Managerial remuneration has increased by leaps and bounds during the last few decades and has attracted attention from various quarters like remuneration activists, researchers, print media, regulatory authorities, etc. Owing to volatile market conditions, new technological developments, and increased globalisation, the executives’ role have become highly critical and challenging to enable their firms to deliver superior value and sustainability in this excessively competitive business environment. If benefits of exploiting the available opportunities at right time are significant and abundant, the losses due to the failure of seizing such opportunities are also sizeable indeed. Thus, to ensure that executives work hard and put in their best, companies have been disbursing heavy remuneration packages.

The average compensation of CEOs of 350 US firms increased by 937 percent for the period 1978 to 2013, whereas the compensation of a typical worker rose by just 10.2 percent during the same period (Mishel and Davis, 2014). The median compensation of CEOs in US recorded an increase of 9 percent in 2013 over the previous year (Eavis, 2014). In an annual compensation survey of Wall Street Journal, it was revealed that the top 10 percent highest paid executives took home 23 percent of the total remuneration, whereas bottom 30 percent earned just 13 percent of the total compensation (Francies and Lublin, 2014). David Zaslav, CEO of Discovery Communications was the highest paid executive with $150.1 million and median pay for 200 highest paid CEOs was $17.6 million with a growth of 1.9 percent (Equilar, 2015). The compensation of CEOs of 15 biggest companies in US increased by 45 percent for the period 2003 to 2007, whereas average executive compensation rose by 15 percent during the same period (Ebert et al., 2008). It is not only the high level of remuneration and its continuous increase which are evident in US corporations, but the widening gap between CEO and worker compensation has also been controversial aspect of the managerial remuneration. Mishel
and Davis (2014) have highlighted this widening gap by revealing that the CEO to worker compensation ratio was 20:1 in 1965, 29.9:1 in 1978, 122.6:1 in 1995, 383.4:1 in 2000, and 295.9:1 in 2013.

The average remuneration of best paid 100 CEOs of Canada in 2015 was found to be $9.2 million and Gerry Schwartz, CEO of Onex Corporation stood as the highest paid executive with $87.9 million remuneration (Scott, 2015). The average pay of CEOs in Netherlands for the period 2003-2007, increased by 191 percent, whereas average executive compensation rose by 146 percent (Ebert et al., 2008). In a study of more than 500 listed groups in five EU countries in 2013, it was found that two-thirds of German companies increased executive remuneration, whereas two-thirds of companies in UK either flat or cut executive pay (Barker and Bryant, 2015). In a sample of first 39 FTSE 100 remuneration reports for the year ending March, 2015, 45 percent of CEOs got no increase in their salaries and the increase in the overall median salary was just 2 percent (PWC, 2015b). Even more than half of FTSE 350 companies did not change the basic fee level for the non-executive directors in 2013 (KPMG, 2013). Rakyan and Davis (2015) reported that basic executive salaries were highest in Singapore in the Asia-Pacific regions, with Hong Kong at the second position and the salary level in Singapore was found to be 10 percent higher than Hong Kong.

In India, Naveen Jindal (JSPL) has been the highest paid executive in 2011-12 with remuneration of ₹73.42 crore (Pande, 2012). However, due to a fall in profits of Jindal Steel and Power Limited (JSPL), pay package of Naveen Jindal was cut by ₹18 crore, standing at ₹36.96 crore in 2013-14 (PTI, 2014b). Kalanithi Maran (Sun TV Network) was the highest paid executive with ₹59.89 crore for the year 2013-14 (Pande and Dubey, 2014), up from ₹37.08 crore in 2010-11 (Pande, 2012). Hay Group (2014) reported that compensation of MDs and CEOs in India was expected to increase by 10 percent during 2013-14, as compared to 9 percent increase during 2012-13. However, in ET Bureau (2013), it has been stated that during the year 2011-12, total remuneration granted to managing directors in India was found to be below the prescribed limit of 5 percent of net profits for Sensex, BSE 100, and BSE 500 companies.
1.1 Managerial Remuneration: Meaning and Components

Section 2(78) of Companies Act 2013 defines ‘remuneration’ as any money or its equivalents given to any person for services delivered by him/her and perquisites defined under the Income-tax Act, 1961 are also considered a part of remuneration. Section 17(2) of Income-tax Act 1961 included the value of rent free accommodation given to the assessee by his employer; the value of any concession in the matter of rent respecting any accommodation given to the assessee by his employer; the value of any benefit or amenity given free of cost or concessional rate; any sum paid by the employer in respect of any obligation which, but for such payment, would have been payable by the assessee; any sum payable by the employer to effect an assurance on the life of the assessee or a contract for annuity; and the value of any other fringe benefit or amenity in the definition of ‘perquisites’. The entire amount of perquisites, irrespective of its taxable value, would form part of remuneration. Thus, managerial remuneration means the compensation for services rendered by directors to a company and it includes:

- Salary
- Perquisites
- Commission
- Benefits, and
- Stock options

Generally, the structure of managerial remuneration is highly complicated and it keeps on changing in the light of changes in the corporate governance practices of the country. Salary is the basic component of managerial remuneration which is subject to review as per the terms and conditions of the employment contract. Executive salaries are normally decided on the basis of salary levels of executives in the respective industry. During 1980s and early 90s, major components of remuneration of directors used to be fixed in nature in view of the regulatory ceilings. But now a significant proportion of remuneration is being paid in the form of commission which is calculated on the basis of profits. Perquisites generally include club memberships, hotel stays, foreign trips, etc. and are granted to executives in order to enhance their standard of living. Benefits include in-kind payments received by executives in addition to money and it may be in the form of...
medical and retirement benefits. Very few companies in India disclose the details of the stock options granted to its executives.

1.2 Managerial Remuneration – Theoretical Perspectives

Various models for understanding the structure of remuneration in an organisation have been suggested in the past. Sun et al. (2010) considered three major perspectives; economic, sociological and institutional, to understand the managerial remuneration.

Economic Perspective: The theories which explain managerial remuneration from economic perspective are:

- Agency Theory
- Tournament Theory
- Information Processing Theory

Agency Theory: It states that directors manage the company on behalf of the shareholders and are supposed to act in the best interest of the company (Daily et al., 1998; Wasserman, 2006). But where agency relationship exists, agency conflicts tend to rise as directors may not always pursue the goal of wealth maximisation which is in the best interest of shareholders rather they may pursue the goal of maximising their personal wealth. These two viewpoints give rise to the agency cost. Agency cost can be reduced by giving them incentives in the form of stock grants and option compensation. Granting compensation in the form of stock grants and options was also recommended by institutional investors and influential stockholder activists, such as CalPERS (largest public pension fund in the US), the National Association of Corporate Directors (NCAD), and Blue Ribbon Commission Report on Directors Compensation in the 1990s (Cordeiro et al., 2007). Proponents of agency theory see the remuneration contracts as the problem and the solution to mitigate the potential conflict of interest. By linking the remuneration of the directors with their performance, shareholders try to motivate them to attain the goal of wealth maximisation (Bender, 2007). Otten (2008) also stated that there is a need to provide incentives to agents in such a way that align the interests of the agent and principal. However, the issue is to what extent linking pay to performance would prove to be effective in the sense of
an ‘optimal contracting’ device to attain the specified objectives of the organisation. It depends on the functioning of each incentive. However, if an incentive fails to contribute towards the increase in corporate performance, then the supporters of agency theory believe that some other mechanism, such as the presence of outside directors would make sure that shareholders’ interests are secured (Duffhues and Kabir, 2008).

b. Tournament Theory: This theory implies that a number of persons compete for the post of CEO and they are judged on the basis of their relative performance. On the basis of the performance in comparison to other competitors, employees are promoted to the higher levels. More players in the tournament, the larger the prize should be (O’Reilly III et al., 1988). Higher they go in the corporate hierarchy, higher the gap in the compensation of people at top and those at lower level. The value of winning is not only the reward received at that level only, rather the real value lies in the opportunity to compete for larger prizes at higher levels (Conyon et al., 2001).

c. Information Processing Theory: This theory implies that the top management of a company is the information processing centre and the executives are entrusted with the task of information processing. How proficiently the skills of the information processing is possessed by executives becomes critical for the organisational performance. When a company diversifies its business, the information processing needs increase, thus increase the responsibilities of the top management team. As responsibilities of top management increase, their remuneration should also increase. Thus, executives are paid on the basis of the information processed by them, rather than the corporate performance. It is much easier to assess the information processed by executives than to evaluate the marginal contribution of an executive to the performance of a company (Henderson and Fredrickson, 1996; Sanders and Carpenter, 1998; Geiger and Cashen, 2007).

Sociological Perspective: The theories which have examined managerial remuneration from sociological perspective are:

a. Stewardship Theory
b. Managerial Power Theory
c. Social Network Theory
a. Stewardship Theory: It considers executives as the stewards of the resources entrusted to them by the shareholders. Stewards perceive higher utility in achieving the organisational goals rather than the individualistic goals. In case of disagreement between personal and organisational goals, stewards give priority to the organisational goals. Executives are motivated to maximise organisational performance and enhance the shareholders’ wealth. Executives’ personal needs are automatically fulfilled by working towards the organisational goals (Davis et al., 1997; Daily et al., 1998; Daily et al., 2003; Wasserman, 2006; Andreas et al., 2012).

b. Managerial Power Theory: The power of the board of directors includes; the structural power based on formal organisation structure and hierarchical authority, ownership power, expert power, and prestige power (Finkelstein, 1992). Powerful executives influence the pay practices in their organisations and design their pay packages in such a way that camouflages pay to reduce external scrutiny and criticism (Murphy, 2002). Practically ineffective corporate governance mechanism allows the directors to indulge in rent extraction and sub-optimal incentives, and thus, they design their remuneration packages to obtain rents at the expense of other stakeholders in the firm (Duffhues and Kabir, 2008). It implies that when directors have more powers to exert over the board, they have more generous remuneration packages (Chen et al., 2014).

c. Social Network Theory: This theory implies that executives’ networking skills prove to be useful resources for the organisation which ultimately enhance the value of such executives in an organisation and thus, more power over the board’s decisions regarding their remuneration (Meyerson, 1994; Belliveau et al., 1996; Geletkanycz et al., 2001).

Institutional Perspective: Institutions are commonly known as ‘rules of the game’ (Peng et al., 2009). In the words of Zucker (1987), institutional implies “a rule-like social fact quality of an organised pattern of action (exterior) and an embedding in formal structures, such as formal aspects of organisations that are not tied to particular actors.
Peng et al. (2009) stated that formal institutions and informal institutions are two dimensions of institutions which govern firm behaviour. Formal institutions, such as shareholder protection provisions and informal institutions, such as code of good corporate governance and ownership concentration enhance the relationship of firm performance with executive pay (Essen et al., 2012). Remuneration policies are affected by norms and traditions of industry and such policies are resistant to change in case of changes in technology and job content (Eisenhardt, 1988). Essen et al. (2012) also support the institution based view along with the optimal contracting theory, as institutions explain the rules of the game and accordingly, remuneration levels and performance sensitivities are contracted with board of directors. DiMaggio and Powell (1983) stated that institutional isomorphic change occurs through three mechanisms, i.e. coercive isomorphism resulting from political influence, mimetic isomorphism that stems from standard responses to uncertainty, and normative isomorphism, related with professionalization. Oliver (1991) suggested that organisational passivity is an inappropriate assumption of institutional theory and organisations respond strategically to institutional pressures on the basis of resource dependencies. Chizema (2008) examined executive remuneration disclosure through neo-institutional perspective where diverse participants shared diverse interests and these participants made use of their capabilities to mould events.

The variety of theories of managerial remuneration propounded by the researchers over the years highlight that managerial remuneration is a multidimensional phenomenon and needs to be examined accordingly.

1.3 Disclosure of Managerial Remuneration

Remuneration disclosure is the process of revealing the detailed information on how much each director is getting paid, the components of remuneration, details of determining the remuneration, and other information as required in the statutes. Detailed disclosure of managerial remuneration would promote transparency in remuneration policies of companies and make investors aware regarding the determination of managerial remuneration (Laksmana, 2008). The transparency in remuneration policies and equity based remuneration significantly improves the stock performance of
companies (Bauer et al., 2008). The complete disclosure of managerial remuneration conveys the commitment of the board of directors for maintaining transparency in the remuneration policies. It contributes to improve shareholder control and director accountability (Bahar, 2005). Disclosure helps in improving pay-performance sensitivity of remuneration paid to directors (Swan and Zhou, 2006).

The regulations regarding financial disclosure including; financial statements, corporate governance and voluntary information, exist in developed as well as developing countries. In India, companies used to disclose brief information regarding the remuneration paid to directors in ‘notes to accounts’ of the financial statements. During late 90s, Securities and Exchange Board of India (SEBI), regulatory authority of securities market in India, set up a committee under the Chairmanship of Kumar Mangalam Birla for improving the standards of corporate governance in India. On the recommendations of the committee, a new clause 49 was inserted in the listing agreement of SEBI. The media in India has been revealing that there are wide disparities about executive remuneration on different counts, like wide gaps between the remuneration of CEOs and entry level employees, varied remuneration levels of all directors of a company without any explainable reasons, lack of unanimity about the basis and payment of remuneration to directors. In Chatterjee and Saraswathy (2012), it has been stated that the average salary of the 100 best-paid directors is only one percent of their respective companies’ net profits, whereas few directors’ remuneration exceeded the five percent cap. The varying executive remuneration practices necessitate the dire need of disclosure of remuneration of directors.

1.4 How Managerial Remuneration is Determined and Disclosed at Global Level?

1.4.1 Managerial Remuneration Determination

Organisation for Economic Co-operation and Development (2004) issued “Principles on Corporate Governance” stating that the shareholders should be given the right to state their views on the remuneration policy for key executives and board members. Board members’ equity compensation should be subject to the approval of shareholders.
The board should also link remuneration of key executives and board members with the longer term interests of its shareholders and the company. European Commission (2009) has adopted a recommendation on the regime for directors’ remuneration of listed companies, which stated that remuneration policy should have due focus on the pay for performance and directors should consider the medium and long term sustainability of the company. The recommendation encouraged member states to ensure that the shareholders, in particular institutional investors, need to exercise their votes on the directors’ remuneration. It also provided that non-executives should not be granted stock options as a part of their remuneration in order to avoid conflict of interest.

In a report ‘Executive Remuneration 2015: Global Trends’, non-binding vote on executive pay in US, Voluntary voting in Canada, movement requiring a binding vote on pay determination in progress in European countries, and no such mandate in Asian countries have been stated (Mercer, 2014b). Balasubramanian et al. (2013) stated that in Europe, only four countries, i.e. Norway, Sweden, Denmark, and the Netherlands provide for a mandatory voting for executive compensation.

Sub-prime mortgage crisis of 2007 shook the entire world and in particular, the US economy. It required the government to reconsider the whole scenario of the corporate governance. The Emergency Economic Stabilization Act was passed in 2008, with the purpose of granting financial help to the troubled institutions. Under this act, Troubled Assets Relief Programme (TARP) was established, according to which funds are to be allocated to the firms in financial difficulty. This act made it mandatory to hold ‘say on pay’ resolutions for the firms which owed money to the TARP (Shearman and Sterling, 2009).

In 2010, Dodd-Frank Wall Street Reform and Consumer Protection Act was passed which brought revolutionary changes in the disclosure and determination of executive compensation. Section 951 makes shareholders’ approval compulsory for the executive compensation. A company is required to provide their shareholders an advisory vote on the executive compensation at least once in every three years. A non-binding vote on the golden parachute compensation to executives is also given to shareholders. Section 952 deals with the provisions regarding compensation consultants, the independence of the
compensation committee, and other compensation committee advisers. Compensation committee is given the responsibility for the appointment, compensation and work of the legal counsels, compensation consultants, and other advisers. Compensation committee may, in its sole discretion, retain or obtain the advice of independent legal counsels, compensation consultants, and other advisers.

In UK, Section 439 of Companies Act 2006 deals with the approval of quoted companies’ members for the directors’ remuneration report. It provides that a quoted company must send a notice to the members of the company regarding the intention to move at the meeting a resolution approving the directors’ remuneration report for the financial year. In a remuneration report, remuneration packages of the directors are disclosed and a non-binding, advisory vote on pay is given to the shareholders. The UK Corporate Governance Code 2014 requires that a significant proportion of the executive directors’ remuneration should be linked with the individual and corporate performance. The remuneration committee is given the responsibility to frame a transparent procedure for determining the directors’ remuneration and the structure of the performance based pay of the executive directors. No director should be involved in determining his or her own remuneration. Non-executive directors’ remuneration should not include share options or other performance related elements. Shareholder approval in advance is required before providing share options to the non-executive directors. Any shares acquired by non-executive directors on the exercise of the options should be held until at least one year after the non-executive director leaves the board. Department of Business, Innovation and Skills (BIS) in the UK issued guidelines in 2012 which included binding votes to shareholders regarding pay policy (BIS, 2012).

Unlike the market-oriented monitoring system of US, Japanese firms have adopted relationship-oriented system. According to the Commercial Law, the board of directors is responsible for determining individual executive compensation amounts. Then at the annual general meeting, shareholders’ approval must be sought for these amounts. Generally, executive compensation is paid in the form of cash salary and cash bonus (Kubo, 2005; Basu et al., 2007). Kubo (2005) stated that remuneration of directors in Japan is generally determined as a proportion of the highest paid employees’ monthly
wages. Executive compensation in Japan is not considered excessive (Hayashi and Dvorak, 2008), rather objections are raised regarding the insufficient link between executive compensation and corporate performance in Japan (Hall, 2009).

As per the Company Law, 1993 (as amended in 1999) in China, the authority to take all the important decisions is given to the general shareholders’ meeting. The Code of Corporate Governance for Listed Firms in China (China Securities Regulatory Commission, 2001), stated that board of directors may form a remuneration and appraisal committee where the majority shall consist of independent directors and such committee shall also be chaired by an independent director. The main responsibilities of this committee are to study the appraisal standards and remuneration policies for directors. Like Japan, executive pay in China has not got much negative media exposure (Firth et al., 2006).

1.4.2 Managerial Remuneration Disclosure

Organisation for Economic Co-operation and Development (2004) issued “Principles on Corporate Governance” stating that the material information on the remuneration policy for the key executives and board members, including their qualifications, the selection process, other company directorships and their independence status should be appropriately disclosed. Various other organisations, such as Towers Watson, PwC, European Corporate Governance Institute etc., came up with reports on the executive compensation at regular intervals. In Towers Watson (2013), long-term pay, pay for performance, disclosure of the basis and structure of pay, and say on pay have been set out as good remuneration committee practices. In 2006, SEC presented new and revised rules on the disclosure of how companies pay to its highly paid executive officers and how companies disclose information regarding the stock and option compensation given to its executives (US Securities and Exchange Commission, 2007).

Significant changes regarding the disclosure of executive compensation were introduced in 2010 through the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 953 requires that proper disclosure should be made about the relationship between executive compensation actually paid and the financial performance, considering
any change in the value of the shares, dividends of the issuer and any distribution. This act also mandates the disclosure of the ratio between compensation of a median worker and CEO compensation. However, the rule of disclosing this ratio has raised concerns as the compilation of this ratio has been considered difficult by global companies where employees get remunerated in different currencies at wide varying levels (Seelig, 2013). However, Larcker et al. (2012) stated that say on pay in the US has not been successful in reducing the perceived excess executive remuneration.

In UK, major changes for improving the governance of companies were made during 1990s. Cadbury Report (1992), Greenbury Report (1995), Hampel Report (1998), Higgs Report (2003) made several recommendations for improving the governance scenario in UK. In 2002, the Directors’ Remuneration Report (DRR) Regulations were passed in UK and these regulations enhanced the disclosure requirements of the executive pay (Roach, 2004). Later on, these regulations were incorporated in the Companies Act 2006. Section 412 requires that the directors’ remuneration is to be disclosed in the notes to a company’s annual accounts, including gains on the exercise of share options, benefits received or receivable under long term incentive schemes, payments for loss of office, benefits receivable, and contributions for the purpose of providing benefits, in respect of past services of a person as director or in any other capacity while director, and consideration paid to or receivable by third parties for making available the services of a person as director or in any other capacity while director. As per an agreement made by five major UK banks Barclays, HSBC, Lloyds Banking Group, Royal Bank of Scotland, and Standard Chartered in 2009, a claw back mechanism, deferred payments of senior executives, and a number of disclosure provisions were introduced (Taylor, 2009). The UK Corporate Governance Code (2014) sets the standard of remuneration, accountability, board effectiveness, and other governance practices and all listed companies in UK are required to disclose in their annual reports how the governance code has been used and if they have not, then an explanation regarding this need to be given (Financial Reporting Council, 2014). On June 20, 2012, Department of Business, Innovation and Skills (BIS) issued guidelines for directors’ remuneration in order to improve corporate governance framework. These measures included improving transparency, a policy report stating all
elements of the remuneration policy, details on the pay-performance relationship, and information on to what extent policy has been implemented in the previous year (BIS, 2012). However, in a sample of first 39 FTSE 100 remuneration reports, only 50 percent of the companies were found to disclose their full remuneration policy at the end of the year 2015 under the regulations given by BIS (PWC, 2015a).

In 2010, Japan’s Financial Services Agency (FSA) introduced new rules regarding the disclosure of the executive compensation and stated that publicly listed Japanese companies must disclose the individual names and pay levels of all directors, receiving Y100m or more in salary, bonus, stock options and retirement payments (Nakamoto, 2010).

German corporate governance code took effect in 2014 which required companies to disclose executive board remuneration, maximum payout levels regarding the total and individual remuneration elements of executive board members, and improved disclosure of the pay policy (Towers Watson, 2013). In 1994, rules were introduced by the Stock Exchange of Hong Kong which required all listed firms to disclose the compensation of five highest paid employees, inclusive of directors (Cheng and Firth, 2005). In Canada, in a study on 100 highest-paid executives, payment mix was found to be skewed towards non-salary components such as cash bonus, share and options, and other compensation (Scott, 2015).

In a report ‘Executive remuneration disclosures in Asia’ by Mercer (2014c), the code of good corporate governance (Indonesia) requires the disclosure of aggregate level of remuneration paid to board of directors and the remuneration policy. Malaysian code of corporate governance (2012) requires the board to administer the overall remuneration structure. China Securities Regulatory Commission issued regulation in 2012 which required companies to disclose total pay of directors in tabular format. A comparative study of disclosure requirements of remuneration across Asia (Mercer, 2014a) is given in the following table 1.1.
Table 1.1
Remuneration Disclosure Requirements in Asia

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<td>Executive remuneration disclosed in the annual report and accounts</td>
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<td>Executive remuneration provided only as an aggregated amount</td>
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**LTI**
- Indonesia: ✔
- Malaysia: ✔
- Philippines: ✔
- Singapore: ✔
- Thailand: ✔
- Vietnam: ✔
- China: ✔
- Hong Kong: ✔
- Japan: ✔
- South Korea: ✔
- Taiwan: ✔
- Bangladesh: ✔
- India: ✔
- Pakistan: ✔
- Sri Lanka: ✔
- UK: ✔

**Other**
- Total: ✔
- Total: ✔
- Total: ✔
- Total: ✔
- Total: ✔
- Total: ✔
- Total: ✔

**Executive compensation policy**
- Indonesia: ✔
- Malaysia: ✔
- Philippines: ✔
- Singapore: ✔
- Thailand: ✔
- Vietnam: ✔
- China: ✔
- Hong Kong: ✔
- Japan: ✔
- South Korea: ✔
- Taiwan: ✔
- Bangladesh: ✔
- India: ✔
- Pakistan: ✔
- Sri Lanka: ✔
- UK: ✔

**Detailed descriptions of compensation elements included:**
- Overview of bonus: ✔
- Overview of LTI plans: ✔
- Description of pension: ✔
- Any payouts to departing executives: ✔
- Disclosure of performance required: ✔
- Relationship between pay and performance: ✔

**Note:** Legend: B = board members; C = CEO; D = directors; LTI = long term incentives; NED = non-executive director; SM = senior management; T4 or T5 = Top 4 or 5 key management personnel.

**Source:** Mercer (2014a)
1.5 Managerial Remuneration in India

The surveys related to remuneration paid to the CEOs and the directors of Indian companies have become routine feature in print media in India. More than 800 executives took home ₹1 crore plus as total remuneration for the year 2009-10 (PTI, 2011). In the year 2013-14, 697 executives had remuneration of over ₹1 crore (Pande and Dubey, 2014). CEO Genpact NV Tyagarajan earned ₹49 crore in 2011 with an increase of nearly four-fold in his remuneration (Julka, 2012). Some companies have declined the remuneration paid to their top executives. In 2008, board members at Infosys forego 60 percent of their variable pay and the remuneration of SD Shibulal of Infosys dropped about 30 percent to ₹91 lakh in 2011-12 as compared to the previous year (Julka and Sengupta, 2012). Wipro paid total remuneration of ₹8.7 crore in 2011-12 to all the key management personnel as compared to ₹27.5 crore in the previous year (PTI, 2012). The company released the statement that the determination of remuneration of the chairman and managing director and other executive directors was done keeping in view the relative performance of the company to the industry performance, the industrial benchmark, and the macro-economic review of the remuneration packages of CEOs of other organisations. The issue which sparked outrage was whether these pay packages were justified in terms of company attributes.

Executive compensation activists have raised voice regarding the justification of huge volume of executive compensation and its growth in the times of economic slowdown. They opined that the executives should be paid as much as they are contributing towards the growth of the company. However, executive pay increased by 33 percent in 2009 against 25 percent profit growth (Sinha and Puri, 2010).

Another controversy is regarding the influential role of board of directors and company in getting their pay packages approved from the shareholders. Tata Motors’ resolution for approving the remuneration of top executives was rejected by shareholders in June 2014. However, same resolution was approved in January 2015 when company gave the statement that proposed remuneration was synchronised with industry benchmarks (FE Bureau, 2015). This instance shows that remuneration is always disbursed as per the choice of board of directors only. Lawler III (2012) suggested that corporate boards are better suited to frame appropriate remuneration policies and reduce executive
compensation than regulatory authorities would do.

Some activists have also raised concern regarding the widening gap between CEO remuneration and staff pay. An Economic Times study revealed that for the year ended March 2010, the CEOs of top companies earned 68 times the average pay in their companies, up from 59 times average pay in 2008-09 (Sinha, 2011). Now, Companies Act 2013 has made it mandatory to disclose the ratio of the remuneration of each director to the median employee’s remuneration. Krishnan (2015) reported that a fifth of the Nifty companies had pay gap ratio ranging between 100 to 200 times and Lupin’s chairman got 1168 times the pay package of the median employee in his company during 2014-15.

Another issue which has come up in the recent times is the gap between the remuneration of the promoter executives and non-promoter executives in India. Fagernas (2006) found the evidence that the directors who were related to the board members or were part of the founding family or controlling group of the shareholders, were paid more than those who were not. This was also signified in Nayak (2007) where top seven highest paid CEOs were all promoters. A significant difference of more than three-fold in the remuneration of promoter executives vis-à-vis non-promoter executives in the year 2011-12 has been found in a report by proxy advisory firm liAS (ET Bureau, 2013). Even Phadnis (2014) also highlighted the issue that the list of highest-paid executives during 2013-14 is dominated by promoter executives, such as Kalanithi Maran and Naveen Jindal, etc. and in this list, Infosys CEO Vishal Sikka was the highest paid professional CEO with the remuneration of ₹30 crore. However, Krishnan (2015) has noted down certain exceptions where non-promoter executives get more than the promoters of their companies, such as Adani Ports’ executive director Malay Mahadevia earned remuneration of ₹10.38 crore whereas Gautam Adani got ₹2.8 crore during the year 2014-15. This also questioned the role of the major shareholders and the promoter executives in the determination of the managerial remuneration.

Another issue of debate is regarding those perquisites to which managerial persons are entitled but these are not included in the computation of the ceiling on remuneration specified under section II of part II of the Schedule XIII of Companies Act 1956. These perquisites include contribution to superannuation fund or annuity fund, provident fund, gratuity and encashment of leave. In addition to the perquisites mentioned, an expatriate
managerial person (including a non-resident Indian) shall be eligible to the perquisites, such as holiday package for children studying outside India/family staying abroad, children education allowance, and leave travel concession which shall not be a part of the calculation of the ceiling on remuneration. Executive remuneration activists allege companies of providing heavy amounts under the shield of these perquisites instead of paying compensation directly to its executives.

Another point of controversy is the pay gap between the executives of the public sector companies and private sector companies. Where private sector executives’ pay packages have touched the figure of ₹70 crore per annum, executives of public sector companies are still earning in lakhs only. K Roongta, chairman, Steel Authority of India Ltd. (SAIL) earned remuneration of ₹16 lakh during 2008-09, with CAGR of 14.7 percent since 2004-05 and National Thermal Power Corporation (NTPC) managing director, RS Sharma got remuneration of ₹20.8 lakh during 2008-09, with CAGR of 25.2 percent since 2004-05 (Mathur, 2009). Table 1.2 gives a brief view of the remuneration packages of public and private sector executives.

**Table 1.2**
**The Public-Private Divide**

<table>
<thead>
<tr>
<th>Designation/Organisation</th>
<th>Total Remuneration* (In ₹ Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SS Mundra, Chairman, Bank of Baroda</td>
<td>0.26</td>
</tr>
<tr>
<td>Arundati Bhattacharya**, Chairman, SBI</td>
<td>0.09</td>
</tr>
<tr>
<td>Arup Choudhary, Chairman, NTPC</td>
<td>0.52</td>
</tr>
<tr>
<td>Neeru Abrol, Chairman, National Fertilisers</td>
<td>0.26</td>
</tr>
<tr>
<td>Chanda Kochhar, CEO, ICICI Bank</td>
<td>5.08</td>
</tr>
<tr>
<td>Anil Sardana, Managing Director, Tata Power</td>
<td>4.40</td>
</tr>
<tr>
<td>Aditya Puri, Managing Director, HDFC Bank</td>
<td>6.07</td>
</tr>
<tr>
<td>Anil Kapoor, Managing Director, Chambal Fertilisers</td>
<td>3.04</td>
</tr>
<tr>
<td>R Mukundan, Managing Director, Tata Chemicals</td>
<td>3.71</td>
</tr>
</tbody>
</table>

*for 2013-14; ** for the period October 2013-March 2014

Source: Nalinakanthi (2014)
The table shows that Arup Choudhary, chairman and managing director, NTPC, earned remuneration amounting to ₹52 lakh during the year 2013-14. Krishnan (2015) also highlighted mounting gaps between executive pay packages of public and private sector companies and stated that remuneration package of Chanda Kocchar, ICICI Bank was ₹5.1 crore during 2014-15, whereas Arundhati Bhattacharya, State Bank of India got just ₹23 lakh. This yawning gap has emerged as an issue of debate in the print media.

The pay packages of independent directors have also become a controversial issue. Infosys, a leading Indian IT company, has decided to increase the remuneration payable to the independent directors from a sum not exceeding 0.5 percent to 1 percent per annum of the net profits of the company to be disbursed in the form of commission from the year 2006-07 and this would make the ratio of average compensation between the CEO and other whole-time directors and the independent directors and top management at about 1.51:1 (Kumar, 2008). Independent directors earn much more than the whole time directors by spending just 80 hours to 320 hours annually for the job of independent director in a company.

Remuneration activists have also raised the issue of regulating the remuneration packages of the company executives. They opine that this is the only way to curb the unstoppable growth of the remuneration figures. The corporate sector presented the view that keeping in mind the shortage of talent, it is not feasible to regulate the remuneration of the executives. In 2009, then Corporate Affairs Minister, Salman Khurshid, brought Companies Bill 2009 and stated the theme of regulating the remuneration of executives rather than controlling it. For instance, he proposed that there should be no requirement to seek approval of the government for raising the salaries of the CEOs and directors and the removal of the existing 11 percent cap on executives’ salaries. Government clarified its stand that as far as the remuneration paid to executives is justified, there should be no interference from the government. If the purpose of granting higher remuneration is to retain the talent in the organisation, then it is perfectly justified. However, India Inc presented their viewpoint that the shareholders are the best judge for determining the executive remuneration. "Any new norms on compensation to Indian CEOs may set in motion a flight of talent and capital away from the country," said Harsh Patil Singhania, the President of Industry Chamber of FICCI (PTI, 2009). Ministry of Corporate Affairs
has liberalised remuneration norms under the Companies Act 2013, which would allow listed companies and their subsidiaries to decide remuneration of executives without the government’s prior approval (Arora, 2015).

Disclosure requirements of the managerial remuneration specified in the Companies Act, 1956 has also been a major issue for the remuneration activists. The act has made it mandatory for companies to furnish specified details of remuneration of the directors and other personnel under section 217(2A) of the Companies Act. However, many companies, taking shelter of section 219 (1) (b) (iv), do not furnish this information in their annual reports. This clause of the section 219 states that if a company is listed on a recognised stock exchange, then copies of such documents should be made available for inspection at its registered office during working hours for a period of 21 days before the date of the meeting. Thus, this becomes a hurdle in the effective disclosure of the information related with the remuneration figures and the personal characteristics of the executives. The Companies Act 2013, requires the disclosure of pay-gap ratio but companies are found to skip these details. Krishnan (2015) stated that a significant number of public sector companies skipped pay-gap ratio disclosure in June 2015, taking shelter under a Central Government exemption and ‘Bajaj Auto’ offered to give these details to shareholders on request.

Detailed disclosures of the managerial remuneration in the annual reports of the companies may effect in two ways. First, companies would start paying higher remuneration to its directors by imitating the pay packages of their competitors. This would raise the remuneration level of the entire industry. Another impact may be the fall in the remuneration paid to the executives as paying higher amount of remuneration could bring bad name for the company. Had the second view been true, then the stringent disclosure requirements in developed nations would have curbed the growth of managerial remuneration but the situation is just the opposite.

The various controversies as discussed above, have made the issue of managerial remuneration of extreme significance in the area of corporate governance. Thus, the present study is an attempt to investigate the disclosure and determination of the managerial remuneration in India.
1.6 Managerial Remuneration – Regulatory Framework in India

The Companies Act, 1956 defines `director' as any person occupying the position of director, by whatever name called and ‘managing director’ as the one who is entrusted with substantial powers of management which would not otherwise be exercisable by him, and includes a director occupying the position of a managing director, by whatever name called. The term ‘manager’ means an individual (not being the managing director) who, subject to the superintendence, control and direction of the board of directors, has the management of the whole, or substantially the whole of the affairs of a company, and includes a director or any other person occupying the position of a manager, by whatever name called.

Section 198 (1) of the Companies Act, 1956 stated that the total managerial remuneration payable by a public company or a private company which is a subsidiary of a public company, to its directors in a financial year shall not exceed 11 percent of net profits of the company for that financial year computed in the manner laid down in sections 349 and 350. Remuneration shall include:

(a) any expenditure incurred by the company in providing any rent-free accommodation, or any other benefit or amenity in respect of accommodation free of charge, to any of the persons specified in sub-section (1);

(b) any expenditure incurred by the company in providing any other benefit or amenity free of charge or at a concessional rate to any of the persons aforesaid;

(c) any expenditure incurred by the company in respect of any obligation or service, which, but for such expenditure by the company, would have been incurred by any of the persons aforesaid; and

(d) any expenditure incurred by the company to effect any insurance on the life of, or to provide any pension, annuity or gratuity for, any of the persons aforesaid or his spouse or child.

Section 309 of the Companies Act, 1956 specifies that the remuneration payable to directors of a company shall be determined either by the articles of the company, or by an ordinary resolution, or by a special resolution where the articles so require and the
remuneration payable to any such director determined as aforesaid shall be inclusive of the remuneration payable to such director for services rendered by him in any other capacity:

Provided that any remuneration for services rendered by any such director in any other capacity shall not be so included if –

(i) the services are rendered in a professional capacity; and

(ii) the central government has expressed the opinion that the director concerned possesses requisite qualifications for the practice of the profession.

Section 309 also laid down the manner of payment of remuneration to a director and the limits thereto.

Remuneration to whole time director(s) or managing director(s)

A director who is either in the whole time employment of the company or a managing director may be paid remuneration either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other. Except with the approval of central government, the remuneration of such directors shall not exceed:

(i) 5 percent of the net profits of the company for one such director;

(ii) If there is more than one such director, 10 percent of net profits of the company for all of them together.

Remuneration to a manager

Remuneration to a manager may be paid either by way of a monthly payment or at a specified percentage of the net profits of the company or partly by one way and partly by the other. Except with the approval of central government, the remuneration of a manager shall not exceed 5 percent of the net profits.

Remuneration to non-executive directors

According to sub-section (4), a director who is neither in the whole time employment of the company nor a managing director may be paid remuneration either by way of monthly, quarterly or annual payment with the approval of the Central Government or by
Managerial Remuneration: Theoretical and Legal Framework

way of commission if the company by special resolution authorises such payment. The remuneration of non-executive directors shall not exceed:

(i) 1 percent of the net profits of the company, if the company has a managing or a whole time director or a manager;

(ii) 3 percent of the net profits of the company in any other case.

Section II of Part II of Schedule XIII to the Companies Act, 1956 explains the remuneration payable to managerial person i.e. a managing or whole-time director or a manager by companies having no profits or inadequate profits. Schedule XIII does not empower a company to pay remuneration to its non-executive directors where the company has suffered a loss (Bhandari, 2013).

More or less, all the above stated provisions remain intact in the new Companies Act, 2013 in section 197 and provisions regarding the computation of net profits of a company in any financial year for the purpose of section 197 are given in section 198 of the Companies Act, 2013.

Section 178 (1) of the Companies Act, 2013 states that the board of directors of every listed company shall constitute the Nomination and Remuneration Committee consisting of three or more non-executive directors out of which not less than one-half shall be independent directors, provided that the chairperson of the company (whether executive or non-executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such committee.

Section 197 (12) states that every listed company shall disclose in the board’s report, the ratio of the remuneration of each director to the median employee’s remuneration and such other details as may be prescribed.

Disclosure Requirements

Section 217(2A) of the Companies Act, 1956 and Companies (Particulars of Employees) Rules, 1975 required all companies to disclose the compensation of individual executives and other personnel with their personal details such as designation, qualification, age, date of joining, experience and previous employment and designation in their annual
reports, if compensation exceeds a threshold. In 1988, this threshold limit was ₹36000 per annum which was raised to ₹3 lakh in 1994, ₹6 lakh in 1998 and ₹12 lakh in 2000. In 2002, this limit was further raised to ₹24 lakh per annum. With effect from March 31, 2011, this limit has been increased to ₹60 lakh per annum. This information was required to be disclosed in prescribed format as an annexure, forming part of the Directors’ Report.

Clause 49 of the Listing Agreement of the stock exchanges introduced by SEBI in 2000 requires the companies to disclose information regarding all the components of directors’ remuneration such as salary, commission, other benefits, etc. in a standardized format as part of the Report on Corporate Governance in the annual report. Following mandatory and non-mandatory requirements were specified in clause 49 regarding the disclosure of managerial remuneration and the formation of remuneration committees.

Mandatory Requirements

- Disclosure of all elements of the remuneration package of all directors, i.e. salary, benefits, bonuses, stock options, pension, etc.
- Details of fixed component and performance linked incentives along with the performance criteria, and
- Stock option details, if any, and whether issued at a discount as well as the period over which accrued and over which exercisable.

Non-Mandatory Requirements

- A remuneration committee should be set up comprising of at least three non-executive directors, chairman of the committee being an independent director.
- All the members of the remuneration committee should be present in the meeting of the remuneration committee conducted during the year.
- The chairman of the remuneration committee should be present in the Annual General Meeting of the company.
- Disclosure of the company’s remuneration policy on specific remuneration packages of the executive directors.
1.7 Rationale of the Study

Most of the research studies related with managerial remuneration have been conducted in developed nations only. The reason might be more and easy accessibility of remuneration figures of executives due to better disclosure regime in developed nations. Moreover, remuneration determination process involves very less interference from the government in these countries and thus, the remuneration of executives/directors on the board is determined primarily by the market forces. But determination of managerial remuneration in India is highly regulatory, such as there exists a government ceiling regarding total managerial remuneration of a company which cannot be more than 11 percent on the net profits of that company. Companies with inadequate profits were required to seek government approval in case they grant remuneration beyond the prescribed limits. Such kind of strict and regulated environment put a constraint on the free determination of managerial remuneration. The highly competent executives generally prefer to work in companies and countries where they would be able to earn according to their performance and market standards with no ceiling on their remuneration. The retention of competent executives in a regulated economy, like India thus becomes difficult which adversely affect the supply of such people and further affect the level of managerial remuneration. The strict regulatory environment in India, the dominance of promoters and the inactive role of boards in determining the managerial remuneration of Indian executives, make this study different from those carried out in other countries.

A few studies have been conducted regarding the determination of managerial remuneration in India and the focus of most of these studies was on the CEO remuneration only (Bhattacherjee et al., 1998; Ramaswamy et al., 2000; Veliyath and Ramaswamy, 2000; Parthasarathy et al., 2006; Ghosh, 2010; Tomar and Korla, 2011; Balasubramanian et al., 2013). Sarkar and Sen (1999) examined the effect of liberalisation of remuneration guidelines on the structure of managerial remuneration. Only Kakani and Ray (2002), Jaiswall and Firth (2007) and Chakrabarti et al. (2011) have examined remuneration of all executive directors. Carpenter and Sanders (2002) highlighted the differences between the top management compensation and CEO compensation, and proved that the compensation of a CEO cannot be representative of
the remuneration of the board. The board’s efficiency is not the result of the contribution of a particular person only; rather collective efforts of all executives whose contribution determines the fortune of a company. Agency theory also implies that it is not a particular person in a company who manages the company on behalf of the shareholders. Rather, it is the board of directors of a company who are considered as the agent of the shareholders and are supposed to work for the interest of the shareholders. Thus, it is more appropriate to have a study on the total remuneration paid to all directors of a company. Also, all studies carried out in past have used a time period prior to the implementation of clause 49. The time period covered in the present study coincide with the period during which media has been very active in highlighting the controversies related to level of managerial remuneration, structure and unjustified growth of managerial remuneration, etc. The present study is the first of its kind which examines the disclosure of managerial remuneration in India in detail and would widen the scope for research in this field in future. No study till date has been conducted to find out how remuneration details are disclosed in corporate governance reports of annual reports of the companies and what factors affect these disclosures. Thus, the present study is an attempt to examine the disclosure and determinants of managerial remuneration in India on the basis of the sample of top 150 companies for a period of 10 years (2002-03 to 2011-12).

1.8 Organisation of the Study

The thesis is organised into six chapters as follows.

Chapter 1: Managerial Remuneration: Theoretical and Legal Framework

Chapter 2: Review of Literature

Chapter 3: Research Framework and Research Methodology

Chapter 4: Disclosure of Managerial Remuneration and Determinants

Chapter 5: Managerial Remuneration: Growth and Determinants

Chapter 6: Summary and Conclusions