TRANSPARENCY IN EXECUTIVE COMPENSATION AND CORPORATE GOVERNANCE IN BRAZIL

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Abstract

Studies regarding executive compensation are still recent in Brazil, and are predominantly focused on qualitative surveys. Usually the reason given to justify the lack of studies in this area is the absence of available data, or the level of quality and transparency when the data exist. This study analyzes the relationship between governance practices and transparency in disclosure of executive compensation data by Brazilian companies. One of the contributions of this study to existing literature is the creation of an original transparency index for executive compensation. Using the listing of ADRs in the U.S. and on the "Novo Mercado" of the Brazilian stock exchange (BM&FBovespa) as proxy variables for good governance practices, the results show that companies with ADRs tend to be more transparent regarding executive compensation. On the other hand, there is no significant relation between executive compensation transparency and listing on Novo Mercado. This conclusion makes sense, given that the U.S. law includes detailed guidelines for information on executive compensation, whereas the Novo Mercado does not contain specific rules regarding disclosure of executive compensation.

Key words: corporate governance, executive compensation.

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1. Introduction

International literature contains many studies on corporate governance and executive compensation. Due to the recent financial scandals and the international financial crisis starting in late 2008, the discussion of executive compensation was resumed, particularly regarding variable compensation. The discussion went beyond academic circles and specialized media, reaching the general public. After all, did it make any sense to pay executives huge bonuses just one year before their institutions revealed themselves to be completely vulnerable at the first sign of turbulence?

Accounting scandals, management fraud, concealment of risks and various other problems led to loss of value to investors. Scandals such as those at Enron, Worldcom and more recently in Brazil with Parmalat have pressured the market to actively pursue better corporate governance practices. This pressure was followed by implementation of new regulations by various governments, such as the Sarbanes-Oxley Act in the United States.

Regarding executive compensation, many studies seek to link it to the agency theory and to the analysis of instruments that allow for mitigating any type of risk derived from failure to maximize value to shareholders. Under this rationale, EU regulators launched one of the most controversial aspects of good governance practices by proposing, in 2004, that publicly traded companies disclose their management salaries on an individual basis, which was already mandatory in the U.S. market.

Over the previous decade, corporate governance ideas have been strongly gaining acceptance in Brazil. Companies have been adopting good practices, mostly on a voluntary basis, aware of the need to attract more investors and raise more capital. Some institutional investors have been classifying companies according to their willingness to make more company data available to investors.

The subject of executive compensation disclosure was introduced in Brazil in 2008 amid wide repercussion and opposition, when the Securities and Exchange Commission (CVM) raised the possibility of making some of this data mandatory when it undertook a revision of its Directive 202/1993, which regulates annual reporting of data.

In December 2008, CVM, through its Resolution 560/2008, required that companies disclose compensation for key management personnel in total and for each of the following categories: short-term benefits, post-employment benefits, other long-term benefits, employee termination benefits, and stock-based compensation.

In December 2009, CVM published Resolution CVM 480/2009, which requires companies to disclose the maximum, average, and minimum compensation for their executive directors and members of the board. The executives from many Brazilian companies were opposed to disclosure of their salaries, considering it an "invasion of privacy". In their view, the disclosures could also place at risk the security of the people whose data was published. Currently a court battle is underway, and the Brazilian Institute of Financial Executives of Rio de Janeiro obtained an injunction against the CVM rule. However, many companies decided to disclose the data on executive compensation stipulated in the CVM Directive.

There is little research on executive compensation in Brazil. One of the main problems preventing research in this area is the difficulty to obtain data on executive compensation. The data, when disclosed, lack transparency and are very aggregated. For example, it is not possible to differentiate between the compensation of the executive directors and the board members, and to separate fixed and variable compensation.

The purpose of this study is to measure whether Brazilian companies with better corporate governance practices disclose more information regarding the salaries and benefits of their executives. This study is innovative and contributes significantly to existing literature by developing a transparency index for executive compensation, so that the level of disclosure of data for different types of compensation may be quantified in an objective manner.

The listing of companies in the U.S. through American Depositary Receipts (ADRs) and on "Novo Mercado" of the Brazilian stock exchange (BM&FBovespa) was used as a proxy variable for good governance practices. The results obtained indicate that companies with ADRs tend to be more transparent regarding executive compensation. On the other hand, there is no significant relation between executive compensation transparency and listing on Novo Mercado.

2. Literature Review

Discussions involving corporate governance practices are not new in international literature. In the first half of the 20th century, large companies were already being studied in order to understand their decision making process. In this context Berle and Means (1932) published their important landmark study based on U.S. data, where they found empirical evidence of a positive correlation between dispersed stock and company size, and a negative correlation between dispersed stock and company performance.

The separation between control and ownership allows shareholders to participate in an incentive model that ensures the desired performance level. The agency theory analyzes the conflicts and costs resulting from the separation of ownership and control. The agency problem occurs when management makes decisions for the purpose of maximizing personal gain and not the wealth of all shareholders (Murphy (1999)). Understanding and debating this problem has been the main theme of the agency theory, which, since the 1960's, has been focused on various relationships and conflicting interests between agents that occur within companies (Camargos & Helal (2007)).

Good corporate governance has the objective of providing a framework of practices capable of maximizing shareholder value by reducing the agency problem. La Porta et al. (1998, 2000, 2002) show that shareholder protection is associated with higher company value. They argue that when shareholder rights are protected investors are willing to pay more for the company's shares.

Brick, Palmon and Wald (2006) show evidence of cronyism or patronage between directors and CEOs. There is a positive correlation between the compensation of the directors and the CEOs of Chinese companies. In addition, they indicate there is a correlation between compensation and the required monitoring effort by the directors.

In governance literature, several aspects are already recognized by the market as constituting good practices, such as the presence of independent members on the board, more rights for shareholders, and less separation between control and ownership. Executive compensation, however, still causes considerable controversy and provides ample opportunity for research, especially in the Brazilian market.

According to Murphy (1999), the acceptance of the agency theory in the 1980's started a new discussion phase regarding executive compensation. The author argues that the theme is controversial due to the perception that, with absent adequate controls, managers may establish their own salaries in the company.

Jensen and Murphy (1990) show that contracts could exist with mechanisms capable of aligning the interests of the parties if shareholders had access to complete data regarding the activities of the executives and investment opportunities, ensuring that the actions taken maximized the desired objectives.

In some companies compensation is decided by outside board members to avoid the intrinsic conflict of interest pertaining to this decision. The premise is that even in companies with better governance, executives are able to exert influence on the level and type of their compensation (Murphy (1999)).

Jensen et al. (2004) conduct a study of the history of executive compensation in the U.S. and conclude that corporate governance and salary policies are very closely linked. In other words, poor governance frameworks may lead to compensation policies that may destroy the value of the company. This results from the fact many decisions on the subject are made by the members elected to the board of directors rather than by the shareholders' meetings.

The authors argue that although compensation is an important tool for aligning the objectives of executives and shareholders, it may contribute to the agency costs under poor management conditions. This conclusion is not original. Berle and Means (1932) were the first to argue that an executive director may control or even influence the board to obtain personal compensation at levels deemed excessive.

According to this rationale, companies with higher agency costs should exhibit typically higher compensation levels due to skewed data, and consequently should report weaker financial and accounting results. This conclusion is supported by Core, Holthausen and Larcker (1999), who show a negative correlation between compensation and company performance.

The recent series of corporate scandals elicited new questions regarding the efficiency of executive compensation structures based on company results (Hill (2006)). This movement led investors to re-engage in the effort to ascertain their rights as shareholders and to urge companies to improve the quality of data provided to them.

Firth et al. (1999) showed that in many countries executive salaries are not disclosed to shareholders, and as late as 1999 there was not a single country where all compensation details were disclosed by law.

In Brazil, the situation is the same. There are few surveys regarding executive compensation in that country, due to the lack of transparency and aggregated nature of the data. For example, until 2009, it was not possible to differentiate between the compensation of the executive directors and the board members, and to separate fixed and variable compensation.

In one of the few surveys on the subject, Funchal (2005) analyzes the determinants of executive compensation in Latin American companies with ADRs. The result shows that company performance and corporate governance do not influence executive compensation. On the other hand, the size of the company is positively correlated with executive compensation.

Camargos and Helal (2007) analyze the influence of company performance and corporate governance on executive compensation of Brazilian companies with ADRs. They find a significant correlation between executive compensation and the financial performance of the company.

Despite a consensus that current rules for disclosing executive salaries are insufficient, the proposal for individual disclosure of the amounts has been quite controversial. The two CVM regulations on the subject, Resolution 560/2008 and Resolution 480/2009, are being challenged (even in court) by Brazilian companies opposed to the disclosure of their executive's salaries. The purpose of this study is precisely to determine if companies with better governance practices engage in higher transparency when disclosing their executive compensation data.

3. Data and Methodology

The sample includes 238 Brazilian companies listed on the BM&FBovespa in 2008. It is important to note that our sample is significantly larger than those used in previous studies regarding executive compensation in Brazil, which usually only analyze companies with ADRs.

We have chosen 2008 to perform the study, because it is a crucial year regarding executive compensation in Brazil, because it coincides with the issue of CVM Resolution 560/2008. This law stipulates that companies should disclose the compensation for key management personnel overall and for each of the following categories: short-term benefits, post-employment benefits, other long term benefits, employee termination benefits, and stock-based compensation.

Company data regarding executive compensation information is obtained from the CVM, via various corporate documents (annual reports, financial statements and their explanatory notes, minutes from general and extraordinary shareholders' meetings etc.). The economic-financial data from the companies are obtained from Economatica database.

From the data obtained from CVM archives, we develop an original index named *TranspRem* for the purpose of measuring the degree of transparency in executive compensation disclosed by the companies. The *TranspRem* is measured through a questionnaire comprised of 6 questions, which relate to the compensation categories specified in CVM Resolution 560/2008: short-term benefits, post-employment benefits, other long-term benefits, employee termination benefits, stock-based compensation, and separation of compensation for the Board of Directors and Executive Officers.

Each compensation category is represented by a dummy variable that takes a value of 1 when the company has disclosed that compensation item and a value of 0 otherwise. For example, if the company discloses short-term benefits, the *BenST* variable is designated as 1. The *TranspRem* index is the sum of the dummy variables, and may vary from 0 (minimum transparency) to 6 (maximum transparency). Table 1 shows the *TranspRem* index questions.

Table 1. Transparency Index for Executive Compensation

The transparency index for executive compensation (TranspRem) is comprised of 6 questions regarding the compensation categories contained in the CVM Resolution 560/2008: short-term benefits, post-employment benefits, other long-term benefits, employee termination benefits, stock-based compensation and separation of compensation for the board of directors and executive directors. Each compensation category is represented by a dummy variable with value 1 when the company discloses that item of compensation and 0 otherwise. The TranspRem index is the sum of the dummy variables, and may vary from 0 (minimum transparency) to 6 (maximum transparency).

Compensation Item	Dummy
1. Does the company disclose **short-term benefits** (wages, salaries and social security contributions, paid leaves, profit sharing and bonuses, health plan, housing, cars, and free or subsidized goods or services)?	BenST
2. Does the company disclose **post-employment benefits** (pensions, other retirement benefits, post-employment life insurance and post-employment health plans)?	BenPos
3. Does the company disclose **other long-term benefits** (leaves for time of service, anniversary of service compensation or other benefits for time of service, long term disability benefits, profit sharing, bonuses and future compensation)?	BenLT
4. Does the company disclose **employee termination benefits**, among them, benefits when leaving the company?	BenTerm
5. Does the company disclose **stock-based compensation** (stock bonuses and/or stock options)?	BenStock
6. Does the company disclose **separate compensation for the board of directors and executive officers**?	BenSep

To measure the quality of governance in the companies we used two variables: listing on the governance levels of BM&FBovespa (Level 2 and Novo Mercado), and listing on U.S. stock exchanges (ADR Level 2 and 3). We choose to use only the most advanced levels of these two markets, since they contain the most stringent regulations regarding corporate governance. The use of ADRs has the purpose of evaluating whether the rules of the U.S. exchanges and of the Securities and Exchange Commission (SEC) are more efficient than the Brazilian regulations regarding executive compensation.

First we perform a difference-in-means test to assess whether companies with better governance (ADRs Level 2 and 3, and BM&FBovespa Level 2 and Novo Mercado) have higher transparency in disclosing executive compensation (larger *TranspRem*).

Then, we run a cross-sectional regression to analyze the relation between executive compensation transparency and good governance practices, including different firm characteristics as control variables. The model is estimated according to the following equation:

$$TRANSPREM = \gamma_0 + \gamma_1 ADR + \gamma_2 N2NM + \gamma_3 VOT + \gamma_4 VOT/CF + \gamma_5 SIZE + \gamma_6 LEV + \gamma_7 P/B + \gamma_8 ROA + \gamma_9 TANG + \gamma_{10} FOR + \gamma_{11} GOV + \gamma_{12} FAM + u$$

where *TRANSPREM* is the transparency index for executive compensation shown in Table 1, *ADR* is a dummy variable with value 1 when the company lists ADRs levels 2 or 3 ADRs, *N2NM* is a dummy variable with value 1 when the company is listed on level 2 or Novo Mercado of BM&FBovespa, *VOT* is the voting capital owned by the controlling shareholder, *VOT/CF* is the ratio between voting capital and total capital owned by the controlling shareholder, *SIZE* is the size of the company (logarithm of total asset), *LEV* is firm leverage (financial liabilities/total assets), *P/B* is the price-to-book (ratio between market value and the book value of the shares), *ROA* is the return on assets (ratio between operating profit and total assets), *TANG* is asset tangibility (ratio between fixed assets and total assets), *FOR* is a dummy variable that indicates whether the largest shareholder is foreigner, *GOV* is a dummy variable that indicates whether the largest shareholder is the Government, and *FAM* is a dummy variable that indicates whether the largest shareholder is an individual or family group.

In addition to running the model with the consolidated executive compensation transparency index (*TranspRem*), we also estimate the above regression using each of the 6 compensation categories: short-term benefits (*BenST*), post-employment benefits (*BenPos*), other long-term benefits (*BenLT*), employee termination benefits (*BenTerm*), stock-based compensation (*BenStock*) and separation of compensation for the board of directors and executive directors (*BenSep*). The purpose of this test is to measure how the disclosure of each one of these items is individually impacted by the governance rules to which the company is subjected.

4. Results

Table 2 exhibits the descriptive statistics of the variables used in this study. The companies in our sample have an average (median) compensation transparency index of 1.96 (2.00) against a total of 6 points possible. This low result is somewhat expected and anticipated from prior studies, which have always indicated that the difficulty in acquiring such data has been the limiting factor for doing research on executive remuneration in Brazil.

Table 2. Descriptive Statistics of the Variables

Descriptive statistics of the variables used. The definition of the variables is shown in Section 3.

Variable	Average	Median	Stand. Dev.	Min.	Max.
TranspRem	1.96	2.00	1.73	0.00	6.00
BenST	0.57	1.00	0.50	0.00	1.00
BenPos	0.46	0.00	0.50	0.00	1.00
BenLT	0.19	0.00	0.39	0.00	1.00
BenTerm	0.13	0.00	0.33	0.00	1.00
BenStock	0.37	0.00	0.48	0.00	1.00
BenSep	0.25	0.00	0.44	0.00	1.00
ADR	0.11	0.00	0.32	0.00	1.00
N2NM	0.40	0.00	0.49	0.00	1.00
VOT	51.06	51.15	28.78	0.00	100.00
VOT/CF	1.30	1.00	0.66	0.00	4.43
LEV	0.55	0.24	0.20	0.00	0.70
P/B	1.43	0.95	1.88	0.00	18.29
ROA	0.07	0.06	0.08	-0.16	0.36
TANG	0.31	0.29	0.23	0.00	0.90
SIZE	14.37	14.29	1.62	9.87	19.81
FOR	0.14	0.00	0.35	0.00	1.00
GOV	0.05	0.00	0.23	0.00	1.00
FAM	0.42	0.00	0.50	0.00	1.00

The compensation transparency index has a wide variation range. The company with lowest transparency has a *TranspRem* value of 0, and the company with the highest transparency has a *TranspRem* value of 6. We can observe, therefore, a large disparity in the transparency of the data provided.

The data regarding short-term benefits, post-employment benefits and stock-based compensation are the most frequent, appearing in 57%, 46% and

37% of the companies respectively. Long-term benefits and employee termination benefits appeared in only 19% and 13% of the companies, respectively.

Compensation for board members and executive directors is shown separately by only 25% of companies. This is a low number when we consider the importance of this data for investors. Due to the clear distinction between the attributions of these two functions, there are studies that recommend ways to provide incentives to them in a manner that reduces the agency problem and maximizes value creation. Since each function has a purpose, the incentive mechanism should be developed in differentiated fashion.

On average, the largest shareholder has 51% of the voting rights and 1.30 votes for each share owned. We have also observed that on average 14% of the companies are controlled by foreign investors, 5% are government-controlled, and 42% are family-controlled. These results are consistent with Brazilian literature (Leal and Carvalhal da Silva (2007)).

Table 3 shows the correlation between the variables. It may be observed that *TranspRem* is positively correlated (0.33) with *ADR*, but there is no correlation (0.02) with *N2NM*. This result seems to indicate that U.S. regulations are stricter than those of the Novo Mercado of BM&FBovespa regarding disclosure of executive compensation data. This conclusion is plausible, given that the Sarbanes-Oxley Act requires a certain detailing of executive compensation, while the Novo Mercado of BM&FBovespa does not contain specific rules for executive compensation.

Table 3. Correlation Matrix

Correlation matrix for all variables used in the study. The definition of the variables is shown in Section 3.

	Transp Rem	Ben ST	Ben Pos	Ben LT	Ben Term	Ben Stock	Ben Sep	ADR	N2 NM	VOT	VOT /CF	LEV	P/B	ROA	TANG	SIZE	FOR	GOV	FAM
TranspRem	1.00																		
BenST	0.74	1.00																	
BenPos	0.74	0.57	1.00																
BenLT	0.72	0.36	0.50	1.00															
BenTerm	0.63	0.31	0.31	0.53	1.00														
BenStock	0.69	0.43	0.29	0.46	0.40	1.00													
BenSep	0.38	0.10	0.14	0.07	0.13	0.08	1.00												
ADR	0.33	0.26	0.25	0.30	0.18	0.20	0.10	1.00											
N2NM	0.02	-0.01	-0.16	0.06	0.00	0.19	0.02	-0.05	1.00										
VOT	0.00	0.03	0.06	0.04	-0.02	-0.02	-0.11	0.10	-0.35	1.00									
VOT/CF	0.04	0.01	0.09	0.07	-0.03	0.04	-0.04	0.16	-0.21	0.45	1.00								
LEV	-0.07	-0.07	-0.05	-0.03	-0.02	-0.05	-0.04	-0.02	-0.06	0.00	0.12	1.00							
P/B	0.16	0.10	0.21	0.18	-0.01	0.05	0.08	-0.01	0.00	0.04	-0.04	-0.05	1.00						
ROA	0.17	0.25	0.25	0.08	0.04	-0.04	0.05	-0.01	-0.02	0.08	0.07	-0.14	0.27	1.00					
TANG	0.05	0.12	0.18	0.00	0.06	-0.13	-0.03	0.11	-0.22	0.13	-0.02	0.17	-0.04	0.07	1.00				
SIZE	0.44	0.40	0.44	0.24	0.17	0.25	0.14	0.46	0.02	0.00	0.05	-0.17	0.07	0.17	0.24	1.00			
FOR	0.04	0.06	0.04	0.02	0.07	-0.08	0.05	-0.11	-0.03	0.05	-0.10	-0.03	0.07	0.15	0.17	0.06	1.00		
GOV	-0.01	0.10	0.11	-0.12	-0.09	-0.14	0.07	0.15	-0.08	0.05	0.07	-0.02	-0.08	0.09	0.30	0.27	-0.10	1.00	
FAM	-0.14	-0.19	-0.18	0.04	-0.10	-0.03	-0.07	-0.12	-0.12	0.14	0.22	0.08	-0.10	-0.14	-0.11	-0.33	-0.34	-0.21	1.00

In addition, *TranspRem* is positively correlated with the size of the company (0.44), ROA (0.17) and P/B (0.16). This result is line with Brazilian studies showing a positive correlation between size, performance and governance (Leal and Carvalhal da Silva (2007)). Regarding the origin of the controlling shareholder, family-owned companies tend to show less executive compensation transparency.

We could assume that highly leveraged companies would be more interested in adopting better levels of compensation transparency in the market, since they require more external funding. Surprisingly, however, a slightly negative correlation is observed between transparency of compensation and leverage.

Overall, the main result of Table 3 is the positive correlation between transparency of executive compensation and ADR listing and lack of (or weak) correlation with Level 2 or Novo Mercado of BM&FBovespa.

Table 4 shows the results for the difference-in-means test. The results show that companies with ADR listings have a higher transparency index (3.56) than that of companies without ADRs (1.76), and this difference is statistically significant at the 1% level. This higher transparency by companies with ADRs is shown to be significant for all compensation categories, except for the separation of compensation for the board of directors and executive directors.

Table 4. Transparency of Executive Compensation and Corporate Governance

Difference-in-means test of compensation transparency (*TranspRem* and its 6 items separately) between companies with good and poor governance practices, classified according to the listing in the U.S. (ADRs levels 2 and 3) and on the governance levels of BM&FBovespa (level 2 and Novo Mercado). The definition of the variables is shown in Section 3. ***, **, and * denote statistically significant difference at 1%, 5% and 10%, respectively.

Variable	Companies with ADR	Companies without ADR	Companies on N2NM	Companies outside N2NM
TranspRem	3.56***	1.76	2.01	1.93
BenST	0.93***	0.52	0.56	0.57
BenPos	0.81***	0.42	0.36	0.53***
BenLT	0.52***	0.15	0.22	0.17
BenTerm	0.30**	0.10	0.13	0.13
BenStock	0.63***	0.33	0.48***	0.29
BenSep	0.37	0.24	0.26	0.25
# of Firms	27	211	96	142

Companies listed on Level 2 or Novo Mercado of BM&FBovespa does not have significantly higher compensation transparency index. We can observe that only the transparency for stock-based compensation is significantly higher on Level 2 or Novo Mercado. On the other hand, these companies tend to be significantly less transparent regarding disclosure of post-employment benefits. Overall, the difference-in-means tests suggest that the corporate governance differentials of BM&FBovespa do not result in greater executive compensation transparency, contrary to what occurs with companies with Brazilian companies traded in the U.S.

Table 5 exhibits the cross-sectional regression models to assess the relation between compensation transparency and governance practices. The results indicate that companies with ADRs exhibit greater executive compensation transparency. This result is statistically significant at the 1% level. On the other hand there is no significant relation between executive compensation transparency and Level 2 or Novo Mercado of BM&FBovespa. This result is coherent with those of Table 4, suggesting that listing on the governance levels of BM&FBovespa does not ensure greater transparency regarding executive compensation.

Table 5. Cross-Section Regression Models on the Relation between Transparency of Executive Compensation and Corporate Governance

Cross-sectional regressions in which the dependent variable is compensation transparency. (*TranspRem*). The definition of the variables is shown in Section 3. The p-values, adjusted by heteroscedasticity, are reported in parentheses. ***, **, and * indicate statistical significance at 1%, 5% and 10%, respectively.

Variable	I	II	III
Constant	-3.36*** (0.00)	-4.38*** (0.00)	-3.74*** (0.00)
ADR	0.93*** (0.01)		0.96*** (0.01)
N2NM		0.03 (0.91)	
VOT	0.01 (0.52)	0.01 (0.24)	0.01 (0.54)
VOT/CF	-0.24 (0.52)	-0.38 (0.33)	-0.22 (0.58)
LEV	0.01 (0.31)	0.01 (0.18)	0.01 (0.41)
P/B	0.11*** (0.01)	0.11*** (0.01)	0.10** (0.02)
ROA	1.33 (0.28)	0.85 (0.48)	1.51 (0.24)
TANG	-0.37 (0.47)	-0.39 (0.48)	-0.16 (0.76)
SIZE	0.38*** (0.00)	0.48*** (0.00)	0.41*** (0.00)
FOR			0.06 (0.86)
GOV			-0.93** (0.03)
FAM			0.01 (0.98)
R^2 adj	0.21	0.19	0.21

Executive compensation transparency is positively related with firm size and P/B ratio. This result is consistent with Leal and Carvalhal da Silva (2007), who show that size and firm value have a positive correlation with governance. Regarding the origin of the controlling shareholder, the results of the third model indicate that State-owned companies exhibit lower executive compensation transparency. One possible explanation for this result is derived later in this section, when analyzing the transparency of each compensation component separately.

Table 6 shows the results of the cross-sectional regressions using as dependent variables each of the 6 items of *TranspRem* (short-term benefits, post-employment benefits, other long-term benefits, employee termination benefits, stock-based compensation and separate disclosure of compensation for the board of directors and the executive directors). In Table 6, we include only the ADR as a proxy for governance, since the results of Table 5 indicate there is no significant relation between *TranspRem* and N2NM.

Table 6. Cross-Section Regression Models on the Relation between Transparency of Each Executive Compensation Component and Corporate Governance

Cross-sectional regressions where the dependent variables are the 6 items disclosed for executive compensation (short-term benefits, post-employment benefits, other long-term benefits, employee termination benefits, stock-based compensation and separate disclosure of compensation for the board of directors and executive directors). The definition of the variables is shown in Section 3. The p-values, adjusted by heteroscedasticity, are reported in parentheses. ***, **, and * indicate statistical significance at 1%, 5% and 10%, respectively.

Variable	Trans Rem	Ben ST	Ben Pos	Ben LT	Ben Term	Ben Stock	Ben Sep
Constant	-3.74*** (0.00)	-0.85*** (0.01)	-0.99*** (0.00)	-0.56* (0.06)	-0.15 (0.51)	-0.86** (0.02)	0.04 (0.90)
ADR	0.96*** (0.01)	0.19** (0.02)	0.28*** (0.00)	0.30*** (0.01)	0.15 (0.12)	0.11 (0.31)	0.09 (0.39)
VOT	0.01 (0.54)	0.00 (0.95)	0.07*** (0.01)	0.01 (0.32)	0.01 (0.43)	0.01 (0.85)	0.01 (0.61)
VOT/CF	-0.22 (0.58)	-0.01 (0.98)	-1.35* (0.06)	-0.09 (0.40)	-0.09 (0.33)	-0.01 (0.99)	-0.11 (0.31)
LEV	0.01 (0.41)	0.01 (0.79)	0.72*** (0.00)	0.01 (0.24)	0.01 (0.77)	0.01 (0.44)	0.01 (0.70)
P/B	0.10** (0.02)	0.01 (0.47)	0.07 (0.17)	0.03** (0.03)	0.01 (0.15)	0.01 (0.55)	0.01 (0.35)
ROA	1.51 (0.24)	0.90*** (0.01)	0.57 (0.76)	0.12 (0.72)	0.09 (0.77)	-0.41 (0.23)	0.22 (0.54)
TANG	-0.16 (0.76)	0.05 (0.76)	1.56** (0.02)	-0.05 (0.65)	0.07 (0.49)	-0.28* (0.06)	-0.14 (0.31)
SIZE	0.41*** (0.00)	0.09*** (0.00)	1.20*** (0.00)	0.05*** (0.01)	0.03* (0.07)	0.10*** (0.01)	0.03 (0.19)
FOR	0.06 (0.86)	-0.01 (0.93)	0.05 (0.17)	0.08 (0.30)	0.04 (0.67)	-0.12 (0.27)	0.11 (0.20)
GOV	-0.93** (0.03)	-0.07 (0.51)	-0.72 (0.22)	-0.26*** (0.00)	-0.24*** (0.00)	-0.43*** (0.00)	0.16 (0.31)
FAM	0.01 (0.98)	-0.06 (0.42)	0.71*** (0.01)	0.12** (0.05)	-0.03 (0.55)	-0.02 (0.78)	0.04 (0.51)
R^2 adj	0.21	0.15	0.19	0.15	0.03	0.11	0.05

In general, the results of Tables 5 e 6 are similar. The results indicate that companies with ADR have higher executive compensation transparency, especially short-term benefits, post-employment benefits, and other long-term benefits. There is no significant relation between ADR and employee termination benefits, stock-based compensation and separate disclosure of compensation for the board of directors and executive directors. The positive relation between compensation transparency and firm size continues to be quite significant.

Observing the compensation transparency of State-owned companies, there is a negative relation with disclosure of long-term benefits, employee termination benefits and stock-based compensation. In the context of Brazilian state-owned companies, these results seem plausible. Employees at State-owned companies are admitted by way of public competitive exams, and, although subject to the Consolidated Labor Laws (CLT), enjoy a certain level of job security. Therefore, there are generally no benefits for employee termination.

Regarding stock-based compensation, it can be an important means for aligning the interests of management and shareholders (Jensen and Murphy (1990)), but, in the case of State-owned companies, there are no incentives for the adoption of this type of compensation. Therefore, lower transparency regarding stock-based compensation in these companies is due to the fact such benefit simply does not exist.

This explanation for the lack of performance-based compensation is consistent with the international literature. Firth, Fung and Rui (2006) demonstrate that when the largest shareholder is the State, the CEO's compensation is not tied to the company's performance. The research was conducted with Chinese companies, but it is not unrealistic to presume that the same occurs in Brazil.

5. Conclusion

Recent financial scandals and the international financial crisis that began in late 2008 have intensified the discussion of executive compensation, particularly variable compensation. In the international literature, there are various studies analyzing executive compensation.

Although the theme is currently popular, there is little academic research about executive compensation in Brazil. One of the greatest impediments to research in this area in that county is the difficulty in obtaining executive compensation data. In 2008, the Brazilian Securities and Exchange Commission (CVM), through Resolution 560/2008 and Resolution 480/2009, started to require greater transparency of executive compensation by publicly traded companies.

This study analyzes the relation between governance practices and transparency of executive compensation in Brazil. We are interested to verify whether companies with better governance practices have higher disclosure of executive compensation. The significant innovation of this study is the creation of a transparency index for executive compensation.

The listing of companies in the U.S. through ADRs and on Novo Mercado of the BM&FBovespa were used as proxy for good governance practices. Our results indicate that companies with ADRs tend to have higher transparency of executive compensation. On the other hand, the corporate governance differentials of the BM&FBovespa do not result in greater transparency regarding executive compensation. This conclusion is plausible, given that the Sarbanes-Oxley Act requires a certain level of detail for executive compensation, while the Novo Mercado of BM&FBovespa does not contain specific regulations regarding the disclosure of executive compensation.

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