Chapter 6

Performance Appraisal and Remuneration

Performance Appraisal and Remuneration

Pay and performance are the two sides of the same coin and if either of them is not synchronized the avowed system of relating pay and performance will not work and market will be too late in gauging to the weaknesses in the internal control system. Despite the presence of very active market for corporate control (Fama, 1980; Shleifer & Vishny, 1986; Walsh & Kosnik, 1993). Though the system of performance appraisal in some form or the other is present in every organisation but board members remain immune to it. The system of governance cannot work effectively in the absence of a process for accessing the effectiveness of the boards, its committees and contribution of each member. The system of performance appraisal of the board and its members is expected to provide the signals for corrective actions and reshaping the strategic process. Therefore, this chapter seeks to expound the existence or otherwise of performance appraisal system and whether directors remuneration was related with the corporate performance. Accordingly, the chapter is divided into three sections. Section one deals with the appraisal system of board and its members. Section two describes remuneration of director and its allied aspects. The last section relates CEO pay with performance.

6.1 Performance Appraisal System

'Performance Appraisal' is the appraisal of the performance of an individual in an organizational set up. Its' almost always done by the superior. In case of top management the CEO, being the leader, appraises them and the CEO is appraised by the board. But, the appraisal of NED/ IND board members and the whole board is a rare phenomenon. Eventhough, duties and responsibilities of board members are enshrined in the Companies Act, 1956, the optimum performance of the board members is desirable by the stakeholders. To measure these desirable performances from the board, there should be a system in place.

Berle and Means (1932) while stating about the dispersed shareholders ruled out that they will ever be able to monitor the performance of their agents and fiduciaries. The dispersal of shareholders reduces their capability to monitor and appraise their trustees, i.e., the board. As against this, Mark Latham (1998) argued in favour of shareholder activism whereby shareholders can use their ultimate power to displace the non-performing agents and replace them with other representatives for their wealth maximization. But, before initiating such steps a sound method of performance appraisal has to be in place so as to permit sound decision making of removing the director or give him a pay hike as an appreciation for good performance. However, an enquiry is made about the existence of appraisal system of board and its individual members.

6.1.1 Performance Appraisal System of the Board

It is difficult to measure vision, inspiration, and conviction which are real stuff of leadership and instead hard facts like rock-solid performance such as increases in stock price or market share or substantial decreases in expenses or head counts are being considered by board for the purpose of selection of the CEO (Bennis & O'Toole, 2000). As far as evaluation of the whole board is concerned it can be guaged from the annual reports of the company. Meaningful board evaluation requires a periodic assessment of the effectiveness of the full board, the operations of board committees, and the contributions of individual directors atleast annually. Directors should serve only so long as they can add value or contribute to the board's performance. Evaluation of board should not only be related to the financial performance of the company but also on the compliance of legal requirements and fulfillment of their fiduciary duties, their capabilities to visualize the future of the company and the external environment.

An attempt was made to determine whether the performance appraisal of board and its members takes place or not, and if at all it takes place, then who is evaluated and how and by whom and what is evaluated. Depending upon these queries we tried to find out the answers that were as follows: The first query was, 'Whether the evaluation of the whole board takes place?' and the responses of 88 respondents are given at table 6.1.

Table 6.1 : Sectorwise Frequency Distribution of Existence of the System of the Evaluation of the Board

Responses	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Yes	-	14	7	21	23.9
No	3	56	8	67	76 1
Total Cos.	3	70	15	88	100

The above table shows that only 23.9% of total surveyed companies did the evaluation of the whole board whereas 76.1% (i.e., just above 3/4th) of total sample companies did not evaluate the whole board. It was also observed that the evaluation of the whole board took place more in public sector (i.e., 46.7%) companies as compared to the private sector (20%) companies, and that such evaluation did not exist at all in the joint sector companies.

With a view to know that who does the evaluation of the whole board of those 23.9% companies (i.e., 21 out of 88 companies) answering in affirmative at table 6.1 a question was posed as to 'Who does the evaluation of the whole board?' Responses of those 21 companies are given in table 6.2.

Table 6.2: Sectorwise Frequency Distribution of Who Does the Evaluation of the Whole Board

Appraisers	Sector			Total
	Joint	Private	Public	
The board itself	-	6	2	8
The board itself and GOI through MOU	-	-	2	2
The outside agency (The name not specified)	-	1	-	1
CMD	-	2	-	2
GOI (Administrative Ministry)	-	-	2	2
Parent company	-	1	1	2
Promoter	-	1	-	1
Recruitment & Nomination/ Remuneration/ Nomination committee	-	3	-	3
Sub-total	0	14	7	21
Not applicable	3	56	8	67
Total Cos.	3	70	15	88

The above table reveals that in case of 8 out of 21 companies it was the board itself who did the self-appraisal (that includes 6 private sector and 2 public sector companies). It was also observed that in the public sector, appraiser other than the board was the Government of India (i.e., Administrative Ministry) through MOU[1] and outside agency was the appraiser of the board in case of private sector companies besides CMD, parent company, promoter, remuneration and nomination committee.

For internal evaluation of the board, balanced scorecard is a method of evaluation that can measure the performance against defined goals. Scorecard method can be used for the performance evaluation of the whole board. Therefore, we tried to find out how many companies used the scorecard method for the evaluation of the board and the results of the responses are presented at table 6.3.

Table 6.3: Sectorwise Frequency Distribution of Whether the Company Uses Scorecard Method For The Performance Evaluation of the Whole Board

Responses	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Yes	-	7	2	9	10.2
No	3	63	13	79	89 8
Total Cos.	3	70	15	88	100

The above table reveals that only 10.2% of the respondent companies used scorecard method for the performance evaluation of the whole board and 89.8% companies did not use the same.

6.1.2 Performance Appraisal of Individual Directors

Performance appraisal is viewed as a controlling activity against the set objectives. Whether the long term 'objectives' or short-term 'goals' have been achieved can be evaluated on the basis of performance of the concerned persons. CEO who is responsible for the overall

[1] In PSU – Navratna companies the Memorandum of Understanding (MOU) is signed between the board and the concerned ministry wherein the targets for performance are fixed amicably. After a year's performance the performance evaluation takes place based on the targets set in MOU. And accordingly, the performance grade is assigned.

strategic management of a firm is also in a position to evaluate the effectiveness of that strategy, in case there exists the CEO duality (Finkelstein & D'Aveni, 1994). The Preda Report (Italy) indicates that evaluation of management is an issue for the Remuneration committee in the first instance and in the same vein the Viénot II Report explains: "It is . . . fundamental for the proper practice of corporate governance that the board should evaluate its ability to meet the expectations of the shareholders having appointed it to manage the corporation, by reviewing periodically its membership, its organisation, and its operation (implying an identical review of the board committees)" (pp. 14-15). Other codes unequivocally endorse the issue of evaluation (the Hampel Report, U.K.; the Peters Report, Netherlands; and the Olivencia Report, Spain).

As far as human resource management theories are concerned, there are many ways to evaluate a person's performance. It may be the evaluation by the superior only or there may be 360-degree feedback system wherein a person is evaluated by self and others who are in contact with him or there may be some practical ways to understand what an employee is doing. In the context of evaluation of director(s), 'Who appraises the director?' was the question sought to be answered by the respondents. The responses to the question are given in the table 6.4.

Table 6.4 : Sectorwise Frequency Distribution of Performance Appraisal of Directors

Appraiser	Sector			Total Companies	% of Total
	Joint	Private	Public		
The whole Board	-	19	-	19	21.6
Chairman	-	8	2	10	11.4
CEO/ CMD	1	13	-	14	15.9
CMD and Govt (State/ Central)	-	-	10	10	11.4
HR Committees*	-	14	-	14	15.9
Others**	2	2	1	5	5.7
None	-	14	2	16	18 2
Total	3	70	15	88	100

* Remuneration / Recruitment/ Nomination/ Compensation committees.
** Self, Parent Company, Promoter.

Analysis of responses of 88 companies indicates that in as many as 81.8% companies the system of appraisal of directors was in place and the appraisal of directors did not take place at all in 18.2% companies. In 38.6% private sector companies (i.e., 27 out of 70 companies) the Chairman is involved in appraising the performance of the directors either as a member of the whole board or as chairman of the board. In 66.7% public sector companies CMD alongwith Government (i.e., State/ Central Administrative Ministry) appraised the directors. In 2 out of 3 joint sector companies promoters and in one company CEO was reported to be appraising the performance of the directors. It is important to note that in 20% private sector companies (14 out of 70 companies) HR related committees were appraising the performance of directors.

During the course of discussion with executives of respondent companies, it was highlighted that the whole board along with the nomination committee appraised the WTD and CMD appraised only functional directors/ executive directors. In PSUs, CMD appraised the other directors while ministry appraised the official WTD and the chairman of the board were stated to be appraising the WTD/ MDs and not NEDs. The self appraisal as well as appraisal by the whole board was for executive directors only. MDs were appraised by the promoters and FI nominees by financial institutions. However, in few cases, the HR department, management committee/ remuneration committee/ compensation committee appraised the ED.

6.1.3 Performance Evaluation of NEDs

The performance evaluation of board members has just been rhetoric and has seldom been scientifically been put in practice. When the friends are invited as NEDs on the board, it has been regarded as a matter of obligation. Therefore, where the obligation persists, evaluation of board is just a mockery of the system. However, there exist few exceptional companies that require NEDs/ INDs to really put in their hard earned experience and expertise in board's deliberations. Therefore, in place of performance evaluation of NEDs, respondents were asked about NEDs' contribution in the governance of the company by posing a question

'Whether the contribution from the NED is sufficiently high to meet the expectations of good governance?' The responses are tabulated in table 6.5.

tTable 6.5: Sectorwise Frequency Distribution of Contribution From the NEDs

Whether Satisfactory	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Yes	2	70	13	85	97.7
No	-	1	1	2	2.3
Total Cos.	2	71	14	87	100

The data contained in the table reveals that almost all surveyed companies (i.e., 97.7%) of all sectors were satisfied with the contribution from the NED/ INDs to meet the expectation of good governance and the level of dissatisfaction is very low i.e., only one company each in private and public sector. The reason for the dissatisfaction was mentioned as 'NED were very busy and therefore they were not able to devote their time for the company's affairs', and also that 'the directors were too old to deliberate upon the board's task'.

6.2 Remuneration of Directors

Closely related with performance appraisal system is the remuneration of directors which is linked with the performance of the individual directors vis-à-vis other criteria of fixing the same. Kumar Mangalam Birla Committee opined that the remuneration of NED be decided by the entire board and should be good enough to attract, retain and motivate the directors of the quality required. The importance of performance and proper remuneration to directors can be realised from the instance that one of the reasons of the collapse of Enron in the U.S. was excessive compensation package (i.e., no parity between the pay and the performance). Therefore, executive compensation is both an important instrument of corporate governance and an indicator of its effectiveness (Mangel & Singh, 1993). What could be tenets of good and effective remuneration of directors is till date a mystery for the reasons of ambiguity in reaching to the conclusion on any one or more parameter/s as a decisive factor, i.e., firm size or accounting based performance or share market performance of the company, or on the basis of their relative value in the market for executive talent or on the basis of industry-vide practices. Many corporate governance codes that viewed CEO and management performance evaluation as central to the role of the supervisory body often tried to link performance to remuneration decisions. In economic theory of agency the agents interest is aligned with that of the principal by providing proper incentives to their work to mitigate the problem of agency to a large extent.

Conyon and Leech (1993) found that the level of director pay is lower in companies that have a higher share ownership concentration or are defined as owner-controlled and failed to find that separating the roles of Chairman and CEO had any effects on executing compensation levels. Similarly, Cosh and Hughes (1997) did not find any evidence that institutional holdings in the UK alter the level of executive remuneration or the pay-performance relationship. Forbes & Watson (1993) stated that in the U.K. the management dominated boards have the power to design and implement their own remuneration schemes. So is the case in India where promoter directors have such opportunities.

All directors, ED and NED, should be adequately compensated[2] for their time and effort, even in cases of absence or inadequacy of profits. It is important to recognize that professional *independence* of non-executive directors and the legitimacy of demands on their accountability need to be matched by the reward systems by companies. Economic determinants of compensation are related to 'productivity' which is ultimately related to human capital variables such as education, work experience, tenure in the company (O'Reilly *et al.*, 1988) and all these job-relevant skills and experience should earn a premium.

[2] Under article 65 of Table A of the Companies Act, 1956, a director is entitled for remuneration and in addition he is entitled for all traveling expenses, hotel and other expenses incurred for attending and returning from the meeting of the board or the board committees or general meeting.

Remuneration payable to board members (including NED/ IND, ED, MD, WTD or a manager) may be payable in one or more forms, viz., salary[3] (monthly, quarterly or annually), sitting fees[4] (fees for each board/ board committee meeting attended), commission[5] (percentage of net profits computed in a specified manner), and perquisites and allowances[6].

6.2.1 Deciding Authority of Remuneration

Limits of directors' remunerations are legislated by the Companies Act, 1956 under section 198[7] and s. 309[8]. Apart from the legislative framework, the remuneration of directors is much dependent on who decides the said remuneration. Crystal (1991) blamed compensation consultants, company boards of directors, and more specifically, board compensation committees for out of control executive compensation in the U.S. Compensation practices are more favorable to the CEO when insiders serve on the compensation committee (Newman & Mozes, 1999). The remuneration of ED and promoter directors (whether ED or NED) is tend to be higher, if we extrapolate Newman & Mozes' (1999) findings to Indian situation since there exists an insider system.

Therefore, answers were sought to a question, 'Who decides the remuneration of executive directors (WTD)?' The responses of 96 respondents have been tabulated in table 6.6. In public sector undertakings, the compensation for the whole time functional directors and the executive chairman was as per the guidelines issued by the Department of Public Enterprises

3 Sections 309(4) and 387, *Ibid.*
4 Section 309(2), *Ibid.*
5 Section 198(1), Section 309(3) and Section 309(5), *Ibid.*
6 As specified under Section II of part 11 of Schedule XIII, *Ibid.*
7 Section 198 states that the total managerial remuneration payable by a company to its directors and manager cannot exceed 11% of the net profits of the company for the financial year. This 11% is exclusive of the sitting fee payable to directors – Section 198(2).
8 Section 309(3) states the limits of remuneration to a director in the whole time employment or MD as 5% for one such director and 10% for all of them together, where there are more than one. Section 309(4) states the limits of remuneration of other directors (i.e., NEDs) as 7% of the net profits of the company if the company has a M.D. or a WTD or a manager and 3% of the net profits of the co. otherwise. Remuneration exceeding the above percentages shall require the approval of the Central Govt. under Section 309(3).

therefore, the decision of remuneration of EDs was almost taken by the Government (i.e., 94.4% companies) and only in 6.6% PSU companies (i.e., one out of 18 companies) the whole board of directors decided about the remuneration of EDs.

Table 6.6: Sectorwise Frequency Distribution of 'Who Decides the Remuneration of Executive Directors (WTD)'

Responses	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Board of Directors	2	32	1	35	36.5
Remuneration committee	-	29	-	29	30.2
Govt (Central + State)	-	-	17	17	17.7
Compensation/ Nomination/ Management committee	-	6	-	6	6 3
MD/CEO	-	4	-	4	4.2
Chairman of the board/ CMD	-	3	-	3	3.1
Parent Company/ Promoter	-	2	-	2	2.1
Sub-total	2	76	18	96	100

Decision by the remuneration committee about the remuneration of EDs was present only in 38.2% (i.e., 29 out of 76) private sector companies. In all joint sector companies and as many as 42.1% private sector companies the board of directors decided the remuneration of the EDs. The other agencies deciding about the remuneration of EDs were chairman of the board, CMD, MD, HR committees, and parent company or promoter.

After analyzing the agencies that fix the remuneration of EDs, it was attempted to know about the agencies that fix the remuneration of NEDs. This is important from the point of view that the decision of remuneration to be paid to NEDs is required to be done by an independent agency so that NED's decisions are not directly affected by fixation of his remuneration. This leads us to the next query that 'who decides the remuneration of NEDs?'

Analysis of 94 responses in table 6.7 reveals that the remuneration of NEDs was in majority of Indian companies was decided by the board of directors (i.e., 61.7%) and that the remuneration committee and other HR committees decided the remuneration of NEDs in 21.3% companies.

Table 6.7 : Sectorwise Frequency Distribution of 'Who Decides the Remuneration of NED'

Responses	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Board of Directors	2	50	6	58	61.7
Remuneration/HR/Compensation/ Nomination committee	-	20	-	20	21.3
Government (State/Central)	-	-	9	9	9.6
CMD/ MD	-	3	-	3	3.2
Chairman of the board	-	2	-	2	2.1
As per Companies Act	-	1	1	2	2.1
Total Cos.	2	76	16	94	100

In public sector companies the government decided the remuneration of NEDs in 56.3% PSUs. However, much talked about fixation of remuneration of NEDs by the CMD/ MD was found in 3.9% private sector companies only.

6.2.2 Constituents of Remuneration

If the use of incentive devices is effective, then this should manifest itself in a positive relationship between managerial compensation and firm performance. It is the 'form' rather than the level of compensation is what motivates managers to increase firm value (Mehran, 1995). Excluding stock options, current evidence indicates that sensitivities of pay to performance are quite small. Murphy (1985), Coughlin and Schmidt (1985) and Barro and Barro (1990) all find pay-performance elasticities in the range 0.10 to 0.17, suggesting that a 10% rise in firm profitability leads to a 1% to 1.7% rise in CEO compensation consisting of salary plus bonus. However, Hall and Liebman (1997) suggest that previous sensitivity measures ignore changes in the value of stock and stock options, which account for virtually all of the sensitivity.

Agency theorists espouse that remuneration contracts are efficient if linked to performance over which managers have some control. Otherwise, executives would not have any incentive to engage in significant effort to increase firm performance since they know they will be compensated regardless of the performance of the firm. Sections 309 & 198 of the

Companies Act, 1956 limit the total remuneration to be paid to all the directors which shall not be more than 5% of the net profit of the company. Therefore, an effort was made to find out the prevalent patterns in directors' cash remuneration in the best companies[9] of India.

For that the data was ferreted out from the annual reports of FY2000-01 and also from the questionnaire and included only salary, sitting fees and commission while computing the pay of the director. Retirement plan contribution, tax free fringe benefits, housing facilities and other non-monetary perquisites were not considered while computing the pay of the director (i.e., cost to the company). Results of the analysis are given in table 6.8.

Table 6.8 : Frequency Distribution of Category of Remuneration

A. On the Basis of Type of Directorship

Category of remuneration	Type of Directorship			Total Dir.	% of Total
	ED	IND	NED		
Sitting Fees Only	-	245	283	528	46.9
Sitting Fees + Commission	-	131	61	192	17.1
Salary Only	202	-	-	202	18 0
Salary + Commission	129	-	-	129	11.5
Commission Only	4	23	15	42	3.7
None	2	10	20	32	2.8
Total Directors	337	409	379	1125	100

B. On the Basis of Designation of Director

Category of Designation	Category of Remuneration						Total Dirs
	Salary Only	Salary + Commission	Sitting Fees Only	Sitting Fees + Commission	Commission Only	None	
CMD	26	14	-	-	1	1	42
Chairman	9	11	42	19	2	5	88
MD/CEO	42	37	1	1	1	1	83
MD(Functional)	7	4	-	-	-	-	11
WTD	103	57	7	-	4	-	171
Nominee	-	-	62	11	3	-	76
Ordinary Directors	11	3	392	152	27	22	607
Additional Director	2	3	10	4	4	1	24
Alternate Director	2	-	8	4	-	2	16
Casual Director	-	--	6	1	-	-	7
Total Dirs.	202	129	528	192	42	32	1125
% of Total	18.0	11.5	46.9	17.1	3.7	2.8	100

9 All BSE 'A' group Cos. and B1 group companies having Market Capitalization upto Rs. 200/- Crores.

The data related to remuneration was available for 1125 directors out of 1229 directors of surveyed 116 companies. There were three main constituents of remuneration, i.e., salary, sitting fees and commission. Majority of EDs, i.e., 59.9% (202 out of 337) EDs were getting only salary and 38.3% (i.e., 129 out of 337 EDs) were getting commission alongwith the salary. Majority of NEDs (74.7%, i.e., 283 out of 379 NEDs) were getting only sitting fees and 16.1% NEDs (i.e., 61 out of 379 NEDs) were getting commission alongwith the sitting fees. However, the percentage of independent directors (32%, i.e., 131 out of 409) was more than the percentage of NEDs (16.1%) who were getting commission alongwith the sitting fees. In India, there were3.7% directors (including ED, NED and IND) who were getting only commission and 2.8% directors did not get any kind of remuneration.

Table 6.8B shows that in India, majority of the CMD (61.9% i.e., 26 out of 42 CMD) were getting salary only and 1/3rd (i.e., 33.33%) of the CMDs were getting commission alongwith the salary. Since in India, majority of the chairmen were NED, therefore, 47.7% chairmen (i.e., 42 out of 88) were getting only sitting fees. 14.5% of nominee directors were also paid commission alongwith the sitting fees.

Stock Options

Apart from the foregoing pay constituents directors are also offered stock options by few companies and that makes one of the constituent of pay to the directors. In the early 1990s corporate boards were convinced with the fact that the surest way to align the interests of mangers with those of shareholders was to make stock options a large component of executive compensation (Rappaport, 1999). Stock option as one of the way to align owner and managers' (agents) interest has found the acceptance in the corporate world and the case for stock option becomes more stronger with the fact that firm performance is positively related to the percentage of equity held by managers and to the percentage of their compensation that is equity based (Mehran, 1995). On the other hand there were some studies that concluded that the relationship between the executive stock ownership does not affect the firm performance (Demsetz & Lehn, 1985; Denis & Denis, 1994) and that the executive stock ownership has a very weak and unstable explanatory power of the firm performance (Loderer & Martin, 1997; Morck, *et al.*, 1988; McConnell & Servaes, 1990). Kole (1997) finds that if there is a family representative either in management or on the board of directors, the probability of adopting an equity-based compensation plan is significantly reduced. Recommendations of equity ownership by managers or grant of stock options as a way to remunerate the managers, to align the interests of agents, i.e., managers and directors, with that of shareowners, are made regardless of other firm-specific characteristics such as compensation packages, direct monitoring by the board, monitoring by nominee directors, bond covenants that may limit the divergence in interests between managers and stockholders (Loderer & Martin, 1997). When the market is rising, stock options reward both superior and subpar performance (Rappaport, 1999) since in the bull market the factors working are beyond management control[10]. When there is bear mood in the stock market stock options lose its sheen due to unattractive prices and no value enhancement in the pay is done. Options are meant to align mangers' interests with that of shareholders, but "if managers can reap profits from their options while shareholders are losing some or all of their equity stake, the options create conflicting, no aligned, interests" – Mr. Harvey Pitt[11]. Poorly planned stock based incentives contracts will fail in creation of value by the managers and will lead to underperformance or to maintain status quo on operating, financing, and investing decisions (Campbell & Wasley, 1999). However, there are not many companies that go for stock option route to remunerate their directors. An enquiry was conducted to find out the present situation in India corporates about the stock

10 In the FY 1999-2000 because of IT hype, IT stocks rose to a all time high but after the bubble burst those stocks tumbled down at the same rate by which they rose.

11 (2002), "SEC Chairman Calls For Stricter Controls Over Stock Options", *Financial Express*, Mumbai, April 6th, p.8.

option to the directors. Data of 108 companies has been ferreted out from the responses in the questionnaire and the data available from the annual reports and the analysis of the data shows following results:

Table 6.9 : Sectorwise Frequency Distribution of 'Whether the Stock Option is Given to Directors'

Whether the stock option is given to directors	Sector			Total	% of Total
	Joint	Private	Public		
Yes	-	26	1	27	25 0
No	3	61	17	81	75.0
Total No. of Cos	3	87	18	108	100

Table 6.9 shows that out of 108 companies 75% companies (i.e., 81 companies) d id not offer stock option to their directors and that only 25% companies (or 1/4th of total companies), offered such options. However, schemes differed from company to company. Mostly the executive directors who were offered stock options by the company. 4 out of 81 companies reported that they had the stock option scheme but those were not acted upon by the directors. In one company there was 'Stock Purchase Scheme' rather than 'Stock Option Plan' where-in directors were allowed to purchase the stock but not at deferred rate and they had to pay the prevalent market price of the stocks. 30% private sector companies (i.e., 26 out of 87) and 5.5% public sector companies (i.e., 1 out of 18) offered stock option to their directors and in joint-sector stock options were not offered to the directors. It was tried to find out the relation between the presence of stock option plans to directors and performance category of companies. On the basis of these two parameters data of 98 companies was available for the analysis purpose.

Table 6.10 : Stock Option vs. Financial Performance

Stock Option	Performance Category			Total Cos.	% of Total
	I	II	III		
Yes	13	4	6	23	23
No	24	26	25	75	77
Total Cos.	37	30	31	98	100

Table 6.10 shows that 23 out of 98 companies (i.e., 23%) gave stock options to their directors. 35.1% companies under the performance category I (i.e., 13 out of 37

companies), 13.3% companies under the performance category II (i.e., 4 out of 30 companies), and 19.3% companies under the performance category III offered stock options to their directors. Majority of companies that offered stock options (i.e., 56.5% or 13 out of 23) were under category I, 17.4% companies under category II, and 26.1% companies were falling under category III. To test the null hypothesis that 'presence of stock option plan to directors is not significantly related with the performance of the company', chi-square test was carried out. Result of chi-square test indicates that the observed value of $\chi^2 = 4.81$ was not found to be significant at 5% significance level (p-value > .05). Therefore, it can be concluded that presence of stock option plan to directors is not significantly associated with the performance of the company.

6.2.3 Remuneration Paid to Board Members

In all the public sector units (including banks) salaries are almost uniform (with some minor variations). The same holds good in respect of the salaries of the chief executives and other whole time directors of PSUs. No distinction is made with regard to the size of the unit, complexities of the problems facing individual company, and the levels of profitability. There is no incentive for good work, performance and profitability levels of most of the PSUs. In case of private sector, Murphy (1985), Barro and Barro (1990), and Hall and Liebman (1997) found that, in general, managerial compensation does not depend upon the relative performance of the firm. A study undertaken by Pricewaterhouse Cooper (PwC) suggests that many companies in the UK were failing to achieve a link between pay and performance. Commissions are rewards on current profits. Stock options are rewards contingent upon future appreciation of corporate value. An appropriate mix of the two can align a non executive director's interest towards short-term profits as well as longer-term shareholder value. Therefore, the following is attempted to find out how various constituents of remuneration are paid.

Sitting Fees

It was observed that the minimum sitting fees of Rs. 1,000/- for board meetings and Rs. 500/- for board committee meetings were paid by public sector banks. However, 7.07% private sector directors were also getting Rs. 1,000/- as sitting fees to attend the board meetings. Rs.2,000/- and Rs. 5,000/- were the most popular figures that were paid to 42.4% and 37.3% directors respectively.

Commission

There were various parameters considered while deciding the commission to be paid. Commission being one of the interest alignment strategies gained importance over the stock option. Commissions are normally paid for the short-term profits (i.e., mostly annually) and stock options are related to the long-term objectives, viz., shareholder wealth maximization. Therefore, it was tried to find out parameters that decided the commission to be paid to the directors. 99 responses to the query "Commission paid to the directors is linked with", has been tabulated in table 6.11.

Table 6.11: Sectorwise Frequency Distribution of Parameters That Decide the Commission to be Paid to the Director

Parameters	Sector			Total Cos.	% of Total
	Joint	Private	Public		
Performance of the Co.	1	22	-	23	23 2
Performance of the co. and the concerned director	-	22	-	22	22.2
Performance of the Concerned Dir.	-	7	-	7	7.1
Pro-rata basis	-	3	-	3	3.0
Performance of the Co. and the concerned director and pro-rata basis	-	3	-	3	3.0
Performance of the Co. and pro-rata basis	-	2	-	2	2.0
Commission is not paid	2	21	16	39	39.4
Total No. of Cos.	3	80	16	99	100

The table reveals that the main criteria fixed for payment of commission were performance of the company and performance of the concerned director. 60.6% companies (i.e., 60 out of 99) gave commission to the directors whereas in all public sector companies the commission was not paid to the director. 10% companies paid commission on pro-rata basis. As already seen above, in some organizations only EDs/ WTDs were entitled for commission. In some organizations only MD was entitled for commission, while other organizations did not pay any commission to EDs but paid commission to NEDs only. Therefore, the 'performance criteria' were fixed as follows: Payment of commission to NEDs in most of the companies was dependent upon the attendance record of the NED at board/ board committee meetings. One organization reported that they even considered the contribution of ED at board meeting and performance between two board meetings. WTDs in one company got performance incentives.

Interaction with respondents revealed that while fixing the remuneration of NED, majority of companies take into consideration the provisions of law, prevailing industry norms, benchmarking with similar companies, capital structure of the company, time devoted by the director, efforts put in by the director and responsibility of the person, and as per government guidelines, etc.

Actual Remuneration Paid to Directors

The pay package for directors must be in parity to their role, function and performance. For seeking a positive contribution from the NED/IND in functioning of the board, there must be rationality in pay for the required performance. A person will not dare to take a decision involving crores of rupees for a meager or negligible amount of sitting fees of Rs.2,000/-[12]. NED directors were known to have been paid $43,000 in the US, £23,000 in the U.K. and DM22,500 in Germany[13] whereas in India they are paid a mere sitting fees of Rs.2,000/- or Rs.5,000/- or in many cases even Rs.1,000/- per meeting. However, Infosys reported to pay

[12] Most of the companies were paying the sitting fees of Rs.2,000/- per meeting attended by the non-executive director. However, it is witnessed that the companies have revised the rate of sitting fees to Rs.5,000/- per attended meeting from the financial year 2000-2001. There are companies like Larsen and Toubro which pays a heavy commission on pro-rata basis to its non-executive directors.

[13] (2000), "Infosys Pays Independent Directors $25,000 As Fees", *Economic Times*, Ahmedabad, November 6th, p.7.

$25,000 as sitting fees to its Independent directors in the year 2000[14]. Remuneration of NED is equally important to get his true involvement in the board's deliberations. Companies pay a very meager amount as a sitting fee to NEDs. To get the factual data on remuneration we used the data available from the annual reports and the questionnaire responses. Accordingly data for 865 directors of 116 companies was available for analysis. For the analysis purpose the remuneration considered was as total remuneration received = sitting fees + salary + commission. Descriptive statistics of the remuneration of directors (i.e., ED/ NED/ IND) is at table 6.12.

Table 6.12 : Statistical Analysis of the Total Remuneration Received by Directors For the FY2000-01.

A. On the Basis of Sector and Type of Directorship

Sector	Type of Directorship	Minimum	Maximum	Average	No. of Dirs.
Joint Total (3 Cos)	ED	8,76,000	1,63,01,000	60,17,667	3
	NED	6,000	10,000	7,333	6
Private Total (93 Cos)	ED	6,000	8,85,00,000	66,78,722	250
	IND	1,000	16,76,805	1,64,183	296
	NED	500	21,61,272	1,57,515	208
Public Total (20 Cos)	ED	56,993	14,89,298	6,23,686	49
	IND	1,000	1,35,000	34,259	27
	NED	1,000	49,000	12,833	24

B. On the Basis of Category of Designation

Category of Designation	Minimum	Maximum	Average	Total Dirs.
CMD	5,02,052	71,30,000	80,91,672	33
Chairman	3,500	8,85,00,000	36,42,001	67
MD/CEO	56,993	7,13,00,000	59,06,232	74
MD(Functional)	5,07,915	49,39,663	24,75,798	14
WTD	6,000	1,90,00,000	23,88,795	160
Ordinary Directors	500	17,95,300	1,33,110	424
Nominee	1,000	3,72,500	73,103	55
Additional Director	5,000	1,45,22,940	14,02,161	17
Alternate Director	2,000	7,62,254	1,34,138	11
Casual Director	5,000	1,74,666	47,916	4

Table no. 6.12 A shows the descriptive statistics of total remuneration received, with respect to the type of directors. The maximum remuneration paid to the ED of private sector company i.e., Rs. 8,85,00,000/- which was 59.4 times more than maximum salary paid to the

[14] *Ibid.*

ED of a public sector company (i.e., Rs.14,89,298/-) and the said ratio of maximum remuneration between joint sector vs. public sector was 10.94 : 1. The ratio of average remuneration paid to the ED between public : private : joint sector was 1 : 10.7 : 9.6. The maximum remuneration paid to the NED of private sector was Rs.21,61,272/-, which was 21.61 times the maximum remuneration paid to the NED of a public sector company (i.e., Rs.49,000/-). And the ratio of average remuneration paid to the NED between public: private: joint sector was 1.75: 21.48: 1. The maximum remuneration paid to the IND of private sector was Rs.16,76,805/-, which was 12.42 times than the maximum remuneration paid to IND of a public sector (i.e., Rs. 1,35,000/-). However, the average remuneration paid to the IND of public and private sector were in ratio of 1: 4.79. The overall ratio of remuneration paid to the director NED:IND: ED was 1 : 1.1 : 30.

The above table 6.12 B shows that CMD received highest average remuneration in all the categories of directors and the lowest paid was the casual director. It also reveals that the remuneration paid to chairman ranged from Rs.3,500/- to Rs. 8,85,00,000/- and that the ratio of maximum: minimum was equal to 25285:1. CMD, Chairman and MD/CEO felled under the highest income bracket.

6.3 CEO Pay and Performance

In the U.S. the payments of CEOs are under controversy since long, the reason being that the CEOs in the U.S. get fat salaries than their counterparts in other countries[15] and also that there is no parity between pay and performance. In India directors' salary has always been relatively regarded as low compared to the work they have to deliver. However, recently, even in India the question of extra-large payments to CEOs have been questioned. As against the general wisdom that the pay-hike must be related to the performance, the CEOs'

[15] In the FY2000-01 the highest paid CEO in the U.S. was Mr. Micheel Dell of Dell Computers whose compensation ($236 m) was more than 100 times that of Mr. Dhirubhai Ambani (i.e., Chairman of RIL) with a salary of 885.0 Lacs which was the highest salary in India – (2001), "India Inc. Retains 'Old' charm, gifts CEOs BEST Pay Packets", *The Economic Times*, Ahmedabad, August 4th, p.1.

pay, in India[16] and abroad[17] (i.e., the U.S.), has been increasing irrespective of the company's performance[18]. Despite recession in the FY2000-01, there was excessive greenery in the CEO wallets.

CEO pay and performance play a greater role in corporate governance of the company. Hostile takeover has been regarded as one of the important tool to discipline the under performing management, however, another tool to improve the performance of the CEO is to align the economic interest of the CEO and the shareholders by implementing compensation package which is highly sensitive to shareholder wealth, thus increasing the chances of greater CEO commitment to shareholder wealth maximization. Ingham & Thompson (1993) observed that the pay-performance linkage has strengthened in the more competitive environment but Core *et al.* (1999) observed that CEOs earn greater compensation when governance structures are less effective.

For the study of CEO pay and performance the valid data was available from 85 companies only. For the study three criteria were used for the selection of a CEO for a given company such as: highest paid person in the list of a company's directors, he was on the top of the hierarchy of designation in the category of EDs[19], and he has worked for the full year on the board of the company.

Table 6.13 : Statistical Description of CEO Pay and Performance

Financial Performance Category	CEO Pay (Rs.) per annum			No. of CEO
	Minimum	Maximum	Average	
I	4,08,000	8,85,00,000	92,16,898	32
II	3,56,767	1,37,65,000	46,65,914	25
III	1,51,981	3,37,70,826	59,98,118	29

16 Study conducted by Prof. Pranabesh Ray and Ram Kumar Kakani of Xavier Labour Relation Institute (XLRI) in the year 2002.

17 Paper co-authored by Michael Jensen with Kevin Murphy in the year 2002.

18 In compare to the increase in the net profits of Reliance industries by 10 percent , Dhirubhai Ambani, Mukesh D. Ambani and Anil D. Ambani have given themselves an increase of 73-75 per cent in their pay and Mukesh Ambani's pay have been increased to whopping 346 per cent in compare to his pay two years ago – *The Financial Express*, Mumbai, August 10th, 2001, p.6.

19 He may be an Executive Chairman/ CMD/ MD/ CEO.

Analysis of data (table 6.13) indicates that the remuneration of CEO in category I (i.e., the best performing companies) was in the range of Rs. 4,08,000/- to Rs. 8,85,00,000/- with an average of Rs. 92,16,898/- which were higher than the pay of CEO of category II and III. CEOs of category III received a maximum pay of Rs. 3,37,70,826/- with an average of Rs.59,98,118/- which was higher than the pay of CEOs of category II. CEOs of best performing companies received higher pay than their counterparts in performance category II and III. To test the null hypothesis that there is no relationship between the CEO pay and performance of the company with respect to sector, viz, public and private, simple linear regression analysis was performed between the CEO pay and performance index of the company (since sample size of joint sector companies was 2, regression analysis was not performed for the same). In both, public and private sector no causal relationship was found to be in existence between CEO pay and performance of the company (refer appendix 6.1). Therefore, it can be concluded that CEO pay is not linked with the performance of the company irrespective of the sector. Further, an attempt was made to explore the reasons of the high difference in remuneration of CEO within the same performance categories, viz., under the same category I minimum salary of one CEO was only Rs. 4,08,000/- and that of another CEO in the same category I is Rs. 7,13,00,000/-. An attempt was made to see whether with other parameters as sales, profit after tax, non-business income, paid up share capital, reserves, market capitalization, CEO status as promoter and non-promoter, and length of service on the same board had any bearing on the pay of CEO.

CEO Pay vs. Financial Performance Variables

The null hypothesis that 'there did not exist any relationship between CEO pay and financial variables with respect to sector' was tested using multiple linear regression analysis (refer appendix 6.2) using following model:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \varepsilon.$$

In public sector the model was found to be significant (p-value <.05, adj. R^2 = .892). That means the model could explain 89.2% of the variation in the CEO pay depending on all six financial variables collectively and the remaining variation may be due to other unexplained factors. The effect of paid up share capital (X_4) was found to be negatively significant whereas market capitalization (X_6) was found to be positively significant. However, the other financial variables, viz., sales(X_1), profit after tax(X_2), non-business income (X_3) and reserves (X_5) were not found to be significant in public sector (p-value > .05). Therefore, it can be inferred that in public sector companies, the CEO pay was positively related with the market capitalization and negatively related with the paid up share capital significantly. Moreover, all the financial variables together had positive impact on the CEO pay. This further suggests that in the public sector the CEO's were paid for their capabilities of shareholder wealth creation and not necessarily on the basis of the share capital of the company.

In private sector also the regression model was found to be highly significant (p-value < .05, adj. R^2 = .548). That means the model could explain 54.8% of the variations in the CEO pay depending on all six financial variables collectively and the rest of the variations were due to some other factors . The effect of sales (X_1) and profit after tax (X_2) was found to be positively significant whereas the effect of reserves (X_5) was negatively significant. However, the other financial variables, viz., non-business income (X_3) and paid up share capital (X_4) and market capitalization (X_6) were not found to be significant in private sector (p-value > .05). Therefore, it can be inferred that in private sector, CEO's were paid higher for increasing the company's performance related to sales and profit after tax. The higher pay in such cases were owing to the fact that CEOs were paid commission on their performance reflected by higher sales and profit after tax. A negative relation of CEO pay with reserves indicates that private sector companies did not pay CEOs for having high reserves.

In sum, public sector companies were performing with an objective of shareholder wealth maximization and subsequently the CEOs were paid for the same. On the other hand, private sector companies were performing with an objective of creation of corporate value and therefore positive linkage of CEO pay with sales and profit after tax signifies that CEOs were paid for return on total corporate resources and they were paid less if reserves were mounting.

This leads to the conclusion that in India CEO pay was linked with various financial variables depending on the sector. Jensen, Baker and Murphy (1988) and Rosen (1990) found strong relationship between sales and top executive pay and asserted such relationship to be of universal in nature (Main & Johnston, 1993). In case of India the relationship between the sales and CEO pay was found to be positively significant in private sector only for the reason that compensation was based on salary and commission both, while in PSUs usually no commission was given.

CEO Pay and Performance on the Basis of Promoter/ Non-promoter CEO

When promoter is also a CEO of the company he has unfettered concentration of power. In many cases they are also chairman of the company. In such situation the promoter is likely to write his own service contract. This possibility exists in case of family run businesses and/ or where promoters are single largest shareholders. For exploring the links between CEO pay and his status as promoter/ non-promoter the valid data of 86 companies was available. Results of analysis of data is presented at table 6.16.

Table 6.14 : CEO Pay and Performance on the Basis of Promoter/ Non-Promoter CEO

Whether CEO is Promoter/ Non-promoter	CEO average pay vs. performance				Frequency of CEO		
	I	II	III	Total	I	II+III	Total
Promoter	1,42,77,018	24,06,900	96,28,210	1,18,48,147	16	11	27
Non-promoter	41,56,777	48,62,350	43,64,576	45,02,271	16	43	59
Grand Total	92,16,898	46,65,914	59,98,118	68,08,535	32	54	86

The above table shows that average pay of promoter CEO under category I was more than the average pay of promoter CEO of category II and III. The average pay of promoter CEO under category III was more than the average pay of promoter CEO under category II. However, in case of non-promoter CEO's average pay, the difference was not very large compare to promoter CEO's average pay. For further analysis null hypothesis that 'there was no difference in the average remuneration of promoter CEO and non-promoter CEO' was tested as against an alternate hypothesis that 'the average remuneration of promoter-CEO is higher than the remuneration of non-promoter-CEO'. One tailed t-test was performed to find the significant difference between the average remuneration of promoter CEO and non-promoter CEO. Observed t-value =1.8 (p-value < .05) was found to be significant at 5% level of significance indicates that the average remuneration of promoter CEO was higher than the non-promoter CEO's average remuneration.

The above table also shows that 16 out of 27 companies (i.e., 60% companies) wherein CEO was promoter were performing the best i.e., under category I whereas in case of non-promoter CEO only 16 out of 59 companies (i.e., 27% companies) were performing the best i.e., under category I. Thus the performance of the promoter CEO was far better than the non-promoter CEO. Chi-square test was performed to test the null hypothesis that there is no association between the performance of the company and the status of CEO as a promoter or non-promoter. Observed $\chi^2 = 6.87$ (p-value < .05) was found to be significant at 5% level of significance and therefore it can be concluded that the performance of the company differs significantly with the status of CEO as a promoter or non-promoter.

CEO Pay and Performance on the Basis of Length of Service on the Same Board

A further analysis of length of service on the same board and CEO pay has been carried out since length of time an individual has served as a CEO may affect potential compensation, either through human capital factors or ability to manage the compensation – setting process (O'Reilly, Main, and Crystal, 1988). For finding out the relation between CEO pay and performance with length of service of the CEO on the same board valid data of 66 CEOs were available for all three variables, i.e., CEO pay, performance index/ category and length of service of the CEO on the same board.

To test the null hypothesis that 'performance of the company is not influenced by the length of service of the CEO on the same board' simple linear regression analysis was performed (appendix 6.3). The relationship was not found to be significant i.e., performance of a company is not linked with the length of service of a CEO.

To test the null hypothesis that 'CEO pay was not influenced by length of service of the CEO on the same board', simple linear regression analysis was performed (appendix 6.4). The relation was found to be significant (p-value $< .05$, adj. $R^2 = .069$). That means the model could explain only 6.9% of the variation. Rest of the variation may be due to other factors. Therefore, it can be concluded that the CEO pay is linked with the length of service of a CEO on the same board.

Conclusion

Performance appraisal of directors has not been given its due importance despite the fact that the same directors echo for the performance appraisal of the employees of the company. Conventionally, financial performance parameters have been used by many researchers for measuring the effectiveness of the board members especially the CEO. Evaluation of the whole board took place in one out of four companies only. The board did the self-evaluation in very few companies and still in very few cases the promoter, parent company, CMD or the outside consultant did the evaluation of the board. However, the situation is little better as far as performance evaluation of individual directors was concerned.

In public sector enterprises the PESB, Government alongwith the CMD did the evaluation of directors. However, in private sector, it was mostly the chairman/ CMD as an individual or as a member of the whole board who carried out performance evaluation of the directors. Board committees related to HR function (i.e., remuneration/ recruitment/ nomination/ compensation committees) were involved in the evaluation process rarely. The pay-performance disparity can be observed from the fact that many public sector companies were bigger in size, assets, revenues, operations, etc. than their private sector counterparts, but the remuneration of directors, especially executive directors was far less than their private sector counterparts.

The relation between the pay of CEO and overall performance of the company could not be established. However, various individual financial variables influenced the CEO pay in two sectors, i.e., public and private. Apart from the financial variables the other variables that could explain the variations in CEO pay were: the status of the CEO as a promoter or non-promoter and his length of service on the same board. However, the performance of the company was found to be significant with the status of CEO as promoter or non-promoter but was not found to be associated with the length of service of CEO on the same board.

Appendix – 6.1

Regression of CEO Pay vs. Performance Index

Public Sector

Descriptive Statistics

	Mean	Std. Dev.	N
CEO Pay	640178.40	328562.37	10
Performance Index	7.6000	2.4585	10

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	263949208276	1	2.6395E+11	2.984	.122
	Residual	707629891493	8	88453736437		
	Total	971579099768	9			

R Square = .272 Adj.R Square = .181 Std. Error = 297411.73

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	110790.118	320565.795		.346	739
	Performance Index	69656.353	40323.539	.521	1.727	122

Private Sector

Descriptive Statistics

	Mean	Std. Dev.	N
CEO Pay	6499386	9364845.05	73
Performance Index	8.4521	2.2239	73

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	70175627004250	1	7.0176E+13	.798	375
	Residual	6.24424761E+15	71	8.7947E+13		
	Total	6.31442324E+15	72			

R Square = .011 Adj.R Square = -.003 Std. Error = 9378014

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	p-value
		B	Std. Error	Beta		
1	(Constant)	2747235	4341511		.633	.529
	Performance Index	443933.6	496976.4	.105	.893	.375

Appendix 6.2

Regression of CEO Pay vs Financial Variables

Public Sector

Descriptive Statistics

	Mean	Std. Dev.	N
CEO Pay	640178.40	328562.37	10
Sales	24897.61	31168.3429	10
Profit after tax	615.9800	983 3715	10
Non-business income	775.1080	1249.6119	10
Paid-up share capital	686.6050	1227.7537	10
Reserves	4586.9200	5346.0230	10
Market capitalization	4175.9100	4456.5133	10

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	936668522261.844	6	156111420377	13.415	.029
	Residual	34910577506.556	3	11636859168 9		
	Total	971579099768.400	9			

R Square = .964   Adj.R Square = .892   Std. Error = 107874.27

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	p-value
1	(Constant)	596954.0	72040.148		8.286	.004
	Sales	41.955	14.611	3.980	2.871	.064
	Profit after tax	-1977.287	868.786	-5.918	-2.276	.107
	Non-business income	253.605	141.326	.965	1.794	.171
	Paid-up share capital	-683.581	199.264	-2.554	-3.431	.042
	Reserves	-87.262	94.916	-1.420	-.919	.426
	Market capitalization	213.045	55.059	2.890	3.869	.031

Private Sector

Descriptive Statistics

	Mean	Std. Dev.	N
CEO Pay	6499386	9364845.05	73
Sales	1901.9616	3349.3550	73
Profit after tax	186.1205	404.1189	73
Non-business income	78.4644	145.6996	73
Paid-up share capital	133.6089	236.2007	73
Reserves	1281.0204	2509.8284	73
Market capitalization	2500 3896	6125.7787	73

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	3699133021045325	6	6.16522E+14	15.559	.000
	Residual	2615290216840284	66	3.96256E+13		
	Total	6314423237885610	72			

R Square = .586   Adj.R Square = .548   Std. Error = 6294888

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	2891767	883319.9		3.274	.002
	Sales	2197.998	779.967	.786	2.818	.006
	Profit after tax	12577.167	4925.712	.543	2 553	.013
	Non-business income	11160.499	7308.861	.174	1.527	.132
	Paid-up share capital	-5530.757	5905.684	-.139	-.937	.352
	Reserves	-2726.125	1044.630	-.731	-2.610	.011
	Market capitalization	176.661	223.835	.116	.789	433

Appendix 6.3

Regression of CEO Performance vs. Length of Service on the Same Board

Descriptive Statistics

	Mean	Std. Dev.	N
Performance Index	8.1818	2.2999	66
Years on the same board	8.06	7.52	66

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	.989	1	.989	185	.669
	Residual	342.829	64	5.357		
	Total	343.818	65			

R Square = .003 Adj.R Square = -.013 Std. Error = 2.3145

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	p-value
1	(Constant)	8.050	.419		19 190	.000
	Years on the same board	1.642E-02	.038	.054	.430	.669

Appendix 6.4

Regression of CEO Pay vs. Length of Service on the Same Board

Descriptive Statistics

	Mean	Std. Dev.	N
CEO Pay	4490452	5542966.42	66
Years on the same board	8.06	7.52	66

ANOVA

Model		Sum of Squares	df	Mean Square	F	p-value
1	Regression	1.66093E+14	1	1.6609E+14	5.806	.019
	Residual	1.83100E+15	64	2.8609E+13		
	Total	1.99709E+15	65			

R Square = .083   Adj.R Square = .069   Std. Error = 5348770.12

Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	p-value
1	(Constant)	2776074	969396.6		2 864	.006
	Years on the same board	212686.0	88270 774	.288	2.409	.019