CEO MOTIVES

PROF DR XAVIER BAETEN
This study: Why and how?
WHAT’S IN THIS STUDY?
STRUCTURE OF THE QUESTIONNAIRE

- Corporate governance
- Work environment
- Financial rewards
- Ethics & sustainability

Work engagement
Ambition
WHO ARE WE TALKING ABOUT?
THE SAMPLE
NUMBER OF RESPONDENTS

GEOGRAPHY

950

546; 58%

58%

403; 42%

42%

Netherlands

Belgium

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ORGANIZATION TYPE

Number of respondents

Family business: 433
Listed firm: 153
Private equity-owned: 170
Cooperative: 15
Non-profit/NGO: 48
Public: 40
Other: 90
ORGANIZATION SIZE

Number of employees (FTE)

- >500; 153; 16%
- 51-100; 201; 21%
- 101-500; 305; 33%
- 0-50; 282; 30%
- ≤50; 282; 30%
How many female CEOs in our sample?
CEO TYPOLOGY: GENDER, OWNERSHIP

Gender

- Male: 857; 90%
- Female: 93; 10%

CEO owner?

- Sole shareholder: 483; 51%
- Co-owner: 127; 13%
- No CEO ownership: 340; 36%
CEO TYPOLOGY

51 8
CEO TYPOLOGY: AGE, SENIORITY

Age

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Bar Height</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;45 y</td>
<td>150</td>
</tr>
<tr>
<td>46-55 y</td>
<td>500</td>
</tr>
<tr>
<td>&gt;55 y</td>
<td>250</td>
</tr>
</tbody>
</table>

Years in current role

<table>
<thead>
<tr>
<th>Years in Role</th>
<th>Bar Height</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5 y</td>
<td>100</td>
</tr>
<tr>
<td>5-12 y</td>
<td>300</td>
</tr>
<tr>
<td>&gt;12 y</td>
<td>200</td>
</tr>
</tbody>
</table>
CEO TYPOLOGY: SENIORITY

<table>
<thead>
<tr>
<th></th>
<th>CEO owner</th>
<th>No CEO ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;5 y</td>
<td>47%</td>
<td>21%</td>
</tr>
<tr>
<td>5-12 y</td>
<td>34%</td>
<td>32%</td>
</tr>
<tr>
<td>&gt;12 y</td>
<td>19%</td>
<td>47%</td>
</tr>
</tbody>
</table>

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HOW SATISFIED ARE CEOS?
A TOTAL REWARDS PERSPECTIVE
**FIRST OF ALL: WHAT ABOUT THE RELATIONSHIP WITH THE BOARD?**

<table>
<thead>
<tr>
<th>Corporate governance item</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>The board adds value to the company’s strategy</td>
<td>3,9</td>
<td>3,8</td>
</tr>
<tr>
<td>The board provides relevant contacts</td>
<td>3,3</td>
<td>3,2</td>
</tr>
<tr>
<td>Climate of trust with the board</td>
<td>4,5</td>
<td>4,2</td>
</tr>
<tr>
<td>Collaboration with board in a mutually respectful way</td>
<td>4,5</td>
<td>4,4</td>
</tr>
<tr>
<td>Feedback from the board is objective and reliable</td>
<td>4,1</td>
<td>3,8</td>
</tr>
<tr>
<td>I feel supported by the board</td>
<td>4,3</td>
<td>4,1</td>
</tr>
</tbody>
</table>
Total reward = Financial + non-financial

Pay satisfaction
Distributive justice
Procedural justice
TOTAL REWARDS SATISFACTION

Pay satisfaction: 3.9
Distributive justice: 3.8
Procedural justice: 4.0
Non-financial rewards: 4.1
NON-FINANCIAL REWARDS: WHAT ARE WE TALKING ABOUT?

- Overall climate
- Collaboration with senior mgt/board
- Pride
- Challenge
- Acceptance of change

Outside view on organisation
Developing management skills
Work progress

Innovation attitude
Ethical standards
Clear & challenging objectives

Social relevance
Travel
Values alignment
Workplace location
Recognition

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NON-FINANCIAL REWARD SATISFACTION

- Highest score
  - Pride
  - Ethical standards
  - Values alignment
  - Challenge
  - Collaboration senior mgt

- Lowest score
  - Acceptance of change
  - Travel
  - Targets
CEO SATISFACTION

**Female CEOs**
- Need more/better feedback by the board
- Feel less trusted and supported by the board

**Total reward satisfaction**
- Performance management & organization’s willingness to change: main points of attention
- Non-financial rewards > financial rewards
HOW ENGAGED ARE CEOs?
Work engagement is defined as a positive, fulfilling work-related state of mind that is characterized by vigor, dedication, and absorption.
WORK ENGAGEMENT

VIGOR
1. At my work I feel like bursting with energy.
2. At my job I feel strong and vigorous.
3. When I get up in the morning, I feel like going to work.
4. I can continue to work for long periods of time.
5. At my job, I am mentally resilient.
6. At my job, I always persevere, even when things do not go well.

DEDICATION
1. I find the work that I do meaningful and purposeful.
2. I am enthusiastic about my job.
3. My job inspires me.
4. I am proud of the work that I do.
5. My job is challenging enough.

ABSORPTION
1. Time flies when I am at work.
2. When I work, I forget everything else around me.
3. I feel happy when I work intensively.
4. I am immersed in my work.
5. I get carried away when I work.
6. It is difficult to detach myself from my work.

1 Never
2 Almost never
3 Rarely
4 Sometimes
5 Often
6 Very often
7 Always

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Schaufeli, Bakker, Salanova
WORK ENGAGEMENT & SENIORITY

1 Never
2 Almost never
3 Rarely
4 Sometimes
5 Often
6 Very often
7 Always
Our CEOs are
- Highly engaged
- Not complaining about their work-life balance

Engagement is (slightly) higher after serving more than 12 years as CEO!

=> forget the football trainer career?!
WHAT DRIVES CEOs?
What is your main driver?
What is the strongest driver of work engagement?

- Pay satisfaction
- Ambition
- Non-financial reward satisfaction
WHAT DRIVES CEOS?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Standardized Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambition</td>
<td>0.25</td>
</tr>
<tr>
<td>Age</td>
<td>0.15</td>
</tr>
<tr>
<td>Job seniority</td>
<td>0.10</td>
</tr>
<tr>
<td>Non-financial reward satisfaction</td>
<td>0.45</td>
</tr>
<tr>
<td>Pay satisfaction</td>
<td>0.05</td>
</tr>
<tr>
<td>Distributive justice</td>
<td>0.05</td>
</tr>
<tr>
<td>Procedural justice</td>
<td>0.05</td>
</tr>
</tbody>
</table>

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WHAT DRIVES CEOS?
NETHERLANDS VERSUS BELGIUM...

<table>
<thead>
<tr>
<th>Metric</th>
<th>NL</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambition</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Age</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Job seniority</td>
<td>-0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Non-financial reward</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Pay satisfaction</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Distributive justice</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Procedural justice</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>
NON-FINANCIAL REWARDS: WHAT ARE WE TALKING ABOUT?

- Overall climate
- Collaboration with senior mgt/board
- Recognition
- Pride
- Outside view on organisation
- Values alignment
- Challenge
- Acceptance of change
- Travel
- Innovation attitude
- Developing management skills
- Ethical standards
- Work progress
- Workplace location
- Social relevance
- Clear & challenging objectives

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WHICH NON-FINANCIAL REWARDS DRIVE CEOS’ WORK ENGAGEMENT?
CEO DRIVERS

- It is all about...
  - Challenge, advancement, pride
  - But also ethical standards

- It is not about...
  - Recognition, job security

- **Female** CEOs:
  - Much more driven by teamwork & work climate

- CEOs aged **50+**:
  - More strongly driven by ethical standards & societal relevance
IS IT ALL ABOUT THE MONEY?
FINANCIAL REWARDS - TOPICS

- Reward **theories** relevant for managers
- Financial reward **satisfaction**
- Financial reward **design**
  - Variable remuneration
- Financial reward **benchmarking**
- Financial reward **governance**
  - Remuneration committee
Agency theory

Self-determination theory

Equity theory
AGENCY THEORY
THE CONTROL PARADIGM
‘Research suggests that expected, tangible rewards undermine autonomous motivation because individuals attribute their behaviour to the external rewards rather than internal reasons.’

(Garaus, Furtmüller, Güttel)
Corruption effect

Informational aspect
Informs about efficacy of behaviour

Controlling aspect
Behaviour is externally controlled

'We suggest that under specific circumstances, external rewards enhance autonomous motivation to learn even if they are tangible and expected.'

Garaus, Furtmüller, Güttel
SELF-DETERMINATION THEORY

Extrinsic rewards

Intrinsic motivation

Feelings of autonomy
- Loosely coupled
- Small rewards
- Unexpected, ex-post
- Participative decision-making
EQUITY THEORY

Organisational justice

Distributive justice
- Responsibilities
- Experience
- Effort
- Performance

Procedural justice
- Consistent rules
- Employee input
- Accurate information
- Opportunity for appeal

Interactive justice
- How decisions are communicated and enacted

Searle et al.
## FINANCIAL REWARD SATISFACTION

<table>
<thead>
<tr>
<th>Highest scores</th>
<th>Lowest scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Well informed concerning the system that determines my variable remuneration (PJ)</td>
<td>• Remuneration in relation to a similar position in the market (DJ)</td>
</tr>
<tr>
<td></td>
<td>• Remuneration in relation to the work done (DJ)</td>
</tr>
<tr>
<td></td>
<td>• Remuneration reflecting contribution to the organisation (DJ)</td>
</tr>
<tr>
<td></td>
<td>• Remuneration being justified given performance (DJ)</td>
</tr>
<tr>
<td></td>
<td>• Objectivity of remuneration process (PJ)</td>
</tr>
</tbody>
</table>
FINANCIAL REWARD DESIGN VARIABLE REMUNERATION?

% granting variable remuneration

- CEO owner: 46%
- No CEO ownership: 71%
- Family business: 52%
- Listed firm: 89%
- Private equity-owned: 57%
- 0-100 employees: 53%
- 101-250 employees: 58%
- >250 employees: 64%

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FINANCIAL REWARD DESIGN
KPIs UNDERLYING VARIABLE REMUNERATION

- Accounting: 93%
- Efficiency/quality: 32%
- Innovation: 21%
- Customer-related: 19%
- Employee-related: 18%
- Market share: 15%
- Share price: 7%
- Environment: 4%
FINANCIAL REWARD BENCHMARKING

- No benchmarking: 42%
- Ad hoc: 23%
- Yearly: 13%
- Two-yearly: 6%
- Three-yearly: 4%
- Don’t know: 12%

19% ‘structural benchmarking’
## FINANCIAL REWARD BENCHMARKING

<table>
<thead>
<tr>
<th></th>
<th>Structural benchmarking</th>
<th>No structural benchmarking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable pay satisfaction (PS)</td>
<td>4.2</td>
<td>3.9</td>
</tr>
<tr>
<td>Remuneration in relation to similar position in the market (DJ)</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Remuneration reflects contribution to organisation (DJ)</td>
<td>4.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Impact on outcome of remuneration processes (PJ)</td>
<td>3.6</td>
<td>3.9</td>
</tr>
</tbody>
</table>
Remuneration committee:

• Why (not)?
• Added value?
• Experiences?
FINANCIAL REWARD GOVERNANCE
REMUNERATION COMMITTEE

Remuneration committee; 28%
No remuneration committee; 72%
LOGIC BEHIND THE INSTALMENT OF A REMUNERATION COMMITTEE

- Expertise
- Monitoring
- Director liability
- Conflicts of interest
- Legitimacy
## Financial Reward Governance

### Remuneration Committee

<table>
<thead>
<tr>
<th>Reward characteristic</th>
<th>Remco</th>
<th>No remco</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>37%</td>
<td>12%</td>
</tr>
<tr>
<td>Variable pay</td>
<td>74%</td>
<td>53%</td>
</tr>
<tr>
<td>Criteria variable pay: financial + nonfinancial</td>
<td>49%</td>
<td>25%</td>
</tr>
</tbody>
</table>
FINANCIAL REWARD GOVERNANCE REMUNERATION COMMITTEE

- Pay satisfaction
- Distributive justice
- Procedural justice

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FINANCIAL REWARD GOVERNANCE
REMUNERATION COMMITTEE

Standardized beta coefficients

- Size: 0.6
- Financial performance: 0
- Growth opportunities: 0
- CEO tenure: 0
- Existence of remco: 0.2

Baeten (2012)
FINANCIAL REWARDS

- CEOs are ‘somewhat’ satisfied (‘eerder tevreden’) with their financial rewards
- Main issues are related to **distributive justice**, mainly in relation to the market
- Only 19% apply a structural approach to **benchmarking**

**Variable remuneration**
- Mainly driven by financial indicators:
  - What gets rewarded gets done?
  - Rewarding for A while hoping for B?

**Remuneration committee:**
- Focus more on expert and monitoring roles
LAST BUT NOT LEAST:
ETHICS & SUSTAINABILITY
Ethics/sustainability/CSR:

- Driver for you? For your firm?
- Why (not)?
- Examples?
CSR is like teenage sex: everybody says they are doing it, but few actually are.

And those who do it, do it rather badly.
ETHICS & SUSTAINABILITY
CEO OPINIONS

- Business has responsibility to society apart from profit
- Law is not enough
- CSR = image builder
- Performance = dependent on stakeholder engagement
- CSR = effective basis for competing
- Main rationale of business = value to society

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ETHICS & SUSTAINABILITY
SCENARIO 1

- Do nothing: 2%
- Do nothing & client should not find out: 5%
- Stop practice & sharpen ethical policies: 58%
- Consider sanctions & inform clients: 35%

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ETHICS & SUSTAINABILITY
SCENARIO 2

Switch 3%
Switch but ask to adhere to legal requirement 24%
Renegotiate (even if this results in higher prices) 52%
Reject 21%
HOW ETHICAL ARE CEOS?

Unethical choice: 31%

Ethical choice: 69%
HOW ETHICAL ARE CEOS?
GUESS THE DIFFERENCES!

- Gender
- Age
- CEO shareholder
- NL/B
- Organization type
- Firm size
- Variable remuneration

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### HOW ETHICAL ARE CEOS?

#### PERSONAL CHARACTERISTICS

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Categories</th>
<th>More ethical?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td><em>Female</em></td>
<td>x</td>
</tr>
<tr>
<td></td>
<td><em>Male</em></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>≤45 y</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>46-55 y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>&gt;55 y</td>
<td>x</td>
</tr>
<tr>
<td>CEO shareholder</td>
<td>CEO (co-)owner</td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>No CEO ownership</em></td>
<td>x</td>
</tr>
<tr>
<td>NL/B</td>
<td><em>Netherlands</em></td>
<td>x</td>
</tr>
<tr>
<td></td>
<td><em>Belgium</em></td>
<td></td>
</tr>
</tbody>
</table>
## HOW ETHICAL ARE CEOS?

### FIRM CHARACTERISTICS

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Categories</th>
<th>More ethical?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organization type</strong></td>
<td>Family business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Listed firm</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>Private equity-owned</td>
<td></td>
</tr>
<tr>
<td><strong>Firm size</strong></td>
<td>0-50 emp</td>
<td></td>
</tr>
<tr>
<td></td>
<td>51-100 emp</td>
<td></td>
</tr>
<tr>
<td></td>
<td>101-250 emp</td>
<td>x</td>
</tr>
<tr>
<td></td>
<td>&gt;250 emp</td>
<td>x</td>
</tr>
<tr>
<td><strong>Variable remuneration</strong></td>
<td>Only financial KPIs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Also non-financial KPIs</td>
<td>x</td>
</tr>
</tbody>
</table>
CSR is more of an image builder than a source of innovation/competitive advantage

Clear differences in ethical stance, specific attention to be paid to:

- Younger CEOs
- Smaller family firms - CEO owners
- Variable remuneration (what gets rewarded gets done, again...)
A SHORT (PERSONAL) SYNTHESIS TO CONCLUDE
PERSONAL SYNTHESIS (1)

Our CEOs feel well:
- Ambition
- Engagement
- Satisfaction with their work environment

Points of attention:
- Board providing relevant contacts
- Performance management (target setting)
- Change and/in the organization
- Market alignment of pay
- Pay setting process
PERSONAL SYNTHESIS (2)

- **Female CEOs:**
  - Trust/support by board
  - Importance of climate and collaboration with senior management
  - Take more ethical decisions

- **Remuneration committee:**
  - More professional reward practices (variable pay, benchmarking)
  - But no impact on pay satisfaction and/or fairness
PERSONAL SYNTHESIS (3)

Ethics & sustainability:

- Ethical standards play a role (work engagement)
- CSR = image builder
- Important differences, depending on:
  - Gender, age, nationality, firm size/type,
  - But also...
“our students graduate not merely as manager, but as citizens and as members of their communities.”

(S.B. Banerjee)
THANK YOU!

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