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You asked for it, but may not like the answer

By Paperitalo Staff

Several times over the past year, one or more readers have asked me to comment on (I'll paraphrase): "Outrageous CEO salaries." In this season of otherwise good cheer, I think I can accommodate you by sharing my thoughts on the subject in a manner unpopular with nearly everyone.

First, let me repeat something I have said over the years many times: "A CEO's duty is to carry out the instructions of the Board of Directors which should be to maximize the return to shareholders within the limits of the law." Notice what this does not say:

1. It does not say the CEO has to operate in a manner significantly better (whatever that means) than the law requires.
2. It does not say anything about the employment of anyone, other than impute the CEO may be fired if she does not follow the directives of the statement.
3. It does not say the CEO must be a pleasant person, or indeed anything about the CEO's personality.

These statements bother us; we living down on the ground and looking up to the lofty perches of the ivory tower find them cold and calculating.

First, we see someone who makes much more than we do. This is nothing more than our own jealousy. People who perform well make lots of money; they are far beyond seeking an income to fulfill their needs and wants, it is a measurement, much like grades in school, for them to make large sums.

We confuse large employment rolls with success. As I state in my book, "On Employment," employees are viewed by employers as a necessary evil. Employment is a government social issue, not an individual company issue. The company that can figure out how to make money without any employees will do so (and should). There are companies that have minimized employees to the extreme and done very well with this—insurance companies and Google come to mind.

All of this said, there are CEO's that don't deserve what they make and there are CEO's that are underpaid. One of the classes that I find despicable are the ones that make performance excuses about markets, timing and so forth, but accept no such excuses from their own underlings. I worked for a CEO one time that said, "You are responsible for meeting your returns no matter the market." In other words, he was saying, and rightly so, "Adjust your business to fit your market." He was right, and he held himself to the same standard. I also hold in contempt the timid board that gives a failing CEO a big bucket of money as they go out the door, just to fend off a lawsuit. I suspect those buckets, and their contents of largess, are often bigger than need be in order to achieve the objective of a lawsuit-free future.

The best compliment I ever heard about a CEO was this, as one company tried to entice an individual that worked for a competitor. The enticer said to me, and it was so true: "Really, all we would need to do is give Jane (not her real name) an ATM card. Based on her track record, she would only use it when she needs it, and even if she indulged in an extra personal expenditure once in a while, she is so good, she would be worth it." This later proved to be exactly true. What better compliment could a CEO receive?

Another potential problem: if your CEO puts profits above safety. Unacceptable. Be safe and we will talk next week.

Merry Christmas and Happy Hanukah. ##