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COMPARATIVE EVALUATION OF EXECUTIVE COMPENSATION IN SUPERIOR COMPANIES OF TEHRAN STOCK EXCHANGE: EXPLAIN THE ROLE OF NON-FINANCIAL REWARDS SUPERIOR FIRMS

Seyed Alireza Sadr[1], Ali Asghar Anvary Rostami[2], Hamidreza Rezaei[3*]

[1]*Master of Accounting, Tabaran Institute of Higher Education, IRAN*

[2] *Professor, Tarbiat Modares University, Chair, Department of Planning & Management, IRAN*

[3]*Phd student at Ferdowsi University of Mashhad, Tabaran Institute of Higher Education, IRAN*

ABSTRACT

In today modern world, executive compensation issues related to corporate executives and also interest earned by them has become an important and controversial subject, as far as sometimes managers has more social benefits than the financial interests in superior companies. Present study is aim to examine differences between executive compensation in superior companies with the other stock exchange companies. In order to examine this issue, the list of superior companies of Tehran Stock Exchange (TSE), reported annually, is used between 2009 and 2014. Research methodology is Kolmogorov-Smirnov test and according to its conclusion, Mann-Whitney U test is used. Research findings prove that executive compensation in superior companies is lower in comparison to the other companies. Manager's in exchange market companies who have responsibilities in superior companies have tended to receive less compensation in order to have other benefits such as social and financial benefits.

KEY WORDS
Executive compensation, Non-financial bonus of boards of directors, Superior companies of TSE, Other Tehran stock exchange (TSE)

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***Corresponding Author**
Email:
anvary@modares.ac.ir

INTRODUCTION

Today's business environment includes investors, public, legislators and the media that executive compensation has always been carefully monitored by these groups. Compensation paid to executives in corporate governance have become an important part of many studies having been done in this area. Murphy, K. (2013) [1] states that executive compensation is determined as a factor in their performance motivations and firms performances. Ridgeway et al. (1995) [2] conclude that humans strive not only for access to resources and material benefits but also for intangibles such as status, which is characterized by a rank-ordered relationship among people associated with prestige and deference behavior. Lin (1990)[3] proves that status can be used as a means to gain valuable resources via a better hierarchical position in society. Therefore, studying the relationship between working in the companies according to their validity in the community and compensation paid to their executives can make it attractive issue to investors and managers.

Thus, present study aims to examine differences between executive compensation in superior companies with the other stock exchange companies. In order to examine this issue, list of the most superior companies of Tehran Stock Exchange (TSE) which is annually reported is used. Research structures are as follows; conceptual framework and research background, examine research hypothesis and statistical sample. The next part is about research methodology and research findings and finally conclusion part.

CONCEPTUAL FRAMEWORK AND RESEARCH BACKGROUND

Today, due to the multiplicity of owners and shareholders, direct supervision over managers is not possible for all stakeholders. These groups have different motivations from each other, but have the same goal which is financial gain (profit). Therefore, investors do investment in companies to get more return, otherwise they use their capital to meet their daily needs or invest in any other investment positions (Consumption Theory). In each investment, return and risk are two main factors needed to be considered by investors. To reduce the agency problems arising from interest conflicts between managers and shareholders, interests of both sides and as its subsequent, the appropriate sharing the risks between them should be considered. In this way, according to agency theory, shareholders to create incentives for company directors, in accordance with the objectives envisaged for them, and reduce investment risk and also protect its interests, use the mechanism such as compensation for company executives. Public consensus about non-financial criteria is that non-financial criteria complement deficiencies of financial measures and overcome the constraints of financial criteria limitation [4-5].

On the other hand, due to growing competition firms are involved in, to classify firms as superior firms, it is needed to consider various factors. For this purpose, annual report of industrial management organization which determine superior firms is used. The size and growth, profitability and performance, export rate, stock liquidity, debt indicators and market indices are used as evaluation criteria in this ranking.
Use of this ranking to recognize the superior companies is suitable for the following reasons:

1) Considering set of internal and external factors for companies as well as national macro view.
2) Comparing set of industries and firms with each other without any bias to a particular industry.

The relationship between executive pay and firm performance has been one of the most widely studied questions in the corporate governance literature [6-7-8]. Anderson et.al. (1999) [9] support reciprocal relations between pay and performance. Non-monetary characteristics of firms also affect CEO compensation. Deng et al. (2013) [10] find that CEOs are paid more if firms' headquarters are located in a polluted or high-crime environment. Otto (2014) [11] shows that boards may pay CEOs less if they realize that the CEO is optimistic and likely to overvalue the firm's equity-related compensation. Gaver et al.(1995) and Holthausen et al. (1995) [12-13] find evidences which prove that managers who receive more compensation are tend to manipulate profit in other to keep the present compensation for other financial periods.

In recent years due to the expansion of companies operating in various industries, by taking into account various factors, companies have different level of reputation and valuation from each other. Malmendier et al. (2014) [14] claimed that managers who work in reputable companies can get more in different ways. Huberman et al. (2004) [15] conduct an experiment in which they show that people are willing to give up monetary rewards for being celebrated as a winner, even though they have no monetary or other benefit from their winner-status within the experiment or outside.

MATERIALS AND METHODS

Firstly, to select the type of test (parametric or non-parametric tests), normality of the collected data should be examined. We use Kolmogorov–Smirnov (K-S) test to examine data normality (with 95% confidence level). If the calculated significant level for collected data is more than 0/05 (with 95% confidence level), data normality is accepted, otherwise rejected this normality.
In case of non-normal data, to test the hypotheses nonparametric tests are used. In this research, to test normality of data, Kolmogorov-Smirnov is used. Then, according to whether or not the data are normal, parametric or non-parametric tests which are presented in [Table 1] are used.

Table 1: Research Methodology

	Normal Data	Non-normal Data
Compare two independent groups	Independent sample T-test	Mann-Whitney U test

STATISTICAL SAMPLE AND DATA

Statistical sample: Statistical sample includes all companies in TSE (Tehran Stock Exchange).
Sample study: Sample study is separated to superior companies and other firms by using screening method after considering below limitations:

- Sample should not conclude financial institutions, banks and investment firms.
- We select companies which pay compensation to their managers in present fiscal year.

Data needed for present study are collected from the various components of the financial statements and the accompanying notes, also independent auditors' reports.

DESCRIPTIVE STATISTIC

Overall descriptive statistics relating to the remuneration of the Board are shown in [Table 2].

Table 2: Descriptive statistic considering manager compensation

Year	Kind	Num	Minimum	Maximum	Mean	standard deviation	coefficient	skewness
2009	Sup	21	320	6000	2274	1306	1/167	1/977
	Other	116	6	3100	963	640	1/002	0/791
2010	Sup	25	800	9900	2670	1888	2/529	8/501
	Other	125	75	5700	1100	833	2/412	9/897
2011	Sup	32	900	6300	2894	1478	0/467	-0/753
	Other	124	40	7000	1256	1164	2/980	12/259
2012	Sup	31	1200	6700	3285	16439	0/427	0/973
	Other	57	19	333	1129	835	0/950	0/536
2013	Sup	30	1000	6880	3533	1551	0/483	-0/434
	Other	166	18	11900	1443	1502	3/422	18/426
2014	Sup	36	1150	70000	5691	11175	5/749	33/933
	Other	22	150	4200	1694	1001	0/766	0/830

Descriptive statistics relating to the remuneration of the Board can be seen in [Table 1]. This table contains the minimum, maximum, mean, standard deviation, and coefficient and skewness of test for each of the years of study and also superior companies and other firms. Standard deviation is one of the most common dispersion indices. Skewness index is to measure the symmetry or asymmetry of a sample distribution. As if the distribution is symmetric like a normal distribution, skewness is zero. In the case of normal distribution, elongation becomes zero. If a distribution exceeds the normal strain, the dispersion is less than normal, slenderness ratio is a positive number. And vice versa if the strain distribution is lower than normal or more than normal, distribution of numerical will be negative for slenderness ratio.

Clearly, larger companies pay more to their managers and according to the fact that most of companies (ranked by Industrial Management Institute) in terms of size and capital are large; therefore, to compare them with other companies, it is needed to remove the error due to the size of the companies. For this purpose, ranks obtained by dividing executive compensation on the value of companies are compared with each other (the company's stock market value at the end of the period, due to inflation, rather than total assets or sales conditions is used as a measure of value).

Research hypothesis

Firstly, to select the test method, data normality should be examined. For this purpose the Kolmogorov-Smirnov test (K-S) is used. Kolmogorov-Smirnov test results are given in [Table 3]:

Table 3: Kolmogorov-Smirnov test results

Year	Num	P-value	Significant	Test
2009	137	1/770	0/004	Mann – Whitney U
2010	150	2/037	0/000	Mann – Whitney U
2011	156	1/909	0/001	Mann – Whitney U
2012	88	1/906	0/001	Mann – Whitney U
2013	196	5/186	0/000	Mann – Whitney U
2014	58	1/864	0/002	Mann – Whitney U

According to [Table 3] and P-values which were calculated for all the years, it can be observed that significant level is less than 0/05. The result is that with 95% confidence level, the normality of collected data is rejected and Mann-Whitney U test for comparing two statistical samples should be used.

As seen in [Table 4], significant level for all years is less than 0/05, and it follows that the average compensation of the Board of superior companies and other firms are different. In all years, average ranking in other firms is greater than superior companies. So executive compensation in other firms is more than in superior companies and this difference is significant with 95% confidence level.

Table 4: Mann – Whitney U test results

Year	Kind	Num	Average of Ranking	Sum of Rating	P-value	Significant
2009	Sup	21	24/45	513/5	-5/589	0/000
	Other	116	77/06	8939/5		
	Total	137				
2010	Sup	25	19/26	481/5	-7/090	0/000
	Other	125	86/75	10843/5		
	Total	150				
2011	Sup	32	26/25	840	-7/338	0/000
	Other	124	91/98	11406		
	Total	156				
2012	Sup	31	20/55	637	-6/486	0/000
	Other	57	57/53	3279		
	Total	88				
2013	Sup	30	27/37	821	-7/463	0/000
	Other	166	111/36	18485		
	Total	196				
2014	Sup	36	21/83	786	-4/423	0/000
	Other	22	42/05	925		
	Total	58				

RESULTS AND CONCLUSION

To excel in any profession, in which but few arrive at mediocrity, it is the most decisive mark of what is called genius, or superior talents. The public admiration which attends upon such distinguished abilities makes always a part of their reward [16].

The current study was conducted to examine the relationship between executive compensation and company's validity. To do this after making certain limitation sample companies were selected. Samples contained both superior companies, ranked by the Iranian Industrial Management Institute, and other stock company.

The results of the current research show that directors of superior companies receive lower rewards than any other exchange company confirms (Compared with the value of the company). Directors of superior companies in the Tehran Stock Exchange would be willing to accept lower compensation than other companies due to some reasons, including:

1) Activity in companies with high credibility, validity and social character brings credibility for managers of these companies, for example, obtaining long-term loans with very low interest rates and massive financial gain through shares [17].
2) Managers of these companies will obtain positions with high salaries after the completion of the mission in these kinds of companies.
3) Some people with the idea that they are the best persons to manage these types of companies are willing to obtain these positions with less reward.

According to these reasons these types of firms permit themselves to pay less to their managers. Some suggestions can be offered for future researches:

1) Considering research in various industries separately.
2) Considering the target market research companies, export or use the product in the country.
3) Having a closer look to factors affecting this adoption by managers.

CONFLICT OF INTEREST
There is no conflict of interest.

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