Executive Incentives and Strategic Talent Acquisition: Evidence from Poaching*

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Abstract

We examine the relation between relative performance evaluation ("RPE") in executive pay plans and labor talent poaching of rank-and-file employees. Using resumé data, we document that RPE-using firms hire significantly more labor talent away from their RPE peers than from their other industry rivals. This effect is most pronounced among hard-to-replace employees (i.e. higher skilled and longer tenured employees). Collectively, the evidence suggests that firms poach hard-to-replace labor talent away from their RPE peers in order to harm the peers' performance outcomes, thereby improving the focal firm's relative performance (and thus the CEO's compensation).

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1 Introduction

In recent years, relative performance evaluation ("RPE") has become a common feature in CEO pay plans, used by the majority of large public companies as of 2017 (e.g., Bizjak et al., 2022). While in most cases, RPE is used to shield risk-averse managers from common sources of uncertainty (á la Holmström, 1982), theoretical work shows that RPE can also have an incentive-distorting effect: it encourages agents to take actions that harm the performance of the peers against whom they are compared (e.g., Lazear, 1989). In the context of executive pay, Aggarwal and Samwick (1999a) show that managers incentivized using RPE that rewards them based on performance relative to their product market rivals will optimally choose to implement more aggressive product market strategies by lowering prices and/or boosting production quantities, in order to harm their rivals' profitability. In this study, we consider an alternative approach to harming RPE peers: poaching RPE peers' labor talent.[1]

A company's ability to attract and retain labor talent is critical to its success, with human capital emerging as many companies' "most crucial asset" (Zingales, 2000). As a corollary, the loss of key labor talent can be detrimental to company value (see, e.g., Li et al., 2022), with fears of talent poaching being a primary concern for many companies. In light of the central importance of human capital in generating and sustaining company value, we posit that poaching RPE peers' labor talent could be a viable approach that an RPE-using focal firm can use to harm its peers' performance—without having to sacrifice much of its own—thus bolstering its relative performance.

In order to be effective, this strategy does not necessarily need to help focal firms improve their own performance. Rather, RPE-motivated poaching could occur even when poaching erodes the poaching firm's absolute performance, as long as it is even more detrimental to the peer from whom labor talent was poached. For example, suppose that there is a highly productive employee at a peer who is generating considerable economic surplus for that peer. An RPE-using focal firm could potentially lure that employee away by overcompensating

[1] Throughout we refer to RPE-using firms as "firms" or "focal firms" and their RPE peers as "peers."

them. Doing so would cost the firm by the amount of the overcompensation, but would cost the peer the entire amount of the employee's surplus to them. As long as the amount of overcompensation is small relative to the employee's surplus to their current firm, poaching in this manner improves the firm's performance, relative to the peer's. Such a tactic would primarily be effective in the case of hard-to-replace employees (e.g., long-tenured managers with considerable firm-specific knowledge); if the employee can be easily replaced (e.g., newly hired low-skill rank-and-file employees), the peer can readily recover the surplus by hiring a new employee in place of the poached one. As such, we expect that RPE-using focal firms will disproportionately poach employees away from their RPE peers, and that this behavior will be most prevalent among more difficult-to-replace employees.

To empirically examine the relation between RPE and employee flows, we construct a dataset at the focal firm-rival-year level over the time period of 2009 to 2019. For each focal firm in our sample, we identify its industry rivals using the text-based network industry classifications (TNIC) (Hoberg and Phillips, 2016). Using data from Incentive Lab, we observe which focal firms in our sample include a relative performance evaluation component in their executives' compensation contracts. For focal firms with RPE, we next identify which of their industry rivals appear in their list of explicitly disclosed RPE peers. Finally, we use data from Emsi (Lightcast) to construct a measure of employee flows between focal firms and their industry rivals at the firm-rival-year level. Our sample comprises 199,377 focal firm-rival-year observations covering 1,113 unique focal firms and 4,359 unique rivals.

Using this firm-rival-year level data, we estimate whether the existence of an RPE peer relationship can explain within-firm-rival variation in the flow of employees between the rival and the focal firm.[2] We document a positive and significant association between RPE peer status and employee flow from rival to focal firm. In the cross-section (i.e., omitting the firm×rival pairwise fixed effects), we find that firms hire significantly more labor talent away

[2]We use firm×rival pairwise fixed effects throughout most of our analysis to identify effects from within-firm-rival variation in labor talent flow and RPE peer status. These fixed effects absorb time-invariant characteristics at the firm-rival pair level, such as time-invariant aspects of the firm and rival, individually, as well as any time-invariant aspects of their relationship with each other.

from their RPE peers than from their (otherwise fairly similar) industry rivals that are not their RPE peers. Within a firm-rival pair, we find that a given focal firm hires significantly more from a given rival when the focal firm uses that rival as an RPE peer, relative to other times when that same focal firm does not use that rival as an RPE peer.

In terms of economic magnitudes, our estimates suggest a 3.1 percentage point increase in the likelihood of employee flow at the extensive margin, within a firm-rival pair, explained by the rival's inclusion in the RPE peer group. This effect size is substantial, at roughly 20% of the base rate. Beyond the extensive margin, we further document evidence of increased labor flow from RPE peers to focal firms, as reflected by both the number of employees flowing from rivals to focal firms, as well as the proportion of rivals' workers flowing from the rival to the focal firm. Overall, our results suggest that focal firms are more likely to poach employees from their rivals when those rivals are also their RPE peers.

We next conduct a series of cross-sectional analyses to assess the potential mechanism(s) behind these baseline results. First, we explore heterogeneity in the types of employees. For the purposes of harming an RPE peer, the benefits of poaching an employee from an RPE peer would likely be greater among employees who are more difficult/costly to replace. To capture hard-to-replace employees, we classify employees according to skill and tenure, based on the premise that higher skilled and/or longer-tenured employees are more costly to replace. We find evidence that focal firms' tendency to poach labor talent from RPE peers is most prevalent for higher skilled and longer-tenured employees. We next examine whether poaching from RPE peers is more pronounced when RPE plays a larger role in the CEO's pay plan, and find that it is. We further examine whether firms tend to poach more from RPE peers whose recent performance is more similar to their own, and find that they do.[3] Collectively, these cross-sectional results are consistent with deliberate peer harming motivations explaining our findings—poaching is more prevalent in cases where: RPE incentives are stronger; poaching would be more harmful to the peer; and peer-harm

[3]RPE grants are almost always structured as rank-order tournaments, so harming an RPE peer is more beneficial to the focal firm's CEO when the firm and the peer have more similar performance, and thus the act of peer-harm is more likely to be marginal in the relative rankings (Bloomfield et al., 2024).

would be more effective at boosting RPE-based compensation for the focal firms' executives.

To better establish that these patterns are driven by RPE peer status, we use a stacked difference-in-differences event study design to examine short window changes in employee flow around RPE peer-inclusion events. We find that increased labor flow from the rival to the focal firm begins immediately after the inclusion of the rival in the focal firm's RPE peer group, with pre-trends appearing to be parallel. The parallel pre-trends and sharp treatment effect combined with: (i) a control group of non-RPE rivals originating from the same product market (Hoberg and Phillips, 2016) and (ii) the inclusion of pairwise firm×rival fixed effects suggest that our results are attributable to CEOs' RPE incentives. While our findings are consistent with deliberate peer-harm driven by executives' RPE incentives, causality and intent are difficult to discern. In additional analyses, we assess conceivable alternative explanations for the documented patterns.

First and foremost, we consider the possibility that economic similarity explains our findings. More similar rivals are more likely to be selected as RPE peers, and also more likely to have similar labor talent needs. This could give rise to a spurious association between RPE peer status and labor talent flow.[4] To assess this possibility, we use two different approaches. First, we exploit the symmetric nature of economic similarity, and the usually *asymmetric* nature of RPE incentives,[5] and examine employee flows in the reverse direction (from firm to rival). If the preceding results are attributable to changes in firm-rival similarity that coincide with the inclusion of the rival in the firm's RPE peer group, then the increase in employee flow would likely be bi-directional whereby each poaches more from the other. In contrast, if the preceding results are attributable to managers' explicit RPE incentives, then the change in employee flows would be uni-directional; firms would have heightened incentives to poach from their peers, but the peers would not have heightened incentives to poach from the focal firms. Consistent with RPE incentives playing a causal role

[4]It is worth reiterating that our use of firm×rival fixed effects subsumes time-invariant pairwise similarities. Nonetheless, it remains conceivable that *time-varying* pairwise similarities between firms and their rivals could explain our findings, without the association being driven by RPE incentives, *per se*.

[5]The vast majority of RPE peer relationships are non-mutual, whereby a focal firm uses a rival as a peer, but that peer does not use the focal firm as a peer.

in our findings, we find no evidence that labor talent flows from firms to their RPE peers at a heightened rate. Second, we directly test whether firm-rival similarity appears to increase around peer inclusion events. Using product similarity scores (Hoberg and Phillips, 2016) and stock return correlations between focal firms and their rivals, we find no evidence that economic similarity tends to increase around RPE peer group inclusion events. In sum, we find no evidence supporting the concern that our findings are driven by economic similarity rather than RPE incentives.

As another alternative, we next consider the possibility that increased poaching is not driven by RPE incentives, *per se*, but by peer status more broadly. Perhaps firms simply pay more attention to their peers, giving rise to heightened poaching that is not an intentional act of peer harm. Alternatively, perhaps poaching is primarily directed at compensation benchmark peers, which just happen to have significant overlap with the RPE peers. Of note, compensation benchmark peers are chosen based on similar needs for executive labor talent, which could be associated with similar needs for rank-and-file labor talent, thus giving rise to the observed talent flow patterns. To assess the matter, we use compensation benchmark peer status as both a control variable and a placebo variable. If our findings are driven by peer status more broadly (e.g., an attention story) and/or by compensation benchmark peers, then we would expect compensation benchmark peer status to be as or more important than RPE peer status in explaining labor flows. However, we observe no evidence of increased poaching from compensation benchmark peers, and controlling for a rival's status as a compensation benchmark peer does not weaken the association between RPE peer status and poaching. In sum, the results suggest that it is the RPE incentives themselves that drive our findings.

Lastly, we consider the possibility that firm and/or rival performance (or other firm-year level factors) explain our findings. Perhaps firms strategically choose RPE peers that they expect will have poor future performance and also tend to poach labor talent from struggling rivals. If so, this could explain the relation between RPE peer status and poaching. To

address this possibility, we add firm-year and rival-year fixed effects to the analysis. These fixed effects perfectly subsume any firm-year and rival-year level factors (e.g., company performance and/or future outlook). With the inclusion of these tighter fixed effects, we continue to observe an economically and statistically significant relationship between RPE peer status and poaching.

Collectively, the evidence in our study suggests that RPE-using firms strategically poach labor talent away from their RPE peers as a peer-harming tactic. As the final step in our analysis, we provide some descriptive evidence regarding the efficacy of this tactic. While we cannot identify the causal effect of poaching on peer performance, we can provide associative evidence on the link between RPE peer status and labor costs. If being in RPE peer groups exposes a company to heightened poaching (i.e., greater competition for their own labor talent), then we would expect the company to have to pay more to their employees. Consistent with this supposition, we find that labor talent is a more expensive input in the production function for firms that are included in more RPE peer groups.

Our study makes multiple contributions. Most specifically, our study contributes to the literature on the link between competition and the use of relative performance evaluation in executive compensation plans. A large existing literature examines the use of RPE in CEO pay plans, primarily focused on its use as a risk-sharing tool (e.g. Gibbons and Murphy, 1990; Aggarwal and Samwick, 1999b; Garvey and Milbourn, 2003; Bettis et al., 2014; Jenter and Kanaan, 2015; Bizjak et al., 2022). More recently, a growing literature examines the link between executive incentives and product market competition.[6] We complement this recent work by instead examining the link between executive incentives and *labor* market competition by providing evidence that RPE incentives push executives to poach labor market talent away from their RPE peers, seemingly as a means of harming those companies.

More broadly, our study further contributes to the growing literature on the intersection of labor and finance, by documenting the effect of executive compensation practices on labor

[6]See, for example: Aggarwal and Samwick (1999a); Bloomfield (2021); He et al. (2021); Feichter et al. (2022); Bloomfield (2023); Bloomfield et al. (2023); Antón et al. (2023); Ha et al. (2024).

talent acquisition. As the importance of human capital as a crucial asset has grown (Zingales, 2000), firms compete fiercely for talent in the labor market to enhance productivity, foster innovation, and gain valuable knowledge (Palomeras and Melero, 2011; Singh and Agrawal, 2018; Belo et al., 2014; Gurun et al., 2021). Firms can build human capital in different ways and recent studies have examined how the acquisition and retention of human capital impact: (i) firms' choices to grow internally or through M&As; along with (ii) the outcomes of M&As (Pagano and Volpin, 2005; John and Knyazeva, 2015; Olsson and Tag, 2017; Beaumont et al., 2024). In this paper, we consider how executives' compensation incentives factor into firms' labor talent acquisition decisions, showing that RPE pushes firms to poach hard-to-replace rank-and-file employees from their peers.

Finally, an emerging strand of research indicates that firms engage in implicit non-poaching agreements with industry rivals to suppress labor market competition (Gibson, 2021). This collusive behavior can be facilitated by common executives and directors across competing firms (Begley et al., 2024; Herrera-Caicedo et al., 2024). Our study complements this literature by providing evidence that RPE in CEO pay plans can increase labor market competition for rank-and-file employees by inducing more aggressive employee poaching tactics. Taken together, the evidence suggests that RPE has the opposite impact on firm behavior as common ownership. Both common ownership and RPE encourage managers to internalize the impact of their actions on other companies, but where common ownership facilitates acts that *benefit* co-owned companies, RPE rewards acts that *harm* RPE peers.

2 Conceptual Underpinnings

Relative performance evaluation has emerged as a common approach to monitor and reward executive performance. Analytical work on agency theory offers a compelling explanation regarding its ubiquity: when multiple agents' performance outcomes are similarly exposed to underlying uncertainties (e.g., common performance shocks), RPE is effective at filtering out these common risk exposures, and thus provides a more precise way to measure each

agent's actions. Improved measurement precision allows for higher powered compensation incentives, which better align interests between principals and agents (e.g., Holmström, 1982; Lazear and Rosen, 1981; Gibbons and Murphy, 1990).

In the classic models, agents' actions affect only their own performance outcomes, and RPE functions only as a way to refine measurement, and more efficiently elicit productive effort from each agent. However, in cases where agents' actions can influence other agents' performance outcomes, RPE can have alternative effects on agent behavior. In particular, when agents are rewarded based on their relative performance, they are encouraged to internalize the effects of their actions on their peers' performance outcomes, and take actions that harm the measured performance of the reference group against which they are compared—so long as they can do so at less cost to their own performance (Lazear, 1989).

Prior analytical work establishes how, in oligopolistic settings, firms can alter their product market strategies to harm their product market competitors (more than they harm themselves). For example, Aggarwal and Samwick (1999a) demonstrate that in Bertrand industries, RPE incentives encourage firms to lower their prices, while in Cournot industries, RPE incentives encourage firms to increase their production volumes.[7] We build on this intuition, but depart from prior work by examining a different setting/mechanism: employee poaching. Rather than studying how RPE affects firms' product market strategies, we instead turn our focus to how RPE influences firms' *labor* market strategies.

In many respects, the employee poaching setting is ideally suited to addressing the theory of RPE-motivated sabotage (Dye, 1984; Lazear, 1989), and allows us to provide more direct/conclusive evidence than has been feasible in prior work. Human capital is considered to be the "most crucial asset" that contributes to firm value (Zingales, 2000). As such, a viable way that a firm could substantively harm its RPE peers' performance outcomes would likely be by interfering with peers' abilities to retain their vital labor talent, such as through

[7]In Cournot settings, the commitment to aggressive production is strategically advantageous, as it pushes rivals to reduce their own production as a best response. In Bertrand settings, the commitment to aggressive pricing is strategically disadvantageous, as it pushes rivals to lower their own prices as a best response. However, in both settings, RPE pushes firms to increase their competitive aggression in order to harm their rivals, whether or not doing so is strategically beneficial to the principal.

aggressive talent poaching. By making attractive offers to peers' employees, an RPE-using firm can lure employees away from their current employers, depriving those peers of all of the value the employees were creating.[8] As such, we predict that RPE incentives in executive pay plans motivate firms to poach labor talent from their RPE peers.

Compared to product market strategy, the poaching setting is advantageous because it allows a firm to precisely target individual peers. Aggressive overproduction and/or price-cutting are blunt instruments that will indiscriminately harm product market competitors, whether or not they are RPE peers. As an empirical matter, this makes it hard to definitively establish a peer-harming intent; targeted price cuts that harm peers while leaving otherwise similar competitors unharmed would be clear evidence of sabotage, but such tactics are typically infeasible. In contrast, poaching can be executed in a targeted manner, whereby firms can poach specifically from the peers they wish to harm, while leaving otherwise similar rivals unaffected. From an empirical standpoint, this is advantageous, as it allows us to more cleanly identify the incentive effects of RPE itself.

RPE-motivated poaching will likely not be equally effective in all cases. Several relevant factors likely moderate RPE-using firms' incentives to poach labor talent from their peers. First, poaching is likely most devastating when aimed at hard-to-replace employees, such as highly skilled employees who have been with their employers for a long time. We therefore predict that RPE-motivated poaching will be more prevalent among more skilled and/or longer-tenured employees. Second, poaching likely has a direct impact on accounting/operational measures of performance (e.g., earnings), and a less direct impact on stock market performance, because the information about rank-and-file poaching may not become known by market participants in a timely fashion. Moreover, there are likely easier ways to harm peers' stock prices, such as peer-harming disclosures (e.g., Bloomfield et al., 2024). We therefore predict that RPE-motivated peer poaching will be less pronounced for stock

[8]Even when such an offer is countered or surpassed by the current employer (i.e., the RPE peer), and the employee remains in the current position, the poaching attempt still benefits the RPE-using focal firm; the resultant higher compensation paid by the peer to the employee reduces the peer's performance, making them easier to outperform.

price-based RPE, and more pronounced for RPE based on accounting/operational measures of performance. Third, executives are more likely to be interested in harming their peers when relative performance is more important to their compensation. As such, we predict that RPE-motivated peer poaching will be greater when RPE comprises a larger fraction of the CEO's incentive pay plan.

3 Data, Sample, and Research Design

3.1 Data and Sample Construction

We obtain the proprietary data about employees from Emsi. Emsi compiles the database by aggregating all resume postings from online job search platforms and other professional platforms, which covers approximately 12.5 million entities including both public firms and private entities. We merge Emsi with Compustat based on fuzzy name matching and manually review the matching outputs. Following Begley et al. (2024), we require the entities to have more than 25 entries (i.e., employer-employee records) covered by Emsi. The initial sample consists of 5,751 unique Compustat firms comprising 32,383,906 unique employees.

We start from the pair (focal firm-rival)-year panel over the period between 2009 and 2019 to alleviate the effects of the 2008 financial crisis and COVID-19 pandemic. In our primary analysis, we employ the three-digit text-based industry classification (TNIC) from Hoberg and Phillips (2016) to identify industry rivals, focusing on the top 50 peers with the highest product similarity scores with the focal firm. This approach allows us to focus on the closest rivals while reducing computational complexity (e.g., Grieser et al., 2022). Our inferences remain intact when including all peers within the same TNIC industry or using alternative industry classifications. We then merge the pair-year panel with the Emsi database to identify employee movement between each firm pair. These procedures produce a sample of 904,324 focal firm-rival-year observations.

Next, we obtain information about relative performance evaluation contracts from the

Incentive Lab database. We require that the performance type contains "Rel," and the relative benchmark equals "Peer Group." The latter requirement excludes RPE contracts that use stock index as the benchmark (about 49% of contracts), which is unlikely to induce employee poaching targeting a specific industry rival. Consistent with Feichter et al. (2022) and Do et al. (2022), we require the RPE grant's measurement period to be 36 months.[9] To alleviate concerns about false negatives (Type II error), we focus our analyses on the public focal firms that have ever been ranked among the largest 1,000 public firms during our sample period, which aligns with the target coverage of the Incentive Lab database. These procedures result in a sample of 309,151 focal firm-rival-year observations.

Finally, we exclude focal firms in financial and utilities industries (82,092 observations), and augment the sample with stock market information from CRSP and financial information from Compustat. After excluding observations with missing information on control variables (27,682 observations), our final sample consists of 199,377 focal firm-rival-year observations, covering 1,113 (4,359) unique focal firms (rivals) with 198,991 poaching cases.

3.2 Variable Construction

3.2.1 Employee Poaching

We identify employee movement between a firm and its industry rivals based on the work history of each employee. We classify employee flows wherein an employee departs from an industry rival and joins the focal firm within six months following the departure date as employee poaching. More specifically, we require the gap between the job start date in the focal firm and the job termination date in the industry rival to fall within [−30,180] days.[10]

Our primary measure of employee poaching is *Poaching*, a binary variable that equals one if the focal firm poaches at least one employee from the rival during the year, and zero

[9]We require that the starting month of the measurement period should not be six months earlier than the grant date of the RPE grant. When the measurement period's starting date falls within an interim year, we assign the current year (next year) as the starting year for the RPE grant if the starting date is in the first (second) half of that year. Our findings are not sensitive to these empirical choices.

[10]If an employee joins a third party company within the [−30,180] days period before joining the focal firm, we do not classify it as employee poaching.

otherwise. In some of our analyses, we also use the number of employees being poached (*Poaching_Num*) to measure the intensity of employee poaching. In robustness tests, we further use the proportion of a rival's workers that move to the focal firm (*%Poaching*).

As a note, while the coverage of low-skilled and blue-collar employees in the Emsi database may be relatively less complete, the database is still well suited for the purpose of our study, as the poaching of highly skilled employees is more likely to generate tangible impacts on rivals' performance (Li et al., 2022; Begley et al., 2024). We further acknowledge that firms competing in the same markets might face constraints in poaching valuable employees from their peers. Indeed, prior research has established that labor mobility restrictions in the form of non-compete agreements had implications for both individuals and firms (e.g., Garmaise, 2011; Jeffers, 2024). However, not all high-skilled employees are covered by such legal provisions (e.g., Starr et al., 2021). Moreover, we further acknowledge that our measure only accounts for successful poaching attempts where targeted employees accepted the offers; unsuccessful poaching attempts in which the employee remains with their original employer (perhaps at a higher salary) or because they are subject to a non-compete agreement are not captured by our analysis.

3.2.2 RPE Contract

For each focal firm-rival-year, we create the binary variable, *RPE Peer*, which equals one if the industry rival is included as an RPE peer in a compensation grant for the focal firm's CEO in that year, and zero otherwise. The features of the RPE contracts in our sample largely resemble those reported in prior studies (De Angelis and Grinstein, 2020; Do et al., 2022). In particular, for a typical firm, performance surpassing the 25th, 50th, and 75th percentiles within the peer group corresponds to 25%, 100%, and 200% of the target award, respectively. Consequently, for a median firm with a $2.6 million target award, reaching the top quartile among peers signifies a $5.2 million increase in compensation compared to falling in the bottom quartile. These statistics suggest that an RPE contract likely offers substantial financial incentives that could affect managers' strategic decisions.

3.2.3 Controls

In our regression specifications, we include a battery of focal firm-, rival-, and pair-level control variables. We include the natural logarithm of total assets of the focal firm (*Size*) and rival (*Size_Rival*) to account for any size effects. We further use the market-to-book ratios of the focal firm (*MTB*) and rival (*MTB_Rival*) to proxy for growth opportunities. Firms confronted with greater growth potential might exhibit greater demand for talent acquisition to pursue new investment projects for expansion. We also control for the leverage ratios of the focal firm (*Lev*) and rival (*Lev_Rival*). As labor costs are substantial and increase the operating leverage, firms with a high leverage ratio may exhibit a reduced capacity to expand their labor force (Agrawal and Matsa, 2013).

Moreover, we include the return on asset ratio of the focal firm (*ROA*) and rival (*ROA_Rival*), and annual returns of the focal (*Ret*) and rival (*Ret_Rival*) to control for the accounting performance and stock market performance. Furthermore, we control for the product similarity score between the focal firm and rival (*ProdSim*) developed by Hoberg and Phillips (2016). Due to the high transferability of employee skills, we expect employee movement to occur more frequently between firms with more similar products. All the control variables are winsorized at the 1st and 99th percentiles to alleviate the impact of outliers.

3.3 Summary Statistics

Table 1 reports the summary statistics for the variables used in our main analyses. The mean value and standard deviation of *Poaching* are 0.157 and 0.364, respectively, suggesting a frequent and sizable cross-sectional variation in employee movement from industry rivals to focal firms. The average number of employees (*Poaching_Num*) being poached is 0.645, which accounts for 0.013% of the total number of employees at rival (*%Poaching*). Conditional on the existence of employee poaching (i.e., $Poaching = 1$), the mean and standard deviation of the number of employee inflows are 4.119 and 5.160, respectively. The mean value of *RPE Peer* is 0.028, which implies that on average 2.8% of industry rivals are included in a

focal firm's RPE contract. As we restrict our sample of focal firms to public firms ranked in the largest 1,000 firms at least once during our sample period, focal firms are, compared with industry rivals, larger (the mean of *Size* and *Size_Rival* is 8.321 and 6.812), have a higher market-to-book ratio (the mean of *MTB* and *MTB_Rival* is 3.963 and 3.172), and outperform in the stock market (the mean of *Ret* and *Ret_Rival* is 0.160 and 0.112).

Panel A of Table 2 presents the time-series distribution for the average *Poaching* and average *Poaching_Num* of firm-RPE peer pairs and firm-non-RPE rival pairs. It shows that the RPE using firms are consistently more likely to poach employees from their RPE peers and they also tend to poach more employees from their RPE peers than from their non-RPE rivals. The average *Poaching* and *Poaching_Num* among firm-RPE peer pairs are 0.413 and 2.539, respectively, while they are only 0.149 and 0.590 among firm-non-RPE rival pairs. Conditional on the existence of employee poaching, RPE-using firms on average poach 6.140 employees of their RPE peers. Finally, Panel B of Table 2 presents the variation in poaching activities across industries. The top five industries with the highest likelihood of employee poaching are Fabricated Products (42.9%), Defense (42.6%), Aircraft (31.0%), Retail (29.3%), and Recreation (28.7%). Other industries also exhibit a sizable frequency of employee poaching.

4 Empirical Results

4.1 Baseline Results

To study the effect of relative performance evaluation on employee poaching, we estimate the following linear probability model:[11]

$$Poaching_{i,j,t} = \beta \times RPE\ Peer_{i,j,t} + X_{i,j,t-1} + \tau_t + v_{i,j} + \epsilon_{i,j,t}, \tag{1}$$

[11]We use a linear probability model because our dense fixed effect structures would give rise to an "incidental parameters problem" were we to use a logit or probit model (Lancaster, 2000). Our approach further confers advantages in the form of easier interpretability, and a more seamless transition to intensive margin tests, where the dependent variable becomes the number of poached employees.

where i, j, and t denote focal firm, rival, and year, respectively. $Poaching_{i,j,t}$ is an indicator variable that equals 1 if focal firm i hires any employee from industry rival j in year t, and 0 otherwise. $RPE\ Peer_{i,j,t}$ is an indicator variable that equals 1 if rival j is an RPE peer of the focal firm i in year t. The procedures to identify employee poaching incidences and RPE peers are described in Section 3.2. To identify the temporal, within-pair variation in employee poaching, we include focal firm-rival pair fixed effects ($v_{i,j}$). These fixed effects flexibly control for any time-invariant characteristics of the firm, the rival, and their relation to each other (e.g., geographic distance between the focal firm and its rival). We also control for year fixed effects (τ_t) to phase out the impact of time-varying macro factors that may systematically affect labor market conditions (e.g., financial crisis). Lastly, we cluster standard errors at the firm-rival pair level.[12] The coefficient (β) on $RPE\ Peer_{i,j,t}$ reflects the within-pair change in the likelihood of labor inflows from industry rivals to the focal firms, when the rival is also the focal firm's RPE peer. A positive β indicates firms poach more from their rivals when those rivals are also RPE peers, while a negative β indicates that the firms poach less from their rivals when those rivals are also RPE peers.

Table 3 presents the estimates of the regression equation (1). Panel A reports the results using the indicator for the existence of employee poaching (*Poaching*) as the dependent variable. In column (1), we start with a regression specification with a less saturated fixed effect structure. Specifically, we regress *Poaching* on *RPE Peer* and year fixed effects, focal firm-industry (two-digit SIC) fixed effects, and rival-industry (two-digit SIC) fixed effects. This regression specification with less saturated fixed effects allows us to capture richer time-series and cross-sectional variations in employee poaching. The coefficient on *RPE Peer* is positive and significant at the 1% level (coef. = 0.248; t-stat = 21.780), suggesting that RPE-using focal firms are more likely to hire employees away from their RPE peers. The coefficient on *RPE Peer* remains significantly positive with the inclusion of focal firm-, rival-, and pair-level controls in column (2).

Column (3) shows that results are robust with the inclusion of focal firm and rival fixed

[12] Our results are robust when we cluster standard errors at the focal firm level.

effects (coef. = 0.081; t-stat = 10.944), which effectively control for time-invariant factors at the focal firm and rival levels (e.g., headquarter-level employee protection). Firms on average are 8.1 percentage points more likely to poach employees away from their RPE peers than from their non-RPE peer rivals. The coefficients on control variables are largely consistent with our expectations. For example, larger firms and firms with greater growth opportunities (i.e., higher *MTB*) are more likely to poach employees of industry rivals, while firms with higher leverage ratios exhibit a reduced demand for poaching.

To explore the within-pair change of employee poaching driven by the use of RPE in CEO pay plans, we include the focal firm-rival pair fixed effects and report the results in column (4). The coefficient on *RPE* remains positive and significant at the 1% level (coef. = 0.031; t-stat = 3.366). The coefficient on *RPE Peer* is smaller than that in column (2), which is not surprising given the inclusion of pair fixed effects effectively absorbing a significant portion of cross-sectional variation in employee poaching (the R-squared in column (4) is approximately three times that in column (2)). The estimates suggest that RPE is associated with a 3.1 percentage point increase in the likelihood of employee poaching from RPE peers.[13]

Next, we augment our analysis to incorporate variation coming from the intensive margin of employee poaching. To this end, we re-estimate regression equation (1) using the *number* of employees inflows from the rival to the focal firm (*Poaching_Num*) as the dependent variable. As predicted, we find that the coefficients on *RPE Peer* are positive and significant across all specifications. Based on the estimates in column (4), the number of employees hired by the focal firm increases by 0.316, corresponding to 29% of the within-pair variation. A typical RPE contract covers 17 RPE peers, so the estimate translates to about five additional hires from all RPE peers, combined, per year for an RPE-using firm. Overall, the results suggest that focal firms tend to be more likely to poach from their RPE peers, and conditional on poaching at all, tend to poach from them to a greater extent.

The observed effects could arise from either broad employee poaching across all peers or

[13]The estimate suggests that being an RPE peer is associated with a 14% increase in poaching relative to the within-pair variation of *Poaching* (i.e., 0.227).

targeted actions against specific RPE rivals. While both strategies align with our predictions, targeted poaching is likely more detrimental to the affected rivals. To test this, we employ quantile regression and expect that strategic targeting should manifest as stronger effects in the upper quantiles. Panel C of Table 3 presents unconditional quantile regression estimates using *Poaching_Num* as the dependent variable. Because *Poaching_Num* is equal to zero for the vast majority of observations, we begin estimation at the 86th percentile to ensure sufficient variation. Consistent with our prediction, the relation between RPE peer status and poaching intensifies monotonically. For example, the coefficient at the 98th percentile is nine times larger than at the 86th percentile (2.053 versus 0.231). These results support the interpretation of targeted poaching against a subset of RPE peers, as opposed to evenly spread poaching across all RPE peers.

4.2 Heterogeneity

We next conduct a series of cross-sectional analyses to shed light on the mechanism(s) behind the positive RPE-poaching association. We explore the heterogeneity in employee types, the characteristics of RPE contracts, and proximity in financial performance, to ascertain whether the patterns in the data align with deliberate RPE-motivated peer harm as a plausible explanation. If the heightened labor flows we observe are indeed the results of RPE-motivated peer-harming poaching, we would expect to observe the following. First, we expect that focal firms would be more likely to target employees who are more difficult to replace, as their departures would impose greater costs on the peers. Second, we expect that the effect of RPE on poaching would be stronger when (i) the compensation plan places greater emphasis on RPE; and/or (ii) the RPE grant evaluates relative performance based on accounting or operational measures of performance which are more directly affected by poaching. Third, we expect that firms would poach more heavily from peers whose recent performance is more similar to their own, as (in light of the rank-order tournament structure of the typical RPE grant) it is in these instances where RPE-motivated peer-harm is most

likely to be marginal in the ultimate rank ordering (and thus CEO compensation).

4.2.1 Employee Types

First, we explore the relationship between RPE and employee poaching across different employee types. Prior studies have shown that acquiring human capital, especially highly skilled employees, is essential for firm performance and firm value (Li et al., 2022; Belo et al., 2017; Shen, 2021). Moreover, experienced employees likely possess a greater depth of proprietary knowledge regarding industry rivals, thereby augmenting the advantages of employee poaching in terms of knowledge acquisition (Palomeras and Melero, 2011). Therefore, if the focal firm attempts to harm peers and gain competitive advantages by poaching employees away from RPE peers, it would be more beneficial for the focal firm to target skilled and experienced employees of RPE peers.

To test these predictions, we classify employees hired by the focal firm into skilled versus unskilled employees based on their previous positions in the rival. Following Begley et al. (2024), we categorize an employee as a skilled worker if the job zone of their previous position at a rival begins with either "4" or "5." For each focal firm-rival-year, we then develop two dummy variables, *Poaching_Hskill* and *Poaching_Lskill*,[14] to indicate the existence of inflows of high-skill and low-skill employees from the industry rival to the focal firm, respectively. Similarly, we classify employees hired by the focal firm into experienced (i.e., with tenure greater than two years) versus inexperienced employees based on their previous positions at the rival, and construct two dummy variables, *Poaching_Htenure* and *Poaching_Ltenure*, to capture the poaching of experienced and inexperienced employees, respectively.

Panel A of Table 4 reports the results.[15] Column (1) (Column (2)) reports the result using *Poaching_Hskill* (*Poaching_Lskill)* as the dependent variable, respectively. The coefficient on *RPE Peer* in column (1) is 0.022 and significant at the 1% level, while the coefficient on

[14]The U.S. Department of Labor assigns each occupation a Job Zone (ranging from 1, the least skilled, to 5, the most skilled) based on its education requirements, prior experience, and necessary training (Belo et al., 2017).

[15]To facilitate comparison, we remove observations with poaching of both high and low skill employees in columns (1) and (2), and with poaching of both long- and short-tenured employees in columns (3) and (4).

RPE Peer in column (2) is 0.003 but statistically insignificant (t-stat = 0.503). Results suggest that the RPE-employee poaching relation is driven primarily by the poaching of skilled employees of RPE peers. Similarly, column (3) (column (4)) reports the result using *Poaching_Htenure* (*Poaching_Ltenure)* as the dependent variable. We find a similar pattern that the association between *RPE Peer* and *Poaching_Htenure* is significantly positive (coef. = 0.023; t-stat = 2.657), while that between *RPE Peer* and *Poaching_Ltenure* is statistically indistinguishable from zero (coef. = 0.010; t-stat = 1.374). The results suggest that the focal firm mainly targets highly skilled and experienced employees from its RPE peers.

4.2.2 Characteristics of Pay Plans

Next, we explore cross-sectional variation in the pay plans. Prior literature reveals that different RPE metrics (e.g., stock price-based versus accounting performance-based) induce different sabotage strategies (Bloomfield et al., 2024; Bloomfield, 2023). We expect RPE based on accounting and/or operating performance to generate a greater impact on the labor market competition than stock price-based-RPE, because: (i) poaching likely hurts an affected peer's short-term operational and/or accounting performance more than its forward-looking stock price performance; and (ii) there are more direct and less costly tactics to impair peers' stock price such as peer-harming disclosure (Bloomfield et al., 2024).

To test this prediction, we decompose *RPE Peer* in equation (1) into two binary variables: *RPE Peer, Price Based* indicates that the compensation grant only uses stock price-based performance evaluation metrics; *RPE Peer, Non-price Based* indicates that the evaluation metrics includes non-price metrics (primarily measures of operational and/or accounting performance). We exclude focal-rival pairs with both price-based and non-price-based metrics for ease of comparison. Results are reported in column (1) of Panel B, Table 4. The coefficients on both *RPE Peer, Non-price Based* (coef. = 0.074; t-stat = 2.992) and *RPE Peer, Price Based* (coef. = 0.027; t-stat = 2.707) are positive and significant, suggesting that both types of RPE plans encourage employee poaching from RPE peers. The coefficient on *RPE Peer, Non-price Based* is significantly larger than that on *RPE Peer, Price based*.

The results are consistent with the notion that accounting performance-based RPE induces a greater impact on talent acquisition strategies than of price-based RPE.

In addition, we partition the sample based on the materiality of RPE grants. When CEOs have a greater fraction of performance-pay goals that are based on RPE, we expect them to poach from RPE peers more aggressively, as the RPE provides stronger compensation incentives. To this end, we decompose *RPE Peer* in equation (1) into two binary variables: *RPE Peer, High % RPE Goal* and *RPE Peer, Low % RPE Goal* are dummy variables indicating that the fraction of performance-pay goals that are based on RPE is above and below the sample median, respectively. Column (2) of Panel B, Table 4 reports the results. The coefficients on *RPE Peer, High % RPE Goal* is 0.042 and significant at the 1% level, which is significantly larger than that on *RPE Peer, Low %RPE Goal* (coef. = 0.020; *t*-stat = 1.904). The results support the notion that RPE has a greater impact on employee poaching when it comprises a larger portion of the CEO's compensation incentives.

4.2.3 Performance Proximity

Finally, we examine whether the effect of RPE contracts on employee poaching varies with the performance proximity between the focal firm and its RPE peers. These RPE grants are structured as rank order tournaments, so the benefit of harming an RPE peer depends on how likely it is that the harm ends up being marginal in the relative rankings (i.e., allowing the firm to outperform a peer that it would otherwise have underperformed). As such, we posit that the effect of RPE on poaching intensifies when the focal firm and its RPE peers have similar ex ante performance, as the likelihood of rank improvement from poaching would be greater (Do et al., 2022; Bloomfield et al., 2024).

To test this idea, for each pair-year t we calculate the absolute difference in $t-1$ return on assets (*Abs_ROA_Diff*) between the focal firm and the rival firm. We then augment equation (1) with an interaction term between *RPE Peer* and *Abs_ROA_Diff*. A negative coefficient on the interaction term would indicate a stronger effect of RPE on poaching when firms compete against peers with closer operating performance. Panel C of Table 4 shows

that the coefficient on the interaction term is negative and statistically significant (coef. = -0.065, t-stat = -1.807), indicating that the impact of RPE on poaching declines as the performance gap between the focal firm and its rival widens.

5 Additional Analyses

5.1 Event Study Approach

To better assess whether RPE plays a causal role in the preceding findings, we employ an event study approach to investigate changes in labor talent flows in a short window around RPE peer inclusion events. We start from the list of "events" wherein a rival j is included as an RPE peer by focal firm i for the first time. We then construct cohorts of treatment and control pairs in an interval of three years before to three years following the event year. The three-year window aligns with the duration of a typical RPE grant's measurement period. The treatment group in a cohort c comprises focal firm-rival pairs in which the rival j is added to the RPE peer group of the focal firm i in year c, whereas the control group consists of focal firm-rival pairs in which the focal firm never uses RPE during our sample period. We then conduct a stacked difference-in-differences (DID) analysis (Baker et al., 2022) by estimating the following regression equation:

$$Poaching_{c,i,j,t} = \beta \times Treat_RPE_{c,i,j} \times Post_{c,t} + X_{c,i,j,t-1} + \tau_{c,t} + v_{c,i,j} + \epsilon_{c,i,j,t}, \qquad (2)$$

where c, i, j, and t denote cohort, focal firm, rival, and year, respectively. $Treat_RPE_{c,i,j}$ is an indicator variable that equals 1 for treatment pairs, and 0 otherwise. $Post_{c,t}$ is an indicator variable that equals 1 for years after the "event" of RPE peer inclusion for a given cohort c. We include cohort×year fixed effects and cohort×firm-rival pair fixed effects, and cluster the standard errors by cohort×firm-rival pair. Other features of equation (2) resemble those in the equation (1).

Table 5 presents the results. Column (1) reports the estimates of equation (2) without

including control variables. The coefficient on $Treat_RPE \times Post$ is positive and significant at the 1% level (coef. = 0.033; t-stat = 2.657), suggesting a greater likelihood of employee movement from an industry rival to the focal firm after the rival is included in the RPE contract of the focal firm. Column (2) suggests that the inference is similar both economically and statistically (coef. = 0.037; t-stat = 2.960) after we control for firm-level, rival-level, and pair-level characteristics. The estimate in column (2) indicates that the use of RPE in compensation contracts leads to an increase in the likelihood of employee poaching by 3.7%.

To more closely examine the dynamic effects around RPE peer inclusion events, we replace $Treat_RPE_{c,i,j} \times Post_{c,t}$ with the interaction terms between $Treat_RPE_{c,i,j}$ and indicator variables for separate periods from -2 to $+2$ relative to the treatment year (i.e., the year when an industry rival is newly added to the RPE contract of the focal firm) of the cohort. We tabulate the results in columns (3) and (4) of Table 5, wherein $Pre\ (\tau)$ ($Post\ (\tau)$) is a dummy indicating τ year before (after) the treatment year of the cohort. We omit the indicator variable for year -3, which serves as the benchmark period.

Consistent with RPE being the causal driver underlying our results, we observe a sharp and stable increase in poaching around peer inclusion events. We find that the coefficients on $Treat_RPE_{c,i,j} \times Pre\ (-2)_{c,t}$ and $Treat_RPE_{c,i,j} \times Pre\ (-1)_{c,t}$ are statistically indistinguishable from zero, suggesting that there is no significant divergence in employee poaching likelihoods between treatment and control group before the treatment year. In contrast, the coefficients on $Treat_RPE_{c,i,j} \times Post\ (0)_{c,t}$, $Treat_RPE_{c,i,j} \times Post\ (+1)_{c,t}$ and $Treat_RPE_{c,i,j} \times Post\ (+2)_{c,t}$ are all positive and significant (and relatively stable in magnitude). The lack of pretrends, combined with the sudden and stable treatment effect, helps rule out the alternative explanation that our results are driven by progressive economic convergence between the focal firm and its RPE peer leading to the inclusion of the industry rival to the focal firm's RPE contract. However, these findings do *not* preclude the possibility that a *sudden* change in economic similarity drives both RPE inclusion choices and employee poaching. We address this possible alternative explanation in more detail below.

5.2 Alternative Explanation: Economic Similarity

One may be concerned that the observed positive association between RPE peer status and employee poaching is not driven by RPE incentives, *per se*, but rather by a sudden convergence in economic activities that drives both the inclusion of a rival to the RPE peer group and employee poaching. Our research designs partially mitigate this alternative explanation by requiring the non-peer rivals (i.e., control group) and the RPE peers to operate in the same product market domain, as defined by the (Hoberg and Phillips, 2016) text-based industry classification. The inclusion of firm-rival pair fixed effects further controls for any time-invariant economic similarities between each focal firm and all of its industry rivals. The event study approach further mitigates the concern, by showing that the effects manifest sharply around peer inclusion events. However, these design choices will not address potential confounding effects arising from sudden changes in economic similarity. For example, if changes in RPE peer status reflect sudden economic convergence within a firm pair (which may also drive firms to have more similar labor demands, and thus induce more poaching), then our event study difference-in-differences estimates could be biased. We conduct two additional analyses to assess this alternative explanation.

First, we examine whether RPE peers engage in disproportionate poaching from the focal firms that use them as peers. If the poaching patterns are driven by economic similarity, rather than RPE incentives, then the effect would plausibly be bidirectional; the peers would also poach from the focal firms, due to their economic similarity. Second, we examine economic similarity directly, testing whether firms are more similar to their rivals (as measured by product similarity and stock return correlation), after adopting them as RPE peers. We detail our findings below.

5.2.1 Poaching from Focal Firms by RPE Peers

First, we employ a flipped specification test to investigate whether RPE peers engage in similar poaching activities by hiring employees away from the focal firm. If our results are

mainly explained by an increase in firm-peer similarity, then the increase in employee flow should be bidirectional; economic similarity is an inherently symmetrical construct, so we would expect to observe a similar increase in the likelihood of employee flows from focal firms to their RPE peers. In contrast, if our results are driven by RPE incentives, then the change in employee flows should be unidirectional; we would expect the focal firms to poach employees disproportionately from their RPE peers, but would *not* expect the RPE peers to poach employees disproportionately from the firms that include them as RPE peers.

To assess the matter, we re-estimate equation (1) and replace the dependent variable with *Poached*, which is an indicator variable that equals 1 if there are employees flowing from the focal firm to the industry rival in the year, and 0 otherwise. To ensure that RPE incentives do not drive peers' poaching behavior, we exclude cases of mutual RPE, whereby a focal firm's RPE peer also includes the focal firm as one of its RPE peers. To do so, we restrict the sample to pair-years where: (i) the rival was also ranked in the largest 1,000 firms at least once during our sample period (to be covered by Incentive Lab); and (ii) the rival does not include the focal firm as an RPE peer in its CEO's compensation plan.[16] The focus on the largest 1,000 firms also ensures that these rivals are comparable in size to the focal firms examined in our baseline analyses.

Panel A of Table 6 reports the results. Column (1) reports the results without firm-level, rival-level, or pair-level controls, showing that the point estimate on *RPE* is almost identical to zero (coef. $= -0.007$) and it is statistically insignificant (t-stat $= -0.546$). Column (2) reports the results with the inclusion of control variables. The coefficient on *RPE Peer* remains indistinguishable from zero both statistically and economically, implying that the inclusion of an industry rival in the focal firm's RPE contract is not associated with employee outflow from the focal firm to the RPE peer. Therefore, the positive RPE-employee poaching association documented in Table 3 is unlikely to be explained by a convergence in economic similarity between firms.

[16] Empirically, the vast majority of RPE peer relationships are non-mutual, and thus remain in the sample.

5.2.2 Changes in Economic Similarity

We next investigate directly whether the economic similarity between focal firms and their rivals changes around the inclusion of the rival as an RPE peer. To do so, we repeat the stacked DID analyses in Table 5 but replace the dependent variable with measures of economic similarity, including the product similarity (*ProdSim*) between the focal and rival firms developed by Hoberg and Phillips (2016) and the correlation of monthly stock returns over a pair-year (*RetCorr*). Panel B of Table 6 reports the regression results. $Treat_RPE \times Post$ is statistically indistinguishable from zero in both columns, suggesting that RPE inclusion events do not coincide with material changes in economic similarity between the focal firm and its RPE peers.

5.3 Alternative Explanation: Compensation Benchmark Peers

It is not uncommon for firms to choose companies from their compensation benchmark peer groups for inclusion in their RPE peer groups. These compensation benchmark peers ostensibly represent the companies with which a focal firm competes in the labor market for executive labor talent. To the extent that firm-rival-level competition for executive labor talent is correlated with firm-rival-level competition for rank-and-file talent, one may be concerned that firms poach more from their RPE peers simply because the rivals with whom they compete for labor talent are more likely to be chosen as compensation benchmark peers, and thus more likely to end up in the RPE peer group as well. To assess the matter, we conduct two complementary tests. First, we examine whether firms have a greater tendency to poach from their compensation benchmark peers in the absence of RPE-related peer-harming incentives. Second, we verify that the relation between RPE peer status and poaching remains robust after explicitly controlling for compensation benchmark peer status.

Columns (1) and (2) of Table 7 repeat the analyses in column (4) of Table 3 by incorporating compensation benchmark peers. We introduce an indicator variable, *CB Peer*, which

equals 1 if the rival is a compensation peer.[17] To ensure that there is no confounding RPE incentive, we exclude RPE peers from the sample in column (1). Column (1) shows that the coefficient on *CB Peer* is indistinguishable from zero (coef. = -0.002, t-stat = -0.349), consistent with the prediction that compensation benchmarking does not provide financial incentives to undermine the performance of these peers through poaching. More importantly, column (2) shows that the coefficient on *RPE Peer* remains similar both economically and statistically with the inclusion of *CB Peer* as a control variable.

To further strengthen our inference, we construct a stacked sample following the procedures described in Section 5.1, but now differentiate the treatment and control groups based on compensation benchmarking usage. Specifically, treatment group in a cohort ($Treat_CB = 1$) comprises focal firm-rival pairs in which the rival is added to the compensation peer group of the focal firm for the first time during the event year, whereas the control group ($Treat_CB = 0$) consists of focal firm-rival pairs in which the focal firm never uses compensation benchmarking during our sample period. We exclude RPE peers from the sample to ensure that there is no confounding RPE incentive. Column (3) presents the stacked DID regression results, showing that $Treat_CB \times Post$ is statistically insignificant (coef. = 0.011, t-stat = 1.374). The results again confirm that firms do not exhibit a greater likelihood of poaching from their compensation benchmark peers. We also explicitly control for compensation benchmarking effects in the stacked DiD regression. In Column (4), we augment the analyses in column (4) of Table 5 with *CB Peer*. *CB Peer* continues to be statistically insignificant, while $Treat_RPE \times Post$ remains positive and significant at the 1% level (coef. = 0.038, t-stat = 3.042). Overall, these results suggest that our findings are driven specifically by RPE-induced incentives rather than compensation benchmarking relationships.

These results further speak to the possibility of a behavioral "attention" story, whereby firms might poach more from their RPE peers, not because of the monetary rewards from

[17] We consider a rival a compensation peer if it falls within the three-year period following its inclusion in the focal firm's compensation peer group.

harming (and therefore outperforming) the RPE peers, but rather because executives fixate on their peers. Under such an alternative, similar results would likely manifest in the case of compensation benchark peers, as well, which we do not observe. Consistent with deliberate poaching as a deliberate peer-harm tactic, we only observe heightened levels of poaching directed at RPE peers (and not compensation benchmark peers), for which there is a monetary incentive to engage in sabotage.

5.4 Additional Firm-Year and Rival-Year Fixed Effects

One might also be concerned that firm-year and/or rival-year level factors jointly influence both the likelihood of an RPE peer relationship and the prevalence of inter-company labor talent flows. For example, if firms strategically select underperforming rivals as their RPE peers (e.g., as a rent extraction tactic), and such firms are easier to poach from, this could give rise to a spurious relation between RPE peer status and poaching.

To address any such concerns, we re-estimate equation (1) with additional firm-year and/or rival-year fixed effects. These specifications are designed to isolate the RPE effect by accounting for any arbitrary unobserved time-varying heterogeneity at the focal and/or rival firm level (e.g., economic performance, future outlook, workplace accidents, growth opportunities, CEO characteristics, legal frictions, compensation design choices, etc.). Any factor that varies at the firm-year level and/or rival-year level (but not at the firm-rival-year level) will be subsumed by these additional fixed effects. We present these results in Table 8.

Column (1) includes firm-rival and firm-year fixed effects, column (2) includes firm-rival and rival-year fixed effects, and column (3) includes firm-rival, firm-year, and rival-year fixed effects, jointly. Across all three specifications, the coefficient on *RPE Peer* remains positive and statistically significant at conventional levels, with magnitudes ranging from 0.022 to 0.029. The stability of these estimates underscores that the earlier findings are not an artifact of omitted variable bias for some firm-year and/or rival-year level factor, but instead appear to reflect the consequences of RPE-based incentives.

5.5 RPE Peer Status and Labor Costs

The preceding results suggest that firms engage in talent poaching to adversely impact their RPE peers' operating performance. An open question regards whether or not these poaching tactics are effective in harming the RPE peers' performance outcomes. While cleanly identifying the causal effect of these poaching events on peers' performance outcomes is infeasible, we are able to shed some light by providing descriptive evidence regarding one of the likely consequences: a rising cost of labor talent. If focal firms strategically choose to poach labor talent away from their RPE peers, then being in an RPE peer group exposes a peer to heightened competition for labor talent, which would likely make labor a more expensive input in the production process.

To test this prediction, we examine whether labor costs vary with the number RPE peer groups a given company is included in, hypothesizing that labor costs will be higher for firms that are included in a greater number of RPE peer groups. We further expect this result to be concentrated among the RPE peers that experience a significant degree of poaching.

We create a firm-year panel over the 2009-2019 period, and estimate the following regression equation:

$$Labor\ Cost_{i,t} = \beta \times Log\ \#RPE\ Peer\ Groups_{i,t} + X_{i,t} + \tau_t + v_i + \epsilon_{i,t}, \tag{3}$$

where i and t denote firm and year, respectively. *Log #RPE Peer Groups* is the natural logarithm of one plus the number of industry rivals designating the firm as an RPE peer.[18] The dependent variable is either (1) the natural logarithm of the salaries-to-sales ratio or (2) the natural logarithm of salary per employee. We include firm and year fixed effects to strip away any sample-wide time trends or cross-sectional differences across firms. As such, we identify effects from within-firm changes in peer group inclusion and labor costs. Consistent with talent retention efforts, columns (1) and (3) show that *Log #RPE Peer Groups* exhibits a positive association with both compensation measures, indicating that labor costs are

[18] Our results are robust to alternative specifications without the log transformation.

greater (both on a per dollar of sales and per employee basis) when a firm is included as an RPE peer in more of its rivals' RPE peer groups. To put the magnitudes in perspective, our results suggest that on average moving from the median to the 75th percentile of RPE peer group inclusion is associated with an 2.7% (3.1%) increase in labor force compensation per dollar of sales (per employee).

To examine whether RPE-induced poaching drives these employment cost increases, we decompose *Log #RPE Peer Groups* into two components based on the incidence of poaching: *Log #RPE Peer Groups with Poaching* is the natural logarithm of one plus the number of industry rivals that both designate the firm as an RPE peer and successfully poach at least one employee from the firm, and *Log #RPE Peer Groups without Poaching* is the natural logarithm of one plus the number of industry rivals that both designate the firm as an RPE peer but do not poach any employees from the firm. Columns (2) and (4) reveal that only the inclusion in peer groups of poaching rivals (*Log #RPE Peer Groups without Poaching*) shows a statistically significant positive association with labor costs, while the non-poaching component's coefficient is indistinguishable from zero.

While highly descriptive in nature, these findings suggest that poaching can be effective in harming peers by making labor talent more expensive for targeted RPE peers to attract/retain. However, the results should be interpreted with caution due to limited salary disclosure and our inability to observe counterfactual labor costs against which to compare.

5.6 Additional Robustness Checks

We conduct several additional analyses to assess the sensitivity of our inferences to alternative measures of employee poaching and alternative definitions of industry rivals.

First, we replace our primary measure of employee poaching — *Poaching* — with *%Poaching*, which is a continuous variable defined as the number of employees flowing from the rival to the focal firm, divided by the number of employees at the rival recorded by Emsi Lightcast in the last year, then multiplied by 100. This measure captures the economic impact

(i.e., the potential negative consequences) of employee poaching on rivals. We replicate the analyses in Panel A of Table 3 using *%Poaching* as the dependent variable, and report the results in Table OA1 in the online appendix. The coefficients on *RPE Peer* are positive and significant at the 1% level across all columns.

Second, we change the industry definition used to define rivals. Throughout the paper we restrict industry rivals to the top 50 peers in the three-digit TNIC industry membership. As a robustness check, we extend the peer group to the full list of peers in the three-digit TNIC industry membership. The sample size increases from 199, 377 to 500, 095. As reported in Panel A of Table OA2 in the online appendix, our results remain similar both quantitatively and qualitatively. Additionally, we adopt a coarser industry classification (i.e., two-digit TNIC industry) to check the robustness of our findings. We restrict industry rivals to the top 50 peers in the two-digit TNIC industry membership, and present the regression results in Panel B of Table OA2. The results indicate that the coefficient on *RPE Peer* remains significantly positive, so our findings are robust to alternative industry classifications.

6 Conclusion

Relative performance evaluation is widely used as a mechanism for monitoring and rewarding executive performance, which filters out the effects of common performance shocks. However, theoretical research suggests that such incentives may also induce managers to undertake actions detrimental to the performance of the peers against whom they are compared (Lazear, 1989; Aggarwal and Samwick, 1999a). In this study, we empirically examine this prediction through the lens of firms' employee poaching practices. Compared to product market strategies involving price-cutting or overproduction, the employee poaching strategy offers distinct advantages by enabling firms to selectively target individual RPE peers.

By leveraging detailed data on employee movements across firms, we present consistent evidence to suggest that RPE incentives drive executives to actively poach employees away from their RPE peers. Specifically, within a firm-rival pair, the inclusion of the rival as

an RPE peer is associated with an economically and statistically significant ∼3 percentage point increase in employee inflow from the rival to the focal firm, at the extensive margin. Additionally, we find that focal firms tend to target valuable, hard-to-replace employees (i.e., skilled individuals with longer tenures) from their RPE peers. These effects are more pronounced when the RPE plan is based on accounting metrics and when the proportion of executives' total performance-pay grants derived from RPE grants is greater.

Further analyses suggest that the effect of RPE on employee poaching appears to be driven by the RPE incentives, themselves, and not by latent economic similarities that give rise to both RPE peer relationships and labor talent poaching. Overall, our results suggest that the use of RPE in CEO pay plans encourages managers to poach valuable employees away from their RPE peers to harm the peers and thus boost their relative performance. We further provide descriptive evidence which suggests that this tactic is costly to the RPE peers. Companies that are used as RPE peers by others face heightened competition for their own labor talent, and thus labor appears to become a more expensive input in their production process.

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Table 1: Summary Statistics

This table presents sample summary statistics for the variables used in our regressions. *Poaching* is an indicator variable that equals 1 if there are employees flowing from the peer to the focal firm, and 0 otherwise. *Poaching_Num* is the number of employees flowing from the peer to the focal firm. *%Poaching* is the number of employees flowing from the peer to the focal firm multiplied by 100, divided by the number of peer employees recorded by Emsi Lightcast. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. *Size* is the natural logarithm of total assets of the focal firm in year t-1. *ROA* is the return on assets ratio of the focal firm in year t-1. *MTB* is the market-to-book ratio of the focal firm in year t-1. *Lev* is the leverage ratio of the focal firm in year t-1. *Ret* is the annual return of the focal firm in year t-1. *Size_Rival* is the natural logarithm of total assets of the rival in year t-1. *ROA_Rival* is the return on assets ratio of the rival in year t-1. *MTB_Rival* is the market-to-book ratio of the rival in year t-1. *Lev_Rival* is the leverage ratio of the rival in year t-1. *Ret_Rival* is the annual return of the rival in year t-1. *ProdSim* is the pair-wise product similarity score between the focal firm and the rival in year t provided by Hoberg and Phillips (2016). All variables are defined in the Appendix.

Variable	Mean	SD	P10	P25	P50	P75	P90
Pair-year-level							
Poaching	0.157	0.364	0.000	0.000	0.000	0.000	1.000
Poaching_Num	0.645	2.533	0.000	0.000	0.000	0.000	1.000
%Poaching	0.013	0.048	0.000	0.000	0.000	0.000	0.024
RPE Peer	0.028	0.166	0.000	0.000	0.000	0.000	0.000
ProdSim	0.058	0.054	0.006	0.018	0.041	0.080	0.139
Firm-year-level							
Size	8.321	1.454	6.485	7.409	8.293	9.212	10.237
ROA	0.038	0.132	-0.063	0.018	0.056	0.095	0.143
MTB	3.963	9.637	0.992	1.698	2.846	4.939	9.015
Lev	0.267	0.210	0.000	0.111	0.245	0.376	0.536
Ret	0.160	0.506	-0.367	-0.124	0.113	0.355	0.657
Rival-year-level							
Size_Rival	6.812	2.116	3.968	5.328	6.829	8.249	9.593
ROA_Rival	-0.056	0.274	-0.340	-0.050	0.024	0.067	0.118
MTB_Rival	3.172	6.773	0.665	1.202	2.097	3.820	7.213
Lev_Rival	0.234	0.225	0.000	0.018	0.192	0.369	0.544
Ret_Rival	0.112	0.629	-0.517	-0.236	0.048	0.325	0.690

Table 2: Sample Distribution

Panel A presents the distribution of employee poaching across years, conditional on whether the rival is included in the focal firm's RPE peer group in a year. Panel B presents the distribution of employee poaching by industries.

Panel A: Time-series Variations in Poaching

	Average *Poaching*		Average *Poaching_Num*	
	RPE Peer = 0	RPE Peer = 1	RPE Peer = 0	RPE Peer = 1
2009	0.099	0.302	0.283	1.249
2010	0.130	0.364	0.452	2.067
2011	0.146	0.410	0.572	2.667
2012	0.151	0.428	0.583	2.684
2013	0.160	0.449	0.643	2.824
2014	0.170	0.444	0.680	3.029
2015	0.162	0.440	0.688	2.704
2016	0.155	0.416	0.646	2.464
2017	0.148	0.376	0.601	2.064
2018	0.160	0.421	0.697	2.793
2019	0.164	0.412	0.684	2.488
Total	0.149	0.413	0.590	2.539

Table 2: Sample Distribution (Continued)

Panel B: Variations in Poaching Across Industry

FF 48 Industry	Average *Poaching*	Average *Poaching_Num*
Agriculture	0.008	0.008
Food Products	0.144	0.601
Candy & Soda	0.167	1.180
Beer & Liquor	0.192	1.131
Tobacco Products	0.036	0.094
Recreation	0.287	0.872
Entertainment	0.162	0.512
Printing and Publishing	0.117	0.215
Consumer Goods	0.189	0.617
Apparel	0.135	0.360
Healthcare	0.125	0.410
Medical Equipment	0.131	0.462
Pharmaceutical Products	0.079	0.339
Chemicals	0.050	0.091
Rubber and Plastic Products	0.115	0.184
Textiles	0.189	0.253
Construction Materials	0.113	0.249
Construction	0.260	1.047
Steel Works Etc	0.056	0.092
Fabricated Products	0.429	1.857
Machinery	0.129	0.425
Electrical Equipment	0.116	0.263
Automobiles and Trucks	0.263	0.911
Aircraft	0.310	2.117
Shipbuilding, Railroad Equipment	0.072	0.160
Defense	0.426	3.751
Precious Metals	0.046	0.082
Non-Metallic and Industrial Metal Mining	0.030	0.042
Coal	0.052	0.085
Petroleum and Natural Gas	0.101	0.265
Communication	0.191	1.038
Personal Service	0.047	0.104
Business Service	0.183	0.869
Computers	0.217	1.086
Electronic Equipment	0.168	0.630
Measuring and Control Equipment	0.141	0.389
Business Supplies	0.190	0.473
Shipping Containers	0.135	0.690
Transportation	0.242	1.042
Wholesale	0.128	0.473
Retail	0.293	1.350
Restaurants, Hotels, Motels	0.209	0.613
Total	0.157	0.645

Table 3: RPE and Employee Poaching, Pooled Regression

This table presents results from the pooled OLS regressions of the focal firm employee poaching from the rival on the indicator of RPE peer. We use the TNIC3 industry firm-rival pairs and distinguish RPE peers from non-RPE rivals based on the compensation grant. Panel A presents results using *Poaching* as the dependent variable, which is an indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise. Panel B presents results using *Poaching_Num* as the dependent variable, which is the number of employees flowing from the rival to the focal firm. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. Standard errors are clustered by firm-rival pair. Panel C presents results from quantile regressions. The dependent variable is *Poaching_Num*. Columns (1) – (7) present the results from quantile regressions with quantiles ranging from 98% to 86%, respectively. All columns control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Peer*, *Lev_Rival*, and *Ret_Rival*. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair, and *t*-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Panel A. Existence of Employee Poaching

Dep. Var. =	Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.248***	0.125***	0.081***	0.031***
	(21.780)	(13.153)	(10.944)	(3.366)
Size		0.046***	0.014***	0.022***
		(44.691)	(7.031)	(8.294)
ROA		-0.038***	0.009	0.007
		(-6.649)	(1.575)	(1.121)
MTB		0.001***	0.000*	0.000
		(12.515)	(1.797)	(0.854)
Lev		-0.060***	-0.008	-0.023***
		(-10.092)	(-1.339)	(-2.999)
Ret		0.009***	0.003*	0.004**
		(6.196)	(1.949)	(2.486)
ProdSim		0.900***	1.314***	0.072
		(29.698)	(33.588)	(1.559)
Size_Rival		0.064***	0.031***	0.034***
		(66.884)	(15.419)	(14.787)
ROA_Rival		-0.075***	-0.025***	-0.026***
		(-20.866)	(-6.940)	(-6.624)
MTB_Rival		0.001***	0.000**	0.000*
		(9.080)	(2.083)	(1.794)
Lev_Rival		-0.035***	-0.003	-0.002
		(-6.162)	(-0.425)	(-0.349)
Ret_Rival		-0.007***	-0.005***	-0.005***
		(-6.779)	(-4.760)	(-4.416)
Year FE	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Rival FE	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes
Obs.	199,377	199,377	199,111	172,967
Adj. R2	0.076	0.201	0.385	0.522

Table 3: RPE and Employee Poaching, Pooled Regression (Continued)

Panel B. Intensity of Employee Poaching

Dep. Var. =	Poaching_Num			
	(1)	(2)	(3)	(4)
RPE Peer	1.925***	1.076***	0.911***	0.316***
	(12.803)	(8.312)	(9.905)	(4.407)
Size		0.324***	0.045***	0.095***
		(27.061)	(3.022)	(5.343)
ROA		-0.273***	-0.031	-0.062**
		(-6.173)	(-1.018)	(-2.045)
MTB		0.008***	0.001	0.000
		(8.832)	(1.088)	(0.134)
Lev		-0.366***	-0.087**	-0.209***
		(-6.873)	(-2.369)	(-5.134)
Ret		0.060***	0.029***	0.046***
		(6.892)	(4.264)	(7.114)
ProdSim		6.232***	8.958***	0.782**
		(18.249)	(19.289)	(2.437)
Size_Rival		0.454***	0.097***	0.144***
		(35.150)	(7.147)	(9.842)
ROA_Rival		-0.672***	-0.110***	-0.148***
		(-20.390)	(-5.926)	(-8.196)
MTB_Rival		0.006***	0.001	0.001
		(4.269)	(0.821)	(1.599)
Lev_Rival		-0.299***	-0.038	-0.041
		(-5.860)	(-1.074)	(-1.117)
Ret_Rival		-0.039***	-0.007	-0.005
		(-6.590)	(-1.443)	(-1.234)
Year FE	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Rival FE	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes
Obs.	199,377	199,377	199,111	172,967
Adj. R2	0.063	0.188	0.459	0.782

Table 3: RPE and Employee Poaching, Pooled Regression (Continued)

Panel C. Quantile Regression

Quantile =	98%	96%	94%	92%	90%	88%	86%
Dep. Var. =	Poaching_Num						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
RPE	2.053**	1.058**	0.684**	0.305*	0.231***	0.231***	0.231***
	(2.083)	(2.223)	(2.255)	(1.663)	(2.735)	(2.735)	(2.735)
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm-Rival FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Obs.	199,377	199,377	199,377	199,377	199,377	199,377	199,377

Table 4: Heterogeneity

This table presents results from the heterogeneity tests on pooled OLS regressions of the focal firm employee poaching from the rival on the indicator of RPE peer. We use the TNIC3 industry firm-rival pairs and distinguish RPE peers from non-RPE rivals based on the compensation grant. Panel A presents results for the poaching of different types of employees. In columns (1) and (2), we classify employees poached by the focal firm into high-skille (job zone equals "4" or "5") versus low-skill employees based on their previous positions in the peer. The dependent variable *Poaching_Hskill* in column 1 (*Poaching_Lskill* in column 2) is an indicator variable that equals 1 if there are skilled (unskilled) employees flowing from the rival to the focal firm. We exclude focal-rival pairs with both high-skill and low-skilled employees being poached for the ease of comparison. In Columns (3) and (4), we classify employees poached by the focal firm into experienced (i.e., with tenure greater than two years) versus inexperienced employees based on their previous positions in the rival. The dependent variable *Poaching_Htenure* in column (4) (*Poaching_Ltenure* in column (4)) is an indicator variable that equals 1 if there are experienced (inexperienced) employees flowing from the rival to the focal firm. We exclude focal-rival pairs with both experienced and inexperienced employees poached for the ease of comparison. Panel B presents cross-sectional results based on the characteristics of RPE. *RPE Peer, Price Based* (*RPE Peer, Non-price Based*) is an indicator variable that equals 1 if the grant only uses price-based metrics and zero if the grant only uses non-price-based metrics. We exclude focal-rival pairs with both price-based and non-price-based metrics for the ease of comparison. *RPE Peer, High %RPE Goal* (*RPE Peer, Low %RPE Goal*) is s an indicator variable that equals 1 if the fraction of performance-pay goals that are based on RPE to total performance-pay goals is above (below) the sample median of RPE peers. Panel C presents the results from the cross-sectional test on the ROA proximity between focal firm and rival firm. *Abs_ROA_Diff* is the absolute value of the difference in ROA between focal firm and rival firm in year t-1. The column controls *Size*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *MTB_Peer*, *Lev_Rival*, and *Ret_Rival*. All columns include firm-rival fixed effects and year fixed effects. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair, and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Panel A: Employee type

Dep. Var. =	Poaching_Hskill	Poaching_Lskill	Poaching_Htenure	Poaching_Ltenure
	(1)	(2)	(3)	(4)
RPE Peer	0.022***	0.003	0.023***	0.010
	(2.578)	(0.503)	(2.657)	(1.374)
Controls	Yes	Yes	Yes	Yes
Firm-Rival FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Obs.	163,558	163,558	160,547	160,547
Adj. R2	0.317	0.163	0.206	0.139

Table 4: Heterogeneity (Continued)

Panel B. Characteristics of RPE contract

Dep. Var. =	Poaching	
	(1)	(2)
RPE Peer, Non-price Based (β_1)	0.074***	
	(2.992)	
RPE Peer, Price Based (β_2)	0.027***	
	(2.707)	
RPE Peer, High %RPE Goal (β_1)		0.042***
		(3.529)
RPE Peer, Low %RPE Goal (β_2)		0.020*
		(1.904)
$\beta_1 - \beta_2$	0.047*	0.022*
χ^2	(3.16)	(2.93)
Controls	Yes	Yes
Firm-Rival FE	Yes	Yes
Year FE	Yes	Yes
Obs.	172,533	172,776
Adj. R2	0.523	0.522

Panel C. ROA Proximity

Dep. Var. =	Poaching
	(1)
RPE Peer × Abs_ROA_Diff	-0.065*
	(-1.807)
RPE Peer	0.036***
	(3.725)
Abs_ROA_Diff	0.023***
	(6.410)
Controls	Yes
Firm-Rival FE	Yes
Year FE	Yes
Obs.	172,967
Adj. R2	0.522

Table 5: Stacked DID

This table presents results from the stacked DID regressions. We identify events in which a rival is added to the RPE peer group of the focal firm for the first time in year t and then construct cohorts of treatment and control pairs in an interval of three years before to three years following the event year. Control groups consist of firm-rival pairs in which the firm never uses RPE. The dependent variable is *Poaching*, which is an indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise. *Treat_RPE* is an indicator variable that equals 1 for a given treatment rival added to the RPE peer group of the focal firm for a given cohort and zero otherwise. *Post* is an indicator variable that equals one after the treatment of the RPE peer inclusion for a given cohort. *Pre (τ) (Post (τ))* indicates τ year before (after) the treatment year of the cohort. All columns include cohort-firm-rival fixed effects and cohort-year fixed effects. All variables are defined in the Appendix. Standard errors are clustered by cohort-firm-rival pair, and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Dep. Var.=	Poaching			
	(1)	(2)	(3)	(4)
Treat_RPE × Post	0.033***	0.037***		
	(2.657)	(2.960)		
Treat_RPE × Pre (−2)			-0.012	-0.010
			(-0.697)	(-0.620)
Treat_RPE × Pre (−1)			0.017	0.020
			(0.994)	(1.150)
Treat_RPE × Post (0)			0.038**	0.042**
			(1.995)	(2.211)
Treat_RPE × Post (+1)			0.032	0.037*
			(1.619)	(1.895)
Treat_RPE × Post (+2)			0.041*	0.048**
			(1.940)	(2.264)
Size		0.024***		0.024***
		(14.547)		(14.572)
ROA		-0.015***		-0.015***
		(-4.572)		(-4.567)
MTB		0.000		0.000
		(1.221)		(1.227)
Lev		-0.015***		-0.015***
		(-3.735)		(-3.733)
Ret		0.004***		0.004***
		(5.621)		(5.623)
ProdSim		0.067**		0.067**
		(2.486)		(2.481)
Size_Peer		0.029***		0.029***
		(19.991)		(19.987)
ROA_Peer		-0.030***		-0.030***
		(-13.766)		(-13.768)
MTB_Peer		0.000		0.000
		(0.838)		(0.838)
Lev_Peer		0.001		0.001
		(0.123)		(0.125)
Ret_Peer		-0.004***		-0.004***
		(-7.710)		(-7.706)
Cohort-Firm-Rival FE	Yes	Yes	Yes	Yes
Cohort-Year FE	Yes	Yes	Yes	Yes
Obs.	603,722	603,722	603,722	603,722
Adj. R2	0.538	0.539	0.538	0.539

Table 6: Falsification and Placebo tests

This table presents the results from our falsification tests (Panel A) and the test of the impact on economic similarity (Panel B). Panel A presents the results from the flipped specification tests. For each firm-rival pair, we test if the rival poaches employees from the focal firm when the rival does not reciprocally include the focal firm in the RPE compensation plan. The dependent variable is *Poached*, which is an indicator variable that equals 1 if there are employees flowing from the focal firm to the rival, and 0 otherwise. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. Columns (1) includes no controls. Column (2) controls for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Peer*, *Lev_Rival*, and *Ret_Rival*. Panel B repeats the analyses in Table 5 but replaces the dependent variable with measures of economic similarity. The dependent variable is product similarity between focal and rival firms in column (1), and the correlation of monthly stock return for each pair-year in column (2). All Columns in Panel C control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *Size_Rival*, *ROA_Rival*, *MTB_Rival*, *Lev_Rival*, and *Ret_Rival*. Columns (1) and (2) include firm-rival fixed effects and year fixed effects, and columns (3) and (4) include cohort-firm-rival fixed effects and cohort-year fixed effects. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair in columns (1) and (2) and by cohort-firm-rival pair in columns (3) and (4), and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Panel A: Falsification Test

Dep. Var. =	Poached	
	(1)	(2)
RPE Peer	-0.007	-0.002
	(-0.546)	(-0.175)
Controls	No	Yes
Firm-Rival FE	Yes	Yes
Year FE	Yes	Yes
Obs.	75,352	75,352
Adj. R2	0.550	0.552

Panel B. Economic Similarity

Dep. Var. =	ProdSim	RetCorr
	(1)	(2)
Treat_RPE × Post	-0.000	0.010
	(-0.232)	(1.248)
Controls	Yes	Yes
Cohort-Firm-Rival FE	Yes	Yes
Cohort-Year FE	Yes	Yes
Obs.	603,722	599,921
Adj. R2	0.923	0.235

Table 7: Compensation Benchmark Peers

This table presents the results from panel regressions and stacked DiD tests using compensation benchmark peers from the Incentive Lab as placebo treatment groups. *Poaching* is the dependent variable, which is an indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise. Columns (1) and (2) present the results from panel regression tests. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. *CB Peer* is an indicator variable that equals 1 if the rival is the compensation peer of the focal firm in the year, and 0 otherwise. Columns (3) and (4) present the results from stacked DiD tests. Column (3) follows the procedures described in Section 5.1 to construct stacked DiD sample, but now differentiate the treatment and control groups based on compensation benchmarking usage. Treatment group in a cohort includes focal firm-rival pairs in which the rival is added to the compensation peer group of the focal firm for the first time during the event year, whereas the control group consists of focal firm-rival pairs in which the focal firm never uses compensation benchmarking during our sample period. *Treat_CB* is an indicator variable that equals 1 for a given treatment rival added to the compensation peer group of the focal firm for a given cohort and zero otherwise. Column (4) repeats the analyses in Table 5 but controls for the treatment of the compensation peer inclusion. *Treat_RPE* is an indicator variable that equals 1 for a given treatment rival added to the RPE peer group of the focal firm for a given cohort and 0 otherwise. *Post* is an indicator variable that equals 1 after the treatment for a given cohort. Columns (1) and (2) include firm-rival and year fixed effects. Standard errors are clustered by firm-rival pair. Columns (3) and (4) include cohort-firm-rival and cohort-year fixed effects. All Columns control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Rival*, *Lev_Rival*, and *Ret_Rival*. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair in columns (1) and (2) and by cohort-firm-rival pair in columns (3) and (4), and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Dep. Var. =	Poaching			
	Panel Regression		Stacked DID	
	(1)	(2)	(3)	(4)
CB Peer	-0.002	-0.003		-0.005
	(-0.349)	(-0.565)		(-1.470)
RPE Peer		0.032***		
		(3.417)		
Treat_CB × Post			0.011	
			(1.374)	
Treat_RPE × Post				0.038***
				(3.042)
Controls	Yes	Yes	Yes	Yes
Firm-Rival FE	Yes	Yes	No	No
Year FE	Yes	Yes	No	No
Cohort-Firm-Rival FE	No	No	Yes	Yes
Cohort-Year FE	No	No	Yes	Yes
Obs.	167,175	172,967	147,854	603,722
Adj. R2	0.515	0.522	0.452	0.539

Table 8: More Stringent Fixed Effects

This table presents the results from regressions with more stringent fixed effects. The dependent variable is *Poaching*, which is an indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. Column (1) includes the firm-year and firm-rival fixed effects, and controls for *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Peer*, *Lev_Rival*, and *Ret_Rival*. Column (2) includes the rival-year and firm-rival fixed effects, and controls for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, and *ProdSim*. Column (3) includes the rival-year, firm-year and firm-rival fixed effects, and controls for *ProdSim*. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair, and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Dep. Var. =	Poaching		
	(1)	(2)	(3)
RPE Peer	0.027***	0.022**	0.029***
	(2.750)	(2.217)	(2.776)
Controls	Yes	Yes	Yes
Firm-Rival FE	Yes	Yes	Yes
Firm-Year FE	Yes	No	Yes
Rival-Year FE	No	Yes	Yes
Obs.	172,414	167,935	167,178
Adj. R2	0.530	0.516	0.520

Table 9: RPE and Employment Costs

This table presents the results from the tests on the impact of RPE benchmarks on employment costs. In columns (1) and (2), the dependent variable is *Log Salary/Sales*, which is the natural logarithm of the salary-to-sales ratio. In columns (3) and (4), the dependent variable is *Log Salary per Employee*, which is the natural logarithm of average salary per employee. *Log #RPE Peer Groups* is the natural logarithm of 1 plus the number of firms designating the firm as RPE peers. *Log #RPE Peer Groups with Poaching* is the natural logarithm of 1 plus the number of industry rivals that both designate the firm as an RPE peer and successfully poach at least one employee from the firm. *Log #RPE Peer Groups without Poaching* is the natural logarithm of 1 plus the number of industry rivals that both designate the firm as an RPE peer and but do not poach any employee from the firm. All columns control for *Size*, *ROA*, *MTB*, *Lev*, and *Ret* in the same year. Columns (1) and (2) additionally control for the natural logarithm of total sales (*Sale*), and columns (3) and (4) additionally control for the natural logarithm of total employment (*Emp*). All columns include year and firm fixed effects. All variables are defined in the Appendix. Standard errors are clustered by firm, and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Dep. Var. =	Log Salary/Sales		Log Salary per Employee	
	(1)	(2)	(3)	(4)
Log #RPE Peer Groups	0.040*		0.045**	
	(1.805)		(2.382)	
Log #RPE Peer Groups with Poaching		0.063***		0.056***
		(2.764)		(2.811)
Log #RPE Peer Groups without Poaching		0.018		0.027
		(0.869)		(1.446)
Controls	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
Obs.	1,808	1,808	1,775	1,775
Adj. R2	0.950	0.950	0.968	0.968

Appendix: Variable Definitions

Variable	Definitions
Dependent Variables	
Poaching	An indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise.
Poached	An indicator variable that equals 1 if there are employees flowing from the focal firm to the rival, and 0 otherwise.
Poaching_Num	The number of employees flowing from the rival to the focal firm.
%Poaching	The number of employees flowing from the rival to the focal firm multiplied by 100, divided by the number of employees in rival recorded by Emsi Lightcast.
Poaching_Hskill	An indicator variable that equals 1 if there are high-skill employees (job zone quals "4" or "5") flowing from the rival to the focal firm, and 0 otherwise.
Poaching_Lskill	An indicator variable that equals 1 if there are low-skill employees (job zone quals "1", "2" or "3") flowing from the rival to the focal firm, and 0 otherwise.
Poaching_Htenure	An indicator variable that equals 1 if there are experienced employees (with tenure greater than two years) flowing from the rival to the focal firm, and 0 otherwise.
Poaching_Ltenure	An indicator variable that equals 1 if there are inexperienced employees (with a tenure of 2 years or less) flowing from the rival to the focal firm, and 0 otherwise.
RetCorr	The correlation of monthly stock return for each pair-year. We require a 12 monthly stock returns to calculate pair-year correlation.
Log Salary/Sale	The natural logarithm of salary to sales ratio.
Log Salary per Employee	The natural logarithm of average salary per employee.
Key Independent Variables	
RPE Peer	An indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise.
RPE Peer, Non-price based	An indicator variable that equals 1 if *RPE* equals 1 and the grant uses accounting-based metrics, and 0 otherwise.
RPE Peer, Price based	An indicator variable that equals 1 if *RPE* equals 1 and the grant only uses price-based metrics, and 0 otherwise.
RPE Peer, High %RPE Goal	An indicator variable that equals 1 if *RPE* equals 1 and the fraction performance-pay goals that are based on RPE to total performance-pay goals is above the sample median of RPE peers, and 0 otherwise.
RPE Peer, Low %RPE Goal	An indicator variable that equals 1 if *RPE* equals 1 and the fraction of performance-pay goals that are based on RPE to total performance-pay goals is below the sample median of RPE peers, and 0 otherwise.

Appendix: Variable Definitions (Continued)

Variable	Definitions
Key Independent Variables, Continued	
Treat_RPE	An indicator variable that equals 1 if a rival is added to the RPE peer group of the focal firm for a given cohort and 0 otherwise.
Treat_CB	An indicator variable that equals 1 if a rival is added to the compensation benchmark group of the focal firm for a given cohort and 0 otherwise.
Log #RPE Peer Groups	The natural logarithm of 1 plus the number of rivals designating the firm as an RPE peer.
Log #RPE Peer Groups with Poaching	The natural logarithm of 1 plus the number of rivals both designating the firm as an RPE peer and successfully poaching at least one employee from the firm.
Log #RPE Peer Groups without Poaching	The natural logarithm of 1 plus the number of rivals both designating the firm as an RPE peer and do not poaching any employee from the firm.
Post	An indicator variable that equals 1 after the treatment of the RPE peer inclusion for a given cohort.
Control Variables	
Size	Natural logarithm of total assets of the focal firm in year t-1.
ROA	ROA of the focal firm in year t-1.
MTB	The market-to-book ratio of the focal firm in year t-1.
Lev	Leverage of the focal firm in year t-1.
Ret	The annual return of the focal firm in year t-1.
Size_Rival	Natural logarithm of total assets of the peer in year t-1.
ROA_Rival	ROA of the rival in year t-1.
MTB_Rival	The market-to-book ratio of the rival in year t-1.
Lev_Rival	Leverage of the rival in year t-1.
Ret_Rival	The annual return of the rival in year t-1.
ProdSim	Product similarity scores (Hoberg and Phillips, 2016) in year t.

Online Appendix

Table OA1: Alternative Measure of Poaching

This table presents the results from the robustness test with an alternative measure of poaching. We use the TNIC3 industry firm-rival pairs and distinguish RPE peers from non-RPE rivals based on the compensation grant. We use *%Poaching* as the dependent variable, which is the number of employees flowing from the peer to the focal firm multiplied by 100, divided by the number of rival employees recorded by Emsi Lightcast. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. Columns (1) and (2) include the year fixed effects, focal firm's two-digit SIC industry, and rival's two-digit SIC industry fixed effects. Column (3) includes the year, focal firm, and rival fixed effects. Column (4) includes the year and firm-rival fixed effects. All Columns control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Rival*, *Lev_Rival*, and *Ret_Rival*. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair, and *t*-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Dep. Var. =	%Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.012***	0.007***	0.005***	0.004***
	(9.538)	(5.686)	(5.332)	(3.505)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Rival FE	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes
Obs.	199,239	199,239	198,973	172,863
Adj. R2	0.018	0.056	0.175	0.353

Table OA2: Alternative Industry Rival Definition

This table presents the results of our robustness tests with alternative text-based industry classifications. Panel A presents results from the pooled OLS regressions including all TNIC3 industry peers. Panel B presents results using TNIC2 industry to identify firm-peer pairs and distinguish RPE peers from non-RPE rivals based on the compensation grant. The dependent variable is *Poaching*, which is an indicator variable that equals 1 if there are employees flowing from the rival to the focal firm, and 0 otherwise. *RPE Peer* is an indicator variable that equals 1 if the rival is the RPE peer of the focal firm in the year, and 0 otherwise. Columns (1) and (2) include the year fixed effects, focal firm's two-digit SIC industry, and rival's two-digit SIC industry fixed effects. Column (3) includes the year, focal firm, and rival fixed effects. Column (4) includes the year and firm-rival fixed effects. All Columns control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size_Rival*, *ROA_Rival*, *MTB_Rival*, *Lev_Rival*, and *Ret_Rival*. All variables are defined in the Appendix. Standard errors are clustered by firm-rival pair, and t-statistics are reported in parentheses. *, **, *** indicate statistical significance at the 0.1, 0.05, and 0.01 levels, respectively.

Panel A. Including All TNIC3 Peers

Dep. Var. =	%Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.266***	0.152***	0.102***	0.031***
	(25.772)	(17.196)	(14.911)	(3.991)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Rival FE	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes
Obs.	500,095	500,095	499,903	452,379
Adj. R2	0.081	0.190	0.349	0.495

Panel B. TNIC2 Industry

Dep. Var. =	Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.257***	0.140***	0.098***	0.027***
	(25.911)	(16.328)	(15.245)	(3.499)
Controls	No	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No
Firm FE	No	No	Yes	No
Rival FE	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes
Obs.	330,549	330,549	330,399	286,819
Adj. R2	0.067	0.185	0.354	0.518