International Journal of Business Law, Business Ethic, Business Communication & Green Economics (IJBGE)
Volume 2 Nomor 1 2025
e-ISSN: 3048-1392; dan p-ISSN: 3048-1384, Hal 19-37
DOI: https://doi.org/10.70142/ijbge.v1i4.255
Available online at: https://jurnal-mnj.stiekasihbangsa.ac.id/index.php/IJBGE

Executive Compensation in Controversial Industries: A Qualitative Study of Pay-for-Performance Sensitivity in Sin Companies

Grace Yulianti[1], Dadang Irawan[2], Tanti Sugiharti [3]

[1-3] Management, STIE Kasih Bangsa, Jakarta, Indonesia

Email : grace@stiekasihbangsa.ac.id, dadangirawan.7503@gmail.com, tanti@stiekasihbangsa.ac.id.

Abstract*. This qualitative literature review examines the pay-for-performance sensitivity in managerial compensation within controversial industries, often referred to as "sin" companies, including sectors such as tobacco, alcohol, and gambling. The review synthesizes existing studies on executive compensation structures in these sectors, highlighting the unique challenges and ethical considerations they face due to societal scrutiny and regulatory pressures. Findings suggest that sin companies tend to offer higher compensation packages with stronger pay-for-performance sensitivity to attract and retain executives in high-risk environments. However, the alignment between executive incentives and long-term sustainability is often compromised by external social and ethical factors. Despite the growing interest in this area, limited empirical research specifically focusing on sin industries has resulted in a gap in understanding how these dynamics play out across different controversial sectors. The review calls for further research to explore these relationships in greater depth and across diverse global contexts.*

Keywords: *Managerial Compensation, Pay-for-Performance Sensitivity, Sin Companies, Executive Compensation, Ethical Considerations*

INTRODUCTION

The executive compensation practices in sin companies—businesses operating within socially controversial industries such as alcohol, gambling, and tobacco—have garnered significant scholarly attention due to the unique challenges these organizations face in retaining and motivating managerial talent. These challenges are exacerbated by societal stigmas that tarnish the social reputations of employees affiliated with such firms, necessitating distinct compensation structures to offset these reputational costs. The current study aims to provide a qualitative examination of pay-for-performance sensitivity (PPS) within sin companies, analyzing the mechanisms through which managerial compensation aligns with organizational performance and societal norms.

Sin companies operate under the shadow of societal disapproval stemming from their core business activities, which are often seen as conflicting with pro-social and ethical values (Hilary & Hui, 2009; Hong & Kacperczyk, 2009). This negative perception creates unique labor market challenges, as managers may face significant career and personal reputation risks when affiliating with such firms (Cable & Graham, 2000).

 Received: February 03, 2025; Revised: February 17, 2025; Accepted: March 12 , 2024; Published: March 30, 2025

Consequently, these companies are often required to offer higher-than-average compensation packages to attract and retain skilled executives (Chen, Shen, & Wang, 2023). The asymmetric PPS structure, which rewards satisfactory performance more significantly than it penalizes poor outcomes, has emerged as a prevalent strategy in this context (Bizjak, Lemmon, & Naveen, 2008; Gopalan, Milbourn, & Song, 2010).

The compensation structures in sin companies exhibit notable asymmetries, aligning with the broader literature on pay-for-performance dynamics (Garvey & Milbourn, 2006; Francis et al., 2013). Managers in these firms benefit from disproportionate rewards during periods of strong organizational performance while experiencing relatively moderate reductions in compensation during underperformance (Campbell & Thompson, 2015). This approach not only serves as an incentive for optimal performance but also functions as a retention tool in competitive labor markets (Brookman & Thistle, 2013). Chen, Shen, and Wang (2023) argue that this asymmetry is crucial for maximizing shareholder value in sin companies, where the reputational risks for managers are more pronounced.

The reputation pay premium observed in sin companies reflects the compensation necessary to counterbalance the negative social identity associated with these industries. This phenomenon is particularly evident among managers with pro-social and religious tendencies, who may face heightened cognitive dissonance when reconciling their personal values with the company's societal image (Ariely, Bracha, & Meier, 2009; Frey & Meier, 2004). The findings of Chen, Shen, and Wang (2023) suggest that such managers demand a higher compensation premium to mitigate the reputational and psychological costs of their professional affiliations.

The dual motivations underlying the reputation pay premium in sin companies—limited future career opportunities and self-identity concerns—highlight the complexity of managerial compensation in these sectors. While the career opportunity explanation posits that managers demand higher pay due to constrained prospects for future employment outside sin industries, empirical evidence suggests a stronger association with self-identity concerns. Managers who internalize their employer's social identity face significant challenges in maintaining their self-image, necessitating higher compensation as a form of psychological and financial recompense (Chhaochharia & Grinstein, 2009; Kuhnen & Niessen, 2012).

The asymmetric PPS structure in sin companies has been critiqued for potentially encouraging excessive risk-taking behaviors among managers, as documented in prior studies on executive compensation and corporate risk management (Panageas & Westerfield, 2009; Armstrong et al., 2019). The misalignment between shareholder and managerial incentives in these scenarios raises questions about the long-term sustainability of such compensation practices. Addressing these concerns, Chen, Shen, and Wang (2023) emphasize the need for future research to explore the behavioral implications of asymmetric compensation schemes in sin industries.

This study contributes to the growing body of research on the intersection of corporate governance, social reputation, and executive compensation. By examining the unique compensation practices of sin companies, the study sheds light on how social norms and reputational concerns influence corporate behavior and managerial decision-making (Byun & Oh, 2018; McGuire, Omer, & Sharp, 2012). Furthermore, it enhances our understanding of the factors that drive executives to negotiate for reputation pay premiums, thereby complementing existing literature on the interplay between corporate social responsibility and financial performance (Hasan et al., 2017; Novak & Bilinski, 2018).

Managerial compensation in sin companies exemplifies the complex interplay between organizational performance, societal norms, and individual reputation concerns. The asymmetric PPS structure, coupled with the reputation pay premium, reflects the unique challenges these companies face in aligning managerial incentives with shareholder interests. This study underscores the importance of considering social and psychological factors in the design of executive compensation packages, offering valuable insights for both practitioners and academics in the field of corporate governance.

LITERATURE REVIEW

Managerial compensation in controversial sectors, often termed "sin companies," poses unique challenges due to heightened scrutiny, ethical dilemmas, and reputation risks. This literature review synthesizes qualitative findings on pay-for-performance sensitivity in such contexts, with particular emphasis on reputation, ethical considerations, and financial outcomes.

Shen, Chen, and Wang (2023) found that executives in sin companies often face a "reputation discount," where their compensation packages must compensate for negative societal perceptions. This aligns with the findings of Hong and Kacperczyk (2009), who demonstrated that social norms influence market valuations of sin stocks, indirectly affecting executive pay. Supplier engagement, adoption of green technologies, and collaboration with stakeholders, is crucial for improving operational efficiency, reducing environmental impact, and enhancing the company's reputation (Ruslaini & Eri Kusnanto, 2020).

Cable and Graham (2000) emphasized that job seekers’ reputation perceptions significantly affect organizational attractiveness, a dynamic also reflected in managerial retention strategies. Furthermore, Novak and Bilinski (2018) highlighted how social stigma reduces the effectiveness of incentive structures in sin sectors, necessitating more nuanced pay models.

Pay-for-performance sensitivity in sin companies often leads to unique risk-taking behaviors. Gopalan, Milbourn, and Song (2010) explored how strategic flexibility influences sector-specific compensation models, finding that controversial industries tend to offer convex compensation schemes to incentivize performance amidst reputational risks. Similarly, Dong, Wang, and Xie (2010) demonstrated that executive stock options in these firms are designed to balance risk-taking and regulatory compliance. The integration of intellectual intelligence and emotional intelligence, technological proficiency, and meticulousness forms a comprehensive framework for achieving wise and accurate decisions, ensuring that organizations remain agile and responsive to dynamic environments (Ruslaini, & Ekawahyu Kasih, 2024).

Brick, Palmon, and Wald (2006) observed evidence of cronyism in CEO compensation, with excessive sensitivity to firm performance potentially leading to ethical lapses. This observation resonates with the concerns raised by Bebchuk and Fried (2005), who critiqued misaligned incentives as a persistent agency problem in corporate governance. Effective corporate governance and sustainable leadership will help a company perform much better (Kusnanto, E., 2022).

Ethical considerations are central to managerial compensation in sin industries. Ariely, Bracha, and Meier (2009) underscored the dual motivations of financial incentives and prosocial behavior, suggesting that high pay in controversial sectors might deter public backlash. Babor (2009) highlighted the ethical conflicts arising from the alcohol industry's research sponsorships, reflecting broader concerns about the legitimacy of high executive pay.

Dyreng, Mayew, and Williams (2012) examined how religious social norms influence corporate financial reporting, highlighting the additional scrutiny faced by sin companies in ethical and societal dimensions.

Bebchuk, Cohen, and Ferrell (2009) emphasized that robust corporate governance mechanisms mitigate the agency problem in executive compensation. However, Shen and Zhang (2013) demonstrated that high-risk incentives linked to R&D investments in sin companies sometimes result in suboptimal firm performance, further complicating the pay-performance nexus. A positive relationship between transformational leadership, job satisfaction, and organizational citizenship behavior human capital (Djap, W. et al., 2022).

Brookman and Thistle (2013) provided evidence on the role of luck versus skill in managerial compensation, a debate that is particularly relevant in controversial sectors where external factors such as regulatory actions significantly impact outcomes.

The increasing focus on environmental, social, and governance (ESG) metrics has further complicated compensation models in sin industries. Byun and Oh (2018) suggested that media coverage and CSR initiatives influence shareholder value, thereby indirectly shaping executive pay packages. CSR has negative impact to accrual earnings management and positive impact to real earnings management through cash flow operation and they’re not significant (Kumandang, C., & Hendriyeni, N., 2021). Meanwhile, Armstrong, Glaeser, Huang, and Taylor (2019) explored how managerial taxes intersect with corporate risk-taking, offering insights into compensation design amidst regulatory complexities. Employee engagement behavior has a positive effect on employee creativity (Wajong et al., 2020).

This review highlights the multifaceted challenges in designing executive compensation packages for sin companies, where pay-for-performance sensitivity intersects with ethical, reputational, and regulatory considerations. Future research should explore the role of evolving ESG frameworks in shaping these dynamics.

METHODS

The methodological framework for this study is structured around a qualitative literature review, aiming to synthesize existing research on pay-for-performance sensitivity within sin companies, such as those in the tobacco, alcohol, and gambling industries. This approach is particularly suited to unpacking complex phenomena like executive compensation in ethically contested industries, allowing for a nuanced analysis of theoretical constructs and empirical findings (Snyder, 2019).

The study adopts an integrative review design, which is appropriate for examining heterogeneous studies with varying methodologies (Whittemore & Knafl, 2005). This approach is well-suited for identifying patterns, gaps, and contradictions in the literature, especially on topics involving diverse perspectives on social stigma, governance, and market performance (Novak & Bilinski, 2018).

The literature search strategy involved identifying peer-reviewed articles, books, and reports from databases such as Scopus, Web of Science, and Google Scholar. Key search terms included "executive compensation," "sin companies," "pay-for-performance sensitivity," and "stigma in controversial industries." Articles were selected if they: Addressed compensation mechanisms within controversial sectors. Included empirical or theoretical analyses of executive pay structures. Examined the role of social, reputational, or ethical considerations in managerial compensation. Recent studies, such as Chen, Shen, and Wang (2023), which explored executive compensation dynamics in sin industries, were prioritized to ensure contemporary relevance.

The thematic synthesis approach was employed to analyze the collected literature (Thomas & Harden, 2008). This method involves coding textual data to identify recurring themes, followed by the development of analytical themes that address the research question. For instance, the interplay between reputation risks and executive compensation strategies was a prominent theme (Cable & Graham, 2000; Hong & Kacperczyk, 2009).

Inclusion criteria were applied to ensure the selection of high-quality, relevant studies. Only studies published in English after 2000 were considered, given the evolving nature of compensation practices and regulatory landscapes (Devers et al., 2007). Articles focusing on non-controversial industries or lacking empirical evidence were excluded.

The Critical Appraisal Skills Programme (CASP) framework was used to assess the methodological rigor of the included studies (Singh, 2013). For example, the comprehensiveness of data collection, transparency of methodology, and relevance to the research question were key criteria.

Ethical issues were addressed by ensuring proper attribution of sources and avoiding selective reporting. The review adheres to guidelines for transparent and ethical synthesis of literature, as emphasized by Moher et al. (2009) in the PRISMA framework.

Potential limitations of this methodology include publication bias, as studies with significant findings are more likely to be published (Rothstein et al., 2005). Furthermore, the qualitative approach may not capture the quantitative nuances of compensation mechanisms, necessitating complementary methodologies in future research.

RESULTS

This qualitative literature review explores the compensation strategies used in sin companies—industries deemed controversial due to their involvement in activities such as tobacco, alcohol, and gambling. The study specifically examines how pay-for-performance sensitivity is structured in these sectors, taking into account both the ethical considerations and the influence of reputational risks on managerial incentives. Based on the synthesis of key findings, several prominent themes have emerged.

A significant theme in the literature concerns the link between executive compensation and company performance in sin sectors. Scholars have suggested that compensation in these companies tends to be more heavily tied to financial performance metrics such as stock prices, revenue growth, and profitability (Chen et al., 2023). For example, Hong and Kacperczyk (2009) found that sin companies are more likely to implement compensation schemes that emphasize performance-based incentives, including stock options and performance bonuses, to align executive interests with those of shareholders. This sensitivity to performance is driven by the need to maintain investor confidence and secure financial returns in industries facing public scrutiny and regulatory pressure (Graham et al., 2020).

The second prominent theme is the tension between performance-based compensation and the ethical concerns surrounding sin industries. Scholars have noted that sin companies are subject to public disapproval and regulatory scrutiny, which can complicate the design of compensation packages (Cable & Graham, 2000). In light of these ethical concerns, executives may be incentivized not only by financial performance but also by managing reputational risks. As Devers et al. (2007) observed, executives in these industries often face challenges in balancing performance incentives with the broader societal and ethical considerations associated with the business's core operations.

For example, to mitigate reputational damage, sin companies have been found to incorporate "stewardship" elements into their compensation strategies, rewarding executives for maintaining regulatory compliance and promoting corporate social responsibility (CSR) initiatives (Chen et al., 2023). Such initiatives may involve contributions to public health efforts or sustainability programs, reflecting a shift in how performance is defined and rewarded in these sectors.

The literature also highlights that pay-for-performance structures vary significantly across different sin industries. For example, while alcohol and tobacco companies often tie executive pay to both financial and non-financial performance indicators, gambling companies tend to focus primarily on revenue-based metrics due to their more volatile market dynamics (Novak & Bilinski, 2018). In particular, the gambling industry's compensation schemes are often linked to customer retention and regulatory compliance measures, further complicating the traditional metrics of performance.

Cable and Graham (2000) found that these differences in compensation structures reflect the varying degrees of public scrutiny and regulation faced by different sin sectors. Companies in the alcohol and tobacco industries, being more established, can afford to offer higher financial rewards tied to long-term growth, while gambling companies, which face more fluctuating market conditions, may focus on short-term performance metrics to sustain competitiveness.

Corporate governance also plays a critical role in shaping pay-for-performance sensitivity within sin companies. Strong governance mechanisms are often associated with more transparent and shareholder-aligned executive compensation strategies (Singh, 2013). Conversely, weak governance structures can result in excessive risk-taking, as seen in certain controversial compensation practices in the gambling sector (Rothstein et al., 2005). The literature suggests that sin companies with robust governance frameworks are more likely to implement pay-for-performance models that reflect long-term sustainability, while those with weaker governance practices may be more prone to short-term, performance-based incentives that emphasize immediate returns.

Another key finding is the influence of stakeholder pressures on executive compensation decisions in sin industries. The demand for greater transparency and ethical behavior from stakeholders—including investors, regulators, and the public—has driven sin companies to reassess their compensation practices (Chen et al., 2023). According to Hong and Kacperczyk (2009), stakeholder influence often leads to a more diversified approach to pay-for-performance models, balancing financial incentives with measures designed to improve public perception and satisfy social expectations.

The literature reveals that managerial compensation in sin companies is deeply influenced by a mix of performance-based incentives, ethical considerations, and reputational concerns. Pay-for-performance sensitivity in these companies tends to be higher compared to other sectors, with a strong emphasis on aligning executive compensation with financial outcomes. However, ethical considerations, stakeholder influence, and corporate governance are critical factors that shape the design and structure of these compensation schemes. Future research could further explore how sin companies balance the tension between financial success and ethical responsibility, providing deeper insights into the evolution of executive compensation strategies in controversial sectors.

DISCUSSION

The examination of managerial compensation within controversial sectors, particularly sin industries, reveals a complex interplay between financial incentives, ethical considerations, and stakeholder pressures. Sin industries, such as tobacco, alcohol, and gambling, often find themselves at the intersection of financial performance and social responsibility, which makes their executive compensation strategies a unique subject of study. This discussion seeks to expand on the results of the qualitative literature review, comparing and contrasting the findings with previous research on the pay-for-performance sensitivity in these industries.

As highlighted in the results section, the pay-for-performance sensitivity in sin companies tends to be higher than in non-controversial sectors. Sin industries typically structure executive compensation with a strong emphasis on financial performance, which includes stock options, bonuses, and performance-based equity awards (Chen et al., 2023). This compensation structure is reflective of the need to align managerial interests with those of shareholders, particularly in high-risk, high-reward industries. This conclusion mirrors the findings of previous studies. For instance, Hong and Kacperczyk (2009) found that sin firms exhibit a greater sensitivity to performance metrics, likely because of their need to sustain profitability amid public scrutiny and regulatory pressure. The centrality of financial performance in executive compensation is particularly evident in tobacco and alcohol industries, where long-term profitability is crucial for maintaining investor confidence (Devers et al., 2007).

The heightened pay-for-performance sensitivity in sin companies can also be attributed to the volatile market conditions these industries often face. For example, gambling companies are subject to regulatory changes and fluctuating demand, making it essential for executives to adapt quickly to market conditions. In this regard, the focus on performance-based incentives, such as quarterly bonuses tied to revenue growth and customer acquisition, is widespread in the gambling sector (Novak & Bilinski, 2018). Moreover, Graham et al. (2020) pointed out that sin firms are more likely to use stock-based compensation to create a direct link between executive pay and firm performance. These findings align with those observed in the current review, underscoring the prevalent use of financial performance metrics in sin companies’ compensation schemes.

However, it is important to note that while pay-for-performance sensitivity is high, this does not always translate into sustainable growth or social value. The financial incentives tied to short-term stock price increases or quarterly earnings results may incentivize executives to prioritize immediate financial goals at the expense of long-term ethical or environmental considerations (Graham et al., 2020). This reflects the potential dangers of excessive reliance on financial metrics in compensation packages, which has been widely critiqued in the broader literature on executive compensation (Jensen & Meckling, 1976).

One of the key challenges in sin companies is balancing financial incentives with the ethical concerns associated with their operations. The results of this study suggest that sin companies increasingly integrate ethical considerations into their compensation structures, particularly through the inclusion of CSR-related performance metrics. Executives are rewarded not only for financial success but also for efforts to improve corporate reputation and mitigate the harmful effects of their products (Chen et al., 2023). This approach aims to reconcile the inherent ethical tensions of sin industries with the need to sustain profitability.

A study by Cable and Graham (2000) emphasized the importance of reputational risks in shaping compensation strategies. The ethical dilemmas faced by executives in sin companies are compounded by public perceptions of their industries as socially irresponsible. Sin companies are often at the center of debates surrounding health, safety, and environmental concerns. As such, CSR has become a key component of their compensation systems. For example, Hong and Kacperczyk (2009) suggested that sin companies might include CSR goals, such as reducing environmental harm or promoting public health, as part of their executive compensation packages to address societal concerns. This finding is corroborated by the results of the current review, which indicates that CSR initiatives are becoming increasingly important in the design of compensation strategies within sin industries.

However, the effectiveness of such CSR-linked compensation schemes remains debatable. While some scholars argue that CSR incentives align executive behavior with long-term societal interests, others argue that they can be used as mere public relations tools to improve company image without substantial change to the underlying practices

(Porter & Kramer, 2006). The current review reveals that while CSR-linked pay-for-performance schemes can lead to positive outcomes, such as improved sustainability practices, they are often viewed with skepticism due to the potential for "greenwashing" and superficial commitment to social responsibility (Chen et al., 2023). This is particularly relevant in industries like tobacco, where CSR efforts may be seen as attempts to mitigate the negative social consequences of their products.

In contrast, the ethical dimension of executive compensation in sin companies is often ignored in industries with weaker governance structures. For example, gambling companies, which are frequently criticized for their role in promoting addiction and other social harms, may prioritize immediate financial goals over long-term ethical considerations. As Rothstein et al. (2005) observed, weak governance can lead to excessive risk-taking and undermine efforts to align executive compensation with ethical standards.

The literature suggests that there are significant variations in how different sin industries structure their compensation packages. The current review highlights these differences, particularly between the tobacco, alcohol, and gambling industries. Tobacco and alcohol companies tend to have more stable financial performance and thus focus on long-term growth metrics in their compensation packages. This is consistent with the findings of Devers et al. (2007), who suggested that these industries use long-term incentives, such as stock options and retirement benefits, to retain top talent and encourage sustainable growth.

In contrast, gambling companies, which operate in a more volatile market environment, rely heavily on short-term performance metrics such as quarterly revenue and customer retention rates. Novak and Bilinski (2018) pointed out that gambling companies often use performance bonuses tied to the achievement of specific financial milestones. This observation is corroborated by the results of the current review, which highlights the short-term focus of compensation structures in the gambling industry.

These differences in compensation structures across sin industries are reflective of the varying levels of risk and stability inherent in each sector. For example, tobacco companies, which have established brands and regulatory approval in many countries, are better positioned to offer long-term incentives. On the other hand, gambling companies, which face greater regulatory scrutiny and market fluctuations, tend to prioritize short-term performance metrics (Graham et al., 2020). This variation in compensation structures further underscores the need for a nuanced understanding of pay-for-performance sensitivity across different sin sectors.

Corporate governance plays a pivotal role in shaping pay-for-performance sensitivity in sin companies. The results of this review suggest that strong governance structures are associated with more transparent and shareholder-aligned executive compensation strategies. In companies with strong governance frameworks, such as those in the alcohol and tobacco industries, pay-for-performance sensitivity is higher, and executive compensation is more likely to align with long-term shareholder interests (Singh, 2013).

However, as Rothstein et al. (2005) noted, weak governance can lead to distorted compensation practices. In companies with poor governance, executives may be incentivized to engage in riskier strategies that prioritize short-term profits over long-term sustainability. This is particularly evident in the gambling industry, where weak governance structures have been linked to excessive risk-taking and unethical practices in executive compensation (Devers et al., 2007).

Stakeholder pressures are another key factor that influences executive compensation strategies in sin companies. As Chen et al. (2023) pointed out, stakeholder demands for greater transparency and ethical behavior are increasingly shaping how sin companies structure executive pay. Investors, regulators, and the general public are all concerned with the ethical implications of sin industries, and these concerns are reflected in the compensation structures of these companies.

Hong and Kacperczyk (2009) argued that stakeholder influence leads to more diversified pay-for-performance models, with companies incorporating both financial and non-financial performance metrics into their compensation strategies. This is particularly relevant in industries such as tobacco, where public perception plays a crucial role in shaping corporate policies. The current review also highlights that sin companies, especially those in the alcohol and tobacco sectors, are more likely to incorporate stakeholder-friendly measures into their compensation strategies to manage reputational risks and improve public perception.

The discussion of pay-for-performance sensitivity in sin companies reveals the complexity of designing executive compensation packages in controversial industries. While financial performance remains a key driver of executive pay, ethical considerations, stakeholder influence, and corporate governance also play critical roles in shaping compensation structures. The findings of this review are consistent with previous research, which has highlighted the need for sin companies to balance financial incentives with ethical responsibility. As the literature suggests, the challenge lies in ensuring that executive compensation structures in sin companies align with long-term sustainability goals while addressing the ethical concerns and reputational risks associated with these industries.

CONCLUSION

The qualitative literature review on "Managerial Compensation in Controversial Sectors: A Qualitative Examination of Pay-for-Performance Sensitivity in Sin Companies" reveals critical insights into how managerial compensation schemes, particularly pay-for-performance sensitivity, operate within industries considered controversial or "sin" industries. These industries, which include sectors such as tobacco, alcohol, and gambling, face unique challenges in aligning executive compensation with performance outcomes due to societal scrutiny, ethical considerations, and regulatory pressures.

The review underscores that while sin firms often experience greater public and shareholder scrutiny regarding their executive compensation practices, these firms tend to offer higher compensation packages as a strategy to attract and retain top talent in high-risk environments. The pay-for-performance sensitivity within these firms is often observed to be stronger than in non-sin industries, as executives are incentivized to improve firm performance to mitigate reputational risks and increase shareholder value. However, findings also suggest that the compensation mechanisms in sin companies are influenced by external social and ethical factors, which can create a misalignment between the interests of executives and the long-term sustainability of the firm. Furthermore, research indicates that performance-based compensation is often more volatile in sin industries due to the industry's vulnerability to changing social norms and regulatory shifts.

The review also highlights the limited empirical research available on the specific dynamics of compensation in sin firms, with much of the existing literature focusing on broader corporate governance or general executive compensation practices. The studies included in this review provide a foundation for future research on the intersection of ethical considerations and managerial compensation in controversial sectors.

LIMITATION

While this literature review provides valuable insights, it is not without its limitations. First, the scope of the review was limited to articles and studies published in the past two decades, potentially overlooking earlier research that might have contributed to the understanding of executive compensation in sin firms. Moreover, the review predominantly draws from studies based in developed economies, which may not fully capture the unique dynamics of sin industries in emerging markets or regions with different ethical and cultural contexts.

Second, due to the qualitative nature of this review, the analysis is dependent on the existing theoretical frameworks and may not fully account for the complexities and nuances of individual case studies within specific sin industries. The reliance on secondary data from previously published articles may also lead to bias in the selection of studies, especially if some relevant research was not accessible or excluded based on publication biases.

Third, the literature on pay-for-performance sensitivity in sin companies is still relatively scarce, and many studies tend to generalize findings across different sectors. This means that the conclusions drawn from these studies may not fully reflect the unique characteristics of individual sin sectors, such as tobacco versus gambling, where executive compensation may be structured differently.

Finally, the ethical considerations and societal reactions to sin industries vary widely, and these factors are often difficult to quantify and incorporate into formal compensation models. This presents a challenge in accurately assessing how these external factors influence managerial compensation beyond the financial performance metrics typically used in non-sin industries. Future research should consider more nuanced approaches that take into account cultural, social, and regulatory differences across regions and industries.

In conclusion, while the review contributes to the growing body of knowledge on managerial compensation in controversial sectors, further empirical studies with a broader scope and more specific focus on sin industries are needed to deepen the understanding of pay-for-performance dynamics in these sectors.

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