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**DETERMINANTS OF CEO PAY: AN EXAMINATION OF THE HADRAMI  
CHARITABLE FOUNDATIONS**

**AMEEN ALI AHMED BIN AFIF**



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## ABSTRACT

Although the nonprofit sector is enormous, corporate governance, particularly the role of CEO pay, has received very little attention in this sector. This study is examining CEO pay in Hadrami nonprofit organizations. For this purpose, this study uses firm characteristics (sector of the organization and organizational size) and CEO characteristics (CEO's qualifications, CEO's experience, CEO duality, and CEO's tenure) to examine the impact on CEO pay. A web-based questionnaire was considered an appropriate method for this study. The sample was selected from nonprofit organizations listed on Ministry of Labor and Social Affairs that operate in Hadramout (90 charitable foundations). A total of 57 CEOs responded to the questionnaire, generating a 63.33% response rate. Using multiple regression analysis, the results of this study indicate that the size of organization and CEO's qualifications have significant influence on CEO pay. Other variables namely, sector of the organization, CEO's experience, CEO duality, and CEO's tenure have no significant impact on CEO pay.

**Keywords:** Hadramout, nonprofit organizations, CEO, CEO pay, governance.

## ABSTRAK

Walaupun sektor bukan keuntungan adalah sangat besar, tadbir urus korporat terutamanya peranan gaji Ketua Pegawai Eksekutif (CEO), tidak mendapat banyak perhatian.. Kajian ini mengkaji gaji CEO dalam organisasi di Hadramout tidak berorientasikan keuntungan di Hadramout. Untuk tujuan ini, kajian ini menggunakan ciri-ciri firma (sektor dan saiz organisasi) dan ciri-ciri CEO (kelayakan, pengalaman, CEO dualiti, dan tempoh berkhidmat di organisasi) untuk mengkaji kesan ke atas gaji CEO. Soal selidik yang berasaskan web dianggap sebagai kaedah yang sesuai bagi kajian ini. Sampel kajian dipilih daripada organisasi tidak berorientasikan keuntungan yang disenaraikan di Kementerian Buruh dan Hal Ehwal Sosial yang beroperasi di Hadramout (90 organisasi bukan untung). Seramai 57 CEO menjawab borang kaji selidik, menandakan kadar respon sebanyak 63.33%. Menggunakan analisis regresi berganda, hasil kajian ini menunjukkan bahawa saiz organisasi dan kelayakan CEO mempunyai pengaruh yang besar ke atas gaji CEO. Pembolehubah lain iaitu, sektor organisasi, pengalaman CEO, CEO dualiti, dan tempoh perkhidmatan CEO tidak mempunyai kesan yang besar ke atas gaji CEO.

Kata kunci: Hadramout , organisasi bukan untung , Ketua Pegawai Eksekutif, Gaji Ketua Pegawai Eksekutif, tadbir urus.

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*In the name of Allah, the most gracious and most merciful*

First and foremost, (**Alhamdulillah**) all praises be upon Allah, Lord of the Universe for all blessings that He has given His' creatures. And may His blessings, peace and favours descend in perpetuity on our beloved Prophet Muhammad (PBUH), who is mercy for the entire world. Truthfully, without Allah's blessings, grace and guidance, this dissertation could not have been written.

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**Ameen Ali Ahmed Bin Afif**

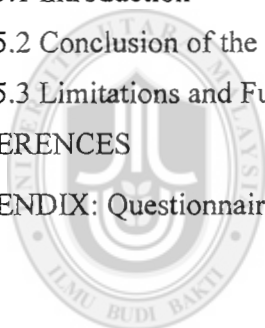


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## LIST OF ABBREVIATIONS

Abbreviation	Description of Abbreviation
CEO	Chief Executive Officer.
HRITC	Human Rights Information & Training Center.
CSO	Civil Society Organization.
USAID	United States Agency for International DevelopmentEast and North Africa.
BFOS	Benevolent Fund for Outstanding Students.
HEHD	Hadramout Establishment for Human Development.
AFD	Al-Awn Foundation for Development.
MoLSA	Ministry of Labor and Social Affairs.
SPSS	Statistical Package for Social Science.
CEOPAY	CEO Pay.
SECTOR	Sector of the Organization.
SIZE	Organizational Size.
DUAL	CEO Duality.
TENURE	CEO Tenure.
QUAL	CEO's Qualifications.
AGE	CEO's Experience.



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## CHAPTER ONE

### INTRODUCTION

#### **1.1 Background of the Study**

Corporate Governance is at the heart of how entities are managed (Mudabeti, 2014). According to Ahmed (2012), corporate governance is a system designed to ensure that the operations of entities are done efficiently and effectively on behalf of stakeholders. The practical importance of corporate governance is increasing day by day. Efficient and effective practices of corporate governance rules and high-quality protection of stakeholders would attract more investments (for profit organizations) and donors (for non-profit organizations).

Agency theory is usually used to describe the structure of wage in organizations (Conyon, 2006; Klein, 2010). According to Jensen and Meckling (1976), both the owner (principal) and the chief executive officer (agent) seek to maximize their interest and therefore they will not act in the best interest for each other. They also suggest some methods which are used by owners to control or monitor the executives' actions such as the establishment of incentive compensation system, formal control systems and auditing. Laiho (2011) indicated that the conflict of interest between the principal and the agent will generate agency costs. Agency cost is one of the significant concepts in corporate governance (Tariq, 2010) which occurs due to the separation between ownership and management (Jensen & Meckling, 1976). However, it could be complicated to evaluate the agent's actions by limiting to agency theory only (Tariq, 2010) especially in not-for-profit organizations which they have wide objectives, a broad range of stakeholders and complexities in assessing the performance (Bawden, 2008). That is why it would be very important

for the stakeholders to align the agent's pay with the interest of the stakeholders as explained by stakeholder theory.

One of the important methods that is used to control the agent's actions and to align the interests of the both principal and agent is compensation system. Conyon (2006) stated that the objective of a well-designed pay package is to retain, motivate, and attract top management and chief executive officers (CEOs). In general, the CEO compensation has several elements including salary, bonus, perquisites, stock, stocks options, pensions (Tariq, 2010). Actually, many of Yemeni nonprofit organizations are compensating their CEO using salary only and very few nonprofits used salary plus bonus or bonus only. Bühner (2010) suggested that compensation practices and designing the policies of corporate governance should go hand in hand. Meanwhile, stakeholder theory assumes that the organizations seek naturally to increase the benefits for all its stakeholders such as founders, donors, employees, clients and the public. Therefore, a fair compensation will enhance the benefit for owners and other key stakeholders.

One of the mechanisms of corporate governance that has impact on the CEO compensation is board of directors. The functions of board of directors in setting CEO compensation have been discussed widely in the prior studies (e.g., Conyon, 2006; Jensen, 1993). According to agency theory, shareholders (owners) determine the CEO compensation. While in reality, the compensation committee of the board sets CEO compensation on behalf of shareholders (owners). The alternative view in setting CEO pay is managerial power view which is that CEOs determine pay because they have the power and the ability to use this power to get a high compensation. Galle and Walker (2014) used the managerial power theory to explain



CEO compensation in nonprofit sector. They argued that the boards of trustees, which are responsible for negotiating nonprofit CEO compensation, are likely to be weaker than the CEOs with regard to the process of pay-setting.

This research paper considers the governance of CEO compensation in the charitable sector, particularly the role of CEO characteristics and firm characteristics in setting executive pay. Recently, there has been a discussion about the structure and/or level of CEO pay in many countries such as UK and US in for-profit sector, with less debate in not-for-profit sector. In Hadramaut case, there is a lack of empirical research regarding CEO compensation in nonprofit sector. Therefore, how nonprofit organizations pay for their CEO is questionable. Another question arises that whether executive pay is justified or is it just a trend that everyone is following.

## **1.2 Problem Statement**

The CEO compensation and the processes for determining the compensation can have a significant influence on the success of organizations and even of whole economies (Galle & Walker, 2014). It is a main motivation factor which significantly has impact on the general trend of the organization (Finkelstein & Hambrick, 1988). As a result, the issue of CEO pay has produced a vast amount of studies in the last three decades in for-profit sector (e.g., Bührer, 2010; Ghosh, 2003; Hengartner, 2006; Kostiuk, 1990; Lambert, Larcker, & Weigelt, 1991; Nulla, 2013; Rankin, 2006; Tariq, 2010). However, very little is known about the pay of these managers in nonprofit sector. Nonprofit organizations are facing increased public scrutiny to ensure that they meet the legitimate expectations of their stakeholders. Recently, many cases of mismanagement in nonprofit organizations have been documented in the newspapers (e.g., Guardian, 2009; Independent, 2009). A salient point of debate

that remains controversial is about how nonprofit organizations pay for their staff and managers. Nonprofit organizations should fairly design pay package to reward their staff in line with the best practices of the labor market and the compliance with the expectations of donors (Perego & Verbeeten, 2013). In fact, the excessive pay practices or unscrupulous pay can reduce the public confidence which in turn affects the donating decisions, particularly when excessive pay receives the attention of public widely (Prakash & Gugerty, 2010).

The nonprofit organizations have additional difficulties or complications in setting executive compensation. According to Oster (1998) and Lazear (1995), it is very hard for the nonprofit organizations to find the performance measures to judge or determine fair compensations for their executives. Oster (1998) as well as Hallock and Klein (2009) attributed this difficulty to the presence of many unclear objectives and different potential missions of this sector. Another key point is the ability of boards of trustees which are charged with negotiating CEO pay in nonprofit organizations. Galle and Walker (2014) argued that there are many reasons that make CEOs have a strong influence than nonprofit trustees in the process of negotiation and pay-setting. These reasons include the part-time work of nonprofit trustees, the absence of direct economic interest for nonprofit trustees, ownership of the nonprofit trustees, and various formal and informal ties that encourage a culture of deference to the executives. Therefore, the nonprofit trustees will heavily depend on the executives regarding pay-setting because they control the flow of information. In poor countries such as Yemen, other stakeholders regardless of the nonprofit trustees maybe have neither resources nor incentives to closely monitor CEO pay. Such complications can be an incentive for CEOs to engage into cronyism or financial mismanagement.

A major area of argument related to nonprofit pay that remains controversial concerns is the basis of formation of nonprofit organizations. Some researchers (e.g., Jobome, 2006; Sakani, 2012) argued that excessive compensation can defeat the specific motivational and organizational issues which the nonprofit organizations were built upon as well as characteristics of charitable employees such as altruism, volunteering, and the concern for the welfare of those in need. This prompts Third Sector (2003); Hansmann (1980); Herzlinger (1994) to suggest that the charitable organization's executives should be prepared to be paid little or nothing at all. Another stream of research (e.g. Ridder & McCandless, 2010; Ridder, Piening, & Baluch, 2012) argued that the quality of a staff – both volunteer and paid – is one of the most crucial inputs for a not-for-profit organization to be able to achieve its mission. Recruiting the appropriate competencies and right people is critical to achieve a high performance. Therefore, nonprofit organization should consider to spend money to attract and retain top skilled and capable employees (Drucker, 1992; Papas, 1995). Thus, how nonprofit organizations pay for their CEOs is still largely unexplained.

Nonprofit executive compensation does not receive the attention of researchers and practitioners. The researchers in this area such as Caroline (2015); Galle and Walker (2014); Mohammed, Rashid, and Tahir (2014); and Ndoro (2012) acknowledge that the literature in nonprofit organizations is very scarce. Even in developed countries such as US and UK, researchers indicate that evidence on determinants of executive wages and performance in not-for-profit organizations are rare (e.g., Galle & Walker, 2014; Ndoro, 2012). They recommended that there is a need for more researches in this area. This study attempts to extend the few previous studies on the determinants of CEOs pay in the Hadrami charitable foundations. To achieve this goal, the key

constructs that were determined in the prior studies are subjected to a rigorous test by the questionnaire on the opinions of nonprofit executives in Hadramaut instead of just using secondary data, thereby providing a strong conceptualization of CEO pay in charitable foundations (Ndoro, 2012).

Taking into consideration, the complexities of nonprofit management, technical problems in performance measures, governing and ideological characteristics of the nonprofit organizations, and also scarcity of research as discussed above, the problem statement arises through the following question:

What are the determinants of executive compensation in nonprofit organizations operating in Hadramout?

There are many difficulties that researchers need to face to conduct a study on nonprofit organizations in Yemen has to faced. Firstly, the number of nonprofit organizations and their continuity is not stable. For example, the Human Rights Information and Training Center (HRITC) started to conduct research in 1998, and the research was completely changed in the same year. After three years, HRITC resumed the research again, they found that many names of nonprofit organizations established and many of them have stopped their activities. Secondly, there is a lack of unified legal reference for this sector in Yemen. According to HRITC (2003), many of the nonprofit organizations are registered in more than one official institution. In addition, most of these institutions has insufficient scientific documentation for such nonprofit organizations. Thirdly, the United States Agency for International Development (USAID), in their report "The 2011 Civil Society Organization Sustainability Report for the Middle East and North Africa", acknowledged that there is no way to determine the number of unregistered civil

society organization (CSO) in Yemen (USAID, 2011). The term of CSO refers to the wide array of nonprofit and non-governmental organizations that have a presence in public life (WorldBank, 2010). Fourthly, there is no comprehensive database of active CSOs in Yemen (WorldBank, 2013). Finally, with ongoing political crisis in Yemen, it is difficult to conduct the study in whole of Yemen. Thus, this study only focuses on nonprofit organizations in Hadramaut.

Hadramaut is a pioneer province in the field of charitable work in Yemen, including large number of active nonprofit organizations that are funded by Hadrami wealthy families who manage large commercial institutions around the world. Hadramaut is considered as the most organized and active province in charitable work maybe because of the existence of some organizations such as Alawn foundation for development and Nama network, which include the vast majority of Hadrami organizations if not all, and they are interested in the rehabilitation and training of other CSOs that are working in Hadramaut (Bajham, 2014). Such organizations can be considered as complementary reference to the legal reference or a comprehensive database of active CSOs in Hadramaut. With regard to the current political crisis in Yemen, the province of Hadramout is considered one of the most stable provinces.

### **1.3 Research Question**

This research attempts to examine the determinants of CEO pay in Hadrami nonprofit organizations. Specifically this study attempts to answer the following questions:

1. What is the relationship between the firm size and CEO pay in Hadrami charitable foundations?

2. What is the relationship between sector of the firm and CEO pay in Hadrami charitable foundations?
3. What is the relationship between the CEO qualifications and CEO pay in Hadrami charitable foundations?
4. What is the relationship between the CEO's tenure and CEO pay in Hadrami charitable foundations?
5. What is the relationship between the CEO's experience and CEO pay in Hadrami charitable foundations?
6. What is the relationship between the CEO duality and CEO pay in Hadrami charitable foundations?

#### **1.4 Research Objectives**

The purpose of this research is to examine the determinants of CEO pay in Hadrami nonprofit organizations. Specifically this study aims:

1. To investigate the relationship between the firm size and CEO pay in Hadrami charitable foundations.
2. To investigate the relationship between the sector of the firm and CEO pay in Hadrami charitable foundations.
3. To investigate the relationship between the CEO qualifications and CEO pay in Hadrami charitable foundations.
4. To investigate the relationship between the CEO's tenure and CEO pay in Hadrami charitable foundations.

5. To investigate the relationship between the CEO's experience and CEO pay in Hadrami charitable foundations.
6. To investigate the relationship between the CEO duality and CEO pay in Hadrami charitable foundations.

### **1.5 Significance of the Study:**

In the recent years, the issue of CEO pay has received attention by many reseachers. The topic is very important because there is a widespread public perception which is CEO pay is unfair, excessive, and difficult to interpret. Although there are few studies conducted on nonprofit organizations (e.g., Galle & Walker, 2014; Ndoro, 2012; Newton, 2013), but these studies were mostly conducted in the developed countries such as US and UK. To the best of my knowledge, there is no study that was carried out to investigate the determinants of executive compensation in Yemeni non-profit organizations. The rarity of studies in non-profit executive compensation as well as the huge controversy about the complications that face the non-profit organizations in setting executive compensation made the results of this research immensely valuable.

This study provides a novel contribution to CEO pay literature since it is the first to examine the determinants of CEO pay in Hadrami nonprofit organizations. Therefore, the first contribution of this study is its contribution to the literature on CEO pay in nonprofit organisations where the views of CEOs in the Hadrami nonprofit organizations were elicited through the questionnaire rather than just depending on secondary data such as it is the case with most of prior researches (e.g., Galle & Walker, 2014; Klein, 2010; Perego & Verbeeten, 2013).

Secondly, this study provides the first wide sample evidence of the relationships between CEO pay and characteristics of CEO and firm characteristics in nonprofit organizations particularly charitable foundations. Most of the previous studies with regard to CEO pay in nonprofit organizations have restricted their analyses to a single nonprofit sector such as health care ((Brickley, Van Horn, & Wedig, 2003, 2010) and education (Galle & Walker, 2014). This study examines the relationship between CEO pay and characteristics of firm and CEO using a sample that includes nonprofits representing multiple sectors.

Thirdly, an attractive feature of studying such an issue in the Yemen context is that some nonprofit and for-profit organizations paid great attention to the corporate governance mechanisms during the last couple of years, through a relatively long process of amendment and enhancement to create the corporate governance code in Yemen. Although, there is proposal of corporate governance code in Yemen (proposed by Yemeni Businessman Club and Center for International Private Enterprise in 2010), the Yemeni government is still not adopting corporate governance code. This study conducts the first in-depth examination of the relationship between corporate governance factors and CEO pay practice in Hadramaut (as a part of Yemen), and therefore, it is expected to highlight the growing need to the adoption of corporate governance code in order to improve CEOs pay practices in Hadramaut and structuring compensation programmes and policies that will enable non-profit organizations to attract and retain the CEOs needed to achieve the objectives of non-profit organisations, without overlooking the stewardship and altruistic ethos of non-profit sector.



A final significance emanating from this study involves the discussion of some aspects, which are very rare in prior studies, regarding to charitable foundations in the Hadramaut context such as historical roots and development of charitable foundations, the role been played by charitable foundations and Hadrami wealthy families to achieve a positive impact on the comprehensive development and stability of society, and the Islamic Shari'ah perspective in the establishment of the charitable foundations.

In summary, the importance of this study accrues to academics, practitioners and policy makers. For the academics, this study provides additional literature on the research field in this area by providing more evidences on the determinants of CEO pay, specifically as it relates to the nonprofit organizations. For practitioners, it will enhance their understanding on which factors affect the CEO pay. For policy makers, the current study will enhance their understanding to the urgent need for the adoption of corporate governance code in order to improve CEOs pay practices.

#### **1.6 Organization of the Study**

This study is organised into five chapters. Chapter one discusses the introduction, problem statement, questions, objectives and significance of the study. Chapter two reviews the literature on CEO compensation and charitable foundations, with particular reference to Hadramaut. Research hypotheses are developed in this chapter as well. Chapter three discusses the research methods used in this study. Chapter four presents the results and consequent discussions. The last chapter highlights the conclusions, limitations of the study and areas of future research.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter is divided into five main sections. In section two, the literature review relating to the CEO compensation is discussed, including brief overview of CEO compensation, excessive executive compensation, and theories on nonprofit executive pay. The third section highlights charitable foundations in Yemen, particularly in Hadramaut. It discusses the Islamic perspective of charitable foundations, historical development of charitable foundations in Hadramaut, the role of charitable foundations in Hadramaut, and the reality of legal environment of charitable foundations in Yemen. The hypotheses development is presented in section four, and finally is the theoretical framework.

#### 2.2 CEO Compensation

##### 2.2.1 Brief Overview of CEO Compensation

The main job of CEOs is to oversee the organization's operations and strategy. It is clear that these CEOs require remuneration for their jobs. CEO compensation can be defined as the total of base salary, bonuses, stock options, stock grants, and other forms of compensation and benefits (Bognanno, 2010). Conyon (2006) argued that the major goal of a well-designed CEO pay package is to attract, motivate, and preserve executive managers and top management. He also argued that the members of board of directors or their committee (compensation committee) have responsibility to design properly executive remuneration contracts. The "right"

amount to pay CEO is the minimum amount it takes to attract and preserve a qualified individual.

In addition, Barros and Nunes (2007) analyzed the pay and performance of CEOs in Portuguese non-profit organizations. They emphasized that the CEOs pay should be designed so that it motivates the CEOs to perform in accordance with the organization's goals. In other words, board of directors should design optimum compensation programs to provide executive managers with incentives to align common interests between stakeholders and executive managers.

It is clear from the above definition that executives pay consists of four basic components, each having been the subject of much research (Murphy, 1999). Firstly, CEOs receive a basic salary, which is usually benchmarked against counterpart organizations. Secondly, CEOs enjoy an annual bonus plan, which is normally based on the measures of accounting performance. Thirdly, CEOs receive stock options, which represent a right, but not the obligation, to purchase shares in the future at some pre-specified exercise price. Fourthly, pay of CEOs includes other forms of compensation like restricted stock, pension plan and long-term incentive plans.

Generally, the CEOs compensation is viewed within the framework of agency theory. If the separation between the owners or donors and CEOs in organizations exists, agency problems arise, which in turn allow the executive managers to pursue their own interests at the expense of the interests of owners or donors (Barros & Nunes, 2007). The most important mechanisms to align the interests of CEOs with those of owners or donors is the use of pay-for-performance system that link the compensation of CEOs to their performance on the job, and of stock option schemes to compensate the executive managers (Bognanno, 2010; Cromwell, Trisolini, Pope,

Mitchell, & Greenwald, 2011). However, the difficulties in measuring the performance and the absence of stocks in nonprofit organizations prevent the use of such these mechanisms.

### **2.2.2 Excessive Executive Compensation**

One of the strongest manifestations of the classical conflict between stakeholders and executive managers in multiple organizations is excessive executive compensation. Brickley et al. (2003) indicated that nonprofit organization pays excessive salary if it pays the existing executive manager more than is necessary to attract and retain a replacement executive manager of equal ability. According to Kastiel (2015), stakeholders of most of organizations are unable to monitor executive compensation in effective way due to their lack of knowledge about setting-pay processes and their suffering from a collective action problem. Moreover, stakeholders of organizations especially nonprofit organizations suffer from regulatory constraints, conflict of interests and inappropriate incentives that hinder their ability to act such real owners. Therefore, such these constraints allow executive managers to use their power and influence in setting-pay processes to get a nice compensation and ultimately expropriation of organization's resources as expressed by Brickley et al. (2003).

According to Bognanno (2010), the major argument for the contention that executive managers receive excessive compensation is the managerial power approach. Crystal (1991) indicated that managerial power approach argues that the executive managers have a huge influence on the process of pay determination as well as they may have significant influence over the composition of the board of directors and of the compensation committee determining CEO compensation. According to (Bebchuk, Fried, & Walker, 2002), the support for this approach is found in that CEO pay is

overpaid for organizations that have relatively weak boards of directors, for organizations that have no dominant outside shareholder, and for organizations that have a CEO who has a relatively great ownership stake.

Previous authors support the assertion that excessive CEO pay has a negative impact on society (e.g., Callahan, 2007; Whelton, 2012). Callahan (2007) has discussed the rapid growth of CEO wage in America. He claimed that CEO pay greed makes a huge contribution to the growth of the cheating culture in the U.S. In the same direction, Whelton (2012) elaborated the negative impacts of excessive CEO wage on U.S. society. Firstly, excessive CEO pay has a negative effect on the nation and community because it contributes to inflation, decreases the corporate focus on long-term profitability and decreases tax revenues. Moreover, excessive CEO pay creates new role models for the future generations especially when the media glorify excessive wealth, and therefore the success of individuals and their basic needs will be defined based on the distorted and inflated lifestyles.

Secondly, sky-high CEO wage has a significant effect on the multinational companies. A high CEO pay in U.S. compared to the other countries such as Japan and Germany does not only reduce the ability of US firms to compete with foreign companies, but it also makes the acquisitions and mergers involving U.S. and international companies become more complex. Moreover, U.S. excessive CEO pay has led to increase wages in foreign companies. Foreign corporations have started to witness the migration of top CEOs from existing native homeland companies to U.S.-based corporations.

Thirdly, excessive CEO compensation has a significant effect on the future work culture. The escalation of CEO compensation will raise the expectations of future

executive managers due to the relationships between ethics and expected pay levels of newly hired workers that found in the literature. Thus, future workers will take care of the wages rather than matters of corporate ethics.

Galle and Walker (2014) argued that the significant mechanism which can play a significant role in disciplining the compensation of nonprofit executives is the reality or threat of stakeholder outrage. Such their counterparts in for-profit organizations, nonprofit executives and board of trustees may suffer from personal costs if others - donors, beneficiaries, customers and employees- believe that the nonprofit executive receives excessive pay. They added that the board of trustees and nonprofit executives are also likely to be especially sensitive to more general social perception of their compensation. Therefore, the public approval aspect of warm glow is a significant component of the compensation of nonprofit executives. According to Andreoni (1990), warm glow is a significant motive for donors. For example, when the donors of any nonprofit organization have ideological or emotional disappointment with regard to nonprofit CEO pay, the donations may drop. As a consequence, boards of trustees are more concerned about excessive pay of CEO because it can tarnish a group's public image (Oster, 1998).

### **2.2.3 Theories on Executive Pay**

Many studies of executive compensation have been conducted. Some of these studies attempt to identify the determinants of executive compensation. There are a lot of theories that explain executive compensation such as agency theory, stewardship theory, human capital theory and stakeholder theory. Based on such these theories, a number of studies have examined the determinants of executive compensation in for-profit organizations with less focus in not-for-profit organizations (Donaldson &

Davis, 1991; Liang, Renneboog, & Sun; Ndoro, 2012; Wasserman, 2006). The first three theories are explained below:

### **2.2.3.1 The Agency Theory**

The agency theory is the most prominent one in academic studies in executive manager compensation and is sometime referred to as “complete contracting approach”. The studies of Jensen and Meckling (1976) and of Fama and Jensen (1983) are extremely important in this area. Bebchuk and Fried (2004) labeled agency theory as “the official story” in executive compensation. Agency theory identifies the agency relationship where one party (the principal) delegates some decision-making authority to another party (the agent) in exchange for rewards (Godfrey, Hodgson, Tarca, Hamilton, & Holmes, 2010). The agency relationship can have some disadvantages relating to the self-interest of the agent or his/her opportunism, for example, the agent may not act in the principal’s best interests (Mallin, 2013). Gomez-Mejia and Wiseman (1997) summarize three basic assumptions of a simple agency model which are: (1) agents are risk averse, (2) agents act according to self-interest assumptions, and (3) the interests of agents are not in line with the interests of principals. In other words, agency theory focuses on the conflicts between the principals and agents, and the differentiation in their feelings toward risks (Ndoro, 2012).

In the nonprofit sector, the agency problem is associated to the relations between the donor (principal) and the manager as (agent) (Hansmann, 1987). According to Shleifer and Vishny (1997), donors, volunteers and contributors of nonprofit organization can be seen as owners even though they do not have obviously defined residual claims. Basically, the owners bear the risk related to each business and

managers act as decision-makers. Therefore, the decision system of nonprofit organisation has the same general features of for-profit's decision system which means the separation of decision management initiation and implementation from residual risk bearing and then, from control ratification and monitoring of vital decisions. Prior studies (Herzlinger, 1996; Steinberg, 1990) argued that the relationship between principal and agent in nonprofit organisations is more complex than in for-profits. This is because of the difficulties in measuring the performance of nonprofit managers as well as the lack of ownership incentives and wide objective make it difficult to the board of trustee to find effective control mechanisms.

The core issue of the agency theory is the trade-off between the cost of transferring risk to the agent and the cost of measuring agent behavior, which means, balancing the insurance and incentive properties of pay design (Gomez-Mejia & Wiseman, 1997). According to Otten (2007), essentially agency theory considers executive manager compensation a "tool" to alleviate the problems of agency. Through the negotiations, the principles and agent can make up contract with the right incentives and then shifts risks to a risk averse executive. Thus, well-design executive pay can align the interests of shareholders with that of executives. Good levels of pay depend on the market value of executive's services and well-design pay structures depend on the essential incentives from the stakeholders perspective to uphold the perfect contract following given levels of monitoring. The outcome of complete contract made up based on efficiency arguments and is the most efficient trade-off between different types of agency costs that play down residual losses for shareholders (Jensen & Meckling, 1976).



### 2.2.3.2 Stewardship Theory

In the past two decades, stewardship theory has been introduced in the administrative control literature (e.g., Barney, 1990; Davis, Schoorman, & Donaldson, 1997; Donaldson, 1990b; Donaldson & Davis, 1991; Lee & O'Neill, 2003) to interpret the issues of principal-agent relationships. Agency theory assumes that managers are mainly interested in pursuing their self-interest, while stewardship theory opposes this view (Hengartner, 2006). Under this theory, the CEO, far from being an opportunistic shirker, basically wants to perform a worthwhile job, to be a trustworthy steward of the corporate resources even when the company's interest conflict with self-interest of CEO (Davis et al., 1997; Donaldson, 1990b; Donaldson & Davis, 1991). Therefore, this theory argues that there is no inherent problem with regard to the motivation of CEO because CEOs act as good stewards of the organization and seek to achieve the objectives of the organization (Donaldson & Davis, 1991).

Davis et al. (1997) describe the distinctive features of stewardship theory from agency theory including, serving the collective objective of the entity, trust, focusing on self-realization, and having a long-term orientation and a high value commitment. As a result, stewardship theory forecasts a weak link between performance and CEO pay and acknowledges intrinsic motivation. This means that the pay alone will not necessarily encourage executives to do better (Jobome, 2006). Prior researchers (e.g., Barney, 1990; Donaldson, 1990a, 1990b) in this area support the perspective of stewardship theory and propose that if the CEO has complete authority over the organization, the performance is more likely to be enhanced, and decision making is more likely to be done in due course.

The stewardship theory is used psychological and sociological factors that can lead CEOs to be as trustworthy and serving organization's interests as opposed to the agency theory that assume CEOs to be opportunistic and self-serving (Lee & O'Neill, 2003). These factors make CEOs accept lower pay to continue working in the organization (Liang et al.). This theory defines situations in which motivations of CEOs are aligned with the organizational goals, instead of motivations of individual objectives (Davis et al., 1997) even in situations where the interests of principals and CEOs are differed (Otten, 2007). Instead of the focus on extrinsic rewards, the theory focuses more on intrinsic, because CEOs are intrinsically motivated by the need to attain and to receive recognition from others, and furthermore, the non-financial rewards are more important than the pay which plays a secondary role in CEO motivation (Donaldson & Davis, 1991). Otten (2007) argued that the CEO pay is just a relatively small part of manager's motive and forms only part of the recognition CEOs receive for being stewards of the organization.

#### **2.2.3.3 Human Capital Theory**

Human capital theory has been the dominant paradigm for the study of wage determination (Fernando & Fernando, 2014). Typically, human capital theory uses to explain how those investing in human capital are rewarded with higher wages (Preston 1997). Also, entities accrue the positive results when human capital is effectively used (Schultz, 1961).

There are many executive pay literature that discuss the human capital theory (e.g., Agarwal, 1981; Carpenter, Sanders, & Gregersen, 2001; Combs & Skill, 2003; Harris & Helfat, 1997; Ndoro, 2012). This theory argues that accumulated knowledge and skills (human capital) of executive manager affect his/her

productivity. The CEOs with more quantity of knowledge and skills would be better able to perform his/her job.

However, highly qualified executive managers may demand a high pay in the labour market because they have more opportunities for employment elsewhere (Gray & Benson, 2003). Human capital theory suggests that executive managers have a crucial task in the achievement of the organization by improving market positioning, growth, performance and prosperity. Therefore, CEO compensation should be designed to recognize the individual contribution of a CEO as a wealth creator, for the relative worth in the labour market, and the demands of the job (O'Neill & Iob, 1999). In this context, compensation packages should reflect the need to attract and retain these qualified executive managers (Hills, Bergmann, & Scarpello, 1994).

## **2.3 Overview of Charitable Foundations**

### **2.3.1 Concepts in Charity Work and Charitable Foundation**

*Charity (Al-Khair)*: this word has been mentioned in the Holy Qur'an expressing several meanings such as good deeds (Al-Qurtubi, 1988), wealth and money (As-Sa'di, 2000). Thus, the meaning of this word can be understood by knowing the context in which it was stated. According to (al-Ashfahaniy), Al-Khair includes two types which are unlimited Al-Khair and limited Al-Khair. Unlimited Al-Khair is everyone wants it in all cases such as the paradise. Limited Al-Khair is what be good for one and evil for another, such as the money, which may be good for those who spend it in a good manner, and it may be evil for those who spend it in a bad manner. However, according to Najm al-Din (1987) Al-Khair is what fits moderate and correct behaviour chosen by sane person. (al-Ashfahaniy) saw that Al-Khair is what everyone wants it, such as justice and beneficial things, and it is against the evil.

Also, Ben Achour (1997) defines Al-Khair as what includes benefits for those who related with it.

From the above discussion, we can note that the charity (Al-Khair) is all that is desirable and have benefits.

***Foundation:*** The foundation has been defined in several convergent definitions. Ben Attia (2006) defines the foundation as a form of expression of the cooperation among the people and the practice of voluntary collective work in a coordinated manner, which based on a specific and systematic bases and principles. Also, he defines the foundation as a group of people who are organized by labor regulations and who have specialized departments, committees, task forces, and board of directors, where the decisions are made by the board of directors or departments in its jurisdiction. In other words, it emanates from the principle of consultation (shura principle), which is the most important principle in institutional work.

From the above, we can note that the foundation is a coordinated collective work consisting of specialized departments to achieve certain goals based on specific bases principles.

***Charitable foundation:*** Charitable foundations are the main hub of the study. Sakani (2012) and Bin Mansour (2012) noted that charitable foundations have a multiple activities and several names including non-governmental bodies, civil bodies, charities, civil society organizations, non-profit organizations, voluntary associations, third sector, or non-profit sector. In general, Al-Imam (2006) defines charitable foundations as set of members (natural or legal) who enter into a specific system to achieve certain objectives. Article 2 of the Law on Associations and Foundations (Law 1 of 2001) in Yemen defines charitable foundations as any civil foundation was

established in accordance with the provisions of the law for specific or unspecified period by the natural or legal person or more to engage in public benefit activities without regard to the profit from behind such these activities, and its system of membership must be restricted to its founders only.

From these definitions, we can note that charitable foundation is an individual or group of individuals (natural or legal) who have agreement to provide different services in order to help the community and develop it without paying attention to the profit from behind the provision of such assistance or service.

### **2.3.2 Charitable Foundations from Islamic Perspective**

The social charity work has been evolved in the twenty-first century and has become in the form of official foundations which apply the planning, organizing and control in its various activities, whether social, economic or developmental. Previously we pointed out that charitable foundations are a group of individuals working collectively to provide different services in order to help the community without regard to the profit from behind the provision of such assistance or service.

According to Sakani (2012), charity work is considered a form of social collective work and falls under the cooperation base on the good deeds.

The evidences of legitimacy of charity work in the Holy Qur'an and the Sunnah are many. Of the evidences that confirm the legitimacy of charity work in the Holy Qur'an is the verse "Aya" (56) of Surat An-Nur, which is "and perform As-Salat and give Zakat". Another verse (Aya 60 of Surat At-Taubah) is "As-Sadaqat (here it means Zakat) are only for Fuqara (poor), and Al-Masakin (the poor), and those employed to collect the funds, and to attract the hearts of those who have been inclined (towards Islam), and to free the captives, and for those in debt, and for

Allah's Cause (i.e. for Mujahidun - those fighting in a holy battle), and for the wayfarer (a traveller who is cut off from everything); a duty imposed by Allah. And Allah is All-Knower, All-Wise". Almighty Allah instructs rich people to pay the Zakat on their money and give it to the poor and others who are mentioned in the above verse in order to satisfy the private and public needs of Islam and Muslims. If the rich people give Zakat on their money legitimately, the poverty will be ended and all the interests of Islam and Muslims will be fulfilled (As-Sa'di, 2000). Previous verses show that almighty Allah makes one kind of kinds of charity work which is Zakat as third pillar of the pillars of Islam, which is Zakat, it is, therefore, a clear evidence of the legitimacy and importance of charity work (Sakani, 2012).

Furthermore, Islamic Shari'ah confirms the importance of charity work, for that, the Almighty Allah made it as expiation for falling into some errors. For example, the Almighty Allah said in the expiation of 'Zihar' "And those who make unlawful to them their wives by Zihar and wish to free themselves from what they uttered, (the penalty) in that case is the freeing of a slave..." to "...And who is unable to do so, should feed sixty Miskins (poor)" (verses 3 & 4 of Surat Al-Mujadilah). Another example, the Almighty Allah said in the expiation of oath "Allah will not punish you for what is unintentional in your oaths, but He will punish you for deliberate oaths; for its expiation feed ten Masakin (poor persons), on a scale of the average of that with which you feed your own families, or clothe them or manumit a slave" (verse 89 of Surat Al-Ma'idah).

In the Sunnah, there are several Hadiths that confirm the legitimacy of charity work. One of these Hadiths is narrated by Zainab (May Allah be pleased with her) the wife of Abdullah bin Mas'ud (May Allah be pleased with him). She said: "When the

Prophet of Allah (PBUH) told the women that they should give Sadaqah (charity), even if it should be some of their jewellery, I returned to Abdullah bin Mas'ud and said, you are a man who does not possess much, and Prophet of Allah (PBUH) has commanded us to give Sadaqah. So go and ask him if giving to you will serve the purpose; otherwise, I shall give it to someone else. He asked me that I should better go myself. I went and found a woman of the Ansar at the door of Prophet of Allah (PBUH), waiting to ask a similar question as mine. The Prophet (PBUH) was endowed with dignity, and so we could not go in. When Bilal (May Allah be pleased with him) came out to us, we said to him: Go to Messenger of Allah (PBUH) and tell him that there are two women at the door who have come to ask him whether it will serve them to give Sadaqah to their husbands and to orphans who are in their charge, but do not tell him who we are. Bilal (May Allah be pleased with him) went in and asked him, and endowed of Allah (PBUH) asked him who the women were. When he told him that they were a woman of the Ansar and Zainab, he asked him which Zainab it was, and when he was told it was the wife of Abdullah bin Mas'ud, he (PBUH) said, (They will have a double reward, one for maintaining the ties of kinship and another for Sadaqah)" (Hadith No. 1397, Sahih Al-Bukhari). In this Hadith, there is explicit indication to give the Sadaqah, which is one of the charity works.

Another Hadith narrated by Uqba (May Allah be pleased with him). He said: "I offered the 'Asr' prayer behind the Prophet at Medina. When he had finished the prayer with Taslim, he got up hurriedly and went out by crossing the rows of the people to one of the dwellings of his wives. The people got scared at his speed. The Prophet came back and found the people surprised at his haste and said to them, (I remembered a piece of gold Lying in my house and I did not like it to divert my

attention from Allah's worship, so I have ordered it to be distributed (in charity)" (Hadith No. 813, Sahih Al-Bukhari). It is clear from this Hadith that the Prophet (PBUH) loves the charity work, spending for Allah's cause, and the initiative to it.

In addition, narrated Abu Huraira (May Allah be pleased with him): The Prophet (PBUH) said, "He who alleviates the suffering of a believer out of the sufferings of the world, Allah would alleviate his suffering from the sufferings of the Day of Resurrection, and he who finds relief for one who is hard pressed, Allah would make things easy for him in the Hereafter, and he who conceals (the faults) of a Muslim, Allah would conceal his faults in the world and in the Hereafter. Allah is at the back of a servant so long as the servant is at the back of his brother." (Hadith No. 6518, Sahih Muslim). Among other advantages stated in this Hadith, it is an act of great merit to relieve a Muslim from his difficulties. Being beneficent to others is an act of worship (Rathor et al., 2011). Al-Nawawi (2003) says in explaining this Hadith, it is great merit to fulfill the needs of people and to benefit them whether by education, money, assistance, advice, or others.

Moreover, narrated Abdullah bin Umar (May Allah be pleased with him): The Prophet (PBUH) said, "A Muslim is a brother of another Muslim, so he should not oppress him, nor should he hand him over to an oppressor. Whoever fulfilled the needs of his brother, Allah will fulfill his needs; whoever brought his (Muslim) brother out of a discomfort, Allah will bring him out of the discomforts of the Day of Resurrection, and whoever screened a Muslim, Allah will screen him on the Day of Resurrection" (Hadith No. 622, Sahih Al-Bukhari). It is clear from this Hadith that we should fulfill the Muslims needs for the Pleasure of Allah only, regardless of any worldly motive or vested interest. This is a very meritorious approach.



After the discussion of the legitimacy of charity work from Islamic Shari'ah perspective, here, the discussion of another key point that is the Islamic view about the establishment of the charitable foundations. This point has been discussed by Sakani (2012) in her master's thesis "the legitimacy of charitable foundations, controls those who made it, and the limits of their authority." She summarized that the Islamic view of the establishment of charitable organizations in three cases. Firstly, the establishment of charitable organization is obligatory, if there is need to it. Secondly, the establishment of charitable organization is prohibitive, if it causes the occurrence of dispute, controversy, sedition, disturbance, unrest, or any other troubles. This is because Almighty Allah said in the Holy Qur'an: "and do not dispute (with one another) lest you lose courage and your strength departs" (verse 46 of Surat Al-Anfal). Thirdly, the establishment of charitable organization is hateful, if those who found it adopt corrupt ideas and beliefs.

Sakani (2012) also mentioned that, according to Islamic Shari'ah scholars such as Bin Baz, Al-Albani and Bin Uthaymeen, the establishment of charitable organizations is originally permissible in the Islamic Shari'ah rules and principles due to the rule in the Islamic Shari'ah that is "the original in things is the permission." But the establishment of such these organizations depended on the system that applied by its founders, since this system must be based on the Holy Qur'an and the Sunnah.

### **2.3.3 A Historical Development of Charitable Foundations in Hadramaut**

The voluntary and charity work in the province of Hadramout has historical roots, deriving its origins from the rules and principles of Islamic religion, custom and social traditions that urge people on the cooperation and social solidarity. The

development of charity work in Hadramout began a long time ago in order to spread love and peace and to help poor people. However, in the recent years the historical development of charity work in Hadramout has been less discussed in the prior studies (e.g., Bajham, 2009; BaMshmoos, 2014; BinMansour, 2015). For a very long time ago, Hadramout knew charitable endowments 'Waqf', for example, all mosques in Hadramout have charitable endowments, also there are endowments in Hadramout dedicated to Al-Aqsa Mosque and pigeons in Grand Mosque 'Masjid Al-Haram' in Makkah (BinMansour, 2015). Many of these charitable endowments are still in effect up to this day while others turned out to be in organizational form such as Alawn Foundation for Development. According to Frumkin and Keating (2001), endowments provide more discretionary cash available to charitable foundations; these endowments also reduce the pressure on CEOs to increase funds through annual appeals.

Since ancient times, and continually, the people in Hadramout migrated to different parts of the world due to political and economic reasons, and they had a marked effect in those areas such as Comoros which was governed by Hadrami Alawites for many centuries (BinMansour, 2015). Also, they had major commercial and political centers in India and South-east Asia, where they contributed in spreading Islamic religion and succeeded in establishing sultanates in some areas of the Philippines, Sumatra, Java, Singapore and Malaysia, and therefore, they won a huge wealth that contributed to support the development programs in Hadramaut (BaMshmoos, 2014).

Hadrami people have a lot of qualities that differentiate them from others, such as loving the benevolence, giving, uprightness, cooperation, and social solidarity in line with the principles of the Islamic religion, and thus, they contribute to the provision

of aid and assistance to those people who are poor and needy, to the widows and orphans, caring for the sick, elderly and disabled (BaMshmoos, 2014). The provision of aid and assistance was done through a senior social figures and imams of mosques as intermediaries between wealthy families and the needy people, but during the second decade of the twentieth century began some of these wealthy families to establish charitable foundations and associations in Hadramout (e.g., Jama'iyāt Al-Fadha'al, Jama'iyāt Al-Haq, Jama'iyāt Al-Akhoa Al-Motaona in Tarim, and Al-Jama'iyāt Al-Khairia in Mukalla), due to the spread of illiteracy, ignorance, wars, poverty, and famine (Bajham, 2009). These charitable foundations and associations had a prominent role in the advancement of society through the elimination of ignorance and illiteracy, and providing support and care for the needy people (BaMshmoos, 2014).

However, these charitable foundations and associations faced a lot of difficulties because of the First and the Second World War, the lack of infrastructure, economic underdevelopment, political changes, internal conflicts, and lack of security and stability (Bajham, 2009). In addition to that, after independence, especially in the beginning of the seventies of the last century, the activities of such organizations had been prevented (BaMshmoos, 2014).

BinMansour (2015) and Bajham (2009) mentioned two phases of historical development of charity work in Hadramout. The first phase is the individual charity work (individual initiatives). This phase characterizes by the voluntary work, where the volunteers represent the intermediary between wealthy families and the needy people. In this phase, the charity works usually flourish in religious events such as Holy Month of Ramadan, Eid al-Fitr, and Eid al-Adha. A prominent examples of

wealthy families are Bin Mahfoudh family, Bugshan family, and Babacar family, which they have an important role in infrastructural support, support needy people, and others, but these families began their charitable works individually and maybe without organized work. However, in the last two decades these wealthy families paid attention to the most organized work and to the establishment of several specialized charities. The second phase is the institutional charity work. This phase characterizes by systematic institutional work where many established charitable foundations and associations concerned with community development issues. At this phase, the majority of individual charity work that operates without organized coordination stopped and turned to foundations and associations that have executive management, specialized departments, supervisors, audit committees, and operating in a wider geographic areas.

By 2001 the Yemeni government issued the Law on Associations and Foundations (Law 1 of 2001) in order to care for the associations and foundations and encourage them to participate in the comprehensive development, providing the guarantees to ensure that the associations and foundations exercise their activities in full freedom and independence and in line with its social responsibilities. However, expanding the charity work and promoting social solidarity among the community, and simplifying the procedures and facilitating the processes relating to the right to establish the associations and foundations and enabling them to fulfill their mission fully (article 3 of the law 1 of 2001). In addition to that, the government exempts charitable foundations and associations from taxes and custom duties (article 40 of the law 1 of 2001). These legal advantages lead to the increase in the establishment of charitable foundations and associations and to expand its activities, and therefore, it is available to those charitable organizations working on all social, humanitarian and economic

activities (BaMshmoos, 2014). Recently charitable foundations and associations began to pay attention to the corporate governance, quality, continuity, partnership, and innovation issues. In the same vein, some charitable organizations (e.g., Alawn Foundation for Development; Charitable Society for Social Welfare) obtained some of international certificates such as international quality certificate ISO (Bajham, 2014).

#### **2.3.4 The Role of Charitable Foundations in Hadramaut**

Civil society organizations are very important in the modern state, which play an important role in organizing the social, developmental, economic and cultural life in the country. With the support, encouragement, independence and freedom, civil society organizations can help the government to achieve its plans in development and change. For that many countries are concerned about the existence of such organizations through the enactment of laws and regulations that ensure the existence of these organizations effectively and efficiently in order to achieve a positive impact on the comprehensive development and stability of society. Civil society organizations usually operate in the areas of education, development, health, human rights, relief, provision of aid and assistance to needy people, rehabilitation, training, and other charity works. The role played by one non-profit organization may seem small, but the role played by all non-profit organizations put together is extremely important. There is a small number of studies that have discussed the role of non-profit organizations in Yemen in general and Hadramout in particular (e.g., Bajham, 2009; BaMshmoos, 2014; Bin Mansour, 2012; BinMansour, 2015). Nonetheless, Bin Mansour (2012) study represents a negative view of the role of non-profit

organizations in Yemen in general, while other three studies highlight the positive role of non-profit organizations in Hadramout.

The civil society organizations are considered in any society as an essential guarantee of human rights. In the recent years, the number of civil society organizations that concern with human rights has increased, whether those that linked their fundamental functions with human rights directly, or those that are concerned about certain rights of human rights (Bin Mansour, 2012). The number of registered civil society organizations in Yemen has grown rapidly, from 7,414 in 2011 to 18,000 in 2014, including 8,000 charitable associations and foundations (USAID, 2011; [www.z-yemen.com](http://www.z-yemen.com), 2014). But Bin Mansour (2012) and BinMansour (2015) noted that the number of civil society organizations is very small for the population and their needs in Yemen. They also recognized that civil society organizations, for subjective and objective reasons, play a limited role in the community especially in the field of human rights because the employees lack the experience. Therefore, the effective influence of civil society organizations in changing the situation of the population is limited.

In fact, the contributions of civil society organizations in the economic, social and cultural areas in Yemen do not appear in the Gross Domestic Product (GDP) and in the national statistics, which makes it difficult to know or estimate the size of the contributions in these areas (Bin Mansour, 2012). However, according to unofficial source, the activities of these organizations for year 2001 were categorized to reflect the following aspects: - 4.73% expanding political participation, 10.14% reinforcing the principle of citizenship, 8.78% public benefit, 11.48% building the capacity of poor citizens, 8.78% concern with strengthening democracy, 6.76% enhancing state

institutions, 7.44% cultural development, 8.11% for defending rights and freedoms, 5.41% improving conditions of marginalized groups, 9.45% gender-related issues, 4.72% caring special categories, 10.82% spreading the culture of civil society, 2.02% aids for the poor (BinMansour, 2015), and 1.36% other functions.

On the other hand, non-profit organizations in Yemen in general and Hadramout in particular play a prominent role in several fields such as social, economic, political, educational, relief, and development field. BaMshmoos (2014) discussed generally that civil society organizations play an important role in social development through unifying the ranks of society, dissemination of cohesion and synergy among the individuals of community, increasing social stability and, promoting tolerance and compassion among members of the community. BinMansour (2015) argued that the activities of social field represent the bulk of the activities of non-profit organizations in Hadramout, including orphans care, widows care, care for the poor, providing aids for the sick and needy people, Korban projects, elimination of bad habits, facilitating marriages, resolving conflicts without resorting to the courts, and others.

BaMshmoos (2014) stressed the role played by charitable foundations in economic development through the fight against poverty, providing high-quality services with low cost in economic terms compared with the government, creating new job opportunities, and redistribution of income from the rich to the poor people, and thus, reducing the gap between the classes of society, which ultimately leads to the increase in social welfare. He also argued that the Zakat, as a kind of charitable work, is the most important motive that makes the rich people invest their money to generate profits that outweigh the amount of Zakat in order to save their money from the decreasing through giving Zakat and to increase their wealth. This leads to

driving economic growth and creating new job opportunities in the community. Moreover, BaMshmoos (2014) indicated that there are studies that confirm a positive relationship between the size of voluntary work within an economy and the size of the national income in that economy.

In the relief field, charitable foundations play a major role in Hadramaut which is represented in the quick response to the emergency situations such as natural disasters and crises. For example, at the end of 2008 Hadramout suffered a flood disaster which destroyed many houses and caused a major breakdown in infrastructure. In this disaster, charitable foundations play a prominent role in the statistical analysis, media, observation, reconstruction, rehabilitation, caring affected families, and attracting a lot of donations from many countries such as the UAE and Saudi Arabia (BinMansour, 2015).

According to BaMshmoos (2014), charitable foundations have a major contribution in many areas of development. In Hadramout charitable foundations are considered the most important actors in the field of development and infrastructure that may outweigh the efforts undertaken by the government alone. The most prominent activities carried out by charitable foundations in Hadramout in the field of development and infrastructure are building of schools, hospitals, mosques, educational centers, universities (Hadramout University), student accommodations, drilling water wells, and road construction (BinMansour, 2015).

In the politics, civil society organizations play different roles. According to BaMshmoos (2014), civil society organizations provide some views and proposals that help decision-makers in the government sector to find solutions to many complex issues and to take advantage of these proposals when setting laws and



regulations. For example, these organizations played a prominent role through its participation in the national dialogue conference in Yemen which resulted in a clear vision and solutions to some essential issues that ensure political, economic and social stability in Yemen. Charitable organizations also play a major role in achieving democracy through the formation of pressure groups that have the ability to win the support of citizens and legislature, which is considered as a form of social capital that resist the centralization and abuse of power. The latest example of this is the major political transformations in some Arab countries, including Yemen, that help to overthrow the tyrannical governments. Some also believe that the existence of civil society organizations is a prerequisite for a democratic political system (BaMshmoos, 2014).

Bajham (2009) discussed the role of charitable organizations in the development of education in Hadramout. His study highlighted the efforts of charitable organizations working in education field. The study also proved that the financial support provided by charitable organizations successfully supported all levels of education from primary level to university education. According to BinMansour (2015), the educational activities are more than 20 percent of activities of the charitable organizations in Hadramout, such as support for the science students, capacity-building programs, rehabilitation programs, training programs, human development programs, scholarship programs, and others.

However, Bin Mansour (2012) argued that the role of charitable organizations in Yemen in the area of educational fields is generally weak, for example, the role of such organizations in the area of literacy is not as shown in the media, which actually is a false impression. Although there are some attempts to establish literacy centers,

Bin Mansour (2012) believed that it eventually ends in failure due to the lack of organized work, lack of continuity, lack of coordination between charitable organizations and government agencies, and lack of motivation. He also noted that the charitable organizations are focused on the awareness and education activities by holding courses, seminars, conferences, and workshops.

Contrary to the viewpoint of Bin Mansour (2012), charitable organizations in Hadramout play a major role in educational fields. For example, not limited to, Benevolent Fund for Outstanding Students (BFOS), a charitable foundation in Hadramout, is interested in students and gives them scholarships to enroll into the most prestigious universities around the world. BFOS has many educational agreements with a several universities in Malaysia, Indonesia, and Saudi Arabia. It also has several branches in Yemen and one branch in Saudi Arabia (as was mentioned by Dr. Omar Bamahson, the founder of BFOS, in a meeting with students supported by BFOS in UUM, 2014). Another charitable foundation is Hadramout Establishment for Human Development (HEHD), which believes that the only way to achieve the overall development is the human development (BaMshmoos, 2014). It works to build a productive human being, developing the capabilities and providing appropriate educational tributary for them, and upgrading their educational, intellectual and economic levels. Also to prepare them well for the acquisition of modern techniques, knowledge, technical skills and experience that qualify them for creativity, tender and production as the overall development axis and its first purpose ([www.hadhramout-human.com](http://www.hadhramout-human.com)). Also Al-Awn Foundation for Development (AFD), a pioneer charitable foundation in Hadramout, is mainly active in the field of education and human development, and it is based on its work on the five basic principles, namely governance, normative, continuity, innovation, and

partnership (BaMshmoos, 2014). According to Adel Bahumaid, former CEO of AFD, human development qualifies human to be beneficial, productive, creative and influential, thus the AFD is interested to a greater extent to education at all levels ([www.alawn.org](http://www.alawn.org)). In addition, Bajham (2009) proved that the contributions provided by charitable organizations are successful in overcoming the problems of education in Hadramout.

Finally, charitable and voluntary work leads to peace of mind and of conscience, enhances self-confidence, and strengthens the desire for life and hope, so that voluntary work is used to treat those suffering from depression and boredom because it makes individuals feel valued and appreciated, also makes them perceive their importance, role and contributions in the community in which they live (BaMshmoos, 2014).

### **2.3.5 The Reality of Legal Environment of Charitable Foundations**

According to the Yemeni constitution, one of the foundations of the system of government is the freedom to establish the parties, foundations, and associations, whether they are political, professional, practical, cultural, social, and union. Also, the constitution guarantees the freedoms, human rights, economic and social rights, the right to social security, insurance, and access to education and health care, mother and child rights, protection of the family and the public funds and property, and the necessity to protect them from abuse. In the right to establish the associations and foundations, the constitution stipulates that the citizens across the republic of Yemen -with not inconsistent with the provisions of constitution- have the right to organize themselves politically, professionally and culturally, and the right to establish scientific, cultural and social organizations and national federations in order

to achieve the objectives of the constitution, the government guarantees these rights, and shall take all necessary means to enable the citizens to exercise their rights, in order to ensure all freedoms for these organizations. Also, the Yemeni civil law confirms this right, which it stipulates that the association is the group of natural or legal persons takes a permanent formula to achieve non-profit goals (Bin Mansour, 2012).

The law governing charitable organizations are enabling, but implementation of its provision governing both registration and activities is problematic (HRITC, 2003; WorldBank, 2013). The Law on Associations and Foundations (Law 1 of 2001) guarantees the citizens' right to establish charitable foundations (*muassasāt*) and associations (*jama'iyāt*). Law 1 of 2001 placed charitable foundations and associations under the oversight of Ministry of Labor and Social Affairs (MoLSA). Article 3 of the law 1 of 2001 indicates to the objectives of this law including (1) caring for the associations and foundations and encouraging them to participate in the comprehensive development, (2) consolidating the key role played by associations and foundations in the field of development, the development of the democratic approach, and the establishment of a Muslim civil society, (3) providing the guarantees to ensure that the associations and foundations exercise their activities in full freedom and independence and in line with its social responsibilities, (4) expanding the charity work and promoting social solidarity among the community, and (5) simplifying the procedures and facilitating the processes relating to the right to establish the associations and foundations and enabling them to fulfill their mission fully. However, the laws which organize the issues regarding to non-profit organization and the department of MoLSA in Yemen have been much criticized by the USAID (2011).

The law specifies the process of registration clearly. But MoLSA often delays registration as a way of extorting bribes in exchange for speeding up the process (USAID, 2011). Moreover, one of the requirements in the law in order to register the charitable foundations is to deposit one million Yemeni Riyal (around \$4,650) in a bank, this amount of money remains in the bank as long as the charitable foundation is in operation. This amount of money is unaffordable to many foundations, resulting in delayed registration or failure to obtain registration approval. Article 8B of the 2004 by-laws stipulates that the registration department of MoLSA must provide a formal receipt each time it receives an application. Also, article 9 of the law 1 of 2001 stipulates if the MoLSA fails to process the application within one month of the receipt's date, the registration is considered valid. According to the USAID (2011), the MoLSA's department does not issue receipts in order to enable it to delay registration approval with impunity.

Once a non-profit organization is officially registered, it is issued a license. This license has to be renewed per annum. To renew this license, non-profit organizations must submit annual technical and financial reports to the department of MoLSA. USAID (2011) noted that MoLSA utilizes such this requirement in order to revoke the organization's license that is suspected of affiliating with the political opposition or those that are considered controversial, like human rights organizations. For example, in 2011, the government arbitrarily harassed and illegally arrested some of workers in human rights area. Another example in the same year, around fifty non-profit organizations have been dissolved on the grounds that they were related with sectarian groups. In many cases, this has forced some organizations to bribe MoLSA's officials to avoid revocation.

Article 40 of the law 1 of 2001 allows non-profit organizations to receive a 50% reduction on water and electricity bills, and exempts non-profit organizations from taxation on all its revenue and custom duties on grants that they receive from foreign donors. The law also states that such exemptions must be recommended by MoLSA and approved by the Finance Minister. Actually, these processes of obtaining the exemptions are bureaucratic, too long, and maybe subject to the government officials' whims. With the exemptions of tax and custom duties, non-profit organizations can provide goods and services with low price and therefore, they can compete for government contracts. Actually, the law does not stipulate whether non-profit organizations are allowed to compete for government contracts. In addition, article 21 of the law 1 of 2001 allows MoLSA to contract with non-profit organizations in order to run its welfare associations or institutes but the MoLSA selects the non-profit organizations without allowing them to compete for obtaining these contracts.

Article 2 of the law 1 of 2001 stipulates that the associations are required to have no less than twenty-one (21) founding members. This number is too large, and may forces the associations to involve founding members who are totally un-involved in the operation of association. Article 13 of the law 1 of 2001 requires foundations and associations to publish their registrations in the national official registry costing 60,000 Yemeni Riyal (around \$280), such these expenses are unaffordable to many foundations and associations.

## **2.4 Hypotheses Development**

This section develops the study hypotheses relating to the factors expected to affect executive compensation in the charitable foundations in Hadramaut. There are two

variables of firm characteristics (sector of the organization and organizational size) and four variables of CEO characteristics (CEO's qualifications, CEO's experience, CEO duality, and CEO's tenure) which are examined in the current study.

#### **2.4.1 Firm Characteristics**

##### **2.4.1.1 Sector of the Organization**

The charitable organizations operate in many different industries. The charitable sector includes a huge number of organizations that provide different goods and services. For example, some organizations offer education programmes, others provide human and health services. In the context of non-profit organisations, past studies on CEO compensation (e.g., Aggarwal, Evans, & Nanda, 2012; Barros & Nunes, 2007; Frumkin & Keating, 2001; Hallock, 2002; Jobome, 2006; Monks, 2007; Oster, 1998; Perego & Verbeeten, 2013; Rosu, 2013; Twombly & Gantz, 2001) prove that the levels of CEO pay differ from one industry to another. Twombly and Gantz (2001) found that the CEOs of social services receive the smallest pay whereas the CEOs of hospitals receive the highest pay. Also, Oster (1998) and Aggarwal et al. (2012) found that the pay in the health sector is higher than in the education sector. This is consistent with the findings of Jobome (2006), and Perego and Verbeeten (2013). They found that charities working in the health sector paid more to their executives. Perego and Verbeeten (2013) attribute that to the fact that charities working in the health sector tend to be headed by a former medical practitioner who maybe wants to hold on to the salary levels they previously earned in medical practice.

Hallock (2002) found substantial variation in the pay levels of CEO within and across the nonprofit industries. For example, the average base pays for top officers,

trustees, and directors are lowest in shelter, housing, and religious sector, and highest in medical research, general and rehabilitative health sector. Oster (1998) indicated that charitable foundations are generally divided into private foundations and community foundations. She also indicated that private foundations compensate their CEOs higher than community foundations, because of greater scrutiny of the community foundations by the public. In the same direction, Monks (2007) found that the salary of presidents of private university more than the salary of presidents of public university. He explains this difference by different skill sets required in the two types of university, since the presidents of private university need to be expert to attract private donations, while presidents of public university need to be skilled to manage state appropriation processes.

According to Barros and Nunes (2007), the type of nonprofit organizations impacts the CEO pay, with UN-wealthier organizations paying less than wealthier organizations. Aggarwal et al. (2012) found that the program diversity in nonprofit organization impacts the managerial incentives. Finally, Galle and Walker (2014) study the nonprofit executive pay in U.S. colleges and universities; they found that president pay is lower at religiously affiliated institutions. Similarly, Frumkin and Keating (2001) and Rosu (2013) found that the religious sector compensates their CEOs the lowest compensations.

In the other hand, in her thesis Ndoro (2012) took a sample of 105 charities in UK, and among the aims of her thesis, she tried to determine the factors that impact the compensation (measured as salary only) of chief executive officer. She examined several determinants of executive pay. The findings of her thesis prove that the sector of charities had no effect on CEO pay. However, the researcher indicates that a better



understanding of the link between the organizational sector and the compensation of charitable CEO may be required.

However, given the conflicting views with regard to the relationship between sector of organization and CEO pay, further research appear warranted. Based on the discussion presented above that sectoral affiliation in nonprofit organization has a significant influence on CEO pay, the first hypothesis to be tested is:

**H1:** Sector of the organization has a significant influence on CEO pay in the Hadrami charitable foundations.

#### **2.4.1.2 Organizational Size**

The relationship between CEO compensation and organizational size has been widely researched, mainly in the for-profit sector. In the last two decades, this relationship has been the subject of debate in the nonprofit sector. In the context of nonprofit organisations, prior studies on CEO compensation (Frumkin & Keating, 2001; Hallock, 2002; Ndoro, 2012; Newton, 2013; Oster, 1998; Perego & Verbeeten, 2013; Pink & Leatt, 1991; Rosu, 2013; Scheitle, 2009) provide evidence on the determinants of executive compensation. The evidence in all these researches indicate that there is a positive relationship between executive compensation and organizational size. These studies focus on specific nonprofit industry, multiple nonprofit industries and all nonprofit industries in nonprofit sector, as these studies measure the size of the organization using different ways such as total revenues (Oster, 1998; Scheitle, 2009), program expenses and fixed assets (Frumkin & Keating, 2001), net assets (Hallock, 2002; Rosu, 2013), number of employees (Ndoro, 2012; Newton, 2013), number of beds (Pink & Leatt, 1991), and fundraising revenues (Perego & Verbeeten, 2013).

Oster (1998), Ndoro (2012), Hallock and Klein (2009), Frumkin and Keating (2001), and Chasteen and Lampkin (2012) discuss that the size of organization seems to be a strong determinant of CEO pay. They attribute that to the fact that larger organization is more complex, as it has responsibility for more people and more resources. It appears logical that the organizational size should play an important role in determining CEO pay, as it reflects the quantity of resources and the responsibilities controlled by the CEO. Generally, charitable organizations typically provide services that are complicated and that produce long-term social benefits. These types of services usually make it difficult to develop good outcome measures due to the absence of effective metrics of mission accomplishment and social performance in the nonprofit sector. Therefore, one could expect that a large nonprofit organization needs higher qualified CEOs to efficiently manage it, and thus maybe it pay more to attract those talented CEOs. In line with above, this study suggests the following hypothesis:

**H2:** There is a positive relationship between the size of organisation and CEO pay in the Hadrami charitable foundations.

## **2.4.2 CEO Characteristics**

### **2.4.2.1 CEO Duality**

CEO duality is the practice of one person serving as both the chairman of the board of directors and CEO (Ndoro, 2012). The connection between CEO duality and CEO pay has been widely examined in the for-profit sector. However, in the context of nonprofit organisations, the empirical studies that examine the relationship between CEO duality and CEO pay are very rare and their empirical findings have been

mixed. Below are researches that have been found in the nonprofit literature with regard to the association between CEO duality and CEO pay.

The significant contribution to the literature on nonprofit CEO compensation comes from the research of (Barros & Nunes, 2007). Using the questionnaire collected from 648 Portuguese administrators working in multiple nonprofit industries (Misericórdias, mutual associations, foundations, cooperatives, solidarity associations, and other associations), the study analyzes the pay and performance of CEOs, focusing on the role of the CEO characteristics and the board structure, together with the role of the nonprofit organization's economic performance. They find, among other findings, that the CEO pay increases when the CEO is also the chairman of the board. Therefore, they conclude that the board composition indicators such as CEO duality have a positive impact on the CEO pay. Although this study is the first study analyzing the issues of governance in Portuguese nonprofit organizations and the second study in European level, the researchers acknowledge that the generalization of the findings is questionable because the data span is limited.

In a similar result, Brickley et al. (2003) contribute to the nonprofit compensation literature with their study "Board Structure and Executive Compensation in Nonprofit Organizations: Evidence from Hospitals". Using panel data from tax returns (IRS 990 Form) for 308 nonprofit hospitals in the United States from 1998 to 2000, the researchers look at whether the levels of CEO pay are affected by having the CEO serve as a voting member of the board of directors. Among their untabulated results on the relationship between CEO pay and other governance variables such as CEO duality, the relationship between CEO who is also chairman

of the hospital board and CEO pay is positive but insignificant. This result suggests that nonprofit foundations with weaker separation of the CEO and the board of directors are more likely to pay excessive compensation.

The findings of the two studies presented above can be attributed by the managerial power approach, which holds that executive managers receive excessive pay through exercising power over captive boards (Winter & Michels, 2012). It is expected that the CEO's considerable stature and his/her formal authority over the board will increase through the dual position of the CEO (Harrison, Torres, & Kukalis, 1988; Rechner & Dalton, 1991), thereby limiting the board's ability to appropriately implement its oversight and governance roles, and to properly monitor setting of the CEOs compensation (Ndoro, 2012). In other words, the dual position creates more power for organization heads, and therefore, they will have greater ability to impact the board decisions linking to CEO pay and his/her performance (Rankin, 2006).

On the contrary, the recent study with regard to the relationship CEO pay and CEO duality is Ndoro (2012) "Executive Compensation and Firm Performance: Evidence from the UK Charities". In this study the researcher uses both survey and interview in order to collect the data from 105 UK charities operating in multiple industries. A basic conclusion emanating from this study indicates that there is no relationship between CEO pay and CEO who is also chairman of the board, and therefore, the dual leadership structures in UK charities are not significantly related to CEO pay. The researcher attributes that to the stewardship theory, which considers charitable CEOs good stewards of the UK charities who are trustworthy and altruistic and therefore, can be trusted not to compensate themselves excessively. However, the

researcher acknowledges that the generalization of the findings may be questionable because the research focuses only on large charities in UK.

However, it should be pointed out these research were in the context of nonprofit organisations in Portugal, US and UK. Given the conflicting views with regard to the relationship between CEO duality and CEO pay, further research appear warranted. Using managerial power approach, the first hypothesis to be tested is:

**H3:** There is a significant association between CEO duality and CEO pay in the Hadrami charitable foundations.

#### **2.4.2.2 CEO's Tenure**

CEO tenure refers to the period of CEO's serving in the organization. Rankin (2006) argued that CEO with longer tenure in the role is expected to have greater ability to impact the decisions of board relating to CEO pay and performance. He/she is expected to be in a position of greater trust or authority than CEO who may be newer to the role. As a result, the authors expected the relationship between pay and tenure to be decoupled. Prior studies in the context of nonprofit organization, which are very limited, support this argument.

The most recent study on the nonprofit executive's compensation is Galle and Walker (2014) "Nonprofit Executive Pay as an Agency Problem: Evidence from the U.S. Colleges and Universities". Using panel data for 341 universities and colleges taken over eleven years between 1997 and 2008, the authors investigate the compensation of presidents of universities and colleges. Unsurprisingly, they find, among other findings emanating from their study, that there is a positive relationship between CEO tenure and president pay, and therefore, president with longer tenure in office earns more.

Another similar result to Galle and Walker (2014) study comes from Newton (2013) who examines the relationship between governance quality, financial performance, and CEO pay in the context of a diverse and large sample of 7,374 nonprofit-year observations in nonprofit organizations during two years (2008-2009). Among other findings, Newton finds a positive relationship between CEO pay and CEO tenure. Newton indicates that the result that CEO with longer tenure in office earns higher pay suggests that long-standing, entrenched CEOs may be able to extract higher pay or, alternatively, could represent extra pay for experience.

Similar findings in the context of nonprofit organizations were also reported by Brickley et al. (2003), Jobome (2006), and Ndoro (2012). Brickley et al. (2003) found that CEO compensation (measured by both cash compensation and total compensation) is positively related to CEO tenure. Ndoro (2012) and Jobome (2006) found that CEO tenure has a positive significant effect on CEO pay.

The findings of above studies also support the resource-based theory, which considers the organization as a portfolio of intangible and tangible assets and capabilities, and indicates that the growth in the role of sector has led to large expectation for high-quality professional service and competition for qualified workers (Ndoro, 2012). Therefore, there is a need for the sector to design appropriate compensation to maintain or attract qualified workers (Jobome, 2006). Thereby, the positive impact on CEO pay by CEO tenure appears to be convincing in a resource-based theory which confirms that longer tenure increases the proficiency of CEO on the job (Ndoro, 2012). Using resource-based theory and following previous studies, this study suggests the following hypothesis:

**H4:** There is a positive association between CEO tenure and CEO pay in the Hadrami charitable foundations.

#### **2.4.2.3 CEO's Qualifications and Experience**

The researchers on the compensation of executives in nonprofit sector (e.g., Bos, 2013; Oster, 1995, 1998; Scheitle, 2009) argued that this sector needs to pay higher compensation in order to attract and maintain capable executives. Nonprofit organisations attempt to fulfil their varied missions in response to a huge number of varied stakeholders such as founders, donors, employees, government, the general public, clients, and other stakeholders. Thus, it is very important for nonprofit organisations to have a CEO who can answer their stakeholders. Additionally, the hard-to-assess and intangible nature of the services provide by nonprofit organisations highlight the importance of qualified and experienced managers. Finally, increased pressure on nonprofit organisations to find more effective management methods and increased competition for funds highlight the importance of human resources for nonprofit organisations.

The theoretical perspective that widely uses in literature to explain the relationship between CEO compensation and CEO characteristics (especially CEO's qualifications and experience) is human capital theory. Human capital theory identifies several employee attributes related to lifetime income such as training, formal education, and experience (Becker, 1975). This theory argues that human capital derived from the background and experience of executives and is a significant source of compensation (Hengartner, 2006). Therefore, CEO pay can be determined by the CEO's accumulated skills and knowledge (Agarwal, 1981). The CEOs with more quantity of knowledge and skills would be better able to perform his job and

thus be paid more (Ndoro, 2012). The current study uses qualification and experience as human capital measures.

Most prior studies in the context of nonprofit organization, which have been reviewed, support the view that CEO pay can be determined by the CEO's qualifications and experience. Using annual reports of 200 largest charities in U.S for the years 2000-2011 and employee survey information, Rosu (2013) found the evidence that the CEO who studies MBA inspires more professionalism and more confidence than a CEO who studies bachelor. He concluded that CEOs with more qualifications and expertise are more appreciated and trusted. Consequently, they should receive high salary. Langer (1989) investigated 1,142 nonprofit organizations. He found that experience and education are positively related to managerial pay.

Although Ndoro (2012) expects that CEO experience should be positively related to CEO pay, she surprisingly found significant and negative relationship between them. She attributed that to stewardship view that the pay of altruistic CEOs should not be determined by their experience in the UK charities. However, she found that the relationship between CEO pay and CEO qualification is positive and significant. In the same direction, Barros and Nunes (2007) integrated human capital in the definition of CEO earnings. They concluded that human capital contributes to CEO earnings. They also found that CEO individual characteristics such as the number of years of education have a positive impact on the CEO's earnings.

Using human capital view, better experienced and qualified executives would be compensated more because they provide better human resource for the charitable foundations; in this case qualifications and experience of executives would display positive associations with pay. Thus, this study suggests the following hypotheses:



**H5:** There is a positive association between CEO qualifications and CEO pay in the Hadrami charitable foundations.

**H6:** There is a positive association between CEO experience and CEO pay in the Hadrami charitable foundations.

**2.5 Theoretical Framework**

The diagram below shows the relationship between the dependent and independent variables. The right side of diagram shows the dependent variable (CEO Pay), while the left side shows the independent variables. The independent variables consist of the sector of the organization, organizational size, CEO duality, CEO tenure, CEO qualifications and experience.

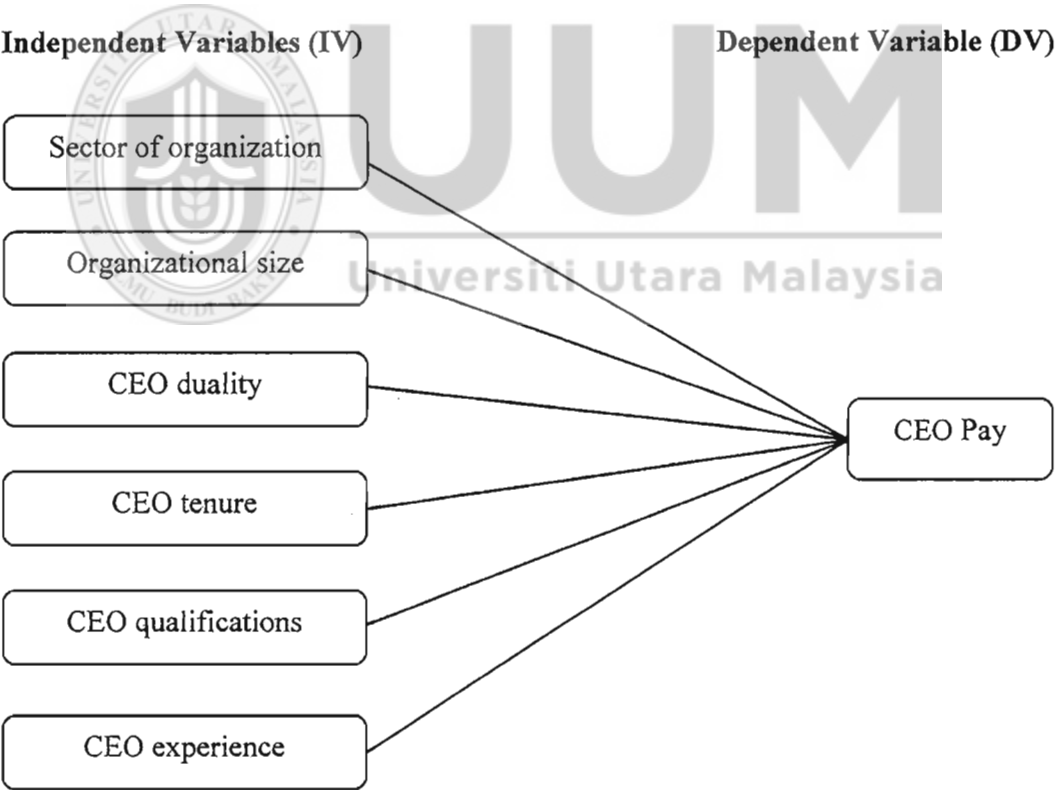


Figure 2.1  
*Theoretical Framework*

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter is divided into seven parts. After the introduction, the second part covers research design; the third part discusses the methods of data collection; the fourth part discusses the population and sample of the study; the fifth part covers the data analysis; the sixth part discusses the measurement of variables; the last part covers the model specification.

#### 3.2 Research Design

To achieve the objectives of this study, the study employed a survey approach in which a questionnaire containing a list of questions was distributed to the executive managers of charitable foundations that registered in the office of Ministry of Labor and Social Affairs (MoLSA) in province of Hadramout. Data was collected via a cross-sectional survey using the web-based questionnaire. The survey data was analysed using a statistical package (SPSS).

#### 3.3 Data Collection

This study used questionnaire to collect the required data. The rationale for the use of questionnaire is the fact that there is a very lack of secondary data available in Hadramout. The questions of questionnaire are very easy, and the required data is already in the mind of respondents. Therefore, it is easy for respondent to answer the questions without the presence of researcher.

### 3.3.1 Questionnaire

The questionnaire developed by Ndoro (2012) was adapted in this study as a tool to collect the data. The researcher translated the questionnaire into Arabic language because the majority of the people in Hadramout do not understand or speak English language. The questionnaire consists of twelve questions in order to measure the determinants of nonprofit CEOs pay in Hadramout.

To take advantage from the benefits offered in the web, this study used web-based questionnaire. According to Dillman (2000), web-based survey is a compilation of data using a self-administered electronic series of questions on the web. The advantages of web-based questionnaire are: a relatively cheap; easier to process data because the responses can be downloaded to a database, spreadsheet, or data analysis package; easier to send reminders to participants; a quicker response rate; the use of drop-down boxes; the inclusion of pop-up instructions for selected questions; the ability to make complex skip pattern questions easier to follow; and, option of putting questions in random order (Zanutto, 2001).

The web-based survey was developed using 'Google.doc' application from free online questionnaire. The majority of respondents were invited to the questionnaire site by email, Facebook, and WhatsApp. The email addresses, Facebook pages, WhatsApp, and telephone numbers of Hadrami charitable foundations and their CEOs were obtained from several sources including office of MoLSA in Hadramout, Alawn Foundation for Development, and the researcher's networking. The cover letter was included in the web-based questionnaire which contains the questionnaire site and information regarding the study. To improve the response rate, explicit

designs and uncomplicated formats were employed, follow-up reminders were made, and intentional effort was made to personalise the cover letter.

The web-based questionnaire was piloted in two phases. In the first phase, the questionnaire was critically reviewed by three CEOs of Hadrami charitable foundations and three Yemeni academicians from related and unrelated areas. The suggestions from the CEOs and academicians regarding typing and grammatical errors were made. Then, the web-based questionnaire was pre-tested by five Hadrami charitable foundations as representative for clarity and reaction to the usage of electronic questionnaire. None of these representatives faced problems.

### 3.4 Population and Sample of the Study

The population of interest in this study includes nonprofit organizations registered in the office of MoLSA in province of Hadramout. There are 334 nonprofit organizations listed on the office of MoLSA in province of Hadramout as at 9 July, 2015. These nonprofit organizations are grouped into five classifications as shown in Table 3.1.

Table 3.1  
*Classifications of Nonprofit Organizations*

<b>Classification</b>	<b>Numbers</b>
Charitable associations	103
Agricultural associations	15
Fisheries associations	30
Civil, environmental, consumer and residential associations, and forums	96
Charitable foundations	90
<b>Total</b>	<b>334</b>

Source: (The office of MoLSA in Hadramout)

However, the sample of this study is only executive managers of charitable foundations that registered in the office of MoLSA in province of Hadramout. The

rationale for selecting charitable foundations is that these foundations usually are organized systematically, more active, have annual budget, and have more activities. Therefore, these foundations are likely to have compensation policies. Another rational reason is to avoid the problem that the continuity of nonprofit organizations is not stable in Yemen (HRITC, 2003; USAID, 2011; WorldBank, 2013). One of the requirements in the law in order to register the charitable foundations is to deposit one million Yemeni Riyal (around \$4,650) in a bank. This amount of money remains in the bank as long as the charitable foundation is in operation, and thus, it is expected that these foundations have the capability to continuity.

The sample chosen has different sub sectors. The sub sectors consist of development, education, health, religious charities, human rights, social services and relief, and charitable works. Some charitable foundations are operating in more than one sub sector. However, it is clear that nonprofit organizations registered in the office of MoLSA in Hadramout omit nonprofit organizations such as universities, colleges, and museums. Thus, these specific nonprofits were excluded in this research.

### **3.5 Data Analysis**

A series of data analysis was conducted on the data gathered from the questionnaire. The data gathered from the questionnaire was analyzed using the Statistical Package for Social Sciences (SPSS) for Windows (version 21). The correlation coefficients were computed first to examine the relationship between all variables, and then multiple regression analysis was employed to test the hypotheses.

### **3.6 Measurement of Variables**

#### **3.6.1 Dependant Variable**

The CEO Pay (CEOPAY) is the dependant variable in this study. The measurement of CEO pay that is widely used in the prior studies include salary only, bonuses, salary plus benefits, and total remuneration. Following many prior studies (e.g., Barkema & Pennings, 1998; Bloom, 1999; Frumkin & Keating, 2001; Ndoro, 2012; Wasserman, 2006), salary was only used to measure the CEO pay (CEOPAY). This is mainly because other components of CEO pay such as benefits and bonuses are not common in charitable foundations in Hadramaut.

#### **3.6.2 Independent Variables**

There are six independent variables in this study. These variables consist of two groups. The first group is firm characteristics which consist of sector of the organization and organizational size. The second group is CEO characteristics that are CEO duality, CEO's tenure, CEO's qualifications, and CEO's experience. Following previous studies (e.g., Al-Manseb, 2010; Barkema & Pennings, 1998; Barros & Nunes, 2007; Hengartner, 2006; Lambert et al., 1991; Ndoro, 2012; Wasserman, 2006), the six independent variables are measured as follow:

##### **3.6.2.1 Sector of the Organization (SECTOR)**

Similar to past studies (Barros & Nunes, 2007; Ndoro, 2012), the sector of the organization has been coded ordinally as follows: (1) Health, (2) Development, (3) Social services and relief, (4) Education, (5) Religious (6) Human rights (7) charitable works (8) Others (including: media, museum, sports & recreation and

environmental charities). This classification has been adopted by MoLSA to classify the charitable foundations in Yemen.

#### **3.6.2.2 Organizational Size (SIZE)**

In line with many prior studies (e.g., Lambert et al., 1991; Ndoro, 2012; Newton, 2013; Wasserman, 2006), the number of employees was used to measure the size of the organisation. The size was classified as follow (McHugh, 2010; Urwin & Buscha, 2012): (1) Micro-organizations have fewer than 10 employees; (2) Small organizations have more than 9 up to 49 employees; (3) Medium-sized organizations have more than 49 up to 249 employees and (4) Large organizations have over 250 employees.

#### **3.6.2.3 CEO Duality (DUAL)**

Following past studies (e.g., Al-Manseb, 2010; Barros & Nunes, 2007; Conyon & Peck, 1998; Core, Holthausen, & Larcker, 1999; Hengartner, 2006), the CEO duality was measured as a dummy variable which is equal to 1 if the CEO is also the chair of the board of trustees, and 0 otherwise.

#### **3.6.2.4 CEO Tenure (TENURE)**

Similar to past studies (e.g., Al-Manseb, 2010; Barkema & Pennings, 1998; Hengartner, 2006; Newton, 2013), the CEO's tenure was measured as the period of CEO's serving in the organization. This is mainly because it has been suggested that CEO power resulting from his tenure reaches an upper limit over time (Finkelstein & Hambrick, 1988).

### **3.6.2.5 CEO's Qualifications (QUAL)**

Similar to previous studies (Barros & Nunes, 2007; Gimeno, Folta, Cooper, & Woo, 1997; Wasserman, 2006), CEO's qualifications was measured using the CEO's academic degrees. CEO's qualifications have been classified ordinally as follows: (1) Below Diploma, (2) Diploma, (3) Degree, (4) Master, (5) PHD, and (6) Professional qualification.

### **3.6.2.6 CEO's Experience (AGE)**

The CEO's experience measured widely by years of prior experience (e.g., Gimeno et al., 1997; Wasserman, 2006), but for the purpose of this study and following Ndoro (2012) study, the age of participating executives was used to measure the CEO's experience. This is mainly because the knowledge and skills are normally accumulate over time. Thus, it seems reasonable to believe that the age of CEO is positively related to experience (Bührer, 2010). In addition, old age has some effect on greater human capital accumulation (Jobome, 2006). The age of CEOs was coded ordinally as follows: (1) Under 25, (2) From 25 to 34, (3) From 35 to 44, (4) From 45 to 54, and (5) Over 55.

The summary of all variables measurement, discussed above, is shown in Table 3.2.



Table 3.2  
*Summary of Variables Measurement*

Variables	Code	Measurement
<u>Dependant Variable:</u>		
CEO Pay	CEOPAY	Salary.
<u>Independent Variables:</u>		
Sector of the organization	SECTOR	The value of sector of the organization has been coded ordinaly as follows: (1) Health, (2) Development, (3) Social services and relief, (4) Education, (5) Religious (6) Human rights (7) charitable works (8) Others (including: media, museum, sports & recreation and environmental charities).
Organizational size	SIZE	Number of employees.
CEO duality	DUAL	Dummy variable which equal to 1 if the CEO is also the chair of the board of trustees, and 0 otherwise.
CEO tenure	TENURE	The period of CEO's serving in the organization.
CEO's qualifications	QUAL	The CEO's academic degrees.
CEO's experience	AGE	The age of CEO.

### 3.7 Model Specification

The discussion of the variables suggests the following model. The model provides a comprehensive indication of the determinants of CEO pay, which includes firm characteristics (sector of the organization and organizational size) and CEO characteristics (CEO duality, CEO's tenure, CEO's qualifications, and CEO's experience) as depicted by the following equation (adopted from Ndoro, 2012):

$$CEOPAY = \alpha + \beta_1 SIZE + \beta_2 SECTOR + \beta_3 QUAL + \beta_4 TENURE + \beta_5 AGE + \beta_6 DUAL + e$$

## CHAPTER FOUR

### FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter presents empirical evidence concerning the relationship between firm characteristics and CEO characteristics with CEO pay. The discussion in this chapter is divided into four sections. After the introduction, section two presents the response rate. Section three discusses the descriptive data. The results from the correlation coefficients and multiple regression analysis are presented in the last section. It also includes the discussion of results.

#### 4.2 Response Rate

Table 4.1 shows the summary of the response rates for the questionnaires that were sent to the sample of the study. The respondent in this study is CEOs of listed charitable foundations in Hadramaut. A total of 57 CEOs completed usable questionnaires, which represent a response rate of 63.33 percent. Mugenda and Mugenda (2003) stated that a response rate of 50 percent is adequate, 60 percent is good and more than 70 percent is excellent. Therefore, the response rate of 63.33 percent is adequate and good for this study.

Table 4.1  
*Response Rate*

Description	Number	Percent%
Filled questionnaires	57	63.33
Unfilled questionnaires	33	36.67
Total	90	100.00

### 4.3 Descriptive Data

#### 4.3.1 Location of Charitable Foundations

Table 4.2 shows that the location of the charitable foundations. Most of the charitable foundations that participated are located in Hadramaut Alssahil which is 50 or 87.72 percent, while 7 charitable foundations (12.28%) are located in Hadramaut al wadi wa al sahra.

Table 4.2  
*Location of Charitable Foundations*

Location	Frequency	Percent %
Hadramaut Alssahil	50	87.72
Hadramaut al wadi wa al sahra	7	12.28
Total	57	100.00

#### 4.3.2 Gender of CEOs

The male respondents are 50 persons or 87.72 percent and female respondents are 7 persons or 12.28 percent as shown in the table 4.3. It shows that more men had taken up leadership position in charitable foundations in Hadramaut.

Table 4.3  
*Gender of CEOs*

Gender	Frequency	Percent %
Male	50	87.72
Female	7	12.28
Total	57	100.00

#### 4.3.3 Working Experience of CEO

Table 4.4 shows the experience of the respondents. Most of the respondents have working experience for 10 years and less (56.14%), followed by those who have working experience between 11-20 years (26.32%). Meanwhile, only 17.54 percent of respondents have working experience more than 20 years.

Table 4.4  
*Working Experience of CEO (WEXP)*

WEXP	Frequency	Percent %
Under 6 years	15	26.32
6-10 years	17	29.82
11-15 years	7	12.28
16-20 years	8	14.04
Over 20 years	10	17.54
Total	57	100.00

#### 4.3.4 Techniques Used as Compensation Packages

As shown in table 4.5, the techniques used as compensation packages such as bonus on performance (3.51%) and salary plus bonus (12.28%) are not common in charitable foundations in Hadramaut. Most of charitable foundations (73.68%) use annual salary/ base salary to compensate their CEOs. Unsurprisingly, 10.53 percent of CEOs who took part in this study are volunteers.

Table 4.5  
*Techniques Used as Compensation Packages*

Techniques	Frequency	Percent %
Annual salary/ Base salary	42	73.68
Bonus on performance	2	3.51
Salary plus bonus	7	12.28
Other (Volunteer)	6	10.53
Total	57	100.00

#### 4.3.5 Sector of the Organization

Table 4.6 shows the sector of the charitable foundations. The highest sector that charitable foundations are involved in is development (35.09%), followed by health (15.79%), education (15.79%), and social services and relief (14.04%), respectively. The remaining charitable foundations (19.29%) are engaged in human rights, charitable works, religious charities, and creativity and invention.

Table 4.6  
*Sector of the Organization*

SECTOR	Frequency	Percent %
Health	9	15.79
Development	20	35.09
Social Services and relief	8	14.04
Education	9	15.79
Religious charities	2	3.50
Human rights	4	7.02
Charitable works	4	7.02
Others (creativity and invention)	1	1.75
Total	57	100.00

#### 4.3.6 Organizational Size

Table 4.7 shows that the size of the charitable foundations. It is apparent that the majority of charitable foundations have less than 10 employees with 63.16 percent, followed by 36.84 percent with 10 to 49 employees.

Table 4.7  
*Size of Organization*

SIZE	Frequency	Percent %
Micro-organizations: less than 10 employees	36	63.16
Small organizations: from 10 to 49 employees	21	36.84
Total	57	100.00

#### 4.3.7 CEO Duality

From table 4.8, the number of CEOs who are also the chair of the board of trustees is 21 CEOs, which represents 36.84 percent of the respondents, while the majority of CEOs (36 CEOs or 63.16%) are not the chair of the board of trustees.

Table 4.8  
*CEO Duality*

DUAL	Frequency	Percent %
CEO also chair	21	36.84
Otherwise	36	63.16
Total	57	100.00

#### 4.3.8 CEO Tenure

Table 4.9 illustrates that the majority of CEOs have served in their current foundation for less than 6 years with 68.42 percent, followed by those who have served in their foundation for a period between 11-15 years with 24.56 percent. The evidence shows that those who have long experience with their current foundation are least (7.02%).

Table 4.9  
*CEO Tenure*

TENURE	Frequency	Percent %
Under 6 years	39	68.42
6-10 years	14	24.56
11-15 years	3	5.27
Over 15 years	1	1.75
Total	57	100.00

#### 4.3.9 CEO's Qualifications

The CEOs who took part in this study are highly educated. From table 4.10, the majority of CEOs have degrees (45.61%) followed by those who have master and doctorate program (35.09%). The least category of the CEOs have professional qualification (1.75%).

Table 4.10  
*CEO's Qualifications*

QUAL	Frequency	Percent %
Below Diploma	4	7.02
Diploma	6	10.53
Degree	26	45.61
Master	12	21.05
PHD	8	14.04
Professional qualification	1	1.75
Total	57	100.00

#### 4.3.10 CEO's Experience (AGE)

From the findings in table 4.11, most of the CEOs (33.33%) are aged between 35-44 years. A percentage of 26.32 percent are between 25-35 years, while the least are aged less than 25 years (3.51%). The findings also show that 36.84 percent of the CEOs are 45 years and over.

Table 4.11  
*CEO's Experience (AGE)*

AGE (in years)	Frequency	Percent %
Under 25	2	3.51
From 25 to 34	15	26.32
From 35 to 44	19	33.33
From 45 to 54	14	24.56
Over 55	7	12.28
Total	57	100.00

#### 4.3.11 CEO Pay

As can be seen from table 4.12 that the majority of charitable foundations in Hadramaut pay low salary to their CEOs since about 74 percent of the CEOs who participated receive less than RY250000 (around 1160\$) monthly. There is only one CEO of total CEOs who participated in this study receives more than RY500000 (around 2325\$). Meanwhile, 14 CEOs (24.56%) receive RY250000 (around 1160\$) and above but no more than RY500000 (around 2325\$).

Table 4.12  
*CEO Pay*

CEOPAY (in Yemeni Riyals)	Frequency	Percent %
Under RY50 000	12	21.05
RY50 000 to < RY100 000	15	26.32
RY100 000 to < RY250 000	15	26.32
RY250 000 to < RY500 000	14	24.56
Over RY500 000	1	1.75
Total	57	100.00

#### 4.4 Descriptive Statistics

Before analysing the data using of multivariate test, the descriptive data comprising means and standard deviations need to be computed (Genser, Cooper, Yazdanbakhsh, Barreto, & Rodrigues, 2007). Table 4.13 presents the minimum, maximum, mean and standard deviations of the dependent and independent variables used in this study.

Table 4.13  
*Summary of Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
Sector	57	1	8	3.14	1.88
Size	57	1	2	1.37	0.49
dual	57	1	2	1.63	0.49
Age	57	1	5	3.16	1.07
Tenure	57	1	4	1.4	0.68
qual	57	1	6	3.3	1.12
CEOpay	57	1	5	2.6	1.13
Valid N (listwise)	57				

As shown in Table 4.13, the descriptive statistics demonstrate the following: sector of organization (SECTOR) has a mean of 3.14 and standard deviation of 1.88. Size of organization (SIZE) represents a mean of 1.37 with a standard deviation 0.49. Average level of CEO duality (DUAL) is 1.63 with a standard deviation 0.49. However, average level of CEO age (AGE) is only 3.16 and the standard deviation for this variable is 1.07. CEO tenure (TENURE) demonstrates a mean equals to 1.40 and a standard deviation of 0.68. The table also reveals that CEO qualification (QUAL) has a mean of 3.30 and a standard deviation of 1.12. The last variable, CEO pay (CEOPAY), has a mean of 2.60 and a standard deviation of 1.13.



#### 4.5 Normality Test

The normality test is employed to show the symmetrical curve that has the greatest frequency of scores towards extremes in the small and middle frequencies (Pallant, 2005). To do so, some studies such as Kline (1998) and Pallant (2005) suggested assessing the normal distribution of scores for the dependent and independent variables through examining their skewness and kurtosis values. In social sciences, the nature of the constructs has many scales and measures may results skewed negatively or positively (Pallant, 2005). Moreover, kurtosis is also a score for measuring distribution that represents the degree to which observations around the central mean are gathered.

According to Kline (1998), the kurtosis analysis displayed normal distribution with the output values between  $\pm 10$  while the skewness analysis displayed normal distribution with output values between  $\pm 3$ . Based on these criteria, the skewness and kurtosis values are within the acceptable range suggested by Kline (1998) as shown in the table 4.14.

Table 4.14  
*Normality Test*

Variables	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
SECTOR	0.95	0.32	-0.01	0.62
SIZE	0.56	0.32	-1.75	0.62
DUAL	-0.56	0.32	-1.75	0.62
AGE	0.13	0.32	-0.73	0.62
TENURE	1.79	0.32	3.22	0.62
QUAL	0.01	0.32	0.05	0.62
CEOPAY	0.02	0.32	-1.13	0.62

#### 4.6 Multicollinearity Test

Multicollinearity is the inter-correlation of the independent variables. To check for multicollinearity, this study looks at the correlation matrix. Correlation analysis is the initial statistical technique employed to analyze the relationship between the independent variables. According to Levin and Rubin (1998), correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. As a rule of thumb, multicollinearity may be a problem if a correlation is more than 0.70 in the correlation matrix formed by all the independent variables (Cohen, 1988). The correlation of the independent variables in this study is reported in Table 4.15.

Table 4.15  
*Pearson Correlation Matrix*

Variables	SECTOR	SIZE	DUAL	AGE	TENURE	QUAL
SECTOR	1					
SIZE	-0.116	1				
DUAL	-0.138	0.433**	1			
AGE	-0.136	0.506**	0.321*	1		
TENURE	0.109	0.299*	0.242	0.133	1	
QUAL	-0.216	0.582**	0.501**	0.635**	0.357**	1

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

From the Table 4.15 above, it can be seen that CEO qualification has significantly positive relationship with size of organization, CEO duality, CEO experience and CEO tenure. Significant positive relationship is also evident between CEO experience with size of organization and CEO duality. Size of organization is positively associated with CEO duality and CEO tenure. However, non of the

associations are having coefficient correlation of greater than 0.70, a situation which indicates no serious multicollinearity problem exists (Cohen, 1988).

#### 4.7 Results and Discussion

In this study, multiple regression analysis was conducted to predict the determinants of CEO pay. Table 4.16 shows the multiple regression findings. The findings show that the regression explained 42 percent of the determinants of CEO pay, and that the F-value is significant. The findings also show that the size of organization (SIZE) and CEO qualification (QUAL) are statistically correlated with CEO pay at 10% and 5% significant level respectively. However, sector of the organization (SECTOR), CEO duality (DUAL), CEO experience (AGE) and CEO tenure (TENURE) have no significant correlation with CEO pay. Thus, the findings support hypothesis 2 and 5.

Table 4.16  
*Multiple Regression Results*

Variables	Beta	T.Value	P.Value
(Constant)		1.01	
SECTOR	-0.106	-0.993	0.325
SIZE	0.254	1.921*	0.06
DUAL	-0.139	-1.154	0.254
AGE	0.213	1.562	0.125
TENURE	-0.03	-0.265	0.792
QUAL	0.394	2.447**	0.017
R Square	0.484		
Adjusted R Square	0.422		
F.Value	7.814***		
Number of Cases	57		

Significant level :  $P < 0.01$ \*\*\*,  $P < 0.05$ \*\*,  $P < 0.10$ \*

H1 predicts that sector of the organisation has a significant influence on CEO pay in the Hadrami charitable foundations. The result does not support this hypothesis.

Although the result is in contrast with the findings of Twombly and Gantz (2001); Jobome (2006); Oster (1998) that sectoral affiliation and operating in a health sector has a positive influence on CEO pay, it supports the altruistic nature of the nonprofit sector in Hadramaut. However, the result is consistent with the results of Ndoro (2012) who proved that the sector of UK charities had no effect on CEO pay.

*H2* expects a positive relationship between the size of organisation and CEO pay in the Hadrami charitable foundations. Unsurprisingly, the findings show that the size of organization has a significant and positive influence on CEO pay providing a support for prior studies (Frumkin & Keating, 2001; Hallock, 2002; Ndoro, 2012; Newton, 2013; Oster, 1998; Perego & Verbeeten, 2013; Pink & Leatt, 1991; Rosu, 2013; Scheitle, 2009). Previous studies argued that larger organizations are more complex, and thus, managing complex organisations increases the demands placed on CEOs compared with simpler and smaller organisations. Therefore, CEOs may be rewarded for taking up complex and difficult jobs.

*H3* predicts that there is a significant association between CEO duality and CEO pay in the Hadrami charitable foundations. The result does not support this hypothesis and it is quite similar with Ndoro (2012). This result also support the fundamental premise of stewardship theory, which confirms that executive managers in nonprofit organizations are trustworthy, altruistic and good stewards of the organisations, and can therefore, be trusted not to engage in pay excesses (Ndoro, 2012). An alternative explanation of this result is that the founders of charitable foundations in Hadramout seem to select executives who are not motivated by money and do not need close monitoring to prevent diversion of funds. If this is the case, then one could expect that the CEOs do not appear to take advantage of their dual position.

*H4* expects a positive association between CEO tenure and CEO pay in the Hadrami charitable foundations. Contrary to expectations, the result indicates that there is no significant relationship between CEO tenure and CEO pay, and therefore, it does not support the resource-based theory which confirms that longer tenure increases the proficiency of CEO on the job (Ndoro, 2012). Thereby, the positive impact on CEO pay by CEO tenure appears to be convincing in this theory, especially, when the nonprofit organizations engage in relatively substantial competition for employees with for-profit organizations.

However, in the Hadramaut, there seem to be no such substantial competition between nonprofit organizations and for-profit organizations. This may explain why our findings are in contrast with the findings of prior studies (e.g., Brickley et al., 2003; Galle & Walker, 2014; Jobome, 2006; Ndoro, 2012; Newton, 2013). Such studies conducted in USA and UK where there are a relatively substantial competition for employees between nonprofit and for-profit sector (Ndoro, 2012; A. E. Preston, 1989), therefore, the findings of above studies may not be directly applicable to the Hadrami charitable foundations.

*H5* predicts a positive association between CEO qualifications and CEO pay in the Hadrami charitable foundations. The findings also show a significant and positive association between the CEO qualification and CEO pay. This result provides a support for prior studies (e.g., Barros & Nunes, 2007; Langer, 1989; Ndoro, 2012; Rosu, 2013) who found that the qualifications are positively related with CEO pay. The findings also provide a support for the human capital theory, which argues that accumulated knowledge and skills affect the productivity of CEOs. The CEOs with

more quantity of knowledge and skills would be better able to perform his job and thus be paid more.

Compared with other independent variables, the findings indicate that the CEO qualifications has the largest influence on CEO pay. However, this result is in contrast with Ndoro (2012)'s work which concluded that the size of organization has the largest impact on CEO pay. The rationale for this result is that Ndoro (2012) studied the determinants of CEO pay in the large UK charities, while charitable foundations in Hadramout seem to be smaller than UK charities.

*H6* expects a positive association between CEO experience (proxied by CEO's age) and CEO pay in the Hadrami charitable foundations. Surprisingly, the result does not support this hypothesis. However, the findings of this study is consistent with the findings of Ndoro (2012) who reported CEO experience is not significantly related with the CEO pay. She attributes that to the stewardship theory, which confirms that the pay of altruistic CEOs should not be determined by their experience. To confirm this result, we conduct further analysis using the years of experience as measurement of CEO's experience, the result remained the same.

In short, the two human capital measures used in this research, namely, experience and qualification seem to indicate no unequivocal and clear relationship between human capital and CEO pay in the Hadrami charitable foundations. Ndoro (2012) found a similar result in the context of UK charities.

## CHAPTER FIVE

### CONCLUSIONS, LIMITATION AND FUTURE RESEARCH

#### 5.1 Introduction

This chapter presents the conclusion of the study. The limitations that inherent in this study and the areas of future research are highlighted in the last part.

#### 5.2 Conclusion of the Study

In recent years, there has been increased emphasis on the governance and compensation of nonprofit executive managers in developed countries such as US and UK (e.g., Galle & Walker, 2014; Ndoro, 2012; Newton, 2013). However, very little is known about the compensation of such executives in developing and poor countries. Although there is a rich literature exploring such issues in the for-profit organizations, CEOs compensation in nonprofit organizations has received little attention. CEOs' compensation, and the way it is determined, can have a significant effect on the success of organizations, and even of whole economies (Galle & Walker, 2014). Actually, nonprofit organizations carry out significantly different tasks, and therefore, they are organized quite differently from one another. This may lead, in turn, to differences in the way they pay their executive managers (Hallock, 2002). Yet nonprofit sector suffers from agency problems that are similar to, or maybe even more severe than, those observed in for-profit sector (Galle & Walker, 2014). Accordingly, the current study is an important first step in exploring the determinants of CEO pay in these types of organizations in Hadramout, which have witnessed a significant growth during the last few years.

Based on the analysis of the responses collected from 57 CEOs of listed charitable foundations in Hadramaut, the study found that two factors play a significant role in determining CEO pay in the Hadrami charitable foundations. They are organisational size and CEO's qualifications. However, the other factors examined in this study, namely, sector of organization, CEO duality, CEO experience and CEO tenure appear to have no significant role in determining CEO pay in the Hadrami charitable foundations.

A fundamental result to be drawn from the current study is that CEO qualifications has the largest influence on CEO pay in the Hadrami charitable foundations compared with other variables examined in this study. This finding can be attributed by the fact that better qualified and trained CEOs lead to better organisational performance. The CEOs with more quantity of knowledge and skills would be better able to perform his job and thus be paid more (Barkema & Gomez-Mejia, 1998). Accordingly, this result supports the human capital theory and is consistent with prior studies (e.g., Barros & Nunes, 2007; Langer, 1989; Ndoro, 2012; Rosu, 2013). However, CEO experience, the second human capital measure used in this study, appears to have no significant influence on CEO pay, although it was expected that CEO experience should be positively related with CEO pay. However, this result is consistent with Ndoro (2012) and supports the stewardship theory, which argues that the pay of altruistic CEOs should not be determined by their experience (Ndoro, 2012). Therefore, we can conclude that, which is similar to the conclusion drawn by Ndoro (2012), the two human capital variables used in this research (experience and qualification of CEO) appear to show no unequivocal and clear relationship between human capital and CEO pay in the Hadrami charitable foundations.



Another conclusion emanating from this study suggests that size of organisation play a significant role in determining CEO pay in the Hadrami charitable foundations. This finding provides a support for prior studies (e.g., Frumkin & Keating, 2001; Hallock, 2002; Ndoro, 2012; Newton, 2013; Oster, 1998; Perego & Verbeeten, 2013; Pink & Leatt, 1991; Rosu, 2013; Scheitle, 2009) which suggests executive managers are paid according to the size of their organisation. The findings can be attributed by the fact that size of organisation represents complexity which includes a more demanding tasks, and management of such challenging tasks in order to achieve overall objectives of the organisation. Therefore, this requires executive managers to be highly qualified and trained to meet the difficult tasks. An alternative explanation of this result is the prestige related with running of large organisations (Ndoro, 2012).

Contrary to our expectations, the result suggests that CEO tenure has no significant positive influence on CEO pay, thereby it does not support the resource-based theory. This theory asserts that the growth in the role of sector has led to greater expectation for high-quality professional service and competition for qualified workers, and therefore, there is a need for the sector to adopt appropriate monetary incentives and compensation in order to maintain or attract skilled workers (Jobome, 2006). However, in the context of Hadramaut, there seem to be no direct competition for qualified workers. This may explains why our results are in contrast with the findings drawn by prior studies (Brickley et al., 2003; Galle & Walker, 2014; Jobome, 2006; Ndoro, 2012; Newton, 2013), which conducted in USA and UK where there are a relatively substantial competition for qualified workers between nonprofit and for-profit sector (Ndoro, 2012; A. E. Preston, 1989). Therefore, the

findings of such studies may not be directly applicable to the Hadrami charitable foundations.

The findings also suggest that CEO duality has no significant influence on CEO pay, rendering support to the findings reported by Ndoro (2012) which the dual position of CEOs in charities are not significantly related to CEO pay. On the other hand, this result is in contrast with the findings drawn by Barros and Nunes (2007) and Brickley et al. (2003) who found that the CEO pay increases when the CEO is also the chairman of the board. They attribute that to the managerial power approach which confirms that the dual position creates more power for organization heads, and therefore, they will have greater ability to impact the board decisions linking to the compensation and performance. In fact, however, the founders of Hadrami charitable foundations tend to select familiar and close executives who are not motivated by money and do not need careful monitoring to prevent diversion of funds. Therefore, one could expect that the CEOs do not appear to take advantage of their managerial power emanating from dual position to engage in excessive compensation.

Last but not least, this study concludes that the sector of nonprofit organization has no influence on CEO pay. Similar findings were also reported by (Ndoro, 2012). However, although this result is in contrast with the findings reported by Twombly and Gantz (2001), Jobome (2006) and Oster (1998) that sectoral affiliation and operating in a health sector has a positive influence on CEO pay, it supports the altruistic nature of the nonprofit sector in Hadramaut.

Summary of the results of this study can be seen on Table 5.1.

Table 5.1  
*Summary of the Results*

Hypotheses	Results
<b>H1:</b> Sector of the organisation has a significant influence on CEO pay in the Hadrami charitable foundations.	Not Supported
<b>H2:</b> There is a positive relationship between the size of organisation and CEO pay in the Hadrami charitable foundations.	Supported
<b>H3:</b> There is a significant association between CEO duality and CEO pay in the Hadrami charitable foundations.	Not Supported
<b>H4:</b> There is a positive association between CEO tenure and CEO pay in the Hadrami charitable foundations.	Not Supported
<b>H5:</b> There is a positive association between CEO qualifications and CEO pay in the Hadrami charitable foundations.	Supported
<b>H6:</b> There is a positive association between CEO experience and CEO pay in the Hadrami charitable foundations.	Not Supported

However, the final conclusion is that the situation is more complicated than it seems to us. Hopefully, these basic results can help inform the issues and motivate further research in this area to confirm the results presented above.

### 5.3 Limitations and Future Research

Like most prior studies, the current study has limitations. A potential limitation in this study is that the nonprofit organizations studied are limited to only one group (charitable foundation) of all nonprofit organizations listed on the office of MoLSA in Hadramout (see table 3.1). Therefore, the generalization of the findings may not be applicable to other nonprofit organizations beyond this group. There is, therefore, need for future researchs to examine the determinants of CEO pay in all nonprofit organizations.

A major contribution of current research has to provide new empirical evidence of factors that influence CEO pay in charitable foundations in Hadramout and to extend

the knowledge on the determinants of CEO pay, as this study is the first study that examines the determinants of CEO pay in charitable foundations in Hadramout. Therefore, more studies are required to validate the results of this research and to provide a more comprehensive picture, possibly by identifying and testing additional factors that may affect CEO pay.

Nonprofit organizations represent a relatively unexplored and rich opportunity in order to better understand the complicated phenomena such as governance and executive pay. Although some effort has been made in this study to ameliorate the problems, there are still many areas which deserve further investigations. According to Jobome (2006) and O'reilly and Main (2007), the process of CEO pay-setting involves motivational factors and the social psychology of group behaviour, especially in nonprofit organizations where monetary rewards are accused of crowding out altruism, and therefore, CEO pay-setting is not a straightforward economics issue. Therefore, future research is required to examine the impact of social effect on CEO pay and identifying other factors that implicitly recognize the stewardship and altruistic ethos of nonprofit sector.

Finally, although recruiting the appropriate competencies and right people is critical to achieve a high performance, this study finds that most charitable foundations in Hadramaut pay low salary to their CEOs when compared with other occupations. Such these salaries can be an incentive to engage into mismanagement of resources or fraud. Therefor, there is a need for future researchs to examine the influence of CEO pay on performance.

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