CIPD

Championing better work and working lives

Executive pay in the FTSE 100

Is everyone getting a fair slice of the cake?

Executive summary

The context

Fairness is a hot topic. How decisions are made, and the consequences of those decisions, dominate economic, political and social debate. In the world of work, the fairness of pay decisions is an important issue for employers and employees as well as for customers, investors, public commentators and politicians.

Recently, the UK Government introduced significant reforms to improve corporate governance and ensure that CEO pay is fair and appropriate. The UK Corporate Governance Code now requires boards to give stakeholders beyond the company's shareholders – such as their workers, customers and wider society – a voice in corporate governance structures.

And from 2020, new reporting regulations require all large listed companies to report and explain the 'pay ratio' of their chief executive to their median employee, as well as explain how their boards take stakeholder interests into account.

This research examines the extent to which publicly listed companies are responding to the new standards in corporate governance when it comes to rewarding their most senior executives.

Key findings from our research

Our analysis of FTSE 100 firms' annual reports finds that executive pay remains very high and finds little evidence to justify the pay packages awarded to top executives. Findings include:

- Median FTSE 100 CEO pay (including salary, bonus, long-term incentive plan, benefits, and pension contributions) for the financial year ending 2018 was £3.46 million (compared with £3.97 million in 2017).
- Median FTSE 100 chief executive pay is 117 times higher than that of the median UK full-time worker.
- Evidence to justify CEO pay levels is weak: company performance (as measured by changes in the company's share price), firm size (both in terms of market capitalisation and employee numbers), and investor dissent all seem to have limited influence over CEO pay.
- Other senior FTSE 100 executives have also received large payouts, sometimes more than the pay awarded to the CEO. The median pay for 'key management personnel', which includes the chief executive as well non-executive and executive board members and senior managers, is £1.09 million.
- Forty-eight per cent of chief executive pay is made up of long-term incentive plans, which can vary from year to year due to several factors, some of which might be outside the control of the CEO, such as government policy or stock market volatility.
- Despite efforts to improve boardroom diversity, if you are a FTSE 100 CEO, you are more likely to be named Steve or Stephen than you are to be female. There are only six female CEOs in this year's analysis and they were paid 32% less than their male counterparts.

The implications of our findings

- While CEO median pay appears to have fallen in the past year, it has been bouncing up and down between a range of around £3.5 million and £4 million since 2011, so it could rebound next year, rather than being the start of a downward trend.
- Perhaps more important than how CEO pay has moved is whether it represents value for money. However, our research finds only a limited link between chief executive pay and company performance or size.
- Against a backdrop where UK average earnings have still not recovered in real terms from the 2008 financial crisis, employees will also think it's unfair that the achievements of their CEOs are generously rewarded while their own efforts are not. For instance, 39% of respondents to a CIPD survey of employees found that their CEO's level of pay didn't encourage them to go the extra mile for their employer, while 17% said the opposite.

- Shareholders are more likely to vote against giving CEOs a pay rise than they are to vote against the policy that resulted in the pay rise in the first place. This possibly indicates that because of the complexity of some pay policies, some shareholders do not fully understand the potential reward outcome that they are voting for and so only react when they realise how high the payouts could be.
- While attention is focused on the CEO, other senior managers can be a significant cost to the business too. However, our analysis suggests that current reporting is inconsistent as to who the key decision-makers are and the explanation for why they get paid so much. Investors will want to know if this money is being spent wisely or could be better invested in research and development, or employee training.
- The continuing use of long-term incentives is surprising given the interest in alternative pay mechanisms, such as from the Investment Association Executive Remuneration Working Group. Behavioural economics indicate that because of how these rewards are designed in terms of the metrics used, or the form of reward given, many CEOs may not value them. Similarly, by focusing on financial measures, firms may be failing to recognise other drivers of performance, such as how people are managed and developed.
- It's disappointing to see so few female CEOs and executive directors in FTSE 100 firms. Unless we start to see women in senior positions, progress in reducing the size of the gender pay gap will be slow. In addition, research suggests that firms that lack gender diversity are often outperformed by those with more equal numbers of men and women. This ought to be of great concern to business.

Our conclusions and recommendations

The excessive gap between the UK's highest and lowest earners is failing both business and society: it's not fair and it's undermining long-term business success. While we welcome the revised Corporate Governance Code and CEO reporting requirements, on their own we think they will have only a limited impact. For this reason, and to address the concerns raised by this research, the CIPD and the High Pay Centre recommend:

- Single figure reporting requirements and guidance should be extended to cover key management personnel and pay for the top 1% of earners disclosed, to further improve transparency and ensure this area of reporting practice improves. This will help build trust among people about how their and other individuals' efforts are rewarded and allow investors to appreciate where and how the money on pay is being spent.

- Firms should establish a formal ‘people and culture’ committee in place of their remuneration committee (RemCo), or at least broaden the remit of their RemCo, to consider issues such as organisation culture, fairness and wider workforce reward policies. This will help ensure that pay decisions will better reflect an organisation’s purpose and performance.
- Companies should ensure CEO pay reflects both financial and non-financial performance measures such as indicators of diversity, talent management and employee well-being. This will help ensure that the behaviours that drive company performance are rewarded appropriately.
- Companies should simplify CEO reward packages and ensure they are linked to fewer and more meaningful measures of performance. Complex incentive plans can be just as confusing for CEOs as they are for shareholders. Smaller, simpler and more immediate bonuses could be both more motivational for CEOs and easier to understand for stakeholders.

Why this matters to the CIPD

The CIPD’s purpose is to champion better work and working lives – we believe work can and should be a force for good. It should benefit workers, the organisations they work for, and the communities and societies they live in. But the high pay gap between those at the top and the rest of the workforce is failing both business and society. Find out more at **cipd.co.uk/execpay**