Journal of Accounting and Finance
Volume 25, No. 2
April-September 2011

Corporate Governance vis-à-vis Executive Compensation and Firm Performance in India

Hitesh J. Shukla

Abstract

The main objective behind the corporate governance is to protect long-term shareholder value along with the other stakeholders. It is the foundation to build market confidence and encouraging stable and long-term foreign investment flows. Corporate world must have a sound framework for its operation to achieve its objectives and creating wealth for the welfare of the society as a whole.

Keywords: *Corporate Governance, Firm Performance, Stakeholders, welfare.*

Introduction

The objective of wealth maximization given by Ezra Solomon contained the aspect of wealth maximization by increasing the value of shareholders, while corporate governance emphasizes adding value to all the stakeholders by good governance. Corporate governance is a very wide term, which covers a wide range of activities that relate to the way business organization is directed and governed. It deals with the policies and practices that directly impact on the organization's performance, stewardship and its capacity to be accountable to its various stakeholders.

Review of literature

The link between executive compensation and corporate performance has been explored extensively in Western countries, especially in the USA. Public debate in these countries revolving around executive compensation also focuses mainly on the link between company performance and executive compensation. In recent times, attention has also been paid to the mode of compensation, particularly grant of stock options to the managers of a company. Murphy (1986) states that the belief that top executives in companies are excessively paid is flawed and displays a lack of understanding about the managerial labour market. He points out that cross sectional studies that analyze executive compensation across companies at a point in time cannot point out the correlation between pay and performance. Instead it is the correlation between pay and performance over time for a company that can provide insights into whether pay and performance are correlated. Such a study showed that pay and performance of top executives are strongly and positively correlated. Besides this, short term and long term incentive plans benefit shareholders by incentivizing managers to perform better in their interests. In a similar vein, Jensen and Murphy (1990) question the importance of excessive compensation in public debates. They instead propose that it is the mode in which CEOs are paid (cash, stock options, bonuses etc.) that should be analyzed rather than just focusing on how much CEOs are paid. Based on a very large sample of data on executive compensation spanning half a century, they conclude that changes in compensation do not reflect changes in corporate performance. They go on to recommend that in the shareholder's interests, managers need be given big rewards for outstanding performance and suitable penalties for underperformance. They hypothesize that the political forces in the public and private spheres regarding executive compensation have played a role in dampening the sensitivity of pay and performance of top managers in the corporate sector.

"Corporate Governance mechanisms are economic and legal institutions that can be altered through the political process – sometimes for the better." – Shleifer & Vishny (1997). Even if we agree that competition is the best mechanism for achieving economic efficiency through cost minimization, as predicted by the 'evolutionary view of economic changes' (Alchian, 1950, Stigler, 1958), the importance of Corporate Governance cannot be overlooked if we keep in mind issues like informational asymmetries and agency problems. The agency problem, stemming essentially from the separation of ownership and control, is the backbone of the contractual view of the firm (Coase, 1937, Jensen & Meckling, 1976 and Fama & Jensen, 1983). In most cases an investment project is financed and managed by separate people. The financier and the manager/entrepreneur enter into a contract. But, as the contractual view notes, it is impossible to specify all future contingencies in the contract, and hence complete contracts are not feasible. The decision making power in case a situation not specified in the contract arises is referred to as the residual control – this is addressed to in the theory of ownership. A major portion of corporate governance deals with the limits to this discretionary power. Hence the first issue is management's discretionary power resulting from technological infeasibility of a complete contract. The managers, in deed, have enough control power over decisions like fund allocation even to expropriate investors' money through many avenues, and this happens to be a frequently observed problem that concerns investors. Also entrenchment of poorly performing managers is another very important problem. Yet another serious issue where agency problem manifests itself is the choice of projects by managers. They often pick projects that benefit themselves and cost the investors dearly. In such a situation Coase theorem (1960) might seem ideal to be applied, but problem of agreement between numerous investors prevents its application. In fact, the J-M (1976) view that managers pick inefficient projects when they do not have equity holdings has been empirically supported. Often a performance sensitive, long term incentive contract is thought of as a way out, but this might generate ex-post inefficiency and costs huge amounts to investors/financiers.

There has been a recent focus on corporate governance among the financial researchers worldwide and in particular in India. The main issue seems to be the independence of non-executive directors (The Hindu, 2001, several articles). Indian industry is now witnessing the transition from hand picked directors to professionally competent and independent non-executive directors on the board, but this will not be easy. Very few such competent people are in supply. Any suitable candidate needs to have a public stature to inspire confidence in the shareholders (Bindi Mehta ICSI- 2004). One should also be able to contribute to the company and not merely contest the management. Ideally, they should be prominent industrialists and not friends or promoters of the manager. The change of goals and facets of the Indian corporate has been significant. The scenario in the Pre-liberalization period was very depressing as demand always exceeded supply due to government-imposed quotas, "licenses". This was supposed to check the extent of control owned by single individuals. The main issues facing a CEO at that period were, Where to invest excess cash, How to acquire more capacity, How to improve capacity utilization and of course the better governance. Another salient issue is the exploitation of minority shareholders by the promoters. But, this will be mitigated when corporate governance improves. (Madhav Mehra, 2005) With liberalization, there came government disinvestment. The management came under pressure to show efficiency, profitability and better governance system. And there was considerable brain drain – all the brighter PSU employees went to the private sector as job opportunities boomed. Family owned businesses were forced to turn professional or enter into contractual arrangements with larger houses. Roy (1999) studied Takeovers and Mergers in India: one important instrument of corporate governance.

Objective:

This paper deals with four broader parameters that will determines executive compensation: firm performance, firm specific characteristics, shareholders' value creation and key corporate governance parameters. They can be represented as:

Executive compensation = f (firm performance, firm characteristics, shareholders wealth, corporate governance score)

Regression Model:

The regression model for total CEO compensation can be written out as:

In (CEO Compensation) = a + b1 (NPM) + b2 (ROA) + b3 ((Inc. NPM) + b4 (Inc. ROA) + b5 (TRS) + b6 (CEO-Chairman) + b7 (CEO – Promoter) + b8 (% Independent Directors) + b9 (% Institutional Shareholding) + b10 (Firm – PSU) + b11 (Firm – MNC) + b12 (In (Sales)) + e

---

Where;

CEO Compensation: Total value of compensation paid to CEO in current year

NPM: Net Profit Margin in current year

ROA: Return On Assets in current year

Inc. NPM: Incremental NPM over previous year

Inc. ROA: Incremental ROA over previous year

TRS: Total Returns to Shareholders in current year

CEO-Chairman: a dummy variable representing, "Is CEO the Chairman of the board?",

CEO-Promoter: a dummy variable representing, "Does the CEO belong to the promoter group?" = 1 if yes, 0 otherwise

% Independent Directors: Percentage of independent directors on the board

% Institutional Shareholding: Percentage of total institutional shareholding in the company

Firm-PSU: a dummy variable representing, "Is the company a PSU?" = 1 if Yes, 0 otherwise

Firm-MNC: a dummy variable representing, "Is the company a MNC? =1 if Yes, 0 otherwise

Sales: Sales of the company in current year in rupees

e: Error term which we assume to be normally distributed

The broader objective of this study is to know the relationship between corporate governance, executive compensation and firm performance in India. This objective is subdivided into:

1. To know the corporate governance practices in Indian corporate.
2. To measure the corporate governance score through structured questionnaire.
3. To study the relationship among corporate governance, firm performance and executive performance.

Methodology:

Sample of the study includes companies included in the list of BSE-100 as on 1st April 2009. Out of the sample 100 companies 10 companies were not included in the study due to mergers, take over and non availability of complete reports.

Analysis: Corporate Governance Score for Capital Goods Industry. In Capital Goods industry there were 8 sample units. All samples have sufficiently disclosed the statement of Company's philosophy on code of governance and for Structure and Strength of the board. No company had Non-Executive Independent Chairman. However, Siemens and ABB have Non-Promoter, Non-Executive Chairmen. Punj Lloyd and Suzlon have Promoter Executive Chairman - Cum – Managing Director. Tenure and Age limit of directors are sufficiently disclosed by all sample companies. The definition of 'Independent Director' and 'Financial Expert' and selection criteria for board members (including independent director) was not clearly indicated by any sample companies However; the definition of 'Independent Director' is available in the annual report of Bharat Heavy Electricals Ltd.

The systematic disclosures about the Post Board meeting follow up system were not sufficiently available in the annual report of the sample companies. Among them, none have formally appointed lead independent director. All the companies have sufficiently disclosed about the various committees and sub-committees of the board. All companies have sufficiently disclosed remuneration to directors.

The remuneration policy of ABB was sufficiently disclosed in the annual report. In the Corporate Governance score, the tenth point was about the code of conduct. All sample companies have sufficiently disclosed (i) Information on Code of Conduct and (ii) Affirmation regarding compliance with code of conduct. It is observed that all companies have made sufficient disclosure about the audit committee. It is also observed that all companies, except Bharat Electronics Ltd. have formed the remuneration committee. However, none of the sample companies has published Remuneration Committee Report in the annual report. It is observed that none of the sample companies – except Larsen & Toubro Ltd. have formed the nomination committee. ABB Ltd and Bharat Electronics Ltd. have given information about the Whistle Blower Policy. However, it was not given by other sample companies. It is observed that most of the companies have provided information about the above mentioned points in various forms. The disclosure about all items except Corporate Social Responsibility was not adequately provided in the report. Hence, ABB Ltd. gets highest score of 69 whereas Punj Lloyd gets the lowest score of 59 in the Capital Goods industry. It can also be analyzed that the Industry Average Score of Capital Goods Industry (63) was LOWER than the Aggregate Average Score of all Industries.

Corporate Governance Score for Diversified Industry. In the diversified sector, there are 6 sample units, for calculating the corporate governance score. All companies have made sufficient disclosure of the statement of Company's philosophy on code of governance and Structure and Strength of board. Siemens and Century, Grasim and Tata Chemicals have Promoter Non Executive Chairman. While Adani, Aditya Birla Nuvo and GMR Infra have Promoter Executive Chairman - Cum – Managing Director. None of the companies have disclosed definition of 'Financial Expert', selection criteria for board members (including independent director) and post board meeting compliance procedure. Aditya Birla Nuvo, Century and Grasim have not formed the Remuneration / Compensation Committee. Share Transfer Committee is formed by Adani and Century. Health safety and environment committee was formed by Grasim. Adani gets a better score for the committee related disclosure.

It is observed that most of the companies have provided information about above mentioned points in various forms. The disclosure and employees health and safety were adequately provided in Grasim. The HRD related activities were adequately mentioned in all sample companies (except Aditya Birla Nuvo), The disclosure about Corporate Social Responsibility was adequately provided in the report of all sample companies (except Century and Aditya Birla Nuvo). The information regarding IR and HRS etc was not adequately provided in the report of all sample companies.

Hence, Adani Enterprise Ltd and Tata Chemicals Ltd. get highest score of 71 whereas Aditya Birla Nuvo Ltd. gets the lowest score of 57 in the Diversified industry. It can also be analyzed that the Industry Average Score of Diversified Industry (66) was LOWER than the Aggregate Average Score of all Industries.

Corporate Governance Score for Financial Services and Banking Industry. In the Financial Services and Banking sector, there were 13 sample units. All companies have made sufficient disclosure of the statement of Company's philosophy on code of governance. All companies have sufficiently disclosed the composition of the Board of Directors. ICICI, IDFC and KMB had Non Executive Independent Chairman. RCL had a Promoter Non Executive Chairman. While remaining companies have Non Promoter Executive Chairman. All companies have sufficiently disclosed the tenure and age limit of Directors. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). The systematic disclosure about the Post Board meeting follow up system was not sufficiently available in any annual report of the sample companies. HDFC Bank have formally appointed lead independent director. All the companies have sufficiently disclosed about the various committees and sub-committees of the board. ICICI, IDBI, IDFC, KMB, PFC and RCL have sufficiently disclosed remuneration to directors and remuneration policy.

All companies have made sufficient disclosure about the audit committee. However, none of the sample companies has published Audit Committee Report. It was observed that all the sample companies (except SBI & PFC) have formed the committee. BOI and IDBI have not sufficiently disclosed details about the committee. However, none of the sample companies (except HDFC) has published Remuneration Committee Report in the annual report. It was observed that PFC and SBI have not formed the Remuneration / Compensation Committee. HDFC have published the report of investors' survey. Investment Committee was formed by AXIS, BOB, BOI HDFCB, ICICI, IDBI and KMB. Share Transfer Committee was formed by BOB, BOI, HDFCB, ICICI and KMB. For Transparency and related disclosure, HDFCB, ICICI and KMB get a score of 24, AXIS, BOB and RCL get a score of 22, PFC and SBI get 20, HDFC IDBI and IFC get 18 and PNB and BOI get 16.

It is observed that most of the companies have provided information about the above mentioned points in various forms. The disclosure and employees health and safety was adequately provided in PFC and RCL. The HRD related activities were adequately mentioned in all sample companies (except IDBI), the disclosure about Corporate Social Responsibility are adequately provided in the report of all sample companies (except AXIS, BOB, BOI and IDBI). The information regarding IR and HRS etc is not adequately provided in the report of all sample companies.

Hence, HDFCB, ICICI, get the highest score of 80 whereas IDBI gets the lowest score of 60. The industry Average Score of Financial and Banking industry (70) was higher than the Aggregate Average Score of all Industries.

Corporate Governance Score for FMCG Industry. In the FMCG sector there were 5 sample units. All companies have sufficient disclosure of the statement of Company's philosophy on code of governance. They have sufficiently disclosed the composition of the Board of Directors. TTL, HUL and USL have Promoter Non Executive Chairman. ITC has promoter Executive Chairman, whereas Nestle has Promoter Executive Chairman. None of the companies have disclosed definition of 'Financial Expert' and selection criteria for board members (including independent director). None of the companies have formally appointed lead independent director. None of the companies have sufficiently disclosed about the various committees and sub-committees of the board, but they have sufficiently disclosed about remuneration to directors and the remuneration policy.

It was observed that all companies have made sufficient disclosure about the audit committee. Four of the sample companies (HUL, ITC TTL and USL) have formed the remuneration committee. All the sample companies have formed the Shareholders' / Investors' Grievance Committee. Nomination Committee is formed only by TTL. Share Transfer Committee is formed by all sample companies. Ethics and Compliance committee was formed by TTL.

The disclosure and transparency were assigned a weightage of 25. Hence, ITC gets the highest score of 24, NIL a score of 23, TTL a score of 21, HUL a score of 15 and USL gets the lowest score of 15. It is observed that most of the companies have provided information about the above mentioned points in various forms. EHS, HRD, CSR & IR policies are not disclosed adequately in the report of any sample companies. All sample companies (except USL) have sufficiently provided details about CSR and IR. Whereas EHS and HRD related activities are adequately mentioned in all sample companies.

Hence, in this sector, ITC gets the highest score of 78 whereas USL gets the lowest score of 62. The Industry Average Score of FMCG Industry (71) was higher than the Aggregate Average Score of all Industries.

Corporate Governance Score for Healthcare Industry. All companies have sufficiently disclosed about remuneration to directors. However, remuneration policy was sufficiently disclosed only in GSK and RLL. Two companies, DRL and GSK, have published Audit Committee Report in the annual report. It was observed that all companies (except Cipla and Sun Pharma) have formed the committee. They have also made sufficient disclosure. DRL and GSK have published Remuneration Committee Report in their annual report. None of the sample companies have published information about the investors / shareholders' survey (if conducted). Ethics and Compliance Committee and Investment Committee are formed only by two sample companies, DRL and GSK.

For the disclosure and transparency shown by the company in the annual report, DRL gets the highest score of 24, RLL a score of 22, GSK a score of 21, SPL and DLL get a score of 18 and Cipla and Glenmark get the lowest score of 16. It was observed that most of the companies have provided information about the above mentioned points in various forms. IR policies are not sufficiently disclosed in the report of any sample companies. RLL has sufficiently disclosed about EHS. HRD was sufficiently described in annual report of DRL, GSK and RLL. CSR was adequately described in DLL, DRL and GSK.

Hence, DRL gets the highest score of 82 whereas Cipla gets the lowest score of 54. The Industry Average Score of Healthcare Industry (67) was equal to the Aggregate Average Score of all Industries.

Corporate Governance Score for Housing Related Sector. UCL has given the definition of independent directors. However, none of the sample companies have disclosed the definition of 'Financial Expert'. The systematic disclosure about the Post Board meeting follow up system was not sufficiently available in any annual report of the sample companies. Among the sample, no company has formally appointed a lead independent director. All companies have sufficiently disclosed about remuneration to directors and the remuneration policy. It was observed that all the companies (except ACL) have sufficiently disclosed the details.

All companies have made sufficient disclosure about the audit committee charter and terms of reference. It was observed that all companies (except UNL) have formed the committee.

However, Ethics - Compliance Committee was formed by three sample companies (ACC, ACL & DLF) and Investment Committee was formed by two sample companies, DLF and UCL. Share Transfer Committee was formed by ACL, ICL, JAL and UCL.

For disclosure and transparency, the UNL gets the highest score of 24, DLF a score of 21. ACC, ACL, JAL & ICL get a score of 18, and IIL and UCL get the lowest score of 16. It was observed that most of the companies have provided information about the above mentioned points in various forms. EHS, HRD & IR related policies were not sufficiently disclosed in the report of any sample companies. However, HRD and CSR were adequately described in the annual report of ACL, DLF, UCL and UNL. Here, DLF gets the highest score of 71 whereas IVRCL gets the lowest score of 60. The Industry Average Score of Housing Related industry is very close to the Aggregate Average Score of all Industries.

Corporate Governance Score for IT & ITES Sector. All companies have made sufficient disclosure about the audit committee, the charter and terms of reference. It was observed that all companies (except PCS) have formed the committee. However, none of the sample companies have published information about the investors / shareholders' survey. Ethics - Compliance Committee was formed by two sample companies (TCS & WIL). Share Transfer Committee was formed by FTL, and TML. Hence, for disclosure and transparency, the ITL & WIL get the highest score of 25, TCS gets a score of 20, and the remaining sample companies get a score of 18. It was also observed that most of the companies have provided information about various steps for transparency; EHS & IR related policies were not sufficiently disclosed in the report of any sample company. However, HRD and CSR were adequately described in the annual report of all sample companies (except HCL).

The Infosys Technologies Ltd. gets the highest score of 91 whereas PCS gets the lowest score of 60. The Industry Average Score of IT –ITES industry was higher than Aggregate Average Score of all Industries.

Corporate Governance Score for Metal and Mining related Industry. All companies have made sufficient disclosure about the audit committee, the committee charter and terms of reference. However, none of the sample companies have published Audit Committee Report in the annual report. It is observed that HIL & HZL have not formed the remuneration committee, but all the sample companies have formed the shareholders' grievance committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted). It was observed that only three of the sample companies (JSW, SAIL and TSL) have formed the nomination committee. However, Ethics - Compliance Committee is formed by one sample companies (TSL) and Share Transfer Committee by SGL, and TSL.

For disclosure and transparency, SGL gets the highest score of 22, TSL and SIL get a score of 20, HIL, HZL and JSW get a score of 18 whereas SAIL gets a score of 14. EHS & IR related policies were not sufficiently disclosed in the report of any sample company. However, HRD and CSR were adequately described in the annual report of JSW, SIL and TSL. Therefore SIL and TSL get a score of 6, HZL a score of 4, JSW and HIL get a score of 2, and JSPL, SGL and SAIL get Zero in this section. Hence, Tata Steel Ltd. gets the highest score of 75 whereas SAIL gets the lowest score of 54. The Industry Average Score of Metal and Mining related industry was marginally lower than the aggregate score of all Industries.

Corporate Governance Score for Oil and Gas Sector. All companies (except BPCL) have sufficiently disclosed about remuneration. AOL and CIL have sufficiently disclosed about remuneration policy. It was observed that all the companies (except BPCL) have sufficiently disclosed about both the above points. All companies have made sufficient disclosure about the audit committee, its committee charter and terms of reference. However, none of the sample companies have published Audit Committee Report in the annual report. It was observed that all companies (except BPCL, HPCL & RPL) have formed the remuneration committee and made sufficient disclosure about it. None of the sample companies have published Remuneration Committee Report in the annual report. It was observed that all the sample companies have formed the shareholders' grievance committee. AOL, RIL and RPL have published information about the investors / shareholders' survey. Three sample companies (CIL, RPL and RNRL) have formed nomination committee.

For disclosure and transparency, UNL gets the highest score of 24, DLF a score of 21, ACC, ACL, JAL & ICL get a score of 18, and IIL and UCL the lowest score of 16. EHS, HRD & IR related policies were not sufficiently disclosed in the report of any sample company. However, HRD and CSR were adequately described in the annual report of ACL, DLF, UCL and UNL. Hence, RIL gets the highest score of 80 whereas BPCL gets the lowest score of 52. The Industry Average Score of Oil and Gas industry was marginally lower than the aggregate score of all Industries.

Corporate Governance Score for Power Sector. All companies have made sufficient disclosure about the audit committee but the NTPC has not adequately disclosed its committee charter and terms of reference. Other sample companies have sufficiently disclosed committee charter and terms of reference. Two of the sample companies (REL and TPL) have formed the remuneration committee. The Shareholders' / Investors' Grievance Committee is formed by all the sample companies. However, none of the sample companies (except TPL) have published information about the investors' / shareholders' survey (if conducted). The formation of other committees was assigned a weightage of 4. Its classification is already mentioned earlier. Health Safety and Environment Committee was formed by REL. Ethics and compliance Committee was formed by all the sample companies. Investment committee was formed by NTPC and Share Transfer Committee by PGC. For transparency and related disclosures, TPL gets the highest score of 24, PGC and RIL get a score of 20, and NTPC gets the lowest score of 18.

All sample companies have sufficiently provided details about CSR and IR. EHS and HRD related activities are adequately mentioned by all the sample companies. Hence, Tata Power Ltd gets the highest score of 79 whereas NTPC gets the lowest score of 62. The Industry Average Score of Power industry was higher than the aggregate score of all Industries.

Corporate Governance Score for Telecom Sector. All companies (except MTNL) have made sufficient disclosure about the audit committee. The MTNL has not complied with the minimum requirement of the number of independent directors in the committee. It had also not provided information about participation of head of finance, statutory auditor and chief internal auditor in the committee meeting. TCL has not adequately disclosed audit committee charter and terms of reference. The Remuneration/Compensation Committee was formed by all the sample companies (except MTNL). It was observed that all an the sample companies have formed the shareholders' grievance committee. However, none of the sample companies have published information about the investors / shareholders' survey (if conducted).

BAL gets the highest score in the area of disclosure and transparency, followed by RCL, ICL and TCL. Whereas MTNL gets the lowest score of 8. It was observed that most of the companies have provided information about the above mentioned points in various forms. EHS, HRD, CSR & IR policies were not disclosed adequately in the report of any sample company. All sample companies have sufficiently provided details about HRD. Whereas CSR related activities were adequately mentioned in BAL balance sheet.

Hence, Bharti Airtel Ltd. gets the highest score of 75 whereas MTNL gets the lowest score of 48. The Industry Average Score of Power industry is marginally lower than the aggregate score of all Industries.

Corporate Governance Score for Transport Equipment Sector. In the Transport Equipment sector there are 8 sample companies and all have sufficiently disclosed the statement of Company's philosophy on the code of governance and structure and strength of board. MSIL has Non Promoter Non Executive Chairman. ALL, BOL, MML and TML, a Promoter Non Executive Chairman while. BFL, CIL and HHML have a promoter Executive Chairman. All companies have sufficiently provided the details of this section but, none have disclosed details about selection criteria for independent directors. The systematic disclosure about the Post Board meeting follow up system was not sufficiently available in any annual report of the sample companies (except MML). Hence, MML gets a score of 2, whereas other sample companies could not get any point in this section. As far as the appointment of lead independent director in concerned none of the companies has appointed lead independent director. It was observed that all companies have sufficiently disclosed about the various committees and sub-committees of the board. Hence, all companies get the expected score. They have sufficiently disclosed about remuneration to directors and the remuneration policy. It was observed that all the companies have sufficiently disclosed about the code of conduct.

All companies have made sufficient disclosure about the audit committee, the committee charter and the terms of reference. However, none of the sample companies (except ALL), have published Audit Committee Report in their annual report. All sample companies (except BFL, CIL, MSIL) have formed the committee. It was observed that all the sample companies have formed the Shareholders' / Investors' Grievance Committee. However, none of the sample companies (except ALL & TML) have published information about the investors' / shareholders' survey (if conducted). ALL & TML have published survey of investors. For disclosure and transparency, TML gets the highest score of 24, BFL and CIL get a score of 16, whereas the remaining companies get a score of 18.

It was observed that most of the companies have provided information about the above mentioned points in various forms. EHS, HRD, CSR & IR policies were not disclosed adequately in the report of any sample company. Hence, Tata Motors Ltd gets the highest score of 82 whereas BFL and CIL get the lowest score of 58. The Industry Average Score of Transport Equipment industry was similar to the aggregate score of all Industries.

Correlation: The Corporate governance has a positive relationship with net profit margin while the same has negative relationship with incremental profit margin. Return on investment has positive relationship while incremental ROI has negative relationship. Corporate governance has negative relationship with total returns to shareholders. Independent directors have negative impact on performance of the companies. CEO-Promoter has more significant relationship with the performance than the CEO-Chairman. Institutional holders have no significant relationship with corporate governance. Company size has positive relationship with the corporate governance that means that the bigger companies have better governance. While other companies like PSU or MNC have negative relationship with the corporate governance. CEO pay has positive relationship with size and profits. Overall R square comes to 16 percentages and value of F comes to less than the table value.

Conclusion: In conclusion, the average score of corporate governance was 67 out of 100. The sectors of IT and FMCG were the highest in corporate governance score (71) whereas capital goods sector was recorded the lowest with 63 point score. Out of the sample 5 companies were found in the range of 41 to 55 score while 54 companies came into the range of 56 to 70.30 samples came in the range of 71 to 85 and one company i.e. Infosys came in the range of 86 to 100. The financial relations like sales, size and characteristic of the corporate have positive correlation with the CEO remuneration. CEO who was promoter was receiving the higher remuneration than the other CEO's. CEO of PSU was getting less remuneration than other corporates. While dividing the samples into three groups based on their corporate governance score (average, good, very good and excellent) the very good and excellent category has positive relation between financial performance, CEO compensation and corporate governance.

Table – 1 Characteristics of Data set used

	Characteristics of Data set used Sample	*BSE-100*
1	NO OF COMPANIES IN DATA SET	90
2	NO OF COMPANIES WHICH DISCLOSED POLICIES ON INCENTIVE PAY	90
3	NO OF COMPANIES THAT USE INCENTIVE PAY AS A PART OF COMPENSATION	56
4	NO OF COMPANIES WITH DUAL STRUCTURES	48
5	NO OF COMPANIES WITH MD AS PROMOTERS	27
6	NO OF PSU Companies	16
7	No of MNC companies	02

Table – 2 Descriptive statistics of complete dataset used

	Variable	*Mean*	*Median*	*Standard Deviation*
1	Total Chairman Compensation Rs. In Lacs	493.86	40.54	1368.41
2	% of variable pay to total pay of chairman	44.00%	38.02%	42.62%
3	Net profit margin %	14.37%	14.07%	29.42%
4	Incremental net profit margin %	3.57%	-0.11%	28.94%
5	ROA %	16.28%	11.23%	19.04%
6	Incremental ROA %	-1.15%	-0.07%	8.79%
7	Total return on shareholders %	174.08%	100.00%	240.28%
8	% of independent directors on board	52.80%	50.00%	12.10%
9	% of institutional share holding	24.00%	22.27%	13.28%
10	Sales in Lacs Rs.	14,00,400	5,47,012	28,34,571

Table – 4 Sector wise score of corporate governance

Sector	*up to 40*	*41-55*	*56-70*	*71-85*	*86-100*
Capital G.	0	0	8	0	0
Diversified	0	0	4	2	0
Banking	0	0	8	5	0
FMCG	0	0	2	3	0
Healthcare	0	1	3	3	0
Housing	0	0	7	1	0
IT & ITES	0	1	3	2	1
Metal Min	0	1	4	3	0
Petro Chem	0	1	6	4	0
Power	0	0	2	2	0
Telecom	0	1	2	2	0
Capital Eq	0	0	5	3	0
Overall	0	5	54	30	1

Table-5 Summery Corporate Governance Score for all samples

Sr.No.	Sector	No. of Companies	Average of Sector	Maximum Score	Minimum Score
1.	Capital Goods	08	63	69	59
2.	Diversified	06	66	71	57
3.	Finance	13	70	80	60
4.	FMCG	05	71	78	62
5.	Healthcare	07	67	82	54
6.	Housing Related	08	66	71	60
7.	Information Technology	07	71	91	55
8.	Mining, Metal Products	08	65	75	54
9.	Oil and Gas	11	68	80	52
10.	Power	04	70	79	62
11.	Telecom	05	66	75	48
12.	Transport Equipments	08	67	82	58
	Total Companies	90			
	Aggregate Average	67			

Table - 6 Regression Results for Incentive Pay (Coefficients, t statistics in Parentheses, Department Variable = Ratio to Total CEO Pay (in %))

Variable	Predicted Sign	1
NPM	+	0.142
		(1.253)
Incr. NPM	+	-0.2
		(-0.082)
ROA	+	0.214
		(1.682)
Incr. ROA	+	-0.231
		(-1.725)
TRS	+	-0.01
		(-0.613)
Indep. Dirc	-	-0.087
		(-1.03)
CEO-Chairman	+	2.045
		(0.614)
CEO-Promoter	+	13.589
		(4.024)
Institu Holding	-	0.201
		(1.672)
Comp.PSU	-	-21.657
		(-3.771)
Comp. MNC	+	-2.843
		(-0.606)
Size	+	3.791
		(3.076)
Adjusted R2		0.141
Overall F		6.099

References

Abowd, John M. 1990. 'Does Performance-Based Managerial Compensation Affect Corporate Performance?'. Industrial and Labour Relations Review. 43 (3): 52-73.

Baker, George P, Jensen, Michael C and Murphy, Kevin J. 1988. 'Compensation and Incentives: Practice vs. Theory'. Journal of Finance. 43 (3): 593-617.

Bebchuk L.A and Fried F.M. 2003. 'Executive Compensation as an Agency Problem'.

NBER Working Paper No. 9813. National Bureau of Economic Research.. Cambridge, Massachusetts.

Bhattacharya, Asish K and Rao, Sadhalaxmi V. 2005. 'Agency Costs and Foreign Institutional investors in India'. Working paper No. 548. IIM Calcutta, Kolkata.

Bhattacherjee, Debashish, Jairam, S and Ravi Shankar, G. 1998. 'Top Management Remuneration and Firm Performance: An Exploratory Analysis'. Economic and Political Weekly: Review of Management and Industry. 33: 10-15.

Core, John E, Holthausen, Robert W and Larcker, David F. 1999. 'Corporate Governance, Chief Executive Officer Compensation, and Firm Performance'. Journal of Financial Economics. 51(3): 371-406.

Davila, Antonio and Penalva, Fernando. 2004. 'Corporate Governance and the Weighting of Performance Measures in CEO Compensation'. Working Paper No. 556. IESE Business School, University of Navarra.

Evans, John and Evans, Robert. 2002. 'The Influence of Non-Executive Director Control and Rewards on CEO Remuneration: Australian Evidence'. Journal of Academy of Business Administration. 7(1).

Finkelstein, S and D'Aveni, R A. 1994. 'CEO Duality as Double-Edged Sword: How Boards

of Directors Balance Entrenchment Avoidance and Unity of Command'. Academy Journal of

Management. 37(5). 1079-1108.

Ghosh, Arijit. 2003. 'Board Structure, Executive Compensation and Firm Performance in Emerging Economies: Evidence from India'. IGIDR Working Paper Series. IGIDR, Mumbai. Jensen, Michael C. and Meckling, William H. 1976. 'Theory of the Firm: Managerial Behaviour, Agency Costs, and Capital Structure'. Journal of Financial Economics. 3(4): 305-360.

Jensen, Michael C and Murphy, Kevin J. 1990. 'CEO Incentives — It's Not How Much You Pay, But How'. Harvard Business Review. 68 (3): 138-154.

Jensen, Michael C and Murphy, Kevin J. 1990. 'Performance Pay and Top Management Incentives'. Journal of Political Economy. 98 (4):225-264.

Khanna, Tarun and Palepu, Krishna. 1997. 'Why Focused Strategies May be Wrong for Emerging Markets'. Harvard Business Review. 75(4): 41-51.

Milgrom, P and Roberts, J. 1992. Economics, Organization and Management. Prentice-Hall Murphy, Kevin J. 1986. 'Top executives are worth every nickel they get'. Harvard Business

Review. 64 (2): 125-132.

Murphy, Kevin J. 1998. 'Executive Compensation'. Working Paper — Yale School of Management's Economics Research Network.

Pukthuanthong, Kuntara, Talmor, Eli and Wallace, James S. 2004. 'Corporate Governance and Theories of Executive Pay'. Corporate Ownership & Control. 1(2): 94-105.

Ramaswamy,K., Veliyath, R. & Gomes, L. 2000. 'A study of the determinants of CEO compensation in India'. Management International Review. 40(2): 167-191.

Rui, Oliver M., Firth, Michael and Fung, Peter M.Y. 2002. 'Corporate Governance and CEO Compensation in China'. http://ssrn.com/abstract=337841. Last accessed on January 14th, 2006.

SEBI: Issues under clause 49 and proposed amendments.

http://web.sebi.gov.in/commreport/clause49.html. Last accessed on December 25th 2005.

Swami, P. 2005. 'India's highest paid executives'. Business India. November 7th: 62.

Snyder, Franklin G. 2003. 'More Pieces of the CEO Compensation Puzzle'. Delaware Journal of Corporate Law. 28(1): 129-184.

Talmor, Eli and Wallace, James S. 2001. 'A Unified Analysis of Executive Pay: The Case of the Financial Sector'. Working Paper — Yale School of Management's Economics Research Network.

Dr Hitesh J. Shukla, Associate Professor, Department of Business Management, Saurashtra University, Rajkot.