The net result? Nearly three-quarters (74%) think CEO pay is out of synch with worker compensation, with only 16% thinking otherwise. Socio-demographic differences aside, most individuals feel quite adverse when discussing CEO compensation. According to Professor David F. Larcker of Stanford Graduate School of Business,

> There is a clear sense among the American public that CEOs are taking home much more in compensation than they deserve. While we find that members of the public are not particularly knowledgeable about how much CEOs actually make in annual pay, there is a general sense of outrage fueled in part by the political environment.(2)

CEO pay needs to be dramatically cut since their salaries are off the chart. How this is to be accomplished though, with or without government regulation, is where disagreement arises and usually along political affiliations. For example, while both groups feel that there should be a ceiling on CEO pay (nearly 65%), those who hold Democratic and Independent affiliations differ with Republicans by almost 15% (66%/64%/52%, respectively). When it comes to actually setting a cap on CEO pay, those surveyed thought that six times the average worker pay was acceptable. This is way below the average multiple of all CEO pay, which is 17.6.

Interestingly, there was nowhere near a majority consensus on how to use regulation to limit CEO pay. Some advocated large tax increases over a certain level (28%), others opted for setting dollar amounts relative to worker wages (25%), while a minority wanted to set pay ceilings not tied to worker pay (17%), and a similar percentage wanted CEO pay directly tied to firm performance. Only 9% thought to eliminate stock options, while another 8% would cut out all forms of equity compensation.(3)

Yet many experts do not agree with the public and would argue the public does not have all of the facts. Jannice Koors, managing director at Pearl Meyer & Partners in Chicago, has a different perspective on CEO compensation.

> I think most companies are on the right track with their [executive] pay programs. Yes, CEO pay increased this year—because average company profits and share prices grew. Compensation is more closely tied to performance than ever before, which is exactly what shareholders have been pushing for. Today, only a very small percentage of a typical CEO pay package is in the form of a guaranteed annual salary.(4)

Donald Delves, director, Towers Watson in Chicago, justifies CEO pay as follows.

> CEOs are paid about three times as much as the next level of executives. . . . In my experience, it is a very rare person who has the skills and experience required to run a huge global corporation. And their average tenure continues to decline. There is not a lot of patience shown by shareholders and boards when a company underperforms.(5)

Author of *The Taboos of Leadership* Anthony Smith noted that

> The reality is that the free market is alive and well, and is the true dictator of CEO pay. While what one's peers are making is still a legitimate barometer, critics should look at the macroeconomics of "stars" in all fields (after all, CEOs are the "stars" of the business world), and not just the microeconomics of CEO pay, if they are serious about understanding the calculus in determining compensation. Such valuation analysis must factor in the track record of the CEO; his or her potential; competing job offers; personal enticements; what he or she is leaving behind; their reputation on the "street"; and the team of other executives he or she is likely to bring or attract. . . . Only a handful of people are capable of leading major multinational corporations with 100,000+ employees and $50+ billion in annual revenue. Bottom line: true stars are in short supply and high demand. It's pure Economics 101.(6)

Whether you agree or disagree with the fairness of CEO pay, CEOs make as much in one day as the average worker makes in one year.

Questions

1. How does ethics apply to this case?
2. What factors might contribute to what some perceive as unethical behavior concerning CEO pay?
3. What are the differing ethical approaches, and how might they apply to this case?
4. How might the issue of CEO compensation be dealt with in a firm's code of ethics?
5. How might the issue of CEO compensation be used by a firm to create and maintain an ethical organization?
6. Use the "legal doesn't mean it's ethical" argument to disagree with current CEO compensation practices. What makes it legal, and why might it still be unethical?
7. What is your own opinion about CEO compensation? Provide facts and arguments supporting your position from this case.

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