The Honorable Mary L. Schapiro  
Chairwoman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

February 17, 2011

Dear Chairwoman Schapiro:

“Modern enterprise, especially large enterprise, can do its economic job—including making profits for the shareholders—only if it is being managed for the long run,” Peter Drucker once asserted.

It is with this in mind that I am writing you in support of Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which requires public companies to disclose the pay of their typical worker compared to the pay of their chief executive.

First, though, a quick bit of background: The late Peter Drucker was the author of 39 books on organizational behavior, economy and society, including such landmarks as Concept of the Corporation; The Practice of Management; The Effective Executive; Management: Tasks, Responsibilities, Practices; Innovation and Entrepreneurship; and Management Challenges for the 21st Century. Winner of the Presidential Medal of Freedom, the nation’s highest civilian honor, Drucker died in 2005, just shy of his 96th birthday. Here at the Drucker Institute, a part of Claremont Graduate University, we are now building on Drucker’s legacy as we strive to meet our mission: bettering society by stimulating effective management and responsible leadership.

When it came to the relationship between a CEO’s pay and that of the average worker, Drucker advocated a ratio around 25-to-1 (as he suggested in a 1977 article) or 20-to-1 (as he expressed in a 1984 essay and several times thereafter). Widen the pay gap much beyond that, he said, and it makes it difficult to foster the kind of teamwork and trust that businesses need to succeed.
“I have often advised managers that a 20-to-1 salary ratio is the limit beyond which they cannot go if they don’t want resentment and falling morale to hit their companies,” Drucker explained. (At last year’s World Economic Forum in Davos, Switzerland, those looking to cap runaway CEO pay came to refer to the 20-to-1 mark as “the Drucker principle.”)

In a 2004 interview, Drucker elaborated further: “I’m not talking about the bitter feelings of the people on the plant floor. . . . It’s the midlevel management that is incredibly disillusioned” by king-size CEO compensation.

Drucker, of course, was hardly alone in his thinking. The Congressional Research Service, for example, has noted that, “while it is very difficult to quantify the impact of executive pay packages on worker morale and productivity, there are concerns that both could be affected detrimentally.”

Yet what’s so notable about Drucker’s position is that he wasn’t some knee-jerk anti-business crusader. He was a friend and close adviser to countless corporate CEOs. He was, in the words of Businessweek magazine, “the man who invented management.”

The fact that he believed pay ratios are important to employee satisfaction and morale tells me—and should tell the SEC—that this is a piece of information investors have a right to know. And it should be given to them in a manner that is clear and complete, not watered down, as some are seeking.

Sincerely,

Rick Wartzman
Executive Director