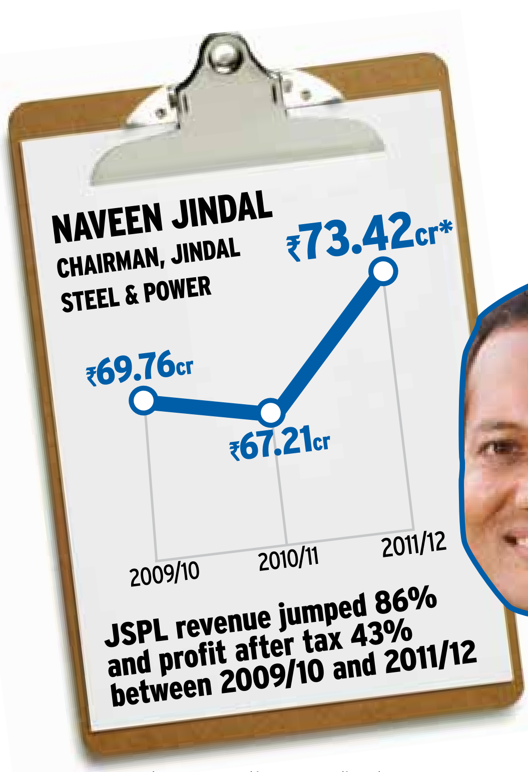
INTERVIEW: N.R. NARAYANA MURTHY P66

SWIMMING IN IT

PHOTO: ADITYA KAPOOR; LOCATION: THE LALIT LEGACY SUITES

SHAMNI PANDE

Until July 1991, directors at Indian companies could not be paid more than ₹15,000 a month. Commissions as a percentage of net profits were permitted but capped at half the annual salary. Today, the top-paid director in India, steel tycoon Naveen Jindal, takes home more than ₹6 crore a month and scores of Indian CEOs make more than ₹3 crore a year. Not only have CEO salaries doubled in five years, a BT-Aon Hewitt study predicts they will continue to expand in double digits. Can India afford its fat-cat CEOs?



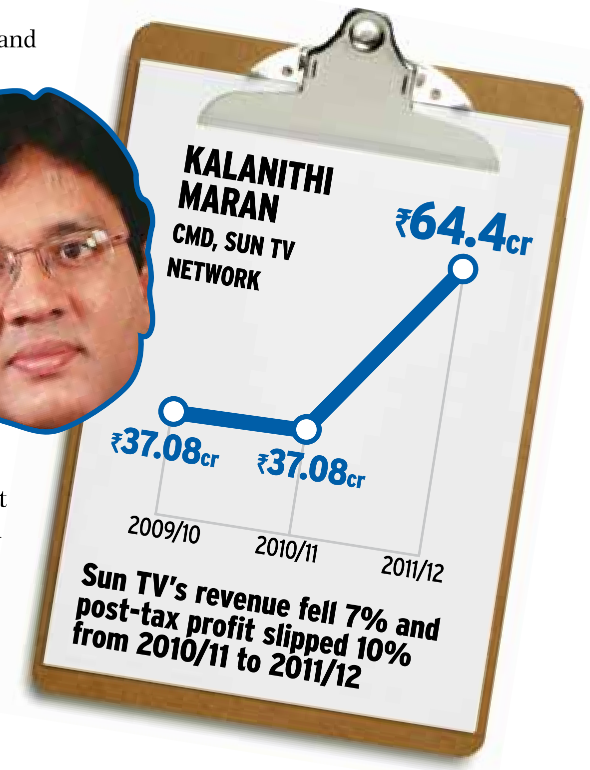
*Annual compensation according to data from CMIE Prowess

Hisar, a Haryana town about 165 km northwest of New Delhi, is not a hotspot of shareholder activism by any stretch. On September 26, a Wednesday that saw temperatures moderate as autumn set in, it turned out to be one. Nearly all the institutional shareholder votes at the annual general meeting of Jindal Steel & Power Ltd (JSPL), headquartered midtown, were against a resolution allowing Chairman Naveen Jindal to decide the remuneration of whole-time directors, including his own. It was the first time, governance experts recall, that such a thumbs-down was given.

The displeasure of the institutional investors, whose ranks included names such as HSBC Global Investment and ICICI Prudential Life, was not aimed at the salary drawn by the 16 directors on the JSPL board but at Jindal's own extraordinary pay package in the last three financial years. At ₹73.42 crore in 2011/12 – ₹67.20 crore and ₹69.75 crore in the two years before – Jindal is, by far, the best-paid occupant of any corner office in India, and makes around 25 times what the next-highest paid JSPL director does. In a country with an annual per capita income of just around ₹54,000 and where most middle-class urban homes count monthly income under ₹1 lakh, compensation packages like those of Jindal's attract disbelief.

Incredulity looms large elsewhere, too. Just out from a gruelling client meeting in Mumbai, headhunter R. Suresh says he is often exhausted dealing with European and American clients over the "exceedingly high" pay levels expected in India by CEO and senior hires. "They keep asking me the question: 'Are senior level Indian professionals really this highly paid?'" says Suresh, Managing Director, Stanton Chase International, a talent firm focused on CEO and senior-level hiring. "Indian CEOs are high maintenance. Their needs are constant and have to be met, else they will move on."

Clearly, CEO compensation in India is racing closer to payouts of their counterparts in developed markets such as the United States and Europe, especially when measured by purchasing power parity, which takes into account the effect of local prices. A study by global human resources (HR) consulting and outsourcing firm Aon Hewitt for *Business Today* on executive compensation for 2011/12 shows the median Indian CEO salary was $3.5 million, or about ₹18.5 crore, versus $7 million in the US, about $6 million in Europe and $3.5 million in Australia (see *Touching Global Standards* on page 62). This despite the fact that Indian



Economics Should Govern Remuneration

K. RAMKUMAR
Executive Director-HR, ICICI Bank

Most companies approach executive compensation without any reference to established economic fundamentals. Economics states that the nature of contribution and risk a shareholder brings to a company is different from that of the agent of the shareholder, namely the professional manager, and this in turn is different from that of the ordinary employee. So each of them needs to be compensated differentially.

Let us examine the bogey of talent shortage leading to wage inflation. In a country of 1.2 billion people, where 60 per cent have more than 35 years of productive life, how can there be a talent shortage? This happens when the industry follows a clutch of ill-thought-out and lazy practices. The most ludicrous one is the presumption that readymade talent is available to any economy in the world at any stage. Every industry all over the world invested in creating vocational and professional training infrastructure to ease the burden of high wages, which arises out of a lopsided demand-supply situation.

Indian industry has been irresponsible in killing off apprenticeship programmes and putting all the responsibility for delivering able employees on academic institutions. It has also given excessive weightage to academic qualification over vocational ability. This has resulted in the 'overqualified and under-skilled' phenomenon, which in turn leads to overpricing at all levels of jobs. Is it not laughable that the information technology industry uses engineers to code and the banking sector uses graduates to do tellers' jobs? The most mediocre person who has passed 12th class should not take more than 100 days to pick up these skills.

Add to this our MBA fixation. The world over, less than 25 per cent of first-level management comprises B-school graduates, but in India 100 per cent are from this tribe, with a generous sprinkling of engineer MBAs. Even after this we complain about lack of talent.

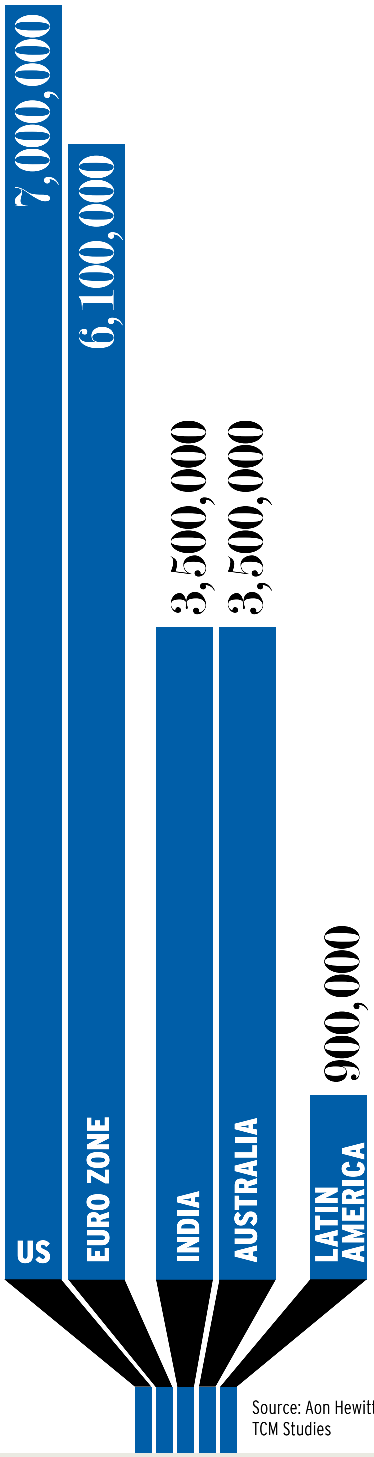
The most destructive part of wage inflation is the poor-quality governance in large parts of the industry, especially the multinational and promoter-controlled firms in India. It is possible to get any salary benchmarking report from a consultant in India. All it takes is to cleverly choose the comparator set. Then your top management's pay can be shown at as low a percentile as you desire. Add to this the practice of these consulting firms doing a survey asking their clients or prospective clients what the likely wage increase is going to be. In the last 10 years it has been upwards of 12 per cent. The human resources head takes this to his board and thumps the table saying there will be a talent exodus if the wage hike is any lower. Is it a surprise that we are trapped in a top management wage spiral?

A few responsible Indian organisations have had good-quality board governance. In these, the governance committee members have not fallen prey to the widely prevalent questionable practices on top management remuneration. But most organisations have impressionable and pliable committees, and the blackmail that the top talent will take flight succeeds. The top management wage spiral has exacerbated the gap between this management and first-level employees. This is not tenable in the long run. This will lead to militant trade unionism because it leads to gross inequity.

In conclusion, the argument is not against using wages and wage increases as a lever to attract and retain talent. It is to anchor this on good economics and not on questionable or illogical premises.

12% Average pay hike of top executives in the last 10 years

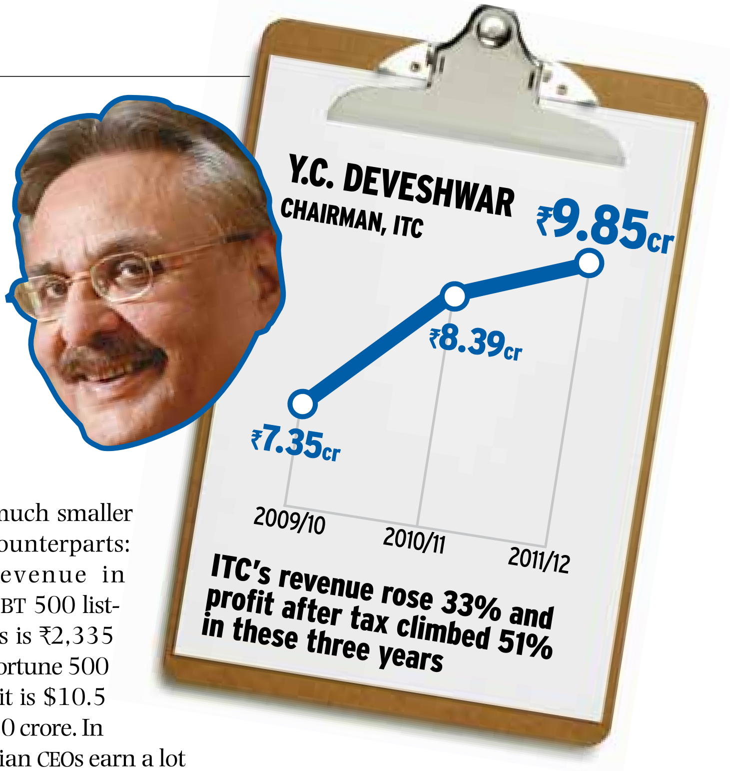
For the complete column go to www.businesstoday.in/salaries-ramkumar



Source: Aon Hewitt TCM Studies

Touching Global Standards

Avg. CEO salary in US$ based on purchasing power parity



companies are much smaller than their US counterparts: the median revenue in *Business Today*'s BT 500 listing of companies is ₹2,335 crore, while for Fortune 500 US corporations it is $10.5 billion, or ₹55,650 crore. In other words, Indian CEOs earn a lot more than their US peers for every dollar of revenue. The median is the mid point of any distribution and is different than the average.

And, here's the bigger surprise: the soaring Indian CEO salaries show no signs of slowing down. Even as the gap between Indian and global CEO salaries narrows because salary hikes in the West stay in low single digits, top Indian management pay scales continue to double every five or six years. "Pay scales were lower than the international level but now we are inching close to them," says Harsh Mariwala, Chairman and Managing Director of consumer products company Marico.

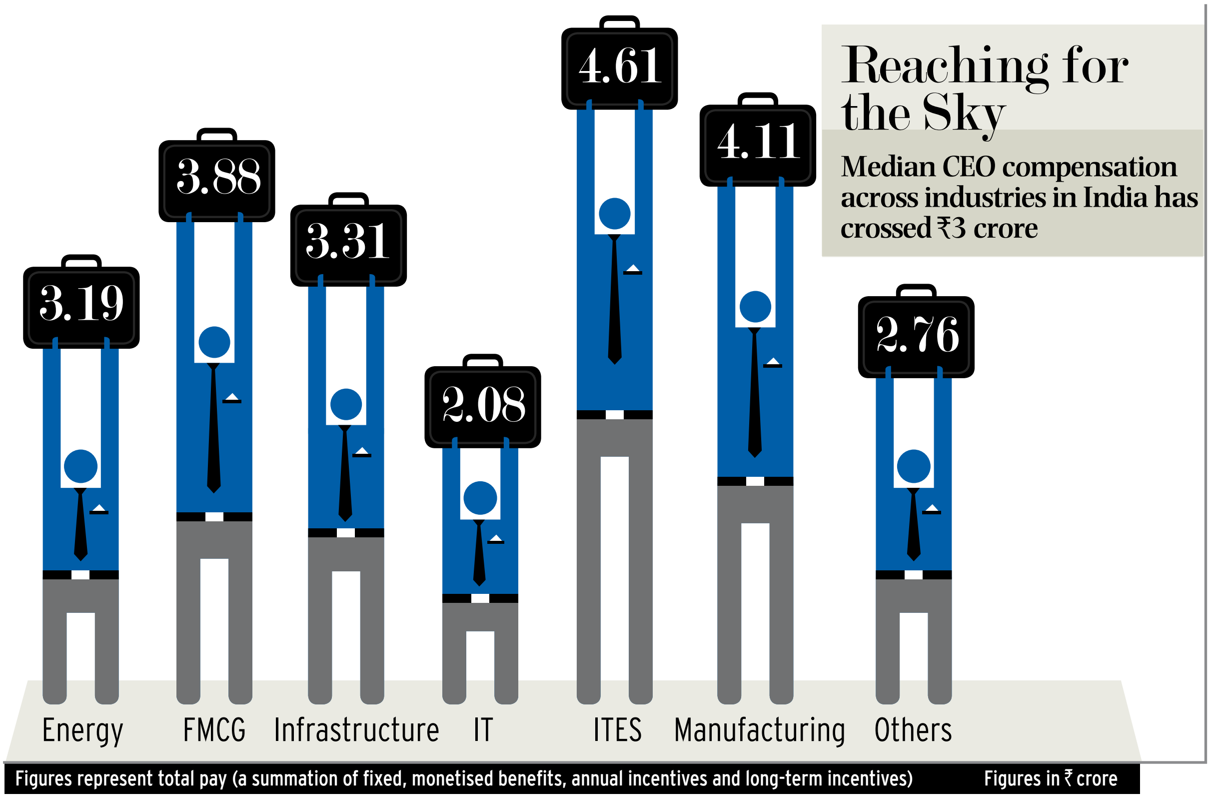
"We think [compensation hike] has hovered in the range of 13-14 per cent on average over the last five years," says Anandorup Ghose, Director, Executive Compensation and Governance, Aon Hewitt. He expects the trend to continue. Clearly, experts don't expect the slowing economy to come in the way of barrelling CEO salaries. The government is not too concerned about the high CEO payouts in India. "Profit-making companies are free to fix remunerations as they deem fit. When loss-making companies fix exorbitant remuneration for its CEOs, then the matter comes to us," former Corporate Affairs Minister Veerappa Moily told *Business Today* on October 27, a day before he was shifted to the petroleum ministry in a cabinet reshuffle.

Aon Hewitt has been conducting a compensation benchmarking survey across the world every year for a decade now. In the second edition of the Executive Compensation Survey in India, it reached out to over 163 companies across 12 industry clusters between September and December 2011, and exclusively crunched the data for BT to pull out salient trends. BT then conducted its own desk research and reporting to put together this story.

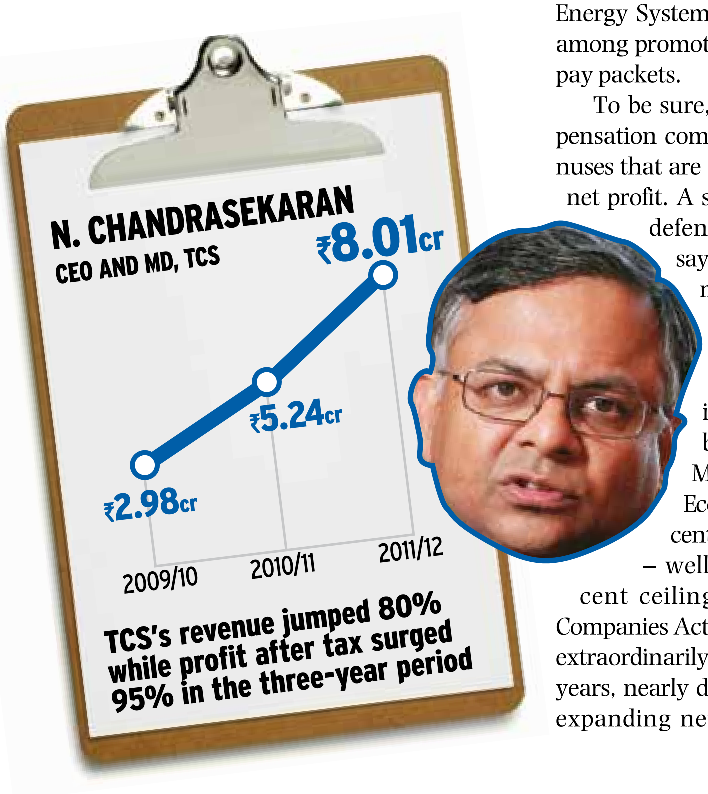
Posh Promoter League

Not just Jindal, many promoter-CEOs have been paid handsomely for years now. If broadcaster Sun TV Network's Chairman and Managing Director Kalanithi Maran and his wife and director, Kavery Maran, were already seen as hugely overpaid with salaries of ₹37.08 crore each in 2009/10 and 2010/11, the last financial year pushed the envelope further. The Marans were paid ₹64.4 crore each in 2011/12.

Others such as Aditya Birla Group's Kumar Mangalam Birla, who made ₹47.1 crore; Pawan Kant



Source: Aon Hewitt TCM Studies



Munjal of Hero MotoCorp (₹34.5 crore); Bharti Airtel's Sunil Mittal (₹21.3 crore), Mukesh Ambani of Reliance Industries (₹15 crore), or even B.G. Raghupathy of BGR Energy Systems (₹26 crore) feature among promoter-CEOs with sizeable pay packets.

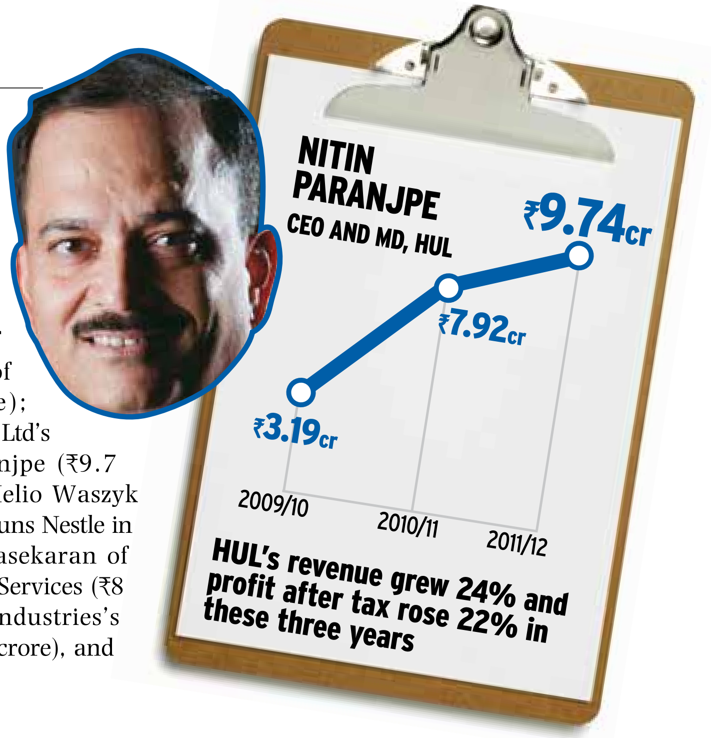
To be sure, much of their compensation comes in the form of bonuses that are a small percentage of net profit. A spokesperson for JSPL defends Jindal's package saying he receives a commission as a percentage of the company's net profit – research by *Business Today* using the Prowess database of the Centre for Monitoring Indian Economy shows the percentage to be 2.9 per cent – well within the five per cent ceiling prescribed in the Companies Act. (JSPL has performed extraordinarily well in the last three years, nearly doubling revenue and expanding net profit by 42.6 per cent). Munjal, in comparison, received a commission of 1.24 per cent of net profit in addition to a fixed salary of ₹2.4 crore; Mittal 0.2 per cent (plus a salary of ₹9.6 crore); and Birla 0.9 per cent of profit from Ultratech and 0.58 per cent from Hindalco Industries (with no fixed pay). Also, several promoter-CEOs such as Wipro's Azim Premji and Reliance Group's Anil Ambani have taken cuts in their compensation when faced with a tough business environment.

While the promoter-CEOs are the better chronicled instances of corporate leaders with high compensation, lesser-known names – many of them CEOs with very little ownership or none at all in the companies they run – are fast climbing to the top of the heap. BT's research found at least 10 instances of such non-promoter CEOs making more than ₹20 crore a year. Seasoned recruiters say Indian CEOs are spoilt for choice with most having at least three job offers or feelers coming their way at any given point in time.

CEOs falling in this salary range

include Gajanan Nabar, CEO and Managing Director of engineer company Praj Industries, who made a neat pile of over ₹22.5 crore, according to data from the Prowess database. Or, Debnarayan Bhattacharya, Managing Director of Hindalco, who is counted among the best compensated professionals at ₹19.4 crore in 2011/12. Or, Carl-Peter Foster, the former global chief of Tata Motors, who pocketed more than ₹23 crore for the six months he worked in 2011/12 before resigning in September 2011. Others such as Max India Managing Director Rahul Khosla (₹12.4 crore) represent those quickly climbing the salary ladder.

The ₹4 crore to ₹10 crore bracket is more crowded and has the likes of Y.C. Deveshwar of ITC (₹9.8 crore); Hindustan Unilever Ltd's (HUL) Nitin Paranjpe (₹9.7 crore); Antonio Helio Waszyk (₹8.5 crore), who runs Nestle in India; N. Chandrasekaran of Tata Consultancy Services (₹8 crore); Reliance Industries's P.M.S. Prasad (₹5 crore), and



"Compensating a CEO excessively is not a great idea"

In executive compensation, Infosys has been a trendsetter for Indian companies. **N.R. Narayana Murthy**, the software giant's Co-founder and Chairman Emeritus, shared his views on the subject with **Chaitanya Kalbag** in an email interview. Edited excerpts:

Are Indian CEOs overpaid, or have they earned what they get?

I would not say they are overpaid in general but there is definitely a need for introspection by them on whether their pay is fair in the context of India.

What about fundamentals of compensation worries you today?

I am happy that we have moved to a market-driven and competency-driven compensation scheme today. In the current scenario, I do worry about the greed of some of the senior management staff and even entrepreneurs.

How should boards and shareholders approach the subject of compensation?

The board should decide the compensation of the CEO based on three factors: fairness, transparency and accountability. Fairness in deciding the CEO's compensation with respect to the compensation of the lowest-level professional is very important. No leader can succeed in a vacuum. Compensating a CEO excessively is not a great idea. At Infosys, the CEO's salary is about 20-22 times that of the salary of the lowest professional. Secondly, there should be full transparency before shareholders regarding every item of compensation and the basis for awarding that item. Thirdly, a large part of the CEO salary must be variable and must be awarded only based on his or her performance over a certain period of time, say three to five years. This is particularly true of stock options and bonuses.

Are compensation costs sucking out competitive advantage from Indian companies?

As long as senior management salaries are a small part of total revenue, this is not an issue.

What has your experience with ESOPs been?

Most Infoscions who received huge stock options left once the options got vested. I am disappointed by the lack of gratitude of most of them. Therefore, there is need for increasing the vesting period to 15 to 20 years.

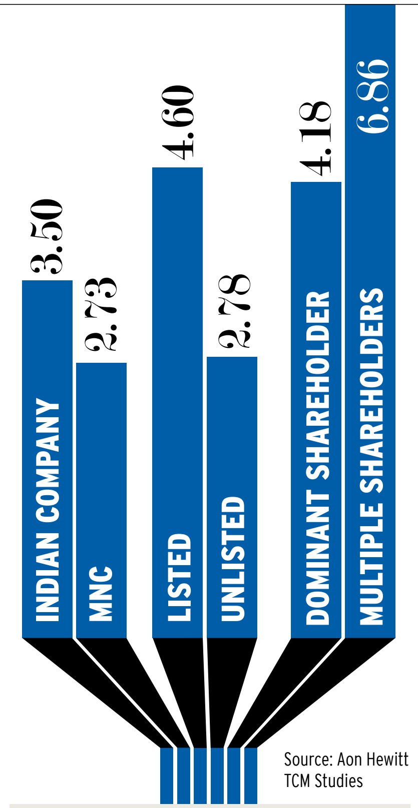
For a more detailed interview go to www.businesstoday.in/salaries-murthy

T.K. Kurien of Wipro (₹4.3 crore). Even a lesser-known firm like Agila Specialities has its CEO Venkat S. Iyer taking home ₹5 crore, as also Manoj Chhabra of Rajan Raheja Group's Prism Cement, and Raymond S. Noronha of VST Industries.

In fact, the BT-Aon Hewitt study shows that median CEO compensation has already breached the ₹3 crore-bracket and is as high as ₹4.6 crore for the business process outsourcing industry and over ₹4 crore for the manufacturing segment (see *Reaching for the Sky* on page 64). Pratik Kumar, Executive Vice President for HR at Wipro, puts down rapidly rising CEO salaries to "a severe shortage of talent, combined with the more complex roles before professional talent steering the fortunes of global Indian conglomerates".

Numbers go to extremes for many reasons. It could be that a contract is negotiated afresh, as in the case of HUL's Paranjpe where his salary shot up 23 per cent from ₹7.9 crore in 2010/11. It could also be a case where the company ropes in international talent as was the case of Forster at Tata Motors, whose 30-year career spanned the consultancy McKinsey and automaker BMW. His total package for 2011/12 dwarfed the modest ₹4.5 crore of the just-retired Managing Director P.M. Telang. It is anybody's bet what the new man-in-charge Karl Slym makes but it is sure to be in tandem with what Indian CEOs make today.

As the number of businesses in India explodes and revenue growth rates of 40 to 60 per cent become common, especially among ambitious mid-sized companies, promoters and boards view CEO compensation as an investment and not simply as cost. "Our recent study of the listed companies shows that there is a steady increase in number of professionals in the million dollar club," says K. Sudarshan, Managing Partner at executive-search firm EMA Partners International.



Ownership Is the Key

Avg CEO salary (in ₹ crore) by nature of company ownership

Marico is a good example of a company where a professional CEO was brought in at costs aligned to the market. "Whatever applies to the promoter-CEO should apply to the professional CEO," says Mariwala, who founded Marico in 1990. "The key is to get the right talent that performs, my salary is not even double of any of my CEOs." At New Delhi-based Dabur, the promoters have altogether eschewed compensation and have in place a CEO (Sunil Duggal) who made ₹5 crore in the financial year gone by and ₹4 crore the year before. "We decided about six years ago that we would not draw compensation, but allow that money to build the business," says Vice Chairman Amit Burman.

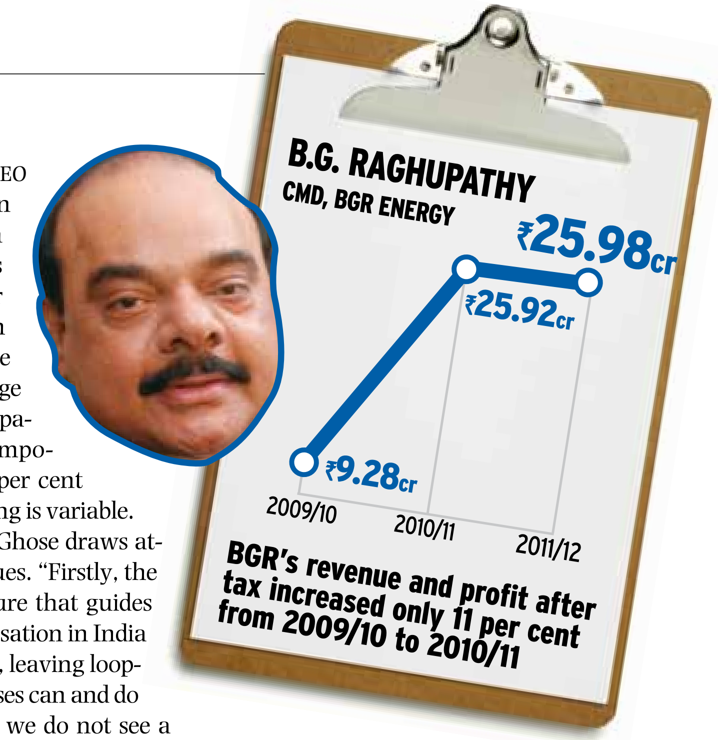
Investment or Cost?

But not all are happy, or fooled by the hype surrounding CEO compensation. K. Ramkumar, Executive Director for HR, ICICI Bank, feels it's time to worry. "Few people factor in wage inflation that is being unleashed not just in companies, but also the economy eventually," he says (see *Economics Should Govern Remuneration* on page 60). EMA's Sudarshan agrees, pointing to the ripple effect in the upper echelons of companies. "I am more worried about the CXO and senior professional salary increases. These have already breached the ₹1 crore barrier and in many cases are up to ₹2 crore," he says.

Ramkumar and Sudarshan are not alone. "If people say high salaries to CEOs is a real motivating factor and as a result, the enterprise will do well, I don't think so," says R. Thyagarajan, Founder, Shriram Group. "The cost of managing the business will go up. It will not improve the performance of the organisation over a period of time." Still, he concedes that his group is also reacting to the pressure to increase CEO compensation.

Others nuance their response differently. Says K. Anji Reddy, Chairman, Dr Reddy's Laboratories: "I do not think we should grudge high salaries to the CEOs so long as they perform and are able to give good returns to their shareholders." Marico's Mariwala calls for "a right balance between fixed and variable component". This has been a bugbear in Indian senior management compensation structures in general. The BT-Aon Hewitt study shows fixed component in CEO remuneration tends to be as high as 46 per cent, as opposed to 15 per cent in North America (see *Regional Mix* on page 72). In many companies the fixed component is up to 80 per cent while the remaining is variable.

Aon Hewitt's Ghose draws attention to two issues. "Firstly, the regulatory structure that guides executive compensation in India is not well defined, leaving loopholes that businesses can and do exploit. Secondly, we do not see a

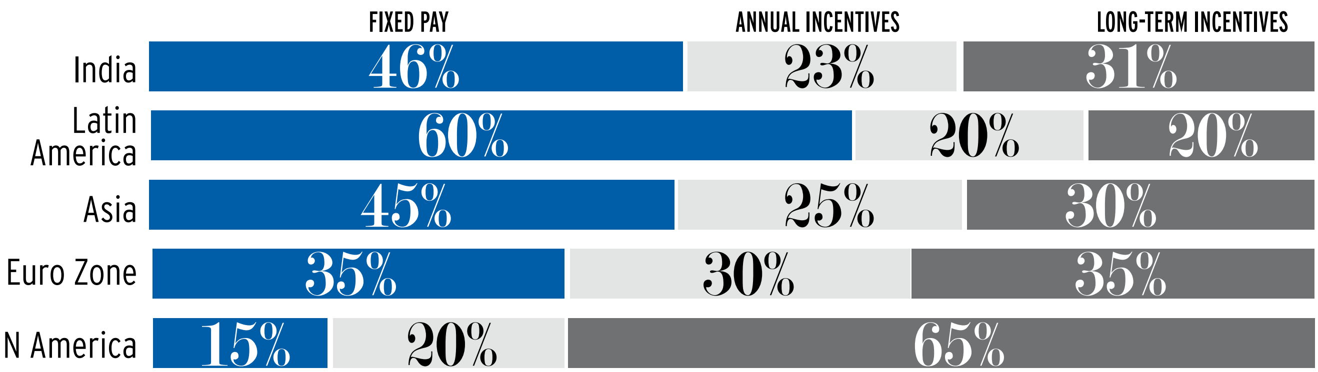


The Awakening

This year, Institutional Investor Advisory Services (IIAS), which advises investors on voting strategies, recommended shareholders vote against proposals suggesting steep compensation hikes for top executives at several companies. In the case of Jindal Steel & Power, 97 per cent of institutional shareholders who voted opposed the proposal. But all proposals were eventually approved by shareholders, mainly because promoters held controlling stakes. Here are a few examples:

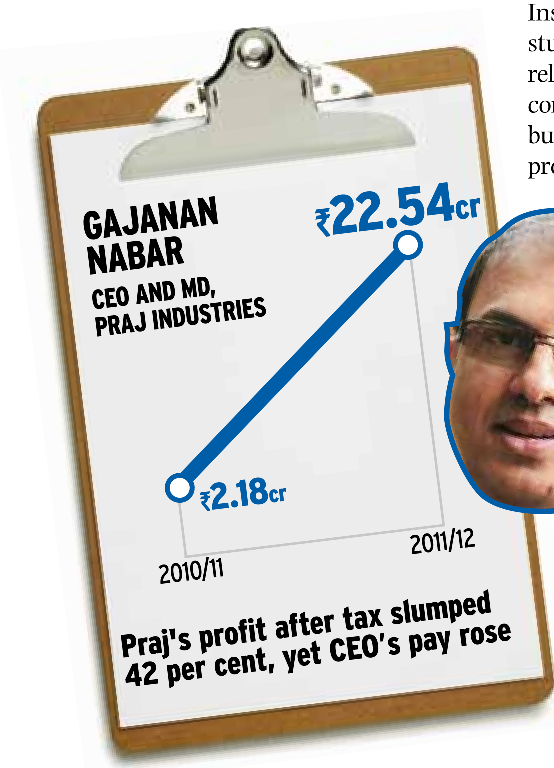
	PROPOSAL	WHY IIAS OPPOSED
Jindal Steel & Power	To authorise Naveen Jindal, promoter and chairman, to revise remuneration of whole-time directors	Pay revision must be decided by a remuneration committee of the board comprising independent directors and be approved by shareholders
Gammon India	To pay a minimum remuneration to Abhijit Rajan, promoter and chairman, for 2012/13 and 2013/14	Gammon's profit and market value fell over five years while Rajan's pay grew nine times. Dividend fell from ₹7.65 crore in 2009/10 to ₹2.73 crore in 2011/12
Larsen & Toubro	To re-appoint A.M. Naik as Chairman and K. Venkataramanan as MD and CEO, and decide their remuneration	Naik's pay not in line with L&T's profitability and stock performance over a five-year period. The 40 per cent pay hike to Venkataramanan too high
Sun TV Network	To pay ₹13.4 crore to Kalanithi Maran and Kavery Kalanithi along with bonus so that it's no more than 5% of profit	The increase in remuneration not in line with the decline in total income and net profit of the company in 2011/12
Divi's Labs	To raise the remuneration of promoter-directors Kiran S. Divi and Murali K. Divi, and of Director N.V. Ramana	Growth in fixed pay for Kiran S. Divi, Murali K. Divi and N.V. Ramana found too high at 91%, 56% and 74%, respectively

Regional Mix
The breakup of CEO incomes across the globe



Source: Aon Hewitt TCM Studies

lot of focus in companies on aligning pay with performance," he says. It is early days yet but some quarters of Corporate India are changing compensation structure with a greater emphasis on performance. Leena Nair, Executive Director – HR, Hindustan Unilever, says her company is using pay structures as a more effective lever to enhance performance. "Over the years we have consciously increased the weightage given to variable compensation," she says. "This approach supports our overall performance culture."



Some argue that excessive variable compensation makes even conservative CEOs avaricious, and have led to some headline-grabbing scandals in the US. But the low level of linkage of remuneration to performance defies logic. This is not all. There is a negative correlation between company scale and size, product and service diversity, and performance with senior management pay. Insights from a recent Aon Hewitt study shows a low strength of the relationship – one represents perfect correlation and zero none – between business size (measured by revenue, profits and other metrics) and CEO pay. "Western peers report a correlation of 0.6 to 0.7 while Indian businesses report a correlation of less than 0.2 across industries," says Ghose.

It is also not uncommon to see companies make a mockery of compensation committees on Indian boards. "We find that many boards are not really doing their jobs. We find that perks are vaguely defined," says Amit Tandon, Managing Director, Institutional Investor Advisory Services (IIAS), a firm that advises institutional investors on voting strategies and corporate governance. Since September 2011, IIAS has recommended voting against 39 compensation-relation proposals from various companies (see *The Awakening* on page 70).

For Harsh Goenka, Chairman, RPG Enterprises, most of these issues boil down to governance, which in the case of CEO compensation, he says, hinges on independent directors who bring external perspective. "In most promoter-led business groups, traditionally, decisions are taken by promoters. It happens in MNCs too," he says. Goenka feels that often compensation committee members are not adequately exposed to the senior leadership team.

There is no running away from soaring CEO salaries. "I do not understand why we keep referring to our talent as 'Indian' CEOs," says Kumar of Wipro, pointing out how talent at senior levels is very mobile. In that insight could lie the biggest answer for companies here: shed fears of cultural fits and import global talent. That could reshape Indian CEO salaries and, indeed, Corporate India. ◆

(ADDITIONAL REPORTING BY K.R. BALASUBRAMANYAM, E. KUMAR SHARMA, GOUTAM DAS, SUMAN LAYAK, SEBASTIAN P.T. AND ANUSHA SUBRAMANIAN. DATA RESEARCH BY NITI KIRAN AND JYOTINDRA DUBEY.)