

Board Structure and CEO's Compensation in Pakistan

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Abstract

Here we examine the relationship between board structure (non-executive directors, executive directors and independent non-executive directors) and CEO compensation, in the context of an emerging and developing economy of Pakistan in the year 2009. Most of the previous studies that have addressed board structure and CEO compensation are based in developed economies, whereas this study focuses on the developing and emerging economy of Pakistan, which is therefore likely to make a useful contribution to the literature. The study included data from 86 listed firms of the Lahore stock exchange. The findings show that board size and percentage of independent non-executive directors have a negative relation but insignificant effect upon CEO compensation. Other variables, such as percentage of non-executive directors and percentage of executive directors, had a positive relation but these variables also did not significantly affect CEO compensation in Pakistani companies. Given the majority of firms in Pakistan are family-owned, we propose that family CEOs are likely to have power over the selection of board members, and also that the CEO, as well as the management of the firm, hold accurate information about the business. Therefore, there is an absence of an agency problem between the CEO and the board, which is responsible for reducing the independence of the board.

Key words: CEO compensation, board size, Independent non-executive directors, Non-executive directors, executive directors.

Introduction

The compensation of chief executive officers (CEOs) is a matter of considerable interest to both academics and practitioners. A great number of papers have examined factors that can affect the level of executive compensation (Cole & Mehran 2008). CEOs are the most influential employees. They have the distinct ability to create or destroy the value of the company (Ueng, 2000). To align the interests of the CEO with the company's interests, the most salient thing for a firm is to focus on the CEO's performance. For monitoring purposes, the Board of directors is responsible for overseeing the CEO because better control, such as smart governance and appropriate compensation of the CEO, can push the CEO to perform in the best interest of the shareholders and improve the performance of the firm (Boyd, 1994). However, the topic of executive pay is still a part of immense controversy. Many critics argue that executives receive higher pay than other employees. Others argue that the pay does not reflect the performance. Still others argue that CEOs take advantage of their position to influence the board for higher compensation (Lewellen, 1970). Since board members are responsible for determining the CEO's compensation, it is possible for a CEO to exert influence over the board members. All of these issues are still the part of contemporary debates in the literature regarding CEO compensation.

As proof, a number of articles are accessible in large, well-known international newspapers like the Financial Times and journals like The Economist, which inspect the increasing differences between CEO pay and common employee pay. They also shed light on some big scandals in the international economy over the last 6-7 years. We are talking specifically about the Enron and WorldCom in USA and Parmalat in Italy in 2001 and 2002. The causes of these scandals were complex to find, but the management of companies and

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poor corporate governance were regarded as some of the main reasons for the collapse of WorldCom and Parmalat (Economist, 2007). It shows that leadership and corporate governance not only improve performance but can also crumble large public companies. So in this way poor corporate governance, due to lack of control and monitoring, can lead the management to seek its own interests rather than the company's interests (Fama & Jensen, 1983). On the other hand, with exemplary corporate governance companies can reach the top of the performance ladder. "Corporate governance leads to the basic idea, which refers to the system by which companies are directed and controlled, focusing on the responsibilities of directors and managers for setting strategic aims, establishing financial and other policies and overseeing their implementation, and accounting to shareholders for performance and activities of the company with the objective of enhancing its business performance and conformance with the laws, rules and practices of corporate governance" (SECP, 2002). The primary responsibility for the administration and performance of a company lies with its directors and CEO (Core et al., 1999). The prosperity of the firm depends upon the well-aligned interests of the CEO and the shareholders, and it is the responsibility of the board to align the CEO and shareholders to achieve the expected performance (Murphy, 1998). The Board of directors merges the interest of both parties through appropriate pay packages to the CEO (Bebchuk & Fried, 2003). The decision about the CEO's compensation, which is the responsibility of the board of directors, can impact the performance of the firm in two ways. The first type of impact may be in the favor of the shareholder by generating more profit for the firm and secondly one of the most exasperating things to shareholders and the public is when a CEO receives millions or tens of millions of dollars of compensation regardless of performance (Murphy, 2002).

As mentioned in previous articles, in non-family-owned firms the CEO usually receives more pay than in family-owned firms due to the existence of principal-agent relationship between the CEO and the shareholders. So CEOs from family-owned firms receive less pay as compared to those in non-family-owned firms (Gomez-Mejia, Larraza-Kintana, & Makri, 2003). Due to the non-existence of agency problems in family-owned firms, CEOs concentrate on the firm's profitability, not on his pay, and if the firm will be profitable, then the CEO and his family will also earn the profit (Miller & Le Breton-Miller, 2006). Family-owned firms may also have a family board member, and due to the majority of board members being from the family, outside directors cannot make decisions independently due to their minority position in the board room. So the relationship between the board composition and the level of CEO compensation is confusing in this present setting, and it may be that family-owned firms represent the agency relation between the boards and the CEO or it may not.

Previous studies on the impact of corporate governance on executive compensation are mainly focused on developed countries, especially the United States. There are relatively few studies covering continental Asia and specifically South Asian countries. In the case of Pakistan, we can find several studies on corporate governance, but these studies are not specifically targeted at matters such as CEO compensation (Nishat 1991, 2004, Rida Zaidi, 2006). Pakistan's corporate governance system is also influenced by the USA and the UK. So maybe in the case of Pakistan, we will get the same results like the USA or the UK and maybe due to the fact that the majority of firms in Pakistan are family-owned we can get dissimilar results from the developed countries. The purpose of this study is to fill this gap by examining the impact of board structures on compensation of Chief Executive Officers in publicly-listed firms of Pakistan.

In previous studies about CEO compensation and board structure in developed countries, it is mentioned by several authors that the composition of the board affects the CEO compensation level. Studies also show different results from each other. While some

researchers found a positive and significant correlation between the level of CEO compensation and the board size such as (Main, 1991, Ozkan, 2007, Core et al., 1999), others like Yermack (1996), Cyert (2002) found a significant negative relationship between the board size and the level of CEO compensation (Yermack, 1996, Cyert, 2002). Still other studies found no significant relationship between the board size and the level of CEO compensation (Mangel and Singh, 1993). In the case of board composition, mostly researchers present a positive relationship between the percentage of non-executive directors on the board and the level of CEO compensation (Main, 1991, Mangel and Singh, 1993, Cyert, 2002, Ozkan, 2007) and a few of them are also proponents of no significant relationship (Core et al., 1999, Hallock, 1997). Therefore, previous findings on the board structure are varied and typically these studies are in the developed world, specifically in the USA and the UK. Pakistan's corporate governance system is also influenced by the USA and the UK so maybe in case of Pakistan, we will get the same results like the USA or the UK and maybe we can get different results than the developed countries because the majority of firms are family firms in Pakistan.

Despite the importance of this issue, there is only limited empirical evidence relating executive pay to the structure of the board. This thesis will contribute to the literature by examining the impact of the board structure on executive cash compensation in Pakistan. It will be interesting to see whether and how the relationship between board structure and CEO compensation differs in the developing and emerging economy of Pakistan, which has a different legal and institutional framework as compared to developed countries.

Agency theory

The question and challenge in agent theory is how to align the interest of the self-centered, utility-maximizing, risk averse CEO with the principal (shareholder) interest. An assumption of agent theory is that people want to avoid both effort and risk. One must therefore structure the incentive systems that encourage CEO to put effort. This can be done through a balance between monitoring and compensation. If the principal can easily monitor the agent, it will be most beneficial with a fixed basic salary. In situations of asymmetric information and difficulties of monitoring, one had to use incentive-based pay to ensure that the agent is the principal interests (Bloom, 1998). Shareholders meet at least three problems in the attempt to reduce agency costs. First, owners who are not present problems to control and monitor CEO's rush into it. Furthermore, the CEO knows more about the organizational processes and decisions that must be taken, rather than shareholders. Finally, a CEO in a position where they can exploit organizational resources to follow self-interest is not necessarily in conformity with the owners (Canyon, 1997). Agency theory argues that the major role of board is to reduce the potential divergence of interest between the stockholders and CEO, minimize agency cost and protect stockholders investments (K. M. Eisenhardt, 1989).

Even though shareholders do not solve the agency problem with the help of board because board is himself the agent of the share holder, may be board have the conflict of interest with the share holders. This conflict of interests is understandable in case of executive directors because of their career dependency upon the CEO. Even though for non executive directors, may be in lesser extent, because they have to depend upon CEO for inside information and some other confidential matters. In practice, the CEO almost always recommends the members for the board. Thus, potentially, even outside directors are more aligned to management's interests than to the shareholders (Shleifer & Vishny, 1997). To mitigate the agency problems, principals have to incur an agency cost, and compensation design can help them to control and reduce agency problems and co-align the preferences between the parties.

Literature Review

Corporate governance structure, methods and law varies from country to country. Major corporate governance discrepancy between countries is unitary or dual board structure, depending on the country and this difference in structure have ambient effect on CEO compensation level (Ozkan, 2007). According to Conyon and Simon (1998) they examined the role of board control and remuneration committees in determining CEO compensation by using the panel data from the public listed firms of UK from year 1991 to 1994 and They used the variables like Percentage of nonexecutive directors on a board, the presence of remuneration committees and CEO duality as board monitoring measures. They found that all these variables had only a limited, not significant effect on the level of CEO compensation (Conyon & Simon, 1998). Opposite to results that we mostly have from developed countries about the insider director's effects upon the CEO compensation was found in India. Ramasawamy found that Percentage of insider directors don't have significant effect on CEO compensation in family-owned firms but in case of non-family organizations insider director can significantly affect the CEO compensation level (Ramaswamy, 2000) Neslihan Ozkan (2007) in his study based upon UK listed firms illustrate that firms with larger board size and a higher Percentage of independent directors have positive and significant affect on CEO compensation level (Ozkan, 2007). With reference to the study conducted by Nuno Fernandes (2008) about Portuguese Stock, they found positive and significant association between the non executive directors and CEO compensation level and an interesting finding is that if firm don't have the non executive directors in board then firm faces the less problems and firm can converge the interest of shareholders and CEO in more better way (Fernandes, 2008). A study conducted by Chhaochharia and Grinstein (2009) about CEO Compensation and Board Structure in USA predicted that as Percentage of non executive directors increases in cause a decrease in CEO pay (Chhaochharia & Grinstein, 2009). Another study of Brian k. Boyd (1994) explains about the board control and CEO compensation. They used the data of 193 firms in a cross section of industries. They found that boards of directors are playing the key role in deciding about the CEO compensation. They arrived at the same result that CEO compensations is contrary to level of control (Boyd, 1994).

Guest (2009) used the panel data analysis for 1,880 UK public firms over 1983-2002 to examine the effect of board structure on executive pay. They found that Percentage of nonexecutive directors have significant negative relation with the level of executive pay whilst board size showed the positive significant relation with CEO compensation. Finally, when firms that increase the number of non-executives directors they examined that a decline in the rate of increase in executive pay (Guest, 2009). Nicolai Knop and Gerard Mertens (2010) investigate the relation between ownership and board structure with CEO compensation level. They analyzed the data of 75 largest Dutch firms for the period of 2006 to 2008. Specifically in case of board characteristics they found that larger advisory board have positive effect on CEO compensation level, more members in board results the more salary for CEO and less effective for the shareholders (Gerard Mertens, 2010).

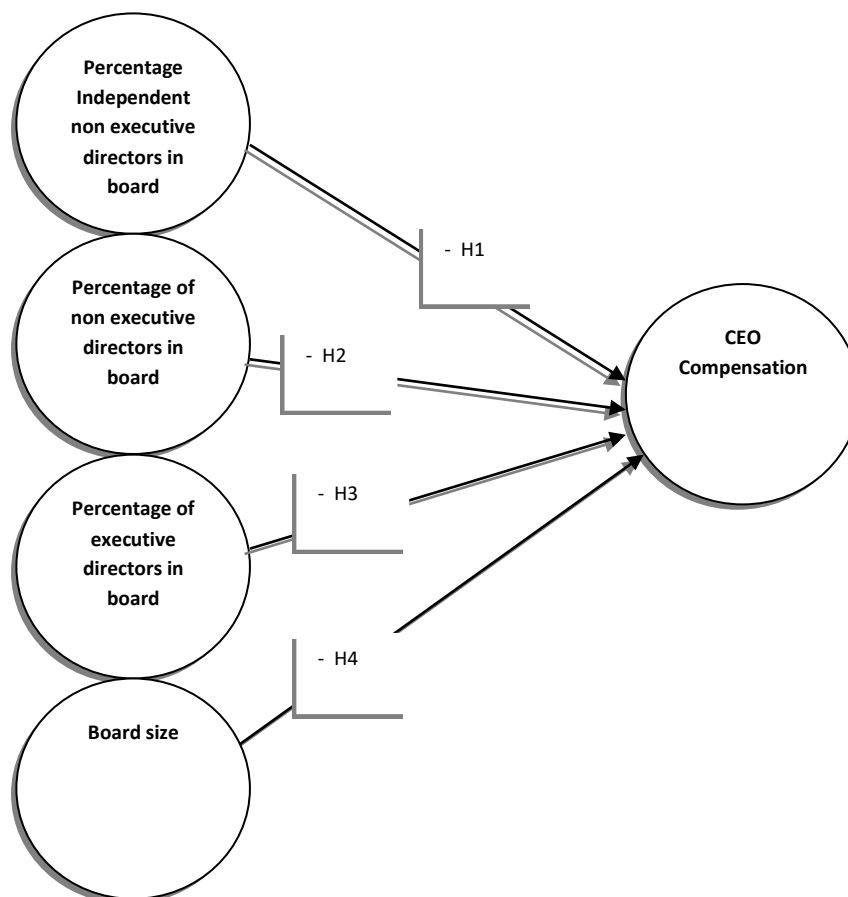
A study about the Influence of Non-executive Director Control and Rewards on CEO Remuneration conducted by (Evans & Evans). They investigate the relation between non-executive director control and remuneration effect on the CEO compensation decision. They found that the variable non executive director control don't have a significant impact upon the determination of CEO pay levels. Secondly they found a significant relation between non executive director's remuneration and CEO compensation and they found positive relation between these variables. It means that Non executive director pay increases in line with CEO cash pay (Evans & Evans).

Conceptual Framework

Overall literature review gives us the mixed results. So, on the basis of literature, review we cannot say what will be in our case. Another point to be noted that mostly these studies are in developed countries, only one case is from India that is developing and emerging economy but Indian corporate governance is almost like USA and UK. Board structure and CEO compensation relation in India are no quite different from USA and UK. Pakistan corporate governance system is also influenced by USA and UK so may be in case of Pakistan we will get the same results like India, USA or UK and may be due to majority of family firms in Pakistan we can get dissimilar results from the developed countries. Finally Literature review will help us to understand the relation between board structure and CEO compensation this will further help us to find the cause and effect relation between board and CEO compensation in Pakistan.

This conceptual framework consists of four independent variables, one dependent variable and also shows the control variables of this study.

Figure 1 Conceptual Framework: Research hypothesis



As indicated by previous research work on inside and outside directors by Linck et al. (2008) if firms have more outsiders in board then CEO has greater influence over the board(Linck, Netter, & Yang, 2008). It means the independent boards are positively related to CEO pay because if CEO has greater influence then CEO can influence for high compensation. On the other hand, according to Chhaochharia and Grin-stein (2009) there is negative relation between CEO compensation and Percentage of independent directors in board. According to agency theory, we have to accept this relation because independent

executive directors have independent monitoring role so this control can decrease the level of CEO compensation. On the basis of previous literature and theory I can construct the hypothesis and ensure it, whether it is true for Pakistan?

H1: There is a negative relationship between Percentage of independent non executive directors and CEO compensation.

In Pakistan, mostly listed firm are family firms. According to Rida Zaidi (2006) almost 60 percent firms are family firms in Pakistan (Rida Zaidi, 2006). In family firms non executive directors are mostly belonged to the owned family. According to agency theory, principal and agent benefits are well aligned in family firms. It means CEO will not struggle for his own compensation rather this CEO will try for the long term benefits of the firm (Gomez-Mejia, et al., 2003). It means agency theory proposed the negative relation between non executive directors and CEO compensation. On the other side in non family firms non executive directors have the role of monitor and controller which is not in favor of CEO compensation level (K. M. Eisenhardt, 1989). This also shows the negativity between non executive directors and CEO compensation. Hence we can construct the following hypothesis and investigate further in Pakistan.

H2: There is a negative relation between Percentage of non-executive directors in board and CEO compensation

Secondly, executive directors are insiders they have all the information about the firm financial and other affairs so on the basis of information that they can monitor and control the CEO compensation affairs much better than outside directors. It means CEO compensation have negative relation with inside directors. But according to Chhaochharia and Grinstein, (2009) executive directors are the part of the CEO team and their decisions are influenced by the CEO. Due to this relation they have lack of control upon CEO compensation matters. It means executive directors have positive relation with the CEO compensation level. On the perspective of agency theory as there is agent and principal relation between the executive directors so with reference to agency theory there must be negative relation between Percentage of executive directors and CEO compensation. So I will use the hypothesis that is proposed by the agency theory and investigates whether this hypothesis is true for Pakistan or not.

H3: There is a negative relation between Percentage of executive directors in board and CEO compensation

This is also suggested by the previous research that board size and CEO compensation have positive relations (Guest, 2009; Ozkan, 2007). It is expected that limiting board size is to improve firm performance but it is also documented that limiting the board size is call of improvement of corporate governance (Steven & Nina, 2008). Because by larger boards increased monitoring are over weighted by the poorer communication and decision-making. It is also verified by J.E.Core et al. (1999) the CEO compensation is an increasing function of board size (Core, Holthausen, & Larcker, 1999). Agency theory perspective is different as board size is increasing it means control level is also moving up and CEO compensation level must be decrease with increase in board size (Wienclaw, 2009).

H4: There is a negative relation between board size and CEO compensation

Methodology

This study is cross sectional study and following the descriptive design. So for this study we collected the data for year 2008 for all independent variables and CEO

compensation data for year 2009 from the same listed firms because mostly firms in Pakistan decide about the CEO compensation in previous year so that's why we are using the lag of one year to get the possible accurate results. We are using convenience sample for this study, Convenience sampling (sometimes known as grab or opportunity sampling) is a type of non-probability sampling. As we know, Data used for this research is secondary data, CEO compensation data is collected from the annual reports of listed firms in Lahore stock exchange. It was very difficult to collect data because data was scattered, some firms published their annual reports on their websites, and on the other hand, some firms don't have annual reports published on web sites. Due to these difficulties it was impossible to collect data of all the listed companies. The sample is a convenience sample of 120 listed firms at Lahore stock exchange Pakistan taken from the annual reports of the firms that are available at the websites of the specific companies and as well as at Lahore stock exchange website. Up to 34 firms were excluded because of their structure or incomplete data, leaving 86 firms minimum in the sample. The companies covered a wide range of industries and were classified here into thirteen industry groups chemical, textile, fertilizer, sugar, cement, glass, telecommunication technology, energy, engineering, food products and paper, financial institutes like commercial banks, Islamic banks, Modarbha companies and other financial institution those are involve in securities business are not included because of their different reporting and financial system. Thus, this sample is not a representative random sample, but is fairly large and covers a range of organizations and sizes, yielding variation.

A sequential regression is employed between the \ln CEO compensation as dependent variable and % independent non executive directors, % non executive directors, % of executive directors and board size as independent variable by controlling the firm performance, firm size and a dummy variable (industry). Result from the evaluation of assumption leads to transformation of the variables to reduce the skewness, reduce the number of outliers and improve the normality, linearity and homoscedasticity of residuals. A natural log transformation is used for the CEO compensation because of negatively skewed distribution. One variable % of executive directors are not transformed because before transformation it was negatively skewed but after transformation it was positively skewed. Other two variables % of non executive and board size are also log transformed. There are no cases of missing data and no suppressor variables are found. In visual inspection of the independent variables distribution is normal with some exceptional outliers. But some of these outliers are no more in existence after the transformation of some variables. we have checked all independent variable with multicollinearity diagnostic and it indicated the tolerance value of all variables are higher than .01 and VIF is lower than 10 see Appendix E In sequential regression we investigate the four models first model is with the variable board size and second with the board size and % independent non executive directors and third model with addition of % non executive directors and fourth one is with all independent. With sequential method we can separate the effect of control variables with independent variables and as well as we can investigate the each variable separately. Appendix A, B, E

Explanation of variables

Dependent variables

Total CEO Compensation: In Pakistan mostly firms show the total compensation of CEO in their annual reports. In annual reports, the data about stock option, bonus and other ingredients of compensation is not available for all the firms. For this reason, we are going to consider the total cash compensation as dependent variable.

Independent variables

Percentage of executive directors: in board from annual reports we can get the information about the number of executive directors in board and by dividing the executive

directors with total number of directors we can get the Percentage of executive directors in board.

Percentage of non executive in board: from annual reports we can also get the information about the number of non executive directors in board and by dividing the non executive directors with total number of directors we can get the Percentage of non executive directors in board.

Percentage of independent non executive in board: From annual reports we can also get the information about the number of non executive directors in board and by dividing the independent non executive directors with total number of directors we can get the Percentage of independent non executive directors in board.

Board size: All the listed firms are legally bound in Pakistan to present the exact number to their board members in their annual reports. So we can get the value of this variable from the annual reports easily.

Table 1 Definitions of variables

Variables	Definition
Executive compensation	Total compensation of CEO
Return on equity	Return on equity (PBT/share holder equity)
Board size	Number of directors on the board
Firm size	Proxy of net sales
Percentage of Executive directors in board	executive directors in board / board size *100
Percentage of non Executive directors in board	non executive directors in board / board size *100
Percentage of independent non Executive directors in board	independent non executive directors in board / board size *100
YEAR09	Equal 1 for year 2009
YEAR08	Equal 1 for year 2008
Chemical	Equal 1 for chemical industry
Textile	Equal 1 for textile industry
Fertilizer	Equal 1 for fertilizer industry
Sugar	Equal 1 for sugar industry
Cement	Equal 1 for cement industry
Glass	Equal 1 for glass industry
Telecommunication	Equal 1 for telecommunication industry
Technology	Equal 1 for technology industry
Energy	Equal 1 for energy industry
Engineering	Equal 1 for engineering industry
Food products	Equal 1 for food industry
Paper	Equal 1 for paper industry

Control variables

Firm performance: we will use the return on equity as proxy to firm performance. As described in many previous studies, we will calculate the return on equity for each year by dividing the annual profit before tax by year's end share holder's equity. One year lag will be used to maintain consistency with previous studies. It has been argued that board of directors

typically make pay decisions based on previous year company performance. Hence, the one year lag was considered appropriate.

Firm size: we will use the proxy of net sale as firm size. This approach has been used by many researches in previous studies.

Year: CEO compensation is vary across the year due to economic changes or many other factors etc. to reduce the effect of this variable on CEO compensation, we will control this variable. In this way we can get the reliable results without time effects.

Industry: we will use dummy variable for industry. Previous studies also have mentioned that across the industry CEO compensation is significantly differing. As this research is based upon the multi industry data then we have to control the effect of inter industry variation in CEO compensation.

sample.

Regression model

In this study we are using this model to analyze the CEO compensation and other board variables.

$$\begin{aligned} \ln(\text{CEO compensation})_t = & \alpha + \beta_1(\% \text{ of independent non executive directors})_{t-1} \\ & + \beta_2(\% \text{ of non executive directors})_{t-1} \\ & + \beta_3(\% \text{ of executive directors})_{t-1} \\ & + \beta_4(\text{board size})_{t-1} \end{aligned}$$

Analysis: Descriptive statistics

The sample of 86 listed firm is gathered from Lahore stock exchange of Pakistan about CEO compensation from the published annual reports of these firms. From descriptive statistic table we can see that the means values of CEO compensation is 8827573 in year 2008 and 7416167 in years 2009. We can find the decline in CEO compensation in year 2009, may be this decline is due to the recession in year 2009 or may be due to some other factors. In year 2008 minimum pay is 600000 that is also more than the minimum pay of year 2009. Maximum pay of CEO in 2009 is 235525000. It is also more than the year 2009. In case of board size mean board size is almost equal in both years in other words we can say no specific change in board size with time. If we observe the other variables like independent non executive directors, executive directors and non executive directors we can find that means values of these variables have just a slight change but no specific change. On the other hand minimum and maximum values of all other variables except CEO pay have constant same values in both years. On the basis of this information only CEO pay is under change process but other variables are non respondent of change over time. Further to examine the relationship among these variables we will conduct the correlation analysis and regression analysis.

Correlation and regression analysis

In table 6 we can see the correlation analysis between the five variables ln of CEO compensation, board size, percentage of independent non executive directors, non executive directors and executive directors. The relationship between ln CEO pay and % of independent directors in board was investigated using Pearson product moment correlation coefficient. Preliminary analysis is performed to ensure no violation of the assumptions of normality, linearity and homoscedasticity. Table shows that CEO pay have weak relation with % of independent directors in board with $r = 0.144$ $n = 86$ and other variables like % of nonexecutive director also show the weak relation with CEO pay with $r = 0.012$, % of executive directors also have the weak relation with CEO pay with $r = -.037$, but contrary to these all variables board size show the not a strong relation but medium relation with the CEO pay. With $r = -$

0.391. On the basis of correlation analyses we can say that only board size have respectable relation with CEO pay see Appendix F.

Board size helps to explain the variance in respond to CEO pay is 15.28%. Other variables are explain the variance, like % of independent non executive director 2.07%, % of non executive 0.01% and % executive directors 0.14 % . So board size is more useful as compare to other variables to explain the variance in respond to CEO pay.

In summary, CEO pay has positive and medium relation with board size which is also significant at 0.1 levels. Other variables like % of independent directors and % of non executive directors have weak positive and insignificant relation with CEO pay. % executive directors have negative but weak and insignificant relation with CEO pay. In short only one variable board size has positive and significant relation with CEO pay. So it means that as board size will increase CEO pay level will also increase see Appendix F.

Table 7 displays the results of regression, the standardized regression coefficient β , adjusted R^2 and value of F. In the first model, after the variables in block 1 (control variables) have been entered the overall model explains the 39.9 % of the variance. Model shows the significance of bivarite relationship between CEO compensation and board size by controlling the industry, firm size and firm performance variables $R^2= 42.4$ % explains the overall model variance. But board size only explain the variance that is shown in R^2 change that is $SR^2=.025$ and this change is not a significant change in sig. F change column see Appendix C,D,E.

We can see the value that is $p>0.05$. So there is no significant increase in prediction with the addition of board size variable in equation. In second model with addition of % independent non executive variables $R^2=.432$ which represent the change in $S R^2= .008$ as we can see in sig. F change column the $p>0.05$ so this change is also not a significant change. So the addition of this variable is also not helpful to predict about the CEO compensation level. Third model with % of non executive directors as addition variable also not successful to predict about CEO compensation level as we can see the $R^2=.432$ and $SR^2=.000$ it also shows that this change is not significant change as we can see the sig. F change value i.e. $p=.963>0.05$. In fourth model in which all the independent variables and control variables are present we can see the $R^2= .449$ and adjusted r square $SR^2=.017$ and sig F change $=.150$ which is $p>0.05$ see appendix B. It means all of these independent variables cannot predict about the variable CEO compensation because all of these variables are changing the value of R^2 but this change is not significant change. So in short we can say these variables cannot contribute to the prediction of dependent variable CEO compensation See Appendix C, D, E. Now with the help of correlation and regression analysis we can test our hypothesis. We can also investigate which independent variables included in the model contributed to the prediction of the dependent variable. For testing the hypothesis we will use the standardized coefficient beta β and t value. We can even compare the contribution of each independent variable with the help of β beta value.

There is negative relation between board size and CEO compensation. Board size show the positive relation with the CEO compensation but this relation is not significant relation. Even in all four models, we cannot get the significant values even with different setting of the variables. But in correlation analysis we found the negative and significant relation of board size with CEO compensation and in multivariate setting both variables don't have significant relation with each other. This result is same like the previous study by Angbazo and Narayan (1997) in USA. They found positive and insignificant relation of board size with CEO compensation. In Pakistan board is involve in CEO compensation decision but board while making the decision about CEO compensation also consider the other variables. Many researchers conclude board size is endogenous variable since changes in board size can

be attributed to the exogenous change (Chhaochharia & Grinstein, 2009). Hence hypothesis is rejected. In case of Pakistan there is no relation between CEO compensation and board size. There is a negative relation between CEO pay and % of independent directors.

In line with second hypothesis both correlation analysis and multivariate analysis represent the insignificant relation between % independent non executive directors and CEO compensation. But direction of relation is different in both analyses. Correlation represents the positive relation but regression represents the negative relation among both variables. In all four models we don't find any significant relation of CEO compensation with % of independent non executive directors so as a whole, CEO compensation and percentage of independent directors have no relation hence hypothesis is rejected.

There is negative relation between CEO compensation and % of non executive directors. Correlation between the CEO compensation and % of non executive directors is positive but relation is not significant. In multivariate settings both variables show the negative relation in model 3 but also show the positive relation in model 4 but in both cases relationship between these variables are not significant. Hence this hypothesis is also rejected. It means in Pakistan % of non executive directors don't have any impact on the CEO compensation level.

There is a negative relation between CEO compensation and % of executive directors. Correlation between percentages of executive directors in board and CEO compensation shows the positive but no significant relation. Multivariate tests also find no significant relation between CEO compensation and percentage of executive directors in board. Hence hypothesis is rejected. As a whole, CEO compensation and percentage executive directors have no relation hence hypothesis is rejected that there is a negative relation between CEO pay and % of independent directors.

Discussion

CEO compensation is a well conferred topic and many studies are available which contribute knowledge to the reader about this concern. Mostly the debate and research about this issue can be found in developed countries, particularly in the USA, the UK and some other western European countries. If we try to find the research work about this issue in South Asian countries, expectantly we will be successful to uncover only a handful of studies. This study is perhaps the first study in Pakistan about CEO compensation and board structure that will possibly fill this gap. In earlier studies about board structure and CEO compensation, we come across the board of directors being accountable to make a decision about the CEO compensation. In rare cases, firms also have compensation committees. However, these committees are also characterized by the board and board members are the participants in these committees. In the case of Pakistan, as written in the corporate governance code of 2002, it is also the responsibility of the board to make decisions about the CEO's compensation. This means that the board of directors can influence the CEO's compensation, as compensation is decided by the board. However, in this study we did not recognize any inkling about this relationship.

Many previous studies demonstrate and have empirical evidence about the relationship between the level of CEO compensation and the board size. Some studies present a positive relationship, and some show a negative relationship between the CEO compensation level and the board size. Yermack (1996) and Cyert (2002) show a negative relationship between the variables, while others exhibit a positive one, like Main (1991), Ozkan (2007) and Core et al. (1999). There are also some studies which find no relationship between the two variables. In the case of Pakistan, according to this study, we did not come across any significant relationship between the level of CEO compensation and board size. In Pakistan, most of the firms are family-owned firms and even most of the

firms are managed by a family CEO. In the case of control and monitoring issues, the board is responsible, but when we study in-depth about the board in Pakistani firms then we can easily stumble on the fact that most of the boards in Pakistani firms are also dominated by family members. In simple words, we can say boards are just boards on paper, not in reality. Here, we can argue the board is also responsible for reducing the agency problem between share holders and the CEO. If a firm is a family-owned firm and the CEO is also from the controlling family, then the CEO behaves like a steward and an agent - principal relation will no longer exist (Albanese et al., 1997). In this situation, the board size does not matter because of the non-existence of an agency problem, small and even big boards cannot affect the CEO's compensation. If a family-owned firm is managed by a non-family member CEO, then we can conclude that the board size can matter, and the same in the case of non-family firms. In this study, as mentioned above in Pakistan, most of the firms are family-owned firms which have family members as CEOs. On the basis of our previous argument, we can come to signify that the non-existence of a principal-agent relation between the board and the CEO creates a hurdle for the board to operate independently and effectively. In developed countries it possible, due to separate control and ownership of the firm, but in Pakistan ownership and control are merged and this has reduced the effectiveness of the board.

Another issue is the independent director's involvement in the board. Many previous studies justify this concern, but some prior studies also illustrate that independent directors have a positive impact upon the level of CEO compensation. Some support that independent directors have a negative effect on the level of CEO compensation. Outside directors are dependent upon the CEO for information about corporate issues, and they make decisions and plans according to provided information from the CEO (Chung, 2008). The CEO can influence his compensation package and can acquire a higher compensation. Some previous studies argue that the outside directors are independent from the influence of the CEO because they are not from the management team. They therefore can effectively control and monitor the CEO without any influence, and so according to principal-agent relation they can reduce the CEO's compensation (Eisenhardt, 1989a, Wienclaw, 2009). In the case of Pakistan, outside directors have no effect upon the level of the CEO's compensation. The reason for this problem is that the majority of family-owned firms have family members as CEOs and not all of the firms have independent directors. As we can see from the data, some firms do not have independent directors to the board. Even though that is prescribed in the corporate governance code of 2002 of Pakistan, "all the firms must have the participation of at least one independent director to the board." As we know in Pakistan, most of the firms are family-owned and in this study more than 70% of firms are family-owned, so independent directors are not, in the majority of cases, on the board. Since most of the boards are family boards, this means that the percentage of family member directors is higher than that of non-family member directors. So the outside director cannot sway other board members with his or her opinion, and mostly family decisions have precedence. So due to the family boards, the independent director cannot play his or her role. Even in family firms with non-family CEOs and also in non-family firms, the independent director cannot play his or her role significantly because of limited power due to minority holder in board and dependency on the CEO for important information about corporate issues.

Non-executive directors can also play a vital role to align the firm and the CEO's interest, as shown by many previous studies. Non-executive directors are outside directors and they can effectively monitor and control the firm better than inside directors (Cahan et al., 2005). Many studies found that non-executive directors have a negative effect upon the level of CEO compensation, and many had the

contrary prediction that they would find that non-executive directors have a positive effect on the level of CEO compensation. As discussed in previous studies, non-executive directors are outsiders and they do not have exact information about the firm, so for making decisions about the firm and deciding the CEO's compensation, they are dependent upon the CEO. So, the CEO can influence the non-executive directors to get higher compensation (Chhaochharia and Grinstein, 2009). In this study, non-executive directors do not have any relationship with the level of CEO compensation. In Pakistan, non-executive directors are not independent directors. Since the majority of firms are family-owned, all the families appoint their close relatives as non-executive directors, and they are not independent directors. They have family ties with the firm owner and with the management. Due to this reason, in the corporate governance code of 2002, the Government introduced independent non-executive directors. These kinds of directors do not have family ties with the family owners. So, here we can argue that since non-executive directors in family-owned firms are mostly from the family, so if the CEO is the owner and from the same family then non-executive directors cannot affect the CEO compensation. The principal and agent relation has disappeared in this case, that is why the CEO performs the job like a steward, and directors do not pay more compensation to the CEO. It is also proven from the data and earlier studies that family CEOs earn less than non-family CEOs because family CEOs never consider compensation as their first priority. Instead, they always consider the long-term goals of the firm because in this way they can develop the firm and get more benefits in the shape of a more profitable firm. Even in non-family-owned firms in Pakistan, non-executive directors mostly have social or commercial relations with the CEO. Due to these relations, they cannot perform their duties independently and effectively.

Executive directors are the directors from the management, they are in other words insiders, and they have well-built information about the firm. So, they can monitor and control the firm without the guidance of the CEO. In the case of a relationship between the level of CEO compensation and executive directors, we can find different results. Some studies present a positive relationship between the two variables, while others illustrate a negative relationship. The CEO is a top manager and executive directors are subordinates of the CEO, so the CEO has influence upon the future careers and compensation of executive directors. According to this argument, the level of CEO compensation will increase as the percentage of executive directors increases in the board. In this study, the level of CEO compensation and the percentage of executive directors do not affect each other. As a subordinate of the CEO, the executive directors can positively affect the level of CEO compensation, but if the CEO is a family CEO, then executive directors cannot affect the CEO's compensation because the CEO compensation decision is based upon the family or upon the CEO. In Pakistan, as stated earlier, most of the firms are family-owned firms, and even in this study more than 70% are family-owned firms, so we can argue that the executive director cannot affect the CEO compensation due to their limited power.

As a whole, we can say that due to the fact that the majority of firms in Pakistan are family-owned firms, the board cannot play an independent role in deciding the CEO compensation because of the absence of an agent and principal relation between the board and the CEO. In family-owned firms, mostly the owner and the CEO are the same persons and if they are not, then they are from the same family and they preserve the control of the firm and its decisions. In family-owned firms, the board composition is often based upon bargaining between the CEO and family members, where mostly CEOs prefer to have inside directors rather than independent outside directors. In the case of non-family-owned firms, independent directors can play a vital role in reducing the agency problem between the board and the CEO. We can argue, due to the majority of firms in Pakistan being family-owned firms, that family CEOs have power over the selection of board members, and also that

the CEO as well as the management of the firm hold accurate information about the business. There is an absence of an agency problem between the CEO and the board, which is responsible for reducing the independence of the board.

Conclusion

This paper scrutinizes the effects of board composition which determine the level of CEO compensation in Pakistan. This paper, which is perhaps the first study of board composition and CEO compensation in a developing economy of Pakistan, reported results which state that the percentage of independent non-executive directors and board size has a negative relationship with the level of CEO compensation. Other two variables (Percentage of executive director's and percentage of executive directors) have a positive relationship with the level of CEO compensation, but all four variables demonstrate an insignificant relationship with the level of CEO compensation.

The result from the multivariate analysis shows that the percentage of independent non-executive directors, the percentage of non-executive directors, and the percentage of executive directors and the board size do not have any significant impact upon the level of CEO compensation. This paper also demonstrates that the level of CEO compensation is lower in family-owned firms than in non-family-owned firms. As discussed in the theory section, Pakistani companies are mostly family-owned and controlled. So, in Pakistani firms, most of the CEOs are from the family, and they hold the two most prominent positions in the firm, which are the owner and the top manager. So in short, the board composition decision is based upon the CEO who is also a family member. The CEO and the family owners always try to keep more family members on the board in order to keep a hold of the board. While these family-controlled firms are abiding by the corporate governance code of 2002 by appointing at least one independent director to the board, the influence of this independent director is limited due to a lack of independence. Also, the independent director cannot make any decisions which go against the decisions of the family because the family members are more in number and they will only accept decisions which are in their interest.

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Table 2 Descriptive Statistics**1 Rupee = 0.0833 SEK (NOV 30, 2010)**

Year		N	Minimum	Maximum	Mean	Std. Deviation	Variance
2008	Boardsize	86	7	15	8.09	1.746	3.049
	Independent non executive director	86	0	13	1.60	2.494	6.219
	Non executive director	86	0	12	3.18	2.748	7.553
	Executive directors	86	0	9	2.73	1.779	3.166
	Total CEO pay	86	600000	235525000	8827573	2.615E7	6.837E14
2009	Boardsize	86	7	15	8.18	1.778	3.162
	Independent non executive director	86	0	13	1.56	2.505	6.273
	Non executive director	86	0	12	3.28	2.840	8.068
	Executive directors	86	0	9	2.70	1.808	3.268
	Total CEO pay	86	557786	81738000	7416167	1.032E7	1.065E14

Table 3 CEO compensation in family and non family firms**1 Rupee = 0.0833 SEK (NOV 30, 2010)**

Firm Type		N	Minimum	Maximum	Mean	Std. Deviation
Non family	CEO pay	21	900000	28149000	9700354,57	6343796,537
Family	CEO pay	65	557786	15267772	4964343,43	4068533,925

Table 4 Correlation analysis of CEO compensation year t=2009

With variables of year t-1=2008

	LnCEOpay _t	%independent Nonexecutive directors _{t-1}	%nonexecutive directors _{t-1}	%executive directors _{t-1}	Boardsize _{t-1}
LnCEOpay _t	1				
%independent non executive directors _{t-1}	.144	1			
%nonexecutive directors _{t-1}	.012	-.643**	1		
%executive directors _{t-1}	-.037	-.209	-.205	1	
Board size _{t-1}	.391**	.261*	-.004	-.211	1

CEO Compensation is measured as the logarithm of the total value of 2009 salary. Board Size is the total number of directors on the board. Percentage of independent directors is the Percentage in independent directors in board (number of independent non executive directors/ board size*100). Percentage of independent directors is the Percentage in independent directors in board (number of non executive directors/ board size*100). Percentage of independent directors is the Percentage in independent directors in board (number of executive directors/ board size*100) industry and year are dummy variables. For more details about variables, we have to look at definition table.

Table 5 Regression analysis of Dependent variable CEO Compensation for year 2009

Independent variables	M1	M2	M3	M4
Board size $t-1$	1.741 (.211)	1.870 (.230)	1.850 (.231)	1.891 (.234)
% independent non executive directors $t-1$		-.965 (-.102)	-.756 (-.106)	-.105 (-.016)
%non executive directors $t-1$			-.046 (-.006)	.586 (.085)
% executive directors $t-1$				1.455 (.159)
Control variables				
Chemical$t-1$	3.492 (.358)***	3.619 (.382)***	3.591 (.382)***	3.737 (.396)***
Tele$t-1$	2.116 (.198)**	2.314 (.229)**	2.298 (.229)**	2.258 (.224)**
Food $t-1$.688 (.067)	.630 (.061)	.622 (.062)	.590 (.059)
Sugar $t-1$.115 (.011)	.323 (.032)	.324 (.033)	.173 (.018)
Tecnology $t-1$	2.455 (.246)**	2.499 (.250)**	2.467 (.251)**	2.522 (.255)**
Cement $t-1$	2.939 (.297)***	3.045 (.311)***	2.977 (.312)***	2.852 (.298)***
Galss $t-1$.903 (.085)	1.096 (.107)	1.088 (.107)	1.192 (.116)
Energy $t-1$.788 (.105)	.883 (.119)	.875 (.120)	.825 (.112)
Engineering $t-1$	2.090 (.206)**	2.191 (.218)**	2.168 (.218)**	2.002 (.201)**
Paper $t-1$	2.487 (.238)**	2.602 (.252)**	2.552 (.253)**	2.499 (.246)**
Fertilizer $t-1$	1.079 (.100)	1.024 (.095)	1.017 (.096)	1.089 (.102)
Media $t-1$.190 (.018)	.254 (.024)	.244 (.023)	.046 (.004)
Firm Size $t-1$	2.293 (.264)**	2.369 (.274)**	2.352 (.274)**	2.492 (.289)**
Firm Performance $t-1$	-1.271 (-.117)	-1.239 (-.115)	-1.223 (-.115)	-1.254 (-.117)
Number of firms	86	86	86	86
R2	.424	.432	.432	.449
Adjusted r2	.301	.300	.290	.301
F-statistics	3.437***	3.277***	3.040***	3.036***
***Significant at 1% level (two-tailed).				
**Significant at 5% level (two-tailed).				
*Significant at 10% level (two-tailed).				
Standardized beta values are displayed with t-statistics provided in parentheses.				

Appendices

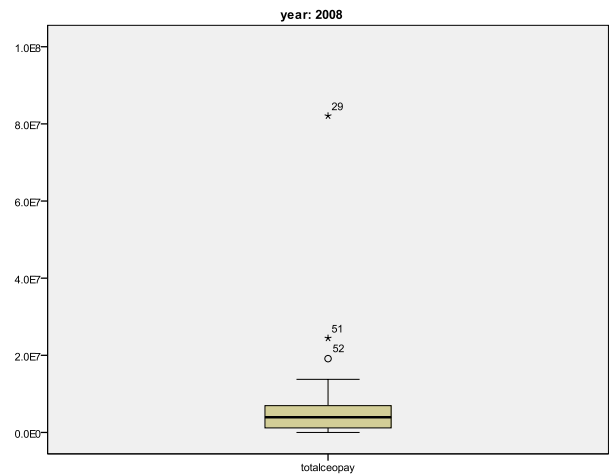
Appendix A

Before transformation of year 2008

Tests of Normality^b

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
CEOpay09	.270	98	.000

a. Lilliefors Significance Correction
 b. year = 2008

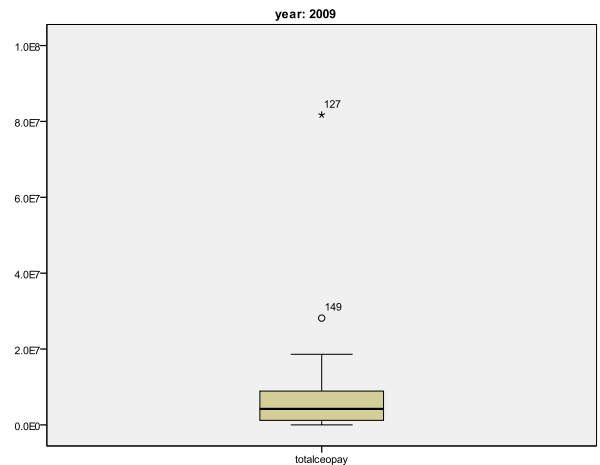


Before transformation of year 2009

Tests of Normality^b

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
CEOpay09	.252	98	.000

a. Lilliefors Significance Correction
 b. year = 2009



Appendix B

After transformation of year 2008

Tests of Normality^b

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
CEOpay09	.075	86	.199

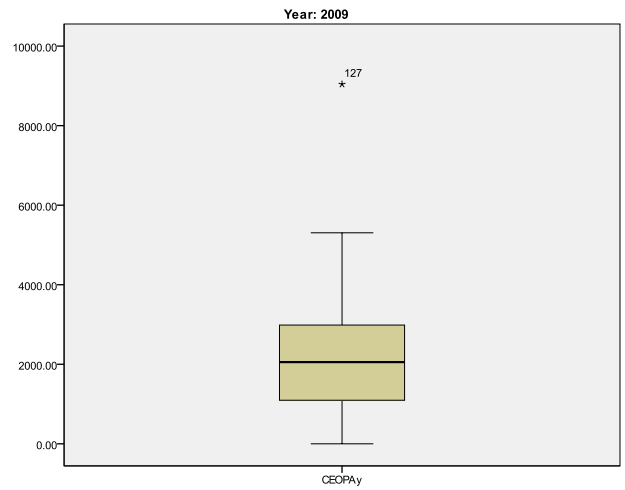
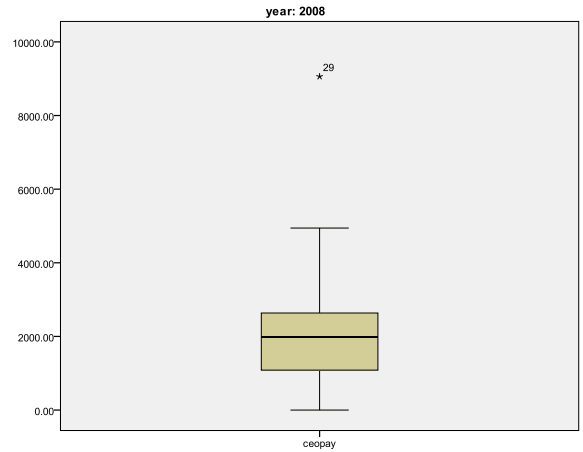
a. Lilliefors Significance Correction
 b. year = 2008

transformation of year 2009

Tests of Normality^b

	Kolmogorov-Smirnov ^a		
	Statistic	df	Sig.
CEOpay09	.077	86	.178

a. Lilliefors Significance Correction
 b. year = 2009



Appendix c

Table of analysis of variance

ANOVA^f

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.741	14	2.124	3.369	.000 ^a
	Residual	44.768	71	.631		
	Total	74.508	85			
2	Regression	31.599	15	2.107	3.437	.000 ^b
	Residual	42.909	70	.613		
	Total	74.508	85			
3	Regression	32.171	16	2.011	3.277	.000 ^c
	Residual	42.338	69	.614		
	Total	74.508	85			
4	Regression	32.172	17	1.892	3.040	.001 ^d
	Residual	42.336	68	.623		
	Total	74.508	85			
5	Regression	33.470	18	1.859	3.036	.001 ^e
	Residual	41.039	67	.613		
	Total	74.508	85			

a. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, tecnologia08, engineering08, netsales, cement08, chemical08, energy08

b. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, tecnologia08, engineering08, netsales, cement08, chemical08, energy08, boardsize

c. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, tecnologia08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent

d. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, tecnologia08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent, %nonexe

e. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, tecnologia08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent, %nonexe, %exe

f. Dependent Variable: InCEOpay09

Appendix D

Table of Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.632 ^a	.399	.281	.79406	.399	3.369	14	71	.000
2	.651 ^b	.424	.301	.78293	.025	3.032	1	70	.086
3	.657 ^c	.432	.300	.78332	.008	.931	1	69	.338
4	.657 ^d	.432	.290	.78905	.000	.002	1	68	.963
5	.670 ^e	.449	.301	.78264	.017	2.118	1	67	.150

a. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, technology08, engineering08, netsales, cement08, chemical08, energy08

b. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, technology08, engineering08, netsales, cement08, chemical08, energy08, boardsize

c. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, technology08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent

d. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, technology08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent, %nonexe

e. Predictors: (Constant), roe, sugar08, fertilizer08, media08, tele08, galss08, paper08, food08, technology08, engineering08, netsales, cement08, chemical08, energy08, boardsize, %independent, %nonexe, %exe

f. Dependent Variable: InCEOpay09

Appendix E

Table of coefficients with dependent variable Ln CEO pay 2009

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	14,421	,164		87,987	,000		
	Chemical08	1,093	,301	,376	3,634	,001	,789	1,267
	Tele08	1,293	,584	,209	2,213	,030	,945	1,058
	Food08	,268	,391	,067	,687	,495	,877	1,140
	Sugar08	,078	,362	,021	,215	,830	,861	1,162
	Tecnology08	1,150	,391	,289	2,943	,004	,877	1,140
	Cement08	,952	,310	,313	3,069	,003	,813	1,230
	Galss08	,394	,486	,078	,811	,420	,921	1,085
	Energy08	,638	,369	,210	1,730	,088	,575	1,738
	Engineering08	,742	,366	,203	2,030	,046	,846	1,183
	Paper08	1,349	,486	,266	2,773	,007	,921	1,086
	Fertilizer08	1,029	,812	,118	1,267	,209	,968	1,033
	Media08	,074	,584	,012	,127	,900	,946	1,057
	Netsales08	1,517e-11	,000	,314	2,769	,007	,660	1,515
	Roe08	-,015	,013	-,109	-1,163	,249	,967	1,034
2	(Constant)	13,595	,501		27,123	,000		
	Chemical08	1,041	,298	,358	3,492	,001	,781	1,280
	Tele08	1,222	,578	,198	2,116	,038	,940	1,063
	Food08	,265	,385	,067	,688	,494	,877	1,140
	Sugar08	,041	,358	,011	,115	,909	,858	1,166
	Tecnology08	,977	,398	,246	2,455	,017	,823	1,216
	Cement08	,903	,307	,297	2,939	,004	,806	1,241
	Galss08	,433	,480	,085	,903	,370	,919	1,088
	Energy08	,321	,407	,105	,788	,433	,460	2,174
	Engineering08	,753	,360	,206	2,090	,040	,845	1,183
	Paper08	1,209	,486	,238	2,487	,015	,896	1,116
	Fertilizer08	,869	,806	,100	1,079	,284	,956	1,046
	Media08	,110	,576	,018	,190	,850	,944	1,059
	Netsales08	1,278e-11	,000	,264	2,293	,025	,620	1,613
	Roe08	-,017	,013	-,117	-1,271	,208	,965	1,037
Boardsize08	,113	,065	,211	1,741	,086	,558	1,792	
3	(Constant)	13,542	,504		26,847	,000		
	Chemical08	1,109	,306	,382	3,619	,001	,739	1,353
	Tele08	1,416	,612	,229	2,314	,024	,839	1,192
	Food08	,243	,386	,061	,630	,531	,874	1,144
	Sugar08	,119	,367	,032	,323	,747	,816	1,225
	Tecnology08	,996	,398	,250	2,499	,015	,821	1,219
	Cement08	,946	,311	,311	3,045	,003	,789	1,267
	Galss08	,540	,493	,107	1,096	,277	,873	1,146
	Energy08	,361	,409	,119	,883	,380	,455	2,198
	Engineering08	,796	,363	,218	2,191	,032	,833	1,201
	Paper08	1,280	,492	,252	2,602	,011	,876	1,142
	Fertilizer08	,827	,807	,095	1,024	,309	,953	1,049
	Media08	,147	,578	,024	,254	,801	,940	1,063
	Netsales08	1,326e-11	,000	,274	2,369	,021	,615	1,626
	Roe08	-,016	,013	-,115	-1,239	,220	,964	1,038
	Boardsize08	,123	,066	,230	1,870	,066	,544	1,837
%Independent08	-,004	,004	-,102	-,965	,338	,735	1,360	
4	(Constant)	13,548	,523		25,891	,000		
	Chemical08	1,109	,309	,382	3,591	,001	,739	1,353

	Tele08	1,417	,617	,229	2,298	,025	,838	1,193
	Food08	,247	,398	,062	,622	,536	,836	1,197
	Sugar08	,121	,373	,033	,324	,747	,801	1,248
	Tecnology08	,998	,405	,251	2,467	,016	,807	1,239
	Cement08	,949	,319	,312	2,977	,004	,761	1,315
	Galss08	,543	,499	,107	1,088	,281	,864	1,157
	Energy08	,364	,416	,120	,875	,384	,447	2,237
	Engineering08	,798	,368	,218	2,168	,034	,824	1,214
	Paper08	1,284	,503	,253	2,552	,013	,850	1,176
	Fertilizer08	,830	,816	,096	1,017	,313	,945	1,058
	Media08	,143	,587	,023	,244	,808	,926	1,080
	Netsales08	1,327e-11	,000	,274	2,352	,022	,614	1,628
	Roe08	-,016	,013	-,115	-1,223	,225	,942	1,061
	Boardsize08	,123	,067	,231	1,850	,069	,538	1,859
	%Independent08	-,004	,005	-,106	-,756	,452	,422	2,369
	%Nonexe08	,000	,004	-,006	-,046	,963	,475	2,105
5	(Constant)	13,141	,590		22,287	,000		
	Chemical08	1,149	,308	,396	3,737	,000	,733	1,365
	Tele08	1,382	,612	,224	2,258	,027	,837	1,194
	Food08	,233	,395	,059	,590	,557	,835	1,197
	Sugar08	,064	,372	,018	,173	,863	,793	1,262
	Tecnology08	1,013	,402	,255	2,522	,014	,807	1,240
	Cement08	,906	,317	,298	2,852	,006	,754	1,326
	Galss08	,591	,496	,116	1,192	,238	,861	1,162
	Energy08	,341	,413	,112	,825	,412	,446	2,240
	Engineering08	,736	,367	,201	2,002	,049	,813	1,230
	Paper08	1,248	,499	,246	2,499	,015	,848	1,179
	Fertilizer08	,882	,811	,102	1,089	,280	,943	1,060
	Media08	,027	,587	,004	,046	,963	,909	1,100
	Netsales08	1,400E-11	,000	,289	2,492	,015	,609	1,641
	Roe 08	-,017	,013	-,117	-1,254	,214	,942	1,062
	Boardsize08	,125	,066	,234	1,891	,063	,538	1,859
	%Independent 08	-,001	,006	-,016	-,105	,917	,352	2,838
	%Nonexe 08	,003	,004	,085	,586	,560	,386	2,587
	%Exe08	,007	,005	,159	1,455	,150	,690	1,450

a. Dependent Variable: Incepay09

Appendix F

Table of correlation analysis

Correlations

		<i>InCEOpay09</i>	<i>%independent08</i>	<i>%nonexe08</i>	<i>%exe08</i>	<i>Boardsize08</i>
<i>InCEOpay09</i>	Pearson Correlation	1	.144	.012	-.037	.391**
	Sig. (2-tailed)		.185	.910	.736	.000
	N	86	86	86	86	86
<i>%independent08</i>	Pearson Correlation	.144	1	-.643**	-.209	.261*
	Sig. (2-tailed)	.185		.000	.053	.015
	N	86	86	86	86	86
<i>%nonexe08</i>	Pearson Correlation	.012	-.643**	1	-.205	-.004
	Sig. (2-tailed)	.910	.000		.058	.974
	N	86	86	86	86	86
<i>%exe08</i>	Pearson Correlation	-.037	-.209	-.205	1	-.211
	Sig. (2-tailed)	.736	.053	.058		.051
	N	86	86	86	86	86
<i>Boardsize08</i>	Pearson Correlation	.391**	.261*	-.004	-.211	1
	Sig. (2-tailed)	.000	.015	.974	.051	
	N	86	86	86	86	86

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

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