An Integrated Analysis of Board Structure and Executive Compensation at Meta Platforms Inc.

Yingxu Zhao[1*]

[1]QingDao Baishan Annie Wright School, Qingdao, Shandong, China

Abstract. The role of responsible corporate governance is critical in ensuring long term performance, ethical integrity and accountability for technology companies. The paper is a study report for evaluating the governance system of Meta Platforms Inc. with special consideration on the structural quality and operating effectiveness of the board as well as its executive compensation programs. Leveraging contemporary governance theory, comparative industry best practices, and empirical findings, the analysis reveals continued governance shortcomings at Meta—including the concentration of power in the dual executive roles, weak board independence, and a reliance on equity-based incentives without strong long-term performance requirements. These inefficiencies have dramatic impact on how organizations behave, revenues and investor confidence. The corporate sector, this paper recommends, should reinforce governance resilience and sustainability through a menu of reforms focused on board independence, compensation alignment, and stakeholder engagement. Meta's case is not only introduced as a special diagnosis; it is viewed in the context of corporate governance literature and founder-led, innovation-based companies.

1 Introduction

Governance has evolved from part of the scenery of compliance to a central preoccupation in the early 21st-century business world. The governance systems that influence how firms are run and management is incentivized — i.e., board oversight and executive pay — are critical drivers of firm performance, particularly in industries that experience rapid innovation and disruption. The way governance structures are constructed and managed have a direct impact on corporate behavior, appetite toward risk, commitment to long-term invest and how the company is trusted by others.

In a tech company, and especially a founder led company, typical governance models tend to differ. Such deviations can bring about flexibility and coherence in sight, but they also create considerable risks in the form of centralized power and lack of supervision. Meta Platforms Inc., a digital conglomerate that wields enormous global power, is a case in point here. Founded in 2004 by Mark Zuckerberg, it has transformed from a fledging social networking start-up to one of the most powerful technology companies in the world and a

* Corresponding author: Zhaoyingxu2007@163.com

leader in artificial intelligence, virtual reality and advertising. But despite this evolution, its governance has stayed exceedingly founder-driven.

By providing an in-depth case study of Meta, this paper answers three main questions: (1) What are the critical underlying structural limitations in Meta's board and compensation design? 2) What are the implications of these constraints for corporate behavior, accountability, and strategy implementation? (3) What are the reforms required for optimal governance and corresponding with long-run interests of stakeholders? Relying on corporate governance theory, principles of regulation, and comparative analysis, the study sets out a reform agenda for Meta and its peers.

2 Governance structure and institutional context

2.1 Concentration of authority

Underpinning Meta's system of governance is a dual-class share structure, which gives its founder and chief executive, Mark Zuckerberg, a disproportionate vote on various issues. Zuckerberg has a minority stake in Meta's overall equity, but he has Class B shares that offer 10 times voting power as the Class A stock. This cedes to him nearly 55% of the entire voting power of the company, which is sufficient for unilateral control of major corporate governance decisions, including the election and removal of directors, major mergers and acquisitions, allocation of capital, and corporate policy decisions [1]. As such, shareholder resolutions can be overruled there is no impact on corporate direction in the company regardless of the number of Class A shareholders who voted in support of them.

Although advocates of dual-class structures maintain that they protect management from short-term market pressures and permit long-term strategic continuity, dual-class structures also create dramatic system of governance risks [2]. First and foremost is the death of the "principal-agent" mechanism: if the company's majority shareholders are not exposed to financial risk yet still hold control, there is little structural pressure for accountable, transparent and responsible governance. The existence of the entrenchment effect or the concentration of the power in the hands of few may act as a disincentive for accountability and weaken management discipline [3].

Empirical research supports these concerns. Research has shown that even though dual-class THE IMPACT OF DUAL-CLASS STRUCTURE ON FIRM PERFORMANCE‰ 123 firms could have good prospects in the early development stages, long-run performance might to be blamed due to less monitoring, bloated management, disinterest in external constituents (lawsuits and boycotts), and inflexibility in making the proper decisions [4]. With Meta, Zuckerberg's power to unilaterally monopolize board membership and strategic direction represents not only the concentration of governance power but also the threat of strategic overreach or of being blindsided by events.

2.2 Composition and independence of the board

On the surface, the formal composition of Meta's board looks pretty balanced: internal executives and a mix of non-executive directors with technology, academic and finance cred. However, functional independence remains questionable. Many of the board member have long-standing personal or professional relationships with Zuckerberg or are associated with the company's strategic efforts, leading to concerns as to whether they can provide an independent check on the executive suite [5].

Board independence is central to the modern governance literature, which argues that to provide effective monitoring, directors need to be structurally and psychologically the ability

to challenge managerial authority [6]. Failure to enjoy such independence can undermine the board's critical functions of risk oversight, ethical governance and executive accountability. Adams and Ferreira (2007) also show that boards with a greater proportion of independents are capable of producing better corporate oversight mechanisms, in particular for firm with complex activities or high exposure [7].

What's more, centralizing leadership decisions in a single person – there's no denying that Zuckerberg is both CEO and Chairman – flouts widely accepted norms of governance. The OECD Principles of Corporate Governance (2023) underlines the separation of these roles as a reflex of dispersion of power uncontrolled and to ensure balanced discussion [8]. It is advisable that the chair be an independent director to strengthen board oversight through the reduction of conflicts of interest and to preserve the integrity of strategic considerations [9].

The governance literature also provides support for the instrumental value of separation of roles. Firm Performance and Fraud In a recent study, Krause, Semadeni, and Cannella (2014) report stronger positive firm performance and negative fraud relationship's for firms with independent chairs [10]. In Meta's case, with no such structural counterweights, the board loses effectiveness and erodes investor confidence in internal checks and balances.

2.3 Governance committees

Meta has formed the typical triumvirate of board committees— Audit, Compensation, and Governance — and assigned each committee specific oversight duties. The Audit Committee is responsible for financial reporting and internal controls; the Compensation Committee is responsible for developing and reviewing compensation plans for executive officers; and the Governance Committee has responsibilities related to board member nominations, succession planning, and ethical standards. Despite this institutional design, the operational independence and impact of these committees is constrained by a higher order of command through Zuckerberg.

It is a well-established fact that board committees operate most effectively when their members are independent and have diverse skills [11]. But in Meta's instance, the authority of these bodies gets clouded in the wider governance landscape. The Compensation Committee, for instance, operates in an environment where the actual pay policy is highly influenced by Zuckerberg's preferences." This undermines the power of the committee to design incentives toward long term strategic and ethical objectives, and could lead to over-dependence on equity based rewards that are divorced from a more comprehensive stakeholder approach [12].

There is also the related fact that the Governance Committee's power over board nominations is much too weak to give this committee real legitimacy. Gatekeepers of Board Renewal In healthy companies those committees are gatekeepers of board renewal, making sure that diversity, independence and skill set is aligned based on the changing needs. But at Meta, board appointments are essentially approved by Zuckerberg, limiting the opportunity for critical self-assessment or renewal of board skills.

As a result, the Meta committee structures may just provide for compliance checks and not any meaningful governance counterbalance. For real accountability, these organizations need to be empowered by procedural safeguards, independent leadership and a shareholders-influenced mandate — none of which can be found within the company's current model.

3 Executive compensation and incentive alignment

3.1 Overview of compensation design

Meta's executive pay plan is predominantly performance-based, comprising a small base salary and a large equity portion. The principal tools are Restricted Stock Units (RSUs), Performance Stock Units (PSUs), and annual bonuses based on short-term operational metrics. The bulk of compensation for executives comes from RSUs, which usually vest over four years and grow in value as stock prices rise.

Although equity compensation is designed to promote a convergence of managerial and shareholder interests, the practice works to varying degrees, depending on the specified plan features. At Meta, there are several vulnerabilities. The equity awards do not contain strict long-term performance measures nor include non-financial KPI's for example ESG metrics as well as innovation and stakeholder satisfaction goals. In addition, the lack of clawbacks and holding after vesting makes the CEO less accountable and could promote opportunistic conduct.

3.2 Incentive misalignment and short-termism

The academic literature has warned for years that compensations systems that over-weight stock-based rewards without controlling for risk would cause problems [13]. At Meta, the prevalence of RSUs could encourage the company's executives and directors to prioritize share price maximization over long-term innovation, compliance, and ethical conduct. That history includes a track record of aggressive monetization of user data, insufficient privacy protections and reactive responses to regulatory pressure.

What's more, leaders win whether stock-price gains are due to market flows or the creation of value inside the company. Without performance-based vesting or shared relative measures of performance, it is debatable as to the extent pay flows from merit.

3.3 Absence of ESG integration

The academic literature has warned for years that compensations systems that over-weight stock-based rewards without controlling for risk would cause problems. At Meta, the prevalence of RSUs could encourage the company's executives and directors to prioritize share price maximization over long-term innovation, compliance, and ethical conduct. That history includes a track record of aggressive monetization of user data, insufficient privacy protections and reactive responses to regulatory pressure.

What's more, leaders win whether stock-price gains are due to market flows or the creation of value inside the company. Without performance-based vesting or shared relative measures of performance, it is debatable as to the extent pay flows from merit.

4 Behavioral and strategic implications

4.1 Organizational behavior and risk culture

The homogeneity of control and limited variety of incentives are instrumental in determining the organizational behaviour and internal risk culture of the FIs. At Meta, the person who founded the company and then ran it is where far too many decisions are made from the top down. This model of governance also reduces possibilities for dissent, constructive criticism and bottom-up innovation. As note by Hambrick and Finkelstein (1987), the presence of high CEO dominance can lead to cognitive rigidity and hubris on part of leadership, which can inhibit both adaptive learning and institutional response [14].

Also, without outside checks of the board or committee structure, decisions can be detrimentally constrained to contemporary influences that are unresponsive to changing situations and to significant influences from the stakeholders. This centralization can foster over-conformity, as top teams become more likely to "drink the Kool-Aid", rather than critically evaluating strategic risk [15].

These behavioral responses are amplified by the incentive structure. Without clear, multi-dimensional performance measurement, there is little forcing mechanism for executives to get in line with the broader business. Armstrong, Larcker, and Su (2014) document that inefficient compensation contracts, particularly those excessively based on equity-based incentives, are only weakly based on performance and that such contracts separate effort and accountability, leading managers to capture agency rents without contributing efficiently to performance [16].

Lack of clear long-term and non-financial performance indicators (e.g. targets), as diversity benchmarks, data security or ethical conduct goals at Meta could dilute internal accountability mechanisms. These may give rise to a type of "success trap," in which the firm's success history may have led to complacency and inertia in the face of an evolving public expectation and a more intensive regulatory oversight [17].

4.2 Strategic overreach and capital allocation

Meta's massive investment in creating the metaverse also underscores the dangers in unconstrained executive discretion over the deployment of capital. Long-horizon investments for innovation are required, but unfettered from counterbalancing governance inputs they lurch into strategic overreach. This happens when managers focus on highly uncertain or high speculative projects under imagination logic rather than risk-adjusted logic [18].

Now external, board-level oversight, particularly by directors with experience on long-cycle R&D efforts such as this one, might have provided much-needed perspective on feasibility, time horizons, and opportunity cost. But this is the very sort of thing that this particular arrangement precludes. Indeed as Jensen (1993) himself pointed out in his discussion of free cash flow agency problems, when firms have available cash and poor monitoring they tend to invest in negative return or reputation destroying projects because their managers are self serving or myopic [19].

Moreover, excessive focus on stock-price movement — abetted by equity-rich compensation plans — can squeeze out investments in organizational strength. Meta has less invested in AI ethics, cyber security and compliance infrastructure compared to its peers such as Microsoft or Alphabet. These shortcomings not only put a company at risk of regulatory penalties, but can damage consumer faith in the long run.

There is evidence that companies that balance innovation and disciplined governance do better than those that go for aggressive growth without oversight [20]. A more pluralist model of governance might have enabled Meta to navigate metaverse ambition by building in staged experimentation, scenario planning and a contingent capital release mechanism.

Meta's governance structure has led to a series of scandals, including the Cambridge Analytica fiasco and ongoing alarm over the spread of fake news. These incidents have hurt user trust, resulted in fines from regulators, and led to calls for structural changes. Although governance cannot eradicate reputational risk, a fairer and more open model can help to reduce it through ethical checks and balances -and make sure executives can be held to account.

5 Reform agenda and governance optimization

5.1 Enhancing board independence

Meta should adopt reforms that strengthen board independence as it works to increase oversight capacity. One of better disclosure that the company is adapting in terms of corporate governance is that the company forced to have a separation between CEO and Chairman, which is advocated in governance studies as will enhancing impartiality and transparency [21]. Also, imposing term limits on directors can help to prevent entrenchment and can bring in new thinking. Separate nomination processes managed by a subcommittee of non-executive directors would also de-politicize board appointments and improve legitimacy [22]. Greater diversity, in terms of gender, culture and professional background, is also thought to enhance board dialogue and decision-making quality [23].

5.2 Redesigning incentive systems

The company should reset executive pay to a more reasonable balance, with Meta being the driver of that change. In addition to financial KPIs, performance-based vesting criteria should include ESG criteria, such as data protection tea-targets, emission reduction targets and inclusive leadership scores. Lewellen and Lewellen (2016) argue that if a company is responsible for such a tremendous amount of money, it should have clawback clauses to back him or her down in the event of misconduct or performance reversal in order to restore public confidence and prudent fiscal policy [24]. Components of compensation should also be a combination of PSUs, deferred bonuses and LTIP. Companies such as Microsoft and Unilever have also done similar, where executive pay is encouraged to be linked to sustainable value creation.

5.3 Reforming capital structure and shareholder rights

Meta's two-class share structure also continues to stir debate over investor disenfranchisement. A gradual transition to sunset clauses would alleviate concerns regarding a forever control on the one hand, and keep leadership stability in the short run on the other [13]. Empowering shareholders by implementing mechanisms like proxy access and "say on pay" votes would also enhance board accountability and responsiveness. The evidence indicates that these instruments improve governance without constraining strategic flexibility [25].

5.4 Institutionalizing stakeholder engagement

Meta should include mechanisms for stakeholder input in its governance structure to address increasing demands for transparency and accountability. Annual advisory voting on ESG strategy and broad public disclosure of board and committee activity can contribute to legitimacy. The establishment of an Ethics and Sustainability Committee at the board level would institutionalize ethical governance and alignment with regulations. Organizations like Salesforce and Patagonia have demonstrated that formal stakeholder integration is protective of brand equity and reputation.

6 Conclusion

Meta Platforms Inc. is a gatekeeper to the global digital economy, but its governance reflects an outdated model of corporate accountability. Highly centralised authority, restricted board independence and a narrow set of executive incentives have created behaviour, strategy and

reputational risks. With the company under increasing scrutiny from regulators, investors and the public, it's not only the right thing to do, in other words, but also something of a captain's call.

This paper has laid out a comprehensive model for optimizing governance in Meta, based on modern theory and systems of comparison. By adopting reforms that increase board independence, expand incentive design, empower shareholders and institutionalize stakeholders, Meta can restore institutional confidence and reinvent itself as the leading progressive voice in the digital age. The lessons learned from Meta's case are applicable to other tech companies that are also struggling with the interplay of founder power, fast-paced invention, and increasing standards of accountability. Pragmatic and enabling regulation is not a barrier to innovation, but an enabler for strong, responsible and value creating business.

References

1. Meta Platforms Inc. Financial Summary Q4 2023. Retrieved from https://investor.fb.com (2023)
2. L. A. Bebchuk, K. Kastiel, The untenable case for perpetual dual-class stock. Virginia Law Review, **103**(4), 585–631 (2017).
3. P. Gompers, J. Ishii, A. Metrick, Extreme governance: An analysis of dual-class firms in the United States. Review of Financial Studies, **23**(3), 1051–1088 (2010).
4. E. H. Kim, R. Michaely, Sticking around too long? dynamics of dual-class structures. Journal of Financial Economics, **145**(2), 395–417 (2022).
5. ISS Governance. Board Effectiveness Ratings: Meta Platforms. Retrieved from https://www.issgovernance.com (2023)
6. E. F. Fama, M. C. Jensen, Separation of ownership and control. Journal of Law and Economics, **26**(2), 301–325 (1983).
7. R. B. Adams, D. Ferreira, A theory of friendly boards. Journal of Finance, **62**(1), 217–250 (2007) https://doi.org/10.1111/j.1540-6261.2007.01206.x
8. OECD. G20/OECD Principles of Corporate Governance. Retrieved from https://www.oecd.org/corporate/principles-corporate-governance.htm (2023)
9. Council of Institutional Investors. (2022). Corporate Governance Policies. Retrieved from https://www.cii.org/policies
10. R. Krause, M. Semadeni, A. A. Cannella, CEO duality: A review and research agenda. Journal of Management, **40**(1), 256–286 (2014).
11. Spencer Stuart. 2023 U.S. Board Index. Retrieved from https://www.spencerstuart.com (2023)
12. J. E. Core, W. R. Guay, D. F. Larcker, Executive equity compensation and incentives: A survey. Economic Policy Review, **9**(1) (2003)
13. L. A. Bebchuk, K. Kastiel, The untenable case for perpetual dual-class stock. Virginia Law Review, **103**(4), 585–631 (2017)
14. D. C. Hambrick, S. Finkelstein, Managerial discretion: A bridge between polar views of organizational outcomes. Research in Organizational Behavior, **9**, 369–406 (1987)
15. L. P. Tost, When, why, and how does power corrupt leaders? The effects of psychological distance on power and behavior. Research in Organizational Behavior, **35**, 179–205 (2015)

16. C. S. Armstrong, D. F. Larcker, C. Su, Corporate governance, incentives, and tax avoidance. Journal of Accounting and Economics, **60**(1), 1–17 (2014) https://doi.org/10.1016/j.jacceco.2015.02.003
17. D. A. Levinthal, J. G. March, The myopia of learning. Strategic Management Journal, **14**(S2), 95–112 (1993)
18. V. Gaba, J. Joseph, Corporate structure and performance feedback: Aspirations and adaptation in M-form firms. Organization Science, **24**(4), 1102–1119 (2013)
19. M. C. Jensen, The modern industrial revolution, exit, and the failure of internal control systems. Journal of Finance, **48**(3), 831–880 (1993)
20. I. H. Cheng, H. Hong, J. A. Scheinkman, Yesterday's heroes: Compensation and risk at financial firms. Journal of Finance, **70**(2), 839–879 (2015) https://doi.org/10.1111/jofi.12228
21. OECD. G20/OECD Principles of Corporate Governance. Retrieved from https://www.oecd.org (2023)
22. D. F. Larcker, B. Tayan, Corporate Governance Matters. Pearson Education (2016)
23. S. Terjesen, E. B. Couto, & P. M. Francisco, Does the presence of independent and female directors impact firm performance? Journal of Management & Governance, **20**(3), 447–483 (2016)
24. J. Lewellen, K. Lewellen, Investment and cash flow: new evidence. Journal of Financial and Quantitative Analysis, **51**(4), 1135–1164 (2016) https://doi.org/10.1017/s002210901600065x
25. E. H. Kim, R. Michaely, Sticking around too long? dynamics of dual-class structures. Journal of Financial Economics, **145**(2), 395–417 (2022)