

EXECUTIVE COMPENSATION AND BUSINESS PERFORMANCE: IS THERE AN OBVIOUS RELATIONSHIP?

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ABSTRACT

The relationship between executive compensation and corporate performance has been studied in the scope of management accounting through the analysis of forms of compensation and their relationships with the items of accounting features. However, there is still few empirical evidence of the effects of executive compensation in the corporation's performance. In this way, this communication aims to serve as a starting point for a future research based on a review of the relevant literature, using a multiple linear regression model that aims to highlight how the components of compensation might influence the improvement of profitability and growth indicators of organizations.

KEYWORDS: Executive compensation, Fixed and variable compensation, Organizational performance, Value creation.

1. INTRODUCTION

Executive compensation is currently one of the most studied topics in financial areas. In recent years it has been highlighted the importance of the incentives granted to executives so that their performance promote greater business growth. Compensation is an enormously important practice of human resources management for corporations since it comprises a significant portion of their costs, and also for employees, because it represents the relative value of their work (Schuster and Zingheim, 1992). Several studies have been developed having as the central focus the relationship between executive compensation and organizational performance, such as the researches of Jensen and Meckling (1976), Jensen (1993), Boyd (1994), Berkema and Gomez-Mejia (1998), Core *et al.* (1999), Brick *et al.* (2006), Ozkan (2007), and Shah *et al.* (2009).

It was the evolution of the concept of modern enterprise, which came up with the distinction of ownership and control that led to the development of the agency theory. It became, therefore, of great importance to analyze not only the values of compensation but also how they are attributed, knowing that compensation may take the form of salaries, bonuses, fringe benefits or even stock options. Organizations began to be more sensitive to the necessity to attract and motivate the most qualified resources and, therefore, they became

increasingly sensitized concerning the need to offer higher salaries than other companies in the market. However, although it was recognized that an attractive remuneration was important, it was also being given particular attention to how this compensation was composed (Jensen and Murphy, 1990b). According to Gómez-Mejia and Welbourne (1988), an appropriately structured compensation system might help the corporation to direct individual efforts to the strategic objectives of the business, allowing the corporation, thus, to achieve higher levels of financial performance. Once the shareholders do not have full control over their executives, the remuneration system of corporations is considered by many as the most efficient mechanism to align the interests and divergences that might exist (Aggarwal and Samwick, 1999; Shim and Lee, 2003; Devers *et al.*, 2007).

The issue of executive compensation continues to be of great importance currently, both in its practical application to the business world and also due to previous inconclusive studies about this issue, justifying, thus, the relevance of this research. Despite the several studies conducted over the past few years, there is still few empirical evidence on the relationship between executive compensation and corporate financial performance. It is therefore necessary to define an empirical model that allows to assess which is the causal relationship between executive compensation, focusing not only in the amounts involved but also in its composition, and the benefits obtained by the organization.

2. RELEVANCE OF THE PROPOSED RESEARCH

The relationship between executive compensation and corporate performance has been studied in the accounting area through the analysis of forms of compensation and its relationship with the accounting items. Several investigations have been developed in order to assess the results obtained by the executives compensation (Jensen and Murphy, 1990b; Bebchuk and Fried, 2006; Frydman and Saks, 2010; Murphy and Sandino, 2010). According to Scott (2012), an executive compensation plan is an agency agreement entered between the corporation and its manager that aims to align the interests of owners and shareholders and the manager, basing his compensation in one or more performance evaluation measures concerning the corporation's management.

The executive compensation is of great importance from an economic point of view, to the extent that it is assumed as a potential solution to the moral hazard problems that exist in agencies models, in particular by the separation of property of the organization and its control.

Several investigations have been developed in order to understand and explain the most efficient models of executive compensation (Murphy, 2003; Frydman and Saks, 2010). However, there is another line of thought that argues that the executive compensation is more a problem and not a solution to the obstacles and difficulties of business management. What this approach refers is that the revendicative power of executives might translate into a weak commitment from executives when they are faced with careless direction boards or slightly interventive, leading to conclusion that compensation contracts do not follow the interests of shareholders and owners (Bertrand and Mullainathan, 2001; Bebchuk *et al.*, 2002; Bebchuk and Fried, 2003, 2006). On the other hand, there is no consensus among investigators about the indicators that should be used to measure the financial performance of organizations. Some authors, such as Chakravarthy (1986), Keats (1990), and Venkatraman and Ramanujam (1986; 1987), pointed out that the concept of performance has several dimensions. It is therefore necessary to use more than one indicator to measure performance. Venkatraman and Ramanujam (1987) demonstrated that the financial performance construct has two different dimensions, namely, growth and profitability, and each of these dimensions might be operationalized by using one or more indicators. Profitability, for example, can be measured by indicators such as return on equity (ROE), return on assets (ROA), or even the return on investments (ROI). On the other hand, growth can be measured by indicators such as the increase in sales.

Following this perspective, this research intends to propose a research model based on a multiple linear regression model that allows to analyze if there is indeed a causal relationship between executive compensation components (being these assumed in the model as independent variables), and the financial performance indicators of organizations (representing these indicators the dependent variables). Thus, a model is proposed in which the dependent variables are represented by the profitability indicators ROE and EPS, and the growth of sales (Δ sales), representing this variable a growth indicator.

3. THEORETICAL FRAMEWORK

The topic of executive compensation has sparked huge interest in a way that it has been the basis for several investigations, such as situations focusing on mergers and acquisitions, dividend policies, corporate performance, and capital structure. It has been noted that CEO's remuneration has increased without the existence of any justification for such occurrence, considering the demonstrated performance (Jensen and Murphy, 1990b). Moreover, investors

have also come to question if the CEOs of public companies privilege their own interests rather than the best interests of their companies, deviating thereby from the decisions of value maximization. As a result, an extensive line of research related to executive compensation has emerged (Gregg *et al.*, 1993; Conyon, 1995; Cyert *et al.*, 2002; Doucouliagos *et al.*, 2007; Barontini and Bozzi, 2011; Dickins and Houmes, 2009; Melis *et al.*, 2010; Barontini and Bozzi, 2011; Junarsin, 2011; Connelly *et al.*, 2012). Hannafey (2003) stated that the additional compensation related to the skills of CEOs in order to influence the economic performance of organizations is a complex and challenging issue. Thus, the evidence about the relationship between executive compensation and corporate performance is quite heterogeneous, with few studies on this issue in emerging markets.

However, the agency theory has supported the existence of a positive relationship between executive compensation and the organization's performance (Haid and Yurtoglu, 2006; Lazarides *et al.*, 2008; Nourayi and Mintz, 2008). In the study of Jeppson *et al.* (2009), the executive compensation revealed to be positively related to total sales of the organization, however, it didn't show any significant relationship between returns for shareholders or the total net profit. These divergences are due largely to the fact that performance compensation or the analyzed items vary according to different statistical data, with the characteristics of organizations or even with the specifications of the model itself. On the other hand, there is only a very limited number of studies undertaken in emerging economies, not allowing inferences about different economic contexts, once these are coated by distinct characteristics and variables, both at corporate level or macroeconomic level (Kato and Long, 2006). In another perspective, Parthasarathy *et al.* (2006) stated that the size of organizations has a positive and significant impact on executive compensation. Following the same line of research, the study of Lazarides *et al.* (2008) noted the same conclusions, also noting that the size of the organization can be considered as a more efficient predictor of executive compensation than properly the organization's performance.

Many of the studies that have been developed are based mainly on stock options as a form of executive compensation, without taking into account other compensation elements. This compensation factor makes sense if we think that managers will have greater interest in increasing the market value of the corporations and, consequently, the shareholder wealth, if properly rewarded for that. This means that if managers have the stock options as an incentive plan, which are directly related to the corporation's performance, with the increase of its market value they will have the opportunity to benefit from a percentage of the corporation in

the future. However, this incentive might influence the behavior of those responsible to decisions less ethical in order to achieve their goals. At the beginning of this century occurred a series of business failures caused by situations of fraud and, in many cases, these events were related to incentive policies based on stock options. It was seen that managers wanted at any cost to increase the market value of the corporations in such a way that, to achieve their goals, managers omitted and manipulated informations to the market about the corporations that were managed by them.

Although the executive compensation is particularly referenced as a way to reward managers, it is also assumed as an extremely useful tool in the reduction of the agency conflict. The annual bonus given to managers depends on the performance achieved by the enterprise, reflecting thus the efficiency of the decisions taken by managers. Many of the executive compensation plans are based on two performance measures, namely, results and stock prices. The information of the results plays an important role in the analysis of the manager's performance, as well as in the information that is transmitted to investors. However, the information of the results does not reflect the effort that the manager had in achieving such results, that is, it doesn't allow to measure efficiently the manager's performance and neither reflects his true value. This question arises with particularly relevance because the motivational factor in the manager's performance is an important goal to achieve.

Executives that have a strong professional reputation are better paid in terms of performance, because the shareholders have perception that their decisions will influence directly the price of the corporation's stocks (Milbourn, 2003). Stock prices are a less accurate indicator in the measurement of manager's performance, since its variation depends on other economic factors. For example, in a situation where there is a rise or fall in the interest rates, the effects on the expectations of the corporation's future performance will be reflected in stock prices, and that's why this fact adds few information about the efforts of the manager in controlling the situation. Studies conducted showed that managers ensure better performances of the corporations when they know that their compensation is adjusted at the end of each year, and the performances are not so positive when the compensation factors are focused on medium or long term objectives (Sanders, 2001).

According to Dow and Raposo (2005), corporations that are seeking to implement executive compensation plans based on performance usually define more ambitious strategies and difficult to achieve than companies that do not adopt this model of incentives as a way to

reward their managers. What is verified is that when these incentive plans are announced publicly, the various market players will react positively, since they believe that managers will join efforts to achieve the expected performance, thus leading to the value creation of the corporation (Morgan and Poulsen, 2001).

3.1. Executive Compensation

3.1.1. The risk in executive compensation

The commitment of the manager may also be considered on a risk perspective, in case of risk behaviors or also the behaviors referred to as moral hazard. The higher the risk that managers have to deal with, the higher will be the expected compensation. The responsible for the development of an effective compensation plan should, therefore, seek the greatest motivation for a given level of the imposed risk. It is important to note that the compensation under the risk affects how well the manager will manage the corporation and, if it is not imposed a certain level of risk, the corporation will suffer repercussions due to a lower commitment from the manager.

There are several ways to control risk in compensation and one of the main theories derives from the assessment of relative performance, theory developed by Baiman and Demski (1980) and Holmstrom (1982). In this perspective, instead of measuring performance through results or the price of the corporation's stocks in particular, performance is measured by the difference between the performance of the corporation's results, or the stock prices, and the average performance of a group of similar corporations, such as corporations within the same sector or industry. By making such comparison, given the average performance of similar corporations, the systematic or common risk of the industry will be excluded from the incentive plan. Starting from this perspective, it is possible the manager to get good results, even when the corporation presents low results or losses, and the stock price decreases, if the corporation's losses are lower than losses occurred in the average of other similar corporations. According to this theory, it is expected that the manager's compensation be negatively related to the average performance of the economy or industry. However, despite the evidence demonstrated by this theory, some authors obtained poor results in their investigations (Antle and Smith, 1986). This theory becomes somewhat complex due to the need to identify the appropriate corporations for the comparison groups.

Aggarwal and Samwick (1999) also presented a model of firms in an oligopolistic industry where the demand of a certain product of a corporation depends, not only of the product's price itself, but also of the products prices of its competitors. Thus, the lower the price of competitors' products, the lower will be the demand for the corporation's product concerned. To promote this cooperating behavior, the compensation plan attributes a positive weight to the performance of other corporations.

The conservative accounting can be likewise a form of risk control that postpone the gains recognition not realized yet and discourages premature recognition of revenues. Compensation based on conservative results gives the manager little incentive on the investment of risky projects. Another approach for risk control is through the board committee (board). The board has the definitive responsibility in the determination of monetary values and compensation actions and has the flexibility to take into account certain circumstances. Despite the efforts applied in the risk control, it is essential that some risks remain present, and it's very important that the manager does not exercise his functions beyond that risk.

3.1.2. Agency conflict

Within an organization, two major figures stand out. On the one hand, the owners (or shareholders), whose involvement in business often comes down to their participation in the capital, hoping that the corporation's performance will reflect the best possible result, in order to recover the maximum return on invested capital. On the other hand, there is the manager's figure who has the role of deciding about investments and the corporation's activity, in order that the result of his work can reflect his best performance. It is here that the question arises whether the interests of both parts, in fact, are conjugated and aligned in the same direction, and this issue is referred to as agency conflict. What can be observed often is that once the managers are paid according to their performance, they tend to guide their decisions for visible results in the short term, to the detriment of other long-term options that could eventually provide more value creation for the corporation. According to Graham *et al.* (2012), managers often have more relevant information than shareholders and even the corporation's board, regarding the identification of investment opportunities and in the evaluation of the profitability of potential projects.

In fact, the shareholders and managers have different interests and goals. While shareholders are interested in the maximization of the organization's wealth, managers are

more focused on their personal benefits, which may lead to perform their duties with the least possible effort. These are the differences that give rise to agency conflicts related to the alignment of incentives and objectives of both parts. The study conducted by Jensen and Murphy (1990a) emphasized this idea. According to these authors, using the accounting income as the definition base of the executives' compensation, it will cause that they will feel driven to manipulate the choice of these accounting criteria, as well as to decide on projects with short-term returns.

Most studies in this area are based on the existing asymmetric information between managers and shareholders. This asymmetric information can be characterized by situations of missing information or hidden actions. The situations of missing information are related with the fact that the manager might keep certain informations and, sometimes, might omit certain specified facts when the corporation draws up the compensation contract, in order to obtain advantages for his benefit in the future. This kind of situation can assume several forms. For example, the privileged information related with the corporation that the manager has access, due to the fact that he is a specialist in certain areas that shareholders do not dominate as well or in which they do not own much knowledge, leads to a situation where the shareholders can not assess the knowledge that the manager really has, and the fact that shareholders often have to pay a much higher value concerning the benefits that may come from that information. This means that managers may eventually use the privileged information which they hold, and to which the shareholders do not have access, for their own benefit during the contract period.

With regard to missing actions, these are often designated in the literature by moral hazard problems (Katz and Rosen, 1998). In these situations, there is a definition of attitudes that the manager should develop, previously agreed between the shareholders and the manager. However, shareholders don't have the possibility to observe, or even evaluate, the decisions that managers will take and that could lead them to lose money. Due to differences between shareholders and managers, concerning the access to privileged information and the different goals that most often are imposed, the solution of the conflict should pass by the establishment of an agreement which should focus on a compensation plan for the manager and a way of monitoring his actions by shareholders.

A quite costly example of the manager's actions monitoring are the audits performed on corporations. Thus, another concept showed up designated by agency costs, which include all costs with the benefits and incentives, monitoring of the manager's decisions and all actions taken by them, which might be considered divergent from the shareholders opinions. It will

always be expected differences between shareholders and managers. One of the aspects that underlies the divergences is the fact that both parts have different views on risk. On the one hand, the manager will tend to opt for a higher risk if he considers that this will allow him to achieve benefits. However, will be understandable a more defensive attitude from shareholders by not wanted to take a risk position, once they were the ones who invested the capital. In corporations where the agency conflicts are more significant is usually verified that performance levels are lower and the shareholders pay more to their managers than in corporations with fewer agency conflicts (Adams *et al.*, 2005). If the decisions of the managers are not controlled, they will try to get higher compensation from shareholders, contrary to what happens in corporations that have an effective monitoring process.

A perspective has been advocated by several authors, Almazan and Suarez (2003), and Elston and Goldberg (2003), and it refers to the existence of bank loans as a way of monitoring the managers' decisions and to reduce the agency costs. The relationship that is established between bank loans and the reduction of agency costs is explained by the fact that if banks grant loans to corporations, the banks themselves will follow the manager's decisions in order to ensure that the loan amount will be paid in the future. Consequently, managers will not be able to demand high compensation from corporations in order to ensure that they have sufficient resources to pay those loans.

3.1.3. Components of the executive compensation

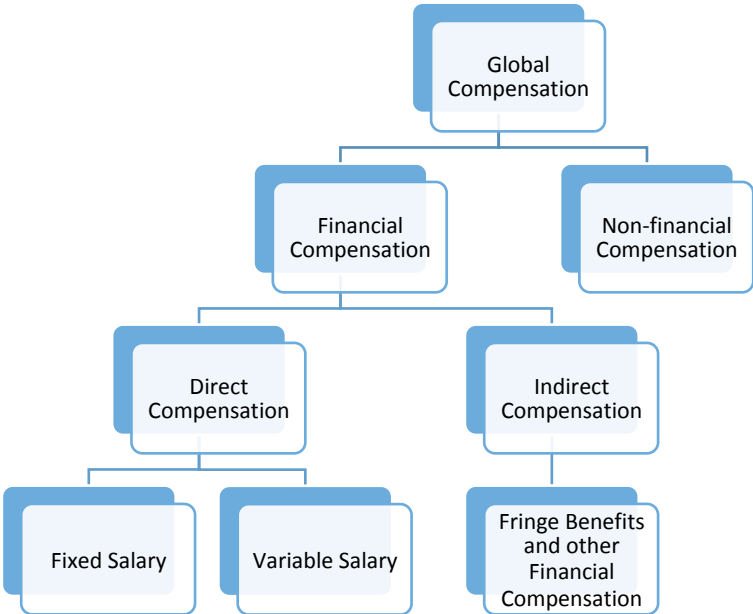
There are several researches that consider that the executive compensation plans should be an important management tool in order to motivate and encourage managers through a combination of incentives and rewards to performance indicators (Kaplan and Atkinson, 1989). The composition of an executive compensation plan is directly related to several factors, some internal and other external. Examples of those conditioning factors can be highlighted such as the size of the corporation, the manager's qualities, and the origin country of the corporation, among others. According to Core *et al.* (2003), an efficient and optimized contract is the one that maximizes the expected net economic value for shareholders, after transaction costs are deducted, such as the cost of hiring and employees salaries.

Some of the conducted studies have attempted to relate certain factors with executive compensation components (Lambert and Larcker, 2004; Armstrong *et al.*, 2007; Dittmann and Maug, 2007). Most of the investigations on executive compensation consider the size of the

corporation as a study variable, which may be reflected through assets, market value or sales volume. Lambert *et al.* (1989) studied the relationship of the differences between executive compensation and corporation size, and they concluded that this relationship is significantly positive. Also the results found by the authors Rosen (1982) and Kostiuk (1990) lead to the conclusion that managers compensation varies with the size of the corporation, once the larger corporations can hire managers with higher qualifications and, consequently, will offer remunerations considered above the average. However, it is important to analyze which are the most relevant components of a compensation plan, and which is the importance of that compensation plan in the assessment of the corporation’s performance. For example, Sanders and Boivie (2004) investigated the case of corporations designated as Internet Firms of the United States and they concluded that the market valuation of those corporations was strongly related with the level of compensation incentives based on stocks.

In global terms the compensation awarded to managers has often two components: a fixed component, always being earned by the manager, regardless of his performance or the corporation’s performance, and a second variable component. This variable component will depend of a series of performance measures, previously defined and agreed between the direction board (shareholders) and the manager.

Figure 1 – Model of Compensation Components



Source: From the authors based in the literature.

In a first paper on this issue, Kaplan and Atkinson (1989) divided the executives' compensation in three major types of incentives: long-term/short-term, cash/stocks, and monetary component/non-monetary component. On the other hand, Murphy (1998) pointed out four main elements in the composition of a compensation plan: base salary (fixed), an award assigned to performance measures evaluated by accounting items, stock options and long-term incentives. Stock options are one of the most used tools in executive compensation models (Hall and Liebman, 1998; Hall and Murphy, 2002; 2003). Stock options are contracts that grant to their holder the right to buy stocks at a previously defined price, being this the exercise price, during a specified period. They are seen as a long-term incentive mechanism and, over the past decades, stock options have represented a major change in business leadership structure (Holmstrom and Kaplan, 2001). The stock options that are granted to managers can be exercised over time and are not tradable on the market. If the manager leaves the corporation before the stock options can be exercised, in that particular case, the stocks won't have effect. According to Hall and Liebman (1998), a solution for the agency problem will be to align the executives' incentives with the shareholders interests through the attribution of stock options.

The assignment of compensations that are exclusively fixed has a great inconvenience by not motivate sufficiently the managers, which leads to that, consequently, they do not strive enough in order to achieve the maximum profitability for the corporation. That is how the variable awards showed up, as a way to reward the manager for his good performance, being this performance identified by financial and accounting indicators. However, a fact that is commonly accepted is that the variable compensation is more common in managers than on any other executives, insofar as that they have more power to influence the corporation's stocks price (Aggarwall and Samwick, 2003).

Other studies have been developed following other perspectives. According to Brookman *et al.* (2007), the managers of corporations that follow resource reduction policies are rewarded on average 20% more than other managers that do not take those decisions. Another relevant study was the investigation of Brickley *et al.* (1999) by concluding that an incentive that can motivate managers to improve the corporation's performance will be to give them the opportunity to be part of the corporation's board after their retirement.

The value that managers receive from the corporation should be consistent with their skills and their knowledge. However, the existence of other persons in the labor market with the

same skills might be decisive in setting the managers compensation. This means that if there is a large number of individuals working in the same area of expertise, the manager will probably have a more cooperative attitude with the shareholders, to the extent that he becomes aware that he may be easily replaced. When a manager knows that do not exist many professionals in his area of expertise, he will probably demand better compensation, because he recognizes that it will be very difficult for the corporation and shareholders to find another professional with the level of knowledge similar to his, experience or skills. When a corporation offers an attractive compensation plan, it will lead to the fact that other corporations should offer similarly attractive compensation plans in order to reveal themselves interesting for qualified professionals (Murphy, 2003). However, other studies such as Beer *et al.* (2004) reported that some corporations are determined to abandon the remuneration practices through the performance, because they consider that the costs of those policies are higher than the benefits that they enable to obtain, and corporations are already beginning to resort to other methods such as an effective leadership, goal setting, coaching and training, considering that these methods reveal themselves more effective investments, providing greater benefits to the organization.

According to Conyon (2006), a high value of executive compensation does not highlight a contract inefficiency, that is, may only represent the necessity of the organization in paying attractive values to captivate, retain and motivate the best talents. Thus, the direction boards will have the responsibility to define compensation models that should incorporate and align the interests of shareholders with the interests of managers and executives.

4. PROPOSAL OF THE RESEARCH MODEL

As previously mentioned, several studies have dedicated particular attention to executive compensation components that, in a more efficient way, will lead managers to obtain more benefits for the organizations they manage. However some inconclusive results have been highlighted regarding the respective advantages that may be obtained. On the other hand, studies concerning this topic in emerging economies are still scarce, hindering the interpretation of these results transversely to the business world and based on an international perspective. Thus the aim of this communication is to highlight some research questions, based on the theoretical framework developed earlier. This study intends to analyze the possible relationship between executive compensation and corporate profitability, that is, if the value and the remuneration components and their characteristics will provide a better business

performance, being this performance measured by the indicators ROA (return on assets), EPS (earnings per share) and sales growth (Δ Sales).

Several studies have pointed out the existence of a positive relationship between executive compensation and organization's performance (Haid and Yurtoglu, 2006; Lazarides *et al.*, 2008; Nourayi and Mintz, 2008). In the study of Jeppson *et al.* (2009), the executive compensation revealed to be positively related to the organization's total sales.

The assignment of remunerations that are exclusively fixed has a great inconvenience because it does not motivate the managers sufficiently which will lead to that, consequently, they will not develop enough efforts in order to achieve the maximum profitability for the corporation. That is how the variable remuneration appears, as a way to reward the manager for his good performance, and this performance is characterized by financial and accounting indicators. However, a fact that is commonly accepted is that the variable compensation are more common in managers than on any other executives, to the extent that they have more power to influence the good performance of organizations (Aggarwall and Samwick, 2003). There is also another kind of monetary benefits that can be assigned in a perspective of premiums or fringe benefits, and which translate into monetary benefits not incorporated in salary compensation. Are framed in this context the payments related to credit cards, travels, meals, retirement supplements, health insurance, among others. On the other hand, there are also benefits granted concerning to career development plans, training or education, for example, postgraduate or MBAs payments. Thus, the following research hypotheses were considered:

***H1** – The manager's fixed remuneration, incorporated in the executive compensation, positively influences the organization's performance.*

***H2** – The manager's variable remuneration, incorporated in the executive compensation, positively influences the organization's performance.*

***H3** – Other monetary benefits concerning retirement supplements, health insurance, among others, incorporated in the executive compensation, positively influence the organization's performance.*

***H4** – Other monetary benefits concerning the career development, training and education, incorporated in the executive compensation, positively influence the organization's performance.*

Stock options are one of the most used tools in executive compensation models (Hall and Liebman, 1998; Holmstrom and Kaplan, 2001; Hall and Murphy, 2002; 2003; Sanders and Boivie, 2004). This compensation factor makes sense if we think that managers will have greater interest in increasing the corporation's market value, and hence the shareholder wealth, if they are properly rewarded for it. This means that if managers have as an encouragement the stock options, which are directly related to the corporation's performance, with the increase of their market value, managers will have the opportunity to benefit from a percentage of the corporation's profits in the future. Thus is placed the following research hypothesis:

H5 – *The assignment of stock options, incorporated in the executive compensation, positively influence the organization's performance.*

Concluded the description of the fundamentals that took to the construction of the research hypotheses through the literature review, it is now possible to define the proposed research model as shown below:

$$ROA_{i,t} = \beta_0 + \beta_1 AFR + \beta_2 AVR + \beta_3 OMB + \beta_4 OBcdte + \beta_5 SO + \varepsilon_{i,t}$$

$$EPS_{i,t} = \beta_0 + \beta_1 AFR + \beta_2 AVR + \beta_3 OMB + \beta_4 OBcdte + \beta_5 SO + \varepsilon_{i,t}$$

$$Growth_{i,t} = \beta_0 + \beta_1 AFR + \beta_2 AVR + \beta_3 OMB + \beta_4 OBcdte + \beta_5 SO + \varepsilon_{i,t}$$

Where:

i represents the several corporations and t represents the several years; $ROA_{i,t}$, $EPS_{i,t}$ and $Growth_{i,t}$ represent the dependent variables, namely, the corporation i in period t ; β_0 represents the regression coefficient, $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 represent the coefficients of the explanatory variables, and $\varepsilon_{i,t}$ assumes the error term. The remaining variables are the explanatory variables (independent variables), designated in the model as:

AFR - Average fixed remuneration

AVR - Average variable remuneration

OMB - Other monetary benefits

OBcdte - Other benefits related to career development / training / education

SO - Stock Options

5. CONCLUSIONS

Executive compensation is an issue that has sparked great interest from researchers and practitioners, and arises often associated to a reduction mechanism of the agency conflict. The contracts of the executive compensation involve an equilibrium between incentives, risk and time decision. An effective plan of compensation should reach a high level of motivation and, simultaneously, should control the risk so that it can align the interests of shareholders and managers.

Over the past decades, the incentive policy usually adopted in a business context has revealed major changes. Currently, there are several components in a compensation plan, since the fixed compensation which passes through the salary that the executive receives, to the variable components that are often dependent on the corporation's performance being this performance measured by financial and accounting indicators.

This research aimed to highlight the importance of the executive compensation as a motivating factor in the manager's performance, which may reflect a significant impact in the financial performance of organizations. It also sought to highlight some studies with different conclusions and perspectives, being proposed in this communication a future research model in order to answer the research hypotheses previously enunciated.

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