

The Determinants of Executive Compensation in the GCC Countries

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Abstract

This study explores the key determinants of the executive compensation in the GCC countries analysing a sample of 362 companies across industries for the period between 2006 and 2011. The study distinguishes between bonus and salaries paid to executives, and also examine the choice of compensation methods by GCC firms. We find that in the GCC countries larger firms and firms with potential future growth pay higher total compensation to their executives. Concentrated ownership structure leads to lower compensation levels while firms with high family ownership then to pay higher compensation. There is also evidence that external ownership leads to higher total compensation. In terms of behaviour-oriented compensation (i.e. salary) we find that larger firms and firms with higher leverage pay higher salaries to executives. Firms that have a chairman from the family and have higher presence of executive members in the board tend to pay lower salaries. We also find that managerial as well as institutional ownership of companies tend to lead to higher salaries. In terms of outcome-oriented compensation (i.e. bonus) we find evidence that companies that has more growth potential pay higher bonuses. A family related chairman and higher number of executive members in the board is related positively to bonus payments. There is also evidence that ownership by managers and by family results in higher levels of outcome-oriented compensation. We find that the choice between behaviour versus outcome oriented compensation is mainly influenced by firm size, the presence of executive members on the board and managerial ownership. Companies that have higher number of executives or owned by managers are also tend to pay more compensation through bonuses.

Keywords: Executive Compensation, GCC Countries