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## Chief Executive Compensation: An Empirical Study of Fat Cat CEOs

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### Abstract


This paper empirically tests the determinants of executive pay. In order to gain more understanding of the fat cat problem that have been subject to hot debate, we also examine a sample firms that suffer from the “fat cat problem”, defined as firms with poor performance while their Chief Executive Offers (CEOs) receive high compensation. Based on a sample of 903 US firms between 2007 and 2010, we find that there is a substitution effect between CEO compensation and the level of CEO ownership and that larger firms give higher pay to their CEOs. When the sample is limited to fat cat companies only, we find that tenure and firm size are significantly positively associated with CEO compensation. The firm size, leverage ratio and investment opportunities are found to be significantly associated with the CEO total compensation when the sample is limited to fat cat companies in the financial services industries. Overall, firm size appears to be the most important determinant of CEO compensation and that there is a general lack of linkage between pay and performance. The evidence thus calls for public attention for reexamining the effectiveness of current pay system.

**Keywords:** Executive Compensation, Fat Cat, Pay-Performance Relationship

**JEL Classification:** G34, M52

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