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CEO Power and Employee Treatment

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Introduction

The impact of CEO power has been extensively studied, yet the findings are mixed. Some research suggests that CEO influence can enhance company performance (e.g., Daily and Johnson, 1997; Li et al., 2018). Conversely, other studies indicate that powerful CEOs can negatively affect corporate performance, resulting in poor outcomes (e.g., Jensen, 1993), lower long-term bond ratings (e.g., Liu and Jiraporn, 2010), and heightened agency conflicts (e.g., Graham et al., 2020). According to Adams et al. (2005), a CEO's decision-making ability is crucial in determining whether their power leads to positive or negative results. Additionally, Larcker and Tayan (2012) emphasize the theoretical challenges in predicting the impact of powerful CEOs. Krause et al. (2014) note that despite extensive research, much about CEO power remains unknown, and understanding it is increasingly important.

Despite significant public debate and a substantial body of literature discussing the pros and cons of powerful CEOs, empirical research on how CEO power affects employee treatment is limited. In recent years, there has been growing interest in the significance of employee treatment (e.g., Guo et al., 2016). Most studies in this area focus on how employee treatment affects various firm characteristics, such as performance, internal control, investment efficiency, and innovation. However, there exists a notable lack of empirical studies on the factors influencing employee treatment levels. This gap makes it particularly intriguing to explore whether and how CEO power impacts employee treatment.

We investigate, in this study, the relationship between CEO power and employee treatment. Given the absence of definitive predictions regarding this relationship, our empirical investigation holds particular significance. We formulate two competing hypotheses grounded in existing research on the outcomes associated with powerful CEOs. The first hypothesis posits that powerful CEOs positively influence employee treatment, indicating a positive relationship between CEO power and employee treatment. The second hypothesis suggests a negative relationship, due to the potential negative consequences of using powerful CEOs, such as increased CEO entrenchment and agency problems.

We use the CEO's pay slice as an indicator of CEO power, defined as the proportion of the CEO's total compensation relative to the total compensation of the top five highest-paid executives (including the CEO). For assessing employee treatment, we use ratings data on employee relations sourced from MSCI's ESG database, following Guo et al. (2016). Analyzing a large panel sample of 21,936 firm-year observations from 1,906 unique public U.S. companies between 1993 and 2019, we find a significantly negative relationship between CEO power and employee treatment. This suggests that more powerful CEOs are less likely to implement employee-friendly policies, highlighting the adverse effects of excessive CEO power. Our results support the notion that powerful CEOs often produce undesirable outcomes, indicating the need to limit CEO power. Robustness checks confirm the consistency of our results, and a series of endogeneity tests show that our primary findings are not influenced by endogeneity issues, including omitted variables, reverse causality, and self-selection bias.

Furthermore, we find that the negative relationship is weaker in firms with stronger governance or higher managerial ability, indicating that improving corporate governance or managerial ability can enhance employee relations by mitigating CEO power.

Our study makes several significant contributions. First, our research contributes to the current ongoing debate about the benefits and drawbacks of strong CEOs, as previous studies have highlighted the difficulty in predicting the effects of

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powerful CEOs (Larcker and Tayan, 2012). Our study provides a more in-depth understanding of the impacts of CEO power. Second, by identifying a significant relationship between CEO power and employee treatment, we add to the finance literature on CEO power and the management and human resources literature on employee relations. Since employee welfare is a fundamental aspect of corporate social responsibility (CSR) performance, our study also enhances the existing body of CSR research. Few studies have explored the determinants of employee treatment, making understanding these factors crucial for companies aiming to strengthen their relationships with employees. Third, we demonstrate that the negative impact of CEO power on employee treatment is more pronounced in firms with weaker corporate governance or managerial ability. This underscores the importance of effective governance and competent managers in mitigating the adverse effects of powerful CEOs. Lastly, our findings have practical implications. They may encourage socially conscious investors to direct capital toward companies with less powerful CEOs, as these companies are more likely to adopt employee-friendly practices. Additionally, job seekers might consider working for firms with less-powerful CEOs.

We organize the rest of our article as follows. The next section develops two opposing hypotheses after reviewing related research on CEO power and employee treatment; the following section outlines the research design, which includes variable measures, empirical details, and sample information; the following section presents our main conclusions; the next two sections discuss the findings of robustness tests and endogeneity tests, respectively; followed by the section which details results from other tests, including those examining the role of corporate governance and managerial ability; and the final section concludes our article.

Literature Review and Hypotheses Development

CEO Power

The debate on whether companies should hire powerful CEOs has intensified in recent years. Adams et al. (2005) note that firms with more powerful CEOs experience greater performance unpredictability. While a powerful CEO can benefit a company through sound decision-making, poor decisions can cause substantial harm. Larcker and Tayan (2012) highlight the theoretical challenges in predicting the effects of powerful CEOs. Busenbark et al. (2016) add that previous findings on the impact of powerful CEOs remains mixed and unclear, reinforcing the difficulties noted by Larcker and Tayan (2012).

Some scholars contend that CEO power positively influences company outcomes and performance. Initial research by Brickley et al. (1997), Boyd (1995), and Donaldson and Davis (1991) reveals a positive relationship between firm operating performance and CEO power. Daily and Johnson (1997) argue that CEO power both impacts and is impacted by company operational performance, leading to a strong correlation. Keltner et al. (2003) suggest that powerful executives, like CEOs, are more likely to pursue their goals due to fewer social constraints, thereby positively affecting others. Klein et al. (2004) find that influential CEOs establish robust, centralized social networks, improving access to vital information and effective management practices. Morse et al. (2011) show that powerful CEOs achieve better performance compared to their less powerful counterparts. Breit et al. (2019) confirm Daily and Johnson's (1997) findings by demonstrating a positive relationship between the power of CEOs and employee productivity. Lastly, Li et al. (2018) indicate that CEOs with significant power in companies that issue CSR reports are more inclined to participate in CSR activities.

On the other hand, prior research also highlights several negative consequences of CEO power. Bebchuk et al. (2011) find that firms with powerful CEOs often experience weaker operating performance and lower market valuations. Liu and Jiraporn (2010) identify a negative relationship between CEO power and long-term bond ratings, suggesting that credit rating agencies view CEO power unfavorably, and they argue that powerful CEOs have greater incentives to obscure business disclosures. Jiraporn et al. (2012) demonstrate that CEO power adversely affects firms' capital structures, while Han et al. (2016) observe that powerful CEOs tend to underperform, particularly in volatile business environments. Abernethy et al. (2015) note that powerful CEOs are more likely to lower performance targets in performance-vested stock option programs. Dikolli et al. (2018) reveal that powerful CEOs are more prone to avoiding risks, engaging in opportunistic behavior, and resisting relative performance evaluation. Korkeamäki et al. (2017) provide evidence that a CEO's personal leverage influences company leverage, indicating that as CEO power increases, personal financial characteristics play a larger role in business decisions. Sun et al. (2022) indicate that annual reports from firms with powerful CEOs are more complex and difficult to understand. Finally, Dunn (2004) argues that powerful CEOs are more likely to act in their own self-interest, thereby exacerbating agency conflicts.

In summary, the evidence highlights continued debate over the impact of powerful CEOs. Our study contributes to this discussion by exploring a relatively underexamined aspect: the influence of CEO power on employee treatment. Due to the

conflicting findings in existing research, determining the nature of the relationship between CEO power and employee treatment remains particularly challenging.

Employee Treatment

According to Pfeffer (1994) and Edmans (2011), employees are viewed as the most essential intangible asset of a company, making corporate success highly reliant on maintaining strong stakeholder relationships, particularly with employees. Faleye and Trahan (2011) suggest that improved employee treatment enhances operational performance, resulting in increased productivity and profitability, and thus boosting market value. El Ghoul et al. (2011) support this position by showing that firms with strong CSR practices, including good employee treatment, experience lower equity costs. Bae et al. (2011) find a significant positive link between employee treatment and corporate leverage among S and P 500 firms from 1995 to 2007, indicating that companies that treat their employees well tend to have lower debt ratios.

Ghaly et al. (2015) show that these companies also hold higher cash reserves. Guo et al. (2016) demonstrate that firms with excellent employee treatment possess better internal control quality and fewer financial misstatements, attributing superior performance to more effective internal controls. Ertugrul (2013) identifies a positive relationship between employee-friendly policies and long-term acquisition success. Similarly, Cui et al. (2018) report a positive relationship between corporate cash holdings and employee protection in Chinese companies, reflecting a strong financial commitment to employee welfare.

Mao and Weathers (2019) report a positive correlation between good employee treatment and innovation performance using a different measure. Chen et al. (2016) establish a significant positive link between employee treatment and business innovation performance, suggesting that higher employee satisfaction leads to more patents. Chen et al. (2019) observe that better employee treatment benefits bondholders by reducing bond spreads. Zhang et al. (2020) note a significant negative association between employee treatment and the likelihood of corporate fraud, suggesting that firms that treat employees well are more likely to honor labor agreements and value long-term relationships.

Cao and Rees (2020) find that employee-friendly firms demonstrate higher labor investment efficiency. Leonard and Sun (2022) reveal that these firms are less likely to cease operations. Collectively, these studies underscore the various positive outcomes associated with favorable employee treatment. In summary, the aforementioned research underscores the importance of implementing employee-friendly policies due to their beneficial impacts. However, there is limited research on the factors that may influence how employees are treated. As companies strive to strengthen their relationships with employees, understanding these influencing factors is crucial. Our study investigates whether and how CEO power affects employee treatment.

Hypotheses Development

Due to the inconclusive empirical evidence on the consequences of powerful CEOs, we develop two competing hypotheses on the relation between CEO power and employee treatment. On one hand, we posit a positive relation for the following reasons. First, it is documented that CEO power is positively related to firm performance (e.g., Daily and Johnson, 1997). A vast body of literature finds that socially-responsible firms demonstrate better operating performance (e.g., Berman, Wicks, Kotha, and Jones, 1999; Beurden and Gossling, 2008; Brammer and Millington, 2008; Carmeli, Gilat, and Waldman, 2007; Fatima and Elbanna, 2022; McGuire, Sundgren, and Schnessweis, 1988; Orlitzky, Schmidt, and Rynes, 2003; Porter and Van der Linde, 1995; Waddock and Graves, 1997). Because employee treatment is a critical component of a firm's corporate social responsibility (CSR) policies, we intuitively predict a positive relation between CEO power and employee treatment via the firm performance channel. Second, powerful CEOs tend to develop strong social networks (Klein et al., 2004). Such networks are useful for CEOs to trade information on practices and policies, learn beneficial management skills, and observe consequences of certain practices (Davis, 1991; Westphal and Zajac, 1997; Gulati and Westphal, 1999). Hence, it is possible that powerful CEOs are more likely to learn current management practices to improve relationships with employees and adopt more employee-friendly policies, due to the information advantages of broad social networks. Third, prior research suggests that powerful CEOs tend to engage in CSR activities (Li et al., 2018). If this position is the case, such CEOs are more likely to engage in employee-friendly policies. Collectively, we propose the following hypothesis.

H1*: CEO power is positively related to employee treatment.*

On the other hand, we posit a negative relation between CEO power and employee treatment for the following reasons. First, Bebchuk et al. (2011) document a negative relation between CEO power and firm operating performance, which is largely

caused by agency problems. When CEOs become too powerful, this problem leads to CEO entrenchment that intensifies agency conflicts (Baldenius et al., 2014; Graham et al., 2020). In other words, powerful CEOs may engage in actions that are not in the best interest of shareholders, which at least partially explains bad firm performance. Hence, given the negative link between CEO power and firm performance and the positive link between employee treatment and firm performance, we predict a negative relation between CEO power and employee treatment via the firm performance channel. Second, although prior research documents information advantages of broad social networks of powerful CEOs, Kirchmarier and Stathopoulos (2008) argue that highly connectedly CEOs are unable to concentrate on managing their firms. If powerful CEOs are unable to devote their time and attention to manage their firms, it is less likely that they will learn and adopt employee-friendly policies. Collectively, we propose the following hypothesis.

H2*: CEO power is negatively related to employee treatment.*

Research Design

Measuring CEO Power

Bebchuk et al. (2011) introduce an objective measure known as the CEO pay slice to assess CEO power. This measure is computed as the ratio of the CEO's total compensation to the total compensation of the top five corporate executives, including the CEO. The ExecuComp database, which provides data on executive compensation, typically includes components such as salary, bonus, other pay, stock options, long-term incentive payouts, restricted stocks, and other benefits.

Bebchuk et al. (2011) argue that the CEO pay slice effectively proxies for CEO power because it represents the CEO's relative importance within the organizational hierarchy. There are several benefits to using this variable. For example, it considers the combined total compensation of the top executives, thus capturing a wide range of both observable and unobservable factors that influence the dynamics of top management. Additionally, because this ratio is based on compensation data from within the same company, it accurately reflects firm-specific characteristics.

The CEO pay slice has been extensively utilized in the literature to measure CEO power, including studies by Bebchuk et al. (2011), Chen et al. (2013), Zagonov and Salganik-Shoshan (2018), Jiraporn and Chintrakarn (2013), Choe et al. (2014), Chintrakarn et al. (2014), and Sun et al. (2022). Consequently, our study employs the CEO pay slice to assess CEO power, consistent with previous research, particularly the work of Bebchuk et al. The greater the CEO's power, the higher the CEO pay slice. The equation for calculating the CEO pay slice is listed below:

$$\text{CEO Pay Slice} = \frac{\text{CEO total compensation (ExecuComp Item:TDC1)}}{\text{Total compensation of the top five executives (including CEO)}} \qquad \text{[Equation 1]}$$

Measuring Employee Treatment

In line with other research (e.g., Ertugrul, 2013; Chen et al., 2016; Guo et al., 2016), our study utilizes the ratings on employee relations as a proxy for employee treatment. This information may be found in the ESG database of the MSCI, which offers distinct assessments of the strengths and weaknesses of employee relations. The elements of strength include, in particular, the strength of union relations, cash profit sharing strength, employee engagement strength, retirement benefit, the strength of health and safety, and other strengths. The items of concern include those about union relations, work reductions, health and safety, retirement, and other concerns. In Appendix 1, we give a thorough overview of these elements.

Following significant studies on employee treatment, such as Guo et al. (2016), we calculate the employee treatment proxy (EMP_TREATMENT) by summing the strengths of the five components. These components include union relations strength, cash profit sharing strength, employee engagement strength, retirement benefit strength, and health and safety strength. The equation is as follows.

EMP_TREATMENT = Strength of Union Relations + Strength of Cash Profit Sharing + Strength of Employee Involvement + Strength of Retirement Benefit + Strength of Health and Safety [Equation 2]

Guo et al. (2016) suggest that this variable accurately captures the level of employee treatment and commitment, with a higher score indicating the firm's greater commitment to maintain a good and healthy relationship with their employees.

Because the MSCI's ESG database also provides data on concerns in the abovementioned components, we include the total concerns of union relations, cash profit sharing, employee involvement, retirement benefit, and health and safety as a control variable in the baseline regression model as a control variable. Additionally, we use the net score of total strengths and total concerns of employee treatment in one of the robustness tests.

Empirical Specification

To explore the direct link between CEO power and employee treatment, we use the following regression model that regresses employee treatment on CEO power and controls variables.

$$EMP\_TREATMENT = \beta_0 + \beta_1 \mathbf{CEOPOWER} + \beta_2 CEOAGE + \beta_3 CEOTENURE + \beta_4 CEOGENDER + \beta_5 SIZE + \beta_6 ROA + \beta_7 LEV + \beta_8 MTB + \beta_9 CFO + \beta_{10} CAPINT + \beta_{11} CASH + \beta_{12} FIRMAGE + \beta_{13} ZSCORE + \beta_{14} LOSS + \beta_{15} BIG4 + \beta_{16} HLITIGATION + \beta_{17} EMP\_CONCERS + Year\ Indicators + Industry\ Indicators + \varepsilon \quad [Equation\ 3]$$

EMP_TREATMENT, as the dependent variable, captures the level of employee treatment, using total strengths of employee ratings. CEOPOWER is the primary independent variable of interest, which measures the level of CEO power in a firm. If H1 is valid, we would expect a significant positive coefficient on CEOPOWER. If H2 is true, we would then expect a significant negative coefficient on CEOPOWER, implying that employee treatment becomes weaker in firms with more-powerful CEOs.

In Equation 3, we incorporate control variables that may impact employee commitment and treatment. Specifically, as per Guo et al. (2016), we include several CEO characteristics, such as age (CEOAGE), tenure (CEOTENURE), and gender (CEOGENDER). Consistent with research like Bae et al. (2011), we also account for firm-level attributes including firm size (SIZE), profitability (ROA), leverage (LEV), growth (MTB), capital assets intensity (CAPINT), and cash flows from operating activities (CFO). We incorporate corporate cash holdings (CASH) due to the significant relationship between employee treatment and cash holdings found in previous studies (e.g., Ghaly et al., 2015; Cui et al., 2018). Additionally, we include the Altman Z-score (ZSCORE) to evaluate the overall financial condition of a firm and an indicator variable (LOSS) to represent whether a firm reports a net loss in a given year. Variables like CASH, ZSCORE, and LOSS are essential since better-performing firms have more resources to improve employee relations and treatment. We also consider whether the company operates in an industry with a relatively high litigation risk (HLITIGATION). Specifically, HLITIGATION is a binary variable that equals one if the company belongs to a high-litigation industry and zero otherwise. Finally, we account for the total concern regarding employee treatment (EMP_CONCERNS).

Equation 3 includes year and industry indicators as well. The continuous variables in Equation 3 are winsorized at the 1st and 99th percentiles to mitigate the statistical impact of outliers. Following standard practices, the primary methodology employed is a two-way clustered (by year and firm) standard errors OLS regression (Petersen, 2009). Detailed definitions of the variables are provided in Appendix 2.

Sample Selection and Descriptive Statistics

Panel A of Table 1 presents our sample selection process. Our final sample consists of 21,936 firm-year observations from 1993 to 2019, representing 1,906 U.S. publicly traded companies. In Panel B of Table 1, we show the yearly distribution of observations. For example, in 1993 there are 198 observations, and in 2019, there are 1,169. From 1993 to 2014, there is a noticeable increase in the number of observations, peaking at 1,308 in 2014. Between 2015 and 2019, the number of observations ranges from 1,100 to 1,300 annually. Panel C of Table 1 presents the distribution of the sample by industry, categorized by the two-digit SIC code. The top five industries in our sample are Business Services (SIC = 73; 2,224 observations; 10.14%), Chemicals (SIC = 28; 2,006 observations; 9.14%), Electronic Equipment (SIC = 36; 1,818 observations; 8.29%), Measuring Instruments (SIC = 39; 1,470 observations; 6.70%), and Electric, Gas and Sanitary Services (SIC = 49; 1,395 observations; 6.36%). *[See Table 1, pg. 491]*

In Table 2, we provide the descriptive statistics for the key variables in Equation 3. The average value of EMP_TREATMENT is 0.509. The mean (median) value of CEOPOWER is 0.405 (0.408), which is very close to the figures reported by Liu and Jiraporn (2010) [mean 0.387, median 0.386] and Sun et al. (2022) [mean 0.403, median 0.406]. The avearge CEO in our sample is about 56 years old and has an average tenure of seven years. Approximately 96.7% of the CEOs are male, which aligns with general expectations and findings from previous research on CEO demographics, such as Bebchuk et al. (2011), which reported an average CEO tenure of 7.736 years. Other key variables show the following mean (median) values: SIZE is 7.860 (7.763), ROA is 0.052 (0.054), LEV is 0.209 (0.194), MTB is 3.444 (2.522), CASH is 0.153 (0.090), and ZSCORE is 4.516 (3.347). These values suggest that the average operating performance of our sample firms is within normal ranges. The mean value of LOSS is 0.139, indicating that approximately 14% of the firms report a net loss in a given year. The mean value of BIG4 is 0.932, which shows that most of the sample firms are audited by a Big

4 accounting firm. Overall, our sample firms appear typical and do not exhibit any major deviations from expected norms. *[See Table 2, pg. 493]*

Correlations

Table 3 presents the pairwise correlations among the primary variables in our baseline regression model, including both Pearson and Spearman correlation coefficients along with their respective p-values. The Pearson correlation coefficient between CEOPOWER and EMP_TREATMENT is -0.021 with a p-value of 0.002, while the Spearman correlation coefficient is -0.006 with a p-value of 0.004. These figures indicate a significant negative association between CEO power and employee treatment, implying that firms led by more powerful CEOs are less inclined to implement employee-friendly policies. This initial observation provides evidence in favor of our second hypothesis (H2). *[See Table 3, pg. 494]*

Primary Findings

To test our hypotheses, we estimate the baseline regression model (Equation 3) and present the main findings in Table 4. Results from Column 1 are based on the entire sample of 21,936 observations from 1993 to 2019. Specifically, Column 1 indicates that the coefficient on CEOPOWER is -0.303 with a t-value of -6.40 (p-value < 0.0001), demonstrating a significant negative association between CEOPOWER and EMP_TREATMENT. We re-estimate Equation 3 after excluding firms in highly regulated industries (SIC 4000–4999 and 6000–6999) and present the results in Column 2. The coefficient on CEOPOWER remains significant and negative, suggesting that employee treatment is poorer in firms with more powerful CEOs, supporting H2.

Column 1 of Table 4 also shows that the coefficients for SIZE, CFO, CAPINT, CASH, FIRMAGE, ZSCORE, LOSS, BIG4, HLITIGATION, and EMP_CONCERNS are significantly positive, whereas those for CEOTENURE and CEOGENDER are significantly negative. These findings are consistent with general expectations. For example, the significant positive correlation between SIZE and EMP_TREATMENT indicates that larger firms are better at treating their employees compared to smaller firms, likely due to their greater resources (e.g., cash) to fund various programs designed to improve employee relations. The significant negative correlation between CEOGENDER and EMP_TREATMENT suggests that female CEOs tend to treat their employees better. The significant positive correlation between EMP_CONCERNS and EMP_TREATMENT is based on employee strengths, which is expected since previous research shows high correlation between strengths and concerns (Walls, Berrone, and Phan, 2012).

The findings in Table 4 are statistically significant. For instance, the data in Column 1 reveal that a one standard deviation increase in CEOPOWER leads to an approximate 6.96% reduction in EMP_TREATMENT. The adjusted R^2 reported in Column 1 is 0.2514, indicating that our baseline regression model accounts for about 25% of the variation in the dependent variable. We also assessed the variance inflation factor (VIF) for each variable in Table 4. The VIF values in Column 1 are low, suggesting that multicollinearity does not significantly affect our results. *[See Table 4, pg. 496]*

Robustness Check

Other CEO Power Measures

In this test, we examine the validity of our main conclusions using two different CEO power measures. The first measure, known as CEODUALITY, is an indicator variable with a value of one in cases when the CEO also serves as the board chairperson and zero in all other circumstances. When the CEO also serves as the board chairperson, that CEO is obviously very powerful. The CEO power in a company may be accurately captured by CEO duality, according to earlier study by Adams et al. (2005) and Combs et al. (2007), who utilize this variable as a proxy for CEO power. Krause et al. (2014) further argue that dual CEOs often have unchecked power, suggesting that such CEOs are too powerful. The second measure, denoted by the indicator variable H_CEOPOWER, is one if the value of CEOPOWER is higher than the median and zero otherwise. Utilizing this variable could allay concerns regarding possible measurement errors in CEOPOWER.

Using these two measures, we re-estimate Equation 3 and display the results in Table 5. Column 1 shows that the coefficient for CEODUALITY is -0.008 (with a t-value of -2.29), while Column 2 indicates that the coefficient for H_CEOPOWER is -0.071 (with a t-value of -6.21). These outcomes continue to demonstrate a significant negative correlation between CEO power and employee treatment, aligning with our primary findings. Collectively, the results in Table 5 confirm our second hypothesis, indicating that CEO power is negatively related to employee treatment. *[See Table 5, pg. 498]*

Alternative Employee Treatment Measures

According to earlier studies, another indicator for employer treatment is whether a company is listed among Fortune's "100 Best Companies to Work For" (Chen et al., 2016). Each year, Fortune Magazine compiles this ranking based on feedback from businesses and employee surveys. Job satisfaction and employee attitudes toward management are among the topics covered in employee surveys. Businesses respond to inquiries on their company cultures, management philosophies, demographics, pay scales, and benefit plans. We utilize this alternative variable, FORTUNE100, as a stand-in for employee treatment in line with earlier studies. This indicator variable has a value of one if a company is chosen for inclusion in Fortune's list of the "100 Best Companies to Work For" in a particular year and zero otherwise.

Furthermore, we adopt a net metric of overall strengths and concerns related to employee treatment, aligning with previous studies (Ghaly et al., 2015). In this context, we develop an alternative proxy for employee treatment (EMP_NET) by aggregating the components of strengths and concerns and then deducting the total concerns from the total strengths. The equation is formulated as follows:

EMP_NET = Total employee relations strengths – Total employee relations concerns [Equation 4]

We re-evaluate the baseline model utilizing these two distinct measures of employee treatment individually, with results presented in Table 6. When the dependent variable is FORTUNE100 (EM_NET), the coefficient for CEOPOWER is -3.148 (-0.299), accompanied by a chi-square value of 102.51 (with a t-value of -6.47). This result still suggests a significant negative relationship between CEO power and employee treatment. Therefore, our primary findings remain robust across alternative measures of employee treatment. *[See Table 6, pg. 500]*

Alternative Sample Periods

To evaluate whether our primary findings are influenced by changes in macroeconomic conditions or firm-specific factors over time, we divide our sample period into three intervals: 1993–2001, 2002–2010, and 2011–2019. We then re-estimate the baseline regression model for each interval, with the results presented in Table 7. In Columns 1, 2, and 3, the coefficients for CEOPOWER are -0.423 (t-value = -3.40), -0.189 (t-value = -3.30), and -0.305 (t-value = -4.02), respectively. Overall, the results in Table 7 illustrate that the significant negative relationship between CEO power and employee treatment persists consistently across these different time periods. *[See Table 7, pg. 502]*

Alternative Empirical Specifications

In this assessment, we revisit the baseline model by applying both firm fixed effects regression and Fama-MacBeth regression analyses. As detailed in Table 8, Column 1 reveals a coefficient of -0.106 for CEOPOWER, accompanied by a t-value of -2.09 in the firm fixed effects regression. In contrast, Column 2 indicates a coefficient of -0.263 with a t-value of -4.52 in the Fama-MacBeth regression. The outcomes presented in Table 8 continue to indicate a significant negative relationship between CEO power and employee treatment. Thus, our core findings demonstrate robustness across various economic modeling frameworks. *[See Table 8, pg. 504]*

Endogeneity Tests

Changes Analysis

Our principal findings arise from a level analysis that regresses the level of EMP_TREATMENT against the levels of CEOPOWER and control variables. The relationship between CEO power and employee treatment may be influenced by unobserved firm characteristics, which could lead to a significant correlation between these two factors. To strengthen our evidence, we conduct a changes analysis that examines whether fluctuations in CEO power can account for variations in employee treatment, addressing concerns regarding omitted variables that may be correlated. Specifically, we implement a bivariate changes analysis, where we regress the changes in employee treatment from year t-1 to t (i.e., EMP_TREATMENT) against the corresponding changes in CEO power during the same period (i.e., CEOPOWER). The results of this changes analysis are summarized in Table 9.[1]

As presented in Table 9, the coefficient for ΔCEOPOWER is -0.064, accompanied by a t-value of -1.72 (p-value = 0.086), indicating a significant negative relationship between ΔEMP_TREATMENT and ΔCEOPOWER. This evidence implies that fluctuations in employee treatment can be linked to changes in CEO power. Specifically, an increase in CEO power may result in a decrease in employee treatment, while a decrease in CEO power may lead to an increase in employee

[1] We remove HLITIGATION from the regression model in the changes analysis because there is no variation in this variable.

treatment, aligning with our primary findings. Overall, the results from the changes analysis reinforce the significant negative association between CEO power and employee treatment. *[See Table 9, pg. 506]*

Two-Stage Least Squares Regression (2SLS)

Our analysis might encounter endogeneity problems, particularly concerning reverse causality. For instance, firms that are less committed to their employees might deliberately choose powerful CEOs. To tackle these reverse causality concerns, we carry out a two-stage least squares regression analysis (2SLS), with the findings detailed in Table 10. We compute the individual CEO power score (CEOPOWER_Instrumental) in the first stage by averaging the CEO power scores of companies within the same industry (CEOPOWER_Mean), based on the first two SCI digits. In the second stage, we re-estimate the baseline regression model (Equation 3) utilizing the CEOPOWER_Instrumental from Stage 1.

Table 10, Column 1, presents the results from the first stage, where CEO power (CEOPOWER_Instrumental) is estimated using CEOPOWER_Mean. The coefficient for CEOPOWER_Mean is 0.942, with a t-value of 15.50, indicating a strong association between CEOPOWER_Mean and CEOPOWER_Instrumental. It is shown that the Cragg-Donald F-stat. is 20.00, which exceeds the critical value of 16.38 set by Stock and Yogo (2005), demonstrating that our instrumental variable in this analysis is valid and strong.

Column 2 of Table 10 presents the results from the second stage of the 2SLS analysis, where the instrumental variable generated from the first stage (CEOPOWER_Instrumental) serves as the primary independent variable in our baseline regression model. The coefficient for CEOPOWER_Instrumental is -0.296 with a t-value of -6.13, indicating a significant negative relationship between CEO power and employee treatment. This suggests that CEOs with greater power tend to have a negative impact on employee treatment, corroborating our initial conclusions.

We also re-evaluate the baseline regression model by including three lagged measures of CEOPOWER, specifically the CEO power for the previous three years (t-1, t-2, and t-3). Our analysis finds that the coefficients for these three lagged variables are all statistically significant and negative, further alleviating concerns about reverse causality. For conciseness, we have not included these results in a table. Altogether, this suggests that reverse causality is unlikely to significantly impact our empirical findings. *[See Table 10, pg. 507]*

Propensity Score Matching (PSM)

To address potential self-selection bias, we conduct a propensity score matching analysis (PSM) consistent with prior research methodologies. First, we estimate a logistic regression model using an indicator variable, CEOPOWER_DUMMY, as the dependent variable. This variable is coded as one if a firm's CEOPOWER score falls within the top tercile (i.e., 33% or higher, indicating greater CEO power) and zero if the score is in the bottom tercile (i.e., 67% or lower, indicating lesser CEO power). The independent variables in this logistic regression mirror those in our baseline regression. Column 1 of Table 11 shows the results of this logistic regression model, with most coefficients being statistically significant, indicating that this model is appropriate for the PSM analysis.

Next, we calculate a propensity score for each firm-year observation and compare these scores between firms with higher and lower CEO power. During the matching process, we pair observations without replacement and use a nearest neighbor matching method, ensuring that the difference in propensity scores between each matched pair does not exceed 0.1%. After completing the matching, we compile a new sample comprising 6,477 firm-year observations. We then re-estimate our baseline regression model using this adjusted sample, with the results displayed in Column 2 of Table 11. The coefficient for CEOPOWER is -0.171, with a t-value of -2.26, indicating a significant negative association between CEO power and employee treatment. In summary, the PSM results address concerns about self-selection bias and corroborate our primary conclusions. *[See Table 11, pg. 509]*

Additional Tests

The Role of Corporate Governance

Guo et al. (2016) illustrate that the treatment of employees is associated with the quality of a firm's internal controls, revealing that organizations with better employee treatment tend to possess more robust internal control systems. In contrast, literature concerning CEO power indicates that effective corporate governance or internal controls can reduce the influence of CEO power. Consequently, we hypothesize that the negative relationship between CEO power and employee treatment diminishes in firms characterized by stronger governance mechanisms.

From the complete sample, we segregate the observations into two subsamples: those exhibiting higher corporate governance and those reflecting lower corporate governance. For this analysis, we draw upon corporate governance ratings obtained from MSCI's ESG database. An observation is classified as having lower governance if its total concerns surpass its total strengths in governance. Conversely, an observation is considered to have higher governance if its total strengths exceed its total concerns.

We reanalyze the baseline model for each subsample and summarize the findings in Table 12. Column 1 (Column 2) shows that the coefficient for CEOPOWER is -0.489 (-0.249), accompanied by a t-value of -2.57 (-2.93) for observations with lower corporate governance (observations with higher corporate governance). The coefficient comparison test indicates that the disparity between -0.489 and -0.249 is statistically significant, with an F-statistic of 56.74. This result implies that the negative association between CEO power and employee treatment diminishes as corporate governance improves. *[See Table 12, pg. 511]*

The Role of Managerial Ability

Managerial ability has recently garnered considerable attention from researchers, defined as the ability of managers to convert firm resources into revenue (Demerjian, Lev, and McVay, 2012). It is particularly intriguing to explore whether and how managerial ability influences the relationship between CEO power and employee treatment. In this analysis, we first acquire data on managerial ability from Professor Demerjian[2] and merge it with our sample.[3] We then categorize the combined sample into two groups: firms with lower managerial ability and those with higher managerial ability. Following this, we re-estimate Equation 3 for each group and display the results in Table 13.

Table 13 demonstrates that the coefficient for CEOPOWER is -0.349, with a t-value of -4.81 for firms with lower managerial ability in Column 1, and -0.237, with a t-value of -3.80 for firms with higher managerial ability in Column 2. These results indicate a significant negative relationship between CEO power and employee treatment in both categories. Furthermore, the coefficient comparison test shows that the difference between -0.349 and -0.237 is statistically significant, with an F-statistic of 121.99. This evidence suggests that the influence of CEO power on employee treatment is substantially stronger in firms with lower managerial ability. *[See Table 13, pg. 513]*

Conclusion

This research examines the relationship between CEO power and employee treatment. We provide substantial empirical evidence indicating a negative association between CEO power and the treatment of employees, utilizing a robust panel sample of 21,936 firm-year observations from 1993 to 2019. Our findings suggest that CEOs with greater authority tend to exhibit less favorable treatment toward employees. After performing a series of robustness checks, our primary conclusions continue to hold firm.

Our study, just like many others, has several limitations. First, employee treatment is a complex and multifaceted concept, which makes it difficult to accurately measure its extent. While we adopt the employee relations ratings from MSCI's ESG database to measure employee treatment in our analysis, we acknowledge that other metrics for assessing employee treatment may be available. For instance, direct surveys of employees could serve as an alternative method of evaluation. Our findings might be even more compelling if we utilized more targeted employee treatment measures. Furthermore, our sample is limited to publicly traded U.S. companies, raising concerns about whether our main conclusions can be generalized to private firms. These issues could be explored in future research endeavors.

[2] https://peterdemerjian.weebly.com/managerialability.html
[3] Please refer to Appendix 3 for detailed description of managerial ability.

Appendix 1: Description of Employee Treatment Ratings

(Source: Www.Msci.Com)

Item	Description
Strength	
Union Relations	The company has done an outstanding job of treating its employees decently.
Cash Profit Sharing	The company has a cash profit-sharing program, and it just distributed funds to the majority of its workforce under this program.
Employee Involvement	With stock options that are available to the majority of its employees, the organization aggressively encourages employee engagement and/or ownership. For instance, profit sharing, stock ownership, the exchange of financial information, or involvement in management decision-making.
Retirement Benefits	The organization provides a very good retirement benefits plan.
Health and Safety	Strong health and safety programs are implemented by the organization.
Other	Strong employee relations programs that are not covered by other ratings are implemented by the organization.
Concern	
Union Relations	The organization has a reputation for having terrible union relations.
Health and Safety	The organization recently engaged in significant health and safety issues or paid big fines or civil penalties for willful breaches of employee health and safety regulations.
Workforce Reductions	In recent years, the organization has significantly reduced its employment.
Retirement Benefits	Either the defined benefit pension plan is gravely underfunded, or the retirement benefit plans are woefully insufficient, for the organization.
Other	The organization is embroiled in a dispute regarding employee relations that is not addressed by other ratings.

Appendix 2: Description of Variables

Variable		Definition
EMP_TREATMENT	=	strength of union relations + strength of cash profit sharing + strength of employee involvement + strength of retirement Benefit + strength of health and safety;
CEOPOWER	=	the ratio of the CEO's total compensation to the total compensation of the top 5 corporate executives (including the CEO);
CEOAGE	=	the age of the CEO;
CEOTENURE	=	the number of years that the CEO has been in office;
CEOGENDER	=	the gender of the CEO;
SIZE	=	natural log of firm total assets (AT);
ROA	=	income before extraordinary items (IB) scaled by firm total assets (AT);
LEV	=	long-term liabilities (DLTT) scaled by firm total assets (AT);
MTB	=	ratio of the market value of outstanding common shares [price at fiscal year-end (PRCC_F) × Outstanding common shares (CSHO)] to the total book value of outstanding common shares (CEQ);
CFO	=	cash flows from operating activities (OANCF) scaled by firm total assets (AT);
CAPINT	=	capital expenditures (CAPX) scaled by firm total assets (AT);
CASH	=	cash holdings (CHE) scaled by total assets (AT);
FIRMAGE	=	natural log of the number of years of a firm since the firm has been listed in the Capital IQ's Compustat database;
ZSCORE	=	Altman's Z-Score, calculated as 3.3×[Net Income (NI)/Assets (AT)] + Sales (SALE)/Assets (AT) + 0.6×{market value of common shares [(CSHO) × (PRCC_F)]/Total Liabilities (LT)} + 1.2×Working Capital [Current Assets (ACT) – Current Liabilities (LCT)]/Assets (AT) + 1.4× Retained Earnings (RE)/Assets (AT);
LOSS	=	one if a firm reports a loss and zero otherwise;
BIG4	=	one if a firm uses a Big 4 auditor and 0 otherwise;
HLITIGATION	=	One if a firm operates in a high-litigation industry (SIC codes: 2833–2836; 3570–3577; 3600–3674; 5200–5961; 7370–7374) and zero otherwise;
EMP_CONCERNS	=	concern of union relations + concern of cash profit sharing + concern of employee involvement + concern of retirement benefit + concern of health and Safety;
CEODUALITY	=	one if the CEO chairs the board of directors and zero otherwise;
H_CEOPOWER	=	one if CEOPOWER is greater than median and zero otherwise;
FORTUNE100	=	one if a firm is selected on Fortune's "100 Best Companies to Work For" list in a given year and zero otherwise;

EMP_NET	=	total strengths of employee relations - total concerns of employee relations;
ΔEMP_TREATMENT	=	EMP_TREATMENT in year t - EMP_TREATMENT in year (t-1);
ΔCEOPOWER	=	CEOPOWER in year t - CEOPOWER in year (t-1);
ΔCEOAGE	=	CEOAGE in year t - CEOAGE in year (t-1);
ΔCEOTENURE	=	CEOTENURE in year t - CEOTENURE in year (t-1);
ΔCEOGENDER	=	CEOGENDER in year t - CEOGENDER in year (t-1);
ΔSIZE	=	SIZE in year t - SIZE in year (t-1);
ΔROA	=	ROA in year t - ROA in year (t-1);
ΔLEV	=	LEV in year t - LEV in year (t-1);
ΔMTB	=	MTB in year t - MTB in year (t-1);
ΔCFO	=	CFO in year t - CFO in year (t-1);
ΔCAPINT	=	CAPINT in year t - CAPINT in year (t-1);
ΔCASH	=	CASH in year t - CASH in year (t-1);
ΔFIRMAGE	=	FIRMAGE in year t – FIRMAGE in year (t-1);
ΔZSCORE	=	ZSCORE in year t - ZSCORE in year (t-1);
ΔLOSS	=	LOSS in year t - LOSS in year (t-1);
ΔBIG4	=	BIG4 in year t – BIG4 in year (t-1);
ΔEMP_CONCERNS	=	EMP_CONCERNS in year t – EMP_CONCERNS in year (t-1).

Appendix 3: Managerial Ability Measure

To build the management ability metric, we follow Demerjian et al. (2012). Initially, Data Envelopment Analysis (DEA), a widely used decision-making approach in operations management and decision sciences, is used to fit inputs to an output measure in order to construct an efficiency frontier. The equation of DEA formulation is shown as follows.

$$max_t Q = \frac{REVENUES}{t_1 COGS + t_2 XSGA + t_3 PPE + t_4 LEASE + t_5 RD + t_6 GOODWILL + t_7 OTHER}$$

According to Demerjian et al. (2012), the DEA scores should be regressed on company-specific variables (such as cash flows, firm size, business operations complexity, market share, firm age, and overseas activities), and the residuals from the regression should be used to quantify managerial skill. For the management ability variable, we use the suggested technique.

This managerial ability measure developed by Demerjian et al. (2012) is a realistic and relevant measure that contributes to this study in at least three ways. For example, Demerjian et al. (2012) discovered via several tests that this variable explicitly evaluates management traits and is favorably connected with market reaction. Furthermore, a large number of studies (e.g., Albuquerque et al., 2013; Banker et al., 2013) investigate related factors and show that company performance has no effect. Second, previous literature has measured managerial ability differently (e.g., Fee and Hadlock, 2003; Rajgopal et al., 2006). These different techniques include industry-adjusted returns on assets, industry-adjusted stock performance, CEO remuneration, and media references to CEOs. For instance, Fee and Hadlock (2003) measure managerial ability using historical stock returns as the basis. Demerjian et al. (2012) state that this measure can be influenced by a multitude of company-specific factors, thus making it unsuitable. As a result, we believe that the technique utilized by Demerjian et al. (2012) is superior for the objectives of this research. Finally, data on management ability have been extensively used in the associated literature (Bonsall et al., 2017; Cornaggia, Krishnan, and Wang, 2017; Demerjian et al., 2013; Demerjian et al., 2017; Koester et al., 2016; Krishnan and Wang, 2015).

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Table 1: CEO Power and Employee Treatment
Sample Selection and Distribution

Panel A: Sample Selection Process

Full Sample	Observations
Employee rating data from the MSCI's ESG database (1993–2019)	72,463
Subtract: Observations lost when merging with Execucomp database	20,236
Subtract: Observations lost when merging with Compustat database	20,124
Subtract: Observations with insufficient data to build control variables	10,167
Observations	21,936
Unique Firms	1,906

Panel B: Sample Distribution by Fiscal Year

Year	Observations	Percentage	Cumulative Percentage
1993	198	0.90%	0.90%
1994	202	0.92%	1.82%
1995	214	0.98%	2.80%
1996	219	1.00%	3.80%
1997	236	1.08%	4.87%
1998	253	1.15%	6.03%
1999	253	1.15%	7.18%
2000	286	1.30%	8.48%
2001	446	2.03%	10.52%
2002	474	2.16%	12.68%
2003	855	3.90%	16.58%
2004	868	3.96%	20.53%
2005	855	3.90%	24.43%
2006	896	4.08%	28.51%
2007	1,046	4.77%	33.28%
2008	1,064	4.85%	38.13%
2009	1,226	5.59%	43.72%
2010	1,248	5.69%	49.41%
2011	1,225	5.58%	55.00%
2012	1,238	5.64%	60.64%
2013	1,299	5.92%	66.56%
2014	1,308	5.96%	72.52%
2015	1,206	5.50%	78.02%
2016	1,195	5.45%	83.47%
2017	1,225	5.58%	89.05%
2018	1,232	5.62%	94.67%
2019	1,169	5.33%	100.00%
	21,936	100.00%	

Panel C: Sample Distribution by Industry

SIC2	Description	Obs.	%	SIC2	Description	Obs.	%
1	Agricultural Crops	26	0.12%	45	Transportation By Air	222	1.01%
2	Agricultural Livestock	13	0.06%	47	Transportation Services	79	0.36%
10	Metal Mining	115	0.52%	48	Communications	489	2.23%
12	Coal Mining	54	0.25%	49	Electric Gas and Sanitary Services	1,395	6.36%

13	Oil and Gas Extraction	833	3.80%	50	Durable Goods Wholesale	530	2.42%
14	Mining	95	0.43%	51	Nondurable Goods Wholesale	341	1.55%
16	Heavy Construction	122	0.56%	52	Building Materials	85	0.39%
17	Special Construction	76	0.35%	53	General Merchandise Stores	237	1.08%
20	Food	735	3.35%	54	Food Stores	79	0.36%
21	Tobacco	52	0.24%	55	Automotive Dealers	177	0.81%
22	Textile Mill	62	0.28%	56	Apparel Stores	345	1.57%
23	Apparel	229	1.04%	57	Furniture Stores	101	0.46%
24	Lumber	153	0.70%	58	Eating and Drinking Places	452	2.06%
25	Furniture	147	0.67%	59	Miscellaneous Retail	387	1.76%
26	Paper	301	1.37%	60	Depository Institutions	44	0.20%
27	Printing	249	1.14%	61	Nondepository Credit Institutions	13	0.06%
28	Chemicals	2,006	9.14%	62	Security and Commodity Brokers	197	0.90%
29	Petroleum Refining	153	0.70%	63	Insurance Carriers	154	0.70%
30	Rubber	256	1.17%	64	Insurance Agents Brokers	138	0.63%
31	Leather	107	0.49%	65	Real Estate	42	0.19%
32	Stone Clay Glass	96	0.44%	67	Investment Offices	261	1.19%
33	Primary Metal	354	1.61%	70	Hotels	63	0.29%
34	Fabricated Metal	397	1.81%	72	Personal Services	99	0.45%
35	Industrial Machinery	1,453	6.62%	73	Business Services	2,224	10.14%
36	Electronic Equipment	1,818	8.29%	75	Auto Repair Services	67	0.31%
37	Transportation Equipment	654	2.98%	78	Motion Pictures	65	0.30%
38	Measuring Instruments	1,470	6.70%	79	Amusement	162	0.74%
39	Miscellaneous Manufacturing	190	0.87%	80	Health Services	395	1.80%
40	Railroad Transportation	103	0.47%	82	Educational Services	89	0.41%
41	Local/Suburban Transit	1	0.00%	83	Social Services	20	0.09%
42	Motor Freight Transportation	203	0.93%	87	Engineering and Accounting	322	1.47%
44	Water Transportation	114	0.52%	99	Nonclassified Establishments	25	0.11%

We describe the sample selection procedure in Panel A. The 21,936 firm-year observations that make up our final sample, which spans the years 1993 through 2019, correspond to 1,906 US publicly traded corporations. Sample distribution is shown in Panel B by fiscal year. Based on the first two digits of the Standard Industrial Classification (SIC) code, Panel C displays sample distribution by industry. In Panel C of Table 1, the number of observations and their corresponding percentages are reported.

Table 2: CEO Power and Employee Treatment
Sample Descriptive Statistics

Variable	Observations	Mean	Std Dev	25th Pctl	50th Pctl	75th Pctl
EMP_TREATMENT	21,936	0.509	0.923	0.000	0.000	1.000
CEOPOWER	21,936	0.405	0.117	0.335	0.408	0.473
CEOAGE	21,936	56.304	6.853	52.000	56.000	61.000
CEOTENURE	21,936	7.006	7.352	2.000	5.000	10.000
CEOGENDER	21,936	0.967	0.178	1.000	1.000	1.000
SIZE	21,936	7.860	1.555	6.707	7.763	8.895
ROA	21,936	0.052	0.087	0.024	0.054	0.091
LEV	21,936	0.209	0.176	0.055	0.194	0.312
MTB	21,936	3.444	5.896	1.620	2.522	4.106
CFO	21,936	0.109	0.075	0.066	0.103	0.148
CAPINT	21,936	0.050	0.046	0.019	0.036	0.064
CASH	21,936	0.153	0.166	0.030	0.090	0.219
FIRMAGE	21,936	3.262	0.662	2.773	3.296	3.850
ZSCORE	21,936	4.516	4.653	1.965	3.347	5.296
LOSS	21,936	0.139	0.346	0.000	0.000	0.000
BIG4	21,936	0.932	0.251	1.000	1.000	1.000
HLITIGATION	21,936	0.192	0.394	0.000	0.000	0.000
EMP_CONCERNS	21,936	0.307	0.608	0.000	0.000	0.000

The number of observations, pooled means, standard deviations, 25th percentile, median, and 75th percentile of the independent variable of interest (i.e., CEO power), the dependent variable (i.e., employee treatment), and numerous control variables are all shown in this table. The sample consists of 21,936 firm-year observations, or 1,906 public U.S. enterprises, from 1993 to 2019. The 1% and 99% percentiles are winsorized for all continuous variables. For comprehensive definitions of the variables, please see Appendix 2.

Table 3: CEO Power and Employee Treatment

Correlation Matrix

	Variables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1	EMP_TREATMENT		-0.006	0.034	-0.056	-0.014	0.376	0.062	0.066	0.078	0.077	0.055	0.000	0.192	-0.053	-0.045	0.119	0.074	0.024	0.080
			0.004	*<.0001*	*<.0001*	*0.035*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.994*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.000*	*<.0001*
2	CEOPOWER	-0.021		0.022	0.009	-0.016	0.101	0.006	0.123	0.007	-0.034	-0.051	-0.067	0.109	-0.072	-0.033	0.003	-0.039	0.045	0.015
		0.002		*0.001*	*0.163*	*0.016*	*<.0001*	*0.367*	*<.0001*	*0.314*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.694*	*<.0001*	*<.0001*	*0.028*
3	CEOAGE	0.027	0.014		0.342	0.052	0.103	0.029	0.067	-0.047	-0.001	0.062	-0.099	0.167	-0.026	-0.055	-0.021	-0.075	0.148	-0.005
		<.0001	*0.035*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.875*	*<.0001*	*<.0001*	*<.0001*	*0.000*	*<.0001*	*0.002*	*<.0001*	*<.0001*	*0.479*
4	CEOTENURE	-0.064	-0.033	0.389		0.054	-0.131	0.049	-0.085	0.046	0.040	-0.018	0.057	-0.062	0.129	-0.047	-0.097	0.031	0.202	-0.045
		<.0001	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.009*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*
5	CEOGENDER	-0.018	-0.014	0.048	0.052		0.012	0.000	0.004	-0.011	-0.006	-0.009	-0.025	-0.007	-0.004	-0.002	-0.004	0.017	0.034	0.008
		0.008	*0.044*	*<.0001*	*<.0001*		*0.082*	*0.958*	*0.507*	*0.114*	*0.361*	*0.192*	*0.000*	*0.276*	*0.567*	*0.790*	*0.589*	*0.010*	*<.0001*	*0.236*
6	SIZE	0.392	0.064	0.096	-0.140	0.004		-0.052	0.409	-0.014	-0.078	0.092	-0.343	0.423	-0.391	-0.112	0.265	-0.135	0.094	0.172
		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.582*		*<.0001*	*<.0001*	*0.043*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*
7	ROA	0.066	0.018	0.041	0.044	0.005	0.032		-0.273	0.440	0.659	0.096	0.176	-0.021	0.619	-0.585	-0.021	-0.008	0.055	-0.027
		<.0001	*0.008*	*<.0001*	*<.0001*	*0.495*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.002*	*<.0001*	*<.0001*	*0.002*	*0.227*	*<.0001*	*<.0001*
8	LEV	0.034	0.099	0.052	-0.090	-0.002	0.317	-0.167		-0.092	-0.215	0.076	-0.462	0.174	-0.647	0.068	0.141	-0.200	0.015	0.031
		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.820*	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.026*	*<.0001*
9	MTB	0.034	-0.015	-0.032	0.014	-0.026	-0.009	0.126	-0.059		0.383	0.001	0.200	-0.088	0.418	-0.183	0.014	0.101	0.008	-0.066
		<.0001	*0.024*	*<.0001*	*0.037*	*0.000*	*0.190*	*<.0001*	*<.0001*		*<.0001*	*0.864*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.043*	*<.0001*	*0.219*	*<.0001*
10	CFO	0.078	-0.024	0.002	0.029	-0.008	-0.042	0.607	-0.153	0.148		0.276	0.187	-0.097	0.491	-0.318	-0.009	0.023	0.034	-0.015
		<.0001	*0.000*	*0.715*	*<.0001*	*0.218*	*<.0001*	*<.0001*	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.188*	*0.001*	*<.0001*	*0.029*
11	CAPINT	0.016	-0.054	0.033	0.004	-0.003	0.050	0.044	0.042	-0.009	0.268		-0.257	0.063	-0.017	-0.073	0.025	-0.201	0.019	0.094
		0.018	*<.0001*	*<.0001*	*0.522*	*0.620*	*<.0001*	*<.0001*	*<.0001*	*0.176*	*<.0001*		*<.0001*	*<.0001*	*0.011*	*<.0001*	*0.000*	*<.0001*	*0.004*	*<.0001*
12	CASH	-0.008	-0.088	-0.105	0.080	-0.016	-0.371	0.018	-0.352	0.095	0.096	-0.212		-0.282	0.434	0.083	-0.083	0.387	-0.046	-0.075
		0.217	*<.0001*	*<.0001*	*<.0001*	*0.021*	*<.0001*	*0.009*	*<.0001*	*<.0001*	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*
13	FIRMAGE	0.183	0.085	0.164	-0.040	0.001	0.405	0.040	0.095	-0.041	-0.067	-0.016	-0.292		-0.195	-0.097	0.071	-0.163	0.104	0.106
		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.913*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.019*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*
14	ZSCORE	-0.033	-0.081	-0.029	0.143	-0.005	-0.332	0.402	-0.487	0.197	0.375	-0.014	0.426	-0.200		-0.285	-0.110	0.124	0.019	-0.091

		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.483*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.042*	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*0.005*	*<.0001*
15	LOSS	-0.053	-0.029	-0.055	-0.033	-0.002	-0.118	-0.641	0.088	-0.047	-0.338	-0.033	0.106	-0.095	-0.176		-0.027	0.106	-0.090	0.022
		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.790*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*		*<.0001*	*<.0001*	*<.0001*	*0.001*
16	BIG4	0.108	-0.013	-0.023	-0.113	-0.004	0.259	-0.010	0.123	0.004	-0.013	0.003	-0.087	0.063	-0.124	-0.027		-0.039	-0.018	0.072
		<.0001	*0.050*	*0.001*	*<.0001*	*0.589*	*<.0001*	*0.136*	*<.0001*	*0.507*	*0.048*	*0.704*	*<.0001*	*<.0001*	*<.0001*	*<.0001*		*<.0001*	*0.008*	*<.0001*
17	HLITIGATION	0.085	-0.038	-0.074	0.030	0.017	-0.127	-0.062	-0.177	0.056	-0.011	-0.166	0.398	-0.152	0.149	0.106	-0.039		-0.063	-0.085
		<.0001	*<.0001*	*<.0001*	*<.0001*	*0.010*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.111*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*		*<.0001*	*<.0001*
18	CEODUALITY	0.037	0.037	0.162	0.198	0.034	0.105	0.067	0.000	0.000	0.030	0.003	-0.071	0.092	-0.006	-0.090	-0.018	-0.063		0.074
		<.0001	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.945*	*0.998*	*<.0001*	*0.664*	*<.0001*	*<.0001*	*0.400*	*<.0001*	*0.008*	*<.0001*		*<.0001*
19	EMP_CONCEERNS	0.082	0.013	-0.007	-0.058	0.000	0.207	-0.030	0.024	-0.037	-0.023	0.050	-0.094	0.112	-0.090	0.021	0.073	-0.090	0.083	
		<.0001	*0.055*	*0.314*	*<.0001*	*0.944*	*<.0001*	*<.0001*	*0.000*	*<.0001*	*0.001*	*<.0001*	*<.0001*	*<.0001*	*<.0001*	*0.002*	*<.0001*	*<.0001*	*<.0001*	

For the major variables we utilized in our analysis from 1993 to 2019, this table shows the Pearson correlations (below the diagonal) and the Spearman correlations (above the diagonal). The correlation coefficients and associated (two-tailed) p-values are given for each pair of variables. Prior to the correlation analysis, all continuous variables are winsorized at the 1% and 99% percentiles. For comprehensive definitions of the variables, please refer to Appendix 2.

Table 4: CEO Power and Employee Treatment
Main Results

	Clustered Standard Errors OLS						
	Dependent Variable = EMP_TREATMENT						
	Column 1				Column 2		
	Full Sample				Excluding Observations in Highly Regulated Industries		
Parameter	Estimate	t-stat.	p-value	VIF	Estimate	t-stat.	p-value
Intercept	-1.746***	-21.33	<.0001		-1.759***	-20.12	<.0001
CEOPOWER	**-0.303*** **	-6.40	<.0001	1.070	**-0.354*** **	-7.08	<.0001
CEOAGE	0.000	0.28	0.779	1.297	-0.001	-0.63	0.527
CEOTENURE	-0.003***	-3.72	0.000	1.294	-0.002***	-3.06	0.002
CEOGENDER	-0.066**	-2.01	0.044	1.054	-0.024	-0.75	0.452
SIZE	0.257***	45.60	<.0001	1.833	0.258***	41.00	<.0001
ROA	0.103	1.17	0.241	2.729	0.107	1.15	0.249
LEV	-0.196***	-5.25	<.0001	1.656	-0.190***	-4.78	<.0001
MTB	0.001	1.33	0.183	1.091	0.002*	1.69	0.091
CFO	0.918***	9.93	<.0001	2.006	0.952***	9.73	<.0001
CAPINT	0.752***	5.24	<.0001	1.759	0.788***	4.80	<.0001
CASH	0.538***	12.45	<.0001	1.881	0.570***	12.12	<.0001
FIRMAGE	0.076***	8.24	<.0001	1.475	0.064***	6.61	<.0001
ZSCORE	0.004***	2.90	0.004	2.073	0.003**	2.18	0.029
LOSS	0.050**	2.59	0.010	1.820	0.041**	1.98	0.048
BIG4	0.050***	3.26	0.001	1.135	0.039**	2.41	0.016
HLITIGATION	0.140***	5.35	<.0001	3.671	0.133***	5.08	<.0001
EMP_CONCERNS	0.065***	5.67	<.0001	1.358	0.068***	5.56	<.0001
Industry Indicators	Yes				Yes		
Year Indicators	Yes				Yes		
Observations	21,936				18,481		
Adjusted R^2	0.2514				0.2535		

The results of our baseline regression model employing standard errors OLS regression are presented in this table. The baseline model is as follows. EMP_TREATMENT = $\beta_0 + \beta_1 \times$CEOPOWER + $\beta_x \times$Control Variables + Year and Industry Dummies + ε. Before beginning the regression analysis, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles yearly. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. Please refer to Appendix 2 for detailed variable definitions.

Table 5: CEO Power and Employee Treatment
Alternative CEO Power Measures

	Clustered Standard Errors OLS					
	Dependent Variable = EMP_TREATMENT					
	Column 1			Column 2		
Parameter	Estimate	t-stat.	p-value	Estimate	t-stat.	p-value
Intercept	-1.882***	-23.47	<.0001	-1.843***	-23.10	<.0001
CEODUALITY	**-0.008****	-2.29	0.022			
H_CEOPOWER				**-0.071*****	-6.21	<.0001
CEOAGE	0.0003	0.40	0.692	0.0002	0.28	0.781
CEOTENURE	-0.003***	-3.42	0.001	-0.003***	-3.65	0.000
CEOGENDER	-0.063*	-1.92	0.054	-0.066*	-2.02	0.043
SIZE	0.257***	45.39	<.0001	0.258***	45.73	<.0001
ROA	0.088	1.00	0.317	0.097	1.10	0.271
LEV	-0.207***	-5.54	<.0001	-0.195***	-5.22	<.0001
MTB	0.001	1.37	0.172	0.001	1.36	0.173
CFO	0.916***	9.90	<.0001	0.924***	9.99	<.0001
CAPINT	0.793***	5.53	<.0001	0.755***	5.26	<.0001
CASH	0.546***	12.64	<.0001	0.543***	12.59	<.0001
FIRMAGE	0.074***	8.04	<.0001	0.075***	8.18	<.0001
ZSCORE	0.005***	3.16	0.002	0.004***	2.94	0.003
LOSS	0.052***	2.66	0.008	0.050**	2.55	0.011
BIG4	0.053***	3.46	0.001	0.053***	3.45	0.001
HLITIGATION	0.136***	5.20	<.0001	0.139***	5.32	<.0001
EMP_CONCERNS	0.063***	5.53	<.0001	0.065***	5.72	<.0001
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Observations	21,936			21,936		
Adjusted R^2	0.2500			0.2514		

This table reports the results of our baseline regression model using standard errors OLS regression using two alternative measures of CEO power, namely CEODUALITY and H_CEOPOWER. The model is as follows.

$$EMP\_TREATMENT = \beta_0 + \beta_1 \times Alternative\ CEOPOWER + \beta_x \times Control\ Variables + Year\ and\ Industry\ Dummies + \varepsilon$$

The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. For thorough definitions of each variable, please refer to Appendix 2.

Table 6: CEO Power and Employee Treatment
Alternative Employee Treatment Measures

	Column 1			Column 2		
	Dependent Variable = FORTUNE100			Dependent Variable = EMP_NET		
	Logistic Regression			Clustered Standard Errors OLS		
Parameter	Estimate	Chi-Square	p-value	Estimate	t-stat.	p-value
Intercept	-6.286***	71.43	<.0001	-1.688***	-21.24	<.0001
CEOPOWER	**-3.148*** **	102.51	<.0001	**-0.299*** **	-6.47	<.0001
CEOAGE	0.017***	9.55	0.002	0.0002	0.31	0.753
CEOTENURE	0.005	1.26	0.262	-0.003***	-3.45	0.001
CEOGENDER	2.421***	17.25	<.0001	-0.067**	-2.11	0.035
SIZE	0.040	2.01	0.156	0.249***	46.98	<.0001
ROA	4.797***	30.19	<.0001	0.096	1.12	0.262
LEV	-2.769***	83.64	<.0001	-0.181***	-4.91	<.0001
MTB	0.018**	6.66	0.010	0.002	1.59	0.112
CFO	-1.939***	7.75	0.005	0.873***	9.71	<.0001
CAPINT	10.212***	171.78	<.0001	0.672***	4.82	<.0001
CASH	-4.747***	129.24	<.0001	0.519***	12.36	<.0001
FIRMAGE	0.207***	9.91	0.002	0.075***	8.28	<.0001
ZSCORE	-0.009	0.57	0.448	0.005***	3.12	0.002
LOSS	0.205	1.99	0.158	0.050***	2.60	0.009
BIG4	1.012***	26.89	<.0001	0.053***	3.51	0.000
HLITIGATION	-0.006	0.001	0.972	0.131***	5.09	<.0001
EMP_CONCERNS	-0.117*	4.11	0.043	-0.904***	-81.63	<.0001
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Observations	21,936			21,936		
Pseudo R^2/Adjusted R^2	0.1619			0.4354		

This table reports the findings from our baseline regression model that used FORTUNE100 and EMP_NET as two different measures of employee treatment. The model is as follows. Alternative EMP_TREATMENT = $\beta_0 + \beta_1 \times$CEOPOWER + $\beta_x \times$Control Variables + Year and Industry Dummies + ε. The baseline regression

model's continuous variables are winsorized at the 1% and 99% percentiles annually before being used in the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. For complete definitions of the variables, please see Appendix 2.

Table 7: CEO Power and Employee Treatment
Alternative Sample Periods

	Clustered Standard Errors OLS					
	Dependent Variable = EMP_TREATMENT					
	Column 1		Column 2		Column 3	
	1993–2001		2002–2010		2011–2019	
Parameter	Estimate	t-stat.	Estimate	t-stat.	Estimate	t-stat.
Intercept	-0.510**	-2.11	-1.435***	-14.43	-2.229***	-17.53
CEOPOWER	**-0.423*** **	-3.40	**-0.189*** **	-3.30	**-0.305*** **	-4.02
CEOAGE	0.008***	3.09	-0.001	-1.42	-0.0001	-0.09
CEOTENURE	-0.010***	-5.01	-0.004***	-4.01	-0.002*	-1.73
CEOGENDER	-0.234*	-1.94	-0.015	-0.34	-0.064	-1.52
SIZE	0.074***	5.17	0.192***	25.98	0.329***	36.46
ROA	-0.384	-1.25	-0.089	-0.85	0.184	1.20
LEV	0.032	0.25	-0.149***	-2.85	-0.256***	-4.79
MTB	-0.003	-1.05	0.005**	2.14	0.001	0.99
CFO	1.174***	3.85	0.825***	7.03	0.890***	5.91
CAPINT	3.152***	7.94	0.243	1.35	0.521**	2.24
CASH	0.135	0.86	0.435***	9.01	0.679***	9.53
FIRMAGE	0.016	0.51	0.057***	4.55	0.078***	5.75
ZSCORE	0.007*	1.84	0.008***	3.68	0.004	1.50
LOSS	-0.027	-0.49	0.079***	3.20	0.059*	1.91
BIG4	-0.198*	-1.91	0.072***	3.83	-0.039*	-1.77
HLITIGATION	0.265***	3.06	0.023	0.79	0.195***	4.40
EMP_CONCERNS	-0.041	-1.51	0.020*	1.76	0.258***	7.70
Industry Indicators	Yes		Yes		Yes	
Year Indicators	Yes		Yes		Yes	
Observations	2,307		8,532		11,097	
Adjusted R^2	0.1985		0.2235		0.3154	

The findings of our baseline regression model are presented in this table for the time periods 1993–2001, 2002–2010, and 2011–2019. The model is as follows. EMP_TREATMENT = $\beta_0 + \beta_1 \times$CEOPOWER + $\beta_x \times$Control Variables + Year and Industry Dummies + ε. Before being used in the regression analysis, the continuous

variables in the baseline regression model are winsorized at the 1% and 99% percentiles annually. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. Appendix 2 provides detailed variable definitions.

Table 8: CEO Power and Employee Treatment
Alternative Empirical Specifications

	Dependent Variable = EMP_TREATMENT					
	Column 1			Column 2		
	Firm Fixed Effects Regression			Fama MacBeth Regression		
Parameter	Estimate	t-stat.	p-value	Estimate	t-stat.	p-value
Intercept				-1.293***	-4.09	0.000
CEOPOWER	**-0.106****	-2.09	0.037	**-0.263*****	-4.52	0.000
CEOAGE	0.003**	2.10	0.036	0.0024	1.26	0.219
CEOTENURE	-0.003**	-2.34	0.020	-0.006***	-3.36	0.002
CEOGENDER	-0.009	-0.23	0.822	-0.070***	-3.26	0.003
SIZE	0.083***	6.07	<.0001	0.197***	4.90	<.0001
ROA	0.107	1.08	0.282	-0.073	-0.69	0.499
LEV	-0.005	-0.09	0.925	-0.089	-0.79	0.436
MTB	0.000	-0.12	0.905	0.003	1.63	0.116
CFO	0.300***	2.76	0.006	0.773***	3.45	0.002
CAPINT	-0.045	-0.22	0.829	1.527**	2.36	0.026
CASH	-0.100	-1.48	0.139	0.515***	6.75	<.0001
FIRMAGE	-0.037	-0.85	0.395	0.028	1.03	0.311
ZSCORE	-0.005***	-2.68	0.007	0.007***	3.05	0.005
LOSS	-0.020	-0.98	0.328	0.034	1.29	0.207
BIG4	0.011	0.26	0.796	-0.088	-1.40	0.174
HLITIGATION				0.160***	3.58	0.001
EMP_CONCERNS	0.061***	5.73	<.0001	0.0685	1.25	0.222
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Observations	21,936			21,936		
Adjusted R^2	0.4905			0.3587		

This table presents the results from our baseline regression model utilizing firm fixed effects regression and Fama MacBeth regression, two distinct regression models. The model is as follows. EMP_TREATMENT = $\beta_0 + \beta_1 \times$CEOPOWER + $\beta_x \times$Control Variables + Year and Industry Dummies + ε. The continuous variables

in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. Please refer to Appendix 2 for detailed variable definitions.

Table 9: CEO Power and Employee Treatment Changes Analysis

	Clustered Standard Errors OLS		
	Dependent Variable = ΔEMP_TREATMENT		
Parameter	Estimate	t-stat.	p-value
Intercept	-0.071**	-2.10	0.036
ΔCEOPOWER	**-0.064***	-1.72	0.086
ΔCEOAGE	-0.002	-0.97	0.331
ΔCEOTENURE	0.0004	-0.19	0.850
ΔSIZE	-0.009	-0.41	0.682
ΔROA	0.112*	1.71	0.087
ΔLEV	-0.027	-0.45	0.655
ΔMTB	0.000	0.01	0.994
ΔCFO	-0.020	-0.29	0.775
ΔCAPINT	0.183	1.17	0.242
ΔCASH	-0.087	-1.38	0.168
ΔFIRMAGE	0.052	0.42	0.677
ΔZSCORE	0.000	0.17	0.864
ΔLOSS	0.021	1.46	0.145
ΔBIG4	-0.004	-0.13	0.896
ΔEMP_CONCERNS	0.076***	3.95	<.0001
Industry Indicators	Yes		
Year Indicators	Yes		
Observations	20,030		
Adjusted R^2	0.0845		

This table presents the findings of a changes analysis in which we regressed changes in the dependent variable on the corresponding changes in the primary independent variable of interest and in the control variables. The model is as follows. $\Delta EMP\_TREATMENT = \beta_0 + \beta_1 \times \Delta CEOPOWER + \beta_x \times \Delta Control\ Variables$ + Year and Industry Dummies + ε. The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. For comprehensive definitions of the variables, please see Appendix 2.

Table 10: CEO Power and Employee Treatment
Two-Stage Least Squares Regression Analysis (2SLS)

	Column 1			Column 2		
	Stage 1 of 2SLS			Stage 2 of 2SLS		
	Dependent Variable = CEOPOWER_Instrutmental			Dependent Variable = EMP_TREATMENT		
Parameter	Estimate	t-stat.	p-value	Estimate	t-stat.	p-value
Intercept	0.058**	2.13	0.034	-1.833***	-22.73	<.0001
CEOPOWER_Mean	0.942***	15.50	<.0001			
CEOPOWER_Instrumental				**-0.296*** **	-6.13	<.0001
CEOAGE	0.0002*	-1.72	0.085	0.001	0.68	0.496
CEOTENURE	-0.0002	-1.50	0.135	-0.003***	-3.29	0.001
CEOGENDER	-0.004	-0.99	0.320	-0.072**	-2.28	0.023
SIZE	-0.001	-1.52	0.129	0.262***	55.44	<.0001
ROA	0.051***	3.56	0.000	0.071	0.68	0.494
LEV	0.029***	5.23	<.0001	-0.188***	-4.74	<.0001
MTB	0.000	-0.42	0.674	0.001	1.41	0.160
CFO	0.013	0.93	0.354	0.900***	8.68	<.0001
CAPINT	-0.135***	-6.12	<.0001	0.852***	5.39	<.0001
CASH	-0.030***	-4.78	<.0001	0.531***	11.67	<.0001
FIRMAGE	0.007***	5.20	<.0001	0.079***	7.80	<.0001
ZSCORE	-0.001***	-5.21	<.0001	0.005***	3.12	0.002
LOSS	-0.006**	-2.14	0.032	0.048**	2.23	0.026
BIG4	-0.010***	-3.22	0.001	0.047*	2.01	0.044
HLITIGATION	0.016***	4.25	<.0001	0.136***	5.09	<.0001
EMP_CONCERNS	0.006***	4.18	<.0001	0.039***	3.87	0.000
Industry Indicators	Yes			Yes		
Year Indicators	Yes			Yes		
Observations	21,936			21,936		
Adjusted R^2	0.0716			0.2180		

Cragg-Donald F statistics	20.00	

The results of a two-stage least squares regression analysis (2SLS) are presented in this table. Before being used in the baseline regression analysis, the continuous variables are winsorized at the 1% and 99% percentiles annually. At the 10%, 5%, and 1 percent (two-tailed) confidence levels, respectively, statistical significance is indicated by the letters *, **, and ***. For thorough definitions of each variable, please see Appendix 2.

Table 11: CEO Power and Employee Treatment
Propensity Score Matching (PSM)

Column 1			Column 2		
Estimating Propensity Scores			Post Matching		
Logistic Regression			Clustered Errors Regression		
Dependent Variable = CEOPOWER_DUMMY			Dependent Variable = EMP_TREATMENT		
Parameter	Estimate	Chi-Square	Parameter	Estimate	t-stat.
Intercept	-0.799***	14.62	Intercept	-1.280***	-7.76
			CEOPOWER	**-0.171****	-2.26
CEOAGE	0.003	1.18	CEOAGE	-0.001	-0.41
CEOTENURE	-0.007***	8.52	CEOTENURE	-0.002	-1.01
CEOGENDER	-0.227**	5.62	CEOGENDER	-0.180***	-2.59
SIZE	0.058***	18.12	SIZE	0.232***	21.75
ROA	0.870***	7.57	ROA	0.061	0.48
LEV	1.126***	94.99	LEV	-0.184***	-2.81
MTB	-0.002	0.62	MTB	0.003*	1.68
CFO	0.152	0.24	CFO	0.598***	3.42
CAPINT	-4.469***	113.10	CAPINT	1.305***	5.12
CASH	-0.333**	6.61	CASH	0.802***	7.64
FIRMAGE	0.205***	50.31	FIRMAGE	0.096***	6.01
ZSCORE	-0.013**	6.44	ZSCORE	-0.006	-0.47
LOSS	-0.115*	3.15	LOSS	0.011	0.41
BIG4	-0.160**	5.54	BIG4	0.061*	1.83
HLITIGATION	-0.032	0.45	HLITIGATION	0.186***	3.80
EMP_CONCERNS	0.004	0.02	EMP_CONCERNS	0.061***	3.10
Industry Indicators	No		Industry Indicators	Yes	
Year Indicators	No		Year Indicators	Yes	
Observations	21,936		Observations	6,477	
Pseudo R^2	0.0565		Adjusted R^2	0.2382	

The results of propensity score matching (PSM) are shown in this table. Before being used in the regression analysis, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles annually. At the 10, 5, and 1 percent (two-tailed) confidence levels, respectively, *, **, and *** imply statistical significance. For complete definitions of the variables, please refer to Appendix 2.

Table 12: CEO Power and Employee Treatment
The Role of Corporate Governance

	Clustered Standard Errors OLS			
	Dependent Variable = EMP_TREATMENT			
	Column 1		Column 2	
	Lower Governance		Higher Governance	
Parameter	Estimate	tValue	Estimate	tValue
Intercept	-1.989***	-5.42	-0.331	-1.36
CEOPOWER	**-0.489****	-2.57	**-0.249*****	-2.93
CEOAGE	0.004	1.04	0.001	0.62
CEOTENURE	-0.009***	-2.91	-0.002	-1.56
CEOGENDER	0.415***	2.86	-0.246***	-3.52
SIZE	0.302***	12.20	0.211***	20.54
ROA	0.728	1.54	-0.164	-1.03
LEV	-0.350*	-1.75	-0.178**	-2.48
MTB	0.006	1.18	-0.003	-1.04
CFO	0.617	1.49	1.279***	7.49
CAPINT	0.310	0.52	0.497**	1.96
CASH	0.320*	1.74	0.562***	7.02
FIRMAGE	-0.039	-0.90	0.004	0.23
ZSCORE	0.012	1.58	0.004	1.51
LOSS	0.045	0.55	0.077**	2.13
BIG4	0.109	1.62	0.020	0.61
HLITIGATION	0.429***	4.11	0.002	0.04
EMP_CONCERNS	0.110**	2.29	0.029*	1.94
Industry Indicators	Yes		Yes	
Year Indicators	Yes		Yes	
Observations	1,718		5,657	
Adjusted R^2	0.3794		0.3025	
Coefficient Comparison Test				

Coefficient on CEOPOWER of Firms with Lower Governance vs. Coefficient of CEOPOWER of Firms with Higher Governance
F-Stat. = 56.74; P-value < 0.0001

This table presents the results of fitting the baseline model to two subsamples, representing observations with lower and higher corporate governance, respectively. Before beginning the regression analysis, the continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles annually. At the 10, 5, and 1 percent (two-tailed) confidence levels, respectively, *, **, and *** signify statistical significance. For comprehensive definitions of the variables, please see Appendix 2.

Table 13: CEO Power and Employee Treatment
The Role of Managerial Ability

	Clustered Standard Errors OLS			
	Dependent Variable = EMP_TREATMENT			
	Column 1		Column 2	
	Lower Managerial Ability		Higher Managerial Ability	
Parameter	Estimate	tValue	Estimate	tValue
Intercept	-2.120***	-17.48	-1.162***	-11.05
CEOPOWER	**-0.349*** **	-4.81	**-0.237*** **	-3.80
CEOAGE	-0.001	-0.57	0.001	0.88
CEOTENURE	-0.003***	-2.64	-0.003***	-3.20
CEOGENDER	0.007	0.16	-0.053	-1.21
SIZE	0.285***	35.80	0.181***	20.83
ROA	0.074	0.52	0.040	0.33
LEV	-0.106*	-1.89	-0.257***	-5.08
MTB	0.000	0.21	0.003**	2.04
CFO	0.962***	7.00	0.562***	4.26
CAPINT	1.107***	4.97	0.334*	1.77
CASH	0.628***	9.47	0.345***	5.57
FIRMAGE	0.117***	7.91	0.038***	3.07
ZSCORE	0.004*	1.82	0.001	0.23
LOSS	0.043	1.29	0.041*	1.69
BIG4	-0.012	-0.49	0.083***	4.26
HLITIGATION	0.154***	5.24	0.125***	4.98
EMP_CONCERNS	0.068***	3.96	0.071***	4.37
Industry Indicators	Yes		Yes	
Year Indicators	Yes		Yes	
Observations	10,103		9,340	
Adjusted R^2	0.2945		0.1621	
Coefficient Comparison Test				

Coefficient on CEOPOWER of Firms with Lower Managerial Ability vs. Coefficient of CEOPOWER of Firms with Higher Managerial Ability
F-Stat. = 121.99; P-value < 0.0001

The results of fitting the baseline model to two subsamples, representing observations with lower managerial ability and observations with higher managerial ability, are presented in this table. The continuous variables in the baseline regression model are winsorized at the 1% and 99% percentiles each year before entering the regression analysis. *, **, and *** denote significance at the 10, 5 and 1 percent (two-tailed) confidence levels, respectively. Appendix 2 contains detailed variable definitions.