

# Determinants Of CEO Cash Compensation In Small, Young, Fast Growing Firms

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## ABSTRACT

*This study examines factors related to CEO cash compensation for a sample of publicly-held firms that are small, young, and growing. Our key finding is that founder CEOs accept lower cash compensation than non-founder CEOs. This evidence suggests that, for small, young, and growing firms, founder CEOs do not extract unusually large private benefits that harm outside shareholders. Weaker evidence suggests: firms with greater growth opportunities pay higher cash compensation to CEOs; firms with greater outsider representation on the board pay lower cash compensation to CEOs; and firms with greater inside director share ownership pay higher cash compensation to CEOs.*

## INTRODUCTION

CEO compensation is one mechanism by which outside shareholders can mitigate the agency conflicts between managers and outside shareholders. Researchers have long been interested in the determinants of CEO compensation (see, e.g., Jensen and Murphy, 1990a, Mehran, 1995, Madura, Martin, and Jessell, 1996, Carr, 1997, Core, Holthausen, and Larcker, 1999, Cordeiro and Veliyath, 2003, and Gomez-Mejia, Larraza-Kintana, and Makri, 2003). However, most of these studies focus on the sensitivity of CEO compensation to firm performance in larger, older, and slower-growing firms. The sensitivity of CEO compensation derives from that compensation which is equity-based. Because CEO cash compensation is not sensitive to shareholder wealth, relative to equity-based compensation, cash compensation is viewed as inherently more likely to increase agency conflicts between managers and shareholders. All things equal, as the level of CEO cash compensation increases, the more CEO incentives and shareholder incentives diverge.

Because the nature of agency conflicts can differ for small vs. large firms, young vs. old firms, and high-growth vs. low-growth firms, the mechanisms for resolving these conflicts also can differ. Consequently, the determinants of CEO compensation documented in studies of larger, more mature firms cannot necessarily be generalized to other types of firms. To our knowledge, no studies have examined CEO cash compensation in small, young, and growing firms. Madura, et al. (1996) and Carr (1997) examine determinants of executive compensation solely for smaller firms. Both of these studies search for a link between CEO compensation and small firm performance. Using accounting-based measures of small firm profitability, neither study finds strong evidence that CEO compensation is positively related to firm performance.

The goal of this study is to investigate the determinants of CEO cash compensation in small, young, and growing firms. We gathered 144 firms from the 1999 Compustat file. Each firm had a book value of assets less than \$45 million, had been incorporated 15 years or less, and had experienced at least a 40% total increase in sales over the previous 5 years. We then analyzed the relationships between the status of the CEO as firm founder, growth opportunities, board of director composition, financial leverage, and ownership structure on total CEO cash compensation. Our sample period covers the years 1996-1999.

This analysis is designed to determine whether firm founders use their position as CEO to extract higher cash compensation, whether firms with greater growth opportunities pay higher cash compensation for managerial talent,

whether insider board members use their influence to increase CEO cash compensation, and whether outside board members use their influence to limit CEO cash compensation.

We focus on the cash compensation of CEOs, rather than stock or stock options that CEOs receive, specifically because cash compensation does not increase the sensitivity of CEO wealth to the wealth of outside shareholders. Thus, cash compensation is more likely than equity-based compensation to be a source of agency conflicts between managers and outside shareholders.

Examining whether founder CEOs receive higher cash compensation is particularly appealing for our sample of small, young, and growing firms. We argue that founder CEOs of these firms could be more valuable than founder CEOs of larger, older, and slower growing firms. This could lead founder CEOs in our sample to extract high cash compensation. However, we also argue that founder CEOs in our sample of firms are often in relatively weak negotiating positions with external financiers. This could lead founder CEOs in our sample to accept low cash compensation. Because the net effect of these forces is unclear, the relationship between founder status and CEO cash compensation presents an interesting empirical issue.

We use two different approaches to analyze the relationship between CEO cash compensation and other firm characteristics. In our first series of tests we regress the logarithm of CEO cash compensation on several firm-specific variables. In these tests we control for firm size by including it as a right hand side variable. In our second series of tests we regress CEO cash compensation, scaled by firm size, on several firm-specific variables. The first series of regressions analyzes the level of cash compensation. The second series of regressions analyzes the relative portion of firm resources (assets) devoted to CEO cash compensation.

Using the first series of regressions, in which cash compensation is expressed as the log of CEO cash compensation, we find that founder CEOs accept less cash compensation than non-founder CEOs. This result is robust to various model specifications. Not surprisingly, firm size is positively related to cash compensation. No other variables are related to cash compensation using this approach.

Using the second series of regressions, in which cash compensation is scaled by firm size, we again find that CEO cash compensation decreases when the firm's founder is the CEO. Additional evidence using this approach suggests that cash compensation increases with growth opportunities, decreases with the percentage of board directors who are outsiders, and increases with the shareholdings of inside directors. The findings described above from both series of tests remain after controlling for financial leverage, outside board member share ownership, CEO share ownership, and the year from which the data are drawn.

Our strongest finding is that founders accept lower cash compensation to serve as CEO. This evidence is inconsistent with arguments by some, e.g., Morck, Strangeland, and Yeung (1998), that founders or top managers of family-run firms extract excessive private benefits at outside shareholders' expense. However, our evidence is generally supportive of Anderson and Reeb (2003), who find that firms run by founding families are more valuable and perform better than other firms. Finally, our evidence supports Deckop (1988), who finds that CEOs who are firm founders earn significantly less than other CEOs.

The remainder of the paper proceeds as follows. In Section 2 we discuss our hypotheses. In Section 3 we describe the data and research methods used in the study. In Section 4 we present our results. Section 5 concludes.

## **HYPOTHESES**

We investigate the determinants of CEO cash compensation in small, young, growing firms because cash compensation is generally viewed a greater source of agency conflict than equity-based compensation and because prior compensation literature has emphasized larger, older, more established firms. We consider whether the following factors influence CEO cash compensation:

## **Founder**

If the CEO of the firm is also the firm's founder, then the variable *Founder* is set equal to one. Because firms in our sample are relatively small and young, they are more likely to be run by the firm's founder or a member of the firm's founding family. Some observers have argued that firm founders operate in self-serving ways that harm outside shareholders. For example, founders might use their influence to remain CEO after their useful tenure expires, to place incompetent heirs in control of the firm, or to obtain excessive pay and perquisites. On the other hand, founder CEOs may be willing to accept lower cash compensation because they receive substantial economic benefits through their share ownership or because they receive non-economic benefits from maintaining control of the firm they created. In a study of Standard and Poor's 500 firms, Anderson and Reeb (2003) find that firms run by founding families are more valuable and perform better than other firms. Other studies, e.g., Morck, Strangeland, and Yeung (1998), find evidence that founding family control leads to poor firm performance. Deckop (1988) finds that CEOs who are founders receive lower compensation than non-founder CEOs.

The studies mentioned above do not draw exclusive samples to include only small, young, firms experiencing above average sales growth. We do sample such firms. Consequently, for the firms in this study, the founder is potentially more valuable as CEO. The firms in this study generally are in the early stages of their life cycle, focused on fewer products, fewer industries, and more limited geographical markets. The founder CEO is likely to be very familiar with these products, industries, and markets. The founder CEO is more likely to have a competitive advantage running the firm at this stage. In contrast, the founder CEO is more likely to have stayed beyond his or her useful tenure when the firm is larger, more mature, selling many products in many industries and geographical markets. These factors could lead founder CEOs in our sample to demand higher cash compensation. On the other hand, founder CEOs for small, young, growing firms have not yet established a significant record of performance and may find it more difficult to negotiate a greater cash salary. Because these firms are relatively risky and unproven, external financiers of these firms are likely to insist that founders accept more equity-based compensation and less cash compensation. These factors could lead founder CEOs in our sample to accept lower cash compensation.

## **Market-To-Book**

The *Market-to-book* ratio, measured as the market value of equity divided by the book value of equity, is a proxy variable for the growth opportunities of the firm. Shareholders of firms with greater unexploited investment opportunities likely benefit to a greater extent from managerial talent. This should lead high market-to-book firms to pay more for CEOs. Also, because high-growth firms tend to be riskier, they impose greater employment risk and equity based compensation risk on CEOs. CEOs of riskier firms may demand a risk premium to compensate for their increased risk. Smith and Watts (1992) find that firms with more growth options have higher executive compensation. Higher cash compensation would significantly reduce the total risk borne by CEOs who accept employment at risky, high-growth firms. Consequently, we expect a positive relationship between the market-to-book ratio and CEO cash compensation.

## **Outside Directors**

*Outside directors* are members of the board of directors who are none of the following: officers and former officers of the firm; relatives of officers; and those directors who have known business relationships with the company (e.g., suppliers, attorneys, consultants, accountants, bankers, and insurers). Because outside directors are not employees of the firm and may wish to maintain a reputation for serving outside shareholders' interests (Fama, 1980), these directors are more likely than inside directors to limit excessive CEO cash compensation. Outside directors are potentially an important source of external monitoring for the CEO and a substantial body of literature suggests that outside directors do act to benefit outside shareholders (see, e.g., Brickley and James 1987, Hermalin and Weisbach, 1988, Weisbach, 1988, Byrd and Hickman, 1992, and Brickley, Coles, and Terry, 1994). We expect that outsider representation on the board of directors is negatively related to CEO cash compensation.

## **Financial Leverage**

We measure *Financial Leverage* as long-term debt divided by the book value of assets. Increasing financial leverage increases the probability that the firm will fall into financial distress. Madura, et al. (1996) argue that financial leverage should have a positive influence on CEO compensation, because financial leverage increases the risk that CEOs bear personally. However, Begley and Feltham (1999) find that debt covenants have a negative relation to CEO cash compensation. We control for the effect of *financial leverage*, although the effect of this factor is unclear.

## **Outside Ownership, Inside Ownership, And CEO Ownership**

We measure *Outside ownership* as the percentage of shares held by outside directors on the firm's board. *Inside ownership* is the percentage of shares held by all directors, except the CEO, who are current officers of the firm. *CEO ownership* is the percentage of shares held by the CEO. Because firms sampled in this study are small, they are much more likely than other firms to have share ownership concentrated in the hands of board members. We include these ownership variables to test whether firm CEOs and directors use their voting power to influence CEO cash compensation in a manner consistent with agency theory. In general, agency theory predicts that outside directors are more likely than inside directors to act in outside shareholders' interests. We expect outside directors to use their influence to limit the CEOs cash compensation. We expect inside directors to use their influence to increase the CEO's cash compensation. Although CEOs could use their own voting power to increase their cash compensation, CEOs likely accumulate greater share ownership when they agree to compensation packages that are less cash-based and more equity-based. Because equity-based compensation could substitute for cash compensation, especially in small, young, growing firms that tend to have little free cash flow, the relationship between *CEO Ownership* and CEO cash compensation is unclear.

## **DATA AND RESEARCH METHODS**

To gather a sample of relatively small, young, and fast-growing firms we begin with the 1999 Compustat active research file. We eliminate financial firms, utilities, and firms incorporated outside of the United States. This screen leaves 6,792 companies. Next, we impose screens based on size, sales growth, and years of incorporation.

To identify very small firms, we eliminate all companies with a book value of assets greater than \$45 million. Firms with less than 500 shareholders and less than \$10 million in assets are not required to file proxy statements with the Securities and Exchange Commission. Consequently, we eliminate firms with total assets less than \$10 million. This screen leaves 1,363 firms, which represent approximately the smallest 20% of U.S. industrial firms appearing in Compustat.

To identify fast-growing firms, we eliminate all firms that do not experience at least a 40% increase in total sales over the most recent five-year period, according to the 1999 Compustat file. If a company has only been incorporated for three to four years, or if only three to four years of data are available for the company, yet it attains a minimum 40% total growth rate in that period, we retain the firm in the sample. Firms incorporated for less than three years, or that otherwise lack data for the most recent three years, were eliminated from the sample. The 273 firms surviving after this screen have sales growth rates that place them in approximately the top 20% of the firms remaining after the size-based screen.

To focus on young firms, we eliminate all companies that have been incorporated for more than 15 years. We gather the age of all remaining firms, when possible, from annual reports available on-line through the SEC. In a small number of cases this information is unavailable and those firms are eliminated from the sample. After imposing this age-based screen, the sample is reduced to 151 firms. For each of the remaining 151 firms we attempt to gather proxy statement data and Compustat data on several variables. In many cases complete data on all variables are not available for a firm and we do not include the firm in the final sample used for the regression analysis. The final sample used for the regression analysis has 144 firms.

Our measure of CEO cash compensation is total cash compensation identified from firm proxy statements. Summary statistics for these firms appear in Table 1. The mean (median) market value of equity for sampled firms is about \$84 million (\$39 million). The mean (median) CEO cash compensation is \$174,984 (\$162,757). The mean (median) market-to-book ratio is 4.04 (2.805). The mean (median) CEO share ownership is 13.6% (6.6%). Over 39% of the CEOs in our sample are the founders of their firms.

In our first series of tests (see Table 2) we regress the logarithm of CEO cash compensation on all variables discussed in Section 2. In addition, we control for firm size by including the log of total assets as a right hand side variable. We refer to this variable simply as *Firm Size*. Prior researchers have found that firm size is strongly, positively related to CEO compensation.<sup>1</sup> Finally, we control for the year in which the data are relevant. For most firms in our sample, the most recent Compustat data were relevant for 1998. However, for some firms the most recent Compustat data were relevant for 1999 (because the Compustat file we used was created in the third quarter of 1999).

Also, for each of the firms in our sample, we require a proxy statement so that we can determine each board member's share ownership and the status of each board member as insider, outsider, or "grey" (neither an insider nor an outsider). For some firms in the sample, a proxy statement was not available for the most recent year that Compustat data were available. In these cases, to ensure that Compustat data and proxy statement data are time consistent, we accept proxy statements from 1996 or 1997. Thus, the Compustat data and the proxy statement data for each firm are matched in time, and each firm appears only once in our analysis, but the observation period ranges from 1996-1999. Because CEO salaries may have changed over our sample period, we control for this effect by including the indicator variable *Year* in all regressions. This indicator variable takes a value of one if the data were current for 1998 or 1999, the later half of our sample period.

In our second series of tests (see Table 3) we regress CEO cash compensation, scaled by firm size, on all variables discussed in Section 2 as well as *Year*. Because CEO cash compensation is scaled by firm size, we omit firm size as a right hand side variable in these regressions. The first series of tests addresses factors related to the level of CEO cash compensation. The second series of tests addresses factors related to the proportion of firm assets devoted to CEO cash compensation.

Finally, we follow a long tradition of researchers, such as Core, Holthausen, and Larcker (1999), who treat board structure and ownership structure as exogenous. If board structure, ownership structure and CEO compensation are simultaneously determined, then our results (and those of prior, similar studies) may be affected by a simultaneous equations bias.<sup>2</sup>

## RESULTS

Table 2, Model 1, shows the results of regressing the log of CEO cash compensation on all variables discussed in Section 2, in addition to the variables *Firm Size* and *Year*. The only variables significantly related to CEO cash compensation are *Firm Size* and *Founder*. As expected, *Firm Size* is positively related to cash compensation ( $p = 0.0115$ ). More importantly, *Founder* is negatively related to cash compensation ( $p = 0.0022$ ). As tests of robustness, in Models 2 through 5, we show the results of various model specifications. *Founder* retains its sign and statistical significance in each model. No other variables, except *Firm Size*, are significantly related to CEO cash compensation. The adjusted R-Square values in Table 2 range from 8.98% in Model 5 to 12.77% in Model 3. Overall, the results reported in Table 2 strongly suggest that founders are willing to accept lower cash compensation to be CEOs.<sup>3</sup>

Table 3, Model 1, shows the results of regressing CEO cash compensation, scaled by firm size, on all variables discussed in Section 2 and on *Year*. Using this alternative measure of CEO cash compensation, the negative sign on *Founder* ( $p = 0.0416$ ) again suggests that founders are willing to accept lower cash compensation to serve as

<sup>1</sup> See, e.g., Ciscel and Carroll (1980), Murphy (1985), and Veliyath, Ferris, and Ramaswamy (1994).

<sup>2</sup> Core, Holthausen, and Larcker (1999) discuss the potential for a simultaneous equations bias on page 376 of their article.

<sup>3</sup> We also performed additional tests of robustness by using model specification not shown in Table 2. In these specifications *Founder* retains a negative sign and is statistically significant at the 1% level or better.

CEO. This evidence does not support the view that founders use their influence to extract unusually large private benefits at outside shareholders' expense. Rather, the evidence suggests that founder CEOs of small, young, growing firms have difficulty negotiating high non-equity-based compensation with boards and external financiers. Of course, founders often receive significant benefits through their share ownership in the firm and may also receive non-economic benefits, such as the satisfaction of heading the firm that they created.

Consistent with relatively high-growth firms competing more aggressively for managerial talent and paying a risk premium (to compensate CEOs for bearing greater employment and equity risk), *Market-to-book* is positively related to CEO cash compensation ( $p = 0.0023$ ).

Agency theory generally predicts that outside director influence on the board mitigates shareholder-management conflicts whereas inside director influence on the board exacerbates such conflicts. Our evidence on CEO cash compensation is consistent with those predictions. *Outside directors*, which measures the percentage of board seats held by outside directors, is negatively related to CEO cash compensation ( $p = 0.0805$ ).

This finding suggests that outside directors use their influence to limit CEO compensation that is not equity-based.<sup>4</sup> *Inside ownership*, which measures the percentage of firm shares held by all inside directors except the CEO, is positively related to CEO cash compensation ( $p = 0.0487$ ). This evidence indicates that inside directors with greater voting control use their influence to benefit the CEO. Taken together, our findings regarding board control and share ownership support existing evidence on other types of firms that suggests outside directors are more likely than inside directors to serve the interests of outside shareholders.<sup>5</sup>

None of the remaining variables, which include *Year*, *Financial Leverage*, *Outside ownership*, and *CEO ownership*, are significantly related to CEO cash compensation. For tests of robustness, we specified several different models to include those variables initially found related to CEO compensation. In these alternative specifications all variables retain their original sign and most retain statistical significance. In particular, *Founder* is always significant at the 0.087 level or better. Insider ownership loses statistical significance in Model 4. The adjusted R-Square improves from 10% in Model 1 to 11.56% in Model 2. Model 2 includes only the variables related to cash compensation in Model 1. These adjusted R-Square values are similar to those found by other researchers investigating CEO compensation determinants.<sup>6</sup>

Because the negative relationship observed between *Founder* and CEO cash compensation is robust across multiple model specifications and across alternative measures of CEO cash compensation, we view this result as the most important one from this study. Although our findings in Table 3 regarding *Market-to-book*, *Outside directors*, and *Inside ownership* are suggestive, they should be interpreted with caution because they are sensitive to different measures of CEO cash compensation.

## CONCLUSION

In this study we investigate the determinants of CEO cash compensation for a sample of publicly held firms that are: (1) small; (2) young; and (3) growing. These three firm characteristics describe the type of firm that many people envision when they think of firms run by "entrepreneurs." Although numerous studies have investigated CEO compensation in larger, older, more established firms, none to our knowledge have focused on the type of firms that are sampled in this study.

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<sup>4</sup> Our evidence that outside directors have a negative influence on CEO cash compensation is broadly consistent with that of Mehran (1995), who studies executive compensation using a sample of randomly selected small and large manufacturing firms. Mehran finds that the compensation of top executives is more equity-based (and less cash-based) when firms have greater outside director representation.

<sup>5</sup> See, e.g., Brickley and James (1987), Hermalin and Weisbach (1988), Weisbach (1988), Byrd and Hickman (1992), and Brickley, Coles, and Terry (1994).

<sup>6</sup> See, for example, Madura, et al., 1996.

These firms provide an interesting opportunity to study executive compensation, because the types of agency conflicts they experience likely differ from those of firms examined in most other studies. The small size makes them more likely takeover targets (Comment and Schwert, 1993). This characteristic should increase external monitoring of the CEO and limit excessive compensation. However, small firms also have lower institutional ownership, receive less coverage from financial analysts, and are more likely to be dominated by boards with high shareholdings (Madura, et al., 1996). These characteristics should decrease external monitoring of the CEO. In addition, because the firms sampled in this study generally have substantial growth opportunities and a high concentration of managerial ownership, they are less likely than other firms to suffer the agency costs of free cash flow and more likely to suffer the agency costs of managerial risk-aversion. Finally, the young age of our sampled firms makes them more likely to be run by founder CEOs. Indeed, 39% of the CEOs sampled in this study founded the firms they run.

Whether founder CEOs are more likely than non-founder CEOs to operate firms in ways that benefit outside shareholders is an issue currently being debated (see, e.g., Morck, Strangeland, and Yeung, 1998, and Anderson and Reeb, 2003). We argue that, relative to founders in larger, older, more established firms, founders in smaller, younger, growing firms are generally more valuable as CEOs. Founders in larger, older, more established firms are more likely to have held the CEO position beyond their useful tenure. This argument suggests that founder CEOs in our sample might negotiate higher cash compensation than non-founder CEOs. However, we also argue that founder CEOs of small, young, growing firms have less established track records and have greater needs for external financing. These characteristics weaken the negotiating position of founder CEOs with the board and external financiers. The net effect of these competing forces on CEO cash compensation is unclear, but presents an appealing empirical issue.

The main finding from this study is that, for a sample of small, young, and growing firms, founder CEOs accept lower cash compensation than non-founder CEOs. The evidence regarding founder CEO cash compensation is robust to numerous model specifications and alternative measures of cash compensation. We conclude that founder CEOs cannot use their special status to extract unusually large benefits at outsider shareholders' expense when firms are in an early, dynamic stage. A reasonable interpretation of the evidence is that CEO founders of these firms are unproven and have a greater need for external financing. These two factors weaken the ability of CEO founders to negotiate high cash compensation.

Weaker evidence from this study suggests that small, young, growing firms pay CEOs greater cash compensation when the firm's growth opportunities are relatively high and when inside directors have more control over the firm's shares. In contrast, these types of firms pay CEOs lower cash compensation when outside directors control more board seats. Although our findings regarding these other factors are less robust, they are broadly consistent with agency theory predictions.

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**Table 1**  
**Summary Statistics For Sampled Firms**

Shown are summary statistics for 144 firms that survived three sample selection criteria. Each firm had \$10-45million in total assets according to the most recent data on the 1999 Compustat file, was incorporated for 15 years or less at the end of 1998, and achieved at least a 40% total sales growth rate in the most recent 5 years (or less), according to the 1999 Compustat file. To match proxy data in time with Compustat data, we use data that are current in 1996-1999. *Market Value* is the total market value of common stock, in \$millions. *Market-to-book* is the market value of equity divided by the book value of equity. The Market-to-book shows a negative value for a minimum. This happens when the book value of equity is negative. *Financial Leverage* is long-term debt divided by book value of assets. *CEO Comp.* is the total dollar value of CEO cash compensation, in \$thousands. *CEO ownership* is the proportion of firm shares held by the CEO. *Inside ownership* is the proportion of firm shares held by inside directors, not including the CEO. *Outside ownership* is the proportion of firm shares held by outside directors. *Outside directors* is the proportion of board seats held by outside directors.

| <b>Variable</b>                | <b>N</b> | <b>Mean</b> | <b>Median</b> | <b>Standard Deviation</b> | <b>Max.</b> | <b>Min.</b> |
|--------------------------------|----------|-------------|---------------|---------------------------|-------------|-------------|
| <i>Market Value</i> (000,000s) | 144      | 83.99       | 38.76         | 140.81                    | 1189.18     | 2.52        |
| <i>Market-to-book</i>          | 144      | 4.04        | 2.805         | 8.787                     | 51.27       | -30.33      |
| <i>Financial leverage</i>      | 144      | 0.098       | 0.021         | 0.150                     | 0.679       | 0.00        |
| <i>CEO Comp.</i> (000s)        | 144      | 175         | 163           | 75                        | 375         | 0           |
| <i>CEO Ownership</i>           | 144      | 0.136       | 0.066         | 0.016                     | 0.86        | 0           |
| <i>Inside ownership</i>        | 144      | 0.169       | 0.118         | 0.169                     | 0.710       | 0           |
| <i>Outside ownership</i>       | 144      | 0.077       | 0.015         | 0.134                     | 0.726       | 0           |
| <i>Outside directors</i>       | 144      | 0.481       | 0.500         | 0.217                     | 0.587       | 0           |



**Table 2**  
**Regressions Of Firm CEO Cash Compensation**

Shown are the results of regressing the logarithm of CEO total cash compensation on several variables. The sample includes 144 firms. Each firm had \$10-45million in total assets according to the most recent data on the 1999 Compustat file, was incorporated for 15 years or less at the end of 1998, and achieved at least a 40% total sales growth rate in the most recent 5 years (or less), according to the 1999 Compustat file. To match proxy data in time with Compustat data, we use data that are current in 1996-1999. *Firm Size* is the logarithm of total assets. *Year* takes a value of one if the data were current for 1998 or 1999. *Financial Leverage* is long-term debt divided by book value of assets. *Market-to-book* is the market value of equity divided by the book value of equity. *Founder* takes a value of one if the CEO is the firm's founder. *Outside directors* is the proportion of board seats held by outside directors. *Inside ownership* is the proportion of firm shares held by inside directors, not including the CEO. *CEO ownership* is the proportion of firm shares held by the CEO. *Outside ownership* is the proportion of firm shares held by outside directors. P-values are shown in parentheses.

|                     | (1)                  | (2)                  | (3)                  | (4)                  | (5)                  |
|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| intercept           | 11.6995<br>(0.0001)  | 11.6641<br>(0.0001)  | 11.6311<br>(0.0001)  | 11.6800<br>(0.0001)  | 12.1268<br>(0.0001)  |
| Firm Size           | 0.13669<br>(0.0115)  | 0.14057<br>(0.0088)  | 0.14218<br>(0.0064)  | 0.14133<br>(0.0069)  |                      |
| Year                | 0.01801<br>(0.8094)  | 0.01880<br>(0.8007)  |                      |                      |                      |
| Financial Leverage  | -0.17339<br>(0.4784) | -0.18187<br>(0.4555) |                      |                      |                      |
| Market-to-book      | 0.01334<br>(0.1652)  | 0.01382<br>(0.1482)  | 0.01338<br>(0.1414)  |                      |                      |
| Founder             | -0.25461<br>(0.0022) | -0.27439<br>(0.0004) | -0.24894<br>(0.0005) | -0.26879<br>(0.0002) | -0.27399<br>(0.0001) |
| Outside directors   | -0.05618<br>(0.7439) | -0.05077<br>(0.7670) |                      |                      |                      |
| Inside ownership    | 0.27024<br>(0.4918)  | 0.36316<br>(0.3190)  |                      |                      |                      |
| CEO ownership       | -0.16261<br>(0.5250) |                      |                      |                      |                      |
| Outside ownership   | -0.07523<br>(0.7900) | -0.04541<br>(0.8702) |                      |                      |                      |
| Adj. R <sup>2</sup> | 0.1044               | 0.1084               | 0.1277               | 0.1284               | 0.0898               |

**Table 3**  
**Regressions Of Firm CEO Cash Compensation**

Shown are the results of regressing CEO total cash compensation, scaled by firm size, on several variables. The sample includes 144 firms. Each firm had \$10-45million in total assets according to the most recent data on the 1999 Compustat file, was incorporated for 15 years or less at the end of 1998, and achieved at least a 40% total sales growth rate in the most recent 5 years (or less), according to the 1999 Compustat file. To match proxy data in time with Compustat data, we use data that are current in 1996-1999. *Year* takes a value of one if the data were current for 1998 or 1999. *Financial Leverage* is long-term debt divided by book value of assets. *Market-to-book* is the market value of equity divided by the book value of equity. *Founder* takes a value of one if the CEO is the firm’s founder. *Outside directors* is the proportion of board seats held by outside directors. *Inside ownership* is the proportion of firm shares held by inside directors, not including the CEO. *CEO ownership* is the proportion of firm shares held by the CEO. *Outside ownership* is the proportion of firm shares held by outside directors. P-values are shown in parentheses.

|                     | (1)                  | (2)                 | (3)                 | (4)                 | (5)                |
|---------------------|----------------------|---------------------|---------------------|---------------------|--------------------|
| intercept           | 73045<br>(0.0001)    | 66378<br>(0.0001)   | 70295<br>(0.0001)   | 54542<br>(0.0001)   | 64224<br>(0.0001)  |
| Year                | -5651.95<br>(0.3301) |                     |                     |                     |                    |
| Financial Leverage  | -17356<br>(0.3762)   |                     |                     |                     |                    |
| Market-to-book      | 2431.68<br>(0.0023)  | 2580.37<br>(0.0008) | 2428.16<br>(0.0018) | 2356.46<br>(0.0029) |                    |
| Founder             | -13669<br>(0.0416)   | -13841<br>(0.0024)  | -12450<br>(0.0418)  | -11395<br>(0.0870)  | -11273<br>(0.0626) |
| Outside directors   | -24545<br>(0.0805)   | -23867<br>(0.0765)  | -27554<br>(0.0431)  |                     |                    |
| Inside ownership    | 61338<br>(0.0487)    | 67136<br>(0.0192)   |                     | 14319<br>(0.4608)   |                    |
| CEO ownership       | -3334.39<br>(0.8699) |                     |                     |                     |                    |
| Outside ownership   | 2733.57<br>(0.9064)  |                     |                     |                     |                    |
| Adj. R <sup>2</sup> | 0.1000               | 0.1156              | 0.0867              | 0.0633              | 0.0171             |