



REWARDING TOP MANAGERS IN THE BANKING SECTOR DURING THE COVID - 19 PANDEMIC

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Abstract:

The paper analyzes the practice of the leading banks in Europe related to the compensation of top managers during the COVID - 19 pandemic and the determination of their relationship with the achieved performance of the banks. The paper aims to examine whether top managers' compensation was related to the bank's performance during the COVID - 19 pandemic as well as give recommendations related to rewarding top managers in crises, based on the good practice of leading European banks during the COVID - 19 pandemic. By applying correlation and regression analysis methods, to a sample of leading 50 banks in Europe and 123 top managers, we examined the relationship between the gross profit and compensation of top managers in 2020 and 2021. The results showed that the relationship between bank performance and top managers' compensation (base salary, bonus, and total compensation) was positive even during the COVID - 19 pandemic.

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INTRODUCTION

The COVID - 19 pandemic has occupied the entire world for the past two years, causing a health and economic crisis (Bapuji *et al.*, 2020). Creating a crisis, reduced the business activities of companies in most sectors and led to a decline in their business performance (McKee & Stuckler, 2020; Bansal, 2020; Ceylan *et al.*, 2020). The pandemic has led to increased business uncertainty and numerous pressures as a result of which crisis management has been introduced in most companies (Bryce *et al.*, 2020; Oehmen *et al.*, 2020; Carnevale & Hatak, 2020).

In response to this crisis, managers have taken a variety of measures depending on the industry and the degree of impact (San *et al.*, 2021; Ardito *et al.*, 2021; Mizrahi *et al.*, 2021). Some things that can be similar to all companies can be collaboration and personnel management, recovery marketing and communication, market segmentation, and the selection and crisis management plan are success factors for recovery (Campiranon & Scott, 2014). Besides this, a lot of companies have implemented remote work in their everyday routine (Van der Kolk & Delfino, 2021).

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The scientist also suggests four strategies during the crisis. An exit strategy related to product/market positioning in declining industries, business restructuring, discontinuing business, disinvestment, or portfolio reorganization activities is the first strategy (Wenzel *et al.*, 2020). The strategy of reducing employees, on the other hand, refers to the reduced scope of the company's activities by reducing assets, the number of personnel, product line, costs, and concentrating on basic activities (Schoenberg *et al.*, 2013), as well as a business turnaround as the most frequent strategic response (Miocevic, 2022). The two strategies that remain are the strategy of renewing by innovation, which can be defined as the adaptation of firms to a changing environment and linking this to their ability to use existing competencies and build new capabilities, and the so - called persistence strategy, which aims to "maintaining the business activities of the firm in response to the crisis" (Wenzel *et al.*, 2020). There are some possible strategies, but there is a very big variety of possible actions, which can or cannot be involved in some strategies. On the other side, every crisis can be unique in its way and can reveal some new actions (Bundy *et al.*, 2016; Dobrowolski, 2020).

Crisis management, among other things, meant reducing the number of employees and reducing their salaries. Given the fact that the share of managers' salaries in total salary expenditures in most companies is extremely large, and that on the other hand managers, especially top managers, have the most power and authority, the question arises whether the compensation system of managers has changed in proportion to oscillations in the achieved performance of the company? The examination of the relationship between the compensation package of top managers and the achieved business performance, as well as the analysis of the practice of leading banks in Europe about rewarding top managers during the COVID - 19 pandemic, is precisely the subject of this paper. The aim of the paper is to give recommendations related to the design of a compensation package for top managers in times of crisis.

At the very beginning, the literature on the manager's reward system will be presented, followed by the methodology, then the obtained results and a discussion of the results and recommendations to managers in banks. While concluding considerations are given in the last, final part of the paper.

LITERATURE REVIEW

When we talk about human resources management, it is inevitable to say that the employee reward system is one of the most important systems. The importance of this system stems from the fact that it is a system that can be used to motivate, shape, and correct the behavior of employees following the goals of the company (Dosenovic, 2016). At the same time, it is a very complex system. This system must be designed to reconcile numerous, and often contradictory, demands. Thus, this system is expected to enable a higher degree of motivation for employees and, accordingly, their greater commitment and better results. To this should be added the fact that the reward system is often used as a means of competition in the labor market. However, budgetary constraints appear as a limiting factor in all this because the salaries of employees are, after all, a cost for the company.

The manager's reward system stands out as a special subsystem within the reward system. The creation of a special subsystem for rewarding managers is justified by the fact that managers have a special role and importance in achieving business results. Managers, their assessments, and decisions can have a much greater impact on business results than other employees in the company (Hendriks *et al.*, 2022). Given that there are three different levels of management in companies (top managers, middle level of management, and operational management), there are also different reward systems for each of these three levels (Loyola & Portilla, 2020). This paper will analyze the system of rewarding top managers.



The compensation package of managers, as with other employees, consists of a basic (guaranteed) salary, incentive / variable part of earnings based on performance, benefits, and equity - based compensation. The manager's compensation package, basically, as with other employees, consists of a basic or guaranteed salary, benefits, an incentive, or a variable part of the salary based on performance and sometimes compensation based on capital. Accordingly, the guaranteed salary represents a fixed monetary reward that the employer pays to the employee for the work performed, and often includes premiums, such as those for night shifts, then differentials, for example, differences in annual leave or differences in shifts and monetary benefits, such as housing allowances and carriage allowances (Kweh, *et al.*, 2022). The basic salary, which is given for the job for which the person is employed to perform, is very often prescribed in its minimum amount by the state, province, or even cities. It is paid on a monthly, semi - monthly, weekly, daily, or even hourly rate, and it is most often determined by a) the performance of the person at work and b) the prevailing level of market wages paid by other employers for that job (Lawrence & Floegel, 2022).

Differentiation of income among employees in the same workplace mainly depends on the achieved results, discretion, or performance. The variable part of the salary is a non - fixed monetary reward that the employer pays to the employee and depends on the achieved results, discretion, or performance. Overtime payment, bonus schemes, or commissions (sales incentives) are just some of the types of variable salaries, and the most common are bonus plans, which have three classic goals (Hendriks *et al.*, 2022):

1. Increase employee performance - the key thing is that an employee will do everything he can to improve his performance if he knows he will get a bonus for it. In this way, workers are encouraged to achieve better results, because they will be paid more (which is defined through the bonus plan).
2. Employee retention - basically, there can be three reasons why bonus plans retain employees, even if that is not their primary goal: 1) employees are less inclined to leave the employer if they are paid better for their work (under other neglected circumstances), 2) a good bonus plan allows good workers to earn more money, which makes it difficult for competitors to make a better offer because top workers are already extremely well paid and 3) in the case of annual bonuses, the probability of employees leaving during the year is reduced, because that way misses out on bonus payments, which gives existing employers more time to better respond to competing offers.
3. Adjusting the price of labor to financial results - the plan is to pay more or to pay a bonus at all when the company is doing well, but not to pay it or reduce it during difficult periods. The operating costs of the company are automatically reduced in bad times, which is the reason for adjusting the bonus plan according to financial indicators and thus updating its increase or decrease.

A wide range of benefits, such as a company car, private health insurance, paid leave, participation in a retirement plan, such as a 401(k) or private pension, and various types of other insurance, such as disability, dental, or life are just some of the supplements and additional compensation for employees employed by employers (Loyola & Portilla, 2020). Many benefits are voluntary by employers to meet the specific needs of a certain population of employees, while on the other hand, some are mandatory following state regulations. Benefit plans are not usually provided in cash but form the basis of an employee salary package along with a basic salary and bonus. Equity - based compensation - action programs or pseudo - actions that an employer uses to secure actual or potential ownership in a company that links employee compensation to the company's long - term success (Boshkoska, 2015).



The specificity of the compensation package of managers is reflected in the fact that the relationship between the basic salary and salary based on performance (variable part) is different. The organizational unit they manage, i. e. performance at the company level. What many companies offer is the contribution of capital - based compensation to top managers, that is, a significantly larger part of incentive income. Thus, the owners of the company try to motivate the managers to work in their interest and to neutralize the negative effects of the agency problem as much as possible, because in this way the compensation of the manager is tied to the results of the company.

In recent decades, compensations of managers, especially those at the highest level, together with the remuneration of board members have increased significantly (Wang *et al.*, 2021). The gap between the total earnings of top managers and lower - level managers has also increased (Hendriks *et al.*, 2022). What has attracted a greater degree of academic interest, as well as a great deal of public attention, is precisely the topic related to top management compensation due to its specificity. Examining the relationship between a manager's business performance in the US and the manager's salary has been the focus of most papers, but in contrast to the USA, there are much fewer such works in the European context (Carlson & Bussin, 2020). There are papers related to the study of this relationship in the national context of individual European countries, but there are very few papers that cover the whole of Europe or the EU (Hüttenbrink *et al.*, 2014). Therefore, this paper will examine the relationship between the salaries of top managers and bank performance in Europe during the COVID - 19 pandemic. Examining the relationship between top management earnings and firm performance has been the subject of most previous studies (Olaniyi, 2022; Banker *et al.*, 2013). Based on those studies, it was shown that there is a positive correlation between the company's business performance and the total salaries of managers. We assume that the same situation was during the COVID - 19 pandemic. Our first hypothesis is:

H1: The correlation between the total earnings of top managers and the performance of banks in Europe during the COVID - 19 pandemic was positive.

When it comes to the connection between the performance of the company and certain parts of the compensation package of top managers, the results are very different. While most papers have confirmed a positive relationship between base salary and firm performance, research results related to the variable wage - performance relationship are contradictory. Geys, Heggedal, and Sørensen (2017) also observed a positive relationship between variable salaries and company performance, on the other side Worthy (2014) highlighted the positive impact of performance payments and argued that CEO compensation is essential for improving firm performance. They explain that it is not the amount of the variable part of the salary that matters, but how it is determined. They believe that it will not have a positive effect on the company's shareholders if variable compensation is not linked to performance. The relationship between top management bonuses and performance is not statistically significant, but the base salary of top management is therefore significantly positively correlated with performance. This conclusion was reached by the research of Banker, Darrough, Huang, and Plehn-Dujovich (2013).

When discussing the relationship between executive pay and performance during crises, the key thing to do is to separate variable pay for performance and fixed pay, as argued by the authors. A no-bonus - performance relationship has been supported by several other authors in different settings and under different conditions (Basuroy, Gleason & Kannan, 2014). The variable salary of top managers has a negative impact on firm performance as shown by a study conducted by Kweh, Tebourbi, Lo & Huang (2022). We can assume that the relationship between the variable part of earnings and performance was negative since the operations of most banks had negative trends due to the consequences of the COVID - 19 pandemic, which has not bypassed anything, and this is also the case. Our second hypothesis is:



H2: The correlation between the bonuses of top managers and bank performance in Europe was negative during the COVID - 19 pandemic.

METHODOLOGY

Models and variables

Refinitiv workspace data conducted in 2019, 2020, and 2021 are used for the analysis. The sample includes 50 of the largest banks and banking groups in Europe and 136 managers in top - level positions. The list of banks is shown in Table 1.

Table 1. List of banks included in the survey

No.	Bank	Managers	No.	Bank	Managers
1	BNP Paribas SA (ENXTPA: BNP)	Lemierre, Jean Bonnafe, Jean-Laurent Bordenave, Philippe	26	DNB Bank ASA	Bech Moen Braathen, Kjerstin Rasmussen Ertizeid, Ottar Fingeschu Rasmus Aaget Grant, Mirella E.
2	HSBC Holdings plc (LSE: HSBA)	Quinn, Noel P. Stevenson, Ewen James	27	Swedbank AB (publ) (OM: SWED A)	Henriksson Jens
3	Crédit Agricole S.A. (ENXTPA: ACA)	Lefebvre, Dominique Brassac, Philippe Musca, Xavier	28	Banco de Sabadell, S.A. (BME: SAB)	Oliu Creus, Joser Kigneras David Vegara
4	Barclays PLC (LSE: BARC)	Morzaria, Tushar	29	Nykredit A/S	Rasusen Michaelen Hellemon David Jensen Anders
5	Banco Santander, S.A. (BME: SAN)	de Sautuola y O'Shea, Ana Botin-Sanz de Sautuola y O'Shea, Ana Botin-Sanz	30	HSBC Continental Europe,S.A	Beunardeau Jean Wild Andr Davies Christopher
6	Société Générale Société anonyme (ENXTPA: GLE)	Bini Smaghi, Lorenzo Oudea, Frederic Aymerich, Philippe Lebot, Diony	31	Raiffeisen Bank International AG	Strobi Johann Lennkh Peter
7	Lloyds Banking Group plc (LSE: LLOY)	Chalmers, William Leon David Calafat, Juan Colombas	32	Credit Mutuel Arkea	LeMoal Ronan
8	ING Groep N.V. (ENXTAM: INGA)	van Rijswijk, Steven J. A. Phutrakul, Tanate	33	Bank of Ireland Group plc	Mc Donagh Francesa Jane



9	NatWest Group plc (LSE: NWG)	Rose-Slade, Alison Marie Murray, Katie	34	Totalkredit A\S	Schmidt Jan Holm Camila
10	BPCE SA	Mignon, Laurent Fabresse, Christine Halberstadt, Catherine Namias, Nicolas	35	AIB Group plc (ISE: A5G)	Hunt S. Colin
11	Credit Suisse AG	Gottstein, Thomas P.	36	Caixa Geral de Depositadas, S. A	Paulo de Jose Jose Antonio Jose Joao
12	Standard Chartered PLC (LSE: STAN)	Winters, William Thomas Halford, Andrew Nigel	37	Virgin Money UK PLC (LSE: VMUK)	David Joshep
13	CaixaBank, S.A. (BME: CABK)	Gortazar Rotaeche, Gonzalo Maria	38	Banco Comercial Portugues S.A.	Miguel Maya Dias Miguel de Campos Rui Manuel
14	Banco Bilbao Vizcaya Argentaria, S.A. (BME: BBVA)	Torres Vila, Carlos Genc, Onur	39	Jyske Bank A\S	Andres Christian Peter Trier Per Damborg
15	Coöperatieve Rabobank U.A.	Draijer, Wiebe Brouwers, Bas C. de Groot, Els A. Konst, Kirsten C. M. Leurs, Bart Lichtenberg, Marielle P. J. Marttin, Bernardus Jacobus Sevinga, Ieko Anne Vos, B. Janine	40	DNB Boligkredditt AS	Sagbakkern Per
16	Nordea Bank Abp (OM: NDA SE)	Vang-Jensen, Frank Koskinen, Jussi	41	Convery Building Society	Peter Nicholas
17	Danske Bank A/S (CPSE: DANSKE)	Egeriis, Carsten Rasch Behring, Berit Irene Vollot, Philippe Soderholm, Glenn Vogelzang, Chris F. H. H.	42	Bank Polska Kasa Opieki S.A. (WSE: PEO)	Gadomski, Marcin Zmitrowicz, Magdalena
18	ABN AMRO Bank N.V. (ENXTAM: ABN)	Cuppen, Tanja J. A. M. Abrahams, Clif- ford James de Kluis, Daphne C. van der Horst, Frans M. R. van Dijkhuizen, Kees C. van Mierlo, Pieter H	43	ING Bank Slaski S.A. (WSE: ING)	Erdman, Joanna Graczyk, Bozena



19	Santander UK Group Holdings plc	Bostock, Nathan Mark Dayal, Madhukar	44	mBank S.A. (WSE: MBK)	Stypulkowski, Cezary Böger, Andreas Pers, Adam
20	Santander UK plc	Bostock, Nathan Mark Dayal, Madhukar Allen, Susan Mary	45	BNP Paribas Bank Polska S.A.	Boulanger, André Furlepa, Przemyslaw Kemblowski, Wojciech
21	KBC Group NV (ENXTBR: KBC)	Thijs, Johan Popelier, Roger Elie Luts, Erik Marcel Hugo Van Rijseghem, Christine Hollows, John Arthur Falque, Daniel Scheerlinck, Hendrik	46	SpareBank 1 Sørøst-Norge	Evensen, Marianne Sommerro Hansen, Geir Årstein
22	Svenska Handelsbanken AB (publ) (OM: SHB A)	Akerstrom, Carina Beckman, Per Moesgaard, Lars Sorensen, Mikael Arkilahti, Nina Tjernsmo, Dag	47	Stafford Railway Building Society	Smit, Michael Richard Jones, Steven
23	Skandinaviska Enskilda Banken AB (publ) (OM: SEB A)	Torgeby, Johan	48	The Chorley and District Building Society	Penlington, Stephen Kos, Angela Roby, Kimberley Emma
24	Nationwide Building Society (LSE: NBS)	Garner, Joe D. Rhodes, Chris S.	49	Newbury Building Society	Roland Martin Cardno, Phillippa Bambridge, Lee Frederick
25	DNB Bank ASA (OB: DNB)	Braathen, Kjerstin Rasmussen Lerner, Ida Loevold, Maria Ervik Grant, Mirella E. Midteide, Thomas Hansen, Hakon Elvekrok Opstad, Morten	50	Loughborough Building Society	Brebner, Gary Joyce, Caroline

Source: Refinitiv workspace



To check the validity of the hypotheses, a correlation analysis was applied. The two models were formed. The first examines the relationship between the business performances of banks and the total compensation of top manager/s. The second examines the relationship between business performances on one side and the fixed and variable part of the compensation package of top managers on the other side. The business performance of banks will be expressed on the bases of Total Revenue - Capital IQ, and Gross Profit - Capital IQ. The average values of the business performances and compensation packages of top managers in banks are given in Table 2.

Table 2. Descriptive statistics

	Mean	Std. Deviation	N
Salary	1045084.79	816699.06	123
Bonus	798394.63	953492.51	123
Total compensation	1899577.48	2098806.33	123
Gross profit*	9837950000	1.1154.35	50

Source: Author's calculations

Table 2 provides descriptive statistics for the variables used in this study. We note that the oscillations in the salary, bonuses, and total compensation of top managers were very high during the COVID - 19 pandemic. Also, the deviation from the average was great in Gross profit.

The average salary of top managers during the pandemic was 1.045.084, 79 EUR. DNB Bank ASA's top manager recorded the least salary (42.980 EUR in 2020), while the highest salary had a top manager in Banco Santander, S.A. (BME: SAN) (3.176.000 EUR in both years, during a pandemic).

A correlation analysis was applied to check the relationship between the compensation of top managers and business performance in banks in Europe. The results are shown in Table 3.

Table 3. Correlation analysis

	Salary	Bonus	Total compensation	Gross profit
Salary	1	.701**	.804**	.428**
Bonus	.701**	1	.772**	.385**
Total compensation	.804**	.772**	1	.571**
Gross profit	.428**	.385**	.571**	1

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

Source: Authors' calculations

According to Table 3, there was a strong correlation (0,571) between gross profit and total compensation of top managers in banks during the COVID - 19 pandemic. So, our first hypothesis (H1) that correlation between the total earnings of top managers and the performance of banks in Europe during the COVID - 19 pandemic was positive was confirmed. The correlation between the gross profit of banks and the salary of their top managers was also direct, but weaker compared to the previous correlation.



The weakest correlation was between bonuses of top managers and the gross profit of banks during the pandemic (0,385), but it was also direct and significant at the level of 0.01. We applied regression analysis to check the validity of our second hypothesis. The results are shown in table number 4.

Table 4. Regression analysis

	Beta	T	Sig
Model 1 Dependent Variable: Bonus			
(Constant)	538883.501		
Gross profit	34.752	4.684	.000
R	.385	3.896	.000
R square	.149		
Model 2 Dependent Variable: Total compensation			
(Constant)	843342.328	3.624	.000
Gross profit	107.363	6.843	.000
R	.571		
R square	.326		

Source: Authors' calculations

According to Table 4, the business performance of banks had a direct and significant influence on the compensation of top managers during the pandemic COVID - 19. Model 1 shows that the gross profit of banks had a positive and significant impact on the bonuses of top managers. If Gross profit increases by 1 million EUR, the Bonus grows by close to 35 EUR. The model explained 14.9% of the total variability. Our hypothesis that the correlation between the bonuses of top managers and bank performance in Europe was negative during the COVID - 19 pandemic was wrong.

According to Model 2, the gross profit of banks had a positive and significant impact on the total compensation of top managers. With Gross profit rising by one million EUR, Total compensation rises by 107 EURs. This model explained 32.6% of the total variability of the total compensation.

Discussion and recommendations for managers

The correlation between the overall earnings of top managers and the performance of banks in Europe during the COVID - 19 pandemic was positive. This can be concluded based on the literature review in the field of top managers' compensation and bank performance. Using a sample of 50 banks in Europe and 123 top managers, we conducted research that confirmed these claims. Our results are consistent with most previous research on the relationship between top managers' compensation and firm performance (Olaniyi, 2022; Banker *et al.*, 2013).

However, based on the results of previous research, which are contradictory, and include the relationship between bonuses and company performance, it can be concluded that this relationship was negative during the COVID - 19 pandemic. However, the research we conducted showed that our assumption was wrong. Namely, bonus growth was conditioned by the company's performance even during the pandemic.



This is in line with the results of research conducted by Basuroy, Gleason & Kannan, 2014, which refers to the relationship between the variable part of top managers' compensation and the firm's performance in periods of a successful business. On the other hand, it is contrary to the research carried out by Kweh, Tebourbi, Lo & Huang (2022) which implies a negative impact of variable salaries of top managers on the performance of firms in crisis.

According to the obtained results, companies can be recommended to pay bonuses to top managers even in periods of crisis, which are directly related to the achieved performance of the company in the previous period, because this can have positive effects on the growth of performance. Frederick Skinner, perhaps the most influential psychologist of the 20th century used the concept of operant conditioning by which he claimed that an organism (animal, human being) shaped its voluntary behavior based on its external consequences from the environment. Also, the concept that bonus plans can improve employee performance was based on his paper.

Most bonus plans are designed following this concept. Unfortunately, the disappointment for many came in the late 1940s due to mounting empirical evidence suggesting that rewards did not work in the diverse environments common to the modern workplace. The disadvantages of a bonus plan often relate to rewarding bad behavior. Managers who can achieve better short - term financial results (and therefore a bonus) and lead to higher profits or who try to innovate and improve their way of working are better, for example, than managers who adhere to the status quo, fire valuable (expensive) employees and participate in immoral business practices. All the above justifies the attitude of poorly formed plans, which can also damage the effects on employees. Despite all the above, employees (and many employers) still believe that the bonus plan is effective and the only possible motivator in the workplace.

CONCLUSION

We investigated the relationship between the compensation of top managers and the firm's performance. This topic has been widely examined worldwide for decades. However, there is still ambiguity among the different results. Researchers have found negative, positive, and no significant effects over time. Moreover, the importance of this topic has got more relevancy during the COVID - 19 pandemic. For that reason, we analyzed the correlation between the earnings of top managers and the performance of banks in Europe during pandemic COVID - 19. We wanted to answer the following question: *'To what extent did executive compensation in the leading banks in Europe was influenced by performance of banks during the COVID - 19 pandemic'*. To do so, two different hypotheses were formulated. The first hypothesis mentioned that correlation between the gross profit of banks and top managers' total compensation including, base salary, other benefits, and variable pay was positive; whereas the second hypothesis was that CEO variable pay, in form of bonuses and gross profit was correlated negatively during the COVID - 19 pandemic.

By applying correlation and regression analysis methods to a sample of 50 leading banks in Europe and 123 top managers, we proved that the correlation between the bank's performance and all forms of top manager compensation (base salary, bonuses (variable part, total compensation) was positive even during the pandemic. Given that, it can be concluded that even in periods of crisis, the compensation package of top managers and any form of payment should be linked to the performance achieved by the company.



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NAGRAĐIVANJE VRHUNSKIH MENADŽERA U BANKARSKOM SEKTORU TOKOM PANDEMIJE COVID-19

Rezime:

U radu se analizira praksa vodećih banaka u Evropi koja se odnosi na naknade top menadžera tokom pandemije COVID-19 i utvrđivanje njihovog odnosa sa ostvarenim učinkom banaka. Rad ima za cilj da ispita da li je naknada za top menadžere bila povezana sa radom banke tokom pandemije COVID-19, kao i da da preporuke u vezi sa nagrađivanjem top menadžera u kriznim situacijama, na osnovu dobre prakse vodećih evropskih banaka tokom pandemije COVID-19. Primenom metoda korelacione i regresione analize, na uzorku od 50 vodećih banaka u Evropi i 123 top menadžera, ispitali smo vezu između bruto dobiti i naknada top menadžera u 2020. i 2021. godini. Rezultati su pokazali da je odnos između performansi banke i naknade top menadžera (osnovna plata, bonus i ukupna naknada) bile pozitivne čak i tokom pandemije COVID-19.

Ključne reči:

Top menadžment,
Osnovna plata,
Bonusi,
Ukupna naknada,
Učinak banke.