

Foreword

More than 2000 years ago, the Roman satirist Juvenal provoked society with the question of "who will watch the watchmen?" He never received a reply, however. In many realms of society, we continue to ask ourselves the same question to this day. Particularly in the German business world, the issue has been subject to intense discussion ever since stricter corporate governance guidelines were introduced.

These guidelines are especially relevant for corporations listed at the stock exchange, as these are required to set up supervisory governance bodies. In addition, the German Corporate Governance Code contains comprehensive recommendations for how these governance bodies should work. On the one hand, they are to be given extensive competences for monitoring management. On the other hand, the Code states that compensation of Supervisory Board members should be reasonable in reflecting both their responsibilities and the overall financial situation of the company, and that, in the interests of transparency, they should be individually published in the annual report.

Governance bodies should serve the interests of shareholders vis-à-vis company management. But what about family-owned enterprises, in which management and owner are often identical, and where protection requirements are much lower? In this context, we are faced with an interesting challenge, in that it is necessary to strike a balance between the genuine interests of the owner family and the recommendations of corporate governance. In this context, the ancient question of "who will watch the watchmen?" is still very much relevant.

It is this tension that is at the centre of Pascal Engel's work. He examines the influence of the owner family on designing compensation to serve as a controlling element of the owner vis-à-vis the supervisory body. Engel focuses on three questions: how much is being paid, what is the ratio of fixed to variable compensation components, and to what extent are details on compensation published on a voluntary basis. All of these three questions shed light on important aspects of the issue at stake, and offer valuable insights into the tension between the value of control and the need to protect the socio-emotional wealth of the owner family.

Pascal Engel is the first author to look into this matter in a scientifically sound way. His analysis is particularly valuable as he carefully discusses the aforementioned tension on the basis of various theoretical foundations. This serves to illustrate that designing

compensation models for supervisory bodies has profound and complex implications, so that they need to be considered very carefully.

However, Pascal Engel's work is not based on sound theoretical expertise alone – he also employs a unique set of data from more than 200 listed German companies to examine the issue in an empirical way. Using state-of-the-art statistical analyses, the author examines possible intersections, way beyond merely superficial observations. The author illustrates, for example, that the length of time for which a company has been family-owned has crucial influence on designing compensation components.

My sincere wish is that this book will find many interested readers, especially among analysts, family firm stakeholders and of course family firm owners, who can benefit from the important insights it offers. However, it may also benefit researchers, who I hope will be inspired to take the research on family-owned enterprises and supervisory bodies to the next level.

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