Summary

„Verdienen Manager, was sie verdienen? – Eine wirtschaftsethische Stellungnahme“

by Ingo Pies & Peter Sass

This article employs an ordonomic approach to Business Ethics in order to shed light on the recent and highly controversial debate about management compensation. The argumentation proceeds in seven steps. (1) The first section shows that this debate is important, necessary, and legitimate. (2) The second section documents that both sides of the debate share the same paradigm. Defenders as well as critics argue that a compensation scheme is appropriate if it reflects the performance of the managers. (3) The third section identifies some stylized facts and shows empirically that managerial compensation is not systematically tied with performance. (4) The fourth section argues that a rigorous use of “Pay for Performance” as an incentive instrument leads in many cases not to the best outcome. Drawing on rational-choice based principal-agent analyses, this section identifies several cases in which it is both in the public interest as well as in the shareholders’ interest to deviate from the principle to compensate managers according to their individual performance. (5) The fifth section discusses some structural changes in the modern economy which make it more likely (and more urgent) to deviate from “Pay for Performance”. (6) The sixth section recommends to redirect public discourse: instead of dictating by law that pay schemes have to compensate managers according to their individual performance, it would be more prudent to shift paradigm and to substitute a sound process orientation for the outcome orientation of the often misleading “Pay for Performance” principle. (7) Finally, the seventh section summarizes this ordonomic line of argumentation in ten points.