

Exec Pay: Are they worth it?

by David Batstone

Among the many things overshadowed by the war is the steady stream of corporate scandals. Cooking the company books must be one of those required courses at business school; how else did so many business managers get good at it?

Truth be told, most Americans are not incensed about number fudging (though they should be...the consequences can be corrosive). What brings fire to their belly is the fact that a small group of business executives are getting fat and happy while the rank-and-file pass through famine.

In 1980, the average CEO of a large American firm made 42 times as much as non-supervisory workers. Peter Drucker noted at the time that such a large pay gap could compromise the integrity of corporate leadership. It makes a mockery of the role of all the other workers in making the company hum, Drucker warned.

Evidently no one at the top of the corporate ladder was listening. By 1995, the ratio of inequality between the shop floor and the executive suite had increased to a multiple of 160. Then, over the next five years, CEO compensation went through the roof; in 2000, they were paid 458 times as much as ordinary workers.

What's worse than mockery? Disdain. That's exactly how many rank-and-file workers feel they are being treated today.

A Financial Times study found that senior executives and directors in the top 25 companies to go bankrupt from January 2000 to June 2001 amassed a collective fortune of \$3.3 billion, even as hundreds of billions of shareholder value and well over 100,000 jobs were lost.

In a separate study of corporate annual reports, The Wall Street Journal discovered that while many companies warn rank-and-file workers they may face pension cuts, those same companies have taken steps to protect the jumbo pensions promised to top executives.

Delta Airlines, for example, disclosed in early April that it had set up a trust to ensure pension payments to 33 of its top executives. The news justifiably upset Delta employees, who face sharp pension cuts as the carrier seeks to lower its costs.

Leaders who have the ability to run a major corporation deserve to be compensated well. But let's face it; talented executives are not that rare. Instead of going off on a costly search for superstars, corporate boards should be looking much more proactively for emerging leaders in-house that have proven themselves. Homegrown leaders tend to be more trusted within the company and do not command a king's ransom.

Corporate boards also would do well to heed the rumblings of rank-and-file workers like Robert Hemsley, who operates industrial machinery at a paper mill in Everett, Washington. The CEO of Robert's company receives 592 times more pay than he does. That fact did not make it any easier for Robert and his co-workers to accept management's warning of job lay-offs in 2001 if mill workers were unwilling to take a pay cut. To rub salt in the wound, Robert's CEO received a stock bonus worth \$1.4 million after workers made the demanded concessions.

In a moving op-ed published in The New York Times, Hemsley argued that greed has replaced risk-taking at the executive level: "I wonder if corporate executives appreciate the role workers play in their success. Free enterprise is a system of risks and rewards. As it now stands, employees suffer most of the risks, while executives enjoy most of the rewards."

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