The SEC recently voted to require employers to disclose the pay gap between the CEO and his or her employees. Unions, investors, and other groups have increasingly been using this disparity to attack companies. As Fortune calmly pointed out:

*The rule is well intentioned. CEO pay in 2014 was an eye-popping 373 times that of an average worker, according to data compiled by the AFL-CIO, and a sharp rise from 331 times in 2013. This imbalance contributes to America's growing wealth gap and accompanying social and political inequities. Requiring companies, especially large public corporations, to disclose how richly their CEOs are paid would provide valuable information for shareholders and possibly help the larger national debate about economic fairness. WSJ the Big Flaw in the SEC's Pay Ratio Rule.*

The AFL-CIO maintains an elaborate site to check CEO pay entitled, “CEO Pay Watch: High Paid CEOs and the Low-Wage Economy.” This is not good press or a source of positive employee relations.

The CEO-Employee ratio is not alone a reliable measurement. Not only does the analysis fail to consider whatever value the CEO adds, it does not consider other factors such as whether the CEO’s decisions benefitted the company on a long-term basis, or recognize those entrepreneurs who built a business from scratch.

*Perhaps the better question is “what is the CEO and the company’s ‘responsibility’ to employees?”*

We should candidly discuss the nature of a company and its CEO’s responsibility to its employees. A company’s role is to make money, so employee welfare cannot be the driving value, no matter how appealing this prospect. The employer will fail and employees will be out of work. But management labor lawyers will tell you that ignoring employee welfare will, in the long-term, harm your business. Not only are successful employees more likely to contribute to corporate profits, a narcissistic or disconnected corporate attitude can lead to poor judgment in other areas.

Perhaps of more immediate concern, the apparently increasing disparities make corporate America look uncaring and ripe for counterproductive regulation. I’m in favor of making lots of money, but as
my entrepreneur dad explained, “pigs get fat but hogs get slaughtered.” American workers and investors do have some undefined sense of when enough is enough. Self-regulation is preferable to more government intervention, and such self-critical inquiries are not contrary to a free-market system.

Many employment discrimination and whistleblower claims are frivolous and driven by the personality of the plaintiff, but the failure of an employer to appear to “care” about its employees contributes to lawsuits, government investigations and union drives. So what is an employer’s responsibility to its employees? What is “right” from both a cold business calculation and from an ethical standpoint? Consider these questions:

- What is the role of our employees in achieving the corporation’s goals?
- Should an employer make employee success a genuine driving value?
- What, if anything, does the business gain by a conscious focus on employee success?
- What role does compensation play in employee success and satisfaction? Communication, gratitude, involvement and opportunity to advance are also important.
- How does foreign competition, LEAN manufacturing, and shareholder activism affect the calculus?
- What do I want for returns? How much is enough . . . in other words, do short-term returns contribute to long-term success and the legacy of the corporation and its leadership?

I’m not an ethicist or philosopher. I’m a management labor lawyer who cleans up and tries to prevent workplace problems. Employers need to wrestle with these questions to forestall new government regulation and to lessen legal problems.

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