Masters of the Universe

U.S. News and World Report, May 27, 2002.

By Randall E. Stross

A long time ago in a galaxy far, far away, J. P. Morgan said that a reasonable ratio of top management pay to that of the average worker would be 20 to 1. Today, it's about 500 to 1. (At this rate, in a thousand years, the ratio will be 125,000 to 1.) The board of directors is supposed to carefully calibrate compensation packages so that CEOs are paid just well enough to be motivated to swing their weary legs out of bed each morning and clomp to work. But rare is the director who loses his or her position by erring on the generous side. Let's go back to the compensation contract of the future, citing current precedents along the way.

Employment Agreement Between the Galactic Republic Inc. and Rob U. Blind

During the term, executive shall be employed as chief executive officer, reporting to the Galactic Senate.

Salary. Half of the treasury of Coruscant. Generosity is most appreciated by the recipient when expressed in forms other than salary, such as restricted stock grants and stock options. Last year, Coca-Cola's Douglas Daft received a salary of $1.5 million, but that was a mere rounding error in the $105.5 million he received in total compensation, including stock options. This despite slipping domestic market share, sagging stock price, and job cuts in the thousands. Side note: Shareholders got a visionary in the bargain. Daft invested in an experimental project for homes that pipes Coke through a household tap. The Force will always be with us.

Signing bonus. A king's ransom. Or princess's, as the case may be. Science fiction is pallid compared with real-life stories supplied by figures like Robert Annunziata of Global Crossing, who received a $10 million "golden hello." The fine print required him to stay in place for . . . an entire year. Which he did--CEOs are built tough--and then he took his galaxy-class executive skills elsewhere.

Benefits. Health, dental, and armor (limit: three new light sabers per year). What's the difference between God and Larry Ellison? (God doesn't think he's Larry Ellison.) The old joke comes to mind when one sees how Ellison snagged the top spot in compensation among CEOs last year, receiving more than $700 million in 2001 from Oracle, his "employer." Since he is the company's cofounder, with shares worth $16 billion, give or take, you might think his clawing for more is unseemly, especially when his fellow shareholders watched Oracle stock drop in half over the course of last year. (You might also think George Lucas would feel shame for cranking out lifeless, if highly profitable, prequels.) In Ellison's galaxy, however, embarrassment is banished.

No oral modification. Upon pain of exile to the Jundland Wastes. A public that has been benumbed by one tale of excess followed by another is not easily roused to anger. Earlier this month there was a rare outbreak, however, when news spread that E*Trade's chairman and chief executive, Christos Cotsakos, had loaded his pockets with $80 million of goodies last year. Neither he nor the board deemed this worthy of correction until shareholders asked how such a payout was an expression of "performance-based" compensation when the company reported a $276 million loss for its most recent quarter.

Reimbursement of expenses. Employee may travel first class on commercial or charter flight, including conveyance on Chancellor Valorum's own Republic Cruiser. Like ordinary employees going to night school to get their M.B.A. with their employer picking up the tab, so, too, did E*Trade's Cotsakos go to graduate school part time with his employer's financial support. In his case, more than bus fare was required, however. He resides in the San Francisco Bay area, and his chosen school was the University of London. His employer also agreed to pay for family members to accompany him whenever they wished.

In case of litigation. Yoda Esq. will represent employee. The National Bureau of Economic Research recently published a paper by Harvard Law School Prof. Lucian Bebchuk and two colleagues, which examines the theory that executives are paid an "optimal" amount to maximize shareholder value, and not a penny more. Assembling a massive compendium of studies, the authors show that CEOs, by virtue of their position, are actually able to dictate the terms of their compensation almost at will. And servile corporate directors help them camouflage the value of the compensation packages. The only time directors are reluctant to give approval is when the terms break all limits and, if disclosed, would bring disgrace upon the heads of all.

In other words, the only thing that keeps a CEO from asking for all of Naboo is the remote chance of public scandal. The academic term for this invisible force that checks otherwise unlimited CEO power is the "outrage constraint."