HIGH PAY CENTRE

22 March 2024

Dear Sir/Madam

Re: Stewardship of CEO pay at investee companies

We write to you as a group of academics specialising in topics including pay, corporate governance, business ethics and economic inequality regarding comments made in recent months by leading figures from business and finance including the Chief Executive of the London Stock Exchange and the Chair of the CBI, as well as a number of media commentators, asserting that investors in UK businesses should support higher executive pay awards. Our correspondence with you is being coordinated by the High Pay Centre.

We do not wish to direct the investment and stewardship practices of the UK's asset owners and asset managers, and recognise your responsibility to achieve the best possible returns for your beneficiaries. However, we are concerned that neither the business case to justify these assertions nor the potential negative social and economic consequences of higher top pay have been properly scrutinised or debated.

The desired "constructive discussion on the case for the UK's approach to executive compensation" has so far focused largely on the case for further executive pay increases. In contrast, too little attention has been paid to the following:

- **The limited evidence, beyond the anecdotal, to support claims that UK firms are struggling to attract or retain executives.** Business leaders in this country are well-paid in comparison to most markets beyond the US. Despite high profile individual examples, advocates of higher executive pay have failed to demonstrate that UK firms are losing out to international rivals in the global market for capable executives on grounds of pay on a systemic or recurring basis.

- **The questionable link between executive pay and business performance.** While no-one would dispute that leadership is important, there are many other external and internal factors that shape business success, such as the economic context or the individual and collective efforts of other workers. In academic research there is no consensus on the association between higher CEO pay and better business outcomes. The notion that higher executive pay would attract better leaders leading to meaningfully superior returns for investors is superficially logical but the evidence to support it is keenly disputed.

- **The role that businesses themselves play in determining the pipeline of capable business leaders.** If the pool of high calibre business leaders is so small as to necessitate very high pay awards in order to secure their services in a market where demand for executives supposedly outstrips supply, does this not reflect on the leadership training and development practices of businesses themselves? They are, after all, major corporations that have huge resources to invest in training and professional development and recruit large numbers of ambitious employees every year. Even if we accept the arguments made in favour of higher top pay, what is being done to improve the supply of potential leaders and prevent an ever escalating arms race on executive pay?

- **The business leadership, culture and performance resulting from CEOs primarily motivated by money**. Research suggests that very generous financial incentives can crowd out people's intrinsic motivation for doing a job. There is a risk that a culture of higher top pay may attract or create CEOs with values at odds with the interests of wider society and potentially the company in the long-term. There is also a strong basis for believing that more unequal pay within organisations negatively affects employee morale, with implications for engagement and productivity.

- **The opportunity costs of higher CEO pay.** At some leading UK companies, expenditure on the pay of the executive team alone runs into tens of millions. When other senior managers' pay is also included, the cost is even higher. This expenditure may help to attract better managers leading to better returns for investors and other stakeholders. Equally, it may represent poor value in comparison to equivalent investments in, for example, research and development, or the engagement and productivity of the wider workforce. These trade-offs should be debated.

- **The link between higher income inequality and socio-economic harms.** Research documents a strong link between higher levels of inequality and more pronounced socio-economic problems in terms of public health and wellbeing. Listed companies include some of the UK's biggest employers and the pay for their senior managers acts as a benchmark for high earners in other fields. Raising top pay levels at these companies creates a significant risk of higher inequality. This is a potential threat to economic stability, to the happiness and prosperity of the people whose savings provide capital for investment and ultimately to investors in the UK economy.

We would not wish to dismiss every individual case for higher executive pay at every UK company. Nor would we dispute the importance of good business leadership. However, we do believe that the above points are worth considering alongside the arguments made in favour of higher executive pay. We hope that investors will keep them in mind during your dialogue with investee companies over the coming months.

Should you wish to discuss any of these matters further, we would be happy to engage. In the first instance please contact Luke Hildyard of the High Pay Centre think tank who will make the necessary arrangements.

Yours faithfully

Professor Sandy Pepper, Emeritus Professor of Management Practice, London School of Economic and Political Science

Professor Ruth Bender, Emeritus Professor of Corporate Financial Strategy, Cranfield University

Professor Gwyn Bevan, Emeritus Professor of Policy Analysis, Department of Management, London School of Economic and Political Science

Professor Christine Cooper, Chair in Accounting, University of Edinburgh Business School

Professor Chris Cowton, Emeritus Professor of Accounting, University of Huddersfield

Professor Danny Dorling, Halford Mackinder Professor of Geography, Oxford University Centre for the Environment

Professor Patrick Dunleavy, Emeritus Professor of Political Science and Public Policy, Department of Government, London School of Economic and Political Science

Professor Gary Fooks, Professor of Criminology, School of Policy Studies, Bristol University

Dr Aditi Gupta, Senior Lecturer in Accounting and Financial Management, King's College London

Professor Lynn Hodgkinson, Professor in Accounting and Finance, Bangor University

Professor Jonathan Hopkin, Professor of Comparative Politics, Department of Government, London School of Economic and Political Science

Stewart Lansley, Visiting Fellow, School of Policy Studies, University of Bristol

Professor the Baroness Ruth Lister of Burtersett, Emeritus Professor of Social Policy, Loughborough University

Professor Brian Main, Professor of Business Economics, University of Edinburgh Business School

Professor Kate Pickett, Professor of Epidemiology, University of York

Professor Andrew Sayer, Emeritus Professor of Social Theory and Political Economy, Lancaster University

Professor the Lord Prem Sikka of Kingswood, Emeritus Professor Accounting, University of Essex

Professor Tracy Shildrick, Professor of Inequalities, School of Geography Politics and Sociology, Newcastle University

Professor Peter Taylor-Gooby, Research Professor of Sociology, School of Social Policy, Sociology and Social Research, University of Kent

Dr Ben Tippett, Lecturer in Economics, School of Accounting, Finance nd Economics, University of Greenwich

Professor Richard Wilkinson, Professor Emeritus of Social Epidemiology, University of Nottingham Medical School

Professor Steven Young, Professor of Accounting, Lancaster University Management School