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Not $1 more

The panel at the recent Strategic Capability Network event on equitable executive pay dodged the big question within the question: "Equitable to whom?"

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Organizational Effectiveness

While the panel was true to the fine print of the session description, ultimately, the audience did not get a satisfactory answer to any question.

From an organizational effectiveness perspective, the equitability of executive compensation is made manifest by CEO effectiveness: "Does the candidate have what it takes to develop and execute strategy?" Within that context, and from the perspective of shareholders, the answer to equitability in executive pay is easy: Equitable is what it costs to hire someone sufficiently effective — and not one dollar more.

But many feel compensation levels are not fair and shareholders are paying a lot more than one dollar more. Why do we feel this way? Research into human behaviour has shown that "felt fair pay" directly corresponds to levels of work and the associated time span at each level. In a properly stratified organization, the CEO of a medium-sized firm is expected to be planning out five to 10 years.

If we compare that to the time span of, say, a director (one to two years) two levels below the CEO, then the CEO's compensation "feels" fair if it is four to eight times the compensation of the director (one year x two x two, or two years x two x two). Based on the rising disparity between increasing CEO pay and the flat-lined pay for the middle ranks and below, it's no wonder things don't feel right .

And yet, at least one panellist cited "supply and demand" — some combination of scarcity and desperation has driven compensation into the stratosphere, and that's just the way it is. How do we square that with the fact that 40 per cent of CEOs fail in the first 18 months?

What is so concerning is why neither of the two compensation experts on the panel dug into that. Robert Levasseur of McDowell Associates at least alluded to equity — and performance-based compensation — but would not drive to a discernible point. And while he clearly knows CEO packages tend toward "hedging" — where the candidate succeeds whether or not the shareholder succeeds — he prescribed no solution.

There may be very good reasons not to attach performance to compensation or to tolerate hedging in negotiations, but the panel did not provide any cogent argument for or against. Ultimately, what we learned is not what is equitable in executive pay but executive pay just is what it is.

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