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EXECUTIVE COMPENSATION, FIRM PERFORMANCE AND CORPORATE GOVERNANCE IN AN EMERGING ECONOMY

Abstract:

This study examines how compensation of chief executive officer (CEO) is influenced by firm performance and corporate governance in an emerging market, Pakistan. Using various panel regression models, including a dynamic panel model for a sample of non-financial firms listed at Karachi Stock Exchange (KSE) for period 2005 to 2012, we find that current and previous year accounting performance has positive influence on CEO compensation. However, stock market performance does not appear to have a positive influence on CEO compensation. We further find that firm size is an important factor contributing towards CEO compensation. Ownership concentration is positively correlated with CEO compensation, indicating some kind of collusion between management and largest shareholder to get personal benefits. CEO duality appears to have a negative relationship with CEO compensation. Board size and board independence have no convincing relationship with CEO compensation, indicating board ineffectiveness in reducing CEO entrenchment. The results of dynamic panel model suggest that CEO pay is highly persistent and takes time to adjust to long-run equilibrium. Our study has implications not only for managers but also for regulators and other stakeholders.

Keywords:

Corporate Governance, Dynamic Panel, Emerging Markets, Executive Compensation, Firm Performance, Fixed Effects