Is ceo compensation directly related to performance

Finance

IS CEO COMPENSATION DIRECTLY RELATED TO PERFORMANCE TABLE OF CONTENTS EXECUTIVE SUMMARY It has been observed globally that organization pay their CEO's competitive prices for aligning their organization performance. This research article will highlight the impact of CEO's compensation and promotion based incentives and their related performance. It is difficult task for assessing the executive compensation and evaluating whether they are working in favor of their investors (Antle, 1986). INTRODUCTION Executive or CEO pay is a financial compensation which is a combination of basic salary, bonuses or shares of the company stock etc. CEO pay is an important aspect for corporate governance and is determined by the company board of directors. PROBLEM STATEMENT Several theories have been designed for evaluating job performance and their relation with CEO pay structure. CEO compensations have been a subject of scrutiny for several years and through this paper I will evaluate whether or not CEO compensation is directly related to his/her performance. The financial breakdown faced by several companies has forced board of directors to design framework for assessing CEO's performance and offer incentives accordingly. The board of directors employs methods for aligning the CEO's actions with their company success and this can only be achieved through paying according to their performance. It happens as such that CEO fortune rise and fall with organization success or failure (Core J. R., 2002). RESEARCH QUESTIONS The first problem area will find out multiple determinants of CEO pay, including financial performance, CEO risk attitude, human resources and board structure. The second problem area will examine the pay strucutre of CEO across different organizations both private and public. The third problem area will present the response of corporate managers to the proxy statement disclosure rule based on a five year perfomance graph (Antle, 1986).

LITERATURE REVIEW It is a proven fact the CEO's job is the most stressful and difficult one to execute, as he/she is the individual who is responsible for the company's strategic business position in the market. CEO is assigned with the task to collaborate with team members, board of directors and shareholders for safeguarding the company's interest and for executing this they deserve a handsome amount of pay scale (Coughlin, 1985). CEO compensation varies from one company to another and is usually complicated which is more focused towards incentives, fringe benefits and perks as compared to the fixed pay scale. Performance can be measured in two ways either long-term performance or short-term performance which are linked with reasonable incentives for short-term performance and higher incentives for long-term performance. It is the duty of CEO to develop and implement strategies which can provide long-term benefits for the company and its shareholders (Finkelstein, 1998). The objective of this research is to provide an insight of the executive compensation by discussing the empirical and theoretical research on executive compensation. Due to the interdisciplinary literature, executive compensation has received attention from labor economists (Core J. a., 1999). Executive compensation entails opportunities for analyzing concepts related to labor economics, their productivity, promotions and incentives. Several theories are available for evaluating CEO compensation such as: Pay Performance Theories, Accounting based agency theories, corporate of earnings based agency theories, board capture based agency theories, management discretion based agency theories and social comparison based non-agency theories (Jensen, 1990). STRUCTURAL FRAMEWORK AND METHADOLOGY The variables associated with CEO compensation include Fixed Cash Salaries, Risk and Reward, Bonus and Stock Options. CEO compensation is justified because CEO's stock prices increase which in turn increase shareholder assets. A good CEO must be well balanced in terms of scope of defined duties and assigned responsibilities. One study reveals that an average American CEO earn on averages 225% more as compared to other CEO worldwide. The difference in pay arises due to the competitive market and various associated market factors (Mehran, 1995). DATA COLLECTION METHODS Data for my research will be collected through a series of instruments which will include hard copy and electronic data sources, keeping in view current job standards, evaluation and market pricing. Data evaluation will include: Standard Data Cuts (First Quartile, Median, Average Salary, Third Quartile.) Validation from Benchmark Equivalents Data Extraction through Local Market Survey ANALYSIS OF FINDINGS Organizational shareholders must devise a scheme which must be enduring and should continue to exist for moving organization towards achievement of the 3 Rs of business which involves: doing right things, doing them in the right way and at the right time. This system must be blended with strong practices such as scorecards, business perfection and strategic planning.

This research has evaluated the identification of CEO performance based on the remuneration allocated and have identified several associated factors which may differ from company to company. It is also evaluated that CEO pay related to several other structures, these governance variables include firm size, board members capacity, number of directors and defining CEO scope of organizational work. (Conyon, 1997) SUMMARY AND CONCLUSION According to the study it can be summarized that CEO compensation is a black art and inferring numbers is not always straight forward. But it is a technique to devise methods for creating a methodology for devising compensation programs which can create incentives or disincentives for executives for working in the interests of their shareholders and organization. Human resource professionals can provide valuable assistance in designing such strategies which will be beneficial for the entire workforce. (Core J. a., 1999) REFERENCES Antle, R. a. (1986). An Empirical Investigation of the Relative Performance Evaluation of Corporate Executives. Journal of Accounting Research . Benito, A. a. (1999). The Governance of Directors’ Pay from UK Companies. Journal of Management and Governance . Conyon, M. (1997). Corporate Governance and Executive Compensation. International Journal of Industrial Organisation . Core, J. a. (1999). Corporate Governance, chief executive officer compensation, and firm performance. Journal of Financial Economics . Core, J. R. (2002). Performance Consequences of Mandatory Increases in., Journal of Financial Economics . Coughlin, A. a. (1985). Executive Compensation, Management Turnover, and Firm Performance: An Empirical Investigation. Journal of Accounting and Economics . Finkelstein, S. B. (1998). How Much Does the CEO Matter? The

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