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Determinants of CEO compensation: Generalist-specialist versus insider-outsider attributes

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ABSTRACT

We examine the distinct effects of generalist-specialist versus insider-outsider attributes on Chief Executive Officer (CEO) compensation patterns. Our cross-sectional results show that each attribute has a significant impact on both the level and structure of CEO compensation. CEOs with a high generalist-outsider combination receive the highest total compensation, followed by generalist-insiders, specialist-outsiders, and finally specialist-insiders. Our time-series results show that the generalist-specialist effect remains constant through time while the insider-outsider effect diminishes over time. These findings suggest that the generalist premium is the result of a fundamental shift in the need for generalist skills to manage increasingly-complex enterprises. In contrast, the outsider premium is more likely caused by a temporary increase in bargaining power during contract negotiations. Overall, our study disentangles generalist-specialist attributes from insider-outsider attributes and then identifies the specific channels through which each attribute affects executive compensation.

JEL Classification: G30; G34; J33

Keywords: Executive compensation; CEO insiderness; Generalist skills

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