Firm Performance, Corporate Governance and Managerial Reward

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Extended Abstract

This paper examines two different models of managerial rewards. Model One is a so called "hierarchy model" while Model Two is a linear combination of factors affecting the composition of reward and some control variable connected with corporate governance and nature of ownership (public/private). We test two hypotheses: on one hand, the aim is to analyse if firm's executive rewards can be explained just by the hierarchical structure of the firm while on the other we want to study the correlation between the level of Chief Executive Officer (CEO) compensation, the quality of firms' corporate governance and firm performances. A comparison of the results obtained will be helpful for two reasons: if the level of reward is not only a function of hierarchy or economic performances it will be interesting to compare the excess of compensation due to managerial discretion obtained in the two models and check if the results obtained show a similar trend. Furthermore, if the excess of compensation due to managerial discretion will be positive, model two will help us to understand if this "inefficiency" is due to a weak corporate governance structure or to the nature of the ownership of the firm.

This can help to find evidences if managerial discretion is related to the nature of ownership and to the system of corporate governance and how much corporate governance and privatisation succeed in influencing managerial discretion.