Within-Firm Pay Inequality and Payout Policies

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Abstract

We investigate how firms respond to internal pay inequality, specifically focusing on CEO-employee pay ratios. Our analysis shows that after pay ratio disclosures are made public, companies with higher CEO pay ratios increase their dividend payouts to alleviate negative reactions from investors and the market. This connection between CEO pay ratios and dividend distributions remains consistent across different firm characteristics and alternative explanations. Our findings indicate that firms are aware of the potential drawbacks of high pay ratios for their shareholders and proactively seek to retain current investors or attract new ones by boosting their dividends.

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