

# Challenges faced in excessive executive compensation business essay



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Excessive executive bonus packages have been the bulk of workplace concern, community and political debate about ethical justifications of the huge disparity between compensations of the company's CEO and a factory worker.

This research paper aims to explore the issue of the existing huge differences between compensations that exists between the chief executive officers (CEOs) and factory workers of most companies. Much information has been collected from various sites as indicated in the reference page. This is a real situation in many companies of extremely large sizes and recognized global positions. In my paper I will explore the significant gaps between CEOs packages and factory workers. The qualities of the CEOs, and the reasons that justify their huge payments, and the opinions of the shareholders on CEOs compensation..

Any company requires a competent CEO to move through the hard challenges of global technology and acquire competitive advantage in the global market. Performance of a worker is based on compensation from the company. Compensation should be measured by the level of expertise of a worker and the possible challenges faced by the responsibility required by the particular employee. In any business organization, hierarchy is indispensable. Senior and subordinate positions are therefore necessary in any business enterprise. However the great difference between the salaries of the most senior and the least position in the same company should be meaningful as a matter of ethic concern.

The CEO of any company holds the highest rank of the particular company, organization or business enterprise, especially the one focused towards making profit. Big companies make use of board members to come up with policies that the company acts upon. The act on these policies is the sole responsibilities of the CEO of the company. It therefore implies the success or failure of the company to meet the goals and objectives as laid down by the policies is the responsibilities of the CEO of the company. ' To achieve success therefore, the CEO must be widely informed and visionary towards the business environment. The CEO must translate the anticipated future changes and lay appropriate measures, to cope up with any negative changes, which may affect the business" (Garten, 2002).

The changes expected and their thought out solutions should be communicated to the entire task force of the company so that, every participating worker is ready to face challenges posed by these changes.

The CEO has a responsibility of setting a good example to the rest of the workers. Leadership competency inherent in the CEO should be used as a role model for the others to copy and utilize for the sake of the company's progress. " Role modeling should extend to formulating desired standards of the company as a significant component to achieve a competitive position required by globalization. All employees should receive support and motivation as a result of the efforts of the CEO "(Kim & Mauborgne2005).

In the business environment, there are usually threats facing productivity. There also are some favorable opportunities. The two are hidden from a normal worker, but to the CEO, the ability to foresee these issues should be

automatic. This is the visionary quality of the CEO. The global market is fast expanding at a pace requiring very competitive CEOs. The labor market is accompanied by rapid technology changes and advancements, which need to be incorporated into the company's labor framework. The knowledge required in this field is essentially vested on the company's CEO whose performance is very critical to the competitive advantage of the company (Charan, Drotter, & Noel, 2006).

## **CEOs remuneration packages**

The compensation given to the CEOs of most companies have been a centre of interest by media, the community and the politicians. Why should they enjoy hefty packages in the tune of hundreds of times as compared to other workers of the same company? This has been a controversial issue requiring attention. The lavish payments are sufficient to afford CEOs luxurious lives and make them millionaires. The projections currently reached at using the current trend hold that by the year 2050, some companies CEOs will earn 150, 000 times the average wage of a factory worker in the same company (Korten, 2001). This disparity is so huge that the issue has raised concern. Some individual feels that whatever the position of the CEO and whatever the contribution to the company the CEO makes, such a disparity is unwarranted and to the true sense, unethical. Furthermore, some companies paying such huge packages to the CEO end up realizing some loss in their production, but their existence is justified with reasons in the company. But irrespective as to whether a company makes a profit or a loss, the question remains whether the great disparity in payment between the CEO and the majority of the workers is justified. Many sectors have expressed anger

towards those payments which are enormous. The compensation of the CEO is likely to scare away investors in potential fields due to the threat posed to the companies to pay CEO such high payments (Korten, 2001).

The shareholders also approve the awarding of the company's stocks to the CEO as part of bonus packages. These awards empower the CEO to become owners of their employer company. This is a great encouragement to the CEO and a motivation to improve on the performance of the company.

### **Justification for hefty CEOs Packages.**

“ The CEOs are subjected to evaluation, judgment and scrutiny by the company's shareholders, the general public, the media and the politicians. They must overcome the challenges brought about by their performance. The companies they ran have some potential opportunities to become extremely rich through their efforts. Therefore they are usually on a daily scrutiny from various spheres “(Bakan, 2005).

The CEO is the highest ranking talent in any company. Therefore, correct choice and hiring of the CEO is very crucial towards the performance of the company. In the daily schedules of the CEO there are no weekends or vacation, meaning that the CEO's intellectual capability is a precious asset to the company. The profits and profit margins realized by the company depend entirely on the CEO. The company's responsibility in the manipulation of existing resources lies squarely on the CEO of the particular company. The companies paying these hefty packages attribute the packages to the degree of performance of the CEO. However, the level of wisdom the boards of directors use to come up with the seemingly illogical figures of the CEO's

packages is questionable. The other issue of concern is the opinion of the shareholders as regards the huge CEO's compensation (Belasco & James, 1992).

### **What are the opinions of the shareholders with respect to excessive payment of CEOs?**

Based on confidence the company is able to impart to its shareholders, the question of the huge pays may not come up. " The shareholders approve the packages without arguments on condition that the benefits they derive from the company are handsome as compared to other companies. The packages are seen as a shield to counter any possible mishandling of the companies assets and options. Any workplace thefts are believed to be protected by the company's CEO. They are believed to possess a talent and high skills of management necessary to move the company through a competitive global business environment. This managerial talent is taken as an asset of the company just like other existing assets" (Clegg, Kornberger, & Pitsics, 2005).

" The CEO compensation is correlated with the size of the company. The assignments of the CEO are believed to be competitive due to the competitiveness required in the global market. The shareholders approval is also based upon the ability of the CEOs to capitalize the market and positioning their company at a global focal point. The fortunes of multinational business enterprises entirely lie on their CEOs. The package therefore is treated as an economic rent by the company" (Clegg, Kornberger, & Pitsics, 2005).

## **Is performance of the company related to profit generation?**

Ironically a company with a highly paid CEO can operate at a loss. This has happened on many occasions whereby the financial statements of the company once analyzed, result to negative net income. In such a scenario, the CEO is not blamed for the losses incurred by the company. On the contrary the company argues there had been strategic plans to reorganize the company's production processes, to improve on the performance of the company in the future. This is argued from the visionary quality associated with the CEO. The logic advocated for is that, the strategic reorganizations will have far reaching economic benefits in the future of the company.

“ The competitiveness of the company should not be perceived from the short- term perspective but rather, a long- term projection is a requirement. The company should be rooted on a stable foundation and this calls for utilization of the company resources for the long- term investment. The managerial skills necessary to achieve the long- term company's goals are possessed by the company's CEO. This is enough justification to accommodate for losses realized sometimes, within the company while continuing to offer hefty packages to the company's CEO” (Bashein, Barbara, Markus & Riley, 1994).

“ The company's stock also determines to a great magnitude the justification of excessive payments to the CEO. The compensations in the market place of the company's stock may be so favorable at the time when the company is suffering losses in income in tunes of millions of dollars. This is considered insignificant given the scenario of the appreciable market prize of the company's stock”(Bashein, Barbara, Markus & Riley, 1994).

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## **The company's views on CEO Packages**

Most companies' views on hefty packages of their CEOs are positive. Their skills are believed to be the cause of the company's success. Companies also believe that any improvements achieved within the company are the result of the CEO contributions.

The added value of the company is the principle attraction of shareholders to the company. CEOs are therefore seen to be important figures towards attracting investments into the company through attracting enormously high numbers of shareholders. For shareholders to show interest in any company there should be an aspect of responsibility and clearness shown by the company through the CEO.

“ The CEO is taken as the company's think tank. The CEO's intellectual capabilities are cherished as company's property available for tapping. Qualities associated with a competent CEO are brilliance, information update on the company's productive environment, awareness of technology advancements and timely positive response to the changes in technology, curious on technical issues facing the company, awareness of current developments surrounding the company and increasing the speed of policy issues execution and implementation” (Bashein, Barbara, Markus & Riley, 1994).

## **Conclusion**

The huge disparity existing between the CEOs of the best performing companies places the CEOs in extremely prestigious position with respect to their subordinates. The benefits enjoyed put them in position seen by the



workers and the community as the owners of the companies. At the end of the day the CEO take home quite handsome packages that allow them to become millionaires while the factory workers struggle in their lifetimes to pay minor bills needed for their basic life. It is an appreciable fact that through their contributions, the companies attract shareholders who in return earn benefits out of their investments in the company. However the trend in the progress of the increasing disparity is a clear cause to scare investors and demoralize the workers of the company alike. The success of CEOs depends on their credibility, and represents the highest degree of integrity. This requirement is also taken as a justification for their hefty remuneration packages.

The shareholders of the respective company are the most appropriate individuals suited to address the disparity issues. The shareholders are the rightful owners of the company and therefore the board of directors should act as per their guidelines. Much attention should be diverted from whatever the gains they achieve from the company in form of dividends but rather concentrate on the significant percentage of the company's profit pocked by a single CEO.

The welfare of the factory workers needs to be given an appropriate attention. Most of the workers perform their duties in extremely difficult and risky situation. The risks are mostly ignored as they are not given the relevant rewards and financial coverage. This also contributes to the widening gap between their payments and those of the CEO.