Product Market Competition, Corporate Governance and Pay-Performance Sensitivity

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ABSTRACT

This study examines how firm- and country-level governance mechanisms affect the association between industry competition and managerial incentives. Specifically, I examine how concentrated ownership structures affect the association between industry competition and pay-performance sensitivity. In addition, I investigate how different legal institutions affect the association between industry competition and pay-performance sensitivity. By using samples from four East Asian markets (China, Hong Kong, Singapore and Taiwan) for the 2001-2006 periods, I find that: (1) the positive association between industry competition and pay-performance sensitivity is significantly more pronounced in the non-concentrated ownership structure than in the family or state ownership structure. Industry competition leads to strong pay-performance sensitivity for widely-held firms but not for family- or state-controlled firms, suggesting that industry competition does not play governance role when firms are controlled by family or state; (2) in weak (strong) legal environment, the positive association between industry competition and pay-performance sensitivity is less (more) pronounced, indicating that country-level institutions dominate industry-level governance mechanisms in mitigating agency problems. The findings in this paper are importance for the literature on the role of industry competition, ownership structures as well as legal institutions.

Keywords: Corporate Governance; Pay-performance Sensitivity; Industry Concentration; Ownership Structure; Legal Institution
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