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Endogeneity in CEO power: A survey and experiment

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correct the sign from positive to negative), but quantitatively the effects vary

considerably. Among all the remedies, GMM has the greatest correction effect on the bias, followed by instrumental variables, fixed effect models, lagged dependent variables and the addition of more control variables. As for a combination of the methods, firm fixed effects, year fixed effects and the addition of more meaningful control variables appear to work as well, even without a valid instrumental variable.

Q KEYWORDS: Endogeneity problem CEO power CEO entrenchment firm performance GMM
fixed effects instrumental variable lagged dependent variable

Q JEL-CODES: G34 G32 C58 D23 J33

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Notes

1. We exclude special cases such as firms with co-CEOs, interim CEOs, missing CEOs, etc. After such screenings, we find about 5% of times that the CEO's pay is not the highest in the firm. Including these negative gaps or not does not significantly change the empirical results reported in this study.

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