms missing CEO start dates and those that experienced CEO turnover of 200% or more in the matching year. This broader control sample consists of 1,206 CEO-firms and underlies the analysis in column (1) of Table 7.¹⁵ Column (1) presents monthly returns (less the risk free rate) for the 36 months preceding the CEO hire date for these 1,206 CEO firms regressed on the four factor Fama-French (1993) model along with dummy variables identifying 34 CEO contracts negotiated by BSC and a dummy variable *Matched* that is set to one if the firm belongs to the closely matched control group consisting of 382 firms discussed earlier in section 4.0. This coding scheme allows us to interpret the difference between the coefficients on *BSC* and *Matched* as the abnormal monthly return attributable to the 34 BSC firms incremental to the matched group of 382 firms. We also interact the factor loadings with these two dummies to allow risk loadings to vary by group membership.

Abnormal returns for months -36 to -1 leading up to the new CEO hire for both groups reported in column (1) reveals interesting insights. Note that the coefficient on *BSC* is negative whereas we observe an insignificant coefficient on *Matched* dummy variable. It appears that firms in the BSC group perform worse than the market (coefficient on *BSC* is -0.61 t-stat is -1.65) but no worse than the control

¹⁵ In untabulated analyses, we repeat all analyses reported thus far on this new broader control sample and found that the results showing an excess premium associated with BSC, if anything, are sharper with the expanded control sample. We continue to observe a positive (null) association between the Negotiator dummy and future abnormal ROA (abnormal stock returns).

sample (t-stat of differences in abnormal returns is 1.00) in the three years leading up to the CEO replacement. However, when we consider abnormal returns from months -24 to -7 , we find that both the BSC and matched control firms under perform the Fama-French benchmarks but BSC firms appear to under-perform more than the matched sample (coefficient on BSC is -1.69 , t-statistic = -3.23 relative to the coefficient on Matched of -0.56 , t-statistic = -2.70). These differences are both large (on the order of 1% per month) and statistically significant (t-stat for differences in 2.00). This pattern is consistent with allegations in Anders (2003) that pay negotiators like Bachelder often come on the scene at a point of vulnerability for a corporation, when its board is hoping for a cleanly executed leadership change to steady the firm and set a new course. It is also consistent with Warner et al. (1988) and Huson et al (2001), who find that the probability of a change in CEO is inversely related to past stock returns.

An analysis of abnormal returns over months -6 to $+11$ in column (3) suggests that matched firms report abnormal positive returns whereas BSC firms do not appear to report incremental positive returns. One way to interpret these returns over months -6 to $+11$ is that the stock market anticipates the imminent arrival of the new CEO at least six months before the leadership change (hence the changes in signs of the abnormal return compared to the -24 to -7 time period). If we consider the stock price performance of BSC and control firms three years after the hiring of the new CEO (column 4), there appears to be nothing to distinguish the BSC firms from the matched firms. This is consistent with BSC CEOs merely bringing their firms back to the benchmark level of stock return performance, as the coefficient on BSC is not statistically significant over any period after the BSC CEO was hired. An alternative perspective is that the incoming BSC CEOs have fulfilled their charge of turning around their ailing employers and have brought their performance in line with the control firms.

To investigate how the BSC CEOs fared in their previous jobs, we report abnormal returns for their previous employers over various time periods ($-36, 0$; $-18, -7$; and $-6, 0$) in columns (5)-(7). Note that the sample used in columns (5)-(7) is smaller because we use available data for only 15 BSC CEOs and 298 matched firms. We are unable to document abnormal positive stock return performance for the BSC CEOs at their previous employers. In sum, the collective weight of the evidence presented in Table

7 suggests two inferences. First, the stock market does not appear to associate the BSC CEO with value destruction and hence there is no evidence of economically meaningful rent extraction. Second, the BSC CEO might be credited with arresting the negative stock return performance over the -24 to -7 period in the courting firm.

5.1.2 Event study stock returns

While we are unable to document any evidence of substantial rent extraction after considering several alternative measures, it would be useful to examine whether the capital market participants perceive BSC CEO appointments similarly. That is, we investigate whether investors price such appointments of BSC clients any differently than other CEO appointments. Therefore, in Table 8, we explore whether the short-window stock market reaction associated with the appointment of a BSC CEO is significantly different from that of a closely matched control sample. We define the event day 0 as the date EXECUCOMP records as the day on which the executive became CEO (appointment date). If no trading occurs on the appointment date we define event day 0 as the next trading day. If the BSC CEO is perceived by the stock market to extract value-destroying rents from the firm, we expect the short-window stock market reaction to be negative.

There are several caveats associated with the short-window event study evidence as well. First, as discussed in section 5.1, the stock market appears to anticipate the need for a new CEO in both the control and BSC samples at least six months before the new CEO is appointed. Hence, our short-window event study tests might suffer from lower statistical power. Second, it is unclear whether the stock market is aware of the involvement of BSC in the contract negotiation process at the time a BSC CEO takes office. Hence, attribution of the short window returns to rent extraction or efficient contracting hypotheses associated with BSC will depend on the stock market's ability to predict the involvement of BSC. However, these caveats are likely to bias our event studies against finding a differential reaction for the BSC sample.

Table 8 presents several versions of short-window buy and hold stock returns for the BSC and control group where (i) event windows vary from $(-5, +5)$ days to $(-1, +1)$ days surrounding the

appointment; and (ii) stock returns of the sample firms are benchmarked against returns to the CRSP value-weighted index and that of a size matched portfolio.¹⁶ In addition to standard OLS t-statistics, we draw inferences based on p-values calculated using a simulated distribution of OLS coefficients. The methodology describing this simulation and calculation follow. First, for each firm we select a date at random from the calendar year the executive became CEO. If the date selected does not fall on a trading day (i.e. a Saturday) we assign the date of the next trading day (i.e. a Monday). Second, for all firms we verify that returns are available over a 5-day window surrounding the random date. This is exactly the same as picking an 11-trading day window at random where day 0 is forced to be in the same calendar year that the executive became CEO. Third, we compute buy-and-hold abnormal returns over a specific event window using the same method as described and regress these returns on an intercept and indicator variable equal 1 if the observation is for a firm where the CEO used a Negotiator and 0 otherwise. We repeat these three steps 10,000 times to construct empirical distributions of the OLS coefficients. Next we compute p-values for the estimated OLS coefficients in our original sample regression. These values are calculated as the area of the empirical cumulative distribution lying above (or below if the estimate is negative) the estimated coefficient value.¹⁷

The results presented in Table 8 suggest, in general, that the stock market views appointments of CEOs represented by BSC as more value-increasing. For example, the difference between the market adjusted buy and hold return for the 11-day window surrounding the appointment of a BSC CEO and a control sample CEO is 4.93% (p-value = 0.01). Of this, about half of the returns is anticipated prior to the announcement date. The event study results, subject to the caveats enumerated in the previous paragraph, again buttress our earlier findings regarding the absence of evidence that BSC significantly gouge shareholders when they negotiate favorable terms for their CEO clients.

¹⁶ We also estimate average abnormal returns in addition to buy and hold abnormal returns and our inferences are unaffected.

¹⁷ This methodology is designed to address concerns that the estimated coefficients and t-statistics may not quickly converge to their theoretical distributions due to small sample size. Empirical p-values represent the probability that the observed coefficient (or larger) occurred at random during the year conditional on the firm being in the control (treatment) sample.

5.2 Professional negotiators and the Lake Wobegon effect

Bebchuk and Fried (2004) posit that one plausible explanation for the ratcheting up of CEO salaries over time is the firm's use of compensation consultants to provide input into the pay setting process. Compensation consultants often escalate CEO pay by referring to the compensation of the peer group and pegging the CEO salaries to a pay that often exceeds the median pay for that peer group (Gillan 2001). Consistent with this hypothesis, Bizjak, Lemmon and Naveen (2004) find that CEOs whose compensation is below the median compensation of peer group (firms in the same industry and of similar size) receive larger increases in compensation. Such competitive benchmarking and consequent escalation of CEO salaries is often referred to as the "Lake Wobegon" effect (see Murphy 1999). Given the pervasive use of competitive benchmarking for determining CEO compensation it is plausible that the presence of professional negotiators may help accentuate the agency problem inherent in the use of peer groups to determine CEO pay. That is, the presence of professional negotiators, while increasing the pay of the CEOs that they help negotiate, may create negative externalities by indirectly increasing the benchmark against which other CEOs are compensated. Therefore, we test the hypothesis that the presence of professional negotiators is associated with a systemic (industry wide) increase in CEO compensation.

We augment the specification in Bizjak et al. (2004) to examine whether the change in compensation of peer group CEOs is positively related to the average compensation negotiated for BSC CEOs. In particular, we regress the change in compensation for peer group CEOs on the average compensation obtained by the new BSC CEO in the previous year. We define peer group CEOs as incumbent CEOs in the same industry as the BSC CEOs. We also control for other determinants of change in CEO compensation such as changes in firm performance, risk and governance characteristics. Our findings reported in Table 9 suggest, if anything, very weak evidence of the Lake Wobegon effect.

We find a positive relation between the average total pay of BSC CEOs and change in compensation of peer group CEOs but statistically insignificant at conventional levels (t-stat = 1.53; p-value = .12).¹⁸

Overall, our findings provide no compelling evidence of economically significant rent extraction either at the firm level by BSC CEOs or at a systemic level by other peer group CEOs in the same industry.

6.0 Conclusions

The paper provides empirical evidence on the nature of CEO employment contracts signed when negotiators, Joseph Bachelder, Robert Stucker or Lawrence Cagney, negotiate on behalf of candidate CEOs. In general, Bachelder, Stucker or Cagney negotiate generous employment contracts relative to a control group with seven of 44 examined contract characteristics tilted in favor of the executive after controlling for firm and executive differences.

First year compensation, consisting of salary, bonus and equity grants for CEOs represented by Bachelder, Stucker or Cagney is higher by \$12.8 million relative to a first year compensation packages of other CEOs joining firms in the S&P 1500 universe of firms matched on industry and firm-year, and after controlling for the standard set of economic determinants known to influence CEO pay. Examining changes in total compensation attributable to BSC, roughly \$0.79 million appears attributable to firm compensation practices in place before the new CEO arrived, \$4.32 million is unique to the first year, \$2.11 million is the increase in annual pay attributable to BSC. A deeper analysis suggests that while weak governance is not a characteristic of firms that hire BSC CEOs, the ‘excess’ compensation attributable to BSC is decreasing in proxies for governance quality suggesting that BSC exploit the governance structure of the courting firm. It also turns out that the CEOs represented by negotiators are generally more talented, based on several proxies for CEO talent and opportunity wages. These proxies account for around \$4.5 million of the \$12.8 million excess compensation attributed to the presence of

¹⁸ We also considered alternative specifications where in we included i) a dummy variable that is set to 1 if the CEO’s compensation is below the average of the peer group, zero otherwise and ii) an interaction term of this dummy variable with the average BSC CEO pay. Unreported results indicate that the coefficient on the interaction term is statistically insignificant.

negotiators. An analysis of PPS and RPE, after controlling for *ex ante* sample differences and the standard set of economic, agency, and executive specific determinants, suggests that BSC CEOs are subject to marginally less ongoing RPE and more ongoing PPS than both a control sample and their predecessors.

We are unable to document a negative association between the involvement of super-lawyers and future operating and stock return performance of the courting firm. If anything, we find a positive association. First the short-window (one or five day) market reaction surrounding the appointment of a BSC CEO is positive and significantly higher, on average, than those related to the appointment of control sample CEOs. Second we document a positive association between BSC and future firm ROA (but not returns). Thus, our evidence suggests that the involvement of BSC is not value decreasing for the courting firm. We also examine whether the presence of negotiators impose negative externalities by increasing CEO compensation for peer firms in the same industry and comparable size. However, we do not find any evidence in support for such negotiators initiating rent extraction by peer firm CEOs.

While our results are interesting, we have to caution the reader that demonstrating causality between the use of a negotiator and the CEO's employment terms is problematic for two reasons. First, it is difficult for outside researchers to observe the negotiation process conducted by BSC. Second, attorney-client confidentiality provisions force us to rely on a small, perhaps atypical sample of CEOs who are known to have used BSC. Nevertheless, we hope to inform the current debate about excess CEO pay by demonstrating that although the contractual and compensation terms negotiated by these negotiators may appear to be opportunistic at the expense of the firm, these terms reflect rent extraction of economically insignificant amounts (on average less than 1 cent per share in the CEO's first year) and are not associated with the destruction of shareholder wealth.

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Table 1: Client List Compilation

Panel A

In order to identify a CEO who retained one of the negotiators (Bachelder, Stucker or Cagney) in his/her employment agreement, we require any two of three items: year of agreement, firm name, or executive name. Since firms are required to file employment agreements with the SEC and the negotiator is often mentioned as the executive's representative, we search all SEC EDGAR filings for the negotiator's name. The results are then searched for employment agreements. In addition we search all employment contracts on file at The Corporate Library for the negotiator's name. Lastly we search the LexisNexis Legal and Business News databases for the negotiator's name. The LexisNexis search results in several popular press articles that give details of negotiator clients. Note that the identity of negotiator clients is covered under lawyer-client confidentiality so compiling a client list from publicly available sources is necessary

	Bachelder	Stucker	Cagney	Total
Identified firms with transactions involving the specified negotiator/lawyer	73	41	10	124
Less: Unidentified Transactions: where firm is known but not the executive or the type of transaction	28	8	0	36
Less: non-CEO employment agreements or where lawyer represented the firm	20	17	3	40
Identified transactions involving CEO employment agreements	25	16	7	48
Less: transactions occurring in 2005	1	1	1	3
Less: transactions prior to 1991 where compensation from EXECUCOMP and from firm filings is not available	1		1	2
Less: Pre-IPO transactions	1	1		2
Less: Private firm transactions: including those only trading on OTCBB pink sheets or acquired during the year the CEO was hired	5	1		6
Less: Foreign firms	1			1
Total clients in Treatment Sample	16	13	5	34
Percent where firm's name was referenced on the lawyer's corporate webpage*	43.75%	53.85%	0.00%	41.18%
Sources used for identification:				
Corporate Library	13			
SEC EDGAR filings	9			
LexisNexis press articles	12			

Table 1 (continued)

Panel B

Treatment Sample Executives and Firms:

Executive	Firm	Executive	Firm
Lawrence Bossidy [%]	Allied Signal/Honeywell	Bob Nardelli	Home Depot
Robert Eaton	Chrysler	David Schneider	Nextera
George Fisher	Eastman Kodak	Jamie Dimon	Bank One
Louis Gerstner	IBM	Michael Hammes	Sunrise Medical
Micahel Jordan	Westinghouse/CBS	W.G. Jurgensen	Nationwide Insurance Company
Floyd Hall	K-Mart	Douglas Conant	Campbell Soup
John Blystone	SPX Corporation	James McNerney	3M
Stephen Bollenbach	Hilton Hotels	Jay Sugarman [#]	Istar Financial/Starwood Capital
Leo Mullin	Delta Airlines	John Edwardson	CDW computer centers
Michael Armstrong ⁺	AT&T	Lawrence Johnston	Albertsons
Robert Morrison	Quaker Oats	Richard Lenny	Hershey Foods
Ronald Lemay	Waste Management	Steve Odland	Autozone
William Davis	R.R. Donnelley	David Cote	Honeywell
Gregory Andrew	Carson Inc	Patricia Russo	Lucent
Michael Hernandez	LifeMark	Ray Warrell [#]	Genta
Richard Nanula ^{&}	Starwood Hotels	Thomas Crocker [#]	Koger Equity
Richard Brown	EDS	Surya Mohapatra	Quest Diagnostics

* The respective web pages only list firm names and by themselves do not provide enough information to identify the executive or the nature of the transaction

[%] Bossidy's contract was negotiated in the latter part of 1991 but for the sake of data availability we use his 1992 EXECUCOMP record.

⁺ Armstrong was a previous client of Bachelder, and while Bachelder represented the AT&T board in negotiations with Armstrong, he did hand select the negotiator/lawyer Sam Butler, who represented Armstrong.

[&] While not flagged as a CEO by EXECUCOMP, Nanula was appointed CEO of Starwood Hotels Worldwide on 4/18/98 the publicly traded portion of the paired-share REIT Starwood Hotels and Resorts. Nanula resigned in 1999 when Starwood reorganized as a standard 'C' corporation and was not appointed CEO of the resulting firm.

[#] Sugarman, Warrell, and Crocker were all identified as having used a negotiator to re-negotiate their employment terms. We were unable to find any evidence that a negotiator was used in the initial employment agreement. For these executives we treat the date of the renegotiated contract as the date the respective executive became CEO.

Table 2: Contract Characteristics

Panel A

The construction of the control and treatment samples for contractual analysis is detailed in the main text of the paper. The treatment sample consists of 34 CEOs identified as having used a professional negotiator in pay negotiations. The control sample consists of CEOs hired in the same calendar year, industry group and whose firm is nearest in market value of equity for which a CEO employment agreement was available. *Length* is a variable representing the number of pages of the contract including any change of control agreements. *Duration* is a variable representing the number of months of employment specified in the contract. *AutoRenew* is a variable equal 1 if the contract contains a default provision for the automatic extension of the employment period. *MakeWhole* is a variable equal 1 if a make whole arrangement is specified. *GuarBonus* is an indicator variable equal to 1 if the contract contains a clause guaranteeing the executive some fraction of his/her first year incentive compensation. *MinInc* is the multiple specified in the contract as the goal-based minimum annual incentive multiple of salary. *NonDecr* is an indicator variable if the contracts explicitly ban pay cuts even during across the board pay reductions. *AccPension* is an indicator variable if the contract provides for the advanced crediting of years worked under the firm’s retirement plan or SERP. *Retirement* is an indicator variable if the contract specifies that the executive is entitled to his/her pension regardless of the events surrounding termination. *SpecLoan* is an indicator variable if the contract provides for a special loan to the executive where some or all of the principal and interest is forgiven. *VestAcc* is an indicator variable if the contract includes a provision for accelerated equity vesting. *Residence*, *Car*, *Plane*, *Clubs*, *Planner*, *SuperVacation* are indicator variables if the contract has clauses specifically furnishing the executive with the right to sell his/her home to the firm, to a company car and or driver, to a company jet, to country club memberships, to a financial planner, and to over 5 weeks paid vacation, respectively. Reported T-statistics (Wilcox Z-statistics) test for a difference in mean (median) values across samples. ***/**/* indicate statistical significance at the 1%/5%/10% level.

Variable	Control Sample (n=32)				Treatment Sample (n=34)				Test Statistics	
	Mean	Median	Std. Dev.	N	Mean	Median	Std. Dev.	N	t-stat	Wilcoxon Z
Contract Characteristics										
Length***	15.38	15.00	7.48	32	20.09	19.50	8.13	34	-2.45	-2.66
Duration***	33.50	36.00	17.22	32	52.59	60.00	24.39	34	-3.65	-3.58
AutoRenew	0.59	1.00	0.50	32	0.56	1.00	0.50	34	0.28	0.28
MakeWhole***	0.03	0.00	0.18	32	0.41	0.00	0.50	34	-4.07	-3.65
GuarBonus***	0.09	0.00	0.30	32	0.79	1.00	0.41	34	-7.91	-5.66
MinInc***	0.33	0.00	0.46	32	0.86	0.90	0.61	34	-3.93	-3.64
NonDecr	0.47	0.00	0.51	32	0.59	1.00	0.50	34	-0.96	-0.96
AccPension***	0.41	0.00	0.50	32	0.76	1.00	0.43	34	-3.13	-2.93
Retirement***	0.19	0.00	0.40	32	0.47	0.00	0.51	34	-2.52	-2.41
SpecLoan	0.13	0.00	0.34	32	0.12	0.00	0.33	34	0.09	0.08
VestAcc***	0.69	1.00	0.47	32	0.97	1.00	0.17	34	-3.28	-3.05
Specific Perquisites										
Residence	0.13	0.00	0.34	32	0.24	0.00	0.43	34	-1.16	-1.14
Car	0.41	0.00	0.50	32	0.47	0.00	0.51	34	-0.52	-0.51
Plane***	0.06	0.00	0.25	32	0.29	0.00	0.46	34	-2.52	-2.41
Clubs	0.28	0.00	0.46	32	0.29	0.00	0.46	34	-0.11	-0.11
Planner	0.34	0.00	0.48	32	0.18	0.00	0.39	34	1.56	1.53
SuperVacation	0.03	0.00	0.18	32	0.03	0.00	0.17	34	0.04	0.02

Table 2 (continued)

Panel B

Compete is an indicator variable if the contract contains a non-compete provision. *LenCompete* is the number of months of non-compete provision applicability post-CEO departure. *Confidential* is an indicator variable for a confidentiality provision. *NeedApprov* is set to 1 if a provision mandates board approval for other board membership. *Severance (Control)* is set to 1 if a severance (change-of-control) provision is specified in the contract. *Criminal* and *Duties* are indicator variables set to 1 if the firm may terminate the executive “with Cause” based on criminal offense or negligence of duties, respectively. *Titles*, *Mileage* and *COC* are indicator variables if the executive may self-terminate “with cause” (i) as a result of reduction in rank or duties; (ii) as a result of a commute beyond a certain number of miles and (iii) within a specified time window after change-of-control. *SevCont (COCCont)* is an indicator variable if the contract includes a provision extending executive benefits after a qualifying termination (following a change of control). *SevConLen (COCContLen)* is the length of time after termination (following a change of control) that the CEO is still entitled to benefits. *SBaMultiple (CBaMultiple)* and *SBoMultiple (CBoMultiple)* are the multiple of the CEO’s base salary and bonus that he/she is entitled to upon a qualifying termination (following a change-of-control). *COCBO* is an indicator set to 1 if the contract defines a change-of-control based on beneficial ownership limits. *COCBOLim* is the lower bound of beneficial ownership that qualifies as a change-of-control. *Merger* is an indicator variable equal one if a merge, sale, or significant restructuring of the firm constitutes a change-of-control. *NonIncumb* is an indicator variable if a majority of non-incumbents winning board seats constitutes a change-of-control. *NoExcise* is an indicator variable if the contract provides no provision for excise tax adjustment. *Gross* is an indicator variable if the firm provides the executive with a gross-up payment in the amount of excise tax due. *Mcap* is an indicator variable if the firm restricts payments to the executive above some upper bound and also reimburses the executive for excise tax. *Cap* is a variable equal one if the firm pays the executive only the amount that does not qualify for excise tax. Reported T-statistics (Wilcox Z-statistics) test for a difference in mean (median) values across samples. ***/**/* indicate statistical significance at the 1%/5%/10% level (two-tailed).

Variable	Control Sample (n=32)				Treatment Sample (n=34)				Test Statistics	
	Mean	Median	Std. Dev.	N	Mean	Median	Std. Dev.	N	t-stat	Wilcoxon Z
Protective Provisions										
Compete	0.75	1.00	0.44	32	0.71	1.00	0.46	34	0.40	0.39
LenCompete	13.13	12.00	11.04	32	15.88	18.00	12.17	34	-0.96	-1.00
Confidential	0.84	1.00	0.37	32	0.82	1.00	0.39	34	0.22	0.21
NeedApprov	0.47	0.00	0.51	32	0.53	1.00	0.51	34	-0.49	-0.48
Severance*	0.91	1.00	0.30	32	1.00	1.00	0.00	34	-1.85	-1.80
Control**	0.88	1.00	0.34	32	1.00	1.00	0.00	34	-2.17	-2.10
Qualifying Termination Characteristics (Firm)										
Criminal	1.00	1.00	0.00	31	0.97	1.00	0.17	34	0.95	0.92
Duties	0.58	1.00	0.50	31	0.38	0.00	0.49	34	1.61	1.58
Qualifying Termination Characteristics (Executive)										
Titles	0.90	1.00	0.31	30	0.94	1.00	0.24	34	-0.60	-0.59
Mileage	0.73	1.00	0.45	30	0.85	1.00	0.36	34	-1.18	-1.17
COC	0.50	0.50	0.51	30	0.53	1.00	0.51	34	-0.23	-0.23
Severance Compensation Provision										
SevCont	0.93	1.00	0.25	30	0.88	1.00	0.33	34	0.69	0.68
SevConLen	25.00	24.00	14.19	30	25.76	24.00	11.59	34	-0.24	-1.12
SBaMultiple	2.26	2.00	1.04	30	2.48	2.00	1.13	34	-0.79	-1.31
SBoMultiple	2.06	2.00	1.27	30	2.24	2.00	1.23	34	-0.59	-1.01
Change of Control Qualifiers										
COCBO	1.00	1.00	0.00	29	0.97	1.00	0.17	34	0.92	0.89
COCBOLim	27.59	25.00	10.14	29	28.53	25.00	13.08	34	-0.32	-0.10
Merger***	0.86	1.00	0.35	29	1.00	1.00	0.00	34	-2.30	-2.20
NonIncumb	0.90	1.00	0.31	29	0.97	1.00	0.17	34	-1.20	-1.18
Change of Control Compensation Provision										
CocCont	0.93	1.00	0.26	29	0.88	1.00	0.33	34	0.65	0.64
CoCContLen	27.72	24.00	14.99	29	28.76	36.00	13.52	34	-0.29	-1.04
CBaMultiple	2.61	3.00	0.95	29	2.74	3.00	1.09	34	-0.48	-0.59
CBoMultiple	2.28	2.50	1.27	29	2.62	3.00	1.27	34	-1.07	-1.26
Excise Tax Provisions										
NoExcise***	0.38	0.00	0.49	32	0.12	0.00	0.33	34	2.52	2.41
Gross***	0.44	0.00	0.50	32	0.79	1.00	0.41	34	-3.16	-2.95
Mcap	0.09	0.00	0.30	32	0.03	0.00	0.17	34	1.09	1.07
Cap	0.09	0.00	0.30	32	0.06	0.00	0.24	34	0.53	0.52

Table 2 (continued)

Panel C

Regressions of contract characteristics on firm and executive specific variables correcting for selection bias over observed contracts by using the Heckman two-step estimation procedure. The first column contains the probit selection model where the dependent variable, *Contract*, is an indicator variable equal 1 if we located an employment agreement for the given executive and 0 otherwise. The remaining columns are regressions of observed contract characteristics on firm and executive specific variables, and the *Inverse Mill's Ratio* estimated from the selection model as per the Heckman procedure. For the first stage estimation (column 1) we use a sample of 162 firms comprising 34 BSC firms and 128 control firms. We obtain four closely matched control firms based on the calendar year of CEO hire, industry group and market value of equity. Of the possible 136 firms (34*4) we lose 8 firms that duplicate control firms. Of the total sample, 94 firms have CEO employment contracts, 34 of which are BSC firms and 60 of which are control firms. For the remaining columns, consistent with Panels A and B, we use only one control variable per treatment firm based on the closest match based on year, industry and size. Thus, we have a sample of 66 firms. Dependent variables are as defined in Table 1B, *BSC* is a variable equal 1 if the CEO has been identified as using a negotiator in his/her employment agreement (appears in the treatment sample), and 0 otherwise and other independent variables are as defined in Table 3. T-statistics are based on Heckman corrected standard errors and are shown in parentheses. For the selection model, Chi-squared statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level (two-tailed).

	Regression Variable						
	Contract (1)	Length (2)	Duration (3)	MakeWhole (4)	GuarBonus (5)	MinInc (6)	AccPension (7)
Intercept	1.82* (3.13)	3.86 (0.81)	20.93 (1.47)	-0.36 (-1.57)	-0.38 (-1.11)	-0.54* (-1.70)	-0.97** (-2.89)
BSC	.	3.31* (1.81)	10.01* (1.94)	0.26*** (2.94)	0.42*** (3.87)	0.33*** (2.69)	0.14 (1.12)
LogTA	-0.34*** (12.03)	1.19* (1.70)	7.21*** (3.40)	0.08** (2.40)	0.14*** (2.68)	0.07 (1.52)	0.17*** (3.36)
Positive CAR (-24,-7)	0.003 (0.54)	-0.012 (-0.47)	0.11 (1.39)	-0.002 (-1.85)	-0.0001 (-0.04)	0.002 (0.96)	-0.0003 (-0.17)
Negative CAR (-24,-7)	0.01 (2.05)	0.04 (1.52)	-0.14** (-1.79)	0.003** (2.14)	-0.003 (-1.63)	-0.003 (-1.49)	-0.0007 (-0.35)
Industry Return (-24,-7)	-0.00 (0.45)	-0.08** (-2.33)	0.07 (0.72)	0.0002 (0.13)	-0.0002 (-0.08)	-0.002 (-0.79)	0.004 (1.56)
Ind. Adj. ROA	0.01 (1.11)	0.12*** (2.80)	-0.32** (-2.29)	-0.004* (-1.67)	-0.007** (-2.02)	0.01*** (3.21)	-0.0004 (-0.11)
Std Dev of RET	0.01 (2.33)	0.07** (2.48)	-0.17* (-1.90)	0.0004 (90.27)	-0.005** (-2.12)	0.002 (0.91)	0.005** (2.15)
Ind. Adj. Altman Z	-0.12** (4.97)	0.26 (0.94)	0.81 (0.94)	-0.0004 (-0.03)	0.05** (2.22)	-0.02 (-1.07)	0.003 (0.16)
Pensions	0.02 (0.10)	-0.15 (-0.35)	-1.59 (-1.34)	0.06*** (2.89)	0.04 (1.57)	0.002 (0.07)	0.04 (1.50)
Interlocked	-1.15 (2.43)	-2.34 (-0.41)	-20.71 (-1.29)	-0.95*** (-3.36)	0.09 (0.27)	-0.37 (-0.95)	-0.92** (-2.39)
CEOOwn	-0.05 (0.84)	-1.52*** (-3.17)	-1.94 (-1.59)	-0.002 (-0.08)	-0.02 (-1.08)	-0.13*** (-3.86)	0.29*** (10.42)
Outsider	2.48*** (16.18)	1.10 (0.24)	-25.37* (-1.85)	-0.08 (-0.35)	-0.36 (-1.10)	0.16 (0.52)	-0.13 (-0.39)
CEO of Prior Employer	-0.53 (1.90)	5.26*** (2.70)	1.38 (0.23)	0.01 (0.15)	0.17 (1.20)	0.02 (0.13)	-0.03 (-0.22)
Industry Knowledge	0.14 (0.04)	3.69** (1.65)	-12.73* (-1.78)	-0.24** (-2.21)	0.19 (1.03)	0.18 (1.25)	0.13 (0.76)
Articles	0.01** (4.65)	-0.03 (-1.29)	-0.03 (-0.33)	-0.001 (-1.08)	-0.002 (-1.11)	0.003 (1.59)	-0.003 (-1.56)
Inverse Mill's Ratio	.	-3.16 (-0.71)	-24.21** (-1.99)	-0.11 (-0.51)	-0.88*** (-3.69)	-0.10 (-0.32)	-0.64** (-2.21)
F		1.87	3.23	2.41	11.86	2.73	2.23
Adjusted R ²		0.18	0.35	0.26	0.73	0.30	0.23
Pseudo R ²	0.35	.	.	.	.	.	.
N	162	66	66	66	66	66	66

Table 2 (continued)

Panel C - continued

Regressions of contract characteristics on firm and executive specific variables correcting for selection bias over observed contracts by using the Heckman two-step estimation procedure. The first column contains the probit selection model where the dependent variable, *Contract*, is an indicator variable equal 1 if we located an employment agreement for the given executive and 0 otherwise. The remaining columns are regressions of observed contract characteristics on firm and executive specific variables, and the *Inverse Mill's Ratio* estimated from the selection model as per the Heckman procedure. For the first stage estimation (column 1) we use a sample of 162 firms comprising 34 BSC firms and 128 control firms. We obtain four closely matched control firms based on the calendar year of CEO hire, industry group and market value of equity. Of the possible 136 firms (34*4) we lose 8 firms that duplicate control firms. Of the total sample, 94 firms have CEO employment contracts, 34 of which are BSC firms and 60 of which are control firms. For the remaining columns, consistent with Panels A and B, we use only one control variable per treatment firm based on the closest match based on year, industry and size. Thus, we have a sample of 66 firms. Dependent variables are as defined in Table 1B, *BSC* is a variable equal 1 if the CEO has been identified as using a negotiator in his/her employment agreement (appears in the treatment sample), and 0 otherwise and other independent variables are as defined in Table 3. T-statistics are based on Heckman corrected standard errors and are shown in parentheses. For the selection model, Chi-squared statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level (two-tailed).

	Regression Variable						
	Retirement (8)	VestAcc (9)	Plane (10)	Severance (11)	Control (12)	Gross (13)	NoExcise (14)
Intercept	-0.16 (-0.51)	0.42* (1.95)	0.48** (2.27)	0.74*** (5.24)	0.52*** (3.36)	-0.30 (-1.03)	0.76*** (2.67)
BSC	0.12 (1.04)	0.18** (2.17)	0.16** (1.96)	0.03 (0.62)	0.03 (0.44)	0.17 (1.54)	-0.17* (-1.66)
LogTA	0.13*** (2.90)	-0.03 (-0.90)	0.07** (2.22)	0.01 (0.39)	0.01 (0.65)	0.02 (0.45)	-0.03 (-0.82)
Positive CAR (-24,-7)	-0.002 (-0.98)	0.001 (0.90)	0.001 (0.82)	-0.001 (-1.07)	-0.001 (-0.91)	-0.001 (-0.70)	0.002 (1.14)
Negative CAR (-24,-7)	-0.002 (-1.21)	-0.001 (-0.79)	-0.002* (-1.78)	-0.0004 (-0.52)	0.001 (0.78)	0.002 (0.99)	-0.0001 (-0.04)
Industry Return (-24,-7)	0.004 (1.56)	-0.001 (-0.86)	-0.003** (-2.04)	-0.002 (-1.40)	-0.002 (-1.71)	-0.01*** (-2.94)	0.004** (2.24)
Ind. Adj. ROA	-0.01** (-2.15)	0.01*** (3.24)	-0.001 (-0.23)	0.001 (0.36)	-0.002 (-1.28)	0.004 (1.51)	-0.004 (-1.40)
Std Dev of RET	-0.001 (-0.57)	0.002 (1.58)	-0.003** (-2.34)	0.001 (1.35)	0.001 (1.45)	0.001 (0.62)	-0.001 (-0.36)
Ind. Adj. Altman Z	0.04* (1.95)	0.002 (0.14)	-0.01 (-0.63)	0.01 (1.07)	0.01 (1.51)	0.02 (1.08)	-0.03 (-1.60)
Pensions	-0.01 (-0.47)	0.07*** (3.86)	-0.05** (-2.49)	0.03*** (2.61)	0.04*** (2.68)	0.06** (2.19)	-0.06*** (-2.59)
Interlocked	0.99*** (2.69)	-1.15*** (-4.35)	0.18 (0.72)	-0.39** (-2.26)	-0.34* (-1.79)	-0.40 (-1.15)	0.57* (1.73)
CEOOwn	0.16*** (5.24)	-0.12*** (-5.42)	-0.17*** (-8.38)	0.01 (0.95)	0.05*** (3.21)	0.20*** (6.87)	-0.23*** (-9.04)
Outsider	-0.39 (-1.34)	0.24 (1.15)	-0.55*** (-2.70)	0.004 (0.03)	0.19 (1.24)	0.50* (1.80)	0.14 (0.52)
CEO of Prior Employer	-0.16 (-1.29)	0.12 (1.31)	0.15* (1.76)	0.06 (1.09)	0.06 (0.97)	0.28 (2.43)	-0.36*** (-3.06)
Industry Knowledge	-0.32** (-2.17)	0.04 (0.38)	-0.44*** (-4.32)	0.03 (0.52)	0.05 (0.76)	0.24* (1.80)	-0.27* (-1.95)
Articles	-0.003 (-1.56)	0.0004 (0.34)	-0.001 (-0.52)	-0.0003 (-0.35)	-0.0003 (-0.35)	-0.0004 (-0.26)	0.001 (0.81)
Inverse Mill's Ratio	-0.30 (-1.07)	0.01 (0.05)	-0.23 (-1.20)	-0.10 (-0.76)	0.02 (0.12)	0.09 (0.33)	0.41 (1.62)
F	1.29	1.85	3.13	0.66	0.80	1.67	1.76
Adjusted R ²	0.07	0.17	0.34	0.00	0.00	0.14	0.16
Pseudo R ²	.	.	.	.	.	.	.
N	66	66	66	66	66	66	66

Table 3: Descriptive Statistics**Panel A**

The control sample consists of all executives who became CEOs in the same calendar year and industry as one of the CEOs flagged as having used a 'professional negotiator', and whose firms have data on CRSP/COMPUSTAT/EXECUCOMP and pension data available from Cremers and Nair (2005). The treatment sample consists of those years in which a CEO started and was identified as having used a 'professional negotiator'. The control sample is formed without replacement with respect to executive and firm. All variables are in thousands except where noted and are as of the respective fiscal year end. The t-stat tests the null hypothesis that the difference in sample means is zero and the Wilcoxon-Z tests the null hypothesis that the difference in sample medians is zero.

Total Compensation is the sum of salary, bonus, other annual, restricted stock granted, options granted (using Black-Scholes), long term incentive payouts, and all other total. *Salary* is the executive's base salary. *Equity* is the sum of *Options* and *Restricted Stock*. *Options* is the total Black-Scholes value of stock options granted to the executive during the fiscal year, and *Restricted Stock* is the total value of restricted stock granted during the fiscal year.

Variable	Control Sample (N=382)			Treatment Sample (N=34)			Test Statistics of Differences	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-stat	Wilcoxon Z
Total Compensation	5659.68	2317.06	9893.20	21191.77	13391.67	23047.20	-7.54	-6.24
Salary	471.32	432.02	290.15	601.47	527.60	406.36	-2.42	-1.57
Equity Compensation	4323.30	1362.93	9279.57	18987.87	10925.88	22919.74	-7.45	-6.26
Options	3570.72	1218.38	7439.18	13779.60	8682.41	16799.94	-6.66	-6.09
Restricted Stock	752.58	0.00	3832.65	5208.27	613.25	8263.02	-5.72	-4.86

Table 3 (continued):

Panel B

Market Value, *Book Value of Equity*, and *Total Assets* are for the fiscal year prior to date when the CEO was hired and are in millions. *LogMV* (*LogTA*) is the natural logarithm of the firm's market value (total assets) for the prior fiscal year. *MTB* is the market to book ratio for the prior fiscal year. *Investment Opportunities* is the average fiscal year-end market-to-book ratio for the prior five years. *Altman-Z* score is computed using Compustat data as follows: $1.2 * (\text{data179}/\text{data6}) + 1.4 * (\text{data36}/\text{data6}) + 3.3 * (\text{data18} + \text{data16} + \text{data15})/\text{data6} + 0.6 * (\text{data199} * \text{data25})/\text{data181} + \text{data12}/\text{data6}$. *ROA* is the ratio of EBIT (COMPUSTAT Item 13 – Item 14) to Total Assets. *RET* is the stock return for the twelve months ended six months prior to the month the CEO was hired. *Std Dev of ROA* (*Std Dev of RET*) is the standard deviation of annual ROA (annual stock returns) over the prior five fiscal years. *Pensions* is the percentage of total equity ownership by the largest US public pension funds for the last quarter of the prior fiscal year (Cremers and Nair (2005)). *CEOOwn* is the percent of shares outstanding held by the CEO. *Number of Meetings* is the number of Board meetings during the fiscal year. *IsChair* is equal to 1 if the CEO is also chair of the Board, and 0 otherwise. *Interlocked* is equal to 1 if the CEO is interlocked with a member of his/her compensation committee, and 0 otherwise. *G-Index* is the measure of shareholder power as per Gompers, Ishii, and Metrick (2001). *CAR* is defined as firm *i*'s stock return in a given month less the stock return for the CRSP value-weighted index for that month, summed over the specified interval, where month 0 is the month the executive became CEO of the firm. *Industry Return* is the return on the respective Fama and French (1997) twelve industry portfolios, cumulated over the specified interval..

Variable	Control Sample (N=382)			Treatment Sample (N=34)			Test Statistics of Differences	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-stat	Wilcoxon Z
Market Value	5820.18	1070.03	18067.68	15008.58	6050.02	25559.47	-2.73	-3.86
Book Value of Equity	1592.30	474.22	3711.79	4922.54	2304.85	6562.65	-4.64	-3.92
Total Assets	9833.76	1280.11	42803.19	23350.14	7789.00	49013.34	-1.74	-3.88
LogMV	7.15	6.98	1.65	8.31	8.71	2.08	-3.82	-3.86
LogTA	7.35	7.15	1.75	8.6	8.9	2.08	-3.91	3.87
MTB	2.98	2.14	4.20	5.52	2.22	13.88	-2.52	-0.51
Investment Opportunities	3.51	2.33	4.34	4.67	2.94	7.15	-1.40	-0.96
Altman-Z	3.89	2.98	5.04	3.52	2.48	4.5	0.42	1.51
ROA (%)	8.35	8.32	14.01	6.82	9.08	18.06	0.59	-0.18
RET (%)	8.24	3.36	50.41	-1.65	-6.30	45.59	1.10	1.35
Std Dev of ROA	4.20	2.48	5.23	3.85	2.41	4.78	0.37	0.18
Std Dev of RET	45.76	34.69	47.23	45.98	32.90	40.56	-0.03	0.39
Pensions	2.93	2.51	2.62	3.26	2.75	2.52	-0.70	-1.40
CEOOwn (%)	0.87	0.13	3.33	0.17	0.04	0.37	1.22	3.42
Number of Meetings	8.13	7.00	3.66	10.66	9.00	4.24	-3.81	-3.90
IsChair	0.27	0.00	0.45	0.53	1.00	0.51	-3.15	-3.11
Interlocked	0.06	0.00	0.24	0.03	0.00	0.17	0.78	0.78
G-Index	9.32	9.00	2.78	9.71	9.00	2.65	-0.67	-0.57
CAR (-24,-7)	-4.49	-4.73	55.80	-27.68	-31.31	57.50	2.32	2.49
CAR (-6,+11)	16.26	12.17	62.09	25.73	28.60	49.02	-0.87	-1.41
CAR (+12,+36)	8.54	9.20	73.32	9.54	11.89	51.67	-0.07	-0.11
Industry Return (-24,-7)	18.10	18.31	27.54	12.81	11.63	20.82	1.09	-1.63

Table 3 (continued):

Panel C

Outsider equals 1 if the CEO's previous position was with a different firm, 0 otherwise. *CEO of Prior Employer* equals 1 if the CEO was also the CEO in his previous position, 0 otherwise. *Industry Knowledge* equals 1 if the CEO's previous position was in a firm with the same Fama and French (1997) industry classification as the sample firm, 0 otherwise. *Articles* is the number of articles resulting from a LexisNexis search on both the CEO's name and previous employer over the 36 months ending the 12 months before the executive became CEO of the sample firm. *Public* equals 1 if the CEO's previous position was with a publicly traded company (covered by CRSP and COMPUSTAT) over the 36 months prior to the end of the fiscal year that the CEO left his/her previous employer, 0 otherwise. *CARPrior* is the stock return of the CEO's previous employer in a given month less the stock return for the CRSP value-weighted index for that month, summed over the three years ended the fiscal year he/she left. *S&P* equals 1 if the CEO was in the top 5 officers of his prior employer and his prior employer was in the S&P1500 in the fiscal year that he/she left her previous employer (CEO's prior compensation appears in EXECUCOMP), 0 otherwise. *CompPrevCEO* is the total compensation of the previous CEO of the hiring firm in the year of departure. *CompPrevPos* is the total compensation for the sample CEO's previous position. *CompRatio* is the ratio of *Total Compensation* to *CompPrevPos*, and *Forfeit* is the value of unexercisable in-the-money options for CEO hires whose prior compensation was covered by EXECUCOMP during the CEO's last year in his previous position multiplied by the value of *Outsider*.

	Control Sample (N=382)			Treatment Sample (N=34)			Test Statistics	
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-stat	Wilcoxon Z
Outsider	0.29	0.00	0.45	0.85	1.00	0.36	-7.12	-6.73
CEO of Prior Employer	0.14	0.00	0.35	0.35	0.00	0.49	-3.21	-3.17
Industry Knowledge	0.83	1.00	0.37	0.38	0.00	0.49	6.54	6.23
Articles	13.85	4.00	29.86	37.12	13.00	58.13	-3.94	-3.86
Public	0.93	1.00	0.25	0.88	1.00	0.33	1.14	1.14
CARPrior	10.49	7.24	82.22	18.85	29.55	56.45	-0.55	-1.23
S&P	0.78	1.00	0.41	0.44	0.00	0.50	4.48	4.38
Forfeit	2526.19	239.69	10044.65	3442.14	12.00	5429.55	-0.32	0.02
CompPrevCEO	3711.15	1783.94	5599.93	4928.21	1683.47	7049.82	-1.13	0.54
CompPrevPos	3711.26	1475.02	12727.14	7686.57	3874.55	9125.30	-1.19	-2.90
CompRatio	3.13	1.46	7.53	11.54	2.87	15.80	-3.93	-3.26

Table 4: Matched Sample First Year Compensation Regressions

Panel A. Regressions of CEO's first year compensation on economic determinants and control variables. *CompPrevPos* and *CompPrevCEO* are variables constructed in the same manner as the respective dependent variable, but for the CEO's previous position, and the firm's previous CEO respectively. All variables are as defined in notes to Table 2 or 3. In each regression we exclude those observations with a Cook-D greater than 1. Inferences are robust to outlier inclusion, iterated deletion of variables, year and industry fixed effects, size matching, and restricting the sample to include only firms above median size or only executives hired from another firm. T-statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level. N=416 (comprising 34 BSC firms and 382 control firms)

	CEO compensation variable					
	Total Comp. (1)	Total Comp. (2)	Total Comp. (3)	Total Comp. (4)	Salary (5)	Equity Comp. (6)
Intercept	-17906.00*** (-5.90)	-19048.00*** (-5.83)	-18808.00*** (-4.48)	-11709.00*** (-2.67)	211.31*** (2.70)	-11567.00*** (-2.72)
BSC	12812.00*** (6.53)	12380.00*** (6.18)	9426.66*** (4.56)	8312.32*** (4.11)	156.33*** (4.36)	7797.91*** (3.92)
Log(TA)	2592.86*** (7.79)	2434.33*** (6.84)	2026.09*** (5.42)	1334.56*** (3.40)	37.55*** (5.08)	1159.11*** (3.12)
Investment Opportunities	145.81 (1.18)	134.04 (1.09)	126.73 (1.06)	97.71 (0.85)	0.93 (0.46)	104.15 (0.92)
ROA	80.99 (1.61)	72.34 (1.42)	53.52 (1.07)	31.04 (0.64)	0.57 (0.66)	35.45 (0.75)
Positive CAR(-24,-7)	20.02 1.03 (1.00)	19.49 1.00 (1.00)	23.29 1.18 (1.18)	3.10 0.16 (0.16)	0.25 0.74 (0.74)	2.12 0.11 (0.11)
Negative CAR(-24,-7)	7.43 (0.44)	15.57 (0.92)	17.60 (1.00)	14.91 (0.87)	0.12 (0.41)	12.87 (0.76)
Industry Return (-24,-7)	14.02 (0.71)	12.90 (0.66)	22.31 (1.15)	31.31* (1.66)	-0.40 (-1.20)	27.08 (1.46)
Std Dev of ROA	346.03** (2.46)	259.69* (1.82)	217.75 (1.56)	163.76 (1.21)	4.09* (1.71)	158.41 (1.20)
Std Dev of RET	5.87 (0.47)	4.35 (0.34)	7.33 (0.57)	3.78 (0.31)	-0.02 (-0.09)	2.48 (0.20)
Altman-Z	296.37** (2.27)	325.39** (2.49)	268.05** (2.05)	240.50* (1.91)	0.12 (0.05)	247.50** (2.00)
Pensions		-245.92 (-1.19)	-252.01 (-1.24)	-244.34 (-1.26)	-3.52 (-1.02)	-242.24 (-1.27)
Number of Meetings		403.88*** (2.72)	312.56** (2.12)	207.81 (1.44)	-4.50* (-1.77)	224.91 (1.59)
Interlocked		-2512.72 (-1.12)	-2431.58 (-1.07)	-2159.23 (-1.03)	-51.17 (-1.38)	-1536.32 (-0.75)
IsChair		-534.98 (-0.45)	-856.91 (-0.73)	-495.81 (-0.44)	0.26 (0.01)	-792.14 (-0.71)
D _{G-index}		3740.74 (1.54)	4073.38* (1.70)	5425.60** (2.33)	46.12 (1.12)	5233.15** (2.29)
D _{G-index} * G-Index		-305.90 (-1.41)	-322.51 (-1.51)	-404.01** (-1.96)	-0.30 (-0.08)	-383.64* (-1.90)
Outsider			2942.14* (1.82)	1102.97 (0.67)	-167.07*** (-5.69)	1229.29 (0.75)
CEO of Prior Employer			-874.23 (-0.59)	-753.55 (-0.52)	27.81 (1.09)	-690.47 (-0.49)
Industry Knowledge			-2660.56 (-1.30)	-2919.40 (-1.48)	-50.40 (-1.44)	-2764.28 (-1.43)
Articles			59.72*** (3.53)	33.73* (1.92)	-0.05 (-0.16)	30.32* (1.76)
Public			4660.31* (1.88)	3979.54 (1.60)	-7.64 (-0.17)	4036.12* (1.65)
Public * CARPrior			3.13 (0.39)	8.94 (1.05)	-0.10 (-0.63)	8.72 (1.05)
S&P				-1844.80 (-1.22)	-249.56*** (-7.52)	-1962.55 (-1.34)
S&P * Forfeit				1.89*** (4.51)	-0.01 (-1.13)	1.97*** (4.78)
S&P * CompPrevPos				0.11 (0.69)	0.75*** (14.37)	0.14 (0.85)
D _{PREV}				413.66 (0.26)	-52.56 (-1.55)	934.46 (0.60)
D _{PREV} * CompPrevCEO				0.42*** (3.26)	0.10*** (2.94)	0.36*** (2.59)
F / Adjusted R ²	14.82 / 0.25	10.23 / 0.26	9.16 / 0.30	9.76 / 0.36	32.23 / 0.67	8.41 / 0.33

Table 4 (continued)

Panel B. Matched Sample First Year Compensation Regressions with Interaction Terms for Governance Variables

Regressions of CEO's first year compensation on economic determinants and control variables. With the exception of *BSC * Pensions* and *BSC * Interlocked* all dependent and independent variables are as in Table 4. For parsimony only interaction effects and the corresponding main effects are shown. In each regression we exclude those observations with a Cook-D greater than 1. Inferences are robust to outlier inclusion, iterated deletion of variables, year and industry fixed effects, size matching, and restricting the sample to include only firms above median size or only executives hired from another firm. T-statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level. N=416 (comprising 34 BSC firms and 382 control firms)

	CEO compensation variable		
	Total Comp.	Salary	Equity Comp.
Intercept	-11477.40** (-2.56)	21.23 (0.22)	-9874.32** (-2.26)
BSC	14658.20* (1.74)	636.11*** (3.43)	12544.09 (1.52)
BSC * Pensions	-3352.43* (-1.92)	-119.90*** (-3.12)	-3067.45* (-1.80)
BSC * Number of Meetings	494.44 (1.02)	-17.30 (-1.62)	586.28 (1.24)
BSC * Interlocked	40012.70 (1.57)	1567.29*** (2.80)	35867.68 (1.44)
BSC * IsChair	-8953.44* (-1.81)	301.29*** (2.78)	-10513.35*** (-2.18)
BSC * D _{G-index}	-13462.40 (-1.36)	-25.92 (-0.12)	-14342.75 (-1.48)
BSC * D _{G-index} * G-index	1852.04** (2.05)	-18.67 (-0.94)	2042.23** (2.32)
Pensions	-117.12 (-0.59)	-2.91 (-0.67)	-104.05 (-0.54)
Number of Meetings	150.41 (1.01)	-5.37* (-1.64)	167.07 (1.15)
Interlocked	-2273.25 (-1.08)	-73.14 (-1.58)	-1848.24 (-0.90)
IsChair	526.84 (0.45)	27.99 (1.09)	259.69 (0.23)
D _{G-index}	6434.42*** (2.76)	101.04** (1.97)	6414.90*** (2.82)
D _{G-index} * G-index	-542.83*** (-2.60)	-3.43 (-0.75)	-537.43*** (-2.64)
F / Adjusted R ²	8.97 / 38.85	14.21 / 51.29	8.12 / 36.22

Table 5: Pay for Performance Sensitivity - Descriptive Statistics and Regression Analysis

Total Compensation is the total compensation for the executive including salary, equity, and bonuses. $\Delta Total Compensation$ is the sum of *Total Compensation*, $\Delta Options Value$, and $\Delta Stock Value$ in thousands. $\Delta Options Value$ is the number of options held by the CEO at the beginning of the year times an estimate of the change in the average option value based on the method of Core and Guay (2002) and adjusted for stock splits during the year. $\Delta Stock Value$ is the beginning of fiscal year value of shares held by the CEO times the fiscal year stock return, adjusted for stock splits during the year in thousands. *Variance of SW* is the variance of monthly stock returns over the previous 60-months expressed in decimal form and multiplied by beginning of year market value. $\Delta SW-Firm$ ($\Delta SW-market$) is *Beginning of Year MV* multiplied by the return on the firm's stock (CRSP value-weighted index) over the fiscal year. *IsChair* is equal to 1 if the CEO is also chair of the Board, and 0 otherwise. *Number of Meetings* is the number of Board meetings during the fiscal year. *PctInterLock* is the proportion of top 5 officers who have interlocked relationships. *PctOnBoard* is the proportion of top 5 officers on the board. The t-stat tests the null hypothesis that the difference between incoming (outgoing) sample means is zero. The Wilcoxon-Z tests the null hypothesis that the difference in sample medians is zero. The t-stat of differences tests the null hypothesis that the treatment sample incoming CEO values equal the outgoing treatment sample CEO values.

Panel A:

	Control Sample Incoming CEO (N=1485)			Treatment Sample Incoming CEO (N=133)			Test Statistics		
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-stat	Wilcox Z	t-stat of differences
Total Compensation	4599.32	2569.43	6581.32	13725.47	8887.96	15191.31	13.17	11.21	4.80
$\Delta Total Compensation$	5634.74	2913.05	26383.96	16465.05	11686.34	52718.59	4.07	7.89	-0.66
$\Delta Options Value$	53.20	52.01	7237.49	1598.62	431.82	44498.44	1.18	2.98	0.94
$\Delta Stock Value$	982.22	120.27	20838.41	1140.96	287.19	7804.17	0.09	1.71	-2.52
Variance of SW	778946.67	197097.55	1994697.31	3149291.11	922524.43	5419977.02	10.64	9.84	2.38
$\Delta SW-firm$	290606.80	87570.69	4033235.00	890993.58	627487.04	17854994.56	1.04	3.44	-0.07
$\Delta SW-market$	353744.75	69841.49	4404491.75	910236.03	546405.07	9091856.90	1.24	2.30	-1.67
IsChair	0.55	1.00	0.50	0.77	1.00	0.42	5.08	5.04	-2.55
Number of Meetings	7.36	7.00	3.04	9.45	9.00	3.61	7.45	7.68	3.26
PctInterLock	0.01	0.00	0.06	0.01	0.00	0.04	-1.07	-0.77	-2.72
PctOnBoard	0.34	0.20	0.18	0.31	0.20	0.17	-2.34	-1.91	-3.91
	Control Sample Outgoing CEO (N=1653)			Treatment Sample Outgoing CEO (N=136)			Test Statistics		
	Mean	Median	Std. Dev.	Mean	Median	Std. Dev.	t-stat	Wilcox Z	
Total Compensation	3379.13	1834.06	5744.26	5887.93	2913.45	11379.91	-4.43	-4.92	
$\Delta Total Compensation$	12617.96	3098.24	95738.44	25217.38	5300.47	143740.14	-1.41	-2.44	
$\Delta Options Value$	684.72	35.05	6972.01	-6722.68	0.00	91761.54	3.18	0.48	
$\Delta Stock Value$	8554.11	340.00	92155.20	26052.13	374.03	113857.24	-2.09	-0.01	
Variance of SW	474972.60	149140.83	1286719.27	1626576.59	503766.62	5055548.27	-6.94	-8.53	
$\Delta SW-firm$	756791.87	109777.09	4384571.50	1042302.81	304140.76	15522461.12	-0.53	-1.51	
$\Delta SW-market$	714734.18	160383.21	2429927.58	2491115.85	986711.13	6205506.04	-6.88	-5.65	
IsChair	0.72	1.00	0.45	0.89	1.00	0.31	-4.40	-4.38	
Number of Meetings	7.03	6.00	2.78	8.07	7.11	3.33	-4.11	-3.81	
PctInterLock	0.04	0.00	0.12	0.03	0.00	0.10	0.38	0.19	
PctOnBoard	0.41	0.40	0.19	0.40	0.40	0.23	0.69	0.53	

Table 5 (continued)

Panel B

Median regressions of Δ Total Compensation (in \$s) on economic determinants and control variables. t is event time in years, where year 0 represents the first year the sample executive spent greater than 6 months in office, and $t < 0$ indicates that variables are for his/her predecessor (outgoing CEO). *Incoming* is a variable equal 1 if the observation is for a CEO in our sample, and 0 if it is for his/her predecessor. *FirstYrObs* is a variable equal 1 if the observation is for a CEO in our sample and the sample executive spent greater than 6 months in office ($t=0$), and 0 otherwise. All other variables are as previously defined. All regressions include unreported year and industry control variables. $F(.)$ represents the empirical CDF of the variable in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level.

	Incoming CEOs $t=0$ (1)	Incoming CEOs $t \geq 0$ (2)	Outgoing CEOs $t \leq -1$ (3)	Incoming & Outgoing CEOs: all available t (4)
Intercept	2968153.00*** (5.14)	1519954.00 (0.69)	521225.10 (0.76)	1398509.00** (2.41)
Incoming	.	.	.	-276293.20 (-1.35)
FirstYrObs	.	191323.50 (0.68)	.	26671.36 (0.11)
BSC	6604883.00*** (35.65)	2551798.00*** (5.62)	945545.70** (2.32)	790616.00** (2.02)
BSC * Incoming	.	.	.	2117769.00*** (3.74)
BSC * FirstYrObs	.	5224869.00*** (5.72)	.	4324817.00*** (5.26)
Δ SW – Firm	11.08*** (60.65)	13.42*** (37.77)	21.72*** (67.01)	16.03*** (70.72)
Δ SW – Firm * BSC	-1.15*** (-34.14)	1.15*** (21.71)	0.89*** (17.77)	1.17*** (27.64)
Δ SW – Firm * Incoming	.	.	.	-0.11*** (-2.68)
Δ SW – Firm * Incoming * BSC	.	.	.	0.18*** (3.25)
Δ SW – Firm * FirstYrObs	.	0.19*** (2.75)	.	0.07 (1.00)
Δ SW – Firm * FirstYrObs * BSC	.	-1.16*** (-7.87)	.	-0.90*** (-6.28)
Δ SW–Market	-1.14*** (-16.89)	-0.44*** (-4.68)	0.04 (0.19)	-0.13 (-1.47)
Δ SW–Market * BSC	-1.81*** (-62.18)	-0.41*** (-5.11)	-0.80*** (-7.60)	-0.98*** (-11.13)
Δ SW–Market * Incoming	.	.	.	0.03 (0.55)
Δ SW –Market * Incoming * BSC	.	.	.	0.33*** (3.38)
Δ SW –Market * FirstYrObs	.	-0.29*** (-3.70)	.	-0.28*** (-3.76)
Δ SW–Market * FirstYrObs * BSC	.	-0.71*** (-5.29)	.	-0.73*** (-4.38)
Δ SW – Firm * $F(\text{LogMV})$	-2.26*** (-9.05)	-9.18*** (-19.05)	-27.93*** (-59.39)	-15.58*** (-48.90)
Δ SW – Firm * $F(\text{Variance of SW})$	-5.78*** (-21.21)	-2.20*** (-5.28)	8.20*** (21.91)	1.17*** (4.32)
Δ SW – Firm * IsChair	0.33*** (23.28)	0.83*** (11.70)	0.62*** (13.16)	0.63*** (17.52)
Δ SW – Market * IsChair	-0.05 (-1.05)	-0.09** (-1.51)	-0.16 (-1.53)	-0.03 (-0.56)
Δ SW – Firm * Number of Meetings	-0.19*** (-51.92)	-0.17*** (-27.26)	-0.18*** (-27.41)	-0.14*** (-31.75)
Δ SW – Market * Number of Meetings	0.37*** (57.37)	0.13*** (9.82)	0.07*** (4.19)	0.12*** (11.98)
Δ SW – Firm * PctInterLock	-14.22*** (-16.56)	-4.23*** (-5.00)	-1.40*** (-5.88)	-3.88*** (-18.03)
Δ SW – Market * PctInterLock	6.47*** (9.37)	1.07 (0.69)	1.35*** (3.20)	1.33*** (3.29)
Δ SW – Firm * PctOnBoard	-1.18*** (-15.13)	-0.32** (2.35)	-0.42*** (-4.70)	0.21*** (2.84)
Δ SW – Market * PctOnBoard	-3.86*** (-60.45)	-0.30* (-1.77)	0.35 (1.50)	-0.77*** (-6.71)
Pseudo R^2 / N (BSC exec-years)	0.23 / 382 (34)	0.25 / 1618 (133)	0.13 / 1789 (136)	0.16 / 3407 (269)

Table 6: Matched Sample Performance Regressions

Regressions of future performance metrics on an indicator variable for whether the CEO used a negotiator in his/her employment agreement (BSC) for treatment firms and their matched control firms with returns and ROA available on CRSP/COMPUSTAT. The dependent variable is the average of a given performance metric over a specified number of years in the future. *ROA [X]yr (RET[X]yr)* is the average ROA (fiscal year buy and hold returns) in percent over the future X years. *ROA (RET)* is the ROA (return) for the current fiscal year, and all other variables are as defined in notes to Table 2 or 3. All regressions include unreported year and industry control variables. T-statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level. N= 407 (including 31 negotiator firms)

	Performance variable					
	ROA 1yr (1)	ROA 3yr (2)	ROA 5yr (3)	RET1yr (4)	RET 3yr (5)	RET 5yr (6)
Intercept	1.12 (0.24)	-1.05 (-0.21)	0.06 (0.01)	7.09 (0.85)	37.39 (1.15)	40.00 (1.36)
BSC	2.32** (1.99)	2.12* (1.68)	1.85 (1.47)	12.36 (0.85)	3.01 (0.38)	2.13 (0.30)
LogMV	-0.08 (-0.39)	0.04 (0.18)	0.01 (0.06)	-5.17** (-2.09)	-4.46*** (-3.29)	-4.05*** (-3.30)
Std Dev of ROA	0.11 (1.62)	0.08 (1.10)	0.07 (0.78)	.	.	.
ROA	0.76*** (29.89)	0.66*** (24.27)	0.63*** (23.21)	.	.	.
Std Dev of RET	.	.	.	0.08 (0.88)	0.04 (0.85)	0.03 (0.76)
MTB	.	.	.	-0.25 (-0.35)	0.06 (0.16)	0.03 (0.08)
RET	.	.	.	0.03 (0.44)	-0.002 (-0.07)	0.01 (0.39)
F	45.40	31.75	29.44	1.89	1.81	2.08
Adjusted R ²	0.72	0.65	0.63	0.05	0.05	0.06

Table 7: Abnormal Return Regressions for Population, Matched Sample, and Prior Employer

Abnormal return regressions for the new CEO's current and previous employer. *BSC* is a variable equal 1 if the CEO has been identified as using a negotiator in his/her employment agreement (is in the treatment sample), and 0 otherwise. *Matched* is indicator variable equal one if the firm is in the control sample and 0 otherwise. All other variables are as defined in Fama and French (1993) and Ken French's website. The first four columns show regressions estimated over the 'population' of all firms on EXECUCOMP with available data between 1992-2004 that have new CEOs, intersected with data on CRSP and COMPUSTAT. See Table 1 for more details on sample construction. The last three columns show regressions for the CEO's previous employer ending with month 0 being the fiscal year end that the executive left his/her former position. T-statistics are shown in parentheses and are based on White (1980) adjusted standard errors. ***/**/* indicate statistical significance at the 1%/5%/10% level. The sample comprises of returns over various periods for 1206 firms, of which 382 are control sample firms and 34 are treatment sample firms. Note that we do not require monthly returns over the entire interval for inclusion in the sample.

Fama French (1993) abnormal return regressions							
	Sample Employer -36...-1 (1)	Sample Employer -24...-7 (2)	Sample Employer -6...+11 (3)	Sample Employer 0...36 (4)	Prior Employer -36...0 (5)	Prior Employer -18...-7 (6)	Prior Employer -6...0 (7)
Intercept	0.35*** (4.33)	0.40*** (3.49)	0.14 (1.13)	0.41*** (4.21)	0.45*** (3.71)	0.28 (1.30)	0.23 (0.81)
BSC	-0.61* (-1.65)	-1.69*** (-3.23)	1.55 (1.62)	0.56 (0.97)	-0.19 (-0.56)	-0.59 (-1.01)	0.60 (0.71)
Matched	-0.23 (-1.54)	-0.56*** (-2.70)	0.42* (1.76)	-0.05 (-0.30)	.	.	.
MKTRF	1.04*** (46.90)	1.02*** (31.52)	1.09*** (31.61)	1.09*** (42.87)	1.21*** (38.10)	1.12*** (19.90)	1.31*** (18.95)
SMB	0.44*** (13.88)	0.49*** (10.41)	0.49*** (11.49)	0.47*** (15.76)	0.31*** (7.94)	0.20*** (3.16)	0.23*** (2.91)
HML	0.23*** (7.19)	0.25*** (5.60)	0.29*** (6.35)	0.44*** (11.86)	0.37*** (7.65)	0.37*** (4.87)	0.60*** (5.88)
UMD	-0.16*** (-6.02)	-0.11*** (-3.01)	-0.32*** (-8.43)	-0.26*** (-10.16)	-0.30*** (-8.59)	-0.32*** (-5.59)	-0.22*** (-3.36)
MKTRF * BSC	0.03 (0.29)	0.16 (1.10)	-0.06 (-0.28)	-0.22 (-1.47)	-0.05 (-0.53)	0.02 (0.15)	-0.25 (-1.42)
SMB * BSC	-0.37*** (-3.42)	-0.33** (-2.36)	-0.55*** (-2.66)	-0.40*** (-2.85)	-0.29*** (-2.93)	-0.18 (-1.15)	-0.53*** (-2.86)
HML * BSC	0.04 (0.27)	0.03 (0.14)	-0.09 (-0.42)	-0.25 (-1.48)	-0.01 (-0.09)	0.15 (0.75)	-0.53** (-2.29)
UMD * BSC	-0.05 (-0.51)	-0.29** (-2.26)	-0.14 (-0.53)	-0.05 (-0.26)	0.31*** (8.59)	0.34*** (5.59)	-0.22*** (-3.36)
MKTRF * Matched	0.18*** (4.60)	0.19*** (3.25)	-0.01 (-0.10)	-0.06 (-1.29)	.	.	.
SMB * Matched	-0.06 (-1.21)	-0.19*** (-2.69)	0.08 (1.10)	0.07 (1.42)	.	.	.
HML * Matched	0.24*** (4.34)	0.18** (2.23)	0.26*** (3.51)	0.01 (0.09)	.	.	.
UMD * Matched	-0.09** (-2.27)	-0.20*** (-3.54)	0.16*** (2.77)	0.03 (0.64)	.	.	.
F	418.20	205.13	217.96	393.43	311.73	88.91	68.66
Adjusted R ²	0.12	0.12	0.12	0.12	0.13	0.12	0.15
Total Sample Size	42910	21647	21685	41768	14050	4615	2704
T-test of Differences $\beta_{BSC} - \beta_{Matched} = 0$	1.00	2.08**	1.16	1.04	.	.	.

Table 8: CEO Appointment Date Abnormal Returns

Regressions of buy-and hold abnormal returns (BHARs) on an indicator variable for whether the CEO used a negotiator in his/her employment agreement (BSC). Market (Size) adjusted BHARs are calculated as the compounded return of the firm over the event interval specified, minus that of the CRSP value-weighted index (firm i 's prior year-end size decile). All returns are expressed in percentages. We require returns over the entire interval. Event day 0 is defined for each firm as the date EXECUCOMP has recorded as the day the executive became CEO (appointment date). If no trading occurs on the appointment date we define event day 0 as the next trading day. OLS t-statistics are shown in parentheses () and p-values based on the empirical distribution of OLS coefficients are shown in brackets []. ***/**/* indicate statistical significance at the 1%/5%/10% level. N= 416 (including 34 BSC firms).

Variable	Market Adjusted Buy and Hold Abnormal Returns					
	BHAR(-5,+5)	BHAR(-3,+3)	BHAR(-1,+1)	BHAR(-5,0)	BHAR(-3,0)	BHAR(-1,0)
Intercept	0.84 (1.35) [0.20]	0.84 (1.78) [0.11]	0.48* (1.64) [0.10]	0.96** (2.54) [0.04]	0.95*** (2.84) [0.01]	0.43* (1.80) [0.07]
BSC	4.93*** (2.27) [0.01]	3.32** (2.02) [0.02]	1.71** (1.66) [0.05]	2.87** (2.16) [0.02]	2.29** (1.95) [0.03]	0.96 (1.14) [0.12]
F	5.17	4.08	2.77	4.68	3.79	1.29
Adjusted R ²	0.01	0.01	0.00	0.01	0.01	0.00
Size Adjusted Buy and Hold Abnormal Returns						
Intercept	0.68 (1.12) [0.32]	0.63 (1.35) [0.17]	0.39 (1.31) [0.15]	0.81* (2.13) [0.06]	0.74** (2.17) [0.04]	0.33 (1.37) [0.13]
BSC	4.96*** (2.32) [0.01]	3.51*** (2.17) [0.01]	1.84** (1.79) [0.04]	2.97** (2.24) [0.03]	2.51** (2.14) [0.02]	1.14* (1.36) [0.09]
F	5.41	4.71	3.20	5.02	4.60	1.86
Adjusted R ²	0.01	0.01	0.01	0.01	0.01	0.00

Table 9: Regression of change in non-BSC CEO compensation on BSC CEO compensation

Regressions of changes in non-new CEO compensation on industry new CEO pay and control variables. This sample is comprised of all non-new CEOs between 1992 and 2004 where EXECUCOMP identifies the date the executive became CEO and with data on the independent variables. We delete all executives (firms) known to have used BSC (hired a BSC CEO). *Avg BSC CEO Pay (-1)* (*Avg Non-BSC CEO Pay (-1)*) is a variable equal to the average pay of BSC CEOs (non-BSC CEOs) joining that industry in the prior year and 0 if no BSC CEO (non-BSC CEO) joined the industry in the prior year, constructed using the same measure of pay as the dependent variable. $D_{\Delta G\text{-index}}$ equals 1 if $\Delta G\text{-Index}$ is not missing and 0 otherwise, all other variables are defined in Table 2 and 3. Statistical inferences are robust to iterated deletion of variables, and to adjusting standard errors to allowing for heteroskedasticity, or residual correlation within firm, executive, or industry. T-statistics are shown in parentheses. ***/**/* indicate statistical significance at the 1%/5%/10% level. N=11853 (comprising 0 BSC firms and 0 BSC executives)

	CEO compensation variable		
	Δ Total Comp	Δ Equity	Δ Salary
Intercept	435.06 (0.52)	257.06 (0.31)	6.75 (0.86)
Avg BSC CEO Pay (-1)	0.06 (1.53)	0.07 (1.49)	0.00 (-0.76)
Avg Non-BSC CEO Pay (-1)	-0.03 (-0.75)	-0.04 (-0.72)	0.01 (0.44)
$\Delta \ln(\text{TA})$	1631.29*** (3.04)	1658.00*** (3.08)	46.26*** (11.08)
Δ Investment Opportunities	14.37 (0.77)	13.73 (0.73)	-0.03 (-0.22)
Δ ROA	58.54*** (3.12)	57.39*** (3.05)	0.52*** (3.58)
Δ RET	5.87*** (4.05)	5.97*** (4.11)	0.04*** (3.86)
Δ Std Dev of ROA	101.08* (1.65)	88.13 (1.43)	-0.06 (-0.13)
Δ Std Dev of RET	-20.70*** (-3.75)	-21.97*** (-3.97)	-0.08* (-1.85)
Δ Altman-Z	101.51*** (6.69)	98.15*** (6.45)	0.31*** (2.65)
Δ Pensions	62.37 (0.77)	57.89 (0.71)	-0.17 (-0.27)
Δ Number of Meetings	-41.15 (-0.77)	-54.41 (-1.02)	-2.55*** (-6.14)
Δ Interlocked	1947.02*** (2.64)	1638.29** (2.22)	-6.22 (-1.08)
Δ IsChair	-130.25 (-0.30)	-16.09 (-0.04)	12.75*** (3.76)
$D_{\Delta G\text{-index}}$	-122.10 (-0.39)	-212.87 (-0.68)	2.99 (1.24)
$D_{\Delta G\text{-index}} * \Delta G\text{-Index}$	138.54 (0.59)	162.14 (0.69)	3.14* (1.73)
Industry Effects	Yes	Yes	Yes
F / Adjusted R ²	3.94 / 0.64	3.79 / 0.61	9.59 / 1.85