



THE DETERMINANTS OF CEO COMPENSATION  
BASED ON FIRM PERFORMANCE AND LUCK

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JANUARY 2016

## ACKNOWLEDGEMENTS

First of all, I want to offer this endeavor to God Almighty for the wisdom and blessing He bestowed upon me, the strength, peace of mind and good health in order to accomplish this research.

This thesis becomes a reality with the kind support and help of many individual and I would like to extend my sincere thanks to all of them.

I would like to express deepest gratitude to my advisor, Associate Professor Dr Imbarine Bujang for his full support, expert guidance, understanding and encouragement throughout my study and research. Without his incredible patience and timely wisdom and counsel, my thesis work would have been a frustrating and overwhelming pursuit.

In addition, I also would like to express my appreciation to Madam Sarmila Udin, Miss Anastasia binti Harbi and to all UiTM lecturers for their help and support in the academic research as well as internship program during my graduate years. Their thoughtful comments and improvements were valued greatly.

Furthermore, I would like to take this opportunity to express my special thanks to my entire fellow friend who helped me throughout this academic exploration and their willingness to help me out with their abilities. Besides, thanks also go to Ahmad Fauze Abdul Hamit for his contributions and ideas in completing this project paper.

My special thanks and appreciation also goes to my parents and family members for their financial support, encouragement and prays. I might be unable to complete this thesis and finishing my degree without their unconditional love and blessings.

Finally, I also place on record, my sense of gratitude to one and all, directly or indirectly, have lent their helping hand in this project paper.



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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.