

Ownership Structure and CEO Compensation in North America: A Combined Study Approach of NYSE and TSX/S&P Index companies

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Abstract—This research had investigated ownership structure and its impact on CEO compensation system in TSX/S&P and NYSE indexes companies from the period 2005 to 2010. The totaled of two hundred and forty companies were selected through random sample method. The research question for this study was: is there a relationship between CEO compensation, firm size, accounting firm performance, and corporate governance, among owner-managed and management-controlled companies?. To answer this question, thirty six statistical models were created. It was found that, there was a relationship between CEO compensation, firm size, accounting performance, and corporate governance, both in the owner-managed and management-controlled companies, except for the relationship between CEO bonus and firm size of owner-managed companies.

Keywords: Accounting Performance, Corporate Governance, Corporate Ownership, Accounting Earnings, TSX/S&P CEO compensation, and NYSE CEO compensation.

1 INTRODUCTION

The purpose of this research is to understand the influence of firm ownership on CEO compensation as a combined study of TSX/S&P and NYSE indexes companies, from a period 2005 to 2010. That is, extent of influence of owner-controlled and management-controlled companies in CEO compensation system. This interesting and important study in the executive compensation area will reveal some scientific methodologies or trends to understand the nature of CEO contract under respective ownerships. This study was conducted also in the influence of, over the past decade, Canadian and United States public had raised concerns over large bonuses declared to CEOs by their board of directors. The failure to understand the determinants of CEO compensation by public had led to blaming CEOs of rent grabbing; misused of its power towards board; and its monopolization of the compensation system. Thus, these ever growing concerns bring to foreground conclusion the need to further study CEO compensation system especially the effect of type of ownership on CEO compensation, as one important variable of executive compensation study.

The CEOs and other executives would like to eliminate the risk exposure 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 the optimum results from principal-agent contracting. In general, previous studies had found a strong relationship between CEO compensation and firm size but the 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 cash compensation in greater detail such as using both total sales and total number of employees.

The most researched topics in the executive compensation are between CEO compensation and firm performance. Although executive compensation and firm performance had been the subject of debate amongst academic, but there was little consensus on the precise nature of the relationship as such, further researched in greater detail need to be conducted to understand in finer terms the true extent of the relationship between them. As such, this research had unprecedentedly used eight variables to attest with CEO compensation, that is, 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 stock outstanding (BVCSO), and market value per common stock outstanding (MVCSO).

The relationship between CEO compensation and corporate governance (CEO Power) was not attested extensively in the past, especially in Canada. In fact, only few credible researched papers were written. That is, CEO power only had been the 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 such as, CEO age; CEO tenure; and CEO turnover, were found to have negligible to weak relationship with CEO compensation. In addition, third party data collection, different population samples such as industry and market, and use of different statistical methods, all had led to a divergence in results. Therefore, corporate governance needs to be studied with CEO compensation on an extensive basis such as using, CEO age, CEO stocks outstanding, CEO stock value, CEO tenure, CEO turnover, management 5 percent ownership, and individuals/institutional 5 percent ownership.

2 LITERATURE REVIEW

2.1 CEO COMPENSATION AND FIRM SIZE

Prasad (1974) believed that executive salaries appear to be far more closely correlated with the scale of operations than its profitability. He also believed that executive compensation is primarily a reward for previous sales performance and is not necessarily an incentive for future sales efforts. McEachern (1975) believed that executives are risk averse. They can reduce or eliminate risk exposure in their compensation package by linking it to a more stable factor, firm size. Gomez-Mejia, Tosi, and Hinkin (1987) believed that firm size is a less risky basis for setting executives' pay than performance, which was subject to many uncontrollable forces outside the managerial sphere of influence. Deckop (1988) believed that a strong sales compensation relationship would suggest that CEOs are given an incentive to maximize size rather than profitability. Tosi and Gomez-Mejia (1994) believed that measurement of firm size is the composite score of standardized values of reported total sales and number of employees. Gomez-Mejia and Barkema (1998) defined the relationship between CEO compensation and firm size as "positive". That is, CEOs in large companies make higher income than CEOs in small companies. This is supported by Finkelstein and Hambrick (1996), who believed that firm size is related to the level of executive compensation. This is further supported by Murphy (1985), who find that holding value of a firm constant, firm whose sales grow by 10% will increase CEO salary or bonus between 2% and 3%. Therefore, it shows that size pay relation is causal, and CEOs can increase their pay by increasing firm size, even when increase in size reduces the firm's market value. Shafer (1998) shown that pay sensitivity, which measured as change in CEO wealth per dollar and 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.

2.2 CEO COMPENSATION AND FIRM PERFORMANCE LINKAGE

According to previous studies conducted in the United States and the United Kingdom, CEO compensation is believed to be weakly related to firm performance. Loomis (1982) argued that pay is unrelated to performance. Henderson and Fredrickson (1996), and Sanders and Carpenter (1998, 2002) argued that CEO total pay may be unrelated to performance but it related to organizational complexity they manage. Likewise, studies conducted by Murphy (1985), Jensen and Murphy (1990), and Joskow and Rose (1994) find similar conclusions.

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 are not comprehensive enough to effectively create a direct link between CEO pay and performance. They find that pay performance sensitivity for executives is approximately \$3.25 per \$1000 change in shareholder wealth, small for an occupation in which incentive pay is expected to play an important role. This is supported by Tosi, Werner, Katz, and Gomez-Mejia (2000), who find that overall ratio of change in CEO pay and change in financial performance is 0.203, an accounting for about 4% of the

variance. This weak relationship is explained by Borman & Motowidlo (1993) and Rosen (1990), who stated that archival performance data focuses only on a small portion of a CEO's job performance requirements as such, it is difficult to achieve a robust conclusion.

According to Jensen and Murphy (1990) who believed that CEO bonuses are strongly tied to an unobservable performance measure. They believed that if bonuses depend on performance measures observable only to the board of directors, they could have provided a significant incentive. They believed that one way to detect the existence of such phantom performance measures are to examine the magnitude of year to year fluctuations in CEO compensation. They believed that such fluctuations signifies CEO pay is unrelated to accounting performance. In addition, they argued that although bonuses represent 50% of CEO salary, such bonuses are awarded in ways that are not highly sensitive to performance. And the variation in CEO pay can be explained by changes in accounting profits than stock market value. Overall, they believed that pay performance sensitivity remains insignificant.

Jensen and Murphy (1990) find in their study that CEO received an average pay increase of \$31,700 in years when shareholders earned a zero return, and received an average additional 1.35¢ per \$1,000 increase in shareholder wealth. These findings are comparable to those of Murphy (1985 and 1986), Coughlan and Schmidt (1985), and Gibbons and Murphy (1990), who find that pay performance elasticity of approximately 0.1, indicating, salaries and bonuses increased by about 1% for every 10% rise in the value of the firm. In addition, they find an average pay increase of CEOs whose stockholders gains \$400 million is \$37,300, compared to an average pay increase of CEO whose stockholders lose \$400 million is \$26,500. These findings are supported by Jensen and Murphy (1990), who believed that CEO cash compensation should be structured to provide big rewards for outstanding performance and meaningful penalties for poor performance. In addition, they believed that the relationship between CEO cash compensation and firm performance would be less troubling if CEO owned a large percentage of corporate equity. Gilson and Vetsuypens (1993) argued that the association between pay and performance is small in economic terms when performance is measured in terms of changes rather than levels. This is supported by Iyengar (2000) who argued that changes in CEOs compensation are unrelated to changes in firms' performance perhaps due to stockholders in poorly performing firms would like to adopt a cautious wait and see attitude, to assess whether a change in performance is permanent before rewarding senior managers. This is further supported by Antle and Smith (1986), who find no relation between CEO cash compensation and firm performance. However, these statements are contradicted by Jensen and Zimmerman (1985), who stated that evidences are inconsistent with a view that executive compensation is unrelated to firm performance and enriches managers at the expense of shareholders. This is supported by Gibbons and Murphy (1990), who find that CEO pay changes by about 1.6% for each 10% of return on common stock. That is, the CEO pay structure is positively and significantly related to firm performance, as measured by the rate of return on common stock. This is supported by Lambert and Larcker (1987) and Sloan (1993), who find that there

is a positive relation between CEO compensation and stock returns. According to Blanchard, Lopez-de-Silanes and Shleifer (1994), Iyengar, Raghavan J. (2000), and Bertrand and Mullainathan (2001), who stated that CEO cash compensation increases when firm profits rise for reasons that have nothing to do with managers' efforts. Murphy (1986) believed that top executives are worth every nickel they get.

2.3 CEO COMPENSATION AND CORPORATE GOVERNANCE (CEO POWER)

According to Jensen and Murphy (1990), voting power of CEO includes CEO and his immediate family stock ownership and the percentage of stocks over which CEO has a sale or shared power to direct the voting. It is believed that CEOs in large firms tend to own less stock and have less compensation based incentives than CEOs in small firms. This is supported by Jensen and Murphy (1990), who find that as a percentage of total corporate value, CEO stock ownership has never been high in large companies. That is, there exists a small and insignificant positive coefficient of ownership interaction variable, which implied that the relation between compensation and performance is independent of an executive's stock holdings. In addition, according to their earlier (1989) study, they find that median CEO of one of nation's 250 largest public companies own shares just over \$2.4 million, less than 0.07% of the company's market value. In addition, they find that 9 out of 10 CEOs own less than 1% of their company's stock, and 1 in 20 CEOs own more than 5% of the company's outstanding stocks. Overall, they find that CEOs receive about 50% of their base pay in the form of bonuses. Their study is based on sampling of 73 manufacturing firms during a 15 year period. This is supported by Cyert, Kang, and Kumar (2002), who find a negative correlation between large stockholders and CEO compensation. That is, doubling percentage ownership of external stakeholders reduces non salary compensation by 12% to 14%. This is contradicted by an earlier study conducted by Mehran (1995), who find a positive relationship between the percentage of total cash (salary and bonus) compensation and the percentage of stocks hold by managers. His study is based on one year collection of data. Ungson and Steers (1984) believed that firms where CEOs have large stock ownership and long tenure, they can largely shape their 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 believed that strong family's position in the firm will increase executive's power. Moreover, they find that CEO compensation and CEO stock ownership are related in an inverted U-shaped manner, compensation highest in situations where CEO stock ownership is characterized as moderate. That is, the point of inflection happened when CEO stock ownership reached about 9 percent in the first 18 years, beyond that, salaries started to decline due to tax preference of incurring capital gains over current income. Bertrand and Mullainathan (2000) find that CEOs at firms lacking five percent (or larger) stock ownership tend to receive more luck based pay, that is, pay associated with profit increases that are entirely generated by external factors rather than by CEOs' efforts. In addition, they also find that firms that have fewer external stakeholders, CEO cash compensation is marginally reduced when option based compensation is in-

creased.

Murphy (1986) stated that CEO performance is influenced by CEO tenure. That is, he believed that increased CEO tenure may promote principal trust of an agent and in turn agent will take actions in the principal's interest. Similarly, Sigler (2011) finds that CEO tenure appears to be an important variable in determining the level of CEO compensation. His examination is based on two hundred and eighty firms listed on the New York Stock Exchange from 2006 to 2009. In addition, Finkelstein and Hambrick (1989) believed that CEO tenure is thought to have a positive link with compensation. That is, pay steadily increase as CEO gains and solidify power over-time. However, they find in their study that such a relationship is not observed between CEO tenure and CEO pay. As such, they then decided to conduct additional testing, cross sectional associations of CEO compensation and CEO tenure, and have found that there is an existence of a curvilinear relationship, a U-shaped pattern. That is, CEO tenure increases pay up to 18 years and then it started to decline gradually. They have provided two possible explanations for this curvilinear relationship. Firstly, they believed that power accrues for a while and then diminishes due to CEO's reduced mobility in the managerial labor market, or due to his evolution into a figure-head with one or two younger high priced executives carry the actual weight of a CEO's job. Secondly, they believed that executives reached a point where they prefer stock over cash compensation. This could occur because of changes in family and financial circumstances. This supposition is supported when they have examined two sub samples and have found that stock compensation carries a higher proportion of total compensation. As such, they believed that CEO tenure increases a shift in pay mix from cash to stock earnings, support the notion that personal circumstances influence pay. In addition, they believed that long CEO tenure will create opportunity to recruit sympathetic board members for CEOs. In addition, they find that the average tenure of a CEO is significantly lower in externally controlled firms (2.96 years) than management-controlled firms (5.92 years). Thus, they believed that the boards of externally controlled firms may not need to pay from profitability because CEO tenure is dependent on the owner's satisfaction with CEO performance. Their study is based on a sample size of sixty companies. Pfeffer (1981) 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.

Deckop (1988) argued that CEO age has little effect on CEO compensation. However, Finkelstein and Hambrick (1989) find an inverted U-shaped relationship between CEO age and CEO cash compensation, indicating, CEO cash compensation increases until CEO reached the age of 59 years and then it starts to decline. This is consistent with the view that earnings over time is in line with 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. This is supported by McKnight et al. (2000), who find that CEO compensation is positively related to a certain age, but it starts to decline afterward. This is further supported by Weir (2000), who finds that the relationship between CEO salaries and CEO age are significantly related but have weakened over time, and the relationship between CEO age and CEO bonus appears nonlinear in nature. That is, at about age

53, the proportion of bonus as a percentage of salary begins to decrease at an increase rate. On the other hand, according to Gibbons and Murphy (1992), who finds that CEO age is a well recognized determinant of compensation and have shown to be significantly related to CEO pay.

Jensen and Murphy (1990) find that CEO turnover probabilities are negatively and significantly related to changes in stockholder wealth. In addition, they concluded that the dismissals were simply not an important source of CEO incentives. Gilson and Vetsuypens (1990) examined the nature of compensation packages for financially distressed firms. They found that within a small sample of financially distressed firms, when a turnover occurs, insider replacement CEOs were paid substantially less than their predecessors, but outsider replacement CEOs were paid substantially more. Similarly, Murphy and Oyer (2002) find that outside CEO replacements receive higher compensation than inside CEO replacements. That is, outside replacement CEOs, at median, typically make \$335,360 more than their predecessors while inside CEOs are typically paid only \$126,156 more than their predecessors. Brickley (2003) concluded that firm performance continues to explain very little variation of CEO turnover. Overall, despite literature consisted of excellent theoretical discussions on this topic, yet it lacked consistent empirical studies on the relationship between CEO compensation and CEO turnover.

2.4 CEO COMPENSATION AND EQUITY OWNERSHIP

Fama & Jensen (1983) and Jensen & Meckling (1976) posited a solution to this agency problem that firms aligned owner and agent's interests through agents' equity ownership, and accordingly structure their compensation. This is supported by Dalton et al. (2007) who believed that agent's equity ownership leads to embrace shareholder interests. Nyberg, Gerhart, and Carpenter (2010) further elaborated through defining incentive alignment in two related components: "(1) financial alignment, whereby an agent's economic reward co-vary with those of owners through the ownership; and (2) the agent's preferences and the actions become more aligned with those of the owners, though still motivated by self-interest but are more consistent with ownership interests." However, in contrary, they found that the relationship between financial alignment and future shareholder return is not contingent on level of firmness-specific wealth that CEO owns. This finding was also supported by Tosi, Werner, Katz, and Gomez-Mejia (2000) and Dalton et al. (2003) that there was a negligible relationship between CEO equity ownership and organization performance. That is, there was little evidence to support agency theory's emphasis on alignment of financial interests, agent preferences, and actions through equity ownership.

3 RESEARCH METHODOLOGY

This research had adopted a 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 corporate financial records from 2005 to 2010. The random sample method had been selected for this research to obtain total sample population of two hundred and forty companies from TSX/S&P and NYSE indexes companies. For statistical tests, CEO compensation

was assigned as the dependent variable; firm size was assigned as control and independent variables; and CEO performance and corporate governance had been assigned as independent variables. Each sub-variables of CEO compensation had been used separately to test with all sub-independent variables of firm size, firm performance, and corporate governance. The total thirty six models were tested to address research questions. 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 SEDAR and EDGAR databases. The inferential statistics-based methodology, which is very instrumental in this quantitative research, had been used to obtain statistical results. The 95 percent confidence level was assumed for all statistical tests.

4 DATA FINDINGS AND CONCLUSIONS

DATA FINDINGS

4.1 CEO COMPENSATION AND FIRM SIZE

Table 1 (ANOVA)

OWNER-MANAGED	Salary	Bonus	Total Compensation
Firm Size	F _(2,990) =137.711 p=.000 R ² =0.218	F _(2,864) =2.940 p=.053 R ² =0.007	F _(2,925) =610.891 p=.000 R ² =0.569
Accounting Performance	F _(8,310) =40.908 p=.000 R ² =0.514	F _(8,299) =14.845 p=.000 R ² =0.284	F _(8,305) =85.038 p=.000 R ² =0.690
Corporate Governance	F _(7,989) =13.028 p=.000 R ² =0.084	F _(7,874) =4.871 p=.000 R ² =0.038	F _(7,901) =11.125 p=.022 R ² =0.08

The above ANOVA table 1 results were based on linear regression testing. It showed that there was a relationship between CEO salary, CEO bonus, CEO total compensation, firm size, accounting performance, and corporate governance, owner-managed companies, except for the relationship between CEO bonus and firm size. The first, second, and third models between CEO salary, CEO bonus, and firm size were, .218, and .007 respectively, as such characterized as weak models. The third model between CEO total compensation and firm size was .569 as such characterized as good to strong model. Thus, first two models illustrated that in owner-managed companies, firm size had a weak influence on CEO short-term compensation; however, third model illustrated that firm size had been influenced by long-term benefits. The fourth, fifth, and sixth models between CEO salary, CEO bonus, CEO total compensation, and accounting performance were, .514, .284, and .690 respectively, as such characterized as moderate to strong ratios. Thus, these models indicated that accounting performance had a material impact on both short and long-term CEO compensation. The seventh, eighth, and ninth

models between CEO salary, CEO bonus, CEO total compensation, and corporate governance were .084, .038, and .08 as such, characterized also as weak models. Thus, these models indicated that both short and long-term CEO compensation had not been influenced by corporate governance variables, perhaps due to corporate governance factors had not linked with CEO compensation.

Table 2 (ANOVA)

MGMT.- CON- TROLL-ED	Salary	Bonus	Total Com- pensation
Firm Size	$F_{(2,418)}=126.258$ p=.000 $R^2=0.377$	$F_{(2,398)}=35.899$ p=.000 $R^2=0.153$	$F_{(2,414)}=173.578$ p=.000 $R^2=0.456$
Accounting Per- formance	$F_{(8,1075)}=42.680$ p=.000 $R^2=0.241$	$F_{(8,876)}=36.501$ p=.000 $R^2=0.250$	$F_{(8,552)}=122.766$ p=.000 $R^2=0.640$
Corporate Govern- ance	$F_{(7,413)}=15.262$ p=.000 $R^2=0.206$	$F_{(7,376)}=5.647$ p=.000 $R^2=0.095$	$F_{(7,405)}=8.330$ p=.000 $R^2=0.126$

The above ANOVA table 2 results were based on linear regression tests. It had shown that there was a relationship between CEO salary, CEO bonus, CEO total compensation, firm size, firm performance, and corporate governance, in the management-owned companies. The first, second, and third models between CEO salary, CEO bonus, CEO total compensation, and firm size were .377, .153, and .456 respectively, as such characterized as weak to moderate models ratios. The fourth, fifth, and sixth models between CEO salary, CEO bonus, CEO total compensation, and accounting performance were, .241, .250, and .640 respectively, as such characterized as good to strong models. Thus, these models indicated that in management-owned companies, accounting performance had a weak effect on short-term CEO compensation, however, accounting performance had a strong effect on long-term CEO compensation, indicated CEO contracts were weighted heavily on accounting performance. The seventh, eighth, and ninth models between CEO salary, CEO bonus, and CEO total compensation, and corporate governance were, .206, .095, and .126 respectively, as such characterized as weak models. Thus, these models indicated that corporate governance factors had not strongly influenced as accounting performance towards CEO compensation, perhaps due to the betas of values of each respective model were low (< .50) which caused to derive weak model ratios. Overall, management-controlled companies had a stronger model than owner-managed companies in CEO short-term compensation structure. However, owner-managed companies had slightly stronger models than management-controlled companies, relating to long-term CEO compensation.

Table 3 - Correlations (CEO Compensation vs. Firm Size)

OWNER- MAN- AGED	Sala- ry	Bo- nus	Total Com- pensation
Total Sales	0.431	-0.037	0.650
Total Em- ployees	0.384	-0.082	0.740

The above table 3 illustrated the correlation results between three categories of CEO compensation and firm size in the owner-managed companies. It had shown that there were good to strong correlations existed between CEO salary, CEO total compensation, total sales, and total employees. Thus, it had indicated that CEO salary and long-term benefits were materially correlated with firm size. The relationships between CEO bonus, total sales, and total employees were -.037, and -.082 respectively, which indicated that firm size had a weak negative influence towards determining CEO bonus, perhaps due to growth indicators were not included in the CEO contract towards CEO bonus determination.

Table 4 - Correlations (CEO Compensation vs. Firm Size)

MGMT.- CONTROLLED	Salary	Bonus	Total Com- pensation
Total Sales	0.612	0.380	0.674
Total Employ- ees	0.312	0.191	0.488

The above table 4 illustrated the correlation results between CEO salary, bonus, total compensation, and firm size. It had shown that there was a moderate to good correlation existed between CEO salary, CEO bonus, total compensation, and total sales. That is, it was found that the relationships between CEO salary, CEO total compensation, and total sales, were .612 and .674 respectively, which indicated that total sales had a material impact on CEO salary and CEO long-term benefits. That is, it was found that the relationship between CEO salary, CEO total compensation, and total employees were .312 and .488, indicating that total employees had a moderate influence towards CEO salary, and a good influence towards long-term benefits. That is, it was found that the relationship between CEO bonus, total sales, and total employees were .380 and .191 indicated that firm size had a some degree of influence towards the determination of CEO bonus in management-controlled companies, perhaps the involvement of basic guaranteed bonus in CEO contract. This finding had indeed conflicted with the finding observed under owner-managed companies. In addition, similar to owner-managed companies, in the management-controlled companies, CEO salary, and non-

cash components of CEO compensation were influenced in similar proportion by the variety of firm size.

Overall, it was found that the firm size had an insignificant effect on CEO compensation, both under owner-managed and management-controlled companies. That is, in both types of ownerships, total sales had a strong influence towards CEO salary, CEO bonus, and long-term benefits. Similarly, total employees had a weak to moderate effect towards CEO compensation.

4. 2 CEO COMPENSATION AND FIRM PERFORMANCE

Table 5 - Correlations (CEO Compensation vs. Firm Performance)

FIRM PERFORMANCE	Salary		Bonus		Total Compensation	
	Owner Contr.	Mgmt.- Contr.	Owner- Contr.	Mgmt.- Contr.	Owner- Contr.	Mgmt.- Contr.
Return on Assets	0.122	0.07	0.053	0.017	0.022	0.058
Return on Equity	0.112	0.025	0.157	-0.033	0.159	0.054
Earnings Per Share	0.101	0.071	0.064	0.006	0.081	0.072
Cash Flow Per Share	0.004	0.035	-0.032	0.045	0.107	-0.023
Net Profit Margin	0.199	0.146	0.131	0.154	0.205	0.417
Common Stock Outstanding	0.582	0.100	0.241	0.389	0.671	0.229
Book Value of Common Stock	0.528	0.231	0.375	0.413	0.663	0.305
Market Value of Common Stock	0.697	0.464	0.477	0.342	0.783	0.724

The above table 5 illustrated the correlation results between sub-variables of CEO compensation and firm performance both under owner-managed and management-controlled scenarios. In the owner-managed and management-controlled companies, it had shown that there were weak positive correlations existed between CEO salary, return on assets, return on equity, earnings per share, cash flow per share, and net profit margin. That is, the correlations were, .122, .112, .101, .004, and .199, for owner-managed companies; and .070, .025, .071, .035, and .146, for management-owned companies. Thus, it had indicated that assets and equity related performances had a similar impact both under owner-managed and management-controlled companies. In ad-

dition, it had shown that the CEO contract had ignored assets and equity related performances towards determining CEO salary. In the owner-managed companies, the correlations between CEO salary, common shares outstanding, book value per common share outstanding, and market value per common share outstanding, were characterized as good to strong ratios. However, in management-controlled companies, these similar correlations were characterized as moderate to good ratios. This perhaps due to the CEO compensation structure in owner-managed companies were based primarily on market performance, relative to mixed qualitative and quantitative compensation structure in management-controlled companies. Overall, assets and equity related accounting performances had not been linked to CEO salary by board both in the owner-controlled and management-controlled companies.

In CEO bonus area, owner-managed and management-controlled companies, it was also found that there were weak correlations between CEO bonus, return on equity, return on assets, earnings per share, cash flow per share, and net profit margin. That is, correlations for owner-managed companies were .053, .157, .064, -.032, and .131; and correlations for management-controlled companies were .017, -.033, .006, .045, and .154. Thus, it had shown that CEO bonus was not influenced by assets and equity related returns, both in owner and management controlled companies, indicated also that CEO bonus was perhaps based on non-assets and qualitative factors such as management of the organization and other strategic task accomplishments. In owner and management controlled companies, correlations between CEO bonus, common shares outstanding, book and market values per common share outstanding, were characterized as moderate to good ratios. That is, correlations for owner-managed companies were .241, .375, and .477, and correlations for management-controlled companies were .389, .413, and .342. Thus, these ratios also had indicated that business and market performances had influenced CEO bonus.

4.3 CEO COMPENSATION AND CORPORATE GOVERNANCE

Table 6 – Correlations (CEO Compensation vs. Corporate Governance)

CORPORATE GOVERNANCE	Salary		Bonus		Total Compensation	
	Owner-Contr.	Mgmt.-Contr.	Owner-Contr.	Mgmt.-Contr.	Owner-Contr.	Mgmt.-Contr.
CEO Age	0.165	0.043	-0.004	-0.087	0.155	-0.098
CEO Shares Outstanding	-0.006	0.145	-0.106	-0.048	-0.04	-0.022
CEO Share Value	0.082	0.386	-0.009	0.012	0.039	.194
CEO Tenure	-0.019	0.156	-0.078	0.008	-0.129	-0.033
CEO Turnover	-0.102	-0.056	0.009	0.014	-0.013	0.047
MGMT. 5% ownership	-0.169	-0.120	-0.120	-0.250	-0.112	-0.236
INDV./INST. 5% ownership	-0.009	0.039	-0.117	0.137	0.084	-0.069

The above table 6 had illustrated the correlation results between sub-variables of CEO compensation and corporate governance, both under owner and management controlled scenarios. In owner-managed companies, it had shown that there were weak negative to weak positive correlations existed between CEO salary, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/institutional ownership. That is, in owner-managed companies, the correlations between CEO salary and corporate governance factors were .165, -.006, .082, -.010, -.019, -.101, -.169, and -.009, respectively. Thus, it had shown that overall corporate governance factors had negligible influence towards CEO salary indicated that the CEO had no influence towards salary determination. However, in management-controlled companies, it had shown that there were weak negative to moderate positive correlations existed between CEO salary, CEO age, CEO

shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/Institutional ownership. That is, correlations between CEO salary and corporate governance factors were .043, .145, .386, .156, -.056, -.120, and .039, respectively. Thus, it had shown that the CEO had some degree of influence towards salary determination, through CEO shares ownership and CEO employment duration. However, CEO age, CEO share value, CEO turnover, 5 percent management ownership, and 5 percent individuals/Institutional ownership were ignored by the board towards CEO salary.

In the area of CEO Bonus, in the owner-managed companies, it had shown that there were weak negative to moderate positive correlations existed between CEO bonus, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent Individuals/Institutional ownership. That is, in the owner-managed companies, the correlations between CEO bonus and corporate governance factors were -.004, -.106, -.009, -.078, .009, -.120, and .117, respectively. Thus, none of corporate governance factors had a strong influence towards CEO bonus determination. Similarly, in the management-controlled companies, it was found that there were weak negative to weak positive correlations between them. That is, the correlations were -.087, -.048, .012, .008, .014, -.250, and -.137, respectively. Thus, it had shown that, in the management-controlled companies, CEO contract completely ignored corporate governance factors.

In the owner-managed companies, it had shown that there were weak negative to weak positive correlations existed between CEO total compensation, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/institutional ownership. That is, in owner-managed companies, the correlations between CEO total compensation and corporate governance factors were .155, -.04, .039, -.129, -.013, -.112, and .084, respectively. Thus, it had shown that in owner-managed companies, long-term benefits had not been influenced by corporate governance factors. Similarly, in the management-controlled companies, corporate governance factors had weak negative to weak positive impact on CEO total compensation. That is, in management-controlled companies, the correlations between CEO total compensation and corporate governance factors were -.098, -.022, .194, -.033, .047, -.236, and -.069, respectively. Overall, corporate governance had a weak influence on CEO compensation in both owner-managed and management-controlled scenarios, perhaps due to influence of firm size, accounting performance, and qualitative factors.

5 CONCLUSION

Overall, in both owner-managed and management-controlled companies, it was found that there was a relationship existed between CEO salary, CEO bonus, CEO total compensation, firm size, accounting firm performance, and corporate governance, except for the relationship between CEO bonus and firm size. In the area of firm size, among owner-managed and management-controlled companies, it had shown that there was a moderate to strong correlations existed between CEO salary, CEO total com-

penation, total sales, and total employees. The relationship between CEO bonus and firm size was found to be weak negative in owner-managed companies, however, this similar relationship was found to be weak to moderate correlations in management-controlled companies. In the area of accounting performance, among owner-managed and management-controlled companies, it had shown that there were weak positive correlations existed between CEO salary, return on assets, return on equity, earnings per share, cash flow per share, and net profit margin. In owner-managed companies, correlations between CEO salary, common shares outstanding, book value per common share outstanding, and market value per common share outstanding, were characterized as good to strong ratios. However, in management-controlled companies, these similar correlations were characterized as weak to moderate ratios. In CEO bonus area, among owner-managed and management-controlled companies, it was found that there were weak correlations existed between CEO bonus, return on assets, return on equity, earnings per share, cash flow per share, and net profit margin. However, it was found that, among owner-managed and management-controlled companies, the relationship between CEO bonus, common shares outstanding, and the book and market values per common share were characterized as moderate to good ratios. In the area of CEO total compensation, among owner-managed and management-controlled companies, it was found that there were weak correlations existed between CEO total compensation, return on assets, return on equity, earnings per share, and cash flow per share. In owner-managed companies, correlations between CEO total compensation, net profit margin, common shares outstanding, book and market values per common share outstanding, were characterized as moderate to strong ratios. In the area of corporate governance, among owner-managed companies, it had shown that there were weak negative to weak positive correlations existed between CEO salary, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/institutional ownership. However, in management-controlled companies, it had shown that there were weak negative to moderate positive correlations existed between them. In owner-managed and management-controlled companies, it had shown that there were weak negative to moderate positive correlations existed between CEO bonus, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/institutional ownership. In owner and management-controlled companies, it had shown that there were weak negative to weak positive correlations existed between CEO total compensation, CEO age, CEO shares outstanding, CEO share value, CEO tenure, CEO turnover, 5 percent management ownership, and 5 percent individuals/institutional ownership. Overall, corporate governance had a weak influence on CEO compensation in both owner and management controlled scenarios.

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7 APPENDIX

Operational Hypothesis Statement

- H0: There is no relationship between, the CEO Compensation, the Firm Size, the Accounting Firm Performance, and the Corporate Governance in the TSX/S&P Owner-Managed and Management-Controlled companies.
- H1: There is a relationship between, the CEO Compensation, the Firm Size, the Accounting Firm Performance, and the Corporate Governance in the TSX/S&P Owner-Managed and Management-Controlled companies.

To address this Operational Hypothesis Statement, the separate model was developed for each dependent variable:

Firm Size

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

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

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

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

Firm Performance

For Salary: $Y3=c+$

$B1X1+B2X2+B3X3+B4X4+B5X5+B6X6+B7X7+B8X8 + \square$

For Bonus: $Y_4 = c +$

$$B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + B_7X_7 + B_8X_8 + \epsilon$$

(Y_1 =Salary; Y_2 =Bonus; c =constant predictor;

B_1 =influential factor for ROA; B_2 =influential factor for ROE; B_3 =influential factor for EPS; B_4 =influential factor for CFPS; B_5 =influential factor for NPM; B_6 =influential factor for CSO; B_7 =influential factor for BVCSO; B_8 =influential factor for MVCSO; and ϵ =error)

Let X_1 =Value of ROA; X_2 =Value of ROE; X_3 =Value of EPS; X_4 =Value of CFPS; X_5 =Value of NPM; X_6 =Value of CSO; X_7 =Value of BVCSO; X_8 =Value of MVCSO

CEO Power

For Salary: $Y_5 = c +$

$$B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + B_7X_7 + \epsilon$$

For Bonus: $Y_6 = c +$

$$B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + B_6X_6 + B_7X_7 + \epsilon$$

(Y_5 =Salary; Y_6 =Bonus; c =constant predictor;

B_1 =influential factor for the CEO Age; B_2 =influential factor for the CEO Shares Outstanding; B_3 =influential factor for CEO Shares Value; B_4 =influential factor for CEO Tenure; B_5 =influential factor for CEO Turnover; B_6 =influential factor for the Management 5 percent Shares Ownership; B_7 = Individuals/Institutions 5 percent Ownership; and ϵ =error).

Let X_1 =Value of CEO Age; X_2 =Value of CEO Shares Outstanding; X_3 =Value of CEO Shares Value; X_4 =Value of CEO Tenure; X_5 =Value of CEO Turnover; X_6 =Value of Management 5 percent Shares Ownership; and X_7 =Value of Individuals/Institutions 5 percent Ownership.

All the thirty six models assumed to have a confidence level (α) of 5 percent.