The Remuneration Gap between the CEO and the Profit Center Heads

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By means of a proprietary dataset on the remuneration contracts as well as the actual pay (salary, bonus, equity-based pay), we analyse the determinants of profit centre heads’ (PCHs’) and CEOs’ remuneration. As the sum of performance of individual profit centres equals the total performance of the firm for which the CEO is responsible, we study whether the CEO-PCH remuneration gap. We do not observe a positive remuneration gap, although the remuneration of PCHs is lower in the presence of large monitoring blockholders and a high proportion of non-executive directors. While long tenure reflects a CEO’s power which leads to higher remuneration, his level of expertise does not. Media CEOs demand a higher premium from the perspective of increased reputation risk. A CEO with large ownership rights is inclined to give his subordinates a relatively higher bonus multiplier than he claims for himself. In other words, he applies the pay-for-performance paradigm stricter for himself than for his subordinates.