Top CEO Awards and Firm Profitability

By

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Abstract

In this study, we present novel insights into the influence of CEO awards on firm performance, with a particular focus on Glassdoor's "Top CEOs Employees Choice Award." By matching winning firms with similar non-winning counterparts and analyzing a pooled sample using an event study, we find compelling evidence that receiving such an award is associated with a significant increase in future firm performance, as measured by Return on Assets (ROA). This increase is primarily driven by improvements in profitability margins. Moreover, post-award announcements, firms with higher Environmental, Social, and Governance (ESG) scores demonstrate more substantial ROA growth, particularly attributed to enhanced corporate governance. This suggests that the ESG channel for ROA enhancement is primarily driven by the Governance Score. Additionally, CEOs holding company shares and receiving higher compensation relative to assets experience accelerated ROA growth. It contributes to the literature on management awards by exploring the dual impact of awards on both firm performance and CEO prestige, with a particular focus on channels.

Keywords: Awards, Principal-Agent, Employees, CEO, Environmental Social Governance (ESG)

JEL Codes:

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1 Introduction

Awards given to CEOs can prove detrimental to firm value, as many business awards divert CEOs from their core responsibilities (Malmendier and Tate, 2009). CEOs often actively seek awards to enhance their personal reputations and outside opportunities. However, targeted awards have the potential to encourage CEOs to invest in underappreciated areas, such as employee morale. Employee satisfaction, frequently underestimated by the market, is linked to improved profitability and stock returns (e.g., Edmans, 2011). This paper aims to test whether the negative impact of a focused CEO award (e.g., distraction) is larger or smaller than the positive impact of the award (e.g., investment in valuable areas like employee morale). This contributes to the literature by showing that a CEO award can add value to a firm by motivating CEOs to invest in underinvested areas. Our paper revisits a fundamental question rooted in the principal-agent model: Can CEO awards simultaneously satisfy both the agents (by enhancing their prestige) and the principals (by improving firm performance)?

In this paper, we examine whether receiving Glassdoor's "Top CEOs Employees' Choice Award" has a positive (or negative) impact on firm performance in the following year. Glassdoor's Top CEO award is developed by Glassdoor.com, a career intelligence website where employees can review their current and former employers on several aspects including pay, culture, and CEO performance. By matching award-winning firms (treated firms) to same-industry, non-winning firms with similar characteristics, we produce a quasi-natural experiment. Our results support the interpretation that receiving CEO awards, which recognize the value of employee approval - an often undervalued asset - has a net positive effect on firm performance. Using a difference-in-differences methodology, we find that in the years following their receiving the award, the firms whose CEOs won these awards have an ROA that is 1.6% higher than the ROA of matched, non-winning firms.

We consider several potential, non-exclusive channels through which earning the award could impact firm performance. We first examine whether firm Corporate Social Responsibility (CSR) influences the award-firm performance relation. The CEO award announcement publicly reveals that the firm has

excellent employee relations—an important intangible that could be attributed to the company's CSR efforts. Our regressions show that firms that have higher CSR activities, as measured by ESG scores, seem to benefit more from a CEO award than firms with lower CSR activities. Breaking down the ESG score reveals that this effect is mainly driven by the governance score. Firms with higher CSR scores often exhibit greater social and governance scores, contributing to enhanced employee morale and the potential to win awards. This, in turn, motivates employees to work harder, leading to improved firm performance and value (Gregory et al. 2014). These findings imply that higher CSR activities are associated with better employee satisfaction, ultimately resulting in elevated firm performance following the award.

We also test if CEO characteristics including compensation and firm ownership affect award-firm performance improvement relation. Our tests find both to be important channels for ROA improvement following the award. The results of the differences in differences regressions indicate that CEOs with higher ownership of the company, and higher compensation relative to firm assets, will experience higher firm performance in the post-award years. Extensive evidence supports a positive correlation between compensation and firm ownership with firm performance (e.g., Simerly et al., 2000). CEOs endowed with higher compensation and a significant ownership stake in the firm are inherently motivated to enhance employee morale, aiming to secure prestigious awards while concurrently improving the firm's return on assets (ROA).

Our research contributes to the literature on award-winning and firm performance. The previous literature explores the positive and negative effects of awards on firm behaviour extensively. Li et al. (2022) show that CEOs are more likely to engage in financial misconduct after the media name them as being among the best business leaders. Malmendier and Tate (2009) show that CEOs underperform following the awards by engaging in outside activities. Barnes and Cheng (2022) show that CEO non-monetary awards caused by better employee treatment and happiness lead to an increase in firm value and stock returns. Our work extends this literature by examining the channels for the non-monetary CEO awards to firm performance relationship--Corporate Social Responsibility (CSR) and CEO characteristics.

2 Literature Review and Development of Hypotheses

The literature points to contrasting findings following award-winning by firms and their CEOs. One stream of research finds that CEO award-winning could be detrimental to the financial performance and value of the firm. Winning non-monetary awards by the CEO could be costly to the firm (Jensen and Meckling (1976)), as it has the potential to divert the focus of firm management. Moreover, the management and the CEO might destroy firm value as Malmendier and Tate (2009) find that the superstar CEOs subsequently underperform following the award. This decline is attributed to their involvement in external activities, such as taking up board seats, authoring books, and engaging in various public and private endeavours that may not directly benefit shareholders. Edmans and Gabaix (2016) point to evidence of traditional models that CEOs extract rent to their benefit and decrease firm value. However, they also highlight modern theories that suggest CEO pay schemes are not necessarily inefficient. In this research, we assess the potential impact of specific employee choice awards on both employee satisfaction and firm performance, examining potential channels related to Corporate Social Responsibility (CSR) and CEO compensation.

On the other hand, another stream of the literature reveals that firms with happier employees and better relations with their CEOs generate abnormal value (Akerlof and Yellen (1986); Edmans 2011; Green, Huang, Wen, and Zhou 2019; Au, Dong, and Tremblay 2021). CEOs may receive specific awards that are contingent upon the level of employee satisfaction and happiness, as indicated by employee ratings and reviews. Barnes and Cheng (2022) also use non-monetary CEO awards on Glassdoor to show that the relationship between the CEO and employees results in abnormal value creation and returns for the firms following the award announcement. Consequently, it is empirically unclear whether winning a top CEO award would lead to an improvement or decline in firm profitability. This leads us to a dual-sided hypothesis:

Hypothesis 1a *Inclusion in the "Top CEOs Employees' Choice Award" list will lead to a reduction in ROA*

Hypothesis 1b *Inclusion in the "Top CEOs Employees' Choice Award" list will lead to an increase in ROA*

We aim to build upon Barnes and Cheng (2022) by adopting a distinct approach and delving into the various channels through which this phenomenon occurs. We need to understand the mechanisms for improvement in firm profitability and firm value. First, we investigate the relationship on whether corporate social responsibility (CSR) is the mediator for the award-winning and consequent ROA increase. On one hand, CSR activities have several benefits for the firm such as attracting top talent (Evans and Davids 2011) and higher firm value (Gregory et al. 2014). It is reasonable to assume that firms winning Glassdoor Top CEO Awards have higher CSR scores, reflecting more satisfied employees. This positive correlation may contribute to higher ROA following the award, as happier employees are likely to work harder, thereby improving firm profitability. On the other hand, Lee et al. (2020) find that CEOs are more likely to engage in CSR activities after winning an award for impression management. They argue that they engage in CSR to maintain their celebrity status especially when firm performance is low. Li et al. (2022) look at the spillover effects of CSR on firm performance and reveal that non-winners of CSR awards improve their CSR activities after their competitors have won CSR awards.

As outlined by Huang (2019), the preponderance of empirical evidence in the literature demonstrates a statistically significant, albeit economically modest, positive link between Environmental, Social, and Governance (ESG) performance (ESGP) and Corporate Financial Performance (CFP), aligning with theoretical expectations. Consequently, we anticipate that companies exhibiting heightened CSR engagement, as measured by ESG criteria, will experience a notable increase in Return on Assets (ROA) after receiving the award. This sets the stage for our second hypothesis:

Hypothesis 2 *The impact of the CEO winning an employees' choice award on firm performance is stronger for firms that have higher CSR activities around the awards announcement than for firms that have lower CSR activities.*

Lastly, we explore the influence of CEO compensation and ownership of the company on the increase in ROA following the award. We posit that higher compensation or greater ownership may incentivize CEOs to exert more effort and cultivate employee satisfaction, subsequently leading to an enhanced ROA.

Numerous researchers have identified a positive and statistically significant correlation between executive compensation and financial performance. Jensen and Murphy (1990) established a direct and statistically significant relationship between executive pay and Corporate Financial Performance (CFP). While most studies examine the influence of financial performance on compensation, some have explored the effect of compensation on financial performance. For instance, Simerly et al. (2000) took the inverse approach, defining a measure of executive compensation as a determinant of financial performance, which is also positively linked to Corporate Social Performance (CSP). Callan et al. (2014) analyzed the influence of short-term versus long-term compensation on both CFP and CSP.

On the other hand, CEO ownership of the company provides them with decision-making authority. The agency theory emphasizes the significance of the owner-manager relationship in a firm, with ownership being a central factor. Zhang et al. (2016) discovered a connection between CEO ownership and crucial board decisions, such as member selections and determination of remuneration. Therefore, greater ownership and compensation may incentivize CEOs to invest more in employee satisfaction, contributing to the attainment of the Employees' Choice Award. This alignment can encourage CEOs to simultaneously enhance both ROA and employee satisfaction. We have substantiated this assumption by referring to existing literature, that directly or indirectly supports this hypothesis. Welsh et al. (2012) establish a connection between executive compensation and employee attitude by linking a large-scale survey of employee attitudes to CEO compensation data for public companies based in the US. They find that the change in total CEO compensation is positively related to the evaluation of senior management and general satisfaction, while the CEO bonus level is positively related to general satisfaction. Also, employees must perceive their compensation as fair relative to that of management and

the CEO to experience job satisfaction (Colquitt et al., 2001). Moreover, Luo et al. (2012) find that increases in the proportion of CEOs' long-term equity-based compensation positively influence actions that build customer- and employee-firm relations.

Drawing from agency theory, we can infer that when an owner-manager leads a firm, there is a heightened likelihood of them striving to achieve the firm's objectives and enhance performance. They may also be more motivated to enhance employee treatment to drive performance. This hypothesis finds support in various studies. Agrawal and Knoeber (1996) demonstrated that ownership by officers and directors significantly positively impacts Q. Griffith (1999) demonstrated that firm value increases when CEO ownership ranges from 0 to 15%, but it decreases as ownership surpasses 50%, after which it rises again. Adams et al. (2005) examined the effect of CEO's power and influence on firm performance variability, discovering that CEO ownership positively impacts firm performance, as measured by ROA and Tobin Q. Hayes (2004) similarly found a positive correlation between CEO ownership and firm performance. Saidu (2019) investigated firms listed in the Nigerian stock market and identified a positive relationship between CEO ownership and firm performance measured by ROA and ROE, but a negative relationship with stock returns.

While most studies reveal a positive relationship between CEO ownership and firm performance, some studies present contrary and non-linear findings. Griffith (1999) and Cui & Mak (2002) identified a non-linear relationship between ownership and firm performance. Cui & Mak (2002) explored the relationship between managerial ownership and performance for high R&D firms, revealing that Tobin's Q initially declines with managerial ownership, then increases, declines again, and finally increases—a W-shaped relationship. This leads us to our next hypothesis:

Hypothesis 3 *The impact of the CEO winning an employees' choice award on firm performance is stronger for firms where their CEOs have more compensation or ownership of the company*

The main contribution of this paper is testing hypotheses 2 and 3 to evaluate the channels for ROA improvement after the award, whereas other research papers only look at performance improvement or decline following the award. We also employ a novel matching technique, using propensity scores, for Glassdoor award winners to estimate the firms that had the closest chance of winning the award, which allows us to utilize a DiD framework.

3 Data

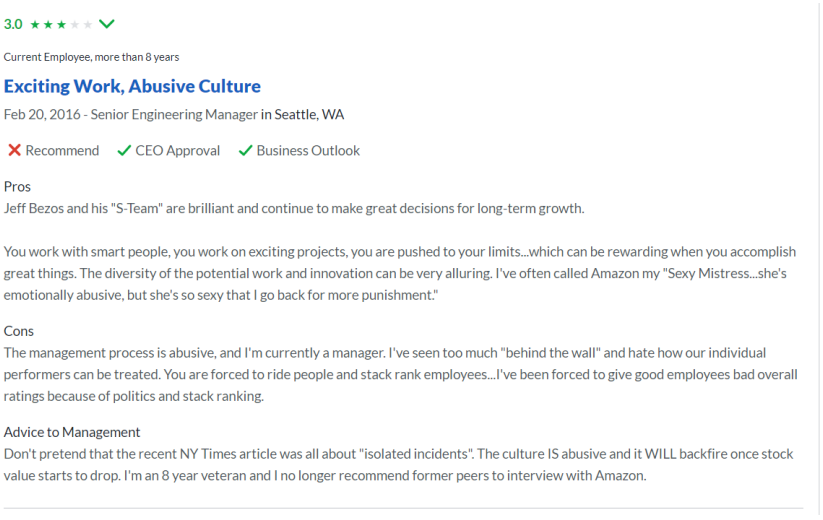
3.1 Employees' Choice Awards for the Top CEOs

We gathered data for the top CEO awards from Glassdoor.com, a widely recognized career intelligence website that allows employees to provide anonymous reviews of their employment experiences. When submitting a company review, employees are prompted to share their perspectives on the pros and cons of working for their employer and offer advice to the management. Reviewers can also rate various aspects of their employment experience, including their evaluation of the CEO's job performance. Figure 1 provides a sample Glassdoor review.

Glassdoor has been annually publishing a list of top CEOs since 2013, identifying them based on their approval scores derived from job reviews. Specifically, to determine the winners of Glassdoor's Employees' Choice Awards for the Top CEOs (referred to as the "Top CEO award"), Glassdoor aggregates all employee reviews from the previous calendar year, starting with the month prior to the award. For example, awards announced in June 2018 are based on reviews from May 2017 to May 2018. CEOs with the highest approval ratings receive the Top CEO award for that year. The list of winners is typically released in the first half of the year, usually in June, except for the years 2013 and 2014 when it was released in March. While Glassdoor awards Top CEO mentions across five different countries, our study focuses specifically on the United States.

Figure 1: Sample Glassdoor Review

This figure shows an example of a Glassdoor review for Amazon.com. Reviews include a title, details about the reviewer, the reviewer's general assessment of the company and CEO, and the review date. A three-section review includes pros, cons, and advice to management. The upper left corner of each review has a drop-down menu (not shown) with detailed ratings on the work/life balance, culture and values, career opportunities, compensation benefits, job satisfaction, and senior management categories.



3.0 ★★★☆☆

Current Employee, more than 8 years

Exciting Work, Abusive Culture

Feb 20, 2016 - Senior Engineering Manager in Seattle, WA

✗ Recommend ✓ CEO Approval ✓ Business Outlook

Pros

Jeff Bezos and his "S-Team" are brilliant and continue to make great decisions for long-term growth.

You work with smart people, you work on exciting projects, you are pushed to your limits...which can be rewarding when you accomplish great things. The diversity of the potential work and innovation can be very alluring. I've often called Amazon my "Sexy Mistress...she's emotionally abusive, but she's so sexy that I go back for more punishment."

Cons

The management process is abusive, and I'm currently a manager. I've seen too much "behind the wall" and hate how our individual performers can be treated. You are forced to ride people and stack rank employees...I've been forced to give good employees bad overall ratings because of politics and stack ranking.

Advice to Management

Don't pretend that the recent NY Times article was all about "isolated incidents". The culture IS abusive and it WILL backfire once stock value starts to drop. I'm an 8 year veteran and I no longer recommend former peers to interview with Amazon.

To ensure that the awards accurately reflect current employees' opinions, Glassdoor imposes additional criteria when identifying Top CEO winners. For instance, only reviews from current employees, or former employees who left the company in the current year or the previous year are considered for the top CEO award. This measure mitigates concerns that the CEO employee approval rating from a former employee might pertain to a different CEO.

Glassdoor also takes into account the quantity, quality, and consistency of reviews. The quantity condition stipulates that firms should have a minimum of 100 employee ratings in the awards year, with at least 1,000 employees at the end of the review period. Additionally, firms must maintain overall ratings of at least 3.0 (out of 5.0) and senior management ratings of at least 2.5 (out of 5.0). Firms that undergo CEO changes during the awards year are excluded from that year's ranking, as reviewers might be expressing their approval for either the current or the previous CEO.

The quality and consistency conditions warrant further elucidation. To fulfill the quality condition, reviews must contain informative free-form sections and completed rating segments. This criterion addresses concerns about potential manipulation, ensuring that firms cannot incentivize reviewers to submit fabricated reviews. The consistency condition assesses year-to-year uniformity in reviews for the same firm, ensuring that reviews remain relatively consistent over time and do not exhibit significant deviations from the established norm.[1]

Furthermore, according to the literature, the Glassdoor reviews are reliable and many research papers are based on employee reviews. For example, Dube and Zhu (2021) examine how firms respond to the increased workplace transparency due to the coverage on Glassdoor.com which collects and disseminates reviews on employee satisfaction. Chemmanur et al.(2019) analyze how employees' online ratings of firms affect their corporate financing and investment policies.

While there were numerous award winners, we opted to confine our sample to publicly traded firms to ensure we had adequate data. Using Glassdoor's archives, we extracted 208 firm-year winners of the Top CEO awards from 2013 to 2018. In line with the broader set of Top CEO winners, our sample includes multiple instances of repeat winners: specifically, our sample comprises 165 repeat winners and 43 unique winners.

3.2 Other Data Sources

We collected firm and firm executives' characteristics from COMPUSTAT and Execucomp and matched them to Glassdoor's winning firms with company names. Firms' ESG scores were sourced from both Refinitiv and MSCI ESG (Formerly KLD). Our dataset comprises 208 firm-year observations of winning firms from 2013 to 2018. However, to estimate the value effect of winning the Top CEO award,

[1] Most recent CEO award criteria can be found at: https://www.glassdoor.com/blog/awards-criteria-top-ceos-2021/ (last accessed December 15, 2022)

we required a counterfactual. To address this, we employed propensity score matching to identify plausible counterfactuals.

Specifically, each winning firm-year was matched to non-winning firms within the same industry (determined by SIC 2-digit codes) and on firm characteristics such as past return on assets (ROA), total assets, book-to-market ratio, employee treatment score (retrieved from KLD), and senior management rating (retrieved from Glassdoor reviews). We matched each winning firm year to a non-winning firm within the same industry with the closest propensity score, with replacement. We then tracked both the matched and winning firms for two years before and two years after the award to examine the award effect using a difference-in-differences approach.

Our final dataset consisted of 2,058 firm-year observations spanning from 2011 to 2020, covering the period from t-2 to t+2 around the award-winning year. Within this dataset, 416 firm years were attributed to firms that won Top CEO awards from Glassdoor and their matched counterparts in time 0, with the remainder extending to two years before and after the award. Descriptive statistics for our final matched sample are presented in Table 1. (You can find the number of observations breakdown in Appendix B in Table 1b)

Table 1. Sample Description

This table provides summary statistics for the full sample from t-2 to t+2. Matching variables are only shown in time t. All variables are defined in Appendix A.
The sample period is from 2013-2018 using Compustat and Glassdoor data.

Variable	N	Mean	Median	Std. Dev.	Min	Max
Return on Assets	416	0.068	0.0609	0.083	-0.284	0.403
Book to Market	416	0.220	0.244	1.012	-11.206	1.330
Employee Score (KLD)	416	1.341	1	1.710	-2	7
Management Star	416	3.427	3.309	0.408	2.663	4.667
Total Assets	2,055	130.831	15.134	399.422	0.045	3418.318
Sales	2,055	28.714	11.325	44.285	0.052	390.247
Debt to Assets	1,980	0.217	0.181	0.189	0.000	1.184
Sales to Assets	2,055	0.843	0.626	0.729	0.021	3.972
Employees (Thousands)	2,049	59.111	25.105	80.333	0.329	492.000
CEO Age	1,777	55.881	57.00	7.246	27	80
CEO Compensation ($M)	1,777	13.070	10.812	11.222	0.000	280.622
CEO Tenure (Years)	1,777	7.381	6.000	6.846	-11	40
Shares Owned (%)	1,777	1.754	0.2	3.899	0.000	28.107
Return on Assets (t+1)	2,046	0.068	0.0598	0.082	-0.384	0.403
Multiple_Winner	2,058	0.266	0	0.442	0	0
ESG	1,545	0.518	0.506	0.179	0.099	0.925
Winning CEO	2,058	0.503	1	0.500	0	1

3.3 Univariate Tests

Our first hypothesis suggests that firms winning Glassdoor's Employees' Choice award experience superior firm performance in the year following the award nomination. As mentioned earlier, we use matched firms as the counterfactual, with each treated firm matched to a non-winning firm based on industry, firm characteristics, and, significantly, senior management rating. Since senior management rating highly correlates with the CEO approval rate, matched firms closely resemble treated firms, differing only in their failure to secure the Top CEO award. The matched firms narrowly missed winning the award, primarily because we based our matching on the senior management rating. Further, the non-winning and winning firms were also matched on ROA at t-1 so firms should have similar profitability before treatment. To evaluate the impact of the award, we extend the sample to two years before and after the award year, employing a difference-in-differences methodology.

Table 2, Panel A, presents descriptive statistics for the treated (winners) and matched (non-winners) subsamples, along with univariate t-tests comparing the means of winners and non-winners at time t, the award year. The results show that treated and matched subsamples are nearly indistinguishable in all characteristics at time t when they are matched.

In Table 2, Panel B, you'll find descriptive statistics for other firm and CEO characteristics of treated and matched firms, as well as univariate t-tests comparing the means of winners and non-winners. Although both subsamples share many similarities, treated firms tend to have higher sales and are generally larger than matched firms, as indicated by their greater number of employees. Treated firms also maintain slightly lower debt-to-asset ratios than matched firms. Additionally, CEOs of treated firms tend to be younger and earn more than their matched counterparts. To account for these heterogeneous characteristics and their potential influence on our results, our multivariate tests incorporate controls for these firm and CEO characteristics.

Table 2. Univariate Tests for the matching sample

This table provides the results of univariate *t*-tests for the differences in means between the winners and non-winners samples in time t. Panel A reports differences in matching characteristics. Panel B shows differences in other, non-matching, firm and CEO characteristics, and Panel C reports tests for differences in average firm performance. All variables are defined in Appendix A. The sample period is from 2013-2018 using Compustat and Glassdoor data.

Panel A: Matching Characteristics				
	Full Sample	*Winners*	*Non-Winners*	*t*-stat (Difference)
Return on Assets	0.068	0.071	0.066	0.566
Book to Market	0.220	0.232	0.208	0.234
Employee Score (KLD)	1.341	1.399	1.283	0.688
Management Star	3.427	3.427	3.428	-0.0297

Panel B: Other Firm and CEO Characteristics				
	Full Sample	*Winners*	*Non-Winners*	*t*-stat (Difference)
Total Assets	129.399	116.904	141.894	-0.644
Sales	28.062	36.084	20.040	3.950
Debt to Assets	0.214	0.196	0.233	-1.965
Sales to Assets	0.837	0.851	0.823	0.400
Employees (Thousands)	59.571	72.969	44.172	3.741
CEO Age	55.802	54.411	57.367	-4.008
CEO Compensation ($M)	12.914	14.467	11.168	3.656
CEO Tenure (Years)	7.365	7.089	7.67	-0.823
Shares Owned (%)	1.807	1.912	1.689	0.521

Panel C: Performance Metrics				
	Full Sample	*Winners*	*Non-Winners*	*t*-stat (Difference)
Return on Assets (t+1)	0.067	0.074	0.060	1.872
ESG	0.523	0.526	0.520	0.377
Winning CEO	0.503	1	0	-
N (Firm-years)	416	208	208	

Finally, in Panel C of Table 2, we present univariate t-tests to compare the performance of winning firms and their matched counterparts in the year following the award reception. Notably, ESG is measured just before the award and reflects the firm's combined performance in Environmental, Social, and Governance aspects. As our primary measure of firm performance, we follow the approach of Edmans (2011) and Li and Nagar (2013), using profitability as a summary indicator of operating performance. Specifically, we focus on return on assets (ROA), defined as the ratio of net income to total assets.

Since we employ ROA_t as a matching characteristic (Panel A), there are no statistical differences between the ROA of treated and matching firms at time t. As such, the statistical disparities in ROA between winning and non-winning firms at time t+1 (Panel C) cannot be attributed to historical data. Indeed, award-winning CEOs demonstrate a ROA of 7.4% in the year following the award reception, compared to 6% for non-winners. This result lends strong support to our first hypothesis.

4 Results and Discussion

4.1 Top CEO Awards and Firm Performance

As a next step, we analyze the entire sample spanning from t-2 to t+2 using a difference-in-differences multivariate regression approach to investigate if winning the award leads to an increase in firm profitability, as measured by ROA, in the years following the award (t, t+1, t+2).

Given the potential influence of various firm and CEO characteristics on our ability to establish a relationship between winning a Top CEO award and firm performance, we employ multivariate OLS regressions to test our first hypothesis. The regression model takes the following form:

$$ROA_{i,t+1} = \beta_1 Winning\ CEO_{i,t} + \beta_2 post_t + \beta_3 Winning\ CEO_{i,t} \times post_t + \beta_4 X_{i,t} + year_t + firm_i + \varepsilon_{it} \quad (1)$$

ROA_{t+1} is measured at the end of the fiscal year that the award is won (t+1). For example, if the award is won at the beginning of 2013, *ROA* is measured at the end of the 2013 fiscal year, and control variables are measured in 2012. The indicator variable *Winning CEO* equals 1 if the firm's CEO wins a Top CEO award in year *t*, and 0 otherwise. The *Post* dummy variable equals 1 if the observation is in the award-year or after the award-years. We interact *Winning CEO* with the *post* dummy to establish the variable of interest. To control for time and firm-invariant characteristics, our regressions include year and firm-fixed effects. Standard errors are clustered by year.

$X_{i,t}$ is a vector of control variables that includes debt-to-asset ratio, sales-to-asset ratio, and other CEO characteristics like age and tenure. Adding these variables as controls serves a double purpose: First, Table 2 revealed significant differences between treated and matched firms along these dimensions, indicating the importance of explicitly controlling for this source of heterogeneity. Second, these variables measure characteristics plausibly correlated with award-winning. For example, firms that have higher debt-to-asset or sales-to-assets ratios might offer different incentives than firms with lower ratios, and these incentives could in turn affect the odds of winning CEO awards. Firms with higher sales-to-asset ratios may have more resources to increase their employees' satisfaction, which could impact employees' CEO approval rate. Similarly, younger CEOs might be more inclined to work towards employee satisfaction and award-winning. CEOs with longer tenure or with higher stakes in the firm have greater power and employ their power to benefit employees (Cronqvist, Heyman, Nilsson, Svaleryd, and Vlachos 2009). Appendix A includes definitions of all variables.

We are primarily interested in β_3 in this difference-in-differences setting to assess whether the ROA of an award-winning firm will increase in the post-award years. We expect β_3 to be significantly positive meaning the award will lead to such an increase.

Table 3 shows the results of estimating Equation 1, and tests whether firms whose CEO earns a Top CEO award obtain a better performance, as proxied by ROA. Column (1) of Table 3 shows that firms whose CEO wins an award see an average increase in the ROA by 1.6% compared to non-winners in post-award years; this effect is significant at the 1% level. Considering that the average ROA in our full sample is 6.8%, this effect is economically significant. Columns (2) and (3) show that the effect remains significant when we control for firm characteristics and include firm or industry-fixed effects, where firm-fixed effects absorb industry-fixed effects. Furthermore, Columns (4)-(6) reveal the robustness of our results even when explicitly accounting for repeat award winners, indicating that our findings are not driven by a few exceptional firms consistently winning the award.

Table 3. Award-Winning CEOs and Firm Performance

This table provides the results of difference in differences regressions, where WinningCEO is interacted with the Post dummy along with various controls and fixed effects to examine if CEO awards could improve ROA. Columns 4-6 control for multiple winners to check the robustness of the results. Standard errors are clustered by year and shown in parentheses. All variables are defined in Appendix A. The sample period is from 2013-2018 using Compustat and Glassdoor data.
Significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

	Main Results			*Controlling for Repeat Winners*		
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
	ROA_{t+1}	ROA_{t+1}	ROA_{t+1}	ROA_{t+1}	ROA_{t+1}	ROA_{t+1}
Winning CEO	0.007*	0.015***	-0.002	-0.004	0.004	-0.003
	(0.004)	(0.004)	(0.006)	(0.004)	(0.005)	(0.005)
*Winning CEO * Post*	0.016***	0.012**	0.012***	0.017***	0.012*	0.012***
	(0.003)	(0.005)	(0.004)	(0.004)	(0.006)	(0.004)
Post	-0.010	-0.008	-0.011**	-0.007	-0.005	-0.010**
	(0.007)	(0.007)	(0.004)	(0.007)	(0.007)	(0.004)
Debt to Assets		-0.067***	-0.011		-0.063***	-0.010
		(0.014)	(0.040)		(0.014)	(0.039)
Sales to Assets		0.065***	0.081***		0.065***	0.081***
		(0.011)	(0.021)		(0.011)	(0.022)
Multiple_Winner				0.022***	0.022***	0.005*
				(0.004)	(0.003)	(0.003)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	No	Yes	Yes	No
Firm FE	No	No	Yes	No	No	Yes
N	2045	1971	1971	2045	1971	1971
R^2	0.399	0.445	0.721	0.406	0.452	0.722

We check the parallel trend assumption in our difference in differences equation using equation (2) below where Y represents ROA in our model. In this methodology, we expect the treatment and control

groups to exhibit a similar trend before the treatment. Therefore, the DD coefficients in the pre-treatment period should be statistically close to zero.

$$Y_{its} = \gamma_s + \lambda_t + \sum_{\tau=-q}^{-1} \gamma_\tau D_{s\tau} + \sum_{\tau=0}^{m} \delta_\tau D_{s\tau} + x_{ist} + \varepsilon_{ist} \quad (2)$$

We substitute ROA as the dependent variable in Equation (2) and use Figure 2 to illustrate the event-time study plot. By employing 2 leads and 2 lags and estimating equation (2), we can observe a distinct structural break and an increase in ROA at time 0 when the award is won. This increase is continued in the subsequent years following the award. Thus we have strong evidence that the parallel trend assumption holds in our difference in differences (DiD) model.

Figure 2. Event Time Study Plot

This graph illustrates the impact of CEO award recognition on the financial performance (ROA) of the firm utilizing lead and lag effects within an event study model. This graph illustrates the award-winner ROA development over time. It is derived by utilizing equation 2 where ROA is regressed on the Winning CEO dummy interacted with time leads and lags including firm fixed effects. Notably, the graph demonstrates a discernible structural break and subsequent increase at time 0, representing the year in which the award is received.

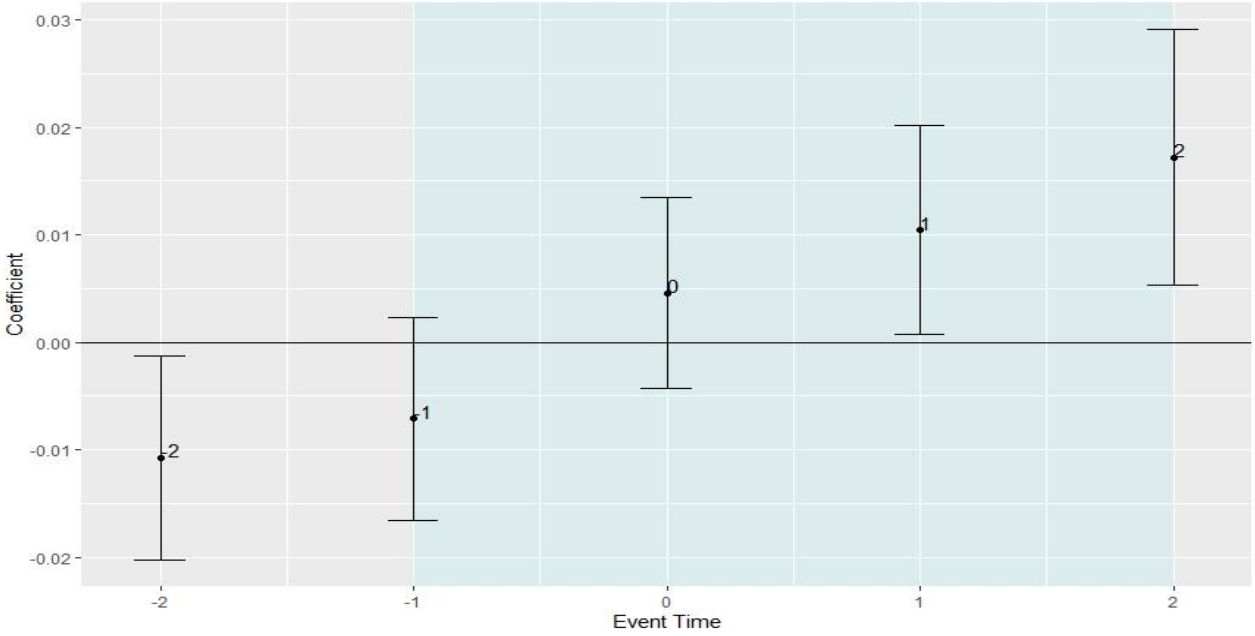


Table 3 and Figure 2 reveal that firms with Top CEO award-winning CEOs achieve superior firm performance in the subsequent year compared to non-winners. To understand the underlying driver of this

award-firm performance relationship, we decompose our firm performance measure into profitability (net profit margin) and turnover (asset turnover ratio) in the next subsection. These ratios serve as dependent variables in regressions similar to Equation 1. In Table 4, we present the results of the ROA decomposition. We find that the change in ROA is mostly driven by an increase in *Profitability* instead of a change in asset turnover in post-award years. *Profitability* increases by 0.9% for award-winners and this change is significant at the 10% level. On the other hand, the change in *Turnover* is statistically insignificant for winners but still positive and around 1.6%.

Table 4. ROA Decomposition

Panel A provides the results of ROA decomposition with regression results where the dependent variable is, in turn, $Profitability_{t+1}$ and $Turnover_{t+1}$. The results indicate that the change in ROA is mainly driven by an increase in profitability. Standard errors are clustered by year and shown in parentheses. All variables are defined in Appendix A. The sample period is from 2013-2018 using Compustat and Glassdoor data. Significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

	(1) $Profitability_{t+1}$	*(2)* $Turnover_{t+1}$
Winning CEO	-0.002	0.019
	(0.006)	(0.013)
*Winning CEO * Post*	0.009*	0.016
	(0.005)	(0.012)
Post	-0.010	-0.010*
	(0.005)	(0.004)
Year FE	Yes	Yes
Firm FE	Yes	Yes
Controls	Yes	Yes
N	1971	1971
R^2	0.645	0.965

Additionally, we explore other channels through which ROA improves post-award in Section 4.2.

4.2 Channels

In this section, we delve into the potential channels for ROA improvement after the award by testing hypotheses 2 and 3. We use a similar empirical framework as the previous section to test Hypothesis 2, which posits that the impact of winning an employees' choice award on firm performance is stronger for firms that have higher ESG scores and better corporate governance than for firms that have lower ESG scores. We consider the combined ESG score retrieved from Refinitiv. This score reflects the overall

Environmental, Social and Governance of a firm based on the reported information. A higher score indicates that the firm places a greater emphasis on environmental, social and governance concerns. We interact the *ESG* score with the *Winning CEO* indicator and the *post* dummy to evaluate if the combined *ESG* score is an economic channel for the award-firm performance relation. More specifically, we estimate OLS regressions of the form:

$$ROA_{i,t+1} = \beta_1 Winning\ CEO_{i,t} + \beta_2 post_t + \beta_3 Winning\ CEO_{i,t} \times post_t + \beta_4 Winning\ CEO_{i,t} \times ESG_{i,t} + \beta_5 post_t \times ESG_{i,t} + \beta_6 Winning\ CEO_{i,t} \times ESG_{i,t} \times post_t + \beta_7 ESG_{i,t} + \beta_8 X_{i,t} + year_t + firm_i + \varepsilon_{it} \quad (3)$$

We are interested in β_6 to evaluate if *ESG* is a plausible channel for *ROA* improvement. These regressions also include year and firm-fixed effects to control for time and firm-invariant characteristics. Standard errors are clustered by year.

We test hypothesis 3 with the same approach. We would investigate if the effect of an employees' choice award on firm performance is stronger for firms where their CEOs have greater compensation or larger ownership of the company. Compensation is defined as the total salary, bonus, and any other grants or stock options of the CEO. Adjusted compensation is calculated by scaling the total compensation by the total assets of the firm. 'Shares owned' represents the total percentage of shares owned by the CEO. We interact CEO Compensation, as proxied by *compensation* and *adjusted compensation*, as well as *shares owned* by the CEO, with the *Winning CEO* dummy and the *post* dummy to evaluate if CEO compensation and firm ownership are plausible channels for *ROA* improvement. We estimate OLS regressions of the form:

$$ROA_{i,t+1} = \beta_1 Winning\ CEO_{i,t} + \beta_2 post_t + \beta_3 Winning\ CEO_{i,t} \times post_t + \beta_4 Winning\ CEO_{i,t} \times [CEO\ Compensation_{i,t}] + \beta_5 post_t \times [CEO\ Compensation_{i,t}] + \beta_6 Winning\ CEO_{i,t} \times [CEO\ Compensation_{i,t}] \times post_t + \beta_7 X_{i,t} + year_t + firm_i + \varepsilon_{it} \quad (4)$$

We would expect that β_6 has a positive and significant sign for equation 4.

In Table 5, Panel A we address Hypothesis 2 first, which postulates that the impact of Top CEO awards on firm performance is stronger for firms that have higher CSR activities around award announcements than those that have lower CSR activities and do not change their CSR levels. To test this hypothesis, we use the ESG levels of firms from Refinitiv in the financial year preceding the award, measured around six months before the award announcement at the end of the financial year. We estimate Equation (3) and report the results in Table 5 Panel A. In column 1 we include the controls of sales to assets and debt to assets in the regression but lose some observations.

In columns 1 and 2, the interaction term *Winning CEO * ESG * post* is significant at the 10% and 5% level respectively, and positive, meaning firms with higher CSR activities exhibit greater ROA improvement following the award. Column 1 indicates that a 1-point increase in the combined ESG score according to Refinitiv leads to a 2.8% ROA increase after winning the award when controlling for firm characteristics. In Column 2, without including controls, the result shows a significant 4.7% increase in ROA with a 1-point rise in the firm's ESG score. With the average ESG score at 0.518 and an average ROA of 6.8% in our sample, this effect is economically significant.

Moreover, we analyzed the components of the ESG score, namely Environmental, Social, and Governance scores, and performed separate regressions to identify which one influences the ROA increase within the combined ESG score. We run regressions by substituting Environmental, Social, and Governance scores individually into Equation (3) and report the results in Table 5 Panel B. The Environmental score reflects the company's efforts to address climate change and other environmental issues. The Social score indicates the positive involvement of the company in social issues such as human rights and political controversies. The governance score shows the company's endeavours to address management issues such as shareholder rights and CSR management. While all interaction terms are positive in panel B, only the *Env_Gov * Winning CEO * Post* interaction term is significant at the 5% level. This finding suggests that the ESG channel is primarily driven by improvements in the Governance score.

Table 5. ESG, Channels and Firm Performance

This table provides the results of OLS regressions, where *WinningCEO* is interacted with the *ESG* score from Refinitiv, in order to explore a channel through which CEO awards could improve ROA. The results in Panel A indicate the ESG to be a strong channel for ROA improvement. In Panel B, we break down the ESG into Environmental, Social and Governance scores to get a better picture. Standard errors are clustered by year and shown in parentheses. All variables are defined in Appendix A. The sample period is from 2013-2018 using Compustat and Glassdoor data.
Significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

Panel A. ESG Channel		
	(1) ROA_{t+1}	*(2)* ROA_{t+1}
Winning CEO	-0.007	-0.003
	(0.009)	(0.008)
*Winning CEO * Post*	-0.012	-0.019**
	(0.007)	(0.008)
Post	0.002	0.004
	(0.011)	(0.011)
*ESG * Winning CEO * Post*	0.028*	0.047**
	(0.014)	(0.016)
Year FE	Yes	Yes
Firm FE	Yes	Yes
Other Interactions	Yes	No Control
N	1494	1542
R^2	0.712	0.702

Panel B. ESG Breakdown			
	(1) ROA_{t+1}	*(2)* ROA_{t+1}	*(3)* ROA_{t+1}
Winning CEO	-0.008	-0.046**	0.002
	(0.007)	(0.019)	(0.010)
*Winning CEO * Post*	-0.002	-0.015	-0.023**
	(0.008)	(0.012)	(0.007)
Post	-0.005	-0.002	0.008
	(0.007)	(0.010)	(0.007)
*ESG_Env * Winning CEO * post*	0.015	-	-
	(0.013)	-	-
*ESG_Soc * Winning CEO * post*	-	0.029	-
	-	(0.021)	-
*ESG_Gov * Winning CEO * post*	-	-	0.051**
	-	-	(0.016)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Other Interactions	Yes	Yes	Yes
N	1542	1542	1542
R^2	0.701	0.705	0.703

Next, we address Hypothesis 3 in Table 6, which suggests that firms with CEOs having higher compensation or greater ownership in the company will experience higher improved performance after

winning the award. Results in Columns 1 and 2 indicate the significance of CEO ownership and compensation as channels for ROA enhancement, with significant levels at 10% and 5%, respectively. It is important to acknowledge that compensation is correlated with firm size. Jarque (2008) noted that the sensitivity of CEO pay to firm performance inversely relates to firm size. Therefore, it is crucial to control for firm size when investigating compensation to mitigate potential biases. To account for compensation being a proxy for company size, we adjust CEO compensation by Total Assets and re-run the regression in Column 3, which is now significant at the 1% level.

These findings in Columns 1-3 of Table 6, Panel B, suggest that adjusted compensation and firm ownership are plausible channels for ROA improvement, with a positive impact. In Column 3, a unit (100%) increase in CEO ownership corresponds to a 0.5% higher ROA after the award for winning firms. Column 3 shows a 1-point gain in adjusted compensation (compensation divided by total assets) will cause the winning firms to have 4.183 (418%) higher ROA after the award which is significant at the 1% level. Greater CEO compensation and ownership of the firm not only incentivizes a focus on employee satisfaction but also drives efforts to enhance overall performance after the award. This incentive arises as CEOs focus more on employee happiness and firm performance without concerns about their compensation or stake in the company.

Hence, we conclude that firms with higher Governance scores within their combined ESG rating experience greater ROA growth after receiving the award. Achieving this involves enhancing board diversity and structure, optimizing executive compensation, streamlining supply chain management, fostering ethical business practices, and more importantly, improving CSR management and upholding shareholder rights. Furthermore, CEOs with greater adjusted compensation or ownership of the firm are motivated to focus more on ROA growth in the post-award years

Table 6. CEO Characteristics, Channels and Firm Performance

This table provides the results of regressions that examine CEO characteristics for ROA improvement. *WinningCEO* is interacted with *compensation* and *ownership*, in order to explore a channel through which CEO awards could improve ROA. Standard errors are clustered by year and shown in parentheses. All variables are defined in Appendix A. The sample period is from 2013-2018 using Compustat and Glassdoor data.

Significance at the 10%, 5%, and 1% levels is indicated by *, **, and ***, respectively.

	(1) ROA_{t+1}	*(2)* ROA_{t+1}	*(3)* ROA_{t+1}
Winning CEO	0.004	-0.010	0.003
	(0.004)	(0.006)	(0.003)
*Winning CEO * Post*	0.002	0.036**	0.002
	(0.004)	(0.013)	(0.004)
Post	-0.004	-0.035**	-0.003
	(0.002)	(0.014)	(0.003)
*Shares Owned * Winning CEO * Post*	0.005*	-	-
	(0.002)	-	-
*Compensation * Winning CEO * Post*	-	-0.002**	-
	-	(0.001)	-
*Compensation_Adj * Winning CEO * Post*	-	-	4.183***
	-	-	(1.162)
Year FE	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Controls & Other Interactions	Yes	Yes	Yes
N	1705	1710	1710
R^2	0.684	0.685	0.687

5 Conclusion

Focusing on an award recognizing an often-underappreciated intangible, employee morale, we uncover that CEO awards can indeed contribute to both enhanced firm performance and increased CEO prestige.

This phenomenon is closely linked to ESG considerations, CEO compensation, and CEO ownership concerning the valuable intangible of employee morale. The ROA increase is particularly pronounced in firms with robust ESG performance, substantial CEO ownership, and higher adjusted compensation in the wake of award announcements. Notably, the governance score emerges as the primary driver of the ESG channel.

This paper contributes to both corporate directors and academics. Corporate directors would be well warned to keep their CEO away from broad-based media exposure that can distract them from their daily duties; however, this research shows that targeted awards in areas that are under-recognized may not only help CEOs gain some fame but also bring market awareness to their firms' strengths. Additionally, the paper underscores the importance of improving ESG performance and employee treatment. For academics, this study contributes to the literature on corporate governance and the multifaceted influences on CEOs, encompassing both monetary and non-monetary factors.

Firms are encouraged to enhance their internal corporate governance practices, including board diversity, shareholder rights, risk management, and business ethics. Increasing CEO ownership and compensation relative to firm assets can also help leverage the benefits of awards, leading to improved post-award performance.

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Appendix A. Variable Definitions

Variable	Definition
Book to Market	Book value over the market value of a company at the end of a fiscal year before the award announcement (BM_t) derived from the Compustat Annual database.
CEO Age	Age of the CEO at the end of a fiscal year before award announcement (Age_t) derived from the ExecuComp database from Compustat.
CEO Compensation	Total Compensation of the CEO at the end of a fiscal year in million dollars before the award announcement ($Compensation_t$) derived from the ExecuComp database in Compustat.
CEO Tenure	Tenure of the CEO (number of years in the position) at the end of a fiscal year ($Tenure_t$) before award announcement derived from the ExecuComp database from Compustat.
Controls	It refers to using debt to assets and sales to assets as additional controls for brevity.
Debt to Assets	Total Debt divided by Total Assets at the end of a fiscal year before the award announcement (DA_t) derived from the Compustat Annual database.
Employee Score (KLD)	Sum of all the employee scores from the KLD database used for matching
EBITDA_R	EBITDA divided by Revenue at the end of a fiscal year after the award announcement (*$EBITDA\_R_{t+1}$) derived from Compustat annual database.*
Compensation Adj	The total Compensation is divided by the Total Assets of a company to scale it by size. They are derived from ExecuComp and Compustat.
ESG	Combined ESG (Environmental, Social and Governance) score derived from the Refinitiv database at time t, t+1.
Employees	The number of employees in thousands at the end of a fiscal year before the award announcement (Emp_t) derived from the ExecuComp database from Compustat.
GP_R	Gross profit divided by Revenue at the end of a fiscal year after the award announcement (*GP_R_{t+1}) derived from Compustat annual database.*
Management Star	Employee rating of the senior management of a firm on Glassdoor during the award review period (SR_t).
Profitability Ratio	Net income divided by Revenue at the end of a fiscal year after the award announcement ($Profitability_{t+1}$) derived from Compustat annual database.
Return on Assets	Net Income divided by Total Assets at the end of a fiscal year after the award announcement (ROA_{t+1}) derived from Compustat annual database.
Sales to Assets	Total Sales divided by Total Assets at the end of a fiscal year before the award announcement (SA_t) derived from the Compustat Annual database.
Turnover Ratio	Revenue divided by Total Assets at the end of a fiscal year after the award announcement ($Turnover_{t+1}$) derived from Compustat annual database.
Sales	Total Sales at the end of a fiscal year before the award announcement ($Sale_t$).
Shares Owned	Percentage of shares owned by the CEO at the end of a fiscal year before the award announcement ($SharesOwned_t$) derived from ExecuComp database from Compustat.
Total Assets	Total Assets at the end of a fiscal year before the award announcement (AT_t) derived from Compustat Annual database (in billions of dollars).
Post	A dummy variable that equals zero if the year is before the award and equals one if we are in the award year or after the award year.
WinningCEO	A dummy variable that equals one if the CEO has won the best CEO award by Glassdoor in year t ($Winner_t$).

Appendix B. Number of observations breakdown

Tabe 1b. Number of observations clarification

This table breaks down the number of observations we have in our sample for clarity. We have 416 firm year observations including winning and matched firms at time t. When the sample is extended from t-2 to t+2, we get more observations, and the number depends on the variable.

Time	Number of Observations/Clarification
Time = t	416 observations We have 208 firm-year observations that won the award at time t. When we add the matching firm-years, the total observations will be 416.
Time = (t-2, t+2)	2058 observations When we extend the sample to 2 years before and 2 years after the award, we get around 2058 observations depending on the variable. For some variables, we get fewer, for example, 1777 observations for CEO characteristics or 1545 for ESG.