भारतीय प्रबंध संस्थान बेंगलूर
INDIAN INSTITUTE OF MANAGEMENT BANGALORE

WORKING PAPER NO: 426

Corporate Governance Issues in Executive Compensation: The Indian experience (2008–2012)[1]

N. Balasubramanian
Visiting Professor
Centre for Corporate Governance and Citizenship,
Indian Institute of Management Bangalore,
Bannerghatta Road, Bangalore-560076
laba@iimb.ernet.in

Samir Kumar Barua
Professor (Former Director)
Indian Institute of Management Ahmedabad,
Vastrapur, Ahmedabad-380015
skbarua@iimahd.ernet.in

D. Karthik
Professor
Business Policy
Indian Institute of Management Ahmedabad,
Vastrapur, Ahmedabad-380015
dkarthik@iimahd.ernet.in

Year of Publication-September 2013

[1] This Working Paper is part of the research initiative on Corporate Governance carried out jointly by NSE-IIMB through its Centre for Corporate Governance and Citizenship. The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of NSE or IIMB.

Corporate Governance Issues in Executive Compensation: The Indian experience (2008–2012) *

Abstract

While the 2011 Occupy Wall Street movement had the larger agenda of protesting against the influence of corporations in policy making and governance, one of its focal points was the growing disparity in the distribution of wealth and income across the world. The spectacular collapse of giants in the world of banking and finance between 2007 and 2009 revived the focused attention on the unduly high executive compensation paid by these organisations. The central issue in the compensation debate is what ought to be and what are in practice the determinants of such compensation. This paper explores these issues in the Indian context with special reference to the role of corporate performance, corporate ownership, and corporate governance in optimising CEO compensation in keeping with the shareholders' interests. The study is based on published compensation data (both yearly absolutes and year-on-year changes) relating to the 5-year period 2007–2012 for the top 102 companies in the country.

Keywords: Governance, Corporate performance, Ownership, Stakeholders, CEO compensation

---

* Bala N. Balasubramanian is Visiting/Adjunct Professor at the Indian Institute of Management Bangalore and Ahmedabad. Samir Kumar Barua is Professor at (and the former Director of) the Indian Institute of Management Ahmedabad. D. Karthik is Professor at the Indian Institute of Management Ahmedabad.

The authors gratefully acknowledge the financial, infrastructural, and administrative support provided by the National Stock Exchange, the Centre for Corporate Governance and Citizenship at the Indian Institute of Management Bangalore, and the Indian Institute of Management Ahmedabad; the research assistance of Anand Ramaswamy, Chandrasekar Dronavajjala, Deepjee Singhal, Prashant Tripathi, and Mallikarjun; and the helpful comments on earlier drafts provided by Umakanth Varottil, the participants at the 17th January 2013 Bangalore Round Table (including Prasanna Chandra, Rajesh Chakrabarti, Rejie George, Padmini Srinivasan, B.S. Mohan, Prince Asirvatham, and Nirmal Mohanty), Subrata Sarkar, Ramamurthy Shankar, Ajit Nayak, and Chiranjib Sen. The authors however accept responsibility for any remaining inaccuracies and the conclusions drawn in the paper.

1 Introduction

The corporate world is mired in controversies relating to the morality and propriety of the compensation levels of executives and directors, some of which at least are perceived to be unconscionably high and disproportionate to performance. Executive compensation in India has been an emotionally-charged subject at the best of times. Post political independence—possibly as a legacy of the colonial past and as a fallout of the left-of-centre political orientation of the governments of the day—there was general prejudice against and mistrust of private enterprise as well as the executive management that was seen to be at the helm of corporations. According to a former president of a major industry chamber, "[T]he general impression … is that we [industrialists] are intoxicated with power and wealth, indulge in its vulgar show, and … [our] sole aim in life is to amass fortunes for ourselves regardless of national interests" (Sundar, 2000: 242).

A marked gravitation towards central planning and socialist ideologies soon after independence also militated against what were seen as extravagant compensation levels in the private corporate sector. This situation was further compounded by the relatively lower monetary compensation levels of government bureaucracy that was only too happy to prescribe restraints against executive remuneration in the private sector corporations in the name of public interest. Elaborate regulations were introduced to curtail such perceived excesses, in the process, swinging the pendulum to ridiculously lower extremes. The fact that such measures could and did encourage unethical pay and perquisite practices was neither observed nor bothered about.

Unfortunately, some of those practices did (and still do) continue even after compensation restraints were relaxed. Therefore, it is not easy to obtain wholly credible compensation data even now from disclosures in the public domain. This, of course, is not unique to India and can apply to many countries, some even in the developed category. In addition, many of the perquisites provided to executive management are valued for personal tax purposes at arbitrarily prescribed and largely unrealistic monetary levels, which often bear little relationship to the real costs of such facilities to the company, and the compensation data required to be disclosed are based on such valuations. Apart from the private benefits of control that are associated with such ownership and control situations, published compensation data-based studies such as the present effort suffer from these inadequacies. The extent of such distortions in published data remains a matter of speculation and needs to be borne in view while assessing the limitations of research findings based on such data.

This paper examines three aspects of the CEO compensation problem with particular reference to the Indian experience over a five-year period ending March 2012: first, the normative relationships between compensation and performance; second, the impact of ownership structures on executive compensation; and third, the influence of the quality of governance on compensation.

The paper is organised as follows. Section 2 briefly recapitulates traditional agency problems associated with the corporate format of business organisations, with specific reference to executive compensation. Section 3 discusses the processes involved in determining and "approving" such compensation payouts. Section 4 describes the study sample, methodology, and analyses. Section 5 concludes with a summary of the findings and observations, along with their implications.

2 Goal Non-congruence between Agents and Principals

When noted satirist Ambrose Bierce defined the corporation (in "Devil's Dictionary") as "An ingenious device for obtaining individual profit without individual responsibility", it is more than

likely that he had in mind the shareholders as the beneficiaries rather than *the managers* of the corporation. In any case, the distinction was probably academic then, since generally "owners *managed* and managers *owned*" their businesses until the advent of large publicly traded corporations, bringing in their wake the much acclaimed separation between ownership and control (Berle and Means, 1933). As if to ensure that everyone did fully and unequivocally comprehend the virtually inalienable primacy of shareholders in a corporation, Berle (1931: p. 1049) also postulated that "all powers granted to a corporation or to the management of a corporation, or to any group within the corporation, whether derived from statute or charter or both, are necessarily and at all times exercisable only for the rateable benefit of all the shareholders as their interest appears."

However, "boys will be boys!", and to expect that managers as a class would eliminate all possible agency costs by their exemplary behaviour was nothing short of Samuel Johnson's definition of second marriage: "another triumph of hope over experience!" Nearly two and a half centuries ago, Adam Smith (1776/2000: 800) had anticipated and highlighted this divergence of interests, almost with an air of disenchanted resignation: "The directors … being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company." He might as well have added greed too, for good measure!

In their seminal work, Jensen and Meckling (1976) integrated the theories of agency, property rights, and finance to develop a theory of the ownership structure of the firm, to refine and theorise on the *agency costs* as applicable to the corporate format of business organisation. They defined an agency relationship as a contract under which "one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers, there is good reason to believe that the agent will not always act in the best interests of the principal. … [It] is generally impossible for the principal or the agent at zero cost to ensure that the agent will make optimal decisions from the principal's viewpoint." In other words, there is inherent potential for the agent (who is in day-to-day control of operations) to expropriate (hopefully, only) a part of the wealth created in the firm and its wealth-creating assets.

In more recent times, Roe (2002) described the problem thus: "Agency costs arise from managers having agendas that differ from shareholders' agendas. Diffuse shareholders want the firm to maximize profits; unconstrained managers often prefer to maximize the firm's size, prefer not to take severe risks with the firm even if the risks would maximize profits, often prefer to defer hard, disruptive actions." Experience, especially during the 2008–2009 financial meltdown, has added a further dimension to this problem—executive managements (consciously) and boards (by default) have gone to the other extreme of overly risking their corporations in the pursuit of executive rewards. They have done this even at the risk of jeopardising the very survival of their companies (Kirkpatrick, 2009).

Recent research has identified this separation of ownership and control as being limited almost exclusively to the corporate sector in the United States and the United Kingdom, with virtually the rest of the world experiencing concentrated ownership in varying but nevertheless significantly high levels (La Porta et al., 1999). However, agency problems in this scenario were only compounded (if anything) since the interests of absentee shareholders—those not in operational control—had to be

safeguarded not only from the so-called "greedy" managers but also from the dominant shareholders (those in operational control), giving rise to principal-principal problems. That is, the interests of the absentee shareholders need to be protected and promoted from the potential excesses of both the executive as well as the controlling shareholders.

Yet another variant occurs when a corporation has a block shareholder not in operational control; in this event, again, the absentee shareholders' interests may need protection against possible collusion between such block holders and the operational controllers, whether they are controlling shareholders or hired executives. In essence, therefore, the basic problem of the protection of the absentee shareholders' interests remains to be addressed in all ownership structures; the mechanisms to achieve this objective may vary but the intent remains the same.

Executive compensation is one component—albeit a very important—of how the principal tries to contain the costs of having to live with the reality of delegating operational control to executive management, ostensibly under the surveillance of the board of directors charged with fiduciary responsibilities of looking after shareholder's (and the corporation's) interests. However, individuals are by nature self-interested, and would seek to enrich themselves (directly and indirectly) for their own benefit. As the *Bhagavata Purana*[2] postulates, "Should one conquer and enjoy even the whole Universe, there will still be no end to one's greed". Bastiat (1850, Loc. 87), writing in the political context around the time of the French Revolution, was convinced that "[plunder] will stop [only] when it becomes more painful and more dangerous than labor"; in a corporate context, this would suggest that the executive will eschew or substantially reduce its expropriation drive only when the costs and risks outweigh the gains from such expropriation. Similar sentiments have been expressed by social and behavioural scientists.

Inherently, one cannot fault this all too human drive to claim an undue share of the prosperity pie. The issue is whether what is appropriated by a group called the executive management or the chief executive in a corporation is being done with the concurrence of those who make decisions on such matters, and not simply by those who stand to benefit from them. Like the "fit and proper" criteria adopted in many situations, such compensation as is appropriated has to pass the tests of whether it is the "right" level for the value provided in return. What is the right level will also be vigorously debated since, quite often, this involves subjective judgements influenced by the facts and circumstances of each case. However, it is not difficult to find some normative guidelines on what may be considered appropriate by the shareholders, such as the Remuneration Principles of the influential Association of British Insurers (ABI, 2012).[3] Appropriateness may also have to be judged in relation to the compensation levels of comparable peers, the general wage levels in the company, industry, and the country, and most importantly, the value that the beneficiary brings to the table in terms of company performance and shareholder returns. One could argue that the "markets will find their own equilibrium levels"; in reality however, no market is perfect and the executive management market is especially vulnerable to manipulation by different actors (as will be discussed later).

It is necessary to lay down an important caveat at this stage. All generalisations tend to do great injustice to their limited exceptions, and it will be the same in the case of broad-brush conclusions related to executive remuneration. There would be (and indeed, there are) gracious instances of executives who are not driven wholly or even largely by their own private agenda, and who opt to

[2] *Srimad Bhagavata Purana*, 7:15:20.

[3] The ABI is a body representing the insurance industry with membership spanning companies that account for some 90% of all insurance premiums in the U.K., which is itself the largest insurance market in Europe and the third largest in the world.

swim against the tide and exhibit exemplary and praiseworthy behaviour. Again, exceptions only prove the rule, and so it shall be in this case as well.

2.1 Approaches to Executive Compensation

There are three broad approaches to determine executive pay in corporations generally and in publicly traded companies in particular. These are optimal contracting, managerial power, and public policy approaches. These approaches are briefly discussed in the following sections.

2.1.1 Optimal contracting approach

This approach is based on the agency theory of corporate governance, where the board's objective of acting on behalf of the shareholders is to maximise their wealth. In pursuing this goal, executive pay is negotiated at levels that dissuade them from pursuing their own material interests through expropriation of what ought to belong to the shareholders. The optimal contracting approach builds upon this assumption and postulates that managerial remuneration will tend to be pegged at levels where the executive will be discouraged from "plundering" the wealth belonging to the principals, i.e., the shareholders.

An extension of this proposition would concomitantly seek to "align" executive interests to shareholder interests by converting them into shareholders themselves—by offering them stocks and options besides attractive cash compensation both to motivate them to perform better as well as to stop them from going out looking for greener pastures, i.e., by holding them back with "golden shackles".

However skilfully the board may seek to design a compensation package to meet this objective, it is virtually impossible to do this exercise to perfection. This is because humans differ vastly in terms of their "indifference levels" towards garnering more wealth for themselves and their "tipping points" at which they may desert righteous action and embrace less virtuous alternatives; this is further compounded by the fact that these thresholds are not fixed all the time but vary depending upon the dynamic circumstances at different points in one's life. The effort, therefore, will always be to balance the compensation costs and expected outcomes. "The optimal contract is therefore the one that minimizes agency costs (that is, the sum of contracting costs, monitoring costs and other costs incurred in achieving a certain level of compliance with the principal's interest) and the costs of the residual divergence" (Bebchuk et al., 2002: 10).

Although this approach is widely adopted in theoretical studies and in practice, the probability of serious errors in this estimation is quite high. This can be inferred from the extent of overt and covert usurpation of corporate resources by executives that surfaces in the various cases of corporate distress and misdemeanour from time to time.[4]

[4] Extortionist pay levels especially in the financial services sector that were observed during the investigations following the global financial meltdown in 2008–2009 are a case in point. The U.S. House Committee hearings and the Bankruptcy Examiner's Report in the case of Lehman Brothers, for example, are quite instructive. The focus on short-term results and excessive risk-taking appeared to have fuelled executive remuneration and bonuses while proving injurious to the survival of the firms themselves (Bebchuk et al., 2010: 257–282). Similar concerns surfaced in the House Hearings relating to Enron as well in 2002; for a detailed discussion on covert enrichment initiatives, see Varma (2002). As is well known, cases such as these led to

2.1.2 Managerial power approach

While the optimal contracting approach with all its inherent uncertainties is intuitively very appealing, the bargaining equations between the employers and the employees can and do vitiate this process in practice. Outstanding talent at the top management levels is scarce, and hence, commands a premium in a competitive market.[5] The specific requirements of individual corporations (depending upon their business circumstances and needs) may further exacerbate the situation and tilt the power balance farther towards the executive than the boards may have bargained for. This can turn out to be a critical factor in determining executive compensation, especially in economies with a predominance of dispersed corporate ownership (such as the U.S.). The process is further impaired by the fact that the market for CEOs—limited in size as it normally is—tends to feed upon itself in terms of peer pricing, with compensation consultants (whose earnings largely depend on the absolute compensation numbers eventually contracted) fuelling the escalation of executive pay.[6]

Striking evidence of such managerial power is now available. For instance, in a study of over 1500 U.S. companies between 1992 and 2007, Taylor (2013) showed that CEOs captured about 50% of their companies' (lagged) growth in market capitalisation for themselves. Interestingly, any negative growth in market capitalisation did not affect CEO pay and had to be borne by the shareholders. Board compensation committees (generally composed of incumbent or former CEOs of other corporations) are usually quite supportive of high compensation levels for this elite group.

Not only does this power take its toll while the executive is incumbent and with more years of employment but it also extracts its proverbial pound of flesh on retirement or separation. The classic example of Lee Raymond (the Exxon Mobil CEO) retiring after 40 years of commendable service, including some 13 years as CEO during 1992–2005 with an excellent performance record, is a case in point. His retirement package estimated at USD 400 million in 2005 (in addition to approximately USD 686 million during his tenure as chairperson) ranks as the highest in corporate history (Mouawad, 2006).

Immediate cash payouts to retiring CEOs in India do not normally reach such sky-high numbers, but that is not to say that preferred CEOs do not command handsome benefits post retirement. The sale of upmarket residences at throwaway prices based on archaic valuation rules, attractive retainers and consultancies (state-owned Air India had been in the news for engaging a retired CMD to recruit foreign pilots for the carrier), and preferred engagement on outsourced contracts for services or manufacture are some of the often undisclosed and unreported golden parachutes that companies resort to.

As a result, managerial power tends to be strong enough to successfully demand excess rent in terms of its pay and perquisites, stemming from the demand-supply gap of suitable talent, peer pressure, and motivated consultants. This goal is accomplished because of sympathetic board compensation committees and relatively weakly-positioned boards, which are under pressure to get the right

---

regulatory interventions in the U.S. (the Dodd-Frank Act 2010 in the former case and the Sarbanes-Oxley Ac of 2002 in the latter).

[5] For a contrary position on the talent scarcity theorem, see Terviö (2007) who argues that high incomes in professions such as entertainment, management, and entrepreneurship may be explained by the nature of the talent revelation process, rather than by an underlying scarcity of talent.

[6] Regulatory mandates on disclosure of the use of compensation consultants indicate recognition of the undue impact of this practice on escalating executive pay in the U.S.

candidates to achieve their objectives of sustainable shareholder wealth-maximisation and corporate growth.

2.1.3 Public policy approach

This model is based on the principle that executive pay even in the private sector needs to be aligned to the general levels of compensation for jobs of similar responsibility elsewhere in the economy, often including the pay levels of comparable positions in the bureaucracy. This approach is usually justified on the basis of public policy requirements that call for the reduction of inequalities in society.[7] In this approach, executive pay as disclosed is a function of the limits and constraints imposed by the state (discussed further in Section 3). Following independence, India had embarked upon a supposedly egalitarian drive to contain executive salaries in the private sector at abysmally low levels. The fact that such arbitrarily determined low-level caps were inadequate to attract and retain appropriate talent and could thus be an invitation to unethical, off-the-record, make-up payments appears to have been ignored or accepted as the cost of implementing the policies of the governments of the day. The fallout of such restrictive policies is that such compensatory mechanisms to make up for the shortfall in approved pay may continue partly or wholly even when such regulatory constraints are relaxed or altogether removed, as is the case in India after economic liberalisation.

Feasibility of board assertiveness

In both the optimal contracting approach as well as the managerial power approach, company boards have tough and difficult choices to make. On the one hand, they have to do the best for their shareholders by getting the most suitable CEO for the company who can deliver the expected results on a sustainable basis at optimal costs to the company, neither more nor less. On the other, they need to be "nice" to the CEO since the non-executive directors (who have to formally decide the pay package for shareholder approval) are likely to feel obligated to the CEO: "rather than acting solely in the shareholders' interests, [they] become[s] "captured" by the CEO" (Weisbach, 2006: 5). The reasons are many. Most importantly, being a director on the board is the cherished ambition of virtually every manager; within the executive ranks, the aspiration is to be elevated as an executive director, followed in due course by moving to the corner office as the CEO. The next milestone is to be invited to become non-executive directors on other company boards, reflecting peer recognition beyond the confines of one's own organisation. Under normal circumstances, no one would want to forego such hard-won recognition, not to mention an attractive source of income, especially in the later years of one's career. Senator Durbin's comments at a Senate Sub-Committee hearing on Enron are a telling reflection of this ground reality (USC, 2002):

> *I am always fascinated by how many people express an interest in how many boards of directors they serve on, and I just wonder if that is a real service, a real dedication, and a real commitment, or just another notch on your gun, another line on your resume, whether or not members of boards of*

[7] The administrative guidelines under which managerial remuneration was sought to be decided by the government on a case-by-case basis at levels significantly lower than the overall ceilings prescribed by statutes (Sections 198 and 309 of the Companies Act) was the subject of considerable debate. These were held to be *ultra vires* the relevant provisions in the Companies Act by the Delhi High Court in August 1980 in the path-breaking case of Mahindra and Mahindra and Others vs. Union of India, on the grounds that no public policy had been framed by the government for the reduction of inequalities of income, and in its absence the government may not interfere with the statutory ceilings that had precedence over any administrative guidelines based on government policy. Since 1988, executive compensation ceilings prescribed in or under the Companies Act are the operative limits. Within that framework, no further sub-limits are applicable in respect of all profit-making companies; and some reasonably realistic limits have been prescribed for companies with inadequate or no profits in the Act itself. See schedule XIII of the Companies Act 1956 (Iyer, 2011: 764–769).

directors of important companies really take that job as seriously as they should if this system is to work.

– Senator Durbin (USC, 2002)

Some of the specific reasons why non-executive directors are likely to be disinclined to risk endangering their continuance on boards have been identified: economic factors such as compensation and fees as well as other (formal and informal) perquisites;[8] commercial factors such as existing and/or prospective business opportunities for the directors' firms and related entities; emotional factors such as having their preferred charities or NGOs generously funded by the company; sociological factors such as access to wider business, social, and political networks and opportunities for personal aggrandisement, and so on. "Going along with the CEO" (Bebchuk and Fried, 2004: 26) and avoiding board room conflicts or active interventions[9] that may label them as "difficult" directors are considered prudent initiatives that pave the way to the continuance of their directorship either with the active support of or (at the worst) with least resistance from the CEOs (whose influence over board composition is an established fact of corporate life).

The requirements for director independence (mandated since 2000 for listed companies) may have mitigated but have certainly not eliminated the divided loyalties of boards to the shareholders on the one hand and to themselves on the other. Many more measures to strengthen the institution of independent directors will be necessary to bring about a transformation, including the recognition of the concept of "interested controlling shareholders" whose voting rights at members' meetings would be reined in on matters where they stand to benefit by the exclusion of other shareholders (Balasubramanian and Satwalekar, 2010: 10–13).[10] Most related-party transactions would be covered under this provision, including executive remuneration in the case of promoter groups who have operational control. This may help restore a measure of commercial reason and ethical balance in the compensation levels of CEOs, Executive Directors, and Managing Directors. Large block holders and institutional investors can then make a difference by voting to reject unconscionable pay proposals at shareholders meetings.

Despite these measures, if there are no improvements—which is not an unlikely scenario, given institutional shareholder apathy and the continuing exogenous pressures on many of them—the shareholders would have only themselves to blame; in particular, insurers, pension funds, mutual funds, and other such institutional investors in corporations would have a tough time if they are

---

[8] For instance, Bebchuk and Fried (2004: 25) refer to "directors of UAL Corp. (which owns United Airlines) [who] can fly United free of charge, and directors of Starwood Hotels [who] get complimentary nights in company hotels", based on the companies' 10-K filings.

[9] Carter and Lorsch (2004), for instance, quote a non-executive director: "I feel that I can only ask two or three tough questions before I start to feel that I am being a nuisance." India has its own share of spurned directors who took on their promoter CEOs. For instance, a senior business school academic on the board of a large listed company, who successfully dissuaded his colleagues and the promoter CEO from changing the aggressive accounting treatment of a material transaction that spelt the difference between a major profit and a major loss, found himself dropped within months as part of a board "restructuring" exercise! (Private conversation with the author.)

[10] The concept is based on the fundamental principle of equity that those interested in a matter should not themselves be involved in decisions about them (Balasubramanian, 2009: 568–574). First raised in the report of a government-appointed committee in 2000 (MCA), this proposal was approvingly mentioned in the Irani Committee Report (Irani, 2005: para 35), which stopped short of recommending legislation. The market regulator SEBI wrote in 2010 to the government to consider incorporating the provision suitably in the Companies Bill 2011; the Bill (approved by the Lok Sabha in December 2012 and awaiting approval of the Rajya Sabha) incorporates the necessary provisions in Clause/Section 188.

required to explain their voting policies and actual practices, as required by the UK Stewardship Code (FRC, 2012: 6–9) for instance.[11]

2.2 Influence of Ownership Structure

Much of the literature on executive pay during the last two or three decades has been based on the situation in the U.S. and the U.K., with their dispersed ownership structures; hence, these studies are more board-centric in terms of pay determination. There have been comparatively fewer studies reflecting the situation in countries like India, with their predominantly concentrated ownership structures in the hands of promoters or other block holders such as financial institutions. In such cases, the boards' role in pay determination at the top cannot be similar to that of their U.S./U.K. counterparts, although their responsibilities (given the broad convergence in their respective legislative and regulatory frameworks) may not be very dissimilar. The recognition of this dissonance can be inferred by the conspicuous absence of any mandated compensation committee on the board of Indian listed companies so far. The concept of such a committee had been well accepted by the regulator, as can be understood by the inclusion of this concept in its report (SEBI, 1999).[12] The concept of this committee was also incorporated by the stock exchanges in their standard listing agreements with companies as a non-mandatory provision.[13,14] The Companies Act 2013 (Sec. 178), however, mandates (for the first time) nomination and remuneration committees for public limited companies, including listed companies.

In the U.S., where the boards' role and responsibilities with regard to executive compensation are more substantive than in India, it has been observed that:

> *The power of the CEO will depend in large part on the ownership structure of the firm. The more shares owned by the CEO, the greater will be her influence on director elections and her ability to thwart or discourage a hostile takeover attempt. The more shares owned by unrelated parties, the less will be the CEO's influence on director elections and the more vulnerable the CEO will be to a hostile takeover attempt. Thus, the power of the CEO will tend to increase with the percentage of shares he owns, and will tend to decrease with the percentage of shares owned by outside block holders.*
>
> – Bebchuk et al. (2002: 34)

In the Indian context, one should substitute the promoter or dominant controller for the chief executive, who will almost always be from the promoter groups or their families; in the limited

---

[11] Principle 7 in particular states that "Institutional investors should report periodically on their stewardship and voting activities" and guidance to Principle 6 suggests that "Institutional investors should seek to vote all shares held. They should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. ... Institutional investors should disclose publicly [their] voting records."

[12] Paragraphs 10.1 through to 10.8 of this Report deal with the concept of remuneration committees, but paragraph 10.2 negates the entire recommendation by making the constitution of the committee non-mandatory; this is followed by the stock exchanges not mandating this committee in the Listing Agreement with companies.

[13] Paragraph i of Item 2 in Annexure I D to Clause 49 of the standard Listing Agreement provides: " The board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment."(http://www.nse-india.com/getting_listed/content/listing_agreement.htm, Accessed on 6 December, 2012).

[14] Despite this requirement being non-mandatory, as many as 44 out of the 50 *Nifty* companies had compensation committees as of March 2011, although most of them may not have met best practice standards of membership. Of these, 21 companies were cross-listed on overseas exchanges, some of which mandatorily require or suggest compensation committees.

number of cases where non-family-group professionals are appointed as chief executives, they are likely to hold the job at the pleasure of the promoters. Executive compensation in such cases will, in general, be a function of the size of the shareholding of the promoters—the larger or more dominant they are, the (potentially) higher will be their compensation; conversely, the smaller the shareholding power, the less likely the chances of their compensation being much higher than the market. Rent extraction in this area is thus strongly driven by the extent of the share ownership of the promoter group.

An important caveat must be noted at this stage with regard to external block holders in India and their impact on executive compensation. Unlike in the U.S. or the U.K., where external block holders are largely independent of extraneous or political pressures, most of the outside block holders in India are essentially foreign and domestic institutional investors; of the latter, domestic financial institutions are particularly vulnerable to state control or influence, which can be used by interested corporations to procure support or abstention to their proposals. Similarly, many of the foreign institutional investors may find the cost of monitoring and influencing the corporate policies of their investee companies disproportionately high, and hence, not worthy of pursuit.[15] The latter constraint may be addressed at least partially with the emergence of professional and independent proxy advisory and investor service firms, which can provide at least basic, well-researched input to the institutional investors for their consideration and action.

One other dimension of ownership-related impact on executive compensation in India also needs to be noted. Especially in the case of some family-controlled companies, there appears to be a practice of pegging the pay of family members in top executive positions at relatively modest levels. Whether this practice is used as a signalling mechanism to contain other pay aspirations in the higher echelons of the managerial hierarchy, or because of the immateriality of executive pay in their total earnings from the company or the group, or even as part of image-building to reflect equitable and responsible corporate behaviour are all issues that have not yet been fully explored. As nationally decorated manager, director, and board chairman Kamath observed, "The entrepreneur now understands that professionals ought to be compensated, otherwise you may not get the talent, and it is in the company's good. That is what is driving it, not anything else" (Balasubramanian and George, 2012: 230).

3 Compensation Approval and Disclosure Regimes

In most parts of the developed world, executive compensation in corporations is determined by the board of directors (primarily the compensation committee) of the company, subject to any regulatory restraints and requirements.[16] In several other jurisdictions including India, the board can

---

[15] Barring of course, occasional exceptions such as in the 2012 case of Jindal Steel and Power Ltd., where shareholder approval was sought for a compensation figure of approximately INR 730 million (reportedly the highest compensation) for its parliamentarian managing director. Although many of the block holders voted against the resolution at the shareholders' meeting, the promoters were able to succeed because of majority share ownership. Not surprisingly, 60% of the institutional shareholders with aggregate holdings of some 28% did not attend or participate in the voting. Some of the other such interventions by foreign block holders, unrelated to executive compensation issues, were in the case of Satyam Computers (2009) and Coal India (2012). The former led to the downfall of the promoters and the reversal of their tunnelling efforts through a merger of the group companies with their dominant ownership, while the latter (litigation *sub-judice*) sought to challenge government intervention in product pricing, supply guarantees, and related directives, which was considered detrimental to minority shareholders' interests.

[16] Even in such cases, there is a gradual movement in the last decade or so to allow shareholders to have a "say on pay".

only recommend individual directorial compensation for approval to the shareholders in a general meeting, although in practice, given the absentee shareholder apathy and the indifference to such matters, this is merely a formality. In theory, these processes are equitable since (under the widely-followed agency theory model) the shareholders are the ultimate principals and have every right to determine what should be the compensation payable to the agents carrying on the day-to-day operations on their behalf. It is equally open to them to leave these decisions to their boards since, in any case, directors are expected to oversee the operations of the corporation in the larger interests of all shareholders and, in many ways, are more knowledgeable in the matter due to their regular interactions with executive management. Some of the more important dimensions of these processes generally and with special reference to India are discussed in the following sections.

3.1 Defining Executive Management

In discussions on executive compensation, different interpretations are possible about which positions or levels of management are covered. Some countries are quite specific; in the U.S., for instance, the SEC rules specify the corporate positions (generically referred to as Section 16 Officers) to be covered by the compensation committee. The Indian position is that the board (or its compensation or remuneration committee) should decide the compensation of the company's managing director and other executive (whole-time) directors, and should seek shareholder approval in a general meeting.[17] There is also a legal provision to have a "manager"[18] with the power to manage "the whole or substantially the whole" affairs of the company under the supervision, control, and direction of the board, who will be treated as managerial personnel for the purpose of prescribed compensation limits. For this study, we limit the scope to the remuneration and other benefits granted only to the managing director of the company; in cases where there is more than one managing director (such as when there is an executive chairperson or vice-chairperson), only one of the two positions designated as managing director is considered for this purpose. Further definitions and assumptions based on which the sample data analysis has been carried out are set out in Section 4.

3.2 Appointment and Compensation

It is the prerogative of the board (on the recommendation of its nominations committee, where one exists, and possibly with the help of head-hunters and compensation consultants) to appoint a person as a director at a mutually agreed compensation; the appointment is subject to the approval of the shareholders. Indian law requires the appointment of every director (including a managing director) along with complete details of the remuneration package including perquisites to be tabled separately and approved individually at shareholders' meetings. This has been the case for several decades now and is one of the areas where Indian requirements have been ahead of many other countries including the U.S. where, until recently, director appointments were proposed as a combined "slate" for shareholder approval.

---

[17] In addition, the Companies Act 2013 charges the remuneration committee with the task of addressing compensation and other matters relating to "key managerial personnel", an expression that includes the Company's CFO, Company Secretary, and other officers as may be prescribed (Sec 2 (51)).

[18] Although seemingly similar to the position of managing director, there are subtle differences between the two designations. For instance, a managing director loses this position when he/she ceases to be a director, which is a substantive requirement, whereas a manager who is also a director can continue his/her position even when he/she ceases to be a director.

As mentioned earlier, director compensation levels in India since political independence in 1947 were severely constrained "in public interest" for a long time (Sarkar and Sen, 1999: 35–44; Jaiswal and Firth, 2007); since economic liberalisation in the 1990s, these unrealistic individual limits have been virtually eliminated. The current study sample is based on the relatively free compensation regime and is not vitiated by any such prescriptive limits.

Public sector companies, however, are exceptions—they still operate by and large on relatively modest pay levels (compared to their private sector counterparts) in line with government policies and the pay levels of the bureaucracy.

However, there are generous overall limits as to what such companies can pay their executive and non-executive directors.[19] The total managerial remuneration payable by a public sector company to its directors—including the managing director and the whole-time director—and its manager in respect of any financial year shall not exceed 11% of the net profits of that company for that financial year, computed as follows:

- The remuneration payable to any one managing director, or whole-time director, or manager should not exceed 5% of the net profits of the company; if there is more than one such director, the remuneration of all such directors taken together should not exceed 10% of the net profits;
- The remuneration (excluding any fees for attending board and committee meetings) payable to directors who are neither managing directors nor whole-time directors shall not exceed (in the aggregate) 1% of the net profits of the company if there is a managing, or whole-time director, or manager, or 3% of the net profits in any other case.

There are other legal provisions that allow for executive compensation payments at reduced levels in case of the absence or the inadequacy of profits to support the levels of pay that were determined when the profits were adequate.

3.3 Shareholders and Executive Compensation

In India, the compensation arrangements of every director (including executive directors, who are our main focus in this study) whenever contracted and/or paid have to be approved by the shareholders in a general meeting. Without such affirmative approval, both the appointments as well as the proposed compensation packages will be unfruitful. That virtually all such proposals get "approved" at shareholders' meetings, apparently rendering the process a mere formality does not take away from the valuable right of the shareholders to have a say in matters concerning executive compensation. In itself, this is a happy situation that compares favourably with that in several other more developed markets where shareholders are yet to obtain a binding right to have such a say.[20] Only four countries in Europe provide for a mandatory vote and that too is limited to executives and not directors: Norway (2007), Sweden (2006), Denmark (2007), and the Netherlands (2004). Several countries that have some such measures provide for non-binding votes or encourage voluntary adoption by the companies themselves. The U.S. currently has non-binding provisions;

---

[19] These are applicable during the study time frame: In Section 197 of the Companies Act 2013 the limits are broadly similar to those in the extant Companies Act 1956 in Section 198 and 309; the major change is regarding stock options, which are now specifically prohibited for independent directors, a matter that is not relevant to this study.

[20] For a 10-country tabulation of say-on-pay status, see Larcker et al. (2012: 6).

the U.K. has been moving towards a mandatory regime from 2013. The measures proposed by them are quite comprehensive as discussed below.

In the U.S., until the passing of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (henceforward, Dodd-Frank Act 2010), shareholders had no say in the compensation of the executive and the non-executive directors determined by the boards based on their compensation committee decisions. Under the Dodd-Frank Act 2010 (effective 2011):

- Companies are required to hold an advisory (non-binding) vote on compensation at least once every three years.
- At least once every six years, companies are required to ask shareholders to determine the frequency of future say-on-pay votes (with the options being every one, two, or three years, but not less frequently).

In the U.K., say-on-pay was introduced in 2002 as a non-binding advisory vote. The country has been moving towards mandatory voting on compensation effective 2013, with the government announcing plans to introduce the necessary legislation. The proposed reforms[21] will include:

- A binding vote on pay policy, requiring the support of a majority of the shareholders voting. The policy is required to set out how pay supports the strategic objectives of the company and to include better information on how directors' pay compares to the wider workforce.
- The binding vote should be held annually unless companies choose to leave their remuneration policy unchanged, in which case it will be compulsory at least every three years. For the first time, once a policy is approved, companies will not be able to make payments outside its scope. If a company chooses to change its pay policy, it will have to put it before the shareholders for re-approval. Importantly, this will encourage companies to devise long-term policies and put a brake on annual pay ratcheting.
- As part of their pay policy, companies have to clearly explain their approach to exit payments, which will also be subject to the binding vote. When a director leaves, the company will have to promptly publish a statement of payments the director has received. Companies may not pay exiting directors more than what the shareholders had agreed to.
- Alongside the binding vote on policy, shareholders will continue to have an annual advisory vote on how the pay policy was implemented in the previous year, including the actual sums paid to directors. If a company fails the advisory vote, it will be required to put its overall pay policy back to the shareholders in a binding vote the following year.
- The financial reporting council will update the corporate governance code requiring companies to make a statement when a significant minority of shareholders vote against a pay resolution.
- Companies will have to report a single figure for the total pay that directors received for the year. This figure will cover all rewards received by directors, including bonuses and long-term incentives. Companies will also have to report the details of whether they met

[21] Sourced from U.K. Government Press Release dated 20 June 2012 from the Ministry of Business, Innovation and Skills (http://news.bis.gov.uk/Press-Releases/Government-announces-far-reaching-reforms-of-directors-pay-67b96.aspx, Accessed on 6 December, 2012).

performance measures and a comparison between company performance and the chief executives' pay.

These are very strong proposals; one needs to observe whether, after the due consultation processes and discussions, all of them find their way towards implementation. However, they give a clear indication of both the disenchantment with corporate response over the last decade since the advisory vote provisions have been in place as well as the recognition of the need for tougher provisions if there is a disconnect between a four-fold executive pay rise between 1998 and 2010 on the one hand (13.6% annually), and on the other, the corporate performance as judged by market index movements as well as the pay status of other employees that have seen significantly lower levels of upward movement (UK-BIS, 2012: 5).

3.4 Impact of Shareholders' Say on Pay

While it is satisfying to the purists that shareholders as principals have reclaimed their legitimate right to have their voice heard in matters relating to executive compensation, it would be useful to evaluate how effective or impactful this has been in practice, and to explore the causes of and possible corrective measures to address any weaknesses in the system.

Overall, setting executive compensation is observed to be a prerogative (or an obligation, depending upon one's perspective) of the board, which is advised and influenced by consultants and dominant owners/controllers, where applicable. The Indian experience is documented in detail in the later sections based on the analysis of empirical data over a 5-year period; the following section present a review of some international experience.

3.4.1 United States

Given the general angst among investors (and even in the political establishment) with regard to the high levels of executive pay, often in the face of poor performance, howls of protest were expected against the pay proposals of a large number of companies. However, this has not been the case. In the 2012 proxy season—the second year of the advisory vote say-in-pay regulation—the findings were (approximately): 69% of say-on-pay proposals were passed with more than 90% support; 21% were passed with between 70.1% and 90% support; 7% were passed with between 50% and 70% support; and 3% (53 companies) obtained less than 50% support (Alperin et al., 2012).

Although only 3% of the companies clearly rejected the compensation policies proffered by their boards, it is noteworthy that a further 7% denied the companies a super-majority (usually 75%) in support. Mary Schapiro, the then U.S. Securities and Exchange Commission (SEC) chairperson thought "that 'no' votes or even a significant vote against a company's executive compensation practices will force boards to ask themselves some very tough questions about their compensation policies and about whether they were communicating effectively with shareholders about those policies" (Schapiro, 2012). There is enough evidence that the boards—even where their compensation policies were overwhelmingly vindicated—were seeking to improve their engagement with and communication to the shareholders in order to build better understanding and appreciation between them.

With or without the say-on-pay reforms, executive compensation in the U.S. seemed to spiral upwards unabatedly.

- In 2011, the ratio of average CEO compensation (of 350 of the largest listed companies by revenue) to the average employee pay was 231. In comparison, it was 20.1 in 1965, and was 122.6 and 193.1 in 1995 and 2009, respectively. The peak was in 2000, when the ratio hit 383.4 after the dot-com bubble in the 1990s (EPI, 2012: 4–6).
- On a year-on-year basis, however, there seem to be encouraging signs of some positive impact. According to a study, after seeing the CEO pay jump 11% in 2010, the total direct compensation grew by only 2.8% in 2011 to USD 10.3 million (WSJ-Hay, 2012). Base salaries grew 1.5% to USD 1.2 million, while annual incentive payments were flat at USD 2.3 million, yielding no increase in the overall median cash compensation at USD 3.6 million. For the second year in a row, long-term incentives (LTI) increased, growing at 5.5% to USD 7 million. The preference for long-term incentives as a measure of compensation is noteworthy as it indicates a move (however small) away from the short termism that executives are always criticised for.
- However, the major gain of say-on-pay (as noted earlier) is the enhanced engagement levels of company-investor interaction and even acceptance that such decisions cannot be taken by boards unilaterally without being called to account by their shareholders.

3.4.2 United Kingdom

Although having a longer history of a non-binding say-on-pay regime, the U.K. experience in reining in executive pay within reasonable limits has not been heartening.

- The average total remuneration of FTSE100 CEOs rose four-fold, from an average of GBP 1 million to GBP 4.2 million (13.6% a year) for the period 1998–2010. This is faster than the increase in the FTSE100 index, the retail prices, or the average remuneration levels across all employees, which have risen 4.7% for the same period (UK-BIS, 2012: 5)

On the other hand, some positive impact of the say-on-pay initiative has also been observed (Ferri and Maber, 2013: 527–563):

- Companies with perceived excess CEO pay and overly generous exit payout provisions experienced abnormal positive market returns as soon as the non-binding say-on-pay measures were announced.
- Companies with CEO severance contracts providing more than 12 months of notice (or pay in lieu) who experienced a high dissent rate in the advisory voting by shareholders were found to reduce the notice periods downwards to 12 months, not as part of a general trend but probably as a result of high negative votes on the say-in-pay voting on their compensation policies.
- Companies with retesting[22] provisions for their performance-related equity grant schemes that received high negative votes in their say-in-pay resolutions tended to shorten the period or altogether remove such provisions (widely seen as rewards for failure).

[22] "Retesting" in this context refers to the contractual or board-discretionary provisions for re-evaluating in subsequent years the performance targets that were not achieved during the initial measurement period (rather than allowing the options to lapse).

All these were seen as the direct impact of say-in-pay voting and as indicative of establishing shareholder primacy in correcting aberrations in the executive compensation policies of their companies, eventually to their advantage.

4 Sample and Study Methodology

4.1 Sample

The sample for this study was drawn from the set of companies that were listed on the National Stock Exchange and were part of the NSE CNX 100 Index set for the period 2007–2012. The sample included only those companies for which complete data was available on all the variables used for analysis over the study period, and as such was a balanced panel. Because of the changes in the index composition year to year and since we covered all the companies that were part of the index in any year of the study period, the number of companies substantially exceeded 100. After dropping some of them for want of any required and authenticated data, the eventual sample effectively comprised 102 companies (Annexure 1). The selection of the 6-year time frame from 2007 to 2012 was to ensure that the latest available dataset was used to explore the current trends and relationships in executive compensation. The choice of the companies from the NSE 100 Index set also ensured that the sample consisted of key companies representing a large proportion of both the total as well as the free-float market capitalisation. Together, the companies also accounted for a very high proportion of the volume of trading and investor interest in the Indian market. The timeframe for the study included the period of the global financial market meltdown and the resulting increased focus on executive compensation around the world, including in India.

The 13 variables pertaining to the firms in the sample and the one variable pertaining to the stock market index for which data was collected were as follows:

- Annual income
- Annual profit after tax
- Total CEO compensation as per companies' filings and annual reports
- Percentage of promoter ownership
- Percentage of institutional ownership
- Market capitalisation of the company at the end of each financial year
- Proportion of non-executive independent directors (NIDs) on the board
- Binary variables capturing the following attributes of the board:
  - Board duality
  - Existence of compensation committee
- Category of company ownership/control
  - Government
  - Private domestic
  - Private foreign
  - Dispersed ownership (with no identifiable promoter)
- CNX NIFTY (market index of the NSE) values at the end of each financial year

The data for this study was accessed from sources in the public domain: the National Stock Exchange (NSE), the Prowess database, the CapitalLine database, and from the annual reports of the companies. In case of apparent discrepancies or inaccuracies in the reported figures, the data

from company annual reports were adopted as authentic; where such data was not available, the NSE datasets (compiled from company filings) were used.

As usually happens in data collection of this type, considerable efforts had to be put in to clean up and validate the data. In particular, the data pertaining to board composition and the measurement of the associated variables required extensive efforts due to imprecision in the information available. Observations of doubtful pedigree were removed from the set. The integrity of the data finally used for analysis in this study is high.

4.1.1 Variable descriptions

Promoters: This categorisation includes an individual, entity, or a group of people and/or entities acting in concert and being in control of the corporation. This definition is in line with the classification used by the NSE (following the SEBI's classification) for purposes of company filings relating to ownership.

Institutional investors: This categorisation includes a pension fund, insurance company, mutual fund, unit trust, banks, or other such institutions, both domestic as well as foreign, which are engaged in channelising and investing beneficiary funds for their benefit. This definition is in line with the classification used by the NSE (following the SEBI's classification) for purposes of company filings relating to ownership.

Income: This variable represents the top line in the profit and loss account of the company, covering sales and other revenue income.

Market capitalisation: This variable represents the year-end valuation of the companies' aggregate listed equity securities as disclosed by the companies in their annual reports; in particular, this is not limited only to their free-float equity available for trading.

Proportion of NIDs on the board: This variable captures the extent of the influence of independent non-executive directors on the functioning of the board.

Board chair/CEO duality: This variable captures the situation where the positions of chairperson and CEO are held by two different individuals. The variable assumes a value of 1 in such a situation, and 0 where the positions are combined.

Existence of compensation committee: This variable captures the existence of a more formal mechanism in the board for determining CEO compensation. The variable assumes a value of 1 in such a situation, and 0 otherwise.

Promoter category: This categorisation is based on the classification of "promoters" as done by the NSE.

4.2 Review of Select Empirical Literature

According to the agency theory, CEO compensation contracts are drawn up to minimise the agency cost in the case of firms where ownership is separated from management control. This theory has been the basis of the studies that investigate the determinants of executive compensation; the

relationship between executive compensation and firm performance is expected to be positive. However, the strength of this relationship and, sometimes, even the direction of the relationship may be insignificant and unexpected, due to other attributes of the firm or group of firms.

Researchers have struggled to identify that component of CEO compensation that is impacted by performance. There is also debate on whether only the cash compensation and not the total compensation should be considered for such investigations. Similarly, there has been debate on the appropriate measures of the performance of a firm. Should performance be based on accounting measures such as net income, return on assets, and return on equity, or should it be based on stock market returns? A brief review of the relevant extant research would provide the backdrop for the work reported in this paper.

4.2.1 Early studies (up to 2000)

Murphy (1985), Jensen and Murphy (1990), and Hubbard and Palia (1995) found a positive association between pay and performance, supporting the agency theory. Jensen and Murphy (1990) also found that an increase in shareholder wealth was positively related to executive compensation. Main et al. (1996) found that the relation between executive pay and firm performance became more significant when executive options were included in the measurement of executive compensation. However, Cosh and Huges (1997) and Core et al. (1999) did not find support for the agency theory. They also found that a higher proportion of non-executive directors led to greater compensation for CEOs.[23]

4.2.2 More recent studies

Frydman and Jenter (2010) found a significant increase in executive compensation levels from the 1970s to the early 2000s. Dong and Ozkan (2008) discussed increasing concerns about rising executive compensation. Brick et al. (2006) found evidence for excessive executive compensation that was unrelated to the performance of the firm. Ozkan (2011) reported a significant positive relationship between firm performance and CEO compensation; this study was based on a sample of 390 large U.K. firms for the period 1999–2005.

4.2.3 Studies in the Indian context

Most of the studies on executive compensation are related to U.S. and U.K. companies, arguably because of the availability of data through disclosure requirements as well as the freedom given to the board to set the compensation of CEO and CXOs. As regards India, executive compensation was freed from regulation only after 2004. There are very few significant studies on executive compensation in the Indian context. One of the earliest studies on the subject was Ramaswamy et al. (2000). Based on 1992–1993 (pre-liberalisation regime) CEO compensation data of top 150 companies on the Bombay Stock Exchange, this study found that compensation was negatively correlated to ownership levels in family-controlled companies (Ramaswamy et al., 2000). In his doctoral research, Ghosh (2006) used panel data from 1997 to 2002 related to 462 firms from the Indian manufacturing sector; he found that the current year's firm performance (measured by ROA)

[23] The assumption that a higher proportion of independent directors would lead to better corporate governance is supported by a recent study (Acharya et al., 2012), which found that given the scarcity of talented in-demand CEOs, firms with better corporate governance tend to pay more for their CEOs due to their "reservation" value reflected by what they can get elsewhere where governance is weak. In any case, we believe that well-governed companies will offer less potential for managerial tunnelling and private benefits, which will have to be offset to some extent with higher compensation to the CEOs.

had a positive and marginally significant influence on CEO compensation. Using data pertaining to all the companies listed on the Bombay Stock Exchange for seven years (2004–2010), a more recent study found that CEO compensation was positively related to the average size of the firms (measured by market capitalisation, assets, and sales) and the proportion of promoter holding (Chakrabarti et al., 2011).

3 Methodology

Normatively, compensation is expected to be related to performance. Performance is measured by accounting metrics such as profit after tax (PAT) and year-on-year percentage changes in PAT. In addition, performance is also measured by external metrics such as changes in market prices year-on-year. In our work, we used two refinements. First, instead of absolute changes in the market prices of a company's equity, we computed *excess returns* reflecting the differential movements in company prices over index movements in the same year. Second, based on the fact that compensation is driven by performance, we lagged compensation by a year to reflect the causal effect of the previous year's performance—this measures the *excess returns* earned through changes in market capitalisation of the firm over changes in the market index in the preceding year.

Firm size may influence CEO compensation. Hence, we used the log of income as a measure of the firm size as a control variable while investigating the relationship between firm performance and CEO compensation.

Unlike in the U.S. and the U.K., most Indian firms have well-identified promoters, who also tend to be the managers of the firms more often than not. The percentage levels of promoter ownership can positively influence compensation levels. Therefore, we explored this relationship as well. Institutions as holders of large blocks of non-promoter shares are likely to play a role in CEO compensation. They would be expected to play a moderating role and prevent excessive compensation—unrelated to performance of the firm—from being paid to the CEO. Thus, the percentage of institutional ownership was expected to be negatively related to CEO compensation.

Since the strength of the relationship (and perhaps even the direction of the relationship) between firm performance and CEO compensation may vary depending on the type of promoter, the analysis investigated the possible influence on this relationship of the four categories of ownership and control that are used by the NSE to classify firms, namely, government, private domestic, private foreign, and dispersed ownership. We used government firms as the base case.

The governance variables—designed to reflect the independence, objectivity, and expertise of the board in matters of CEO compensation—were the percentage of independent directors on the board, the presence or absence of duality, and the presence or absence of a compensation committee. Although theoretically speaking, board independence should contribute towards structuring the compensation packages optimally in the interests of the shareholders, it is *a priori* difficult to conjecture about the nature and magnitude of its influence, especially in the context of the ownership structures and the imposed independence criteria in India.

The hypotheses for testing are based on the discussion thus far; the hypotheses and the empirical results are discussed in the following sections.

4.4 Descriptive Statistics Pertaining to CEO Compensation in India

Although the companies in the sample represent the major, top-traded security segment of the Indian corporate sector, they are not a homogenous group, differing as they do in age, culture, ownership and control, business profile, and so on. Nevertheless, the trends are a good indicator of how the compensation structures and levels have varied over time, and how they compare with one another and within sub-groups. They also provide a basis for comparison with similar trends elsewhere in the world.

The compensation trends in terms of mean, median, maximum, and minimum compensation over the study period for the sample as a whole and for the four ownership-control sub-groups are presented in Table 1. The statistics for year-on-year median growth of compensation, revenue, and profit over the study period for the sample as a whole and for the four ownership-control sub-groups is presented in Table 2.

Table 1: CEO Compensation: Descriptive statistics (INR crore)

Sample	Year	Remuneration: Mean	Remuneration: Median	Remuneration: Lowest	Remuneration: Highest	N =
All Firms	2008	4.05	2.01	0.05	44.02	102
	2009	4.15	2.16	0.13	28.71	102
	2010	5.04	2.52	0.01	69.75	102
	2011	5.17	3.08	0.17	67.20	102
	2012	5.67	3.45	0.01	73.42	102
Domestic Private Company	2008	5.38	2.84	0.18	44.02	62
	2009	4.92	3.20	0.24	28.71	61
	2010	6.31	3.40	0.01	69.75	61
	2011	6.74	3.82	0.27	67.20	62
	2012	7.55	4.88	0.01	73.42	62
Foreign Private Company	2008	2.11	1.89	0.40	7.06	19
	2009	3.51	1.88	0.41	23.72	20
	2010	3.13	2.36	0.44	10.12	20
	2011	3.55	2.48	0.20	9.56	20
	2012	3.99	3.14	0.15	12.51	20
Government-Owned Company	2008	0.25	0.15	0.05	1.52	14
	2009	0.35	0.20	0.13	2.24	14
	2010	0.43	0.32	0.17	1.52	14
	2011	0.49	0.38	0.17	2.22	14
	2012	0.50	0.37	0.15	2.53	14
Management-Controlled Company	2008	5.11	3.74	0.14	15.74	7
	2009	6.88	4.56	0.41	19.69	7
	2010	8.66	3.85	0.54	30.64	7
	2011	5.34	3.91	0.70	14.18	6

	2012	3.97	3.46	0.38	9.85	6

Source: Compiled by the authors

Table 2: Growth Statistics of CEO Compensation from 2008 to 2012: Compensation, income, profit, and market capitalisation

Sample	Year	Median Change In Remuneration (%)	Median Change In Income (%)	Median Change In PAT (%)	Median Change in Market Capitalisation (%)	N =
All Firms	2008	32.94	18.09	19.64	22.41	102
	2009	13.99	15.51	-1.49	-42.28	102
	2010	13.95	8.22	10.07	137.62	102
	2011	9.39	17.95	13.18	5.66	102
	2012	10.71	19.92	2.25	-3.27	102
Domestic Private Company	2008	32.52	19.58	25.25	23.89	62
	2009	10.65	15.28	-5.96	-49.68	61
	2010	11.64	8.78	19.64	152.23	61
	2011	9.13	17.95	9.91	5.52	62
	2012	10.02	22.17	3.80	-0.65	62
Foreign Private Company	2008	30.04	15.48	17.69	3.08	19
	2009	12.18	13.46	15.42	-37.83	20
	2010	11.88	8.22	1.43	171.97	20
	2011	9.20	19.83	30.98	-4.54	20
	2012	13.76	15.45	-6.55	5.51	20
Government-Owned Company	2008	49.79	13.62	8.51	42.34	14
	2009	35.22	18.13	8.76	-34.46	14
	2010	42.45	-0.31	10.73	92.29	14
	2011	-7.01	19.02	15.84	8.99	14
	2012	-9.16	23.99	-6.94	-25.62	14
Management -Controlled Company	2008	27.07	38.02	25.73	56.68	7
	2009	33.66	13.40	4.60	-40.57	7
	2010	21.82	11.41	23.83	94.21	7
	2011	17.65	14.32	23.94	26.46	6
	2012	17.30	22.80	20.09	-11.75	6

Source: Compiled by the authors

4.5 Analysis Based on Level of Compensation

Since profit after tax (PAT) is the most watched number by the shareholders as well as the market and is arguably one of the most important accounting numbers in the annual accounts of a firm, it

was decided to measure firm performance in terms of PAT. The expectation is that higher PAT would be associated with higher compensation.

In the final analysis, shareholders are interested in returns in the stock market. Therefore, market returns would be an appropriate external measure of firm performance. Since stock prices fluctuate with fluctuations in the stock market index, the excess returns earned by the firm (after subtracting the market returns from the stock returns) was used to measure the under- and over-performance of the firm that which could be ascribed to its top management. Therefore, excess stock market returns ought to be positively associated with CEO compensation.

Model

$$\begin{aligned} Log\ (CEO\ Compensation)_{it} &= \propto_i + \beta_1 PAT_{it} + \beta_2 Log\ (Income)_{it} + \beta_3 Excess\ Returns\ over\ index_{it-1} \\ &+ \beta_4 Promoter\ Holding_{it} + \beta_5 Institutional\ Holding_{it} + \beta_6 Pvt\ Domestic_{it} \\ &+ \beta_7 Pvt\ Foreign_{it} + \beta_8 Dispersed\ Ownership_{it} + \beta_9 Duality_{it} \\ &+ \beta_{10} Percentage\ NIDs_{it} + \beta_{11} Dummy\ Compensation\ Committee_{it} + \varepsilon_{it} \end{aligned}$$

where *i* refers to the firm and *t* refers to time.

Hypotheses

Firm performance variables:

1. PAT has a positive influence on the level of compensation.
2. Income has a positive influence on the level of compensation.
3. Excess return has a positive influence on the level of compensation.

Ownership variables:

4. Promoter holding has a positive influence on the level of compensation.
5. Institutional holding has a negative influence on the level of compensation.
6. The level of compensation for non-government companies is higher compared to that for government-owned companies.

Governance variables:

7. Duality has a negative influence on the level of compensation.
8. Larger presence of NIDs on boards has a negative influence on the level of compensation.
9. The presence of a compensation committee has a negative influence on the level of compensation.

4.6 Analysis Based on Change in Compensation

Most studies use the level of compensation as the dependent variable. However, the use of the level of compensation has an inherent limitation due to compensation differentials across industry and region, personal criteria such as qualification, experience, performance track record, and other such specific attributes of the individual, and the situational requirements of the company. Credible data on these criteria is hard to come by in the public domain, and hence, is difficult to analyse and comment upon. On the other hand, precise data pertaining to year-on-year changes from the base compensation levels is more easily obtainable; therefore, this was used as the dependent variable in

our analysis. This eliminates the biases introduced due to the non-inclusion of firm-specific and individual-specific variables as explanatory variables. The change in the measure for the dependent variable also necessitated a change in the measure for performance. Instead of PAT, change in PAT was used as the explanatory variable for performance.

Since rewards in terms of additional compensation are given based on quarterly performance, the expectation is that the percentage change in PAT would be positively associated with the percentage change in the compensation of the CEO.

Model

$$\begin{aligned} &Percentage\ Change\ in\ CEO\ Compensation_{it} \\ &\quad = \propto_i + \beta_1 Percentage\ Change\ in\ PAT_{it} + \beta_2 Log\ (Income)_{it} \\ &\quad + \beta_3 Excess\ Returns\ over\ index_{it-1} + \beta_4 Promoter\ Holding_{it} \\ &\quad + \beta_5 Institutional\ Holding_{it} + \beta_6 Pvt\ Domestic_{it} + \beta_7 Pvt\ Foreign_{it} \\ &\quad + \beta_8 Dispersed\ Ownership_{it} + \beta_9 Duality_{it} + \beta_{10} Percentage\ NIDs_{it} \\ &\quad + \beta_{11} Dummy\ Compensation\ Committee_{it} + \varepsilon_{it} \end{aligned}$$

where i refers to the firm and t refers to time.

Hypotheses

Firm performance variables:

1. Change in PAT has a positive influence on change in compensation.
2. Income has a negative influence on change in compensation.
3. Excess return has a positive influence on change in compensation.

Ownership variables:

4. Promoter holding has a positive influence on change in compensation.
5. Institutional holding has a negative influence on change in compensation.
6. Type of ownership has no influence on change in compensation.

Governance variables:

7. Duality has a negative influence on change in compensation.
8. Larger presence of NIDs on boards has a negative influence on change in compensation.
9. The existence of a compensation committee has a negative influence on change in compensation.

4.7 Empirical Results

The descriptive statistics for the sample data is given in Table 3. The maximum pay in the sample was INR 73.42 crore and the average pay was about INR 4 crore. The mean change in CEO compensation was about 25%. The maximum change was about 160% and the minimum was a fall of compensation by 49%. The unusually large and unusually small values of change in CEO compensation were capped and floored using the 95th and the 5th percentile, respectively. Change in profit after tax (PAT) had a mean of about 10%, and maximum and minimum values of 114% and -99% respectively. An outlier treatment similar to change in compensation was also carried out for change in PAT.

Table 3: Descriptive Statistics

Label	Mean	Std Dev	Minimum	Maximum
Log of remuneration in INR crore	0.80	1.34	-4.61	4.30
Percentage change in CEO compensation	24.88	48.07	-48.55	159.73
Profit after tax (PAT) in INR crore	1683.96	3166.88	-3052.05	25122.92
Percentage change in PAT	10.28	50.19	-99.14	114.16
Log of total income in INR crore	8.74	1.38	4.92	12.75
Excess stock return in the previous year	0.17	0.71	-1.20	7.90
Percentage of promoter holding	47.35	19.77	0.00	89.50
Percentage of institutional holding	31.00	14.22	1.11	87.67
Dummy for private domestic	0.60	0.49	0.00	1.00
Dummy for private foreign	0.19	0.40	0.00	1.00
Dummy for dispersed ownership	0.06	0.25	0.00	1.00
Duality	0.64	0.48	0.00	1.00
Percentage of independent directors	0.63	0.17	0.13	1.00
Dummy for presence of compensation committee	0.83	0.38	0.00	1.00

Note: N = 510

The correlation matrix is presented in Table 4.

Table 4: Correlation Matrix

	Variable	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Log of remuneration in INR crore													
2	Percentage change in CEO compensation	0.08												
3	Profit after tax (PAT) in INR crore	-0.04	0.00											
4	Percentage change in PAT	0.06	0.21*	0.10*										
5	Log of total income in INR crore	-0.06	0.00	0.63*	0.06									
6	Excess stock return in the previous year	0.04	0.03	0.01	0.11*	0.03								
7	Percentage of promoter holding	-0.24*	0.06	0.09*	-0.06	0.04	-0.03							
8	Percentage of institutional holding	0.18*	-0.03	-0.02	0.17*	0.18*	0.05	-0.78*						
9	Dummy for private domestic	0.38*	-0.03	-0.12*	-0.02	-0.23*	0.04	-0.19*	0.07					
10	Dummy for private foreign	0.02	-0.03	-0.18*	0.02	-0.21*	-0.03	0.27*	-0.26*	-0.61*				
11	Dummy for dispersed ownership	0.06	-0.02	0.09	0.05	0.15*	0.03	-0.56*	0.49*	-0.32*	-0.13*			
12	Duality	0.13*	0.02	-0.13*	0.07	-0.07	0.08	-0.09*	0.11*	-0.06	0.30*	0.08		
13	Percentage of independent directors	0.23*	0.01	-0.09*	0.00	-0.07	0.00	-0.09*	0.07	0.20*	0.08	0.03	0.32*	
14	Dummy for presence of compensation committee	0.03	-0.01	0.05	0.04	0.03	-0.01	-0.21*	0.20*	0.16*	-0.17*	0.12*	-0.02	0.04

Note: N = 510
* Indicates significance at 5%

The mean and maximum values of income in Table 3 show that the sample consisted of some of the biggest companies in India. The percentage of promoter holding varied from zero to almost 90%. The mean promoter holding in the sample was about 47%. Institutional ownership as a proportion of total ownership varied from 1% to 88%, with a mean of about 31%. The descriptive statistics for the three dummies indicating private domestic, private foreign, and dispersed ownership, along with the residual ownership category of government companies showed that most of the companies in the sample were private domestic companies followed by government-owned companies.

The correlation matrix in Table 4 shows that the highest correlation was between proportion of institutional holding and proportion of promoter holding at 78%, followed by PAT and total income.

We estimated the models using random effects to take advantage of repeated measures for the same companies. Random effects allowed us to take into account a specific company's unique compensation practices while testing the hypotheses. The regression results are presented in Table 5 and Table 6.

Table 5: Estimates with Log (Compensation) as Dependent Variable

Independent Variable	Estimate
Intercept	-4.706 *** (0.853)
Profit after tax in INR crore	0.000 (0.000)
Log of total income in INR crore	0.262 *** (0.072)
Excess stock return in the previous year	0.059 * (0.034)
Percentage of promoter holding	0.004 (0.006)
Percentage of institutional holding	0.011 * (0.006)
Dummy for private domestic	3.103 *** (0.341)
Dummy for private foreign	2.937 *** (0.374)
Dummy for dispersed ownership	2.905 *** (0.472)
Duality	**-0.532 *** (0.112)**
Percentage of independent directors	0.545 ** (0.251)
Dummy for presence of compensation committee	0.014 (0.155)

Note: *R* Squared = 0.2186; Number of observations = 510; Standard errors in parentheses

* Significance at 10%; ** Significance at 5%; *** Significance at 1%

Table 6: Estimates with Percentage Change in Compensation as Dependent Variable

Independent Variable	Estimate
Intercept	48.579 **

	(24.669)
Percentage change in profit after tax	0.211 *** (0.043)
Log of total income in INR crore	-2.943 (1.844)
Excess stock return in the previous year	0.625 (2.964)
Percentage of promoter holding	0.140 (0.207)
Percentage of institutional holding	-0.068 (0.257)
Dummy for private domestic	-18.089 ** (8.697)
Dummy for private foreign	-25.094 *** (9.614)
Dummy for dispersed ownership	-12.229 (14.105)
Duality	**4.179** **(4.982)**
Percentage of independent directors	14.267 (14.208)
Dummy for presence of compensation committee	0.061 (5.694)

Note: *R* Squared = 0.0633; Number of observations = 510; Standard errors in parentheses
* Significance at 10%; ** Significance at 5%; *** Significance at 1%

5 Findings and Observations

We now pull together the main findings of the study and their implications in the context of the relevant theoretical underpinnings. In broad terms, our study sought to explore some of the relationships between CEO compensation in India and three chosen drivers/determinants: performance, ownership, and governance. The results of the study are discussed below.

5.1 Performance and Compensation

1. The size of the company was found to have a significant positive influence on the level of compensation. This confirms the findings of an earlier study in the Indian context by Chakrabarti et al. (2011).

2. The size of the company, however, does not have any significant influence on year-on-year percentage changes in compensation. This is possibly due to the fact that percentage increases generally tend to be lower at higher base levels of compensation.

3. Profit after tax (PAT) per se does not have a statistically significant influence on CEO compensation. However, change in PAT has a significant positive influence on change in compensation. This can be interpreted to mean that in determining increases (or decreases) in CEO compensation, incremental performance is reckoned, not absolute numbers in themselves.

4. Lagged excess returns in the stock market positively influenced the level of compensation, but not the change percentages. This positive influence of excess stock returns on CEO compensation was not surprising. Market performance would be a good justification for enhanced compensation and would also address the concerns often expressed regarding the conflict of interests between promoters and absentee shareholders in the Indian context. This criterion is usually more acceptable than book numbers of PAT since it involves value discovery by external market forces, and as such, is relatively beyond the control and influence of the management.[24] However, the strength of this metric's impact is less striking in India than the observed trend in the U.S. context (Taylor, 2013).

5.2 Ownership and Compensation

1. With government companies (with their relatively lower public-policy-dictated compensation levels) as the base case for level of compensation, the coefficients for private domestic, private foreign, and dispersed ownership companies were found to be positive and significant (as expected). This confirms the extant intuitive perception that private-sector company compensation levels are significantly higher than those in state-owned enterprises. However, the influence of ownership on the percentage change in compensation was negative, implying that the percentage changes in compensation in non-government companies tended to be lower than the percentage changes in government companies. This is probably due to the base effect, i.e., low levels of compensation in government-owned companies.

2. The statistical insignificance of the influence of promoter holdings is noteworthy. A less charitable view of why promoter holdings have no significant impact on compensation would be that their dependence on executive compensation is not so pressing, given that they have other tunnelling opportunities for extracting private benefits from their companies by virtue of their control over operations as executives. There are of course notable exceptions to these broad conclusions as we have already noted.

3. The influence of institutional holding on level of compensation is positive and weakly significant. This is contrary to what one would expect. The influence of institutional holding on change in compensation is insignificant. The view that institutions tend to be passive owners (for reasons of disproportionate monitoring costs in case of foreign institutions and relative lack of independence in case of government-owned or government-controlled domestic institutions) is reconfirmed. In the few instances where institutional investors do protest and vote against excessive CEO compensation, their voice is negated by promoters exercising their vote to thwart such opposition (as was the case with Jindal Steel and Power, for instance). With voting reforms on the anvil, it remains to be seen whether institutional investors' opposition to excessive CEO remuneration can effectively moderate such pay levels in the future.

5.3 Governance and Compensation

1. The proportion of non-executive independent directors on the board positively influenced the level of compensation. This is similar to the inferences drawn by Cosh and Hughes

---

[24] It could, of course, also be argued that depending upon the depth of the market operations and the spread of market operators, market discovery is not necessarily beyond executive influence in individual instances.

(1997) and Core et al. (1999). This possibly provides support to the theory of executive (read "promoter") capture of the independent directors; further, it exposes the institution of independent directors in general, and questions its real value in promoting good governance and investor protection. This would also support the measures already discussed for "enabling" the institution of independent directors to better discharge their assigned responsibilities, by facilitating more "independence in directors" rather than simply seeking more "independent directors".

2. The observed positive influence of greater board independence, besides supporting the "capture theory" as discussed above, may also be a function of the fact that most non-executive independent directors are drawn from a pool of present or past CEOs. They may have understandable empathy towards incumbent CEOs and, thus, behaviourally support higher levels of CEO compensation. A more charitable view, given that the study period was affected by the global economic downturn, would be that independent directors (in the interests of the shareholders) used enhanced compensation to retain and motivate their CEOs towards better performance under such exogenous adversities.

3. The separation of the chairperson's position from that of the CEO or the MD (i.e., ensuring duality) significantly negatively influenced the level of compensation. This is in line with the theoretical precepts that seek a clear separation between the executive responsibilities for operations and the supervisory responsibilities involving monitoring and evaluation of executive performance. There may be a case for regulatory intervention mandating such separation.

4. There is another dimension to compensation levels and board independence. It offers a legitimate endorsement of the increases by theoretically objective, external independent directors, and thus, opens up a defensible avenue to pursue escalating CEO compensation packages. Until now—thanks to the apathy of absentee shareholders (including institutional investors) and bolstered by substantial promoter holdings—CEO compensation proposals had little chance of being rejected at shareholders' meetings. However, this complacency may not survive for long with the legislative proposals pending parliamentary approval reining in interested shareholders' voting rights such that a promoter CEO's compensation proposals will require a super-majority approval by non-promoter shareholders in future.

5. The irrelevance of compensation committees as an influencing and optimising governance mechanism with regard to CEO compensation is quite revealing and runs counter to the recognition of their importance in most geographies. The extent to which this important role of the committee has been compromised in the Indian context by promoter capture and composition fallouts as discussed above is a subject for further research. In this light, the legislative mandate on compensation committees appears to be of little consequence until the contributing deficiencies are remedied; till then, the chances are that the mandate may end up inflicting more compliance costs on the companies without any material governance benefits.

There is an important caveat to these findings and conclusions, however. There are major changes in the legislative and regulatory framework on the anvil. Once implemented, and subject to their rigorous enforcement, the regulatory scenario in the country will undergo a radical transformation. Some of these provisions (particularly relevant to CEO compensation), such as reining in interested shareholders' voting rights on related-party transactions at shareholders' meetings, have already been

mentioned in this paper. In this emerging governance scenario, it would be interesting to see how CEO compensation evolves in India in the years ahead.

References

ABI. (2012). *ABI Principles of Remuneration*. London: Association of British Insurers. http://www.abi.org.uk/ (Last accessed in January 2013).

Acharya, V.V., Gabarro, M. & Volpin, P.F. (2012). Competition for Managers, Corporate Governance and Incentive Compensation. *Center for Economic Policy Research Discussion Paper No. DP 8936*. New York: Social Science Research Network. http://ssrn.com/abstract=2066309 (Accessed in January 2013).

Alperin, S. N., Olshan, R., Leff, N.M., Schohn, E., Yaffe, J.M. & Mirza, B.R. (2012). *Lessons Learned from the 2012 Proxy Season*. Skadden, Arps, Slate, Meagher & Flom LLP. http://blogs.law.harvard.edu/corpgov/2012/10/18/lessons-learned-from-the-2012-proxy-season/#1b (Last accessed on 18 October, 2012).

Balasubramanian, N. (2009). Addressing Some Inherent Challenges to Good Corporate Governance. *The Indian Journal of Industrial Relations: A Review of Economic & Social Development*, 44(4), pp. 554–575. Shri Ram Centre for Industrial Relations and Human Resources. Also in *Working Paper No. 2009-11-299*, IIMB Centre for Corporate Governance and Citizenship, Indian Institute of Management Bangalore; and Social Science Research Network, New York, http://ssrn.com/abstract=1458913 (Last accessed in January 2013).

Balasubramanian, N. & George, R. (2012). Corporate Governance and the Indian Institutional Context: Emerging mechanisms and challenges—In Conversation with K V Kamath, Chairman Infosys and ICICI Bank. *IIMB Management Review*, 24(4). Elsevier. Available at http://dx.doi.org/10.1016/j.iimb.2012.10.001.

Balasubramanian, N. & Satwalekar, D.M. (2010). Corporate Governance: An Emerging Scenario. In: N. Balasubramanian & D.M. Satwalekar (Eds.), *Corporate Governance: An Emerging Scenario.* Mumbai: National Stock Exchange of India.

Bastiat, F. (1850). *The Law*. Kindle Edition. New York: Amazon.

Bebchuk, L.A. & Fried, J. (2004). *Pay without Performance: The unfulfilled promise of executive compensation*. Cambridge Massachusetts: Harvard University Press.

Bebchuk, L.A., Cohen, A. & Spamann, H. (2010). The Wages of Failure: Executive compensation at Bear Sterns and Lehman 2000–2008. *Yale Journal on Regulation*, 27(2), pp. 257–282.

Bebchuk, L.A., Fried, J.M. & Walker, D.I. (2002). Managerial Power and Rent Extraction in the Design of Executive Compensation. *Working Paper 9068*. Cambridge MA: National Bureau of Economic Research. http://www.nber.org/papers/w9068 (Last accessed in January 2013).

Berle, A. (1931). Corporate Powers as Powers in Trust. *Harvard Law Review*, 44.

Berle, A. & Means, G. (1933). *The Modern Corporation and Private Property*. Macmillan.

Bierce, A. (1911). The Devil's Dictionary. In: *The Collected Works of Ambrose Bierce* (Chapter VII). Doubleday, Page; (1993) Thrift Edition, Dover Publications, New York.

Brick, I.E., Palmon, O. & Wald, J.K. (2006). CEO Compensation, Director Compensation, and Firm Performance: Evidence of Cronysm? *Journal of Corporate Finance*, 12, pp. 403–423.

Carter, C.B. & Lorsh, J. (2004). *Back to the Drawing Board: Designing corporate boards for a complex world*. Harvard Business School Press.

Chakrabarti, R., Subramanian, K., Yadav, P.K. & Yadav, Y. (2011). Executive Compensation in India. *Handbook on Executive Compensation*. Glousestershire, UK: Edgar Elgar.

Core, J.F., Holthausen, R.W. & Larcker, D.F. (1999). Corporate Governance, Chief Executive Officer Compensation, and Firm Performance. *Journal of Financial Economics*, 51, pp. 371–406.

Cosh, A. & Hughes, A. (1997). Executive Remuneration, Executive Dismissal and Institutional Shareholdings. *International Journal of Industrial Organization*, 15, pp. 469–492.

Dong, M. & Ozkan, A. (2008). Institutional Investors and Director Pay: An empirical study of UK companies. *Journal of Multinational Financial Management*, 18(1), pp. 16–29.

EPI (L. Mishel & N. Sabadish). (2012). CEO Pay and the Top 1%: How executive compensation and financial-sector pay have fueled income inequality. *Issue Brief # 331* (May 2), Economic Policy Institute, Washington DC. http://www.epi.org/files/2012/ib331-ceo-pay-top-1-percent.pdf (Last accessed in January 2013).

Ferri, F. & Maber, D.A. (2013). Say on Pay Votes and CEO Compensation: Evidence from the UK. *Review of Finance*, 17(2), pp. 527–563. http://ssrn.com/abstract=1420394 (Last accessed in January 2013).

FRC. (2012). *The UK Stewardship Code*. Financial Reporting Council, London.

Frydman, C. & Jenter, D. (2010). CEO Compensation. *Working Paper 16585*, National Bureau of Economic Research.

Ghosh, A. (2006). Determination of Executive Compensation in an Emerging Economy: Evidence from India. *Emerging Markets Finance and Trade*, 42(3), pp. 66–90.

Hubbard, R.G. & Palia, D. (1995). Executive Pay and Performance: Evidence from the U.S. banking industry. *Journal of Financial Economics*, 39, pp. 105–130.

Irani, J.J. (2005). *Report of the Committee on Corporate Law Reforms*. Ministry of Company (now Corporate) Affairs, Government of India.

Iyer, L.V.V. (2011). *Guide to Company Directors: Powers, Rights, Duties, Liabilities & Corporate Social Responsibilities*. LexisNexis Bitterworths Wadhwa, Nagpur.

Jaiswal, M. & Firth, M. (2007). Top Management Compensation and Firm Performance in the Emerging Markets: Evidence from India. *Working Paper 602*. Indian Institute of Management Calcutta.

Jensen, M.C. & Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics,* 3(4), pp. 305–360.

Jensen, M.C. & Murphy, K.J. (1990). Performance Pay and Top Management Incentives. *Journal of Political Economy*, 98(2), pp. 225–264.

Kirkpatrick, G. (2009). The Corporate Governance Lessons from the Financial Crisis. *Financial Market Trends*, Vol. 2009/1, OECD.

La Porta, R., Lopez-De-Silanes, F. & Shleifer, A. (1999). Corporate Ownership around the World. *Journal of Finance*, 54(2).

Larcker, D.F., McCall, A.L., Ormazabal, G. & Tayan, B. (2012). Ten Myths of "Say on Pay". *Rock Center for Corporate Governance, Closer Look Series NO. CGRP-26*. Stanford Graduate School of Business, Stanford CA. http://ssrn.com/abstract=2094704 (Last accessed in January 2013).

Main, B.G.M., Bruce, A. & Buck, T. (1996). Total Board Remuneration and Company Performance. *Economic Journal*, 106(439), pp. 1627–1644.

MCA. (2000). *Report of the Task Force on Corporate Excellence through Governance*. Ministry (then Department) of Corporate (then Company) Affairs, Government of India, New Delhi.

Mouawad, J. (2006). For Leading Exxon to Its Riches, $144,573 a Day. *New York Times*, April 15. http://www.nytimes.com/2006/04/15/business/15pay.html?pagewanted=all&_r=0 (Last accessed in January 2013).

Murphy, K.J. (1985), Corporate Performance and Managerial Remuneration: An empirical analysis. *Journal of Accounting and Economics*, 7(1–3), pp. 11–42.

Ozkan, N. (2011). CEO Compensation and Firm Performance: An empirical investigation of UK panel data. *European Financial Management*, 17(2), pp. 260–285.

Ramaswamy, K., Veliyath, R. & Gomes, L. (2000). A Study of the Determinants of CEO Compensation in India. *Management International Review*, 40/2, pp. 167–191.

Roe, M.J. (2002). Political Foundations for Separating Ownership from Control. In: J.A. McCahery, P. Moerland, T. Raaijmakers & L. Renneboog (Eds.), *Corporate Governance Regimes: Convergence and diversity*. Oxford University Press.

Sarkar, S. & Sen, A. (1999). Liberalization of Remuneration Guidelines in India and its Effect on Managerial Pay: Evidence from Large Corporations. *Vikalpa*, 25(2).

Schapiro, M.L. (2012). *Remarks at the George Washington University Center for Law, Economics and Finance Fourth Annual Regulatory Reform Symposium* (26 October). http://www.sec.gov/news/speech/2012/spch102612mls.htm (Last accessed in January 2013).

SEBI. (1999). *Report of the [Kumar Mangalam Birla] Committee on Corporate Governance*. Securities and Exchange Board of India, Mumbai.

Smith, A. (2000). *The Wealth of Nations*, Modern Library Edition. [Original work first published in 1776].

Sundar, P. (2000). *Beyond Business: From merchant charity to corporate citizenship*. New Delhi: Tata McGraw-Hill.

Terviö, M. (2007). *Superstars and Mediocrities: Market Failure in the Discovery of Talent*. Haas School of Business, University of California, Berkeley.

Taylor, L.A. (2013). CEO Wage Dynamics: Estimates from a learning model. *Journal of Financial Economics*, 108(1), pp. 79–98.

UK-BIS. (2012). Improved Transparency in Executive Compensation Reporting. *Document No. IA-BIS03555*, Department of Business, Innovation and Skills, Government of the United Kingdom, London.

USC. (2002). *The Role Of The Board Of Directors In Enron's Collapse*, Hearing before the Permanent Subcommittee Of Investigations of the Committee On Governmental Affairs, United States Senate; One Hundred Seventh Congress, Second Session, May 7, 2002; Senator Durbin’s Opening Statement.

Varma, J.R. (2002). Governance, Supervision and Market Discipline: Lessons from Enron. *Journal of Indian School of Political Economy*, 14(4), pp. 559–612.

Weisbach, M.S. (2006). Optimal Executive Compensation vs. Managerial Power: A review of Lucian Bebchuk and Jesse Fried's "Pay Without Performance: The Unfulfilled Promise of Executive Compensation". *Working Paper No 12798*, National Bureau of Economic Research.

WSJ-Hay. (2012). *The Wall Street Journal/Hay Group 2011 CEO Compensation Study*. http://www.haygroup.com/ww/Press/Details.aspx?ID=33831 (Last accessed in January 2013).

Annexure 1

List of Companies in the Sample

ABB Ltd.	Great Eastern Shipping Co. Ltd.	Piramal Enterprises Ltd.
ACC Ltd.	HCL Infosystems Ltd.	Procter & Gamble Hygiene & Health Care Ltd.
Aditya Birla Nuvo Ltd.	HCL Technologies Ltd.	Ranbaxy Laboratories Ltd.
Ambuja Cements Ltd.	HDFC Bank Ltd.	Raymond Ltd.
Apollo Tyres Ltd.	Hero Motocorp Ltd.	Reliance Industries Ltd.
Arvind Ltd.	Hindalco Industries Ltd.	Reliance Infrastructure Ltd.
Ashok Leyland Ltd.	Hindustan Petroleum Corpn. Ltd.	Rolta India Ltd.
Asian Paints Ltd.	Housing Development Finance Corpn. Ltd.	Sanofi India Ltd.
Aurobindo Pharma Ltd.	ICICI Bank Ltd.	Sesa Goa Ltd.
Axis Bank Ltd.	IFCI Ltd.	Shipping Corpn. Of India Ltd.
Bata India Ltd.	ITC Ltd.	Shriram Transport Finance Co. Ltd.
Bharat Forge Ltd.	India Cements Ltd.	Siemens Ltd.
Bharat Heavy Electricals Ltd.	Indian Hotels Co. Ltd.	Southern Petrochemical Inds. Corpn. Ltd.
Bharat Petroleum Corpn. Ltd.	Infosys Ltd.	State Bank Of India
Bharti Airtel Ltd.	Jaiprakash Associates Ltd.	Steel Authority Of India Ltd.
Biocon Ltd.	Jet Airways (India) Ltd.	Sterlite Industries (India) Ltd.
Bombay Dyeing & Mfg. Co. Ltd.	Jindal Steel & Power Ltd.	Suzlon Energy Ltd.
Britannia Industries Ltd.	Kotak Mahindra Bank Ltd.	Tata Chemicals Ltd.
CMC Ltd.	Larsen & Toubro Ltd.	Tata Communications Ltd.
Chennai Petroleum Corpn. Ltd.	Lupin Ltd.	Tata Consultancy Services Ltd.
Cipla Ltd.	Madras Cements Ltd.	Tata Global Beverages Ltd.
Corporation Bank	Mahindra & Mahindra Ltd.	Tata Motors Ltd.
Crompton Greaves Ltd.	Maruti Suzuki India Ltd.	Tata Power Co. Ltd.
Cummins India Ltd.	Merck Ltd.	Tata Steel Ltd.
Dabur India Ltd.	Morepen Laboratories Ltd.	Thomas Cook (India) Ltd.
Dr. Reddy'S Laboratories Ltd.	Mphasis Ltd.	Titan Industries Ltd.
E I H Ltd.	NIIT Ltd.	Ultratech Cement Ltd.
Exide Industries Ltd.	NTPC Ltd.	Unitech Ltd.
Federal Bank Ltd.	National Aluminium Co. Ltd.	United Phosphorus Ltd.
Finolex Cables Ltd.	Oil & Natural Gas Corpn. Ltd.	United Spirits Ltd.
GAIL (India) Ltd.	Oracle Financial Services Software Ltd.	Wipro Ltd.
GlaxoSmithKline Consumer Healthcare Ltd.	Orchid Chemicals & Pharmaceuticals Ltd.	Wockhardt Ltd.
Glenmark Pharmaceuticals Ltd.	Oriental Bank Of Commerce	Yes Bank Ltd.
Grasim Industries Ltd.	Pfizer Ltd.	Zee Entertainment Enterprises Ltd.