

Methods appendix

December 2015

The power and pitfalls
of *executive*
reward: A behavioural
perspective



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The power and pitfalls of executive reward: A behavioural perspective

Methods appendix

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Introduction

This publication is for those readers who wish to know more about how the research that supports the publication *The Power and Pitfalls of Executive Reward: A behavioural perspective* was conducted.

The report draws upon:

- a thorough evaluation of academic literature to outline the relevant theories, research and findings, which also included a consultation of experts in the field
- a survey of over 50 top HRD specialists, reward specialists, CEOs and reward consultants
- a workshop and follow-up consultations with a sample of senior leaders, reward specialists and reward consultants.

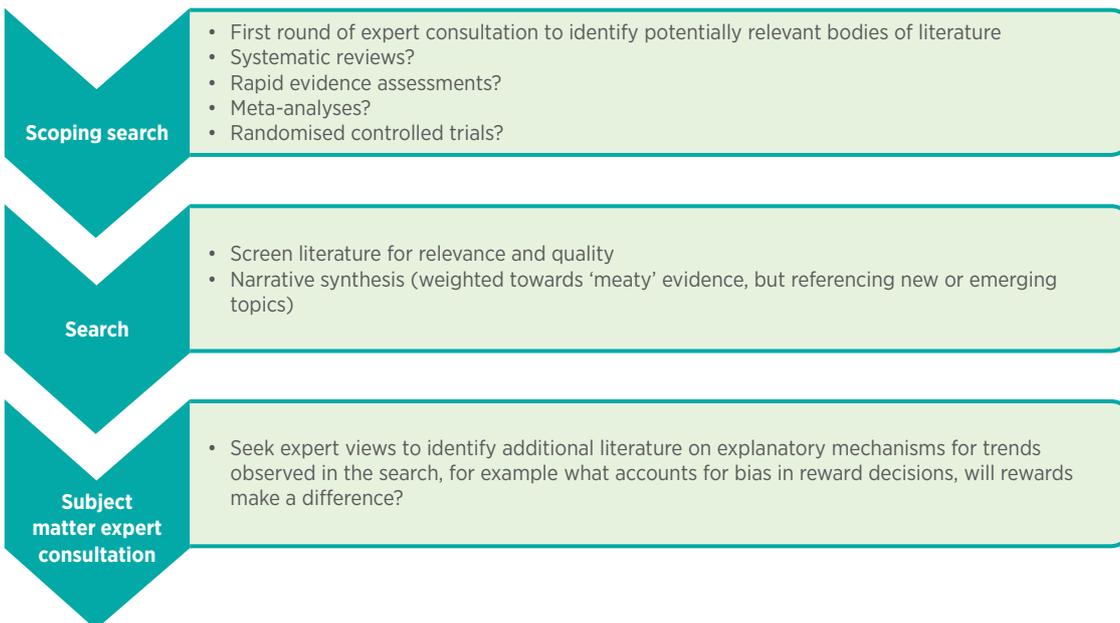
Part 1: The rapid evidence assessment

Overall approach

As the remit of the current research was to extend existing CIPD reviews (Campbell and Pepper 2014, Lupton et al 2015), the team undertook a rapid evidence assessment (REA)¹ to locate the most relevant literature on chief executive officer (CEO) packages. It was the overall objective to determine what the factors are which influence rewards, the outcomes measured and also to endeavour to locate any robust experimental research, given that much present research focuses solely on the analysis of publicly available financial data. Particular reference was given to what makes for effective CEO leadership in terms of behaviours, performance, motivations, skills, knowledge and other attributes.

Accordingly, the research team developed a search protocol to target: (a) individual differences (motivation, skills, vision, ethical behaviours); (b) contextual factors (such as sector and organisational culture and social corporate responsibility); (c) reward variables; and (d) outcomes (such as individual and organisational performance). Alongside this protocol, we consulted subject matter experts to locate relevant literature, which serves to explain reward *decision processes* by referring to evidence arising from behavioural economics, neuropsychology including cognitive neuropsychology, as well as practitioner-oriented literature to explain how rewards are currently being determined in practice. The approach is set out in Figure 1.

Figure 1: The overall approach for the REA



¹ <http://www.civilservice.gov.uk/networks/gsr/resources-and-guidance/rapid-evidence-assessment/what-is>

Our evidence assessment was undertaken during a six-week period from 16 February 2015 to 2 April 2015; and it was supplemented in June to August 2015 to add additional literature in light of the findings from the workshop and survey. We stipulated in advance that only the most relevant literature would be sourced and included.

The search terms

We have consulted seven subject matter experts who are published academics and reward professionals who assisted us to locate literature directly. We have also reviewed existing large-scale studies in the field, as well as practitioner literature, to finalise the search terms, taking care that we would cover both US- and UK-specific terminology. The search terms were used in ‘tiers’, which means that they are entered into different rows during our search, as this makes it easier to determine which terms are good for locating relevant literature and which ones are not. The fourth tier

was included to determine if any existing evidence assessments of the present topic existed.

Inclusion criteria

As it was the objective to provide solid and up-to-date evidence, our inclusion criteria were papers: (a) published in or after January 2008; (b) in English and full-text available; (c) relevant to the research questions (so considered CEOs or senior executives, addressed reward packages); (d) published in a high-quality journal; and (e) contained original data (rather than summarising existing evidence), unless the paper offered a particularly insightful or theory-building take on the literature. We have excluded dissertations and conference papers because of the limited timeframe for evaluation. It was the original intention to include only evidence directly relevant to FTSE 350 organisations, but it was evident that this restriction was too narrow during initial pilot searches, hence it was broadened to a wider range of relevant organisational contexts.

Data sources

We undertook our search using the database EBSCO (Academic Search Premier, Business Source Premier, PsychArticles, PsychINFO) and also Google Scholar, further consulting the subject matter experts and the CIPD website for further literature.

Search 1

Our first search using all four tiers elicited one result (Van Essen et al 2012). This meta-analysis considers managerial power theory, a notion discussed at length elsewhere (Campbell and Pepper 2014); hence we did not consider it in depth for this review.

Search 2

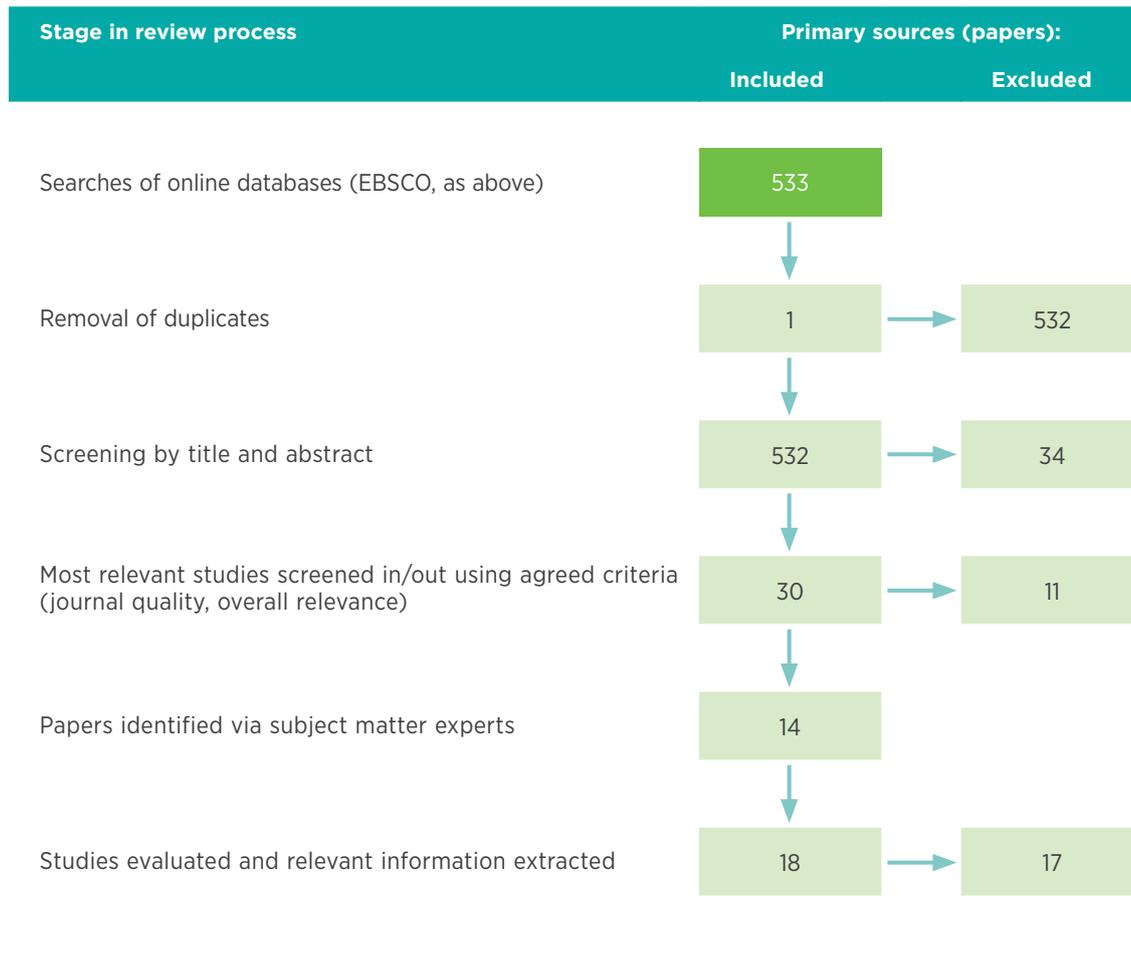
Using the first three tiers, we obtained 533 hits; one duplicate; screened all by title and abstract and extracted 38 papers. These were then quality checked (journal quality assessed using the Association of Business Schools [ABS] list as a guide).

Table 1: Search terms in overview

Search tier	Term
First tier: target population	CEO OR Executive ² OR Managing director OR Senior director OR Executive director OR Company president OR Chairperson OR Board director OR c-suite
Second tier: key words to tap into rewards	Reward* OR Incentive* OR Bonus OR Merit-based pay OR Remuneration OR Compensation OR Performance* pay OR Benefits OR Perks
Third tier: antecedents and outcomes	Personality OR Characteristics OR Attitude OR Belief OR Values OR Motivation OR Behaviour* OR Skills OR Performance* OR Engagement OR Turnover OR Profit* OR Productivity OR Social corporate responsibility OR Ethical OR Risk OR Stewardship
Fourth tier for pilot search	Meta-analysis OR Systematic review OR Rapid evidence assessment OR Randomised controlled trial OR RCT OR Large scale study

² We excluded the term ‘executive’ for PsychInfo, as this produced too many irrelevant hits.

Figure 2: Flow of papers during the REA



We screened each paper using the criteria as set out in Table 2 to ensure relevance to the research questions, but also to avoid overlap with previous publications.

Table 2: Screening criteria

Screening by title and then again by abstract

Question	Answer	Action
Q1: Is the study about CEOs or senior executives, or does it offer directly relevant insights for this population?	No	Exclude
	Yes	Evaluate quality using matrix
Q2: Does the study consider CEO characteristics/attributes (for example leadership, personality)?	No	Exclude
	Yes	Evaluate quality using matrix
Q3: Does the study consider CEO reward strategies/methods/packages?	No	Exclude
	Yes	Evaluate quality using matrix
Q4: Does the study consider contextual factors such as culture, gender, sector-specific issues, decision-making?	No	Exclude
	Yes	Evaluate quality using matrix
Q5: Are the study findings relevant (transferrable) to FTSE 350 companies?	No	Exclude
	Yes	Evaluate quality using matrix
Q6: Does the study contribute to our understanding over and above previously published CIPD reviews or other reviews?	No	Exclude
	Yes	Evaluate quality using matrix
Q7: Is the study peer-reviewed and published in a three- or four-star journal?	No	Include only if contextually very relevant, add caveats in the synthesis as appropriate
	Yes	Evaluate quality using matrix

As seen in Table 2, a clear inclusion criterion was whether papers had been included in the previous CIPD reports on rewards (Campbell and Pepper 2014, Lupton et al 2015); if they were, we took the decision not to include them in the current report to avoid duplication.

Quality assessment

The review used a methodological quality checklist adapted from Cassell (n.d), Denyer (n.d.), Petticrew and Roberts (2006) and Rojon et al (2011), which is available from the report authors on request.

Findings

Overall, the majority of the results were from financial and accounting journals, hence more focused on a rational perspective. Quality was overall high for the academic publications; we also included two books and a number of professional/practitioner reports. Overall, it was notable that few publications have given sufficient reference to the types of organisations included in relevant samples, a point made previously by Dorff (2014). Only one study has included an experimental design; the majority of studies use either publicly available data or a correlational design (different measures at the same time point).

Part 2: Survey methods

Survey items and procedure

The survey questions were developed based on the findings identified in the peer-reviewed and applied literature on executive rewards. The resulting set of questions was independently reviewed by all members of the research team and refined for clarity and ease of use. The survey consisted of six demographic questions, enquiring about respondent role, industry sector, turnover, organisation size, organisation type and central location. Six, content-related, nested question subsets followed, which addressed current and future expectations about CEO behaviour, current and future perceptions on the importance of CEO reward-package determination, perceptions on organisation-specific challenges facing CEOs, and general perceptions of organisational practice with respect to CEO pay.

Survey questions were prepared for online dissemination and were then entered into the Qualtrics online survey platform.³ Qualtrics provides a great deal of flexibility in terms of available response formats and survey layout. To avoid issues with cognitive load and to facilitate content accessibility, a simple, clean format was chosen and, to save space, items were grouped into a matrix format where possible. Items have been rated either on a continuum with anchors specified at each pole, on a three-point scale indicating level

of importance (from unimportant to very important) or on a four-point scale indicating level of agreement (from strongly disagree to strongly agree).

We incentivised participation with a £5.00 donation to a named charity per completed survey response.

Participants

A link to the survey was sent to individuals who work directly in the area of executive rewards or who have experience working with executives and executive reward systems. These individuals were identified through CIPD-related contacts, LinkedIn and professional networks connected to members of the research group. A total of 52 participants responded to the questionnaire, from a range of roles including CEOs, reward professionals and HRD professionals. They represented private sector organisations from varying sizes and industries.

Analytic approach

Data were checked for coding errors and for problematic response patterns, none of which were apparent. We did not screen for outliers because: (a) of the relatively small sample size involved; (b) outliers, in the context of the present research, might provide useful and relevant information; and (c) the techniques we employed were aimed at uncovering subgroupings within data. As such, if any individuals did not 'fit' into any emergent

³ www.qualtrics.com

subgroups, this would become apparent during the course of the analysis (such cases are sometimes referred to as entropy cases, see Everitt et al 2001).

Our aim was to identify patterns of responding specific to subgroups within the larger survey respondent group. This is because overall measures of central tendency (for example averages) can potentially conceal subgroup-specific response patterns. In order to provide clarity on the subgroups (if any) that were apparent within the large group of respondents, we opted to apply cluster analysis (see Everitt et al 2001, Jackson et al 2007). Cluster analysis is an exploratory technique which creates subgroups of individuals based on item response patterns. An alternative, confirmatory technique (called latent class analysis) is available for essentially the same purpose. However, the sample size requirements for latent class analysis could not be satisfied with the current sample N (Geiser 2013). Cluster analysis, on the other hand, functions effectively with small samples (Hair et al 1998) and was, therefore, deemed more appropriate for this study.

With regard to our statistical approach, all analyses were conducted using SPSS (version 20). We used Ward's method of clustering together with squared Euclidean distances among clusters in order to maximise within-subgroup homogeneity and between-subgroup heterogeneity (Everitt et al 2001). We have perused agglomeration schedules and have visually inspected dendrogram plots, both of which offer suggestions about the number of emergent clusters within the larger group (the interested reader is directed to Hair et al 1998 for a comprehensive discussion on these approaches).

Guided by this information, three distinct clusters have been identified and the analysis was re-run with a forced three-cluster solution. A new dataset was saved that matched each participant to one of the three identified subgroups. A one-way ANOVA revealed that significant ($p < 0.05$) differences were observed across all items used in the clustering process, providing initial evidence for the validity of the cluster solution. In turn, mean responses were reported by subgroup in order to facilitate interpretation.

Part 3: The workshop and follow-up

Workshop methods

The research team convened an interactive workshop which used a mixture of interactive exercises, including: Socratic questioning; principles based on frame of reference training procedures; and discussion of the survey findings as outlined below. The data analysed were the outputs from the various exercises ('tablecloths', flipcharts and other written information) as well as our detailed workshop notes. We convened a plenary at the beginning and end of the workshop, and, in between, participants worked in four facilitated groups.

Participants

Through personal and email invitations, as well as a relevant note on the survey, we recruited 14 participants who were a mixture of HR directors, reward directors, CEOs, managing directors and reward consultants. Fourteen further participants had signed up for the workshop but were unable to contribute on the day because of business commitments; these individuals were subsequently engaged in the workshop follow-ups. It was agreed at the outset that our findings would be aggregated in the analysis, so that no individual or organisational data could be identified to ensure that participants could contribute freely.

Facilitators

The workshop was facilitated by the four members of the research team; four assistants took extensive notes.

The exercises

Vision of the future

The first exercise was loosely based on Luthans' 'micro interventions' (Luthans et al 2006). Originally conceived to facilitate the development of resilience in organisational settings, the format is widely applicable to other activities as the basic principles are:

- Start off with the end goal; in this instance: 'What do we want from our CEOs in the future, and how should we reward them?'
- Participants then go back to the present; in this instance: 'What are our current CEOs and what is reward practice like?'
- The last step is to take people through the 'road map' from the present to the end goal, and pay particular attention to potential obstacles and how these might be overcome.

Participants took about 40 minutes to complete this exercise in groups, with facilitation but minimal input from the facilitators, who used open questions to probe any ideas and concepts put forward. Participants recorded their detailed outputs on large paper tablecloths, which were retained for further analyses.

World café

The next exercise was a 'world café',⁴ where one facilitator remained at each of the four tables; the other participants rotated around the room to share their insights, consider what was

⁴ For free resources and a further overview of the process, see: <http://www.theworldcafe.com/toolstore.html>

common across the tables and also what was different. The key points from each discussion were transcribed in note form.

Frame of reference exercise – what qualities are important for CEOs?

Next, the facilitators took the delegates through an exercise based on ‘frame of reference’ (FOR) training principles. Such activities are commonly used to clarify raters’ mutual understanding of rating standards relating to dimensions considered to be important for a particular job role (for example Schleicher et al 2002). For the purpose of this session, we asked candidates to each identify, and then vote for, the five most important characteristics required for a CEO. The value of such exercises is not only the development of a common understanding through the process, but also to foster discussion around any disagreements within the group.

Feedback on research and survey findings

To close the workshop we brought the participants together as a plenary to seek further feedback on the survey findings as well as on important areas identified through our literature search. In particular, we questioned around the ethical aspect of CEO leadership, the influence of CEO personality and corporate social responsibility. All participants were thanked for their input at the end.

Feedback on the draft report

Direct feedback was sought on a first draft of this report both from individuals who attended the workshop and from those who wanted to but were unable to make it because of other commitments. Participants were invited to submit their comments either by email or take part in

follow-up calls or teleconferences. The comments received were analysed thematically. We made a number of changes as a result, such as adding clarifying sections on how CEO reward works in practice and elaborating on our recommendations.

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