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OP-ED CONTRIBUTOR

The Corner Office in Bangalore

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COSTS are rising everywhere for American corporations, from energy to employee health insurance premiums. Yet in their drive to cut expenses, most notably by moving factories and call centers to other countries, they are overlooking the escalating cost of the executive suite. It's time to apply market logic to this disturbing trend and begin outsourcing chief executives. This measure would unlock tremendous value for shareholders.

So far, outsourcing manufacturing and services has led to higher chief executive compensation, at the expense of shareholder profit. For example, I.B.M.'s chief executive, Samuel J. Palmisano, who has been moving jobs to India, last year saw his total compensation rise 19 percent to \$18.9 million — even as the total return for his company's stock fell 16 percent.

That's proof that globalization hasn't gone far enough. China, India and other emerging markets offer shareholders a virtually unlimited talent pool from which to draw chief executives. With an increased supply of candidates, a truly independent corporate compensation committee would be easily able to hire superior leaders at salaries and benefits that are a small fraction of what their American counterparts in those fancy corner offices demand.

Several orders of magnitude separate the compensation of American and overseas chief executives; the Federal Reserve notes that while a typical American chief executive in 2004 got a compensation package 170 times greater than that of the average American workers, in Britain it was 22 times and in Japan 11.

But there are several benefits beyond the immediate savings. Major American corporations have been shifting their factories and labor force to China and India for some time now. It would make sense for the chief executive of an American corporation to come from, and be based in, those areas of the world where the potential for market growth is the greatest. It would be reassuring to have a chief executive who understood the local business practices, the country's cultural underpinnings and the language.

Also, given the importance placed on performing well in science and math in countries like China and India, it would be more likely that an offshored chief executive would have had a rigorous technical education instead of degrees in the "softer" management disciplines that are common at American business schools. Critics may question whether it is wise for an American company to have its chief executive in Bangalore or Beijing. But this is the thinking of a bygone era. More

and more corporate chiefs say that they do not want their companies to be seen as American anymore. Cisco's chief executive, John Chambers, has declared, "What we're trying to do is outline an entire strategy of becoming a Chinese company."

Indeed, considering how the United States is perceived by the world these days, this is just smart marketing. And installing a foreigner from a developing country as chief executive would be a savvy move.

Other critics might point out that while a chief executive's compensation package may be eye-popping to the average person, in terms of his company's total market capitalization, it is really quite modest. This is an excuse, not a justification.

Current chief executive compensation creates what economists term a perverse incentive. An American chief executive, who is paid an average of \$11.3 million annually, gets rewarded enough in one year to exceed the lifetime standard of living of 99.99 percent of the world's population. Even if he's booted from his job because of poor performance, he's set for life.

It is far better for shareholders to have chief executives whose compensation packages are based on the long-term performance of the company. Or in plain language, it is better to have a "hungry" executive instead of one who stays fat and happy even when the corporate ship capsizes into the troubled waters of bankruptcy.

In addition to perverse incentives, the current level of chief executive compensation creates opportunity costs. The money saved by hiring a cheaper executive can be invested in even more offshoring initiatives. A virtuous circle of shareholder profitability can be established.

Moreover, this would be a boon for management consultancies that can help companies scour the world for chief executives. McKinsey and Booz Allen, take note, and take outsourcing to its logical conclusion.

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