

Ceo compensation



Case Study: The Debate over CEO Compensation The Chief Executive Officers are among the highest paid workers in the United States of America. Reports and researches show that they make 400 times compared to ordinary rank-and file employees in the US and several hundreds more than their counterparts in other countries like Japan and Germany. In 2000, it was 531 times. These facts were made the basis of a question whether or not the CEOs of the United States of America are overpaid.

The salaries and other benefits received by CEOs depend upon a number of factors. These include the size of the company, the works that are expected for the CEO to perform, and the economic status of the company, if it is gaining much for a certain period that will qualify whether the CEO deserved the amount of pay.

As noted by Solomon (2007), survey says that the CEOs in the US are really overpaid because there is “ an absence of objective ways to measure an executive performance”. Secondly, much is expected from an American company so these companies live up with the expectations. Tough competitions set in, and to stay on “ top”, companies must hire the “ best” CEO to run their company. And the “ best way” to have the “ best” CEO to come and stay in the company is to lure them with excessive salaries and benefits even before they will produce results as what most CEOs in the US enjoy now.

Japanese CEOs generally received much lower levels of compensation compared to their counterparts in the US. As reported by Wiseman and Del Jones (2009) in the USA Today, CEOs of big companies only earned an average of \$809, 000 in 2003, with a difference of \$11. 4 million compared with the CEOs of the US. This fact alone, however, is not sufficient to imply

that U. S. CEOs are overpaid. It is because big companies in Japan are generally smaller compared to big companies in the US. Relatively, it is unfair to compare the compensation received by CEOs of small companies to big companies. On the other hand, the practices of US companies in encouraging CEOs to join them are not being practiced in Japan. As Wiseman and Del Jones (2009) noted “ Japanese firms rarely poach talent from rival firms, outbidding each other for management superstars”. Usually, CEOs of companies in Japan were previously rank-and-file employees of the company they are working with who worked hard for the company for several years until they reached the top position.

Chief executive officers of US companies are very much benefited when there is an increase in the company's value within a certain period. For example, if the value of the common stocks of the company will be increased by \$1, 000 within a certain period, \$10. 57 per thousand goes to the incentive of the CEO. So if the value of the company went to \$500 billion, \$52, 850, 000 will go to the pocket of the CEO. That is a big sum of money nowadays compared to the additional talent that the new CEO has contributed to the company. Therefore, if the CEO can make the company grow bigger, his or her incentives will also grow bigger.

The fact that the stock price of the company increases when the firms increase incentive pay for the CEO does not suggest that most CEOs do not receive enough incentives or compensation. It is because there are researchers that show that even companies that did not gain much in a certain period or that went into bankruptcy even paid millions of dollars to its CEO. Examples here are the cases of E* Trade Group Inc., that paid \$77 million compensation packages for CEO Cotsakos in 2001 even if the

company in that year lost \$242 million, and Qwest Communications that granted \$106.75 million to CEO Nacchio in 2001 even when it posted a \$4 billion loss and employees were laid-off in the same year.

Companies are overpaying CEOs so that the CEOs will work hard and will work long for the company. We cannot take away the fact that there are those CEOs who perform only based on the compensation they are receiving. It is a fact that whatever gains the CEO will get from the performance of the company will also benefit the directors and shareholders of the company. For example, if the value of company stocks was increased in a certain level by the CEO, so the value of the shares of the directors and the shareholders of the company will also increase.

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