

Abstract

I find a significant positive compensation premium for executives employed by firms headquartered in Catholic counties. I document that the compensation premium holds only for board member executives and that it is related to weaker corporate governance in Catholic regions. In addition, I explore several corporate governance measures and reveal that weaker corporate governance is a result of more developed connection networks among executives in Catholic regions. I document that even though a denser executive's social network is associated with worse operating performance, it enables the executive to reach higher pay. Therefore, I suggest that executives in Catholic regions are using their more developed social networks and weaker corporate governance to extract additional rents from the firm. My findings are consistent with a larger development of social ties in more community-focused Catholic regions than in more individualistic Protestant regions. I contribute by showing how religion deters efficiency of the top executive labor market through social ties.