Corporate Governance Reform and CEO Compensation: Evidence from CEO Compensation of Public versus Private Firms

Abstract

Using both public (listed) and private (unlisted) firms from 29 countries, we test the effect of corporate governance reforms on CEO compensation. Strengthening the governance practices of public firms increases CEO pay significantly more for public firms than for private firms to which governance reforms do not apply. Pay premiums following governance reforms increase more for public firms subject to higher scrutiny, such as larger firms and firms followed by more analysts and institutional investors. These results are consistent with the efficient contracting view and inconsistent with the rent extraction view of CEO compensation.