

An Empirical Analysis of Managerial Power and Executive Remuneration: Mediating Role of Firm Performance

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Abstract

Managerial power is the most critical element for the organizations because it plays a vital role in firm performance and pay setting process. Moreover, top management have all important information of the firms and if managerial power is high they may misuse such information. Considering the importance of managerial power numerous studies analyzed the different aspects of managerial power using data of different countries. This study proposed three hypotheses to assess the association among managerial power, executive remuneration, and firm performance. This study used PLS-SEM approach to test developed hypotheses using data of S&P/ASX 50 index firms. All of the proposed hypotheses are accepted. This study also meet the quality criteria of both reflective and formative measurement scale as prerequisite to the assessment of structural model.

Keywords: Managerial Power, Executive Remuneration, Firm Performance, Reflective and Formative Measurement, Australia

1. INTRODUCTION

Shareholders, stakeholders, institutional investors, and general public are more concerned about the remuneration of executives and directors. Executive remuneration must be properly designed because excessive remuneration can lead to excessive risk taking and persuade executive towards corporate voracity. Executive remuneration got more importance and public interest after global financial crises. These financial crises emphasized on developing a regulatory framework that will provide greater accountability and transparency of executive remuneration, and will better able to align the interest of executives with shareholders and firms performance. Executive remuneration is critical element of firm's internal governance system. Because, by using appropriate remuneration the executives can be motivated to work harder and take actions that are in the interests of the shareholders (Jensen and Murphy 1990; Jensen and Meckling 1976). Consequently, executive remuneration is a key to retain and attract talented executives (Conyon, 2006; Anderson and Bizjak 2003); proper remuneration reinforces the implementation of the company strategy and goals. Based on the reasoning above, it is easy to understand the significance of executive remuneration in the internal governance of the company. Consequently, executive remuneration is constituted of four key components: fixed remuneration, typically consisting of a salary, bonuses, generally include all the short term rewards; a variety of perquisites and supplementary benefits such as insurance, club memberships, and other noncash rewards; and long-term incentives, which may include various forms of stock options and deferred remuneration (Combs et al., 2007).

In general, there are two views of executive remuneration in the literature. Under the optimal contracting view, CEO remuneration arrangements are the product of arm's length contracting between the board of directors and executives, which results in remuneration contracts that provide efficient incentives to reduce agency problems (Jensen and Meckling 1976). In contrast, under rent-seeking view, CEOs influence the design and setting of remuneration contracts to personally benefit themselves, which results in greater agency problems between executives and shareholders (Bebchuk and Fried, 2003). The central implication of the managerial power approach is simple. Rather than a solution to shareholders' optimal contracting problem, executive remuneration is viewed as a mechanism through which powerful, entrenched CEOs extract rent from shareholders (Choe, Tian, and Yin, 2009). As a consequence, the more powerful CEOs are, the more pay they award themselves with less strings attached. In doing so, the only constraint CEOs face is what Bebchuk and Fried, (2003) called the 'outrage constraint', which curbs pay that is considered too excessive (Choe et al., 2009). If one takes the implication of the managerial power theory literally, then the corollaries are that the total CEO pay should increase in managerial power, pay-performance sensitivity of CEO remuneration should decrease in managerial power and, consequently, managerial power should lead to worse firm performance. In the current study we investigate CEO power (managerial power) ability to influence the decision relating to remuneration.

Overall, the empirical evidence on the executive remuneration is mixed. Some studies provide evidence supporting the optimal contracting view (Kaplan and Rauh, 2010; Edmans, Gabaix and Landier, 2008). Other studies provide evidence that CEOs exercise substantial influence over the executive remuneration process resulting in wealth transfer from shareholders to managers (Bebchuk and Fried, 2004; Core, Holthausen, and

Larker, 1999).

Furthermore, many empirical studies of executive remuneration have been motivated by theories of firms. In the crudest form of the neoclassical economic theory, the primary objective of a firm is to pursue an economic goal of maximizing profits. This, in turn, will maximize gains for owners or shareholders of the firm (Jensen and Meckling, 1976). However, with separation of control and ownership, managers or executives are given power to manage the firm. And this makes it feasible for managers to pursue their self-interest rather than the owners' or shareholders' economic interest in maximizing profits. Since goals of shareholders (principal) and manager (agent) are not congruent, managers may engage themselves in optimistic behavior for maximizing their personal gains at the cost of the principal (Jensen and Meckling, 1976), this is the classical agency problem. Only above normal remuneration can dissuade managers from pursuing opportunism. This then gives rise to various forms of incentive remuneration (Ozkan, 2011). Without proper incentives, CEOs may not be inclined to act in the best interests of the shareholders. A CEO paid a flat salary, for example, may pursue goals other than maximizing firm value at potentially enormous cost to the shareholders (Wallsten, 2000). He further added that the top executive presumably has the most control over the firm's decisions, and thus her pay should be most closely tied with performance. Additionally, CEO remuneration is more sensitive to performance than is the remuneration of other executives (Wallsten, 2000).

The managerial power approach is in the spirit of the economics literature that focuses on the power certain agents obtain in organizations and those agents' ability to use this power to extract rents (Bebchuk, Fried, and Walker, 2000). Unfortunately, financial economists working in the particular context of executive remuneration have largely followed the optimal contracting approach and paid little attention to the role of managerial power (Bebchuk et al., 2000). Current research provide a simple, theoretical analysis of how CEO power affects executive remuneration and firm performance. This research also investigate the relationship between executive remuneration and firm performance. There is a considerable body of research on executive remuneration. However, a large proportion of these studies examine listed firms in United States i.e. a study of Gregory - Smith, (2012) and Li and Qian, (2011). Current study is different from other studies as it used Australian listed companies to investigate the developed hypotheses. As there is limited literature exist on executive remuneration using Australian data. Secondly, this study focus on managerial power to analyze its influence on remuneration by using a comprehensive set of dimensions that reflect the managerial power. Only limited literature provide evidence that managerial power strongly effect firm performance, current study also trying to fil this gap through investigating the relationship between managerial power and firm performance. Unlike to previous studies that focus on board structure (Rampling, 2012), its independence (Ryan and Wiggins, 2004) and ownership concentration (Pinto and Leal, 2013).

2. LITERATURE REVIEW

Under the managerial power approach part of the agency problem is that executives use their remuneration to provide themselves with rents (Bebchuk et al., 2002). Schneider, (2013) indicates that corporate managers have considerable power, even nominally independent directors are often connected to executives by bonds of interest, collegiality, or affinity. These directors might rise up and displace a particularly poorly performing CEO. However, if the CEO is performing adequately, they generally will be inclined to defer and support the CEO's judgment (Bebchuk et al., 2002). They further argued that, these directors given the considerable influence of the CEO and the CEO's management team over the board, bargaining over executive remuneration does not usually approach the arm's length ideal. Rather, executives frequently use their power to increase their remuneration, and directors cooperate with management at least to some extent (Schneider, 2013). The excess pay that executives are able to extract because of their positional power constitutes rents (Choe et al., 2009). Specifically, the amount of rents that an executive extracts is the excess of the pay obtained by him over what he would have received under a contract that maximizes shareholder value (Chalmers, Koh, and Stapledon, 2006). Because rent extraction is associated with managerial power, the managerial power approach suggests that there is a correlation between managerial power and rents (Chalmers et al., 2006; Bebchuk et al., 2002). The power of the CEO will depend in large part on the ownership structure of the firm (Pinto and Leal, 2013); the more shares owned by the CEO, the greater will be her influence on director elections and her ability to thwart or discourage a hostile takeover attempt. The more shares owned by unrelated parties, the less will be the CEO's influence on director elections and the more vulnerable the CEO will be to a hostile takeover attempt (Weisbach, 2006). Thus, the power of the CEO will tend to increase with the percentage of shares he owns, and will tend to decrease with the percentage of shares owned by outside block holders (Agrawal and Nasser, 2012; Weisbach, 2006; Bebchuk and Fired, 2004). The CEO's power will also depend on the number of inside directors and the number of independent directors because there is the number of independent directors over whom the CEO has some kind of influence (Li and Qian, 2011). For instance, an independent director might follow a CEO's wishes because he is a longtime friend of the CEO or because he is grateful that the CEO has placed him on the board (Li and Qian, 2011). The size of the board in terms of the number of directors is also likely to enable or constrain managerial

power (Ozkan, 2011; Adams et al., 2005).

As for board characteristics, majority of studies find that firm performance is positively related to smaller boards (Yermack, 1996; Conyon and Peck, 1998) and boards with less busy outside directors (Fich and Shivdasani, 2006; Core et al., 1999). Lipton and Lorsch, (1992) also argue that “the norm of behaviors in most boardrooms are dysfunctional” as directors often do not criticize the policies of executives, and this problem increases with size of the board. However, Coles et al. (2008) challenge the notion that restrictions on board size and management representation on the board necessarily enhance firm value. They find that complex firms have larger boards with more outside directors, compared to simpler firms, and that Tobin’s Q increases in board size for complex firms but decreases in board size for simple firms, and such relation is driven by the number of outside directors. In regards to the relation between firm performance and the duality of CEO as board chairman, Brickley, Coles, and Jarrell, (1997) argue that the separation of CEO and board chairman has potential costs as well as potential benefits. Their evidence suggests that the costs are larger than the benefits for most large firms. However, Bhagat and Bolton (2008) and Core et al. (1999) report a negative relation between such duality and firm performance while Adams et al. (2005) find no significant relation between the two.

Likewise, Klein, (1998) finds no significant relation between the composition of board audit committee and firm performance, and between the composition of board remuneration committee and firm performance, although, Larcker et al. (2005) report that CEO’s closeness to members of the remuneration committee is shown to increase CEO remuneration, suggesting an indirect negative impact on firm performance. On the other hand, Callahan, Millar, and Schulman, (2003) find a positive relation between management participation in the director selection process and corporate performance. Another governance index, Bebchuk, Cremers, and Peyer, (2007) measure CEO power as the percentage of aggregate top-five executives’ total remuneration captured by the CEO, which called CEO centrality. They show that CEO centrality is negatively related to firm performance.

P. Kostiuk, (1990) and Baker, Jensen, and Murphy, (1999) published articles about firm size and executive remuneration. K.J. Murphy, (1999) observed that while companies use a variety of financial and non-financial measures in their annual bonus plans for executives, most use a single measurement such as revenues, net income, pre-tax income, operating profits (EBIT), or economic value added. Similarly, in 1999, K. J. Murphy wrote a paper on “Executive Remuneration” which summarized empirical and theoretical research on executive remuneration and description of trends in pay practices for CEO pay. He observed that pay practices vary across firms, industries, and countries. There has been a dramatic shift in pay practices over time (more pay and more forms of remuneration). Consequently in 2004, K.J. Murphy and J. Zabochnik wrote an article and observed that some people believe that recent increases in pay reflect increased power that self-dealing CEOs wield over captive boards. This increased power, the argument goes, allows the CEOs to extract more “rents” from their companies, at the expense of the companies’ workers and shareholders. K.J. Murphy and J. Zabochnik, (2004) argued that the “rent-extraction” explanation is not entirely convincing, and they offered a market-based explanation of the recent trends. Increases in executive remuneration can be explained by an increase in the importance of general skills, as opposed to firm-specific knowledge, to manage modern corporations.

Nourayi, M. and S. Mintz (2008) in an article entitled, “Tenure, Firm’s Performance, and CEO’s Remuneration” looked at the influence of firm performance and CEO cash and total remuneration based on time in that position. Firm size appeared to be a significant explanatory variable for CEO cash and total remuneration regardless of CEO tenure and measure of performance. The data used was from 2001-2002. Prior research studies have found a small but significant link between total CEO remuneration and firm performance. Gregg et al. (2005) examine the relationship between executive cash remuneration and company performance for a sample of large UK companies over the period 1994-2002. Their findings show that overall there is little relationship between cash remuneration and performance.

However, these studies used relatively old data or focused on traditional forms of pay without adequate consideration of stock awards and options.

Hypothesis Development

Managerial Power and Executive Remuneration

A key structural governance feature is CEO duality, in which an individual has the roles of both CEO and board chairman. Managerial power theory predicts that the concentration of decision-making power in one individual leads to more power, for several possible reasons (Finkelstein and D’Aveni, 1994). First, since the CEO–chairman is responsible for organizing board meetings and setting the agendas of these meetings, the CEO–chairman is able to control the information provided to the board of directors (Bebchuk & Fried, 2004; Pearce and Zahra, 1992). Second, CEO duality increases the CEO’s influence over the nomination process of new directors (Westphal and Zajac, 1995). Third, the dual role of CEO and chairman can be considered as the highest rank in the corporate hierarchy. This figurehead status, with more mandate and power, can lead to more influence over the pay setting process (Ungson and Steers, 1984). The length of a CEO’s tenure is also likely to be an important determinant of managerial power. Longer tenured CEOs can be expected to have more influence over board members and their decisions because they have more status and more experience with the company

and its board (Bebchuk and Fried, 2003, 2006). CEOs with longer tenure can also be more influential over the remuneration committee directly. Evidence pointing in this direction shows that remuneration committees whose chairs have been installed later than the CEO tend to pay more (Main et al., 1995). Furthermore, other research has found that the relationship between firm performance and CEO pay weakens as tenure increases (Hill and Phan, 1991). In addition, larger boards can become ineffective because of internal coordination and communication problems (Bebchuk and Fried, 2004). Therefore, the in-group monitoring and collective action problems of larger boards may provide executives with more power over the pay-setting process (O'Reilly and Main, 2010; Yermack, 1996). Finally, the composition of the board in terms of the percentage of independent directors may also influence managerial power (Ozkan, 2011).

Hypothesis 1: Managerial power has positive and significant correlation with executive remuneration.

Managerial Power and Firm Performance

Scholars in strategic management have recently emphasized the role of top management teams in strategy formation and organizational performance. Empirical work on the association between top team demographics and firm performance is not abundant, even though there is evidence that they are related (Combs et al., 2007). For example, several researchers have examined the association between functional backgrounds and firm performance (Michel and Hambrick, 1992). This brief review indicates that important aspects of group composition have been somewhat underexplored; those aspects include both the extent to which a firm's chief executive officer (CEO) dominates the distribution of power within its top management team and the size of the team. CEO dominance and team size, both potentially important constructs because of their impact on the information processing capabilities of top management teams, were the focus of this study (Combs et al., 2007). A top management team can be considered the information processing center of an organization in its relationship with its environment. Understanding the determinants of firm performance is central to strategic management research (Rumelt et al., 1994), and the composition of the board of directors is one potential determinant that has received significant attention (Pearce and Zahra, 1992). According to agency theory, CEOs are self-interested, risk averse, and possess goals that diverge from those of shareholders. Thus, CEOs will engage in self-serving actions at shareholders' expense when given an opportunity (Jensen and Meckling, 1976). Boards dominated by outside directors (directors that are affiliated with the firm only through their board membership) are thought to help protect shareholders from CEOs' self-serving behavior by monitoring CEOs and offering them incentives to act in shareholders' interests (Combs et al., 2007). Accordingly, firms with greater dominance by outside directors should experience greater firm performance. It is also possible for too much board control to result in negative consequences for shareholders (Combs et al., 2007). Outside directors often lack the in-depth knowledge of a firm's operations that is needed to distinguish between performance outcomes that are in versus out of management's control (Baysinger and Hoskisson, 1990). Consequently, outside director dominated boards tend to lean heavily on short-term accounting and stock market data to evaluate top management's performance, which furnishes management with a strong incentive to smooth out earnings fluctuations and avoid investments with high risks and long-range paybacks (Combs et al., 2007).

Hypothesis 2: Managerial power has negative and significant correlation with firm performance.

Firm Performance and Executive Remuneration

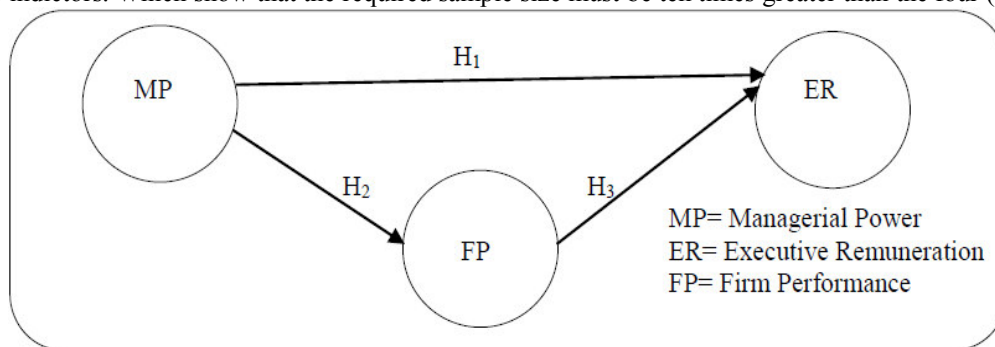
Consistent with the theoretical prediction, empirical studies documented strong evidence that firm performance are significantly associated with CEO cash remuneration (Sloan, 1993; Lambert and Larcker, 1987). Sloan, (1993) finds that CEO cash remuneration is more positively related to accounting earnings than stock returns when stock returns are noisy when measuring managers' performance. As indicated above, this suggests that accounting earnings are more useful in remuneration contracts than stock returns to shield remuneration from market-wide fluctuations in equity values that are beyond managers' control. Based on prior research (Murphy, 1999), firm performance are more likely to be an explicit metric of performance in cash remuneration contracts. The agency-based theory generally supports that there is a positive relationship between executive remuneration and firm performance (Nourayi and Mintz, 2008), although some scholars argue that a positive relation is not well-established or is only weakly supported. For instance, using data from the Portuguese Stock Exchange, Fernandes, (2005) concludes that firm performance has little effect on CEO remuneration and he further claims that there is no relationship between stockholders' wealth and executive remuneration. More recently, Jeppson et al. (2009) finds that CEO remuneration is positively related to a firm's total revenue, but not related to the changes in total shareholders' return or total net income. In sum, the pay-for-performance setting varies with different data, institutions, and model specifications. Comparatively, executive remuneration and CEO equity incentives have not been well studied in emerging economies (Kato and Long, 2006). Moreover, little is known about how Chinese CEOs are compensated compared to those in developed countries. Following traditional wisdom, this study hypothesizes that:

Hypothesis 3: Firm performance has positive and significant correlation with executive remuneration.

3. METHODOLOGY

This study used S&P/ASX 50 index firms to test the hypotheses. Required data obtained from annual reports of Australian firms for the year of 2014. Annual reports were downloaded from company's official websites. This study used four measures of executive remuneration: total remuneration, option and stock grants, salary, and bonus. Total remuneration includes salary, bonus, other annual remuneration, long-term incentive plan payouts, restricted stock grants, value of option grants, and all other remuneration, firm performance is measured through three items i.e. ROA, ROE, firm size (log of total assets), and CEO power measured using following items CEO age, tenure, shares of CEO, CEO appointed directors, board size and independence, all independent and dependent variables adopted from the study of Essen, Otten, and Carberry, (2012).

This research used PLS-SEM technique to analyze the path models. PLS-SEM technique is more appropriate because it accurately deals with small sample size, with complex and large models (Hair et al., 2014), moreover, this technique is most commonly applied in various research disciplines. According to the requirements of the PLS-SEM, the required sample size must be the ten times of the number of indicators of a formative construct in a model (Hair et al., 2014). In this study two constructs are measured as reflectively, namely, managerial power and firm performance, and managerial remuneration measured as formative construct with four indicators. Which show that the required sample size must be ten times greater than the four ($4 \times 10 = 40$).



4. RESULTS AND DISCUSSION

Reflective Measurement Scale

Quality of reflective measurement constructs can be assessed through three quality criteria. Namely, Cronbach's alpha to measure internal consistency, value of AVE, and Convergent validity. The traditional criterion for internal consistency is Cronbach's alpha, which provides an estimate of the reliability based on the inter-correlations of the observed indicator variables. Cronbach's alpha assumes that all indicators are equally reliable. Specifically, composite reliability values of 0.60 to 0.70 are acceptable in exploratory research, while in more advanced stages of research, values between 0.70 and 0.90 can be regarded as satisfactory (Hair et al., 2014). However, internal consistency measure is not applicable to formatively measured construct. To establish convergent validity, researchers consider the outer loadings of the indicators, as well as the average variance extracted (AVE). AVE value of 0.50 or higher indicates that, on average, the construct explains more than half of the variance of its indicators. Conversely, an AVE of less than 0.50 indicates that, on average, more error remains in the items than the variance explained by the construct.

Table 1: Reflective Measurement Constructs

Reflective Constructs	Items	Items Outer Loadings	t-statistics	Cronbach Alpha	AVE
Managerial Power	CEO age	0.875***	42.573	0.900	0.680
	CEO tenure	0.889***	23.433		
	CEO shares	0.784***	18.735		
	CEO appointed directors	0.869***	14.165		
	Board size	0.902***	46.029		
	Board independence	0.581***	4.822		
Firm Performance	ROA	0.744***	10.034	0.777	0.621
	ROE	0.755***	10.500		
	Firm size	0.860***	36.333		

*p < 0.1; **p < 0.05; *** p < 0.01

Table 1 indicate the composite reliability or Cronbach alpha's value of reflective constructs. Which meet the above mentioned criteria. It means that all items are equally reliable. Value of AVE also greater than the average which means that the both reflective constructs explain more than the half variance. Additionally,

outer loadings of all indicators are statistically significant.

Discriminant Validity

The discriminant validity of the measures was confirmed by employing the method of Fornell and Larcker (1981). As the diagonal elements were higher than the other elements of the row and column in which they were located, this confirms the discriminant validity of the outer model.

Table 2: Discriminant Validity

	Managerial Power	Remuneration	Firm Performance
Managerial Power	0.824		
Remuneration	0.906	Formative Construct	
Firm Performance	0.785	0.833	0.788

Formative Measurement Scale

Reliability test for formative constructs is assessed through meeting the assumption of multicollinearity and validity is assessed through their significance. Multicollinearity is tested using Variance Inflation Factor (VIF) measure. Reliability and validity of formative construct is depicted in Table 3.

Table 3: Validity and Reliability of Formative Construct

Formative Construct	Items	Items Outer Weights	t-statistics	VIF
Remuneration	Cash	0.866***	5.630	1.861
	Equity	0.695***	3.299	1.732
	STI	0.869***	5.667	3.200
	Total remuneration	0.795***	5.209	4.183

*p < 0.1; **p < 0.05; *** p < 0.01

Results of the Structural Model

In this section results of the structural model of PLS-SEM is analyzed using the prescribed criteria by researchers.

Variance Explained by the Model

Explained variance is analyzed using the value of R². In this research the explained variance (R²) is 0.860 which indicate that the variance explained by the model is 86%.

Predictive Relevance

This values was more than zero, indicating an adequate predictive validity of the model based on the criteria suggested by Hair et al. (2014). It is indicated by Q² which indicate the prediction power of

Q²= 0.317

Q² = 0.02 = Small

Q² = 0.15 = Medium, and

Q² = 0.35 = Large, indicate prediction power of the model.

Here the value of Q² is near to the large prediction power value which show the strong prediction quality of statistical model.

Effect Size

The effect size f² allows evaluating measurable construct's contribution to an endogenous latent variable's R² value. It is the rule of thumb that f² values range among, 0.02, 0.15, and 0.35 indicate an exogenous construct's small, medium, or large effect, respectively, on an endogenous construct (Hair et al., 2014).

Table 4: Effect Size

Construct	f ²
Managerial Power	0.571
Firm Performance	0.276

Hypotheses Testing

In this section the developed hypotheses are tested through the significance of the corresponding beta coefficient. Developed hypotheses is accepted or rejected on their level of significance of path coefficients. Level of significance is to be assessed through the bootstrapping technique as suggested by the Hair et al., (2014).

Table 5: Path Coefficients and Hypotheses Test

Hypotheses	Path Coefficients	t-Statistics	Decision
MP→ER	0.656	3.374***	Accepted
MP→FP	-0.785	17.662***	Accepted
FP→ER	0.318	1.682**	Accepted

MP= Managerial Power; ER= Executive Remuneration; FP= Firm Performance

*p < 0.1; **p < 0.05; *** p < 0.01

Results of the structural model for hypotheses test reflect some interesting facts. From Table 5 show that the managerial power has significant and positive correlation with executive remuneration, which means that as the managerial power increases the executive remuneration will also increase. As a result, hypothesis one is accepted at ($\beta = 0.656, t = 3.374, p = 0.001 < 0.01$). Essan et al. (2012) also found the similar results. Similarly, the

results of regression analysis indicate that second hypothesis has been accepted at ($\beta = -0.785$, $t = 17.662$, $p = 0.000 < 0.01$). It means that managerial power has large, negative and significant impact on firm performance. Combs et al. (2007) reported the same results for managerial power and firm performance. Results of second hypothesis reflect that as the managerial power increases the firm performance decreases. Additionally, the regression results also provide support for hypothesis three, but the level of significance of the path coefficient of firm performance to executive remuneration is small than other two path coefficients. Hypothesis three is accepted at ($\beta = 0.381$, $t = 1.682$, $p = 0.000 < 0.05$). It means that the correlation between firm performance and executive remuneration is small.

Discussion

This study specifically designed to evaluate the impact of managerial power on executive remuneration and firm performance. Because managerial power is the most crucial problem of businesses. As top management refers to the upper intellectual body of the organization, they hold and process all type of information. In literature some authors also said that top management is the central information processing, managing, and controlling part of firms. They may manipulate these information just for their own sake if they have more power and control over the firm and this phenomenon provide roots to many other problems like, executive remuneration and firm performance. This study developed three hypotheses to test the impact of managerial power on executive remuneration and firm performance and find that when managerial power is high they are in position to influence their pay setting process and able to shield their pay current losses. Thus their pay increases without any proper justification; because they have full control over corporate board, independent directors may also appointed by CEO or executives and many other factors cause increase in managerial power. Similarly, managerial power also negatively influence the firm performance, according to the managerial power theory when managerial power increases they are more concern with their own interest rather to focus on other parties i.e. shareholders, block holders and owners interest. Results of current study indicate that the impact of managerial power on firm performance greater than all other correlations.

Firms must take necessary steps to eliminate the managerial power to avoid poor firm performance and excessive remuneration. This will only possible when board is free of CEO's control. Independent directors must work independently without showing sympathy with any top management team member. Lot of studies investigated the impact of CEO power on remuneration and firm performance on cash remuneration and equity remuneration. However, this study update the extant literature with some value able information found in throughout the study and fill the existing gap that managerial power not only influence executive remuneration but has large negative effect on firm performance.

Despite the significance, this study also subject to some limitations. The data is based on Australian firms and the results of this study will not be generalizable and the selected sample is also small. Additionally, there may be some other variables that will cause the managerial power, however this study include only those variables of managerial power that was provided in literature.

An interesting expansion of the current research is that future researches can use data of others countries test this relationships and they may also large data set. Future research can also be done by adding some new and positional elements of managerial power. Researchers may also investigate some other important determinants of executive remunerations like, remuneration committee. Remuneration committee is responsible for setting executive remuneration and managerial power also influence the governance quality of remuneration committee (Rampling, 2012).

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