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# How Economic Incentives Destroy Social, Ecological and Existential Values: The Case of Executive Compensation

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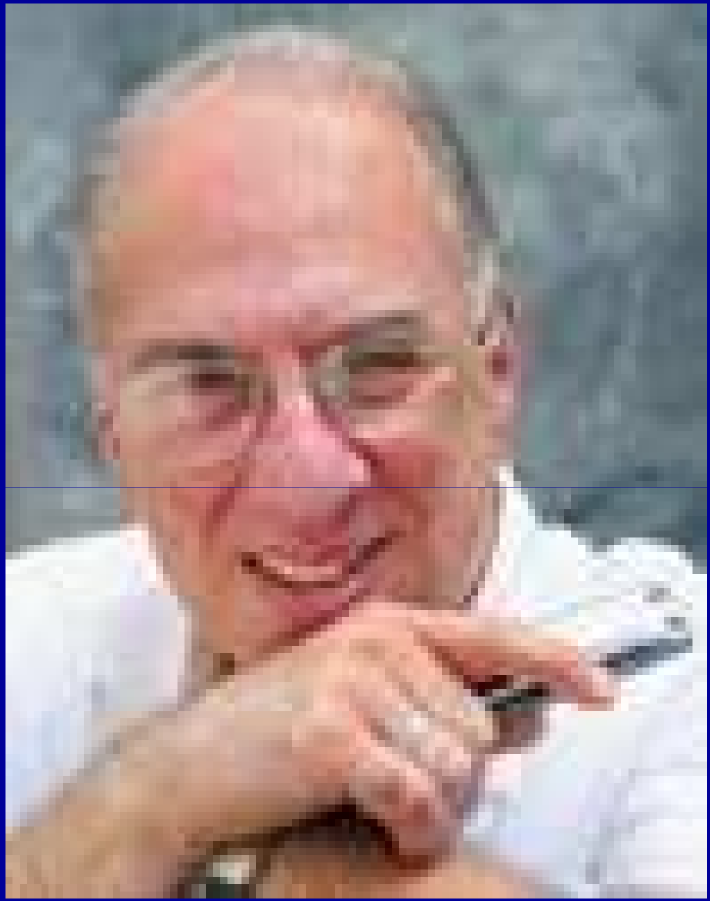
# Four dimensions of any problem



Ian I. Mitroff
USC Los Angeles

economic/technical

ecological/systemic

social/interpersonal

existential/spiritual

# The main proposition

**one-dimensional economic incentives may destroy existential, social, and ecological values that influence the manager's commitment to ensure responsible business conduct, and have negative spillover effects that may reduce the manager's performance**

# Economic conception of incentives and performance.

**“provide big rewards for outstanding performance and meaningful penalties for poor performance.”**

**„monetary compensation and stock ownership remain the most effective tools for aligning executive and shareholder interest”. (Jensen and Murphy 1990).**

# Ferenc Puskás is partly right

Small money,
little football!

Big money,
great football!

# The crowding-out effect

**Increase in pay in fact reduces the agent's effort because the reward crowds out the actor's intrinsic motivation.**

**Bruno Frey**
**University of Zurich**

# Adverse effects of excessive executive compensation

**High compensation of managers provokes society and reduces employee engagement and cooperation, produces suboptimal behavior due to goal displacement and results in reduced self-worth.**

# Alternative view

**The firm should be looked at in terms of a of common pool resources.**

**The firm is a collective entity which generates a joint surplus not attributable to single actors..**

# Caps on executive compensation

the total cash compensation, including bonuses, for top managers

cannot be higher than 19 times of the average pay of the employees.

# With constrained compensation

**executives get less money than their counterparts in mainstream business organizations but they are usually compensated by getting higher moral satisfaction. Pre-selection occurs for persons who are intrinsically motivated to work for high-purpose, high-mission companies.**

# Thank you for your attention!