Managerial Remuneration: Governance Perspectives and Regulatory Framework Key Insights from the Second Session of the Mehta & Mehta Knowledge Sharing Webinar

Managerial remuneration has increasingly emerged as one of the most closely scrutinised aspects of corporate governance. In the second session of the Mehta & Mehta knowledge sharing webinar series, experts and industry professionals discussed how executive compensation has evolved from a routine administrative matter into a strategic governance issue that attracts attention from shareholders, regulators, proxy advisory firms, and the broader stakeholder community.

The session highlighted that in today's governance environment, remuneration is not merely about the amount paid to senior management. Instead, it reflects the organisation's approach to transparency, accountability, and long-term value creation.

Managerial Remuneration as a Governance Signal

The discussion began with an insightful observation that whenever the word "remuneration" appears on a board agenda, discussions tend to become more serious and the level of interest significantly increases. This reflects the sensitive and high-impact nature of executive compensation decisions.

In the modern governance landscape, remuneration conveys an important message to multiple stakeholders, including:

- Shareholders
- Employees
- Regulators
- Investors
- Society at large

Executive compensation is therefore increasingly viewed as a reflection of the governance maturity of an organisation rather than merely a financial decision.

Shift from Profit-Based Evaluation to Value-Based Compensation

Historically, remuneration decisions were largely profit-driven. When profits increased, remuneration tended to increase proportionately, and when profits declined, companies typically deferred remuneration growth.

However, stakeholders today evaluate managerial remuneration through a broader lens. Questions being raised now include:

⇒ Whether remuneration is linked to actual value creation

⇒ Whether compensation aligns with market capitalisation and shareholder returns

⇒ Whether pay structures reflect the long-term strategy of the company

⇒ Whether leadership incentives incorporate risk management, sustainability, and people-centric objectives

This shift demonstrates that executive compensation is increasingly assessed within the broader framework of responsible corporate governance.

Shareholder Activism and Voting Trends

The discussion also referred to recent developments demonstrating the increasing assertiveness of shareholders and institutional investors in remuneration matters.

In one notable case involving a reputed listed company, a proposal was placed before shareholders to increase the Managing Director's remuneration by approximately 10 percent during the pandemic period, while the median employee remuneration increased by only about 1 percent.

This disproportionate increase triggered concerns among investors and proxy advisors. As a result, the remuneration resolution failed to secure shareholder approval, with institutional investors voting against the proposal.

The episode highlighted an important governance principle: reputation or promoter leadership alone cannot substitute a well-justified remuneration framework.

Emerging Global Trends in Executive Compensation

Global corporate practices are increasingly influencing how remuneration structures are designed.

Leading multinational companies have begun linking executive compensation with non-financial performance indicators, including:

⇒ Sustainability targets
⇒ Workplace safety standards
⇒ Carbon reduction commitments
⇒ Human capital development outcomes

In several global organisations, variable pay is also reduced in situations involving serious safety lapses or fatal workplace incidents. This reflects a broader shift toward holding leadership accountable not only for financial performance but also for overall corporate responsibility and stakeholder welfare.

Practical Challenges in the Indian Regulatory Context

Indian companies often face practical challenges due to the statutory framework governing managerial remuneration. Under the Companies Act, remuneration ceilings are linked to the net profits of the company, which may sometimes create constraints in situations where companies require strong leadership to drive transformation or turnaround strategies despite temporary financial pressures.

In such circumstances, transparent communication with shareholders becomes critical. Boards must clearly explain the rationale behind remuneration structures and justify why specific compensation levels are necessary for strategic leadership roles.

The key governance question today is therefore not merely how much remuneration is being disclosed, but how convincingly the remuneration outcomes are explained to stakeholders.

Statutory Framework under the Companies Act, 2013

Managerial remuneration in India is primarily governed by the following provisions of the Companies Act, 2013:

⇒ **Section 196** – Appointment of Managing Director, Whole-time Director or Manager

⇒ **Section 197** – Overall limits on managerial remuneration

⇒ **Section 198** – Computation of net profits for remuneration purposes

⇒ **Schedule V** – Remuneration payable in case of inadequate or no profits

Section 197 provides that the total managerial remuneration payable by a public company shall not exceed 11% of the net profits of the company, calculated in accordance with Section 198, unless approved by shareholders through a special resolution.

Within this overall limit:

⇒ A single Managing Director or Whole-time Director may receive up to 5% of net profits

⇒ Multiple Managing Directors or Whole-time Directors together may receive up to 10% of net profits

⇒ Non-executive directors may receive up to 1% or 3% of net profits, depending on whether the company has executive directors.

The Act also requires companies to disclose the ratio of remuneration of each director to the median employee remuneration in the Board's Report, enabling shareholders to assess fairness in compensation structures.

Additional Governance Requirements under SEBI LODR Regulations

For listed companies, managerial remuneration is also regulated by the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, which introduce additional governance safeguards.

Remuneration to Non-Executive Directors

Under Regulation 17(6), all fees or compensation payable to non-executive directors must be:

⇒ Recommended by the Board of Directors, and
⇒ Approved by shareholders in a general meeting.

Where remuneration payable to a single non-executive director exceeds 50% of the total remuneration paid to all non-executive directors, shareholder approval must be obtained through a special resolution.

Remuneration to Promoter Executive Directors

Regulation **17(6)(e)** prescribes additional limits for promoter executive directors. Shareholder approval through a **special resolution** is required where remuneration exceeds:

⇒ **₹5 crore or 2.5% of net profits (whichever is higher)** for a single promoter executive director; or

⇒ **5% of net profits collectively** for multiple promoter executive directors.

These provisions aim to ensure that promoter remuneration remains subject to strong shareholder oversight.

From Single-Metric to Multi-Metric Performance Evaluation

A significant trend highlighted during the webinar is the shift from single-metric evaluation (primarily profit-based) to multi-metric performance frameworks.

Companies increasingly consider broader factors while evaluating leadership performance, including:

⇒ Digital transformation initiatives

⇒ Cyber resilience and technological capabilities

⇒ Global leadership and expansion strategies

⇒ Long-term strategic outcomes

Such multi-dimensional evaluation enables companies to align executive remuneration with sustainable long-term value creation.

Conclusion

The second session of the Mehta & Mehta webinar underscored that managerial remuneration has become a litmus test for corporate governance credibility.

Boards that treat remuneration as a routine compliance requirement may face shareholder resistance and reputational challenges. In contrast, organisations that approach remuneration as a strategic governance lever are better positioned to build lasting stakeholder trust.

Ultimately, executive compensation is not merely about defending numbers. It is about demonstrating transparency, maintaining stakeholder confidence, and reinforcing responsible leadership in modern corporate governance.

To stay informed or access the webinar recording, visit the YouTube channel: 🎥 "Decoding Corporate Laws with Mehta & Mehta"