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## Corporate Governance and Performance: Controlling for Sample Selection Bias and Endogeneity

*K.U. Leuven AFI Working Paper No. 0606*

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### Abstract

Studies investigating the relation between corporate governance and performance find overall only weak evidence that corporate governance affects performance. One reason could be that these studies fail to control properly for sample selection bias and endogeneity. Without controlling for these problems, the relation between corporate governance and performance is not inferred correctly. With this study, we provide evidence on the influence of endogeneity and sample selection bias on the coefficient of corporate governance. We use panel data for the FTSE Eurotop 300 companies over 5 years, from 1999 to 2003. We find that using a sample of the 300 largest companies induces selection bias in the results. Furthermore, the results show that an endogeneity problem is present. After controlling for both problems the coefficient on corporate governance becomes highly significant. In contrast, when we use OLS we find insignificant results and even a negative coefficient of corporate governance for some performance measures. The results also show that controlling for both problems at the same time is important as controlling for just one of these problems reduces the bias only partially. Furthermore, we find both problems have an equally large impact on the bias in the coefficient. Overall, our findings indicate that the lack of significant results in prior studies is due to not controlling properly for sample selection bias and endogeneity.

**Keywords:** corporate governance, endogeneity, firm performance, firm value, sample selection bias**JEL Classification:** C33, C34, G34[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN\\_ID888770\\_code468680.pdf?abstractid=888770&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID888770_code468680.pdf?abstractid=888770&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN\\_ID888770\\_code468680.pdf?abstractid=888770&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID888770_code468680.pdf?abstractid=888770&mirid=1&type=2)

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