

***Riskbook.com* Review of:**

Pay Without Performance:

The Unfulfilled Promise of Executive Compensation

by Lucian Bebchuk and Jesse Fried

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By Glyn Holton

Executive compensation is becoming astronomical—with annual packages worth tens and even hundreds of millions of dollars—but are shareholders getting value for their money? In the aftermath of the corporate scandals of the early 2000s, there seems little link between pay and performance.

Bebchuk and Fried criticize the standard theory that executive compensation is set on an "arms length" basis by independent boards of directors. The authors detail the many ways managers can influence boards and point out how feeble are the incentives for boards to not comply with managers' insistence on ever higher compensation. With compensation too often based on what executives at other corporations are receiving—what I call "keeping up with the Joneses"—there is an inevitable escalating in compensation with no end in sight.

Not only are managers able to influence boards to pay them ever higher compensation, but they seem able to secure especially lavish compensation when they leave a firm. Some of this is guaranteed in their employment contracts. Much of it seems gratuitous. It comes in many forms, from forgiveness of loans, to generous "consulting" agreements, "crediting" executives with extra years of service for purposes of calculating pension benefits or outright cash payments.

The authors explore the links between executive performance and various forms of compensation. They find few. There seems little relationship between what executives accomplish and the size of their salaries or bonuses. Compensation tied to a firm's share price—such as stock options—are poorly structured, so executives benefit from broad rises in the stock market that have no relationship to their own leadership.

The book closes with two chapters. One recommends how executive compensation might be improved. The other makes recommendations about corporate governance generally.

I really like this book. It is focused, well written and very informative. Bebchuk and Fried are scholars and lawyers. This shows in how they combine a depth of analysis with pragmatic conclusions. I highly recommend the book.

Riskbook.com gave this book a **six star quality rating** out of six stars.

The original article can be found at: [http://www.riskbook.com/link/bebchuck_and_fried_\(2004\).htm](http://www.riskbook.com/link/bebchuck_and_fried_(2004).htm)