

Part one

Well most CEOs' earnings sound exceptionally high because those figures are based on what we refer to as total compensation ... in other words ... salary and various bonuses, of course, and then, more importantly, what they are actually worth in terms of share value. And it is often this share value that makes the figures so very impressive. Take, for example, the highest paid CEO in the US in 2003. This was the head of Tenet Healthcare, a guy called Jeffery Barbakow. His total compensation for the period was \$116,683,000. Can you believe it, one year's earnings – \$116,683,000? I mean that's a phenomenal amount of money but his salary and bonuses for 2003 amounted to only \$5,530,000, which is a reasonable salary by US standards at the time. His shares, however, were valued at \$111,050,000 and this is what drove up his total. And then he picked up another \$250,000 in other fees somewhere along the way.

Part Two

Now, you see, obviously some people, even some shareholders, would accept that kind of compensation because it is accepted wisdom that making the managers part-owners of the company, through shares and stock options, is the best form of incentive or motivation. That is all very fine, but what that theory fails to take into consideration is that market fluctuations mean that share value can at times be very different from their original value, and management could even encourage this in the short term in order to sell their shares before the market changes or falls again. So you see, the heart of the problem seems to be motivation, and it's rather simple if you treat managers in the same way as other employees. They are generally keen to reach objectives or goals set out for them, because they know that when they are appraised or evaluated they'll get their bonuses or increases in salaries based on whether they met those goals or not. If company bosses have to come up with the goods in order to get their salaries, actually earn them ... problem solved, basically. They could be promoted on the basis of company performance – and I don't mean if share prices increase due to a general rise in the stock market – I mean if the company actually outperforms other companies in the same sector. Not even the toughest shareholders would object to that!