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Original Article

Alignment between executive compensation strategy and business strategy: a study of best practices

Alinhamento entre estratégia de remuneração executiva e estratégia de negócios: um estudo de melhores práticas

Claudia Zarenczansky[I], **Marco Antonio da Costa Sabino**[I], **Mafalda Maria de Medeiros Anderson**[I]

[I] FIA Business School, SP, Brazil

ABSTRACT

Purpose: The main objective of this research is to identify the mechanisms adopted by the boards of directors and compensation committees of the companies listed in the B3 Novo Mercado segment to align the executive compensation strategy with the business strategy.
Methodology: This is an applied and exploratory qualitative research, based on the method of interviews with specialists. Primary data was collected through interviews with board members and/or members of compensation committees with extensive experience in defining and approving executive compensation strategies. For content analysis, a three-level coding technique (open, axial, and theoretical) was applied using Atlas.TI software.
Findings: The results obtained point to an evolution of the proposed theoretical model through the incorporation of subcategories of analysis that emerged from the empirical data collected in the interviews with specialists.
Originality: The main contribution of this study is to point out the facilitating elements and main obstacles to the alignment between compensation strategy and business strategy, from the point of view of the experts involved in the process, and to propose a better practices guide for boards of directors and compensation committees.

Keywords: Executive compensation; Compensation committees; Compensation strategy; Corporate governance; Alignment

RESUMO

Finalidade: O objetivo principal desta pesquisa é identificar os mecanismos adotados pelos conselhos de administração e comitês de remuneração das empresas listadas no Novo Mercado da B3, a bolsa de valores oficial do Brasil, que relacione o alinhamento da estratégia de remuneração executiva, com a estratégia de negócio.

Metodologia: Trata-se de uma pesquisa qualitativa aplicada e exploratória, baseada no método de entrevistas com especialistas. Os dados primários foram coletados por meio de entrevistas com conselheiros e/ou membros de comitês de assessoramento ao conselho. Para a análise de conteúdo utilizou-se a técnica de codificação em três níveis (aberta, axial e teórica), através do uso do software Atlas.TI.

Constatações: Os resultados obtidos apontaram para uma complementação do modelo teórico proposto, através da incorporação de subcategorias de análise que emergiram dos dados empíricos coletados nas entrevistas com especialistas.

Originalidade: A principal contribuição do presente estudo é apontar os elementos Facilitatorrs e principais Obstacles ao alinhamento entre estratégia de remuneração e estratégia de negócios, e propor um guia de boas práticas para conselhos de administração e comitês encarregados da remuneração dos executivos.

Palavras-chave: Remuneração executiva; Comitê de remuneração; Estratégia de remuneração; Governança corporativa; Alinhamento

1 INTRODUCTION

In the context of the capital market in Brazil, the pursuit of high standards of corporate governance led to the creation of the Novo Mercado (NM) listing on B3, Brazil's official stock exchange, in the year 2000. Since then, Novo Mercado has established itself as a segment that brings together companies that voluntarily adopt corporate governance practices in addition to those required by Brazilian law.

The Novo Mercado Regulation of B3 requires that companies listed in this segment must "disclose, in the reference form, in table format, by body, the highest, lowest, and average annual compensation, both fixed and variable, of the board of directors, executive board, and fiscal council, with respect to the last fiscal year"(B3, 2024).

In the study on Executive Compensation and its Impact on Value Creation, authors Lins and Malvessi (2016) examined the relationship between executive compensation practices and value creation in non-financial companies listed on Novo Mercado of B3. One of the conclusions of the research is that in most of these companies, there is a mismatch between the evolution of executive compensation and the economic performance of the companies.

In the report published by PWC and EAESP-FGV, which followed the study, the same authors propose an integrated view of compensation that aligns executive compensation with value creation. According to the authors, the policies, criteria, and amounts of the main components of total executive compensation—fixed salary, variable salary, and benefits should be consistent with each other. Additionally, there should be synergy between the business strategy, management model, and corporate governance structure. On the other hand, the executive compensation strategy should reward behaviors that meet shareholders' interests while also addressing executives' expectations and aligning with the market or external environment (Lins & Malvessi, 2017).

A well-designed compensation strategy has the ability to reward key executives according to the value they bring to shareholders. A poorly conceived strategy, on the other hand, can represent a waste of company resources or produce effects contrary to what is intended regarding the attraction, retention, and motivation of talent (Lins & Malvessi, 2017).

In recent decades, the academic literature on Agency Theory and executive compensation has argued that the compensation of the CEO and statutory directors should be aligned with the company's performance (Holmstrom & Tirole, 1989; Grossman & Hart, 1982; Jensen & Murphy, 1990). According to Agency Theory, compensation programs should be designed to align the interests of managers with those of shareholders. A good relationship between executive compensation and company performance should result in a greater ability to attract and retain more productive executives (Arya & Mittendorf, 2005).

High standards of corporate governance are essential for establishing executive compensation programs that help minimize agency conflicts and reward actions and behaviors that translate into greater value for shareholders. In this context, the role of the board of directors, and more specifically the compensation committee, becomes critical, as they must ensure that the best governance practices are employed in the design, implementation, and management of the executive compensation strategy (IBGC, 2023).

Compensation and/or people management committees are responsible for making well-founded and defensible decisions regarding executive compensation. Governance rules provide a framework within which programs should be designed and adapted to the specific needs of each company (Becker & Gerek, 2016).

One of the main challenges for compensation and/or people management committees is to create programs that are aligned with the organization's business strategy, in a way that promotes the actions and behaviors of executives, which will ultimately translate into the results envisioned in the strategy (Reis, 2021).

The importance of aligning executive compensation with business strategy is justified by three main reasons: (1) different strategies require different reward policies; (2) the relative effectiveness of different compensation policies varies depending on the strategy; and (3) the lack of alignment between strategy and compensation negatively impacts performance (Balkin & Gomez-Mejia, 1990)

To contribute to this study, it was established that the overall objective is to examine the practices of boards of directors and compensation committees of companies listed on Novo Mercado of B3 that aim to align the executive compensation strategy with the business strategy.

To achieve this overall objective, the following specific objectives must be met:

1. Investigate the processes of discussion and approval of executive compensation programs;
2. Identify the best practices of boards of directors and compensation committees in aligning compensation strategy with business strategy;
3. Examine how boards of directors and compensation committees have addressed potential agency problems.

Thus, the research universe assumes companies with a strong governance structure, a characteristic typically found in publicly traded companies that have a board of directors and a committee responsible for executive compensation matters. Consequently, the scope of the research is limited to Brazilian companies listed on Novo Mercado of B3. The selection of specialists who participated in the data collection for this research was based on access and convenience criteria, and therefore, no specific delimitations were established regarding the industry sector or size of the companies.

The experts interviewed in this research are individuals with solid experience in defining executive compensation strategies, such as members of boards of directors and/or committees responsible for this topic in companies listed on Novo Mercado of B3.

2 THEORETICAL FRAMEWORK

2.1 Corporate Governance

One of the main milestones in corporate governance was the OECD's Principles of Corporate Governance report, published in 1999. Driven by the growing influence of organizations on the economies of countries and the well-being of people, this report presented a set of corporate governance standards and guidelines that have been adopted worldwide, including in non-OECD countries (OCDE, 2016).

In Brazil, the concept of corporate governance first emerged in the late 1990s with the creation of the Brazilian Institute of Corporate Governance (IBGC) and was consolidated with the publication of its Code of Best Corporate Governance Practices in 1999.

The development of the code was strongly influenced by the context experienced by organizations in the European and American markets at the time. Its first version primarily focused on the role of the Board of Directors in managing and controlling companies. Subsequent editions presented significant developments, introducing concepts such as ethics, transparency, accountability, fairness, and sustainability (IBGC, 2023). Currently, in its 6th edition, the Code of Best Corporate Governance Practices has broadened its focus on various stakeholders and reinforced the importance of ethics in business (IBGC, 2023).

Corporate governance is defined as the manner in which organizations are controlled and directed through management practices that establish the conditions for the involved parties to adhere to both implicit and explicit rules and make decisions aligned with the company's objectives (Alves & De Oliveira, 2016). In simpler terms, corporate governance can also be described as "a way to make ethics tangible in business life" (Steinberg, 2003, p.16).

2.2 Agency Theory

Since Berle and Means (1932) highlighted the dispersion of corporate ownership and the separation between ownership and management, the central theme of corporate governance has become the agency conflict (Rossetti & Andrade, 2012).

First described by Jensen and Meckling (1976), agency conflicts occur when managers make decisions aimed at maximizing personal gains at the expense of shareholders' interests. Their seminal work, Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure, is considered a pioneering study in the field of Agency Theory within corporate governance.

The conflict of interest between shareholders and company managers, as observed in Agency Theory, highlights a relationship in which each party seeks to maximize its own wealth. The adoption of variable compensation strategies tied to company performance represents an attempt by the owners to align their interests with those of the managers (Nascimento et al., 2013).

Agency Theory emphasizes the distinction between the roles of the "principal" and the "agent" and describes the relationship in which the agent agrees to take on specific responsibilities assigned by the principal, who, in turn, commits to compensating the agent for doing so. However, when the agent's interests conflict with those of the principal, an agency conflict arises. The need to protect shareholders' assets necessitates the adoption of mechanisms to mitigate the costs associated with agency problems (Jensen & Meckling, 1976).

Difficulties in the relationship between the principal and the agent arise from divergent interests, leading to agency conflicts or problems that can impact governance processes. On one hand, the principal seeks to maximize the return on their investment, while on the other, the agent may direct their actions towards self-interest, even if it results in lower returns for the shareholder. This relationship is where so-called opportunistic behaviors are observed (Barney & Hesterly, 2006).

2.3 Board of Directors

The board of directors, from a current perspective, should exercise its duties taking into account: i) the long-term interests of the organization; ii) the impacts caused to society and the environment as a result of the company's actions; iii) the fiduciary duties of its members as guardians of the organization's principles, values, corporate purpose, and governance system (Tricker, 2020).

The literature describes various corporate governance mechanisms, which can be classified as either internal or external to the company (Cremers & Nair, 2005). These mechanisms are necessary to preserve the interests of stakeholders, including shareholders, executives, employees, customers, and suppliers.

Laws and regulations, the corporate control market, and takeover bids are considered the main external mechanisms, while ownership structure and boards of directors are the primary internal monitoring mechanisms (Aguilera et al., 2015).

In other words, the board of directors is expected to not only provide advisory functions but also to monitor and supervise management. In its advisory role, the board examines the direction set by management concerning the company's strategic and operational guidance, aiming to balance potential risks and benefits. This function guides the selection of board members, who are chosen based on their previous experience and knowledge in similar sectors or activities (Larcker & Tayan, 2011).

2.4 Executive Compensation

Regarding the establishment of the compensation strategy for the CEO and statutory directors of publicly traded companies, the literature states that it is the responsibility of the board of directors to define the parameters, criteria, composition of the compensation package, and remuneration amounts for CEOs and statutory directors. A compensation committee, with the support of an external consultant, should consider the short-, medium-, and long-term business strategy dimensions of the company to recommend a compensation strategy that aims at long-term company performance (Steinberg, 2003).

Indeed, the Code of Best Corporate Governance Practices establishes that one of the responsibilities of the board of directors is to define the compensation and incentive policy for the CEO and the executive board (IBGC, 2023).

Creating an executive compensation strategy is not an easy process. The strategy must incorporate and reflect important internal considerations, such as short-, medium-, and long-term goals, budget, internal equity, external competitiveness, and perceived value by executives. At the same time, it must undergo scrutiny by shareholders, regulators, and institutional investors. The articulation and recommendation of an executive compensation strategy that meets all these requirements are the responsibility of the compensation committee, while the board of directors is tasked with reviewing and approving the strategy (Becker & Gerek, 2016).

Establishing a clear relationship between organizational strategy and executive compensation, Chen and Jermias (2014) argue that the impact of executive compensation on company performance varies according to business strategy. The authors demonstrated that executive participation in company results, achieved through the granting of shares or stock options, is more effective for companies pursuing a product differentiation strategy than for those focused on cost leadership, and they outlined the main reasons for this conclusion:

1. They argued that owners of product differentiation companies need to offer larger equity stakes to align the objectives and incentives of their executives;
2. Considering that these companies generally have a larger portion of their assets in the form of intangibles, such as research and development projects, owners exercise greater discretion in their monitoring;
3. Product differentiation companies tend to enjoy better competitive conditions in the market, which discourages behaviors that lead executives to pursue their own objectives at the expense of the business's goals (Chen & Jermias, 2014).

2.5 Relationship Between Compensation Strategy and Business Strategy

The reward system adopted by companies can be classified into two categories. Non-financial rewards constitute the intangible part, meaning they are directly related to social aspects of recognition, such as opportunities for growth and professional development, among others. Financial rewards make up the tangible part of the system, represented by monetary rewards such as base salary and incentives and benefits, which together constitute what is known as total compensation. The determination of the base salary value follows various criteria, such as the complexity of the work and the responsibilities assigned. The base salary and other rewards that are not tied to performance outcomes form what is known as the fixed portion of the compensation (Conte, 2020).

The variable portion of compensation, based on achieved results, includes short-term incentives—such as bonuses, profit sharing, and results-based rewards as well as long-term incentives. This portion of the compensation represents the most significant and strategic element of executive remuneration (Ellig, 2022).

According to Ellig (2022), there are several elements that should be considered and included in the design of an executive compensation strategy:

(1) the various components of the compensation package, such as base salary, short- and long-term incentives, and benefits;

(2) the metrics and standards for performance evaluation, aligned with the business strategy;

(3) current versus deferred compensation, meaning what portion of the incentives will be deferred for future payment;

(4) the interests of stakeholders and the existing regulations;

(5) the role of the board of directors and its compensation committee, which must act on behalf of the shareholders and according to their guidance;

(6) the market in which the organization operates and competes for the best talent;

(7) the type of organization publicly traded, privately held, or non-profit;

(8) any potential changes in the organizational structure;

(9) the business strategy (Ellig, 2022).

Compensating employees appropriately is one of the major challenges that companies in Brazil currently face. Establishing a correlation between each individual's contribution and the results achieved is no easy task. Therefore, the key question that companies are grappling with is: how can they be more attractive than their competitors and ensure access to the best talent? The answer lies in developing a compensation strategy that serves as a tool for the strategic management of the company and promotes the execution of the business strategy (Tonioli et al., 2021).

3 RESEARCH METHOD

The purpose of this study is to understand the processes and decision-making of the compensation committees within boards of directors, with the aim of developing a best practices manual for designing compensation programs that are aligned with business strategy. The research universe assumes companies with a strong governance structure, a characteristic typically found in publicly traded companies that have a board of directors and a committee responsible for executive compensation matters.

Thus, the scope of the research is limited to Brazilian companies listed on Novo Mercado of B3. The selection of specialists who participated in the data collection for this research was based on access and convenience criteria, and therefore, no specific delimitations were established regarding the industry sector or size of the companies.

The experts interviewed in this research are individuals with solid experience in defining executive compensation strategies, such as members of boards of directors and/or committees responsible for this topic in companies listed on Novo Mercado of B3.

To address the proposed research problem, a qualitative exploratory study was employed because it allows for a thorough analysis of the subject under investigation (Malhotra et al., 2005). Regarding the method used, the expert interview method was chosen.

Analyzing the research question: How can boards of directors, through their compensation committees, contribute to the alignment between executive compensation strategy and business strategy? It is evident that the question being addressed is essentially qualitative in nature. The goal is to understand and analyze the phenomenon of board of directors' actions in a detailed manner, prioritizing depth over breadth. These characteristics justify the adoption of qualitative research for the present study

4 OBJECTIVES

Regarding the objectives, the study falls within the exploratory research model as it seeks to study the actions of boards of directors and compensation committees in greater depth (Gil, 2017).

Table 1 – Alignment Matrix

General objective	**To examine the practices of boards of directors and compensation committees of companies listed on Novo Mercado of B3 that aim to align executive compensation strategy with business strategy.**		
Specific Objectives	Describe the processes for discussing and approving executive compensation programs	Identify the best practices of boards of directors and compensation committees in aligning compensation strategy with business strategy	Examine how boards of directors and compensation committees have addressed potential agency problems
Categories of Analysis	Decision-Making Process	Strategic Alignment	Agency Conflicts
Main authors	OLIVA; ALBUQUERQUE, 2007 STEINBERG, 2003 BECKER; GEREK, 2016 ELLIG, 2022	LAHLOU, 2018 BECKER; GEREK, 2016 LARCKER; TAYAN, 2011 BALSAM; FERNANDO; TRIPATHY, 2011	SAITO; SILVEIRA, 2008 BARNEY; HESTERLY, 2006 TRICKER, 2020
Data Collection Technique	In-Depth Interviews with Experts	In-Depth Interviews with Experts	In-Depth Interviews with Experts
Perguntas	1) Based on your experience as a board/ committee member, please describe the process of designing and approving the executive compensation strategy. 2) Overall, how do you evaluate the effectiveness of this process? 3) In your opinion, what changes in the process could make it more efficient?	4) What measures have the boards/committees adopted to ensure alignment between the compensation strategy and the strategic objectives of the business? 5) What other mechanisms do you think could be used to ensure this alignment?	6) What is typically the role of each stakeholder (chairman of the board, board members, independent directors, compensation committee, CEO, external consultants) in the process of designing and approving the compensation strategy? 7) In your experience, what type of influence does the CEO have on compensation decisions? How can boards/committees avoid potential agency conflicts (conflicts of interest between shareholders and management)?
Informantes-chave	Members of boards of directors and/or people committees	Members of boards of directors and/or people committees	Members of boards of directors and/or people committees

Source: Prepared by the author (2023)

For the data collection method, in-depth interviews with experts were used, characterized by loosely structured conversations with individuals who possess knowledge and experience in the phenomenon being studied, with the goal of exploring their perceptions (Malhotra et al., 2005).

The instrument developed for data collection consisted of a semi-structured questionnaire with questions designed to meet the research objectives. The interviews were conducted via videoconference with individuals who have extensive experience and involvement in compensation committees of boards of directors of companies listed on Novo Mercado of B3. The selection of participants, totaling eight experts, was guided by convenience, access, and availability of the individuals identified within the researcher's network, and the interviews took place between September 2022 and January 2023 de 2023.

The theoretical model proposed for the research encompasses the three constructs studied: corporate governance, business strategy, and executive compensation. The categories of analysis were identified during the interviews and considered for the purpose of data analysis.

Table 1 presents the alignment matrix, which details the theoretical model adopted in the research.

5 DATA ANALYSIS TECHNIQUE

The analysis of data collected from the eight interviewed experts was conducted in four stages. In the first stage, a faithful transcription of the interview content was prepared by reviewing automatic transcriptions produced by the digital tool Tactiq® combined with the interview recordings. Each faithful transcription was compiled into a document and then added to the Atlas TI software.

In the second stage, content analysis began using a three-level coding technique open, axial, and theoretical coding which corresponds to the subsequent three stages of the data analysis process. Based on grounded theory, the three-level coding technique allows the researcher to organize the obtained data, structure the categories, understand the relationships between them, and deepen the analysis to develop a theory (Medeiros, Guedes Dos Santos & Erdmann, 2019).

In the first level of coding, known as open coding, concepts, ideas, or opinions emerging from the interviews were identified and coded to find patterns or connections between these concepts. The identification and assignment of codes were carried out using the code manager in Atlas.TI software. Table 2 displays the identified codes related to the analysis categories of the proposed theoretical model, which were linked to quotes found in the interviews, both as specific excerpts and entire paragraphs. Some quotes were associated with more than one code.

Table 2 – Open Coding at the First Level (List of Codes)

(Continued)

Code	Description	Categories of Analysis	Classification
External Consulting	Participation of external consultancy in the committee	Decision-Making Process	Facilitatorrs
Correlation Metrics and Strategy	Correlation between performance measures and the business plan	Strategic Alignment	Facilitatorrs
Culture	Compensation strategy contributes to shaping the culture	Strategic Alignment	Facilitatorrs
Committee Specialist	Presence of specialist/technical expert on the committee	Decision-Making Process	Facilitatorrs
Committee Independence	Presence of independent member on the committee	Decision-Making Process	Facilitatorrs
Mediating Role of the Committee	Mediating role of the committee to avoid agency conflicts/conflicts of interest between executives and shareholders	Agency Conflicts	Facilitatorrs
Quality of Indicators	Quality of metrics/indicators	Strategic Alignment	Facilitatorrs
Committee's Repertoire	Technical expertise of committee members	Decision-Making Process	Facilitatorrs
Committee Size	Small compensation committee	Decision-Making Process	Facilitatorrs
Adoption of Pre-existing Models	Adopting models from other companies vs. creating a model that suits the specific reality	Strategic Alignment	Obstacles

Table 2 – Open Coding at the First Level (List of Codes)

(Conclusion)

Code	Description	Categories of Analysis	Classification
Lack of Space on the Board	Limited space in the board for discussing compensation issues	Decision-Making Process	Obstacles
Disconnected HR Strategy	Human resources strategy disconnected from business strategy	Strategic Alignment	Obstacles
Lack of Clarity on the Committee's Role	Lack of clarity regarding the committee's role	Decision-Making Process	Obstacles
Lack of Strategic Thinking	Lack of long-term strategic thinking in companies	Strategic Alignment	Obstacles
Lack of Regulation	Lack of clear regulation for the committee's role	Decision-Making Process	Obstacles
Lack of Board of Directors' Expertise	Lack of technical expertise on compensation topics within the board of directors	Decision-Making Process	Obstacles
Program Philosophy	Lack of clarity about the compensation program philosophy	Decision-Making Process	Obstacles
Shareholder Interest vs. Strategy	Lack of alignment between shareholder interests and business strategy	Strategic Alignment	Obstacles
Transparency	External member does not have access to strategic information	Decision-Making Process	Obstacles

Source: Prepared by the author (2023)

The second level of coding, or axial coding, involves a technique used to structure and organize the codes identified during open coding. In this technique, the researcher identifies the most relevant concepts from the collected data and then links the codes to the respective concepts, creating a more organized and coherent code structure (Medeiros, Guedes Dos Santos & Erdmann, 2019).

The result of the axial coding translated into a new structure of codes, consistent with the concepts that emerged from the interviews.

The new structure of codes obtained from the axial coding process resulted in a total of ten codes, represented in Table 3 below, in order of firmness and relevance, i.e., higher count of interviews in which they were cited and higher frequency of assignments.

Table 3 – Axial Coding at the Second Level - New Code Structure

Code	Description	Frequency of Assignments	Number of Interviews
OBS - Lack of Expertise on the Board of Directors	Lack of technical expertise on remuneration issues in the board of directors	21	6
FAC- Degree of Specialization of the Committee	Degree of technical knowledge of committee members	12	6
FAC - Mediator Role of the Committee	Mediator role of the committee to avoid agency conflicts/conflicts of interest between executives and shareholders	11	6
FAC - External Consulting	Involvement of external consultants in the committee	7	6
FAC - Committee Independence	Presence of an independent member on the committee	12	5
FAC - Effectiveness of the Metrics System	Well-structured metrics system, consistent with the business plan, and encompassing long-term objectives	15	4
OBS - Lack of Clarity of Assumptions	Lack of clarity in the basic premises of the remuneration strategy, including the program philosophy and specific company characteristics	8	3
OBS – Lack of Space in the Board	Limited space in the board for discussing remuneration issues	5	3
OBS Shareholder Interests vs. Strategy	Lack of alignment between shareholder interests and business strategy	5	3
OBS - Lack of Transparency	External committee member does not have access to strategic information	3	3

Source: Prepared by the author (2023)

The final stage of the data analysis involved the identification and in-depth analysis of the most relevant categories for the research and their correlation with the proposed theoretical model. This process enabled the development of a theory based on the obtained data and a complement to the theoretical model, which includes a set of Facilitatorrs and Obstacles in the definition of corporate compensation strategy.

6 ANALYSIS AND DISCUSSION OF RESULTS

The content analysis of the interviews revealed, through the three-level coding technique, a set of ten codes that demonstrated the highest firmness and relevance due to the frequency with which they were cited by the interviewed experts. Each of these codes represents a facilitating mechanism or an obstacle in establishing a compensation strategy aligned with the business strategy. Furthermore, each code is associated with one of the analysis categories presented in the proposed theoretical model, thereby forming the subcategories of analysis in the complement of the model.

The subcategory of "lack of expertise on the board of directors" emerged from the field research as the most significant obstacle in the process of defining a compensation strategy aligned with the strategic goals of companies. When asked about the main issues faced in the design and approval process of executive compensation strategy, six out of the eight interviewed experts mentioned the lack of technical knowledge and understanding of the various components of an executive compensation program among board members.

The literature shows that, indeed, board members do not appear to have a strong interest in the topic of compensation. This could explain the lack of expertise and understanding on the subject as perceived by the experts. Larcker and Tayan (2011) analyzed the issues that, from the perspective of board members, should occupy more or less space on the board's agenda.

The subcategory degree of specialization of committee members emerged from the empirical data as one of the most relevant. Cited by six out of eight interviewed experts and with a total of twelve mentions, this subcategory addresses the presence of specialists on the committee, either as internal or external members of the company's governance, and was identified as a Facilitatorr in the process of defining executive compensation strategy.

The importance of the remuneration committee's role as a conciliatory and mediatory element between the involved parties emerged from the field research as a facilitating mechanism that helps avoid conflicts of interest between executives and shareholders, known as agency conflicts. Cited by six out of eight experts interviewed and with a total of eleven mentions, the "mediating role of the committee" also emerged as one of the most relevant aspects in the process.

Indeed, this is an important point highlighted in the theoretical framework. Oliva and Albuquerque (2007) observed that the existence of a remuneration and/or human resources management committee composed of independent directors with expertise in human resource management and compensation can mitigate the issues outlined in Agency Theory, minimizing potential conflicts of interest.

The subcategory external consultancy emerged significantly from the empirical data as a facilitating mechanism in the process. Cited by six out of eight interviewed experts and mentioned seven times during the interviews, it suggests that the involvement of external consultancy supporting the committee and the board of directors in defining the executive compensation strategy lends greater reliability to the process.

The subcategory effectiveness of the metrics system received a total of fifteen citations from five of the eight experts interviewed. This subcategory can be explained by the presence of a well-structured metrics system that is consistent with the business plan and includes long-term objectives.

The subcategory lack of clarity of premises can be explained by the lack of definition of the basic premises guiding the compensation strategy, including the philosophy of the program and the specific conditions of each company. These elements are crucial for designing the architecture and policies of compensation.

The subcategory space in the board addresses the limited time allocated in the board of directors' agenda for discussions on the compensation strategy. According to the experts interviewed, this lack of space negatively impacts decision-making in this area.

The subcategory shareholder interest vs. strategy deals with the misalignment between shareholder interests and business strategy. Shareholders often expect immediate profits, while the business plan includes short, medium, and long-term goals that may not translate into immediate returns for shareholders.

In the subcategory of lack of transparency, three experts reported instances where, as external committee members, they did not have access to strategic information crucial for making decisions about the compensation strategy to be presented to the board of directors.

The results highlighted both the Facilitatorrs and major Obstacles to aligning compensation strategy with business strategy. Additionally, the study proposed a refinement of the theoretical model by incorporating the subcategories of analysis that emerged from the empirical data collected during expert interviews. Based on these results, a guide of best practices for boards of directors and committees responsible for executive compensation was proposed.

7 FINAL CONSIDERATIONS

The analysis of primary data obtained from interviews with experts, combined with the theoretical framework study and the researcher's interpretation, resulted in an enhancement of the theoretical model. In this enhancement, each category of analysis was associated with subcategories corresponding to the facilitatorrs and obstacles identified most frequently in the research, as demonstrated in Table 4.

The theoretical model resulting from the research is composed of three categories of analysis. The first category pertains to the Decision-Making Process regarding the compensation strategy. This category includes all issues that emerged from the research and are directly related to the process adopted by boards of directors and compensation committees in decision-making about executive compensation. These issues are translated into the following subcategories: lack of technical expertise on the board of directors, degree of specialization of the compensation committee, presence of external consulting, lack of space in the board, and lack of transparency in the information provided to committee members.

The second category of analysis refers to strategic alignment, which can be defined as the set of elements that make up business and executive compensation strategies. In this category, fundamental issues emerged, including the subcategories: effectiveness of the metrics and indicators system adopted by the company, lack of clarity in the assumptions or philosophy of the executive compensation program, and the often observed inconsistency between the immediate interests of shareholders and the company's long-term strategy.

The third category addresses agency conflicts that may exist between ownership (shareholders) and management (executives). The subcategories that emerged from the interviews and are related to potential agency issues include: the importance of the committee's mediating role in reconciling the involved parties and the need for independence among committee members.

Table 4 – Theoretical Model Enhancement

Categories of Analysis	Subcategories of Analysis	Classification
Decision-Making Process	Lack of expertise on the board of directors	Obstacles
	Degree of specialization of the committee	Facilitator
	External consulting	Facilitator
	Lack of space in the board	Obstacles
	Lack of transparency	Obstacles
Strategic Alignment	Effectiveness of the metrics system	Facilitator
	Lack of clarity in the assumptions	Obstacles
	Shareholder interest vs. strategy	Obstacles
Agency Conflicts	Mediator role of the committee	Facilitator
	Committee independence	Facilitator

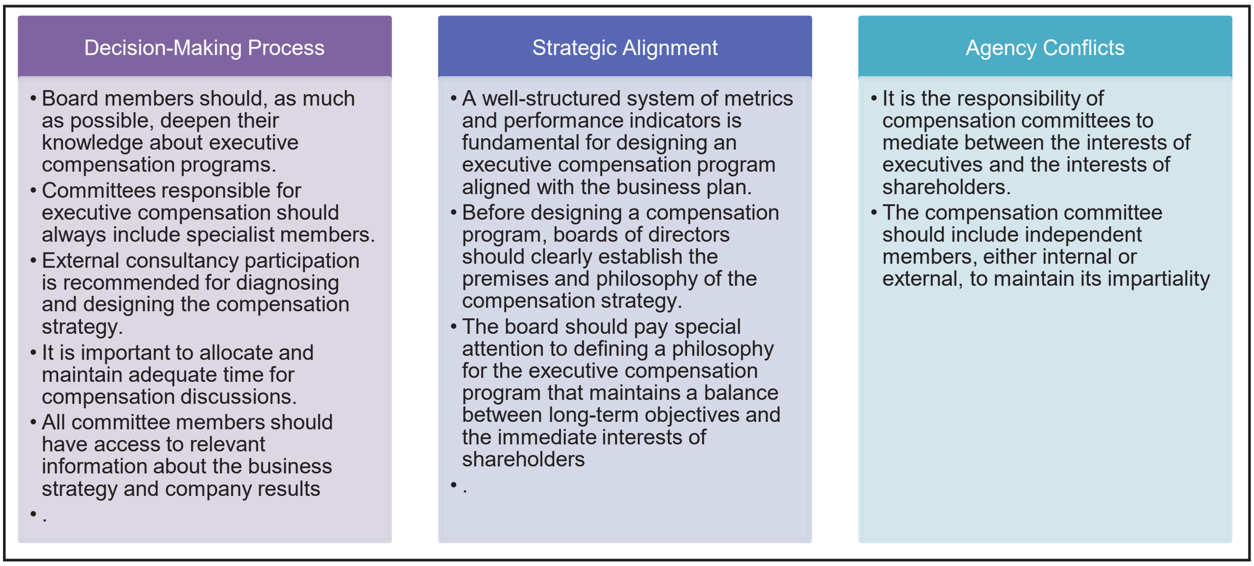
Source: Prepared by the author (2023)

Some categories were identified as facilitators in aligning executive compensation strategy with business strategy, while other subcategories emerged from the research as obstacles to this process.

The empirical data produced from interviews with experts and the researcher's analysis enabled the proposal of a best practices guide for boards of directors and committees responsible for executive compensation. The goal of this guide is to provide practical contributions for companies facing the challenge of creating an executive compensation strategy that effectively supports the achievement of business strategy.

The recommendations of the best practices guide emerged from the facilitators and obstacles identified by experts during the data collection process of the research. These recommendations were organized according to the corresponding analysis categories, as shown in Figure 1 below.

Figure 1 – Best Practices Guide



Source: Prepared by the author (2023)

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Authors

1 – Claudia Zarenczansky

Institution: FIA Business School – São Paulo, SP, Brasil

Mestre em Gestão de Negócios pela FIA Business School

Orcid: https://orcid.org/0009-0004-1299-2796

E-mail: claudia.zarenczansky@gmail.com

2 – Marco Antonio da Costa Sabino

Institution: FIA Business School – São Paulo, SP, Brasil

Pós-doutor em Democracia e Direitos Humanos pela Universidade de Coimbra, Portugal

Orcid: https://orcid.org/0009-0004-2864-645X

E-mail: : marcoac@fia.com.br

3 – Mafalda Maria de Medeiros Anderson

Institution: FIA Business School – São Paulo, SP, Brasil

Mestre em Administração - Centro Universitário das Faculdades Metropolitanas Unidas; MBA

Orcid: https://orcid.org/0000-0002-8158-0144

E-mail: afaldamedeiros@fia.com.br

Contribution of authors

Contribution	[Author 1]	[Author 2]	[Author 3]
1. Definition of research problem	√		
2. Development of hypotheses or research questions (empirical studies)	√	√	
3. Development of theoretical propositions (theoretical work)	√	√	
4. Theoretical foundation / Literature review	√	√	√
5. Definition of methodological procedures	√	√	
6. Data collection	√		
7. Statistical analysis	√		
8. Analysis and interpretation of data	√		
9. Critical revision of the manuscript	√	√	√
10. Manuscript writing	√		√
11. Other (please specify)			

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The authors have stated that there is no conflict of interest.

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Edited by

Jordana Marques Kneipp