EXECUTIVE COMPENSATION, ORGANIZATIONAL CULTURE AND THE GLASS CEILING

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Abstract

This study examines the impact of organizational culture on executive compensation systems. Organizational culture is found to have a strong impact on the relationship between CEO equity compensation and organizational effectiveness. Compensation patterns found in traditional organizations are interpreted to reflect a Managerial Power Theory of executive compensation. In contrast, in positive organizations, the exercise of managerial power appears to be constrained by the internal values of that organization and the need for the leader to maintain his or her authenticity. Female executives who have penetrated the glass ceiling in both traditional and positive organizations are found to contribute to a culture in which executive compensation reflects an Optimal Contract approach to principle-agent relationships for CEOs and shareholders.

Keywords: Organizational Culture, Executive Compensation, Managerial Power Theory

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Introduction

This study examines the impact of organizational culture on the effectiveness of executive compensation systems. While Landsberg (2012) suggested the importance of business culture in determining executive compensation and a large body of literature has focused on organizational culture and organizational performance (Xiaomin and Junchen, 2012; Kotter, J. P. and J. L. Heslett, 2011), little research has looked explicitly at the relationship between culture and executive compensation in organizations.

The purpose of executive compensation systems is to increase organizational effectiveness. Effectiveness may be interpreted as synonymous with the goal of publicly held corporations to maximize shareholder wealth subject to certain social constraints (Freeman and Parmar, 2007). Executive compensation systems are thus directed towards aligning executive compensation systems with shareholder wealth (Balachandran, Joos, and Weber, 2012; Lee and Widener, (2013). This frequently takes the form of equity bonuses whose value depends on the price of the firm's stock (Chng, et. al., 2012).

Executive Compensation Theory

Research has found that higher equity compensation levels for executives do not necessarily enhance shareholder wealth. Martin, Gomez-Mejia, and Wiseman, (2013) have shown that equity based pay affects the risk behavior of executives. The risk sensitivity of equity compensated executives may manifest itself either in undue risk aversion or in excessive and imprudent risk-taking, neither of which outcomes necessarily maximize shareholder wealth. The relationship between executive equity compensation and firm strategy is seen as highly nuanced and complex and dependent on a large of array of institutional and contextual factors (Devers, McNarama, Wiseman, and Arrfelt, 2008; Weisbach, 2007). While the current state of behavioral research on executive equity compensation is inconclusive, this study has focused on the outcome of executive compensation on organizational effectiveness rather than the behavioral factors which lead to that outcome.

The popular and academic literatures on executive compensation suggest that this compensation is often both out of line with organizational performance and outrageously high (Lawler, 2012; Lin, et. al., 2013). A research study by Bebchuk and Fried (2004) suggested that executive compensation systems often fail to accomplish the goal of aligning the corporate and personal interests of executives. The thesis they hypothesized has come to be known as The Managerial Power Theory of executive compensation, which argues that current corporate governance practices distort executive compensation goals because the executives themselves exert direct and indirect influence over their compensation practices (Schneider, 2013). A large body of evidence suggests that executives do in fact exert various types of influences on their compensation packages (Balachandran, Joos, and Weber, 2012; Chng, et.al. 2012; Bebchuk, Fried and Walker, 2002).

Management Power Theory may be contrasted with Optimal Contracting Theory which assumes an arms-length relationship between top executives and the Board of Directors (Dorff, 2005). Compensation thus reflects an exogenous market judgment rather than the endogenous use of personal influence. Optimal Contracting Theory may be viewed from the perspective of "Principle-Agent Theory" in which the principles (shareholders) attempt to get the agents (top executives) to act according to the principles best interests (Allen and Winton, 1995). The basic problem with Optimal Contracting Theory is that the ability to align executive and shareholder interests requires solving significant information and coordination problems which are in fact, so complex that current corporate governance protocols assume away such coordination problems (Hermalin and Weisbach, 2012). Thus, any contract resulting from negotiations between the CEO and the board is, *de facto*, an optimal contract (Cao and Wang, 2013; Weisbach, 2007).

Organizational Effectiveness

This study uses Tobin's q as a measure of organizational effectiveness. While organizational performance has many different facets, an exogenous market-based value for measuring overall organizational effectiveness is provided by Tobin's q, the ratio of enterprise value (shareholder wealth and the market value of debt) divided by book value. Bolton, Chen, and Wang, N. (2011) have shown that the relationship between Tobin's q at the margin determines investment preferences subject to the constraints of capital structure. From an investor's perspective a preference is shown for using Tobin's q consistently used as a good measure of firm performance (Semmler and Mateane, 2012). McFarland contrasted Tobin's q with other measures of corporate performance in a simulation and found that Tobin's q was better correlated with true performance than the accounting rate of return (Stevens, 1990; McFarland, 1988).

Organizational Culture

While this study posits two polar organization cultures, traditional and positive, it is recognized that real world organizations frequently have heterogeneous cultures, embracing elements of both sets of shared values. Nevertheless, organizations may be said to have distinct personalities reflecting a greater or lesser degree of traditional and positive cultures (Reigle, 2013; Bradley-Geist, and Landis, 2012; De Vries, Kets, and Miller, 1986). Differing management styles between traditional and positive organizations and have been found to reflect differing assumptions about the behaviors and values of organization members (Seligman, 2004; Hoffman, et. al., 2011).

An organization may be said to have a distinctive personality reflecting the shared values, norms and ethics of its members. Cameron and Quinn (2011) identify organization personalities within a Competing Values Model that differentiates among organization on the values attached to collaboration, competition, controlling and creativity. Within this context flexibility and control are seen as two differentiated sets of values. Flexibility values encourage individuals to be open to change, and spontaneously adapt and respond to that change to accomplish organizational objectives. Control values presume a stable and predictable environment where a formal adherence to rules and conformance to precedent are the keys to organizational success. French and Holden (2012) found the type of organizational culture impacts both how organizations communicate and how they respond to crisis.

Particularly relevant to executive compensation patterns was the finding of a strong relationship between risk preferences and organization culture (Cooper, Faseruk, Khan, 2013). Kimbrough and Componation, (2009) also found that traditional (mechanistic) and positive (organic) cultures influence enterprise risk management practices.

Traditional Organizations

Culture in traditional organizations is task oriented with decisions made using a technically rational framework characterized by tight worker controls accomplished through a rigid hierarchy, direct supervision and a set of policies and rules designed to limit worker discretion. The culture in traditional organizations focuses directly on the tasks to be completed to achieve productivity—indeed, Frederick Taylor often advocated replacing the "Principles of Scientific Management" with the "Principles of Task Management" (Wrege and Hodgetts, 2000).

The concept of management control is surprisingly amorphous, but as the concept has evolved it may be described as systematically approaching organizational objectives by constraining the actions of individual organization members (Bredma, 2011). The spirit of what control is all about my be found in Frederick Taylor's emphasis on a systematic and detailed solutions to problems of cost reduction (Taylor, 1911; Wrege and Hodgetts, 2000)

Walton (2005) found bureaucratic rule-making relevant to the goals of modern corporations. In bureaucratic organizations rules are more frequently violated when the context of the organization changes and performance suffers (Lehman and Ramanujam, 2009). West and Raso (2013) found rule-making activities intensified among government agencies when outcomes were defined in economic terms. It is axiomatic among organization theorists that a great danger in traditional organizations is that of excessive control or a mismatch of control mechanisms to the organization's environment can damage organizational effectiveness (Liu, Liao, and Loi, 2012); Harris, Harvey, Harris, and Cast, 2013).

In traditional organizations behavioral controls emphasize negative sanctions against undesirable behaviors. Traditional organizations assume people are inherently irresponsible, prefer to be directed, and dislike responsibility (Kopelman, Prottas, and Falk, 2012). This perception of workers creates an approach to management focusing on punishment and limiting worker discretion. (Jacobs, 2004; Lehman and Ramanujam, 2011). These assumptions may be expressed in an autocratic management style which seeks to control worker behavior through the use of tangible rewards such as pay and bonuses as well as through the avoidance of threats and discipline (Bolino and Turnley, 2003). Autocratic leaders in traditional organizations are feared (Liu, Liao, and Loi, 2012; Harris, et. al., 2013).

Positive Organizations

The culture in positive organizations focuses on the emotional state of the workers to accomplish the tasks necessary to accomplish productivity. In positive organizations the goal is to have engaged workers flourish in an atmosphere of proactivity, creativity, curiosity, compassion, hope, and self reliance (Cameron and Spreitzer, 2012; Avey, Luthans, and Jensen, 2009; Bono, Davies, and Rasch, 2012; Seligman, 2011).

Positive organizations focus on developing members who thrive in an environment that calls for personal freedom vitality, self-reliance and creativity. Glynn and Watkiss (2012) have noted the importance of cultural symbols in affirming the behaviors of individuals in a positive organization. Such symbols may be said to have generative potency for individuals that results in enriched collective strengths, virtuous behavior and increased capability. Schein (1988) has found compensation to be an important tacit cultural symbol for determining behavior. This implies that compensation systems in positive organizations have a moral dimension which is not necessarily present in traditional organizations. Thus culture may be expected to influence compensation systems in positive organizations.

A requirement for the creation of positive organizations is "authentic leadership" (Luthans and Avolio, 2003; Dhiman, 2011). Authentic leadership has many facets but the essence of this type of leadership appears to be a leader who is "true" to himself or herself (Avolio and Mhatre, 2012). Such a leader has genuine concern for the well-being of all organization members and is never Machiavellian or false. Authentic leaders are trusted (Mishra and Mishra, 2012). If it may be assumed that individuals are in fact, self-actualizing, then it may be inferred that positive organizations will be perceived by such individuals as good places to work.

The Impact of Organizational Culture

Recent research has found that the state of the organization, as opposed to the traits of individuals in the organization, can play a significant role in promoting desirable outcomes (Kluemper, DeGroot, and Choi, 2013). Barney (1986) suggests that organization culture can be a source of sustained competitive advantage. While it cannot be unequivocally stated that positive organizations will perform better than traditional organizations, the bulk of behavioral research suggests this is so (Wright and Quick, 2009). The most recent research finds that a positive orientation in an organization increases productivity and organizational success (Cheung, Wong, and Lam, 2012). Mussel (2013) found that curiosity, a trait outcome in positive organizations, was positively related to job performance. Further research suggests that when new organization entrants perceive their relationship with the organization as supportive, caring, and entailing positive social exchanges they become increasingly committed to the organization (Allen and Shanock, 2013). Rich, Lepine, and Crawford, 2010) found the job engagement of organization members to be an important factor in job performance.

Methodology

Positive organizations in this study were identified from a data base created to find the "100 Best Companies to Work For" (Moskowitz, Levering, Akhtar, Leahey, and Vandermey, 2013), which was constructed by Fortune Magazine in partnership with the Great Place to Work Institute (GPWI).

Inclusion in this database was based on a score that derived from a company's "Trust Index" and "Cultural Audit" created by GPWI. Employees in 259 firms were randomly surveyed to create a "Trust Index." The survey asked questions related to their attitudes about management's credibility, job satisfaction, and camaraderie in the organization. Two-thirds of a company's total score were based on the results of the institute's "Trust Index" survey. The other third was based on responses to the institute's "Culture Audit", which includes detailed questions about pay and benefit programs and a series of open-ended questions about hiring practices, methods of internal communication, training, recognition programs, and diversity efforts. For the purposes of this study, the top 100 scoring firms by the Great Place to Work Institute were classified as positive organizations. This universe was then paired down to 37 firms by excluding companies domiciled overseas and companies that are not publicly traded corporations.

A comparable group of organizations were then surveyed to determine if they could be classified as traditional organizations. This determination was made through an examination of their current Annual Report for statements that reflected a commitment to a command and control hierarchical management style. Thirty seven such comparable organizations were then identified as traditional. (See Table 1 below.)

This study then further disaggregated traditional and positive organizations by those organizations identifying named female executives. Organizations with female other named executives were selected for further study because an organization having women who have penetrated the glass ceiling may be characterized by a differentiated set of cultural values. SEC rules on compensation disclosure require organizations to name specific executives as organizational leaders in their 10-k reports.

Characteristics of Organizations Studied

As can be seen from Table 1, little difference in the average performance characteristics of traditional and positive organizations surveyed in this study can be found. However the variance within both distributions is large. For example, the range for Tobin's q in traditional organizations was -3.52 to 2.71 while the range for positive organizations was -.45 to 1.51. It may be that systematic differences in organizational effectiveness between the two types of organizations exist apart from central tendencies.

Table 1. Study Organizational Characteristics

	Founder CEO	Named Female Executives	Average Sales ($ Billions)	Average Enterprise Value ($ Billions)	Average Market Capitalization ($ Billions)	Average ROE	Average Tobin's Q	Average P/E
Traditional Organizations Number 37	2	10	20.8	26.8	30.3	18.1	0.90	19.1
			(32.6)	(56.1)	(57.9)	(20.6)	(0.95)	(73.0)
Positive Organizations Number 37	8	11	12.6	21.6	33.9	14.6	0.83	20
			(14.50)	(69.70)	(53.10)	(13.90)	(0.45)	(36.40)

Note: Standard Deviations in Parentheses

Similarly Table 2 shows little difference in the average compensation levels between the two types of organizations. As above, however, the variance within the average is large. The standard deviation for total compensation for CEOs in traditional organizations was $14.939 million and $7.49 million in traditional organizations. The larger variance for CEO compensation in traditional organizations compared to positive organizations may be interpreted to suggest that compensation practices differ between the two types of organization.

Table 2. CEO Compensation Patterns
Traditional and Possitive Organizations

	CEO Cash Compensation	CEO Equity Compensation	CEO Total Compensation
Traditional Organizations			
	$2,555,899	$8,629,998	$11,185,897
	(1,529,773)	(14,522,512)	(14,855,788)
Positive Organizations			
	$2,476,777	$6,959,177	$9,247,869
	(2,015,823)	(6,220,160)	(7,489,775)

Note: Standard Deviations in Parentheses

Analysis

In examining the relationship between executive compensation and organizational effectiveness, we hypothesize a negative relationship between CEO compensation and organizational effectiveness, consistent with most research on this topic (Bebchuk and Fried, 2004:Weisbach, 2007; Dorff, 2005). We will further hypothesize that this relationship does not hold for positive organizations because the power of the CEO in positive organizations is mitigated by an internal value system that would consider excessive compensation a violation of that culture (an internal "outrage" effect).

The model utilized also contains a dummy variable to control for the presence of founding CEOs (1 if present, 0 if not). The reason for this is that founding CEOs often own so much equity in the company, that further compensation is inconsequential. As a result, they take a nominal salary or bonus.

Executive compensation can have a number of different dimensions (Ozkan, Singer, and You, 2012). While the literature distinguishes between fixed compensation in the form of salary and equity compensation resulting from the grant of stock or stock options, this study has found the two measures of compensation highly correlated in both traditional and positive firms. As most of the controversy about executive compensation centers over the equity element of compensation, this study will focus on that variable (Balachandran, Joos, and Weber, 2012; Cao and Wang, 2013; Jensen, 1986).

Assuming the validity of the Management Power Theory for traditional organizations, we hypothesize that CEO equity compensation is negatively related to organizational effectiveness. That is, CEOs in traditional organizations are able to enhance their compensation in spite of the lack of their positive impact on organizational effectiveness. As founding CEOs already have large equity holdings it may be assumed that they are particularly committed to a goal of organizational effectiveness. Consistent with the literature we will also hypothesize that the size of the firm (as measured by sales) will be positively related to organizational effectiveness as a result of increased market power and cost efficiencies consistent with increased economies of scale ((Jensen, 1986; Weisbach, 2007; Lin, Hsien-Chang, and Lie-Huey, 2013). The Return on Equity (ROE) will be used as a variable to control for short-term performance issues.

Thus for traditional organizations:

H(1) Tobin q = a - b1(Founder CEO) –
-b1(CEO Equity Compensation) + b2(Size) +
+ b3(ROE)

H(1) is tested for traditional organizations in Table 3 below. For traditional firms, the presence of a founding CEO and the equity compensation of CEOs exhibit a strong and significant negative relationship to organizational effectiveness. Size was also found to be significantly related to organizational effectiveness, consistent with established research on this topic. ROE was not found to be significantly related to organizational effectiveness, suggesting that this inherently short-term measure of performance is not associated with the long-run performance of the organization as judged by the market. Alternatively an explanation of the absence of a significant relationship between ROE and organizational effectiveness may reflect a market judgment that the earnings on which the ROE calculation have been 'managed" and are not creditable (Louis and Sun, 2011).

These findings suggest that executive equity compensation in traditional organizations is frequently determined by the exercise of managerial power rather than an arms-length principle-agent transaction for all traditional firms.

Table 3. Determinants of Organizational Effectiveness in Traditional and Positive Cultures

	Intercept	Founder/ CEO	ROE	Size	CEO Equity Compensation	R^2	F Test
All Traditional Firms	.990	-.587* (-4.336)	-.005 (-.038)	.359** (2.603	-.310** (-2.144)	.434	6.144
All Positive Firms	.617	.159 (.959)	.403** (2.376)	-.047 (-.268)	.002 (.011)	.178	1.730

Linear regression with Tobin's Q as the dependent variable. T values in parentheses.
** significant an p = .01, ** significant at p = .05, *** significant at p = .10, one-tailed test.*

In contrast, it is hypothesized that the negative relationship between CEO equity compensation and organizational effectiveness will not hold for Positive Organizations because concern with the emotional state of organization members acts as a constraint on CEO excesses and CEO compensation is an important symbol of the authenticity of that CEO. It is further hypothesized that ROE will be positively associated with organizational effectiveness because the relationship between short-run performance and long-run performance has more credibility in an organization whose members are fully engaged and personally committed to organizational goals. Size is also expected to be a significant determinant of organizational effectiveness as above.
Thus, for Positive Organizations

H(2) Tobin q = a + b1(Founder CEO) + b1(CEO Equity Compensation) + b2(Size) + b3(ROE)

Table 3 shows that neither the presence of a founding CEO or CEO Equity compensation in positive organizations is significantly related to organizational effectiveness. While this is not the same thing as the expected significant positive relationship between CEO equity compensation and organizational effectiveness, the absence of the significant negative relationship found in traditional firms does suggest that positive organization culture does exert a mitigating influence on executive power.

Table 3 also shows ROE to be significantly and positively related to organizational effectiveness in Positive Organizations. This is interpreted to reflect a market belief in the validity of reported earnings in organizations where individual members are not passive automatons doing as directed, but actively engaged individuals committed to organizational goals. The absence of a significant relationship between size and organizational effectiveness, suggests that the *gestalt* found in a positive organization is more important to organizational effectiveness than the power conveyed by market share or cost efficiencies contingent on size.

It may be concluded from the results of Table 3 that the Managerial Power Theory of executive compensation in traditional organizations provides a more likely explanation of executive compensation patterns than Optimal Contract Theory. It may also be inferred from Table 3 that organizational culture in positive organizations can act as a constraint on the power of the CEOs to determine their compensation.

The Impact of Named Female Executives

A further line of inquiry in this study is the impact of named female executives in an organization on the effectiveness of that organization. It is not hypothesized that the mere presence of female executives increase organizational effectiveness, but that the presence of those named female executives says something about the nature the organization's culture and how that culture affects organizational effectiveness. If the presence of female named executives reflects cultural characteristics of an organization that enhance organizational effectiveness it may also be expected that their presence impacts the relationship between executive compensation and organizational effectiveness because an organization's culture itself affects executive compensation patterns. Therefore we hypothesize for traditional organizations without named female executives:

H(3) Tobin q = a - b1(Founder CEO) – b2(CEO Equity Compensation) + b3(Size) + b4(ROE)

And for traditional organizations with named female executives

H(4) Tobin q = a + b1(Founder CEO) + b2(CEO Equity Compensation) + b3(Size) + b4(ROE) + b5(Female Executive Compensation)

These hypotheses are tested in Table 4 following.

Table 4. Determinants of Organizational Effectiveness In Traditional Firms with and without Named Female Executives

	Intercept	Founder/ CEO	ROE	Size	CEO Equity Compensation	Named female Equity Compensation	R^2	F Test
Trad. Firms W/O Named Female Exec.	1.292	-.767* (-5.313)	-.421** (-2.267)	.644** (3.612)	-.542** (-3.348)		.610	8.598
Trad. Firms With Named Female Exec.	.820		1.267 (1.633)	.205 (.118)	-.662 (-.790)	.789 (.466)	.396	.820

Linear regression with Tobin's Q as the dependent variable. T values in parentheses.
** significant an p = .01, ** significant at p = .05, *** significant at p = .10, one-tailed test*

It can be seen from the results presented in Table 4, that even in traditional organizations the presence of named women executives changes the relationship between executive compensation patterns and organizational effectiveness. In traditional organizations without named female executives the negative relationship between the presence of a founder CEO and CEO equity compensation that was found in Table 3 continues, but the association or ROE with organizational effectiveness is found to be both strong and negative. This negative relationship may reflect a market suspicion that earnings have been managed. Size continues its positive association with organizational effectiveness and ROE continues to be negatively related to organizational effectiveness. As above, this may be interpreted as a strong confirmation of the Managerial Power Theory because CEO compensation is able to rise above the consideration of short term performance indications.

In testing H(5) when named female executives are present in traditional organizations, the negative relationship between CEO compensation and organizational effectiveness disappears, as does the relationship between organizational effectiveness with size and ROE. Certainly, there is something about a culture which sanctions the presence of named female executives which constrain the exercise of CEO power to influence their own compensation. One interpretation of this state of affairs is that such a culture is more rational than a culture without named female executives. This would be because the market is gender neutral with respect to executive ability and the presence of females above the glass ceiling testifies to that rationality. The absence of a significant relationship between ROE and Size and organizational effectiveness may provide further evidence of that rationality. This may mean that executive compensation is more reflective of Optimal Contracting Theory in organizations with named female executives present.

In testing H(5), for positive organizations without named female executives the impact of named female executives on the relationship between organizational effectiveness and executive compensation would be expected to be even greater than found in the testing of H(4). Therefore we hypothesize for Positive Organizations without named female executives

H(5) Tobin q = a + b1(Founder CEO) + b2(CEO Equity Compensation) + b3(Size) + b4(ROE)

This hypothesis is tested in Table 5. Table 5 confirms the results of Table 3 for positive organizations without the presence of female named executives. No systematic impact may be found between organizational effectiveness and the presence of a CEO founder, ROE, Size, or CEO Equity Compensation. All of which may be interpreted if not as support for the presence of an Optimal Contract paradigm in the organization, the absence of a system where executive compensation is self-determined.

Based on the above findings it would appear that the strongest case for an Optimal Contracting Theory of executive compensation would be made in positive organizations with named female executives.

This hypothesis is tested in:

H(6) Tobin q = a + b1(Founder CEO) + b2(CEO Equity Compensation) + b3(Size) + b4(ROE) + b5(Female Executive Compensation)

Table 5. Determinants of Organizational Effectiveness
In Positive Firms with and without Named Female Executives

	Intercept	Founder/ CEO	ROE	Size	CEO Equity Compensation	Named Fmale Equity Compensation	R^2	F Test
Positive Firms W/O Named Female Exec.	.810	.119 (.563)	.290 (1.355)	-.106 (-.508)	-.146 (-.705)		.150	.925
Positive Firms With Named Female Exec.	-.185	.857* (4.238)	.912* (4.468)	-1.114** (-2.964)	.526*** (2.339)	1.096** (3.052)	.880	7.339

Linear regression with Tobin's Q as the dependent variable. T values in parentheses.
** significant an p = .01, ** significant at p = .05, *** significant at p = .10, one-tailed test*

As can be seen in Table 5 above, the testing of H(6) provides strong evidence for an Optimal Contract Theory of executive compensation. Both the presence of a founding CEO and CEO Equity Compensation are significantly and positively related to organizational effectiveness. The essence of Optimal Contract Theory is that CEO compensation is tied to organizational performance. In H(6) that relationship is clearly seen. The fact that ROE is also positively related to organizational effectiveness can be taken as further evidence of the rationality which pervades the positive organization. The negative relationship between size and organizational performance can be interpreted to mean that the power of engaged, flourishing individuals who are committed to the success of the organization are more important to performance than any legacy attributes of the organization.

Conclusion

Executive compensation in an era of economic turmoil remains a socially contentious issue. The argument can be made that executive pay merely reflects the market valuation of a scarce resource. What appears to be excessive compensation for such executives is said to reflect the value of a very scarce resource. That executive compensation represents an optimal contract between a CEO and the shareholders.

Alternatively, it can be argued corporate executives have effectively contravened the underlying framework of corporate governance and unjustly enrich themselves through the exercise of their power at the expense of shareholders and society. Under vthese circumstances, executive compensation can be explained by the exercise of raw Managerial Power.

This study finds that organization culture can have a strong impact on executive compensation and the conventions surrounding it. Executive compensation in traditional organizations is generally found to reflect the exercise of managerial power. The culture of a positive organization is found to constrain the exercise of that power and to create a more rational and market driven setting for compensation negotiations between a CEO and the Board of Directors which increases the possibility of creating an optimal contract between the CEO and the shareholders. A further finding of this study is that the presence of named female executives reflects cultural attributes in both types of organization that create a setting for an optimal contract between executives and shareholders.

Insofar as executive compensation is seen as a social problem that needs to be addressed, these finding suggest that a top-down approach to executive compensation is unlikely to work as long as the values in the organization are conducive to the exercise of unjust management power. In contrast, a bottom up approach, beginning with the creation of a positive organization in which engaged and committed workers characterized by tacit assumptions of fairness and ethical propriety will naturally limit the abusive exercise of management power.

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