Standing Out Only to Get Hammered Down: CEO Overcompensatory Actions and Board Ratcheting Responses

ABSTRACT

While research examining the motivation behind CEO goal attainment has often focused on monetary incentives, this study analyzes the social factors motivating CEO behavior. Drawing on self-determination theory, we consider how differences between the CEO and the board may motivate the former to engage in overcompensatory actions—defined as attempts to overcome feelings of inferiority or inadequacy by overperforming—due to the need for relatedness. We identify three dimensions of difference that could lead to CEO compensatory action in the form of goal over-attainment: 1) demographic differences; 2) occupational differences; and 3) status differences. We also address the possible consequences of CEO compensatory action by examining board responses in the form of ratcheting up subsequent performance targets. Drawing on social identity theory, we expect that attempts to overcompensate will lead to backlash such that boards will increase subsequent targets, and the likelihood will be higher for CEOs that reflect one of the three difference dimensions. We test our hypotheses using an original dataset consisting of nearly 1000 firms from 2006-2019, and discuss the implications of our theoretical perspective and supportive empirical findings for future research on corporate governance, CEO/Board relationships, and overcompensatory actions.

Keywords:

Corporate governance; board of directors; group decision-making and dynamics

INTRODUCTION

For decades, academics and practitioners alike have debated how best to incentivize CEO behavior. Building on the agency theoretical perspective's emphasis on aligning CEO interests with performance incentives (Fama & Jensen, 1983), numerous studies have identified different types or components of compensation packages that corporate boards use to guide CEO decision-making (Boyd, 1994; Chhaochharia & Grinstein, 2009; Frydman & Jenter, 2010; Tosi & Grekchamer, 2004). Although compensation serves as a powerful lever to motivate certain actions, crafting compensation packages can nevertheless be a technically complex and politically fraught process (Daily, Johnson, Ellstrand, & Dalton, 1998). Prior research on the proliferation and magnitude of excess CEO compensation arising from a board's inability or unwillingness to properly set CEO compensation underscores the challenges in designing the right compensation package (Main, O'Reilly, & Wade, 1995). Furthermore, recent work on CEO goal attainment highlights how many CEOs seek a satisficing strategy by simply hitting their goals within a sufficiently acceptable margin (Sanders & Carpenter, 2003). Taken together, it seems that at worst CEOs may escape with underperformance and at best be rewarded for minimal performance.

However, although financial incentives may be a powerful motivator for CEOs, there are alternative factors that could drive CEO goal-attainment behavior. Specifically, research on self-determination theory highlights how individuals have three basic psychological needs motivating their behavior: 1) the need for autonomy; 2) the need for competence; and 3) the need for relatedness (Deci & Ryan, 2000). Of the three, the desire to be related to and accepted by in-group members often drives out-group members to engage in more extreme behaviors to compensate for—and potentially change—their out-group status. We refer to these responses as

overcompensatory actions, which are attempts to overcome feelings of inferiority or inadequacy by overperforming. Notably, when it comes to goal-directed behavior, overcompensatory actions may take the form of not simply goal attainment, but goal over-attainment. Ultimately, the desire to reflect and maintain a highly socially valued identity by being a member of the in-group seems to be a potent motivator for individual behavior (Cialdini, 2007).

At the same time, overcompensation often proves to be self-defeating. Just as failing to meet expectations may reflect a deviation from the norm, so too may exceeding expectations. Specifically, the extremity of the response may serve to further strengthen in-group identification due to emphasizing how different the out-group member is compared to the in-group (Castano et al, 2002). In response, the in-group members may enact stricter standards to further distance themselves from the out-group member and thus make subsequent attempts to fit in even more challenging (Smeekes & Verkuyten, 2013).

In this paper, we examine the antecedents and consequences of CEO overcompensatory actions. Specifically, we focus on how certain socio-political factors contribute to CEOs overachieving on their annual goals, as well as whether and how overachievement prompts punitive actions by the board in the form of higher, more unattainable goals in the future. Drawing on self-determination and social identity theories (Abrams & Hogg, 1990; Stets & Burke, 2000), we suggest that certain demographic, occupational, and status differences between the CEO and the board may lead to overcompensatory actions by the former in the form of goal over-attainment. From there, we suggest that the board may respond to CEO goal over-attainment by ratcheting up performance metrics, which would make subsequent achievement more difficult. Additionally, we expect that the same dimensions of difference that would prompt overcompensatory actions by the CEO will also contribute to the board choosing harder goals

such that CEO differences relative to the board will positively moderate increased goal difficulty.

We test our theory and hypotheses using a dataset of 900 firms from 2006-2019 and discuss our generally supportive preliminary findings. Specifically, we find that certain dimensions of difference related to demographics, occupation, and status result in overcompensatory actions by the CEO in the form of goal over attainment. In response to these overcompensatory actions, the board is then more likely to ratchet up performance goals the following year, and they are especially likely to increase goal difficulty for CEOs who differ across the three dimensions. Together, our results contribute to work in corporate governance and intergroup dynamics by identifying the antecedents and consequences of CEO overcompensatory actions. Specifically, we seek to extend our contribution to the corporate governance literate by not only considering non-pecuniary motivation for CEO goal attainment, but also the potential backlash by the board in the form of ratcheting up performance goals.

INCENTIVIZING CEO BEHAVIOR

CEO compensation has commanded scholarly attention in fields ranging from finance (Brick, Palmon, & Wald, 2006), accounting (Cheng, 2004; Laux & Laux, 2009), and management (Westphal & Zajac, 1995; Zajac & Westphal, 1995). The core assumption shared by these disparate fields of research center on the motivational aspect of compensation. Specifically, that by tying pay with the right mixture of performance goals linked with firm's underlying performance drivers, the board can properly incentivize the CEO to eschewing self-interested shirking and instead make decisions that will benefit the overall firm (Fama & Jensen, 1983). Through their focus on the factors that could lead to excess compensation as well the consequences of incentive misalignment, prior work highlights the difficulty and nuance inherent

in designing CEO compensation plans (Bebchuk & Fried, 2003).

Aside from the mechanical difficulties in determining CEO pay, more recent work has focused on the socio-political elements that could also contribute to affecting how much a CEO should be compensated. Notably, CEOs can engage in persuasion and ingratiation tactics to sway key decisionmakers (Westphal & Stern, 2007) or rely on informal friendships (Westphal, Boivie, & Ming Chng, 2006) and historically passive directors (Zajac & Westphal, 1996) to dampen demands for stricter board oversight. Furthermore, the increased reliance on third-party service firms to advise on compensation plans contributes to the further ratcheting up of CEO pay without necessarily addressing the potential for bias in the compensation design process (Armstrong, Ittner, & Larcker, 2012). Together, the wide range of interpersonal influence tactics further emphasize the challenges in setting CEO compensation: even if the decision makers have the *ability* to design an appropriate compensation plan, they may not necessarily have the *will* to do so (Eggers & Kaul, 2018).

Although both perspectives on CEO compensation differ in terms of the factors contributing to incentive misalignment, they nevertheless share a common assumption: that CEOs are not intrinsically motivated to meet their performance goals and must thus be extrinsically motivated via tailored compensation plans. This partially stems from the economic base undergirding much of the research on CEO compensation. Specifically, the underlying belief of agency theory—the dominant theoretical lens explaining CEO behavior—argues that contingent rewards will lead to desired behaviors while the threat of punishment should diminish undesired behavior (Fama & Jensen, 1983). However, other social scientists have long argued that this conception of motivation may be counterproductive given that rewards may prompt decreased performance due to negatively reinforcing behavior (Lepper, Greene, & Nisbett, 1973;

Sansone & Harackiewicz, 2000). Put differently, paying for performance could lead individuals to lose interest in a task, and further attempts to increase rewards to capture prior levels of commitment ultimately lead to increased disengagement (Rynes, Gerhard, & Parks, 2005).

Furthermore, even when individuals achieve their goals, they often do so in the most minimal of ways. A theoretical bedrock of behavior strategy, satisficing—a decision-making strategy that settles for the simplest or barely acceptable result—suggests that individuals are only motivated to extend the least amount of effort necessary to achieve a certain goal (Simon, 1947). The same effect applies for CEOs (Sanders & Carpenter, 2003); rather than expend more effort to maximize on a particular action or decision, CEOs are more likely to satisfice in seeking solutions. Strategic satisficing both decreases the effort required by the CEO and also prevents the possibility of further target ratcheting by the board in the next fiscal period.

We suggest that this is especially evident in their goal-seeking behavior. Boards may choose to include three tiers of CEO performance metrics: 1) threshold; 2) target; and 3) stretch (Murphy, 2000; Kim & Yang, 2014). Threshold goals stipulate the bare minimum that CEOs must hit to get their bonus while target goals stipulate the standard set of goals to attain a higher bonus and stretch goals refer to the aspirational set of goals that would be rewarded with a maximum bonus. Put differently, while CEOs must hit their threshold goals and mostly do hit their target goals, not many hit their stretch goals, with few going beyond these performance stretch targets. Correspondingly, prior work looking at CEO goal-attainment mainly focuses on the range between the threshold and stretch goals termed “the incentive zone” (Murphy, 2000), and ignores the area beyond the stretch goals. This oversight is not surprising given that there are no additional payouts for exceeding the stretch goal. From a financial incentive and satisficing perspective, few rational agents would be motivated to exceed a target, much less consistently

shoot for a stretch goal.

We offer a contrasting suggestion. Although financial incentives are a potent source of motivation, there are other non-pecuniary factors that drive behavior. To that end, we suggest that actors are motivated beyond purely financial reasons and will engage in behaviors that seek to exceed expectations rather than simply satisfice. More specifically, research on self-determination theory (SDT) offers a different view on motivation- one that focuses on the interplay between intrinsic and extrinsic motivation. SDT identifies three basic psychological needs that act as the fountainhead of motivation: 1) the need for autonomy; 2) the need for competence; and 3) the need for relatedness (Deci & Ryan, 2000). While prior work highlights how all three needs predict outcomes related to well-being and satisfaction, a recent meta-analysis found that need for relatedness—defined as the need to feel connected to at least some others—was strongly and directly related to intrinsic motivation (Van den Broeck et al, 2016).

Surprisingly, there have been only a few papers that apply SDT in the corporate governance setting. Boivie and colleagues (2012) note how the interplay between intrinsic and extrinsic motivation helps explain board director exits aside from significant negative events such as financial fraud and bankruptcies. Similarly, negative media attention and analyst downgrades also increased the likelihood of director exit due to lowered perceived value of the affected firm (Harrison, Boivie, Sharp, & Gentry, 2018). Notably, while these previous works distill the different effects of intrinsic and extrinsic motivation on board directors, as well as the relationship between motivation, identity, and reputation, there is less emphasis on examining the three basic psychological needs. Put differently, the focus on the *consequences* of motivation may fail to account for the *antecedents* of motivation. Furthermore, much scholarly attention centers on directors and their desire to remain or exit the board rather than the CEO and her

desire to meet—or exceed—the performance goals dictated by the board. In the following section, we discuss how we intend to address the antecedents and consequences of CEO motivation by both focusing on the need for relatedness as well as connecting with insights from social identity theory.

THE MOTIVATION TO FIT IN WITH THE IN-GROUP

The social identity approach helps shed light on why the need for relatedness fuels motivation. Having expanded from a focus on conflict between groups owing to in-group favoritism (Abrams & Hogg, 1990), the social identity approach also encompasses self-categorization theory, which focuses on how individuals categorize both themselves and others into groups to understand and structure their social world (Turner et al, 1987). Core to both theoretical perspectives is the idea that individuals seek to establish or enhance a positive social identity, which may come from favoring the in-group often at the expense of disadvantaging out-group members (Johnson, Rowatt, & LaBouff, 2012). Notably, prior research details the numerous challenges confronting out-group members, who are both less likely to be rewarded for their success and more likely to be punished for their failures, as well as less likely to be considered competent, credible, or relevant.

The costs to being an out-group member are especially acute in the corporate governance context. Given the increased demands for greater board diversity in the form of increased gender and racial representation in the board room, companies have slowly begun adding more demographically diverse directors (Carter, Simkins, & Simpson, 2003). However, numerous studies highlight how simply being added to the board is insufficient; due to issues such as lack of mentorship, diverse directors are less likely to assume leadership positions on the board and

have significantly shorter board tenures (McDonald & Westphal, 2013). Furthermore, among minority CEOs, the disadvantages of being different from the in-group—whether it be the board or the rest of the top management team—also contributes to their increased likelihood of being blamed for poor performance and shorter tenure lengths (McDonald, Keeves, & Westphal, 2018). Unsurprisingly, while certain out-group members may engage in self-protective measures to buffer their self-esteem such as embracing the qualities marking their difference from the in-group, a key response by many out-group members is to seek ways to be re-categorized as part of the in-group by highlighting underlying shared commonalities (Zhu, Shen & Hillman, 2014). Their efforts make sense given that it is often only when these members are recategorized as an in-group member—due to shared education, functional background, and experience—that they can transcend out-group biases and enjoy the protection and benefits of in-group favoritism.

Building on connections between these two research streams, we seek to understand how the desire to fit in with the in-group will motivate an out-group member to engage in actions that could attract and appease in-group members. Importantly, given that social identity theory predicts in-group favoritism, SDT's focus on relatedness highlights how being a part of a group could prompt a strong sense of solidarity and communion (Deci & Ryan, 2000). As a result, in-group members are extrinsically motivated to channel their efforts in ways that aid the overall group (Johnson, Rowatt, & LaBouff, 2012). At the same time, it is unclear what kind of behaviors could result from a desire to be part of the in-group. In other words, what will individuals do in their attempts to satisfy their need for relatedness?

We suggest that a similar response occurs when out-group members seek to join the in-group such that out-group members have greater extrinsic motivation to advance the in-group's larger goal. These overcompensatory actions—defined as attempts to overcome feelings of

inferiority or inadequacy—are characterized by excessive and exaggerated attempts to mask an unacceptable trait by overperforming on another metric. By overachieving in an alternative area, out-group members may increase their likelihood of being recategorized and ultimately accepted by the in-group.

Within the corporate governance context, CEOs are situated in a particularly precarious position that makes them susceptible to out-group bias from the board. We suggest that certain demographic, occupational, and status differences could result in the CEO feeling excluded from the in-group and potentially punished for being an out-group member. For example, if the CEO is a racial minority but the board is all White, then there are salient racial differences that could result in out-group bias against him. In response, we expect CEOs to engage in overcompensatory actions designed to make up for their differences by overachieving in their goal attainment. As noted previously, performance goals for the CEO have three distinct categories—threshold, target, and stretch—and much of the existing work on CEO goal attainment has assumed that CEOs will seek to simply reach their target goal rather than exceed it and reach their stretch goal. As a result, the focus has been on how should the board design compensation plans such that CEOs meet their threshold or target goals (Murphy, 1999). In contrast, our research questions center on when and why CEOs overachieve on goals by hitting their stretch goals. Given that most CEOs can satisfice by hitting their target metric, why do some go above and beyond to hit a stretch goal? In the following section, we introduce how demographic, occupational, and status differences may lead to overcompensatory actions by the CEO to ingratiate themselves with the board. Furthermore, we examine the consequences of overcompensatory actions by investigating how the board responds, and whether the same differences may lead to more difficult goals in the future.

DIMENSIONS OF DIFFERENCE AND OVERCOMPENSATORY ACTIONS

In this section, we introduce the key antecedents that we suggest may affect CEO goal-attainment. Similar to how Zhu and colleagues (2014) noted how certain differences may relegate certain minority directors to the out-group within the board, we expect that key demographic, occupational, and status differences between the CEO and the board will result in the former feeling keenly aware of being an out-group member. Given that the CEO already serves in a different role compared to the board, these additional differences further deepen and ossify the fault-lines dividing the two groups (Lau & Murnighan, 1998). Given the innate need for relatedness, we expect that CEOs will seek to bridge the gap separating them from the rest of the board by engaging in overcompensatory actions, as evidenced by hitting their performance stretch goals. We discuss each dimension of difference below.

Demographic Differences and Overcompensatory Actions

Demographic differences are one of the most salient markers that individuals use to judge others. Social categorization theory demonstrates how people categorize others based on visible features such as gender, race, ethnicity, and age (Turner et al, 1987). One of the key challenges for individuals relegated to the out-group due to their demographic differences is that it is difficult to transcend these social categories given that these qualities are difficult if not impossible to mask. As a result, individuals seeking to break away from their out-group categorization and join the in-group often engage in behaviors meant to dampen their differences (Zhu et al, 2014). Studies show how women often behave in more aggressive ways when interacting with their male coworkers and bosses (Padavic & Reskin, 2002), while racial and ethnic employees often "act white" by alluding to activities commonly associated with white populations (Austen-Smith & Fryer, 2005). Similarly, younger employees tend to behave more maturely when interacting with

older coworkers. Together, these findings point to behavioral adjustments meant to assuage in-group members via mimicking or augmenting their commonalities.

At the same time, highlighting similarities may be insufficient to allay any concerns about an out-group member's performance potential. Given extensive evidence that out-group members are less likely to receive positive evaluations (Hewstone, 1990), less likely to be noticed or remembered for their achievements (Taylor & Fiske, 1978), while at the same more likely to be punished for their failure (Pettigrew, 1998), attenuating any performance concerns is of the utmost concern for out-group members. Moreover, simply performing comparably to members of the in-group is insufficient. Rather, we suggest that out-group members often seek to exceed expectations, and instead engage in overcompensatory actions. As such, for CEOs who are demographically different than the board, we expect that they will surpass their typical performance goals in the form of goal over-attainment. More formally, we hypothesize:

> **Hypothesis 1a (H1a)**: The greater a CEO's dissimilarity to the board along demographic dimensions, the more likely she is to engage in overcompensatory actions.

Occupational Differences and Overcompensatory Actions

Although demographic differences are a salient differentiator, there are more subtle factors that may serve to separate individuals from the larger in-group. Notably, prior work on functional backgrounds highlight the different perspectives executives bring depending on their role and responsibilities (Cannella, Park, & Lee, 2008). Similarly, occupational differences such as industry background often serve as another point of demarcation; while some employees traditionally stayed within the same industry during their career progression, there has been a marked increase in the number of people jumping between different industries (Randel & Jaussi, 2003). While this broader exposure to different functions and industries could provide more creative insights, the lack of sustained exposure may be seen in a negative light by people with

more extensive experience in a narrower scope. Individuals are often quick to dismiss ideas from out-group members because it may seem too different from how things are normally done (Tanford & Penrod, 1984). As a result, out-group members must often rely on more persuasion techniques such as framing and lobbying to convince in-group members that they deserve to be heard (Mackie & Queller, 2000).

Importantly, employees that come from a different functional or industry background may face significant suspicion about their ability to accomplish their task. Without the traditional background, it may be easy for in-group members to claim that these out-group members lack the requisite experience and expertise, and would thus be unlikely to succeed. Prior research underscores how territorial employees can be, and how fiercely they guard their professional jurisdiction (Chown, 2020). Outsiders are often perceived as naïve at best and incompetent at worst. As such, similar to how we expect demographically different individuals to engage in overcompensatory actions to temper concerns about the performance potential, so too do we expect individuals from different industries to also behave in ways that lead to goal over-attainment. We thus hypothesize:

> **Hypothesis 1b (H1b)**: The greater a CEO's dissimilarity to the board along occupational dimensions, the more likely she is to engage in overcompensatory actions.

Status Differences and Overcompensatory Actions

Finally, one of the key differentiators across individuals is status. Similar to the results for shared demographics and occupations, prior work finds that shared social status is often a basis for interpersonal attraction (Lott & Lott, 1965; Cannella, Finkelstein, & Hambrick, 2008). Status may be reflected in an individual's extensive network and elite affiliations. In particular, varying access to these upper echelons could create status differentials, which may affect self-evaluation as well as evaluation of others. Research shows how these perceptions predict behaviors and

group interactions (Shani & Wespthal, 2016). In particular, low-status individuals are found to be more susceptible to influence attempts by others, and are particularly sensitive to overtures by more high-status individuals.

We expect that status will play a key role in explaining CEO behavior. While prior research examining status differentials between the CEO and board found that lower-status board members were more likely to capitulate to CEO demands of higher compensation (Belliveau O'Reilly, & Wade, 1996), we shift our attention to the converse: when the CEO is of lower-status compared to the board. If the board is indeed more reluctant to provide higher compensation to the CEO, then she may be more likely to engage in overcompensatory actions to convince the board that higher pay is deserved and appropriate. As such, we expect that status differences will affect the likelihood of CEO goal over-attainment. This leads to hypothesize:

> **Hypothesis 1c (H1c)**: The greater a CEO's dissimilarity to the board along status dimensions, the more likely she is to engage in overcompensatory actions.

CONSEQUENCES OF OVERCOMPENSATORY ACTIONS

Having analyzed the antecedents of CEO overcompensatory action, we turn now to the consequences of these behaviors. While our theoretical perspective has thus far emphasized the need for relatedness as the primary driver of overcompensatory actions by the CEO, we can extend our framework to consider how the *board* responds to these actions. Specifically, we investigate whether a board responds to CEO overcompensatory action by ratchetting up subsequent performance goals, and thus make it more difficult for the CEO to meet future stretch targets. We also venture that the same demographic, occupational, and status differences contributing to CEO overcompensatory actions will also increase the degree of goal difficulty. In other words, our focus on in-group versus out-group dynamics suggests the desire of the CEO to

appease the board may result in backlash by the latter, with greater dimensions of difference leading to higher subsequent goals.

Board Responses to Overcompensatory Actions

We begin by noting that board responses are rare. Prior work has generally painted a portrait of a passive, static board- one that is too busy (Boivie et al, 2015), unmotivated (Zajac & Westphal, 1996), or relationally compromised (Wespthal & Zhu, 2019) to properly attend to their basic responsibilities, much less play an active role in shaping CEO behavior. While certain shocks such as restatements or other such negative effects may spur the board into action (Gai, Cheng, & Wu, 2020), these events are relatively infrequent and the effect is often ephemeral; once the threat passes, the board often recedes back into the background. More recently, the rise of activist investors and more stringent regulations have put the onus on boards to be more responsive (David, Bloom, & Hillman, 2007). However, it may still be difficult to push boards to routinely update their decisions in response to changes within and beyond the firm.

In contrast, we argue that certain CEO behaviors will stir the board into action. Put simply, actions beget reactions. Specifically, actions by out-group members spark intense reactions by the in-group. Research on inter-group relations highlight how protective in-group members are of their group, and how defensive they are of their group boundaries (Smeekes & Verkuyten, 2013). Efforts by out-group members to breach these divisions are at best politely ignored, and at worst severely repudiated. The mechanism underlying these protective responses stem from the innate desire to maintain a positive group identity and that maintaining group boundaries provides a degree of distinctiveness that is sought after and worth protecting (Stets & Burke, 2000). Indeed, studies looking at the motivation of in-group members' behaviors toward out-group members find that while in-group favoritism and out-group bias are both present, it is

really the former that is driving the behavior (Johnson, Rowatt, & LaBouff, 2012). Taken together, research suggests that in-group members are willing to do whatever it takes to ensure the status-quo and protect their in-group identity.

In the numerous prior studies on CEO-Board dynamics, most focus on how the board bends toward the CEO. For example, one study shows how ingratiatory behavior by the board towards the CEO could lead to poor firm performance due to increasing CEO overconfidence (Park, Westphal, & Stern, 2011). Another identifies how board members mollify the CEO by acquiescing to demands for higher compensation. Others highlight how CEOs can build an obedient board by appointing their friends as directors. Notably, these studies converge due to the shared emphasis on how a CEO's high social status and social capital motivates the board to engage in appeasement rather than aggression toward the CEO.

Notably, far fewer research focuses on CEO attempts to placate the board. The few studies adopting this perspective primarily focus on minority CEOs who are placed in more precarious positions due to their differences with the board and top management team. Indeed, minority CEOs are more likely to receive blame for poor performance (Park & Westphal, 2013) and more likely to have unsupportive top management team members (McDonald, Keeves, & Westphal, 2018). In contrast to the aforementioned studies on board appeasement, a CEO's high social status is insufficient to transcend the in-group/out-group barriers automatically erected due to their racial and gender differences. Rather, these studies emphasize that not all CEOs are afforded the in-group help that may spark supportive and acquiescent behavior.

We extend prior work on how certain CEOs are disadvantaged when it comes to board support by examining whether their attempts to please the board may backfire. Recall our earlier discussion of how overcompensatory actions by the CEO are meant to allay concerns by the

board of their performance ability. Given that out-group members are not afforded the benefit of the doubt (Taylor & Fiske, 1978), exceeding expectations seems to be one way to signal that they can nevertheless be successful. However, attempting to gain acceptance by overperforming could fail and instead prompt backlash from in-group members. Specifically, by threatening the group boundaries by outperforming expectations, the CEO may inadvertently prompt the board to make it more difficult to outperform in the future. Specifically, overcompensatory actions in the form of goal over-attainment may lead the board to respond with more challenging goals in the future. This leads to our first baseline hypothesis regarding the likely consequences of CEO overcompensatory actions:

> **Hypothesis 2 (H2)**: Compensatory action by the CEO will lead to subsequent ratcheting up of performance goals by the board.

Dimensions of Difference Moderating Board Responses to overcompensatory actions

However, there could be a myriad of reasons for why a board changes CEO performance goals in the following year. Indeed, a rational and appropriate reason would be that the initial goals were simply misaligned; if the initial performance metrics were not calibrated correctly, then adjusting them higher simply means that they are now accurate. As such, in this final section, we explore whether the same dimensions of difference the predicted CEO overcompensatory actions moderate the relationship between goal over-attainment and board responses.

Overall, we expect that the same mechanisms leading the CEO to engage in overcompensatory actions will similarly fuel retaliatory actions by the board, generating in a higher likelihood of ratcheting up performance goals in the following year. While the motivation for changing performance goals *certis parabis* is ambiguous, a higher likelihood of the board increasing goal attainment difficulty suggests a repudiation of the CEO's attempts to join their in-group. Put differently, while a CEO's need for relatedness may prompt them to engage in

behaviors meant to woo the board, the board has already fulfilled their need and seeks only to protect their group boundaries (Brewer, 2001). Formally, we hypothesize the following:

> **Hypothesis 3a (H3a)**: The greater a CEO's dissimilarity to the board along demographic, dimensions, the more likely the board is to ratchet up subsequent performance goals.
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> **Hypothesis 3b (H3b)**: The greater a CEO's dissimilarity to the board along occupation dimensions, the more likely the board is to ratchet up subsequent performance goals.
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> **Hypothesis 3c (H3c)**: The greater a CEO's dissimilarity to the board along status dimensions, the more likely the board is to ratchet up subsequent performance goals.

METHODS

Our data is comprised of firms included in the ISS Incentive Lab dataset. ISS Incentive Lab has detailed compensation plan data on firms from the S&P 500 and S&P 400 mid-cap indices from 2002 to the present. However, since the disclosure of performance goals was standardized in 2006, we only include the data from 2006-2019 to maintain data consistency in our sample (Gipper, 2020). Our sample consists of data on 1,201 CEOs and their compensation plans linked with variable compensation pay-outs across 5,713 firm-year CEO goal observations. We use BoardEx to construct the variables on the demographic, occupational, and status differences between CEO and the board. Finally, we used COMPUSTAT for various firm and industry-level controls. ISS Incentive Lab and EXECUCOMP data on CEOs can differ during specific years, usually when there is a turnover event. This is because Incentive Lab and EXECUCOMP have different definitions on who was the CEO when the CEO changed. To ensure data consistency across our sample, we matched the names of CEOs in both datasets using a Levenshtein distance fuzzy name matching algorithm after first matching the datasets using common identifiers.

Dependent Variables

Compensatory action by the CEO. Our dependent variable for the first stage of our

model is a dummy variable equal to one if the performance target linked with the stretch goal was attained and zero otherwise. We used stretch goals rather than threshold or target goals given that stretch goals require significantly more effort than the other two and are likely to be a prime objective for compensatory action. Consistent with the literature, our sample of goals consists of those that can be precisely matched with reported financials, which encompass performance targets linked with EPS, Earnings, Sales, EBIT, EBITDA, Earnings before taxes (EBT) and Operating Income (Bennett, Bettis, Gopalan, & Milbourn, 2017). Goals that are attained have a value of one and zero otherwise.

Target ratchetting by board. Our dependent variable for the second stage of our model is a dummy variable equal to one if a target has been increased versus its value from the last year and zero otherwise. Target ratchetting is equal to one if the target has been increased from last year and it is zero if the target has remained the same or if it has been lowered from the past year.

Independent Variables

Dimensions of difference. Since we are interested in how CEOs overachieve their targets when they differ in terms of demographics, occupation, and status dimensions from the rest of the board, we use a Euclidean distance measure to model the differences between the CEO and the board. Euclidean distance is a widely used measure for operationalization of demographic differences between an individual and other members of the work group and is based on average dyadic differences between individuals (Riordan & Wayne, 2008).

We measure *demographic difference* in terms of the difference in age as well as the gender between the CEO and the board. Prior research on both age and gender highlight how both features are salient identifiers of group members (Turner et al, 1987). Given that the vast majority of CEOs and board directors are white males, age and gender function as clear

demographic differentiators among an otherwise homogenous group.

We measure *occupational difference* based on functional background and industry experience. Prior research executives from different industries tend to bring different viewpoints and expertise (Cobb, Wry, & Zhao, 2016). Similarly, work on CEO functional backgrounds highlight how there are clear differences between executives who have experience in different functions, such that CEOs who have a background in finance make different decisions compared to one from marketing (Shephard, Mcmullen, & Ocasio, 2017). Given the inherent skepticism that some have about whether individuals from different industry and functional backgrounds have the requisite knowledge and specialized expertise to succeed in a particular role, differences there could be a salient differentiator between the CEO and board. For industry work experience, we measure the two-digit SIC code of the industry the CEO and board worked the most. In contrast, we define functional background as being either Throughput (engineering functions like operations), Output (sales or executive functions such as CMO or CEO) or Peripheral (support functions such as law or HR). Normally, functional background is an ordinal measure, which does allow us to construct a Euclidian distance score. As such, we create a variable that equals one if the CEO has the same functional background as the majority of the board.

Finally, we measure *status differences* based on educational differences between the CEO and the rest of the board. Prior research on status identifies education as a key source of social capital. A person's educational background can potentially provide a wealth of quality connections that can enrich their career progression. As such, we create a variable called *highest level of education attainment* that equals one for no bachelor's degree, two for a bachelor's degree, three for a master's degree, four for a doctorate, and 0 otherwise. At the same time, high status can alienate those who lack it (Keeves Westphal, & McDonald, 2017), leading to further

inter-group antagonism. We thus create a variable called *Ivy League education* that equals one if someone spent any of their education at one of the eight Ivy League institutions, and zero otherwise.

For continuous variables such as age, we calculate the adjusted Euclidian distance as follows:

$$-((\frac{1}{n}\sum(S_i - S_j)^2)^{1/2}$$

For categorical variables such as gender, functional background, industry background, education attainment, and ivy league education, we calculate the standard Euclidian distance as follows[1]:

$$1-((\frac{1}{n}\sum(S_i - S_j)^2)^{1/2}$$

CEO Goal Controls. A CEOs ability to attain stretch targets could be related to whether the goals were congruent or not (Ethiraj & Levinthal, 2009). To control for this explanation, we construct a *goal congruence* measure by calculating factor loadings for specific metrics included in the compensation plans. We measure goal congruence by factor analyzing all financial metrics at an industry level. We define goal congruence as the number of factors onto which all financial metrics in a compensation plan load, with higher values indicating lower levels of goal congruence. In certain cases, compensation plans include non-financial metrics, such as customer satisfaction or CSR. We consider all metrics that do not load to financial metrics from financial reports to count on a separate factor. Our analysis indicates that on an industry basis, number of factors range from four to six.

Similarly, although according to revised SEC regulation from 2006 firms are legally bound to report performance metrics (e.g., ROA, ROE, stock price, etc.) from their compensation plans, firms are not required to all performance targets associated with performance metrics (i.e.,

[1] Note: negative coefficients for D-score measures indicate less difference between the CEO and board.

a firm may report that a ROE metric is associated with a 15% target, but is not obliged to). To control for the potential bias resulting from the lack of full performance target disclosure, we construct a *goal transparency* measure by dividing the number of goal targets that are not reported divided by the total amount of goals in that year. Higher values correspond to lower level of transparency in compensation reporting. Although we acknowledge this as a data limitation, a recent paper by Gipper (2020) shows that increased transparency in reporting is actually related to higher levels of compensation, meaning that firms do not seem to actively suppress goal transparency for rent seeking reasons.

Other Controls. We control for a variety of alternative explanations in both model stages. We include a measure for *industry munificence* to control for industry-level influences on goal attainment. Following McNamara et al. (2003), we construct an industry munificence measure by regressing industry-level sales, capital expenditures, and total assets on a time trend variable with a five year rolling window. After this, we divide the regression coefficients from every regression by the average value of the dependent variable (i.e., industry-level sales, capital expenditures and total assets). We calculate the industry munificence measure by averaging the indices for the three variables, with higher values indicating more munificent environment. In a similar manner, we construct the *industry dynamism* variable by first dividing the standard error from each of the regressions by the average value of the dependent variables variable (i.e., industry-level sales, capital expenditures and total assets). We compute the industry dynamism variable by averaging the indices for all three separate variables. In this case, higher values imply more dynamic environment.

We also control for *firm liquidity* by first adding current liquid assets and inventory, and then subtracting current liabilities. From there, we divide this number by current assets to get our

liquidity measure. We control for *CEO tenure* by counting the number of years the current CEO has been in the CEO position. We also include a dummy variable for *new CEO* equal to one if the CEO has been appointed in this year. We also control for *firm size* by including a logarithm of total assets. Finally, for our first stage model where we predict goal attainment, we include year dummies to control for time effects.

Analytical method

Since our final data structure is nested under firms and our DVs are dummy variables, we used a mixed effects logit approach. Logit is superior to using an OLS-based linear probability model as its range never exceeds zero to one. We used a mixed effects approach to take into account the nested nature of the data.

RESULTS

Table 1 displays the correlation matrix and descriptive for our variables and Table 2 shows the results of regressions for the first model stage.

----- INSERT TABLES 1 AND 2 ABOUT HERE -----

Hypothesis 1a proposed that the greater a CEO's dissimilarity to the board along demographic dimensions, the more likely she is to engage in overcompensatory actions. For Hypothesis 1a, the parameter estimates for age is positive and significant ($b = 0.177$, p-value < 0.001) and is positive but not significant for gender ($b = 0.035$, p-value < 0.523). Additionally, although age is a significant predictor, it is in the opposite direction to our initial hypothesis. Thus, we do not find support for hypothesis 1a.

Hypothesis 1b proposed that the greater a CEO's dissimilarity to the board along occupational dimensions, the more likely she is to engage in overcompensatory actions. For

Hypothesis 1b, the coefficient for the industry work experience is negative and significant (b = -0.125, p-value < 0.05). The coefficient for the functional background is positive, but not significant (b = 0.021, p-value < 0.634 Thus, we find partial support for hypothesis 1b.

Hypothesis 1c proposed that the greater a CEO's dissimilarity to the board along status dimensions, the more likely she is to engage in overcompensatory actions. In support of hypothesis 3, the coefficient for the highest level of education attainment is negative and significant (b = -0.133, p-value < 0.05). The coefficient for Ivy League education is positive, but not significant (b = 0.003, p-value < 0.958 Thus, we find partial support for hypothesis 1c.

Table 3 has results of regressions for the second stage of our model.

----- INSERT TABLE 3 ABOUT HERE -----

Hypothesis 2 predicted that compensatory action by the CEO will lead to subsequent goal ratcheting by the board. In support of hypothesis 2, the coefficient on lagged goal attainment is positive and significant (b = 0.550, p-value < 0.0001). In practical terms, hitting a stretch goal in the previous year drastically increases the chances of subsequent increases in goal targets. Hence, we find support for hypothesis 2.

Hypothesis 3a proposed that the greater a CEO's dissimilarity to the board along demographic dimensions, the more likely the board is to ratchet up subsequent goals. The coefficient on the interaction term between lagged goal attainment and age is negative and significant (b = -0.645, p-value < 0.001). However, the coefficient on gender is positive, but not significant (b = 0.121, p-value < 0.451 Thus, we find partial support for hypothesis 3a.

Hypothesis 3b predicted that the greater a CEO's dissimilarity to the board along occupational dimensions, the more likely the board is to ratchet up subsequent goals. The coefficient on the interaction term between lagged goal attainment and previous industry work

experience is positive but not significant (b = 0.251, p-value < 0.132 Additionally, the coefficient on the interaction term between lagged goal attainment and previous functional experience is also positive and not significant (b = 0.172, p-value < 0.240 Thus, we do not find support for hypothesis 3b.

Finally, hypothesis 3c proposed that the greater a CEO's dissimilarity to the board along status dimensions, the more likely the board is to ratchet up subsequent goals. The coefficient on the interaction term between lagged goal attainment and education is negative and significant (b = -0.328, p-value < 0.050 In contrast, the coefficient on interaction term between lagged goal attainment and Ivy League education is positive, but not significant (b = 0.045, p-value < 0.240) Thus, we find partial support for hypothesis 3c.

DISCUSSION AND CONCLUSION

We began by highlighting how our current understanding of CEO goal attainment behavior could be meaningfully extend from one that emphasizes mainly financial incentives to one that considers the social factors as well. Specifically, does the CEO always feel like she fits in? We argue no. Despite their high-status position, we suggest that CEOs may nevertheless feel excluded from the board due to demographic, occupational, and status dimensions of difference. We sought to explore how these antecedents could result in overcompensatory actions by the CEO in the form of goal over-attainment. Notably, these actions are not without consequences. Indeed, we find that boards respond to attainment of stretch goals by ratchetting up targets in the following year. While there could be a variety of reasons for these changes, the fact that the three dimensions of difference moderate the relationship—making it more likely for the board to raise the difficulty of attaining goals—provides some preliminary evidence that more is going on besides simple adjustments.

At the same time, our study is at the preliminary stage and additional work needs to be done. While we have sought to explore two ways of measurement for each of the three dimensions of difference, only one in each of the three produced significant results. We attribute these partial findings both to the novelty of the topic as well as the originality of the measures. D-scores are not commonly used in management research, and one of the main drawbacks of the method is that it captures difference, but not the direction of difference. This is most evident in the age measure where we found significant findings that were in the opposite direction of our predicted result. Specifically, our initial results indicate that as CEOs are closer to the board in age, they are more likely to hit their stretch goals. While there are potential theoretical explanations for this contrasting trend[2], one empirical explanation can simply be that the behavior of relatively older and relatively younger CEOs cancel each other out. Further analysis and measurement adjustment are needed to determine if that is the case.

Another area that needs additional attention is the industry work experience measure. Notably, while degree of industry work experience predicted a higher likelihood of a CEO engaging in overcompensatory actions, there was no moderation effect when it came to board responses. One potential explanation could be that not all differences are easily unsurmountable. Specifically, demographic and status differences may be more difficult for a CEO to attenuate compared to work experience. Indeed the D-Score simply shows that the CEO and board differ depending on the industry, not whether the industry is related to the industry in the focal firm. Note that there are legal restrictions preventing executives from peer firms in the industry from joining the same board, and our measure unfortunately does not allow us to determine what

[2] For example, perhaps because most CEOs and board directors are old, white men, the desire to maintain optimal distinctiveness may push a CEO of similar age to the board to excel as a way to stand out (Brewer & Roccas, 2001).

industries they come from. Overall, there is much more to explore regarding prior work experience and future research can consider different ways to capture this facet of differentiation.

Related to the idea better measuring differentiation, future research could also consider whether these dimensions of difference should be studied independently or combined into one measure. Our intention in theoretically and empirically differentiating between the six variables was motivated by a desire to understand how each work isolation. However, this might not be how it plays out *in situ.* Put simply, individuals may not be identifying potential attributes one by one and judging if they are similar or different based on that a single attribute. We are infinitely multifaceted beings after all. Instead, future scholars may adopt a more comprehensive approach that is more similar to the faultlines literature, which identifies degrees of differences rather than specific instances of it (Lau & Murnighan, 1998). This composite measure would be consistent with our approach and perhaps offer a deeper, more nuanced approach to capturing difference and understanding its consequences.

Conversely, our conception of CEO goal attainment has been comparatively holistic in that we treat goal attainment as a uniform action. In contrast, the different components of CEO compensation and goal structure makes it a considerably complex topic. Pioneering work on how CEOs actually interpret goals finds that rather than attend to all the goals simultaneously, CEOs actual engage in narrow framing and approach each goal sequentially (Maric & Wiseman, 2021). The implications of this are multifold, particularly as it relates to how compensation packages are designed. Given the increase in number and complexity of goals presented to the CEO each year and the continued cognitive limitations of the CEOs themselves, additional work on the drivers of CEO goal behavior could potentially streamline the entire process and better align metrics and assessments with behavior.

While much of our efforts has been on explaining a CEO's inward-focus and self-comparison with the focal firm's board, we would be remiss to not consider the effects of a CEO's outward-focus and self-comparison with other CEOs at peer firms. Prior work on the ratchetting up of CEO compensation highlights how both CEOs and compensation consultants hired by the board play a role in choosing certain comparison groups to determine compensation (Chu, Faase, & Rau, 2017; Armstrong, Ittner, & Lacker, 2012). Our arguments offer a way to extend this peer comparison to CEO goal attainment. Specifically, depending on how different a focal firm's CEO is compared to a peer firm's CEO, the effect of one of them attaining a stretch goal may have an effect on the other's willingness to attain that stretch goal as well. If peer comparisons can push companies to offer in higher pay, surely it could also compel CEOs to have higher aims.

Notably, in our discussion of the board as the in-group, we conceive of the whole board as the unit of analysis. In contrast, recent work on board committees highlights how the majority of the work traditionally attributed to the overall board actually takes place at the committee level (Kesner, 1988; Klein, 1998; Brandes, Dharwadkar, & Suh, 2016; Chen & Wu, 2016; Gai et al, 2020). Indeed, research looking at the effects of CEO relative power over the board in general and the compensation committee specifically finds that powerful CEOs have an effect on the latter independent of their effect on the former (Gai, Zajac, & Zhang, 2020). In other words, even if the rest of the board is relatively free of a CEO's influence, if the CEO has a hold over the compensation committee, she will still be able to sway their decisions on compensation in ways that advantage her. Relating to the motivation behind CEO goal attainment and backlash, it could be the case that our findings are primarily driven by dimensions of differences between the CEO and the compensation committee. Future work could adopt a similar approach to Gai and

colleagues by investigating the independent effect of board committees on key board outcomes.

Finally, one key practical implication of our study relates to how underrepresented groups may be disadvantaged in the workplace due to the potential for backlash. A popular adage is that underrepresented groups must be twice as good and work twice as hard to be afforded the same opportunities as their white male counterparts. Our results provide some preliminary evidence that CEOs who are different from the board seem to engage in overcompensatory action that goes above and beyond there counterparts who are more similar to their respective boards. At the same time, our results also seem to suggest that these efforts may backfire and that these overcompensating CEOs may have to continue in their efforts should they seek to maintain their track record of success. Future research may consider whether these overachieving efforts are sustainable and what possible consequences may arise due to this pressure to be perfect.

We conclude by noting that we have provided an initial starting point for exploring the different social factors that could motivate CEO goal seeking behavior. Although work over the last few decades have made significant progress identifying the ways in which boards can better align pay with performance, we have sought to extend this perspective by specifying an alternative mechanism in the form of social acceptance. There is still much more that needs to be done, but we believe our theoretical framework and novel empirical measures portend great possibility for further progress.

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TABLES

Table 1. Summary statistics and correlations

	Mean	**S.D.**	1	2	3	4	5	6	7	8
1. Goal attainment	0.31	0.46								
2. D-score age	-10.81	4.19	0.04							
3. D-score gender	0.57	0.21	0.03	0.21						
4. D-score education	0.2	0.38	0.03	0.24	0.19					
5. D-score Ivy	0.42	0.26	0.01	0.3	0.28	0.2				
6. D-score industry work experience	0.3	0.25	-0.01	0.37	0.17	0.29	0.23			
7. D-score functional experience	0.93	0.26	-0.02	-0.09	-0.08	-0.17	-0.07	-0.19		
8. Goal congruence	0.05	1.01	-0.06	0.05	-0.1	0.04	-0.08	0.03	0.02	
9. CEO tenure	0.08	0.99	0.07	0.09	0.14	-0.08	-0.01	-0.01	0.08	-0.08
10. CEO duality	0.06	1.01	0.03	0.08	-0.11	-0.09	-0.07	0	0.05	0.06
11. Log of assets	0.04	0.99	0.05	-0.04	-0.28	-0.13	-0.17	-0.1	-0.06	0.18
12. R&D expenditures	-0.07	0.9	-0.05	-0.18	0.01	-0.12	-0.06	-0.03	-0.04	-0.02
13. CEO succession	-0.18	0.71	-0.03	-0.08	-0.03	-0.01	0	0	-0.05	0.01
14. % of shares owned by CEO	-0.02	0.96	0.02	-0.03	0.16	-0.09	0.06	-0.01	0.07	-0.16
15. Industry dynamism	-0.01	0.95	0	-0.02	0.03	-0.01	-0.02	-0.03	0.07	-0.03
16. Industry munificence	0.03	0.96	-0.03	0	-0.01	0.02	0.02	0.01	0.01	0.06
17. Liquidity	-0.03	1.02	-0.04	-0.01	0.13	-0.03	0.04	-0.04	0.03	-0.05
18. Goal transparency	0.01	1.01	-0.01	-0.05	0.04	-0.06	-0.04	-0.02	-0.01	0.03
19. Target ratcheting	0.25	0.44	-0.1	-0.02	0	0	-0.02	-0.03	0.02	0.14
Min			0	-25.33	-0.18	-1	-0.22	-0.35	0	-1.64
Max			1	0	1	1	1	1	1	2.54

	9	10	11	12	13	14	15	16	17	18	19
1. Goal attainment											
2. D-score age											
3. D-score gender											
4. D-score education											
5. D-score Ivy											
6. D-score industry work											
7. D-score functional											
8. Goal congruence											
9. CEO tenure											
10. CEO duality	0.23										
11. Log of assets	-0.03	0.18									
12. R&D expenditures	0.04	-0.06	-0.08								
13. CEO succession	-0.26	-0.14	0	-0.02							
14. % of shares owned by	0.41	0.08	-0.22	-0.03	-0.08						
15. Industry dynamism	-0.02	0.02	-0.04	-0.08	-0.03	0.01					
16. Industry munificence	0.02	-0.01	0.04	-0.02	0.02	-0.05	-0.03				
17. Liquidity	0.01	-0.03	-0.31	0.21	0.01	0.1	0.01	-0.1			
18. Goal transparency	0.04	-0.04	-0.01	0.06	0	0.08	0.03	0	0.03		
19. Target ratcheting	0.05	0.05	0.02	-0.02	-0.02	0	-0.05	0.01	0.02	-0.01	
Min	-1.05	-0.8	-2.2	-0.51	-0.35	-0.46	-0.72	-2.65	-3.64	-0.9	0
Max	3.89	1.25	2.54	3.94	2.83	6.47	5.17	3.33	1.66	2.82	1

TABLE 2. Overcompensatory actions arising from dimensions of difference.

VARIABLES	(1) Hit Stretch Goal	(2) Hit Stretch Goal	(3) Hit Stretch Goal	(4) Hit Stretch Goal	(5) Hit Stretch Goal	(6) Hit Stretch Goal	(7) Hit Stretch Goal
Demographic Differences (H1a)							
D-score Age	**0.097***						**0.177*****
	(0.049)						(0.055)
D-score Gender		**0.016**					**0.035**
		(0.052)					(0.054)
Occupation Differences (H1b)							
D-Score Functional Experience			**-0.080**				**-0.125****
			(0.050)				(0.056)
D-Score Industry Experience				**0.038**			**0.021**
				(0.048)			**(0.044)**
Status Differences (H1c)							
D-Score Highest Level of					**-0.120****		**-0.133****
Education Attainment					(0.051)		(0.054)
D-Score Ivy League Education						**-0.002**	**0.003**
						(0.051)	(0.053)
Control Variables							
Goal Congruence	-0.142***	-0.136***	-0.127***	-0.134***	-0.126***	-0.136***	-0.116**
	(0.047)	(0.046)	(0.047)	(0.046)	(0.046)	(0.046)	(0.047)
CEO Tenure	-0.017	-0.008	-0.005	-0.012	-0.011	-0.006	-0.049
	(0.053)	(0.054)	(0.054)	(0.053)	(0.055)	(0.054)	(0.058)
CEO Duality	0.016	0.027	0.037	0.028	0.028	0.027	0.032
	(0.054)	(0.051)	(0.052)	(0.051)	(0.053)	(0.051)	(0.052)
Log of total assets	(0.061)	-0.008	-0.022	-0.015	-0.033	-0.013	0.011
	-0.008	(0.063)	(0.061)	(0.060)	(0.061)	(0.062)	(0.062)
CEO succession	-0.066*	-0.069*	-0.065*	-0.067*	-0.068*	-0.069*	-0.059
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.039)
Industry munificence	-0.075*	-0.077*	-0.078*	-0.078*	-0.074*	-0.077*	-0.068

	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)	(0.043)
Industry dynamism	0.071	0.059	0.056	(0.066)	0.063	0.058	0.089**
	(0.044)	(0.043)	(0.044)	(0.043)	(0.044)	(0.044)	(0.044)
R&D expenditures	-0.084	-0.102	-0.109	-0.110*	-0.115	-0.106	-0.048
	(0.072)	(0.071)	(0.068)	(0.066)	(0.071)	(0.070)	(0.067)
Liquidity	-0.137**	-0.157**	-0.164***	-0.156**	-0.169***	-0.157**	-0.146**
	(0.065)	(0.062)	(0.063)	(0.062)	(0.063)	(0.062)	(0.066)
Goal transparency	0.045	0.047	0.049	(0.042)	0.044	0.047	0.041
	(0.042)	(0.042)	(0.042)	(0.042)	(0.042)	(0.042)	(0.042)
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	6,103	5,713	5,713	5,713	5,713	5,713	5,713

Standard errors in parentheses. $^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

TABLE 3. Board responses to compensatory behavior.

VARIABLES	(1) Board Ratcheting Goals	(2) Board Ratcheting Goals	(3) Board Ratcheting Goals	(4) Board Ratcheting Goals	(5) Board Ratcheting Goals	(6) Board Ratcheting Goals	(7) Board Ratcheting Goals	(8) Board Ratcheting Goals
CEO Hit Stretch Goal (H2)		**0.388*** **	**0.342** **	**0.343** **	**0.350** **	**0.393** **	**0.343** **	**0.401*** **
		(0.142)	(0.141)	(0.141)	(0.144)	(0.159)	(0.140)	(0.144)
Demographic Differences (H3a)								
CEO Hit Stretch Goal * D-score Age		**-0.625*** **						**-0.659*** **
		(0.164)						(0.177)
CEO Hit Stretch Goal * D-score Gender			**0.013**					**0.126**
			(0.156)					(0.167)
Occupation Differences (H3b)								
CEO Hit Stretch Goal * D-score Industry Work Experience				**-0.035**				**0.251**
				(0.148)				(0.166)
CEO Hit Stretch Goal * D-score Functional Background					**0.197**			**0.176**
					(0.133)			(0.150)
Status Differences (H3c)								
CEO Hit Stretch Goal * D-score Highest Level of Education						**-0.396** **		**-0.326** *
						(0.166)		(0.166)
CEO Hit Stretch Goal * D-score Ivy League Education							**-0.110**	**0.046**
							(0.146)	(0.161)
Demographic Differences								
D-score Age		0.143	-0.066	-0.065	-0.079	-0.061	-0.067	0.159
		(0.114)	(0.096)	(0.096)	(0.095)	(0.099)	(0.096)	(0.116)
D-score Gender		-0.005	0.004	0.009	0.032	0.026	0.010	-0.039
		(0.102)	(0.114)	(0.101)	(0.102)	(0.106)	(0.101)	(0.116)
Occupation Differences								
D-Score Functional Experience		0.054	0.037	0.049	0.050	0.041	0.039	-0.012
		(0.098)	(0.095)	(0.108)	(0.097)	(0.100)	(0.095)	(0.112)
D-Score Industry Experience		-0.010	-0.011	-0.012	-0.049	-0.004	-0.013	-0.036
		(0.085)	(0.077)	(0.077)	(0.084)	(0.082)	(0.076)	(0.089)

Status Differences								
D-Score Education		0.057	0.041	0.042	0.027	0.141	0.047	0.130
		(0.094)	(0.095)	(0.096)	(0.097)	(0.105)	(0.095)	(0.103)
D-Score Ivy League Education		-0.003	0.006	0.007	0.015	0.042	0.041	-0.003
		(0.096)	(0.098)	(0.098)	(0.100)	(0.109)	(0.107)	(0.108)
Control Variables								
Goal Congruence	0.292***	0.281***	0.272***	0.273***	0.287***	0.275***	0.259***	0.281***
	(0.075)	(0.077)	(0.077)	(0.077)	(0.078)	(0.077)	(0.080)	(0.078)
CEO Tenure	0.233**	0.209**	0.232**	0.233**	0.236**	0.228**	0.253**	0.219**
	(0.101)	(0.101)	(0.108)	(0.108)	(0.104)	(0.107)	(0.101)	(0.102)
CEO Duality	0.172**	0.193**	0.188**	0.187**	0.172*	0.190**	0.172*	0.181**
	(0.087)	(0.091)	(0.093)	(0.093)	(0.102)	(0.092)	(0.091)	(0.091)
Log of total assets	0.030	0.050	0.038	0.039	0.045	0.037	0.030	0.058
	(0.097)	(0.099)	(0.100)	(0.100)	(0.110)	(0.099)	(0.105)	(0.101)
CEO succession	0.351	0.450	0.427	0.425	0.422	0.421	0.406	0.445
	(0.269)	(0.277)	(0.276)	(0.276)	(0.281)	(0.276)	(0.276)	(0.280)
Industry munificence	0.050	0.041	0.031	0.030	0.025	0.030	0.018	0.041
	(0.069)	(0.072)	(0.072)	(0.071)	(0.072)	(0.071)	(0.072)	(0.072)
R&D expenditures	-0.092	-0.128	-0.137	-0.136	-0.124	-0.137	-0.146	-0.122
	(0.097)	(0.120)	(0.109)	(0.109)	(0.116)	(0.109)	(0.111)	(0.118)
Liquidity	-0.092	-0.103	-0.096	-0.094	-0.083	-0.101	-0.062	-0.102
	(0.090)	(0.090)	(0.092)	(0.093)	(0.099)	(0.092)	(0.093)	(0.091)
Goal transparency	-0.009	0.011	0.021	0.019	0.010	0.021	0.023	0.015
	(0.073)	(0.075)	(0.076)	(0.076)	(0.081)	(0.076)	(0.078)	(0.077)
% Shares Owned by CEO	-0.174	-0.210*	-0.193	-0.192	-0.194	-0.194	-0.200	-0.222*
	(0.124)	(0.121)	(0.128)	(0.129)	(0.134)	(0.127)	(0.127)	(0.121)
Constant	-1.710***	-1.830***	-1.795***	-1.795***	-1.795***	-1.801***	-1.799***	-1.843***
	(0.112)	(0.130)	(0.126)	(0.126)	(0.129)	(0.126)	(0.127)	(0.131)
Observations	2,350	2,246	2,246	2,246	2,246	2,246	2,246	2,246

Standard errors in parentheses. $^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$