Calls for bosses pay packages to be brought in line with employee pay ‘welcomed’

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The Business, Energy and Industrial Strategy Committee (BEIS) has published a report on the differences between top bosses pay and the rest of their workforce. BEIS believe that companies need to do more to link bosses pay with their employees' pay and that the large difference in pay is ‘baked’ into the pay system. According to the report, a reliance on incentive-based executive pay, that is often supported by remuneration committees that design pay packages, is the root cause of the large executive pay packages. Over the last ten years, chief executives’ earnings in the FTSE 100 have increased four times as much as national average earnings. Alexandra Carn, partner at Edwin Coe LLP, says that ‘pay structures, particularly at the top end, are notoriously opaque and any measures that provide transparency on pay are bound to be welcomed by employees.’

Carn continues: ‘With FTSE 100 chief executives earning around £4m a year and a national minimum wage of £8.21 per hour it is not hard to understand why reform in this area is sought.’

The report calls for businesses to distance executive pay structures from unpredictable and excessive bonuses, with a larger focus on fixed basic salary and deferred shares.

The chief executive of Persimmon accepted a payment of £75m that the report states was ‘based more on a government initiative to encourage house-ownership rather than his own performance’ and this example is ‘only the most egregious of a number of shaming decisions.’

Carn highlights that one of the reports’ recommendations, which calls for greater employee participation on remuneration committees, is ‘far more commonplace in Europe and Germany’, and in fact ‘mandatory in certain size companies.’

The report makes 22 conclusions and recommendations, the key of which are:

• the structure of executive pay has become too dominated by incentive-based elements that do not effectively drive decision making in the long-term interests of the company

• BEIS advocate a simpler structure based on fixed term salary plus deferred shares, vesting over a long period, and a reduced element of variable pay that should be aligned to the wider social responsibilities of companies

• a significantly stronger link between executive and employee pay with the example of greater use of profit-sharing schemes. An employee representative on the remuneration committee is recommended to strengthen this link

• BEIS welcomes the proposed replacement of the ‘underpowered and passive’ Financial Reporting Council and recommends that the new regulator is given what is necessary regulate the companies that behave unreasonably on executive pay

• pay ration reporting should be applied much more broadly than is proposed

• a tougher and more proactive regulator is needed due to a lack of confidence in remuneration committees or institutional investors

• greater transparency in the way that the pension funds that invest employees' money set their investment objectives—including on executive pay

• 'greater transparency, accountability and responsibility are required throughout the investment chain if the gap between pay at the top and the bottom is to be reduced and companies are compelled to pay their whole workforce reasonably and responsibly'

In general, Carn notes that 'pay structures, particularly at the top end, are notoriously opaque and any measures that provide transparency on pay are bound to be welcomed by employees.'

However, Carn also warns that 'unless the government is prepared to be prescriptive in its drafting, guidance will remain exactly that and there will be no real "teeth".'

Source: Executive rewards: paying for success

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