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CASE 15-1 CEO COMPENSATION: DO THEY DESERVE ROCK STAR PAY?

Can't sing, dance, or hit a baseball out of the park? You can still earn "big bucks" by becoming a CEO of a Fortune 500 firm, according to the AFL-CIO, who used data gathered from the Department of Labor, Bureau of Labor Statistics. The average pay for a CEO in 2016 was $13.1 million based on an analysis of 420 firms in the S&P 500 index. From the worker's perspective (average earnings of $37,632), a CEO earns in 1 day what a worker earns in 1 year (335 times an average worker's pay in 2015, 347 in 2016). Worse, while the pay of the average worker increased by 2% from 2015 to 2016, CEO pay rose by 6%. Taking inflation into account over a 50-year time period, wages of this workforce were actually less than stagnant; in 1967, workers earned 10% more than in 2016, the equivalent of $41,473 adjusting for inflation.

The AFL-CIO's research clearly indicates that while the country as a whole has grown and unemployment is at a near all-time low, the worker in the United States is not similarly prospering as compared to his or her counterpart in corporate headquarters. There is a growing wage gap, a gap clearly that does not seem equitable from the largest federation of US labor unions as well as the general public.

Why such a high salary given the fact that the US economy has grown at most 2% per year over last few years, one-third of the growth of CEO salaries? US CEO pay is often high because it is based upon the average pay of their peer group. The AFL-CIO suggests that to eliminate this practice, similar to British concerns, shareholders have binding votes on CEO compensation. Yet the reality is that in 2015, 91% of investors' "advisory votes" in S & P 500 firms supported CEO pay levels.(1)

Stockholders aside, the general public certainly feels that CEOs are overpaid. Stanford University's Rock Center for Corporate Governance in 2016 ran a national study (1,202 participants who reflected US socio-demographics including age, gender, race, household income, state residence, and political affiliation) tapping into people's beliefs concerning the compensation packages of the 500 largest publicly traded corporations.