



# Reexamining the Managerial Ownership Effect on Firm Value

Bradley W. Benson and Wallace N. Davidson III  
*Department of Finance College of Business and Administration*

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**Abstract:**

Managerial ownership levels change slowly over time. This slow change may mask a significant ownership effect when testing the relation between managerial ownership and firm value using a fixed effect model due to much smaller within firm variation than between firm variation. We demonstrate that using pay-performance semi-elasticity rather than pay-performance sensitivity as a measure of managerial ownership incentives, results in meaningful variation within firm over time. The greater within firm variation increases the power to detect a relation between managerial ownership and firm value with fixed effect regressions. We find a significant inverted U-shaped relation between managerial ownership and Tobin's  $Q$  in fixed effects regressions and after controlling for endogeneity with two-stage least squares regressions. Our results are consistent with the incentive alignment/entrenchment hypothesis.