Journal of Commerce & Accounting Research
8 (4) 2019, 34-49
http://publishingindia.com/jcar/

Submitted: 10 January, 2019
Revised: 05 March, 2019
Accepted: 07 March, 2019

STRUCTURE OF EXECUTIVE COMPENSATION IN INDIA

Manika Kohli*

Abstract *The soaring level of executive compensation has been an issue of much public as well as policy concern over decades. For an emerging economy like India, which is already characterized by income inequality and rich-poor divide, this matter assumes utmost significance. From a deeper inspection, the form rather than the level constitutes the real problem. Thus, the present study has been undertaken with an objective to study the structure of top managerial pay in the Indian context. Compensation components of top executives of 209 sample companies listed on the S&P BSE 500 Index have been studied over FY 2008-09 to 2012-13 across six industry sectors. Results of ANOVA along with post-hoc tests confirmed inter-industry differences in the pay practices of the sample companies. Moreover, extreme domination of the fixed pay component could be observed over the years. The use of more and multiple long-term incentivizing mechanisms has, therefore, been recommended. Future research can enrich the present analysis by exploring the relationship of various pay components with corporate performance measures.*

Keywords: *Executive Compensation Structure, Industry-Wise, Year-Wise, ANOVA, India*

INTRODUCTION

For over decades, scholars have been employing the tenets of agency theory in their research on top managerial pay (Kline et al., 2017). There has been common consensus among researchers that fixed pay-based compensation designs are faulty, rather higher incentive-based pay should be granted to align executive interest with organizational objectives (Palomino & Peyrache, 2013). Accordingly, incentive structures should be carefully designed to ensure that pay reflects long-term corporate performance and pay-for-performance is followed in letter and spirit (Gupta, 2017). As a matter of fact, Indian top honchos are now paid at par with their global counterparts in terms of purchasing power parity, which was not the case a few years ago (Narayanan & Dubey, 2015). This provides the rationale for studying the executive pay structure in the Indian context.

Notwithstanding substantial pay practice heterogeneity across firms, executive compensation packages, in general, comprise the following major components (Murphy, 1999; Zhou, 2000; Frydman & Jenter, 2010): salary, short-term cash bonus, benefits, and long-term incentives. The basic component of compensation is the fixed salary paid to the executive in cash. It is the pre-specified pay component usually decided by the compensation committee taking into account the specific tasks and challenges of managers, their seniority and experience as well as the basic salary of industry peers (Jensen & Smith, 2000; Conyon, 2006; Goergen & Renneboog, 2011). Typically accounting for the greatest proportion of compensation, salary is often not the only form of rewarding top managers. Usually expressed as a percentage of base salary, short-term incentives in the form of annual bonus/commission paid in cash often linked to accounting earnings is also one of the major pay components (Smith & Watts, 1982; Bootsma, 2009). However, in cases where awarding bonuses is a regular practice, they become more like an entitlement and, hence, more like fixed pay (Gomez-Mejia & Wiseman, 1997; Vafeas, 2003). This more or less fixed cash payment along with the pre-decided base pay, therefore comprise the cash component of the total executive pay package (e.g., Izan et al., 1998; Kim, 2004; Kato & Kubo, 2006; Kato & Long, 2006).

In addition, benefits in the form of perquisites and allowances are also common. Perks, the non-cash benefits provided to executives, encompass a wide variety of goods and services, including a chauffeur-driven car, personal use of corporate jet, club memberships, plush furnishings, etc. (Rajan & Wulf, 2006; Yermack, 2006; Adithipyangkul et al., 2011). Likewise, retirement benefits in the form of contribution to provident fund and other retiral benefits form a significant portion of managerial pay (Frydman & Jenter, 2010).

Long-term incentives, in the form of stock option grants, are the contingent component of the pay package of the executive. Executives receive stock options, which represents

* Assistant Professor, Mehr Chand Mahajan DAV College for Women, Chandigarh, India. Email: manika_kohli@yahoo.com

a right, but not an obligation, to purchase company stock at a pre-specified exercise price over a stated option term (Hengartner, 2006; Bootsma, 2010). The premise behind granting options is to incentivize managers for undertaking risky and shareholder-wealth increasing investments which they would otherwise circumvent (Goergen & Renneboog, 2011). Directly tying managers interests with the prime corporate objective of shareholders wealth maximization, this pay component is rapidly gaining prominence in the executive rewards landscape (Aon Hewitt, 2010).

According to this perspective, the structure of pay is foremost to the pay discussion. The incentive structure of executive compensation is important for inducing better performance and for preventing agency problems (Sakawa et al., 2012). While fixed/guaranteed compensation, generally paid in cash, is not performance sensitive, variable/incentive pay, on the other hand, directly ties pay to corporate performance (Jensen & Smith, 2000). Long-term incentives are better aligned with corporate objectives in comparison with short-term cash-based pay. This implies that, rather than *'how much'*, *'how'* executives are paid constitutes the *real problem* (Jensen & Murphy, 1990). Thus, the present paper aims to examine the executive compensation structure of the sample companies. The terms "compensation" and "pay" have been used interchangeably throughout the paper.

The study is unique and contributes to the empirical literature in three ways. First, the study is the first of its kind to investigate the structure of top managerial pay in the Indian setting. No other Indian study has explored the trend followed by each pay component. Second, an industry-wise and year-wise analysis of the pay design has moreover been conducted for each pay component. Third, among the few significant studies on executive compensation in the Indian context (e.g., Bhattacherjee et al., 1998; Ghosh, 2006; Parthasarathy et al., 2006; Ghosh, 2010; Tomar & Korla, 2011; Balasubramanian et al., 2013; Jaiswal & Bhattacharyya, 2016a; Jaiswall & Bhattacharyya, 2016b; Raithatha & Komera, 2016), none has taken the value of stock options granted while calculating executive pay. The only exception to this is the study by Gill (2014). By taking stock option grants into consideration, the present study fills this research gap.

REVIEW OF LITERATURE AND HYPOTHESES DEVELOPMENT

Much of the pay problem may be attributable to the ingredients of the compensation package. According to Mehran (1995), *"... the form, rather than the level, of compensation is what motivates managers to increase firm value"*. An example of various compensation structures is best illustrated by different industries. All industry sectors compensate their executives using pay components in different proportion. While some majorly focus on incentivizing the executive towards improved company performance and consequently add more variable pay or long-term incentives, others might reduce executives risk by awarding more fixed pay or short-term rewards. Therefore, uncontested support for industry-specific heterogeneity in the pay practices has been acknowledged (e.g., Agarwal, 1981; Finkelstein & Hambrick, 1989; Ramaswamy et al., 2000; Abraham et al., 2014).

In an early evidence by Carroll and Ciscel (1982), the mean value of chief executive officer (CEO) cash pay (salary plus bonus) for regulated utility industry was observed to be consistently less over the period 1970-1976 than the cash compensation for transportation industry and for the unregulated sector. Agrawal et al. (1991), on the other hand, reported executive pay (sum of salary, bonus, long-term compensation excluding stock options) to be positively related to returns on common stock in electric and gas utilities. Main et al. (1996), further, claimed that the way of compensating executives is what matters while measuring the responsiveness of pay to performance. To substantiate, the study found that the sensitivity of executive pay to corporate performance can be significantly improved if the commonly used short-term emoluments are accompanied with long-term incentives like share options. Later, Murphy (1999) studying all S&P 500 companies over the period 1992 to 1996 evidenced that executives in financial services sector earn higher whereas those from the utilities draw lower pay *vis-à-vis* their counterparts. This was mainly because of the different compensation structure across industries. Following suit, Zhou (2000) corroborates the same in 755 Canadian firms studied over 1993-1995. Pennathur and Shelor (2002) also recognized industry wide differences in the pay structures and, consequently, selected the real estate sector for studying the pay-performance sensitivity over the period 1993-1999. Similar perspective has been adopted by Hallman et al. (2011), who extended earlier empirical evidence on pay-performance sensitivity in the real estate sector.

Prominent differences in the pay practices have been acknowledged in the high-technology *vis-à-vis* the low-technology firms by Shim et al. (2009). The authors attributed this difference to the use of more stock-based pay by the high-technology firms. Corollary observations were displayed by Conyon and He (2011) showing highest average executive pay in the information technology sector amongst 13 industry sectors during 2001 to 2005. Whereas Abraham et al. (2014) concluded significant sensitivity of guaranteed pay along with long-term incentives to firm profitability in the technology sector.

Along with inter-industry differences, noteworthy change in the pay structure has been experienced over time. Over the years the escalating level of executive compensation has grabbed many discussions. Predominantly inclined towards guaranteed pay, the compensation structure is gradually shifting towards *'pay at risk'* (Aon Hewitt, 2010; Conyon, 2014). Elementary evidence was provided by Mehran (1995) who found firm performance to be positively related to the percent of equity-based compensation. During 1980-1994, Hall and Liebman (1998) established that the mean CEO compensation increased manifold in the largest US publicly listed companies. This increase was mainly on account of increase in stock option grants. Studying the long-run executive pay trends from 1936 to 2005, Frydman and Saks (2010) observed that stock options have accounted for an extremely large percentage of pay since the 1990s among the CEOs and other top executives of the S&P 500 firms. However, similar budding of stock option grants as experienced in the US companies is not seen in the non-US companies (Bryan et al., 2011), thereby explaining the escalating pay levels in the US. Nevertheless, the level of executive compensation has been soaring to new highs over the years across borders. For instance, Mengistae and Xu (2004) reported a nearly doubled CEO pay from 1980-1989 in the Chinese setting. Yearly increase (from 2008 to 2012) in the average compensation of the CEO has also been shown by Balasubramanian et al. (2013) in India. Thereby explaining the increasing trend, the rise in pay is mainly attributable to the way the executives are compensated. The industry heterogeneity and yearly increase in executive pay is, therefore, leading to the transforming pay structure. This has resulted in the formulation of the following research hypotheses:

H_1: *The structure and level of executive compensation varies across industries.*

H_2: *The structure and level of executive compensation varies over time.*

RESEARCH DESIGN

Study Period

The present study spans over a time frame covering a period of five financial years (FYs) beginning from FY 2008-09 and extending up to FY 2012-13. A similar time frame has been adopted by majority of the related studies (e.g., Conyon & Peck, 1998; Hartzell & Starks, 2003; Kubo, 2005; Ghosh, 2006; Duffhues & Kabir, 2008; Jiang et al., 2008; Chhaochharia & Grinstein, 2009; Conyon & He, 2011; Balasubramanian et al., 2013, 2015; etc.). Of noteworthy significance is the occurrence of the global financial crisis during the period 2008-2012. This was like a testing time for the governance reforms put in place before such turmoil, thereby providing an ideal set up for gauging the efficacy of the governance mechanisms in containing excessive managerial compensation during such turmoil (Balasubramanian et al., 2015; Bouras & Gallali, 2016). Along with the severe economic repercussions of excessive executive pay, this has fuelled the need for the study.

Population and Sample Size Selection

The companies listed on the S&P BSE 500 Index as on 31 March, 2013 formed the universe for the purpose of the present study. Out of the 500 companies, the ones which were not a part of the BSE 500 Index for the complete study period were deleted. Being governed by different legislations, companies involved in banking and financial services activities were also excluded. Further, government owned companies were deleted because managerial compensation in these companies is subject to government rules and regulations. Companies which have undergone major corporate restructuring during the study period were also removed. Besides for comparability of results, companies with financial year other than ending on 31st March were kept out of the sample. Finally, any company with all non-executive board of directors for any year under consideration was removed from the sample. This sample selection procedure resulted in a final sample of 209 companies studied over 2008-2009 to 2012-2013. Further, the companies have been classified on the basis of two-digit National Industrial Classification (NIC) codes.

Variable Selection and Description

For the purpose of the present study, executive pay refers to both cash pay and total pay. Cash compensation **(*CC*)** comprise of basic salary (salary) and bonus/commission/annual performance incentive paid to the executive in cash (bonus). Total compensation **(*TC*)**, is the sum of ***CC*** and non-cash components of pay, viz., perks and allowances (perks), contribution to provident fund and other retirement benefits (retiral benefits), and stock options granted (options). As in majority of the studies (e.g., Yermack, 1995; Carpenter, 1998; Hall & Liebman, 1998; Conyon & Murphy, 2000; Conyon & He, 2004), the seminal work of Black and Scholes (1973), as adjusted for dividends by Merton (1973), has been followed for computing the value of stock option awards made during the year.

Data Collection and Analysis

Data pertaining to salary, bonus, perks, and retiral benefits was obtained from *Prowess* database maintained by Centre

for Monitoring Indian Economy (CMIE). Additionally, the fair value of stock options was calculated after collecting the required data from the company annual reports.

Broader homogeneous groups have been made by clubbing industries, as identified according to NIC codes, for conducting industry-wise analysis (see for e.g., Bootsma, 2009). Consequently, resources (*RES*) form the first industry sector; majority of the sample consist of manufacturing (*MFG*) companies (54.5 percent)[1] which forms the second industry group; infrastructure and utilities (*INFRA*) represent the third industry; fourth is the transportation, trade, and services (*SERV*) group; information and communication technology (*ICT*) comprise the fifth sector; and lastly the diversified (*DIV*) industry. Further, for conducting year-wise analysis, data pertaining to five FYs from 2008-09 to 2012-13 has been studied.

For analyzing the trend of executive compensation over the years, the average compensation of the executives, with component-wise break-up, has been reported. Further, the inter-industry differences and the yearly trend have been graphically portrayed. The graphs depict the mean compensation and its components as a percentage of totals for each industry sector and over the study period. Additionally, one way analysis of variance (ANOVA) using the general linear model has been invoked to depict the statistical difference of the pay practices across industries and over time. Keeping in view the non-normality of data and heterogeneity of variance, supplementary tests viz., Welch test and Brown-Forsythe test, which are robust to violations of these assumptions, have been applied. These tests accommodate heterogeneous variances and are less sensitive to heteroscedasticity (Lantz, 2013). Moreover, using the median value, the Brown-Forsythe test retains its statistical power even in case of non-normal distribution (Brown & Forsythe, 1974; Tomarken & Serlin, 1986). To add, post hoc testing has moreover been conducted.

RESULTS AND DISCUSSION

Descriptive Statistics

Table 1 presents the descriptive information on the levels of executive compensation and its components for the pooled sample during 2008-2009 to 2012-2013. Along with the percentage of *TC* represented by each component, the Table reports the mean, median, SD, and minimum and maximum values of executive pay components. As evident, *CC* aggregating to about 79 percent forms a larger proportion of *TC* than incentives awarded in the form of perks, retiral benefits, and options taken together comprising nearly 21 percent only. Unconventionally, percentage of bonus (41 percent) paid to the executive directors of the sample companies outweighs their basic pay (39 percent). The same has been reflected by the maximum bonus payment of ₹1,180 million made by one of the sample companies as against the highest salary of ₹385.14 million. In comparison with other pay components, the SD for bonus is however the highest. Taken together, *CC* ranges between 0 to a whopping ₹1,288 million amounting to an average of ₹70.23 million.

Table 1: Descriptive Statistics

Compensation Structure	N	Percentage of *TC*	Value of Compensation (₹ million)				
			Mean	Median	SD	Min.	Max.
Salary	1045	38.507	34.052	19.768	42.431	0.000	385.140
Bonus	1045	40.913	36.180	4.000	95.178	0.000	1180.000
CC	1045	79.420	70.232	33.050	111.692	0.000	1288.000
Perks	1045	12.978	11.477	1.912	51.746	0.000	923.000
Retiral benefits	1045	2.885	2.551	0.000	10.134	0.000	140.759
Options[a]	992	4.717	4.171	0.000	32.038	0.000	842.645
TC	1045	100	88.431	44.963	135.455	0.000	1288.000

Source: Author's analysis.

Note: [a] Out of the total 1,045 company year observations, an aggregate of 53 company years have either not made adequate disclosures regarding stock option grants or the fair value cost to the company is nil. Even the companies which have disclosed have not been consistent in reporting. The complete annual report of all the sample company years have, therefore, been thoroughly scanned for extracting the required details.

[1] See also Conyon and He (2011) and Haid and Yurtoglu (2006).

Perks, forming around 13 percent of *TC*, is the predominant form of incentive pay. About 5 percent of *TC* is in the form of options in the sample Indian companies. This figure is in stark contrast with the western countries' executive pay model which is aggressively tilted towards long-term incentives (Thomas, 2008; Aon Hewitt, 2011). In aggregate, *TC* reports an average value of ₹88.43 million. Ranging between 0 to ₹1,288 million, the maximum value of *TC* is interestingly the same as the maximum amount paid as *CC*.

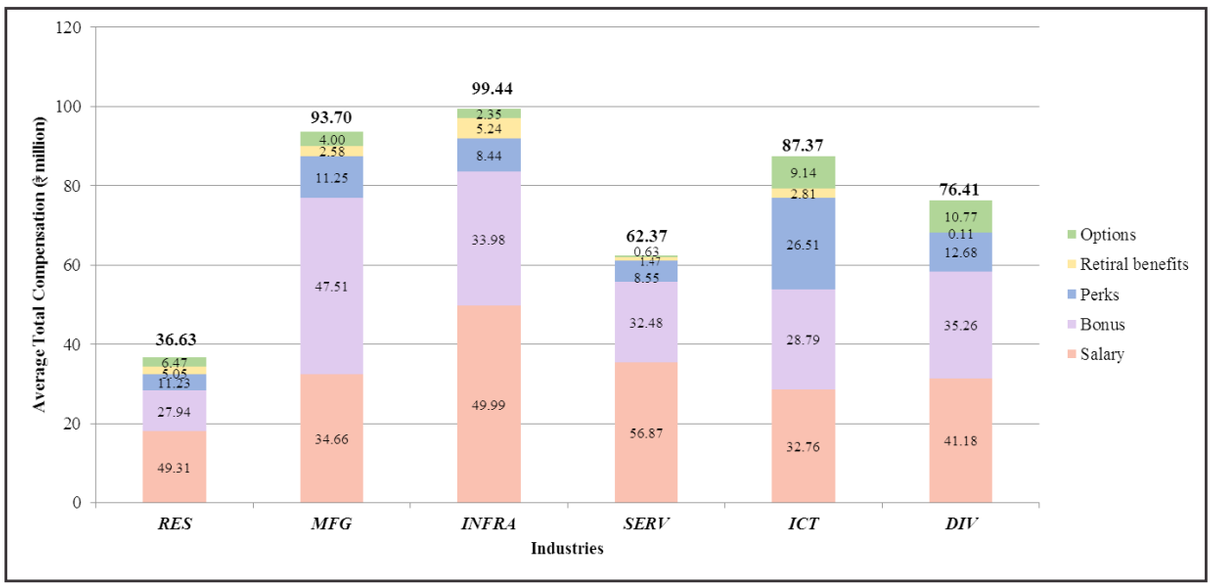
Executive Compensation Structure: An Industry-wise Analysis

For an exploration into the compensation practices of different industry groups, comparison of the pay structure across industries has been conducted. Table 2 and Fig. 1 present the structure as well as the level of executive pay for the six major industry groups in which the total sample has been divided for the entire period under study.

Table 2: Industry-wise Structure and Level of Executive Compensation

Industry Type		Salary	Bonus	*CC*	Perks	Retiral Benefits	Options	*TC*
RES	Mean (₹ million)	18.060	10.233	28.293	4.113	1.850	2.371	36.627
	Percent of total	49.308	27.938	77.246	11.230	5.051	6.473	100.000
MFG	Mean (₹ million)	32.472	44.515	76.986	10.540	2.421	3.750	93.698
	Percent of total	34.656	47.509	82.164	11.249	2.584	4.002	100.000
INFRA	Mean (₹ million)	49.708	33.794	83.502	8.391	5.215	2.336	99.444
	Percent of total	49.986	33.983	83.969	8.438	5.244	2.349	100.000
SERV	Mean (₹ million)	35.474	20.256	55.730	5.334	0.916	0.393	62.373
	Percent of total	56.874	32.476	89.350	8.551	1.469	0.6301	100.000
ICT	Mean (₹ million)	28.624	25.150	53.774	23.163	2.452	7.983	87.372
	Percent of total	32.761	28.785	61.546	26.511	2.806	9.137	100.000
DIV	Mean (₹ million)	31.465	26.946	58.411	9.687	.082	8.233	76.413
	Percent of total	41.178	35.264	76.441	12.677	0.107	10.774	100.000

Source: Author's analysis.



Source: Author's analysis.

Note: Pay components have been shown as a percentage of totals.

Fig. 1: Industry-wise Structure and Level of Executive Compensation

As evident, compensation structure varies by industry type. Despite the sample being dominated by *MFG* companies, firms in the *INFRA* sector on an average pay a hefty amount of ₹99.44 million to their executive directors which is higher than that paid by their counterparts in other industries. The pay mix is dominated by the cash component in all the industries with *SERV* sector using the highest proportion of cash-based pay (89 percent) for rewarding their executives. *ICT* sector, on the other hand, is using considerable proportion (approximately 39 percent) of incentive pay in the total executive pay package in comparison with other industry groups.

Further, a trend analysis of the pay structure and level has been conducted for each industry as shown in the Appendix (Fig. A1 to A6). A constant rise in the average total pay in the *MFG* industry during the study period can be observed whereas *RES* sector has experienced a declining pay trend over 2009-2010 to 2012-2013. With higher proportion of incentive-based pay in the *ICT* sector, an increasing trend is also apparent. No clear pattern on the pay policies of *DIV* companies can be observed from their pay structure and level. Other industry groups are also pointing towards the changing rewards scenario.

Additionally, to statistically underline the difference in the pay practices of various industries, one way ANOVA using the general linear model has been invoked. As shown in Table 3 (a), the Welch test and the Brown-Forsythe test confirm the robustness of the *F*-statistic. Moreover, significantly different pay practices across industries are evident. Subsequent to these significant inter-industry mean differences, it becomes imperative to further probe as to which industry groups are in actual practice rewarding their managers differently. To this effect, Games-Howell post hoc test (see Field, 2009) has been conducted and presented in Table 3 (b).

Table 3 (a): Results of ANOVA on the Basis of Industry Type

Compensation Structure	Means (₹ million)						*F*-Statistic	Welch Statistic	Brown-Forsythe
	RES	***MFG***	***INFRA***	***SERV***	***ICT***	***DIV***			
Salary	18.060	32.472	49.708	35.474	28.624	31.465	5.666***	11.713***	6.422***
Bonus	10.233	44.515	33.794	20.256	25.150	26.946	2.363**	6.051***	4.771***
CC	28.293	76.986	83.502	55.730	53.774	58.411	2.801**	10.315***	4.838***
Perks	4.113	10.540	8.391	5.334	23.163	9.687	2.141*	5.194***	2.318**
Retiral benefits	1.850	2.421	5.215	0.916	2.452	0.082	3.184***	21.704***	3.116***
Options	2.371	3.750	2.336	0.393	7.983	8.233	0.975	4.475***	2.141*
TC	36.627	93.698	99.444	62.373	87.372	76.413	1.968*	11.162***	2.886**

Source: Author's analysis.

Note: *, **, ***, respectively, indicates significant at the 10 percent, 5 percent, and 1 percent levels.

Table 3 (b): Results of Games-Howell Post Hoc Test on the Basis of Industry Type

Compensation Structure		Mean Difference (₹ million)					
	Industry Type	***RES***	***MFG***	***INFRA***	***SERV***	***ICT***	***DIV***
Salary	***RES***		-14.412***	-31.648***	-17.415*	-10.565	-13.405**
	MFG	14.412***		-17.236***	-3.002	3.848	1.007
	INFRA	31.648***	17.236***		14.234	21.084***	18.243**
	SERV	17.415*	3.002	-14.234		6.850	4.009
	ICT	10.565	-3.848	-21.084***	-6.850		-2.841
	DIV	13.405**	-1.007	-18.243**	-4.009	2.841	
Bonus	***RES***		-34.282***	-23.561**	-10.023	-14.917	-16.713
	MFG	34.282***		10.721	24.259***	19.365	17.569
	INFRA	23.561**	-10.721		13.538	8.644	6.848
	SERV	10.023	-24.259***	-13.538		-4.894	-6.690
	ICT	14.917	-19.365	-8.644	4.894		-1.796
	DIV	16.713	-17.569	-6.848	6.690	1.796	

Contd.

Compensation Structure		Mean Difference (₹ million)					
	Industry Type	***RES***	***MFG***	***INFRA***	***SERV***	***ICT***	***DIV***
CC	***RES***		-48.694***	-55.209***	-27.438*	-25.481	-30.118**
	MFG	48.694***		-6.515	21.256	23.213	18.576
	INFRA	55.209***	6.515		27.771	29.728	25.091
	SERV	27.438*	-21.256	-27.771		1.956	-2.680
	ICT	25.481	-23.213	-29.728	-1.956		-4.637
	DIV	30.118**	-18.576	-25.091	2.680	4.637	
Perks	***RES***		-6.427***	-4.278*	-1.221	-19.050	-5.574
	MFG	6.427***		2.149	5.206**	-12.623	0.853
	INFRA	4.278*	-2.149		3.057	-14.772	-1.296
	SERV	1.221	-5.206**	-3.057		-17.829	-4.353
	ICT	19.050	12.623	14.772	17.829		13.476
	DIV	5.574	-0.853	1.296	4.353	-13.476	
Retiral benefits	***RES***		-0.571	-3.366	0.934	-0.602	1.768*
	MFG	0.571		-2.795	1.505***	-0.031	2.339***
	INFRA	3.366	2.795		4.300	2.764	5.133**
	SERV	-0.934	-1.505***	-4.300		-1.536	0.834*
	ICT	0.602	0.031	-2.764	1.536		2.370*
	DIV	-1.768*	-2.339***	-5.133**	-0.834*	-2.370*	
Options	***RES***		-1.379	0.035	1.978	-5.612	-5.862
	MFG	1.379		1.414	3.357	-4.233	-4.483
	INFRA	-0.035	-1.414		1.943*	-5.647	-5.897
	SERV	-1.978	-3.357	-1.943*		-7.590	-7.840*
	ICT	5.612	4.233	5.647	7.590		-0.250
	DIV	5.862	4.483	5.897	7.840*	0.250	
TC	***RES***		-57.071***	-62.817***	-25.746	-50.745**	-39.786**
	MFG	57.071***		-5.746	31.325**	6.326	17.285
	INFRA	62.817***	5.746		37.071**	12.072	23.031
	SERV	25.746	-31.325**	-37.071**		-24.999	-14.040
	ICT	50.745**	-6.326	-12.072	24.999		10.958
	DIV	39.786**	-17.285	-23.031	14.040	-10.958	

Source: Author's analysis.

Note: *, **, ***, respectively, indicates significant at the 10 percent, 5 percent, and 1 percent levels.

As a matter of fact, significant difference in the way the top executives of various industries receive their salary ($F = 5.666$, $p < 0.01$) and bonus ($F = 2.363$, $p < 0.05$) is noteworthy. Taken together, *CC* significantly differs ($F = 2.801$, $p < 0.05$) across industries. This difference is most pronounced between the groups *INFRA* and *RES* (Mean difference = 55.209, $p < 0.01$), followed by a considerable variation in the short-term pay practices of *MFG* and *RES* (Mean difference = 48.694, $p < 0.01$) as evident from the results of Games-Howell test. The difference in the cash pay practices adopted by *SERV* ($p < 0.10$) and *DIV* ($p < 0.05$) are also different from those followed by *RES*.

Among incentives, inter-industry differences for perks ($F = 2.141$, $p < 0.10$) and retiral benefits ($F = 3.184$, $p < 0.01$) have been found. Notwithstanding, significant difference in the grant of stock options by various industries is also apparent (Welch statistic = 4.475, $p < 0.01$). Overall, the total pay differs ($F = 1.968$, $p < 0.10$) across the six industry sectors.

Among these industry groups, the difference in the total pay package of *INFRA vis-à-vis RES* (Mean difference = 62.817, $p < 0.01$) and those of *MFG* and *RES* (Mean difference = 57.071, $p < 0.01$) is highly significant. Significant differences among other industry groups in their way of rewarding top managers have also been reported in the Table. Complete support for H_1, i.e., *the structure and level of executive compensation varies across industries*, has therefore been established.

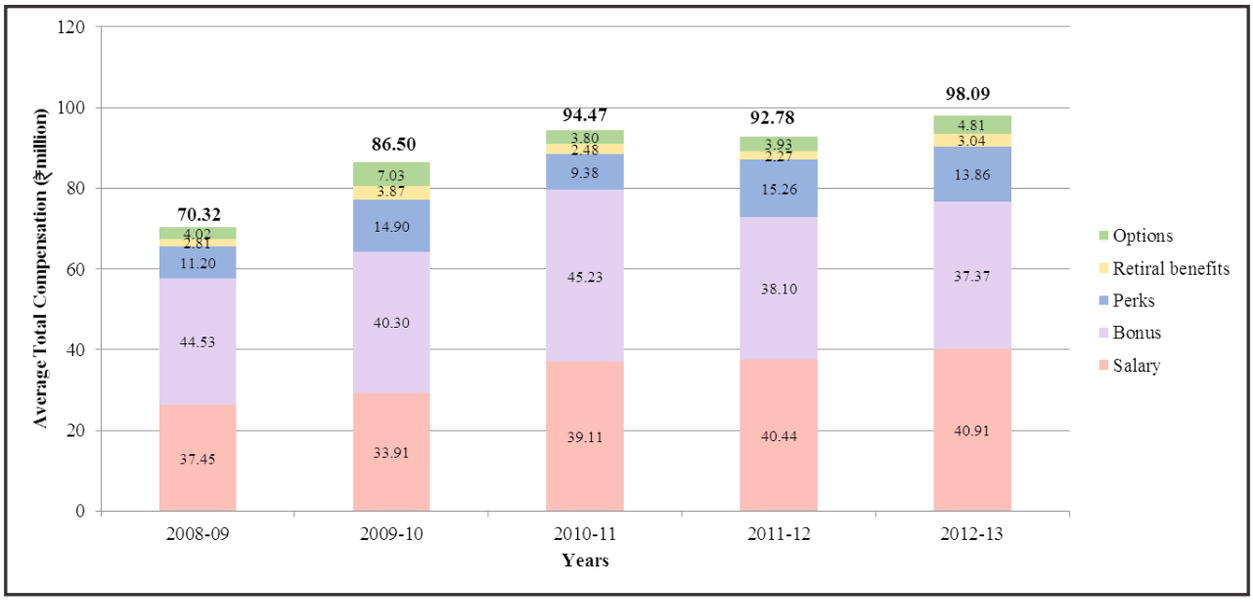
Executive Compensation Structure: A Year-wise Analysis

The compensation structure, predominantly fixed-pay oriented, is gradually shifting towards performance related pay. This majorly holds true in the western part of the globe. On the other hand, much needs to be done in this respect in case of emerging economies like India. Table 4 and Fig. 2 depict the year-wise structure and level of executive compensation in the sample Indian listed companies.

Table 4: Year-wise Executive Compensation Structure and Level

Year		Salary	Bonus	*CC*	Perks	Retiral Benefits	Options	*TC*
2008-09	Mean (₹ million)	26.337	31.313	57.650	7.873	1.973	2.823	70.319
	Percent of total	37.454	44.530	81.984	11.195	2.806	4.015	100.000
2009-10	Mean (₹ million)	29.331	34.858	64.189	12.888	3.350	6.077	86.504
	Percent of total	33.907	40.296	74.203	14.899	3.873	7.025	100.000
2010-11	Mean (₹ million)	36.946	42.723	79.670	8.862	2.343	3.591	94.465
	Percent of total	39.111	45.226	84.337	9.382	2.480	3.801	100.000
2011-12	Mean (₹ million)	37.516	35.349	72.864	14.162	2.107	3.643	92.777
	Percent of total	40.437	38.101	78.538	15.264	2.271	3.927	100.000
2012-13	Mean (₹ million)	40.129	36.657	76.786	13.598	2.985	4.720	98.089
	Percent of total	40.911	37.371	78.282	13.863	3.043	4.812	100.000

Source: Author's analysis.



Source: Author's analysis.

Note: Pay components have been shown as a percentage of totals.

Fig. 2: Year-wise Structure and Level of Executive Compensation

Over the years, there has been a rise in salary from ₹26.34 million in 2008-2009 to ₹40.13 million in 2012-2013 squaring to a gradual increase of approximately 38 percent to 41 percent of *TC*. The amount paid as bonus is also escalating over the years from ₹31.31 million paid in 2008-2009 to ₹36.66 million as paid in 2012-2013. Forming a significant proportion of *CC*, bonus, however, does not portray a clear trend across years. On an average, short-term cash-based pay still dominates the compensation structure of top executives in the sample Indian companies.

In addition to *CC*, executives are majorly incentivized through less observable means using non cash benefits and allowances. As reported, incentives in the form of perks, as such show no clear trend over the years, nonetheless figure in the range of 9 to 15 percent of *TC* during the study period. Likewise hovering in the range of 2 to 4 percent of *TC*, retiral benefits also advance vague patterns. Furthermore, the value of long-term incentives in the form of options is ₹2.82 million in 2008-2009 which has shown a considerable rise of ₹6.08 million in the subsequent year thereafter settling at ₹4.72 million in 2012-2013. As evident, pay contingent on firm's market performance is a prominent compensation characteristic during the study period, nevertheless, it is also obvious that Indian companies lag far behind their western counterparts in designing performance-based pay for their top managers.

Clearly, a rising trend of the average *TC* can be observed over the five-year period. The mean *TC* in 2008-2009 was ₹70.32 million, which surged to ₹98.09 million by the year 2012-2013. The year 2011-2012 is however an exception experiencing a slight dip in the mean *TC* pointing towards the little aberration in an otherwise rising trend.

Further, to explore the statistical significance of these observations, one way ANOVA has been invoked. From Table 5 (a) it can be observed that it is only the salary component of total pay that has varied significantly ($p < 0.01$) over the study period. It can, moreover, be observed from Table 5 (b) that executive salary has significantly increased in the years 2010-2011 ($p < 0.10$), 2011-2012 ($p < 0.05$), and 2012-2013 ($p < 0.01$) as compared to the period 2008-2009. This implies support for H_2, i.e., *the structure and level of executive compensation varies over time,* with respect to the salary component in the present context.

Table 5 (a): Results of ANOVA on the Basis of Year

Components of Compensation	Means (₹ million)					*F*-statistic	Welch Statistic	Brown-Forsythe Statistic
	2008-09	2009-10	2010-11	2011-12	2012-13			
Salary	26.337	29.331	36.946	37.516	40.129	4.085***	4.908***	4.085***
Bonus	31.313	34.858	42.723	35.349	36.657	0.398	0.356	0.398
CC	57.650	64.189	79.670	72.864	76.786	1.400	1.620	1.400
Perks	7.873	12.888	8.862	14.162	13.598	0.668	0.828	0.668
Retiral benefits	1.973	3.350	2.343	2.107	2.985	0.712	0.633	0.712
Options	2.823	6.077	3.591	3.643	4.720	0.306	0.378	0.306
TC	70.319	86.504	94.465	92.777	98.089	1.370	1.890	1.370

Source: Author's analysis.

Note: *, **, ***, respectively, indicates significant at the 10 percent, 5 percent, and 1 percent levels.

Table 5 (b): Results of Games-Howell Post Hoc Test on the Basis of Year

Compensation Structure	Mean Difference (₹ million)					
	Years	2008-09	2009-10	2010-11	2011-12	2012-13
Salary	2008-09		-2.994	-10.609*	-11.179**	-13.792***
	2009-10	2.994		-7.615	-8.184	-10.798*
	2010-11	10.609*	7.615		-0.570	-3.183
	2011-12	11.179**	8.184	0.570		-2.614
	2012-13	13.792***	10.798*	3.183	2.614	

Source: Author's analysis.

Note: *, **, ***, respectively, indicates significant at the 10 percent, 5 percent, and 1 percent levels.

Other than growth in salary, the insignificant difference in the other pay components in turn points towards the consistent nature of high pay levels over the years. This underscores the graveness of this issue which is further accentuated by the constant increase in the fixed pay component from 2008-2009 to 2012-2013.

CONCLUSION

Motivated by the concern for identifying the seriousness of the issue of unjustified rewards, the present paper attempts to untangle the executive compensation structure to chalk out how deep-rooted the problem is. Necessitated by the same, executives pay package has been analyzed across industries and over time.

The basic characteristics of the pay structure indicate towards the enormous compensation of the top managers, which is, moreover, mainly fixed pay oriented. Studying industry-wise pay practices of the sample companies, peculiarities specific to industry type have been established. The skyrocketing pay figures, over the study period, bring forth the need to further explore the rationale for such hefty rewards in terms of corporate performance. The significant growth in only the guaranteed pay over time moreover compels the introduction of more long-term performance related pay in the present compensation structure. The compensation structure in place which is over burdened by guaranteed short-term pay is highly condemned. It is moreover faulty to the extent that many of the sample companies are even giving fixed bonus/ commission to their top executives. Instead, the governing boards should utilize pay contracts to align executives actions with the long-term corporate objectives.

Further, it has been observed among the sample Indian companies that there is typical reliance on a single plan structure, i.e., stock options, to deliver long-term incentives. Global organizations, on the other hand, rely on a basket of such vehicles. Moreover, restricted stocks and performance shares are upcoming incentive vehicles which must be used in addition to the traditional long-term pay in the form of stock options (Ghose, 2011). A balanced mix of multiple long-term incentive vehicles in the executive pay structure is therefore recommended.

The present study can be replicated using a larger and diverse sample of companies studied over a longer time period. Moreover, it becomes of utmost concern to gauge whether such high pay levels move in tandem with corporate performance or are unduly inflated. Thus, analyses of the relationship of these pay components with corporate performance metrics can further enrich the present analysis.

REFERENCES

Abraham, R., Harris, J., & Auerbach, J. (2014). CEO pay-performance sensitivity: A multi-equation model. *Technology and Investment*, *5*(3), 125-136.

Adithipyangkul, P., Alon, I., & Zhang, T. (2011). Executive perks: Compensation and corporate performance in China. *Asia Pacific Journal of Management*, *28*(2), 401-425.

Agarwal, N. K. (1981). Determinants of executive compensation. *Industrial Relations*, *20*(1), 36-45.

Agrawal, A., Makhija, A. K., & Mandelker, G. N. (1991). Executive compensation and corporate performance in electric and gas utilities. *Financial Management*, *20*(4), 113-124.

Aon Hewitt. (2010). Spotlight: Variable pay. *Total Rewards Quarterly*, *1*(1), 14-18. Retrieved from http://www.aon.com/india/attachments/AON-Hewitt-TRQ_MAG-1.pdf

Aon Hewitt. (2011). Decoding executive compensation. *Total Rewards Quarterly*, *1*(2), 8-13. Retrieved from http://www.aon.com/india/ attachments/AON%20Hewitt%20TRQ_MAG%202_15feb.pdf

Balasubramanian, N., Barua, S. K., & Karthik, D. (2013). Corporate governance issues in executive compensation: The Indian experience (2008-2012). Indian Institute of Management (Bangalore) Working Paper No. 426. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2337861

Balasubramanian, B. N., Barua, S. K., & Karthik, D. (2015). Influence of board diversity and characteristics on CEO compensation: Contingent effects of concentrated ownership. Indian Institute of Management (Ahmedabad) Working Paper No. 2015-03-37. Retrieved from http://www.iimahd.ernet.in/faculty-and-research/research-and-publication/ working-papers.html&rnp_id=13361

Bhattacherjee, D., Jairam, S., & Shanker, G. R. (1998). Top management remuneration and firm performance: An exploratory analysis. *Economic and Political Weekly*, *33*(9), M10-M15.

Black, F., & Scholes, M. (1973). The pricing of options and corporate liabilities. *The Journal of Political Economy*, *81*(3), 637-654.

Bootsma, A. A. (2009). *Pay-for-performance: An empirical investigation of the relationship between executive compensation and firm performance in the Netherlands* (Master's thesis). Erasmus University Rotterdam. Retrieved from http://thesis.eur.nl/pub/6150/

Bootsma, A. A. (2010). Pay-for-performance? An empirical investigation of the relationship between executive compensation and firm performance in the Netherlands.

Retrieved from http://repub.eur.nl/res/pub/20029/176-194_bootsma.pdf

Bouras, M., & Gallali, M. I. (2016). The board of directors and executive compensation in the context of crisis: A comparative study between the United States and France. *International Journal of Business*, *21*(1), 68-86.

Brown, M. B., & Forsythe, A. B. (1974). Robust tests for the equality of variances. *Journal of the American Statistical Association*, *69*(346), 364-367.

Bryan, S., Nash, R., & Patel, A. (2011). Law and executive compensation: A cross-country study. *Journal of Applied Corporate Finance*, *23*(1), 84-91.

Carpenter, J. N. (1998). The exercise and valuation of executive stock options. *Journal of Financial Economics*, *48*(2), 127-158.

Carroll, T. M., & Ciscel, D. H. (1982). The effects of regulation on executive compensation. *The Review of Economics and Statistics*, *64*(3), 505-509.

Chhaochharia, V., & Grinstein, Y. (2009). CEO compensation and board structure. *The Journal of Finance*, *64*(1), 231-261.

Conyon, M. J. (2006). Executive compensation and incentives. *Academy of Management Perspectives*, *20*(1), 25-44.

Conyon, M. J. (2014). Executive compensation and board governance in US firms. *The Economic Journal*, *124*(574), F60-F89.

Conyon, M. J., & He, L. (2004). Compensation committees and CEO compensation incentives in US entrepreneurial firms. *Journal of Management Accounting Research*, *16*(1), 35-56.

Conyon, M. J., & He, L. (2011). Executive compensation and corporate governance in China. *Journal of Corporate Finance*, *17*(4), 1158-1175.

Conyon, M. J., & Murphy, K. J. (2000). The prince and the pauper? CEO pay in the United States and United Kingdom. *The Economic Journal*, *110*(467), 640-671.

Conyon, M. J., & Peck, S. I. (1998). Board control, remuneration committees, and top management compensation. *Academy of Management Journal*, *41*(2), 146-157.

Duffhues, P., & Kabir, R. (2008). Is the pay-performance relationship always positive? Evidence from the Netherlands. *Journal of Multinational Financial Management*, *18*(1), 45-60.

Field, A. (2009). *Discovering statistics using SPSS*. India: Sage Publications.

Finkelstein, S., & Hambrick, D. C. (1989). Chief executive compensation: A study of the intersection of markets and political processes. *Strategic Management Journal*, *10*(2), 121-134.

Frydman, C., & Jenter, D. (2010). CEO compensation. National Bureau of Economic Research Working Paper No. 16585. Retrieved from http://www.nber.org/papers/w16585.pdf

Frydman, C., & Saks, R. E. (2010). Executive compensation: A new view from a long-term perspective, 1936–2005. *Review of Financial Studies*, *23*(5), 2099-2138.

Ghose, A. (2011). Changing world of long term incentives. Retrieved from http://www.aon.com/india/rewards-conference/Aon-Hewitts-8th-Annual-Rewards-Conference/summaries/1-a-Executive-Compensation-and-Long-Term-Incentives.pdf

Ghosh, A. (2006). Determination of executive compensation in an emerging economy: Evidence from India. *Emerging Markets Finance and Trade*, *42*(3), 66-90.

Ghosh, S. (2010). Firm performance and CEO pay: Evidence from Indian manufacturing. *The Journal of Entrepreneurship*, *19*(2), 137-147.

Gill, S. (2014). Rewards for failure: An explanation for anomalous executive remuneration. *Journal of Indian Business Research*, *6*(2), 90-127.

Goergen, M., & Renneboog, L. (2011). Managerial compensation. *Journal of Corporate Finance*, *17*(4), 1068-1077.

Gomez-Mejia, L., & Wiseman, R. M. (1997). Reframing executive compensation: An assessment and outlook. *Journal of Management*, *23*(3), 291-374.

Gupta, A. (2017, April 23). The future of executive pay in India. *Businessworld.* Retrieved from http://www.businesstoday.in/magazine/columns/the-future-of-executive-pay-in-india/story/249164.html

Haid, A., & Yurtoglu, B. B. (2006). Ownership structure and executive compensation in Germany. Retrieved from http://papers.ssrn.com/sol3/ papers.cfm?abstract_id=948926

Hall, B. J., & Liebman, J. B. (1998). Are CEOs really paid like bureaucrats? *Quarterly Journal of Economics*, *113*(3), 653-691.

Hallman, G., Hartzell, J. C., & Parsons, C. A. (2011). Incentive compensation and the likelihood of termination: Theory and evidence from real estate organizations. *Real Estate Economics*, *39*(3), 507-546.

Hartzell, J. C., & Starks, L. T. (2003). Institutional investors and executive compensation. *Journal of Finance*, *58*(6), 2351-2374.

Hengartner, L. (2006). *Explaining executive pay: The roles of managerial power and complexity* (Doctoral dissertation). University of St. Gallen. Retrieved from http://ver-

di.unisg.ch/www/edis.nsf/wwwDisplayIdentifier/3217/$FILE/dis3217.pdf

Izan, H. Y., Sidhu, B., & Taylor, S. (1998). Does CEO pay reflect performance? Some Australian evidence. *Corporate Governance: An International Review*, *6*(1), 39-47.

Jaiswal, S. K., & Bhattacharyya, A. K. (2016a). The role of operating efficiency and asset productivity in relative performance evaluation and CEO compensation in Indian firms. *Decision*, *43*(3), 201-221.

Jaiswall, S. S. K., & Bhattacharyya, A. K. (2016b). Corporate governance and CEO compensation in Indian firms. *Journal of Contemporary Accounting & Economics*, *12*(2), 159-175.

Jensen, M. C., & Murphy, K. J. (1990). CEO incentives: It's not how much you pay, but how. *Harvard Business Review*, *3*, 138-153.

Jensen, M. C., & Smith, C. W. (2000). Stockholder, manager, and creditor interests: Applications of agency theory. *Theory of the Firm*, *1*(1). Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=173461

Jiang, H., Habib, A., & Smallman, C. (2008). Ownership concentration and CEO compensation pay-for performance sensitivity in New Zealand. Retrieved from http://www.pbfeam2008.bus.qut.edu.au/papers/documents/HaiyanJiang_Final.pdf

Kato, T., & Kubo, K. (2006). CEO compensation and firm performance in Japan: Evidence from new panel data on individual CEO pay. *Journal of the Japanese and International Economies*, *20*(1), 1-19.

Kato, T., & Long, C. (2006). Executive compensation, firm performance, and corporate governance in China: Evidence from firms listed in the Shanghai and Shenzhen Stock Exchanges. *Economic Development and Cultural Change*, *54*(4), 945-983.

Kim, J. (2004). Executive compensation contracts: Change in the pay-performance sensitivity within firms. *The Journal of American Academy of Business*, *4*(1/2), 449-454.

Kline, W., Kotabe, M., Hamilton, R. D., & Balsam, S. (2017). Executive compensation: An examination of the influence of TMT compensation on risk-adjusted performance. *Journal of Strategy and Management*, *10*(2), 187-205.

Kubo, K. (2005). Executive compensation policy and company performance in Japan. *Corporate Governance: An International Review*, *13*(3), 429-436.

Lantz, B. (2013). The impact of sample non-normality on ANOVA and alternative methods. *British Journal of Mathematical and Statistical Psychology*, *66*(2), 224-244.

Main, B. G., Bruce, A., & Buck, T. (1996). Total board remuneration and company performance. *The Economic Journal*, *106*(439), 1627-1644.

Mehran, H. (1995). Executive compensation structure, ownership, and firm performance. *Journal of Financial Economics*, *38*(2), 163-184.

Mengistae, T., & Xu, L. C. (2004). Agency theory and executive compensation: The case of Chinese state-owned enterprises. *Journal of Labor Economics*, *22*(3), 615-637.

Merton, R. C. (1973). Theory of rational option pricing. *The Bell Journal of Economics and Management Science*, *4*(1), 141-183.

Murphy, K. J. (1999). Executive compensation. *Handbook of Labor Economics*, *3*(Part B), 2485-2563.

Narayanan, C., & Dubey, J. (2015, August 16). Are Indian CEOs overpaid? *Business Today*, *24*(16), 38-53.

Palomino, F., & Peyrache, E. (2013). Internal versus external CEO choice and the structure of compensation contracts. *Journal of Financial and Quantitative Analysis*, *48*(4), 1301-1331.

Parthasarathy, A., Menon, K., & Bhattacherjee, D. (2006). Executive compensation, firm performance and corporate governance: An empirical analysis. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_ id=881730

Pennathur, A. K., & Shelor, R. M. (2002). The determinants of REIT CEO compensation. *The Journal of Real Estate Finance and Economics*, *25*(1), 99-113.

Raithatha, M., & Komera, S. (2016). Executive compensation and firm performance: Evidence from Indian firms. *IIMB Management Review*, *28*(3), 160-169.

Rajan, R. G., & Wulf, J. (2006). Are perks purely managerial excess? *Journal of Financial Economics*, *79*(1), 1-33.

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

Sakawa, H., Moriyama, K., & Watanabel, N. (2012). Relation between top executive compensation structure and corporate governance: Evidence from Japanese public disclosed data. *Corporate Governance: An International Review*, *20*(6), 593-608.

Shim, E. D., Lee, J., & Joo, I. K. (2009). CEO compensation and US high-tech and low-tech firms' corporate performance. *Contemporary Management Research*, *5*(1), 93-106.

Smith, C. W., & Watts, R. L. (1982). Incentive and tax effects of executive compensation plans. *Australian Journal of Management*, *7*(2), 139-157.

Thomas, R. S. (2008). International executive pay: Current practices and future trends. Vanderbilt University Law School Working Paper No. 08-26. Retrieved from http://ssrn.com/abstract=1265122

Tomar, A., & Korla, S. (2011). Global recession and determinants of CEO compensation: An empirical investigation of listed Indian firms. *Indore Management Journal*, *3*(2), 11-26.

Tomarken, A. J., & Serlin, R. C. (1986). Comparison of ANOVA alternatives under variance heterogeneity and specific noncentrality structures. *Psychological Bulletin*, *99*(1), 90-99.

Vafeas, N. (2003). Further evidence on compensation committee composition as a determinant of CEO compensation. *Financial Management*, *32*(2), 53-70.

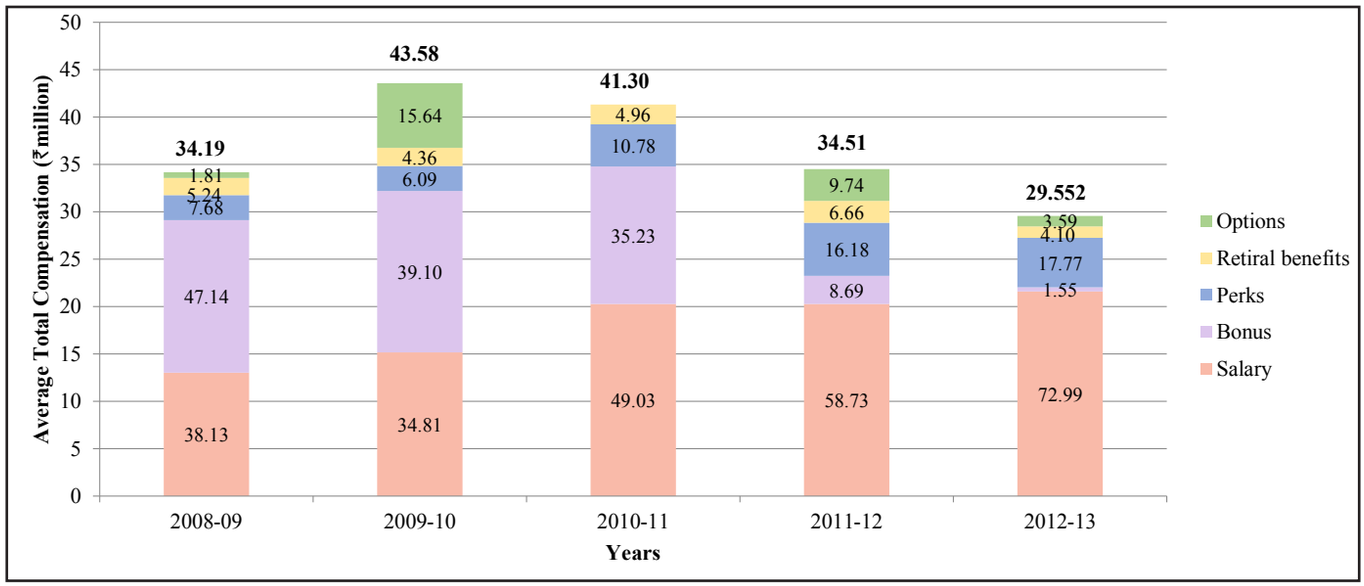
Yermack, D. (1995). Do corporations award CEO stock options effectively? *Journal of Financial Economics*, *39*(2), 237-269.

Yermack, D. (2006). Flights of fancy: Corporate jets, CEO perquisites, and inferior shareholder returns. *Journal of Financial Economics*, *80*(1), 211-242.

Zhou, X. (2000). CEO pay, firm size, and corporate performance: Evidence from Canada. *Canadian Journal of Economics*, *33*(1), 213-251.

APPENDIX

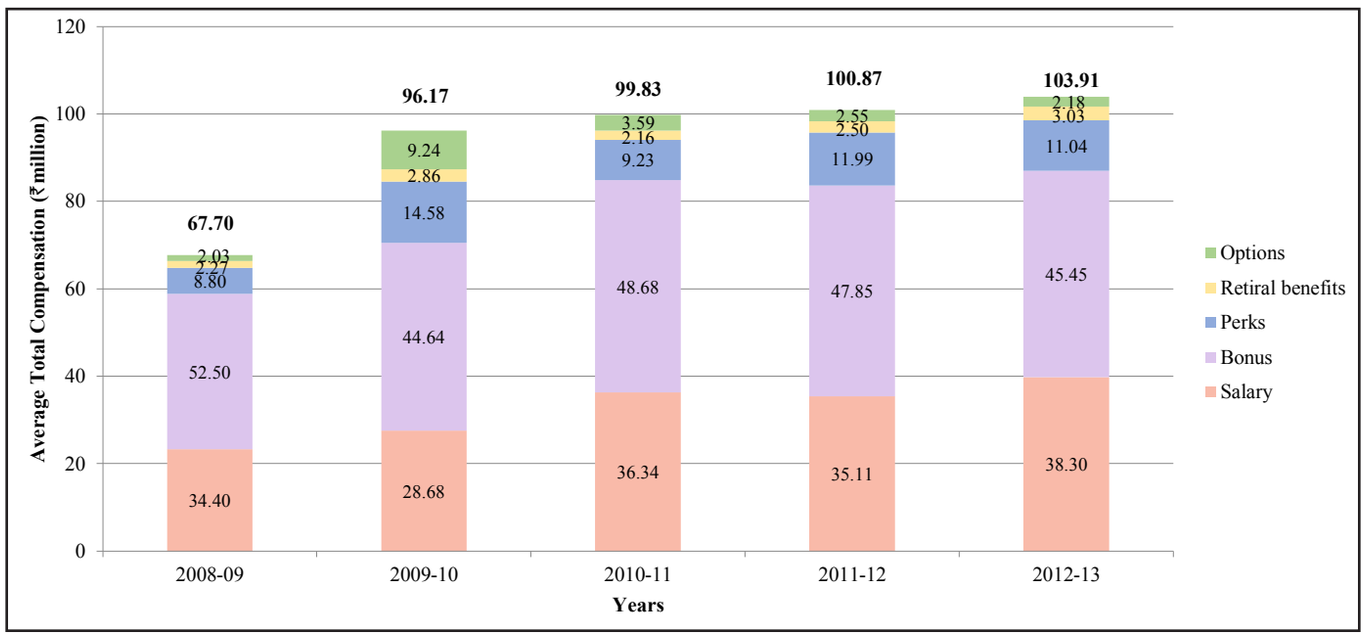
Executive Compensation Structure and Level: Industry-wise Trend Analysis, FY 2008-09 to FY 2012-13



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

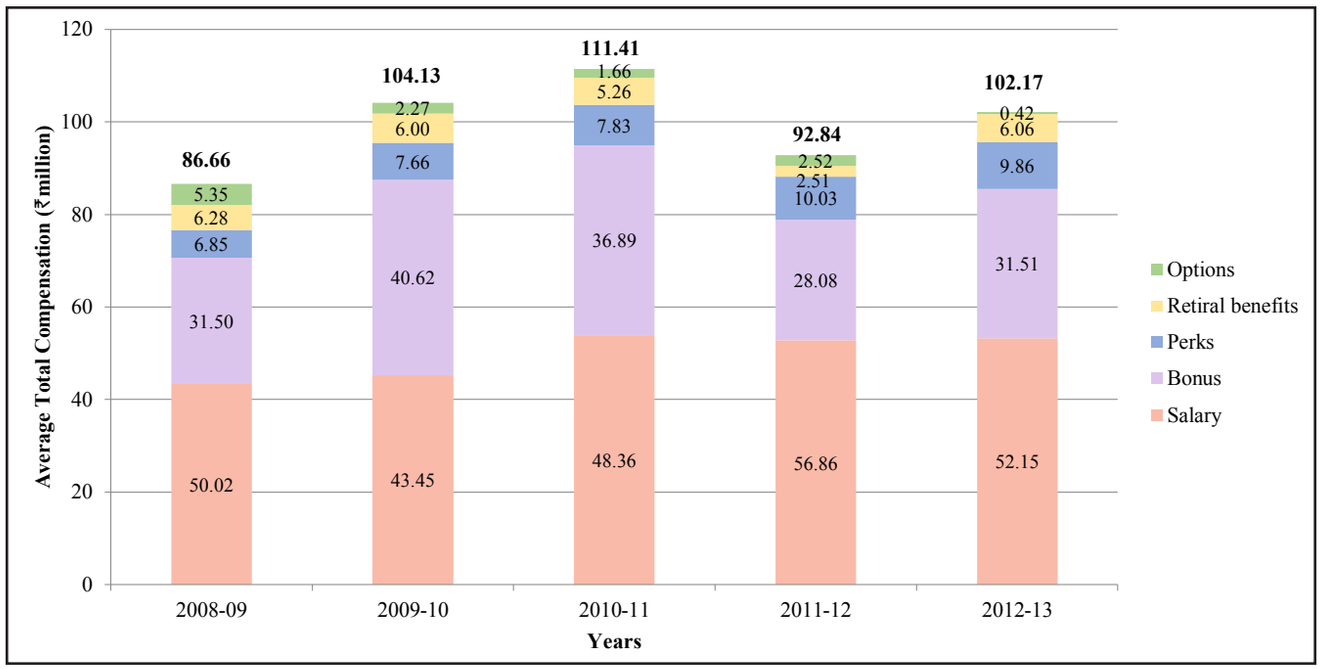
Fig. A1: Trend of the Structure and Level of Executive Compensation in the Resources Sector



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

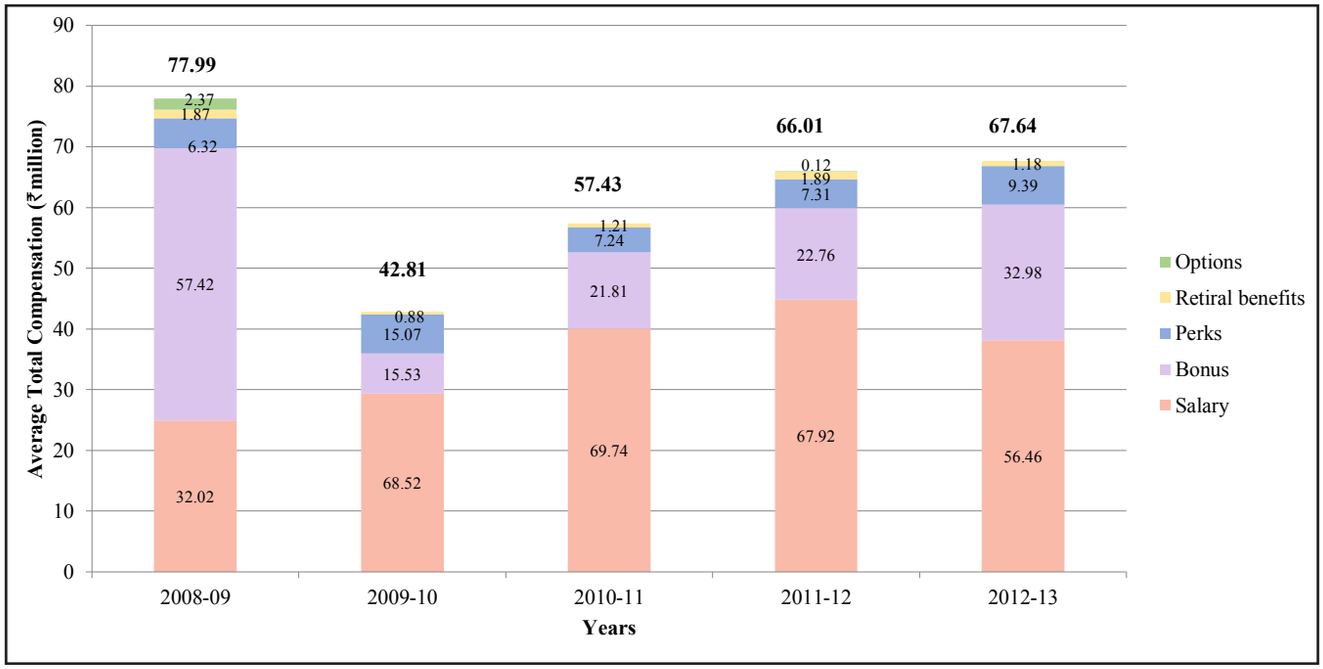
Fig. A2: Trend of the Structure and Level of Executive Compensation in the Manufacturing Sector



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

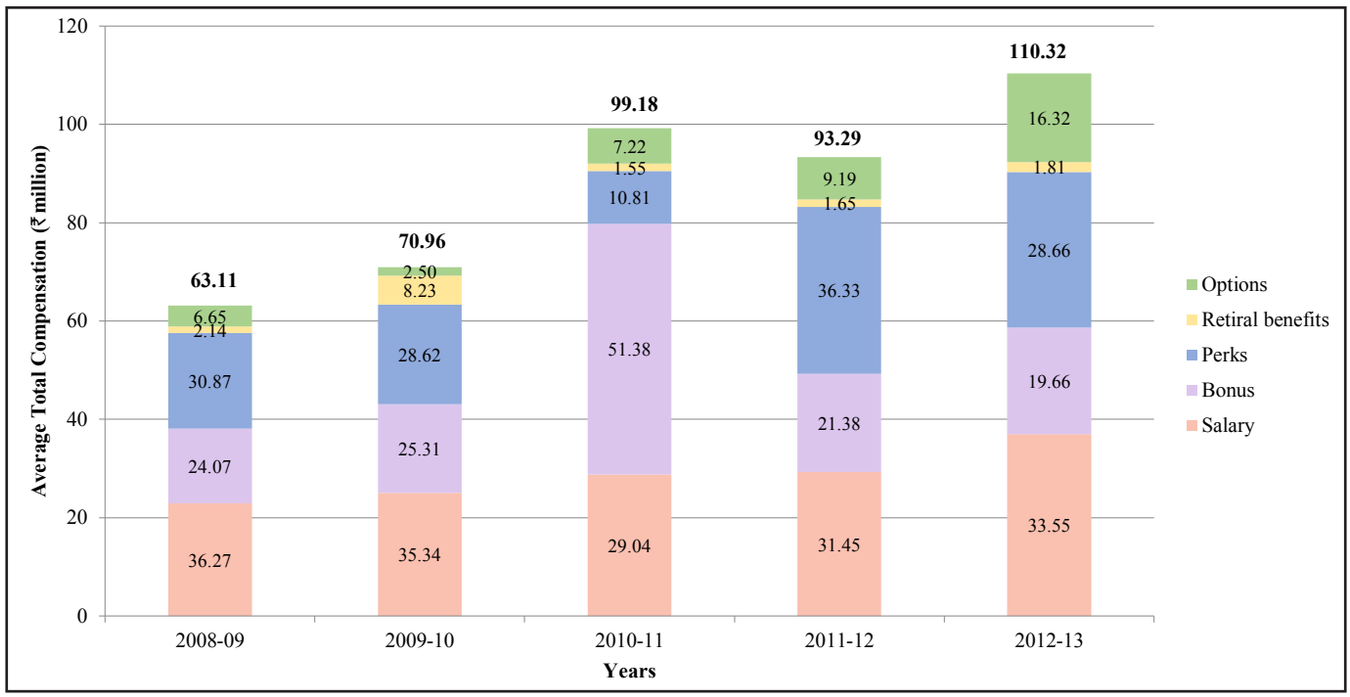
Fig. A3: Trend of the Structure and Level of Executive Compensation in the Infrastructure and Utilities Sector



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

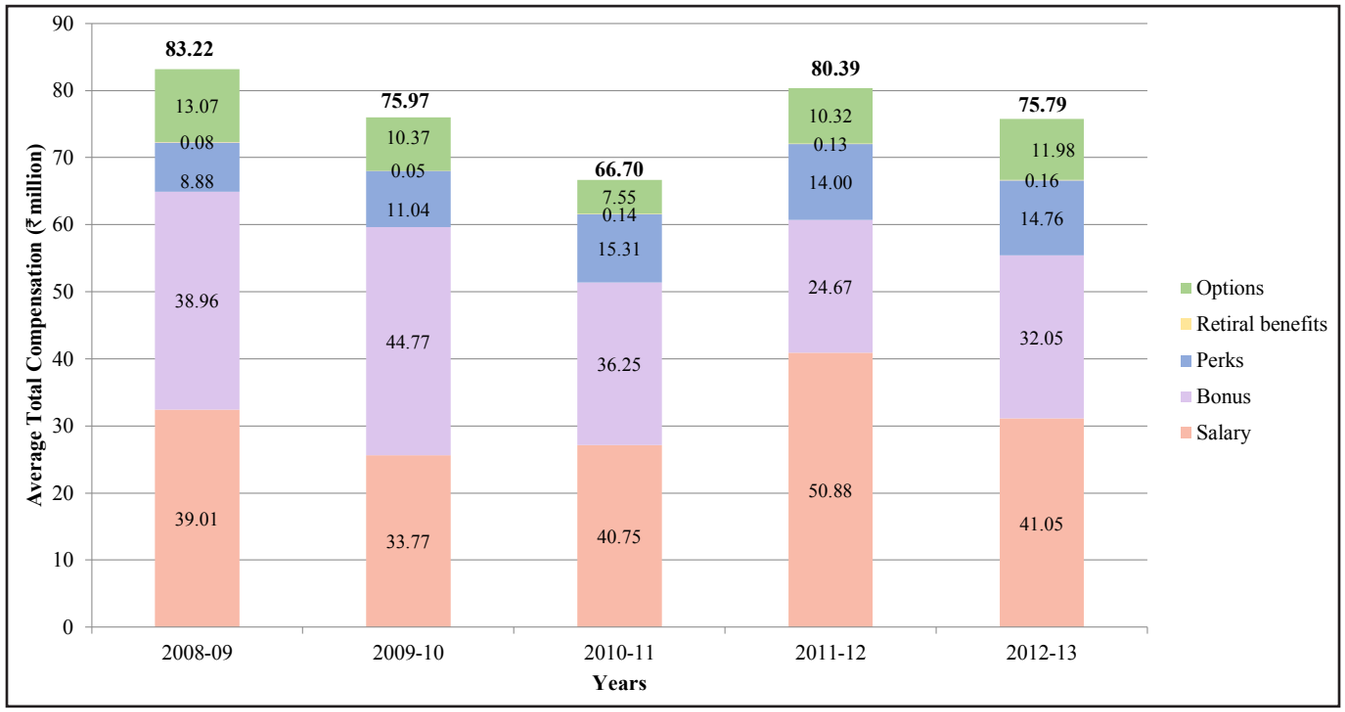
Fig. A4: Trend of the Structure and Level of Executive Compensation in the Transportation, Trade, and Services Sector



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

Fig. A5: Trend of the Structure and Level of Executive Compensation in the Information and Communication Technology Sector



Source: Author's analysis.

Note: Pay components have been shown as a percentage of total.

Fig. A6: Trend of the Structure and Level of Executive Compensation in the Diversified Sector