



THE DETERMINANTS OF CEO COMPENSATION  
BASED ON FIRM PERFORMANCE AND LUCK

AGNES THOMAS  
2013940861

BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
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## **ABSTRACT**

The contradicting view on CEO compensation has sparked a continuous debate about the nature of the pay-setting process. CEOs are compensated based on performance and as many literatures have suggested, they may also be compensated based on luck. The theory that outlines the theoretical framework in CEO compensation is the principal-agent theory whereby the managers may act for his own benefits in order to achieve his own goals and the difficulty in managing the agent's behavior and disparity between the principal's goal and agent has becomes the problems arises in the design of the CEO compensation strategy. Consequently, the simple model contracting view ignores the existence of luck in the payment structure of the CEO and they should not be rewarded for observable luck particularly the mean changes in firm performance that beyond the CEO's controls. However, the recent empirical studies conducted in the same area have argued this theory and suggested that pay should be to luck. The main purpose of this research is to identify the relationship between performance and total CEO compensation and to determine the relationship between the luck of being paid towards the total CEO compensation measured by cash and equity compensation. In order to achieve these objectives, the data were treated based on the longitudinal analysis and was run through STATA 12. The sample selected from 30 companies representing 8 industries listed in Bursa Malaysia from 2010 to 2014. The empirical results show that the firm performance has a positive significant relationship towards total CEO compensation while luck has a significant relationship towards the CEO compensation when measured using market relative performance.