TOP EARNERS

Rules of the game (for teachers)

Preliminary remarks

The top earners element was created by Alexander W. Hunziker and can stimulate intensive discussions. Students have to find the best boss for their own company!

The main focus of this element is a playful one (creating an understanding, implementing existing knowledge). It offers a wealth of pointers on integrating further aspects into the lesson for the different types of school. Reflecting on what happened in the group game and how best to integrate these further aspects is, unlike in other iconomix elements, only partially documented and thus largely in the hands of the teacher.

As such, Alexander W. Hunziker's game is different to the other iconomix elements in that it cannot be used as part of a lesson plan without adequate preparation beforehand.

1 Learning objective

"Why are salaries at management level so high? Would we opt for lower wages if we were in charge?"

In this game, students play the role of boards of directors and compete with one another for the best managers on the market. Their job is to hire managers who will generate the highest profits for their companies. This relatively easy task gives students a chance to see how salaries at management level are determined and how they are influenced by market conditions, with particular attention being given to the impact of a company's size on the salaries.

After the game, students also have the opportunity to discuss the role of market conditions in greater detail. Address, in particular, the impact made by changes to the incentive structure for all parties concerned – the board of directors, the managers and the shareholders.

2 Preparation

Using the template provided, prepare the slides for the game. Make copies of the handouts for yourself (form for teachers) and the students (worksheet, 5 copies).

3 Helpful hint

To give you an idea of how the game works, see the sample game at the end of this document.

4 Playing the game

Form teams

The class is divided into exactly five teams, with each team acting as the board of directors of a company. The companies are A, B, C, D and E, and are allocated at random to the five teams.

Explain the game

In your own words, describe the following situation:

> *The students act as the board of directors of a company. The company is looking for a new chief executive. There are fifty managers on the market who would be suitable for the job. Each of them could be hired for an annual salary of CHF 300,000. With one of them at the helm, the company's gross profit is expected to amount to exactly 10% of its capital. What's more, four additional managers who are particularly good at their job are currently available on the market. If one of these can be hired, the company can be expected to generate an even higher profit.*
>
> → Show the class the Market for managers slide and explain it to them.

Next, explain the rules pertaining to the allocation criteria once the offers have been made, showing the class the corresponding slide and explaining it briefly to them. Follow up by showing them the slide on the Capital base of companies and discussing it together.

Leave the final slide called Companies and market for managers up for the duration of the game for all to see.

Distribute the hand-outs to the class, making sure that each team has a copy of the worksheet.

Play the game

Here is a step-by-step description of the game:

- The teams determine the highest offers they are willing to make for each of the four managers and note these down in the form.
- Ask the teams for their offers for each manager and allocate the managers to the various companies in line with the allocation criteria. The tables provided in the form for teachers can help you with this.
- The students then calculate their company's gross and net profits as well as the return on capital (i.e. the profit in relation to the company's capital) and enter them in the table on page 2 of their worksheet.
- Once they've done that, enter the highest salary for each manager and for each round in the slide on annual salaries.

Repeat this process for four rounds (years). The capital does not change in the course of the game. Profits are distributed in full.

5 Discussion

Question 1

Who generated the highest (net) return on capital?

Ask the class.

Question 2

Can any pattern be discerned as regards the way the salaries developed?

Remuneration is extremely disproportionate. The salaries do not only reflect how well the managers perform, they are also influenced by the size of the company.

Question 3

What determines the lowest salary for which you can hire a top manager?

The lowest salary depends on the highest salary that the next smallest company after your own can afford to pay in order not to be left with an average manager.

Question 4

What does this tell us about fair salaries?

It shows us that market fairness and fairness in a general sense do not have much in common. Market results cannot be morally evaluated from a market economy point of view. A result that is brought about by a free market effect is neither necessarily fair nor unfair.

Question 5

The game is a very simplified reflection of reality. Which important aspects were not taken into consideration?

- No distinction is made between debt and equity capital, and the associated leverage effect is disregarded.
- Successful companies grow, which means their capital increases over time.
- It is almost impossible to predict what return on capital will be generated by a manager.
- A manager's performance may vary depending on the industry in which they are employed.
- There are usually more than only five particularly skilled managers on the market.
- Employing a new company head every year is unrealistic.
- …

Question 6

What does the game show us – regardless of how unrealistic certain aspects may be?

The conditions on the manager market are an important factor in explaining why salaries at this level are so high. It would, however, be necessary to investigate just how accurately this game reflects the actual conditions on the market. It cannot be ruled out that salaries at management level are influenced by factors other than the ones taken into account in the game.

6 Sample game

1) The students submit the salary offers they determined (using one team as an example):

	Annual salary offer in CHF
Andrew Adams	500,000
Bob Brown	450,000
Claire Clarke	400,000
Danielle Davies	350,000

2) The teacher compares the offers and allocates the managers to the various companies.

3) The students then calculate their company's gross and net profits as well as the return on capital (i.e. the profit in relation to the company's capital). Example:

Year	Gross return on capital in percent	Gross profit in CHF	Salary in CHF	Net profit in CHF	Net return on capital in percent
1	14%	1.4 million	0.4 million	1.0 million	10%
2	10%	1.0 million	0.3 million	0.7 million	7%
3	11%	1.1 million	0.4 million	0.7 million	7%
4	11%	1.1 million	0.5 million	0.6 million	6%

4) The teacher records the salaries for the top managers. Example:

	Year 1	Year 2	Year 3	Year 4
Andrew Adams	500,000	610,000	920,000	1,200,000
Bob Brown	450,000	440,000	560,000	970,000
Claire Clarke	420,000	450,000	530,000	630,000
Danielle Davies	310,000	300,000	510,000	560,000