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Boards to blame for excessive pay packages for CEOs

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We are in the "groan and wail" season again. It's all about the pay and perks awarded to public sector employees as chronicled in the provincial government's "sunshine list." Question is, are the groans and wails holding the right people accountable for these apparent overgenerous levels of pay and perks coming from the public purse?

Is it the government that sets the salaries of the Hospital CEOs, or the University Presidents or the Police Chiefs? No it isn't – the salaries of these CEOs are set by the Boards of Directors of the Hospital, University, Police Services, etc. There are even classes given to hospital Boards on how to set the salary of their CEO. Guess who attends these classes? Not only Board members but the CEOs themselves.

Are Boards getting the right information to set the CEO's compensation package or are they simply playing the salary leap frog game? We know that public service executives spend time analyzing the "sunshine list" to see who is paid what in relation to their own package. This becomes fodder for discussion with their Board for CEOs to argue that they see themselves as being worth as much or more than their colleague CEO.

Some CEOs have placed the sunshine list in front of the Compensation Committee as justification for an increase in their pay. Does someone else's earnings justify your CEO's salary? Is the organization comparable? Has CEO "A" been in the job as long as CEO "B"? Is CEO "A" performing the job effectively? These are a few of the many elements that determine compensation. The sunshine list only reports numbers; it does not provide information for proper decision making.

What Compensation Committee will say that they don't want to pay the CEO top dollar? Who on the Board or Committee wants to bear the shunning by the CEO who doesn't get the pay that he/she thinks is deserved? Interesting that budget money can always be found to pay the CEO salary increase but in the face of budget constraint by government, the CEOs announce service reductions.

There is also a domino affect on the salaries of the CEO's direct reports. There is an attempt to manage the spread between the CEO's salary and that paid to his direct reports. As the CEO's salary goes up so does the other senior people. Not so for those on hourly pay.

Some Human Resources consultants engaged by Compensation Committees only produce summaries of what is already on the "sunshine list." Where is the substance behind the numbers? Are these consultants working for the Board or the CEO? It is interesting that some of these consultants recommend a nice pay increase for the CEO, then mange to get an assignment working for the CEO. Is this a conflict that should be allowed?

I am impressed by one consulting firm which has the integrity to say that they only advise Boards on the CEO compensation package and will not take assignments working for the CEO. Now that's the integrity that makes good governance a cinch.

It has also been suggested that there are other compensation arrangements that accrue to some CEOs that don't get included in the sunshine list. An example is a deferred compensation plan that pays out to CEOs after their retirement and which hover below the $100,000 sunshine list threshold. Not to mention the guaranteed pensions from well funded pension plans. The sunshine list simply reports the amount paid to the person in the current year – it does not disclose the complete compensation package: perks such as fully funded indexed pension plans, post retirement medical benefits, and deferred compensation.

If Boards can't do the right work because of intimidation, discomfort or lack of information, then maybe we don't need the Boards and no one should be surprised if the government institutes rules for the Board to follow or even eliminates some of these Boards.

If you are unhappy with the compensation being paid to these public servants, talk to the appointed Boards. Tell the Boards that you want them to do the hard work and the research they are charged with and not simply follow "survey says." The leap frog game is too easy. Your questions are the incentive for Boards to do the tough work. The Boards need to be held accountable – that's good governance.

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