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To what extent do governance, government funding and chief executive officer characteristics influence executive compensation in U.K. charities? Insights from the social theory of agency

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Abstract

This paper draws on agency theory, as extended by the social theory of agency (STA) (Wiseman, Cuevas-Rodríguez & Gomez-Mejia, 2012), to examine the association between governance arrangements, reliance on government funding, chief executive officer (CEO) non-profit experience, and CEO compensation in the UK charity sector. We rely on a hand-collected data for the largest 240 charities and find that greater trustee board diversity (specifically gender and education diversity) and the existence of a remuneration or nomination committee are positively associated to CEO compensation. The results also show that a reliance on government funding and CEO's non-profit work experience, together with the presence of a finance/accounting expert on the audit committee are negatively associated to CEO compensation. The existence of an audit committee, internal audit function, use of specialist external auditor and CEO characteristics (gender, ethnicity and managerial experience) are not significant factors. Our findings are largely consistent with the STA's propositions. Specifically, executive compensation levels reflect the CEO's ability to work with a diverse board while a higher reliance on government funding signals the role of the State's pressures in moderating CEO compensation. Finally, in a context characterised by altruism and public benefit, financial rewards are not seen as the dominant 'value metric', resulting in lower compensation for CEOs previously working in the sector. Our findings have policy implications, specifically in relation to the role, composition and effectiveness of governance structures (e.g., trustee boards, audit and remuneration committees) in overseeing the design of executive compensation schemes within the charity sector.

KEYWORDS
board diversity, CEO characteristics, CEO compensation, charity governance, social theory of agency

1 INTRODUCTION

The question of whether non-profit executive compensation is fairly and appropriately structured has received some attention in both public and regulatory[1] circles (Newton, 2015; Perego & Verbeeten, 2015), following concerns in recent years about relatively high compensation awarded to executives (Third Sector, 2015). For example Hope (2013) is critical about the marked increase in U.K. chief executive officer (CEO) pay and he echoes a call from the regulator (Charity Commission) to charity leaders to explain and justify these changes in compensation. Similar circumstances, mainly in U.S. settings, have already led to studies examining the determinants of non-profit CEO compensation, thereby highlighting the relevance of key factors such as CEO profiles (e.g. experience and age), quality of governance, organisational performance and characteristics (Allen & McAllister, 2018; Newton, 2015). However, outside of the U.S. context, research findings are limited. In the U.K. case, a number of reforms have been initiated in 2005 (and in 2010) to review the composition of trustee boards and strengthen other monitoring mechanisms (e.g. audit committee, remuneration/nomination committee and internal audit), amidst societal concerns about charity accountability and a reliance on government funding (Connolly & Hyndman, 2013; Dhanani, 2009; Hyndman & McDonnell, 2009). Yet, little is known about the influence of trustee board composition (diversity), monitoring mechanisms and reliance on government funding alongside other organisational and CEO characteristics (Ballantine, Forker, & Greenwood, 2008; Elmagrhi, Ntim, Malagila, Fosu, & Tunyi, 2018; Jobome, 2006). Furthermore, an anecdotal examination of charity annual reports (e.g. Cancer Research UK, Oxfam and Charities Aid Foundation) shows limited disclosure about how executive remuneration is determined; even in cases where a remuneration committee was established. We therefore consider these largely unexplored issues by addressing the following research question: 'To what extent do trustee board diversity, monitoring mechanisms, government funding and CEO characteristics influence the level of CEO compensation in UK charities'?[2]

[1] https://www.telegraph.co.uk/news/politics/11435754/32-charity-bosses-paid-over-200000-last-year.html

[2] Terminology-wise, a non-profit organisation (NPO) is an organisation which does not have shareholders and cannot distribute its surplus to fund providers or to owners. A U.K. charity is a NPO that has to meet a strict criteria set out by authorities regarding its 'public benefit' purpose, governance and financial accountability.

Following previous studies examining the determinants of non-profit compensation (Ballantine et al., 2008; Newton, 2015; Perego & Verbeeten, 2015), we rely on agency theory (Fama & Jensen, 1983). At the same time, we contend that these studies tend to frame agency theory in a 'classical' form, namely that agents 'will' behave opportunistically as a result of their wealth-maximisation motive and conflict of interests and information asymmetry between the principal and the agent. Thus, governance and other monitoring structures are typically enacted to mitigate agential behaviour and CEO compensation. Whether such a characterisation fully applies to the charitable sector is open to question, in light of different (and potentially non-pecuniary) motivations associated to charity leaders, the existence of a multiplicity of stakeholder interests or principals (Jobome, 2006; Van Puyvelde, Caers, Du Bois, & Jegers, 2011; Wellens & Jegers, 2014) and the need for trustees to balance their advisory and strategizing roles (Parker, 2007) with their monitoring responsibilities. These points underline the relevance of the social and institutional context in which executives and trustees operate and interact – including on matters relating to executive compensation. Consequently, we extend the agency perspective by drawing upon Wiseman, Cuevas-Rodríguez, and Gomez-Mejia (2012) insights on the 'social theory of agency' (STA). Distinctively, STA argues that agential behaviour and interests 'may' vary in a principal–agent setting and such behaviour/interest is mediated by factors associated to the institutional environment, cognitive framework and power relations in a given context (e.g. U.K. charity sector). This perspective is pertinent to the case of executive compensation because it is argued that managers may be driven by altruism and notions of public benefit (Jobome, 2006), whereas stakeholders and trustees are primarily involved on the basis of the charity delivering social objectives/outcomes, rather than purely economic ones (Van Puyvelde et al., 2011; Wellens & Jegers, 2014).

Based on hand-collected data from the top 240 U.K. charities, we examine the relationship between CEO compensation and different facets of charity governance (trustee diversity, audit committee, remuneration committee, internal audit function and external auditor), reliance on government funding and CEO characteristics (i.e., gender, ethnicity and experience). We find the CEO compensation is positively associated to trustee board gender and educational diversity and the existence of a remuneration or nomination committee. However, the presence of a finance/accounting expert on the audit committee is negatively associated to CEO compensation. We also find that government funding and CEO non-profit work experience are negatively associated to executive compensation. Finally, charity size is positively associated whilst none of the measures of charity (financial) performance are associated with compensation. Overall, and in line with STA expectations, executive compensation levels reflect the CEO's ability to work with a diverse board, whereas a higher reliance on government funding signals the role of the State in moderating CEO compensation. Furthermore, in a context characterised by altruism and public benefit, financial rewards are not seen as the dominant 'value metric' resulting in lower compensation for CEOs who have worked in the sector.

This research contributes to the literature by providing evidence about the determinants of charity CEO compensation in the UK, particularly in terms of the divergent role (negative and positive) of mainstream governance and other monitoring mechanisms enacted in the light of reforms highlighted earlier, the implications of government funding and CEO charity experience. Contrastingly, prior works (Jobome, 2006; Newton, 2015) only found mixed results on the role of governance arrangements in constraining CEO compensation and have tended to rely on a limited number of governance proxies (e.g. board size, the existence of sub-committees and board independence). Relatedly, Allen and McAllister (2018) concluded that conflicting pay–performance evidence in the non-profit context (e.g., U.S. foundations) may be 'indicative of unobservable board governance mechanisms that impact both CEO compensation and performance' (p. 128). Our findings thus bring new insights on the granular effects of these 'unobservable' mechanisms (e.g. board diversity and monitoring mechanisms) as informed by the role of social/cultural and institutional conditions underpinning 'principal(s)–agent' relations. We now expand on the literature review, theory, hypothesis development, methodology, findings and analysis and concluding implications.

2 | LITERATURE REVIEW, THEORY AND HYPOTHESIS DEVELOPMENT

2.1 | Theoretical framework: Social theory of agency

Wiseman et al. (2012) contend that the principal–agent relationship should not be merely seen (and operationalised) as a set of narrow and calculative exchanges between two inherently distrustful parties. Instead, in any situation involving delegation, conflict of interests between agent and principal(s) is 'always a possibility because these parties may hold contrasting views about desired objectives and means–ends relations, potentially leading to actions on the part of the agent that are inconsistent with the principal's desires' (Wiseman et al., 2012, p. 204). Equally therefore, both parties can have converging interests that may or may not be driven by wealth maximisation objectives. Furthermore, due to the inherent existence of information asymmetry between principal(s) and agent, each party may struggle to understand whether their respective interests are aligned or not to each other. An agent may also commit to a course of action that he or she deems best for the organisation that might be at odds with the principal's expectations. This gives rise to a range of possibilities about the role of governance and other reforms associated to the control of executive decisions (including compensation).

Wiseman et al. (2012) also contend that principal–agent interactions are shaped by four 'social mechanisms', namely institutional environment, cognitive framework, social networks and power relations. Briefly, institutional environment refers to the State's infrastructure and policies that promote markets and economic transactions ('transparency intermediation'), for example by mandating the publication of audited financial statements (e.g. by the Charity Commission) to address information asymmetry and codes of governance to monitor and protect contractual arrangements (e.g. guidance on charity board composition by the Code Steering Group, 2010). The State has also the power to intervene and regulate economic exchanges, discourage socially undesirable behaviour and limit the agent's field of manoeuver ('political intervention') through ownership and board ties, for example, establishing rules for funding/grants and bidding on project costing for charities seeking to provide outsourced public services. The 'cognitive framework' considers how societies and cultures conceive of the role and exercise of power of individual leadership. In this regard, certain cultures consider pecuniary rewards to be a crucial form of social comparison (i.e. income is a suitable 'value-metric'), whereas in other contexts, high pay differentials are not socially acceptable and instead, there is a preference for non-pecuniary metrics (e.g. honorary titles, awards for service to the community) as the preferred 'value-metric'. Indeed, Jobome (2006) does allude to an altruism factor in relation to charity executive compensation while the Charity Commission requires all charities need to abide by their 'public benefit' statement to maintain their registration and that trustees should discharge their role on an unpaid basis (Charity Commission, 2004).

In addition, 'social networks' emphasise the inter-linkages between principals or agents and their wider network (e.g. professional and cultural networks and board memberships), and how a network can help reduce information asymmetry and nudge agents, through social pressure, to refrain from opportunistic behaviours. For example, several best practice statements in the U.K. sector have been issued by the National Council for Voluntary Organisations (NCVO), a network of charity CEOs. Finally, 'power relations' articulate how and why principals exercise influence via governance structures due to 'ownership concentration' and by virtue of their role as stakeholder or societal representatives ('diversity of principals' and 'family influence'). For example this can arise in the case a charity receives funding from different donors/stakeholders under certain conditions and/or faces pressure to meet their multiple expectations. In conclusion, Wiseman et al. (2012, p. 215)[3] formulate seven propositions on how principal–agent relations might vary within different contexts or arrangements, and how this might affect agential performance, governance arrangements and rewards/compensation. We draw on several of these propositions to develop specific hypotheses for our study.

[3] For brevity, the full list of Wiseman et al.'s (2012) propositions is not provided. We also do not rely on the 'social networks' dimension due to the challenges in ascertaining the extent of trustee social networks in U.K. charities.

2.2 | Trustee board diversity and CEO compensation

The board of trustees has important strategizing and monitoring roles (Buse, Bernstein, & Bilimoria, 2016; Callen, Klein, & Tinkelman, 2003). In line with mainstream corporate governance thinking, U.K. charity boards have to consider appointing trustees who can provide a combination of skills, experience, knowledge and backgrounds (Code Steering Group, 2010). There is a normative expectation of the 'beneficial' impact of a diverse (heterogeneous) board when charities recognise and seek the involvement of a number of stakeholders and resource providers, for example employees and donors, volunteers, beneficiaries, government and regulators (Connolly, Hyndman, & Mcconville, 2013; Van Puyvelde et al., 2011). However, prior evidence on the different facets of boardroom diversity (gender, education, experience and age) points to much debate about their actual effectiveness and consequences (e.g. Aggarwal, Evans, & Nanda, 2012; Ballantine et al., 2008; Elmagrhi et al., 2018; Mahadeo, Soobaroyen, & Hanuman, 2012; Newton, 2015).[4] This issue is equally noticeable in the for-profit context (e.g. Benkraiem, Hamrouni, Lakhal, & Toumi, 2017; Sarhan, Ntim, & Al-Najjar, 2019). Some studies do claim that a heterogeneous board is associated to better decision-making, a comprehensive appreciation of different risks (Murray, 1989; Tuggle, Schnatterly, & Johnson, 2010) and the constraining of CEO compensation. Relatedly, Aggarwal et al. (2012) found that non-profit board size is negatively related to the level of mangerial incentives but Barros and Nunes (2007) found the reverse in the case of Portuguese non-profit organisations (NPOs). Newton (2015) also found that CEO compensation is adversely associated to governance quality (incorporating aspects of board composition), whereas Jobome (2006) did not find any significant association between board size and compensation for large U.K. charities. In spite of these studies, evidence is scant when it comes to the implications of board diversity and CEO compensation in the non-profit context.

In the non-profit context, a trustee board represents the concerns of multiple stakeholders (principals) with varying interests and contributes to the development of organisational strategy, and in turn, the pursuit of various objectives influences the nature of commitments among the principals, trustee board and executives (Aggarwal et al., 2012). According to the 'power relations' dimension of STA, there is an inherent tension in the management of heterogeneous principals, which requires managers to balance their response and responsibilities towards different powerful stakeholders and trustees. In this respect, there are challenges in finding a common ground (including on agreed notions of performance and 'success', and how which strategies to implement) that would address the needs of all principals (Wiseman et al., 2012). In a similar vein, the existence of a diversity of board members and principals can lead to conflicts, that may increase levels of information asymmetry among board members, principals and management team (agents), thus requiring more coordination and information sharing efforts by the agent (Wiseman et al., 2012).

In the context of U.K. charities, trustees are ultimately responsible for setting compensation levels for charity senior staff. The payment is expected to be based on multiple criteria, for example in relation to meeting the purposes, aims and values of the charity, the skills, experience and competence needed by the charity (NCVO, 2014). On the one hand, a diverse board may encompass members who are, on balance, better informed and more capable to make these assessments. On the other hand, the existence of a diverse board may lead to a contradiction of priorities and preferences in the operation of the charity. The level of executive compensation may consequently be influenced by these different preferences. The agent may also need to engage in activities to 'identify and enforce political compromises among principals with conflicting objectives' (Wiseman et al., 2012, p. 215). As a result, the agency 'costs' we conceive of in this particular context arise from a relative 'absence' of ingredients associated to a 'homogeneous' board (e.g. cohesion, inter-personal communication and commonality of values), thus requiring more efforts from the agent. We hence adopt Wiseman et al. (2012) proposition that the greater the number of diverse trustees and principals,[5] the

[4] We acknowledge that there is literature studying each of the specific facets of diversity (particularly gender diversity). At the same time, STA focuses on the 'diversity of principals' as a broader theoretical construct which we adopt in our hypothesis development and we refer to the relevant literature in the discussion of the findings.

[5] Wiseman et al. (2012) do not specifically address the different facets of diversity as researched in the governance literature. From the STA's perspective, the heterogeneity of principals (e.g. by way of age, background, education and gender/ethnicity) implies a similar degree of challenge, power differentials and

more likely that the agent will be rewarded according to their ability to reduce conflicts between, and satisfy multiple and diverse principals. Hence, we hypothesise:

H1: Charity board diversity is positively associated to CEO compensation.

2.3 | Monitoring mechanisms and CEO compensation

In this study, we use the term 'monitoring mechanisms' to indicate governance and control structures (excluding board composition and trustee board diversity), namely the presence of sub-committees (audit committee, nomination committee and remuneration committee), the involvement of a finance/accounting expert in the audit committee, the existence of an internal audit function and the appointment of a specialist external auditor. A number of studies have examined the role of governance mechanisms in determining CEO compensation (Barros & Nunes;, 2007; Conyon & He, 2012). However, the impact of these mechanisms on non-profit CEO compensation remains debatable. For example Jobome (2006) did not find that the presence of an audit committee was associated with CEO compensation. Contrastingly, Perego and Verbeeten (2015) suggest that the adoption of a good governance code and the presence of a Big 4 auditor is associated with lower managerial pay. Newton (2015) also found support for the role of governance mechanisms in mitigating high level of executive pay in the U.S. non-profit sector.

According to Wiseman et al. (2012), political institutions (i.e. government and its agencies) seek to promote economic exchanges by laying out a regulatory framework to enable transparency and to ensure transacting parties can confidently engage in contractual arrangements. In particular, the state's institutional environment establishes or supports an 'infrastructure of intermediation that increases the transparency of economic transactions' (Wiseman et al., 2012, p. 208) to protect societal actors. Examples of such an infrastructure are a requirement to publish financial reports, adoption of accounting standards and compliance with governance/ethical rules to ensure organisational probity and integrity. Wiseman et al. (2012) argue that these rules help reduce information asymmetry experienced by principals and foster stewardship behaviours amongst agents. Consequently, 'the higher the level of intermediation and transparency, the less likely agents will act opportunistically…and the greater the role of independent observers in appraising and rewarding agents' performance' (Wiseman et al., 2012, p. 215). In the U.K. context, financial transparency and the governance of charities have been the subject of attention by regulators in relation to accounting rules (i.e., Statement of Recommended Practice) (Charity Commission, 2004; Hyndman & McMahon, 2010), code of governance (Code Steering Group, 2010), internal controls and external audit (Charity Commission, 2005, 2012, 2013, 2014). Specifically, the code recommended the establishment of remuneration, nomination and audit committees and the appointment of specialists to oversee financial controls and practices, including executive remuneration.

Our interpretation from the perspective of STA is that the application of the above-mentioned mechanisms provides the necessary process and structures to monitor the level of compensation for executives (as in Perego & Verbeeten, 2015) and help address the criticisms from the public and media on U.K. charity CEO compensation. Furthermore, given the mixed results on the role of monitoring mechanisms in mitigating CEO compensation in the charity sector, we argue, in line with STA, that monitoring mechanisms mandated as part of the 2005/2010 U.K. reforms reflected a heightened institutional focus on charity accountability. This created a 'fishbowl-like' environment (Wiseman et al., 2012, p. 208) involving more detailed transparency and scrutiny, in which agents become less incentivised to engage in self-serving strategies, for example seeking higher executive compensation. Hence, we hypothesise:

H2: A higher extent of monitoring mechanisms is negatively associated to CEO compensation.

'conflict' in finding common ground. This explains our overall hypothesis, although we do disaggregate the influence of the different aspects of board diversity in the empirical analysis.

2.4 | Government funding and CEO compensation

U.K. charities receive significant funding from central, local and international governments. According to Keen and Audickas (2015), government sources accounted for more than 30% of total income of the U.K. voluntary sector between 2014 and 2015. This illustrates the crucial influence of the State, particularly as a result of the U.K. government's policy to contract out a significant part of public services to charities (Hyndman & McMahon, 2011). In addition to its role in the institutional environment, the State also engages in policy interventions that can limit (promote) economic exchanges that are deemed to be socially undesirable (acceptable). Therefore, political institutions intervene in economic exchanges by regulating organisational and agential behaviour on the basis of ownership, board representation or grant funding conditions. In such cases, the agent's ability to meet the expectations of other stakeholders/principals or to engage in opportunistic behaviours becomes limited given the prominence of the State as a powerful stakeholder (Wiseman et al., 2012). A well-established literature certainly finds that political interventions constrain managerial decision-making and behaviours (e.g. Okhmatovskiy, 2010) but less so in relation to CEO compensation (Verbruggen & Christiaens, 2012). We argue that a reliance on U.K. government funding tends to attract more scrutiny to ensure value for money principles are adhered. As a result of this additional monitoring, agents would be less able to press for higher executive compensation. Finally, because many U.K. charities typically rely on funding from the government, Wiseman et al. (2012) ownership concentration proposition that 'the higher the ownership concentration, the lower the overall agent compensation in relative terms' (Wiseman et al., 2012, p. 215) is a relevant consideration.

Therefore, on the basis of the 'political intervention' and 'ownership concentration' dimensions of STA, we argue that CEO compensation will be tightly monitored if the charity is more dependent on government funding. Hence,

H3: A higher reliance on government funding is negatively associated to CEO compensation.

2.5 | CEO non-profit working experience characteristics and CEO compensation

STA's cognitive framework refers to the psychological process by which a societal member makes sense of the world in which he/she operates and this includes the relative importance that is attached to pecuniary rewards in different cultures/contexts. In U.S. and U.K. corporate contexts for example CEO compensation is an important social comparator of achievements between peers, whereas in other societies (e.g. Asia and France), there are often negative connotations associated to large executive compensation packages, resulting in far lower compensation packages for CEOs in latter contexts (Wiseman et al., 2012). Such cognitive differences are reflective of the extent to which financial rewards predominate as a 'value-metric' in society. Instead, non-pecuniary metrics (e.g. honorary awards and appointments, state recognition, professional recognition and reputation) take precedence over financial ones due to the primacy of social, cultural and other 'public benefit' values, for instance in the arts, culture, poverty alleviation and health sector. Hence, managers may choose to work for the charitable sector due to a 'sense of fulfilment' (a value metric) and a belief that their effort makes a difference to others.[6] In a similar vein, Jobome (2006) inferred that charity CEOs may be 'sacrificing' part of their substantive pay for altruistic reasons (p. 354) because this may be the 'right thing' to do.

Prior literature has partially explored the implications of the cognitive social framework by considering whether non-profit CEO characteristics, including non-profit working experience, influence compensation (Brickley, Van Horn, & Wedig, 2010; Jobome, 2006). However, the findings have been inconclusive for individual features such as tenure, gender, education and experience. Other studies have associated these different characteristics, such as CEO tenure (Brickley et al., 2010; Newton, 2015) and education (Barros & Nunes, 2007), to mainstream perspectives (e.g. agency theory, resource dependence or notions of managerial power, entrenchment and tournament) (Chen, Ezzamel, & Cai,

[6] https://jobs.theguardian.com/article/why-you-should-work-in-the-charity-sector/

2011, Conyon, Peck, & Sadler, 2001). Yet, Jobome (2006) suggests that these CEO characteristics (such as gender, age, tenure and qualification) are not associated to compensation in the U.K. charity sector and contends that these results could be due to a pattern of intrinsic motives rather than extrinsic ones. The altruistic and stewardship perspective of charity leaders may be linked to these intrinsic motives, although Jobome (2006)'s views were based on the absence of significant results for extrinsic motivation-related variables, rather than on the presence of any intrinsic ones. This motivates our focus on the CEO's non-profit experience to proxy for the agent's embedding of a culture/context that privileges non-pecuniary rewards, altruism and the achievement of 'public benefit' as a value-metric. Hence, in line with the STA's cognitive framework, we suggest that CEOs that have worked in the not-for-profit sector will tend to have lower compensation compared to those who joined from outside the sector.

H4: A CEO's working experience in the not-for-profit sector is negatively associated to CEO compensation.

3 | METHODOLOGY

3.1 | Data and sample selection

As reported in other studies (Jobome, 2006; Perego & Verbeeten, 2015), access to U.K. charity CEO compensation data remains challenging. Charities are merely required to disclose the name of the CEO (Charity Commission, 2005), the total charity staff cost and the number of employees whose emoluments fell within particular bands (i.e. from £60,000 upwards). Because not all charities specifically disclose the CEO's compensation, the compensation of the highest-paid staff was assumed to be that of the CEO (Aggarwal et al., 2012; Allen & McAllister, 2018; Jobome, 2006). Data relating to CEO characteristics and trustee board profiles were hand collected from the Charity Commission website, charity websites and board meeting minutes, whereas accounting data were provided by the Charity Commission.

This paper relies on a sample of the largest 240 charities (by total income) classified into seven main sectors.[7] Due to the limited availability and transient nature of information about charity CEOs and trustees on websites, a panel data approach was not possible and the empirical analysis focuses on only one year (i.e. 2012). Arguably, our sample remains sufficiently representative of the U.K. charitable sector because it represents a total income of more than £20 billion and accounted for more than 33% of the total income generated by charities in England and Wales in 2012.[8]

3.2 | Variable measurement

The dependent variable (CEO compensation) is measured by the natural logarithm of total compensation, which comprises total salary and benefits in kind (e.g. bonuses) (Allen & McAllister, 2018, Brickley et al., 2010, Newton, 2015).

In line with our hypotheses, we focus on four independent variables, namely board diversity, the presence of monitoring mechanisms, funding from the government and the CEO's experience in the not-for-profit sector. Specifically, for H1, trustee board diversity is captured in accordance with recommendations of the governance code (Code Steering Group, 2010) and is scored as an average sum of diversity in gender, ethnicity, education and trustee's experience. Similar measures have been used in prior studies (Kang, Cheng, & Gray, 2007; Mahadeo et al., 2012; Ntim, 2015). Each component of board diversity, and supporting references, is summarized in Table 1.

For H2, we use an index to measure the general level of monitoring mechanisms within the board and charity, following the governance code's emphasis on the board exercising effective control and the use of internal financial/management controls and delegation to committees (Code Steering Group, 2010). We capture monitoring mechanisms as follows: (a) the existence of an audit committee to monitor the charity's finances (Charity Commission,

7 https://data.ncvo.org.uk/profile/activities/#more-data-and-research

8 http://data.charitycommission.gov.uk/default.aspx

TABLE 1 Measures of board diversity

Board diversity index	Score[a]	References	Variables
Gender diversity Is there at least one female on the board?	0/1	Chen, Crossland, and Huang, 2016, Ntim, 2015	BGED
Ethnic diversity Is there at least one minority member on the board?	0/1	Carter, D'Souza, Simkins, and Simpson, 2010	BETD
Educational diversity Does the board include more than one educational background band?	0/1	Mahadeo et al., 2012	BEDD
Experience diversity Does the board include more than one experience band?	0/1	Mahadeo et al., 2012	BEXD

[a] 0 = No; 1 = Yes.

TABLE 2 Measures of monitoring mechanisms

Monitoring mechanism index	Score[a]	Reference to prior studies	Variables
Does charity have an audit committee?	0/1	Jobome, 2006	AUCO
Does charity have a remuneration committee or nomination committee?	0/1	Jobome, 2006	RNCO
Is there any financial expertise in the audit committee?	0/1	Jobome, 2006; Mangena and Pike, 2005	FIEX
Is charity audited by the specialist charity sector auditor?	0/1	Lowensohn et al., 2007	SPAU
Does charity have an internal audit function?	0/1	Prawitt et al., 2009	INAU

[a] 0 = No; 1 = Yes.

2012); (b) the existence of remuneration/nomination committee to handle the appointment of trustees and executives; (c) the presence of a finance/accounting expert on the audit committee; (d) the presence of an internal audit function (Prawitt, Smith, & Wood, 2009); and (e) whether the charity is audited by a specialist charity sector auditor[9] (Lowensohn, Johnson, Elder, & Davies, 2007). Refer to Table 2 for items and references.

For H3, government funding is measured by the proportion of funds received from local, central and international aid sources divided by total income. Finally, for H4, we use a dummy variable to measure whether the CEO has had any prior experience working for not-for-profit organizations (i.e. charity, public sector, higher education or non-government organization) (Hamori & Koyuncu, 2015).

In addition, as suggested by NCVO (2014), in deciding the payment for senior staff, a charity may consider the different skills, experiences and competences the organisation needs. Therefore, other CEO characteristics, such as CEO gender, ethnicity, and managerial experience, are included as control variables (Jobome, 2006; Newton, 2015). CEO gender and ethnicity are dummy variables (Brickley et al., 2010, Newton, 2015), whereas managerial experience is measured from one to four (Mahadeo et al. (2012), reflective of the different range of periods of work experience. Finally, we consider organisational-level control variables, including organisational performance measured by lagged programme ratio (i.e. proportion of charitable expenses over total charity expenditure) (Boateng, Akamavi, & Ndoro,

[9] Top four ranking auditors based on number of charity clients (2009–2013), as reported by Charity Financials at http://secure.charityfinancials.com/reports.aspx

2016; Callen et al., 2003); board size, charity size (i.e. total income), charity age and sector of activities (Barros & Nunes, 2007, Newton, 2015, Perego & Verbeeten, 2015). For brevity, a summary of variables and hypothesised relationships is shown in Table 3.

We adopt an ordinary least squares (OLS) multivariate regression approach, and the main model is as follows:

$$\mathrm{COMP} = a_1 + a_2 \times \mathrm{BDIV} + a_3 \times \mathrm{MONI} + a_4 \times \mathrm{GOVF} + a_5 \times \mathrm{CEON} + a_6 \times \mathrm{Control\ variables} + \varepsilon. \tag{1}$$

However, in order to identify which specific diversity factor of the board (Table 1) and particular component of monitoring mechanism (Table 2) have significant impact on CEO compensation, we develop model 2, inclusive of all the components:

$$\begin{aligned}\mathrm{COMP} = a_1 + a_2 \times \mathrm{BGED} + a_3 \times \mathrm{BETD} + a_4 \times \mathrm{BEDD} + a_5 \times \mathrm{BEXD} + a_6 \times \mathrm{AUCO} + a_7 \times \mathrm{RNCO} \\ + a_8 \times \mathrm{FIEX} + a_9 \times \mathrm{SPAU} + a_{10} \times \mathrm{INAU} + a_{11} \times \mathrm{Control\ variables} + \varepsilon.\end{aligned} \tag{2}$$

4 | EMPIRICAL RESULTS AND ANALYSIS

4.1 | Descriptive statistics

Table 4 provides the descriptive statistics for all our variables.[10]

The average CEO compensation amounts to approximately £152,000 in 2012—an increase of 42% over a decade (2001/2002: £107,000) (Jobome, 2006). The average CEO remuneration is lower relative to U.S. NPOs (US$327,212 or the equivalent of £201,436) (Newton, 2015) but higher compared to Dutch charities (EUR95,000, equivalent of £77,383).[11] Significant variations exist within the charity sector, with the highest CEO compensation in 2012 at £855,000. In terms of governance mechanisms, the board diversity score is 0.72, whereas the monitoring mechanisms score is 0.65. This indicates a good engagement with the expectations from the Good Governance Code on gender, ethnicity, education and experience, with almost all boards having at least one female trustee. Although charities appear to have adopted a number of monitoring mechanisms (i.e. audit and remuneration and nomination committees), only 72.5% of audit committee boards comprise a finance/accounting expert and 32.5% of charities rely on one of the top four specialist external auditors. Government funding accounted on average for nearly 14% of total charity income, albeit that some charities are more heavily reliant on government. With regard to CEO characteristics, a significant proportion (76.25%) of CEOs are male, whereas only 2.5% of CEOs are from an ethnic minority. Lastly, 68.3% of CEO have worked in the non-profit sector before their appointment as CEO of their current organisation.

Tables 5 and 6 provide the correlation matrix for Models 1 and 2, respectively. The results show a positive correlation between CEO compensation and board diversity, whereas funding from government is negatively correlated. In addition, the size of charity is positively correlated to trustee board diversity and monitoring mechanisms. The results suggest higher CEO pay for larger organizations or in the case of a more diverse trustee board. Paradoxically, there is a positive association between CEO compensation and monitoring mechanisms. This heightened our attention on the role of monitoring mechanisms in relation to CEO compensation.

4.2 | Results and analysis

Table 7 shows the regression results for the impact of trustee board diversity and monitoring mechanisms (model 1), and results for specific components within each index (model 2) on CEO compensation.

[10] In order to discuss Table 4 findings, compensation, assets/income and board size are expressed in absolute terms. For the regression analysis, the natural log of these figures is used.

[11] Exchange rate available at http://www.exchangerates.org.uk/historical/GBP/31_12_2012

TABLE 3 Description of variables and summary of hypotheses

Acronym variable names		Definition/measures	References	Hypothesis[a]
Dependent variable				
COMP	ln(CEO_COMP)	Natural logarithm of CEO compensation where CEO compensation = salary + bonus.	Newton, 2015	
Independent variables				
BDIV	Board_diversity	Average score across measures (0 to 1)	Table 1	H1 (+)
MONI	Monitoring mechanisms	Average score across measures (0 to 1)	Table 2	H2 (−)
GOVF	Government_fund	Percentage of funds received from governments over total charity income	Newton, 2015	H3 (−)
CEON	CEO_non-profit experience	1 if CEO has background in non-profit organisation; 0 otherwise	Hamori & Koyuncu, 2015	H4 (−)
Control variables				
CGEN	CEO_gender	1 if CEO is male; 0 otherwise	Newton, 2015	+
CETH	CEO_ethnicity	1 if CEO is non-White; 0 otherwise	Brickley et al., 2010	+/−
CMAN	CEO_managerial experience	1 if CEO has 0–5 years working experience in a managerial position; 2 if 6–10 years; 3 if 11–15 years; 4 if more than 15 years	Brickley et al., 2010; Mahadeo et al., 2012	+
PROG	Prior year programme_ratio	Proportion of total charitable expenditures of year $t-1$ over total charity expenditures of year $t-1$.	Boateng et al., 2016; Newton, 2015	+/−
BSIZ	Board_size	Natural logarithm of number of trustees on the board	Newton, 2015	+
SIZE	Charity_size	Natural logarithm of total charity income	Barros & Nunes, 2007	+
AGE	Charity_age	Natural logarithm of charity age	Newton, 2015	+/−
Group 1–7: Charity_sector[b]		1: Culture and Recreation; 2: Education and Research; 3: Health; 4: Social Services; 5: Development and Housing; 6: International; 7: Others	Perego & Verbeeten, 2015	+/−

[a] Expected association with dependent variable.
[b] This item is dummy coded.

TABLE 4 Descriptive statistics

Variables	Mean	Min	Max	*SD*	*N*
CEO_compensation[a]	152.21	41.64	855.00	83.03	240
Board_diversity	0.72	0	1	0.24	240
Gender_diversity	0.97	0	1	0.18	240
Ethnicity_diversity	0.40	0	1	0.49	240
Education_diversity	0.75	0	1	0.43	240
Experience_diversity	0.78	0	1	0.41	240
Monitoring_mechanisms	0.65	0	1	0.28	240
Existence_of_audit_committee	0.83	0	1	0.38	240
Existence_of_remuneration or_nomination_committee	0.68	0	1	0.47	240
Presence_of_financial_experts in_audit_committee	0.73	0	1	0.45	240
Audited_by_Top_4_specialist_auditor	0.33	0	1	0.47	240
Existence_of_internal_audit_function	0.67	0	1	0.47	240
Government_funds	0.14	0	0.99	0.26	240
CEO_non-profit_experience	0.68	0	1	0.47	240
CEO_gender	0.76	0	1	0.43	240
CEO_ethnicity	0.03	0	1	0.16	240
CEO_managerial_experience	2.90	1	4	0.73	240
Total_assets[a]	149,880	301	2,313,674	271,602	240
Total_income[a]	82,956	26,693	738,502	96,432	240
Charity_age	33.18	8	54	16.20	240
Board_size	13.38	4	48	5.55	240
Programme_Ratio	0.90	0.0251	1	0.14	240
CEO_compensation-Group 1[a]	151.45	65	354.4	66.85	18
CEO_compensation-Group 2[a]	167.41	65	265	49.76	44
CEO_compensation-Group 3[a]	219.05	75	855	195.23	19
CEO_compensation-Group 4[a]	131.09	85	195	26.49	37
CEO_compensation-Group 5[a]	145.89	41.64	445	66.66	43
CEO_compensation-Group 6[a]	118.13	65	345	57.55	27
CEO_compensation-Group 7[a]	153.14	65	485	81.23	52

[a] In £000.
N = sample size.

4.2.1 | Hypothesis 1: Board diversity and CEO compensation

The results from Table 7 support H1 in that charity CEO compensation is positively associated to trustee board diversity. This result is in line with STA propositions, namely that in situations involving a heterogeneous number of trustees, the CEO is more likely to be compensated according to his/her ability to find compromise and manage the principals' different concerns (Wiseman et al., 2012). Admittedly, this finding seems at odds with classical agency arguments a more diverse board enhances the monitoring functions of the board and restrains CEO compensation (Lucas-Pérez, Mınguez-Vera, Baixauli-Soler, Martín-Ugedo, & Sánchez- Marín, 2015). However, STA's insights extend this agency

TABLE 5 Correlation matrix – Model 1

	A	B	C	D	E	F	G	H	I	J	K	L
A	1											
B	.17***	1										
C	.17**	.37***	1									
D	−.13**	.11*	.03	1								
E	.01	−.05	.00	.11	1							
F	.09	−.06	−.11	−.07	−.04	1						
G	.01	−.06	−.08	.01	.09	.11	1					
H	.09	.17**	.06	.02	−.10	.12	−.17***	1				
I	−.04	−.04	−.05	.13**	.16**	−.04	.02	.03	1			
J	.08	.15**	.18***	.10	.01	.03	−.02	.04	−.06	1		
K	.44***	.14**	.21***	−.05	.07	−.07	.03	−.03	−.06	−.06	1	
L	.08	−.02	−.08	.05	.03	.06	.01	.02	−.08	.23***	.09	1

Note as Table 6.

thinking by suggesting that within a given social and institutional context (i.e. the U.K. charity sector), trustee board diversity may primarily reflect a variety of ideas and preferences from various principals (i.e. donors, beneficiaries and government) and stakeholders (Newton, 2015; Van Puyvelde et al., 2011) on matters of charity performance, strategy and executive compensation (Benkraiem et al., 2017). This lack of homogeneity is translated in the agent having to manage and political compromises between principals, and thus leading to more efforts from, and compensation to, the agent.

We further explore whether specific dimensions of board diversity are associated to CEO compensation. The results (Table 7—Model 2) reveal that CEO compensation is positively associated with gender diversity and educational diversity. This suggest that specific dimensions of board heterogeneity require more efforts from the CEO to foster cohesion for strategising and decision-making activities (Benkraiem et al., 2017). This also implies that the level of information asymmetry between principals may be more challenging when a board is gender and educationally diverse, requiring more efforts from the CEO, and thereby leading to higher levels of executive compensation. Our findings are also consistent with a few prior studies claiming that the diversity of the board can lead to lower levels of managerial oversight, which in turn impacts CEO compensation (Benkraiem et al., 2017). Overall, although there may be appreciable processual and/or outcome benefits from a heterogeneous board (Murray, 1989; Tuggle et al., 2010), our results highlight that the pursuit of board gender and educational diversity can come at a cost, that is in terms of higher CEO compensation (Buse et al., 2016).

4.2.2 | Hypothesis 2: Monitoring mechanism and CEO compensation

The overall index for monitoring mechanisms, measured by a combination of board and organisational control systems, is not significantly associated to CEO compensation, and H2 is not supported. The results bring in question the capability of these controls, in accordance with Jobome's (2006) earlier findings. When considering the role of specific monitoring mechanisms, Table 7 suggests that the existence of a finance/accounting expert in an audit committee is the only aspect that is negatively associated with CEO compensation. From the STA's perspective, an organisation with a better committee structure (financial expertise) is seen to enhance the level of intermediation and transparency, which dampens agential opportunistic behaviour (Wiseman et al., 2012) as reflected in higher levels in CEO

TABLE 6 Correlation matrix – Model 2

	A	B1	B2	B3	B4	C1	C2	C3	C4	C5	D	E	F	G	H	I	J	K	L
A	1																		
B1	.16**	1																	
B2	–.01	.05	1																
B3	.17***	.11	.19***	1															
B4	.18***	.24***	.13**	.63***	1														
C1	.07	.1	.11	.19***	.14**	1													
C2	.25***	.12*	.08	.26***	.25***	.42***	1												
C3	.03	.15**	.15**	.31***	.17***	.71***	.46***	1											
C4	.03	–.02	.05	.03	.04	.01	.13**	.05	1										
C5	.14**	.16**	.15**	.33***	.27***	.38***	.14*	.36*	–.02	1									
D	–.13**	.07	.14**	.03	.07	.07	.00	–.03	–.01	.07	1								
E	.01	–.03	.00	–.10	–.01	–.07	.09	–.10	.07	–.01	.11	1							
F	.09	–.10	.01	–.03	–.08	–.07	–.01	–.10	–.01	–.15**	–.07	–.04	1						
G	–.01	–.09	.07	–.09	–.11	–.09	–.055	–.07	.01	–.05	.01	.09	.11	1					
H	.09	–.02	.14**	.14**	.11	.04	.06	.10	–.04	.04	.02	–.10	.12	–.17***	1				
I	–.04	.08	.02	–.11	–.04	–.04	–.01	–.02	–.03	–.06	.13**	.16**	–.04	.02	.03	1			
J	.08	.17***	.25***	–.05	.05	.24***	.2***	.02	.08	.05	.10	.01	.03	–.02	.04	–.06	1		
K	.44***	.07	.03	.13**	.15**	.11*	.16**	.15**	–.03	.27***	–.05	.07	–.07	.03	–.03	–.06	–.06	1	
L	.08	.03	.04	–.08	–.04	–.10	.03	–.08	.05	–.16**	.05	.03	.06	.01	.02	–.08	.23***	.09	1

A, ln(CEO_COMP); B, Board_diversity; B1, Gender_diversity; B2, Ethnicity_diversity; B3, Education_diversity; B4, Experience_diversity; C, Monitoring_mechanism; C1, Existence_of_audit_committee; C2, Existence_of_remuneration_or_nomination_committee; C3, Presence_of_financial_experts_in_audit_committee; C4, Audited_by_top_four_specialist_auditor; C5, Existence_of_internal_audit_function; D, Gov_fund; E, CEO_non-profit_experience; F, CEO_Gender; G, CEO_Ethnicity; H, CEO_managerial_experience; I, Programme_ratio (2011); J, ln(board_size); K, ln(charity_size); L, ln(charity_age).

***, ** and * indicate significance at the 1%, 5% and 10% level, respectively.

TABLE 7 Regression results[a]

Independent variable: ln(CEO_COMP)	Model 1	Model 2
Board_diversity	0.27*** (2.7)	
Gender_diversity		0.31** (2.4)
Ethnicity_diversity		0.02 (0.30)
Education_diversity		0.15** (2.05)
Experience_diversity		−0.02 (−0.24)
Monitoring_mechanism	0.08 (0.92)	
Existence_of_audit_committee		0.12 (1.32)
Existence_of_remuneration_or_nomination_committee		0.15** (2.58)
Presence_of_financial_experts_in_audit_committee		−0.21*** (−2.65)
Audited_by_top_four_specialist_auditor		−0.01 (−0.01)
Existence_of_internal_audit_function		0.05 (0.95)
Government_funds	−0.18** (−1.97)	−0.23** (−2.43)
CEO_non-profit_experience	−0.03* (−0.58)	−0.04* (−0.72)
CEO_gender	0.05 (0.92)	0.04 (0.79)
CEO_ethnicity	0.02 (0.17)	0.05 (0.45)
CEO_managerial_experience[b]	0.04 (1.17)	0.05 (1.58)
Programme_ratio (2011)	0.13 (0.79)	0.15 (0.88)
ln(charity_age)	0.02 (0.55)	0.03 (0.68)
ln(board_size)	0.04 (0.56)	−0.01 (−0.06)
ln(charity_size)	0.24*** (7.28)	0.23*** (6.77)
Group_2	0.15 (1.53)	0.09 (0.94)
Group_3	0.13 (1.13)	0.11 (0.92)
Group_4	−0.14 (−1.43)	−0.20** (−1.99)
Group_5	−0.06 (−0.55)	−0.11 (−1.08)
Group_6	−0.3*** (−2.84)	−0.29*** (−2.69)
Group_7	0.01 (0.08)	−0.03 (−0.31)
Cons	6.84 (10.46)	6.93 (10.48)
N	240	240
F	6.94	5.78
Prob. > *F*	0.0000	0.0000
Adj. *R*-squared	29.69%	32.43%

[a] Diagnostic tests (normality, linearity and heteroscedasticity checks) do not indicate any issues in relation to the data.
[b] We attempted alternative tests using the actual years of managerial experience and the results are similar to our reported findings.
***, ** and * indicate significance at the 1%, 5% and 10% level, respectively.

compensation. At the same time, our findings largely concur with Jobome (2006) and this may imply that the existence of an audit committee and other control mechanisms (specialist external auditor and internal audit function) merely represents an institutionalised phenomena of good governance with no discernible influence on CEO compensation. STA also asserts that such instruments of transparency intermediation only provide the 'opportunity' for scrutiny and our contention is that such charity monitoring mechanisms do not seem to be particularly effective.

Finally, the positive association between the remuneration or nomination committee and CEO compensation is noteworthy. The committee's focus is primarily on selecting appropriate candidates and determining reward structures (Conyon et al., 2001) as well as signalling that the charity is adopting a professional approach to the search and compensation design process (Jobome, 2006). Furthermore, the committee may be more adept at assessing CEO performance, and arguably, it may be that constraining executive compensation is a secondary consideration. Hence, this puts into question the view that the committee operates purely as a monitoring mechanism.

4.2.3 | Hypothesis 3: Government funding and CEO compensation

Table 7 reports that government funding is negatively associated with CEO compensation, thereby supporting H3. A higher reliance on government funding signals an increase in pressure and monitoring from the government and its agencies, and is consistent with the STA's notion of political intervention. In a prior study, it was found that the reliance on government support led to reduced discretion in terms of accounting manipulation by charities (Verbruggen & Christiaens, 2012). Furthermore, when NPOs have direct financial relationships with government via grants or contracts, these often require compliance to specific terms and conditions.[12] Because CEO compensation is classed as an administration expense and taking into account the frequent concerns about the rise in non-charitable expenses, CEOs may perceive that there is a higher level of oversight from government agencies, thereby leading to lower agential discretion and CEO compensation (Balsam & Harris, 2014; GuideStar, 2015; NCVO, 2014).

4.2.4 | Hypothesis 4: CEO non-profit working experience and compensation

We also find from Table 7 that the CEO's non-profit working experience is negatively associated to CEO compensation.[13] This result supports H4 and concurs with the view that CEOs who already work in the charity sector may exhibit altruistic behaviours and as such, become less concerned about pecuniary rewards relative to those who have just joined as a CEO (Wiseman et al., 2012). This result supports the previous interpretations on a CEO's altruistic motives in the U.K. charitable sector (Jobome, 2006). Hence, the STA's cognitive framework on the belief, experience and romance of leadership as well as the value-metric of non-pecuniary rewards in the sector significantly impacts the remuneration of CEOs who have previously worked in the sector. Admittedly, the result is only significant at the 10% level but does hint at the relevance of social and cultural factors (i.e. charitable mission and public benefit) on CEO behaviour towards pecuniary forms of compensation.

4.2.5 | Results of control variables

Our results show that CEO compensation is not linked to organisational performance, and this confirms earlier insights by Ballantine et al. (2008) and Jobome (2006). The pay–performance link seems to be weaker in the U.K. non-profit context compared to the United States (Barros & Nunes, 2007; Newton, 2015). Admittedly, the results are based on financial or accounting-based metrics due to the limited and/or challenging nature of defining common non-financial metric for charities involved in different charitable activities. This result also reflects the limited narrative disclosure of CEO compensation on charity annual reports and the absence of details of which indicators (if any) were used to inform the compensation decisions. Charity size is found to be significantly and positively associated to

[12] Diagnostic tests (normality, linearity and heteroscedasticity checks) do not indicate any issues in relation to the data.

[13] https://www.ncvo.org.uk/policy-and-research/funding/what-the-research-tells-us#thecostofthecuts

CEO compensation, and consistent with the view that CEO compensation reflects the complexity of managing large organisations (Aggarwal et al., 2012; Hallock, 2002; Newton, 2015). Finally, the results show significant differences in CEO compensation among charitable sectors. CEOs from social service and international charities on average receive lower compensation than those from other sectors.

4.2.6 | Sensitivity tests

Firstly, we examine whether our results remain applicable when considering the case of CEOs earning compensation that is higher compared to the average compensation in the same charity sector (Jobome, 2006). The dependent variable for CEO compensation becomes a binary variable (named as *Relative pay*), which is coded 1 if CEO compensation is higher than the average in the same sector and 0 otherwise. Model 1 and 2 are re-run using a probit regression and our results are consistent with the main tests and support H1, H3 and H4 (not reported for brevity but available on request).

Secondly, we consider two additional proxies to measure charity performance, namely (a) fundraising efficiency ratio (i.e. net of fundraising income and fundraising cost divided by fundraising income); (b) income growth (i.e. change in income from previous year) (Boateng et al., 2016, Newton, 2015, Perego & Verbeeten, 2015). The results (also available on request) reveal similar findings, that is no significant association between organisational performance and executive compensation. In addition, we also considered whether the interaction between board diversity and organisational performance (measured by programme ratio) is associated to CEO compensation but there was no significant result.

5 | OVERALL DISCUSSION AND CONCLUSIONS

This study sought to examine the factors associated to CEO compensation levels in U.K. charities, with an emphasis on trustee board diversity, monitoring mechanisms and selected CEO characteristics. On the basis of a sample of 240 large U.K. charities, CEO compensation is positively associated to the diversity of the board (i.e. gender and educational background) and the existence of remuneration or nomination committee but is negatively associated to the presence of financial experts on the audit committee. Compensation is negatively associated to the CEO's working experience in the non-profit sector.

Our results contribute to the limited understanding of the role of governance and principal–agent relations in NPOs (Allen & McAllister, 2018). We address some of the inconsistent findings on the determinants of CEO compensation from prior studies (Balsam & Harris, 2014; Barros & Nunes, 2007; Jobome, 2006; Newton, 2015; Perego & Verbeeten, 2015) by drawing upon propositions of STA (Wiseman et al., 2012). Our study is distinct from prior studies by highlighting how U.K. charity executive compensation levels can be theoretically informed by agency theory as extended by three of the STA's dimensions: 'power relations', 'the institutional environment' and the cognitive framework (Wiseman et al., 2012). The power relations dimension suggests that in the case of charity with a higher diversity of trustees, the CEO is rewarded according to his or her ability to balance the trustees' conflicting objectives and address the information asymmetry concerns of his/her principals. In addition, and although the (residual) ownership concept is not strictly relevant to the non-profit context, funding from government, reflective of a form of political intervention and ownership concentration, constrains CEO compensation. In terms of the institutional environment, STA also contends that the government's transparency intermediation efforts (through accounting regulations and governance code) mitigate agential opportunistic behaviour, therefore constraining CEO compensation. A higher level of intermediation and transparency, which is characterised by the presence of finance/accounting experts on the audit committee, dampens CEO compensation levels. Finally, with regard to the cognitive framework, and in an overall context where altruism and intrinsic motivations are at play (Jobome, 2006), pecuniary rewards are less viewed as part of the 'romance of leadership' in charities, as illustrated by a negative association between the CEO's non-profit work experience and compensation.

In the main, and although STA allows for a broader set of agency-led arguments to explain why some mainstream governance reforms may not always operate as mechanisms of CEO control/oversight, we suggest refining Wiseman et al. (2012) propositions in a context where some principals are neither owners of the organisation nor do they derive any financial residual in the non-profit context. Yet they steer agents in a principal–agent relationship (Van Puyvelde et al., 2011). For instance, significant funding from a powerful principal, such as government, large social foundations or prominent philanthropists, tends to be associated with lower compensation and a more attentive monitoring of the agent, although this may not necessitate a pay-for-performance system.

In terms of practical implications, our findings are informative to a range of stakeholders such as government, regulators, donors and sectoral representatives (e.g. NCVO). There have been recent initiatives following an enquiry into charity senior executive pay and guidance for trustees on setting remunerations (NCVO, 2014) and our findings can guide further reforms on the role of trustee boards in U.K. charities. In particular, the positive association between the existence of remuneration or nomination committees and CEO compensation is in need of careful consideration.

Finally, and although we robustly explored several determinants of non-profit CEO compensation in our study, there are some limitations. There is virtually no comprehensive accounting, governance and compensation data for U.K. charities. There is also insufficient transparency on the design of CEO compensation schemes in the United Kingdom and on all charity sources of income (e.g. private donors). Therefore, an element of bias may arise due to a reliance on available proxies and multiple websites to collect trustee profiles. Moreover, we did not consider the role of board interlocks, network density and more detailed composition of committees in line with the STA's social networks perspective. Lastly, a review of some of the remuneration policies in recent charity annual reports reveals a substantial increase in disclosures. Therefore, to build on our results, future research may consider narratives underlying executive remuneration, the impact of board interlocks and network density and other factors (i.e. funding sources and CEO age) on executive compensation and the explicit role of non-pecuniary rewards/achievements in the charity sector.

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

CONFLICTS OF INTEREST

The authors declare no conflicts of interest.

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