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Exploring the Remuneration ‘Black Box’: Establishing an Organizational Learning Insight into Changing Remuneration Committee ‘Social Worlds’

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Abstract

*Current executive compensation research posits a need to extend analysis beyond principal-agent theory in order to explore the complex social influences and processes implicated in Remuneration Committee (RemCo) decision-making (e.g. Bender, 2007; Kakabadse et al, 2006; Main et al., 2007), particularly given the current uproar surrounding reported levels and structuring of executive remuneration. We respond to this international need by highlighting how innovative organizational learning theorizing can be integrated into further investigations of the remuneration 'Black Box', in order to focus attention upon the nuances of what and how organizational learning takes place in the remuneration process. Additionally, we note the importance of investigating the main actors and particularly their performance of complex roles within their rapidly evolving 'social worlds'. By exploring the organizational learning phenomena implicated in executive remuneration, we argue that practitioners, regulatory bodies etc. can appreciate further the implications of their respective decision-making. **Keywords:** executive remuneration, remuneration committees, organizational learning, social worlds.*

Transcending Principal Agent Theory to Unpack the Remuneration 'Black Box'

The 'Black Box' metaphor has been employed in order to describe the remuneration (compensation) process and has triggered attempts to investigate this process empirically (Bruce et al, 2005; Main et al, 2008; Perkins and Hendry, 2005). It is borrowed from cybernetics, indicating a set of processes of whom the workings are unknown, which Latour (1987) employs to conceptualize how certain phenomena (e.g. a particular piece of equipment, or fact that has been 'established') are treated as *taken-for-granted*s, at least until they appear to fail. What emerges from recent remuneration investigations (Liu et al, 2010;

Ferri and Maber, 2008, Carter and Zamora, 2009) is that there are challenges to the established configuration of remuneration strategies, driven partly by the changing remuneration environment into which these strategies operate.

Remuneration Committees (also known as Compensation Committees in the US) are expected and required to design firm-specific executive compensation strategies that align with corporate strategy, whilst nevertheless effectively incentivizing executives to take (responsible) value-enhancing actions. The necessity of understanding the impact upon RemCo decision-making of such factors as shareholder activism can be seen in particular phenomena identified in extant corporate governance literature (Bender 2007; Spira and Bender, 2004). Calls for more ‘transparency’ and ‘accountability’ in corporate governance reflect how RemCos are under ever-increased scrutiny, yet research reveals how puzzling results emerge in the responses by remuneration decision-makers to their changing context. For example, extant research recognizes the ‘ratcheting up’ of remuneration packages in response to factors such as changing remuneration environments, or the fear of being perceived to drop too far below the median. Clearly, the challenge for RemCos is that they are under pressure to ‘perform’ what is expected and required of them by their intra-organizational stakeholders, such as the dynamic inter-relationships with executive directors (see Adams and Ferreira, 2007 and 2009), whilst under pressure from external bodies who have differing priorities (Walker Review, 2009). The evolving nature of this situation means that the onus is on research to better understand how RemCos themselves are responding to these changes.

Recent regulatory changes – for example, statutory disclosure rules on executive remuneration (Directors’ Remuneration Report regulations, 2002) or the advent of mandatory

adoption of the International Financial Reporting Standards (IFRS) – complexify this situation along with increased shareholder activism internationally – triggered partly by the economic turmoil – manifested in voting down compensation packages (e.g. Royal Dutch Shell, BP, AMEC, GKS, and Bellway etc.). Principal-agent based research suggests how RemCo decision-making is changing in response. Studies into the introduction of IFRS in the UK, which represents a significant accounting regime change in that context post-2005, indicate that the primary impact of IFRS 2 (‘share-based payment’) is reflected in a shift from the use of stock options to performance stock awards at executive director level (Liu et al. 2010)ⁱ. Another example is the response towards the development of Directors’ Remuneration Report Regulations 2002 (DRR). For instance, whilst differing in respect to the degree of its influence, both Ferri and Maber (2008) and Carter and Zamora (2009) agree RemCos are actively responding towards shareholders’ voting dissent. They suggest RemCos increasingly take such dissent seriously, responding to specific shareholder requests by providing a stronger link between pay and performance, findings which can inform research in other countries going through similar regulatory changes.

Given this evidence reflects changing shareholder attitudes towards what constitute RemCo’s ‘acceptable’ and ‘expected’ remuneration strategies, there is a need to investigate the underlying rationales behind the process of RemCos’ decisions and responses of such changes. It thereby supports the call by research world-wide to appreciate further the subtlety of remuneration decision-making (c.f. Bender, 2007; Kovacevic, 2009; McNulty et al, 2005) and the significance of the cognitive, behavioral and affective dimensions of RemCos and their associated actors. This connects with Elkjaer’s (2004) Deweyian understanding of learning, whereby reflective thinking “begins when an uncertain situation is met and humans work to resolve this situation and apply thinking as an instrument in such a pursuit” (Elkjaer,

2004: 420). Therefore, taking an organizational learning approach can complement the traditional accounting principal-agent theory explanations in exploring how remuneration decision-making is shaped. It can throw further light onto developments the implications of calls for increased ‘transparency’ and ‘accountability’ in setting of executive pay, thereby contributing to informed performance by RemCos, their immediate stakeholders and ultimately governance policy.

The recent UK Walker Review (2009) further exemplifies a need for a better understanding of learning issues surrounding the roles of RemCos and non-executive directors (NEDs). Albeit focusing upon the financial sector, its discussions surrounding the role of RemCos and their members indicates the importance of organizational learning in the remuneration process and how governance may extend to other sectors. It (Walker, 2009: 6-9) states that “Good corporate governance overall depends on the abilities and experience of individuals and the effectiveness of their collaboration in the expertise...The most critical need is for an environment in which effective challenge of the executive is expected and achieved in the boardroom before decisions are taken on major risk and strategic issues”. Two important messages emerge from the review, firstly the management of dynamic relationships between RemCo and executive directors, as well as between RemCo and other stakeholders. Secondly, it highlights the appropriate balance of skills, experience (and independence) of RemCo members – what they ought to bring to the corporate governance process and what deficiencies must be addressed – placing a premium upon understanding how learning and development can contribute to improved performance. Given the uproar surrounding perceived over generous bonuses, RemCos have to challenge their thinking around these established theories-in-use (Argyris and Schön, 1978). In an unpredictable context, the key

decision makers in the executive compensation process (i.e. RemCos and their members) are increasingly required to justify their decisions and learn how to ‘perform’ in this context.

In order to broaden investigate this executive compensation ‘Black Box’ (Pettigrew, 1992 and Pye and Pettigrew, 2005), we employ an innovative conceptualization of organizational learning as ‘Social Worlds’, which synthesizes two streams of theorizing: ‘learning as acquisition’ and ‘learning as participation’ (Elkjaer, 2004). This particular conceptualization recognizes that RemCos occupy complex relationships between actors, involving internal organizational systems as well as externally inspired regulatory frameworks¹. We do not assume that the presence of organizational learning indicates *inherently* positive outcomes – in which a RemCo’s will inevitably be able to attract and retain executive talent and align with the expectations of shareholders and/or organizational strategy, because this is a very complex task in practice. Nevertheless, we argue that an organizational learning understanding highlights the cognitive (as well as behavioral and affective) dimensions implicated in RemCo decision-making as its members grope towards such outcomes. From this, we signpost ways for future organizational learning research to inform the remuneration process. Thereby, we follow attempts elsewhere to draw from other Organizational Behavioral approaches – such as Bender’s (2007) use of motivation theory – to facilitate the shaping of remuneration decision-making by the (conflicting) expectations of the various stakeholders and their responses to perceived changes in their environment.

The case for an Extended Organizational Learning perspective

A number of remuneration researchers draw upon what has been described as the ‘learning as acquisition’ metaphor or a ‘learning as participation’ metaphor (Elkjaer, 2004; Huysman and Elkjaer, 2006). For instance, Roberts (2001) highlights the importance of accountability as

key for ensuring that Board decision-making is optimized wherein “dialogue can reveal the incompleteness of individual thought, and create a synthesis of the interplay of individual differences” (Roberts, 2001: 1563). Here he draws upon what Elkjaer (2004), drawing upon the work of Sfard (1998), describes as ‘learning as acquisition’ of particular dialogic skills, which focuses upon learning as the evolution and challenging of the shared mental models – such as reflected in the Learning Organization movement (c.f. Senge, 1992). Alternatively, others begin to elucidate a different perspective. For example, Kang and Tan’s (2008) social network perspective into voluntary ESO expensing by the US firms, suggests that decisions around whether to voluntarily expense ESO grants depends on boards of directors’ social learning and relational influences amongst interlocked organizations. This begins to engage with what Elkjaer refers to as a ‘learning as participation’ metaphor, which is most obviously found in the ‘practice turn’ and the negotiation of realities within communities of practice (Lave and Wenger, 1991; Orlikowski, 2002), wherein ‘knowing’ is seen as a form of social realization implicated through distributed practices that can transcend traditional organizational boundaries (Gherardi, 1999: 111).

However, Elkjaer (2004) demonstrates that synthesizing *both* the dialogic-focused and practice-focused approaches reveals those ‘social worlds’ in which actors contribute to their collective sense-making, because organizational learning “is a combination of skills and knowledge acquisition (product) and participation in communities of practice (process)” (Elkjaer, 2004: 429) and recently others have explored the connections between both product and process (e.g. Geiger, 2009; Saka-Helmhout, 2010). Looking at the ‘social worlds’ of RemCos reveals how they are embedded within a network of relationships. They are charged with a set of decision-making duties; they have complex series of goals addressing simultaneously a number of stakeholders in order to persuade them that i) their decisions are

made on a ‘rational’ basis and that ii) they are performing in a ‘competent’ and ‘responsible’ manner; all within a fluxing remuneration context of regulatory changes, shareholder activism and uncertain economic climate. Failure of RemCo members and associates to comprehend the implications of these factors could result in their failure to effectively provide the challenging role identified as vital for ensuring risk management in remuneration strategies (Bender and Spira, 2004; Walker, 2009).

What do we mean by learning and how is it achieved?

Reviewing extant corporate governance literature highlights the complexity of RemCos’ role and how their decision-making processes have to be better comprehended. The importance of open dialogue, especially the facilitating role of both Chairmen and CEO has been established internationally (e.g. Kakabadse et al, 2006). The impact of increasingly complicated accounting standards (e.g. compliance with IFRS 2) along with heightened stakeholder pressure within and beyond the organization – necessitates critical ‘higher level’ learning by RemCos (Argyris and Schön, 1978), because they challenge the extant routines that have emerged in what has been (especially in the UK) a ‘light touch’ regulatory culture (Main et al, 2007).

This supports the ‘learning as acquisition’ focus upon developing synergistic dialogue through dispassionate inquiry into deeply held assumptions – to avoid pathological decision-making (Burgoyne, 1995; Neck and Manz, 1994). Roberts (2001) envisions critical dialogue as enabling RemCos to align compensation strategies with overall strategy and key stakeholder expectations. NEDs have to play a sensitive role here because “such open communication draws people into a deeper sense of their relatedness to each other” (Roberts, 2001: 1554), as interactions between executive and NEDs are “a learning process in which

dialogue can reveal the incompleteness of individual thought, and create a synthesis of the interplay of individual differences” (Roberts, 2001: 1563). Dialogue, Roberts argues, can be crucial because it has “the potential to contribute to strategic thinking and thereby make a more positive and extensive contribution to firm performance than that implied by agency theorists’ narrow conception of board monitoring and control” (Roberts, 2001: 1561-1562). This accent upon a Habermasian ‘communicative rationality’ has been applied elsewhere into boardroom decision-making (O’Donnell and O’Regan, 2006): investigating the implications of information clarity, access to timely information, etc. It also links to recent calls for increased gender diversity in RemCos and at corporate level to provide a diversity of voices with differing opinions, thereby facilitating critical reflection to take place in the decision-making process (Singh, 2007).

Indeed, the ethos of recent regulatory recommendations mirrors such a belief in the idealism of transparent and open dialogue – connecting with the principal-agent worldview of the remuneration process. In this way, the ‘product’ of organizational learning becomes skilled and knowledgeable NEDs who better comprehend their actions and become reflective practitioners (Elkjaer, 2004). Indeed, organizational learning here is not merely pertaining to formal Training, but also informal or incidental learning (Antonacopolou, 2001; Watkins and Marsick, 2001).

However, extant theorizing also reveals how the actors in the remuneration process have formal ‘roles’ codified through governance rules and recommendations as well as complex informal situated practices (e.g. Kakabadse et al, 2006; Perkins and Hendry, 2005). This connects with the ‘learning as participation’ perspective, which focuses upon the constant negotiation of meanings and how individuals (and teams) become encultured as part of this

negotiation (Brown and Duguid, 1994). Here this metaphor allows us to consider the tacit knowing required, for example, to maintain RemCo cohesiveness, or to negotiate artfully with a main board and their consultants. For instance Perkins and Hendry (2005: 1459) point out that RemCo members “are acutely aware of the principal-agency problems they have to negotiate but the ambiguities and weaknesses of their role, coupled with imperfect performance-reward data, do not allow for an easy or obviously satisfactory resolution of these. The workings of a market in executive pay are fatally undermined by the social realities”. Essentially, critics (e.g. Garratt, 2003; Higgs, 2003; Pass, 2006) argue that NEDs can find difficulties in participating fully – remaining instead on the *periphery* of the compensation process. This is an area of concern, given the greater scrutiny given to the outcomes of RemCos decision-making. Here the notion of ‘legitimate peripheral participation’ (Lave and Wenger, 1991; Wenger, 2000) is useful to conceptualize the extent to which individual RemCo members are able to participate within the committee as a community of practice with other key actors, such as CEO and company secretary, who may be involved for part of the decision making process.

However, we must be cognizant that both organizational learning approaches have well-known deficiencies: particularly in their conceptualization of power relations. Critics of the ‘acquisition’ approaches warn of unrealistic assumptions of the power of dialogue: what scholars of rhetorical dialogue describe as a ‘strong form’ of *dialogic rationalism* (Myerson, 1994). Hence, whilst agreeing that dialogue can form an important dynamic in the remuneration process (Roberts, 2001), we also caution against assuming the inherent benefits of dialogue as an objective phenomenon whose mere presence automatically leads to improved performance. Instead, as others have argued, dialogue can be understood as a subjective process of social constructing shared realities – whereby particularly influential

players can “reaffirm their intention to make rational progress towards a desired future, espousing certain socially accountable behavior” (Nicolini and Meznar, 1995: 741). This is particularly significant given the confusing picture suggested by current research, which suggests that RemCos and other professions are still to fully understand and evaluate the impact of the new accounting standards (e.g. IFRS) and have yet to establish ‘shared realities’ about ‘socially accountable behavior’ in this changed regulatory environment. Secondly, critics of the ‘participation’ metaphor denote the lack of clarity surrounding how learning emerges from the participation within the community, with similar concerns surrounding the power relations within these communities (e.g. Contu and Willmott, 2003; Huysman and Elkjaer, 2006; Roberts, 2006).

In addition, as Roberts’ earlier description of the ‘sense of relatedness’ and dialogue suggests, appreciating the content of organizational learning needs to encompass not only the rational and cognitive, but also the affective. Indeed, Vince and Saleem (2004), amongst others have noted, learning requires and is constituted by the affective as well, particularly as the presence of fear in organizational cultures can militate against a ‘reflective culture’ (Vince, 2002). Elkjaer (2004) highlights here the aesthetic dimension of the Deweynian conceptualization of experience, when inquiry is stimulated by unexpected events which disturb hitherto habitual actions. She notes that this conceptualization of experience “stresses body, emotion and intuition as crucial parts of organizational learning” (Elkjaer, 2004: 429). Indeed, linking back to how power relations can be overlooked in the other two metaphors, she argues that the ‘social worlds’ metaphor “opens the eye to see that participation not only involves the strive for harmony but due to the focus upon the making of participation through commitment, it opens the vision for the emotional elements of organizational life and work – to tensions and conflicts reflected in the different commitments to organizational activities”

(Huysman and Elkjaer, 2006: 8). This is pertinent to understanding RemCos and their experiences as they engage with difficult and taxing relationships with other stakeholders (c.f. Carter and Zamora, 2008; Ferri and Mabey, 2009; Spira and Bender, 2004).

Therefore, when we talk of ‘learning’ rather than merely describing an objective entity, a critical aspect of organizational learning is therefore *who* is participating in this process of reflective dialogue and how their actions and reactions influence this ‘flow of meaning’ (Isaacs, 1993). What also leads on from this is understanding *where* we should look at learning taking place – significant when we consider the complex set of relationships between these actors that research has revealed in recent years (Ezzamel and Watson, 1997; Lincoln et al, 2006; Main et al, 2007; Pass 2006).

Questions of Who and Where organizational learning Takes place

Given the critical remarks made about the performance of RemCos in the light of the increased scrutiny placed upon the decisions that they make, critical questions arise as to who is implicated in this dialogic constructing of reality takes place? Indeed, whom do we mean when we refer to the ‘performers’? For instance, do we look simply at individual performance and possibly ignore the impact of collective relations? Recent corporate governance research reveals a complex set of relationships between them and other actors (c.f. Main et al, 2007; Spira and Bender, 2004) – of which the following are an illustration:

- The involvement of consultants (internal and external): their selection and independence of consultants – and when/ whether the latter meet privately with the RemCo.
- The presence of HR/ Reward Director or Company secretary as adviser

- The advisory relationship of RemCos with shareholders (especially with institutional investors)
- Changing senior management: particularly when new CEOs decide upon transformational changes of strategy, structure and culture.

One focus could be upon the individual actor within the RemCo – because, as noted above, the ‘acquisition’ metaphor is associated with dialogic capabilities of members within groups, wherein the concept of ‘reflective practitioner’ and how managers can develop their reflective skills can be of benefit for improved decision-making (Schön, 1983). Indeed, dialogic RemCo research focuses upon particular individual relationships, such as those within the Board (O’Donnell and Regan, 2006). However, there is scope to extend this analysis across boundaries to incorporate collective extra-organizational collective stakeholders as well: especially given the evidence of escalating belligerence of institutional investors, as well as pressure groups purporting to represent shareholder concerns, which is impacting upon RemCo decision-making (c.f. Bender, 2007).

There is also a need to appreciate what is involved for RemCos (and their members) when they actually perform their ‘roles’. NEDs have been dismissed as ‘potted plantpots’, contradicting the idealistic vision of their role as encouraging and indulging in critical reflection (c.f. Froud et al, 2008). Furthermore, empirical research reveals that the idiosyncratic nature of their roles. For instance, when investigating different organizations in more detail, researchers find that (Kakabadse et al, 2006) there is not necessarily a consistent ‘role set’ for Chairman, CEO, etc. In addition, different remuneration regimes across the world can influence the nature of the relationship between RemCos and other actors (Adams and Ferreira, 2007; Adams and Ferreira, 2009) indicating the *situated* nature of performing

(Lave and Wenger, 2001) within the context of a particular board, influenced by specific national and cultural variations in cultures and governance structures.

As Main et al. (2007: 7) emphasize, RemCos decision-making is multifarious – having to balance the incentivization of individual executives whilst ensuring that the latter deliver the organizational strategy, meaning that the RemCo “finds itself tasked with a prime responsibility of remedying or ameliorating the principal agent problem of incentive alignment for members of the top management team”. This raises questions surrounding how the current RemCo actually perform these tasks and manage the expectations made by the other stakeholders. Spira and Bender (2004) depict a very complex vision of the corporate governance roles that NEDs play: with overlapping membership of audit and remuneration committees creating potential tensions between strategic and monitoring roles, and the ‘performance’ and ‘conformance’ aspects, which empirical evidence suggests is far more intertwined than previously thought (Main et al, 2007). Ezzamel and Watson (1997) highlight how NEDs have to perform two differing roles as both supervisory and managing the remuneration packages. Others (e.g. McNulty et al, 2005) envisage a balance between external accountability (i.e. written representations of corporate conduct) versus internal accountability (i.e. the challenging dialogue through which NEDs ensure their own confidence in the corporation’s conduct) or what is described as NEDS providing ‘comfort generation’ (Spira, 2002). This supports the need for a wider range of theoretical frameworks than simply principal-agent theory – to understand how actors such as NEDs perform complex multiple roles in the face of conflicting pressures with knowledge bounded by manifold expectations and agendas.

Noting above how the focus could be solely upon the individual's reflective skills, an issue for research is to further investigate *where* RemCos and NEDs learn to perform. Extant research has explored formal and informal relationships – such as in board induction (c.f. Long, 2008) suggesting that RemCos are situated within a complex network of relationships. Certainly, evidence from extant investigations of the role of RemCos indicates a need for establish how organizational learning transcends formal functional and organizational boundaries, emergent interest in inter-organizational learning provides a fruitful area of research. For instance, in their exploration of inter-organizational networks, Swann and Scarborough (2005) point out how innovative learning comes from navigating those 'knowledge boundaries' created by specialized practices: such inter-organizational learning being a vital resource for SME's in manufacturing (e.g. Jones and MacPherson, 2006). This could augment extant research into the complex social networks of NEDs, with their diverse membership ties (e.g. Kang and Tan, 2008), wherein NEDs often have multiple memberships on many boards, where they are exposed to different experiences, whilst also pressured to be seen to adhere to accepted 'best practice' by a RemCo's diverse stakeholders (Bender, 2007).

Consequently, we can envisage RemCos and members situated within a **network of relationships**, a complex array of relationships Main et al (2007) – perhaps more in keeping with the idea of a 'constellation' of communities of practice (c.f. Gherardi and Nicolini, 2002), which can be exploited to provide opportunities for sharing knowledge and developing new Remuneration strategies. Of course, these multi-faceted relationships involve trust – and political concerns are an integral part of collective learning in networks. RemCos have a complex set of relationships to manage and what knowledge to conceal or reveal with other actors (e.g. the uneasy involvement of senior management in the compensation process). These are not challenges unique to the remuneration process. In Biotechnology Research &

Development, the networked learning experiences can involve great tensions between collective and individual actors because of the need to balance the alignment of shared understandings, whilst being sensitive to the diverse interests and agendas of the key performers (c.f. Rowe and Smart, 2008, Swan and Scarborough, 2005). These are issues of power and trust in relationships which challenge the customary harmonious description of communities in the ‘learning as participation’ approaches (Huysman and Elkjaer, 2006; Roberts, 2006) – or at least how this research has been somewhat ‘diluted’ in its popularization (c.f. Contu and Willmott, 2003).

To address this lacuna we can explore the concept of ‘space’. Boardroom dynamics research (Kakabadse et al, 2006: 143) emphasizes the vital role of Chairmen creating space “to draw to the surface the diversity of views, feelings and beliefs of each board member”. However, the organizational learning theorizing alternatively extends the concept of ‘learning space’ to show how contested relationships can be a key dynamic of learning (c.f. Antonacopolou et al. (2006) and Rifkin and Fulop (1997). This learning space is represented as a “window of opportunity” – whereby control is relaxed, enabling (at least temporarily) learning through staff are able to feel, think and question existing mindsets. The relationships in this learning space are defined as much by subjective as physical boundaries wherein participants recognize and accommodate differences in interpretations such that “the unique thought worlds of different communities of knowing are made visible and accessible to others” (Boland & Tenkasi 1995: 359), harking back to ‘acquisition’ based organizational learning and their dialogic methodologies. However, the absence of such shared meanings can inhibit innovative learning so there is a premium placed upon meaning creation, how the participants make sense of themselves as performers as well as how they perform within their ‘social worlds’. Indeed, from the social worlds perspective organizations themselves “are arenas of

coordinated collective actions in which social worlds emerge as a result of commitment to organizational activities” (Huysman and Elkjaer, 2006: 7).

Consequently, whilst the ‘acquisition’ organizational learning approach allows a glimpse into the thinking of individual participants and the ‘participation’ focuses upon relationships in communities, the danger of using either approach singularly is to reify either the individual or the (harmonious) collective. Alternatively, the social worlds approach focuses upon the emotional tensions, as well as the harmonies emerging from “the relation *between* individuals and organizations, the unit of analysis is not *either* the individual or the organization but a problematic situation or an organizational event” (Elkjaer, 2004: 427: Emphasis added). Drawing upon ideas from Dewey’s seminal work on experiential learning, Elkjaer (2004) places great emphasis upon understanding the contextual emergence of learning, in terms of the temporal (trajectory) and spatial (conditional matrix) considerations.

Discussion and Conclusions: Signposts for Unpacking the ‘Social Worlds’ of RemCos

In summary, the primary goal of this paper is to support the recent calls warning that over-reliance upon particular theoretical frameworks (highlighting Principal-Agent theory) potentially inhibits future analysis. Above all, it notes the importance of how research can engage explore the emergence of these ‘*taken for granted*s’ – taking into account bounded rationality and how the perceived ‘legitimacy’ of actions shape decision-making (e.g. Main et al, 2008) rather than the ‘rational’ optimization of packages that is a lacuna in the theory of ‘principal and agent’ (Roberts, 2001). Arguably practice is seemingly ahead of theorizing, for as Perkins and Hendry (2005: 1459) point out, directors in RemCos “are acutely aware of the principal-agent problems they have to negotiate but the ambiguities and weaknesses of their role, coupled with imperfect performance-reward data, do not allow for an easy or

obviously satisfactory resolution of these”. Detailed discussions as to the solving of these ambiguities are beyond the scope of this paper, but certainly organizational learning theorizing is useful for engaging with how actors ‘artfully’ negotiate their roles.

We adopt the concept of remuneration process as a ‘Black Box’ and how it is employed to cover issues surrounding the behavior of boards of directors (Perkins and Hendry, 2005; Pettigrew, 1992; Pye and Pettigrew, 2005). However, we do not envisage it as merely a static entity waiting to be defined through a single research methodology, but reflective of a mysterious set of processes (Latour 1987) needing to be engaged with through different approaches. This paper, by drawing upon the organizational learning metaphor of ‘Social Worlds’, has addressed some key issues surrounding RemCos and remuneration in order to signpost a possible route for further investigation of the learning processes surrounding how RemCos (and their members) make sense of their changing environment.

Various factors that can trigger ‘critical inquiry’ (Elkjaer, 2004) in RemCos have been noted. Much has already been made elsewhere about concerns such as unexpectedly finding packages underwater or perilously below market median, as well as changes in personnel and corporate strategy (c.f. Bender, 2007; Kovacevic, 2009). This paper particularly highlights how there have recently been further changes in regulatory environments (e.g. IFRS and DRR) because it places even more of a premium upon understanding how RemCos and their members learn to cope with this changing environment (Liu et al, 2010).

However, investigations reveal that this pressure, rather than providing more objectivity and efficiency, can encourage unwelcome reactions – increasing the poaching of executive talent and pressurizing RemCos to ‘ratchet up’ the size and quality of their remuneration packages

(c.f. Kovacevic, 2009). Clearly, there is scope for future research that engages with why RemCos respond as they do: spotlighting the cognitive, as well as the behavioral and affective dimensions of organizational learning.

The value of the dialogue-focused approaches from the ‘acquisition’ metaphor (e.g. Issacs, 1993; Senge, 1992) is manifested in some remuneration literature’s focus upon developing critically reflective dialogue (O’Donnell and Regan, 2006). However, as we noted above, merely identifying the *presence* of critical thinking – and especially presupposing positive outcomes from such dialogue – is to take a partial view of the complex political maneuverings of the various actors in the remuneration process. Similarly, whilst the ‘participation’ research is still very relevant for focusing upon the situated practices of RemCos and their members within wider communities, this can overlook the *contentious* side of such communities.

Given the merits and demerits of both, this paper follows Elkjaer’s suggestion for a pragmatist view, which focuses upon the inquiry that arises from when habitual practice appears not to work and the through the re-configuration of these social worlds and the implications for establishing identities: individual, group and organizational. Pragmatic theorizing shows how organizational learning research needs to look beyond static reified representations of groups, committees even communities; instead, to focus upon the social worlds of “collective actions and interactions shaped by individual commitment” (Elkjaer, 2004: 428). Learning is both an individual and collective enterprise – appreciating the diversity of ideas, meanings, power bases, etc. that influence and emerge from the action or inaction, commitment or withdrawal, from organizational processes, such as executive remuneration.

Addressing methodological issues, social worlds organizational learning research tends to favor more in-depth, qualitative methodologies (c.f. Huysman and Elkjaer, 2006); however, there is scope for more quantitative based research to trace through network associations (building upon such work as Kang and Tan, 2008). Indeed, the term ‘Black Box’ could be extended to focus upon identifying specific actors (e.g. RemCos as actor-networks of intra and inter organizational relationships). Because of space considerations, this particular paper limits the metaphor of Black Box to the remuneration process itself, we also acknowledge that there is scope for this theorizing to inform organizational learning research in this domain (c.f. Fox, 2000 for a further exploration of actor-network theory and organizational learning). Nevertheless, above all, it is important that future research considers a range of methods in order to engage with the organizational learning complexities of RemCo decision-making. However, we argue that an organizational learning perspective does not replace, but augments not only the established Principal-agent based research but also other OB theorizing, such as motivation theory (Bender, 2007). This position paper develops an argument that suggests that organizational learning theory can provide further insights into phenomena hinted at by principal-agent based research regarding how remuneration decision-makers, especially RemCos, are grappling with the challenge of their changing environments. Significantly, we acknowledge how organizational learning theorizing is itself evolving and by drawing upon recent research used to address similar organizational learning challenges outside of remuneration research, we distinguish what and how organizational learning can be identified as well as where and upon who further research can focus. This is in order to understand its implications for RemCos, their members and significant others and contribute towards more informed performance.

Endnote:

i The European Commission issued the Regulation, EC No 1606/2002, on 19 July 2002 on the application of international accounting standards that require publicly listed firms in European Union (EU) member states to adopt IFRS in 2005, most of which previously applied domestic financial reporting standards. In the UK, prior to 2005/07 no publicly listed firms in the main market/AIM voluntarily chose to adopt IFRS (Cuijpers and Buijink, 2005).

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