

From the Editor

CEO Pay Is Up! Is That Good?

CEO pay has returned to its prerecession levels. According to Equilar, a firm that tracks U.S. executive compensation, total pay packages for CEOs at S&P 500 companies rose 28% in 2010, to a median of \$9 million.

It's hard to know exactly how to take this news. On the one hand, it's a positive economic indicator of sorts, in that a CEO's compensation tends to be linked to the company's stock price. The markets saw a strong recovery in 2010; the S&P 500 index, for example, rose 13%. On the other hand, there's something unsettling about this development. In the immediate wake of the financial crisis, nearly everyone agreed that we had gotten into trouble partly because tying compensation to short-term performance had enriched individuals while putting institutions—and the overall system—at risk. In an interview that begins on page 112, Disney CEO Robert Iger addresses the problem. He made \$28 million last year in salary, bonus, and stock options. But Iger concedes that there is too much emphasis, in his and other CEOs' pay packages, on short-term stock results, and he urges compensation committees to rethink their approach.

Someone else who has thought a great deal about the compensation conundrum is Roger L. Martin, the dean of the Rotman School of Management at the University of Toronto. A frequent contributor to HBR, Martin is the author of a new book—*Fixing the Game: Bubbles, Crashes, and What Capitalism Can Learn from the NFL* (Harvard Business Review Press, 2011)—that tackles this puzzle. He argues that Wall Street's fixation on quarterly earnings—and on “consensus” market expectations concerning them—distorts how we view company performance and creates dangerous incentives for executives. He provides a great metaphor: Professional football ensures that betting on point spreads is a sideshow to actual game results. In American-style capitalism, by contrast, performance against the market's expectations (equivalent to a point spread) is paramount. “Can you imagine Tom Brady apologizing to the public for winning by less than the point spread?” Martin asked at a recent presentation in Toronto. “Of course not. But that's what happens when CEOs fail to meet the market's consensus expectations. And no matter how good you are, you cannot beat expectations forever.”

I urge everyone who cares about the economy (and football, for that matter) to read Martin's book. A free chapter can be found at hbr.org/chapters/martin.



In football, betting on point spreads is a sideshow. In American-style capitalism, it's paramount.

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