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Management Compensation and the World Economic Crisis: Evidence from Bosnia and Herzegovina

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ABSTRACT---- ***Much has been written about the (still present) world economic crisis in the past few years, and in those scientific discussions the main factors – causes of crisis have been often analyzed. All those (up to now) analyzed factors make the crisis long-lasting, harder, uncertain with hardly predictable implications. On the other hand, understanding the cause and preventing the consequences of crises are an important precondition of economic and social development of any country.***

With regard to this, the main aim of research by the authors of this paperwork has been based on the attempt to explain the view according to which, the greed of Wall Street bankers caused by excessive management compensation has also been, inter alia, one of the relevant factors causing and deepening the 21stcentury world economic crisis. Furthermore, the paperwork provides an overview of possible directions of regulation in the field of management compensation, all with the aim to prevent large scale crises in the future. Finally, to complete the research, the authors have analyzed the state in the field of management compensation in Bosnia and Herzegovina.

Keywords--- world economic crisis, manager compensation, regulation of compensation, Bosnia and Herzegovina (BH).

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1. INTRODUCTORY REMARKS

The overall aim of the paperwork is to examine the link between senior management rewards (the so-called management compensation and bonuses) in financial institutions and the recent world economic crisis. Due to the depth and relevance of research, the paperwork will attempt to achieve the following operational objectives: to analyze the main causes and consequences of the world economic crisis *grosso modo*, to explain more concretely the role of bankers' bonuses and compensation in the world economic crisis and emphasize the importance of management compensation regulation, to analyze the state in the field of management compensation in Bosnia and Herzegovina and determine the level of satisfaction of managers with material and non-material rewards in BH companies.

A general hypothesis defined in the paperwork reads as follows: *The regulation of manager compensation and bonuses may reduce excessive involvement in and undertaking of risky activities and reinstate financial institutions in „their normal condition“.*

A comparative analysis of scientific literature (regarding the given topic) was done within the paperwork, with a view to obtain an insight into the existing information related to the recent economic crisis, i.e. its causes and consequences. Furthermore, inductive and deductive methods were used in the paperwork as well as methods of synthesis and analysis. Statistical methods of processing and presenting data were used as quantitative methods, while a survey questionnaire was designed for the purpose of empirical research in the form of closed-ended questions.

2. CHRONOLOGY AND A BRIEF REMINDER OF THE FAMOUS WORLD ECONOMIC CRISES

Economic history has always been interested in more or less detailed research of economic crises, practically from the occurrence of the first economic and financial crisis as described in the Bible to the financial crisis during the Roman Empire in the 3rd century, the so-called crisis of the Medici bank a long time ago in 1397, the crisis of Dutch Tulip Bubble in the 1630s, and later the crisis of the so-called South-Sea Bubble at the beginning of 18th century.

In capitalism, from the period of its emergence through all phases of its development, several recessions and economic crises have also been recorded. For example, the Great Depression occurred (1929-1933), then world debt crisis (1982-1994), banking crises in the Scandinavian countries at the beginning of the 1990s, the Dot-Com Crisis of Internet companies in the 1990s, the currency crisis of member states of the European monetary system in the period from 1992 to 1993, the Tequila Crisis which spread from Mexico via Argentine, Uruguay and Paraguay to a considerable part of Latin America (1994-1995), the Asian Crisis (1997-1998) which, in addition to China, affected the whole continent also affecting other biggest world financial centers. Furthermore, currency and debt crises in Russia, Ukraine and other transition countries (Poland, Hungary, the Czech Republic), the Brazilian Crises (1998-1999), then a range of balance-of-payment crises in Argentina and Turkey (2000-2001), corporative and stock exchange crises (2001-2002) arising as a consequence of excessive moral hazard, asymmetric information and accounting malversations, the USA Mortgage Crisis (2008-2011), the debt crises in the EU member states (2010-?).

An overview of the above mentioned financial crises is provided in *Table 1*

Table 1: Overview of the most important financial crises

ANCIENT STATES MIDDLE AGES INDUSTRIALIZATION	**20th century**	**The first decade of 21st century**
Financial crisis during the period of the Medici rule, 1397	Great Depression (1929-1933)	Corporative and stock exchange crisis in the USA (2001/02)
Tulip Speculative Bubble (*Tulip Bubble*), 1637	Oil Crises (1973,1979)	
	Debt Crises (1982)	
South-Sea Speculative Bubble (*South – Sea Bubble*), 1713	*Dot-com* Financial Crisis (1990s)	
	European Exchange Rate Mechanism Crisis (1992/93)	USA Mortgage Crisis 2007/08)
Mississippi Crisis (*Mississippi Bubble*), 1720	Crises in Mexico and Argentina (1993/94)	
	Asian Crisis (1997/98)	
	Crisis in Russia and transition countries (1998)	Eurozone Debt Crisis (2010. - ?)
	Crisis in Brazil (1998/99.)	

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3. IDENTIFICATION OF THE MAIN CAUSES AND CONSEQUENCES OF FINANCIAL CRISES

In order to find adequate responses to challenges faced by the world in the first decade of 21st century, which are directly related to financial crises, it is necessary to understand the main causes leading to them, with the aim to undertake concrete measures to eliminate them. Experiences of financial crises which took place in the 20th and at the beginning of 21st century clearly indicate that there are common causes of those crises, which are more or less emphasized in some case studies.

Based on the above mentioned financial crises (*Table 1*), it may be concluded that each previously mentioned financial crisis had its specificities, not only because it took place in a particular period, but also because of the way it emerged. Experiences of the previous economic crises clearly indicate that there are common causes of those crises, which are more or less emphasized in some case studies. Therefore, the interaction of various factors of emergence and spreading of (previous) financial crises was identified in the paperwork.

On top of all that, it is certainly important to take into consideration the fact that after 1973 the incidence of financial crises has been considerably increased, which suggests that the issue of global financial shocks has recently deepened (*Figure 1.*)

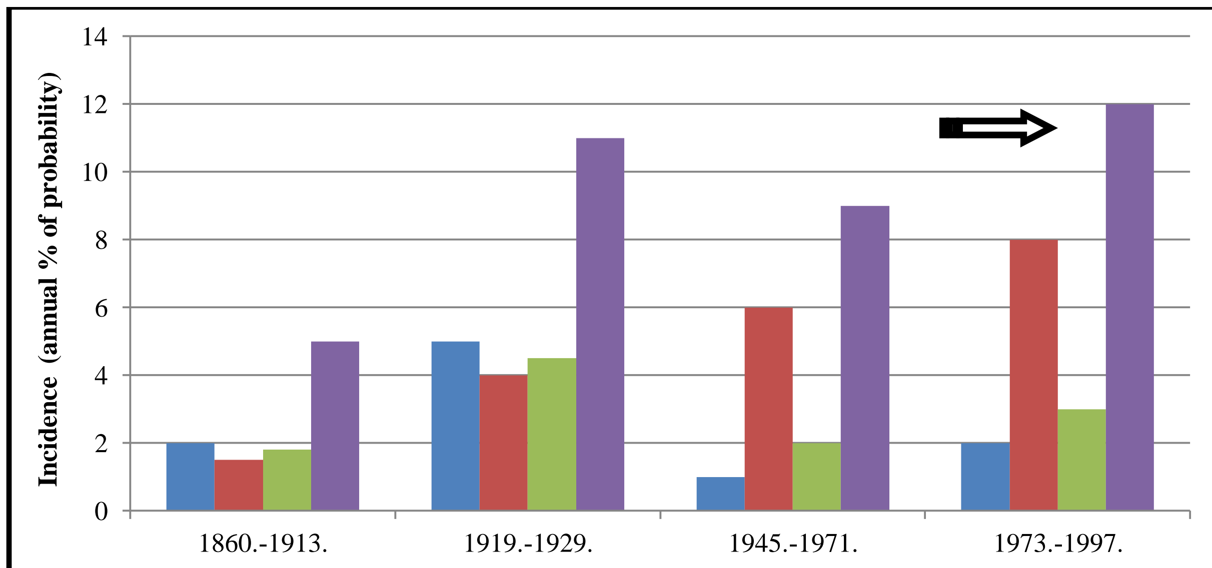

Figure 1: Incidence of financial crises in the period 1880-1997

Legend: ***Blue****-Banking crises,* ***Red****- Currency crises,* ***Green****-Twin crises,* ***Violet****-Total*

Source IMF, 1997

The reasons for this view lie in excessive and expedited liberalization of the international movement of capital and massive outflows of capital. It means that today's world financial crises are more complex and occur much faster, and their consequences are very often of global character. While analyzing financial crises in the mid 1980s, most economists determined that a considerable number of these crises were a consequence of combination of poor macroeconomic policies and negative external shocks which created deficits in the current account of the balance of payment in many countries. As causes of recent financial crises they pointed out the occurrence of globalization, commercial and financial integration, excessive liberalization, strong inflows and outflows of foreign capital, impossibility to protect one's currency from speculative movements, the occurrence of excessive borrowing of domestic companies and banks etc.

Thus, a more detailed analysis of the recent scientific literature on the given subject enabled a summary of the causes of financial crisis as follows: [Acharya, Richardson, 2009, Sapir, 2008, Reinhart, Rogoff, 2008, *etc*.]

- insufficiently regulated financial institutions and excessive management bonuses, corruption,
- separation of finance from the real economy,
- *prime* and *subprime* loans,
- high profit and high risk,
- capital inadequacy and financial fragility,
- unregulated banking, and speculations,
- poor supervision of banks, and moral hazard,
- liberalization of capital transactions and short-term capital movement,
- public debt and capital imports,
- fixed exchange rate or dollarization, loose fiscal and monetary policies,
- excessive investments, and inflated property prices,
- foreign capital inflows,
- economic imbalance (inflation caused by the supply of money, overrated real exchange rate, growth of current account deficit),
- time debt structure (accumulation of short-term foreign currency-denominated debt),
- economic vulnerability (exhausted foreign exchange reserves, unreliable fixed exchange rate), *etc*.

Going into a more detailed analysis of the basic determinants which directly or indirectly cause the emergence of financial crises, *George Cooper* defined several issues which we found very important for further research, as follows: instability of commodity price, currency, stock market shares, implosion of property price bubble, change of foreign exchange rate of national currency, spectacular commodity price changes, bankruptcy and collapse of banks and other savings and loan associations, high-yield bond market collapse, high depreciation of national currencies on the exchange rate market, foreign debt of developing countries, sudden stop in foreign loans due to the national boom, occurrence of inflation, central bank failures, uncritical confidence in the power of free markets etc. [Cooper, 2009, p. 9] In his analysis he pointed out in particular the link between capital account liberalization and financial movement, which, in his opinion, has two dimensions. Expected benefits for the domestic market growth are on one side, while the risk of serious

financial difficulties is on the other, if adequate institutional frameworks for liberalization are not created. A positive characteristic of capital account liberalization lies in the fact that it may gradually deepen a domestic financial system, particularly in the case of the weakening of control over foreign bank ownership. However, there are certain problems such as cases of exuberant capital inflows and outflows (that is, an increase in volatility of net capital inflows), asymmetric information among foreign investors and domestic debtors, exchange rate instability et al. Notwithstanding this, in Cooper's opinion, up to date a number of financial crises have shown that a combination of massive capital inflows and uneven incentives is the real "recipe" for misfortune, as capital inflows on financial markets may increase those problems, and, finally, cause a large scale financial crisis with considerable public costs.

4. CAUSES OF THE 2008 WORLD ECONOMIC CRISIS

The recent analysis of the USA financial crisis indicates that the primary causes of the expansion on the secondary market were, actually, the recognition of the secondary market as a new and potentially profitable market, incentives for rewarding agents and financial mediators who focused more on the number of debtors than on the quality of resulting loan portfolio and the perception that it is socially desirable and useful to introduce housing loan reliefs for the larger part of population. So, the attempt to predict financial crises was called reflexivity by Soros (it is necessary for any investor on financial markets to make a sound judgment of what other investors would do or what move they would make), while Keynes compared financial markets with beauty contests, precisely due to their volatility, in which each contestant tries to predict and estimate who is that candidate who would be found more beautiful by others [Soros, 2003, p.5] However, after the increase in floating loan rates low income debtors were not able to make mortgage payments and had to sell their properties. The growing number of real estate for sale, which culminated in 2006, caused a property value drop. The insolvency of debtors caused tragic losses both for banks and investors.

In spring 2007, a few dozens of banks in the USA, which were specialized in funding this type of property loans, filed bankruptcy requests.[1] After the *Standard&Poor* composite index lost almost 20% of its value from the beginning of October 2007 to the middle of October 2008, even the greatest optimists stopped believing that the financial crisis would be overcome. Illusions completely vanished and they were replaced by the fear of real consequences which had been obvious for a longer time. From May 2007 until the middle of 2008, *Merrill Lynch, Citigroup* and *Bear Stearns* shares dropped by 47% (from 94 to 50 dollar), 60% (from 55 to 22 dollars), 49% (from 158 to 80 dollars) respectively. The *Lehman Brothers* bankruptcy in April 2008 brought the financial market in a state of total paralysis [Petrac-Stepanović, 2008, p.12] Acquisitions and mergers of some investment banks by commercial banks, and in some cases nationalization, that is, the purchase of ownership shares by state, were very often the only solution to the problem, with simultaneous injection of financial means with the aim to increase liquidity. So, states became co-owners of a number of banks in the most developed countries in the world. With that aim, the state nationalized *Fannie Mae* and *Freddie Mac* that controlled around 50% of total mortgage loans in the USA. *Merrill Lynch* was taken over by *Bank of America* for nearly half of its real value, while *J. P. Morgan* took over *Washington Mutual*. Hence, those were emergency intervention measures with the aim to stabilize the financial sector, and reduce negative consequences caused by the crisis in the real sector of economy. [Nanto, 2009, p.4]

When it became obvious that the USA crisis spread to other countries in the world, emergency interventions by national central banks began resulting in rapid reduction of reference interest rates (monetary policy easing) and approval of financial means to ensure liquidity and recovery of big banks. [Reinhart, Rogoff, 2008, p.4] Within just a few days, through coordinated interventions, liquidity funds worth billions of dollars were approved to financial mediators as well as access to liquidity rediscounts which had problematic (non-performing) mortgage loans as a guarantee. With regard to this, on 10 August 2007, FED, the European Central Bank and the Central Bank of Japan injected around 43 billion Euros, 156 million Euros and 1 trillion yens into the financial system respectively [Roubini, 2008, p.8]. The interventions continued in the forthcoming period as well with aggressive reduction of interest rates in the USA. This is the reason why in August 2007 the target range for the federal funds interest rates dropped from 5.5% to 2.25% on an annual basis while the discount rate dropped from 6.25% to 2.5%.

Table 2: Movements of central banks' reference interest rates

Country	Reference interest rate 01.01.2008	Reference interest rate 30.05.2009

[1]The number of banks in the USA which bankrupted from the beginning of 2010 exceeded 100. Among top-10 biggest USA bankruptcies are: *United Airlines, Pacific Gas & Electric, Global Crossing, Refco, Financial Corporation of America, Texaco, Conseco, Enron, World Com and Lehman Brothers*. Available on: [http://www.biznis.ba, November 2013]

USA	4.25	**0.25**
Eurozone	4.00 4.25 (03.07.2008)	**1.00**
Great Britain	5.5	**0.50**
Japan	**0.50**	**0.10**

Source: [Sapir, 2008, p. 7]

As it can be seen in *Table 2.*, the reference interest rate on the American financial market dropped to 0-0.25%, with the similar occurrence in European countries as well, where ECB reduced the interest rate from 4.25% to 2% in 2008, continuing those measures in 2009, when the interest rate was reduced to 1%. In 2009, the National Bank of England reduced the interest rate from 5.5% to 0.50%.

Outside this monetary area, other measures were also undertaken such as governmental declaration of a moratorium on payments of some mortgage loans with floating interest rates and the initiative of the bank consortium supported by the USA government to start a 100 million worth fund with the aim to buy mortgage loans devalued due to the crisis. However, from today's point of view, these measures were not sufficient to stabilize the overall situation.

According to the World Bank data, the costs of financial sector recapitalization amounted to around 15% of GNP. Accumulated losses of six banks with the highest loss caused by the liquidity crisis amounted to around 345 billion dollars, while global losses in total amounted to around 711 billion dollars in the same period [Reinhart, Roggof, 2009]. The beginning of bank collapse and the fear of deposit loss caused panic in the public and pressure for withdrawal of savings deposits by retail customers. It exacerbated the bank sector liquidity threatening to jeopardize the underlying banking principle, which is the confidence of depositors. This is the reason why governments of many countries increased the amount of deposit guarantee, while some guaranteed the full withdrawal of savings deposits.

It is necessary to understand the very roots of the mortgage financial shock in order for the world to better prepare for the next financial crisis. Therefore, the aforementioned clearly indicates that the key causes of the world economic crisis were revealed through the following: specific aims of financial market participants (including excessive and megalomania management compensation, rewards and bonuses in the most famous American and European financial institutions), moral hazard of a large number of financial institutions, incentives and rewards for financial mediators, securitization, a high level of financial market integration, risk negligence, investors motivated by speculations, permanent global imbalance in the form of current account deficits and net capital outflows from developing countries towards developed countries, information of poor quality, a long period of low interest rates in the first decade of 21st century (which also reflected the fear of devaluation), uncoordinated measures of local regulators, inadequately created global regulatory framework, deficiencies of price setting mechanisms and risk management, banks loosened their loan criteria with regard to debtor solvency and property quality, mortgage market as a profitable market, structural problems, external imbalance, imperfections of the American mortgage loan system, long-term expansive monetary policy of the USA and other developed countries, constant international imbalance of national ratios of savings and investments, emergence of illiquidity risk, and subsequently all related risks (loan risk, risk of capital inadequacy, profitability risk), excessive spending in relation to savings, *etc*.

Short personal comments (or an overview) on and the explanation of some of the mentioned causes of the crisis are provided below:

- Separation of finance from the real economy. When it became impossible to repay loans and property prices dropped by 30%, the balloon inflated by those derivatives exploded. It brought to unrealistic presentation of business performance using the international accounting standards, with internal and external audits, revision and auditing of annual performance by other external institutions (central banks, solvency centers, rating organizations). It enabled distribution of unearned dividends, selling of shares at prices exceeding their real value, distribution of unearned bonuses and remuneration to managers, et al.
- Illiquidity. It is considered that the present crisis exploded as illiquidity risk which is directly linked to reputation risk. The emergence of these two risks caused panic and rapid spreading of illiquidity contamination and subsequently, insolvency as well.
- Loan risk. It was created, inter alia, due to illiquidity, but also due to debtors' inability, big loan expansion of high risk loans, high interest rates, interest and other loan costs, bad bank agreements, et al.
- *Prime* and *subprime* loans. *Prime* loans are first class loans with relatively low risks, *Subprime* loans are risky loans. Interest rates for *subprime* loans are usually higher, reflecting a higher loan risk. A *subprime* debtor usually has a big need for borrowing, and very often such loans are a target of frauds. It was mostly due to such loans that the global loan system collapsed.

- Savings. If savings in relation to spending decrease and if this is exacerbated by the savings withdrawal in panic, explosion of the balloon is expedited and multiplied.
- High profit and high risk. It is a fact that high risks enable high profits, but they may also create high losses. The world economic crisis shows that today a high number of financial institutions are at the phase of incurring losses.
- Managers and *management.* „Insider ship" may very often be a cause of financial crises, which is linked to economic and systemic regulation and monitoring as well as criminal legislation. A failure to solve one small market deficiency often causes even bigger market deficiencies.
- Capital inadequacy. Standards were broken in order to enable banks to make as much profit as possible on loan capital, that is, the risk for using borrowed capital (bank leverage) was increased. With some USA banks, the ratio between bank's own assets and borrowed capital was 1:30 do 1:40, while according to Basel III that standard is 1:8.
- Financial fragility. Due to inaccurate presentations of financial balance income and balance sheet, general illiquidity and increased financial problems as well as impact of recession or inflation of share price values, most of corporations and banks as well as other financial institutions announced a high number of bankruptcies. At the beginning of 2009, many companies reported high losses as well; share values on financial markets decreased considerably, start of recession, decrease in GDP were reported at al.
- Economic and systemic laws. A cause of crisis lies, inter alia, in inadequate economic and systemic laws, lack of adequate supervisory institutions for monitoring and supervision of market-oriented entities. In addition, lack of regulation of private banks and stock exchange operations by the American state was considered to be one of additional causes of the present crisis. Having this in mind, the state's involvement in that case is necessary.
- Unregulated banking. In the past 20 years, the global economy has been based on the assumption of the financial system self-regulation, but the year 2008 indicated that it would not produce any results as expected by the regulators. In this context, the mistake of Alan Greenspan was often quoted, who thought that the financial market system would self-regulate any new financial innovation, that is, loan derivatives, in terms of removing their deficiencies or high risks.
- Speculations. If speculators are not under control often making systemic mistakes and creating market deficiencies, they may be very dangerous and they always will try to make profit in such situations leaving a devastated economy behind. In that case, the role of the central bank is considered to be very important while its main role should be fighting against speculation, controlling monetary policies of countries, establishing monitoring of banks etc. In addition, it is considered that speculators may have the key role in the creation of a crisis as they always attack a state with the weakened macroeconomic basis. On the other hand, speculations in themselves cannot be a reason for the creation of a financial crisis, but can be a "trigger" which ultimately instigates the crisis and a factor which expedites, deepens the crisis which eventually destroys the whole financial system of a country.
- Monetary policy risks. The financial crisis emerged as an illiquidity crisis. Illiquidity occurs due to lack of sufficient quantities of money, which is a market deficiency. FED is mostly responsible for the existing illiquidity, explosion of the monetary balloon and the emergence of the world economic crisis. This crisis shook confidence in the dollar as the reserve currency, which is the reason why some countries (China and Russia) demand that dollar be redefined as the world reserve currency and replaced by a currency basket.

5. COMPENSATION AND BONUS PAYMENTS DURING THE WORLD ECONOMIC CRISIS IN 2008: CURRENT STATE AND A BRIEF RETROSPECTIVE

Exactly three years ago, managers of 25 biggest *Wall Street* banks and financial companies received record rewards and bonuses amounting even to 135.5 billion dollars. It exceeded 2009 by 7.3 billion, that is, by 5.7%. For the purpose of comparison, in spring 2010, income of 25 biggest *Wall Street* companies increased by 1% in comparison to 2009, amounting to 416.6 billion dollars. Hence, almost a third of total income (32.1 %) was paid to leaders of American financial companies. In comparison to the crisis in 2008, management bonuses increased by 23.1 billion of dollars. In this way, companies justified high bonuses by the need to keep the highest quality staff. The highest increase in management bonuses (11%) was made by the *Bank of America*, from 31.5 to 35.1 billion dollars. Commercial banks rewarded their managers with 87.7 billion dollars, which is 29.2 % in relation to 300.7 billion dollars of profit. Compared to 2009, bonuses for commercial bank managers increased by 4.3 billion dollars. However, the situation during 2012 did not change either. Although they fought against the income drop, at the end of 2012, American banks paid record bonuses to top management, in the amount of 207 billion dollars. It means that every employee on average received 128.089 dollars, which is by 4.2 % higher than in 2011.[2]

[2] According to *Wall Street Journal* estimates. Available at : http://europe.wsj.com/home-page, November 2013

On the other hand, insurance companies and brokerage houses paid even 43.3% of total income as management rewards during the crisis in 2010. They made income of 97 billion dollars and paid 42.1 billion dollars for management bonuses. Compared to 2009, management rewards in insurance companies increased by 2.5 billion dollars. Investment companies paid 5.7 billion dollars for rewards and bonuses, which is 30.3 % of total incomes. Although their income, compared to 2009, increased by 3.1 billion dollars, amounting to 19 billion dollars, management rewards increased "only" by 600 million dollars on an annual basis. Many people are surprised that, for example, at *Goldman Sachs* bonuses may go back to the previous level so quickly and increase, although profit also increases, when the amounts used by the American government to save that recently fallen company are well-known.[3] There are also some examples of irregular and impermissibly high compensation payments on the European market. The salary of the chairperson of the Swiss bank *Credit Suisse* increased even by a third. Namely, notwithstanding worse business performance of the bank in 2012, Mr. Brady Dougan received even 8.2 billion dollars of bonuses.

The *Wall Street* bonus level in years before the crisis constantly increased (except in 2002), reaching its peak in 2007 when the financial crisis started. Although the bonus level in 2008 decreased considerably in comparison to the previous year, in 2009 the bonus level considerably increased from 18.4 to 27.5 billion dollars, which is a significant amount taking into account the state of the financial system and world economy. (*Figure 2.*)

On the other side, the bonus level in the *City of London* also increased gradually reaching its peak in 2007, the same as in Wall Street, and then recording a significant drop in the next year, but in 2009, unlike Wall Street, recorded just a slight increase from four to six million pounds. (*Figure 2.*)

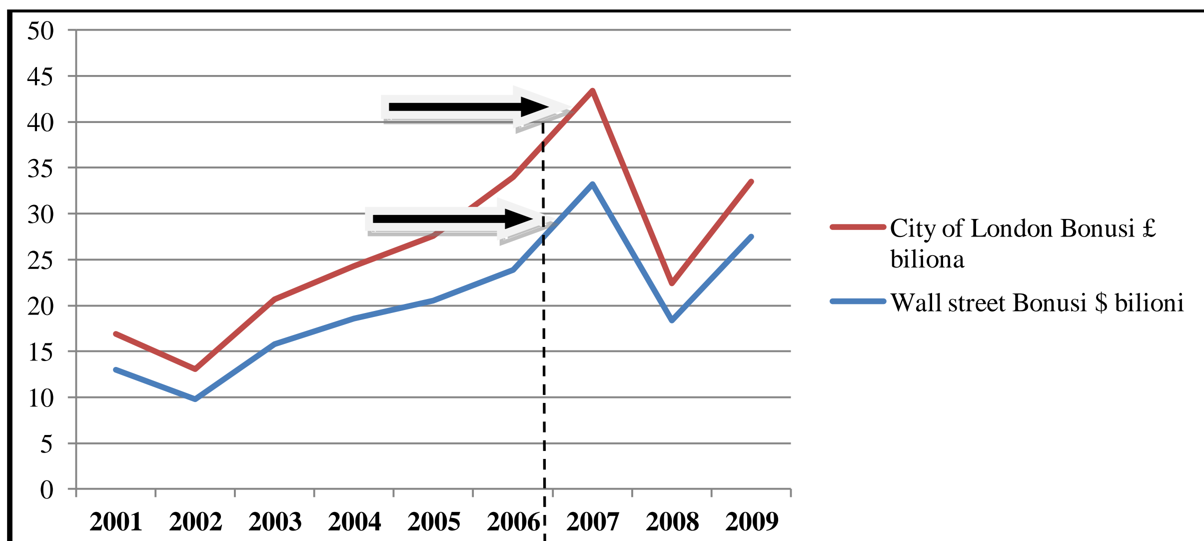

Figure 2: Dynamics of total bonus payments in Wall Street and the City of London in the period 2001-2009

Source: [Matthews, Matthews, 2010, p. 71]

According to *the Great Britain's FTSE* reports, bonuses in 350 companies increased in the period 1994-2006, leading to conclusions that salaries in the financial sector were quite high. [Gregg, Jewell, Tonks, 2011]

Table 3: Total salaries of industrial sector management in 2006

Industrial sector	Steering Board salaries (£'000)	Ranking	Executives' salaries (£'000)	Ranking
Raw materials	3,321.20	3	890.09	3
Basic Industries	2,325.13	6	652.49	7
General Industrials	1,973.73	9	617.62	8
Cyclical Consumer Goods	2,567.39	5	792.16	5
Non-cyclical Con. Goods	2,787.18	4	805.41	4
Cyclical Service	2,269.45	7	723.34	6
Non-cyclical Services	3,848.35	1	954.92	1
Utilities	2,002.92	8	570.31	9

[3] Ibidem

Financials (including banks)	3,544.80	2	915.88	2
Information Technology	1,383.58	10	439.32	10
∑	**2,528.92**		**733.79**	

[Gregg, Jewell, Tonks, 2011]
As it can be seen in *Table 3.*, executives' and steering board salaries increased by 131.78%, and 80.41% respectively in the period 1997-2006, 41.38% for all employees. Hence, the above table indicates that executives' salaries and compensation varied in different sectors.

A typical story of the collapse of *Bear Stearns* and *Lehman Brothers* assumes that the fortune of managers in those financial companies was mostly wiped out together with their institutions. So, in the period from 2000 to 2008 the top executive teams of *Bear Stearns* and *Lehman Brothers* executed financial flows amounting to around 1.4 billion dollars, but also 1 billion dollars from financial bonuses and capital sales in the period 2000-2008. Those financial flows exceeded considerably the value of initial funds of executive managers at the beginning of 2013, while executive net payments in that period were positive. In January 2008, *Lehman Brothers* and *Richard Fuld* used 10 billion of capital for top management bonuses at the end of the year and rejected a proposal to say no to bonuses for executive managers to the benefit of the company's liquidity, share prices and public image.[FCIC, 2011]

Disclosure of the bonus incident infuriated both the media and the public, stressing one more time critics against *Wall Street* executive directors for shameless overpays, which was enabled due to the distorted compensation structure. In that way, some ten banks together gained over 90 million dollars in share options which additionally increased public rage.

Furthermore, the American financial institutions *Fannie Mae* and *Freddie M*ac paid bonuses for their managers using taxpayers' money. When the crises crashed financial markets in 2008, these two institutions were mostly exposed to mortgage loans and faced bankruptcy. As they were "*to big to fall"* the state decided to save them by a 100 million dollars assistance package. Five *Fannie Mae* and *Freddie Mac* managers received 95.4 million worth bonuses from 2009 onwards. The managers received bonuses exclusively in cash [FCIC, 2011]

A typical justification of top management high salaries is that compensation is market-driven, that is, companies set compensation in line with compensation on the market to keep their top managers. This „mantra" is used in *Wall Street* by large companies such as *Goldman Sachs* all the way to a small group of investment banking and financial service companies. The pressure on salary levels is equally high on both groups of companies. But in the case of investment banks, internal differences (pressure of highly paid employees below the top management level) may increase executive salaries even more. Although the basic salaries are low in general, they make up a very small part of total compensation. Most Wall Street executive salaries consist of incentive payments of one kind or another. So, before the emergence of the world economic crisis, top managers of the largest American corporations in one day made more money than an average employee in that country could make during the whole year.

As the result of the financial crisis in 2008, *Wall Street* compensation policies and corporative boards' decisions came under careful scrutiny. Namely, the readiness to approve compensation plans for the whole financial institution which resulted in bonus payments worth billions of dollars, even in spite of the deteriorating financial and economic conditions, was the climax of the controversy. Those decisions resulted in payments of record 39 billion dollars in bonuses in the five leading *Wall Street* financial companies: *Goldman Sachs*, *Merrill Lynch*, *Morgan Stanley*, *Lehman Brothers* and *Bear Stearns*.

On top of that, in 2008, the year when *Lehman Brothers* bankrupted (which was officially marked as the start of the world economic crisis) *Merrill Lynch* and *Bear Stearns* had to find merger partners due to extreme financial difficulties, *Wall Street* companies lost tens of billions of dollars altogether, while billions of dollars of taxpayers' money were used for salvation of *Wall Street* companies. The most ostentatious was the decision of *Merrill Lynch* to pay 3.6 billion dollars in bonuses which were approved by the board to a high number of employees on 29 December 2008, just before the conclusion of mergers with *Bank of America* and shortly after it had become known that *Bank of America* asked for additional 20 billion dollars from assistance funds from the federal government as a response to huge losses at *Merrill Lynch*. Had those companies held most of those enormous annual bonuses in the past several years when financial market collapsed significantly, the economic impact of the current economic crisis might have been milder. [Taylor, 2008]

Taking into consideration the public disapproval of *Wall Street* rewards, in 2009 *Goldman Sachs* announced that it would pay management bonuses in shares with limited rights instead of cash. The 30-member Steering Board received bonus shares which could not be sold at least five years and could be taken away in case of risky behavior of a manager who received them. Goldman was severely criticized for providing 16.7 billion dollars for bonuses in the first nine months of

2009, after it received 10 billion dollars worth state assistance package in September 2009 to avoid the financial collapse. It returned the whole loan in January 2009.[4]

The situation in Great Britain was very bad, too. Until 2009, Great Britain carried out two bank assistance rounds worth hundreds of billions of pounds, in which the government took over shares in domestic banks, such as *Royal Bank of Scotland* (RBS). So the bank paid a billion pounds (1.14 billion Euros) in bonuses to its bank managers and share holders. In 2010, the bonus level of 7 billion pounds was similar to that in the period before the crisis, although it was lower than 7.3 billion pounds paid in 2009, and considerably lower than 11 billion pounds paid during 2007. [Walker, 2009]

6. MANAGEMENT COMPENSATION REGULATION AND LIMITATION AS POTENTIAL STRATEGY FOR MITIGATION OF FINANCIAL CRISIS IMPACT

Legal regulation in the field of management compensation is very often incomplete, so the discretionary rights in decision making process in all areas of reward policies are broad: when deciding upon compensation levels, their dispersion, payment method and timing. Share holders accept various incentive programs seeing them as a tool for successful realization of corporative strategies and value optimization of their own shares. To avoid any danger of inadequate behavior of managers in this field, it is necessary to respect and apply a few basic principles in the procedure of establishing different incentive plans: [Malinić, 2012]

- fair relations with owners, in particular smaller and external share holders, if employees have the dominant position in the capital structure,
- fair relations with managers and employees in terms of proper evaluation of individual contributions to achieved results;
- raise awareness of belonging to the company and the need for strengthening of partnership relations among key constituents of a corporative company,
- avoid financial constraints on these grounds, which means prioritizing liquidity and continuity of company's operations and
- maintain continuity of the reward scheme process in line with business performance.

A broad maneuvering space in the decision-making process creates a danger of compensation payments even under conditions when a company does not achieve satisfactory results, which, naturally, is not in the interests of investors. With the aim to protect them, regulatory authorities may request a public disclosure of implemented compensation arrangements in detail, in particular management compensation. In this context, it may be requested to disclose publicly underlying principles of compensation plans and criteria which are used when determining compensation (profit share, profit increase share, participation in accordance with market share price movement values at al.). In this way, investors receive an important information input which may assist them in valorization of a company and investment or disinvestment decisions. From a company's perspective, the interest may exist to include elements of incentive plans in the prospect in order to send a signal to potential investors that the company is well-organized and that managers are motivated to work in the owner's interest through a well-structured compensation package.

Ethical conduct of business implies the level exceeding the legally prescribed minimum. The acceptance of ethical principles implies the acceptance of standard value norms of business conduct and best business practice. The fostering of principles of mutual trust, mutual interest in business relations, good intentions, business tolerance etc. at the same time means having a negative attitude towards frauds, corruption and business immorality. The field of compensation plans is a good area for testing of management ethical standards. The responsibility for conscious endangering of owner's interests lies primarily on managers and their consultants, who have to be punished for unethical conduct by the investor community.

* * *

[4]*Goldman* reduced available bonus funds by 500 million dollars in the third quarter of 2008, and put them in a new bank foundation, thus wishing to mitigate criticism on the account of excessive reward packages for employees. Bonuses in the whole banking industry bore the brunt of legislators and public after companies lost billions of dollars due to uncollected receivables arising on mortgage loans, which are the main causes of the loan crisis and recession. That is why governments were forced to save them eventually. *Goldman Sachs* received the amount of 10 billion dollars and was among the first ones that repaid it in the past year.

Taking into consideration the aforementioned, it is our opinion that bonus limits would make the world economic system fairer and safer. With regard to this, plans to limit bank bonuses to one annual fixed salary as well as provisions on capital requirements for banks are largely considered today on the world financial scene. It is a matter of new regulatory framework known as *Basel lII*, a set of regulations agreed at international level which puts stricter capital requirements for banks.

The tendency to cut costs of employees has put American banks into position to carefully weigh any further reductions as due to them they may not be ready for recovery and lose their market position. In addition to the biggest market players, smaller American banks are forced to cost cutting and reductions. Hence, at the moment there are activities on the implementation of the so-called *Dodd-Frank Wall Street* reforms in the USA, in the context of regulating management bonuses in financial institutions. A similar situation exists in Great Britain, where it is proposed that the management bonus regulation of *Bank of England* be based on the formation of two institutions for that purpose: *Financial Conduct Authority* i *Prudential Regulatory Authority [*Fahlenbrach, Stulz, 2011].

One step further was taken, and consequently, in 2012 the European Banking Agency was established which was exclusively tasked with supervision of bank management bonus payments. In this regard, the Swiss UBS Bank proposed to eliminate bonuses and determine fixed salaries for executives as well. The UBS is the first big European bank which announced radical changes of the salary calculation system for managers, whose generous bonuses were exposed to criticism due to the crisis, because of risk incentives instead of long-term strategies. The state requested the right to participate in decision-making process regarding the bank's future management compensation policy. Bonuses on salaries of the bank's leading managers were blocked for three years at least and the level of their salaries would depend on the USB business performance.[5] In addition, at the World Economic Forum in 2013, the French and British Premiers asked for introduction of bonus taxes at the global level for bonuses paid by banks to their executive directors and traders. The tax would be introduced within a long-term global agreement between banks and societies for which they provide services, and it should reflect liabilities of the banking system and risks they represent for the banking system as a whole. Besides other proposal, the mentioned agreement would ensure that financial institutions cannot use foreign tax havens as they would avoid contributions they owe to citizens in countries in which they conduct business. [European Commission, 2009]

However, at the EU and European Commission level in general, Brussels should adopt guidelines showing that it has learnt lessons from the financial crisis which caused rage in several EU member states, where bankers received generous severance packages notwithstanding that their banks survived exclusively due to the state aid. Two packages of guidelines, formally defined as recommendations, are non-binding for member states and similar past initiatives mostly faded away leaving no concrete results. Hence, according to the view of most contemporary economists, many people agree that inappropriate rewards in financial service industry were one of the incentives for excessive risk thus contributing to significant losses of big financial companies, although they were not the main cause of the financial crisis which broke out in 2007 and 2008. [Committee of European Banking Supervisors, 2010]

Therefore, taking into account all aforementioned, we point out several guidelines of relevance for implementation of the manger compensation and bank bonus regulation in financial institutions as follows:

- requirements for banks to determine a cap for the variable component as precisely determined percentage of a total salary within their salary payment policies.
- banks should be in position to fully or partially withhold bonuses if managers do not meet business performance criteria.
- banks should abolish bonuses if they have serious problems, that is, a large part of bonuses should be postponed with a minimum postponement period. The severance level should be conditioned by business performance during a longer period, with no rewards for failures.
- banks may be forced to return bonuses paid on the basis of performance results which eventually turn out to be inaccurate.

That the management bonus and compensation regulation is really important (because managers cannot get exactly all they wish!) was pointed out by the author of *Bankers' Bonuses and the Financial Crisis,* Tonks, who established, according to his findings, that unjustified behavior of managers in terms of compensation, salaries and bonuses, contributed to the crisis, while the US Financial Crisis Inquiry Commission was of the opinion that the *Lehman Brothers* collapse resulted in part from inadequate structure of corporate governance*,* excessive compensation to its executives based on short-term profits. [Tonks, 2013]

[5]Other leading European institutions such as *Royal Bank of Scotland*, *Lloyds TSB* and *HBOS* would not pay bonuses after they reached for means from the British government fund for assistance to the banking sector, while *Deutsche Bank* managers voluntarily gave up bonuses.

Some new research on this subject [Gregg et al. 2011], [Walker, 2009], [FSA, 2009], [Fahlenbrach, Stulz, 2011], [Conyon et al. 2010], [Beltratti, Stulz, 2010], [Erkens, Hung, Matos, 2009] *etc*. also indicate that excessive bonuses and irregular compensation were one of the relevant causes of the contemporary world economic crisis.

6.1. (Non)Support to the Management Compensation Regulation: pro et contra

Following the 2008 economic crisis, the corporate governance reform focused, first of all, on the management compensation issue in the financial sector. Both theoretical and empirical research on the link between management compensation and financial crisis is very scarce. That made some economists raise a question if the regulation actually can remove or neutralize that problem or simply just worsen and/or deepen it?

There are more and more of those who do not support the management compensation regulation. As they say, regulators do not have sufficient knowledge which would rectify what is decided at the conference room, they have even less knowledge than when regulating in some other situations. As it is difficult to have any impact on the management compensation level, they recommend a more flexible policy when determining types and levels of compensation based on transparency of decisions on compensation in order to enable share holders to have an insight into the policy, structure and compensation level and enable discussions on the issue.[Beltratti, Stulz, 2010]

However, in a number of reports of international financial institutions, inter alia OECD's report, concerning corporate governance, it is possible to find a view that the financial crisis is attributed to mistakes and weaknesses of corporate governance arrangements. The authors of this paperwork support this view taking into account the transparency of these reports and their quality and competency *a propos* the management compensation and bonus regulation. With regard to this, the idea of reducing or limiting the management compensation level in financial institutions has also been initiated.

Namely, the world economic crisis raised the issue of the possible direction of the reform of corporate governance system and management compensation as well as managerial greed. However, at first sight, the regulation should directly solve the issue of compensation and bonus control, but according to these authors, the regulation does not have to be an economic and efficient solution. This, actually, means that the state cannot approach the regulation of management compensation type and level because the conflict between share holders and managers is possible also when establishing the regulation and they will try to find a way to avoid it. Furthermore, investors expect from managers to make profit optimization decisions which is normally accompanies by a high risk. Therefore, the regulation which tries to reduce risk not only discourages the company from profitable activities but also leads to unintentional consequences with broad economic and social implications as it was the case in the 2008 crisis. This means that it can have negative effects not only in terms of efficiency loss and decrease in profit of corporations, banks and other financial institutions but also in terms of investment, employment, standard et al. Therefore, the authors propose a market-oriented solution instead of regulation – by atypical contracts with more specific provisions protecting share holders. To use better wording, management compensation should be an instrument of efficient supervision of managers by encouraging them to choose an efficient risk level.[Beltratti, Stulz, 2010.]

7. STATE IN THE FIELD OF MANAGEMENT COMPENSATION IN BH COMPANIES

As a high number of companies in South East Europe, BH companies are also faced with challenges of the global economic crisis and recession. Problems faced by these companies are manifested as a decrease in market share, debt increase, investment drop, technological inferiority and reduced liquidity, which generated a high unemployment rate. For these companies to adequately respond to the emerging crisis it is necessary to have a systematic approach and realistic analysis of the situation, and subsequently, the formulation and implementation of an adequate exit strategy. When analyzing activities which should be undertaken for the purpose of economic recovery of BH companies, it is necessary to consider the state in the field of management compensation in these companies Namely, material rewards in BH companies are usually based on the so-called "management contracts", whereby management remuneration does not depend on the efficiency and effectiveness of business performance, which is one of the reasons for the high level of their irresponsibility and short-term orientation. If it is also taken into account that appointments to management position in public companies and institutions in Bosnia and Herzegovina are mostly based on affiliations to certain political parties, then it becomes clear that the state in the field of management is in not in the function of exiting from the crisis.

The idea of empirical research conducted in BH medium-sized and large companies was to establish the level of satisfaction of their managers with material and immaterial rewards. The main set of this research comprises 189 managers, 636 executives and 159 administrative staff members in medium-sized companies, and 21 managers, 59

executives and 29 administrative staff members in large companies. A survey questionnaire was used as the main tool for data collection for the need of this research, which was designed in accordance with the elements of the given research content, where, in most of the cases, the closed-ended type of questions was chosen as follows: a) questions with a list of answer choices; b) questions with answers designed to measure intensity. The Likert-type scale is used in questions with answers designed to measure intensity. Some parts of the questionnaire provide the possibility of freely expressing one's attitude to a particular issue.

Table 4. General job satisfaction (Source: Suljagić,S.:Payment and Reward System in the Function of Increasing Motivation and Satisfaction of Medium-Sized and Large Companies' Employees,, Faculty of Economics; Tuzla, 2010, p. 132)

General job satisfaction	Medium-sized company									Large company								
	Managers			Executives			Administration			Managers			Executives			Administration		
	Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience		
	Up to 3	From 3 to 5	More than 5	Up to 3	From 3 to 5	More than 5	Up to 3	From 3 to 5	More than 5	Up to 3	From 3 to 5	More than 5	Up to 3	From 3 to 5	More than 5	Up to 3	From 3 to 5	More than 5
Strongly agree	94.31	0	67.43	39.13	63.14	67.19	23.72	54.13	51.61	96.38	97.13	72.01	42.86	73.16	56.21	78.88	85.11	48.6
Agree	5.69	64.18	23.41	17.21	21.05	38.14	76.28	37.17	31.14	6.41	0	27.28	57.14	19.21	32.17	21.12	0.61	34.13
Partially agree	0	0	0	23.56	12.42	5.33	0	8.7	0	0	2.87	0.71	0	0	0.24	0	0	17.11
Disagree	0	35.82	1.25	15.12	2.18	0	0	0	17.25	0.21	0	0	0	0	0	0	14.28	0.16
Strongly disagree	0	0	7.91	4.98	1.21	0	0	0	0	0	0	0	0	7.63	11.38	0	0	0

Based on the analysis of results of the conducted empirical research, it may be concluded that managers in BH companies expressed a high level of general job satisfaction. Namely, 94.31% and 96.38% of medium-sized and large company managers respectively was exceptionally satisfied with their current jobs (Table 4). If these data are compared with data obtained in the field of measuring general job satisfaction of executives and administrative staff, then it becomes evident that employees holding non-managerial job positions are far less satisfied with their jobs. However, it should also be taken into account that most of research focusing on measuring the job satisfaction level all over the world indicated that job satisfaction increases with employees holding higher positions, that is, with those employees having higher formal authority. Taking this into account, it may be concluded that the empirical research results in this field in BH companies are in accordance with expectations.

Table 5. Satisfaction with material rewards (Source: Suljagić,S.: Payment and Reward System in the Function of Increasing Motivation and Satisfaction of Medium-Sized and Large Companies' Employees, Faculty of Economics; Tuzla, 2010, p. 149)

Satisfaction with material rewards	Medium-sized company									Large company								
	Managers			Executives			Managers			Executives			Managers			Executives		
	Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience		
	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5
Strongly agree	98.16	67.23	26.12	7.78	43.51	38.2	23.35	0	51.96	43.12	63.14	72.16	40.29	43.11	37.78	48.16	85.08	63.82
Agree	1.84	21.17	51.32	31.42	26. 94	28.94	76.12	82.31	29.14	51.62	30. 52	25.34	14.56	27.36	34.41	23.12	0.69	16.69
Partially agree	0	5.36	6.19	30.43	0.28	15.26	0.53	0.56	3.21	5.26	1.34	2.5	14.82	0.81	0.57	4.51	14.23	2.15
Disagree	0	2.98	7.92	4.29	1.35	17.31	0	0	1.78	0	0	0	0.69	9.43	4.28	3.05	0	17.34
Strongly disagree	0	03.26	8.45	26.08	27.92	0.29	0	17.13	13.91	0	0	0	29.64	19.29	22.96	21.16	0	0

Empirical research results in the field of measuring satisfaction with material rewards in medium-sized and large BH companies indicate a relatively high level of satisfaction among managers, while the level of satisfaction among non-managerial staff is considerably lower in this field. In particular, research results indicate a high level of job satisfaction of medium-sized company managers with somewhat less years of work experience (98.16% of them "strongly agree" that their material rewards are satisfactory), while large company managers with more than five years of work experience show a higher level of job satisfaction with their current material rewards (72.16% of them "strongly agree" that their material rewards are satisfactory). Hence, notwithstanding the unsatisfactory state of BH economy, managers in BH companies are relatively well-paid which may be also linked with lack of their accountability for business performance which may hinder the exit of these companies from the crisis.

Table 6. The company's criteria for additional material rewards are clearly defined (Source: Suljagić,S.: Payment and Reward System in the Function of Increasing Motivation and Satisfaction of Medium-Sized and Large Companies' Employees, Faculty of Economics; Tuzla, 2010, p. 151)

The company's criteria for additional material rewards are clearly defined	Medium-sized company									Large company								
	Managers			Executives			Managers			Executives			Managers			Executives		
	Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience		
	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5
Strongly agree	99.1	69.12	58.34	29.18	42.1	68.18	49.25	0.27	67.62	83.29	68.13	51.29	28.29	27.02	27.12	53.65	80.94	30.09
Agree	0.9	29.29	31. 56	8.99	26.31	22.34	24.35	15.16	21.18	16.12	30.54	26.12	14.21	26.96	22.96	21.12	1.31	34.12
Partially agree	0	1.59	1.54	31.41	0.24	9.01	26.12	62.73	0.29	0.59	1.33	21.2	13.96	17.96	34.19	0.56	214.	16.21
Disagree	0	0	8.41	21.73	15.12	0.47	0.28	0	14.68	0	0	1.39	14.4	9.12	0.44	2.19	14.92	17.39
Strongly disagree	0	0	0.15	8.69	16.23	0	0	21.34	15.23	0	0	0	29.14	18.94	15.29	22.48	0.69	2.19

When it comes to empirical research results indicating the level of satisfaction of BH companies' employees with criteria and methods for receiving additional material rewards, it is evident that the level is considerably lower among executives and administrative staff than among managers in medium-sized and large companies. These results indicate that not only management material rewards are related to regular high level engagements but it is also the case with additional material rewards (cash bonuses et al.) (please see Table 6).

Table 7. Material rewards match skills (Source: Suljagić,S.: Payment and Reward System in the Function of Increasing Motivation and Satisfaction of Medium-Sized and Large Companies' Employees, Faculty of Economics; Tuzla, 2010, p. 152)

Material rewards match skills	Medium-sized company									Large company								
	Managers			Executives			Managers			Executives			Managers			Executives		
	Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience			Years of work experience		
	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5	Up to 3	From 3 to 5
Strongly agree	96.28	31.18	22.1	21.73	47.21	49.09	22.41	41.12	53.65	82.26	99.12	69.83	28.87	44.81	19.19	76.75	84.75	81.03
Agree	3.43	35.12	51.35	16.28	14.29	45.12	26.19	0.38	28.59	17.23	0.88	26.19	14.12	18.49	39.13	1.54	14.94	2.18
Partially agree	0	0	0.43	17.35	9.48	0	51.13	20.56	0.35	0.51	0	2.89	27.56	9.21	5.39	0.27	0.31	16.26
Disagree	0.29	32.71	26.12	26.08	13.24	2.41	0.27	21.19	2.18	0	0	1.09	0.31	0.26	10.1	0.38	0	0.53
Strongly disagree	0	0.99	0	18.56	15.78	3.38	0	16.75	15.23	0	0	0	29.14	27.23	26.19	21.06	0	0

The analysis of empirical research results shows that large and medium-sized companies' managers are of the opinion that their high remunerations are justified, that is, they match their skills and positions in the company. Hence, for example 96.28% of managers in medium-sized companies with somewhat less work experience (up to 3 years) strongly agree that their current remunerations are justified, while the level of satisfaction gradually decreases with accumulated work experience, which may be explained by the rise of their expectations. On the other hand, it is shown that in large BH companies most managers exceptionally agree with the statement that their high material rewards are justified. (please see Table 7).

It may be concluded that high material rewards of managers which do not depend on company's business performance as well as those rewards related to short-term management activities, may also endanger business performance or slow down the exit of a company from the crisis due to unmotivated management.

8. CONCLUDING REMARKS

If brought to an end and effects of the world economic crisis are summarized eventually, it may concluded that it would take a long time to fully implement the process of eliminating wrong practice with regard to management compensation. After all, all this has been lasting for several decades now. Before it finally bankrupted, people had known for at least three decades that *General Motors* had the downward trend but nobody had not done anything to stop the practice according to which company's top mangers received reward packages that would have matched much better their predecessors in the middle of 20th century when the company held absolutely dominant position all over the world.

In spite of this, little has been done to put an end to excessive and nonobjective remuneration packages for managers because the management class in the USA and Great Britain has become so powerful, largely so due to exceptionally high pays, particularly in the last few decades. This class started to control activities of executive boards through intertwined executive positions and manipulation with information to be delivered to independent executives, which is the reason that only a small number of executive boards question at all the level and structure of management compensation determined by the management itself. Furthermore, high and ever growing dividends make share holders satisfied. Hence, by demonstrating its power the management class has gained huge influence in political circles, making career as private sector executives and eventually becoming heads of governmental resources in the end of their careers.

The power of that management class was clearly shown after the 2008 world economic crisis, when the USA and British governments injected large amounts of taxpayers' money into financial institutions which faced big problems in 2008 when only a small number of managers responsible for the collapse of their institutions were punished. In other words, only a small number of chief executives lost their jobs and not many among those who kept their positions suffered a serious pay cut, while the attempt of the American Congress to introduce salary caps for top management in financial institutions which received taxpayers' money faced huge opposition. The British government refused to make any move concerning the compensation of some 15-20 million pounds for the pension of disgraced ex- chief executive of the Royal Bank of Scotland, Mr. Fred Goodwin, which enabled him the annual income of some 700,000 pounds, although he was forced to return four million pounds eventually under very bad publicity. The fact that American and British taxpayers, who became share holders during the salvation of financial institutions, cannot even punish executives who are their employees now for poor performance, nor can they force them to accept some considerably more efficient compensation schemes, shows the scope of power owned by the management class in those countries.

Hence, it is an undisputable fact that management compensation costs the world economy a lot. After all, when things go wrong, as it happened in the 2008 world economic crisis, taxpayers are forced to cover losses of collapsed companies while managers who create those negative results go completely unpunished and even get astronomic compensation and rewards.

Due to such behavior, it is foreseen that the greed of big financial institutions for high management compensation will cause the new collapse and crises in 2015.[6] Banks are not ready to accept low interest rates and required reserve levels, which eventually may lead to a new balloon and bubble on the financial market. Banks cannot expect to have profits as they had in the previous periods; risks require more careful monitoring, in particular in the fields in which high growth rates are possible. The current state raises more and more concerns because banks do not change their modus operandi despite of large quantities of "bad property" which they had to get rid of.

Just as a reminder, national governments all over the world "pumped in" huge amounts of money into financial and banking institutions to prevent the system collapse. There is no more money to repeat this procedure. If a new financial crisis breaks out the western governments simply do not have funds for the financial system stabilization as they spent all their money in the last round of fiscal injections.

In accordance with the hypothesis of the paperwork, the following conclusions and recommendations (proposals) are provided:

- Management bonuses, inter alia, contributed to the global crisis which is the reason why banks and other financial institutions try to match management salaries to achieved results and long-term interest of shareholders.

[6]The financial crisis 2015: History that can be avoided.
Available at: http://danas.net.hr/svijet/banke-pohlepom-dovode-do-novog-kolapsa-2015-godine, November 2013

- According to the latest report of Institute of International Finance (IIF)[7] in 2013, global companies continue to conduct reforms as proposed by the international banking lobby in 2008 during the early stage of the financial crisis resulting from the excessive risk undertaken by a number of biggest world financial institutions. The IIF established that companies are aware that excessive compensation damaged their reputation and they attempt to change the previous method of compensation distribution. The IIF survey included 37 out of 70 members of this Institute and it was conducted from December 2012 to March 2013. The report further states that companies are faced with challenges of improving compensation policies, including finding a solution to issues related to technical, environmental and organizational structure.
- The EU Commission concluded that one of the main causes of the crisis was excessive exposure of banks to risks, with inadequate systems of rewarding board members and other relevant employees contributing to it. Therefore, changes are introduced in the management bonus system whereby those bonuses cannot be paid as one-time lump sum cash payments but through a longer period using some other financial instruments.
- In the forthcoming period, it is necessary to work more decisively on the implementation of a plan to limit bank bonuses to one annual fixed salary as well as provisions on capital requirements for banks.
- The introduction of ethical conduct in the management payment compensation is also an important issue requiring more studious approach in the forthcoming period.
- To permanently work on reducing or capping management compensation levels in financial institutions, considering the current global economic and financial situation.
- In accordance with the last section of the paperwork pertaining to research and analysis of management compensation in Bosnia and Herzegovina, the authors concluded that the situation in the field of management compensation in BH companies should be considered in the forthcoming period (as indicated by the conducted empirical research in the paperwork). To put it simply, the authors concluded that material rewards in BH companies are usually based on the so-called "management contracts", whereby management remuneration does not depend on the efficiency and effectiveness of business performance, which is one of the reasons for the high level of their irresponsibility and short-term orientation.
- If it is also taken into account that appointments to management position in public companies and institutions in Bosnia and Herzegovina are mostly based on affiliations to certain political parties, then it becomes clear that the state in the field of management in not in the function of exiting from the crisis.
- It may be concluded that high material rewards of managers which do not depend on company's business performance as well as those rewards related to short-term management activities, may also endanger business performance or slow down the exit of, concretely, BH companies from the crisis due to unmotivated management.

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[7]For more details please see: http://www.iif.com/emr/, November 2013

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