# CORPORATE GOVERNANCE AND BOARD COMPENSATION: A CASE OF LISTED NON-FINANCIAL FIRMS IN PAKISTAN

Zahid Ali, Department of Commerce and Management Sciences, University of Malakand, Pakistan. Email: zahidzady@yahoo.com
Shuaib Ali, School of Accounting, Zhongnan University of Economics and Law, Wuhan, China. Email: shuaibmgt@stu.zuel.edu.cm
Adnan Khan, Department of Commerce and Management Sciences, University of Malakand, Pakistan. Email: adnan.ilink@gmail.com

Received May 07, 2020
Accepted June 14, 2020

**Abstract.** *The study addresses the impact of corporate governance on board compensation for the listed non-financial firms on the Pakistan Stock Exchange (PSX) for the period 2005-2015. We incorporated board independence, the board size, female directors, ownership concentration, adoption of CCG (code of corporate governance) as channels of corporate governance. Board compensation was measured by the natural log of the total board compensation. The study has controlled for firm size, firm performance, leverage, and cash flow from operation. By using the ordinary least square (OLS) regression analysis technique together with robust standard error, the results reveal a significant relationship between corporate governance characteristics and board compensation. Findings suggest that corporate governance characteristics and ownership structure play an important role in determining board compensation. Board size and board independence exhibit a positive and significant relationship with board compensation. Additionally, consistent with previous literature, we find a negative relationship between gender diversity and board compensation. Ownership concentration shows a positive relationship with board compensation. Implementation of a code of corporate governance exhibits a positive and significant relationship with board compensation.*

**Keywords:** Corporate governance; board compensation; ownership concentration; gender diversity; corporate governance index

## Introduction

Board compensation has importance for the researchers, policymakers, and regulators. Previous researches have analyzed the factors which have an impact on management compensation (Cole & Mehran, 2008). However, the previous

studies are not conclusive about the relationship between corporate governance and board compensation. Many researchers have argued that top management influences the compensation committee of the board for higher salaries (Lewellen & Huntsman, 1970). Board of directors take decisions regarding the compensation of directors, therefore there is a chance of expropriation by the directors.

Rent extraction theory states that the board can use private information and determine their compensation plans and increase their equity rewards(Lie, 2005; Narayanan & Seyhun, 2005). Strong board members can effectively extract rent from the payment procedure and chances of expropriation are higher in badly governed firms (Core, Holthausen, & Larcker, 1999). This concern of insiders' influence is arising (Cadbury, 1992; Smith, Weinstein, & For The AABB Hemapheresis Committee, 2003). On the other hand, incentive alignment theory proposes stock options, and bonuses for the management and directors, which is confirmed through empirical pieces of evidence (Fich & Shivdasani, 2005; Hall & Murphy, 2002; Hanlon, Rajgopal, & Shevlin, 2003).

Board of directors is responsible for deciding remuneration of the directors otherwise this responsibility is handed over to the remuneration committee, which is also formed by the board. So it is very interesting that ultimately directors decide directors' remuneration. Therefore, efficient corporate governance is extremely necessary for reducing the chances of expropriation. The literature on board compensation is concentrated in the developed world. This study will contribute to the literature by analyzing the effect of corporate governance on board compensation in Pakistan. Pakistan has different laws and institutional structures for firms as in developed countries. So, it will be attractive to examine the impact of corporate governance on the board compensation in developing economies like Pakistan.

The study investigates the effect of corporate governance on the board compensation in listed companies of Pakistan. This study provides insight into regulators regarding the current situation of board compensation in Pakistani listed non-financial companies. How corporate governance mechanism affects board compensation? What is the impact of independent directors on board compensation? What is the effect of the corporate governance index on board compensation? This research attempts to answer these questions.

The study adds to the previous literature by analyzing the impact of corporate governance characteristics such as board size, board independence, gender diversity on board compensation. The study also investigates the impact of external governance measured via the implementation of corporate governance act 2012 in Pakistan. The study investigates the impact of ownership concentration on board compensation; at last, the study develops a

composite governance index via principal components analysis (PCA) and investigates its impact on board compensation.

This research provides an interesting context for board compensation as Pakistan's corporate characterized by poor internal and external governance, low shareholders rights, low implementation of governance laws along with family concentrated ownership. Hence, the results of the current research could be productive for investors, regulators, and legislators in their efforts to restrain the occurrence of bias compensation contracts.

The study proceeds by displaying theoretical and empirical literature and hypotheses about corporate governance and board compensation in the next section. Section 3 is specified for the research design and section 4 demonstrates findings while section 5 concludes the article.

## 2. Literature Review

Literature about board compensation states that compensation of the directors is not only returning to the board of directors for higher firm value but it is also for making parallel their incentives to the shareholders' interest. Board compensation is linked positively with return on the stock (Clarkson, Walker, & Nicholls, 2011; Ghosh, 2006; Jaiswall & Firth, 2009; Parthasarathy, Menon, & Bhattacherjee, 2006). Literature has witnessed the relationship between top management compensation and recognizable characteristics of the firm. Large, miscellaneous, and developed firms have to hire high qualified CEOs. Hence, the author argued the positive relationship between the board compensation and the firm size in the USA, Hongkong, and Pakistan (Core et al., 1999), Hong Kong (Cheng & Firth, 2005), Pakistan (Ghosh, 2006; Jaiswall & Firth, 2009; Parthasarathy et al., 2006; Tomar & Korla, 2011). In the USA, Hong Kong, and India the researchers like Smith (1992), Ho (2004), and Jaiswall and Firth (2009) subsequently argued that top management compensation will high in firms that have a high chance to improve the firm value. Large business difficulties result in a huge board of directors' pay (Ghosh, 2006). Large business ambiguity results in high risk for the board of directors and has huge pay. Therefore, there is a positive relationship between firm risk and top manager salary in the USA (Core et al., 1999). On the other hand, the authors argued a negative relationship between firm risk and board compensation and disagree with the risk in Indian firms as argued by (Ghosh, 2006; Jaiswall & Firth, 2009). Board compensation also shows a negative relationship with the age of the Indian firms (Ghosh, 2006), which represents a huge level of pay in small firms.

Many authors in their pragmatic studies have examined the relationship between board compensation and ownership structure. Some authors in their studies focus on corporate governance and board compensation. Although all the proofs are not clear that the ownership structure has an important role in board compensation of Indian companies. Chakrabarti, Megginson, and Yadav (2008) agued in their studies that there is a positive relationship between board compensation and non-supporter shareholders in Indian companies, but other authors did not discover any relationship between them in India.

Kaplan and Minton (1994) argued in their study that intense ownership is one of the essential tools of corporate governance reducing agency problems, and it is very good to govern the management (Shivdasani, 1993), and it can also result in interest of managers while using assets of the shareholder (Shleifer & Vishny, 1986). Strong ownership could also influence the structure of the pay level in a company. Many authors argued in their studies that there is a negative relationship between shareholder ownership and compensation level (Cheng & Firth, 2006; Core et al., 1999; Hambrick & Finkelstein, 1995). Concentrated ownership is ordinary in listed firms of the Asian capital market. According to the author argued in his study that small firms have a high level of strong ownership and which may have a low level of compensation as compared to their large competitors.

The number of shares detained by management influences the level of compensation, it can be positive or negative (Cheng & Firth, 2006). In previous studies some authors argued that there is a positive effect of shareholder ownership on the pay level, that is (Basu, Hwang, Mitsudome, & Weintrop, 2007; Byrd, Cooperman, & Wolfe, 2010). (Andreas, Rapp, & Wolff, 2012; Core et al., 1999; Firth, Fung, & Rui, 2007; Mehran, 1995) argued in their studies that there is a negative association between shareholder ownership and compensation level. In the Asian capital market, listed companies are mostly controlled by family as argued by the author (Claessens, Djankov, & Lang, 2000) therefore, the board of directors has family representation.

### *2.1 Ownership Concentration and Compensation*

The level of ownership concentration is expected to impact the agency costs of the firm and among these, the amount of compensation granted to the management. As highlighted by Dyl (1988), in closely held corporations major shareholders have substantial economic incentives to monitor management's conduct, whereas in widely-held corporations no individual shareholder is likely to have sufficient motivation to engage in such monitoring activities. Closer monitoring activity is expected to reduce the manager's rent-extraction of shareholder's wealth, leading to lower management compensation.

Concentrated firms signal to the market via appointing more independent directors on their boards and ultimately have to offer them high compensation. Further, they have higher resources and are less constrained hence can offer higher compensation to independent directors. Mostly they have large capital but low investment knowledge therefore they rely mostly on independent directors for mitigating agency cost. The opinion established above leads us to suppose high compensation for boards of concentrated firms.

H1: Ownership concentration has a positive relationship with Board compensation.

### *2.2 Board Size and Compensation*

Some of the authors used data of firms of the United States and found that the effect of board size is significantly positive on the level of pay (Conyon & He, 2004; Core et al., 1999). Moreover, the authors argued in their studies that top managers have a positive effect level of board compensation (Sanders & Carpenter, 1998). Generally, large firms have larger boards. They have high knowledge, more skills, and expertise. Therefore, they are expected to have larger boards with competent directors with enough know-how and can afford to offer them high compensation Similarly, Conyon and He (2004) find that there is a positive relationship between board size and board compensation.

Based on resource theory larger boards can use their networking capabilities to improve a firm's performance which ultimately leads them to offer high compensation. In Pakistan, it is predicted that companies with large boards have more financial assets and offer high compensation.

H2: Board Size and Board compensation are positively related.

### *2.3 Board Independence and Compensation*

Al-Najjar (2014) found that board independence has a positive relationship with performance and therefore could be realized as an influential governance instrument and some authors argued that there is a negative association between board autonomy and pay level while using samples of Hong Kong and Malaysia (Wahab & Rahman, 2009).

Independent directors are perceived to be more competent with a wide variety of skills and experience. In Pakistan, they are required to be qualified and certified from the Pakistan Institute of Corporate Governance. Darmadi (2011) suggests that board compensation increases with the inclusion of more independent directors. Larger firms tend to maintain more independent directors on their boards as they can afford, offering them high compensation.

H3: Board Independence and Board compensation are positively related.

### *2.4 Gender Diversity and Compensation*

Recently, gender discrimination in compensation became a sensitive issue in developed countries such as the USA. Researchers also centered their attention on the issue and analyzed the gender differences from various perspectives such as recession period, overstated board compensation, stationary wages, and downsizing (Colvin, Green, Schmahl, Capel, & Ornitz, 2001; Kaplan, 2008; Walsh, 2008). The concern of gender discrimination is not only associated with those who face difficulties achieve higher positions in corporations. Gender discrimination also exists in compensation even they achieved the top position. Pakistan is a developing country where society is dominated by is males. By considering all the cultural, demographical, and socio-economic factors of Pakistan and also based on the discussion above we hypothesize that:

H4: There is a negative relationship between female representation and board compensation

### *2.5 External Corporate Governance Mechanism and Compensation*

Security exchange commission of Pakistan (SECP) introduced a code of corporate governance, for the first time, in Pakistan in 2002 because of market regularity agency. Therefore, implementing efficient governance system firms can make progress in decision making and can increase value for the shareholders. Next time in 2012 corporate governance was issued which is further demanding from the listed firms in terms of corporate governance standards. Therefore, high scrutiny of directors is needed and more independent directors are required to be present on the boards after the implementation of code of corporate governance 2012 that leads to the higher board compensation, therefore, we hypothesize that

H5: High Board compensation is expected in the post CG2012 act scenario.

## 3 Methodology

The authors have used the ordinary least square method for analyzing the impact of corporate governance on the board compensation in the listed non-financial on Pakistan Stock Exchange. We used the models given below to analyze board compensation and other variables.

$$Board\_comp = \beta_0 + \beta_1 \text{Bsize} + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (1)$$

$$Board\_comp = \beta_0 + \beta_1 \text{Boardind} + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (2)$$

$$Board\_comp = \beta_0 + \beta_1 \text{Concentration} + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (3)$$

$$Board\_comp = \beta_0 + \beta_1 F\_Dir + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (4)$$

$$Board\_comp = \beta_0 + \beta_1 \text{SECP} + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (5)$$

$$Board\_comp = \beta_0 + \beta_1 \text{CGI} + \beta_2 Size + \beta_3 Cash + \beta_4 Lev + \beta_5 Performance + \varepsilon_{it} \quad (6)$$

### *3.1 Data*

The study has used panel data for non-financial listed firms at Pakistan stock exchange. The data period for the study is from 2009 to 2015. Data of the dependent variable of board compensation is collected from OSIRIS while data of the control variables like total assets, total debt, net income, cash flows from operations were collected from the balance sheet analysis issued by SBP (State Bank of Pakistan) while data relating to corporate governance variables like board size, board independence, gender diversity of the board, ownership concentration is hand collected from the annual reports issued by the companies on their websites.

### *3.2 Definitions of Variables*

#### 3.2.1 Dependent Variables

Total board compensation: In Pakistan mostly companies display the total compensation of board in annual reports. [The] stock option, incentives, bonus, and other components of compensation is not disclosed in annual reports. That's why we consider total compensation as the dependent variable.

#### 3.2.2 Independent Variables

Table 1 *Definitions of Variable*

| # | Variables | Abbreviation | Definition |
|---|---|---|---|
| 1 | Board compensation | Board_comp | Natural log of board compensation |
| 2 | Board size | Bsize | Natural log of the number of directors on board directors. |
| 3 | Board independence | Board_Ind | The number of non-executive directors divides by the total number of |

| | | | |
|---|---|---|---|
| | | | directors. |
| 4 | Ownership concentration | Block1 | Shares of largest shareholder divide by the total number of outstanding shares. |
| 5 | Female Director | F_Dir | The proportion of female director to total director |
| 6 | Adoption of code | SECP | Dummy 1 for years after the adoption of code 2013 and zero for years before. |
| 7 | Corporate governance index | CGI | Use PCA (Principal Component Analysis) technique to gather four variables i.e., Board Size, Board Independence, Ownership Concentration, and Adoption of Code |
| 8 | Firm size | Size | Natural log of total asset. |
| 9 | Firm performance | ROA | Net income divided by Total assets. |
| 10 | Leverage | Lev | Total Debts divide by Total assets. |
| 11 | Cash from operations | Cash | Cash flow from operations. |

Source: Author's calculations (2017)

## 4 Analysis

Table 2 the mean value of board compensation is 9.6243. We used a natural log of board size showing the mean value of 2.053. Board independence shows the proportion of independent directors in the board size showing the mean value of 0.1578, suggesting that 15.78% of averagely are independent directors in our sample firms. The mean value of the female director is 0.0831, suggesting that 8% of averagely are female directors in our sample firms. We used the largest shareholder as a block holder showing the mean value of 0.3318. The mean value of CGI shows an average value of -1.8e-09 with the minimum value of -2.6544 and a maximum value of 9.8478.

Table 2 *Descriptive Statistics*

| Variable | Observation | Mean | Std. Deviation | Min | Max |
|---|---|---|---|---|---|
| Board comp | 1,010 | 9.62 | 2.26 | 1.10 | 15.70 |
| Bsize | 673 | 2.05 | 0.12 | 1.10 | 2.94 |
| Board_ind | 521 | 0.16 | 0.22 | 0 | 1 |
| Female director | 230 | 0.08 | 0.15 | 0 | 0.57 |
| Own concentration | 669 | 0.33 | 0.24 | 0 | 1 |
| SECP | 1,031 | 0.52 | 0.50 | 0 | 1 |

| | | | | | |
|---|---|---|---|---|---|
| CGI | 517 | -1.81 | 1.05 | -2.65 | 9.85 |
| Size | 965 | 15.06 | 1.55 | 9.90 | 19.74 |
| Leverage | 965 | 0.63 | 0.34 | .01 | 0.99 |
| ROA | 965 | 0.03 | 0.11 | -.53 | 0.80 |
| Cash | 702 | 12.41 | 1.93 | 4.03 | 18.19 |

### 4.1 Correlation

Table 3 shows a positive correlation of board compensation with board size, board independence, ownership concentration, adoption of code 2012 of corporate governance cash flows from operations, and profitability. The table depicts a negative correlation with female directors and leverage. Besides that, the above correlation table shows that the multicollinearity among independent variables is within the tolerable range which is also confirmed by variance inflation factors tables displayed along with all regression tables.

Table 3 *Correlation Analysis*

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | BC | 1.00 | | | | | | | | | | |
| 2 | BS | 0.1 | 1.00 | | | | | | | | | |
| 3 | BI | 0.01 | -0.09 | 1.00 | | | | | | | | |
| 4 | FD | -0.19 | -0.14 | -0.01 | 1.00 | | | | | | | |
| 5 | OC | -0.05 | -0.11 | -0.05 | -0.01 | 1.00 | | | | | | |
| 6 | SECP | 0.04 | -0.06 | -0.06 | 0.06 | 0 | 1.00 | | | | | |
| 7 | CGI | 0.3*** | 0.3*** | 0.1*** | -0.11 | 0.8*** | 0.7*** | 1.00 | | | | |
| 8 | Size | 0.4*** | 0.20* | -0.12 | -0.21 | 0.08 | 0.01 | 0.2*** | 1.00 | | | |
| 9 | Lg | -0.18 | 0.09 | -0.1 | 0.24** | -0.05 | -0.02 | 0.04 | -0.31 | 1.00 | | |
| 10 | ROA | 0.2** | -0.17 | -0.124 | -0.03 | 0.153 | 0.05 | -0.04 | 0.06 | -0.2 | 1 | |
| 11 | Cash | 0.4*** | 0.12 | -0.16 | -0.13 | 0.20* | -0.02 | 0.3*** | 0.7*** | -0.3 | 0.3** | 1 |

Hints: BC=Board compensation; BS=Board size; BI=Board individual; FD=Female director; OC=Ownership concentration; CGI=Corporate governance index; Lg=Leverage; ROA=Return on investment. $^{*}p< 0.05$, $^{**}p< 0.01$, $^{***}p< 0.001$

### 4.2 Results

Ownership concentration has a positive effect on board compensation which is significant at 5%. These results are consistent with (Basu et al., 2007; Byrd et al., 2010). It affirms the first hypothesis i.e. that concentrated firms signal to the market via bringing more independent directors on the board. And hence pays higher compensation. In the regressions in table 4, we have controlled for the firm size, firm leverage, firm performance, and cash flow from operations. All of the controls were having a positive impact except leverage.

Table 3 depicts that board size has a positive impact on board compensation which is significant at 5%. It affirms H2 and is consistent with (Conyon & He,

2004; Core et al., 1999). That confirms the notion that large firms are associated with large boards and appoint more competent directors thus requires high compensation. Table 4 depicts a positive association of board independence and board compensation which is significant at 10%. It suggests that independent directors are more competent and certified therefore they demand high compensation.

The table affirms H4 & H5. Consistent with previous literature, Consistent with Soares (2010) the study found a significant and negative relationship between female directors and board compensation which affirms the hypothesis that female directors receive low compensation than their counterparts. Adoption of code 2012 of corporate governance has a positive relationship with board compensation which is significant at 1%. Our results show that the compensation of board increases after the adoption of the code 2012 of corporate governance.

### *4.3 Corporate Governance Index and Compensation*

Panel A of Table 5 depicts weights of all the mentioned four variables in the corporate governance index for Pakistani firms via principal components analysis. It depicts that board size, board independence; ownership concentration, and implementation of corporate governance code have a positive contribution to the corporate governance index. This indicates that large boards crowded by independent directors have good monitoring power. Similarly, firms with large shareholders have low agency problems. And the implementation of corporate governance code has contributed to the quality of corporate governance in Pakistani firms. These are in line with the notion of the hypotheses of the thesis.

Table 4 *Corporate Governance and Board Compensation*

| **B.Compensation** | M1 | M2 | M3 | M4 | M5 |
|---|---|---|---|---|---|
| OC | 0.71** (0.31) | | | | |
| B.Size | | 0.99** (0.47) | | | |
| B. Indiv. | | | 0.87* (0.46) | | |
| F. Director | | | | -1.47** (0.68) | |
| SECP | | | | | 0.90*** (0.130) |
| Size | 0.64*** (0.08) | 0.60*** (0.08) | 0.55*** (0.09) | 0.353** (0.16) | 0.64*** (0.07) |
| Leverage | -0.09 (0.264) | -0.20 (0.27) | -0.07 (0.29) | -0.02 (0.39) | -0.23 (0.22) |
| ROA | 3.66*** (0.83) | 3.67*** (0.86) | 3.61*** (0.93) | 2.39** (1.15) | 2.8*** (0.64) |

| | | | | | |
|---|---|---|---|---|---|
| Cash | 0.17*** | 0.18*** | 0.22*** | 0.26** | 0.13*** |
| | (0.06) | (0.06) | (0.07) | (0.12) | (0.05) |
| Constant | -2.27*** | 3.57*** | -1.57 | 0.83 | -1.99** |
| | (0.82) | (1.12) | (1.03) | (1.83) | (0.77) |
| Observations | 475 | 475 | 369 | 164 | 692 |
| R-Squared | 0.393 | 0.392 | 0.344 | 0.220 | 0.43 |
| F-Statistic | 67.45 | 69.02 | 40.59 | 7.39 | 104 |
| F-Probability | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

*Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1*

Kaiser–Meyer–Olkin (KMO) test is used to ensure that correlation between variables is higher than the correlation between errors. KMO statistic was 0.51. Panel B of Table 5 shows the relation between corporate governance index and compensation. The results show a positive and significant relationship between corporate governance and board compensation.

Table 5: *Corporate Governance Index and Board Compensation*

| **Panel A: Weights of the Corporate Governance Index** | |
|---|---|
| Variables | Corporate Governance-Index |
| Board Size | 0.4814 |
| Board Ind | 0.4658 |
| Ownership Concentration | 0.4814 |
| SECP | 0.477 |
| Kaiser-Meyer-Olkin Statistic | 0.51 |
| Bartlett's test p-value | 0 |

Panel B: Corporate Governance Index and Board Compensation

| **VARIABLES** | **Board compensation** | **VIF** |
|---|---|---|
| CGI | 0.33*** (-0.83) | 1.09 |
| Size | 0.51*** (-0.09) | 2.6 |
| Leverage | -0.12 (-0.27) | 1.09 |
| ROA | 3.59*** (-0.87) | 1.12 |
| Cash | 0.18*** (-0.07) | 2.81 |
| Constant | -0.39 –(0.96) | |
| Observation | 368 | |
| R-Squared | 0.362 | |
| F-Statistic | 40.9 | |
| F-Probability | 0 | |
| Mean VIF | | 1.86 |

Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

## 5 Conclusion

The study aimed at investigating the relationship between corporate governance characteristics and board compensation. Board size, board independence, female directors, ownership concentration, and adoption of CCG (code of corporate governance), were used as channels of good governance. Then the corporate governance index was developed with the help of these aspects via principal component analysis. The study found a significant positive relationship between corporate governance index and board compensation and confirmed the notion that well-governed firms have more independent directors and large boards therefore they offer high compensation to their directors in Pakistan.

Board size also shows a positive impact on board compensation. It affirms the hypothesis of the study which was developed with the notion that large firms are associated with large boards and appoint more competent directors thus requires high compensation. Board independence presents a positive and significant relationship with board compensation. It suggests that independent directors are more competent and certified therefore they demand high compensation. Additionally, consistent with previous literature, we find a significant and negative relationship between female directors and board compensation which affirms the hypothesis that female directors receive low compensation than their counterparts. Furthermore, ownership concentration shows a positive impact on board compensation among Pakistani firms. We also analyze the relationship between corporate governance index and compensation in the previous analysis we identified the relationship between each corporate governance variable separately. But these indicators as a whole can have an impact on board compensation so we make an index which is consists of before mentioned indicators of corporate governance by using PCA (Principal Component Analysis) techniques. The results show a positive and statistically significant relationship between corporate governance and board compensation.

The findings of this thesis have a bearing for regulators, investors, and firms. The present study was conducted on a small sample therefore the results may be generalized with conscious. The study has collected compensation data from Osiris where bifurcation regarding executive and non-executive directors' compensation is unavailable for Pakistani firms. Therefore this bifurcation may provide interesting results. However, ultimately the study found that good-governed firms in Pakistan provide higher compensation to their directors.

## References

Al-Najjar, B. (2014). Corporate governance, tourism growth and firm performance: Evidence from publicly listed tourism firms in five Middle Eastern countries. *Tourism Management, 42*, 342-351.

Andreas, J. M., Rapp, M. S., & Wolff, M. (2012). Determinants of director compensation in two-tier systems: evidence from German panel data. *Review of Managerial Science, 6*(1), 33-79.

Basu, S., Hwang, L.-S., Mitsudome, T., & Weintrop, J. (2007). Corporate governance, top executive compensation and firm performance in Japan. *Pacific-Basin Finance Journal, 15*(1), 56-79.

Byrd, J., Cooperman, E. S., & Wolfe, G. A. (2010). Director tenure and the compensation of bank CEOs. *Managerial Finance*.

Cadbury, A. (1992). *Report of the Committee on the Financial Aspects of Corporate Governance* (Vol. 1): Gee.

Chakrabarti, R., Megginson, W., & Yadav, P. K. (2008). Corporate governance in India. *Journal of Applied Corporate Finance, 20*(1), 59-72.

Cheng, S., & Firth, M. (2005). Ownership, corporate governance and top management pay in Hong Kong. *Corporate Governance: An International Review, 13*(2), 291-302.

Cheng, S., & Firth, M. (2006). Family ownership, corporate governance, and top executive compensation. *Managerial and Decision Economics, 27*(7), 549-561.

Claessens, S., Djankov, S., & Lang, L. H. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics, 58*(1-2), 81-112.

Clarkson, P. M., Walker, J., & Nicholls, S. (2011). Disclosure, shareholder oversight and the pay-performance link. *Journal of Contemporary Accounting & Economics, 7*(2), 47-64.

Cole, R. A., & Mehran, H. (2008). Staff Reports.

Colvin, J. S., Green, R. P., Schmahl, J., Capel, B., & Ornitz, D. M. (2001). Male-to-female sex reversal in mice lacking fibroblast growth factor 9. *Cell, 104*(6), 875-889.

Conyon, M. J., & He, L. (2004). Compensation committees and CEO compensation incentives in US entrepreneurial firms. *Journal of Management Accounting Research, 16*(1), 35-56.

Core, J. E., Holthausen, R. W., & Larcker, D. F. (1999). Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics, 51*(3), 371-406.

Darmadi, S. (2011). Board diversity and firm performance: The Indonesian evidence. *Corporate Ownership and Control Journal, 8*.

Dyl, E. A. (1988). Corporate control and management compensation: Evidence on the agency problem. *Managerial and Decision Economics, 9*(1), 21-25.

Fich, E. M., & Shivdasani, A. (2005). The impact of stock-option compensation for outside directors on firm value. *The Journal of Business, 78*(6), 2229-2254.

Firth, M., Fung, P. M., & Rui, O. M. (2007). How ownership and corporate governance influence chief executive pay in China's listed firms. *Journal of Business Research, 60*(7), 776-785.

Ghosh, A. (2006). Determination of executive compensation in an emerging economy. Evidence from India. *Emerging Markets Finance and Trade, 42*(3), 66-90.

Hall, B. J., & Murphy, K. J. (2002). Stock options for undiversified executives. *Journal of Accounting and Economics, 33*(1), 3-42.

Hambrick, D. C., & Finkelstein, S. (1995). The effects of ownership structure on conditions at the top: The case of CEO pay raises. *Strategic Management Journal, 16*(3), 175-193.

Hanlon, M., Rajgopal, S., & Shevlin, T. (2003). Are executive stock options associated with future earnings? *Journal of Accounting and Economics, 36*(1-3), 3-43.

Jaiswall, M., & Firth, M. (2009). CEO pay, firm performance, and corporate governance in India's listed firms. *International Journal of Corporate Governance, 1*(3), 227-240.

Kaplan, S. N. (2008). Are US CEOs Overpaid? *Academy of Management Perspectives, 22*(2), 5-20.

Kaplan, S. N., & Minton, B. A. (1994). Appointments of outsiders to Japanese boards: Determinants and implications for managers. *Journal of Financial Economics, 36*(2), 225-258.

Lewellen, W. G., & Huntsman, B. (1970). Managerial pay and corporate performance. *The American Economic Review, 60*(4), 710-720.

Lie, E. (2005). On the timing of CEO stock option awards. *Management Science, 51*(5), 802-812.

Mehran, H. (1995). Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics, 38*(2), 163-184.

Narayanan, M., & Seyhun, H. N. (2005). Effect of Sarbanes-Oxley Act on the influencing of executive compensation. *Effect of Sarbanes-Oxley Act on the Influencing of Executive Compensation (November 2005)*.

Parthasarathy, A., Menon, K., & Bhattacherjee, D. (2006). Executive compensation, firm performance and governance: an empirical analysis. *Economic and Political Weekly*, 4139-4147.

Sanders, W. G., & Carpenter, M. A. (1998). Internationalization and firm governance: The roles of CEO compensation, top team composition, and board structure. *Academy of Management Journal, 41*(2), 158-178.

Shivdasani, A. (1993). Board composition, ownership structure, and hostile takeovers. *Journal of Accounting and Economics, 16*(1-3), 167-198.

Shleifer, A., & Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy, 94*(3, Part 1), 461-488.

Smith, J. W., Weinstein, R., & For The AABB Hemapheresis Committee, K. L. H. (2003). Therapeutic apheresis: a summary of current indication categories endorsed by the AABB and the American Society for Apheresis. *Transfusion, 43*(6), 820-822.

Soares, R. (2010). *2010 Catalyst Census: Fortune 500 Women Board Directors*: Catalyst New York.

Tomar, A., & Korla, S. (2011). The global recession and determinants of CEO compensation: An empirical investigation of listed Indian firms. *Indore Management Journal, 3*(2), 11-26.

Wahab, E. A. A., & Rahman, R. A. (2009). Institutional investors and director remuneration: do political connections matter. *Corporate Governance and Firm Performance*, 139-169.

Walsh, J. P. (2008). CEO compensation and the responsibilities of the business scholar to society. *Academy of Management Perspectives, 22*(2), 26-33.