Australian Government

Australian Accounting Standards Board

AASB RESEARCH REPORT 8

LITERATURE REVIEW

REMUNERATION REPORTING

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Executive Summary

This report presents a review of the academic literature relating to executive remuneration reporting. The objective of the review is to present, describe and synthesise existing research evidence so as to assist the Australian Accounting Standards Board (AASB) in their Remuneration Reporting Project. The objective of the Project is to define the disclosure objective for executive remuneration reports in the context of the information needs of users of remuneration reports and collaborate with other regulatory bodies to improve and streamline the remuneration reporting requirements applicable to both for-profit and not-for-profit entities.

Key messages

- Disclosure requirements need to be mandatory, specific, and reasonably detailed to drive significant improvements in disclosure.

- Agency and fiduciary relationships in the not-for-profit sector are different to the for-profit sector. This suggests the need for distinct executive remuneration disclosure requirements in this sector.

We review 52 research papers drawn from journals rated A*, A or B in the Australian Business Deans Council 2016 journal list. We provide descriptive evidence on the current reporting requirements in Australia, review the costs and benefits of these requirements, consider the factors influencing disclosure quality and discuss the information needs of users in relation to remuneration reporting.

Key findings

The key findings of our literature review are as follows:

- A large number of regulators (in both the for-profit and not-for-profit sectors) are involved in the disclosure of remuneration and current remuneration disclosure requirements are contained within a variety of mandatory and discretionary sources.
- Additional disclosure requirements have generally led to higher quality disclosures, but only when they are mandatory, specific and sufficiently detailed.
- Many studies have demonstrated that remuneration is related to firm performance and that this relationship has strengthened over time.
- Remuneration disclosure can result in political and proprietary costs. Research in Canada and the United Kingdom has concluded that increasing disclosure has contributed to increased executive remuneration levels.
- Size, lower remuneration levels, shareholder scrutiny and media attention are associated with better remuneration disclosure. Better corporate governance is generally associated with better remuneration disclosure, but research findings in this area have been mixed.
- Remuneration structure and mix must be consistent with the firm's particular characteristics, operating environment, strategy and risk profile. Users need information on the composition of remuneration and how those components are linked to firm performance.
- The findings listed above all stem from research in the for-profit sector. Research on the not-for-profit sector shows that the needs of users and the association between pay and performance in relation to not-for-profit entities is different to for-profit entities. Agency

conflicts in the not-for-profit sector are more prevalent and of greater severity than those facing for-profit organisations. Good governance moderates agency conflict in not-for-profit entities, but in general there seems to be a weaker association between pay and financial performance measures in this sector.

As a result of our review, we note the following suggestions that may be of use to the AASB in advancing their Project:

- Additional disclosure requirements relating to the philosophy, process and considerations that have led to an entity's current remuneration structure and how that structure is linked to the firm's strategy would be useful.
- Streamline disclosure rules and collecting them in one location (for example, a single accounting standard).
- Agency relationships and performance measurement in the not-for-profit sector are not well understood. Future research on the nature of the various fiduciary and agency relationships within this sector as well as identifying keys users and their information needs would be useful in determining executive remuneration disclosure requirements in this sector.

1 Introduction

1.1 Purpose of the paper

This paper presents an overview of the academic literature relevant to remuneration reporting for for-profit private sector and not-for-profit sector entities (both public and private). The aim of the review is to present, describe and synthesise existing research evidence in a report for the Australian Accounting Standards Board (AASB) to assist them in making informed decisions in the Board's project on Remuneration Reporting. The objective of the project is to (1) define the disclosure objective for executive remuneration reports in the context of the information needs of users of remuneration reports; and (2) collaborate with other regulatory bodies, to improve and streamline the remuneration reporting requirements applicable to both public and private for-profit and not-for-profit entities.

1.2 Overview of the literature search

To ensure that the studies included in this review are of high quality, we limit our search to research papers published in journals rated at A*, A or B in the Australian Business Deans Council 2016 journal list. The review covers 52 studies and the following topics:

a) Descriptive evidence about the current reporting requirements applying to entities in Australia;
b) The costs and benefits of the remuneration reporting requirements;
c) The needs of information users in relation to remuneration reporting;
d) The incentives for entities to provide useful information in remuneration reports; and

e) The impact on preparers and users of changes in reporting.

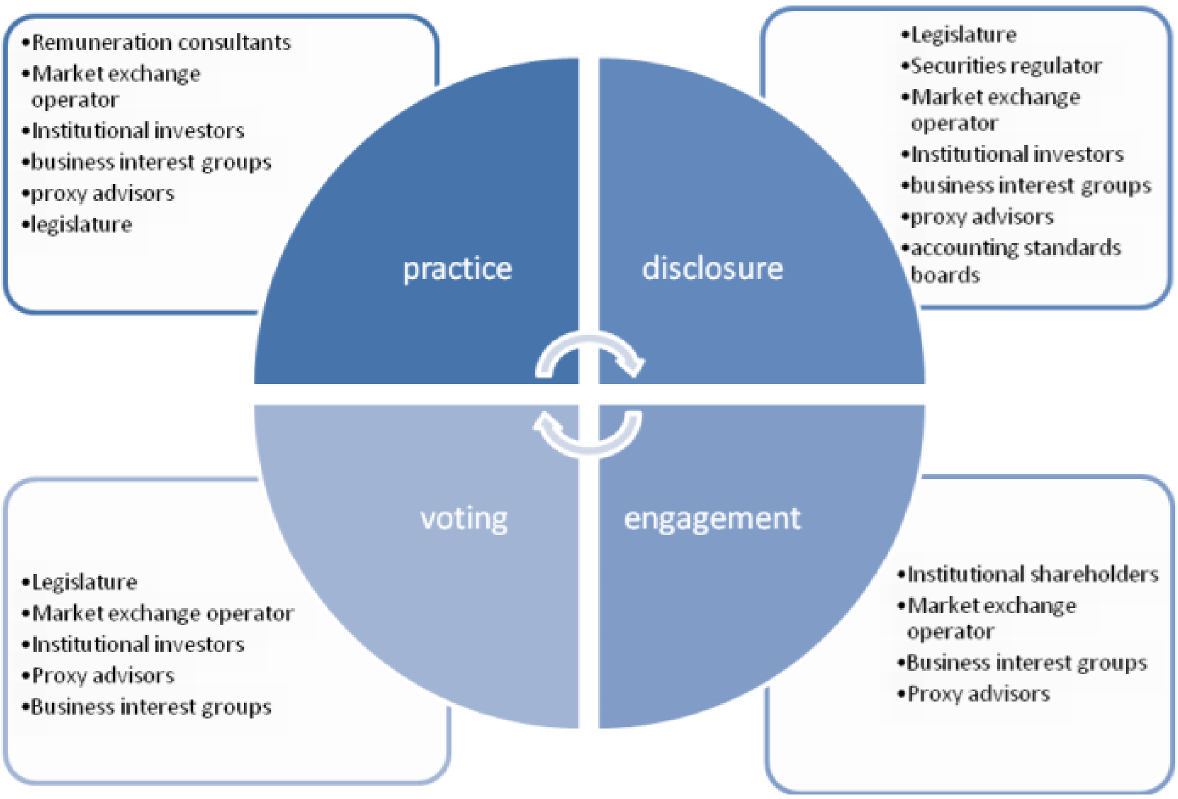
The literature search revealed that academic studies are mainly focused on topics (b) and (d). There are comparatively fewer studies on the needs of information users, topic (c), and the impact on preparers and users of changes in reporting, topic (e). While the literature does not speak to the needs of information users directly, we can infer the usefulness of the information if, for example, we can establish a link between pay and performance. Due to the overlap in the discussion of the costs and benefits of the remuneration reporting requirements, topic (b), and the impact of changes in remuneration reporting, topic (e), we combine the discussion of the two topics in the review. In the literature search, we have included both Australian and International studies, and studies that have examined for-profit sector and not-for-profit sector entities.

1.3 Report structure

The report is divided into seven sections. Section 2 provides descriptive evidence about the current reporting requirements applying to entities in Australia, i.e., topic (a). Section 3 discusses studies that have examined the costs and benefits of the remuneration reporting requirements, i.e., topics (b) and (e). Section 4 provides a brief discussion on the needs of information users in relation to remuneration reporting, i.e., topic (c). The two subsections in Section 5 provide overviews of the factors influencing disclosure and the relationship between firm performance and remuneration, i.e., topic (d). Sections 6 and 7 provide a summary of the key findings of the review together with recommendations for future research and actions. The last section provides the reference details of the papers reviewed and other supporting references.

2 Descriptive evidence about the current reporting requirements applying to entities in Australia

Sheehan (2009) suggests the regulation of executive remuneration for entities in the for-profit sector can be thought of around a cycle of four activities. These are: (1) remuneration practice, (2) remuneration disclosure, (3) engagement on remuneration, and (4) voting on remuneration. Figure 1 from Sheehan (2009), reproduced below, shows the different regulators that are involved with each activity. Sheehan (2009) lists eight regulators in her discussion of the regulatory framework in Australia for the for-profit sector: parliament, securities regulator, other government agencies, accounting standards boards, market exchange operators, institutional investors, business interest group, and proxy advisors. Institutional investors, proxy advisors, business interest groups and the market exchange operator are involved in all four activities. This is followed by legislature, involved in all activities except engagement. The activity that has the largest number of regulators involved is the disclosure of remuneration. Particularly relevant to this report is that this is the only activity that involves the accounting standards board and the securities regulator.



Source: Sheehan (2009)

Different rules apply when regulating the different activities. Some rules are related to the content, i.e., providing content about the activity, while others are aimed at facilitating the activity. Legal rules are typically not concerned with inspiring excellence or good practice, consequently there is scope for principles rather than just rules to regulate the four activities of remunerative practices. Remuneration practice is largely regulated by statements of good practice, while legislative intervention is most prevalent for remuneration disclosure and voting for remuneration (Sheehan 2009). We discuss the disclosure requirements in Australia and the involvement of the regulators under four major headings below.

2.1 Legislation and regulations - parliament, securities regulator, other government agencies

2.2 For-profit sector

Since the late 1990s, regulators in Australia have introduced a series of reforms targeted at enhancing corporate governance practice and transparency, including improved remuneration disclosure (Kovačevič 2009; Clarkson *et al.* 2011).[1] The *Corporations Act (2001)* (Cth) and the associated regulations provide for disclosure of executive compensation as part of the annual financial reporting process, the specific information and format for disclosure, and the sanctions for non-disclosure (Sheehan 2009).

Extensive amendments to the legislation on executive remuneration for Australian companies occurred in 2004 with the enactment of the Corporation Law Economic Reform Program Act 2004 (commonly referred to as CLERP 9). A number of amendments to the *Corporations Act* relate to remuneration, including the introduction of the remuneration report within the directors' report and the provision for a non-binding vote on the remuneration report to be conducted annually at the annual general meeting. These changes aimed to improve transparency and accountability in relation to how executives and directors are rewarded.

The two-strikes law was introduced on the back of recommendations made in the Productivity Commission's 2009 Report on Executive Remuneration. The law amendment (s250U-s250Y of the *Corporations Act*) took effect on 1 July 2011, and stipulates that if a firm receives a strike at two

[1] Clarkson *et al.* (2011) note that prior to 1998 the only mandatory executive remuneration related disclosure was the number of executives within each $10,000 band above $100,000 (Australia's Corporations Law Schedule 5 as prescribed in AASB 1017 Related Party Disclosures and AASB 1034 Financial Report Presentation and Disclosures).

consecutive annual general meetings (AGM),[2] there must be a majority-based vote on whether the whole board should be put up for re-election within 90 days of the AGM. If a majority of eligible votes support director re-election, that re-election will occur under normal voting. The purpose of the amendment is to address public and investor concerns about excessive remuneration by requiring greater accountability from directors to shareholders around what executives are paid. While the two-strikes law does not change the reporting requirements per se, firms have been found to respond to a strike by increasing their remuneration disclosure by 10.95% (Grosse *et al.* 2017). Along with the two-strikes law, there were efforts to reduce the complexity of the remuneration report. Amendments were made to the *Corporations Act* to confine the disclosures in the remuneration report to the key management personnel (KMP) of the consolidated entity instead of the KMP of the consolidated and parent entities (and the five most highly remunerated officers, if different).[3] According to the Explanatory Memorandum to the Corporations Amendment Bill 2011 s7.5, the amendment to move away from the five most highly remunerated "will simplify the disclosures in the remuneration report, to enable shareholders to better understand the company's remuneration arrangements. This measure will also reduce the regulatory burden on companies, while maintaining an appropriate level of accountability".

The following table, based on discussion in the Australian Government Productivity Commission report (2009), Clarkson *et al.* (2011) and the KPMG Reporting Updates (KPMG 2013, 2015, 2016c, b), summarises the important regulatory events that have occurred since the 1980s:

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[2] A firm receives a 'strike' if 25 percent or more of eligible votes are against the remuneration report.
[3] https://www.legislation.gov.au/Details/C2011B00020/Explanatory%20Memorandum/Text

Prior to October 1986 ▪ Firms were required to disclose the collective remuneration (in bands) paid to all executives earnings over $100,000.
1986 ▪ Firms had to identify all directors and their remuneration and the five highest paid executives and their total remuneration. These regulations were objected to by a wide range of business organisations, which may account in part for their 'brief legislative life' (Hill 1996).
1987 ▪ Listed companies were required to report the total annual 'emoluments' (cash and non-cash remuneration) received by executives earning over $100 000 (in $10 000 bands), but did not have to identify the executives. Directors' remuneration had to be disclosed in $10 000 bands. ▪
1998 ▪ *Company Law Review Act 1998 (CLRA98)*: Disclosure of each element of emolument paid to directors and executives was required, including details of options granted as part of remuneration (s300(1) (d)). Also required was a discussion of broad remuneration policy and the pay–performance relation (S300A). ▪ *Australian Securities and Investment Commission (ASIC) Practice Note 68 New Financial Reporting and Procedural Requirements*: The note clarified some of the alleged inconsistencies and ambiguities contained in S300A of CLRA 98. These mostly dealt with definitions of terms such as 'emoluments' and 'officers'.
2004 ▪ *CLERP (Audit Reform and Corporate Disclosure) Act 2004 (CLERP9)*: Applicable on or after 1 July 2004, CLERP9 introduced a number of amendments in relation to executive remuneration, including the requirement for a clearly identified and audited remuneration report in the annual report, and a non-binding shareholder vote on the remuneration report. To address concerns about the failure to disclose payments to directors, CLERP9 incorporated a number of requirements in relation to director and executive compensation in the revised s300A of the *Corporations Act*.
2011 ▪ *Productivity Commission's 2009 Report on Executive Remuneration*: Applicable on or after 1 July 2011, changes to the *Corporations Act* requires that where there is a 25% or greater "no" vote on the remuneration report at any two consecutive annual general meetings for a firm, a resolution must be put to shareholders on whether the board should be spilled. Also, the disclosures in the remuneration report are now confined to the key management personnel (KMP) of the consolidated entity.

2013 ▪ *Corporations and Related Legislation Amendment Regulation 2013 (No.1)* dated 28 June 2013 amended the Corporations Regulations to effectively relocate the disclosures formerly required by AASB 124 paragraphs Aus 29.7.3 to Aus 29.9.3 from the notes to the financial statements to the remuneration report. By including the disclosures in Regulation 2M.3.03, the disclosures must be included in the remuneration report of a disclosing entity that is a company (KPMG, 2013). The amended regulations commenced on 1 July 2013.
2014 – 2015 ▪ *Class Order CO 14/632 Key management personnel equity instrument disclosures* notes the drafting oversight made in 2013. The Class Order confirms that disclosures that were previously included in the notes to the annual financial statements should be transferred to the remuneration report, by effectively amending the wording back to that previously included in AASB 124. For instance, under the Regulation, the name of the KMP is not specifically required for aggregate loans made, guaranteed or secured greater than $100,000 (item 21).
2016 ▪ *Corporations Amendment (Remuneration Disclosures) Regulation 2016:* Applicable on or after 16 April 2016, the amendments to the Corporations Regulations 2001 relating to remuneration report disclosures required by sub-regulation 2M.3.03 to correct drafting oversights made in 2013.

2.2.1 Not-for-profit sector

Prior to the change brought about by the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (Financial Reporting Rule), Commonwealth entities were required to report the remuneration of senior executives and other highly paid staff in their annual financial statements.[4] Remuneration was disclosed within bands of $25,000 starting from a total remuneration value of $200,000 with the number of staff within each band and their average remuneration reported. The Financial Reporting Rule aligned executive remuneration disclosure requirements in the Commonwealth with national accounting standards, where entities are required to disclose in their financial statements the remuneration information for their "key management personnel" (KMP). Information on the remuneration to KMP such as the number of KMP and their total remuneration, broken down by short-term employee benefits, post-employment benefits, other long-term benefits and termination benefits are reported on an aggregate basis rather than on an individual basis.

Most private not-for profit entities such as charities that are registered under the Australian Charities and Not-for-profits Commission (ACNC) Act 2012 (Cth) are not required to comply with Section 300A(1)(c) of the Corporations Act (KPMG 2015; McClure *et al.* 2018). However, charities that prepare financial statements may need to disclose key management personnel remuneration such as for board members in accordance with AASB 124 Related Party Disclosures.

[4] Senior executives were defined as the Senior Executive Service (SES) and/or those employees engaged under similar conditions. 'Other highly paid staff' included staff with remuneration levels equivalent to the SES. The requirement to include "other highly paid staff" was introduced in 2010. Up until 2009, entities were required to disclose aggregate remuneration of SES only within bands.

2.2.2 Codes of practice and guidelines, and market exchange rules - market exchange operators

2.2.3 For-profit sector

The Australian Securities Exchange (ASX) has the responsibility to set additional rules for companies that list on the stock exchange. Under listing Rule 4.10.3, ASX listed companies are required to benchmark their corporate governance practices against the ASX Corporate Governance Council's recommendations. When companies do not conform, they are required to disclose and provide reasons for why they do not conform. The rule provides companies with the flexibility to adopt alternative corporate governance practices but subject to the requirement for the board to explain why they may be adopting the alternative practices.

The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendation* (the Third Edition)[5] was released on 27 March 2014. The document describes a broad range of corporate governance practices, including on executive remuneration. Recommendation 8.2 states that a "listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives" (Australian Securities Exchange 2014) (p. 32). Companies are obliged to outline compliance with the code and to explain deviations. Whilst these "comply or explain" codes clearly contribute to better disclosures, it has been suggested that by adopting the language in the code companies may signal compliance with the code without actually adopting the practices (Sheehan 2009).

[5] https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf.

2.2.4 Not-for-profit sector

In the public sector, the Department of the Prime Minister and Cabinet and the Department of Finance have issued codes of best practice and guidelines to Commonwealth entities on remuneration reporting. In their report on the development of the Commonwealth Performance Framework, the Joint Committee of Public Accounts and Audit (2016) noted that "[t]here had been a reduction in the reporting of remuneration of entity Directors and Senior Executives" since the introduction of the 2015 Financial Reporting Rule and that this "constituted a reduction in transparency". Consequently, in February 2017, the Finance Minister wrote to all government business enterprises and the Future Fund Management Agency, asking them to report on executive remuneration in the same way as listed companies. In addition, the Secretary of the Department of the Prime Minister and Cabinet, in May 2017, requested portfolio secretaries to disclose information on executive remuneration on their websites on a voluntary basis and in a manner consistent with reporting arrangements prior to the 2015 Financial Reporting Rule (see section 2.1.2).[6]

In their review of the ACNC Act, McClure *et al.* (2018) recommends that the ACNC "introduce additional questions in the AIS [Annual Information Statement] in relation to the remuneration (if any) paid to responsible persons and senior executives" (p.61). The review also recommends that

[6] Only 52% of agencies have published within the requested deadline, leading the secretaries of the Department of the Prime Minister and Cabinet and the Department of Finance (Finance) to make further joint requests in September 2017 and August 2018. The report of the Independent Review of the Public Governance, Performance and Accountability Act 2013, tabled on 19 September 2018, recommends (Rec.35) that accountable authorities disclose executive remuneration in annual reports on the following basis: "(a) the individual remuneration, including allowances and bonuses, of the accountable authority and their key management personnel on an accrual basis, in line with the disclosure by Australian Securities Exchange listed companies; and (b) the number and average remuneration (including allowances and bonuses) of all other senior executives and highly paid staff, by band and on an accrual basis, broadly consistent with the reporting arrangements in place up to 2013-14.

the remuneration be reported in bands, similar to the format requested by the Department of the Prime Minister and Cabinet. It is suggested in the review that the ACNC and the AASB provide further guidance to as to the “appropriate disclosure in annual financial reports of any remuneration paid to responsible persons and senior executives by medium and large registered entities in compliance with AASB 124” (p.61).

2.2.5 Accounting standards - accounting standards boards

2.2.6 For-profit sector

The details of how to report and value items of remuneration are prescribed by the accounting standards issued by the Australian Accounting Standards Board, AASB. The three standards that are relevant are AASB 2 *Shared-based Payment,* AASB 119 *Employee Benefits* and AASB 124 *Related Party Disclosures*. As noted previously, there is a great deal of overlap between the requirements in the *Corporations Act* and the accounting standards.

AASB 2 *Share based Payments* sets out the accounting and disclosure requirements for share-based payment transactions. The standard requires “an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees” (Australian Accounting Standards Board 2010). Paragraphs 44 – 52 prescribe various disclosures relating to share-based payments with the objective of providing information to assist financial report users to understand the nature and extent of share-based payment arrangements. Under paragraph 45, the reporting entity is required to provide a description of each type of share-based payment arrangement in place, including the terms and conditions of each arrangement. In addition, the entity is required to disclose the number and weighted average exercise prices of each group of options that are outstanding at the beginning and end of the period; granted, forfeited, or exercised during the period; and exercisable at the end of the period.

The aim of AASB 119 *Employee Benefits* is to prescribe the accounting and disclosure for all employee benefits provided by employers, except those to which the AASB 2 *Share-based Payment* applies. Para 8 states that for the purposes of the standard, "employees include directors and other management personnel". Employee benefits is defined as "all forms of consideration given by an entity in exchange for service rendered by employees" (Para 8 of AASB 119). The payments fall into four separate categories: (1) short-term employee benefits (e.g. wages) (2) post-employment benefits (e.g. employer provided pensions), (3) other long-term employee benefits (e.g. long service leave), and (4) termination benefits (e.g. redundancy payments).

The objective of AASB124 is to ensure that "an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties" (Australian Accounting Standards Board 2015). A person, or a close member of that person's family, is defined to be related to the reporting entity if that person is a member of the key management personnel (KMP) of the reporting entity. In addition to the usual related party disclosure requirements, additional requirements are stipulated for KMP compensation.[7]

[7] AASB124:17.

2.2.7 Not-for-profit sector

The AASB modifies the IFRS Standards for not-for-profit (NFP) entities to “address, as necessary, user needs, prevalence and magnitude of issues specific to the NFP sector, BFP application issues and undue cost or effort considerations” (AASB 2017, p.5). Between 2006 and 2017, the accounting standards for the reporting of executive remuneration did not apply to not-for profit public sector entities. However, changes have been made in recent years to the standards to align the disclosure requirements in financial statements with the non-listed private sector from 2017. For instance, the requirements of AASB 124 apply to General Purpose Financial Statements (GPFS) prepared by NFP public sector entities for periods commencing on or after 1 July 2016.

The AASB Staff Paper published in 2017 summarises the modifications to the standards for NFP entities. We reproduce below the description of modifications to the three standards relating to remuneration reporting.

Standard	Description
AASB 2	No modification only for NFP entities
AASB 119	NFP public sector entities discount post-employment benefit obligations using market yields on government bonds.
AASB 124	Implementation Guidance for NFP public sector entities explaining and illustrating the definition to key management personnel, disclosure of key management personnel compensation, disclosure of related party transactions and exemption from the disclosure requirements for government-related entities. The guidance is an integral part of the Standard and has the same authority as the other parts of the Standard.

2.2.8 Good practice statements and voting guidance - Shareholder, business interest group and proxy advisor

2.2.9 For-profit sector

Shareholders, in particular institutional shareholders, have collectively or individually identified guidelines for the activities in the remuneration cycle. Representative organisations such as the Australian Council of Superannuation Investors (ACSI) and the Financial Services Council (FSC) have put forward their own guidelines. For example, ACSI has called for companies to adopt a narrative approach to remuneration reporting, "where a company explains why its remuneration practices are appropriate in plain language" (Australian Council of Superannuation Investors 2017).[8] FSC in their guidance note called for companies to provide information to allow FSC members to compare the quantum and components of remuneration with the performance of the company (Council 2009).[9] The guidance note also provides a suggested format for remuneration disclosure, illustrating the remuneration components that need to be disclosed. Further sources of information on good remuneration practice are the proxy advisory services that provide research on company meeting resolutions. Business interest groups such as the Australian Institute of Company Directors[10] and Governance Institute of Australia[11] have produced a number of detailed practice statements in respect to remuneration and communication practice (Governance Institute of Australia 2014; Australian Council of Superannuation Investors 2017). Large accounting firms such as PwC (with Group of 100) and KPMG have also provided guidance with reports on designing

[8] https://www.acsi.org.au/images/stories/ACSIDocuments/ACSI-Governance-Guidelines.Nov17.pdf.
[9] https://www.fsc.org.au/resources/guidance-notes/2gn_2_corporate_governance_2009.pdf
[10] http://aicd.companydirectors.com.au/resources/director-tools/practical-tools-for-directors/board-composition/directors-fees.
[11] https://www.governanceinstitute.com.au/media/441861/revised_ggg_role_remuneration_committee.pdf

remuneration plans (KPMG 2016a) and streamlining the reporting of executive remuneration (PwC 2017).

3 The costs and benefits of the remuneration reporting requirements for the for-profit sector

Many studies on the for-profit sector argue that the disclosure of executive compensation is a central governance issue. The disclosure of such information will publicly expose personal information about the remuneration and wealth of the executives. However, it is in shareholders' and other stakeholders' interest to make such information available. The ability of shareholders to decide whether the remuneration of executives are structured in their own interests is dependent on the disclosures made available.

3.1 Benefits of the remuneration reporting requirements

Clarkson *et al.* (2006) investigate the response of Australian firms to changes in CEO remuneration disclosure over the period 1998 to 2004. Broad disclosure requirements relating to executive remuneration were introduced into legislation in 1998, which were followed by more detailed and explicit rules in 2004. They find significant improvements in disclosure as a result of the introduction of mandatory requirements, but that only detailed, specific requirements generate high quality disclosures. Principle-based rules that allow for some interpretation and discretion lead to poor disclosure.

In a later study, Nelson and Percy (2008) examine the stock option disclosure of directors and the five most highly remunerated officers, and the choice to position the stock option disclosure in the notes of the financial statements as opposed to the directors' report for a sample of Australian firms. The checklist used in the study is based on the requirements in the *Corporations Law* and the

Corporations Act 2001.[12] The findings show the overall disclosure scores are high and that most companies disclose the information in the directors' report, with information on the amount of options granted and the class of share over which options are granted more likely to be disclosed in the financial statement notes. Almost half of the companies which issued options did not disclose the value or filed a "Nil" value for the options issued. The results suggest companies were "very secretive about the most sensitive of the required disclosures" (Nelson & Percy 2008).

Clarkson *et al.* (2011) examine the effect of increased shareholder oversight and remuneration disclosure on the link between pay and firm performance. Their sample consists of 240 ASX-listed firms over the sample period of 2001 to 2009. Consistent with a number of earlier papers on remuneration disclosure in Australia, Clarkson *et al.* (2011) find an improvement in remuneration disclosure over the time period examined. Furthermore, they find a strengthening of the pay-performance sensitivity and attributed this to the enhanced remuneration disclosure brought about by the issuance of AASB1046 Director and Executive Disclosure by Disclosing Entities[13] and the CLERP9 amendments.

Using a sample of 81 firms selected from the Business Council of Australia and the ASX Top 100 lists, Riaz *et al.* (2014) examine the impact that the introduction of a mixed regulation regime, i.e., CLERP Act 2004, has on remuneration disclosure levels in Australia. With the implementation of mixed regulation, listed firms in Australia are obliged to provide an explanation when they did not

[12] The relevant sections included are s.300A (1)(c), s.300(1)(d) and s.300(5)[3].
[13] The requirements of AASB 1046 were moved to AASB 124 on adoption of IFRS and then later removed altogether as they duplicated requirements in the Corporations Act.

comply with a recommended practice, such as those proposed by the ASX Corporate Governance Council. Riaz *et al.* (2014) use a disclosure checklist to measure the level of disclosure. The checklist captures three aspects of remuneration disclosure: "(a) general disclosure of director and executive remuneration pertaining to the requirements of section 300A and the Australian Accounting Standard Board, (b) disclosure of the company's pay-for-performance model related with section 300A, and (c) the engagement and participation of shareholders in deciding executive remuneration as per 250R, 250SA, 200F and 200G." (p.635). Riaz et al. conclude that the shift to mixed regulation in 2004 led to an improvement in the impact of governance practices on disclosure levels. The results showed that the presence of a remuneration committee is significant in determining disclosure levels subsequent to the implementation of mixed regulation (using data from 2006). The results are in contrast to those found for the period dominated by state regulation (i.e., 2002), where only firm-specific characteristics such as size, age, leverage and industry type affects the level of remuneration disclosure. These firm-specific characteristics are no longer significant in determining disclosure levels post the shift.

The requirement by regulators such as the Securities Exchange Commission (SEC) and the ASIC for the public disclosure of executive pay "virtually guarantees that third parties such as rank-and-file employees, labour unions, consumer groups, Congress, and the media affect the type of contracts written between management and shareholders" (Murphy 1999). In 1992, the SEC tightened its disclosure rules by providing standards for how information about top executive pay must be presented. Although generally quite specific, the new disclosure rules allowed a limited amount of reporting discretion. For instance, companies could choose between reporting either the potential value of options granted or the present value of the options on grant date. Murphy (1996) examines the stock-option reporting choices made by 1,000 largest listed US firms with fiscal closing from October 1992 to June 1993. Murphy (1996) offers the following hypothesis:

> "although *receiving* higher levels of compensation presumable increases managerial utility, *reporting* higher levels of compensation decreases managerial utility" (p.498).[14]

Murphy (1996) finds that managers adopted disclosure practices that reduced reported or perceived compensation. This infers that managers are aware of the costs of reporting high levels of compensation, such as through increases in political and shareholder pressure. We provide more discussion on the benefits of disclosure in Section 6 when we discuss the link between firm performance and remuneration.

3.2 Costs of the remuneration reporting requirements

While the literature generally supports the call for disclosure and the regulatory requirements for disclosure, others posit that disclosure can lead to detrimental effects. Park *et al.* (2001) study the Ontario Securities Commission's requirement issued in October 1993 for firms to disclose the amount and composition of individual executive compensation in proxy statements. Using 1,066 firm-year observations of companies listed on the Toronto Stock Exchange, they find the increased disclosure led to increases in competition between the boards of directors in the managerial labour market, hence putting pressure on the boards to increase executive remuneration. This view was supported by a UK study where respondents to a survey expressed concerns that the amount of remuneration disclosure has resulted in a ratcheting-up of directors' pay (Clarke *et al.* 1998). The

[14] "Utility" is an economic term used to refer the total satisfaction received from consuming a good or service.

authors survey 342 company chairmen at London-listed companies, canvassing their views on a range of topics including accountability, executive remuneration and relations with shareholders. Nearly half of the respondents are of the view that rather than moderating increases, increase in disclosure has had the effect of increasing directors' pay.

Frantz *et al.* (2013) present a theoretical model of disclosure choice that suggests full disclosure to shareholders may not be to their interest. The authors show that full disclosure may in fact be to the disadvantage of the shareholders, as disclosure cannot be made selectively to the shareholders but will also be made to strategic opponents. In their model, the strategic opponent comes in the form of a union. Others that can be considered as potential strategic opponents are the supplier of an input, a customer or a regulator. The authors concluded that whether full disclosure to shareholders is in their interest depends on the trade-off between two costs. These are (1) the proprietary costs associated with full disclosure, and (2) costs of potential collusion between executive and non-executive directors. The authors concluded that mandating full disclosure can make shareholders worse off.

The evidence presented above suggests there are both benefits and costs with the remuneration reporting requirements, and that excessive detail in remuneration disclosures can be as detrimental as too little disclosure. There have been suggestions that current Australian regulations have led to remuneration reports that are unwieldy and ineffective (PwC 2017). In addition to making information available, remuneration disclosures should be transparent and accessible to a broad range of users. The academic studies, however, have not examined whether the current reporting requirements in Australia are excessive.

4 The needs of information users in relation to remuneration reporting

4.1 For-profit sector

There are few papers that speak directly to the needs of information users in relation to remuneration reporting. In analysing the role of compensation structures in inducing risk-taking behaviour at Bear Sterns and Lehmann Brothers, Bebchuk *et al.* (2010) find the design of the firms' performance-based compensation did not align the executives' interests with long-term shareholder value. Consequently, executives were provided with opportunities to take large amounts of compensation based on short term gains and retain their compensation even after the firms failed in the longer term. The analysis highlighted the importance of knowing the compensation structures in place. This supports earlier findings by Bender and Moir (2006), who interviewed 40 participants, representing 12 FTSE 350 companies and some other protagonists in the executive pay debate in the UK. Their study shows that best practice might drive out certain bad behaviours. However, the authors note that best practice does not guarantee good behaviour.

Lee and Shailer (2008) investigate the extent to which the board related reforms introduced in the ASX Corporate Governance Council recommendation in 2003 and CLERP 9 affects individual and institutional investor confidence. The authors used a survey instrument that was distributed to attendees at the meetings and conferences held by the Australian Shareholders' Association and the Australian Investors' Association, i.e., retail investors. The same survey was also sent to senior staff involved in managing listed equity investment funds, i.e., institutional investors. Based on the responses from 147 respondents, the authors conclude there are some differences in the corporate governance expectations of the two investor types. However, both investor types are found to emphasise the importance of the disclosure of remuneration of directors and executives.

4.2 Not-for-profit sector

While the needs of information users in relation to remuneration reporting for not-for-profit (NFP) or public sector (PS) entities have not been examined specifically,[15] studies that have examined reporting by NFP suggests the needs may be different from the for-profit sector (Palmer 2013). Some reasons provided for the difference include donors to charities are typically not beneficiaries and thus may have less incentives to monitor the use of funds than do investors in private enterprises. In addition, market-based performance measures available for for-profit entities are typically not available for NFP or PS entities (Baber *et al.* 2002). Newton (2015) argues that agency conflicts are more prevalent and of greater severity than those facing for-profit organisations as managers of the NFP and PS entities are less likely to be held accountable and are themselves not owners of the organisation. While Newton (2015) emphasises the importance of governance quality to mitigate the agency conflict, there is scope for more research to investigate the importance of the requirement for remuneration reporting by NFP and PS entities. For example, other than that it would be useful to have consistent disclosure requirements across different entity types, states, regulators and funding bodies (Palmer 2013), there are few suggestions as to how the remuneration disclosure requirements of NFP entities should be different to for-profit entities.

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[15] As suggested earlier, there is little research on the information needs of users more generally, but specific reasons for a dearth of research in the NFP sector include a lack of easily accessible annual financial reports, the wide-range of different NFP entities, uncertainty as to who the stakeholders are and what types of information they are interested in (Christensen & Mohr 2003; Marshall & Woodward 2004).

5 The incentives for entities to provide useful information in remuneration reports16

5.1 Factors influencing disclosure

5.1.1 For-profit sector

Firms exist in complex economic and social environments. Identifying the specific characteristics of those environments that are likely to influence executive remuneration disclosure will assist in determining the best ways to encourage better disclosure. In the following paragraphs we explore the environmental factors behind remuneration disclosure voluntarily provided by firms; their voluntary adherence to published codes of conduct; and their responses to mandatory disclosure requirements.

Many firms have provided additional remuneration disclosures beyond those mandated by the various rules and legislation, and these disclosures provide a useful setting to determine what incentivises firms to give these additional, voluntary disclosures. Byrd *et al.* (1998) focus on the voluntary disclosure of the peer group used to benchmark the company's executive pay amongst the S&P 500 in 1993. Only 10.3% of these companies provided this information and they sought to characterise the companies that had given this additional information. They find that firms with higher executive remuneration levels and prior requests from shareholders for better disclosure

[16] As a result of the large number of papers referred to in this section, a separate summary is provided of selected papers in the table in Appendix I.

provide the additional disclosure. Historical financial returns and the firm's corporate governance structure do not influence the propensity to disclose.

Melis *et al.* (2015) explore in more detail the effects of different institutional structures in different countries on remuneration disclosure. Using a comprehensive index covering all aspects of executive remuneration they compare UK and Italian disclosure. As a more market-orientated economy, they find that the UK has significantly higher levels of voluntary disclosure. They also find, however, that voluntary disclosure is associated with firm-specific incentives and that the firm-specific incentives vary between the two countries. Relevant incentives in the UK are the level of ownership diffusion, poor market performance and shareholders' dissent. In Italy, which is categorised as a more relationship-based system, media attention is more pertinent. Muslu (2010) also finds that larger firms, firms with a US cross-listing and firms with good growth opportunities in Europe provide better disclosure.

The introduction in 2002 of the German Corporate Governance Code provides an interesting setting to examine the disclosure of executive remuneration. The Code recommended the disclosure of individual executive remuneration in the annual financial statements. Firms are not required to comply with these recommendations, but must explain why they have not complied (comply or explain). In an attempt to characterise those firms that did provide this voluntary disclosure, Andres and Theissen (2008) and Chizema (2008) find that firms with higher market-to-book value, institutional or state ownership, more dispersed share ownership and larger size tended to provide the information. Larger supervisory boards, older firms and higher average remuneration paid to managers were all associated with a reluctance to provide individual executive remuneration amounts.

Generally, better corporate governance structures are thought to improve disclosure, but it is not always clear how governance influences remuneration disclosure. In the US, Laksmana (2008) explores the impact of governance quality on compensation disclosure. She finds that larger, more independent, boards of directors and compensation committees that meet more frequently are associated with better voluntary disclosure. Chief executive officer (CEO) influence on the director nomination process has a negative effect on disclosure. Muslu (2010), however, finds that a higher proportion of executive directors and CEO duality improve pay disclosures in Europe. He suggests that these companies compensate for the lack of board independence by providing better remuneration disclosure. His findings, however, only hold when boards are not dominated by insiders and executives are not entrenched. This suggests that there is an optimal level of executive and independent directors that results in better disclosure.

Similar results have been obtained in Australian studies. The presence of Big 4 auditors improve disclosure whereas CEO duality is associated with poorer disclosure (Bassett *et al.* 2007). Liu and Taylor (2008) find that a number of corporate governance variables relating to remuneration and disclosure help explain the voluntary disclosure of information relating to share rights, options and termination entitlements in Australia in 2003 and 2004. Liu and Taylor (2008) conclude that managers will provide personally sensitive information when they are under shareholder or public scrutiny and the firm is subject to good corporate governance.

Most of the papers discussed thus far consider firms' voluntary disclosure of remuneration information. One way to improve disclosure is for regulators and standard setters to mandate additional disclosure. We discuss studies, such as Clarkson *et al.* (2006), that have examined the effect of regulatory changes in remuneration reporting in Section 3. We now consider the effect of corporate governance mechanisms on compliance with mandatory disclosure requirements. Nelson *et al.* (2010) examine the influence of corporate governance on statutory executive stock option (ESO) disclosures in Australia. They find that board, audit and compensation committee independence contribute to better compliance. External governance mechanisms are also associated with compliance levels. Big-4 auditors encourage higher compliance and firms identified as poor performers by the Australian Shareholders' Association also disclosed less ESO information. They also find that overall compliance improved from 2001 to 2004, suggesting that increasing media attention, regulatory intervention and increased guidance and enforcement by ASIC motivated companies to improve disclosure over this period.

Managers can also avoid transparency by making remuneration disclosures difficult to read, whilst still complying with mandatory rules. Laksmana *et al.* (2012) find that firms with CEOs that receive above benchmark pay are inclined to produce compensation disclosures that are more difficult to read. They suggest that top management reduces the readability of remuneration reports when their pay is not justified by firm performance. SEC identified defects in compliance with mandated executive compensation disclosures have also been associated with excess CEO compensation (Robinson *et al.* 2011).

In summary, larger firms with Big 4 auditors, more shareholder scrutiny, more dispersed shareholdings, higher market-to-book ratio and government ownership tend to be associated with better executive remuneration disclosures. Firms with higher executive remuneration generally have poorer disclosure. Typical measures that are viewed as contributing to better corporate governance such as larger boards with more independent directors and splitting the roles of CEO and chairman of the board are generally associated with better remuneration disclosure, but some studies either found no relationship or the opposite relationship to what is normally expected. Specific and detailed mandatory disclosure requirements do contribute towards improved disclosure, but are not on their own likely to result in high quality disclosures in all companies.

5.1.2 Not -for-profit sector

No papers reviewed.

5.1.3 Relationship between firm performance and remuneration

5.1.4 For-profit sector

Ultimately shareholders are interested in firm performance. In the context of executive remuneration, shareholders will want to know how that remuneration contributes to or enhances firm performance. Good quality remuneration disclosures will allow shareholders to assess whether past remuneration has been commensurate with performance and whether the current structure of executives' pay packages will support firm performance in future. Thus an understanding of the links between firm performance and remuneration will be useful in determining what should be disclosed.

The broad relationship between firm performance and remuneration is a recurrent theme in the literature and it has been demonstrated that remuneration is related to firm performance and that this relationship has increased over time (Murphy 1999; Frydman & Saks 2010). This relationship has also been shown to exist in many countries (van Essen *et al.* 2012), including the US (Frydman

& Saks 2010), Australia (Merhebi *et al.* 2006),[17] China (Conyon & He 2011) and the UK (Conyon & Murphy 2000). The relationship does differ significantly between countries, however, and the differences can be attributed to the formal and informal institutions that protect investors against overpaid and underperforming executives (van Essen *et al.* 2012). Formal institutions that are relevant in this regard are investor protection laws and the effectiveness of the legal system. Informal institutions consist of codes of good corporate governance and ownership concentration. Firm level governance mechanisms also affect the degree to which executive pay is linked to performance. State-controlled firms and firms with concentrated ownership structures have limited performance-linked pay (Conyon & He 2011). The remuneration-performance link tends to be stronger in larger firms and firms with more independent directors and a remuneration committee (Conyon & Peck 1998; Conyon & He 2011; Cybinski & Windsor 2013). Enhanced disclosure of remuneration only leads to an improved pay-performance relationship in the presence of good governance mechanisms (Kim *et al.* 2017). CEOs on boards and higher director remuneration has been associated with higher CEO pay in New Zealand, suggesting that entrenched managers and directors have been able to inflate their remuneration (Krishna *et al.* 2015).

The efficacy of remuneration in driving firm performance, however, will depend on the structure of the remuneration package. To obtain optimal firm performance, the remuneration mix must be consistent with the firm’s strategy. Chen and Jermias (2014) find that product differentiation firms

[17] Although Bugeja *et al*. (2016) find inconclusive evidence on the association between firm performance and changes in non-executive directors remuneration in Australia.

perform better if they have a higher proportion of executive remuneration that is performance-linked. Firms with a cost leadership strategy should use less long-term performance linked incentives. Concerning financial strategy, higher executive shareholdings tend to be associated with higher bond spreads, whereas more debt-like compensation, such as defined benefit pensions, have been linked with reduced bond yields (Kabir *et al.* 2013). Too much equity-based compensation leads to over-investment, whereas more debt-like compensation has been linked to under-investment (Eisdorfer *et al.* 2013). The proportion of debt-like remuneration should match the firm's overall leverage ratio, as a significant difference between the firm's leverage and the remuneration leverage accentuates this problem. Young and Yang (2011) find that earnings per share (EPS) performance conditions encourage share repurchases. This association seems to generally be of benefit to shareholders, as firms with EPS conditions perform better if they have surplus cash, they are more likely to signal mispricing through a repurchase and they have lower abnormal accruals.

In an attempt to understand the causes of the GFC, DeYoung *et al.* (2013) and Fahlenbrach and Stulz (2011) examine the compensation structures of US banks in the period leading up to and during the crisis. DeYoung *et al.* (2013) find that US commercial banks increased the risk-sensitivity of bank CEO remuneration in an effort to incentive them to capitalise on industry deregulation around 2000. Their results confirm that CEOs did respond to these incentives and that the banks' risk was increased as their businesses moved away from more traditional products to less stable revenue streams. They also find, however, that bank directors responded to increased bank risk by subsequently reducing the risk-sensitivity of CEO remuneration and aligning remuneration with shareholders' interests. Comparing CEO incentives just prior to the crisis with bank share returns as a result of the crisis, Fahlenbrach and Stulz (2011) find little relationship between CEO equity interests and bank GFC performance, and suggest that those banks with remuneration structures that were more aligned with shareholders may have actually fared worse. Higher option compensation and larger cash bonuses also seemed to have no effect on subsequent bank performance. They conclude that bank CEO lost large amounts of wealth as a result of the GFC, which is consistent with DeYoung *et al.* (2013) finding that directors had increased CEO pay-performance sensitivity in response to increased banking risk.

In addition to strategic considerations, the firm's particular characteristics and operating environment should be reflected in executive remuneration. Optimal firm performance will result when measures are chosen that respond to and accurately capture executives' performance (Banker & Datar 1989). In an Australian study, Matolcsy and Wright (2011) find that firms that remunerate their executives in a manner that is not consistent with the firm's characteristics have lower performance than those that do. They identify the following characteristics as important in the context of executive remuneration: firm size, complexity, market-to-book ratios, prior stock performance, CEO share ownership and large outside block shareholders. Similarly, Ittner *et al.* (2003) conclude that lower than expected option grants by executives in new economy firms are associated with poorer performance. They also find, however, that the firm characteristics that are significant in determining equity grants in new economy firms are different to old economy firms. The investment opportunity set is more relevant in new economy firms and new economy firms with larger cash flows and cash reserves utilise more equity grants (opposite to what is generally found with old economy firms).

Taken together, these results do suggest a link between firm performance and executive remuneration, but that the effectiveness of that relationship is dependent on the specific circumstances of the firm. In particular, the components of the remuneration package need to be appropriate to the firm's strategy, risk profile and other characteristics. The strength of the pay-performance link will also depend on the firm's governance structures and the broader institutional environment. This all indicates that users will need information on the composition of remuneration and how those components are linked to firm performance to determine whether executive packages have been appropriately designed to serve shareholders' interests.

5.1.5 Not -for-profit sector

The general relationship between firm performance and remuneration is also evident in the not-for-profit (NFP) sector, but some studies show a weak relationship or even a negative relationship between remuneration and performance (Baber *et al.* 2002; Brickley & Van Horn 2002; Newton 2015). Governance mechanisms also influence the degree to which pay is linked to performance in the NFP sector (Barros & Nunes 2007; Newton 2015). Examining the determinants of CEO pay in the non-profit hospitals in the US, Brickley *et al.* (2010) find that excess remuneration is associated with executives on the management board and is more pronounced in the absence of competition from for-profit hospitals. Larger boards tend to moderate CEO pay (Aggarwal *et al.* 2012). The lack of shareholders in NFP entities can lead to poorer governance mechanisms. Newton (2015) finds a significantly negative relationship between relative CEO pay and performance in the non-for-profit sector in the US. CEOs of Dutch NFP hospitals tend to earn more when the supervisory board members receive excessive remuneration and have a lower level of expertise (Cardinaels 2009).

6 Conclusion

This report reviews the academic literature relating to remuneration reporting. Our literature search revealed that academic studies are mainly focused on the effects of changes in reporting requirements and other factors on remuneration disclosure behaviour. There are much fewer studies on the needs of information users. Nevertheless, the report seeks to provide insights into the literature that will be useful for the AASB in determining future remuneration reporting requirements for Australian entities. The key themes emanating from the review are as follows:

a) The current remuneration disclosure requirements are contained within a variety of mandatory and discretionary sources;

b) Remuneration disclosures have improved over time, often accelerated by improved mandatory requirements;

c) Remuneration disclosure can result in political, proprietary and additional remuneration costs;

d) Firms with better corporate governance and more active shareholders tend to provide better remuneration disclosure;

e) Generally remuneration is related to performance but this relationship is sensitive to governance mechanisms, package structure and firm characteristics; and

f) The needs of users and the association between pay and performance in relation to not-for-profit entities is different to for-profit entities.

In the report, we highlighted certain areas that have not been covered in the existing literature and would benefit from further research. In particular, the information needs of users and the extent that existing disclosure is being used for decision making has not been the subject of much research. Related to this is the measurement of remuneration. Under the current reporting requirements, companies are required to provide detailed information about the fair value of options granted. However, many companies are disclosing “actual remuneration outcomes” in addition to the statutory requirements (PwC 2017). There is scope for research to examine the usefulness of different measures of remuneration. Another area requiring additional attention is the remuneration disclosure needs of the not-for-profit sector. Advancing research in this area is likely to be a challenge for researchers due to the availability of data.

7 Recommendations for the AASB

Based on our review of the executive remuneration reporting literature, we make the following comments, observations and recommendations that we believe will be of use to the AASB in their future deliberations on this topic:

a) In order to enhance firm performance, remuneration must reflect firm strategy, characteristics and operating environment. The existing disclosure requirements focus on the composition and mechanics of remuneration. Additional guidelines that improve the disclosure of the philosophy, process and considerations that have led to the current remuneration structure and how that structure will help deliver on the firm's strategy would be useful.

b) Current remuneration disclosure rules are found in a broad variety of sources, which does lead to some duplication. Streamlining the rules and collecting them in one location (for example, a single accounting standard) will assist preparers when preparing the remuneration disclosures. This should also lead to disclosures that are more streamlined.

c) Disclosure guidelines need to be reasonably detailed and clear to drive significant improvements in disclosure.

d) Agency relationships in the not-for-profit sectors are often more complex than the for-profit sector. Performance measurement may also be different in this sector. These suggest that different remuneration disclosure requirements may be necessary to, for instance, compensate for the additional agency problems that may arise in this sector.

e) Users need detailed information on the various components included in remuneration. This will allow them to assess the relationship between remuneration and firm performance and the extent to which remuneration is directed at the firm's current strategic objectives.

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9 Appendix I

The following table summarises the studies that are discussed in Section 5 on the incentives for entities to provide useful information in remuneration reports. For each paper, we identify the research question or objective, the sample used, and the main findings. In the table, papers that are on not-for profit sector entities are highlighted in blue.

Paper	Research question / objective	Sample	Main findings
Aggarwal, et al. (2012)	Examine relations between board size, managerial incentives and enterprise performance in non-profit organizations.	US 35,945 non-profits 1998 - 2003	Find a positive association between program diversity and board size. Board size is associated negatively with managerial incentives, positively with program spending and fundraising performance, and negatively with commercial revenue.
Andres and Theissen (2008)	Examine the characteristics of the firms that complied with the German Corporate Governance Code voluntary requirement to publish individual remuneration details for the executive board.	Germany 146 listed firms 2002, 2003 and 2006	Firms that paid higher average remuneration to their management board members were less likely to comply, whereas firms with higher market-to-book ratio were more likely to comply. The disclosure becomes mandatory in 2006 unless the shareholders' meeting (with a 75% majority) decides otherwise. They find that smaller firms, firms with comparatively high levels of executive remuneration and firms with concentrated ownership utilise this exemption.
Baber, et al. (2002)	Investigate how the unique features of charities affect the manner in which they compensate their executives.	US 331 charities 1996 and 1997	Changes in CEO compensation vary directly with both prior- and current-year changes in spending that advances the charity’s mission. Similar changes in compensation occur regardless of whether the spending change is due to changes in revenue or changes in operating efficiency.

Paper	Research question / objective	Sample	Main findings
Barros and Nunes (2007)	What is the pay-performance link for CEOs of non-profit organisations.	Portugal 648 non-profit organisations 2002	CEO earnings are affected by internal accounting performance metrics and individual CEO characteristics. CEO earnings are also positively related to board size, number of internal directors on the board, director age, politically-affiliated directors, CEO appointed directors, the duration of the CEO on the board and whether the CEO is also the chair of the board.
Bassett, et al. (2007)	Examines the role of corporate governance in employee stock option (ESO) disclosures following the revision of AASB 1028 Employee Benefits in 2001.	Australia 283 listed firms 2003	A Big-4 auditor has a positive association with both mandatory and voluntary ESO disclosures while the dual role of CEO and chairperson of the board is associated with lower levels of mandatory disclosure.
Brickley and Van Horn (2002)	Examine the incentives of CEOs in a large sample of non-profit hospitals.	US 2,134 non-profit and 220 for-profit hospitals 1991 - 1995	Both CEO turnover and CEO compensation are significantly related to return on assets. The turnover/performance relation appears stronger in non-profit hospitals than in for-profit hospitals and other for-profit corporations.
Brickley, et al. (2010)	Does management representation on non-profit boards lead to “excessive” CEO pay?	US 308 non-profit hospitals 1998 - 2002	There is a relatively small, but statistically significant, positive association between CEO pay and “insider” boards that include the CEO and other employees as members. Excess pay is greater in the absence of competition from for-profit hospitals.

Paper	Research question / objective	Sample	Main findings
Byrd, et al. (1998)	What are the benefits of voluntarily disclosing the composition of the comparison group used to set executive compensation?	US 49 S&P 500 firms that disclosed the comparison group 1993	Disclosing firms have higher compensation levels and are more likely to have received prior shareholder proposals requesting an increase in disclosure or a decrease in compensation. The disclosure decision is unrelated to the firm's return and the firm's corporate governance structure.
Bugeja, et al. (2016)	Examine the economic and director-specific determinants of non-executive director (NED) compensation.	Australia 1,621 listed firms 2004 - 2012	NED compensation is associated with director reputation, experience, connectedness and the directors' involvement with the firm. Compensation is also effected by firm size, complexity, growth, risk and liquidity. There is a positive association between increases in NED pay and market returns, but no significant association between return on assets and changes in pay.
Cardinaels (2009)	Investigate whether differences in governance structures of hospitals are informative for explaining the variations in chief executive pay.	Netherlands 80 not-for-profit hospitals 2005	CEOs on average earn more when the hospital's supervisory board members receive more and when supervisory board members have a lower level of expertise.
Chen and Jermias (2014)	Investigate the impact of business strategy on the use of performance-linked compensation (PLC) and long-term incentive plans.	US 529 firm-year observations from S&P 500 2000 - 2005	Find that product differentiation firms use a higher proportion of PLCs than cost-leadership firms. A misfit between business strategy and compensation structure has a negative impact on performance.

Paper	Research question / objective	Sample	Main findings
Chizema (2008)	Identify the characteristics of the firms that complied with the German Corporate Governance Code voluntary requirement to publish individual remuneration details for the executive board.	Germany 126 listed firms 2002 - 2005	Institutional ownership, dispersed ownership, state ownership, prior adoption of shareholder value-oriented practices, and firm size are positively associated with the disclosure of individual executive compensation. The size of the supervisory board and firm age are negatively associated with individual disclosure of executive compensation.
Clarkson, et al. (2006)	Examine changes in chief executive officer remuneration disclosure as a result of the Company Law Review Act 1998 (CLRA98) and the introduction of Director and Executive Disclosures by Disclosing Entities (AASB1046) in 2004.	Australia 124 listed firms 1998 - 2004	Find significant improvements in disclosure concurrent with both CLRA98 and AASB1046. Firm size, corporate governance, Big-4 auditor, cross-listing status and public scrutiny are associated with the extent of CEO remuneration disclosure.
Conyon and He (2011)	Investigate the relationships between executive compensation and corporate governance in Chinese publicly traded firms and compare executive pay in China with the US.	China 1,342 listed firms 2001 - 2005	Find that executive compensation is positively correlated to firm performance. Executive pay and CEO incentives are lower in State controlled firms and firms with concentrated ownership structures. Firms with more independent directors on the board have a higher pay-for-performance link. US executive pay is about seventeen times higher than in China.
Conyon and Murphy (2000)	Examine differences in CEO pay and incentives between the United States and the United Kingdom.	UK and US 510 UK and 1,666 US listed firms 1997	CEOs in the US earn 45% higher cash compensation and 190% higher total compensation. The median US CEO receives 1.48% of any increase in shareholder wealth compared to 0.25% in the UK, which is largely attributable to greater share option awards in the US.

Paper	Research question / objective	Sample	Main findings
Conyon and Peck (1998)	Examine the role of board control and remuneration committees in determining management compensation.	UK 94 listed firms from FTSE 100 1991 - 1994	The proportion of non-executive directors on a board and the presence of remuneration committees and CEO duality had only a limited effect on the level of top management pay. However, the link between top management pay and corporate performance is stronger in companies with outsider-dominated boards and remuneration committees.
Cybinski and Windsor (2013)	Investigate whether remuneration committee independence results in a better alignment between CEO total pay and firm performance.	Australia 143 listed firms from ASX300 2001	Large firm remuneration committees link CEO total remuneration to firm financial performance. Smaller firm remuneration committees do not link CEO remuneration to performance despite remuneration committee independence.
DeYoung, et al. (2013)	Were CEO incentives at US commercial banks during the 1990s and 2000s associated with subsequent risk taking and did bank boards try to mitigate or moderate subsequent risk taking by readjusting the incentives?	US 114 listed banks 1995 - 2006	Contractual risk-taking incentives for CEOs increased at large U.S. commercial banks around 2000, when industry deregulation expanded these banks' growth opportunities. The results also suggest that bank boards responded to higher-than-average levels of risk by moderating CEO risk-taking incentives, except at the very largest banks.
Eisdorfer, et al. (2013)	Does a similarity between the executive compensation leverage ratio and the firm leverage ratio affect the quality of the firm's investment decisions.	US 260 listed firms 2000 - 2009	A larger leverage gap (i.e., a bigger difference between these two ratios) leads to more investment distortions. Managers with more debt-like compensation components tend to under-invest, whereas managers with larger equity-based compensation engage more in over-investment. Investment distortion is likely to increase the equity (debt) value when compensation leverage is lower (higher) than firm leverage.

Paper	Research question / objective	Sample	Main findings
Fahlenbrach and Stulz (2011)	Investigate whether bank performance during the recent credit crisis is related to CEO incentives before the crisis.	US 77 listed banks 2006 - 2008	Find some evidence that banks with CEOs whose incentives were better aligned with the interests of shareholders performed worse and no evidence that they performed better. Banks with higher option compensation and a larger fraction of compensation in cash bonuses for their CEOs did not perform worse during the crisis.
Frydman and Saks (2010)	Analyse the long-run trends in executive compensation from 1936 to 2005.	US Largest 50 firms in 1940, 1960 and 1990 (101 firms) 1936 - 2005	There was a weak relationship between pay and aggregate firm growth from the late 1940s to the 1970s. The correlation between pay and growth was much stronger in the last thirty years. Executive wealth was sensitive to firm performance for most of the sample.
Ittner, et al. (2003)	Examine the determinants and performance consequences of equity grants to employees of “new economy” firms.	US 217 new economy firms 1999 - 2000	Most important objective of equity grants is employee retention, but only for newly hired employees. Equity grants are positively associated with investment opportunities, firm size, cash reserves and negatively associated with leverage. Lower than expected grants and/or existing holdings of options are associated with lower ROA and stock price performance in subsequent years.
Kabir, et al. (2013)	Examine how different components of executive compensation affect the cost of debt.	UK 287 firm-years of firms with listed bonds 2003 - 2012	An increase in defined benefit pensions is associated with a lower bond yield, while higher shareholdings lead to higher yields. Stock options and cash bonuses have no significant impact on the cost of debt.

Paper	Research question / objective	Sample	Main findings
Kim, et al. (2017)	Investigate whether changed disclosure legislation in Korea affects compensation level and the pay–performance relationship.	South Korea 204 listed firms 2013 -2015	Executives receive higher compensation after the enhanced disclosure rule. For executives who earned less than the optimal pay level prior to the rule changes, pay growth rates are higher in post the changes. The pay–market performance link has improved only for firms with good governance.
Krishna, et al. (2015)	Investigate the relationship between CEO's compensation and corporate governance practices of publicly listed companies.	New Zealand 390 firm-years 2005 - 2010	Companies that have their CEO on the board pay them more than those who do not sit on the board. Companies that pay their directors more or have institutional or block shareholders tend to reward their CEOs more.
Laksmana (2008)	Examine whether certain board and compensation committee characteristics are associated with the extent of compensation disclosure.	US 218 and 232 listed firms 1993 and 2002	Board and compensation committee meeting frequency and size are positively associated with compensation disclosure. Firms with more independent directors and less CEO influence on the director nomination process provide more disclosure.
Laksmana, et al. (2012)	Examines the relationship between the readability of the compensation discussion and analysis (CD&A) and potential motives to provide obscure disclosures.	US 329 and 310 listed firms 2007 and 2008	The average CD&A is difficult to read. Find that firms with CEO pay exceeding the benchmark pay have a more difficult to read CDA after its introduction in 2007. However, firms with CEO pay exceeding the benchmark pay improve the readability of their CD&As in 2008.
Liu and Taylor (2008)	Investigate the extent and key determinants of discretionary disclosure in company annual reports of information about top executives' share rights, options and termination entitlements.	Australia 191 listed firms 2003 and 2004	Find significant relationships between shareholder activism, media attention, company size, board composition and existence of a remuneration committee and the extent of disclosures of rights, options and termination benefits of executives.

Paper	Research question / objective	Sample	Main findings
Matolcsy and Wright (2011)	Estimate a model of 'efficient' compensation structure based on firm characteristics and test the performance consequences of deviation from the efficient compensation structure.	Australia 3,503 firm-years 1999 - 2005	Firms whose CEOs receive compensation inconsistent with their firm characteristics have a lower performance compared to those firms whose CEOs' compensation is consistent with their firms' characteristics.
Melis, et al. (2015)	Analyse the disclosure of directors' remuneration in Italian and UK firms.	Italy and UK 117 listed firms for each country 2009	Find that the level of voluntary disclosure is significantly higher in the UK than in Italy. In the UK greater ownership diffusion, poor market performance and shareholders' dissent are associated with more disclosure. In Italy, media coverage seems to prompt better disclosure. In both countries, the information disclosed in corporate documents does not allow readers to obtain a comprehensive picture of directors' remuneration.
Merhebi, et al. (2006)	Examine the association between Australian CEO remuneration and firm performance.	Australia 722 listed firms 1990 - 1999	Find that the Australian evidence is consistent with international findings. The CEO pay–performance association is positive and statistically significant.
Muslu (2010)	Investigate the effect on executive pay and pay disclosures of executives on the board of directors.	Europe Largest 158 firms 1999 - 2004	Find that the transparency of executive pay disclosures and sensitivity of executive pay to performance increase with the proportion of top executives serving as company directors and with dual CEO and board chairs. These relationships are stronger in countries with more protection for outside shareholders.

Paper	Research question / objective	Sample	Main findings
Nelson, et al. (2010)	Examine the nature and extent of statutory executive stock option disclosures and the influence of corporate governance mechanisms on these disclosures.	Australia 115 listed firms 2001 - 2004	The results show a progressive increase in overall compliance from 2001 to 2004. Board independence, audit committee independence and effectiveness, and compensation committee independence and effectiveness are found to contribute to improved compliance. Certain external governance factors are also associated with improved disclosure, including Big-4 auditor, shareholder activism and regulatory intervention.
Newton (2015)	Study the relationship between chief executive compensation, organizational performance, and governance quality.	US 5,287 large non-profits 2008 - 2010	Find that both the CEO-to-employee relative pay ratio and the consumption of perquisites are significantly negatively related to an index of non-profit governance quality. Find a significantly negative relationship between CEO-to-employee relative pay and multiple measures of non-profit performance.
Robinson, et al. (2011)	Investigate the economic forces that influence noncompliance with mandatory compensation disclosures and the effect of a subsequent focused enforcement action.	US 336 firms reviewed by the SEC 2006	Find that disclosure defects are positively associated with excess CEO compensation and media criticism of CEO compensation during the previous year. No evidence that SEC identified defects in mandatory disclosures reduces excess CEO compensation in the subsequent year.
van Essen, et al. (2012)	Examine the firm performance – executive compensation relationship across 29 countries.	Meta-analytic study of 332 primary studies nested in 29 countries.	Find evidence that compensation is positively associated with performance. There is considerable cross-country variability in this relationship. Formal institutions such as the rule of law and shareholder protection provisions and informal institutions such as ownership concentration and codes of good corporate governance strengthen the pay-performance relationship.

Paper	Research question / objective	Sample	Main findings
Young and Yang (2011)	Examine the link between firms' stock repurchase activity and the presence of EPS performance conditions in executive compensation contracts.	UK 665 repurchase firm-years 1998 - 2006	Find a strong positive association between repurchases and EPS-contingent compensation arrangements. For firms with EPS targets there is stronger association between repurchases and cash performance in the presence of surplus cash; they more likely to signal mispricing through a repurchase; and have lower abnormal accruals.