**CEO Pay Slice and Firm Value: Is Corporate Social Responsibility a Missing Link?**

**Purpose:**

The topic of pay disparity in the upper echelons has recently attracted frequent attention of scholars. Despite this focus, the mechanisms that can explain performance effects of pay disparity have remained obscure. Based on stakeholder theory, we propose that pay disparity calculated as CEO Pay Slice (CPS) is associated with differential levels of investment in internally and externally oriented corporate social responsibility (CSR) initiatives, which can impact firm value.

**Methodology:**

The final sample comprised of 2,740 firms from 1992 to 2013, for a total of 27,652 firm–year observations. All regressions were run with year dummies to account for the panel data estimation along with annual incremental influence of the compensation and CSR involvement on firm value. Notably, we adopted an instrumental variable approach to address endogeneity concerns between CPS and firm value.

**Results:**

Results derived from a large, longitudinal sample of U.S. based public firms provides support for a partial mediation model, where internal CSR, but not external CSR, mediates the negative relationship between CPS and firm value. While external CSR investments were positively associated with firm value, these investments were not significantly impacted by CPS. Findings remain consistent across various analytical specifications and econometric techniques, enhancing confidence in our theorizing and results.

**Contributions:**

Our findings show that the negative impact of a large compensation differential between the CEO and the rest of the executive team extends beyond tactical, individual actions like shirking (Henderson & Fredrickson, 2001) or aggressive inter–personal behaviors (Dye, 1984), to firm–level outcomes such as CSR investments and capital market valuations, which extend the horizon of influence of these policy decisions.