

High Pay Centre Briefing: Executive pay at FTSE 100 companies that are not accredited living wage employers

The Living Wage

Living Wage week (commencing 5 November) promotes the ‘real living wage’, the minimum hourly rate necessary to give workers and their families a decent standard of living (currently set at £10.20 per hour in London and £8.25 in the rest of the UK). The living wage is set annually by independent experts on behalf of the Living Wage Foundation. There are over 4,400 accredited living wage employers across the UK. 93% of accredited businesses surveyed by the Living Wage Foundation said they had noticed benefits from becoming a living wage employer, including reputational benefits; improvements to staff motivation and retention; and better relations between staff and management.¹

Background

Rising concern about pay and working conditions in the UK have raised the prominence of the living wage in public debate. Research suggests that pay levels for UK workers will not reach pre financial crisis levels until 2025, the longest ‘pay squeeze’ since the Napoleonic Wars.² An estimated 23% of jobs do not currently pay the living wage rate.³

Partly as a result of these concerns, the Government has introduced a number of corporate governance reforms this year, aimed at empowering workers and making better pay a higher priority for companies. For example, legislation has passed requiring listed companies in the UK to publish the ‘pay ratio’ between their CEO and their highest earner. They will also have to explain how their Directors have complied with their legal duty to have regard for stakeholders beyond just their shareholders – including their workers and wider society – when carrying out their role. The new corporate governance code states that

¹ Living Wage Foundation, *The Living Wage is good for business*, via <https://www.livingwage.org.uk/good-for-business>

² TUC, *17-year wage squeeze the worst in two hundred years* via <https://www.tuc.org.uk/blogs/17-year-wage-squeeze-worst-two-hundred->

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³ Office for National Statistics, *Annual Survey of Hours and Earnings* via <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/adhocs/006335annualsurveyofhoursandearningsashenumberandpercentageofemployeejobswithhourlypaybelowthelivingwagebyparliamentaryconstituencyandlocalauthorityukapril2015and2016>

companies must increase stakeholder representation in their governance structures via either a stakeholder committee; a non-executive director with responsibility for stakeholder issues; or worker representation on the company board.

Pay practices across the FTSE 100

In this light, it is interesting to look at living wage accreditation and current pay practices across the FTSE 100 index of the 100 largest companies listed on the UK stock market.

The FTSE 100 does not cover all the UK's largest employers – privately owned and public and voluntary sector organisations are not included, nor are foreign-owned companies with large operations in the UK. Some of the biggest companies on the UK stock market qualify for the FTSE 100 on the basis of their extensive global operations, despite employing fewer people in the UK than firms with smaller market capitalisation that don't make the index.

Nonetheless, it does include many major employers, including a number of household names. They employ hundreds of thousands of people across the country, and as major employers are critical to setting the market pay rates in their sector. Therefore, the employment practices of FTSE 100 firms have a substantial impact on living standards. Disclosure rules for listed companies also mean that data on pay and employment models for these firms is reasonably accessible and consistent.

There are currently 38 FTSE 100 companies that are accredited living wage employers, meaning that there are 61 that are not (excluding the Scottish Mortgage Investment Trust, an externally managed investment trust with a business model that is not comparable to other companies). These 61 companies that are not accredited include some of the largest and best known businesses in Britain such as the Tesco, Sainsbury's and Morrisons supermarket chains; the Royal Mail; leading manufacturers BAE Systems and Rolls Royce; Whitbread (owner of Premier Inns and Costa Coffee); Intercontinental Hotels (owner of Holiday Inn); International Airlines (owner of British Airways); and Easyjet.

Despite not being accredited as living wage employers to their low-paid staff, our research, based on figures compiled with the Chartered Institute for Personnel and Development, found that pay for the Chief Executives of these companies was very high. Key findings were as follows:

- *The 61 companies paid their Chief Executives a combined total of over £351 million in their most recent financial years.*
- *The median pay for the Chief Executives of these companies was £3.809 million. Average pay, which is more easily influenced by a small number of very high earners was £5.816 million.*

- *The median ratio CEO pay to pay for their average employee was 82:1. The median ratio was 172:1.⁴*

To put these figures into context, it is worth considering that the Living Wage Foundation estimate that the annualised equivalent of Living Wage is 17,062.50. The annual cost of raising a full time worker from the minimum wage to the living wage is currently £1,794.

This means:

- *On the median CEO pay package of £3.809 million, a CEO would earn the equivalent annual salary of a worker earning the living wage in about 14 hours.⁵*
- *The median CEO pay package of £3.809 million could pay for 2,123 minimum wage workers to be raised up to living wage level.*

For the 10 highest-paid CEOs the figures were even more striking (see Table 1). Again, these companies include major UK businesses with large numbers of workers and suppliers in this country.

Table 1: CEO pay for FTSE 100 companies that are not accredited living wage employers

Company	CEO	CEO pay (£000)
Persimmon	Jeff Fairburn	47,087
Melrose	Simon Peckham	42,764
GVC	Kenny Alexander	18,026
Coca Cola	Dimitris Lois/Zoran Bogdanovich ⁶	13,783
Reckitt Benckiser	Rakesh Kapoor	12,480
British American Tobacco	Nicandro Durante	11,423
BP	Bob Dudley	10,486
Carnival	Arnold Donald	8,906
Prudential	Mike Wells	8,702

⁴ All figures based on companies figures in their most recently-published annual report as of October 29

⁵ Based on the assumption that CEOs typically work a longer working week of around 60 hours – assuming a more conventional working week of 35-40 hours increases the hourly rate and thus means the CEO surpasses the living wage worker even more quickly

⁶ Dimitris Lois died in office – sum is the total paid for the CEO's role over the financial year

Vodafone	Vittorio Colao ⁷	7,984
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Payments of this size are likely to prove controversial when contrasted with the experience of low-paid workers earning the living wage, particularly for executives whose companies are not committed to paying their own workers a living wage.

Arguments against paying a living wage are chiefly based on costs – if companies are forced to spend more on staff costs, they cannot generate a profit with which to sustain themselves. However, the 61 companies in this sample are amongst the largest in Britain and are generally highly profile. Figures from the London Stock Exchange suggest that these companies made a *combined profit of £86.5 billion* in their most recent financial year. ⁸*Median profit for the 61 companies stood at £679 million*, so it is hard to argue that many of these companies could not afford to raise all their workers to the level of the living wage.

Conclusions and recommendations

There has been widespread criticism of general levels of executive pay in recent years. This is likely to be particularly pronounced in relation to companies that lavish multi-million pound pay packages on single individual executives while failing to pay their lowest earners enough to live on. Polling already suggests strong public support for proposals to cap executive pay at a fixed multiple of their lowest or median earning worker. Our findings are likely to increase support for measures such as this.

The findings raise moral questions about the pay practices of the cited companies. Indeed, the 2006 Companies Act states that while Directors must act in a way likely to promote the success of their company in the interests of its members (shareholders), they should also have regard for other stakeholder constituencies, including their workers. Failure to pay a living wage while also generating vast profits and executive pay awards suggests that too few have been demonstrating sufficient regard in this respect.

Proper enforcement of the new requirement for companies to detail how their directors have regard for the interests of stakeholder groups will be vital as new corporate governance regulations take effect. The introduction of new vehicles for stakeholder representation in corporate governance structures should also

⁷ Vittorio Colao was replaced as Vodafone CEO on 1st October 2018

⁸ Figures based on the most recent annual pre-tax profit for each company as collected by FTSE Russell and published on the London Stock Exchange website, via <https://www.londonstockexchange.com/exchange/prices-and-markets/stocks/indices/summary/summary-indices-constituents.html?index=UKX>

be closely monitored. Polling from ICSA suggests that 91% of companies are not planning to introduce a worker director, the most direct way of bringing alternative perspectives into company decision-making.⁹ If the other options - stakeholder committees and non-executive directors - fail to achieve meaningful change, the proposal for mandatory worker representation, initially implied by the Prime Minister when she first took office, should be re-visited.

Finally, we have noted that analysis of disclosures provided by FTSE 100 companies provides a useful but imperfect insight into the pay practices of major UK employers. More consistent disclosure requirements relating to the pay levels and numbers of UK employees across all organisations would be helpful in this respect. The forthcoming 'Wates Principles' for corporate governance - effectively a corporate governance code for privately-owned companies - due for publication later this year, could provide an opportunity for a first step in this direction.

Appendix

Pay figures for all FTSE 100 companies that are not living wage employers¹⁰

Company	CEO pay (£000)	CEO/median employee pay ratio	profits (£m)
Admiral	395	12	404
Antofagasta	1,403	25	1,381
Associated British Foods	4,855	282	1,513
BAE Systems	3,364	47	1,018
Barratt Developments	2,810	51	817.5
Berkeley	7,806	82	777
BP	10,486	106	5,598
British American Tobacco	11,423	424	5,382
British Land	2,244	24	350
BT	2,307	50	2,617

⁹ ICSA, *70% of companies oppose the idea of workers on boards, new poll finds* via <https://www.icsa.org.uk/about-us/press-office/news-releases/70-of-companies-oppose-the-idea-of-workers-on-boards-new-poll-finds>

¹⁰ Where companies or the stock exchange have provided the original figures in a foreign currency, we have calculated the value in sterling using the average exchange rate for the financial year, based on HMRC figures via <https://www.gov.uk/government/collections/exchange-rates-for-customs-and-vat>

Bunzl	2,818	68	409
Carnival	8,906	400	2,090
Coca Cola	13,783	563	483
Compass	5,617	377	1,518
CRH	7,559	172	1,572
DCC	2,568	75	260
Direct Line	4,332	117	467
Easyjet	757	14	385
Evraz	4,303	412	892
Ferguson	4,138	70	1,181
Fresnillo	836	48	578
GVC	19,718	465	-22
Halma	3,429	78	172
Hargreaves Lansdowne	2,498	44	292
Imperial	4,657	179	1,861
Intercontinental Hotels	4,306	60	529
International Airlines	3,954	80	2,172
Just Eat	1,362	28	-75
Kingfisher	1,732	97	679
Marks and Spencer	1,120	64	67
Melrose	42,764	1134	-28
Micro Focus	2,296	27	115
Mondi	3,358	115	773
Morrisons	5,810	339	378
Next	1,842	144	725
NMC Health	4,637	165	164
Ocado	1,164	50	-0.6
Paddy Power	3,203	74	215
Persimmon	47,087	1130	966
Prudential	8,702	127	3,742
Randgold	7,493	380	366
Reckitt Benckiser	12,480	362	2,499
Rentokil	4,368	153	705
Right Move	1,728	33	178
Rio Tinto	3,686	47	9,727
Rolls Royce	2,331	34	4,766
Royal Dutch Shell	7,778	64	14,134
Royal Mail	1,797	53	212
Sainsburys	3,429	212	409
Segro	3,832	26	868
Severn Trent	2,084	52	302

Shire	4,104	100	1,476
Smith DS	4,580	135	287
Smurfitt Kappa	2,162	67	503
Taylor Wimpey	3,809	77	732
Tesco	4,874	324	1,304
TUI Group	4,072	152	717
United Utilities	2,075	83	430
Vodafone	7,984	178	3,937
Whitbread	2,336	156	546
Wood Group	1,420	21	-41