

# The CEO Pay Gap as a Strategic Driver for Corporate Sustainability\*

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**Abstract:** Drawing on tournament theory, altruism, and reciprocal altruism, the research explores whether higher CEO-to-worker pay ratio can act as a motivator to enhance ESG efforts and ultimately improve firm performance. Using data from 1,459 S&P 1500 firms, we examine the moderating effect of the CEO pay gap on the relationship between ESG scores and firm value, measured by Tobin's Q. Hierarchical regression results reveal that firms with higher CEO pay ratios exhibit a stronger positive relationship between ESG scores and firm value. This finding suggests that, under certain motivational and structural conditions, a large CEO pay gap may incentivize long-term strategic investments in sustainability, warranting a reevaluation of simplistic penalization in ESG metrics. The study offers new insights into the design of executive compensation and sustainability metrics within stakeholder capitalism.

**Keywords:** CEO Salary Gap, ESG Performance, Financial Performance, Selfish Altruism, Sustainability

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\* This study is funded in part by Research Grant # 2022-22-0039, Yonsei University School of Business. \*\* Contact author. Email: [hybaek@nova.edu](mailto:hybaek@nova.edu)