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The Nexus between Managerial Compensation and Performance: Evidence from Banking Sector in Pakistan

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ABSTRACT

Purpose: This study intends to investigate the relationship between bank performance and managerial compensation. The study is in aligned with the prior literature and adds an insight for the baking sector of Pakistan in this direction,

Design and Methodology: The study uses return on equity to gauge the bank performance and managerial compensation which includes the bonuses and total salary paid to CEO. For this purpose, a sample of twenty-eight banks for the period of twelve years i.e. 2009 to 2021 has been considered. Panel data estimation models have been employed for the purpose of analysis.

Findings: The findings of the study shows a positive relationship between the bank performance and CEO compensation. Our results are aligned with the agency theory and emphasis on market competitive salary for the CEO.

Implications: Our study complements the previously available literature that in order to minimize the agency problem, CEO should be paid adequately that impacted banks performance positively.

Keywords: Bank Performance; CEO Compensation; Panel Data; Pakistan

1. Introduction

Managerial compensation is one of the debatable topics since the emergence of corporate governance in the world. CEO compensation has been widely observed as a matter of conflict of interest between managers and shareholders in the firm after the economic crisis in the last decade which resulted in compensation decrease including the amount paid to CEO (Sigler & Porterfield, 2001). The manger and shareholder conflict is the classic example of agent-principal relationship. Owner of the companies delegate the power to the agents to run their business and maximize the profit for them , in return they get paid , but what generally happen is agents having more inside and outside information regarding business market sometimes takes decision for their own betterment

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rather than for the principal . If the principal is aware of this situation they may announce attractive packages for agents (Joyce, 2001). It is generally believed that compensation and benefits result in motivation of management and improve work efficiency. Agency theory assumes principal can't fully observe the management actions and management quality and what if they can, the observation cost can't be ignored and this leads to possibility to maximize the agent benefit rather than principals (Williamson, 1986). The relative performance of managers, CEO and board of directors is being measured by how well the company is performing. However there are numerous factors which help in determining the managerial remuneration (Banker & Datar, 1989).

Agents performance can be measure by different factors and the performance measurement of the agent is linked with how well that factor informs the principal about the performance of the agent. For decades agent's performance has been measured through accounting tools. Since decades the managerial compensation has remained a topic of discussion that how much is adequate to pay to the top management as there has been always a big difference in compensation of managers and workers which sometimes creates a lack of satisfaction in employees as well in public and private firms. Many famous bankruptcy cases in the past also caught the attention upon investigation like Jean-Pierre Garner's remuneration package in GlaxoSmithKline in 2008 and Royal bank of Scotland chief executive was highly paid and there was no check and balance and he moved away with £ 30 million (Erkens, Hung, & Matos, 2012) CEO sits on the top seat of the organization and considered as the most skilled and knowledgeable person who holds the company's future in his hands and play a major role in all the decision making. He shouldn't be under or over payed for his services in order to perform to best of his capabilities.

Previous literature also documented a significant relationship among firm performance and managerial compensation (Ittner, Larcker, & Rajan, 1997). Additionally the annual reward i.e. cash bonus given to managers is also linked with the accounting based firm performance and to some other attributes of governance (Liang, Xu, & Jiraporn, 2013). Cash reward for the best administration are completely based on the bookkeeping execution of the firm. Same ways the stock-based compensation is also linked with the accounting performance of the firm, At the end of the fiscal year, the top management and senior executives are rewarded in term of cash bonus or stock option as a reward of good accounting performance. The literature also revealed that there is high correlation in the total incentive payed to the lead management in firms (Gore, Matsunaga, & Eric Yeung, 2011). The purpose of conducting research is to check the dimensions of relationship between CEO remuneration and firm performance. There is been a long debate about the level of compensation given in the past and different rules and regulation has been passed accordingly. In the past there was no set parameter for the level of compensation given to CEO.

2. Literature Review

Literature review consist of theoretical and empirical literature. Theoretical literature discuss the related theories which can be explained with the study findings. In empirical literature, gap has been identified and hypothesis can be developed. In the following sections, agency theory is discussed before the empirical literature and hypothesis development.

In 1976 Jensen and Meckling lead the foundation of Agency theory which states that agents act as agents on the part of shareholders. The executives act for the betterment of shareholders which tend to create agent principal conflict. The shareholders can monitor the executives by auditing, formation of control systems and fair compensation system. The situation of conflict can be resolved by two ways majorly. This agent principal conflict can be eradicated by two ways: First, monitoring the agent in watchful manner as the principal might not be aware of all the information of the organization. Second, the second way is pay-performance nexus. By paying a good money to the agents the energy and enthusiasm can be boost up in the interests of principal. The agency theory separates the principal and agent and thus transfers the decision-making power on the shoulders of agent while ownership remains in the hand of the principal. By paying a reasonable compensation against the agent services, the conflict of interest among the two said parties can be minimized that will result in the wealth maximization of the business which is the ultimate goal.

While the stewardship theorists are totally opposite to the agency theorist, they believe that managers should be independent, and they should work in the betterment of the organization. Mangers should works diligently and can be motivated with non-monetary rewards, like appreciation, awards etc. which will derive them towards better performance (Davis, Schoorman, & Donaldson, 2018; Donaldson & Davis, 1991).

2.1. CEO Compensation and Bank Performance

In the past two decades the CEO compensation is a hot topic in corporate governance as there were no rules and regulation regarding the managerial compensation in past. In 1992 Cadbury report was presented in which it was stated that companies should form a remuneration committee to avoid the compensation conflict. The compensation and benefits of the top management should be solely dependent of their performance (Greenbury, 1995). From the perspective of employee, pay is the reward for labor against the services provided for producing a product or service. How an employee is been rewarded in a company varies, and may not only include the cash salary paid to them after or before they provide the service, it may also include other benefits like pension, health insurance, bonuses, holidays and other marginal benefits which are valued more than the actual cash salary paid to them at the end of the month (Dale-Olsen, 2006). Newman and Mozes (1999) also investigated that committee gives a biased decision in favor of the CEO if they have insider member than those who don't have. Natarajan (1996) discussed the components of earnings in CEO contract. Theoretical evidence supports that CEO compensation is dependent on accounting information of

firm. Many researches proposed that one of the important factors of incentives is financial standing of the firm. Generally it is assumed that firm's inefficiency means CEO inefficiency (Lambert & Larcker, 1987).

Akindayomi and Warsame (2009) discussed the goal and risk preferences of shareholders and executives. CEO has a standing and reputation within and outside the firm and they want to improve it and if the increment is based on the firm performance, they will work hard for that. Mangers are basically risk averse, if the risk potential is high; they will avoid taking the decision and will think about the losses more. To reduce the risk aversion among the mangers the firms should design incentive plans which can encourage them to take the risk and improve the firm value (Amihud & Lev, 1981).

There are a number of different components of executive compensation, one of which is equity-based compensation. (Pandher, 2022). The equity-based compensation influence the CEO's decision making ability more than the other compensations. The stock returns change frequently so does the performance of the firm, and all this is based on the CEO decisions. By giving equity-based compensation to the top management, mangers feel motivated to take decisions which will improve the firm performance of the company. There is always a conflict between the shareholder benefits and the manager's benefits; to minimize them incentives plays a vital role (Amihud & Lev, 1981).

Nasrin (2022) estimated the pay –performance relationship in Australia by taking data of 757 firms for the year 1990 – 1999. The results found a optimistic relationship among the two variables and concluded that CEO wealth increases with the increase in shareholder return. Khatib, Abdullah, Elamer, and Hazaea (2022) investigated the relationship among the two groups: distressed firms and non-distressed firms for the year 2001. A negative association among managerial compensation and the lagged ROA was discovered in the study. While the board independence was also found in a negative relationship with managerial compensation.Azim, Mei, and Rahman (2011) studied the managerial compensation during the global financial crisis. The data was taken from 200 firms for the year 2007 and 2008. The results indicate that there is an important link between the compensation paid to CEO and the company's performance. The compensation is more associated with the market-based while Bebchuk and Fried (2003) argued that giving good compensation to the mangers is not only the solution to the agency problem but the compensation is itself an agency problem. One may not forget the managerial influence over the compensation plans. The remuneration systems need to be designed properly so that the managerial power can be minimized. The hypothesis of the research is as follows:

H_1: There exists a positive relationship between CEO compensation and bank performance.

3. Research Methodology

3.1 Data Description

This study used data from the financial sector of Pakistan only. The sample comprises 28 banks active in Pakistan from 2009 to 2021. The study employed the secondary data. All the data has been taken from the respective bank official website, balance sheet analysis, banking survey and from State Bank of Pakistan website as they are reliable and authentic source.

3.2 Variables Measurement

Bank performance is measured by the following variable**.** Bank performance is being measured by return of equity. ROE measures the profitability of a company by analyzing the profits a company has made with the money invested by the shareholder Molyneux and Thornton (1992) investigated how well a bank is performing in the market can be judged on the basis of its ROE**.** The Incentive paid to the CEO of the firm in regard of his services rendered is known as CEO compensation or remuneration. The compensation comprised over a fixed monthly salary, bonuses, stock option, share option, employee benefits etc. In some research CEO cash compensation is considered as good proxy for measuring the compensation effect Finkelstein and Boyd (1998) while Core, Holthausen, and Larcker (1999) used compensation including cash bonus , stock option, pensions. In Pakistan companies don't mention the stock or share option and other benefits in the financial statement. For this reason, The quantitative measurement of compensation used in the study is the total log salary paid to the CEO. CEO compensation is taken as ratio (total salary to total asset) to minimize the bank size effect, as big banks pays huge amount as compared to small bank.

It is considered that banks working is depend over the funds provided by the public known as deposits. The more the deposits of bank, the working will be better. Deposits are the cheapest source for the bank to carry out their operations (Vong & Trigueiros, 2009). The loan-to-deposit ratio is used to calculate a credit institution's ability to hedge withdrawals made by its client.

A deposit-taking credit institution must have a certain amount of liquidity to maintain its normal day-to-day operations. The loans given to its clients are generally not considered liquid, which means that they are investments over a longer period. Natural logarithm of the value of total assets is used to measure the bank size (Shafie, Azmi, & Haron, 2004).

The capital adequacy ratio is the ratio that determines the bank's ability to cope with temporal commitments and other risks such as credit risk, operational risk among others. The risk of loss for a bank resulting from its failure to meet its cash requirements or from an insufficient level of liquidity, which must be covered by funds. A source of bank income, exclusive of interest income, is non-interest income. Non-interest income includes commissions, service charges, warranty fees and commissions, net profits from the sale of investment securities and foreign exchange profits.

The increase in non-interest income means that the bank has diversified its operations, rather than relying solely on traditional operations. Theoretically, higher total investment relative to total assets is expected to be proportional to higher bank profits.

Control variables includes bank size and CEO duality. The number of persons in the board is known as board size while CEO duality means the CEO is having more than one position in the company, it is a dummy variable, if CEO is performing dual position in company it is considered as 1.

3.2. Model specification

The study investigates the effect of the compensation paid to CEO on the performance of the bank; the study consists of nine variables in total. The model can be written as:

Bank performance = f (AD, BS, CA, CEOD, FS, GS, LQA REM, TIR)
The regression form of the model is as follows:
$ROE = \beta 0 + \beta 1AD + \beta 2\ BS + \beta 3\ CA + \beta 4\ CEOD + \beta 5\ FS + \beta 6\ LQA + \beta 7\ REM + \beta 8TIR + \varepsilon$
Where; *ROE* = Return on Equity; Advances to deposit = AD; Capital Adequacy = CA; Liquidity Risk = LQR; Total Investment to Total Assets Ratio = TIA; Board Size = BS; Bank size = FS; CEO Duality = CEOD

The variable calculation details are summarized in table 1 below.

Table 1: Variable Description

Variables	Symbol	Equations
Return on Equity Ratio	ROE	Net income / Total EQUITY
Advances to deposit	AD	Advances to deposit
Board Size	BS	Number of board members
C-Adequacy	CA	Capital /Total Assets
CEO Duality	CEOD	
Bank Size	FS	Natural logarithm of Total Assets
Liquidity Risk	LQR	Cash and Cash Equivalent / Total Assets
Remuneration	REM	Total Remuneration/Total Assets

Total Investment to Total Assets Ratio	TIA	Total investment / Total Assets

3.3 Data Analysis Techniques

The study sample comprises data from 28 banks operating in Pakistan from 2009 till 2021. The reason of sample is the availability of Banks and data of those banks for the selected period. Additionally, similar studies having similar sample for banks. OLS panel data technique has been used to analyze the results. Panel data is used to analyze the cross-sectional data, data collection from population or sample at same time interval like month or year. This research is focused to measure the liner relationship of firm performance and CEO compensation. Three different techniques are used to analyze the pool data, common effect, fixed effect and random effect model. For every research there are different criteria to select which method is going to be used for results.

3.4 Common Effect Model

As per the common effect model the beta should be same for all the cross sections if there is no heterogeneity in the data which means that the intercept will be same for all the cross sections used in the study. The common effect model can be written as:

$$y_{it} = \beta o + \beta x_{it} + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (a)$$

3.5 Fixed Effect Model

As contrary to the random effect model, fixed effect model assumes that every cross section of the data is analyzed in every cross section. A distinct dummy is used in this model to explain the existence of heterogeneity in the data. The fixed effect model is used for analysis in the studies using complicated data set. If the F value is not significant than the hypotheses of the intercept will be rejected. The fixed effect model can be written as:

$$y_{it} = \beta_{it} + \beta\, x_{it} + \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (b)$$

3.6 Random Effect Model

While using random effect model, the intercept would be not same for the independent variables. The pattern of data intercepts also needs to be checked. The model basic assumption is Beta follows a systematic patter and hence meaningless for analysis. The random effect model can be written as:

$$y_{it} = (\beta o + \mu) + \beta x_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (c)$$

4. Results and Discussion

4.1 Descriptive Statistics

The descriptive analysis includes mean, median, minimum, maximum, standard deviation, kurtosis and skewness. Summary shows the smallest value (minimum) of the data as well as the largest value (maximum). The summary of the data statistics of 28 banks of Pakistan from the period 2009 to 2015 is as follows:

Table 2: Descriptive Statistics

	ROE	AD	BS	CA	CEOD	FS	LQR	REM	TIA
Mean	0.0121	0.463	8.371	0.112	0.139	3401	0.296	0.0006	0.318
Median	0.009	0.527	8.000	0.091	0.000	3450	0.191	0.0004	0.277
Maximum	0.341	0.804	13.000	0.337	1.000	6703	0.470	0.0071	0.458
Minimum	-0.072	0.043	4.000	0.025	0.000	122	0.062	0.0001	0.185
Std. Dev.	0.040	0.249	1.781	0.070	0.347	1.047	0.092	0.001	0.158
Skewness	4.520	-0.372	-0.711	1.011	2.084	2.765	2.058	3.892	1.120
Kurtosis	5.981	1.645	7.728	3.932	5.341	11.702	6.860	18.890	4.369

Table 2 shows that the values of ROE are 0.021 whereas standard deviation is 0.040. The maximum and minimum values are 0.0341 and -0.072 respectively. The respective values of kurtosis and skewness are 5.981 and 4.520. The average value of advances to deposit ratio is 0.463 which indicates that bank advances 0.463 cents out of 1 dollar deposit. The minimum and maximum values of the bank deposit are 0.043 and 0.804. The value of average is 0.249 and kurtosis, skewness values are 1.645 and -0.372 respectively. The descriptive studies shows that average board size of banks in Pakistan is 8.371while the maximum board members in Pakistani banks are 13 and minimum are 4 in number. The middle value of board members is 8 and the data shows that average deviation of board size are 1.492.The value of kurtosis is 7.728 whereas the skewness is -0.711. The table shows that banks of Pakistan have average size of 3401billion; the largest bank contains 6703 billion assets while the size of smallest bank is 122 billion. The volatility in bank size of Pakistan is 1.047million. The value of kurtosis is 11.702 whereas the skewness is 2.765. The CEO duality is measured by dummy variable and shows a minimum of 0 and maximum of 1. The volatility in data is 0.347. The value of kurtosis is 5.341 whereas the skewness is 2.084. Liquidly ratio of the banks have an average of 0.296 means the companies 29.6% of the bank assets are liquid. The maximum is 0.470 while the lowest value of liquidity ratio is 0.126. The standard deviation of EPS is 6.303. The value of kurtosis is 0.092 whereas the skewness is 2.058. Total investment to total assets ratio of the banks has an average of 0.318 means that 31.8% of the assets are invested.

The highest TIA of bank captured in the data set is 0.458 while the lowest value of L TIA is 0.185. The standard deviation of TIA is 0.158. The kurtosis value is 4.369 whereas the skewness is 1.120. The mean value of CEO compensation ratio is 0.0006 means on average pays 0.060% of its assets worth to CEO as compensation. The value of standard deviation is 0.001. Whereas the standard deviation captured is 0.001. The maximum value is 0.710% whereas the minimum CEO compensation captured is 0.010%. The kurtosis value is 18.890 whereas the skewness is 3.892.

4.2. Regression Analysis

The regression analysis performed on the data this study is discussed below in detail.

4.2.1 Common Effect Model

Table 3 shows the results of the common effect model.

Table 3: Common Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.040837	0.013795	-2.960235	0.0033
AD	-0.009716	0.00897	-1.083153	0.2797
BS	170.002911	0.001234	2.358096	0.0191
CA	0.134512	0.034805	3.864688	0.0001
CEOD	0.02053	0.006434	-3.191126	0.0016
FS	-0.314751	0.053152	0.36903	0.004
LQR	0.01154	0.029579	0.390122	0.6968
REM	0.039781	0.011246	3.537258	0.0005
TIA	0.015404	0.013468	1.143719	0.2537
R-squared	0.258694			
Adjusted R-squared	0.236811			
Log likelihood	546.3319			
Durbin-Watson stat	1.237345			

According to the results depicted in Table 3, the value of adjusted R squared is 0.2586 which is interpreted as 25.68% of the change in bank performance is due to independent variables. The correlation among board size, capital adequacy, remuneration and CEO duality is positively related with bank performance whereas significantly negative nexus exists between bank size and bank performance.

4.2.2. Fixed Effect Model

Table 4 shows the results of the fixed effect model:

Table 4: Fixed Effect Method

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.033765	0.02763	-1.222071	0.2229
AD	-0.016509	0.010374	-1.591382	0.1128
BS	0.001411	0.003233	0.436502	0.6629
CA	0.188997	0.042836	4.412089	0
CEOD	-0.018499	0.021848	-0.846733	0.398
FS	0.217111	0.057591	3.769879	0.0002
LQR	0.054204	0.031992	1.694259	0.0915
REM	0.02859	0.01942	1.47239	0.0429
TIA	0.003876	0.014527	0.266798	0.7899
R-squared	0.387331			
Adjusted R-squared	0.299449			
F-statistic	4.407363			
Durbin-Watson stat	1.44003			

The adjusted R square value in table 4 is 0.299449 meaning that 29.9 percent change in bank –performance is because of independent variables studied in this research. The result shows that capital adequacy, firm size, remuneration have significant positive relationship with bank performance.

4.2.3. Likelihood Ratio Test

In order to find out which test is best for the research, common model or the fixed model, likelihood ratio test is performed. The likelihood ratio test analyzes the null hypothesis that all the cross sections have a common intercept or not. The likelihood ratio test is as follows:

Table 5: Likelihood Ratio Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.93842	-27,160	0.00
Cross-section Chi-square	78.9292	27	0.00

From the table 5, the results shows that there is no heterogeneity in the data and all the cross sections are having the same intercept which means that the null hypothesis is rejected, and alternate hypothesis is accepted. The common method is rejected while the fixed method is more suitable for this study. But before we discuss the results of fixed model, we first have to conduct the random effect model and check whether the random effect model is more appropriate or the fixed model.

4.2.4. Random Effect Model

The table 6 says that adjusted R square value is 0.426919 which means that 42.69 percent variation in the dependent variable is explained by explanatory variables studied in this research. Remuneration, liquidly ratio, total investment to total assets ratio, bank size, capital adequacy and CEO duality is found positively significant in relationship with firm performance.

Table 6: Random Effect Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.04185	0.014435	-2.89921	0.074
AD	-0.01006	0.00891	-1.12875	0.26
BS	0.002945	0.001333	2.209321	0.028
CA	0.14037	0.034953	4.015971	0.0001
CEOD	-0.02075	0.0071	-2.92293	0.0038
FS	0.297378	0.052339	0.36903	0.004
LQR	0.021009	0.029219	0.71903	0.0472
REM	0.03523	0.0136	2.59051	0.0103
TIA	0.013375	0.013269	1.007982	0.0144
R-squared	0.490872			
Adjusted R-squared	0.426919			
F-statistic	11.23672			
Durbin-Watson stat	1.472084			

4.2.5. Hausman Test

To choose among the random model and fixed model Hausman test is being run. Consistency and efficiency of null hypothesis is being tested by the Hausman test against the random effect. The results are shown in table7.

The value of probability is insignificant in table 7 as greater than the 5 % significant level which leads to rejection of alternate hypothesis and acceptance of null hypothesis. From the Table

7 results of Hausman test random model is more appropriate for this research rather than the fixed model.

Table 7: Hausman Test

Test Summary	Chi-Sq Statictic	Chi-Sq d.f.	Prob.
Cross-section random	12.850366	8	0.1171

4.3. Discussion of Results

The intention behind conducting this study was simple. The researcher wants to understand whether compensation paid to CEO is bringing any change in the performance of bank. As the test statistics indicates the Random Effect model is applicable in this study. On the basis of these results the hypothesis are verified. Null hypothesis is being rejected while the results supported the alternate hypothesis. The detailed discussion on all the variables studied in the research is as follows:

4.3.1. Board Size

Board size is found to be positively linked with the bank performance meaning that large board number can result in improvement of bank performance. The members from different background having diverse experience and knowledge leads to have a positive impact on the decision making which leads to have a positive impact on the bank performance. The results are in aligning with the previous studies held in different countries. Olalekan and Bodunde (2015) conducted a research on Nigerian banks and found out that big boards have a positive impact on the performance of the banks. Kama and Chuku (2009) also says that increase in the board members leads to effectiveness of board and improves the monitoring power of the board over the various business concerns. Adams and Mehran (2012) conducted research on Australian bank and says that increase in board size due to additions of directors may add value. Medium size board imparts a significant impact on the banks and play a vital role in improving the banks performance (Gafoor, Mariappan, & Thiyagarajan, 2018).

4.3.2. Bank Size

The result shows that bank size is significantly correlated with bank performance, means that the bigger the bank, the better it will perform. We have taken the proxy of total assets for measuring the bank size. It is interpreted that a bank having more assets can perform better as it will have more resource to utilize and expand its business. Olalekan and Bodunde (2015) research results are also in favor of our research that bank size has a positive impact over the bank performance.

4.3.3. CEO Duality

Impact of CEO duality is found to be negatively significant with bank performance. It means that CEO has assigned some other role in the company as well. The analysis shows a negative significant relationship (Haron & Akhtaruddin, 2013).

4.3.4. Capital Adequacy Ratio

Capital adequacy ratio a significant positive relationship with the firm as firm having sufficient amount of capital to bear its expense performs better in the industry. Results are in alliance with researches (Anbar & Alper, 2011; Ebenezer, Omar, & Kamil, 2017).

4.3.5. Total Investment to Total Asset Ratio

The results shows a positive relationship between Total Investment to Total Asset Ratio and firm performance. Non-interest income includes commissions, service charges, warranty fees and commissions, net profits from the sale of investment securities and foreign exchange profits. The increase in non-interest income means that the bank has diversified its operations, rather than relying solely on traditional operations. Theoretically, higher total investment relative to total assets is expected to be proportional to higher bank profits.(Haralayya & Aithal, 2021).

4.3.6. CEO Compensation

Our research main variable is CEO compensation, the results shows a positive significant relationship among compensation paid to CEO and firm performance, means that if CEO is paid well, he makes effort to increase the profit of the bank as well.Elsayed and Elbardan (2018) also confirmed that top management compensation influence the profitability of the firms. Merhebi, Swan, and Zhou (2003)) says that CEO compensation strongly effect the firm performance , as they have the main decisions power in the firm and any wrong decision by them can lead to a big loss for the company. Lovett, Rasheed, and Hou (2022) found a high sensitivity level connecting the CEO's salary to company performance.

5. Conclusion

CEO renumerations plays a vital role in corporate governance which minimizes the conflict of interests and creates alignment between shareholders and CEO, the findings from this study endorses agency theory that motivation of the CEOs lies in the compensation paid to them in order to pursue the shareholders' interests, the CEO pay of Pakistani banks improves bank performance and shareholders' value. This results send the signals that alignment of interests between the CEO and shareholders of Pakistani banks depends upon how well the CEO and Board of directors are being paid. The conclusions drawn from other governance variables showed that the effectiveness of board in terms of different skills and professional expertise which facilitate better decisions that enhance bank performance. The impact of board size on bank performance was significant and positive. Bank size has positive impact over the bank performance. The study supports the agency

theory that if we pay a suitable amount to CEO, they will work in the betterment of the firm. On the basis of research this is recommended that mangers should be compensated well, as it brings a positive impact over the firm performance. As they hold the main decision power and behave as agent on the behalf of shareholders, and their main motive is to enhance the shareholder wealth. By applying the carrot and stick the principal-agent conflict can be minimized and the interests of mangers and shareholders can be aligned and the mangers work in the benefit of the shareholder wealth maximization by giving up their own interests, this can only be happen when the mangers are well compensated. The findings of the study adds on the Pakistani literature on the CEO compensation which is always debatable, this study will provide an insight for practitioner, policymakers and for the regulatory authorities of under developed countries that to avoid the conflict and achievement of the financial growth of business, the top management needs to be rewarded monetary as well as non-monetary as our findings proved a significant direct relationship in performance and reward.

The current study only considered financial sector of Pakistan. For generalization result in Pakistani context if one should add other sectors of Pakistan i.e. textile, cement etc. or working as a whole for combine result. Furthermore, the study also contain just -financial companies' data, so in future non-financial sector can be added for a better comparable study between financial and non-financial sector of Pakistan. Moreover, this study also use a sample of 28 banks it can be extended to big sample and also by adding more interested variables for more generalize results of the study. At last, the researcher may also use some Asian countries data for checking the effect of CEO compensation on firm performance over there and compare the results with Pakistani context as well. So, future researchers are given confidence to study and research the importance of corporate governance and how it necessary it is for the economic development.

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