Impact of Top Management Salaries on Organization Revenue/Profit

Aamir Usman

11/MBA (3.5)/PIDE/2013

Dissertation Supervisor

Dr. Nadeem Ahmed Khan

Assistant professor P.I.D.E

Pakistan Institute of Development Economic, Islamabad, Pakistan

(2017)

DEPARTMENT OF BUSINESS STUDIES

Pakistan Institute of Development Economics

Islamabad, Pakistan.

Pakistan Institute of Development Economics, Islamabad

Impact of Top Management Salaries on Organization Revenue/Profit

A Thesis presented to

Pakistan Institute of Development Economics, Islamabad

In fulfilment of the requirement for the degree of

MASTER

In

Business Administration

Aamir Usman

11/MBA (3.5)/PIDE/2013

Impact of Top Management Salaries on Organization Revenue/Profit

A Post Graduate Thesis submitted to the Department of Business Studies as fulfilment of the requirement for the award of Degree of

Master in Business Administration

Name	Registration number
Aamir Usman	11/MBA (3.5)/PIDE/2013

Supervisors:

Dr. Nadeem Ahmed Khan,
Assistant Professor
PIDE, Islamabad.

Final approval

This Thesis Titled

Impact of Top Management Salaries on Organization Revenue/Profit

By

Aamir Usman

Has been approved

For the Pakistan Institute of Development Economics, Islamabad

External examiner: ______________________________

Dr. Ghulam Dastageer

Assistant Professor,

Air University, Islamabad.

Supervisors: ______________________________

Dr. Nadeem Ahmed Khan,

Assistant Professor,

PIDE, Islamabad.

Head of department: ______________________________

Dr. Usman Mustafa

Head, Department of Business Studies,

PIDE, Islamabad.

Certificate

It is certify that Mr. Aamir Usman has carried out all the work related to this thesis under my supervision at the department of management sciences,

Pakistan Institute of Development Economics, Islamabad.

Supervisors:

Dr. Nadeem Ahmed Khan

Assistant Professor,

PIDE, Islamabad.

Submitted through:

Dr. Usman Mustafa

Head, Department of Business Studies

PIDE, Islamabad.

DEDICATION

I dedicate my thesis work to my Parents, teachers and close ones who always love, support and prays for me. Especially to my parents who sacrifices for me in all part of life and my friends who helped in every part of knowledge gathering. And finally, to my teachers who develop skills in me to do my study and part of thesis.

ACKNOWLEDGEMENT

I am very thankful to Allah Almighty who has all the powers in the whole universe and gives us the power of assigned tasks, which otherwise we cannot perform. I am also obliged to the co-operation and favours of my respected teacher “Dr. Nadeem Ahmed Khan”. He helped me and guided me in an efficient manner and was always there for me during my period of research. He persistently and persuasively conveyed a character of exploration in regards to research and exaltation in regards to teaching. Without his humble support and help this dissertation would have been possible. I whole-heartedly extend my thanks to my friends, “Mr. Waqas Yousaf”, “Mr. Ahsan Akram”, “Muhammad Saqib Rashid”,“Miss Wajiha Naqvi”, “Miss Mariam Mohsin”, who were always there to help me during my period of research. I would alsolike to thank the PIDE staff whose unwavering help and moral support in searching material which made this desertion possible.

Abstract

Executive salary is a complicated and debatable subject. The CEOs sky-high pay levels have induced a debate about the nature of the pay-setting process and the outcomes it produces. Some contend that vast official pay bundles are the aftereffect of top management setting their own compensation and separating rents from firms. The purpose of the study is to observe the influence of executive salary on profits in banking sector of Pakistan so that the investment pays off and the industry benefits.In this research, for empirical analysis a data series of 8 *Pakistan Stock Exchange(PSX)*listed banks is being used. Data is starting from 2008 to 2015. As mentioned secondary data was used in the research. We have collected the available data of 8 banks from different website like PSX or Banks official websites. In terms of analysing the data, study uses three techniques: (i) Pooled OLS, (ii) Fixed Effect & (ii) Random Effect. The results of this study indicate that the top management salaries have a positive and significant effect on organizational profit. The results are in line with the previous studies of Essien (2002),Nwachukwu (2000) &Atchison (2003).

TABLE OF CONTENTS

Chapter 1

INTRODUCTION

Executive salary is a complicated and controversial subject. The CEOs sky-high pay levels have induced a debate about the nature of the pay-setting process and the outcomes it produces. Some contend that vast official pay bundles are the aftereffect of top management setting their own compensation and separating rents from firms. Others explains the same evidence as the outcome of optimal contracting in a competitive market for managerial talent.

1.1 The Sensitivity of CEO Pay to Firm Performance

From the moment when the corporate ownership separated from corporate control the principle agent problem has been a main concern between the shareholder and the executives. Means, (1932) indicates that the managers will probably follow their own advantage at the cost of shareholders' value if the shareholders are not properly monitoring the manager's actions.

Different empirical and non-empirical evidence on Managers' Empire building, perk consumption, and precedence for a quiet life proposes that Principal-agent problem is highly harmful for the organizational performance (Jensen & Meckling 1976, Jensen 1986, Morck et al. 1990, Bertrand & Mullainathan 2001). According to Jensen & Meckling (1976), executive salary to an extent can reduce the agency problem by aligning the interests of managers with those of shareholders. Holmström (1979, 1982), states that according to the principle managers pay should be based on different factors, one of the most important factor is that what action the manager has taken to maximize the organizations profit as well as the shareholders' value.

As a general rule, since shareholders probably do not know the value maximizing activities, incentive contracts are usually based on shareholders ultimate goal, i.e. shareholder value. If the executives are given a share or ownership stake in the firm and the salary paid to them are equity based then the actions taken by the executives will be in shareholders favour.

The ideal contract adjusts the incentives against presenting risk-averse executives to an excessive amount of instability in their compensation. The information surveyed in this segment demonstrate that the affectability of CEO pay to firm execution in the 1990s, mostly because of quickly growing option holdings. In the meantime, most CEOs' fractional equity proprietorship stays low, which proposes that ethical hazard issues stay significant.

1.2 Calculating Managerial Earnings

It is the main objective of literature since 1950's to measure the effect of the chief executive earnings. Roberts (1956), Lewellen & Huntsman (1970), explain that in earlier studies the different in the levels of income across firms is best explain by the firm's performance. In next age group the earning of managers are measured by relating them to share price performance (Murphy 1985, Coughlan & Schmidt 1985). These studies found the positive results among shareholder returns and chief executives salary but they significantly underestimated level of pay by focusing the current pay (Benston 1985, Murphy 1985).

Chief executives directly link their income with the employer's share price performance to have sustainable share and stock holdings. For typical chief executives, direct income change is because of share price actions are much bigger than the consistent change in their annual income. The broad measure of income must take on account of all the possibilities of association among the organisation performance and Chief executives income. Because these association include effect of current performance on recent and future pay, value of share and option holding, changes in non-firm income pay and profits that chief executive is terminated.

The most of these effect in a study was mixed firstly with the big publically traded U.S firm in (1974-1986) by (Jensen and Murphy 1990a). According to them chief executives salary increased by $3.25 only for every 1000$ increase in organisation performance, and conclude that chief executives are paid like bureaucrats in corporate sector of America (Jensen & Murphy 1990b). Hall & Liebman (1998), disagree with the point of view of Jensen & Murphy (1990), that chief executives are usually ineffective on two grounds. First, the increase in stock option income since 1980's has significantly supported the linkage among chief executive income and performance. Second, they claim the change in income is because of change in organisation performance are in fact large.

Although chief executive's fractional equity holding is less but the dollar value of their equity stake is not less. As a result chief executive out look to earn millions by improving the performance of their organisation performance. Hall & Liebman (1998), suggest that "change in salary should depends upon the organisation performance, dollar change in salary for a percent change in performance". Which is the value of "Equity at stake", as measure if chief executive earnings.

1.3 What are the Right Measure of the Pay-Performance Relationship?

In the literature there has been a prolonged debate about the right measure of CEOs pay. According to Baker & Hall (2004), the right measure of the pay depends on how the CEOs actions affects the organizational performance .according to the revise agency model marginal product of CEOs action can change with the monetary worth of the organization or size of the organization. The amount of CEOs incentive relies on the type of the considered actions of CEO.

The Jensen-Murphy statistic is the correct measure of inducement for activates whose dollar effect is the same and in this case size of the organization does not matter. For example, procuring a pointless corporate jet or overpaying for a procurement. On the other hand, the estimation of equity-at-stake is the correct measure of incentives for activities whose impact scales with firm size, for example, a corporate redesign. Since CEO take part in both types of the actives, both measures of incentives are imperative and ought to be taken separately.

1.4 Are Incentives set optimally?

It is difficult to determine that either real salary bonds encounter the moral and peril problems between Chief executive and shareholders. The optimum strength of incentives given to the Chief executives are dependent on the factors that are obvious. These factors are chief executive's cost of effort, Chief executives market value, competitive salary of the Chief Executives, marginal and opportunity cost of the Chief executives and Chief executives Risk repulsion. These factors help in establishing the forms of principal-agent model which is aligned to a huge variety of practical forms. Garen (1994) and Haubrich (1994), found a slightly risk of owner-ship narrates by the (Jensen and Murphy 1990a), is more aligned by best agreement if Chief executives oppose risk excessively. According to resistance by agency model, many studies focused the determinants of the cross sectional analysts instead of model's relative statics.

Referring to basic principal-agent model, the perfect stage regarding incentives decreases by the rate of marginal effort, the Chief Executives risk aversion and noise-to-signal relation of performance measure. Aligning with following relative statics, difference of Chief Executives incentives among organizations found to be partially describes by difference of the stock incomes, possibly the replacement of noise in consequence actions (Garen 1994, Aggarwal & Samwick 1999a, Himmelberg et al. 1999, Jin 2002, Garvey & Milbourn 2003). Those executives attained higher power benefits who are less risk avoiders (Garen 1994, Becker 2006).

Perceived findings on the various other forecasted elements of Chief Executives incentives are unconvincing. Lambert & Larcker (1987), sates that salary of the executive should be adjacent with stock price when addressing performance of the executives is comparatively noisy. There should be solid evidence for the bounce and salary of the Chief Executives (Lambert & Larcker 1987), and optional income (Yermack 1995, Bryan et al. 2000), Core, Guay & Verrecchia (2003), found that reverse consequences of overall chief executives salary. Gibbons & Murphy (1990), found incentives must be more powerful for the Chief executive when they are near to retirement to variate the reducing career issues and steady evidence for the currency salary.

On the other side of these findings(Yermack 1995, and Bryan et al. 2000), found not any indication of the Chief executives receiving more incentives when they are near to retirement. According to the John & John (1993), there is adverse relation among controls and the incentives given to the executives as it is tough for the firms to avoid such agency cost of debts. Yermak (1995), found no strong evidence about relationship among leverage and stock option incentives. While some other researches describes evidence stable with estimation that incentives and equity incentives should be more tight in the organization with bigger development prospects (Smith & Watts 1992, Gaver & Gaver 1995), while some researchers found that there is adverse correlation among these two variables (Bizjak et al. 1993, Yermack 1995).

In conclusion, main expectation of principal-agent model is usage of the relative performance assessment model for Chief executives. Holmström (1982), and Diamond & Verrecchia (1982), says contracts must be clarified from the efficient factors in evaluating performance, as Chief executive do not possess the power to affect these performance measuring factors but they bear the risk that is associate with their evaluation. Aligning with this finding, bounce plans are directly related to performance of the firms comparatively to industry standard. Though, overall evidence for proper usage of the relative assessment are low. Because reassessment of the stock and option holdings drives the performance and pay sensitivities. The pay of Chief Executives is more tightly and purposelessly affected by the overall performance shock. However, many research papers suggested theories that describe the lack of benchmarking as efficient contracting result.

1.5 The Influence of Salary on Chief Executives Behaviour and Firm Performance

Arguments on this kind of pay-setting procedures and current financial crises establish the new interest in based salary on chief executive's behaviour and performance of the firms. Many concerns related to the managerial compensation could be enhanced if high pay of chief executives and high pay-performance sensitives bring the performance of the organisation to the new prospects and success. While establishing significant evidence of the impacts of executive pay is extremely hard.

The major refusal in calculating the impacts of salary is one of credentials. Salary provisions are endogenous results of the complicated procedure that involve the Chief Executives, the managerial labour market, the salary committee, board of directors, and consultants. Consequently, arrangements related to the salary are correlated with many observable and non-observables Chief Executives and firm's factors. This system makes the whole process very difficult to explain theobservation of correlation among the pay of Chief Executives and performance of the firms. Due to the impacts of the salary on the performance, the pay of the Chief Executives and the firm performance might be correlated.

1.6 The Relation between Chief Executives Incentives and Firm Performance

While studying salaries issues, managerial incentives and firm's performance is the basic and important issue. Different studies focus different things like managerial equity incentives affect performance of the firm or measured as Tobin's Q. Morck et al. (1988), describe significantly that with the managerial ownership firm performance will increase. If manager own 0% to 5% of the firms equity firm performance will increase. But at the same time if manager own 5% to 25% than it will decrease and then again if ratio would be more than 25% performance will increase. The research first show positive concerns in increasing incentives and then negative outcomes increasing managerial entrenchment and actions opposed to smaller shareholders. With two greater cross-sections of organizations. McConnell & Servaes (1990), discover that company's performance will increase till the equity possession by managers and directors surpasses 40% to 50% of shares outstanding.

Many researches explained that by what methods different dimensions of the Chief executive' equity incentives link with firm performance and evaluation with different outcomes. Mehran (1995), found that firm performance is directly associated to the executives' fractional stock ownership and ratio of the equity based compensation. Habib & Ljungqvist (2005), see constructive relation of organization performance with chief executives stock holdings, but an undesirable one with the option holdings. Many research fail to discover association among firm performance and executives' equity stakes (e.g., Agrawal & Knoeber 1996, Himmelberg et al. 1999, Demsetz & Villalonga 2001). Meanwhile equity holdings are managers' and boards', decision none of these relationships could be construed as causal.

To address endogeneity of manager's equity many influential variable were used in different studies by (Hermalin &Weisbach, 1991, Palia, 2001). However, (Himmelberg et al. 1999), pointed out as it is very tough to obtain valid instruments for managerial ownership because determinants of Tobin's Q and ownership are mostly same. This literature is unable to credibly find the causal effect of managerial incentive on firm's performance because of absence of any reliable instrument.

1.7 The Relation between Chief Executives Incentives and Firm Behaviour

To making tough business decisions that rise the shareholder value, incentive and salaries should motivate the managers. A large amount of literature studied the association between the firm's investments decisions and financial polices to evaluate the existing salaries arrangements fulfil the goals and objective or not.

Accounting based long term incentives were focused in earlier studies and literature. Larcker (1983), Kumar & Sopriwala (1992), the overview of these plans are linked, amongst each other's, increase in capital investment and improvements in profitability. In recent studies attention had been shifted towards manager's stock option holdings. Equity incentives are linked to extensive variety of outcomes, as well as the betterment of operating performance (Core& Larcker 2002), and improved achievement (Datta et al. 2001, Cai & Vijh 2007), large scale of reformations and downsizings. (Dial & Murphy 1995, Brookman et al. 2007), and further intentional liquidations (Mehran et al. 1998).

CEO's stock choices, that are generally not dividend-protected, are also associated to lower dividends (Lambert et al. 1989), and change from dividends to stock repurchases (Fenn & Liang 2001). In conclusion, the link of managerial incentives and corporate risk-taking are studied in a substantial literature. Findings propose that stronger equity incentives are associated with less risk taking, while convexity in executive's portfolios because of options are linked with further risk taking.

1.8 Research Objective:

The purpose of the study is to observe that how much top management high salaries influence the profits of the organisation.

1.9 Research Question:

- Does top management high salary has influence on organisations performance/profits?

1.10 Problem statement:

Now a days a big question is circulating in the corporate world that the CEO's who are receiving high salaries whether they affect the companies' performance or not. Simply, this study try to find out whether the top management salary has effect on organisation's performance/profit.

1.11Significance of the study:

The research is conducted in order to enhance our understanding about the impact of top management salaries on organisational performance or profits. No prior study has been conducted in Pakistan on this particular topic. So, this study will try to fill this gap.

1.12 Limitations:

- The time allocated for this research was limited .therefore in-depth analysis was not possible.
- Resources were also one of the major limitations of this research
- Size of the sample was limited
- The study is limited to the banking sector of Islamabad so Findings cannot be generalized.

Chapter 2

LITERATURE REVIEW

Johnnie (2002),states that ‘in developing communities organisation not only generally pay salaries nor place the individual to a strong important role but organisation is a place for high level of society relevant achievements. Organisation in developing societies stress on creating challenging work environment and learning in jobs. Because organisation want to attracts and retain effective and hardworking employees.

Johnnie (2002), future state that the motivational theories and norms and values of the developing communities are different from developed societies. As motivational theories varies, developing countries still uses the same theories for solving the particles problems of the organisation and their internal conflicts. Due to size of the organisations in the developing communitiesthey cannot offer attractive work conditions so these problems make organisations at disadvantage position and it is also difficult for organisation to offer attractive salaries and perks.

Agburu (2012),states that those organisation that seeks to retain their high efficient and effective employees always face the challenge of paying wages and salaries in a competitive environment. So it is difficult in developing communities to know which organisation is ready to pay and what ids a good salary. For employee’s motivation we cannot rely upon any one theory, there may be different ways to motivate the employees. Gary Jones (2006), suggested that we can apply a single theory on everywhere it may varies with respect to demographics. The employees or worker from Pakistan may be differ from workers of a developed country. According to Johnnie (2002),as related to the developed communities in less develop communities there are extended families systems and low per capita income. So if you need to motivate employees to have to give them monetary benefits and material benefits. Ahiauzu (1985), discuss that the strong motivators for an employee are gifts and material benefits with their regular salary. Salary also effect positively or negatively on employee performance.

2.1 Factor Influencing Against Salary:

Nwachukwu, (2000), and Atchison (2003), examined that salaries and wages of the employees are the important part of the overall total operational cost of the organisation. Essien (2002), on his own mentioned that if we include total pays salaries and pension cost than it will be the 65% cost of the total business which is running. So the organisations or the companies that cannot compensate their employees are in danger of collapse or break down. If an organisation has poor system for pays or salaries it would be a constant source of frustration and it can also decrease the productivity and effect the efficiency of the organisation. Such organisation need to spend a lot of time on making the suitable salaries plan to avoid these kind of issues.

As Essien (2002), statement if we want to make an affective salaries plan, following factors can help in making a good salary system.

i. **Condition of Labour Market:** The change in labour market of a country depends upon the economic situation of the country. Demand of resources and labour will be high if the business is tough. Even when they are plenty of availability of labours in the market there are always some specific skills which everyone cannot learn. Companies has to pay extra price to hire those kind of employees. Company have the advantage if there a plenty of worker with same skill.

ii. **Paying Ability:** While fulfilling the meet of salary and wages organisation change its ability. If the profits of the firms are high and all other things remain constant than the firm will be generous with its employees. If firm is struggling with its cash flows they would hardly be able to meet the needs of employee are unable to fulfil the minimum responsibility. Instead too high and low profits both organisations decide to keep some amount for labour cost in any situation rather than investing in new plant or machinery.

iii. **Cost Of Living:** When inflation in the market rises the market than the cost of living will also increase so pressure will increase on the organisation to pay the salaries and wages according to the inflation rate. So different companies already keep annual increment percentage for all the employee to take care of the inflation high or low situation, because it is a natural and non-negotiable problem.

iv. **Comparability:** In an organisation both the employer and employees are known to market rates and are bound to follow the market rates of salaries and wages. Employee focus in within the industry while the employee will look around the job rated. In terms of occupational groups, private sector look up on public sector employees.

v. **Organisational change in Technology:** organisation implement its pay policy with problems if the conditions are stable internally and externally. According to the market environment or there internal environment company implement its salaries plan but when there is are new charges like technology change in the market than organisation change their salaries strategy to pay the employee according to the current demands even salaries structure changes more continually than the change in rate of equipment's. Which shows that for the organisation human resource is more important than tools and machines.

vi. **Productivity and performance:**Profitability of the organisation is determined by the effective production of its goods and services or its product. Employees seeking for salary and wages should be more productive it they want to be highly paid by the company or organisation.

2.2 What Constitute Salary/ Salaries?

Salaries should maintain the justice, effectiveness, employee expectation should be fulfil, reinforce the positive behaviour of employees, and removing differences among employees. The reason of salaries is to develop an efficient system that is in both the organisation and employee favour and also for maintaining the industrial relation and congruence. If the purpose of salaries is fulfilled than employee will motivated and work hard.

The salaries of an organisation should be able to attract the talented workers and help to retain and motivate the employee. It will increase the productivity and efficiency of the employee and the organisational performance will also increase.

Thus, there should be concept of fair or minimum wages paid by the organisation. Minimum wage is an amount of salary or salaries that fulfil the basic needs or financial requirements of the employees. There should be proper law which is applicable across the country for example a law that state an organisation or a company that cannot pay minimum salaries or wages has no right to engage employees and also has no right to run a company. Thus, workers having same skills and ability should be paid equally. Minimum how much can organisation can pay to its employees is the basis of a fair salary. Organisation should relate its salary to labour output, it should also be compete with market rates and it should also reflects the national income and its distribution. However, when an employee paid for his work as well as the indirect benefits given to an employee for being part of the job is consider as "salaries" Otobo (1987). So, what needed for constructing a good salaries are emphasised in (Agburu 2012, Nwachukwu 2000, and Ngu 2005), are the main components of a good salary are as follows.

i. If salary rate of an organisation succeed in the market its purpose is that it will ensure the competitiveness of the organisation in the market and in its industry.

ii. The internal arrangement of salaries to confirm equity.

iii. By appraising the performance of individual. May be two employees have the same qualifications and experience but they will be paid different with respect to their efficiency and effectiveness.

iv. Individual incentives should be taken care of that is, easy management, results that reflects the individual's effort, make reward calculations easy, connect rewards and efforts.

According to Essien (2002), organisation want to make good salaries plan as a reason to attract effective and efficient employees, to retain good performing and satisfactory employees and to reward employees for work, reliability, involvement and success.

2.3 The Relationship of Salaries and Motivation

For the purpose of this study, as much as compensation is concern it means the salary and wages of the employees. A good salaries isthat when it full the monetary need, inner growth, development and motivational need of employees. The salaries will be adequate if it helps to retain effective employees and praise the hard work, loyalty and achievement of employees. If an employee have all the mentioned characteristic than organisation should appraise it that will effect as employee positive behaviour (Locke, 1976).

To some extent job satisfaction is also related to salaries and compensation, Essien (2002), define job satisfaction"job satisfaction is an outcome of employee opinion that how sound organisation provide them those things which are important to them". Now for an average employee what would be the most important thing rather than meeting his/her financial need? "Obviously money. Money is the absolutely his/her expectations.

Muo (2013), stated that "according to Taylor's scientific management mind set, only highest motivator for a worker or employee is money because it has to be in a situation where everything could be gained whatsoever one wants. Mostly money is the main motivator in employees of developing communities."

Opachl& Dunnette (1966), indicate motivational part of money as "it is a Generalized Conditional Reinforcement because it contain basic reinforces; Conditioned Incentives, combination of money with basic incentives that increase effort; Anxiety Reducer as people become worried in absence of money; Hygiene Factor as people will dissatisfy on insufficiency of money and a tool for achieving desired outcomes.

Muogbo (2013),determined on the problem of motivation, money, and behaviouralconsequences of salaries that "money is main component to motivate workers. This is because of five general roles that are already discussed in this review.

Rather than this the motivational values of monetary salaries also effected by pay policy factor, job types, the employee personality, preferences and perception. Motivational .role of money is also determine by the pay itself and how it is managed". Factors like cost of living, level of education, family background and future expectations about salary also affect the money motivation" Muo (1999).

Mougbo (2013), it was asked by the knowledge workers which motivational variable appeal to them. The variable of motivation measured in the study were monetaryrewards, training and professional development, empowerment and flexibility, equity and fairness, innovation environment and sense of belonging. Additional are helpful superiors, teamwork, association and attachment, freedom of choice, exploration and professional freedom.

Rating shows after the study that 50% motivated by training and professional development, 40% are motivated by financial reward, 32% by empowerment and flexibility, 25% by exploration and professional independence, and 20% by freedom choice. 18% are motivated by equity and fairness as well as sense of belonging and 17% are motivated by helpful superior, 15% motivated by innovative environment and finally 10% motivated by team work, affiliation and attachment. This study was finally concluded as "knowledge workers heart is to these variables. The theoretical & empirical indications tandemly attached to training and development.

According to the maximum surveys, training is among top three benefits wanted by employees because of the learning and growth which helps employee to enable their professional growth. Employees under 30 and top professional and technical employees keep training as their top most priority (Pfau & Kay, 2002). Training as a motivational factor for knowledge workers is also supported by Maslow because if the employees are trained to be self-confident they can achieve their self-esteem need. The employees can only enhance their competencies by training and development.

2.4 Significant Effect of Salaries on the Organizational Performance

Agburu (2012), stated that "salaries and wages should not good or enough but they should also show equity; it is also true according to the individual point of view". In economies like developing countries reward and equitable salary can attract huge numbers of employees. Workers emphasized on the salaries and financial rewards directly as far as their work reward is concern. So if salaries will be not good than it is difficult to attract and motivate employees than following things will happens:

i. **Low Performance:** If an employee is on work it will be easy to measure his/her performance. Than it is very important for an organisation to reward sufficiently to its employees because for good rewards worker will work hard and increase their output will result as the growth and development of the organisation. But if organisation will not reward them adequately they will not be motivated than whatever working condition would be provided by organisation will not matter they will decrease their output.

ii. **Absenteeism:** It occurs when employees should be on work but they are unnecessarily absent. If employees are not happy with their work or with their organisation they will do so. Rather than lot of absentees employee also come late for work and will leave before the specific time. This will affect the development and growth of organisation and also decrease the output of the firm.

iii. **Labour turnover:** In Sule (2012), turnover of labour was describes as "the ratio at which organisation losses or gain its employees. If we describe it in a simple way it would be how extended employees be likely to stay with the organisation or traffic level through revolving door of employment. This study further mentioned that if employees are not satisfy with their work or their salaries and wages than it will cause the labour turnover.

iv. **Sabotage:** If someone destruct the equipment, transport or machine etc. of the organisation someone else to use or to object to something or treating to stop being beneficial or successful. It will cost the organisation enough or little to exchange and replace. In this employee take organisation and other employee as enemy so they are no more loyal and dedicated to firm. Sabotage may be like inside trading bribing or any type of corruption which affect company image.

2.5 Performance

Boddy (2008), define the performance as an action or activity. Nkata (2004), refers "when organisation achieve its goals and objectives by the combination of individual performance and efficiency and effectiveness of delivering its services to accomplish shareholder needs is called performance. Grassing (2002), adds "the ability to produce and meet the requirement of market or demand efficiently and effectively at lowest possible benefit is performance. Perry et al (2006), studied different literature that organisation want to increase the performance it depends upon financial incentives and working condition will improve the effectiveness of firm.If organisation will improve its working conditions and provide better salaries and wages to its employees the performance will increase and same case with the poor performance if organisation will not efficiently improve working conditions and pay good salaries to employees the performance will be poor. Robbins (2003), witnessed that job satisfaction also have impact on absenteeism rate. Disappointed employees have higher level of absenteeism while satisfy employees perform better and have high level of attendance. He conclude that the performance of employee and satisfaction of employee is connected with absenteeism. Neely and kennerly, (2002), describe how organisation measure the performance based on what organisation is trying to achieve.

Wesonga et al (2011),describe in his research that "if the management of organisation want to encourage its employee than they introduce better overtime incentives and review its salary plans and benefits in order to retain its employees." Howrtz et al (2003),acknowledgeddifferent strategies to attract motivate and retain the employees but the most preferable was to provide attractive and competitive salary package. Obasan (2012), also determined that "the most effective thing in human resource management which influence the effectiveness and efficiency of organisation and increases its growth is the salary packages and salaries strategy.

Organisation should incorporate salaries strategy as part of their goals and objectives. Agburu (2012),established that "the relationship of salary and employee productivity very close. Muo (2013), concluded that "people attain and manage different resourcesso they are the most critical element in the organisation.And "organisation should own their employees and fulfil all the essential needs of the employees as they work for the organisation and accomplish its goals and objectives.

2.6 Theory and Concept of Profit

Many researches are conducted on the factor of profits since long time ago. Such studies are conducted by the researchers like (Dermirguc-kunt and Huizinga 1997). Vong & Cheang (2005) fadzlan &royfaizal (2008), Rasiah (2010). These studies were conducted on the profitability of different firms and banks. It is very important for the organisations to understand the importance of the concept of profit for the survival of their business. Economic theory about profit says if we minus total revenue from total cost the left amount will be our profit. The net amount of fixed cost and variable cost derived from sales is also called profit. Tamkin Borhan & Hadenan Towpek (2006), defined as revenue proceeds from an activity such as organisations, businesses in excess of capital and other expenses are known as profit. There is also concept of profit in Islam which is known as Al-ribh (Arabic) which means a business growth or adding to capital through trade.

2.7 Factors have Impact on Profitability

Most researcher categories the factors that have impact on the profitability in to two categories that is; internal factors and external factors. Before discussing the factors that have impact on the profitability we need to understand following:

Measurement of gain:

Rasiah (2010), describe the theoretical advantage of firms defined as the difference between the total cost and total revenues is a firm's profit. So according to the definition factors that have impact on the profit means that they effect the total cost and total revenues of the firm.

Profitability of the s measured by the different methods. ROE (return on equity) and ROA (return of assets) are the most common terms that are used to measure the profitability of the firms. ROA (return on assets) shows the efficiency of the management that how efficiently the management is able to convert its assets into net profits. And the return flow to the shareholder is measured by the ROE (return on equity). The amount or percentage of ROE shows the loss and gain of the investment of shareholder so it is very important for shareholder perspective. Hassan & Bashir (2003) describe the profit before tax to total assets, which reveals the capacity of the firm to create more profits by expanding its portfolio.

Ferdi (2005) &Fitriani (2010), conducted a research on conventional banks in Indonesia that measures the profits of banks by using ROA (return on assets). As Indonesia is more anxious with bank profits by assets so they use ROA (return on assets) and ROE (return on equity) as a calculation tool. Rasiah (2010), describe that many countries has different structures for corporate tax so by using before and after tax ratio option is better than ROA (return on Assets) and ROE (return on equity). In terms of size the using of before and after tax profit ratio and ROA (return on assets) and ROE (return on equity) are the same buy they are different in findings.

2.7.1 Internal Factors

The decision making of the management is influenced or have impact owned by internal reference to the factors or internal factors. At a point of time the items on balance sheet of a firm that is part of financial statement indicate the firm's financial position. It shows that how management allocate resources and make policies and take decisions. Total cost and the cost of the firm is are directly indicated by the items on the balance sheet. Whereas the successful operation of the firms are measured by the income statements.

.Operating ratio derived from the income statement reflects the efficiency of management in generating revenue and controlling costs at the same time (Vong and Chan, 2009). The study by Hester& Zoelinier (1966), on the 300 banks in the city of Kansas and Connecticut found that changes in the structure of the balance of return has a significant impact on bank earnings (Sudin Haron, 2004). In fact, the majority of previous studies found that the quality of assets, capital ratios, liquidity ratios, and spending as internal factors that have impact on bank profitability.

i. **<u>Cost efficiency in management:</u>**

One the important internal factor which can be found in income statement. The employee cost and salaries and the running cost of all the facilities available within the firms are its components. If these expenditure of the firm will be higher than the overall profit of the firm will decrease. However the research shows that overhead costs will not always consistent.

ii. **Risk:**

Another very important internal factor to determine the profit of the firms is risk. Risk is the uncertainty that is connected to the firm with its certain events related to the firm's operations. According to Muhammad Taqiuddin (2009), usually the management of a firm focus on different types of risk related to the firm like; credit risk, liquidity risk, interest risk, market risk, revenues risk and capital risk.

There are also other internal factor have impact on the profitability like non-profit income, capital, credit sales, liquidity etc. internal factors are in control of management of the firm.

2.7.2 External Factors

Those factor that are beyond the control of management of the firm are called external factors. Macroeconomics, financial structure and global factors are the main components of the external factors of the firm that have impact on profits.

i. **Economic growth:**

The main indicators of macroeconomics are economic growth or GDP of the country, decrease. But with the increase in GDP of a country they firms will also grow and the profit will increase and it is the total economic activity of a country. Of the GDP growth of a country decreases than it will have impact on the total profits of the firms and they will also increase. Hassan and Bashir (2003), Fadzlan &Royfaizal (2008), Zantioti (2009) and Rasiah (2010), founded that there is a positive significant relation of economics growth that benefits the firms and showed that increase in GDP resultant the firm's profits.

ii. **Inflation:**

Inflation is also one of the most important external factor that have impact on the profitability. Inflation has an influential role on firm's profit. Sadono Sukirno (2007), defined inflation as "change in the prices of goods and services from one period to another". Melaty (2008), describes inflation as "real value of revenue and costs are have impact by inflation which further have impact on the bank profits in both positive and negative way". Researcher use CPI (Consumer price Index) as an indicator of inflation to check the effect of inflation on profits of the firms. Vong & Cheang (2005), describe in there study that "in return on assets inflation shows positive impact" that resulted, management of the firms can assume the rate of inflation and respond accordingly.

iii. Market Share:

Another important external factor that determine the firm profit is the market share of the firm. Market share is based on an assumption that if the firms works efficiently and effectively than it will gain a great market share which will increase its profit. According to Aaron (1966), if the firm has the more market share than it will help firm in controlling the prices and services that are offered to the customers.

iv. Firm's Size:

To see the potential economies of scale we usually use firm's size. The cost of per unit of product produce and sold determine the economy of scale. According to Gift (1996, pg. 54), large industries will be efficient and provide its good and service at low cost if industries depends on economy of scale.

v. Regulations:

Financial regulation of the industry are really important and have an effect on profitability of the firms. Firms can take risk easily if regulations are reduce by authorities. If firms take higher risk it will benefits both the customer and shareholder, but in alternative case both will lose. (Hassan & Bashir, 2004)

vi. **Tax:**

In the terms of business and policy choice taxation has impact on porifitibiltiy of the firm (Greuning, HV, 2008). In different countries average tax rates applies to all the firms. According to Hassan & Bashir (2004), “tax has a positive significant impact on the firm performance”.

vii. **Competition:**

Aaron (1996 and 2004), found that regulation and competition have a significant positive effect on net profit before tax as a percentage of reserves and capital.

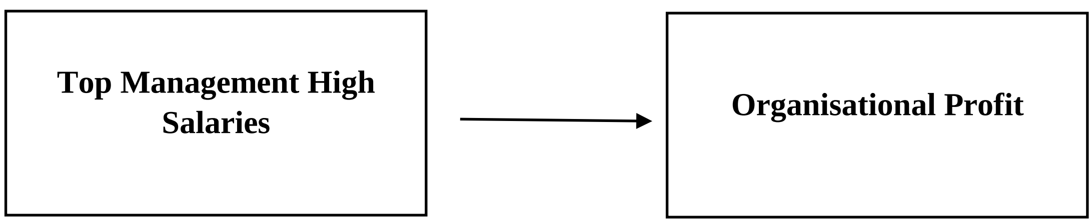
Overall, the results on previous researches we can conclude that external factors have a significant and empirically evidence on economic growth, inflation, bank size, bank regulars, taxation, financial structure, competitiveness.

2.8 Hypothesis:

- Salaries has positive impact on organisational profit.

2.9 Theoretical Framework:

The goal of the study is to explore the impact of managerial salary on organisational profit in banking sector of Pakistan. This study contains two variable one independent and other is the dependent variable. We took salary as an independent variable and net profit as a dependent variable.



Chapter 3

METHODOLOGY

There are two types of data one is primary data and other is secondary data. There are different methods to collect data for example for collecting primary data we use observations, questionnaire and interviews etc. And to collect secondary data we can use websites, published articles or internet. As this study is based on a secondary data so we had used banks official websites and PSX website as a source of collecting data regarding top management salary and organisation net profits.

3.1 Data Description:

In this research, for empirical analysis a data series of 8 *Pakistan Stock Exchange (PSX)* listed banks is being used. Data is starting from 2008 to 2015. There are many banks that are listed with *PSX* out of which 8 banks has selected for the analysis to check the particular results. United Bank Limited, Standard Chartered Bank, Bank Al-falah, Soneri Bank, Muslim Commercial Bank, Meezan Bank, Silk Bank, Allied Bank. There are total 64 numbers of observations and numbers of group are 8. The dependent and independent variables included in the analysis of the study can be explained as:

Dependent Variable:

a) Net profit:

The net profit after tax is taken as dependent variable in the study indicating the firm's performance.

Independent Variables:

a) Salaries:

The independent variable is salaries of the top management of the firm.

3.2 Design of study:

Design of the study explores the impact of top management salary on organisation's profit, a banking sector study. This a quantitative and non-experimental research. Specifically this research is done in order to understand the extent to which the salary had an impact on organisational profit. Statistical techniques are used to test the hypothesis of study.

3.3 Population:

Target population of this study was the banking sector of Pakistan.

1- United Bank Limited
2- Standard Chartered Bank
3- Bank Al-falah
4- Soneri Bank
5- Muslim Commercial Bank
6- Meezan Bank
7- Silk Bank
8- Allied Bank.

3.4 Type of study:

This research is descriptiveresearch. Cause and effect relationship between independent and dependentvariable has been examined in this research. Independent variable is managerial salary and the dependent variable is organisational profits.

3.5 Data Collection and Technique:

As mentioned secondary data was used in the research. We have collected the available data of 8 banks from different website like PSX or Banks official websites.

We collect 8 year of data of banks so it makes it a panel data. Panel data is a cross-sectional time-series data to examine the behaviours of entities. Variable that that change overtime but not across entities are controlled by panel data. Variable can be at different level in panel data. In terms of analysing the data we can use two techniques for panel data: i) Fixed Effect (ii) Random Effect.

To decide between fixed or random affects we run a Hausman test where the null hypothesis is that the preferred model is random effects vs the alternative the fixed effects. It basically tests whether the unique errors are correlated with the regressors. To identify which data technique is use to test the variable. Haussmann test will use to identify the technique. In this research it was identified that fixed effect model will be used to test the variable. Fix effect is used to examine the effect of variable that fluctuate overtime. The fixed-effects model controls for all time-invariant differences between the individuals, so the estimated coefficients of the fixed-effects models cannot be biased because of omitted time-invariant characteristics.According to the data estimation equation is:

$$Y= \alpha + \beta X+e$$

Where

Y= the dependent variable (Profit)

X= Independent Variable (Salary)

β = co-efficient of independent variable.

α = is the un-known intercept.

e = error term.

Chapter 4

RESULTS AND DATA ANALYSIS

4.1 Empirical Analysis

In order to empirically analyse the relationship between the top management salaries and organizational profitability three different model pooled, random and fixed effect model are being employed after confirming the absence of unit root in the series. In the first equation net profits, has taken as the indicator of the organizations' profitability. The empirical findings under all three models are being given in the table 1.1:

Table 1.1: Impact of Top Management Salaries on Net Profit

Variables	Pooled OLS		Random Effect		Fixed Effect	
	Coefficient	t-Statistic	Coefficient	t-Statistic	Coefficient	t-Statistic
C	143.1189	0.883089	-627.0685	-2.312901	-683.3259	-6.24236
AS	81.92662	4.234617*	190.8276	13.09403*	198.7822	13.24266*
R-Square	0.22		0.72		0.93	
D.W.	1.56		1.05		1.74	
F-Statistics	17.93*		161.32*		98.90*	
Haussmann Test (Chiq-Square Stats)			4.89			

In Pooled OLS it is being examined that Annual Salaries (AS) is positively and significantly related with Net Profits (NP) at 5% level of significance. The results suggest that Annual Salaries (AS) increase the Net Profits (NP) by 81%. However, there is 22% variation in dependent variable is due to the independent variable, the value of Durbin Watson suggests no auto-correlation and the model is overall good fit.

Haussmann Test suggests the rejection of the Null hypothesis which suggests the appropriation of the Fixed Effect Model. In fixed effect model, Annual Salaries (AS) is positively and significantly related with Net Profits (NP) at 5% level of significance. The results of fixed effect model suggest that Annual Salaries (AS) increase the Net Profits (NP) by 198% at 5% level of significance. Moreover, there is 93% variation in the dependent variable is due to independent variables, Durbin Watson suggests absence of auto-correlation and model is overall good fit.

Chapter 5

CONCLUSION

Executive salary is a complicated and controversial subject. The CEOs sky-high pay levels have induced a debate about the nature of the pay-setting process and the outcomes it produces. Some contend that vast official pay bundles are the aftereffect of top management setting their own compensation and separating rents from firms. The purpose of the study is to observe the influence of executive salary on profits in banking sector of Pakistan so that the investment pays off and the industry benefits.

In this research, for empirical analysis a data series of 8 *Pakistan Stock Exchange (PSX)* listed banks is being used. Data is starting from 2008 to 2015. As mentioned secondary data was used in the research. We have collected the available data of 8 banks from different website like PSX or Banks official websites. In terms of analysing the data, study uses three techniques: (i) Pooled OLS, (ii) Fixed Effect & (ii) Random Effect.

The results of this study indicate that the top management salaries have a positive and significant effect on organizational profit. The results are in line with the previous studies of Essien (2002), Nwachukwu (2000) &Atchison (2003). These results accept the hypothesis of the study which is "Salaries has positive impact on organisational profit."

5.1 Managerial Implication:

- Results shows positive impact of salaries on organisation profits so human resource department should consider good compensation models for top management ultimately it will increase profits.
- Organisation should pay highly because high salaries work as a motivator and consider as a key to hard work which will increase the form performance.
- It also minimize the hiring cost and decrease turnover rate which will increase productivity of the firm.

- Michael Reich et al. (2003)survey shows the overall performance has improved when salaries will increase.
- Organisation should compensate highly because it will reduce disciplinary problems and absenteeism.
- Organisation should pay highly because it will increase the morale. Morale of a company workforce is directly connected to profitability. High morale-high profits, low morale-low profit.
- Organisation should pay more because it help to retain the employees.
- Organisation should highly compensate because money can be used in a variety of ways to get employees to strive for bigger and better goals.
- Organisation should pay highly because that minimum wage, low-income remove opportunities to learn new skills and advance in a job or trade.
- Organisation should compensate highly because it Align employee's actions with the interests of the company.
- Organisation should compensate highly because incentives can generate healthy competition in the organisation and outside of the organisation.

ANNEXTURE.

Data

A) STANDARD CHARTERD

Years	Net profit	Annual Salary in Crores
2008	630,000,000	5.3
2009	3,606,000,000	5.8
2010	746,000,000	6.4
2011	5,553,141,000	7.0
2012	6,045,864,000	7.7
2013	10,699,319,000	8.5
2014	9,814,885,000	9.4
2015	9,430,934,000	10.3

B) UNITED BANK

Years	Net profit	Annual Salary in crores
2008	100,250,000	12.3
2009	112,628,000	13.5
2010	11,159,930,000	14.9
2011	15,499,663,000	16.4
2012	17,891,358,000	18.0
2013	18,613,955,000	19.8
2014	21,929,561,000	21.8
2015	25,727,149,000	24.0

C) BANK AL-FALAH

Years	Net profit	Annual Salary in crores
2008	1,301,301,000	4.9
2009	897,035,000	5.4

2010	968,452,000	5.9
2011	5,948,685,000	6.5
2012	4,556,121,000	7.1
2013	4,675,950,000	7.9
2014	5,787,463,000	8.6
2015	7,514,329,000	9.5

D) COMMERCIAL BANK

Years	**Net profit**	**Annual Salary in crores**
2008	15,374,600,000	3.8
2009	15,495,000,000	4.2
2010	16,873,000,000	4.6
2011	19,424,906,000	5.1
2012	21,235,235,000	5.6
2013	21,950,141,000	6.1
2014	24,774,446,000	6.7
2015	25,035,112,000	7.4

E) SONERI BANK

Years	**Net profit**	**Annual Salary in crores**
2008	701,041,000	3.1
2009	145,355,000	3.4
2010	125,440,000	3.7
2011	783,533,000	4.1
2012	1,104,193,000	4.5
2013	1,036,857,000	5.0
2014	1,582,055,000	5.5
2015	2,212,768,000	6.0

F) MEEZAN BANK

Years	Net profit	Annual Salary in crores
2008	621,000,000	3.1
2009	1,025,000,000	3.4
2010	1,649,000,000	3.8
2011	3,391,543,000	4.2
2012	3,508,116,000	4.6
2013	3,956,776,000	5.0
2014	4,570,086,000	5.5
2015	5,022,509,000	6.1

G) SILK BANK

Years	Net profit	Annual Salary in crores
2008	2,014,268,000	3.7
2009	-2,902,905,000	4.1
2010	-1131154000	4.5
2011	695,063,000	5.0
2012	-344,271,000	5.5
2013	-1,156,562,000	6.0
2014	86,860,000	6.6
2015	-1,711,605,000	7.3

H) ALLIED BANK

Years	Net profit	Annual Salary in crores
2008	4,157,000,000	3.35
2009	7,122,000,000	3.69
2010	8,226,000,000	4.05
2011	10,140,000,000	4.46
2012	11,641,000,000	4.91

2013	14,643,000,000	5.40
2014	15,015,000,000	5.94
2015	15,120,000,000	6.53

REFERENCES

Aaron, H. J. (1966), 'The Social Insurance Paradox', Canadian Journal of Economics and Political Science, 32(3), 371-4; reprinted in N. Barr 2001, Economic Theory and the Welfare State, Edward Elgar Library in Critical Writings in Economics, Vol. II, p. 79-82

Agburu, J. I. (2012). Recent Trends in Wage and Salary Administration in Nigeria: A Synopsis on Theoretical and Empirical Challenges, *International Journal of Basic and Applied Science,* 1(2), 257-268.

Aggarwal RK, Samwick AA. (1999b). Executive compensation, relative performance evaluation, and strategic competition: theory and evidence. *J. Finance* 54(6):1999-2043

Agrawal A, Knoeber CR. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. *J. Financ. Quant. Anal.* 31(3):377-97

Ahiauzu, A. I., (1985b): Towards a Diagnostic Approach to Motivating the Nigerian Workers in Inanga E.L.

Atchison, T. J., (2003). Wage and Salary Administration in Personnel Administrator.

Baker GP, Hall BJ. (2004). CEO incentives and firm size. *J. Labor Econ.* 22(4):767-98

Becker B. (2006). Wealth, risk aversion and CEO compensation. *J. Finance* 61(1):379-97

Benston G. (1985). The self-serving management hypothesis: some evidence. *J. Acc. Econ*. 7(13):67-83

Bizjak JM, Brickley JA, Coles JL. (1993). Stock-based incentive compensation and investment behavior. *J. Acc. Econ*. 16(1-3):349-72 Brookman JT, Chang S, Rennie CG. (2007). CEO equity portfolio incentives and layoff decisions. *J. Financ. Res.* 30(2):259-81

Boddy D, (2008) Management: An introduction, fourth edition, Prentice Hall

Bryan S, Hwang L, Lilien S. (2000). CEO Stock-based compensation: an empirical analysis of incentive-intensity, relative mix, and economic determinants. *J. Bus. 73(*4):661-93

Cai J, Vijh AM. (2007). Incentive effects of stock and option holdings of target and acquirer CEOs. *J. Finance* 62(4):1891-933

Cheang, N. (2005), "How Do Interest Rate Movements Affect Interest Margin of Macao Banks?" AMCM Quarterly Bulletin, Issue 15, 51-74.

Core JE, Guay WR, Verrecchia R. (2003). Price versus non-price performance measures in optimal CEO compensation contracts. *Acc. Rev.* 78(4):957-81

Core JE, Larcker DF. (2002). Performance consequences of mandatory increases in executive stock ownership. *J. Financ. Econ.* 64(3):317-40

Coughlan A, Schmidt R. (1985). Executive compensation, management turnover, and firm performance: an empirical investigation. *J. Acc. Econ*. 7(1-3):43-66

Datta S, Iskandar-Datta M, Raman K. (2001). Executive compensation and corporate acquisition decisions. *J. Finance* 56(6):2299-336 Demsetz H, Villalonga B. 2001. Ownership structure and corporate performance. *J. Corp. Finance* 7(3):209-33

Demirgu9-Kunt, Asli, and Harry Huizinga, (1997), Determinants of commercial bank interest margins and profitability: ·some intemational evidence, mimeo, World Bank

Dial J, Murphy KJ. (1995). Incentives, downsizing, and value creation at General Dynamics. *J. Financ. Econ.* 37(3):261-314

Diamond DW, Verrecchia R. (1982). Optimal managerial contracts and equilibrium security prices. *J. Finance* 37(2):275-87

Essien, E. (2002). Psychology Applied to Work: An Introductory Approach, Ibadan: Sceptre.

Fadzlan Sufian, and Royfaizal RazaliChong, (2008). “Determinants of Bank profitability in a developing economy: Empirical evidence from the Philippines”, AAMJAF, Vol. 4, No. 2, 91–112,

Fenn GW, Liang N. (2001). Corporate payout policy and managerial stock incentives. *J. Financ. Econ.* 60(1):45-72

Garen J. (1994). Executive compensation and principal-agent theory. *J. Polit Econ.* 102(6):1175-1199

Garvey GT, Milbourn TT,(2003). Incentive compensation when executives can hedge the market: evidence of relative performance evaluation in the cross section. *J. Finance* 58(4):1557-81

Gaver JJ, Gaver KM,(1995). Compensation policy and the investment opportunity set. *Financ. Manag.* 24(1):19-32 theory and evidence. *J. Polit. Econ.* 100(3):468-505.

Gray, D. and Jones, M. (2006). Indonesia: Selected Issues Paper, “Chapter III:Measuring Sovereign and Banking Riskin Indonesia: An Application of the Contingent ClaimsApproach.” In IMF Country Report No. 06/318, August. Washington: International Monetary Fund.

Gibbons, Robert, and Kevin J. Murphy, (1992), “Optimal incentive contracts in the presence of career concerns: Theory and evidence, Journal of Political Economy 100, 468–505”.

Greuning and Iqbal, (2008),“Risk analysis for Islamic banks The World Bank, Washington, D.C”.

Habib MA, Ljungqvist A. (2005). “Firm value and managerial incentives: a stochastic frontier approach. *J. Bus.* 78(6):2053-94”.

Hall B, Liebman J. (1998). Are CEOs really paid like bureaucrats? *Q. J. Econ.* 113(3):653-91

Haron, Sudin (2004), “Determinants of Islamic Bank Profitability”, the Global Journal of Finance and Economics, Vol. 1, No. 1, p. 11-33.

Hassan, M. K. and A. M. Bashir (2003), “Determinants of Islamic Banking Profitability”, ERF paper.

Hassan, M. K., & Bashir, A. (2003). Financial development and economic growth in the Middle East. Working Paper, the 6th International Conference in Islamic Economics, Manama, Bahrain.

Haubrich JG. (1994). Risk aversion, performance pay, and the principal-agent problem. *J. Polit. Econ.* 102(2):258-76

Hermalin BE, Weisbach MS. (1991). The effects of board composition and direct incentives on firm performance. *Financ. Manag.* 20(4):101-12

Himmelberg CP, Hubbard RG, Palia D. (1999). Understanding the determinants of managerial ownership and the link between ownership and performance. *J. Financ. Econ.* 53(3):35384

Holmström, Bengt, (1982). "Moral Hazard and Observability." Bell J. Econ. 10 (Spring 1979): 74-91."Moral Hazard in Teams." Bell J. Econ. 13: 324-4

Jensen. M.C. and W.H. Meckling, (1976), Can the corporation survive? Centre for Research in Government Policy and Business Working Paper no. PPS 76-4 (University of Rochester, Rochester, NY).

Jensen MC, Murphy KJ. (1990a). Performance pay and top management Incentives. *J. Polit. Econ.* 98(2):225-264

Jensen MC, Murphy KJ. (1990b). CEO incentives: it’s not how much, but how. *Harvard Bus. Rev.* 68(3):138-53

Jin L. (2002). CEO compensation, diversification, and incentives. *J. Financ. Econ.* 66(1):29-63

John T, John K. (1993). Top-management compensation and capital structure. *J. Finance* 48(3):94974

Johnnie, P. B. (2002). Organisational Behaviour and Organisation Theory (A Theoretical and Philosophical Perspective) UNILAG Press, Lagos.

Joni Tamkin Borhan dan Hedenan bin Towpek (2006), Untung Dalam Sistem Perbankan Islam (Theory of Profit in Islamic Banking System) Kuala Lumpur: Department of Publication University of Malaya.

Kumar R, Sopariwala PR. (1992). The effect of adoption of long-term performance plans on stock prices and accounting numbers. *J. Financ. Quant. Anal.* 27(4):561-73

Lambert RA, Lanen WN, Larcker DF. (1989). Executive stock option plans and corporate dividend policy. *J. Financ. Quant. Anal.* 24(4):409-25

Lambert RA, Larcker DF. (1987). "An analysis of the use of accounting and market measures of performance in executive compensation contracts. *J. Acc. Res.* 25:85-125'.

Larcker DF. (1983). "The association between performance plan adoption and corporate capital investment". *J. Acc. Econ.* 5(1):3-30

Lewellen W, Huntsman B. (1970). Managerial pay and corporate performance. *Am. Econ. Rev.* 60(4):710-20

Locke,E.A. (1976). The nature and causes of job satisfaction. In M.D. Dunnette (Ed.), Handbook of industrial and organizational psychology (pp.1297-1349). Chicago: Rand McNally.

McConnell JJ, Servaes H. (1990). Additional evidence on equity ownership and corporate value. *J. Financ. Econ.* 27(2):595-612

Means, Gardiner C. (1932), "The Modern Corporation and Private Property", New

York, MacMillan.

Mehran H, Nogler GE, Schwartz KB. (1998). CEO incentive plans and corporate liquidation policy. *J. Financ. Econ.* 50(3):319-49

Mehran H. (1995). Executive compensation structure, ownership, and firm performance. *J. Financ. Econ.* 38(2):163-84

Mike Kennerley, Andy Neely, (2002) "A framework of the factors affecting the evolution of performance measurement systems ", International Journal of Operations & Production Management, Vol. 22 Iss: 11, pp.1222 – 1245

Mills, J., Platts, K., Neely, A., Richards, H., & Bourne, M. (2002). Strategy and Performance. doi:10.1017/cbo9780511754685

Morck R, Shleifer A, Vishny RW. (1988). Management ownership and market valuation: an empirical analysis. *J. Financ. Econ.* 20(1-2):293-315

Muo, Ik. (1999). the Nature, Scope and Challenges of Management, Impressed Publishers, Lagos

Muo, Ik. (2013). Motivation and Managing Knowledge Workers: Evidences from Diverse Industries and Cultures, *Journal of Management and Sustainability;* 3(2), 119-131.

Muogbo, U. S. (2013). The Impact of Employee Motivation on Organisational Performance (A case study of some selected firms in Anambra States, Nigeria) *International Journal of Engineering and Sciences,* 2(7), 70-80

Murphy KJ. (1985). “Corporate performance and managerial remuneration”: an empirical analysis. *J. Acc. Econ.* 7(1-3):11-42

Ngu, S. M. (2005). Management Principles and Worker’s Motivation in Nigeria, Department of Public Administration, ABU, Zaria.

Nwachukwu, C. C. (2000). Human Resources Management, University of Port Harcourt Press, Port Harcourt.

Obasan, K. A. (2012). Effect of Compensation Strategy on Corporate Performance: Evidence from Nigerian Firms, *Research Journal of Finance and Accounting;* 3(7), 37 – 44.

Opachl, R. L., & Dunnette, M. D. (1966). the Role of Financial Compensation in Industrial Motivation. *Psychological Bulletin,* 66, 94 – 118.

Otobo, D. (1987). The Role of Trade Unions in Nigerian Industrial Relations, Malthouse Press, Oxford.

Palia D. (2001). The endogeneity of managerial compensation in firm valuation: a solution. *Rev. Financ. Stud.* 14(3):735-64

Pfau, B., & Kay, I. (2002). Playing the Training Game and Loosing, *Human Resources Magazine*, August, 49 – 54.

Robbins, S.P. (2003). Organisational behaviour: Global and South African perspective. Englewood Cliffs: Prentice Hall.

Roberts DR. (1956). A general theory of executive compensation based on statistically tested propositions. *Quart. J. Econ.* 70(2):270-94

Smith CW, Watts RL. (1992). "The investment opportunity set and corporate financing, dividend and compensation policies". *J. Financ. Econ.* 32(3):263-92

Sufian, F. (2008). The effects of revenue management via diversification strategy on Non-Commercial Bank Financial Institutions' productivity: empirical evidence from Malaysia. International Journal of Revenue Management, 2(4), 376.

Sukirno, Sadono. (2007). Modern Macroeconomics. Jakarta: King Grafindo Persada.

Sule, O. E. (2012). Labour Turnover in Organisation – Causes and Effects, Journal of Nigerian Institute of Management (Chartered) October – December, 48(4), 7 – 11.

Theoretical Framework of Profitability as Applied to Commercial Banks in Malaysia written by Devinaga Rasiah (2010); published in European Journal of Economics, Finance and Administrative Sciences available at: http://www.eurojournals.com

Vong, L.K. (2005), "Loans and Profitability of Banks in Macao," AMCM Quarterly Bulletin, Issue No. 15, April, 91-107

Vong, L.K. (2005), "Loans and Profitability of Banks in Macao," AMCM Quarterly Bulletin, Issue No. 15, April, 91-107.

Wesonga, J., Alice, K., Noah, M., Makworo, E. (2011). The Factors Contributing To Labour Turnover in the Sugar Industry in Kenya (A case study of Sony Sugar Company Limited), International Research Journals, 2(5), 1138 – 1148.

Yermack D. (1995). Do corporations award CEO stock options effectively? *J. Financ. Econ.* 39(23):237-69

Zantioti, L. E. (2009). Does Islamic bank performance differ by region? Stockholm School of Economics.