

**Bridging Theory and Practice: Ethical Governance of Executive Compensation in the Financial Times Stock Exchange 100**

**Abstract**

This paper analyses the ethics of executive compensation governance in large UK publicly quoted companies. It combines content analysis of Financial Times Stock Exchange 100 (FTSE-100) remuneration committee reports with interviews with key decision-makers. A framework from business ethics and corporate governance literature helps understand the factors shaping this governance. Maintaining public trust requires aligning with societal norms and regulatory compliance. Findings indicate growing awareness of ethical considerations among decision-makers and highlight the need for a more holistic, values-based approach that strengthens stakeholder inclusivity. Interviews with decision-makers reveal challenges in translating ethical principles into practice. Governance mechanisms intended to align executive and shareholder interests face limitations, and perceived unfairness in executive rewards persists. This paper applies theory to analyse the interplay of external and internal factors shaping executive compensation governance, develops practical recommendations for enhancing its effectiveness and integrity, and provides a heat map tool to compare organisations' ethical principles.

**Key Words:** Business ethics; Corporate governance; Executive compensation; Financial Times Stock Exchange 100; Remuneration committees

## **Introduction**

The purpose of this paper is to identify the ethical and moral influences on executive compensation decision-making in UK corporate governance discourse. The escalating levels of executive compensation have become a focal point of public scrutiny and academic debate, raising pressing questions about corporate ethics, fairness, and societal impact. In 2022, the average Chief Executive Officer- (CEO) to-worker pay ratio among Standard and Poor's (S&P) 500 companies reached an alarming 324:1, a stark increase from 61:1 in 1989 (Economic Policy Institute, 2023). These figures not only highlight a growing disparity but also underscore the urgent need to examine critically the ethical and moral dimensions of executive compensation governance.

Recent high profile cases have further intensified this debate. For instance, in 2022, Intel's then CEO Pat Gelsinger received a compensation package worth \$178.6 million – 1,711 times the median employee pay at the company – despite a 60% drop in the company's stock price (Martin, 2022). Such examples raise fundamental questions about the alignment of executive rewards with company performance and broader stakeholder interests.

The practical challenges of executive compensation governance in the UK context have been highlighted empirically in studies over the past few years, arguing for attention to the social construction of executive compensation (Perkins & Shortland, 2022), highlighting the complex interplay between institutional forces and decision-making processes. Shortland and Perkins (2023a) explored the concept of 'quantum accountability' in top pay decision-making, revealing tensions between fairness considerations and market pressures. The resourcing of remuneration committees (Remcos) has also been investigated (Shortland & Perkins, 2023b), to shed light on the practical challenges of implementing ambitious corporate governance principles set by regulators intended to stem the flow of controversy

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(FRC, 2024). It is our contention that such studies collectively surface the relevance of examining the ethical dimensions of executive compensation governance.

Although ethical and moral decision-making studies within organisations are growing, empirical research on this topic is still dominated by a positivist, quantitative, and descriptive methodological approach (Godwyn, 2015). Such studies may be lacking in providing an authentic data validation process (Schuder, 2014). Qualitative insights from NEDs, institutional investors whose votes are crucial to the decisions made (Stathopoulos & Voulgaris, 2016) and others, such as specialist executive reward advisers, accountable for executive compensation governance contribute to interpreting and refining theory in the field of business ethics, morality and corporate governance, through a richer manner of research that goes deeper into the explanation of the decisional phenomenon itself (Procópio, 2022).

While extensive research has examined executive compensation through various theoretical lenses, there remains a dearth of empirical investigation into how these perspectives are integrated into practical governance activities, particularly from an ethical and moral standpoint. Our study addresses this gap. This paper aims to shed light on how ethical and moral considerations influence executive compensation decision-making within the context of UK corporate governance. It provides a detailed analysis of executive compensation governance in UK public limited companies (PLCs), focusing on the following research question:

- ❖ What ethical and moral influences on executive compensation decision-making may be identified in UK corporate governance discourse?

To address this question, our objective is to conduct a documentary content analysis of Remco reports published by a range of Financial Times Stock Exchange-100 (FTSE-100) publicly listed companies (PLCs), complemented by a thematic analysis of interviews with

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key decision-makers, including non-executive directors, institutional investors, and specialist executive reward advisers.

Our study makes several key contributions. First, it provides a novel empirical investigation into the ethical and moral considerations that shape executive compensation governance, offering insights from hard-to-reach decision-makers. Second, it offers a comprehensive analysis of how theoretical perspectives on executive compensation interact with practical governance challenges. Third, it provides key recommendations for enhancing the ethical governance of executive compensation, contributing to ongoing debates about corporate responsibility and stakeholder management. Finally, it presents an original heat map tool that can be used to visualise comparative data on organisations' ethical principles in the governance of executive compensation.

### **Problematising executive compensation governance and its theoretical base**

The governance of executive compensation represents a complex and contentious issue at the intersection of corporate finance, ethics, and social responsibility. Despite decades of research and regulatory efforts the persistent growth of executive compensation packages, as exemplified in the introduction, often seemingly disconnected from company performance or broader economic conditions, continues to provoke debate and criticism (Bebchuk & Fried, 2004; Edmans et al., 2017).

The core problem lies in the challenge of designing compensation structures that effectively motivate executives, align their interests with those of shareholders and other stakeholders, and maintain ethical standards and social legitimacy. This challenge is further complicated by the following factors: information asymmetry between executives, boards, and shareholders (Jensen & Meckling, 1976); the potential for rent-seeking behaviour by executives (Bebchuk & Fried, 2003); the difficulty of defining and measuring long-term performance (Edmans et al., 2017); the broader societal implications of growing income

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inequality (Piketty & Saez, 2003); and the tension between competing stakeholder interests (Freeman & Evan, 1990). These factors create a complex decision-making environment for those responsible for governing executive compensation.

### ***Shareholder and agency theory***

Contemporary academic study of executive compensation has its roots in principal-agent, or agency, theory (Ross, 1973), subsequently extended into a more general model, emphasising the importance of information in optimal contract design (Grossman & Hart, 1983). Building on this, Jensen and Meckling's (1976) seminal paper applied agency theory specifically to corporate governance and executive compensation. Their work highlighted the potential conflicts of interest between managers (agents) and shareholders (principals) and proposed that properly designed compensation contracts could help align these interests (Jensen & Murphy, 1990). Holmström and Milgrom (1987) developed a dynamic, continuous-time model of agency relationships, introducing the "informativeness principle" (Holmström, 2016, p. 419) for performance measures providing a theoretical justification for the use of stock options and other forms of equity-based compensation. However, as these ideas were implemented in practice, several issues and unintended consequences emerged. Jensen et al. (2004) later provided a critical reassessment of how agency theory had been applied to executive compensation, recognising that compensation is just one part of a larger system of corporate governance checks and balances. Optimal contracting had been challenged on the ground that executives, particularly CEOs, can exert significant influence over their own pay packages (Bebchuk & Fried, 2003).

### ***Stakeholder theory***

Beyond the agency perspective, stakeholder theory (Freeman & Evan, 1990) provides a further perspective on executive compensation. This approach argues that companies have responsibilities to a broad range of stakeholders, not just shareholders. Introducing an

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imperative to balance stakeholder interests, ethical compensation governance requires considering how executive pay affects various stakeholders, including employees, customers, and communities. It challenges the shareholder primacy model and raises questions about the moral justification of extreme pay disparities (Edmans et al., 2017).

### ***Social contract theory***

Building on stakeholder theory, the concept of a social contract between corporations and society introduces considerations about the broader societal impact of executive compensation practices (Donaldson & Preston, 1995). Social contract theory, derived from political philosophy, posits that the legitimacy of an organisation's practices, including executive compensation, stems from an implicit agreement with society (Rönnegard & Smith, 2024). This theory suggests that companies have obligations beyond mere legal compliance, encompassing broader societal expectations and norms. In the context of executive compensation, social contract theory implies that compensation practices should align with societal values and contribute to the public good (Perkins & Shortland, 2023). This perspective challenges companies to consider the broader societal implications of their compensation decisions, including issues of income inequality and social cohesion (Magnan & Martin, 2019).

### ***Distributive justice theory***

Distributive justice theory, rooted in philosophical concepts of fairness and equity, provides another important lens for examining executive compensation. This theory focuses on the fair allocation of resources and rewards within an organisation and society at large (Magnan & Martin, 2019). In the context of executive compensation, it raises questions about the justification of pay disparities between executives and average workers, and the broader societal implications of these disparities (Jackson, 2015). Distributive justice considerations in executive compensation governance often involve balancing internal equity (fair pay ratios

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within the organisation) with external competitiveness (market-driven compensation levels) (Perkins & Shortland, 2024).

### ***Integrating ethics and morality with corporate governance theories***

Contemporary research on executive compensation has expanded to incorporate insights from behavioural economics and organisational psychology. For example, Wiseman and Gomez-Mejia (1998) integrated insights from agency theory with behavioural decision-making research. We would go a step further: to incorporate expressly ethical frameworks and how they apply to the regulation of executive compensation, complementing the corporate governance mainstays of agency theory, stakeholder theory, and social contract theory.

To be clear, attention to ethical considerations typically refers to applying externally defined standards of right and wrong conduct, often codified in rules or principles. Ethical dimensions include transparency, accountability and compliance. In contrast, moral considerations relate to an individual's own principles of right and wrong, shaped by personal values, cultural norms, and societal expectations. Moral dimensions include fairness, proportionality and sustainability.

Agency theory, which focuses on the principal-agent relationship, inherently raises ethical questions about fairness, accountability, and the alignment of interests between managers and shareholders. Jensen and Meckling's (1976) contribution not only highlighted the potential conflicts of interest between managers and shareholders but also implicitly touched upon ethical considerations of fairness and accountability. The use of stock options, while theoretically aligning interests, can potentially incentivise short-term thinking or excessive risk-taking, leading to ethical dilemmas. Additionally, the concept of moral hazard in agency theory has direct ethical implications, raising questions about trust, integrity, and the moral obligations of executives beyond mere contractual duties. Compensation levels may also be influenced by social comparisons and norms within peer groups (O'Reilly et al.

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1988). It helps explain the ratcheting effect in executive pay, where companies continually adjust compensation to remain competitive with their peers (Perkins, 2017).

### *Ethical principles*

One may also consider the interplay of agency theory with those of utilitarianism, deontological ethics, and virtue ethics. Utilitarianism's focus on the greatest good for the greatest number, prompts us to consider how executive compensation structures contribute to overall societal welfare. It raises questions about the justification of high executive pay in relation to average worker compensation and broader economic inequality (Piketty & Saez, 2003). On the other hand, deontological ethics emphasises not simply the principal agency dichotomy in transactional terms but introduces moral duties and obligations. In the context of executive compensation, it prompts consideration of the moral responsibilities of executives, board members, and shareholders in ensuring fair and just compensation practices (Treviño et al., 2006). In turn, virtue ethics focuses on the character of moral agents. In executive compensation, it raises questions about how compensation structures can promote virtuous leadership and corporate cultures that prioritise ethical behaviour (O'Reilly & Main, 2010).

The practical application of ethical principles in executive compensation governance involves complex decision-making processes, starting with ethical reasoning on the part of executive compensation decision-makers. Board members, particularly when acting as Remco members, face the challenge of balancing various ethical considerations with practical business needs. This involves navigating conflicts between shareholder interests, executive motivation, and broader stakeholder concerns (Perkins & Hendry, 2005). Regulatory compliance and the ethical implications of demands for transparency in executive compensation reporting both relate directly to issues of trust, accountability, and fairness.

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Greater transparency may be intended to promote ethical behaviour but may be accompanied by unintended consequences, such as ratcheting effects on pay (Jensen et al., 2004).

The growing emphasis on Corporate Social Responsibility (CSR) within corporate governance discourse introduces additional ethical considerations in executive compensation. For example, recognition of the need to link executive compensation to broader CSR goals raises questions about how to incentivise ethically long-term, sustainable value creation (Flammer et al., 2019). Linking executive pay to CSR metrics may promote ethical behaviour, but it also raises concerns about the commodification of ethical conduct and the potential for manipulating CSR metrics (Maas, 2018). Added to this complexity, ethical considerations in executive compensation intensify as organisations navigate diverse cultural contexts when operating across multinational settings, prompting calls to address cultural relativism versus universal principles. For example, the global spread of many FTSE-100 companies' operations raises questions about how to reconcile differing cultural perspectives on fair compensation with universal ethical principles (Filatotchev & Allcock, 2010). In turn, the development of international corporate governance standards introduces ethical considerations about the universal applicability of compensation practices and the role of local cultural norms (Aguilera & Cuervo-Cazurra, 2009).

### **The gap: From theory to practice**

While these theoretical perspectives offer valuable insights into the determinants and governance of executive compensation, there remains a significant gap in our understanding of how they translate into practical governance decisions. Specifically, there is a lack of empirical research examining how decision-makers navigate and prioritise issues enshrined within these different theoretical perspectives in real-world governance situations. Our study addresses this by providing an in-depth analysis of executive compensation governance in UK PLCs, examining how large corporations and their key decision-makers perceive and

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navigate the ethical dimensions of executive compensation to bridge the divide between theoretical frameworks and practical governance challenges.

Integrating ethical frameworks with existing theories of corporate governance allows for a more nuanced analysis of executive compensation governance. It prompts critical questions about the fairness and proportionality of executive compensation, ensuring it aligns with the individual's responsibilities, performance, and value creation. Additionally, it raises questions about the sustainability of compensation structures, examining whether incentives are designed to drive long-term business health rather than short-term gains. Transparency and accountability are also emphasised, prompting considerations about the full disclosure of compensation policies and individual compensation outcomes. Furthermore, the integration of ethical frameworks highlights the importance of considering stakeholder interests, including how executive pay affects employees, customers, and communities. Finally, it raises questions about the social contract between corporations and society, examining whether compensation practices align with societal values and contribute to the public good. The integration of ethical and moral considerations with executive compensation theories offers the promise of a more sophisticated, more nuanced framing of how companies navigate the complex landscape of executive compensation governance, balancing theoretical principles with ethical considerations.

## **Methodology**

### ***Research design and rationale***

This study employed a qualitative approach, situated within an interpretive paradigm (Gichuru, 2017), to investigate what ethical and moral influences on executive compensation decision-making may be identified in discourse surrounding this aspect of UK corporate governance. The choice of a qualitative approach was guided by our research question, leading us to focus on the complex and nuanced ethical and moral influences on executive

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compensation decision-making (Daniel, 2013; Islam & Aldaihani, 2022; Main et al., 2008).

This choice of methodology also responds to calls in the literature for more qualitative research to provide empirical insights into the character of Remcos (Maloa, 2018). This approach facilitates in-depth examination of the perspectives and experiences of key decision-makers, providing contextually-situated evidence that quantitative methods might not capture. Our qualitative approach allowed us to delve deeper into these aspects, complementing and extending the existing body of knowledge.

### *Data collection*

Our approach was to conduct documentary content analysis (Bowen, 2009) in the form of corporate governance reporting on executive compensation by a selection of FTSE-100 companies and triangulate our findings from this exercise with transcripts of semi-structured interviews with key executive compensation decision-makers. Content analysis is used to systematically analyse, classify and categorise written texts and is frequently used in management research and within the field of human resource management to examine lengthy reports (Murphy et al., 2017).

Our documentary content analysis involved detailed analysis of Remco reports (part of PLCs' annual reports to shareholders) from 10 major UK businesses listed in the FTSE-100. Companies were sampled systematically by taking the highest-ranking company by market capitalisation at each decile of the FTSE-100. The reports, published in 2023, were representative of a range of industries and company sizes. Those analysed were: Shell plc, AstraZeneca plc, HSBC Holdings plc, Unilever plc, Rio Tinto Group plc, BP plc, Diageo plc, GlaxoSmithKline plc, RELX plc, and Glencore plc.

The analysis focused on identifying individual company practices and synthesising overarching themes related to ethical and moral considerations in executive compensation governance. Qualitative data were extracted from these reports to identify individual

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company practices, to inform a synthesis of overarching themes to facilitate a nuanced understanding of how large UK PLCs align their executive compensation policies with broader ethical and moral considerations, such that these could then be triangulated to insights captured by interviewing executive compensation decision-makers themselves.

Specifically, this analysis of FTSE-100 companies' alignment with ethical and moral principles in their executive remuneration practices was underpinned by a structured, dictionary-based approach. This methodology, inspired by techniques such as those described by Gillespie and Cornish (2010), provided a systematic framework for evaluating complex qualitative data from annual reports and remuneration policies.

A comprehensive 'dictionary' was developed by one of the authors. This encompassed key terms, concepts, and indicators associated with each theory under consideration (i.e. shareholder theory and agency theory, stakeholder theory, social contract theory, distributive justice theory, utilitarian ethics, and virtue ethics). For instance, terms like "stakeholder engagement" and "long-term value creation" were categorised under stakeholder theory, while "pay equity" and "fair distribution of rewards" were associated with distributive justice theory. This dictionary served as the foundation for a coding framework, allowing for consistent analysis across all sampled companies. Each company's documentation was systematically examined for the presence and context of these dictionary terms, with the frequency and depth of engagement with each concept informing the assessment of alignment strength. Thus, for each company, alignment of their compensation practices with the theoretical concepts was assessed. The degree of alignment was determined by making a judgement on the extent to which the company's policies, practices, and disclosures reflected the principles and considerations associated with each framework.

Based on the assessment of alignment, ratings were assigned to each company for each ethical framework. The ratings ranged from "weak" to "strong", indicating our

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assessment of the level of alignment between the company's executive compensation practices and the principles of each respective framework. The ratings were determined by drawing upon the distillation of the coded data, representing the degree to which each company's declared actions and policies aligned with the key concepts identified in the dictionary. Once the initial ratings had been assigned by the first author, the data were reviewed by the second author and, through an iterative process of discussion, the final ratings were agreed. While we accept that our assessments of these ratings are subjective, our use of the dictionary approach was grounded in the principles and considerations associated with each theoretical framework and these were applied consistently across all companies being analysed. Particular attention was paid to factors such as: the explicit consideration of stakeholder interests in executive compensation policies and practices; the presence of mechanisms to ensure a fair distribution of rewards among stakeholders; alignment of executive compensation with long-term sustainable value creation; the promotion of ethical behaviour and virtuous leadership through executive compensation structures; and the balance between shareholder and stakeholder interests in executive compensation decision-making.

The assigned ratings were tabulated and then used to create a heat map, a data visualisation tool that uses colour or monochrome shading to represent individual values in a data matrix (Dupin-Bryant & Olsen, 2014). This provided a visual representation of how each company's executive compensation practices aligned with the theoretical perspectives, to enable a comparative analysis of the companies' approaches to executive compensation governance from which consideration of various ethical and moral factors might be inferred. The data condensed to create the heat map were interpreted and analysed to identify patterns, trends, and notable observations. This analysis involved comparing the ratings across companies, identifying common strengths and weaknesses, and drawing insights into the

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prevalent ethical and moral considerations in executive compensation governance among the selected FTSE-100 companies. This process enabled a structured and consistent evaluation of the companies' approaches.

The sample of interviewees included eight non-executive directors (NEDs) acting as Remco members/chairs (one of whom at the time of interview was also serving as part of the UK corporate governance regulatory infrastructure), three institutional investors, and three external specialist executive compensation advisers. This diverse sample allowed for a range of perspectives on executive compensation governance. Thirteen semi-structured interviews (ranging from 30-68 minutes and averaging 49 minutes) were conducted and audio-recorded with these 14 executive compensation decision-makers (two individuals were interviewed together at their request). While we recognise that interviewing two people together may well affect the flow and content of the discussion, we were subject to our interviewees' goodwill and time pressures.

The interviews were conducted either face-to-face or by telephone as determined by the interviewees' schedules, over a period of approximately three months, which included time for arranging the interviews through a snowball sampling process. The use of a semi-structured format allowed for flexibility in exploring emerging themes while ensuring consistency across interviews. Anonymity was guaranteed, although permission was granted to transcribe the interviews and extract quotations, with these identified solely in terms of citing the role (NED, institutional investor or adviser) that the interviewee occupied. The snowball sampling began with a prominent NED in UK corporate governance and leadership, and each participant was asked to suggest further contacts. Any connection between the FTSE-100 companies included in the documentary analysis sample and the interviewee sample was purely coincidental.

Snowball sampling, despite its limitations (Bryman & Bell, 2007), offers advantages in board-level research, as access to elite members is best achieved through other elite individuals (Pettigrew & McNulty, 1995). Our sample comprised “network stars” (Pettigrew, 1992, p.178) with multiple boardroom appointments, varied industry experience, and significant impact on corporate governance of executive compensation. While their experience may result in a bias towards maintaining the status quo, their perspectives represent current norms and values grounded in the corporate governance milieu of major business institutions.

Qualitative findings should be credible, resonant, and rich to provoke reflection and inform practice development (Faulkner & Trotter, 2017). The sample size was determined based on the principles of data saturation and informational power (Guest et al., 2006; LaDonna et al., 2021), with sufficiency achieved through analytical rigour and data richness (Malterud et al., 2016). While we cannot claim to have achieved full theoretical data saturation, the consistency of insights and repetition of themes across interviews suggested that our sample size was sufficient for the purposes of this study. As Guest et al. (2006) note, 92% of thematic codes can be obtained from the first 12 transcripts. Our analysis of the interview transcripts provided consistency in terms of insight into the research issue (although with differing opinions on some aspects) and we could see repetition of similar themes. Informational power, derived from the quality of interview dialogue, required fewer participants thanks to the quality of communication between researcher and participant (Faulkner & Trotter, 2017), aided by the in-depth executive compensation decision-making expertise (both academic and practitioner) of the researcher who conducted all the interviews. Participants were asked for their opinions on areas related to Remco decision-making and scrutiny as outlined in the interview guide in Table 1.

TABLE 1 ABOUT HERE

***Data analysis***

To ensure consistency we framed the analysis of both the documentary and interview materials by reference to the theories discussed in the literature review. A template analysis (King, 2004) was employed. Rigour and trustworthiness were ensured through multiple data sources, researcher involvement, and reflexivity. Our coding process incorporated both inductive and deductive approaches. Initially, we used an inductive approach to allow themes to emerge from the data. This was followed by a deductive phase where we mapped these emergent themes on to our theoretical framework. This dual approach allowed us to remain open to new insights while ensuring our analysis was grounded in existing theory. To aid replicability, further detail is given below.

Following the interviews, the recordings were manually transcribed. This process was shared between the two researchers and the Microsoft Word documents were marked up by the non-interviewer who could bring a fresh eye to the data to identify preliminary themes. The documents were then shared and discussed in an iterative manner to refine the themes such that coding could be employed using the qualitative analysis software NVivo. The non-interviewer imported the transcripts into NVivo and the coding process was carried out manually. Coding was central to the data analysis as it gave names to aspects within the transcripts that were of potential theoretical significance (Bryman & Bell, 2007).

The coding was conducted in two parts. It began by the non-interviewer using an inductive approach to identify the most important themes that emerged from the data. This resulted in some duplication of materials. After discussion, a second coding round was undertaken to refine and agree these themes, create appropriate codes and produce files for each containing relevant quotations. In the second part, we returned to the NVivo files to conduct a coding process that categorised the data by theoretical frameworks relating to executive compensation governance (agency theory and shareholder-centred governance,

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distributive justice theory and fairness considerations, social contract and legitimacy-oriented theory, and stakeholder theory/stakeholder considerations). The final 13 themes were named, defined, and grouped into these four meta-thematic categories (Table 2). Representative quotations were selected to illustrate points in the findings presented below.

### TABLE 2 ABOUT HERE

The use of NVivo enables the quantification of qualitative data (Bryman & Bell, 2007). The files containing the number of quotations under each theme provided the opportunity to record the number of sources citing each issue and the number of references made to them, assisting the researchers in their identification of the most commonly cited issues and potentially those of greatest importance upon which to focus the research findings. These numbers come with a caveat: they are, of course, approximations based on the content of the interview transcripts and despite additional coding rounds, some overlap between themes is likely to remain. Hence, thematic analysis involves a degree of subjective judgement; numbers of sources and references cited may vary depending on the interpretation of the content. Additionally, the limited sample size and the qualitative nature of the data mean that these numbers should be considered as indicative rather than definitive.

Findings from the documentary analysis and interviews were integrated through a process of constant comparison. Themes identified in the FTSE-100 reports were compared with insights from the interviews, allowing us to identify areas of convergence and divergence between formal corporate disclosures and the perspectives of key decision-makers (Gröschl et al., 2019).

### ***Ethical considerations***

This study was conducted in accordance with guidelines specified in the Tri-Council policy statement: Ethical conduct for research involving humans (TCPS2) (Burles & Bally, 2018). Participants were provided with information about the study's purpose and their rights,

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including the right to withdraw at any time. Anonymity was guaranteed, and permission was obtained to audio-record interviews and use anonymised quotes. The recordings and transcripts were stored securely.

### ***Reliability, validity and methodological limitations***

Approaches employed to ensure the reliability and validity of our findings included triangulation of data sources (documentary analysis and interviews) combined with researcher triangulation in the coding process. While our methodology allows for an in-depth exploration of executive compensation governance, it has some limitations. The snowball sampling method may have introduced bias by potentially overrepresenting certain networks or perspectives. Additionally, the focus on UK FTSE-100 companies limits the generalisability of our findings to other contexts or smaller companies.

### **Findings**

This section presents our findings from the two complementary sources of data: an analysis of FTSE-100 companies' Remco reports and in-depth interviews with key decision-makers in executive compensation. This two-part structure allows us to present a comprehensive picture of ethical and moral influences on executive compensation governance, combining macro-level trends with micro-level decision-making processes.

### ***Patterns and trends in FTSE-100 report analysis***

The comparative analysis to identify 'strong', 'moderate', and 'weak' practices when considered against the theoretical frameworks identified in the literature review are presented in Table 3. In summary, most of the companies analysed demonstrated moderate to strong alignment with ethical principles, particularly in areas of stakeholder theory and utilitarian ethics. Virtue ethics consistently received lower ratings across the sample, indicating an area for potential improvement. Examining possible cross-principle alignment in the documentary data, companies exhibiting strength in stakeholder theory often showed corresponding

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strength in social contract theory and utilitarian ethics. A link was also observed between distributive justice theory and utilitarian ethics ratings. While our analysis highlights companies with ‘strong’ ethical alignment, we also focus on those rated ‘moderate’ as they represent a significant portion of our sample and offer valuable insights into the challenges and opportunities for improving ethical governance. These ‘moderate’ cases often illustrate the tension between aspiration and implementation in ethical compensation practices, providing a more nuanced understanding of the complexities involved in aligning compensation with ethical principles.

### TABLE 3 ABOUT HERE

We placed AstraZeneca and GlaxoSmithKline into a category demonstrating strong ethical and moral alignment. AstraZeneca’s policy of R&D-linked incentives demonstrates strong alignment with stakeholder theory and utilitarian ethics by tying executive rewards to long-term value creation through innovation. GlaxoSmithKline’s health outcomes metric exemplifies strong integration of social responsibility into executive compensation, aligning with stakeholder and social contract theories. HSBC and Diageo were categorised under the rubric of moderate practices. HSBC’s global pay comparability efforts address distributive justice concerns but fall short of more progressive practices seen in other firms. Diageo’s market performance benchmarking demonstrates a utilitarian approach but lacks the stronger stakeholder orientation seen in companies judged ‘strong’ under the framework. In contrast, Glencore’s ethical compensation governance may be categorised as ‘weak’. The company’s handling of commodity market volatility in how they pay executives suggests a struggle to align compensation with long-term value creation and broader stakeholder interests. The application of ESG metrics was inconsistent: several companies show weak integration of such performance metrics in executive compensation.

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Part of the explanation for these allocations may be attributed to contextual factors influencing executive compensation practices. We identified significant influences on companies' approaches to ethical compensation governance as related to: the comparative regulatory environment; company size and global presence; corporate culture and leadership; and investor pressure. In terms of the regulatory environment, financial services face stricter regulations and tend towards more conservative compensation practices. Regarding company size and global presence, larger, more globally diverse companies like HSBC face greater challenges in ensuring pay equity across different markets. Corporate culture and leadership issues tend to be manifested in the fact that companies with a strong ethical culture, often reflected in their approach to stakeholder engagement, tend to have more progressive compensation practices. Finally, investor pressure, in the form of increasing activism from institutional investors, is driving greater attention to ESG metrics and long-term value creation in compensation packages.

In summary, the Remco reports analysis reveals a number of themes. These include stakeholder engagement and value creation: companies increasingly frame their compensation practices in terms of creating value for a broad range of stakeholders. For instance, AstraZeneca's approach to long-term incentive plans tied to research and development (R&D) milestones demonstrates a strong alignment with both stakeholder theory and utilitarian ethics. A growing trend is observable towards incorporating Environmental, Social and Governance (ESG) metrics into executive compensation packages. GlaxoSmithKline's integration of health outcomes as a performance metric exemplifies this approach, aligning with both stakeholder theory and social contract theory. In terms of distributional justice, company disclosures illustrate their efforts to address the issue of pay equity, both internally and in relation to broader societal concerns. AstraZeneca's executive pay cap stands out as a strong practice aligned with distributive justice theory. While

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practices vary, there is a general trend towards greater transparency in compensation decision-making processes. However, this remains an area where many companies have room for improvement. Finally, while there is emphasis on ethical leadership and corporate culture, the integration of virtue ethics into compensation practices appears to be the least developed area. This suggests an opportunity for companies to link executive compensation more explicitly to ethical leadership and corporate culture.

Figure 1 presents a heat map visualisation of our findings, offering a comprehensive overview of how the sampled FTSE-100 companies align with various ethical principles in their executive compensation practices. This visual representation helps identify patterns and trends across companies and principles. In interpreting the heat map, darker shades indicate stronger alignment with ethical principles, while lighter shades suggest areas for improvement. The horizontal axis represents the key ethical principles derived from our theoretical framework; the vertical axis lists the companies whose reports we analysed. This layout enables readers to compare performance across different ethical dimensions for each company. Particularly noteworthy are the consistently dark cells for companies like AstraZeneca and GlaxoSmithKline, indicating strong ethical alignment across most principles, contrasting with the predominantly lighter shades for companies like Glencore, suggesting room for improvement. Additionally, the heat map reveals that principles such as stakeholder theory and utilitarian ethics tend to show darker shades across most companies, indicating these are areas where FTSE-100 companies generally perform well in terms of ethical compensation practices. Overall, these findings highlight the complex interplay between corporate governance principles, ethical considerations, and practical realities in shaping executive compensation governance in UK FTSE-100 companies.

FIGURE 1 ABOUT HERE

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While the analysis of FTSE-100 reports provides valuable insights into the formal structures and stated principles of executive compensation governance, our interviews with key decision-makers offer a window into the practical challenges when assessing ethical considerations and decision-making processes that shape these practices. The following findings from our interviews both corroborate and extend the patterns identified in the documentary analysis. They offer a more nuanced understanding of how ethical and moral considerations influence executive compensation in practice.

### *Thematic analysis of interview data*

The analysis of interviews with NEDs, institutional investors, and specialist advisers (tagged as NED#, II# and ADV# respectively and numbered to show the spread of views) complements and extends the insights gained from the documentary analysis. The following findings from these interviews are ordered around the themes and definitions in Table 2.

Beginning with agency theory and shareholder-centric governance considerations, the interviews revealed a complex interplay between the need for effective governance and the practical challenges of implementing it. The interviewees highlighted the influence of external advisers and the pressure to conform to market norms:

“I think the first thing about boards is that they are all advised by advisers and they have to produce reports and so their bias is always to stay out of the headlines so to conform, which in itself is probably fully understandable but not really a good idea in many cases” (NED#1).

“I think that the role of external remuneration advisers has become packaged ... we are expected to provide some form of suitable approval by way of benchmarking and prevalence which reinforces decision-making or will provide some kind of suitable approval of decision-making without really being given the chance to understand what’s really going on” (II#1).

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“If I were to describe what’s going on at the moment, it’s all very off-the-shelf”  
(ADV#1).

These comments suggest that the current governance structures may prioritise conformity over tailored, company-specific solutions, potentially undermining the effectiveness of executive compensation in aligning management and shareholder interests.

Turning to distributive justice and fairness considerations, issues of proportionality featured prominently in the interviews. Several interviewees questioned the justification for extremely high executive pay, particularly when not clearly linked to performance. As one NED provocatively asked:

“If you really do lose people for that reason, the question is do you really want them?”  
(NED#1).

This comment reflects a growing scepticism about the ‘talent war’ narrative often used to justify high executive compensation. Some suggested alternative approaches:

“I think part of the answer ... is having higher levels of basic pay if we think the total reward package should be at a certain level. And I would make performance-based pay, or the variable element of pay, a smaller portion of the total package” (NED#2).

Such proposals may be interpreted as reflecting attempts among decision-makers to balance fairness considerations with the need to attract and retain top talent.

Next, under the rubric of social contract theory and legitimacy considerations, the interviews revealed a keen awareness of the social contract between business and society, particularly in relation to executive compensation. NEDs expressed concern about the potential for executive rewards to undermine public trust:

“I also think that in a public sphere three things have happened. One is it’s got too complicated, so it must be made simple as nobody trusts complexity nowadays ... and secondly because it’s so complex I don’t think it’s motivating for the executives. And

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thirdly, because it's on a fixed schedule, and the amounts are quite large, the chances are it's paid out just at the moment the company's had a turn down. And so that fits really badly with people" (NED#1).

"If executive rewards start routinely to undermine trust in business ... then I think that probably becomes a problem both for business and society at large" (NED#7).

Within the area of evolving principles of corporate governance, the interviews revealed an increasing focus on long-term sustainability and the integration of ESG metrics into executive compensation frameworks:

"We're seeing more pointed questions from investors about our ESG metrics and how they tie to executive pay. It's driving real change in our practices" (II#2).

"Clients say to us 'we want the ESG'. We want all that. But I think all of us feel, under the surface, we have to deliver performance. If we're not delivering performance it's no matter how good our ESG credentials are, most clients are going to walk. They want their cake and eat it" (II#3).

A shift towards longer-term, more holistic performance measures represents a significant evolution in executive compensation practices, aligning broader societal concerns about sustainable business practices with performance outcomes.

Turning finally to stakeholder theory and stakeholder considerations, the interviews highlighted a growing awareness of the need to consider a broader range of stakeholders in executive compensation decisions. This was particularly evident in discussions about public perception and societal expectations:

"There is certainly societal concern and some boards and some chairman regard that as an unfortunate threat that we have to respond to. And some are more in the camp of 'it's a real issue and we have to respond to it'. But whichever way you come at it, I think it is a theme that there are more discussions around" (ADV#2).

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“I do feel governance has moved on. Boards are thinking about reputation in a wider sense. I do think they are thinking about stakeholders – the amount of time they are taking about employees and customers” (NED#5).

“Our capitalist system works because it enjoys, by and large, public consent and that public consent is, in this particular context, slowly but surely in the process of being withdrawn, I think” (NED#6).

These comments underscore the importance of maintaining social legitimacy in executive compensation practices. However, balancing diverse stakeholder interests remains a challenge. An institutional investor noted the often-unsystematic nature of shareholder responses to remuneration issues:

“I think shareholders don’t really know what they want and they tend to kick off about remuneration issues in a rather unsystematic way” (II#1).

This suggests that while there is increasing recognition of stakeholder concerns, translating these into coherent and actionable compensation policies remains a significant challenge.

The interviews highlighted the complex effects of increased transparency in executive compensation. While generally seen as positive, some interviewees noted unintended consequences:

“The original intention was that publication and knowledge would restrict pay. And, of course, what we’ve seen is no, or not much, evidence that that is successful. And you could argue the opposite – that when a chief executive knows that everybody else is paid more than him or her, they are anxious to see their pay rise; no one wants to be persistently in the bottom quarter or decile” (NED#2).

“Most of us would agree when there was no transparency everyone was perfectly happy what the company and the directors paid you. As soon as it had become transparent that x might have been paid more, it has actually had completely the

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reverse effect. You know the famous saying in America of ‘Lake Wobegon’ – that little community where every child is in the upper quartile in terms of learning – well, that’s the problem” (NED#8).

These comments highlight the potential for transparency to drive up compensation levels through competitive benchmarking, rather than restraining them as initially intended.

Moreover, some practical issues come into focus, when transparency in executive compensation governance coincides with the need for contextualised judgement rather than following the herd:

“If you have a huge market like the US, you can deal more formulaically with pay because you can find 20 or 50 companies in the country that are similar to you. When you look at companies in Europe and Asia it gets much more complicated to try and do anything rational with the market” (ADV#2).

The importance of ethical leadership and corporate culture in shaping compensation practices emerged as a key theme:

“The tone from the top is crucial. When the board and CEO are committed to ethical compensation practices, it permeates the entire organisation” (NED#6).

This emphasis on ethical leadership suggests a recognition that effective governance of executive compensation goes beyond formal structures and policies, encompassing the values and culture of the entire organisation:

“The way I put that to people is to say ‘you need to figure out how you have the discussion amongst you about whether this is ethically, morally, the right balance and whether you need more views if you don’t have diverse enough views yourselves” (ADV#2).

“Forgetting all the maths and the forms and the surveys and all these data, the formulas that are generated, when you sit back, does this feel right to you?” (ADV#1)

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Finally, the interviews highlighted various contextual factors that influence executive compensation practices. These include industry-specific challenges, regulatory environments, and broader economic trends:

“The cyclical nature of an industry can make it difficult to set long-term incentives. We’re exploring ways to smooth out these cycles in our compensation structures” (II#1).

“What are the measures to know if you’ve been successful in a year, two years, or five years? Timeframes also are a factor in that. And again that needs to tie-in very much to the business” (ADV#2).

These comments underscore the need for compensation frameworks that can adapt to changing business environments while maintaining alignment with long-term company objectives.

Thematically, taken as a whole, the interview data reveal a complex landscape of executive compensation governance, characterised by competing pressures and evolving expectations. While there is growing recognition of the need to consider a broader range of stakeholders and longer-term performance measures, translating these ethically and morally nuanced principles into practice remains challenging. The interviews highlight the ongoing tension between market pressures and societal expectations, the unintended consequences of increased transparency, and the critical role of ethical leadership in shaping compensation practices. Effective governance of executive compensation may require more than just robust policies and structures. It calls for a nuanced understanding of the various stakeholder interests at play, a commitment to long-term value creation, and the courage to make principled decisions that may sometimes diverge from market norms. As companies navigate these challenges, the role of Remcos in exercising informed judgment and the ways in which the institutional investment community scrutinises these decisions to maintain not only the

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allegiance of their client shareholders, but also wider public trust may be viewed as becoming ever more critical.

Summing up, the findings from our documentary analysis and interviews collectively paint a complex picture of executive compensation governance in UK FTSE-100 companies. The documentary analysis revealed broad trends towards greater consideration of stakeholder interests, integration of ESG metrics, and attempts to balance short-term performance with long-term sustainability. Our interview data both corroborated these trends and provided deeper insights into the challenges and considerations that shape their implementation. Key themes that emerged across both data sources include the growing importance of stakeholder engagement, the challenges of operationalising ethical principles in compensation structures, and the tension between market pressures and broader societal expectations. Together, these findings highlight the evolving nature of executive compensation governance and the increasing centrality of ethical and moral considerations in this process.

### **Discussion**

Our analysis of FTSE-100 company Remco reports and interviews with key decision-makers reveals a complex landscape where theoretical principles intersect with practical realities. This discussion synthesises our findings providing an analysis of the application of theory to practical governance, sets out implications for practice, and presents ideas for future research, before our concluding remarks.

#### ***Theory application to executive compensation governance***

Our findings reveal a persistent tension between the principles of agency theory and the practical challenges of implementing effective governance mechanisms. While the FTSE-100 reports demonstrate a strong focus on aligning executive compensation with company performance and shareholder interests, our interview data suggest that the effectiveness of current governance mechanisms in achieving this alignment is questionable. The unintended

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consequences of increased disclosure requirements, such as the potential for so-called ratcheting up of compensation levels as executives compare rewards, highlight the limitations of transparency as a governance tool. Although this aligns with previous research by Perkins (2017) on the social construction of executive remuneration and challenges the assumption that greater disclosure necessarily leads to more effective governance, our findings go further by highlighting that while practitioners do consider the principles of agency theory in their executive pay deliberations (and thus this theory provides a useful framework for understanding the principal-agent relationship), it potentially has less direct applicability than has been previously attributed to its contribution to executive compensation decision-making. Its practical application may require more nuanced approaches (Jensen et al., 2004), including the need for Remcos to develop more sophisticated approaches to performance measurement and incentive design.

Our analysis also reveals a growing recognition of the importance of stakeholder considerations in executive compensation governance, aligning with the principles of stakeholder theory. The integration of ESG metrics into executive compensation packages, as observed in companies like GlaxoSmithKline, represents a significant shift towards a more inclusive approach to value creation. However, our interview data suggest that, while there is increasing awareness of stakeholder interests, translating this awareness into concrete changes in compensation practices remains challenging. While this gap between recognition and action echoes the findings of Shortland and Perkins (2023a) regarding the complexities of implementing stakeholder-oriented governance practices, our findings contribute to our understanding of the contribution of stakeholder theory in executive pay decision-making by providing empirical evidence of how companies are attempting to operationalise stakeholder principles in their compensation practices. They also highlight the practical challenges of applying the “informativeness principle” (Holmström , 2016, p. 419) when seeking to balance

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diverse stakeholder interests in compensation decision-making (Edmans et al., 2017; Rönnegard & Smith, 2024). Our findings underscore the need for more robust frameworks for integrating stakeholder considerations into compensation design.

Turning to our findings on the role of social contract theory and legitimacy considerations and how these are applied to executive pay determination, we found a growing awareness among decision-makers of the need to maintain social legitimacy in executive compensation practices. While this aligns with the principles of social contract theory, which emphasises the implicit agreement between businesses and society (Donaldson & Preston, 1995; Rönnegard & Smith, 2024) (and so demonstrates that this theory is considered in executive pay decisions), the concerns expressed by interviewees about the potential for executive rewards to undermine public trust in business highlight the delicate balance companies must strike between competitive compensation and social acceptance. Our findings thus add to our understanding of the role of social contract theory by providing empirical evidence of how the concept of a social contract influences executive compensation decisions in practice. They also extend our understanding of the role of legitimacy in corporate governance, building on the work of Perkins and Shortland (2023) on the institutional contexts of executive remuneration decision-making. Practical implications include the need for companies to develop more robust processes for assessing the societal impact of their compensation practices.

Our analysis also reveals a persistent concern about the perceived unfairness of the widening gap between executive rewards and other stakeholder outcomes. This aligns with the principles of distributive justice theory and reflects growing societal concerns about income inequality (Magnan & Martin, 2019). Distributive justice is considered by those involved in executive pay determination. For example, the efforts of companies like AstraZeneca to implement executive pay caps demonstrate attempts to address these

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concerns. However, our interview data suggest that achieving distributive justice through balancing internal equity with external market pressures remains a significant challenge. These findings contribute to distributive justice theory by providing insights into how principles of fairness are interpreted and applied in the context of executive compensation. They also highlight the tensions between market-based approaches to compensation and broader societal expectations of fairness. For practitioners, these insights suggest the need for more comprehensive frameworks for assessing pay equity across all levels of the organisation.

Lastly, with respect to the application of ethical frameworks, our findings indicate that while utilitarian considerations, such as the focus on long-term value creation, are increasingly incorporated into compensation structures, the integration of virtue ethics principles (O'Reilly & Main, 2010) remains less developed. The emphasis on long-term sustainability and ESG metrics in compensation packages aligns with utilitarian ethics by attempting to maximise overall stakeholder well-being. However, the relative weakness in virtue ethics integration, as evidenced in Figure 1, suggests an opportunity for companies to more explicitly link executive compensation to ethical leadership and corporate culture. These findings contribute to the literature on business ethics by providing empirical evidence of how different ethical frameworks are operationalised in executive compensation practices. They also highlight the potential for a more balanced approach that incorporates both consequentialist (utilitarian) and character-based (virtue ethics) considerations, leading to implications such as the need for Remcos to develop more holistic frameworks for assessing executive performance and character.

### ***Implications and recommendations for practice***

Our analysis suggests that executive compensation practitioners might consider a range of practice interventions aligned with a more robust application of the theoretical frames that are

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traditionally applied within Remco decision-making. For example, with respect to agency theory, moving beyond simple financial metrics to incorporate a broader range of performance indicators, including long-term value creation and sustainability measures could enable Remcos to contextualise the framework applied to govern executive performance management and achievement recognition through compensation, rather than adopt boiler-plate solutions detached from organisational specificity. With respect to the application of stakeholder theory, practical interventions could involve developing more comprehensive stakeholder engagement processes and creating metrics that more accurately reflect the company's impact on various stakeholder groups. To improve the efficacy of social contract theory as a framework used in executive pay decision-making, interventions could involve regular stakeholder consultations, public perception surveys, and more transparent communication about the rationale behind compensation decisions. To assist with the application of distributive justice, actions could involve developing more sophisticated pay ratio metrics, considering both vertical (executive to worker) and horizontal (across different business units or geographies) equity. And, with respect to utilitarianism and virtue ethics, practitioners could incorporate ethical leadership assessments into performance reviews and link a portion of compensation to the development and maintenance of a strong ethical corporate culture. From these implications, we propose the following five recommendations for more effective ethical governance of executive compensation:

1. More sophisticated approaches to performance measurement and incentive design that go beyond simple financial metrics;
2. Robust frameworks for integrating diverse stakeholder interests into compensation decisions;
3. Regular assessment of the societal impact and legitimacy of compensation practices;
4. Comprehensive frameworks for assessing pay equity across all organisational levels;

5. Holistic approaches to evaluating executive performance incorporating ethical leadership and corporate culture.

### ***Limitations and future research***

Our study sheds light on the complex interplay between ethical considerations and executive compensation governance in UK FTSE-100 companies. It is important, however, to acknowledge its limitations. The focus on UK FTSE-100 companies limits the generalisability of our findings to other contexts or smaller companies. While it is always ideal to base research on a large sample, given the depth and detail involved in documentary content analysis, we decided to focus on a relatively small, systematically selected and representative sample of FTSE-100 Remco reports. While this approach did result in a range of industries being represented, we were unable to discuss industry specifics and trends reliably given the sample size. Additionally, the qualitative nature of our study, while providing rich, in-depth data, may not capture all relevant factors influencing decision-makers. Despite these limitations, our study makes a significant contribution by bridging the gap between theoretical frameworks and practical decision-making and by visualising ethical principles via a heat map; we provide a foundation for more ethically-grounded approaches to executive compensation.

We propose future research that aims to address the limitations and the gaps identified in our study and respond to the evolving landscape of executive compensation governance. We suggest that our heat map can be used as a tool to visualise comparative data drawn from larger samples, for example to illustrate analysis by industry sector.

In relation to agency theory and governance considerations, we suggest that longitudinal studies examining the long-term effects of increased transparency and disclosure requirements on executive compensation levels and structures could help address the unintended consequences of governance mechanisms. Comparative analysis of different

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governance models and their effectiveness in aligning executive and shareholder interests while maintaining ethical standards could include exploring innovative governance structures that go beyond traditional board and committee models. Investigation could be conducted, for example, into the role of technology, such as artificial intelligence, in enhancing governance mechanisms.

To address issues relating to stakeholder theory and stakeholder considerations, case studies of companies that have successfully integrated diverse stakeholder interests into their executive compensation frameworks could provide valuable insights into best practices and implementation strategies. Empirical studies could examine the relationship between stakeholder-oriented compensation practices and various measures of corporate performance, including financial, social, and environmental metrics. Research into the development and validation of comprehensive stakeholder impact assessment tools could inform future executive compensation design and evaluation.

Research addressing social contract theory and legitimacy considerations could include cross-cultural studies examining how societal expectations of executive compensation vary across different national and cultural contexts, and how these impact the social contract between businesses and society. Longitudinal research could be designed tracking changes in public perceptions of executive compensation legitimacy over time, particularly in response to major economic events or corporate scandals. Investigation into the role of media and public discourse in shaping the social contract around executive compensation could inform how companies can effectively (and legitimately) engage in this dialogue.

Research encompassing distributive justice and fairness considerations could include designing empirical studies to examine the impact of various pay ratio disclosure requirements on internal pay equity and employee morale. Research could also examine the

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development of more nuanced fairness metrics that go beyond simple pay ratios to capture the complexities of compensation across different organisational levels and contexts.

Alternative compensation models that prioritise distributive justice, such as profit-sharing schemes or more egalitarian pay structures, and their impact on organisational performance and employee satisfaction could be investigated

In-depth studies on the integration of virtue ethics principles into executive compensation frameworks, including the development and testing of character-based performance metrics, could be performed. There could be value too in comparative analysis of companies that prioritise different ethical frameworks (e.g., utilitarian versus virtue ethics approaches) in their compensation practices, examining their various impacts on corporate culture, employee behaviour, and overall organisational performance, as well as results of their reporting being subjected to shareholder scrutiny. Interdisciplinary research could also be informative, combining insights from philosophy, psychology, and organisational behaviour to develop more robust ethical decision-making models for executive compensation governance.

### ***Concluding remarks***

This study set out to explore the ethical and moral influences on executive compensation decision-making within the context of UK corporate governance. Decision-makers face challenges and tensions when attempting to implement theoretically-derived compensation principles in the multifaceted landscape of practical corporate governance settings. Ethical considerations do shape compensation practices, albeit with varying degrees of influence and effectiveness. The study finds that decision-makers face a persistent challenge in balancing shareholder-centric governance principles with wider ethical considerations. Notwithstanding this, there is growing awareness of the need to align executive compensation with broader stakeholder interests, a focus on maintaining social legitimacy in compensation practices,

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concerns about fairness, particularly regarding the widening gap between executive and average worker compensation, and increasing emphasis on long-term value creation and sustainability in compensation structures. By underscoring the importance of integrating ethical and moral considerations into governance practices, companies can not only enhance their legitimacy and stakeholder relationships but also contribute to a more sustainable and equitable business environment.

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**Table 1: Summary interview guide**

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1. Role of regulation and company factors that comprise publicly available information in influencing decisions on executive compensation levels and their scrutiny.
  2. Elements that comprise the remuneration package and reward trends and how these affect executive compensation level decisions.
  3. How the Remco's internal composition and external people influence Remco decisions on executive compensation levels.
  4. Processes framing executive compensation governance that influence compensation levels and trends.
  5. Public perceptions of social acceptability of executive compensation levels and their influence on Remco decision-making.
  6. Executive compensation decision-makers' own perceptions of appropriateness of executive compensation levels.
-

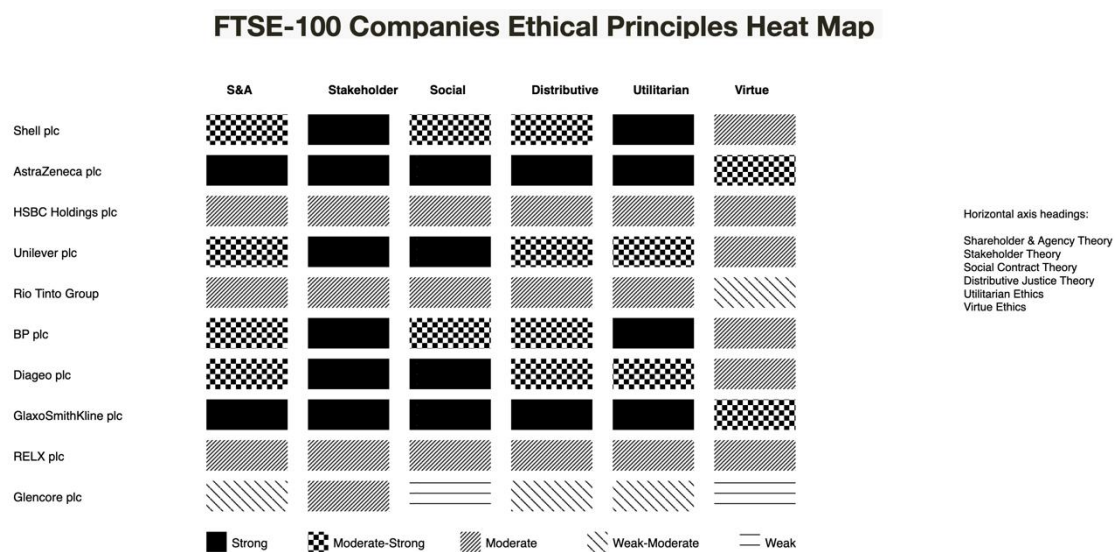
**Table 2: Identified themes and definitions**

<b>Thematic code (grouped under meta-themes)</b>	<b>Number of sources citing code</b>	<b>Number of references made to code</b>	<b>Definition</b>
<i><b>Agency theory and shareholder-centric governance considerations</b></i>			
Investment fund managers	3	5	Role and contribution of investment fund managers representing shareholders in Remco decision-making.
Process	8	12	Practices/procedures used by those involved in determining executive compensation.
Regulation	6	9	Legislation, codes of practice and policy governing/influencing executive compensation decisions.
Talent agenda	5	7	Ensuring executive compensation outcomes serve to recruit/retain key executive personnel aligned to organisational objectives.
<i><b>Distributive justice and fairness considerations</b></i>			
Differentials	7	10	Differentiation between executive compensation and that of other employees/across industry sectors.
Fairness	9	15	Decision-makers' justice perceptions in calculating executive compensation levels.
Variable compensation	6	8	Performance-related compensation, stocks/shares and/or incentives/bonuses.
<i><b>Social contract theory and legitimacy considerations</b></i>			
Disclosure	8	11	Requirement to make information public.
Information flow	6	9	The transfer of data between parties relevant to executive reward decisions.
Socially unacceptable	7	13	Executive compensation levels considered inappropriate/objectionable.
Values	8	12	Remco members' standards/principles.
<i><b>Stakeholder theory and stakeholder considerations</b></i>			
Stakeholders	10	16	The perspectives of external parties with an interest in Remco decision outcomes.
Legitimacy	9	14	Acceptability of executive compensation considered against that of comparators.

**Table 3: Assessment of 10 FTSE-100 Remco reports on compensation governance**

<b>FTSE-100 company</b>	<b>Description of findings</b>
Shell plc	Strong alignment with shareholder value through performance metrics, including environmental targets, but moderate in other areas due to the need for a broader stakeholder approach.
AstraZeneca plc	Strong alignment across most frameworks, particularly in linking compensation to research and development milestones and considering the interests of various stakeholders.
HSBC Holdings plc	Moderate alignment, reflecting a balance between shareholder interests and broader stakeholder considerations, particularly in risk management.
Unilever plc	Strong match to the principles of stakeholder theory and social contract theory due to sustainability-linked compensation and consideration of employee and consumer interests.
Rio Tinto Group plc	Weak in several areas due to challenges in linking compensation to volatile commodity markets and ethical leadership concerns.
BP plc	Moderate to strong in areas related to sustainability goals and compensation equity transparency, reflecting a balance between shareholder and stakeholder interests.
Diageo plc	Generally moderate, with room for improvement in aligning compensation with broader stakeholder well-being.
GlaxoSmithKline plc	Strong alignment with stakeholder interests, particularly in health outcomes and ethical leadership.
RELX plc	Moderate alignment, with a focus on innovation and digital transformation but could improve in stakeholder engagement.
Glencore plc	Generally weak, with challenges in aligning executive compensation with broader stakeholder interests and social responsibility metrics.

**Figure 1: FTSE-100 companies ethical principles heat map**



**Sources: Companies listed by highest-ranking by market capitalisation at each decile of the FTSE-100 index**

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