

Executive Compensation Rewards for Success or Unnecessary Excess?

BY MARIA GUADALUPE*

ABSTRACT

This brief synthesizes economic research on executive compensation to help explain the trends in both the level of executive pay and composition of the executive compensation package from the 1930s to the present. In recent years, CEO compensation has become a “hot button” issue due to the widening gap between executive pay and that of rank and file workers as well as the larger percentage of performance-related pay in the form of stock option grants. There has also been increased speculation as to whether performance-related pay is truly related to actual performance metrics. This brief outlines four different explanations for the rising levels of total pay and of incentive pay and presents a real-life scenario involving a CEO who has come under fire by shareholders and the public for excessive executive compensation.

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* Assistant Professor, Columbia Business School

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This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.