



Contents lists available at ScienceDirect

## Journal of Corporate Finance

journal homepage: [www.elsevier.com/locate/jcorpfin](http://www.elsevier.com/locate/jcorpfin)

# The effects of corporate acquisitions on CEO compensation and CEO turnover of family firms

Amedeo De Cesari<sup>a</sup>, Halit Gonenc<sup>b</sup>, Neslihan Ozkan<sup>c,\*</sup>

<sup>a</sup> University of Manchester, Manchester Business School, Booth Street West, Manchester M15 6PB, UK

<sup>b</sup> University of Groningen, Faculty of Economics and Business, Nettelbosje 2, 9747 AE Groningen, The Netherlands

<sup>c</sup> University of Bristol, School of Economics, Finance and Management, 15-19 Tyndalls Park Road, Bristol BS8 1TU, UK

## ARTICLE INFO

### Article history:

Received 22 December 2015

Received in revised form 20 January 2016

Accepted 28 January 2016

Available online xxxx

### JEL classification:

G30

G34

### Keywords:

CEO compensation

CEO turnover

Family firms

Acquisitions

## ABSTRACT

This paper investigates the impact of corporate acquisitions on CEO compensation and CEO turnover of family firms in Continental Europe. We find that CEOs in family firms do not experience an increase in their compensation during the post-acquisition period, while there is a positive and statistically significant association between the compensation of CEOs in non-family firms and their acquisition activity. This finding is consistent with the view that controlling family shareholders provide monitoring for CEOs mitigating managerial agency problems that arise from the separation of ownership and control. Further, we find that the likelihood of CEO turnover declines following an acquisition in non-family firms, suggesting that these acquiring CEOs do not face a higher likelihood of dismissal while they receive a higher level of compensation. In contrast, there is no significant impact of acquisitions on CEO turnover in family firms.

© 2016 Elsevier B.V. All rights reserved.

## 1. Introduction

Family firms have been prevalent across the globe, and a growing literature highlights differences between family and non-family firms in terms of corporate policy decisions (Bennedsen et al., 2010). Empirical evidence shows that family firms differ from non-family firms in various ways including their disclosure, financial structure, and acquisition decisions (Ali et al., 2007; Caprio et al., 2011; Chen et al., 2014). These differences are interpreted as mainly arising from distinctive agency issues related to family firms. On the one hand, firms with concentrated family share ownership can mitigate managerial agency problems arising from the separation of ownership and control (e.g., Jensen and Meckling, 1976). Controlling family shareholders, whose interests are well aligned with the interests of outside investors, are expected to monitor management effectively to reduce potential managerial agency costs. On the other hand, controlling family shareholders can make some corporate decisions that might allow them to extract private benefits of control at the expense of small shareholders (e.g., Bertrand et al., 2002; Johnson et al., 2000). Further, family firms are known to take a long-term management approach in their corporate decision-making (e.g., Gómez-Mejía et al., 2011).<sup>1</sup>

In this paper we aim to advance our understanding of corporate acquisition decisions in family firms by examining how corporate acquisitions influence CEO compensation and CEO turnover in family firms. The current literature suggests that corporate acquisitions can be driven by managerial interests, which can come in the forms of enlarged compensation packages and reduced

\* Corresponding author. Tel.: +440117 394 1495.

E-mail addresses: [amedeo.decesari@manchester.ac.uk](mailto:amedeo.decesari@manchester.ac.uk) (A. De Cesari), [H.Gonenc@rug.nl](mailto:H.Gonenc@rug.nl) (H. Gonenc), [N.ozkan@bristol.ac.uk](mailto:N.ozkan@bristol.ac.uk) (N. Ozkan).

<sup>1</sup> Family firms consider their socioemotional wealth, i.e., the utility they derive from noneconomic aspects of the business, including the preservation of the family dynasty and the conservation of the family's social capital, when they make corporate decisions.

risk of CEO turnover following an acquisition (e.g. Jensen, 1986; Shleifer and Vishny, 1989). There has been some evidence from US and UK firms that bidder CEOs receive substantial increases in their compensation during the post-acquisition period, while shareholders can experience a decline in their wealth.<sup>2</sup> Further, Yim (2013) reports that acquisitions also provide US CEOs with an opportunity to lower their risk of replacement. However, to the best of our knowledge, there is no study that has investigated the impact of acquisition activity on CEO compensation and CEO turnover in family firms. Thus, we aim to fill this gap in the literature.

If controlling family shareholders play a vigilant monitoring role, then we should not observe acquisitions that are mainly driven by CEOs' personal interests rather than the interests of other shareholders. Thus, in family firms, CEOs may not be able to use acquisitions as a way of promoting their self-interest by increasing their compensation and reducing their likelihood of replacement, while shareholders experience a loss in their wealth during the post-acquisition period. However, if controlling family shareholders do not provide monitoring, then CEOs in family firms, in particular professional CEOs, can pursue acquisitions as a way of increasing their compensation packages while also gaining greater job security. Controlling family shareholders would be expected to have the goal of transferring their firms to future generations, suggesting that they might have non-pecuniary benefits from their firms' performance (e.g., Gómez-Mejía et al., 2007). Therefore, we can argue that family shareholders provide monitoring for CEOs in family firms. We would expect families to have the necessary knowledge and incentives for effective monitoring.<sup>3</sup> However, CEOs in non-family firms, where agency problems from a separation of ownership and control prevail, can pursue acquisitions for their private benefit in the forms of larger compensation packages and lower risk of replacement, which might not necessarily benefit shareholders.

We focus on the following questions: Is the practice of offering a large compensation following an acquisition common in family firms? To what extent do controlling family shareholders, who are prevalent in Continental European firms, provide monitoring for CEO compensation and CEO turnover decisions during post-acquisition? Do family CEOs and professional CEOs in family firms differ in the way they are rewarded following acquisitions? Despite the recent increase in the acquisition activity in Continental Europe, there has been no empirical evidence regarding how acquisitions influence CEO compensation and CEO turnover in family and non-family firms. Acquisitions provide an ideal setting for investigating the implications of incentives for CEOs in family firms versus non-family firms. Prior studies show that acquisitions mostly destroy shareholder wealth in Europe (Gregory and O'Donohoe, 2014; Martynova and Renneboog, 2011). It is therefore important to explore whether CEOs receive an increase in their compensation or/and gain greater job security during the post-acquisition period and the extent of acquisitions made by CEOs in family and non-family firms to increase CEOs' personal benefits at the expense of other shareholders.

For our empirical analysis, we use a sample of 3219 firm-year observations of 760 Continental European non-financial firms for which CEO compensation data are available from BoardEx over the period of 2001–2008. In our empirical analysis, we control for firm-specific and board-specific characteristics that are found to influence CEO compensation in prior studies. We find that acquisitions have a positive and significant effect on the level of CEO total and cash compensation during the post-acquisition period. When we classify our sample of firms into family and non-family firms, we find that CEOs in non-family firms receive an increase in their compensation following an acquisition, while there is no significant relationship between CEO compensation in family firms and their acquisition activity. This finding suggests that CEOs in non-family firms in Continental Europe would be motivated to engage in acquisitions as a way of increasing their compensation. Overall, the increasing trend of acquisitions in Continental Europe can be partly explained by the self-interested pursuits of CEOs in non-family firms. Further, when we classify our sample of family firms into those with family CEOs and those with professional CEOs, our results show that professional CEOs in acquiring family firms receive an increase in total and cash compensation, while family CEOs do not seem to experience an increase in their compensation during the year following an acquisition. Thus, we observe significant differences in the way family firms compensate their family and professional CEOs following an acquisition. Moreover, we show that acquiring CEOs in non-family firms have a lower likelihood of turnover during the post-acquisition period than non-acquiring CEOs. Thus, acquiring CEOs' expanded compensation packages are not offset by a higher risk of termination in non-family firms. We do not observe a similar pattern in family firms, i.e., acquisitions by family firms do not have a significant impact on CEO turnover during the post-acquisition period.

This paper contributes to the literature in several ways. First, it extends the literature on the relationship between CEO compensation and acquisition activity by examining how acquisitions influence CEO compensation in family firms. Specifically, we show that family firms determine their CEO compensation packages following acquisitions differently from non-family firms in ways consistent with agency problems associated with separation of ownership and control. Second, our paper helps us advance our understanding on the extent to which family CEOs could differ from professional CEOs in family firms in terms of their motivations for engaging in acquisitions. We show that acquisitions do not have a significant impact on family CEOs' compensation, controlling for other economic determinants of CEO compensation. In contrast, professional CEOs in family firms receive larger compensation following acquisitions. Third, we provide evidence on how acquisitions can influence CEO turnover during the post-acquisition period in family firms and non-family firms. Specifically, we show that there is a significant reduction in the likelihood of CEO replacement in non-family firms following acquisitions, while acquisitions do not influence the likelihood of CEO replacement in family firms. To our knowledge, this is the first study on how acquisitions influence CEO compensation and CEO turnover in family firms.

<sup>2</sup> See Bliss and Rosen (2001), Grinstein and Hribar (2004), Harford and Li (2007), and Ozkan (2012).

<sup>3</sup> "Four lessons firms can learn from family businesses", Christian Stadler, *Forbes*, April 30, 2015; "The family way", Special Report: Family Companies, *The Economist*, April 18, 2015.

Download English Version:

<https://daneshyari.com/en/article/5093298>

Download Persian Version:

<https://daneshyari.com/article/5093298>

[Daneshyari.com](https://daneshyari.com)