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Managerial Remuneration and Firm Performance in the Indian Corporate Sector: An Analytical Study of NIFTY 50 Companies (2010–2025)

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Abstract

Managerial remuneration occupies a central place in corporate governance debates because it sits at the intersection of agency theory, statutory regulation and firm strategy. This paper re-examines the trend and pattern of managerial remuneration among NIFTY 50 companies over the period March 2010 to April 2025, and evaluates how far remuneration structures are associated with firm-level characteristics such as size, profitability, leverage and ownership concentration. Building on the statutory framework laid down in Section 197 and Schedule V of the Companies Act, 2013 and the disclosure regime introduced through the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the paper synthesises prior Indian and international evidence, develops a set of testable hypotheses, and lays out a panel-data methodology suited to a fifteen-year secondary-data study. The discussion situates the Indian findings against the broader pay-for-performance literature and highlights three recurring themes: a persistent but modest pay-performance sensitivity, the disproportionate influence of firm size and promoter control on remuneration outcomes, and the growing regulatory emphasis on disclosure (including the director-to-median-employee pay ratio) as a governance tool in place of blunt statutory ceilings. The paper concludes that remuneration in Indian firms functions less as a pure incentive-alignment mechanism and more as an outcome jointly shaped by ownership structure, board composition and evolving disclosure norms, and it outlines directions for future empirical work.

Keywords: Managerial Remuneration, Executive Compensation, Firm Performance, Corporate Governance, NIFTY 50, Companies Act 2013, SEBI LODR

1. INTRODUCTION

Managerial remuneration is the totality of consideration fixed and variable paid by a company to the persons entrusted with its day-to-day direction: the managing director, whole-time directors, the manager, and other key managerial personnel recognised under Section 2(51) of the Companies Act, 2013. It is at once a cost that dilutes distributable profit and an instrument through which owners attempt to align the self-interest of hired managers with the wealth- maximisation objective of shareholders. The tension between these two roles remuneration as expense versus remuneration as incentive is the central puzzle that motivates the academic literature on executive pay, and it is the puzzle this paper revisits in the Indian context.

Historically, Indian remuneration practice was dominated by fixed pay, constrained by statutory ceilings that left boards with limited discretion. Liberalisation, the opening of capital markets, and the growing presence of institutional and foreign investors changed this calculus: performance-linked commission, stock options and long-term incentive plans have become a progressively larger share of total pay for senior executives, particularly in sectors exposed to global competition for managerial talent. This shift has been accompanied by a parallel evolution in the regulatory architecture governing what companies may pay and what they must disclose.

1.1 Statutory Ceilings Under The Companies Act, 2013

Section 197 of the Companies Act, 2013 caps the total managerial remuneration payable by a public company at 11 per cent of net profits computed under Section 198, with sub-limits of 5 per cent of net profit for a single managing director/whole-time director/manager and 10 per cent in aggregate where more than one such person is appointed. Non-executive and independent directors are separately capped at 1 per cent of net profits (where a managing or whole-time director exists) or 3 per cent (where none exists). Where a company has no profit or inadequate profit, remuneration is governed instead by the sliding scale set out in Schedule V, which links the permissible annual payment to the company's effective capital. A 2018 amendment removed the earlier requirement of Central Government approval for remuneration exceeding these ceilings, substituting it with approval by special resolution of shareholders a change that shifted the locus of oversight from the bureaucracy to the shareholder base itself.

1.2 Disclosure-Based Governance Under Sebi (LODR) Regulations, 2015

Alongside the statutory ceilings, Indian policy has increasingly relied on mandatory disclosure rather than hard caps to discipline remuneration outcomes. Listed companies must disclose in the Board's Report the ratio of each director's remuneration to the median remuneration of employees, along with the names of the ten highest-paid employees and any employee drawing remuneration above prescribed thresholds. Under Regulation 17(6)(e) of the SEBI (LODR) Regulations, 2015 (as amended in 2018), shareholder approval by special resolution is required where remuneration paid to a promoter-director who is a managing director or whole-time director exceeds ₹5 crore or 2.5 per cent of net profits, whichever is higher, a provision aimed specifically at curbing excessive promoter self-payment in India's many promoter-controlled listed companies. Market commentary suggests these disclosure and pay-ratio norms are already visible in outcomes: median compensation for independent directors on NIFTY 50 boards is reported to have risen from roughly ₹35.5 lakh in FY2018 to about ₹72 lakh in FY2023, alongside a broader rise in board sitting fees evidence that governance-linked disclosure has coincided with an upward and more scrutinised remuneration trajectory rather than a suppressed one.

This regulatory backdrop matters for empirical work on Indian executive pay because it means the sample period chosen for this study (2010–2025) straddles at least three distinct regimes: the early years under the

Companies Act, 1956 and initial SEBI clauses; the post-2013 statutory reforms; and the post-2018 disclosure-intensive regime. Any credible time-series or panel analysis of remuneration trends in this window must treat these regulatory shifts as structural breaks rather than noise.

2. RATIONALE OF THE STUDY

Three considerations justify a fresh look at this subject. First, most Indian studies on the pay-performance relationship pre-date the SEBI pay-ratio disclosure regime and the 2018 LODR amendments, so their findings may not capture the incentive effects of disclosure-based governance. Second, the NIFTY 50 index constituents change over time through periodic reconstitution, and a fifteen-year window (2010–2025) offers enough breadth to separate genuine trend from short-run volatility, including the effects of demonetisation, the GST rollout, and the COVID-19 shock on corporate profitability and, in turn, on performance-linked pay. Third, extending the analysis to April 2025 allows the study to speak to the most recent phase of Indian executive compensation, including the post-pandemic surge in variable pay reported across large-cap firms.

3. REVIEW OF LITERATURE

The literature on executive compensation can be organised around three broad strands: (a) foundational work establishing whether and how strongly pay tracks performance; (b) governance-oriented studies examining how board structure, ownership concentration and promoter control moderate that relationship; and (c) India-specific studies that apply these frameworks to the distinctive features of the Indian corporate sector business-group affiliation, promoter dominance, and a comparatively young disclosure regime.

Coughlan and Schmidt (1985) examined the link between managerial turnover, compensation policy and shareholder wealth, and argued that boards use compensation and dismissal jointly as instruments to align managerial and owner interests.

Gomez-Mejia, Tosi and Hinkin (1987) compared owner-controlled and management-controlled firms in the United States and found that the sensitivity of CEO pay to firm performance was systematically higher where ownership and control were not separated an early signal that ownership structure, not performance alone, conditions the pay-performance link.

Lewellen, Loderer and Martin (1987) studied a sample of large U.S. corporations and reported wide inter-firm variation in the relative emphasis placed on salary, bonus and long-term incentives, concluding that compensation mix itself carries information about a firm's governance priorities.

Tosi, Werner, Katz and Gomez-Mejia (2000), in a meta-analysis of CEO pay studies, found that firm size explained a far larger share of the variance in CEO pay than firm performance did — a result frequently cited as evidence that size, not performance, is the dominant driver of executive compensation.

Ramaswamy, Veliyath and Gomes (2000) provided one of the earliest India-specific investigations of CEO pay determinants and highlighted the role of firm size and ownership pattern in shaping compensation outcomes among Indian firms.

Parthasarathy, Bhattacherjee and Menon (2006), using data on Indian listed firms, found that firm size was a significant determinant of both the level of CEO compensation and the proportion of incentive pay within it, and that promoter-CEOs earned significantly more and drew a larger share of pay as incentives than professional, non-promoter CEOs. They also documented a marked gap between public-sector and private-sector compensation practices.

Ozkan (2011) examined UK panel data and reported that CEO cash compensation responded positively to accounting and market performance measures but that the sensitivity was economically modest, a finding broadly consistent with the Indian evidence discussed below.

Kang and Payal (2018) analysed managerial remuneration trends among Indian firms before and during the post-2011 economic slowdown and found that remuneration continued to rise even as growth decelerated, with company performance measures such as earnings per share and total assets showing a significant association with executive pay.

A more recent Indian study using system-GMM estimation on a panel of listed firms reported significant persistence in executive compensation over time, a positive association between both accounting and market-based performance measures and pay, but an absence of any pay-performance relationship among smaller firms and firms affiliated with business groups raising doubts about how uniformly performance-based pay operates across the Indian corporate landscape.

Mishra, Jain and Manogna (2021) examined the link between corporate governance characteristics and firm performance in India using dynamic panel data methods and found governance quality to be a significant explanatory factor, reinforcing the case for treating governance variables (board independence, ownership concentration) as controls rather than incidental factors in remuneration research.

Taken together, this literature suggests that (i) a pay-performance link exists in the Indian context but is generally modest in magnitude; (ii) firm size and promoter/ownership status are at least as important as performance in explaining remuneration levels; and (iii) the strength of the relationship is not uniform across firm size or ownership category, which has direct implications for how a NIFTY 50 sample itself skewed toward large, closely tracked firms should be interpreted.

4. RESEARCH GAP

Despite this substantial body of work, three gaps remain. First, few studies extend their sample period beyond the mid-2010s, leaving the effects of the 2018 SEBI (LODR) amendments and the post-pandemic compensation cycle largely unexamined. Second, most Indian studies pool firms across market-capitalisation bands; comparatively few isolate the NIFTY 50 arguably the segment most exposed to institutional investor scrutiny, proxy-advisory commentary and pay-ratio disclosure as a distinct unit of analysis. Third, the interaction between ownership concentration and the pay-performance relationship, flagged as important by *Gomez-Mejia et al. (1987) and Parthasarathy et al. (2006),* has rarely been tested using a panel that spans a full statutory reform cycle in India. This study is designed to address these three gaps.

5. RESEARCH METHODOLOGY

5(a) Objectives Of The Study

1. To examine the trend and pattern of managerial remuneration among NIFTY 50 companies over the period March 2010 to April 2025.
2. To examine the relationship between company characteristics (size, profitability, leverage, ownership concentration) and firm performance on the one hand, and managerial remuneration on the other.
3. To assess whether the strength of the pay-performance relationship differs before and after the 2018 SEBI (LODR) disclosure amendments, and across promoter-controlled versus professionally managed firms.

5(b) Data And Sample

The study is based on secondary data relating to the constituent companies of the NIFTY 50 index for the period March 2010 to April 2025. Remuneration and corporate-governance data will be drawn from company annual reports and corporate governance reports as compiled and made available through the official NSE India website, while financial and market performance data will be sourced from Money Control and the audited financial statements of sample companies. Because index constituents change periodically, the sample will be constructed on a rolling basis, and firms will be required to have at least five consecutive years of data to be retained, to preserve a usable panel structure.

5(c) Variables

The dependent variable is total managerial remuneration (or, in disaggregated models, its salary, commission, and perquisite/benefit components) of the highest-paid executive director, expressed both in absolute terms and scaled by net profit. Independent and control variables include firm size (log of total assets or market capitalisation), profitability (return on assets, return on equity, and earnings per share), market performance (Tobin's Q), leverage (debt-to-equity ratio), ownership concentration (promoter shareholding percentage), board independence (proportion of independent directors), and a post-2018 regulatory-regime dummy variable to capture the effect of the SEBI (LODR) amendment.

5(d) Hypotheses

H1: Managerial remuneration is positively associated with firm size.

H2: Managerial remuneration is positively associated with firm profitability and market performance.

H3: The pay-performance sensitivity is stronger in professionally managed (non-promoter-led) firms than in promoter-controlled firms.

H4: The pay-performance sensitivity is stronger in the post-2018 disclosure regime than in the pre-2018 period.

5(e) Analytical Tools

The study will employ (a) time-series analysis (compound annual growth rate and trend decomposition) to describe the pattern of remuneration growth over the fifteen-year window; (b) multiple regression analysis to test the cross-sectional association between firm characteristics and remuneration; and (c) panel data regression using fixed-effects and random-effects specifications, selected on the basis of the Hausman test to control for unobserved, time-invariant firm heterogeneity while exploiting both the cross-sectional and time-series dimensions of the data. Where persistence in executive pay is suspected, a dynamic panel (system-GMM) specification will additionally be considered, consistent with the approach used in comparable Indian studies. Other statistical tools and diagnostic tests (unit-root tests for stationarity, variance inflation factors for multicollinearity) will be applied as the properties of the data require.

6. DISCUSSION: READING THE EVIDENCE FOR A NIFTY 50 PANEL

While the empirical results of this study depend on the panel to be constructed, the reviewed literature and the regulatory context together motivate four propositions likely to be borne out in a NIFTY 50 setting. First, in line with Tosi et al. (2000) and Parthasarathy et al. (2006), firm size is likely to emerge as the single strongest correlate of remuneration levels, simply because larger firms can absorb higher absolute pay within the same percentage-of-profit ceiling under Section 197. Second, profitability and market-performance measures are likely to show a statistically significant but economically modest association with pay consistent with Ozkan (2011) and the system-GMM evidence for Indian firms because remuneration committees anchor increases to industry benchmarks and multi-year averages rather than to single-year performance swings. Third, ownership concentration is expected to weaken, not strengthen, the pay-performance link: promoter-controlled NIFTY 50 firms, where the same individual or family may combine board chairmanship with executive management, are more likely to exhibit remuneration levels driven by control rights than by arm's-length incentive contracting, echoing the finding that promoter-CEOs earn a premium over professional CEOs. Fourth, the post-2018 disclosure regime through the median-pay-ratio requirement and the tightened shareholder-approval threshold for promoter-director pay is expected to be associated with a measurable, if not dramatic, moderation in the growth rate of promoter remuneration relative to overall employee compensation, even as reported director pay (including for independent directors) continues to rise in absolute terms.

These propositions also imply testable boundary conditions. If the post-2018 dummy variable is insignificant, it would suggest that disclosure requirements have altered transparency without materially altering pay-setting behaviour, a finding with direct relevance for policymakers evaluating whether India's shift from hard caps to disclosure-based governance is achieving its intended discipline. Conversely, a significant and negative coefficient on the ownership-concentration interaction term would lend empirical support to using board-independence requirements, rather than remuneration caps alone, as the primary lever for aligning promoter pay with firm performance.

7. LIMITATIONS

The study is subject to the limitations inherent in any secondary-data design. Remuneration disclosures in Indian annual reports are not always granular enough to separate cash bonus from long-term incentive value at the time of grant rather than at vesting, which can distort year-on-year comparisons. Index reconstitution over a fifteen-year window introduces survivorship considerations that must be handled through the rolling-panel approach described above. Finally, macroeconomic shocks over the sample period including the 2016 demonetisation, the 2017 GST transition, and the 2020–21 pandemic are likely to have affected profitability and remuneration simultaneously, and the analysis will need to include appropriate year dummies or shock-period controls to avoid attributing shock-driven co-movement to a spurious structural pay-performance relationship.

8. CONCLUSION AND POLICY IMPLICATIONS

Managerial remuneration in the Indian corporate sector operates within an unusually well-specified statutory architecture: a percentage-of-profit ceiling under Section 197, a fallback minimum-remuneration schedule under Schedule V, and an increasingly detailed disclosure regime under the SEBI (LODR) Regulations. Yet the literature reviewed here suggests that regulation alone does not fully determine outcomes: firm size, ownership concentration and promoter control remain powerful, and at times dominant, drivers of pay, often outweighing the influence of contemporaneous firm performance. For the NIFTY 50 a sample of India's largest and most closely governed listed companies this implies that remuneration should be understood not purely as an incentive-alignment device but as an outcome jointly negotiated among controlling shareholders, boards and an evolving disclosure framework. From a policy standpoint, this points toward continued emphasis on disclosure quality (particularly granular reporting of performance-linked pay components) and on strengthening board independence and remuneration-committee oversight, as complements to rather than substitutes for the existing statutory ceilings. From a research standpoint, it argues for panel-data designs that explicitly separate promoter-controlled from professionally managed firms and that treat major regulatory amendments as structural breaks, both of which this study is designed to incorporate.

9. SCOPE FOR FURTHER RESEARCH

Future work could extend this framework in at least three directions: comparing managerial remuneration trends across the NIFTY 50, NIFTY Next 50 and broader mid-cap universe to test whether the size effect documented here scales down consistently; incorporating ESG and sustainability-linked performance metrics, which an increasing number of Indian remuneration policies now reference; and conducting cross-country comparisons between India and other emerging markets with comparable promoter/business-group structures, such as South Korea's chaebol-affiliated firms, to test whether the moderating effect of ownership concentration on pay-performance sensitivity is a general feature of concentrated-ownership economies rather than an India-specific artefact.

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