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Corporate governance, chief executive officer compensation, and firm performance [1]

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Abstract

We find that measures of board and ownership structure explain a significant amount of cross-sectional variation in CEO compensation, after controlling for standard economic determinants of pay. Moreover, the signs of the coefficients on the board and ownership structure variables suggest that CEOs earn greater compensation when governance structures are less effective. We also find that the predicted component of compensation arising from these characteristics of board and ownership structure has a statistically significant negative relation with subsequent firm operating and stock return performance. Overall, our results suggest that firms with weaker governance structures have greater agency problems; that CEOs at firms with greater agency problems receive greater compensation; and that firms with greater agency problems perform worse.

JEL classification

G30; G32; J33; L22

Keywords

Corporate governance; CEO compensation; Board-of-directors; Ownership structure; Financial performance

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