

Accepted Manuscript

Title: Which came first, CEO compensation or firm performance? The causality dilemma in European companies

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PII: S0275-5319(16)30261-6
DOI: <http://dx.doi.org/doi:10.1016/j.ribaf.2017.07.009>
Reference: RIBAF 699

To appear in: *Research in International Business and Finance*

Received date: 6-9-2016
Revised date: 26-6-2017
Accepted date: 3-7-2017

Please cite this article as: Smirnova, Aleksandra S., Zavertiaeva, Marina A., Which came first, CEO compensation or firm performance? The causality dilemma in European companies. *Research in International Business and Finance* <http://dx.doi.org/10.1016/j.ribaf.2017.07.009>

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Which came first, CEO compensation or firm performance? The causality dilemma in European companies

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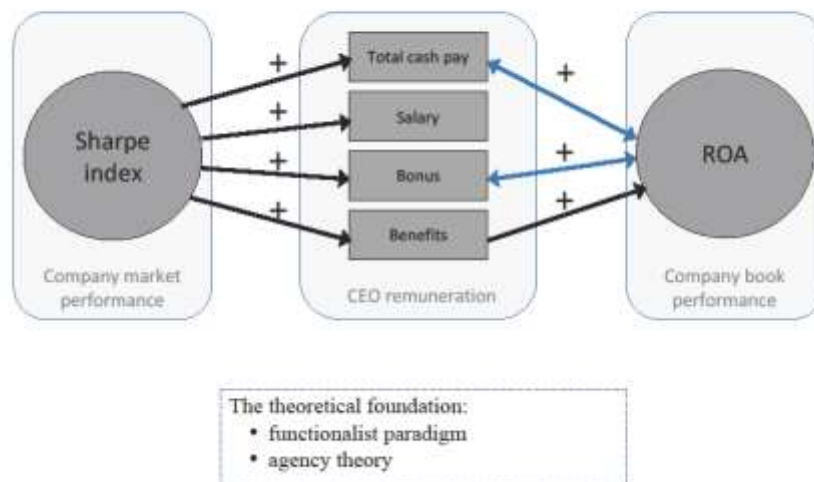
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GRAPHICAL ABSTRACT



Highlights

We analyse the mutual relationship between CEO remuneration and a company's performance using a functionalist paradigm and agency theory assumptions.

We use a sample of large European firms for the period from 2009 to 2013.

While compensation and firm performance are endogenous we use a 2-SLS method.

Companies tie bonuses to ROA and bonuses enhances corporate accounting performance.

Compensation linked to Sharpe coefficient does not improve firm performance

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