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Enterprise and Faith series

Corporate Executive Remuneration:

An Assessment

Andrew Hartropp

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Chapter 1

Introduction

Corporate executive remuneration (CER) has become a topic of intense debate in recent years. I define the term to include not only pay but also bonuses, share options of various kinds and long-term incentive plans (LTIPs); that is, the total value of the monetary and financial package agreed between any given corporate executive and the corporation for which he or she works. In this publication, I will review the recent empirical trends regarding CER (Chapter 2) and then the literature on their causes (Chapter 3). I will then move on to consider the moral and ethical issues related to growth in CER. The recent debates around CER are reviewed in Chapter 4, while Chapter 5 presents a biblically rooted understanding of economic justice as a framework for a coherent and contemporary means of evaluating the moral dimensions, and of pointing to some implications that follow (Chapter 6). Chapter 7 explores what might be done in practice to address the ethical challenges associated with significant growth in CER. One of the themes developed is that this is not an independent phenomenon; rather, it is closely connected with the emphasis on shareholder value maximisation (SVM) that has come to dominate corporate values and culture since the 1970s, especially in the USA and UK. It is argued here that the moral concerns about growth in CER cannot be fully dealt with unless the deeper issues to do with corporate purpose are also addressed.

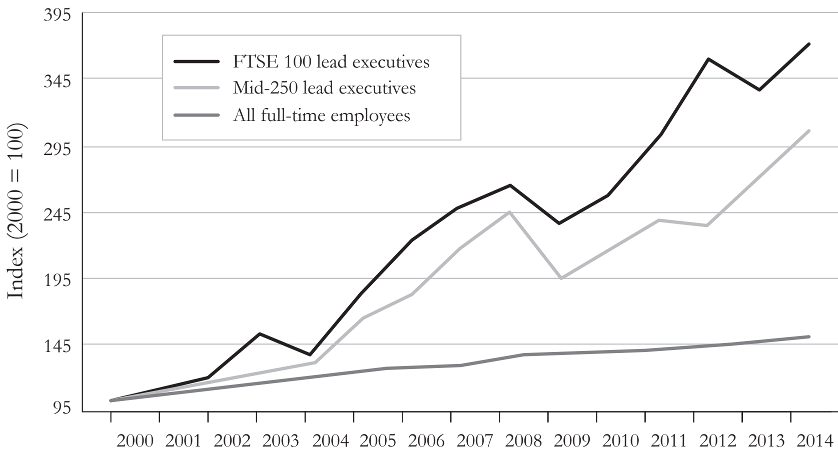
Chapter 2

Reviewing the latest empirical trends

In the UK in 2017, the average pay – including salary, pension, benefits, short-term and long-term incentive plans – for a CEO was £4.5 million. For the UK in 2014, the average pay ratio between FTSE 100 CEOs and the average wage of their employees was 148:1. This compares to 47:1 in 1998.[1] The chart in Figure 1, from Incomes Data Services (IDS), part of Thomson Reuters, presents a similar picture.

Figure 1: FTSE 350 median earnings[2]

Indexed median earnings comparison, CEOs against all full-time employees



Source: *IDS Executive Compensation Review*

These statistics give a sense of both the overall size of CER in the UK, and the way it has grown rapidly, compared with employees' average wage, over the last two decades. The average pay *ratio* tripled over a period of only 16 years. Particular headline-grabbing CER packages could easily be added here, but there is no need, nor to single out specific examples. The trends are clear.

For the USA, the chart in Figure 2 is helpful in showing the growth of CEO pay ('compensation') over 1978–2014, in relation to stock prices as well as to average worker pay (data adjusted for inflation).

Figure 2: CEO pay growth since 1978[3]

Percent change in CEO compensation, stock prices, and typical worker compensation, 1978–2014

Source: Economic Policy Institute analysis of data from Compustat's ExecuComp database. Federal Reserve Economic Data (FRED) from the Federal Reserve Bank of St. Louis, the Current Employment Statistics program, and the Bureau of Economic Analysis NIPA tables, as seen in *Top CEOs Make 300 Times more than Typical Workers*

A number of things are noticeable. First, CER was largely unchanged, in real terms, between 1978 and the late 1980s. Second, since the mid-1990s, a cursory visual examination suggests some kind of correlation between CER and the S&P 500 index of share prices, regarding not only a marked upward trend in both, but also a close linkage in periods when growth in both was relatively faster (e.g. 1999–2000 and 2006–7) and when the two fell (2008–10), the latter closely tied, of course, to the global financial crisis at that time (Chapter 3 will return to this close correlation between CER and share value). Third, the enormous gulf between the expansion of CER and the growth in typical worker pay since around 1990 is marked: by 2014, CER had risen by almost 1,000 per cent compared with 1978, whereas typical worker pay rose by only about 11 per cent.

The fact that CER was largely unchanged, in real terms, from 1978 to the late 1980s gives a clue to what had been happening in the decades before 1978. In an important paper published by the National Bureau of Economic

Research in 2010, Carola Frydman and Dirk Jenter survey the whole period from the 1930s until 2010:

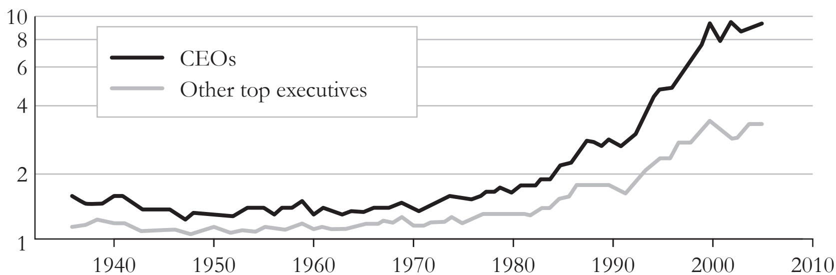
> Following a sharp decline during World War II and a further slow decline in the late 1940s, the real value of top executive pay increased slowly from the early 1950s to the mid-1970s (averaging approximately 0.8% growth per year). The rapid growth in executive pay only started in the mid-1970s and continued . . . until . . . 2005.[4]

The marked contrast between the earlier and later periods is brought out clearly in the chart in Figure 3, reproduced from Frydman and Jenter's paper and published in *The Economist* in June 2016:

'CER had risen by almost 1,000 per cent compared with 1978, whereas typical worker pay rose by only about 11 per cent'

Figure 3: Median CEO pay in the top 50 US firms[5]

$m (at 2000 constant value), log scale



Source: Carola Frydman and Dirk Jenter

These trends in CER seem to be connected to the trends in *inequality* over the period since the 1980s, as highlighted notably by the French economist

Thomas Piketty, especially in his seminal book *Capital in the Twenty-First Century*,[6] which is, among other things, a detailed study of economic data on income, wealth and returns to capital over more than a century – up to 2012. In the USA, as Piketty demonstrates, there has recently been a marked and quite rapid doubling in the proportion of income earned by the richest 1 per cent of people. Out of income for the whole USA population, the proportion earned by the top 1 per cent increased from about 8 per cent in 1980 to 17 per cent in 2012; that is, over a period of only 33 years, the richest not only became richer but their *share* of total income more than doubled.[7] A significant contributory factor to the increase in the income earned by the richest 1 per cent over this period is probably the large increase in CER.

In the UK, a recent Institute for Fiscal Studies publication has noted that household income inequality – as measured by the Gini coefficient – was relatively stable in the 1960s and 1970s, rose steeply in the 1980s but has remained broadly unchanged since the early 1990s.[8] However, it also noted that the share of income going to the 1 per cent richest households has risen from 3 per cent in the late 1970s to around 8 per cent in 2017.[9] This is similar to the situation in the USA, as shown above. Again it is these trends at the top levels of earners that raise serious concerns – not least in the current context, since it is highly likely that growth in CER is significant in the large income growth of the top 1 per cent.

NOTES

1 CIPD and High Pay Centre, 'Executive Pay 2017: Review of FTSE 100 Executive Pay packages', *Research Report*, August 2017; https://www.cipd.co.uk/knowledge/strategy/reward/executive-pay-ftse-100; accessed 13.03.19.

2 Thomson Reuters IDS News Release, 13 October 2014, www.incomesdata.co.uk/wp-content/uploads/2014/10/IDS-FTSE-100-directors-pay-20141.pdf; accessed 28.05.19.

3 Lawrence Mishel and Alyssa Davis, 'CEO Pay Has Grown 90 Times Faster than Typical Worker Pay Since 1978', Economic Policy Institute, *Economic Snapshot*, July 2015; https://www.epi.org/publication/ceo-pay-has-grown-90-times-faster-than-typical-worker-pay-since-1978/; accessed 13.03.19.

4 Carola Frydman and Dirk Jenter, 'CEO Compensation', NBER Working Paper 16585, December 2010, p. 4.

5 'Neither Rigged Nor Fair: Bosses' Pay in the Rich World is not a Fix. But it is flawed', *The Economist*, 25 June 2016; https://www.economist.com/briefing/2016/06/25/neither-rigged-nor-fair; accessed 18.03.19.

6 Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014); originally published in French in 2013.
7 Data drawn from Jesper Roine, *Pocket Piketty* (London: Zed Books, 2017), p. 35 (a helpful and concise summary).
8 See Robert Joyce and Xiaowei Xu, *Inequalities in the Twenty-First Century: Introducing the IFS Deaton Review*, Institute for Fiscal Studies, May 2019, p. 4; https://www.ifs.org.uk/inequality/wp-content/uploads/2019/05/The-IFS-Deaton-Review-launch_final.pdf; accessed 28.05.19.
9 Ibid., p. 6.

Chapter 3

Reviewing the literature

The rapid growth in CER since the 1980s has generated much debate and analysis, including academic. In this chapter and the next, I will offer a brief summary of the academic work – theory and evidence – regarding two broad questions. First, what are the causes or determinants of the large growth in CER? Second, what are its moral and ethical implications – for companies and for public policy?

Academic research into CER has expanded considerably as a result of this growth. In a survey paper published in 2015, Raghavendra Rau – the Sir Evelyn de Rothschild Professor of Finance at the University of Cambridge – reported a search of the academic abstract and citation database Scopus for academic articles published on the subject of executive compensation:

> From 1959 to 1991, there was relatively little attention paid to this topic, with just over 25 articles listed as published on Scopus over this period. In striking contrast, the growth has been nearly exponential since 1991 with 109, 544, and 657 articles on executive compensation published over the periods 1992–2000, 2001–2010, and 2011–2015 respectively.[1]

Rau also provided a chart displaying this data, which demonstrates a close correlation to the growth of CER itself over the same period. It is safe to assume that the direction of causation is from CER to academia, not the other way around!

From all this academic analysis and research, what can be said about the causes and determinants of CER, and especially the rapid growth in recent decades? There are many complexities and aspects. For example, CER itself comprises different elements (pay, LTIPs etc.), its growth has by no means been uniform, and there are important distinctions across various sectors as well as across types of business structure and indeed geographical location. Nevertheless, there are three broad perspectives on the causes of CER – as discussed in a recent substantial survey by Alex Edmans, Xavier Gabaix and Dirk Jenter.[2]

1. The shareholder value view

Popular discussion of CER might give the impression that CEOs extract large amounts of money from corporations against the will of the shareholders (owners). According to the shareholder value (SV) view, however, this popular conception is far removed from reality. The SV view says that the actual amounts paid in CER are the outcome of attempts to *align* the interests of corporate executives and shareholders. Essentially, if a particular corporation wants to maximise SV (or wealth), and if a particular person is best placed to make decisions and run the corporation to achieve that goal, it makes sense to appoint them as CEO, and for the two parties to agree a mutually compatible CER package.

This view takes as its starting point the 'principal–agent' problem between corporations and executives – as noted by Adolf Berle and Gardiner Means as long ago as 1932.[3] Edmans et al. observe that:

> Principal–agent problems between shareholders and executives have been a concern since the separation of corporate ownership from control at the turn of the twentieth century . . . If managers ['agents'] are self-interested and shareholders ['principals'] cannot perfectly monitor them (or do not know the best course of action), executives are likely to pursue their own well-being at the expense of shareholder value.[4]

According to the SV view, this principal–agent problem can be resolved by designing and agreeing contracts between shareholders and executives, such that the interests of both parties are aligned. A key contribution here was a paper published in 1976 by Michael Jensen and William Meckling.[5] Tim Weinhold writes in a recent CEME publication that 'This hugely influential article argued for giving CEOs substantial grants of stock, or stock options, to better ensure their energies were pointedly focused on behalf of shareholders.'[6]

On the SV view, therefore, the rapid growth in CER over the past few decades has *not* occurred against the wishes of shareholders – far from it. Rather, since the 1980s it has helped foster growth in the SV of corporations – growth in CER and in shareholder wealth are interlinked. This helps make sense of the close correlation between the two, as shown in Figure 2 in the

previous chapter. A paper by Xavier Gabaix, Augustin Landier and Julien Sauvagnat presents empirical evidence that broadly supports this SV view, even during the shocks associated with the financial crisis that began in 2007.[7]

Weinhold argues that the shift – starting in the 1970s – towards *aligning* the interests of executives with those of shareholders was itself part of a yet more significant change in the very purpose of corporations, especially in the USA. During the middle portion of the twentieth century:

> the prevailing view among CEOs and business academics was that the purpose of a corporation was to create value for several different constituencies, more or less in this rank order: customers, employees, host communities, society and shareholders . . . But starting in the 1970s, American business embraced an entirely different conception, a view that the pre-eminent purpose of a corporation is to maximise the wealth of its owners. This view, labelled 'shareholder value maximisation' (SVM), has been the prevailing consensus ever since.[8]

Further, Weinhold maintains that this conception of corporate purpose – which has reigned supreme in the USA since the 1970s – gained considerable, but less, traction in other English-speaking countries, and relatively little in continental Europe.[9]

He also offers this critical evaluation of SVM, in moral and ethical terms:

> In practice, SVM has translated into a rigorous focus on maximising short-term profits. But maximising one outcome necessarily means sacrificing others. So when profits conflict with creating value for customers (or with the good of employees, suppliers, host communities or even society as a whole), SVM dictates that profits prevail.
>
> In fact this understates the distorting impact effect of SVM . . . [which] represents . . . a giant turn towards selfishness, towards advantaging business owners – senior management owners in particular – *at the expense* of everyone else.[10]

Later, I will consider an overall moral evaluation of CER, and of these wider aspects of corporate behaviour and purpose. For now, with regard to what can *explain* growth in CER over recent decades, the key point, according to the SV view, is that SVM and CER are closely connected. Indeed, for much of the vast academic analysis of CER, SVM is a core and working assumption. As Edmans et al. put it, the SV view 'proposes that CEO contracts are the outcome of SV maximizing firms that compete with each other in an efficient market for managerial talent'.[11] On this view, executive contracts are chosen to maximise value for shareholders, taking into account the competitive market for executives and the need to provide adequate incentives.[12]

'Growth in CER and in shareholder wealth are interlinked'

2. The rent extraction view

If the SV view lies at one end of a spectrum about the determinants of CER, the rent extraction (RE) view lies at the other:

> the rent extraction view argues that both the level and structure of pay are decided by the executives themselves (in conjunction with a complicit board) to maximise the amount that they can extract without inviting intervention by activist investors or corporate raiders.[13]

This view is much closer to the popular conception mentioned at the beginning of the SV section above.

Economic theory suggests that the *rent* paid to any factor of production – such as labour or land – will tend to be higher the more *inelastic* is its supply; that is, the less responsive that supply (e.g. of labour) is to changes in the price or wage offered for it. The supply of the most talented and productive senior executives is likely to be relatively inelastic – there is a limit to the amount of top talent – so that rent extraction could be a significant determinant of CER.

The case for the RE view is helpfully set out by Edmans et al.:

> [This] view starts with the observation that, in practice, executive pay is set by the board of directors and its compensation committee. This creates another agency problem, as directors on the compensation committee have their own agenda and may have incentives to curry favour with executives. In theory, market forces – including the market for corporate control, capital markets, product markets, and the managerial labour market – impose constraints on how much value destruction directors (and executives) can allow from rent extraction. However, the constraints from market forces can be loose and permit large deviations from efficient contracting . . . since many firms are effectively insulated from the market for corporate control, have little need for outside capital, and have executives with no desire for a career beyond their current job.[14]

This is able to help explain, in principle, the cases of 'high pay for poor performance' that often make headlines. If executives have significant power and influence in the actual decision-making, and if in practice the constraints from market forces are relatively weak, then clearly – as Edmans et al. set out – they may be able to extract substantial rent (value), *to the detriment of shareholders*. However, the potential to do this is not the same as the consequences of an inelastic supply of talent. One might expect that the stronger and more effective is *corporate governance*, the more limited will be the scope for RE to occur against the interests of shareholders.

To put it another way, these market imperfections *open the door* for more questionable pressures to gain influence. For example, an article in the *Financial Times* in February 2017 claimed:

> Over the past 25 years a combination of factors has ratcheted up the value of bonuses, particularly LTIPs. Executive greed has been indulged by boards nervous of losing top talent and [by] an industry of remuneration consultants that has thrived on an arms race to design top-quartile pay packages.[15]

The issue of greed will be considered in the next chapter, but when it comes to an assessment of the overall evidence for or against the explanatory power of the RE view, Edmans et al. offer a potent criticism:

> [This view] is unable to explain the large increase in CEO pay since the 1970s. There is no evidence that corporate governance has weakened over the past 40 years; rather, most indicators show that shareholders have been empowered and governance strengthened over this period.[16]

It also seems implausible to suggest that the supply of talent is much more inelastic than it was 40–60 years ago. Against these points, however, it could be argued that the desire and/or ability of managers to extract rents emerged *only* as social norms against unequal pay weakened, which occurred from the late 1970s onwards; further, that such a shift in social norms helps explain the rise in CEO pay and the widening income inequality of the past three decades. Countering this, however, is the observation that CER has increased even faster in other high-skill professions such as private equity, venture capital, hedge funds and law, where pay is less disclosed, making social norms less important.[17]

3. Institutional influences

Somewhere between the SV and RE views lies a third and slightly more pragmatic perspective, which argues that legal and institutional constraints and practices are important determinants of CER. Edmans et al. observe that, according to this institutional influences approach, the determinants of CER include tax policy, accounting and disclosure rules, as well as various other factors: 'Unlike the shareholder value and rent extraction views, which contradict each other, institutional influences overlay both views.'[18]

On the institutional influences view, factors that may have had an impact on CER include legislation (including outright banning of particular instruments or practices); changes in taxation; accountancy rules and regulations; the role of remuneration (compensation) consultants; and the role of proxy advisor firms.[19]

Attempts to legislate and regulate are always prone to the problems of unintended consequences and of organisations finding ways to circumvent rules and regulations – not that this is an argument for giving up such attempts. In the UK context, a recent paper by Aditi Gupta, Jenny Chu and Xing Ge provides some evidence for the ineffectiveness of particular

regulations regarding CER. In 2013, new regulations that required enhanced disclosure in remuneration reports were enacted in the UK. Gupta et al. found that voluntary disclosure was more focused on presentation over substantive content changes: 'In addition, mandatory disclosure on relative increase in CEO and employee pay was subject to management discretion, as firms could self-select their employee comparator groups.' Overall, they conclude that:

> the new disclosure regime did not result in fairer pay in society or promote a fairer distribution of profit . . . we question whether the new enhanced disclosure regime is effective in its aim to improve the pay and performance link and curb excessive CEO pay.[20]

Empirical evidence: overall conclusions

What conclusions have been reached so far from the academic research about the determinants of CER, with all of the associated complexities? Having outlined the three main views or approaches (SV; rent extraction; institutional influences), Edmans et al. conclude their survey as follows:

> This paper has surveyed the theoretical and empirical literature on executive compensation. Throughout the survey, we have attempted to emphasise the following three points. First, executive compensation is likely driven by many factors – boards and shareholders' attempts to maximise firm value, executives' attempts to maximise their own rents (perhaps in conjunction with entrenched boards and inattentive shareholders), and institutional forces such as legislation, taxation, accounting policies, and social pressures. No one perspective can explain all of the evidence, and a narrow attachment to one perspective will distort rather than inform our view of executive pay.
>
> Second, the conclusions of an executive compensation study can be sensitive to assumptions . . . researchers should think very carefully about [their] modeling and measurement choices, and always explore robustness to alternative specifications.

> Third, despite decades of research on executive pay, there are very many open questions, making it a ripe area for future research.[21]

It seems, then, that all three approaches contain some measure of truth. It is important that such empirical evidence should inform the debates as to what, if anything, is to be done about CER.

NOTES

1 Raghavendra Rau, 'Executive Compensation', *Foundations and Trends in Finance* (2015) 10:3–4, pp. 181–362, p. 2; http://dx.doi.org/10.1561/0500000046; accessed 15.03.19; page references to online version.

2 Alex Edmans, Xavier Gabaix and Dirk Jenter, 'Executive Compensation: A Survey of Theory and Evidence', NBER Working Paper 23596, July 2017; http://www.nber.org/papers/w23596; accessed 15.03.19; page references to online version. This paper was prepared for a major handbook: see Benjamin E. Hermalin and Michael S. Weisbach (eds), *The Handbook of the Economics of Corporate Governance, Volume 1* (Amsterdam: North-Holland, 2017).

3 Adolf A. Berle and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1932).

4 Edmans et al., 'Executive Compensation', p. 15.

5 Michael C. Jensen and William H. Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure', *Journal of Financial Economics* (1976) 3:4, pp. 305–60.

6 Tim Weinhold, 'Capitalism's Great Divide: The Two Sides of Self-Interest', in Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Volume 1: Principles and Challenges* (Oxford: Centre for Enterprise, Markets and Ethics, 2017), p. 67.

7 Xavier Gabaix, Augustin Landier and Julien Sauvagnat, 'CEO Pay and Firm Size: An Update After the Crisis', NBER Working Paper 19078, May 2013; https://www.nber.org/papers/w19078.pdf; accessed 19.03.19.

8 Weinhold, 'Capitalism's Great Divide', pp. 66–7.

9 Ibid., p. 67.

10 Ibid., p. 67; emphasis original.

11 Edmans et al., 'Executive Compensation', pp. 29–30.

12 Ibid., p. 5.

13 Ibid., p. 64.

14 Ibid., p. 64.

15 Patrick Jenkins, 'How Paying Chief Executives Less Can Help Corporate Performance', *Financial Times*, 13 February 2017, https://www.ft.com/content/10952312-ee30-11e6-930f-061b01e23655; accessed 26.03.18.

16 Edmans et al., 'Executive Compensation', p. 77.

17 Ibid., pp. 77–8.
18 Ibid., p. 78.
19 Ibid., pp. 78–83.
20 Aditi Gupta, Jenny Chu and Xing Ge, 'Form over Substance? An Investigation of Recent Remuneration Disclosure Changes in the UK', Social Science Research Network, June 2016; https://ssrn.com/abstract=2798001; accessed 18.03.19.
21 Edmans et al., 'Executive Compensation', p. 103.

Chapter 4

Reviewing the debates around moral justification

This chapter will consider the debates that have intensified rapidly in recent years regarding the moral validity, or otherwise, of the large increases in CER. Chapter 5 will offer a framework for moral evaluation based on a Judeo-Christian world view; here, however, I will review the current debates on their own terms. There are a number of key elements and questions.

Has – at least some – CER become excessive?

The word 'excessive' clearly looms large in these debates and discussions. It is worth observing immediately that simply labelling something (X) as excessive makes X sound like a bad thing, but runs the risk that thoughtful and proper evaluation is thereby sidestepped and short-circuited. If some CER has become excessive, it might seem obvious that the excess is in some sense wrong and that therefore action should be taken to reduce or remove this element of excess. However, this all begs the question of by what moral criteria X is judged to be excessive. Even if a consensus is reached that X is indeed excessive, it is likely that, unless the moral criteria are clear and agreed, it will break down sooner or later.

'How much is excessive?'

With regard to CER, a strong consensus certainly seems to have been reached recently – among business leaders and politicians, and in wider debates – that at least some of the recent trends in CER merit the term 'excessive'. However, any attempt in practice to bring about a reduction in the excess must inevitably face the question of *how much* is excessive. Can a number be put on it? If, for example, the ratio between CEO remuneration and median employee pay is calculated, what is an excessive value for this ratio? 100:1? 150:1? 10:1? It is unlikely that a strong consensus will be found, or sustained, with regard to numerically based evaluations of 'excessive'.

Therefore, simply using this term is insufficient either to provide a moral evaluation of CER or to generate practical measures to reduce or remove any excess.

Can CER be morally defended as a rational solution to the principal–agent problem?

The empirical evidence reviewed in Chapter 3 suggests that the desire to maximise SV is a factor behind the rapid growth in CER. To that extent, the principal–agent approach helps explain what has been happening. However, it does not necessarily follow that CER can be morally defended on this basis. Apart from anything else, one cannot proceed from what *is* the case to what *should be* the case without some kind of moral and ethical reasoning or values.

A defence for high rates of CER – as part of aligning the interests of executives with those of shareholders – can be attempted in terms of the goal (purpose) of a corporation. If a corporation aims to maximise SV, the case for arranging contracts that enable whatever level of CER is needed to enlist and incentivise executives to commit to that aim is a matter of simple logic. This is clearly a *rational* defence. (A similar defence could also be attempted to justify high CEO pay in companies and organisations that claim to have goals *other* than SVM, such as corporations with broader stakeholder commitments, or charities and NGOs.)

Does this rational defence amount to a moral defence? Arguably, that depends on what place the corporation has, and what contribution it makes, in the context of wider society. If, for example, it is argued that firms seeking to maximise SV thereby help to create wealth, which can then be shared to benefit society as a whole, this seems to have the makings of a moral defence. Essentially, this is an argument for the moral worth of an economic *system* based on enterprise and market forces. Any particular corporation is here seen as part of the society and economy as a whole. But if the wider benefits to society are being brought in as a moral justification for SVM and for high rates of CER, one must also consider *all* the distributional impacts of corporations, as will be shown shortly.

Alternatively, one could argue, on a somewhat narrower basis, that any particular corporation, *by means of* attempting to maximise SV, indirectly produces benefits for its own employees, customers and other stakeholders – whether or not the term 'stakeholders' is used in any formal sense. This is the kind of reasoning that underlies the now common emphasis on corporate social responsibility. The moral case for CER here again relies on bringing in benefits for people other than the shareholders – but a narrower and more immediate set of beneficiaries than in the society-wide argument presented above. However, the same kind of rider also applies: if benefits to a wider group than the shareholders are being brought in to help offer a moral justification for SVM and high rates of CER, it is incumbent on advocates to consider and demonstrate what these benefits are. And if, for example, the ratio of CEO pay to median employee pay were to be continually rising, it might look as though these wider benefits are small or even non-existent.

'Without wider benefits . . . a moral case for high CER cannot be sustained'

A further alternative is to argue, on an even more restricted basis, that the property rights of the owners (shareholders) provide a moral basis for SVM and for high rates of CER, if the latter help to serve the former. This might sound fair enough. After all, the West generally recognises that property rights are important and that there is a moral basis for protecting them. However, this approach to SVM and CER must take into account the reality that for a business to operate, it requires a licence; and this in turn requires some *public* consent. This point is well expressed by Lord Griffiths:

> [The] public expect business to be ethical. They expect business to be conducted in an honest, fair and transparent manner, *which serves the greater good of society and not just the interests of management and shareholders* . . .
>
> The fact that the public hold such views is important because through their elected representatives who pass legislation in parliaments, it is ultimately the public who grant business a licence to operate. Without

> such a licence, for example, limited liability companies would not exist.[1]

Therefore, whichever of the above three approaches is taken for presenting a moral defence of SVM and high CER rates, it is necessary to demonstrate the benefits to a *wider* group than shareholders and executives. Without wider benefits, without some service of the common good, a moral case for SVM and high CER rates cannot be sustained.

Is greed a factor in high CER, and is that a moral argument against it?

It is striking that the word 'greed' has been appearing frequently in recent debates about CER. For example, the *Financial Times* article quoted in Chapter 3 stated, without reticence or qualification, that company boards and remuneration consultants have indulged in 'executive greed'. Similarly, greed has been much talked about with regard to the financial crisis that began in 2007–8, especially in terms of 'greedy bankers'. In assessing the debates about greed and CER, there are two interrelated questions. First, is greed a factor in high CER? Second, if so, does it provide a moral argument against high CER?

The answers to both questions require some definition of the word 'greed'. Here are two fairly similar dictionary entries:

- 'Intense and selfish desire for something, especially wealth, power or food.'[2]
- 'A very strong wish to continuously get more of something, especially food or money.'[3]

A notable and shared feature of these is a twofold emphasis: both the desire (an inner attitude and mindset) and the fact that this is always for more. Greed is a desire; and it is insatiable.

Is greed a factor in high CER? This is not easily answered because, as just shown, desire is a key aspect of greed, and is hard to measure quantitatively (interestingly, in the survey papers mentioned in Chapter 3 there is little reference to greed). However, the fact that recently there has been much talk about greed as part of what motivates some in business and finance suggests that it may be a factor to be considered, and for present purposes, the working assumption is that greed *is* a factor in high CER rates.

The second question may now be considered: to the extent that greed has contributed to it, does that element provide a moral argument against high CER? The answer might seem obvious: greed is wrong, hence any greed element in CER is also wrong. However, a closer look is needed. For example, any moral evaluation depends on the frame of reference used. There could conceivably be moral frameworks in which greed might sometimes be permissible.

Here are Adam Smith's well-known words about the role of self-love in economic life:

> It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantages.[4]

Much has been written about this argument and about his other related ideas. But the key point centres on the idea that it is principally out of *self-love* that people keep going in their business. What has this to do with greed? Surely a distinction can be made between self-love and greed? Perhaps it can – and this will fall within later consideration of a Judeo-Christian moral framework. But the point being emphasised here is that in today's world of business and finance, it is not difficult to find advocates of an approach that offers moral justification for a strong emphasis on *self* and *self-interest* – even to the point of using the term 'greed', and justifying such greed. The notion that 'greed is good' was popularised by the character of the corporate raider Gordon Gecko in the 1987 film *Wall Street*, perhaps most famously in his line 'greed, for lack of a better word, is good. Greed is right, greed works.'[5]

The idea of having more money – a lot more money – clearly appeals to many in the West; and many find a moral defence for it of one kind or another. But defences of greed can also be found in more academic circles. Consider this blog post from Walter Williams, Distinguished Professor of Economics at George Fox University:

> For me the noblest of human motivations is greed. I don't mean theft, fraud, tricks, or misrepresentation. By greed I mean being only or mostly concerned with getting the most one can for oneself and not necessarily concerned about the welfare of others. Social consternation might cause one to cringe at the suggestion that greed might possibly be seen as a noble motivation. 'Enlightened self-interest' might be a preferable term. I prefer greed since it is far more descriptive and less likely to be confused with other human motives.[6]

Williams cites Adam Smith in support of this idea of greed as self-interest. So a case can be made that greed is in some sense good, noble, desirable, legitimate – or any combination of these.

If someone wants to argue *against* this, it will not be enough simply to protest that greed is wrong; the point is about greed as enlightened self-interest. Nor will it be enough to say that it is excessive greed that is morally wrong, for that would simply beg the question of how to define what is excessive – and to do that, as seen earlier, would require some clear moral framework.

What should be done about rent-seeking behaviour by executives?

The empirical evidence reviewed in Chapter 3 suggests that another significant factor behind recent trends in CER is rent-seeking – indeed rent-maximising – behaviour on the part of executives. If this is to the detriment of other people – notably the shareholders – it might seem obvious that providing a moral justification for it would be difficult. This is quite apart from anything to do with greed; rather, it is a straightforward matter of the moral rights of shareholders – and conceivably other stakeholders – and the ways executives are infringing those rights.

To the extent that rent-seeking on the part of executives is a determinant of CER, and corporations want to do something to offset or deal with it, the appropriate solution is presumably to be found at the level of corporate governance. If, for example, corporations want to design more effective contracts to cope with the principal–agent problem, that is a matter for them. In that sense it is not primarily a moral issue that need trouble the rest of us.

‘It is worth noting the importance of the *culture* of corporations’

Nevertheless, there is a wider concern here regarding the moral legitimacy of today’s enterprise – or capitalist – economic system as a whole, which is why more attention should be given to the broader moral aspects around executive rent-maximising behaviour. The more stories have hit the headlines regarding ‘outrageous’ pay-outs to CEOs, the more have questions and concerns been raised about capitalism’s moral legitimacy; that is, individual instances of high CER cumulatively have a negative general impact. This is the case whether those specific instances are the consequence of rent-maximisation, SVM or some combination.

The focus here is the impact of rent-seeking behaviour, so it is worth dwelling briefly on the link between specific CER instances where rent-seeking behaviour is operating, and this more general effect on the moral legitimacy of the enterprise/capitalist economy as a whole. The point may be put as follows: to the extent that company boards fail to curtail executive rent-seeking behaviour that is detrimental to other stakeholders, they are – unwittingly and unintentionally – contributing to a further public loss of faith in the moral basis of the system. If boards and associated bodies such as remuneration committees choose simply to ‘go along with’ and accept ever-rising demands by executives (partly on the grounds of convenience but also lack of obvious alternatives), there is a real danger that this simply adds to the cumulative negative impact on how the enterprise economy is regarded.

Clearly, executives themselves also carry responsibility here. They would do well to appreciate that their own behaviour – here meaning rent-seeking behaviour – has wider impacts on how the public view the enterprise system.

In this context it is worth noting the importance of the *culture* of corporations. The prevailing mindset and values of a corporation – which primarily come from the top – have a major influence on the decisions and behaviour of those within it, including senior executives. So if, for example, the prevailing culture is comfortable with rent-seeking behaviour, even to the detriment of shareholders and other stakeholders, it is more likely to occur.

Having reviewed the recent debates and discussions regarding CER on their own terms, it is now time to consider a Judeo-Christian moral framework, especially with a view to providing clear and consistent moral criteria to guide us in the issues relating to CER, and indeed in the broader questions about the purposes of corporations and the moral legitimacy of an enterprise economy.

NOTES

1 Lord Griffiths of Fforestfach, 'Installing Values in Business', in Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Volume 1: Principles and Challenges* (Oxford: Centre for Enterprise, Markets and Ethics, 2017), pp. 14–15; emphasis added.
2 https://en.oxforddictionaries.com/definition/greed; accessed 20.03.19.
3 http://dictionary.cambridge.org/dictionary/english/greed; accessed 20.03.19.
4 Adam Smith (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations* (Oxford: Clarendon, 1869), Volume 1, Book I, Chapter 2.
5 *Wall Street*, 1987, 20th Century Fox, dir. Oliver Stone.
6 Walter Williams, 'Greed versus Compassion', Foundation for Economic Education, 2000, https://fee.org/articles/greed-versus-compassion/; accessed 28.04.17.

Chapter 5

A Judeo-Christian moral framework: a biblical understanding of economic justice

At a number of points thus far it has been suggested that a clear moral frame of reference is needed for considering CER. For a moral evaluation it is not enough simply to say that there is now a consensus that CER has become excessive, for that consensus could easily fragment. Similarly, it was noted that if all the focus were placed on the ratio between CER and median employee earnings, there is unlikely to be sustained unanimity regarding what numerical value for that ratio is considered excessive. Again, in the context of seeing high CER as a rational solution to the principal–agent problem for SV-maximising firms, it was observed that such firms thereby help to create wealth, which can then be shared to benefit society as a whole. It was noted that this line of reasoning seems to have the makings of a moral defence. However, it was also shown that if the wider benefits to society are being brought in as a moral justification for SVM and high rates of CER, one must consider *all* the distributional impacts of corporations. In order to make that step, a moral framework is needed that will enable distributional issues to be clearly considered and thought through.

This chapter will present such a framework, based on a Judeo-Christian world view; more specifically, it will suggest that the biblical material – both Old (Hebrew) and New Testaments – regarding *economic justice* can provide a coherent and relevant moral framework for assessing these vital contemporary questions.[1]

At the foundational level, a biblical understanding states that the very concept of economic justice is rooted in God's own character. God himself *is* righteous and just (Psalm 11.7; 48.10–11; 89.14; Deuteronomy 32.3–4). And God *loves* justice (Psalm 11.7; Isaiah 61.8). This deep reality of justice obviously undergirds all of human life; and it certainly includes the economic and business dimensions.

Building on this foundation, I will argue that a biblical understanding of economic justice has four main aspects. The first is central; the other three develop and extend it.

Economic justice means treating people appropriately, according to God's norms

Biblically, this is the core idea and definition of what justice is. It means treating people in line with God's values and principles for how we are to live in the economic dimensions of life, which God has given in order for us to flourish. They are not arbitrary; rather, they sit with the grain of his created order.

These norms and principles for justice in economic life have been revealed in the Scriptures, especially the Old Testament. Here are a few examples – noting that in the original Hebrew the word often translated as 'justice' is *mishpat*:

- There should be justice (*mishpat*) in measures of length or weight or quantity (Leviticus 19.35; Deuteronomy 25.13–16; Proverbs 11.1; Micah 6.11).
- Do not hold back the wages of a hired worker overnight (Leviticus 19.13).
- Give to the priests what is just/due (*mishpat*): their due share of sacrifices; first-fruits of grain and so on (Deuteronomy 18.3–4). Note that this teaching has a clear *economic* aspect/application, even though the immediate context is the sacrificial system the people of Israel were to practise. (Biblically, this system was fulfilled and hence superseded with the coming of Jesus Christ – see, for example, Matthew 5.13–16; Hebrews 8.)
- There should be no perversion of justice and no bribes (Deuteronomy 16.19; Ecclesiastes 7.7).

As noted, these norms are for *human flourishing*; this is clearly emphasised in the Old Testament itself (e.g. Deuteronomy 11.13–15; Psalm 1; Psalm 37).

Economic justice emphasises justice for the poor and needy

Biblically, economic justice is not *solely* about justice for the poor and needy, but it does involve this as a special emphasis. This second aspect of economic justice is plain in many places in the Old Testament. At a foundational level, it is again based on God himself and, more specifically, on the way he executes justice (*mishpat*) for the fatherless and the widow (e.g. Deuteronomy 10.18).

God then teaches the people of Israel to place this same kind of emphasis on doing justice for the poor and needy. For example:

- Justice is due to the sojourner or the fatherless; do not take the cloak of a widow as a pledge (Deuteronomy 24.17).
- Do not charge interest to the poor (Exodus 22.25–27; Leviticus 25.35–37).
- Lend in an open-handed and free manner when someone is in need (Deuteronomy 15.1–11; Psalm 37.26).
- Allow the poor to gather a share of the harvest (Leviticus 19.9–10; Deuteronomy 24.19–22; Ruth 2.1–12); this may be termed the *gleaning* principle.

And all this is because, fundamentally, it is God's will and pattern for his people.

Economic justice is concerned with the quality of relationships

The third aspect of economic justice flows directly from its core definition as *treating people appropriately*, according to the norms and principles given by God. How we treat each other occurs in the context of relationships. The double thrust of this aspect is that these relationships are often two-way,

and that the God-given norms address precisely these two-way (reciprocal) responsibilities and obligations.

In the biblical teaching, one of the clearest examples is the employer–employee relationship:

> Bondservants, obey in everything those who are your earthly masters, not by way of eye-service, as people-pleasers, but with sincerity of heart, fearing the Lord. Whatever you do, work heartily, as for the Lord and not for men, knowing that from the Lord you will receive the inheritance as your reward. You are serving the Lord Christ. For the wrongdoer will be paid back for the wrong he has done, and there is no partiality. Masters, treat your bondservants justly and fairly, knowing that you also have a Master in heaven. (Colossians 3.22—4.1, ESV)

Clearly the author, Paul, is writing to Christian believers. But the underlying principles are evident and give us a sense of God's norms for this area of economic life, for all people. And although the twenty-first-century socio-economic context is different from that of first-century Colossae (for example, we do not have 'bondservants' in Western economies), again the underlying principles are clear, and readily apply to the contemporary context of employer–employee relationships.

In this reciprocal relationship the central principles are these: employees are to work hard and diligently; employers are to treat workers/employees justly and fairly. Elsewhere in Scripture the responsibilities on the employer's side include prompt and fair payment for work done (Deuteronomy 24.14; 1 Timothy 5.18; James 5.4). Immediately there is a powerful moral dimension to the relationship between employer and employee – more is expected on both sides than a purely monetary arrangement.

The scriptural teaching on *gleaning* – mentioned briefly above – is another example of reciprocal relational responsibilities. Justice entails a clear responsibility on those who already have enough to be active in enabling those who do not to eat and live: Old Testament landowners were expressly required to leave the edges of their fields to be gleaned by those with no land of their own (Deuteronomy 24.19–22). But likewise mentioned above, there is also a reciprocal responsibility on the part of those in need, such

as foreigners, the fatherless and widows. They have to play their part – assuming they are physically able – in providing for their needs: to glean would involve physical effort on their part.

Another reciprocal (mutual) relationship addressed in the Bible is that between borrower and lender. Borrowers have a responsibility to repay (Psalm 37.21); lenders have a responsibility to treat borrowers with mercy and dignity (Exodus 22.26–27) – and instead of lifelong servitude due to debt, there is a fundamental principle of release from burdensome debt and hence a principle of *hope* (Deuteronomy 15.1–11).

'There is a powerful moral dimension to the relationship between employer and employee'

This same kind of relational thinking, with mutual responsibilities on both sides, can apply to other contemporary economic relationships, such as producer–supplier and retailer–consumer.

In all of these two-way relationships, the biblical norms and principles place a powerful emphasis on how the parties treat each other.

Economic justice means everyone participates in God's blessings, including material blessings

This fourth aspect of doing economic justice can be seen in the Old Testament in a number of ways. For example, a tithe (10 per cent) of all produce was to be set aside for those in limited economic circumstances. The Israelites were to:

> bring all the tithes of that year's produce and store it in your towns, so that the Levites (who have no land allotted to them or any inheritance of their own) and the foreigners, the fatherless and the widows who live in your towns may come and eat and be satisfied. (Deuteronomy 14.28–29)

The specific provision taught here – with a proper system of storage – ensured that everyone would be filled and satisfied, all year long. Similarly, Deuteronomy teaches about how, at special times of festival, *all* the people were to rejoice before the Lord (16.11, 14).

This same principle – that all were to share in God's material blessings – was reinforced, for Old Testament Israel, by a range of other provisions, such as compassionate loans for the needy; provision of housing and work for people who fell on hard times (Leviticus 25.39–43); the gleaning principle; and the promise of a grand returning of land every 50 years – in the year of Jubilee – to the family group to which it had originally been entrusted (Leviticus 25).

The emphasis in all of this is not on numerical 'equality' but on everyone. There is no argument here for some utopian vision of material equality; rather, the principle is that everyone shares in God's blessings, not least material blessings.

The notion of blessings – including material blessings – is given, it should be emphasised, in the context of a world created and sustained by God. Both the Old and New Testaments emphasise that God, in his goodness and love, has created a world in which human beings are intended to *enjoy* his blessings. For example, Paul exhorted Timothy to:

> Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. (1 Timothy 6.17)

It is in this context that the value and importance of enterprise and wealth creation can be understood in biblical terms.

Taking together these four aspects of economic justice based on a biblical understanding provides us with a powerful moral framework for evaluating contemporary economic life and behaviour across a range of contexts and dimensions.

One of the notable features of this framework is its emphasis that economic justice involves both justice in production – how parties treat each other

(*commutative* justice) – and justice in distribution/sharing (*distributive* justice). In the vast literature on justice in economic and social life, writers often focus only on one of these. A biblical understanding, however, readily applies to both and indeed holds them together. It is evident from the discussion above that how people treat each other in economic relationships is of crucial importance; and that so too is the distributive element – everyone is to share in God's blessings, including material blessings.

NOTES

1 This is a brief summary based on my *What is Economic Justice? Biblical and Secular Perspectives Contrasted* (Carlisle: Paternoster, 2007). See also Calum Samuelson, *Just Pay: A Biblical Perspective on the Ethics of Remuneration* (Cambridge: Jubilee Centre, 2019).

Chapter 6

Implications in the contemporary context

The moral framework outlined in Chapter 5, as already noted, does not argue for some kind of utopian equality. Nor does it offer grounds for saying that either pay differentials or high pay are in themselves inappropriate. But a number of important implications arise from it regarding CER and related issues discussed earlier.

First, the requirements of economic justice – both commutative and distributive – place clear responsibilities on the shoulders of those in leadership in companies and corporations. The moral framework presented suggests that the distribution of rewards between different stakeholders in an organisation is one key aspect of economic justice and, further, that all stakeholders should participate in the material and other blessings enjoyed by that organisation. That ought to encourage those at the top of corporations to ensure that they, the most well off, are seen to be playing their part in helping others share in those benefits and blessings. The *relational* dimension of doing economic justice reinforces this.

This relational dimension also has a powerful bearing on the idea that greed – desiring to get as much as possible with little/no regard for others – may be regarded as a justifiable motivation. This is incompatible with the idea that *everyone* in a society or organisation should participate in its blessings, which should matter to those at the top since they bear the particular responsibilities of leadership.

In the light of all this, it is difficult to see how a rapidly rising gap – sustained over time – between executives and everyone else can be just or morally justified, and therefore how the trends in CER over the past few decades can be justified within the kind of moral framework presented in Chapter 5.

Second, as argued earlier, it is important to attempt an understanding of what lies behind recent trends, and some analysis was offered. It is precisely in the light of that empirical understanding that another key implication emerges from the moral framework. It was seen that SVM is one of the factors behind the rapid growth in CER, therefore it is not only executives whose behaviour

should be subject to moral critique. To the extent that SVM is tied up with growth in CER, *shareholders* are also failing to meet the moral requirement that everyone should participate in a corporation's material blessings. To put it another way, if SVM, in partnership with rapid growth in CER, is achieved only at the expense of other stakeholders (which seems likely from the analyses here), it is hard to see how this can be regarded as just or morally justified.

'The requirements of economic justice . . . place clear responsibilities on those in leadership'

Clearly this second implication goes beyond CER itself. But this is simply following the empirical evidence and assessing the whole picture of CER and SVM in the light of the moral framework. In addition, the concerns discussed earlier regarding the moral legitimacy of contemporary capitalism can now be seen in sharper focus. Within the biblically rooted moral framework, the deficiencies of certain elements of today's capitalist/enterprise economy – especially regarding the extent to which the material benefits and blessings of this economy are shared by all – are seen to be about justice and injustice.

A third implication follows once one of the other lessons from recent empirical studies of CER is borne in mind. As shown earlier, the evidence suggests that another significant factor behind recent trends in CER is rent-seeking – indeed rent-maximising – behaviour on the part of executives. Again, it was found hard to regard this as either just or morally justified. But yet a further implication follows, relating to the perceived moral legitimacy of today's capitalist economy as a whole. As noted, rent-maximising behaviour by executives may result, even if unwittingly, in a loss of public faith in that economy – an effect that will be exacerbated to the extent that boards and associated bodies, such as remuneration committees, accede to their ever-rising demands. Executives themselves would be wise to appreciate this wider indirect impact if and when they behave this way.

But the particular point here is that, in the light of the moral framework, the underlying issue is one of justice and injustice – which applies not only to particular companies but to the whole system. Public concern regarding

the moral legitimacy of today's version of the enterprise economy is in part a concern about justice. This may sometimes be expressed only in terms of envy or jealousy; and if and when expressed in terms rather more of justice ('It's not fair'), it may well be that the sense of what is just and unjust is distorted by confused reasoning. Nevertheless, one of the contributions from a definite moral framework is that behaviour and trends can be critically evaluated more clearly.

To put this another way, those in senior leadership positions – as executives or shareholders – have a moral responsibility to try to ensure that their corporations act in line with the moral norms of justice, which is also a matter for the system as a whole. The recent trend in CER can thus be seen as a presenting case: it has served to raise deeper concerns about the moral legitimacy of the capitalist economy, which those in senior leadership have a responsibility to address.

What might be done in practice?

Having recapitulated the empirical evidence regarding the growth of CER and considered some of the moral implications that emerge from a biblically rooted understanding of economic justice, I will now offer three possible practical approaches.

Transparency and ratios

There has been growing pressure for companies to publish more information about CER. Given the concern about its rapid growth, it is noteworthy that many have been slow to respond. Whatever the range of opinions about the level and growth of CER that might be morally justifiable, there is clearly a case for transparency, a common-sense one for making relevant data available so that debates can at least be based on actual information rather than supposition.

In the UK context, measures to require transparency on the part of many companies came into force in January 2019:

> The pay ratio regulations will make it a statutory requirement for UK listed companies with more than 250 employees to disclose annually the ratio of their CEO's pay to the median, lower quartile and upper quartile pay of their UK employees. Companies will start reporting this in 2020 (covering CEO and employee pay awarded in 2019).[1]

These companies thus have to compute the pay of all their UK employees, ranking them from least to highest paid; they must then take the employees who are at the 25th percentile point along this ranking, at the median (50th percentile point) and at the 75th percentile point; and then calculate the ratio of the CEO's pay to each of these – and publish that information.

Alongside the pay-ratio reporting will be a new statutory duty on companies:

> to set out the impact of share price growth on executive pay outcomes. This will provide greater clarity . . . about the impact that significant share price growth can have on executive pay outcomes and whether discretion has been exercised before pay awards are finalised.[2]

Transparency is useful, as already noted. However, there are significant limitations to this approach. The focus on *ratios* necessarily limits the amount and clarity of the information published. For example, a ratio in itself says nothing about whether the CEO's and employees' pay is rising or falling, or about the rates at which they are doing so. Clearly, there is a trade-off here between the amount of information provided and the ease with which it can be digested and evaluated in the public sphere. For example, ratios can easily be compared across companies and over time, but any given ratio is a computation from two different numbers, and says nothing at all about upward or downward movements in either the numerator or denominator of the ratio.

In the UK context it will be interesting to observe the way the ratio data is actually publicised and utilised. Will the focus be on the ratio of CEO to the median, the 25th percentile or the 75th percentile employee? It would seem a safe prediction that the first of these will receive the most attention. Indeed, the Department for Business, Energy & Industrial Strategy's press release makes that its initial focus: 'the UK's biggest companies will have to

disclose and explain every year their top bosses (*sic*) pay and the gap between that and their average worker.'

A further limitation is that it seems less likely that CER information will be required from private as opposed to listed companies. This is of course a natural consequence of companies being private. Further, the new regulations relate only to UK employees, not those based abroad, while the focus on ratios – and only three percentile points along the pay spectrum – will make it harder to account for the way the balance between part-time as opposed to full-time employment within a company has an impact on the ratios computed. This will further affect the accuracy of comparisons between different companies, while there are also of course many dissimilarities with regard to the structure of wages and salaries between companies in different sectors.

Even with all these (and other) limitations, however, it may be that one main purpose of the regulations is somewhat cruder than attempting to shine objective light on CER, namely it is simply to name and shame, which is perhaps understandable given the depth of concern.

Whether or not this is the case, companies will clearly have to handle these new regulatory requirements with considerable care, at least from the perspective of their self-interest and share price. This in turn raises a concern that some companies might seek to manipulate the data. Even if that does not happen, however, the limitations of the ratio information will remain.

A final weakness of simply publishing data – such as ratios – was noted earlier, namely that there is no reason to suppose general consensus will be reached about what is an acceptable ratio between CER and employee pay: 150:1? 100:1? 10:1? In the absence of a clear moral framework it is even more unlikely.

Freely, even within the moral framework for economic justice offered in Chapter 5 there is also nothing pointing to a statistical value for what the ratio should be. However, this is not a weakness of the framework. What that framework does suggest is that those at the top – executives and

shareholders – should want to ensure they are doing their part to help *all* stakeholders share in God's blessings, including material blessings. This is a radical perspective, quite distinct from the kind of self-dominated set of values that have come to pervade much of the contemporary socio-economic scene, and has the potential to make a challenging contribution to the debate around CER.

Restructuring of remuneration decision-making

Recent analysis and discussion of CER has included a major focus on decision-making processes and structures. Clearly there is scope for greater consistency here, and for finding ways to bring CEO performance and pay closer into line. Although institutional and structural details cannot be gone into here, the issues meriting attention include the place of 'golden hellos' and 'golden parachutes', deferred pay, length of CEO tenure and concerns about short-term incentivisation versus long-term company objectives and performance. In addition, institutional factors to do with the role and make-up of remuneration committees and their relationship with boards and shareholders deserve careful attention.

A point to emphasise, however, is that according to the analysis and argument developed here, there are fundamental issues at stake regarding the purpose of corporations themselves. The clear empirical connection between rapid growth in CER and SVM makes plain that these issues require attention – certainly if the implications of the moral framework in Chapter 5 are taken seriously. The call to lay aside SVM and instead adopt a wider set of goals to do with the well-being of a broader range of stakeholders will require deeper change than can be provided by means of institutional restructuring – which leads to the third approach.

Reassessment of corporate purposes and values

Lord Griffiths' argument that the public 'expect business to be conducted in an honest, fair and transparent manner, *which serves the greater good of society and not just the interests of management and shareholders*' was noted above.[3] In

connection with that, a number of authors have developed a similar theme, especially with a view to practical ways of bringing about that kind of reshaping of corporate purposes and hence of the enterprise economy as a whole.[4] For example, Jeff Van Duzer argues that:

> The first-order purpose of business is to serve in two key dimensions: by providing goods and services that will enable the community to flourish and by providing opportunities for individuals to express aspects of their identities in meaningful and creative work. As businesses pursue these goals, however, they must select from the universe of possible choices only those that can be pursued in a manner that respects the dignity of each individual involved and is sustainable across all dimensions of the business.[5]

This gives a flavour of how a reordering of corporate purpose can play out in practice. Along somewhat similar lines, but with a stronger emphasis on the need for structural changes, Rick Alexander and James Parry argue for the adoption of 'benefit company' legislation, and show how this 'B Corporation' movement is growing and developing.[6]

What does this have to do with CER? A major argument has been that its rapid growth is closely connected with the emphasis on SVM since the 1970s, especially in the USA and the UK. Therefore, rapid growth in CER cannot be understood – nor its deficiencies addressed – unless the deep problems with SVM are themselves understood and addressed. To a degree, that growth is a product of the emphasis on SVM, and remedies for the moral weaknesses connected with CER cannot be long-lasting unless those deeper problems are addressed.

NOTES

1 Department for Business, Energy & Industrial Strategy, 'New Executive Pay Transparency Measures Come into Force', Press release, 1 January 2019, https://www.gov.uk/government/news/new-executive-pay-transparency-measures-come-into-force; accessed 29.03.19.

2 Ibid. See also a useful commentary, 'Directors' Remuneration', on the Deloitte IAS (International Accounting Standards) website: https://www.iasplus.com/en-gb/resources/other-regulatory/company-law/directors-remuneration; accessed 13.03.19.
3 Lord Griffiths of Fforestfach, 'Installing Values in Business', in Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Volume 1: Principles and Challenges* (Oxford: Centre for Enterprise, Markets and Ethics, 2017), pp. 14–15; emphasis added.
4 Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Volume 2: Practical Responses* (Oxford: Centre for Enterprise, Markets and Ethics, 2017).
5 Jeff Van Duzer, 'Purpose, Practice and Partnership: A Christian Reflection', in Turnbull and Weinhold (eds), *Making Capitalism Work for Everyone, Volume 2*, p. 33.
6 Rick Alexander and James Perry, 'Benefit Companies: A Pathway to the Future', in Turnbull and Weinhold (eds), *Making Capitalism Work for Everyone, Volume 2*, pp. 41–51.

Chapter 7

Conclusions

In seeking to offer an assessment of CER – and especially its rapid growth since the late 1970s, which has prompted considerable debate and concern – I began by reviewing the empirical trends, especially in the UK and the USA, and then considered what factors seem likely to explain these trends, according to the substantial amount of research undertaken to this end. All three main explanations – SVM, rent extraction and institutional influences – seem to contain a measure of truth. The debates regarding CER are also, of course, about the moral and ethical aspects as well as about what can explain the trends. I argued that to reach a proper assessment of these moral dimensions of CER, a clear moral basis is needed, and presented a Judeo-Christian framework drawn from a biblical understanding of the nature of economic justice.

‘Those in senior leadership have a moral responsibility to ensure that corporations act in line with moral norms’

There are clear implications from this framework for CER. First, it suggests that the distribution of rewards between different stakeholders in a given organisation is a key aspect of economic justice; further, all stakeholders should participate in the material and other blessings enjoyed by that organisation. Regarding the trends in CER over the past few decades, it is hard to conclude that they can be justified, given the moral framework presented here. Second, it is not only executives whose behaviour is subject to serious moral critique, for to the extent that SVM is tied up with growth in CER, shareholders are also failing to meet the moral requirement that *everyone* should share in the material blessings enjoyed by a corporation. Third, those in senior leadership positions – whether as executives or shareholders – have a moral responsibility to try to ensure that corporations act in line with the

moral norms of justice. This is a matter not only for individual corporations but for the enterprise system and economy as a whole.

Chapter 6 considered what can be done in practice; it was argued that a range of approaches is probably necessary. Greater transparency, including publication of appropriate ratios, is likely to bring some progress – but has limitations. There is a clear case for reviewing and reshaping some of the decision-making processes and structures that influence CER. Finally, it seems clear that rapid growth in CER is to some degree a product of the emphasis on SVM – and there are deep problems regarding SVM. Unless these are addressed, any action to remedy the moral weaknesses connected with CER trends cannot be long-lasting.

Complete list of CEME publications

Richard Turnbull, *Quaker Capitalism: Lessons for Today*, 2014.

Edward Carter, *God and Enterprise*, 2016.

Richard Turnbull (ed.), *The Challenge of Social Welfare: Seeking a New Consensus*, 2016.

Richard Turnbull, *The Moral Case for Asset Management (jointly with New City Initiative)*, 2016.

Martin Schlag, *Business in Catholic Social Thought*, 2016.

Andrei Rogobete, *Ethics in Global Business*, 2016.

Ben Cooper, *The Economics of the Hebrew Scriptures*, 2017.

Lyndon Drake, *Capital Markets for the Good of Society*, 2017.

Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Vol. 1: Principles and Challenges*, 2017.

Richard Turnbull and Tim Weinhold (eds), *Making Capitalism Work for Everyone, Vol. 2: Practical Responses*, 2017.

Richard Turnbull, *Understanding the Common Good*, 2017.

Andrei Rogobete, *The Challenges of Migration*, 2018.

Steven Morris, *Enterprise and Entrepreneurship: Doing Good Through the Local Church*, 2018.

Richard Turnbull, *Work as Enterprise: Recovering a Theology of Work*, 2019.

Edward Carter, *God and Competition: Towards a Positive Theology of Competitive Behaviour*, 2019.

Steven Morris, *Learning from Family Business: Perspectives from Faith*, 2019.

Andrew Hartropp, *Corporate Executive Remuneration*, 2019.