

# Executive Incentives and Strategic Talent Acquisition: Evidence from Poaching\*

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This version: August 2024

## Abstract

We examine the relation between relative performance evaluation (“RPE”) in executive pay plans and labor talent poaching of rank-and-file employees. Using resume 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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\*We are grateful to Mike Ewens, Xavier Giroud, Clemens Otto, and seminar participants at the London School of Economics and Tsinghua University for helpful comments and suggestions.

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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 S&P 500 companies as of 2017. While in most cases, RPE is used to shield risk-averse managers from common sources of uncertainty (à 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.<sup>1</sup>

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 hugely 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 need not necessarily 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 there is a highly pro-

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<sup>1</sup>Throughout we refer to RPE-using firms as “firms” or “focal firms” and their RPE peers as “peers”.

ductive 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 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 easily recover the surplus by hiring a new employee in place of the poached one. As such, we expect that RPE-using firms will disproportionately poach employees away from the 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 500,095 focal firm-rival-year observations covering 1,113 unique focal firms and 4,582 unique rivals.

Using this firm-rival-year level data, we estimate whether the flow of employees between focal firms and their industry rivals varies based on whether or not the firm uses the rival as an RPE peer in compensation contracts. We start with a specification including year, focal firm industry (SIC2), and rival industry (SIC2) fixed effects. This specification allows us to

capture rich time-series and cross-sectional variations in employee flow. Next, we gradually include tighter sets of fixed effects, including focal firm and rival fixed effects, and pairwise focal firm $\times$ rival interacted fixed effects. The latter specification is designed to absorb time-invariant characteristics of the focal firm and the rival 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 to each other. The inclusion of focal firm $\times$ rival fixed effects allows our analysis to identify effects solely from (within-pair) time series variation in RPE peer status and poaching (e.g., before versus after a rival becomes an RPE peer).

Across all specifications, we document a positive and significant association between RPE peer status and employee flow from the rival to the focal firm. Firms hire significantly more labor talent away from their RPE peers than from their (otherwise fairly similar) industry rivals that are not their RPE peers. In terms of the economic magnitude, our estimates suggest a 3.1 (10) percentage point increase in the likelihood of employee flow at the extensive margin, using our focal firm $\times$ rival (focal firm and rival) fixed effects specification, explained by the rivals' inclusion in the RPE peer group. We further document evidence of increased poaching at the intensive margin, indicating that focal firms also poach a greater number of employees from their RPE peers, conditional on poaching any employees at all. Overall, our results suggest that focal firms are more likely to poach employees from their RPE peers than from their non-RPE peer rivals.

We next conduct a series of cross-sectional analyses to assess the mechanism(s) behind our baseline results. Specifically, we explore heterogeneity in the types of employees. The benefits of poaching an employee from an RPE peer are expected to 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. These two cross-sectional results are consistent with our intuition that focal firms are trying to harm their RPE peers by targeting their most valuable (and most difficult-to-replace) employees.

While our findings are consistent with deliberate peer-harm driven by executives' RPE incentives, causality and intent are difficult to discern. It is possible that the inclusion of an industry rival in a focal firm's RPE contract reflects time-varying aspects of the economic similarity between the two companies, in which case we would expect increased employee flow between the two companies for reasons that are not driven by RPE incentives, *per se*. To assess this possibility, 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 the association between RPE and poaching occurs immediately after the inclusion of the industry rival in the RPE contract of the focal firm, and pre-trends appear to be parallel.

The parallel pre-trends 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 $\times$ rival fixed effects suggest that our results are attributable to CEOs' RPE incentives. However, it remains conceivable that a sudden change in the similarity between companies could simultaneously influence the extent of employee flow between two companies, as well as the value of benchmarking against each other as RPE peers. To further address the concern, we use a battery of placebo tests, which we describe below.

First, we flip our research design to 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 (which are usually non-mutual), then the change in employee flows would be uni-directional; firms would have heightened incentives to poach from their new peers, but the new peers

would not have any changed incentives to poach from the focal firms. Consistent with RPE playing a causal role in our findings, we observe no change in employee flow from the focal firm to the rival, after the rival is included as an RPE peer by the focal firm.

Second, we perform two placebo tests by modifying the definition of our treatment and control firms, by using two alternative placebo codings of RPE peers: (i) “artificial” peers, as defined by the Bloomfield et al. (2022) peer selection algorithm; and (ii) compensation benchmark peers, as disclosed in firms’ proxy statements. The artificial peers are industry rivals with the highest return correlation with the focal firm, thereby capturing comovements in business fundamentals. The compensation benchmark peers are, like the RPE peers, self-selected by the focal firm, but are chosen to benchmark levels of pay, rather than to filter out common shocks. We remove any artificial peers or compensation benchmark peers that are also chosen as RPE peers by the firm, thus eliminating any explicit RPE incentive for the firm to harm these placebo peers. Using a cohort-based approach, we fail to find a difference in employee poaching from artificial peers or from compensation benchmark peers, relative to the other industry rivals. The lack of results with these two alternative peer groups suggests that strategic RPE incentives, rather than economic similarities, drive our results.

Third, we directly test whether firm-rival similarity appears to change 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 inclusion in an RPE peer group coincides with increases in economic similarity. In sum, we find no evidence to lend credence to the concern that increased employee poaching from RPE peers, relative to other rivals, is driven by economic fundamentals, rather than RPE incentives.

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; Jenter and Kanaan, 2015; Bizjak et al., 2022). More recently, a growing literature examines the link between executive incentives and product market competition.<sup>2</sup> We complement this recent work by instead examining the link between executive incentives and *labor* market competition, and provide 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 at the intersection of labor and finance, by documenting the effect of executive compensation practices on labor 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 demonstrating that RPE in CEO pay plans increases labor market competition for rank-and-file employees by inducing more aggressive employee poaching tactics.

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<sup>2</sup>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).

## 2 Conceptual Underpinnings

Relative performance evaluation has emerged as a common approach for monitoring and rewarding 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.<sup>3</sup> We build on

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<sup>3</sup>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.



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 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.<sup>4</sup> 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 cleanly 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 generally 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.

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<sup>4</sup>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.

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 peer 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 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. We use the Hoberg and Phillips (2016) three-digit text-based industry classification to identify industry rivals. 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 3,231,207 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.<sup>5</sup> 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 850,990 focal firm-rival-year observations.

Finally, we exclude focal firms in financial and utilities industries (262,482 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 (88,413 observations), our final sample consists of 500,095 focal firm-rival-year observations, covering 1,113 (4,582) unique focal firms (rivals) with 242,882 poaching cases.

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<sup>5</sup>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.

## 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.<sup>6</sup>

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 otherwise. In some of our analyses, we also use the number of employees being poached (*Poaching\_Num*) to measure the intensity of employee 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.

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<sup>6</sup>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.

### 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 0.091 and 0.288, 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 0.269, which accounts for 0.008% 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 2.944 and 2.787, respectively. The mean value of *RPE Peer* is 0.014, which implies that on average 1.4% 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 6.783), have a higher market-to-book ratio (the mean of *MTB* and *MTB\_Rival* is 3.963 and 3.089), and outperform in the stock market (the mean of *Ret* and *Ret\_Rival* is 0.160 and 0.106).

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 0.391 and 1.676, respectively, while they are only 0.087 and 0.249 among firm-non-RPE

rival pairs. Conditional on the existence of employee poaching, RPE-using firms on average poach 4.286 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 (26.5%), and Automobiles and Trucks (26.3%). 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:<sup>7</sup>

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

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 ( $\tau_t$ ) to phase out the impact of time-varying macro factors that

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<sup>7</sup>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.

may systematically affect labor market conditions (e.g., financial crisis). Lastly, we cluster standard errors at the firm level.<sup>8</sup> The coefficient ( $\beta$ ) 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  $\beta$  indicates firms poach more from their rivals when those rivals are also RPE peers, while a negative  $\beta$  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. = 0.266;  $t$ -stat = 12.431), 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 effects (coef. = 0.102;  $t$ -stat = 8.570), which effectively control for time-invariant factors at the focal firm and rival levels (e.g., headquarter-level employee protection). Firms on average are 10.2 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.

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<sup>8</sup>Our results are robust when we cluster standard errors at the focal firm-rival pair level.



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 = 3.224). 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.<sup>9</sup>

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. Columns (1) - (4) present regression results using the entire sample, which allow us to identify the overall effect (i.e., both extensive and intensive margin effects) on the intensity of employee poaching. As predicted, we find that the coefficients on *RPE Peer* are positive and significant across all specifications. Columns (5) - (8) report the results using the sample conditional on the existence of poaching, which allows us to isolate the intensive margin effects. We continue to find that the coefficients on *RPE Peer* are significantly positive across all columns. Based on the estimates in column (8), conditional on the existence of poaching, the number of employees hired by the focal firm increases by 0.276, corresponding to 18% 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.

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<sup>9</sup>The estimate suggests that the use of RPE in CEO pay leads to a 17% increase in poaching from a peer relative to the within-pair variation of *Poaching* (i.e., 0.185).

## 4.2 Heterogeneity

We next conduct a series of cross-sectional analyses to shed light on the mechanism behind the positive RPE-poaching association. We explore the heterogeneity in employee types and the characteristics of RPE contracts. In prior tests, we hypothesize and find supportive evidence that the use of RPE in CEO pay plans increases the compensation incentives for CEOs to compete with RPE peers in the labor market to harm peers and gain competitive advantage, thus enhancing relative performance. Following this logic, we posit that focal firms are more likely to target employees who are more difficult to replace, as these employees tend to possess valuable intangibles and the loss of them would impose a greater threat to peers. Additionally, we expect that the effect of RPE on poaching is stronger when the RPE contract induces stronger financial incentives.

### 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 code 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*, 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 the sample median) 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.<sup>10</sup> 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 0.021 and significant at the 5% level, while the coefficient on *RPE Peer* in column (2) is 0.006 but statistically insignificant ( $t$ -stat = 1.027). 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. = 0.021;  $t$ -stat = 2.490), while that between *RPE Peer* and *Poaching\_Ltenure* is statistically indistinguishable from zero (coef. = 0.008;  $t$ -stat = 1.302). The results suggest that the focal firm mainly targets high-skill and experienced employees from the RPE peers.

#### 4.2.2 Characteristics of RPE Plans

Next, we explore cross-sectional variation in the design of RPE 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

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<sup>10</sup>To facilitate comparison, we remove pair-years with poaching of both high and low skill employees in columns (1) and (2), and with poaching of both experienced and inexperienced employees in columns (3) and (4).

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) acquiring human capital from RPE peers might have a smaller direct impact on peer stock price due to the plausibly delayed incorporation of information into stock prices 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 also include non-price metrics. We exclude grants 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. = 0.064; *t*-stat = 3.949) and *RPE Peer, Price Based* (coef. = 0.022; *t*-stat = 2.337) 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 larger than that on *RPE Peer, Price based*, and the difference in the coefficients is significant at the 5% level. 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.

Finally, we partition the sample based on the materiality of RPE grants. When CEOs have a greater fraction of performance-pay grants 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* and *RPE Peer, Low % RPE* are dummy variables indicating that the fraction of performance-pay grants 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* is 0.040 and significant at the 1% level, which is significantly larger

than that on *RPE Peer, Low %RPE* (coef. = 0.021; *t*-stat = 1.805). 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.

## 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 poaching behavior 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 the 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:

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

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×pair fixed effects, and cluster the standard errors by cohort×firm. Other features of equation (2) resemble those in the

regression equation (1).

Table 5 presents the results. Column (1) reports the estimates of equation (1) without including control variables. The coefficient on  $Treat\_RPE \times Post$  is positive and significant at the 5% level (coef. = 0.025;  $t$ -stat = 2.376), 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. = 0.029;  $t$ -stat = 2.727) 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 2.9%.

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  $\tau$  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 pre-trends, 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 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-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 several 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 use two alternative peer groups (the Bloomfield et al. (2022) “artificial” peer groups and firms’ com-

pensation benchmark peer groups), which likely reflect changes in economic similarity, much like the RPE peer groups, but do not confer the same RPE incentives. If similar patterns are observed for these alternative peer groups, it would suggest that economic convergence, and not RPE incentives, drives our findings. Third, 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; 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-motivated 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 the regression 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.<sup>11</sup>

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<sup>11</sup>Empirically, the vast majority of RPE peer relationships are non-mutual, and thus remain in the sample.



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. = 0.002) and it is statistically insignificant ( $t$ -stat = 0.166). 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.

### 5.2.2 Alternative Peer Groups

Next, we conduct two falsification analyses using alternative peer groups. In the first analysis, we follow the approach of Bloomfield et al. (2022) and identify “artificial” RPE peers, at the firm-year level, based on industry affiliation and stock return correlations. These artificial peers represent plausible RPE peers that the firm *could* reasonably have chosen to benchmark against, but perhaps did not choose to include in the actual RPE peer group. If our results simply capture comovement in business fundamentals of focal firm and RPE peers, among a firms’ industry rivals, we would expect to observe more employee inflows from firms’ artificial peers than from other industry rivals that are not identified as artificial peers.

To assess the matter, we focus on focal firms with RPE plans, and compare the extent of poaching between the artificial peers and the other industry rivals that are not artificial peers. To ensure that RPE incentives do not drive any documented patterns, we remove any rivals that a firm actually includes in the RPE peer group (whether or not the rival was an artificial peer). We then use a stacked DID research design analogous to that described

in Section 4.2. The placebo treatment group of a cohort  $c$  consists of firm pairs in which the rival is added to the artificial peer group of the focal firm in year  $c$ , whereas the control group comprises firm pairs in which the rival is not included in the artificial (or actual) RPE peer group in year  $c$ . We re-estimate regression equation (2) using this sample, replacing  $Treat$  with  $Treat\_Artificial$ , which is an indicator variable for a rival’s inclusion in the focal firm’s artificial peer group.

In the second falsification test, we examine whether firms also poach disproportionately from their compensation benchmark peers. Compensation benchmark peers are used to benchmark compensation levels for the focal firms’ CEOs, but the firm’s performance relative to the compensation benchmark peers is not explicitly factored into compensation (excluding the compensation benchmark peers are also RPE peers).<sup>12</sup> As such, there should be no strategic RPE-motivated incentive for firms to poach labor talent away from their compensation benchmark peers.

If our findings are driven by economic similarity (which leads to the inclusion of a rival as a compensation benchmark peer) rather than by the RPE-induced incentives, we would expect to observe more employee movements from compensation benchmark peers to the focal firm than those from non-compensation benchmark peers to the focal firm. Similar to the analyses based on the artificial peers, we conduct a stacked DID analysis to test whether firms poach more from their rivals after including them as compensation benchmark peers. The placebo treatment group (indicated by the dummy variable  $Treat\_Compensation$ ) of a cohort  $c$  consists of firm pairs in which the rival is included in the compensation benchmark group of the focal firm in year  $c$ , whereas the control group comprises firm pairs in which the rival is not included in the compensation benchmark (or RPE) peer group in year  $c$ .

Before tabulating the results of falsification analyses, we first investigate whether focal

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<sup>12</sup>Most RPE peers (about 80% in our sample) are also included in the compensation benchmark peer group (De Angelis and Grinstein, 2020). We focus our analyses on compensation benchmark peers that are not included in the RPE peer group.

firms disproportionately hire employees from their RPE peers than from other industry rivals that are not RPE peers, after excluding any artificial peers and/or compensation benchmark peers from the RPE peer group. Column (1) of Panel B, Table 6 reports the estimate of DID regression equation (2). We restrict the sample to focal firms with RPE plans, and use the non-RPE peer rivals of the same RPE-using focal firms as the control groups (excluding artificial or compensation benchmark peers). The coefficient on  $Treat\_RPE \times Post$  is positive and significant, and both the economic magnitude and statistical significance are comparable to those reported in Table 5. Columns (2) and (3) report the results of falsification analyses. The coefficients on both  $Treat\_Artificial \times Post$  and  $Treat\_Compensation \times Post$  are both statistically insignificant (and carry negative point estimates). These results suggest that the focal firm is not more likely to poach employees of artificial or compensation benchmark peers than other industry rivals. Overall, the results in Panel B of Table 6 lend credence to the interpretation that the positive RPE-employee poaching association is driven by the incentives induced by relative performance evaluation, rather than by sudden changes in economic similarity between focal firms and their industry rivals.

### 5.2.3 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 daily stock returns over a pair-year ( $RetCorr$ ). Panel C 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.

In untabulated analyses, we further decompose  $Treat\_RPE$  into two indicator variables:  $Treat\_RPE, Poaching$ , which indicates RPE peers and the existence of employee flows from RPE peers to focal firms in the post-period;  $Treat\_RPE, NonPoaching$ , which indicates RPE peers and the absence of employee flows from RPE peers to focal firms in the post-period. We find that the interaction terms between  $Post$  and both indicator variables are unassociated with both measures of economic similarity. Overall, these results suggest that the increased employee flows between focal firms and their RPE peers are unlikely to be driven primarily by changes in economic similarity.

### 5.3 Robustness Tests

We conduct several additional analyses to assess the robustness of our findings 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 Panel A of Table 7. 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 define industry rivals based on the three-digit TNIC industry membership. As a robustness check, we extend the text-based product industry universe to a coarser industry (i.e., two-digit TNIC industry) to validate our findings in a broader firm-rival pair sample. The sample size increases from 500,095 to 1,181,297 pair-year observations. As reported in Panel B of Table 7, our results remain similar both quantitatively and qualitatively.

Third, we distinguish between different reasons for a change in RPE peer status, to assess whether they give rise to similar results. In particular, a focal firm could newly include a rival as its RPE peer either because: (i) the focal firm was already using RPE, and adjusts its RPE peer group to add the rival; or (ii) the focal firm adopts RPE for the first time and includes the rival in its inaugural RPE peer group. Our theory and predictions do not distinguish between these two cases, but the economic circumstances surrounding them are quite different, which could potentially give rise to differing results. To assess the matter, we decompose *RPE Peer* into two binary variables: *RPE Peer, Adoption*, which indicates that the rival is included in the inaugural peer group; and *RPE Peer, Addition*, which indicates that the rival is added to a pre-existing RPE peer group. Panel C of Table 7 shows that both *RPE Peer, Adoption* and *RPE Peer, Addition* are positively associated with *Poaching* across all specifications, and the differences in their coefficients are statistically insignificant. The results suggest that both the RPE adoption and the addition of a rival to RPE peer group foster a similar degree of employee poaching from RPE peers.

## 6 Conclusion

Relative performance evaluation is widely used as an effective mechanism for monitoring and rewarding executive performance. However, theoretical research suggests that such incentives may also induce managers to undertake actions detrimental to the performance of their peers with 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, the adoption of RPE is associated with an economically and statistically significant  $\sim 3$ -10 percentage point increase in employee inflow from an RPE peer 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. First, exploiting the dynamic correlation between RPE and employee flow, we find that the positive association did not appear before the inclusion of the industry rival in the RPE contract of the focal firm, and manifests immediately upon the inclusion of the rival in the firm's RPE peer group. Second, we flip our research design and fail to detect a significant change in employee outflows from the focal firm to the peer after the peer was included in the RPE contract of the focal firm. Furthermore, we find no evidence of increased poaching from industry rivals that exhibit a high correlation in business fundamentals with the focal firm but are not included in its RPE contract, nor do we find evidence that firms poach disproportionately from their compensation benchmark peers. Lastly, we do not find any evidence that firms are more similar to their rivals after including them in their RPE peer groups, as reflected by product similarity or return correlations.

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. Our study contributes to the literature by offering more definitive and compelling evidence that supports the notion of RPE-driven competitive behavior.

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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
<b>Pair-year-level</b>							
Poaching	0.091	0.288	0.000	0.000	0.000	0.000	0.000
Poaching_num	0.269	1.195	0.000	0.000	0.000	0.000	0.000
%Poaching	0.008	0.036	0.000	0.000	0.000	0.000	0.000
RPE Peer	0.014	0.118	0.000	0.000	0.000	0.000	0.000
ProdSim	0.052	0.049	0.005	0.014	0.037	0.077	0.125
<b>Firm-year-level</b>							
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
<b>Rival-year-level</b>							
Size_Rival	6.783	2.149	3.879	5.267	6.815	8.256	9.599
ROA_Rival	-0.063	0.285	-0.362	-0.053	0.021	0.064	0.116
MTB_Rival	3.089	6.577	0.656	1.163	2.026	3.720	7.077
Lev_Rival	0.231	0.227	0.000	0.018	0.184	0.366	0.542
Ret_Rival	0.106	0.619	-0.519	-0.234	0.045	0.318	0.678

**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**

	<i>Average Poaching</i>		<i>Average Poaching_Num</i>	
	RPE Peer = 0	RPE Peer = 1	RPE Peer = 0	RPE Peer = 1
2009	0.065	0.288	0.143	0.878
2010	0.085	0.376	0.228	1.570
2011	0.096	0.396	0.286	1.961
2012	0.096	0.401	0.288	1.898
2013	0.097	0.427	0.304	2.022
2014	0.099	0.437	0.308	2.200
2015	0.092	0.397	0.279	1.697
2016	0.082	0.377	0.237	1.479
2017	0.078	0.360	0.209	1.306
2018	0.086	0.396	0.238	1.667
2019	0.085	0.384	0.227	1.506
Total	0.087	0.391	0.249	1.676

**Table 2: Sample Distribution (Continued)**

**Panel B: Variations in Poaching Across Industry**

FF 48 Industry	Average <i>Poaching</i>	Average <i>Poaching_num</i>
Agriculture	0.007	0.007
Food Products	0.136	0.475
Candy & Soda	0.167	0.868
Beer & Liquor	0.192	0.891
Tobacco Products	0.022	0.050
Recreation	0.263	0.751
Entertainment	0.157	0.439
Printing and Publishing	0.117	0.215
Consumer Goods	0.177	0.513
Apparel	0.133	0.304
Healthcare	0.058	0.157
Medical Equipment	0.052	0.136
Pharmaceutical Products	0.047	0.116
Chemicals	0.046	0.077
Rubber and Plastic Products	0.082	0.128
Textiles	0.189	0.253
Construction Materials	0.076	0.168
Construction	0.245	0.837
Steel Works Etc	0.056	0.080
Fabricated Products	0.429	1.714
Machinery	0.121	0.336
Electrical Equipment	0.105	0.234
Automobiles and Trucks	0.263	0.764
Aircraft	0.310	1.424
Shipbuilding, Railroad Equipment	0.072	0.160
Defense	0.426	2.263
Precious Metals	0.046	0.082
Non-Metallic and Industrial Metal Mining	0.026	0.036
Coal	0.020	0.032
Petroleum and Natural Gas	0.057	0.122
Communication	0.178	0.691
Personal Services	0.043	0.093
Business Services	0.150	0.501
Computers	0.184	0.629
Electronic Equipment	0.133	0.371
Measuring and Control Equipment	0.122	0.295
Business Supplies	0.190	0.440
Shipping Containers	0.135	0.526
Transportation	0.222	0.762
Wholesale	0.110	0.336
Retail	0.265	0.923
Restaraunts, Hotels, Motels	0.128	0.315
Total	0.091	0.269

**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. *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. 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. Columns (1) - (4) present regression results using the entire sample, and Columns (5) - (8) use the sample conditional on the existence of poaching. 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.

**Panel A. Existence of Employee Poaching**

Dep. Var. =	Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.266*** (12.431)	0.152*** (9.088)	0.102*** (8.570)	0.031*** (3.224)
Size		0.032*** (12.992)	0.009*** (3.497)	0.010*** (3.511)
ROA		-0.055*** (-5.698)	-0.008* (-1.662)	-0.008 (-1.637)
MTB		0.001*** (4.346)	0.000*** (2.778)	0.000 (0.771)
Lev		-0.039*** (-4.161)	-0.007 (-1.590)	-0.013*** (-2.593)
Ret		0.008*** (5.278)	0.003*** (3.202)	0.003*** (3.885)
ProdSim		0.602*** (13.140)	0.856*** (21.035)	0.091*** (3.466)
Size_Rival		0.049*** (29.318)	0.020*** (13.216)	0.022*** (13.141)
ROA_Rival		-0.060*** (-19.267)	-0.018*** (-10.349)	-0.020*** (-10.646)
MTB_Rival		0.001*** (8.667)	0.000*** (3.395)	0.000*** (3.071)
Lev_Rival		-0.020*** (-5.499)	0.006** (2.155)	0.006** (2.226)
Ret_Rival		-0.008*** (-13.329)	-0.004*** (-7.395)	-0.004*** (-7.161)
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

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

**Panel B. Intensity of Employee Poaching**

Dep. Var.=	Poaching_Num							
	Full sample				Poaching_Num >0			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
RPE Peer	1.303*** (7.536)	0.834*** (5.625)	0.704*** (6.079)	0.217*** (3.671)	1.592*** (6.189)	0.642*** (3.919)	0.736*** (5.277)	0.276** (2.420)
Size		0.133*** (11.509)	0.024** (2.294)	0.026** (2.337)		0.437*** (20.010)	0.194*** (3.060)	0.371*** (5.101)
ROA		-0.258*** (-6.352)	-0.054*** (-2.670)	-0.061*** (-3.250)		-0.166 (-0.977)	0.079 (0.488)	0.024 (0.120)
MTB		0.002*** (3.971)	0.000* (1.956)	0.000 (0.137)		0.007*** (3.312)	-0.000 (-0.052)	-0.001 (-0.314)
Lev		-0.147*** (-3.737)	-0.036* (-1.906)	-0.067*** (-2.897)		-0.641*** (-3.482)	-0.561*** (-3.516)	-0.866*** (-4.031)
Ret		0.033*** (4.872)	0.009** (2.443)	0.013*** (3.702)		0.142*** (4.027)	0.087*** (2.752)	0.178*** (4.657)
ProdSim		2.334*** (10.563)	3.242*** (14.650)	0.235** (2.409)		10.478*** (15.052)	14.665*** (19.265)	1.228** (2.040)
Size_Peer		0.207*** (17.785)	0.053*** (9.796)	0.063*** (10.195)		0.635*** (24.874)	0.362*** (9.278)	0.503*** (10.422)
ROA_Rival		-0.313*** (-14.435)	-0.062*** (-9.510)	-0.070*** (-10.448)		-0.922*** (-8.616)	-0.395*** (-4.579)	-0.483*** (-4.239)
MTB_Rival		0.002*** (5.626)	0.000 (1.232)	0.000 (1.197)		0.001 (0.697)	-0.002 (-1.387)	-0.002 (-1.483)
Lev_Rival		-0.129*** (-7.715)	0.002 (0.179)	-0.000 (-0.052)		-0.208** (-2.143)	-0.195* (-1.962)	-0.319** (-2.255)
Ret_Rival		-0.033*** (-11.816)	-0.009*** (-5.369)	-0.008*** (-5.261)		-0.139*** (-6.389)	-0.098*** (-4.537)	-0.112*** (-4.114)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIC2 FE	Yes	Yes	No	No	Yes	Yes	No	No
Rival SIC2 FE	Yes	Yes	No	No	Yes	Yes	No	No
Firm FE	No	No	Yes	No	No	No	Yes	No
Rival FE	No	No	Yes	No	No	No	Yes	No
Firm-Rival FE	No	No	No	Yes	No	No	No	Yes
Obs.	500,095	500,095	499,903	452,379	45,686	45,686	45,175	35,603
Adj. R2	0.079	0.184	0.428	0.730	0.084	0.291	0.470	0.653

**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. 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. 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 skilled (job code equals “4” or “5”) versus unskilled 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 skilled and unskilled employees being poached. In columns (3) and (4), we classify employees poached by the focal firm into experienced (i.e., with tenure greater than the sample median) versus inexperienced employees based on their previous positions in the rival. The dependent variable *Poaching\_Htenure* in column 1 (*Poaching\_Ltenure* in column 2) 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. Panel B presents cross-sectional results based on the characteristics of RPE. *RPE Peer, Price (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 grants with both price-based and non-price-based metrics for the simplicity of comparison. *RPE Peer, High (Low) %RPE* is an indicator variable that equals 1 if less than the fraction performance-pay grants are based on RPE is above (below) the sample median. All columns include firm-rival fixed effects and year 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.

**Panel A: Employee type**

Dep. Var. =	Poaching_Hskill (1)	Poaching_Lskill (2)	Poaching_Htenure (3)	Poaching_Ltenure (4)
RPE Peer	0.021** (2.452)	0.006 (1.027)	0.021** (2.490)	0.008 (1.302)
Controls	Yes	Yes	Yes	Yes
Firm-Rival FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Obs.	440,538	440,538	436,259	436,259
Adj. R2	0.308	0.151	0.211	0.135

**Table 4: Heterogeneity (Continued)**

**Panel B. Characteristics of RPE contract**

Dep. Var. =	Poaching	
	(1)	(2)
RPE Peer, Non-price based ( $\beta_1$ )	0.064*** (3.949)	
RPE Peer, Price Based ( $\beta_2$ )	0.022** (2.337)	
RPE Peer, High %RPE ( $\beta_1$ )		0.040*** (3.860)
RPE Peer, Low %RPE ( $\beta_2$ )		0.021* (1.805)
$\beta_1 - \beta_2$	0.042**	0.019*
$\chi^2$	(5.63)	(2.89)
Controls	Yes	Yes
Firm-Rival FE	Yes	Yes
Year FE	Yes	Yes
Obs.	451,159	452,165
Adj. R2	0.494	0.495



**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 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* ( $\tau$ ) (*Post* ( $\tau$ )) indicates  $\tau$  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, 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 $\times$ Post	0.025** (2.376)	0.029*** (2.727)		
Treat_RPE $\times$ Pre (-2)			0.001 (0.070)	0.002 (0.162)
Treat_RPE $\times$ Pre (-1)			0.016 (1.015)	0.019 (1.173)
Treat_RPE $\times$ Post (0)			0.033* (1.929)	0.038** (2.141)
Treat_RPE $\times$ Post (+1)			0.029* (1.673)	0.035** (1.981)
Treat_RPE $\times$ Post (+2)			0.035* (1.674)	0.042** (2.009)
Size		0.012*** (10.087)		0.012*** (10.100)
ROA		-0.014*** (-7.179)		-0.014*** (-7.180)
MTB		0.000* (1.797)		0.000* (1.803)
Lev		-0.012*** (-5.242)		-0.012*** (-5.240)
Ret		0.003*** (8.310)		0.003*** (8.314)
ProdSim		0.062*** (4.943)		0.062*** (4.942)
Size_Rival		0.017*** (25.466)		0.017*** (25.467)
ROA_Rival		-0.016*** (-20.994)		-0.016*** (-20.995)
MTB_Rival		0.000 (1.409)		0.000 (1.409)
Lev_Rival		0.008*** (5.719)		0.008*** (5.722)
Ret_Rival		-0.004*** (-14.328)		-0.004*** (-14.327)
Cohort-Firm-Rival FE	Yes	Yes	Yes	Yes
Cohort-Year FE	Yes	Yes	Yes	Yes
Obs.	1,663,442	1,663,442	1,663,442	1,663,442
Adj. R2	0.516	0.517	0.516	0.517

**Table 6: Falsification and Placebo tests**

This table presents the results from our falsification tests (Panel A) and alternative benchmark tests (Panel B and Panel C). 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*. All columns include firm-rival fixed effect and year fixed effect. Standard errors are clustered by firm, and *t*-statistics are reported in parentheses. Panel B presents the results from the stacked DID regressions, but uses artificial peers constructed following Bloomfield et al. (2022) and compensation benchmark peers from the Incentive Lab as placebo treatment groups. The sample is restricted to firm-rival pairs of firms with RPE peers, and the control group consists of firm-peer pairs in which the peers are not RPE peers, artificial peers, or compensation benchmark peers. Column (1) compares the poaching from the RPE peers with the poaching from control group rivals. Column (2) compares the poaching from the artificial peer with the poaching from control group rivals. Column (3) compares the poaching from the compensation peer with the poaching from other rivals. 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 peer newly added to the RPE peer group of the focal firm for a given cohort and zero otherwise. *Treat\_Artificial* is an indicator variable that equals 1 for a given artificial other group of the focal firm for a given cohort and zero for the control rivals of the focal firm. *Treat\_Compensation* is an indicator variable that equals 1 for a given compensation benchmark peer group of the focal firm for a given cohort and zero for the other rivals of the focal firm. *Post* is an indicator variable that equals one after the treatment of the RPE peer inclusion for a given cohort. All Columns in Panel B control for *Size*, *ROA*, *MTB*, *Lev*, *Ret*, *ProdSim*, *Size\_Rival*, *ROA\_Rival*, *MTB\_Rival*, *Lev\_Rival*, and *Ret\_Rival*. Panel C 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 daily 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*. 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, 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	0.002 (0.166)	0.007 (0.634)
Controls	No	Yes
Firm-Rival FE	Yes	Yes
Year FE	Yes	Yes
Obs.	152,327	152,327
Adj. R2	0.529	0.531

**Table 6: Falsification and Placebo tests (Continued)**

**Panel B. RPE Peers versus Artificial Peers and Compensation Benchmark Peers**

Dep. Var. =	Poaching		
	(1)	(2)	(3)
Treat_RPE × Post	0.029*** (2.743)		
Treat_Artificial × Post		0.008 (0.485)	
Treat_Compensation × Post			0.002 (0.127)
Controls	Yes	Yes	Yes
Cohort-Firm-Rival FE	Yes	Yes	Yes
Cohort-Year FE	Yes	Yes	Yes
Obs.	500,763	497,191	497,541
Adj. R2	0.487	0.482	0.482

**Panel C. Economic Similarity**

Dep. Var. =	ProdSim	RetCorr
	(1)	(2)
Treat_RPE × Post	-0.001 (0.495)	0.002 (0.352)
Controls	Yes	Yes
Cohort-Firm-Rival FE	Yes	Yes
Cohort-Year FE	Yes	Yes
Obs.	1,663,442	1,657,030
Adj. R2	0.883	0.726

**Table 7: Robustness tests**

This table presents the results of our robustness tests. Panel A 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. Panel B presents results from the robustness tests for the pooled OLS regressions using alternative text-based industry classification. We use the 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. Panel C presents the results from the robustness test decomposing *RPE Peer* into RPE adoption (*RPE Peer, Adoption*) and peer addition (*RPE Peer, Addition*). *RPE Peer, Adoption* is an indicator variable that equals 1 if the rival is included in the peer group of the first RPE grant adopted by the firm, and 0 otherwise; *RPE Peer, Addition* is an indicator variable that equals 1 if the rival is included in the peer group of the subsequent RPE grants adopted by the firm, 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 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.

**Panel A. Alternative Measure of Poaching**

Dep. Var. =	%Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.014*** (8.856)	0.008*** (5.823)	0.007*** (6.275)	0.003*** (2.862)
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.	499,089	499,089	498,898	451,376
Adj. R2	0.017	0.051	0.130	0.283

**Panel B. Alternative Industry Rival Definition**

Dep. Var. =	Poaching			
	(1)	(2)	(3)	(4)
RPE Peer	0.276*** (14.546)	0.172*** (10.766)	0.131*** (11.485)	0.028*** (3.675)
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.	1,181,297	1,181,297	1,181,254	1,068,519
Adj. R2	0.055	0.152	0.288	0.472

**Table 7: Robustness tests (Continued)**

**Panel C. First RPE Adoption vs. Addition of a Rival to Subsequent RPE Grants**

Dep. Var. =	Poaching			
	(1)	(2)	(3)	(4)
RPE Peer, Adoption	0.287*** (12.047)	0.164*** (9.058)	0.106*** (8.003)	0.027** (2.411)
RPE Peer, Addition	0.220*** (8.543)	0.124*** (5.469)	0.096*** (5.799)	0.037** (2.185)
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

## Appendix: Variable Definitions

Variable	Definitions
<b>Dependent Variables</b>	
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 skilled employees (job code equals “4” or “5”) flowing from the rival to the focal firm, and 0 otherwise.
Poaching_Lskill	One minus <i>Poaching_Hskill</i> .
Poaching_Htenure	An indicator variable that equals 1 if there are experienced employees (with tenure greater than the sample median) flowing from the rival to the focal firm, and 0 otherwise.
Poaching_Ltenure	One minus <i>Poaching_Htenure</i> .
RetCorr	The correlation of daily stock return for each pair-year. We require a minimum of 200 daily stock returns to calculate pair-year correlation.
<b>Key Independent Variables</b>	
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 <i>RPE</i> equals 1 and the grant uses accounting-based metrics, and 0 otherwise.
RPE Peer, Price based	An indicator variable that equals 1 if <i>RPE</i> equals 1 and the grant only uses price-based metrics, and 0 otherwise.
RPE Peer, High %RPE	An indicator variable that equals 1 if <i>RPE</i> equals 1 and the fraction performance-pay grants that are based on RPE is above (below) the sample median, and 0 otherwise.
RPE Peer, Low %RPE	An indicator variable that equals 1 if <i>RPE</i> equals 1 and the fraction performance-pay grants that are based on RPE is below the sample median, and 0 otherwise.
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 zero otherwise.
Treat_Artificial	An indicator variable that equals 1 if a rival is added to the artificial peer group of the focal firm for a given cohort and zero otherwise.
Treat_Compensation	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 zero otherwise.
Post	An indicator variable that equals one after the treatment of the RPE peer inclusion for a given cohort.

## Appendix: Variable Definitions (Continued)

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Variable	Definitions
<b>Control Variables</b>	
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.

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