

# Ownership Structure and Executive Compensation in Germany

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## **Abstract:**

We analyze the relationship between the ownership structure and executive compensation in a sample of large listed German companies over the period from 1987 to 2003. Our findings suggest that executive compensation is a substantial fraction of corporate earnings and it reflects the existence of agency problems caused by the separation of ownership and control. Lack of control by ownership enables management to extract higher executive compensation. Identity of owners has a significant influence on the level of executive compensation. Whereas bank ownership substantially reduces the level of pay, family ownership has a significantly positive impact. The link between performance and compensation is dramatically weaker in firms where ultimate owners increase their voting rights in excess of their cash flow rights. The estimated pay-for-performance sensitivities are consistent with the view that concentrated owners have better opportunities for supervision.

Keywords: Executive Compensation, ownership structure, Germany

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