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# Do Executives Who Prefer Exorbitant Salaries Downplay Ethics?

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is an associate professor of management at The Pennsylvania State University, Altoona. In 2004, two different panels of academics and practitioners recognized

his research program on corporate social responsibility. First, Orlitzky and Benjamin's (2001) study of business risk received the International Association of Business and Society Best Paper Award, co-sponsored by California Management Review. Second, the meta-analysis by Orlitzky, Schmidt, and Rynes (2003) received the prestigious Moskowitz award for outstanding quantitative research relevant to the social investment field. A summary of Dr. Swanson and Dr. Orlitzky's joint research program can be found in a book published by Palgrave Macmillan in 2008 entitled *Toward Integrative Corporate Citizenship: Research Advances in Corporate Social Performance* (<http://marcorlitzky.webs.com/projectbook.htm>).

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The widening gap between the salaries of CEOs and average workers, by some accounts now a 550 to 1 ratio, has been viewed with increased skepticism in light of an unprecedented outbreak of business scandals and well-publicized indictments and convictions of executive managers. Indeed, as we write this article the Federal Reserve's response to a growing critique of bank pay practices, particularly among the bailed-out institutions, is to consider interjecting government regulations deep into the compensation decisions traditionally reserved for the banks' boards of directors and executives (Paletta & Hilsenrath, 2009). The public is rightly suspicious of this kind of exorbitant pay, given that the tsunami of business scandals has caused massive dislocations and trauma for employees, local communities, and other stakeholders. Moreover, there is little evidence showing that such hefty compensation pays off in terms of financial performance (Balsam, 2007; Bebchuk & Fried, 2004; Conyon, Peck, & Sadler, 2001; Core, Holthausen, & Larcker, 1999; Leonard, 1990). That some executives have received extremely large pay packages in the form of stock options while their firms' investors suffered losses prompted *Fortune* magazine to refer to executive pay practices as "outrageous" and "over-the-top" (Colvin, Harrington, & Hjelt, 2001, p. 64). This kind of reaction on the part of the public is understandably fueled by ethical ideas about what constitutes just or fair salary distribu-

tions (Fox, 2002). Yet executive attitudes toward the ethics of pay disparities are perhaps not as clear.

We investigated this relatively uncharted territory by surveying 200 executive managers in Australia in 2001 and 2002. Given that Australia and the United States share distinct cultural similarities, our initial findings, described briefly in this article, have implications for corporate hiring practices, business education, and public policy in the United States.

## Investigating Executives' Attitudes toward Compensation and Ethics

Our investigation was informed by the understanding that when executive managers ignore, suppress, or deny the role of ethical values in their decisions, then whole organizations can eventually lose touch with public expectations of social responsibility (Swanson, 1999). These include expectations of high financial performance as well as other desirable goals, such as safe consumer products, trust among business partners, honest financial disclosures, fair employment standards, and sustainable business practices. In other words, a lack of concern for ethical values in executive suites can lead to irresponsible or neglectful corporate social performance. Clearly, a lot is at stake for society, given the immense power and influence executives wield at the top of corporations. With this in mind, we were curious to know if there was any relationship between executives'

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preference for salary structure and their attitude toward ethics. So we asked them. That is, we gave 200 executives a survey designed to assess if there was any correlation between a preference to be paid extraordinary multiples of what average employees earn on the one hand, and a propensity to downplay or ignore ethical values on the other. We published the results of this survey in 2006 and 2008 (Orlitzky, Swanson & Quartermaine, 2006; Orlitzky & Swanson, 2008) and summarize some of the findings below.

### Some Preliminary Evidence

The results of our survey indicated a positive correlation between the executives' preference for a highly stratified distribution of organizational income and an aversion or reluctance to account for ethical values in their decision making. That is, those executives who preferred receiving salaries at high multiples of average workers' pay were, by their own accounts, not inclined to view ethical values as important in their decisions. For instance, they tended to agree with the statements that "facts are usually more important than values in any decision I make in my company," "business ethics is irrelevant to good decisions," and "ethical training programs are a waste of time," while disagreeing with the statement that "values have a place in corporate life." They also disagreed with the statement that "increasing pay inequality is a worrisome trend," while indicating a preference for greater pay differentiation skewed toward top management instead of the more egalitarian pay ratios preferred by those respondents who assigned more importance to ethics and values. These findings are rather startling since, arguably, a high level of executive pay might be justified by the ability of top managers to recognize and deal with the ethical implications of their decisions for employees in particular and external stakeholders in general. Indeed, studies have suggested that, in fact, executives' attention to ethical issues and responsible corporate social performance can pay off financially and reduce business risk (Orlitzky & Benjamin, 2001; Orlitzky, Schmidt & Rynes, 2003; Orlitzky &

Swanson, 2008). Yet, many of the executives we surveyed seemed to indicate that they wanted hefty salaries for *not* dealing with ethics. By comparison, those executives who were more inclined to consider ethics in their decisions indicated that they preferred fairer pay throughout their organizations.

We could not attribute the difference between these two executive groups to gender. Instead, personality seemed to play a pivotal role. Specifically, those executives who scored high on a personality trait called *agreeableness*, which indicates an inclination to be other-regarding (i.e., cooperative, friendly, altruistic, and trusting) (see Costa, Terracciano, & McCrae, 2001), were mostly in the group advocating more equitable salary distributions. That is, their interest in getting high salaries for themselves was tempered by a concern for pay equity for other employees. Executives in this group also indicated that they assigned more importance to publicly recognizing ethical issues. For instance, they reported a belief that corporations should foster a climate where individual values are discussed freely and openly.

Finally, we found that those executives with more business coursework were in the first group of respondents who preferred extraordinarily high salaries while expressing indifference or aversion toward ethics. Some critics of business education have explained this state of affairs by observing that business curricula tend to inculcate or reinforce a narrowly amoral self-interest that serves as a rationale for ignoring or downplaying their ethical responsibilities to others (Frederick, 2006; Swanson, 2004).

### Implications for Corporations, Business Education, and Public Policy

In our view, society has a right to expect ethical sensitivity from executives whose decisions affect almost every aspect of contemporary life. Executives are supposed to lead firms toward good corporate citizenship, which means providing an array of benefits to groups in society, including financial returns for shareholders, safe goods and services for consumers, fair employment standards

for workers and, more generally, technological innovations and sustainable business practices (Carroll, 1998). This is a tall order to be sure, and an executive with a myopic view of his or her organizational and societal responsibilities will surely be at a disadvantage. One implication of our findings is that organizations striving to hire executives who will attend to social issues should try to screen candidates for attitudes and personality traits consistent with ethical receptivity and an inclination to consider the interests of others in their decisions. Given our finding that business courses may contribute to narrow self-interest and ethical myopia, we recommend that executive candidates also be screened for a well-rounded education and especially for coursework in ethics and corporate social responsibility where leadership is presented broadly in terms of obligations to an array of community stakeholders.

By extension, business schools should do their part. The most recent statistic we have seen in the mainstream business press is that only one-third of accredited business schools offer an ethics course, and presumably fewer require one (Willen, 2004). Since business school deans bear some responsibility for this dubious state of affairs, we join the growing chorus of voices encouraging them to exert leadership to ensure that business students, our future managers, are exposed to principles and practices of corporate social responsibility and ethics in the curriculum (see Swanson, 2004; Swanson & Fisher, 2008).

Public policy can also play a role. Ultimately, the lack of business ethics coursework could become a matter for legislative oversight if business schools continue to lag in this important area. Otherwise, it would seem particularly appropriate to set limits on severance packages (such as "golden parachutes"), stock options, and executive pay, especially in bailed out banks where taxpayer dollars are at stake. In this vein, the previously described proposal to curb banker pay bears watching. Another idea is that shareholders of all public companies be given a voice in approving executive pay. Although this idea resonates with

the democratic ideals espoused in the United States, it is not clear whether shareholder involvement in determining executive pay will have the desired effect. While there is some evidence that shareholder democracy can rein in corporate missteps (Fairfax, 2008), other research indicates that “say on pay” legislation has not worked in limiting executive compensation, at least not in the United Kingdom (Reich, 2007). Still, there is reason to believe that shareholder activism, especially institutional activism, will increase as corporations experience the consequences of Sarbanes-Oxley, as well as changes in the listing standards for the New York Stock Exchange and National Association of Securities Dealers Automated Quotations (known as the NASDAQ Stock Exchange) (Rubach & Sebor, 2009). If this activism increases, it bears watching in terms of targeting executive pay.

Meanwhile, proxy disclosure rules, such as those recently considered by the Security and Exchange Commission (SEC), could be redesigned to shed light on board compensation decisions (SEC Press Release, 2009). Given the stakes, we call for more research on such proposals

aimed at aligning executive pay with the greater public interest.

### The Need for Transparency, Continuous Oversight, and Accountability

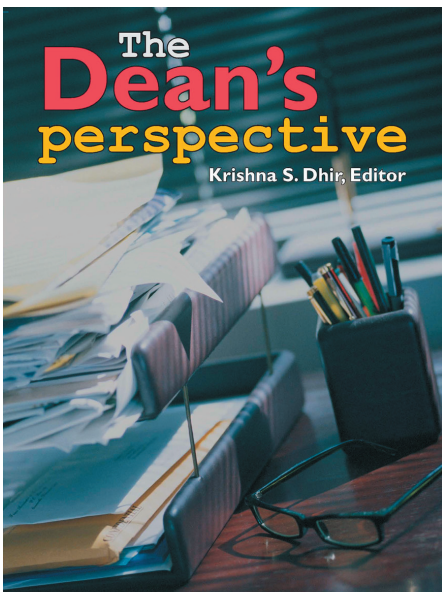
In conclusion, executives’ attitudes toward salary distributions may be leading indicators of their ability to direct organizations toward responsible citizenship behavior. As a precaution, boards of directors and recruiting committees would be well advised to try to screen executive candidates for a relatively equitable approach to compensation structure as well as business education strong in ethical analysis. Although such screening may be challenging to implement, it could pay off in terms of recruiting business leaders who possess a competitive advantage in recognizing and dealing with the complex ethical issues that define the business environment. Moreover, public policy oversight, such as the Federal Reserve proposal, may be appropriate. After all, industry self-regulation alone has failed to temper two simultaneous developments that have marred the reputation of business—increasingly exorbi-

tant salaries for top executives on the one hand and an unprecedented outbreak of destructive corporate scandals on the other. Although not all business conduct can be legislated or regulated, continuous pressure for oversight and accountability at the top of corporate structure is surely called for. In fact, regulatory oversight and accountability may have to take precedence over transparency because some empirical studies have shown that more disclosure may not necessarily reduce pay inequities (Bebchuk & Fried, 2005; Hall & Murphy, 2003; Park, Nelson, & Huson, 2001).

In the final analysis, when appeals to voluntary self-control do not work (and executive pay trends over four decades suggest that they have not) external government control may be necessary.

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**The Dean's perspective**  
Krishna S. Dhir, Editor

*This book shares the perspectives and insights of an impressive array of current and former deans, as well as faculty members, about the role of a business school dean in all its dimensions. The book is appropriate for sitting deans as well as for aspiring deans, and is an important addition to the literature on business school leadership.*

**Jerry E. Trapnell, Ph.D, CPA,  
Executive Vice President &  
Chief Accreditation Officer**

**The Dean's perspective**

Most of the skills and knowledge needed to support a successful deanship can be learned and improved and in that spirit, a business school dean must continuously seek to enhance his/her skills. This book shares the perspectives and insights of an impressive array of current and former deans, as well as faculty members about the role of a business school dean in all its dimensions. The book is appropriate for sitting deans as well as for aspiring deans, and is an important addition to the literature on business school leadership.

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This book brings together various essays published in the Dean's Perspective column of the Decision Sciences Institute's newsletter, Decision Line, from its inception in July 2003 to January 2008.

The Decision Sciences Institute (DSI) is a professional organization of academicians and practitioners interested in the application of quantitative and behavioral methods to the problems of society. Through national, international and regional conferences, competitions, and publications, the Institute provides an international forum for presenting and sharing research in the study of decision processes across disciplines. The Institute also plays a vital role in the academic community by offering professional development activities and job placement services.

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United Airlines Flight 232 (pp. 120-127). The point about "over-thinking" or over-analyzing in complex situations is nicely made by the segment on Jean Van de Velde (pp. 136-138) or segments on how we make poor decisions on home purchases by considering irrelevant variables (pp. 144-145), the powerful and well-proven placebo effect studied using an fMRI (pp. 146-147), or the failure of detailed MRI images to improve outcomes for patients with back pain (pp. 160-165). These are all short enough and intriguing enough to provide ample grist for class discussion. I already discuss the "ultimatum game" in class, but Lehrer provides an interesting variation called the "dictator game" (p. 187). It works the same as the ultimatum game except that player 1 has full control; the other player *must* accept whatever offer is made. Interestingly, offers continue to be around \$4 or \$5, apparently because of empathy for the other player. However, this result only accrues if the two players are face-to-face. If not, player 1 lapses into unfettered greed! This "moral decay" has important implications for students of organization behavior and suggests limitations on the use of currently in vogue structural arrangements such as virtual teams. ■