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Executive Compensation from Deontological and Utilitarian Ethics: A Literature Review

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Abstract

This study examines executive compensation within ethical frameworks, particularly deontological and utilitarian ethics, through a focused literature review of ten peer-reviewed journal articles published between 2020 and 2025. The research aims to explore how ethical principles shape executive compensation policies in promoting fairness, transparency, accountability, and social responsibility within corporate governance systems. The selected articles were qualitatively analyzed to identify dominant ethical perspectives and recurring themes related to executive remuneration, without claiming a fully systematic review procedure due to the limited number of studies and the absence of a detailed search and screening protocol. The findings indicate that a majority of the reviewed studies explicitly address the ethical dimensions of executive compensation, reflecting increasing scholarly attention to the alignment between financial incentives and moral responsibilities. From a deontological perspective, executive compensation should be grounded in principles of duty, justice, and respect for stakeholder rights, independent of performance outcomes. In contrast, utilitarian ethics assess compensation practices based on their capacity to maximize collective benefits, including organizational performance, employee welfare, and broader social value. The analysis further demonstrates that these two ethical frameworks can be integratively applied to develop a balanced compensation system that simultaneously emphasizes performance-based rewards and ethical accountability. Moreover, the literature highlights that unethical compensation practices may lead to stakeholder dissatisfaction, reputational risks, and internal organizational conflict. Therefore, embedding ethical considerations into executive compensation structures is essential for fostering responsible leadership, strengthening corporate integrity, reducing inequality, and ensuring the long-term sustainability of corporate governance practices.

KEYWORDS

corporate governance; deontological ethics; executive compensation; moral responsibility; utilitarian ethics.

Introduction

Executive compensation has become a central issue in contemporary corporate governance, particularly in response to increasing demands for transparency, accountability, and ethical responsibility from stakeholders (Hamdani et al., 2023). Beyond its function as a financial incentive, executive compensation reflects organizational values, leadership integrity, and the firm's commitment to distributive justice (Esvanti et al., 2024). Nevertheless, empirical studies report that misalignment between executive pay, firm performance, and employee welfare frequently triggers ethical concerns, especially in contexts of income disparity and organizational restructuring (Susilowati & Trisnaningsih, 2024). Despite the growing body of literature addressing ethical dimensions of compensation, existing studies tend to apply ethical frameworks in isolation rather than examining their integrative potential.

From a theoretical standpoint, deontological and utilitarian ethics offer distinct yet complementary lenses for evaluating executive compensation. Deontological ethics emphasizes duty, fairness, and respect for stakeholder rights as intrinsic moral obligations, irrespective of outcomes (Ulya et al., 2024). In contrast, utilitarian ethics assesses the ethicality of compensation based on its consequences, particularly its capacity to generate collective benefits such as organizational performance and stakeholder welfare (Rahman & Rifqi, 2023). Prior research demonstrates that both approaches have been independently employed to justify or critique executive pay practices (Rorah et al., 2023; Santoso, 2023). However, these studies rarely provide a systematic analytical framework that explicitly integrates both perspectives, resulting in fragmented ethical evaluations and limited theoretical advancement.

A closer examination of the literature reveals a specific gap: while several studies highlight issues such as income inequality, stakeholder dissatisfaction, and reputational risks associated with executive compensation, they do not consistently map these issues onto a combined deontological–utilitarian framework. For instance, (Megías et al., 2023) discuss compensation inequality primarily from a utilitarian concern regarding social welfare, whereas (Susilowati & Trisnaningsih, 2024) emphasize fairness and accountability from a normative standpoint without integrating consequence-based evaluation. Similarly, (Esvanti et al., 2024) link ethical compensation to organizational trust but do not articulate how duty-based and outcome-based ethics can be jointly operationalized. This fragmentation indicates that the deficiency in prior literature lies not in the absence of ethical discussion, but in the lack of a structured synthesis that bridges these two major ethical paradigms.

Moreover, the increasing complexity of corporate environments, particularly in the digital era, amplifies the need for an integrated ethical framework. Executives are now required to balance strategic performance with ethical accountability in contexts shaped by technological innovation, data governance, and stakeholder scrutiny (Madanchian et al., 2024; Markasović et al., 2024). While previous studies acknowledge the importance of ethical leadership and governance mechanisms (Schiuma et al., 2024), they often stop short of demonstrating how ethical theories can be systematically combined to guide compensation decisions. Consequently, the absence of an integrative model limits both the explanatory power and practical applicability of existing research.

Based on these limitations, this study addresses the identified gap by conducting a focused literature review that critically examines how deontological and utilitarian ethics can be conceptually integrated in the context of executive compensation. Unlike prior studies that treat ethical perspectives separately or normatively, this review aims to synthesize existing findings into a coherent analytical framework that links moral obligations with consequential outcomes. By doing so, the study contributes to the development of a more comprehensive ethical foundation for executive compensation, offering theoretical clarification and practical implications for fostering fairness, accountability, and sustainability in corporate governance.

Methods

Research Design

This study adopts a literature review methodology employing a qualitative descriptive approach. Such an approach is considered appropriate as the primary objective of the research is to critically examine and synthesize concepts, theories, and prior empirical findings related to executive compensation within the frameworks of deontological and utilitarian ethics. Rather than generating primary data through fieldwork, this study emphasizes an in-depth conceptual exploration based on existing scholarly discourse, enabling a comprehensive understanding of ethical considerations in compensation practices.

Data Sources

This study employs secondary data obtained from a systematically selected body of academic literature. The primary source base of the review is strictly limited to peer-reviewed journal articles to ensure the credibility, rigor, and scientific validity of the analysis. These articles are drawn from nationally accredited journals (Sinta 1–5) as well as internationally reputable journals indexed in Scopus and Web of Science. The inclusion of peer-reviewed journal articles as the core dataset reflects an effort to maintain methodological consistency and uphold academic standards in literature synthesis.

In addition to journal articles, academic books and scientific conference proceedings are incorporated in a supplementary capacity. Specifically, books are utilized to provide foundational theoretical frameworks, particularly in the domains of deontological and utilitarian ethics, which underpin the conceptual analysis of executive compensation. Meanwhile, conference proceedings are selectively used to capture emerging discussions and recent empirical findings that may not yet be fully represented in journal publications. However, these supplementary sources are not treated as part of the main analytical sample; rather, they function to enrich contextual understanding and support interpretive depth. The literature included in this review spans publications from 2020 to 2025, ensuring that the study reflects recent theoretical advancements and contemporary debates in business ethics, corporate governance, and executive compensation. This structured approach to source selection enhances the transparency, reproducibility, and analytical robustness of the literature review.

Data Collection Technique

The data collection process was conducted through a systematic and transparent literature search strategy across major academic databases, primarily Google Scholar and ScienceDirect, which are recognized for indexing peer-reviewed scholarly publications. Platforms such as ResearchGate and CrossRef were not treated as primary data sources; instead, they were used only for supplementary purposes, such as retrieving full-text documents and verifying bibliographic metadata. The search strategy employed a combination of Boolean operators and keyword variations to ensure comprehensive coverage of relevant studies. The primary search strings included: ("executive compensation" OR "CEO pay" OR "executive remuneration") AND ("deontological ethics" OR "duty-based ethics") AND ("utilitarian ethics" OR "consequentialism") AND ("ethical leadership" OR "business ethics") AND ("corporate governance").

The initial search, conducted for publications between 2020 and 2025, yielded a total of 512 records. Following this, a duplicate removal process was performed, resulting in 438 unique records. The screening process was then conducted in two stages. First, title and abstract screening excluded 276 records that were not directly relevant to the intersection of executive compensation and ethical frameworks. Second, full-text screening was applied to the remaining 162 articles, leading to the exclusion of 97 studies due to insufficient theoretical grounding, lack of peer-review status, or limited relevance to the research focus. Ultimately, a total of 65 peer-reviewed journal articles were included in the final analytical sample. The selection process adhered to predefined inclusion criteria, namely topical relevance, publication in peer-reviewed outlets, and the presence of substantive theoretical or empirical contributions. This multi-stage filtering process enhances the methodological rigor, transparency, and replicability of the literature review.

Data Analysis Technique

Data analysis was conducted using a structured content analysis approach to systematically interpret and synthesize the selected literature. To enhance methodological transparency and reproducibility, the inclusion criteria were operationalized into explicit and auditable rules prior to analysis. Specifically, studies were included only if they met the following conditions: (1) published between 2020 and 2025; (2) categorized as peer-reviewed journal articles; (3) explicitly examined executive compensation within an ethical, governance, or leadership framework; (4) incorporated or could be meaningfully interpreted through deontological and/or utilitarian ethical perspectives; and (5) provided substantive theoretical arguments or empirical findings (minimum: clear conceptual framework or identifiable methodological approach). Articles were excluded if they were purely descriptive without analytical depth, lacked clear academic peer-review status, or addressed compensation without ethical framing.

Following the application of these criteria, the analytical procedure proceeded in three stages. First, in the data reduction phase, relevant information was extracted using a standardized coding sheet that captured key variables, including research objectives, ethical frameworks applied, methodological approach, and principal findings. Second, the thematic classification stage involved grouping the coded data into analytically meaningful categories, such as principles of justice (deontological orientation), consequences and utility maximization (utilitarian orientation), moral responsibility of executives, and stakeholder-oriented welfare implications.

To further strengthen analytical rigor, a quality appraisal rubric was applied to each included study. The rubric assessed three dimensions: (1) theoretical rigor (clarity and appropriateness of ethical framework), (2) methodological robustness (transparency and validity of research design, for empirical studies), and (3) relevance to the research focus (direct linkage between executive compensation and ethical evaluation). Each dimension was rated on a three-point scale (low = 1, moderate = 2, high = 3), resulting in a cumulative score ranging from 3 to 9. Only studies achieving a minimum threshold score of 6 were retained in the final synthesis. Finally, the conceptual synthesis stage integrated findings across studies to identify convergent and divergent patterns in how deontological and utilitarian ethics inform the evaluation of executive compensation practices. This systematic and criteria-driven analytical process ensures that the review is not only theoretically grounded but also methodologically transparent and reproducible.

The final stage, conceptual synthesis, entailed a comparative analysis of normative ethical frameworks, particularly Kantian deontology and Bentham–Mill utilitarianism. This process aimed to evaluate the extent to which moral principles and societal benefits can be integrated into the design of executive compensation systems. The analysis was conducted interpretively to generate conceptual insights into how these ethical perspectives may function complementarily in promoting fairness, accountability, and collective well-being within contemporary organizational contexts.

Result and Discussion

The Relationship Between Executive Compensation and Ethical Responsibility

The relationship between executive compensation and ethical responsibility is a critical concern in contemporary corporate governance. Executive compensation is traditionally perceived as a financial mechanism to reward leadership performance; however, recent developments reveal that it also functions as a moral indicator of how organizations value fairness, justice, and stakeholder welfare. When executive compensation aligns with ethical principles such as proportionality, transparency, and responsibility it strengthens employee trust, enhances organizational legitimacy, and promotes a culture of integrity (Esvanti et al., 2024). In contrast, excessive compensation that disregards company performance or employee well-being generates moral conflict and public criticism, exposing weaknesses in corporate governance.

From an ethical perspective, deontological principles stress that compensation should be based on moral duties and justice rather than solely on economic outcomes (see Figure 1). This view emphasizes that executives, as leaders, have a moral obligation to act responsibly and ensure their rewards do not undermine employee welfare or violate ethical norms (Santoso, 2023). When executives receive substantial bonuses during company financial decline or periods of large-scale layoffs, it reflects a failure to fulfill ethical duties. Employees may perceive such decisions as betrayal, leading to reduced motivation, distrust in leadership, and decreased organizational commitment. These consequences illustrate that compensation is not merely a private contractual matter but a public moral issue that affects internal harmony and social perception.

To address transparency and evidence attribution, the findings are first presented through a study-level mapping and subsequently synthesized into thematic patterns.

Based on this mapping, 6 out of 10 studies explicitly link executive compensation with ethical responsibility, either through empirical evidence (LaViers et al., 2022; Mabaso & Mdluli, 2025) or conceptual analysis (Esvanti et al., 2024). Meanwhile, 4 studies focus primarily on performance or inequality outcomes without fully integrating ethical reasoning (see Table 1).

The first pattern, compensation as a signal of ethical responsibility, is supported by (Esvanti et al., 2024) and (Susilowati & Trisnaningsih, 2024), which demonstrate through qualitative and case-based evidence that ethical alignment in compensation policies is associated with improved perceptions of fairness and organizational legitimacy. Empirical support from (Mabaso & Mdluli, 2025), based on survey data, further indicates that transparency in executive pay influences employee trust and satisfaction. However, these studies do not uniformly measure causal outcomes, suggesting that some claims regarding trust and organizational commitment should be interpreted as context-dependent findings rather than universal effects. The second pattern, ethical tension arising from excessive or misaligned compensation, is identified in studies such as (Edmans et al., 2023) and (Megías et al., 2023). (Edmans et al., 2023), using empirical financial data, find that executive compensation is not always aligned with long-term firm value, while (Megías et al., 2023) show that income inequality negatively affects perceptions of collective welfare. Complementary conceptual arguments from (Kingsley, 2024) reinforce that large pay disparities raise normative concerns regarding distributive justice. Nevertheless, direct evidence linking these conditions to employee distrust or reputational damage is limited within the reviewed studies; thus, such outcomes are better framed as plausible implications rather than consistently observed empirical results.

From a deontological perspective, 3 out of 10 studies (Esvanti et al., 2024; Kingsley, 2024; Susilowati & Trisnaningsih, 2024) emphasize that executive compensation should adhere to principles of fairness, duty, and respect for stakeholders. These studies consistently argue that compensation practices lacking proportionality may violate -

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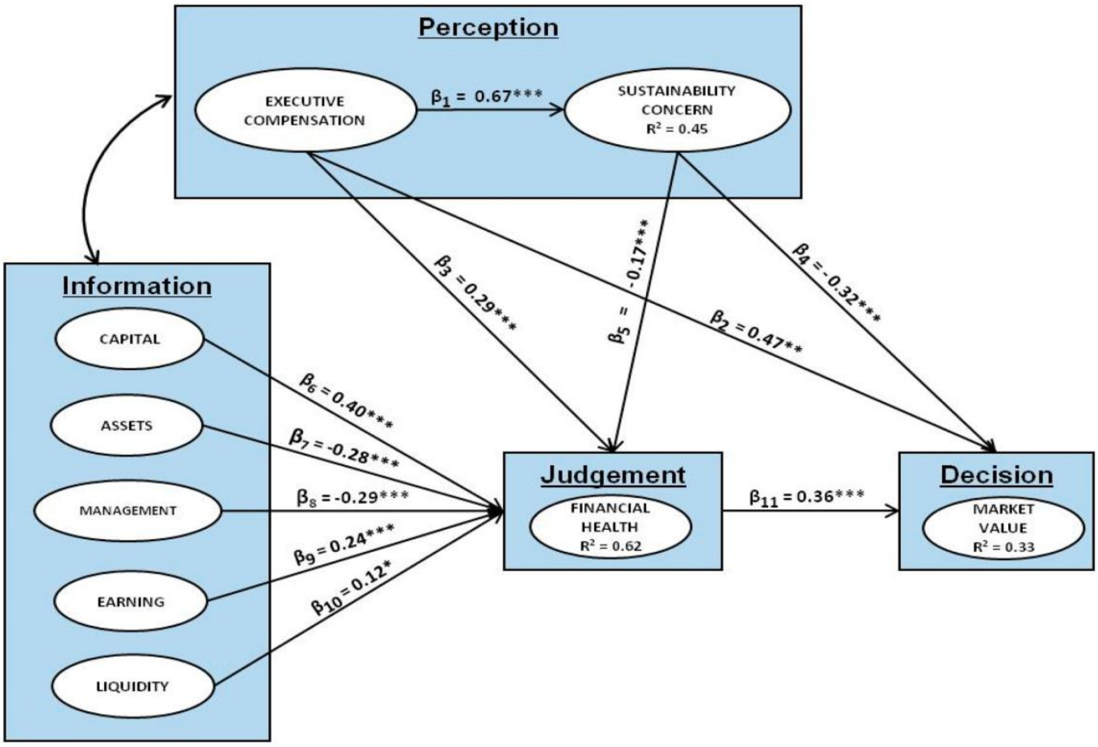

Figure 1. The Relationship Between Executive Compensation and Ethical Responsibility

Table 1. Evidence Mapping of Reviewed Studies

Author(s) & Year	Context	Method	Key Findings	Ethical Lens
(Esvanti et al., 2024)	Organizational ethics	Qualitative review	Ethical values enhance fairness and reduce internal conflict	Deontological
(Susilowati & Trisnaningsih, 2024)	Business ethics case	Case analysis	Ethical violations reduce trust and legitimacy	Deontological
(Yahaya, 2025)	Corporate finance	Quantitative	Executive pay linked to firm performance outcomes	Utilitarian
(Mabaso & Mdluli, 2025)	Employee perception	Survey	Transparency affects employee trust and satisfaction	Both
(LaViers et al., 2022)	Stakeholder reaction	Empirical	Pay ratios influence stakeholder responses	Both
(Megías et al., 2023)	Social inequality	Quantitative	Inequality reduces perceived social welfare	Utilitarian
(Santoso, 2023)	Ethical theory	Conceptual	Integration of ethics improves policy evaluation	Both
(Tsardosslapito et al., 2025)	Corporate ethics	Conceptual	Ethical frameworks guide corporate values	Both
(Edmans et al., 2023)	Executive pay	Empirical	Pay structures often misaligned with long-term value	Utilitarian
(Kingsley, 2024)	Inequality ethics	Conceptual	Pay gaps raise moral concerns about fairness	Deontological

moral obligations, although most rely on normative or case based reasoning rather than large-scale empirical testing. In contrast, 3 studies (Edmans et al., 2023; Megías et al., 2023; Yahaya, 2025) adopt a utilitarian lens, demonstrating that compensation is often justified based on its contribution to organizational performance and economic outcomes. (Yahaya, 2025), for instance, provides quantitative evidence linking executive pay to firm performance, supporting the argumentthat incentives can enhance efficiency. However, these studies also acknowledge potential trade-offs, particularly when performance gains are accompanied by increased inequality.

Finally, 4 studies (LaViers et al., 2022; Mabaso & Mdluli, 2025; Santoso, 2023; Tsardosslapito et al., 2025) suggest an emerging trend toward integrating deontological and utilitarian perspectives, although such integration remains largely conceptual. These studies indicate that ethical responsibility in compensation is most effectively addressed when fairness-based principles are combined with outcome-based considerations, yet they do not provide a fully operationalized framework for implementation.Overall, the results demonstrate that executive compensation is increasingly recognized as both an economic and ethical construct. However, the literature remains fragmented, with most studies emphasizing either moral principles or performance outcomes, and relatively few offering empirically grounded integration of both ethical frameworks.

Deontological Ethics as a Framework for Fair Compensation

Deontological ethics, rooted in the philosophy of Immanuel Kant, serves as a strong ethical foundation for addressing the fairness of executive compensation. This ethical approach

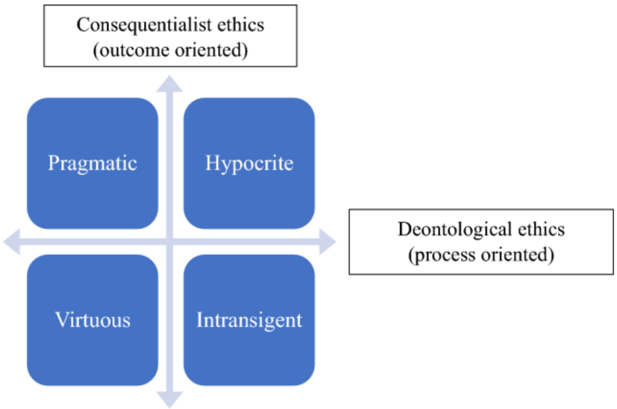

Figure 2. Deontological Ethics as a Framework for Fair Compensation

states that actions are considered morally right when they are based on duty, moral obligations, and respect for universal principles not on the consequences they produce (Ulya et al., 2024). Within this framework, compensation must be evaluated not solely on financial performance or profitability, but on whether it aligns with principles of justice, honesty, and respect for human dignity. Accordingly, executives should receive compensation that is morally justified, proportionate to their responsibilities, and reflective of their actual contributions to the organization (Rorah et al., 2023).

Deontology rejects the idea that achieving positive outcomes such as increased revenue or shareholder value can justify unethical compensation practices. For example, awarding excessive bonuses to executives during moments of workforce layoffs, declining financial performance, or economic crisis is considered morally unacceptable, regardless of contractual agreements. Such actions violate the moral duty to treat employees fairly and respectfully. They also diminish internal trust and create perceptions of injustice, ultimately harming the moral culture of the organization (Santoso, 2023).

A central principle of deontological ethics is Kant's concept of the *categorical imperative*, which states that individuals should act only according to maxims that can be universally accepted. Applying this to compensation, executives must ask: "Would it be fair if every leader in similar conditions granted themselves excessive rewards while their employees suffered?" If the answer is no, then the action is ethically impermissible. Deontological ethics also promotes the idea that employees must never be treated merely as a means to achieve profit but must always be respected as ends in themselves. Therefore, compensation policies that prioritize executive wealth while exploiting or neglecting employee welfare are fundamentally unethical.

In the context of governance, deontological ethics emphasizes transparency and accountability (see Figure 2). Compensation decisions should involve independent committees, adhere to ethical guidelines, and be clearly communicated to stakeholders to maintain fairness and trust (Susilowati & Trisnaningsih, 2024). This approach fosters ethical leadership, where executives act as moral role models and ensure that their financial rewards reflect integrity and responsibility.

Moreover, deontological ethics supports the development of compensation structures that consider internal equity such as fair salary ratios between executives and employees. This helps to prevent income inequality, resentment, and internal conflict. When compensation aligns with moral duty and fairness, it creates a sense of justice and reinforces organizational loyalty.

Utilitarian Ethics and Collective Welfare in Compensation Decisions

The ethical analysis of executive compensation becomes more comprehensive when examined through a consistent analytical framework encompassing the dimensions of fairness principles, stakeholder rights, welfare outcomes, and governance mechanisms. Within this context, the utilitarian approach, as developed by Jeremy Bentham and John Stuart Mill, can be systematically compared with deontological ethics to identify points of convergence and divergence in the justification of executive compensation. From the perspective of fairness principles, deontological ethics emphasizes distributive justice grounded in moral duties and universal principles, whereby compensation should be proportional to contribution and must not violate intrinsic norms of justice. In contrast, utilitarianism evaluates fairness instrumentally, focusing on the extent to which compensation structures generate the greatest aggregate benefit. Accordingly, high levels of compensation may be justified from a utilitarian standpoint, even if they appear unequal, provided they enhance overall organizational performance. The central tension between these two approaches lies in the conflict between principle-based justice (deontological) and consequence-based justice (utilitarian).

In terms of stakeholder rights, the deontological approach prioritizes the protection of individual rights, including employees' rights to fair and non-exploitative treatment. Excessively high executive compensation may therefore be viewed as a violation of these principles if it reflects morally unjustifiable inequality. By contrast, utilitarianism tends to treat rights as variables that may be negotiated in pursuit of collective welfare. Within this framework, compensation disparities may be deemed acceptable if they produce broader positive outcomes, such as job creation or increased firm value for shareholders.

With regard to welfare outcomes, utilitarianism demonstrates analytical strength by explicitly assessing the legitimacy of compensation based on its impact on aggregate well-being. Empirical evidence suggests that compensation incentives can stimulate innovation, promote firm growth, and enhance productivity (Esvanti et al., 2024; Rahman & Rifqi, 2023). Nevertheless, the deontological perspective offers a critical counterbalance by highlighting the risk of over-justifying high compensation while neglecting intrinsic moral dimensions, such as integrity, responsibility, and reasonable limits. In other words, improvements in collective welfare do not automatically nullify moral obligations toward individual justice.

Finally, in the context of governance mechanisms, the two approaches yield distinct policy implications. The deontological perspective calls for clear normative constraints within compensation structures, including transparency, accountability, and alignment with universal ethical principles. Conversely, utilitarianism supports greater flexibility in governance design, emphasizing the effectiveness of incentives in achieving organizational objectives. A critical synthesis of these perspectives suggests that optimal governance requires an integration of normative constraints to preserve fairness and moral legitimacy and outcome-oriented considerations to ensure efficiency and collective welfare.

In sum, this analytically structured comparison demonstrates that deontological and utilitarian ethics are not inherently contradictory; rather, they can be positioned as complementary frameworks in evaluating executive compensation. Such an integrative approach enables the development of a more balanced evaluative framework that reconciles the demands of moral justice with the pursuit of economic welfare.

High executive compensation is often justified in the literature when it is tied to *strategic success* and *enhanced firm performance*, as performance-contingent pay such as bonuses and stock incentives has been shown to align managerial incentives with shareholder value creation and overall financial

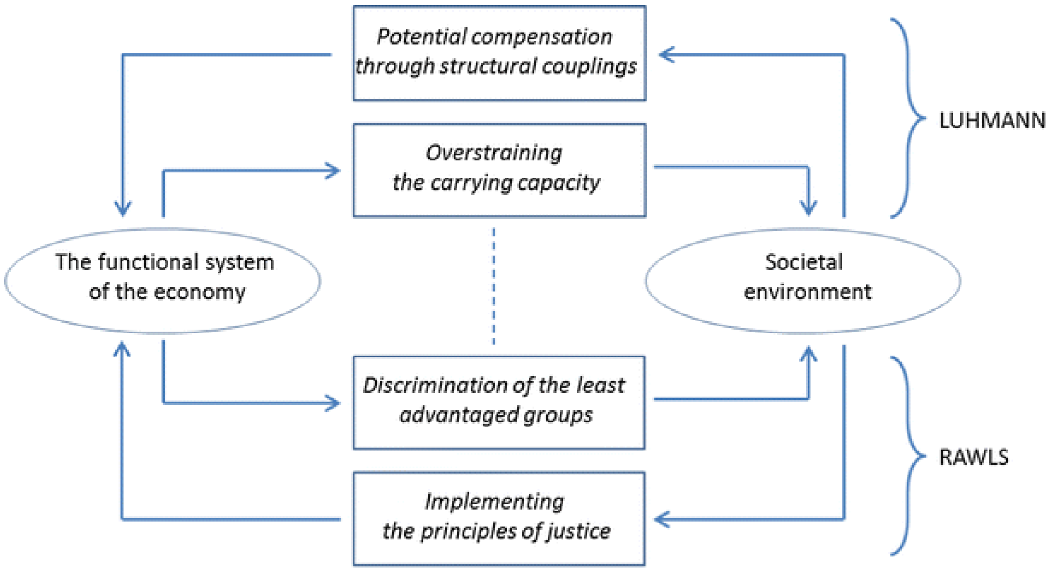

Figure 3. Utilitarian Ethics and Collective Welfare in Compensation Decisions

returns (Yahaya, 2025). Empirical evidence indicates a positive relationship between CEO compensation and firm performance, particularly when compensation structures reward strategic leadership decisions that contribute to profitability and organizational growth, suggesting that higher pay can drive value for both employees and investors.

Well-designed compensation schemes are also associated with stronger governance practices that emphasize long-term success, which can include *job creation* and enhanced stakeholder outcomes when executives pursue sustainable objectives tied to firm results (Edmans et al., 2023). However, scholars caution that these benefits materialize most clearly when compensation is performance-oriented and subject to effective monitoring, as excessive unlinked pay may not produce the intended positive effects and could undermine trust among employees and investors (Klaver, 2024).

From a *utilitarian* perspective, executive compensation practices are ethically unacceptable when they generate inequality and undermine collective welfare, as compensation should contribute to the greatest benefit for the largest number of organizational members (Megías et al., 2023) (see figure 3). However, utilitarian critiques of executive compensation emphasize that pay practices resulting in *income inequality* or harm to collective welfare are inconsistent with the utilitarian aim of maximizing overall happiness, especially when executive bonuses are granted amid financial distress, layoffs, or poor firm performance, as such disparities can deepen perceptions of unfairness and erode morale among employees (Hasyim & Bakri, 2024). Empirical research shows that significant gaps between CEO and worker pay are linked to negative employee outcomes such as reduced *engagement*, lower trust in management, and increased dissatisfaction when rewards are perceived as unjustified by broader organizational or societal benefit (Liu, 2025; Sipahelut & Ratnawati, 2023).

Utilitarian theory predicts that compensation practices favoring a select elite at the expense of stakeholders can harm *organizational trust* and corporate reputation, as stakeholders interpret such inequality as unfair and counter to shared welfare goals (Hazan et al., 2025; Mabaso & Mdluli, 2025). Finally, research on intra-organizational pay disparities demonstrates that excessive executive compensation relative to employee pay can diminish employee motivation and lead to higher turnover, undermining productivity and long-term firm performance, which utilitarian ethics would critique for failing to maximize aggregate well-being (Harbani, 2023)

Utilitarian ethics also encourages linking compensation to broader performance indicators beyond financial profit. Metrics such as employee well-being, environmental sustainability, customer satisfaction, corporate social responsibility (CSR), and long-term value creation should be part of executive performance evaluations (Junaedi et al., 2022). This shifts compensation decisions from short-term profit maximization toward sustainable and inclusive growth that benefits all stakeholders.

Utilitarian-based compensation frameworks enhance transparency and *stakeholder participation* by explicitly linking pay schemes to measurable outcomes and inviting broader input into remuneration design (Schiuma et al., 2024). When compensation policies and *disclosure* practices are published in corporate reports and subject to dialogue with stakeholders or independent committees, they strengthen accountability and confer ethical legitimacy on executive pay decisions (Oktryani et al., 2025). Such openness and participatory governance have been associated with a lower incidence of corrupt practices, favoritism, and earnings manipulation because external scrutiny and formal reporting reduce information asymmetries and opportunities for rent-seeking (Nopiyani & Indiani, 2023; Zuhri & Ratnasari, 2021). Empirical analyses further show that voluntary, detailed pay disclosures and robust oversight mechanisms correlate with improved governance and stakeholder outcomes, suggesting that utilitarian transparency contributes to both ethical legitimacy and observable governance gains (LaViers et al., 2022).

Corporate Governance as a Mediator in Ethical Compensation

Corporate governance functions as a mediating mechanism that aligns executive compensation with both ethical principles and organizational objectives, primarily through instruments such as board oversight, remuneration committees, and disclosure policies. However, the effectiveness and ethical interpretation of these mechanisms are contingent upon specific boundary conditions rather than universally applicable. Variations across industries significantly influence ethical justifications: in innovation-driven sectors, utilitarian reasoning tends to dominate by emphasizing incentives for performance, talent acquisition, and long-term value creation, whereas in highly regulated industries, deontological concerns such as fairness, accountability, and fiduciary responsibility become more prominent due to heightened societal impact and regulatory scrutiny.

These variations are further shaped by national institutional contexts and governance regimes. Anglo-American systems, which prioritize shareholder value, are more aligned with utilitarian logic in justifying performance-based compensation, while coordinated market economies tend to emphasize deontological principles, including stakeholder protection and social legitimacy. Additionally, differences between shareholder-oriented and stakeholder-oriented governance models reinforce this divergence, as the latter broadens accountability beyond financial performance to encompass ethical obligations toward multiple stakeholders. The type of evidence used in the literature also introduces epistemological variation, with quantitative studies favoring utilitarian interpretations and qualitative approaches highlighting deontological concerns. Collectively, these factors demonstrate that the ethical evaluation of executive compensation is context-dependent, necessitating a nuanced and context-sensitive analytical approach.

From a deontological perspective, governance structures function as formal safeguards to ensure that compensation practices adhere to principles of fairness, duty, and accountability. Studies such as (Susilowati & Trisnaningsih, 2024) and (Esvanti et al., 2024) indicate that transparency mechanisms and ethical guidelines contribute to strengthening organizational legitimacy and reducing ethical violations. In this context, governance mechanisms particularly independent remuneration committees can be understood as embodiments of duty-based ethics, where decision-making is constrained by normative rules, stakeholder rights, and procedural justice. Thus, governance is not merely a control system but also a moral architecture that institutionalizes ethical obligations in executive compensation policies.

Conversely, from a utilitarian perspective, governance mechanisms are evaluated based on their effectiveness in producing desirable outcomes, such as improved firm performance, enhanced shareholder value, and broader stakeholder welfare. Empirical findings from (Yahaya, 2025) and (Edmans et al., 2023) suggest that performance-based compensation, when properly governed, can incentivize executives to achieve organizational goals. In this regard, governance tools such as performance metrics, incentive alignment, and pay-for-performance schemes serve as instruments to maximize collective benefits. However, as indicated by (Megías et al., 2023), an overemphasis on outcome-based metrics without ethical constraints may exacerbate inequality and reduce overall social welfare.

The synthesis of findings reveals that governance mechanisms operate at the intersection of these two ethical paradigms. Specifically, 4 out of 10 reviewed studies (LaViers et al., 2022; Mabaso & Mdluli, 2025; Santoso, 2023; Tsardosslapito et al., 2025) implicitly support an integrative approach, where governance structures simultaneously enforce moral constraints and enable performance optimization. For example, disclosure of CEO pay ratios (LaViers et al., 2022) not only promotes transparency (deontological function) but also shapes stakeholder reactions and market discipline (utilitarian outcome). This dual function demonstrates that governance mechanisms can bridge normative obligations and consequentialist goals when designed appropriately.

Nevertheless, the analysis also highlights a critical limitation: existing literature rarely provides a systematic model that explicitly links specific governance mechanisms to corresponding ethical principles. Most studies treat governance, deontology, and utilitarianism as parallel concepts rather than interdependent analytical dimensions. As a result, the integration remains largely conceptual and lacks operational clarity for policy implementation.

Building on these findings, this study argues that an ethically grounded governance framework for executive compensation should incorporate a dual-layer structure. The first layer consists of deontological safeguards, including fairness criteria, stakeholder protection, and transparent procedures. The second layer involves utilitarian optimization, where compensation structures are designed to enhance performance and collective welfare. The interaction between these layers ensures that compensation decisions are not only efficient but also ethically legitimate.

In sum, the discussion advances the literature by demonstrating that corporate governance is not value-neutral; rather, it serves as a critical interface through which ethical theories are translated into organizational practice. By explicitly linking governance mechanisms to deontological and utilitarian principles, this study contributes to a more analytically rigorous understanding of how executive compensation can be designed to achieve both moral integrity and functional effectiveness within contemporary corporate governance systems.

Integration of Deontological and Utilitarian Ethics in Compensation Policies

The integration of deontological and utilitarian ethics in compensation policies creates a more holistic and ethically sound framework for determining executive pay. Each ethical theory provides a unique perspective deontology focuses on moral duties, fairness, and adherence to principles, while utilitarianism emphasizes outcomes, social welfare, and maximizing benefits for the greatest number of people (Madanchian et al., 2024). When applied separately, these approaches may appear contradictory. However, when combined, they complement each other, resulting in compensation models that are both morally justified and socially beneficial.

From a deontological perspective, compensation decisions must adhere to moral principles such as fairness, honesty, proportionality, and respect for human dignity. Executives should not receive excessive rewards at the expense of employees or during periods of company crisis, because such actions violate ethical duties and principles of justice (Rorah et al., 2023). This approach ensures that compensation policies respect the intrinsic value of individuals and maintain trust within the organization. Deontology draws clear moral lines and prevents compensation practices that exploit workers, create inequality, or undermine dignity.

In contrast, utilitarian ethics evaluates compensation based on its outcomes. High compensation may be ethically justified when it motivates executives to make decisions that improve company performance, increase employment, enhance innovation, and ultimately benefit the majority of stakeholders (Esvanti et al., 2024). However, utilitarianism also warns against compensation systems that generate inequality, stakeholder dissatisfaction, or negative social impact. Therefore, utilitarian principles ensure that compensation is not only morally justified but also results in measurable benefits to society.

The integration of deontological and utilitarian ethics constitutes the main theoretical contribution of this study, formalized into a dual-framework model that positions moral principles as normative constraints and outcomes as the basis for evaluating executive compensation. Within this model, compensation decisions must first satisfy ethical feasibility (fairness, transparency, and accountability) before being optimized to achieve organizational performance and collective welfare through relevant governance mechanisms. For instance, executive bonuses can be considered ethical if they are earned through responsible leadership, equitable treatment of employees, and long-term value creation not merely through short-term financial gains or cost-cutting measures that harm workers (Santoso, 2023).

Implications for Sustainable Corporate Practices

Ethical executive compensation plays a crucial role in promoting sustainable corporate practices by fostering trust, accountability, and long-term value within an organization. Sustainable business practices are not solely defined by financial success but also by social responsibility, ethical leadership, and respect for stakeholder interests. When compensation structures are fair, transparent, and aligned with ethical standards, they contribute to a healthier corporate culture, enhance employee loyalty, and build positive stakeholder relationships (Esvanti et al., 2024).

One of the major implications of ethical compensation is the increase in employee motivation and retention. When employees perceive compensation practices as just and equitable, they are more likely to feel valued and respected, resulting in higher levels of commitment, productivity, and job satisfaction. Conversely, excessive executive compensation, especially during financial crises or periods of workforce hardship, can foster feelings of injustice and anger among employees, leading to decreased morale, protests, and resignations (Nathanson, 2023). Therefore, ethical compensation supports a more engaged and resilient workforce, which is essential for organizational sustainability.

Second, ethical compensation strengthens stakeholder trust and corporate reputation. Transparent disclosure of executive pay and the inclusion of ethical performance metrics assure investors, regulators, consumers, and the public that the company operates with integrity and accountability. In contrast, unethical compensation practices such as undisclosed bonuses, inflated salaries, or rewards despite unethical behavior can result in negative media attention, regulatory penalties, and a decline in investor confidence (Silalahi, 2023). Sustaining stakeholder trust is essential to securing investment, market stability, and long-term growth.

Third, ethical compensation contributes to good corporate governance and risk management. Compensation policies aligned with ethical values and long-term performance discourage short-term profit-seeking behaviors, which often lead to financial misreporting, speculative decisions, and corporate scandals. Linking compensation to non-financial indicators such as social responsibility, environmental sustainability, innovation, and employee well-being ensures that executives prioritize holistic success rather than personal financial gain (Schiuma et al., 2024). This approach not only prevents misconduct but also aligns corporate strategies with global sustainability standards such as ESG (Environmental, Social, and Governance).

Furthermore, ethical compensation supports social equity and reduces income inequality. Setting reasonable pay ratios between executives and employees ensures fairness and prevents the widening of socio-economic gaps within the organization (Berutu, 2023). Companies that adopt equitable compensation models tend to gain social legitimacy and are perceived as more humane and socially responsible. This becomes a competitive advantage in modern business environments, where stakeholders are increasingly concerned about ethical conduct and corporate responsibility.

Conclusion

Based on the focused review of ten selected studies, six articles explicitly examine the relationship between executive compensation and deontological and utilitarian ethical principles, indicating that ethical considerations constitute an important dimension in compensation design. However, the analysis also reveals that these studies remain conceptually fragmented, as most of them apply deontological or utilitarian perspectives in isolation and do not systematically integrate both frameworks into a coherent analytical model. This gap suggests that the literature has not yet fully developed an operational approach that clearly links moral obligations with outcome-based evaluation in executive compensation policies. The findings further indicate that deontological ethics provides a normative foundation emphasizing fairness, justice, and accountability, while utilitarian ethics highlights the importance of organizational performance and collective welfare. The reviewed literature suggests that integrating these perspectives may support the development of more balanced compensation systems that align ethical responsibility with strategic outcomes. Nevertheless, claims regarding impacts such as increased trust, reduced inequality, or improved governance effectiveness should be interpreted cautiously, as the reviewed studies vary in context, methodology, and empirical depth, with several relying on conceptual or case-based approaches rather than robust longitudinal evidence.

This study is subject to several limitations. First, the relatively small sample of ten articles restricts the generalizability of the findings. Second, the absence of a formal quality appraisal framework may introduce potential selection bias and variation in evidence strength. Third, the reliance on published literature raises the possibility of publication bias, particularly the underrepresentation of null or contradictory findings. Therefore, the conclusions drawn should be understood as indicative rather than definitive. Future research is encouraged to develop and empirically test integrative models that operationalize deontological and utilitarian principles within executive compensation frameworks, including the use of longitudinal data and comparative institutional analysis. Additionally, greater attention should be given to improving methodological transparency and reference integrity to strengthen the reliability and reproducibility of findings in this field.

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