

CEO Package: How Much is Too Much?¹

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I have often been asked whether the CEO pay in India is too much or too little. Let me first get to the question whether it is too little. There are many reasons to argue that our CEOs could do with decent compensation. First, most of these people have global competencies, global opportunities and therefore, deserve globally-competitive compensation. Second, there are several corporations in India that have brought in CEOs from developed nations and given them globally-competitive salaries. Hence, to give lower compensation to an Indian CEO for the same responsibility and performance seems like racial discrimination. Third, many of our corporations have appointed independent directors with a global mindset from developed economies and their expectation of CEO performance is in turn, the global best. Therefore, compensation committees of these corporations which consist of only independent directors have no problem in awarding globally-competitive compensation.

Now, let me get to the other side of the argument. Let me first offer a philosophical basis for my contention as to why corporate leaders should receive moderate compensation. Over 800 million people in India live on less than \$ 2 (Rs. 100) a day. Most of them do not have access to basic education, shelter, nutrition and healthcare. In such an environment, leaders from every walk of life have to conduct themselves properly, shunning profligacy and ostentatiousness. The only way we can solve the problem of stark poverty in India is through creation of decent income jobs leveraging the power of entrepreneurship.

Compassionate capitalism is the most-suited philosophy to encourage entrepreneurship. Capitalism is new in India. The evangelists of capitalism have a heavy responsibility to make it acceptable to our society - politicians, bureaucrats and the people at large. We have to communicate to these people through our actions that there is good in capitalism. We have to work hard

to make capitalism part of the DNA of our economic philosophy. To do so, we have to embrace compassionate capitalism which is capitalism with fairness, justice and liberalism. So, we have to communicate to the vast majority of the poor that we are partners in this journey of economic emancipation of the country. The best way to put this across is to lead by example. So, economic sacrifice and simple living becomes very important. Taking huge global-level compensation in the midst of poverty does not seem right in this context. There is another important reason why our corporate leaders should lead a simple life until such time that stark poverty in India is removed. If we do not, we may raise the anger of the poor, there may be violence, and the rich may become victims of this anger. When I hear about the vulgar display of wealth in cities like Delhi and Mumbai, I get worried whether we are heading to a cataclysmic display of violence by the poor who have lost hope. This is not an outcome that any of us would wish for this country since corporate leaders have an important role in solving the problem of poverty. We would do well to remember the words of John Kennedy that a society that cannot help many who are poor cannot save the few who are rich.

Now let me come to the economic rationale for deciding CEO salaries. I believe that these salaries must be decided on three important parameters - fairness, transparency, and accountability. No leader can succeed in a vacuum. (S)he needs the hard work, dedication and sacrifice of thousands of people to succeed. Leadership is about making others succeed. It is about raising the aspiration, confidence, hope and commitment of one's colleagues to achieve a plausibly impossible dream. Therefore, giving huge salaries to just the CEOs does not make sense. In many corporations where the CEOs are being given exorbitantly high compensation, I find it odd that the compensation of even the second most important official is but a small fraction of the CEO's payment. I have often suggested a ratio of 20 to 25 between the

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salary of the lowest level professional in a corporation and the highest compensation paid in the corporation. Such fairness raises the confidence and enthusiasm of everybody in the corporation. It engenders trust in corporate leaders.

Second, we have to embrace transparency in the process of fixing compensation and in disclosing the items of CEO compensation to shareholders and employees. The biggest challenge for a corporate leader today is to build trust, else (s)he will not be able to get the sacrifice, enthusiasm and commitment of his or her people. Making sure that every item of compensation paid to the CEO is disclosed in the annual report, that a climate of concurrence is built with principal institutional investors and employees, and that it is voted by the majority of the shareholders have to become mandatory.

Finally, the compensation has to be based on accountability and performance. A large part of the compensation has to be variable and linked to performance over a sustained period like five to seven years. It should also contain a claw-back clause that will help the corporation recover any compensation paid should the person be responsible for any ethical and legal violation. A just society is a happy society. We must work hard to create a just society. The days when the rich live isolated from the reality of India - residing in gated communities surrounded by guards and moving about in posh cars with tinted glasses - should come to an end. The first step in achieving this is a CEO compensation based on fairness and accountability.

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Mr. Murthy articulated, designed and implemented the Global Delivery Model which has become the foundation for the huge success in IT services outsourcing from India. He has led key corporate governance initiatives in India. He is an IT advisor to several Asian countries. He serves on the boards of many companies as well as business schools. The Economist ranked Narayana Murthy among the ten most-admired global business leaders in 2005. He topped the Economic Times list of India's most powerful CEO's for three consecutive years, 2004 to 2006.

He has been awarded the Padma Vibhushan by the Government of India, the Legion d'honneur by the Government of France, and the CBE by the British government.

He is the first Indian winner of Ernst and Young's World Entrepreneur of the year award and the Max Schmidheiny Liberty prize, and has appeared in the rankings of businessmen and innovators published by India Today, Business Standard, Forbes, BusinessWeek, Time, CNN, Fortune and Financial Times. He is a Fellow of the Indian National Academy of Engineering and a foreign member of the US National Academy of Engineering. He has about 25 honorary doctorates from universities in India and abroad.