

YOUNG PEOPLE’S PERCEPTIONS OF COMPENSATION GAPS AND BOARD INDEPENDENCE IN LISTED EUROPEAN BANKS: AN EMPIRICAL STUDY

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Abstract

Corporate governance has become increasingly important in the banking sector, where transparency, accountability, and stakeholder trust are essential for long-term sustainability. This study examines young people's perceptions of executive compensation gaps and board independence in listed European banks and explores how these factors are associated with perceptions of good corporate governance. Data were collected through an online questionnaire administered to 65 respondents, and the relationships among the variables were examined using descriptive statistics and multiple linear regression analysis. The findings indicate that perceptions of executive compensation gaps are significantly associated with perceptions of good corporate governance, whereas board independence demonstrates a positive but statistically non-significant association. Together, the two explanatory variables account for approximately 25.7% of the variation in governance perceptions. The study contributes to the corporate governance literature by providing evidence on stakeholder perceptions of compensation practices and board independence among young people, a group that represents future employees, investors, and decision-makers. The findings highlight the importance of perceived fairness and transparency in shaping evaluations of corporate governance within the European banking sector.

Keywords: corporate governance; executive compensation; board independence; stakeholder perceptions; European banks.

Clasificare JEL : M40, M41

1. Introduction

Corporate governance and executive compensation have become increasingly important topics in both academic research and public debate, particularly within the banking sector. In recent decades, the rapid growth of executive remuneration has raised concerns regarding fairness, transparency, and the effectiveness of governance mechanisms in large financial institutions. While executive compensation is often justified through firm performance and value creation, excessive compensation gaps between executives and other governance actors may negatively influence public trust and organizational legitimacy.

One of the key governance mechanisms in modern corporations is board independence. Independent directors are expected to monitor executive decision-making, reduce managerial opportunism, and ensure accountability within firms. However, concerns have emerged regarding whether independent directors are sufficiently compensated to perform these responsibilities effectively and objectively. Large differences between executive and independent directors' compensation may weaken monitoring quality and create perceptions of unfairness within organizations.

The European banking sector represents a particularly relevant context for analyzing these issues due to its strong dependence on public trust, transparency, and institutional credibility. Following financial crises and governance scandals, corporate governance practices in banks have received increased scrutiny from regulators, investors, and society. In this context, compensation

structures are no longer viewed solely as financial mechanisms, but also as ethical and reputational issues that can influence stakeholder perceptions.

Recent literature suggests that governance structures significantly influence executive compensation and organizational legitimacy. Prior studies have shown that weak governance mechanisms may allow excessive executive pay and ineffective board monitoring (Core, Holthausen & Larcker, 1999; Bebchuk & Fried, 2004). Other researchers have emphasized that public perceptions of fairness and transparency increasingly affect how organizations are evaluated by society (Suchman, 1995; Edmans et al., 2023).

At the same time, younger generations have become increasingly relevant stakeholders in discussions regarding ethical governance and corporate responsibility. Young individuals represent future employees, investors, managers, and decision-makers whose expectations may shape future governance standards. Their perceptions are particularly important because they tend to place greater emphasis on transparency, accountability, fairness, and ethical business conduct.

Despite the growing literature on executive compensation and corporate governance, relatively limited attention has been given to how young people perceive compensation gaps and board independence, especially within European banks. Most existing studies focus primarily on firm performance, shareholder value, or executive incentives, while fewer studies examine stakeholder perceptions and societal expectations related to governance practices.

Therefore, this study aims to examine young people's perceptions regarding compensation gaps and board independence in listed European banks. More specifically, the research investigates whether perceptions of executive compensation gaps and board independence are associated with overall perceptions of good corporate governance.

By integrating financial, ethical, and societal perspectives, this study contributes to the broader literature on corporate governance and executive compensation. It also provides practical insights for European banks regarding the importance of transparent governance practices and balanced compensation structures in strengthening institutional credibility and stakeholder trust.

2. Literature Review:

2.1 Executive Compensation and Independent Directors' Remuneration

Executive compensation has long represented a central topic in corporate governance research because it directly affects managerial incentives, organizational accountability, and stakeholder confidence. While executive remuneration is often justified as a mechanism for attracting and retaining highly qualified managers, excessive compensation may generate concerns regarding fairness, transparency, and the effectiveness of corporate governance mechanisms.

Compared with executive remuneration, the compensation of independent directors has received considerably less attention in the academic literature. Independent directors play a crucial role in monitoring management, protecting shareholders' interests, and strengthening board oversight. Consequently, their remuneration should appropriately reflect the responsibilities associated with these governance functions while preserving their independence and objectivity.

Previous studies suggest that corporate governance quality is closely associated with executive compensation practices. Core, Holthausen, and Larcker (1999) found that weaker governance mechanisms are associated with higher levels of executive compensation, indicating that ineffective board monitoring may provide managers with greater discretion over remuneration decisions. Similarly, Bebchuk and Fried (2004) argue that executive pay is often influenced not only by firm performance but also by the effectiveness of corporate governance arrangements.

Research has also shown that board composition may influence compensation structures. Ye, Li, and Zeng (2022) demonstrated that the presence of former CEOs on corporate boards may contribute to wider executive–employee compensation gaps and may negatively affect firm performance. These findings suggest that governance structures and board composition can shape both compensation policies and stakeholders' evaluations of organizational fairness.

Furthermore, executive compensation has evolved considerably over time. Edmans, Gabaix, and Jenter (2017) emphasize that compensation trends are influenced by multiple organizational and market factors, highlighting the complexity of executive remuneration and the importance of transparent governance mechanisms. Collectively, these studies indicate that balanced compensation structures contribute not only to effective governance but also to organizational credibility and stakeholder trust.

2.2 Legitimacy Theory and Public Perceptions of Compensation

Legitimacy Theory argues that organizations seek to align their activities with societal expectations in order to maintain public acceptance and organizational legitimacy (Suchman, 1995). Within the context of corporate governance, stakeholders increasingly evaluate organizations not only according to their financial performance but also according to their ethical behaviour, transparency, and accountability.

Executive compensation has become an important component of organizational legitimacy because remuneration policies are frequently interpreted as indicators of fairness and responsible governance. Large compensation disparities between executives and independent directors may create perceptions of inequality and reduce public confidence in corporate governance practices. Edmans, Gosling, and Jenter (2023) argue that executive compensation extends beyond purely financial considerations and increasingly incorporates reputational and societal dimensions. Organizations therefore face growing pressure to design compensation systems that are perceived as equitable, transparent, and consistent with stakeholder expectations. Such perceptions are particularly important in the banking sector, where institutional credibility and public trust are fundamental to long-term organizational success.

Accordingly, compensation policies should not be viewed exclusively as internal managerial decisions but also as governance mechanisms that may influence organizational legitimacy and stakeholder confidence.

2.3 Young People's Perceptions and Ethical Governance in European Banks

Young people represent an increasingly important stakeholder group because they constitute future employees, investors, managers, and decision-makers. Their expectations regarding transparency, accountability, and ethical governance are likely to influence future corporate governance practices. Consequently, understanding their perceptions provides valuable insight into evolving societal expectations concerning executive compensation and board effectiveness. Previous research suggests that board independence plays a fundamental role in strengthening governance quality by improving oversight and limiting managerial opportunism (Bebchuk & Fried, 2004). Nevertheless, Adams and Ferreira (2007) argue that board independence alone does not guarantee effective monitoring, as interpersonal relationships and board dynamics may reduce directors' objectivity and monitoring effectiveness.

Within the European banking sector, public confidence depends heavily on transparent governance practices and credible oversight mechanisms. Perceived inequities in executive compensation or ineffective board monitoring may therefore influence stakeholders' evaluations of governance quality and institutional legitimacy.

Although extensive research has examined executive compensation, board independence, and firm performance, relatively limited attention has been devoted to understanding how young people perceive these governance issues. By focusing on stakeholder perceptions rather than objective governance indicators, the present study contributes to the literature by integrating executive compensation, board independence, and legitimacy theory within the context of listed European banks.

2.4 Research Questions and Hypotheses

Based on the existing literature on executive compensation, board independence, and stakeholder perceptions, this study aims to examine how young people perceive compensation gaps and governance practices in listed European banks.

The study is guided by the following research questions:

Based on the existing literature on executive compensation, board independence, and corporate governance, this study examines how young people perceive governance practices in listed European banks. More specifically, the study addresses the following research questions:

RQ1: How do young people perceive compensation gaps between executive and independent directors in listed European banks?

RQ2: How is perceived board independence associated with perceptions of corporate governance?

RQ3: To what extent are compensation gap perceptions and board independence associated with overall perceptions of good corporate governance?

Hypotheses

H1: Compensation Gap Perception is significantly associated with Good Governance Perception.

H2: Board Independence is positively associated with Good Governance Perception.

H3: Compensation Gap Perception and Board Independence jointly explain a significant proportion of the variation in Good Governance Perception.

3. Research Methodology

3.1 Research design.

This study adopts a quantitative research design to examine young people's perceptions of compensation gaps and board independence in listed European banks. A survey-based approach was selected because it enables the collection of standardized data and facilitates the statistical analysis of individual attitudes and perceptions (Creswell, 2014).

The primary objective of the study is to examine whether perceptions of executive compensation gaps and board independence are associated with overall perceptions of good corporate governance. A quantitative approach is appropriate because it allows relationships among the study variables to be examined using descriptive statistics, Pearson correlation analysis, and multiple linear regression.

Recent literature highlights the growing importance of stakeholder perceptions in assessing corporate governance quality and organizational legitimacy (Suchman, 1995). Accordingly, this study investigates how young respondents evaluate governance practices in European banks and whether these perceptions are associated with their overall assessment of good corporate governance.

3.2 Data Collection Method

The questionnaire was administered online through digital platforms and targeted young respondents. It consisted of two sections. The first section collected demographic information, including respondents' age and gender. The second section included perception-based items related to executive compensation, board independence, governance transparency, employee motivation, and overall corporate governance in listed European banks.

All perception-based items were measured using a seven-point Likert scale ranging from 1 ("Strongly disagree") to 7 ("Strongly agree"). Higher scores indicate stronger agreement with each statement and a more positive evaluation of the measured construct. The seven-point Likert scale was selected because it provides greater response variability while remaining easy for respondents to understand and has been widely adopted in perception-based research (Likert, 1932).

3.3 Sample Description

The final sample consisted of 65 respondents, predominantly young individuals, with most participants being approximately 19 years old. Female respondents represented the majority of the sample.

This age group was intentionally selected because young people constitute future employees, investors, and decision-makers whose expectations regarding transparency, accountability, and ethical governance are likely to influence future corporate governance practices. Although the sample provides useful exploratory evidence, it should not be considered representative of the broader European population.

3.4 Variables and Measurement

This study examines the relationship between young people's perceptions of executive compensation gaps, board independence, and perceived corporate governance quality in listed European banks.

The dependent variable used in the regression analysis is Good Governance Perception, measured using respondents' level of agreement with statements referring to the overall quality, transparency, and effectiveness of corporate governance.

The independent variables are Compensation Gap Perception and Board Independence. Compensation Gap Perception captures respondents' perceptions regarding the remuneration differences between executive and independent directors, whereas Board Independence reflects respondents' perceptions regarding the effectiveness and independence of boards in monitoring management.

Additional perception variables, including Governance Transparency, Employee Motivation Concerns, and Independent Board Limits Excessive Pay, were analysed descriptively and through Pearson correlation analysis in order to provide a broader understanding of respondents' attitudes. These variables were not specified as dependent variables in the regression model.

All variables were measured using the seven-point Likert scale described above. Higher values indicate stronger agreement with the corresponding statements.

Age and gender were collected as demographic variables. Although initially considered potential control variables, they were not included in the final regression model because preliminary analyses indicated that their inclusion did not materially improve model fit.

3.5 Reliability of the Measurement Instrument

The internal consistency of the perception-based questionnaire was assessed using Cronbach's alpha. The reliability analysis, conducted on the 11 Likert-scale items included in the questionnaire, produced a Cronbach's alpha coefficient of 0.796, indicating good internal consistency among the measurement items. This result suggests that the questionnaire provides a reliable measure of respondents' perceptions regarding executive compensation, board independence, governance transparency, employee motivation, and good corporate governance.

Although the questionnaire was developed specifically for this exploratory study rather than based on previously validated multi-item scales, the obtained reliability coefficient indicates that the measurement instrument is sufficiently consistent for exploratory statistical analyses. Consequently, the collected data were considered appropriate for subsequent descriptive statistics, Pearson correlation analysis, and multiple linear regression.

3.6 Data Analysis Techniques

The collected data were analysed using quantitative statistical methods. Descriptive statistics, including means and standard deviations, were calculated to summarize respondents' perceptions regarding compensation gaps, board independence, governance transparency, employee motivation, and good corporate governance.

Pearson correlation analysis was subsequently performed to examine the strength and direction of the associations among the principal study variables.

Finally, multiple linear regression analysis was employed to evaluate the statistical association between Compensation Gap Perception and Board Independence (independent variables) and Good Governance Perception (dependent variable).

Because the study relies on cross-sectional survey data, the regression results should be interpreted as statistical associations rather than evidence of causal relationships.

Although the questionnaire was completed by 65 respondents, the regression analysis included 63 observations because two questionnaires contained incomplete responses for one or more variables included in the regression model and were excluded through listwise deletion.

The regression model is expressed as follows:

$$Good\ Governance_i = \beta_0 + \beta_1 CompensationGap_i + \beta_2 BoardIndependence_i + \varepsilon_i$$

3.7 Research Limitations

This study has several limitations. First, the relatively small sample size limits the statistical power of the analysis and restricts the generalizability of the findings beyond the surveyed respondents. Second, the sample consists almost exclusively of young individuals, most of whom are approximately 19 years old, which limits the representativeness of other stakeholder groups.

Third, the study relies exclusively on self-reported perception data rather than objective information regarding governance practices or compensation structures within European banks. Consequently, the findings reflect respondents' perceptions rather than the actual governance quality of the analysed institutions.

Furthermore, the cross-sectional design does not permit causal inference. The reported relationships represent statistical associations observed at a single point in time.

Finally, although the questionnaire demonstrated satisfactory internal consistency (Cronbach's $\alpha = 0.796$), it was developed specifically for this exploratory study rather than based on previously validated measurement scales. Future research should employ validated multi-item instruments, larger and more heterogeneous samples, objective governance indicators, and longitudinal research designs to further strengthen the robustness and generalizability of the findings.

4. Results and discussion

4.1 Descriptive Statistics

This section shows the descriptive statistics of the collected responses regarding the perception of compensation gaps and board independence in listed European banks.

The sample consisted of 65 respondents, with the majority being around the age of 19 years old and mostly female. This analysis shows that most respondents consider transparency and fairness in executive compensation to be relevant aspects of corporate governance.

The data also shows that young individuals believe large compensation gaps between executive and independent directors are a negative aspect. Many respondents agreed that excessive differences in compensation may reduce trust in the governance structure of banks and can affect negatively the institution's public image.

Participants also generally considered board independence to be an essential mechanism for ensuring ethical governance, transparency and accountability in financial institutions.

Table 1. Descriptive Statistics

Variable	Mean	Std. Deviation
Compensation Gap Dissatisfaction	5.28	1.27
Board Independence	4.88	1.45
Independent Board Limits Excessive Pay	4.52	1.42
Governance Transparency	5.26	1.41
Employee Motivation Concerns	5.46	1.36
Good Governance Perception	5.76	1.28

The descriptive statistics reveal relatively high levels of agreement regarding the importance of governance transparency and fairness in compensation structures. Respondents particularly agreed that good governance helps balance the interests between management and employees, while excessive compensation gaps may negatively affect employee motivation and institutional credibility.

4.2 Pearson Correlation Analysis

Table 2. Pearson Correlation Matrix

Variable	1	2	3	4	5	6
1. Compensation Gap Perception	1.000					
2. Board Independence	-0.083	1.000				
3. Independent Board Limits Excessive Pay	0.414	0.286	1.000			
4. Governance Transparency	0.169	0.233	0.421	1.000		
5. Employee Motivation Concerns	0.396	0.118	0.281	0.318	1.000	
6. Good Governance Perception	0.473	0.142	0.278	0.497	0.445	1.000

Notes. Pearson correlation coefficients are reported. N = 65. Source: Authors' calculations based on survey data.

Pearson correlation analysis was conducted to examine the relationships among the principal variables included in the study. As presented in Table 2, Compensation Gap Perception was positively associated with Good Governance Perception ($r = 0.473$), suggesting that respondents who expressed stronger perceptions regarding compensation fairness also tended to report more favourable evaluations of corporate governance. Governance Transparency was also positively associated with Good Governance Perception ($r = 0.497$), while Employee Motivation Concerns showed a moderate positive association with Good Governance Perception ($r = 0.445$). By contrast, Board Independence exhibited only a weak positive association with Good Governance Perception ($r = 0.142$), which is consistent with the subsequent regression analysis indicating that this variable was not statistically significant. Overall, the correlation analysis provides preliminary evidence of positive statistical associations among several governance-related perceptions while supporting the use of multiple regression analysis to further examine these relationships.

The descriptive findings indicate that respondents generally perceive large compensation gaps between executive and independent directors as undesirable. Most participants agreed that independent directors should receive remuneration that adequately reflects their monitoring responsibilities and contribution to effective corporate governance.

The results are consistent with the recent literature suggesting that ineffective governance structure can also lead to excessive executive compensation and weaker monitoring mechanisms (Bebchuk & Fried, 2004)

The legitimacy theory perspective, which states that the organizations must align their governance practices with societal expectations in order to maintain legitimacy and trust (Suchman, 1995).

These findings are broadly consistent with previous research suggesting that compensation structures influence stakeholders' evaluations of governance quality and organizational legitimacy (Bebchuk & Fried, 2004; Suchman, 1995). However, because the present study is based on perception data collected through a cross-sectional survey, the observed relationships should be interpreted as statistical associations rather than causal effects.

4.3 Multiple Linear Regression Analysis

The study also shows that perceived board independence positively influences trust in corporate governance. The respondents also indicated that banks with more independent boards are viewed as more transparent and ethical.

Table 2 presents the results of the multiple linear regression analysis examining the influence of compensation gap perceptions and board independence on perceptions of good governance in European banks.

Table 3. Multiple Linear Regression Results

Variables	Coefficient (β)	Standard Error	t-value	p-value
Constant	2.402	0.803	2.991	0.004
Compensation Gap Perception	0.485	0.111	4.376	<0.001
Board Independence	0.163	0.099	1.651	0.104

Model Statistics

Statistic	Value
R ²	0.257
Adjusted R ²	0.232
F-statistic	10.39
Prob (F-statistic)	0.000134
Number of observations	63

Notes: Dependent variable: Good Governance Perception. N = 63 observations. Ordinary Least Squares (OLS) regression estimates are reported. *** $p < 0.001$; ** $p < 0.01$; * $p < 0.05$.

Source: Authors' calculations based on survey data.

The multiple linear regression analysis examined the relationship between Compensation Gap Perception, Board Independence, and Good Governance Perception.

The results indicate that Compensation Gap Perception is positively and significantly associated with Good Governance Perception ($\beta = 0.485$, $p < 0.001$). Respondents expressing stronger perceptions regarding compensation fairness also tended to report more favourable evaluations of corporate governance.

Board Independence also displayed a positive regression coefficient ($\beta = 0.163$). However, the relationship was not statistically significant at the conventional 5% significance level ($p = 0.104$). Consequently, although the estimated coefficient is positive, the available evidence is insufficient to conclude that perceived board independence is independently associated with Good Governance Perception within the analysed sample.

The overall regression model explained approximately 25.7% of the variance in Good Governance Perception ($R^2 = 0.257$), indicating that the explanatory variables account for a meaningful—but still limited—proportion of respondents' governance perceptions

4.4 Discussion

The findings highlight the growing importance of stakeholder perceptions in corporate governance research. Young respondents appear particularly sensitive to issues related to compensation fairness, transparency, and ethical governance. Rather than evaluating executive compensation exclusively from a financial perspective, respondents also considered its implications for organizational legitimacy and public trust.

The regression analysis indicates that respondents who expressed stronger perceptions regarding compensation gaps also tended to report more favourable perceptions of corporate governance. This association was statistically significant, suggesting that compensation-related issues play an important role in shaping governance perceptions among young stakeholders.

By contrast, Board Independence displayed a positive but statistically non-significant coefficient. Although respondents generally viewed independent boards positively, the regression analysis did not provide sufficient evidence to conclude that Board Independence was independently associated with Good Governance Perception within the analysed sample.

These findings are broadly consistent with legitimacy theory, which argues that organizations seek to align their governance practices with societal expectations in order to maintain legitimacy and stakeholder trust (Suchman, 1995). They also complement previous studies emphasizing the importance of governance transparency and compensation fairness in strengthening organizational credibility (Bebchuk & Fried, 2004; Edmans et al., 2023).

Nevertheless, the findings should be interpreted with caution because they are based on perceptions collected from a relatively small sample of young respondents. Consequently, they should not be interpreted as evidence regarding the actual governance quality of European banks.

4.4 Hypotheses Testing

The regression results provide partial support for the proposed hypotheses.

H1 is supported, as Compensation Gap Perception is positively and significantly associated with Good Governance Perception ($\beta = 0.485$, $p < 0.001$).

H2 is not supported, because although Board Independence has a positive regression coefficient ($\beta = 0.163$), the relationship is not statistically significant ($p = 0.104$).

H3 is partially supported, as the overall regression model is statistically significant ($F = 10.39$, $p < 0.001$), although only one of the explanatory variables contributes significantly to explaining variation in Good Governance Perception.

5. Conclusion

This study examined young people's perceptions regarding executive compensation gaps and board independence in listed European banks. The objective was to explore whether perceptions of compensation structures and board independence are associated with overall perceptions of corporate governance.

The findings indicate that respondents attach considerable importance to governance transparency and compensation fairness when evaluating corporate governance. In particular, perceptions regarding compensation gaps were significantly associated with Good Governance Perception, whereas Board Independence exhibited a positive but statistically non-significant association.

These findings suggest that compensation fairness represents an important governance-related issue from the perspective of young stakeholders. However, because the study relies exclusively on

perception-based survey data, the reported associations should not be interpreted as evidence of causal relationships or as objective evaluations of governance practices within European banks.

From a practical perspective, the results suggest that transparent compensation policies and clearly communicated governance practices may contribute to strengthening public confidence in financial institutions. Nevertheless, these implications should be interpreted cautiously given the exploratory nature of the study.

This research contributes to the literature by examining corporate governance from the perspective of young stakeholders rather than relying exclusively on objective financial indicators. It integrates executive compensation, board independence, and legitimacy theory within a single perception-based framework, thereby providing additional evidence regarding how governance practices are evaluated by future employees, investors, and managers.

Despite these contributions, several limitations should be acknowledged. The relatively small sample size, the predominance of young respondents, the use of self-reported perception data, the absence of objective governance indicators, and the cross-sectional design limit the generalizability of the findings and preclude causal inference.

Future research should employ larger and more diverse samples, validated measurement instruments, objective governance indicators, and longitudinal research designs to provide a more comprehensive understanding of stakeholder perceptions regarding executive compensation and corporate governance.

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