FORTUNE

LEADERSHIP· CEO SALARIES AND EXECUTIVE COMPENSATION

Skyrocketing CEO pay can lead to huge corporate culture problems and whistleblowing employees

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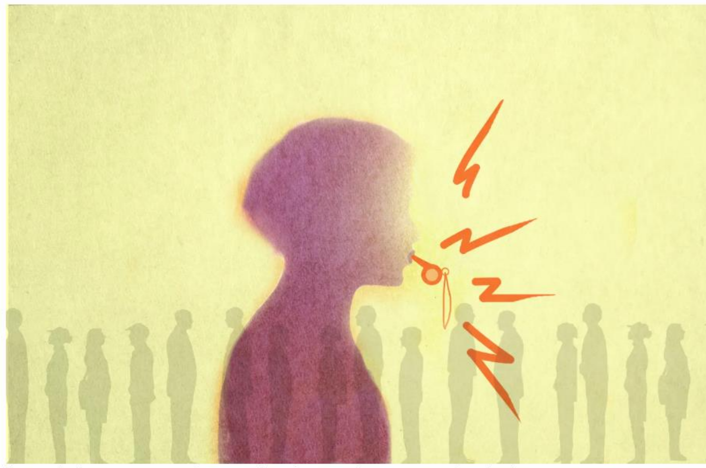

Business leaders must recognize the impact of significant pay disparities on employee loyalty.
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Americans have long been dissatisfied with growing pay gaps between CEOs and employees. Now, researchers say that this tension can generate internal discontent and even increase the likelihood of corporate whistleblowing.

CEO-employee pay disparities erode employee loyalty and lead to greater worker “willingness” to inform on their companies, according to a recent study from researchers at the University of Texas at Dallas. In companies with more significant pay disparities—especially when individuals believed they could find work elsewhere—employees were significantly more likely to report on their companies. The driving force behind that is perceived unfairness, according to Dr. Riki Takeuchi, a professor at the University of Texas and an author of the study.

“We are now more concerned about corporate social responsibility and community,” he says. “Firms who are seen as more sensitive to their impact on their environment or their community are considered to be a much better place to work. This also includes how employees are compensated and how they are being treated.”

The study’s findings are reflected in several high profile instances of whistleblowing. At Boeing, CEO Dave Calhoun was awarded a $33 million pay package while employees allegedly faced mistreatment and retaliation for raising safety and quality concerns. Calhoun was eventually pushed out of the top role after multiple whistleblowers came forward, and the company faced heated Senate hearings last year and catastrophic damage to its reputation and stock price. And in 2022, a former security chief at Twitter accused executives of misleading regulators about security and spam issues. These leaders, the whistleblower claimed, stood to earn tens-of-millions in personal bonuses tied to increasing the number of app users.

The American public widely disapproves of runaway executive pay, despite increasingly large paychecks for top corporate earners. CEO compensation has increased 1,085% since 1978, compared to a 24% increase in average employee pay, according to the Economic Policy Institute. But the majority of adults in the U.S. believe it's important for companies to avoid major pay gaps between CEOs and average employees, according to research from Gallup and Bentley University and Gallup. And two-thirds of Americans say companies are doing a "poor" job of addressing that divide.

There are several ways that CEOs and top executives can mitigate the potential risks of disproportionate executive compensation, according to the Texas researchers. Business leaders must recognize the impact of significant pay gaps on employee loyalty and be mindful not to create massive compensation disparities. And companies should also create well organized internal reporting programs that can actually solve issues so that employees can gain confidence in their own organization's ability to address problems.

As for boards, the researchers suggest that directors hold CEOs accountable for indicators of company performance that go beyond just revenue and profit. That includes things like employee wellbeing and corporate social responsibility.

"One person cannot make the company successful. It's only through the employees, through the workforce that things get done," Takeuchi says.