Executive Compensation

Author Note

Compensation Inequality

“The growing compensation inequity between executive management, and the average employee threatens to destabilize organizational morale and societal justice”

After reviewing various studies, I agree with the above-mentioned statement about the widening gap between executive management and subordinate workers. Some new researches analyzing a new perspective of income inequality found that corporations whose executive management is earning higher with a lot of perks and privileges are less desirable to be employed in (Breza, Kaur, and Shamdasani 2018). when workers are compensated less than their peers, they feel discouraged, which often results in reduced output. However, growing CEO compensations have increased the income inequality manifolds.

CEO compensation has negative impacts on society. It is worth saying that greater responsibility accounts for greater reward, but the basic salary and performance bonus ration of 20-to-80 are not justifiable. Another aspect of compensation disparity is that it depends upon how much risk an employee is carrying with him. Compensation disparities should be determined by experience and risk of responsibilities, a worker carry for an organization. The transparency of a firm about worker’s compensation is important for equality insights and output maximization.

The compensation gap is one of the deriving factors of household income inequality. This compensation disparity is a threat to the societal justice system, the rich are going to be richer, and the poor are going to be poorer. Within the organization, the pay differentials impact the worker's productivity, as well as his utility. If worker utility for his compensation is not maximized, it will ultimately affect his productivity.

High compensation inequality in one organization potentially affects the features of the overall labor market. Companies must bother about appreciating the hard work of the sub-ordinates, otherwise, it will lead to an environment where ethics of social justice are easily compromised (Whelton 2012). Therefore, Organizations should bother about the wage differentials between the CEO and the other average employees, to create a motivational working environment within the organization, and to promote income equality in the society as a whole.

References

Breza, Emily, Supreet Kaur, and Yogita Shamdasani. 2018. “The Morale Effects of Pay Inequality.” *The Quarterly Journal of Economics* 133(2): 611–63.

Whelton, Russell S. 2012. *Effects of Excessive CEO Pay on US Society*.