Independence of Remuneration Committee & Executive Remuneration in India

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The present study explores the impact of independence of remuneration committee on the remuneration of executive directors in a sample of 51 listed companies in India for a period from 2003 to 2012. In companies having fully independent remuneration committees and independent chairmen, a negative impact of accounting performance has been found on the executive remuneration. However, results reveal a positive and significant impact of market performance on the executive remuneration. In the presence of an independent chairman of remuneration committee, promoters' shareholding has been observed negatively related with the executive remuneration. These findings can be useful for the regulatory authorities in framing and improving norms regarding the determination of executive remuneration.

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Introduction

The debate about executive remuneration has focused on three elements: structure, governance and disclosure (Ferrarini et al., 2003). Any governance mechanism designed to regulate executive remuneration should ensure the coverage of all these elements. The regulation should increase the possibility that the remuneration setting maximizes shareholder interests and does not become a skimming process in which the board is captured by management. In Anglo-American corporate governance, two devices have been developed to reduce the risk of a board's capture: the appointment of independent directors to the board and the creation of a remuneration committee consisting of non-executive/independent directors (Ferrarini et al., 2003). For efficient regulation, corporate governance codes have been introduced by almost all the countries in the recent past. For instance, the Combined Code on Corporate Governance, 2003 (UK); NYSE Listing Standards, 2004 (USA); Code of Corporate Governance, 2005 (Singapore); and Since 2003, ASX Corporate Governance Council (Australia) have been developing and re-

leasing recommendations on the corporate governance practices to be adopted by the listed entities.

In its effort to match with international best practices and improve the effectiveness of corporate boards and its committees, the Securities and Exchange Board of India (SEBI) has also introduced regulations. Since the notification of the Clause 49 on February 21, 2000, corporate governance regulations in India have rapidly evolved. Following the enactment of the Companies Act, 2013, the updated version of CL49 was notified on April 17, 2014. Based on the industry response, some provisions in CL49 were amended and the SEBI (Listing Obligations & Disclosure Requirements) Regulations were notified on September 2, 2015 (Sarkar, 2015). Clause 49 states that the board may set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment. The formation of remuneration committee was non-mandatory till 2013, but the Companies Act 2013 made it mandatory to have nomination and remuneration committee consisting of three or more non-executive directors, out of which not less than one-half shall be independent directors. As the remuneration committee is responsible for fixation of remuneration of the executive directors, it is important to examine the role of remuneration committee in setting pay of directors. The present paper attempts to examine the impact of independence of remuneration committee in determining the remuneration of executive directors of the listed companies in India. It also studies how the independence of remuneration committee affects the relationship of company performance, promoters' shareholding, and ownership concentration with the executive remuneration.

Review of Literature

The impact of presence or absence of the remuneration committee on the pay packages of CEOs and directors has been examined by only a few researchers. For example, Conyon (1997) reported that in United Kingdom, during the period 1988-1993, the directors' compensation in companies having remuneration committees grew at 2.6 per cent lower than the compensation of directors of companies without remuneration committees. But the presence of remuneration committee had not been found having any significant influence on the relationship between executive compensation and corporate performance. Benito and Conyon (1999) also found no significant impact of the presence of remuneration committee on the directors' remuneration in UK. However, they stated that pay-performance relationship might be stronger in companies having remuneration committees. Kuo and Yu (2014) examined the influence of remuneration committees in aligning the com-

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pensation of CEOs with firm performance in a sample of 1311 Taiwanese firms for a period of three years (2008-2011) and found that companies which have voluntarily constituted remuneration committees early would show a stronger pay-performance link than those companies who formed remuneration committees mandatorily.

The findings of various studies which have examined the relationship between composition of remuneration committees and executive compensation are summarised in Table 1. Newman and Mozes (1999) reported no significant impact of the presence of insiders on the compensation of CEOs. Anderson and Bizjak (2003) concluded that neither completely independent committees nor the dominant presence of independent directors in remuneration committees play any role in determining the remuneration packages for executives. Moreover, the presence of insiders or CEO in the committee has not been found leading to excessive executive remuneration. Vafeas (2003) found no association of committee composition as well as the interaction between committee composition and performance with the pay levels of CEOs. But a positive and significant association between committee independence and CEO compensation was reported by Sapp (2008).

The cash compensation has been found more positively related to accounting earnings when compensation committee quality represented by CEO appointed directors, senior directors, CEO directors, director shareholdings, additional directorships, and committee size increased (Sun & Cahan, 2009). Sun et al. (2009) showed that as the compensation committee quality improved, CEO stock option grants were more positively related with the future firm performance. Gregory-Smith (2012) found that neither the committee size nor the committee independence affected pay of CEOs.

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Anderson and Bizjak (2003) and Sapp (2008) have used the proportion of independent directors in remuneration committee as a proxy for the independence of remuneration committee, whereas in other studies the proportion of insiders, non-executives, affiliated directors, interdependent directors, etc. are used. In the present study, remuneration committee independence is represented through two variables i.e. a dummy variable taking the value one if all directors of committee are independent and another dummy variable which takes the value one if the chairman of the remuneration committee is an independent director and zero otherwise.

Remuneration Committee & Executive Remuneration

The directors of a company are seen as the stewards of the resources entrusted to them by shareholders and their personal needs are automatically fulfilled

Table 1 Empirical Literature

Study	Sample and Country	Time-period	Dependent variable	Remuneration committee measures	Result
Conyon & Peck (1998)	94 UK companies	1991-94	Compensation of highest paid director	1.Absence or presence of remuneration committee 2.Proportion of non-executives on remuneration committee	Absence or presence of remuneration committee insignificant whereas proportion of non-executives positively related with compensation.
Daily et al. (1998)	194 US companies	1991-94	Contingent compensation, Non-contingent compensation,Total compensation, andYearly change in compensation	1.Proportion of affiliated directors 2.Proportion of interdependent directors 3.Proportion of CEOs serving on the compensation committee	No significant impact of committee composition on CEO compensation
Newman and Mozes (1999)	161 US firms	1991-92	CEO compensation, Change in CEO compensation	1.Insider-dominated firm 2.Percentage of insiders on compensation committee	Insignificant impact of committee composition on CEO compensation
Anderson & Bizjak (2003)	1376 US company--year observations	1985-98	CEO compensation	1.Compensation committee independence	No significant impact of committee independence
Vafeas (2003)	271 US firms	1991-97	CEO compensation	1.Presence of insiders on compensation committee 2.Committee composition/ performance interactive term	Insignificant impact of committee composition and committee composition/ performance interactive term
Sapp (2008)	416 Canadian public listed companies	2000-05	CEO compensation	1.Proportion of independent members on compensation committee	Positively related with CEO compensation

Sun & Cahan (2009)	812 US firms	2001	CEO compensation	Compensation committee quality represented by CEO appointed directors, senior directors, CEO directors, director shareholdings, additional directorships, and committee size.	High compensation committee governance quality leads to more positive association between CEO cash compensation and firms' accounting earnings
Sun et al. (2009) tee	474 firms in US	2001	Future operating income of companies	Compensation committee quality	CEO stock option grants for companies with high commit- quality results into higher future operating income.
Gregory-Smith (2012)	FTSE350 companies UK	1996-2008	CEO pay	1.Committee size 2.Proportion of insiders on committee	Insignificant impact of committee size and the proportion of insiders

when they work towards the achievement of organizational goals (Davis et al., 1997; Daily et al., 1998; 2003; Wasserman, 2006; Andreas et al., 2012). The optimal contracting theory assumes an independent role of non-executive directors in setting remuneration of executive directors (Bebchuk et al., 2002). According to Ryan and Wiggins (2004), an independent board meet the economic interests of the shareholders better. But Kaushik (2013) observed that independent directors are failing in their independent role. Both, 'agency theory' and 'optimal contracting theory' believe that an independent remuneration committee would ensure that shareholders' interests are safeguarded and remuneration decisions are made on fair and equitable basis. Thus, the independent directors are supposed to check excessive remuneration being paid to directors and linking it to the performance of the company. Due to increased public awareness about various governance issues including executive remuneration, the independent directors on remuneration committee are expected to check the executive directors' remuneration (Abdullah, 2006).

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Hypothesis 1: Independence of remuneration committee is negatively related with the executive remuneration.

Independent Director as Chairman of Remuneration Committee

According to managerial power approach (Bebchuk et al., 2002; Barontini & Bozzi,

2011), the presence of executive director on the remuneration committee would give immense power to the executive directors to decide their own pay. Greater the power of executive directors, higher is the excess pay or rent earned by them over what they should actually get. Independent director as the chairman of remuneration committee is expected to ensure that the remuneration decisions are not affected unreasonably by inside directors on the remuneration committees. Independent director as the chairman of the committee is anticipated to make remuneration setting process to be more objective and reasonable.

Hypothesis 2: Independence of chairman of the remuneration committee is negatively related with the executive remuneration.

Executive Remuneration & Performance

Many studies have reported accounting performance of a company and/or its market performance as basis of payment to the directors. For instance, Cladera and Gispert (2003), Fatemi et al. (2003), Ghosh (2006), Su et al. (2010), Barontini and Bozzi (2011), Andreas et al. (2012), Wu (2013), Chen et al. (2014) have found executive remuneration linked positively with accounting performance whereas Ertugrul and Hegde (2008), Barontini and Bozzi (2011) and Theeravanich (2013) found executive remuneration linked positively with market performance of a company. The purpose of strengthening the institution of independent directors is to ensure the independence of the board from management. Similarly, the purpose of setting up of a remuneration committee is to govern the executive remuneration in a company, which is supposed to be fair and transparent. The performance of a company is considered as an objective and fair basis to justify the level of remuneration being paid to executive directors. Hence, it is expected that fully independent remuneration committees and independent chairman of the remuneration committee would enhance the sensitivity of executive remuneration to company performance.

Hypothesis 3a: Fully independent remuneration committees strengthen the relationship between company's accounting performance and executive remuneration.

Hypothesis 3b: Fully independent remuneration committees strengthen the relationship between company's market performance and executive remuneration.

Hypothesis 3c: The presence of an independent chairman of remuneration committee strengthens the relationship between company's accounting performance and executive remuneration.

Hypothesis 3d: The presence of an independent chairman of remuneration committee strengthens the relationship between company's market performance and executive remuneration.

Executive Remuneration & Promoters' Shareholding

Private sector firms in India are either affiliated to business groups or are non-af-

filiated individual firms. Both individual and group-affiliated firms are largely family firms with considerable equity holdings by family members as well as family involvement in the management of the companies. In 2003, two out of every five companies in India typically had a promoter present on the board. More importantly, the presence of promoters on company boards has increased significantly over the years with a noticeable jump in 2005—approximately around the time when stricter governance regulations became applicable to virtually all listed companies. By 2008, every three out of five Indian companies had a promoter on board. Thus, while the proportion of companies having promoters as outside directors increased from 26 percent in 2003 to 33 percent in 2008, the proportion of companies with promoters as inside directors increased from 32 percent in 2003 to 47 percent in 2008, suggesting an escalating role of promoters in executive management. In 2003, when promoters were present on the board, they occupied the position of either the chairman or the managing director in 80 percent of the companies and it increased very significantly by 2008, except for 5 percent of the companies. The promoter ownership has been well over 50 percent giving the promoter absolute control over these companies, which suggests that Indian companies (at least the large ones) are virtually controlled by promoters in terms of both ownership as well as managerial discretion (Sarkar, 2010).

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Parthasarathy et al. (2006) found that CEOs who belonged to promoter groups earned higher incentive pay and total compensation. Ghosh (2006) also reported that when CEOs are related to founders, board remuneration increases. It indicates that more the dominant position of promoters, higher is the remuneration granted to promoters and to defend it higher salaries to other directors as well. It corroborates the 'rent extraction hypothesis' where dominant executives compensate themselves with much higher remuneration than the market and company performance would allow. The presence of an independent remuneration committee and an independent chairman of the committee would check the strong positive relationship between promoters' shareholding and executive remuneration.

Hypothesis 4a: Fully independent remuneration committees weaken the positive relationship between promoters' shareholding and executive remuneration.

Hypothesis 4b: The presence of an independent chairman of remuneration committee weakens the positive relationship between promoters' shareholding and executive remuneration.

Executive Remuneration & Ownership Concentration

In India, both group affiliates and standalones can be either widely held or have concentrated ownership. How-

ever, an examination of the ownership structure of a large sample of listed firms reveals that a large majority of firms in India (irrespective of their ownership affiliation) are characterized by concentrated ownership and control structures and widely-held firms (where no shareholder controls 20 percent votes) are an exception rather than the rule. As of 2006, the percentage of widely-held firms in a sample of 1965 listed Indian private sector non-financial firms (accounting for more than 80 percent of the total market capitalization) was only 5.5 percent (Sarkar, 2010).

Intensity of shareholders' supervision can be represented through the level of ownership concentration (Dogan & Smyth, 2002; Cladera & Gispert, 2003). Dominant owners monitor the activities of managers (Dogan & Smyth, 2002; Cladera & Gispert, 2003), and thus, companies need not pay incentive pay to them (Kraft & Niederprum, 1999). Baixauli Soler and Sanchez-Marin (2015) stated that high concentration of ownership has a significant influence on the weak capacity of boards to adjust the executive compensation to the economic cycles and firm's value, especially when dominant shareholders are internal or external linked to other companies. Other researchers like Kraft and Niederprum (1999), Doganand Smyth (2002), Cladera and Gispert (2003), and Andreas et al. (2012) have found negative impact of ownership concentration on managerial remuneration as well as on pay-performance sensitivity.

The presence of an independent remuneration committee and an independent chairman of the remuneration committee are expected to strengthen the negative relationship between ownership concentration and executive remuneration.

Hypothesis 5a: Fully independent remuneration committees strengthen the negative relationship between ownership concentration and executive remuneration.

Hypothesis 5b: The presence of an independent chairman of remuneration committee strengthens the negative relationship between ownership concentration and executive remuneration.

Research Methodology

All companies listed on the Bombay Stock Exchange is the universe of this study. Top 500 companies, ranked by the Business Today magazine (Layak, 2012) on the basis of average market capitalization for the first half of the financial year 2012-13 were considered. Banks, financial institutions and government companies were excluded for the meaningful comparison of the private sector companies. Companies provide information about the characteristics of remuneration committee in corporate governance sections of their annual reports. All those companies whose corporate governance reports were available for the period of ten years starting from 2002-03 to 2011-12, are covered in this study. The period of the study coincides with the implementation of the clause 49 of

listing agreement. A sample of 150 companies was selected after initial screening. A preliminary investigation revealed that only 72 per cent of total 1500 company-year observations had remuneration committees on their boards. For the purpose of balanced panel data analysis, the companies having remuneration committees during all the years of the study were considered for analysis which resulted into a final sample of 51 companies for 10 years.

Dependent Variable

Natural log of the average remuneration paid to the executive directors of the company is taken as the measure of executive directors' remuneration *(ExRem)*.

Independent Variables

Two variables have been used to represent the independence of remuneration committees. First, a dummy variable is used to represent independent committee *(DummyIndp)* which takes the value one in case all directors are independent directors on remuneration committee and zero otherwise. Second, a dummy variable taking value one if the chairman of the remuneration committee is an independent director and zero otherwise *(IndpChair)*.

Control Variables

Several measures of company, board and ownership characteristics are used as control variables for measuring the impact of independence of remuneration committee on the remuneration of executive directors. One year lagged return on assets *(ROA)* is measured by earnings before interest and taxes (EBIT) divided by assets of the company. One year lagged Tobin's Q*(TQ)* is calculated by the total of market value of debt and equity divided by the total assets. Total number of directors including executive and non-executive directors at the end of financial year is considered to represent the board size (*BSize*). Remuneration committee size (*RemCom Size*) is represented by the total number of directors on it. Institutional shareholding (*ISH*) and promoters' shareholding (*PSH*) are measured by the percentage of shares owned by institutional investors and promoters, respectively. Ownership concentration (*OC*) is represented by the percentage of shares owned by five largest shareholders. Natural logarithm of total assets (*TA*) of company at the end of financial year is used to represent the size of a company. Leverage (*Lev*) is measured by the ratio of total debt to total assets. Growth opportunities (*Grow*) are represented through the market-to-book ratio at the end of financial year. Market value of the equity is divided by the book value of equity for calculating this ratio. Stock return volatility (*SRV*) is represented by the standard deviation of the daily stock returns of the companies for the full year.

Statistical Tools

The impact of independence of remuneration committee on the remuneration of executive directors is examined through two-way fixed effects regression with Driscoll-Kraay standard errors. These standard errors would provide re-

sults robust to heteroscedasticity, autocorrelation and cross-sectional dependence.

Research Models

The impact of independence of remuneration committee on the executive remuneration is assessed with the help of eight models. Model I measures the impact of a dummy variable representing the fully independent remuneration committees (*DummyIndp*) on the executive remuneration. The model to be tested is as follows:

$ExRem_{it}$ = $DummyIndp_{it}$ + *control variables* + *timedummies*+ ε_{it}.....*(1)*

In Model II, interaction terms of fully independent remuneration committee with company's accounting performance (*DummyIndp X ROA*) and company's market performance (*DummyIndp X TQ*) are added.

$ExRem_{it}$ = $DummyIndp_{it}$ + DummyIndp *X* ROA_{it} + DummyIndp *X* TQ_{it} + *control variables* + *timedummies*+ ε_{it}.....*(2)*

In Model III, interaction terms of fully independent remuneration committee with promoters' shareholding (*DummyIndp X PSH*) and ownership concentration (*DummyIndp X OC*) are added to model I.

$ExRem_{it}$ = $DummyIndp_{it}$ + DummyIndp *X* PSH_{it} + DummyIndp *X* OC_{it} + *control variables* + *timedummies*+ ε_{it}.....*(3)*

In Model IV, interaction terms of fully independent remuneration committee with company's accounting performance (*DummyIndp X ROA*), company's market performance (*DummyIndp X TQ*), promoters' shareholding (*DummyIndp X PSH*), and ownership concentration (*DummyIndp X OC*) are added to model I. The purpose of this model is to examine the impact of the presence of fully independent remuneration committees on the sensitivity of executive remuneration to the accounting performance, market performance, promoters' shareholding, and ownership concentration.

$ExRem_{it}$ = $DummyIndp_{it}$ + DummyIndp *X* ROA_{it} + DummyIndp *X* TQ_{it} + DummyIndp *X* PSH_{it} + DummyIndp *X* OC_{it} +*control variables* + *timedummies*+ ε_{it}.....*(4)*

In Model V, the impact of the presence of independent chairman of remuneration committee (*IndpChair*) on executive remuneration is explored.

$ExRem_{it}$ = $IndpChair_{it}$ +*control variables* + *timedummies*+ ε_{it}.....*(5)*

In Model VI, the interaction terms of the presence of independent chairman of remuneration committee with company's accounting performance (*IndpChair X ROA*) and company's market performance (*IndpChair X TQ*) are added to model V.

$ExRem_{it}$ = $IndpChair_{it}$ + IndpChair *X* ROA_{it} + IndpChair *X* TQ_{it} + *control variables* + *timedummies*+ ε_{it}.....*(6)*

In Model VII, the interaction terms of the presence of independent chairman of remuneration committee with promoters' shareholding (*IndpChair X PSH*) and ownership concentration (*IndpChair X OC*) are added to model V.

$ExRem_{it}$ = $IndpChair_{it}$ + IndpChair *X* PSH_{it} + IndpChair *X* OC_{it} + *control variables* + *timedummies*+ ε_{it}.....*(7)*

In Model VIII, the interaction terms of the presence of independent chairman of remuneration committee with company's accounting performance (*IndpChair X ROA*), company's market performance (*IndpChair X TQ*), promoters' shareholding (*IndpChair X PSH*), and ownership concentration (*IndpChair X OC*) are added to model V.

$ExRem_{it}$ = $IndpChair_{it}$ + IndpChair *X* ROA_{it} + IndpChair *X* TQ_{it} + IndpChair *X* PSH_{it} + IndpChair *X* OC_{it} +*control variables* + *timedummies*+ ε_{it}.....*(8)*

Data Analysis & Findings

As reported in Table 2, average per capita executive remuneration is INR 6.50 million. Mean lagged return on assets (ROA) is 0.11 and the mean Tobin's Q is 1.29, which indicates that on an average, a company's market value of debt and equity is 1.29 times its total assets. The average board size is 10 directors and the average remuneration committee size is 3 directors. The average institutional shareholding is 20 per cent and the mean proportion of promoters' shareholding is 49 per cent. The average proportion of shareholding held by 5 largest shareholders is 50 per cent. The average size of companies in terms of total assets is INR 66964.41 million. The mean leverage ratio is 0.30 which implies that on an average, total debt of a company is 0.30 times its total assets. The mean growth rate represented by the market-to-book ratio is 73.91, which reveals that the market value of equity of sampled companies is 73.91 times the book value of equity. The average stock return volatility of 3.24 shows that daily returns deviate 3.24 per cent from the mean returns. 60per cent of the company-years observations had the presence of fully independent remuneration committees on their boards. 87 per cent of company-year observations have the presence of independent director as a chairman of remuneration committee, which reveals that 27 percent company-year observations have the presence of independent directors as chairmen of remuneration committee but all other members of the committee may not be independent.

Executive remuneration is significantly correlated with most of the independent variables.

Pearson correlation matrix reported in Table 3 suggests that executive remuneration is significantly correlated with most of the independent variables. Correlation coefficients of all pairs of variables are less than 0.8, pointing out that multi-collinearity should not be a problem in this study. Executive remuneration is positively correlated with lagged return on assets, board size, institutional shareholding, total assets, and growth

Table 2 Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Median	Maximum
ExRem	6.50	10.35	0.08	2.69	76.47
ROA	0.11	0.08	-0.08	0.10	0.71
TQ	1.29	0.98	0.21	0.98	6.59
Bsize	9.99	2.23	4.00	10.00	16.00
RemCom Size	3.25	0.66	1.00	3.00	6.00
ISH	0.20	0.14	0.00	0.19	0.55
PSH	0.49	0.18	0.00	0.51	0.96
OC	0.50	0.15	0.16	0.49	0.93
TA	66964.41	2.6e+05	286.70	16648.80	3.0e+06
Lev	0.30	0.18	0.00	0.31	0.84
Grow	73.91	111.35	0.30	37.61	1027.36
SRV	3.24	1.16	0.61	3.14	12.39
DummyIndp	0.60				
IndpChair	0.87				

Note: ExRem = natural logarithm of the average remuneration paid to executive directors; ROA = Return on Assets; TQ = Tobin's Q; BSize = Number of directors on the board; RemCom Size = Number of directors on the remuneration committee; ISH = Institutional shareholding; PSH = Promoters' shareholding; OC = Percentage of shares owned by five largest shareholders; TA = Total Assets; Lev = Leverage; Grow = Growth opportunities represented through market-to-book ratio at the end of financial year; SRV = Stock return volatility; DummyIndp = a dummy variable which takes the value one in case all directors are independent directors on remuneration committee and zero otherwise; IndpChair = a dummy variable taking value one if the chairman of the remuneration committee is an independent director and zero otherwise.

opportunities. However, remuneration committee size, promoters' shareholding, ownership concentration, company leverage, and stock return volatility are negatively correlated with the executive remuneration.

Preliminary analysis of the data shows the presence of heterosce dasticity[1], autocorrelation[2] and cross-sectional dependence[3]. Hoechle (2007) suggested Driscoll-Kraay standard error estimates which are robust to heteroscedasticity, autocorrelation and cross sectional dependence. Thus, two-way fixed-effects regression is applied

[1]Heteroscedasticity is checked by employing likelihood-ratio test which compares the results of iterated generalized least squares considering heteroscedasticity with the results of generalized least squares without heteroscedasticity. A significant p value for the chi square statistic of likelihood-ratio test confirms the presence of heteroscedasticity in the data.

[2]A Wooldridge test for serial correlation in the panel data is applied to test the null hypothesis that there is no serial correlation and if serial correlation is found, then clustering at the panel level would produce consistent estimates of the standard errors (Drukker, 2003). A significant p value rejects the null hypothesis of no autocorrelation.

[3]Cross sectional dependence is checked with Pesaran's test as suggested by Hoyos and Sarafidis (2006). This tests the null hypothesis of cross-sectional independence. A significant p value of this test strongly rejects the null hypothesis of no cross sectional dependence.

Table 3 Pearson Correlation

	ExRem	Lagroa	Tqpy	BSize	Rem Com Size	ISH	PSH	OC	TA	Lev	Grow	SRV
ExRem	1.000											
Lagroa	0.321***	1.000										
Tqpy	0.233	0.461***	1.000									
Board size	0.202***	0.193***	0.134**	1.000								
Rem Com Size	-0.013	-0.166***	-0.027	0.119**	1.000							
ISH	0.408***	0.107*	0.103*	0.237***	0.006	1.000						
PSH	-0.092*	0.097*	0.210***	0.091*	-0.049	-0.350***	1.000					
OC	-0.192***	0.072	0.211***	0.039	-0.020	-0.241***	0.634***	1.000				
TA	0.586***	0.075^	0.100*	0.328***	0.131**	0.602***	-0.082^	-0.198***	1.000			
Lev	-0.146***	-0.315***	-0.260***	-0.006	0.074^	-0.210***	0.104*	-0.143**	0.064	1.000		
Grow	0.436***	0.374***	0.518***	0.218***	-0.026	0.204***	0.165***	0.112*	0.254***	-0.202***	1.000	
SRV	-0.381***	-0.160***	-0.190***	-0.160***	-0.014	-0.252***	0.055	0.056	-0.353***	0.079^	-0.234***	1.000

^p less than .10, *p less than .05, **p less than .01, ***p less than .001.

with Driscoll-Kraay standard errors to examine the impact of independence of remuneration committee on the executive directors' remuneration.

Fully Independent Remuneration Committee & Executive Remuneration

Independence of remuneration committee is represented by a dummy variable which takes the value one if all its members are independent directors and zero otherwise. Table 4 shows the relationship between fully independent remuneration committee and executive remuneration.

In Table 4, model I reveals that the dummy variable representing the presence of fully independent remuneration committees has been found influencing the executive remuneration positively and significantly. This finding is in line with Sapp (2008) and goes contradictory with Anderson and Bizjak (2003). This result rejects hypothesis 1 which stated that remuneration committee independence is negatively related to executive remuneration. Model II includes two interaction terms; fully independent remuneration committees with company's accounting performance and company's market performance. The results reveal if remuneration committee is fully independent, the accounting performance is found to have a negative impact on executive remuneration,

Table 4 Independence of Remuneration Committee & Executive Remuneration (N = 510 Company-Year Observations)

Variable	Model 1	Model II	Model III	Model IV
R-Squared	0.6674	0.6727	0.6674	0.6737
F-value	485.80***	72.25***	387.35***	97.36***
Remuneration Committee Independence				
DummyIndp	**.194(.057)****	**.206(.064)***	**.192(.052)****	**.201(.058)****
Interactions with independent RemCom				
DummyIndp X ROA		**-.121(.044)***		**-.131(.041)***
DummyIndp X TQ		**.182(.022)*****		**.187(.020)*****
DummyIndp X PSH			-.085(.066)	-.116(.064)
DummyIndp X OC			.070(.055)	.075(.058)
Company Performance				
ROA	2.278(.280)***	.257(.033)***	.180(.022)	.267(.032)***
TQ	-.065(.033)^	-.178(.032)***	-.064(.033)^	-.180(.0300***
Board Characteristics				
B size	-.068(.023)*	-.074(.024)*	-.068(.024)*	-.072(.024)*
RemCom Size	.0002(.037)	.016(.035)	-.003(.034)	.014(.034)
Ownership Structure				
ISH	-.089(.264)	.025(.271)	-.065(.261)	.018(.269)
PSH	.242(.295)	.041(.047)	.091(.093)	.120(.089)
OC	-.580(.372)	-.047(.035)	-.093(.041)*	-.080(.040)^
Other Company Characteristics				
TA	.268(.083)	.277(.077)**	.259(.082)*	.267(.079)**
Lev	-1.271(.226)***	-1.350(.219)***	-1.266(.224)***	-1.368(.234)***
Grow	.0007(.0003)^	.0006(.0003)^	.0007(.0003)^	.0006(.0003)
SRV	-.030(.027)	-.036(.026)	-.036(.026)	-.043(.024)
Constant	-1.313(1.010)	-1.369(.812)	-1.212(.914)	-1.258(.834)
Time dummies	Yes	Yes	Yes	Yes

***significant at .001, ** significant at .01, * significant at .05, ^ significant at .10
Figurs in brackets are the standard errors.

whereas increase in Tobin's Q is found to increase the executive remuneration in the presence of fully independent remuneration committees. Model III includes two separate interaction terms i.e. fully independent remuneration committees with promoters' shareholding and ownership concentration. Promoters' shareholding and ownership concentration do not play any role in fixation of remuneration of executive directors in the presence of fully independent remuneration committee. Model IV includes all interaction terms and reveals the same results as disclosed in models II and III. Thus, hypotheses 3a and 3b are accepted. Hypotheses 4a and 5a have been re-

Promoters' shareholding and ownership concentration do not play any role in fixation of remuneration of executive directors in the presence of fully independent remuneration committee.

jected. Control variables, such as ROA and total assets are found to be positively and significantly related with the executive remuneration. Tobin's Q, board size, ownership concentration, and leverage are negatively and significantly related to the executive remuneration. Remuneration committee size, institutional shareholding, promoters' shareholding, growth, and stock return volatility are not found to play significant role in determining the remuneration of executive directors.

Independent Chairman of Remuneration Committee & Executive Remuneration

Independence of remuneration committee is represented by a dummy variable which takes the value one if the chairman of remuneration committee is an independent director and zero otherwise. Table 5 shows the results regarding the relationship between the presence of an independent remuneration committee chairman and executive remuneration.

Table 5 Independence of Remuneration Committee &Executive Remuneration (N = 510 Company-Year Observations)

Variable	Model V	Model VI	Model VII	Model VIII
R-Squared	0.6740	0.6832	0.6767	0.6883
F-value	1057.75***	246.10***	542.41***	457.45***
Remuneration Committee Independence				
IndpChair	**.524(.108)****	**.345(.149)***	**.484(.100)****	**.278(.126)^**
Interactions with independent Chairman of RemCom				
IndpChair X ROA		**-.555(.121)****		**-.611(.153)****
IndpChair X TQ		**.225(.097)***		**.285(.105)***
IndpChair X PSH			-.210(.124)	**-.277(.121)***
IndpChair X OC			-.018(.111)	-.035(.132)
Company Performance				
ROA	2.177(.245)	.686(.133)**	2.290(.233)***	.747(.164)**
TQ	-.052(.032)	-.245(.082)*	-.060(.031)^	-.309(.089)**
Board Characteristics				
BSize	-.069(.025)*	-.078(.025)*	-.069(.026)*	-.078(.026)*
RemCom Size	-.024(.035)	-.015(.035)	-.035(.033)	-.028(.034)
Ownership Structure				
ISH	.058(.286)	.120(.282)	-.030(.301)	-.014(.307)
PSH	.131(.189)	.277(.200)	.174(.106)	.254(.103)*
OC	-.457(.346)	-.416(.344)	-.012(.089)	.008(.104)
Other Company Characteristics				
TA	.256(.083)*	.273(.076)**	.290(.094)*	.326(.081)**
Lev	-1.174(.219)***	-1.171(.228)**	-1.198(.204)***	-1.215(.221)***
Grow	.0007(.0004)^	.0006(.0003)	.0007(.0004)	.0006(.0003)
SRV	-.021(.028)	-.042(.028)	-.015(.028)	-.038(.028)
Constant	-1.512(1.078)	-1.289(.998)	-1.906(1.038)	-1.688(.899)^
Time dummies	Yes	Yes	Yes	Yes

***significant at .001, ** significant at .01, * significant at .05, ^ significant at .10.
Figurs in brackets are the standard errors.

In Table 5, model V reveals that the dummy variable representing an independent chairman of remuneration committee is found to be positively and significantly associated with the executive remuneration. Hypothesis 2 is rejected which stated that remuneration committee independence is negatively related to executive remuneration. It implies that companies having independent director as the chairman of the remuneration committee grant higher remuneration to its executive directors as compared to companies having non-independent directors as the chairmen. This model accounts for 67.40 percent change in executive remuneration.

In model VI, two interaction terms of the presence of an independent committee chairman with company's accounting performance and company's market performance are included. Market performance has been found to be positively related to executive remuneration when independent director is the chairman of the remuneration committee. Model VII includes two interaction terms of the presence of an independent committee chairman with promoters' shareholding and ownership concentration. Promoters' shareholding and ownership concentration are not found to play any significant role in fixation of remuneration of executive directors in the presence of an independent committee chairman.

Model VIII includes four interaction terms; the presence of an independent committee chairman with company's accounting performance, company's market performance, promoters' share holding and ownership concentration. Same results are revealed in model VIII as are in models VI and VII, except the interaction term of independent committee chairman and promoters' shareholding became significant in the last model. It implies that an increase in promoters' shareholding leads to decreased executive remuneration in the presence of an independent committee chairman. This model explains 68.83 percent of variation in the executive remuneration. Thus, hypotheses 3c, 3d, 4b are accepted and hypothesis 5b has been rejected.

An increase in promoters' shareholding leads to decreased executive remuneration in the presence of an independent committee chairman.

Discussion & Conclusion

The increasing executive remuneration even when fully independent remuneration committee and independent committee chairman exist, is an empirical evidence to the fact that the remuneration committees have failed to monitor the executive remuneration in India. It supports the arguments of Bhattacharyya (2014) who stated that the general perception is that the independent directors in India have failed in monitoring the executive management. One reason might be weak regulatory institutions. But the more important reason is that in Indian business environment, where the issue is principal-principal conflict and not a typical principal-agent conflict, it is too much

to expect effective monitoring by independent directors. In India, concentration of ownership is a norm rather than an exception. Public sector enterprises, family businesses and group companies dominate the corporate sector. The dominant shareholder, who enjoys significant power, manages the company through its nominee managers. The dominant shareholders expect the board to take into consideration issues in family governance and the policy of the business group. Therefore, companies adopt strategies, which not necessarily aim to maximize firm value (Bhattacharyya, 2014).

Another aspect highlighted by Ingovern (2016) that needs to be checked is whether the independent directors in reality are independent or not. It has been reported that several top companies are found to be having a pecuniary relationship with their independent directors. The S&P BSE 200 Index, a collection of the top 200 companies on the bourse by market capitalization, contains 21 companies that have had such a relationship with their 25 independent directors. Of these, six companies from the Nifty 50 Index and four from Nifty Next 50 Index have had such a relationship. The similar relationships have been found in 34 smaller companies outside the BSE 200 index. Such relationships severely violate the independence of the independent directors (Subramanian, 2016).

The executive remuneration has been found negatively associated with accounting performance, but positively with market performance in those companies having fully independent remuneration committees. The findings also indicate that promoters' shareholding and ownership concentration are not playing any role in fixation of executive remuneration in these companies. The executive remuneration has been found positively and significantly associated with independence of remuneration committees, the combination of these findings points toward the tacit role the promoters and dominant shareholders seem to be playing to get the executive remuneration linked with market performance of the company through remuneration committees. It is generally accepted that the primary concern of the promoters and dominant shareholders is appreciation of their stock. Linking executive remuneration to market performance of the company by the remuneration committees will inflate the remuneration package further.

It is interesting to note that executive remuneration has been found associated negatively with accounting performance of companies. An independent remuneration committee acknowledges the perception that remunerating directors on the basis of accounting performance may encourage them to ignore projects with large net present values in favor of projects generating immediate accounting profits (Jensen & Murphy, 1990). Moreover, accounting performance measures are easier to manipulate. Thus, in order to discourage the use of accounting performance measures, an independent remuneration committee considers accounting performance to be negatively linked with executive remuneration. Promoters' shareholding is negatively related to ex-

ecutive remuneration in the presence of an independent committee chairman. This finding refutes the 'rent extraction theory' in the presence of independent director as the chairman of remuneration committee and implies that promoters are not able to increase executive remuneration for themselves as well as for other executive directors when remuneration committee is headed by an independent director.

The institution of independent directors and committees is in reality not independent and have failed to check unexplainable increase in executive remuneration.

The findings of the present study suggest that the institution of independent directors and committees is in reality not independent and have failed to check unexplainable increase in executive remuneration. The new regulatory provisions are expected to improve corporate governance in India including the independence of directors and committees but it needs resources and commitment of the regulatory bodies to ensure compliance. In order to assess the effectiveness of new regulatory provisions and their implementation, more research studies need to be planned in future.

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