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# The CEO Compensation Debate



Beth Braverman

As the White House continues to move forward with plans to roll back a Dodd-Frank regulation aimed at increasing

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transparency around CEO pay, many are concerned with the disparity between the compensation rates of CEOs compared with companies' wider salary schemes.

In an October 2017 paper, the Department of the Treasury included CEO pay-ratio disclosures among the several Dodd-Frank rules that it recommended be repealed. Set to go into effect next year, the disclosure rule would have required companies to publish information on how their CEOs' pay packages compare to those of average workers.

Critics of the rule claim that it unfairly attacks CEOs and may dissuade some companies from going public. They argue that good CEOs deserve large compensation packages due to the value that their leadership brings to the company and point out that companies have to pay a great deal in order to attract the most talented executives. Plus, CEOs work long hours, need to make difficult decisions, and could be fired any time the company's performance suffers.

**High Pay Doesn't Equal High Returns**

Some corporate governance experts, however, say that high CEO pay does not always correlate to high returns and that current pay packages are far higher than what the CEOs deserve to make, amounting to a waste of company resources. A study by MSCI found that US CEO compensation was "out of whack" with long-term investment returns, with more than six in 10 companies showing "poor pay alignment relative to their peers."

A 2016 report by the AFL-CIO found that CEOs of the S&P 500 companies earned an average of $13.1 million in total compensation. That's 347 times the $37,600 earned by the average worker. Research suggests that such dramatic inequality holds the economy back.

While CEO pay packages are often currently linked to shareholder value, they may not take into account the value of other company stakeholders, such as other employees or the broader community.


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As the gap between CEO and average worker pay continues to grow, so has shareholder engagement aimed at narrowing it. And it's gotten somewhat easier for shareholders to take action. Since 2011, companies have been required to hold periodic say-on-pay votes, in which shareholders get to weigh in with an advisory vote on an executive's compensation package.

That said, the vast majority of such votes in the United States end up showing approval for CEO compensation. A Harvard Law School analysis last year found that of the nearly 14,000 say-on-pay votes held at Russell 3000 companies over five years, just 290 had failed.

Still, there have been prominent cases where shareholders have cut executive pay. Board members at Oracle agreed to cut CEO Larry Ellison's pay in 2017 after several years of advisory "no" votes by shareholders on his pay package. Under the new package, Ellison will receive $20.7 million per year in stock options, 47% less than he's received in the past.

Earlier in 2017, British oil giant BP had to slash CEO Bob Dudley's pay by 40% after shareholder outrage following poor performance. The exec earned $19.4 million in 2015 but just $11.6 million last year.

Because CEO pay is an issue that touches both sides of many impact investors' concerns—values and returns—the debate about it is likely to remain ongoing, with more and more investors pushing to find the places where their assets truly have the most value.

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