Online Appendix to:

Eyes on the Prize: Do Industry Tournament Incentives Shape the Structure of Executive Compensation?

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Alternative Transformation of Vega: Inverse Sine Hyperbolic Transformation

The table reports the baseline effect of IDD_ADOPTION on the risk-taking incentives, using the inverse *Sine Hyperbolic Vega $_{(t+1)}$* transformation of VEGA as the dependant variable. We use this as an alternative measure of risk-taking incentives in executive compensation contracts. The analysis is conducted at the executive-year level and separates executives into those with either high or low industry tournament incentives (ITI). The sample includes senior executives at S&P1500 firms from 1992-2011. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. Models include firm-executive (spell) fixed effects and year fixed effects or industry-by-year fixed effects. Statistics on difference (*p*-value of diff) are calculated using appropriate interacted models. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. The analyses are conducted at the executive-year level. See Table 1 (in the paper) for variable definitions. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Models	1	2	3	4	5	6	7	8	9	10	11
				Industry Tournament Incentives (ITI)							
Sample	Full sample			HTI	LTI	HTI	LTI	HTI	LTI	HTI	LTI
Variables	Sine Hyperbolic Vega $_{(t+1)}$										
IDD_ADOPTION	0.084**	0.112***	0.089***	0.147***	0.066	0.175***	0.083	0.104**	0.058	0.107***	0.073
	[2.222]	[3.517]	[3.323]	[3.767]	[0.930]	[5.417]	[1.513]	[2.209]	[0.981]	[2.796]	[1.623]
log(1+DELTA)		0.347***	0.348***			0.310***	0.368***			0.318***	0.363***
		[19.787]	[19.412]			[14.459]	[18.648]			[17.823]	[17.617]
Baseline Controls	N	Y	Y	N	N	Y	Y	N	N	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	N	Y	Y	Y	Y	N	N	N	N
Industry-by-year FE	N	N	Y	N	N	N	N	Y	Y	Y	Y
Observations	113,167	91,761	91,761	47,030	47,029	43,225	42,245	47,030	47,029	43,225	42,245
R-squared	0.829	0.848	0.857	0.831	0.853	0.847	0.866	0.845	0.868	0.860	0.879
HTI-LTI: *p*-value of diff	N/A	N/A	N/A	0.34		0.163		0.533		0.591	

The IDD and Risk-taking Incentives in Compensation Contracts -CEOs vs. Non-CEO Senior Executives

The table reports the baseline effect of IDD_ADOPTION (Panel A) and IDD_REJECTION (Panel B) on the risk-taking incentives, log(1+VEGA) $_{(t+1)}$, for CEOs (columns 1 and 2) and non-CEO senior executives (Columns 3 and 4) of S&P1500 firms from 1992-2011. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. IDD_REJECTION is an indicator variable set to one beginning the year when the state where the firm is headquartered rejects the previously adopted IDD, and zero otherwise. Models include firm-executive (spell) fixed effects and year fixed effects or industry-by-year fixed effects. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. See Table 1 (in the paper) for further variable definitions. t-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A:	1	2	3	4
	CEOs		Non-CEO Senior Executives	
Variables	log(1+VEGA) $_{(t+1)}$		log(1+VEGA) $_{(t+1)}$	
IDD_ADOPTION	0.118*	0.119**	0.075***	0.047*
	[1.929]	[2.386]	[2.788]	[1.913]
Baseline Controls	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y
Year FE	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y
Observations	21,174	21,174	70,587	70,587
R-squared	0.842	0.856	0.861	0.871

Panel B:	1	2	3	4
	CEOs		Non-CEO Senior Executives	
Variables	log(1+VEGA) $_{(t+1)}$		log(1+VEGA) $_{(t+1)}$	
IDD_REJECTION	-0.279***	-0.253***	-0.160***	-0.114***
	[-7.766]	[-4.566]	[-6.680]	[-3.319]
Baseline Controls	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y
Year FE	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y
Observations	21,174	21,174	70,587	70,587
R-squared	0.842	0.856	0.862	0.871

APPENDIX TABLE A3
Alternative Measure of Risk-Taking Incentives in Compensation Contracts

The table reports the baseline effect of the IDD Adoption (Panel A) and IDD Rejections (Panel B) on risk-taking incentives, using VEGA/DELTA $_{(t+1)}$ as an alternative proxy for risk-taking incentives. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011. VEGA/DELTA $_{(t+1)}$ is the ratio of VEGA to DELTA at time t+1. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. DELTA is the change in the dollar value of the executive's wealth for a one percentage point change in stock price. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. IDD_REJECTION is an indicator variable set to one beginning the year when the state where the firm is headquartered rejects the previously adopted IDD, and zero otherwise. Firm-executive (Spell) fixed effects and year fixed effects or industry-by-year fixed effects are used as indicated. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. See Table 1 (in the paper) for further variable definitions. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A: IDD Adoption	1	2	3	4
Variables	VEGA/DELTA $_{(t+1)}$			
IDD_ADOPTION	0.025**	0.009**	0.029***	0.012***
	[2.430]	[2.358]	[3.309]	[3.713]
Baseline Controls	N	N	Y	Y
Spell FE	Y	Y	Y	Y
Year FE	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y
Observations	107519	107519	107519	107519
R-squared	0.701	0.728	0.706	0.731

Panel B: IDD Rejection	1	2	3	4
Variables	VEGA/DELTA $_{(t+1)}$			
IDD_REJECTION	-0.051***	-0.018**	-0.052***	-0.020***
	[-2.974]	[-2.451]	[-3.420]	[-2.761]
Baseline Controls	N	N	Y	Y
Spell FE	Y	Y	Y	Y
Year FE	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y
Observations	107519	107519	107519	107519
R-squared	0.701	0.728	0.706	0.731

APPENDIX TABLE A4
The Sources of Higher Compensation Vega

The table reports the effects of IDD Adoption on the restructuring of compensation, while Panel B reports the same for IDD Rejection. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011. The dependent variables are OPTION_INTENSITY, STOCK_INTENSITY, log($OPTIONS), log(#OPTIONS), log($STOCK), and log(#STOCK) each measured at time (t+1). OPTION_INTENSITY is the proportion of executive's total annual compensation that comes from option grants. STOCK_INTENSITY is the proportion of executive's total annual compensation that comes from stock grants. log($OPTIONS) is the value of stock options granted to the executives. log(#OPTIONS) is the number of stock options granted to the executives. log($STOCK) is the value of restricted stock granted to the executives. log(#STOCK) is the number of shares of restricted stock granted to the executives. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. IDD_REJECTION is an indicator variable set to one beginning the year when the state where the firm is headquartered rejects the previously adopted IDD, and zero otherwise. Firm-executive (Spell) fixed effects and year fixed effects or industry-by-year fixed effects are as indicated. All models include a constant (suppressed). The standard errors are clustered by headquarter state of the firm. See Table 1 (in the paper) for further variable definitions. t-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A:	1	2	3	4	5	6	7	8	9	10	11	12
Variables	OPTION_INTENSITY		log($OPTIONS)		log(#OPTIONS)		STOCK_INTENSITY		log ($STOCK)		log (#STOCK)	
IDD_ADOPTION	0.021**	0.026***	0.196*	0.245**	0.127*	0.150**	-0.010	-0.008	-0.125	-0.082	-0.069	-0.052
	[2.292]	[3.066]	[1.696]	[2.079]	[1.906]	[2.285]	[-1.229]	[-1.288]	[-0.979]	[-1.005]	[-1.145]	[-1.167]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y
Observations	94,512	94,512	94,583	94,583	95,835	95,835	94,512	94,512	95,841	95,841	95,841	95,841
R-squared	0.562	0.582	0.549	0.568	0.537	0.556	0.605	0.622	0.639	0.656	0.631	0.648

Panel B:	1	2	3	4	5	6	7	8	9	10	11	12
Variables	OPTION_INTENSITY		log($OPTIONS)		log(#OPTIONS)		STOCK_INTENSITY		log ($STOCK)		log (#STOCK)	
IDD_REJECTION	-0.040***	-0.047***	-0.396***	-0.452**	-0.235***	-0.245**	0.027***	0.028***	0.365***	0.344***	0.176***	0.183***
	[-3.488]	[-3.445]	[-3.353]	[-2.622]	[-2.937]	[-2.514]	[3.771]	[4.481]	[3.240]	[4.362]	[3.738]	[4.844]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	N	Y	N	Y	N	Y	N	Y	N	Y	N
Industry-by-year FE	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y
Observations	94,512	94,512	94,583	94,583	95,835	95,835	94,512	94,512	95,841	95,841	95,841	95,841
R-squared	0.562	0.582	0.549	0.568	0.538	0.556	0.605	0.623	0.640	0.656	0.632	0.648

APPENDIX TABLE A5

Baseline Correlation Between Implicit and Explicit Risk-Taking Incentives

The table reports the baseline correlation between *implicit* risk-taking incentives (executives' Industry Tournament Incentives, ITI) and the provision of *explicit* risk-taking incentives in compensation contracts risk-taking incentives proxied by $\log(1+\text{VEGA})_{(t+1)}$. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011. ITI is defined as the pay gap between the maximum of median executives' pay of all firms in an industry (FF48)-year cohort and the pay of the focal executive in that year. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. Firm-executive (Spell) fixed effects and year fixed effects or industry-by-year fixed effects are used as indicated. All models include a constant (suppressed). The standard errors are clustered at the firm level. See Table 1 (in the paper) for further variable definitions. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

	1	2	3	4	5
Variables			$\log(1+\text{VEGA})_{(t+1)}$		
log(1+ITI)	-0.042***	-0.057***	-0.040***	-0.028***	-0.034***
	[-8.370]	[-10.249]	[-8.095]	[-5.659]	[-6.619]
FIRM_SIZE			0.293***	0.128***	0.127***
			[11.087]	[4.736]	[4.725]
MB			0.051***	-0.044***	-0.041***
			[7.218]	[-5.297]	[-5.115]
CASHFLOW_VOLATILITY			-0.212	-0.040	-0.088
			[-1.313]	[-0.253]	[-0.589]
R&D/ASSETS			-0.218	0.410	0.435
			[-0.750]	[1.348]	[1.458]
CAPX			0.298*	0.005	0.162
			[1.922]	[0.032]	[1.084]
LEVERAGE			-0.246***	0.006	-0.026
			[-2.882]	[0.077]	[-0.332]
log(1+DELTA)				0.305***	0.304***
				[23.432]	[24.619]
Spell FE	Y	Y	Y	Y	Y
Year FE	Y	N	Y	Y	N
Industry-by-year FE	N	Y	N	N	Y
Observations	94,059	94,059	94,059	85,470	85,470
R-squared	0.835	0.846	0.839	0.851	0.860

IDD Adoption and Dynamics of Compensation Vega - Parallel Trends

The table reports the evolution of risk-taking incentives, log(1+VEGA) $_{(t+1)}$, around IDD Adoption years. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011. Panel A reports results without control variables while Panel B includes baseline control variables used in previous tests. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. Reported estimates are from models that include event time indicators with respect to the year of adoption of IDD during the sample. IDD_ADOPTION^{-4+}, IDD_ADOPTION^{-3}, IDD_ADOPTION^{-2}, IDD_ADOPTION^{0}, IDD_ADOPTION^{+1}, IDD_ADOPTION^{+2}, and IDD_ADOPTION^{+3}, and IDD_ADOPTION^{4+} are equal to one if the firm is headquartered in a state that will adopt the IDD four years or earlier, adopts the IDD in three years, adopts the IDD in two years, adopts IDD in that year, adopted the IDD one year ago, adopted the IDD two years ago, adopted the IDD three years ago, or adopted the IDD four years ago and onwards, respectively, and zero otherwise. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. Models include firm-executive (spell) fixed effects and year fixed effects or industry-by-year fixed effects. All models include a constant (suppressed). Statistics on differences (*p*-value diff) between HTI and LTI groups are calculated using appropriate interacted models. The standard errors are clustered by headquarter state of the firm. See Table 1 (in the paper) for variable definitions. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A: No control variables	1	2	3	4	5	6	7	8
Variables				log(1+VEGA) $_{(t+1)}$				
Sample	Full	HTI	LTI	HTI-LTI: p-value diff	Full	HTI	LTI	HTI-LTI: p-value diff
IDD_ADOPTION $^{-4+}$	0.006	0.085	0.020	0.635	-0.064	0.043	-0.043	0.563
	[0.125]	[0.871]	[0.277]		[-1.099]	[0.349]	[-0.575]	
IDD_ADOPTION $^{-3}$	0.034	0.006	0.027	0.887	0.011	-0.024	0.012	0.757
	[0.749]	[0.065]	[0.401]		[0.219]	[-0.307]	[0.186]	
IDD_ADOPTION $^{-2}$	0.044	0.043	0.042	0.988	0.023	0.044	0.034	0.908
	[1.004]	[0.705]	[0.686]		[0.576]	[0.682]	[0.582]	
IDD_ADOPTION ^{0}	0.020	0.105**	-0.014	0.098	0.009	0.054	-0.016	0.287
	[0.771]	[2.215]	[-0.349]		[0.383]	[1.227]	[-0.383]	
IDD_ADOPTION $^{+1}$	0.060	0.176**	0.009	0.147	0.036	0.133**	-0.012	0.136
	[1.577]	[2.117]	[0.176]		[0.867]	[2.385]	[-0.190]	
IDD_ADOPTION $^{+2}$	0.054	0.143**	0.017	0.239	0.028	0.101	-0.022	0.215
	[1.148]	[2.061]	[0.241]		[0.622]	[1.616]	[-0.327]	
IDD_ADOPTION $^{+3}$	0.057	0.197***	0.012	0.192	0.027	0.176***	-0.043	0.038
	[1.157]	[2.832]	[0.123]		[0.617]	[2.978]	[-0.561]	
IDD_ADOPTION $^{4+}$	-0.026	0.065	-0.037	0.411	-0.067	0.034	-0.089	0.318
	[-0.387]	[0.782]	[-0.349]		[-1.126]	[0.381]	[-0.962]	
Baseline Controls	N	N	N		N	N	N	
Spell FE	Y	Y	Y		Y	Y	Y	
Year FE	Y	Y	Y		N	N	N	
Industry-by-year FE	N	N	N		Y	Y	Y	
Observations	94,059	47030	47,029		94,059	47030	47,029	
R-squared	0.835	0.838	0.857		0.845	0.851	0.871	

Panel B: With controls variables	1	2	3	4	5	6	7	8
Variables				$\log(1+VEGA)_{(t+1)}$				
Sample	Full	HTI	LTI	HTI-LTI: p-value diff	Full	HTI	LTI	HTI-LTI: p-value diff
IDD_ADOPTION $^{-4+}$	-0.064	0.005	-0.036	0.800	-0.120*	-0.034	-0.076	0.829
	[-1.154]	[0.035]	[-0.487]		[-1.724]	[-0.205]	[-0.903]	
IDD_ADOPTION $^{-3}$	-0.002	-0.031	0.024	0.761	-0.010	-0.095	0.025	0.433
	[-0.056]	[-0.250]	[0.347]		[-0.241]	[-0.926]	[0.366]	
IDD_ADOPTION $^{-2}$	0.013	-0.003	0.025	0.781	0.006	-0.015	0.018	0.695
	[0.360]	[-0.039]	[0.446]		[0.160]	[-0.233]	[0.332]	
IDD_ADOPTION ^{0}	0.017	0.112***	-0.013	0.005	0.016	0.070	-0.008	0.082
	[0.838]	[3.359]	[-0.486]		[0.519]	[1.668]	[-0.230]	
IDD_ADOPTION $^{+1}$	0.054	0.159**	0.008	0.082	0.041	0.121***	-0.006	0.110
	[1.623]	[2.584]	[0.187]		[1.030]	[2.915]	[-0.118]	
IDD_ADOPTION $^{+2}$	0.058	0.113**	0.050	0.462	0.043	0.078	0.012	0.477
	[1.398]	[2.176]	[0.838]		[0.967]	[1.270]	[0.200]	
IDD_ADOPTION $^{+3}$	0.070*	0.192***	0.030	0.132	0.063	0.181***	-0.006	0.023
	[1.685]	[3.058]	[0.444]		[1.484]	[3.157]	[-0.094]	
IDD_ADOPTION $^{4+}$	-0.026	0.064	-0.030	0.323	-0.045	0.044	-0.059	0.329
	[-0.496]	[1.000]	[-0.355]		[-0.967]	[0.612]	[-0.768]	
Baseline Controls	Y	Y	Y		Y	Y	Y	
Spell FE	Y	Y	Y		Y	Y	Y	
Year FE	Y	Y	Y		N	N	N	
Industry-by-year FE	N	N	N		Y	Y	Y	
Observations	85,470	43,225	42,245		85,470	43,225	42,245	
R-squared	0.851	0.854	0.870		0.860	0.866	0.883	

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APPENDIX TABLE A7

Cross Sectional Heterogeneity and the Impact of IDD on Vega: Proximity to Retirement

This table reports results from the model specifications in Table 6 in the paper estimated without control variables. The models examine how IDD_ADOPTION differentially affects risk-taking incentives, log(1+VEGA) $_{(t+1)}$ of high and low tournament incentive executives execute based on how close they are to retirement. The analysis is conducted at the executive-year level. Executives are split into two sub-samples: Near Retirement-Age Executives (61 years or more) and Not-Near-Retirement-Age Executives (less than 61 years). The sample includes senior executives in S&P1500 firms from 1992-2011.VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. Models include firm-executive (spell) fixed effects and industry-by-year fixed effects. Statistics on differences (*p*-value of diff) are calculated using appropriate interacted models. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Variables	1	2	3	4
	log(1+VEGA) $_{(t+1)}$		log(1+VEGA) $_{(t+1)}$	
Sample	HTI		LTI	
	Near Retirement-Age	Not-Near Retirement-Age	Near Retirement-Age	Not-Near Retirement-Age
IDD_ADOPTION	-0.241	0.131***	0.089	0.043
	[-1.424]	[2.899]	[0.698]	[0.805]
Baseline Controls	N	N	N	N
Spell FE	Y	Y	Y	Y
Industry-by-year FE	Y	Y	Y	Y
Observations	4,016	34,954	4,673	31,066
R-squared	0.901	0.855	0.935	0.873
p-value of diff	0.016		0.340	
HTI-LTI: *p*-value of diff		0.034		

Cross Sectional Heterogeneity and the Impact of IDD on Vega: Family firms and Founder CEOs

This table reports result from the model specifications in Table 7 in the paper estimated without control variables. The models examine how IDD Adoption differentially affects risk-taking incentives, log(1+VEGA) $_{(t+1)}$ of high and low tournament incentive executives based on (i) whether executives are employed by family or non-family firms (Panel A) or ii) whether CEOs are either founder or professional CEOs (Panel B). Table 1 (in the paper) provides the criteria by which executives and CEOs are assigned into these categorise. The sample includes senior executives in S&P1500 firms from 1992-2011. VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. All models in panel A and Panel B include firm-executive (spell) fixed effects and industry-by-year fixed effects. Statistics on differences (*p*-value of diff) are calculated using appropriate interacted models. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. The analyses are conducted at the executive-year level for Panel A and at the CEO-year level for Panel B. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A

	1	2	3	4
		log(1+VEGA) $_{(t+1)}$		
Sample	HTI		LTI	
	Family Firms Execs.	Non-family firm Execs.	Family Firms Execs.	Non-family firm Execs.
IDD_ADOPTION	-0.036	0.283***	0.029	0.234*
	[-0.455]	[8.035]	[0.343]	[2.014]
Observations	10,872	16,022	10,398	12,745
R-squared	0.864	0.869	0.887	0.877
p-value of diff	0.000		0.187	
HTI-LTI: *p*-value of diff		0.528		

Panel B

	1	2	3	4
Sample	HTI		LTI	
	Founder CEOs	Professional CEOs	Founder CEOs	Professional CEOs
IDD_ADOPTION	-0.068	0.364***	-0.007	0.017
	[-0.357]	[4.187]	[-0.032]	[0.210]
Observations	2,025	6,377	1,623	7,690
R-squared	0.866	0.836	0.882	0.876
Baseline Controls	N	N	N	N
Spell FE	Y	Y	Y	Y
Industry-by-year FE	Y	Y	Y	Y
p-value of diff	0.030		0.900	
HTI-LTI: *p*-value of diff		0.235		

APPENDIX TABLE A9
Effect IDD Adoption on Proxies for Firm-Risk – CEO Sample

This table reports results from the model specifications in Table 8 of the paper estimated on a sample of CEOs only. The models report the effects of IDD_ADOPTION on two proxies for firm-risk: STOCK_VOLATILITY and CASHFLOW_VOLATILITY defined in Table 1 in the paper. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. Models include firm-executive (spell) fixed effects and industry-by-year fixed effects. Statistics on differences (*p*-value of diff) are calculated using appropriate interacted models. All models include a constant. The standard errors are clustered a firm's headquarter state. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

	1	2	3	4	5	6
Variables:	STOCK_VOLATILITY $_{(t+1)}$			CASHFLOW_VOLATILITY $_{(t+1)}$		
Sample	Full	HTI	LTI	Full	HTI	LTI
IDD_ADOPTION	0.007	0.006	0.009	0.001	-0.001	0.003*
	[0.703]	[0.545]	[0.764]	[0.707]	[-0.312]	[1.990]
Baseline Controls	N	N	N	N	N	N
Spell FE	Y	Y	Y	Y	Y	Y
Industry-by-year FE	Y	Y	Y	Y	Y	Y
Observations	16,974	8,065	8,909	16978	8,065	8,913
R-squared	0.820	0.836	0.830	0.763	0.796	0.796
HTI-LTI: *p*-value of diff	0.773			0.272		

Alternative Explanations: The Role of Strategic Financing, Future R&D, Capital Expenditures & Innovation

The table reports the effect of the IDD_ADOPTION on the risk-taking incentives, log(1+VEGA) $_{(t+1)}$, after controlling for future strategic financing levels (LEVERAGE) in Panel A, R&D investments (R&D/ASSETS) in Panel B, Capital Expenditure (CAPX) in Panel C, and innovation outputs (log(1+#PATENTS)) in Panel D, respectively. The analysis is conducted at the executive-year level. The sample includes senior executives in S&P1500 firms from 1992-2011.VEGA is the change in the dollar value of the executive's wealth for a 0.01 change in the annualized standard deviation of stock returns. IDD_ADOPTION is an indicator variable equal to one if the firm is headquartered in a state whose courts recognize the IDD, and zero otherwise. Industry Tournament Incentives (ITI) is defined as the pay gap between the maximum median executive pay of all firms in an FF48 industry-year cohort and the pay of the focal executive in that year. HTI (LTI) is the sample of executives with high (low) tournament incentives, split based on the sample median ITI. Models include firm-executive (spell) fixed effects and year fixed effects or industry-by-year fixed effects. Statistics on differences (*p*-value of diff) are calculated using appropriate interacted models. All models include a constant (suppressed). The standard errors are clustered by the headquarter state of the firm. See Table 1 (in the paper) for further variable definitions. *t*-statistics are in parentheses. ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Panel A: Leverage

Models	1	2	3	4	5	6	7	8	9	10	11	12
Variables	log(1+VEGA) $_{(t+1)}$											
Sample	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI
IDD_ADOPTION	0.094***	0.159***	0.068	0.074***	0.098***	0.054	0.092***	0.163***	0.067	0.079***	0.108***	0.066*
	[3.064]	[5.507]	[1.361]	[3.378]	[2.782]	[1.360]	[3.277]	[5.334]	[1.577]	[3.498]	[2.812]	[1.783]
LEVERAGE $_{(t+1)}$	-0.260***	-0.328***	-0.098	-0.270***	-0.353***	-0.110	-0.209***	-0.292***	-0.063	-0.214***	-0.299***	-0.076
	[-3.756]	[-3.592]	[-0.882]	[-3.782]	[-3.839]	[-1.216]	[-3.121]	[-2.693]	[-0.648]	[-2.961]	[-2.811]	[-0.989]
LEVERAGE $_{(t+2)}$							-0.051	-0.039	-0.035	-0.073	-0.093	-0.055
							[-1.104]	[-0.624]	[-0.465]	[-1.321]	[-1.465]	[-0.667]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	N	N	N	Y	Y	Y	N	N	N
Industry-by-year FE	N	N	N	Y	Y	Y	N	N	N	Y	Y	Y
Observations	85,144	43,112	42,032	85,144	43,112	42,032	75,498	37,418	38,080	75,498	37,418	38,080
R-squared	0.851	0.855	0.870	0.860	0.867	0.884	0.852	0.856	0.873	0.862	0.869	0.886
HTI-LTI: p-value of diff		0.127			0.445			0.091			0.449	

Panel B: R&D Investments

Models	1	2	3	4	5	6	7	8	9	10	11	12
Variables	$\log(1+VEGA)_{(t+1)}$											
Sample	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI
IDD_ADOPTION	0.093***	0.156***	0.067	0.075***	0.099***	0.056	0.091***	0.160***	0.067	0.080***	0.107***	0.068*
	[3.062]	[5.507]	[1.365]	[3.311]	[2.833]	[1.392]	[3.280]	[5.305]	[1.599]	[3.446]	[2.801]	[1.845]
R&D/ASSETS (t+1)	-1.417***	-1.517***	-1.434***	-1.417***	-1.512***	-1.579***	-1.315***	-1.387***	-1.242**	-1.327***	-1.369***	-1.496***
	[-4.699]	[-3.991]	[-3.176]	[-4.527]	[-3.997]	[-3.484]	[-4.190]	[-3.376]	[-2.645]	[-4.156]	[-3.337]	[-3.261]
R&D/ASSETS (t+2)							-0.310	-0.191	-0.705	-0.396	-0.300	-0.632
							[-1.165]	[-0.715]	[-1.649]	[-1.581]	[-1.166]	[-1.506]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	N	N	N	Y	Y	Y	N	N	N
Industry-by-year FE	N	N	N	Y	Y	Y	N	N	N	Y	Y	Y
Observations	85,470	43,225	42,245	85,470	43,225	42,245	75,833	37,535	38,298	75,833	37,535	38,298
R-squared	0.851	0.854	0.870	0.860	0.866	0.883	0.852	0.855	0.873	0.862	0.868	0.886
HTI-LTI: p-value diff	0.133			0.454			0.098			0.487		

Panel C: Capital Expenditure

Models	1	2	3	4	5	6	7	8	9	10	11	12
Variables	$\log(1+VEGA)_{(t+1)}$											
Sample	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI
IDD_ADOPTION	0.093***	0.154***	0.068	0.075***	0.097***	0.057	0.092***	0.160***	0.067	0.080***	0.106***	0.069*
	[3.092]	[5.423]	[1.385]	[3.367]	[2.826]	[1.416]	[3.314]	[5.264]	[1.623]	[3.507]	[2.787]	[1.881]
CAPX (t+1)	-0.548***	-0.772***	-0.283	-0.323**	-0.593***	-0.121	-0.547***	-0.735***	-0.342*	-0.344**	-0.506**	-0.245
	[-3.631]	[-4.209]	[-1.464]	[-2.162]	[-3.495]	[-0.776]	[-3.534]	[-3.499]	[-1.680]	[-2.398]	[-2.677]	[-1.553]
CAPX (t+2)							0.421**	0.387	0.272	0.691***	0.476*	0.606**
							[2.639]	[1.542]	[1.173]	[4.073]	[1.942]	[2.388]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	N	N	N	Y	Y	Y	N	N	N
Industry-by-year FE	N	N	N	Y	Y	Y	N	N	N	Y	Y	Y
Observations	85,470	43,225	42,245	85,470	43,225	42,245	75,783	37,535	38,248	75,783	37,535	38,248
R-squared	0.851	0.854	0.870	0.860	0.866	0.883	0.852	0.855	0.873	0.862	0.868	0.886
HTI-LTI: p-value diff	0.133			0.472			0.091			0.51		

Panel D: Innovation outputs (Patents)

Models	1	2	3	4	5	6	7	8	9	10	11	12
Variables						$\log(1+VEGA)_{(t+1)}$						
Sample	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI	Full	HTI	LTI
IDD_ADOPTION	0.093***	0.156***	0.067	0.075***	0.098***	0.057	0.090***	0.156***	0.064	0.074***	0.105***	0.058
	[3.083]	[5.426]	[1.369]	[3.388]	[2.807]	[1.418]	[3.240]	[4.931]	[1.574]	[3.282]	[2.719]	[1.592]
$\log(1+\#PATENTS)_{(t+1)}$	-0.005	0.011	-0.029*	0.015	0.034*	-0.013	0.003	0.017	-0.017	0.014	0.030**	-0.007
	[-0.347]	[0.672]	[-1.970]	[1.124]	[1.955]	[-0.875]	[0.336]	[1.357]	[-1.419]	[1.356]	[2.168]	[-0.521]
$\log(1+\#PATENTS)_{(t+2)}$							-0.011	-0.014	-0.006	0.004	0.007	0.000
							[-0.891]	[-1.292]	[-0.275]	[0.342]	[0.603]	[0.007]
Baseline Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Spell FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	N	N	N	Y	Y	Y	N	N	N
Industry-by-year FE	N	N	N	Y	Y	Y	N	N	N	Y	Y	Y
Observations	85,470	43,225	42,245	85,470	43,225	42,245	76,855	38,097	38,758	76,855	38,097	38,758
R-squared	0.851	0.854	0.870	0.860	0.866	0.883	0.851	0.855	0.872	0.861	0.867	0.885
HTI-LTI: p-value diff		0.131			0.471			0.093			0.408	