



Limit Incompetence Not Top Salaries

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It is unnecessary to limit the salary packages of top managers if three conditions are fulfilled: sufficient supply of managers in the market, transparency and competence.

To have sufficient supply of managers in the market allows the market to do its' work and thus ensure balance and free market pricing. In a tight or closed shop market one will certainly be confronted with abnormalities and dysfunctions.

Transparency is a second important criterion because it provides for open discussion and deliberation about salary packages for top jobs. The frequent publications on salary levels are a big support to create this transparency and have discussions based on facts. So, one could conclude that having a market with sufficient supply of fresh management resources and an open information forum on top salaries is the best way to keep managers salaries competitive. The corporate governance movement has been contributing a lot to this by establishing rules and committees for discussing and deliberating about CEO and other CO's salary packages. As soon as several parties, including nonexecutive and independent directors discuss openly and freely in a remuneration committee these matters, transparency is guaranteed.

We learned in the meantime that transparency is not enough. Having independent directors deliberating on the CEO salary is not a guarantee for competent decision making on the matter. When such independent directors and remunerations committees want to take well founded decisions, they will have to learn about how to seize job responsibilities, salary structures and market and industry sector data. In many cases, this specific competence is not present, hence leading to transparent but unskilled and unfounded decisions. Independent directors and remuneration committees therefore should ensure to get the necessary training in such type of decision making or ask assistance to external specialists that are daily involved with the labour market of top jobs.

In conclusion: limiting the salaries for top jobs, such as some politicians request, would be stupid, as well as incompetent decision making on this subject. Building the competence is what we need to do.

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