

Control and Compensation in Financial Institutions

by

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I investigate the influence of ownership structure on the compensation received by the top executive in a sample of U.S. commercial banks. In institutions where the institutions' trust department controls a proportion of the institution's shares, managerial pay-performance sensitivities are lower, and base cash compensation is higher. At conventional ownership levels, compensation levels increase with the proportion of the institution's equity held by the trust department. Compensation differentials between top managers are not as pronounced in institutions with fiduciary ownership. CEOs of institutions with external block owners receive the largest compensation packages that are sensitive to performance and incentive structures.

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Financial institutions through investments administered by their trust departments on behalf of their clients (retirement plans, corporations, endowments, etc.), can indirectly control a sizeable proportion of their own equity. According to fiduciary law, investments made within the institutions' fiduciary function cannot benefit others than the beneficiaries of these funds. This duty towards the beneficiaries prohibits the trust department from engaging in any action or transaction that might cause a conflict between the beneficiaries and the client, or the beneficiaries and the institution. Yet, fiduciary ownership reduces the institutions' outstanding share float and provides the institutions' management an - increased - *indirect* control over the institutions' affairs. The indirect control, in addition to the existent managerial ownership, wedges between external owners and internal owners, and could exacerbate innate corporate governance conflicts. Managers in these institutions might act to enrich themselves at the detriment of their shareholders, their trust department beneficiaries, or their clients.

Shares in any corporation come with a set of ownership rights that includes the right to receive dividends and the right to vote on matters of the corporation. When a financial institution's trust department owns shares in the institution itself, the situation is different than the institution holding its stock in treasury, Employee Stock Ownership Plan, or pension plan. Treasury stock reduces the float and indirectly increases the control of

management. Stock in treasury does not receive dividends, which indirectly increases the cash available to the corporation's owners. Removing the shares from the float, extinguishes both voting and cash flow rights. Shares of the corporation held in its ESOP or pension plan yield the voting rights to the representatives of the ESOP or pension plan, which usually are employees of the corporation. Dividend cash flows continue to benefit the ESOP and pension plan beneficiaries. Additionally, ESOPs and pension plans provide incentives and financial benefits to the employees as well as financial and tax benefits to the corporation. Fiduciary ownership does not extinguish the cash flow rights as shareholders continue to receive and enjoy their dividends. However, it does affect the voting rights and their impact depends on regulation. When shares in trust lose their voting rights or they are not voted, the remaining shares become relatively more powerful. When shares in trust maintain their voting rights and are voted, these shares wedge in between external owners and internal, managerial and affiliated owners. These shares shift the economic benefits of the proxy from external beneficiaries to the managers of the financial institution.

While the corporate governance problems of institutional ownership have been widely studied and the potential fiduciary ownership problems in financial institutions are not recent phenomena, only few studies have focused on fiduciary ownership. Fiduciary ownership influences the proxy voting behavior of financial institutions when the institution encounters corporate control issues at clients with dual – intermediary and trust department – business relationships. Payne et al. (1996) reports that the institutions acted in the interest of the client's management when it was both trust department and intermediary client. The implication is that the intermediary did not act in the interest of the beneficiary, i.e., its fiduciary duty.¹ A subsequent study, Whidbee (1997), investigates the control and

¹ In a conflict of interest involving the financial institution, the fiduciary client, Corporation X, and the beneficiaries of the fiduciary clients (e.g. a pension plan managed by the institution to benefit former and current employees of Corporation X), the voting pattern in corporate governance matters indicates that maintaining the existing commercial and business relationship between the institution and the fiduciary client was a more important motivator than the fiduciary relationship between the plan beneficiaries and the fiduciary client.

ownership structure of large commercial banks, and finds a negative relationship between the size of fiduciary ownership and the monitoring of management by outside and unaffiliated board members. Adams and Santos (2005) focuses on the influence of increased indirect managerial control on the performance of financial institutions in a sample of large commercial banks based on 1966 data. The background for this study was a Congressional investigation that focused on the considerable ownership by the institutions' trust departments. Their findings are inconclusive, due to the possible endogeneity of trust department ownership. Under certain specifications increasing trust department ownership did not increase with Tobin's Q, while under other specifications the relationship between fiduciary department ownership and Tobin's Q yielded results similar to Morck et al. (1989).

This study expands the literature on agency conflicts by analyzing the influence of ownership on the structure and size of compensation contracts of managers in financial institutions. Without entering into the debate of possible endogeneity of ownership, I assume that the ownership structure of a financial institution determines the size and structure of managerial compensation. Here, I draw support from the literature examining the relationship between executive compensation and corporate ownership. Different ownership structures will have different effects on compensation; in institutions without a strong owner and otherwise atomized ownership, managerial compensation may not serve the interests of shareholders by aligning the interest of managers with those of the owners. In this study, my focus is on two opposing forces.

Ample empirical evidence supports that principal shareholders exert a considerable influence on the compensation structure of managers in publicly traded firms. External block holders are principal shareholders intentioned and motivated to align managerial and shareholder interests. I do not explicitly consider internal shareholdings by the managers, employees or board members affiliated with the institution as there exist a similarly ample literature that finds a relationship between internal shareholdings and compensation².

² In analyzing of the robustness of these results, these variables are included.

Fiduciary ownership offers managers an additional influence and control over the status quo achieved through their existing ownership interests, control over corporate affairs and board nominations. I analyze the influence the wedge of fiduciary ownership has on compensation. This wedge works in two ways. First, as it reduces the float, magnifying the power garnered by managers through their ownership interests. With a relatively increased power, their control over the institution grows. Second, it reduces the likelihood that external owners not affiliated with the management or the board of the institution could amass a *de facto* voting control of the institution and exercise external resolution of internal contracting and governance problems.

Using publicly available ownership information, I identify these two distinct types of large owners for each institution: *block owners*, with at least one owner holding more than 5% of shares and *fiduciary owners*, where the institution's trust department holds at least 5% of the shares.

I focus on a cross-section of financial institutions for several reasons. First, financial institutions, unlike other corporations, can control a large proportion of their own equity through investments on behalf of their clients. Their fiduciary role creates a relationship distinct from those created by the institution or a corporation holding stock in treasury, indirectly through its Employee Stock Ownership Plan, or pension plan that invests in the company's equity. Fiduciary ownership shifts the economic benefits of the proxy votes from external beneficiaries not affiliated with the institution to the employees and managers of the financial institution. With the separation of the cash flow and voting rights, the shares and their owners still benefit from dividend payments, yet the voting power vested in these shares are shifted to the bank's management, magnifying their value. This is agency problem is a direct by-product of the operations of financial institutions. Second, the influence of different owners on managerial compensation in financial institutions has not been analyzed fully. Research has focused on the influence of institutional owners and managerial ownership on the asset composition, efficacy, and profitability of the institution; the influence of fiduciary owners on the compensation of the

managers has not. Third, by restricting to a single industry, this study avoids differences in product markets and focuses on firm specific factors. For instance, insurance companies are not generally prohibited from owning equity in their investment portfolios, and when they engage in financial intermediation, their activities is highly similar to the activities of financial institutions. Due to differences in capital structure, operational characteristics, and regulatory landscape, comparing indirect ownership and control in banks and insurance companies, would also account for the influence of factors. Fourth, recent compensation research expanded the focus from the CEO compensation to compensation received by other executives. This study will include CEO compensation as well as compensation received by other top managers. Fifth, the differences in ownership structure on the monitoring of managers have policy implications for the regulation and the supervision of financial institutions as well as for investors in these institutions.

This study hypothesizes that in institutions with fiduciary ownership, the monitoring influence of managerial action is less likely to be intensely monitored by other external shareholders. As a consequence of the decreased external scrutiny, existing agency problems could amplify. In these institutions, managers can act differently; they can engage in activities that benefits them at the expense of other shareholders and their clients. Managerial compensation contracts are higher in absolute terms, and not as sensitive to shareholder value creation when compared to institutions where there is no external or block owner. The empirical findings indicate the opposite results: fiduciary ownership reduces the absolute compensation, while the existence of a dominating external owner increases compensation. The effects of fiduciary and block ownership are non-linear, with opposite patterns. While increasing fiduciary ownership reduces managerial compensation, increasing block ownership increases managerial compensation. Pay-performance sensitivity, a measure of the relationship between executive compensation and value creation, is lower in institutions with fiduciary ownership than in institutions with external ownership. Moreover, this low sensitivity to shareholder wealth creation manifests itself in lower pay-performance sensitivities. Yet the proportion of incentive and equity linked compensation in these institutions is higher than

in institutions that have block ownership. A possible explanation could be that the design of equity-linked compensation in institutions where there is fiduciary ownership is less sensitive to performance. The ownership effects are non-linear and their patterns are the opposite. Increasing block ownership reduces managerial compensation, and increasing fiduciary ownership increases managerial compensation.

Finally, I also hypothesize that the decreasing external scrutiny in institutions with fiduciary ownership leading to a weakened the internal monitoring of managerial performance, impacts the hiring and firing of managers. The decision whether to retain or not to retain a manager may not be as performance driven in institutions with fiduciary ownership than in institutions where there are other dominating owners. This increased managerial employment security can could increase the overall inefficiency of managers and lead to a weaker compensation differentials between the different layers of top managers. The results indicate that the compensation differentials across top managers in institutions that have fiduciary ownership are not as pronounced as in institutions where there is block ownership.

In the present version of the study, I focus on the influence of fiduciary and block ownership have executive compensation and do not control for ownership interest of managers and board members. The exclusion of these ownership interests can be seen as a weakness in the research design. Since the study focuses on the influence fiduciary and block ownership may have on compensation design, including managerial and insider interests could distort the results. However, for ensuring overall robustness, the influence of insiders has to be considered. In present version of the study, robustness checks that control for insider ownership are not included due to time constraints. The version I will discuss at the 2007 EFA meetings will include the results of these robustness checks. Extending the robustness checks to include these ownership interests is the major planned refinement of the study.

The structure of the study is the following. After this introduction, section 2

summarizes the literature on ownership structure and executive compensation in banking. Section 3 outlines the trust business of financial institutions, with a particular focus on ownership of assets and right to vote for these assets under different legal and regulatory relationships. Section 4 develops testable hypotheses. Section 5 discusses data and the model tested in the paper, and is followed by section 6 that focuses on empirical results. Section 7 concludes.

2. Review of the literature

Ownership

Numerous studies have focused on the relationship on corporate ownership structure and the performance of corporations. The first empirical studies report positive and significant relationships between corporate performance and institutional ownership, Morck, et al. (1989), and McConnell and Servaes (1990). These studies also confirmed theoretical predictions that the relationship between ownership and performance is non-linear. With increasing executive ownership, performance improves to a point and then declines subsequently. This U-shaped relationship between ownership and various performance variables was attributed to the magnitude of agency problems between owners and executives at different executive ownership levels. At low and high internal ownership levels, where agency problems are less pronounced, corporate performance improved. At medium internal ownership levels, where agency problems become more pronounced because weaker market-based and internal corporate governance, corporate performance declined. Studies analyzing the influence of large, concentrated block ownership on the performance of corporations reported results suggesting that the existence of large owners reduces the possible agency conflicts between owners and managers due to improved internal corporate governance, which improves overall, performance (e.g., Mikkelsen and Partch, 1989). Because U.S. banking regulations have historically weakened incentives for market-based corporate governance (e.g. Brickley and James, 1987; Prowse, 1997; and Fianerry, 1998), and the quality of bank assets is difficult for outsiders to monitor, the monitoring by semi-insiders — large block owners and active institutional, shareholders — should improve performance³. Evidence from studies on financial institutions suggests that block ownership improves corporate governance by reducing agency conflicts. Glassman

³ Studies analyzing the relationship between managerial ownership, insider ownership and board of director ownership on the risk of financial institutions are numerous. Several authors have analyzed compensation contracts in commercial banking and their influence on risk (Thomson and Yan, 1997; Haye, 1997; and Demsetz, et al, 1997). Gorton and. Rosen, 1993, focus as many others on the ownership of executives (e.g., Stulz, 1988), and found with higher managerial ownership an increase in the overall risk of the institution. This was attributed to the diminishing strength of internal and market-based corporate governance.

and Rhoades (1980) reports positive relationship between the size of outside blockholders, holding more than 5% of equity and bank performance. Prowse (1997) finds that large external blockholders reduce the frequency of regulatory interventions, i.e., the increased scrutiny of executive action by large shareholders adds an additional layer to the primary and regulatory monitoring of executive action. Yet, there is conflicting evidence that blockholders improve corporate governance and reduce agency problems and associated agency costs.

Pi and Timme (1993) finds a statistically insignificant relationship between the performance of financial institutions and the size of institutional ownership or block ownership. Institutional shareholders focus on well-capitalized institutions with low variance in shareholder returns, Roth and Saporoschenko (2001). Whether this low risk is a cause or an effect of institutional ownership remains to be seen. Pound (1988) finds that large block owners might support management in proxy contests, even when this support is contrary to their fiduciary responsibilities. This result supports previous studies (e.g., Payne et al, 1996).

Compensation

To align managerial incentives with their own, owners (a) offer managerial compensation contracts to managers that are highly sensitive to changes in shareholder wealth; (b) offer equity-linked compensation components, including option and equity grants; and (c) monitor and police managerial action, as argued in Jensen and Meckling (1976). With an increasing proportion of compensation paid through incentives and higher pay-performance sensitivities, the interests of managers and owners would become aligned. Yet in banking, pay-performance sensitivities have been low historically. Several studies attributed the low pay-performance sensitivities of managerial compensation in banking to historic regulatory restrictions on bank operations, as well as the relatively infrequent and relatively insignificant option-based and equity-linked compensation. Pay-performance sensitivities increased after deregulation with the more frequent use of option-based compensation, the heightened competition for managerial talent, and the emergence of new

market opportunities (e.g., Crawford, et al., 1995; Houston and James, 1995; Collins, et al., 1995; and Hubbard and Palia, 1995). In designing incentive compensation prudence was clearly exercised. Several studies report that components of the CEO compensation were not designed to increase the risk of the institution, Houston and James (1995).

Most studies focus on the compensation received by the top executive. Haye (1997), extended the analysis to incorporate the compensation paid to other top managers, and reported that the managerial compensation increases with rank⁴. Moreover, the use of incentive compensation – bonus – is greatest for the CEO, and is paid through equity linked compensation. Compensation differentials are explained by not only higher base salary, but also by higher incentive compensation and equity-linked compensation awards.

3. The trust business of banks

The scope of trust department fiduciary services has expanded over time. These services are provided on behalf of the institution's clients, e.g., retirement plans, corporations, endowments, trusts, and individuals. Most state chartered banks have been able to engage in the trust business since their chartering; following legislative changes in 1913, national banks began offering trust services. Currently, approximately 3,000 banks have trust powers and offer a wide range of trust services. For their custodial and wealth management services, these institutions charge fees: a common fee schedule on a \$1 million account is 0.25% for custodial and bookkeeping services with an additional 1% or more for money and wealth management services. The trust business can be divided up in four distinct areas: (a) the personal trust business, (b) corporate trust business, (c) agency account management, and (d) custodial services.

The *personal trust* business is primarily an asset management tool used to protect

⁴ The study focused on hierarchical differences in bank executive compensation reported in 1986. As managerial compensation levels have increased considerably over the following 10 – 15 years, re-examining the extent of compensation differences is an additional, yet marginal, motivator of the study.

and pass wealth intergenerationally. Since planning is crucial in passing wealth across generations, to facilitate the process the institution in its capacity as a trustee takes title to the property and has full discretionary power to manage these assets. Thus, the institution is legally permitted and required to vote for these assets. Further, the institution must adhere to its dual duties of loyalty and care, and solely act in the interest of the beneficiaries of the trust. This expressly prohibits self-dealing.

In the *corporate trust* business, the institution manage defined benefit and defined contribution pension and profit sharing plans, including their own plans. These plans are sponsored by the corporations that often have other commercial relationship to the bank. In these trust relationships, the institution is not a trustee, only an agent with discretion to manage the assets to benefit solely the beneficiaries. While the beneficiaries own the assets and the voting rights to the assets under such plans, for convenience these assets can be titled to the institution. The corporate trust business also includes the payment of dividends and interest on bonds. An institution can also act as a trustee when various corporate, state, and municipal securities are issued.

In the *agency account management* business, the institution manages accounts on behalf of individuals, who still retain title as well as all rights in and powers over these investments. The relationship between the client and the institution is regulated through a management contract, which offers a narrow power of attorney for the institution to make investment decision and represent the owner of the assets at the annual general meeting of shareholders. When the managed account assets are titled to the institution, it is for convenience.

The last area is *custodial services*, where the institution provides transfer, bookkeeping, recordkeeping and custodial services for corporations, foundations, endowments and individuals, without any investment discretion. Custodial services do not engage in dividend and interest payments.

State and federal law

Three factors influence the banks' ability to own and vote for shares they hold in their trust business: law, regulations, and the contractual relationship between the bank and the client. As a trustee, the institution has title to the managed assets and wide discretion in making investment decisions. Voting proxy descends directly from the trust relationship. As an agent, the institution does not have a title to the managed assets, unless the agreement between the bank and the client specifies. Voting proxy does not descend directly from the agency relationship; to vote proxy, the institution needs to gain title to the shares. Whether the institution holds assets in trust or manages assets as an agent, it must adhere to the duties of loyalty and care, the "Prudent Man Rule", and ERISA's requirements regarding employee retirement plans. In certain cases, the banks must also adhere to lists of certain permissible investments drafted by state regulatory agencies. Even when agreements do not expressly prohibit such investments, other considerations might preclude the banks from acquiring its own equity in a fiduciary capacity (e.g. suitability for a given portfolio or investment style).

State chartered banks must follow state trust and banking laws, while federal banks must not only adhere to the federal laws regulating the trust business, but also the state laws governing trust business in the state. State regulators oversee the trust activities of state banks. The Comptroller grants trust powers to national banks. The trust power of national banks is limited; national banks can only have trust powers that commensurate with the trust powers of state banks headquartered in the state where the national bank operates.

Banks can vote for shares that they have title to, shares they have been registered for, and shares they have received the right to vote proxy. Trustees can grant generous provisions in proxy voting to fund managers; in most cases managers can vote freely on the proxies according their own opinions; there are instances when the trust agreements expressly prohibit the trustees to vote against management on controversial matters or against the proposed slate of directors. One clear legal prohibition exists on institutions' voting proxy: national banks owning their own equity in a trust or in managed accounts can

vote for these shares as long as the vote does not relate to the election of directors. State banking laws are heterogeneous offering two distinct regulatory frameworks: *restricting* laws expressly prohibiting a trust or a manager to vote for its fiduciary shares, and *permissive* laws that allow the managers and trustees to vote on shares in its fiduciary capacity. Adams and Santos (2005) offers a more detailed perspective on this complex relationship. It is beyond the scope of this study to analyze the legal differences between federal and state regulation of trusts and the trust business itself as contract, tax, estate and corporation law influence the trust business.

4. Hypotheses

In corporations where control and ownership is separated and the potential for agency conflicts is high, shareholders can mitigate these conflicts by aligning the incentives of managers to those of the owners. Shareholders increase the incentive proportion of managerial compensation through bonuses combined with various types of equity-linked compensation that are highly sensitive to the wealth of shareholders (e.g., Murphy, 1999). In institutions with a dominating blockholder, close supervision of managerial activities by the dominating owner can reduce the existence of agency conflicts. Here, incentive related compensation contracts with high pay– performance sensitivities are not as an important tool in reducing possible agency conflicts. The dominance of the large owner should also reduce the absolute level of compensation paid to managers. However, in institutions with where there is fiduciary ownership, due to the increased indirect control of the institution’s voting rights, monitoring by other external shareholders becomes more difficult. Managers can garner increasing control over the affairs of the institutions including issues of remuneration and performance evaluation. Agency theory predicts that managers in these institutions, would design and accept contracts that are less sensitive to changes in shareholder wealth, but larger in absolute monetary terms.

The three complementing hypotheses are:

- H1. In institutions with fiduciary ownership, pay-performance sensitivities are lower than in institutions with diffuse or block ownership.

- H2. In institutions with fiduciary ownership, compensation is higher than in institutions with diffuse or block ownership.
- H3. In institutions with fiduciary ownership, incentive compensation is less prevalent than in institutions with diffuse or block ownership.

When the managers of the institution indirectly increase their control over the institution, objective external review of managerial advancement can be impaired. Including both CEO and non-CEO compensation could reveal the severity of agency problems in institutions with distinct ownership structures. Since fiduciary ownership reduces the external monitoring of managerial action, the employment security of top managers could increase, while it becomes less likely that an outsider would become the CEO. The difference between the compensation received by top managers would be lower in institutions with fiduciary ownership. Both the absolute and the pay-performance sensitivity of compensation received by the non-CEO top managers would be lower in institutions with fiduciary ownership.

- H4. In institutions with fiduciary ownership the compensation differentials between the top managers are lower than in institutions with diffuse or block ownership.

5. Data and model

Using the Standard & Poor's ExecuComp database, or ExecuComp, I extracted CEO compensation and ownership information for all federally and state chartered commercial bank holding companies using the relevant four-digit SIC codes – 6021 for state chartered and 6022 for federally chartered commercial banks – between 1995 and 1999⁵. Standard &

⁵ Standard and Poor's ExecuComp database includes compensation variables derived from proxy statements of companies in the Standard and Poor's 1500 index. Since the companies in this index change for each year and the banking industry underwent a significant consolidation during the period of this study, the present dataset suffers from a survivor bias. Restricting the sample to these two SIC codes excludes certain large financial conglomerates, such as Citibank.

Poor's Compustat Market Insight was the source of additional financial information for these bank holding companies was. The Compact Disclosure - CD database provided information on ownership; if Compact Disclosure did not have ownership data, I used information from the annual proxy statement. Using these databases 70 bank holding companies with full financial information were identified in 1995; 87 in 1996; 83 in 1997; 77 in 1998; and 69 in 1999. The number of different banks in the sample is 98. There are 1,115 firm-year observations that include all compensation, financial, return and ownership variables; 166 for 1995, 235 for 1996, 232 for 1997, 233 for 1998, and 249 for 1999.

My dependent variables capture pay-performance sensitivities, and the size and structure of managerial compensation. *Pay-performance sensitivities* are captured by the respective year-to-year dollar changes in cash salary, cash salary and bonus, and total compensation received. These variables are used by e.g., Crawford et al, 1995. To capture the *size of managerial compensation*, I use the annual cash salary, and the annual total compensation received. Cash salary is a widely used proxy for the fixed component of the compensation structure (e.g., Hubbard and Palia, 1995; and Houston and James, 1996). Collins et al. (1995) uses total compensation received. The *structure of managerial compensation* is measured through the incentive proportion to total compensation and the option proportion of total compensation (e.g., Collins et al, 1995). All compensation, but cash salary, is considered as incentive compensation. Option compensation is included in both in total and incentive compensation. Motivated by the need for consistency and overall validity, I apply the option proportion of annual compensation using ExecuComp's modified Black and Scholes model. Since compensation, accounting, and market value information are in nominal terms, the potential influence of year-to-year differences in inflation and compensation policies is controlled using four, year-specific dichotomous variables. 1995 is the first year in the sample and serves as the base year for these fixed-effects.

I use two ownership variables, one for fiduciary and one for block ownership, respectively. In collecting data from Compact Disclosure, I paid particular attention in

correctly identifying fiduciary and block owners. In doubtful cases, I turned to the proxy statements to determine whether a disclosed block ownership in fact was fiduciary ownership. While block owners are only disclosed when their ownership stake exceeds the regulatory minimum level of 5% of outstanding shares in one class, fiduciary ownership often was disclosed at much lower levels. For consistency, I only use ownership information for institutions where the fiduciary ownership exceeds 5%.

Of the 98 unique institutions in the cross-sectional sample, 14 have diffuse ownership; 6 have fiduciary ownership with no other external block owner; 44 have both fiduciary and block owners, and 34 institutions only have block owner without fiduciary ownership. These 98 unique institutions generate 342 institution observations in the sample. The 14 institutions with no fiduciary or external block ownership generate 46 institution observations with 154 individual data points. The 6 institutions with only fiduciary ownership generate 30 institution observations or 99 individual data points. The 44 institutions with both fiduciary and block ownership generate 126 institution observations or 410 individual data points. The 34 institutions with only block ownership generate 140 institution observations with 452 data points.

Previous empirical studies have identified other factors that exogenously can explain differences in compensation design, such as institution size (e.g. Collins et al., 1995), asset risk (e.g. Gorton and Rosen, 1995 and Houston and James, 1995), charter value (e.g., Crawford et al., 1995). Naturally, the absolute size of compensation would be related to the size of the institution and increasing asset size implies larger institution, and greater responsibility for the top executives. To control for the influence of size, the natural logarithm of assets is included in the model. Positive coefficient estimate for LOG OF ASSETS would indicate that compensation is positively related to the size of the institution. The RISK of the institution is a variable that could influence the compensation received by the executives. There are multiple candidate variables to measure risk; the choice of this study is the standard deviation of monthly equity returns, or total risk. If increased risk is rewarded through managerial compensation, clearly the coefficient estimate of this variable

should be positive. To account for differences in valuation of the institutions as well as possible differences in the investment opportunity set faced by different institutions, I also use CHARTER VALUE, the relationship between the market value and book value of assets is included. A dichotomous variable, FEDERAL, indicates federally chartered top Bank Holding Company and controls for multiple effects. Federal regulation of national banks is homogenous. Voting rights associated with shares in trust held by national banks are limited only in one particular aspect: voting in the election of board members is prohibited. State regulation is more heterogeneous: some states restrict the voting rights associated with shares in trust, others do not. The extent of these voting state level restrictions on voting for these shares is not homogenous.

Hierarchical differences in executive compensation are captured by dichotomous variables. ExecuComp contains information for the five top managers receiving compensation. The top executive is the most highly compensated manager according to ExecuComp and is usually the CEO and the Chairman of the Board of Directors. The second highest compensated manager is usually the president or COO. The third ranked executive can include CFO, Presidents of operating subsidiaries, senior and executive vice presidents. The fourth to fifth ranked executives can include senior and/or executive vice presidents.⁶ Four dichotomous variables account for the different levels. Each executive rank dichotomous variable is multiplied by one for institutions with fiduciary and block ownership, respectively. These cross-variables not only capture hierarchical differences in compensation, but also differences attributable to block or fiduciary ownership.

INSERT TABLE 1 AROUND HERE.

The variables and their definitions are listed in table 1. In testing the hypotheses, I rely on the following straightforward model:

$$(1) \text{ Compensation} = f(\text{Ownership variables, Control variables, Hierarchy variables})$$

⁶ The sample contains 320 top managers. There are 255 level 2, 245 level 3, 173 level 4, and 122 level 5 managers in the sample.

This model in its empirical specification captures the influence of the factors that are predicted to influence managerial compensation in institutions with varied ownership.

6. Results

First, I examine the relationship between managerial compensation variables without explicitly considering ownership level or hierarchical differences in compensation design. Then, I consider the pay-performance sensitivities, compensation levels, and compensation structures given the ownership structures using both linear and non-linear ownership specifications. Finally, I analyze the relationship between managerial compensation and ownership variables by explicitly considering the influence hierarchical differences and ownership differences have on the design of compensation.

INSERT TABLE 2 AROUND HERE

Descriptive statistics in table 2 panel A, focus on compensation variables. The differences in compensation variables are rather small, and statistically, mostly, insignificant. There are some noteworthy differences between the average compensation variables. The average total compensation for executive in institutions with fiduciary ownership is \$1,901,600 and in institutions with block ownership \$2,571,960; testing the hypothesis for equality in means can be rejected at any commonly used critical value (p -value = 0.0001). The same results apply for the difference between fiduciary and diffuse ownership. Clearly, the compensation received by executives in institutions where there is fiduciary ownership is lower than for institutions where there is either block ownership or no evidence of either fiduciary or block ownership. The difference in average total compensation carries over to the difference in dollar change in total compensation. The change in dollar compensation is not equal across the three different ownership groups; the hypothesis for equality in means between institutions with fiduciary ownership and block ownership, respectively, can be rejected at any commonly used critical value (p -value = 0.007). Differences in other compensation structure variables such as the proportion of

incentive to total compensation and the proportion of option to total compensation, respectively, are not different.

These results are somewhat puzzling. While they clearly contradict the second hypothesis, fiduciary ownership does not increase total compensation, there is an inconsistency between the significant difference between dollar change in total compensation and the insignificant differences between option compensation and incentive compensation of total compensation, respectively. At least two explanations are possible. First, although executives in institutions with fiduciary ownership receive proportionally larger equity-linked compensation than their peers in other institutions, the incentive effects of the compensation design are not fully captured by dollar change in total compensation. This suggests either suboptimal compensation design or the influence of a random component. Second, the non-equity-based compensation contracts can be designed to be nominally performance sensitive; the triviality of incentive effects captures this information.

Descriptive statistics in table 2 panel B, include ownership and control variables. Ownership statistics reveal that the average block ownership for the entire sample is 15.5%, and the average fiduciary ownership is 3.90%. In institutions with solely fiduciary ownership N = 240, fiduciary ownership averages 4.6%. The highest fiduciary ownership, 26%, is associated with National City Corporation in 1999. In institutions with block ownership and no fiduciary ownership, N = 577, block owners averages 15.1%. The highest block ownership equals 96% and is associated with Synovus Financial in 1995, where the Butler, Corn and Turner families jointly controlled in excess of 70% of shares.

Pay-performance sensitivities

The first hypothesis argues that fiduciary ownership reduces pay-performance sensitivities because it reduces an increased indirect control, reducing the outstanding float of equity, which amplifies agency problems. Regression diagnostics for the pay-performance sensitivity, compensation size and compensation structure regressions in Table

3 indicate low R^2 and statistically significant F-statistics at the 5% level. Moreover, the Durbin-Watson test suggests possible first order autocorrelation at the 5% level, and there is very strong evidence of heteroscedasticity using the White-test. Thus, I report heteroscedasticity and autocorrelation consistent standard errors and t-values.

To measure pay-performance sensitivities, changes in executive compensation are regressed on changes in shareholder wealth to estimate the ratio of the dollar-to-dollar change between executive and shareholder wealth (e.g. Jensen and Murphy, 1990). From the first column in Table 4 panel A, the estimate of 0.001 for the CHANGE IN MARKET VALUE indicates that executive DOLLAR CHANGE IN SALARY or base compensation would increase by \$1,000 for every \$1,000,000 change in shareholder wealth, *ceteris paribus*. This pay-performance sensitivity is higher than estimated by others. A general increase in compensation due to inflation, labor market pressures, prolonged increases in the market value of assets, and differential effects captured in the intercept of the estimates could explain the differing pay-performance sensitivities. Here as in Jensen and Murphy, 1990, the intercept yields the average pay increase when the shareholders earn no return.

INSERT TABLE 3 AROUND HERE

Estimates for FIDUCIARY and BLOCK enter with their predicted signs; increasing fiduciary ownership reduces pay-performance sensitivities, and increasing block ownership increases pay-performance sensitivities. Ownership variable estimates in the DOLLAR CHANGE IN SALARY regression are not statistically significant at conventional levels, but are statistically significant in the DOLLAR CHANGE IN TOTAL COMPENSATION regression (*c.f.* table 3, panel A, second column). The equality of the predicted BLOCK and FIDUCIARY ownership estimates in this regression is rejected (t-statistic 8.64); this pay-performance sensitivity is influenced by the ownership structure of the institution. The magnitude is considerable.

For every 1% of fiduciary ownership, the dollar CHANGE IN TOTAL

COMPENSATION decreases by \$3,553,300. Since DOLLAR CHANGE IN TOTAL COMPENSATION includes not only salary and bonus, but also the value of restricted stock grants, value of stock option grants, long-term incentive payouts, and all other compensation paid to the executive during the given year, the negative variable estimate for FIDUCAIRY suggests that overall compensation is not designed to align the interests of executives and shareholders in institutions with fiduciary ownership. Pay-performance sensitivity estimates suggest that in institutions with block ownership, compensation is designed to align the interests of executives and shareholders. Further, it is worthwhile comparing the influence of 1% change in ownership on managerial compensation. Were the trust department of an institution acquire 1% ownership interest in a financial institution from an external block owner, the transaction would reduce pay-performance sensitivity by approximately \$6.4 million *ceteris paribus*, which is approximately 2.5 times of the average total compensation of \$2.530 million. Differently put, the easiest way for executives in institutions with fiduciary ownership to increase their managerial compensation is to transfer out 1% of the shares held in its fiduciary capacity to a block holder and invest the proceeds in other investments.

INSERT TABLE 4 AROUND HERE.

Ample empirical evidence exists that executive, institutional and block ownership exert a non-linear influence on compensation, risk and valuation variables of corporations (e.g., Stulz, 1988; Morck et al., 1989, McConnell and Servaes, 1990; Gorton and Rosen, 1995). To test for potential non-linear influence between ownership and pay-performance sensitivities, the two ownership variables, BLOCK and FIDUCAIRY are squared; the two new variables are BLOCK² and FIDUCAIRY². Results incorporating these variables can be found in Table 4 panel A; regression diagnostics suggest the continued use of heteroscedasticity and autocorrelation adjusted standard errors and t-statistics.

The predicted signs of these estimates indicate the existence of non-linear relationship between ownership and compensation variables. Estimates of BLOCK and

BLOCK2 variables indicate an inverse U-shaped relationship ownership and compensation, and estimates FIDUCAIRY and FIDUCIARY² variables indicate a hockey-stick or J-shaped relationship between that ownership and compensation size. The inflection points reveal remarkable differences. The inflection points, which are lower with fiduciary ownership than block ownership, reflect the narrower range of ownership levels. For the fiduciary ownership estimates, the inflection points are 16.7% in salary change and 26.3% in total compensation change. Since the average fiduciary ownership is 4% for the sample institutions with fiduciary ownership, most institutions with fiduciary ownership are likely to have negative pay-performance sensitivities. For block ownership estimates, the inflection points are 50.6% in salary change and 56.3% in total compensation change. Above 50% block ownership pay-performance sensitivities for salary declines; the compensation does not need to be sensitive to performance. Yet, with average block ownership levels at 15%, only few institutions would actually offer negative pay-performance sensitivities or lower compensation levels.

Compensation size

The second hypothesis predicts that fiduciary ownership increases overall compensation. Yet, estimates for FIDUCIARY in Table 3, Panel B, are negative and statistically significant for TOTAL COMPENSATION, and estimates for BLOCK are positive, and statistically significantly so. Executives of institutions with fiduciary ownership receive lower salary and total compensation compared to executives in the average institutions and a 1% increase in fiduciary ownership reduces total compensation by \$6,236,070. The equality of the predicted BLOCK and FIDUCIARY ownership estimates in the SALARY regression can be rejected; ownership structure does not considerably influence base salary. As the compensation differentials are attributable to incentive compensation, the equality of total compensation can be rejected at any traditional statistical significance.

The non-linear relationship between fiduciary and block ownership, respectively, and total compensation is accentuated using the non-linear specification. In Table 4, panel

B, the statistically significant non-linear estimates of the two ownership variables exhibit the opposing non-linear patterns previously seen in the previous pay-performance sensitivity regressions. At low fiduciary ownership levels, compensation levels, both SALARY and TOTAL COMPENSATION are low. Above the 15% - 18% ownership levels, SALARY and TOTAL COMPENSATION increase. At low block ownership levels, TOTAL COMPENSATION is high, but declines at block ownership levels exceeding the 44% level.

INSERT TABLE 5 AROUND HERE.

The predicted lower compensation estimates for managers in institutions with fiduciary ownership could indicate that these institutions are smaller in size and smaller institutions are less complex to manage. If compensation estimates for managers in similarly sized institutions with different ownership structure differ, then these differences could be attributed to ownership influences. To control for size, institutions were ordered in ascending order according to asset size into quintiles, and dichotomous variables were used to identify executives of institutions belonging to each of the five asset quintiles. To identify any differences in compensation levels, I focus on the first and fifth quintile, as I expect that the variation of compensation is wider at the tail ends of the asset size distribution.

For the first quintile, the smallest institutions, the average asset size is \$3,519 million, for the institutions with fiduciary ownership, \$4,017 million, and with block ownership \$3,634 million. The average assets sizes across the different ownership groups are not statistically different. The same applies for the top quintile where the average asset size is \$171,019 million, for the institutions with fiduciary ownership, \$180,983 million, and with block ownership \$163,302 million. In table 5, the dichotomous variables as independent variables indicate the effect asset size and ownership structure jointly could have on compensation. The comparative similarity of average asset size indicates that the variations can be attributed to differing ownership structures.

Regression results in table 5 panel A., indicate that in the lowest quintile institutions with fiduciary ownership, the TOTAL COMPENSATION is lower. The dichotomous variables control for ownership structure differences and identify size quintile. An executive in this group receives a \$591,917 lower total compensation than the average compensation, while managers in institutions with block ownership receive a \$47,755 lower salary than average; neither estimate is statistically significant. Testing for the equality of these two estimates does not reject equality at conventional significance levels. Executives in the highest quintile institutions with fiduciary ownership receive a \$502,972 higher total compensation and in institutions with block ownership executives receive a \$427,216 lower salary. Neither of these estimates is statistically significant and testing the equality of the estimates fails to reject equality at conventional significance levels. Differences in asset size influence the TOTAL COMPENSATION received by the executives, but differences in ownership structure does not.

INSERT TABLE 6 AROUND HERE.

Regression results in table 6 panel A., account for the size of fiduciary and block ownership and the influence ownership might have on executive compensation within same asset quintiles. In these results, the dichotomous variables identifying ownership structure differences and size are multiplied by the actual fiduciary and block ownership levels, respectively. The results indicate that increasing fiduciary ownership has a positive relationship on total compensation in large institutions, while increasing block ownership has a negative relationship. Each additional percentage point of fiduciary ownership above a 5% ownership reporting threshold increases TOTAL COMPENSATION by \$2,629,910. For block ownership above the same threshold, each percentage point increase in ownership reduces TOTAL COMPENSATION by \$2,980,900. Testing for the equality of these two estimates rejects equality at conventional significance levels.

The estimated lower compensation levels for managers in institutions with fiduciary

ownership are not dependent on asset size. Total compensation estimates for managers in similarly sized small institutions with different ownership structure do not differ. When ownership size becomes a consideration, the results are different. Executive compensation increases in large institutions as fiduciary ownership increases. Compensation decreases as block ownership increases. While the earlier empirical results do not offer support for the second hypothesis – higher fiduciary ownership increases total compensation, the ownership-adjusted asset size results offer support that at least among managers of the largest institutions, the impact of fiduciary ownership is positive on total compensation received.

Compensation structure

Results in Table 3, panel C, using the PROPORTION OF INCENTIVE TO TOTAL COMPENSATION and PROPORTION OF OPTION TO TOTAL COMPENSATION as dependent variables partly support the first hypothesis of less performance sensitivity in institutions with block ownership. Estimates for BLOCK ownership are negative, suggesting that increasing block ownership reduces the incentive proportion of compensation and could serve as an indication that block owners can effectively monitor managerial behavior, and need not to create performance sensitive compensation. The proportion incentive and option compensation of total compensation, respectively, increases with FIDUCIARY ownership, but the estimates are not statistically significant. Since the equality of the predicted BLOCK and FIDUCIARY ownership estimates in the INCENTIVE regression can be rejected at the 5% level, ownership structure does influence incentive proportion of compensation. This is puzzling. Poor overall pay-performance sensitivity estimates are reported in the earlier specifications for the fiduciary ownership variables (c.f. Table 3, panel A). Considering there results jointly with the positive estimates of incentive compensation suggest that the incentive compensation becomes less performance sensitive or is only nominally performance sensitive when fiduciary ownership is present.

Non-linear specifications of the compensation structure regressions in [Table 4, Panel C](#), provide additional support for the non-linear influence ownership has on compensation. Variable estimates suggest similar non-linear structure as previously: a hockey-stick or J-shaped relationship for fiduciary ownership and an inverse U shaped relationship for block ownership. The estimates for both incentive proportion and option proportion of total compensation are highly statistically significant. Comparing the inflection points based on the estimates of block and fiduciary ownership across the other empirical specifications in Table 4 indicate the lowest inflection points for compensation structure relationships. For the proportion of incentive compensation, the fiduciary ownership variable estimate shows an inflection point at 11.5% and the block ownership variable at 52.7%. The inflection point for the fiduciary estimate in the option proportion specification is 12.4% and for the block ownership 40.0%.

Focusing on the differences in ownership structure in institutions with similar asset size, [Table 5, panel B](#), smaller institutions with block ownership have proportionally larger incentive and option compensation than larger institutions with fiduciary ownership. When asset size, differences in ownership structure, and ownership size are identified using dichotomous variables, [Table 6, panel B](#), the estimates reveal that large institutions with higher fiduciary ownership prefer incentive based compensation as fiduciary ownership increases. With the opposite being true for option based compensation, here each percentage point increase in ownership above the 5% reporting threshold, reduces the proportion of option compensation by 3% in large institutions. In institutions with block ownership, option proportion of compensation increases with block ownership, yet the incentive proportion of compensation declines amongst institutions with large block ownership.

Ownership structure and managerial hierarchy

The third hypothesis proposes that in institutions with fiduciary ownership, the compensation differentials between the CEO and other top executives are lower than in

institutions with dispersed or block ownership. To measure the possible existence and the extent of this compensation differential, first differences in means are calculated at different executive hierarchical levels. Then, previously estimated regressions are augmented with dichotomous variables that distinguish across five hierarchical levels and between block and fiduciary ownership.

INSERT TABLE 7 AROUND HERE

Comparing differences-in-means across different ownership structures at different hierarchical levels in table 7 indicates that executives in institutions with block ownership all have higher compensation; the dollar change of compensation is bigger, and the incentive proportion of compensation is greater. Differences in compensation across hierarchical levels are largest for the highest ranked executive. The pattern in differences is not straightforward; differences do not change linearly with lower hierarchical levels. Looking at the compensation differentials for the second and third ranked executive serves as an example. Nevertheless, the compensation differentials for the top executives are greater than the compensation for the fifth ranked executives, the executives with the lowest rank. In institutions with block ownership, the top executive receives a high compensation sensitive to changes in shareholder wealth. Other executives receive compensation that is not comparable with the compensation received by the top executive in an institution with block ownership, and their compensation is smaller and less sensitive as measured by dollar change. Differences across hierarchical estimates for block and fiduciary ownership variables support the third hypothesis, i.e., compensation differentials across ranks are lower in institutions with fiduciary ownership than in institutions with block ownership.

INSERT TABLE 8 AROUND HERE.

Robustness checks

I re-estimate the pay-performance sensitivity regressions in table 3, panel A, after dropping the two ownership variables and adding a two market value change and ownership

cross variables, CHANGE IN MARKET VALUE * BLOCK and CHANGE IN MARKET VALUE * FIDUCIARY. The estimates for these two variables in table 8, where I only report the estimates for these two variables across the pay-performance specifications, have the same signs as the estimates in the regressions they replicate. These results offer additional confirmation that managerial pay-performance sensitivities in institutions with block ownership are greater than in institutions with dispersed and fiduciary ownership, and pay-performance sensitivities in institutions with fiduciary ownership are less than sensitivities in institutions with dispersed ownership.

INSERT TABLE 9 AROUND HERE.

Further, to account for the possible non-linear influence of ownership levels, I estimate all specifications in table 5, but instead of using squared ownership variables to capture potential non-linear relationships, I use a modified piece-wise linear approach of Morck et al, 1988. As in the original approach, I use three distinctly defined ownership levels for both fiduciary and block ownership. Since the fiduciary ownership levels range between 1.19% and 26%, the influence of large fiduciary ownership may only be marginal. Instead of using the original cut-off points of 5%, 5 – 25%, and 25%+, I estimate the model using 5%, 5 – 20%, and 20%+ for fiduciary ownership. I use the traditional cut-off points for block ownership. The estimates for these variables are in table 9, where I only report the estimates for the ownership variables across the nine different specifications confirm the non-linearities as well the estimated inflection points.

7. Conclusions

In financial institutions corporate governance conflicts might be even more severe than in non-financial firms because financial institutions, through investments administered by their trust departments on behalf of their clients (retirement plans, corporations, endowments, etc.), can control, a sizeable proportion of their own equity. When the trust department of a financial institution owns shares in the financial institution, the situation is different than the institution holding its stock in treasury, through its Employee Stock

Ownership Plan, or its own pension plan. Fiduciary ownership does not reduce the float, but can shift votes from external shareholders through proxies to employees and executives of the financial institution. Moreover, any dividends and returns generated on fiduciary holdings benefits the institution because of various fees it charges to manage fiduciary accounts. While the corporate governance problems of institutional ownership have been, widely studied and the potential fiduciary ownership problems in financial institutions are not recent phenomena, only a few studies have focused on fiduciary ownership, its problems and its influence on the activities of financial institutions. This present study expands the literature on agency conflicts by analyzing the influence of fiduciary ownership on the structure and size of compensation contracts of top executives in financial institutions.

This study assumes that the ownership structure of a financial institution endogenously determines the absolute size and structure of executive compensation, and thus the magnitude of agency problems. Three distinct and clearly distinguishable ownership structures exist: *diffuse* ownership, where there is no block owner or fiduciary owner holding at least 5% of shares; b) *block* ownership, where there is an owner holding at least 5% of shares; and (c) *fiduciary* ownership, where the institution's trust department holds shares in the institution. This study hypothesizes that in institutions with fiduciary ownership, where executive action is less likely to be intensely monitored by other external shareholders, agency problems are amplified.

This study hypothesizes that fiduciary ownership reduces external monitoring in institutions with fiduciary ownership, pay-performance sensitivities of executive compensation should be lower across all ranks when compared to institutions with diffuse ownership or block ownership. Year-to-year changes in salary, salary and bonus, total compensation are negative in institutions with fiduciary ownership, and these findings support the First hypothesis. Moreover, in institutions with fiduciary ownership executive compensation should be higher across all ranks when compared to institutions with diffuse ownership or block ownership. The study finds negative relationship between fiduciary

ownership and total compensation, and positive relationship between block ownership and total compensation. These results do not support the hypothesis that fiduciary ownership increases absolute compensation. In institutions with fiduciary ownership compensation differentials between the top executives are lower than in institutions with diffuse ownership or block ownership. Results indicate that differences across managerial ranks are lower in institutions with fiduciary ownership.

Analyzing the possible non-linear influence of block and fiduciary ownership on these variables indicate different relationship. The relationship between the dependent, compensation variables and block ownership creates an inverse U-shaped relationship, while the relationship between fiduciary ownership and the dependent compensation variables has J-shaped relationship. With higher block ownership, pay-performance sensitivities and the absolute size of compensation decline. As fiduciary ownership increases, the absolute size of compensation as well as the pay-performance sensitivities increase.

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TABLE 1 – Variables and definitions

DEPENDENT VARIABLES	
Salary	The dollar value of the base salary (cash and non-cash) earned by the named executive officer during the year. Data in thousands USD and from ExecuComp.
Total compensation	Total dollar value of compensation earned by the executive during the year. Apart from salary and bonus, it includes the value of restricted stock grants, value of stock option grants, long-term incentive payouts, and all other compensation that the executive has received during the year. The value of the stock option grants is calculated by ExecuComp's modified Black & Scholes model. Data in thousands USD and from ExecuComp.
Change in salary	The dollar change in base salary earned during the year compared to the previous year. Data in thousands USD and from ExecuComp.
Change in total compensation	The dollar change of compensation earned during the year compared to the previous year. Data in thousands USD and from ExecuComp.
Incentive compensation	The proportion of total compensation considered as incentive based. Incentive based compensation includes bonus, value of restricted stock grants, value of stock option grants, and long-term incentive payout that the executive has received during the year.
Option compensation	The proportion of total compensation that is stock option grants. Option compensation is calculated by ExecuComp's modified Black & Scholes model.
INDEPENDENT VARIABLES	
Change in market value	The dollar change in shareholder wealth. It was calculated by multiplying the market capitalization of the company with the total returns to shareholders (including dividends). Total return data from CRSP and beginning of year market value in millions of USD from CompuStat.
Fiduciary ownership	The proportion of equity in the financial institution where the financial institution's trust department is the owner. Ownership information from Compact Disclosure.
Block ownership	The proportion of equity in the financial institution where the owner has more than 5% of equity. Ownership information from Compact Disclosure.
Fiduciary ownership – dichotomous variable	A dichotomous variable that equals one when the institution has fiduciary ownership. The value equals zero if there is no fiduciary ownership.
Block ownership – dichotomous variable	A dichotomous variable that equals one when the institution has block ownership. The value equals zero if there is no block ownership.
Size	The natural log of the total assets of the institution. Asset data in millions of USD from CompuStat.
Standard deviation of returns	The monthly standard deviation of shareholder total returns during a year. Data from CompuStat.
Charter value	The market value of the institutions equity and book value of its debt, divided by the book value of assets.
Federal charter	A dichotomous variable equal to one if the institution has a federal charter.
Executive rank n – fiduciary	A dichotomous variable that equals one for the n ranking executive for institutions with fiduciary ownership. The value equals zero for non n -ranked executives.
Executive rank n – block	A dichotomous variable that equals one for the n - ranking executive for institutions with block ownership. The value equals zero for non n -ranked executives.

TABLE 2 – Descriptive statistics

Descriptive statistics for selected variables for the sample; for institutions with fiduciary ownership and no block ownership or *fiduciary ownership*; for institutions with block ownership and no fiduciary ownership or *block ownership*; and institutions without fiduciary and block ownership or *diffuse ownership*. Variable definitions are in table 1.

	Sample N = 1115		Fiduciary N=509		Block N = 862		Diffuse N = 154	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
Panel A								
Salary	445.40	224.14	432.69	198.25	446.32	255.21	448.31	220.26
Total compensation	2530.27	4534.74	1901.06	2381.42	2571.96	4926.87	2697.66	3359.56
\$ change in salary	39.00	56.39	36.11	43.70	40.40	60.77	34.03	41.77
\$ change in total compensation	654.29	3505.93	303.56	1886.66	693.59	3865.99	590.14	2195.01
Incentive of total compensation	66.89%	17.50%	65.48%	16.21%	66.84%	17.45%	66.63%	18.85%
Option of total compensation	27.62%	19.38%	26.78%	19.34%	28.02%	19.65%	24.32%	18.82%
Panel B								
Block ownership	15.54%	16.08%	16.13%	17.30%	17.13%	20.11%		
Fiduciary ownership	3.90%	5.23%	8.55%	4.48%	4.17%	3.76%		
\$ change in market value (millions)	12766.83	8115.54	8626.89	6194.95	9240.07	8774.39	17043.48	7254.10
Log of Assets	9.76	1.33	9.72	1.16	9.87	1.13	9.47	1.45
Charter value	1.14	0.10	1.15	0.09	1.15	0.10	1.11	0.07
Stand. Dev. returns	7.23%	1.60%	7.00%	1.45%	7.25%	1.45%	7.33%	1.70%
Federal charter	0.60	0.49	0.58	0.49	0.49	0.61	0.56	0.50

Table 3 – Block and Fiduciary Ownership, Control Variables, and Compensation

Variable estimates and values for the estimate's t-statistics for changes in salary and total compensation (panel A), the absolute amount of salary and total compensation (panel B), and the incentive proportion of compensation and option proportion of compensation (panel C), respectively; regressed on *fiduciary* and *block* ownership, respectively, in percent; *the natural log of the book value of the institution's assets* to control for differences in size; a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals N = 1,115. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Panel A		Panel B		Panel C	
	Change Salary	Total	Absolute value Salary	Total	Proportion of Incentive	Option
Intercept	-108.272 -3.37***	4115.230 2.07**	157.883 1.39	980.965 0.471	0.1522 1.96**	0.2786 3.21***
\$ Change in MV	-5.2*10-3 -2.36**	-0.001 0.084				
Fiduciary	-19.112 0.578	-3553.300 -1.73*	-74.5375 -0.531	-6236.07 -2.41**	0.147 1.53	0.0461 0.428
Block	-1.659 -0.147	2792.580 3.98***	-56.1906 -1.16	1850.97 2.08**	-0.003 -0.0992	-0.066 -1.78
Charter value	38.061 1.97**	-2857.340 -2.39**	114.388 1.38	-1064.58 -0.700	0.187 3.29***	-0.067 -1.07
Risk	219.220 1.97**	-8304.840 1.20	-4.946 0.010	377.802 0.432	1.456 4.47***	-0.042 -0.118
Federal charter	-0.422 -0.122	351.662 -1.64	64.701 4.33***	888.623 0.961	0.0443 4.33***	0.265 2.31**
Log of Assets	8.948 4.23***	-95.328 -0.727	10.751 1.95*	97.3306 0.961	0.008 2.20**	-0.0011 -0.272
F-stat	3.157	3.582	4.007	6.332	14.4	12.3
R ²	0.031	0.035	0.035	0.054	0.1151	0.1
Durbin-Watson	1.510	1.250	0.0976	0.829	0.63	0.785
White (1980)	1.117	1.179	1.7755	2.7327	2.8355	2.4709
Heteroscedasticity	0.249	0.000***	0.0003	0.009***	0.00***	0.000***
Chi-square	605.790	19611.000	390.94	11147	95.922	49.373
p-value	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
Block = fiduciary	0.252	8.644	0.01512	8.7188	0.1889	0.96993
p-value	0.06159*	0.0033***	0.902	0.0031***	0.139	0.3247

Table 4 – Squared Block and Fiduciary Ownership, Control Variables, and Compensation

Variable estimates and values for the estimate's t-statistics for changes in salary and total compensation (panel A), the absolute amount of salary and total compensation (panel B), and the incentive proportion of compensation and option proportion of compensation (panel C), respectively; regressed on *fiduciary* and *block* ownership, respectively, in percent; the squared *fiduciary* and *block* ownership, respectively, in percent to account for possible non-linearities; *the natural log of the book value of the institution's assets* to control for differences in size; a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals N = 1,115. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Panel A		Panel B		Panel C	
	Change Salary	Total	Absolute value Salary	Total	Proportion of Incentive	Option
Intercept	-111.446	3963.39	146.575	899.741	0.144776	0.2691
	-3.47	1.99	1.3	0.443	1.89	3.12
\$ Change in MV	-0.00054764	-0.0024389				
	-2.44	0.0175				
Fiduciary	-83.7267	-7134.68	-663.287	-19844.9	-0.787633	-0.5931
	-1.08	-1.48	-1.99	-3.24	-3.48	-2.33
Fiduciary ²	495.296	27116.8	4460.12	99045.8	6.85148	4.7811
	0.997	0.879	2.09	2.52	4.72	2.93
Block	41.44	4810.96	249.628	4679.97	0.235844	0.2017
	1.46	2.73	2.05	2.08	2.84	2.16
Block ²	-81.434	-3810.6	-575.407	-5271.4	-0.446967	-0.5036
	-1.65	-1.24	-2.71	-1.35	-3.1	-3.1
Charter value	41.0586	-2701.11	137.998	-621.142	0.21849	-0.0434
	2.12	-2.24	1.67	-0.407	3.88	-0.687
Risk	220.424	-8294.37	-17.4577	-473.071	1.40364	-0.065
	1.98	-1.2	-0.0368	-0.0542	4.35	-0.179
Federal charter	-0.338834	355.572	65.3024	894.29	0.448487	0.0204
	-0.098	1.66	4.39	3.26	4.43	2.38
Log of Assets	8.64807	-109.882	7.4205	52.5974	0.00488899	-0.0043
	4.09	-0.836	1.33	0.513	1.29	-1
F-stat	2.963	3.212	4.356	5.993	15.01	11.94
R ²	0.0338081	0.036543	0.045282	0.06126	0.140509	0.115
Durbin-Watson	1.51	1.25	0.991	0.837	0.653	0.798
White (1980)	0.91462	2.0704	1.4963	3.0949	2.1572	2.2151
HSC p-value	0.7027	0	0.0043	0	0	0
Chi-square	600.13	19900	359.74	11337	92.398	53.256
p-value	0	0	0	0	0	0
Block = fiduciary p-value						

Table 5 – Block and Fiduciary Ownership, Asset Quintiles, and Compensation

Variable estimates and values for the estimate's t-statistics for the absolute amount of salary and total compensation, and the incentive proportion of compensation and option proportion of compensation, respectively. All observations were ranked according to asset size and assigned to five equal quintiles. Observations in the top and bottom quintiles were assigned dichotomous variables indicating their position; observations belonging to the remaining three quintiles were not. Each quintile dichotomous variable was then multiplied with a dichotomous variable indicating block or fiduciary ownership, respectively. Thus each cross-product identifies institutions by asset size and existence of block and fiduciary ownership, e.g., *Quintile 1 fiduciary DV* is a dichotomous variable identifying observations in the bottom asset quintile with fiduciary ownership and *Quintile 5 block DV* is a dichotomous variable identifying observations in the top asset quintile with block ownership. Other control variables are a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals $N = 1,115$. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Absolute value		Proportion of	
	Salary	Total	Incentive	Option
Intercept	142.722	-476.472	0.1564	0.226142
	100015	-0.207	1.82	2.52
Quintile 1 fiduciary DV	-34.8575	-591.917	-0.01868	0.39813
	-1.14	-1.04	-0.844	1.85
Quintile 5 fiduciary DV	112.662	502.978	0.0222	0.0729
	3.26	0.784	0.933	0.345
Quintile 1 block DV	4.82114	-47.7552	0.0294	0.295114
	0.18	-0.0962	1.6	3.56
Quintile 5 block DV	-84.2658	-427.216	-0.00614	0.000763
	-2.93	-0.8	-0.309	0.00814
Charter value	64.106	-134.754	0.1805	-0.0746
	0.811	-0.0918	3.31	-1.22
Risk	13.6757	5889.49	1.345	-0.457227
	0.0292	0.677	4.16	-1.25
Federal charter	17.0114	888.987	0.044	0.02767
	1.95	3.21	4.28	2.42
Log of assets	64.832	106.114	0.0099	0.006552
	4.35	0.655	1.65	1.14
F-stat	4.6363	4.604	12.11	11.57
R ²	0.048	0.04777	0.1166	0.1186
Durbin-Watson	0.988	0.83	0.632	0.858
White (1980)	1.094	0.48586	1.7871	2.2312
HSC p-value	0.2816	0.9999	0.0001	0
Chi-square	395.82	12524	102.52	48.21
p-value	0	0	0	0
Block = fiduciary p-value				

Table 6 –Asset Quintiles and Block and Fiduciary Ownership Cross-Products

Variable estimates and values for the estimate's t-statistics for the absolute amount of salary and total compensation, and the incentive proportion of compensation and option proportion of compensation, respectively. All observations were ranked according to asset size and assigned to five equal quintiles. Observations in the top and bottom quintiles were assigned dichotomous variables indicating their position; observations belonging to the remaining three quintiles were not. Each quintile dichotomous variable was then multiplied with a dichotomous variable indicating block or fiduciary ownership, respectively. Thus each cross-product identifies institutions by asset size and existence of block and fiduciary ownership. These cross-products then are multiplied with the block and fiduciary ownership levels to capture the magnitude of ownership, e.g., *Quintile 1 fiduciary DV* fiduciary* is a variable identifying observations in the bottom asset quintile with fiduciary ownership multiplied with the level of the fiduciary ownership, and *Quintile 5 block DV * block* is a dichotomous variable identifying observations in the top asset quintile with block ownership multiplied with the level of block ownership. Other control variables are a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals $N = 1,115$. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Absolute value		Proportion of	
	Salary	Total	Incentive	Option
Intercept	202.04	-645.33	0.14146	0.265261
	1.72	-0.296	1.75	2.8
Quintile 1 fiduciary DV * Fiduciary	-356.02	-6898.4	-0.17873	0.0442356
	-1.26	-1.32	-0.923	1.9
Quintile 5 fiduciary DV * Fiduciary	640.345	2629.91	0.443915	-0.0272
	2.32	0.514	2.34	-1.04
Quintile 1 block DV * Block	-123.11	-188.96	0.106696	0.0633
	-1.14	-0.0941	1.46	3.11
Quintile 5 block DV * Block	-238.77	-2980.9	-0.1624	0.054697
	-1.95	-1.31	-1.93	2.49
Charter value	78.1801	-246.03	0.1842	-0.066961
	0.98	-0.166	3.36	-1.11
Risk	143.411	6574.15	1.372	-0.363786
	0.3	0.741	4.17	-1.02
Federal charter	63.5197	890.345	0.04361	0.0263
	4.26	3.22	4.26	2.32
Log of assets	8.51981	134.96	0.0112	0.00033
	1.13	0.969	2.18	-0.0054
F-stat	4.134	4.719	12.75	12.72
R ²	0.043	0.04887	0.1218	0.1216
Durbin-Watson	0.985	0.833	0.637	0.866
White (1980)	1.0828	0.42683	1.7045	2.6856
HSC p-value	0.3002	1	0.0003	0
Chi-square	396.92	12593	108.54	38.798
p-value	0	0		0
Block = fiduciary				
p-value				

Table 7 – Block and Fiduciary Ownership, Hierarchy, Control Variables, and Compensation

Variable estimates and values for the estimate's t-statistics for changes in salary and total compensation (panel A), the absolute amount of salary and total compensation (panel B), and the incentive proportion of compensation and option proportion of compensation (panel C), respectively; regressed on *fiduciary* and *block* ownership, respectively, in percent; *the natural log of the book value of the institution's assets* to control for differences in size; a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. To account for the ownership and hierarchical differences, these regressions include dichotomous variables that simultaneously capture *hierarchical* differences between executives in the same sample institutions and the *ownership* structure of the institution. The *top manager* is usually the CEO and/or Chair of the Board; *Second manager* is usually the president; *Third manager*, is usually the CEO of an operating subsidiary or one of chief officers of the company, a more senior vice president, or similar; *Fourth manager*, is usually a chief officer of the company or a senior vice president, or similar; Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals N = 1,115. Variable definitions can be found in table 1. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). X² yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value.

	Panel A		Panel B		Panel C	
	Change Salary	Total	Absolute value Salary	Total	Proportion of Incentive	Option
Intercept	-99.1778	2272.78	215.584	294.202	0.1728	0.317881
	-3.24	1.17	2.19	0.147	2.3	3.79
\$ Change in MV	-0.0004736	-0.0052689				
	-2.16	-0.38				
Top manager	-0.559082	-880.635	65.591	-905.90	0.00219	0.00087734
Fiduciary	-0.0944	-2.35	2.83	-1.92	0.123	0.0443
Second manager	-1.75811	-524.393	-8.48271	-894.72	0.00632	0.0172623
Fiduciary	-0.268	-1.27	-0.332	-1.72	0.323	0.79
Third manager	-1.72188	-649.792	-24.6561	-1123.7	-0.0096	-0.0525808
Fiduciary	-0.251	-1.5	-0.919	-2.06	-0.469	-0.229
Fourth manager	-5.46799	-143.764	-41.8149	-313.93	-0.0328	-0.0505164
Fiduciary	-0.688	-0.286	-1.34	-0.496	-1.38	-1.9
Top manager	22.7845	929.195	193.865	1861.12	0.02885	0.0408876
Block	4.37	2.82	9.48	4.48	1.85	2.34
Second manager	5.13616	318.874	7.16609	267.79	-0.0158	-0.0077107
Block	0.901	0.884	0.321	0.59	-0.926	-0.404
Third manager	-3.94207	338.03	-31.3149	232.09	-0.015	0.0144242
Block	-0.683	0.925	-1.38	0.504	-0.866	0.745
Fourth manager	-3.92573	59.599	-66.9892	-411.91	-0.0051	0.0614781
Block	-0.587	0.141	-2.55	-0.829	-0.254	2.74
Charter value	32.188	-1473.56	41.1966	-289.27	0.18329	-0.109858
	1.76	-1.27	0.577	-0.199	3.36	-1.8
Risk	219.51	-4325.42	21.0799	2104.43	1.39165	-0.168559
	2.03	-0.632	0.05	0.246	4.32	-0.468
Federal charter	-0.833235	307.423	59.6414	819.43	0.0431	0.0256546
	-0.244	1.42	4.45	3.01	4.21	2.24
Log of assets	8.11358	-63.1749	6.91889	60.727	0.00796	-0.0021747
	3.87	-0.482	1.39	0.601	2.1	-0.517
F-stat	4.473	2.03	20.6	5.941	9.942	8.449
R ²	0.0648302	0.0305011	0.30909	0.79672	0.12654	0.109624
Durbin-Watson	1.49	1.24	0.718	0.795	0.617	0.779

	Panel A		Panel B		Panel C	
	Change	Total	Absolute value	Total	Proportion of	
	Salary		Salary		Incentive	Option
White (1980)	0.80764	0.57509	1.0882	0.70932	1.4196	1.8018
HSC p-value	0.936	0.9999	0.2623	0.9881	0.0045	0
Chi-square	612.4	20556	460.53	1238	104.75	43.786
p-value	0	0	0	0	0	0
Block = fiduciary						
p-value						

Table 9 –Block and Fiduciary Ownership with Piece-wise linear specification, Control Variables, and Compensation

Variable estimates and values for the estimate's t-statistics for changes in salary and total compensation (panel A), the absolute amount of salary and total compensation (panel B), and the incentive proportion of compensation and option proportion of compensation (panel C), respectively; regressed on control variables *the natural log of the book value of the institution's assets* to control for differences in size; a dichotomous variable that equals one if the top BHC is *federally chartered* and zero (state chartered) otherwise to control for chartering differences; *risk* measured by the standard deviation of monthly stock returns for the calendar year in question to control for risk; and the *charter value* for the institution to control jointly for valuation as well as risk taking incentives. Both block and fiduciary ownership variables are specified using a piece-wise linear transformation. *Fiduciary 0 – 5%* identifies fiduciary ownership between 0 – 5%. If the ownership is below this level, the variable value is zero, if the ownership is between 0 and 5%, the variable is the actual observation, if the ownership exceeds 5%, the observation is recorded at 5%. *Fiduciary 5 –20%* identifies fiduciary ownership between 5 – 20%. If the ownership is below this level, the variable value is zero; if the ownership is between 5 and 20%, the variable is the actual observation minus 5%; and if the ownership exceeds 20%, the observation is recorded at 15%. *Fiduciary 20%+* identifies fiduciary ownership exceeding 20%. If the ownership is below this level, the variable value is zero; if the ownership exceeds 20%, the observation recorded is the actual observation recorded minus 20%. The same specification applies for Block ownership, with the cut-off points in line with Morck, Schleifer and Vishny (1988) specification. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals N = 1,115. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Panel A		Panel B		Panel C	
	Change Salary	Total	Absolute value Salary	Total	Proportion of Incentive	Option
Intercept	-111.054	3695.42	140.157	711.456	0.1305	0.26344
	-3.43	1.84	1.24	0.342	1.71	3.05
\$ Change in MV	-0.000542	-0.00173				
	-2.4	-0.123				
Fiduciary 0 - 5%	-96.4354	-10463	-665.46	-27980	-1.3	-0.842
	-1.03	-1.8	-1.66	-3.79	-4.82	-2.75
Fiduciary 5 - 20%	37.8939	1843.13	338.678	10152.8	1.23	0.762
	0.492	0.386	1.02	1.67	5.52	3.03
Fiduciary 20% -	104.823	-17540	1564	-24212	-0.8999	-0.1781
	0.2	-0.567	0.728	-0.614	-0.621	-0.109
Block 0 - 5%	53.971	-3381.32	208.919	2470.69	-0.2467	0.7836
	0.5025	-0.531	0.475	0.306	-0.831	2.34
Block 5 - 25%	11.8153	4564.02	63.0477	2232.73	0.196	-0.0259
	0.41	2.56	0.513	0.983	2.35	-0.275
Block 25% -	-24.4399	1227.09	-234.22	1225.29	-0.1578	-0.2123
	-0.926	0.75	-2.08	0.592	-2.08	-2.48
Charter value	41.3682	-2610.19	1.44839	-412.77	0.23192	-0.0362
	2.12	-2.16	1.74	-0.27	4.1	-0.572
Risk	219.111	-9219.18	1.14325	-2116.4	1.29051	-0.0674
	1.96	-1.33	0.00239	-0.241	4	-0.185
Federal charter	-0.75017	335.816	62.1905	839.328	0.0405	0.02316

	Panel A		Panel B		Panel C	
	Change		Absolute value		Proportion of	
	Salary	Total	Salary	Total	Incentive	Option
	-0.216	1.56	4.16	3.06	4.01	2.03
Log of assets	8.656	-57.0941	8.044	87.2949	0.00765	-0.0054
	3.98	-0.424	1.41	0.832	1.98	-1.24
F-stat	2.489	2.888	3.502	5.288	13.87	10.57
R ²	0.03328	0.0379	0.0426	0.0635	0.15	0.1185
Durbin-Watson	1.51	1.25	0.987	0.839	0.66	0.799
White (1980)	0.096841	2.1213	1.5866	3.391	2.2524	2.5947
HSC p-value	0.5718	0	0.0007	0	0	0
Chi-square	598.27	19873	367.08	11153	89.88	54.22
p-value	0	0	0	0	0	0
Block = fiduciary						
p-value						

Table 9 – Block and Fiduciary Ownership and Pay-Performance sensitivity

Variable estimates and values for the estimate's t-statistics for changes in salary and total compensation; regressed on dollar change in market value multiplied with dichotomous variables indicating fiduciary and block ownership, respectively, in percent. $\$ \text{Change in Market Value} * \text{Fiduciary DV}$ is the market value change in million dollars for observations identified as having fiduciary ownership, and $\$ \text{Change in Market Value} * \text{Block DV}$ is the market value change in million dollars for observations identified as having block ownership. Dichotomous variables control for the year-to-year differences in pay-performance sensitivities, compensation structure and size; their estimates are not included in these tables.

The sample based on executives of U.S. federally and state chartered commercial banks between 1995 and 1999 equals $N = 1,115$. Variable definitions can be found in table 1. Reported t-statistics are heteroscedasticity and autocorrelation adjusted. * denotes significance at the 10% level (one sided t-test); ** denotes significance at the 5% level (one sided t-test); and *** denotes significance at the 1% level (one sided t-test). Durbin-Watson is the Durbin-Watson test for autocorrelated residuals; d_L is 1.561 and d_U 1.791 for $k = 11$, $n=200$, and 1% level of significance. White (1980) is the White heteroscedasticity test using squares and cross-products. X^2 yields Chi-square statistics for test of first and second moment specification for heteroscedasticity and associated p-value. Fiduciary = Block is p-value for the hypothesis that the estimates for block and fiduciary ownership are identical.

	Change Salary	Total
Intercept	-64.863	3961.66
	-2.47	2.44
\$ Change in MV * Fiduciary DV	-7.0888	-3934.3
	-0.216	-1.94
\$ Change in MV * Block DV	0.8245	2785.64
	0.0725	3.96
Charter value	33.1017	-2831.6
	1.72	-2.38
Risk	184.064	-8131.8
	1.67	-1.19
Federal charter	-0.3947	352.295
	-0.0114	1.65
Log of assets	4.978	-81.872
	3.9	-1.04
F-stat	2.904	3.953
R ²	0.0256	0.0345
Durbin-Watson	1.51	1.25
White (1980)	1.282	1.982
HSC p-value	0.2479	0.000***
Chi-square	610.68	16919
p-value	0.000***	0.000***
Block = fiduciary		
p-value		

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