

# Firm Pay Policies and Executive Compensation (Preliminary and Incomplete)

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## Abstract

Detailed information on how firms structure base salary, bonus payments and total compensation is drawn from a data set of more than 500 firms between 1981-1988. This data is merged with personnel records of the firms' top executives to investigate the relationship between executive compensation and firm pay policies. I find that the firm pay policies have a strong effect on compensation even when controlling other factors that determine pay including individual executive-specific characteristics, job characteristics and other firm characteristics such as firm size and revenues, profitability, industry and ownership status. I also find that these policies have a similar effect on compensation at each level of the hierarchy.

## 1 Introduction

The importance of firm-specific personnel and pay policies in relation to managerial and executive compensation is not well understood empirically. This is largely due to the lack of available data detailing individual firm pay policies but also due to the dearth of personnel data in general. Gibbs and Hendricks (2004) analyzed a single data set with formal salary systems and found that the firm largely followed the stringent salary rules on pay. Campion et al. (2004) utilized data on a firm that valued the development of generalists and a promotion-from-within staffing strategy and found that observed job assignments and pay closely followed the company's stated policy. Understanding the impact of pay and personnel policies more generally is difficult because one needs detailed data on more than just one firm.

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<sup>†</sup>The data used in this paper are confidential and housed by the Cornell Restricted Access Data Center (CRADC).

That seemingly identical firms offer different levels of compensation is readily apparent with matched employer-employee data that estimates different firm effects identifying high wage and low wage firms (Abowd et al., 1999; Abowd et al., 2004). Since those firm effects represent unobservable characteristics of the firm we are essentially left to theory as a guide for why they exist. The existence of firm-level pay differences may be due to a number of reasons including compensating differentials, rent sharing or perhaps efficiency wages (Leonard, 1990). Montemayor (1996) surveyed 261 firms and also found a relationship between firm pay policies and the firm's stated competitive strategy in obtaining a desired organizational performance.

Given the availability of data relating to publically traded firms, much of the executive compensation literature has focused on CEO's and top executives at those firms in relation to executive compensation, turnover, firm performance and other details.<sup>1</sup> This paper contributes to the executive compensation literature by focusing on the relationship between firm pay policies and executive pay while taking advantage of unique panel data that contains information on a broad set of firms and its workers.

Each firm describes its pay policies in regard to base salary, total compensation, and bonus payments along nine dimensions. One goal is to understand whether or not and to what extent these policies impact the components of compensation independent of additional wage determining factors such as human capital characteristics, job characteristics and other firm characteristics. After establishing that the pay policy variables have a separate and meaningful impact on compensation, I then incorporate them as additional determinants of estimated firm effects from a wage equation and show that they can explain substantial variation in average firm pay differences. The differential impact of these policies across the hierarchy is also investigated.

## 2 Data and Descriptive Analysis

### 2.1 The Data

The data used in this paper consist of a yearly panel of approximately 500 firms and its top executives over the eight-year period 1981-1988.<sup>2</sup> These data were collected by a consulting firm through surveys that asked a variety of questions about the firm's compensation policies while gathering detailed information on workers' pay and individual characteristics. While participation was voluntary, each firm also paid a fee to the consulting company in order to submit its personnel data - the return being a comparative analysis of the firm's compensation policies. The fact that the survey required a participation fee and resulted in a consultation report means that participating firms had incentives to report reliable data.

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<sup>1</sup>See Murphy (1999) for a summary of the literature.

<sup>2</sup>These data have also been used in other contexts by Gittings (2009), Abowd (1990), Leonard (1990) and Belzil and Bognanno (2004, 2005).

The panel is relatively short, with a maximum spell of employment of eight years, but unlike many single-firm data sets, the personnel records for every worker employed at the firm are not available. Instead, each respondent (the firm) was asked to report information on 75 or more employees, which tend to be upper-level management and not lower-level workers. The sample is not nationally representative, but the firms do cover a broad spectrum of industries and vary in terms of size, ownership type, and other economic characteristics such as sales and profits.

Substantial information is included about each worker such as base and bonus pay, age, education, year of hire, reporting level and the business unit for which the employee works. Firm-level information on profits, sales, total employment, industry, organizational type (public, private, subsidiary, US or foreign owned) and variables describing the firm's compensation policies are also merged with the worker data.

The reporting level and business unit are proxies for the individual's position within the firm. The reporting level is the number of levels away from the Board of Directors. All positions reporting directly to the CEO are in reporting level 2; all positions reporting directly to those positions are in reporting level 3, and so on. The organizational unit level counts the number of major organizational units between the Board of Directors and the worker's organizational unit. An organizational unit is a company, group, division, sales region, or manufacturing facility that the company counts as a separate profit center. Executives with responsibilities that span the entire corporation are considered corporate positions and are a unit level 1. In an organization where a division manager reports to a group executive who reports to a company president and COO, the division manager is unit level 3, the group executive is unit level 2 and the president and COO is unit level 1.

Table 1 shows the distribution of companies by industry and organization type. The data are heavily concentrated in manufacturing, capturing more than 70 percent of firm-year observations. The second largest industry group is Transportation and Utilities (9.6%) followed by Services (5.4%) and Finance, Insurance and Real Estate (5.1%). Most firms are US owned and publicly traded (64%) but there are privately owned parent companies (10.3%) as well as public and private subsidiaries (11.2 and 2.2 percent, respectively). About 12 percent of the firms are foreign owned.

Overall, these firms are large in terms of employment and other economic characteristics, but there exists substantial heterogeneity in terms of growth and profitability over the sample period. Table 2 illustrates the distribution of firms' economic characteristics. The median firm employs a total 12,000 workers, but the average firm is much larger (26,000 workers). Similarly, in 1980 dollars, the median (average) firm had \$1.2 (\$4.6) billion in sales and \$44 (\$248) million in profits.<sup>3</sup> Interestingly, while the median firm remained relatively stable in terms of employment levels, 25 percent of the firms experienced employment reductions of at least 21 percent while another 25 percent of firms grew by 20 percent or more. Most firms grew in terms of

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<sup>3</sup>Profits are defined as net income including all after-tax earnings. Sales include service and rental revenues but exclude non-operating revenues and any excise taxes collected by manufacturers.

both sales and profits but there were losers as well. Twenty-five percent of the firms experienced non-negligible declines in profits or sales.

As a comparison, Table 3 displays similar characteristics for the overall US economy and by industry between 1981 and 1987.<sup>4</sup> While overall employment grew by 12 percent in the US economy, Mining and Manufacturing had the largest employment declines at 38 percent and 6 percent, respectively. Similarly, total worker compensation fell in these same industries while the Finance and Services industries far exceeded the US average gains in compensation. Three industries (especially Mining) experienced significant profit losses over this period as well. Tables 1-3 show that the data analyzed in this paper cover a broad range of firms, not all of which were economically successful.

## 2.2 Pay Policies and the Structure of Executive Pay

The available components of executive pay consist of the worker's yearly base salary and bonus payments but do not include the value of stock options or long-term compensation. The reported bonuses include cash payments over the last twelve months based on current performance regardless of whether or not some or part of the bonus is deferred. Any payment in the current period related to previous performance was not to be included. Bonuses do not include payments contingent on long-term performance.

Employers also report on several dimensions of their firm-level pay policies. This information includes whether or not the firm has a long-term incentive plan, how the firm targets its salary and total compensation in relation to competitors, how eligibility for bonuses is determined as well as the criterion for how bonuses are paid out. Table 4 presents the pay policy variables and definitions. The top portion of the table shows the variable for whether or not the firm has a long-term incentive plan and those policy variables specific to base salary. The bottom portion of the table lists the variables relating to total compensation.

Ninety-five percent of firms incorporate a long-term incentive plan. There are three variables for both base salary and total compensation that identify how the firm targets pay: 1) all companies 2) companies in the same industry of the same size and 3) companies of the same size in general. The reference group (the left out category in the regressions to follow) is that the firm targets companies with similar pay policies or some other criterion. Additionally, the firm reports how it targets the level of pay (for both base salary and total compensation): 1) pay at the 75th percentile or higher relative to competitors or 2) between the median and 75th percentile. The reference category is to target pay below the median of competitors. The fraction of firms employing these policies is essentially the same between those referring to base salary and those referring to total compensation.

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<sup>4</sup>The Bureau of Economic Analysis data presented in Table 4 ends in 1987 because of the restructuring of the SIC codes in that year, making the estimates for 1988 incomparable.

The remaining policy variables pertain to bonus payments. It is known whether or not bonus pay is limited in some fashion (73% of firms), whether the firm has specific formulas for bonus payments (79% of firms), and whether or not individual performance is considered. Seventy-nine percent of firms report that they take into account individual performance. The remaining firms choose to base bonus payments only on company, group or division performance. Bonuses can further be based primarily on salary, position or discretion with half of the firms indicating bonus eligibility is based on salary.

The detailed distribution of base pay by reporting level is presented in Table 5. There are several interesting points to note about this table. The first is that both the median and the mean base pay are monotonically decreasing down the hierarchy while salaries hold steady at roughly a 2:1 ratio between the 75th and 25th percentiles. Secondly, the bottom tails of the within-reporting-level distributions are more compressed at lower levels of the hierarchy, but the relative difference between the 95th and 99th percentiles is more similar across levels. Also, the within level pay distributions overlap considerably across levels. For example, nearly 10% of workers assigned to reporting level 10 make more than the median worker in level 5 (\$48,037 and \$49,426, respectively). Similarly, the median worker in level 3 makes more than about 10% of those in reporting level 2. Finally, the distributions are skewed in every reporting level as the average salary is larger than the median.

Since the data consist of management workers (many of which are top executives), it is likely the case that considering base pay alone misses important features of worker compensation. Information concerning long-term incentive pay or other benefits is not available, but bonus payments are reported for every individual. Table 6 presents the distribution of bonus payments in the same fashion as Table 5. As with base pay, bonus awards are monotonically decreasing down the hierarchy but the upper tails of the within level bonus distributions are more exacerbated. Extremely large bonuses are awarded at the top - the median bonus in level one is more than 1/3 of the median salary in level one while the median bonus in level 4 is only 1/7 that of the median salary in level 4. More than 10% of those in level 1 and 25% of the entire sample receive no bonus at all.

### 3 Empirical Results

To establish that the firm pay policies are important determinants of executive compensation, a standard wage equation is estimated with and without the pay policy variables. If the policies do not contribute to explaining the variation of pay conditional on standard explanatory variables such as the executive's level of human capital, the worker's position within the firm, and other firm-level characteristics then little may be lost in estimating these models without the information on pay policies. The ordinary least squares regression equation takes the following form:

$$y_{ijt} = PAY\_POLICY_{jt}\Omega + X_{ijt}\beta + F_{jt}\delta + \eta_t + \varepsilon_{ijt} \quad (1)$$

where  $y_{ijt}$  is the logarithm of annual real base salary (or base + bonus pay) of executive  $i$  at firm  $j$  in year  $t$ ;  $PAY\_POLICY_{jt}$  is a vector of pay policy variables specific to base salary or total compensation at firm  $j$  in period  $t$ ;  $X_{ijt}$  is a vector of person-level variables including human capital characteristics and indicators for position within the firm;  $F_{jt}$  is a vector of other firm characteristics including firm performance, total sales, total profits, firm size, ownership and industry;  $\eta_t$  are year effects; and  $\varepsilon_{ijt}$  is the error term.<sup>5</sup>

Table 7 presents the results where the dependent variable is the log of real base salary and table 8 presents the results for base plus bonus pay. The only difference between column I and column II in each table is that column I sets the coefficient vector  $\Omega$  to zero. The pay policy variables are reported near the top of the table followed by indicators for the executive's position within the firm (reporting level and organizational unit). Next are the human capital variables for general labor market experience, seniority and level of education.<sup>6</sup> The policy variables for base salary in Table 7 are all statistically significant with relatively large coefficients. For example, conditional on an executive's level of human capital, position within the firm and other firm characteristics, an employer who's pay policy targets base salary to be at least in the 75th percentile of competitors pays about 14.4% higher. Firms that do not take into account competitors' pay policies pay between 5.3% and 9.7% less than those who do as indicated by the negative and statistically significant coefficient on the following variables: *Base Target: All companies*, *Base Target: Same Industry and Size*, and *Base Target: Same Size in General*.

Interestingly, the coefficient on *Long-term Incentive Plan* in Table 7 is negative and significant. If long-term incentive plans are complementary to pay packages with higher than usual salaries then this may seem counter intuitive. On the other hand, considering the linear contract model this may also represent a tradeoff between the guarantee and performance-based components.

The results for total compensation in table 8 are similar - every policy variable is statistically significant with meaningful coefficients. The variables for how companies target their total compensation relative to competitors mirrors that of base salary. However, the coefficient on *Long-term Incentive Plan* is positive in this model. Since bonus payments are not to include payouts for long-term compensation and the coefficient was negative for base salary, this indicates that this variable is potentially identifying firms that put more weight on the unguaranteed portion of the compensation contract in general. The variables that are new to this model deal with bonus payments. Firms that have strict formulas or that limit bonuses have lower levels of

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<sup>5</sup>I assume the errors are i.i.d. and normally distributed.

<sup>6</sup>The variable *Experience* indicating the executive's general labor market experience takes on the value that is first observed in the data for all years. The variable *Seniority* increases by one each year in the data.

total compensation as do those firms that base bonus eligibility on position rather than discretion. Unsurprisingly, basing bonus eligibility on salary is positively correlated with higher base and bonus pay.

Tables 7 and 8 show the results of estimating the effect of firm-level pay policies on executive pay by pooling the workers at every level (rank) in the firm. If the pay policies literally are a firm-level policy that affects every position in the firm, then this strategy should not matter. However, these data consist largely of top-level executives in most of the firms. If it is more difficult for a firm's internal labor market to shield these more visible top executives from outside competition, then it is possible that the contracts of top executives may be more independent of general firm pay policies than workers at lower levels.

To investigate this hypothesis I pooled the firms as before but estimated the same models in tables 7 and 8 separately for reporting levels 1, 2, 3, 4, 5, 6 and levels 7 and below. The coefficients on the pay policy variables are displayed graphically by level in Figures 1-17. Figures 1-6 display the estimated coefficients for each of the six pay policy variables pertaining to base salary. Figures 7-17 show the coefficients for the total compensation policy variables. The dashed horizontal line in each graph identifies the estimated coefficient from the pooled regression. The solid line shows the estimated coefficients by reporting level.

For base salary, three of the six variables show almost no variation across levels. In the pooled data, *Long-term Incentive Plan* had a negative impact on base salary. By reporting level (Figure 1), the coefficient is zero or negative at each level except reporting level 1 (CEO) which is largely positive. This suggests that if there is any trade off between guaranteed and performance based portions of the contract, this tradeoff only occurs at lower levels of the hierarchy. Even though there is some deviation from the dashed line in Figures 4 and 5, the estimated coefficients by level remain the same sign down the hierarchy.

In terms of total compensation, most of the estimates deviate little from the dashed line (pooled estimate) as one goes down the hierarchy indicating that the pay policies are largely a firm-wide policy. However, several of these are estimated to be zero for reporting level 1 (CEO) while significantly positive or negative elsewhere in the hierarchy. Having a long-term incentive plan (Figure 7) has no effect on the CEO's base plus bonus pay even though it had a positive effect on a CEO's base salary. A policy that limits bonus pay does not affect the CEO (Figure 8), and a policy that sets bonus eligibility based on salary (Figure 10) does not affect the CEO. However, a policy that sets bonus eligibility based on position in the firm (Figure 11) has a strong negative effect on the CEO's base plus bonus pay. Interestingly, this variable is estimated to be zero or very small at other reporting levels.

With the exception of the Long-term Incentive Plan and a couple of policies that affect the CEO's bonus differently than others, these pay policies appear to be largely true firm-wide policies. With little exception, the estimated coefficients by reporting level are quite close to the pooled estimates.

### 3.1 Pay and Performance

A potentially important omitted variable from the previous models is individual performance. If bonus payments and salary increases are the result of strong individual performance rather than pay policies, then it is possible some of these policy variables are identifying firms that either put more emphasis on individual performance or are better at identifying and rewarding good workers. Neither relative nor absolute performance ratings are available in these data. However, the bonus awards reported for each individual are supposed to reflect performance in the current year. This provides an opportunity to construct several measures of individual performance relative to other workers in the firm.<sup>7</sup> To do so, I estimate the following model using OLS:

$$\begin{aligned} Bonus_{ijt} = & \alpha PROFITS_{jt} + FIRM_j + REPORTING\_LEVEL_{ijt}\Pi + \\ & + FIRM_j * REPORTING\_LEVEL_{ijt}\Psi + \nu_{ijt} \end{aligned} \quad (2)$$

The difference between an individual's actual bonus received and the predicted bonus creates a measure of relative performance ( $PERFORMANCE_{ijt} = Bonus_{ijt} - \hat{Bonus}_{ijt}$ ). Since portions of worker bonuses may be due to overall firm performance and not necessarily individual performance, I include a measure of firm profits to net out the effect of time-varying firm performance that would equally affect bonus awards of all workers in a firm. For example, the measure resulting from equation (2) reflects the deviation in the individual's bonus award above (or below) that of the average worker in her same firm and position in the hierarchy (those workers in the same firm and reporting level).

The results including this measure of performance for base salary are presented in the second column of table 9. To make the comparison easier, the first column displays the results from table 7 without the performance measure. The results are largely the same except that the coefficient on *Long-term Incentive Plan* becomes positive and is again statistically significant. Table 10 displays analogous results for the total compensation policy variables. Again, there are no major differences in the estimates between the two models with perhaps the exception of the variable *Payouts Consider Individual Performance*. The coefficient on this variable is half its original size when the measure of individual performance is included.

### 3.2 Pay Policies and Firm Effects

The previous analysis established that the firm-level pay policy variables have meaningful explanatory power even when controlling for human capital characteristics, the executive's position within the firm and other firm-level variables. This positive relationship between executive wages and firm characteristics crosses several strands of

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<sup>7</sup>Gibbons and Murphy (1990) showed that firms utilized relative performance in gauging top executives during the time period covered in these data.



literature. One strand concerns the positive relationship often found between firm size and wages. Another is assortative matching between workers and firms (Becker, 1973; Abowd et al., 2004).

One explanation is that the firm size wage premium is due to an efficiency wage policy within internal labor markets that helps reduce shirking and turnover (Doeringer and Piore, 1971; Shapiro and Stiglitz, 1984). The results in tables 7-10 found a positive relationship between firm size and executive compensation but the magnitude was small relative to the coefficients on the pay policy variables. It could be the case that conditional on other determinants of wages including firm size, these policy variables are evidence of firms paying efficiency wages.

Evidence for the standard assortative matching model is lacking. The development of employer-employee matched data allows for the separate identification of the person and firm effects in a wage equation with the person effect representing high innate productivity or human capital. Positive assortative matching implies a positive correlation between these two estimates. However, the correlation between the person and firm effects has been found to be zero or negative (Abowd et al., 1999, 2004).

The estimates in tables 7-10 suggest that conditional on the human capital of the workforce and the jobs they hold as well as a variety of firm characteristics (such as firm size, profitability, firm performance, industry and ownership type), firms also pay differing wages based on the personnel and pay policies they adopt. The firm-level pay policies used in this paper represent precisely the type of firm heterogeneity we expect to make up the components of the firm effects estimated with using employer-employee matched data.

The following exercise is conducted to better understand the relationship between the firm effects and firm pay policies. I begin with the basic wage equations in tables 7 and 8 for base salary and total compensation. The time invariant firm characteristics are removed as explanatory variables (industry and ownership dummies and the pay policy variables) to be replaced with firm effects and the models are reestimated. The estimated firm effects from that stage are then used as dependent variables as a function of the industry, ownership and pay policy indicators.

The results when the firm effects are estimated with base salary as a dependent variable are found in Table 11. Column I includes only the ownership and industry variables. Public US companies have higher firm effects and private US companies have lower firm effects than foreign owned firms. Mining, Transportation and Communications, and Finance industries all have higher firm effects than those firms in the manufacturing industry. Column II adds the policy variables. Firms that target base salary above the median or above the 75th percentile have larger firm effects and those firms who do not target competitors with similar pay policies have lower firm effects. Interestingly, the explanatory power of the model with the pay policy variables doubles over the model with only industry and ownership indicators. The estimation results for total compensation in table 12 are similar but the explanatory

power increases fourfold when including the pay policy variables. The firm pay policies are reasonable predictors of the estimated firm effect and seem to do a better job explaining the variation in firm effects than more aggregate characteristics such as industry and ownership type.

## 4 Conclusion

This paper utilizes a unique data set containing detailed information on firm pay policies to investigate their relationship to executive compensation. Firm-specific pay policies are strong predictors of executive compensation even when accounting for the human capital characteristics of the executive, job characteristics and other firm-level variables that are considered determinants of pay. For example, I find that firms which do not take into account competitor firms' pay policies when targeting base salary pay workers between 5-10 percent lower base salaries than those who do, and that firms which target base pay to be at least at the 75th percentile of competitors pay 14.4 percent higher base salaries. Similar results hold for total compensation. Additionally, firms that limit bonus payments or have stringent formulas on payouts have total compensation packages that are between 5 and 6 percent lower than firms that do not have such rules.

Furthermore, with the exception of a few pay policies regarding CEO pay, firm pay policies have relatively the same impact on managers toward the top and bottom of the hierarchy. This is a testament to the strength of formal salary systems many firms employ when one considers the visibility and opportunities for outside employment top executives may have when negotiating contracts.

The results in this paper pertaining to firm pay policies and compensation also have implications for literature employer-employee matched data sets. Given the nature of the data, these studies are able to separately identify and estimate worker and firm effects in a standard wage equation. The worker effects identify high human capital individuals and the firm effects identify firms that pay above or below normal wages. A finding in the literature is that it does not seem that assortative matching exists; that is, the correlation between the firm and worker effects is zero or sometimes negative. What cannot be untangled in these analyses is what generates the high (or low) firm effects. I find that industry indicators and ownership characteristics (public, private, subsidiary) are not as strong identifiers of high wage versus low wage firms as variables that identify the firm's pay policies directly.

**Table 1****Industry and Ownership Characteristics of the Companies****Panel A: Distribution of Companies By Industry**

<b>SIC Division</b>	<b>Frequency</b>	<b>Percent</b>
B -- Mining	103	3.89
C -- Construction	25	0.94
D -- Manufacturing	1875	70.89
E -- Transportation, Utilities	254	9.60
F -- Wholesale Trade	60	2.27
G -- Retail Trade	50	1.89
H -- Finance, Insurance, Real Estate	136	5.15
I -- Services	142	5.37

Note: Each observation is a company-year. The sample is restricted to those companies appearing in the data at least twice. The total number of companies is 561, but 18 had missing information about their SIC code after attempts to identify it.

**Panel B: Distribution of Companies by Organization Type**

<b>Organization Type</b>	<b>Frequency</b>	<b>Percent</b>
Public – US Owned	346	63.72
Private – US Owned	56	10.31
Subsidiary of US Public	61	11.23
Subsidiary of US Private	12	2.21
Subsidiary of Foreign Public	47	8.66
Subsidiary of Foreign Private	21	3.87

Note: The sample is restricted to those companies who appear in the data at least twice. The total number of companies is 561 and 18 had missing information about their organization type.

**Table 2**

**The Distribution of Economic and Financial Characteristics of Companies**

**Panel A: Levels**

<b>Variable</b>	<b>Mean</b>	<b>Std</b>	<b>&lt;1%</b>	<b>5<sup>th</sup> Percentile</b>	<b>10<sup>th</sup> Percentile</b>	<b>25<sup>th</sup> Percentile</b>	<b>50<sup>th</sup> Percentile</b>	<b>75<sup>th</sup> Percentile</b>	<b>90<sup>th</sup> Percentile</b>	<b>95<sup>th</sup> Percentile</b>	<b>&gt;99%</b>
Employment	25,929	38,677	334	1,278	1,913	4,033	12,074	33,474	66,901	91,680	180,088
Sales	2,563.5	4,576.3	68.4	137.3	196.7	452.5	1,237.2	2,958.1	5,897.7	8,688.4	19,853.1
Profits	112.7	248.2	-74.5	-4.9	2.3	11.4	44.0	134.9	291.7	472.3	934.2

Note: The statistics represent one observation per company as the average over the spell in the data. The sample consists of all companies in the data at least two years (n=561). Sales and Profits are expressed in Millions of real 1980 dollars.

**Panel B: Growth (Contraction) as Percentage Changes Between Entry Year and Exit Year**

<b>Variable</b>	<b>Mean</b>	<b>Std</b>	<b>&lt;1%</b>	<b>5<sup>th</sup> Percentile</b>	<b>10<sup>th</sup> Percentile</b>	<b>25<sup>th</sup> Percentile</b>	<b>50<sup>th</sup> Percentile</b>	<b>75<sup>th</sup> Percentile</b>	<b>90<sup>th</sup> Percentile</b>	<b>95<sup>th</sup> Percentile</b>	<b>&gt;99%</b>
Employment	119.3	1,004	-93.9	-71.9	-51.9	-21.6	-0.6	20.0	71.3	150.7	4162.6
Sales	102.8	767	-91.9	-64.9	-42.4	-12.1	4.2	29.2	98.3	188.7	3138.8
Profits	207.7	2,535	-719.6	-204.2	-123.8	-62.1	-1.1	54.8	126.5	275.5	3208.2

Note: The statistics represent one observation per company. The sample consists of all companies in the data at least two years (n=561). Sales and profits are expressed in millions of 1980 dollars.

**Table 3**

**The Growth (Contraction) of US Industries - 1981 to 1987**

	Value Added	Employment	FTE Employment	Production Employment	Total Employee Compensation	Wage and Salary	Non-Salary	Profits - no Capital Adjustment	Profits - Capital Adjustment
<b>US Economy</b>	18.9	11.6	11.6	11.5	16.6	16.0	19.8	0.3	-39.2
<b>A – Agriculture</b>	-9.5	-2.7	-1.1	-6.7	9.5	7.1	29.9	56.1	
<b>B – Mining</b>	-46.3	-37.9	-38.5	-37.6	-29.1	-30.0	-24.9	-87.6	-49.7
<b>C – Construction</b>	30.4	19.3	19.1	19.1	17.0	12.7	43.7	112.1	0.4
<b>D – Manufacturing</b>	8.5	-6.0	-5.9	-5.8	1.6	1.8	0.5	14.3	-41.6
<b>E – Transportation, Utilities</b>	21.8	3.8	3.9	4.4	6.5	5.5	10.8	40.8	-57.3
<b>F – Wholesale trade</b>	12.0	8.9	8.6	8.4	13.4	13.4	13.0	-28.1	-9.8
<b>G – Retail trade</b>	25.3	21.7	23.4	20.3	19.4	18.6	25.0	54.2	-44.5
<b>H – Finance, Insurance and Real Estate</b>	32.8	21.9	21.9	22.7	44.8	47.1	31.5	51.8	-46.6
<b>I – Services</b>	43.6	27.5	29.9	29.4	39.8	38.7	47.1	-11.5	-57.8

Note: Source: Bureau of Economic Analysis. Data are represented as percentages changes (0-100%). Monetary changes are calculated in 1980 dollars. Both profit measures are pre-tax but neither includes an adjustment for inventory valuation.

**Table 4**

**Firm Compensation Policy Variables**

<b>Variable</b>	<b>Definition</b>	<b>Mean/Std</b>
Long-term Incentive Plan	(=1) if firm has a long-term incentive plan. Zero otherwise.	0.95 (0.21)
Base Target: All Companies	(=1) if firm targets base salary relative to all companies in the firm's industry. <u>Reference Category</u> : firm targets base salary relative to companies with similar pay policies or other criterion.	0.28 (0.44)
Base Target: Same Industry and Size	(=1) if firm targets base salary relative to companies in the same industry but of similar size. <u>Reference Category</u> : firm targets base salary relative to companies with similar pay policies or other criterion.	0.26 (0.44)
Base Target: Same Size in General	(=1) if firm targets base salary relative to companies of similar size in general. <u>Reference Category</u> : firm targets base salary relative to companies with similar pay policies or other criterion.	0.35 (0.48)
Base Target: 75 <sup>th</sup> Percentile or Higher	(=1) if firm targets base salary to be at the 75 <sup>th</sup> percentile or higher relative to competitors. <u>Reference Category</u> : Below the median.	0.15 (0.35)
Base Target: Median to 75 <sup>th</sup> Percentile	(=1) if firm targets base salary to be between the median and 75 <sup>th</sup> percentile relative to competitors. <u>Reference Category</u> : Below the median.	0.24 (0.42)
<b>Pay Policy Variables Relating to Total Compensation</b>		
Total Compensation Target: All Companies	(=1) if firm targets total compensation relative to all companies in the firm's industry <u>Reference Category</u> : firm targets total compensation relative to companies with similar pay policies or other criterion.	0.28 (0.45)
Total Compensation Target: Same Industry and Size	(=1) if firm targets total compensation relative to companies in the same industry but of similar size. <u>Reference Category</u> : firm targets total compensation relative to companies with similar pay policies or other criterion.	0.26 (0.44)
Total Compensation Target: Same Size in General	(=1) if firm targets total compensation relative to companies of similar size in general. <u>Reference Category</u> : firm targets total compensation relative to companies with similar pay policies or other criterion.	0.35 (0.48)
Total Compensation Target: 75 <sup>th</sup> Percentile or Higher	(=1) if firm targets total compensation to be at the 75 <sup>th</sup> percentile or higher relative to competitors. <u>Reference Category</u> : Below the median.	0.21 (0.41)

(Table 4 Continued)

Total Compensation Target: Median to 75 <sup>th</sup> Percentile	(=1) if firm targets total compensation to be between the median and 75 <sup>th</sup> percentile relative to competitors. <u>Reference Category</u> : Below the median.	0.28 (0.45)
Bonus Pay Limited	(=1) if firm has a policy that limits bonus pay. Zero otherwise.	0.73 (0.44)
Bonus Pay Formulas	(=1) if firm has set formulas to distribute bonus pay. Zero otherwise.	0.79 (0.40)
Bonus Eligibility: Salary	(=1) if bonus pay eligibility is set based on salary. <u>Reference Category</u> : Eligibility based on discretion.	0.50 (0.50)
Bonus Eligibility: Position	(=1) if bonus pay eligibility is set based on position. <u>Reference Category</u> : Eligibility based on discretion.	0.34 (0.47)
Payouts Consider Individual Performance	(=1) if bonus payouts take into account individual performance. <u>Reference Category</u> : bonus payouts only take into account company, group or division performance.	0.79 (0.41)

Note: The number of non-missing company-year observations range between 1,351 and 2,517.

**Table 5**

**Structure of Base Pay by Reporting Level**

<b>Reporting Level</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>N</b>	<b>&lt;1%</b>	<b>5<sup>th</sup> Percentile</b>	<b>10<sup>th</sup> Percentile</b>	<b>25<sup>th</sup> Percentile</b>	<b>50<sup>th</sup> Percentile</b>	<b>75<sup>th</sup> Percentile</b>	<b>90<sup>th</sup> Percentile</b>	<b>95<sup>th</sup> Percentile</b>	<b>&gt;99%</b>
1	312,266	120,632	2,248	85,837	144,928	167,572	222,581	300,429	387,044	469,219	518,919	655,499
2	133,886	71,938	12,407	36,481	51,178	60,484	81,545	116,533	168,245	231,660	276,268	372,257
3	81,695	41,910	38,437	28,404	36,250	41,931	53,768	71,107	97,744	134,741	163,043	232,699
4	62,535	27,867	57,579	24,093	30,852	35,088	43,691	56,505	74,324	96,525	114,348	159,796
5	52,983	20,337	44,546	21,286	27,741	31,703	39,108	49,426	62,615	77,419	90,362	122,622
6	46,436	17,694	22,445	18,283	24,170	27,928	34,738	43,519	54,839	67,225	76,613	104,937
7	41,998	16,238	7,873	17,042	21,944	25,176	31,127	38,814	50,015	61,773	70,270	98,732
8	38,530	17,155	2,103	17,293	19,691	21,837	27,245	35,041	44,635	57,043	70,652	105,799
9	35,167	18,447	724	16,125	18,614	19,923	23,453	30,512	39,912	53,935	73,820	91,935
10	30,228	14,065	209	16,880	18,015	18,884	21,452	26,513	33,559	48,037	65,217	81,036

**Overall Distribution of Base Pay**

<b>Mean</b>	<b>Std. Dev.</b>	<b>N</b>	<b>&lt;1%</b>	<b>5<sup>th</sup> Percentile</b>	<b>10<sup>th</sup> Percentile</b>	<b>25<sup>th</sup> Percentile</b>	<b>50<sup>th</sup> Percentile</b>	<b>75<sup>th</sup> Percentile</b>	<b>90<sup>th</sup> Percentile</b>	<b>95<sup>th</sup> Percentile</b>	<b>&gt;99%</b>
68,670	49,553	188,675	21,030	28,343	32,823	41,733	55,794	77,220	113,617	151,391	285,714

Note: Base Pay is the =current annual salary. The data are restricted to companies that appear in the data at least two years. Each observation is an executive-year. Base pay is reported in real 1980 dollars. There are 58 observations with missing reporting level data.



**Table 6****Structure of Bonus Pay by Reporting Level**

Reporting Level	Mean	Std. Dev.	N	<1%	5 <sup>th</sup> Percentile	10 <sup>th</sup> Percentile	25 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile	90 <sup>th</sup> Percentile	95 <sup>th</sup> Percentile	>99%
1	150,229	166,602	2,248	0	0	0	40,446	123,289	215,130	331,545	411,442	563,063
2	51,219	66,344	12,407	0	0	0	10,870	33,216	69,636	123,246	166,458	276,001
3	22,557	30,047	38,437	0	0	0	3,223	13,736	29,785	54,859	79,435	143,548
4	13,429	18,993	57,579	0	0	0	0	8,065	18,116	32,775	46,686	85,837
5	9,375	12,755	44,546	0	0	0	0	5,631	13,367	23,507	32,258	58,877
6	6,542	9,211	22,445	0	0	0	0	3,506	9,760	17,261	23,386	42,625
7	4,770	7,777	7,873	0	0	0	0	1,313	7,053	13,523	19,171	36,738
8	3,341	6,232	2,103	0	0	0	0	0	4,141	12,017	15,766	28,226
9	2,497	5,337	724	0	0	0	0	0	2,798	9,131	12,698	23,433
10	792	1,704	209	0	0	0	0	0	665	4,064	5,074	5,961

**Overall Distribution of Bonus Pay**

Mean	Std. Dev.	N	<1%	5 <sup>th</sup> Percentile	10 <sup>th</sup> Percentile	25 <sup>th</sup> Percentile	50 <sup>th</sup> Percentile	75 <sup>th</sup> Percentile	90 <sup>th</sup> Percentile	95 <sup>th</sup> Percentile	>99%
17,100	36,072	188,675	0	0	0	0	7,674	19,227	40,323	64,595	160,233

Note: The data are restricted to companies that appear in the data at least two years. Each observation is an executive-year. There are 58 observations with missing reporting level data. Bonus pay is reported in real 1980 dollars. The bonus awards represent the most current fiscal year, and include any awards based on that performance in that year, even if a fraction of the payment is deferred. Any payment conditional on future performance should not be included.

**Table 7****Dependent Variable: Log of Real Base Salary**

<b>Variable</b>	<b>I</b>	<b>II</b>
Intercept	9.335*** (0.034)	9.439*** (0.067)
Long-term Incentive Plan	--	-0.062*** (0.008)
Base Target: All Companies	--	-0.061*** (0.005)
Base Target: Same Industry and Size	--	-0.053*** (0.005)
Base Target: Same Size in General	--	-0.097*** (0.005)
Base Target: 75 <sup>th</sup> Percentile or Higher	--	0.144*** (0.004)
Base Target: Median to 75 <sup>th</sup> Percentile	--	0.060*** (0.003)
Reporting Level 1	1.895*** (0.009)	1.942*** (0.013)
Reporting Level 2	1.033*** (0.006)	1.047*** (0.008)
Reporting Level 3	0.594*** (0.005)	0.595*** (0.007)
Reporting Level 4	0.376*** (0.005)	0.369*** (0.006)
Reporting Level 5	0.241*** (0.004)	0.241*** (0.006)
Reporting Level 6	0.125*** (0.005)	0.129*** (0.007)
Organizational Unit 1	0.007 (0.033)	0.177* (0.065)
Organizational Unit 2	0.120*** (0.033)	0.314*** (0.065)
Organizational Unit 3	0.111*** (0.033)	0.281*** (0.065)
Organizational Unit 4	0.065** (0.033)	0.211*** (0.065)
Organizational Unit 5	0.111*** (0.033)	0.259*** (0.065)
Organizational Unit 6	0.044 (0.036)	0.157** (0.069)
Experience	0.042*** (0.001)	0.042*** (0.001)
Experience Squared	-0.001*** (0.00001)	-0.001*** (0.00001)
Seniority	-0.002*** (0.0003)	-0.002*** (0.0004)

(Table 7 Concluded)

Seniority Squared	0.0001*** (0.00001)	0.0001*** (0.00001)
Schooling = 16 Years	0.231*** (0.003)	0.218*** (0.004)
Schooling = 17, 18 Years	0.336*** (0.003)	0.311*** (0.004)
Schooling > 18 Years	0.398*** (0.004)	0.365*** (0.005)
Firm Performance Normal This Year	0.042*** (0.002)	0.033*** (0.003)
Firm Performance Outstanding This Year	0.051*** (0.003)	0.010** (0.004)
Total Sales (per \$100,000)	0.003*** (0.00004)	0.003*** (0.0001)
Total Profits (per \$100,000)	-0.004*** (0.0005)	0.005*** (0.001)
Total Employees (in thousands)	0.001*** (0.0008)	0.001*** (0.0001)
Observations	65,048	65,048
R-squared	0.614	0.640

Note: Models also include indicators ownership type and industry as well as year dummies. Standard errors are in parentheses. \*\*\* indicates statistical significance of less than 1%. \*\* indicates statistical significance between 1% and 5%. \* indicates statistical significance greater than 5% but less than 10%.

**Table 8**

**Dependent Variable: Log of Real Base + Bonus Pay**

<b>Variable</b>	<b>I</b>	<b>II</b>
Intercept	9.152*** (0.040)	9.280*** (0.102)
Long-term Incentive Plan	--	0.206*** (0.040)
Bonus Pay Limited	--	-0.051*** (0.004)
Bonus Pay Formulas	--	-0.059*** (0.004)
Bonus Eligibility: Salary	--	0.066*** (0.006)
Bonus Eligibility: Position	--	-0.016*** (0.006)
Payouts Consider Individual Performance	--	0.023*** (0.004)
Total Compensation Target: All Companies	--	-0.094*** (0.006)
Total Compensation Target: Same Industry and Size	--	-0.081*** (0.006)
Total Compensation Target: Same Size in General	--	-0.139*** (0.006)
Total Compensation Target: 75 <sup>th</sup> Percentile or Higher	--	0.125*** (0.004)
Total Compensation Target: Median to 75 <sup>th</sup> Percentile	--	0.067*** (0.004)
Reporting Level 1	2.189*** (0.011)	2.273*** (0.016)
Reporting Level 2	1.250*** (0.007)	1.290*** (0.010)
Reporting Level 3	0.738*** (0.006)	0.754*** (0.009)
Reporting Level 4	0.476*** (0.005)	0.481*** (0.008)
Reporting Level 5	0.307*** (0.005)	0.312*** (0.008)
Reporting Level 6	0.154*** (0.006)	0.153*** (0.009)
Organizational Unit 1	-0.018 (0.039)	-0.001 (0.093)
Organizational Unit 2	0.131*** (0.039)	0.179* (0.093)
Organizational Unit 3	0.136*** (0.039)	0.163* (0.093)
Organizational Unit 4	0.087** (0.039)	0.101 (0.093)

(Table 8 Concluded)

Organizational Unit 5	0.150*** (0.039)	0.186** (0.093)
Organizational Unit 6	0.099** (0.043)	0.183* (0.097)
Experience	0.046*** (0.001)	0.045*** (0.001)
Experience Squared	-0.001*** (0.00001)	-0.001*** (0.00002)
Seniority	0.001*** (0.0004)	0.001 (0.001)
Seniority Squared	0.0001*** (0.00001)	0.00005*** (0.00002)
Schooling = 16 Years	0.265*** (0.003)	0.243*** (0.005)
Schooling = 17, 18 Years	0.387*** (0.004)	0.357*** (0.006)
Schooling > 18 Years	0.451*** (0.005)	0.409*** (0.007)
Firm Performance Normal This Year	0.108*** (0.003)	0.080*** (0.004)
Firm Performance Outstanding This Year	0.162*** (0.003)	0.102*** (0.005)
Total Sales (per \$100,000)	0.003*** (0.00004)	0.003*** (0.0001)
Total Profits (per \$100,000)	-0.003*** (0.001)	0.011*** (0.001)
Total Employees (in thousands)	0.001*** (0.00003)	0.002*** (0.0001)
Observations	56,957	56,957
R-squared	0.601	0.628

Note: Models also include indicators ownership type and industry as well as year dummies. Standard errors are in parentheses. \*\*\* indicates statistical significance of less than 1%. \*\* indicates statistical significance between 1% and 5%. \* indicates statistical significance greater than 5% but less than 10%.

**Table 9****Dependent Variable: Log of Real Base Salary  
(Including Individual Performance Measure)**

<b>Variable</b>	<b>Column II of Table 7</b>	<b>Add Performance</b>
Intercept	9.439*** (0.067)	9.304*** (0.095)
Performance Measure (in \$10,000 deviations)	--	0.031*** (0.00004)
Long-term Incentive Plan	-0.062*** (0.008)	0.038*** (0.011)
Base Target: All Companies	-0.061*** (0.005)	-0.066*** (0.005)
Base Target: Same Industry and Size	-0.053*** (0.005)	-0.068*** (0.005)
Base Target: Same Size in General	-0.097*** (0.005)	-0.102*** (0.005)
Base Target: 75 <sup>th</sup> Percentile or Higher	0.144*** (0.004)	0.161*** (0.004)
Base Target: Median to 75 <sup>th</sup> Percentile	0.060*** (0.003)	0.064*** (0.003)
Reporting Level 1	1.942*** (0.013)	1.850*** (0.013)
Reporting Level 2	1.047*** (0.008)	0.973*** (0.009)
Reporting Level 3	0.595*** (0.007)	0.531*** (0.008)
Reporting Level 4	0.369*** (0.006)	0.319*** (0.008)
Reporting Level 5	0.241*** (0.006)	0.205*** (0.008)
Reporting Level 6	0.129*** (0.007)	0.118*** (0.008)
Organizational Unit 1	0.177* (0.065)	0.400*** (0.093)
Organizational Unit 2	0.314*** (0.065)	0.507*** (0.093)
Organizational Unit 3	0.281*** (0.065)	0.477*** (0.093)
Organizational Unit 4	0.211*** (0.065)	0.401*** (0.093)
Organizational Unit 5	0.259*** (0.065)	0.404*** (0.094)
Organizational Unit 6	0.157** (0.069)	0.249** (0.097)
Experience	0.042*** (0.001)	0.038*** (0.001)
Experience Squared	-0.001*** (0.00001)	-0.001*** (0.0002)

(Table 9 Concluded)

Seniority	-0.002*** (0.0004)	-0.002*** (0.0005)
Seniority Squared	0.0001*** (0.00001)	0.0001*** (0.00001)
Schooling = 16 Years	0.218*** (0.004)	0.167*** (0.004)
Schooling = 17, 18 Years	0.311*** (0.004)	0.252*** (0.005)
Schooling > 18 Years	0.365*** (0.005)	0.299*** (0.006)
Firm Performance Normal This Year	0.033*** (0.003)	0.020*** (0.003)
Firm Performance Outstanding This Year	0.010** (0.004)	-0.014*** (0.004)
Total Sales (per \$100,000)	0.003*** (0.0001)	0.003*** (0.0001)
Total Profits (per \$100,000)	0.005*** (0.001)	0.007*** (0.001)
Total Employees (in thousands)	0.001*** (0.0001)	0.001*** (0.0001)
Observations	65,048	55,143
R-squared	0.64	0.656

Note: Models also include indicators ownership type and industry as well as year dummies. Standard errors are in parentheses. \*\*\* indicates statistical significance of less than 1%. \*\* indicates statistical significance between 1% and 5%. \* indicates statistical significance greater than 5% but less than 10%.

**Table 10**

**Dependent Variable: Log of Real Base + Bonus Pay  
(Including Performance Measure)**

<b>Variable</b>	<b>Column II of Table 8</b>	<b>Add Performance</b>
Intercept	9.280*** (0.102)	9.364*** (0.130)
Performance Measure (in \$10,000 deviations)	--	0.049*** (0.0005)
Long-term Incentive Plan	0.206*** (0.040)	0.225*** (0.036)
Bonus Pay Limited	-0.051*** (0.004)	-0.034*** (0.004)
Bonus Pay Formulas	-0.059*** (0.004)	-0.065*** (0.004)
Bonus Eligibility: Salary	0.066*** (0.006)	0.052*** (0.005)
Bonus Eligibility: Position	-0.016*** (0.006)	-0.024*** (0.006)
Payouts Consider Individual Performance	0.023*** (0.004)	0.012*** (0.004)
Total Compensation Target: All Companies	-0.094*** (0.006)	-0.095*** (0.006)
Total Compensation Target: Same Industry and Size	-0.081*** (0.006)	-0.077*** (0.006)
Total Compensation Target: Same Size in General	-0.139*** (0.006)	-0.130*** (0.005)
Total Compensation Target: 75 <sup>th</sup> Percentile or Higher	0.125*** (0.004)	0.130*** (0.004)
Total Compensation Target: Median to 75 <sup>th</sup> Percentile	0.067*** (0.004)	0.052*** (0.004)
Reporting Level 1	2.273*** (0.016)	2.103*** (0.015)
Reporting Level 2	1.290*** (0.010)	1.149*** (0.011)
Reporting Level 3	0.754*** (0.009)	0.637*** (0.010)
Reporting Level 4	0.481*** (0.008)	0.384*** (0.009)
Reporting Level 5	0.312*** (0.008)	0.239*** (0.009)
Reporting Level 6	0.153*** (0.009)	0.122*** (0.010)
Organizational Unit 1	-0.001 (0.093)	0.198 (0.124)
Organizational Unit 2	0.179* (0.093)	0.323*** (0.124)



(Table 10 Concluded)

Organizational Unit 3	0.163*	0.309**
	(0.093)	(0.124)
Organizational Unit 4	0.101	0.240*
	(0.093)	(0.124)
Organizational Unit 5	0.186**	0.261**
	(0.093)	(0.124)
Organizational Unit 6	0.183*	0.224*
	(0.097)	(0.127)
Experience	0.045***	0.040***
	(0.001)	(0.001)
Experience Squared	-0.001***	-0.001***
	(0.00002)	(0.00002)
Seniority	0.001	0.0001
	(0.001)	(0.001)
Seniority Squared	0.00005***	0.00005***
	(0.00002)	(0.00001)
Schooling = 16 Years	0.243***	0.169***
	(0.005)	(0.005)
Schooling = 17, 18 Years	0.357***	0.267***
	(0.006)	(0.006)
Schooling > 18 Years	0.409***	0.315***
	(0.007)	(0.007)
Firm Performance Normal This Year	0.080***	0.071***
	(0.004)	(0.004)
Firm Performance Outstanding This Year	0.102***	0.086***
	(0.005)	(0.005)
Total Sales (per \$100,000)	0.003***	0.002***
	(0.0001)	(0.0001)
Total Profits (per \$100,000)	0.011***	0.014***
	(0.001)	(0.001)
Total Employees (in thousands)	0.002***	0.001***
	(0.0001)	(0.0001)
Observations	56,957	49,045
R-squared	0.628	0.675

Note: Models also include indicators ownership type and industry as well as year dummies. Standard errors are in parentheses. \*\*\* indicates statistical significance of less than 1%. \*\* indicates statistical significance between 1% and 5%. \* indicates statistical significance greater than 5% but less than 10%.

**Table 11**

**The Determinants of the Estimated Firm Effects  
When Explaining the Log of Real Base Salary**

Variable	I	II
Intercept	-0.095* (0.052)	-0.057 (0.145)
Long-term Incentive Plan	--	0.017 (0.127)
Base Target: All Companies	--	-0.097* (0.059)
Base Target: Same Industry and Size	--	-0.055 (0.059)
Base Target: Same Size in General	--	-0.109* (0.056)
Base Target: 75 <sup>th</sup> Percentile or Higher	--	0.155*** (0.041)
Base Target: Median to 75 <sup>th</sup> Percentile	--	0.086*** (0.033)
Public Company, US Owned	0.123** (0.062)	0.131** (0.059)
Private Company, US Owned	-0.106* (0.062)	-0.185*** (0.070)
Subsidiary Company, US Owned	0.103 (0.067)	0.124 (0.085)
Mining	0.118** (0.060)	0.079 (0.069)
Construction	0.110 (0.158)	0.092 (0.144)
Transportation and Communications	0.146*** (0.042)	0.133*** (0.044)
Wholesale Trade	0.055 (0.073)	0.096 (0.080)
Retail Trade	0.081 (0.106)	0.241* (0.123)
Finance	0.152*** (0.056)	0.203*** (0.073)
Services	-0.0001 (0.048)	-0.010 (0.061)
Observations	315	315
R-squared	0.127	0.268

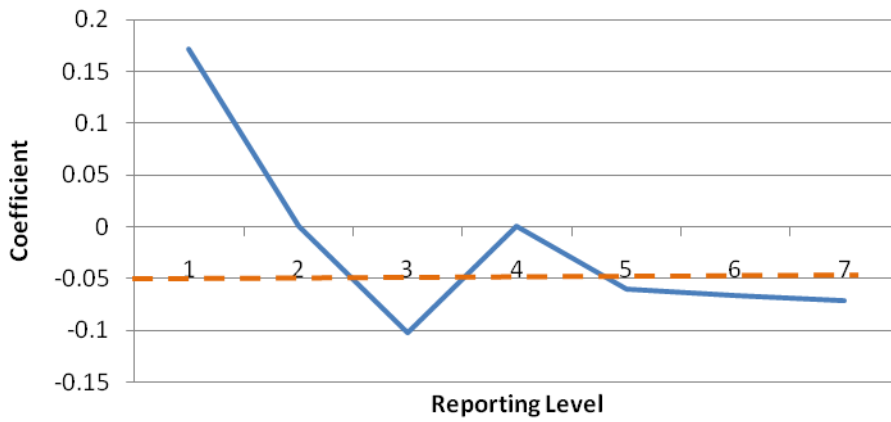
Note: Reference category for Ownership is foreign owned firms. Reference category for industry is Manufacturing. \*\*\* indicates statistical significance of less than 1%. \*\* indicates statistical significance between 1% and 5%. \* indicates statistical significance greater than 5% but less than 10%.

**Table 12**  
**The Determinants of the Estimated Firm Effects**  
**When Explaining the Log of Real Base Salary + Bonus Pay**

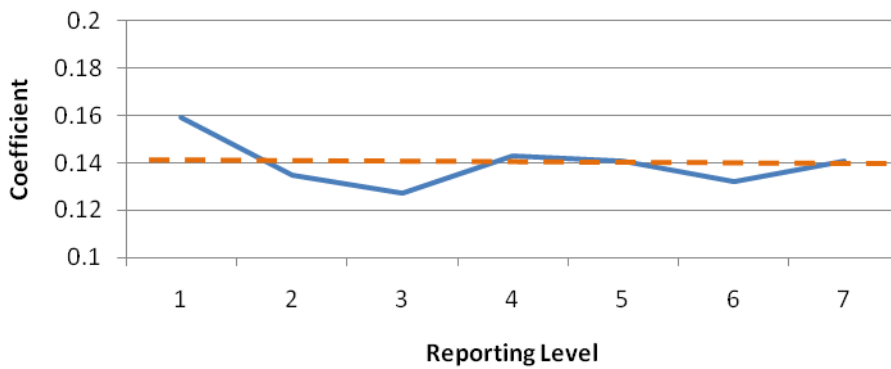
Variable	I	II
Intercept	-0.027 (0.063)	-0.102 (0.213)
Long-term Incentive Plan	--	0.307 (0.188)
Bonus Pay Limited	--	-0.028 (0.040)
Bonus Pay Formulas	--	-0.116*** (0.043)
Bonus Eligibility: Salary	--	0.068 (0.056)
Bonus Eligibility: Position	--	-0.014 (0.061)
Payouts Consider Individual Performance	--	0.041 (0.044)
Total Compensation Target: All Companies	--	-0.249*** (0.068)
Total Compensation Target: Same Industry and Size	--	-0.257*** (0.071)
Total Compensation Target: Same Size in General	--	-0.239*** (0.066)
Total Compensation Target: 75 <sup>th</sup> Percentile or Higher	--	0.112*** (0.043)
Total Compensation Target: Median to 75 <sup>th</sup> Percentile	--	0.059 (0.041)
Public Company, US Owned	0.106 (0.065)	0.151** (0.070)
Private Company, US Owned	-0.106 (0.076)	-0.144* (0.086)
Subsidiary Company, US Owned	0.051 (0.081)	0.063 (0.102)
Mining	0.009 (0.073)	-0.076 (0.081)
Construction	0.107 (0.191)	0.071 (0.172)
Transportation and Communications	0.088* (0.051)	0.106** (0.051)
Wholesale Trade	0.026 (0.089)	0.063 (0.096)
Retail Trade	0.112 (0.129)	0.105 (0.117)
Finance	0.137** (0.067)	0.132 (0.084)
Services	0.026 (0.058)	0.020 (0.075)
Observations	314	314
R-squared	0.066	0.250

Note: Reference category for Ownership is foreign owned firms. Reference category for industry is Manufacturing.

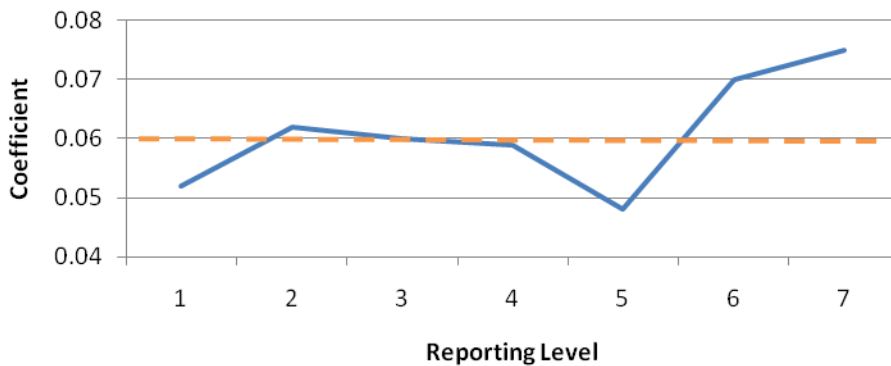
**Figure 1: Long-Term Incentive Plan  
(on Base Salary)**



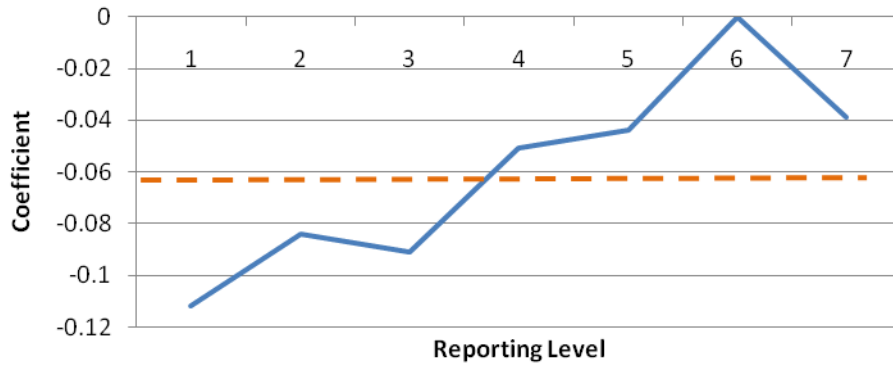
**Figure 2: Target for Base Salary Set at  
Least 75th Percentile of Competitors  
(on Base Salary)**



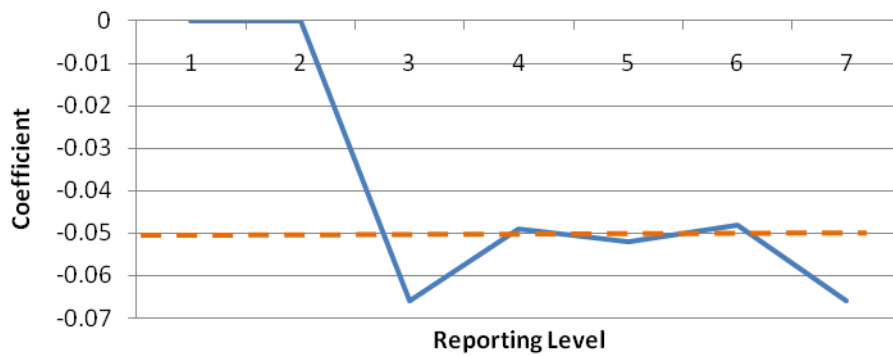
**Figure 3: Target for Base Salary Set 50-  
75th Percentile of Competitors  
(on Base Salary)**



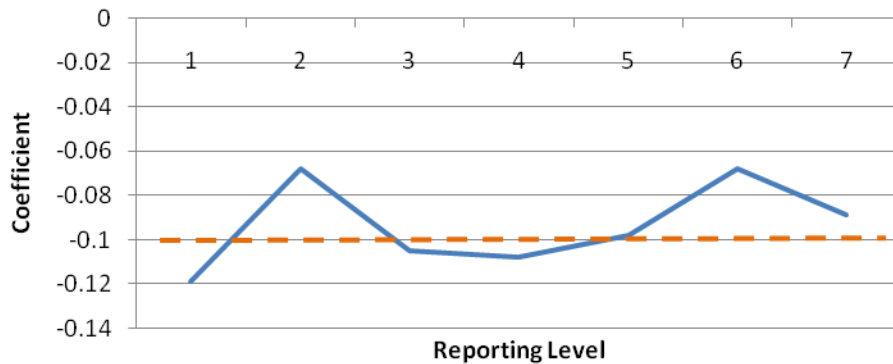
**Figure 4: Base Salary Target Based on All Companies in Industry**  
(on Base Salary)



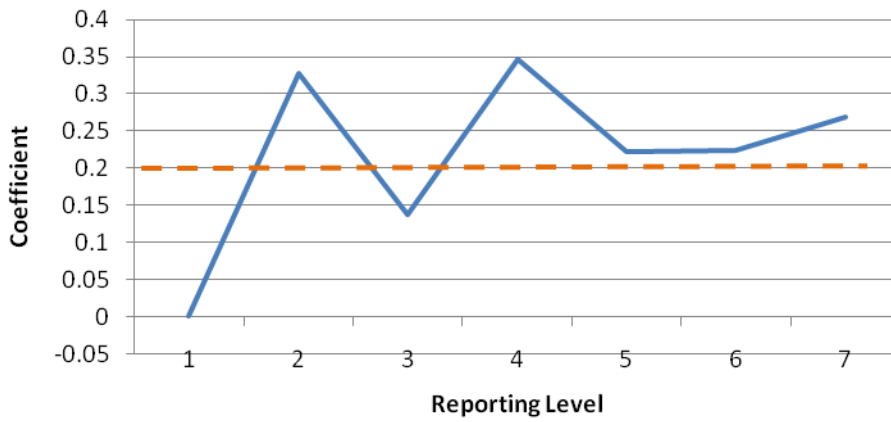
**Figure 5: Base Salary Target Based on Similar Size within Industry**  
(on Base Salary)



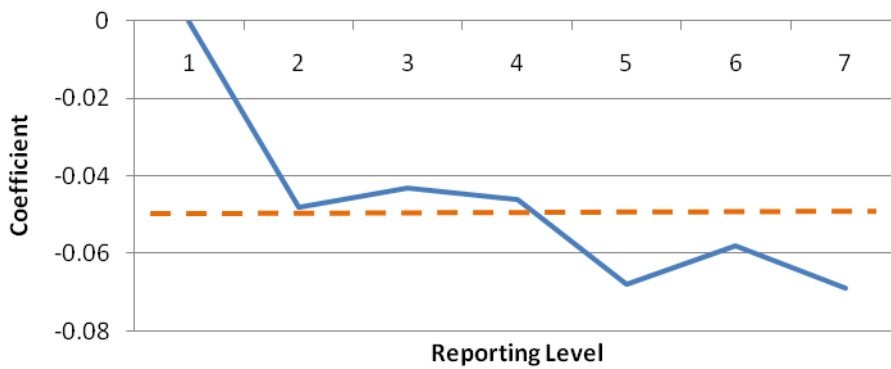
**Figure 6: Base Salary Target Based on Similar Size Only**  
(on Base Salary)



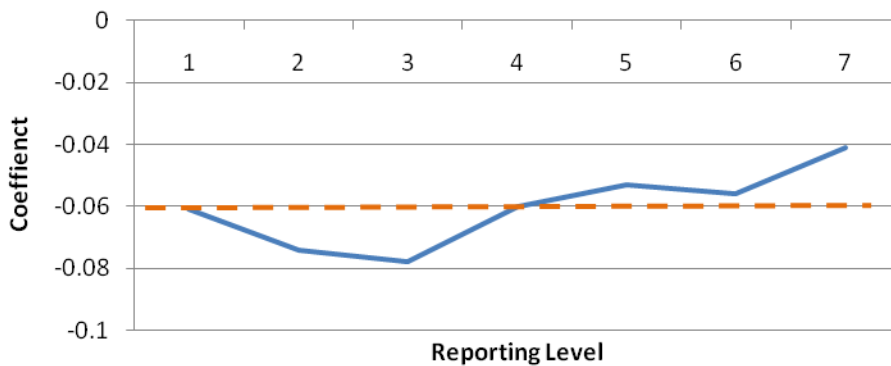
**Figure 7: Long-term Incentive Plan**  
(on Total Compensation)



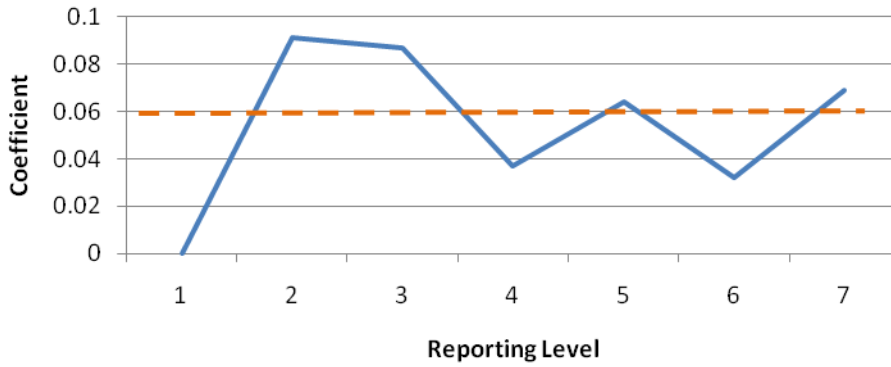
**Figure 8: Firm Has Policy that Limits Bonus Pay**  
(on Total Compensation)



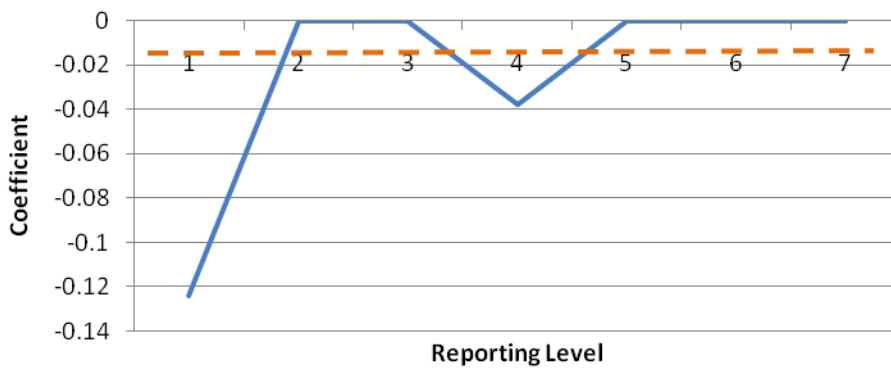
**Figure 9: Firm Has Set Formula for Establishing Incentive Award Funds**  
(on Total Compensation)



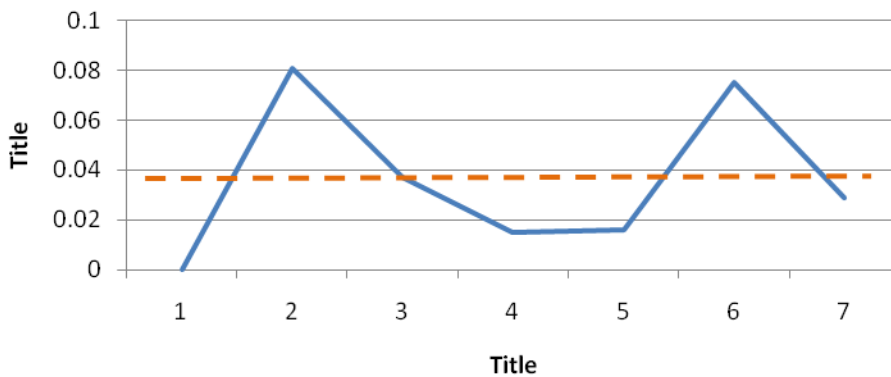
**Figure 10: Bonus Eligibility Based on Salary versus Based on Discretion (on Total Compensation)**



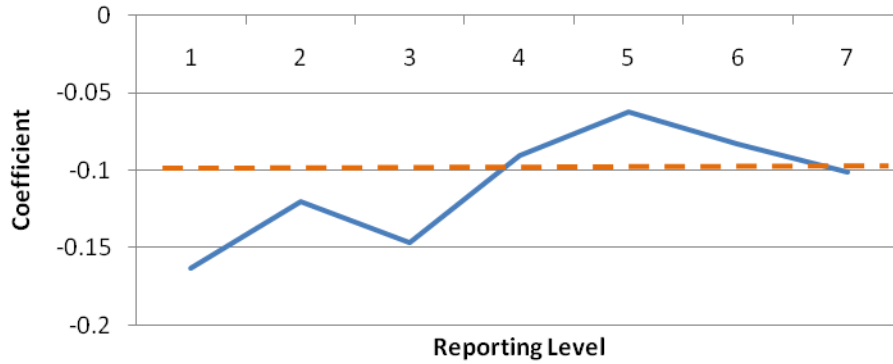
**Figure 11: Bonus Eligibility Based on Position versus Based on Discretion (on Total Compensation)**



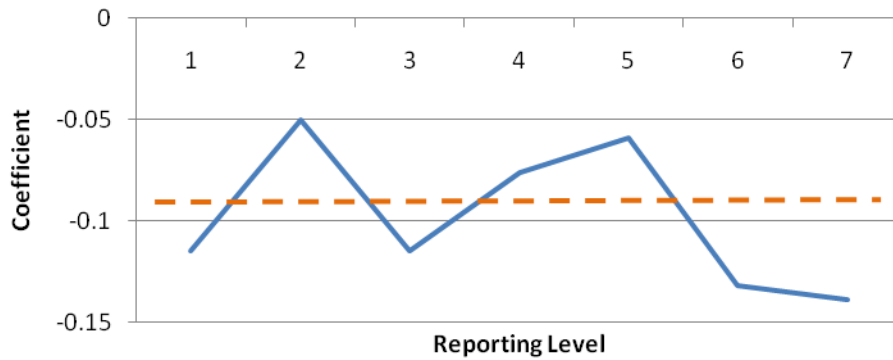
**Figure 12: Payouts Based on Individual Performance and Not Solely Firm Performance (on Total Compensation)**



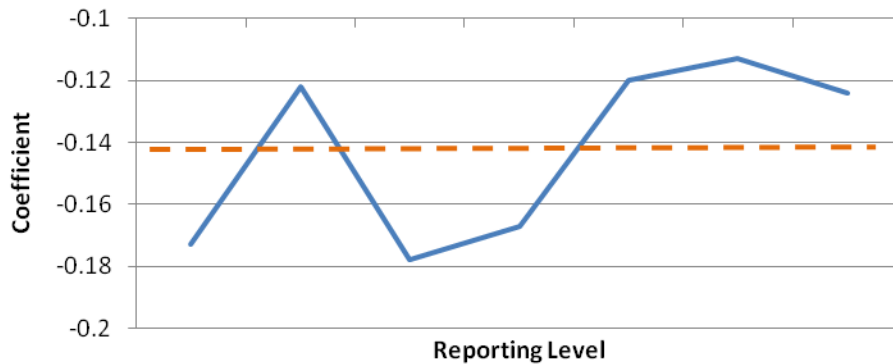
**Figure 13: Compensation Target Based on All Companies in Industry**  
(on Total Compensation)



**Figure 14: Compensation Target Based on Similar Size within Industry**  
(on Total Compensation)

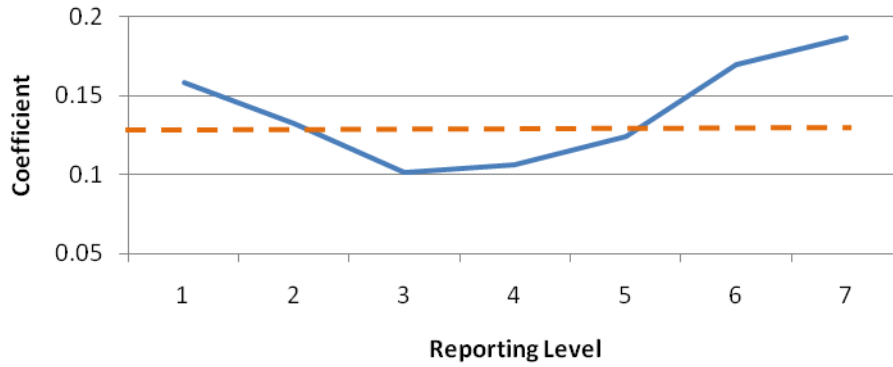


**Figure 15: Compensation Target Based on Similar Size Only**  
(on Total Compensation)

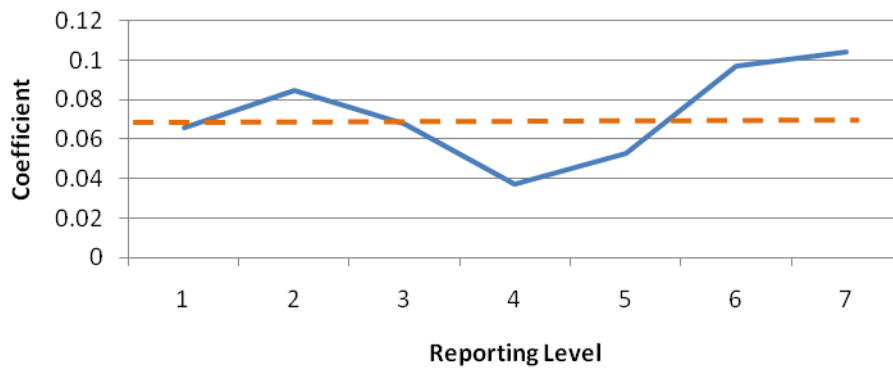




**Figure 16: Target for Compensation Set at Least 75th Percentile of Competitors (on Total Compensation)**



**Figure 17: Target for Compensation Set 50-75th Percentile of Competitors (on Total Compensation)**



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