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Pay Harmony: Peer Comparison and Executive Compensation

by Claudine Gartenberg and Julie Wulf

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Abstract

This study suggests that peer comparison affects both wage setting and productivity within firms. We report three changes in division manager compensation following a 1991–1992 controversy over executive pay. We argue that this controversy increased wage comparisons within firms, particularly those with geographically dispersed managers—managers with the greatest information frictions. Following the controversy, pay in dispersed firms co-moves more and is less sensitive to individual performance. Relatedly, pay disparity between managers located in different states decreases relative to that of co-located managers. Finally, division productivity falls in dispersed firms, particularly among managers at the low end of the wage distribution.

Keywords: [Executive Compensation](#); [Pay-For-Performance](#); [Internal Labor Markets](#); [Peer Comparison](#); [Firm Geography](#); [Behavior](#); [Executive Compensation](#); [Policy](#);

Language: English | Format: Print | 62 pages

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Citation:

Gartenberg, Claudine, and Julie Wulf. "Pay Harmony: Peer Comparison and Executive Compensation." Harvard Business School Working Paper, No. 13-041, November 2012. (Revised May 2013, March 2014.)

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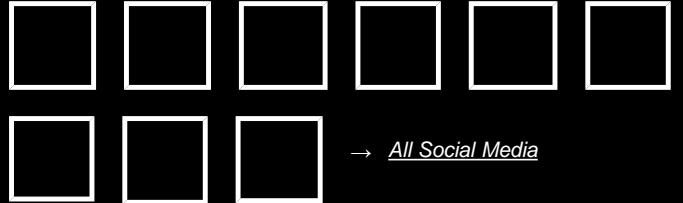
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