

“Executive Compensation – An International Perspective”

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Abstract: Executive Compensation has become a matter of hot debate and discussion in the industrial, business and academic arena. It has invariably attracted the attention of the industrialists, academicians and the policy makers all over the world. The recessionary trend experienced in the USA and the European Union and the slowing down of economic activity in Asia has intensified the review of executive compensation awarded to the top management in general and the CEOs in particulars. The present study is an earnest attempt on the part authors to present an international perspective of executive pay trends. The study aims to review the trends in executive compensation in the USA, the UK and in Asia. The study is significant in the sense that it will be helpful to understand the rationale behind hefty executive compensation, the repercussions of excessive compensation and the remedial measures recommended.

I. Introduction

The growing presence of transnational and global companies across the world has brought into focus the top management that steer the fortune of such companies and the compensation awarded to the directors and the chief executive officers (CEOs) of the companies. The recessionary trend experienced in the USA and the European Union and the slowing down of the economic activity in Asia has triggered a critical review of the executive compensation. In this backdrop, this paper is an earnest attempt on the part of the authors to present an international perspective of the executive pay trends.

II. Objective Of The Study

The Present study has the following precise objectives:

- 2.1. To study the rationale behind hefty compensation awarded the CEOs
- 2.2. To review the trends in executive compensation in the USA, the UK and Asia
- 2.3. To present the summary of findings and recommendations of the s study,

III. Significance Of The Present Study

The present study titled “Executive Compensation – An International Perspective” is significant in the current scenario of the global economy where austerity is accorded top priority by the Government and the corporates. The World Bank’s poverty indicator reveals that about 1.35 billion people in developing countries subsist at less than \$1.25 a day¹. In this context excessive executive compensation is a clear case of greed and gluttony.

A recent study by The Economic Times has revealed that the salaries of the chief executives of the India’s biggest companies continue to be much bigger than their employees. The study further revealed that during 2009-10, the CEOs of the top companies earned 68 times the average pay of the employees of their companies, up from 59 times in 2008-09². This is undoubtedly against the tenets of corporate governance, i.e. protection of all the stake holders’ interest. In this backdrop, the present study attempts to analyze the recent trends in regard to the executive compensation at the national and international level.

IV. Rationale Behind Hefty Executive Compensation

The CEO of a company is like the captain of a ship. He steers the fortunes of the company towards better corporate performance. Despite the size and complexity of a modern organization, the person in-charge (CEO) still sets the tone, defines the style and become of the public face of the company³.

There is a consensus among the experts in the industry that attractive executive compensation is indispensable to ensure entrepreneurial exuberance. Attractive executive pay is vital to retain talented and high performing executives. There is glaring evidence in this regard. In the USA, General Motors has found it difficult to hire a CEO after it capped the compensation at \$ 4 million per annum following the government sponsored bailout. The market rate is \$ 10-15 million per annum⁴.

The formidable recession experienced all over the world, however, has triggered a wide spread criticism that the compensation paid to the top executives is disproportionate to corporate performance. Further,

“what is paid to one diminishes what is available to others Under the utilization theory grandly benefiting one person (CEO) at the expense of shareholders and employees is clearly unethical⁵.”

V. Trends In Executive Compensation

The trend in executive compensation has been studied under three categories, viz., trends in the USA, trends in the UK and the Asian experience.

5.1. Trends in The USA

A recent study in the USA revealed that 50 top CEOs gave themselves a hefty pay packets of \$12 million each while laying off a total 3000 workers between November 2008 and April 2010⁶. Consequently, the CEOs have been dubbed as “layoff leaders”. Table 5.1 provides a glimpse of the executive compensation awarded to the top three CEOs in the USA during 2009-10.

TABLE 5.1
Executive Compensation to TOP 3 CEOs in the USA (2009-10)

Sl.No	Name of the CEO	Company	Remuneration (Million \$)
1	Jeff Immelt	General Electric	15.2
2	Jim Mc Neraney	Boeing	13.8
3	John Donahoe	Ebay	12.2

Source : The Economic Times, September 1, 2011 p.16

It is seen in Table 5.1 that the CEOs has received a huge compensation when the economy of the country has been reeling under a severe recession and a raising level of unemployment. It has been further observed that twenty five of the 100 highest paid CEOs earned more than the tax paid by their companies to the Federal Government during 2009-10⁷. There is yet another noteworthy evidence that revealed a whopping compensation of \$47 million paid to Sanjay Jha, the CEO of the Motorola Mobility in 2011⁸.

5.2 TRENDS IN THE UK

The CEOs in the UK have been criticized for receiving a compensation that is disproportionately higher than the corporate performance. A recent study in the UK revealed that “nearly all the components of the boardroom pay increased at a faster rate over the last 10 years than corresponding measure of corporate performance⁹”. A comparative picture of the increase in the executive compensation and corporate performance in the UK between 2000 and 2010 is given in Table 5.2.

TABLE 5.2
Executive Compensation versus Corporate performance in the UK between 2000 and 2010

Sl.No	Increase in Executive Compensation	Increase / Decrease in corporate performance
1	Increase in Total pay – 10.8%	Decrease in average year end share price – 71%
2	Increase in average salary-64%	Increase in pretax profit- 51%
3	Increase in average annual bonus – 187%	Increase in market capital capitalization – 8%

Source: The Business standard, September, 6, 2011. p.9

It is seen in Table 5.2 that there is a glaring mismatch between executive compensation and corporate performance in the UK. It also exposes the myth that big bonuses and high salaries result in better company performance.

5.3. THE ASIAN EXPERIENCE

The trends in executive compensation in Asia have been studied with special reference to China and India.

5.3.1. TRENDS IN EXECUTIVE COMPENSATION IN CHINA

Evidences regarding executive compensation in China, in fact, provide a ray of hope. The evidences indicate that the CEOs in China receive a relatively lower sum as executive compensation than their peers in the USA and the UK.

In 2011, Jiang Jianqing, the Chairman of the Industrial Commercial Bank of China, the most profitable bank in China, earned a compensation of mere \$380000. Whereas, the CEO of the Newyork based JP Morgan, Jamie Dimon was awarded a total compensation of \$23 million and the CEO of the HSBC Holdings PIC, Stuart Gulliver, the UKs best paid banking chief was paid \$21 million in the corresponding period¹⁰. Thus, the pay-to-performance gap with regard to executive compensation is relatively wider in China than in the USA and UK.

5.3.2. TRENDS IN EXECUTIVE COMPENSATION IN INDIA

The Chief Mentor of Infosys Technologies Ltd., N.R. Narayana Murthy has observed that the executive compensation is so high in India¹¹. The Prime Minister of India, Dr. Manmohan Singh has again termed corporate India’s ever rising CEO compensation as “excessive” remuneration¹². Table 5.3 shows the executive compensation paid to the top five CEOs in India during 2009-10.

TABLE 5.3
Executive Compensation paid to Top Five CEOs in India (2009-10)

Sl.No.	Name of the Executive	Company	Total Pay (Million \$)
1	Naveen Jindal	Jindal Steel	13
2	Kalanithi Maran	Sun TV	7
3	Kavery Maran	Sun TV	7
4	Pawan Munjal	Hero Honda	6
5	Brij Mohanlal Munjal	Hero Honda	6

Source: Business India, January 9, 2011. p.55.

It is seen in Table 5.3 that the compensation paid to the top executives in India is nearly at par with the market rate prevailing in the USA and the UK and much higher than the compensation awarded to CEOs in China.

VI. Findings Of The Study

The following are the major findings of the study.

- 6.1. Attractive executive compensation is vital to attract and retain talented and high performing executives.
- 6.2. The salaries of the CEOs in the USA, the UK and in India are much higher than that of their employees.
- 6.3. The CEOs in the USA and in the UK do not show any restraint on their compensation despite a formidable recession.
- 6.4. Compensation awarded to the CEOs is disproportionately higher than corporate performance.
- 6.5. The executive compensation is relatively lower in China.

VII. Recommendations

In the light of the findings of the study the authors wish to outline the following recommendations.

- 7.1. Restraint an executive compensation is the need of the hour in view of the possible repercussions such as erosion of share holders’ wealth, unrest among the employees and window dressing. Thus, self restraint on the part of the executives is the best remedy for checking hefty compensation.
- 7.2. The disclosure in annual reports in regards to executive compensations has to be made much more elaborate and transparent.
- 7.3. The share holders need to be educated and encouraged to play a proactive role in the annual general meetings. The share holders’ activism will be helpful in checking excessive executive compensation.
- 7.4. Finally, the Ministry of Corporate Affairs needs to be more vigilant to ensure that the compensation committee consisting of independent directors is really active. It may also come out with guidelines to link the fixed and variable components of executive compensation with corporate performance parameters such as increase in turnover, increase in pretax profits and so on.

VIII. CONCLUSION

Executive compensation is no more an esoteric subject. It does not get itself confined to board room discussions. There should be a change in the mind set of the executives so as to have a holistic view of executive compensation. The reason is that honesty can not be legitimated. This alone will be of help in future. The proverbial saying that contended mind is a continuous feast holds goods in this context too.

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