

U.s. executives compensations: high or low

[Business](#)



Do you think U. S. executives are compensated too highly? Why or why not?

In the twelve OECD countries, the chief executive officers, high-level managers and manufacturing operatives in the United States are clearly the highest paid whether we measure compensation from an employer cost viewpoint or from an individual replacement value viewpoint. For example, during the five-year period, the compensation paid to the top five executives at each company in the widely used ExecuComp database, aggregated over the 1500 companies, totaled about \$100 billion dollars. (Lucian Arye Bebchuk & Jesse Fried 2004, p. 95) According to Frederick Pryor (1996), “ the median compensation of the US top executives measured as a ratio of the average compensation of all workers, more than doubled in the past twenty years or so.” (151) Steven J. Ross, for instance, the Chief Executive of Time-Warner had a well-publicized annual compensation that averaged over \$16 million in the period of 1973-1989.

In a conservative study, Richard Freeman and Lawrence Katz (1995) identified three factors why the US executives are paid exorbitant amounts: The US tax system favored direct compensation as opposed to unmeasured perquisites;

US executives are more likely to receive stock-based compensation even when the same tax incentives exist to use such remuneration; and, Low price of goods and services in the United States as compare to other OECD countries. (95)

I would like to underscore the second factor wherein US executive compensation practices have created perverse incentives. Here, executives have the ability, for example, to unload options and shares – power that enable them to misreport results, suppress bad news, and choose projects

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and strategies that are less transparent to the market.

The significance of analyzing the US executives' compensation is important for shareholders and policymakers. Flaws in compensation arrangements impose substantial costs on shareholders. In my opinion, the key problem is not the amount of salaries, however outrageous they may be, but the relation of the executive compensation to enterprise performance. The prevailing compensation practices for US executives are problematic as they give immense power on the corporate managers, who for their part, influenced pay arrangements in such a way that it gives no incentive to reduce managerial slack. The result is, executive compensation often is not closely tied to the performance of the firm - it is severely decoupled from the managers' contribution to company performance.

I agree that high compensation is an incentive for executives and thus necessary for the well-being of a company - they move corporate managers in their need for esteem, self-actualization and so forth. There is nothing wrong with amount that the US executives are receiving being higher than in other countries when viewed in the perspective of the US economy being bigger than any country. The problem arises when executives have partly taken over the compensation machine leading to a flawed compensation system. This is when one can say, an executive is "compensated too highly" because he or she is being paid more than what he and his performance is worth.

Bibliography

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