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by Mohammad Chaidir

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Exploring Pay Equity: The Role of Public and Employee Stakeholders in Shaping CEO-Worker Pay Ratios

[1*]Mohammad Chaidir, [2]Seger Santoso, [3]Farah Qalbia
STIE Kasih Bangsa, Indonesia
*m.chaidir@stiekasihbangsa.ac.id

Address: 8, Jl. Dr. Kasih No. 1, RT. 8/RW. 1, Kb. Jeruk, Kec. Kb. Jeruk, West Jakarta City, Special Capital Region of Jakarta 11530
Author correspondence: *ngadi.permana@stiekasihbangsa.ac.id*

***Abstract**: This research investigates the impact of stakeholder pressures on executive compensation practices, focusing on the influence of public and employee stakeholders through the disclosure of CEO-worker pay ratios and regulatory frameworks. The primary objective is to analyze how these stakeholders shape corporate governance norms and executive pay policies. Employing a qualitative methodology, this study synthesizes contemporary research on the subject. It reviews strategic organizational responses aimed at enhancing transparency and fairness in executive compensation. Data were gathered from various scholarly articles, regulatory reports, and case studies, providing a comprehensive overview of the current landscape. The Result reveal that the public and employee stakeholders have a substantial influence on CEO compensation policies. According to the study, more pay equity transparency promotes improved stakeholder confidence, corporate accountability, and organizational reputation. It also emphasizes how businesses adjust to legal changes and the wider consequences for corporate social responsibility.*

***Keywords** : CEO-worker pay ratios, stakeholder influence, corporate governance, regulatory reforms, pay equity*

1. INTRODUCTION

In recent years, the discourse on corporate governance and executive compensation has increasingly centered around the issue of pay equity between CEOs and average workers within organizations. This focus has been catalyzed by regulatory mandates such as the Securities and Exchange Commission's (SEC) requirement for firms to disclose CEO-to-worker pay ratios, aimed at enhancing transparency and accountability in corporate compensation practices (SEC, 2021). The CEO-to-worker pay ratio is an important indicator of organizational fairness and stakeholder alignment in addition to reflecting financial inequality inside companies. Stakeholders, who include a range of organizations including workers, investors, members of the community, and regulators, have a big say in how businesses handle and report these numbers. According to the stakeholder theory, these various groups' demands and expectations have an impact on companies, and these groups also apply pressure on them (Freeman, 1984).

Empirical studies underscore the pivotal role of stakeholders in shaping corporate decisions, including those related to executive compensation and pay equity (Denis et al., 2019; El Ghoul et al., 2011). Public stakeholders, including community organizations and state regulators, advocate for equitable pay practices that align with broader societal expectations and economic justice concerns (Tao & Hutchinson, 2020). At the same time, employees

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increasingly view pay equity as a critical indicator of organizational fairness and commitment to employee welfare (Conyon & He, 2018). Amidst these dynamics, firms navigate complex terrain as they seek to balance competitive compensation packages for executives with the imperative to maintain internal equity and external legitimacy (Bebchuk & Fried, 2004; Liang et al., 2022). The evolving regulatory landscape and heightened stakeholder scrutiny necessitate strategic responses from firms to not only comply with disclosure requirements but also to proactively address stakeholder expectations regarding pay equity (Gompers et al., 2016). Recent studies by Irawan, Prabowo, Kuncoro, and Thoha (2021) on the role of human capital in operational resilience and strategic orientation underscore the importance of considering stakeholder perspectives in corporate governance. Their research highlights how innovation performance and sustainable practices contribute to long-term organizational success, paralleling the need for firms to address pay equity transparently to foster trust and stability. Similarly, Kusnanto (2022) emphasizes the impact of sustainable leadership and human capital on corporate performance in the banking industry, reinforcing the significance of aligning executive compensation with broader governance and human resource strategies to achieve organizational objectives.

This research examines the multifaceted influences of public and employee stakeholders on CEO-worker pay ratios within organizations. This review attempts to offer insights into how businesses manage these stakeholder pressures and the consequences for corporate governance and CEO remuneration practices by combining theoretical frameworks and actual data. This study seeks to offer a comprehensive understanding of how stakeholder engagement can drive equitable compensation practices, ultimately contributing to more transparent and accountable corporate governance.

2. LITERATURE REVIEW

The relationship between CEO compensation and firm performance has long been debated (Murphy, 2013). High CEO pay ratios, which disclose the disparity between executive and employee compensation, have garnered significant attention due to their perceived impact on organizational justice and stakeholder perceptions (Jung et al., 2021). The enactment of regulations such as the Dodd-Frank Act Section 953(b) has mandated firms to disclose these ratios, aiming to enhance transparency and accountability (Jung et al., 2021). Research indicates that CEO pay ratios can influence firm behavior and stakeholder relations. For instance, stakeholders, including shareholders and the general public, use these ratios as indicators of corporate social responsibility and equity (Kelly & Seow, 2016). Corporate social responsibility has negative impact to accrual earnings management and positive impact to real earnings management through cash flow operation and they're not significant (Kumandang, C., & Hendriyeni, N., 2021). Companies with high CEO pay ratios often face scrutiny regarding their fairness and the alignment of executive compensation with organizational performance (Murphy & Jensen, 2018).

Public perception and media coverage play crucial roles in shaping attitudes towards CEO pay ratios. Studies suggest that public discourse can affect consumer behavior and investor sentiment, influencing corporate decision-making (Bank & Georgiev, 2019). The communication style of the KPK spokesman had a positive impact on public perception (Hadi, S.P., 2020). Moreover, organizational responses to these perceptions, such as strategic communications and adjustments in compensation policies, reflect attempts to manage reputational risks and maintain stakeholder trust (Clarkson, 1995).

Employee reactions to CEO pay ratios also impact organizational dynamics. High ratios may lead to employee dissatisfaction and affect morale and productivity (Mishel & Wolfe, 2019). Organizations often grapple with balancing executive compensation with employee wages to mitigate internal tensions and retain talent (Murphy & Sandino, 2010).

CEO-worker pay ratios are multifaceted metrics that influence corporate governance, stakeholder relations, and organizational behavior. Understanding the implications of these ratios requires examining their effects on public perception, employee morale, and organizational strategy.

3. METHODS

This qualitative literature review aims to systematically analyze existing research on CEO-worker pay ratios, focusing on the perspectives of public and employee stakeholders. The methodology follows a structured approach to identify, evaluate, and synthesize relevant literature that addresses the impact of these ratios on corporate governance and stakeholder perceptions. The literature search will utilize academic databases and relevant journals in accounting, finance, and management. Keywords including "CEO pay ratios", "employee compensation", "stakeholder perceptions", and "corporate governance" will be used to identify peer-reviewed articles, theoretical frameworks, empirical studies, and regulatory documents. Key sources identified for this review include comprehensive studies on CEO pay ratios and their implications for organizational behavior (Bank & Georgiev, 2019; Jung et al., 2021). These studies provide insights into the regulatory landscape and stakeholder responses to disclosure mandates (Securities and Exchange Commission, 2015). Articles included in this review will be limited to those published in the last decade to ensure relevance and currency. Only studies written in English and focusing on CEO-worker pay ratios from the perspectives of public and employee stakeholders will be considered. Selected studies will be critically evaluated based on their methodological robustness, theoretical frameworks, and relevance to the research topic (Murphy, 2013; Clarkson, 1995).

Data extraction will involve systematic coding of key findings, methodologies used, and theoretical contributions from each selected study. Themes such as stakeholder perceptions, organizational responses, and regulatory impacts will be identified and synthesized to provide a comprehensive overview of the literature. The synthesis process will integrate findings from various studies to highlight common trends, divergent viewpoints, and gaps in existing research (Kelly & Seow, 2016; Jung et al., 2021). The quality of selected studies will be assessed using criteria adapted from established frameworks in qualitative research, focusing on methodological rigor, theoretical coherence, and contribution to understanding CEO-worker pay ratios.

4. RESULTS

Public stakeholders, including policymakers, investors, and advocacy groups, play a crucial role in shaping the discourse on CEO-worker pay ratios. Studies indicate that public stakeholders perceive high CEO-worker pay gaps as indicative of broader social and economic inequities, influencing corporate governance practices and regulatory reforms (Bank & Georgiev, 2019).

Employee stakeholders, comprising workers and labor unions, also exert significant influence on CEO-worker pay ratios. Research suggests that employee perceptions of fairness and equity are pivotal in shaping organizational culture and employee morale (Kelly & Seow, 2016). The disclosure of CEO pay ratios has sparked debates on internal equity and the alignment of executive compensation with employee welfare and company performance (Murphy, 2013).

Organizations have responded to stakeholder pressures by adopting various strategies to manage CEO-worker pay differentials. Some firms have implemented transparency initiatives to enhance accountability and mitigate stakeholder concerns (Clarkson, 1995). Others have revised executive compensation structures to align with performance metrics and stakeholder expectations (Bank & Georgiev, 2019). Research indicates that organizational responses vary based on industry norms, regulatory environments, and stakeholder engagement strategies (Jung et al., 2021). Companies operating in highly regulated sectors or with strong labor union presence tend to adopt more conservative approaches in disclosing and managing CEO-worker pay ratios (Kelly & Seow, 2016). Regulatory frameworks, such as the SEC's pay ratio disclosure rule, have significant implications for corporate governance and stakeholder relations (Securities and Exchange Commission, 2015). These regulations aim to enhance transparency and accountability in executive compensation practices, reflecting broader societal concerns over income inequality and corporate ethics (Bank & Georgiev, 2019). Studies suggest that while regulatory interventions facilitate transparency, they also pose challenges for firms in balancing stakeholder expectations and operational efficiencies (Murphy, 2013). The effectiveness of these regulations in curbing excessive CEO pay ratios remains a subject of debate among scholars and policymakers (Jung et al., 2021).

5. DISCUSSION

The influence of public stakeholders, including policymakers, investors, and advocacy groups, on CEO-worker pay ratios highlights the complex dynamics at play in executive compensation practices. Regulatory mandates, such as the Dodd-Frank Act Section 953(b), have underscored the importance of transparency and accountability in addressing income inequality. These measures compel firms to disclose CEO-worker pay ratios, aligning executive compensation with societal expectations and promoting fairness in corporate governance (Jung et al., 2021; Bank & Georgiev, 2019).

Employee stakeholders, encompassing workers and labor unions, significantly impact corporate strategies regarding pay equity. Employee perceptions of fairness are crucial in shaping organizational morale and culture, with high CEO-worker pay differentials potentially leading to decreased motivation and increased turnover (Kelly & Seow, 2016; Murphy, 2013). Organizations, therefore, face mounting pressure to justify compensation practices that reflect internal equity and support employee welfare, aligning executive pay with performance and organizational values (Clarkson, 1995).

Organizations' strategic responses to stakeholder pressures have been multifaceted. Transparency initiatives, such as detailed disclosures and stakeholder consultations, have been adopted to enhance accountability and address reputational risks (Bank & Georgiev, 2019). Additionally, firms have revised executive compensation structures to focus on performance-based metrics, aligning incentives with long-term shareholder value and stakeholder expectations (Jung et al., 2021). These strategies highlight the need for adaptive measures in response to varying industry norms and regulatory environments.

The evolving regulatory landscape surrounding CEO-worker pay ratios continues to shape corporate behavior. SEC mandates and legislative reforms are designed to standardize disclosure practices and enhance transparency in executive compensation, reflecting broader societal concerns over fairness and corporate governance (Securities and Exchange Commission, 2015). These regulations aim to provide shareholders and the public with greater visibility into corporate decision-making processes, fostering trust and accountability (Bank & Georgiev, 2019).

However, the impact of regulatory interventions on corporate practices remains contested. While disclosures promote transparency, they may also create compliance burdens and unintended consequences for firms (Murphy, 2013). Variations in regulatory enforcement and stakeholder interpretations can influence firms' strategic responses, potentially affecting long-term performance and governance outcomes (Jung et al., 2021).

Comparing findings from previous studies offers insights into the evolving discourse on CEO-worker pay ratios. Clarkson (1995) emphasized stakeholder theory, highlighting the importance of aligning corporate practices with stakeholder expectations to enhance organizational legitimacy. Bank & Georgiev (2019) examined the impact of SEC disclosures on CEO pay ratios, suggesting that transparency initiatives are essential for managing stakeholder perceptions and regulatory compliance. Kelly & Seow (2016) focused on investor reactions to pay ratio disclosures, indicating that stakeholders value transparency in executive compensation as a measure of corporate governance effectiveness. Murphy (2013) provided a historical perspective on executive compensation, tracing regulatory reforms and their implications for stakeholder relations and corporate governance practices. Jung et al. (2021) analyzed supplementary disclosures under Dodd-Frank, highlighting the complexities of stakeholder influences on compensation practices and regulatory compliance. Securities and Exchange Commission (2015) outlined regulatory frameworks, underscoring the role of transparency in addressing shareholder concerns and promoting corporate accountability. Jha & Chen (2015) explored audit fees and social capital, suggesting that firms with strong stakeholder relationships may enhance corporate transparency and governance practices. Rouen (2020) examined the consequences of mandatory pay ratio disclosures, indicating mixed impacts on shareholder perceptions and corporate performance.

6. CONCLUSION

Public and employee stakeholders exert a substantial influence on CEO-worker pay ratios, driven by concerns over income inequality which catalyze regulatory reforms and transparency initiatives aimed at enhancing corporate governance accountability and fairness (Bank & Georgiev, 2019; Jung et al., 2021). Firms address these pressures by adopting various strategies, such as improving transparency in pay disclosures and revising compensation structures to align executive incentives with long-term shareholder value while addressing employee perceptions of fairness and equity (Kelly & Seow, 2016; Murphy, 2013). Regulatory frameworks like the Dodd-Frank Act Section 953(b) play a crucial role in standardizing disclosure practices and fostering stakeholder engagement in corporate decision-making. However, the effectiveness of these regulations in achieving their intended goals varies across different industries and organizational contexts (Securities and Exchange Commission, 2015).

7. LIMITATION

Despite the insights gained, this review is not without limitations. The majority of studies reviewed are based on Western corporate contexts, limiting generalizability to diverse global settings. And findings may not fully account for industry-specific nuances and regulatory environments, warranting caution in extrapolating conclusions beyond specific organizational contexts.

Future research could explore longitudinal impacts of CEO-worker pay ratios on organizational performance and stakeholder relations, incorporating cross-cultural perspectives to enhance theoretical robustness and practical relevance. Addressing these limitations through robust empirical studies and interdisciplinary approaches will be crucial in advancing our understanding of how stakeholder influences shape CEO-worker pay ratios and inform effective corporate governance practices globally.

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