

Fair Wage: An Analysis of Executive Compensation through the Lens of Catholic Social Teaching

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Abstract

The controversy surrounding executive compensation has received attention in the popular press and in academic literature. We explore executive compensation through the lens of Catholic Social Teaching (CST). First, we discuss fairness of executive compensation through an economic perspective and a Corporate Social Responsibility (CSR) perspective. Next we outline the basic principles of CST and compare and contrast them with CSR. We identify human dignity, in contrast to profit maximization, to be the differentiator between the two. Next, we use CST to develop a model for measuring excessive executive compensation. We then conduct a cluster analysis of our measure of excessive compensation with another CST variable, investment in employees. Lastly, we examine differences in the clusters in regard to environmental performance. In the full sample, we find that firms that pay their executives more excessively invest less in employees and environmental performance to be significantly and positively correlated with excessive executive compensation. This suggests that firms either pay their executives excessively for better environmental performance or use “greenwashing” to distract society from the justice issues of executive compensation. Next, we break the sample into clusters based on excessive executive compensation and investment in employees. Within the cluster that most closely aligns with CST, a greater investment in employees suggests a greater environmental performance; solidarity among people is positively and significantly related to solidarity with the earth. However, in cluster one there is no relationship and in cluster two environmental performance is related to higher excessive executive compensation which is also related to lower investment in employees.