

Executive Compensation Is Out Of Control

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Introduction

Compensation is the amount paid to the employees for the services they provide to the company. An article written by Shellie Karabell in Forbes magazine states that the compensation paid to CEOs is not under the control of the company. The report focuses on the fact that the ratio is increasing in most developed countries like America, Hong Kong, Spain, Germany, the UK, Canada, and Singapore. The paper examines whether paying highly to CEOs increases the efficiency of the company or if paying high to CEOs will get the company to the top.

Discussion

The article begins with the question of why companies have to pay so much to their CEOs. CEOs are the ones who make policies and let those policies travel down to every employee who is working in the organization. If the plans made by them are correct company will prosper, if not, it will not. Every company tries to be at the top of the particular industry in which it is operating. There is a significant gap between the wages of the CEO's and the salaries of the employees. We call this gap a wage gap. Now, the wage gap is more closely associated with the Gender gap. It means the wage difference between Men and Women. It has been observed that men, as CEOs of companies, are provided with higher wages than women.

In this modern era, there are negative aspects associated with any program or product or anything that is coming into society or the market. A negative point is demoralization. The sense of community that the organization needs the most. High pay has destroyed this sense. A sense of confusion will come to the minds of other workers who work in the company. They might think that their wage should also be increased from whatever they are getting currently. In 1965, a management guru, Peter Drucker, said that the ratio between the wages of the CEOs and the pay of the employees is 20 to 1. This means that the CEO will get pay that is 20 times more than the salary of the worker. All the hard work that is done by the workers or the employees and still not getting enough pay will create a sense of demotivation because, in the end, money matters. It does not matter how good the environment is or how well the organization is structured. The thing that matters is money. It can be said that money is the one that matters most and motivates the worker to work for his betterment.

One of the reports published by the Economic Policy Institute regarding top management pay explains how drastically the salaries of CEOs have increased over the years. That shows that in different years, the ratios have come up and down. In 1995, the rate was 123 to 1, which means that the CEO was getting pay that was 123 times more than the wage of a typical worker in the organization. Likewise

in 1989, the ratio was 59 to 1, in 1978, the ratio was 30 to 1, and in 1965, the rate was 20 to 1. Drucker presented the last ratio. From the report, it was estimated that the pay of the CEOs was continually increasing on a yearly basis, with a high percentage. It was said that it got raised to 937 per cent, which is a considerable percentage. Now, the question arises as to why companies pay so much to CEOs. The answer to the question could be that they are the ones who have to ensure that the company operates efficiently and effectively in the respective industry. CEOs are the ones who establish strategies, and their strategies are essential to earning profits. These could be reasons to pay them so much. This may be the positive side, but there is a negative side as well. High pay for CEOs makes employees dissatisfied with the company because they are not getting that much money, which makes them feel motivated. Apparently, the company cannot pay that much to every employee like they are paying to the CEOs, but a handsome amount can be paid to ensure some balance between them.

Another problem mentioned in the article is that there is a difference in the CEO of the same companies in different countries. It has been said in the article that CEOs of publicly traded companies of the USA in the USA are getting more pay than the CEO of the same company operating in Canada. This gap is even wider for companies that are headquartered in America and have the same companies working in other countries. One of the statements made by the leadership professor at INSEAD, which is one of the best business schools in Fountainebleau that the pay given to the CEOs, in fact, the day wage of the CEO is more than the average salary of the worker that he makes in an entire year. Another professor has supported this by making a statement that this is one of the useful ways of a capitalist country. In short, this is one of the forms of capitalism. Along with the positive aspects of capitalism, there are negative aspects of capitalism which directly affect society. In terms of creativity and innovation in the products or services of the company, he, the professor, has given low marks by comparing the pays of the CEO's and average employees which has the most significant negative impact on the average employee's moral.

Two myths are presented in the article that justify why CEOs should be paid more than an average employee. The first myth explains that CEOs should get high pay so that they stay motivated in the company and work harder to achieve the company's goals. Now, if one goes into reality, this is not the case. Those CEOs who are high achievers will work anyway, either if they are paid high or less than that. In this era, people who are achievers are those who play a top game in the corporate sector. It's not entirely accurate that money is the motivation, recognition and being praised in front of the world or the company are kind of motivation for most of the people. We are talking about CEOs, not average employees working in an organization. This is a reality of the world; the myth does not prevail in the society. The author has said that if a company cuts out some part of the pay of the CEO, according to him if the CEO is an achiever, this will not have an adverse impact on his or her performance. He will work hard like he used to do in the past (Karabell).

The second myth explains that paying high to CEOs demonstrates market demand for the skills they possess in the bottom line. Now, the author believes that CEOs do possess excellent skills but low leadership skills. They do not have enough leadership skills that other people have. There is a

likelihood that the manager of the same company has more leadership skills than the CEO, but that doesn't mean that the company should pay him high amounts because of the senior leadership skills he possesses. If there are more of those skills available in the market, this will automatically reduce the pay of the CEO. CEOs like Steve Jobs and Bill Gates are exceptional cases. There may be people like them, but it is rare to find such leadership skills in this era. Now the question that comes to mind is how to properly balance this situation. It is highly unjust to fire the CEO. No. However, imposing high tax rates according to their pay will create a high impact. This could be one of the suggestions for achieving a proper balance. Another idea would be to pay CEOs according to the profitability and the operations of the company, and more importantly, keep in view the employees of the company. If a company is paying more to the CEOs, it should create a balance between the CEOs and other employees and increase their pay as well. This will not demotivate other employees.

Conclusions

From the above discussion, it is clear that paying CEOs is not the way to lead the company to the top. But it will surely demotivate other employees and will demoralize them as well. There should be a proper balance between the pay of the CEO's and the pay the company gives to other employees. If the government introduces a corporate tax rate that is applied to firms with a high CEO-to-worker compensation ratio, this would be one good move that any government would make. With the help of this corporate tax, a proper balance between the wages of CEOs and workers can be maintained.

Works Cited

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