American ceo compensation is immoral

Business, Work

Substantial evidence shows that American CEOs are better rewarded than their counterparts in European countries, and that this trend has been on a rapid upward growth starting from the last thirty years and only slowing down during global economic recessions. As expected this trend has drawn considerable arguments, with a lot of questions posed about what structures do American companies usually apply when commissioning such abnormal pay hikes and whether such structures are ethically and professionally justified.

For instance, it can be loudly wondered whether the American CEOs deserve these high payments more than other CEOs elsewhere in the world. It can also be wondered whether they have more responsibilities than their counterparts in Europe and other continents alike. Well, the answers to these questions may draw all sorts of answers to the affirmative and/or otherwise.

For purposes of this paper it is hypothesized that, the abnormally huge compensation packages given to American CEOs in the form of salaries, bonuses, stocks, options, or even termination packages is not morally justified given that most workers in America are still struggling with the agony caused by unemployment, ineffective social welfare systems, and increased costs of living. In tackling this seemingly sensitive issue, efforts will be made to represent both sides of the argument in equal measures and then finally a final verdict will be made in support of the study hypothesis.

Theoretical Framework: Rogerian Argument Himself a psychologist, Carl Rogers advances a “ rational” kind of approach especially when sensitive matters are at stake. He opines that a writer should first of all understand strive to represent his readers perspectives in his writings using the most

neutral words there can be. He should also do the same when advancing his standpoint on an issue, particularly if such standpoint is not good news to his readership.

His advices are that a writer should not adopt an adversarial approach in presenting arguments rather he should adopt a seemingly neutral ground that will help to build sympathy and the desire to read more on the part of the audience. In fact, he reasons that a writer should not make a generalization as what his readership should believe of do, rather he should together with his readership struggle to finding and defending a neutral ground that will enable the readership to make their own personal decisions based on the fairly and factually resented issue.

Using this practical method of argument this paper will seek to present the sensitive issue of executive compensation by delineating the issue in operational terms; agreeing on morality of increased CEO compensation packages; refuting the morality of the same; offering examples why increased CEO compensation packages is not morally justified, and; proposing a neutral compromise that pits the two positions equally acceptable to the audience. Research Problem Is it morally justified to pay CEOs huge salaries while other employees are poorly rewarded?

This paper intends to carry out an intensive study to investigate whether the evidential abnormal American CEO Compensation packages are morally justified. To achieve this, a range of existing literature on marketplace modalities governing employee compensation vis-a-vis ethical structures will be revisited. The literature collected thereof will be analyzed and

systematically presented using the five principles ofcommunicationas advanced by Carl Rogers with view of advancing an opposition verdict.

There is a general consensus that teachers are underpaid and their professions are under respected. Now what if I told you that presidents of colleges make a lot ofmoney? And that they have been making more money since the recession even though campuses at large have lost classes and fees have been increased for students. Do you feel that the presidents for scholastic institutions should still get paid so highly? Well, it all boils down to the general perspective held by an individual. Most European countries believe in a more socialistic approach to president/CEO/executive pay.

Their salaries represent a level of contentment and achievement that can be justified as being equal to their counter parts below them. Here in America, since the recession many Americans have been scratching their heads in wonderment as to why CEOs of companies such as CountryWide, BofA, and Goldman have been pulling in such large amounts compared to the rest of the workers. Brian Foley mentioned that many American CEOs make more money in one year than the median salaried worker makes in lifetime. Is this an injustice? Our European corporate counterparts see it as such.

However many European companies move their base to America to reap the same rewards that American CEOs get, so what part of making such high pay makes it right? As a student and an intern at afinancecompany I feel that the corporate pyramid represents more of a stairway to heaven. I wonder what part of life, morality, and injustice to my coworkers must I face to reap the future rewards of possibly being a partner or maybe more? Should I work for the money as many Americans do instead of our European counterparts who

work for contentment and the ability to provide security to their employees and others?

With the on set of the recession American corporate pay structure has not only been heavily scrutinized by those who are not in the top of that structure, but has also been shunned upon by many other CEOs and Presidents all over the world. Greedy for money, unjustly leaning towards the welfare of Top executives, immoral for people who are unemployed because a CEO is unwilling to hire new members to keep his salary as high as possible; these are the ideas that resonate in newspapers.

Although after being an intern at KKR Capital for one and half years and getting paid at 25 an hour, my sentiments are starting to be different. Background Information There is no doubt on the authenticity of the generalization that, CEOs in American corporations (profit and not-for-profit alike) are rewarded handsomely compared to what their counterparts in other countries particularly those in Europe earn. Consequently, significant debate on this seemingly sensitive issue has ensued among policy makers and pundits alike within and beyond the US borders.

Tellingly, some of these loud voices in acknowledgement as well as those in opposition have got some elements of sanity in them. After all, common sense as well as sound work ethics holds that employee compensation packages should be pegged against performance meters. In their investigation on the patterns of executive compensation among “ S&P 500, Mid-Cap 400 and Small-Cap 600 companies” between the period commencing 1993 to 2003, Bebchuk and Grenstein found out that indeed

there has been a tremendous increase in remuneration packages for CEOs and top executives across major organizations in the United States (2).

Their findings pointed out to a whopping mean compensation increment of 146 percent for CEOs in the S&P 500 category, the mean compensation for " top-five executives" also grew by a 125 percent margin from $9. 5 to $21. 4 for the same category. An increase from the $3. 7million recorded in 1993 to $9. 1 million recorded in 2003. Similar upward trend was also observed in the Mid-Cap 400 and Small-Cap 600 company categories.

A comparison of the mean compensation increase between CEOs and the top-five executives indicated that CEOs were higher in 2003 when compared to 1993, an indicator that indeed CEOs compensation packages has grown over the years (2-3). Faulkender et al argue that CEO compensation in majority of the leading US organizations has soared to reach higher levels courtesy of " an explosion in stock option grants" and " flawed governance mechanisms in the pay-setting process" (110). Precisely, their data shows that the mean CEO remuneration package for S&P 500 corporations grew significantly from a low of $850, 000 to $14 million between 1970 and 2000.

For unexplainable reasons the growth dropped in 2002to $9. 4 million only to gain momentum again to hit the high of $13. 5 million between 2005 and 2007 (110). Again, it dropped in 2008 to $10. 5 due to the biting effects of the global economic crunch. [See appendices 2 for amore details] There is a huge discrepancy between CEO salaries and those of other employees. Trends show that the discrepancy has been on an increase starting from the last thirty years and only slightly dipping on few occasions due to the effects of unfavorable economic developments.

As a matter of fact, unusually high salary packages have been ditched even on controversial circumstances to executives embroiled in management squabbles. In mind is the notable $210 million that was given to HomeDepot departing executive, Robert Nardelli and the $187. 5 million given to NYSE departing executive Richard Grasso. In the list of the “ most controversial compensation packages” issued to an executive is the former Tyco CEO, Dennis Kozlowski who was given a dispatch package of $5.

1million worth of shares in the company and other shares from a subsidiary company worthy $81 million despite him being not cleared from fraudulent charges brought against his manner of management while serving as the company CEO (Faulkender et al). Morality in American CEO Compensation Kaplan (2009) argues that, the widely held notion that CEO compensation packages are abnormally high is nowhere near the truth, and that CEO compensation packages do not contribute to financial crises.

He offers what seems like a set of well researched and analyzed data showing that CEOs are actually underpaid particularly when their compensation packages are juxtaposed against those of “ hedge fund managers, investment bankers, private equity investors, money managers, and lawyers”. In fact, in 2007 S&P 500 CEOs earned relatively low salaries compared with what top hedge fund managers took home. In his well broken down analysis, he offers that the salary scales of other employee groups just as that of the CEOs has grown considerably since 1990s.

Analytically, this is an indicator that CEOs are not riding on an abnormal or even unethical reward wave. Contrary to other studies on CEO compensation trends among American corporations, Kaplan concise research findings show

that CEO salaries among major US S&P 500 companies only gained momentum in 2000and that since then the mean and median CEO compensation indexes has been on a stagnant as opposed to a growing trend. Even so, in what seems as a concurrence with other studies on the American CEOs compensation matter, Kaplan agrees that since 2008 the trend has been on a decline trend.

Moreover, as opposed to the gross income trends entered in the prior decade, CEOs only made a small portion, three percent of the number of Americans making the top 0. 1 percent gross income in the 2004-2005finacial year. That the S&P 500 CEOs only managed to account for about 0. 60 percent of the total income for Americans making the top 0. 1 percent gross income in 2006 as compared to 1. 2 percent registered in 2001, with indicators showing a likely diminishing trend in the future. According to Bebchuk, Fried and Walker any ‘ rational’human beingincluding CEOs may be tempted to enrich themselves if given an opportunity to do so.

They argue that, “ When changing circumstances create an opportunity to extract additional rents–either by changing outrage costs and constraints or by giving rise to a new means of camouflage–managers will seek to take full advantage of it and will push firms toward an equilibrium in which they can do so”(cited in Gabaix and Landier 53). A case atypical to this postulation is the popular use of the stock option packages by CEOs to increase their benefits without undergoing the agony of facing shareholders vetting and/or wraths.

Moreover, the behavior of the board members also gives CEOs a leeway to sneak in high incentives for their positions. Incomplete or ill-informed board

members may fail in their duties to vet any salary increases on the part of the CEOs giving them a wide operating space. Some board members may also be lacking the needed powers to question CEOs compensation decisions; this is a case common in corporations with very powerful CEOs who tend to ‘ manage’ the board. There is no direct link between financial crisis and high executive compensation.

Though it is obvious that high remuneration packages may play a significant role in financial crisis engulfing companies such as the one witnessed in 2008, other more directly linked and more powerful factors are responsible. In mind is the weird banking regulation that leaves too much space for financial institutions to give out unsecured credit facilities as well as the great leeway on the part of such banking institutions that accords them an opportunity to double as hedge funds.

By fair terms these two factors are the ones to blame and not the hiked executive salaries given that the financial crisis was chiefly caused by high rates loan and mortgage defaulting. As a matter of fact, Faulkender et al (116) argue that executive compensation forms a very small chunk of the many causal factors of the recently ended financial crisis and that it cannot be blamed for all the woes engulfing the American banking industry. According to Grundfest executives of banks experiencing financial crises cannot be held accountable for causing the crises.

In fact, he boldly offers the executives incentives cannot be blamed for financial crisis that hit the banking sector in 2008. This he defends by offering that the executives always give their best when it comes to managing their organizations and that they formulate strategies that are

based to the best of their knowledge and experience: “ Sure, they were miserably wrong, but they didn’t know they were making a huge mistake that would cost them, their shareholders and taxpayers a huge fortune” (1).

He defend this argument by reminding his readership that even the executives lost their investments in the form of stock they held in the banks. That the executives are also shareholders of the organizations they head, it is an indicator that they do not their own interests but that of the shareholders and that any eventuality of a great financial crisis is just normal in that it is not triggered by any commission or omission on the part of the executives (1).

The high CEOs compensation packages among American public corporations are ethically justified. The competitive nature of the domestic market economy between privately owned equity firms and public corporations where private organizations offer very competitive pay packages to woe top executive with proven performance track records. A case atypical to this argument is depicted by the mass exodus of top executives from public corporations to Wall Street based private equity corporations where they offer a range of executive advisory services (Kaplan 1).

American CEO Compensation Immoral Is American CEO Compensation moral? I believethat it is immoral because compared to that of European CEOs, American CEOs get paid so highly and with the onset of the recession, this has been highly scrutinized. It is argued that executives who by capitalizing on the seemingly lax regulations on the compensation modalities go ahead and declare abnormal bonuses for themselves are result-oriented as opposed to rule-oriented.

Lundberg and Montell proves this postulation by asserting that the growing trend on the part of executives to reward themselves with hefty salaries is occasioned by the market systems, particularly those based on commission basis or the popular " performance-based" remuneration. Analyzing a number of similar trends they argue that the performance-based salary perks erode the moral content among executives to the extent that they fail to link their actions as unethical but economically justified, given the huge profits they help make for the companies they head (2).

Financial incentives are responsible for attracting all manner of personnel some of whom are only driven by the desire to reap from the huge legitimate benefits and if possible to use the seemingly ambiguous employee compensation regulations to achieve this in a quicker manner (Schwab 1). As a matter of fact, it has been argued that incentivized compensation packages are usually complex especially if large production processes are involved so that it becomes difficult in determining the " what, how much, who, and when" of production units awarded to individual employees.

Such complex scenarios may tempt executives to overstep their powers and therefore increase their salaries. Moreover, though the performance-based compensation scheme is buoyed by the notion that highly rewarded employees perform better this is may not be the case in all situations especially if some of section of the employees is rewarded handsomely at the expense of others.

Paying executives too much money is tantamount to immorally siphoning a large chunk of the overall profits that an organization makes and spending it on one individual instead of doing so on the large number of the

shareholders who are in real sense the owners of such organization. This trend which has been witnessed in many financial institutions in the US has resulted in immense suffering on the part of the shareholders. It can be argued that these sufferings are threefold (Murali 1):

First, from the poor decisions taken at the expense of the long-term viability of the company; second, through the payouts of excessive benefits for mediocre or poor performance; and third for the costs and settlements of any ensuing lawsuits, which were paid by the companies involved. Most importantly, these skewed compensation packages do not subscribe to any conventional capitalism rules. This is because it flouts the tenets of performance-based reward system as it does not make sense that American CEOs are the only hardworking executives in the whole world.

As Murali summarizes it, " There is no way that the job of CEOs in the US has become 20 times more difficult than it was in Alfred Sloan's day or 10 times more difficult than it was in the 1970s, and yet the packages suggest precisely that" (1). There is no doubt that the American government does not give much attention to executive compensation practices employed by major corporations operating the US. This has given much room to large financial institutions to engage in unprecedented reward systems that enrich top executives at the expense of the other cadres of employees and the shareholders.

Such, reward system is not only selfish and immoral but it also highlights on the bred of CEOs running large corporations: as persons out to perpetuate their own agendas rather than that f the shareholders. Mitigation Measures It is true that in approaching the American CEOs compensation issue a lot of

care and sobriety should be used. This is because there are both light and dark sides on the issue. The most certain solution to the issue seems to be legislation of strict regulations that will put limits to the amount of bonuses executives can award themselves.

However, this need not be as plain as it is said; otherwise it will not be accepted by the majority. Americans needs fundamental economic legislations that will address a wide area of the puzzle including making the cost of living more affordable for the common American so as to mitigate the biting effect of economic of future economic crunches. Such legislations will ensure that the executive compensation packages are also fixed in accordance with the prevailing economic trends as opposed to the individual performance of a company.

In regard to their “ result-oriented and rule-oriented” analogy, Lundberg and Montell offer that result-oriented executives are most likely to disregard the moral fabric when compared to their rule-oriented counterparts. In this regard they opine that the performance-based incentive programs are a recipe for moral degradation on matters of employee compensation and that they only succeed in creating result-driven executives and not rule-conscious ones (Lundberg and Montell 2).

It can therefore, be asserted that even in the presence of rules that fix executive compensation limits, there can never be a convincing assurance that the problem of abnormal compensation can be fully addressed given that, the inherentfailureon the part of the result-driven executives to acknowledge the element of morality in following or even breaking the set rules. Again, the bonus pegged market structure where both short and long

term bonus targets are included as part of competitive reward system to motivate hardworking employees, and to attract and retain talented employees' only serves as a catalyst for breach of such rules (2-3).

This postulation is supported by Schwab (1) when he says: While regulation is important for the future of the global economy, rules alone are not sufficient. The economy is not an independent or self-contained realm; the crisis has shown that the economy has to serve society. We have to be careful that the measures taken to curtail the crisis will not damage the power of innovation in the real economy. In mitigation it is hereby advanced that the realm of management should not be commoditized, rather it should be handled as a profession.

This postulation is advised by the conventional wisdom that a profession just like a society is governed by " ground rules" and not monetary incentives. Such a scenario will accord all cadres of employees an opportunity to reap from the fruits of their labor in proportionate measures irrespective of their status in the organizational ladder. Most importantly, this " will create an unspoken social contract of trust to other members of society" (Lundberg and Montell 4). This postulation draws its impetus from similar sentiments shared by Schwab (1) when he generously offers that:

When I had surgery a few years ago, I knew very well that my future quality of life would be dependent to a large extent on the qualifications of the surgeon. This is why I sought an expert who was the best in his profession. I naturally assumed that I was in the hands of adoctorwho could apply his most professional skills without claiming that he would like to have a share

of my future income – since, of course, this would be dependent on his knowhow - in addition to his remuneration.

In this regard Reynolds offers that organizations should foster efforts toward the improvement of personal qualities such as educational qualification, work experience, as well, the propensity to embrace change. He argues that such efforts are capable of instilling the sense of morality among employees (241).
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