Investigation into the Relationship between Executive Compensation and Firm Performance

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Abstract
A vast amount of research has explored the relationship between executive pay and firm performance. But most of the research studies have been limited in the sense that it has had ignored other criteria that can be used to determine pay-performance linkage. The principal-agent theory cannot explain the other determining moderators of pay-performance linkage any more. The present study relies heavily on existing literature review to formulate a model taking into account all concomitant factors involved in explaining relationship between executive compensation and firm performance thereby depicting a comprehensive overview of the relationship between the two. The model has demonstrated a clear link between pay and performance with the help of different moderators. But due to time and logistical constraints the same has not been empirically tested. Hence, the findings of this study cannot be treated as conclusive, though the same can act as a guide for future research. The present paper is an effort to pave way to further research in the area which is few and far between.

Introduction
The most discussed topic in executive compensation literature is the relationship between CEO compensation and firm performance which has been going on for more than seven decades and the extant literature comprises of more than 300 studies (Barkema & Gomez-Mejia, 1998). Many studies have documented a host of determining mechanisms that regulate the pay-performance linkage viz. firm size, firm risk, ownership structure, demographic factors like CEO age, tenure, education, gender and socio-cultural factors. However, the main limitation of previous studies is that they focus on a few notable factors, totally ignoring unquantifiable, socio-cultural factors. Thus, in this paper the authors strive to bring together all the factors or moderators that plays an important role in explaining the nature of relationship between executive pay and firm performance, both being dependent and independent variable simultaneously.

Objectives and Methodology of the study
This study is an endeavour to investigate the relationship between executive compensation and firm performance and develop a model depicting a comprehensive overview of the relationship between the two. Accordingly, the authors strive to re-examine the relationship between executive compensation and firm performance using extant literature so as to throw light on new determining factors that fall out of the scope of agency theory. An effort is made to understand the true nature of the pay-performance link by considering all the important factors which are sufficient enough to cause the variation in the relationship. This has been done by reflecting on the mass of literature in the field by synthesizing, organizing and structuring knowledge and thereby provides recommendations for future research aimed at developing a more integrated research agenda (Sousa & Voss, 2002).

An in-depth review of the existing literature on executive compensation and firm performance is undertaken to understand the theoretical and conceptual dimensions of pay-performance relationship. This study is based on the review of the extant literature. The empirical and research based articles on executive compensation and firm performance have been obtained from several databases, including, Academic Search Premier, JSTOR, Google Scholar, EBSCO, Sage Online Journals, and Business
Review of Literature on Executive Pay and Firm Performance

This section outlines an overview of theoretical and empirical studies that explore the relationship between executive compensation and company performance. In providing a structured overview of the studies it is necessary to make choices in which studies are discussed and which are not. We have used four criteria to delimitate the overview. First, an effort is made to include published papers, working papers, unpublished thesis and research papers. Second, both accounting and market (past and present) measures of performance of the company are taken into consideration. Third, the sample includes CEOs only. Considering logistic constraint in terms of time, summarizing the massive literature on the executive pay-to-performance debate is not an easy task. Therefore, we organize review of research by considering the important factors of pay-performance linkage so that a comprehensive analysis is possible. For the sake of convenience, we have categorised the factors in 4 groups – Firm Characteristics; Pay Characteristics; Executive Characteristics and finally, Socio-cultural Characteristics.

Firm Characteristics

A vast amount of studies have been carried out exploring the effects of firm characteristics viz. firm size, risk, ownership structure on pay-performance relationship. Most cited and recent studies are discussed below:

Firm Risk: Many studies have tried to explore and understand the role of firm risks in executive pay-performance relationship. However, empirical studies seem to find mixed findings. For example, some studies found that risk have negative impact on PPS (Holmstrom, 1979; Holmstrom and Milgrom, 1987; Banker and Datar, 1989; Aggarwal and Samwick, 1999 and Kraft and Niederprum, 1999). On the other hand, other studies found that risks have positive (Barber et al., 1996; Prendergast, 2002) or insignificant impact (Yermack, 1995; Bushman et al., 1996; Ittner et al., 1997) on PPS. Apart from this, Conyon and Murphy (2000) found that risk has a significant influence on total compensation, but not on cash compensation.

Firm Size: The importance of firm size in influencing the pay-performance relationship is highlighted in allocation theory of control which states that “in a market equilibrium, the most talented executives occupy top positions in the largest firms, where the marginal productivity of their actions is greatly magnified over the people below them to whom they are linked” (Rosen 1992, pg 182). This, in fact provides theoretical explanation for a positive relationship between size and pay. When turning to the empirical research on the relationship between CEO compensation and firm size, a uniform and well-documented finding and a strong positive pay-size relation (Roberts 1956; Cosh 1975; Murphy 1985; Kostiuk 1990 and Conyon, 1997; Gregg et al 2005; Girma et al 2007; Ghosh 2006; Yurtoglu and Haid, 2006; Mertens et al, 2007) is observed. Zhou (2000) in his seminal study found that CEO pay rise with firm size and compensation is tied to company performance.

Ownership Structure: There is also a growing body of literature which examines the relationship between ownership structure, firm performance and executive compensation from several different perspectives. For example, the role of ownership structure (Morck et al., 1988, and McConnell and Servaes, 1990) in monitoring management and so improving firm performance has been largely investigated in empirical corporate governance literature. Mehran (1995) documents that firms with higher ownership concentration held by outside shareholders intend to use less equity-based...
compensation. Furthermore, Core et al (1999) provide evidence that the ownership concentration of Chief Executive Official (CEO) shareholdings or outside blockholders is a decreasing function of executive compensation. Kraft & Niederprüm (1999) found that firms that are dominated by a large shareholder pay less and the sensitivity of compensation to firm profitability is smaller. In addition, similar research has also been conducted in other economies, such as the UK (Conyon, 1997), Italy (Brunello et al., 2001), New Zealand (Gunasekaragea and Wilkinson, 2002), Norway and Sweden (Randoy and Nielseni, 2002), Hong Kong (Cheng and Firth, 2006) and Japan (Basu et al., 2007), they all document a positive relation between managerial compensation and firm performance. Haïd & Yurtoglu (2006) investigate executive compensation and ownership structures of German firms for the period 1987 to 2003 and find that in firms with more concentrated ownership the relationship between pay and performance is weaker and the overall level of compensation is significantly lower. More recently, Ozhkan (2011) examines the influence of corporate governance mechanisms on the level of CEO compensation in UK and found that firm performance does not have a significant impact on CEO compensation, while measures of board and ownership structures explain a significant amount of cross-sectional variation in the total CEO compensation, which is the sum of cash and equity-based compensation. Kato and Long (2006) found that the ownership structure of China’s listed firms has important effects on the pay-performance link. The private ownership seems to have a strong executive pay-performance link compared to both government ownership and collective ownership. Firth, Fung and Rui (2007) examined the relation between ownership structure and managerial compensation; they found that pay-for-performance is insignificant in government and legal entity controlled firms. Tian, Pan, Tang, Jun, Ma (2009) in their paper investigated managerial compensation and its relationship with firm performance in China's listed firms. They found that manager remuneration is greater and pay-performance relation is stronger for privately-controlled firms than for state-controlled firms and the top executives in firms with a foreign ownership are more highly compensated, relative to those without foreign ownership. Xiang Li (2010) investigated the relationships among corporate governance mechanism, firm performance, and executive compensation within Chinese publicly listed firms and indicated a dysfunctional corporate governance system in China, which cannot bring improved firm performance but grant executives high compensations. So far as the political connections are concerned, results showed that they deteriorate corporate governance mechanism, but do not result in inferior firm performance. Conyon and He (2011) investigated executive compensation and corporate governance in China’s publicly traded firms and found that executive compensation is positively correlated to firm performance. The study showed that executive pay and CEO incentives are lower in State controlled firms and firms with concentrated ownership structures. The study also found that firms with more independent directors on the board have a higher pay-for-performance link. Elston & Goldberg (2003) investigate executive compensation in Germany and find that both concentrated ownership of large stockholders and bank influence (more than 50 percent ownership of financial institutions) have a negative influence on compensation levels.

Pay Characteristics
A large amount of studies have focussed on analysing the pay-performance relationship but there is little research that has studied the effect of different components of pay and on performance and certain forms of pay-for-performance plans on firm performance. Here we review the studies showing the impact of pay plan adoptions and components/ Structure of pay on firm performance.

Components of executive pay: The CEO compensation comes in the form of cash compensation, stock compensation, and fringe benefits. Cash compensation is defined as the sum of salary, bonus, and other compensation (Davila, 2009).

(a) Stock Options and Firm Performance:
Yermack (1995) examined 452 large firms over the period 1984 to 1991 and found that firms awarding stock options to their CEO.s realize superior stock market returns. Mehran (1995) examined 153 randomly-selected manufacturing firms in 1979-1980 found evidence that firm performance is
positively related to the percentage of equity held by managers and to the percentage of their compensation that is equity-based. Frye (1999) examines the performance impact of employee stock options in a sample of 121 firms for the years 1992-1994 and finds that equity based compensation is positively related to firm performance as measured by Tobin’s Q. A strong link between firm performance and stock compensation has been found (Abowd and Kaplan, 1999). Inside stockholdings are likely to act as substitutes for CEO compensation, since less incentive compensation is needed to maximize stock value (Cordeiro, 2003). Murphy, 1999 also indicates that stock options provide a direct link between executive rewards and share-price appreciation, since payout from exercising options increases dollar for dollar with increases in the stock price. Conyon and Murphy (2000); Fung, Firth and Rui (2001) and Matsunaga and Parck (2001) show that the introduction of options in the structure of the pay increases the link between the pay structure and the performance of the company.

(b) Cash Compensation and Firm Performance:
Kerr and Kren (1992) found a significant relationship between cash compensation and measure of performance (return on assets and stock returns) for U.S. firms. This relationship was not significant when using cash plus options as compensation measure. Lambert et al. (1987) found out that executives who are awarded fixed salary lack a direct incentive to promote firm's performance because they do not share in the resulting gains in the firm's value. Murphy, 1999 found a positive relationship between firm performance and CEO cash compensation (salary). Berger et al (1997) suggested that CEOs' salary and bonus compensation has low sensitivity to changes in firm value. In contrast, examining a similar issue using Japanese stocks, Kato and Kubo (2006) find a significant relationship between CEOs pay and firm performance. Leone et al (2006) documented that CEO cash compensation is twice as sensitive to negative stock returns as it is to positive stock returns. Thus, authors suggested that CEO cash compensation is punished for poor stock return performance. So far as annual bonus is concerned, Chalmers, Koh, and Stapledon (2006) found a positive relationship between executive bonus and smaller firm performance only. Therefore, bonus plan may not work for the larger firms to maximize shareholders’ wealth. Matolesy (1997) did not find a significant relation between measures of corporate performance and cash compensation during periods of economic downturn. McKnight and Tomkins (1999) showed prediction of a positive relation between measures of corporate performance and cash compensation during economic growth. On a sample of 73 New Zealand listed companies during the period 1994-1998, Eleyan, Lau and Myer (2001), show that neither compensation level nor the adoption of an incentive compensation scheme are significantly related to corporate performance, more over the relationship is found to be insignificant when ROE and ROA are used as a proxy for corporate performance.

Pay Plan Adoptions:
The most important reason behind pay-for-performance compensation is that linking pay to performance can motivate individuals to achieve or sustain greater performance levels (Banker, Lee, Potter, & Srinivasan, 2001; Gerhart & Milkovich, 1990; Heneman & Werner, 2005; Lawler, 1971, 1981; Schwab & Olson, 1990). Therefore, a number of forms of pay-for-performance plans have emerged (Milkovich & Newman, 2005; Schwab & Olson, 1990). Thus, compensation can be conceptualised as a motivational tool (Devers et al, 2007). In general, research has found that pay-for-performance plans do help achieve desired results, at both the individual level (Banker, Lee, Potter, & Srinivasan, 1996; Bonner & Sprinkle, 2002; Eisenberger, Rhoades, & Cameron, 1999) and organizational level (Foulkes, 1980; Gerhart & Milkovich, 1990; Gomez-Mejia & Welbourne, 1988; Lawler, 1981); however, there are also evidences of pay-for-performance plans did not seem to impact performance (e.g., Heneman & Werner, 2005; Kahn & Sherer, 1990; Kuvaas, 2006; Pearce, Stevenson, & Perry, 1985).

Wallace (1998) examined the adoption of residual income-based (RI) compensation plans and found that RI plans were positively related to increases in residual income; however, they were not significantly related to shareholder wealth increases, suggesting, "you get what you measure and
reward". Balachandran (2006) examined investment decisions of firms using RI plans. Results demonstrated that RI plans led to increased RI delivered—suggesting again that, "you get what you pay for". Morgan and Poulsen (2001) examined the adoption of proposals for executive pay-for-performance plans. Results demonstrated that plan proposals were significantly associated with increases in shareholder wealth, particularly for plans that targeted executives. Core and Larcker (2002) examined the effects of targeted ownership programs, which require executives to own minimum levels of firm stock. Their results showed that executive equity ownership increased significantly 2 years following adoption. They also found that excess accounting and stock returns both increased after plan adoption. Finally, Hogan and Lewis (2005) examined the effects of economic profit plans (EPPs), which reward managers when earnings exceed the cost of capital, on strategy and performance. Results showed that anticipated EPP adopters managed assets more efficiently, had higher profitability, and created greater shareholder value than a set of comparable firms that were predicted to adopt EPPs but, instead, did not.

Executive Characteristics
In an organization, CEO is first among the equals. Hence, his characteristics in terms of his age, educational background, tenure and his identity with the firm bear an important relationship with compensation and firm performance. Some of the important studies in these areas are discussed below.

CEO Age and Tenure: Conyon and Murphy (2000) attain interesting findings about the impact CEO characteristics on compensation. Concerning CEO characteristics, they suggest a significant, concave CEO age-earnings profile, which turns down after the age of 55, for cash and total compensation. Concerning CEO characteristics, age and tenure have a positive and significant influence on both cash and total compensation. Older CEOs are paid more due to higher experience, while CEOs with longer tenure can be paid more due to their higher knowledge of the firm/business or due to entrenchment, or both. Hill and Phan (1991) in their study found that the relationship between CEO pay and stock returns weakens with tenure. On the contrary, Nourayi and Mintz (2008) in their study found that firms' performance is a significant determinant of cash compensation for CEOs during the first three years of their work as CEOs and not significant for those with 15 years or more as the company's CEO. Both market-based and accounting-based performance measures are negatively correlated with CEOs' total compensation regardless of length of experience. Cremers and Palia (2010) in their documented a positive association between tenure and CEO pay levels, and an analogous positive relation between tenure and the CEO’s pay-performance sensitivity.

CEO Education: So far as CEO education is concerned, Jalbert, Rao and Jalbert (2002) in their study indicated that there are preferred educational backgrounds for selection as the CEO of a major corporation. The authors also examined CEO compensation as it relates to the school attended, finding significant disparities between the number of students placed in CEO roles and the salaries their graduates earn in those roles. They found little evidence to suggest that firm performance is affected by the CEOs educational background. Apart from this, the authors also found an association between possessions of a degree as well as where the degree was earned and the ROA and Tobin's Q of the firm. Ghosh (2006) and Parthasarathy et al. (2006) in their studies found that CEO compensation to be significantly and positively affected by firm return on asset, CEO chairmanship, CEO age and years of education. Gottesman and Morey (2006) examined the relationship between quality of Chief Executive Officer (CEO) education and firm performance and found no evidence that firms with CEOs from more prestigious schools outperform those from less prestigious schools. They also found that firms managed by CEOs with MBA or law degrees perform no better than firms with CEOs that do not have a graduate degree. They found some evidence that firms led by CEOs with non-MBA, non-law graduate degrees have slightly better risk-adjusted market performance than other firms. Bhagat, Bolton and Subramanian (2010) stated that while CEO education appears to play an important role in the hiring of CEOs, it does not affect the long-term performance of firms i.e. there is no a significant systematic relationship between CEO education and long-term firm performance. Jalbert, Furumo and
Jalbert (2010) in their recent study examined the educational background of Chief Executive Officers (CEOs) from large U.S. firms and found low correlation between university placement rankings and compensation rankings. Regressions of CEO educational variables on firm performance measures identify links between CEO education and firm performance.

**CEO Ownership and Duality:**

Jensen and Meckling (1976) argued that CEOs holding a large fraction of their firm’s equity leads to reduction of demand for further stock based compensation. Core, Holthausen, and Larcker (1999) found that a weak board governance structure is associated with high CEO compensation and low firm performance. Brick, Palmon and Wald (2002) found that excessive CEO compensation is associated with firm under-performance. Holderness and Sheehan (1988) showed that managers who are majority shareholders in publicly held corporations receive marginally higher salaries than other officers. Lambert et al. (1993) found that CEO compensation is lower when the CEO’ ownership is higher. Jensen (1993) maintained that the CEOs determine the agenda and information given the board, and that the CEO and the board chair is frequently the same person.

Jensen (1993) added that when the CEO is also the chairman of the board, internal control systems fail because the board cannot effectively perform its key control functions. Sridharan (1996), Brickley et al. (1997) and Core et al. (1999) reported that duality leads to higher CEO pay. Of their part, Cyert, Kang and Kumar (2002) showed that when the CEO reunites the two functions of management and of presidency of the council, his compensation is raised, that confirms Core's results et al. (1999). Conyon (1997), however, finds no evidence of higher pay for dual CEO/chairman positions in Britain. In regards to the relation between firm performance and the duality of CEO as board chairman, Core et al. (1999) and Bhagat and Bolton (2008) reported a negative relation between such duality and firm performance while Adams et al. (2005) find no significant relation between the two. Finally, Klein (1998) found no significant relation between the composition of board audit committee and firm performance, and between the composition of board compensation committee and firm performance, although Larcker et al. (2005) reported that CEO’s closeness to members of the compensation committee is shown to increase CEO compensation, suggesting an indirect negative impact on firm performance. On the other hand, Callahan et al. (2003) found a positive relation between management participation in the director selection process and corporate performance.

**Socio-cultural Characteristics**

There exists a wide range of specific contractual factors to address the pay-performance linkage (Shleifer and Vishney, 1997). Doidge et al. (2007) showed that country characteristics have a significant impact on country-level measures of governance, explaining much more of the variance in corporate governance (ranging from 39% to 73%) than observable firm characteristics (ranging from 4% to 22%). It is in this context that socio-cultural factors play their part in influencing the pay-performance link. Different socio-cultural factors and its impact on pay-performance link are discussed below.

**Social Network and capital:**

Recent researches reveal that the CEO networks constitute a valuable organizational resource (Harris and Helfat, 1997; Geletkanyez and Hambrick, 1997). Horton et al. (2009) conducted a study using a sample of 4,278 listed UK firms and found that connectedness is positively associated with compensation and with the firm’s future performance and the company compensates these individuals for the resources these better connections provide to the firm. Guedj and Barnea (2007) investigated the role of director networks in firms' decision-making. The authors found strong evidence that in firms whose directors are more central in the network, CEO pay is higher and CEO pay is less sensitive to firm performance. Similarly, Bebchuk et al. (2007) argued that CEO centrality, hence the relative importance of the CEO vs. the management team, has a negative impact on firm performance.
Kirchmaier and Stathopoulos (2008) investigated the relationship between a CEO’s social network and firm performance and found that the size of a CEO’s social network affects firm performance negatively which is in support of Bebchuck’s et al. (2002) managerial power approach i.e. the CEOs appear to use the power and security they gain from having access to a large social network for their own benefit rather than the benefit of the firm. Brown et al. (2008) investigated the impact of CEO networking on compensation arrangements and found that the size of the CEO network is positively related to the level of CEO compensation and inversely related to its pay-performance sensitivity. The study supported the predictions of the managerial power approach (Bebchuk et al. 2002)). In particular the author found that the bigger the size of the CEO network, the higher the CEO total compensation and the lower the pay-performance sensitivity. Thus the size of the CEO network remains a highly significant determinant of the pay package. In short, we find a negative relationship between the size of the social network and the pay-performance sensitivity of the pay package.

**Political Network:** Politics is an important determinant of firm performance because government policies affect expected future cash flows and firms must operate within the bounds of regulation constraints (Aslan and Grinstein, 2011). Political connectedness can be treated as one form of "social capital", which consists of resources available through political social networks that a CEO can use to influence policy decisions that are in his interest and firm performance (e.g., Coleman (1988), Flap and De Graaf (1986), Useem and Karabel (1986), Zweigenhaft (1992)). Cao et al. (2009) investigated the impact of CEO’s compensation-based and promotion-based incentives on firm performance in China, where the CEOs of most state-owned enterprises are government appointed and thus face dual incentives. The authors found that both monetary and political incentives are positively related to firm performance. More important, the authors pinpointed a substitution effect: the monetary compensation-based incentive is weaker when CEO incentives are heavily driven by political career concerns. Boubakri et al., 2008 in their investigation found that politically connected firms perform worse than non-politically connected firms, meaning that the cost of political connection offsets the benefits it generates but failed to provide direct evidence of how political connections affect firm performance. Aslan and Grinstein (2011) found that political networks are positively related to levels of compensation and negatively associated with pay-performance sensitivity. In particular, the results reveal a political connection is associated with a 9% increase in CEOs’ annual compensation and a 17% decrease in his pay-performance sensitivity.

**Social Fairness:** The impact of social fairness on firm performance can be understood by review the studies based on two competing theories – the tournament theory ((Lazear and Rosen (1981)) and equity fairness arguments. The empirical evidence on the tournament theory is rather limited and results are mixed. Main et al. (1993) reported that firm performance is positively associated with executive pay dispersion. Similarly, based on proprietary data of 210 Danish firms during 1992–1995, Eriksson (1999) provided somewhat weak evidence that higher pay dispersion is positively related to firm performance. In contrast, O’Reilly et al. (1988) did not find support for the tournament argument in a sample of 105 Fortune 500 firms, and Conyon et al. (2001) reported that variation in executive compensation is not associated with enhanced firm performance in a sample of 100 UK firms in 1997. Contrary to the tournament model which espouses hierarchical pay dispersion, equity fairness model advocates equitable wage dispersion to facilitate harmonious social relations at the workplace to augment firm performance (Akerlof and Yellen (1988, 1990), Milgrom (1988), Milgrom and Roberts (1990)) Using a sample of university faculty, Pfeffer and Langton (1993) report that greater wage dispersion within academic departments reduces faculty satisfaction as well as research productivity and collaboration among colleagues. There is also some preliminary evidence in business settings (e.g., Drago and Garvey, 1998) that supports the argument for equity fairness.

**Toward a Comprehensive Model**
The proposed model summarizes the major determining moderators of executive pay-performance linkage which is given below:

Theoretical Framework of Pay-Performance Relationship

(A) FIRM CHARACTERISTICS
- Firm Size
- Firm Risk
- Ownership Structure

(B) PAY CHARACTERISTICS
- Executive Pay Components
  1. Equity-based/stock-based
  2. Cash-based Compensation
- Pay Plan Adoptions

(C) EXECUTIVE CHARACTERISTICS
- Age
- Tenure
- Education
- CEO ownership and Duality

(D) SOCIO-CULTURAL CHARACTERISTICS
- Social Network
- Political Network/connectedness
- Social Fairness

Iceberg Model of Pay-Performance Relationship
Whole gamut of extant literature on Executive Compensation and Firm Performance reveals a reciprocal relationship moderated by many endogenous factors like firm characteristics, pay characteristics and executive characteristics as well as exogenous factors like socio-cultural dimensions. Endogenous factors are those factors which directly influence the pay-performance relationship and are quantifiable, while exogenous factors are those factors which indirectly affect the pay-performance linkage and are unquantifiable.

It is amply clear from the extensive literature review that variables falling under firm characteristics like firm risk have minimal influence on pay-performance relationship. On the other hand firm size has significant positive impact on pay-performance particularly in emerging economies like India, while ownership structure has moderate influence on the same. This can be explained from the fact that the bigger firms with large bottom lines are more willing to pay their CEOs high level of compensation with the aim of attracting the best talents in the market to further augment firm value. Similarly in countries like India where majority of the listed firms are family owned the proximity of the CEO to the largest shareholding family can have a sizeable impact on Executive pay with moderate influence on firm performance.

Study of extant literature also reveals that variables falling under pay characteristics like equity based compensation and pay plan adoption have less takers in emerging economies like India where cash compensation is more valued as opposed to its western counterparts with moderate to minimum effect on firm performance. This can be put down to the uncertainty avoidance nature of the Eastern CEOs.

Investigation into CEO characteristics reveals that factors like age, tenure and education have more influence on fixation of executive compensation and its concomitant impact on firm performance than duality and gender. While seniority in age gives the CEO more experience and hence bigger compensation and commensurate increase in firm value, longer tenure tends to taper off the compensation package and consequent firm value. In terms of education the more qualified CEO from Ivy League colleges are more likely to get better leverage in terms of compensation but not necessarily bring more value to the firm. On the other hand a female CEO may bring more value to the firm but not necessarily get a similar or better deal than her male counterparts. Finally, when the CEO of a company is also Chairman of the Board, firm performance tend to suffer due to lack of Board control in spite of high compensation package.

Last but not the least, analysis of extant literature further unravels the fact that Pay-Performance linkage is also depend on Socio-cultural variables like Social Networking, Political Networking and Social Fairness. While a socially well connected CEO can bring more value to the firm through his large pool of social connections, particularly in countries like India, he can also extract more mileage for himself, in terms of compensation. Similarly, politically connected CEOs can exploit his Political connections to add to the company bottom line by sealing public deals which otherwise would have been inaccessible. But he can also use this leverage for personal gains. This can lead to tunnelling and scams, a phenomenon common to emerging economies like India. The other factor that begs attention in countries like India with widespread economic inequality is social fairness in terms of dispersion of wage. Whenever the astronomically high CEO pay is highlighted in the media, the obvious question arises, whether our CEOs are justified in accumulating massive wealth in terms of compensation. Although, it is not clear whether the people sitting in the boardrooms take note of social fairness while fixing CEO pay, it is certainly a factor which do agitate the managerial rank and file of a firm, which might impact overall firm performance.

The aforementioned interpretations are also reflected in the proposed model where firm characteristics, pay characteristics, executive characteristics and social characteristics directly influence the executive compensation packages and firm performance. However, social characteristics have indirect effect on
performance. To top it all, executive compensation and firm performance mutually influence each other. This is reflected in adoptions of performance linked pay plans.

Thus an analytical overview of the relationship between executive compensation and firm performance reveals that there are certain measurable visible factors which affect pay-performance relationship, while there are certain measurable invisible factors which influence pay-performance linkage. The theoretical integration of all the measurable and immeasurable, visible and invisible factors that impacts executive pay-performance leads us to develop a model which resembles an iceberg, where the quantifiable visible factors are floating one over another in terms of its impact on pay-performance above the surface, while the unquantifiable invisible factors are floating below.

Conclusion
The authors of this paper have tried to harmonize the apparent disharmony of the various studies on the relationship between executive compensation and firm performance by proposing the ice-berg model of pay-performance. The proposed model is a modest effort to bring theoretical integration in pay-performance literature and the same has to undergo rigorous empirical test in order to stand on its own footing. We hope this will pave the way for future research in to the seemingly complex relationship between executive compensation and firm performance.

References


