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THE ECONOMIC TIMES

"CEO PAY IS CONSIDERABLY GREATER THAN THAT OF OTHER EXECUTIVE DIRECTORS"

Krishnamurthy Subramanian, assistant professor of analytical finance, Indian School of Business

Professors Rajesh Chakrabarti and Krishnamurthy Subramanian, who have recently conducted a study on the subject 'Executive Compensation in India', discuss with Lynn Lobo the intricacies of executive pay

Rajesh Chakrabarti, assistant professor of finance, Indian School of Business

Q How has the global market influenced the changes in salaries paid by Indian companies over the last decade?

With the hiring of expatriates/foreigners at the helm, MNCs entering the Indian business sector and offering pay packages significantly more than the domestic companies to take the executive market to the next level, have jointly influenced a shift in the pay pattern. It is perhaps safe to say that the rise and the market-linking of CEO salaries, particularly in the top quartile of the size distribution would not have happened without India's rapid globalisation.

Q What are the different trends noticed in executive salaries in listed companies in India in recent years?

>> First, executive pay in the echelon representing the largest firms is several times greater than in smaller firms;

>> It also includes a much greater component of variable pay, is much more sensitive to stock market movements and exhibits much greater dispersion, both across time and firms;

>> CEO pay is considerably greater than that of other executive directors (i.e: CXOs), and the ratio of CEO to CXO pay also displays high dispersion. The real values of both CEO and CXO compensation have been following a sharply increasing trend in recent years in India.

TALKING POINT

Q Is there a need for tailoring legal regulations to avoid the risks presented by the current market scenario effecting executive pay?

Government regulation of private sector executive compensation is not a particularly desirable thing, except perhaps in the case where the sector has strong externalities and can possibly destabilise the system - like the financial firms. The action, though unusual, is reasonable as banks and financial firms can possibly use leverage and other risky strategies to enhance market values and thereby, the market-linked executive pay. When those risks backfire, the cost cannot be restricted to the failing bank but the entire economy is affected. Hence, it may make sense to regulate pay structures in this sector. In other industries, the case for government intervention is very weak.

Q What are the various compensation and benefits that an executive can avail of in the Indian job market scenario?

An Indian senior executive (at the board or C-suite level) gets paid a fixed salary and bonus that could be several times the fixed component of the salary. In the top 25 per cent of the companies, this variable component is very important and is linked to market performance of the company's stock but for the lower 75 per cent, the variable component is almost absent.

ethighflier@indiatimes.com