Pay without Performance: The Unfulfilled Promise of Executive Compensation

Lucian Bebchuk
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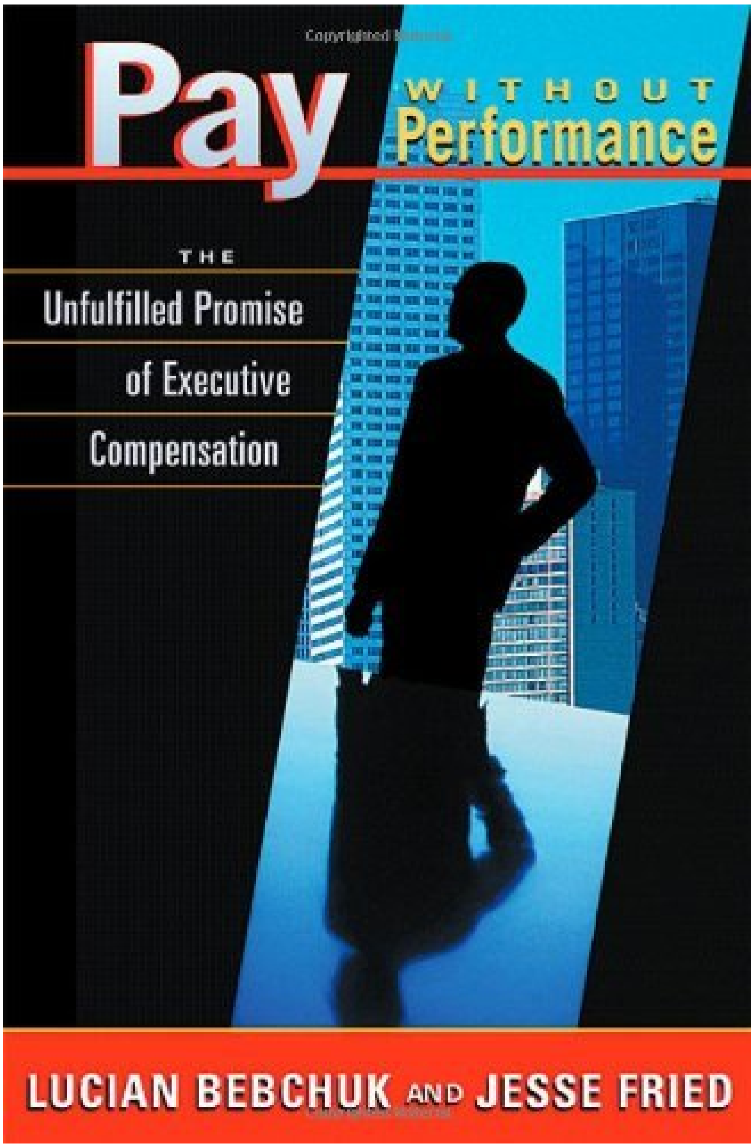

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Lucian Bebchuk : Pay without Performance: The Unfulfilled Promise of Executive Compensation before purchasing it in order to gage whether or not it would be worth my time, and all praised Pay without Performance: The Unfulfilled Promise of Executive Compensation:

0 of 0 people found the following review helpful. Excellent, scholarly treatment of the issue of CEO compensation.By artClearly written account of the issue. Good references to the empiical literature and criticisms of market theories of

CEO compensation.4 of 4 people found the following review helpful. This Fascinating Read Will Leave You Thinking ...By ROther reviewers have made many excellent points. I'll try to avoid duplicating their comments here...- This book is written by two law school professors. They carefully and precisely make their case. Even as they make their points, they consider possible counter-arguments, and then cite further evidence to answer these objections. They clearly and methodically make their case.- They start from a somewhat unique set of premises.-- Whereas many critiques of executive compensation approach the large amounts as an egregious breach of egalitarian values, the authors are indifferent about the size of exec compensation.-- On the flip side, while many would excuse large compensation packages as necessary to obtain top talent in a tight market, the authors come from a perspective of "if shareholders, as the *owners* of the company, can pay a lot for exec talent, but not get good returns, what's wrong with the market for executive talent?" This book challenges long held assumptions price always equals quality when shopping for top management talent.- For a book that cites hard economic facts as often as they do, it also does a great job of analyzing the human element of this market to provide insights that seem missing in public debate about executive pay.- Even as someone who is an outsider both to corporate governance and executive compenation, I found this book accessible and an enjoyable read. As a shareholder of a number of companies, I intend to take opportunities to reform this clearly corrupt system.Highly recommend this book for everyone who owns shares in a publicly traded company, or works for one.4 of 4 people found the following review helpful. Excellent. The authors deliver a strong performance.By AbacusThis is an excellent book. The authors have done extensive research from both a legal and economic standpoint to support their hypothesis that companies with better Board governance, more accountable CEOs, better structured CEO compensation packages perform much better than the others. They show better operating performance resulting in superior shareholder value creation over the long term.Their diagnostic of what ales executive compensations are so well grounded they have become common knowledge for any readers of the financial press over the past couple of decades. Compensation of CEOs and other top officers has become insane. The structure of equity compensation has become so tilted in the CEOs favor that as the authors indicate they really don't have to perform. If they perform poorly they make a boatload of money. If their performance is about average they make an astronomical amount of money. What kind of pay-for-performance is this?Other reviewers have had surprisingly strong reactions to the authors' proposals to redress the effectiveness of executive compensation. I found that surprising given that the authors' proposals are not that radical to begin with. They boil down to restructuring equity compensation so they reflect targets and vesting periods that make economic sense and align the economic interest of the executive with the long-term interest of shareholders. Their proposals also entails a massive shift of power from entrenched Board members plagued with serious conflict of interest to the shareholders of the companies who are the ones bearing the full brunt of the equity risk. In the days of the Enron, Tyco International, Arthur Andersen recent scandals, I find the authors recommendations rather sound. I do think a shift from Board to shareholder power would do a good deal to restore the integrity of certain executives, the transparency and the quality of accounting and financial disclosure.Thus, I really think you will enjoy and learn a lot from this book. In a similar fashion, if you want to educate yourself regarding how movie stars are paid, and why just like CEOs they may be grossly overpaid I strongly recommend the recently released book "The Big Picture" by Edward Jay Epstein. This is another fascinating point that touches on the sensitive topic of a privilege group that earns a staggering amount of money hardly justifiable on any grounds.

The company is under-performing, its share price is trailing, and the CEO gets...a multi-million-dollar raise. This story is familiar, for good reason: as this book clearly demonstrates, structural flaws in corporate governance have produced widespread distortions in executive pay. Pay without Performance presents a disconcerting portrait of managers' influence over their own pay--and of a governance system that must fundamentally change if firms are to be managed in the interest of shareholders. Lucian Bebchuk and Jesse Fried demonstrate that corporate boards have persistently failed to negotiate at arm's length with the executives they are meant to oversee. They give a richly detailed account of how pay practices--from option plans to retirement benefits--have decoupled compensation from performance and have camouflaged both the amount and performance-insensitivity of pay. Executives' unwonted influence over their compensation has hurt shareholders by increasing pay levels and, even more importantly, by leading to practices that dilute and distort managers' incentives.This book identifies basic problems with our current reliance on boards as guardians of shareholder interests. And the solution, the authors argue, is not merely to make these boards more independent of executives as recent reforms attempt to do. Rather, boards should also be made more dependent on shareholders by eliminating the arrangements that entrench directors and insulate them from their shareholders. A powerful critique of executive compensation and corporate governance, Pay without Performance points the way to restoring corporate integrity and improving corporate performance.

Ever wonder if corporate executives are paid too much? Look at it this way: from 1993 to 2002, the aggregate compensation of the top five executives in all public companies amounted to an astonishing $250 billion, equivalent to 7.5% of all corporate earnings. Defenders of the status quo say that such bloated pay provides managers particularly

CEOs with incentives crucial to high performance. Those defenders have not yet read Lucian Bebchuk and Jesse Fried's Pay Without Performance. The authors marshal a formidable arsenal of facts to pick apart the incentives argument, exposing myriad ways in which CEOs have decoupled pay from performance and hidden that fact from investors with the aid of supine corporate directors. The lucidly argued treatise frames the issue not in ethical terms but as a problem of efficiency. As for solutions, Bebchuk and Fried maintain that board directors should be not only more independent of the executives they supervise but also much more dependent on stockholders. If shareholders had the power to alter the composition of the corporate board, the authors argue, directors would be more likely to keep investors' interests top of mind when setting CEO salaries and perks. (Unmesh Kher Time Magazine 2004-11-28)In times both bullish and bearish, there is periodic outrage over huge compensation packages for executives at publicly traded companies. The recent wave of corporate scandals only inflamed concerns that companies' boards of directors, too cozy with CEO's, were betraying their duty to shareholders. Reacting, defenders of corporate America have often offered 'rotten apple' theories and other explanations that deny any systemic problem. Inadequate, say Lucian Bebchuk, a professor of law, economics, and finance at Harvard University, and Jesse Fried, a professor of law at the University of California at Berkeley. In Pay Without Performance, the scholars uncover what they say are widespread, persistent, and indeed systemic flaws in compensation arrangements. (Nina C. Ayoub Chronicle of Higher Education 2004-12-03)Lucian Bebchuk and Jesse Fried offer a devastating critique of the way public companies pay their top executives. Relying on data rather than rhetoric, Fried and Bebchuk describe a diseased system in which executives wield enormous influence over their pay, board members have little incentive to slow the gravy train, and everyone involved goes to great lengths to hide the numbers from shareholders...Those looking for a substantive deconstruction of the system--and a few ideas to fix it--could hardly do better. (Ben White Washington Post 2004-12-05)In Pay Without Performance, Lucian Bebchuk of Harvard and Jesse Fried of Berkeley set out to identify the failure of corporate governance that allows chief executives' compensation to carry on rising with little relation to performance. They point the finger firmly at board directors. (The Economist 2004-12-18)For anyone looking for a guide to the debate over American top pay, this book will be indispensable. It is clear, well-argued, fully researched and deeply felt. (Michael Skapinker Financial Times 2005-02-07)Pay Without Performance is a significant book. It is a well-researched, careful study of a problem that has attracted considerable attention since the 1980s. The authors write well and manage at once to make the book readable and to satisfy the scholar's need to see evidence and documentationhellip; Pay Without Performance is an important contribution to the continuing discussion about corporate governance. It will repay a careful reading, and it is likely to achieve the influence it deserves to have. (Robert G. Kennedy Ethics and Economics)This book has important messages about where [the balance between managers, directors, and shareholders] should lie, not just with regard to executive compensation but to governance in general. (Peter Montagnon Management Today 2005-02-01)If one has time to read only a single book about corporate governance in US publicly traded companies, this is the book to read. (James A. Fanto International Company and Commercial Law)[This book] does add to the discourse about executive compensation and corporate governance by offering an alternative view of the factors underlying executive compensation. (Joseph Gerakos Journal of Pension Economics and Finance)I rate this as an important book that should help to get the academic profession thinking in a new direction. The supporters of the conventional model of compensation clearly have a case to answer, and this book makes it plain what the challenges to developing a better understanding of executive compensation are. Thus, it will surely generate a productive debate...The book should also be seen as a welcome contribution to the corporate-governance debate in Europe, as it provides a sobering perspective on what many regard as a role model. Everybody who wants to participate in the debate on executive compensation should read this book. (Ernst Maug Journal of Institutional and Theoretical Economics 2006-01-01) Bebchuk and Fried present a powerful challenge to financial economists' view that compensation arrangements are designed by boards seeking to increase shareholder value. They offer a compelling account of how managers' influence has distorted executive pay. By showing how boards have failed to guard shareholder interests, Bebchuk and Fried raise fundamental questions concerning our corporate governance system and lay the ground for their proposed reforms. Their work will shape debates on executive compensation and corporate governance for years to come. (Joseph Stiglitz, Nobel Laureate in Economics, and author of The Roaring Nineties)About the AuthorLucian Bebchuk is Professor of Law, Economics, and Finance and Director of Program on Corporate Governance at Harvard Law School.Jesse Fried is Professor of Law and Co-Director of the Berkeley Center for Law, Business, and the Economy at the University of California, Berkeley.