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Do Common Inherited Beliefs and Values Influence CEO Pay?[☆]

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Abstract

We use the ethnicity of CEOs across 31 countries as a proxy for their common inherited beliefs and values and find an ethnicity effect in CEO compensation. We find that the ethnicity effect in variable pay is not driven by the ethnicity effects in corporate policy decisions, and that changes in CEO compensation are significantly larger when CEOs are replaced with a person from a different ethnicity. Our estimated ethnicity effect capture the future time reference and religion of CEOs' ancestors. Finally, we find an ethnicity effect in performance-firing sensitivities (i.e., the sensitivity to being fired due to poor performance).

Keywords: Executive compensation, CEO characteristics, ethnicity, cultural persistence

JEL Classifications: G30, J15, J33, Z10

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