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# Founders versus non-founders in large companies: financial incentives and the call for regulation

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## Abstract

This paper is intended to question some of the premises in the ever increasing calls to regulate executive pay. We focus on founders, and extend Shleifer and Vishny's (1989, *Journal of Political Economy*, 94, 461–488) manager-specific investments model by explicitly modeling managerial effort and pay performance sensitivity. Tests of this model on a data set of large companies, controlling for the endogeneity of managerial compensation, indicate that founders tend to be less responsive to performance incentives and generally more entrenched. At the same time, founders' led firms are more valuable, supporting our predictions. This suggests that for founders, regulation of compensation may not be very effective.

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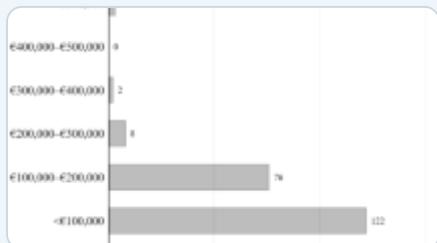
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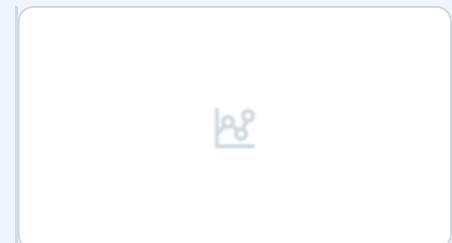
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