

The Ombudsman: The “Wicked” Environment of CEO Pay

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Abstract

We applaud Jacquart and Armstrong’s systematic, evidence-based review of the contentious issue of CEO remuneration. We augment their analysis. First, we highlight the lack of demonstrated validity of unaided expert judgment to set CEO remuneration. The settings in which such judgments are made do not facilitate learning through experience and are subject to many biases. In particular, we briefly describe our empirical study that demonstrates illusory correlation in the form of a relationship between golfing ability and CEO remuneration, which does not mirror CEO performance. Second, we provide an analysis of data that shows that boards of directors are unable to accurately predict future performance of CEOs when determining remuneration packages. Third, we advocate the use of systematic methods in setting CEO remuneration.

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