News

Businesses must rein in executive pay, parliament told

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By Annie Makoff-Clark

CIPD says reward has become detached from economic reality, as committee jousts over CEO's £45m bonus

Executive pay has become "too high" and is now fundamentally detached from economic growth, productivity and wider wage levels, the CIPD warned MPs yesterday at an occasionally fractious parliamentary hearing into the controversial topic.

Giving evidence at the business, energy and industrial strategy (BEIS) committee inquiry into fair pay, CIPD senior performance and reward adviser Charles Cotton (pictured) said there had been a "significant increase" in CEO salaries, which had risen by a fifth since 2017.

According to the **CIPD's research into executive pay**, the average earnings for FTSE 100 CEOs stand at around £4.5m a year and **employees would need to work for 160 years before they earned the same salary** as a

“There is also the assumption that the only people who achieve success are a handful of individuals at the top of the organisation, rather than seeing performance as a collective endeavour… where the only way you can incentivise those at the top is through giving them barrel loads of money,” he added.

Robert Hodgkinson, executive director at accountancy body ICAEW, described executive pay as “the most reputationally damaging issue affecting business”.

Housebuilder Persimmon found itself in the firing line as it sought to defend its own executive reward practices before the MPs. Marion Sears, chair of its remuneration committee, drew ire from some members of the committee when she struggled to remember the £45m the company had awarded CEO Jeff Fairburn as a bonus last year, and could not say what the average worker at the business earned.

Persimmon became embroiled in controversy last year for its **plan to award three of its executives, including Fairburn, a total of £104m**. This was reduced after an outcry, but Fairburn may still receive a bonus as high as £75m this year.

When asked about the payout, Sears insisted that it was a “special case” and said she did not have information about average pay “at her fingertips”. The company, she said, was a living wage employer, although she admitted it was not yet accredited by the Living Wage Foundation.

MP Rachel Reeves, chair of the BEIS committee, replied: “You would have thought an organisation that can pay £45m to its CEO might be able to afford to pay the living wage to everybody in the organisation.” Later, Reeves took to Twitter to **describe the answers from Persimmon as “a disgrace”**.

Fellow MP Vernon Coaker said the debate may as well have “taken place on the moon”.

“We should remind ourselves that the minimum wage is £7.83 an hour and the living wage is £8.75 outside London, so [I] can see why there is such disquiet about it,” he added. “It’s unacceptable for somebody to be getting £45m when people are going to food banks.”

Despite the controversy around Persimmon, Clare Chapman, remuneration committee chair at engineering multinational The Weir Group, insisted that there was no evidence to show that executive pay was outstripping wage increases.

“If you look at the FTSE 30 over the last five years, there has been stability in executive pay levels and it hasn’t risen significantly,” she said. “And for those of us working in multinational businesses, UK executive pay is about 30-40 per cent lower than the US, so for those of us trying to attract talent that’s needed to grow a multinational business, we need to be mindful of an international environment.

“Higher pay for scarce skills is a feature of our economy.”

But Andrew Ninian, director of corporate governance at The Investment Association, who also gave evidence to the committee, rejected Chapman’s view that bosses needed to be paid more to aid retention and accused remuneration committees of “throwing money at the problem”.

Cotton, who cited CIPD research revealing that 60 per cent of employees said high levels of executive remuneration had a direct demotivating effect, **welcomed government proposals to make disclosure of pay ratios mandatory** and called for further investor scrutiny, not just on the top level of the organisation but throughout the company.

“We suggest that rather than relying on long-term incentive plans, which are actually too big, reward the wrong things and demotivate the rest of the workforce, organisations are better off looking at smaller, more immediate cash bonuses,” he said.

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