# Ethical Leadership and Executive Compensation

## Rewarding Integrity in the C-Suite

*Ethics Resource Center*
March 2010

**OBJECTIVE:**

This report answers many questions related to the near-crash of the U.S. financial system. How did it happen? How could it happen? How much of the fault, if any, belonged to weak ethics and ethical culture? From an ethics perspective, what did it mean?

**METHODS USED:**

The ERC Fellows Program devoted its January 2010 meeting in Washington, D.C. to take a closer look at these issues. This report combines the thrust of the speaker's discussions, news reports, comments of other expert observers, and the results from the ERC's 2009 National Business Ethics Survey.

**KEY FINDINGS:**

- CEO pay at the nation's 500 largest firms averaged $10.9 million a year—plus another $364,000 in perks.
- The average CEO earned 319 times more than the average worker in 2008.
- 88% of board members surveyed said that CEO pay is either too high or somewhat high relative to performance.
- CEO compensation at large companies skyrocketed over the past two decades from about $750,000 to more than $10 million annually.
- Leaders directly affect the ethical culture of their company and that culture is the largest influence on employee conduct.
- Among employees with a weak perception of their leaders, 93% said they observed misconduct.
- Among employees with a strong perception of their leaders, 29% said they observed misconduct.

**CONCLUSION:**

- Ethical leadership isn't just about CEO conduct or compensation plans.
- Boards need to focus on ethics and insist on ethical conduct across the business.
- Recommendations for a corporate board:
    - Establish an Ethics Committee of the board
    - Recruit knowledgeable ethics professionals for board seats
    - Call on internal ethics and compliance personnel
    - Establish financial incentives for ethical leadership by the CEO
    - Insist on transparency
    - Consider the issue of pay equity

- Prepare for a return to business as usual

**Full Report**