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# **DIVERSITY IN REMUNERATION COMMITTEES: A VIEW FROM THE INSIDE**

## **Abstract**

### ***Purpose***

The purpose of this paper is to understand how those involved in executive pay determination in large publicly quoted UK businesses see the role of diversity within remuneration committees (Remcos) as enabling the input of different perspectives which can enhance their decision-making and potentially improve pay outcomes.

### ***Design/methodology/approach***

Qualitative, semi-structured interviews were undertaken with 18 high profile major-enterprise decision-makers and their advisers i.e., non-executive directors (NEDs) serving on Remcos, institutional investors, executive pay consultants and internal human resources (HR) reward specialists, together with data from three focus groups with 10 further reward management practitioners.

### ***Findings***

Remco members recognise the benefits of social category/demographic diversity but say the likelihood of increasing this is low, given talent pipeline issues. The widening of value diversity is considered problematic for Remco functioning. Informational diversity is used as a proxy for social category/demographic diversity to improve Remco decision-making on executive pay. While the inclusion of members from wider social networks is recognised as potentially bringing a different informational perspective, the social character of Remcos, reflecting their elite nature and experience of wealth, appears ingrained.

### ***Originality/value***

Our original contribution is to extend the application of upper echelons theory in the context of Remco decision-making to explain why members do not welcome widening informational

diversity by appointing people from different social networks who lack value similarity. Instead, by drawing views from employees, HR acts as a proxy for social network informational diversity. The elite upper echelons nature of Remco appointments remains unchanged and team functioning is not disrupted.

**Keywords:** Corporate governance; Diversity; Executive pay; Qualitative research; Remuneration committees; Upper echelons.

## **Introduction**

Board diversity is important because heterogeneity in the character of appointees to the most powerful company roles results in increased capacity and opportunity for business innovation under challenging competitive conditions (Vinnicombe *et al.*, 2020; Wilson, 2021). Indeed, the Financial Reporting Council (FRC), the UK corporate governance regulator, has warned about “problems arising from groupthink” (FRC, 2014, p.2) when boards exhibit a lack of diversity. An observation by former UK prime minister, the Rt. Hon. Theresa May exemplifies this concern: “Too often the people who are supposed to hold big business accountable are drawn from the same, narrow social and professional circles as the executive team” (House of Commons Business, Energy and Industrial Strategy Committee, 2017, p.50).

In the light of such criticism, corporate governance principles have sought expressly to increase heterogeneity among those accountable for executive pay decision-making. In 2020, the FRC specified expectations of those who invest and the institutions that manage investments in stock market listed businesses. The UK Stewardship Code (FRC, 2020) states that among the factors investors and their representatives should consider is the interplay of diversity, remuneration and workforce interests. Notwithstanding this, media attention has continued to focus on what is viewed as excessive executive remuneration in Financial Times Stock Exchange (FTSE) 100 firms. When this is set within the context of the current cost of living crisis, the spotlight falls upon those who are responsible for executive pay decision-making, namely non-executive directors (NEDs) serving on remuneration committees (Remcos). [A summary of the function and processes of Remcos is given in Appendix 1.]

The FRC has recently announced a review of the UK Corporate Governance Code (FRC, 2022), to inform updated regulation that will apply to accounting years commencing on or after 1 January 2025. The consultation document (FRC, 2023) states the intention to strengthen the Code’s provisions expressly to support the diversity of skills and experience

on boards and, by extension, Remcos. Hence, examining how the regulatory expectations of greater diversity may be embraced by those involved in executive pay determination provides important implications for practice.

Our research is both timely and has practical significance. Our aim is to provide a qualitative study of diversity in Remco membership. We set out to address a gap in our knowledge by exploring insiders' views on widening Remco diversity and the potential impact of this on executive pay decision-making. Our objectives are to inform our practical recommendations through a thematic analysis of interview transcripts from those actors directly involved in deciding executive pay outcomes (NEDs), as well as their external consultants and internal HR advisers (reward specialists), and institutional investors whose votes are crucial to the decisions made (Stathopoulos and Voulgaris, 2016). In so doing, we go beyond what has been surfaced by quantitatively-oriented analysis dominating this research area (Ogden and Watson, 2012).

Shortland and Perkins (2023a) find that while NEDs and institutional investors acknowledge that the inclusion of worker representation could bring a moderating perspective to top pay decision-making, their direct participation in the Remco is unwelcome as it dilutes its unitary nature and accountability. While there is evidence for homophily, namely that board/Remco members prefer to interact with those in similar social networks (Hudson and Morgan 2022), the elite nature of those involved in Remco decision-making is crucial: it reflects individuals at the highest societal levels (Perkins and Shortland, 2023). We thus theorise the character of Remcos under the rubric of upper echelons theory (Hambrick, 2018; Hambrick and Mason, 1984; Neely *et al.*, 2020). Our study extends Shortland and Perkins's (2023a) research by adopting a specific focus on seeking the views of the inner Remco circle and their advisers on how diversity can be widened in the context of top pay decision-making. We apply our theoretical analysis to Jehn *et al.*'s (1999) seminal paper

which presents a three-fold diversity framework (social category, informational, and value diversity) in the context of work group performance, in this case Remco executive pay decision-making. Our theoretical contribution is to extend the application of upper echelons theory into approaches to meeting diversity expectations as applied to Remcos. Our original contribution is to theorise and explain why informational alternatives that do not rely on extending Remco composition through inclusion of individuals representing a more diverse range of social networks are welcomed by executive pay decision-makers in their efforts to address corporate governance diversity requirements and potentially moderate top pay excesses. Our research question is:

RQ: How do those involved in executive pay governance view diversity in remuneration committees and its influence on executive pay decision-making?

## **Literature review**

In this section we set out context in relation to diversity and its representation on UK boards and Remcos. We assess diversity benefits, drawbacks, and the problematics of simplistic diversity interpretations. We then turn our focus to the theoretical frames for our paper to explain types of diversity within workgroups before introducing the relevance of upper echelons theory to the composition of UK boards/Remcos.

### ***Diversity, corporate boards and Remcos: The character of the UK research setting***

Board/Remco decision-making is influenced by external social expectations, like codified corporate governance principles, and by self-benchmarking against other organisations (Adkins, 2016). Symbolically, corporate governance is viewed as inclusive when it signals commitment to equal representation throughout the business (Glass and Cook, 2017).

However, it is postulated that companies approach diversity not only as something driven by a pull towards external conformity but also by a push towards potential competitive advantage (Yang and Konrad, 2011). For example, initiatives such as the Hampton-

Alexander Review (Wilson, 2021) and the Female FTSE Board research (Vinnicombe *et al.*, 2020) are underscored by a business case argument (Shortland and Perkins, 2022). Diversity is deemed beneficial to innovation, creativity and growth (Yadav and Lenka, 2020). It gives access to a wider talent pool, a workforce that mirrors customers, and multiple perspectives and capabilities to build competitive advantage (Shen *et al.*, 2009). Notwithstanding this, diversity must be well managed to avoid/reduce relationship conflict (Saxena, 2014).

It is notable that UK Remcos, in the main, lack diversity by reference to protected characteristics (Perkins and Shortland, 2023), i.e. those identified in the Equality Act (2010) (legislation.gov.uk, 2010). One of a series of committees of inquiry into corporate governance over the past 30 years – the Higgs Review (Higgs, 2003) – recommends that sourcing candidates for board-level roles ought to look beyond “the usual suspects” (Li and Wearing, 2004, p.359). The complementary Tyson Report (Tyson, 2003), commissioned by the UK Government to advise on the recruitment and development of non-executive directors (NEDs), such as those from whom Remcos are constituted, anticipates benefits from creating “more meritocratic and diverse boards” (Li and Wearing, 2004, p.359). Translating policy into practice, firms with a diverse director on the nominating committee and those with diversity policies on gender and race appear to be more equitable when it comes to board leadership positions (Field *et al.*, 2020). Indeed, an inclination towards diversity (internal preferences or responding to external pressure) is an important predictor of candidate selection either to fill vacancies from leavers or when expanding board size (Farrell and Hersch, 2005). In some cases institutional investors are reported as pressing for action to increase female representation, targeting companies whose boards have little gender diversity (Field *et al.*, 2020). Analysis by Alkalbani, *et al.* (2019, p.395) suggests that even where the number of women and minority directors on boards/Remcos may not have advanced at the desired rate since such initiatives have been enacted, female NEDs have demonstrated more

confidence in understanding their role and more power in “influencing the compensation setting”.

Corporate board structures vary across jurisdictions: Anglo-American countries favour a single-tier system while mainland Europe often adopts a two-tier structure. In the latter, public firms in countries like Austria, Denmark, Germany and the Netherlands establish separate management and supervisory boards (Schöndube-Pirchegger and Schöndube, 2010). The management board, consisting of executives, handles business operations, while the supervisory board, comprising non-executive directors, monitors and advises the management board. Worker director involvement on supervisory boards contributes to stable industrial relations (Sosnowski and Wawryszuk-Misztal, 2019).

Supervisory boards make strategic and financial decisions, determine management board remuneration, review corporate performance, approve annual reports, and select auditors (Bohdanowicz, 2015). They perform functions similar to non-executive directors in unitary board contexts, reducing executives' opportunistic behaviour that may conflict with shareholders' interests (Taufik and Oh, 2023). Diversity on supervisory boards reflects both widening demographics and the inclusion of worker directors to increase experience and knowledge (Sosnowski and Wawryszuk-Misztal, 2019). However, the Anglo-Saxon business model considers worker involvement in appointing the management board and strategy development incompatible, leading the UK to oppose the EEC Commission's proposal to adopt a two-tier corporate governance system (Brua, 1973).

Homosocial reproduction and self-cloning to preserve an old boys' network is perceived by women as inhibiting more gender-balanced boards (Burgess and Tharenou, 2002). One way to tackle this is to consider quotas. There is evidence that in European contexts, voluntarism has been replaced by policymakers with more directive approaches. For example, France, Norway and the Netherlands have mandated quotas (Alkalbani, *et al.*, 2019;

Ligocká, 2020; van't Foort-Diepeveen, 2022) from which Remcos may be populated. The European Commission has committed “to improve the gender balance in economic leadership positions, in particular obtaining at least a 40% representation of the sex that is currently less represented within the group of non-executive directors in listed companies” (García-Izquierdo *et al.*, 2018, p.1351). While only currently constituting 5% of directors on company boards in Spain, evidence illustrates that the incorporation of women has had “a positive effect in terms of higher wage moderation, and restraint in the use of long-term variable remuneration systems” (ibid.). While “the best gender quota” is not suggested, given differences across contexts worldwide, Alkalbani, *et al.* (2019, p.396) advocate that “the UK Corporate Governance Code should recommend that female representation is improved in remuneration committee membership at least to a critical mass of more than 30% women”.

#### ***Advantages, disadvantages and problematics of board/Remco diversity***

Diversity on boards and Remcos can offer several advantages. It is, however, essential to consider the drawbacks as well as the nuances of diversity to ensure effective decision-making and corporate governance. We therefore explore, in turn, the advantages, disadvantages, and problematics of diversity on corporate boards and Remcos, before turning our attention to the implications of diversity within workgroups.

Research suggests that gender diversity on boards and Remcos can lead to improved boardroom behaviour, a greater diversity of opinion in decision-making, and an enhanced company image; women directors demonstrate commitment and adjust their approach based on context and perceived status (Burgess and Tharenou, 2002), while their leadership styles contribute to strategic decision-making and board effectiveness (Nielsen and Huse, 2010). In the context of executive pay, having more women on Remcos reduces adverse say-on-pay decisions by investors, suggesting that female input aligns rewards more closely with investor

expectations (Alkalbani *et al.*, 2019). Female Remco chairs are also described as more cautious in monitoring executive pay incentives (Harjoto *et al.*, 2015).

Despite evidence of gender diversity benefits, research suggests limited links between female board participation and firms' operational performance (Nielsen and Huse, 2010). Some studies indicate a neutral or negative correlation between corporate value and female board membership (Farrell and Hersch, 2005). Additionally, women may be more likely to be appointed to risky and precarious "glass cliff" positions (Ryan and Haslam, 2005), with their success being context-dependent and potentially overstated by media reporting (Ryan *et al.*, 2016).

Critical scholarship argues that identity construction and privilege play a significant role in high-status roles such as corporate boards and Remcos, with white, male, and heterosexual candidates often being advantaged (Doldor and Atewologun, 2021). In British financial services, the emphasis on volunteerism by regulators may reinforce the institutionalised undervaluing of women (Healy and Ahamed, 2019). Moreover, the lack of attention to intersectionality and the experiences of black and minority ethnic (BAME) women in the literature hamper a full understanding of diversity considerations (Opara *et al.*, 2020). Intersections of identities can confer both advantages and disadvantages in complex ways (Ozturk and Berber, 2022), with older homosexuals also facing the need for active identity management to counteract subordination (Ozturk *et al.*, 2020).

### ***Diversity within workgroups***

Jehn *et al.* (1999) identify three forms of diversity within workgroups: social category (demographic characteristics such as gender, race, ethnicity and age), value (different views on the workgroup's real task, target/goal, or mission), and informational (different knowledge and perspectives). While social category diversity positively affects workgroup morale, value diversity can create dissatisfaction and conflict. Informational diversity can lead to task

conflict but also greater creativity (Jehn *et al.*, 1999). However, homophily in natural group formation can reduce informational diversity (McPherson *et al.*, 2001). For effective Remcos as executive pay decision-making teams, it is crucial to prioritise high informational diversity and low value diversity, rather than solely focusing on social category/demographic diversity (Jehn *et al.*, 1999; Soobaroyen and Devi Mahadeo, 2012).

Reflecting on these considerations, while diversity on corporate boards and Remcos can offer benefits, it is essential to consider the complexities and nuances of diversity to ensure effective decision-making and corporate governance. A nuanced understanding of identity construction, intersectionality, and the different forms of diversity within workgroups is necessary to harness the potential advantages of diversity while navigating its challenges.

### ***The upper echelons perspective***

Upper echelons theory may be defined as an approach to explaining social agency that advocates for analytical attention to “the biases and dispositions of [organisations’] most powerful actors” (Hambrick, 2007, p.334). The theory predicts that organisational outcomes (in this case the appointment of a diverse Remco) will reflect the orientation that members of dominant coalitions bring to their collective task (an elite, with value similarity). Such orientation, in turn, is influenced by these actors’ primary and/or secondary socialisation. Socialisation is a process of internalising social norms and ideals. Primary socialisation occurs during humans’ childhood development; secondary socialisation takes place over the course of their adult interactions in occupational and other formal, and informal, organisational settings. Arguably it also occurs through media, government and other social influences (Perkins and Shortland, 2024). Upper echelons theory (Hambrick, 2018; Hambrick and Mason, 1984) offers a lens through which to examine perceptions among social elites, such as those involved in the corporate governance of executive pay. The interplay of two complementary factors is core. Action by powerful individuals who act together with other

similarly empowered individuals from the same social networks (McPherson *et al.*, 2001), for example Remco members or institutional investors, is based on how they interpret operating contexts; and these personalised constructs are influenced by the social actors' experiences, personalities and values (Hambrick, 2018).

Diversity in organisational settings is not limited to demographic differences, nor is it limited to informational or value diversity (Zhou *et al.*, 2015) rather these forms of similarity interact with each other. Viewed through a predictive upper echelons lens applied to the elite social networks from which Remco members are drawn, it is envisaged that similarity stems from their shared prior corporate governance/Remco experience and informational knowledge bases, which, in turn, inform the similar values that Remco members bring to their interactions within this particular workgroup/team (Jehn *et al.*, 1999). Theoretically, one inference is that the quality of corporate problem-solving may be enhanced by expanding the diversity of Remco upper echelons not only by less homogeneity in members' immutable characteristics but also in terms of their knowledge, ideas and expertise (i.e. the cognitive and personal strengths codified for regulatory purposes), as sources of creativity, innovation and organisational efficiency (Yadav and Lenka, 2020).

Upper echelons theorising should not be adopted naively. Decision-makers may simply be "swept along by external forces and constrained by a host of conventions and norms" (Hambrick, 2007, p.335). As dominant coalitions, upper echelons may retain influence over the frames of reference by which, in practice, regulatory institutions are constituted and applied (Abatecola and Cristofaro, 2020; Perkins, 2017). Yet the authority vested in Remcos together with institutional investors in publicly listed corporations is not something upper echelons involved in executive pay determination may take for granted. In the final analysis, their authority is based on satisfying a multiplicity of stakeholders and in

ensuring that outcomes and processes comply with codified norms or being able to explain departure from them (FRC, 2018; FRC, 2020; Stathopoulos and Voulgaris, 2016).

## **Methodology**

This study is part of a wider qualitative research project examining the role and functioning of UK FTSE 100 Remcos (Perkins and Shortland, 2022, 2023; Shortland and Perkins 2023a, 2023b). We access the participant profile from Shortland and Perkins (2023b) (individuals who sit on, advise, and scrutinise the work of Remcos in large publicly quoted companies) but the unique data upon which this paper is based are drawn from a discrete set of interview questions and focus group discussion topics.

A qualitative research methodology was selected because this enabled understanding of rich word-based data with a semi-structured interview approach used so that a set of themes could be followed with latitude to vary the order of questioning and to follow up issues raised in context (Saunders *et al.*, 2007). The interview stage of the research was followed by three Human Resources (HR) reward specialist focus groups to triangulate understanding of diversity within Remco operations.

Those involved in executive pay determination may be described as “network stars” (Pettigrew, 1992, p.178), as they typically hold multiple boardroom appointments and have wide-ranging institutional connections. It is acknowledged that reaching the elite operating at board level is very difficult for academic researchers (Pettigrew and McNulty, 1995). Hence, we followed a snowball methodology, which involved members of the sample being asked if they could recommend others.

Although snowball sampling has a number of inherent research limitations including potentially leading to an unrepresentative and biased sample due to a potential lack of diversity (Bryman and Bell, 2007), the introductions gained via the snowball sampling offered considerable access advantages that otherwise would most likely have been

impossible if cold-calling had been employed. Our sample was representative of the profile of external actors involved in executive pay decision-making in FTSE 100 firms. The research began with one elite individual who was approached at a public event and agreed to participate and then recommended others who, in turn, did likewise. This provided us with access to 14 individuals (eight NEDs with Remco experience, three institutional investors and three external advisers) involved in Remco decision-making. (The 11 NEDs and institutional investors included one Lord, one Baroness, four Sirs, and one who held a doctorate. Of the 14 interviewees, 12 were men.) This first stage of the research was conducted pre-pandemic, with all but one of the interviews conducted face-to-face (one was carried out by telephone, due to the interviewee's schedule).

To address concerns of validity within data collection, triangulation of independent data sources was employed (Saunders *et al.*, 2007). Hence, the research study also drew upon the viewpoints of internal actors with input into executive pay determination, namely reward professionals within the HR function. Four HR senior reward specialists (three were men of whom one held a doctorate) considered also to be “network stars” (Pettigrew, 1992, p.178) through their board level executive remuneration understanding were thus approached to gain insight into the role played by internal corporate HR advisers. A convenience sampling approach was used for this group as by now we had entered a pandemic lockdown; all four HR interviews were carried out via Zoom.

Permission was sought at the start of the interview, and consent was given (and recorded) orally by all participants, that the interviews could be audio-recorded and transcribed. This was on the explicit basis that any quotations used would be anonymous. The semi-structured interviews ranged from 25-68 mins, averaging 44 mins. The themes addressed in the interviews followed those set out above in the literature review. Details of the semi-structured interview questions/prompts are given in Table 1.

## TABLE 1 HERE

The robustness of assembling data for qualitative research – seeking to understand how and why phenomena occur – is not to seek quantitatively generalisable analysis (Glaser and Strauss, 1999). Rather than applying tests to judge representativeness as required of a sample for statistical evaluation, qualitative interview-based research findings should be credible, resonant, and rich – to surface questions, provoke reflection and inform practice development (Faulkner and Trotter, 2017). A sense of saturation was arrived at when it was judged that no new information was emerging from the research process and when redundancy of the same findings began and continued during data analysis; as we worked through the interview transcripts the same concepts were emerging, thereby enabling us to end the programme of interviews (Guest *et al.*, 2006; Islam and Aldaihani, 2022).

Further triangulation took place by gathering data over the course of three focus groups, facilitated by one of the researchers, involving 10 other HR reward specialists (seven of whom were women) identified in dialogue with the Chartered Institute of Personnel and Development. Individuals were asked for their views on diversity and its implications within Remco operations; details are given in Table 1. The focus group members were employed in private and public sector organisations; all were specifically involved with operations in the UK and several represented multinational organisations. The focus groups were held during a pandemic lockdown via video conferencing, following a similar data protocol to that used in the semi-structured interviews.

A theoretical thematic analysis was conducted (Boyatzis, 1998) using NVivo qualitative analysis software. The content was analysed using Gioia methodology (Gioia *et al.*, 2013). This involved: analysis of “informant terms” (first-order concepts); grouping of these to generate a “theoretical level of themes” (second-order themes); and from these “aggregate dimensions” which linked to the research question (*ibid.*, p.20). The data structure

is represented graphically in Figure 1. To ensure replicability for further research, the detail underpinning these steps is given below.

#### FIGURE 1 HERE

A two-stage process was used. First, the audio files were transcribed to produce MS Word documents. One researcher highlighted these transcripts with coloured bars and added margin notes to identify potential informant terms. These were reviewed by the other who re-read the transcripts and agreed, added and/or revised them, so that potential first-order concepts could be determined and agreed by both researchers. The MS Word files were then imported into the qualitative analysis software, NVivo. Using this software, the highlighted sections of the text quotes were coded under the agreed first-order concepts and were given labels, recorded as NVivo nodes.

Nvivo has significant advantages over using MS Word in identifying potential expansion, overlap and/or duplication of themes through the creation of transparent and easily accessible data trees (Bryman and Bell, 2007). Researchers can easily undertake additional coding rounds to amend thematic hierarchies or collapse several codes such that the text attributed to them falls under fewer thematic nodes. Our second coding round identified areas of overlap so these were condensed to give the final first-order concepts depicted in Figure 1.

The second stage involved the linking of first-order concepts to develop second-order themes with the aim being “to draw forth the theoretical insights” (Gioia *et al.*, 2013, p.21). To do this, the researchers returned to the relevant diversity and executive pay literature/theory and applied this to the first-order concepts, leading to the generation of four second-order themes. Analysis of the findings in respect of these enabled the creation of two aggregate dimensions linked back to the research question.

Finally, the series of text quotations stored under each NVivo node was transferred back into MS Word documents under the appropriate label for easy access. The researchers then re-read the quotations to ensure that the quotes had been correctly classified. The number of sources who cited issues under each label, with the volume of references they made to them, were noted so that the importance of each could be determined, thereby guiding the presentation of quotations used within the findings. These counts are presented for each label, which is defined and listed under the appropriate second-order theme, in Table 2.

TABLE 2 HERE

### **Findings**

This section is informed by the perspectives of all the individual and focus group interviewees. First-order concepts helped code the interview data to analyse and illustrate the issues surrounding the interplay of diversity, Remcos and upper echelons distilled from the literature. The findings presented below are organised using the theoretically underpinned second-order themes. A diagrammatic summary of first-order concepts second-order themes and aggregate dimensions and their interconnections are presented in Figure 1. The findings are summarised and evaluated with the aggregate dimensions discussed in the Discussion section that follows. NEDs are tagged (NED#), institutional investors (II#), external advisers (ADV#) and HR specialists (HR#) (both interviewees and focus group participants). Quotations are tagged and numbered to differentiate participants and thus show the spread of views.

#### ***Social category/demographic diversity***

NEDs, institutional investors, HR and external advisers all acknowledged that board “diversity in terms of race or sex ... is helpful” (ADV#3) but did not believe that measures on the make-up of boards should be mandated:

“I’m the first to agree that boards are still a bit ‘pale, male and stale’. But you can’t just put in a few people who are different to you and hope things are going to work ... The easy way out is just to put in a few tokenistic appointments ... and obviously having a gender or ethnic minority representation ... it looks good doesn’t it from a PR perspective? But it doesn’t necessarily bring a diverse view.” (II#1)

Turning specifically to Remco leadership, NEDs’ view was that Remco chairs’ career histories needed to have involved occupying the most senior organisational roles. Interactions must have involved leading and managing in circumstances requiring communication of both negative and positive messages, and making judgement calls on individuals. The number of women whose prior board experience matched desired Remco backgrounds was therefore, by default, a moot point:

“I’m sure there are lots of women capable of being very good chairs of remuneration committees ... lots of impressive women [but] there still aren’t enough women who are getting to the more senior managerial roles in managing businesses.” (NED#8)

Notwithstanding this, some male NEDs suggested that having more women members could prove valuable in moderating executive pay outcomes, describing them as “more diligent than men, ... more conscientious” (NED#8), as “sticklers for detail” (NED#5), and with the perception that:

“Females are much less macho about paying on the whole. I mean they want people to be paid well but ... females ... exert an element of downward pressure. Or more caution about upward pressure.” (NED#6)

With respect to other aspects of demographic diversity, more radical thinking on the underlying experience to qualify for Remco membership was also called for if a greater balance in the age profile was to be achieved:

“Typically, they are ... aged 50+ ... in the interests of diversity, age is one component where maybe a younger person doesn’t necessarily have all the business experience but does still have a different perspective on life and societal obligations.” (HR#4)

To take forward their thinking on a younger Remco age profile, HR emphasised the need for a package of developmental support within the business. HR said that they could contribute to this through informal social encounters with executives and NEDs alike, providing informal coaching and challenge, as well as by acting as a conduit in NED selection.

HR noted that, although a more demographically diverse group could view problems through varied lenses enabling challenge to groupthink, they had to act in concert. So while protected characteristics of board/Remco composition could be demonstrated in terms of statistics if companies were under intensified public scrutiny, any actions taken to widen social category/demographic diversity needed to be relevant to the nature of the business and its operations at a particular point in time:

“So rather than look at the number in isolation, what is the company actively doing in terms of creating diversity and creating inclusion, in managing the talent agenda, to get a more balanced approach going forward?” (HR#4)

Hence, as stewards of customised company resourcing strategies, HR called for actions on board and Remco diversity to be located within a wider people development framework.

In summary, although interviewees welcomed the inclusion of individuals with protected characteristics, there was a sense that there were insufficient qualified candidates from minority groups to widen social category/demographic diversity in Remco appointments. Nonetheless, demographically diverse perspectives were acknowledged as potentially able to moderate excessive pay outcomes.

### ***Informational diversity***

All interviewee groups reported the value of experience (prior board, international and industry) to widening Remco diversity. NEDs said that people serving on Remcos (with Remco composition by default flowing from board composition) should create a relationship with the company that differed from that of executive post-holders. Individuals no longer approached such roles as career progression pathways; instead, they were there to invest accumulated board capability, proven during earlier career phases, enabling them to work with others to achieve organisational oversight:

“I’ve always believed it’s very important to select people who have no longer anything to prove ... you can remain a very diverse and inclusive board of people who have succeeded.” (NED#3)

HR advocated that NEDs should be deemed sufficiently developed in terms of both the capabilities they brought to their role and in the competence levels acquired while serving, if they were to qualify for appointment to a Remco given the scrutiny of decision-making. Thus, experience in doing the job was as important as intellectual and professional potential; individuals should not be considered as available to be swapped in and out at will:

“Somebody should be on the board for at least a year before they become appointed as the Remco chair ... to really understand the business.” (HR#4)

Notwithstanding the importance placed on prior board experience, participants said that soliciting a 360-degree array of views to inform the in-camera Remco meetings could be exceptionally valuable, but NEDs must remain accountable. Institutional investors and advisers suggested that having NEDs with varied experience-led viewpoints was the most important diversity consideration in executive pay decision-making:

“You have to get people from different backgrounds, different geographies, different sectors ... and different kinds of contributions.” (II#1)

“The best remuneration committee is one that has a diversity of experience, and that means ... also academics and ex-government people and nationalities from countries with more modest economies.” (ADV#3)

A balanced Remco was seen as comprised of individuals whose skill sets were diverse – someone from finance, another from marketing, etc. In respect of further widening Remco informational diversity, sourcing individuals from beyond the Anglosphere was viewed positively if the business needed to fill a gap reflecting all of its international territories. Members therefore might be drawn as locals from different countries and/or have had the experience of working as international assignees:

“We would want them to come from different industries and ... represent the firm across its different geographies ... having experienced either living and working abroad or certainly working for multinationals ... backgrounds varied in terms of culture, experience and professional.” (HR#1)

In summary, interviewees placed strong emphasis on informational diversity characterised by international, industry and prior board experiences. This interpretation of diversity was the preferred method of bringing different perspectives into executive pay decision-making, given the restrictions identified in increasing social category/demographic diversity.

### ***Social networks as a means to extend informational diversity***

The diversity of perspectives that could flow from Remco members from different social networks was acknowledged by all interviewee groups. For example:

“I was in a group ... and they all fed back that it was quite elitist, quite middle to upper class people making these decisions. That there wasn’t enough visibility of people from different social backgrounds.” (HR#7)

However, reservations surfaced about widening Remco resourcing pools further to include social network diversity. These included introducing individuals whose non-managerial backgrounds fell outside those rated essential for NED/Remco accountabilities.

There was concern to avoid dilution of finance capital representation:

“Executives and non-executives are there for one purpose only which is to serve the interests of shareholders, to serve the interests of the company. Therefore, serving the interests of specific factions is very much against the grain.” (NED#7)

Thus, in relation to the inclusion of employee representatives, it was suggested that the cohesion of the board/Remco could be adversely affected by introducing those whose social makeup differed from the NED norm:

“[Employee representation] would irritate the hell out of most boards and ... turning somebody into an insider doesn't actually help the people they think they are representing because the insider tends to understand too clearly what the issues are and agree with the procedures and ... conclusions.” (NED#7)

Institutional investors and advisers were also sceptical about the effects of widening social network diversity among Remco decision-makers so as to enhance informational input. Businesses might be disadvantaged following the introduction of individuals who regarded their voice as representing perceived constituencies. Altering board/Remco structures by introducing a diversity of social interests risked diluting the unitary focus on value creation. However, this might be countered through input from the HR function which could provide detailed knowledge of corporate direction and act as employee voice mediator.

NEDs' overwhelming rationale was that Remco members must have been socialised into a corporate level etiquette. Some suggested a personalised – rather than objective – basis for appointments, acknowledging that networks remained central to identification and selection of NEDs:

“I would rather ... somebody that I know, rather than somebody completely off the street. I don't see anything wrong with that.” (NED#7)

Voices whose values might be out of kilter with what NEDs considered appropriate for the accountability of executive pay decision-making were unwelcome:

“I don't think it's appropriate to have someone chairing a Remco who hasn't experienced the possibility of earning a lot of money.” (NED#3)

In respect of wealth, advisers also took it as read that Remcos would be drawn from elites. As such, it was unsurprising that value judgements around executive pay outcomes were a function of socialisation norms:

“They are privileged ... there's a ratchet that starts from a fairly high place relative to what people are used to. ... the people who are sitting around the table, signalling to each other that they are comfortable with dealing with these huge numbers.”

(ADV#1)

Advisers suggested that Remco members should reveal their true feelings in the face of the data and any expectations to consent to executive pay decisions that any reasonable person might question. Interviewees also suggested that to counter excessive reward outcomes, specialist advice might be complemented by taking soundings from other stakeholders so as to test the water for social acceptability in Remco outcomes.

In summary, Remco composition continues to be socially homogeneous because those involved in executive pay decision-making expect and accept that membership should be drawn from established social networks, with individuals having been socialised into a senior level corporate etiquette, having experience of personal wealth, and with their focus on the financial capital aspects of business outcomes. Employee representatives were therefore not considered as helpful to widen informational diversity. Notwithstanding this, it was

acknowledged that Remco decision-making might need inputs from other than standard NEDs – while not allowing dilution of decision-making authority itself.

### *Value diversity*

Finally, interviewees’ narratives revealed the importance that executive pay decision-makers and their advisers placed on consistency in the standards and priorities held by Remco members:

“So if you have a well-rounded and experienced and grown up committee, then they will take all the input but they will execute according to their beliefs on the specifics.”  
(NED#5)

Institutional investors focused their attention on their remit as limited by their legal responsibilities. While they noted that it was not for them to be mandating aspects of corporate governance beyond those reflecting shareholder interests, they acknowledged that reporting on board composition and related matters interacting with Remco work did raise questions around who was involved and the basis upon which Remco members interacted, with consequences for executive pay outcomes.

Advisers focused their attention on aligning individuals’ standards/priorities with those of the business, although it was judged important to understand life trajectory and hence the kinds of ingrained values individuals might bring to the NED/Remco role:

“We have a vision ... to bring in that diverse thinking, but ... past experiences make you who you are, but don’t define what you can be. ... Yes, using your experience. But not making that prejudice or taint decisions that you make.” (HR#9)

All respondents placed a particularly strong focus on the standards and priorities of Remco chairs due to their accountability for executive pay decision-making and any reward outcomes deemed as excessive. It was agreed that Remco chairs needed to be sufficiently self-confident in their own values to bring colleagues together for robust debate and

challenge, not algorithmic pay setting, and to articulate an accompanying narrative aligned to corporate diversity and sustainability goals:

“It’s very difficult ... to say how their experience can impact others. You really need the voice to come from the people who are impacted. That can be across ethnicity, disability, gender. Until you get the right people talking and everybody else listening, it’s very difficult to impact that culture.” (HR#5)

In summary, the standards and priorities of those involved in executive pay determination reflect sets of ingrained values that underpin the conduct of the Remco and its reward outcomes. With the necessary strong focus on effective governance aligned with regulatory requirements and recognition of accountability for decisions made, variation in value diversity among executive pay decision-makers was considered minimal and likely to remain so.

## **Discussion**

Corporate governance advocacy to increase diversity among those accountable for executive remuneration (FRC, 2018; FRC, 2020) focuses on factors like age, ethnicity, and gender (Li and Wearing, 2004). More inclusive diversity in corporate governance places the focus on collaborative, creative and innovative behaviours (Glass and Cook, 2017), recognising the role of experiential and knowledge diversity (Soobaroyen and Devi Mahadeo, 2012).

Assumptions that social category/demographic diversity will moderate decision-making and reduce executive pay excesses might be illusory (Ntim *et al.*, 2019). Glass cliffs (Ryan and Haslam, 2005) may influence the status quo, but pipeline deficiencies such as the relative paucity of women and other minorities in senior executive positions (Vinnicombe *et al.*, 2020) predominate. In serving the corporate shareholder driven mission, the UK differs from the European governance context. The inclusion of employee representatives (worker directors) has been seen as risking misfit from the earliest times when this approach was

mooted (Brua, 1973). As the UK's unitary board approach comprises NEDs who perform similar functions to supervisory boards in the two-tier European approach (Taufik and Oh, 2023), there is potential argument for redundancy in including employee representatives on Remcos. Notwithstanding this, the need for more varied insights to assist Remco decision-making, while limiting friction in terms of shared values (Jehn *et al.*, 1999), points to the importance of our study's findings.

### ***Summary and evaluation of our findings***

Our interviewees acknowledge the merits of social category diversity in corporate governance, rather than the potential for this to create increased relationship conflict (Jehn *et al.*, 1999). They particularly recognise the benefits of appointing more women to Remco roles which they feel can potentially help to moderate excessive executive pay outcomes (Harjoto *et al.*, 2015). Notwithstanding this, they are sceptical that mandating demographic quotas for Remcos goes beyond tokenism. In essence, participants explain that talent pipeline issues preclude Remcos from widening their current white, male demographic in the immediate future (Vinnicombe *et al.*, 2020). The FRC's (2023) consultation on the current UK Corporate Governance Code also recognises this potential lack of diverse demographic talent as an impediment to widening board/Remco diversity. Hence, while welcoming diversity targets, it suggests that these need to be related to company strategy. Thus, its focus is placed on strengthening the Code's provisions through greater diversity of skills and experience, rather than relying on widening the demographic profile.

To counter groupthink arising from demographic 'sameness' there is support amongst our interviewees for examining Remco composition processes with a focus on candidates' functional experience and know-how, and their contribution to organisational value creation. So although increasing social category/demographic diversity within Remco membership is welcomed, given the limitations on this, our interviewees favour increasing informational

diversity (Jehn *et al.*, 1999). They suggest members are drawn from different functional, industrial, career and geographical backgrounds. Such informational diversity can enable Remcos to bring forth new perspectives better able to offer challenge. By reflecting varied organisational cultures this can potentially help to moderate executive pay excesses. This view aligns with Jehn *et al.*'s (1999) research that informational diversity aids team effectiveness.

Our findings suggest that emphasis on greater international diversity within Remco membership may be one route to reducing ethnocentricity. Pipeline talent deficiencies may be addressed and cultural knowledge expanded by sourcing members with experience of living and working abroad – the most senior expatriates – although it must be recognised that these are typically men (Shortland and Perkins, 2020), Western in origin (Fechter and Walsh, 2010), and thus unlikely to contribute to increasing social category/demographic diversity.

Our interviewees place strong focus on effective governance, accountability and regulatory requirements favouring the status quo in respect of maintaining low value diversity. They believe that Remcos should comprise people with complementary, proven capabilities whose capacity for independence is derived from no longer being on an executive career trajectory but who have, through experience, been socialised into ways of working as part of a group with shared standards, priorities and accountabilities at this corporate level. This view aligns with Jehn *et al.*'s (1999) finding that low value diversity is beneficial for team performance.

Executive pay decision-makers do not welcome the inclusion of worker representation as this dilutes Remco accountability and its unitary nature (Shortland and Perkins, 2023b). Extending this research, we find that introducing employee representatives as a means of including different social networks as part of informational diversity is considered to be counter-productive. Blending upper echelons with social actors who lack experience of

wealth and who serve interests beyond the shareholder community risks disrupting Remco team cohesion, distracting it from its task, and creating disorder. Even if employee representatives are appointed, there is the danger of them ceasing to be a worker voice channel once they understand the shareholder imperative. Interviewees thus suggest that without altering Remco appointments and hence its elite composition, widened stakeholder insights about executive pay regulation can be secured through employee briefings, or by Remco members interacting with people across the business whose remuneration is more modest than among upper echelons. So, to counter ‘sameness’ in committee members’ socialisation, the interviewees suggest drawing upon HR specialists who can act as a conduit for a more diverse range of voices from different social networks in executive pay determination.

Evaluation of our findings leads us to summarise the two aggregate dimensions in Figure 1 and thereby answer our research question. Social category/demographic diversity is welcomed by Remco members; they believe that appointing Remco members with protected characteristics can bring a beneficial influence to bear on executive pay outcomes. However, to ensure smooth Remco functioning and task completion, candidates must share value similarity with current Remco members. Given the relative paucity of suitable candidates who can bring social category diversity while meeting the conditions of value similarity required, informational diversity is articulated as the preferred method for increasing Remco diversity. Informational diversity bringing in diverse functional, industry, career and geographical perspectives is sought for Remco appointments as a proxy for social category diversity but members must still meet requirements for value similarity. To widen informational diversity further – but without altering Remco composition by introducing appointees from different social networks such as employee representatives (and thereby potentially disrupting smooth process) – members receive information from discussion with

actors such as the HR function. HR thereby acts as a proxy for social network informational diversity flowing from employees and their representatives but, as neither HR nor the employee representatives sit on the Remco, team functioning is not disrupted nor is the Remco's decision-making authority diluted.

### ***Implications for theory***

Notions of diversity distilled from our respondents' interviews suggest the benefit of paying attention to upper echelons theory in the context of Remco decision-making. Corporate governance bodies, by definition, require upper echelons experience and skills sets and so are likely to maintain low value diversity. In the context of Remco governance, the upper echelons perspective risks perpetuation of excessive executive pay (Hambrick, 2007) as a trade-off for enhanced performance through effective and efficient actions (Jehn *et al.*, 1999). However, rather than diluting Remco upper echelons membership by appointing people from alternative social networks who are unlikely to bring value similarity, NEDs may grasp these actors' viewpoints via informational diversity from outside of the committee's appointed membership in an effort to reach balanced decisions on executive pay outcomes. Upper echelons thinking continues to drive executive pay decisions although at least it might be argued that these decisions have been reflective of – and potentially moderated by – different, diverse views. Reasoning in this way extends the application of upper echelons theory to frame interpretation of empirically observable approaches to meeting diversity expectations applied to Remcos in codified corporate governance regulations. In the context of executive pay decision-making, in our analysis, upper echelons theorising predicts why Remco members welcome social category and certain aspects of informational diversity (such as different geographical and industry sector perspectives) within their inner circle but approach this in ways they believe will avoid diluting value similarity.

### ***Implications for practice***

Given Remco members' reservations about the limited potential for increasing social category and value diversity, but with FRC (2023) emphasis on strengthening provisions to support diversity of skills and experience on boards and Remcos, attention must be paid, in particular, to boosting informational diversity. HR might therefore revisit the characteristics sought when appointing to executive pay determination bodies, placing greater weight on candidates' task/informational attributes and international experience, coupling these desired attributes with developmental action plans to ensure individuals are readied to apply varied perspectives consistent with corporate strategy in their Remco duties. In addition, HR practitioners might build upon formal and informal employee interactions to brief Remco members, thereby offering an alternative to an exclusively upper echelons value set. HR also might lobby to gain access to briefings with investors enabling similar feeding-in of perspectives to augment standards against which to review Remco outcomes.

### **Limitations and future research**

Although our sample may be considered limited both in terms of size and the elite social nature of its composition, it comprises high profile individuals who, by virtue of their networks of influence within the corporate and regulatory world, have the capacity to surface insights that may be generalised to theory. Findings reveal the emphasis placed on informational diversity both in widening the diversity of committee membership, given the lack of social category/demographic diversity, and as a source of alternate views to address value similarity. Further research can explore how informational diversity within Remcos affects executive pay decision-making and whether it has potential to address criticism of excessive remuneration outcomes bearing in mind the relative absence of other forms of diversity in Remco composition. Research that considers intersectionality, such as the contribution of BAME women, sexual minorities and those of different age profiles, can also further our understanding of how minorities may influence executive pay setting.

## **Concluding remarks**

Collective interpretation of executive pay determination points in the direction of maintaining upper echelons membership but for this to be combined with diversity goals conditional upon serving the corporate purpose. High informational diversity can prioritise the interests of a business through skilful coordination of functional know-how, transnational value embeddedness, and being subjectively familiar with a variety of diverse views applied to recognition of strategic management roles. Notwithstanding this, if there is a mismatch between the requirements for a certain mix of informational capabilities and the upper echelons actors involved then, irrespective of its input, less than satisfactory outcomes may emerge.

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## **Appendix 1: Remcos, company boards and the actors in executive pay decision-making**

- Corporate boards in the UK comprise the directors of the company – office holders under the Companies Act (2006) ([legislation.gov.uk](http://legislation.gov.uk), 2006). The directors are a mixture of full-time executives and part-time non-executive directors (NEDs) who, according to corporate governance best practice, should be in the majority.
- Executive directors on company boards are also employees. This means they have two contracts – a contract of service (an employment contract, paid via internal payroll) and a contract for service as an office holder. All corporate board directors are statutorily accountable to shareholders under the Companies Act, 2006.
- NEDs are external/outside part-time office holders. They have only one contract, a contract for service, are paid a fee, and are also statutorily accountable to the shareholders under the Companies Act, 2006.
- Executives report to the company’s Chief Executive Officer (CEO) through the internal line of responsibility. Executives who hold the office of a Companies Act (2006) Director in that capacity also report to the corporate board chair – typically a part-time non-executive.
- Corporate board office holders are accountable to the Annual General Meeting (AGM) of shareholders and are subject to annual re-election (FRC, 2018).
- While this unitary board model predominates in Anglo Saxon jurisdictions, in mainland Europe, for example, so-called two-tier boards – a supervisory and management board –are favoured. Stakeholders such as employee representatives may serve on the supervisory board.

- Under the UK Corporate Governance Code (FRC, 2018), the Remco determines the pay of executive directors, who are ineligible to participate in Remco decision-making.
- The Remco is a separate committee of the board and comprises external/outside part-time NED office holders only.
- One of the NEDs is appointed to chair the Remco, rather than the corporate board chair.
- Remco decision-taking is separate from the corporate board but the complexity – and controversy – comes around the question of when the corporate board is invited to endorse the Remco’s decisions. In effect, all those who are Companies Act (2006) Directors sanction their own pay, but the principle is that they will not seek to over-ride decisions made by the exclusively NED-populated Remco.
- The Remco produces a separate report which is normally a section of the company annual report and accounts presented to the AGM and subject to shareholder voting.
- External pay consultants attend Remcos and provide advice but will not be Remco members. HR/reward specialists employed by the company will often also attend and provide input, co-ordinated with the Company Secretary but not be Remco members. Internal HR may work with the external pay consultants in drafting the Remco report, normally working directly with the Remco chair.
- Institutional investors are precluded by law from formally participating in corporate board decisions to avoid the risk of insider trading. Under the UK Stewardship Code (FRC, 2020) investors are accountable to scrutinise executive pay policy as well as its application. Their sanction, if dissatisfied, may be to oppose re-election of the Remco chair and/or the Remco report.

**Table 1: Semi-structured interview questions/prompts**

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***Introduction***

All interviewees/focus groups:

- Personal perceptions of executive pay determination and role of diversity management. Check/agree participant listing/recording/transcribing.

***The role of Remcos and their significance in executive pay decision-making***

NEDs/institutional investors/external advisers:

- Main issues today?
- How do NEDs interact with one another in Remco work? And with advisers/investors? Getting the right information/advice?
- Factors involved in interpreting information received/decisions flowing from it? What part might perceived fairness play?

HR interviewees:

- HR's role in providing advice?

***Diversity in Remcos***

NEDs/institutional investors/external advisers:

- What does diversity involve in Remco processes/decision-making?
- What about the demographic character of executive pay decision-makers?
- What about culturally-derived norms/values framing individual/group action within decision-making/outcomes?

HR interviewees:

- Views on Remco composition?
- Who do HR interact with/stakeholder groups on Remcos?

HR focus groups:

- How is organisational culture managed internationally in terms of executive pay processes?

***Why diversity is relevant to executive pay decision-making***

NEDs/institutional investors/external advisers:

- How do the Remco's internal composition/external people affect executive pay decision-making?
- Public perceptions of social acceptability of executive pay levels/influence?
- Your perceptions of executive pay levels?
- Decision-maker diversity/impact on executive pay outcomes?

HR interviewees/focus groups:

- What/how do diversity factors influence decision-makers' thinking/benchmarks?

***Upper echelons***

NEDs/institutional investors/external advisers:

- Implications of socialisation on processes/outcomes of executive pay determination?
- Changes needed to the type of people involved in setting executive rewards?

HR interviewees/focus groups:

- Backgrounds/values/socialisation that people bring as Remco members? Effect on mind-sets on decisions about what seems fair/equitable?
  - Examples of fairness/justice around reward decisions/outcomes?
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**Table 2: Definitions of first-order concepts grouped under second-order themes**

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***Social category/demographic diversity***

**Board diversity** (15S, 29R) = Board minority representation

**Board ethnicity** (1S, 1R) = Ethnic minority board representation

**Board women** (3S, 4R) = Female representation on company boards

**Remco diversity** (19S, 37R) = Remco minority representation

**Remco women** (4S, 5R) = Female representation on Remcos

***Informational diversity***

**Board geography** (3S, 3R) = Board representation by people from different countries

**Board industry** (2S, 2R) = Board representation by people from different industries

**Prior board experience** (6S, 10R) = Remco representation by people with breadth/depth of board experience

**Remco geography** (2S, 2R) = Remco representation by people from different countries

**Remco industry** (2S, 3R) = Remco representation by people from different industries

***Social networks as input to informational diversity***

**Board employee representatives** (7S, 13R) = Board representation by employees

**Remco class** (4S, 4R) = Remco representation by different socio-economic groups

**Remco employee representatives** (8S, 14R) = Remco representation by employees

**Remco wealth** (3S, 3R) = Remco representation by high earning individuals

***Value diversity***

**Board governance** (5S, 5R) = Standards/priorities held by Board members

**Remco governance** (6S, 9R) = Standards/priorities held by Remco members

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**Footnote:**

S = number of sources citing issue; R = number of references to issue.

**Figure 1: Data structure**

