

Online Appendix

CEOs' Outside Opportunities and Relative Performance Evaluation:

Evidence from a Natural Experiment

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Table A1: Robustness Check: Controlling for CEO and Industry Fixed Effects

This table examines the impact of the rejection of the IDD on the sensitivity of CEO pay to systematic performance after controlling for CEO and industry fixed effects. The dependent variable is the natural logarithm of 1 plus total compensation, *LogComp*. *IDD* is an indicator variable equal to 1 if state *j* rejected the IDD before year *t* and 0 otherwise. In column (1), *Unsystematic Performance* and *Systematic Performance* are the unsystematic component and the systematic component of firm stock return, respectively. In column (2), *Unsystematic Performance* and *Systematic Performance* are the natural logarithm of 1 plus the unsystematic component of firm stock return and the natural logarithm of 1 plus the systematic component of firm stock return, respectively. Controls are defined in the Appendix. Robust standard errors clustered at the state level are shown underneath the coefficient estimates. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	Stock Return	Log(1 + Stock Return)
	Dependent Variable: LogComp	Dependent Variable: LogComp
	(1)	(2)
Unsystematic Performance	0.097*** (0.014)	0.090*** (0.013)
Systematic Performance	-0.028 (0.025)	-0.024 (0.029)
IDD	-0.069 (0.047)	-0.069 (0.049)
Unsystematic Performance × IDD	-0.058 (0.036)	-0.044 (0.035)
Systematic Performance × IDD	0.091*** (0.033)	0.094** (0.041)
Controls	Yes	Yes
Year Fixed Effects	Yes	Yes
Industry Fixed Effects	Yes	Yes
CEO Fixed Effects	Yes	Yes
N	33,574	33,574
Adjusted R-squared	0.747	0.747

Table A2: Robustness Check: Clustering the Standard Errors at the Firm Level

This table examines the impact of the rejection of the IDD on the sensitivity of CEO pay to systematic performance after clustering the standard errors at the firm level. The dependent variable is the natural logarithm of 1 plus total compensation, *LogComp*. *IDD* is an indicator variable equal to 1 if state *j* rejected the IDD before year *t* and 0 otherwise. In column (1), *Unsystematic Performance* and *Systematic Performance* are the unsystematic component and the systematic component of firm stock return, respectively. In column (2), *Unsystematic Performance* and *Systematic Performance* are the natural logarithm of 1 plus the unsystematic component of firm stock return and the natural logarithm of 1 plus the systematic component of firm stock return, respectively. Controls are defined in the Appendix. Robust standard errors clustered at the firm level are shown underneath the coefficient estimates. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	Stock Return	Log(1 + Stock Return)
	Dependent Variable: LogComp	Dependent Variable: LogComp
	(1)	(2)
Unsystematic Performance	0.105*** (0.013)	0.094*** (0.013)
Systematic Performance	-0.010 (0.026)	-0.003 (0.030)
IDD	-0.086*** (0.023)	-0.086*** (0.023)
Unsystematic Performance × IDD	-0.049** (0.024)	-0.034 (0.023)
Systematic Performance × IDD	0.106*** (0.037)	0.110** (0.043)
Controls	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
N	33,574	33,574
Adjusted R-squared	0.707	0.707

Table A3: Robustness Check: Excluding Early Years of the Sample

This table examines the impact of the rejection of the IDD on the sensitivity of CEO pay to systematic performance after excluding observations before 1997 (2 years before the first IDD rejection). The dependent variable is the natural logarithm of 1 plus total compensation, *LogComp*. *IDD* is an indicator variable equal to 1 if state *j* rejected the IDD before year *t* and 0 otherwise. In column (1), *Unsystematic Performance* and *Systematic Performance* are the unsystematic component and the systematic component of firm stock return, respectively. In column (2), *Unsystematic Performance* and *Systematic Performance* are the natural logarithm of 1 plus the unsystematic component of firm stock return and the natural logarithm of 1 plus the systematic component of firm stock return, respectively. Controls are defined in the Appendix. Robust standard errors clustered at the state level are shown underneath the coefficient estimates. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	Stock Return	Log(1 + Stock Return)
	Dependent Variable: LogComp	Dependent Variable: LogComp
	(1)	(2)
Unsystematic Performance	0.096*** (0.015)	0.086*** (0.015)
Systematic Performance	-0.015 (0.027)	-0.011 (0.030)
IDD	-0.085** (0.036)	-0.084** (0.037)
Unsystematic Performance × IDD	-0.040 (0.028)	-0.027 (0.028)
Systematic Performance × IDD	0.112*** (0.032)	0.118*** (0.042)
Controls	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
N	28,124	28,124
Adjusted R-squared	0.711	0.710

Table A4: Robustness Check: Removing Non-Precedent-Setting States

This table examines the impact of the rejection of the IDD on the sensitivity of CEO pay to systematic performance after removing firms in a state that does not have precedent-setting cases concerning the IDD. The dependent variable is the natural logarithm of 1 plus total compensation, *LogComp*. *IDD* is an indicator variable equal to 1 if state *j* rejected the IDD before year *t* and 0 otherwise. In column (1), *Unsystematic Performance* and *Systematic Performance* are the unsystematic component and the systematic component of firm stock return, respectively. In column (2), *Unsystematic Performance* and *Systematic Performance* are the natural logarithm of 1 plus the unsystematic component of firm stock return and the natural logarithm of 1 plus the systematic component of firm stock return, respectively. Controls are defined in the Appendix. Robust standard errors clustered at the state level are shown underneath the coefficient estimates. ***, **, * denote significance at the 1%, 5%, and 10% levels, respectively.

	Stock Return	Log(1 + Stock Return)
	Dependent Variable: LogComp	Dependent Variable: LogComp
	(1)	(2)
Unsystematic Performance	0.098*** (0.013)	0.088*** (0.013)
Systematic Performance	-0.014 (0.030)	-0.009 (0.035)
IDD	-0.083** (0.032)	-0.082** (0.034)
Unsystematic Performance × IDD	-0.051* (0.027)	-0.036 (0.027)
Systematic Performance × IDD	0.112*** (0.034)	0.115** (0.045)
Controls	Yes	Yes
Year Fixed Effects	Yes	Yes
Firm Fixed Effects	Yes	Yes
N	29,651	29,651
Adjusted R-squared	0.705	0.705