Companies Use Profit-Sharing Bait to Lure CEOs

India Inc achieves two-fold target of attracting and retaining executives, who often receive multiple benefits when they deliver the goods

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Move over joining bonuses and golden hellos. CEO aspirants in India now want to create wealth through their pay packets. Beyond stock options, profit sharing is the new bait companies are using to attract executives, who too are falling for it. The good news is that high-potential, high-performing executives are no longer interested in here-and-now wealth creation. They are willing to wait.

When a German Greenfield manufacturing company was setting up its operations in India recently, it decided to design a profit-sharing compensation for its top brass, says Ma Foi Global Search CEO Hastha Krishnan. Reason: It wanted to grow its business fast and also needed the CEO to stay for three years at least. Profit-sharing allowed the company both. "A lot of CEOs with pay packages in the range of Rs 1.5 crore to Rs 3 crore are even willing to look at a cut in pay and take a combo of wealth creation and entrepreneurial opportunity," she says. Profit-sharing is not just a carrot to attract executives, but a means of retention too. "It ties the CEO to his role for a long duration," says Hastha Krishnan.

Another CEO aspirant in the metals industry was offered a fixed salary of Rs 1.5 crore while the variable component was Rs 3.5 crore which is close to a little over 1% of the current profit of the company. If he meets the target, the CEO has the potential to earn Rs 3.5 crore, says MD India for Stanton Chase International R Suresh. "If you hit the target, the variable is so high that you create wealth. In this case, the compensation has been designed with Rs 3.5 crore variable," he says.

Suresh has also sat through several CEO compensation deals where companies agree to part with 1% to 2% of profit as variable. In some such deals, the profit is measured over 3 years. Around 50 % of the profit is paid after the first year while the rest after three years. The advent and growth of private equity-owned companies has intensified the clamour for wealth creation. "PE-owned jobs give executives and opportunity to create wealth at multiple levels if the company grows," says Suresh. Compensation, bonus and a share of profits are a part of the pay deal at PE-owned companies. Also, executives are willing to take higher risk.

"Risk taking has never been higher. You deliver more, you get more. CEOs can afford to make more money. As a result, companies are using profit percentage to create wealth for these CEOs," says Ronesh Puri, managing director, Executive Access, an executive search firm.

Does that mean cash is passé? "Cash compensation is not a huge motivator. It is important, but no high potential will move jobs (for cash)," says Anandorup Ghose, Head, Executive Compensation and Governance, Aon Hewitt. Headhunters such as Purvi Sheth, CEO, Shilputsi Consultants, agree that wealth creation is emphasised a lot more than ever before, but cash is equally important. "CEOs want the best of both the worlds. There is always certain minimum cash flow needed. It is difficult to attain cash nirvana," she says.

"Wealth creation plans are exciting and lucrative. That does not mean that executives are compromising on cash. It's just that the market is competitive," says Shanthi Naresh, principal and executive remuneration segment leader, human capital, Mercer. Among the guaranteed facets of compensation — assured compensation, short-term or annual incentives, benefits and pension-related, and long-term benefits like stock option and profit-sharing — the last is the most in focus. CEOs are looking for long-term benefits. "Long-term works though you have to be competitive on all segments of compensation," says Naresh.

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