The State of Pay: High Pay Centre briefing on executive pay

Summary findings:

- Average pay for a FTSE 100 CEO rose to £4.964 million in 2014, a slight increase from £4.923 million in 2013, but significantly higher than the £4.129 million in 2010
- In 2014, the average pay ratio between FTSE 100 CEOs and the average wage of their employees was 148:1. In 2013, the ratio was 146:1
- The ratio of FTSE 100 CEO pay to the median full-time worker across the whole UK economy was 183:1 in 2014, up from 182:1 in 2013 and 160:1 in 2010
- In contrast to the generous pay packages awarded to their Executives, only a quarter of the 100 FTSE 100 companies are accredited by the Living Wage Foundation for paying the living wage to all their UK-based staff.
- A majority of shareholders in only two FTSE 100 Companies voted against their company’s remuneration report in the advisory vote on remuneration in 2014. There has not yet been a majority shareholder vote against remuneration policy at a FTSE 100 company in the binding vote
- The average vote against the remuneration report in 2014 was just 6.4% across the FTSE 100. As of the end of 2014, the average vote against the remuneration policy at FTSE 100 companies was 5.9%

Methodology and caveats:

- The Enterprise and Regulatory Reform Act 2013 requires UK-listed companies to publish a ‘single figure’ detailing the total pay awarded for the lead executive’s position. Most companies also provide a ‘single figure’ going back to 2010 for comparative purposes (they will eventually have to provide a figure for the previous ten years). The High Pay Centre compiled these figures to create an average for the FTSE 100. All historical figures are nominal, rather than adjusted for inflation.
- Where there was a change in CEO during the year, the ‘single figure’ covers the total pay for the different individuals who occupied the CEO’s position during their time in post.
- There were some companies where we have concerns about their single figure – for example, if it did not include payments made in 2014 to a previous CEO as part of a historic pay scheme, or where a recently-merged company only disclosed historic pay levels for the CEO of one of the constituent companies. Nonetheless, we have used the figures provided by the company without making adjustments, for the purposes of consistency.
- Five companies that were members of the FTSE 100 in 2010 have subsequently de-listed, meaning they don’t have to publish historic CEO pay in their most recent annual report using the prescribed methodology. For these companies we have taken the figure published in 2010, which may have been calculated slightly differently. This is unlikely to significantly affect the wider average.
- Our average figure for 2014 differs slightly from previously published figures—this is because companies may revise their initial ‘single figure’ in subsequent reports based on new information, such as changes in share price. So those firms that have already released annual reports for the financial year 2014/15 may have shown a different figure for 2013/14.
to the one they published last year. As more annual reports are updated the figure for 2014 could change.

- However, these changes are usually quite minor - despite revisions, the average to the nearest hundred thousand has remained constant and we would expect it to continue to do so.
- Other organisations also calculate figures on CEO pay using different methodologies to those used by companies when publishing the ‘single figure’ in their annual reports – hence our figures also differ from others in the public domain.
- A minority of FTSE 100 companies report to a financial year that differs from the calendar year. For these companies, we have attributed the financial year 2013/14 to the figures for 2014, the financial year 2012/13 to 2013 and so on.
- As such, some companies have published more up-to-date figures than those used to inform this research, for the year 2014/15. We will use these figures to calculate an average for 2015 once the full data for that year is available.
- A minority of companies also pay in currencies other than sterling. For all figures, we have converted to sterling using the average exchange rate for 2014. This is to ensure that changes in pay levels are not obscured by exchange rate fluctuations.
- For pay ratios between CEOs and their employees, the UK Corporate Governance Code requires companies to ‘be sensitive to pay and employment conditions elsewhere in the group’ when determining executive pay, however it does not prescribe means of demonstrating sensitivity, such as publication of a pay ratio.
- The *Large and Medium sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013* do require companies to compare the percentage change in remuneration between CEOs and their employees. But this comparison does not include so-called ‘Long-term Incentive Plans’ which are the largest component of executive pay, and the companies are allowed to use a smaller comparator group of employees of their own selection, in lieu of their total workforce. Therefore, this figure is next to useless in terms of a meaningful comparison of CEO and worker pay.
- FTSE 100 Companies do disclose their average number of employees throughout the year and their total wage and salary costs. By dividing the latter by the former it is possible to work out the average wage for a company employee. This can then be compared to the ‘single figure’ for CEO pay to establish the pay ratio.
- However, disclosure of both total employees and total wage and salary costs is highly inconsistent. For example some companies report their total number of individual employees while others calculate on a full time equivalent basis. Some companies include payments such as social security payments, pensions and redundancy costs in their wage and salary costs, while others do not.
- Average workers’ pay could also be slightly mis-leading as it could be skewed upwards by a high number of very well-paid managers. It also fails to include contracted staff, who tend to be lower-paid. As such, the pay ratio figures are based on the best available data, but remain imperfect estimates.
- However the Office for National Statistics does publish median pay for all full-time UK workers in their Annual Survey of Hours and Earnings. This can be used to create a ratio between CEO pay and the average UK worker.
The Enterprise and Regulatory Reform Act also requires listed companies to hold a binding shareholder vote at least every three years on Executive remuneration policy (ie the structure and targets that will determine future executive pay levels) in addition to the annual advisory vote on the remuneration report detailing pay over the previous year.

All companies publish results of the votes on resolutions at their AGMs. We compiled these results to create an average for the FTSE 100. For the vote on remuneration reports, we used the results for the financial year ending in 2014. For the vote on remuneration policy, we used the most recent result if a vote did not take place in the financial year ending in 2014.

Detailed findings:

- Average pay for a FTSE 100 CEO rose to £4.964 million in 2014, a slight increase from £4.923 million in 2013, but significantly higher than the £4.129 million in 2010.
- Median CEO pay in 2014 was slightly lower at £3.873 million, a fall from £3.969 million in 2013, but up from £3.391 million in 2010.
- The fall in median pay between 2013 and 2014 and the less striking increase from 2010 to 2014 suggests that the increases in average pay are driven by big pay increases for a small number of CEOs at the top.
- The 10 highest paid CEOs in 2014 and 2013 were as follows:

<table>
<thead>
<tr>
<th>2014 Company</th>
<th>2014 CEO</th>
<th>Total pay £000</th>
<th>2013 Company</th>
<th>2013 CEO</th>
<th>Total pay £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>WPP</td>
<td>Sir Martin Sorrell</td>
<td>42,978</td>
<td>WPP</td>
<td>Sir Martin Sorrell</td>
<td>29,846</td>
</tr>
<tr>
<td>ROYAL DUTCH SHELL</td>
<td>Ben Van Beuren</td>
<td>19,510</td>
<td>SKY</td>
<td>Jeremy Darroch</td>
<td>17,027</td>
</tr>
<tr>
<td>RELX</td>
<td>Erik Engstrom</td>
<td>16,176</td>
<td>DIAGEO</td>
<td>Paul Walsh</td>
<td>15,557</td>
</tr>
<tr>
<td>TUI TRAVEL</td>
<td>Peter Long</td>
<td>13,333</td>
<td>EXPERIAN</td>
<td>Don Robert</td>
<td>13,918</td>
</tr>
<tr>
<td>PRUDENTIAL</td>
<td>Tidjane Thiam</td>
<td>11,834</td>
<td>SABMiller</td>
<td>Graham Mackay</td>
<td>13,910</td>
</tr>
<tr>
<td>LLOYDS BANKING GROUP</td>
<td>Antonio Horta-Osorio</td>
<td>11,544</td>
<td>BHP BILLITON</td>
<td>Marius Kloppers/Andrew Mackenzie</td>
<td>11,182</td>
</tr>
<tr>
<td>RECKITT BENCKISER</td>
<td>Rakesh Kapoor</td>
<td>11,237</td>
<td>VODAFONE</td>
<td>Vittorio Colao</td>
<td>11,099</td>
</tr>
<tr>
<td>HARGREAVES LANSDOWN</td>
<td>Ian Gorham</td>
<td>10,608</td>
<td>BURBERRY</td>
<td>Angela Ahrendts</td>
<td>10,901</td>
</tr>
<tr>
<td>EXPERIAN²</td>
<td>Don Robert</td>
<td>9,868</td>
<td>TUI TRAVEL</td>
<td>Peter Long</td>
<td>10,393</td>
</tr>
<tr>
<td>BP</td>
<td>Bob Dudley</td>
<td>9,289</td>
<td>BT GROUP</td>
<td>Ian Livingstone</td>
<td>9,402</td>
</tr>
</tbody>
</table>

¹ CEO pay = total pay for the CEO’s position in the given year, as recorded by companies in their annual reports. Pay packages paid in currencies other than sterling have been calculated using average exchange rate for 2014 as recorded by HMRC.

² All figures are for the financial year ending in 2014 – Experian have already published pay figures for the year 2014/15 which will be attributed to the year 2015 when data for the full FTSE 100 is available.
The Bank of England’s CPI inflation calculator actually suggests that in real terms, average CEO pay fell in 2014. In 2014 prices, the Bank calculates average CEO pay in 2013 was worth £5.039 million, while average pay in 2010 was worth £4,729 million. Median CEO pay in 2013 was £4.063 million in 2014 prices, while in 2010 it was £3.884 million.

One of the most controversial aspects of CEO pay is the ratio between CEO pay and the growth in pay of the wider workforce. Based on the best available data (see section on Methodologies and caveats) we estimate that FTSE 100 CEO pay increased from 146 times that of their average employee in 2013 to 148 times in 2014.

Previous calculations by Manifest have shown the ratio of FTSE 100 CEO pay to their average worker increasing from 47:1 to 139:1 between 1998 and 2011. These figures involved different methodology to our own, so should not be taken as part of the same sequence. Nonetheless, an increase from 47:1 to 150:1 is clearly far too large to be the result of methodological differences. CEO pay has obviously grown rapidly in comparison to the pay of their employees over the past two decades.

The ratio between FTSE 100 CEO pay and pay of all full-time workers across the UK stood at 183:1 in 2014, 182:1 in 2013 and 160:1 in 2010. These calculations are based on figures from the Office for National Statistics Annual Survey of Hours Earnings for median pay for a full-time employee in the UK (£27,195 in 2014; £27,011 in 2013; and £25,882 in 2010).

Just 25 of the 100 companies that constituted the FTSE 100 at the end of 2014 are accredited as living wage employers, who pay the living wage to all UK-based staff, by the Living Wage Foundation.

The 2014 average FTSE 100 CEO pay of £4.964 million is approximately 324 times as much as a full time worker on the UK living wage of £7.85 an hour would make, based on a 37.5 hour working week.

Our analysis of AGM results found that the average vote against FTSE 100 remuneration reports in 2014 was just 6.5%.

Two FTSE 100 Companies, Burberry and Intertek, lost the vote on the remuneration report in 2014, with a majority of shareholders voting against approving the report. There was also a significant minority of opposition at Centrica (33.1%); Ashtead Group (30.3%); ARM Holdings (32.1%); HSBC (23.7%); and WPP (20%).

There has not yet been a majority opposition to a FTSE 100 company’s remuneration policy since the binding vote was introduced in 2013. The average vote across the FTSE 100, as of the end of 2014, was 5.9%.

The most significant vote against a remuneration policy was at Standard Chartered, where over 40% opposed the policy at their AGM in 2014. Significant ‘no’ votes have also taken place at Carnival (38.1%); Morrisons (26.5%); and HSBC (20.7%)

---

3 Manifest/MM&K Director’s Remuneration Survey, 2012
5 The 25 living wage employers include Friends Life Group who subsequently merged with Aviva. For a full list of living wage employers, visit http://www.livingwage.org.uk/employers
6 Burberry’s 2015 AGM has already taken place and their remuneration report was approved by a majority vote
Conclusions:

- The 2013 changes to regulations governing executive pay appear to have virtually no effect in curbing excessive executive pay. While there was a minor decrease in real terms pay between 2013 and 2014, current CEO pay remains extraordinarily high in comparison with historic levels.
- Most critically, executive pay continues to increase in relation to the pay of their employees and the wider workforce.
- It seems highly unlikely that the gap between CEOs and other workers will close in the foreseeable future. The 2013 reforms increased the powers of shareholders to hold companies to account over executive pay, but thus far, they have largely shown little interest in doing so. Few shareholders – or those who control shareholder votes at AGMs – are concerned about the impact of excessive executive pay on the wider economy and society.
- The failure to bring levels of CEO pay down to less provocative levels is potentially problematic for a number of reasons:
  - Research for the High Pay Centre suggests that pay increases over the past two decades have not been matched by corresponding increases in company performance, by even the most generous measure.\(^7\)
  - Current executive pay levels could therefore be regarded as wholly disproportionate, and reflective of weak corporate governance structures; insufficiently challenging oversight; and potential conflicts of interest in the executive pay-setting process;
  - Though there is little data showing the changing distribution of pay within organisations beyond the executive level, it is possible that rising executive pay is matched by increases in pay for other senior managers across the company as an increasingly higher premium is placed on the importance of attracting ‘top talent’ to strategic positions.
  - Conversely, companies can be incentivised to hold down pay for workers lower down the hierarchy, who are perceived to be more dispensable, in order to bolster profit margins
  - While higher pay for CEOs alone does not represent a significant increase in costs for companies with billions of pounds in revenue, if this is also reflected in pay increases for other senior managers across the company the costs become more important. If pay for the highest top 1 per cent or even 0.1 per cent of earners within a company increases as a share of the total wage costs or total expenditure, then this could potentially be at the expense of the wider workforce, shareholders or investment in the business.
  - As such, there is a possible relationship between excessive executive pay at the top; poverty pay at the bottom; and low productivity. This is no more than an intuitive theory but merits further research.

---

o Finally, there is a question of societal fairness - whether such huge differences in pay levels can be justified or tolerated.

o A number of business leaders and commentators from across the political spectrum have voiced concern about the damage that perceived executive excess does to the reputation of business.

o A report for the High Pay Centre found that Institute of Directors members felt that anger about levels of executive pay was the biggest threat to trust in business.\(^8\)

o Anger at powerful and wealthy elites has already manifested itself in the UK and overseas in a number of ways, from consumer campaigns to political movements.

o It may be tempting for some to view the 2015 general election result as a rejection of concerns regarding inequality, but it would certainly be complacent to take it as an endorsement of current practices in relation to executive pay.