Title: A behavioural perspective for a change agenda for executive rewards

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Chapter Abstract

This chapter responds to the continued call for an increasingly individual-behavioural and psychological perspective for furthering our understand the drivers and consequences of executive reward (Pepper, 2015) to complement dominant financial and market focused perspectives. We explore the growth trends in executive reward size and constitution through triangulated data from research including a practitioner survey (52 senior practitioners) and an in-depth workshop including focus groups (14 senior practitioners), interpreted through the lens of extended behavioural agency theory (elaborating upon CIPD report by McDowall, Whysall, Jackson & Hajduk, 2015). The data speaks to a distinct gap between the evidence-base for reward-performance associations and the behaviours needed in order to sustain corporate social responsibility (CSR) which should be focused on a wider stakeholder-, not limited shareholder-, based perspective. Reviewing a range of cross-disciplinary literature, we build on Pepper's suggestions for a change agenda to draw out implications for future research, theory, and practice.

The rise of executive rewards

The magnitude of Chief Executive Officer (CEO) rewards and their disproportionate rise relative to more junior employees' salaries continues to receive much criticism in the public domain, particularly in the aftermath of the global financial crisis (Farmer, Brown, Hewitt, Reilly, & Bevan, 2013). A European comparison of over 700 listed companies across as number of European countries showed that CEOs in the UK earn 50% more than their German counterparts, and one and a half time as much as CEOs in Sweden (Baeten, 2016; in Financial Times, 2016). Between 2000 and 2014 the median total earnings for UK FTSE 100 CEOs increased by 278%, while the corresponding rise in total earnings for full-time employees was only 48% (Income Data Services, 2015). Analysis of the 'single figure' for CEO pay declared by companies in their annual reports suggests that the average UK FTSE 100 CEO was paid almost £5 million in 2014 – approximately a five-fold increase since the late 1990s (High Pay Centre, 2015). Trends show that inflation adjusted CEO compensation in the US increased about 941 percent from 1978 to 2015, a rise roughly 70 percent faster than stock market growth and substantially greater than the 10.3 percent growth in a typical worker's compensation over the same period (Mishel & Schieder, 2016).

In the UK, there is tentative evidence of a reversal in trends, as the average FTSE 100 CEO has seen their overall package drop by 17% from 2015 to 2016 (CIPD & High Pay Centre, 2017). Nevertheless international data trends show that CEO compensation continues to rise, even during times of economic recession (e.g. Mishel & Schieder, 2016).

Despite attempts to tie a greater percentage of executives' pay to company performance, for instance by increasing the percentage of pay directly linked to performance-indicators, many CEOs continue to receive reward packages which appear disproportionate to any returns delivered to company shareholders. Only one of the 10 highest paid CEOs in the 2014 Wall Street Journal's annual pay survey ranked among the top 10% by investor performance (WSJ, 2015). Bebchuk and Fried (2005) noted over a decade ago, "…there is now recognition that many boards have employed compensation arrangements that do not serve shareholders' interests." (p.6). We contend that lack of alignment with shareholder interests is only one side of the coin however, as executive compensation also needs to be considered by taking a wider stakeholder perspective, which is a thread which we return to at various points in this chapter.

Organisations use a range of financial, accounting and market based measures to benchmark CEO performance (for a recent overview see Li and Young, 2016) such as Earnings per Share (EPS) and Total Shareholder Return (TSR). Such measures are then linked to what is usually a complex set up of short-term (e.g. cash bonus) and long-term incentives (e.g. based on share performance); Li and Young highlight that an increasing proportion of CEO compensation is linked to performance, but that the constitution of CEO pay is now so complex that the metrics and their constitution are difficult to disentangle even for those with financial acumen. Indeed, recent research examining UK-listed firms' remuneration reports revealed that in cases of high CEO pay, a less readable remuneration report was associated with reduced say-on-pay voting dissent (Hooghiemstra, Kuang, & Qin, 2017). The authors suggest, therefore, that reducing 'readability' could be an effective obfuscation strategy for influencing the level of shareholder say-on-pay voting dissent in firms with excessive CEO pay.

Li and Young found that firm size, industry and levels of compensation set the previous year are the most consistent predictors of CEO remuneration, and question if there is any link between levels of compensation and performance. Indeed an analysis using US financial firm data (Yang, Dolar & Mo, 2014) showed that incentive-based CEO contracts did not have the intended effects in the aftermath of the financial crisis given that CEO compensation continued to raise whilst stock-based performance declined.

Much dissatisfaction has been voiced regarding resulting pay inequity, there appears far less evidence about potential alternatives or solutions (see also Pepper, 2015, Dorff, 2014). As Dorff (2014) cogently put, the growth in CEO compensation has effectively been an experiment, where organisations have manipulated reward size and structure without much or indeed any proof for the effectiveness of their strategies and processes. Against this backdrop of a disputed association between pay and performance, an absence of evidence for suitable alternatives or solutions, and a need for greater recognition of broader stakeholder perspectives and considerations, we focus our chapter on (a) how organisational stakeholders perceive current and future reward structures and processes, (b) the current research evidence with consideration of governance and corporate responsibility, behavioural agency theory and CEO characteristics and; (c) implications for research, theory and practice.

UK research on the “power and pitfalls” of executive rewards

The research we draw upon, used a sequential mixed methods design (Cresswell, 2013) to investigate executive rewards from an explicitly behavioural perspective; the full report and technical supplement can be found online (CIPD research report by McDowall et al., 2015). The focus of this investigation was to explore what kind of leaders and leadership behaviours are needed at the top of contemporary organisations, the types of behaviours current rewards encourage, how rewards are and should be decided, and what the barriers might be to any reforms. For the purpose of this chapter, we integrate the survey findings from 52 practitioners, comprising senior leaders, HR directors and reward specialists, and qualitative data from 14 individuals via focus groups, also a diverse sample of leaders, HR directors and reward specialists, in additional detail to inform our synthesis and critique of literature in the domain.

The survey juxtaposed what CEO behaviours are valued now against what behaviours are needed in the future, using semantic differential items, where we asked respondents to rate on a scale from 1 (not important) to 4 (very important) which contrasting behaviour are more important now, or should be important in the future (for example, for the item set "Inspire, energise, engage versus Drive, direct and control" the mean of 3.25 indicates that overall a more inspiring as opposed to directive approach is needed).

Overall, the findings indicate that respondents rate a shift towards a more engaging, long term and nurturing perspective as important, as shown in Table 1, which ranks the items in order of magnitude for the biggest differences between current and future behaviours.

Insert Table 1 about here

Table 1: Descriptive statistics (n = 52): the qualities needed in CEOs

	Current behaviours		Future behaviours		
Item	M	SD	M	SD	Difference score
Inspire, energise, engage versus Drive, direct and control	3.25	1.25	2.02	.98	-1.23
Develop resources long-term versus Resources for short term results	2.65	1.28	1.61	.66	-1.04

Focus on results versus Focus on behaviour	2.23	.88	3.10	.89	.87
Organise and manage versus Nurture and Support	2.48	1.20	3.25	1.06	.77
Focus on create and innovate versus Focus on efficiency and performance	3.29	1.19	2.71	.87	-.58
Shareholder value versus Stakeholder value	2.56	1.30	3.11	1.20	.55
Personal strength and confidence versus Humility and seeking understanding	2.28	1.05	2.79	.75	.51
What's in it for me – versus what's in it for us	3.98	1.20	4.42	.78	.44
Focus on Profit versus Focus on meaning and purpose	2.40	1.29	2.87	.85	.38
Analysis of numbers and information versus Intuition and Feeling	2.27	1.17	2.44	.75	.17

The survey also explored how CEO reward packages are determined at present, and how they should be determined in the future, using a similar scale as in the previous set which ranged from 1 – 3. As shown in Table 2 (items are also ranked here by magnitude for the biggest differences between what is important now and should be important in the future), there was some agreement that consideration of the past (e.g. the magnitude of the predecessor's reward package) should become less important, in turn that a wider stakeholder focus, motivating CEOs to achieve business goals paired with a greater focus on ethics should grow in importance.

Insert Table 2 about here

Table 2: Factors determining CEO rewards now and in the future (N = 52)

	Current		**Future**		
Item	M	SD	M	SD	Difference
Encouraging required CEO behaviours and ethics	2.20	0.73	2.67	0.55	0.47
Aligning package with shareholder interests	2.27	0.67	2.64	0.56	0.37
Consideration of predecessor's reward package	1.47	0.58	1.17	0.38	-0.30
Fostering CEO motivation to achieve business goals	2.31	0.62	2.52	0.50	0.21
Attraction and retention (of CEO talent)	2.27	0.60	2.37	0.63	0.10
Aligning package to industry standards	2.06	0.57	2.00	0.69	-0.06

We then used Cluster Analysis to determine patterns and to explore potential subgroups of individuals based on item response patterns using a range of statistical techniques including Ward’s method of clustering together with squared Euclidean distances among clusters was used in order to maximise within-subgroup homogeneity and between-subgroup heterogeneity (Everitt et al., 2001). We inspected Agglomeration schedules and dendrogram plots visually, both of which offer suggestions about the number of emergent clusters within the larger group (see Hair et al., 1998 for a comprehensive discussion on these approaches). Guided by this information, three distinct clusters were identified and the analysis was re-run with a forced three-cluster solution. A new dataset was saved that matched each participant to one of the three identified subgroups. A one-way ANOVA revealed that significant ($p < .05$) differences were observed across all items used in the clustering process, providing initial evidence for the validity of the cluster solution.

Three clusters were identified, considering items with the largest variance in mean ratings, and inspections of dendograms as well as analysis of variance, all of which pertained to views on rewards rather than respondents' organizational role (we had also collected data on organisation size, people's role and other basic characteristics). Cluster 1 (n = 28) was termed "Profit driven transactors" because these respondents agreed that profit, strength, and power paired with a short term and organizationally focused perspective are important. Cluster 2 (N = 14) was termed "long term nurturers" who focus on future results paired with a more nurturing approach on the part of the CEO. Cluster 3 (N = 9) was termed "Person-focused" as group members had strong views that CEO rewards are being driven by the need to compete for talent; and that fostering CEO motivation through rewards and a focus on ethics are important.

It was also notable that all three clusters converged on certain views, including that a more strategic focus on innovation and creation (as opposed to efficiency and performance) is needed for the future; also that a 'what's in it for us' rather than 'what's in it for the CEO' mentality should take prominence. All groups also agreed that CEO packages should be aligned to the complexity of the role, but did not express positive views about the role of regulation in any changes in CEO pay.

Qualitative data analysis

Narrative comments were received from 28 respondents in relation to challenges or resistance experienced with regards to CEO reward practice (and any changes they had made); these were content-analysed as shown in Table 3 which illustrates the barriers identified with concrete examples from the data.

INSERT TABLE 3 ABOUT HERE

Table 3: Content analysis of challenges and barriers

Barriers identified	Examples
Governance	
The influence of shareholder views (n = 8)	Over-involvement in reward criteria and selection criteria
Role of Remuneration committee (n = 2)	“Nervous” about change, need to be realistic about what is “fair”; Fear of “bad press”
The market	
Comparisons to other organisations affecting pay (e.g. international, n = 6)	Competing organisations offer larger rewards
Sector specific challenges (n = 2)	Constrained financial incentives
The rewards	
Constitution of rewards and how these are applied across people (n = 6)	LTips need to balance short term rewards, short term rewards often ineffective Too complex Too little emphasis on nonfinancial metrics
Alignment to business performance and goals (n = 5)	Short term rewards do not align to business coals “hard to be competitive and ethical”
The CEOs	
Attracting/ retaining talent (n = 4)	Not enough strategic business focus on personnel planning at the top
The Influence of personal characteristics (n = 3)	CEOS can complete shape strategic direction Deliberately ethical stance as refreshing, but also constraining

Shareholder views were considered one of the greatest obstacles to any changes in CEO rewards, including open pressure to align with their interests. Fear of not being competitive in the international market and being unable to attract the best CEOs also featured strongly in participants’ comments. Two people described CEOs who are ‘thinking outside the box’ and had instigated a real change in reward perceptions by instigating a more equitable and fair reward scheme. The increasing complexity of rewards was stressed as a factor in leaving all stakeholders unhappy, and that a shift towards rewards based on group and shared, rather than silo performance was needed.

Last, we consider the data from 1-day workshop with 14 senior participants including reward, and HR directors, as well as a CEO and reward consultants which comprised a series of focus group discussions in which each group was asked to seek agreement on and outline what ideal reward practice looks like and how practice needs to evolve to achieve it. Participants underlined the counterproductive effects of quarterly reporting (for listed companies) and overly dominating shareholder influence which fuel a predominantly short-term perspective but also the focus on a ranking perspective ("is my reward larger than yours?"). Participants stressed the prevailing 'myth' of the CEO as 'saviours' and 'heroes', alleging a lack of internal and strategic succession planning for top teams. Overall, consensus was that CEOs of the future need to (a) exhibit mindful and authentic leadership by bringing an emotionally intelligent and reflective approach to their role, (b) focus on long term business sustainability to facilitate organisational learning and growth, and (c) remain being responsible and responsive to the wider stakeholder community. This tallied with the data from the survey, which also indicated a necessity for a wider stakeholder perspective, and for the influence of prevailing parameters, for setting of rewards such as the size of previous packages, to diminish in importance.

Mapping of the literature – Corporate Governance, Corporate social responsibility and CEO characteristics

Informed by these themes, we then synthesized relevant literature using systematic mapping to categorise relevant papers under the headings of (a) corporate and governance perspectives, (b) corporate social responsibility, (c) the limitations of financial perspectives and behavioural agency theory and (d) CEO characteristics. US data continues to dominate the available evidence which needs to be acknowledged as a limitation from the outset, given that legal requirements differ but only few publications even acknowledge national idiosyncrasies and differences. For instance, CEO duality (the chief executive officer also chairs the board, e.g. see Jizi, Salama, Dixon & Stratling, 2014) is not permissible due to company law in the UK.

Corporate and governance perspectives. There is a long history to instigate regulatory reviews and policy which go back to the Cadbury report (1992) and the more extensive

Greenberg report (1994) in the early 1990s. We direct readers to Jenkins (2017) for a social constructivist analysis of policy directives and resulting changes in the UK. As a result, levels and constitutions of executive pay are now made public. Yet, there continues to be resistance to further calls for greater government intervention and the instigation of regulatory policy surrounding this issue. When Teresa May was elected prime minister in 2016 she made executive pay a key focus and called for the publication of executive pay/ employee pay ratios to stop 'careless' behaviour (Swinford, 2016), yet her calls for a detailed and bespoke code of practice have not yet materialised to the extent promised; as other political concerns have taken centre stage (CIPD, 2017) At the time of writing, certain 'compromise policies' are being instigated such as a register of dissenting votes by shareholders on pay decisions (add ref).

Studies considering CEO compensation from a corporate governance perspective provide wider organisational and legislative context. Cohen, Dey and Thomas (2013) found that in general legislation has some moderating effect on CEO pay, but cautioned that a causal link cannot be inferred. Black (2014) provides an interesting angle on diversification, showing that CEO compensation is higher where organisational tasks are more complex and international.

In order to provide shareholders with greater power over executive pay, a number of countries have introduced 'say-on-pay' initiatives (the role of organisational monitoring). In the UK, for instance, the Enterprise and Regulatory Reform Act (ERRA) 2013 requires listed companies to hold a binding shareholder vote on executive remuneration at least every three years, on top of the annual advisory vote on the remuneration report detailing pay over the previous year. Although the average vote against FTSE 100 remuneration reports in 2014 was just 6.5% (High Pay Centre, 2015), 2016/17 saw a number of high profile votes going against Board recommendations. Almost two thirds opposed a rise in pay for Pearson CEO, 40% voting against remuneration proposals at AstraZenica, and 58% at housebuilding company Crest Nicholson.

Say on pay has been considered in several papers. Cai and Walkling (2011) discovered that Say on Pay initiatives appear to be beneficial for organisations with inefficient compensation systems, in other words ‘abnormally’ high CEO pay and low pay-for-performance sensitivity, but can be counterproductive for others. They found that the positive impact was stronger for firms with weak, but not the weakest, governance. While a shareholder vote may benefit firms with overpaid CEOs, it is up to the board of directors to make these changes. The authors emphasise that legislation is unlikely to affect deeply entrenched managers. Furthermore, evidence from other countries where there leeway about the composition of boards and remuneration committees (in the UK remuneration committees have to be composed of non-executive directors) suggests that boards with best practice structural arrangements – those chaired and dominated by non-executive directors at the board and compensation committee – are no more adept at enforcing CEO pay-for-firm-performance than are executive-dominated boards (Capezio, Shields & O’Donnell, 2011). Another analysis (Gregory-Smith, Thompson & Wright, 2013) found that the effects of corporate voting dissent are small, and most pronounced for higher quartiles of rewards. Mobbs (2013) also considered board composition, finding that greater competition between respective members on boards results in more aligned compensation contracts.

A rare experiment on shareholder voting which simulated realistic scenarios using vignettes (Krause, Whitler & Semadeni, 2014) indicated that shareholders value a strong link between pay and performance in line with agency theory (Jensen and Meckling, 1976) which predicts symmetrical assessments of gains and losses, but are also more concerned about losses than gains, which is in line with prospect theory (which holds that that individuals are loss averse). These results suggest that shareholders ‘frame of reference’ is importance to understand, in other words which factors guide decision making, which is an important issue given how complex current executive reward structures are (see introductory section above). Overall, the evidence suggests that corporate governance and imposed regulation appears in itself insufficient to regulate and optimise CEO reward practice, as human biases and heuristics will also influence how rewards are allocated and evaluated.

Corporate Social Responsibility. An alternative to a focus on regulation and market and investor reactions is the ‘ethos’ of any firms – corporate social responsibility (CSR). CSR refers to the proactive actions taken to “further some social good, beyond the interests of the firm” (McWilliams & Siegel, 2001, p.117), for instance, with respect to environmental activities, community involvement, product qualities, employee relations and diversity policies (McCarthy, Oliver, & Song, 2017). In this context, it is also important to consider the role of monetary versus non-monetary incentives – do organisations dispense too much of the former and too little of the latter, and what is the role of the CEO in fostering a more altruistic organisational orientation? A robust US study considered monetary (bonuses) and non-monetary incentives (power, career concerns etc.) for nearly 600 organisations over a four-year period (Fabrizi, Mallin & Michelon, 2014). The results outlined that monetary incentives had a negative effect on CSR, and non-monetary incentives had a positive effect on CSR. It follows that executive compensation decisions should look far beyond salaries and incentives.

Rekker and colleagues (2014) offer one of the few studies to take a differentiated look at executive rewards and the varied aspects of CSR. Firstly, consistent with Fabrizi and colleagues (2014), they identified a significant negative relationship between CSR and size of salaries as well as long-term compensation. This finding, consistent with their expectation that CEOs who are employed in CSR firms tend to accept a lower level of compensation, suggests that intrinsically motivated CEOs do not require long-term financial incentives to engage in CSR. Their further differentiated analysis; a “disaggregation of CSR into its components matters" (p. 100); suggests that employee relations, environmental, and diversity elements of CSR all have an important impact on CEO compensation, whilst community and product quality elements do not. Finally, and perhaps rather sobering, they also find that once the effects of the financial crisis and efforts to further gender equality (through the size of rewards for female CEOs) are accounted for in the model, a CSR orientation makes little difference.

However, rather than concluding that CSR is irrelevant in the context of rewards, future research would do well to disentangle further the potentially reciprocal effects between CSR and the influence of CEOs. Perhaps too little research has concerned itself with the reverse side of the coin; rather than asking "are reward sizes and constitutions set appropriately", researchers and policy makers should ask "what actually motivates CEOs", and in particular what is the role of financial versus non-financial performance measures. Current practice and policy are dominated by financial and market considerations, which in turn fuels the focus on financial benchmarks and measures.

The limitations of financial perspectives and behavioural agency theory

As mentioned, much of the existing research on executive reward remains dominated by economic and financial perspectives, exploring monetary incentives in the context of market-based explanations (e.g. Murphy & Zábojník, 2004). However, academics outside of the economic and financial fields have criticised these rational, market-based explanations as overlooking other influences such as managerial power (Bebchuk & Fried, 2003; 2004; 2005), social-psychological processes (O'Reilly & Main, 2010; Pepper & Gore, 2015; Pepper, 2015), and the institutional environment (Diprete, Eirich, & Pittinsky, 2010).

A meta-analysis of 219 US-based studies to investigate the links between executive power, pay, and performance noted "a lack of interdisciplinary consensus" (Van Essen, Otten & Carberry, 2012, p. 165) regarding the factors that drive executive rewards; this offered mixed support for managerial power theory (MPT; Bebchuck & Fried, 2003, Bebchuck & Fried, 2004), which broadly holds that CEOs exert power over corporate boards which influences compensation. The results indicated that where boards have more power over the pay setting process, CEOs tend to receive lower rewards; but results were mixed for performance-pay sensitivities; as only one indicator of CEO power (tenure) had an impact. Without explicit consideration of behavioral factors and social psychological processes organizational understanding of the full range of influences on executive reward is likely to remain under-developed (Lupton, Rowe & Whittle, 2015; Main, 2011; Pepper & Gore, 2014) which should encompass better primary data from executives (Dever and colleagues, 2007). Capezio, Shields and O'Donnell (2011) argued that greater attention should be paid to the "deeper social, institutional, cognitive, and behavioural processes in play that will influence executive pay above and beyond board structural characteristics per se." (p.506).

Pepper (2015) proposed revised behavioural agency theory as a lens for executive reward research which explicitly acknowledges that executives, and indeed other organisational decision makers, do not think or act entirely rationally. Rather, they are subject to cognitive information processing biases and are motivated by a range of intrinsic and extrinsic factors rather than financial incentives alone; including risk aversion (loss aversion below a threshold) and inequity aversion. In brief, the theory proposes that rewards that are complex and delayed are less valued by individuals than simple immediate rewards, thereby contributing to observed inflations in pay. Yet, current executive rewards remain complex as they typically comprise a base salary, short term incentives such as yearly cash bonuses, and long term incentives (LTIPs) usually based on a delayed receipt of company stock, contingent on time or performance conditions, or both.

Pepper (p. 133) articulates new design principles for executive pay, which range from the actual selection of CEOs and the redesign of their roles through to the streamlining and simplification of executive reward systems to inform reforms in the context of appropriate legal frameworks. He also challenged academics to put forward better theories. We concur, and advance that in order to do so further attention must be paid to the role, influence, and characteristics of CEOs, in addition to the mechanics of remuneration arrangements and a wider corporate perspective.

CEO characteristics. The evidence suggests that nuanced understanding of CEO performance over time is needed to inform reward decisions. Fitza (2013) used observations from over 250 CEOs and 2,400 US companies to show that random effects (positive trends in financial and market performance) are regularly and overly attributed to CEO influence, as two CEOs whose individual performance is exactly equal may nevertheless lead two organisations with different performance metrics. It is yet another matter, however, to ascertain how to remedy such misconceptions and biases, given the almost mythical quality attributed to high profile contemporary CEO, an issue to which we return in our series of recommendations.

Given the cautionary findings on the limited influence of corporate governance and performance-compensation ratios over time, a behavioural perspective is needed to allow a more finely grained understanding of the influence of CEO on their organizations. There is no unique theory or framework for CEO or executive leadership to frame relevant research, instead studies have drawn on an array of leadership concepts and theories. Indeed, it can be contended that CEOs should be considered against similar parameters as other organisational leaders. The complex interplay between CEO leadership and organisational culture suggests a reciprocal effect, where CEOs use a ‘repertoire’ of leadership behaviours to respond to social norms putting emphasis on aspects valued by shareholders and actively manage impressions presumably to retain their position and the trust of the organisations (Densten & Sarro, 2010).

In order words, CEOs respond to their environment adapting their leadership behaviour to what is valued in the environment. Another analysis using a high technology sample (O'Reilly, Caldwell & Chatman, 2014) indicates that CEO personality is linked to organisational culture, which in turn influences organisational performance outcomes. Given the relative stability of personality as a construct, it is unlikely that a CEO's personality is influenced by the organisational culture, but more likely that CEOs are selected based on their fit with the pre-existing culture, and/or the personality of a CEO influences the culture of the organisation they lead. Likewise, although the nature of rewards is unlikely to change an individual's personality, rewards and incentives can and do differentially encourage or discourage certain behaviours. Thus, when appointing CEOs, organisations should assess for personality characteristics which complement their corporate values, mission, and objectives, then design reward and incentive packages to encourage or reinforce behaviours consistent with this.

A US study with an unusual sample of baseball league CEOs, explored the relationships between CEO characteristics and organisational performance of Major League Baseball organizations over a 100-year period. They identified that CEO 'bright-side' personality characteristics were positively related to transformational leadership, whereas 'dark-side' CEO personality characteristics (e.g. narcissism) were negatively related to contingent reward leadership. In turn, CEO transformational and contingent reward leadership were related to 4 different strategic outcomes, including manager turnover, team winning percentage, fan attendance, and an independent rating of influence. CEO transformational leadership was positively related to ratings of influence, team winning percentage, and fan attendance, whereas contingent reward leadership was negatively related to manager turnover and ratings of influence (Resick, Whitman, Weingarden & Hiller, 2009).

In other words, the type of personality at the top may fundamentally influence organisational success.

Other studies have shown that CEO personality characteristics may not always be altruistic or beneficial; as more narcissistic CEOs tend to negotiate higher rewards (O'Reilly, Doerr, Caldwell & Chatman, 2014) hence may put their own interests before the firm. In summary, there is no question that the personal characteristics of senior leaders have a profound impact on organisations. Not only are CEO characteristics linked to organizational culture and performance, but these characteristics also influence the size and negotiation of reward packages themselves.

Implications for executive reward structures and governance

CEOs' contributions to their organisations are insufficiently linked to performance measures. Our analysis showed that a "Profit driven transactor" model prevails which frames the size of executive rewards as a result of legitimate market forces. There is an alternative view however, that motivating CEOs to focus on responsible and sustainable business goals should underpin future reward practice. Yet regulation may not be the most effective way of instigating any changes in isolation, as CEO compensation does not exist in a vacuum. As our review of the literature demonstrated, CEOs influence their organisations but are also liable to social influences around them in turn. Whilst previous authors have highlighted the growing misalignment between CEO pay and shareholders' interests (e.g. Bebchuk and Fried, 2005), the importance of broadening this consideration to include non-shareholder interests is now also recognised. It is important to understand the perspectives of broader key stakeholders and how these both influence and are influenced by the context in which reward decisions are made. The qualitative data we presented above underlines the need for a wider perspective as current parameters such as the need for quarterly reporting for listed companies and a purported lack of effective talent strategies for senior teams may constitute barriers to changes in the size and constitution of executive rewards. Whilst unravelling the diversity angle is beyond the scope of the current chapter, CEOs and boards remain predominantly male, and female senior leaders are still likely to earn less than their male counterparts (CIPD, 2017; Li & Young, 2016). Despite various reforms diversity at senior levels in organisations needs to better reflect our society.

Where do research, theory, and practice need to go next?

Executive rewards are a complex issue. Does their size matter? UK data would suggest that yes, it does, as 60% of employees report that the size of CEO rewards demotivating (CIPD, 2015). Would workers be more engaged and happy if the rewards were more fairly distributed, and what kind of CEOs do we need to make this happen? A decade ago, Dever and colleagues (2007) noted that there is insufficient primary data on senior executives, and we find that little has changed in the literature since. The same needs to be noted about primary data from other stakeholders involved in reward decisions, such as HR and reward specialists, a gap we endeavoured to start addressing with the present chapter. We need a better understanding of the characteristics and motivations of CEOs, top teams and relevant others, to supplement the more general theories of leadership, power and agency to fully develop theoretical understanding to inform executive reward practice. It follows from the analysis offered here that researchers and practitioners stand to benefit from undertaking wider scale research to understand the CEO characteristics needed now and for the future, and the interaction between the person and any compensation system in question. As we argued above, more consideration should be given to the personality and attributes of the CEO, and arguable also their top teams in selection, to ensure that the align with the values and mission of the organisation to ensure a wider CSR, rather than shareholder perspective.

Researchers would do well to gather such primary date and then use this to refine our understanding through a more considered analysis of the 'seasons' of a CEO's tenure. Data shows that the effectiveness of incentive plans varies across CEO tenure (Hou, Priem & Goranova, 2014) as COEO performance varies over time as tenure is positively associated with firm employee relationship strength, but inverted with firm-customer relationship strengths (Luo, Kanuri, & Andrews, 2013).. This data suggests that CEOs are more concerned with external factors when they first take tenure, but more concerned with internal matters further into their role. This observation in itself is not necessarily good or bad, but as our review of the literature shows the interaction between top level leadership and corporate success is complex, and needs more careful unpacking than financial data alone, which is the subject of much existing research, would allow.

Conclusions

Taken together, the analysis offered here suggests that current levels of CEO rewards are unsubstantiated given than compensation is rarely aligned with performance measures, and when it is the performance measures rarely consider a sufficient range of valid outcomes. Governance initiatives, such as say on pay, do not appear to have regulating effects, leaving powerful and self-focused CEOs to negotiate 'their deal'. Our analysis showed that a shift towards more ethical and sustainable CEO behaviours is needed, but that ranked reward comparison, the perceived 'war for CEO talent' and short-term perspectives fuelled by mandates for reporting (for listed companies) constitute barriers to change. It remains a reality that too little research concerns itself with primary data on CEOs (Devers et al., 2007) but also wider stakeholders. Our taxonomy showed that stakeholder views may differ, for instance by either subscribing to the regulating effects of market forces, or to the need to take a more behavioural perspective. Longitudinal research into the compensation-performance relationship is also needed given that CEO performance is likely to vary over tenure. Without the latter, research and practice in the domain risk stagnation, continuing what is arguably one of the biggest but ill controlled corporate experiments.

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