

Liberals, egalitarians, meritocrats, and free marketeers: how business executives view distributive justice

*From the beginning of 2020 it has become a statutory requirement for UK listed companies with more than 250 employees to disclose the ratio of their senior executives' pay to the median, lower and upper quartile pay of UK employees. **Alexander Pepper** and colleagues investigated how business executives view these efforts. Many of these executives recognise that they live in societies which are not just and work for companies which may not have just pay policies. Most endorse pluralistic views of justice that balance considerations of merit with considerations of need. In the end, the researchers found that executives cluster into four groups of approximately equal size in relation to their views on distributive justice.*

Senior business executives are often depicted by the popular press as tough-minded individuals with a winner-takes-all mentality. Because they have worked hard to achieve their professional success they believe that they deserve what they are paid. Others, they imagine, are also paid in proportion to their respective contributions.

But is this really what top executives believe?

In conjunction with [Susanne Burri](#) (LSE's Department of Philosophy) and [Daniela Lup](#) (ESCP Business School), and with the support of PwC, I have been investigating what business executives think about distributive justice. We constructed a unique dataset about the beliefs of over 1000 business executives from around the world. As far as we know, our study is the first to explore the beliefs of high-level business executives in this way.

Our findings indicate that the picture painted by the popular press is much too simplistic and that the actual position is more nuanced. Many executives recognise that they live in societies which are not just and work for companies which may not have just pay policies. Most endorse pluralistic views of justice that balance considerations of merit with considerations of need.

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Welfare liberals

The first cluster, who we call "welfare liberals", believe that people should be rewarded for the contribution that they make to their communities, informed by a belief that this will help to make the worst-off as well-off as possible. They argue that this must be underpinned by a safety net, which guarantees that all members of a community have an income that is sufficient for them to lead a dignified life. This group of executives says things like: "I agree with the principle that guarantees the welfare of all society without exception, always thinking about the dignity of all people, including the most disadvantaged, but also recognising the importance of freedom of choice, equal opportunities, and encouraging talent – we need both"; "those who have more must contribute more to society"; "there must always be the principle of collective responsibility for those who have less – we must act with social responsibility towards our neighbour who suffers a greater degree of poverty, under the principle of 'love for your neighbour'".

Relational egalitarians

The second group, who we call “relational egalitarians”, believe most importantly that all members of a community should have an income that is sufficient for them to lead a dignified life. Equal opportunities are also important – nobody should be at a disadvantage because of the circumstances of their birth or because of brute bad luck. On the other hand, nobody has an automatic entitlement to income or wealth; nor are talent, effort, and personal contribution the main criteria for allocating economic benefits. This groups says: “everyone should have the same benefits and same opportunities – people should have the same educational opportunities that allow them to access jobs with fair payments according to their abilities and desires”; “a society in which wealth inflation can be greater than savings potential on minimum wages will never be just – we need a method that can address this, which makes property and wealth accumulation more accessible objectives for all”; “markets do not work – either in terms of labour or trade – skills in high demand are more easily developed or bought through high cost education or work experience by those with existing wealth or social status”.

Meritocrats

The third group, who we call “meritocrats”, believe that justice in pay is primarily a matter of desert. They argue that some people deserve to receive economic benefits because of their efforts or the demands of the job. But they also believe that equal opportunities are important – nobody should be at a disadvantage because of the circumstances of their birth or because of brute bad luck. They say: “in a society which values contribution, effort, skill and experience, the major focus should be on impact and contribution”; “all people should have opportunities in the job market equally, but their appointment should depend solely on their effort and not on external influences...people should only be promoted on merit”.

Free marketeers

The fourth cluster, who we call “free marketeers”, believe that economic efficiency is the main criterion for determining how income should be allocated. This group mostly closely resembles the image of business executives portrayed by the popular press. They endorse the claim that talented people deserve to receive economic advantages and that everyone should have the opportunity to demonstrate their ability, although their focus is on well-functioning markets and the efficient allocation of scarce resources. These executives say things like: “without the rich, there is no wealth creation”; “I don’t think that income should be redistributed automatically if the recipients of the redistributed income are not willing to contribute to society”; “people will take advantage of redistribution if standards are not set”; “I strongly believe members of society should be motivated to work and that income redistribution removes this motivation”; “let free markets reign! I want a society where people are free to win according to their skills, abilities, efforts, and contributions – I accept that in such a society, there will be some losers”.

Of course, beliefs and behaviours are not necessarily the same. It might appear that there is a gap between the behaviours and beliefs of many senior executives when it comes to questions of distributive justice.

We think that more needs to be done to address pay inequality in the United Kingdom. Companies should be encouraged to think of ways of closing the beliefs / behaviours gap by requiring senior executives to consider their own remuneration in the context of their firms’ overall pay practices, particularly how the least well-off employees are compensated in comparison with the most well-off. It used to be the case that company remuneration policies considered the pay of workers, middle managers, and executives as part of a continuum, with grade bands, pay spines, and job-evaluation applying across the whole spectrum. For further details see my [recent paper](#) with Professor Paul Willman). Executive pay was largely determined by reference to internal labour markets rather than external capital markets. Today executive and all-employee pay is generally decided quite separately, paid from different expense budgets, in accordance with different sets of principles, using different financial instruments, with a significant weighting of variable stock awards in the case of executives compared with fixed cash payments made to other employees. Determining pay by reference to internal labour market relativities used to mean that company top-to-bottom pay ratios were generally smaller and more distributively just than they appear to be today.

The government has the ability to nudge companies to change their policies in this respect. From the beginning of 2020 it has become a statutory requirement for UK listed companies with more than 250 employees to disclose the ratio of the CEO's pay to the median, lower and upper quartile pay of UK employees. But the calculation of these ratios is currently deeply flawed. Companies with highly paid CEOs which also outsource low paid jobs, like banks and real estate companies, have relatively low ratios. Retailers and manufacturers who cannot do this have much higher ratios. Public policy interventions should include reassessing the most appropriate denominator in pay ratios. Consideration should be given to extending the denominator to include all "workers", a broader definition than "employees", encompassing agency and other casual workers as well. Companies should also be required to include non-UK employees in their pay ratio calculations, as is the case in the US: inequality is not solely a national issue.



Notes:

- *This blog post is based on the author's paper [What do business executives think about distributive justice?](#) with Susanne Burri and Daniela Lup, *Journal of Business Ethics**
- *The post expresses the views of its author(s), not the position of LSE Business Review or the London School of Economics.*
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