CEO Compensation and Bank Performance: Moderating Role of Bank Size

Meera Thapa[1], Dhan Bahadur Pun Thapa[2]

[1]Meera Thapa is a MBS-F Scholar at Lumbini Banijya Campus and can be reached at thapameera1999@gmail.com.

[2]Dhan Bahadur Pun Thapa is an Assistant Professor at Lumbini Banijya Campus.

Abstract

The purpose of this study is to investigate CEO Compensation and Bank Performance: Moderating Role of Bank Size. The study's independent variable is CEO Compensation, moderating variable is Bank Size and the dependent variable is Bank Performance. The study makes use of secondary panel data encompassing ten major commercial banks over a ten year period from the fiscal year 2014–15 to 2023–24.

This study concludes that the positive relationship was not evident in the correlation analysis, where a negative correlation was found between CEO compensation and ROA. The interaction term between CEO compensation and Bank Size was negative and statistically significant. This implies a moderating effect, meaning the positive impact of CEO compensation on ROA diminishes as Bank Size increases. In essence, CEO pay contributes more to performance in smaller Bank's than in larger ones, possibly due to differences in management structure, oversight, or decision-making agility.

Keywords: *CEO Compensation, Bank Size and Bank Performance*

I. Introduction

The Purpose of the study is to examine the effect of CEO compensation and Bank Performance : Moderating Role of Bank size for the period of FY 2013/14 to FY 2023/24.The banking sector plays an important role in the country's economic growth and it helps to move money through the economy, supports investment and promotes financial inclusion .In Nepal commercial banks have played a key part in supporting economic progress and solving development challenge of economic development, playing a critical role in facilitating capital flow, promoting investment, and driving financial inclusion. In Nepal, commercial banks have played a key role in supporting economic progress and solving developmental challenges. Over the time, the banking sector has gone through many changes such as increase competition,new rules and the use of modern technology. These changes have placed greater emphasis on the role of CEO in navigating complex business environments and achieving organizational objectives .CEO compensation has become a pivotal topic in corporate governance, drawing considerable attention from academics, policymakers and practitioners. The relationship between CEO compensation and Bank Performance has been extensively debated, with various theories offering differing views on aligning managerial incentives with shareholder interests. This issue is particularly significant in financial institutions like commercial banks where the structure of compensation packages can profoundly influence risk-taking behaviors, financial stability, and overall performance (Jensen & Meckling, 1976). CEOs in these banks play a crucial role in strategic planning, resource allocation, and risk management, directly impacting financial and operational outcomes. Typically, CEO compensation in Nepalese commercial banks includes a combination of fixed salaries, performance-based bonuses, stock options, and additional benefits. Understanding whether these compensation structures effectively incentivize CEOs to drive superior Bank Performance is essential for stakeholders (Adhikari, 2023).In Nepal, the banking sector plays animportant role in the country's economic development contributing significantly to financial activities. However,only a few studies have looked intohow CEO Compensation affects the performance of commercial banks in Nepal bank.

distinct economic, cultural, and regulatory environment of Nepal, findings from global research may not be entirely applicable. This gap highlights the need for a localized examination of CEO Compensation andtheir

effectiveness in driving performance metrics such as profitability, efficiency, and shareholder value. This Study seeks to address the existing gap by examining commercial banks. It analyzes major performance indicators alongside the elements of CEO Compensation Packages to assess how effective current remunartion practices are and how they influence corporate governance. The results are expected o contribute to the understanding of executive compensation and offer the practical insights for policymakers, regulators, and bank boards in designing compensation strategies that promote improved bank performance.

1.1 Objectives of the Study

The general objective of the study are as follows:

- To analyze the relationship between CEO Compensation and Bank Performance
- To examine the effect of CEO Compensation on Bank Performance
- To explore the moderating role of bank size on the relation of CEO Compensation and Bank Performance.

II.ReviewofLiterature

2.1TheoreticalReview

2.1.1Agency Theory

Agency Theory is Proposed by Alchian and Demsetz (1972) within the field of economics, It focuses on the relationship between a principal, who delegates tasks and an agent, who performs them. It emphasizes that shareholders' interests require protection through the separation of the roles of the board and the CEO (Donaldson & Davis, 1991). According to Berle and Means (1934), this separation of ownership and management introduces issues of control and differing risk preferences. The theory assumes that the board of directors and shareholders act as monitors, while managers serve as agents responsible for executing decisions .

2.1.2The Resource-Based View (RBV) Theory, The Resource Based View Theory isadvanced by Wernerfelt (1984), Barney (1991), and Teece et al. (1997), suggests that firms Purpose cultivate distinctive resources to secure sustainable competitive advantages..It argues that firms attain superior performance by possessing resources that are valuable, rare, inimitable, and non-substitutable (VRIN), making them difficult for competitors to copy (Barney, 1991). Similar to Porter's idea of competitive forces, resource position barriers (Lieberman & Montgomery, 1988) restrict competitors from easily accessing or duplicating these assets.

2.1.3 Theory of signaling

Signaling theory explains how businesses should communicate key information to users of financial reports. According to signaling theory,
firms signal their quality to investors through indicators such as Earning Per Share(EPS),dividend payments and capital structure decisions(Spence,M.1973).when a company's EPS is rising it sends a positive message but when EPS goes down it sends a warning sign that the company may be facing problems.

2.1.4 Optimal Compensation Theory

This Theory is refereed as incentive- based compensation theory.€According to this theory an effective compensation framework should offer incentives that motivate employees to improve corporate performance and enhance shareholder value & accounting for the potential impacts of risk takingbehavior(Jensen & Murphy,1990).

2.2 Empirical Review

Surbakti (2025) examined the relationship between compensation and company performance, emphasizing the moderating influence of firm size and leverage. Using a sample of 300 Indonesian companies from 2019 to 2021 and using the Ordinary Least Squares (OLS) method, the study found that higher compensation levels significantly reduced company performance. This negative effect was attributed to poorly structured compensation systems and information asymmetry, which hinder managerial effectiveness.

the relationship between CEO Compensation and the performance of Nepalese

Elias et al. (2024) investigated the role of Chief Executive Officers (CEOs) in shaping organizational performance, focusing on how CEO origin (internal versus external) affects the link between CEO compensation and Bank financial performance. Conversely, externally hired CEOs often receive higher compensation but demonstrate a less direct impact on performance. The study further identified that firm size moderates this relationship, revealing complex interactions that challenge established assumptions in strategic management.

Adelopo et al. (2023) explored how executive compensation influences firm value, considering the moderating roles of managerial ownership and corporate governance. Using data from 578 firm-year observations of UK FTSE 100 companies (2007–2012), the results supported optimal compensation theory, showing that the relationship between executive pay and Bank value is more pronounced when executives hold significant ownership stakes and when strong governance mechanisms exist. The findings also revealed that as managerial ownership increases, executives become more risk-averse, leading to reduced aggressive investment behavior and, consequently, lower firm value.

Sakha (2022) examined the link between employee compensation and financial performance using econometric, descriptive, corelation, and trend analyses. The study measured employee compensation through staff expenses and financial performance using return on assets (ROA). Results revealed a positive relationship, where a 1% rise in employee compensation increased ROA by 0.02 percentage.

Kweh et al. (2022) analyzed how financial constraints influence the relationship between bank performance and CEO compensation among U.S.-listed firms from 1996 to 2018. The findings indicated that financial constraints weaken the positive link between performance and CEO pay. Firms facing financial limitations tend to increase CEO compensation at a slower rate due to the need to conserve cash for future investments and maintain liquidity.

Kayani and Gan (2022) investigated the relationship between executive compensation and bank performance in Asia-Pacific firms from 2007 to 2019. Executive compensation was measured using total CEO salary, total compensation, and combined salaries and bonuses, while performance was assessed through ROA and Tobin's Q. The study found that bank performance positively correlated with total CEO compensation and total salaries plus bonuses, supporting agency theory by showing that higher compensation motivates executives to maximize shareholder value. However, total salary alone did not show a significant relationship with performance.

Ahamed (2022) explored the relationship between CEO compensation and bank performance in Bangladesh from 2010 to 2020 using variables such as ROE, salary, bonuses, housing facilities, housing allowances, and foreign trips. Applying a two-stage least squares (2SLS) estimation to address internal bias, the study found a strong positive and significant relationship between CEO compensation and bank performance, indicating that higher pay enhances executive motivation and mitigates agency problems.

Al-Shammari (2021), drawing on agency and expectancy theories, explored how CEO risk taking behaviormoderatethe relationship between CEO compensation and Firm performance. Using data from 204 U.S. manufacturing firms, the study found a strong positive relationship between CEO option pay and firm-level risks, including strategic, stock return, and income stream risks

Zoghlami (2021) analyzed the effect of chief executive officer (CEO) compensation on the performance of 155 French companies listed on the SBF 120 between 2009 and 2018. The study revealed that higher CEO compensation enhances accounting-based bank performance but negatively effects market value. When accounting for sectoral differences, the results became more significant. The findings suggest that while attractive compensation packages may encourage CEOs to meet shareholders' objectives, investors tend to perceive rising CEO pay unfavorably.

Similarly, Amewu and Alagidede (2021) investigated how executive compensation affects bank performance following mergers and acquisitions (M&A) in Africa between 2005 and 2016. Using both accounting and financial performance indicators and controlling for firm, deal, and governance factors.The findings also indicated that variables such as bank size, target location, foreign ownership, diversification, board

composition, and executive ownership significantly influence the pay-performance relationship.

Zulfiqar and Hussain (2020) studied how ownership concentration affects the link between CEO compensation and innovation in Chinese firms listed on the Shanghai and Shenzhen Stock Exchanges. Their panel data analysis showed that CEO compensation positively impacts firm innovation, and that ownership concentration, measured by the top five shareholders, strengthens this effect. The study suggests that CEO pay structures play a vital role in promoting innovation within concentrated ownership settings, offering insights relevant to other emerging economies.

Lastly, Khaled (2020) explored the relationship between CEO compensation and financial performance among 25 Jordanian industrial companies listed on the Amman Stock Exchange between 2010 and 2017. The results revealed a significant positive association between CEO pay and firm performance, while return on assets, earnings per share, and leverage were negatively related to performance. In contrast, net profit margin showed a positive correlation. The study also found that CEO age positively influenced compensation, whereas CEO duality did not show a significant effect based on Tobin's Q analysis.

Zandi et al. (2019) analyzed the link between CEO compensation and bank performance using data from 96 Malaysian firms across different sectors. The study used ROA and profit margin as performance measures and the findings align with earlier research and highlight the role of corporate governance in minimizing agency conflicts between executives and shareholders.

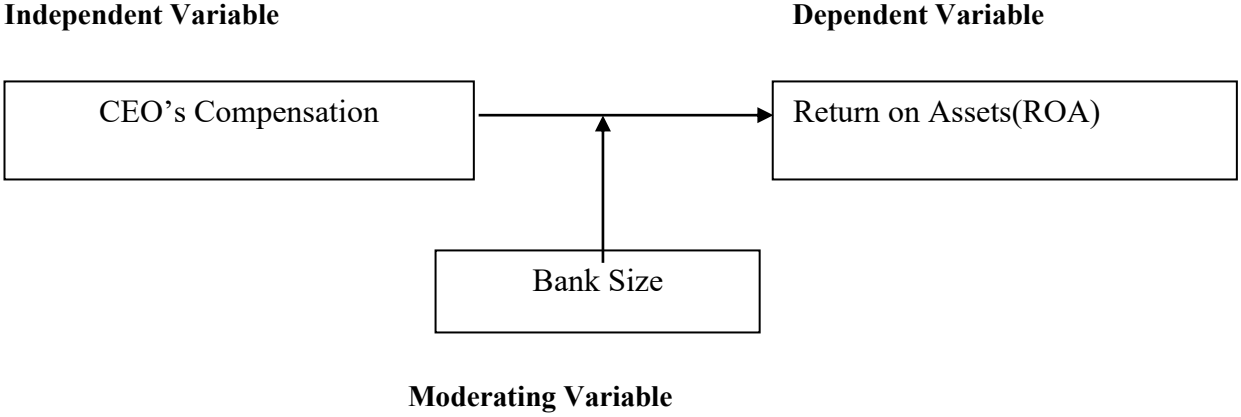
Rasoava (2019) investigated the connection between bank performance and executive pay among South African listed firms through a quantitative panel data analysis using three complementary methods. Results from the unrestricted first-difference model revealed a non-linear relationship, where both current and past performance affect executive pay over a two to four year periodsupporting optimal contracting theory.

Ali et al. (2016) investigated the effect of functional integration on manufacturing firm performance in Kenya using survey data from 176 firms. Results showed a significant positive relationship between functional integration and firm performance, independent of firm size, suggesting that strategic integration benefits both small and large firms alike.

Yang et al. (2014) investigated how the global financial crisis influenced the relationship between CEO compensation and bank performance. Utilizing data from the Standard and Poor's Executive Compensation database, their analysis revealed distinct patterns in the relationship before and after the crisis. The findings indicate that incentive-based compensation mechanisms became less effective following the crisis, suggesting that such pay structures failed to align executive rewards with firm .

2.3 Research Framework

Fig. 1



Note. Adopted from Zandi et al. (2019)

2.3.1Defination of Variables

a. ***CEO's Compensation***

CEO compensation means the total pay and reward a company gives to its top leader for managing the business and making top decision. To assess firm performance in relation to CEO compensation, data were gathered from the companies' annual reports. CEO compensation typically include salary, bonuses, allowances, rents, fees, credit card expenses, and other forms of incentives. The study focuses on comparing CEO remuneration with the total compensation of executive directors. Specifically, it considers the average level of CEO pay, primarily in monetary form, which includes salary and other direct compensation.

b. Return on Assets (ROA)

Return on Assets (ROA) is a crucial profitability indicator that measures how efficiently a company uses its assets to generate net profit . It serves as an essential financial metric in performance evaluation, reflecting the firm's ability to convert its resources into earnings . The ROA is calculated by dividing net income for a financial year by the average total assets during the same period. This ratio demonstrates how effectively management utilizes the company's assets to produce profits (Agha, 2014). Since it is directly related to net profit after tax (NPAT) and total assets, ROA highlights the firm's operational efficiency and profitability.

c. ***Bank Size***

The size of a bank is often seen as an indicator of its growth, which generally attracts positive investor sentiment and enhances its overall value. Larger Bank have easier access to raise fund from both internal and external sources. It is believed that bigger companies have more changes of financial shifts and experience greater wealth transfers compared to smaller firms. As a company's sales increase, it gains quicker access to capital. Therefore, Bank Size is representedby total assets owned by a company which plays a crucial role in shaping its value .

III. *Research Methodology*

3.1Design

This study adopts a quantative research design and it combines descriptive and causal-comparative approaches.The analysis is based on secondary panel data collected from the annual reports of ten commercial banks out of 20 commercial bank over ten year period from fiscal year (2014/15-2023/24) in Nepal.

3.2Population, Sample, and Sampling Design

Table 2

Sample Banks

S.N	Name of commercial Banks	No. of Observation	Symbols
1	Nabil Bank Limited	10	NABIL
2	NMB Bank Limited	10	NMB
3	Laxmi Sunrise Bank Limited	10	LSL
4	Himalayan Bank Limited	10	HBL
5	NIC Asia Bank Limited	10	NICA
6	Kumari Bank Limited	10	KBL
7	Sanima Bank Limited	10	SANIMA
8	Global IME Bank Limited	10	GBIME
9	Citizens Bank International Limited	10	CZBIL
10	Nepal Investment Mega Bank Limited	10	NIMB
	Total no of observation	100	

3.3Nature and Sources of Data and Data Collection Instrument

This study uses secondary data which refers to information collected by secondary person than the primary researcher.The main data come from the published financial reports of selected commercial banks whereas additional details were gathered from institutions like Nepal Rastra Bank, Ministry of Finance, Libraries, official websites and extra information was also taken from journals, magazines and other publications.

3.4Method of Analysis

The study applies descriptive statistics including mean, standard deviation, minimum, and maximum to summarize and understand the characteristics of the variables. Correlation analysis is conducted to explore relationships between variables, while regression analysis is employed to evaluate the impact of independent variables on the dependent variable. The analytical process, presented in Chapter Four, follows a structured approach to facilitate comprehension and enable generalization of the findings.

a.Descriptive Statistical Tools

Descriptive statistics provide summary measures that quantitatively describe and summarize the main features of a dataset. Unlike inferential statistics, which seeks to draw conclusions about a population based on a sample, descriptive statistics focus on the dataset itself. Key measures include central tendencysuch as mean, median, and modewhich identify the central point of the data, and measures of variability, such as standard deviation, minimum, and maximum values, which indicate the spread or dispersion of the data. These tools are employed in this study to analyze and interpret the sample data effectively.

b.Arithmetic Mean or Average ($\overline{X}$)

The arithmetic mean or average, is a measure that represents the entire data set. Its value lies between the extremes of the data, making it a central measure. For this reason the average is often referred to as the

"mean" and is denoted by $\overline{X}$. Symbolically,

$$\overline{X} = \frac{1}{n}\sum_{i=1}^{n} x_i$$

Where,

$\overline{X}$ = Arithmetic mean or Average

n is the number of observations or data points.

xi represents each individual observation or data point.

$\sum_{i=1}^{n} x_i$ denotes the sum of all observations from i=1 to i=n.

c. *Standard Deviation (σ)*

It represents the extent to which data points are spread out or scattered around a central value, typically the mean within a dataset. Standard deviation quantifies this dispersion in absolute terms. A greater spread of data points leads to a higher standard deviation, whereas a smaller standard deviation reflects more consistency and uniformity in the dataset. It is commonly denoted by the symbol σ.

$$\delta = \sqrt{\frac{\sum\left(X-\overline{X}\right)^2}{N}}$$

Where,

δ = Standard deviation

$\sum\left(X-\overline{X}\right)^2$ = Sum of the mean deviation squared

N = Total number of observation

d.Correlation Coefficient (r)

Correlation analysis is a statistical method used to examine the extent to which one variable is linearly associated with another. In this study, the correlation coefficient (denoted as r) is utilized to evaluate the relationships among various factors. Symbolically,

$$r = \frac{Cov(X,Y)}{\sigma X.\sigma Y}$$

r represents the Pearson correlation coefficient, which indicates both the strength and direction of a linear relationship between two variables. Here, Cov(X, Y) denotes the covariance between variables X and Y showing how they vary together, while σ_x and σ_γ represent the standard deviations of X and Y, respectively, reflecting the spread of their values.

e.Regression Analysis

Regression analysis refers to a set of statistical techniques used to model and estimate the relationship between a dependent variable and one or more independent variables. This method helps determine the strength of these relationships and can be used to predict future outcomes based on changes in the independent variables.

f.Regression Model

To test the impact of CEO compensation on ROA, this research constructs

Model 1: $ROA_{it} = \alpha + \beta_1 * \log(CEO\_Comp)_{it} + \varepsilon_{it}$

To test the moderating roleof Bank Size in the relationship between theCEO compensation and ROA_t, based on Model 1, this research constructs

Model 2: $ROA_{it} = \alpha + \beta_1 * \log(CEO\_Comp)_{it} + \beta_2 * \log(Bank\ Size)_{it} + \beta_3 * (\log(CEO\_Comp)_{it} \times \log(Bank\ Size)_{it} + \varepsilon_{it}$

Table 3

Variables Measurement

Variable	Type	Measurement
Return on Assets (ROA)	Dependent Variable	Net income divided by total assets (percentage).
BANK SIZE (SIZE)	Moderating Variable	Natural logarithm of total assets
CEO's Compensation	Independent Variable	Salary, bonus, allowances, rents, fees, credit card bills, and other incentives.

IV. Results and Discussion

Table 4

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Compensation(in million)	100	4.34	53.70	19.51	9.22
Bank Size (in billion)	100	37.37	604.51	193.49	130.05
Return on Asset (ROA) (in %)	100	.00	2.57	1.36	.48

Table 4 provides the descriptive statistics for Compensation (in millions), Bank Size (in billions), and Return on Assets (ROA, in percentage) based on a sample of 100 observations. The average CEO compensation across banks is NPR 19.51 million, with a minimum of NPR 4.34 million and a maximum of NPR 53.70 million. The standard deviation of 9.22 million indicates moderate to high variability in compensation, likely due to differences in profitability, bank size, or executive pay policies.

Bank size, measured by total assets in billions of NPR, shows substantial variation among the sampled banks. The mean bank size is NPR 193.49 billion, ranging from NPR 37.37 billion to NPR 604.51 billion. The high standard deviation of NPR 130.05 billion reflects the presence of both small and large banks, indicating considerable heterogeneity in operational scale.

ROA, expressed as a percentage, assesses the efficiency of banks in generating profit from their assets. The mean ROA is 1.36%, with a minimum of 0.00% and a maximum of 2.57%. The low standard deviation of 0.48% suggests that most banks exhibit similar asset profitability, indicating relatively uniform financial performance across the sector.

Table 5

Correlations

	log(CEO_Comp)	log(BANK SIZE)	ROA
log(CEO_Comp)	1	.559**	-.208*
log(BANK SIZE)		1	-.485**
ROA			1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 5 presents the correlation results between CEO compensation, bank size, and ROA. CEO compensation shows a negative and statistically significant correlation with ROA ($r = –0.208$, $p < 0.05$), implying that higher CEO pay is associated with lower profitability. Similarly, bank size is negatively and significantly correlated with ROA ($r = –0.485$, $p < 0.01$), suggesting that larger banks tend to achieve lower returns on assets. These results indicate that increases in CEO compensation and bank size do not correspond with improved profitability .

Effect of CEO Compensation on ROA

To test the effect of CEO compensation on ROA, this research constructs

Model 1: $ROA_{it} = \alpha + \beta_1 * \log(CEO\_Comp)_{it} + \varepsilon_{it}$

Table 6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.208[a]	.043	.033	.4732

a. Predictors: (Constant), log(CEO_Comp)

Table 6 summarizes the regression analysis with ROA as the dependent variable and log-transformed CEO compensation as the independent variable. The correlation coefficient (R) is 0.208, showing a weak linear relationship between the variables. The R^2 value is 0.043, indicating that only 4.3% of the variance in ROA

is explained by CEO compensation. The Adjusted R^2, which adjusts for the number of predictors, is slightly lower at 0.033, confirming the limited explanatory power of the model. The standard error of the estimate is 0.4732, representing the average distance of observed values from the regression line.

Table 7

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.989	1	.989	4.417	.038[b]
	Residual	21.940	98	.224		
	Total	22.929	99			

a. Dependent Variable: Return on Asset(ROA)

b. Predictors: (Constant), log(CEO_Comp)

Table 7 displays the results of the ANOVA test used to assess the overall significance of the regression model with ROA as the dependent variable and log-transformed CEO compensation as the predictor. The regression model is statistically significant at the 5% level (F = 4.417, p = 0.038), indicating that log (CEO_Comp) explains a significant portion of the variance in ROA. Specifically, the regression sum of squares is 0.989, and the residual sum of squares is 21.940, out of a total sum of squares of 22.929. These results support the conclusion that CEO compensation has a statistically significant, though modest, impact on firm profitability.

Table 8

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.195	1.824		2.848	.005
	log(CEO_Comp)	-.230	.252	-.208	-2.102	.038

a. Dependent Variable: Return on Asset(ROA)

Table 8 displays the coefficients of the regression model assessing the impact of log-transformed CEO compensation on ROA. The unstandardized coefficient for the constant is 5.195 with a standard error of 1.824, which is statistically significant (t = 2.848, p = 0.005), representing the expected ROA when CEO compensation is zero (in log terms). The coefficient for log(CEO_Comp) is –0.230, with a standard error of 0.252, and is significant at the 5% level (t = –2.102, p = 0.038). The negative coefficient indicates that a one-unit increase in the log of CEO compensation is associated with a 0.230 decrease in ROA, holding other factors constant. The standardized beta of –0.208 further confirms a weak but negative effect of CEO compensation on firm profitability, supporting earlier findings that higher CEO pay correlates with lower Bank Performance in this sample.

Moderating Role of Bank Size

To test the moderating role of Bank Size in the relationship between the CEO compensation and ROA $_t$, based on Model 1, this research constructs

Model 2: $ROA_{it} = \alpha + \beta_1 * \log (CEO\_Comp)_{it} + \beta_2 * \log (Bank\ Size)_{it} + \beta_3 * (\log (CEO\_Comp)_{it} \times \log (Bank\ Size)_{it} + \varepsilon_{it}$

Table 9

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.553	.306	.284	.4072

a. Predictors: (Constant), log(CEO_Comp)*log(Bank Size), log(CEO_Comp), log(Bank Size)

Table 9 presents the model summary for the multiple regression analysis, where ROA is the dependent variable and log(CEO_Comp), log(Bank Size), and their interaction term are the independent variables. The model shows an R value of 0.553, indicating a moderate positive correlation between observed and predicted ROA values. The R^2 value of 0.306 suggests that approximately 30.6% of the variation in ROA is explained by the predictors. The Adjusted R^2, which accounts for the number of predictors, is slightly lower at 0.284, reflecting a notable improvement in explanatory power compared to the simple regression model. The standard error of the estimate is 0.4072, indicating a reasonably good fit of the model to the data.

Table 10

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.012	3	2.337	14.098	.000[b]
	Residual	15.917	96	.166		
	Total	22.929	99			

a. Dependent Variable: Return on Asset(ROA)

b. Predictors: (Constant), log(CEO_Comp)*log(Bank Size), log(CEO_Comp), log(Bank Size)

Table 10 shows the results of the ANOVA test for a multiple regression model with ROAas the dependent variable and three predictors: logCEO_Comp, logBank Size, and their interaction term logCEO_Comp * logBank Size. The model is highly statistically significant ($F = 14.098$, $p < 0.001$), indicating that, collectively, the predictors explain a significant portion of the variance in ROA. The regression sum of squares is 7.012, while the residual sum of squares is 15.917, out of a total sum of squares of 22.929. These results suggest that the inclusion of Bank Size and the interaction between CEO compensation and Bank Size improves the model's explanatory power compared to using CEO compensation alone.

Table 11

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-161.807	57.249		-2.826	.006
	log(CEO_Comp)	10.466	3.466	9.467	3.020	.003
	log(Bank Size)	6.248	2.216	8.889	2.820	.006
	log(CEO_Comp)*log(Bank Size)	-.401	.134	-16.603	-2.992	.004

a. Dependent Variable: Return on Asset(ROA)

Table 11 presents the Coefficients output from a regression analysis examining the effect of CEO compensation,Bank Size, and their interaction on Return on Assets (ROA), a measure of Bank profitability. The model includes three predictors: the logarithm of CEO compensation log CEO_Comp, the logarithm of Bank SizelogBank Size, and their interaction term logCEO_Comp*logBank Size, with ROA as the dependent variable.

The log CEO_Comp coefficient is 10.466 ($p = 0.003$), suggesting that a 1% increase in CEO compensation is associated with a 10.466 unit increase in ROA, with a

standardized coefficient of 9.467 indicating a strong effect.

Similarly, the logBank Size coefficient is 6.248 (p = 0.006), implying that a 1% increase in Bank Size raises ROA by 6.248 units, with a standardized coefficient of 8.889 reflecting a slightly weaker but still substantial effect.

The interaction term has a negative coefficient of -.401 (p = 0.004), with a large standardized coefficient of -16.603, indicating that the combined effect of high CEO compensation and large Bank Size reduces the positive impact of each on ROA, suggesting diminishing returns or potential inefficiencies.

Table 12

Hypothesis Testing

Hypothesis	Statement	Coefficient	P-Value	Remarks
H_1	CEO compensation has a significant relation with ROA.	-2.08	0.038	Accepted
H_2	CEO compensation has a significant effect on ROA.	10.466	0.003	Accepted
H_3	Bank Size moderates the relationship between CEO Compensation and ROA	-.401	0.004	Accepted

I. Conclusion & Implication

The results revealed that the effect of CEO compensation is not uniform across banks. In the simple model, higher CEO pay was associated with lower profitability, reflecting potential agency conflicts where executive incentives may not align with shareholder interests. However, when bank size was included, CEO compensation showed a positive effect on ROA, suggesting that appropriate remuneration can enhance managerial efficiency and improve performance. Importantly, the moderating analysis highlighted that the positive effect of compensation diminishes in larger banks, indicating that excessive pay in bigger institutions may not translate into proportional gains in profitability.The implication in this research study are based on the findings of the study. Considering the findings of the study, the following implications can be outlined for the concern:Banks should design compensation packages that effectively align CEO incentives with banks performance. Well-structured pay can motivate CEOs to make decisions that enhance profitability. The effectiveness of compensation as a performance driver diminishes in larger Banks. This implies that a one-size-fits-all approach to CEO pay may not be appropriate. Larger Bank may need to adopt more comprehensive performance management systems beyond compensation to drive results.The findings offer valuable insights for boards of directors and policymakers concerned with corporate governance. Ensuring transparency, fairness, and performance linkage in CEO compensation becomes particularly important in larger organizations, where oversight challenges may be greater.The contrasting result between the correlation (negative) and regression (positive) highlights the importance of considering moderating variables like Bank Sizein performance studies. Future research could explore other moderators such as industry type, firm age, or ownership structure to gain deeper insights.

References

Adelopo, I., Adu-Ameyaw, E., Cheung, K. Y., & Bako, H. S. (2023). Managerial compensation and Bank Performance: The moderating role of managerial ownership and other governance factors. *Journal of Corporate Accounting & Finance*, *34*(3), 31-46.

Adhikari, R. (2023). CEO compensation practices in Nepalese commercial banks. *Nepal Management Review,10*(1),55–70.

Agha,H.(2014).Impact of Working Capital Management on Profitability. *European Scientific Journal, 10(1),374-381.*

Ahamed, F. (2022). CEO compensation and performance of banks. *European Journal of Business and Management Research*, *7*(1), 100-103.

Alchian, A. A., &Demsetz, H. (1972). Production, information costs, and economic organization. *The American Economic Review, 62*(5), 777–795.

Ali, M. J., Mukulu, E., Kihoro, J. M., &Nzulwa, J. D. (2016). Moderating effect of BANK SIZE on the relationship between functional integration and Bank Performance. *International Journal of Academic Research in Business and Social Sciences*, *6*(9), 38-57.

Al-Shammari, H. A. (2021). CEO compensation and Bank Performance: The mediating effects of CEO risk taking behaviour. *Cogent Business & Management*, *8*(1).

Amewu, G., & Paul Alagidede, I. (2021). Mergers, executive compensation and Bank Performance: The case of Africa. *Managerial and Decision Economics*, *42*(2), 407-436.

Barney, J.(1991).Firm resources and sustained competitive advantage.*Journal of Management,17(1),99-120.*

Berle, A. A., & Means, G. C. (1934).Does CEO compensation matter in boosting Bank Performance? Evidence from listed French firms. *Managerial and Decision Economics*, *42*(1), 143-155.

Bussin, M., &Modau, M. F. (2015). The relationship between chief executive officer remuneration and financial performance in South Africa between 2006 and 2012. *SA Journal of Human Resource Management*, *13*(1), 1-18.

Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management, 16*(1), 49–64.

Elias, R., Nasr, N., & Farah, B. (2024). CEO Compensation and Bank Performance: *A Study on the Moderating Roles of CEO Origin and BANK SIZE.*

Frye, M. B. (2004). Equity-based compensation for employees: Bank Performance and determinants. *Journal of Financial Research*, *27*(1), 31-54.

Gordon, J. N. (2010). Executive Compensation and Corporate Governance in Financial Firms: The Case for Convertible Equity-Based Pay . Social Science Research Network.

Jensen, M. C., & Murphy, K. J. (1990). Performance pay and top-management incentives. *Journal of political economy*, *98*(2), 225-264.

Jensen, M. C., &Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics, 3*(4), 305–360.

Kaplan, S. N. (2013). CEO Pay and Corporate Governance in the U.S.: Perceptions, Facts, and Challenges. Journal of Applied Corporate Finance, 25(2), 8–25.

Kayani, U. N., & Gan, C. (2022). Executive compensation and Bank Performance relationship. *Review of Pacific Basin financial markets and policies*, *25*(01).

Khaled, M. H. B. (2020). The relationship between CEO compensation and financial performance in Jordanian public shareholdingindustrial companies. *Investment Management & Financial Innovations*, *17*(2), 240.

Kweh, Q. L., Tebourbi, I., Lo, H. C., & Huang, C. T. (2022). CEO compensation and Bank Performance: Evidence from financially constrained firms. *Research in International Business and Finance*, *61*.

Lieberman, M. B., & Montgomery, D. B. (1988). First-mover advantages. *Strategic Management Journal, 9*(S1), 41–58.

Murphy, K. (1999). Executive compensation. *Handbook of Labor Economics*, *3*.

Rasoava, R. (2019). Executive compensation and Bank Performance: a non-linear Brelationship. *Problems and Perspectives in Management*, *17*(2), 1.

Sakha, M. (2022). Employee Compensation and Financial Performance: Evidence from Commercial Banks of Nepal. *Quest Journal of Management and Social Sciences*, *4*(2), 172-186.

Spence, M.(1973).Job market signaling. *The Quartely Journal of Economics,87(3),355-374.*

Surbakti, A. (2025). The impact of compensation on corporate performance: The role of BANK SIZE and leverage. *Journal of Innovation in Business and Economics*, *9*(01).

Teece, D.J., Pisano,G., &Shuen, A.(1997).Dynamic capabilities and strategic management.Strategic Management Journal, 18(7),509-533

Wernerfelt, B. (1984). A resource-based view of thefirm.*Strategic Management Journal,*5(2),171-180.

Yang, F., Dolar, B., & Mo, L. (2014). CEO compensation and Bank Performance: did the 2007-2008 financial crisis matter?. *Journal of Accounting and Finance*, *14*(1), 137.

Zandi, G., Mohamad, S., Keong, O. C., & Ehsanullah, S. (2019). CEO compensation and Bank Performance. *International Journal of Innovation, Creativity and Change*, *7*(7), 316-327.

Zoghlami, F. (2021). Does CEO compensation matter in boosting Bank Performance? Evidence from listed French firms. *Managerial and Decision Economics*, *42*(1), 143-155.

Zulfiqar, M., & Hussain, K. (2020). CEO compensation and firm innovation: moderating role of ownership concentration. *International Journal of Innovation Management*, *24*(06).