

BOARD OF DIRECTORS' COMPENSATION BASED ON EVALUATION MEASURE OF RELATIVE ACCOUNTING PERFORMANCE

Balal Abbasi, Shahrood Branch, Islamic Azad University
Mahdi Salehi, Ferdowsi University of Mashhad
Mohammadreza Abdoli, Shahrood Branch, Islamic Azad University

ABSTRACT

Purpose – *The main objective is to examine the relationship between prediction models of the board of directors' compensation based on an evaluation measure of relative accounting performance in peer firms. The separation of ownership from management and its related problems, if compensation is not consistent with managers' actual performance, is not only not willing to increase the firm's value but also is willing to be a tool for transferring the wealth. Thus, to guarantee the rights and benefits and efficient monitoring of managers' performance, stockholders might create a controlling mechanism that grants managers compensation due to their performance.*

Design/methodology/approach – *This paper examines the effect of accounting measures' relative performance on board of directors' compensation for a sample population of 723 listed firms on the Tehran Stock Exchange during 2011-2017. The statistical methodology implemented for testing the research hypotheses is panel data analysis.*

Findings – *The results suggest a significant and positive relationship between the return on asset ratio and the compensation of the board of directors. Moreover, the board of directors' compensation is negatively associated with the return on equity. Finally, the research findings indicate that the return on asset ratio and return on equity of peer firms positively and significantly impact the compensation of the board of directors.*

Originality/value – *This paper examines different accounting performance measures on the board of directors' compensation, which has not been implemented in developing countries. Furthermore, previous studies mostly concentrate on CEO compensation, whereas the current study investigates the compensation of the board of directors. The implications could be efficient and useful for all developing countries.*

Keywords: Board of Directors' Compensation, Return On Asset Ratio, Return Equity Ratio, Peer Firms

INTRODUCTION

One means of controlling agents and establishing alignment between the board of directors' or manager's interest with equity owners is allocating compensation based on performance to maximize the firm's value and all beneficial groups' wealth. The majority of current compensation contracts are based on accounting income, and the compensation that mainly emphasizes accounting income less contributes to making value. Also, if compensation is not following the board of directors' actual performance, it would not increase the firm's value, which would play the role of wealth transmission. Using accounting figures and reports to draw compensation contracts, accrual items are key factors in making contracts with managers and creditors (Kazan, 2016). Thus, there is an opportunity for directors to choose and employ

accounting procedures for manipulating actual transactions to gain self-interest which they are likely to impact the efficiency of the contract. Therefore, to provide incentives for directors through compensation to maximize firm value, the performance measure for calculating net income value should contain sensibility and correlate with the effects that the managers' acts will have on the firm value (Chen, 2015). For reducing the conflict of interest between stockholders and managers as well as gaining assurance of agent efforts in line with owner's interest, there has been proposed several mechanisms with prior studies consist of making conditional contracts with management based on a compensation plan for their services, preparing and presenting financial reports in different periods about financial performance, social and environmental disclosure mechanism as well as employing financial and economical instrument (Roberts, 2005). Based on the agency theory view, the connection between the manager's payment and firm performance provides substantial incentives so that the board of directors can overcome the agency problem.

However, the increasing manager's payment, specifically in the two last decades, heightened concern and attention among stockholders for its convergence to another agency problem instead of being considered a solution for this problem (Yatim, 2010). Compensation is implemented as an incentive that affects the extent of programmed strategies and made decisions by directors, and it is approved by managers who have the most significant impact on the firm's performance and profitability. This was simply known as compensation for managers to appreciate their efforts. Hence, it enables managers to perform their duties and tasks to gain the greatest beneficial interest for stockholders (Rosalie et al., 2018). Compensation shapes the managers' behavior, but it also preserves talent through the absorption fee since managers are considered scarce resources. Compensation policy is one of the key factors for success in any organization. However, most of these organizations do not utilize this instrument to its utmost capability (Rosalie et al., 2018).

Since managers' compensation level and its relation to a firm's financial performance have become controversial, the general public and policy makers, such as governments, companies and regulatory institutions, are concerned about the effects of managers' compensation on a firm's performance. The general public has concentrated on compensation increase in comparison with the firm's performance development. Therefore, executives should be sensitive about consistency between the manager's compensation and the firm's performance, since their payment contributes directly to the maximization of stockholders' wealth (Rosalie et al., 2018). Firms giving sensible compensation to their executives should perform better under appropriate circumstances than their peers (Wilkinson, 2009). However, it is suggested that short-term views in allocating compensation for executives, even if it pertains to performance, can be considered accountable for the global economic crisis. This is a consequence of the banks' capital market collapse in the United States (Stoles, 2011). The employees who are more motivated with self-benefits and financial incentives are more likely to show fraudulent behavior (Gill et al., 2012).

According to the content mentioned above, this question is raised: whether peer-firms accounting performance measures have any impact on the board of directors' compensation?

Therefore the purpose of this study is to examine empirical evidence regarding the effective factors on board of directors' compensation by focusing on the accounting performance of the firm itself and the peer-firms (which are competing in the same industry). The results of this paper add to the literature in several ways. First of all, all previous studies only considered firms' performance as a determining factor in directors' compensation (Vaez et al., 2018). While in addition to firms' performance, the performance of peer firms competing in the same industry is also considered in this study, which has not ever been investigated in an emerging business environment similar to Iran. Furthermore, previous studies mostly rely on CEO compensation

and its determinants factors (Lobo et al., 2018), whereas this study considered the board of directors' compensation in this regard.

In the following sections, these items will be discussed: in the second part of this study, the theoretical framework, literature, and research hypotheses development will be considered.

The third section is dedicated to the literature review of this study. Next, a methodology will be described. The next one deals with data analysis and results. And finally, the last section will discuss the arguments, limitations, implications, and suggestions for future studies.

THEORETICAL FRAMEWORK, LITERATURE REVIEW, AND HYPOTHESIS DEVELOPMENT

The theoretical framework of this paper lies in agency theory. Many factors contribute to the relationship between performance-based compensation and the overall performance of a firm. The agency theory has been suggested as the most influential and significant of these factors by prior literature. The agency relationship is defined as a contractual agreement under which one or more parties, known as the owner equity, engage with another party or parties, known as the agents, to perform a specific service on their behalf (Boshkoska, 2015). As the firms' agents, managers are less likely to perform on the firm's behalf if their interests are not consistent with those of firms (Dyl, 1988). Jensen & Meckling (1976) claim that managers are unlikely to maximize a firm's wealth even if that manager is the only stockholder. However, Bryant & Davis (2012) argue that the agency problem can be controlled by incentivizing managers to force agents to align with the companies' interests. There are various methods by which a company's stockholders can control the managers' performance. One of these methods is performance-based compensation (Boshkoska, 2015). Thus, firms compensate for agency costs like incentive schemes to motivate managers to behave in the shareholders' interests and maximize their wealth sustainably (De wet, 2013).

The compensation policy aims to create long-term value in a company (IoDSA, 2016). Creating a comprehensive compensation scheme that relates the performance to payment seems impossible. However, Hovey (2005) concludes that a performance-based compensation scheme is the most practical mechanism to align shareholder wealth with executive performance. To obtain this scheme, firms can follow Freedman & Sac's (2010) guidelines, claiming that executive compensation schemes should contain three main principles: appropriateness, fairness, and efficiency in line with the firm's long-term value. Assessing executive performance begins with the advent of agency theory and separation of ownership and management. Accounting and economics measures were elements to be considered in this regard. Thus, this study discusses the effect of the board of directors' compensation on accounting criteria. In the last years of the 80th to the first years of the 90th decades, most international companies, to unify the assessment of managers' performance and their compensation, provide the opportunity for managers to buy companies' shares with the initial price. The method was popular because of the thriving of the stock market. Such a method suggests that if the CEOs' performance resulted in companies' efficiency, effectiveness, and promotion, managers, similar to stakeholders, would be incorporated with companies' profit. Such a method provided significant profit for both CEOs and stakeholders. But after the collapse of stock markets in 2000, large corporations obtained that such a method cannot always be plausible (Anand et al., 2013) since it is expected that the CEOs' compensation plays a mitigating role in agency problems between managers and investors (Shao et al., 2012). According to the optimal contract theory, an effective manager's compensation should result in his/her acclamation. Monem & NG (2013) obtain that CEOs' level of compensation is significantly associated with the stakeholders' wealth.

Additionally, the board of directors' compensation is formed on different bases, depending on different companies' departments' functions. Such compensations are based on some criteria other than companies' profit, which are recognized following companies' overall performances (Holm & Zaman, 2012). Compensation plans based on accounting profit figures and other factors such as job security, job level, and company size relating to management welfare, are directly or indirectly associated with companies' high profitability. It is assumed that managers seek to increase their welfare by increasing the profitability of companies. Briefly, it can be said that managers are aware of the compensation plans and the way of evaluation of their performance by shareholders, resulting in the show a tendency to manipulate accounts to receive higher compensation. If the managers' compensation is lower than the aim level, they will transfer part of the profits of subsequent years to the current period, and in some cases, management may transfer the profits of current years to future periods in line with their interest. To alleviate such a matter, the managers' compensation plan follows a long-term period in some western countries, including several years (Holm & Zaman, 2012).

A few decades ago, the literature's main focus began on a fundamental theme of agency theory (Bebchuk & Fried, 2003). One aspect of agency theory implies a contradiction in which a well-known company manager seeks to obtain a high compensation from the company's ownership by enhancing corporate profits (Villalonga & Amit, 2006). Jensen & Murphy (1990) state that these conflicting demands are created due to information asymmetry between owner and manager. However, such conflicts can be rectified by observing and offering attractive compensations based on the organization's performance. Thus, management activity should be considered for the most benefit of the companies, resulting in higher satisfaction for shareholders. Several studies find a positive relationship between CEOs' remuneration and firm performance (Kent et al., 2018; Raithatha & Komera, 2016), consistent with agency theory. In addition, Perry and Zenner (2001) find that the change in CEOs' remuneration structure is significantly influenced by firm performance. Merhebi et al., (2006) find that the board of directors' compensation level has a significant and positive relationship with firm performance in Australia.

Krolick (2005) finds that selecting compensation metrics based on performance assessment and companies' accounting figures is predictably useful. However, if investment intangible corporate assets are high, managers' compensation plans will not follow the performance evaluation criteria according to return proportions (such as proportions of assets and equity returns). Firth, et al., (2006) show that companies whose owners are government agencies and institutions do not consider firms' performance to establish compensation plans. They find that considering corporate ownership, CEOs' compensation is directly related to the company's profitability, and in private companies, the CEO's compensation is significantly related to changes in shareholders' wealth. Doucouliagos, et al., (2007) show no significant relationship in this regard in the short run. However, when data are delayed for two years, there is a distinct relationship between the board's compensation and earnings per share of equity returns. In addition to performance-based compensation for CEOs, their study also finds that management policies, bank management, and manager ownership also affect the pay levels. Zhu, et al., (2009) argue a significant relationship between CEOs' pay and the day-to-day performance that a large proportion of independent directors serve on the board. This relationship is evident in companies having a compensation committee. Cao, et al., (2011) positively impact shareholders' controlling role in the relationship between managers' salaries and firms' performance. Jabbari, et al., (2013) indicate a significant relationship between agency costs and firm performance, which confirmed the agency theory in the Iranian business environment. Yaser (2015) shows that board performance adds value to the companies. They also show that board compensation is positively correlated with a corporate governance structure and companies' performance. Bianchi & Chen

(2015), examining the relationship between compensation and performance, show that by employing incremental earnings management policies, the level of conditional conservatism in firms decreases, resulting in lower earnings accuracy in these companies. Kazan (2016), studying the effect of managers' compensation on a firm's performance, shows that accrual items improve accounting profits' effectiveness in equity valuation and contracting with creditors and managers. This effect is met by improving temporary changes in operating and free cash flows. Raithatha & Komera (2016) show that performance metrics in managers' compensation plans are based on accruals rather than cash. These results illustrate the beneficial role of accrual profits inefficiency of contract and alleviating ownership problems between owner and manager. Razali, et al., (2018) show a significant positive relationship between firm size and managers' compensation with firm performance. Ejaz, et al., (2019) prove that the paying plan is associated with agency costs. Also, paying the board of directors increases market performance.

Banayi, et al., (2017) show that remuneration is less consistent with earnings accuracy dimensions. It means managers' opportunistic motivations to manipulate earnings to achieve their self-interest have not received enough attention. Salehi, et al., (2018) indicate a significant and positive relationship between board compensation and disclosure quality in firms with complex activities and foreign sales. Finally, we indicate that disclosure quality has no significant impact on compensation in firms with the complex activity of controlling some subsidiaries. Vaez, et al., (2018) examine the effect of earnings accuracy dimensions on board compensation. The results show that profit margins play an active role in board directors' compensation, leading to compensation reduction. However, in companies with good and poor performance in the industry, this impact is negative and significant. Sung, et al., (2019) confirm that a firm's size in the previous year significantly increases the director compensation board in the current year, while the number of directors and the firm's capital expenditure significantly decrease it. Walters, et al., (2019) propose that CEO centrality is associated with lower firm performance. However, executive chairman centrality is found to mitigate the deleterious effect of CEO centrality on firm performance. These findings suggest that board chair centrality may serve as a positive governance mechanism when chairman and shareholder interests are aligned; chair centrality reduces information asymmetries between stakeholders and helps foster collaborative leadership.

The Return on Asset Ratio and Board of Directors' Compensation

One of the main procedures to compare a company's financial performance with its competitors is the Return On Asset (ROA) ratio. Such a ratio shows how effective management has been in converting assets to profit (Yalcin et al., 2012). The ROA ratio also reflects how efficiently and effectively managers have used the companies' assets. The low ROA ratio indicates poor management performance and existing agency problems. In order to sort out these problems, paying bonuses to directors, as part of their compensation, plays a significant role in increasing the wealth of shareholders and the desirability of directors and shareholders. To create incentives in managers, making an efficient and effective contract in terms of compensation, causes them to put their abilities and knowledge to increase shareholders' wealth and maximize companies' value. However, if they are remunerated based on accounting revenue, they may attempt to improve accounting numbers to improve their performance since most CEOs' remuneration is salary-based (Godfrey et al., 2006). Therefore, a relationship between managers' remuneration and firm performance (based on accounting criteria such as ROA is highly expected. As a result of remuneration plans, managers tend to take action in line with the shareholders' benefit; otherwise, the firms' and their managers' value will be decreased in the labor market. Sanjai & Bolton (2019) find that director stock ownership is positively related to

future corporate performance. They also find that bank director stock ownership is positively related to future bank performance, and bank director stock ownership is negatively related to future bank risk, both prior to and during the financial crisis.

Taken together, according to the discussions as mentioned earlier, the first set of the hypothesis is conducted as follow:

H1a: The greater ROA ratio plays an increasing role in the board of directors' compensation

H1b: The greater ROA ratio plays an increasing role in the board of directors' compensation in peer companies

The Return on Equity Ratio and Board of Directors' Compensation

Theoretically, the agency theory suggests that there may be a stark contrast between shareholders' and managers' motivation. In this case, hiring non-executive directors can reduce agency conflict, leading to less information asymmetry. Performance appraisal policies are considered a prerequisite for resource allocation and comparison between forecast and actual amounts. The executive managers are shareholders' representatives and manage the company for personal benefit and shareholders' wealth maximization. Therefore, companies need to ensure that compensating policies are implemented to motivate their employees, make decisions, and take actions in line with shareholders' benefit. However, it has been widely acknowledged that the relationship between firm performance and board of directors' compensation is partially weak. This means that executives still are paid a large amount of compensation, regardless of their firm's performance (Kirsten and Toit, 2017). Therefore, the board of directors' compensation is expected to be associated with the return on equity (ROE). According to the discussion, as mentioned earlier, the second set of the hypothesis is conducted as follow:

H2a: The greater ROE ratio plays an increasing role in the board of directors' compensation

H2b: The greater ROE ratio plays a growing role on the board of directors' compensation in peer companies

METHODOLOGY AND RESEARCH DESIGN

Sample Selection

The paper's sample includes 723 firm-year listed on the Tehran stock exchange market. The exclusive features are (1) companies that are not sub-industry of the financial intermediation, holding, and banks industries. This is because such companies differ in terms of the nature of the activities and the classification of items of financial statements in comparison with other companies; (2) the stock trading of companies should not be completely stopped during the research period; (3) Companies have been listed on Tehran Stock Exchange since the beginning of 2004; and (4) All required research data for those companies will be available and during the research period. Furthermore, the justification for the chosen period is data availability.

Statistical Models

This study's dependent variable is "board of directors' compensation," calculated through the natural logarithm of board compensation disclosed in notes to the financial statements. In terms of objective, this research is developmental and is considered in the realm of descriptive-regression research. Firstly, the required data are collected through the Tehran stock exchange

market official website and organized with Excel software, and the organized data and a regression model are tested with R statistical software. Secondly, having collected the data and model determination, the data are grouped into panel data, and then the F-limer test is used to determine the data consolidation or the model of fixed effects. Thus, if this test's probability is less than 5%, the appropriate model would be the fixed effect. The Hausman test is also used to determine the Fixed or Random-effects model. If the probability of the Hausman test is less than 5%, the model will be estimated using the fixed effects. Finally, the hypotheses are examined with the proper model.

The main independent variables of this research are ROA and ROE. Other variables of research, including firm size, financial leverage, are also considered as control variables. The following model is applied to test the hypotheses:

$$\begin{aligned} Pay_{i;t} = & \gamma_0 + \gamma_1 * FirmPerf(ROA)_{i;t} + \gamma_2 * PeerPerf(ROA)_{i;t} + \gamma_1 \\ & * FirmPerf(ROE)_{i;t} + \gamma_2 * PeerPerf(ROE)_{i;t} + \sum_{k=1}^K \lambda_k * Controls_{ikt} \\ & + \mu_{i;t} \end{aligned}$$

Variables Definition

Dependent Variable

Board of directors' compensation (Pay): is calculated by the natural logarithm of the board of directors' compensation disclosed in notes to the financial statements for firm *i* in fiscal year *t*.

Independent Variables

Return on asset (FirmPerf(ROA)): is calculated by the proportion of net income to total assets for firm *i* in fiscal year *t*.

Peer return on asset (PeerPerf(ROA)): is calculated by the mean ROA of selected peer firms for firm *i* in fiscal year *t*.

Return on equity (FirmPerf(ROE)): is calculated by the proportion of net income to shareholders' equity for firm *i* in fiscal year *t*

Peer return on equity (PeerPerf(ROE)): is calculated by the mean ROE of selected peer firms for firm *i* in fiscal year *t*.

Control Variables

Size: is the proxy of firm size, calculated by the natural logarithm of total assets

Leverage: is the financial leverage, calculated by the proportion of long term debts to total assets

Note: both ROA and ROE are the main proxies for firm performances (FirmPerf). Moreover, the industry index is taken into account to select peer firms. The empirical model is employed by prior studies, including Nam, et al., (2016), and all other variables are common measurements in accounting literature and have a wide range of applications.

RESULTS

Descriptive Statistics

The descriptive results are presented in Table 1.

Variables	Min	Max	Mean	Std. Dev
Pay	0	9/0525	5/502	2/7901
ROA	-4/384	3/205	0/2411	0/5467
Peer ROA	-1/382	1/925	0/2410	0/2703
ROE	-1/1	1/097	0/0790	0/1841
Peer ROE	-0/298	1/097	0/0790	0/1162
SIZE	10/1665	19/1714	14/0455	1/4843
LEV	0/0658	5/5586	0/6818	0/4085

To test the hypotheses of linear regression models, the single root test results using the Lagrangian coefficient test indicate that the level for all variables is less than 1%. The variance swelling test is applied to test the existence of linearity in descriptive variables. If the maximum variance swelling factor is greater than 10, it indicates linearity between the independent variables. This test indicates that the VIF value is less than 10 for all independent variables. Therefore, there is no problem with linearity in regression. Also, the Durbin Watson test results for the absence of self-correlation in the models indicate that the statistical value of this test is between 2 and 1.5, so the assumption of non-correlation is confirmed. As is reported in Table 2, at the level of 5%, the F-limer test result suggests that the fixed effects method must be used between OLS and fixed effect methods. Having performed the F-limer test, the Hasman test is applied. This test seeks to select the preferred model between random and fixed-effect models, and for this purpose, if the hypothesis H0 is rejected, the random-effects model will be selected. As is reported in Table 2, the p-value of the Hausman test is less than 5%, indicating the rejection of the H0 hypothesis, or in other words, the preferentiality of the fixed-effects model.

Tests	H0	H1	F-statistic	Degree of freedom	p-value	Results
F-limer	preferential of OLS model	preferential of fixed effect model	31/83	97	<001/0	acceptance of fixed effect model
Hausman	preferential of random effect model	preferential of fixed effect model	31/50	7	<001/0	acceptance of fixed effect model

Empirical Results

Variable	t-statistic	p-value
INTERCEPT	9/2728	0/0000
ROA	0/0092	0/0000

PeerperfROA	3/0187	0/070
ROE	-0/0107	0/0000
PeerperfROE	0/0219	0/0000
SIZE	0/3081	0/0000
LEV	-0/0035	0/004

Considering the presented results in Table 3, it is suggested that ROA is positively associated with director boards' compensation. It means that companies that experience a greater return tend to pay more compensation to their managers. Moreover, the results demonstrate that the peer firms' ROA is positively incorporated with board members' compensation, meaning the peer firm's performance is taken into account to determine the board compensation, in a way that by increasing 0/01 in peer firms ROA, the compensation will be increased 0/0092. In this regard, Ejaz, et al., (2019); Razali, et al., (2018); Nam (2016) report similar findings.

Further analyses suggest that ROE is negatively associated with boards' compensation, implying the deterioration of the return on equity ratio in determining compensation. However, such a variable (ROE) of peer firms, in line with Nam's (2016) findings, is positively associated with boards' compensation.

In line with Razali, et al., (2018) findings, the results of control variables show that firm size is positively associated with boards' compensation. Proposing, larger companies are more likely to pay greater compensation to their managers. In contrast, financial leverage is negatively associated with boards' compensation. Such findings also recommend that a greater amount of debt negatively affects the compensation determinant.

CONCLUSION

The agency theory's underlying background suggests that there has always been an interesting conflict between firms' directors and owners. It is important to note that direct supervision of owners and shareholders in evaluating companies' performance is impossible. Therefore, the shareholders seek to establish a supervisory mechanism to maintain the owners' interest and have efficient control over the directors' performance. The existing literature, provided by a wide range of investigations, proposes several mechanisms to alleviate such a problem, such as monitoring policies, standard settings, and managerial incentives. It is suggested that proposing incentives such as salary, compensation, remuneration; obligatory stock ownership are employed mainly by owners. Agency theory also states that allocating compensation to managers creates a balance between managers' and owners' interests. The knock-on issue arises from the way of determining an efficient compensation. In this sense, this paper examines the role of accounting outcomes reported in financial statements efficiently allocating directors' compensation by considering peer firms' performances.

As a performance measurement suggested by existing literature, the paper finds that the ROA of individual firms plays a significant role in positively determining the board of directors' compensation. It means that owners interpret greater ROA as a positive signal, which increases directors' compensation. We also find a negative relationship between ROE and the level of directors' compensation. Further analyses also demonstrate that equity owners also consider ROA and ROE of peer firms to determine firms' director compensation due to the positive association between these variables and paid compensations to directors.

This paper provides several implications for directors, equity owners, and generally for society. Considering the results of this paper, directors can increase their compensation by improving firms' performance. Equity owners may establish more accurate and effective criteria

for determining directors' compensation considering peer firms' output. The paper's findings may benefit the social awareness in that all the companies in an industry have interaction effects on each other; specifically, their peer firms may undertake their performances. Such an issue may provide competitive advantages for individual firms.

There are several suggestions for future studies based on our findings. Future researchers can investigate the comparability of directors' compensation among peer firms as a determining factor in directors' compensation. They can also employ other measurements for firms' performance, such as economic and social profits.

ACKNOWLEDGEMENT

Corresponding author: Mahdi Salehi, Ferdowsi University of Mashhad, Mashhad, Iran. **Co-authors:** Balal Abbasi, Shahrood Branch, Islamic Azad University, Shahrood, Iran; Mohammadreza Abdoli, Shahrood Branch, Islamic Azad University, Shahrood, Iran.

REFERENCES

- Anand, S.D., Fatemi, A., & Katz, J.P. (2003). "Wealth Creation and Managerial Pay: MVA and EVA as Determinates of Executive Compensation". *Global Finance Journal*, 179-159.
- Bebchuk, L.A., & Fried, J.M. (2003). Executive compensation as an agency problem. *The Journal of Economic Perspectives*, 17(3), 71-92.
- Bianchi, G. and Chen, Y. (2015). "CEO Compensation and the Performance of Firms in the Hospitality Industry: a Cross-industry Comparison". *International Journal of Tourism Sciences*, 15(3-4), 121-138.
- Boshkoska, M. (2015). 'The agency problem: Measures for its overcoming'. *International Journal of Business and Management*, 10(1), 204–209.
- Bryant, P., & Davis, C. (2012). 'Regulated change effects on boards of directors: A look at agency theory and resource dependency theory'. *Academy of Strategic Management Journal*, 11(2), 1.
- Cao, J., Pan, X., & Tian, G. (2011). Disproportional ownership structure and pay-performance relationship: Evidence from China's listed firms. *Journal of Corporate Finance*, 17, 541-554.
- De Wet, J. (2013). 'Executive compensation and the EVA and MVA performance of South African listed companies'. *Southern African Business Review*, 16(3), 57–80.
- Doucouliaagos, H., Haman, J., & Askary, S. (2007). Directors' remuneration and performance in Australian banking. *Corporate Governance: An International Review*, 15(6), 1363-1383.
- Dyl, E.A., (1988). 'Corporate control and management compensation: Evidence on the agency problem'. *Managerial and Decision Economics*, 9(1), 21–25.
- Ejaz, A., Haron, R., & Tahir, M. (2019). How director remuneration impacts firm performance: An empirical analysis of executive director remuneration in Pakistan. *Borsa Istanbul Review*, 19(2), 186-196.
- Fahlenbrach, R., & Stulz, R.M., (2011). 'Bank CEO Incentives and the credit crises. *Journal of Financial Economics*, 99(1), 11–26.
- Firth, M., Fung, P.M.Y., & Rui, O.M. (2006). Corporate performance and CEO compensation in China. *Journal of Corporate Finance*, 12(4), 693-714.
- Frydman, C., & Saks, R.E. (2010). 'Executive compensation: A new view from a long-term perspective, 1936–2005'. *The Review of Financial Studies*, 23(5), 2099–2138.
- Gill, D., Prowse, V.L., & Vlassopoulos, M., (2012). 'Cheating in the workplace: An experimental study of the impact of bonuses and productivity'. *Journal of Economic Behavior & Organization*, 96., 120-134.
- Godfrey, J., Hodgson, A., Holmes, S., & Tarca, A. (2006). *Accounting Theory. (6th Edition)*, John Wiley, Australia.
- Holm, C., & Zaman, M. (2012). Regulating audit quality: Restoring trust and legitimacy. *Accounting Forum*, 36(1), 51-61.
- IoDSA. (2016). King IV report on corporate governance for South Africa. Johannesburg.
- Jabbary, H., Hajiha, Z., & Hassanpour, L.R. (2013). Investigation of the effect of agency costs on firm performance of listed firms in tehran stock exchange. *European Online Journal of Natural and Social Sciences*, 2(3), 771-776.
- Jensen, M. C., & Murphy, K. J. (1990). Performance pay and top-management incentives. *Journal of Political Economy*, 98(2), 225-264.

- Jensen, M.C., & Meckling, W.H. (1976). 'Theory of the firm: Managerial behavior, agency costs and ownership structure'. *Journal of Financial Economics*, 3(4), 305–360.
- Kazan, E. (2016). "The impact of CEO compensation on firm performance in Scandinavia". University of Twente. *IBA Bachelor Thesis Conference, University of Twente, Management and Social Sciences*, 10 (November), pp. 1-10.
- Kent, P., Kercher, K., & Routledge, J. (2018). Remuneration committees, shareholder dissent on CEO pay and the CEO pay performance link. *Accounting and Finance*, 58(2), 445-475.
- Kirsten, E., & Toit, E. (2017). The relationship between remuneration and financial performance for companies listed on the Johannesburg Stock Exchange. *Journal of Economic and Management Sciences*, 21(1), 1-10.
- Krolick, D.L. (2005). The relevance of financial statement information for executive performance evaluation: evidence from choice of bonus plan accounting performance measures. *The International Journal of Accounting*, 40(2), 115-132.
- Lobo, Gerald J. and Neel, Michael J. and Rhodes, Adrienne, (2018). Accounting Comparability and Relative Performance Evaluation in CEO Compensation.
- Merhebi, R., Pattenden, K., Swan, P. L., & Zhou, X. (2006). Australian chief executive officer remuneration: Pay and performance. *Accounting and Finance*, 46(3), 481-497.
- Monem, R., & Ng, C. (2013). Australia's 'two-strikes' rule and the pay performance link: Are shareholders judicious? *Journal of Contemporary Accounting and Economics*, 9(2), 237-254.
- Nam, J. (2016). Financial reporting comparability and relative performance evaluation. Retrieved from the University of Minnesota Digital Conservancy.
- Perry, T., & Zenner, M. (2001). Pay for performance? Government regulation and the structure of compensation contracts. *Journal of Financial Economics*, 62(3), 453-488.
- Raithatha, M., & Komera, S. (2016). Executive compensation and firm performance: Evidence from Indian firms. *IIMB Management Review*, 28(3), 160-169.
- Razali, M. Yee, N., Hwang, J., & Tak, A. (2018). Directors' Remuneration and Firm's Performance: A Study on Malaysian Listed Firm under Consumer Product Industry. *International Business Research*; 11(5), 101-109.
- Roberts, J. (2005). "Agency thence, ethics and corporate governance". *Advancing Business Review*, 11, 249-269.
- Salehi, M., Jamalikazemini, B., & Farhangdoust, S. (2018). Board compensation and disclosure quality: Corporate governance interference. *Contaduría y administración*.
- Sanjai, B., & Brian, B. (2019). Corporate governance and firm performance: The sequel. *Journal of Corporate Finance*, 58, 142-168.
- Shao, R., Chen, C., & Mao, X. (2012). Profits and losses from changes in fair value, executive cash compensation and managerial power: Evidence from A-share listed companies in China. *China Journal of Accounting Research*, 5(4), 269-292.
- Sung, G.M., Soyoon, P., Linda, W., & Sangwon, P. (2019). Is board of director compensation excessive in restaurant firms? *International Journal of Hospitality Management*, 82, 149-158. Crossref, GoogleScholar, Indexed at
- Villalonga, B., & Amit, R. (2006). How do family ownership, control and management affect firm value? *Journal of Financial Economics*, 80(2), 385-417.
- Walters, Bruce A.; McCumber, William. (2019). Network Centrality and Firm Performance in Separate Board Leadership Structures. *Journal of Managerial Issues*, 31(1), 46-64.
- Wilkinson, M., (2009). 'Sharing the gains'. *Charter*, 80(3), 38–41.
- Yalcin, N., Bayrakderaglu, A., & Kahraman, C. (2012). Application of fuzzy multi-criteria decision making methods for financial performance evaluation of Turkish manufacturing industries. *Expert Systems with Applications*, Vol. 39, pp. 350-364.
- Yaser A. (2015). CEO compensation, firm performance and corporate governance: An empirical investigation of Saudi Arabian companies. *MAGNT Research Report*, 3(6).
- Yatim, P. (2010). Director's remuneration and corporate governance in Malaysia. Universiti Kebangsaan Malaysia.
- Zhu, Y, Tian, G.G., & Ma, S. (2009). Executive compensation, board characteristics and firm performance in China: The impact of compensation committee. *22nd Australasian Finance and Banking Conference (2009: 1-48)*. Sydney, Australia: Social Science Electronic Publishing, Inc.

Received: 29-Apr-2022, Manuscript No. aafsj-22-11448; **Editor assigned:** 02-May-2022; PreQC No. aafsj-22-11448(PQ); **Reviewed:** 14-May-2022, QC No. aafsj-22-11448; **Revised:** 21-May-2022, Manuscript No. aafsj-22-11448(R); **Published:** 10-Jun-2022