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Do Boards Reward and Punish CEOs Based on Employee Satisfaction Ratings?

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Abstract. We investigate whether boards of directors reward and punish chief executive officers (CEOs) based on employee satisfaction ratings. Using data from Glassdoor, we find that CEOs tend to receive larger bonuses when employee satisfaction ratings increase. Similarly, we find a higher rate of CEO dismissal when employees become less satisfied. Further, we investigate three factors that may amplify the role of employee satisfaction ratings in CEO evaluations: the importance of employees to financial performance, the board's commitment to stakeholders, and the need to preserve firm reputation. We find some evidence that each of these three factors strengthens the relationship between employee satisfaction ratings and CEO evaluations. Finally, we exploit the staggered timing of first-time reviews on Glassdoor and use a difference-in-differences design to strengthen our inferences. Collectively, these findings suggest that boards' evaluations of CEO compensation and retention incorporate employee satisfaction ratings.

Keywords: corporate governance • statistics and analyses • methods panel • strategy and policy • top management teams • succession • compensation • human resource management • strategic human resources management

Introduction

Because of chief executive officers (CEOs)' large influence on organizational outcomes (Quigley and Hambrick 2015), how they are evaluated is a central concern for organizational scholars (Graffin et al. 2013). A basic tenet of corporate governance is that CEOs are rewarded for providing valued firm outcomes and punished when they do not (Hubbard et al. 2017). Historically, the nearly unquestioned primary, if not sole, valued outcome has been generating shareholder wealth (Friedman 1970). Because current financial performance measures do not capture everything that creates long-term value, however, research has grappled with trying to understand how firms can deliver value over the longer haul (Edmans 2011).

Many now argue that a key component of longer-term success rests in satisfying a firm's key stakeholders (Khan et al. 2016). To the extent that boards see this as an important responsibility of a CEO, their evaluations of CEOs should incorporate stakeholder assessments. To provide a better understanding of the ways that stakeholder assessments influence boards' decision making, we examine if boards' evaluations of CEOs are influenced by the satisfaction of a key stakeholder group: employees. Namely, we focus on employee satisfaction ratings, a new and specific form of public stakeholder assessment, as an additional input to CEO evaluations. Given that employees are a primary stakeholder of any firm (Waddock et al. 2002), we argue that employee satisfaction is an important stakeholder evaluation whose effect on CEO career outcomes needs to be better understood.

Indeed, research suggests that employee satisfaction, which captures the degree to which an employee is content with their job at the firm (Judge and Kammeyer-Mueller 2012), is an important outcome for firms. Research finds that employee satisfaction leads to several positive firm outcomes, including employee collaboration (Chuang and Liao 2010, Whitman et al. 2010), employee productivity (Dotson and Allenby 2010), and increased effort toward firm goals (Ostroff and Bowen 2000). Research also finds that employee satisfaction is positively associated with a firm's longer-term financial performance (Edmans 2011). Despite the attention that employee satisfaction has received from scholars studying organizational behavior, strategic human capital, and labor markets (Harter et al. 2010, Judge and Kammeyer-Mueller 2012), it has received limited attention in the domain of corporate governance. Although some initial evidence suggests some forms of employee assessments play a role in governance outcomes (Wang et al. 2023), we still have a limited

understanding regarding when, how, and why employee satisfaction may or may not shape the assessment of corporate CEOs.

We thus investigate if publicly available employee satisfaction ratings influence how boards reward and punish CEOs. To do so, we focus on CEO compensation and dismissal, and use employee satisfaction ratings from the website Glassdoor.com, which allows employees to anonymously rate their employer. In particular, Glassdoor ratings provide a clear and public rating that directors may employ if they wish to incorporate employee satisfaction metrics into CEO assessments.

As there are likely multiple reasons that may lead boards to incorporate employee satisfaction ratings into CEO evaluations, we hypothesize and examine several potential factors. First, boards may do so when human capital is more important for the firm's financial performance. Second, doing so may be a way for boards to visibly signal their commitment to broader environmental, social, and governance (ESG) goals. Third, managing firm reputational concerns may also play a role as firms may be more concerned about the publicity associated with these ratings. Because organizational actions are rarely the result of one simple reason, examining each of these factors as moderators helps us better understand when and why boards incorporate employee satisfaction ratings into CEO evaluations.

Our study makes several contributions. First, we contribute to corporate governance research by providing evidence that suggests boards reward and punish CEOs based on a stakeholder evaluation, specifically employee satisfaction ratings. We find that employee satisfaction ratings are positively associated with CEO compensation and negatively associated with CEO dismissal. Second, these results also contribute to future research on CEO succession, CEO compensation, and corporate governance more broadly by suggesting these research streams may need to consider specific stakeholder evaluations.

Third, we find that several factors moderate our main findings. We find that the link between employee satisfaction ratings and CEO compensation and dismissal is stronger when human capital is more important to the firm. This suggests that the importance of a given stakeholder for the firm's financial performance influences the degree to which that stakeholder's views are incorporated into CEO evaluations. We also find that the link between employee satisfaction ratings and CEO compensation is stronger when firms have a board-level corporate social responsibility (CSR) committee. This suggests that committing to having a board-level focus on stakeholder issues influences the degree to which CEO evaluations are influenced by employee satisfaction ratings. Further, we find that the link between CEO dismissal and employee satisfaction ratings is stronger for high-reputation firms, indicating that publicity related to such ratings may drive reputational concerns that facilitate the incorporation of employee satisfaction ratings into CEO evaluations. Finally, the link between CEO pay and employee satisfaction ratings is stronger for firms that invest more in CSR areas that are not financially material, consistent with a sincere desire to appease the needs of stakeholders. Collectively, these results suggest that the reasons why firms internalize stakeholder concerns, and incorporate employee satisfaction ratings, vary across firms and can be a combination of shareholder and/or stakeholder-motivated reasons.

Theory and Hypotheses

A primary driver in board evaluations of CEOs is the CEO's ability to generate valued outcomes for their firms. Holding a CEO accountable for firm outcomes is consistent with research suggesting that, relative to other actors, CEOs have the largest influence on firm outcomes and thus should be held primarily responsible (Quigley and Graffin 2017). Further amplifying the relationship between CEO assessments and firm outcomes is the well-known bias of the "romance of leadership" whereby observers tend to over-attribute firm-level outcomes to its leadership (Meindl et al. 1985), suggesting CEOs receive a disproportionate amount of credit or blame for firm outcomes (Kesner and Sebora 1994).

For decades, one outcome has been the most important, and by some estimates, the sole factor driving boards' assessments of CEOs: firm financial performance (Kesner and Sebora 1994, Finkelstein et al. 2009, Graffin et al. 2013). Further, research suggests that two outcomes best capture boards' assessments of CEOs, "(1) … the CEO's compensation, and (2) whether the CEO continues his or her tenure with the firm (Fama and Jensen 1983)" (Graffin et al. 2013, p. 386).

In terms of CEO compensation, although factors such as social comparisons, firm size, and firm complexity may influence CEO compensation (see Devers et al. (2007) for a review), firm performance is a particularly significant predictor. Specifically, most firms use pay-for-performance incentives to reward executive performance in the form of merit or bonus pay (Cohen 2006, Milkovich et al. 2011), and CEOs' compensation is also often linked to financial performance targets set by the board of directors through their bonus payments (Murphy and Jensen 2011). This research broadly suggests that boards consistently provide ex ante incentives to CEOs to pursue valued outcomes.

Research also consistently suggests that the primary factor driving CEO dismissal is firm financial performance (James and Soref 1981, Coughlan and Schmidt 1985, Crossland and Chen 2013). Whether it is accounting performance (Wagner et al. 1984), stock market returns (Denis et al. 1997), or meeting analyst expectations (Puffer and Weintrop 1991), firm performance

indicators drive CEO dismissal. In sum, research concludes that the influence of a firm's financial performance on the evaluation of a CEO has "been found in multiple samples across decades of research" (Graffin et al. 2013, p. 2257), as reflected in both CEO compensation and the likelihood of dismissal.

Employee Satisfaction

Starting with the Hawthorne studies (Roethlisberger and Dickson 1939), which focused on how working conditions may shape employee work attitudes, scholars have long studied the role of employee satisfaction in organizations. As we noted, employee satisfaction captures the degree to which an employee is content with their job at the firm (Judge and Kammeyer-Mueller 2012).

Research has examined the determinants and consequences of employee satisfaction for firms. In terms of determinants, this literature broadly concludes that social environment characteristics, leadership, organizational practices, and job characteristics are the primary antecedents of employee satisfaction (Judge and Kammeyer-Mueller 2012). As for specific factors shaping employee satisfaction, research suggests that job design (Barling et al. 2003), pay (Dyer and Theriault 1976), and high-performance work systems (Takeuchi et al. 2009) each positively predict employee satisfaction. Thus, firms' human resources policies influence employee satisfaction.

In terms of shaping organizational outcomes, human resources research suggests several reasons why employee satisfaction should benefit firms. First, resource-based arguments (Penrose 1959) suggest that having satisfied employees can lead to a competitive advantage for firms (Becker and Gerhart 1996). Others argue that employee satisfaction leads to job embeddedness (Mitchell et al. 2001), which not only leads to lower turnover but can also be a valuable recruiting tool. Despite these well-articulated expected benefits, early studies struggled to find consistent support for employee satisfaction leading to substantive firm outcomes (Brayfield and Crockett 1955, Petty et al. 1984, Iaffaldano and Muchinsky 1985). Later research noted these nonfindings were likely driven by a lack of clear construct definition and measurement issues. As Harter et al. (2010) noted, "Research devoted to the employee perception–performance relationship waned, largely because of misinterpretation of the findings" (p. 379).

Subsequent research, however, finds that employee satisfaction shapes important individual-level outcomes. First, employee satisfaction positively influences job embeddedness (Mitchell et al. 2001), which, in turn, negatively predicts employee turnover (Lee et al. 1999). This lower turnover, then, indirectly leads to financial benefits for the firm in terms of the retention of employee knowledge and lower recruiting and training costs (Shaw et al. 1998). Numerous studies also find that employee satisfaction positively predicts individual-level job performance (Barsade and Gibson 2007, Fisher 2010). This effect occurs because satisfied employees are more motivated to perform their job duties (Organ 1977). Finally, high levels of job satisfaction may also facilitate organizational citizenship behavior (Organ 1988) and other types of discretionary activities for the firm (Kidwell et al. 1997).

Research finds employee satisfaction also shapes organizational outcomes. For instance, building on individual-level research examining employee satisfaction and job performance, a meta-analysis finds that employee satisfaction leads to stronger firm performance (Harter et al. 2010). Further, Zhou et al. (2008) found that employee satisfaction is positively associated with a firm's product quality, which, in turn, positively influences firm performance. Other studies highlight that these financial benefits tend to take time to manifest though. Public firms are under pressure to also deliver results quickly, so investors are not always happy in the short run when firms enact policies that enhance employee satisfaction, such as raising employee wages (Abowd 1989, Gorton and Schmid 2004). Similarly, Edmans (2011) finds that employee satisfaction is not fully valued in the short run, but that it leads to higher long-term stock returns. In sum, this research concludes that employee satisfaction is consequential for employees and their organizations, but some outcomes may take longer to manifest.

At the same time, research suggests that employee satisfaction specifically, and nonshareholder stakeholder assessments more generally, have largely been absent in CEO assessments. In summarizing this research, " … it is notable that boards of directors at large publicly traded firms do not typically reward CEOs for attending to a wide range of stakeholders' interests" (Bosse and Sutton 2019, p. 196). Indeed, we know little about how employee satisfaction ratings of their employer may or may not shape CEO assessments more broadly.

What little evidence we do have comes from a recent study by Wang et al. (2023). They examine how employees' approval ratings of the CEO influence CEO dismissal. They find that a CEO is more likely to be fired when the CEO has a lower approval rating and that this result is weaker when the CEO has more power or when the board is already under pressure to replace the CEO. While these findings help expand our understanding, there is much they do not tell us. Specifically, their study exclusively focuses on employees' approval ratings of a CEO, which is just a small component of employees' overall satisfaction with the firm, and thus is a theoretically different construct. Even if employees are unhappy with the CEO (e.g., due to high CEO pay), they may still be very satisfied with their firm due to other factors, such as great coworkers and immediate supervisors, opportunities for advancement, work-life-balance, or financial benefits. Thus, their findings do not directly

speak to our research question. Further, our study also differs from theirs by exploring not only CEO punishment, but also CEO rewards (pay).

As we still have a limited understanding of the extent to which boards value employee satisfaction, many important questions remain unanswered. Are employee satisfaction ratings a metric by which boards infer CEO quality? Does the degree to which CEOs satisfy employees affect boards' CEO assessments, in terms of their pay and retention, even when controlling for multiple indicators of current financial performance? What factors may differentially cause firms to incorporate employee satisfaction ratings into its CEO assessments? To explore these issues, we focus on how employee satisfaction ratings inform board assessments of CEOs.

Glassdoor Ratings

For many years, information regarding employee satisfaction was generally only available to organizations via internal surveys or was indirectly inferred via other noisy proxies, such as employee turnover or productivity metrics. This information was available to management and was sometimes provided to the board. The emergence of Glassdoor.com in 2008, however, allowed employees to publicly and anonymously rate their employer and thereby changed the informational environment in which firms operate. This relatively new organizational phenomenon has created a new way for boards to assess employee satisfaction.

We focus on employee satisfaction ratings from Glassdoor for several reasons. First, directors can directly observe employee satisfaction using Glassdoor ratings. These ratings are visible and commonly discussed, which means that the board and executives are likely aware of them. For example, a *Wall Street Journal* article highlighted, "Who's Reading Employees' Online Reviews? Their CEOs" and notes that CEOs regularly tweet about, and even respond to, comments on Glassdoor (Fuhrmans 2017). Further, popular press articles note that firms such as SpaceX, LinkedIn, and Slack encourage employees to provide feedback on Glassdoor (Winkler and Fuller 2019).

Second, employee satisfaction ratings from Glassdoor are easily interpretable and publicly accessible. This is particularly important because anytime an individual wishes to seek out information to incorporate into a judgment, such as the assessment of a CEO, they incur information processing costs. Such costs involve an individual becoming aware of the information, acquiring the information, and integrating the new information into their judgment (Blankespoor et al. 2020). Fortunately, employee satisfaction ratings from Glassdoor focus on a single stakeholder group and provide a clear rating along an easily understood dimension. Indeed, this visible rating distills a great deal of data into a clear and easily understood evaluation, which minimizes board members' information processing costs. Thus, if a director wishes to incorporate a metric of employee satisfaction into their CEO assessment, Glassdoor provides a ready-made and easily interpretable metric to do so.

Third, the media cover employee satisfaction ratings in articles, such as, "These are the best places to work in 2020, according to employee reviews" (Liu 2019), whereas other articles discuss, "How companies are coping with the rise of employee-review site Glassdoor" (Adams 2016). This media coverage makes these ratings more salient to other stakeholders, such as shareholders, who may view employee satisfaction ratings as important. In turn, this media coverage may lead to public pressure for boards to account for these ratings.

Fourth, anecdotal evidence illustrates that firms use employee satisfaction measures to evaluate and compensate their CEOs. For instance, as evidence that its CEO was satisfying its employees, Delta Air Lines' Proxy statement highlighted that it was named one of the Best Places to Work in the 2018 Glassdoor Employee Choice Awards (see Appendix A for additional examples).

Fifth, Glassdoor ratings are a useful summary measure of employee satisfaction, regardless of whether the firm also has internal ratings on employee satisfaction. For example, it could be the case that boards may not have access to internal employee satisfaction ratings. In this case, Glassdoor ratings may provide a primary metric for board members who wish to include employee satisfaction in CEO assessments. Alternatively, it may be the case that boards have access to internal employee satisfaction ratings and these public Glassdoor ratings are highly correlated with these internal ratings. In this case, Glassdoor ratings likely reinforce the information in the internal ratings and provide directors with not only greater confidence to act on the information, but also public pressure to do so. Either way, employee satisfaction ratings from Glassdoor provide a clear, visible, and easy-to-understand rating by which directors can assess employee satisfaction at the firm. Moreover, these ratings shaped how firms manage their standing in the labor market and created a need for senior leaders to take them into account across various decision domains.

Employee Satisfaction Ratings and CEO Compensation

As we noted, board evaluations of CEOs are informed by the CEO's ability to deliver valued outcomes for the firm. We thus examine if employee satisfaction ratings inform CEO assessments. Although employee satisfaction is not directly determined by top executives, it is shaped by human resource policies (Becker and Huselid 1998), which are determined by a firm's top executives, including its CEO. As we noted, despite the many benefits for firms with more satisfied employees, because such benefits may largely be manifested in the longer-term (Edmans 2011), research suggests that employee

satisfaction metrics, be they public or internal ratings, have historically not shaped CEO assessments (Bosse and Sutton 2019).

We propose there are at least three potential, and nonmutually exclusive, factors that may play a role in boards incorporating employee satisfaction ratings in their CEO evaluations. First, boards may consider employee satisfaction ratings in CEO evaluations because they believe employee satisfaction leads to higher levels of financial performance for the firms they represent. Studies find that stakeholder management generally (Hillman and Keim 2001), and managing employee satisfaction particularly (Edmans 2011), positively influences a firm's financial performance. Research suggests that firms that successfully manage their employees enjoy numerous positive organizational outcomes, such as lower voluntary employee turnover (Huselid 1995), higher levels of innovation (Flammer and Kacperczyk 2016), and, ultimately, higher levels of longer-term firm financial performance (Edmans 2011, Flammer 2015).

Second, boards of directors' public commitment to corporate social responsibility (CSR) may lead them to incorporate employee satisfaction ratings in their CEO evaluations. In particular, the upper echelons are increasingly taking actions that appear consistent with the stakeholder perspective (Wang et al. 2016), which argues that meeting the needs of nonshareholder stakeholders is of intrinsic value and is a moral imperative (Donaldson and Preston 1995, Mackey et al. 2007). This public commitment to CSR can be seen in pronouncements of groups of high-profile executives, such as the Business Roundtable, which has called on firms to meet the needs of all stakeholders.

Third, firms may incorporate employee satisfaction ratings into CEO evaluations to protect their reputation in response to institutional pressures. Indeed, as investment funds focusing on socially responsible firms now hold trillions of dollars (U.S. SIF Foundation 2020), this suggests that powerful institutional actors have endorsed supporting stakeholders. As firm reputations are built on delivering valued outcomes for stakeholders, such pressures may lead to firms including employee satisfaction ratings in CEO assessments. Indeed, the publicity associated with employee satisfaction ratings may be a means by which such ratings shape CEO assessment. Thus, board members may fear that failing to adopt this perspective may lead to reputational damage for the firm they are charged to represent.

As a baseline test, we examine how employee satisfaction ratings inform boards of directors' assessments of CEOs. As we noted, boards reward CEOs when they deliver desired firm outcomes. If meeting the needs of employees is valued by boards of directors, then they should incorporate such ex ante incentives into CEOs' contracts and, when employee satisfaction ratings increase, the CEO should be rewarded with higher levels of pay. Thus, we hypothesize the following.

Hypothesis 1a. *CEO pay is positively associated with employee satisfaction ratings.*

Employee Satisfaction and CEO Dismissal. Analogously, the ultimate test of whether a board concludes a CEO is performing acceptably is the CEO's retention or dismissal. At the same time, however, if board members value employee satisfaction ratings, we expect to see a direct influence of these ratings on decisions to dismiss or retain a CEO. We thus hypothesize the following.

Hypothesis 1b. *CEO dismissal is negatively associated with employee satisfaction ratings.*

Moderating Factors

The reasons leading boards to consider employee satisfaction ratings in CEO evaluations likely vary depending on the nature of the firm. As we noted, we can conceive of three different, but not necessarily mutually exclusive, reasons why boards would incorporate employee satisfaction ratings into their CEO evaluations: (1) believing employee satisfaction will result in positive financial returns, (2) signaling support for the firm's stakeholders, and (3) mitigating reputational concerns. We elaborate on each of these potential reasons in the following hypotheses.

Financial Returns: Stakeholder Importance. First, we suggest that boards may elect to incorporate employee satisfaction ratings into CEO evaluations for financial reasons, as satisfied stakeholders can directly or indirectly contribute to the firm's financial performance (Hillman and Keim 2001). Given our focus is on employee satisfaction ratings, it follows that to detect economic motivations for incorporating this assessment into CEO evaluations, we need to consider contexts where employees are more or less critical to an organization's financial success. We thus expect employee satisfaction ratings will be of greater importance to the evaluation of a CEO when human capital is more important to the firm. Indeed, the more critical employees and human capital are to a firm's success, the more likely rewarding CEOs for employee satisfaction ratings will drive longer-term financial performance.

Human capital should be more important to the firm, and thus more influential in informing a CEO's evaluation, when the firm's strategy relies more on generating intangible assets (Kaplan and Norton 2004, Lev 2004). Attracting and retaining the highly skilled employees who generate these intangibles is so critical that nearly half of the technical professionals in the United States are asked to sign noncompete agreements (Marx 2011). Although employee satisfaction has generally been positively associated with firm performance (Harter et al.

2002), this is particularly true for more human capital–intensive industries, which rely on the firm's human capital to drive the innovation required to succeed in such contexts. Indeed, as Lenihan et al. (2019) noted, human capital " … is crucial to firms' capacity to absorb and organize knowledge and to innovate (Subramaniam and Youndt 2005, Teixeira and Tavares-Lehmann 2014, Protogerou et al. 2017)" (p. 1). Thus, managing and responding to employee satisfaction ratings is particularly important for such firms.[1]

In contrast, when firms are less reliant on human capital, they can rely more on unskilled labor (Sirmon and Hitt 2009), which is more easily replaced, has less wage variation, and fewer options for benefits (Oi 1962, Shapiro 1986, Dolfin 2006, Blatter et al. 2012). This suggests that for these firms, managing employee satisfaction is less critical to firm success, and boards thus likely discount its importance in informing their evaluation of the CEO. This highlights the varying importance of managing human capital for CEO evaluations. We thus suggest that, if boards are incorporating employee satisfaction ratings into CEO evaluations for financial performance reasons, our baseline relationships should be stronger when firms rely more on human capital for success. We thus hypothesize the following.

Hypothesis 2a. *The positive relationship between CEO pay and employee satisfaction ratings is stronger when firms are more reliant on human capital.*

Hypothesis 2b. *The negative relationship between CEO dismissal and employee satisfaction ratings is stronger when firms are more reliant on human capital.*

Visible Commitment to Stakeholders: Board-Level CSR Committee. Second, we examine if employee satisfaction ratings are more influential in CEO evaluations when firms have visibly committed to supporting stakeholders. Indeed, a logical corollary to our arguments is that if a firm's board of directors wishes to visibly signal its commitment to the stakeholders, then the board will establish institutional structures to ensure its focus on stakeholders.

Research suggests that establishing a board-level CSR committee provides a visible signal of a firm's integration of stakeholder considerations. First, research suggests it helps ensure that the board monitors and tracks issues related to stakeholders (McDonnell et al. 2015). Adopting this structure also formalizes the legitimacy of stakeholder concerns in the management of the firm. Consistent with this idea, research consistently finds that when firms adopt a CSR committee, it results in outcomes relating to CSR investments. Specifically, research finds that the adoption of a CSR committee is positively associated with firm CSR disclosure (Rao et al. 2012, Giannarakis 2014), CSR performance (Walls et al. 2012), and firm receptivity to activist challenges (McDonnell et al. 2015).

Adopting a CSR committee is also a public means by which the board can let investors, who are increasingly adopting the stakeholder perspective (U.S. SIF Foundation 2020), know the firm and its board are considering stakeholder concerns. Because of the visible nature of such committees, as well as the substantive changes that often follow the adoption of these committees, we expect that the link between CEO evaluations and employee satisfaction ratings will be stronger after a firm adopts a board-level CSR committee. Thus, we hypothesize the following.

Hypothesis 3a. *The positive relationship between CEO pay and employee satisfaction ratings is stronger after a firm has established one or more board-level CSR committees.*

Hypothesis 3b. *The negative relationship between CEO dismissal and employee satisfaction ratings is stronger after a firm has established one or more board-level CSR committees.*

As the adoption of CSR committees could be due to firm leadership sincerely believing in the stakeholder perspective (i.e., a normative approach) or instead simply seeing it as a good business practice (i.e., an instrumental approach), we also perform post hoc analyses to try to tease out the normative approach.

Reputational Concerns: Role of Firm Reputation. Finally, it may also be the case that a firm's reputational concerns play a role in the extent to which employee satisfaction ratings are incorporated into CEO evaluations. To explore this possibility, we examine the role of firm reputation, as institutional pressures may be particularly salient when firms have high reputations (Fombrun 1996).

High-reputation firms enjoy numerous benefits that other firms do not, such as the ability to charge premium prices for products or access capital at a lower cost (Fombrun 1996, Barnett and Pollock 2012). Some benefits have their limits, however. For example, having a high reputation can act as a buffer that mitigates some of the damage when a negative event occurs if there is uncertainty about an actor's intent (Godfrey 2005, Godfrey et al. 2009, Christensen 2016). In such cases, the actor tends to be given the benefit of the doubt. However, when there is less uncertainty about intent, having a high reputation can amplify the harm that occurs after a negative event (Bartov et al. 2021). This is because high-reputation actors are held to higher standards and more is expected of them (Fombrun 1996, Milbourn 2003, Wade et al. 2006, Graffin et al. 2013b). When those expectations are violated by a deviant action, larger economic losses and more negative news coverage can occur (Rhee and Haunschild 2006, Mishina et al. 2012, Bundy and Pfarrer 2015, Vergne et al. 2018, Dewan and Jensen 2020, Paruchuri et al. 2021, Han et al. 2024). Research suggests that

high-reputation firms are aware of such hazards and are thus more likely to take proactive steps to avoid the negative effects of expectancy violations than firms without a high-reputation (Graffin et al. 2016).

One area where firms have to tread carefully is in the area of corporate social responsibility. Investment funds focusing on socially responsible firms now hold trillions of dollars (Christensen et al. 2022), and a large proportion of institutional investors have incorporated ESG considerations into their investing decisions due to client expectations and reputational concerns (Capital Group 2022). These trends likely create pressure on board members to respond to these concerns and increasingly integrate the stakeholder perspective. Although all firms feel this pressure to some extent, high-reputation firms' tendency to be more proactive at mitigating risks may fuel them to take the feedback from stakeholders more seriously to avoid potential situations that could lead to negative events (Graffin et al. 2016).

These ideas suggest that boards at high-reputation firms may be increasingly incorporating stakeholder assessments into CEO evaluations in response to public pressures to do so. If it is public pressure driving these changes, concerns to protect the firm's reputation likely drive boards at high-reputation firms to incorporate stakeholder feedback into their evaluations. That is, board members at high-reputation firms will have amplified concerns regarding the potential reputational damage their firms face if they do not incorporate these ideas into CEO evaluations.

Such concerns are particularly salient when it comes to stakeholders' public ratings of firms. Given the publicity associated with third-party quality signals (Rao 1994, Wade et al. 2006, Graffin and Ward 2010), such as ratings (Benjamin and Podolny 1999), we expect that directors at high-reputation firms may feel stronger pressure to incorporate such ratings into CEO assessments. We thus hypothesize the following.

Hypothesis 4a. *The positive relationship between CEO pay and employee satisfaction ratings is stronger when firms have high reputations.*

Hypothesis 4b. *The negative relationship between CEO dismissal and employee satisfaction ratings is stronger when firms have high reputations.*

Methods

Sample and Data

As Glassdoor's employee satisfaction ratings begin in 2008, our sample started with all firms on ExecuComp for the years 2008–2018. For each firm, we obtained employee satisfaction ratings from Glassdoor, financial information from Compustat, executive characteristics and pay from ExecuComp, analyst forecasts from I/B/E/S, board committees from BoardEx, firm reputation from Fortune, and CEO dismissal from the Gentry et al. (2021) database. These sample requirements resulted in a final sample of 6,293 firm-years for 1,189 unique firms and 1,760 unique CEOs.

Dependent Variables

Our first dependent variable, *CEO Bonus*, is measured as the natural logarithm of one plus the cash and nonequity bonuses provided to the CEO, in millions. For CEO compensation, we concentrate on bonuses paid to CEOs because research suggests that relative to equity-based compensation, nonfinancial performance metrics such as employee satisfaction ratings are most likely to be weighted in the CEO's contract through bonus payments (Ittner et al. 1997, Murphy and Jensen 2011, Hui and Matsunaga 2015). Thus, although financial performance metrics impact total CEO pay (see Devers et al. (2007) for review), we examine the role of employee satisfaction ratings on bonus payments. With that said, if we instead use total cash compensation, we find similar results (untabulated).

Our second dependent variable, *CEO Dismissal*, equals one if the CEO was fired and zero otherwise. Dismissals were identified by evaluating CEO successions using news articles (Gentry et al. 2021). First, this included eliminating instances in which CEOs had health problems or died, were interim CEOs, left due to a merger or acquisition, or the company ceased to exist. From the remaining successions, dismissals were identified when CEOs were reported to have stepped down for reasons related to job performance or were terminated for behavioral or policy-related problems. In untabulated analyses, we use several alternative definitions of *CEO Dismissal* and continue to find similar results. These alternative definitions treat the following situations as dismissals: (1) all CEO turnovers, (2) just CEO turnovers before age 65, (3) just CEO turnovers where the CEO did not retain a board seat, or (4) all CEO turnovers except when due to illness or death. The untabulated analyses help mitigate concerns that our primary tests may be excluding dismissals in disguise.

Independent Variable

We measured employee satisfaction ratings using employee-supplied scores from the website Glassdoor.com. Glassdoor is an online review website that maintains the largest available database of employee reviews. Current and former employees can access this website to voluntarily and anonymously review their employers on multiple dimensions, including their overall job satisfaction. Although employees may disclose their job titles in the review, most choose to remain anonymous. However, Glassdoor conducts several integrity checks that improve the reliability of their reviews, such as requiring email verification and screening user-submitted content to detect fraud and gaming. Several other studies have

examined the effect of Glassdoor ratings on various firm outcomes, including stock returns (Green et al. 2019) and future operating performance (Huang et al. 2015, 2020).

To measure employee satisfaction ratings, we focus on the overall *Employee Satisfaction Rating*, which captures the average overall job satisfaction rating given to the firm by employees during the year.[2] Glassdoor measures these ratings on a five-point scale, with one as the lowest rating and five as the highest. Because employee reviews may reflect idiosyncratic opinions of the firm that are not necessarily reflective of the firm's workplace environment, we require a minimum of 25 ratings during the year to average out idiosyncratic views. Similar sample restrictions are used in other studies examining Glassdoor ratings (Huang et al. 2015, Green et al. 2019, Rice et al. 2023). We find qualitatively similar results if we require 50 ratings (untabulated). Our primary analyses include reviews from both current and former employees, although we find similar results if we only include current employee reviews (untabulated). We use reviews from both current and former employees because the opinions of both are often necessary to obtain a full picture of the work environment (Huang et al. 2020), and a firm's most visible rating on the Glassdoor website is based on aggregate reviews from both types of employees combined.

Moderating Variables

To investigate Hypotheses 2a and 2b, we follow Gupta et al. (2017) and measure human capital intensity using an estimate of the compensation paid per employee. We argue that firms that rely on highly skilled labor will likely need to furnish employees with higher compensation, thus leading to higher costs per employee hired relative to firms employing low-skilled labor. We measure compensation costs at the industry level by averaging, for each two-digit SIC industry in our sample, the staff expense per employee among firms with available Compustat data. We construct the variable *Human Capital Intensity* using the average per-employee staff expense for the firm's industry in each fiscal year. This variable is then standardized with a mean of zero and a standard deviation of one for ease of interpretation.

To investigate Hypotheses 3a and 3b, we identified whether the firm's board of directors had a CSR committee by searching board committee names for CSR-related keywords. As CSR committees go by a variety of names, we searched for the following keyword-stems: sustain*, responsib*, ethic*, employee, health, safety, divers*, inclusion, environment*, community, citizen, public, and charit* (Aguilera et al. 2007, Mackey et al. 2007).[3] To capture the extent to which the board had established institutional structures to formalize their commitment to the stakeholder perspective, we then created a count variable, *CSR Committees*, which represents the number of unique board committees the firm has with one of these keywords in the committee title.

To investigate Hypotheses 4a and 4b, we use Fortune Magazine's "Most Admired Companies" list to gauge firm reputation. The Fortune "Most Admired Companies" list is a widely used measure of reputation in academic research (Fombrun and Shanley 1990, Brown and Perry 1994, Staw and Epstein 2000) because it is an independent and publicly available measure that covers a large number of companies and appears to capture the construct "corporate reputation" (Fombrun and Shanley 1990, Roberts and Dowling 2002). Consistent with recent research (Boivie et al. 2016, Gamache et al. 2019), we construct an indicator variable, *Most Admired*, that equals one for firms listed in the top 25 of the most admired companies list during the year and zero otherwise.

Control Variables

We also included control variables to capture other factors that could influence CEO bonuses or the likelihood of dismissal. These included several measures to capture the firm's financial performance, as it is commonly linked to CEO bonuses and dismissal. We capture two primary measures of firm performance: *ROA* measured as net income divided by total assets, and the firm's annual market-adjusted *Stock Return*, adjusted using the value-weighted market index. In addition, we include other firm performance metrics that are likely relevant. We follow Hui and Matsunaga (2015) and added *Sales Growth*, measured as current year sales divided by lagged sales and then subtracted by one. Since missing analyst forecasts, incurring losses, and reporting lower earnings compared with the prior year affect the annual CEO bonus as well (Matsunaga and Park 2001), we also added the following controls: *EPS Decline* measured as an indicator variable equal to one if current-year earnings per share is lower than prior year earnings per share, zero otherwise. *Miss Forecast* is an indicator variable equal to one if the firm's actual earnings per share is lower than the analyst consensus forecast, defined as the median earnings per share estimate for the last outstanding forecasts provided by all analysts following the firm and zero otherwise. *Loss* is an indicator variable equal to one if the firm reported negative net income and zero otherwise.

We included several control variables to capture other relevant firm and CEO attributes: *Size* measured as the natural logarithm of total assets to control for the well-established link between firm size and executive compensation (Gabaix and Landier 2008); *Book-to-market* as the book value of equity divided by market value of equity to control for firms' growth opportunities, which can influence CEO compensation (Smith and Watts 1992); *PP&E* as net property, plant and equipment divided by total assets to control for differences in compensation relating to managing old versus new economy

firms; *Liquidity* as current assets minus current liabilities divided by total assets, because a firm's ability to pay bonuses may be dependent on the availability of cash funds; *Log Employees* as the natural logarithm of the number of employees working in the firm (in thousands), because employee count may affect the number of Glassdoor reviews; *R&D* as research and development expense scaled by total assets; *Institutional Holdings*, as the percentage of shares held by institutional investors, and *Blockholders*, as the natural logarithm of the number of shareholders with at least five percent ownership stakes, to control for shareholder-based pressures; *Special Items*, as total special items divided by sales, to control for unusual events that might impact CEO evaluations; *CEO Tenure* as the number of years the CEO has been in office at the firm as research suggests it can influence CEOs' strategic decisions (Mueller 1987); and *CEO Age* as the age of the CEO as a CEO's career horizon may inform their risk taking (Matta and Beamish 2008). In our CSR committee models, we also control for a firm's number of unique board committees, # *Committees*, as firms with more committees may be more likely to create CSR committees. We winsorized all continuous variables at the top and bottom 1% to alleviate the effect of outliers.

Models

To test our hypotheses about CEO pay, we used ordinary least squares (OLS) panel regressions with year fixed effects to control for macroeconomic trends and firm-CEO fixed effects to control for time-invariant omitted variables during the CEO's tenure (e.g., CEO likeability or any stable CEO or firm characteristic).[4] Thus, we can isolate how a CEO's pay is affected by changes in employee satisfaction ratings during their tenure. To test our hypotheses about CEO dismissal, we used linear probability models (i.e., OLS) with year and firm fixed effects, which control for macroeconomic dismissal trends and for the possibility that some firms may generally be more likely to fire CEOs than other firms. We used linear models as they are helpful for using high-dimensional fixed effects and for interpreting marginal effects and interaction terms (Angrist and Pischke 2009), which can be problematic in nonlinear models (Greene 2004, Norton et al. 2004). Nevertheless, our results were substantively unchanged using negative binomial models for our CEO pay tests and conditional logit models for our CEO dismissal tests (untabulated). We ran the OLS models in Stata 16.1 using the *xtreg* command. In all models we clustered standard errors by firm to address serial correlation in the residuals.

Results

Table 1 reports descriptive statistics and Pearson correlations for each of the variables used in our tests. We also verified that variance inflation factors for all variables

Table 1. Descriptive Statistics and Correlations

	Variable	Mean	Standard deviation	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
1	*CEO Bonus*	0.87	0.57	1.00																			
2	*CEO Dismissal*	0.04	0.19	−0.12	1.00																		
3	*Employee Satisfaction Rating*	3.21	0.45	0.17	−0.06	1.00																	
4	*ROA*	0.06	0.08	0.19	−0.12	0.14	1.00																
5	*Returns*	0.02	0.28	0.18	−0.11	0.08	0.20	1.00															
6	*Loss*	0.13	0.34	−0.20	0.14	−0.12	−0.62	−0.15	1.00														
7	*Sales Growth*	0.06	0.15	0.05	−0.06	0.10	0.18	0.16	−0.14	1.00													
8	*EPS Decline*	0.38	0.49	−0.17	0.08	−0.03	−0.29	−0.24	0.22	−0.19	1.00												
9	*Miss Forecast*	0.27	0.44	−0.10	0.05	−0.04	−0.11	−0.12	0.08	−0.09	0.14	1.00											
10	*Size*	8.7	1.61	0.51	−0.03	0.23	−0.02	0.00	−0.15	−0.04	−0.03	0.02	1.00										
11	*Book-to-market*	0.41	0.39	−0.07	0.03	−0.12	−0.31	−0.23	0.11	−0.11	0.10	0.06	0.14	1.00									
12	*PP&E*	0.21	0.21	−0.03	0.02	−0.01	0.00	−0.04	0.06	−0.10	0.02	0.06	0.00	−0.03	1.00								
13	*Liquidity*	0.14	0.17	−0.19	0.01	−0.03	0.19	0.03	0.00	0.03	0.03	−0.05	−0.39	−0.04	−0.20	1.00							
14	*Log Employees*	2.65	1.32	0.35	0.02	0.03	0.12	−0.02	−0.14	−0.09	−0.02	−0.02	0.58	0.01	0.20	−0.20	1.00						
15	*R&D*	0.03	0.05	−0.12	−0.02	0.19	0.02	0.08	0.10	0.16	0.03	−0.08	−0.16	−0.20	−0.21	0.29	−0.26	1.00					
16	*Institutional Holdings*	0.75	0.26	−0.02	−0.05	0.03	0.12	0.06	−0.13	0.08	−0.06	−0.04	−0.09	0.01	−0.05	0.12	−0.06	0.07	1.00				
17	*Blockholders*	1.24	0.54	−0.10	−0.02	0.04	0.01	0.00	−0.03	0.04	−0.02	0.00	−0.22	0.02	−0.01	0.10	−0.20	0.07	0.80	1.00			
18	*Special Items*	−0.02	0.04	0.06	−0.07	0.04	0.42	0.13	−0.43	0.11	−0.26	−0.03	−0.02	−0.08	0.02	0.04	0.07	−0.08	0.07	0.03	1.00		
19	*CEO Tenure*	6.81	4.88	0.06	−0.01	0.07	0.10	0.02	−0.11	0.07	−0.02	0.00	0.01	0.00	0.00	0.02	0.05	0.03	0.06	0.05	0.10	1.00	
20	*CEO Age*	56.68	6.63	0.11	0.02	0.00	0.03	−0.03	−0.08	−0.06	0.00	0.00	0.11	0.06	0.04	−0.04	0.11	−0.14	0.01	0.02	0.04	0.42	1.00

in the models were below 3.5, confirming that multicollinearity was not a problem (Kennedy 2008).

Tests of Hypotheses

Table 2 provides the results of our multivariate tests examining the association between CEO bonuses and employee satisfaction ratings using OLS regressions. Model 1 presents the baseline results with only control variables, Model 2 presents the results with the *Employee Satisfaction Rating* measure (testing Hypothesis 1a), and Models 3 to 5 present the results where *Employee Satisfaction Rating* is interacted with several aforementioned moderating variables, testing Hypotheses 2a to 4a. Specifically, Model 3 examines whether the association between employee satisfaction ratings and CEO bonuses differs when firms are more reliant on human capital, Model 4 examines whether the association changes when the firm has established one or more board-level CSR committees, and Model 5 examines whether the association differs when firms have high reputations.

Hypothesis 1a predicted that CEO bonuses will be positively associated with employee satisfaction ratings. Consistent with this prediction, the results in Model 2 (as well as Models 3 to 5) reveal a positive association between *CEO Bonus* and *Employee Satisfaction Rating* (β = 0.063, p = 0.002). This suggests that CEOs tend to be rewarded for employee satisfaction ratings with larger bonuses. In practical terms, these results suggest that a one-standard-deviation increase in employee satisfaction ratings is associated with a 2.88% increase in the CEO's bonus, which increases the mean bonus earned by CEOs in our sample by $52,990. In comparison with our two primary financial metrics that often determine bonuses, ROA and stock returns, we find that a one standard deviation increase in each is associated with a 12% increase in bonuses (5.6% related to ROA and 6.6% from stock returns). This suggests that, although employee satisfaction ratings seem to have a direct influence on CEO compensation, firm financial performance still has roughly four times the influence.

Hypothesis 2a predicted that the relation between CEO bonuses and employee satisfaction ratings will be stronger when human capital is more important to the firm's financial performance. In Model 3, we find results consistent with this prediction, as there is a positive association between *CEO Bonus* and the interaction of *Employee Satisfaction Rating* × *Human Capital Intensity* (β = 0.019, p = 0.051). The coefficients indicate that, for a one-standard-deviation increase in human capital intensity, the relationship between employee satisfaction ratings and CEO bonuses increases by 34%. In Figure 1, we plot how the relationship between employee satisfaction ratings and CEO bonuses differs between firms with human capital intensity that is above or below the median. These findings are consistent with Hypothesis 2a.

Hypothesis 3a predicted that the relation between CEO bonuses and employee satisfaction ratings will be stronger after a firm has established board-level CSR committees. As expected, the results in Model 4 reveal a positive association between *CEO Bonus* and the interaction of *Employee Satisfaction Rating* × *CSR Committees* (β = 0.108, p = 0.048). The coefficient magnitudes indicate that the relationship between CEO bonus and employee satisfaction ratings is more than three times as strong when firms have one CSR committee. In Figure 2, we plot how the relationship between employee satisfaction ratings and CEO bonuses differs when a firm has or does not have a board-level CSR committee. Overall, these findings are consistent with Hypothesis 3a.

Hypothesis 4a predicted that the relation between CEO bonuses and employee satisfaction ratings will be stronger when firms have high reputations, as indicated by their presence in the top 25 of Fortune's Most Admired Companies list. In Model 5, we do not find results consistent with this prediction. Although the interaction term of *Employee Satisfaction Rating* × *Most Admired* is positive as predicted, it is not statistically significant at conventional levels (β = 0.111, p = 0.296). Therefore, we do not find evidence of a stronger relationship between employee satisfaction ratings and CEO bonuses when firms have a high reputation, and thus find no support for Hypothesis 4a. Collectively, the findings across all the models in Table 2 are consistent with the notion that CEOs are rewarded for employee satisfaction.

Next, we examine whether CEOs are punished when employees are not satisfied. Specifically, Table 3 reports the results of our CEO dismissal tests. As before, Model 1 presents the results with only control variables, Model 2 adds the *Employee Satisfaction Rating* measure (testing Hypothesis 1b), Models 3 to 5 present the results where *Employee Satisfaction Rating* is interacted with various moderating variables, specifically human capital intensity (Hypothesis 2b), CSR committees (Hypothesis 3b), and whether the firm is in the top 25 of Fortune's Most Admired Companies list (Hypothesis 4b).

Hypothesis 1b predicted that CEO dismissal will be negatively associated with employee satisfaction ratings. Consistent with this prediction, the results in Model 2 reveal a negative association between *CEO Dismissal* and *Employee Satisfaction Rating* (β = −0.034, p = 0.001). This suggests that CEOs are more likely to be fired when employee satisfaction ratings decrease. In practical terms, these results suggest that a one-standard deviation decrease in employee satisfaction ratings is associated with a 1.53-percentage-point increase in the probability of CEO dismissal. Given that the baseline probability of CEO dismissal in our sample is 3.83%, this represents a 40% increase in the likelihood of dismissal. In comparison with our two primary financial

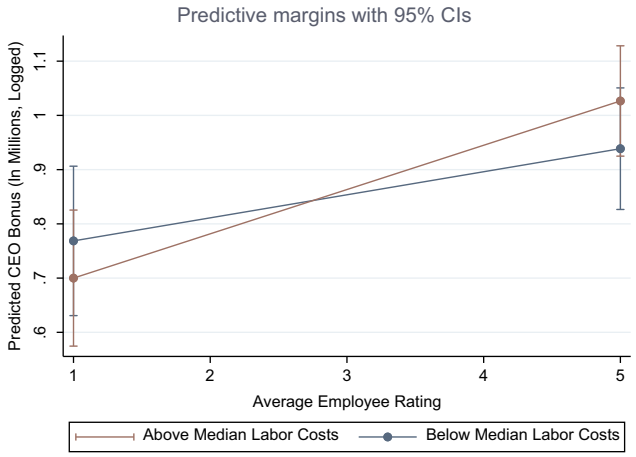
Table 2. Relationship Between CEO Bonuses and Employee Satisfaction Ratings

		H1a	H2a	H3a	H4a
	(1)	(2)	(3)	(4)	(5)
Employee Satisfaction Rating (H1a)		0.063**	0.056**	0.048*	0.062**
		(0.021)	(0.020)	(0.021)	(0.021)
Rating × Human Capital (H2a)			0.019†		
			(0.010)		
Rating × CSR Committees (H3a)				0.108*	
				(0.055)	
Rating × Most Admired (H4a)					0.111
					(0.107)
Human Capital Intensity			−0.062†		
			(0.032)		
CSR Committees				−0.439*	
				(0.200)	
# Committees				0.022	
				(0.014)	
Most Admired					−0.401
					(0.384)
ROA	0.695**	0.681**	0.642**	0.680**	0.674**
	(0.170)	(0.169)	(0.166)	(0.169)	(0.170)
Returns	0.227**	0.228**	0.229**	0.226**	0.227**
	(0.020)	(0.020)	(0.020)	(0.020)	(0.020)
Loss	−0.033	−0.031	−0.033	−0.032	−0.032
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
Sales Growth	0.296**	0.294**	0.293**	0.300**	0.296**
	(0.049)	(0.049)	(0.049)	(0.050)	(0.049)
EPS Decline	−0.081**	−0.082**	−0.080**	−0.083**	−0.083**
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Miss Forecast	−0.051**	−0.051**	−0.051**	−0.051**	−0.051**
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Size	0.082*	0.080*	0.073†	0.077†	0.080*
	(0.041)	(0.040)	(0.041)	(0.040)	(0.040)
Book-to-market	−0.122**	−0.116**	−0.117**	−0.117**	−0.116**
	(0.040)	(0.040)	(0.040)	(0.039)	(0.041)
PP&E	−0.482**	−0.472*	−0.466*	−0.480**	−0.476*
	(0.185)	(0.186)	(0.183)	(0.185)	(0.185)
Liquidity	−0.117	−0.125	−0.142	−0.125	−0.127
	(0.090)	(0.090)	(0.090)	(0.090)	(0.090)
Log Employees	−0.012	−0.012	−0.010	−0.012	−0.014
	(0.051)	(0.051)	(0.051)	(0.051)	(0.051)
R&D	0.485	0.431	0.459	0.422	0.423
	(0.407)	(0.402)	(0.403)	(0.400)	(0.403)
Institutional Holdings	−0.063	−0.061	−0.067	−0.058	−0.058
	(0.068)	(0.068)	(0.071)	(0.068)	(0.068)
Blockholders	0.039	0.037	0.042	0.035	0.037
	(0.025)	(0.025)	(0.026)	(0.025)	(0.026)
Special Items	−0.273	−0.278	−0.250	−0.279	−0.276
	(0.200)	(0.200)	(0.201)	(0.198)	(0.200)
CEO Tenure	−0.033	−0.033	−0.033	−0.034	−0.034
	(0.023)	(0.023)	(0.023)	(0.023)	(0.023)
CEO Age	0.104**	0.102**	0.106**	0.102**	0.104**
	(0.032)	(0.033)	(0.033)	(0.033)	(0.033)
Observations	6,293	6,293	6,200	6,293	6,293
R^2: within	0.175	0.176	0.179	0.179	0.177
Firm-CEO fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes

Note. Standard errors are in parentheses.
†$p < 0.10$; *$p < 0.05$; **$p < 0.01$.

metrics that often determine dismissal, ROA and stock returns, we find that a one standard deviation increase in each is associated with a 1.8-percentage-point increase in dismissal (1.16% related to ROA and 0.64% from stock returns). This suggests that, although employee satisfaction ratings seem to have a direct influence on CEO dismissal, firm financial performance still has roughly 1.2 times the influence.

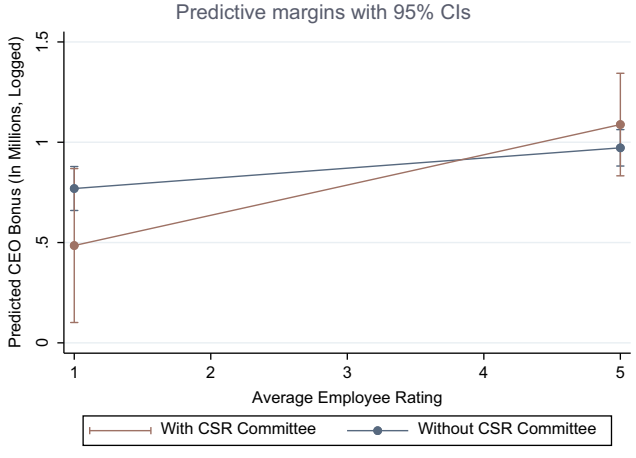
Figure 1. (Color online) Relationship Between CEO Bonuses and Employee Satisfaction Ratings for Firms with Below Median and Above Median Human Capital Intensity



Hypothesis 2b predicted that the relation between CEO dismissal and employee satisfaction ratings is stronger for firms when human capital is more financially important. We find results supporting this prediction in Model 3. The interaction coefficient of *Employee Satisfaction Rating* × *Human Capital Intensity* is statistically significant ($\beta = -0.013$, $p = 0.014$). In examining coefficient magnitudes, we find that a one-standard-deviation increase in labor expenses is associated with a 35% increase in the relationship between employee satisfaction ratings and CEO dismissal. In Figure 3, we plot how the relationship between employee satisfaction ratings and CEO dismissal differs between firms with human capital intensity above or below the median.

Hypothesis 3b predicted that the relation between CEO dismissal and employee satisfaction ratings will be stronger after a firm has established board-level CSR committees. We do not find results supporting this prediction, as our results in Model 4 do not reveal a significant association between *CEO Dismissal* and the interaction of *Employee Satisfaction Rating* × *CSR Committees* ($\beta = -0.014$, $p = 0.511$). Overall, we find no evidence that the relationship between CEO dismissal and employee satisfaction ratings is strengthened for firms with board-level CSR committees.

Figure 2. (Color online) Relationship Between CEO Bonuses and Employee Satisfaction Ratings for Firms with and Without CSR Committees



With respect to Hypothesis 4b, which predicted that the relation between CEO dismissal and employee satisfaction ratings will be stronger when firms have high reputations, we do find results supporting this prediction. In Model 5, we find that the interaction coefficient of *Employee Satisfaction Rating* × *Most Admired* is negative, as expected, and marginally statistically significant ($\beta = -0.04$, $p = 0.067$). In examining coefficient magnitudes, we find that the relationship between employee satisfaction ratings and CEO dismissal is more than twice as strong when a firms is in the top 25 of Fortune's Most Admired List. In Figure 4, we plot how the relationship between employee satisfaction ratings and CEO dismissal differs between high-reputation firms and other firms. Therefore, our findings are consistent with Hypothesis 4b. Collectively, the findings across all the models in Table 3 are consistent with the notion that CEOs are more likely to be punished when employees are dissatisfied.[5]

Initiation of Glassdoor Reviews

Next, to strengthen our inferences, we examine whether CEOs experience changes in their bonuses or dismissal probabilities after their firm is first reviewed on the Glassdoor website. Although Glassdoor was initially launched in 2008, firms received their first reviews on the website gradually over time. We exploit the staggered timing of Glassdoor review initiation to conduct a generalized difference-in-differences (DID) analysis (Bertrand and Mullainathan 2003), which allows us to compare changes in bonuses and dismissals between treatment and control groups while retaining our existing fixed effect structure. In our setting, treatment firms are firms that have received their initial Glassdoor reviews, and the control group consists of all other firms.[6] This identification strategy is ideal to utilize as Dube and Zhu (2021) found that the timing of a firm's initial Glassdoor reviews was unrelated to a firm's existing treatment of employees. We conduct this analysis separately for firms which have positive and negative initial reviews, where the distinction of positive or negative is based on whether the firm's average rating in the initial year is higher or lower than the industry average (using the Fama French 48). In summary, our DID regression models use either CEO bonus or CEO dismissal as the dependent variable and use *Post Positive Review* (*Post Negative Review*) as the independent variable of interest to estimate the DID treatment effect. *Post Positive Review* (*Post Negative Review*) is an indicator variable

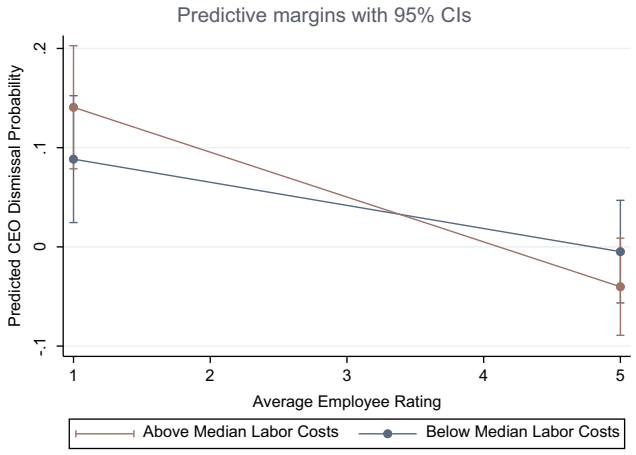
Table 3. Relationship Between CEO Dismissal and Employee Satisfaction Ratings

		H1b	H2b	H3b	H4b
	(1)	(2)	(3)	(4)	(5)
Employee Satisfaction Rating (H1b)		−0.034**	−0.037**	−0.031**	−0.033**
		(0.011)	(0.011)	(0.011)	(0.011)
Rating × Human Capital (H2b)			−0.013*		
			(0.005)		
Rating × CSR Committees (H3b)				−0.014	
				(0.021)	
Rating × Most Admired (H4b)					−0.040†
					(0.022)
Human Capital Intensity			0.050**		
			(0.019)		
CSR Committees				0.051	
				(0.070)	
# Committees				0.003	
				(0.007)	
Most Admired					0.139†
					(0.079)
ROA	−0.155†	−0.145	−0.146	−0.147	−0.143
	(0.091)	(0.092)	(0.093)	(0.092)	(0.092)
Returns	−0.023*	−0.023*	−0.025*	−0.024*	−0.024*
	(0.012)	(0.011)	(0.012)	(0.011)	(0.011)
Loss	0.046**	0.045**	0.045**	0.045**	0.045**
	(0.016)	(0.016)	(0.017)	(0.016)	(0.016)
Sales Growth	−0.018	−0.017	−0.017	−0.017	−0.017
	(0.025)	(0.025)	(0.025)	(0.025)	(0.025)
EPS Decline	0.007	0.007	0.006	0.007	0.007
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Miss Forecast	0.013†	0.013†	0.013†	0.013†	0.013†
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Size	−0.024	−0.023	−0.025	−0.023	−0.023
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Book-to-market	0.026	0.024	0.019	0.024	0.024
	(0.021)	(0.021)	(0.022)	(0.021)	(0.021)
PP&E	0.223†	0.224†	0.229†	0.223†	0.225†
	(0.120)	(0.120)	(0.122)	(0.121)	(0.120)
Liquidity	0.069	0.074	0.074	0.074	0.075
	(0.055)	(0.055)	(0.056)	(0.055)	(0.055)
Log Employees	0.021	0.020	0.024	0.019	0.021
	(0.022)	(0.022)	(0.022)	(0.022)	(0.022)
R&D	−0.241	−0.210	−0.216	−0.211	−0.211
	(0.269)	(0.271)	(0.270)	(0.270)	(0.271)
Institutional Holdings	0.001	−0.000	0.006	−0.001	−0.001
	(0.028)	(0.028)	(0.029)	(0.028)	(0.028)
Blockholders	−0.001	0.000	−0.001	−0.000	0.000
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Special Items	0.093	0.095	0.084	0.095	0.094
	(0.116)	(0.116)	(0.116)	(0.116)	(0.116)
CEO Tenure	0.007**	0.007**	0.007**	0.007**	0.007**
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
CEO Age	0.000	−0.000	−0.000	−0.000	−0.000
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Observations	6,293	6,293	6,200	6,293	6,293
R^2: within	0.036	0.037	0.038	0.037	0.037
Firm fixed effects	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes

Note. Standard errors are in parentheses.
†$p < 0.10$; *$p < 0.05$; **$p < 0.01$.

equal to one for the postreview period for firms with initially positive (negative) Glassdoor reviews and zero otherwise.[7] For this analysis, our sample again consists of firms on ExecuComp, but our sample period begins in 2003, which gives us the ability to have five pretreatment observations for each firm, consistent with Dube and Zhu (2021), which also uses the initiation of Glassdoor reviews as the empirical setting.

Figure 3. (Color online) Relationship Between CEO Dismissal and Employee Satisfaction Ratings for Firms with Below Median and Above Median Human Capital Intensity



The results are tabulated in Table 4. Columns (1) and (2) examine CEO bonuses for firms receiving their first Glassdoor reviews relative to the control group. While we do not find that firms receiving initially positive Glassdoor reviews experience changes in CEO bonuses, we do find that, after firms receive negative Glassdoor reviews initially, CEO bonuses decline significantly relative to CEOs at control firms. Columns (3) and (4) examine the likelihood of CEO dismissal for firms receiving their first Glassdoor reviews relative to control firms. We find that after firms receive positive initial reviews their CEOs are less likely to be dismissed, and after firms receive negative initial reviews their CEOs are more likely to be dismissed, relative to CEOs of control firms.[8]

Overall, these results further support our main predictions that CEO bonuses and dismissals are associated with employee satisfaction ratings on Glassdoor.

Figure 4. (Color online) Relationship Between CEO Dismissal and Employee Satisfaction Ratings for Most Admired and Non-Most Admired Firms

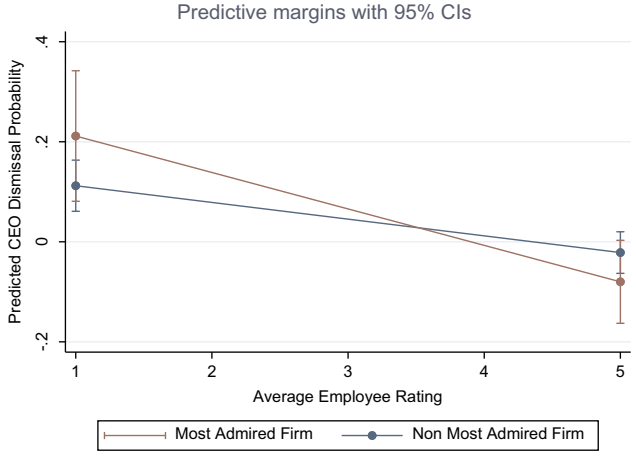


Table 4. Changes in CEO Outcomes Around Glassdoor Review Initiation

	(1)	(2)	(3)	(4)
	CEO Bonuses		*CEO Dismissal*	
Post Positive Review	−0.000		−0.008*	
	(0.012)		(0.004)	
Post Negative Review		−0.039**		0.007†
		(0.012)		(0.004)
ROA	0.340**	0.338**	−0.061**	−0.062**
	(0.046)	(0.046)	(0.024)	(0.024)
Returns	0.121**	0.122**	−0.026**	−0.025**
	(0.006)	(0.006)	(0.003)	(0.003)
Loss	−0.092**	−0.092**	0.026**	0.026**
	(0.010)	(0.010)	(0.005)	(0.005)
Sales Growth	0.100**	0.099**	−0.003	−0.003
	(0.011)	(0.011)	(0.005)	(0.005)
EPS Decline	−0.082**	−0.083**	0.001	0.001
	(0.005)	(0.005)	(0.002)	(0.002)
Miss Forecast	−0.043**	−0.043**	0.007**	0.007**
	(0.005)	(0.005)	(0.002)	(0.002)
Size	0.096**	0.096**	−0.018**	−0.018**
	(0.014)	(0.014)	(0.005)	(0.005)
Book-to-market	−0.085**	−0.085**	0.013*	0.013*
	(0.012)	(0.012)	(0.006)	(0.006)
PP&E	−0.110	−0.109	0.000	−0.000
	(0.069)	(0.068)	(0.026)	(0.026)
Liquidity	0.048	0.049	−0.026†	−0.026†
	(0.033)	(0.032)	(0.014)	(0.014)
Log Employees	0.018	0.017	0.011*	0.011*
	(0.015)	(0.015)	(0.004)	(0.004)
R&D	0.226*	0.226*	−0.169**	−0.171**
	(0.096)	(0.096)	(0.048)	(0.048)
Institutional Holdings	0.042†	0.044†	0.004	0.004
	(0.024)	(0.024)	(0.009)	(0.009)
Blockholders	−0.022*	−0.022*	−0.004	−0.004
	(0.009)	(0.009)	(0.004)	(0.004)
Special Items	−0.207**	−0.207**	−0.037	−0.037
	(0.048)	(0.047)	(0.031)	(0.031)
CEO Tenure	−0.004	−0.003	0.003**	0.003**
	(0.009)	(0.009)	(0.000)	(0.000)
CEO Age	0.001	0.001	0.000	0.000
	(0.006)	(0.006)	(0.000)	(0.000)
Observations	28,067	28,067	28,067	28,067
R^2: within	0.196	0.197	0.028	0.028
Firm-CEO fixed effects	Yes	Yes	No	No
Firm fixed effects	Subsumed	Subsumed	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes

Note. Coefficients are reported with clustered robust standard errors in parentheses.
**$p < 0.01$; *$p < 0.05$; †$p < 0.1$.

Moreover, these results strengthen and contextualize our inferences in three important ways. First, they strengthen the robustness of our tests against potential correlated omitted variables. Because our analysis exploits the staggered initiation of employee reviews on Glassdoor, any alternative factors that might explain our results would also need to coincide with the timing of these initial employee reviews. We believe that this is unlikely as the year in which a firm is first reviewed on Glassdoor is jointly determined by the year in which Glassdoor itself is launched, which is plausibly exogenous, and

idiosyncratic employee decisions to introduce and rate the firm on Glassdoor for the first time, which is likely more driven by employee characteristics. Thus, we believe it is highly unlikely that a correlated omitted variable is driving our results.

Second, the results highlight the mechanism by which Glassdoor ratings are incorporated into CEO outcomes. Although the ratings themselves could be explicitly factored into board evaluations of the CEO, they could also be correlated with internal ratings that boards use to evaluate employee satisfaction (e.g., internal surveys), such that the board is not directly responding to the Glassdoor ratings themselves. However, the previous analyses suggest that our main results are at least partially driven by boards explicitly incorporating Glassdoor metrics in their CEO evaluations. If the counterfactual were true, then we would not expect CEO outcomes to change after firms are initially reviewed, as the information supplied by the employees on Glassdoor would already be redundant with the knowledge that boards have from internal sources such that any consequences to CEOs would already be factored in before the initiation year. These results suggest that either ratings on Glassdoor provide new information to which the board is responding, or that the ratings may be redundant information but the publicization of this information has reputational effects to which the board responds.

Finally, these results indicate that even a small number of reviews on Glassdoor could affect CEO outcomes. While our main analyses require a minimum of 25 reviews per year to prevent a small number of idiosyncratic reviews from affecting our analyses, it can be argued that a higher threshold is warranted because 25 employees represent only a small fraction of the workforce in a large public corporation. However, given that we find that boards respond to ratings in a firm's initiation year, when only a few employees supply ratings for the firm,[9] we infer that boards rely on Glassdoor ratings even when a few individual employees contribute to these ratings. Because the aggregate rating for a firm is publicly available and prominently shown on the firm's Glassdoor website regardless of how many employees rated the firm, it is possible that boards feel the need to act on this information to protect the firm's reputation even if the ratings themselves are only reflective of a few employees' opinions.[10]

Supplemental Analyses

We performed untabulated analyses to further explore our main results. First, we attempted to ascertain whether a firm's sincere commitment to the stakeholder perspective also played a role in our results. To be able to assess this, one has to identify behavior that does not appear to be financially motivated. To do so, we analyzed firms' CSR performance in areas that are considered financially material (i.e., CSR issues that represent a substantial contribution to firm value if managed effectively) versus financially immaterial. We argue that firms that perform well on immaterial CSR issues are likely doing so because they innately care about these issues rather than being motivated by financial or reputational concerns. We obtain data on firms' CSR scores using MSCI KLD data and classify each CSR area into material and immaterial issues using industry-level standards from the Sustainability Accounting Standards Board (SASB). We construct two variables, *Material CSR* and *Immaterial CSR*, which represent firms' net CSR strengths score using CSR areas that are financially material and immaterial, respectively, to the firm's industry. We interact each of these two CSR variables with *Employee Satisfaction Rating*. This allows us to control for financial motivations and incrementally observe nonfinancially motivated behavior. Consistent with the stakeholder perspective, we find that the relationship between employee satisfaction ratings and CEO bonuses is statistically significantly stronger when firms' CSR performance is stronger on *immaterial* issues. This suggests that one motivation for firms in incorporating employee satisfaction ratings into CEO evaluations is that some firms have an innate concern for stakeholder needs, including the needs of their employees.

Second, to get a better sense of what factors may be informing the Glassdoor ratings, we "scraped" the qualitative comments provided by employees with their ratings. Because Glassdoor asks employees to provide pros and cons for the employer, we analyzed these categories separately. For each category, we calculated N-grams (Cavnar and Trenkle 1994), which identified the most common words that occurred together within employees' comments. Although we did this for two-word, three-word, and four-word combinations, the three-word combination yielded the clearest results. By far the most common words used together were "work, life, balance" for both positive and negative comments. Other common word combinations for positive comments were things like "great, work, environment," "flexible, work, schedule," "good, benefit," and "good, pay." In contrast, other common negative word combinations were "upper, management," "long, hour," "high, turnover," and "don't, care, employee." Collectively, these findings highlight the importance of having CEOs set up and maintain a work environment that allows employees to balance the demands of their job and home life.

Third, to assess if the importance of employee satisfaction ratings in CEO assessments has been increasing during our sample period, we reran our main tests and interacted *Employee Satisfaction Rating* with a time trend variable. Although we observed similar results for the main effect of employee satisfaction ratings, the interaction term was not meaningfully different from zero in any of the models. This suggests that since around 2008, a fairly stable relationship appears to exist.

Fourth, we further investigated the potential moderating role of financial performance for two reasons. First, prior research has found that firm performance can influence how firms interpret social performance (Hubbard et al. 2017, Shin et al. 2022). Second, we found that financial performance has a four times larger influence on CEO pay than employee satisfaction ratings (see our discussion of results). We investigated this moderating effect by first identifying strong-performing firms using an indicator, *High Stock Return,* equal to one for firms that have stock returns in the top quartile of their industry peers (defined using the Fama French 48). Then we examined the relationship between CEO outcomes and the interaction of *Employee Satisfaction Rating* × *High Stock Return* and found that the interaction term was statistically insignificant for both bonus and dismissal. Thus, we did not find evidence that having high stock returns ex post alters how employee satisfaction ratings are impounded into CEO evaluations.[11]

Fifth, to provide more insight into the attributes of boards that make them more receptive to employee satisfaction ratings, we examined if directors with greater exposure to stakeholder-oriented governance mechanisms on other boards amplified our main results. To the extent that directors see board-level CSR committees at other firms where they serve on boards, this experience will likely legitimize the need to focus on stakeholders and strengthen their resolve to incorporate that stakeholder feedback into their assessments of CEOs. To test this prediction, we first identified all the other firms that board members were connected to through board interlocks and then counted how many of those organizations had board-level CSR committees (*CSR Interlocks*). We then interacted *CSR Interlocks* with *Employee Satisfaction Rating* as an additional cross-sectional analysis. In so doing, we also controlled for the total number of companies that a firm was connected to via board interlocks. These tests revealed statistically significant evidence that a greater number of CSR interlocks amplifies the association between employee satisfaction ratings and CEO bonuses, consistent with our expectations, but we did not find evidence of this for CEO dismissal.

Sixth, although we employed CEO-firm or firm fixed effects in our main models to mitigate the confounding effects of correlated omitted variables, one drawback of this approach is that it does not allow for an estimation of between-firm effects, which may be of particular interest for our moderator tests as some of our moderating variables exhibit more between-firm variation than within-firm variation (e.g., CSR committees). To account for this, we made use of the *Xthybrid* module on Stata 16.1, which allows us to simultaneously estimate within-group and between-group effects in one model (Schunck and Perales 2017). We conducted this analysis for both our CEO bonus and dismissal models and for each of our moderator tests. Concerning our CEO bonus tests (where the group is each CEO-firm pairing), we find that the within-group and between-group effects are very similar, although our moderator tests indicate that the moderating effect of human capital is stronger when examining between-group variation, while the moderating effect of CSR committees is only significant when examining within-group variation. Concerning our CEO dismissal tests, we find that both the main effect and the moderating effects are only significant when examining within-firm variation.

Seventh, despite the fixed effects in our models, it is still possible that our results could be due to time-varying unmodeled factors (e.g., successful product launch, scandal, evolution in CEO abilities). To the extent that such factors influence firm performance, those things should already be addressed by our extensive controls for firm performance and institutional ownership. If such factors relate to changes in CEO experience or abilities (e.g., impression management), our control for CEO tenure should capture that. Nevertheless, to the extent that such changes are not captured by these controls, we addressed this by using a particularly stringent fixed effects structure. Namely, for our CEO compensation test, we split each CEO-firm fixed effect into two separate indicator variables, one for the first half of the CEO's tenure period within our sample and one for the second half. This design allowed us to control for any unmodeled factors that may have changed when comparing the early years to the later years of a CEO's tenure. Such changes could be at the firm level or the CEO level. Using this rigorous design, we again found similar results.[12]

Lastly, to quantify how hard it would be for a potentially correlated omitted variable to overturn our results, we calculated the impact threshold for a confounding variable (ITCV) following Frank (2000). For the CEO Bonus test (Table 2, column 2), the ITCV for *Employee Satisfaction Rating* is 0.0217, which indicates that the partial correlations between *CEO Bonus* and *Employee Satisfaction Rating* with a correlated omitted variable would have to be about 0.147 to overturn the results. To put this in perspective, the only control variable in our model with a higher impact than this hypothetical variable is firm size. Similarly, for the CEO dismissal test (Table 3, column 2), the ITCV for *Employee Satisfaction Rating* is −0.0221, which indicates that the partial correlations between *CEO Dismissal* and *Employee Satisfaction Rating* with a correlated omitted variable would have to be about 0.149 to overturn the results. No single control variable in our model has an impact that is higher than this hypothetical omitted variable. Overall, assuming our models have a reasonable set of control variables, these findings suggest that it is unlikely that an omitted variable would overturn the results.

Discussion and Conclusion

We examined if and how boards' evaluations of CEOs are influenced by employee satisfaction ratings. We also examined several contingencies to try to better understand the factors that may influence boards' inclusion of these ratings in CEO evaluations. Broadly, we found support for our baseline hypothesis that employee satisfaction ratings inform CEO evaluations in large public corporations. Using data from Glassdoor, our results suggest that employee satisfaction ratings influence the two primary outcomes of CEO evaluation: CEO compensation and dismissal (Graffin et al. 2013). Specifically, using a recent sample covering 2008–2018, we found that CEOs enjoy increased compensation when employee satisfaction ratings increase. In practical terms, our results indicate that when employee satisfaction ratings increase by one standard deviation, CEO bonus pay appears to increase by nearly 3%. At the same time, our results also suggest that firm financial performance continues to have the most important influence on CEO evaluation as the effect of firm financial performance on CEO bonus pay was roughly four times that of employee satisfaction ratings. We also found that employee satisfaction ratings are negatively associated with CEO dismissal, which suggests that decreases in employee satisfaction ratings increased the likelihood the board would dismiss the sitting CEO. We specifically found that a one standard deviation decrease in employee satisfaction ratings appears to increase the likelihood of a CEO's dismissal by 40%. These findings suggest that boards expect CEOs to satisfy the needs of employees, as they reward CEOs when they successfully do so and punish them when they do not. The scale of the rewards and punishment is still smaller than those associated with firm financial performance, however.

We also examined contextual factors that may shape these baseline relationships. First, we found that the link between employee satisfaction ratings and CEO evaluation is stronger when human capital is more important to the firm financially, consistent with the notion that the importance of a given stakeholder for the firm's success influences the degree to which that stakeholder's views are incorporated into CEO evaluations. Therefore, the importance of human capital for firm performance appears to be a substantial motivation for firms considering employee satisfaction ratings in evaluating CEO performance.

Second, we found that CEO evaluation, in terms of their compensation, was moderated by the extent to which the board had established institutional structures to formalize their commitment to attend to the needs of stakeholders. We specifically found that after a firm has established one or more board-level CSR committees, the influence of employee satisfaction ratings on CEO bonus pay appears to be amplified. This suggests that not only are stakeholder evaluations influential in informing CEO assessments but that the influence of such evaluations is, at least partially, determined by having board-level committees that are tasked with considering the firms' stakeholders. Third, we found that the link between CEO dismissal and employee satisfaction ratings is stronger when firms have high reputations, consistent with reputational considerations playing a role in firms incorporating employee satisfaction ratings into CEO evaluations. Fourth, in post hoc analyses we found that the link between employee satisfaction ratings and CEO bonuses is amplified when firms' CSR performance is stronger on financially immaterial issues. This suggests that some firms incorporate employee satisfaction ratings into CEO evaluations because of their innate concern for stakeholder needs.

Given this pattern of results, it seems that the mechanisms we examined are not mutually exclusive and that the motivations leading boards to consider employee satisfaction ratings vary and depend on the nature of the firm. These findings also suggest that future researchers should be cognizant that boards may engage in actions that appear to embrace the stakeholder perspective but may still be motivated by their responsibility to shareholders (e.g., to maximize financial returns or preserve firm reputation).

In addition, we examined a time trend to see if the relationships in our study strengthened during our sample, which covers the years 2008–2018. Indeed, the recent public pronouncement by the Business Roundtable, among others, led us to believe that this potential transformation may be a recent phenomenon. Our results, however, suggest that CEO assessments have incorporated this assessment throughout our sample. Combined with the recent study by Shin et al. (2022), which found that firm CSR performance informed CEO evaluations beginning in 2006, this suggests that actions consistent with the stakeholder perspective may have begun to be embraced in the board room at least 15 years ago, despite rhetoric consistent with this idea not becoming commonplace until recently (Business Roundtable 2019).

We believe this pattern of findings suggests an intriguing idea – that firms may be engaging in a form of reverse symbolic decoupling. While symbolic decoupling, where firms assert that they are adopting a practice to appease stakeholders and then do not actually follow through on this action, is well documented in the corporate governance context (Westphal and Park (2020) for a recent review of this literature), our pattern of results suggests the opposite in this setting. Specifically, we, along with Shin et al. (2022), find that firms appear to have incorporated stakeholder evaluations into CEO assessments roughly 15 years ago, while not bringing much attention to this practice until recent years as they may have been concerned about the unpopularity of this perspective early in this time window. Indeed, until the widely publicized 2019 Business Roundtable

pronouncement, it was largely assumed that shareholder considerations trumped other stakeholders' concerns for large public corporations. Such reverse decoupling, where a firm engages in a practice but does not boldly declare it, in terms of incorporating stakeholder evaluations in CEO assessments, may become even more salient in the coming years. Indeed, within the past year or so in the United States, 25 states sued the federal government to remove ESG criteria from investment decisions (Egan 2023), and "at least 165 bills and resolutions against ESG investment criteria were introduced in 37, mostly red, states between January and June 2023" (Goodkind 2023). Unsurprisingly firms seem to be responding to this by returning to "green hushing" in their disclosures (Maurer 2023). Future research may wish to further explore this reverse decoupling as the potential ESG backlash unfurls.

Limitations and Future Research

Like all empirical research, our study has limitations. At the same time, these limitations suggest fruitful avenues for future research. First, as with most empirical studies that employ archival data, we cannot establish a causal link between our variables of interest (i.e., employee satisfaction ratings and CEO outcomes), although we believe that our research design and robustness tests rule out many plausible alternative explanations. Therefore, our results should be interpreted with some caution as there remains a possibility that our results could be driven by an empirically unobservable factor. Future studies may employ other methodologies, such as laboratory experiments, which are not as sensitive to such limitations to further study this topic.

Our second limitation is that Glassdoor's employee satisfaction ratings only cover employee perceptions of the firm, so we were only able to examine the influence of satisfying the needs of one stakeholder group: employees. It is thus unclear if our results generalize to meeting the needs of other primary or secondary stakeholders. On the one hand, the evaluations of other stakeholders, such as customers or suppliers, may inform CEO assessments. At the same time, and consistent with our theory and findings, the importance of a given stakeholder likely informs the degree to which its satisfaction with the firm informs its importance to a CEO's assessment. Future research may wish to examine the role of other stakeholders' assessments of the firm and test contexts where each stakeholder is more or less important to a given firm to better understand such potential boundary conditions for our findings. Evaluating the direct perceptions of other stakeholders will provide a better understanding of which stakeholder(s) may influence CEO evaluations and how boards may rank the relative importance of each. Future research may also wish to sort out factors that may amplify or attenuate the importance of satisfying a given stakeholder group. Further, firm leaders who spend too much time or effort satisfying stakeholder groups who may be unimportant to a given firm's success may be evaluated more negatively. Future research should explore this complex web of interdependencies.

Another limitation of our study is that it does not fully disentangle whether firms are relying on Glassdoor employee satisfaction ratings as the primary data source for employee satisfaction information, or instead are primarily relying on employee satisfaction ratings obtained from internal surveys, which are highly correlated with Glassdoor ratings. To account for this possibility, we empirically examined whether executives experience changes in their bonuses or dismissal probabilities after the firm is first reviewed on the Glassdoor website. We found that CEOs receiving positive initial reviews are less likely to be dismissed, and CEOs of firms receiving negative initial reviews are more likely to be dismissed, following the initiation year relative to CEOs of control firms. These results suggest that initial Glassdoor ratings represent a new and unique source of data regarding employee satisfaction. At the same time, future research, potentially qualitative studies, may wish to further examine the multiple sources of data that inform board assessments of employee satisfaction.

Finally, we do not have direct evidence that employee satisfaction ratings are written into CEO compensation plans (although we provide anecdotal evidence in Appendix A). Although recent research has examined and found CSR targets as part of CEO compensation schemes (Flammer et al. 2019), we relied on employee satisfaction ratings to infer this relationship. At the same time, we were able to tap directly into the degree to which this stakeholder group was satisfied with the firm. Our findings are thus based on the actual satisfaction of a stakeholder group while other research inferred that meeting the targets incorporated into CEO compensation schemes led to stakeholder satisfaction. Future research may thus try to simultaneously capture actual CEO compensation contracts, as well as directly measure stakeholder satisfaction for the many stakeholder groups that a firm has.

Acknowledgments

All authors contributed equally to this study.

Appendix A. Anecdotes from Proxy Statements of Employee Satisfaction in CEO Compensation Contracts

Dell Inc.
Year: 2012

"*Individual Performance*—The Committee, with input from Mr. Dell, evaluates individual performance for Dell's executive officers using a mix of objective and subjective performance objectives, established at the beginning of the

fiscal year. For Fiscal 2012, the following objectives were included:

- Achieving financial targets for the business
- Cost management
- Strategic and transformational objectives relating to each executive officer's function or business unit, including the degree to which the executive officer is driving change in support of Dell's transformation
- Leadership, including manager effectiveness, **employee satisfaction,** and diversity
- Ethics and compliance
- Brand health and momentum scores
- Measurement against net promoter score goals

… To the extent an individual meets these objectives, a modifier of 100% is assigned. As performance deviates from this level, payouts vary above or below the 100% modifier subject to the 150% maximum (pp. 47–48)."

Source: https://www.sec.gov/Archives/edgar/data/826083/000119312512247047/d355712ddef14a.htm

McDonald's Corp.

Year: 2014

"For purposes of determining an executive's TIP [Target Incentive Plan] payout, operating income growth is measured on a consolidated (referred to as Corporate) basis or an AOW [Areas of the World] basis, or a combination of the two, depending on the executive's responsibilities. In addition to operating income growth, final TIP payouts take into account pre-established "modifiers" reflecting other measures of Corporate and/or AOW performance that are important drivers of our business … (p. 17)."

"People modifier. Represents the **satisfaction level of our restaurant employees with their employment experience** or the perceptions of our consumers regarding McDonald's as an employer." (p. 16)

Source: https://www.sec.gov/Archives/edgar/data/63908/000119312514140308/d666434ddef14a.htm

Endnotes

[1] In fact, a recent *Wall Street Journal* article noted that in competitive labor markets of highly skilled individuals, "Glassdoor's company ratings are a powerful weapon in job recruiting … (as) sought after workers … read reviews to help determine where they want to work" (Winkler and Fuller 2019).

[2] Although Glassdoor also has data on CEO approval (Wang et al. 2023), employee satisfaction and CEO approval are distinct constructs with potentially different antecedents. For example, CEOs may garner employee approval through mechanisms such as possessing strong leadership skills and charisma, and such factors do not directly translate into employees' own well-being. Hence, we do not use CEO approval data in this study.

[3] We manually reviewed the list generated by this key word search to check for contamination and found no committees that needed to be removed. Further, in our sample these committee names usually contained broad terms such as "corporate responsibility" or "ethics." Only five unique firms had "employee" in the board committee title.

[4] Our theory focuses on how a board rewards or punishes CEOs based on satisfying employees at that firm, so our tests focus on within-firm comparisons.

[5] To assess whether our hypothesized moderators are each capturing a unique construct, we ran fully saturated models with all three of our moderators included at once. Our results from these untabulated analyses essentially mirrored the findings in Tables 2 and 3, which suggests that each of our moderators captures unique variance.

[6] In our sample, approximately 50% of firms received their first review in 2008, and 30% of firms received their first reviews in the next three years (2009–2011). As a robustness test, rather than using a staggered design, if we instead focus on reviews from the first year Glassdoor was officially launched to identify treatment firms and use firms that did not receive Glassdoor reviews during our sample period as control firms, we find similar results in three out of the four models (untabulated). This helps mitigate concerns regarding biased estimates arising from multiple treatment events staggered over time (Baker et al. 2022).

[7] In our sample, Glassdoor reviews tend to be fairly persistent during a CEO's tenure, as firm-CEO fixed effects explain 70% of the variation in Glassdoor ratings. Thus, firms with initial positive (negative) ratings tend to continue to receive similar ratings. As a robustness test, we find qualitatively similar results if we remove treatment firms from the sample after the year in which they received their initial reviews, thus comparing pretreatment years to the initial review year only. This suggests that the board's response to the initial Glassdoor reviews is realized in CEO evaluations immediately.

[8] It is possible that the statistically significant models in Table 4 may be capturing a pre-existing trend. To mitigate this concern, we supplement those models with preperiod treatment indicators for years $t-1$ and $t-2$ and find that for most of those models, the preperiod treatment indicators are statistically insignificant (untabulated). These findings provide additional comfort regarding the parallel trends assumption.

[9] In our sample, the median firm only has two reviews in the first year that they are available on Glassdoor. Hence this test does not require a minimum number of reviews to be included in the initiation year, consistent with Dube and Zhu (2021).

[10] As further support for this theory, Dube and Zhu (2021) find that firms even respond to the very first Glassdoor rating the firm receives by changing their workplace policies.

[11] Note that this differs from our employee importance cross-sectional analysis, which examines the ex ante importance of employees on financial performance as a moderator, as opposed to the ex post realization of performance.

[12] We are only able to perform this for our CEO bonus test, as it cannot be applied to the CEO dismissal test because CEOs cannot be dismissed in the first half of their tenure.

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