

IS TOP EXECUTIVES REMUNERATION IN PUBLIC SECTOR ENTERPRISES FAIR AND EQUITABLE AS COMPARED TO PRIVATE SECTOR?- INTRIGUING ANALYSIS

F. R. Alexander Pravin Durai¹, Sivasankar, G²

¹Former Dean & Associate Professor, Department of Commerce & Coordinator of MBA Twinning Programme, St. Joseph's College, Tiruchirapalli – 620002.

²Ph. D Research Scholar, Department of Commerce, St. Joseph's College, Tiruchirapalli – 620002.

Abstract: *The PSEs in India is playing a pivot role and they have grown both in terms of revenue, profit leaps and bounds over the last decade. The CEOs of an organization is playing a important role achieving the vision, missions of the organization, taking the organization to greater heights, shaping the future. In this article an attempt is made to find out whether the CEO, top management remuneration is fair in line with their private counterparts.*

Introduction

Human resources are important factor for organizational effectiveness and the greatest assets an organization can possess. The acquisition and retention of skillful and well equipped workforce in an organization is pertinent to the growth and overall performance of an organization. In many business firms, Compensation management is a thorn in the flesh of the management due to the complexity and sensitivity involved.

Compensation management is always a vexing issue for the HR managers while managing human resources. Theoretically they need to develop compensation packages that satisfy the mutually exclusive interest of both the organization and the employees. It is a tough and challenging task for any HR manager as there is often an inherent conflict of interest between the management and the labor over the sharing of the earnings of an organization. For instance the management's goal is to limit the cost of labor whereas the employees' aim is to earn more from their profession. However, modern management no longer views compensation as merely a reward for the energy, expertise and time expended by the employees. It considers compensation, as an effective tool to accomplish both the organizational and individual needs in a systematic and satisfactory manner. For many organizations, compensation is a vital instrument to attract and retain the best talents and motivate them to give their best for them.

Though the managerial levels of an organization is broadly classified into top, middle and entry levels, the major chunk of managerial remunerations are paid to the top echelon. The top managers like CEOs as leaders of the organization play a pivotal role in achieving the organization's mission, vision and planning for the future, and thereby taking the organization to greater heights. CEOs are important persons in organization, who need to be constantly motivated for the long term interest of the organization. Therefore the compensation of CEOs should be attractive, fair and commensurate with the industry standards. Per se, the CEO remuneration is a contentious subject in corporate world as wide variation among the CEOs in same industry.

In this article an attempt is made to find whether the remuneration of the PSE top executives in India is fair and equitable or not, whether it commensurate with their performance and is in alignment with their counterparts.

Review of Literature on Employee Compensation

Abayomi Olarewaju Adeoye and Ziska Fields, in a study revealed that compensation management and employees' job satisfaction are significantly correlated though weak and that compensation management has an impact on motivation and job satisfaction of employees¹.

In a Study involving 84 Taiwanese firms, Axel K.D. Schulz, Anne Wu & Chee W. Chow stated that employee effort is significantly and positively associated with organizational performance and fully explains the effect of performance based compensation in increasing organizational performance².

In a study of airline industry by Zheng Gu, Hyunjoon Kim, involving 53 firms, it was observed that CEO cash compensation was positively correlated with the size and revenue efficiency of an airline firm whereas growth, debt use, profitability, and stock performance were irrelevant to the compensation³.

In a study conducted by Muhammad Fayyaz Sheikh, Syed Zulfiqar Ali Shah and Saeed Akbar, it was found that accounting performances have positive influence on CEO compensation. Stock market performance does not appear to have a positive impact on executive compensation. It was found that ownership concentration is positively related with CEO compensation, indicating some kind of collusion between management and largest shareholder to get personal benefits⁴.

¹Compensation Management and Employee Job satisfaction: A Case of Nigeria, Journal of Social Sciences, Volume 41, 2014 – Issue 3.

² Environmental Uncertainty, Comprehensive Performance Measurement Systems, Performance-Based Compensation, and Organizational Performance, Volume 17, 2010, Issue 1

³CEO cash components determinants: an empirical examination of US airlines, The Service Industry Journal, Volume 29, 2009 – Issue 7

⁴Firm Performance, corporate governance and executive compensation in Pakistan, The applied Economics, Pages 1-16, Published online, 9th October, 2017.

In a study in UK by James Johnston, it was observed that the majority of cases the CEO had not been lured away from rivals but had risen through the internal labor market, often after a long-term employment relationship. Moreover, long job tenure and internal promotion were associated with higher levels of pay.⁵

In a study by HE Scholtz, A Smit in South Africa which examined the relationship between short-term executive compensation and company performance for companies listed on the Alternative Exchange in South Africa between 2003 and 2010. It was concluded that there is a strong relationship between executive remuneration and some company performance variables, such as total assets, turnover and share price⁶.

Kevin J Murphy in a study observed that economic theories of efficient compensation predict a positive relationship between executive pay and corporate performance, and yet efforts to document this relationship have been largely unsuccessful. It was further observed that executive compensation is strongly positively related to corporate performance as measured by shareholder return and growth in firm sales.⁷

Features of Compensation

While fixing the top executive remuneration, an organization should develop a package in such a way as to

1. Enhance individual and organizational efficiency
2. Improve and sustain Employee motivation and retention
3. Create Goodwill in the labor market
4. Adhere to the prevailing laws and regulations
5. Keep the salary Cost within the reasonable limit
6. Improve industrial relations.
7. Achieving the organizational objectives, mission and vision

In the case of Private sector the top executive remuneration is fixed through the negotiation between the concerned executive and the management. The compensation depends on factors such as the performance of the organization in general, the performance of the individual in particular, the organizational objectives, the organizational growth in terms of revenue, profit, share price etc subject to approval of remuneration by the shareholders of the organization, as the higher remuneration may impact the earnings of the shareholders and their payout in the form of dividends.

In the case of PSE, top executives remuneration is fixed as per the directives of Department of Public Sector Enterprises. The board, shareholders of the PSE does not have any power to change the remuneration of the top executives of the PSE. The remuneration is revised once in 10 years. However as per the recent guidelines of the Department of Public Enterprises, the remuneration shall be reviewed after 3 years to see whether the remuneration is impacting the profits of the organization. Therefore the remuneration is fixed irrespective of the growth, performance of the organization.

Methodology of Study

In order to find whether the top executive compensation at Public Sector enterprises is fair and equitable over the last ten years a comparison was done between a public sector and private sector enterprises was done. The comparable organizations for this purpose are Indian Oil Corporation Ltd. from Public sector enterprises and Reliance Industries Ltd. from Private sector were taken as sample.

Table 1: Top executive remuneration over the last 10 years in Reliance Industries Ltd.

Reliance Industries Ltd.										
Particulars	Year									
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover (Rs. In crores)	137205	144335	198869	251222	336096	368295	399053	337797	240740	273750
Profit (Rs. In Crores)	19458	15309	16236	20286	20040	21003	21984	22719	27384	31425
Rem to top executives (in Cr)	69.61	40.30	42.84	32.56	45.82	45.94	52.07	58.21	65.93	72.28
Top Executives Rem % of sale	0.05	0.03	0.02	0.01	0.01	0.01	0.01	0.02	0.03	0.03
Top Executives Rem % of Profit	0.36	0.26	0.26	0.16	0.23	0.22	0.24	0.26	0.24	0.23

Source: annual report of RIL

⁵Tenure, Promotion and Executive remuneration. Applied Economics, Volume 34, 2002 – Issue 8 Pages 993-997.

⁶Executive remuneration and company performance for South African companies listed on the Alternative Exchange, South African Business Review, Volume 16, No. 1 – (2012)

⁷Corporate Performance and managerial remuneration: An empirical analysis, Journal of accounting and economics, Volume 7, Issues 1 – 3, April 1985, Pages 11 – 42.

Table 2: Top executive remuneration over the last 10 years in Indian Oil Corporation Ltd.

Indian Oil Corporation Ltd.										
Particulars	Year									
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Turnover (Rs. In crores)	251127	307413	277734	336867	437707	450611	476627	441670	409150	449581
Profit (Rs. In Crores)	6963	2950	10221	7445	3955	5005	7019	5273	11242	19106
Rem to Top executives (in Cr)	1.64	1.78	4.93	4.11	4.78	4.84	4.03	8.69	2.96	5.90
Top Executives Rem % of sale	0.0007	0.0006	0.0018	0.0012	0.0011	0.0011	0.0008	0.0020	0.0007	0.0013
Top executives Rem % of Profit	0.02	0.06	0.05	0.06	0.12	0.10	0.06	0.16	0.03	0.03

Source: annual report of IOC

Findings

From the above tables it is clear that the compensation of top executive at private sector is much more than the public sector both in terms of absolute amount and as a percentage of sales and profits of the organization. In the case of public sector enterprises it may be noted that though the turnover is almost twice as that of the private counterpart, but in terms of remuneration it is less than one-tenth of the remuneration of the private sector.

The companies in both private and public sectors grown both in terms sales and profits over the last 10 years, but the remuneration to top executives in both sectors are almost stagnant for the last 10 years. Though Reliance Industries Ltd. shareholders approved remuneration of 38.75 crores to Shri Mukesh Ambani, Chairman and Managing Director of Reliance Industries Ltd., the company continues to pay only Rs. 15 crores, reflecting his desire to continue to set a personal example for moderation in managerial compensation levels.

Conclusion & Recommendation

The top executive compensation of Public sector enterprises is very less compared to their private counterparts. The remuneration is not commensurate with the growth of the organization. Therefore the concerned authorities should review the compensation of top executives of public sector enterprises and revise suitably in line with the private sector enterprises and to realize the Government dream of making Indian Public sector enterprises a world class organization, creating World largest organizations.

