Eurasian Journal of Business and Management, 11(2), 2023, 91-109
DOI: 10.15604/ejbm.2023.11.02.003

EURASIAN JOURNAL OF BUSINESS AND MANAGEMENT

www.eurasianpublications.com

EXECUTIVE PAY CUTS DURING COVID: YIELDING TO PRESSURE OR POTENTIAL FOR REAL CHANGE?

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Received: April 4, 2023 Accepted: June 17, 2023

Abstract

Executive compensation has been the subject of longstanding criticisms for possibly setting wrong incentives or for being excessive. In the Covid pandemic in 2020/2021, numerous CEOs worldwide decided to temporarily forgo part of their compensation in response to calls for solidarity with stakeholders who had to make financial or other sacrifices. While there have been suggestions that these concessions might be the starting point for wider reforms of executive compensation to address some of the criticisms, pay has quickly returned to pre-Covid levels and reached new record highs. This article examines whether the executive pay concessions made during Covid should be considered a temporary phenomenon, or whether they might indeed have the potential to start a larger process of reassessing and reforming executive compensation. The analysis explored three angles: First, the cuts to compensation themselves were examined to understand the type of compensation affected and their magnitude. Second, reasons and pressures that led firms to adjust pay during the onset of the crisis were explored, and whether they can be considered temporary or more fundamental. Third, the theoretical angle used legitimacy theory, institutional theory, and resource dependence theory to assess the intention and longevity of measures undertaken. Taken together, the analysis suggests the actions on pay were a temporary reaction to a specific situation, and do not seem to be intended nor contain potential for longer lasting, widespread changes.

Keywords: Executive Compensation, CEO Pay, Pay Controversies, Covid Pandemic, Legitimacy Theory

1. Introduction

The unprecedented worldwide Covid health crisis in 2020/2021 led to government mandated shutdowns of businesses, collapsing sales and cash flows, staff and customer absences, so that many businesses faced an existential crisis that affected a wide range of stakeholders. As a consequence, many stakeholders were severely financially affected. For instance, dividend payments and share buybacks were halted to conserve cash, affecting shareholders. Employees did not get paid during business shutdowns, were laid off, or received only limited furlough payments from the government. Suppliers were in crisis due to collapsing demand. In this environment, another stakeholder group's privileges came under strong scrutiny: Executive

compensation, a contentious topic that has long been subject of continuous debate about the adequacy of executive pay levels, incentive structures, and perceived pay excesses (see, e.g. Nichols and Subramaniam, 2001; Murphy, 2013; Murphy and Jensen, 2018). High CEO pay-outs are also seen as a contributing factor to increasing wealth inequalities and are therefore not well received by the public (Aggarwal, 2008; Melin, 2021a).

Given an environment of staff pay freezes, furlough, or redundancies, and suspended pay outs to shareholders, a wide range of stakeholders were calling for executives to 'share the pain' and for firms to adjust executive pay, ranging from investors and investment associations, industry bodies, to governments and regulatory bodies (Eversheds Sutherland, 2020; Schroders, 2020; Investment Association, 2020; Batish *et al.* 2020). In response and as a gesture to show solidarity with the firm's stakeholders who had to make sacrifices, numerous CEOs decided to forgo part of their compensation (Balogh *et al.* 2022). Examples of that can be found across the world (see Melin, 2020a).[1] The actions on pay have led to suggestions that these Covid-induced measures might be the starting point for a wider and more long-term re-evaluation of executive pay, to respond to longstanding criticisms and address some of its perceived excesses (Wilson and Spezzati, 2020).

This comes against the background of longstanding calls for reforms to address the issue of perceived CEO 'excess pay'. In the past, measures implemented to curb executive compensation include, e.g., increased disclosure requirements, shareholder votes, changes to accounting and tax rules, or legislation (Nichols and Subramaniam, 2001; Cherry and Wong, 2009; Faulkender *et al.* 2010; Murphy, 2013; Murphy and Jensen, 2018). Thus, executive pay sacrifices at the beginning of the Covid pandemic may have led some observers to consider this to be the beginning of further change. However, with the depths of the Covid crisis and its immediate impact over, those shared sacrifices by executives have ended and firms went back to normal: Executive compensation is back to pre-Covid levels, and in some instances has reached new records[2]. This quick reversal raises an important question: Was this show of solidarity, the foregoing of pay, just a temporary gesture addressing a specific situation, or could this still be the nucleus of a wider and more lasting change on pay? Could it be seen as a step towards firms acknowledging longstanding stakeholder criticisms and putting executive compensation on a more broadly 'acceptable' basis?

The aim of this article is to examine whether the executive pay concessions made during Covid should be considered a temporary phenomenon, or whether there is something about them to suggest they might be latent buds of real change in how firms approach the issue. It seeks to assess whether they might have the potential to start a larger process of reassessing executive compensation. The study thereby responds to calls in the literature to investigate whether this crisis may lead to a revision in pay components and mechanisms of linking pay to performance. That is, a wider realignment of compensation, also in light of stakeholder expectations (e.g., Zattoni and Pugliese, 2021).

While some prior research has examined the effect of Covid on executive remuneration (e.g., Batish *et al.* 2020; Alves *et al.* 2021; Balogh *et al.* 2022; Bedford *et al.* 2023), the focus was on the short-term impact and measures taken to address the immediate situation. It did not, however, analyze whether this could spell the beginning of wider reforms of pay to potentially address longstanding concerns about executive pay. This study addresses that question.

The analysis proceeds from three angles: First, the cuts to compensation will be analyzed to understand what actions were taken, the type of compensation affected, and their magnitude. Second, a number of reasons and pressures that caused firms to adjust pay during the onset of the crisis are explored, and whether they can be considered temporary, situational factors, or more of a fundamental nature. Third, several theories that try to explain corporate actions will be drawn on, to assess the intention and longevity of measures undertaken. The theories considered

[1] Yet there are also many counterexamples of firms where CEOs did not give up compensation or received bonuses despite mass redundancies, or filing for bankruptcy that left most employees unemployed, usually in the US (see, e.g., Melin and Bloomberg, 2020; Spector and DiNapoli, 2020; Rennison and Fontanella-Khan, 2020).

[2] See recent press coverage, e.g. Edwards (2022) or Shepherd (2022).

are legitimacy theory, institutional theory, and resource dependence theory. As we will see, the analysis of the measures from all three angles suggests these were temporary, a reaction to a specific situation, and do not seem to be intended nor contain potential for longer lasting, widespread changes. The analysis further suggests that we should not be surprised about the quick reversal and limited potential for real change.

The study contributes to literature in several ways. First, it goes beyond simply focusing on the short-term implications of firms yielding to stakeholder pressure and cutting executive pay in a specific crisis situation but examines whether those measures could be considered a starting point for addressing longstanding criticisms of executive compensation and calls for reforms. The specific situation brought about by the crisis offers a novel perspective on the issue. Second, the study combines several angles of analysis to give a comprehensive view of the actions undertaken, including the theoretical angle. In doing so, it provides a more detailed assessment of the potential for longer-lasting changes. Furthermore, it adds to our understanding of the financial impact of Covid on companies, by focusing on the effect of executive compensation.

The paper will proceed as follows: Section two reviews existing studies, then section three examines the types and details of executive compensation cuts enacted, followed by an exploration of reasons for the cuts in section four. Section five looks at the issue from a theoretical angle, section six presents the conclusion.

2. Review of prior studies

A number of studies have examined the impact of Covid on executive remuneration. For instance, some research looked at how compensation should be set in such a situation, and potential adjustments. For instance, Konigsburg and Finzi (2020) interviewed CEOs, compensation committee chairs, and institutional investors to consider how CEOs should be rewarded during such a crisis. Fairness emerged as a key concern, that is how CEOs are compensated versus workers and shareholders who both had to make sacrifices. Investors showed particular concern about high pay-outs at firms that took government funding, cut dividends, or laid off workers, since that could undermine stakeholder trust. Cumberland and Ivy (2020) assess crisis-period adjustments that corporate boards could make to still retain and motivate managers throughout the crisis, while Matovic (2021) looks at how various aspects of executive remuneration were affected, and potential adjustments to allow managers to recoup some of the compensation in the future. Zattoni and Pugliese (2021) also raise several topics of how performance-based compensation may be affected in their analysis of the impact of Covid 19 on corporate governance.

Other studies focused more on determinants of pay cuts, their wealth effect for CEOs, and shareholder reactions. They show that most companies never cut pay and, even if they did, total pay often did not decrease because of a reallocation among compensation components. Evidence for an overall drop in compensation has come from, for instance, Batish *et al.* (2020) who show that only 17% of Russell 3000 firms made pay adjustments, and those were also firms more likely to have laid off or cut staff pay, cut or suspended the dividend, and suffered the biggest stock price declines. Mostly fixed CEO salaries were cut, with only few companies adjusting variable components. While 60% showed a clear decrease in compensation, 40% made adjustments to potentially increase future compensation. Finally, total CEO wealth declined significantly due to a fall in stock prices. Similarly, Alves *et al.* (2021) examine Russell 3000 firms and find that for CEOs who also volunteer for a pay-cut after dividend suspensions, investors consider them to be better team players, leading to higher agreement on Say on pay votes. Overall CEO compensation fell due to the average value of CEO company shares dropping significantly.

Opposite results have come from, for instance, Bedford *et al.* (2023) who show that only 25% of Australian listed firms made adjustments, and that total pay did not decline since salary reductions were balanced by increases in cash bonuses. CEO pay cut announcements are positively associated with other actions such as staff redundancies and cuts to capital expenditures, thus possibly an attempt to appease stakeholders. Further, shareholders were more likely to approve executive compensation for the year for firms with CEO pay cuts. Similarly,

Li and Yang (2021) find that cuts were more likely in US listed firms with furloughs and/or salary cuts for employees. In total, 30% of firms cut CEO salaries, but nearly all of them also increased annual incentive payments, partly negating the cuts. Long-term incentives were rarely adjusted. If adjusted, however, this led to a higher rate of disapproval of Say on pay votes and was associated with subsequent CEO departure. Further, Balogh *et al.* (2022) show that the overall compensation of US listed firms' CEOs who took a pay cut did not really go down, due to a reallocation of base pay to other, less visible, pay components that were increased accordingly. This effect was stronger for firms with powerful CEOs and weak corporate governance. CEO pay cuts were also more frequent at firms with a more negative stock price response to the pandemic.

Taken together, the review shows that while some studies have examined the effect of Covid on executive remuneration, they focused on the short-term impact and measures taken to address the immediate situation but did not analyze whether this could spell the beginning of wider reforms of pay in the future. This study contributes to the literature by assessing whether these measures have the potential to start a larger process of reassessing executive compensation, beyond simply analyzing the short-term impact and immediate adjustments to compensate executives for the pay cuts.

3. Analysis of executive compensation cuts

3.1. Components of executive compensation and their features

In order to examine the compensation cuts and their potential future implications, we first need to get an overview of the elements of executive compensation. Having established the specifics of compensation, we can then scrutinize the actions taken during Covid to determine potential longer-lasting post-pandemic ramifications.

Executive compensation is composed of various elements, but the basic classification is between a fixed part (annual base salary) and a variety of performance-based additional components.[3] In addition to a fixed annual base salary, the variable elements can take many forms: annual bonuses, long-term incentives, restricted stock, performance shares (i.e., restricted stock with performance-based vesting), stock options. At the simplest, the variable components are a mix of annual bonus payments (mostly cash, payable immediately or delayed) and stock options or awards that will be exercisable in the future (see Conyon, 2006; Aggarwal, 2008). The idea behind the variable components is twofold: to attract and retain executives, and to incentivize them to high performance. The incentives shall tie their interests to the interests of the shareholders, i.e. deal with the agency problem (Conyon, 2006; Aggarwal, 2008; Murphy, 2013): Good performance is required since exercising long-term incentives is tied to achieving certain performance targets, while stock options, the right to buy the firm's shares at a predetermined price, become valuable if stock price rises above the strike price. Either way, the idea is to motivate executives to do their best in the interest of the firm (Conyon, 2006; Murphy, 2013).

In terms of magnitude of the components, base salary tends to be only a small portion of the overall annual compensation achievable. The 'real money' for executives, and the element that tends to be the focus of public criticism, can be found in the variable compensation, the equity component: The main form of CEO compensation are long-term incentive packages, composed of stock and stock options awards (Aggarwal, 2008; Marcec, 2021). For instance, the compensation of the 10 highest paid CEOs and executives in the US in 2020 was nearly exclusively down to stock and option awards (see Melin, 2021a). A similar picture emerges in the UK (see, e.g. PWC, 2022; Shepherd, 2022).

Achieving performance targets can lead to significant sums and pay-outs. In fact, the significant increase in CEO pay in the last decades in the US and elsewhere, and which has led to so much criticism and public disapproval, can be attributed to the increasing use of stock options grants which opened up new dimensions of potential and actual pay (Conyon, 2006; Aggarwal, 2008; Murphy, 2013). Controversies about pay, therefore, tend to center around the

[3] Other components of the total compensation package are pension benefits and possible elements and perks such as health benefits, club memberships or personal use of company cars and corporate jets (see, e.g. Murphy, 2013). These are not subject of this discussion.

variable components, either due to the vast sums simply perceived as 'excesses', or big pay-outs in light of mediocre or insufficient firm and share performance causing 'anger' among shareholders and other stakeholders (Aggarwal, 2008; Melin, 2021a). Numerous suggestions to 'reign in' perceived excesses have therefore frequently targeted the variable components, such as tying them to more stringent performance criteria or longer time horizons (see, e.g., Faulkender *et al.* 2010; Murphy and Jensen, 2018)[4]. Having outlined the components of pay and their features and issues, we can now turn to analyzing the specifics of the pay sacrifices made to assess their significance and potential long-term implications.

3.2. Analysis of compensation components affected

As a first step in understanding the longevity and potential future ramifications of the actions on pay taken, we need to analyze three aspects: who was affected, the type of compensation affected, and their duration. This will give us an idea of what was actually done, focusing on the UK and the US as the most prominent capital markets. The analysis of those three aspects of pay cuts suggests that top management giving up bonuses or taking a temporary pay cut was often rather a token gesture (lip-service) which has been described as a 'publicity stunt' (Harper, 2020) or 'window-dressing' (Balogh *et al.* 2022), as the depth of the sacrifice was fairly limited.

First, in terms of who was affected, the measures tended mostly to be limited to a highly selective group and few executives only, thus of limited magnitude. Cuts to compensation or voluntary waiving of salary rarely went beyond the CEO, i.e. usually did not extend to senior managers in general.[5] Research in the UK (e.g. High Pay Centre (HPC), 2020; CIPD, 2020a) showed that only 37% of FTSE 100 and 31% of FTSE 250 firms had reduced CEO pay in April 2020. Similar results have been reported from the US where only a fraction of companies initiated pay cuts for executives, while the vast majority did not (see Eavis, 2020; Glass, Lewis & Co., 2021). The remaining top management pay usually remained unaffected, thereby severely limiting not only the sincerity of the solidarity shown, but also the potential contribution to conserving cash, i.e. survival, during a crisis.

Second, looking at the type of compensation affected shows that the measures were also mostly targeted at select pay components with limited 'significance' within the whole pay package. Reductions in compensation mostly affected base salary only, with cuts ranging between 20%-33% (HPC, 2020), with 20% common (CIPD, 2020b) in the UK. Similar, or even significantly lower numbers have been reported for Russell 3000, S&P 500 firms in the US, and Australia (see Eavis, 2020; Melin, 2021b; Alves *et al.* 2021; Batish *et al.* 2020; Bedford *et al.* 2023; Li and Yang, 2021). As base salary is generally low compared to the other compensation components (Melin, 2020a), the cuts are therefore of limited magnitude as proportion of overall compensation. That is, only a small part of pay was cut.

Such comparatively limited cuts, therefore, reduce the significance and meaning of the action in terms of solidarity gesture with employees, whose average pay is much lower and therefore pay cuts or limited furlough payments will be felt much more intense (see, e.g. Faulkender *et al.* 2010; CIPD, 2020a; Melin, 2022). Those limited cuts also offer little contribution to conserving cash, which is in short supply in such a crisis. Further, the CIPD (2020b) also notes that only 11 FTSE 100 companies had cancelled CEO bonuses, while leaving the door open to still pay those bonuses in shares in the future. Likewise, research has highlighted that many firms that cut CEO base salary then made adjustments to annual incentive payments or other pay components to compensate executives for the lost salary (e.g., Balogh *et al.* 2022; Bedford *et al.* 2023; Li and Yang, 2021), so that overall CEO pay did not really decrease. Taken together, that suggests the cuts and pay concessions had been fairly limited and that, despite public announcements of pay cuts, overall compensation did not change significantly.

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[4] Other measures implemented include, e.g. increased disclosure requirements and shareholder votes on compensation packages (see Murphy and Jensen, 2018).

[5] Although there are also firms that implemented pay cuts across senior management (See High Pay Centre, 2020).

By contrast, longer-term incentives, which make up most of the compensation, were mostly unaffected: For instance, of the minority of FTSE firms in the UK that implemented pay cuts, studies show that only between 11%-13% of all firms cut bonuses or other longer term awards such as Long Term Incentive Plans (CIPD, 2020b; HPC, 2020). The sacrifice, described as ‘insubstantial’ (CIPD, 2020a), is therefore limited and can be considered just a short-term measure that will not reduce future pay or pay levels in general. Further, options granted during the Covid crisis will be valuable at some point in the future when they are exercisable since, when they were issued during that period, share prices had taken a big hit and were low (see Thomas *et al.* 2020). If share prices rise again, those options will become valuable. This in-built upside potential, therefore, possibly reduces and compensates for the immediate salary sacrifice made. It also goes against the guidance produced by the Investment Association in the UK that clearly called for avoiding executives benefiting from 'windfall' gains in the future due to this effect (Investment Association, 2020; Pinsent Masons, 2020).

Third, looking at the duration of executive pay cuts, i.e. for how long executives did forgo pay, reveals a similar picture of limited significance. While a few firms cut CEO pay in early 2020 for the whole year, the vast majority only took an initial three month pay cut (April-June/July 2020) and most CEOs were back on full pay after that period (see Thomas *et al.* 2020). This was despite the still ongoing depths of the pandemic and the resulting continued closures of business premises, staff layoffs, and rounds of raising capital from investors. Thus, while there was still a major crisis negatively affecting other stakeholders, life went back to normal for CEOs (in terms of pay). Those quick reversals have also been criticized by investors who questioned why, if pay had been cut because of the crisis, compensation went back to normal while the crisis was still ongoing (Thomas *et al.* 2020).

On the other hand, while one may criticize the limited nature and significance of compensation cuts and solidarity shown, there are also important legal considerations for corporate boards and remuneration committees when it comes to decisions on cutting pay (Cherry and Wong, 2009; Eversheds Sutherland, 2020; Simmons and Simmons, 2020). First, while executives are free to voluntarily forgo part of their pay, whether they can be made to surrender part of their pay is another matter. Employment contracts had been signed by both parties, so firms unilaterally and retrospectively changing the pay packages might prove to be difficult (Cherry and Wong, 2009; Matovic, 2021). Executives deciding to temporarily and voluntarily forgo pay is unproblematic, yet it is difficult to expect executives to make this a permanent feature without their consent.

Second, whether pay can be cut, or a bonus deferred also depends on the contract the executive has signed, more specifically, on two points (Cherry and Wong, 2009; Eversheds Sutherland, 2020; Simmons and Simmons, 2020). First, if it contains a clause that enables it or not. Second, in regards to bonuses, it depends on the stage the bonus is in: Is it a deferred bonus where awards were made but not yet paid (i.e. the financial year it relates to has ended and the targets were hit and the awards made); or is the award yet to be made (i.e. the financial year it relates to has not yet ended and the award decisions not yet made). Hence decisions to surrender pay, especially the bonus or incentive parts, will have to be viewed in that light as well.

To sum up, examining the type of pay cuts undertaken suggests that these were temporary reactions to a special situation, without much evidence for a potentially longer-lasting reassessment of executive pay structures. They generally do not demonstrate either the magnitude in scale (i.e. going beyond the CEO), depth (i.e. forgoing significant amounts of pay) nor longevity (i.e. longer-term implications for change and compensation level). They appear more of a ‘lip service’ to outside temporal demands than desire for real change. Further, they also seem to confirm research findings (e.g. Batish *et al.* 2020; Li and Yang, 2021) and the view held that corporate boards and compensation committees were rather lenient with executives (Melin, 2021b), having taken the view that the crisis was not the bosses’ fault, so they should not suffer the consequences. As a result, executives were eventually able to still receive substantial pay outs (Melin, 2021b; Bedford *et al.* 2023; Li and Yang, 2021). This is in line with other studies suggesting those pay cuts were largely just symbolic (e.g., Konigsburg and Finzi, 2020; Balogh *et al.* 2022).

4. Analysis of reasons for executive compensation cuts during COVID

The next step in exploring whether the pandemic-induced cuts to executive compensation might be more than just a temporary gesture is to examine potential reasons why firms acted. Firms faced pressure and expectations to act from a variety of stakeholders who all called, more or less forcefully, for executive compensation to be adjusted. A survey of contemporary news, commentaries, and industry analysis reveals a number of reasons for why firms responded to those calls in the face of the pandemic. We can broadly distinguish four different motives for adjusting pay during that period, which are mostly induced by outside pressure: investor pressure; regulatory pressure; reputational reasons and moral pressure; financial reasons. Analysis of those categories suggests executive pay cuts are not attempts at genuine lasting change, but rather fulfilling outside expectations for a temporary crisis response.

4.1. Investor and investment ecosystem pressure

There has been a lot of pressure by institutional investors, industry bodies, and consultancies urging companies to show restraint with regards to executive compensation, in light of dividend suspensions and employee pay cuts and furloughs. Headlines such as "After calls to 'share the pain', bosses are taking lower salaries to quell investor anger" (Thomas *et al.* 2020) suggest that corporate actions to cut executive compensation can be, in part, considered a reaction to investor pressure.

In a crisis situation such as the Covid pandemic that may threaten the survival of firms, shareholders seem to be understanding when it comes to suspended dividends, capital raising, or accessing government funds, i.e. them having to make financial sacrifices. In turn, however, they also expect that executives 'share the pain' with employees and shareholders, by adjusting their remuneration (see Eversheds Sutherland, 2020; Investment Association, 2020; Pinsent Masons, 2020; Thomas *et al.* 2020). There was a clear expectation amongst investors that, if firms ask them or employees for sacrifices, executive pay cannot be left untouched either (Investment Association, 2020; Pinsent Masons, 2020). In addition to investors calling for restraint, similar expectations have been voiced by various industry bodies, asset managers, and corporate governance bodies, which are important and powerful actors in the wider investment ecosystem (see, e.g. Eversheds Sutherland, 2020; Investment Association, 2020; Schroders, 2020).

For instance, the Investment Association (2020), the body representing large UK institutional investors, produced guidance to UK listed companies expecting executive compensation to reflect the experience of the other stakeholder groups, especially shareholders and employees, including the explicit avoidance of future windfall profits for executives. The case of firms taking government support (e.g. to fund employee furloughs) or raising additional capital from shareholders has also been explicitly addressed by various actors: Here as well, there was a very clear expectation for executive compensation to be adjusted (CIPD, 2020a; Investment Association, 2020). These expectations were also confirmed in the interviews by Konigsburg and Finzi (2020) with institutional investors about executive pay in the current situation, who clearly stated their concern about high pay-outs at firms that took government funding, cut dividends, or laid off workers.

To sum up, large investors and various players in the wider investment area clearly expected firms to put executive remuneration in line with the experiences of the other stakeholders. Research evidence tends to support that view, finding that pay cuts tended to happen in firms with staff redundancies, stock price declines, or dividend cuts (e.g., Balogh *et al.* 2022; Batish *et al.* 2020; Bedford *et al.* 2023), leading to the suggestion that those cuts were meant to address stakeholder outrage and appease them by showing solidarity in light of other stakeholders suffering (Balogh *et al.* 2022; Bedford *et al.* 2023). It can therefore be argued that, if large and powerful investors expect to see actions on compensation in this situation, firms will comply for fear of angering that important group and risk losing support and the funds provided by this powerful group. From that perspective, the analysis suggests that compensation cuts may not be all that voluntary out of solidarity with employees and shareholders, but rather yielding to

outside pressure and expectations meant to accommodate stakeholder demands and not lose their financial support. The actions clearly exhibit elements of *coercive isomorphism*, with firms being ‘coerced’ into a certain behavior to meet demands of powerful stakeholders (see section 5 for an in-depth discussion of that aspect).

Compensation concessions were not motivated by a deeper shift in perception of pay, nor meant as long-term measures, but rather temporary crisis responses to help firms survive and to be ended once the crisis subsides. It can therefore be argued that, once those measures ended and investors’ and employees’ financial expectations were to be met again, there would be less reason for investors to be calling for a continued executive pay cut. This, in turn, does not suggest those pandemic pay cuts to be a genuine first step towards addressing the longstanding issue of executive pay. This is in line with research findings that pay often did not go down due to an adjustment in other pay components, to compensate executives for lower base salary (e.g., Balogh *et al*. 2022; Bedford *et al*. 2023).

4.2. Regulatory pressure

In some cases, forgoing pay was not voluntary but a response to regulatory obligations: While ’self-sacrifice’ by leaders is seen as positive (Johnson, 2020), firms that are subject to financial services regulations also have a regulatory obligation to adjust executive pay for risks, and COVID would be included in economic risk (Simmons and Simmons, 2020). Regulatory bodies therefore put pressure on banks: For instance, on 31st March 2020 the Bank of England (BoE), via the Prudential Regulation Authority (PRA), wrote to the systemically important financial services firms in the UK asking them to scrap cash bonuses and to show restraint with regard to dividends and variable remuneration. This action was preceded by a statement by the European Banking Authority (EBA) on 12th March 2020 calling on regulators to request banks to adjust their compensation arrangements, variable components in particular, in light of the crisis situation (see Bank of England, 2020; European Banking Authority, 2020; Eversheds Sutherland, 2020; HPC, 2020). In that context, Eversheds Sutherland (2020) highlights that particular focus will be on those firms subject to enhanced reporting requirements regarding CEO pay ratios, which creates potentially even more pressure to act.

In that light, the actions by the bosses of four of the UK’s largest banks offer an interesting example of yielding to regulatory pressure: They gave up bonuses and/or took a pay cut and donated part of their salary to coronavirus charities after, first, mounting criticisms they were not sharing the pain and, second, the Bank of England (BoE) letter on 31st March 2020 referred to above (Bank of England, 2020; Wilson and Spezzati, 2020). Banks had already complied with the regulator’s dividend request, but executives did not mention their own pay (it may seem easier to cut dividends than one’s own pay). Following the public criticisms and the BoE letter, suddenly four banks rushed out the same day to announce their CEOs would forgo compensation, followed by other financial institutions (Wilson and Spezzati, 2020).

Thus, the regulatory perspective offers another clear example where firms did not necessarily actively take action, but rather passively and in response to outside demands. Further, here as well, it can be argued that the action on pay demanded by regulators was not motivated by an attempt to modify the overall system of executive compensation in the longer term. It can be seen as a measure to ensure banks take action to weather the current financial storm and minimize potential threats to the overall financial system, along with showing solidarity with other affected stakeholder groups.

4.3. Reputational reasons and moral pressure

Reputational reasons and moral pressure can be considered a further potential motive for firms to adjust executive compensation. How firms react during this crisis may put their reputation at stake (Hinks, 2020), so they have to act carefully. As Batish *et al*. (2020, p. 1) point out in their analysis, the “issue of appropriate pay can gain extraordinary public attention” when companies cut costs on the employee side. With regards to executive compensation, it has been repeatedly highlighted that the public would react very negatively to firms taking government funds or

furloughing employees, while 'highly paid executives' do not feel a difference in their finances: For instance, the Investment Association (2020, p. 4) states there will be "significant reputational ramifications" for firms that do not adjust executive remuneration whereas all its stakeholders have to make sacrifices. It explicitly refers to situations such as firms raising capital, accessing government funds to furlough employees, or redundancies or pay cuts.

There are several sources of potential reputational damage. For one, whether a firm is accessing taxpayer funds is seen as a crucial factor in pay cut decisions (Thomas *et al.* 2020) as this may also be a source of reputational damage: For instance, Pinsent Masons (2020, para. 13) stressed that "there is unlikely to be much public sympathy for 'fat cat' executives who have looked to protect their own pay packets or who have made big gains when share prices recover, at the same time as relying on the taxpayer to meet their wider payroll costs". This is consistent with research evidence by Konigsburg and Finzi (2020) showing that institutional investors pay particular attention to executive compensation in firms taking government funds.

Further, the substantial gap between average worker pay and CEO compensation has been a longstanding issue of criticism (see, e.g., CIPD, 2020a; Melin, 2022), and has therefore been identified as another area of potentially significant reputational damage. Firms were therefore advised to cut CEO pay in the current situation to reduce 'backlash' from the public if the pay ratios were found to be significant given the crisis (Eversheds Sutherland, 2020).

In relation to bank executives forgoing pay, it was highlighted that financial institutions may still be fighting some reputational damage from the Financial Crisis of 2008/2009 (Warrington, 2020) and therefore may have a particular interest in presenting themselves in a good light. Thus, forgoing pay or donating to charities provided 'positive PR' for high-paid top management against the background of employee and other stakeholders suffering (Thomas *et al.* 2020). This, again, suggests compensation cuts may simply be a short-term crisis reaction to outside expectations to stave off reputational damage. In addition to avoiding potential reputational consequences, it is also possible that firms acted "in response to the moral pressure to demonstrate solidarity with workers" (CIPD, 2020a, p. 7). This, as well, would help firms being seen in a positive light by the public, instead of indifferent to their own workers' plight which might damage reputation. Research (e.g., Balogh *et al.* 2022; Bedford *et al.* 2023) also suggests that showing solidarity as a means to avoid public outrage and backlash may have been an important motive for compensation cuts. Specifically, Bedford *et al.* (2023) find that lower base pay was offset by bonus components and argue that this is consistent with criticisms that those CEO pay cuts were symbolic and meant to address public outrage over job losses due to the pandemic.

Related to moral and reputational reasons, peer pressure may also lead to firms cutting executive pay, especially if they have taken government help (Thomas *et al.* 2020). Executives know what their peers do and observe the public reaction to their pay cuts. Hence, if some cut their pay, possibly followed by positive public reaction, it sets off a wave of similar actions to match their peers (see Melin, 2020a). Firms do not want to deviate from the rest and therefore take action on pay to avoid negative perceptions and reputational damage by being singled out.

Schroders (2020) stresses that public perception is an important factor determining a firm's future prospects. They cite results of a global survey showing that 81% of all participants said their future purchasing decisions would be influenced by how brands would act during the crisis and whether they do the right thing. That means there is a lot at stake for firms and suggests they need to carefully consider their steps, especially how their actions are being perceived by the public. In this light, corporate action may be seen as attempts to 'stay in the public's good graces', to avoid reputational damage and negative PR in how they handled the crisis, to avoid not only immediate negative effects, but especially longer lasting damage to reputation, brand, and business.

To sum up, cutting executive pay may help to legitimize redundancies, pay cuts, and furloughs, thus be a deliberate 'tactic' to take the heat off such short-term crisis actions (i.e. not being perceived so negatively by the public).[6] Research findings also support that view (e.g., Konigsburg and Finzi, 2020; Balogh *et al.* 2022; Bedford *et al.* 2023). Outside pressure to act on

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[6] The use of pay adjustments to maintain legitimacy in this crisis context will be discussed in depth in section 5.

pay came in response to those short-term actions, meant to address those, and not as a request for act on pay in general. This suggests that firms cut executive pay to stave off reputational damages arising from a specific situation, i.e. as a temporary measure without deeper intentions for longer term change, as these were not called for.

4.4. Financial reasons

Another potential motive for executive pay cuts is the aim of conserving cash. Firms, facing a collapse in sales and an uncertain economic environment, need to make sure they have sufficient liquidity to weather the storm. Firms were under pressure to make savings and preserve liquidity, so that became a key priority in their crisis response (CIPD, 2020a; Thomas *et al*. 2020). One simple way to make savings is to cut executive pay. In fact, the intent to preserve cash has been cited as a reason for executives forgoing pay (see Thomas *et al*. 2020) due to "the economic pressure to make savings" (CIPD, 2020a, p. 7). Thus, firms cutting executive pay, facing a collapse in sales and uncertain economic environment, can be seen as a rational attempt to preserve liquidity.

In a crisis every Penny saved is valuable, but upon closer inspection the significance of the move for liquidity preservation is doubtful. First, as laid out earlier, the fact that in most firms only the CEO made a compensation sacrifice, not other executives, and usually only the comparatively low base salary was cut (as opposed to the bulk of compensation lying in bonuses and longer-term incentive structures), casts doubt on the value of cash savings. Significant savings could have been achieved only by adjusting those big parts of compensation and affecting a broader group of executives. Second, the magnitude of potential savings from compensation appears limited when compared to dividend suspensions. Not paying a dividend offers a much bigger contribution to preserving liquidity, hence why firms widely resorted to that measure. In relation to those savings, executive compensation cuts offer little potential, unless the variable components of pay were to be part of the cuts. Yet, as several studies have shown (e.g., Balogh *et al*. 2022; Bedford *et al*. 2023; Li and Yang, 2021), not only were the variable components not cut, but actually often adjusted and used to compensate executives for lost base salary. As a consequence, overall compensation mostly did not go down, so these actions mostly did not lead to any real savings and have therefore been labeled 'fake cuts' (Balogh *et al.* 2022).

Thus, it can be argued that limited reductions in CEO base salary do not really help with preserving cash since the bulk of compensation was left intact. Executives forgoing pay is therefore a largely 'symbolic' act without the potential to stave off bankruptcy (Duffy, 2020). Regardless of potential impact on the firm's cash position, cutting executive pay can be seen as a rational crisis response to conserve cash. As such, it therefore suggests this to be a temporary, short-term reaction to be reversed once economic conditions improve, rather than having potential for longer lasting changes.

To sum up, having examined different potential reasons for executive pay cut decisions and the 'sacrifices made', we can conclude that the gesture of executives 'sharing the pain' with other stakeholders is not as altruistic as it seems at first glance. The analysis has shown that the actions can be seen as largely symbolic and as a response to outside pressure from various stakeholder groups, thus a "short-term window dressing strategy to appease stakeholders" (Bedford *et al*. 2023, p. 2). Calls and expectations to act expected firms to address an imbalance in the current situation, a perceived temporary problem, not to set off longer-term changes in the executive pay. Having examined the reasons for pay cuts and their potential for leading to a more general reassessment of executive compensation in this section, we can now turn to the third angle to analyze the pay cuts: the theoretical lens. Looking at those decisions from a theoretical angle can provide further insight into whether they represent short-term measures only or might have the potential for wider changes.

5. Theoretical lens: Should we expect a lasting change?

The third angle to explore whether executive pay cuts may be more than just a temporary crisis reaction, is via theories to explain corporate behavior: Legitimacy theory, Institutional theory, and

Resource-dependence theory. The analysis of actions on executive pay through the theoretical lens supports the results obtained so far, as it does not suggest these to be the start of more fundamental changes. They seem, also from this angle, to simply be a well-calculated temporary crisis response without much lasting effect.

5.1. Legitimacy theory

Legitimacy theory argues that organizations need to ensure they always stay within the norms and expectations of society in order to keep operating (Suchman, 1991; Brown and Deegan, 1998; Deegan and Unerman, 2005). Firms and society have entered into a 'social contract' that lays out stakeholders' and societies' expectations of corporate behavior and actions. It sets the boundaries of what is acceptable or not. Failure to uphold their side of the contract will lead to firms losing legitimacy to operate. They may face a 'crisis of legitimacy' when their actions are no longer within the bounds of behavior that is considered appropriate, which in turn may threaten the firm and its acceptance and existence (Massey, 2001). Firms therefore need to always ensure they stay within the boundaries and fulfil their obligations (Suchman, 1995; Brown and Deegan, 1998; Massey, 2001; Deegan and Unerman, 2005). Given that society is not static, and those expectations change over time, firms need to always evolve and adapt.

Executive compensation and the controversies around high CEO vs average worker pay ratios, privileges or perceived pay excesses are frequent sources of public criticism of firms. The issue has the potential for causing loss of public trust that threatens firms' legitimacy. It is, therefore, a key area where firms need to make sure they are able to respond to society's norms and expectations. This is especially true in a crisis situation such as COVID, where masses of employees face pay cuts, furlough, or layoffs. It once again brought the longstanding pay issues and public displeasure to the forefront. In this environment, firms not acting and responding to widespread calls for executive pay adjustments will not be favorably looked upon by society, running the risk of potentially losing legitimacy. In fact, this risk was a key concern emerging in Konigsburg and Finzi's (2020) interviews with institutional investors: That executives keeping pay-outs in the face of others having to make sacrifices could undermine stakeholder trust and goodwill and eventually a firm's license to operate in society. As such, executive pay cuts can therefore be seen as a way to legitimize pay cuts among the wider workforce, which would be difficult to justify otherwise (Melin, 2020a).

Despite longstanding calls for firms to address society's concerns about perceived high executive pay, and to modify the way they approach executive compensation firms themselves, so far, had not enacted major reforms in response. It appears that legitimacy, up to now, was not under severe threat from inaction, hence firms had no imminent reason to act. Alternatively, structural inertia (see Suchman, 1995; Massey, 2001) may also explain some of the previous inaction: It makes firms seek stability and thus making it more difficult to adapt to changing expectations and maintain legitimacy. The Covid crisis, by contrast, may have suddenly created a situation where legitimacy comes under real threat from not acting on pay. Now firms were under immediate and severe pressure to act given that many key stakeholders had to make significant financial concessions and expected the same from executives.

Based on the analysis of types of compensation adjustments and potential reasons presented in earlier sections of the paper, it can be argued that the measures taken are simply a means of keeping legitimacy in a crisis situation, and not driven by a deeper fundamental change in addressing pre-existing societal expectations. While on the surface they address an area of longstanding criticism the types of adjustments made, as laid out previously, do not exhibit features of a deeper structural change in approach to compensation. They seem intended to respond to short term expectations of behavior in a deep crisis, but not necessarily to address some longer standing concerns about pay and society's expectations.

From that perspective, it can be argued that CEOs forgoing pay or firms initiating executive pay cuts is a measure to keep the public's goodwill and legitimacy. As laid out earlier, there was massive investor and public pressure for firms to act on executive compensation to show solidarity with employees and shareholders, as well as potential reputational damage from not acting. Executives had to be seen to 'share the pain', as failure to do so may threaten firms'

legitimacy on an issue that had been subject to continuous public displeasure, sometimes outrage, and had tested the bounds of the social contract before.

The compensatory adjustments to bonuses, the quick rebound in executive pay after a few months, and the speedy return to previous or new record levels seems to just further bear witness. The measures can be seen as an easy way to not only present themselves in a good light by showing solidarity without causing too much financial damage to executives, especially in the long term, but are also well received by the public and may create positive PR. It can be suggested that the potential downside from not acting was considerably bigger than the relatively modest and short-term measures taken, who do not carry much evidence of a deeper change in approach.

To sum up, the actions on executive compensation can be explained by firms seeking to keep and/or gain legitimacy with powerful stakeholders, to conform to outside expectations of behavior. The types of measures taken, and their quick reversal do not, however, suggest them to be of a lasting nature.

5.2. Institutional theory

While legitimacy theory describes the need for firms to continually adjust their actions to retain legitimacy to operate in a given society, institutional theory describes the subsequent implementation side: Institutional theory aims to explain how the mechanisms and measures by which firms adjust to societal values and expectations become internalized and institutionalized by firms (see DiMaggio and Powell, 1983; Oliver, 1991; Deegan and Unerman, 2005). There are two categories to explain the process: Isomorphism and Decoupling. Isomorphism describes how organizations adapt institutional practice, i.e., it describes how those processes change and adapt to outside expectations. The processes by which the institutionalization happens are called 'isomorphic' (Oliver, 1991; Deegan and Unerman, 2005).

Isomorphism distinguishes three distinct processes (DiMaggio and Powell, 1983; Deegan and Unerman, 2005), and we can find evidence for each of them at work in executive pay adjustments during Covid. The first process is *coercive* isomorphism, which posits that firms are forced (*coerced*) by their powerful stakeholders to change behavior to conform to their expectations and demands. Firms will therefore adapt their behavior in response to pressure by those powerful stakeholders whose support they need. This can be observed very clearly by firms and executives bowing to pressure by their powerful stakeholders to act on pay. Firms were forced to act so as not to lose legitimacy and support of their key stakeholders, particularly investors (see section 5.1).

The second process is *mimetic* isomorphism, which suggests that firms copy or improve on practices and behavior of other firms to keep legitimacy in relation to those firms, especially in their own industry (Deegan and Unerman, 2005). At a basic level, firms adopt or copy practices of others to not fall behind them and lose stakeholder support (retain legitimacy), but it can also be motivated by gaining competitive advantage (enhance legitimacy) (Suchman, 1995; Deegan and Unerman, 2005). Unerman and Bennett (2004) also point out that without coercive pressure from stakeholders (leading to *coercive* isomorphism) firms would probably not engage in *mimetic* processes.

Here as well, we see evidence of *mimetic* processes in executive pay adjustments. While stakeholder pressure, especially from investors, may lead to *coercive* isomorphism, peer pressure and avoidance of reputational damage (see section 5.3) may lead to *mimetic* processes. Firms, afraid of being singled out and standing out negatively from their peers and competitors, may copy and follow others in adjusting executive pay. This helps firms to either maintain legitimacy relative to others, or even gain competitive advantage (enhance legitimacy) by acting when others do not. Thus, *coercive* pressure from stakeholders may have resulted in *mimetic* processes. In addition, the fact that for the majority of firms we observe more or less the same measures taken, that is a temporary cut to CEO or executive base salary only and generally no other measures, further supports the notion of *mimetic* processes at play. Some executives forgo base salary and others quickly follow in lockstep.

The third process is *normative* isomorphism, referring to pressure that comes from "group norms to adopt particular institutional practices" (Deegan and Unerman, 2005, p. 298). Norms can be formal, such as accounting standards requiring compliance, or informal, such as internal or external groups that management are part of and which influence views and behaviors (DiMaggio and Powell, 1983; Deegan and Unerman, 2005). It can be argued that executive pay adjustments exhibit *normative* isomorphism through the influence of informal norms. Boards of directors and their members are all part of the same managerial circles. They exchange ideas and views, individually or via cross-directorships, and hold talks with investors. This environment may shape executives' thinking and views on the issue of pay adjustments and create informal norms through a mix of moral/reputational pressure, peer pressure, or investor pressure (as discussed in section 4). Some initial firms yielding to investor pressure and adjusting executive pay may have created a precedent, a 'norm' to follow for others to avoid being singled out.

The second category of institutional theory is called decoupling. Decoupling means that although firms may think they should adopt certain processes and behaviors (and even enact measures to that effect and announce to stakeholders), the practices in reality may be different (Deegan and Unerman, 2005). Actual (real) practices are decoupled from the 'institutionalized (apparent) practices' (Deegan and Unerman, 2005). As a result, firms may create an image of behaving in a certain way that conforms to expectations, when, in reality they do not. Thus, firms may create an image of legitimacy in the public's eye, although actual practices do not conform to it.

It can be argued that decoupling is also at play in the observed executive pay measures. While executives and firms demonstrate solidarity and that they are listening to the demands to 'share the pain', they only do so temporarily and for a short period of time generating positive PR for the firm. The sacrifices made were, as discussed, very limited and quickly reversed (while other stakeholders were still suffering). Or, in case bonus and variable components were adjusted to compensate for lost base salary, there were no real sacrifices in the first place (see e.g., Balogh *et al.* 2022; Bedford *et al.* 2023). Temporarily forgoing or cutting base salary is easy to do without much damage to executives' finances, nor having to make any significant structural adjustments in pay that might have future implications. Taken together, this does not suggest an internalization of practices and real change, but rather decoupling at play: Firms could demonstrate to have listened and acted, when in reality there does not seem to have been a deeper interest in changing practices. This suggests that decoupling effects seem to be working against 'lasting change'.

In addition, an important aspect helping to explain why we did not observe more fundamental changes in executive pay is corporate 'inertia'. More specifically, Bruce *et al.* (2005, p. 1496) argue that "institutional theory conventionally puts a strong emphasis on inertia, social embeddedness and path-dependence" and that this applies to changes in executive pay packages as well. Because changes must be in line with prevailing structures and influences, "change can occur only when contingencies shift" (Bruce *et al.* 2005, p. 1497), implying a larger movement and rearrangement of equilibrium. That means, there has to be pressure for fundamental change.

In that light, it can be argued that, as the various stakeholders calling for action on executive pay during the COVID pandemic were not calling for overhauling the system or requesting wide ranging lasting changes in general, there was no demand for a general realignment or 'shift in contingency' raised by these groups. They rather demanded addressing a perceived temporary imbalance in the current situation, expecting executives to show solidarity with employees and shareholders. The compensation measures taken by firms and CEOs can therefore be considered a temporary response to widespread pressure to act in the current crisis and to show 'they understand'. Firms may have engaged in mimetic processes based on peer pressure in that specific situation, perceiving that if other firms act and thereby gain or regain legitimacy, they would have to follow suit to keep up. The absence of a call for larger changes may have caused a reversal back to normal compensation patterns rather quickly.

Further, Chizema and Buck (2006) highlight that institutional theory posits that governance structures show inertia except in extreme circumstances, since powerful stakeholders may defend their own positions and block changes. Chizema and Buck (2006, p. 495) suggest that for change to occur, "the outcome would depend on whether those in positions

of privilege and power were in favor of the proposed change or not". Executives are clearly an influential stakeholder group. That group obviously does not have interest in reducing its own pay and privileges. Boards of directors and remuneration committees (tasked with setting pay) are composed of individuals who are executives at other organizations, and whose pay then depends on their own firms' remuneration committees. It is therefore doubtful that this group, on the whole, would have strong interest in more wide-ranging change to their own disadvantage.

5.3. Resource dependence theory

Resource-dependence theory suggests that organizations do not possess all of the resources they require themselves but depend on other organizations and stakeholders for resources crucial for their operation. These include, for instance, finance, natural resources, or talent. Firms therefore engage in exchanges, relations, and arrangements with other firms to gain access to those resources in mutual and interdependent relationships (Pfeffer and Salancik, 1978; Drees and Heugens, 2013). Pfeffer and Salancik (1978) suggest that because these resources are essential for surviving in a competitive marketplace, companies will fall in line with institutional pressures by resource providers, in order to gain legitimacy and access to those resources.

In the context of executive compensation, executives are one of the providers of resources (managerial talent) that firms need to access in order to operate, and firms need to find arrangements with that group to access the resource. Firms need to be attractive to two categories of executive talent: Those already employed by the firm, but also be able to attract new ones. A key function of compensation packages is to attract and retain high quality managerial talent (Conyon, 2006). Consequently, it can be argued that firms, in need of access to managerial talent, would be reluctant to reduce the attractiveness of their own firm by limiting compensation permanently compared to other firms, unless under substantial external pressure that might threaten their legitimacy. Executives at the firm might leave, and the firm may find it harder to attract outside talent. That might lead to a competitive disadvantage (unless all firms were to implement comparable measures at the same time). These concerns were raised prominently in the study by Konigsburg and Finzi (2020). Their interviews with CEOs revealed that some CEOs mentioned retention risk due to the cuts, and some expressed also concerns that the short-term adjustments may turn into a longer-term pay reduction and what it means for their future compensation.

As a consequence, it has been argued that firms might want to be lenient with talented executives since they are in high demand and can jump ship if they consider themselves unduly penalized (Melin, 2021b). That approach was clearly on display during the COVID pandemic when firms, while temporarily cutting base compensation, simultaneously awarded executives retention payments so leaders would not get discouraged and quit (see Melin, 2021b). This is consistent with studies showing that companies adjusted bonus components in an attempt recognize CEO effort in such a crisis, and to not penalize them for something that was out of their control (e.g., Batish *et al.* 2020; Li and Yang, 2021). Firms have no interest in pushing away talent or being unattractive for them, hence they might not implement wide-ranging long-term changes that can have a negative impact on their access to a crucial resource. This suggests the actions on executive compensation witnessed during the early COVID period were only a temporary change intended to gain legitimacy in that specific exceptional crisis.

In a competitive environment, firms use executive compensation to attract good people and talent. A lowering of compensation may have a negative effect on recruiting that talent, and the firm would put itself at a disadvantage compared to other firms. If, as a consequence, this reduces a firm's future prospects, its stakeholders are also not happy, and it may lose their support. Thus, firms face a tension between resources (and their providers) and a potential trade-off: Stakeholder groups (calling for a pay cut) versus executives (who they need too). Firms, therefore, have to balance those two major stakeholder categories. Given that stakeholders did not call for a more widespread and permanent change to compensation, firms decided to go with temporary measures. They had no reason to do anything more.

Further, Chizema and Buck (2006) argue that existing patterns of power dependency influence institutional change. Executives have a strong position in a firm, therefore the firm might

be reluctant to cut compensation as a longer-term measure, since they need the managerial talent. A firm will find it difficult to force longer-term changes without potentially hurting itself.

6. Conclusion: Were we expecting too much?

The COVID crisis has, once again, shone light on the controversial topic of executive compensation. As key stakeholder groups had to make financial sacrifices, numerous executives responded to calls to show solidarity and to give up some compensation. This paper focused on three aspects of the resulting pay concessions to understand whether they might be the beginning of larger changes to executive compensation to address long-standing stakeholder criticisms.

The analysis finds no evidence for anything other than temporary, short-term actions meant to address a specific situation, without the potential for more significant changes to address long-standing stakeholder concerns about executive pay. First, looking at the pay components affected shows the compensation sacrifices have been rather symbolic as firms cut a bit of CEO salary for a few months without touching the real compensation such as bonuses or LTIP. Many firms also then adjusted annual incentive payments to compensate for lost salary, thus negating any cuts. Further, a majority of firms never enacted a CEO cut pay, nor did they cut the wider senior management level, an action that could make some more substantial savings. Second, when examining the reasons for executive pay sacrifices, we can conclude that ‘sharing the pain’ with other stakeholders was largely a symbolic gesture in response to outside pressure from various stakeholder groups. It was meant to address a temporary imbalance in the current crisis situation. There was no expectation for longer-term changes in executive pay, thus no need to implement anything but a short-term response. Third, the theoretical angle also suggests that measures taken are simply a well-calculated temporary crisis response. The intention seems to have been to maintain legitimacy in the eyes of key stakeholders, to keep in line with peers and their actions, and the need to remain attractive for executive talent (and not reducing attractiveness by reducing pay, possibly unilaterally). Further, given the strong inertial forces of the status quo on compensation, those short-term actions do not suggest potential for a rethinking of the approach to pay.

Taken together, the cuts can be seen more like ‘paying lip service’ and crisis and PR management, responding to strong outside pressure and expectations, rather than steps to initiate real and lasting change in compensation practices. The pressure on management to show solidarity and pay restraint targeted a specific situation but did not call for an overhaul of executive pay in the longer-term. Thus, firms simply responded to a short-term emergency without the intention for a longer-term adjustment. The analysis in this paper has highlighted several powerful reasons for why we are unlikely to witness major changes to executive compensation arising from this episode. Those, together with the regular day to day pressures of competition and shareholder returns being priority again in the post-crisis period, suggest that there may be no momentum for changing attitudes to executive pay.

This study has a number of limitations that future research could address. The study is based on public reporting about, and analyses of, company pay concessions at that time. It might be instructive to do a future follow-up to examine future corporate filings and compensation reports to see if companies have made some longer-term adjustments post-crisis. In addition, interviews with executives and corporate boards to understand the motivations behind the concessions could shed light on the reasons and the board level deliberations behind. Finally, it would be useful to explore the reasons and circumstances of those companies and executives who did not make concessions, and how they differ.

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