Case Study 1 United States Auto Industry Back on Top … of CEO Pay

During the financial crisis, many executives' pay was stifled, reduced, or even withheld. Among the hardest hit was the U.S. auto industry. Shareholder groups, union leaders, political officials, and the general public all demanded change in the way auto industry executives were getting rich while their cars were getting poor. For example, Ford made some major cuts for its executives and its employees.

This is why people were shocked to find out that for 2011 the CEO of Ford, Alan Mulally, was to receive $56.5 million in stock awards. Even today, it is one of the richest pay packages ever given to a top executive in the auto industry—and it is even after all the clamor over sky-high executive paychecks. Is it too much?

That depends on who you ask. For most, it seems unreasonable that a boss would make more than 1,000 times the pay of the average worker. However, if you ask Ford workers who have seen Mulally steer Ford back from the edge of bankruptcy, they probably would not complain too much. If you asked Ford's shareholders, it would be hard for them to overlook the fact that Ford shares have gone from $1.56 when Mulally first took over to $14 a share. If you ask Ford dealers, they may be too busy selling one of the strongest lineups of cars around to answer.

Of course, no one really knows if Ford would have been sitting in such a good position regardless of Mulally. On one hand, there are plenty of factors, such as a national economic recovery, that led to Ford's improvements that Mulally clearly could not have had a finger on. On the other hand, there are plenty of companies that would be willing to pay $50 million if they knew their company would rebound as Ford has under Mulally.

Questions

1. Are CEOs and key corporate executives worth the large pay packages they receive? Explain.
2. Do you agree with Peter Drucker that corporate executives should receive compensation packages no larger than a certain percentage of the pay of hourly workers? Explain.
3. Will the Dodd–Frank Wall Street Reform and Consumer Protection Act giving shareholders the right to vote on executive pay influence the size of these packages in the future? Explain.

Source: Adapted from Phil LeBeau, "Mulally and Bill Ford Collect $100 Million Pay Package," CNBC, (March 8, 2011).

Case Study 2 Team-Based Incentives: Not Your Usual Office

Done-Deal Paper Inc. operates throughout central Pennsylvania with offices in Scranton, Harrisburg, and Altoona. Providing paper and paper needs to most of Central Pennsylvania, Done-Deal is one of the top two competitors in the area.

In January 2014,, Conner Carell, office manager of one of the branch offices for Done-Deal somehow convinced company president and CEO Bailey Zucker that they needed to change the way their sales representatives were incentivized. He argued, "putting our sales reps into teams will not only increase cooperation, but it will increase sales … right now there are too many sales being lost that could have been won through a team effort." Most of the time, sales made to clients required multiple interactions by multiple reps anyway. Bailey agreed with Conner and pointed out that teamwork can also improve morale and synergy. Based on these assessments, Conner organized his twenty sales reps into four teams of five reps. Sales teams would pool their commissions regardless of who initiated and worked on the sale. After the first year of this team-based incentive program, sales commissions across the four groups varied dramatically. For instance, the highest paid employees in a team made, on average, $50,000 more than the lowest paid team members.

During August 2012, Conner sent to all 20 sales reps a survey requesting feedback on the satisfaction with teams and, specifically, the team-based incentive rewards program. While survey results were generally