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# The Impact of CEO Pay Ratio Disclosure on Corporate Compensation and Capital Structure.

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## Abstract

The CEO pay gap has increased for the past 40 years and is now, more than ever, a highly discussed topic due to rising inflation and economic disparities. In response, the United States Congress passed Section 953b of the Dodd-Frank Act, which mandates publicly traded firms to disclose their CEO pay ratio to enhance transparency and address economic inequality. The law leads to negative abnormal returns and higher costs of equity for high-wage-gap firms as investors become increasingly averse to inequality. This study examines whether mandated transparency influences corporate compensation structures and capital structures as a result of these adverse effects. We apply the difference-in-difference method with a panel data set from 2011 to 2022, using high-wage-gap as the treated group and low-wage-gap firms as the control group. Results reveal that the disclosure law does not significantly alter CEO compensation, average worker compensation, or the CEO pay ratio. Moreover, high-wage-gap firms increase their debt and cash holdings in line with the market timing and pecking order theories to mitigate the adverse effects of transparency on equity costs. These findings suggest that while transparency aims to reduce pay disparities, firms modify their capital structure instead of their compensation structures. This research contributes to the discourse on economic inequality and corporate governance and highlights the complexities firms face when balancing stakeholder expectations and executive talent retention.

Keywords: CEO Pay Ratio Disclosure, Corporate Compensation, Capital Structure, Economic Inequality, Corporate Governance

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## 1: Introduction

The increasing CEO pay gap has recently become a controversial topic, a situation exacerbated by rising inflation which amplifies economic disparities. It not only raises questions about the justification of high executive compensation, but it also highlights broader concerns regarding economic inequality and social justice. According to Bivens and Kandram (2022), the average CEO earned 344 times as much as the median worker in 2022, a stark increase from 42 times in 1982. Reports on this disparity are usually met with populist outrage and catch the attention of investors who are increasingly sensitive to issues of inequality.

From the 1st of January 2017, section 953b of the Dodd-Frank Act mandates publicly traded companies to disclose the ratio of CEO compensation to the median employee wage. This rule provides shareholders and the public with a clearer view of executive compensation relative to an average employee's pay within a company, aiming to enhance transparency and inform discussions about pay equity and corporate governance (Joh, 2016). The introduction of this transparency law could be a crucial factor in driving changes within high-wage-gap firms as previous studies like Bennedsen et al. (2022) already show that transparency laws can influence compensation structures between the sexes. A study by Pan et al. (2022) shows that high-wage-gap firms experience negative abnormal returns following the implementation of the transparency law as inequality-averse investors divest, indicating a loss of firm value and an increase in equity costs. Hence, this paper seeks to answer the following questions: Do high-wage-gap firms change their compensation structure for CEOs or average workers to re-attract inequality-averse investors? And, do high-wage-gap firms account for the increase in costs of equity by increasing debt and cash?

The main theories on CEO compensation are the rent extraction theory and the talent assignment hypothesis. The rent extraction theory suggests that CEOs extract rents from the company to maximize their benefit, at the expense of the shareholders (Bebchuck et al, 2011; Gromley et al. 2013). On the other hand, the talent assignment hypothesis argues that higher CEO pay attracts better CEOs and leads to better performing and higher valued firms (Rosen 1981, 1982; Terviö 2008; Mueller et al 2017). Jensen (2002, 2009) argues that a firm's primary objective should be to maximize firm value; hence, we expect no significant change in the CEO pay ratio as firms want to attract and retain managerial talent. Alternatively, we expect firms to change their capital structure to mitigate the adverse effects of the transparency laws, in accordance with the pecking order theory and the market timing theory (Donaldson, 1961; Myers & Majluf 1984; Baker & Wurgler, 2002).

To answer our research questions, we use a difference-in-difference method with high-wage-gap firms as the treated group and low-wage-gap firms as the control group. We take data from the ExecuComp, Compustat, and The Center for Research in Security Prices (CSRP) databases. We use a panel dataset

covering the fiscal years 2011-2022, six years before and after the implementation of the law. A firm classifies as a high-wage-gap firm when it had an above-median CEO pay gap in 2017, the year of the implementation of the law. This study examines four dependent variables: annual CEO compensation, annual average worker compensation, CEO pay ratio, and relative cash and debt to book value of equity.

Our quantitative analysis reveals that the disclosure laws do not significantly impact annual CEO compensation, annual average worker compensation, or the CEO pay ratio. Moreover, high-wage-gap firms adjust their capital structures according to the market timing and pecking order theories. However, this result turns insignificant at conventional levels when using the market value of equity. While transparency in CEO pay ratios aims to reduce within-firm pay disparities, the study indicates that firms may not necessarily adjust their compensation structures but rather adjust their capital structures to mitigate the adverse effects of transparency. This behavior aligns with the theory and hypotheses in this paper, suggesting that transparency alone is insufficient to address within-firm pay disparities. This research highlights the difficulty of firms' decision-making when choosing between certain stakeholders and maximizing firm value. These findings are significant for policymakers, investors, and corporate governance.

The rest of the paper is structured as follows: section 2 gives a review of the literature on section 953b of the Dodd-Frank Act, the immediate effects of CEO pay gap transparency, and theoretical perspectives on high- and low-wage-gap firms. Section 3 details the data, variables, summary statistics, and provides sample comparisons. Section 4 presents a detailed overview of the difference-in-difference approach and all regression specifications. Section 5 provides the results for all the regressions and robustness checks. Section 6 concludes.

By examining all these components, the study aims to provide a comprehensive understanding of the impact of CEO pay ratio transparency and to contribute to the ongoing discourse on economic inequality and governance.

## 2: Literature

### *2.1: The law*

On July 21, 2010, the United States Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act. This act aims to improve regulation and oversight following the financial crisis from 2007-2009. An important section of this act is section 953b, which mandates the disclosure of the CEO pay ratio as per the fiscal year beginning on January 1, 2017. More specifically, the law obliges companies to report the ratio of the annual total compensation of the Chief Executive Officer, the median annual total compensation for all company workers, and the ratio of the two amounts. The law

applies to publicly traded companies, excluding smaller reporting companies, emerging growth companies, and foreign private issuers.

The primary purpose of section 953b is to provide investors with a clear understanding of the pay structure within companies. The legislators believe that transparency would inform investors and could potentially influence corporate government practices for firms to which the act applies (Joh, 2016). Similar to the findings of Bennedsen et al. (2022) on the impact of wage transparency on the gender pay gap, transparency laws can potentially reduce the CEO pay gap for firms that face adversity as a result of such legislation.

### *2.2: Immediate effect of CEO pay ratio transparency*

The implementation of section 953b of the Dodd-Frank Act had an immediate significant effect on the financial markets. Following the disclosure of the CEO pay ratio, high-wage-gap firms experience lower abnormal returns as inequality-averse investors prefer to invest in low-wage-gap firms; therefore, the costs of capital for high-wage-gap firms increase (Pan et al. 2022). Similarly, Dittmann et al. (2023), finds a similar investor-aversion for high-wage-gap firms in Germany. This is consistent with the trend in socially responsible investing: investors increasingly prefer companies that align with their ethical and social values (Dittmann et al., 2023). Pro-social investors consider non-monetary arguments, such as social welfare, when investing. These observations align with previous research (Hong and Kacperczyk, 2009; Chava, 2014) which concludes that stocks that are deemed socially unacceptable - "sin" stocks and polluting stocks – tend to have lower firm value and higher costs of equity. Furthermore, the high-wage-gap firms also show negative effects on cash flows since high CEO pay ratios are linked to decreased employee morale and possible customer boycotts. Additionally, there are some regulatory risks; for example, Portland, Oregon imposes an extra business tax on firms with a CEO pay ratio over 100 (Pan et al., 2022). The negative effects persist well beyond the publishing of the 2017 annual reports, indicating a deeper negative investor sentiment about income inequality. Similar to Pan et al. (2022), Benedetti and Chen (2018) finds that companies with higher CEO pay ratios are seen as less employee-oriented and face negative reactions from consumers and employees.

### *2.3: Theories on within-firm pay inequality*

The immediate negative reaction of the customers, employees, and the market gives the indication that companies should immediately lower their CEO pay ratio. However, it is essential to consider the two main theories on within-firm pay inequality before drawing conclusions. On the one hand, authors argue that CEOs extract rent from companies and are overpaid. Bebchuk and Fried (2004) suggests that CEO compensation should be the result of an arm's length model: executive pay should be similar to a market transaction where both parties - the CEO and the board - maximize their own benefit. However, they

argue that CEOs assess power over the board, resulting in a compensation structure at the expense of the shareholders. Secondly, Bebchuk et al. (2011) argues that a higher CEO pay slice - the fraction of CEO compensation of the compensation of the whole top-five executive team - is sub-optimal and increases the extent to which the CEO is able to extract rents from the firm. This causes agency problems, lowering firm value and operating performance. Gormley et al. (2013) is in line with the rent extraction theory. They show that compensation packages need to be adjusted in response to increased risk, suggesting that the initial compensation practices included rent extraction, where CEOs have secured overly favorable terms.

On the other hand, the talent assignment hypothesis states that high within-firm pay inequality may reflect managerial talent. Managers with higher qualities should match with larger firms. Executives receive compensation proportional to their marginal product; therefore, pay disparities are to increase with firm size (Terviö, 2008). In other words, senior employees' wage likely scales with firm size whereas junior employees' wage is less likely to scale with firm size. Terviö (2008) builds on the Economics of Superstars by Rosen (1981, 1982) which states that value created by the CEO scales with talent and size since their actions trickle down through the whole company. Similarly, Core et al. (1999) and Edmans and Landier (2011) suggest that CEO skill and compensation increase with firm size, firm risk, growth opportunities, and complexity of operations. Gabaix and Landier (2008) provides empirical support for the talent assignment hypothesis. Their equilibrium model shows that firm size and overall market capitalization significantly influence CEO pay. Therefore, small differences in talent can result in substantial pay disparities in larger firms, due to the amplified impact of managerial decisions. Gabaix and Landier (2008) suggests that the six-fold CEO pay increase between 1980 and 2003 can be fully attributed to the value added by executives to growing firms. In their follow-up study, Gabaix et al. (2014) shows that, even during economic fluctuations like the financial crisis of 2007-2009, CEO compensation rose similarly to firm value, showing the robustness of the talent assignment hypothesis over time. Mueller et al. (2017) provides further support for the talent assignment hypothesis. Firms with a greater pay inequality are larger, perform better, and have higher valuations. Differences in wages are more pronounced in larger firms where managerial talent significantly impacts performance, confirming that the talent assignment hypothesis is the primary driver of pay disparities within firms.

The theories discussed above suggest that firms face a dilemma: they can either satisfy stakeholders or the executives of the company. However, determining what framework yields the best results remains ambiguous. Jensen (2002, 2009) suggests there are two primary frameworks for managing firms: the Value Maximization Proposition and the Stakeholder Theory. The Value Maximization Proposition emphasizes a firm's focus should be increasing the long-term market value. In contrast, the Stakeholder Theory suggests that managers should consider the interest of all stakeholders in decision-making. Jensen (2002, 2009) concludes that firms should adopt the Value Maximization Proposition since it

provides a single objective function, offering clear guidance for managers. He critiques the Stakeholder Theory for lacking a clear decision-making framework due to having multiple objectives. To bridge the gap between theories, Jensen (2002, 2009) introduces the concept of Enlightened Value Maximization (EVM). EVM acknowledges that maximizing long-term value inherently requires good relationships with stakeholders. EVM pleads for a combination of the two main frameworks with the Value Maximization Proposition being the primary objective as it gives a definitive metric for success.

In sum, while high CEO pay ratios face criticism for increasing capital costs and reducing firm value, the talent assignment hypothesis argues that a high wage gap often reflects managerial talent, especially in larger firms. Reducing the CEO pay ratio might be good for attracting inequality-averse investors; however, this chapter's analysis concludes that it could drive away executive talent which is crucial for firm performance and growth. Following Jensen (2002,2009) and his Enlightened Value Maximization, firms should have value maximization as their primary objective since it offers a clear objective function; in other words, companies should maintain their CEO pay ratio to attract and retain the best managerial talent. More specifically, companies with high wage gaps should not change their CEO pay ratio since the gain from managerial talent outweighs the adverse effects of the transparency law. This results in the following three hypotheses:

*H1: Total annual CEO compensation does not significantly change with the CEO pay gap disclosure.*

*H2: Average annual worker compensation does not significantly change with the CEO pay gap disclosure.*

*H3: CEO pay ratio does not significantly change with the pay gap disclosure.*

If high-wage-gap firms do change their CEO ratio as a result of the transparency law, it is more likely they lower the CEO pay ratio to undo the adverse effects of high wage gaps. Companies could reduce their CEO pay ratio in several ways. Firstly, companies can lower CEO pay. Secondly, companies could increase their average pay. Further, companies can outsource low-paying jobs to increase the average pay. Changing CEO pay is likely easier and quicker than adjusting the average worker's pay, due to the involvement of fewer key individuals; CEOs have direct lines with the board of directors, who have direct authority to alter CEO compensation. On the contrary, changes in the average worker's pay typically require approvals across several layers of management and, in many organizations, also need to go through HR and payroll departments, which slows down the process. Outsourcing low-paid jobs involves several challenges like contract management, legal considerations, quality and control issues, and communication challenges (Pai & Basu, 2007; Lacity et al., 2010).

*2.4: Relative cash and debt*

The conclusions of Dittmann et al. (2023) and Pan et al. (2022) indicate that high-wage-gap firms have a higher cost of equity as a result of the CEO pay gap disclosure. The pecking order theory - developed by Donaldson (1961) and Myers and Majluf (1984) - posits that firms prefer sources of finance with the least resistance. Retaining cash is preferred, followed by issuing debt. Equity is seen as the last resort due to its inherent cost of information asymmetry. In the context of the pay gap disclosure, issuing equity would amplify the negative abnormal returns for high-wage-gap firms due to information asymmetry. Hence, high-wage-gaps firms should be more inclined to use debt and retained earnings to finance investments. The market timing theory by Baker and Wurgler (2002) suggests that firms capitalize on market conditions to choose between debt and equity financing. Firms are more likely to issue equity if equity prices are relatively high and are less likely to issue equity when equity prices are relatively low. Firms with high costs of equity perceive their equity value to be relatively low and avoid issuing equity, preferring to turn to debt or retained earnings for funding investments. Thus, due to a high cost of equity, high-wage-gap firms are likely to issue less equity, retain more earnings, and issue more debt compared to low-wage-gap firms to secure investment funding. As a consequence, we come to the following hypothesis:

*H4: Debt and cash as a percentage of equity increases with the disclosure of the CEO pay ratio.*

## 3: Data

*3.1: Data and sample description*

Our data is a panel dataset covering the fiscal years 2011-2022; six years before and after the implementation of section 953b of the Dodd-Frank Act. We source CEO-level data from the ExecuComp database, firm-level data from the Compustat database, and the firms' stock returns from The Center for Research in Security Prices (CRSP) database. The main variables of interest are the total annual CEO compensation, annual average worker compensation, the CEO pay ratio, and the relative cash-and-debt-to-equity ratio. We define a CEO as the person identified as "CEO" or "Chief Executive Officer" in ExecuComp - for the TITLEANN variable.

We perform a difference-in-difference analysis where we compare the effect of the law on the dependent variables for the high-wage-gap treated firms relative to the low-wage-gap control firms. A firm is considered a high-wage-gap firm when the CEO pay ratio exceeds the median CEO pay ratio at the time of the introduction of section 953b of the Dodd-Frank Act, in 2017. Low-wage-gap firms, those with a below-median CEO pay ratio in 2017, serve as our control group.

Since companies are not obliged to report non-executive compensation, the research is limited to the companies that voluntarily disclose this information. This leads to a significant loss in observations and reduces the final sample to 1384 firm years across 187 firms. This could introduce a self-selection bias, where firms are not randomly selected but choose to participate based on certain characteristics, potentially impacting the variables of interest. We compare the CEO pay ratios in our sample to those disclosed in the fiscal year 2017. Our sample has an average CEO pay ratio of 151.6, while the disclosed ratios average 135.8. A t-test shows no significant difference between the two samples. Next, we compare our sample Compustat and ExecuComp for industries, CEO salaries, and firm size.

**Table 1: Industry distribution of sample firms vs ExecuComp and Compustat**

| SIC code | % of observations | | | CEO compensation ($mln) | | Firm size (total assets $mln) | |
|---|---|---|---|---|---|---|---|
| | Sample | ExecuComp | Compustat | Sample | ExecuComp | Sample | Compustat |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 1 | 3.1 | 6.1 | 10 | 7.6 | 3.6 | 12711 | 2129 |
| 2 | 7.7 | 14.5 | 11.5 | 5.3 | 3.5 | 8764 | 5998 |
| 3 | 4.8 | 23 | 11.2 | 8.1 | 3.1 | 13686 | 5608 |
| 4 | 27.6 | 9.3 | 5.9 | 6.3 | 3.8 | 14552 | 1515.8 |
| 5 | 21.3 | 10.2 | 4.3 | 4.9 | 3.1 | 3716 | 5076 |
| 6 | 8.2 | 21.9 | 45.4 | 8.7 | 3.4 | 13071 | 55383 |
| 7 | 12.3 | 11.1 | 8.3 | 5.9 | 4.2 | 3013 | 3039 |
| 8 | 15 | 3.7 | 2 | 6.5 | 2.9 | 7135 | 2589 |
| 9 | 0 | 0.3 | 1.2 | NA | 6.6 | NA | 18220 |
| All | 100 | 100 | 100 | 6.3 | 3.4 | 9045 | 20359 |

The table compares the industry distribution of our sample vs. ExecuComp and Compustat firms for the years 2011-2022. Total CEO compensation is in millions of dollars. Assets is total assets in millions of dollars. Industry breakout is by one-digit SIC code, where 1 is mining and construction, 2 is consumer manufacturing, 3 is electrical and industrial manufacturing, 4 is transportation and utilities, 5 is trade, 6 is financial services, 7 is commercial services, 8 is private price services, and 9 is public administration.

Columns 1,2 and 3 in Table 1 illustrate the sample's distribution across industries and provide a comparison to the industry distribution from the Compustat and Execucomp databases. The manufacturing industry (SIC 4: 27.6% versus 10.2% and 4.3%), construction industry (SIC 5: 21.3% versus 10.2% and 4.3%) and the financial services industry (SIC 8: 15% versus 3.7% and 2%) are relatively overrepresented in our sample. Conversely, the wholesale and retail industry is relatively underrepresented (SIC 6: 8.2% versus 21.9% and 45.4%). Columns 4 and 5 provide a comparison of CEO compensation between the sample and the ExecuComp database per industry. The sample consistently overestimates CEO compensation for each industry compared to the ExecuComp database. Columns 6 and 7 show the sample's firm size per industry compared to Compustat's firm size per industry. The average firm size over all industries is significantly higher for the Compustat database.

However, a large part of this difference is due to the overrepresentation of the wholesale and retail industry, the industry with the largest average firm size. Overall, the sample partly aligns with the ExecuComp and the Compustat databases but notable differences suggest a potential self-selection bias. This should be considered when interpreting the results of this study. Table A1 in the appendix shows that the sample is distributed evenly across the panel years.

To ensure the results are not driven by the most over- and underrepresented industries, we conduct regression analyses on the dependent variables without the most underrepresented industry - the wholesale and retail industry - and the most overrepresented industry - the manufacturing industry. This step makes our results more robust for the industries included in the sample.

### *3.2: Dependent variables*

This research uses a similar method to calculate the total CEO compensation, the average annual worker compensation and the CEO pay ratio as Faleye et al. (2013). CEO compensation is the total annual compensation for the CEO as reported in the ExecuComp database. This includes base salary, bonuses, total value of restricted stocks and stock options, long term incentive payouts and all other compensation methods. We define the average annual worker compensation as the total labor expenses by a company minus the salary of all top executives -obtained via ExecuComp - divided by the amount of employees. To obtain the CEO pay ratio, we divide the total annual CEO compensation by the average annual worker compensation. We calculate relative cash and debt by adding total cash and total debt and dividing it by the book value of equity. To address the potential disproportionate influence of outliers, we winsorize the dependent variables at the 1st and 99th percentiles. Initial analysis indicates that the dependent variables deviated significantly from normality. To address normality issues, this research applies a natural logarithm transformation for each of the dependent variables.

### *3.3: Control variables*

In the following section, we outline our control variables. As identified by Falaye, et al. (2013), significant company specific determinants of CEO pay gap include firm size, growth opportunities, workforce unionization, leverage, physical capital intensity, industry homogeneity, return on assets, firm risk, and market performance. Therefore, these variables are incorporated as control variables.

We proxy firm size by the natural log of sales revenue and we proxy growth opportunities by the book-to-market ratio, similar to Core et al. (1999) and Falaye et al. (2013). Data for workforce unionization comes from the Current Population Surveys (CPSs) of the Bureau of Labor Statistics (Hirsch & Macpherson, 2024). We measure employee unionization by the percentage of unionized workers within a two-digit NAICS-industry code. We calculate leverage by dividing long-term debt by total assets (Falaye et al., 2013), and we proxy physical capital intensity by the net property, plant, and equipment

per employee in millions of dollars (Falaye et al., 2013). We calculate industry homogeneity following the methodology by Parrino (1997) and later by Falaye et al. (2013). They proxy industry homogeneity by measuring the mean partial correlation between the firm's returns and an equally weighted industry index for all firms within a two-digit SIC industry. The partial correlation coefficient correlates negatively with the number of firms used to estimate the industry index; therefore, we do not calculate this variable for industries with less than 35 companies. If there our sample contains more than 50 firms in an industry, we select a random sample of 50 firms. Furthermore, we control for return on assets, firm risk, and market performance, which we construct in line with the methods utilized by Falaye et al. (2013). We calculate return on assets by the ratio of operating income after depreciation to the prior year's total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Recent findings by Weng and Yang (2024) indicate that CEO pay disparity is often lower in liberal states due to their proactive stance on inequality and social change. As a result, the research includes a dummy that equals one if the company is located in a liberal state. A state is depicted as liberal when it had more votes for the Liberal party than the Republican party during the 2017 elections.

Furthermore, the research controls for CEO-specific characteristics. The research includes a dummy for chairman-CEO duality, which Falaye et al. (2013), Rosen (1982), and Core et al. (1999) identify as a significant determinant of CEO pay. We control for CEO age and tenure since Chadman et al. (2010) shows they influence CEO compensation. Additionally, we include a CEO-founder duality variable, a dummy variable that equals one when CEOs are CEO at the time of a company's entry into Compustat.

Basic economic theory suggests that more bargaining power for CEOs leads to a higher CEO pay ratio and that more bargaining power for employees leads to a lower CEO pay ratio. Prior work (Rosen, 1982; Core et al., 1999; Falaye et al., 2013) states that variables like CEO-chair duality, CEO tenure firm size, firm risk, growth opportunities, and firm performance enhance CEO bargaining power. Conversely, we expect variables that increase the bargaining power of regular employees decrease the CEO pay gap. Falaye et al. (2013) suggests that unionization and physical capital per employee increase the bargaining power of workers, and industry homogeneity decreases bargaining power.

To address the potential disproportionate influence of outliers, we winsorize all continuous variables at the 1st and 99th percentile.

### *3.4: Summary statistics*

In the following section, we discuss the summary statistics for the whole sample, and for the control and treated firms separately. Table 2 presents summary statistics for the sample firms. Panel A focuses on the dependent variables. The average CEO compensation is $6.13 million and the average worker compensation is $94.6k. This results in an average CEO pay ratio of 147.50, which is significantly higher than the average Falaye et al. (2013) finds for S&P 1500 firms between 1993 and 2006. However,

## Table 2: Summary Statistics: Dependent and Independent Variables

| Panel A: Dependent Variables | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Observations | Mean | SD | Min | p25 | Median | p75 | Max |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| CEO compensation ($mln) | 1384 | 6.13 | 6.75 | 0.03 | 2.16 | 4.43 | 8.01 | 187.24 |
| Average worker compensation ($k) | 1384 | 94.61 | 127.70 | 5.11 | 33.02 | 72.51 | 104.07 | 937.22 |
| CEO pay ratio | 1384 | 147.50 | 259.88 | 1.00 | 30.55 | 68.87 | 157.37 | 3493.38 |
| Relative cash & debt | 1358 | 0.91 | 1.97 | -4.73 | 0.27 | 0.49 | 0.92 | 13.84 |
| Panel B: CEO-level Characteristics | | | | | | | | |
| | Observations | Mean | SD | Min | p25 | Median | p75 | Max |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| CEO age | 1358 | 56.98 | 7.09 | 32.00 | 52.00 | 57.00 | 61.00 | 80.00 |
| CEO tenure | 1384 | 6.63 | 6.80 | 0.00 | 2.00 | 5.00 | 10.00 | 32.00 |
| CEO Chairman dummy | 1374 | 0.40 | 0.49 | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 |
| Founder | 1384 | 0.15 | 0.35 | 0.00 | 0.00 | 0.00 | 0.00 | 1.00 |
| Panel C: Firm-level characteristics | | | | | | | | |
| | Observations | Mean | SD | Min | p25 | Median | p75 | Max |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Firm size ($mln) | 1384 | 6682.8 | 12195 | 4.06 | 774.33 | 2158.8 | 6158.0 | 100338 |
| Book-to-market ratio | 1360 | 1.01 | 1.14 | -0.06 | 0.37 | 0.68 | 1.18 | 7.23 |
| Leverage | 1381 | 0.29 | 0.25 | 0.00 | 0.09 | 0.25 | 0.43 | 1.11 |
| Market performance | 1334 | 0.03 | 0.34 | -0.72 | -0.17 | 0.00 | 0.19 | 1.41 |
| Operating performance | 1380 | 0.10 | 0.09 | -0.28 | 0.06 | 0.10 | 0.15 | 0.35 |
| Firm risk | 1315 | 0.08 | 0.09 | 0.00 | 0.03 | 0.07 | 0.12 | 1.00 |
| Industry homogeneity | 932 | 0.25 | 0.07 | 0.03 | 0.21 | 0.21 | 0.30 | 0.55 |
| Workforce unionization | 1384 | 0.10 | 0.08 | 0.02 | 0.02 | 0.09 | 0.12 | 0.42 |
| Physical capital intensity | 1380 | 0.20 | 0.61 | 0.00 | 0.02 | 0.06 | 0.14 | 5.41 |
| Liberal state | 1384 | 0.35 | 0.48 | 0.00 | 0.00 | 0.00 | 1.00 | 1.00 |

CEO compensation is in millions. Average worker compensation is in thousands. CEO pay ratio is the ratio between CEO compensation and average worker compensation. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy variable equals one if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is sales revenue in millions. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All continuous variables were winsorized at the first and 99$^{th}$ percentiles.

## Table 3: Summary Statistics: Treated versus Control Firms

Panel A: Dependent Variables

| | Treated | | | Control | | | *t*-Test |
|---|---|---|---|---|---|---|---|
| | Observations | Mean | SD | Observations | Mean | SD | *P*-Value |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| CEO compensation ($mln) | 675 | 7.93 | 8.03 | 709 | 4.42 | 4.62 | 0.000 |
| Average worker compensation ($k) | 675 | 59.01 | 58.07 | 709 | 128.51 | 162.13 | 0.000 |
| CEO pay ratio | 675 | 239.17 | 321.57 | 709 | 60.24 | 133.60 | 0.000 |
| Relative cash & debt | 667 | 1.01 | 2.28 | 691 | 0.81 | 1.61 | 0.026 |

Panel B: CEO-level Characteristics

| | Treated | | | Control | | | *t*-Test |
|---|---|---|---|---|---|---|---|
| | Observations | Mean | SD | Observations | Mean | SD | *P*-Value |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| CEO age | 675 | 57.02 | 6.82 | 708 | 56.94 | 7.34 | 0.408 |
| CEO tenure | 672 | 6.02 | 6.76 | 702 | 7.21 | 6.79 | 0.001 |
| CEO Chairman dummy | 675 | 0.39 | 0.49 | 709 | 0.40 | 0.49 | 0.320 |
| Founder | 675 | 0.09 | 0.28 | 709 | 0.20 | 0.40 | 0.000 |

Panel C: Firm-level characteristics

| | Treated | | | Control | | | *t*-Test |
|---|---|---|---|---|---|---|---|
| | Observations | Mean | SD | Observations | Mean | SD | *P*-Value |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Firm size | 675 | 8.27 | 1.50 | 709 | 7.14 | 1.38 | 0.000 |
| Book-to-market ratio | 668 | 0.80 | 0.94 | 692 | 1.21 | 1.27 | 0.000 |
| Leverage | 672 | 0.34 | 0.25 | 709 | 0.24 | 0.23 | 0.000 |
| Market performance | 650 | 0.03 | 0.29 | 684 | 0.03 | 0.38 | 0.423 |
| Operating performance | 674 | 0.12 | 0.08 | 706 | 0.08 | 0.10 | 0.000 |
| Firm risk | 646 | 0.07 | 0.06 | 669 | 0.09 | 0.09 | 0.000 |
| Industry homogeneity | 453 | 0.26 | 0.08 | 471 | 0.25 | 0.06 | 0.010 |
| Workforce unionization | 675 | 0.09 | 0.08 | 709 | 0.11 | 0.09 | 0.001 |
| Physical capital intensity | 671 | 0.15 | 0.31 | 709 | 0.25 | 0.80 | 0.002 |
| Liberal state | 675 | 0.33 | 0.47 | 709 | 0.37 | 0.48 | 0.040 |

CEO compensation is the total annual CEO compensation in millions. Average worker compensation is in thousands. CEO pay ratio is the ratio between CEO compensation and average worker compensation. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy variable equals one if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All continuous variables were winsorized at the first and 99$^{th}$ percentiles. The table reports p-values of the differences in means between treated and control groups.

it is similar to Pan et al. (2022), which looks at US-based firms in 2018. This increase is consistent with the trend of rising CEO pay ratios over time (Bivens & Kandram, 2022). The highest annual CEO compensation in our sample is $187.24 million, while the lowest is $0.03mln. Average annual worker compensation wage ranges from $937.22K to a low of $5.11K. The lowest CEO pay ratio is 1 whereas the largest CEO pay ratio in our sample is 3493.38. Additionally, cash and debt together are, on average, 91% of the book value of equity, with a range from -4.73 to 13.84. A negative relative cash and debt value means that the company has a negative book value of equity. This situation occurs when their liabilities exceed their assets. In Panel B, we report the summary statistics on CEO characteristics. On average, CEOs are 56.98 years old and have been in their CEO position for 6.72. Additionally, 40% of CEOs also serve as chairmen of their company and 15% are the founder of the company. In Panel C, we describe the summary statistics for firm characteristics. The firms in the sample have an average of $6683 million in gross sales and they have a book-to-market ratio of 1.01. On average, firms have leverage of 29% of total assets and $0.2 million of physical capital for every employee. 35% of firms are located in liberal states. Table A2 in the appendix shows that the variables are not highly correlated; the largest correlation is 0.502 for the CEO-founder dummy and tenure.

Table 3, Panel A presents the summary statistics for the dependent variables of the treated and control firms in our sample from 2011 until 2022. In the treated group. The average total annual CEO compensation is $7.93 million, whereas, for the control group, it is $4.42 million. The average worker earns $59.01 thousand in the control group compared to $128.51 thousand in the control group. The average CEO pay ratio is 239.17 for the control group and 60.24 for the treated group. All three dependent variables differ between the control and treated at the 1% significance level. Additionally, relative cash and debt has an average of 1.01 for the treated group and 0.81 for the control group, indicating that the relative cash and debt is smaller in the control group at the 5% significance level. In Panel B, we examine the differences in CEO characteristics between the control and the treated firms. On average, CEOs in the control group have longer tenure and are more often the founder of the company. The age of the CEO and the likelihood of the CEO also serving as chairman do not significantly differ between the two groups. Panel C shows the difference in firm characteristics between the control and the treated groups. Control firms are, on average, smaller in size, use less leverage, and have a higher book-to-market ratio than the treated firms. Additionally, control firms have lower operating performance, higher firm risk, more unionized employees, more physical capital per employee, and compete in more homogenous industries. Furthermore, control firms are more likely to be situated in liberal states. Despite these differences, control and treated firms seem to have similar market performance.

## 4: Methodology

### *4.1: Regression analysis*

The sudden introduction of section 953b of the Dodd-Frank Act serves as a quasi-natural experiment for the effects of wage gap transparency. This research uses difference-in-difference methodology to analyze the impact of the law that mandates the disclosure of the CEO pay ratio. More specifically, we aim to determine whether high-wage-gap firms adjust their compensation structures to mitigate the negative effects of the law. According to Pan et al. (2022), the disclosure requirement results in a loss of equity value and an increase in the cost of equity for high-wage-gap firms, making them our treated group. A firm is considered a high-wage-gap firm when the CEO pay ratio exceeds the median CEO pay ratio at the time of the introduction of section 953b of the Dodd-Frank Act, in 2017. Low-wage-gap firms, those with a below-median CEO pay ratio in 2017, serve as our control group. We look at three different dependent variables: CEO pay gap, average annual worker wage, and total annual CEO compensation. By treating these three components as three separate dependent variables, we can disentangle the multifaceted components of the CEO wage gap and their relationship with mandatory disclosure. Initial analysis determines that the dependent variables deviate significantly from normality. To address this issue, we apply a natural log transformation for the dependent variables. The first equation, the total annual CEO compensation regression (1), offers insights into how regulatory changes influence the total annual CEO compensation. The equation tests hypothesis 1:

$$Log(CEO\_comp)_{jt} = \alpha_t + \beta_1(High\_wage\_gap\ x\ Post)_{jt} + \beta_2(High\_wage\_gap_{jt}) + \Upsilon_1 X_{jt} + \Upsilon_2 Z_{it} + \varepsilon_{jt} \quad (1)$$

Equation (2) looks at the trends for average annual worker compensation. It sheds light on the effect of the regulatory changes on average annual worker compensation. The equation tests hypothesis 2:

$$Log(AVG\_worker\_comp)_{jt} = \alpha_t + \beta_1(High\_wage\_gap\ x\ Post)_{jt} + \beta_2(High\_wage\_gap_{jt}) + \Upsilon_1 X_{jt} + \Upsilon_2 Z_{it} + \varepsilon_{jt} \quad (2)$$

Equation (3) examines the ratio between total CEO compensation and average worker compensation and its response to the transparency measures. The equation tests hypothesis 3:

$$Log(wage\_gap)_{jt} = \alpha_t + \beta_1(High\_wage\_gap\ x\ Post)_{jt} + \beta_2(High\_wage\_gap_{jt}) + \Upsilon_1 X_{jt} + \Upsilon_2 Z_{it} + \varepsilon_{jt} \quad (3)$$

Where $Log(wage\_gap)_{jt}$ is the log-CEO pay ratio for firm j, $Log(AVG\_worker\_comp)_{jt}$ is the log-wage of the log-average annual worker compensation at firm j, and $Log(CEO\_comp)_{jt}$ is the log-annual total CEO compensation for firm j. High_wage_gap is a dummy that equals one when a firm had an above-median CEO pay gap in the year 2017. Post is a dummy variable that equals one the year after the implementation of section 953b of the Dodd-Frank Act, in 2018. To account for a potential learning effect and delays in adjusting CEO and average worker compensation, we lag the Post variable by one additional year. Therefore, the dummy variable post equals one from 2019 onwards. We do additional

robustness checks to examine the effect with no lag and with two lags. $High\_wage\_gap_{jt}$ x $Post_{jt}$ is the difference-in-difference variable that shows how high-wage-gap firms react to the transparency law. $X_{jt}$ is a vector of controls for time-varying firm-level characteristics. $Z_{it}$ is a vector of controls for time-varying CEO characteristics. We cluster al specifications at the firm level to allow for intra-firm correlations over the years. Each equation has four specifications. All four specifications include $\alpha_t$ : time fixed effects that absorb aggregate macroeconomic shocks. The second specification includes $\alpha_z$ : industry fixed effects that controls for time-invariant industry characteristics (e.g. growth opportunities, regulatory environment). The third specification includes $\alpha_i$ : firm fixed effects that controls for time-invariant firm characteristics (e.g. industry, location). In the fourth and last specification, we include $\alpha_{ij}$ : firm x CEO fixed effects to control for time-invariant characteristics of the match between firm and CEO. We lose some variables in all specifications due to the addition of specific effects. The first specification loses about one-third of observations for including the variable Homogeneity. For this variable, we exclude 2-digit SIC codes with less than 35 observations as the partial correlation coefficient negatively correlates with the amount of firms used to estimate the industry index.

Lastly, we look at whether high-wage-gap firms take measures in their debt and cash-to-equity structure; do they compensate for the higher costs of equity with increasing debt and their cash balance. The sudden introduction of section 953b of the Dodd-Frank Act serves as a quasi-natural experiment since high-wage-gap firms are suddenly subject to higher costs of capital. We use the same setup for the difference-in-difference methodology as explained above. The dependent variable relative cash and debt revealed showed severe non-normality so we apply a log-transformation to this variable. Equation (4) offers insights into the change in cash and debt relative to equity for high-wage-gap firms, as a of the transparency law. This equation tests hypothesis 4:

$$Log(Relative\_debtcash)_{jt} = \alpha_t + \beta_1(High\_wage\_gap\ x\ Post)_{jt} + \beta_2(High\_wage\_gap_{jt}) + \Upsilon_1 X_{jt} + \varepsilon_{jt} \qquad (4)$$

Where $log(Relative\_debtcash)_{jt}$ is the cash balance plus debt outstanding divided by issued equity. $X_{jt}$ is a vector that controls for time-varying firm-level characteristics. Similar to the first 3 equations, we lag the dummy variable Post by one year to account for a potential learning effect. We use the same firm-level control variables as in equation (1-3) except leverage, for its similarity with the dependent variable. Similar to the previous equations, this model has four specifications and uses time-fixed effects to absorb aggregate macroeconomic shocks. The second specification includes industry fixed effects, the third specification includes firm fixed effects and the fourth specification includes CEO x firm fixed effects. We lose variables in some specifications due to the addition of specific fixed effects. We cluster all specifications at the firm level to allow for intra-firm correlations over the years. The first specification loses about one-third of observations for including the variable Homogeneity. For this variable, we exclude 2-digit SIC codes with less than 35 observations, as the partial correlation coefficient is negatively correlated with the amount of firms used to estimate the industry index.

When we evaluate the model specifications, the second specification likely provides the most relevant results. The first model is simplistic, only accounting for time-fixed effects. The third and fourth model specifications, which include firm and firm x CEO fixed effects, may introduce too many controls relative to the sample size. Therefore, it might obscure significant findings due to overfitting.

### *4.2: Robustness checks*

As discussed earlier in this research, we conduct two robustness checks. First, we re-run the regressions on the dependent variables excluding the most overrepresented industry - the manufacturing industry - and the most underrepresented industry - the wholesale and retail industry. We thereby test whether our results are robust for the industries we include. Secondly, we perform regressions without lags and with two lags to see whether the results significantly differ from the main model specification with one lag. We can thereby test whether the results are robust for the amount of lags we use.

## 5: Results

In this section, we explore whether the disclosure law significantly affects the total annual CEO compensation, average annual worker compensation, and CEO pay ratio. Furthermore, we look at whether high-wage-gap firms change their capital structures due to higher costs of equity. Each regression table consist of 4 columns: Column 1 through four all include the time fixed effects, Column 2 includes industry fixed effects, Column 3 includes firm fixed effects and column 4 includes firm x CEO fixed effects.

### *5.1: Total annual CEO compensation*

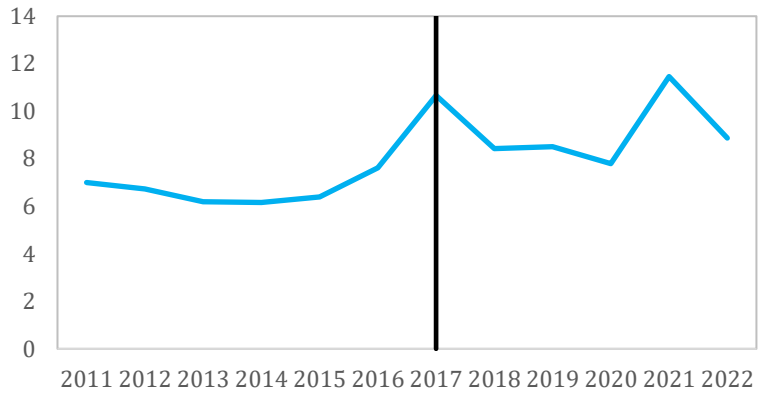
Table 4 presents the results for the dependent variable: the natural log of the total annual CEO compensation. The analysis shows that, in accordance with the first hypothesis, the introduction of the disclosure law does not significantly affect CEO compensation for treated firms. This is consistent across different all specifications. Panels A, B, and C in Figure 1 show the time trend of total annual CEO compensation for the treated firms, control firms, and all firms in the sample. The vertical black line at the year 2017 indicates the introduction of section 953b of the Dodd-Frank Act. Figure 1 Panels A and B show an upward trend for both the treated and the control firms after the introduction of the law in 2017. Both Figure 1 and Table 4 confirm that the annual CEO compensation is significantly higher for treated firms. Following these results, we do not reject hypothesis 1. We conclude that relative annual CEO compensation for high-wage-gap firms does not change with the introduction of the law.

## Table 4: CEO Pay Gap Disclosure and Log Total Annual CEO Compensation

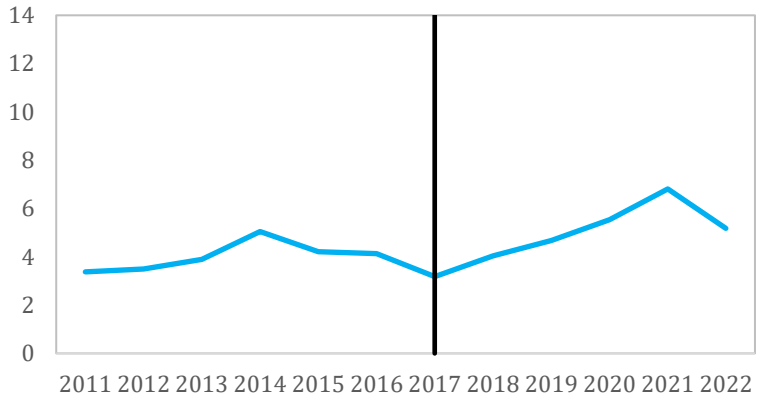
| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.125 | 0.028 | -0.008 | 0.268 |
| | (0.227) | (0.158) | (0.161) | (0.245) |
| Treated | 0.086 | 0.222* | | |
| | (0.117) | (0.132) | | |
| CEO age | -0.037*** | -0.015 | -0.004 | |
| | (0.013) | (0.010) | (0.009) | |
| CEO tenure | 0.029** | 0.024** | 0.029*** | |
| | (0.013) | (0.009) | (0.008) | |
| CEO Chairman dummy | -0.025 | -0.098 | -0.052 | 0.047 |
| | (0.136) | (0.104) | (0.087) | (0.100) |
| Founder | 0.011 | -0.124 | -0.509*** | |
| | (0.188) | (0.150) | (0.167) | |
| Firm size | 0.486*** | 0.466*** | 0.664*** | 0.735*** |
| | (0.049) | (0.036) | (0.160) | (0.272) |
| Book -to-market ratio | -0.177*** | -0.175*** | -0.153*** | -0.119** |
| | (0.051) | (0.041) | (0.049) | (0.046) |
| Leverage | 0.435** | 0.515*** | -0.076 | -0.231 |
| | (0.177) | (0.159) | (0.238) | (0.379) |
| Market performance | -0.007 | -0.008 | -0.035 | -0.041 |
| | (0.117) | (0.094) | (0.066) | (0.066) |
| Operating performance | -0.049 | 0.539 | -0.211 | -0.142 |
| | (0.959) | (0.927) | (0.467) | (0.543) |
| Firm risk | -0.464 | 0.044 | -0.151 | 0.143 |
| | (0.715) | (0.515) | (0.593) | (0.619) |
| Industry homogeneity | -1.447 | | | |
| | (0.919) | | | |
| Workforce unionization | 2.462 | 0.051 | -0.544 | -0.327 |
| | (1.952) | (0.879) | (0.748) | (0.792) |
| Physical capital intensity | 0.158 | 0.158 | -0.079 | 0.358 |
| | (0.103) | (0.138) | (0.181) | (0.221) |
| Liberal state | 0.379*** | 0.263** | | |
| | (0.144) | (0.122) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.407 | 0.499 | 0.680 | 0.725 |
| Adjusted $R^2$ | 0.387 | 0.474 | 0.627 | 0.651 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of total annual CEO compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

**Panel A** Annual Total CEO Compensation Treated Firms ($mln)




**Panel B** Annual Total CEO Compensation Control Firms ($mln)




**Panel C** Annual Total CEO Compensation All Firms ($mln)

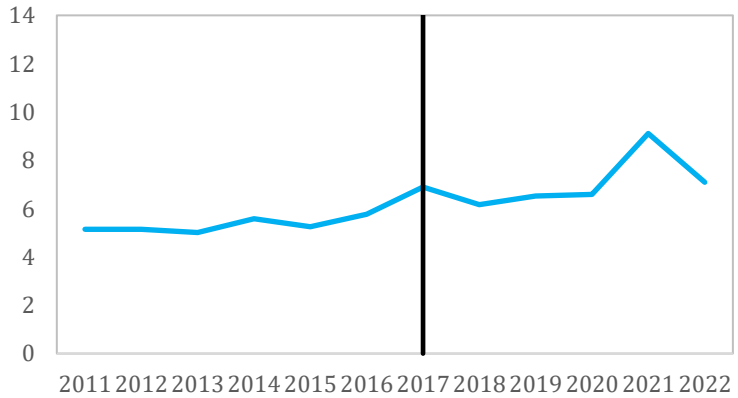



**Figure 1. The annual CEO compensation in millions by year**

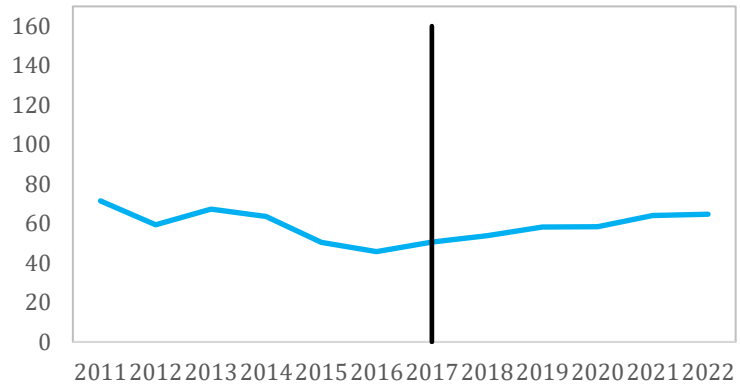
The vertical axis shows the annual CEO compensation in millions and the horizontal axis shows years. The vertical black line in 2017 represents the introduction of section 953b of the Dodd-Frank act. Panel A shows the compensation for treated firms, Panel B shows the compensation for control firms, Panel C shows the compensation for all firms.

## Table 5: CEO Pay Gap Disclosure and Log Average Annual Worker Compensation

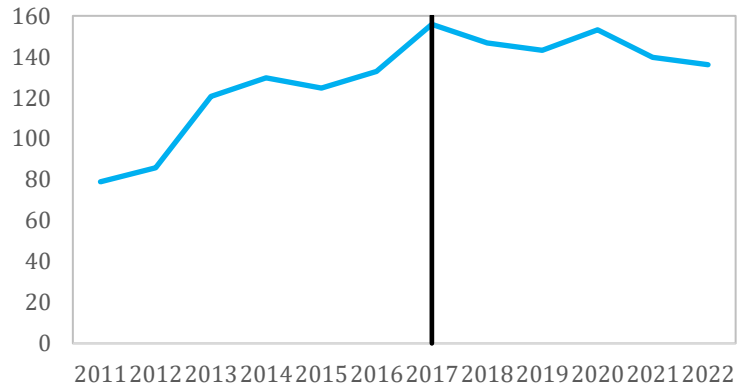
| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | -0.228 | -0.056 | 0.005 | 0.014 |
| | (0.162) | (0.064) | (0.029) | (0.040) |
| Treated | -0.852*** | -0.395*** | | |
| | (0.181) | (0.133) | | |
| CEO age | -0.006 | -0.001 | 0.003* | |
| | (0.016) | (0.009) | (0.001) | |
| CEO tenure | -0.016 | -0.003 | -0.004** | |
| | (0.014) | (0.009) | (0.002) | |
| CEO Chairman dummy | 0.020 | -0.127* | -0.005 | -0.001 |
| | (0.174) | (0.077) | (0.021) | (0.033) |
| Founder | 0.408 | 0.051 | 0.011 | |
| | (0.277) | (0.133) | (0.051) | |
| Firm size | 0.161*** | 0.141*** | 0.019 | 0.002 |
| | (0.061) | (0.035) | (0.032) | (0.042) |
| Book -to-market ratio | 0.075 | -0.024 | 0.011 | 0.018 |
| | (0.057) | (0.039) | (0.010) | (0.012) |
| Leverage | -0.348 | 0.066 | 0.020 | 0.023 |
| | (0.277) | (0.192) | (0.079) | (0.100) |
| Market performance | 0.195* | 0.036 | 0.046 | 0.048 |
| | (0.109) | (0.062) | (0.031) | (0.032) |
| Operating performance | -0.112 | -0.487 | -0.005 | 0.064 |
| | (1.055) | (0.844) | (0.153) | (0.180) |
| Firm risk | 0.396 | 0.319 | -0.018 | 0.043 |
| | (0.416) | (0.210) | (0.063) | (0.065) |
| Industry homogeneity | -2.408** | | | |
| | (1.042) | | | |
| Workforce unionization | 3.954* | -0.951 | -0.248 | -0.118 |
| | (2.062) | (0.811) | (0.161) | (0.141) |
| Physical capital intensity | 0.213** | 0.161 | 0.023 | 0.073 |
| | (0.087) | (0.106) | (0.025) | (0.063) |
| Liberal state | 0.643*** | 0.370*** | | |
| | (0.180) | (0.136) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.401 | 0.714 | 0.973 | 0.976 |
| Adjusted $R^2$ | 0.382 | 0.700 | 0.968 | 0.970 |
| N | 844 | 1294 | 1282 | 1252 |

The dependent variable is the log of average annual worker compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

**Panel A** Average Annual Worker Compensation Treated Firms ($k)




**Panel B** Average Annual Worker Compensation Control Firms ($k)




**Panel C** Average Annual Worker Compensation All Firms ($k)

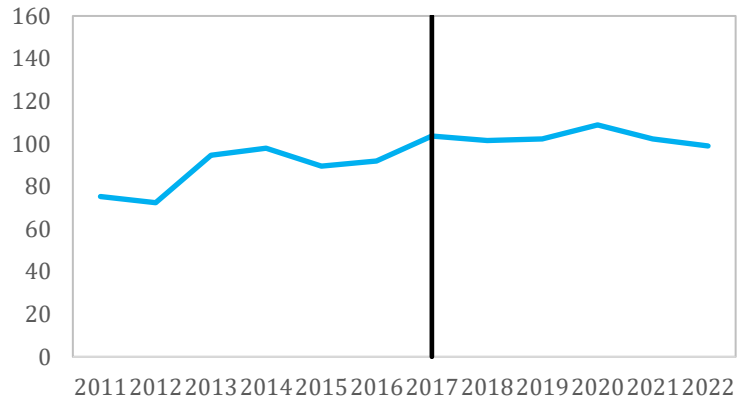



**Figure 2. The annual average compensation in thousands by year**

The vertical axis shows the annual average worker in thousands and the horizontal axis shows years. The vertical black line in 2017 represents the introduction of section 953b of the Dodd-Frank act. Panel A shows the compensation for treated firms, Panel B shows the compensation for control firms, Panel C shows the compensation for all firms.

Tables A3 and A4 show results consistent with Table 4 when using no lags or two lags, indicating that the results are robust for the amount of lags used. Table A5 shows that, when excluding the wholesale and retail and the manufacturing industry, we still see similar results. Therefore, we conclude that the results are not driven by the disproportionate industries in our sample.

From Table 4, we find that CEO compensation increases with firm size, which is in line with previous literature (Core et al., 1999; Tervio, 2008; Edmans & Landier, 2011; Gabaix et al, 2014). Furthermore, we find that the book-to-mark ratio decreases CEO pay and CEO tenure increases CEO pay; this is in line with the bargaining power hypothesis (Rosen, 1982; Core et al., 1999; Falaye et al., 2013). CEO salaries are significantly higher in liberal states, possibly due to higher average salaries in those regions. CEO age shows a negative correlation with compensation, but this becomes insignificant when controlling for firm or industry fixed effects. Leverage positively affects CEO compensation in some specifications, while being a company founder negatively affects it.

*5.2: Average annual worker compensation:*

Table 5 examines the natural log of the total annual average worker compensation. In accordance with the second hypothesis, the introduction of the disclosure law has no significant effect on average worker pay for treated firms. Panel A from Figure 2 illustrates that there is no clear discontinuity for the treated firms after the introduction of the disclosure law. Both Table 5 and Figure 2 show that average annual worker compensation is significantly lower for treated firms. Following the findings, we do not reject hypothesis 2. We conclude that average annual worker compensation does not change for treated firms after the introduction of the law.

Table A6 shows a negative effect at the 10% percent significance level for the difference-in-difference variable. However, this is only the case in the most simple model, when solely adding time-fixed effects. When including industry, firm, or CEO x Firm fixed effects, there is no significant effect; therefore, we conclude that the robustness checks in Tables A6 and A7 show consistent results with no or two lags. Furthermore, Table A8 shows that the results, when excluding the wholesale and retail and the manufacturing industry, resemble the results in Table 5.

From Table 5, the results indicate that worker bargaining power variables have the expected sign according to Falaye et al. (2013): Physical capital intensity and workforce unionization increases average worker compensation and industry homogeneity decreases average worker compensation. Similar to total CEO compensation, liberal states increase the average workers' pay, further indicating that liberal states have higher average salaries. Furthermore, we can see the opposite effect of CEO age and tenure compared to their effect on CEO compensation: CEO age has a positive effect on average annual worker compensation whilst CEO tenure has a negative effect. Additionally, firm size, firm risk,

and firm performance positively affect average worker compensation, while CEO-chair duality negatively affects it.

*5.3: CEO pay ratio:*

Table 6 analyzes the natural log of the CEO pay ratio. The results are consistent with hypothesis 3; the disclosure law does not significantly affect the CEO pay ratio. On top of that, Panel A shows no clear discontinuity for treated firms after the introduction of the disclosure law. Figure 3 and Table 6 demonstrate that the CEO pay gap is significantly higher for treated firms. As a result of the findings, we do not reject hypothesis 3; the CEO pay ratio does not significantly change with the pay gap disclosure. The results support the talent assignment hypothesis and Jensen (2002,2009), suggesting firms are reluctant to lower the CEO pay ratio, fearing they would lose their talented CEO and possibly have a less talented CEO in charge. This would ultimately be detrimental to maximizing the value of the firm.

Table A9 shows that similar to average worker compensation, there is a significant result at the 10% level for the CEO pay ratio when adding no lags. However, this is only the case in the most simple model specification. When adding industry, firm, or firm x CEO fixed effects, the results remain insignificant; as a result, we conclude that robustness checks in Tables A9 and A10 show consistent results across different lag specifications. On top of that, Table A11 indicates similar findings when excluding the wholesale retail and manufacturing industries.

Table 6 shows variables that increase bargaining power - such as firm size, book-to-market ratio, and CEO tenure – increase the CEO pay ratio; this is in accordance with the statements of prior work (Rosen, 1982; Core et al., 1999; Falaye et al., 2013). However, Table 6 implies that other variables that should also increase bargaining power - like firm risk, industry homogeneity, and firm performance – do not significantly increase the CEO pay ratio. Interestingly, CEO tenure and age have opposite effects, with tenure increasing and age decreasing the pay gap. Leverage positively affects the CEO pay ratio when firm or firm x CEO fixed effects are not included. CEO-founder duality negatively affects the CEO pay ratio. Contrary to Weng and Yang (2024), there is no significant difference between democratic or republican states in our sample.

*5.4: Relative cash and debt:*

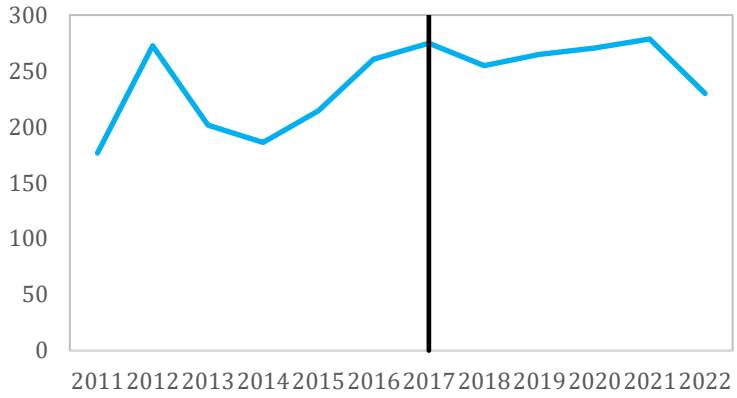
Table 7 investigates the relative cash and debt as a percentage of debt. All columns show positive coefficients, with columns 1 and 2 significant at the 10 percent level. The results are in line with the pecking order theory by Donaldson (1961) and Myers and Majluf (1984), indicating high-wage-gap firms do not issue equity as it would amplify the negative abnormal returns; as a result, they use retained cash and debt to finance investments. Additionally, the results are in line with the market timing theory

## Table 6: CEO Pay Gap Disclosure and Log CEO Pay Ratio

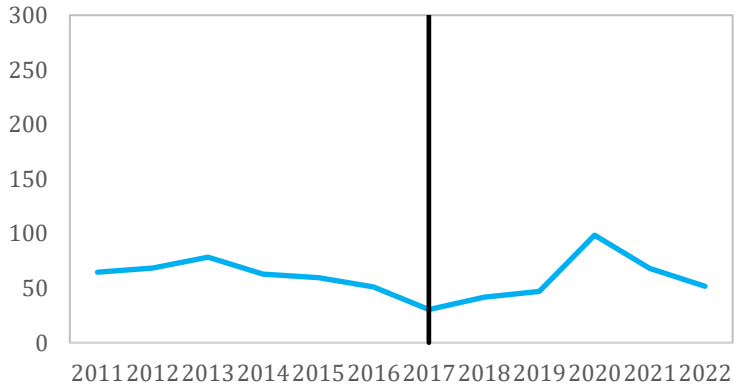
| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.393 | 0.090 | -0.009 | 0.262 |
| | (0.261) | (0.168) | (0.164) | (0.249) |
| Treated | 0.955*** | 0.644*** | | |
| | (0.154) | (0.129) | | |
| CEO age | -0.038*** | -0.020** | -0.006 | |
| | (0.012) | (0.009) | (0.009) | |
| CEO tenure | 0.051*** | 0.031*** | 0.033*** | |
| | (0.013) | (0.009) | (0.009) | |
| CEO Chairman dummy | -0.106 | 0.004 | -0.047 | 0.049 |
| | (0.172) | (0.119) | (0.093) | (0.107) |
| Founder | -0.375 | -0.168 | -0.517*** | |
| | (0.260) | (0.195) | (0.165) | |
| Firm size | 0.346*** | 0.333*** | 0.648*** | 0.741*** |
| | (0.064) | (0.043) | (0.162) | (0.276) |
| Book -to-market ratio | -0.241*** | -0.167*** | -0.164*** | -0.137*** |
| | (0.076) | (0.045) | (0.051) | (0.048) |
| Leverage | 0.858*** | 0.515** | -0.092 | -0.247 |
| | (0.261) | (0.202) | (0.232) | (0.369) |
| Market performance | -0.154 | -0.007 | -0.079 | -0.088 |
| | (0.135) | (0.099) | (0.082) | (0.084) |
| Operating performance | -0.089 | 0.610 | -0.214 | -0.216 |
| | (1.110) | (0.810) | (0.517) | (0.613) |
| Firm risk | -0.760 | -0.195 | -0.132 | 0.103 |
| | (0.787) | (0.506) | (0.598) | (0.624) |
| Industry homogeneity | 1.084 | | | |
| | (0.975) | | | |
| Workforce unionization | -1.617 | 1.109 | -0.294 | -0.206 |
| | (2.514) | (1.133) | (0.722) | (0.788) |
| Physical capital intensity | -0.051 | -0.004 | -0.099 | 0.293 |
| | (0.164) | (0.206) | (0.165) | (0.192) |
| Liberal state | -0.227 | -0.058 | | |
| | (0.157) | (0.129) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.497 | 0.597 | 0.762 | 0.795 |
| Adjusted $R^2$ | 0.480 | 0.577 | 0.722 | 0.739 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of the CEO pay ratio. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

**Panel A** CEO Pay Ratio Treated Firms




**Panel B** CEO Pay Ratio Control Firms




**Panel C** CEO Pay Ratio All Firms

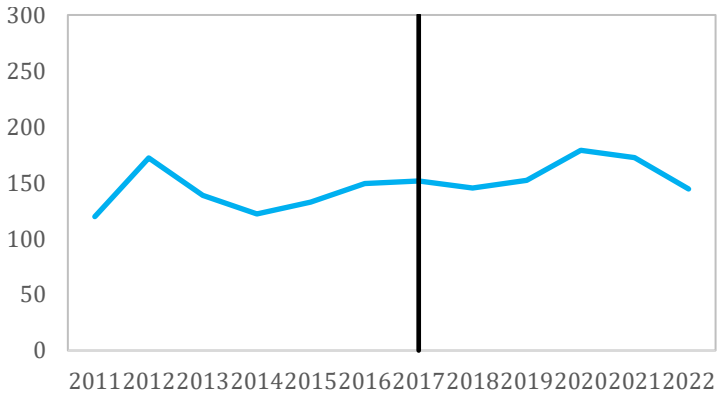



**Figure 3. CEO pay ratio by year**

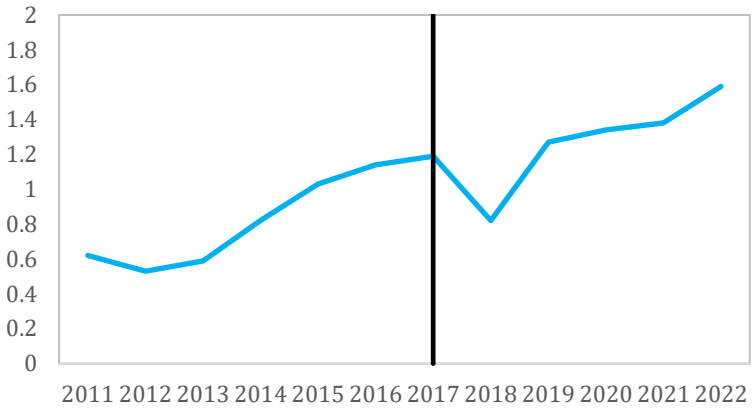
Figure 3. The CEO pay ratio by year. The vertical axis shows the CEO pay ratio and the horizontal axis shows years. The vertical black line in 2017 represents the introduction of section 953b of the Dodd-Frank act. Panel A shows the CEO pay ratio for treated firms, Panel B shows the CEO pay ratio for control firms, and Panel C shows the CEO pay ratio for all firms.

## Table 7: CEO Pay Gap Disclosure and Log Relative Cash and Debt

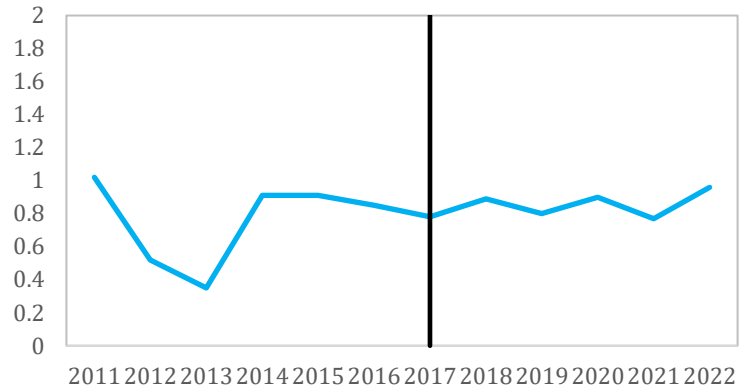
| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.398* | 0.246* | 0.145 | 0.283 |
| | (0.207) | (0.144) | (0.146) | (0.174) |
| Treated | 0.145 | -0.030 | | |
| | (0.218) | (0.192) | | |
| Firm size | 0.089 | 0.155** | -0.212 | -0.068 |
| | (0.077) | (0.063) | (0.128) | (0.118) |
| Book -to-market ratio | -0.162** | 0.059 | 0.006 | 0.004 |
| | (0.079) | (0.070) | (0.034) | (0.038) |
| Market performance | -0.183 | 0.014 | -0.046 | -0.055 |
| | (0.117) | (0.085) | (0.049) | (0.049) |
| Operating performance | -0.524 | -0.128 | -1.024* | -0.621 |
| | (0.875) | (0.705) | (0.533) | (0.565) |
| Firm risk | 2.799*** | 1.567*** | 0.126 | 0.019 |
| | (0.638) | (0.371) | (0.241) | (0.204) |
| Industry homogeneity | 2.750* | | | |
| | (1.423) | | | |
| Workforce unionization | 3.357 | 2.477 | 0.890 | 0.720 |
| | (2.481) | (1.750) | (0.960) | (0.546) |
| Physical capital intensity | 0.033 | 0.199* | 0.017 | -0.054 |
| | (0.094) | (0.119) | (0.089) | (0.124) |
| Liberal state | -0.338* | -0.194 | | |
| | (0.197) | (0.163) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.188 | 0.358 | 0.801 | 0.860 |
| Adjusted $R^2$ | 0.166 | 0.327 | 0.767 | 0.823 |
| N | 813 | 1259 | 1247 | 1207 |

The dependent variable is the log cash and total debt divided by the book value of equity. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

**Panel A** Relative Cash and Debt Treated Firms




**Panel** B Relative Cash and Debt Control Firms




**Panel** C Relative Cash and Debt All Firms

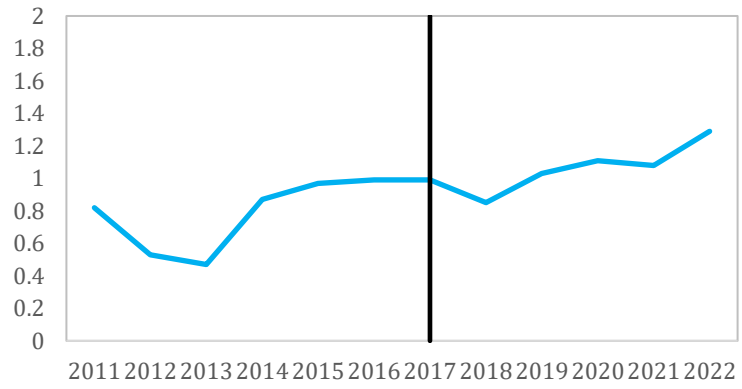



**Figure 4. Relative cash and debt by year**

Figure 4. Relative cash and debt by year. The vertical axis shows the relative cash and debt to equity and the horizontal axis shows years. The vertical black line in 2017 represents the introduction of section 953b of the Dodd-Frank act. Panel A shows relative cash and debt for treated firms, panel B shows relative cash and debt for control firms, and panel C shows relative cash and debt for all firms.

by Baker and Wurgler (2002): firms issue less equity and resort to different methods of financing as they have relatively low equity values following negative abnormal returns due to the introduction of the wage gap disclosure (Pan et al., 2022; Dittmann 2023). Figure 4 confirms these trends: treated firms increase relative cash and debt after the implementation of the CEO pay gap disclosure, while the relative cash and debt for the control firms stays flat before and after 2017. However, when using cash and debt over the market value of equity, coefficients are still positive but not significant at conventional levels.

Tables A12 and A13 show no significant results for no lags and more significant results for 2 lags, suggesting that firms need more time to change their capital structure following the introduction of the law. Table A14 confirms consistent findings when excluding the wholesale and retail industry and the manufacturing industry.

Table 7 further concludes that relative cash and debt increase with firm size and firm risk and it decreases with book-to-market ratio and operating performance. Firms in liberal states have less cash and debt relative to equity than those in republican states.

## 6: Conclusion

This research is motivated by the increasing disparity between executive compensation and average worker compensation which raises questions about the fairness and sustainability of current corporate practices. The CEO pay gap is a critical topic in discussions about economic inequality, social justice, and corporate governance. As a result of the growing within-firm pay disparity, the United States Congress passed section 953b of the Dodd-Frank Act, mandating public firms to disclose their CEO pay ratio in 2017. The primary aim is to create transparency between firms, shareholders, and the public, potentially influencing corporate governance practices to reduce the CEO pay gap. Pann et al. (2022) finds that, following the implementation of the law, high-wage-gap firms experience negative abnormal returns, indicating a loss of firm value and an increase in equity costs. This is the result of inequality-averse investors preferring to invest in low-wage-gap firms.

This paper aims to investigate whether high-wage-gap firms would adjust their internal compensation structures, and if not, whether they would modify their capital structures to mitigate the adverse effects of the disclosure law. To do this, we utilize a difference-in-difference method where we compare high- and low-wage-gap firms after the introduction of the disclosure law. Our sample consists of the years 2011-2022.

Our findings reveal that the disclosure law does not significantly impact the CEO pay ratio, CEO compensation, or average worker compensation, suggesting that transparency alone is insufficient to address within-firm pay disparities. Moreover, high-wage-gap firms change their capital structures in

line with the market timing and pecking order theories. However, results turn insignificant at conventional levels when using the market value of equity. These findings are in accordance with the hypotheses provided in this paper. These findings underscore the complexities firms face when wanting to satisfy stakeholder demands and maximize firm value through attracting and retaining skilled executives. While the goal of the law was to promote equitable pay practices through transparency, the results suggest that firms alter their capital structure to mitigate the impact of increased equity costs resulting from negative investor sentiment towards income inequality.

This study has several limitations. The reliance on voluntarily disclosed data could introduce a self-selection bias, potentially distorting the results by only reflecting the behaviors of firms willing to disclose their wage data. On top of that, we find an uneven industry representation in the sample compared to the ExecuComp and Compustat databases. However, robustness checks show that excluding the most disproportionate industries yields similar results to the full sample.

Future research could focus on other aspects of section 953b of the Dodd-Frank Act; transparency of within-firm pay discrepancies might affect firm performance and employee morale. Studying the impact of CEO pay gap transparency laws in various regulatory systems, economic conditions, or cultures could provide more insights. Additionally, qualitative studies involving direct stakeholder feedback could complement the quantitative data and offer a deeper understanding of decision-making theories after the introduction of the disclosure law.

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## Appendix

**Table A1: Number of Observations per ear**

| Year | Frequency | Percent | Cummulative |
|---|---|---|---|
| 2011 | 124 | 8.96 | 8.96 |
| 2012 | 116 | 8.38 | 17.34 |
| 2013 | 121 | 8.74 | 26.08 |
| 2014 | 123 | 8.89 | 34.97 |
| 2015 | 125 | 9.03 | 44 |
| 2016 | 117 | 8.45 | 52.46 |
| 2017 | 121 | 8.74 | 61.2 |
| 2018 | 113 | 8.16 | 69.36 |
| 2019 | 110 | 7.95 | 77.31 |
| 2020 | 109 | 7.88 | 85.19 |
| 2021 | 103 | 7.44 | 92.63 |
| 2022 | 102 | 7.37 | 100 |
| Total | 1384 | 100 | |

The table shows the sample distribution over the years 2011-2022.

## Table A2: Correlation Matrix

| Variables | CEO comp | Average worker comp | CEO pay ratio | Relative cash & debt | CEO age | CEO tenure | CEO-Chairman dummy | Founder | Firm size | Book-to-market | Leverage | Market perf | Operating perf | Firm risk | Homogeneity | Unionization | Physical capital intensity | Liberal state |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CEO comp | 1.000 | | | | | | | | | | | | | | | | | |
| Avg worker comp | 0.070 | 1.000 | | | | | | | | | | | | | | | | |
| CEO pay ratio | 0.425 | -0.269 | 1.000 | | | | | | | | | | | | | | | |
| Relative cash debt | 0.129 | -0.050 | 0.123 | 1.000 | | | | | | | | | | | | | | |
| CEO age | 0.030 | -0.057 | -0.082 | 0.028 | 1.000 | | | | | | | | | | | | | |
| CEO tenure | 0.026 | -0.058 | 0.019 | -0.042 | 0.376 | 1.000 | | | | | | | | | | | | |
| CEO-Chairman | 0.087 | 0.004 | 0.043 | -0.048 | 0.283 | 0.403 | 1.000 | | | | | | | | | | | |
| Founder | -0.114 | 0.125 | -0.057 | -0.085 | -0.012 | 0.502 | 0.305 | 1.000 | | | | | | | | | | |
| Firm size | 0.606 | -0.084 | 0.254 | 0.114 | 0.079 | -0.057 | 0.061 | -0.199 | 1.000 | | | | | | | | | |
| Book-to-market | -0.087 | 0.082 | -0.219 | -0.090 | 0.104 | -0.111 | 0.054 | -0.099 | 0.093 | 1.000 | | | | | | | | |
| Leverage | 0.232 | -0.122 | 0.316 | 0.434 | -0.031 | -0.096 | -0.068 | -0.122 | 0.198 | -0.148 | 1.000 | | | | | | | |
| Market perf. | 0.059 | 0.037 | 0.016 | -0.050 | -0.069 | 0.043 | -0.010 | 0.099 | -0.048 | -0.263 | -0.002 | 1.000 | | | | | | |
| Operating perf. | 0.147 | 0.074 | 0.193 | 0.032 | -0.069 | 0.101 | 0.150 | 0.143 | 0.306 | -0.351 | 0.162 | 0.147 | 1.000 | | | | | |
| Firm risk | -0.059 | 0.042 | -0.114 | 0.061 | 0.035 | -0.079 | -0.077 | -0.063 | -0.171 | 0.118 | 0.067 | -0.003 | -0.238 | 1.000 | | | | |
| Homogeneity | 0.016 | 0.089 | 0.159 | 0.070 | -0.012 | 0.101 | -0.005 | 0.216 | 0.101 | -0.004 | 0.198 | -0.041 | 0.170 | -0.110 | 1.000 | | | |
| Unionization | 0.086 | -0.049 | -0.150 | -0.017 | -0.002 | -0.092 | 0.029 | -0.295 | 0.001 | 0.134 | -0.041 | -0.019 | -0.176 | 0.115 | -0.360 | 1.000 | | |
| Physical capital int. | -0.068 | 0.212 | -0.068 | -0.010 | 0.015 | -0.006 | 0.051 | 0.107 | -0.174 | 0.231 | 0.027 | -0.061 | -0.124 | 0.036 | 0.223 | 0.171 | 1.000 | |
| Liberal state | 0.068 | 0.228 | -0.034 | -0.029 | -0.020 | -0.018 | -0.120 | -0.044 | -0.080 | -0.082 | -0.153 | 0.048 | -0.024 | -0.010 | 0.183 | -0.254 | 0.002 | 1.000 |

CEO compensation is in millions. Average worker compensation is in thousands. CEO pay ratio is the ratio between CEO compensation and average worker compensation. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy variable equals one if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All continuous variables were winsorized at the first and 99$^{th}$ percentiles.

## Table A3: CEO Pay Gap Disclosure and Log Total Annual CEO Compensation

| No Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.075 | -0.011 | -0.032 | 0.145 |
| | (0.203) | (0.146) | (0.144) | (0.175) |
| Treated | 0.095 | 0.234* | | |
| | (0.123) | (0.139) | | |
| CEO age | -0.036*** | -0.015 | -0.004 | |
| | (0.013) | (0.010) | (0.008) | |
| CEO tenure | 0.029** | 0.024** | 0.029*** | |
| | (0.013) | (0.009) | (0.007) | |
| CEO Chairman dummy | -0.025 | -0.098 | -0.052 | 0.041 |
| | (0.136) | (0.103) | (0.095) | (0.100) |
| Founder | 0.015 | -0.122 | -0.508*** | |
| | (0.190) | (0.151) | (0.162) | |
| Firm size | 0.486*** | 0.466*** | 0.662*** | 0.722*** |
| | (0.049) | (0.036) | (0.142) | (0.267) |
| Book -to-market ratio | -0.178*** | -0.176*** | -0.153*** | -0.117** |
| | (0.051) | (0.041) | (0.048) | (0.048) |
| Leverage | 0.441** | 0.519*** | -0.071 | -0.216 |
| | (0.178) | (0.160) | (0.207) | (0.376) |
| Market performance | -0.010 | -0.009 | -0.035 | -0.043 |
| | (0.119) | (0.095) | (0.077) | (0.067) |
| Operating performance | -0.054 | 0.536 | -0.212 | -0.120 |
| | (0.962) | (0.930) | (0.463) | (0.550) |
| Firm risk | -0.469 | 0.040 | -0.154 | 0.138 |
| | (0.716) | (0.514) | (0.541) | (0.622) |
| Industry homogeneity | -1.458 | | | |
| | (0.921) | | | |
| Workforce unionization | 2.469 | 0.057 | -0.545 | -0.321 |
| | (1.958) | (0.884) | (1.187) | (0.793) |
| Physical capital intensity | 0.160 | 0.160 | -0.079 | 0.374 |
| | (0.104) | (0.139) | (0.168) | (0.235) |
| Liberal state | 0.381*** | 0.263** | | |
| | (0.145) | (0.122) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.407 | 0.499 | 0.680 | 0.724 |
| Adjusted $R^2$ | 0.387 | 0.474 | 0.627 | 0.650 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of total annual CEO compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A4: CEO Pay Gap Disclosure and Log Total Annual CEO Compensation

| 2 Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.145 | 0.012 | 0.017 | 0.289 |
| | (0.239) | (0.162) | (0.176) | (0.276) |
| Treated | 0.091 | 0.227* | | |
| | (0.116) | (0.133) | | |
| CEO age | -0.037*** | -0.015 | -0.004 | |
| | (0.013) | (0.010) | (0.009) | |
| CEO tenure | 0.029** | 0.024** | 0.029*** | |
| | (0.013) | (0.009) | (0.008) | |
| CEO Chairman dummy | -0.025 | -0.098 | -0.051 | 0.048 |
| | (0.137) | (0.104) | (0.087) | (0.100) |
| Founder | 0.013 | -0.123 | -0.509*** | |
| | (0.190) | (0.151) | (0.169) | |
| Firm size | 0.486*** | 0.466*** | 0.666*** | 0.743*** |
| | (0.049) | (0.036) | (0.163) | (0.280) |
| Book -to-market ratio | -0.177*** | -0.175*** | -0.153*** | -0.120** |
| | (0.052) | (0.041) | (0.049) | (0.046) |
| Leverage | 0.437** | 0.517*** | -0.079 | -0.219 |
| | (0.175) | (0.159) | (0.237) | (0.375) |
| Market performance | -0.006 | -0.009 | -0.034 | -0.037 |
| | (0.118) | (0.094) | (0.066) | (0.065) |
| Operating performance | -0.049 | 0.537 | -0.215 | -0.163 |
| | (0.957) | (0.923) | (0.463) | (0.560) |
| Firm risk | -0.485 | 0.040 | -0.152 | 0.080 |
| | (0.728) | (0.529) | (0.606) | (0.647) |
| Industry homogeneity | -1.460 | | | |
| | (0.928) | | | |
| Workforce unionization | 2.470 | 0.053 | -0.542 | -0.288 |
| | (1.956) | (0.881) | (0.747) | (0.785) |
| Physical capital intensity | 0.158 | 0.159 | -0.079 | 0.378* |
| | (0.103) | (0.138) | (0.179) | (0.222) |
| Liberal state | 0.380** | 0.263** | | |
| | (0.145) | (0.122) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.407 | 0.499 | 0.680 | 0.725 |
| Adjusted $R^2$ | 0.387 | 0.474 | 0.627 | 0.651 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of total annual CEO compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A5: CEO Pay Gap Disclosure and Log Total Annual CEO Compensation (No SIC 4,6)

| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.198 | 0.193 | 0.200 | 0.658 |
| | (0.251) | (0.254) | (0.269) | (0.449) |
| Treated | 0.170 | 0.181 | | |
| | (0.127) | (0.169) | | |
| CEO age | -0.034** | -0.033** | -0.009 | |
| | (0.013) | (0.014) | (0.011) | |
| CEO tenure | 0.033** | 0.030** | 0.030*** | |
| | (0.013) | (0.013) | (0.011) | |
| CEO Chairman dummy | -0.080 | -0.028 | -0.093 | -0.062 |
| | (0.154) | (0.132) | (0.140) | (0.160) |
| Founder | -0.124 | -0.102 | -0.435* | |
| | (0.188) | (0.183) | (0.237) | |
| Firm size | 0.496*** | 0.468*** | 0.683*** | 0.810** |
| | (0.055) | (0.046) | (0.204) | (0.342) |
| Book -to-market ratio | -0.168*** | -0.177*** | -0.071 | -0.079 |
| | (0.057) | (0.055) | (0.071) | (0.070) |
| Leverage | 0.498** | 0.626*** | 0.125 | -0.072 |
| | (0.198) | (0.211) | (0.282) | (0.481) |
| Market performance | 0.012 | -0.023 | -0.011 | -0.031 |
| | (0.140) | (0.134) | (0.088) | (0.081) |
| Operating performance | -0.115 | 0.343 | 0.253 | 0.017 |
| | (1.065) | (1.323) | (0.699) | (0.704) |
| Firm risk | -0.409 | -0.511 | -0.824 | -0.425 |
| | (0.775) | (0.774) | (0.856) | (0.853) |
| Industry homogeneity | -3.271*** | | | |
| | (1.198) | | | |
| Workforce unionization | 3.506 | -0.484 | 2.776 | 2.760 |
| | (2.176) | (2.669) | (3.290) | (3.276) |
| Physical capital intensity | 0.381*** | 0.209** | 0.968 | 3.305 |
| | (0.073) | (0.089) | (1.132) | (1.996) |
| Liberal state | 0.465*** | 0.460** | | |
| | (0.154) | (0.180) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.426 | 0.470 | 0.646 | 0.687 |
| Adjusted $R^2$ | 0.403 | 0.434 | 0.581 | 0.595 |
| N | 723 | 812 | 803 | 785 |

The dependent variable is the log of total annual CEO compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A6: CEO Pay Gap Disclosure and Log Average Annual Worker Compensation

| No Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | -0.275* | -0.091 | -0.002 | -0.001 |
| | (0.157) | (0.063) | (0.025) | (0.032) |
| Treated | -0.816*** | -0.378*** | | |
| | (0.184) | (0.135) | | |
| CEO age | -0.007 | -0.001 | 0.003* | |
| | (0.016) | (.009) | (0.001) | |
| CEO tenure | -0.016 | -0.003 | -0.004** | |
| | (0.014) | (0.009) | (0.002) | |
| CEO Chairman dummy | 0.023 | -0.126* | -0.005 | 0.000 |
| | (0.173) | (0.076) | (0.021) | (0.032) |
| Founder | 0.410 | 0.052 | 0.011 | |
| | (0.277) | (0.132) | (0.051) | |
| Firm size | 0.162*** | 0.141*** | 0.019 | 0.001 |
| | (0.060) | (0.035) | (0.032) | (0.042) |
| Book -to-market ratio | 0.074 | -0.025 | 0.011 | 0.018 |
| | (0.057) | (0.039) | (0.010) | (0.012) |
| Leverage | -0.337 | 0.072 | 0.021 | 0.027 |
| | (0.276) | (0.193) | (0.079) | (0.101) |
| Market performance | 0.196* | 0.036 | 0.046 | 0.048 |
| | (0.108) | (0.062) | (0.031) | (0.032) |
| Operating performance | -0.131 | -0.494 | -0.005 | 0.065 |
| | (1.053) | (0.844) | (0.154) | (0.181) |
| Firm risk | 0.390 | 0.313 | -0.019 | 0.042 |
| | (0.417) | (0.209) | (0.063) | (0.065) |
| Industry homogeneity | -2.431** | | | |
| | (1.037) | | | |
| Workforce unionization | 3.916* | -0.942 | -0.249 | -0.116 |
| | (2.054) | (0.809) | (0.160) | (0.139) |
| Physical capital intensity | 0.213** | 0.162 | 0.023 | 0.075 |
| | (0.086) | (0.106) | (0.026) | (0.064) |
| Liberal state | 0.645*** | 0.371*** | | |
| | (0.180) | (0.136) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.403 | 0.714 | 0.973 | 0.976 |
| Adjusted $R^2$ | 0.383 | 0.700 | 0.968 | 0.970 |
| N | 844 | 1294 | 1282 | 1252 |

The dependent variable is the log of average annual worker compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A7: CEO Pay Gap Disclosure and Log Average Annual Worker Compensation

| 2 Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | -0.163 | -0.049 | -0.005 | -0.006 |
| | (0.159) | (0.069) | (0.034) | (0.044) |
| Treated | -0.886*** | -0.401*** | | |
| | (0.178) | (0.132) | | |
| CEO age | -0.007 | -0.001 | 0.003* | |
| | (0.016) | (0.009) | (0.001) | |
| CEO tenure | -0.016 | -0.003 | -0.004** | |
| | (0.014) | (0.009) | (0.002) | |
| CEO Chairman dummy | 0.020 | -0.127* | -0.006 | 0.000 |
| | (0.175) | (0.077) | (0.021) | (0.033) |
| Founder | 0.401 | 0.049 | 0.011 | |
| | (0.278) | (0.133) | (0.05) | |
| Firm size | 0.160*** | 0.140*** | 0.018 | 0.000 |
| | (0.061) | (0.035) | (0.031) | (0.041) |
| Book -to-market ratio | 0.075 | -0.024 | 0.011 | 0.018 |
| | (0.057) | (0.039) | (0.010) | (0.011) |
| Leverage | -0.362 | 0.064 | 0.022 | 0.027 |
| | (0.277) | (0.192) | (0.079) | (0.099) |
| Market performance | 0.196* | 0.036 | 0.046 | 0.048 |
| | (0.109) | (0.062) | (0.031) | (0.033) |
| Operating performance | -0.096 | -0.484 | -0.004 | 0.066 |
| | (1.056) | (0.843) | (0.153) | (0.180) |
| Firm risk | 0.429 | 0.330 | -0.018 | 0.043 |
| | (0.413) | (0.213) | (0.060) | (0.063) |
| Industry homogeneity | -2.372** | | | |
| | (1.043) | | | |
| Workforce unionization | 3.951* | -0.953 | -0.249 | -0.116 |
| | (2.072) | (0.813) | (0.160) | (0.140) |
| Physical capital intensity | 0.211** | 0.160 | 0.023 | 0.075 |
| | (0.088) | (0.107) | (0.026) | (0.065) |
| Liberal state | 0.639*** | 0.370*** | | |
| | (0.180) | (0.136) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.400 | 0.714 | 0.973 | 0.976 |
| Adjusted $R^2$ | 0.380 | 0.700 | 0.968 | 0.970 |
| N | 844 | 1294 | 1282 | 1252 |

The dependent variable is the log of average annual worker compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

**Table A8: CEO Pay Gap Disclosure and Log Avg. Annual Worker Compensation (No SIC 4,6)**

| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | -0.198 | -0.107 | 0.023 | 0.023 |
| | (0.142) | (0.095) | (0.041) | (0.055) |
| Treated | -0.617*** | -0.422** | | |
| | (0.167) | (0.178) | | |
| CEO age | 0.002 | -0.004 | 0.001 | |
| | (0.015) | (0.013) | (0.002) | |
| CEO tenure | -0.004 | 0.002 | -0.002 | |
| | (0.014) | (0.012) | (0.002) | |
| CEO Chairman dummy | -0.090 | -0.136 | -0.021 | -0.011 |
| | (0.156) | (0.115) | (0.027) | (0.048) |
| Founder | 0.135 | 0.145 | -0.002 | |
| | (0.232) | (0.165) | (0.058) | |
| Firm size | 0.185*** | 0.129*** | 0.005 | -0.022 |
| | (0.058) | (0.046) | (0.040) | (0.053) |
| Book -to-market ratio | 0.060 | -0.056 | 0.017 | 0.021 |
| | (0.059) | (0.045) | (0.014) | (0.014) |
| Leverage | -0.209 | 0.389* | 0.089 | 0.118 |
| | (0.245) | (0.210) | (0.094) | (0.114) |
| Market performance | 0.227** | 0.020 | 0.059 | 0.057 |
| | (0.107) | (0.067) | (0.040) | (0.040) |
| Operating performance | -1.203 | -1.588 | 0.107 | 0.232 |
| | (0.813) | (1.000) | (0.191) | (0.227) |
| Firm risk | 0.290 | 0.237 | 0.002 | 0.060 |
| | (0.368) | (0.318) | (0.095) | (0.110) |
| Industry homogeneity | -5.902*** | | | |
| | (1.451) | | | |
| Workforce unionization | 5.607*** | -3.847 | 1.122* | -0.697 |
| | (2.134) | (3.374) | (0.592) | (0.547) |
| Physical capital intensity | 0.306*** | -0.550 | 0.352 | 0.708 |
| | (0.073) | (0.135) | (0.350) | (0.460) |
| Liberal state | 0.677*** | 0.508*** | | |
| | (0.163) | (0.175) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.507 | 0.700 | 0.974 | 0.977 |
| Adjusted $R^2$ | 0.489 | 0.680 | 0.970 | 0.970 |
| N | 729 | 818 | 809 | 791 |

The dependent variable is the log of average annual worker compensation. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A9: CEO Pay Gap Disclosure and Log CEO Pay Ratio

| No Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.394* | 0.088 | -0.025 | 0.154 |
| | (0.236) | (0.152) | (0.137) | (0.179) |
| Treated | 0.923*** | 0.637*** | | |
| | (0.158) | (0.132) | | |
| CEO age | -0.038*** | -0.020** | -0.006 | |
| | (0.012) | (0.009) | (0.009) | |
| CEO tenure | 0.051*** | 0.031*** | 0.033*** | |
| | (0.013) | (0.009) | (0.009) | |
| CEO Chairman dummy | -0.110 | 0.003 | -0.047 | 0.043 |
| | (0.172) | (0.118) | (0.093) | (0.108) |
| Founder | -0.374 | -0.168 | -0.516*** | |
| | (0.261) | (0.195) | (0.165) | |
| Firm size | 0.346*** | 0.333*** | 0.647*** | 0.729*** |
| | (0.064) | (0.043) | (0.159) | (0.271) |
| Book -to-market ratio | -0.240*** | -0.167*** | -0.164*** | -0.135*** |
| | (0.077) | (0.045) | (0.052) | (0.050) |
| Leverage | 0.851*** | 0.512** | -0.089 | -0.235 |
| | (0.259) | (0.201) | (0.231) | (0.366) |
| Market performance | -0.159 | -0.008 | -0.079 | -0.090 |
| | (0.135) | (0.100) | (0.082) | (0.084) |
| Operating performance | -0.075 | 0.613 | -0.214 | -0.194 |
| | (1.111) | (0.813) | (0.521) | (0.621) |
| Firm risk | -0.756 | -0.192 | -0.134 | 0.098 |
| | (0.788) | (0.505) | (0.598) | (0.627) |
| Industry homogeneity | 1.100 | | | |
| | (0.970) | | | |
| Workforce unionization | -1.567 | 1.105 | -0.295 | -0.203 |
| | (2.507) | (1.133) | (0.721) | (0.789) |
| Physical capital intensity | -0.050 | -0.004 | -0.099 | 0.309 |
| | (0.164) | (0.206) | (0.166) | (0.205) |
| Liberal state | -0.228 | -0.058 | | |
| | (0.157) | (0.129) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.497 | 0.597 | 0.762 | 0.794 |
| Adjusted $R^2$ | 0.481 | 0.577 | 0.722 | 0.739 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of the CEO pay ratio. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A10: CEO Pay Gap Disclosure and Log CEO Pay Ratio

| 2 Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.334 | 0.056 | 0.026 | 0.302 |
| | (0.283) | (0.177) | (0.184) | (0.285) |
| Treated | 1.000*** | 0.658*** | | |
| | (0.157) | (0.131) | | |
| CEO age | -0.038*** | -0.020** | -0.006 | |
| | (0.012) | (0.009) | (0.009) | |
| CEO tenure | 0.050*** | 0.031*** | 0.032*** | |
| | (0.013) | (0.009) | (0.009) | |
| CEO Chairman dummy | -0.105 | 0.004 | -0.045 | 0.050 |
| | (0.174) | (0.119) | (0.092) | (0.108) |
| Founder | -0.365 | -0.565*** | -0.517*** | |
| | (0.263) | (0.196) | (0.168) | |
| Firm size | 0.347*** | 0.334*** | 0.652*** | 0.751*** |
| | (0.064) | (0.043) | (0.164) | (0.283) |
| Book -to-market ratio | -0.240*** | -0.167*** | -0.165*** | -0.139*** |
| | (0.076) | (0.045) | (0.051) | (0.048) |
| Leverage | 0.877*** | -0.519** | 00.096 | -0.238 |
| | (0.259) | (0.202) | (0.231) | (0.365) |
| Market performance | -0.155 | -0.007 | -0.078 | -0.084 |
| | (0.136) | (0.082) | (0.082) | (0.084) |
| Operating performance | -0.106 | -0.219 | -0.219 | -0.239 |
| | (1.119) | (0.512) | (0.512) | (0.631) |
| Firm risk | -0.821 | -0.134 | -0.134 | 0.038 |
| | (0.800) | (0.611) | (0.611) | (0.651) |
| Industry homogeneity | 1.027 | | | |
| | (0.991) | | | |
| Workforce unionization | -1.604 | -0.291 | -0.291 | -0.168 |
| | (2.535) | (0.720) | (0.720) | (0.783) |
| Physical capital intensity | -0.048 | -0.001 | -0.099 | 0.313 |
| | (0.166) | (00.206) | (0.162) | (0.197) |
| Liberal state | -0.221 | -0.057 | | |
| | (0.159) | (0.129) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.496 | 0.597 | 0.762 | 0.795 |
| Adjusted $R^2$ | 0.494 | 0.576 | 0.722 | 0.740 |
| N | 838 | 1288 | 1276 | 1246 |

The dependent variable is the log of the CEO pay ratio. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A11: CEO Pay Gap Disclosure and Log CEO Pay Ratio (No SIC 4,6)

| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.435 | 0.315 | 0.184 | 0.648 |
| | (0.297) | (0.275) | (0.275) | (0.455) |
| Treated | 0.813*** | 0.649*** | | |
| | (0.153) | (0.157) | | |
| CEO age | -0.045*** | -0.037*** | -0.009 | |
| | (0.013) | (0.012) | (0.011) | |
| CEO tenure | 0.043*** | 0.034*** | 0.032*** | |
| | (0.014) | (0.012) | (0.011) | |
| CEO Chairman dummy | -0.069 | 0.063 | -0.072 | -0.052 |
| | (0.171) | (0.166) | (0.146) | (0.172) |
| Founder | -0.233 | -0.225 | -0.433* | |
| | (0.253) | (0.231) | (0.228) | |
| Firm size | 0.335*** | 0.351*** | 0.682*** | 0.840** |
| | (0.063) | (0.054) | (0.209) | (0.349) |
| Book -to-market ratio | -0.210*** | -0.130** | -0.087 | -0.100 |
| | (0.067) | (0.056) | (0.072) | (0.070) |
| Leverage | 0.792*** | 0.327 | 0.041 | -0.181 |
| | (0.254) | (0.225) | (0.282) | (0.476) |
| Market performance | -0.154 | 0.002 | -0.068 | -0.086 |
| | (0.143) | (0.139) | (0.110) | (0.102) |
| Operating performance | 0.875 | 1.376 | 0.137 | -0.223 |
| | (1.159) | (1.158) | (0.779) | (0.802) |
| Firm risk | -0.617 | -0.615 | -0.825 | -0.478 |
| | (0.793) | (0.739) | (0.872) | (0.874) |
| Industry homogeneity | 2.875* | | | |
| | (1.450) | | | |
| Workforce unionization | -2.299 | 3.615 | 3.954 | 3.578 |
| | (2.695) | (3.602) | (3.384) | (3.382) |
| Physical capital intensity | 0.061 | 0.259 | 0.674 | 2.758 |
| | (0.085) | (0.158) | (1.073) | (2.024) |
| Liberal state | -0.168 | 0.024 | | |
| | (0.156) | (0.159) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.506 | 0.577 | 0.732 | 0.759 |
| Adjusted $R^2$ | 0.487 | 0.549 | 0.682 | 0.689 |
| N | 723 | 812 | 803 | 785 |

The dependent variable is the log of the CEO pay ratio. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that equals1 if the firm had an above-median wage gap in 2017. CEO age is in years. CEO tenure is in years. CEO-chairman is a dummy that equals 1 if the CEO is also the chairman, and zero otherwise. Founder is a dummy variable that equals one if the CEO was already CEO in the first year set firm appeared in the Compustat database, and zero otherwise. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Leverage is long-term debt divided by total assets. Market performance Is 1-year industry adjusted stock return. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy that equals 1 if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A12: CEO Pay Gap Disclosure and Log Relative Cash and Debt

| No lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.284 | 0.198 | 0.118 | 0.197 |
| | (0.199) | (0.134) | (0.135) | (0.145) |
| Treated | 0.157 | -0.032 | | |
| | (0.221) | (0.194) | | |
| Firm size | 0.089 | 0.155** | -0.216* | -0.079 |
| | (0.077) | (0.063) | (0.127) | (0.119) |
| Book -to-market ratio | -0.163** | 0.059 | 0.006 | 0.006 |
| | (0.080) | (0.070) | (0.034) | (0.038) |
| Market performance | -0.186 | 0.012 | -0.047 | -0.057 |
| | (0.118) | (0.086) | (0.049) | (0.050) |
| Operating performance | -0.532 | -0.124 | -1.012* | -0.598 |
| | (0.876) | (0.707) | (0.530) | (0.560) |
| Firm risk | 2.817*** | 1.575*** | 0.129 | 0.021 |
| | (0.636) | (0.370) | (0.241) | (0.206) |
| Industry homogeneity | 2.745* | | | |
| | (1.427) | | | |
| Workforce unionization | 3.359 | 2.476 | 0.896 | 0.720 |
| | (2.488) | (1.755) | (0.955) | (0.545) |
| Physical capital intensity | 0.037 | 0.202* | 0.015 | -0.039 |
| | (0.094) | (0.120) | (0.089) | (0.118) |
| Liberal state | -0.337* | -0.195 | | |
| | (0.197) | (0.163) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.186 | 0.357 | 0.800 | 0.860 |
| Adjusted $R^2$ | 0.163 | 0.326 | 0.767 | 0.822 |
| N | 813 | 1259 | 1247 | 1207 |

The dependent variable is the log cash and total debt divided by the book value of equity. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A13: CEO Pay Gap Disclosure and Log Relative Cash and Debt

| 2 Lags | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.409** | 0.244* | 0.134 | 0.229 |
| | (0.201) | (0.139) | (0.137) | (0.141) |
| Treated | 0.173 | -0.012 | | |
| | (0.210) | (0.187) | | |
| Firm size | 0.090 | 0.156** | -0.212 | -0.065 |
| | (0.077) | (0.063) | (0.129) | (0.12) |
| Book -to-market ratio | -0.161** | 0.058 | 0.006 | 0.004 |
| | (0.079) | (0.070) | (0.034) | (0.038) |
| Market performance | -0.181 | 0.015 | -0.045 | -0.052 |
| | (0.116) | (0.086) | (0.049) | (0.049) |
| Operating performance | -0.538 | -0.146 | -1.039* | -0.648 |
| | (0.872) | (0.704) | (0.531) | (0.557) |
| Firm risk | 2.776*** | 1.534*** | 0.105 | -0.024 |
| | (0.641) | (0.371) | (0.246) | (0.212) |
| Industry homogeneity | 2.718* | | | |
| | (1.430) | | | |
| Workforce unionization | 3.359 | 2.485 | 0.906 | 0.784 |
| | (2.483) | (1.757) | (0.957) | (0.557) |
| Physical capital intensity | 0.035 | 0.203* | 0.017 | -0.030 |
| | (0.093) | (0.119) | (0.089) | (0.122) |
| Liberal state | -0.336* | -0.194 | | |
| | (0.197) | (0.162) | | |
| Year FE | Yes | Yes | Yes | Yes |
| Industry FE | No | Yes | No | No |
| Firm FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.188 | 0.357 | 0.800 | 0.860 |
| Adjusted $R^2$ | 0.165 | 0.327 | 0.767 | 0.822 |
| N | 813 | 1259 | 1247 | 1207 |

The dependent variable is the log cash and total debt divided by the book value of equity. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.

## Table A14: CEO Pay Gap Disclosure and Log Relative Cash and Debt (No SIC 4,6)

| 1 Lag | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Post * Treated | 0.514** | 0.274 | 0.322* | 0.414 |
| | (0.228) | (0.224) | (0.181) | (0.250) |
| Treated | 0.174 | | | |
| | (0.225) | | | |
| Firm size | 0.055 | -0.279 | 0.179** | -0.054 |
| | (0.086) | (0.169) | (0.079) | (0.133) |
| Book -to-market ratio | -0.161 | -0.031 | -0.087 | -0.012 |
| | (0.098) | (0.054) | (0.085) | (0.058) |
| Market performance | -0.243* | -0.060 | -0.028 | -0.049 |
| | (0.125) | (0.062) | (0.098) | (0.061) |
| Operating performance | -0.397 | -1.057 | -0.278 | -0.701 |
| | (0.935) | (0.741) | (0.929) | (0.666) |
| Firm risk | 2.782*** | 0.438 | 1.944*** | 0.351 |
| | (0.662) | (0.336) | (0.471) | (0.292) |
| Industry homogeneity | 1.877 | | | |
| | -1.763 | | | |
| Workforce unionization | 2.282 | -1.421 | 2.281 | -1.813 |
| | (2.709) | (3.000) | (3.727) | (1.772) |
| Physical capital intensity | 0.011 | 0.918 | 0.317* | -1.692 |
| | (0.12) | (2.472) | (0.189) | (2.139) |
| Liberal state | -0.481** | | -0.470** | |
| | (0.217) | | (0.225) | |
| Year FE | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | No |
| Industry FE | No | No | Yes | No |
| Firm * CEO FE | No | No | No | Yes |
| $R^2$ | 0.206 | 0.776 | 0.341 | 0.852 |
| N | 698 | 788 | 787 | 753 |

The dependent variable is the log cash and total debt divided by the book value of equity. Post * treated is the difference-in-difference effect for high-wage-gap firms to the CEO pay gap disclosure law. Treated is a dummy that takes the value 1 if the firm had an above-median wage gap in 2017. Firm size is the natural log of sales revenue. Book-to-market ratio is book value of equity divided by market value of equity. Operating performance is the ratio of operating income after depreciation to prior year total assets. Firm risk is the standard deviation of monthly stock returns over the preceding 60 months. Industry homogeneity is the mean partial correlation between firm's returns and an equally weighted industry index, for all the firms in the same industry. Workforce is the percentage of unionized industry workers. Physical capital intensity is net property, plant, and equipment per employee in millions of dollars. Liberal state is a dummy variable that equals one if the headquarters of set company is located in a liberal state (per 2017), and zero otherwise. Industries are defined at the two-digit SIC code level. All columns include time fixed effects. Column 2 includes industry fixed effects. Column 3 includes firm fixed effects. Column 4 includes CEO x Firm fixed effects. Standard errors are clustered at the firm level and are reported in parentheses. ***, **, and * correspond to statistical significance at the 1%, 5% and 10% respectively.