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Universiteit Hasselt | Campus Hasselt | Martelarenlaan 42 | BE-3500 Hasselt

2010
2011

FACULTY OF BUSINESS ECONOMICS
Master of Management: Corporate Finance

Masterproef

Executive compensation in family controlled private organisations

Promotor :
Prof. dr. Wim VOORDECKERS
Mevrouw Anneleen MICHIELS

Nele Smets

Master Thesis nominated to obtain the degree of Master of Management , specialization Corporate Finance

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Preface

This master's thesis is the final piece of my education Master Of Management – Option Corporate Finance at the University of Hasselt. I chose the topic of remuneration of CEO's in private family organisations because it highly appeals to me and joins up towards my field of study. Moreover, it is a very topical subject that deserves academic attention.

I would like to make use of this space to say 'thank you' to the persons that provided support during the writing process. First of all, I would like to thank my promoter, Prof. Dr. W. Voordeckers. He has counseled me very well and has given me advice and remarks that proved very useful in writing this thesis. I would also like to thank my co-promoter Mrs. A. Michiels for her advice concerning family organisations. Her knowledge with regard to the database I had to use was essential to make it possible to write this master's thesis.

At last, I would like to show my gratitude to my parents because they have supported me during my whole career as a student. My friends have always been there for me as well, so I would like to thank them for their support. An deserves a separate mention because she has checked my thesis on errors concerning spelling and syntax of my sentences. A special thanks goes to my boyfriend Kristof because he has always been there for me when I needed a pep-talk and supported me throughout it all.

Summary

The subject of executive remuneration has recently received a lot of attention. There are executives that earn excessive compensation. It seems that in most cases it concerns large organisations where executives receive exorbitant high compensation. According to agency theory, it is useful to tie executive remuneration to the performance of an executive. In family organisations, there are other agency problems. Therefore, it is meaningful to do research on executive remuneration in these companies. To gain more knowledge on this matter, following research question was formed:

"Does firm performance determine the CEO's remuneration in family-controlled private organisations?"

Study of literature

The study of literature begins with the agency theory in general. Agency theory in family organisations gives rise to another kind of problems. In family organisations, the principal and the agent are the same persons or have family ties with each other. Then, this master's thesis continues with explaining mechanisms that are used to control agency problems. It concerns control mechanisms and incentives. In this thesis, the focus lies on incentives, because we want to study the influence of performance on executive remuneration. To give more complete information, the remuneration committee, corporate governance codes and the family charter and family forum are discussed. All these mechanisms try to make executives behave appropriately. They try to align the interests of the agent with the interests of the organisation and the principal. Furthermore, recommendations are given by these mechanisms concerning well-considered and reasonable remuneration.

Not only performance has, according to the literature, an influence on executive compensation. CEO gender, executive education and CEO age should have an influence on remuneration. There are characteristics of the organisation that have an influence on executive compensation as well: organisation size and firm age.

Literature suggests that moderating variables are important as well. This means that they have an influence on the relationship between performance and executive compensation. These variables are experience of the executive, founder CEO and ownership concentration.

The study of literature solves our first subquestion. The most frequently used remuneration is explained by using past research: a fixed salary, bonuses, life insurance, a disability insurance, a hospitalisation insurance, pension plans, a company car, expense allowance, meal vouchers, pay that is related to shares and dividends.

Data analysis

Regression analyses have to be performed to find answers on the second subquestion and the research question. Again, it is important to keep the control variables and moderating variables in mind.

An existing database of 2003 of organisations established in the US is used. First of all, the proper organisations have to be selected to perform our analyses on. It concerns family organisations that are managed by the owner.

Several measures are used to estimate firm size like total number of employees and total sales. Performance has different measures as well: return on assets, return on sales and return on equity.

The first relationship that is studied is the influence of performance on executive remuneration. This relationship was never significant. Performance is thus not an important determinant of CEO pay. However, there are control variables that are significant. It concerns the following: CEO gender (only when size is measured by total number of employees), executive education, organisation size and firm age. None of the moderating variables were ever significant.

The last part of this master's thesis regards the discussion and conclusions. Agency theory poses that remuneration can be used to align the interests of principals and agents. But in family organisations, this is not the case. Perhaps, more emphasis is put on emotions in family firms. An important remark has to be made when interpreting the results of the performed analyses. The endogenous relationship between performance and executive remuneration has not been taken into account. We only measure the influence of performance on compensation while at the same time, compensation influences performance. Therefore, it is possible that when performing these analyses by using the endogenous relationship, the relationship between performance and remuneration turns out to be significant.

The last items that are discussed are recommendations, limitations and suggestions for future research. There are recommendations towards the government, the authors of corporate governance codes and family firms. This master's thesis is brought to an end by describing limitations and suggestions for future research.

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Chapter 1: Contextualizing the problem

1. Problem statement

Remuneration is a very loaded subject (van Ees, van der Laan, Engesaeth & Selker, 2007). It has received a lot of attention lately because the bonuses, remuneration and severance pays are considered too high (Sengers, 2005). This tendency has also been stimulated by increased media attention (Arjoon, 2005). The high remuneration the managers received was to ensure that they would behave in the interests of the organisation. The goal of remuneration is thus to motivate the executive (Garen, 1994). However, this has not always been the case. As Eisenhardt (1989) poses, executives implemented often methods that were not in the interests of the organisation and its shareholders, only in order to enrich themselves. Recently, certain scandals have become known to the general public that caused scepticism on the subject. A well known example is the Enron case. This was an American company that mainly provided gas. In the beginning of the 1990's, Enron began to trade. It invested billions in water, telecommunication, internet, assurance, chemistry, metals and other products and services. However, the company spent more money than it earned. It made complicated constructions by using multiple subsidiaries and keeping the losses from appearing on the balance sheet. The management of Enron exaggerated the profits by a substantial amount. Moreover, they had too much freedom and made use of the ability to behave in their own interest. Instead of making real profits in the interest of the organisation and the shareholders, they had been using the company to boost their own remuneration (Deakin & Konzelmann, 2004).

Thus, given the concrete examples of misbehaviour regarding the remuneration of executives, the debate became even more relevant. For this reason, it became important to develop a framework. In order to guide the behaviour of organisations that are listed on the stock market, a certain code has been developed: the Belgian Corporate Governance Code. This code emphasizes the importance of the managers' responsibility and his behaviour. It was adapted in 2009, mainly because of the bank crisis, and states that the remuneration of executives must be reasonable and well-considered. The rules are recommendations and it is optional

to apply them. The code is drawn up according to the comply or explain principle (Boedts, 2009).
While the code mentioned above focuses on listed companies, there is also an code for private companies: the code Buysse. This code gives advise about the role, the functions and the composition of the board of directors. It also advises on the matter of the role, the nomination, the evaluation and the remuneration of the senior management. The external control and the role and involvement of the shareholders are also discussed. Furthermore, there are specific recommendations for family-controlled organisations and for a good control of the organisation (Corporate governance, 2010).

In most studies, the principal-agent theory has been the dominant theory when it comes to executive compensation (Fama & Jensen, 1983; Jensen & Meckling, 1976). In this context, the agency theory can be used to describe the relationship between agents (managers) and principals (shareholders). The fact that ownership and control are separated in an organisation creates a fundamental problem. The agency relationship can be defined as a contract in which the agent has to perform actions on behalf of the principal. In return, the agent receives some decision making authority to carry out his tasks. Assuming that both the agent and principal want to maximise their utility, we can surmise that the actions of the agent will not always represent the interests of the principal. Managers want to work less while being paid more, while the shareholders want to maximise the value of their investments in the organisation. Consequently, the question for shareholders is how to get the managers to earn back their own money (O'Reilly III & Main, 2005). The agency theory aims to settle these problems (Eisenhardt, 1989). Van Ees et al. (2007) have studied agency theory as well. They state that it gives an important insight into how to achieve an optimal contract. Furthermore, certain considerations have to be made in order to achieve an optimal contract.

As mentioned above, two problems result from agency theory. The first one stems from situations in which the goals or wishes of the principal and the agent do not correspond. Furthermore, in such situations it is difficult or expensive for the principal to control the agent (Jensen & Meckling, 1976; Carrasco-Hernandez & Sánchez-Marín, 2007). Saam (2007) states that the principal wants to maximise his returns while the agent aims to maximise his income. This can cause goal conflicts because the agent at the same time strives to minimize his efforts. The principal at his turn wants the agent to do the opposite so that the income of the principal will be maximised.

The second problem concerns risk sharing. This problem arises when the principal's and the agent's attitude towards risks does not match: they prefer different compensation schemes, i.e. behaviour-based versus outcome-based. Agents are assumed to be risk averse because their income is quite low in comparison to that of the principal. If there would appear an evolution of reducing his income, this could threaten his existence. Unlike the agent, the principal is able to diversify. As a consequence, the principal is supposed to be risk neutral. Furthermore, according to Saam (2007), there is also a third, informational problem in the principal-agent relationship. The agent is generally more able to acquire information or has more competences to accomplish the assignment which the principal cannot fulfil. Another possibility is that the agent can accomplish the assignment at a much lower cost.

Because the agent will not always act on the behalf of the principal, one can distinguish two mechanisms to make the agent act into the interest of the principal. First, the agent can be monitored to limit his freedom of movement and the principal can collect information on the actions the agent has to undertake (Jensen & Meckling, 1976). This way, it will become more likely that the agent will behave in the interests of the principal because the principal can control the actions of the agent (Eisenhardt, 1989). Secondly, Jensen and Meckling (1976) pose that the principal can also set incentives for the agent. Especially when it is difficult and expensive to monitor the behaviour of the agent, it can be useful to make use of incentive compensation systems. This systems can be used to make sure that the preferences of both parties match because the benefits of the principal and the agent depend on the same activities. When the agent acts in favour of the principal, he will receive a share in the returns. The goals of the principal will also be achieved because shareholder value will be created (Saam, 2007).

The compensation of the executives is composed of several elements (Cheffins, 2003; Bender & Moir, 2006). There are some short-term elements, but often the compensation of the executive contains long-term elements as well. Devers, Cannella, Reilly and Yoder (2007) pose that two aspects must be taken into account when considering compensation. The first aspect concerns the relationship between performance and compensation, which will discourage managers to behave opportunistic. According to this aspect, the interests match better when pay is related to performance because risk aversion is discouraged. The second aspect is the relationship between compensation and behaviour. When applying this aspect, one assumes that behaviour is influenced by pay and that this will eventually have an effect on the performance. Incentive pay will motivate the managers to undertake actions that are in the interest of the organisation and consequently are good for firm performance. The emphasis of my master's thesis will not be on this last aspect because it is based on psychological theories. I will thus focus on the influence of performance on compensation.

All the above is based on theory that explains the behaviour of managers in organisations that are not family-controlled. However, the debate regarding remuneration is also important in family-organisations, but less is known about it. The reason why compensation is also important in this kind of organisations is the following: family-controlled organisations also suffer from a kind of agency problem. In this case, the executive and the shareholder may have family bonds or are the same person. We have to keep in mind that there may be other motives than the purely economic ones. When the shareholders and the executive are related, this can lead to a different kind of behaviour. Because of the family ties, some expectations regarding the executive are based on emotions and feelings. The difficulty is to objectively examine the performance of the executive. It is possible for the principal to think that the agent will handle in the interests of the organisation while in reality, the agent pursues his own interests. Therefore, some incentives have to be assigned to the executive when he handles in the interests of the organisation instead of pursuing his own interests (Gomez-Mejia, Nuñez-Nickel, & Gutierrez, 2001). Gomez-Mejia, Larraza-Kintana and Makri (2003) state that little is known about the factors that have an influence on the financial compensation of CEO's in family organisations. According to these authors, the presence of a CEO with family ties to the company will have an effect on the height and composition of the compensation.

2. Research question

The focus of this master's thesis is to investigate the remuneration of CEO's in family-controlled organisations. To make conclusions to this thesis, the following research question has to be regarded:

"Does firm performance determine the CEO's remuneration in family-controlled private organisations?"

3. Subquestions

The subquestions that are mentioned below will help to find an answer to the research question. Each subquestion emphasizes a specific aspect of the research question and will help to solve it in a structural way. Thus, the following subquestions are formulated:

- Which kind of remuneration is most frequently used in family-controlled private organisations?
- Are there moderating variables that influence the remuneration of the CEO in family-controlled private organisations?

Because there is no question in the questionnaire to solve the first subquestion, we must find an answer with the help of our study of literature. This answer can be found in chapter 2.

We do have data that is gathered with the help of the questionnaire which makes it possible to formulate answers to the second subquestion. We are thus qoing to execute an empirical study.

Chapter 2: Study of literature

1. Agency theory

1.1 Agency theory

Fama and Jensen (1983) state in their study that an organisation is a collection of written and unwritten contracts between the owners of production factors and customers. These contracts clarify the rights of each agent within the organisation and describe the performance criteria on which each agent will be evaluated as well as the compensation they will receive.

Scholars in different fields have been using agency theory (Eisenhardt, 1989). The agency theory tries to explain the issues that arise because of the agency problem. This problem occurs when collaborating parties have different aims and a different division of labour. Particularly, agency theory attempts to explain the agency relationship in which the agent must do the work that is given by the principal (Jensen & Meckling, 1976).

Agency problems arise because of the separation of decision and risk bearing functions. The internal contracts of the organisation include the rights of the agents. The agents are evaluated on performance criteria and face payoff functions. The former issues are also included in the contracts of the organisation. The contracts that are central in the organisation offer an opportunity to explain why certain organisations survive. These central contracts explain the characteristics of residual claims and the several steps of the decision process between agents in the organisation (Fama & Jensen, 1983). Furthermore, these authors state that agency problems can exist because contracts cannot be formulated costless. The enforcement of these contracts is also not without costs. Agency contracts have to be structured and monitored. The contracts also have to be bonded among the agents with different interests. That is why agency costs occur.

Literature suggests that there are two problems that are possible to arise in the agency relationship. Agency theory tries to settle these problems. The first problem originates when the wishes or goals of the principal and the agent do not match and when it is difficult or expensive for the principal to oversee the achievements of the agent (Eisenhardt, 1989). Jensen and Meckling (1976) pose that if one assumes that both the principal and the agent act in their own interest to maximize their own utility, one can surmise that the agent will not always take actions in the interest of the principal. Saam (2007) states in her study that it is possible that, due to different preferences on both sides, goal conflicts may appear. The principal strives to maximize his returns, while the agent want his income to be maximal. They both want a maximal individual utility. The income of the agent and the returns of the principal are founded on both the effort of the agent and external elements. An assumption of the agency theory is that greater effort by the agent will result in a greater income. However, when the agent will put more effort in achieving his goals, the utility of the agent will diminish. With this in mind, the agent will maximize his income whereas he will minimize the efforts he has to make. This is in contrast with the needs of the principal. He wants the agent to maximize his effort in order to maximize his own income. The study of Eisenhardt (1989) poses that it is not possible for the principal to control the behaviour of the agent thoroughly.

The second problem is risk sharing. This kind of problem occurs when the attitudes of the principal and the agent differ. In this case, the preferences concerning the actions to be undertaken are different. In this theory, the unit of analyses is the contract that organizes the relationship between the principal and the agent. The agency theory focuses on the determination of the most efficient contract. The aim of this contract is to settle the relationship between the principal and the agent. In this relationship, we have to make certain assumptions. First, one must make assumptions about people. These involve that people act out of self-interest, that they have a limited rationality and that they are risk averse. Second, we have to make an assumption about an organisation. There can be goal conflicts among the different members in the organisation. Third, there is an assumption concerning information too. This assumption is that one can purchase information, because this is perceived as a commodity (Eisenhardt, 1989). The study of Saam (2007) mentions the following: a difference between the agent and the principal is that they have diverse risk preferences. They prefer different compensation schemes (i.e. behaviour-based versus outcome-based). One assumes that agents are risk averse. The income of the agent is quite low in comparison to the principal. If the income of the agent is reduced, this evolution will threaten the existence of the agent. While the agent cannot diversify, the principal can. That is why the principal is supposed to be risk neutral. Agency problems are the problems which originates from these goal conflicts.

Furthermore, other research states that besides the problems of goal conflicts and different risk preferences, there is also a third asymmetry in the principal-agent relationship. This asymmetry is called informational asymmetry. For both parties, it is logical to participate in the relationship. This is because the potential agent has more general information or has the competences to accomplish the assignment which the principal cannot fulfil. Another reason is that, when both parties have the competences to fulfil the assignment, the potential agent can accomplish the task at a much lower cost. Informational asymmetries can occur because the principal cannot monitor the competences, intentions, knowledge or actions of the agent or because the monitoring of these issues can only take place at high costs. The fact that there is asymmetric information is in favour of the agent because the principal needs additional information to determine the height of the compensation depending on the effort of the agent. The principal also needs information on environmental issues which have influenced the performance of the agent (Saam, 2007).

Agency problems have to be controlled. The reason for this is that when the decision managers and the shareholders are not the same person, they do not receive a substantial effect on the wealth of their decisions. When there are no efficient procedures that control the decision managers, there is a large possibility that they take decisions that will mostly benefit themselves. In such case, they do not act in the interests of the shareholders. Therefore it is effective for the control of the decision not to be executed by the same persons that manage the organisation. It can occur that a decision agent exercises control over a certain decision and manages another part of the organisation, but it cannot occur that the decision agent has exclusive management and control authority over the same decisions (Fama & Jensen, 1983).

1.2. *Agency theory in family-controlled organisations*

In the context of a family organisation, there is a variant on the agency problem because the executive and the shareholder are the same person or may have family ties with each other (Gomez-Mejia et al., 2001; Schulze, Lubatkin, Dino, & Buchholtz, 2001). In this case, we have to deal with other motives than economic motives as well. The family ties between the agent and the principal lead to different behaviour. The family bond involves a set of expectations that are probably based on feelings and emotions. That is why these kind of contracts have another rationality. These family ties can have different consequences. Some examples are rivalry between siblings, envy between generations, the power is not based on achieved but on ascribed status (Gomez-Mejia et al., 2001). Furthermore, it is more difficult to objectively examine the performance and qualifications of the family member (Gomez-Mejia et al., 2001; Schulze, Lubatkin, & Dino, 2003). Therefore, it is solid to state that in family organisations, the agents are not governed by contractual obligations. Instead, they are governed by informal agreements based on trust and emotions. Thus, the principal in this kind of organisations may hold positive believes towards the behaviour or motives of the agent. It is possible that the principal believes that the agent has the right motives and shows the right behaviour but in reality, there is a possibility that the agent pursues other motives than those that are in the interest of the organisation and the other shareholders. The presence of these family ties reduces the use of formal governance systems that are used in non family-owned organisations. Thus, we can state that the family bonds in an organisation lead to focus on emotions instead of focus on mechanisms that are likely to reduce agency costs (Gomez-Mejia et al., 2001).

Agency threats in family-owned organisations can appear in different forms. First of all, there is the possibility that the executive pursues other goals than the family goals. Thus, the goals that the executive wants to achieve, are not in the interest of the organisation. This problem is the problem of self-control (Gomez-Mejia et al., 2001; Schulze et al, 2001). Another problem is the problem of hold up. This can occur because family executives pursue their own desires and can make important decisions that influence the future of the organisation and the organisation itself. Executives in family organisations have an enormous amount of power, more power than usual, not only because of the skills they should possess but also because they are part of the family (Gomez-Mejia et al., 2001). The third problem is the problem of altruism. Here, the welfare of the agent is coupled with the welfare of other persons. The purpose is to satisfy simultaneously self regarding interests and interests regarding other persons. In this context, it can be explained why besides pursuing their own interests, owner-managers provide advantages to their relatives. Relatives often receive privileges that they otherwise never received (Schulze et al, 2001). But it is difficult to attain both self regarding interests and interests regarding other persons because the resources the owner-manager has, are limited (Lubatkin, Schulze, Ling, & Dino, 2005). The fourth problem that can appear is adverse selection (Gomez-Mejia et al., 2001; Schulze et al, 2001). In this case, managers that are selected to work for the organisation have not the required capabilities and competences. This problem is stronger in family organisations because the group where the managers has to be chosen from, is a lot smaller than the whole market of managers and there is more uncertainty about the qualities of the applicants. When wrong decisions are made, there is a possibility that the assessment of the executive will be positive. This can be the case because family status leads to a different perception about the competencies of the executive. Therefore, if decisions are made with negative consequences for the organisation, principals will hold factors outside the organisation responsible. The last problem that can occur is that the executive can take advantage of his equity. This way, the executive can give himself extra benefits so that the residual claims of other shareholders are reduced. Thus, executives can misuse their position to influence the decisions concerning the organisations to pursue their own interests (Gomez-Mejia et al., 2001).

2. Controlling agency problems

Generally, there are two mechanisms that can make the agent act in the interest of the principal. The first way to achieve this is by the principal monitoring the agent in order to limit his actions. To succeed in this goal, the principal has to bear the monitoring costs. As he will bear some of these costs, there will be some accordance between the decisions of the agent and the interests of the principal.

The second method involves the principal setting incentives for the agent (Jensen & Meckling, 1976).

2.1. Control

By using monitoring systems, the agent can be controlled. The principal can collect information on the activities that the agent has to carry out (Jensen & Meckling, 1976). According to Eisenhardt (1989), if the principal has information to oversee the agent's behaviour, it will be become more feasible that the agent behaves in the interests of the principal. Broadly speaking, there is no possibility that the agent will act on behalf of the principal at no cost (Jensen & Meckling, 1976; Fama & Jensen, 1983). The principal has to carry the costs if he wants to implement one or more monitoring systems. Examples are reporting procedures, boards of directors, budgeting systems and additional layers of management. It is however not possible to monitor the behaviour of the agent perfectly. Therefore, monitoring systems can best be complemented by incentive compensation systems (Saam, 2007). Denis and McConnell (2003) pose in their research that two types of governance mechanisms exist. Firstly, there are internal governance mechanisms. Examples are the board of directors and the ownership structure of the organisation. Secondly, there are external governance mechanisms. Examples of these are the takeover market, proxy fights, the legal system and the financial structure.

2.1.1. Internal governance mechanisms

2.1.1.1. Board of directors

The board of directors performs control on the management of an organisation. Shareholders take care of the election of the board because it is important that they look after their own interest (Hart, 1995). The study of Denis and McConnell (2003) confirms that the board of directors has the assignment to represent the interests of the shareholders. Hart (1995) poses that the board thus monitors the actions of the executives and gives a consent on major decisions. It is only in exceptional cases that the board replaces the CEO and the other managers of the company. The role of the board of directors is very important. Hart (1995) and Denis and McConnell (2003) both state that in practice, reasons to question the board can occur. Hart (1995) asserts that the board of directors consists of executive directors, who are active concerning the management, and nonexecutive directors, who do not participate in the management. Furthermore, Denis and McConnell (2003) state that it is possible that the CEO is also the chairman of the board. Therefore, it is hard to believe that some members of the board would control themselves. Moreover, the nonexecutive board members could also fail in controlling the management of the organisation for different reasons. First of all, it is possible that the nonexecutive board directors do not have a significant stake in the company and therefore do not gain much when the organisation performs very well. The second reason is that nonexecutive board members are often on a tight and busy schedule, so probably they have little time to keep a profound eye on the affairs of the organisation. The last reason is that the management has elicited that the nonexecutive board members have a position in the board of directors. Consequently, it is possible that the nonexecutive board members want to be loyal to the management and only speak positively of them so that they can keep their position in the board of directors (Hart, 1995). This last reason is also confirmed by the study of Denis and McConnell (2003).

2.1.1.2. Ownership structure of the organisation

On the whole, most cases show that ownership and control are not completely separated within an organisation. The people that perform the control of the management often own a certain amount of the shares of the organisation. Some owners that have large equity positions do have certain control over their organisations (Denis & McConnell, 2003). In general, small shareholders do not have much incentive to control the management or to undertake other actions to align their interests with the interests of the management. Therefore, it is useful that the organisation has one or more large shareholders (Hart, 1995). Denis and McConnell (2003) confirm this in their research. They state that the free-rider problem reduces the incentive for small shareholders to take actions. Hart (1995) poses that when a shareholder owns not all the shares, agency problems are reduced. First of all, a large shareholder who does not own all the shares will not monitor the management of the organisation for a hundred percent because he does not receive all the gains of the company. The second reason is that the large shareholder maybe wants to improve his own position instead of taking the interests of the smaller shareholders into account. This improvement of his position can be achieved by using his (voting) power. Denis and McConnell (2003) pose the conclusion that ownership structure is an important element concerning corporate governance.

2.1.2. External governance mechanisms

2.1.2.1. Takeover market

This external governance mechanism is used by public organisations. A hostile takeover can deliver a great reward to the person or organisation that takes over the underperforming organisation. Therefore, it is a powerful mechanism to discipline the management of an organisation (Hart, 1995). The large reward mentioned above is the result of a gap between the actual value of the organisation and the potential value. The threat of obtaining control over the organisation by external parties possibly provides the management with incentives to undertake actions that lead to a high value of the organisation. This mechanism has also a downside. If the management wants to maximise their empire, there is a possibility that they waste corporate finances. In this case, they possibly overpay a company when acquiring it rather than focusing on value creation for the shareholders (Denis & McConnell, 2003).

2.1.2.2. Proxy fights

A method to replace board members is a proxy fight. A dissident shareholder brings some candidates to stand against the current management of the company. Then, this shareholder tries to convince other shareholders to vote for the proposed candidate instead of voting for the current management. A disadvantage of this method is that it is not very effective when the company has a lot of small shareholders. The first reason for this is that there are free-riders. The dissident shareholder has to bear the costs for finding out that the organisation is underperforming. This shareholder also has to initiate the proxy fight and this brings some costs along as well. These last costs consists of figuring out the names and addresses of the current shareholders and mailing them and the persuasion of the other shareholders to vote on the proposed candidate. Therefore, a small shareholder is reluctant to undertake the process of initiating a proxy fight. Secondly, the shareholders may believe that they have little influence on the voting result so they are convinced that their vote does not make a difference. Last of all, the company sometimes finances the promotion of the managers (Hart, 1995).

2.1.2.3. Legal system

The legal system is viewed as an important corporate governance mechanism (Denis & McConnell, 2003). La Porta, Lopez-de-Silanes, Shleifer and Vishny (2000) state that when shareholders invest in an organisation, they obtain a set of rights. These rights are normally protected by regulations. The degree to which the laws of a country protect the rights of investors and the degree to which these laws are enforced to comply with are important determinants of the evolution of corporate finance and corporate governance in that country.

2.1.2.4. Financial structure

The last external governance mechanism to discipline the managers is the financial structure of the organisation. The choice of debt is meant by this. When an organisation has a large degree of debt, pressure is put on the management. This degree of debt puts limitations on the inefficiency of management when it plans to repay the debt. Thus, debt ensures that management acts in the interest of the organisation. Furthermore, it makes sure that management will not expand too much because current debts has to be repaid. Debt is only an efficient mechanism when there is a penalty when management goes in default (Hart, 1995).

2.2. Incentives

The second mechanism is the possibility that the principal uses reward systems (Garen, 1994; van Ees et al., 2007). Agency theory poses that the shareholders (principals) give the board of directors (agents) the task to attract, motivate and maintain directors that are most willing. This task can be accomplished by using efficient remuneration proposals. The design of efficient compensation contracts poses a problem of different interests of directors and shareholders. The remuneration contract can offer opportunities to motivate top executives to strive for the interests of the shareholders by providing extrinsic remuneration stimuli. In other words, an efficient remuneration contract minimizes the agency costs by making the compensation of top executives dependent of the results of the organisation (van Ees et al., 2007). Agency researchers state that incentives lead to alignment of the interests of the shareholders and the top managers (Devers et al., 2007). This is confirmed by the work of Saam (2007). She states in her research that when it is difficult and expensive to monitor the activities of the agent, it can be useful to implement incentive compensation systems. These systems ensure that the preferences of the agent and the principal match. This is because the rewards for both the principal and the agent depend on the same activities. When one creates an efficient incentive compensation system, the agent will receive a share in the returns. In this case, both parties are interested in high returns. However, when the reward system has to be implemented, the costs for the principal will rise. There will also be a risk for the agent. Thus, the principal has to make a trade off between the incurred agency costs and the increase in productivity.

The performance dependent component of the remuneration of executives has in accordance with the principal-agent approach increased in the two past decennia. The question is how and to what extent the remuneration contracts that depend on performance have an influence on (or guide) the behaviour of the executives. To what extent do the remuneration contracts give the right incentives? (van Ees et al., 2007).

When studying the influence of performance on remuneration, we observe that executive remuneration is seen as a reward for past performance. Often, this is called the pay-performance sensitivity. When this sensitivity is higher, this should normally lead to more aligned interests of shareholders and executives (Devers et al., 2007). The work of these authors asserts that, broadly speaking, one can distinguish three factors that have an influence on the compensation of managers.

First of all, there are principal-agent influences. Secondly, one should take into account the surprises concerning performance. Finally, there are governance influences. This last influence means that the governance structure of the organisation can have an influence on the relationship between performance and remuneration.

As mentioned above, literature suggests that owners of companies will aim to achieve situations that will benefit each party. This way, variable remuneration can help to attain the goals of each party as the agents will be involved in the risk of the organisation (Carrasco-Hernandez & Sánchez-Marín, 2007). Cheng and Firth (2006) publicise that high remuneration is necessary to attract the best managers. The authors mention that compensation should depend on performance. In addition, they also state that Chief Executive Officers (CEO's) often have a direct influence on their compensation.

2.2.1. Relationship between performance and compensation versus compensation and behaviour

As mentioned above, incentives can be used to control agency problems. But remuneration has several aspects. It is important to define which aspect of remuneration will be studied. The aspect that is chosen determines the point of view by which the results have to be interpreted. Therefore, two aspects can be identified: the relationship between compensation and performance and the relationship between remuneration and behaviour. According to Devers et al. (2007), there are two aspects concerning the compensation of executives. The first one is the relationship between compensation and performance. In the past, this aspect received most attention of researchers. This aspect has also a second subdivision. First, there is the influence of performance on pay. Compensation is viewed as a reward for past performance. Second, there is the influence of pay on performance. The first relationship will discourage managers to behave opportunistic because they are encouraged to act in the interest of the organisation. Compensation is then used as a tool to motivate the agent. The second aspect concerning the compensation of executives is the relationship between compensation and behaviour. Researchers start reasoning from the interest alignment but they make the assumption that compensation has an influence on behaviour. Furthermore, arguing from the point of view of interest alignment, they believe that alignment of goals and matching the risk preferences will both have an effect on the behaviour of the agent. In my master's thesis, the emphasis will not be on this second aspect because it is based on motivational theories that stem from psychology. In this case, remuneration is used to motivate executives. The emphasis will thus be on the influence of performance on compensation. This aspect is based on the agency theory.

2.2.2. Types of remuneration

This section will give an overview of the types of remuneration that are used in organisations in general.

According to Bender (2007), the components of the remuneration of the CEO are the following: a fixed base salary, an annual bonus (that can contain deferred elements), long-term elements and arrangements concerning pension and fringe benefits (like housing, group insurance, retirement benefits,...). Another source states that the compensation of executives generally can be divided into four parts. These four parts are: a base salary, an bonus (most of the times annual) which depends on the performance of the organisation, long-term incentive plans and stock options. Furthermore, this source states that CEO's also have special benefits like retirement plans (Oxelheim & Wihlborg, 2008). These components can be compared to the description of the components of Bender (2007). Therefore, our preference goes to this division and a description of the elements of that remuneration package will follow down below.

2.2.2.1. Base salary

This kind of salary is most of the times determined through benchmarking with market peers of specific industries. A lot of attention is devoted to the determination of this base salary even though this part of the remuneration declines. The attention that the base salary receives, has three reasons. First of all, the base salary is an important part of the employment contract. The second reason is that there are a lot of components of compensation that depend on the base salary. The last reason is that because base salary is a fixed part of the remuneration package, risk averse executives prefer a large base salary. Their preference goes not to a large increase in bonus because this depends on performance and therefore cannot completely be controlled (Oxelheim & Wihlborg, 2008).

2.2.2.2. Annual bonus plans

A lot of companies provide their executives an annual bonus that is based on the performance of the organisation. This kind of remuneration is used to align the interests of the principals and the agents. By making the compensation of the executives dependent on the performance of the organisation, the motivation of the executives must be triggered to work in the interests of the shareholders (Oxelheim & Wihlborg, 2008).

Furthermore, the annual bonus plan consists of three components which are the following: performance standards, performance measures and the structure of the pay-performance relation. The performance target is determined by the performance standards. There are a lot of performance measures used by organisations, but almost all use an accounting measure to determine the performance of the organisation. The last component, the pay-performance structures, indicate the relationship between remuneration and performance (Oxelheim & Wihlborg, 2008).

Banghøj, Gabrielsen, Petersen and Plenborg (2010) mention in their study that bonus plans can be ranked based on four unique characteristics. Firstly, the authors suggest that bonus plans that only depend on performance are of lower quality than bonus plans that depend on multiple criteria. Unless the performance criterion covers everything, one advises the application of more than one criterion, because this is often an incomplete or imperfect representation of the economic consequences of the actions undertaken by the management. The second characteristic is that bonus plans that take into account changes in accounting habits are of higher quality. Thirdly, the literature suggests that bonus plans that are based on external standards are of higher quality than bonus plans that are based on internal standards. Finally, linear bonus plans that are not limited are supposed to be of higher quality than other bonus plans. It can be concluded that bonus plans that show the above-mentioned characteristics are better designed and will deliver more value. These bonus plans should improve the pay-to-performance relationship.

2.2.2.3. Long-term incentives

A lot of attention in research on compensation went to long-term pay structures (Carpenter & Sanders, 2002). Long-term incentives can be defined by incentives that are dependent on the long-term objectives that are reached by the executive and the organisation. By making the long-term income of the executive dependent of these long-term performance goals, this executive will more likely behave in the long-term interests of the organisation (Crystal & Hurwich, 1986). According to agency theory, long-term incentives make sure that the interests of the executives are aligned with those of the shareholders (Jensen & Murphy, 1990). Long-term incentives are used to reward managers when they have met certain performance criteria for the long run (Baysinger & Hoskisson, 1990).

2.2.2.4. Stock options

The study of Baker (1940) states that stock options are contractual rights to subscribe for shares during a certain period of time. In other words, stock options are contracts that give a right to purchase shares during a certain time period. The price of these shares can be variable or fixed but the subscription of these shares is most of the times under advantageous conditions. Stock options can also be used when an executive has reached predefined objectives (Baker, 1940). More recent literature defines stock options as a right to buy shares from the organisation at a certain price at a certain moment in the future (Johnson, 2000). According to this literature, an organisation uses this kind of remuneration to align the interests of the executives with the interests of the shareholders and the organisation. The price of the shares will rise if the organisation performs well and like this, the executive is rewarded for his efforts. A second reason that Johnson (2000) gives is that it stimulates management to take more risks. When the compensation of the executives is tied to the performance of the company, stock options will trigger management to take more risk. As a result, when the share price goes up, the shareholders will benefit from this more risk taking behaviour. The last reason this author mentions is that when stock options are given to the management, they tie this management to the company. It is possible that the stock option plan stipulates conditions that must be fulfilled when exercising the stock option. A condition can be that the executive still must work at the organisation. Therefore, an executive will think thoroughly about his decision to leave the company. The last reason Johnson (2000) gives to use stock options is that this kind of compensation can attract new and capable executives when companies are started up. When organisations have a lot of growth potential, stock options can attract capable executives.

2.2.2.5. Special benefits

The work of Oxelheim and Wihlborg (2008) includes retirement plans in the part of the special benefits of the compensation plan. A study on fringe benefits in small businesses in the United States concludes that organisations have an important role in providing pension savings and health insurances (Bernstein, 2002). Other research states that fringe benefits can be explicit or implicit. On the one hand, the implicit benefits consist of shortened working hours, more education, more freedom in decision making and prestige. The explicit benefits on the other hand comprise of insurance policies, club memberships, professional allowances etc. (Liang, 1997). A recent study describes some examples of the special benefits an executive may receive. The examples given are dental, medical and life insurance, profit sharing, extra training and profit sharing (Lowen & Sicilian, 2009).

2.2.2.6. Other divisions

Besides the division that is explained above, there are also other ways to divide executive remuneration. Baber, Janakiraman and Kang (1996) decompose in their research executive compensation in five parts: salary, long-term incentives, cash bonus, value of stock options and the restricted stock granted during the year. Stock and stock options are an important component of executive remuneration (Garen, 1994).

Other literature states that the compensation of the executive contains several elements. Often will the short-term elements of the compensation of the executive include an annual bonus scheme, with both individual and corporate performance targets. The compensation of the executive often contains some longer-term elements too. Those elements can comprise a share option scheme or some other form of long-term incentive plan (Cheffins, 2003; Bender & Moir, 2006). Agency theory states that the agency problem can be reduced when the executive owns shares (Bender & Moir, 2006). Furthermore, it is also possible that the executive receives perks and a pension (Cheffins, 2003; Bender & Moir, 2006).

The remuneration package of managers of public organisations consists normally of a fixed and a variable part that can be divided in short term and long term components. The non-variable part of this package is determined by means of benchmarking to a reference group of organisations and internal remuneration rates. The short term variable part is on the one hand determined by performance and on the other hand related to personal and qualitative objectives. The height of this short term variable remuneration is in general abstracted of the fixed part of the year salary. Remuneration on the long term is usually provided in the form of option- and/or stockplans. This remuneration on the longer term is practically always coupled with predetermined performance goals, that sometimes are linked with the performance of the organisation. Generally, the fact that stocks and options are provided, is related to measurable financial goals (van Ees et al., 2007). The book of the Institute Belgian Governance (2007) uses another division. They state that variable remuneration is used to reward performance. It can reward performance on the short-term (one year) or performance on the long-term (three years or more). Therefore, we use the terms short-term incentives and long-term incentives.

Bonus is another word for short-term incentives. This kind of incentives stands for the relationship between the performance of the organisation and the reward. In most cases, executives receive a bonus yearly. In advance, the bonuses are reported and expected performance is stated. The requirements executives must fulfil are financial and non-financial, relative and absolute. The measures are stated on the level of the individual, the business unit or the organisation. Most organisations choose to pay out the short-term incentives in cash. Others pay it in shares. Moreover, some organisations pick out the method of pension procurement (Institute Belgian Governance, 2007).

According to the Institute Belgian Governance (2007) long-term incentives deal with a period of three years or longer. The payout can be related to shares or to cash. An organisation can provide stock options or shares. Another possibility, which is cash related, is phantom stock or performance units. The difference between these two concepts is the following. Phantom stocks lead to a payout of dividends although there are no shares where the dividends are based upon. The remuneration can also depend on the evolution of the value of equity of the company. In the case of performance units, the executive receives a certain amount of so called units at which the value of the units is determined by the performance of the organisation over several years.

2.2.3. Compensation mix in family organisations

In this section, an answer will be provided on the first subquestion of our problem statement. This question is the following: "Which kind of remuneration is most frequently used in family-controlled private organisations?".

There are not much authors that have studied this matter. Therefore, the body of this part of the literature is rather small. The research of Baeten and Dekocker (2007) shows that the components of the remuneration of executives in family organisations are the following: a fixed salary, bonuses, pension plans, life insurance, hospitalisation insurance, a disability insurance, a company car, meal vouchers, expense allowance, pay that is related to shares and dividends. This can be compared with the division Bender (2007) and Oxelheim and Wihlborg (2008) made with the exception of stock options.

2.3. Benchmarking

It is relevant to include benchmarking in this master's thesis because it is an important aspect of the determination of remuneration. Here, the composition and the levels of remuneration are compared with the market. By using benchmarking proactively, the organisation states in advance the remuneration level and package. The organisation takes into account the market as well. This is mainly on the level of compensation of the executive. In this aspect, the definition of the market is quite important. Which definition of the market is used? Is the size of the other organisations the most important factor? Maybe the industry, the location, the profitability or other factors matter? The variable on which the comparison is made must be described. When market comparisons are made, the variable compensation and other advantages the executive receives must also be taken into account. Organisations can use their variable compensation and advantages to take a better position in the market concerning remuneration (Baeten & Dekocker, 2007). By using other organisations as a benchmark, executive remuneration is tied to the compensation levels and composition of comparable CEO's. Of course, it is important to use appropriate organisations as benchmark. Benchmarking can thus be a mechanism to control agency problems.

2.4 Remuneration committee

Because remuneration committees have a function in determining executive compensation, it is important to discuss them. Clarke, Conyon and Peck (1998) pose in their study that remuneration committees exist because they avoid conflicts. There is the possibility that there appear conflicts between the interests of the shareholders and the board of directors. The board of directors should establish remuneration committees that consist of non-executive directors. These non-executive directors should determine the policy of the organisation concerning the remuneration of executives. This is all determined within a framework of agreed terms. Cavalluzzo and Sankaraguruswamy (2000) state that remuneration is determined by a remuneration committee, which has the responsibility to develop a remuneration contract for the executive. Furthermore, in the study of Clarke et al. (1998), the authors state that the committee is dependent of the quality of the information it receives. The information comes from inside and outside the organisation. In this context are professional advisors the outsiders. Baeten and Dekocker (2007) state in their research that the remuneration committee consists of being a formal institution that monitors the remuneration of the executives.

O'Sullivan and Deacon (1999) pose that remuneration committees have the role to give recommendations to the board on executive remuneration. Furthermore, they assert that the most important role of this committee is determining the suitable remuneration package for the executives. Cavalluzzo and Sankaraguruswamy (2000) mention that in the case of privately-owned organisations, some investors will perform this role. Therefore, remuneration committees can help to align the interests of the organisation and principals with the interests of the agents.

3. Corporate governance codes

Corporate governance codes prescribe which executive behaviour is desirable. Codes include among other things the desirable behaviour concerning executive remuneration. Therefore, it is important to discuss the corporate governance codes in this master's thesis as well.

Because it is important that the executives in organisations behave in an appropriate manner, a framework is developed. In Belgium, two codes of corporate governance is made publicly so that the executives and shareholders can see what exactly appropriate behaviour is. These codes state that the executives of a firm have different responsibilities towards the share- and stakeholders. The rules that are described in the codes are just recommendations and it is optional to apply them. The recommendations are drawn up according to the comply or explain principle (Boedts, 2009; Corporate governance, 2010).

Firstly, there is the Belgian Corporate Governance Code. The field of application of this code is publicly listed companies. This code is widely spread in Belgium. The first version of this code was published in 2004 (Corporate governance, 2004). This code was adapted in 2009. The main reason for this adaptation is the bank crisis. The primary adaption is that the compensation of the executives must be well-considered and reasonable (Boedts, 2009). Furthermore, the remuneration policy of organisations must be transparent. This policy fits in the idea of reliable and solid directing the organisation (Belgische Corporate Governance Code 2009, 2009; Corporate governance, 2010).

The second code, code Buysse, gives some recommendations concerning private firms. This code advises on the role, the composition and the different functions of the board of directors. Furthermore, the code also gives recommendations concerning the role, the nomination, the evaluation and the compensation of the senior management. The involvement and the role of the shareholders is reviewed as well. The code gives also some information concerning the external control of the organisation. Code Buysse discusses also some specific recommendations concerning family-controlled firms. There are recommendations for a good control of the firm as well (Corporate governance, 2010). Code Buysse is the first code in the world that has a chapter concerning family organisations. Of course each organisation has its own demands concerning corporate governance, especially family organisations and SME's which require practical and flexible solutions for their problems (Code Buysse II, 2009).

4. Family charter and family forum

Because Code Buysse defines what desirable behaviour is in family organisations, it is relevant to involve this code in this master's thesis. Furthermore, Code Buysse gives recommendations concerning well-considered and reasonable executive remuneration and also mentions that a family charter and family forum should be established in family organisations. Therefore, these two mechanisms are explained below.

4.1 Family charter

In a family charter, several rules are written down so that the members of the family can hold on to these rules. It is important to state rules concerning the values and the vision of the family, the properties of the family organisation, the financial goals of the family, the careers in the organisation and the compensation of the family members that work in the organisation. Furthermore, it is important as well to state the governance of the organisation, the leadership in the organisation, the communication, the education of the family members and the role of non family members in the organisation. It is useful that the charter is legally binding (Code Buysse II, 2009).

As mentioned above, clear arrangements are useful to prevent or solve potential conflicts. All the family agreements concerning the family organisation, should have to be written down in a document named the family charter. This contains the rules, values and the objectives of the organisation. The duties and the rights of the family should be expressed in this document as well. When a conflict arises, the family charter possibly can offer a solution (Voordeckers & Van Gils, 2003). A web site states that the family charter is important for the family to formulate. It is a structure that is drawn up to pursue the long term goals of the family. It is a governance structure that contains the norms of the family. By this charter, the family values and culture is maintained (The Cost of Control: Managing the Growth of Family Businesses, 2007). An other web site states that the rules are described in this charter. The values and visions of the family are outlined in the family charter. Arrangements concerning the structure of the shareholders, the voting rights, employment, careers, leadership, directors, the role of the non family members, etc. are covered as well. When the charter is signed, the family forum gets more stringent. It is more difficult to not follow the forum when the charter is signed because a written engagement is more binding. In the case of legal disputes, is it possible that the judge will keep some family arrangements in mind (Dierick, 2011).

4.2 Family forum

Code Buysse recommends that certain kinds of organisations set up a family forum. The purpose of a family forum is to simplify the communication in a family organisation and to provide information concerning the organisation. The foundation of the forum is an important matter when the shares of the organisations are owned by different family members or when different branches of the family own the shares. It is important to set up a forum when within one branch of the family several generations are involved in the company (Code Buysse II, 2009). Other literature states that a separate governance mechanism is desirable in family organisations. Good governance is important concerning the capability of the organisation and the division of the family. Thus, a family forum is important when aligning the corporate and private governance. This governance system helps to gain the confidence of non active (future) shareholders. This forum has no legal power but nevertheless, it tries to improve the relationships between the family members. Furthermore, its purpose is to advance and to steer the relationship between the family and the company as well. It wants to stimulate communication and discussion and wants to improve commitment towards the organisation. Its purpose is to lead to a stronger board of directors that keeps an eye on the family values and controls conflicts. Therefore, the family forum strongly connects the family with the organisation (Dierick, 2011).

5. Private family-controlled organisations

5.1 Definition

Gomez-Meija, Larraza-Kintana and Makri (2003) imply in their study that a family-controlled organisation is a company in which there are family ties between the agent and the principal. Carrasco-Hernandez and Sánchez-Marín (2007) consider in their research family firms as organisations that are managed and owned by a family. Other authors pose that family businesses can be defined by organisations where the management is also the owner. In this kind of organisations, the family is also a part of the firm (Churchill & Hatten, 1987). Baeten and Dekocker (2007) come to the same conclusions as these authors. Churchill and Hatten (1987) state in their study that a family organisation can be viewed as certain interactions between systems. These systems are the following: the organisation, the family and the ownership. Baeten and Dekocker (2007) conclude in their research that each decision in a family organisation is determined by the following three dimensions: family, management and ownership. Furthermore, these authors pose that generally, a family company is defined by an organisation that is controlled by the family. The organisation possesses a unique bundle of resources that originates from the interaction of these three systems (Habbershon & Williams, 1999).

Other authors pose that family firms are often described as organisations that are dependent on altruism within the family. This means that they are considered to be unselfish and devoted towards other persons without expecting a return for themselves. Furthermore, this kind of firms are based on mutual trust so that the different parties in the organisation can rely on each other. In family firms, there is a lot of collegiality between the members of the family (Corbetta & Salvato, 2004). According to Sorenson, Goodpaster, Hedberg and Yu (2009), a distinguishing characteristic of family organisations is that their social structure is composed of certain norms and beliefs. In most cases, family organisations use their social structure to control the members of the organisation. This control element is used instead of or supplementary to formal organisational structures. James (1999) mentions in his study that family ties between the members of the organisation lead to certain advantages in terms of organisation of the firm. These family ties work as a kind of control mechanism. This is the opposite of non family organisations, where there are formal, contractual relations.

5.2 Past research

Past research on private organisations includes only a few variables. Limited data is available to test hypotheses on. This is a source of including a limited amount of variables (Banghøj et al., 2010). Reseach of Core, Holthausen and Larcker (1999) do not take into account executive characteristics in their research. Other research ingnores characteristics concerning board and performance of the organisation (Cole & Mehran, 2010).When one includes only some characteristics, it is possible that those that have not been measured cannot function as a complement of substitute (Banghøj et al., 2010). Gomez-Mejia et al., (2003) pose that little is known about the factors that influence the financial compensation of CEO's in family organisations. However, the study of these authors shows that when a CEO has family ties with the company, this produced an effect on the height and the composition of the compensation.

The management of family-controlled organisations is often in the hands of the founder or the second of third generation of his family. The family is generally speaking also well represented in the board and the family members often hold the positions such as chairman of the board or CEO. When the family has most shares of all shareholders, it possesses a lot of power. They could benefit from the actions

they take while the minority shareholders suffer disadvantage. Good corporate governance should prevent that managers act in such a way, but this is difficult to achieve when the management owns the shares (Cheng & Firth, 2006).
When the concentration of ownership is high, it will be easier to fit the interests of the owners in family owned companies than those in non family owned companies. Concerning the risk, owners of family organisations run a greater one. This is because their investment is not diversified. They possess a big part of the ownership and they are less in control because the company is guided by professional management. In non family organisations, the risk will be smaller for the owner since there are more opportunities to diversify (Carrasco-Hernandez & Sánchez-Marín, 2007).

Moreover, the compensation of a CEO who is a family member varies greatly in comparison to that of a CEO who is not part of the family. The differences are determined by the following factors: the presence of big institutional shareholders, the level of investments in R&D and the exposure of the company towards the systematic risk. The conclusions of the research by Gomez-Mejia et al., (2003) confirm that family ties between the principal and the agent have a big influence on the height of the compensation.

Cole and Mehran (2010) pose in their study that there are several reasons for the difference in executive remuneration at public and private organisations. The first reason is that the composition of the board of directors is different at public and private organisations. This board sets the pay of the executives. The board usually comprises five to twenty members at public firms. Some members of this board are also member of the compensation committee that sets compensation. The reference for this compensation is the pay at comparably sized firms. At private organisations on the contrary, the board of directors usually consists of one member: the CEO. If the board is larger, the family members of the CEO are also part of it. As a consequence, the CEO of a private organisation is able to set his own pay. This has also the implication that CEO characteristics (age, education, gender) play a greater role in explaining the remuneration of the CEO at private organisations that at public firms. The second reason is that regulators, large block holders of debt and equity and the media keep an eye on public organisations. The media does not monitor the private corporations because according to them, they are not important enough to catch their attention. The money that is borrowed by diverse parties to the organisation is thus important. At private organisations, the leverage is important in determining the remuneration of the CEO. Moreover, the relationship between leverage and compensation should be inverse. The third reason is that at public organisations, often there are a lot of shareholders. The interests of these shareholders are represented by the board of directors. The situation is different in private organisations. The controlling shareholder, who has in the sample of Cole and Mehran (2010), on average 70% of the shares, and the other shareholders, who usually are family members, are represented by the board. A consequence of this distribution of ownership is that as ownership increases, the incentive to take more compensation decreases. The fourth reason is that at public organisations, the conflict between agents and principals occurs between minority shareholders and CEOs who have not much shares. In private organisations, the conflict between principals and agents is concentrated on the majority shareholder, who is usually the CEO, and the minority shareholders. These minority shareholders are typically family-tied to the CEO. Last of all, the CEO who is also majority shareholder of a private organisation will normally not react to changes at the labour market because the ownership interests are more important than these changes.

6. Conclusions

There are several problems resulting from agency theory. The agency problems are different in family organisations than in non family organisations. This is because the agent is at the same time the principal of there are family ties between the agent and the principal. This makes it more difficult to be objective concerning the performance of the agent.

As this chapter suggests, there are several instruments to try to solve agency problems. There are internal and external governance mechanisms. The internal governance mechanisms include the board of directors and the ownership structure of the organisation. Among the external governance mechanisms are the takeover market, proxy fights, the legal system and the financial structure of the organisation. Next to these mechanisms, there are also other ways that have the purpose to guide the behaviour of executives in organisations. Corporate governance codes contribute to this as well. Code Buysse, the code for private organisations, gives recommendations concerning good executive behaviour. The code gives also some advice concerning well-considered and reasonable executive compensation. Remuneration committees are an important aspect in this debate as well. They determine the policy of the organisation concerning executive remuneration.

We have found an answer to our first subquestion with the help of our study of literature. The question was which kind of remuneration is most frequently used in family-controlled private organisations. The results of our study of literature indicate that the remuneration of executives in family organisations consist of several components: a fixed salary, bonuses, hospitalisation insurance, a disability insurance, life insurance, pension plans, a company car, expense allowance, meal vouchers and pay that is related to shares and dividends.

Chapter 3: Hypotheses

Hypotheses have to be constructed to perform our research. This way we try to find an answer to our research question and subquestions. When we look at existing literature on executive remuneration, we can deduce following hypotheses.

1. Pay-for-performance sensitivity

First, a general hypothesis is formed concerning the relationship between the performance of the organisation and the remuneration of the CEO. Agency theory predicts that there is a relationship between the remuneration of the CEO and the firm performance because this would be an optimal contract that would make the executives act in the interests of the shareholders. Thus, shareholder wealth is increased in this way (Jensen & Murphy, 1990). In the context of family organisations, we can see that family ties between the agent and principal can lead to different behaviour than expected. Because there are these family ties, it is more difficult to objectively examine the performance of the agent. Thus, it is possible that in these kind of organisations, the principal holds incorrect positive believes towards the behaviour and motives of the agent (Gomez-Mejia et al., 2001). Therefore, it is important that just like in non-familly controlled organisations, the pay of executives in family organisations is tied to their performance. This way, the remuneration the executive receives is objectively determined.

According to the research of Tosi, Werner, Katz and Gomez-Mejia (2000) concerning agency theory, there should be a relationship between the performance of the organisation and the compensation the CEO receives. There is a positive relationship between the return on equity of an organisation and the remuneration of the executives. Furthermore, there is also a positive relationship between the return on assets the firm has and the compensation of the executives (Tosi et al., 2000). According to other research, the rise in fixed remuneration of executives that are related depends largely on individual and firm performance. Furthermore, the bonus of the executives that are family members depends most on the performance of the organisation (Baeten & Dekocker, 2007). This can be explained by the agency theory described in the study of literature: by behaving in an appropriate manner, an incentive can be provided to stimulate this behaviour even more. Other literature that examined the pay-to-accounting performance in private organisations concludes that there is a significant positive relationship between performance and remuneration, more specific between remuneration and return on assets en between compensation and the sales-to-assets (Cavalluzzo & Sankaraguruswamy, 2000). That is why we formulate the hypothesis mentioned-below:

Hypothesis 1: "Firm performance has a positive influence on the remuneration of executives in private family firms".

2. Measuring other direct effects on remuneration

2.1 Characteristics of the CEO

Performance is an important determinant of remuneration (Baeten & Dekocker, 2007), but there is literature that poses that there are also other variables that have a direct influence on the remuneration of executives. To make sure that the analysis here performed is more complete, we must take these variables into account as well. Some authors state that gender has an influence on the remuneration an executive receives (Cavalluzzo & Sankaraguruswamy, 2000; Cole & Mehran, 2010). These authors pose that male executives earn more than their female counterparts. Furthermore, there are authors who verify that education is an important determinant of compensation as well. Moreover, education is supposed to have a positive effect on executive pay (Cole & Mehran, 2010; Banghøj et al., 2010). Baeten and Dekocker (2007) and Cole and Mehran (2010) mention in their studies that age is also an important factor when determining the remuneration of executives.

2.2 Characteristics of the organisation

Besides characteristics of the CEO, there are also the characteristics of the organisation that influence the pay of the executive. Literature proves that the size of the organisation is an important factor that influences the remuneration of executives (Demsetz & Lehn, 1985; Lippert & Moore, 1994; Schaefer, 1998). The age of the firm is supposed to have an influence of the compensation of executives as well (Gomez-Mejia et al., 2003).

3. Moderating influence on the pay-performance relationship

Besides variables that have a direct influence on the compensation of executives, there are also moderating variables that influence the relationship between performance and pay. These moderating variables are described below.

3.1 Characteristics of the CEO

3.1.1 Tenure

Fama (1980) states in his study that incentives in the compensation contract of executives are more important when these executives nearly are retired. The threat of other managers does not matter much because the executives are close to their retirement or have a lot of experience. Thus, executives that have more tenure, should be motivated by incentives to perform well. The statement mentioned above was confirmed by other studies. Here, the conclusion was that executives who have more tenure and are close to retirement have compensation contracts which strive at aligning the interests of the principal and the agent (Lippert & Moore, 1994). From this literature, the following hypothesis can be formulated.

Hypothesis 2: "The relationship between pay and performance in stronger when the CEO has more experience."

3.1.2 CEO founder

There is literature that suggests that the remuneration that is based on performance differs remarkably between a founder and a non-founder executive. The reason for this finding is that they possibly have different incentives. Founder CEO's could have implicit incentives or maybe have a larger equity stake in the organisation (Engel, Gordon & Hayes, 2002). Other literature on executive compensation suggests that the relationship between performance and pay is influenced whether the CEO founded the organisation (McConaughy, 2000). This study concludes that the remuneration of a CEO's who founded the organisation is smaller than that of a CEO that is not part of the founding family. Furthermore, the author poses that compensation-based incentives are more used when the CEO is not part of the founding family. This result is consistent with the agency theory on family-controlled organisations that suggests that CEO's that are part of the founding family, have other incentives. As a result, they do not need as much incentives than their counterparts who are not part of this founding family. Other research, namely that of Gomez-Mejia et al. (2003), confirms these conclusions. These last authors find that the total remuneration of CEO who are not part of the family is higher than the compensation of CEO's which do have these family ties. Furthermore, this relationship gets stronger when the ownership of the family increases.

Gomez-Mejia et al. (2003) mention three reasons for this relationship between performance and compensation. First of all, when the CEO is a family member of the shareholder, these family ties provide some emotional benefits. Moreover, the CEO wants to perform well in the interest of the organisation. The second reason is that a CEO that is part of the family will have more job security than a CEO who is not part of that family. Agency theory indicates that when assuming that agents are risk averse, a family-member-CEO possibly is willing to trade a part of his remuneration for more job security. The last reason is the following. Because the presence of these family ties, those CEO's will in most cases stay in the organisation even though more pay is offered in other organisations. Therefore, the remuneration of these family CEO's does not have to be the same as the compensation that the CEO's receive on the market.

From all this evidence above, the following hypothesis can be formed:

Hypothesis 3: "The relationship between pay and performance is stronger when the CEO is not the founder of the organisation."

3.2 Characteristics of the organisation

3.2.1 Ownership concentration

Literature suggests that the concentration of ownership is negatively related to the sensitivity between pay and performance (Kraft & Niederprum, 1999). Other authors that examined the influence of the concentration of institutional investors posed that there is a positive relationship between the sensitivity of pay to performance and the concentration of institutional owners (Hartzell & Starks, 2003). It is more plausible that the ownership concentration is negatively related with the pay-performance sensitivity. The rationale behind this reasoning is that the higher the amount of owners, the lower the control on the management. The behaviour of the executives thus has to be controlled by providing the attractive incentives. This is consistent with agency theory. Cavalluzzo and Sankaraguruswamy (2000) examined whether there is a relationship between the ownership structure and the sensitivity of executive compensation to accounting performance. They conclude that the sensitivity of compensation to performance increases as there are more shareholders. Therefore, we can draw up following hypothesis.

Hypothesis 4: "The relationship between pay and performance is stronger when ownership of the organisation is not concentrated."

Chapter 4: Methodology

1. Description of the survey

The National Opinion Research Center at the University of Chicago has conducted the Survey of Small Business Finances in 2003. The purpose of this survey was to collect information on organisations which would form a representative national sample of over 4000 organisations. Briefly stated, the survey had the intention to collect more information on small organisations concerning their credit experiences, their financial relationships, their income and balance sheet information, their lending terms and conditions, the location and types of financial institutions that they have used and other characteristics of the organisation.

In our analyses, we do not use all the examined variables. We only use in our analysis information concerning the total employment of the organisation, personal characteristics of the owner(s) of the organisation like education level, experience, age and gender. This section also contained information concerning ownership concentration, age of the organisation and whether the organisation was established by the current owner(s). The information already mentioned is asked in the first section: characteristics of the firm.

We use some information of the financial statements of the organisations as well. We deduct the profits and the sales of the organisation and the remuneration of the executives from another part of the survey. When the respondents were not able to give the precise amount of profits, sales or remuneration, they could make an estimate. In the case that the respondent also refused to make an estimate, the interviewer asked which range was closest regarding the amount of the organisation. All this information can be found in the third section of the questionnaire: income and expenses.

Information on the balance sheet is useful in our analyses as well. We make use of information on the total assets of the organisation which can be found in the fourth section: balance sheet, credit history and respondent payment.

2. Description of the sample

The population of the sample of the Survey of Small Business Finances had some criteria that the organisations should meet. First of all, the organisations included must have fewer than 500 employees. The second criterion is that the firm is at the enterprise level. This means that only organisations that are not divisions, subsidiaries or branches of a parent firm were included in the sample of this survey. The organisations must have the purpose to make profit and are not allowed to be governmental, financial or agricultural. The last criterion the organisations have to meet is that these organisations must have been operating on the 31th of December 2003 under 1 or more of the current owners. Furthermore, it is necessary that they are in operation at the date of the interview.

Our sample has to meet additional criteria as well. The first criterion is that the organisation must by family owned. Organisations that are family owned are picked out of the sample to perform our analysis on. The CEO must also be the owner of the organisation. Like this, there is information available concerning the age, the gender and the education of the CEO. Thus our sample contains family organisations that are managed by the owners.

3. Description of the method of analysis

Several regressions will be performed to estimate the relationship between performance and compensation of the family CEO. These regressions estimate the direct relationship between performance and compensation but also the influence of other direct variables on family CEO remuneration. Other regressions that are performed estimate the effect of moderating variables on the relationship between performance and CEO compensation.

4. Description of the variables

4.1 Dependent variable

According to the study of literature, the remuneration of the family CEO depends on several influences like performance, age of the CEO, age of the organisation etc. Thus, we can conclude that family CEO compensation is the dependent variable in the regression analyses which we will perform.

Officers' compensation is measured by question P5_5. The question is the following: "For the fiscal year ending [DATE]), what was the total amount of [officers' compensation/guaranteed payments to partners]?".

4.2 Independent variable

The remuneration of the family CEO depends according to literature on his or her performance. Performance is measured in our regression by return on assets, return on equity and return on sales. This variables are not given, but we can easily calculate them. For example, return on assets is calculated as the profit of the organisation divided by the total assets of the organisation.

Question PROFIT concerning the profits of the organisation is the following: "Profit is the firm's income after all expenses and taxes have been deducted. What was ([FIRM]'S) total profit or loss for the fiscal year ending [DATE]?". The total assets of the organisation are measured by question R12. This question is formulated as: "As of [DATE], what was the total dollar amount of all assets of the firm?". The equity of the organisation was measured by question S_EQUITY. The question is the following: "What was the total amount of firm's equity?". The last variable we have to describe in this section is the total sales of the organisation. This is measured by question P2. The formulation of the question is: "(For the fiscal year ending [DATE]), what were ([FIRM]'s) total sales or total receipts?".

4.3 Control variables

Other variables besides performance have an influence on CEO compensation as well. It is important to include these influences in our regression to get reliable results. Concerning the characteristics of the CEO, gender, education and age of the executive are important determinants of remuneration. But there are characteristics of the organisation that have an influence on CEO remuneration as well. These are the size and the age of the organisation. We measure firm size by total sales or the number of employees.

Gender, age and education of the CEO had to be deduced from other variables that were measured in the questionnaire because we used the gender, education and age of the owner that does the daily management in the organisation. We deduced gender from variables C_FEMALE_1, C_FEMALE_2 and C_FEMALE_3. The question in accordance with these variables is: "Is [OWNER 1] female or male?". The same question is asked for owner 2 and 3 if these exist. Concerning the age of the executive, question C_AGE is relevant: "How old is [OWNER 1]?". The same question is formulated for owner 2 and 3. Education is asked by question C_EDUC: "What is the highest level of school [OWNER 1] has completed or the highest degree [OWNER 1] has received?" There were 7 possible answers on this question: 1) Less than high school degree (grade 11 or less); 2) High school graduate or equivalent (GED); 3) Some college but no degree granted; 4) Associate degree occupational/academic program; 5) Trade school/vocational program; 6) College degree (BA, BS, AB, etc.); 7) Post graduate degree (MBA,MS,MA,Phd,JD,MD,DDS,etc.

The variables concerning the characteristics of the organisation are deduced from the questionnaire as well. The age of the organisation is asked by question CF_FAGE: "How many years ago was the business [established/purchased/acquired] by the current owner(s)?". The size of the organisation can be measured by several variables like total sales or the number of employees. Therefore, the total sales are, like mentioned under section 4.2 of this chapter, measured by question P2. The question is the following: "(For the fiscal year ending [DATE]), what were ([FIRM]'s) total sales or total receipts?". Total employees is asked by question A_TOTEMP: "Total number of employees?".

4.4 Moderating variables

The literature states that there are variables that influence the relationship between performance and executive compensation. It is important to determine whether and which influence these variables have on CEO remuneration. This way, we want our results to be as complete as possible.

Executive tenure is deduced from the experiences of the owners. The questions concerning this owner experience are C_EXPER_1, C_EXPER_2 and C_EXPER_3. The formulation of this question is: "How many years of experience has [OWNER 1] had managing or owning a business, including this business?". The second moderating variable is the founder CEO. This is measured by question CF_ESTAB. The question is: "[Did you establish this business/Was this business established by the current owners], or was an existing business purchased, inherited, or acquired as a gift?". This question has four different answers: 1) Established by current ownership; 2) Purchased; 3) Inherited of acquired as a gift; 4) Publicly traded. This variable is recoded as the section concerning data cleaning describes. The last moderating variable is ownership concentration: CF_OWNERS. This is questioned as: "Number of owners?".

Chapter 5: Data analysis and discussion

1. Data cleaning

The first step in our analyses is data cleaning. We must make sure that the data is in the right format and contains the right cases to perform our analyses on. First, we have 21200 'cases'. But these cases are recalculated. Therefore, we must select the cases where A0_IMPLICAT=1, because when this would not be the case, we would make our calculations with variables that have not their original values. If A0_IMPLICAT=1, we can perform our analyses with the original variables. After this selection, there are 4240 cases left. A second feature our cases need to have is that the organisations must be family firms. Thus, we select the organisations for which CF_FAMILY=1. But only with these criteria, it is not possible to determine the demographics of the family CEO. The cases by which the owner is also the person that does the daily management should be selected as well thus CF_MANAGE=1. This way, we can determine the age, the gender, the education and the experience of the family CEO because these demographics are only given for the owner(s) of the organisation. The amount of cases that are left after these calculations is 3241.

Some variables were recalculated, like the education of the CEO. In this case, we have chosen to recode this variable to the values of 0 and 1 because these are easier to use in regressions. Education is recoded as 0 when the respondent has answered a value between 1 and 3. A value of 1 is assigned to the education variable when the respondent has answered a value between 4 and 7. 4 is included as education as well because this kind of education is higher vocational education which leads to a certificate of higher education. Another variable that must be recalculated is the variable that measures whether the organisation was purchased, inherited, publicly traded our founded by the current owner. For the moderating hypothesis concerning founder CEO, we must use this variable, named CF_ESTAB. We thus recode this in 2 categories: founded or inherited and purchased or publicly traded. We recode this first category into value 1, the other category into value 0.

To determine the demographics for the family CEO, there was a problem. The average of each demographic and the separate demographics are given for the owners. Consequently, we must select the appropriate demographics to use in our analyses. It is important that we select the demographics from the owner who does the daily management as well. Thus, by using an excel file, these demographics are selected. In case there were more than 1 owner which performs the daily management of the organisation, we have left this organisation out because this would make these calculations more difficult since for example for gender it is difficult to calculate the mean.

There are also tests performed to see whether there are outliers in the database. There were no values that were significant different, so there can be concluded that there are no outliers in the database and no corrections for outliers have to be made. The missing values in the SPSS file are indicated as system missing. If there were missing values, these organisations were left out in the calculations we made. Therefore, we used 1552 organisations in our analysis.

2. Descriptives

2.1 Characteristics of the CEO

2.1.1 *Experience of the CEO*

N	Valid	1552
	Missing	0
Mean		21,99
Median		21,00
Std. Deviation		11,230
Minimum		0
Maximum		62

Table 1: Experience of the CEO

In table 1 on the previous page, we read that from the sample of 1552 cases, the mean experience the CEO has is an experience of approximately 22 years. The median is 21 years. CEO experience ranges from 0 to 62 years.

Figure 1 below shows the distribution of the experience of the CEO of family organisations. From this figure, we can deduct that the CEO's with experiences of maximum 40 years are the majority of the cases. An experience of more than 40 years occurs less frequently.

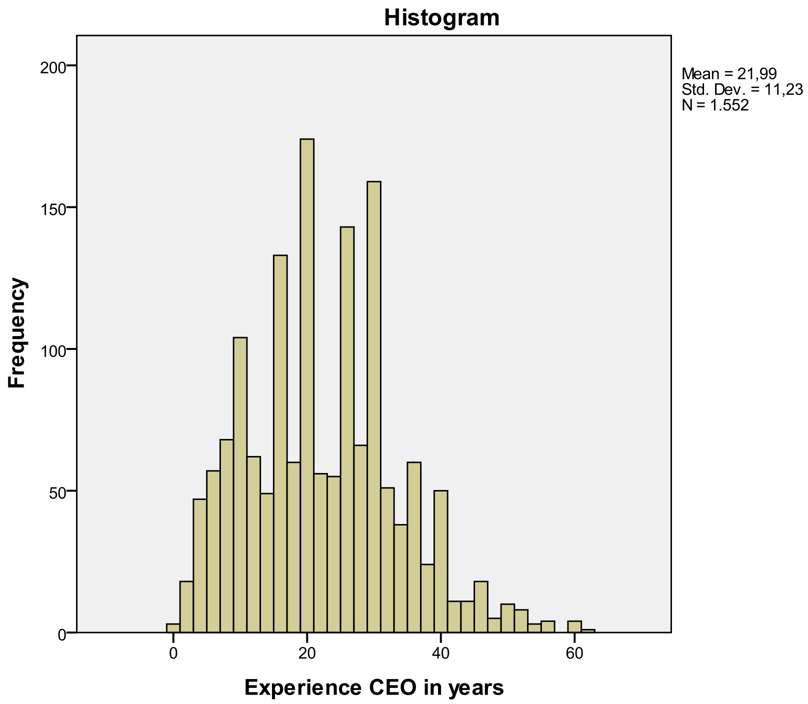

Figure 1: Experience of the CEO

2.1.2 *Gender of the CEO*

Table 2 on the page below shows that male CEO's account for 81.4% of the total amount of CEO's. Thus, approximately 4 out of 5 CEO's are male. Again, the sample contains 1552 organisations.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	289	18,6	18,6	18,6
	Male	1263	81,4	81,4	100,0
	Total	1552	100,0	100,0	

Table 2: Gender of the CEO

2.1.3 *Education of the CEO*

In table 3, we can see that the greater part of the CEO's are educated: 63.5% of the CEO's of the sample are educated. This means that most of the CEO's have an appropriate education for their profession.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No education	567	36,5	36,5	36,5
	Education	985	63,5	63,5	100,0
	Total	1552	100,0	100,0	

Table 3: Education of the CEO

2.1.4 *Age of the CEO*

Table 4 on the page below displays the descriptives of the age of the family executive. There can be read that the mean executive age is approximately 52 years. The median age is 53 years. The minimum CEO age is 19 years while the oldest CEO in our sample has an age of 92 years.

N	Valid	1552
	Missing	0
Mean		52,44
Median		53,00
Std. Deviation		10,391
Minimum		19
Maximum		92

Table 4: Age of the CEO

In figure 2, we see the distribution of the age of the CEO of family organisations. This distribution has characteristics of a normal distribution.

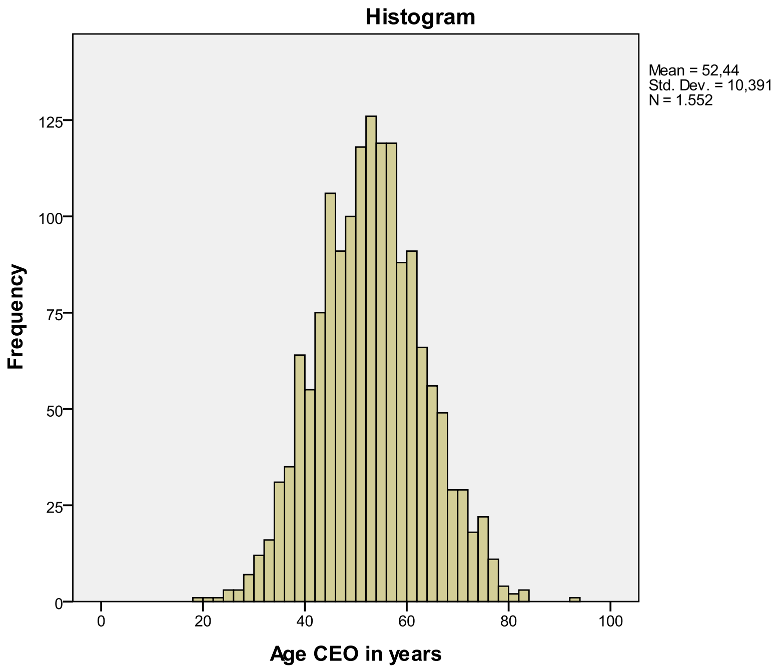

Figure 2: Age of the CEO

Figure 3 on the next page displays a histogram with a normal curve on the age of the CEO of family organisations. The histogram shows clearly that the age of the CEO is nearly normally distributed.

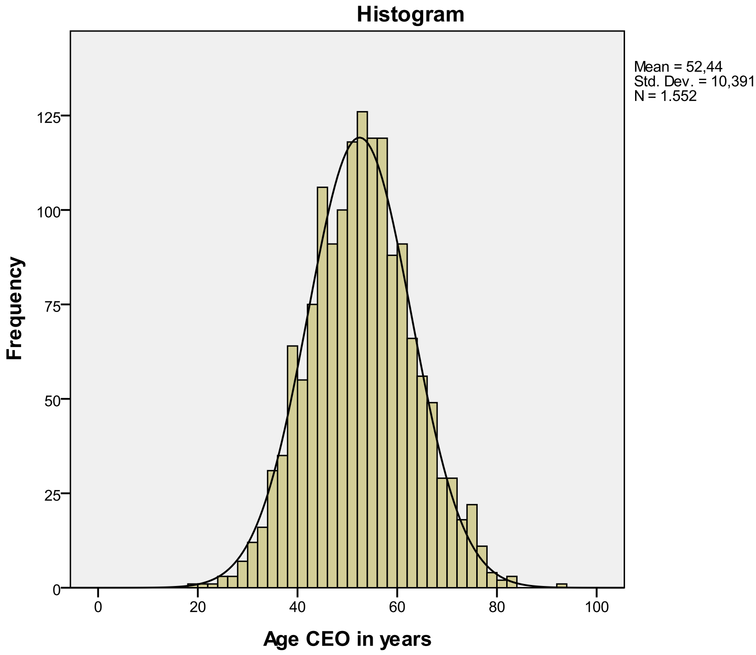

Figure 3: Histogram with normal curve on CEO age

2.1.5 *CEO remuneration*

N	Valid	1552
	Missing	0
Mean		117916,73
Median		49041,00
Std. Deviation		258465,01 6
Minimum		0
Maximum		5000000

Table 5: CEO remuneration

Table 5 contains information on the remuneration of the family CEO. From the 1552 cases in our sample, we can deduce that the mean compensation is approximately \$118000 for one year. The median CEO compensation is approximately \$49000 for one year. The maximum compensation a family CEO in our sample earns, is \$5000000.

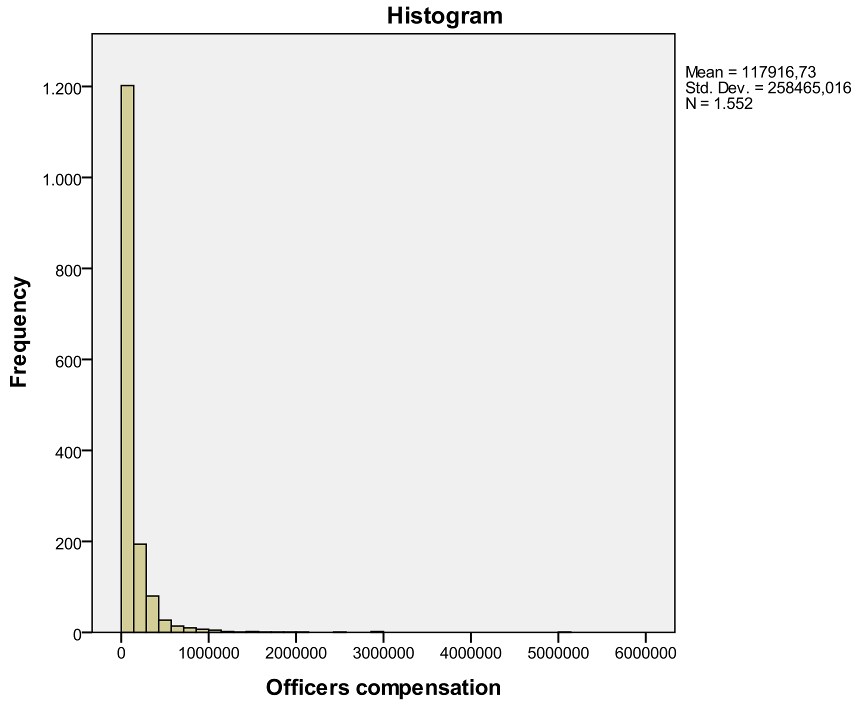

Figure 4: CEO remuneration

Figure 4 shows the distribution of family CEO compensation. We can deduce from this figure that CEO pay is in most cases below \$500000.

2.2 *Characteristics of the organisation*

2.2.1 *Organisation established by the family*

In this sample, 76.7% of the family organisations are founded by the family or are inherited. Thus in these cases, the organisation was not purchased or publicly traded. This can be seen in table 6.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not established by the family	361	23,3	23,3	23,3
	Established by the family	1191	76,7	76,7	100,0
	Total	1552	100,0	100,0	

Table 6: Firm established by the family

2.2.2 *Age of the organisation*

N	Valid	1552
	Missing	0
Mean		16,47
Median		15,00
Std. Deviation		11,379
Minimum		1
Maximum		89

Table 7: Age of the firm

Table 7 displays some descriptive information on the age of the family organisation. The mean age of the family organisation is in our sample approximately 16 years. The median of organisation age is 15 years. Organisation age has a range from 1 year to 89 years old.

Figure 5 below concerns the age of the family organisation. In our sample, most of the organisations are still very young. Elder organisations are less included in our sample.

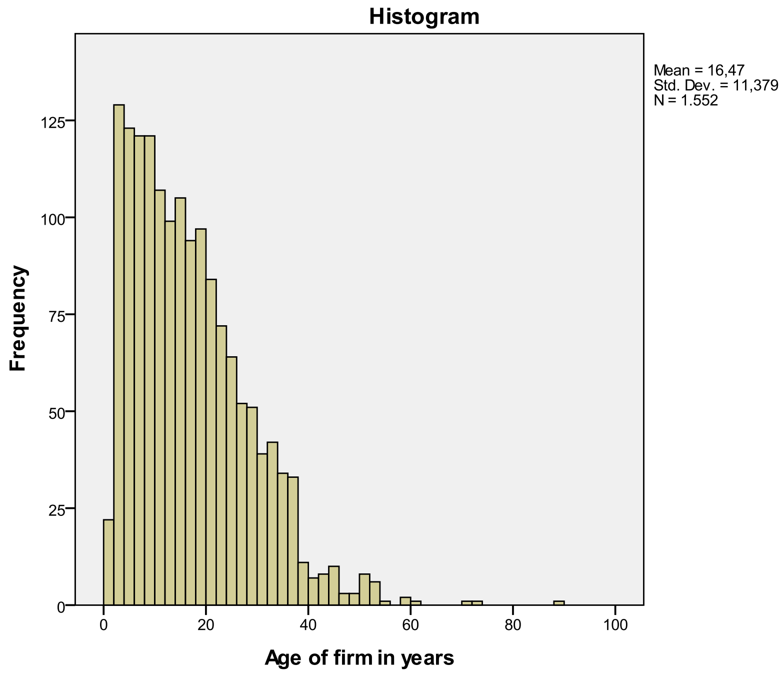

Figure 5: Age of the organisation

2.2.3 *Return on assets*

N	Valid	1552
	Missing	0
Mean		4,6940
Median		,1625
Std. Deviation		95,58112
Minimum		-57,63
Maximum		3387,29

Table 8: Return on assets

The mean return on assets is 4.6940. The median return on assets is 0.1625. Table 8 displays the minimum and the maximum return on assets as well. We can conclude from this table that the return on assets of family organisations in our sample varies widely.

2.2.4 *Return on equity*

Table 9 displays more details on the return on equity of the family firms of our samples. The mean return on equity amounts to approximately 18. The median return on equity amounts 0.21. We can see that this ratio has a wide range as well.

N	Valid	1552
	Missing	0
Mean		18,0424
Median		,2119
Std. Deviation		606,29777
Minimum		-259,87
Maximum		23789,00

Table 9: Return on equity

2.2.5 *Return on sales*

N	Valid	1552
	Missing	0
Mean		-,1748
Median		,0583
Std. Deviation		11,88779
Minimum		-467,91
Maximum		1,64

Table 10: Return on sales

In table 10 on the previous page, we see the descriptive of the return on sales ratio. The mean return on sales is negative, namely -0.1747. The median is slightly positive: 0.0583. This ratio has a wide range, just like the return on assets and the return on equity.

3. Regression

Several regressions will be performed. Firm size can be measured by different items like total sales or number of employees. We use the return on assets, return on equity and return on sales as firm performance measures in our regressions.

3.1 Measuring the influence of performance on remuneration when total sales is used as measure of firm size

First of all, a regression will be used to test the influence of performance on the remuneration of the CEO. The return on assets, the return on sales and the return on equity will be used as performance measures in our regression.

3.1.1 *Return on assets as performance measure*

3.1.1.1 Pay-performance sensitivity

The first performance measure that will be used to explain the influence of performance on pay is the return on assets measure. The regression contains the control variables as well. The sales of the organisation are used as a measure of the size of the organisation.

The R^2 of this regression is 0.300. The adjusted R^2 is 0.297. These are statistics that indicate the amount of variance of the dependent variable that is explained by the regression. The adjusted R^2 is corrected concerning the amount of independent variables. Thus, the results mean that the regression accounts for 29.7% of the variance in compensation of the family executive. Furthermore, the value of the F is very large: 110.338. The corresponding significance value is 0.000. This means that the regression is very significant.

Because the regression is significant, it is useful to study the beta coefficients of the variables. In table 11 below, we read that only total sales as a measure for size of the organisation and the organisation age are significant predictors of the compensation of the family executive at a significance of 1%. When we extend the significance to a value of 10%, we remark that the education of the CEO becomes significant as well.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	34814,568	31582,105		1,102	,270
	Gender CEO	23032,076	14289,977	,035	1,612	,107
	Age CEO in years	-511,521	603,186	-,021	-,848	,397
	Education CEO	20819,126	11514,472	,039	1,808	,071*
	Total sales	,010	,000	,522	23,957	,000***
	Age of firm in years	1745,218	559,384	,077	3,120	,002***
	Return on assets	-16,750	57,670	-,006	-,290	,772

*p <0.10, **p<0.05, ***p<0.01

Table 11: Results regression return on assets 1

From these results, we can form the following conclusions. Education has also a positive beta which leads to the conclusion that when a CEO is well educated, their remuneration will be higher. The beta of the total sales is very significant and positive. This means that, because total sales are a measure of the size of the organisation, the larger the organisation, the higher the compensation of the family executive. It is remarkable that the beta of the variable that measures the size of the organisation is very large in comparison with the other variables of the regression. At last, the age of the family firm is also a significant variable in our regression. The beta is positive. The older the family organisation, the higher the remuneration. The remaining control variables were not significant.

To conclude, the gender of the CEO, the CEO education, the size of the organisation and the firm age are significant control variables in this regression. The hypothesis we wanted to test is our first hypothesis: firm performance has an influence on CEO compensation. We cannot accept this hypothesis because the coefficient of firm performance is not significant. Thus, organisation performance does not have a significant influence on the remuneration of the CEO.

3.1.1.2 Moderating influence of CEO experience

Our study of literature states that the experience of the executive would have a moderating effect on the relationship between performance and CEO compensation. To measure this effect, we have to incorporate the variable experience and the variable that measures the moderating effect in our regression.

The R^2 of this regression is 0.300 while the adjusted R^2 is 0.296. Again, we can state that this regression accounts for 29.6% of the variance in CEO compensation. The F has a large value: 82.663. This leads to the conclusion that the regression is significant. This is confirmed by the significance value of 0.000.

In table 12 on the next page, we see that the beta coefficients of CEO education, the organisation size and the age of the organisation are the only variables that are significant. All the other variables are not significant at this 10% significance level. In our first regression, without executive experience as moderating variable, the gender of the CEO was significant as well but this is not the case anymore. Concerning the significant variables, the betas of education of the CEO, firm age and size of the organisation are all positive. The conclusion of this fact is thus the same as already explained above: the higher the education, the higher CEO remuneration. The larger the organisation, the greater CEO compensation and the older the family organisation, the higher executive remuneration will be.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	35502,405	33326,204		1,065	,287
Gender CEO	22798,208	14633,777	,034	1,558	,119
Age CEO in years	-542,945	732,155	-,022	-,742	,458
Education CEO	20935,469	11683,634	,039	1,792	,073*
Total sales	,010	,000	,522	23,917	,000***
Age of firm in years	1731,620	617,579	,076	2,804	,005***
Return on assets	-3,628	72,671	-,001	-,050	,960
Experience CEO in years	61,636	764,769	,003	,081	,936
Mod_ROA_Experience	-1,628	5,533	-,008	-,294	,769

*p <0.10, **p<0.05, ***p<0.01

Table 12: Results regression return on assets 2

This regression had the purpose to measure whether executive experience has an effect on the relationship between performance and pay. The results of our regression indicate that this moderating effect is not significant. Therefore, we cannot accept hypothesis 2. The relationship between the performance and pay of the family CEO is not significantly influenced by the experience of the CEO.

3.1.1.3 Moderating influence of founder CEO

This regression includes the variable which measures whether the CEO founded or inherited the organisation and the moderating variable that measures the effect of founder CEO on the relationship between performance and pay. Like this, our third hypothesis can be tested.

This regression has a R^2 of 0.300 and an adjusted R^2 of 0.296. Thus, 29.6% of the variance in family executive remuneration is explained by this regression. The F value for this regression is 82.663 and has a significance value of 0.000 which leads to the conclusion that this regression is very significant.

Table 13 below gives the results for the regression which includes the variable that measures whether the CEO is the founder of the organisation. Only the following variables are significant: CEO education, organisation age and firm size. Again, all the betas are positive.

The conclusion of this regression is the following. Because the beta of the moderating variable Mod_ROA_Established is not significant, we conclude that the relationship between performance and pay is not significantly influenced by this variable. Thus, we must reject hypothesis 3.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	29414,387	33948,282		,866	,386
	Gender CEO	23294,482	14304,939	,035	1,628	,104
	Age CEO in years	-482,747	605,817	-,019	-,797	,426
	Education CEO	20481,750	11535,173	,038	1,776	,076*
	Total sales	,010	,000	,524	23,812	,000***
	Age of firm in years	1689,894	567,466	,074	2,978	,003***
	Return on assets	-1202,933	2941,313	-,445	-,409	,683
	Mod_ROA_Established	1185,916	2941,737	,439	,403	,687
	Firm established	6401,493	13560,562	,010	,472	,637

*p <0.10, **p<0.05, ***p<0.01

Table 13: Results regression return on assets 3

3.1.1.4 Moderating influence of ownership concentration

The fourth hypothesis states that the relationship between CEO performance and compensation is influenced by the concentration of ownership. Like in the other regressions, the significance is 0.000 and the R^2 is 0.300. The adjusted R^2 is 0.297 and the F value is 82.842. The conclusions are the same as in the previous regressions: the regression is significant and the regression explains 29.7% of the variance in CEO compensation.

The only variables that are significant are the education of the CEO, the age of the organisation and the firm size. Again, they are all positive so the conclusions remain the same as in the previous regressions.

The purpose of this regression is to find an answer to the hypothesis that poses that the relationship between performance and pay of the family CEO is influenced by the ownership concentration. We must reject this hypothesis because this moderating variable is not significant.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	36521,947	31641,105		1,154	,249
	Gender CEO	23208,907	14295,725	,035	1,623	,105
	Age CEO in years	-554,060	604,940	-,022	-,916	,360
	Education CEO	21372,451	11531,075	,040	1,853	,064*
	Total sales	,010	,000	,523	23,956	,000***
	Age of firm in years	1887,886	577,474	,083	3,269	,001***
	Return on assets	-180,376	379,946	-,067	-,475	,635
	Mod_ROA_Number ofowners	58,598	134,219	,061	,437	,662
	Number of owners	-1099,289	1140,242	-,021	-,964	,335

*p <0.10, **p<0.05, ***p<0.01

Table 14: Results regression return on assets 4

3.1.2 *Return on equity as performance measure*

Another measure for the performance of organisations is the return on equity. Therefore, we do the same regressions for this performance measure.

3.1.2.1 Pay-performance sensitivity

In the case of this regression, the R^2 is 0.300 and the adjusted R^2 is 0.297. Therefore, we can state that this regression accounts for 29.7% of the variance in CEO remuneration. The F is very high, namely 110.324. The significance is 0.000. Therefore, the regression is significant. It is useful to study the beta coefficients.

In this case, the betas of the education of the CEO, the size of the organisation and the age of the organisation are significant. All these betas are positive. This means that these variables have a positive effect on the remuneration of the family CEO.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	34413,481	31550,039		1,091	,276
	Gender CEO	22971,059	14288,094	,035	1,608	,108
	Age CEO in years	-505,233	602,800	-,020	-,838	,402
	Education CEO	20982,098	11507,370	,039	1,823	,068*
	Total sales	,010	,000	,522	23,958	,000***
	Age of firm in years	1742,910	559,527	,077	3,115	,002***
	Return_on_equity	-1,453	9,080	-,003	-,160	,873

*p <0.10, **p<0.05, ***p<0.01

Table 15: Results regression return on equity 1

Concerning the first hypothesis, we see that return on equity has not a significant effect on the remuneration of the CEO. We thus can conclude that performance does not have a significant influence on CEO compensation. Therefore, we reject the first hypothesis.

3.1.2.2 Moderating influence of CEO experience

This regression is also significant. The R^2 is 0.300 while the adjusted R^2 is 0.296. This means that 29.6% of the variance in family executive remuneration is explained by the regression. The value of the F is 82.648, which is a very high value. The significance is 0.000. The regression that we found is thus significant. Therefore, the beta coefficients which can be found in table 15 are important.

Table 16 below displays that CEO education, the size of the organisation and the age of the organisation are significant variables at the 90% significance level. The betas are all positive. Like this, they have a positive influence on the remuneration the CEO of the family firm receives.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	35406,736	33304,881		1,063	,288
	Gender CEO	22684,522	14630,804	,034	1,550	,121
	Age CEO in years	-542,546	732,143	-,022	-,741	,459
	Education CEO	21068,412	11677,396	,039	1,804	,071*
	Total sales	,010	,000	,522	23,922	,000***
	Age of firm in years	1728,177	617,834	,076	2,797	,005***
	Return_on_equity	14,473	64,910	,034	,223	,824
	Mod_ROE_Experience	-1,579	6,376	-,038	-,248	,804
	Experience CEO in years	65,019	764,608	,003	,085	,932

*p <0.10, **p<0.05, ***p<0.01

Table 16: Results regression return on equity 2

The moderating influence of the experience of the CEO on the relationship between performance and pay is not significant. Thus, the second hypothesis cannot be accepted.

3.1.2.3 Moderating influence of founder CEO

This regression has a R^2 of 0.300 and an adjusted R^2 of 0.296. Again, the interpretation is the following: 29.6% of the variance in family CEO compensation is explained by the regression. The F is in this case 82.711 and has a significance of 0.000. This means that it is useful to study the beta coefficients of the regression.

The coefficients of the betas of the education of the CEO, the size of the organisation and the age of the firm are significant and positive. This means that all these variables have a positive influence on the compensation of the CEO of family firms.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	27641,082	33766,796		,819	,413
	Gender CEO	23224,084	14303,304	,035	1,624	,105
	Age CEO in years	-473,265	605,509	-,019	-,782	,435
	Education CEO	20937,868	11516,487	,039	1,818	,069*
	Total sales	,010	,000	,524	23,808	,000***
	Age of firm in years	1688,376	567,658	,074	2,974	,003***
	Return_on_equity	225,830	706,820	,530	,320	,749
	Mod_ROE_Established	-227,423	706,884	-,533	-,322	,748
	Firm established	7412,516	13291,888	,012	,558	,577

*p <0.10, **p<0.05, ***p<0.01

Table 17: Results regression return on equity 3

The moderating variable in this regression is not significant. This means that whether the CEO has founded the organisation, this does not have an influence on the relationship between performance and pay. We can thus conclude that the third hypothesis must be rejected.

3.1.2.4 Moderating influence of ownership concentration

Again, the R^2 is 0.300 while the adjusted R^2 is 0.297. The interpretation is the same as in the previous regressions: 29.7% of the variance in family CEO pay is explained by this regression. The value of the F is 82.798 and the significance of the regression is 0.000. Therefore, the regression is significant.

The betas of education of the CEO, the size of the organisation and the age of the firm are significant and positive. These variables thus have a positive influence on CEO compensation.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	36104,330	31611,512		1,142	,254
Gender CEO	23059,207	14295,451	,035	1,613	,107
Age CEO in years	-546,728	604,597	-,022	-,904	,366
Education CEO	21493,847	11524,896	,040	1,865	,062*
Total sales	,010	,000	,523	23,968	,000***
Age of firm in years	1878,065	577,495	,083	3,252	,001***
Return_on_equity	-12,725	310,670	-,030	-,041	,967
Mod_ROE_Number ofowners	5,656	155,092	,027	,036	,971
Number of owners	-1085,445	1140,407	-,021	-,952	,341

*p <0.10, **p<0.05, ***p<0.01

Table 18: Results regression return on equity 4

In this regression, the moderating variable is not significant as well. This means that the fourth hypothesis cannot be accepted. We thus have to reject hypothesis 4.

3.1.3 *Return on sales as performance measure*

3.1.3.1 Pay-performance sensitivity

It is important when measuring the influence of the experience of the CEO on the relationship between performance and pay, to study the significance of the regression and the variance explained by the regression. The R^2 is 0.300 while the adjusted R^2 is 0.297. This means that 29.7% of the variance in remuneration is explained by the regression. The significance of this regression is 0.000 and the value of the F is 110.329. Thus the regression is very significant.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	34783,002	31601,392		1,101	,271
Gender CEO	22769,509	14307,605	,034	1,591	,112
Age CEO in years	-510,510	603,315	-,021	-,846	,398
Education CEO	21010,962	11509,069	,039	1,826	,068*
Total sales	,010	,000	,522	23,960	,000***
Age of firm in years	1745,467	559,396	,077	3,120	,002***
Return_on_sales	99,285	464,118	,005	,214	,831

*p <0.10, **p<0.05, ***p<0.01

Table 19: Results regression return on sales 1

The betas of the education of the CEO, the size of the organisation and the age of the organisation are the only ones that are significant. These variables measure the direct effects on the compensation of the CEO. These betas are positive. Therefore, these control variables have a positive effect on the remuneration of the family CEO.

The beta of the return on sales is not significant. This means that the relationship between performance and compensation of the family CEO is not significant when performance is measured by return on sales. Therefore, we cannot accept hypothesis 1.

3.1.3.2 Moderating influence of CEO experience

The R^2 is in this case 0.300. The adjusted R^2 has a value of 0.296. The significance value is 0.000 and the F has a very high value: 82.650. This regression is thus significant and explains 29.6% of the variance in CEO remuneration.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	35667,719	33359,363		1,069	,285
	Gender CEO	22620,675	14662,225	,034	1,543	,123
	Age CEO in years	-548,098	732,637	-,022	-,748	,455
	Education CEO	21004,137	11703,392	,039	1,795	,073*
	Total sales	,010	,000	,522	23,926	,000***
	Age of firm in years	1727,785	617,585	,076	2,798	,005***
	Return_on_sales	1156,653	4694,226	,053	,246	,805
	Mod_ROS_Experience	-175,749	776,688	-,049	-,226	,821
	Experience CEO in years	84,712	767,388	,004	,110	,912

*p <0.10, **p<0.05, ***p<0.01

Table 20: Results regression return on sales 2

The betas of the education of the CEO, the size of the organisation and the age of the firm are positive and significant. These variables thus have a positive influence on the remuneration of the family CEO.

The beta of the moderating variable is not significant. Therefore, the second hypothesis must be rejected.

3.1.3.3 Moderating influence of founder CEO

This regression has a R^2 of 0.300 and an adjusted R^2 of 0.296. The regression accounts for 29.6% of the variance in CEO remuneration. The regression is significant as the F has a value of 82.701 and a significance of 0.000.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	26926,509	34488,590		,781	,435
	Gender CEO	23035,334	14322,777	,035	1,608	,108
	Age CEO in years	-476,299	606,541	-,019	-,785	,432
	Education CEO	20968,495	11523,087	,039	1,820	,069*
	Total sales	,010	,000	,524	23,809	,000***
	Age of firm in years	1691,933	567,507	,074	2,981	,003***
	Return_on_sales	6833,231	39569,713	,314	,173	,863
	Mod_ROS_Established	-6732,179	39573,214	-,310	-,170	,865
	Firm established	8325,073	14282,110	,014	,583	,560

*p <0.10, **p<0.05, ***p<0.01

Table 21: Results regression return on sales 3

Like in the previous regressions, the education of the CEO, the size of the organisation and the age of the firm are significant. The all have a positive influence on CEO compensation.

The variable that has the purpose to measure the moderating influence of the founder CEO on the pay-performance relationship is not significant. As a result, we have to reject the third hypothesis.

3.1.3.4 Moderating influence of ownership concentration

This regression is significant as well while the significance value 0.000 is. The F has a value of 82.829. The R^2 is 0.300 and the adjusted R^2 has a value of 0.297. This means that the regression accounts for around 30% of the variance in CEO compensation.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	37682,916	31812,046		1,185	,236
	Gender CEO	23235,636	14339,155	,035	1,620	,105
	Age CEO in years	-559,090	605,343	-,022	-,924	,356
	Education CEO	21311,733	11536,793	,040	1,847	,065*
	Total sales	,010	,000	,523	23,974	,000***
	Age of firm in years	1874,003	577,351	,083	3,246	,001***
	Return_on_sales	-6088,437	15389,347	-,280	-,396	,692
	Mod_ROS_Numberofowners	1030,229	2565,395	,284	,402	,688
	Number of owners	-1285,226	1249,327	-,025	-1,029	,304

*p <0.10, **p<0.05, ***p<0.01

Table 22: Results regression return on sales 4

The CEO education, the age of the firm and the size of the organisation are the only variables that have a significant beta coefficient, as is shown in table 22. These betas are all positive which means that these variables have a positive influence on the remuneration the CEO earns.

The moderating variable which measures the moderating influence of ownership concentration on the relationship between performance and compensation, is not significant at the 90% significance level. Consequently, the fourth hypothesis has to be rejected.

3.2 *Measuring the influence of performance on remuneration when the number of employees is used as measure of firm size*

In the previous section, we have measured firm size as the total sales of the organisation. But it is also possible to use the total number of employees as a measure. Therefore, we execute the regressions with total number of employees instead of total sales.

3.2.1 *Return on assets as performance measure*

3.2.1.1 Pay-performance sensitivity

This regression has a R^2 of 0.168 and an adjusted R^2 of 0.165. We can thus state that the regression approximately explains 17% of the variance in family executive compensation. Furthermore, The F has a very large value: 52.148 with a significance of 0.000. Therefore, the regression is significant and it is meaningful to study the beta coefficients in table 23 below.

As we study the results displayed in table 23 on the next page, we notice that the only variables that are significant are gender of the CEO, education of the CEO, firm size and firm age. Their significance level can be deduced from the * after the sig. value in the table. The relation between these variables and CEO remuneration is positive. Thus, if the executive is male, its compensation will be higher than if she is female. When the CEO has an education, his or her pay will be higher as well. As the size of the organisation is larger, CEO remuneration will be higher. When the firm is older, CEO compensation will be higher.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-12484,803	34441,325		-,362	,717
Gender CEO	42693,298	15526,294	,064	2,750	,006***
Age CEO in years	-134,786	657,974	-,005	-,205	,838
Education CEO	28145,548	12549,439	,052	2,243	,025**
Total number of employees	1718,493	111,223	,370	15,451	,000***
Age of firm in years	1717,807	616,620	,076	2,786	,005***
Return on assets	-10,337	62,866	-,004	-,164	,869

*p <0.10, **p<0.05, ***p<0.01

Table 23: Results regression return on assets 5

As we can read in this table is the relationship between performance and pay not significant. We can thus conclude that there is no relationship between performance and CEO compensation. The first hypothesis cannot be accepted.

3.2.1.2 Moderating influence of CEO experience

This regression is highly significant as the significance is 0.000 and the F value is 39.069. Like in the previous regression, the R^2 is 0.168. The adjusted R^2 is 0.164, thus approximately 16.5% of the variance in CEO pay is explained by the resulting regression.

Firm age and size, the gender of the CEO and CEO education are as can be seen in table 24 on the next page. All the betas are positive which means that these variables have a positive influence on remuneration.

The moderating variable experience is not significant. Hence, this means that experience does not have a significant influence on the pay-performance sensitivity. Therefore, hypothesis 2 must be rejected.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-11799,329	36382,633		-,324	,746
Gender CEO	42468,802	15904,857	,064	2,670	,008***
Age CEO in years	-165,010	799,409	-,007	-,206	,836
Education CEO	28262,366	12737,027	,053	2,219	,027**
Total number of employees	1717,541	111,475	,369	15,407	,000***
Age of firm in years	1704,913	678,094	,075	2,514	,012**
Return on assets	1,104	79,206	,000	,014	,989
Mod_ROA_Experience	-1,419	6,032	-,007	-,235	,814
Experience CEO in years	58,547	834,153	,003	,070	,944

*p <0.10, **p<0.05, ***p<0.01

Table 24: Results regression return on assets 6

3.2.1.3 Moderating influence of founder CEO

The R^2 is slightly higher than in the previous 2 regressions. Here, it has a value of 0.169. The adjusted R^2 is 0.165. This means that the regression now accounts for 16.5% of the variance in CEO compensation. The significance has still a value of 0.000 and the F has a high value: 39.344. The regression is significant. Therefore, it is useful to look at the beta coefficients in table 24 displayed above.

Table 25 on the next page displays that CEO gender and education are significant. The age and the size of the organisation are significant as well. Again, the betas are positive. Consequently, there is a positive relationship between these variables and CEO compensation.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	6221,388	37060,546		,168	,867
Gender CEO	41804,881	15540,681	,063	2,690	,007***
Age CEO in years	-215,308	660,640	-,009	-,326	,745
Education CEO	28203,081	12564,537	,053	2,245	,025**
Total number of employees	1708,367	111,477	,367	15,325	,000***
Age of firm in years	1849,023	624,393	,081	2,961	,003***
Return on assets	-776,599	3204,957	-,287	-,242	,809
Mod_ROA_Established	768,244	3205,397	,284	,240	,811
Firm established	-20159,953	14683,075	-,033	-1,373	,170

*p <0.10, **p<0.05, ***p<0.01

Table 25: Results regression return on assets 7

The relationship between performance and pay is not influenced by whether the organisation is established by the founder or inherited. The variable is not significant. We can state that the pay-performance sensitivity is not influenced by a founder CEO. Hypothesis 3 can thus be rejected.

3.2.1.4 Moderating influence of ownership concentration

As with the previous regression, the R^2 has a value of 0.169 and the adjusted R^2 is 0.165. The interpretation is the same in this case: 16.5% of the variance in remuneration can be explained by this regression. The significance value is again 0.000 and has a F value of 39.195. Furthermore, the regression is significant.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-10844,832	34501,162		-,314	,753
Gender CEO	42867,517	15533,577	,065	2,760	,006***
Age CEO in years	-176,781	659,831	-,007	-,268	,789
Education CEO	28689,537	12567,572	,053	2,283	,023**
Total number of employees	1722,758	111,487	,370	15,453	,000***
Age of firm in years	1858,775	635,384	,082	2,925	,003***
Return on assets	-149,897	414,288	-,055	-,362	,718
Mod_ROA_Number ofowners	50,010	146,341	,052	,342	,733
Number of owners	-1112,790	1243,799	-,022	-,895	,371

*p <0.10, **p<0.05, ***p<0.01

Table 26: Results regression return on assets 8

Again, the firm age and firm size are significant. Their betas are positive which means that these variables have a positive influence on CEO remuneration. The gender and education of the CEO are significant as well. They have positive betas too, so a positive relationship exists between gender and compensation. There is positive relationship between CEO education and CEO pay as well.

The moderating variable concerning ownership concentration is not significant which leads to the conclusion that the fourth hypothesis must be rejected. The pay-performance sensitivity is not influenced by ownership concentration.

3.2.2 *Return on equity as performance measure*

3.2.2.1 Pay-performance sensitivity

Here, we have a R^2 of 0.168. The adjusted R^2 is 0.165 which means that 16.5% of the variance in executive compensation is explained by the formulated regression. The regression is significant as the significance value is 0.000. The F statistic has a value of 52.146. Thus, it is meaningful to study the beta coefficients in table 26.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-12730,634	34403,970		-,370	,711
Gender CEO	42664,788	15523,892	,064	2,748	,006***
Age CEO in years	-130,882	657,524	-,005	-,199	,842
Education CEO	28253,603	12542,057	,053	2,253	,024**
Total number of employees	1718,682	111,209	,370	15,455	,000***
Age of firm in years	1715,657	616,740	,076	2,782	,005***
Return_on_equity	-1,308	9,897	-,003	-,132	,895

*p <0.10, **p<0.05, ***p<0.01

Table 27: Results regression return on equity 5

Again, firm age, firm size, gender of the CEO and CEO education are significant. They all have positive betas which leads to the conclusion that these variables have a positive influence on CEO compensation.

Return on equity is our performance measure. This variable is not significant. Consequently, we have to reject the first hypothesis that there is a relationship between performance and executive pay.

3.2.2.2 Moderating influence of CEO experience

The R² is 0.168, the adjusted R² is 0.164. This means that 16.4% of the variance in family CEO remuneration is explained by the regression displayed below. The value of the F is 39.061 while the significance of the regression is 0.000. This means that the regression is very significant.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-11844,250	36358,598		-,326	,745
Gender CEO	42410,564	15901,377	,064	2,667	,008***
Age CEO in years	-164,521	799,386	-,007	-,206	,837
Education CEO	28371,292	12730,510	,053	2,229	,026**
Total number of employees	1718,062	111,455	,369	15,415	,000***
Age of firm in years	1699,088	678,349	,075	2,505	,012**
Return_on_equity	6,026	70,753	,014	,085	,932
Mod_ROE_Experience	-,726	6,950	-,017	-,104	,917
Experience CEO in years	60,004	833,978	,003	,072	,943

*p <0.10, **p<0.05, ***p<0.01

Table 28: Results regression return on equity 6

The significant variables are gender and education of the CEO and size and age of the organisation. Again, the betas are positive which leads to the conclusion that there is a positive relationship between these control variables and CEO pay.

Our moderating variable experience is not significant and therefore does not have an influence on the relationship between performance and CEO compensation. We cannot accept hypothesis 2.

3.2.2.3 Moderating influence of founder CEO

Here, the R² differs slightly of the R² in the 2 previous regressions. The R² is here 0.170 and the adjusted R² is 0.165 which means that 16.5% of the variance in CEO remuneration is explained by the regression. The significance is 0.000 and the value of the F statistic is 39.393, thus the regression is very significant.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5032,251	36851,766		,137	,891
	Gender CEO	41742,177	15536,596	,063	2,687	,007***
	Age CEO in years	-206,988	660,187	-,008	-,314	,754
	Education CEO	28555,895	12543,379	,053	2,277	,023**
	Total number of employees	1708,821	111,427	,367	15,336	,000***
	Age of firm in years	1843,652	624,519	,081	2,952	,003***
	Return_on_equity	481,250	769,797	1,129	,625	,532
	Mod_ROE_Established	-482,378	769,866	-1,131	-,627	,531
	Firm established	-19523,206	14385,677	-,032	-1,357	,175

*p <0.10, **p<0.05, ***p<0.01

Table 29: Results regression return on equity 7

The significant variables are the same as in the previous 2 regressions. The betas are again positive which leads to the conclusion that there is a positive relationship between these four significant control variables and CEO compensation.

The moderating variable that measures whether the CEO founded of inherited the organisation does not have an influence on the pay to performance sensitivity as the beta is not significant. Hence, we cannot accept hypothesis 3.

3.2.2.4 Moderating influence of ownership concentration

The significant value of this regression is 0.000 and the value of the F statistic is 39.178. The regression is very significant. The R^2 is 0.169 and the adjusted R^2 is 0.165. Thus, 16.5% of the variance in family CEO remuneration is explained by this regression.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-11133,136	34465,582		-,323	,747
Gender CEO	42750,965	15532,565	,064	2,752	,006***
Age CEO in years	-171,620	659,410	-,007	-,260	,795
Education CEO	28749,110	12560,854	,054	2,289	,022**
Total number of employees	1724,268	111,436	,371	15,473	,000***
Age of firm in years	1850,048	635,265	,081	2,912	,004***
Return_on_equity	-28,437	338,640	-,067	-,084	,933
Mod_ROE_Numberofowners	13,578	169,056	,064	,080	,936
Number of owners	-1103,221	1243,987	-,021	-,887	,375

*p <0.10, **p<0.05, ***p<0.01

Table 30: Results regression return on equity 8

Again, the same four control variables are significant and have positive betas as table 30 displays. The conclusion thus remains the same as in the previous regressions. These 4 control variables have a positive influence on family CEO compensation.

The moderating value is in not significant. The conclusion is thus that ownership concentration does not have an influence on the relationship between performance and CEO compensation. We must reject hypothesis 4.

3.2.3 *Return on sales as performance measure*

3.2.3.1 Pay-performance sensitivity

When the return on sales are used as a measure of performance of the organisation, the R^2 is in this case 0.168. The adjusted R^2 is 0.165. Thus, 16.5% of the variance in remuneration is explained by the regression. Furthermore, the regression is significant as the significance value is 0.000. The value of the F statistic is 52.145.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-12515,841	34460,907		-,363	,717
Gender CEO	42533,907	15545,161	,064	2,736	,006***
Age CEO in years	-134,012	658,097	-,005	-,204	,839
Education CEO	28261,765	12544,081	,053	2,253	,024**
Total number of employees	1718,770	111,203	,370	15,456	,000***
Age of firm in years	1717,758	616,628	,076	2,786	,005***
Return_on_sales	59,671	505,863	,003	,118	,906

*p <0.10, **p<0.05, ***p<0.01

Table 31: Results regression return on sales 5

The significant variables are as in the previous regressions firm age, firm size, CEO education and gender of the CEO. The conclusions are the same as in these regressions, namely that the betas are all positive and that there exists a positive relationship between these control variables and family executive pay. This can all be deduced of table 31.

The beta of the return on sales variable is not significant. Therefore, we must conclude that there is no significant relationship between performance and family executive pay. Hypothesis 1 must be rejected.

3.2.3.2 Moderating influence of CEO experience

This regression has a R^2 of 0.169 and an adjusted R^2 of 0.164. The regression accounts thus for 16.4% of the variance in family executive compensation. The regression is significant as the F has a value of 39.153 and the significance value is 0.000.

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-11399,013	36410,616		-,313	,754
	Gender CEO	41726,808	15934,574	,063	2,619	,009***
	Age CEO in years	-167,056	799,783	-,007	-,209	,835
	Education CEO	29056,376	12751,959	,054	2,279	,023**
	Total number of employees	1722,971	111,570	,371	15,443	,000***
	Age of firm in years	1668,588	678,202	,073	2,460	,014**
	Return_on_sales	-3967,937	5122,489	-,183	-,775	,439
	Mod_ROS_Experience	669,705	847,518	,186	,790	,430
	Experience CEO in years	3,731	837,096	,000	,004	,996

*p <0.10, **p<0.05, ***p<0.01

Table 32: Results regression return on sales 6

The same 4 control variables as in the previous regressions are significant and have a positive beta as can be seen in table 32 on the previous page. Thus, there is a positive relationship between these control variables and CEO compensation.

CEO experience as moderating variable is not significant which means that the relationship between performance and executive pay is not influenced by CEO experience. As a result, we must reject hypothesis 2.

3.2.3.3 Moderating influence of founder CEO

This regression explains 16.5% of the variance in family CEO pay. The R^2 has a value of 0.169, while the adjusted R^2 has a value of 0.165. The regression is significant as the significance value is 0.000. The F has a value of 39.335.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	5883,923	37653,956		,156	,876
Gender CEO	41663,740	15559,259	,063	2,678	,007***
Age CEO in years	-216,129	661,423	-,009	-,327	,744
Education CEO	28413,397	12552,253	,053	2,264	,024**
Total number of employees	1708,868	111,507	,367	15,325	,000***
Age of firm in years	1851,023	624,451	,081	2,964	,003***
Return_on_sales	-3010,600	43106,880	-,138	-,070	,944
Mod_ROS_Established	3063,523	43110,815	,141	,071	,943
Firm established	-19883,765	15460,194	-,033	-1,286	,199

*p <0.10, **p<0.05, ***p<0.01

Table 33: Results regression return on sales 7

Table 33 above displays the significance values and the betas of all the variables included in the regression. In this regression are the same four variables significant. The betas are again all four positive which means that there is a positive relationship between these four variables and executive pay.

Concerning the moderating variable, we see that the beta is not significant. Thus, there is no significant influence of a founder CEO on the relationship between performance and family CEO remuneration. Consequently, we cannot accept hypothesis 3.

3.2.3.4 Moderating influence of ownership concentration

The last regression that was performed measured the influence of ownership concentration on the relationship between performance and executive pay. This regression has a R^2 of 0.169 and an adjusted R^2 of 0.165. The regression accounts thus for 16.5% of the variance in family CEO compensation. Furthermore, the regression is significant as the F statistic has a value of 39.181 and a significance of 0.000.

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	-11600,812	34683,964		-,334	,738
Gender CEO	42469,467	15583,278	,064	2,725	,006***
Age CEO in years	-170,245	660,263	-,007	-,258	,797
Education CEO	28865,636	12573,171	,054	2,296	,022**
Total number of employees	1724,253	111,416	,371	15,476	,000***
Age of firm in years	1853,259	635,133	,082	2,918	,004***
Return_on_sales	3269,595	16769,380	,150	,195	,845
Mod_ROS_Number ofowners	-537,124	2795,452	-,148	-,192	,848
Number of owners	-991,102	1362,081	-,019	-,728	,467

*p <0.10, **p<0.05, ***p<0.01

Table 34: Results regression return on sales 8

The following four variables have a significant beta: gender of the CEO, education of the CEO, size of the organisation and age of the organisation. These betas are all positive which means that there is a positive relationship between these variables and the remuneration the family CEO receives.

The moderating variable that according to literature influences the pay to performance sensitivity, is not significant at the 90% level. Therefore, we must conclude that the relationship between performance and remuneration is not influenced by the ownership concentration. We must reject hypothesis 4.

4. Conclusions

The analyses of this master's thesis lead to clear conclusions. We can state that The relationship between performance and compensation is not significant in family organisations. The moderating variables that, according to the literature, should have an influence on the relationship between performance and pay are not significant as well. We can thus state that ownership concentration, experience of the CEO en whether the CEO is the founder do not have an influence on the pay-performance sensitivity. Nevertheless, there are variables that have an influence on executive compensation. In our analyses, these variables were control variables. It concerns the variables CEO gender, CEO education, size of the organisation and firm age. All these control variables have a positive influence on the compensation the family executive receives.

Chapter 6: Discussion and conclusions

1. Conclusions

The results of the regressions that were performed in chapter 6 of this master's thesis surprised us. Whether performance is measured by return on assets, return on equity or return on sales and whether size of the organisation is measured by total sales or number of employees, the results of our regressions state that there is no relationship between performance and family CEO remuneration. We must thus negatively answer the research question: firm performance does not determine executive remuneration in family organisations.

When we look at the agency theory in family organisations, we notice that there can be other motives than the purely economic motives. In family organisations, there are family ties with the organisations and the other family members. It is expected that family CEO's will handle in the interests of the organisation because of these family ties. On the one hand, because in family organisations, the focus lies on trust and emotions, it could be expected that there is no relationship between performance and pay. But on the other hand, it could be expected that performance is linked to executive pay to control the behaviour of the CEO to make sure that he or she will handle in the interests of the organisation and the family. The results of this master's thesis provide evidence to assume that the first presumption is true, namely that the emotions and the trust within family organisations outweigh the purely economical thoughts.

The conclusion above is already stated by Gomez-Mejia et al. (2001). They pose in their research that in family firms, it is difficult to objectively examine the performance of the executive. Therefore, the possibility exists that the owner of the organisation holds incorrect positive believes towards the behaviour and motives of the executive. Tosi et al. (2000) state that there is a relationship between firm performance and executive remuneration. However, this study concerns non-family organisations and this can be the reason for different results concerning the significance of the relationship between performance and executive pay. Cavalluzzo and Sankaraguruswamy (2000) found in their study a significant relationship between return on assets and compensation and between remuneration and sales-to-assets. Again, here can concluded that they found a different conclusion compared to us because their study relates to private organisations in general. The research of Baeten and Dekocker (2007) has found a relationship between performance and executive pay. This sample includes family organisations in Belgium. The difference in results between this research and our analyses can lie in the studied relationship between performance and executive remuneration. In the study of Baeten and Dekocker (2007) is asked on which criteria the increase in remuneration are dependent. In our research, there is deduced if performance is important in determining executive remuneration. This can also be a cause in different results between the two studies.

Furthermore, it is possible that the relationship between performance and family executive is insignificant because only the influence of performance on executive remuneration is measured. Anyhow, if the influence of CEO compensation on performance is taken into account as well, it is possible that the relationship between performance and CEO pay is significant. Thus, the endogenous characteristics of the organisation have to be taken into account. In our analyses, we only have considered the influence of performance on remuneration. But in real life, the influence of compensation on performance should be considered as well. If this endogenous relationship is included in analyses, it is possible that the results are totally different.

Not all control variables were significant. Only CEO education, gender of the executive, firm age and organisation size has significant beta coefficients. They all had a positive beta which means that there is a positive relationship between these variables and family CEO pay. Thus, male executives have a higher remuneration than their female counterparts. CEO's that are educated earn more than CEO's that are not well educated. Executives in larger organisations have a higher compensation and CEO's in older organisations earn more than CEO's in younger firms. When total employees was used as a measure to estimate the size of the organisation, the explained variance in remuneration was lower than when total sales was used as measure of firm size.

As Cavalluzzo and Sankaraguruswamy (2000) and Cole and Mehran (2010) mention in their research, gender is an important determinant of executive remuneration. They concluded in their research that male executives earn more than their female counterparts. This is confirmed by our analyses. Education has according to literature an important influence on executive pay as well (Cole & Mehran, 2010; Banghøj et al., 2010). According to these authors, CEO's with a higher education earn more as executives that are less educated. This master's thesis supports this finding. Baeten and Dekocker (2007) and Cole and Mehran (2010) conclude that age is also important when determining executive remuneration. Our analyses do not support this finding. Age is not a significant control variable in our analyses. Concerning the characteristics of the organisation that were used in our analyses as control variables, only firm size and organisation turned out to be significant. If we compare our results with these of previous research, we notice that the characteristics of the organisation described in the chapter 3 of this master's thesis are all significant. Like Demsetz and Lehn (1985), Lippert and Moore (1994) and Schaefer (1998)stated, our research confirms that firm size has a significant influence on family executive compensation. The research of Gomez-Mejia et al. (2003) founded evidence that age of the organisation is an important determinant of family executive remuneration as well.

When we study the moderating variables included in our regression, we notice that none of these are significant. Hence, in our sample, the relationship between performance and pay is not influenced by the experience of the executive, a founder CEO or ownership concentration.

The research of Lippert and Moore (1994) poses another finding. For executives with more experience, the relationship between performance and remuneration is stronger. The results of that research are different compared to the results of our analyses. This can be explained by the following: in this case, the relationship between performance and executive remuneration is not significant. Thus , when the endogenous relationship between those two variables is measured, it is possible that the findings will become different. A second remark is that the research of Lippert and Moore (1994) is executed on large US firms. These are not family firms, so this can also explain the difference in findings. A last remark is the following: the relationship between performance and pay is not significant. Therefore, it is difficult to verify whether a moderating variable has an influence on the relationship between performance and executive compensation.

In our analyses, the moderating variable of founder CEO was not significant. Though, there is literature that suggests that this is an important variable that influences the relationship between performance and executive remuneration. Engel et al. (2002) pose in their research that founder CEO's possibly have implicit incentives. Therefore, the relationship between performance and CEO compensation should be stronger when the CEO is the founder. Other researchers state that a CEO founder influences the relationship between performance and pay (McConaughy, 2000; Gomez-Mejia et al., 2003). The reason why these results deviate from each other can be found in the significance of the relationship between performance and pay. Because this relationship is not significant, it is difficult to prove that a moderating variable has an effect. Furthermore, there is a possibility that when the endogenous relationship between performance and remuneration is taken into account, the moderating variable turns out to be an important influence on the relationship between performance and executive compensation.

The moderating variable ownership concentration has been studied in the past as well. Kraft and Niederprum (1999), Cavalluzzo and Sankaraguruswamy (2000) and Hartzell and Starks (2003) did research to find out whether the relationship between performance and executive pay is influenced by ownership concentration. All these authors concluded that the relationship between performance and executive pay was significantly influenced by ownership concentration. However, in our research, we did not find any significant relationship between these two constructs. As mentioned above, this can be the consequence of an insignificant relationship between performance and executive remuneration. A second reason that our results differ from those of past research can be that the endogenous relationship between performance and remuneration is not measured here. However, the results can be different if this relationship is measured.

2. Practical implications

The authors of corporate governance codes can learn from the results of this master's thesis. In our research, we have not examined whether there are agency problems in these family organisations. If there exist agency problems, there can be concluded that agency problems are not avoided. This can be concluded from the results of our analyses: performance did not have a significant influence on executive compensation. However, to control agency problems, it can be useful to tie performance to executive remuneration. Like this, agents will be more likely to behave in the interests of the organisation. Therefore, because the prescribed behaviour in the corporate governance codes is not legally binding, organisations do not necessarily have to follow them. There are advantages when making these codes legally binding. In that case, family organisations must tie performance to remuneration and according to agency theory, agency problems are reduced.

Organisations themselves can pick up knowledge from the analyses here performed. Although family organisations state that remuneration is tied to performance (Baeten & Dekocker, 2007), this master's thesis proves that this is not the case in private family organisations. To align the interests of principal and agent in organisations, it is useful that remuneration depends on performance, even though there are family ties between agent and principal. These results give some evidence to believe that emotions do have a large role in determining the compensation of executives and this blurs the objective view of the principal. Therefore, objective measures like performance must be used to set executive remuneration.

The government of a country can use this master's thesis as well. The results of the analyses that are performed show that there is no relationship between performance and remuneration in private family organisations. In these analyses, as mentioned above, there is not examined whether there are agency problems in these family organisations. If there are agency problems, it is useful that the government takes initiatives to stimulate organisations to tie executive compensation to performance. The emphasis will not be on emotions, like this was in the past, but on the subjective measurement of performance. Like this, agency problems can be reduced.

3. Limitations and suggestions for future research

Our sample consists of organisations that are established in the United States. If we had data concerning Belgian organisations, our results could be different. The same remark can be made concerning the age of our data. The data used for this analyses comes from a survey that is performed in 2003. It is possible that the situation is different when we use data from 2011. The sample contains small businesses that have less than 500 employees. If we compare this with the criterion in Belgium, we must conclude that 100 employees is the maximum that a small organisation can have. It is possible that small organisations maximum can have 50 employees if other criteria are violated (Van Hulle, Lybaert, & Maes, 2010). Thus, the results can be different if 1 or more of the previous 3 remarks is adjusted. The results could be different if data of 2011 of Belgian organisations were available to use in the performed analyses.

Another limitation is that our regressions do not explain a great part of the variance in family CEO remuneration. The variables that were used in our regression do not explain much so it is possible that there are other variables that help explain more of the variance in CEO pay. It is possible as well that emotions and trust determine for a great part the remuneration of family CEO's. We cannot verify this because we do not have data on this subject.

In this master's thesis we did not take into account the endogenous relationship between performance and executive remuneration. Therefore, considering that performance is influenced by remuneration, we must bear in mind that the endogenous relationship between these two variables can change the results of the performed analyses. Thus, it is appropriate to perform the analyses again but this time with the endogenous relationship between performance and executive remuneration.

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