The myth of shareholder stewardship: How Effectively Do Shareholders oversee FTSE 100 CEO Pay?

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This briefing examines the voting patterns of shareholders in FTSE 100 companies at Annual General Meetings (AGMs) between 2014 and 2018, ahead of the 2019 AGM season. Following the introduction of the Business and Regulatory Reform Act (2013), these marked the first full five years of the 'say on pay' regime, under which companies are required to put their future remuneration policy to a binding shareholder vote at their AGM at least once every three years. This accompanies the advisory vote on their remuneration report, detailing what the company paid its directors in the previous year.

If the company loses the binding vote on remuneration policy, it is expected to amend the policy and put it to another vote. While the vote on the remuneration report is only advisory, companies that lose the vote are required to put their remuneration policy to another shareholder vote, even if they have held one in the past three years.

For all AGM resolutions, 'dissent' levels of over 20% (of those voting their shares failing to support the resolution) are considered to be significant, in line with guidance from the GC100 and Investor Group. In these cases, it is good practice for companies to issue a public statement saying how they intend to respond to the vote.

Specifically, this briefing explores:

- The number of remuneration votes at shareholder AGMs that were defeated;
- The number of remuneration votes that received significant levels of dissent; and
- Average levels of dissent on remuneration votes.

Methodology

We gathered the results of AGM votes on remuneration reports and remuneration policies published by FTSE 100 companies for the years 2014-2018 inclusive. A company was classified as being in the FTSE 100 if it was a member of the index at the time of its AGM, hence, more than 100 votes on remuneration reports took place each year as a result of changes to the composition of the index. As the votes on remuneration policies are required to be held annually but votes on reports only need to take place tri-annually, there were more votes on reports in the sample than on policies.

Key findings:

- In votes on **remuneration reports**, the **mean level of shareholder dissent between 2014 and 2018 was just 9.3%,** reaching no higher than 10.6% in a single year (2016).
- Only **12.4% of votes attracted significant dissent** (64 votes out of 514).
- Just **six votes on remuneration reports were defeated** over the period. These were Burberry (2014), Intertek (2015), BP (2016), Smith & Nephew (2016), Pearson (2017) and Royal Mail (2018).
- **14 companies experienced significant dissent more than once over the period,** suggesting that significant dissent does not prompt companies to change their approach to top pay. These were BP, Burberry, Carnival, Experian, GlaxoSmithKline, Old Mutual, Pearson, Reckitt Benckiser, Sky, WM Morrison, Ashtead (three times), Astra Zeneca (three times) and WPP (five times).

Table 1: Shareholder votes on remuneration reports, 2014-2018

Year	Number of resolutions	Average level of shareholder dissent (%)	Number of companies experiencing significant dissent	Number of defeated resolutions
2014	103	9.3	14	1
2015	101	9.2	13	1
2016	103	10.6	13	2
2017	103	7.5	8	1
2018	105	9.8	16	1
Total	**515**	**9.3**	**64**	**6**

- Between 2014 and 2018, **all shareholder votes on remuneration policy were approved**
- The **average level of dissent was 7.8%** over the period, peaking at 10.5% in 2016, when only 20 votes took place.
- Only 22 remuneration policy resolutions faced significant shareholder dissent (10% of the total). The highest level of dissent ranged between 19% in 2015 and 45% in 2014.

Table 2: Shareholder votes on remuneration policies, 2014-2018

Year	Total number of resolutions	Average level of shareholder dissent (%)	Number of companies experiencing significant dissent	Number of resolutions defeated
2014	100	8.5	10	0
2015	20	6.7	0	0
2016	20	10.5	3	0
2017	69	6.1	2	0
2018	26	8.4	4	0
Total	**235**	**7.8**	**19**	**0**

Combining votes on both remuneration reports and remuneration policy, **the average level of dissent over the period was 8.8%, meaning that the average remuneration-related resolution passed with 91% shareholder approval.**

Just **11.1% of over 700 remuneration-related resolutions attracted significant dissent.**

Institutional share-ownership

Using data provided for the *Financial Times* provided by Refinitiv, we also assessed the fragmented nature of FTSE 100 shareholdings by looking at the proportion of shares held in FTSE 100 Companies (as of April 2019) by their top ten institutional shareholders. Key findings were as follows:

- The mean level of shares held by the top ten institutional shareholders was 29.1% whereas the median level was 29.6%.
- Beneath these averages, there was some variation with the range of total shareholdings owned by the top ten institutional shareholders, extending from 8.95% to 49.92%.
- The institutional investors appearing most frequently amongst FTSE 100 companies 'top 10' institutional shareholders were, in alphabetical order:
    - BlackRock Fund Advisors
    - BlackRock Investment Management
    - Capital Research and Management Company (Global Investors)
    - Capital Research and Management Company (World Investors)
    - Fidelity Management & Research Company
    - Legal & General Investment Management
    - Massachusetts Financial Services Company

- Norges Bank Investment Management
- Schroders
- Vanguard Group

Conclusions

Median executive pay levels for FTSE 100 Chief Executives currently stand at £3.9 million, 137 times the pay of the median full time worker across the UK as a whole.[1] Median pay levels have remained steady at around this level since 2014, however this remains very high relative to the wider workforce by historical standards.

The ratio of average CEO pay to their own employees has gone from 59:1 during the late 1990s to 145:1 today.[2] Research for the High Pay Centre found that the explosion in top pay has greatly outpaced improvements in company profitability or shareholder returns.[3]

There is widespread public disapproval of prevailing top pay practices, and grounds to think that they are undermining public faith in business and the wider government and economic system.

- Research for the High Pay Centre found that 80% of respondents want the government to reduce the gap between rich and poor.[4]
- A Hansard Society poll found that 63% of people think the system is rigged in favour of the rich and the powerful.[5]
- Polls consistently suggest support for stronger measures to contain top pay – for example, 57% want to see caps on executive pay levels.[6]
- The 2018 Edelman Trust Barometer found that very high top pay was the single biggest reason given for a lack of trust in business.[7]

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[1] High Pay Centre/CIPD, *Executive Pay: Review of FTSE 100 Executive Pay*, 2018 via http://highpaycentre.org/files/CEO_pay_report.pdf
[2] High Pay Centre/CIPD, *RemCo Reform: governing successful organisations that benefit everyone*, 2019 via http://highpaycentre.org/pubs/remco-reform-governing-successful-organisations-that-benefit-everyone
[3] Ibid.
[4] High Pay Centre, *Reform Agenda: How to make top pay fairer*, 2014 via http://highpaycentre.org/pubs/reform-agenda-how-to-make-top-pay-fairer
[5] Hansard Society, *Audit of Political Engagement: 16,* 2019 via https://www.hansardsociety.org.uk/publications/reports/audit-of-political-engagement-16
[6] Independent, *Majority of public support Jeremy Corbyn's plans to cap bosses' salaries, polls suggest*, 14 January 2017 via https://www.independent.co.uk/news/uk/politics/majority-of-public-support-jeremy-corbyn-s-plans-to-cap-bosses-salaries-poll-finds-a7527381.html
[7] Edelman UK, *Edelman Trust Barometer 2018*, 2018 via https://www.edelman.co.uk/magazine/posts/edelman-trust-barometer-2018/

The UK's system of shareholder-policed corporate governance places responsibility for tackling excessive executive pay squarely with shareholders, through their private engagements with investee companies and their votes at AGMs. Our analysis shows conclusively that, although executive pay levels have remained at provocatively high levels, shareholder pressure has been virtually negligible with most pay packages and the policies that result in them waved through without serious opposition. In this respect, shareholder say on pay has failed.

We find this concerning: it is difficult to square with the lack of any kind of link between very high pay and company performance, or the widespread public disapproval of very high pay packages. The fact that every FTSE 100 pay policy put to an AGM vote in the past 5 years was approved is particularly surprising. It seems unlikely in the current climate that none of the 200-plus policies merited reconsideration.

There are multiple reasons why shareholders are failing to hold companies to account including:

- Conflicts of interest or sub-conscious biases in favour of highly-paid executives, on the basis that investment managers themselves tend to benefit from a culture of very high pay. Given that they are paid generously for taking investment decisions, it may suit their own interests to believe that other key decision-makers are the key determinants of their companies' performance (as opposed to other factors such as the wider economic context, the contribution of the wider workforce or pure luck) and thus deserve to be highly-paid.
- Risk aversion, in terms of the market response to the sudden departure of a CEO in the event of their pay demands not being met – many investors may see acceding to an executive's pay demands as the lesser of two evils compared with the loss of a CEO and the uncertainty that this entails (this outlook would suggest a lack of faith in the underlying strength of the company and its governance and succession planning).
- Dis-engagement and fragmentation – our research shows that even the largest institutional shareholders with the greatest resources to engage with investee companies typically constitute a fraction of the shareholder base, meaning that action on top pay requires the engagement of multiple different shareholders. This is difficult to co-ordinate, particularly when they hold shares in multiple companies worldwide. Only two of the investment firms that most commonly appear in companies 'top ten' institutional shareholders are headquartered in the UK, while seven are from the US. Academic research has shown that a higher proportion of US-based shareholders typically corresponds with higher executive pay.[8]

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[8] Sheffield University, *US investors drive growing top income inequality in Britain*, 2018 via http://speri.dept.shef.ac.uk/2018/08/01/us-investors-drive-growing-top-income-inequality-in-britain/

These conclusions demonstrate the vital importance of opening corporate governance and stewardship structures to stakeholders beyond shareholders, most obviously through worker representation on company boards and remuneration committees. The UK has taken some tentative steps in this direction through reforms to the Corporate Governance Code. But the government needs to go further in order to rebuild public trust in business, tackle the painful income divides in our society, and deliver an economic model that rewards everyone fairly and proportionately for their work.