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CORPORATE MONITORING MECHANISM AND CORPORATE GOVERNANCE INFLUENCE CEO COMPENSATION LEVEL: EVIDENCE FROM NON-FINANCIAL FIRMS OF PAKISTAN

Abstract:

Managerial compensation is strategically pivotal and practically interesting to manage as it has long-lasting ties with firm's performance. It is regarded as most crucial tool to attract and retain the top-notch professionals to achieve the firm's strategic and long term objectives. The executives tends to support their comparatively higher level of compensation sometimes, may be at the cost of priority to firm's value and interest of principles. In corporate finance literature, this phenomenon of opportunistic behavior has been controlled by various monitoring mechanisms. The new spectacle is apposite in Pakistani financial institutions that have no more strict application of compensation regulation. The current study empirically evaluates the impact of different corporate governance attributes such as institutional shareholders' activism, independence of audit committee and board structure and block holding on the level of compensation paid to CEO of Pakistani listed firms for a period of 2007-2013. All these personas worked as monitoring mechanism for CEOs is scrutiny through stepwise regression. The results found that independent audit committee and board of director along with dual CEO structure and greater family ownership are helpful in mitigating the higher level of CEO compensation with is in align with the agency cost hypothesis. Moreover, higher financial institutional ownership found positively related to CEO compensation which is in accordance with the strategic alliance hypothesis. However, the role of institutions in deciding CEO compensation becomes negative in case of family firms as compared to non-family firms.

Keywords:

Managerial Compensation, Corporate Governance, monitoring mechanism

JEL Classification: G30, G39