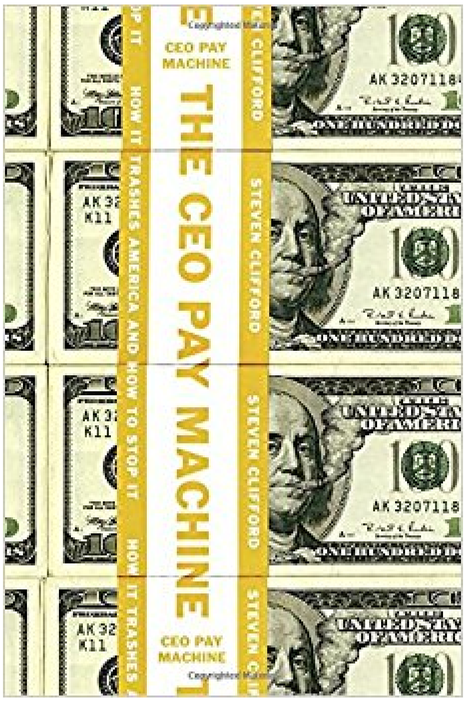
The CEO Pay Machine: How It Trashes America And How To Stop It



Synopsis

The former top CEO examines the scandalous and corrupt reasons behind obscene pay packages for corporate executivesÃ¢â ¬â •and explains how this hurts all of us--and how we can stop it.Ã Â Today, the pay gap between chief executive officers of major U.S. firms and their workers is higher than ever beforeÃ¢â ¬â •depending on the method of calculation, CEOs get paid between 300 and 700 times more than the average worker. Such outsized pay is a relatively recent phenomenon, but despite all the outrage, few detractors truly understand the numerous factors that have contributed to the dizzying upward spiral in CEO compensation.Ã Â Steven Clifford, a former CEO who has also served on many corporate boards, has a name for these procedures and practicesÃ¢â ¬â • "The CEO Pay Machine." The CEO Pay Machine is Clifford's thorough and shocking explanation of the 'machine'--how it works, how its parts interact, and how every step pushes CEO pay to higher levels. As Clifford sees it, the payment structure for CEOs begins with shared delusions that reinforce one other: Once this groupthink is accepted as corporate dogma, it becomes infinitely harder to see any decision as potentially irrational or dysfunctional. Yet, as Clifford notes, the Pay Machine has caused immeasurable harm to companies, shareholders, economic growth, and democracy itself. He uses real-life examples of the top four CEOs named the highest paid in 2011 through 2014. Clifford examines how board directors and compensation committees have directly contributed to the rising salaries and bonuses of the country's richest executives; what's more, Clifford argues, each of those companies could have paid their CEOs 90 percent less and performed just as well.Witty and infuriating, The CEO Pay Machine is a thorough and incisive critique of an economic issue that affects all American workers.

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Customer Reviews

"So what happened in America that so much is now lavished on the executive class? And does it matter? To the second question Steven Clifford, a former chief executive at King Broadcasting and now the author of Ã¢â ¬Å“The CEO Pay Machine,Ã¢â ¬Â• responds with an emphatic Ã¢â ¬Å“yes.Ã¢â ¬Â• The outsize income, he thinks, feeds inequality and mistrust in our democracy. In response to the first question he argues that a system of compensation has emerged over the past four decades that rewards mediocre executives by stiffing shareholders, employees and society at large."--The Wall Street Journal"As Clifford shows with clarity and wit, using plentiful real-world examples, the [CEO Pay] Machine has mechanically and inexorably made CEO pay escalation a mathematical certainty...Passionate, provocative, and eye-opening,Ã Â The CEO Pay MachineÃ Â offers a clear and informed explanation of one of the most controversial economic and ethical issues of our time, which is sure to prompt renewed debate about a topic currently at the forefront of the national conversation."--800CEORead/In the Books"CliffordÃ¢â ¬â„¢s book is enlivened by equal doses of whimsy and scorching rhetoric. But its main task is to pry apart the mechanisms by which companies enable CEOs to collect vast sums with little downside risk."--Seattle TimesÃ¢â ¬Å“[Clifford] imagines a better futureÃ¢â ¬â •one in which compensation packages would be simplified, CEO pay would be downsized, and incentives would be properly geared toward companiesÃ¢â ¬â„¢ long-term success...The issue of executive pay is sometimes dismissed with the argument that in a big corporation a few million more or less doesnÃ¢â ¬â„¢t matter. But Ã¢â ¬Â‖[distorted incentives do matter. And] as we saw in November, Americans are angry and have stopped trusting the system. [Licensed larceny in the corner office helped elect a populist demagogue to the White House]. One step to winning back trust would be to insist that CEOs be treated like other mortals."--Fortune"A former CEO of two corporations shatters the myths and explains the stupidity regarding astronomical salaries at the top of the business world...a well thought-out, clearly writtenÃ Â exposÃƒÂ©."--Kirkus Reviews"An englightening and refreshingly candid look at the contentious topic of chief executive compensation."--Publishers WeeklyÃ Â

Steven Clifford served as CEO for King Broadcasting Company for five years and National Mobile Television for nine years. He has been a director of thirteen companies and has chaired the compensation committee for both public and private companies. He holds a BA from Columbia

University and an MBA from Harvard Business School.

This is a good book but I couldn’t read it all because it is too upsetting. I saw Clifford interviewed on TV and he did a great job of explaining the vast problems caused by exorbitant CEO pay.

Interesting take on CEO compensation practices.

Thank you

Exceptionally well done. Be sure to take your anti-barf medicine before reading the chapter on Highest Paid.

The author has done some impressive research on the statistics and trends in CEO compensation, and he also has the personal background to be insightful as to how the offensive practices were set in motion and compounded by Boards of Directors and regulators. Its also a fun book to read as the writing is mirthful and readable. On the whole, this is a great book for anyone interested in the subject matter. Whether you agree or disagree with the conclusions, you will come away better informed.

In 1977 we moved into a home just up the street from the CEO at a company I’d worked at just 5 years prior. How - we’d worked hard and saved our money, and high-end homes were still reasonably priced. Today, that wouldn’t be possible because CEO incomes have skyrocketed, while mine (Joe MIddle Class) hasn’t. Author Clifford describes how that came about, and debunks the ’They’re worth it’ baloney.The CEO pay process starts with the board’s compensation committee. They typically establish annual performance measures and goals for both short-term bonus payments and the long-term. Clifford’s observation where he worked was that one year a major goal for the CEO was to hire a new CFO. That’s it - nothing about whether he/she was good or bad, how one would determine whether he/she was good or bad, or even owned a green eyeshade. (My local school board set a similar objective for the superintendent - to establish measures for pupil performance, with no specificity, no requirements that they be appropriate etc..)Why does everyone use this convoluted pay process? Because everyone else does. And it’s impossible to be anything but richly rewarding for the CEO - when members of the Board and its Compensation Committee are likely picked by the CEO, and the ’standard’ has become ’paying at the 75th percentile.’ (No, I don’t know how that’s even mathematically possible.)

IÃƒÂ¢Ã â ¬Ã â„¢ve been complaining about the topic of this book for at least fifteen years. Actually, my basic complaint has been broaderÃƒÂ¢Ã â ¬Ã â •that almost all CEOs are, when not actually idiots, indistinguishable in their abilities and performance from any moderately competent manager. If this is true (and it is), one necessary consequence is that high pay for CEOs is stupid. For example, when I entered business school, in 2000, I was dragooned into going to a talk by Jack Welch, then CEO of GE and regarded as a colossus. I discovered, to my chagrin, that he was a total moron. A little further research after going home quickly confirmed this impression, as contrarian as it was. And in my earlier life as a corporate lawyer I knew personally many other such, if less famous, lionized nonentities. Steven Clifford agrees, and the question he asks, and answers, is essentially ÃƒÂ¢Ã â ¬Ã Å“Why do big corporations pay so damn much to morons?ÃƒÂ¢Ã â ¬Ã Â•I think ÃƒÂ¢Ã â ¬Ã Å“The CEO Pay MachineÃƒÂ¢Ã â ¬Ã Â• has probably a bit too much outraged repetition of interchangeable anecdotes, and a bit too little technical exposition, but I am not a layman (in addition to my law experience, I have served on a public company board and taught business law at a major business school), so maybe CliffordÃƒÂ¢Ã â ¬Ã â„¢s balance makes sense. It is not easy to explain modern corporate governance simply, and it has to be simplified to make it tolerable to the layman reader. His background, as a CEO and board member himself, certainly seems to fit him to write this book, and he generally succeeds.Clifford starts with explaining that background, as well as how, in his capacity as a member of the compensation committee of a large (private) corporation, he persuaded the board to change the multi-stranded pay offered the CEO to instead consist only of salary and restricted stock that vested over time. The rest of the book is devoted to showing why multi-strand, so-called ÃƒÂ¢Ã â ¬Ã Å“incentiveÃƒÂ¢Ã â ¬Ã Â• or ÃƒÂ¢Ã â ¬Ã Å“performance,ÃƒÂ¢Ã â ¬Ã Â• pay is stupid and pernicious, and that the correct alternative is switching to only salary and restricted stock. The author frames his discussion by noting what is well known, that American CEO pay has increased in recent decades far faster than pay for any other level of job. Often this is measured as the ratio of CEO-to-average-worker pay, which is somewhere between 300 and 700 times in America today, depending on how itÃƒÂ¢Ã â ¬Ã â„¢s measured, up from 26 times in 1978. The corporate governance reasons for this increase in pay are what Clifford dubs the ÃƒÂ¢Ã â ¬Ã Å“CEO Pay Machine.ÃƒÂ¢Ã â ¬Ã Â•Before he explains the mechanics of the Pay Machine, though, he detours to make a series of claims about the negative societal effects of excessive CEO pay. The bookÃƒÂ¢Ã â ¬Ã â„¢s subtitle is ÃƒÂ¢Ã â ¬Ã Å“How It Trashes America and How To Stop ItÃƒÂ¢Ã â ¬Ã Â•; itÃƒÂ¢Ã â ¬Ã â„¢s a stretch to say that CEO pay ÃƒÂ¢Ã â ¬Ã Å“trashesÃƒÂ¢Ã â ¬Ã Â• America as a whole, and trying to show that it does sometimes makes CliffordÃƒÂ¢Ã â ¬Ã â„¢s reach exceed his grasp. For example, I doubt if excessive CEO pay hurts employee morale and productivity as much as he says, or reduces product quality because workers are resentful. Most workers canÃƒÂ¢Ã â ¬Ã â„¢t or donÃƒÂ¢Ã â ¬Ã â„¢t think past their next paycheck, and as Joan Williams says in ÃƒÂ¢Ã â ¬Ã Å“White Working Class,ÃƒÂ¢Ã â ¬Ã Â• usually the lowest-paid workers are much less resentful of the rich, who are perceived to have earned their money, than of the parasitical ÃƒÂ¢Ã â ¬Ã Å“professional managerial elite,ÃƒÂ¢Ã â ¬Ã Â• of which CEOs are not members. Clifford then spends a whole chapter solely on inequality, focusing on the ÃƒÂ¢Ã â ¬Ã Å“Mega Rich,ÃƒÂ¢Ã â ¬Ã Â• those whose income is in the top 0.1% (a level I am personally desperately striving to reach). Some of what he says is undoubtedly trueÃƒÂ¢Ã â ¬Ã â •inequality has increased, social mobility is low, and the outsized gains accruing to those in unproductive fields such as finance harms society as a whole, both by misallocating talent and by reducing trust. But some of what he says is less trueÃƒÂ¢Ã â ¬Ã â •it is not at all clear that inequality increases crime, or undermines democracy, or that supply-side economics is responsible for income stagnation. He also claims that ÃƒÂ¢Ã â ¬Ã Å“capitalism [by which he means the free market] is difficult to defend on the basis of morality or equity,ÃƒÂ¢Ã â ¬Ã Â• which the billions of people lifted in recent decades out of poverty by the free market would probably disagree with.CliffordÃƒÂ¢Ã â ¬Ã â„¢s core point, though, is that most of the Mega Rich are business executives. Of course, if he focused on assets rather than income, which is much more important for inequality given that there is massive turnover from year-to-year in the top income getters and much less turnover among the top asset holders, business executives would be a vastly smaller percentage of the Mega Rich. But heÃƒÂ¢Ã â ¬Ã â„¢s not wrong that business executives take home a lot of the income pie. Which would be fine, for most of us, if they baked the income pie. But they donÃƒÂ¢Ã â ¬Ã â„¢t. ItÃƒÂ¢Ã â ¬Ã â„¢s more like they steal it, still warm, from the window sillÃƒÂ¢Ã â ¬Ã â •and thatÃƒÂ¢Ã â ¬Ã â„¢s the point of the rest of the book.After this extended introduction, Clifford describes the Pay Machine. In brief, because of a combination of events, primarily the rise of third-party compensation consultants offering supposedly objective analysis and tax changes under the Clinton administration, boards began paying CEOs based on (roughly) the 75th percentile of pay to CEOs of ÃƒÂ¢Ã â ¬Ã Å“peer companies,ÃƒÂ¢Ã â ¬Ã Â• and expanding pay to multiple strands of cash, stock, stock options, bonuses, and so forth. (Another cause was clever theory from clever business school professors, who in my experience exemplify the aphorism, ÃƒÂ¢Ã â ¬Ã Å“Those who do, do; those who canÃƒÂ¢Ã â ¬Ã â„¢t, teach.ÃƒÂ¢Ã â ¬Ã Â•) When combined with additional disclosure mandated by the SEC, the risk-averse, consensus-driven culture of most boards (and their frequent domination by the CEO), along with that that the shareholdersÃƒÂ¢Ã â ¬Ã â„¢ money is being used by the directors, this created an escalator effect that skyrocketed CEO pay. This effect was then further enhanced by favorable accounting and governance treatment given to stock optionsÃƒÂ¢Ã â ¬Ã â •and nobody had any incentive to stop it.If this were all, the obvious conclusion is that such a grossly defective and expensive system in a free market should self-correct. Of course, American public companies, covered by an extensive web of regulation often desired by them, and often designed by them, hardly exist in a free market. But even without that web, the Pay Machine doesnÃƒÂ¢Ã â ¬Ã â„¢t correct itself, because of the thicket of myths, or ÃƒÂ¢Ã â ¬Ã Å“collective delusions,ÃƒÂ¢Ã â ¬Ã Â• that grew up around it, each of which was totally false but served to justify this bizarre system, found only in America. Clifford identifies these as the importance delusion (the CEO actually has a significant impact on company performance); the market delusion (there is a competitive market for CEOs that justifies paying them so they wonÃƒÂ¢Ã â ¬Ã â„¢t leave); the motivation delusion (CEOs need extra pay to motivate them); the performance delusion (itÃƒÂ¢Ã â ¬Ã â„¢s possible to measure performance accurately); and the alignment delusion (incentives other than actual stock can align stockholdersÃƒÂ¢Ã â ¬Ã â„¢ interests with CEO interests).When I started my business career after business school, working briefly for a successful entrepreneur who owned several companies, he instructed me that the one key, critical characteristic of a successful businessman was ÃƒÂ¢Ã â ¬Ã Å“the ability to get things done.ÃƒÂ¢Ã â ¬Ã Â• That sounds too simple, but he was right, as I have found out for myself. Strange as it seems, most people just canÃƒÂ¢Ã â ¬Ã â„¢t get everything done that needs to be done. Thus, CEOs are not importantÃƒÂ¢Ã â ¬Ã â •anybody who can get things done can be a great CEO, if he has a little luck, and any decent company has multiple people who meet that description. Sure, there are a few unique CEOs, Steve Jobs being the preeminent exampleÃƒÂ¢Ã â ¬Ã â •he ÃƒÂ¢Ã â ¬Ã Å“transmitted inspiring visions and authentic values to [his] employees.ÃƒÂ¢Ã â ¬Ã Â• (Now, of course, Tim Cook has turned social justice warrior, so we can confidently predict the gradual demise of Apple, and JobsÃƒÂ¢Ã â ¬Ã â„¢s wife is blowing all the money he made for her on gun control and other left-wing policies that Jobs refused to fund, so Jobs is doubtless grinding his teeth in his grave.) But such CEOs are very rare, and always confined to founder CEOs whose wealth is usually consists of significant stock holdings in their own companies, not cash payments or stock options.

Run-of-the-mill CEOs are nothing at all like Steve Jobs; they are much closer to the janitor in their importance.I think the ÃƒÂ¢Ã â ¬Ã Å“market delusionÃƒÂ¢Ã â ¬Ã Â• is also very important and rarely pointed out. It is simply not true that CEOs are often in demand by other companies, especially outside their own narrow industry. Unlike sports stars, paying CEOs with an eye to what is offered to their own CEOs by supposed ÃƒÂ¢Ã â ¬Ã Å“peersÃƒÂ¢Ã â ¬Ã Â• who in reality have zero interest in hiring your CEO is dumb. Plus, as Clifford points out, most CEOs who are externally hired, in any industry, are either mediocre or total flops. Internal hiring is much more likely to be successful, as well as cheaper and easier. And the ÃƒÂ¢Ã â ¬Ã Å“alignment delusionÃƒÂ¢Ã â ¬Ã Â• is also too often ignoredÃƒÂ¢Ã â ¬Ã â •stock options, for example, are not at all the same thing as stock ownership, and create enormously distorted incentives.All this is quite good. A problem, though, is that this comprises maybe half the book. The other half is taken up with endless, minute descriptions of the pay packages of the four highest paid CEOs in the years 2011-2014, including listing every single board member of the relevant boards. Yes, this is supposed to illustrate how the Pay Machine works, and it does, but really, itÃƒÂ¢Ã â ¬Ã â„¢s excessive and boring. Also, sometimes Clifford oversimplifies. He repeatedly says that ÃƒÂ¢Ã â ¬Ã Å“hedge fund managers and private equity billionaires pay lower tax rates than everybody else.ÃƒÂ¢Ã â ¬Ã Â• This is not trueÃƒÂ¢Ã â ¬Ã â •they pay the same tax rates, but returns from their investments, so-called ÃƒÂ¢Ã â ¬Ã Å“carried interest,ÃƒÂ¢Ã â ¬Ã Â• are taxed as capital gains. The argument is that since that is most of their actual income, it should be taxed as ordinary income. I agree with this, as it happens (as did Donald Trump, until he was captured by the vampire squid, Goldman Sachs), but in fact they donÃƒÂ¢Ã â ¬Ã â„¢t pay lower rates, and this is not a ÃƒÂ¢Ã â ¬Ã Å“loophole.ÃƒÂ¢Ã â ¬Ã Â•But the biggest failure of the book is a failure to grasp the critical role played by lawyers in this system. It is incomprehensible to most people how bottom-feeding plaintiffÃƒÂ¢Ã â ¬Ã â„¢s lawyers circle any public company like sharks, looking to jump on any event that can be cast as a problem, as an excuse to file a cookie-cutter lawsuit and extort money from the shareholders to benefit themselves, under the guise of benefiting the shareholders. This is the one of the main reasons compensation committees use outside consultants. They see perfectly clearly that the system is rigged to benefit CEOs, and they understand that ÃƒÂ¢Ã â ¬Ã Å“everybody does itÃƒÂ¢Ã â ¬Ã Â• is a stupid response. But it is the only response that prevents the lawyers from seeing a possible weakness and zooming in for the kill. Paying a CEO less than other companies, if the company then does poorly, is guaranteed to get a lawsuit that may be very hard to get rid of. Any sticking out from the crowd attracts the sharks; better to stay within the herd. While Clifford mentions lawyers and lawsuits once or twice, and he must be aware of this problem, he almost totally ignores itÃƒÂ¢Ã â ¬Ã â •even though it is a big part of the explanation why excessive CEO pay problem only happens in America, with our uniquely lawyer-friendly system.Clifford ends up where he began, recommending that all big company CEOs only be paid with a salary (1/3 of compensation) and restricted stock grants vesting over time (the other 2/3, with a clawback of the latter if corporate performance is lower than an objective benchmark, such as the S&P 500. No stock could be sold while a CEO worked for his company (up to 50% of the value could be used as collateral for loans, though Clifford does not address what happens if the value drops and a margin call is made, or discuss the need to restrict more sophisticated hedging structures that eliminate risk). Pay in general should be established mostly based on ÃƒÂ¢Ã â ¬Ã Å“internal equityÃƒÂ¢Ã â ¬Ã Â•ÃƒÂ¢Ã â ¬Ã â •that is, to be not excessive relative to the pay of others working for the company. Any pay, in any form (including perks) over $6 million would incur a dollar-for-dollar increase in corporate tax.These are all great ideas. I wholly endorse them. Unfortunately, as with so many good ideas, the political will to implement them is lacking, and the ability of the malefactors of great wealth to manipulate the political system to their benefit appears nearly infinite, which is why the Trump administration is packed with Goldman Sachs functionaries, their allies, and their sycophants. Clifford seems to think someone like Bernie Sanders would be different, which is, um, unlikely. But when, and if, the political stars align, a book like this could be very valuable to policymakers creating a new dispensation.

What’s the story on CEO pay? How come some CEO’s make $5 or $6 million or more a year while millions of Americans work two jobs and still can’t pay their rent? Steve Clifford, a CEO himself, shows us how it works. If you could run the CEO Pay Machine, you too could go from $75 thousand a year to $5.8 million overnight! Clifford gives the reader statistics and financial information in great detail, but he makes his point with wit and flair. A humor writer for the Huffington Post, Clifford knows how to tell the inside story of CEO pay in a readable and enjoyable way. This book is a must-read for anyone concerned about the inequities in America’s economic system.

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