High Executive Pay: A Disadvantage

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Abstract

The purpose of this paper is to examine the excessive levels executives are compensated throughout this nation. It is alarming how disproportionate it is in comparison to the compensation of average workers. Facts are provided that showcase the staggering amount in which inflation has affected the compensation rate for executive leaders. Studies have been proven to show organizations will utilize Managerial Power Theory in order to retain their excessively high compensation. Additionally, this paper examines how these resources could be reallocated throughout an organization to improve it, not only internally, but externally. The culture and environment of the current, and future, organization is discussed as well.
High Executive Pay: A Disadvantage

For many years, experts have questioned, analyzed, misunderstood and rationalized the annual compensation of an executive member of an organization. It is truly perplexing that an organization could be struggling financially, yet the Chief Executive Officer (CEO) is bringing in millions. Millions that could prevent the company from that 100+ layoff they have scheduled for the end of the quarter or the pay reduction for their lowest skilled workers. Even more staggering is the executive compensation for non-profit charity organizations, many of which are not common knowledge with the general public.

History has shown that there was a time when CEO pay was equal to their position and the market value of their work. Over time, however, profits soared and greed set in. Before anyone noticed, high compensation rates became the new norm. Yes, executives have a workload that many would see as overwhelming or even daunting. Does that constitute maintaining a system where their compensation levels are 303 times more than the average American worker (Mishel & Davis, 2015)? CEOs increased their annual compensation exponentially and in doing so, were at a higher risk of committing greed ensued decisions; furthermore, these monetary resources could have been reallocated.

History of CEO Pay

From 1978 to 2014 the adjusted rate of inflation for the salary of CEOs increased by 997 percent (Mishel & Davis, 2015). As businesses succeeded and grew, their top executives, board members and stakeholders chose to allocate additional funds annually to the compensation of the CEO. CEOs are typically paid heavily in stock and the board of directors can often be biased. Annual pay increases are not a foreign concept; however, the severity in which pay was increased for CEOs is rather extreme. It is even more alarming when you consider the increased
rate of compensation for the employees of large organizations. Over the same time period (1978 to 2014), the Economic Policy Institute (2015), reported a pay increase of only 10.9 percent for those average employees.

There are organizations who compensate their CEOs far more than average CEO who already makes 303 times more than their average worker. The average salary for the ten highest-paid CEOs of 2014 was 83.47 million dollars with the lowest of the ten earning 54.4 million dollars and the highest earning 156.1 million dollars (Jacobs, 2015). The CEO of Discovery Communications, David Zaslav, was compensated for 156.1 million dollars in 2014 (Jacobs, 2015). That same year, the average salary for his employees was 70,500 dollars according to CareerBliss (n.d.). This means Zaslav was compensated approximately 2,214 times more than his average employee. This case is interesting considering the impact that Discovery Communications has on informing the general public about the environment and other aspects of the Earth. The resources allocated to their CEO could better serve their cause by aiding the environment in which they spread so much knowledge about.

Compensation Process

When it comes to the compensation of a firm’s CEO, there is typically a compensation committee invoked to maintain fair compensation. However, as Guthrie, Sokolowsky and Wan state in their study (2012) many organizations intentionally create their compensation committee with particular people in mind in order to create a compliant committee. Because they are selecting committee members based on their willingness to do what’s best for the CEO and not the company, they are participating in unethical behavior. This unethical behavior can be explained by Managerial Power Theory (MTP) which occurs when a CEO receives compensation that is not based off of performance. MTP, instead, argues that an executive’s
salary is not equivalent to a fair market contracted salary and deserves a higher compensated rate (Guthrie, Sokolowsky, & Wan, 2012). This is how the board of directors or compensation committees have managed to increase the compensation for the CEOs using larger shares of the profits.

The board of directors or compensation committee members were likely vetted by either the CEO or current board members so the new members would be more inclined to vote in a particular way. Perhaps these new members were even past CEOs and would be more likely to offer higher compensation rates. The ability to pick and choose who makes decisions on compensation rates for the CEO creates a biased opinion for the decision maker; therefore, creating an unethical dilemma.

**Compensation and Unethical Behavior**

The CEO of an organization can be paid in many different ways. One may receive a rather high salary while another receives a very low salary with several bonuses. An executive can also receive payment in the form of stocks. The problem with getting paid in stock is that they may sell or trade that stock when its high or the organization is doing well. It would also allow them to essentially create their own salary. Having the ability to determine one’s own salary could significantly increase their sense of greed, and thus increasing the probability of committing immoral acts (Guthrie, Sokolowsky, & Wan, 2012). Comparatively, payment via stock options could also hinder a high compensation if the CEO chose not to trade or sell when prices were at their peak or if the organization was performing poorly.

Greed also plays a rather large role in how the business is organized and subsequently operated. According to Merriam-Webster (n.d.), greed is defined as, “a selfish desire to have more of something (especially money).” With greed always comes the risk of committing
unethical or immoral actions. Consider a CEO who is already classified as an upper-class individual and lives comfortably. Although they may not be acting in ways to satisfy their greed, the fact that they have a large amount of resources increases their chance of committing unethical decisions. In a study completed by Paul Piff, Daniel Stancato, Stéphane Cote, Rodolfo Mendoza-Denton, and Dacher Keltner (2012), they stated, “upper-class individuals were more likely to exhibit unethical decision-making tendencies, take valued goods from others, lie in a negotiation, cheat to increase their chances of winning a prize, and endorse unethical behavior at work than were lower-class individuals” (para. 1). All of these traits could dramatically affect the work environment along with the CEOs integrity and reputation.

These unethical tendencies can be attributed to a sense of greed, whether that is an increased want for financial compensation or a need for power or influence over others. Moreover, CEOs can tremendously affect the working conditions people are exposed to. If a CEO expected certain result because they are driven by greed, it’s entirely possible the CEO could exert excessive pressure onto their employees. This behavior potentially could create an environment where employees working under the CEO will see the lack of values, morals, or beliefs that many are accustomed to. The code of ethics the organization has instilled will also be in question once the unethical decisions arise. When this occurs, it could lead to employees acting in a similar manner and thus, creating a toxic environment that further spreads throughout the entire organization. This type of behavior is commonly labeled the cumulative effect.

The code of ethics an organization creates can maintain their reputation and aid in preventing future unethical behavior. The textbook, *Ethics Applied* (2011), reveals a study by Touche Ross that stated most of the public respondents believed, “businesses strengthen their competitive positions by maintaining high ethical standards” (p. 479). This is critical in today’s
market given that there is not only brick-and-mortar competition, but also the online competition for business. The online environment has increased the consumer’s ability to complete research and gather more information about goods and services from different organizations.

Additionally, consumers can review or read reviews on products or services. If employees are not following the code of ethics in a service e-industry, for example, it could lead to bad reviews on the internet, affecting future consumer decisions. If a CEO has acted unethically and broken the organizations’ code of ethics, it is likely that they did not take actions in line with the consequential theory. Simply put, the consequential theory is judging moral actions based on the perceived outcome (Goree, Manias, & Till, 2011). If the outcome was perceived to be good, then how it was morally achieved becomes irrelevant; however, if the action a person commits is perceived as being bad, then the actions are likely going to be deemed morally bad. This can lead to CEOs doing whatever it takes while disregarding moral practices to achieve business goals or compensation levels.

Non-Profit Organizations

One important aspect to consider is that of non-profit organizations. Many people do not realize that these organizations are often the very organizations whom employ individuals with a rather high and excessive executive salary. The purpose of these organizations is often to help people in the community; to provide aid to those who need it. Additionally, they are meant to be a support system for people who do not have a support system, yet people are donating monetary or physical assets to organizations who are turning around and pocketing the money from the donations.

The CEOs of the following organizations collected approximately $1.0 to $1.2 million in compensation during 2014 or 2015: Alzheimer’s Association, Cystic Fibrosis Foundation, United
Way Worldwide and the American Diabetes Association (CharityWatch, n.d.). Three of the four organizations perform medical research which brings into question the morals that are associated with such a high compensation. Although, not compensated nearly as much as other organizations, this level is still rather high considering people are dying every day from some of those illnesses. The additional compensation could easily be redirected to support the initiatives they were established to fight against.

According to Balsam and Harris (2014), there are numerous studies and articles published, including their own study, finding that there is a decrease in the number and amount of donations when the executive’s compensation is high. An individual could make the determination that a high executive pay for a non-profit organization would border on immoral practices. That explains why most non-profit CEOs are not compensated at the same level as other CEOs. If non-profit CEOs remained on the same pay scale as other organizations, there would not be any resources to aid those who need it most.

Reallocation of Executive Compensation

An organization could reduce their CEOs compensation to a more market-friendly point and the result is millions of dollars that the organization can utilize annually. This money could be used to improve working conditions, increase employee pay, add more employee benefits, update facilities, offer more incentives, participate more in corporate social responsibility events, etc. In its entirety, reallocating this money to the improvement of the organization would likely improve the reputation and the public’s perspective towards the organization.

One angle suggests that CEO compensation is not going down in some organizations in order to reallocate the money, but instead is being used to cover the financial loss for struggling industries. For example, the CEO of Burberry received a pay cut of 75% and the CEO of U.S.
Steel received a 35% pay cut in order to make up for the financial losses they both endured (Behrend, 2016; Shen, 2016). Comparatively in 2015, Coca-Cola reduced their CEOs pay from $25.2 million to $14.6 million in order to satisfy stakeholders’ feedback (Kell, 2016). These examples provide additional questions: What if the markets were favoring those organizations? Would they still be cutting the CEOs compensation? It is apparent that an organization can still retain their CEO after reducing their compensation as in the case of Coca-Cola. So, why aren’t other organizations following suit? It is as if greed consumes the minds of America’s top executives and nothing seems to matter besides their organization’s profit margin. Interestingly enough, their own salaries could be reduced and their profit margins would increase exponentially.

**Conclusion**

The top one percent of the American people have long been controlling much of the money that flows in and out of the country. The top executives of this country represent two-thirds of that 1 percent (Mishel & Davis, 2015). It’s perplexing that this type of inequality exists. Looking at how much CEO compensation has grown over the years is astonishing, especially when compared to that of an average worker. Furthermore, if an organization were to reduce the compensation of their CEOs, they would free up millions of dollars that could be put back into the organization, reducing operating costs, improving employee satisfaction, improving facilities structures, and increasing positive public perspective. All of these effects would not only positively benefit the organization, but the local, or even, national economy.
References


