

## Compensation Contracts of Professional CEOs of Family Firms

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**Abstract:** Compared to non-family firms, family firms with professional CEOs (i.e., CEOs who are not members of the founding family) face less severe agency problems arising from the separation of ownership and management. Thus, we predict that CEO compensation practices differ across these two types of firms. Using a sample of S&P 500 firms, we show that family firms are less likely to grant equity-based compensation to their professional CEOs and pay them lower level of total compensation. In addition, the description of CEO annual bonus plans in the proxy statements reveals that family firms with professional CEOs use fewer financial performance measures, are less likely to use non-financial performance measures, and are more likely to use discretionary performance standard and discretionary pay-performance relations for determining annual bonuses. Finally, we show that annual bonus payments are more sensitive to accounting earnings for family firms with professional CEOs.

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