Quantum accountability: When does enough become too much in top pay decision-making?

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Abstract

Purpose

The purpose of this paper is to examine how and why individuals involved in executive remuneration (top pay) decision-making consider quantum as being appropriate rather than excessive, theorised under the rubric of accountability.

Design/methodology/approach

In-depth interviews were conducted with non-executive directors (NEDs) serving on remuneration committees (Remcos), institutional investors, their external advisers, and internal HR reward experts. Transcripts were analysed using NVivo and the Gioia qualitative methodology.

Findings

Defining, measuring and applying performance conditionality in the determination of top pay quantum such that it aligns with company strategy/culture and values, as well as individual recipient motivations, is difficult. While creative approaches to setting top pay so as to attract, retain and motivate key personnel are welcomed, these risk Remco members' personal/organisational reputations. Members recognise disconnection between top pay quantum and general pay levels and how the media highlights social inequality leading to public distrust. They believe they can contribute to more socially acceptable quantum by applying their own values in top pay decision-making.

Originality/value

Sanctions-based, trust-based, and selection/peer networks/felt-based accountability theory is used to explain decision-makers' actions when determining top pay quantum. This paper

extends felt accountability theory to encompass public/societal accountability in the context of the appropriateness of top pay quantum decisions.

Keywords: Accountability; Corporate governance; Executive pay; Qualitative methods; Reward; Top pay.

Article classification: Research article

Introduction

Pay-related industrial disputes are continuously in the UK headlines. The backdrop of the country's 'heat or eat' dilemma and levels of industrial action reported in the press provide a clear political/economic context for considering the levels of executive pay (hereafter top pay). Top pay began its accelerating trajectory in the late 1980s and early 1990s as thinking around corporate governance and expectations around business executives' role changed. Accompanying this, a rhetorical question was posed: why pay executives like bureaucrats (Jensen and Murphy, 1990)? "The apparent answer … was to load executives up with equity pay until this became the lion's share of their remuneration" (Clarke *et al*., 2019, pp.8-9). Thus, conventional wisdom emphasised hypothetical optimised contracts (Price *et al*., 2018) between corporate executives and investors. The goal was to incentivise executives through an appropriate mix of salary (or basic pay), cash bonuses, and long-term incentive plans (LTIPs). LTIPs took the form of the grant of equity in a stock market listed company such as those making up the Financial Times Stock Exchange (FTSE) 100. The rationale was that, in decoupling the pay of executives compared to others employed in a business, executives as de facto shareholders themselves would be focused on pursuit of maximising total shareholder return (Harvey *et al*., 2020) and this would result in higher earnings for themselves. [For a detailed summary of the composition of the top pay package see Jones and Perkins, 2020, pp.341-389.]

Accountability "is always related to good governance" (Abd Aziz *et al*., 2015, p.164). Accountability within the UK code specifying the determination of top pay setting is delegated to the company board's remuneration committee (Remco), comprising exclusively independent board members, i.e. non-executive directors (NEDs) and their appointed chairs (FRC, 2018; Ogden and Watson, 2012). Remcos take external advice from specialist reward consultants plus internal human resources' (HR) advisory input (Perkins and Shortland, 2023). Institutional investors, as external stewards representing company shareholders, are required to scrutinise the outcomes as well as Remco decision-making set out in an annual report complementing each company's annual corporate performance accounting to shareholders (FRC, 2020). Investors have two votes on company pay – one that is binding (a resolution to approve a company's directors' remuneration policy) and one that is advisory (on the annual report on remuneration policy implementation policy) (Department for Business Innovation & Skills, 2013; Ndzi, 2019). Under UK company law, they also have a binding vote on any new LTIP scheme – also known as Performance Share Plans (Feller and Rink, 2023). "London Stock Exchange listing rules require that any remuneration arrangement that involves the issuing of new shares or stretches over more than one financial year receives shareholder approval" (Gregory-Smith and Main, 2014, p.4). We present the following four research propositions (RPs):

RP1: The total amount of executive remuneration (quantum) decided by top pay decision-makers is influenced by the nature of publicly available information in legislation and published company-specific documents.

RP2: The composition and value of the top pay package is influenced by market trends often in benchmarked data obtained via pay consultants.

RP3: Top pay quantum is influenced by the people involved in the processes governing Remco operations.

RP4: Top pay quantum is influenced by social responsibility both linked to media scrutiny and decision-makers' value sets.

This paper aims to explain how the level of top pay quantum, namely the total value of the remuneration received by executives in UK FTSE 100 companies, is determined. It explores at what point this level of quantum crosses the line to become excessive, becoming a focus for unfavourable institutional investor voting and the generation of negative media stories, in turn leading to public scrutiny of top pay decision-makers' accountability (Bebchuck and Fried, 2003). Decision-makers' professional and personal reputations are at stake when they decide how much is enough/too much in respect of top pay. Hence, we draw upon the views of Remco decision-makers, their advisers, and institutional investors to obtain data on their first-hand experiences of the determination and nature of measurement of executive performance and associated pay outcomes, and to explore how their subjective sense of accountability influences their decisions on quantum. It theorises the problem under the rubric of accountability theory (Abd Aziz *et al.*, 2015; Besley, 2006; Campbell, 1979; Frink and Klimoski, 2004; Han, 2020; Kuo *et al.*, 2022; Mansbridge, 2014; Power, 1994; Sabel and Zeitlin, 2008; Tamir 2012; Vandenabeele, 2009; Xiao and Xiao, 2010).

Our research question is:

RQ: What factors influence those accountable for decision-making when determining top pay quantum?

Our original theoretical contribution is to extend accountability theory through the identification and inclusion of public/societal accountability in the context of how this form of accountability influences top pay decision-makers' actions.

Literature Review

Specifying the factors shaping top pay levels has proved controversial. Decades of econometric analysis of pay-performance linkages, in particular, has been found wanting (e.g., Schneider-Lenné, 1992). In the employee relations literature, it has been argued that insufficient attention has been paid to how human motivation at all organisational levels is key to successful innovation; close collaboration between top executives and ordinary employees is required, with the need, in turn, for attention to the pay of ordinary employees and its interaction with that awarded to executives (Lou *et al.*, 2023). It is suggested that attention is also needed to understand the importance of Chief Executive Officer (CEO) power besides performance while setting CEO pay (Ntim *et al*., 2019), to supplement the classic pay-for-performance sensitivity predictions (Bouteska and Mefteh-Wali, 2021; Chou *et al*., 2022). Most academic work on executive compensation has been concentrated on a few developed countries such as the USA and the UK, mainly due to data availability (Rampling *et al.*, 2013). Transparency is another issue: analysing mandatory disclosure requirements in China and productivity can offer insight into corporately responsible decision-making (Li *et al*., 2022).

For some time attention has been directed towards the "actual mechanisms" applicable to top pay setting under the rubric of overall corporate governance (Conyon and Leech, 1994, p.229). In the UK, successive codes of practice have devoted considerable attention to these matters. The latest stresses proportionality: ensuring pay awards are linked to the delivery of strategy and long-term corporate performance (FRC, 2018). Initial justifications for top pay quantum by reference to market forces (Hampel, 1998) were derived especially from what McKinsey & Co. termed a war for talent (Chambers *et al*., 1998) but have moderated in the face of ongoing public outrage (Bebchuck and Fried, 2003). It has been argued that insufficient attention has been paid to the social interactions among top pay decision-makers institutionalised in Remco and institutional investor activity as these social actors discharge their accountabilities within this controversial arena (Perkins and Shortland, 2022).

Theoretically, the question is: what is meant by the term accountability? How can it help examine the nature of what Remco and institutional investor decision-makers do to set top pay? Accountability in general has been linked with expectations that actions by an accountable social actor will be subject to a review by relevant audience(s) underpinned by potential for the review outcome to be either reward- or sanction-based (Kuo *et al*., 2022). Since the early 1990s when corporate governance began to be codified, its core principle has been to comply or explain (Cadbury, 1992). Decision-makers must demonstrate strict adherence to provisions specified by the code (FRC, 2018) or provide justification for any departure from the standard provisions. This opens up scope for theoretical consideration of accountability in an absolute sense (accounting to show compliance) or, alternatively, in a form contingent on contextual factors that may justify any departure in the outcomes from decision-making benchmarked to codified core principles (Besley, 2006). Contextual factors might include other similar organisations involved in top pay decision-making – at the primary (Remco) level or in terms of secondary scrutiny (by shareholders via their institutional investor representatives) – to warrant the outcome of primary decision-making (i.e., in the context of this paper, top pay quantum at any given time).

Theorising accountability has traditionally relied upon a common-sense description of what is required: for a group of accountable social actors (agents such as Remco members) to discharge an obligation to give an account of, or to answer to their principals (such as company shareholders and their representatives) for, the discharge of their duties and conduct in doing so. Put another way: "Accountability generically understood means presenting an account of one's choices that is owed to others ..." (Sabel and Zeitlin, 2008, p.305). An audit explosion (Power, 1994) broadly coincident with initial moves towards corporate governance codification some three decades ago, appears to have been mirrored by a shift in how accountability is theorised. Rather than accepting on trust agents' narrative accounts of what they have been doing, the emphasis turned towards an expectation that accounts be grounded in metrics specifically to measure performance (Besley, 2006). This change in review orientation introduced the threat of sanctions – for instance, in the case of Remco members and institutional investors, consequences that could harm their professional reputations.

As Mansbridge (2014, p.55) notes: "Accountability has become synonymous with punishment". In relevant top pay discourse, the UK's corporate governance regulator criticises "problems arising from groupthink" (FRC, 2014, p.2). Launching consultation on such allegations, former UK prime minister, the Rt. Hon. Theresa May stated: "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). Evidence to assess responses to accountability mechanisms theoretically expanded in this way thus may be needed. For example, evidence may usefully be derived from asking Remco members and institutional investors about their actions to account for the quantum of top pay framed not only in terms of information provision and its assessment but also in respect of perceived sanction-based consequences (Han, 2020).

To probe further, it may help to consider accountability among those involved in top pay determination not only in a static and absolute sense, but also dynamically and contingent upon other factors, mindful of the risks to intended outcomes accompanying audit and sanctions accountability. Basing accountability mechanisms on mistrust, effectively dishonouring the agents involved, may have a repellent impact on individuals whose motivation is to discharge their role with integrity or lead them to adopt more self-interested motivations (Philp, 2009). Introducing quantitative metrics for accountability in decision-making by social actors such as Remco members and institutional investors also risks introducing "pressures" that "distort and corrupt the social processes it is intended to monitor" (Campbell, 1979, p.85). Audit- and sanctions-based accountability may take on a malignant character wherein distrust generates calls for perpetual metrics-based monitoring; reactions to which may distort factors intended to be scrutinised and thus, in turn, further intensifying distrust between principals and agents (Tamir, 2012). In that vein, some three decades on, the authors of seminal writing on principal-agent interaction as it applies to top pay offer a critique of the ways in which incentive-based pay had produced perverse outcomes raising top pay quantum without commensurate measurable performance alignment (Jensen *et al*., 2004).

It may be unrealistic to assume that delegated decision-making in socio-economic settings may be sanctions-free in all circumstances. But steps may be taken by principals when selecting agents that, diligently followed, may increase confidence in their trustworthiness (Mansbridge, 2014). Operating with others, such agents will apply horizontal or peer discipline to avoid unacceptable deviance in a form of networked accountability (Xiao and Xiao, 2010). This "felt accountability" constitutes an individual's subjective perceptions of being accountable – i.e. feeling accountable – in an organisational context (Kuo *et al*., 2022, p.1808) to behave to meet the expectations of a supervisor or other(s) in the network who will review how the social actor discharges their entrusted role.

Selection and networked accountability may be theorised in combination as "a system of accountability subtle enough so that the sanction periphery does a gentle job of disciplining, but remains as thin as possible and as congruent with honoring … so as not to interfere with the internal motivations that drive the selection core" (Mansbridge, 2014, p.60). This form of accountability may be more efficient over the long term than sanctions-based accountability. Not only does it factor-in the costs of intense monitoring by principals, it also enables agents to have room within which to exercise initiative close to the action. Agents have the wherewithal to apply their expertise to pay quantum decision-making under conditions where principals holding shares in multiple enterprises lack specific knowledge against which to make judgements. At the same time this can reinforce mutual trust, encouraging agents to prioritise the interest of the organisation in which principals are invested (Vandenabeele, 2009).

Conditions of bounded rationality for principals (Simon, 2000) require decisions that depart from perfect economic rationality because human rationality is limited by time, information and the thinking capacity that is available. It may be argued that this is the reason for delegating the mechanisms of corporate governance to agents in the first place. By extension, scrutinising self-control in the conduct of behaviours or decisions by an agent may be assumed to be "the purpose of accountability mechanisms put in place in organizations" (Frink and Klimoski, 2004, p.2). But, however sophisticated the audit metrics intended to retain power in the hands of principals may be, the latter may lack the agility to oversee business functions under dynamic conditions.

Beyond the question of the level of available resource influencing the relative balance of selection-networked over sanctions-based approaches, the factors involved open up a question of choice available to principals contingent on their conceptualisation and preferences. Contingency-based theorisation of accountability "underscores the importance of getting the mix right, because sanction-based accountability not only stems from distrust; it creates distrust" (Mansbridge, 2014, p.55). Contingency-informed analysis therefore needs to distinguish between contexts in which sanctions-based accountability (Han, 2020; Kuo *et al.*, 2022) is most productive and those in which trust-based accountability (Frink and Klimoski, 2004; Vandenabeele, 2009) would perform better. Thus, attention is needed in judging the merits of an idealised conception of static and universalised accountability to the dynamics of contextualised phenomena, bearing mind also that network dynamics affect networked accountability (Xiao and Xiao, 2010). Putting it another way, analysis weighing the respective merits of balancing distrust-sanctions and selection-peer controlled network models of principal-agent accountability needs to pay attention to the likelihood that the character of individuals varies. Although standard economic theorising assumes that "agents are homogeneous", in practice, potential agents vary according to "the extent to which...they agree with the *mission* being pursued" by the entity for which they work (Besley, 2006, p.100, emphasis in original). Being a "trustworthy" individual "is a type rather than a consequence of incentives" (ibid. p.41). Mindfulness of such theoretical considerations suggests that a more deliberative (Mansbridge, 2014) or dynamic (Sabel and Zeitlin, 2008) orientation may be useful in assessing accountability, contingent on specific top pay-setting contexts. Deviation from expectations may be explainable by reference, for example, to the position of a company in terms of needing to pay at non-normative levels to engage and retain executive talent while the company is undergoing change during a corporate life cycle such as a contraction or expansion of the business. Such circumstances might create such conditions of uncertainty for executives needing abnormal levels of compensation for the risk they are being induced to take.

In summary, accountability theory in its various expressions may be useful when examining views of top pay decision-makers to surface to what extent they appear to be influenced by: trust in decision-makers to account reliably, even when actions differ from mandated standards, and where it is assumed that those selected will exert peer-networked quality controls underpinned by felt accountability to do the right thing – and to do things right; an audit-intensive orientation to governance with sanctions linked and pressure to avoid any divergence from codified norms; or a combination, calibrated by reference to universalistic and/or static views of accountability or a more contingent, dynamic perspective.

Methodology

In this journal, Maloa (2018) calls for more qualitative research to provide empirical insights into the character of Remcos. We undertook qualitative semi-structured interviews to understand how decision-makers involved in top pay determination decided on the appropriateness of the level of reward given. Relevant actors were NEDs participating in Remcos in FTSE 100 firms, some of whom also acted as Remco chairs, and institutional investors with responsibility to scrutinise Remco outcomes. External specialist reward consultants who advise Remcos and internal senior HR reward experts who provide an understanding of company context were also included. A semi-structured interview approach was adopted for all groups as this enabled questioning to follow similar themes while also enabling the interviewer to practise flexibility in following up issues of relevance to each interviewee group and the individuals within these (Bryman and Bell, 2007; Main *et al.*, 2008; Main *et al.*, 2011).

The approach used to identify participants within the NED/institutional investor/external reward consultant interviewee groups was snowball sampling. This has a number of limitations, including being potentially unrepresentative of a wider population (Bryman and Bell, 2007) and exhibiting bias as views are drawn from people with potentially similar backgrounds and experience (Saunders *et al.*, 2007). However, reaching the elite individuals who operate at board level is acknowledged as being very difficult for academic researchers and thus a snowball sampling approach offered considerable access advantages (Pettigrew and McNulty, 1995). In addition, the wide-ranging experience within significant institutions and interconnections held by the individuals interviewed meant that they were considered to be “network stars” (Pettigrew, 1992, p.178), able to comment critically on executive reward determination across high profile industry, regulatory and investment organisations. Given the nature of the sample identified, a snowball sampling approach might also be criticised as potentially isomorphic with an historical, retrospective viewpoint likely to be offered favouring the status quo rather than an up-to-date approach to the process of top pay determination. This, however, again can be countered by the agenda-shaping roles and interconnections held by the participants suggesting that their views would represent current norms and values.

The snowball sampling process began with a meeting with one elite individual at a public event attended by one of the researchers who asked if he would be prepared to be interviewed and suggest further relevant individuals. This was agreed and further contacts were suggested, increasing the snowball sample with each interview resulting in eight NEDs/Remco chairs, three institutional investors and three external consultants being identified and agreeing to take part in the research (two participants were involved in the FRC and thus also held regulatory oversight). Personal introductions secured helped gain access to these elite groups, access that would have most likely been unobtainable if cold-calling had been used. Given the wide-ranging executive remuneration roles held by the participants, they were asked to describe and classify their activity when they were interviewed.

To further explore how the advice given to top pay decision-makers shapes their views of quantum, four HR executive reward experts also considered as "network stars" in their field (Pettigrew, 1992, p.178) due to their high profile roles within the Chartered Institute of Personnel and Development (CIPD) were identified through personal contact; this convenience sampling approach was necessitated through the pandemic lockdown.

The sample size in this study (overall and within each interviewee group) might be small but, as with any research project, it was important to follow the methodological principle of data saturation (LaDonna *et al*., 2021) to determine when sufficient interviews had been conducted. We were especially mindful of the time pressures all these "network stars" (Pettigrew, 1992, p.178) faced. It was critical to determine when sufficient interviews had been conducted and thus any additional interviews would lead to the capture of repetitive data unlikely to supplement understanding. There was considerable overlap of themes within each of our small, homogenous, group samples indicating when data saturation had been achieved and justifying the sample size interviewed. The decision to use small sample sizes was supported by the work of Guest *et al*. (2006): in this study of a relatively homogenous group of people, 12 interviews were considered sufficient as the first six led to 94% and the first 12 to 97% of high prevalence thematic codes being identified.

One researcher carried out all 17 interviews of the 18 NEDs/Remco chairs, institutional investors, external pay consultants and HR personnel (the two participants involved in the FRC were interviewed together). The interviews began with an explanation of the research purpose ahead of specific discussion of top pay level determination. The interview schedule used is given in Table 1. All except one of the NED/institutional investor/external adviser interviews were conducted face-to-face, one was carried out by telephone; the HR interviews were conducted via Zoom. The interviews averaged 44 mins (ranging from 25-68 mins). Participants were asked if their interviews could be audio-recorded and transcribed; permission was granted in all cases for this to take place.

INSERT TABLE 1

A theoretical thematic analysis (Boyatzis, 1998) was conducted with the transcripts imported into NVivo qualitative analysis software. The Gioia methodology was used to analyse their content to create: a first-order analysis of "informant terms"; a grouping of these terms to generate a second-order "theoretical level of themes"; and from these "aggregate dimensions" were determined linked back to the research question (Gioia *et al*., 2013, p.20). The data structure is represented graphically in Figure 1.

INSERT FIGURE 1

To ensure replicability for further research, the detail underpinning these steps is given below. Data analysis was conducted in two stages. First, the non-interviewer (whom we considered best placed to bring a fresh eye to the data) worked through all the Microsoft Word transcripts to highlight the informant terms. These were recorded using coloured bars and margin notes. These annotations were shared and we agreed the identification of first-order themes. Where there were some different interpretations, discussion took place to share understandings and reach a final decision. Then the non-interviewer imported the Word files into NVivo and used this to code the text as NVivo nodes following the agreed first-order concepts. In so doing, similarities emerged within the coded content enabling the merging of some nodes into a more condensed form (as shown as the first-order concepts in Figure 1) which were then defined by mutual agreement (Table 2). Besides assisting with classification of the informant terms, NVivo also enables their quantification allowing researchers to identify the number of sources commenting on each first-order concept and the number of references made to each. From this information representative quotations could be selected. To share this information, the section of text in NVivo representing each first-order concept was copied back into Microsoft Word to create a separate document for each one which could be shared easily. This also allowed us both to revisit the quotations to check they were classified correctly.

INSERT TABLE 2

Next the first-order concepts were linked to develop second-order themes "to draw forth the theoretical insights" (Gioia *et al*., 2013, p.21). To do this, relevant literature and theory were applied via iterative discussion leading to the generation of eight second-order themes which were then linked to create four aggregate dimensions linked back to the research question.

Findings

Findings are set out purposefully to create a storyline aligned with the four RPs using representative quotations from our four participant groups. We have adopted a thematic approach to the presentation of the findings in this section; we evaluate our findings in the discussion section below so as to address our RQ and consider theoretical and practical accountability implications. Remco members are tagged as REMCO#, institutional investors as IINV#, external reward advisers as REWADV#, and internal HR advisors as HRADV#.

RP1: Publicly available information in top pay quantum determination

While legislative interventions and transparency were considered by all groups as influencing how top pay decisions were presented ("everyone is trying to make sure the message is as anodyne as they can make it such that they don't catch headlines", HRADV#3), there was little support for regulation reducing perceptions of quantum levels and affecting decisions regarding the make-up and value of the package. For example, NEDs commented that while the "very sharp searchlight … has changed practice quite remarkably" (REMCO#6), "people don't see it like that [because] you have ups and downs with LTIPs and the rest" (REMCO#1). Unintended consequences were reported by all interviewee groups:

> "The original intention was that publication and knowledge would restrict pay. What we've seen is no, or not much, evidence that that is successful. And so, 'does transparency have the perverse effect of increasing pay?' is, I think, a significant question." (REMCO#5)

> "We made directors disclose their pay. That is the single biggest contributory factor we have to the problems with directors' pay today." (IINV#3)

> "Regulation … was well intentioned to put some brake on but the evidence shows that every time there's some new regulation it's upped the ante." (REWADV#1)

Institutional investors commented that while they believed regulation had a role in supporting disclosure, they noted that "there is a limit to what government regulators can ask institutions to do" (IINV#3). In terms of specific actions to limit top pay quantum linked to regulatory interventions, applying bonus caps (which, until recently, related to bankers' bonuses in the wake of the financial crisis) were rejected. Applying regulatory measures to alter the make-up of the top pay package in pursuit of redressing past inequalities between executives' and workers' pay and limiting future top pay quantum, were also considered ineffective; for example, "the idea of changing an LTIP to a restricted stock plan that's going to roll down the years is dubious to say the least" (REMCO#1).

Turning to specific company issues, there was concern over the linkage between top pay and company value/shareholder returns. To address this, there was agreement that decisions should be based on "'how is this going to create value for shareholders?' [and less] of the conversation about 'do you think shareholders will support this?'" (IINV#1). Notwithstanding this, it was agreed that trying to value a going concern was very difficult. It was suggested that value "be assessed very simply [because] comparative stuff doesn't actually work" (REMCO#3); the outcome summed up as:

> "You see some very good statements from companies, the chairman outlining the statement of the strategy, key value indicators, key performance indicators, but then you look at them and it doesn't get translated into remuneration. So it's divorced from those internal workings." (IINV#1)

In summary, participants agreed regulation cannot turn back the clock on quantum and transparency has not had the desired effect of reducing it. Although regulation might potentially moderate future quantum, decision-makers and their advisers were against prescription to control the composition of the package and metrics applied to it. Currently attention is primarily on finessing the message to reduce media attention and avoid any potential sanctions alongside trying to find a means by which to assess CEO performance.

RP2: Composition and value of the top pay package

External advisers suggested using a "4M" framework:

> "The first M is market … what markets and how do you put it together? … The second M is the mix … how much should be fixed and how much should be variable in this business; how much short-term, how much long-term … The third M is the measures … to know if you've been successful in a year, two years, or five years … And the fourth M is the moral question … whether this is ethically, morally, the right balance." (REWADV#1)

In respect of market considerations, HR drew attention to the importance of "managing the talent agenda" (HRADV#1). The importance of attracting the right CEO for the business was stressed although the difficulties faced by those involved were acknowledged: "I don't envy them in … big private sector companies where those numbers are so scrutinised" (HRADV#3). Market volatility was highlighted as especially problematic:

> "Setting enduring targets in a world that changes hugely over a one year and certainly a three-year period and so they keep thinking perverse outcomes are because people are making the wrong decisions and actually perverse outcomes are likely given the world is extremely difficult to forecast, even in businesses that we think are relatively stable." (REMCO#5)

Other market-related factors that contributed to an inflationary tendency in levels of top pay were identified as: the international dimension ("the Americanization of paying", IINV#1), competitive pressures ("to hold our own against competitors", REMCO #6) and "little creative thinking in terms of designing and tailoring pay programmes" (REWADV#1). With pay decisions that "must be in the same quartile; you've got inflation built into the system already" (IINV#3). A generic approach to top pay determination, reliance on benchmarking and with little differentiation in remuneration policy between industry sectors and between companies were also considered unhelpful.

There was clear recognition that with "the high watermark being dragged up" (REWADV#3), "the continual ratcheting up … is unsustainable" (REWADV#1). This upward trend in top pay has led to increasing differentials between CEOs and workers:

> "Dividends have grown. Wages have grown. Profits have grown. But of all of that, the most senior management compensation has grown even more." (REMCO#7)

One idea discussed to address this was to consider using pay ratios, although these were recognised as problematic:

> "Companies have their curves that go up with seniority and the bands that we pay in. But they get a bit disconnected when you get to the positions the remuneration committee deals with. Pay ratios are being pushed now. The great risk is that it's going to end up doing the exact opposite of what it wants because it's the same old story, nobody can tell you 'what are the right pay ratios?'" (REWADV#1)

With this in mind, ensuring that a tailored perspective on pay priorities was considered critical to supporting and explaining differentials between pay levels of executives and workers and thereby helping to address the moral question of acceptable top pay quantum. For example, the remuneration given to those at the top needed to build "a good pipeline for the future [and] lead to the right behaviours", (REMCO#7) and "be justified for the culture to be healthy" (IINV#2). Remuneration choices needed to align "with values … with the purpose of the company" (HRADV#3) and "with the shareholder experience and their [executives'] experience" (IINV#1).

Turning to the thorny issue of top pay quantum in its absolute sense, while this was recognised as appearing publicly as "a lightning rod on inequality" (REMCO#1), there was a sense that quantum could be seen as "a red herring … we are talking about a very small minority of people" (IINV#1). Participants also commented that if the sums of money given "make sense in the context of what they've achieved and what the company achieved" (IINV#2) this should not be controversial:

> "You can make money but translating that back into … what have you done with shareholder returns? What have you done in terms of community engagement? What is your employee engagement index and views? And what is your customer satisfaction piece? What is that holistic view of this organisation? And if you're getting tick, tick, tick, tick…" (REMCO#1)

Notwithstanding this, there was a view that even with excellent shareholder returns and other success measures being achieved, an upper limit of around £5m was the absolute level of quantum that could be justified:

> "You're talking about professional managers, not entrepreneurs, not huge risk takers, if you pay people for challenging objectives anything between one and five million … people don't find that a problem. If you pay between five and 10 million, you are definitely in the amber zone … but if you get to north of 10 million … it begins the problem of everybody feeling this is about greed." (REMCO#2)

It was also pointed out that controversy arises in particular when firms "just keep paying out very large sums of money when the results don't justify it" (IINV#2). This led to considering performance measures. While noting these should be more "fit for purpose" (REMCO#4), Remco members identified significant problems in this respect. They pointed to the nature of contractual relationships between CEOs and companies, problems in defining exactly what performance means and how targets are set, and difficulties in the construction of the link between CEO performance and company outcomes:

> "It is very hard to undo a package when the results come home to roost some years later and when all set targets have been achieved. So the problem there is how stretching targets are." (REMCO#6)

To counter these issues, attention focused on the mix of basic and variable pay. There was some support for basic pay being a larger element of the package which would result in a more "straightforward" (REMCO#5) approach to top pay determination. There was general agreement that "a tiny salary and a huge incentive scheme is not the best way forward" (IINV#3). In deciding levels, benchmarking was not viewed as particularly helpful; rather salary "depends on the person" (REMCO#3). In this respect, there was support for creating different payment systems to match people's motivations, with recognition that:

> "Some people are motivated by money, some by power, some just because they like getting things done and making them successful." (REMCO#1)

With respect to performance-related variable pay, the actual level of motivation attached to excessive LTIPs was questioned; a smaller but more direct link to company outcomes was considered more effective in performance conditionality.

In summary, participants agreed market factors have driven up top pay quantum but that introducing pay ratios to narrow CEO and worker pay differentials was problematic. Ideally, top pay would align with company strategy, culture and values as well as individual CEO's motivations. More emphasis on attracting and rewarding the right talent through appropriate salary levels and incentives that better drive forward performance conditionality are needed. That said, defining and measuring performance was recognised as exceptionally difficult. Applying personal value sets to the appropriateness of pay components and benchmarking data was suggested as helpful as was identifying the level of quantum that differentiates between managing risk to increase business outcomes (thereby going some way to address the moral question of top pay acceptability) as opposed to overpaying someone to manage a business who simply works as "hired help" (REMCO#6).

RP3: People and process in top pay quantum determination

Given the rising profile of Remcos, "getting the right people" (REWADV#1) appointed was considered very important to the determination of top pay quantum. A good chemistry between Remco members was also regarded as significant: "it's a conversation rather than adjudication" (REMCO#2). Notwithstanding this, the inherent danger of accepting high pay as being normal was highlighted:

> "The people who are sitting around the table, they're signalling to each other the fact that they are comfortable with dealing with these huge numbers … [they] get caught

up in thinking 'well, we'd better give him this because that's what one does'." (REWADV#3)

To ensure appropriate decisions, participants stressed the importance of information, understanding internal context, and the accountability of the Remco chair. Concern was expressed over the volume of information Remco members had to consider: "you can be overwhelmed" (REMCO#7) as well as problems of "interpreting … and prioritising those information sources" (REWADV#2). This led to the view that:

"Even people who are real practitioners in the field struggle to understand some of the issues around them." (REMCO#5)

HR reward advisers felt they could make a valuable contribution by providing the "internal contextual perspective for the organisation" (HRADV#2) and by explaining "the nuances of how things get done" (HRADV#1). The inclusion of the HR director to support Remco work was generally welcomed by those involved "to focus more on internally generated metrics" (IINV#1). However, HR's reward expertise was considered paramount in this respect, but the Remco chair must be accountable:

"[Remcos must] focus on the consequences of inaction, or inappropriate action ...You do have ability to vote on the Remco chair, which we should utilise much more regularly." (IINV#1)

Participants debated the pros and cons of increasing diversity of viewpoints by widening Remco composition to include appointment of worker representatives in the context of this potentially bringing a "bit more down-to-earth perspective" (IINV#2) possibly resulting in a moderating effect. However, there was general agreement that there was no place for worker representation because this would bring "a different set of values, skills" (REMCO#7) and thereby "erode the unitary board" (IINV#3).

In summary, ensuring Remcos are populated with capable people who work well together was considered crucial, but the volume and complexity of information could challenge even the very experienced. Input from HR could identify internal context and potentially help tailor top pay but creative approaches linked to CEO and company specifics might risk Remco members' personal and company reputations. There was little appetite for diluting the concept of the unitary board to include worker representation to potentially rein in top pay; rather accountability was firmly placed on the Remco chair.

RP4: Social responsibility and value sets in top pay quantum determination

Participants were clearly aware that "the world's remuneration is not being particularly well shared" (REMCO#6), that "there's this huge disconnect right now … of the rich and the poor and the gap between them" (REWADV#1), and that such extremes evident in media attention on top pay quantum were "fuelling part of the difficulties in society between the haves and the have nots" (REMCO#2). It was acknowledged that while there might only be a few publicised examples of top pay "out of line with the rest of the market or just so obviously rewarding failure, [nonetheless this was] just not changing the centre of gravity around the whole issue" (IINV#2). Compounding the socially unacceptable nature of top pay quantum, public perceptions of the relative wealth of those who decided top pay created "an element of suspicion from the public … that this is all a stitch up" (REMCO#6), helping to "create a lack of trust which has to be earned back" (REMCO#1).

Negative publicity surrounding top pay quantum was reported as an "an uncomfortable threat" (REWADV#1). Remco members commented that they knew they had to react to the media ("they don't live in cloud cuckoo land", REMCO#7), but were often not "adequately prepared for some of the controversies [leading to] very difficult impacts on their reputation" (IINV#2). Remco members noted that it was important to be clear as to what their objectives should be – whether "to solve a sense of social inequality, or a sense that people are earning money and don't deserve it" (REMCO#1). Either way, there was a view that in "keep[ing] public companies out of the headlines, maybe they actually make the wrong decisions" (REMCO#3).

A more positive view was given by external advisers who reported that potentially negative media reporting led to more considered discussion of:

> "'… why … and how would that come across?' Not just, 'should we paint it a different colour to make it look better?' but 'is there something more substantive we should be thinking of?'" (REWADV#1)

While Remco members were clear that their remit was to reward executives appropriately linked to company performance and other metrics, there was agreement that "they have to … take into account some of the social responsibility" (REMCO#7). Institutional investors agreed: "we are all thinking more about sustainability and environment and social factors" (IINV#3).

Remco members were of the view that "business can do lots of good, we can get people paid" (REMCO#1) and that: "Theresa May was right when she said we've got to find ways of making sure … that the country's wealth is shared more evenly across all levels of society" (REMCO#6). As a starting point, Remco members noted that "for business to make sure that it has the trust in the community … to re-establish … the pay and performance link is absolutely mission-critical" (REMCO#2). There should be some alignment on base and variable pay that "reflects what the wider population are doing because otherwise you're getting a massive kickback" (REMCO#8). But Remco members said these actions were not enough in themselves; a socially responsible approach must go beyond the pay-performance link:

> "If we could get the conversation away from money on to a vision of what the society is and what responsible management is, in its widest sense, then that would help.

Because then we would legitimise reward on a whole series of metrics that aren't solely to do with money." (REMCO#1)

The difficulty of balancing environmental, social and governance (ESG) factors with company performance measures was nonetheless recognised as difficult:

"Clients say to us 'we want the ESG'. But … if we're not delivering performance, it's no matter how good our ESG credentials are, most clients are going to walk. They want their cake and eat it." (IINV#3)

This led into discussion about the lack of emphasis on fairness in top pay determination. Instead "factors tend to be much more around how's the company done, how's the individual done and what were they paid last year, what returns could they achieve if they were offered X, what's the competitive position, are we at risk of losing the person?" (IINV#2). Although Remco members and their advisers accepted that they drew upon these "reference points" (REMCO#8), they had to balance these with diverse stakeholder expectations: "pressure from the executives who want more and shareholders and the press [who] want less" (REWADV#1). Notwithstanding this, some Remcos were "very thoughtful about their executive remuneration" (IINV#2) and the role of members' personal values in top pay decision-making was considered important: "when voices can be raised and views heard by the board about how inappropriate this may be or how appropriate X may be" (REMCO#7), a more socially acceptable pay outcome could be achieved.

In summary, participants recognised disconnection between top pay quantum and general pay levels and the role of the media in highlighting this form of social inequality. Even if excessive top pay quantum affected only relatively few individuals, its effect was to undermine public trust. While Remco members must be clear on performance conditionality when setting top pay such that recipients are perceived as deserving the awards given, these must be balanced with social responsibility. Although the difficulty associated with pursuing a socially responsible top pay agenda was acknowledged, it was thought Remco members and others involved in decision-making could contribute if they applied their own value sets to question what could be deemed as an acceptable level of top pay in a societal context.

Discussion

Accountability theory has evolved in several directions. Traditional interpretations suggest that the emphasis for agents accountable to discharge an obligation to shareholder principals involves reporting so as to meet intended standards (Frink and Klimoski, 2004; Vandenabeele, 2009). These standards have been mandated in recent decades by legislation and/or best practice codes (Cadbury, 1992; FRC, 2018; FRC, 2020).

Since the audit explosion (Power, 1994) turned traditional accountability into a regime underpinned by sanctions for getting the top pay quantum wrong, decision-makers' focus has been on mitigation through ever more elaborately theorised compliance mechanisms. First, market forces were used as a defence (Hampel, 1998).When this was found wanting, the creation of responses to the demand for ever more extensive metrics and modelling along standardised lines (Mansbridge, 2014) came into play which attributed a homogenised character to top pay decision-makers. It should be noted that subsequent evidence reported in the economics/finance literature has been used to suggest that market forces do in fact constrain executive pay (Gabaix *et al*., 2014; Kaplan, 2013). Demonstrating this in general is, however, somewhat separate to claiming market forces are a sufficient justification for a particular executive's pay package.

Based on challenging these earlier assumptions, accountability theory has been refined to give greater weight to diversity among agents. Extrapolating has suggested paying greater attention to the selection of more trustworthy decision-makers and/or to the basis for calibrating the trust-sanction equation assuming that self-regulating mechanisms operate across decision-maker peer networks (Kuo *et al*., 2022; Xiao and Xiao, 2010). Here malfeasance exceptionally on the part of 'bad apples' may be rooted out and disciplined by peers within their accountability networks to mitigate the risk of sanctions-related reputational damage to top pay decision-makers as a whole.

Acknowledging a more socially-inclined trajectory in theorising accountability we would argue there is potential to provide enhanced explanatory power. We propose that accountability theory may be further extended by reference to individual decision-makers' sense of what is felt to be socially responsible. We thus extend the applicability of accountability theory within the context of top pay decision-making to propose that decision-makers experience a sense of accountability contingent on localised and dynamic corporate conditions tempered by accounts presenting socially responsible top pay quantum.

In relation to answering our RQ as to the factors that influence those accountable for decision-making when determining appropriate versus excessive levels of executive remuneration, our findings narratives (as summarised under each of our RPs) indicate that both factual, publicly available information and relationships contribute to participants' sense of accountability.

Evaluating these narratives within the context of the published literature indicates that although regulation helps drive forward sanctions-based accountability (Han, 2020), the values applied by top pay decision-makers influence trust-based accountability (Frink and Klimoski, 2004; Vandenabeele, 2009) by moderating how the factual top pay backdrop is interpreted and applied in practice. Our findings also show that participants' value sets play a role in determining how factors such as benchmarking, market trends and pay component norms are applied in their decision-making. While the relatively homogenous nature of the actor networks within the top pay arena result in selection/peer network felt accountability (Kuo *et al*., 2022; Xiao and Xiao, 2010), our findings further suggest that participants' value sets extend this sense of felt accountability (Kuo *et al*., 2022) beyond that of peer networks into the wider public sphere; this leads to socially responsible felt accountability. Figure 2 summarises this extended frame of reference, discussed below.

INSERT FIGURE 2

Standards compliance or trusted explanation: the role of publicly available factual information

Hypothesising that regulatory intervention will contain top pay excesses appears flawed when taken in isolation from the context in which it functions. It may be reasonable to assume that, while standards and transparency in compliance processes will have a positive role to play, trustworthy top pay decision-makers may be drawn to an invitation to explain why circumstances may explain divergence from norms. The narrative from our interview respondents supports this. There appears to be no confidence among Remco participants or institutional investors in the likelihood that the top pay trajectory can be successfully reversed. Regulators can add on extra requirements but that assumes homogenous interpretation by decision-makers. As we have argued, diverse interpretation may lead to unintended outcomes. Theoretically, one avenue for regulators is to invest greater trust in decision-makers to innovate, using their embedded corporate insight, to enhance the degree of top pay-performance alignment beyond the uninformed public gaze. In so doing, it could be possible to navigate between the demands of executive talent charged with shareholder value creation and the wider scrutiny of decision-making to demonstrate more responsible outcomes.

Composition and value of top pay under the gaze of auditing metrics and sanctions

While regulators may mandate the mechanisms, and data may be accessible to decision-makers, the fact of having to exercise, and then defend, judgements about specific top pay awards aligned with dynamic corporate conditions means practice remains indeterminate. Hence, criticism of groupthink among decision-makers, if left to make their own judgement regarding the quantum of top pay continues, despite the emphasis on the shift from trust-based accounting (Han, 2020). The assumption has been that accounts anchored in performance metrics with sanctions, such as voting against reappointment of a Remco chair or refusal to accept the committee's report to shareholders, will induce decision-makers to tackle perceived excessive outcomes (Besley, 2006). Decision-makers appear to accept these arguments at face value but, in addition, they report the need to move away from sole reliance on market signals applied through consultant benchmarking of top pay levels that may be self-reinforcing. Instead, they seek the goal of multifaceted alignment; that is to match desired executive talent with company culture, values and performance delivery, balanced against the executive's own aspirations. In practice, sanctions-based accountability theory (Han, 2020) may need adaptation to recognise that decision-makers find themselves struggling to put in place sustainable mechanisms to optimise levels of top pay, namely quantum that motivates executives, differentiating recognition of outstanding contributions to company success from a standardised pay/performance link.

Inter-relations of people and processes in top pay determination

Accountability theory has evolved further in the face of recognised confounding elements of metrics and sanctions. Ideally, the goal is for principals to select decision-makers so that, while exercising the necessary discretion in top pay quantum setting, their internalised norms will act as a brake on excess. Hence, peer-moderating influences lead to compliance within relevant professional networks. While sanctions may apply to guard against deliberate or unintended default, principals and regulators are advised to build a governance system in which sanction is peripheral (Xiao and Xiao, 2010). In this way agents may exercise discretion to remain agile aligned to specific operating contexts. Here, as illustrated by our findings, the specificities of accountability involve certain individuals playing a key role. Remco chairs are highlighted as particularly accountable to provide leadership in navigating the challenge of evaluating high volumes of complex data, even when the committee comprises a high-quality cohort of decision-makers with access both to independent and embedded specialist advice. They have ultimate accountability to tailor pay quantum contingent on culture and strategic priorities and to head-up the explanation process in reports to corporate governance stewards required to vote on a board's top pay policies and their applications. While our findings demonstrate recognition that the internal organisation's voice is a prerequisite to address the latest challenges posed by regulatory demands for transparency on internal pay ratios comparing executives and other employees, there is no appetite to augment Remcos from the shop-floor – instead the HR function represents the preferred conduit.

Felt accountability to calibrate top pay in socially responsible ways

Our research illustrates how decision-makers perceive the media-disseminated disconnect between those paid at the top and less fortunate members of society, especially in the face of inflationary pressures on incomes and living standards. Although recognising that big company top pay decisions relate to a minority of people, decision-makers are well aware of the symbolic value of adverse headlines. Our findings indicate scope to extend Kuo *et al*.'s (2022) felt accountability theory from networked decision-maker peer disciplines into individuals' subjective perceptions of social responsibility. We suggest a trajectory in the direction of top pay decision-makers' felt accountability to apply standards that coincide with their felt values which can safeguard their reputations by demonstrating socially responsible decision-making, while concurrently serving the interests of their economic principals and wider stakeholder networks (Vandenabeele, 2009). The explanatory power of felt accountability theory (Kuo *et al*., 2022) may thus be further strengthened by acknowledging these considerations. ESG and other socially responsible aspects may be hard to incorporate into standardised top pay metrics given their heterogeneity (Li *et al*., 2022), but there is a willingness on the part of decision-makers to bring their own values as to what feels fair to help inform the challenge they and their peer networks face to move in the direction of more a socially acceptable top pay quantum (Ntim *et al*., 2019).

Implications for practice

Regulators may wish to revisit their assumptions in the knowledge that sanctions-based accountability is insufficient by itself to moderate top pay levels. The scope for a more diverse make-up of decision-makers with deeper understanding of the dynamics of specific organisational settings and executive motivations may assist Remco actions and expectation-setting for stewardship scrutiny among investment fund managers. The application of personal values in more creative top pay decision-making may mitigate some of the risks of unintended consequences of following prescriptions. Decision-makers may thus wish to draw upon inputs from internal HR sources balanced against those from external advisers to help both in crafting more organisationally-contingent top pay choices and the reported rationale for them. Top pay decision-makers might also wish to incorporate their own value sets to a greater extent than they do currently in determining societally acceptable levels of quantum to arrive at top pay quantum that fits better with espoused organisational and personal ESG credentials.

Concluding remarks

Public perceptions of excessive top pay remain despite three decades of regulatory interventions. Decision-makers favour the alignment of top pay with company strategy, culture and values as well as individual recipient motivations but the process of top pay determination is unable to adequately define, measure and apply performance conditionality and link these definitively to quantum. While creative approaches are thus welcomed, these risk Remco members' personal/organisational reputations. Nonetheless, members believe that by applying their own values in top pay decision-making, they can contribute to more socially acceptable quantum. Sanctions-based, trust-based, and selection/peer networks/felt-based accountability theory all help to explain top pay decision-makers' actions when determining quantum but extending felt accountability theory to encompass public/societal accountability adds further theoretical framing to help understand the determination of the appropriateness of top pay quantum.

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Table 1: Interview discussion issues

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

Table 2: Definitions of first-order concepts

Basic pay (7S, 18R) = Guaranteed salary.
Board composition (6S, 12R) = Remco representatives' influence on top pay decisions.
Capping (4S, 4R) = Legislation limiting aspects of the top pay package.
Change (4S, 8R) = Top pay trends.
Company value (4S, 8R) = Organisational stock market value.
Continuity (5S, 10R) = Strategic stability in top pay determination.
Differentials (8S, 17R) = Top pay levels differentiated from employees.
Disclosure (3S, 5R) = Requirements for information to be made public.
Employee representatives (6S, 12R) = Employee representatives' influence on Remco pay determination.
Fairness (7S, 10R) = Decision-makers' justice perceptions in calculating top pay levels.
HR personnel (5S, 12R) = NEDs'/institutional investors/external consultants' views on the contribution of HR to Remco decision-making.
Information flow (7S, 17R) = Data transfer between parties involved in top pay decisions.
Inside knowledge (4S, 20R) = HR's organisational context expertise in Remco decision-making.
Interface tensions (9S, 21R) = Competing interests/inter-relationships of Remco members.
Internal context (5S, 12R) = NEDs'/Remco chairs', institutional investors' and external consultants' understanding of organisational context applied to Remco top pay determination.
Justification (10S, 33R) = Remco decision-makers' explanations of the rationale/calculation and level of top pay.
Legitimacy (6S, 8R) = Top pay level acceptability compared with that of comparators.
Media (8S, 17R) = Media commentary on top pay.
Performance (10S, 42R) = The relationship of top pay to organisational performance.
Pay priorities (9S, 21R) = Important factors in top pay design.
Process (12S, 42R) = Practices/procedures used by those involved in determining top pay.
Quantum (10S, 26R) = The total amount paid to executive directors.
Regulation (9S, 30R) = Legislation, codes of practice and policy governing/influencing top pay decisions.
Remco reports (4S, 14R) = HR professionals' contribution to Remco reports.
Reward increasing (6S, 14R) = Rising top pay levels.
Shareholder value (7S, 17R) = Links between top pay levels and share prices.
Social responsibility (8S, 40R) = Societal concerns considered in top pay determination.
Socially unacceptable (10S, 32R) = Top pay levels considered inappropriate or objectionable.
Talent (3S, 6R) = The role of HR in ensuring pay decisions attract and retain executive directors.
Transparency (5S, 11R) = The openness of Remco debate/documentation.
Values (11S, 14R) = Remco members' standards/principles.
Variable pay (9S, 31R) = Performance-related pay, stocks/shares and/or incentives/bonuses.

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

Figure 1: Data structure

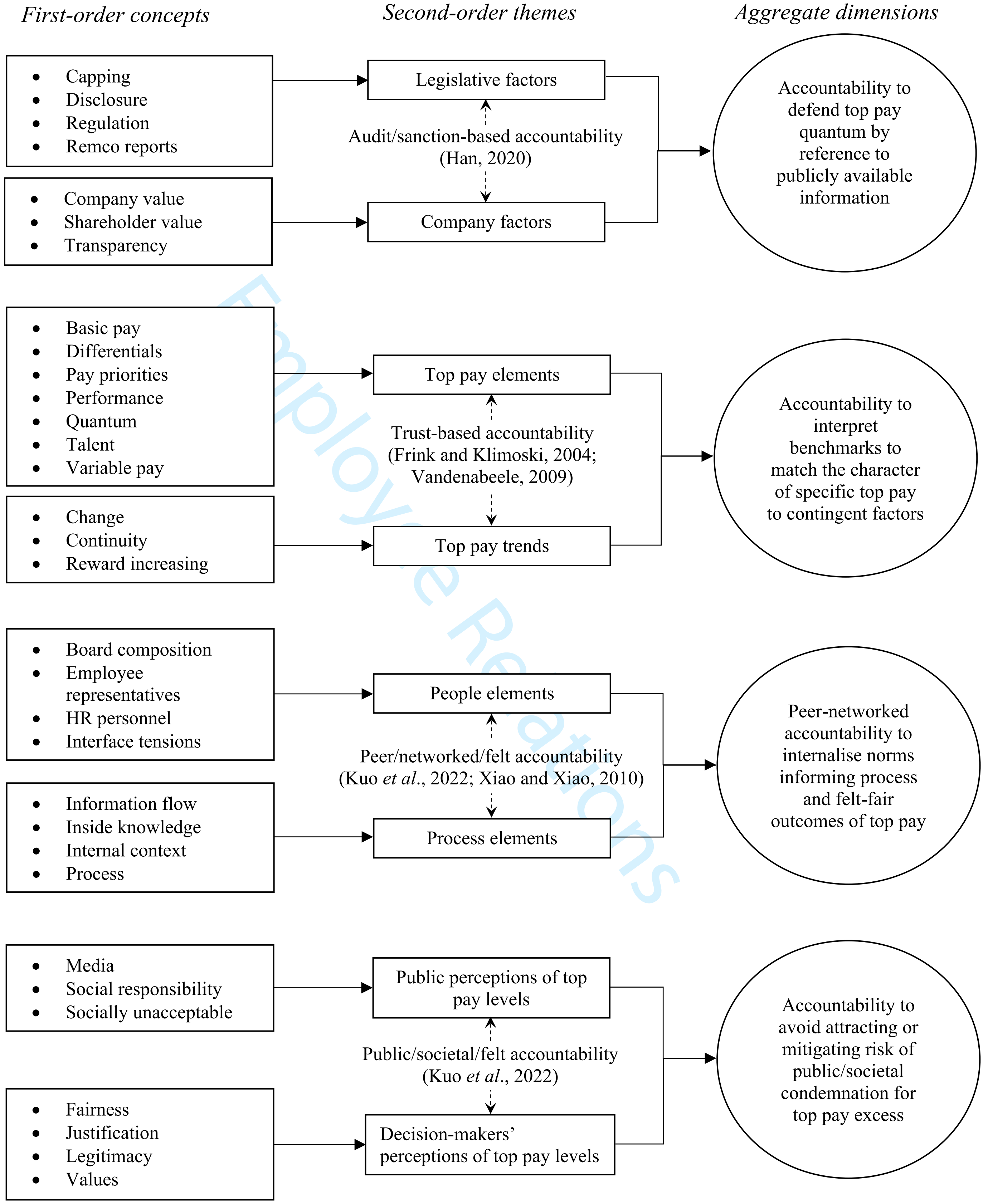

Figure 2: Extending felt accountability into social responsibility