Summary of our policy recommendations

Fairer Pay

The High Pay Centre believes that the following policy recommendations would help to ensure fairer, more proportionate and economically sensible levels of executive pay. Implementing these policies would boost public confidence in the pay setting process and in business practice more generally. It would also help to ensure that low and middle earners working for large employers get a better share of total expenditure on pay, putting more money in their pocket and boosting their spending power.

Companies should be required to include a minimum of two elected workforce representatives on the remuneration committees that set pay at UK-listed companies. This would inject 'real world' perspective into deliberations on executive pay levels and ensure that the distribution of pay between high, middle and low earners is a key consideration for committees. If companies can demonstrate that their pay practices are endorsed by fully independent workers' representatives that will also help them to justify their executive pay levels to their own workforce and the wider public. (CEO Pay Report 2022)

Unions should have legally guaranteed access to workplaces to tell workers about the benefits of union membership and collective bargaining (following the system in place in New Zealand). Executive pay and the share of total incomes captured by the super-rich have risen in parallel with the decline in trade union membership. Enabling workers to strengthen their negotiating power through collective bargaining would be an effective way of ensuring that they get a higher share of what their employer spends on pay relative to top earners, thereby both boosting incomes and reducing inequality. (CEO Pay Report 2022)

Companies should be required to provide more detail about their highest and lowest paid workers. The current disclosure regime requires companies to publish their CEO pay and the ratio between the CEO and the 75th, 50th and 25th percentile point of their UK employee population. However, this means there is little detail on top earners below the CEO, or on the lowest-paid workers at a company, with no detail at all on the extent of their indirectly employed workforce. Disclosures requiring the total spend on earners beyond a certain threshold and the number of workers (including indirectly employed workers) paid less than the real living wage would enable a better discussion of the value generated by top earners, the capacity for companies to re-distribute pay internally and the fairness and proportionality of pay gaps that actually exist. (CEO Pay Report 2022)

This includes providing more granular information on the earnings of those between the upper quartile threshold and the CEO. The disproportionate share of incomes captured by those at the very top is one of the biggest issues relating to economic inequality in the UK, and more information on how this occurs at particular employers would contribute to our understanding of how to achieve a fairer share of incomes accruing to those in the middle and at the bottom. Possible models for granular reporting could include reporting on those with pay awards of over £150k, or on the pay of the top 1% of the company's employees. (Pay ratio reporting, December 2020, May 2022)

Outsourced UK workers should be included in the pay ratio calculations, since these workers are vital to the companies' operations and often make up a large proportion of workers. Their inclusion would provide a more accurate picture of companies' pay practices and would also make it easier to compare companies. An important question here is which indirectly employed workers should be included in the calculation. We suggest using the Living Wage Foundation's standard for 'regularly contracted staff' which covers 'contracted staff who work 2 or more hours a week, for 8 or more consecutive weeks a year'. (Pay ratio reporting, December 2020, May 2022)

Require companies to introduce all-employee profit sharing or share ownership schemes. One of the reasons why some of the pay ratios between workers and CEOs are so wide is that CEOs receive large share-based payments in addition to their regular salary while workers do not, even though workers also deserve to be rewarded for good company performance. It is essential that these schemes cover all, not just part, of the workforce. In France all companies are required to share an element of profits exceeding a set amount calculated using factors including taxable profits, net equity, wages and added value with their workforce. A similar requirement could be replicated in the UK. (Pay ratio reporting, December 2020, May 2022)

Long-term incentive payments should be phased out, in line with the Conservative 2019 Manifesto commitment to 'improve incentives to attack the problem of excessive executive pay and rewards for failure.' CEO pay fell in 2020 and then rebounded spectacularly in 2021 but this was blatantly not a reflection of CEOs leadership falling and then rising in quality rather than factors such as the share price and profitability of the companies responding to the pandemic. It is ludicrous that CEO pay is so contingent on circumstances over which they have little control, and undermines public confidence in business. LTIPs, which count for the largest element of CEO pay should be removed and replaced with mechanisms like profit shares, common to all staff ensuring that everyone who contributes towards a company's success benefits from it. (CEO Pay Report 2022)

Higher standards and clearer expectations of narrative reporting around the ratios could enable better understanding of the link between pay distribution and business strategy. We would suggest that companies should explain 1) how boards plan to use the pay ratio disclosures going forward, 2) whether and to what extent workers and investors feed into the pay-setting process, and 3) to what extent raising pay for low- to middle-income workers and reducing inequality is a priority for the company. However, we are aware that many remuneration reports are already overly long, making it difficult for stakeholders to find the information they need, so we suggest that rather than simply adding this information, companies should reshape remuneration reporting to put more emphasis on pay across the workforce. (Pay ratio reporting, December 2020, May 2022)

Companies should directly provide information on pay ratios to their workers. The objective of pay ratio disclosures is to empower low- and middle-income workers to achieve better pay and working conditions - if individuals have more information about pay levels across their workforce, this can strengthen their bargaining position in relation to their own pay. However, company annual reports are long and confusing, and it is unrealistic to expect a critical mass of workers to read through them in order to access pay distribution data. Companies that are confident that their pay practices are fair ought not to be afraid of discussing them - therefore, CEO pay levels and pay

ratio data should be circulated to all employees in an individual letter, as well being published in annual reports. (Pay ratio reporting, December 2020, May 2022)

Companies should provide data on their number of UK employees. One of the major gaps in the pay ratio data is that, while it shows the gaps between the CEO and the different quartiles of the workforce, it does not include the number of employees covered (even though this information needs to be calculated in order to provide the ratios). As such, it becomes challenging to assess the wider importance of the different companies' pay practices, to prioritise analysis of individual companies or to accurately calculate the number of workers that would benefit or lose out from a more even pay distribution. External scrutiny is undoubtedly one of the factors shaping corporate pay practices, so if this scrutiny is more informed/accurate that ought to result in fairer pay. (Pay ratio reporting, December 2020, May 2022)

Apply the pay ratio disclosure requirements to all large employers, giving a more complete picture of the pay inequality, governance, workplace culture and potential for redistribution that the disclosures provide across the UK. How large employers distribute their pay has socioeconomic implications for the UK regardless of whether or not they are listed on the stock market. Therefore, all those companies that are expected to comply with the Wates Principles for Corporate Governance of private companies, as well as institutions that are large employers such as universities, hospitals and local authorities, should be subject to the same pay ratio disclosure requirements as those with a premium listing. (Pay ratio reporting, December 2020, May 2022)

Establish sectoral governance bodies to monitor fair pay. These bodies could be made up of stakeholders including representatives from business, unions, workers and government in a similar fashion to the Wages Councils, which were in place in the UK until the 1990s. Their remit could include setting guidelines for minimum wages and pay ratio limits across the sector, using pay ratio disclosures to inform recommendations. (Pay ratio reporting, December 2020, May 2022)

Give shareholders binding votes on directors' remuneration reports. Whilst shareholders have a binding vote on a company's remuneration policy, their vote on the remuneration report - i.e. the executive pay packages - is only advisory. This can result in instances where a majority of shareholders oppose the remuneration report - including the pay ratio - but it remains unchanged. This was the case with Tesco in 2020, when two thirds of the shareholders opposed the remuneration report. The CEO's remuneration was not altered, however, and as a result Tesco has the 3rd highest median pay ratio this year at 305:1. (Pay ratio reporting, December 2020, May 2022)

Require companies to include guidance on potential future pay ratio sizes in their remuneration reports. The 'Large and Medium Size Companies Regulations 2013' requires companies outline maximum, minimum and 'target' values for executive pay awards in the forthcoming year. These disclosures should also include guidance on maximum, minimum and target pay ratio sizes over the next three years. This would enable shareholders to take future pay ratio size into account when considering their votes at company AGMs, thereby encouraging better stewardship of pay practices on a company-wide basis, rather than just at board level. (Pay ratio reporting, December 2020, May 2022)

Worker Voice

The High Pay Centre believes that the following policy recommendations would help to ensure organisational mechanisms for democratising workplaces, making employers more accountable to their workers and giving workers more say over their working lives.

New bodies should be established for unions and employers to negotiate across sectors, beginning with hospitality and social care. The issue of pay inequality relates to a number of employment practices including bargaining power, recruitment, productivity and flaws in the operation of remuneration committees that are inhibiting the UK economy and diminishing living standards. Bargaining across sectors would enable agreements to be reached on areas such as pay, training, recruitment and working practices , starting in hospitality and social care where challenges are particularly acute. (CEO Pay Report 2022)

Government should enable trade union workplace access and recognition, as a means of achieving worker voice in corporate governance. Trade unions should be given stronger rights of access to workplaces, to inform workers of the benefits of collective bargaining. Any union should be allowed to access any workplace where it believes work relevant to the union is done, provided the request is made with reasonable notice and for a reasonable amount of time. The barrier to statutory recognition of unions should be lowered – if 2% of workers indicate that they would like to join a union, this should trigger the process for a recognition agreement. This would bring the threshold in line with the 2% trigger for the Information and Consultation of Employees regulations. (Worker Voice in Corporate Governance, October 2022). Companies which negotiate with trade unions deliver higher rates of pay for low and middle earners, as suggested by examples in this report and by wider research. Union representatives can use the pay ratio disclosures to build arguments in support of improved pay and working conditions, and highlight unfair pay gaps in a way that may be more challenging for unrepresented individual workers. (Pay ratio reporting, December 2020, May 2022)

Legislate for worker representation on company boards. This would allow workers to play a meaningful part in the governance process, and would provide a voice at the highest level of the company making the argument for more even pay distribution. The UK Corporate Governance Code gives companies the option to appoint/elect worker directors as one of three options for introducing stakeholders into their corporate governance structures, but this option has only been taken up in a tiny number of instances. (Pay ratio reporting, December 2020, May 2022)

Mandate the appointment of worker directors by workforce election. Companies should be required to appoint at least two worker directors, who should make up roughly one third of the board. This policy should be accompanied by guidance along the lines of the good practice listed above, on how to manage the process of appointing worker directors to ensure that the roles are carried out effectively. (Worker Voice in Corporate Governance, October 2022)

Existing worker directors at listed companies should not be subject to election/re-election by shareholders at AGM. Worker directors are intended to be elected by a different stakeholder group and provide a different perspective from the directors typically selected by shareholders. The majority of the board are and would remain subject to election, but where it exists, shareholder opposition to worker voice at boardroom level would be neutralised. This could enable an increase in the so-far disappointingly low number of worker directors. (Worker Voice in Corporate Governance, October 2022)

Government procurement decisions should take into account the company's approach to worker voice. A number of public bodies, including local authorities, have promoted a 'community wealth building' approach to procurement where the employment models of the competing parties are taken into account. Worker voice is integral to good work, so bodies awarding public contracts could be encouraged to account for the strength of voice when making their decision, so as to promote good work and enhance the social value of government procurement. (Worker Voice in Corporate Governance, October 2022)

Better Business

The High Pay Centre believes that the following policy recommendations would help to ensure that business practices are aligned with the interests of wider society

Amend company law to give the interests of all stakeholders equal importance, rather than elevating shareholder interests above those of others. The 2018 Companies (Miscellaneous Reporting) Regulations introduced a requirement for directors to report on how they have complied with their section 172 responsibilities to have regard for stakeholders beyond shareholders. This is a welcome development, but does not go far enough. A duty to run the company using a balanced judgement of the long-term interest of all stakeholders would encourage boards to think more deeply about pay distribution at their company and how to improve pay and conditions for the majority of their workforce.

The FRC should work with other stakeholders – including representatives of investors, companies and people professionals – to establish a framework for workforce reporting. This should outline the narrative and key areas of data that require reporting. This would establish a baseline of minimum reporting standards for employee and workforce matters and should underpin the workforce reporting element of new global sustainability-related disclosure standards to be developed by the ISSB. The framework we have used for this analysis and report could form the basis of this baseline of minimum reporting standards, but should be tested and developed further with wider stakeholders. (How do companies report on their 'most important asset', March 2022)

Improve the quality of workforce reporting through the 'comply or explain' corporate governance regime by the Audit, Reporting and Governance Authority once it is established. A regular, published annual audit of company reports could help inform targeted engagement by the regulator to improve practice among firms that have failed to meet their obligations to effectively report on material workforce matters or

provide an adequate explanation of why they have not reported. (How do companies report on their ‘most important asset’, March 2022)

Section 172 of the Companies Act 2006 should be amended to replace the term ‘employees’ with ‘workforce’. This would require companies to report equally on workers under all contract types, rather than just their direct employees. An employer’s contingent workforce represents a significant cost and a potential risk to the business and should always be referenced in an organisation’s annual report. (How do companies report on their ‘most important asset’, March 2022)

Policy-makers should introduce mandatory ethnicity pay reporting for all companies with more than 250 employees. This would build on the success of gender pay reporting and help tackle racial inequality and discrimination at work. Requiring employers to measure and report on ethnicity pay gaps can act as a catalyst for discussion and action. More broadly, improving the quality of workforce reporting can provide greater transparency over the value that investing in the workforce can bring and ensure people issues receive greater attention when investment decisions are made, both inside firms and among the investment community. (How do companies report on their ‘most important asset’, March 2022)

Directors’ duties should be rewritten to remove the current requirement for directors to prioritise the interests of shareholders above other stakeholders.
Directors should be required to promote the long-term success of the company as their primary aim, taking account of the interests of stakeholders including the workforce, shareholders, suppliers, customers and the local community and impacts on human rights and the environment.
A possible formulation, based on the existing wording with some revisions, is set out below:

“A director of a company must act in the way s/he considers, in good faith, would be most likely to promote the long-term success of the company, and in so doing, should have regard to the need to:
i. deliver fair and sustainable returns to investors
ii. promote the interests of the company’s workforce
iii. foster the company’s relationships with suppliers, customers, local communities and others, and iv. take a responsible approach to the impact of the company’s operations on human rights and on the environment...”
(Who benefits from returns to shareholders?, Jan 2022)

We also need clearer reporting from companies to show how they are distributing their revenues and profits among different stakeholders and how this is balanced with investment for the future in R&D and training.
• We recommend that companies should be required to report on their spending on wages, R&D, training, dividends, share buybacks and executive pay over a 20 rolling ten year period so that all stakeholders can see how these amounts have changed over time.
• In addition, companies should report on the average annual percentage pay rise (or otherwise) per worker tracked against the annual percentage rise in total shareholder returns over a rolling ten year period.
(Who benefits from returns to shareholders?, Jan 2022)

Company performance should be measured in terms of non-financial as well as financial metrics

Examples of good practice in introducing non-financial metrics include the following:

- Identify workforce metrics with strategic relevance to the business and communicate the link to the board and investors.
- Develop workforce metrics as robust as the financial metrics, drawing on academic support to improve quality if necessary. This gives the board, as well as investors and other stakeholders, confidence in the metric. This also enables the metric to be connected to reward.
- Where executive pay includes a performance-related element, part of this should consist of workforce metrics.
- As an HR leader, bring a mixture of metrics and narrative to the board. This is particularly helpful in the cases where there aren't any board members with HR expertise.

(Role of the RemCo: How to achieve good governance of pay, people and culture, July 2021)