Beckham Bends It Like a CEO

LA Daily News
John Berlau
August 4, 2007

I don't get it. Where is the outrage?

Politicians and pundits love to "bend it" when it comes to stoking resentment about what they call excessive pay for corporate executives. Yet not even the most populist pol is screaming about the inequality of the contract that will pay David Beckham more in one season than the average Los Angeles Galaxy fan will earn in a working lifetime.

And Beckham doesn't just make more than ordinary soccer players. His take-home pay also greatly exceeds that of most corporate CEOs. According to the Corporate Library, a group critical of executive pay practices, the average CEO of a company in the Standard & Poor's 500 made $14.78 million in 2006 in total compensation, including benefits and perks such as stock options.

That's not bad for a year's work. But this payout looks like peanuts when compared with Beckham's deal with the Galaxy. Beckham's pay arrangement with the team is valued at $50 million a season, or $250 million over the length of his five-year contract.

How do executive-pay critics square their criticisms of CEO salaries with their apparent acceptance of high salaries for personalities like Beckham? By spouting a new argument that, unlike entertainers and athletes, CEOs aren't paid on performance.

In their influential book, "Pay Without Performance," Harvard and Berkeley law professors Lucian Bebchuk and Jesse Fried acknowledge that "star athletes are highly paid, some more than the average S&P 500 CEO." But they claim that "the process generating the compensation" for sports stars is "quite different" than that for CEOs.

The difference, compensation critics claim, is that public-company boards give CEOs high payouts no matter how they perform. They point to examples such as that of Robert Nardelli, former CEO of Home Depot Inc., the company whose name is emblazoned on the stadium where Beckham now plays.

Under fire because of Home Depot's lagging stock price and criticisms of his management style, Nardelli resigned from the firm in January. But he left with a severance package of unvested benefits and salary for the years left on his contract that was valued at $210 million.

Athletes who perform poorly don't get rewarded like this, it is argued. "When clubs get rid of players, they generally don't provide them with large gratuitous payments," write Bebchuk and Fried.

But, in fact, they often do just that. All a fan has to do is read the sports page to learn about a star athlete or coach getting a generous cash payout after not living up to expectations. Basketball coach Larry Brown, for instance, received a "golden parachute" of $18 million from the New York Knicks in 2006 after he was fired because of the team's dismal performance under his tenure.

The Galaxy will also be on the hook if Beckham fails to improve the team's performance or popularity. According to Sports Illustrated, he does have plenty of incentive to do well, such as a share of the sales of Galaxy tickets and merchandise. But the magazine also reports that Beckham's "guaranteed salary with the Galaxy is around $50 million over the five-year deal," and that the team will still owe him a huge sum if he "turns out to be a total bust."

So whether negotiating for someone to run Home Depot or to play in the Home Depot Center, no firm offers to pay the most talented candidates solely on performance. Beckham, Nardelli and nearly every other superstar of their field were offered pay arrangements largely based on their past performance. As business columnist Allan Sloan noted in Newsweek, when Home Depot hired Nardelli in 2000, he "was considered one of the two hottest CEO prospects in the country."

Like Beckham, Nardelli looked like a winner because of his past successes. He had been a senior vice president of General Electric Co. and a key player in that company's turnaround by then-CEO Jack Welch.

No one can be expected to perfectly predict the future. And talented people have bargaining power just like the firms and teams they negotiate with. They should have just as much right to protect themselves against a risk of failure as the entities they work for.

If it were not attractive for Beckham to leave Europe for Los Angeles, the Galaxy would be denied the chance to transform soccer into a top American sport. Similarly, if Apple Inc. had not offered a spectacular pay package - including guarantees for failure - to lure back cofounder Steve Jobs, the iPod and iPhone may never have been developed. Consumers and Apple shareholders would then have missed out on the rewards of these revolutionary new products

Paying for the occasional failure is the price we pay for the development of top talent in sports and in business. If the ability to reward skill with high compensation is curtailed, shareholders and sports fans will be on the losing team.

John Berlau is director of the Center for Entrepreneurship at the Competitive Enterprise Institute.