

## Managers' Competence, Corporate Pay-Gap and Firm's Financial Performance

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### **Abstract**

This paper's focus is the impact of managerial competence (managerial ability) and managerial power on corporate pay-gap and their respective relation with firm's financial performance. Using a relatively large sample of Chinese listed companies for the period from 2005 to 2012, we examine the relation between the pay-gap caused by managerial ability and pay-gap caused by managerial power with firm's operational and market performance.

Our results show that the pay-gap caused by managerial ability has a positive and significant impact on firm's financial performance while the pay-gap caused by managerial power has a negative impact on the financial performance. Our results also suggest the operational performance is more sensitive to corporate pay-gap caused by managerial ability among private companies relative to state-owned enterprises. Our results show that the negative impact of the pay-gap caused by managerial power is higher on the operational performance of the private companies relative to state-owned enterprises. Further, our results suggest that the market performance of the state-owned enterprises is more sensitive to corporate pay-gap relative to private companies.