**WHEN IS CORPORATE REPUTATION RELATED TO CEO COMPENSATION?**

**ABSTRACT**

This study examines the relationship between corporate reputation and CEO compensation. It is assumed that CEOs attempt to use corporate reputation to justify increases in their annual compensation. Based on agency theory and signaling theory, we predict a positive relationship between corporate reputation and CEO compensation but only during periods of economic recovery. Using a subset of *Fortune’*s “Most Admired” companies that retained their CEO’s through three years of recession followed by three years of recovery, this study demonstrates that corporate reputation is significantly associated with CEO compensation during periods of economic recovery but not during periods of economic recession.

**INTRODUCTION**

One of the earliest and most influential definitions of corporate reputation is “a firm’s relative standing both internally with employees and externally with its stakeholders” (Fombrun and van Riel, 1997: 10). Corporate reputation is easier to intuitively understand than to define, as academic research has yet to coalesce around a single definition of this construct (Lange *et al*., 2011). Scholars from varying perspectives agree that corporate reputation can serve as a valuable intangible asset (Chun, 2005). Therefore, it is believed to be something that organizations should try to control in order to convey positive impressions to job seekers and other stakeholders (Highhouse *et al*., 2009).

Because corporate reputation is intangible the argument has sometimes been made that it represents not much more than the aftereffects of prior financial performance (Brown and Perry, 1994; Flanagan *et al*., 2011; Hammond and Slocum, 1996). Accordingly, a lot of research has been aimed at identifying the unique contributions of corporate reputation to corporate success. For the most part, a positive relationship between corporate reputation and corporate performance has been observed, which supports the notions that corporate reputation is both real and valuable (Filbeck *et al*., 1997; Antunovich and Laster, 1998; Antunovich *et al*., 2000; Black *et al*., 2000; Roberts and Dowling, 2002; Anderson and Smith, 2006; Flatt and Kowalczyk, 2008; Luchs *et al*., 2009; Ang and Wight, 2009; Love and Kraatz, 2009; Little *et al*., 2010; Smith *et al*., 2010; Stuebs and Sun, 2010; Helm, 2011; Cao *et al*., 2012; Helm, 2013).

**CORPORATE REPUTATION AND CEO COMPENSATION**

Since corporate reputation appears to be both real and valuable, as the previous section suggests, it would seem logical that corporate reputation would be one of the determinants of CEO compensation. CEO’s of companies with excellent reputations place a high value on public relations (Rayna, 1994), and any CEO would presumably prefer a good reputation to a poor one. However, we lack direct evidence that CEO’s are concerned about maintaining and upgrading the reputation of their companies. Epstein and Roy (2005) analyzed the proxy statements of Most Admired companies to determine their criteria for measuring CEO performance. None of the statements mentioned corporate reputation although customer satisfaction, which should be a major contributor to reputation, was frequently monitored.

Only two previous studies have examined the relationship between corporate reputation and CEO compensation, and they have reached similar yet surprising conclusions. Miles and Miles (2013) classified 57 companies as “good corporate social performers” where inclusion in the Most Admired list was one of the criteria, and compared them to a matched control group of 57 other companies. The “good corporate social performers” paid their chief executives less than the control group. Focke *et al*. (2017), using a much larger sample, compared companies on the Most Admired list to a matched control group of other companies in the same industries. They also found lower compensation on average for CEO’s of Most Admired companies compared to control group CEO’s.

These results could be interpreted to indicate that corporate reputation is devalued by companies, or that it is less challenging and therefore less lucrative to be a CEO of a reputable company. However, both of these studies use dichotomous variables to measure corporate reputation. This leaves open the possibility that there are pay differences based on reputation within the group of Most Admired companies. CEO pay could be related to corporate reputation even if CEO’s tend to be paid more to work at companies that do not have corporate reputation scores.

**THEORY AND HYPOTHESES**

Despite extensive previous research on the determinants of CEO compensation, researchers as well as practitioners struggle to optimize the incentive structure of executive compensation under various economic and business environments. As noted above, few studies have examined the relationship between corporate reputation and CEO compensation. This study explores the strategic significance of corporate reputation and firm performance as determinants of CEO compensation in different economic conditions.

Our perspective is informed in part by agency theory. This theory assumes that there are conflicts of interests between shareholders and executives which are compounded by the inability of shareholders to observe executives (Eisenhardt, 1989). In this instance the conflict would be over whether corporate reputation should be a factor in determining executive compensation. The party that would be opposed to rewarding executives for corporate reputation is the shareholders, and the reason for their opposition would be that corporate reputation usually changes very little over time.

Since corporate reputation appears to be positively related to organizational effectiveness as discussed previously, it should be highly valued by shareholders. It does not necessarily follow logically that shareholders should want to compensate executives for the company’s reputation. Given that corporate reputation tends to endure over time, the shareholders arguably paid for it when they purchased their shares. According to Love *et al*. (2017), the great majority of CEO’s exert no independent impact on the corporate reputations of their employers. From the shareholders’ perspective, compensating executives for maintaining a company’s reputation may be akin to renting something that they have already bought.

On the other hand, the enduring nature of corporate reputation is what should make it appealing to executives as a basis of their compensation. Agency theory assumes that executives, like most people, are risk-averse when it comes to their paychecks. Performance-based pay is therefore presumed to be a source of conflict between executives and shareholders, with shareholders supporting it and executives opposing it (Bosse and Phillips, 2016). There is reputation risk, which is the risk that something will happen which will negatively affect corporate reputation (Eckert, 2017), but reputation risk must generally be low given how little corporate reputations tend to change over time. Therefore, one way for executives to appease shareholders while minimizing annual fluctuations in compensation could be to agree to tie some of their pay to the company’s reputation level.

Signaling theory also informs our perspective. This theory, which is over fifty years old and has been applied in a wide variety of management contexts, posits that businesses need to send public signals of their quality and their future plans in order to attract investors and customers (Connelly *et al*., 2011). Flatt *et al*. (2013) applied signaling theory to estimate the effect of CEO succession on corporate reputation. They found a positive market response to CEO succession in low-reputation companies and a negative market response to CEO succession in high-reputation companies.

Signaling theory suggests that CEO’s of high-reputation companies should be very attractive to competitors with lower reputations. Currently employed executives are usually the best external candidates for executive vacancies at other companies (Hamori, 2014) and a competitor would be sending a strong and positive signal by hiring the CEO of a high-reputation company. It takes a lot of financial resources to lure a successful CEO (Balsam and Miharjo, 2007), which competitors are more likely to possess during periods of economic recovery. Dah (2016) found CEO turnover to be positively associated with firm value during a recession and negatively associated with firm value during a recovery, which provides an additional incentive for high-reputation organizations to try to retain their CEO’s during a recovery period.

Signaling theory also explains why companies without corporate reputations may pay CEO’s more than companies with corporate reputations. Companies without corporate reputations need to pay more in order to recruit CEO’s from companies with corporate reputations, and in order to discourage their own CEO’s from leaving for similar positions with companies that have corporate reputations. Thus, signaling theory can accommodate the phenomenon of companies without corporate reputations paying CEO’s more than companies with high corporate reputations who in turn pay CEO’s more than companies with low corporate reputations,

Signaling theory merges with agency theory as follows: During periods of economic recovery when alternative employment opportunities for CEO’s are more lucrative, shareholders of high-reputation companies will raise CEO pay because they don’t want to risk losing their CEO’s. Voluntary turnover becomes a more attractive option to CEO’s of companies with good corporate reputations. Therefore, shareholders of high-reputation companies agree to raise CEO compensation during periods of economic recovery. In contrast, during periods of economic recession, shareholders of high-reputation companies will resist CEO demands to be compensated for maintaining the company’s corporate reputation.

Our hypotheses can be summarized as follows:

***Hypothesis One*** (**H1**): Corporate reputation is unrelated to CEO compensation during periods of economic recession.

***Hypothesis Two*** (**H2**): Corporate reputation is related to CEO compensation during periods of economic recovery.

**EMPIRICAL METHOD**

**Samples and Data Collection**

We employ a “most similar systems design”. The logic behind this research design, which originated within the field of comparative political science, is to match cases as closely as possible so that any observed differences can be attributed to the phenomenon of interest (Anckar, 2008). Applying that rationale, we study companies with annual *Fortune* ratings that did not change their CEO’s during a six-year period which included three years of economic recovery followed by three years of economic recession. Because both the companies and their CEO’s are exactly the same, we can be confident that any observed differences between the two time periods reflect variations in the economic cycle. 315 companies are included in this study. It may seem surprising that such a high percentage of the total number of companies with *Fortune* ratings retained their CEO’s for six years, but companies are generally reluctant to part ways with their CEO’s (Taylor, 2010).

We contrast three years of economic recovery (2007, 2008, and 2009) to three years of economic recession (2010, 2011, and 2012). Since we exclude companies that changed their CEO’s during this time period, this eliminates extraneous factors relating to CEO succession that influence CEO compensation (Blackwell *et al*., 2007; Elsaid & Davidson, 2009). Following the approach that was used by Matolcsy (2000) in his study of the relationship between CEO compensation and corporate performance during different phases of the economic cycle, we conduct separate regressions for the time periods of recession and recovery because we hypothesize that there will only be a significant relationship between corporate reputation and CEO compensation during periods of recovery.

Within each time period we pool the results for each company because corporate reputation is very highly correlated from year to year. Evidence of the stability of corporate reputation is provided by Love and Kraatz (2017) who found the mean corporate reputation score to be 6.3 and the mean annual change in corporate reputation score to be -0.01. We cannot treat each annual observation as being independent of the other annual observations for a company with respect to its corporate reputation, hence the need to average the three annual observations per company during each of the recession and recovery periods.

Our model can be expressed as follows:

CEO compensation = Corporate reputation + Financial performance + Controls

**Description and Measurement of Variables**.

**CEO Compensation:** Natural log value of executive pay in (1) Short-term and cash based salary and bonus, (2) Long-term compensation based on all long-term contingent pay, and (3) Total compensation that is the sum of cash and non-cash long-term pay.

**Corporate Reputation**: Corporate reputation is measured by *Fortune* magazine as a composite score across eight criteria (Fombrun, 1998). *Fortune's* listing of most admired companies has been previously validated as a measure of corporate reputation and social responsibility (Walker, 2010). Lee and Roh (2012) compared the *Fortune* ratings to other measures of corporate reputation and found them to be a more robust predictor of future financial performance.

**Financial Performance**: Return on Equity and Market Rate of Return. These two financial performance measures have been commonly employed in the past studies to show significant links between CEO compensation and firm performance. (e.g., Tosi *et al*., 2000; Berrone & Gomez-Mejia, 2009).

**Controls**: In order to capture the firm’s scale and scope in determining top executive’s pay based on corporate reputation, firm size (= natural log value of total sales revenue), Labor Cost (= natural log value of labor related cost), and Labor Productivity (= natural log value of Sales/No. of employees).

**Empirical Model**

A three-step hierarchical multiple regression analysis was conducted to test the hypotheses. By removing the possible impact of potential control variables through including and excluding other explanatory variables from each respective step of model, it is possible to explore the real significance of firm performance and corporate reputation for executive compensation through hierarchical regression analysis. The following hierarchical multiple regression models with three different models for CEO compensation (salary & bonus, equity-based long-term compensation, and total compensation) were employed and tested in this study.

*Model1* = β0 + β1 (*firm performance)*+ β2 (*labor cost)*+ β3 *(labor productivity)*

*Model2 = Model1 +* β4*(return on equity)*+ β5 *(market rate of return)*

*Model3 = Model1 + Model2 +* β6*(corporate reputation)*

**RESULTS**

Table 1 shows total CEO compensation by industry. The companies represent a diverse set of industries and total compensation tends to be high, averaging over $24 million annually during the recession period and almost $35 million per year during the recovery period. Within all twenty-one industry groupings, total compensation averages are higher during recovery than recession.

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Insert Table1 about here

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Tables 2 and 3 display descriptive statistics and correlations for the recession and recovery time periods. Several interesting patterns are evident. First, corporate reputation is significantly and positively related to CEO compensation under the recovery economic condition regardless of different definitions of executive remuneration (P<0.001). This is consistent with our hypothesis that corporate reputation is more influential to CEO pay during recovery.

Second, the signs of the significant correlations are all in the expected directions, particularly with respect to firm sales, labor cost and labor productivity irrespective of economic condition. For example, the correlations between sales and CEO compensation are positive and roughly equal during both time periods, which makes sense because sales volume is a measure of firm size which is positively related to CEO compensation (Anderson & Bizjak, 2003; Geiger & Cashen, 2007).

Third, almost all of the other correlations are also stronger during recovery than during recession. Its cause is unclear but this cannot be attributed to an increase in variance, as the standard deviations tend to be about the same size during both time periods. Finally, corporate reputation is significantly correlated with firm profitability during recovery but not during recession even though corporate reputation is significantly correlated with sales during both time periods. We lack a theoretical rationale to explain why corporate reputation should only be related to profitability during certain economic periods.

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Insert Tables 2 and 3 about here

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Tables 4, 5, and 6 present the empirical test results of OLS multiple regression analysis with respect to different dimensions of compensation measures. For each time period (recession and recovery) a three-step regression model is reported. The first one shows the control variables of firm size, labor cost, and labor productivity. The second one adds the financial performance measures which are return on equity and market rate of return, while the third one adds corporate reputation, after holding all other control variables constant. This is an attempt to investigate the real significance of corporate reputation after controlling the possible effect of all other variables in determining CEO compensation under two different economic periods. Overall, our hypotheses are supported as the coefficient for corporate reputation is significant for the recovery period but not for the recession period. Every other independent variable’s regression coefficient is either significant in both time periods or insignificant in both time periods. Therefore, our hypotheses (H1 & H2) are supported*.*

From the last model for the significance of corporate reputation on CEO compensation after controlling for all other factors, all regression models were highly significant at the 0.001 level (i.e., R² is 0.4948, 0.5381, and 0.5616 for Salary & Bonus, Long-term compensation, and Total compensation, respectively). Hence, our employed multiple regression models are useful for exploring the relationship between corporate reputation and CEO compensation even after controlling for performance in addition to firm size, labor cost, and labor productivity. In addition, this study did not suffer from the possible existence of collinearity problem as all variance inflation factors, which quantify the severity of multicollinearity in multiple regression analysis, were lower than three. The acceptable standard is ten (Alin, 2010)*.*

Table 4 shows the results of multiple .regressions predicting CEO salary and bonus. One of the most interesting results from this table is that corporate reputation is a statistically significant (p <.01) predictor of CEO compensation for the recovery period but not for the recession period. Other findings from this table are that the significant results were all in expected directions, for example CEO compensation was positively predicted by labor productivity and return on equity. This implies that measurement error does not pose a substantial threat to the results. Also, the coefficients tend to vary little across regressions within the same time period, which suggests that the control variables, financial performance, and (during recovery) corporate reputation exert separate and distinct influences on CEO compensation. Finally, the goodness of fit statistics were more favorable for the recovery regressions than for the recession regressions, for example the F ratios were three to four times higher. This does not have a clear explanation as both sets of regressions examined the same 315 companies whose CEO’s also remained unchanged throughout both time periods.

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Insert Table 4 about here

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In table 5, the dependent variable is long-term compensation. The coefficients tend to be very similar to those of table 4, which is perhaps not surprising as salary and bonus is highly correlated with long-term compensation according to table 2. Again our hypotheses are supported, as the coefficient of corporate reputation is one of only two that are insignificant during the recession and significant during the recovery, the other being the coefficient of market rate of return. The only other differences of note between these regressions and the ones in table 4 are that the coefficient of corporate reputation is more significant for the dependent variable of long-term compensation than for the dependent variable of salary and bonus (p < .01 rather than p < .05) and that the goodness of fit statistics for this dependent variable are four to five times larger for the recovery regressions than for the regression regressions.

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Insert Table 5 about here

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For table 6, the dependent variable is total compensation. Again, corporate reputation and market rate of return are the only two independent variables that are insignificant in the recession regressions and significant in the recovery regressions. Consistent with prior findings in table 4 and 5, corporate reputation is significantly and positively associated with CEO’s total compensation under the recovery model at the 0.01 level. The goodness of fit statistics are slightly more favorable than for table 5, otherwise there are no substantial differences between the results of tables 5 and 6 which is to be expected given the high correlation between all three CEO compensation measures as shown in table 2. The interesting point is that the linkage between reputation and compensation is robust, regardless of the different form of compensation. Such consistency across the models tested reveals and solidifies the close links between these two variables under exploration.

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Insert Table 6 about here

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**CONCLUSION**

Our primary research objective was to determine if corporate reputation was related to CEO compensation under different economic conditions. We proposed that the significance of corporate reputation on CEO compensation would depend upon economic circumstances. We found that corporate reputation is likely to be used in determining CEO compensation regardless of different measures of remuneration only during periods of economic recovery. In contrast, return on equity (ROE) is statistically significant at the 0.001 level and positively associated with CEO compensation regardless of different economic conditions. Thus, the significance of corporate reputation for CEO compensation is more likely to differ depending on economic conditions in contrast to the effect of shareholders’ equity-based return. The chief implication for practice applies only to companies that rank high on the *Fortune* list, but it is to be prepared to generously compensate their CEO’s through a high return of financial performance during times of economic recovery or else risk losing them to competitors.

As such, there would only be a relationship between CEO compensation and corporate reputation during periods of economic recovery, and our results supported our hypotheses. Our proposed explanation was that compensation committees know that corporate reputation tends to be stable, so they only factor it into annual pay level decisions when they are concerned about the risk of losing their CEO to a company with a lower level of corporate reputation score or perhaps no corporate reputation score at all, which only becomes a concern during periods of economic recovery. Our results were consistent with the proposed explanation, but there are other theoretical rationales that could make similar predictions. It would be very interesting to present these results to a panel of CEO’s and ask them for explanations. Who would know more about the CEO pay determination process than a CEO, especially if that person is also a member of another CEO’s compensation committee?

In fact, corporate reputation was much more strongly correlated with every variable, not just the CEO compensation measures, during recovery than during recession. This calls into question the empirical research reviewed previously. Are the positive effects of corporate reputation only applicable during periods of economic recovery? Might economic trends account for some of the inconsistencies of previously observed results? Why does this pattern extend beyond the relationship between corporate reputation and CEO compensation to include the correlations between corporate reputation and return on equity, market rate of return, and labor productivity? Is this phenomenon only observed for *Fortune*’s ratings, or does it also apply to other measures of corporate reputation? It is hoped to address some of these issues in further research to give a broader paradigm of CEO compensation.

Another issue that is worthy of future study is the impact of corporate reputation on the future earnings of CEO’s who leave the company to serve as CEO’s of other companies. We sidestepped this issue by only studying companies that retained their CEO’s during the recession and recovery periods. We would again predict a positive relationship between current corporate reputation and future earnings for departing CEO’s, but only for those who leave during periods of economic recovery.

Our other consistent result of note was that the statistical relationships between all of the variables were stronger in the recovery regressions than in the recession regressions. What makes this unexpected is that both regressions examined the same 315 companies and CEO’s for the same amount of time using variables that were measured in the same way each year and that did not exhibit greater variance during the recovery years. This result therefore does not appear to have been caused by a statistical artifact.

Limitations of our study must be acknowledged. First and foremost, this was a cross-sectional study of the interplay between corporate reputation and CEO compensation, a process which evolves over time. Also, the external validity of the results can be questioned because we studied a nonrandom sample of companies that kept their CEO’s for three years each of recession and recovery, drawn from a nonrandom sample of companies that possessed corporate reputation ratings. Nonetheless, our findings were very robust across the three dependent variables. Corporate reputation never predicted CEO compensation during the recession and always predicted CEO compensation during the recovery, which conformed to our hypotheses. In addition, the coefficient of every other significant independent variable was positive which was always to be expected. This suggests that the variables were measured accurately. The best goodness of fit statistics was achieved for the model that predicted total CEO compensation, but the magnitude and significance of the coefficients tended to vary little across the different dependent variables except for market rate of return which did not predict CEO salary and bonus but did predict both long-term and total compensation.

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**TABLE 1: CEO total compensation by industry**

|  |  |  |  |
| --- | --- | --- | --- |
| Industry Classification | Count | Mean Total Compensation, Recession | Mean Total Compensation,  Recovery |
| Coal & Mining | 14 | 38,455 (37,407) | 42,912 (14,722) |
| Construction | 3 | 21,504 (9,688) | 23,430 (14,608) |
| Food & Tobacco | 18 | 26,963 (15,117) | 36,203 (18,501) |
| Lumber & Wood Products | 10 | 24,724 (8,377) | 27,354 (21,697) |
| Printing & Publishing | 3 | 20,639 (11,678) | 31,097 (39,678) |
| Drugs & Chemicals | 25 | 30,250 (14,791) | 38,024 (16,170) |
| Petroleum & Refining | 8 | 31,629 (22,292) | 42,835 (28,651) |
| Rubber, Plastic, & Glass | 9 | 22,790 (12,028) | 29,148 (17,777) |
| Machinery & Computer Equipment | 18 | 22,853 (15,496) | 51,474 (83,756) |
| Electric & Electronic Products | 16 | 25,448 (12,511) | 29,116 (21,144) |
| Automotive & Transmission Equipment | 13 | 33,952 (24,028) | 38,642 (28,171) |
| Precision & Measurement | 11 | 28,734 (15,489) | 36,028 (28,872) |
| Transportation & Related Services | 6 | 15,590 (10,381) | 28,717 (10,201) |
| Communication Services | 10 | 34,306 (29,138) | 55,549 (26,219) |
| Electric, Gas, & Sanitary Services | 26 | 16,562 (12,310) | 21,574 (12,428) |
| Wholesalers | 14 | 12,351 (6,053) | 25,240 (23,266) |
| Food & Merchandise Retailers | 16 | 16,629 (7,993) | 29,795 (19,077) |
| Automotive & Miscellaneous Services | 25 | 15,520 (9,541) | 28,261 (16,664) |
| Banking & Financial Institutions | 45 | 27,274 (18,084) | 35,850 (17,220) |
| Technology Related Business Services | 10 | 23,131 (24,591) | 46,092 (72,771) |
| Healthcare and Other Services | 15 | 21,990 (16,682) | 35,599 (39,129) |
| Total | 315 | 24,347 (15,889) | 34,926 (27,177) |

*Note*: Except for count, values indicate $000. Recession = 2007-2009. Recovery = 2010-2012. Standard deviations are in parentheses.

**Table 2: Descriptive statistics and correlations, recession (2007-2009)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Variables | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Salary and Bonus | 8.97 | 8.50 |  |  |  |  |  |  |  |  |
| 2. Long-Term Comp. | 9.71 | 9.44 | .720  \*\*\* |  |  |  |  |  |  |  |
| 3. Total Comp. | 10.10 | 9.67 | .636 \*\*\* | .671 \*\*\* |  |  |  |  |  |  |
| 4. Sales | 9.60 | 0.85 | .396 \*\*\* | .434 \*\*\* | .447 \*\*\* |  |  |  |  |  |
| 5. Labor Cost | 8.30 | 1.11 | .274 | .287  \* | .301  \* | .644 \*\*\* |  |  |  |  |
| 6. Labor Productivity | 6.18 | 0.88 | .372 \*\*\* | .415 \*\*\* | .413 \*\*\* | .359 \*\*\* | .123 |  |  |  |
| 7. Return on Equity | 13.36 | 17.33 | .287 \*\*\* | .290 \*\*\* | .292 \*\*\* | .084 | .072 | .090 |  |  |
| 8. Market Rate of Return | 1.20 | 6.96 | -.027 | -.021 | -.017 | -.010 | -.122 | .120 \* | -.008 |  |
| 9. Corporate Reputation | 4.69 | 2.58 | .114 | .130\* | .099 | .387 \*\*\* | .318  \* | -.040 | .074 | .015 |

*Notes*: N = 315. \* - p < .05, \*\*\* - p < .001. All variables except Market Rate of Return, Return on Equity, and Corporate Reputation are natural logarithms.

**Table 3: Descriptive statistics and correlations, recovery (2010-2012)**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Variables | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 1. Salary and Bonus | 9.28 | 8.95 |  |  |  |  |  |  |  |  |
| 2. Long-Term Comp. | 10.09 | 9.95 | .774 \*\*\* |  |  |  |  |  |  |  |
| 3. Total Comp. | 10.46 | 10.21 | .744 \*\*\* | .788 \*\*\* |  |  |  |  |  |  |
| 4. Sales | 9.59 | 1.00 | .426 \*\*\* | .460 \*\*\* | .474 \*\*\* |  |  |  |  |  |
| 5. Labor Cost | 8.35 | 1.19 | .427 \*\*\* | .484 \*\*\* | .463 \*\*\* | .524 \*\*\* |  |  |  |  |
| 6. Labor Productivity | 6.42 | 1.35 | .417 \*\*\* | .429 \*\*\* | .440 \*\*\* | .400 \*\*\* | .378  \*\* |  |  |  |
| 7. Return on Equity | 13.89 | 13.52 | .368 \*\*\* | .365 \*\*\* | .371 \*\*\* | .288 \*\*\* | .240 | .150  \*\* |  |  |
| 8. Market Rate of Return | 3.08 | 3.88 | .241 \*\*\* | .266 \*\*\* | .279 \*\*\* | .256 \*\*\* | .188 | .216 \*\*\* | -.015 |  |
| 9. Corporate Reputation | 5.27 | 2.17 | .422 \*\*\* | .444 \*\*\* | .444 \*\*\* | .428 \*\*\* | .388 \*\*\* | .329 \*\*\* | .255 \*\*\* | .137  \* |

*Notes*: N = 315. \* - p < .05, \*\* - p < .01, \*\*\* - p < .001. All variables except Market Rate of Return and Corporate Reputation are natural logarithms.

**Table 4: Predictors of CEO Salary and Bonus**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Variable | Recession, Model 1 | Recession, Model 2 | Recession, Model 3 | Recovery, Model 1 | Recovery, Model 2 | Recovery, Model 3 |
| Constant | 5.430  \*\*\* | 5.524  \*\*\* | 5.516  \*\*\* | 5.740  \*\*\* | 5.690  \*\*\* | 6.004  \*\*\* |
| Sales | .210  \*\*\* | .198  \*\*\* | .201  \*\*\* | .283  \*\*\* | .237  \*\*\* | .232  \*\*\* |
| Labor Cost | .023 | .016 | .016 | -.013 | -.018 | -.017 |
| Labor Productivity | .181  \*\*\* | .174  \*\*\* | .173  \*\*\* | .116  \*\*\* | .116  \*\*\* | .112  \*\*\* |
| Return on Equity |  | .008  \*\*\* | .008  \*\*\* |  | .008  \*\*\* | .007  \*\*\* |
| Market Rate of Return |  | -.005 | -.005 |  | .008 | .007 |
| Corporate Reputation |  |  | -.002 |  |  | .025  \* |
| R-squared | .217 | .277 | .278 | .454 | .487 | .495 |
| Change in R-squared |  | .060 | .001 |  | .033 | .008 |
| F ratio | 28.872  \*\*\* | 23.803  \*\*\* | 19.777  \*\*\* | 108.99  \*\*\* | 87.88  \*\*\* | 75.36  \*\*\* |
| Change in F ratio |  | 12.897  \*\*\* | .023 |  | 12.897  \*\*\* | 5.857  \*\* |

*Notes*: N = 315. \* - p < .05, \*\* - p < .01, \*\*\* - p < .001. Unstandardized coefficients. Recession = 2007-2009. Recovery = 2010-2012.

**Table 5: Predictors of CEO Long-Term Compensation**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Variable | Recession, Model 1 | Recession, Model 2 | Recession, Model 3 | Recovery, Model 1 | Recovery, Model 2 | Recovery, Model 3 |
| Constant | 4.754  \*\*\* | 4.845  \*\*\* | 4.842  \*\*\* | 5.004  \*\*\* | 5.264  \*\*\* | 5.313  \*\*\* |
| Sales | .228  \*\*\* | .216  \*\*\* | .217  \*\*\* | .301  \*\*\* | .266  \*\*\* | .249  \*\*\* |
| Labor Cost | -.002 | -.008 | -.008 | -.013 | -.019 | -.017 |
| Labor Productivity | .200  \*\*\* | .193  \*\*\* | .193  \*\*\* | .110  \*\*\* | .109  \*\*\* | .104  \*\*\* |
| Return on Equity |  | .008  \*\*\* | .008  \*\*\* |  | .007  \*\*\* | .006  \*\*\* |
| Market Rate of Return |  | -.004 | -.004 |  | .010  \* | .010  \* |
| Corporate Reputation |  |  | -.001 |  |  | .028  \*\* |
| R-squared | .265 | .324 | .324 | .498 | .529 | .538 |
| Change in R-squared |  | .059 | .000 |  | .031 | .010 |
| F ratio | 37.516  \*\*\* | 29.704  \*\*\* | 24.674  \*\*\* | 154.01  \*\*\* | 104.53  \*\*\* | 90.524  \*\*\* |
| Change in F ratio |  | 13.482  \*\*\* | .003 |  | 12.805  \*\*\* | 8.228  \*\* |

*Notes*: N = 315. \* - p < .05, \*\* - p < .01, \*\*\* - p < .001. Unstandardized coefficients. Recession = 2007-2009. Recovery = 2010-2012.

**Table 6: Predictors of CEO Total Compensation**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Variable | Recession, Model 1 | Recession, Model 2 | Recession, Model 3 | Recovery, Model 1 | Recovery, Model 2 | Recovery, Model 3 |
| Constant | 4.751  \*\*\* | 4.840  \*\*\* | 4.797  \*\*\* | 5.193  \*\*\* | 5.465  \*\*\* | 5.510  \*\*\* |
| Sales | .236  \*\*\* | .225  \*\*\* | .239  \*\*\* | .307  \*\*\* | .271  \*\*\* | ,255  \*\*\* |
| Labor Cost | .003 | -.003 | -.003 | -.032 | -.038 | -.037 |
| Labor Productivity | .193  \*\*\* | .187  \*\*\* | .180  \*\*\* | .110  \*\*\* | .110  \*\*\* | .105  \*\*\* |
| Return on Equity |  | .008  \*\*\* | .008  \*\*\* |  | .007  \*\*\* | .006  \*\*\* |
| Market Rate of Return |  | -.004 | -.004 |  | .012  \* | .011  \* |
| Corporate Reputation |  |  | -.011 |  |  | .026  \*\* |
| R-squared | .273 | .332 | .334 | .521 | .553 | .562 |
| Change in R-squared |  | .059 | .002 |  | .033 | .008 |
| F ratio | 39.097  \*\*\* | 30.845  \*\*\* | 25.815 \*\*\* | 169.56  \*\*\* | 116.51  \*\*\* | 100.38  \*\*\* |
| Change in F ratio |  | 13.695  \*\*\* | .776 |  | 14.631  \*\*\* | 7.451  \*\* |

*Notes*: N = 315. \* - p < .05, \*\* - p < .01, \*\*\* - p < .001. Unstandardized coefficients. Recession = 2007-2009. Recovery = 2010-2012.