The social construction of executive pay: governance processes and institutional isomorphism

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Abstract

Purpose

The purpose of this paper is to explore the social construction of executive pay in the UK via an examination of narratives drawn from the social actors on the front-line of Key Management Personnel (KMP) pay determination.

Design/methodology/approach

Our qualitative research draws upon in-depth interviews with non-executive directors serving on remuneration committees, institutional investors, and independent pay consultants.

Findings

Regulation, market pricing and risk mitigation together with the social processes inherent within discharging corporate governance responsibilities create a status-quo-preserving isomorphic effect, restricting context-sensitive approaches to KMP pay determination.

Practical implications

The paper informs action by company directors, investors and policy makers to address KMP pay controversies, building shared accountability among decision-makers focused on more strategic context-aligned processes and outcomes.

Originality

Our analysis illustrates how institutional isomorphism can be applied to analyse social actors' interpretations within KMP pay decision-making. We show that normative, coercive and mimetic isomorphic forces must be applied in dynamic interaction to extend the explanatory power of institutional isomorphism through the creation of a "No-Come-In" effect in respect of contemporary KMP pay determination settings.

Keywords: Corporate governance; executive pay; institutional isomorphism; interactive processes; social construction

Article classification: Research article

Introduction

Financial Reporting Standard 102 designates CEOs and other company board executives as key management personnel (KMP): individuals with authority and responsibility for planning, directing and controlling the activities of a corporate entity (FRC, 2015). Decision-making on KMP pay is a priority for every firm (Edmans *et al.*, 2021). Corporate governance principles state that design of associated policies and practices ought to enable the firm's long-term strategy to be enacted (FRC, 2018).

The role of KMP pay in pursuit of organisational effectiveness is contested (e.g., Aggarwal, 2008; Frydman and Jenter, 2010; Pepper and Gore, 2015). Its roots in the scholarly literature reach back as far as the first quarter of the 20th century (Taussig and Barker, 1925), and it continues receiving more attention than most other routine corporate decisions (Edmans *et al.*, 2021). Interest ranges across a spectrum from functional concern with the attraction, retention and motivation of KMP and the interrelationship of their pay with internal equity, to corporate performance controversies and public perceptions of the legitimacy of big business in society (Safwat, 2015). Notions of "injustice" and "deservingness" in KMP pay evaluation exist in the eye of the beholder (Cannella and Sy, 2018, p.92). Excessive KMP pay levels "undermine public trust in business, contribute to economic inequality and represent failings in corporate governance and shareholder stewardship [while doing] little to improve business performance" (CIPD, 2019, p.3). It takes less than four full working days for the median FTSE 100 CEO's earnings to surpass the median wage for a full-time worker over an entire year (Churchill, 2022). As inflation increases, energy prices rise and the poorest members of society face the dilemma of eat or heat their homes (ONS, 2022), the disparity between those on the lowest and highest incomes attracts public condemnation. How KMP pay is determined is thus a critical issue for academic scrutiny, focusing on the capacity of the social actors involved to reflect critically on both the economic benchmarks and moral values anchoring KMP pay determination processes and reported outcomes.

Determination of KMP pay is delegated to corporate board Remuneration Committees (Remcos) (FRC, 2018)[1]. The standard assumption of a single principal - a shareholder-aligned board - does not capture the complexity of processes delegated to Remcos. The opposite assumption of the board acquiescing in KMP efforts to extract economic rents through maximising pay irrespective of value delivered to investors is also deemed "unrealistic" (Edmans *et al*., 2021, p.48). KMP pay-setting may reflect the need for KMP to receive social recognition not just as the means to finance their economic consumption activities, with the Remco acknowledging the need to demonstrate shareholder value maximisation, but also to position the role of KMP pay to secure shareholder approval mindful that they may have different goals and perspectives (Edmans *et al*., 2021). Judged as an important social measure (Conyon, 2018), poor corporate governance on the part of decision-makers may correlate with KMP pay outcomes that violate reasonable norms of fair distribution of rewards from employment at the various levels of an organisation (Aguinis *et al*., 2018). When accounting for the idiosyncratically motivated and socially embedded nature of KMP pay (Hitt and Haynes, 2018; Wiseman and Faqihi, 2018), its complex, multifaceted difficult to broadly characterise nature (Wowak *et al*., 2018) and the risk and uncertainties surrounding KMP hiring and firing decision outcomes (Wright and Nyberg, 2018) from complementary KMP pay processes overseen by Remcos may be judged not only unjust but also inefficient. Notwithstanding this, it is important that analysis takes into consideration changes in pay levels and mix over KMPs' tenure (Ledford and Lawler, 2018). In addition, the practical challenges that Remcos face mean that KMP winners and losers are more a function of hard-wired historically-embedded institutional forces than objective deservedness

[1] An explanation of Remco structure, its relationship to company boards and the roles of personnel involved is given in Appendix 1.

through applied agency (Aguinis *et al*., 2018). Individuals may benefit from "ultra-grand pay packages at the outset of their tenures, and nothing - including mediocre performance - brings about subsequent diminishment of those sweet terms" (Hambrick, 2018, p.32).

Corporate governance evolution in the UK has widened the net over those expected to participate in controlling KMP pay decision-making (FRC, 2020; Stathopoulos and Voulgaris, 2016). A legal onus has been placed on shareholders (legislation.gov.uk, 2002) to signify their approval of KMP pay policy and its application by Remcos through a Say-on-Pay (SOP) vote associated with companies' annual report and accounts (Ferri and Maber, 2009). In 2013, legislation was introduced in the UK to strengthen its impact: the Enterprise and Regulatory Reform Act (Department for Business Innovation and Skills, 2013) made SOP voting binding, rather than advisory. Shareholders can block a proposed KMP pay package (Lozano-Reina and Sánchez-Marín, 2020). The SOP initiative has been linked to the public outcry regarding large increases in executive compensation, lack of transparency and the weak pay-for-performance alignment (Conyon and Sadler, 2010). As a new means of shareholder voice expression, the espoused intent is improved corporate governance via greater transparency; effectiveness is mainly defined as the ability of SOP voting to align KMP pay with shareholders' interest (Lozano-Reina and Sánchez-Marín, 2020). Institutional investors who manage 90% of UK stock market listed share portfolios (Çelik and Isaksson, 2014) represent the primary manifestation of shareholder voice in the enactment of SOP voting on Remco KMP pay decisions. KMP pay "is arguably the decision on which company investors have the greatest influence … and thus an interesting setting to compare their views with directors" (Edmans *et al*., 2021, p.7). Accounting for the impact of institutional investors on Remco decision-making processes provides a route for research to incorporate dynamics in shareholder voting and potential resistance to it (Stathopoulos and Voulgaris, 2016).

The ontological premise of this paper is that organisations and codified criteria intended to achieve corporate control through oversight of the performance and reward of the people who lead them are socially constructed. Our investigation may be contextualised by an emphasis going beyond state-of-the-art literature to pay attention to assumptions about what pay may be represented to be, and the criteria for justifying associated processes and outcomes. These factors may, in turn, influence the ways in which top pay decision-makers and those they interact with consider the roles being played and their legitimacy or otherwise in enactment. Epistemologically, empirical research will benefit from data that illustrate "processes of social interaction observable in organisational settings under human-created governance standards" (Perkins, 2017, p.77). To position the regulation of KMP pay as if it is a variable with an essential, objective character that corporate governance decision-makers need to deal with potentially leads to flawed analysis, as to do so underestimates the extent to which contexts and elements involved in KMP pay are actively constructed by the decision-makers involved. Corporate governance institutions and processes, including the character of KMP determination, are socially constructed by the actors who populate and enact them, the process itself, and the legitimisation of particular forms of action: or, to put it another way, "we might begin to consider not what is the situation but how it is situated" (Grint, 2005, p.1471). Facts may thus be viewed as contending accounts of reality and, since such construction is through the social phenomenon of language, the constructions prevailing in any temporal-spatial setting relate to the temporary ability by certain groups of social actors to persuade themselves and others of the factors in play.

Extant research falls short regarding company directors' behavioural processes and their effects (Roberts *et al*., 2005), underscored by a lack of evidence on what influences behind-closed-doors decision-making (Liu and Taylor, 2008) and on Remco members' competence and motivation (Zattoni and Cuomo, 2010). Given their codified accountabilities

(FRC, 2020) attention is needed to the thinking of Remco members and institutional investors regarding reputational risks given intense public scrutiny. Considering environmental influences on KMP pay decision-makers' discretion (Finkelstein and Hambrick, 1990) helps locate Remco processes in their social contexts (Perkins and Hendry, 2005). Reflecting an assumption that organisations prefer certainty and stability (Pfeffer and Salancik, 2003), Ogden and Watson (2012) draw attention to how Remcos' decision-making reflects conflicting social pressures. Concerns about competition to recruit and retain KMP resources on which an organisation depends, by reference to external pay benchmarks, may overwhelm Remco members' sense of reserve when setting KMP pay; as a result they act to guard their own reputations against shareholders' and others' outrage (Bebchuk and Fried, 2003).

Moving beyond evaluation of statistics derived from mining public databases informing the over a quarter of a million studies examining decoupling KMP pay and firm performance (Walsh *et al*., 2018), the context for this paper is to understand the wider range of variables influencing thinking among Remcos and institutional investors in attempts to align KMP pay and performance. Our aim is to understand what can be learned from what the social actors accountable for KMP pay decision-making (FRC, 2018; FRC, 2020) say about what they do. We take up the call by Perkins (2017) in this journal for empirical research into the social construction of executive pay in the UK through the following research question:

- ❖ What themes can be discerned from the narratives articulated by KMP pay decision-makers and their consultants to explain Remco actions and thereby inform our understanding of the social construction of executive pay?

Rather than being influenced by "undue fascination with excess or as romanticization of corporate elites", our probing of issues surrounding KMP pay makes a contribution to the literature calling for "light on how others, especially corporate boards, perceive and make judgments about corporate leaders … [phenomena] of central interest to management and organizations scholars" (Hambrick, 2018, pp.32-33). We take up Ogden and Watson's (2012, p.516) encouragement "to have more qualitative studies of the dynamics of how individual Remcos seek to manage their environments and how, in turn, their decisions help to construct the environments that confront other Remcos if we are to understand the problems of ever-increasing executive pay". We conducted interviews with UK-based Remco members i.e., non-executive directors (NEDs) on large corporate boards, specialist remuneration consultants who advise them, and institutional investors, representing shareholders. Engaging qualitatively with the narrative accounts of a sample of key actors involved in KMP pay regulation contributes to the literature distinctively, complementing standard models for analysing this research topic.

Consistent with its ontology and epistemology, our paper applies and extends neo-institutional theory, specifically institutional isomorphism (DiMaggio and Powell, 1983; Krajnović, 2018), as the basis upon which to frame and interpret the phenomena under investigation. Analysis of narrative data, assembled from dialogue with individuals who are on the front-line of KMP pay decision-making, enables us to make a "No-Come-In" theoretical contribution. It illustrates how institutional isomorphism can be applied as a lens to analyse executive pay decision-making (a) to account for social actors' interpretation and (b) to recognise that DiMaggio and Powell's (1983) framework (discussed in the next section) needs development to extend the explanatory power of institutional isomorphism in respect of KMP pay determination.

One reason for drawing on data assembled from a UK-based sample is that the UK has been at the forefront in codifying corporate governance regulation, beginning with the findings of a commission established by the City of London's financial investment community published in the early 1990s (Cadbury, 1992). Given its provenance, both temporally and by association with the "City grandee" status (Pinsent Masons, 2007, p.0) of its eponymous author, its provisions have been used as a benchmark for 30 years of corporate governance norms spreading out across business operations internationally, for example, via the OECD Principles of Corporate Governance with its widespread influence (FRC, 2012), including on practices in the USA adopted by the NYSE and Nasdaq (Rust, 2017). Furthermore, following its introduction in the UK, several other countries have introduced legislation similar to SOP, including the USA, Australia, the Netherlands, Norway, Switzerland, and Sweden. The longer-term implications of SOP remain an open question, however. Caution is needed before assuming homogeneity across institutional investors, in terms of their interests, their expectations from firms, and their characteristics, and as to whether Remcos' socially constructed responses are "systematic or selective" (Lozano-Reina and Sánchez-Marín, 2020, p.11).

The institutional context for corporate governance and executive pay

The separation of company ownership and control ultimately requires accountability to dispersed shareholders (Berle and Means, 1932). The Corporate Governance Code applicable since 1 January 2019 to large companies with dispersed shareholdings embraces decision-making in respect of KMP pay; Remcos are expected to meet the Code's requirements or else explain departures from them (FRC, 2018). Academic debate has focused on remedying the perceived misapplication of KMP power (Coase, 1937; Pfeffer and Salancik, 1977). Attempts to reduce the risk of economic rent-seeking disconnected from performance have not necessarily aimed to reduce pay levels but instead to offer KMP financial incentives to align their interests with investors (Jensen and Meckling, 1976; Main *et al*., 2008). The idea was to increase the significance of equity holdings in the composition of KMP pay, synchronising financial returns to shareholders with changes in KMP capital wealth from the grant of company shares and options (Nyberg *et al*., 2010). However, incentive programme outcomes have been criticised (e.g., Jensen *et al*., 2004). Evidence illustrates the prevalence of mimicry over-riding bespoke indicators to measure KMP performance (Zakaria, 2012) and, as Remco members' and dispersed shareholders' knowledge about economic value-creating capacity is less than that of KMP inside the business, this limits capacity to scrutinise the application of managerial discretion (Padia and Callaghan, 2020). Dialogue in Remco reporting exemplifies regulatory codification intended to govern practice (Crombie, 2009). Nonetheless, the process does not function in a vacuum (Hart, 1995). Paying attention to institutional contingencies may act as a theoretical corrective (Filatotchev and Allcock, 2017): KMP performance may impact positively on "shareholder value" if controls are introduced to account for "specifics of the [corporate] setting" (Edmans and Gabaix, 2016, p.1233).

Application of neo-institutional theory illuminates the social construction of executive pay decision-making, rather than assuming context-free rational judgement based on objective data (Bender, 2003) relying on published quantitative indicators. To address the allegation of mimicry over independent evaluation (Zakaria, 2012), attention is needed to the implications of peer benchmarking feeding into KMP pay decision-making interactions involving specialist consultants (Conyon *et al*., 2019; Skovoroda and Bruce, 2017). Processes associated with codified corporate governance also may not sufficiently emphasise Remcos' social responsibility, extending beyond financial investors (Jain and Zaman, 2020).

Rather than manifesting itself overtly, managerial power in relation to Remcos may be viewed as latent where KMP convince decision-makers that recruitment and retention of KMP requires ongoing upward adjustment of pay levels, institutionalising a ratcheting effect (Ogden and Watson, 2012). In this regard "pay consultants may be centrally implicated in facilitating CEOs' attempts to achieve overly generous pay settlements" (Ogden and Watson, 2012, p.502), as corporate governance codification has mandated the appointment of specialist consultants as advisors to NEDs independent of internal executive management (Armstrong *et al.*, 2012). Remco members are to exercise independent judgement when authorising KMP pay, taking account of company and individual performance, and wider circumstances (Saati and Peniwati, 2013). Yet to understand dependency on pay consultants means that decisions need to be situated within a consultant-constructed climate (Ogden and Watson, 2012). This exemplifies the social construction of KMP pay within institutional structures that institute dependency on professional sources of understanding, thus leading to a balance of considerations to be assessed within which protagonists may seek to legitimise certain outcomes and delegitimise others. Hence, while Remcos may be diligent in resisting capture by management, they are open to a form of intellectual capture from independent sources who service the entire class of top pay regulators institutionalised via corporate governance processes.

Building on this line of reasoning while extending specificities associated with power dependency (Ogden and Watson, 2012; Pfeffer and Salancik, 2003), the notion of institutional isomorphism (DiMaggio and Powell, 1983) offers a starting point to theorise the politics and ceremony of processes enacted through in-camera interaction between those accountable for designing and sanctioning KMP pay decision-making as they learn to respond to their environments and adjust their behaviour in pursuit of influence and legitimacy for their actions. It has been argued that organisations primarily must take into account other organisations (Aldrich, 1979). In that vein, DiMaggio and Powell (1983) identify three mechanisms through which institutional change occurs, each with its own antecedents: coercive isomorphism; mimetic isomorphism; and normative isomorphism.

Coercive isomorphism that stems from political influence, formal and/or informal inter-organisational pressures especially where there is a relationship of dependency (Pfeffer and Salacik, 2003) and from socio-cultural expectations, may be viewed writ large in the breadth and depth of corporate governance regulatory requirements. Mimetic isomorphism manifests in standardised responses to uncertainty. Regulatory mandates to disclose KMP pay arrangements, for example, may encourage decision-makers to mimic others rather than risk reputational damage by sanctioning unique forms of KMP pay and related incentives. Normative isomorphism is relevant to the socially interactive processes associated with KMP pay decision-making. Its primary source is professionalisation. Remco responses to codified norms requiring them to secure specialist advice introduce the notion of market forces benchmarking in respect of KMP pay mediated via pay consultants working across sectors (Ogden and Watson, 2012; Sahakiants *et al*., 2016), encouraging isomorphic KMP pay design as common models diffuse through the elaboration of professional networks that span organisations (DiMaggio and Powell, 1983).

Exercising caution about reifying social structure (Sayer, 1999), and mindful of criticism of reducing the task of organisational analysis to exploring institutionalised constraints alone (Reed, 2003), lead us to consider that the explanatory power of an institutional isomorphic lens requires attention to decision-makers' interpretation of their role as they seek to be consistent with socially constructed norms and to the interplay of the sub-dimensions of institutional isomorphism (Krajnović, 2018). This leads us to propose that empirically grounded theory development to understand KMP pay decision-making will usefully be informed by rich description of subjective accounts from those creating and living with KMP pay outcomes (Shah and Corley, 2006) – namely Remco decision-makers, consultants and institutional investors.

Method

Decision-makers and the specialist KMP pay consultants who advise them seldom speak publicly about their roles, influence, accountabilities and discretion in determining KMP pay, and the external influences governing/guiding their operations. This research explores these private dynamics by examining the frameworks, relationships and processes that feed into KMP pay decision-making before its outcomes are disclosed.

In qualitative research, snowball sampling is recognised as having various limitations: the sample is potentially unrepresentative of the population (Bryman and Bell, 2007) and can be biased when respondents identify similar individuals (Saunders *et al*., 2007). However, in the case of board level research, snowball sampling offers advantages: access to elite members is best achieved through other elite individuals (Pettigrew and McNulty, 1995). Our snowball sample included representation from eight Remco members/chairs, three institutional investors, and three external specialist executive pay advisors who input directly into Remco discussions (Table 1). Thirteen semi-structured interviews were conducted with these 14 participants (two participants were interviewed together). Interviewee classification reflected the participants' view of their current Remco input. We were given permission to list our participants and give brief descriptors, but cite them anonymously.

Insert Table 1

With respect to the mechanics of the snowball sampling undertaken, this began with Lord Browne who was approached at a public event and agreed to be interviewed. He suggested further contacts, each of whom were approached for an interview. At the end of each interview, each participant was asked to suggest further relevant contacts and so the snowball process continued. The valuable contribution played by interviewees' PAs in facilitating these introductions must be acknowledged in legitimising researcher access to the most senior people which otherwise would have most likely been refused if cold-calling had been required.

The diversity of expertise in various research fields means that defence of the soundness of qualitative findings is needed, not only because doing so is good research practice, but also to guard against the risk that some reviewers may erroneously apply quantitative criteria to evaluate qualitative methods (LaDonna *et al*., 2021). Qualitative interview-based research findings should not be assessed against the criteria of being valid, reliable, or representative in a similar manner to statistically-orientated evaluation of research hypotheses. Instead, they should be credible, resonant, and rich so as to surface questions, provoke reflection and inform practice development and evaluation in settings beyond the research context (Faulkner and Trotter, 2017). A qualitative dataset should have sufficient depth to inform analysis to identify recurrent thematic patterns and sufficient breadth to account for discrepant examples (LaDonna *et al*., 2021).

Combining the concepts of data saturation and informational power (LaDonna *et al*., 2021; Malterud *et al*., 2016) helped justify the size of our interviewee sample. The methodological principle of saturation was used to determine when there was adequate data to develop a robust and valid understanding of the phenomenon being investigated. We accepted that discovering the emergence of the similar themes in later interviews enabled us to cease data collection (Islam *et al*., 2022) with sufficiency achieved through analytical rigour and data richness (Malterud *et al*., 2016). Informational power offered a complementary means to justify our saturation decision systematically, it being derived from the quality of the interview dialogue: the skill of the interviewer, the articulateness of the interviewees, and the chemistry between them, producing strong and clear communication between researcher and participant. These factors were high, so the process required relatively few participants to offer sufficient informational power compared to a study with unfocused dialogue (Faulkner and Trotter, 2017). In our research, the interviews systematically teased out the social construction of KMP pay against institutional norms and values discernible in interviewees' own words, with data co-constructed through interaction between researcher and participant.

Our sample comprised "network stars" (Pettigrew, 1992, p.178). They held multiple boardroom appointments, had varied experience of industry, regulatory and capital investment organisations, and thus punched above their weight as decision-makers in terms of their impact on corporate governance generally and KMP pay outcomes in particular. They also acted as agenda shapers through their high profiles, interconnections, and links with significant social institutions. While we recognise that the selection of such very experienced interviewees, while illuminating current practice, may result in a bias towards maintaining the status quo and could be deemed isomorphic in itself, nonetheless what they have to say may be taken as representative of current norms and values grounded in experience of being in the corporate governance milieu of major business institutions.

One of the researchers with considerable personal Remco member expertise carried out all the semi-structured interviews which ranged from 30-68 minutes, averaging 49 minutes. These were conducted by telephone or face-to-face as determined by the schedules/preferences of the interviewees. The research focus was explained as understanding the social and regulatory dimensions of Remco processes through gathering personal perceptions from those involved. All interviews were audio-recorded and transcribed with permission. Participants were asked for their opinions on the areas relating to the operation of Remco work as shown in Table 2.

Insert Table 2

Insert Figure 1

Our methodology is presented diagrammatically in Figure 1. Following the interviews, the recordings were divided between the two researchers for manual transcription, being typed up in MS Word. Then a theoretical thematic analysis of the transcripts was undertaken (Boyatzis, 1998) with the Gioia methodology used to analyse patterns in the data (Gioia *et al*, 2013). A two-stage process was used to conduct the first-order analysis. First, the non-interviewer (who reviewed the interview transcripts with a fresh eye) highlighted words, phrases and sections of the MS Word texts using coloured bars and used margin notes to list suggested terms to describe/summarise their content. These marked-up transcripts were shared with the interviewer who re-read the documents, affirming, adding and/or revising these margin notes. Reaching agreement on these initial terms was an iterative process achieved through discussion until both authors were satisfied with the suggestions. Once the initial myriad of terms was agreed, the non-interviewer coded the data using computer-assisted qualitative data analysis software (CAQDAS) (in this case NVivo). CAQDAS enables faster coding and data retrieval than manual methods of qualitative data analysis; it also facilitates efficiency and data transparency alongside the identification of inter-relationships of ideas and potential connections between codes (Bryman and Bell, 2007). Indeed, as the first round of coding progressed, similarities were noted. The codes were condensed and merged into groupings of first-order concepts (recorded as NVivo nodes). These were given labels and definitions which were agreed with the interviewer (Table 3).

Insert Table 3

The series of text quotes stored under each NVivo node was shared with the interviewer and agreement reached to ensure that the quotes were classified correctly. Another benefit of using NVivo was that it enabled reference to be made to the number of individuals citing particular issues and the volume of references made to them. Thus, the importance of the issues raised could be evaluated by reviewing the content of the quotations set within the context of their prevalence.

Again these methodological stages were part of an iterative process, with labels/definitions drafted and revised through ongoing discussion until both authors could place their trust in a joint understanding. The classification of the quotations and their importance with respect to selection to illustrate the findings were similarly subject to discussion until agreement was reached by both researchers. To address any potential subjectivity within the coding process, we combined one researcher's expert knowledge of

Remco processes with the other's expertise in coding using NVivo to ensure a successful iterative outcome.

The next stage involved identifying second-order theoretically informed themes built from linkages between the first-order concepts. Another iterative discussion process of reviewing the data and linking these to institutional isomorphism (DiMaggio and Powell, 1983) to describe and explain the phenomena observed was undertaken by both researchers. Once the second-order emergent themes were agreed, further distillation was possible creating four over-arching aggregate dimensions of KMP pay determination which could be sensibly linked back to the research question (Figure 2).

Insert Figure 2

Findings

Following the data structure in Figure 2, our findings are set out below in eight parts based on second-order themes and their links to institutional isomorphism (DiMaggio and Powell, 1983). Remco members' quotations are tagged as NED#, institutional investors' as II#, and (specialist pay consultant) advisors' as ADV#; these are numbered simply to differentiate the comments as originating from different interview participants and thus demonstrate the spread of views. Numbering does NOT correspond to the ordering of identified individuals in Table 1. We have noted where gendered language was used in quotations with [sic].

Regulatory frameworks (coercive isomorphism)

Although respondents accepted the need to work within governance norms, Remco members, for example, referred to legislation as "a civil servant's answer to checks and balances" (NED#3) while advisors blamed regulation for exacerbating KMP pay: "There's an immense amount in the legislation now [and] all the transparency that goes with that" (ADV#3) and "the evidence shows that every time there's some new regulation it's upped the ante" (ADV#2). Remco members exhibited frustration at government policy interventions seen as designed to address wider questions of social inequality. This was echoed by institutional investors who reported a sense of being drawn into an unwelcome politicisation of KMP pay: "Government regulators see corporate governance interventions as an extension of social policy. Many of the aspects are extremely laudable. But is it our job to be doing that?" (II#2).

Advisors also pointed to the dangers of information overload resulting from regulatory developments. They questioned how Remcos can arrive at effective judgements considering subtleties within the circumstances of a particular business when compelled to focus on compliance with regulatory prescription. More positively, Remco members suggested that they have used regulatory developments in corporate governance to tackle bad behaviour: "The growth in regulatory pressure has made it easier for us to have a debate about what is fair, reasonable, and what is greed ... you need regulation to help change expectations, and therefore culture" (NED#3).

Market pricing (mimetic isomorphism)

Respondents said that price-setting for KMP inherently led to market inflation. This resulted from several factors including companies' competitive external environment, off-the-shelf benchmarking, and the Americanisation of KMP pay:

> "Now almost every company I know not only wants to pay the going rate, but they also want to place their compensation …in the upper quartile … which equals inflation." (NED#6)

Remco members also acknowledged the pressures placed on CEOs to deliver in competitive conditions, with pay being the proxy for recognition of their success. Institutional investors concurred, adding that executives' human traits acted as a further underlying driver implicating Remcos to recognise them using peer benchmarks to which KMP aspire to set pay levels:

> "A lot of people who run these big public companies … they have huge egos and huge prides and what they really mind about is 'being paid less than him [sic]' … the absolute number is less important than where they are in the scale of things." (II#2)

Advisors made the point that raising CEO salaries once in office could prove incendiary, fanned by media headlines, highlighting that this led to Remcos promoting a culture of starting salary inflation even before performance outcomes could be assessed:

> "They start off saying 'bump up there now, double the salary, it doesn't matter, because for the next five years the most he's [sic] going to get is inflation'." (ADV#2)

Off-the-shelf benchmarking was also highlighted as a problematic influence by advisors leading to unintended consequences particularly in relation to losing sight of the link between KMP pay and a company's specific circumstances and strategic objectives:

> "(It's) a bit like driving a car by looking out of the passenger window … looking at what all the other remuneration committees are doing rather than looking out the front of the organisation and saying, 'where are we going from here?'." (ADV#1)

Institutional investors expressed concern that benchmarking comparisons encourage KMP to see themselves as homogeneous and interchangeable. Advisors expressed concern that codified norms could drive further adoption of standardised approaches, unleashing forces that worsen the KMP pay problem over the longer term: "It [regulation] has encouraged a number of companies to follow cookie-cutter approaches both in terms of the structures and levels" (ADV#2).

Factors influencing incentive design (coercive isomorphism)

Remco members reported frustration with constraints on their capacity to manage risk associated with KMP pay design. Under possible threat of government interventions, institutional investors have subjected companies to their own guidelines thereby adding even more complexity. Advisors perceived this as a trap for Remco members: even when incentives are properly designed, administered and matched by effective performance, companies are "still going to get pilloried" (ADV#1) due to becoming ensnared in issues of morality.

While Remco members argued for simplicity in incentive scheme design, capable of adjustment mindful of what the company's specific circumstances may show at the time pay determination takes place, they also recognised problems with such an approach:

> "You have to take the rough with the smooth. So if the market is down there is no value … with everybody else you suffer. It's not about your comparative performance … if you've got a portfolio that doesn't work, then so be it … you can't have your cake and eat it." (NED#1)

> "People … are now talking about creating more certainty and less risk because they don't like the outcome of risk. They don't like that people get a lot of money but ignore the times they get none, because the exception is difficult to justify where everything is under scrutiny. And where, perhaps, everything has to be explained in a Tweet." (NED#3)

Advisors were also wary of simplicity:

> "The chairman [sic] wants a simple plan because it's easier to explain, shareholders want a simple plan because they don't want to read 18 pages of guff and the remuneration committee's report, the participants want a simple plan because they want to be able to take home a programme of certainty to their loved ones, but they can't get the simple plan. Why not? Simply because the devil is in the detail, for example, how do you account for … significant investments required to create value and therefore performance is cyclical?" (ADV#1)

Institutional investors claimed to encourage NEDs to exercise discretion where this can be justified, tailored to the company's circumstances. They suggested repurposing standardised metrics like total shareholder return (TSR) and earnings per share (EPS) as moderating mechanisms when pay awards seem out of step with company developments:

> "You can still have your EPS, TSR measures but they're more a 'smell test'. So if … in that year that you're going to be eligible for big pay-outs [but] share prices tanked, you paid huge fines for something, killed people, then that smell test should be applied and say 'actually, we don't think you deserve that amount, and we are going to use our discretion … to reduce that pay accordingly'." (II#3)

Remco members suggested that a performance-based recognition approach might become more aligned with shareholder interests than one in which the attempt is made to design a forward-facing incentive whose conditions are not open to accurate forecasting to align with conditions at the time the reward consequences are implemented. Overall though Remco members recognised that this could result in approaches to incentive design schemes being taken full circle:

> "Historically … the onus was … to say 'great job, here's some reward'. And while that was un-formulaic, unstructured, it was more logical. What is strange now with all the formulas, guidelines and regulations that we're now having to play around with, in the end we're all putting in the discretion … All these formulas may churn out X, [but] if X doesn't look right we're not going to pay you X, which is almost back to square one. That's one of the unintended consequences of trying to get control over what has been poor behaviour and a degree of outrageous amounts of money for some people for allegedly no performance." (NED#3)

Decision-makers' choices (normative isomorphism)

Remco members recognised the role of investment companies was to maximise investment returns and ensure that the companies that they invested in were well-managed but felt hampered by the nature of their relationship with shareholders, noting that "the views of large shareholders often are very different to the views of the man [sic] in the street, and the media, and perhaps politicians … [big shareholders] whose votes are so important … [should take] more responsibility and take into account social responsibility" (NED#5).

Institutional investors made clear that their primary obligation was towards their customers: "to enhance and protect their savings" (II#2). With their expressed lack of public company board experience, yet being "expected to engage more and to understand and police better what's going on" (II#2), they sought a stronger focus on aligning incentive arrangements with strategic objectives, highlighting their need for a fuller understanding of business strategy:

> "… to aim a focus more [on] internally generated metrics, which are put together by people in the business who understand the strategic direction of the company which is inward-focusing, rather than trying to keep up with the Joneses … because if we, as long-term investors have bought into the strategy … what should come out … is better long-term returns for us as investors. That's the acid test, right?" (II#3)

Institutional investors positively recognised company efforts to communicate the institutional voice. For example, at compliance meetings when reward management policies are set out: "remuneration committee chairs are much more conscious now about keeping shareholders on side" (II#2). Nonetheless, they highlighted various shortcomings in their communications with companies. Remco member-institutional investor conversations were described as "disjointed … too much of a one size fits all approach" (II#1). Institutional investors sought better - rather than more - communication. Again though, self-awareness of their own shortcomings in this respect was in evidence:

> "The mainstream portfolio managers, who ultimately pull the trigger, are often going over to their corporate governance team and saying 'oh this is the pay deal okay, tick'

> … it is not joined up [by] standing back from it all and saying 'something's gone wrong here'." (II#1)

Advisors echoed these views: "whatever you do it's got to matter to the shareholders" (ADV#1). They commented that Remco members have become better informed about the contexts for KMP pay determination, going beyond pay benchmarking and mechanical application of metrics, while being sensitive also to the moral maze of public scrutiny. They argued that if shareholders' funds are invested to secure sustainable valuable returns, KMP may be well paid with justification. But institutional investors faced the same problems as Remcos in respect of setting KMP pay:

> "Big [institutional] investors … they too are grappling with how do they deal with this issue. They're getting the squeeze from the government … But they have the same problem. They say 'we can't answer that moral question; I don't know what's too much'. So, they again get trapped into the mechanics." (ADV#2)

Pay decisions and reporting processes (mimetic isomorphism)

Remco members appreciated the factors they needed to balance within their decision-making. While noting that it might be appealing to shelter under procedural norms or follow "the license advisors have had for some time given the dark arts being practised … with regard to the mercenary orientation among CEOs and CFOs" (NED#4), it was important to engage critically with processes in setting the framework to determine KMP pay:

> "Typically, if you've got the right scheme and the right hurdles, most of the time it will produce the right answer … but you have to overlay the judgement as to special circumstances that say the maths should not prevail." (NED#8)

Advisors expressed some dismay over perceived inadequacies of debates in Remco meetings. They reported that either focus was lost to benchmarking presentations or the process could be dominated by the chair or one or two vocal Remco members:

"It's about the pseudoscience of where they should fit, slightly above median, slightly below upper quartile, all that kind of nonsense, it gives a veneer of objectivity and science. It means that you've got a group of other remuneration committees that are making decisions that you are just copying." (ADV#1)

Reflecting on questions around the fairness of KMP pay outcomes, Remco members expressed the view that the recipients ought to be sensitive to public opinion towards their remuneration both in absolute terms compared with other social actors and in respect of the probity of pay-setting processes: "So I suppose one has to ask oneself the question 'do people at the top end of business have any understanding of this issue of public consent? Does it bother them?' … It ought to" (NED#6).

Institutional investors drew upon their organisations' involvement with companies internationally. They noted that in the UK, social attitudes appear to prompt censorious attention to the levels of reward enjoyed by KMP – as opposed to settings where scrutiny is directed more to the means by which rewards are obtained. They also pointed to the high profile nature of FTSE 100 companies attracting public scrutiny. Relatedly, the view was stated of a perceived unwillingness on the part of all involved in KMP pay to take a position on what quantum is acceptable:

"About 100 people in the UK are earning these ridiculous amounts of money for high profile companies, but 99% of businesses - there may be excessive pay - but it's not in this FTSE 100 league which has become a focus, a fixation, for some people." (II#3)

Advisors concluded that, in practice, there was little discourse around fairness in determining KMP pay outcomes and so the disconnect remained between practical administration and questions of a moral character: "The problem with executive pay is that there are few people who deserve what they get and probably deserve more than they get, but most people are pretty average and get paid more than they deserve" (ADV#1).

Reputational impact (normative isomorphism)

A material consideration in the eyes of Remco members was the notion of reputational impact. Views included a sense that the present era is one in which a case has to be remade for individuals who were successful and occupied positions of significant responsibility:

> "We need to pay appropriate executive rewards but if those executive rewards start routinely to undermine trust in business - which I think is probably the situation we are in now - then I think that becomes a problem both for business and society at large." (NED#2)

With reports of KMP pay excesses potentially undermining public trust in business, institutional investor views included the sense that "something more radical needs to happen" (II#1), even if the highly publicised cases of apparent excess referred only to the minority. They acknowledged that politicisation of KMP pay meant that there were no obvious or easy solutions, especially when actions that appeared appropriate at one point may result in future unforeseen reputational damage. Similarly, advisors reported that over time there has been a shift in Remcos from a reluctant acceptance that processes need to be revised to one where the need for a more fundamental overhaul has been accepted.

Company factors

Both Remco members and institutional investors expressed frustration regarding capacity to align the strategic direction of the company and ways of assessing continuity in driving value creation and KMP pay management. For example, institutional investors commented:

> "You will see some very good statements … with the chairman [sic] outlining the … strategy, what drives value, the key value indicators, the key performance indicators, but then you look at them and it doesn't get translated into remuneration." (II#3)

Remco members were particularly concerned that Remco decisions reflected the organisation's specific situation: "My big concern is to make sure that any decisions were going to be evidence-based" (NED#7). They were critical of the encouragement of reward comparisons applied to KMP across different organisations as these were considered contestable:

> "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… remuneration committees would say to themselves 'actually our man [sic] - John Smith - is much better than Albert on the other side, and therefore we ought to pay him more'. And then Albert's people …" (NED#5)

Institutional investors recognised that they played a part in this problem: they commented on their own unwillingness to assess their company investments through bespoke rather than generic follow-my-leader metrics to determine how and what KMP are paid:

> "A lot of shareholders aren't prepared to take the risk of creating or allowing metrics to be developed which are bespoke to that particular company … they prefer comparator metrics. So, I think shareholders are partly to blame for this." (II#3)

Institutional investors commented that companies set out their proposed, typically complex, actions to accommodate the inevitable multiple views of those holding the business within their investment portfolios – but these views are, in practice, irreconcilable. Advisors concurred: the espoused approach taken by companies on how KMP pay is to be managed seems to have fallen victim to reactions flowing from it, limiting willingness of those held to account to enact the policy in-keeping with its design. Institutional investors sought Remco members to choose a strategic path and be willing to take responsibility for justifying it. When commenting on their role in corporate governance processes, institutional investors reported voting against Remco chairs if they perceived poor judgement over KMP pay determination.

Remuneration components

The theme of invented complexity versus perceived merits of simplifying KMP pay was rehearsed further when considering remuneration components. Remco members raised questions about the inconsistency of thinking in terms of securing KMP as excellent, rounded leaders to secure sustainable value and then recognising their contribution. At one level the idea was expressed of moving back to a simple binary position where KMP are employed, they perform to expectations and are well-rewarded for this - an investment rather than contingent reward strategy - or they are replaced with those who will:

> "At CEO level … there's nothing above the total job that you can do … all you can say is that your performance is terrible, zero, but it's fine, one. But this idea of, you know, 83% or 79% or 61% and all these discussions about these key variable indicators, I mean … it's probably demeaning. Secondly, because it's so complex, I don't think it's motivating." (NED#1)

In the main, a rebalancing to emphasise basic pay as the largest proportion of the total remuneration enjoyed by KMP was viewed as preferable. Realistically though this was noted as difficult. Remco members said they work with KMP to devise pay schemes that genuinely reward real, measurable achievement. However, they questioned how incentives recognise scope for corporate leaders to achieve transformational company change building and sustaining its value, not just follow the herd.

Institutional investors shared the views expressed by Remco members: KMP pay determination has become over-complicated, over-biased towards incentives and such arrangements fail in their espoused roles when generally regarded as less a function of executive agency and more the vagaries of extraneous forces. The rhetoric of KMP pay decision-making was viewed as more derived from socio-political pressures rather than a reflection of the realities in running a business and making decisions on whether to invest in or divest from it.

Even advisors whom one might speculate have a vested interest in complexity in the area of their expertise seemed disillusioned with the mechanics of KMP pay determination. They reflected on the problems decision-makers face in aligning executives' performance, which call for judgement over algorithmic calculations, particularly when it comes to determining reward that recognises what average versus rare, exceptional performance can achieve over short to medium and longer-term horizons. Advisors reported that the pay mix was muddied further by the perverse outcomes of amplified political pressure and Remcos' quest for self-preservation linked to media reporting using headline movements rather than the complete scenario:

> "There is an irony in this whole subject which is the simpler the programme, the closer it is to cash, the fewer the performance conditions, the more valuable the programme is, and therefore the cheaper it is to administer, and actually, the more effective. After 20+ years of consulting in this area, what the irony is, is that less is more." (ADV#1)

Discussion

The interplay of institutional isomorphic influences

It would be easy to interpret participants' narratives across the chain of KMP pay decision-making as (1) it is a tricky business; (2) a good answer to the problem of getting it right when scrutinised by multiple stakeholders is elusive; and (3) decision-makers are better placed to regulate KMP pay than exogenous institutions. However, a more objective starting point lies in enhancing the trifocal lens of institutional isomorphism (DiMaggio and Powell, 1983) using inferences crystallised in the four aggregate dimensions in Figure 2, to extend the theory's explanatory power i.e., to approach the typology as it interfaces with subjective lenses through which KMP pay decision-makers balance various factors in their adjudications (Saati and Peniwati, 2013). As illustrated in Figure 3, while institutional isomorphic forces on the aggregate dimensions distilled from our findings may be considered in disaggregated form, analysis of KMP pay decision-making is better served by focusing on the interaction of these dimensions rather than seeking to disentangle any aspect that ultimately features within what we have labelled the "No-Come-In" process underpinning interpreted decision-making in KMP pay determination.

Insert Figure 3

Identification and interpretation of external influences

At its basic level, while regulatory developments may have forced KMP pay decision-makers to ask more searching questions before authorising policy designs and resultant pay awards, perceived information overload associated with coercive isomorphism might be creating new problems. KMP pay regulation is acknowledged as having slowed the inflationary trajectory leading to the most egregious awards. However, viewed as overly bureaucratic, regulatory developments encourage mimetic isomorphic actions such as uncritical benchmarking rather than applying bespoke KMP pay intelligence. In addition, decisions taken in anticipation of criticism about pay movements over a particular executive's tenure result in performance pay-setting that perversely bears no relation to actual corporate value-added. KMP may receive less than optimal pay awards due to the assumption that any future increases should be muted or else they may open decision-makers to public outrage (Bebchuk and Fried, 2003; Perkins and Hendry, 2005).

An inference from the findings is that mimetic isomorphism is strongly in evidence at the micro-level, moderating decision-makers' scope to determine KMP pay objectively and leading to trans-organisational inflation. As no-one wishes to be seen as falling behind norms when comparing KMP pay within external benchmarks, social pressures influence Remcos to align with their respective meso-level KMP marketplace (e.g., FTSE 100 companies). In their search for return on capital, institutional investors are concerned about the mimetic influence of benchmarking and the expectations of KMP to be recognised by their boards, comparing themselves with self-selected peers, notwithstanding actual corporate performance outcomes. A mimetic approach to KMP pay determination is recognised as inappropriate but difficult to transcend. Adaptation is required to recognise the micro-level specificities of corporate performance and, in turn, the contribution by KMP individually.

Risk mitigation

Coercive isomorphic regulatory developments around KMP pay further constrain decision-makers in relation to risk management. Remco members, institutional investors and the consultants who advise them, cite regulatory complexity as a major concern – building on observations regarding the sheer quantity of information decision-makers are expected to deal with as part of roles at one stage removed from business operations (Ogden and Watson, 2012). While commentators have highlighted risks that KMP may use insider capacity to manipulate corporate governance reporting (Bebchuk and Fried, 2003), a more subtly evolving scene may be more accurate. Even if regulatory demands are empowering decision-makers to push back against egregious KMP pay expectations, the politicised nature of the regime may undermine best intentions: decision-makers see themselves as potentially ensnared in a morality trap rather than business-oriented corporate governance. While Remco members call for simplification of approaches, risk-averse institutional investors have felt compelled to participate in standard-setting given threats to their own legitimacy, reflecting also normative isomorphism. Also consistent with normative isomorphism, the professionalisation of specialist advice from pay consultants may compound KMP pay ratcheting.

Responding to political demands, institutional investors may set out their own selection of pay-performance metrics, enforcing these by threat of withholding votes on policy and/or their confidence in Remco members' tenure (Edmans *et al*., 2021; Lozano-Reina and Sánchez-Marín, 2020). Possibly signalled during in-camera "briefings" ahead of public AGMs (explaining the high incidence of policy endorsement), these indications may inhibit Remcos enhancing pay design fitted to corporate specificities in favour of generic measures such as "total shareholder return" (Perkins, 2015, p.44). On balance, as evidenced in accounts of what occurs in-camera, risk mitigation in one direction in pursuit of theoretically acceptable KMP pay decision-making may be associated with risk creation in another as decision-makers navigate macro-, meso- and micro-level institutionally isomorphic forces that socially construct the KMP pay decision-making "setting" (Edmans and Gabaix, 2016, p.1233).

Discretion in discharging corporate governance

Corporate governance codification over the decades has swelled into significant prescriptions. While retaining nominal allegiance to the "comply or explain" principle set by Cadbury (1992, section 3.7), detailed demands - underscored by subsequent legislative frameworks (FRC, 2015; FRC, 2018) - raise the stakes for Remco and institutional investor decision-making and adherence to transparent reporting protocols on policies' intentions and application. Mimetic isomorphic tensions are apparent: for example, NEDs perceive pressure to sacrifice discretion instead becoming mere overseers of algorithmic processes, and their independent specialist consultants criticise the pseudo-scientific veneer around KMP pay decision-making and reporting.

Normative isomorphic tensions between decision-makers surface too. Mindful of the specialist know-how and access to corporate briefings available to the capital investment community, Remco members argue institutional investors should use their privileged insights to look beyond levels of "noise" (Bebchuk and Fried, 2003, p.72) and accept a part in demonstrating corporate social responsibility. Institutional investors for their part wish to shift the balance of accountability to Remcos, applying sanctions if poor governance of KMP pay means that repeated ignorance of coercive isomorphic measures could place their own credentials under suspicion. Focus is placed on Remco chairs in this regard whose tenure is now subject not only to corporate determination but also to granting or withholding endorsement by a company's institutional investors alongside reported decision-making and consequent outcomes [see PLSA (2018), Appendix 1(3)].

At the macro-level, KMP pay decision-makers and their advisors acknowledge the challenge of rebuilding societal trust in the integrity of corporations, requiring a move away from what has become widely perceived as dysfunctional KMP pay governance and, in turn, the role played by (big) business in society. Decision-makers wish they could concentrate on their institutional mandate to direct and scrutinise firms but acknowledge an extended remit in their interaction with KMP, focused on the social re-construction of legitimacy.

Interpreted decision-making: determining KMP pay

For a long time, corporate governance regulation adopted the idea of using reward incentives to construct a sense among KMP that they should think and act as financial shareholders (Jensen and Meckling, 1976; Jensen *et al*., 2004). These ideas shifted away from the notion of an investment in the potential of an individual to undertake a particular role, perhaps with a retrospective recognition bonus, to one making forward-facing incentives using performance metrics linked to longer-term outcomes as central to the package. Although encouraged at earlier stages in the evolution of corporate governance regulations, long-term incentives have attracted considerable criticism as their consequences became evident (BEIS, 2016). As greater transparency of reporting has been demanded, Remco interventions have been compromised by anticipated levels of outrage, leading to less-than-optimal outcomes (Bebchuk and Fried, 2005; Edmans *et al*., 2021).

As depicted in Figure 3, KMP pay design anchored in socially constructed justificatory narratives can be linked to all three forms of DiMaggio and Powell's (1983) institutional isomorphism: coercive isomorphic regulatory interventions, mimetic actions in the form of simply copying others in a self-serving cycle, and reliance on normative professionalisation manifested in specialist KMP pay remuneration advisors doing the rounds to inform decision-making. KMP pay outcomes prompt reactions to the latest round of outrage threats, leading to more regulatory pressure, further detaching norms governing policy interventions from contexts. Yet, avoiding subsequent criticism in responding to coercive isomorphism appears to result in a Hobson's choice: when implementing the outcome of standardised metrics-driven incentive schemes, circumstances may result in the pay-out seeming less justifiable, but as its level is contractually due to recipients, diluting it after the fact will likely result in tension in the social contract between the executive and non-executive members of corporate boards (Bebchuk and Fried, 2005). The alternative is for decision-makers to inflate pay at the time of appointment (instead of phasing uplifts over time justified by performance achievements) driving up KMP pay benchmarks further still (Hambrick, 2018). The embedded nature of the status quo risks yet further criticism when guaranteed salary levels are rebalanced upwards and judgement by Remco members is exercised to determine forward-facing bonus awards linked to company conditions not standardised metrics, even if these are sanctioned by investors in 100% of cases when put to the vote at AGMs across FTSE companies (CIPD, 2019).

Practical implications

Knowing that regulatory interventions are a form of coercion influencing KMP pay processes and outcomes, policy makers may consider ways in which regulation encourages decision-makers better to align KMP pay and corporate performance management with specific organisational and sectoral circumstances. Explanation of decision-makers' actions and an expectation that consultants offer intelligence beyond a benchmarking straitjacket are also required. Decision-makers could adopt a more strategic approach to risk, rebalancing the KMP pay mix away from poorly defined long-term forward-incentive plans, using standardised metrics less prescriptively. This would require building consensus on pay quantum with scope to recognise concrete organisation-specific performance outcomes. It would need judgements made and justified around the quantum of investment in KMP when implemented, rather than a projected horizon which cannot be realistically calibrated. Finally, more holistic dialogue between categories of decision-makers could generate confidence to sanction more company-specific KMP pay determination processes and what flows from them, while still satisfying institutional investors' fiduciary duty to secure shareholder value. Such shared accountability might tackle the longstanding charge of short-termism inherent in corporate governance regimes; enhanced mutual knowledge could help to hold businesses to account in the face of the socially constructed moral maze of KMP pay processes.

Concluding remarks

Remco members, institutional investors and advisors all underscore the problems associated with KMP pay decision-making by reference to the underpinning social character of processes that undermine trust all round. Rebuilding relationships between organisations and all of their stakeholders is espoused but this is tempered by scepticism regarding what we would categorise as the inseparable interaction of coercive, mimetic and normative isomorphism in interpreted KMP pay decision-making – creating a status-quo-preserving "No-Come-In" isomorphic effect. This amalgamation of DiMaggio and Powell's (1983) three isomorphic forces in a dynamic interplay, as interpreted through the agency of decision-making, thereby offers the potential to increase the explanatory power of the typology for interpreting KMP pay decision-making in practice.

The "No-Come-In" effect suggests there will be no unlocking of isomorphic forces unless effort is paid to understanding how normative, coercive and mimetic inputs can be addressed individually and in combination to generate change within the interpreted decision-making process. Future research might thus address the effects of normative isomorphism in relation to the socialisation, backgrounds and professionalisation of those involved in the decision-making process. In this regard, our understanding could be enhanced by interviewing Remco members in innovative firms, perhaps with social/environmental agendas, as well as others who help to shape Remco decision-making such as internal Human Resources reward experts. Interviewing Remco members in innovative firms may help understand how KMP incentives may preclude transformational change. In addition, future research might also address the coercive isomorphic effects of regulatory changes on actual KMP pay outcomes and the mimetic isomorphism linked to the Americanisation of top pay (Fernandes *et al.*, 2013; Linsi *et al.*, 2021), increasing emphasis on incentives, and best practice KMP pay determination versus potential of a best fit approach. Our research addresses the supply side of KMP pay decision-making and advisory input; further research could also address the demand side by considering KMP's view on the process and their potential input to it. Our research is set in the UK context; further research is needed to determine the transferability of our No-Come-In model in explaining KMP pay determination in different country contexts.

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Table 1: Research participants classified on interview

Remco members	***Context/background profile***
Sir Win Bischoff	Board member, JP Morgan Digital Banking (UK) [2021]; former Chairman, Financial Reporting Council; former Chairman, Lloyds Banking Group and Citigroup.
Lord John Browne	Executive Chairman, L1 Energy; former CEO, BP.
Sir Roger Carr	Chairman, BAE Systems and Chairman English National Ballet.
Sylvia Doyle	Director, Reward First People Consulting and independent non-executive member of the RICS Remco.
Chris Evans	Former UK Board Director, Royal Sun Alliance Insurance.
Sir Philip Hampton	Co-chair Hampton-Alexander Review – FTSE Women Leaders; former Chairman, GSK; Chairman RBS and Sainsbury's.
Luke Mayhew	NED, DFS plc and Platinum One; former Board Director, John Lewis plc, WH Smith plc and independent Chair of IHG plc Remco.
Sir Michael Perry	Board member, Museum of Royal Worcester; Advisory Board Forum member Said Business School, University of Oxford; former Chairman, Centrica plc and Unilever.
Institutional investors	
Baroness Helena Morrissey	Lead NED, FCO and NED, St James's Palace Wealth Management; former CEO, Newton Investment Management.
Dr Daniel Summerfield	Head of Corporate Affairs, USS Management.
Trelawney Williams	Senior Advisor Brunswick Group; former Head of Corporate Finance, Fidelity International.
Advisors	
Gerrit Aronson	Independent Advisor to companies such as BP, Volvo, Ericsson, and Electrolux; former Board member TI Group plc and HR Director Glaxo-Wellcome.
Simon Patterson	Managing Director/Office Head, London, Pearl Meyer Associates; former worldwide partner executive compensation, Mercer, London and co-founder of SCA Consulting in Europe.
David Styles	Head of Corporate Governance Codes and Standards, Financial Reporting Council.

Table 2: Interview discussion issues

1. The role of regulation and other external influences on KMP pay determination.
2. Priorities, legitimacy and perceived fairness in KMP pay outcomes.
3. The roles and influence of the Remco members, institutional investors and advisors on KMP pay determination.
4. Processes framing and taking place within Remco work.
5. The social acceptance of KMP pay decisions and reputational concerns.
6. Interpretation of Remco and institutional investor accountabilities.

Table 3: Definitions of first-order concepts

Basic pay (7S, 18R) = Guaranteed salary excluding any performance-related elements, stocks/shares and/or incentives/bonuses.
Change (4S, 8R) = Trends in KMP pay.
Company value (4S, 8R) = The value of the organisation on the stock market.
Continuity (5S, 10R) = Stability in strategy applied to the determination of KMP pay.
Differentials (7S, 16R) = Differentiation between KMP pay and that of other employees/across industry sectors.
Disclosure (2S, 4R) = Requirement to make information public.
Fairness (7S, 10R) = Perceptions of justice in the calculation/delivery of KMP pay.
Investment fund managers (11S, 59R) = Role and contribution of investment fund managers representing shareholders in remuneration committee decision-making.
Justification (10S, 33R) = Explanations attributed to the rationale/calculation/level of KMP pay.
Legislative controls (9S, 31R) = Statutory measures, codes of practice and policy positions governing/guiding actions taken in respect of KMP pay decisions.
Legitimacy (6S, 8R) = The acceptability of KMP pay considered against that of comparators.
Media commentary (8S, 17R) = Media reports on KMP pay.
NEDs (12S, 31R) = Role and contribution of non-executive directors in remuneration committee decision-making.
Organizational performance (10S, 42R) = Organisational performance and its relationship to KMP pay.
Priorities in pay determination (9S, 21R) = Factors considered of importance in the design of KMP pay.
Process (12S, 42R) = Practices and procedures used in decision-making by the parties involved in making KMP pay decisions.
Quantum (10S, 26R) = The amount of money paid to KMP.
Reward increasing (6S, 13R) = The rising value of KMP pay.
Shareholder value (7S, 17R) = Company performance reflected in share prices.
Social responsibility (8S, 40R) = Integration of societal concerns in the determination of KMP pay.
Socially unacceptable (10S, 32R) = KMP pay considered to be inappropriate/objectionable in the societal context.
Transparency (5S, 11R) = Openness of remuneration committee debate/documentation.
Variable pay (9S, 31R) = Performance-related pay, stocks/shares and/or incentives/bonuses paid in addition to basic pay.

(S = number of sources citing issue; R = number of references made)

Figure 1: Methodology flow chart

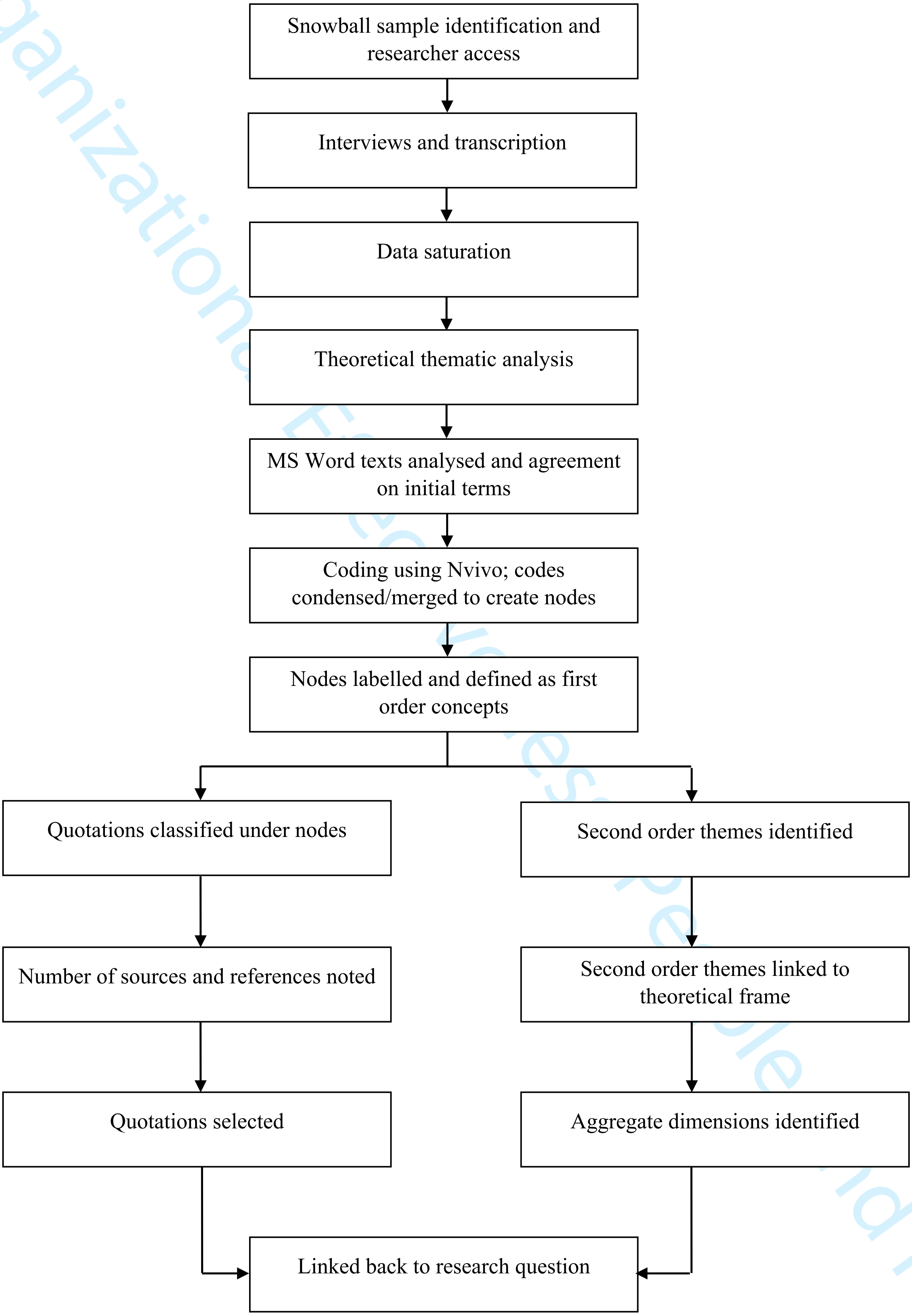


Figure 2: Data structure relating to KMP pay determination and reporting

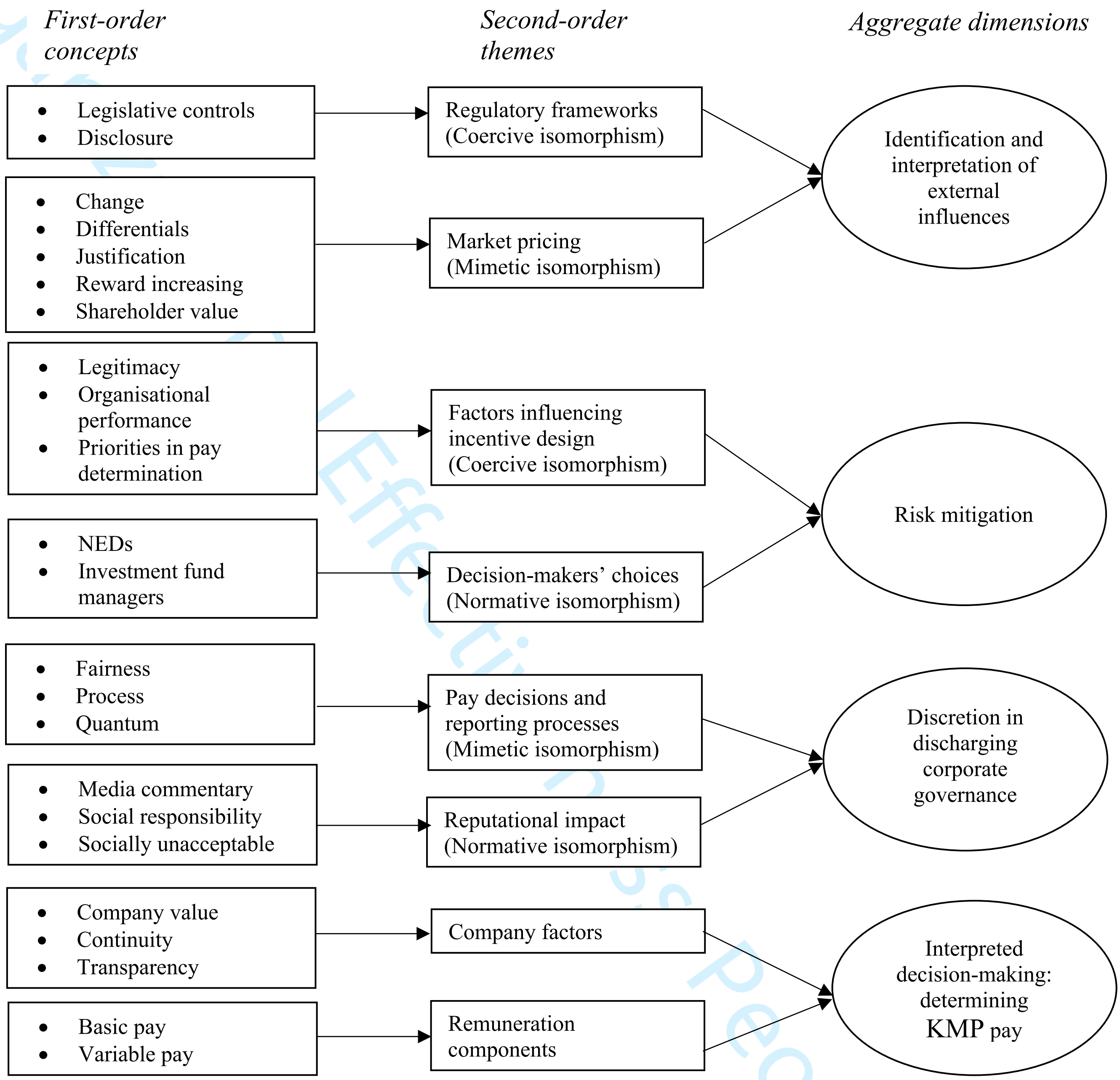
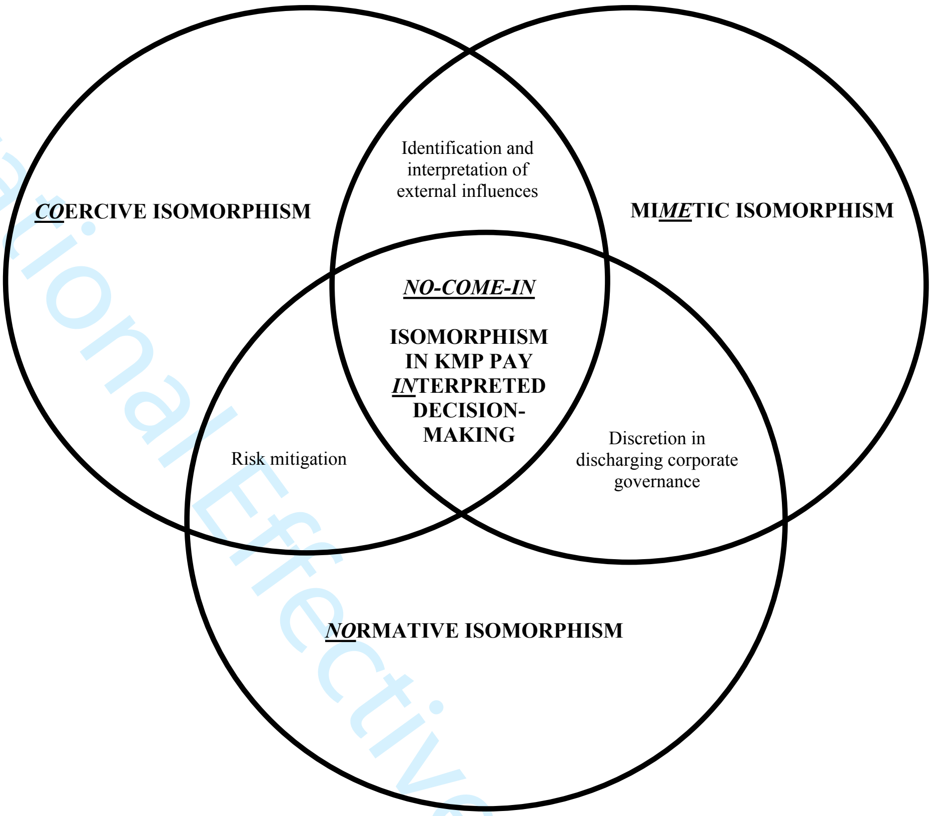


Figure 3: Applying and extending institutional isomorphism to KMP pay interpreted decision-making



Appendix: Explanation of Remco structure, its relationship to company boards and the roles of personnel involved in KMP pay decision-making

1. Corporate boards in the UK comprise the directors of the company – office holders under the Companies Act (2006) (legislation.gov.org, 2006). The directors are a mixture of full-time executives [i.e., Key Management Personnel (KMP) – the CEO and usually the Finance Director along with, perhaps, a Commercial and/or Operations Director who, with some other KMP constitute the Chief Executive's Committee] and part-time Non-Executive Directors (NEDs) who, according to corporate governance best practice, should be in the majority.
2. KMP serving as corporate board members 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 [e.g., to sign off the company's annual accounts reported to shareholders]; all corporate or 'main' company board directors are statutorily accountable [under the Companies Act (2006) to the shareholders].
3. 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).
4. KMP [i.e., those on the Chief Executive's Committee] report to the CEO through the internal line of responsibility [as indeed do other senior employees – who *may* use the honorific title 'director' but it is not that of a Companies Act (2006) Director]. If KMP hold the office of a Companies Act (2006) Director, in that capacity, they also report to the corporate board chair – typically a part-time non-executive.
5. Corporate board office holders [part-time NEDs and full-time KMP when they also hold a contract for service] are accountable to the AGM of shareholders and are subject to annual re-election (FRC, 2018).

6. While this unitary board model predominates in Anglo Saxon jurisdictions, elsewhere [e.g., mainland Europe] two-tier boards [a supervisory and management board] are favoured, where stakeholders such as employee representatives may serve on the supervisory board, which functions in a similar way to the unitary board but delineates even more sharply between executive and non-executive functions.
7. Under the UK Corporate Governance Code (FRC, 2018), the Remco determines KMP pay. KMP cannot sit on the Remco or play a part in their pay determination.
8. The Remco is a separate committee of the board and comprises external/outside part-time NED office holders only. These NEDs are directors on the corporate board of the company where the KMP whose pay they are determining are employed.
9. While the work of NEDs as a whole will be co-ordinated/led by the corporate board chair, it will be one of the NEDs who will chair the Remco. The Remco chair will be an office-holder separate from the chair of the corporate board.
10. 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, KMP 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.
11. The Remco produces a separate report on KMP pay which is normally a section of the overall company annual report and accounts that goes to the AGM and is subject to the shareholder vote.
12. 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 [possibly via the Company Secretary, and may provide the secretariat for the Remco], but again will 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.

13. Institutional investors are precluded by law from formally participating in corporate board decisions [otherwise that could lead to insider trading type offences]. Under the UK Stewardship Code (FRC, 2020) investors are accountable to scrutinise matters including KMP pay policy as well as its application. Their sanction, if dissatisfied, may be to oppose re-election of the Remco chair and/or rejection of the Remco report. Thus, the company's Investor Relations Team tends to co-ordinate briefing meetings between institutional investors and the corporate board including the Chair, CEO and Finance Director and possibly the lead director. [The lead director is a board member, usually elected by the independent members of the board, who performs certain duties on behalf of the board. This director often serves as chair of the governance committee of the board. This role provides another person whom shareholders can hold accountable and can question directly as someone independent even from the corporate board chair.]