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ORGB Challenge
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Article: http://www.theatlantic.com/business/archive/2014/10/can-ceo-pay-ever-be-reeled-in/382042/

The article "Can CEO Pay Ever Be Reeled in?" by Susan Holmberg and Mark Schmitt talks about how the compensation of American executives is hurting America and the corporate culture of their organizations. Some might say that executives deserve the higher pay, especially since it's often linked to profits or stock performance. So haven't these executives earned their compensation? First of all, it's important to note that CEO's salaries in the U.S. and U.K. are way above what CEOs are compensated in every other country. In a report by Fox News they said that "In 2013, CEOs of S&P 500 companies earned, on average, 204 times the salary of rank-and-file employees….and CEOs in the U.S. are currently paid more than ten times what is needed in salary alone." ("Business School Experts: High CEO Pay Hurts American Companies, Stockholders." Armstrong). According to the Economic Policy Institute, from 1978 to 2013, CEO pay in American rose by 937 percent, whereas worker compensation had a mere 10.2 percent growth. These numbers should concern us because there has been very little correlation between higher pay and better performance. Excessive pay in fact can negatively affect motivation, the culture and productivity of an organization.

It's long been believed that higher salaries enable organizations to hire the best candidates and get the most from their employees. Although, biases that are irrelevant to hiring such as age, gender, appearance, voice, weight, height and race can undermine the argument that using a higher salary will attract the best candidates. Also, there is no evidence or very little correlation between better executive performance and pay. For example, in Spain the Mondragon Cooperative is made up of about 300 firms, and their CEOs do not receive incentive payments and their compensation cannot exceed more than 11 times their lowest paid workers (Armstrong). These companies have no trouble finding top executives, and to boot, they are more profitable than traditional firms. In Sweden, managers and senior officers make about 20% below their American and British counterparts ("Sweden, Where CEOS Come Cheap and Still Deliver", Pollard). Yet they are also ranked among the highest in global competitiveness and tend to have better returns for stockholders. So, if CEOs in other countries are being paid significantly less than those in the U.S., and producing better results then shouldn't we reevaluate the argument that better pay equates to better results?

Not only is there the issue of motivation, but also how it affects the corporate culture and productivity. Numerous studies have shown that high differentiation in pay between higher-level executives and lower-level employees hurts organizational performance ("Inside the Head of an Overpaid CEO", Pfeffer). When executive perks and overinflated salaries are flaunted in an organization it tends to endorse individual success over that of the organization. Not just talking about pay here--perks can be a larger office, reserved parking, first class travel, the right to buy company shares cheaply, and the use of an expensive car. It also tends to create an elitist attitude and perception that can create dire consequences within the culture. Once others see how one individual achieved entitlement, everyone else in the organization asks himself or herself if that person really deserves it. Then they go on to wonder about what they deserve and how they can achieve the same level of entitlement. So instead of asking how we can make the company better they are looking at their own self-interests. The focus of the employees is shifted from the organization to the individual's needs and wants. If they want to promote themselves over their peers they must choose to make themselves look good over what might be best for the organization. When you put the few on a pedestal it destroys the morale of other workers. While it is important to commend people for doing a good job, when deserved, it may not be best to shower them in financial rewards. This could discourage others from working harder if they see how others who they perceive to be equal to them in effort getting paid significantly more.

So how did pay for CEOs become so excessive? Well a law professor at Cornell places the blame on a tax-code change made in the early 1990s. The rule eliminated tax deductions on compensation above $1 million that wasn't linked to performance. So the change helped promote widespread use of pay-for-performance metrics, but as that grew pay kept climbing even when shareholder returns suffered (Pfeffer). Another reason could be related to the psychology of humans. When someone is criticized for something performance related, they automatically go on the defensive. Since people tend to overemphasize their strengths and contributions they believe that they deserve this pay. So they go on to rationalize why they are paid as much as they are and back that information up with performance related metrics. They could also use the comparison of their pay to other CEOs, while $2 million may sound like a lot if you compare it to another CEO's salary of $22 million then it doesn't seem that high. Also, people in power have a tendency to think they are correct all the time and are less likely to take advice or change course. Therefore, those in power are inclined to keep those same policies in place because they benefit them and reinforce their self-worth. Hence why there has been a lot of outrage over executive pay, but little has been done about it.

In class, we discussed an interesting difference between CEOs in other countries and the U.S. CEOs in countries like Sweden and Japan are employees of the company, whereas in the U.S. the CEOs are hired from the outside and on a three-year contract. Since CEO performance is linked to short-term success, this can cause them to act in unethical or risky behaviors that do not contribute to the long-term value of the company. It's likely that the CEOs in Sweden and other countries have an invested interest in growing the company since they have grown up in it so, they do not behave unethically. They also are more likely to identify with the company, community, and culture on a personal level so they are more invested in its long-term success.

The chapter on Motivation Concepts in Organizational Behavior textbook seems to support the thought that money is not necessarily the best motivator. In Chapter 7 it talks about the Two-Factor Theory, which relates intrinsic factors to job satisfaction and associates extrinsic factors with dissatisfaction. The results of the study Herzberg did was that factors such as quality of supervision, pay, company policies, relationships with others, and job security as "hygiene factors". Hygiene factors meaning that when they are adequate people will not be dissatisfied or satisfied. If we want to motivate people in their work then we need to emphasize factors associated with the work itself or the outcomes directly derived from it. This could be promotions, personal growth, recognition, responsibility, and achievement. Basically, people care more about the impact they feel like they are making then the amount on their paycheck.

Personally, I believe that the pay for CEOs is out of control, and is not the most effective use of money. Managers tend to first look to bonuses as the first source of motivation, even though it is the most expensive. I believe it is because managers believe that people desire more pay, and will work harder for a higher wage. The truth is that to a certain extent money can motivate us to do better, but after a certain point it becomes ineffective. What truly motivates us is the impact we believe we have on the world, the "big-picture", that what we are doing matters. Also, when we feel appreciated, like we are worth something and have built relationships that can motivate us to do better at work. I've been very involved in volunteer work my whole life, and I have spend many weekends volunteering my time for Habitat for Humanity, Boys and Girls Clubs, and the betterment of society. I found those volunteer experiences to be more rewarding and challenge then most jobs I've had. They were also some of the more enjoyable experiences I've had in relation to other work experiences. Even though I wasn't receiving a paycheck, I felt better when I was volunteering then when I was making money at work.

Money is an imperfect tool when it comes to motivating people within a work environment. CEOs and the people that hire them need to take a hard look at disparity of compensation in corporate America and the effect it is having on their organizational culture. It's time for some real change, which won't be easy, but is necessary. If Congress could close loopholes that allow the CEOs to be paid 400 times what their lower employees make that would be a start in the right direction. Even though we are recovering from the recession it is imperative that company's look at how they are spending their money—and use it to their advantage. Instead of giving out ridiculous amounts of cash in bonuses use that money towards improving the company and the products. It will produce a better value for the company as well as the employees in the long run.

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