An Examination of CEO Compensation System in Toronto Stock Exchange (TSX/S&P) Retail Companies

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Abstract—This study investigated CEO compensation system of the Toronto Stock Exchange (TSX/S&P) retail companies. It attested the relationship between CEO compensation, firm size, accounting performance, and corporate governance, from the period 2005 to period 2010. The ten retail companies were selected through stratified sampling method from TSX/S&P index. The nine statistical models were created to address research question - is there a relationship between CEO compensation, firm size, accounting firm performance, and corporate governance?. It was found that there were relationships: between CEO salary, CEO bonus, and firm size; and between CEO salary, CEO bonus, CEO total compensation, and firm performance. However, it was found that there were no relationships: between CEO total compensation and firm size; and between CEO salary, CEO bonus, CEO total compensation, and corporate governance.

Index Terms— CEO compensation, accounting performance, firm size, corporate governance, retail Industry compensation, and Toronto Stock Exchange compensation.

1 INTRODUCTION

The purpose of this research is to understand in-depth CEO compensation system of TSX/S&P retail companies. In addition, to assist the Canadian public in understanding CEO bonus system which they expressed concern as it was not strictly based on pay-performance basis. The failure to understand determinants of CEO compensation from the public had led to blaming CEOs of rent grabbing; (misused of its power towards the board to monopolize its compensation system). Thus, these ever growing concerns bring to foreground conclusion the need to further study in-depth at least one important sector of the Canadian economy, namely, retail sector, to understand the primary relationship and the resulting dynamics between CEO compensation, firm size, accounting firm performance, and corporate governance.

The CEOs and other executives would like to eliminate risk exposures in their compensation packages by decoupling their pay from performance and linking it to a more stable factor firm size. This strategy indeed deviates from obtaining optimum results from a principal - agent contract. Previous studies had found a strong relationship between CEO compensation and firm size but correlation results were ranged from nil to strong positive ratios. The variables used in previous studies as a proxy for firm size were either total sales, total number of employees, or total assets. Therefore, firm size needs to be studied with CEO compensation on an extensive basis such as using total sales and total number of employees.

The most researched topics in executive compensation are between CEO compensation and firm performance. Although executive compensation and firm performance had been subject of debate amongst academics as such, there was little consensus on the precise nature of the relationship. This had led further researched in greater detail need to understand in finer terms the true extent of the relationship between them. As such, this research had used eight variables to examine correlations between CEO compensation, return on assets (ROA), return on equity (ROE), earnings per share (EPS), cash flow per share (CFPS), net profit margin (NPM), book value per common stocks outstanding (BVCSO), and market value per common stocks Outstanding (MVCSO).

The relationship between CEO compensation and corporate governance (CEO power) was not examined extensively in North America especially in Canada. In fact, CEO power only had been subject of recent focus among researchers, primarily due to the effect of researchers had failed to find the strong relationship between CEO compensation, firm size, and firm performance. The variables used in previous studies as a proxy for corporate governance were either CEO age, CEO turnover, and CEO tenure, and they were found to have negligible to weak relationship with CEO compensation. This is perhaps due to, third party data collection; and low quality of sample population such as focus only on a particular industry, and the use of different statistical methods, all had led to divergent in the results. Therefore, corporate governance needs to be studied with CEO compensation on an extensive basis such as by using CEO age, CEO stocks outstanding, CEO stock value, CEO tenure, CEO turnover, management 5% ownership, and individuals/institutions 5% ownership.

2 LITERATURE REVIEW

2.1 CEO COMPENSATION AND FIRM SIZE

Gomez-Mejia and Barkema (1998) defined the relationship as a positive relationship between CEO compensation and firm performance. The CEOs cash incentives have a strong relationship with firm size as CEOs in large companies make high income than CEOs in small companies. This is supported by Finkelstein

and Hambrick (1996) who stated firm size is related to the level of executive compensation. Tosi and Gomez-Mejia (1994) stated that measurement of firm size was a composite score of standardized values of reported total sales and number of employees. Shafer (1998) had shown that pay sensitivity (measured as the dollar change in CEO wealth per dollar change in firm value) falls with the square root of firm size. That is, CEO incentives are 10 times higher for a $10 billion firm than for a $100 million firm.

Werner, Katz, and Gomez-Mejia (2000) found that the estimated correlation between the CEO pay and aggregate firm size factor is .643, indicating that firm size account for over 40% of variance in CEO pay. Similarly, adjusted composite correlation between change in CEO pay and change in firm size is .225, accounting for about 5% of variance in changes in CEO pay. In addition, they found that CEOs can exert more influence on the basis of firm size than CEO performance as such, they would prefer to use firm size as the criterion for compensation purposes. This is supported by Simmons, & Wright (1990) who found that CEO pay increases considerably following a major acquisition even when firm performance suffers. Similarly, Kostiuk (1990) and Agarwal (1981) argued that large firm sizes may be used to legitimize high CEO pay due to greater organizational complexity; and more CEO human capital required to run businesses. Furthermore, executives are risk averse. They can reduce or eliminate risk exposure in their compensation package by decoupling their pay from performance and linking it to a more stable factor, the firm size (Dyl, 1988; and McEachern, 1975). In addition, according to Gomez-Mejia (1994), a host of structural factors and the pragmatic problems make it difficult for corporations to effectively control executives, leading to compensation packages that are more closely tied to firm size than performance. According to Sigler (2011), firm size appears to be most significant factor in determining the level of total CEO compensation. His examination was based on 280 firms listed on the New York Stock Exchange from 2006 to 2009.

Fox (1983) stated that CEOs were paid more in large firms primarily due to its leadership demand and more hierarchical layers exist in large firms. In addition, he (1989) also found that there was a substantial evidence that firm size was a major determinant of CEO pay. However, Finkelstein and Hambrick (1989) found that the results have varied from nil to strong positive associations between CEO compensation and large firms.

Gomez-Mejia, Tosi, and Hinkin (1987) believed that firm size was a less risky basis for setting executives' pay than performance, which was subject to many uncontrollable forces outside the managerial sphere of influence. Similarly, McEachern (1975) argued that CEOs in management-controlled firms will prefer to avoid risk of tying pay to performance, therefore, firm size which was likely to vary less than performance, will most affect pay. This was supported by Hambrick and Finkelstein (1995) and Gomez-Mejia et al. (1987) who found that that firm size was related to total pay in management-controlled firms but not owner-controlled firms suggested that managerial control was a moderator of pay-size relationship. In the owner-controlled firms, a large share of compensation should be contingent on firm performance than was a base salary (Gomez-Mezia, Tosi, and Hinkin, 1987). Murphy (1985) shown that holding the value of a firm constant, a firm whose sales grow by 10 percent will increase salary and bonus of its CEO by between 2% and 3%. These findings suggested that the size - pay relation is causal. It also suggested that CEOs can increase their pay by increasing firm size even when the increase in firm size reduces firm's market value. Prasad (1974) believed that executive salaries appear to be far more closely correlated with the scale of operations of a firm than its profitability. He also believed that CEO compensation was primarily a reward for past sales performance and was not necessarily an incentive for future sales efforts.

Tosi et al. (2000) believed that the most of the studies conducted by scholars found that executive pay as a control mechanism are remarkably inconsistent not only with theory but with each other. This is supported by studies conducted by Belkaoui and Picur (1993), David, Koachhar, and Levitas (1998), and Gray and Cannella (1997) that the correlations between firm size and CEO pay are as low as .107, .110, and .170, while studies conducted by Boyd (1994), and Finkelstein and Boyd (1998) reported correlations of .62, .50, and .42.

2.2 CEO COMPENSATION AND FIRM PERFORMANCE LINKAGE

The CEO compensation is generally believed to be weakly related to firm performance, according to a majority of studies conducted in the United States and the United Kingdom. It is believed that CEO power and weak governance play an important role in the weak relationship between CEO cash compensation and firm performance. Henderson and Fredrickson (1996) stated that while CEO total pay may be unrelated to performance, it is related to the organizational complexity that they manage. This is also supported by Murphy (1985), Jensen and Murphy (1990), and Joskow and Rose (1994) in their respective study.

Jensen and Murphy (1990) argued that incentive alignment as an explanatory agency construct for CEO pay is weakly supported at best. That is, objective provisions of principal-agent contract cannot be comprehensive enough to effectively create a strong direct CEO pay and performance relationship. They found that pay performance sensitivity for executives is approximately $3.25 per $1000 change in shareholder wealth, small for an occupation in which the incentive pay is expected to play an important role. This is supported by the legendary work of Tosi, Werner, Katz, and Gomez-Mejia (2000) on pay studies, who stated that the overall ratio of change in CEO pay and change in financial performance is 0.203, an accounting for about 4% of the variance. The estimated true correlation between: CEO pay and return on equity was .212; and between CEO pay and total assets was 0.117. Thus, these other financial measures account for less than 2% of variance in CEO pay levels. This weak relationship is explained by Borman & Motowidlo (1993) and Rosen (1990), who stated that archival performance data focus only on a small portion of CEO's job performance requirement was difficult to form an overall conclusion.

Jensen and Murphy (1990) believed that CEO bonuses were strongly tied to an unexamined or unobservable measure of performance. If bonuses depend on performance measures observable only to board of directors and are highly variable, they could provide a significant incentive. One way to detect the exist-

ence of such "phantom" performance measures is to examine the magnitude of year-to-year fluctuations in CEO compensation. The large swings in CEO pay from year to year were consistent with the existence of an overlooked but important performance measure: small annual changes in CEO pay suggested that CEO pay was essentially unrelated to all relevant performance measures. Furthermore, they argued that although bonuses represent 50% of CEO salary, such bonuses were awarded in ways that were not highly sensitive performance as measured by changes in market value of equity, accounting earnings, or sales. In addition, they found that, that while more of the variation in CEO pay could be explained by the change in accounting profits than stock market value, however, pay-performance sensitivity remains insignificant.

Jensen and Murphy (1990) found in their study that CEO received an average pay increase of $31,700 in years when shareholders earned a zero return, and received on average an additional 1.35¢ per $1,000 increase in the shareholder's wealth. These estimates are comparable to those of Murphy (1985 and 1986); Coughlan and Schmidt (1985); and Gibbons and Murphy (1990), who found pay-performance elasticity of approximately 0.1 – salaries and bonuses increased by about 1% for every 10% rise in value of the firm. Additionally, they stated that an average pay increase of CEO whose shareholders gains $400 million was $37,300, compared to an average pay increase of $26,500 for CEOs whose shareholders lose $400 million. Their Forbes study was based on executive compensation surveys covered for the period 1974 to1986. Jensen and Murphy (1990) reasoned these results to, boards have fairly good information regarding managerial activities and therefore weight on output was small relative to weight on input.

On the other hand, Jensen and Zimmerman (1985) argued that the evidence was inconsistent with the view that executive compensation was unrelated to firm performance and that executive compensation plans enrich managers at the expense of shareholders. This argument was supported by Mehran (1995) who reported that CEO pay structure was positively related to same-year performance. In addition, Gibbons and Murphy (1990) also found in their study that CEO salaries and the bonuses were positively and significantly related to firm performance as measured by the rate of return on common stock. That is, CEO pay changes by about 1.6% for each 10% return for the common stock. In addition, they found that CEO cash compensation was positively related to firm performance and negatively related to industry performance, ceteris paribus. Similarly, Antle and Smith (1986) found no relation between salary and bonus and industry returns. Blanchard, Lopez-de-Silanes and Shleifer (1994) and Bertrand and Mullainathan (2001) argued that CEO cash compensation increased when firm profits rise for reasons that clearly have nothing to do with managers' efforts.

Murphy (1985), and Jensen and Murphy (1990) found a significant relationship between the level of pay (measured by changes in executive wealth) and the performance (measured by changes in firm value). At the same time, Jensen and Murphy (1990) argued that failure to include a cash performance measure in pay-performance studies had created the impression that management compensation was unresponsive to corporate performance. Similarly, Iyengar, Raghavan J. (2000) found that on average, level of CEO cash compensation was positively related to the firms' level of operating cash flows. On the other hand, Carpenter and Sanders (2002) argued that CEO's total pay may be unrelated to performance, but it may relate to organizational complexity that they manage. This argument was supported by Jensen and Murphy (1989) who believed that political forces factor in the contracting process which implicitly regulate executive compensation by constraining the type of the contracts that can be written between management and shareholders. These political forces, operating in political sectors and within organizations appeared to be important but were difficult to document because they operate in informal and indirect ways. The public disapproval of high rewards seems to have truncated the upper tail of the earnings distribution of corporate executives. The equilibrium in the managerial labor market then prohibits large penalties for poor performance as such dependence of pay on performance was weakened.

Mehran (1995) found that companies in which CEO compensation were relatively sensitive to firm performance tend to produce high returns for shareholders than companies in which relationship between CEO pay and performance was weak. Lambert and Larcker (1987) and Sloan (1993) found in their empirical studies that there was a positive relation between CEO compensation and stock returns. Jensen and Murphy (1990) believed that cash compensation should be structured to provide big rewards for outstanding performance and meaningful penalties for poor performance. Also, they believed that weak link between CEO cash compensation and corporate performance would be less troubling if CEOs owned a large percentage of corporate equity.

According to McEachern (1975); Allen (1981); Amould (1985); Gomez-Mejia, Tosi, and Hinkin (1987); Dyl (1988); Gomez-Mejia and Tosi (1989); and Kroll, Simmons, and Wright (1989), the relationship between executive pay and performance may be stronger in owner-controlled than in management-controlled firms. Werner and Tosi (1995) found that managers in widely held firms were paid more than managers in closely held firms through high salaries, bonuses, and long-term incentives. Dial (1988) argued that that there was a downside hedge in the pay of CEOs in management-controlled firms, given that it was more strongly related to firm size, not performance. In addition, Dial (1988) and Antle and Smith (1986) believed that an owner-controlled firms will seek to transfer some of the risks borne to managers, and this should be reflected in their compensation policies.

2.3 CEO COMPENSATION AND CORPORATE GOVERNANCE (CEO POWER)

It was believed that CEO in large firms tends to own less stock and have less compensation-based incentives than CEOs in small firms. This is supported by Jensen and Murphy (1985) who stated that our all-inclusive estimate of the pay-performance sensitivity for CEOs in firms in the top half of our sample (ranked by market value) is $1.85 per $1,000, compared to $8.05 per $1,000 for CEOs at firms in the bottom half of our sample. In addition, they (1990) argued that as a percentage of total corporate value, CEO share

ownership had never been very high. The median CEO of one of the nation's 250 largest public companies own shares worth just over $2.4 million was less than 0.07% of the company's market value. In addition, 9 out of 10 CEO own less than 1% of their company's stock, while fewer than 1 in 20 owns more than 5% of the company's outstanding shares. Jensen and Murphy (1990) found in their study that most powerful link between shareholder wealth and executive wealth was direct ownership of shares by CEO. They found, on average, CEOs receive about 50% of their base pay in the form of bonuses. They argued that most experts assessed CEO stock ownership in terms of dollar value of CEO's holdings or value of his shares as a percentage of his annual cash compensation. However, they also argued that neither of these measures were relevant in the CEO incentive determination. They believed that percentage of the company's outstanding shares of CEO ownership influences the CEO's pay. However, their statistical analysis found no correlation between CEO stock ownership and pay-for-performance sensitivity in cash compensation. That is, the board of directors had ignored CEO stock ownership when structuring incentive plans. This is supported by Cyert, Kang, and Kumar (2002) study who found a negative correlation between equity ownership of largest stockholder and amount of CEO compensation: doubling the percentage ownership of outside stockholder reduced non-salary compensation by 12 to 14 percent. This was supported by Murphy and Jensen (1990) who found in their study that there was a small and insignificant positive coefficient of ownership-interaction variable, which implied that the relation between compensation and performance was independent of the executive's stock holdings. In addition, they believed that pay-performance relation was not affected by stock ownership seems inconsistent with agency theory since the optimal compensation contracts that provide incentives for managers to create shareholder wealth will not be independent of their stock holdings. Their study findings were based on sampling of 73 manufacturing firms for 15 year period. Cyert, Kang, and Kumar (2002) also argued that CEO pay was negatively related to share ownership of the board's compensation committee; and doubling compensation committee ownership reduces non-salary compensation by 4 to 5%. In addition, many other studies such as of , Agrawal & Knoeber 1996, Himmelberg et al. 1999, and Demsetz & Villalonga 2001, had failed to find any relationship between firm value and executives' equity stakes primarily due to equity holdings were the decision of managers and boards, none of these correlations can be interpreted as causal. However, these findings were challenged by Mehran (1995) who found a positive relationship between percentage of total compensation in cash (salary and bonus) and percentage of shares held by managers. This was supported by Jensen and Murphy (1990) who found in their study that change in both the CEO's pay and the value of his stock holdings were positively and statistically related to changes in the shareholder's wealth; and CEO turnover probabilities were negative and significantly related to changes in shareholder wealth. Ungson and Steers (1984) believed that firms where the CEO had large stock holdings, long tenure, control of top management team, or other means, a CEO can largely shape his or her pay. Similarly, Finkelstein and Hambrick (1988), believed that the relative power of a CEO may affect the height of the hurdles that are set to qualify for contingent pay. In addition, they also believed that executives who own significant portions of their firms are likely to control not only operating decisions but the board decisions as well. As such, executives would be in a position to essentially set their own compensation. In addition, they believed that strong family position in the firm will strengthen the executive's power, despite family shareholders may not be as active as independent directors might be. They also found that CEO compensation and stock holdings are related in an inverted-U manner, with compensation highest in situations of moderate CEO ownership. That is, the point of inflection happened when CEO stock holdings reached about 9%, beyond that increased in CEO ownership had a negative effect on salaries, due to tax preference of incurring capital gains over current income.

Jensen and Murphy (1989) found that executive inside-stock ownership can provide incentives, but these holdings are not generally controlled by the corporate board, and the majority of the top executives had small personal equity ownership. Bertrand and Mullainathan (2000) found that CEOs in firms that lacks a 5% or larger external shareholder tend to receive more luck-based pay, pay associated with profit increased that were entirely generated by external factors rather than by managers' efforts. They also found that in firms lacked large external stock holdings, cash compensation of CEOs was reduced less when their option-based compensation was increased.

Murphy (1986) argued that CEO tenure had shown to influence CEO performance pay in previous studies. The increased CEO tenure may promote the principal's trust of an agent and the assumption that actions will be taken in the principal's interest. Sigler (2011) argued that CEO tenure appears to be one of the significant variables in determining the level of CEO compensation. His examination was based on 280 firms listed on the New York Stock Exchange for a period from 2006 to 2009.

Finkelstein and Hambrick (1989) believed that CEO tenure was thought to have a positive link with compensation, with pay steadily increase as CEO gains and solidifies power overtime. However, in their findings such a pattern was not observed for any of the measures of CEO compensation. Since a monotonic relationship was not found between CEO tenure and CEO pay, existence of a curvilinear association was investigated. In addition, the average tenure of CEOs was significantly lower in externally-controlled firms (2.96 years) than management-controlled firms (5.92 years). Thus, they believed that the boards of the externally-controlled firms may not need to pay from the profitability because the CEO tenure was dependent on the owner's satisfaction with the CEO performance. For the total pay, this finding was relatively strong with inflation adjusted pay starting to decline at about 18 years of tenure. According to them there were two possible explanations for this curvilinear pattern. The first was that power accrues for a while and then diminished due to the CEO's reduced mobility in the managerial labor market, or due to his evolution into a figurehead with one or two younger high priced executives who carry the actual weight of the CEO's job. The second possibility was that executive reach a point where they prefer other forms of compensation over current cash. This could occur because of a change in family and financial circum-

stances, or due to a switch to rely on stock appreciation and dividends, as the CEO's stock holdings increase over-time. Hence, it was not that long tenured CEOs were paid less, but rather that pay mix shifts from cash to stock earnings over-time, supported the notion that personal circumstances influence pay. They also argued that long CEO tenure will lead to more favorable board members towards CEO actions, through his sympathetic appointees. In addition, in the management-controlled firms where CEOs were relatively powerful, CEO tenure was likely to be important to pay determinants. However, Pfeffer (1981) supported Finkelstein and Hambrick (1989) findings and he believed that the creation of a personal mystique which may induce unquestioned deference or loyalty, can be expected to occur when CEO power becomes institutionalized in the organization. A second source of power that is expected to affect compensation is the executive's stock holdings in the firm.

Deckop (1988) argued that the CEO's age had little effect on CEO compensation. However, Finkelstein and Hambrick (1998) found an inverted U-shaped relationship between CEO age and CEO cash compensation. The cash compensation increased with an age up to a point at 59 years, beyond which real cash earnings decreased. They also believed that this pattern of earnings over-time is in line with the CEO's need for cash, which tends to drop off as he or she gets older due to no major expenditures to incur such as house and child-rearing expenses.

3 RESEARCH METHODOLOGY

This research had adopted the quantitative research method as it is the method to be used for historical data collection and descriptive studies. The longitudinal study approach had been selected under quantitative research methodology to study the corporate financial records from 2005 to 2010. The random sampling method had been selected for this research to obtain total sample population of ten companies from TSX/S&P index. For statistical tests, CEO compensation was assigned as the dependent variable; firm size was assigned as a control variable and independent variable; and CEO performance and corporate governance had been assigned as independent variables. Each sub-variables of CEO compensation had been used separately to attest with all sub-independent variables of firm size, firm performance, and corporate governance. The total of nine models were created to address the research question. The survey method had been adopted as it is the most appropriate approach to collect historical data. The historical data of the sampled companies had been obtained from SEADR database. The inferential statistics-based methodology, which is very instrumental in this quantitative research, had been used to obtain statistical results. The 95 % confidence level will be assumed for linear regression tests.

4 DATA FINDINGS AND CONCLUSIONS

DATA FINDINGS

4.1 CEO COMPENSATION MODELS

Table 1 (Regression Analysis – ANOVA)

ANOVA	Salary	Bonus	Total Compensation
Firm Size	F(2,57)=3.624 p=.033 R^2=0.113	F(2,57)=4.078 p=.022 R^2=0.125	F(2,57)=1.892 p=.160 R^2=0.249
Firm Performance	F(8,51)=11.297 p=.000 R^2=0.639	F(8,51)=7.133 p=.000 R^2=0.528	F(8,50)=112.478 p=.000 R^2=0.666
Corporate Governance	F(7,52)=1.176 p=.333 R^2=0.137	F(7,52)=1.822 p=.103 R^2=0.197	F(7,51)=1.547 p=.173 R^2=0.175

The above ANOVA table 1 results were based on the linear regression test. It had shown that there was a relationship between CEO salary, CEO bonus, and firm size. It had shown that there was a relationship between: CEO salary, CEO bonus, and firm size; and CEO salary, CEO bonus, CEO total compensation, and firm performance. However, it was found that there was no relationship between: CEO compensation and firm size; and CEO salary, CEO bonus, CEO total compensation, and corporate governance. That is, they were .113, .125,. 639, .528, and .666 respectively as such, characterized as weak to strong ratios. Thus, these results had illustrated that firm size variables had a weak impact on CEO cash compensation models models relative to firm performance variables on CEO cash compensation. On the other hand, third, seventh, eight, and ninth models between CEO salary, CEO bonus, CEO total compensation, firm size, and corporate governance were found to have a p-value exceeds confidence limit of 5%, as such, they were invalid models for further discussion. Thus, it had illustrated that in TSX/S&P large retail companies, CEO compensation wasn't related to corporate governance factors neither in short-term or long-term compensation models.

4.2 CEO COMPENSATION AND FIRM SIZE

Table 2 – Correlations (CEO Compensation vs. Firm Size)

Firm Size	Salary	Bonus	Total Compensation
Total Sales	0.318	0.352	0.245
Total Employees	0.162	0.236	0.151

The above table 2 had illustrated that the correlation results between CEO salary, CEO bonus, CEO total compensation and firm size. It had shown that there was a weak to moderate correlations

existed between CEO salary, total sales, and total employees. That is, the correlation between CEO salary, total sales, and total employees were .318 and .162, respectively. Thus, it signified that, total sales had a moderate influence relative to weak influence of total employees on firm size. Likewise, it had shown that there was a moderate correlation between CEO bonus, total sales, and total employees. That is, it illustrated that correlations between CEO bonus, total sales, and total employees were .352 and .236, respectively. Thus, it had signified that total sales had moderate and the Total Employees had weak correlations with firm size. In addition, it had illustrated that total sales and total employees had a weak effect towards determining CEO total compensation. That is, it had illustrated that the correlations between CEO total compensation, total sales, and total employees were .245 and .151, respectively. Thus, it had signified that within CEO total compensation structure, long-term benefit component such as stock options, benefits, and pension had weak correlations with total sales and total employees.

4.3 CEO COMPENSATION AND FIRM PERFORMANCE

Table 3– Correlations (CEO Compensation vs. Firm Performance)

	Salary	Bonus	Total Compensation
Return on Assets	-.276	-.117	-.207
Return on Equity	-.192	-.126	-.157
Earnings Per Share	.436	.314	.421
Cash Flow Per Share	.447	.326	.566
Net Profit Margin	.607	.558	.508
Common Stock Outstanding	.274	.349	.244
Book Value of Common Stock	.359	.384	.308
Market Value of Common Stock	.333	.365	.351

The above table 3 illustrated the correlation results between CEO salary, CEO bonus, CEO total compensation, and firm performance. It had shown that there was a negative correlation between CEO salary, CEO bonus, CEO total compensation, return on assets (ROA), and return on equity (ROE). That is, the correlations between them were, -.276, -.117, -.207, -.192, -.126, and -.157, respectively. Thus, it had signified that among balance sheets involved items such as return on assets and return on equity, influence to CEO salary was characterized as weak negative ratios, perhaps due to CEO short and long-term components gives no importance to assets and other related returns. In fact, accounting ratios had played negative impact towards determining CEO compensation. On the other hand, it was found that correlations between CEO salary, CEO bonus, CEO total compensation, earnings per share (EPS), cash flow per share (CFPS), net profit margin (NPM), common stock outstanding (CSO), book value per common stock outstanding (BVPCSO), and market value per common stock outstanding (MVCSO), had moderate to good positive ratios. That is, it had illustrated that the correlations between them were, .436, .314, .421, .447, .326, .566, .607, .558, .508, .274, .349, .244, .359, .384, .308, .333, .365, and .351. Thus, it had shown that, in net earnings related items such as earnings per share, net profit margin, common stock outstanding, and book and market values per common stock, had moderate to good positive ratios, indicated that CEOs were rewarded with positive results - increased sales, cost management, achieving profit targets, and market positive reactions of business activities or appreciations of stock. Thus, overall, in the CEO contract, accounting performance had played a significant role towards determining CEO compensation.

4.4 CEO COMPENSATION AND CORPORATE GOVERNANCE

Table 4– Correlations (CEO Cash Compensation vs. Corporate Governance)

Corporate Governance	Salary	Bonus	Total Compensation
CEO Age	-.106	-.063	.012
CEO Stocks Outstanding	.069	.121	-.065
CEO total Stocks Value	.127	.121	-.087
CEO Tenure	.019	-.246	-.112
CEO Turnover	-.095	-.061	-.031
MGMT. 5% Ownership	.133	.253	.110
INDV./INST. 5% Ownership	.088	.064	.211

The above table 4 illustrated the correlation results between CEO salary, CEO bonus, CEO total compensation, and CEO corporate governance. It had shown that there was a weak negative to weak positive correlations existed between CEO salary, CEO age, CEO stock outstanding, CEO stock value, CEO tenure, CEO turnover, 5% management ownership, and 5% individuals/institutional ownership. That is, the correlations between CEO salary and corporate governance factors were -.106, .069, .127, .019, -.095, .133, and .088, respectively. The positive correlations were between CEO salary, CEO stocks outstanding, CEO total stocks value, CEO tenure, management 5% ownership, and individuals/institutional 5% ownership, indicated CEO stock ownership, the market price of the stock, and ownership structure, all had been a non-influential factors to board in determining CEO salary. On the other hand, the negative correlations between CEO salary, CEO tenure, and CEO turnover signified that, both variables had been completely ignored in fact it had a negative impact towards determining CEO salary.

The correlations between CEO bonus and corporate gov-

ernance factors were -.063, -.121, .121, -.246, -.061, .253, and .064, respectively. That is, the correlations between CEO bonus, CEO age, CEO tenure, and CEO turnover, were found to have weak negative, perhaps due to no influence of non-accounting performance factors or CEO contract completely ignored these corporate governance factors. That is, the board had again ignored: experience level of CEO and duration of the CEO's service, towards determining CEO bonus. On the other hand, the correlations between CEO bonus, CEO stocks outstanding, CEO total stocks value, 5% management ownership, and 5% individuals/institutional ownership, were found to have weak positive ratios. Therefore, it had illustrated that CEO ownership, the market price of the stock, and ownership structure, all had minimum influence or CEO contract ignored these factors towards determining bonus.

The correlations between CEO total compensation and corporate governance factors were .012, -.065, -.087, -.112, -.031, .110, and .211, respectively. That is, the correlations between CEO total compensation, CEO age, management 5% ownership, and individuals/institutions 5% ownership, were found to have weak positive. On the other hand, the correlations between CEO total compensation, CEO stocks outstanding, CEO total stocks value, CEO tenure, and CEO turnover, had found to have weak negative ratios, thus it signified that long-term benefits had out weighted CEO salary and bonus in CEO contract. Overall, corporate governance factors had a weak influence on CEO compensation.

5 CONCLUSION

Overall, it was found that there was a relationship: between CEO salary, CEO bonus, and firm size; and between CEO salary, CEO bonus, CEO total compensation, and accounting performance. However, it was found that there was no relationship: between CEO total compensation and firm size; and between CEO salary, CEO bonus, CEO total compensation, and corporate governance. The correlations between CEO salary, CEO bonus, CEO total compensation, and firm size, were ranged from weak to moderate positive ratios. The correlations between CEO salary, CEO bonus, CEO total compensation, return on assets (ROA), and return on equity (ROE), were found to have weak negative ratios. The correlations between CEO salary, CEO bonus, CEO total compensation, earnings per share (EPS), cash flow per share (CFPS), net profit margin (NPM), common stocks outstanding (CSO), book value per common stock outstanding (BVCSO), and market value per common stocks outstanding (MVCSO), were found to have moderate to good positive ratios. The correlations between CEO salary, CEO bonus, CEO total compensation, CEO age, CEO stocks outstanding, CEO total stocks value, CEO tenure, CEO turnover, management 5% ownership, and individuals/institutional 5% ownership, were found to be ranged from weak negative to weak positive ratios. Overall, despite an overall positive impact of firm size and accounting firm performance on CEO Compensation on TSX/S&P large retail companies, non-financial performance or qualitative criteria need to be further studied between CEO compensation with qualitative elements of CEO contract.

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7 APPENDIX A

Operational Hypothesis Statement

H0: There is no relationship between, CEO compensation, firm size, accounting firm performance, and corporate governance, in TSX/S&P retail companies.

H1: There is a relationship between, CEO compensation, firm size, accounting firm performance, and the corporate governance, in TSX/S&P retail companies.

To address this operational hypothesis statement, separate model was developed for each dependent variable:

Firm Size

For Salary: $Y1=c+ B1X1+B2X2+\epsilon$

For Bonus: $Y2=c+ B1X1+B2X2+\epsilon$

(Y1=Salary; Y2=Bonus; c=constant predictor; B1=influential factor for Total Sales; B2=influential factor for Total Number of Employees; and ϵ=error).

(X1=Value of Total Sales; X2=Value of Total Number of Employees).

Firm Performance

For Salary: $Y3=c+ B1X1+B2X2+B3X3+B4X4+B5X5+B6X6+B7X7+B8X8+\epsilon$

For Bonus: $Y4=c+ B1X1+B2X2+B3X3+B4X4+B5X5+B6X6+B7X7+B8X8+\epsilon$

(Y1=Salary; Y2=Bonus; c=constant predictor; B1=influential factor for ROA; B2=influential factor for ROE; B3=influential factor for EPS; B4=influential factor for CFPS; B5=influential factor for NPM; B6=influential factor for CSO; B7=influential factor for BVCSO; B8=influential factor for MVCSO; and ϵ=error)

Let X1=Value of ROA; X2=Value of ROE; X3=Value of EPS; X4=Value of CFPS; X5=Value of NPM; X6=Value of CSO; X7=Value of BVCSO; B8=Value of MVCSO

Corporate Governance

For Salary: $Y5=c+ B1X1+B2X2+B3X3+B4X4+B5X5+B6X6+B7X7+\epsilon$

For Bonus: $Y6=c+ B1X1+B2X2+B3X3+B4X4+B5X5+B6X6+B7X7+\epsilon$

(Y5=Salary; Y6=Bonus; c=constant predictor; B1=influential factor for the CEO Age; B2=influential factor for the CEO Stocks Outstanding; B3=influential factor for CEO Stocks Value; B4=influential factor for CEO Tenure; B5=influential factor for CEO Turnover; B6=influential factor for Management 5% stocks ownership; B7= Individuals/Institutional 5% Ownership; and ϵ=error).

Let X1=Value of CEO Age; X2=Value of CEO Stocks Outstanding; X3=Value of CEO Stocks Value; X4=Value of CEO Tenure; X5=Value of CEO Turnover; X6=Value of Management 5% Stocks Ownership; and X7=Value of Individuals/Institutions 5%Ownership.

All the nine models assumed to have a confidence level (α) of 5

percent.

8 APPENDIX B

TSX/S&P Large Retail Companies	
1	Alimentation Couche-Tard Inc.
2	Canadian Tire Corp.
3	Indigo Books & Music Inc.
4	Loblaw Companies Ltd.
5	Metro Inc.
6	Reitmans (Canada) Ltd.
7	RONA Inc.
8	Sears Canada Inc.
9	Shoppers Drug Mart Corp.
10	Tim Hortons