

---

# Introduction to the Special Issue

## “Der Anstieg der Management-Vergütung: Markt oder Macht?”

*Margit Osterloh und Katja Rost*

Managementvergütung, optimale Verträge, Managermacht

Executive compensation, optimal contract view, managerial power view

Der weltweite Anstieg der Gehälter für angestellte Manager wird kontrovers diskutiert. Auf der einen Seite argumentieren Vertreter „optimaler Verträge“, dass der Anstieg der Gehälter durch funktionierende Märkte verursacht ist. Aus dieser Sicht erhöhen die Internationalisierung und Deregulierung der Märkte die Nachfrage nach talentierten Managerinnen und Managern, welche diese Herausforderungen bewältigen. Weil das Angebot knapp ist, steigen die Preise für solche Spitzenkräfte. Auf der anderen Seite argumentieren Vertreter der „Machtperspektive“, dass der Anstieg der Gehälter durch das Kontrollversagen von Verwaltungsräten und Aktionären zu erklären sei. Das Kontrollversagen werde verstärkt durch die Internationalisierung und Deregulierung der Märkte, welche die Komplexität der Führungsaufgabe erhöhen. Das Management kann dies ausnutzen. Aus dieser Sicht sind variable Management-Kompensationen nicht bloss ein Mittel, um solche Kontrollprobleme zu lösen, sondern Teil des Kontrollproblems selbst. Das vorliegende Sonderheft kontrastiert beide Sichtweisen. Das Einleitungskapitel stellt die zu Grunde liegende Argumentation beider Sichtweise dar und nimmt eine Zuordnung der Beiträge des Sonderbandes zu den beiden Sichtweisen vor.

*Across nations, the earnings of executives have risen strikingly in recent years. The academic literature on corporate governance offers two explanations for the high level of executives' compensation. In the optimal contract view, the compensation of top executives can be explained by the “invisible hand of the market”: Executives are worth the money they are paid because managerial talent is in scarce supply due to globalization and deregulation. The managerial power view explains executive pay by the “invisible handshake” of entrenched managers using their power at the shareholders' expense. According to this view, globalization and deregulation extend the complexity, which may be exploited by managers, and variable executive pay is not only an instrument to address the control problem but also a part of the control problem itself. This special issue contrasts both views. We introduce both views and outline the contributions.*

### 1. Introduction

Few business topics are as fiercely debated as the high compensation of top executives within public firms (Bolton *et al.* 2005; Bolton *et al.* 2006; Reinhart/Schwalbach 2007; Bogle 2008). The existing research on how to explain the high compensation of top executives compares two conflicting positions, namely the *optimal contract view* and the *managerial power*

*view* (also called managerialism). The defenders of high management earnings advocate the optimal contract view. According to this view, the high compensation paid to top executives can be explained by changes in the market for managers, in particular by the increased demand for *managerial talent* in a complex global economy compared with its scarce supply (e.g., *Martin/Moldoveanu* 2003; *Murphy/Zábojník* 2004, 2007; *Kaplan* 2008). The managerial power view is advanced by critics of high management earnings. Per this view, top executives largely determine their own pay. The huge increase in executive compensation is assumed to be the product of badly functioning corporate governance at the shareholders' and other stakeholders' expense (*Tosi et al.* 2000; *Bebchuk/Grinstein* 2005; *Bogle* 2008). As a consequence, CEO compensation does not correlate with managerial talent and firm performance. Deviations in favor of the executives are taken as evidence of *managerial power* (*Tosi* 2005).

Both hypotheses rarely refer to each other (the few exceptions are *Core et al.* 1999; *Bertrand/Mullainathan* 2001; *Core et al.* 2003; *Bebchuk/Fried* 2004; *Weisbach* 2007). On the one hand, the extant literature in the field of the optimal contract hypothesis is fairly silent on management entrenchment. It is rarely taken into account that, due to the fact that management has many opportunities to abuse complexity and information asymmetry in order to maximize its personal utility (*Gomez-Mejia/Wiseman* 1997), management is able to determine its own pay to a certain extent (*Tosi et al.* 2000; *Bebchuk et al.* 2002; *Bebchuk/Fried* 2003; *Keller* 2003). On the other hand, the extant literature in the field of the entrenchment hypothesis is fairly silent on the influence of the labor market for executives (*Devers et al.* 2007). It is not taken into account that the high levels of executive compensation at the shareholders' expense may reflect the fact that today's talented managers are scarcer than capital (*Martin/Moldoveanu* 2003). As a consequence, the often-stated, elusive pay-performance correlation provides no conclusive evidence whether executive compensation is driven by management entrenchment or by market forces.

Contrasting the labor market with entrenchment considerations still represents an important research question in the executive compensation literature (*Devers et al.* 2007; *Chang et al.* 2010). This special issue addresses this question by contrasting both explanations from the viewpoint of Swiss and German scholars, directors, managers, compensation consultants, and shareholder activists. This diverse set of people gives different answers on the degree to which executive compensations can be explained by indicators of optimal contracts or of management entrenchment.

In the following, we first present a short overview about the academic discussion on executive compensation and then outline why it is difficult to give a clear answer on the question of whether executive compensation is driven by the "invisible hand of markets" or by an "invisible handshake." Second, we provide a short summary of the answers to this question as given by the authors included in this special issue.

## 2. Two Conflicting Views of Executive Compensation

The typical publicly traded commercial organization in most Western countries has widely dispersed shareholders. They delegate the responsibility of running the business to hired executives. However, the interests of managers may not necessarily coincide with those of the absentee owners (*Berle/Means* 1932). The assumption of goal incongruity between owners and managers is the basis of the principal-agent theory (*Jensen/Meckling* 1976) and is typically referred to as the agency problem (*Shleifer/Vishny* 1997). The optimal contract

view focuses on the efficiency of external control mechanisms. It is assumed that competition in the managerial labor market leads to optimal contracts (Anderson et al. 2007; Gabaix/Landier 2008). In contrast, the managerial power view focuses on the failures of internal control mechanisms to overcome goal incongruity between owners and managers. Each of these explanations is discussed in turn.<sup>1</sup> Interestingly, both approaches are based on the assumption that the ultimate goal of management compensation is the alignment of the interests of shareholders and management via efficient markets. It is not discussed whether and why such an alignment really establishes a sense of justice among the public – a question raised in this issue by *Karl Hofstetter*.

### 2.1. The Optimal Contract View

Some authors argue that the level of executive compensation is driven by market forces (Jensen/Murphy 1990). Optimal control mechanisms exist to manage conflicts of interest between executives and shareholders (La Porta et al. 2000). In particular, there are three control mechanisms to which they refer.

First, competition establishes the earning limits for top managers (*Fama* 1980; *Lazear/Rosen* 1981; *Murphy* 1999; *Murphy/Zábojník* 2004, 2007; *Kaplan* 2008). Because there is a contest between alternative managerial teams for the rights to manage the resources of the firm, managers are prevented from losing their focus on the maximization of shareholder wealth (Jensen/Ruback 1983). In particular, when stock prices are low, the threat of a managerial team being replaced increases (Manne 1965). Second, the board of directors acts as a “line of defense” against self-serving or inefficient managers (Canyon/Peck 1998, 148). Third, pay for performance aligns the interests of shareholders and managers (Jensen/Meckling 1976; Murphy 1985).

According to this view, two main reasons are discussed for the increase in the price of management in recent years. First, with internationalization, deregulation, and worldwide competition, companies have become larger and more complex. Large companies are harder to manage than small companies and require higher investments in human capital on the part of the management (Roberts 1956; Mahoney 1979). It is argued that the supply of high performing managers is short compared to the rising demand. As a consequence, the “war for talent” has intensified and requires higher compensation. In this view, it is justified that managers’ “piece of the pie” increases at the cost of shareholders (which is not the case for Switzerland, see *Göx*, this issue) because in today’s environment talent is scarcer than capital (Martin/Moldoveanu 2003; Kaplan 2008). Second, *Murphy and Zábojník* (2004, 2007) argue that the demand for managers with transferable general skills (in particular financial and accounting experience) compared to managers with firm-specific knowledge has increased since the 1990s. This leads to more external hiring and an increase in equilibrium average wages for managers. Because individuals with transferable skills have more professional options, they can only be kept by a company through competitive rates of pay (Jensen/Murphy 1990; Kaplan 2008; Doerig/Stoer in this issue).

---

<sup>1</sup> According to some authors, tournament theory would be another explanation of executive pay (Lambert et al. 1993). However, according to other authors, tournament theory is not an adequate approach to explain the compensation for top executives because it mainly explains relative compensation at different levels within a hierarchy. Top executives are at the top of the hierarchical ladder where relative compensation loses importance (Lazear/Shaw 2007).

The optimal contract view has found indirect support through partial findings. The market for managers and the external labor market are empirically hard to capture. However, there are indications that the external labor market has a bearing on the formation of prices in the market for managers (Mintzberg 1973; Yukl 1989; Fisher/Govindarajan 1992; Ezzamel/Watson 1998; Anderson et al. 2000). For example, it has been shown that the stock price reaction upon a CEO departure is negatively related to the firm's prior performance and to the CEO's prior pay (Chang et al. 2010). The cited study also shows that the CEO's subsequent labor market success is greater if the firm's pre-departure performance is better, the prior pay is higher, and the stock market's reaction is more negative. Finally, better prior performance, higher prior pay, and a more negative stock market reaction are associated with worse post-departure firm performance. Taken together, these results may reject the view that CEO pay is unrelated to the CEO's contribution to firm value. A multitude of analyses confirm that the compensation of top managers increases with complex professional requirements, be they a result of greater opportunities for growth, high risk of a takeover, highly volatile demand, high R&D intensity, or higher product differentiation. The underlying assumption is that complex tasks require higher human capital investment, which reduces the pool of managers available and causes the price to rise.

### 2.2. The Managerial Power View

Other authors argue that the level of executive compensation is driven by suboptimal compensation contracts and a lack of control by the shareholders (Tosi et al. 2000; Bebchuk et al. 2002; Bebchuk/Fried 2003; Keller 2003; Bogle 2008). In this view, firm governance mechanisms do not efficiently protect shareholders against the misuse of managerial power. One of the most relevant abuses of power is empire building to gain control over key projects and initiatives and to trigger high compensation (Sudarsanam 1995).<sup>2</sup> Several reasons for the lack of control of top executives are discussed.

First, external control mechanisms by the market are ineffective instruments for monitoring the management (Bebchuk et al. 2002). The market for management control does not work efficiently because hostile takeovers of enterprises are costly undertakings. Even in the liberal financial markets of the USA and Great Britain, they do not often happen and are practically nonexistent in other countries (Bebchuk/Fried 2003). "Golden parachutes" in cases of dismissal may also act as a substantial hurdle.

Second, internal control mechanisms, in particular the board of directors, are limited in their function as a controlling body (Tosi et al. 2000; Bebchuk et al. 2002; Bebchuk/Fried 2003; Keller 2003; Rajan/Reichelstein 2009). As a consequence, management largely determines its own pay. In many cases, the CEO is also the chairperson of the board (Gomez-Mejia 1994). Reciprocal agreements resulting from blurred social boundaries between management and the board are common (Crystal 1991; Fierman 1990; Herman 1981). Conflict with managers with whom they are friendly is avoided (Amstutz 2007; Schiltknecht 2004).

Third, the managerial power view is also supported by Chhaochharia and Grinstein (2009) who find that external restrictions by the law lead to a significant decrease in CEO compensation.

---

<sup>2</sup> An alternative explanation is wrong incentives for executives at the expense of long-run fundamental firm value (Bolton et al. 2005; Frey/Osterloh 2005; Bolton et al. 2006; Rost/Osterloh 2009).

Fourth, some authors argue that there is a growing dispersion of stock ownership (Bebchuk/Grinstein 2005).<sup>3</sup> Dispersed shareholders have little chance of influencing management behavior. Shareholders do not possess the necessary information and, in addition, often have little interest in doing so (Tosi et al. 2000; Bebchuk/Grinstein 2005). The time and costs involved in dealing with all the necessary information is quite disproportionate to the potential benefits to be gained.

As with the optimal contract view, empirical findings supporting the managerial power view are largely indirect. Management entrenchment is difficult or sometimes impossible to observe (Hambrick/Finkelstein 1995; Grabke-Rundell/Gomez-Mejia 2002; Bratton 2005). However, there are some indications that firm governance does not protect shareholders against expropriation by managers.

First, peer comparisons determine wages at least as much as market forces. Examining intra-sector pay behavior, poorly paid CEOs also raise their pay according to sector performance, even when their management performance has been weak (Oreilly et al. 1988; Ezzamel/Watson 1998; Bizjak et al. 2000).<sup>4</sup> Furthermore, a study, which reviewed CEO compensation and economic performance, found that highly paid CEOs in small firms were generally more skilled than CEOs in large firms (Daines et al. 2005). Second, if the CEO has a higher level of education than the chairperson, the management compensation will be higher (Fiss 2006). This finding might indicate management entrenchment. Third, management compensation rises more sharply when the compensation committee is only appointed after the serving CEO has been appointed, or when the compensation committee has business connections with the management (Daily et al. 1998). Fourth, managers sometimes influence their variable compensation by manipulating the price of options to their own advantage (Yermack 1997; Aboody/Kaszniak 2000; Acharya et al. 2000; Chauvin/Shenoy 2001; Baker et al. 2003; Heron/Lie 2009). This may be done by deliberate suppression or by propagation of news about their firm. Fifth, numerous studies have shown that major shareholders, that is, individuals or companies that own 5% or more of a company's stocks, lower management pay (Gomez-Mejia et al. 1987; Gomez-Mejia/Tosi 1994; David et al. 1998; Ryan/Wiggins 2001; Cyert et al. 2002; Daines et al. 2005; Khan et al. 2005; Kim 2005; Hengartner/Ruigrok in this issue).<sup>5</sup> Sixth, Conyon and Clegg (1994) found a strong positive correlation between the frequency of acquisitions and managers' salary increases. Morck et al. (1990) showed that acquisitions of fast-growing firms often occurred in the presence of negative net present values. Seventh, CEO pay is generally greater in firms that use compensation consultants, (Conyon et al. 2009) and, as shown in Switzerland, it is greater in firms with a compensation committee (Hengartner/Ruigrok in this issue). Seventh, managers are able to determine the goals triggering bonus pay (Hostettler in this issue). Often, attaining these goals remains of prime concern despite the fact that the company may be failing to meet its overall goals or even anticipating bankruptcy, as some recent examples show. Finally, the huge bonuses recently paid to managers in companies that suffered tremendous losses strongly question the claim of the optimal contract view. It has been empirically shown that bar-

3 However, this argument may be in conflict with a recent paper by Holderness (2009) where he finds that 96% of U.S. firms have blockholders that, on average, own 39% of the firm's stock.

4 However, peer comparison could be as well related to market forces. Indeed, Bizjak et al. (2008) provide evidence suggesting that firms use benchmarking to determine the compensation necessary to retain their executives.

5 There is also evidence that for some European countries, for example, Germany, major shareholders may not lower management pay (Edwards et al. 2009).

gaining power matters to cut down compensations during the financial crisis. Chairpersons of the board of German and European listed companies were more able to avoid income reductions than other directors (*Prinz/Schwalbach* in this issue).

A host of studies supports the entrenchment hypothesis with additional indicators. However, often these indicators are ambiguous. The optimal contract hypothesis, in fact, could predict similar results while giving different reasons.

### 2.3. Contrasting Both Views

The empirical results of the studies discussed illustrate why the debate about CEOs' compensation continues. The causes of the level of earnings are still unclear due to the lack of unambiguous indicators for managerial talent or for management entrenchment. This problem can be illustrated in an exemplary manner if one considers the correlation between firm size and executive compensation. As shown by *Tosi et al.* (2000), firm size accounts for more than 40% of the variance in total executive pay (for evidence in Germany and Europe, see also Hengartner 2006; Rapp/Wolff 2010, Prinz/Schwalbach in this issue). Firm size seems to be the best predictor of executive compensation. Interestingly, both views – the entrenchment as well as the optimal contract view – claim that the strong link of firm size with executive compensation fits in their view, yet for different reasons.

The *optimal contract hypothesis* argues that the size-compensation correlation indirectly reflects managerial talent. Large firms are typically more complex (*Rajagopalan/Finkelstein* 1992; *Finkelstein/Boyd* 1998). Complexity generates discretion that can only be exploited by talented managers (*Gabaix/Landier* 2008). In this situation, the managerial impact on organizational outcomes is greatest (*Finkelstein/Hambrick* 1990); therefore, highly talented managers with general managerial skills are needed (*Murphy/Zábojník* 2004). In a competitive market, such high performing managers have to be paid high compensations (*Finkelstein/Boyd* 1998). Consequently, the correlation between firm size and executive compensation reflects efficient markets for managers.

The *power or entrenchment hypothesis* argues that the size-compensation correlation indirectly reflects managerial power. Large firms are typically more complex. Complexity increases the opportunities for managers to line their pockets because it increases information asymmetry between managers on the one hand and board of directors and shareholders on the other hand (*Tosi et al.* 2000). In such a situation, executives have the power to increase firm size and complexity even more through acquisitions (*Kroll et al.* 1990; *Bliss/Rosen* 2001; *Harford/Li* 2007). Consequently, the correlation between firm size and executive compensation reflects management entrenchment.

To contrast both views empirically and to control for causality issues is nearly an impossible task as our short and by far not comprehensive summary shows. It illustrates why the academic and public discussion about the reasons for the increase in executive compensation continues.

### 3. Authors and Contributions of this Special Issue

As the problem of appropriate management salaries most likely will not be solved by “true” empirical facts, this special issue opens the debate to a diverse set of people. They are scholars, directors, managers, compensation consultants, and shareholder activists, which from different perspectives, are involved in the topic of executive compensation. For a balanced

discussion, we asked for contributions from advocates of the optimal contract view as well as advocates of the managerial power view. This section gives a short overview of these contributions.

### 3.1. The Optimal Contract View

The first three contributions relate to the optimal contract approach, either because the authors give reasons for this view as a benchmark or because they advocate this view.

*Karl Hofstetter* (chairman of the board of directors at Schindler AG and professor of commercial law at the University of Zurich) poses the overall question: Under which conditions are management compensations based on justice considerations. In "A Theory of Justice for Management Compensation," he develops different concepts – procedural, substantive, and ethical justice – as a basis for the public and academic debate about executive compensation. He argues that in particular both procedural and substantive justice are of crucial importance. Both kinds of justice are compatible with fair competition, arm's length bargaining, and rewards reflecting real economic performance. They are incompatible with vested power positions or pay without performance. The relative openness of the concept of justice favors open and flexible rules that empower corporations and shareholders. "Say on pay" may be such an open and flexible rule. *Hofstetter* concludes that the quest for justice in matters of management compensation is a discovery process that deserves to be promoted. This process itself may lead to a new consensus about proper management compensation that is consistent with procedural and substantive justice. At the end of this process, management pay may receive similar acceptance as the extraordinarily high income of famous sports figures, models, or movie stars, which is perceived to be compatible with procedural and substantive justice. The considerations of *Hofstetter* make clear why the optimal contract approach has gained much acceptance as a reference point and a benchmark for the justification of management salaries.

In "What Drives Compensation in Banking?," *Hans-Ulrich Doerig* (Chairman of the Board of Directors at Credit Suisse Group AG) and *Harald P. Stoehr* (Managing Director and Senior Advisor at Credit Suisse Group AG) argue that compensation level and structure in fact are driven by market forces. First, the internationalization of banks increased the demand for local talents. Second, the origin of investment banks and hedge funds increased the demand for financial talents. The authors highlight developments in the banking sector over the last 25 years that had an impact on (executive) compensation within financial institutions but are often ignored in the public debate. They illustrate the switch from internal recruiting as the primary source of attracting talent to external recruiting. The first sourcing strategy relies on job security and a fixed salary, whereas the second sourcing strategy relies on performance pressure and external benchmarking. A main driver of this switch was the entering of European banks into the U.S. market, which required local U.S. investment specialists and thus the adaption of local compensation systems. While at the beginning, most European banks separated their compensation practices between the United States and Europe, mergers and acquisitions and human resource transfers accelerated the adaption of the second sourcing strategy and the underlying compensation practice to attract the best talent of the labor market. The authors finally discuss lessons to be learned from the last financial crisis. The ability to attract and retain talent should not be the only concern of effective compensation practices. Rather, the focus should be longer-term performance and the appropriateness to induce nonfinancial goals, such as compliance, internal control, or team-

work (see also *Hostettler* and *Kampkötter/Sliwka* in this issue). The authors warn of emerging regulations that may only produce unwarranted bureaucracy without ensuring financial stability.

Finally, in “Die Höhe der Managerlöhne in grossen Schweizer Publikums-Aktiengesellschaften: Problemfall oder drohende Überregulierung?,” *Robert F. Göx* (professor of controlling at the University of Fribourg) analyzes the level of executive compensation in Swiss public companies and discusses the usefulness of stricter regulation. Göx argues that it depends on benchmarks to determine whether certain levels of CEO compensation are appropriate. For shareholders, an important benchmark is value creation, not income differentials within a firm. Based on these considerations, Göx measured whether in Switzerland the relative costs of managers of SMI firms increased from 2002 to 2009.<sup>6</sup> The results indicated that this was not the case. As a consequence, the question arises whether a stricter regulation of executive compensation is necessary in Switzerland. Göx discusses the intended and unintended consequences of regulations under consideration in Switzerland, for example, the “Anti Rip Off Initiative” of *Thomas Minder* (see his article in this special issue), the “1:12 Initiative” of the young socialists of Switzerland, or of bonus taxes. He concludes that a stricter regulation of executive compensation is not needed. Göx suggests that shareholders should vote about executive compensation if the relative costs of managers exceed certain levels. Further, he proposes that mandatory fields about executive compensation should be standardized and simplified.

Summing up, the articles of *Doerig/Stoehr* and *Göx* give evidence that the rise in management compensation can be explained by optimal contracts to a considerable extent. In their view, the criteria discussed by *Hofstetter* are met. *Hofstetter* points out that optimal compensation contracts should be based on procedural and substantive justice. However, the ongoing public and academic debate about executive compensation shows that the amount of executive compensation paid to managers often does not convincingly comply with such justice criteria. This opens up the discussion for proponents of the managerial power view who doubt that executive compensation meets the criteria of procedural and substantive justice.

### 3.2. The Managerial Power View

The next four contributions are related to the managerial power approach, either because the authors are advocates of this view or because they discuss this view critically. The debate is opened up by *Thomas Minder* (founder of the “Anti Rip Off Initiative” and CEO of the Trybol AG).<sup>7</sup> In “Es ist höchste Zeit, die Kompetenzen neu zu regeln”, he asks for broader

---

6 SMI® is Switzerland’s most important stock index and comprises the 20 largest equities in the SPI. The SMI represents about 85% of the total capitalization of the Swiss equity market.

7 The Swiss political system knows two ways of enacting new laws. The common way is through a consensus decision between parliament and the senate. In cases where the proposal does not interfere with the Swiss constitution, these decisions become law. The second way is through the public itself by means of an initiative that can be started by every Swiss citizen. If an initiative receives the backing of at least 100'000 Swiss citizens within 18 months, it must be put on the agenda for a national vote. If the public vote supports the initiative, it becomes an amendment to the Swiss constitution. This makes initiatives an important instrument for the public to step up in case parliament does not address an issue of public interest. On February 26, 2008, *Thomas Minder* publicly announced that more than 100'000 signatures in favor of his “Initiative against rip-off-salaries” (“Abzocker-Initiative”) had been collected. Per Swiss law, this



shareholder rights, in particular, for an enhanced "say-on-pay" in order to foster a "shareholder-democracy" in Switzerland and to limit the power of managers. *Minder* claims that the board of directors abuses its competences. Instead of acting at arm's length of shareholders, the boards did not react to the public and political protest against executive compensation excesses. Therefore, he demands, among other things, that shareholders should elect directors annually and have a say on the total compensation of all directors on the board. These measures are explicitly criticized by *Göx* (in this issue). However, with respect to bonus taxes, both authors jointly argue that such a measure would be counterproductive for shareholders.

In "Über die Konstruktion von Salären: Wer macht, hat Macht: Beobachtungen aus der Praxis", *Stephan Hostettler* (compensation consultant, founder, and managing partner of Hofstettler, Kramarsch & Partner) analyzes in detail why managers have more and boards have less power than envisaged by current corporate governance guidelines. He looks at the different actors that are typically involved in executive compensation practices. First, the board of directors often delegates the preparation of compensation systems to managers. Second, managers are better informed, for example, about the likelihood of achieving certain objectives. Third, managers and directors often become friends. For a more balanced distribution of power, *Hofstettler* suggests that directors should become more involved in compensation arrangements. He additionally suggests that shareholders can exert influence by demanding better (and not more) transparency and appropriate incentives, for example, by delegating representatives in the compensation committee.

In "Pay for power? Explaining CEO compensation as a function of CEO power", *Lukas Hengartner* (adjunct lecturer for corporate finance at the University St. Gallen) and *Winfried Ruigrok* (professor of international management at the University St. Gallen) investigate whether managerial power is an explanation for the high levels of executive compensation in Switzerland. As important sources of managerial power, the authors consider the concentration of outside equity ownership, CEO duality, the establishment of a compensation committee, the proportion of independent directors, and CEO celebrity status. To investigate these various factors, a sample of 199 companies listed at the Swiss stock exchange SWX is used. The results give clear support for the hypotheses by showing that managerial power increases the level of executive compensation. Most interesting, the establishment of a compensation committee, as recommended in the Swiss Code of Best Practice in Corporate Governance of 2007, raises executive compensation considerably. This result indicates that standard setters need to take care in designing corporate governance mechanisms. Sometimes the intended effects do not materialize.

*Stefan Winter* (professor of human resources at the University of Bochum) and *Philip Michels* (Ph.D. student at the University of Bochum) question whether empirical findings advocating the managerial power view in fact tell us something about managerial power. In "Vorstandsvergütung und Macht – eine Kritik des Managerial Power Approach", they argue that the managerial power approach is based on a misinterpretation of empirical evidence. The link between compensation and power cannot be tested empirically at all. After a thorough discussion of the meaning of power in the context of compensation issues, the authors define power as an opportunity to enforce compensation claims against the interests

---

meant that the proposed bill of *Mr. Minder* was set for a public vote with potential effects on the Swiss constitution.

of the shareholders or the board. Based on this definition, they argue that an increase in management compensation could be a corollary of an increase in power as well as the exploitation of power, or an increase in the “a piece of the pie “that is available for disposal. It follows that compensation is a function of power, exploitation of power, and the “size of the cake.” Therefore, an increase in compensation may have its origin in an increase of power or an increase in a loss or prosocial preferences that leads to a higher exploitation of existing power. *Winter/Michels* concluded that the core statement of the managerial power – that compensation is related to power – is nothing more than a tautology.

Summing up, *Minder* and *Hostettler* criticize current executive compensation practices by pointing out that managers usually have more influence on their compensation contracts than the board of directors or shareholders. To a certain extent, they are able to set their compensation themselves. *Hengartner* and *Ruigrok* give empirical evidence for Switzerland to support this criticism. Such evidence not only raises the question whether executive compensation is really consistent with procedural and substantive justice, as discussed in the article by *Hofstetter*. It also challenges the advocates of the optimal contract view to explain why compensation levels are so dependent on governance factors like the percentage of outside shareholders and of independent directors or the existence of compensation committees. Finally *Winter* and *Michels* warn that the search for empirical evidence of managerial power is unpromising. To avoid this crux of the managerial power view, it is preferable to contrast the competing views under the headline of “pay for performance” versus “pay without performance” by asking which conditions favor “pay for performance”.

### 3.3. Contrasting Both Views: “Pay for Performance” or “Pay without Performance” During and After the Financial Crisis

The recent financial market crisis provides an opportunity to study some conditions under which “pay for performance” is fostered or hindered in a quasi natural experiment. The two following contributions by *Prinz/Schwalbach* and *Kampkötter/Sliwka* explore the question of how the relationship between pay and performance has developed in “good” versus “bad” times.

In “Zum Stand der Managervergütung in Deutschland und Europa: Ein aktuelles Porträt”, *Enrico Prinz* (senior researcher at the University of Strasbourg) and *Joachim Schwalbach* (professor of international management at the Humboldt-University Berlin) give an empirical overview about executive compensation in Germany and Europe. First, they investigated the level and structure of executive compensation, relying on a sample of German and European stock corporations from the year 2009. The analysis showed difference in pay levels between large and small firms and between German and European firms. It further pointed out that variable pay components became smaller after the financial crisis. Second, the authors analyzed the development of executive compensation in the face of the financial crisis, relying on data of German stock corporations from 2005–2009. The results showed that executive compensation declined slightly after 2007. In particular, short-term incentive pay was reduced. Third, relying on both samples, *Prinz* and *Schwalbach* investigated whether the levels of executive compensation were justified. They used a “fair pay” method to analyze the former correlation more precisely. Fair pay is calculated by redistributing executive compensation on relative financial firm performance. The method showed that more than one-third of the managers of big companies (e.g., Dax 30, Stoxx 50) may be overpaid, whereas only one-tenth of the managers of medium companies (e.g., MDax 50) are so. The 2005–

2009 sample indicated further that executive pay developed in consonance with performance. However, performance increases had a stronger impact on the increase in executive compensation than performance decreases had on the lowering of executive compensation. In addition, they showed that bargaining power matters. Chairpersons of the board were more able to avoid income reductions and to raise their compensation after the crisis than other directors. The authors concluded that pay-for-performance should be improved in larger firms in particular.

In "Die Wirkung der Finanzkrise auf Bonuszahlungen in deutschen Banken und Finanzdienstleistungsinstitutionen", *Patrick Kampkötter* (researcher at the University Cologne) and *Dirk Sliwka* (professor of human resources at the University Cologne) broaden the perspective by including managers of different hierarchical levels. They focused on bonus payments for middle and lower managers in the financial industry. The authors used two samples. The first one analyzed the time period 2004–2009 for 80 banking and financial institutions in Germany. The second sample analyzed the time period 2003–2008 for 51 international banking and financial institutions. First, the results showed that an increase in performance increased the percentage of variable performance pay in the following year. This increase was higher for managers in a higher hierarchical position. Second, the results showed that in the year 2009, following the financial crisis, the performance-pay-link decreased and on the higher levels was no longer significant. The authors explained these results by two facts. First, it indicated that banks with high losses most heavily reduced their variable pay. Second, it illustrated a major problem of bonus pay: high losses cannot be compensated by negative pay. *Kampkötter* and *Sliwka* concluded that pay-for-performance should be improved, for example, by the establishment of bonus banks that are long-term oriented and allow for negative pay.

Summing up, the contributions of *Prinz/Schwalbach* and of *Kampkötter/Sliwka* show that there is a performance sensitivity of management pay, but it is rather small. It is present in "good times" but absent in "bad times". Such evidence indicates that the optimal contract during "bad times" loses ground. The question arises if management salaries are indeed set by fair competition and arm's length bargaining. Regulations, for example, "say on pay" (as proposed by *Minder*), mandatory transparency about the relative costs of managers (as proposed by *Göx*), and bonus banks (as proposed by *Doerig/Stoehr* and *Kampkötter/Sliwka*) may solve such problems. However, the contributions of *Doerig/Stoehr* and *Göx* point out that it is questionable whether such regulations should be mandatory or should be introduced by the vote of shareholders to avoid unwarranted bureaucracy.

### 3.4. Regulation of Salaries: Experiences from Other Areas

The final contribution of *Dietl/Duschl/Lang* discusses insights about salary regulation in professional sports and links these insights with recent claims to regulate the salaries of CEOs.

In "Gehaltsobergrenzen und Luxussteuern: Erkenntnisse aus dem professionellen Mannschaftssport", *Helmut Dietl* (professor of business administration at the University of Zurich), *Tobias Duschl* (research assistant at the University of Zurich), and *Markus Lang* (senior research assistant at the University of Zurich) discuss pay regulations in professional sports. Such insights are of high interest as politicians in many countries discuss stricter regulations of CEO compensation. During the financial crisis, some countries, for example, the United States and Germany, temporarily applied salary caps for companies that had been

supported by the state. Empirical knowledge from other areas, here the professional sports, may suggest some ideas about the advantages and disadvantages to be expected from stricter regulation of executive pay. The authors show that the professional sports introduced two kinds of regulations: interventions in salary distribution (revenue sharing, salary caps, and luxury taxes) and interventions in the labor market for athletes (reverse clause). The similarity of these interventions to recent discussions with respect to executive compensation is obvious, for example, salary caps or bonus taxes. For professional sports, the authors document mainly positive experiences with stricter regulations. For example, it strengthens competition between large and small teams and therefore the social welfare of consumers (i.e., fans). However, they also report an increase in agency problems, indicating what is called the “control paradox” (Osterloh/Weibel 2006). For example, some teams bypass regulations. As a consequence, regulation may worsen the problems instead of solving them. Nevertheless, the contribution shows that in professional sports – regarded sometimes as a perfect representation of fair competition – self-regulation has a long and fruitful tradition.

#### 4. Conclusion

The cross-national rise of managers’ pay has provoked questions about whether executives are overpaid or not. “In general, the best-paid baseball players are also the most skilled. The main question is: Is the CEO labor market working in the same way? Do you make more money if you are better at it?” (Daines 2005, 1). Advocates of the optimal contract hypothesis argue that CEOs are worth the money that they are paid, whereas advocates of the “pay for no performance” hypothesis maintain that there is no rational basis for the high compensation paid to managers. This special issue discusses both hypotheses by taking up different points of view. It makes clear that the discussion will go on because the problem is far from being solved. We need a lot of further research. The following questions are listed to mention possible research directions.

- Given that both views are to a certain extent valid, to which extent can we explain the increase in management compensation by the “optimal contract view,” or what we have called the “managerial power view”? Does the explanatory power of the different views vary according to different countries, pattern of corporate governance, or economic conditions?
- Under which conditions does self-regulation (as in professional sports industry) make sense?
- What role does group dynamics and group diversity play in deciding compensation issues (see, e.g., Rost/Osterloh 2010)?
- To what extent does the board represent the interest of other stakeholders than shareholders (see, e.g., Deutscher Corporate Governance Kodex 2009)?<sup>8</sup>
- Should we broaden our research question and ask no longer for empirical evidence for the “optimal contract view” versus the “managerial power view”? Rather, should we ask why and under which conditions the general public perceives manager compensation as legitimate and what the consequences are (see, e.g., Rost *et al.* 2011).

We thank all of the authors of this special issue who have contributed to a joint discovery process. We hope that this special issue will enrich the debate about executive compensation

---

<sup>8</sup> For the development of the stakeholder view in the German Corporate Governance Kodex see von Werder (2011).

among advocates of different views as well as among practitioners and scholars. We hope that you enjoy reading the following contributions.

## 5. References

- Aboody, D./Kasznik, R. (2000): Ceo Stock Option Awards and the Timing of Corporate Voluntary Disclosures, in: *Journal of Accounting and Economics*, Vol. 29, pp. 73-100.
- Acharya, V.V./John, K./Sundaram, R.K. (2000): On the Optimality of Resetting Executive Stock Options, in: *Journal of Financial Economics*, Vol. 57, pp. 65-101.
- Amstutz, M.D. (2007): *Macht Und Ohnmacht Des Aktionärs. Möglichkeiten Und Grenzen Der Corporate Governance Bei Der Wahrung Der Aktionärsinteressen*, Zürich.
- Anderson, M.C./Banker, R.D./Ravindran, S. (2000): Executive Compensation in the Information Technology Industry, in: *Management Science*, Vol. 46, pp. 530-547.
- Anderson, R.C./Boylan, R.T./Reeb, D.M. (2007): *Paying the Ceo: A Model of Managerial Integrity Premiums*, Working Paper.
- Baker, T./Collins, D./Reitenga, A.L. (2003): Stock Option and Earnings Management Incentives, in: *Journal of Accounting, Auditing and Finance*, Vol. 18, pp. 557-582.
- Bebchuk, L./Fried, J. (2003): Executive Compensation as an Agency Problem, in: *Journal of Economic Perspectives*, Vol. 17, pp. 71-92.
- Bebchuk, L./Fried, J./Walker, D. (2002): Managerial Power and Rent Extraction in the Design of Executive Compensation., in: *University of Chicago Law Review*, Vol. 69, pp. 751-846.
- Bebchuk, L./Grinstein, Y. (2005): The Growth of Executive Pay, in: *Oxford Review of Economic Policy*, Vol. 21, pp. 283-303.
- Bebchuk, L./Fried, J.M. (2004): *Pay without Performance: The Unfulfilled Promise of Executive Compensation*, Cambridge.
- Berle, A.A./Means, G.C. (1932): *The Modern Corporation and Privat Property*, New York.
- Bertrand, M./Mullainathan, S. (2001): Are Ceos Rewarded for Luck? The Ones without Principals Are, in: *Quarterly Journal of Economics*, Vol. 116, pp. 901-932.
- Bizjak, J.M./Lemmon, M.L./Naveen, L. (2000): *Has the Use of Peer Groups Contributed to Higher Levels of Executive Compensation?*, Working Paper.
- Bizjak, J.M./Lemmon, M.L./Naveen, L. (2008): *Does the Use of Peer Groups Contribute to Higher Pay and Less Efficient Compensation?*, in: *Journal of Financial Economics*, Vol. 90, pp. 152-168.
- Bliss, R.T./Rosen, R.J. (2001): Ceo Compensation and Bank Mergers, in: *Journal of Financial Economics*, Vol. 61, pp. 107-138.
- Bogle, J.C. (2008): Reflections on Ceo Compensation, in: *Academy of Management Perspectives*, Vol. 22, pp. 21-25.
- Bolton, P./Scheinkman, J./Xiong, W. (2005): Pay for Short-Term Performance: Executive Compensation in Speculative Market, in: *Journal of Corporation Law*, Vol. 30, pp. 721-747.
- Bolton, P./Scheinkman, J./Xiong, W. (2006): Executive Compensation and Short-Termist Behavior in Speculative Markets, in: *Review of Economic Studies*, Vol. 73, pp. 577-610.
- Bratton, W.W. (2005): Pay without Performance: The Unfulfilled Promise of Executive Compensation, in: *California Law Review*, Vol. 93, pp. 1557-1584.
- Chang, Y.Y./Dasgupta, S./Hilary, G. (2010): Ceo Ability, Pay, and Firm Performance, in: *Management Science*, Vol. 56, pp. 1633-1652.

## Editorial

---

- Chauvin, K.W./Shenoy, C.* (2001): Stock Price Decreases Prior to Executive Stock Option Grants, in: Journal of Corporate Finance, Vol. 7, pp. 53-76.
- Chhaochharia, V./Grinstein, Y.* (2009): Ceo Compensation and Board Structure, in: The Journal of Finance, Vol. 64, pp. 231-261.
- Conyon, M.J./Clegg, P.* (1994): Pay at the Top: A Study of the Sensitivity of Top Director Remuneration to Company Specific Shocks, in: National Institute Economic Review, Vol. 149, pp. 83-92.
- Conyon, M.J./Peck, S.I.* (1998): Board Control, Remuneration Committees, and Top Management Compensation, in: Academy of Management Journal, Vol. 41, pp. 146-157.
- Conyon, M.J./Peck, S.I./Sadler, G.V.* (2009): Compensation Consultants and Executive Pay: Evidence from the United States and the United Kingdom, in: Academy of Management Perspectives, Vol. 23, pp. 43-55.
- Core, J.E./Guay, W.R./Larcker, D.F.* (2003): Executive Equity Compensation and Incentives: A Survey, in: Economic Policy Review, Vol. 9, pp. 27-50.
- Core, J.E./Holthausen, R.W./Larcker, D.F.* (1999): Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, in: Journal of Financial Economics, Vol. 51, pp. 371-406.
- Crystal, G.S.* (1991): Why Ceo Compensation Is So High, in: California Management Review, Vol. 34, pp. 9-29.
- Cyert, R.M./Kang, S.H./Kumar, P.* (2002): Corporate Governance, Takeovers, and Top-Management Compensation: Theory and Evidence, in: Management Science, Vol. 48, S. 453-469.
- Daily, C.M./Johnson, J.L./Ellstrand, A.E./Dalton, D.R.* (1998): Compensation Committee Composition as a Determinant of Ceo Compensation, in: Academy of Management Journal, Vol. 41, pp. 209-220.
- Daines, R.* (2005): In Big Firms, High Salary for Ceos Does Not Necessarily Reflect High Performance, Stanford Report, Vol. 16, pp. 1-2.
- Daines, R./Nair, V. B./Kornhauser, L. A.* (2005): The Good, the Bad and the Lucky: Ceo Pay and Skill, in: SSRN, under <http://ssrn.com/abstract=622223>.
- David, P./Kochhar, R./Levitas, E.* (1998): The Effect of Institutional Investors on the Level and Mix of Ceo Compensation, in: Academy of Management Journal, Vol. 41, pp. 200-208.
- Devers, C.E./Cannella, A.A./Reilly, G.P./Yoder, M.E.* (2007): Executive Compensation: A Multidisciplinary Review of Recent Developments, in: Journal of Management, Vol. 33, pp. 1016-1072.
- Edmans, A./Gabaix, X.* (2009): In European Financial Management, Vol. 15, No. 3, pp. 486-496.
- Edwards, J.S S./Eggert, W./Weichenrieder, A.J.* (2009): Corporate Governance and Pay for Performance: Evidence from Germany, in: Economics of Governance, Vol. 10, pp. 1-26.
- Ezzamel, M./Watson, R.* (1998): Market Comparison Earnings and the Bidding-up of Executive Cash Compensation: Evidence from the United Kingdom, in: Academy of Management Journal, Vol. 41, pp. 221-231.
- Fama, E.F.* (1980): Agency Problems and the Theory of the Firm, in: The University of Chicago Press, Vol. 88, pp. 288-307.
- Fierman, J.* (1990): The People Who Set the Ceos Pay, in: Fortune, Vol. 121, pp. 58.
- Finkelstein, S./Boyd, B.K.* (1998): How Much Does the Ceo Matter? The Role of Managerial Discretion in the Setting of Ceo Compensation, in: Academy of Management Journal, Vol. 41, pp. 179-199.
- Finkelstein, S./Hambrick, D.C.* (1990): Top-Management-Team Tenure and Organizational Outcomes: The Moderating Role of Managerial Discretion, in: Administrative Science Quarterly, Vol. 35, pp. 484-503.

- Fisher, J./Govindarajan, V.* (1992): Profit Center Manager Compensation – an Examination of Market, Political and Human-Capital Factors, in: *Strategic Management Journal*, Vol. 13, pp. 205-217.
- Fiss, P.C.* (2006): Social Influence Effects and Managerial Compensation Evidence from Germany, in: *Strategic Management Journal*, Vol. 27, pp. 1013-1031.
- Frey, B.S./Osterloh, M.* (2005): Yes, Managers Should Be Paid Like Bureaucrats, in: *Journal of Management Inquiry*, Vol. 14, pp. 96-111.
- Gabaix, X./Landier, A.* (2008): Why Has Ceo Pay Increased So Much?, in: *Quarterly Journal of Economics*, Vol. 123, pp. 49-100.
- Gomez-Mejia, L./Wiseman, R.M.* (1997): Reframing Executive Compensations: An Assessment and Outlook, in: *Journal of Management*, Vol. 23, pp. 291-374.
- Gomez-Mejia, L.R.* (1994): Executive Compensation: A Reassessment and a Future Research Agenda, in: *Research in Personnel and Human Resources Management*, Vol. 12, pp. 161-222.
- Gomez-Mejia, L.R./Tosi, H./Timothy, H.* (1987): Managerial Control, Performance and Executive Compensation, in: *Academy of Management Journal*, Vol. 30, pp. 51-76.
- Gomez-Mejia, L.R./Tosi, H. L.J.* (1994): Ceo Compensation Monitoring and Firm Performance, in: *Academy of Management Journal*, Vol. 37, pp. 1002-1016.
- Grabke-Rundell, A./Gomez-Mejia, L.R.* (2002): Power as a Determinant of Executive Compensation, in: *Human Resource Management Review*, Vol. 12, pp. 3-23.
- Hambrick, D.C./Finkelstein, S.* (1995): The Effects of Ownership Structure on Conditions at the Top – the Case of Ceo Pay Raises, in: *Strategic Management Journal*, Vol. 16, pp. 175-193.
- Harford, J./Li, K.* (2007): Decoupling CEO wealth and firm performance: The case of acquiring CEOs, in: *Journal of Finance*, Vol. 62, pp. 917-949.
- Hengartner, L.* (2006): *Explaining Executive Pay: The Roles of Management Power and Complexity*, Wiesbaden.
- Herman, E.S.* (1981): *Corporate Control, Corporate Power*, Cambridge.
- Heron, R.A./Lie, E.* (2009): What Fraction of Stock Option Grants to Top Executives Have Been Backdated or Manipulated?, in: *Management Science*, Vol. 55, pp. 513-525.
- Holderness, C.G.* (2009): The Myth of Diffuse Ownership in the United States, in: *Review of Financial Studies*, Vol. 22, pp. 1377-1408.
- Jensen, M.C./Murphy, J.K.* (1990): Performance Pay and Top-Management Incentives, in: *The Journal of Political Economy*, Vol. 98, pp. 225-264.
- Jensen, M.C./Meckling, W.H.* (1976): Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure, in: *Journal of Financial Economics*, Vol. 3, pp. 305-360.
- Jensen, M.C./Murphy, K.J.* (1990): Performance Pay and Top-Management Incentives, in: *Journal of Political Economy*, Vol. 98, pp. 225-264.
- Jensen, M.C./Ruback, R.S.* (1983): The Market for Corporate-Control – the Scientific Evidence, in: *Journal of Financial Economics*, Vol. 11, pp. 5-50.
- Kaplan, S.N.* (2008): Are U.S. Ceos Overpaid?, in: *Academy of Management Perspectives*, Vol. 22, pp. 5-20.
- Keller, H.U.* (2003): *The Determinants and Effects of Interlocking Directorships and Board Composition: An Empirical Analysis of Corporate Governance in Switzerland*, Universität St. Gallen.
- Khan, R./Dharwadkar, R./Brandes, P.* (2005): Institutional Ownership and Ceo Compensation: A Longitudinal Examination, in: *Journal of Business Research*, Vol. 58, pp. 1078-1088.
- Kim, K.* (2005): *Large Shareholder Turnover and Ceo Compensation*, Pittsburgh.

## Editorial

---

- Kroll, M./Simmons, S.A./Wright, P.* (1990): Determinants of Chief Executive Officer Compensation Following Major Acquisitions, in: *Journal of Business Research*, Vol. 20, pp. 349-366.
- La Porta, R./Lopez-De-Silanes, F./Shleifer, A./Vishny, R.* (2000): Investor Protection and Corporate Governance, in: *Journal of Financial Economics*, Vol. 58, pp. 3-27.
- Lambert, R.A./Larcker, D.F./Weigelt, K.* (1993): The Structure of Organizational Incentives, in: *Administrative Science Quarterly*, Vol. 38, pp. 438-461.
- Lazear, E.P./Rosen, S.* (1981): Rank-Order Tournaments as Optimum Labor Contracts, in: *Journal of Political Economy*, Vol. 89, pp. 841-864.
- Lazear, E.P./Shaw, K.L.* (2007): Personnel Economics: The Economist's View of Human Resources, in: *Journal of Economic Perspectives*, Vol. 21, pp. 91-114.
- Mahoney, T.A.* (1979): Organizational Hierarchy and Position Worth, in: *Academy of Management Journal*, Vol. 22, pp. 726-737.
- Manne, H.G.* (1965): Mergers and the Market for Corporate-Control, in: *Journal of Political Economy*, Vol. 73, pp. 110-120.
- Martin, R.L./Moldoveanu, M.C.* (2003): Capital Versus Talent. The Battle That's Reshaping Business, in: *Harvard Business Review*, Vol. 81, pp. 36-41.
- Mintzberg, H.* (1973): New Look at Chief Executives Job, in: *Organizational Dynamics*, Vol. 1, pp. 20-30.
- Morck, R./Shleifer, A./Vishny, R.W.* (1990): Do Managerial Objectives Drive Bad Acquisitions?, in: *The Journal of Finance*, Vol. 45, pp. 31-48.
- Murphy, K.J.* (1985): Corporate Performance and Managerial Remuneration, in: *Journal of Accounting and Economics*, Vol. 7, pp. 11-42.
- Murphy, K.J.* (1999): Executive Compensation, in: *Ashenfelter, O./Card, D.* (Eds.): *Handbook of Labor Economics*, No. 3, Amsterdam, pp. 2485-2563.
- Murphy, K.J./Zábojník, J.* (2004): Ceo Pay and Appointments: A Market-Based Explanation for Recent Trends, in: *American Economic Review (Proceedings)*, Vol. 94, pp. 192-196.
- Murphy, K.J./Zábojník, J.* (2007): Managerial Capital and the Market for Ceos, Working paper.
- Oreilly, C.A./Main, B.G./Crystal, G.S.* (1988): Ceo Compensation as Tournament and Social-Comparison – a Tale of 2 Theories, in: *Administrative Science Quarterly*, Vol. 33, pp. 257-274.
- Osterloh, M./Weibel, A.* (2006): Investition Vertrauen. Prozesse der Vertrauensentwicklung in Organisationen, Wiesbaden.
- Rajagopalan, N./Finkelstein, S.* (1992): Effects of Strategic Orientation and Environmental-Change on Senior Management Reward Systems, in: *Strategic Management Journal*, Vol. 13, pp. 127-141.
- Rajan, M.V./Reichelstein, S.* (2009): Objective Versus Subjective Indicators of Managerial Performance, in: *Accounting Review*, Vol. 84, pp. 209-237.
- Rapp, M.S./Wolff, M.* (2010): Determinanten Der Vorstandsvergütung: Eine Empirische Untersuchung Der Deutschen Prime-Standard-Unternehmen, in: *Zeitschrift für Betriebswirtschaft*, Vol. 80. pp. 1075-1112.
- Reinhart, S./Schwalbach, J.* (2007): Zu Höhe Und Dynamik Der Vorstandsvergütung in Deutschland, in: *Schwalbach, J./Fandel, G.* (Eds.): *Der Ehrbare Kaufmann: Modernes Leitbild Für Unternehmer?*, ZfB Special Issue 1/07, Wiesbaden, pp. 111-122.
- Roberts, D.R.* (1956): A General Theory of Executive Compensation Based on Statistically Tested Propositions, in: *The Quarterly Journal of Economics*, Vol. 70, pp. 270-294.



- Rost, K./Osterloh, M. (2009): Management Fashion Pay-for-Performance for Ceos, in: Schmalenbachs Business Review, Vol. 61, pp. 119-149.
- Rost, K./Osterloh, M. (2010): Opening the Black Box of Upper Echelons: Expertise and Gender as Drivers of Poor Information Processing During the Financial Crisis, in: Corporate Governance: An International Review, Vol. 18, pp. 212-233.
- Rost, K./Weibel, A./Osterloh, M. (2011): Legitimacy of CEO pay: When do people think CEO are overpaid and what are the consequences?, unpublished Working Paper, University Zürich.
- Ryan, H.E./Wiggins, R.A. (2001): The Influence of Firm-and Manager-Specific Characteristics on the Structure of Executive Compensation, in: Journal of Corporate Finance, Vol. 7, pp. 101-123.
- Schiltknecht, K. (2004): Corporate Governance: Das subtile Spiel um Geld und Macht, Zürich.
- Shleifer, A./Vishny, R. (1997): A Survey of Corporate Governance, in: Journal of Finance, Vol. 52, pp. 737-783.
- Sudarsanam, S.P. (1995): The Essence of Mergers and Acquisitions, Hemel Hempstead.
- Tosi, H.L. (2005): Pay without Performance: The Unfulfilled Promise of Executive Compensation, in: Administrative Science Quarterly, Vol. 50, pp. 483-487.
- Tosi, H.L./Werner, S./Katz, J.P./Gomez-Mejia, L.R. (2000): How Much Does Performance Matter? A Meta-Analysis of Ceo Pay Studies, in: Journal of Management, Vol. 26, pp. 301-339.
- von Werder, A. (2011): Neue Entwicklungen der Corporate Governance in Deutschland, in: Zeitschrift für betriebswirtschaftliche Forschung, Vol. 63, pp. 48-62.
- Weisbach, M.S. (2007): Optimal Executive Compensation Versus Managerial Power: A Review of Lucian Bebchuk and Jesse Fried's Pay without Performance: The Unfulfilled Promise of Executive Compensation, in: Journal of Economic Literature, Vol. 45, pp. 419-428.
- Yermack, D. (1997): Good Timing: Ceo Stock Option Awards and Company News Announcements, in: Journal of Finance, Vol. 52, pp. 449-476.
- Yukl, G. (1989): Managerial Leadership: A Review of Theory and Research, in: Journal of Management, Vol. 15, pp. 251.

**Margit Osterloh**, Dr. Dr. h.c., ist Professorin für Management an der Warwick Business School der Universität Warwick, Professorin (em.) an der Universität Zürich und Forschungsdirektorin von CREMA.

*Anschrift:* CREMA, Südstrasse 11, Zürich, CH-8008, E-Mail: osterloh@iou.uzh.ch

**Katja Rost**, Dr., ist Professorin für Strategisches and Internationales Management an der Universität Jena und Forschungsfellow bei CREMA.

*Anschrift:* Universität Jena, Institut für Strategisches und Internationales Management, Carl-Zeiss-Straße 3, Jena D-07743, E-Mail: katja.rost@iou.uzh.ch