"After 12 months of hard work dismantling the company—during which A.I.G. reassured us many times we would be rewarded in March 2009—we in the financial products unit have been betrayed by A.I.G. and are being unfairly persecuted by elected officials. In response to this, I will now leave the company. . . . I take this action after 11 years of dedicated, honorable service to A.I.G. I can no longer effectively perform my duties in this dysfunctional environment, nor am I being paid to do so. Like you, I was asked to work for an annual salary of $1, and I agreed out of a sense of duty to the company and to the public officials who have come to its aid. Having now been let down by both, I can no longer justify spending 10, 12, 14 hours a day away from my family for the benefit of those who have let me down."[16]

Because the United States government bailed out AIG, along with numerous other financial institutions, through the Troubled Asset Relief Program (TARP), significant oversight of executive compensation was imposed on these recipient companies. Kenneth Feinberg has played a key role in addressing the controversy over the AIG retention bonuses. As the federal government's overseer of executive *compensation at AIG* and other major TARP recipients, Feinberg tried "to recover $45 million paid to the most highly compensated executives, but AIG management. . . said reclaiming the entire amount would be difficult because many employees who originally received retention awards have left the company."[17]

In late October of 2009, Kenneth Feinberg, the federal government's pay czar, rejected much of the proposed pay package AIG put forth for "a group of highly paid employees—including five at the financial products unit whose problems helped nearly sink the firm—as inconsistent with the 'public interest'."[18] Feinberg said base salary should not exceed $500,000 annually; however, he did not rule out bonuses for financial products employees which were scheduled to be paid in 2010.[19] Feinberg allowed AIG to "compensate executives with 'stock units' tied to the value of four of its insurance units—an outcome that executives at AIG had pushed for in negotiations. The stock units . . . would be payable in three equal annual installments, starting two years after they were granted—in effect giving executives incentive to stay at the company and help it thrive."[20] "Feinberg rejected AIG's proposal that five high-paid officials at the financial-products unit get 'significant increases in cash base salary' and total 2009 compensation of $13.2 million. He concluded that those employees should get only the cash salaries that were in effect at the end of 2008."[21]

Did Kenneth Feinberg's make appropriate decisions regarding executive compensation at AIG?

Discussion Questions

1. What types of work behaviors did AIG intend to encourage through its retention bonus plan?
2. Which needs seem to be important to the employees of AIG's Financial Products unit?
3. Using the model of the individual-organizational exchange relationship, explain the relationship that employees of AIG's Financial Products unit believed they had with the company. How was this exchange relationship violated?
4. Which motivation theory do you think has the most relevance for understanding the responses of the Financial Product employees to the implementation and unraveling of the retention bonus plan? Explain the reasoning behind your answer.
5. The amount of compensation earned by executives—as well as by professional athletes and famous actors/actresses and musicians—often spark emotionally-charged debate. Do you believe the $1 million plus retention bonuses received by 73 employees of AIG's Financial Products was excessive? Why or why not?
6. Do you think that the various decisions made by Kenneth Feinberg with respect to executive compensation at AIG were justified? Explain the reasoning behind your answer.

SOURCE: This case was written by Michael K. McCuddy, The Louis S. and Mary L. Morgal Chair of Christian Business Ethics and Professor of Management, College of Business, Valparaiso University.