REMUNERATION LOGICS: HOW LARGE U.S. FIRMS JUSTIFY CEO PAY

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ABSTRACT

Purpose: The legitimacy of CEO pay in large U.S. firms has been repeatedly challenged in first decade of the 21st century. However, increases in CEO pay have continued to outpace corresponding changes in firm size and performance. This paper studies how large U.S. firms employ remuneration logics to legitimise CEO pay.

Design/methodology/approach: Content analysis is used to identify 13 remuneration logics used in the 1998 and 2007 proxy statements from the largest 50 U.S. firms as well as 18 codes of practice issued between 1994 and 2007.

Findings: The remuneration policies of U.S. firms have become increasingly homogenous over time. In 2007, all firms studied used the human resources, market and pay-for-performance logics to justify CEO pay. While firms use the remuneration logics to strategically manage their legitimacy, coercive and normative pressures are driving firms towards uniformity in their remuneration policies.

Originality/value: Legitimacy and institutional theory are used to understand and explain organisational discourse on executive remuneration.

Keywords: Corporate governance; Executive Remuneration; Legitimacy Theory; Institutional Theory

Paper type: Research paper

1. INTRODUCTION

Pay-for-performance is a rationalised myth. It is the mantra of boards of directors, compensation consultants, professional associations, fund managers, regulations and the media (Jensen and Murphy, 2009; Tricker, 2009). A board of directors will use fixed pay when it trusts that the CEO is conscientious and diligent, whereas they will use variable pay when it cannot trust the CEO to perform without explicit incentives. The underlying assumption of pay-for-performance is that the CEO is opportunistic and incentives are necessary to focus his/her effort on the firm's strategy and align his/her interests with those of the shareholders. However, corporate scandals at Enron, WorldCom and, recently, US investment and insurance firms demonstrate that pay-for-performance as a means of minimising agent costs is not particularly effective. Researchers have shown that there is nil-to-minimal link between CEO pay and corporate performance (Jensen and Murphy, 1990; Murphy, 1999; Devers et al., 2007). To explain this weak relationship, some argue that CEOs are too powerful and are able to set their own pay (Bebchuk and Fried, 2004), whereas others argue that financial markets have pressured CEOs to meet quarterly earnings targets which encourages myopic behaviour (Jensen and Murphy, 2009).

Discourse represents knowledge and power. The board of directors uses their annual general meetings, proxy statements and press releases to not only announce how and how much the CEO is remunerated, but also to justify these decisions. The public has accepted that pay-for-performance is rational; it has become taken-for-granted. The board of directors' uses remuneration logics such as pay-for-performance (Wade et al., 1997), agency and human resources (Zajac and Westphal, 1995) to rationalise their decision-making and legitimise it in the eyes of the public. For example, Westphal and Zajac (1998) found that the financial markets reacted positively when companies announced the adoption of long-term incentive plans, particularly when they used the agency logic. They also found that this positive reaction persisted despite the companies not actually implementing the long-term incentive plans. Remuneration logics as systems of reasoning transmit knowledge. For example, the agency logic states that share option plans can align the interests of the CEO with those of shareholders. Remuneration logics as systems of persuasion can be used to change the way someone thinks. For example, Westphal and Zajac (1998) found that the agency logic is powerful rhetoric is able to influence the share price of companies.

Organisations can manage their legitimacy through a strategic or institutional approach (Suchman, 1995). The remuneration logics can be employed strategically to influence the public and, perhaps, even alter the social contract between the organisation and society. Institutions such as regulators and professional associations can use the remuneration logics to pressure organisations to change their practices. In response, organisations can attempt to influence these institutions or decouple their public discourse from their private practices in an attempt to symbolically conform to these pressures. For example, Zajac and Westphal (1995) found that while the human resources logic has been de-institutionalised as the agency logic has been institutionalised, U.S. firms use these remuneration logics both substantively and symbolically to justify CEO pay. There are many remuneration logics and the empirical evidence implies that some of these have become institutionalised discourse (Zajac and Westphal, 2004; Point and Tyson, 2006). However, while researchers have identified a number of remuneration logics, they have not attempted to systematically identify all of the remuneration logics. Aside from Zajac and Westphal's (1995) study of the agency and human resources logics, researchers have also not examined which of the remuneration logics have become institutionalised or otherwise.

This paper investigates how U.S. listed companies have changed their usage of the remuneration logics over time. In the early 2000s, the Internet bubble burst and followed by many corporate scandals such as Enron and WorldCom. There has been a proliferation of codes of practice on corporate governance since these corporate scandals (Enrione et al. 2006; Aguilera and Cuervo-Cazurra, 2009). However, researchers have not studied whether these codes of practice contain remuneration logics. Nor have they studied whether the use of remuneration logics in codes of practice will produce coercive and normative pressures that can influence the use of remuneration logics in companies' proxy statements. Institutional theory implies that codes of practice will influence companies (DiMaggio and Powell, 1983; Greenwood et al., 2002). Therefore, this paper also investigates the U.S. codes of practice and their influence on companies' proxy statements. The remainder of the paper is organised as follows: First, the literature on discourse, institutions and legitimacy relating to executive compensation is reviewed; Second, the research questions and method are described; Third, the findings are presented; Fourth, the implications of findings for legitimacy and institutional theories is discussed; Finally, conclusions and future research opportunities are drawn.

2. LITERATURE REVIEW

Traditionally, executive compensation was typically comprised of two components – salary and bonuses – which are linked to performance measures (Jensen and Murphy, 2009). The link between pay and performance is critical to motivating and rewarding executives. Performance based measures can be set and be linked to pay in order to provide an incentive for executives to work harder, thereby rewarding pay based on performance. The major corporate scandals between 2001-2003 highlighted weak corporate governing within companies and this issue was brought to the attention of the public. Today, corporate governance is an important issue for organisations around the world. Due to corporate scandals that have hit the US, regulators have adopted new practices through codes of governance. This discourse on executive compensation is important as it shapes society's expectations about executive compensation. Society will be influence by articles and press releases issued by media, professional associations and academics, thus creating an opinion on topics relating to executive remuneration. The post-Enron effect has seen numerous associations issuing regulations and codes of best practices. Point and Tyson (2006) suggests that this can be explained from an institutional theory perspective in the form of coercive, normative and mimetic pressures. These pressures then have an impact on the organisation, thus making them become more similar to each other (DiMaggio and Powell, 1983). Institutional theory states that if an organisation does not conform to these pressures, it will lose legitimacy with stakeholders.

2.1. Remuneration Logics

Remuneration logics are systems of reasoning which organisational and their actors use to explain or justify remuneration practices to themselves and others. These remuneration logics are used by firms and can be found through mediums such as proxy statements filed with the SEC. Remuneration logics can also be found in codes of best practice. There are many remuneration logics and examples can be found in literature (see table 1). For example, the agency logic is used as a justification to provide alignment between executive and shareholder's interest (Point and Tyson, 2006); whereas the pay for performance logic states that an executive remuneration should be linked to firm performance (Wade et al, 1997). Another justification is the use of compensation consultants which uses "external validation justifications" to legitimise a firm's compensation practices (Wade et al, 1997, p.4). Companies use remuneration logics to provide an explanation to convince shareholders and investors about their compensation practices and consequently this affects their legitimacy. Legitimacy theory implies that remuneration logics are used to explain or justify compensation practices to stakeholders. Corporate governance codes of best practices are issued by associations and are intended to provide a guide as to what best practices are regarding executive compensation. This is intended to influence companies and support the legitimacy of regulators.

Remuneration Logics	Explanations of CEO Pay	Empirical Evidence
Agency	Derived from agency theory, the agency logic	The agency logic has been institutionalised in the U.S. and is often presented as a solution to poor

	describes how the CEO's interests can be aligned with those of shareholders.	performance (Zajac and Westphal, 1995) as well as when large bonuses are awarded (Wade et al. (1997). Use of the agency logic has contributed to increasing executive compensation (St-Onge et al., 2001).
Consultant	Compensation consultants are used to legitimise the CEO's pay and compensation practices.	Compensation consultants are used to validate executive compensation, particularly when a company faces shareholder activism (Wade et al., 1997).
Experience	Derived from human capital theory, the experience logic argues that the CEO's pay should reflect his/her experience (or skills).	St-Onge et al. (2001) found that share option plans encourage executives to invest in their capabilities; they believed that their experience increases so does their (potential) rewards.
Human Resources	Derived from resource dependency theory, the human resources logic describes how the CEO is a scarce resource and how organisations can use compensation to attract and retain scarce managerial talent.	Human resources logic has been de-institutionalised (replaced by the agency logic), but is often presented as a rationale for introducing long-term incentive plans when performance is good (Zajac and Westphal, 1995). Similarly, executives use the human resources logics to rationalise the adoption share option plans (St-Onge et al., 2001). Contrary to Zajac and Westphal (1995), Point and Tyson (2006) found that the human resources logic has become taken-for-granted (or a cliché) in the U.K.
Market	Derived from economics, the market logic argues the CEO's pay will depend on the market forces of supply and demand.	Executives believe that for an executive compensation scheme to be competitive, it must include a share option plan (St-Onge et al., 2001). Essentially, executives believe that market forces determine how they are remunerated (St-Onge et al., 2001).
Motivation	Derived from expectancy theory, the motivation logic describes that pay can be used increase the CEO's effort/performance.	St-Onge et al. (2001) found that executives perceived share option plans as an important motivational tool as being awarded share options increases the executives' wealth and status.
Pay-for-Performance	The pay-for-performance logic argues that to avoid managerial shirking, the CEO's pay should be linked to the firm's (financial) performance.	Wade et al. (1997) found that US firms use the pay-for-performance logic to justify the CEO's pay, particularly when accounting performance is high or share price volatility is low. Point and Tyson (2006) found European firms use the pay-for-performance logic to rationalise their equity-based compensation schemes.
Responsibility	Derived from the managerial discretion hypotheses, the responsibility logic states that executive pay rises with their level of responsibility.	Executives believe that share options plans are most effective in situations where executives have high managerial discretion and are entrepreneurial (St-Onge et al., 2001). The level of responsibility reflects the share option grants which executives receive (St-Onge et al., 2001).

Table 1: Remuneration Logics in the Literature

Remuneration logics are used by companies to provide explanations of CEO pay in an attempt to influence the opinion of the public. While there are a wide variety of remuneration logics used by companies in the proxy statements, the most common and recurring ones were identified and included in the research. Point and Tyson (2006) undertook a study which found that the use of some logics have been used so often that it has become a cliché as seen in the UK. The table above shows that these remuneration logics are actually derived from literature (St-Onge et al 2001) and are consistent with a number of assumptions and theories. For example, an assumption of agency theory states that individuals are self interested; therefore, incentives should be put in place to re-focus those interests and align them with those of the shareholders. Another example is the motivation logic which is based on the assumption that money or greed is a factor which provides an incentive for individuals to maximise their effort. This factor ascertains how much an individual will exert their effort based on rewards. Remuneration logics will have an influence on practitioners such as companies and associations. Companies might alter their practices to match the ones in the literature or vice versa. This could be explained by legitimacy theory where organisations, as part of their strategy or conforming to institutional pressures are using logics in an attempt to justify executive compensation practices.

2.2. Legitimacy Theory

Suchman (1995, pg. 574) adopted a broad definition of legitimacy, defining it as "a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions." This particular definition of legitimacy asserts that a social contract exists between the entity and society. Maintaining legitimacy is an issue organisations are faced with constantly. Organisations need to provide assurances to society about their ongoing performance through "warm signals" such as speeches or long term contracts (Ashforth and Gibbs, 1990). This contributes to maintaining a social contract with society. Part of maintaining legitimacy is also to prevent or overcome challenges to legitimacy. A crisis management plan should be established and ready to be used should a crisis occurs. Past accomplishments gained from legitimacy also need to be protected and built upon (Suchman, 1995). Ultimately, no entity is able to completely satisfy society's expectations but maintaining legitimacy is about communicating with audiences and letting them know what is happening. There are several problems associated with legitimacy. Ashforth and Gibbs (1990) termed it the "double edge of legitimation" and suggested that a low level of legitimacy should not be seen as a lack of legitimacy but rather a challenge that needs to be dealt with. When legitimacy is problematic, the entity faces criticism by society which may lead to less capacity of resources to defend legitimacy (Ashforth and Gibbs, 1990). In this case, the organisation should attempt to repair its legitimacy by re-building up its credibility with its audience.

A good example of a legitimacy problem in the US is to do with executive compensation in recent times. CEO salaries in US have reached high levels, creating legitimacy problems with the public, some of which whom believe that CEOs, through their hard work deserve high salaries while others believe that CEOs don't work hard and therefore don't deserve high salaries (Wade et al, 1997). According to Greenwood et al (2002), the role of professional associations affects an organisation's legitimacy, through use of discourses which influences an organisation's practices. Codes of corporate governance issued are also intended to support the legitimacy of regulators. To further promote legitimacy, companies have also used remuneration logics to justify executive remuneration practices. Remuneration logics are used to convince the public regarding a company's compensation practices. Moreover, companies try to manage legitimacy and institutional pressures by having a representative from their organisation in associations which issue regulations or best practices. A good example is The Business Roundtable which is comprised of CEOs.

If organisations do not conform to institutional pressures, it might affect their legitimacy with society. For example, in order to promote their legitimacy, an organisation may succumb to mimetic pressures to justify their actions. In the last decade, CEO compensation has become the centre of debate. Zajac and Westphal (1995) argued that while generally debates relating to CEO compensation are dominated by political and economic perspectives, there are symbolic and substantive considerations as well. Symbolic perspective is concerned with how firms portray their CEO compensation decisions while acting differently whereas substantive is concerned with practices that an organisation actually set out to do. For example, the remuneration policy disclosed is not implemented or practiced in the Boardroom is considered to be symbolic as it does not reflect reality. Remuneration logics are considered to be symbolic when companies simply state the logic with no explanation whereas substantive use of remuneration logics in company proxies can be found when companies justify or provide reasons as to why they are using the logic in order to justify compensation practices. Moreover, Zajac and Westphal (1994) suggested there is a separation of substance and symbolism in CEO compensation contracts. The evidence that LTIP aligns interest of management to shareholders and is adopted by many firms but is used limitedly, suggests this is the case.

2.3. Institutional Theory

In order to increase an organisation's chances of survival, conformity is important (Oliver, 1991), as non conformity can lead to increased cost, for example, by reducing legitimacy (Phillips et al, 2004). There are different approaches to institutional logics. Thornton and Ocasio (1999, 2008) argues that there are three necessary and complementary dimensions of institutions – structural, normative and symbolic whereas Scott (2008) unifies the different approaches arguing that there are three pillars of institutions – regulative (coercive; structural), normative and cultural-cognitive (mimetic; symbolic). However, despite their different approaches, research on institutional logics centers around understanding individual and organisational behaviours (Thornton and Ocasio, 2008). Oliver (1991) argues that the main criticisms of institutional theory are assumptions of organisational passivity and its failure to address strategic behaviour. Having a passive organisational culture means that the organisation is unable to act on or get support to enable adaptations. However, Scott (2008) contradicts this argument. Instead, Scott argues that modern organisations are active players as even though they are affected by their environments, they are "also capable of responding to these influence attempts creatively and strategically." Oliver (1991) also argues that conformity leads to inefficiency within the organisation but at the same time contributes to effectiveness in the organisation due to increased resources in the organisation. Furthermore, Oliver (1991) argues that measures that are used to evaluate performance may become influenced as strategies may be manipulated in order to shape organisational effectiveness.

According to DiMaggio and Powell (1983), there are three processes through which organisational change occurs. Coercive isomorphism occurs through political influence in an attempt to further promote legitimacy. This could be in the form of laws or regulations passed by the government to encourage organisations to conform to certain requirements, for example, the SEC rules on executive compensation. Mimetic isomorphism, as the name suggests, is where an organisation copies or imitates another organisation's actions. This can be justified as a response to an uncertainty on how to react to pressures faced by an organisation. Normative isomorphism is said to stem from external sources such as professionalism. There are two aspects to professionalism (DiMaggio and Powell, 1983). The first is formal education such as tertiary education while the second is the growth of professional networks around the world. These two aspects of professionalism provide a stage for an interchange of ideas between professionals which may in turn form new organisational behaviour, thereby overriding traditional ones. This then provides a catalyst for change within the organisation.

Greenwood et al (2002) argued that around the world, codes of governance are being institutionalised in response to corporate scandals, through 6 stages. The first is precipitating jolts which can occur as a result of social, technological or regulatory change. The second is deinstitutionalization which occurs when there is an emergence of new players leading to change. Thirdly, the preinstitutionalization occurs as a result of independent innovation and coming up with new ideas. The next stage is called theorization where organisations identify weaknesses and tries to come up with a solution. The diffusion stage then occurs when innovations become "objectified." The last stage of reinstitutionalization occurs when the new practice is seen as manageable.

A consequence of normative pressure can be said to be the result of excessive compensation of CEO salaries in recent years (Point and Tyson, 2006). Part of institutional theory is about how organisations and their discourse are shaped. According to Phillips et al (2004), organisations and their discourse are influence by the production of texts, which are prompted by actions. A good example of this is the use of remuneration logics issued by associations which influences an organisation's practices. Influence can be in the form of change in perception or reaffirming practices already being carried out (Phillips et al, 2004). Organisations may also become subject to mimetic pressure and consequently may use the same remuneration logics in an attempt to catch up with a leader-follower company. However, not all texts will have an impact on the organisation. Phillips et al (2004) argued that only texts which are "embedded in discourse," will be able to influence the organisation by shaping the environment in which the organisation is in. Moreover, the content of texts, origin and how they are interpreted must also be taken into account. For example, laws issued by regulators are mandatory, forcing organisations to comply with them while corporate governance codes of best practices are voluntary. That being said, there are still pressures to comply with society's expectations.

2.4. Theoretical Framework

Suchman (1995) argued that organisations use remuneration logics to promote legitimacy based on two main reasons – strategic and institutional. The strategic view adopts a managerial perspective whereby an organisation might use remuneration logics as part of their strategy in order to legitimise their practices with society's expectations. Examples of strategic use relating to remuneration logics could be the company's public discourse on executive remuneration and their private executive remuneration policies and practices. Institutional theory asserts that organisations use remuneration logics to legitimise their practices in order to conform to society's pressures. Institutional pressures come in three forms - coercive, normative and mimetic. Coercive pressure stems from regulations and laws put in place by government. Normative pressures are shaped by codes issued by associations and institutions. Mimetic pressures form the basis for benchmarking where organisations adapt to follow successful companies to improve their practices. An organisation might also select a target audience whom they think may support their current practices (Suchman, 1995). Organisations might also try to manipulate these institutional pressures as part of their strategy. For example, representatives from companies may be involved in the government and consequently may influence laws or regulations enacted. Similarly, representatives from companies may be involved in business or professional associations and therefore have a level of influence over codes issued.

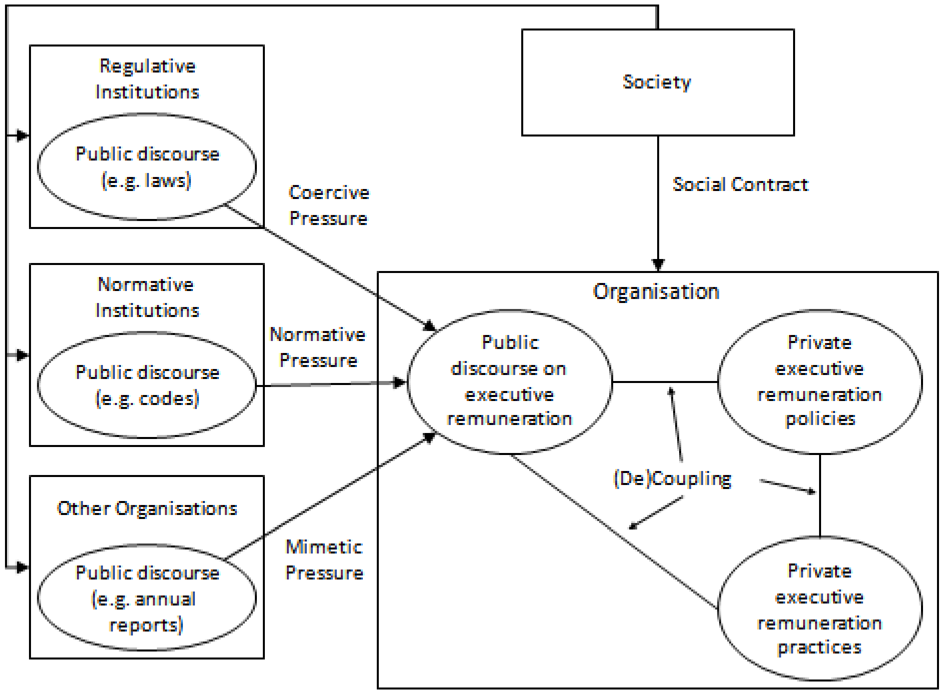

Figure 1: Remuneration Logics as a Means of Sustaining Organisational Legitimacy

Both legitimacy and institutional theory form the basis as to why organisations use remuneration logics to justify executive remuneration practices. Companies are subject to the three institutional pressures. A company may succumb to coercive pressure by complying with regulations or laws. This may be done symbolically or substantively. In order to defend their legitimacy, an organisation may mimic a leader-follower's actions and use it as a benchmark to improve their practices. Normative pressure occurs when academic research is carried out and organisations feel compelled to justify their practices based on theory. Also, in order to manage their legitimacy and institutional pressures, an organisation may de-couple its public discourse on executive remuneration with private practices and policies. For example, what companies may be writing in public reports or filings relating to executive remuneration practices may not actually reflect the reality of their practice and policies. In other words, companies may be symbolically portraying their practices. However, in time, this might change substantively as an organisation attempts to change or improve its practices over time. This suggests that there is pressure on the organisation to conform to society's expectations.

3. RESEARCH METHOD

This paper builds on and extends Crombie (2009), who studied the remuneration logics used by regulators, professional associations and companies in the U.K., Australia and New Zealand. Drawing on legitimacy institutional theories, this paper examines the organizational discourse on executive remuneration in a U.S. context. The remuneration logics used in codes of practice and proxy statement are identified and then analysed. An interpretive methodology is adopted and content analysis is employed to code the remuneration logics.

3.1. Research Questions

The objective of this paper is to describe the prevalence of remuneration logics within the organisational discourse on executive remuneration, examine the extent to which the remuneration logics have become institutionalised discourse, and shed light on how the remuneration logics have become institutionalised discourse. While researchers have studied several remuneration logics and their antecedents and effects of organisational practices (Zajac and Westphal, 1995; Wade et al., 1997), they have not studied the relationship between codes of practice and proxy statements. In studying institutional pressure and remuneration logics, this paper contributes to legitimacy and institutional theories. The research questions and method is described below (see table 2).

Research Questions	Rationale	Research Method
1. What remuneration logics are used?	Researchers have not identified all of the remuneration logics which organisations use.	Literature review and close reading of several organisational texts.
2. How much are the remuneration logics used in companies' proxy statements in 1998 and 2007?	To determine whether U.S. companies changed their usage of remuneration logics in order to defend against public criticism of CEO pay in the early-to-mid 2000s.	Content analysis of the proxy statements of the largest 50 U.S. companies listed on the S&P500 index in 1998 and 2007.
3. How, if at all, does industry type, firm size or firm performance influence companies' usage of the remuneration logics?	Companies with greater public visibility (due to industry, size or performance) will need to defend their CEO pay more actively than other companies.	Correlation analysis of firm-specific variables and the usage of remuneration logics in 1998 and 2007.
4. How much are the remuneration logics used in regulations and codes of practice between 1992 and 2007?	To determine whether U.S. public policy institutions (e.g. regulators and professional associations) changed their usage of remuneration logics in response to public criticism of CEO pay in the early-to-mid 2000s.	Content analysis of 17 codes of practice issued between 1992 and 2007.
5. How, if at all, have regulations and codes of practice influenced companies' usage of the remuneration logics?	To determine whether coercive (e.g. regulation) and normative (e.g. professional associations) pressures have penetrated and constructed companies' discourse on CEO pay.	Statistical analysis of the usage of remuneration logics in codes of practice and proxy statements.
6. Why have U.S. organisations changed their usage of the remuneration logics?	To explain the merits of the strategic and institutional explanations of organisational legitimacy.	Interpretive analysis of the evidence produced from the above analyses.

Table 2: Research Questions and Method

3.2. Content Analysis

Content analysis was used to detect the presence or absence of these remuneration logics in the codes of practice and proxy statement. Each of the remuneration logics were coded 1 (present) or 0 (absent) for each of the texts included in the sample. A coding instructions document was produced to ensure that the content analysis was reliable and repeatable (see table 5). The remuneration logics consist of strings of words. The content analysis objectives and quantifies these phrases. The coding process is inherently subjective and interpretive, but can appear to be concrete and exact.

3.3. Pilot Study

As one of the researchers had previous experience with coding texts, the first stage in the pilot study involved the two new researchers coding 20 sample texts and comparing them with the first researcher. The coding was done using the list of remuneration logics that had been developed in Crombie (2009). Differences were examined to reach consensus. The second stage involved examining Annual Reports, 10-Ks and proxy statements to see which documents contained information regarding CEO remuneration in a U.S. setting. Since proxy statements were found to contain the relevant information, they were examined to see what remuneration logics were being used by the US companies. The examination resulted in the addition of three more logics to the existing list of logics. The two researchers then coded the proxy statements of six companies randomly selected from the sample list and five regulations to test agreement between the researchers. There was high degree of agreement between the two researchers and any differences were discussed and agreements reached.

3.4. Sample

The sample included codes of practice and proxy statements. Codes of practice on corporate governance in the US were identified through textbooks, journal articles and websites. These were then obtained through the internet, where electronic copies of the regulations were downloaded to enable electronic searching of the texts. Where electronic copies were not available, hard copies of codes of practice such as the Corporate Director's Guidebook issued by the American Bar Association were obtained through the University of Canterbury library. Initially, 73 codes of practice were obtained. Texts which were irrelevant (e.g. the Gramm Leach Bliley Act) or did not relate to executive remuneration (e.g. Committee of Sponsoring Organisations of the Treadway Committee) were removed from the sample. Further, codes of practice issued after 2007 were also not included. Only 18 codes were included in the sample between the years 1992 and 2007.

The sample of companies whose proxy statements were examined comprised of the top 50 companies by market capitalization listed on Standard and Poor's (S&P) index as at 31 December 1998 and 2007. The Securities Exchange Commission (SEC) requires that a company whose securities are registered under Section 12 of the Securities Exchange Act of 1934 file a proxy statement prior to a shareholder meeting (http://www.sec.gov/answers/proxy.htm) which must contain information regarding executive compensation. While this is required of all US companies, the largest companies were chosen because their policies and practices are more heavily scrutinized than smaller companies. The list of the top 50 S&P companies were obtained from the database Datastream. 36 of the companies were on both the 1998 and 2007 Top50 lists. The lists were very similar with only 14 companies that were different in each list[1]. The proxy statements of all companies on the top50 lists were downloaded from either the company website or from the SECs website.

3.5. Independent Variables

This study is concerned with discerning what logics are used by companies and in regulations and what factors may be influencing there usage. Financial performance and firm size may have an effect on which logics are used and the extent of their usage as large companies may feel the need to more strongly justify their CEO pay due to their visibility. A change in performance, especially if a company performs poorly when compared to the previous year, may also prompt companies to use more logics to rationalize their executive pay. To check for such effects, financial statistics such as market value, sales revenue, no. of employees, return on assets, return on equity, price-to-earnings, and earnings per share statistics were collected (see table 3).

Variable	**1998[2]**	**2007**	**Change (1997-1998)[3]**	**Change (2006-2007)**

[1] To allow for comparison of an identical list of companies, the 1998 documents of all the companies on the 2007 Top50 list was collected. If a company on the 2007 list was formed through a merger, the 1998 documents of the original companies were collected. Subsequent analysis revealed little or no difference in the findings between the two different lists and the continuous list.
[2] In the 1998 and 2007 columns, the first number is the mean and the second (bracketed) number is the standard deviation.

Financial (US$ millions)				
Market Value	$92,708.62 ($70,971.43)	$130,776.53 ($89,645.39)	+30.27 (+0.048%)	+7.15 (+0.005%)
Sales Revenue	$34,697.43 (44,603.50)	$72,679.66 ($76,264.66)	+5,199.99 (+0.018%)	+6,929.98 (+0.011%)
Net Income	$3,410.51 ($4,278.83)	$7,542.51 ($6,726.54)	+818.04 (+0.032%)	+94.62 (+0.001%))
Total Assets	$87,573.97 ($146,743.10)	$271,398.73 ($482,474.95)	+14,738.51 (+0.020%)	+40,676.53 (+0.018%)
Shareholder's Equity	$14,660.02 ($16,688.71)	$41,947.74 ($36,406.12)	+2,981.94 (+0.026%)	+3,783.50 (+0.010%))
Number				
Employees	110,681.50 (130,123.60)	153,177.66 (271,403.82)	+11,099.24 (+10.92%)	+10,804.40 (+7.588%)
Financial (US$)				
Earnings per share	1.72 (1.89)	2.58 (2.72)	-0.0046 (-0.26%)	-2.3254 (-47.417%)
Ratios				
Price-to-Earnings	51.28 (72.08)	21.35 (11.65)	+22.46 (+77.57%)	-2.33 (-9.56%)
Return on Asset	0.091% (0.065%)	0.089% (0.060%)	+0.0088 (+10.60%)	+0.0022 (+2.529%)
Return on Equity	25.42% (16.37%)	22.08% (11.16%)	+8.9422 (+54.24%)	+0.2512 (+1.15%)

Table 3: Firm Size and Performance of Top50 Companies

The industry in which a company operates may also affect its disclosure practices as companies in certain industries are more scrutinized due to the nature of the industry, such as companies that have significant environmental effects. To check for industry effect, companies were classified according to the Industry Classification Benchmark (ICB) and checked for any correlation between industry and average use of logics (see table 4). The results of the correlation tests are provided in the findings. In both years, most companies were in the Financials and Technology sectors. The lowest number of companies was in the Basic Material and Utilities industry with one company from the Basic Material industry in 1998 and one from the Utilities industry in 2007.

Industry	1998	2007
Oil and Gas	2	5
Basic Materials	1	0
Industrials	2	4
Consumer Goods	6	5
Health Care	7	8
Consumer Services	8	5
Telecommunications	3	2
Utilities	0	1
Financials	9	10
Technology	12	10
Total	50	50

[3] In the change columns, the first number is the absolute change between years and the second (bracketed) number is the percentage change between years.

Table 4: Distribution of Top50 Companies across Industries

3.6. Dependent Variables

Since the study builds on the study conducted by Crombie (2009), the remuneration logics examined in the previous study were used. An examination of the proxy statements of three randomly selected companies from each of the Top50 lists and 5 regulation documents revealed three additional logics (Experience, Performance Measurement and Responsibilities) that were also included in the list of remuneration logics. In total, the study examined the use of thirteen logics. The logics are explained in the table below, along with the keywords that were used to search for them.

Remuneration Logics	Definition and Keywords	Example[4]
Achievement	*Definition:* The CEO's remuneration should be based on the achievement of financial objectives. *Keywords:* (1) Achieve; (2) Corporate or Financial; and (3) Goal or Objective.	"…compensation… for executive officers includes… annual cash bonus, which is based on the ***achievement*** of Company ***financial*** and individual ***goals***." (Time Warner, 2007, p.42)
Agency	*Definition:* The remuneration practices should align the interests of the CEO with those of the shareholders. *Keywords:* (1) Align; and (2) Interests.	"Stock options are granted by the Company… to ***align*** the ***interests*** of employees with those of the stockholders." (Intel, 1998, p.19)
Appropriate	*Definition:* The CEO's remuneration or remuneration practices should be appropriate. *Keyword:* Appropriate.	"In the opinion of the Committee, Exxon has an ***appropriate*** and competitive compensation program." (ExxonMobil, 1998, p.37)
Consultant	*Definition:* Independent advisors should assist in formulating executive remuneration policy or practices. *Keywords:* (1) Independent or External; and (2) Consultants or Advisors.	"All amounts were determined by the Committee, assisted by its ***independent*** compensation ***consultant***" (3M, 2007, p.45)
Contribution	*Definition:* The remuneration practices are designed to reward the CEO's contribution to corporate performance. *Keywords:* (1) Contribution, Influence, Effort, Merit, Impact or Delivery; and (2) Corporate performance (or similar).	"The… philosophy [is] to provide… rewards based… on the individual's ***contribution*** to the **Company**" (Gap Inc, 1998, p.15)
Experience	*Defintion:* The CEO's remuneration is dependent on his/her experience. *Keyword:* Experience.	"The objective of base salary is to provide fixed compensation… that reflects his or her job… ***experience***…" (Walt Disney, 2007, p.19)
Fairness	*Definition:* The CEO's remuneration or remuneration practices should be fair. *Keywords:* Equitable, Fair, Reasonable, or Not Excessive.	"Exelon's shareholders are best served when we can successfully recruit and retain talented executives with compensation that is competitive and ***fair***." (Exelon, 2007, p.33)
Human Resources	*Definition:* The remuneration practices should attract and retain a skilled CEO. *Keywords:* Attract, Retain, Select, Secure or Recruit.	"The objective of Motorola's executive compensation program is to ***attract and retain*** key executives" (Motorola, 1998, p.13)

[4] Keywords are bolded or emphasised in the examples from the proxy statements.

Market	*Definition:* The CEO's remuneration should be competitive. *Keywords:* Competitive, Market, or Comparable.	"The core principles that underlie our approach to compensation are that NEO compensation should: be externally ***competitive***…" (Chevron, 2007, p.49)
Motivation	*Definition:* The remuneration practices should motivate the CEO. *Keywords:* Motivate, Encourage or Incentivise.	"…we must ***motivate*** and reward them [executives] to build long-term stockholder value." (Qualcomm, 2007, p.23)
Pay-for-Performance	*Definition:* The CEO's remuneration should be related to corporate performance. *Keywords:* (1) At risk, Performance-based (or -related), Variable; and (2) Compensation, Pay or Remuneration.	"We design our ***performance-based compensation*** so that differences in performance will result in significant differences in the compensation our executives receive." (McDonalds, 2007, p.24)
Performance Measurement	*Definition:* The CEO's remuneration should be dependent balanced set of performance measures. *Keywords:* (1) financial and non-financial; or (2) qualitative and quantitative.	"the Management Development and Compensation Committee… evaluates a broad range of both ***quantitative and qualitative*** factors" (GE, 2007, p.19)
Responsibility	*Definition:* The CEO's remuneration is dependent on his/her level of responsibility. *Keyword:* Responsibility	"Base salaries for executives are initially determined by evaluating executives' levels of ***responsibility***" (Wallgreen, 1998, p.11)

Table 5: The Remuneration Logics

3.7. Coding Procedure

The coding of the documents was done by two researchers. It was thus necessary to ensure a high degree of consensus between the two individuals. A list of remuneration logics along with their definitions and keywords that should be looked for was used by both. In almost all the proxy statements, the remuneration logics regarding the CEO were disclosed under the Compensation Committee's Report. In some cases, logics were also found in other places such as management's comments regarding shareholder proposals, appendices etc. Careful consideration had to be given in deciding when the logic was being used to describe or support a practice/policy and whether or not it should be counted. It was also necessary to ascertain whether the logic referred to policies regarding the remuneration of the CEO or other such as directors other than the CEO. The coding procedure required recording the absence or presence of each logic on a coding sheet. The researchers also recorded the pages that the logics were found so that they could be compared in cases of inconsistencies between the coders and any confusions resolved. In cases where there were uncertainties whether or not to count a remuneration logic, the instance was discussed and joint decisions were reached. This was done to ensure inter-coder reliability.

3.8. Data Analysis

The data gathered in the study were stored and analyzed using Excel and SPSS. The averages of the dependent variables were calculated to observe trends in the usage of remuneration logics between the two years under study for company proxies and over the period for regulations. The differences in the average use of logics in 1998 and 2007 were checked for statistical significance. Correlation tests were also performed between the logics themselves as well as between logics and financial statistics and industry to check for significant relationships.

3.9. Limitations

The method used in this study has certain limitations. The sample chosen is small and is not random. Selecting the Top50 companies from the S&P 500 list has meant that only companies of a certain size were included in the sample. This may influence results. The proxy statements are also scrutinized only at two points in time. This makes it difficult to explain accurately any changes in the use of remuneration logics that are found. The coding was also done by two separate coders. Though precautions were taken to ensure inter-coder reliability, due to the subjectivity involved in the coding process, some differences may exist. Lastly, the study only examined thirteen logics due to time constraints. There may have been other logics that are used by companies but have not been studied in this research.

4. FINDINGS

The findings indicate that companies consistently used more remuneration logics than regulations. The number of logics used in proxies has also increased over time with any correlations between financial statistics and logics used disappearing. With no apparent industry effects, it appears that remuneration logics used in company proxies are becoming homogenous, suggesting mimetic isomorphism. While the use of remuneration logics in both regulations and proxies have increased between 1998 and 2007, the usage has always been higher in company proxies. The average number of logics used in regulations between 1998 and 2007 is 5.38 and is lower than what was used in company proxies in either year (see table 6). The variation at 3.121 is also very high. There has also been no consistent pattern overall regarding the number of remuneration logics used in regulations (see figure 2).

Remuneration Logics	1998 Proxy Statements	2007 Proxy Statements	Codes of Practice
Mean	7.80	10.64	5.33
Standard Deviation	2.01	1.35	3.11
Minimum	4	8	1
Maximum	11	13	11
Number of texts	50	50	18

Table 6: Usage of the Remuneration Logics in Organisational Texts

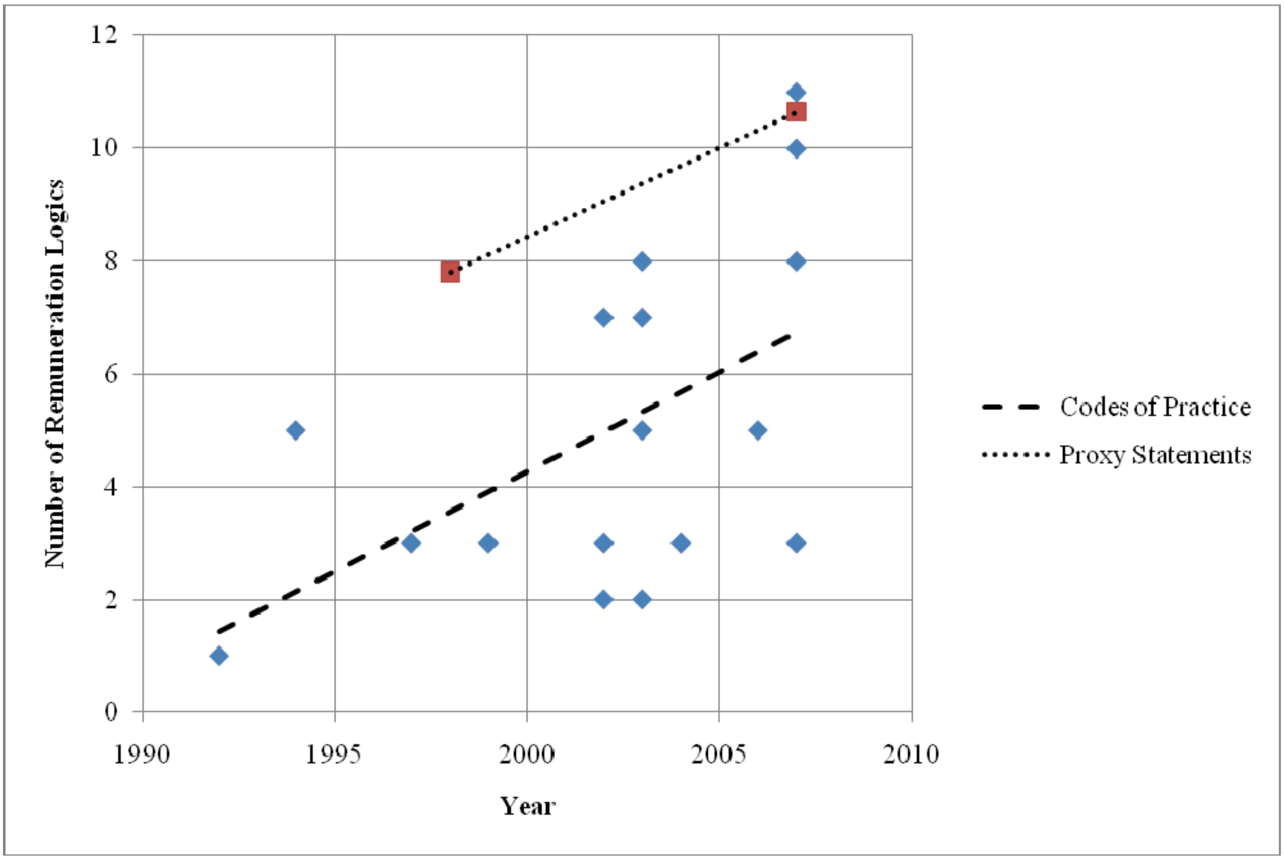

Figure 2: Usage of the Remuneration Logics in Organisational Texts

4.1. Companies' Proxy Statements

Information regarding the compensation of executives of a company was found to be highly structured. Proxy statements issued by a company are governed by the Securities Act of 1933 and Securities Exchange Act of 1934 and companies are required to include a section on executive compensation. The Executive Compensation sections in the two years under study, i.e. 1998 and 2007, were largely similar. There were variations in section headings and some differences in the way the information was presented. In 1998, all the information was contained under the section 'Report of Executive Compensation Committee' following the SEC requirement. The rules were changed by SEC in 2006 when companies were required to include a section 'Compensation Discussion and Analysis'. Both these sections generally contained the principles or the philosophies on which the compensation policies of the company was based. The proxy statements did not refer to any regulations or codes of corporate governance with which they comply. This is similar to most European countries, except for the United Kingdom (Point and Tyson, 2006).

On an average, the number of logics used in proxy statements in both years was high (see table 6). While in 1998, the number logics used was spread out, by 2007 most companies were using between ten to twelve logics in their proxy statements (see table 7), implying that companies across all industries are consistently using more logics to justify executive remuneration.

Number of Remuneration Logics	1998	2007
0	0	0
1	0	0
2	0	0
3	0	0
4	2	0
5	5	0
6	7	0

7	10	0
8	7	5
9	7	5
10	6	10
11	6	15
12	0	13
13	0	2
Total	50	50

Table 7: Distribution of the Remuneration Logics in Companies' Proxy Statements

Table 8 ranks the usage of each of the remuneration logics and gives the change in use of each of the logics from 1998 to 2007 in company proxy statements. Overall, the use of all the logics has increased, though some have increased far more than others. The largest increase has been in the usage of the Fairness logic (see 250%, inspite of which it remained the least used logic. The Consultant logic had the next highest increase (96%), which made it the 5th highest used logic in 2007 compared to 9th highest used in 1998. Though the use of the logics Achievement and Contribution has increased, their increase has been comparatively low resulting in their ranks falling from 4 and 7, respectively to 6 and 9. The ranking of the logics Appropriate, Experience, Performance and Fairness remained unchanged. The ranks of the other logics have either remained the same or have climbed only one rank.

Remuneration Logics	**Rank – 1998**	**Rank – 2007**	**Average – 1998**[5]	**Average – 2007**	**Change (1998 – 2007)**[6]
Pay-for-Performance	1	1	1.00 (0.00)	1.00 (0.00)	0.00 (0%)
Human Resources	2	1	0.88 (0.39)	1.00 (0.00)	+0.12 (+14%)
Market	2	1	0.88 (0.33)	1.00 (0.00)	+0.12 (+14%)
Achievement	4	6	0.82 (0.39)	0.92 (0.27)	+0.10 (+12%)
Motivation	5	4	0.72 (0.454)	0.96 (0.20)	+0.24 (+33%)
Responsibility	6	6	0.70 (0.46)	0.92 (0.27)	+0.22 (+31%)
Contribution	7	9	0.68 (0.47)	0.82 (0.39)	+0.14 (+21%)
Agency	8	6	0.58 (0.50)	0.92 (0.27)	+0.34 (+59%)
Consultant	9	5	0.48 (0.51)	0.94 (0.24)	+0.46 (+96%)
Appropriate	10	10	0.38 (0.49)	0.70 (0.46)	+0.32 (+84%)
Experience	11	11	0.36 (0.49)	0.58 (0.50)	+0.22 (+61%)
Performance Measurement	12	12	0.30 (0.46)	0.46 (0.50)	+0.16 (+53%)

[5] In the "Average – 1998" and "Average – 2007" columns, the first number is the mean and the second (bracketed) number is the standard deviation.
[6] In the "Change (1998 – 2007)" column, the first number is the absolute change between years and the second (bracketed) number is the percentage change between years.

Fairness	13	13	0.12 (0.33)	0.42 (0.50)	+0.30 (+250%)
Total			7.80 (2.01)	10.64 (1.35)	+2.84 (+36%)

Table 8: Usage of the Remuneration Logics in Top50 Companies' Proxy Statements

An industry-wise comparison of the average use of remuneration logics reveals that the highest user of logics in 1998 was the Oil and Gas industry (9.50) (see table 9). This changed in 2007 when the Technology industry became the highest user (11.50). A comparison of the changes in the average number of logics shows that the largest increase has been in the Consumer Goods industry (61.92%). The Oil and Gas industry had the lowest increase of only 7.37%. The use in two of the industries (Basic Materials and Utilities) is incomparable as there were no companies from that industry in either 1998 or 2007. A test of correlation between number of logics used and industries revealed no significant correlations in 1998 and only one statistically significant correlation in 2007. Companies in the Technology industry had a positive correlation with the number of logics used (0.321, $p<0.05$). The number of companies in the industry for the two years does not differ very much nor does the composition of the industry, with seven companies that were common in both years.

Industry	# of Firms – 1998	# of Firms – 2007	Average – 1998[7]	Average – 2007	Change (1998 – 2007)[8]
Basic Materials	1	0	9.00 (0.00)	---	---
Consumer Goods	6	5	6.67 (1.75)	10.80 (1.10)	+4.13 (+61.92%)
Consumer Services	8	5	6.75 (2.32)	10.00 (1.58)	+3.25 (+48.15%)
Financials	9	10	8.22 (1.86)	10.80 (0.79)	+2.58 (+31.39)
Healthcare	7	8	8.57 (1.51)	10.25 (1.75)	+1.68 (+19.60%)
Industrials	2	4	8.00 (4.24)	10.25 (1.26)	+2.25 (28.13%)
Oil and Gas	2	5	9.50 (2.12)	10.20 (1.48)	+0.70 (+7.37%)
Technology	12	10	7.83 (2.12)	11.50 (1.18)	+3.67 (+46.87%)
Telecommunications	3	2	8.00 (1.00)	10.00 (2.82)	+2.00 (+25%)
Utilities	0	1	---	11.00 (0.00)	---
Total			7.80 (2.01)	10.64 (1.35)	+2.84 (+36%)

Table 9: Distribution of Remuneration Logics across Industries

[7] In the "Average – 1998" and "Average – 2007" columns, the first number is the mean and the second (bracketed) number is the standard deviation.
[8] In the "Change (1998 – 2007)" column, the first number is the absolute change between years and the second (bracketed) number is the percentage change between years.

Testing correlations between the remuneration logics and the financial statistics yielded few significant relationships, none of which were present in both the years under study (table 10 and 11). The changes in the financial statistics were calculated for both the years because they would give more significant findings. In 1998, significant negative relationships were found between the logics 'reward achievement' and market value (-0.359, p<0.05) and both the logics 'reward achievement' and 'reward competitively' were negatively correlated with ROE and ROA. The relationships between 'reward competitively' and the financial measures may be explained by the fact that if a company is performing poorly, they may justify the level of executive pay as being comparable to market prices for executive talent. The fact that the logic 'reward achievement' is negatively correlated with market value and the returns on assets and equities may signal a disassociation between the use of logics in policies and actual practice. Negative correlations were also found between 'align interests' and sales revenue. But the relationship is not very strong (-0.288, p<0.05).

None of the above significant relationships are found to exist in 2007. Some correlations could not be calculated because by 2007 they were being used by all companies ('attract and retain', 'pay for performance' and 'reward competitively'). There were only four statistically significant relationships in 2007 but they appear to be random occurrences. Overall, there does not appear to be very strong relationships between the financial performance of a company and logics it uses to justify its executive compensation policies. The relationships that may have existed seem to dissipate as more and more companies use the same logics to explain pay.

Financials	Human Resources	Agency Logic	Achievement Logic	Market Logic	Fairness
Market Value			-0.359 (p<0.05)		
Sales Revenue		-0.288 (p<0.05)			
Price-Earnings Ratio	-0.348 (p<0.05)			-0.404 (p<0.01)	
EPS					-0.343 (p<0.05)
Return on Assets			-0.424 (p<0.01)	-0.328 (p<0.05)	
Return on Equity			-0.381 (p<0.01)	-0.360 (p<0.05)	
Share Price					-0.282 (p<0.05)
No. of employees	0.347 (p<0.05)	-0.281 (p<0.05)		-0.348 (p<0.05)	

Table 10: Correlations Remuneration Logics and Changes in Firm Size and Performance in 1998

Financials	Market Logic	Achievement	Responsibility	Consultant
Net Income				0.502 (p<0.01)
Sales Revenue	-0.404 (p<0.01)		0.365 (p<0.01)	
Total Assets				-0.301 (p<0.05)
Share Price		0.307 (p<0.05)		

Table 11: Correlations Remuneration Logics and Changes in Firm Size and Performance in 2007

4.2. Regulators' and Professional Associations' Codes of Practice

In the U.S., issuers of codes of practice have produced at least 18 regulations relating to executive remuneration between 1992 and 2007. In the sample, there were 3 codes that were produced before 1998 and 15 codes produced from 1998-2007. This finding can be explained by the post-Enron effect where numerous regulations were produced following the high profile corporate scandals between 2001 and 2003. The regulations are issued by a wide range of organizations (see table 12) and use varying number of logics. The executives' association and the investors' association had the most involvement (17%) followed by the stock exchange and professional associations (11%). This is consistent with the legitimacy theory where the issuers of these regulations comprise of representatives from companies and consequently seek to defend their legitimacy by issuing principles. With regards to the number of logics used in regulations used over the years, there does not appear to be a clear upwards trend.

Year	Codes of Practice (Issuer and Title)	Type of Issuer	Stated Motivation for Issuing	# of Rem. Logics
1992	American Law Institute Principles of Corporate Governance	Professional Association	---	1
1994	Corporate Director's Guidebook – American Bar Association	Professional Association	Revised due to evolution and growth of corporate governance	5
1997	Business Roundtable	Executives' Association	Update of past publication	3
1999	CalPERS	Fund Manager	---	3
2002	The Conference Board	Business Association	Address declining public and investor trust	7
2002	Business Roundtable	Executives' Association	Due to changes in US	3
2002	Council of Institutional Investors	Investors' Association	---	2
2003	AFL-CIO	Employees' Association	Due to corporate scandals (e.g. Enrol and Worldcom) and regulatory reforms	7
2003	NACD Blue Ribbon Report on Executive Compensation	Directors' Association	Due to regulatory reforms and low public confidence in directors	5
2003	Breeden Report	Government	Due to WorldCom	8
2003	NYSE Final Corporate Governance Rules	Stock Exchange	---	2
2004	NYSE Amendments to corporate governance rules	Stock Exchange	Pressure from SEC and public perceptions of NYSE's integrity	3
2006	SEC	Stock Exchange Regulator	To improve investors understanding of executive compensation	5
2007	CFA Institute	Professional Association	To improve transparency of executive compensation due	8

			to recent changes	
2007	TIAA-CREF	Fund Manager	Due to current developments in corporate governance	11
2007	Aspen Institute	Non-Government Organisation	To improve corporations' executive compensation principles	3
2007	Business Roundtable Executive-Compensation-Principles	Executives' Association	Due to changing perceptions of best practice of executive compensation	10
2007	Council of Institutional Investors	Investors' Association	---	10

Table 12: History of the Codes of Practice

When comparing the mean of individual remuneration logics used in codes pre-1998 and 2007, the use of many logics increased (see table 14) though statistically significant increases were in the use of the consultant logic ($\alpha<0.001$), responsibility logic ($\alpha<0.05$) and performance measurement logic ($\alpha<0.01$). The use of the Market and Achievement logics decreased between the years. Between 1994 and 2007, the pay-for-performance logic had the highest use in regulations, followed by the agency and consultant logics. The experience logic was still not used in any of the codes of practice by 2007.

Remuneration Logics	Pre-1998 (3 texts)[9]	1998-2007 (15 texts)	1994-2007 (18 texts)
Pay-for-Performance	0.33 (0.58)	0.93 (0.26)	0.83 (0.383)
Human Resources	0.33 (0.58)	0.53 (0.52)	0.50 (0.514)
Market	0.67 (0.58)	0.47 (0.52)	0.50 (0.514)
Achievement	0.00 (0.00)	0.20 (0.41)	0.17 (0.383)
Motivation	0.33 (0.58)	0.33 (0.49)	0.33 (0.485)
Responsibility	0.00 (0.00)	0.27 (0.46)	0.22 (0.428)
Contribution	0.00 (0.00)	0.07 (0.26)	0.06 (0.236)
Agency	0.33 (0.58)	0.80 (0.41)	0.72 (0.461)
Consultant	0.00 (0.00)	0.73 (0.46)	0.61 (0.502)
Appropriate	0.67 (0.58)	0.47 (0.52)	0.50 (0.514)
Experience	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Performance Measurement	0.00 (0.00)	0.40 (0.51)	0.33 (0.485)
Fairness	0.33	0.60	0.56

[9] The first number in each column is the mean and the second (bracketed) number is the standard deviation.

	(0.58)	(0.51)	(0.511)
Total	3.00 (2.00)	5.80 (3.121)	5.33 (3.106)

Table 13: Usage of the Remuneration Logics in the Codes of Practice

4.3. Preliminary Evidence of Institutional Isomorphism

The findings of high use of remuneration logics in proxy statements of 1998 prompted an investigation of even earlier statements. An examination of 1989 proxy statements of eight companies[10] revealed that while there is little difference in the number of logics used between 1998 and 2007, there was a substantial increase in the number of logics used in proxy statements between 1989 and 1998 (see figure 3). This coincides with changes in SEC rules in 1992. The new rules required companies to disclosure more information regarding their compensation policies. The marked increase in the number of logics used between 1989 and 1998 would point towards companies using more logics to justify the executive pay which would now be open to closer scrutiny.

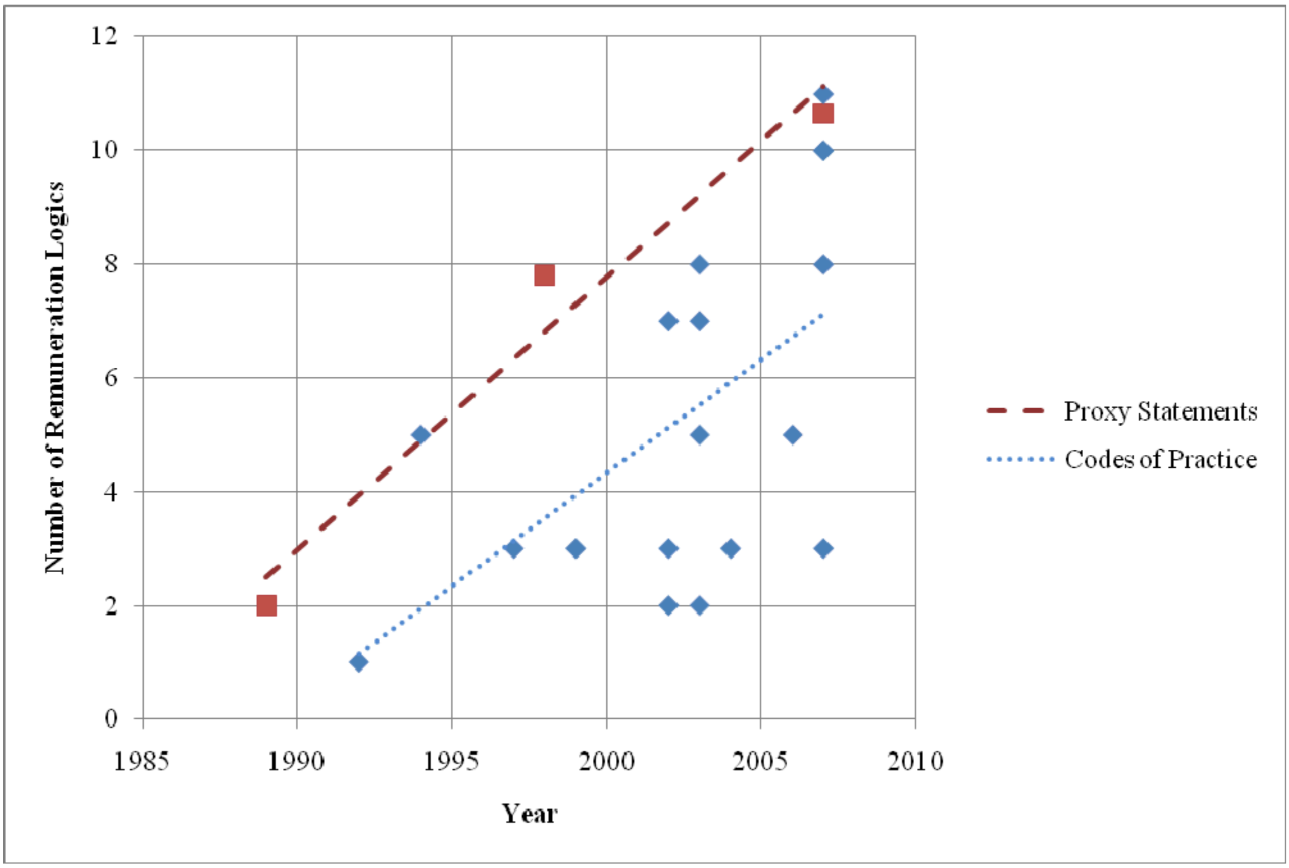

Figure 3: Impact of the 1992 SEC Change in CEO Pay Disclosure Requirements

5. DISCUSSION

This paper present scant evidence of U.S. companies attempting to strategically manage their organisational legitimacy. The issuers of the codes of practice include associations of directors and executives. This suggests that companies may attempt to alter the codes of practice which they choose to comply with. Also, the prevalence of the remuneration logics differs in companies' proxy statements and codes of practice. For example, the fairness logic is important in codes of practice than in annual reports. However, there is no direct evidence of symbolic or substantive management. After reviewing 100 proxy statements, the researchers do believe that some

[10] A complete set of the top50 companies could not be examined due to difficulties in obtaining 1989 proxy statements.

remuneration logics are substantiated more than others. For example, the proxy statements contain lots of information on the achievement, agency, human resources, market and pay-for-performance logic. These logics are often explicitly linked to specific remuneration practices such as share option plans. But this is not empirical evidence.

The paper presents limited evidence of institutionalisation by coercive and normative pressures. The remuneration logics are used to a much lower extent in the codes of practice than in the proxy statements. While the remuneration logics have become taken-for-granted, the process by which the remuneration logics were institutionalisation is still unknown. Certainly, corporate scandals lead to the proliferation of codes of practice (Enrione et al., 2006), but it is unclear whether the use of the remuneration logics in these codes of practice have influenced proxy statements. Perhaps, the producers of the codes of practice are drawing on so-called best practice from the proxy statements. Future research is needed to examine how the remuneration logics spread from one proxy statement to another.

6. CONCLUSION

The evidence presented in this paper suggests that U.S. companies have adopted a boilerplate approach to executive remuneration policy in their proxy statements. Comparing proxy statements from 1998 to 2007, the use of all of the remuneration logics has increased significantly. Similarly, the remuneration logics have also been increasingly used in codes of practice. The remuneration logics have become institutionalised discourse; they are taken-for-granted way of justifying CEO pay. While none of the remuneration logics studied decreased in prevalence, some remuneration logics have been used to a much lesser extent than others. For example, the fairness logic was present the least in proxy statements in both 1998 and 2007. Such a range of remuneration logics gives the board of directors a lot of flexibility; they can similar use different remuneration logics or emphasis some remuneration logics more than others to justify CEO pay under any performance conditions. Crystal (1991) similarly warned that compensation consultants justify increasing CEO pay in when firm performance is good or poor by adjusting their rationale. Thus, the remuneration logics may enable the board of directors to decouple CEO pay from corporate performance.

The findings of this study are limited by the fact that only large companies are studied. While the SEC rules require all companies that are listed with it to give extensive disclosures in their proxy statements, large companies may be disclosing more than others. Smaller companies may not have similar resources or may not feel the same pressures to legitimize their practices if they are less visible. Any effect that size of a company may have had on the number and usage of the remuneration logics would not have been detected by this study. Further, the level of CEO pay may also affect the number and usage of logics. Future research should include CEO pay as independent variable to assess what affect it has the use of remuneration logics in proxy statements. Qualitative assessments of the use of logics may give a better indication of whether the companies are using the logics symbolically or substantively. Also, assessing how frequently companies use the remuneration logic in their proxy statement will give an indication of the relative importance. Finally, extending the time period studied to pre-1992 proxy statements may provide more insight into how use of logics has changed due to the coercive pressure of the SEC.

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