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INCOME INEQUALITY AND THE RESPONSIBILITY OF LEADERS IN CORPORATE GOVERNANCE

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Abstract

This article theoretically analyzes the problem of income inequality and the socio-economic responsibility of leaders within the corporate governance system. The causes of income inequality formation and its economic and social consequences are examined. The modern interpretation of corporate governance principles is highlighted. Issues of leaders' compensation policy, resource allocation, and responsibility toward stakeholders are substantiated. The role of the ethical leadership concept in mitigating income inequality is revealed.

Keywords

income inequality, corporate governance, leadership responsibility, social justice, ethical leadership, stakeholders, resource allocation.

INTRODUCTION

It has been recognized that the problem of income inequality has been growing increasingly acute over the course of the global economy's development in recent decades. It has been observed that rising rates of economic growth do not benefit all social strata equally, and in some cases instead contribute to the concentration of wealth and income in the hands of a small group. It has been emphasized that this situation should be assessed as a serious risk not only from the standpoint of social justice but also for economic stability.

It has been shown that various factors play a role in the formation of income inequality, including technological change, the integration of global markets, and tax policy. However, it has been emphasized that, alongside these factors, decisions within the corporate governance system — in particular, executive compensation and remuneration policy — are also recognized as an important factor that intensifies income inequality.

It has been noted that in recent times the gap between the income of top-level executives and that of ordinary employees has been increasing significantly. It has been substantiated that this situation has given rise to the need to reconsider the issue of leaders' social responsibility within the corporate governance system from a new perspective.

The purpose of the article is defined as: elucidating the theoretical essence of income inequality; analyzing issues of leadership responsibility within the corporate governance system; and substantiating the importance of the ethical leadership concept in addressing this problem.

MAIN PART

It has been shown that the concept of income inequality should be understood as the uneven distribution of material goods and income among members of society. It has been noted that this phenomenon has a long history in economic theory, and that various statistical indicators have been developed as criteria for measuring it.

The causes of income inequality formation have been divided into several groups. The first group identified is the inequality generated by the market mechanism itself — it has been interpreted as a natural phenomenon that people in different occupations receive different incomes depending on supply and demand in the labor market. The second group analyzed is institutional factors, including property relations, inheritance rights, and differences in access to the education system.

The third group singled out for particular attention is decisions within the corporate governance system. It has been assessed that, in determining the compensation of top-level executives, the position taken by corporate boards of directors, the prioritization of shareholder interests, and the disregard of long-term social consequences are important factors that intensify income inequality.

The modern interpretation of corporate governance principles

It has been shown that the concept of corporate governance should be understood as the system for directing and controlling a company's activities, encompassing the relationships among shareholders, the board of directors, executive management, and other stakeholders. It has been noted that the traditional corporate governance model focused primarily on maximizing shareholder wealth.

However, it has been emphasized that the limitations of this approach have come to be recognized in modern conditions, and that "stakeholder theory" has been put forward in its place. According to this theory, it has been substantiated that a company should bear responsibility not only to shareholders but also to employees, consumers, suppliers, and the local community. It has been shown that such a comprehensive approach requires taking into account the social consequences of corporate decisions.

The principles of transparency, accountability, and fairness in corporate governance have been particularly emphasized. The independence of the board of directors, the existence of mechanisms for overseeing the activities of executive management, and the openness of compensation policy have been identified as important criteria determining the quality of corporate governance.

Executive compensation policy and the issue of resource allocation

The compensation and remuneration system for top-level executives has been recognized as one of the most widely discussed issues in corporate governance. It has been shown that, in the traditional approach, executives' high income is explained by their high level of responsibility and their capacity to make complex decisions.

However, it has been noted that recent research shows that the relationship between executive income and a company's financial performance is not always direct. It has been emphasized that, in many cases, compensation policy remains dependent on the internal decisions of the board of directors, industry norms, and an executive's negotiating ability. It has been substantiated that this can lead to an artificial intensification of income inequality within a company.

It has been shown that a leader's decisions regarding resource allocation acquire particular importance. Fair distribution of profits with employees, ensuring transparency in the compensation system, and investments aimed at improving the working conditions of lower-level employees have been interpreted as important indicators of a leader fulfilling their social responsibility.

The concept of ethical leadership and its role in mitigating income inequality

It has been noted that the concept of "ethical leadership" has gained particular attention in modern management theory. According to this concept, it has been substantiated that a leader should be accountable not only for economic efficiency but also for the ethical and social consequences of their decisions. Ethical leadership has been defined as a management practice based on values such as fairness, honesty, and transparency.

It has been shown that, in decisions made by leaders who practice ethical leadership, the interests of all stakeholders are balanced, and excessive disparities in compensation policy are not permitted. It has been substantiated that such leadership practice fosters an environment of trust within the organization, increases employee loyalty, and helps prevent social tension.

It has also been particularly emphasized that the concept of corporate social responsibility is expanding. It has been shown that modern companies must take into account not only profit-making but also their responsibility to society, which in turn strengthens the company's reputation and ensures its sustainable development over the long term. Leaders' personal example and commitment to values in this process have been assessed as the primary form through which ethical leadership manifests itself in practice.

The importance of governance policy in reducing income inequality

The importance of institutional changes within the corporate governance system in mitigating income inequality has been shown. Mechanisms such as establishing ceiling norms in the compensation system, ensuring employee representation on the board of directors, and putting compensation policy to a shareholder vote have been analyzed as approaches currently applied in corporate governance practice.

Furthermore, it has been shown as a positive practice for leaders to introduce reward systems oriented toward long-term outcomes and to make decisions based on sustainable development criteria rather than short-term financial indicators. It has been substantiated that this approach serves not only to reduce income inequality but also to ensure the company's long-term competitiveness.

CONCLUSION

As a result of the theoretical analysis conducted, it has been substantiated that the problem of income inequality is closely linked to decisions within the corporate governance system. It has been established that the compensation policy of top-level executives, their decisions regarding resource allocation, and their responsibility toward stakeholders directly affect the formation of income inequality.

It has been shown that there is a need to move away from the traditional corporate governance model, which is oriented solely toward shareholder interests, toward a comprehensive approach based on stakeholder theory. It has been assessed that the ethical leadership concept ensures that leaders make decisions based on the principles of fairness, honesty, and transparency, which serves as an important tool for mitigating income inequality.

In conclusion, enhancing the socio-economic responsibility of leaders and strengthening mechanisms of transparency and accountability within the corporate governance system have been identified as important conditions for reducing income inequality and achieving sustainable economic development. On this issue, it has been recommended that, alongside the implementation of relevant institutional reforms by the state, particular attention should also be paid to developing a culture of ethical leadership within the corporate sector.

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