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Social stigma and executive compensation*¹

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ABSTRACT

We document that executives working at firms perceived negatively in light of social norms, such as tobacco, gambling and alcohol, earn a significant compensation premium. The premium compensates for personal costs executives bear due to their employer's negative public perception and include: (i) a reduced likelihood these CEOs will serve as directors on other firms' boards, which associates with lower executives' social status, and (ii) impaired job mobility as employers shun stigmatized executives. The compensation premium is not explained by higher managerial skill required in firms we investigate, higher employment contract risk, political capital, litigation risk, or differences in corporate governance quality, and robust to endogeneity concerns. Our results highlight the significant impact job-related social stigma has on executive compensation.

JEL codes: G30; G43; D71

Keywords: Executive compensation; Social stigma

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