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Article

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Prevalence of Different Approaches to Remuneration in the Czech Republic

Kateřina Procházková, Peter Mičák

Abstract

Purpose of the article: The presented paper analyses the application of different methods and approaches to the remuneration of senior executives in the manufacturing industry.

Methodology/methods: The presented article is based on a combination of the analysis of case studies, annual reports, and primary research consisting of in-depth interviews and a questionnaire survey.

Scientific aim: The paper analyses the prevalence of three different remuneration methods for senior executives. The first is the remuneration through option and stock programs, the second is the value-based approach to remuneration, and the last is the remuneration linked to traditional indicators such as company earnings. Each of these methods has advantages and disadvantages described in the paper.

Findings: The limiting factor for more significant deployment of senior executives' remuneration through option and stock programs is, above all, the low level of development of the capital market in the Czech Republic. Another analysed method of remuneration is to link it with the Economic Value Added indicator, *i.e.* with the so-called value-added approach to remuneration. Unfortunately, this approach is not very widespread due to the necessary complex change of accounting data. The authors' research results suggest that the most common remuneration of senior executives is based on a traditional connection with the company's earnings, which is often considered inappropriate and outdated nowadays.

Conclusions: Our research implies that the most prevalent senior executives' remuneration in the Czech Republic is linked to indicators that can often be described as outdated nowadays. Therefore, the paper describes the possible reasons for using these indicators.

Keywords: Remuneration, Contract Theory, Senior Executive, Bonus Bank, Economic Value Added, Earnings

JEL Classification: M15, M21

Introduction

Employee evaluation and remuneration are critical areas in corporate governance. Each employer needs to find the most appropriate way of remuneration, which would not only ensure fairness but also support the employee's motivation. This paper focuses on senior executives in large companies in the manufacturing industry. They are a specific group of employees, as the consequences of their decisions can seriously impact the company's performance, and they might take several years to manifest themselves. That is why we decided to research approaches to their remuneration in more detail.

If the managers are invested in the company's financial results, then it is highly likely that their actions will contribute to the company's development in this direction because by doing so, they can influence their remuneration (Sutrisno, Ulfah, 2020). In this context, the term "pay for performance" very often appears in the literature (Milkovich *et al.*, 2013), which means that a manager's remuneration should always reflect the actual quality of their work performance and, at the same time, their contribution to achieving set business goals, in both short-term and long-term (Armstrong, 2009; Garcia-Lacalle *et al.*, 2020). At the same time, their performance should always be evaluated against relevant factors that the managers may influence by their actions and decisions, as they do not have the opportunity to influence external conditions like, for example, the general market situation (Holmstrom, 1982; Na, 2020).

According to some economists, contract theory is the so-called "sage stone" in economics. Ross (1973) and Jensen, Meckling (1976) were the first to deal with this theory. This theory examines the goals of individual interest groups in the company (owners and management), looks for their connections or contradictions, and primarily deals with how these different goals affect the company itself. Jensen, Meckling (1976) define

representation as "a relationship in which a principal (one or more persons) hires agents (one or more persons) to manage their affairs, which includes the delegation of decision-making powers." Since its inception, the theory has been very dynamically adopted because it can be applied in multiple fields. Many authors work with this theory in the field of microeconomics, for example, Gintis (2000), Solomon, Solomon (2004), Bolton, Dewatripont (2005), Modau (2013), Tricker (2019). Although the theory clarifies the vital behaviour of individuals, there are opponents to this theory. The most prominent opponent is Charles Perrow from Yale University (Perrow, 1986), who writes that the theory is "trivial, inhuman, and even dangerous." The main idea of his critique is that human relationships cannot simply be empirically tested and do not sufficiently explain actual events.

This paper aims to compare several approaches to the remuneration of senior executives in large companies in the manufacturing industry. The first analysed method is remuneration through option and stock programs; the second analysed method is remuneration through a value-based approach, and the third and last analysed method links remuneration to traditional intracompany indicators. The theoretical part will describe the positives and negatives of each of these remuneration methods. The follow-up objective is to determine in the analytical part of this paper the prevalence of these different approaches to remuneration within the Czech Republic. Finally, in the discussion and conclusion part of this paper, a research summary, its implications, and the outline for possible future research will be presented.

1. Remuneration linked to option and stock policies

Option and stock policies are based on the principle of a financial option. It is a financi-

al market instrument based on an option contract (e.g. a securities purchase agreement) (Pears, Robinson, 2015). The significant positive aspect of this form of remuneration includes aligning management's interests with the owners' interests and reducing agency costs. When concluding the option contract, the purchase price of the shares is agreed upon. Therefore, if there is an appreciation in the market price of shares during the period, this appreciation is a bonus to the remunerated manager (Shields *et al.*, 2016; Czech Institute of Directors, 2018).

If the remuneration is linked to the value of the shares, increased caution is required by the supervisory authorities for possible tampering with the financial statements. The primary purpose of tampering with financial statements may consist in an unjustified increase in the remuneration of senior executives, as these machinations are reflected in the value of company shares. As Fried, Shilon (2011) point out, managers' remuneration and bonuses are often tied only to short-term measures. The effort to achieve excellent short-term results for increasing own rewards has distorted and reduced the motivation of strategic management, *i.e.*, long-term management (Kovanicová, 2008).

These machinations and the collapse of some companies have led to a significant tightening of remuneration control (OECD, 2009; OECD, 2019; Guido, Ungueanu, 2014). Rules for publication of a remuneration plan have been defined, legislation for listed companies has been tightened, and a more rigorous audit has been carried out (Thomas *et al.*, 2012). As a response to this problem, the European Union has issued recommendations described in the so-called Larosière Report. The regulations of world organisations culminated in the adoption of CRD III (Directive 2010/76/EU, 2010), which aimed at preventing undue risk-taking that affects the remuneration and incentives of the most influential employees.

The fraud and bankruptcy of large

companies have shaken the global economy, and therefore this method of remuneration has been regulated by legislation in all large economies. In the US, there have been several significant changes in this regard. The first change is related to the adoption of new listing rules on the New York Stock Exchange, which increased the independence of the remuneration committee (the possibility of two roles in one person was prevented, which meant the CEO or manager could no longer decide on his remuneration) (Guido, Ungueanu, 2014; Fried, Shilon, 2011). The second change is related to the 2010 law (Dodd-Frank Act). Following the example of the United Kingdom, the "say on pay" rule was established, *i.e.* the possibility for shareholders to express their opinion on the remuneration of board members (Thomas *et al.*, 2012). The third change in the law introduced the obligation for the remuneration committee members to be independent persons (*i.e.* they cannot be members of the administrative bodies for which the committee approves remuneration). The fourth change concerned shareholders. An obligation to provide them with information on remuneration has been established (Weil, Gotshal & Manges LLP, 2014).

Companies in the United Kingdom are also implementing very similar legislation in remuneration systems. In addition, information on remuneration for UK companies is disclosed in two stages. In the first instance, each joint-stock company is obliged to publish the aggregate remuneration of administrative bodies and management members, namely, the relative amount of fixed performance remuneration and income from shares or other benefits. Stock companies listed on a stock exchange then have to publish a special report on remuneration, which is subject to the "say on pay" rule (Thomas *et al.*, 2012). While a monistic system is applied in these economies, a dualistic structure system is used in Germany and the Czech Republic. In addition to the Board of Directors, the

body of the Supervisory Board is also elected. In both economies, the supervisory body can be considered the superior body of the board of directors (Weil, Gotshal & Manges LLP, 2014).

Another negative aspect of this method of remuneration can be seen in the revaluation of shares. For illustration, the following example can be used: a manager acquires a stock option at a specified time. If the company's value, and therefore the stock's market value, falls significantly, then the premium should be negative. However, it is possible to observe a reduction in the exercise price per option in practice so that the premium is positive. This would deny the whole motivation system through option programs (Avinash, Huey-lian, 2004).

2. Remuneration linked to value-based approach

The remuneration systems associated with option and stock policies carry significant risks that destabilise the whole concept. Therefore, the premise will now be verified whether the remuneration systems linked to the value-based approach to business management and thus to the EVA (Economic Value Added) concept are more stable and can better reconcile the interests of owners and management. The basic paradigm of this method of remuneration is that in these remuneration systems, managers are rewarded for what brings benefits to the shareholders of the company (Janeček, Hynek, 2010).

Many studies show that linking a CEO's remuneration to their performance positively impacts the company and their motivation, and it is not just new studies (Lawler, 1971; Zenger, 1992; Gerhart, Fang, 2014). Pay-for-performance methodologies are part of almost all compensation systems and are referred to as rewards, which vary depending on the individual or organisational performance (Milkovich *et al.*, 2013).

Pay-for-performance remuneration can be divided into motivational and sorting effects (Cadsby *et al.*, 2007; Gerhart, Fang, 2014). The motivational effect reflects the direct influence of the amount of remuneration on the employee's performance. The classification effect then reflects the fact that pay-for-performance plans affect the quality of jobseekers (Rynes *et al.*, 2005) and, at the same time, the level of performance of those leaving the organisation (Salamon, Hom, 2005). Although remuneration through pay-for-performance systems is perceived positively, several studies describe the inefficiency of this form of remuneration (*e.g.* Pfeffer, 1998; Beer, Cannon, 2004).

Linking the manager's remuneration with his performance has been used in companies for a long time. Thanks to this, several studies have been published which demonstrate or refute a positive link to the performance of the whole enterprise. As early as 1995, Gibson (1995) reported a study showing that the average net return on money invested in pay-for-performance programs was 134%. Another "Business: Pay Purview (1998)" survey found that those companies that actively used the pay-for-performance system showed twice the shareholder return as those that did not use the system (Beer, Cannon, 2004).

According to Stern, Willett (2014), remuneration linked to the Economic Value Added indicator is a suitable option for top management and all other company management positions. To determine what management has achieved, then we would have to filter out the influence of external factors (*e.g.*, development of the business cycle, economy, or industry in which the company operates), which can have up to 85% effect on the company performance Stern, Willett (2014); Deming (1986); Glaser (1993). Management has no way to influence these external factors. Stern, Willett (2014) further state that with remuneration linked to the Economic Value Added indicator, it is possible to pay

management remuneration even during a recession and positively affect their motivation.

The value-based concept, together with the Economic Value Added indicator, helps create strong enough incentives for management to increase shareholder value, which has been reflected in many foreign companies (Young, O'Byrne, 2001). This method of remuneration has also undergone several modifications. Each new version of this remuneration system seeks to eliminate the risks and negatives of the previous form. The most common way to link rewards to the Economic Value Added indicator is through a traditional remuneration system. It is based on two assumptions. The first one being the bonus is paid out after reaching the planned target performance in the given period – its amount is therefore linked to the operating profit and the second one is that the maximum amount of bonus that can be paid out to employees is limited (Vallascas, Hagendorff, 2013).

In the modern version of the bonus model based on the Economic Value Added indicator, the bonus consists of both a target bonus and a fixed percentage of the value of the increment difference, as well as an expected improvement in the value of the Economic Value Added. Thus, the manager will receive the target bonus only when the expected change in Economic Value Added is achieved (Young, O'Byrne, 2001):

$$\text{Bonus} = \text{bonus target} + y\% (\Delta \text{EVA} - \text{EIE}). \quad (1)$$

Where the bonus target equals the bonus earned if the expected improvement in EVA is achieved and EIE equals the expected improvement of EVA.

This remuneration system ensures a close linkage to value creation for business owners. The harmony between owners and management interests is further helped by the bonus bank, in which part of the bonuses is kept for future payment (Young, O'Byrne, 2001; Janeček, Hyněk, 2010). By depositing

part of the manager's remuneration in a bonus bank, the risk of leaving the company is minimised, and at the same time, it leads to long-term managerial thinking and decision-making (Janeček, Hyněk, 2010; Stern Stewart & Co., 2010). A significant part of the manager's bonuses is then exposed to future business risk. If the manager leaves the company, the bonuses accumulated in the bank are taken away from him. This is a sort of fine for the manager for taking the experience and knowledge gained in the company elsewhere (Stern Stewart & Co., 2010).

More substantial leverage of wealth can be seen in a fixed percentage of the bonus from the achieved value of the indicator, which should not be increased or decreased if the achieved results deviate from the planned ones (Stern Stewart & Co., 2010). To better align interests, it is also possible to use part of the deposited bonuses in the bank to cover the company's investment expenses. This will partially reduce the level of risk that managers are otherwise willing to take, as it is not directly their financial resources (Young, O'Byrne, 2001).

One of the main issues of the bonus bank is its concept. If a company does not precisely define whether managers will be rewarded for their performance (results) or their efforts, these two fundamental parameters can very quickly be confused. These issues were recorded mainly during the last global economic crisis in 2009–2012. Companies thus paid bonuses to employees, arguing that "such market developments were not taken into account" (Stern Stewart & Co., 2010). However, it is necessary to realise that this action reduces the effectiveness of this remuneration system, and at the same time, it also reduces the motivation of employees to achieve their maximum performance. The threat is that in the event of another economic crisis, employees could expect bonuses to be paid out again while the company losses deepen significantly.

3. Remuneration linked to traditional indicators

Authors agree that it is not only crucial for an enterprise to achieve the set goals, but an enterprise must retain effective managers (Rana, Rastogi, 2015). The high demand for managers encourages the movement of managers across enterprises, which in recent years has resulted in enterprises investing in the development and retention of these employees, making managerial effectiveness a significant competitive advantage (Ali, Patnaik, 2014). The primary condition for adequate remuneration is performance evaluation. Therefore, objectives must be defined at the level of the whole company and the individual components, which are then developed into objectives for individual employees and their groups. The objectives are based on the company's strategy, which focuses on long-term results and sustainability, but at the same time, are influenced by the employee or work groups. The financial and non-financial criteria for evaluation are adapted to this. The company should use quantitative (financial) measures that incorporate all risks, efficiency and returns and, above all, are linked to the long-term horizon and thus cover the risks associated with the employee's profession. Qualitative (non-financial) measures include achievement of strategic objectives, client/customer satisfaction, management skills, motivation, *etc.* (Directive 2010/76/EU, 2010). Therefore, it is possible to consider measures like earnings, rate of returns, productivity, the value of shares, *etc.*, as inappropriate as they are not linked to the long-term horizon. Another indicator that executives prefer to tie to their remuneration is the company's size. Of course, in addition to increasing remuneration, managing a larger enterprise is also associated with higher prestige (Chalmers *et al.*, 2006). However, if this indicator is monitored from any other than a long-term perspective, there is a threat of misalignment between the interests of management and shareholders.

The most fundamental paradigm of remuneration is the interest of shareholders (owners) in eliminating the costs of representation by reconciling the interests of shareholders and managers (Jensen, Meckling, 1976; Ayunitha *et al.*, 2020). Thus, the aforementioned principal-agent problem (Jensen, Meckling, 1976) comes to the fore again, which in our case points to a conflict in priorities between shareholders and managers. Tying remuneration to indicators that are not linked to the long-term horizon exposes shareholders to the unnecessary risk that the manager will artificially inflate these short-term targets in order to achieve higher remuneration (Blanes *et al.*, 2020).

4. Methods

The research of individual remuneration methods is based on the analysis and subsequent synthesis of information from the annual reports of the selected companies and a survey questionnaire. According to Eisenhardt (1989), qualitative research helps to develop behavioural analysis in a real context and is related to social ties. The paper draws on qualitative data, especially from analysing the collected corporate resources and questionnaire survey. The questionnaire was distributed from March to June 2020. At the time of responding, the analysed companies could not be in liquidation or bankruptcy or be included in the category of start-ups. In the result, 100 large companies (with over 250 employees) from the Czech manufacturing industry completed the questionnaire. The data obtained via a questionnaire were further compared with information obtained from collected corporate resources. The results of the questionnaire survey were complemented by three in-depth interviews with senior business executives. However, the participants in these interviews requested to remain anonymous, and only a brief summary of the interview results will be described in this paper.

The prevalence of remuneration through stock and options policies was found through secondary research. Specifically, companies in the Czech Republic that use or have used this method of remuneration were identified. Subsequently, the annual reports of these companies were analysed and confronted with the Czech realities. The prevalence of remuneration through the value-based approach was analysed from the primary research results. Specifically, descriptive statistical methods were used in the interpretation of the results. The last area analysed was to establish the prevalence of remuneration linked to traditional intracompany indicators. The results are based on a structured questionnaire. Descriptive statistical tools were used to interpret and evaluate the data. Tools of inferential statistics in the form of the phi correlation coefficient were also applied to the selected indicators, chosen due to the dichotomous nature of the data analysed. The IBM SPSS software version 28 was used for statistical analysis.

5. Results

The analytical section of the paper will analyse the occurrence of all three approaches to senior executives' remuneration. The first part will analyse the remuneration through stock and option policies, the second part the remuneration through the value-based approach and the third part will be devoted to remuneration based on traditional intracompany indicators.

5.1 Analysis of stock and option policies

Borisova *et al.* (2018) state that senior executives' remuneration is influenced, inter alia, by the capital and property structure of the company, which is largely influenced by the company's ownership structure. In the Czech environment, a trace of state ownership of companies has been perceptible for a long time, and in some sectors, this trace is

still perceptible today. Businesses that are at least partly owned by the state are subject to media pressure, and therefore senior executives' remuneration for these businesses may be underestimated (OECD, 2015). Accordingly, it is crucial to ensure a high level of transparency regarding the remuneration of board members and top managers. Failure to provide adequate information to the public could result in a negative perception and increase the risk of a negative response to the owner (OECD, 2015).

In privatised companies, senior executives' remuneration is more sensitive to corporate performance, suggesting that their remuneration is structured to exclude controversial gains from option programs (Borisova *et al.*, 2018). The administrative body then decides on the remuneration of the CEO and top management while respecting the rules set by the state. They should ensure that the remuneration of the senior executives is linked to the results of their work and is properly published. In the case of low performance, it is possible to penalise employees through clawback or malus. In addition, they provide the company with the right to withhold and recover remuneration paid in cases of management fraud and other circumstances, such as when a company is required to prepare new financial statements for non-compliance with financial reporting requirements. Many countries have introduced limits on executive remuneration graduated to company size and industry (OECD, 2015).

In the Czech Republic, remuneration through stock and option policies is not yet widely used, mainly due to the underdeveloped capital market. In the Czech environment, ČEZ could be described as a pioneering company which used the stock option policy for the remuneration of its managers. This programme was used from 2001 to the end of 2019. ČEZ is a company that is owned by almost 70% owned by the Ministry of Finance of the Czech Republic (MF ČR, 2020). When this remuneration system was applied,

it was criticised on several occasions by experts and the general public, mainly because of the disproportionately high remuneration of executives and the speculation of managers in the exercise of the option programme. Managers acquired options as an incentive bonus to their salary. As a result, they had the opportunity to repurchase the company's shares at the price they had at the beginning of their participation in the programme. With the share price rising (even assuming the influence of factors beyond management control), they often received millions of Czech crowns in rewards if they exercised their option programmes at the right time. Therefore, effective from 1 January 2020, this share option policy in ČEZ was cancelled. It was replaced by a new system which is stricter. The new method of remuneration strengthens the harmony of the interests of shareholders and beneficiaries by linking the development of the market price of the share, the payment of dividends, and the company's performance. Therefore, beneficiaries will participate in the long-term growth and decline in shareholder value (ČEZ, 2020).

The new remuneration system is based on the performance units assigned to managers each year. Their number will be based on the defined annual value of the long-term remuneration and the share price before the allotment. An independent advisor, selected by the Supervisory Board, will evaluate the TSR (total shareholder return) performance indicator one year after the allotment, which reflects changes in the market value of the company's marketable shares over the assessed time plus the value of dividends paid over the same time horizon. The given indicator will then be relatively compared to other companies associated with the current stock index STOXX Euro 600 Utilities. According to the evaluation of this performance indicator, the number of assigned performance units to the manager is adjusted, followed by a holding period of two years. The remuneration will then be paid three years after the

allotment, and the amount of remuneration will be based on the adjusted number of performance units after evaluating the TSR, the share price at the end of the holding period, and the number of dividends paid during the holding period. Each year, the Supervisory Board may make a partial change in the programme's parameters to reflect the current situation in ČEZ and the stock market (ČEZ, 2020). The main idea of this new method of remuneration is for managers (beneficiaries) to bear the risk of a fall in the share price, which will subsequently affect the amount of their remuneration. Thus far, only shareholders have suffered from the decline in the share price, while managers have not lost their value (remuneration) (ČEZ, 2020).

5.2 Analysis of the value-based approach to remuneration and the bonus bank principle

While several studies have shown that the use of a value-based approach to senior executives' remuneration is an appropriate form of remuneration (*e.g.* Gee, 1997; Wallace, 1997; Young, O'Byrne, 2001; Holečková, 2006; Stern, Willett, 2014), in the Czech environment, this form is not widely used. The presumed reason for the low level of linkage of the Economic Value Added indicator to the remuneration of senior executives is the higher level of complexity involved in such linkage. This is because adjustments to the source data from the financial statements are necessary to calculate the indicator.

According to the authors' primary research, the Economic Value Added indicator is monitored by less than 14.6% of the surveyed companies that participated in the primary research. Of the sample of companies that use this indicator to evaluate the company's performance, this indicator affects the level of remuneration of senior managers in only a handful of companies. Furthermore, the primary research did not identify a single company that uses the bonus bank principle. As mentioned in the theoretical part of this

paper, the bonus bank principle helps to reconcile the owner's interests with the manager's interests by deferring part of the remuneration to the manager for future payment. This also aligns remuneration with the long-term horizon in which the consequences of their decisions may manifest themselves.

5.3 Analysis of the remuneration based on traditional indicators

The linkage of remuneration with more traditional earnings indicators is the most prevalent method of remuneration in Czech companies. Of the 100 companies analysed, 82 had at least one of the earnings indicators linked to the remuneration of senior executives, representing a percentage share of 82 %. The earnings indicators analysed were Earnings before interest, taxes, depreciation and amortisation (EBITDA), Earnings before interest and taxes (EBIT), and Earnings after taxes (EAT). Within the analysed sample of companies, EBIT was most frequently linked to remuneration (in 52 cases), followed by EBITDA (in 38 cases), and EAT (in 14

cases). Additional statistical analysis of the three variables using the phi correlation coefficient proves no statistically significant correlation between the variables. This means that although there is a proportion of companies where more than one of the analysed earnings indicators enters into the senior executive remuneration package, in most companies, only one of these three variables is linked to the amount of remuneration.

The respondents were also given the option to choose other indicators that further affect the amount of their remuneration. These indicators are the amount of inventory (INVENT), the value and management of investments (INV_MAN), increasing the market share of the company (MAR_SHA), the fulfilment of KPIs set for the company (KPI_COM) and the fulfilment of KPIs for the specific position of the manager-respondent (KPI_PER). A closer analysis of all variables through descriptive statistics methods can be seen in Table 2.

It can be concluded that variables that emerge more frequently in the analysed data

Table 1. Phi Correlation Coefficient between earnings indicators.

	Value	Sig.
EBITDA * EBIT	-0.155	0.121
EBITDA * EAT	0.040	0.686
EBIT * EAT	-0.189	0.058

Source: Author's own study.

Table 2. Descriptive statistics analysis of selected indicators.

Variable	N	Mean	Std. error mean	95% CI mean lower bound	95% CI mean upper bound	Median	Std. deviation
EBITDA	100	1.38	0.0488	1.28	1.48	1.00	0.488
EBIT	100	1.52	0.0502	1.42	1.62	2.00	0.502
EAT	100	1.14	0.0349	1.07	1.21	1.00	0.349
INVENT	100	1.08	0.0273	1.03	1.13	1.00	0.273
INV_MAN	100	1.12	0.0327	1.06	1.18	1.00	0.327
MAR_SHA	100	1.08	0.0273	1.03	1.13	1.00	0.273
KPI_COM	100	1.26	0.0441	1.17	1.35	1.00	0.441
KPI_PER	100	1.48	0.0502	1.38	1.58	1.00	0.502

Source: Author's own study.

are key performance indicators. In particular, the personnel KPIs (KPI_PER), which are set to each senior executive separately, have a large share of 48%. However, in 26% of the analysed companies, the amount of remuneration is also influenced by the fulfilment of company-wide KPIs (KPI_COM). To a lesser extent, then, the amount of remuneration is influenced by the management of investments (INV_MAN), the company's market share (MAR_SHA), and the amount of inventory (INVENT) indicators.

As part of the research, three in-depth interviews were conducted with senior business executives. These managers wished to remain anonymous, so only a brief summary of the interview results relevant to this part of the results will be described here. The first manager interviewed has been the CEO of a successful business for over 12 years. 15 to 25% of her remuneration is variable. This part of her remuneration is based on meeting criteria in terms of the defined profitability of the business, maintaining a set inventory level and making investments according to an agreed investment plan. The business's performance is primarily monitored through EBITDA (Anonymous, 2020a¹). The second interviewee was the CEO of the company who has been in his position successfully for eight years. 60% of his remuneration is made up of a fixed component, and the remaining 40% is made up of a variable component. 85% of the variable part of his remuneration is made up of the company's overall EBIT, and the remaining 15% is made up of individual tasks that are evaluated yearly (Anonymous, 2020b²). The third and final manager interviewed was the director of a holding company who has successfully managed a business that operates in dozens of countries and has more than 3,000 employees for seven years. In addition to the contrac-

tual part, the director's income is made up of approximately 50% contractual bonus and remuneration. These are made up of 30% by the level of profit achieved, 20% by the success in meeting the technical development plan of the business, and 50% by the achievement of a set dividend level. Although EVA is tracked in the company and is monitored to evaluate the performance of the company, this indicator is not intertwined with the remuneration of the company's managers (Anonymous, 2020c³). The results emerging from the interviews only further indicate the validity of the questionnaire survey results.

As mentioned in the theoretical part of the article, linking senior executives' remuneration with traditional indicators such as company earnings or market share is nowadays considered problematic and outdated. The biggest problem consists in the possibility of short-term manipulation of relevant indicators favouring management.

6. Discussion and conclusion

The presented paper analyses the application of modern methods and approaches to the remuneration of senior executives in the manufacturing industry based on a combination of case studies, annual reports, and primary research. Remuneration of employees is a broad topic that can be analysed and assessed from many perspectives. Based on the analysis of remuneration through stock and option policies and remuneration through a value-based approach in the Czech Republic, it can be stated that neither of these two methods has yet been sufficiently established in the Czech environment.

The first of these important approaches is to link the remuneration of senior executives with stock and option policies. The use of this approach is so far limited in the

¹ Anonymous. 2020a. Interview with the manager by the author, Kateřina Procházková.

² Anonymous. 2020b. Interview with the manager by the author, Kateřina Procházková.

³ Anonymous. 2020c. Interview with the manager by the author, Kateřina Procházková.

Czech Republic, which is mainly due to the lower level of development of the capital market, which fails to guarantee sufficiently compelling conditions for the operation of a remuneration system based on option and stock policies. A major disadvantage of such an approach to remuneration is the fact that, in addition to the activities of managers, the value of shares is largely influenced by several external factors that managers in the company are not able to influence. ČEZ was the representative of the use of option and stock programmes in the remuneration of managers in the Czech Republic, but in 2020 there was a change in the system based on performance units. The problem and the reason for the change was the criticism by the experts and the general public.

Based on the analysis of a sample of large companies, it can be stated that the second of the main modern approaches to the remuneration of managers, namely, the value-based approach to remuneration and the principle of a bonus bank, is not often used in the Czech Republic either. The disadvantage of this approach is the considerable complexity of accounting adjustments, which may discourage the use of the Economic Value Added indicator as a measure of monitoring a company's performance. As part of the research, it was not possible to trace the existence of a company that would follow up on the remuneration of managers based on the Economic Value Added indicator by creating a bonus bank. The reasons may lie in the administrative complexity and low awareness

of the existence of a bonus bank principle.

Based on the primary research, it is possible to say that in the Czech environment, the dominant indicator linked to managers' remuneration is still the company's earnings. The reason for choosing this method of remuneration lies primarily in its simplicity and the possibility of comparing companies with one another. Nevertheless, this method of remuneration has many disadvantages in comparison with remuneration based on option and share policies and remuneration based on the Economic Value Added indicator. The main one is that these traditional intracompany indicators can be easily influenced in favour of the management and the detriment of the shareholders.

In the follow-up research, it would be advisable to focus on other sectors of the economy outside the manufacturing industry to verify the validity of the findings. At the same time, it would be possible to address a new questionnaire, not to senior executives but business owners and analyse their thoughts towards linking traditional but now often outdated intracompany indicators to the remuneration incentives.

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