Publication: Hindu Business Line
Edition: National
Date: 25th Nov, 2015
Page No: 1

Feeling the heat: CEOs work hard on their exit plans too

As risks rise, Indian honchos are demanding better severance packages

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New Delhi, November 24

He was at the steering wheel when the emission norms cheating scandal rocked Volkswagen. But CEO Martin Winterkorn may still be able to parachute away with $67 million plus a company car, thanks to the separation clause in his contract.

India is yet to see a CEO get such generous termination benefits. But after the drama surrounding Micromax Chairman Sanjay Kapoor's curious exit from the company and the furious settlements now going on, the trend of large severance packages will pick up here too, predict HR consultants.

"Tiny Owl firings, Housing.com – all these high-profile incidents are adding to the risk premium in the mind of Indian executives. It will have a cascading effect on the way exit clauses are written," says Dony Kuriakose, Director, EDGE, an executive search firm.

Already exit clauses with a safety net for the CEO are a noticeable trend in C-suite hiring contracts in India. "It's the CEOs who have come from overseas who are driving this

trend," says Ronesh Puri, MD, Executive Access.

Earlier, Indian companies were not open to severance packages and, the exit clause was largely to prevent the executive from joining competition. But today to get top flight CEOs, this is an important clause. Infosys is liable to pay Vishal Sikka a severance package that can go up to $10 million (this includes 18 months of base pay).

Accelerating this trend is the valuation driven hiring ethos of some Indian companies.

"The moment the funding pattern changed, the whole hiring paradigm changed," says one headhunter.

He describes how Indian start ups often scout for marquee names in a bid to attract funding or drive up valuations. When the funding does not come through or when the business plans of a group changes, exits are forced.

Despite the risks of joining VC-funded companies where investors may change suddenly, the salaries offered are tempting enough for the marquee name to consider the move. Also, sweetening the deal are some perks. Globally, there are elements like access to private jet, use of holiday homes and so on for a year after exit.

In India, however, the conversations are still mostly financial in nature, and largely to do with stock options, though Puri says, it's not uncommon for companies to allow executives to use a car and driver and keep the club membership for a year after exit.

And increasingly as CEO contracts are customised, based on specific needs of the executive, we are bound to see these quirky clauses here as well. Meanwhile, the vesting time of stocks given to CEOs is coming down. Randstad's CEO Moorthy Uppaluri describes how vesting time is now a minimum of just two years in some cases while maximum is five years.

But inking exit clauses does not guarantee a safety net. Consultants point out that exit settlements – even when put down on paper – are not easy to enforce in India.

Perhaps, our hard bargaining CEOs need to take a leaf out of their peers in the government, where the practice of exit clauses is pervasive. At Air India, for instance, former civil aviation secretaries get a lifetime supply of free tickets and unlimited upgrades for self and family.