Killer CONTRACTS

Nikhil Menon

Million-dollar salaries are becoming commonplace as CEOs in India get increasingly ambitious. But where's the voice of reason?

Over a two-decade long executive headhunting career R Suresh, managing director, Stanton Chase International has heard almost everything. But even he gets occasionally surprised. Recently, Suresh sat across the table from a high-level executive who was being considered for the position of MD by a large enterprise. "He claimed to have four different types of bonuses in his current job, totaling up to Rs 1.5 crore," recalls Suresh, "The employer's board was curious as to how — and whether — this was possible." There was only one way out. Suresh asked the MD for his Form 16 to verify the claim. "That's when the person told us, that while there were four bonuses, he had given us the upper limit, while the actuals received were lower." Regardless, the executive's credentials were strong enough to convince the employer and he was recruited.

Welcome to the CEO compensation paradigm in India. According to consultants, everyone's asking for million-dollar salaries today. And they're getting it too. The lack of senior managerial talent, combined with cultural factors (CEOs in India are rarely penalised in a hurry even if they underperform) and promoter quirks (fixed and guaranteed compensation is traditionally preferred, and giving stock options isn't common outside IT and financial services) have all contributed to this growth. "With respect to the sizes of the businesses they head and keeping purchasing power parity in mind, top Indian CEOs compare very favourably to their American counterparts," says Anita Ramachandran, founder, Cerebrus Consultants.

Anandorup Ghose, solution lead — executive compensation and governance at Aon Hewitt does the math. He says a US CEO makes between $5 million- $7 million annually, while an Indian CEO will make between Rs. 3.5 crore to Rs. 4 crore. "In actual terms, the American CEO makes ten times more, but adjusting for PPP, the ratio is around 1.5:2," he says. The stark difference, of course, is that in the US, the fixed component of CEO compensation hovers around 20 percent, while 15-20 percent comes from annual incentives and 60-65 percent from long term incentives, such as stock options. Indian CEO packages, especially outside the top 50 private firms, have large cash components, especially in recent times, since perquisite tax has eaten into the charm of non-monetary benefits.

Ronesh Puri, managing director, Executive Access, says this is changing. "Today, 30-35 percent of CEO compensation is variable. In another year, it'll go up to 40-45%. Companies want to pay senior executives well and at the same time, encourage them to over-achieve." He adds that the days of CEOs keeping their jobs just because they played golf and partied with the bosses are long gone. "You have to perform at every level."

As of 31st March 2011, India's highest paid professional CEO is Debnarayan Bhattacharya of Hindalco, who made over Rs. 17 crore (excluding stock options, according to ET data) during that financial year. Five years ago, as on March 31st, 2006, the top ranker among top professional managers was Amar Lulla, Joint MD of Cipla, who made Rs. 7.3 crore. Among promoter CEOs, Navin Jindal earned over Rs 67 crore in March 2011, as opposed to RIL's Mukesh Ambani, the top earner in 2006 with Rs. 24.5 crore.

Mercer's *Global Executive Remuneration Trends Perspective* 2011 says average Asian executive salaries will match or exceed American salaries by 2013. Deepak Gupta, former country manager of a multinational executive search firm says, "In the West, salaries are increasing by 3-5 percent. In India, we will have at least an inflation-aligned increase in salaries. Plus, employers who have held back since 2008's belt-tightening phase will be compelled to give better increments." Ramachandran adds that she sees a 10-15 percent hike in CEO salaries this year.

That's great — for CEOs. But Suresh feels that the moolah is overriding everything, "Put aside the growth prospects, the industry and other factors. The first thing every CEO wants to know is WIIFM — 'what's in it for me?'" he says. CEO appointment letters today often run into 20 pages, with various benefits, clauses and 'what if' scenarios adding to their thickness. And the pay gap between the CEOs' salary and that of their direct reportees is often 40-50 percent — "sometimes even double", he says. He adds that this is keenly felt in industries like manufacturing, construction, power and logistics that have not succeeded in attracting enough leadership talent over the years and hence, need to pay more to pull out senior executives entrenched in other companies. "Telecom, retail, banking, media and IT have done a much better job of grooming leaders," Suresh adds.

The Mercer report adds that increases in pay (in Asia) have not always been matched by improved performance and 'greater scrutiny by boards and compensation committees on fair use of remuneration benchmarks, increased use of performance criteria and more clawback provisions, is likely'. Consultants say that in the years to come, such measures will be implemented here, to ensure that balance sheet performance and shareholder return are adequately aligned to compensation, like in the West.

STRAT TALK

Ronesh Puri

K Sudarshan

Deepak Gupta

Anita Ramchandran

Anandorup Ghose

There are multiple ESOP mechanisms used abroad, such as restricted stock and performance shares. While the first matures after the completion of a certain period, the second is conditional and on the basis of achievement of performance targets. Alternately, ESOPs can be given on other criteria — such as the firm's stock growth as opposed to that of the competitor, or EBITDA margins. Then there are financial penalties to discourage people to hop jobs in the short term.

Puri says, "Company boards are open to ideas on designing packages innovatively. While they want to attract and retain talent, they also want to control costs and ensure CEOs aren't obscenely overpaid compared to their immediate juniors." In the latter case, Puri says he recommends the variable component be kept higher so that everyone's happy.

But Ghose of Hewitt isn't sure whether companies in India are comfortable with any drastic measures. He believes that remuneration committees on company boards need to spend sufficient time evaluating CEO salaries, in private discussion with the consultant. "At present, in 8-10 cases, the CEO ends up playing a significant role in the entire process of benchmarking compensation and the recommendations being made to the board," he says.

Consultants feel that as long as economic growth continues to happen, there will be no let up in growing salaries and the only way to counter it is to groom more leaders. K Sudarshan, managing partner, EMA Partners says, "Developing leaders is the need of the hour, else companies will end up outbidding each other for the same meager talent pool. The days of loyal HUL or ITC-cadre executives are over; people are hopping jobs much more frequently today."

Suresh adds that leadership development mechanisms also need to be fine-tuned. "Here, people who don't make it through fast-tracker programmes feel let down. They need to be told that being a CEO or MD isn't the only goal; they can be specialists instead."

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