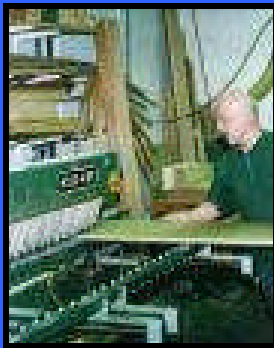


Fairness in Executive Compensation

“On the Backs of the Average Worker”



By Matthew Govek

Executive Summary

“I have a mansion, forget the price. Ain’t never been there, they tell me it’s nice. I live in hotels, tear out the walls. I have accountants pay for it all.” These lyrics by Joe Walsh are words to a great classic song describing his crazy lifestyle in the 1980’s. This lifestyle that he describes is not much different from the typical executive’s desires and attitudes about his position in life. The new top executives of the nation’s largest companies are garnering the largest amounts of compensation in history, and there are little signs of slowing. It is simply not enough to have a single house and live comfortably in a nice neighborhood with a couple cars. The majority of America would give up much to live like I had just described. The executives of America need 5 houses in different cities and countries, along with pools and 6 cars at each house. Not to mention the average house that they buy costs over 1 million in the first place.

*I have a mansion
Forget the price
Ain't never been there
They tell me it's nice*

*I live in hotels
Tear out the walls
I have accountants
Pay for it all
-Joe Walsh*

In no way would I attempt to say that the average American would not also love to have the lifestyle of those executives, but the realistic living style would be completely adequate. a growing concern in America is the realization of the compensation of those executives at the expense of the average worker. Throughout history, those in charge of the accomplishment of a task are always the first and best compensated. It is easy to point out the director of a team and congratulate the figure. People do not have a problem with that system if the appropriate due is given to those most responsible for the accomplishment of that task. When it affects people in a highly negative way is when

those in a leadership role garner the majority of the compensation and feedback. Any group member that becomes overlooked for their accomplishments very easily becomes disenfranchised with the system because of the unfairness he or she received.

Unfairness in CEO Pay?

When leaders of a country, organization, company, or any group make decisions that affect the members, they have to be held accountable for good and bad. The good decisions that these executives make are highly influential to everyone involved with the organization. In a purely capitalist view, the compensation for the executives is based on the individual contributions and labor that the executive has contributed to the company. Because of the high contribution to the organization, the member receives the high compensation. Much like that star player setting records and getting paid 10 million a year in the NFL, the compensation has no limit as long as they win.

This compensation can be considered fair if the achievements and contributions are incredibly scarce. It becomes a problem for the rest of the members of the team because they want to be recognized appropriately for their contributions as well. I like to compare this misappropriation of credit to the Kansas City Chiefs of the National Football League. Nick Athan of Scout.com says that “the success of this offensive line has been the guys in the middle and thus far they’ve not played to their All-Pro abilities. Trent Green, Priest Holmes, Larry Johnson, Eddie Kennison and Gonzalez can make the plays down the field. But that plan only works if the offensive line plays like the one that has been so dominant.” This is the perfect representation of type of problems plaguing the average bureaucratic company. If the people that are overlooked do not become

appropriately compensated for their important duties, it is not a problem, but when the company begins to suffer, they then realize just how important those people become.

Crying All the Way to the Bank?

It is hard to get a grasp on the inequities of this situation without looking at the truly thought provoking numbers. In a recent graph constructed by Forbes magazine, the top 25 compensated executives are listed with an astounding amount of money. The facts are hard to negate, and should have everyone thinking about the real problems with these companies. On the following page is that very graph, showing just how appalling these numbers can be.

Some recent statistics show the new extraordinary amount of compensation:

- Median 2005 pay among chief executives running most of the nation's 100 largest companies soared 25% to \$17.9 million this year. [USA Today](#)
- 3.1% average income gain by typical American workers [USA Today](#)
- The heads of America's 500 biggest companies received an aggregate 54% pay raise last year. As a group, their total compensation amounted to \$5.1 billion, versus \$3.3 billion in fiscal 2003. [Forbes.com](#)
- Compensated only by stock options since 1997, Fairbank (of Capital One Financial) claimed one of the biggest executive windfalls in U.S. business last year, exercising 3.6 million options for gains of nearly \$250 million. His personal haul exceeded the annual profits of more than 550 Fortune 1000 companies, including Goodyear Tire, Reebok and Pier 1. [Shreveport Times](#)

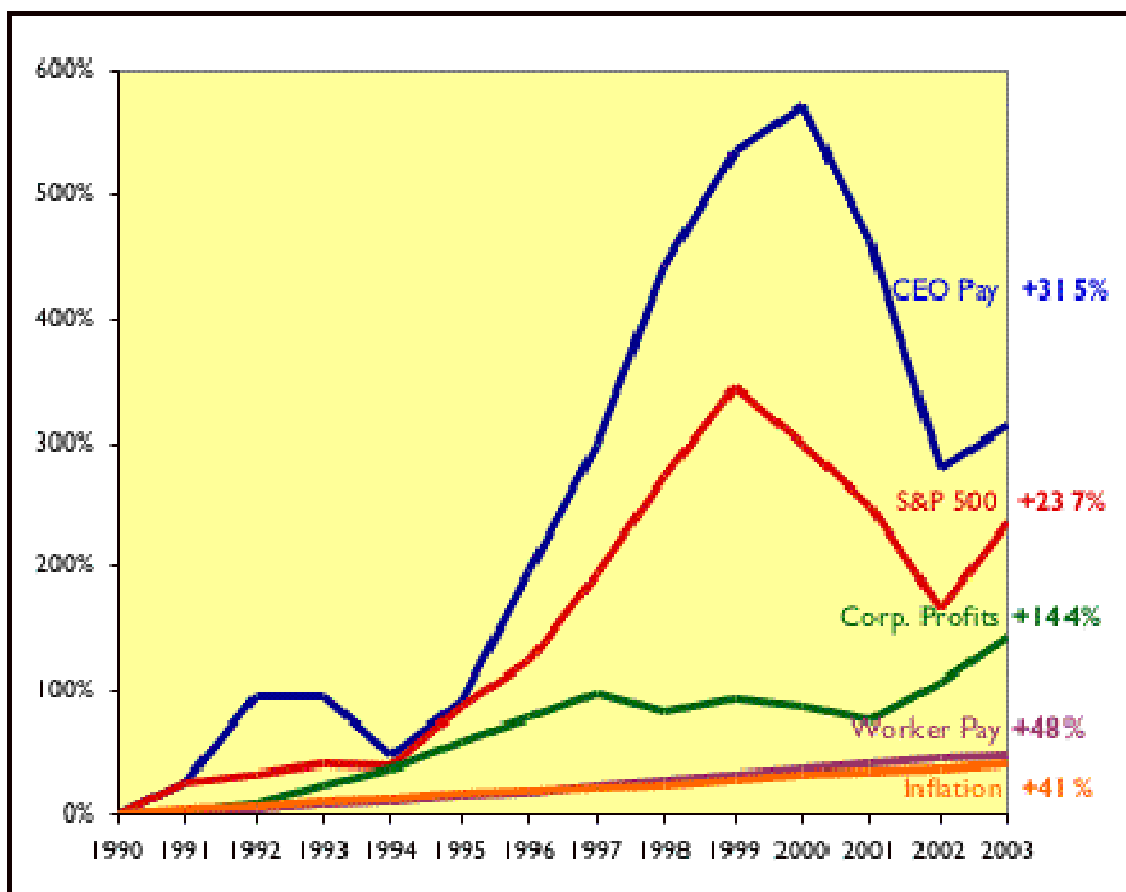
On the following page is the top 25 earning executives by Forbes magazine.

Can We Give You Any More Money?

Rank	Name	Company	Total Comp (\$thou)	5-Yr Comp (\$thou)	Mkt Val - Shares Owned (\$mil)	Age	Efficiency Rank
1	Terry S Semel	Yahoo	230,554	258,291	63.9	62	--
2	Barry Diller	IAC/InterActiveCorp	156,168	239,846	39.0	63	178
3	William W McGuire	UnitedHealth Group	124,774	342,284	31.1	57	33
4	Howard Solomon	Forest Labs	92,116	294,895	241.7	77	48
5	George David	United Technologies	88,712	210,793	85.2	63	129
6	Lew Frankfort	Coach	86,481	154,087	113.3	59	--
7	Edwin M Crawford	Caremark Rx	77,864	93,563	3.2	56	29
8	Ray R Irani	Occidental Petroleum	64,136	127,447	29.1	70	98
9	Angelo R Mozilo	Countrywide Financial	56,956	96,914	40.5	66	--
10	Richard D Fairbank	Capital One Financial	56,660	226,268	63.3	54	152
11	C John Wilder	TXU	54,874	--	112.4	46	--
12	Richard M Kovacevich	Wells Fargo	53,083	130,093	108.0	61	138
13	Robert I Toll	Toll Brothers	50,240	99,273	933.7	64	50
14	Lawrence J Ellison	Oracle	45,804	867,727	15,704.1	60	72
15	William E Greehey	Valero Energy	44,875	103,725	203.1	68	86
16	Irwin M Jacobs	Qualcomm	44,422	131,785	1,085.5	71	20
17	Rodney B Mott	Intl Steel Group	42,747	46,161	54.6	53	--
18	John T Chambers	Cisco Systems	40,178	197,752	36.6	55	164
19	Richard S Fuld Jr	Lehman Bros Holdings	40,132	307,125	424.1	59	84
20	Bruce E Karatz	KB Home	38,816	98,751	98.9	59	113
21	Jerry A Grundhofer	US Bancorp	38,584	72,060	84.0	60	158
22	Kevin B Rollins	Dell	38,469	--	0.7	52	--
23	Bob R Simpson	XTO Energy	38,335	80,544	239.6	56	15
24	Dwight C Schar	NVR	38,234	210,812	403.5	63	81
25	James R Tobin	Boston Scientific	38,149	45,037	3.2	60	155

What About the Average Worker?

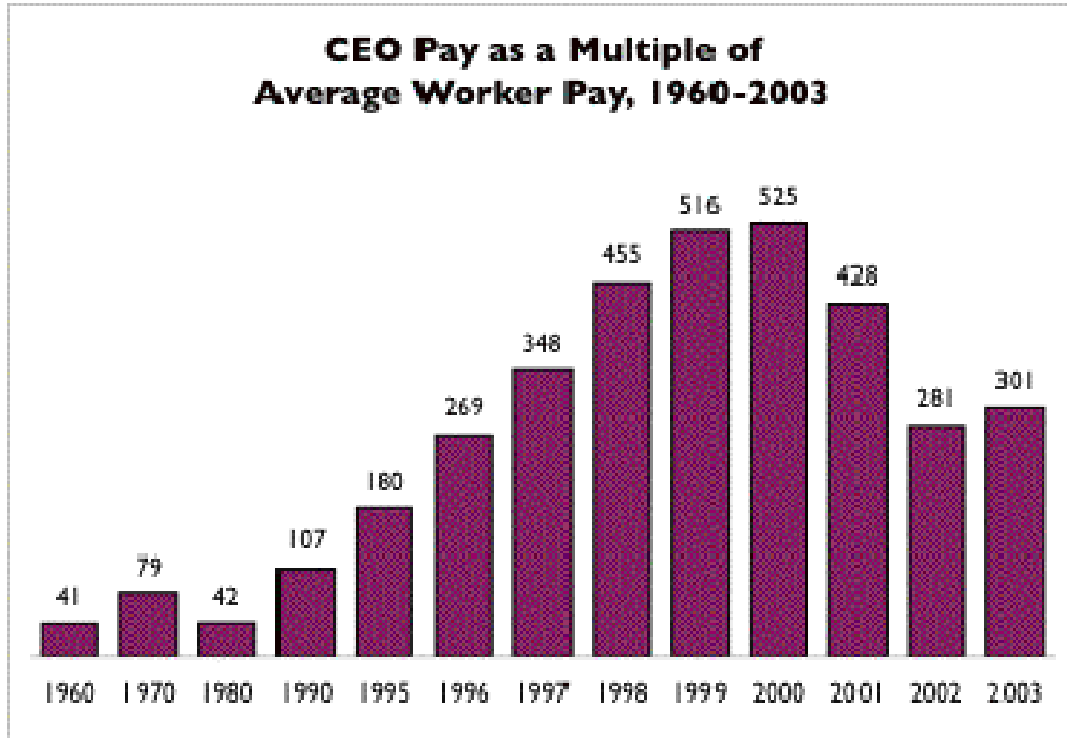
A monumental concern with this pay is not the exorbitant amount of money being shelled out to these people; it's about the people that are being exploited for this great payment. The payment that these executives receive is a systemic problem that should be addressed through the eyes of the typical shareholder and the average worker. These average employees give what they do to maintain a proper standard of living that could otherwise not be afforded. The monumental difference in the pay is draining the life out of the average worker. Below is a graph that shows just how ridiculous the pay has become in relationship to the contributors of the company. [Money Increase](#)



The graph represents CEO pay, stock Prices, corporate profits, worker pay, and inflation.

Notice the worker pay is just over the inflation rate in the United States, while the CEO's

compensation has no shame. The credit does have to be given to the attempt to bring those compensations a little closer together. However, paying the average worker just enough to keep his or her head just over the inflation rate is extremely unfair when looking at their bosses' pay. The following graph shows a more appropriate disease that is running rampant among corporate headquarters. The multiple of CEO pay to the average employee shows what is really causing a political and media frenzy. Although 2004 and 2005 are not included and have even greater disparity, the graph still shows an astounding result.



[Multiply My Income](#)

Is Mistrust the Problem?

Another big issue facing the problem of the disparity of the compensation is that of the lack of trust between the average workers. This lack of mistrust is exemplified greatly with the new Enron scandal surfacing. A general ignorance of the source and appropriation of the wages of these executives leads many people to speculate about seemingly honest CEO's. A recent New York Times article stated the general defense of the power trader giant; "With his fellow defendant, the Enron founder [Kenneth L. Lay](#), looking on and nodding and smiling, Mr. Skilling began his risky attempt to rebut charges that he orchestrated a scheme to deceive Enron's investors, while making millions of dollars from selling company stock when he knew the company was in deep financial straits." [Enron Trial](#)

There are testimonies from executives verifying the deception that the two executives laid out to become ultra rich. This misuse of power became a huge scandal, which caused the skepticism in many corporate giants. Several were investigated by the SEC and eventually declared bankruptcy. How do the men and women in charge of the large companies expect to gain respect and admiration when they are in such a tainted position?

The lack of participation between the owners of the company and the directors of the company causes further mistrust and disenfranchisement. New legislation has been brought before congress to prevent the high salaries and mistrust that has become so epidemic throughout the country. "Some experts say that rising pay is the fair and square result of a free market where companies compete for a manager's services. But while executives get to fend for themselves at the bargaining table, irate investors can't get their

point across to the people representing them, from the board of directors to mutual fund managers. That's in theory. Shareholders are so powerless in the current system that directors needn't mind them at all, even in the face of a sustained chorus like that over rising compensation. As shown by the mutual fund study, the same holds true for the relationship between money managers and their customers.” The preceding quote is an example of a mutual fund’s direction and the lack of participation that the average shareholder has in the decision-making process at the company. [Shareholder's Opinion](#)

The quote exemplifies the dilemma facing the shareholders of the multi-billion dollar corporations. The executives and directors have an obligation to make decisions that is best for the company, but often their own personal greed gets in the way. Even when the shareholders do seem to get their way in the termination of executives, some things still drive them crazy. The ridiculous amount of money they receive while holding their position can cause stress for these workers and investors, but what they leave with seems like an enormous section of the company. “During the past two years, the average severance package at an S&P 500 company amounted to \$16.5 million. ([Gordon T Anderson](#)) A perfect example is that of Home Depot’s CEO Robert Nardelli, who would take home cash and bonuses worth \$82 million if he were dismissed. That includes an upfront cash payment of \$20 million, due within his first 30 days of unemployment.”

It seems as though no one can win in the argument for lowering their pay. The shareholders would love to get rid of failing executives, but it seems that it would cost so much more money to simply find a better CEO.

*I'm in the high-fidelity first class traveling set, and I think I need a lear jet.
-Pink Floyd*

My Thoughts

With everyone getting compensated so well for their time, it seems that they are doing such a great job running these massive corporations. These corporations have a serious problem on their hands with the dissatisfaction that the nation has with their decision-making. It makes no sense to hire a CEO or pay them more money when thousands of jobs are being lost to “increase earnings.” If a company would ever want to convince a person that they were truly concerned about the costs associated with running and maintaining a high profitability, they would simply cut the expenses down as a whole.

When these executives get paid so much that it is putting faithful workers out on the street, someone with at least a shred of common sense and ethical foundation must raise their hand. Recently, Steve Jobs of Apple has taken a pay cut to one dollar a year salary. Although the symbolic step is extremely noticeable in the industry and marketplace as a whole, the executive still owns millions in ownership interest in the company. Ownership of a company entitles the person responsible for the creation of the economy-boosting entity to reap the benefits of their creation. It becomes a huge problem when the compensation from the owners is shown only in the executives running the company.

Ford has cut thousands of assembly-line jobs to save on expenses for the company, while the CEO was given a raise of substantial proportions at the time. If the money used to finance his raise was used to keep some of the jobs they had to cut, there would be little change financially, and the production could maintain the highest level possible.

It is simply unfair and unethical to place a worker in a position of poverty after 25 years of faithful service because the jobs are viewed as expendable. It is no wonder that there is an overpoweringly negative view of executives in this country. If the profits that a company benefits from were shared more directly with the shareholders and stakeholders in the company, there would be a much better occupational atmosphere along with a much increased outlook on the company.

Because these companies have been benefiting from the work of those laborers at the bottom, the exploitation is at an all time high. The contribution from these workers is at a much higher level than those controlling their movements in the company. When there are blue and white collar workers under the same corporate name, there must be some social justice that can be had.

Again, the workers that are placed in this undesirable location in the workforce are not asking for millions of dollars a year, they simply want to be able to provide a comfortable lifestyle for their family for years to come. They would love nothing more than to be appreciated to the point of the CEO's, even if it did not come with such high compensation. The executives are riding high on the backs of these employees, and they should give appreciation when it is due.

The system as it is set up now reminds me of a great taboo of American history. The early beginnings of this country had a widespread acceptance of exploiting labor that came cheaply to benefit the "executives" and other powerful people in the country. Plantations used free labor to manage everything they did to make money. The free slave labor was used to continue the incredibly lucrative lifestyle of the owners. The back breaking labor was simply the best way to make money. The low expense of maintaining

the slaves gave those at the top everything they could ask for, with no compensation given to the people doing the actual labor. The plantation owners contributed an incredibly small percentage of the labor to bring about the product they used for business.

When using slavery as an extreme example of the exploitation of the labor force for these corporations, it is important to note that the owners did not recognize the sacrifice of the slaves. Although the plantation owners will never be remembered as morally upright people as a whole, they did have skills in business that even the top corporations' lack. The slaves that were treated the best, produced the most. When the slave owners managed to recognize the humanity in the individuals, the slaves contributed much more. Some of these slaves did not leave the plantations even after emancipation because they felt like part of the family. Those that were degraded produced the least and were happy to change to a completely free lifestyle.

Owners and CEO's need to remember what brought them such prosperity. The lack of recognition for the workers is why the American public is so upset with corporate America. When the workers that are contributing so heavily to the prosperity of the company are treated like they are truly valued, the company will gain exponentially.

“The ratio of CEO pay to average worker pay increased from 301-to-1 in 2003 to 431-to-1 in 2004. By contrast, in 1990, the average large company CEO made just 107 times the pay of the average production worker.” [Fair Economy](#) Although there are many arguments saying that the contribution to the company is a fair and average day's work for the executives, some just don't see the fairness in the compensation. There must be a simple mindset change in America for the future success of the companies. American society needs to find something that is inside every red blooded American. The

internal contradiction that all of us face is the conflict between individual accomplishment and the success of the community. Civil rights between African Americans and the rest of the society became mainstream because of the realization of the importance of the accomplishment. Although the individuals' exploitation may have produced a greater success, the fair treatment of everyone was what was best for society. Anytime there is a group in society that is overtly oppressed (such as the average worker) the society is greatly deprived of potential success. We must strive for the advancement of everyone in our great nation, without leaving behind anyone.

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