# RETHINKING REWARD

## Analysis of 2020 pay ratio disclosures (interim report)

**Authors**: Rachel Kay and Luke Hildyard, High Pay Centre

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All opinions expressed in the paper (and any errors) are those of the High Pay Centre only.

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# EXECUTIVE SUMMARY

With the Covid-19 pandemic both highlighting and exacerbating existing inequalities, it is more important than ever that companies are held to account over their pay practices.

From 2020, UK companies are required to list the ‘pay ratios’ between their CEO and the 75th (upper quartile), median and 25th percentile (lower quartile) points of the pay distribution of their UK employees (on a full time equivalent basis). This report analyses the pay ratio disclosures made by 107 FTSE 350 companies between 1 January and 31 April 2020.

The report identifies some initial insights from the disclosures. It also discusses how different stakeholders might use pay ratio data as part of a broader debate about pay differences and employment practices more generally.

## Summary of findings

We found that the median CEO/median employee pay ratio across the FTSE 350 is 55: 1 and the median CEO/lower quartile employee ratio is 78: 1. These ratios are significantly higher for the FTSE 100, where the median CEO/median ratio is 74: 1 and the median CEO/lower quartile ratio is 109: 1.The findings detailed will change as more companies publish their disclosures over time. The High Pay Centre intends to produce a subsequent and final report when a complete set of pay ratios has been published for the FTSE 350.

## Industry trends

We analysed pay ratios and pay thresholds across industries and across sectors within industries. This analysis reveals certain trends and may be helpful for stakeholders when looking at how an individual company compares to the rest of an industry or sector. However, it is important to recognise that the data provides initial insights about pay practices across different industries and sectors, to be supplemented by further research and engagement, rather than definitive conclusions.

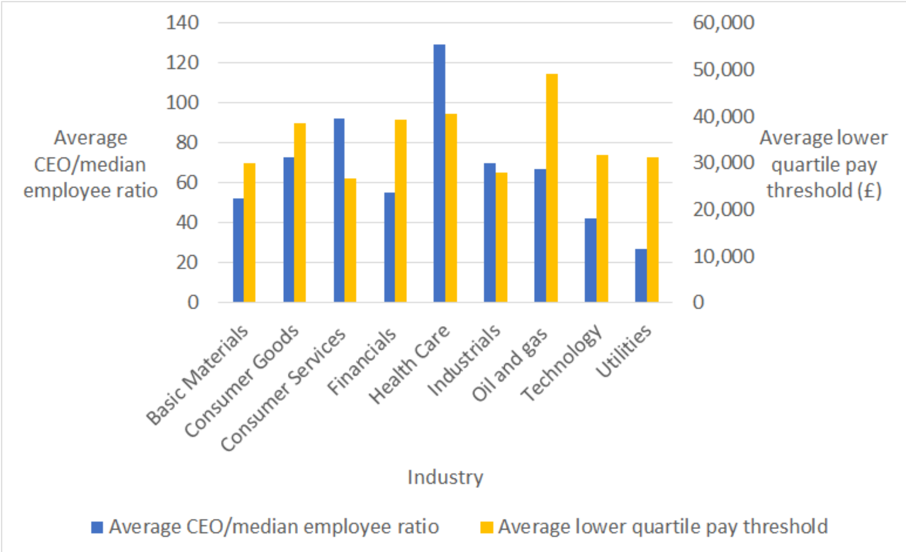



**Figure 1: Pay ratios and lower quartile pay thresholds by industry**

Key findings:

- To date, the healthcare industry has the highest average CEO/median ratio at 129: 1. This is due to high CEO pay within the industry, influenced by factors such as high market capitalisation and share price rises over recent years.
- The utilities industry has the lowest average CEO/median ratio at 27: 1. This is influenced by factors such as the legacy of public ownership and the associated high levels of trade union membership.
- Ostensibly similar companies within the same industry can have very different pay ratios due to different employment models. For example, Shell's pay ratios are lower than BP's. BP operates its petrol stations directly, meaning that low-paid retail workers are included in the pay ratio calculation. Shell franchises its petrol stations, meaning that the equivalent workers are excluded from the pay ratio.
- The industrial averages hide substantial differences between sectors. For example, the banking sector, with large numbers of customer-facing branch staff, has an average CEO/ lower quartile ratio of 146: 1, whilst the financial services sector, consisting of predominantly specialist or analytical roles, has a much lower average CEO/lower quartile ratio of 50: 1.

## Highest pay ratios

The companies with the highest CEO/median and CEO/lower quartile ratios are as follows:

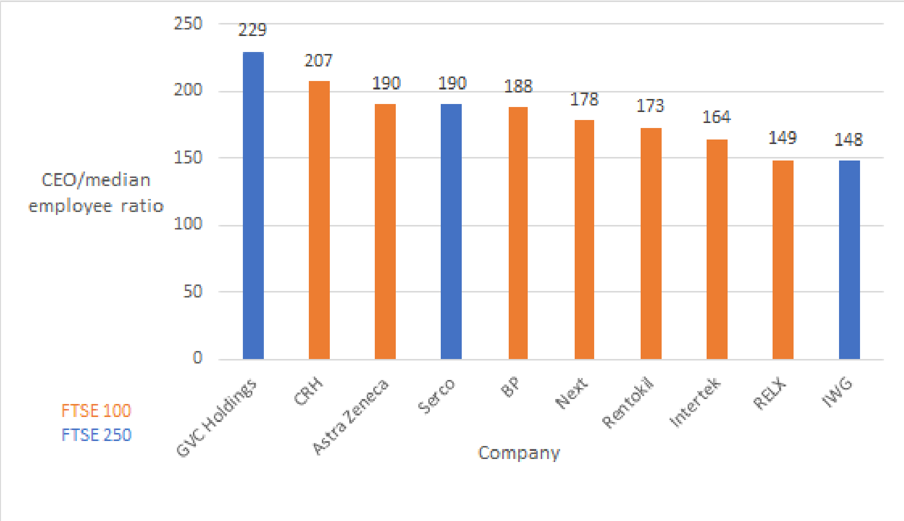



**Figure 2: 10 highest CEO/median employee ratios**

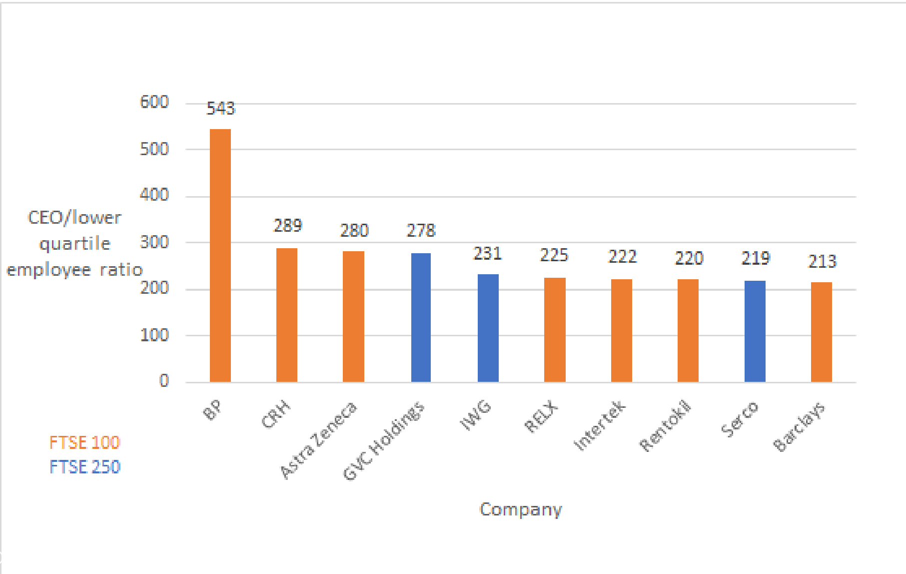



**Figure 3: 10 highest CEO/lower quartile employee ratios**

We caution against assuming that those companies with low ratios are necessarily examples of 'better practice' than those with high ratios, given the complexities of the disclosures. Nonetheless, the fact that any one individual makes 100, 200 or even 500 times their colleagues within the same organisation will be concerning to anyone worried by issues of inequality in the UK today.

The above figures also reiterate the importance of company size in influencing pay gaps: most of those with the lowest ratios are FTSE 250 companies, while those with higher ratios are mainly from the FTSE 100 index.

## Pay for low earners

The companies with the lowest CEO/median and CEO/lower quartile ratios are as follows:

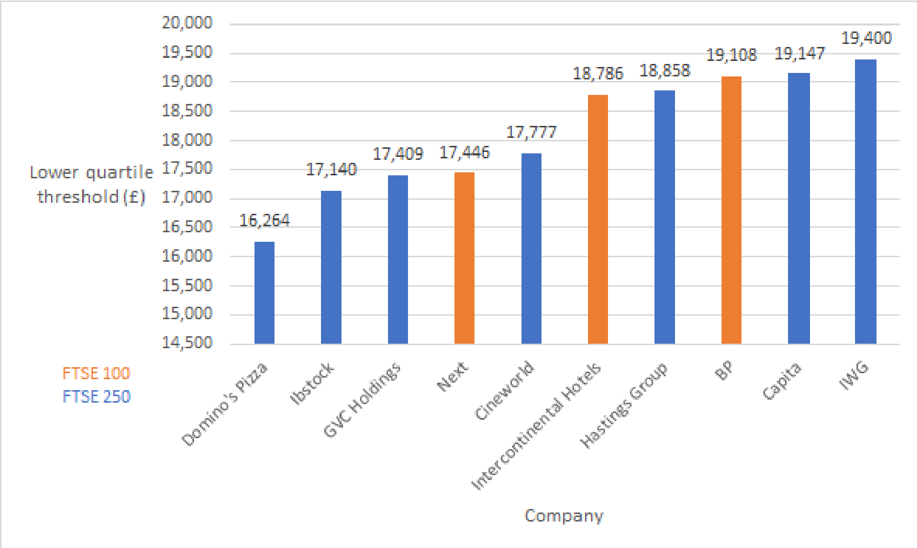



**Figure 4: 10 lowest lower quartile thresholds**

It is important to emphasise that 25% of employees at the companies shown in figure 6 are earning less than the lower quartile threshold, meaning that the disclosures do not show what the lowest paid employees are earning. Similarly, low-paid outsourced workers are also not included in the sample. Given this, the ten lowest thresholds for lower quartile earners are strikingly low. They suggest that low pay is potentially widespread at these companies, and should be a source of concern to their stakeholders.

Median pay at the lower quartile threshold of £29,500 is not what would commonly be considered low (although it is not high either). However, exclusion of outsourced workers from the pay ratios may mean that they do not reflect pay differences across the company's entire workforce as commonly understood. In order to gain a rough idea of the true gaps between top and bottom, we have estimated a CEO/low paid worker ratio using either an annualised equivalent of the statutory minimum wage (£16,324) or of the real living wage (£17,410) if the company is accredited by the living Wage Foundation as a living wage employer.

Using this methodology, the median CEO/living or minimum wage ratio ratio is 133: 1. For FTSE 100 companies only, the ratio is 253: 1.

## Upper quartile/lower quartile ratios

CEO pay awards, if distributed across the wider workforce, would not necessarily make a substantial difference to the earnings of low and middle earners on a per employee basis. However, redistributing from top earners more broadly could result in much bigger gains for those in the middle and at the bottom. The pay ratios between the top quartile and bottom quartile thresholds illustrate this point.

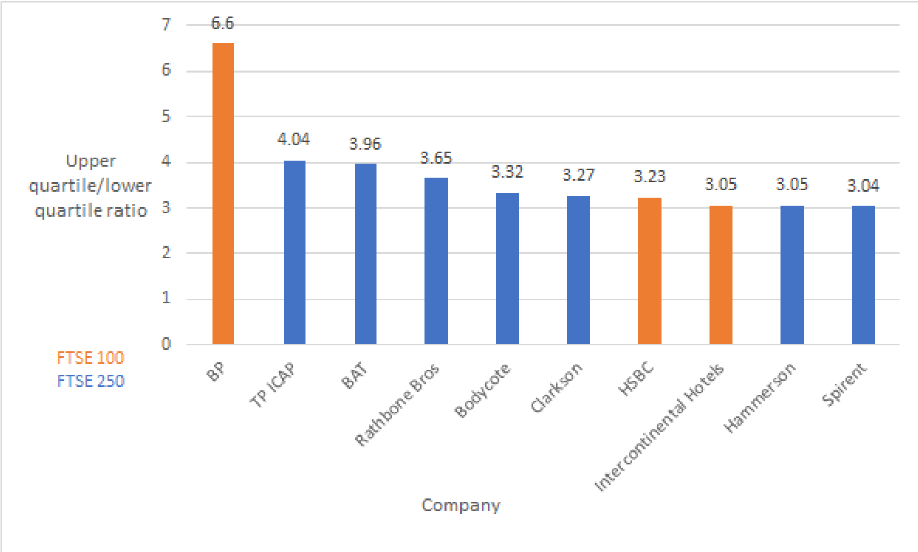



**Figure 5: 10 highest upper quartile/lower quartile ratios**

These ratios are small compared to those between CEOs and the median. Nonetheless, hypothetical exercises reveal the general potential for minor redistributions from upper to lower quartile earners to achieve meaningful pay increases for the latter. For example, awarding a £1,000 pay rise for the lower quartile earners at the 30 companies in our sample where the lower quartile pay threshold is below £25,000 would require on average a maximum 2.6% pay cut for the upper quartile earners at these companies. Across all companies, reducing pay of employees at the upper quartile by 3% could fund a median payrise of £2,000 for the lowest earning quartile of employees in the same companies. This would still leave the median upper quartile earner with pay of over £60,000, enough to put them comfortably in the top 10% across the UK as a whole.

However, whilst £65,000 is undoubtedly enough to lead a very comfortable lifestyle, it is perhaps not what most people consider seriously rich. The pay ratio disclosures do not provide an insight into what redistributions from those at the very top could achieve. UK-listed banks are a useful case study in this respect, as they disclose more granular information about their highest paid staff. Analysis suggests that redistributing pay from high-earning bankers comprising between 0.4% and 2% of total employees to the lowest earning 50% of staff would be worth thousands of pounds a year to the low earners. Pay for the high earners would remain in the hundreds of thousands of pounds post redistribution.

## Narrative reporting

Companies are also required to provide a 'narrative' to justify the size of the pay ratios. This is an important requirement, given that the data on its own does not explain a company's pay structure or the link to the broader business model and strategy. However, the disclosures are rarely substantial, with many companies using very similar wording. This may reflect the use of a standardised text to justify pay ratios by consultants advising on remuneration reports, without proper reflection on or explanation of the pay distribution at the companies in question.

## Pay ratios of companies using government support during Covid-19

In response to the economic shutdown brought about by Covid-19, the UK government has offered various forms of support to companies. These include the 'Coronavirus Job Retention Scheme', which covers 80% of the wages of furloughed workers, and the Coronavirus Corporate Financing Facility (CCFF), offered via the Bank of England, effectively providing short-term loans to assist with disruptions to cash flow.

It is reasonable to expect that companies drawing on these schemes should commit to fair pay practices in order to ensure that public money contributes to building a fairer society and is spent as effectively as possible. We found that for the 39 companies in our sample that have announced they are using the furlough scheme and/or are listed as using the CCFF, the **median CEO/lower quartile ratio is 78: 1**.

Given the use of state support by these companies, their employment practices are a matter of public interest. All companies have a duty to consider how they can pay workers more fairly, and this is especially the case for those reliant on public funding.

## Conclusions

It is important to recognise that these disclosures have their limitations. No two business models are exactly alike, meaning context is critical when comparing different pay ratios. The exclusion of indirectly employed workers from the calculation means that some disclosures may not reflect the company's workforce as commonly understood. There is also a need for more granular information on top pay between the CEO and the upper quartile.

Nonetheless, there is a lot of valuable information that can be gained from the disclosures, as well as insights for stakeholders to act upon. These initial findings add to our understanding of how pay is distributed within public companies. In particular:

- Investors, employees and their representatives will be able to have better dialogue with companies regarding employment models and their link to company strategy, using sectoral comparisons as part of discussions about how and why their model differs from rival companies.
- Disclosure of the lower quartile pay thresholds in particular can be used to support arguments for fairer pay practices and to raise pay for the lowest earners – for example, by citing the scope for redistribution from higher earners.
- Just as gender pay gap reporting has prompted a debate about issues such as working hours, workplace culture and division of labour in the home, so pay ratios can encourage debate about what top, middle and low earners make, and why.

The High Pay Centre will continue to monitor the pay ratio disclosures as they are published, and will publish a full analysis looking at a complete set of annual reports for the FTSE 350, building on our initial insights and identifying ways in which the disclosures could be improved.

# HIGH PAY CENTRE ANALYSIS OF 2020 PAY RATIO DISCLOSURES: INTERIM REPORT

## Introduction

**This introductory section explains the background to the pay ratio disclosures and the parameters for this report. It discusses how the pay ratio disclosures might be used by different stakeholder groups.**

The Companies (*Miscellaneous Reporting*) Regulations, introduced by Theresa May's Conservative government as part of a broader programme of corporate governance reform, require all UK-incorporated companies with a premium stock market listing and over 250 employees to publish 'pay ratios', showing the relationship of their CEO's pay to other employees in the company.

The regulations stipulate that companies must publish a table in their annual remuneration report showing CEO pay relative to pay at the 75th, median and 25th percentile of the company's UK employees.

That is to say, if all the company's UK employees were ranked from highest to lowest in terms of their total pay (on a full time equivalent basis) how would the CEO's pay compare to the thresholds for the upper quartile (i.e. the 75th percentile, earning more than 75% of employees), the median (exactly in the middle of the ranking) and the lower quartile (the 25th percentile, earning more than 25% of UK employees).

UK employees include everyone employed by the company under a contract for services, excluding those who work wholly or mainly outside the UK. Subcontractors and other workers who are not employed under a contract for services are also excluded.

CEO pay must be calculated using the existing formula for the so-called 'single figure' of total remuneration, encompassing salary and all forms of pay and benefit including pensions, bonuses and share awards. The employee total remuneration figure, provided at the 75th, median and 25th percentile, includes salary, taxable benefits, cash bonuses, share-based pay and pensions. It should be calculated 'wherever possible' by determining pay for all UK employees (on an FTE basis), ranking them on a low-to-high basis and identifying the employees whose remuneration places them at the upper, median and lower percentile points (option A).

Alternatively, companies may calculate the 25th, 50th and 75th percentile points based on their gender pay reporting disclosures, which require them to identify the gender breakdown of employees in each pay quartile, and thus to calculate the thresholds for each quartile (option B), or they may use other existing pay data, provided it has been calculated no earlier than the previous financial year (option C).

The disclosure requirements apply to pay awarded for financial years beginning from 1 January 2019. Therefore, the first mandatory disclosures have begun to appear in annual reports published in early 2020 for financial years ending on or after 31 December 2019.

## Summary of findings

This report analyses the pay ratio disclosures made by FTSE 350 companies from 1 January to 30 April 2020, in order to identify what insights the pay ratios might provide and how they might be used by stakeholders.

In addition to comparing the ratios between the CEO and their employees, the analysis compiles data on the lower quartile pay thresholds in order to gain insights into the earnings of the lowest-paid employees at the UK's biggest listed companies. We also examine the pay differences between the upper and lower quartiles (on the basis of pay levels at the 75th and 25th percentiles).

Over the time period covered, a total of 107 FTSE 350 companies covered by the pay ratio reporting requirements (47 from the FTSE 100 and 60 from the FTSE 250) published annual reports in which pay ratios were disclosed. Though this represents a minority of the companies subject to the reporting requirements, it does provide an initial snapshot of how firms are approaching pay ratio reporting, and gives some insights into how pay ratios might inform debate about pay and employment practices, as well as identifying areas where further detail will be required.

In particular, we hope that the research will be of some value to a number of stakeholders in the debate on pay and business governance, including the following groups:

- **Businesses**, particularly the remuneration committees that oversee pay-setting processes and the directors or committees designated responsibility for stakeholder representation in companies' corporate governance structures as mandated by the 2018 Corporate Governance Code. How a company's absolute and relative pay levels compare to other similar businesses can support insights and decisions regarding its wider strategy or business model.
- **Investors** seeking to understand the employment practices and corporate cultures of the companies they invest in, and how their spending on pay – a significant cost for any business – is distributed.
- **The workers themselves and the bodies that represent them**, who can potentially benefit from better information about how their pay levels compare to others within their own company or in other similar organisations.
- **Policymakers** interested in the initial impact of the pay ratio disclosures, and their insights and limitations. In the aftermath of Covid-19 and with many businesses reliant on government support, details of the distribution of their pay costs may also be relevant to support packages.
- **Academic and commercial researchers** interested in prevailing corporate pay practices, who can use the data to examine how pay distribution relates to issues such as industry type, business performance or societal impact.

The research found that the median CEO/median employee pay ratio across the FTSE 350 is 55: 1 and the median CEO/lower quartile employee ratio is 78: 1. These ratios are significantly higher for the FTSE 100, where the median CEO/median ratio is 74: 1 and the median CEO/lower quartile ratio is 109: 1. The median ratios may change as more companies publish their disclosures over time, and we intend to produce a subsequent and final report when a complete set of pay ratios has been published for the full FTSE 350. We will also engage with stakeholders to help make the best use of the data and the insights it provides, in order to support good decisions about pay and employment practices across the UK's largest private sector employers.

## Section 1: Industry trends

**In this section, we examine the pay ratios and absolute pay levels across different industries, highlighting possible insights into the employment practices of particular industries and identifying potential areas for further research.**

Analysing the pay ratios across different industries and sectors can help to identify certain trends. Industry averages can also be useful for stakeholders when looking at how an individual company compares to the rest of an industry, and can prompt a constructive discussion about why this might be the case.

Figure 1 shows the average pay ratios across different industries, as well as the average pay threshold for lower quartile earners (the 25th percentile point, meaning that a quarter of the employees earn less than this amount) for each industry. The full data for industry pay ratios and thresholds can be found in the appendix.

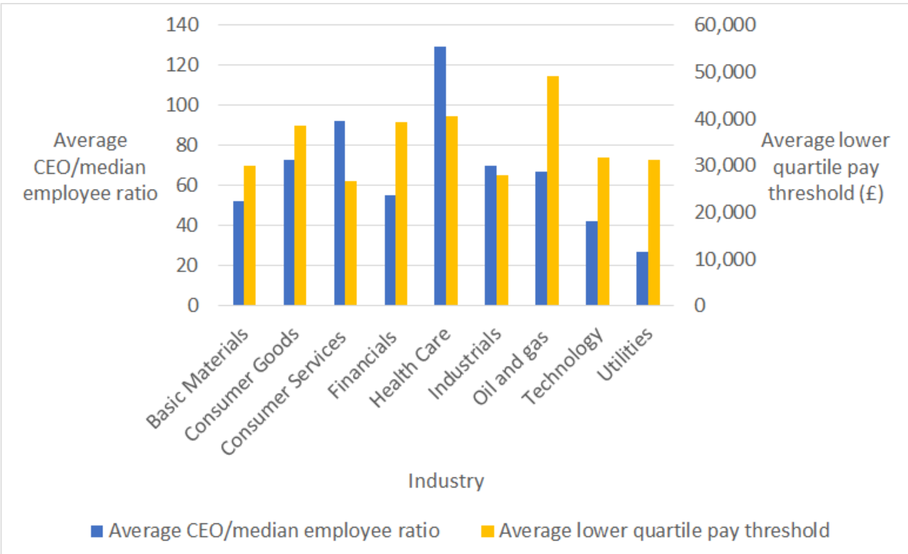



**Figure 1: Pay ratios and lower quartile pay thresholds by industry**

It is important to recognise that these data should not be seen as giving definitive answers about differences between industries or sectors. For this interim report, the research covers fewer than half the companies in the FTSE 350, and when broken down by industry, the sample size is even smaller.

To draw firmer conclusions about pay practices across different industries will require full sets of disclosures across a period of years, as well as additional work building on the insights provided by the pay ratios.

Therefore, rather than providing concrete evidence about pay practices at major UK employers, these figures provide a useful starting point which stakeholders can use for further research, engagement and debate aimed at informing better understanding of corporate cultures and employment practices.

The figures show that to date, the **healthcare industry** has the highest average CEO/median ratio at 129: 1. Pay ratios are, of course, determined both by levels of pay for the company's UK employees and levels of pay for their CEO. Health care has a high average level of median pay at £56,794. However, three of the four healthcare companies which have disclosed also have very high levels of CEO pay (ranging from nearly £7 million to over £14 million compared to a FTSE 100 average of £3.6 million) [1].

This means that even though we might expect people working in the industry to be highly educated or qualified workers, the gap between the median UK employee and their CEO is much wider than industries where the median employee is far less qualified. As discussed, however, caution should be taken in interpreting this data, as only four healthcare companies have so far disclosed.

| Company | Index | CEO pay (£000) | Lower quartile ratio | Median ratio | Lower quartile pay threshold (£) | Median pay threshold (£) | Upper to lower quartile ratio |
|---|---|---|---|---|---|---|---|
| AstraZeneca | 100 | 14,330 | 280 | 190 | 51,000 | 75,000 | 2.29 |
| GSK | 100 | 8,370 | 166 | 123 | 50,467 | 68,200 | 2.19 |
| Smith & Nephew | 100 | 3,727 | 116 | 81 | 30,400 | 43,375 | 2.26 |
| Convatec | 250 | 6,878 | 163 | 123 | 30,652 | 40,601 | 2.15 |

**Table 1: Pay ratios in the healthcare industry**

High levels of CEO pay in the industry could result from the fact that the healthcare industry is perceived to be particularly complex, and requires very high levels of scientific knowledge relative to other sectors – although this would also be true of healthcare industry workers more generally and as has been shown the gap between the CEO and the median UK worker is disproportionately large in this industry.

AstraZeneca and GSK are also amongst the largest UK-listed companies. Research by the High Pay Centre and the CIPD in 2019 found a strong relationship between FTSE 100 companies' market capitalisation and their level of CEO pay [1]. If larger companies have higher levels of CEO pay, we might also expect their pay ratios to be higher. Furthermore, data presented later on in this report show that the 10 companies with the highest CEO/median ratios are mostly in the FTSE 100, whilst the 10 with the lowest CEO/median ratios are mainly from the FTSE 250.

However, market capitalisation is clearly not the only factor here, since Convatec, a FTSE 250 company, has much higher CEO pay than Smith and Nephew, a FTSE 100 company. Underlying all of this is the fact that the CEO's single figure remuneration is largely performance-dependent and is therefore highly variable from one year to the next. AstraZeneca's high CEO pay is the result of the vesting of two share-based Long-Term Incentive Plans, which due to a substantial rise in share price added almost £10.5m to the pay package.

This illustrates how company performance is another potential driver of pay ratio size. Typical CEO pay awards are highly incentivised, with most performance-related pay plans closely linked to shareholder returns and the company share price.

[1] [2] CIPD and the High Pay Centre, Executive Pay in the FTSE 100, 2019 via http://highpaycentre.org/files/CIPD_HPC_FTSE_100_executive_pay_report.pdf

One would therefore expect strong share price gains over the preceding three year period (the typical length of incentive plans) to result in a higher CEO pay award and thus a higher pay ratio. However, the relationship between CEO pay and company performance is highly contested by researchers on the subject [3]. We will examine the relationship between factors such as company performance, market capitalisation and the size of the pay ratios in our final report.

The **utilities industry** - which encompasses water, gas and electricity - has the lowest average CEO/median employee pay ratio at 27:1. We might generally expect to see low ratios here as a legacy of public ownership. Factors exerting downward pressure on ratios relating to past public ownership could include historically low CEO pay levels, greater stakeholder discomfort with the idea of individuals earning very large sums of money for what are still perceived by some to be public services, media scrutiny especially in the case of rising household bills, and a more unionised workforce.

The utilities industry has levels of union membership well above the private sector average of 13.2%. In Electricity, Gas, Steam and Air Conditioning Supply occupations, 35.2% of workers are trade union members, and in Water Supply, Sewerage, Waste Management and Remediation Activities the proportion is 28.5% [4].

Again, we should be hesitant to draw conclusions about this industry as only two utilities companies have disclosed pay ratios so far. Nonetheless, the possibility of a relationship between lower pay ratios and higher trade union membership is supported by the fact that at the national level, there is a strong link between economic inequality and trade union membership or collective bargaining coverage – the richest 1% tend to take a much higher share of total incomes in countries with lower union membership and/or collective bargaining coverage [5]. In the UK, the share of incomes going to the top 1% has risen over the past forty years in tandem with the fall in trade union membership [6].

Though lower than across utilities firms, union membership across industrial companies is also higher than the private sector average: within the manufacturing industry, it is 17.1%. Again, this may be contributory to lower pay ratios.

The table below shows the companies that have disclosed so far from two sectors within the manufacturing industry - aerospace and defence, and automobiles and parts - both of which are relatively unionised. Pay ratios for these companies are generally low, though not all are below the median for the group as a whole. What is also interesting is that the upper/ lower quartile ratios are all consistently low (the average for the sample as a whole is just over 2: 1), suggesting that trade union influence has a constraining effect on inequality within the wider workforce.

[3] See e.g. Li W & Young S, An analysis of CEO pay arrangements and value creation for FTSE-350 companies, 2016, CFA Society of the United Kingdom, 2
[4] UK government, *Trade Union Statistics* 2018, via https://www.gov.uk/government/statistics/trade-union-statistics-2018
[5]IPPR, *Fall in trade union membership linked to rising share of income going to top 1%*, 2018 via https://www.ippr.org/news-and-media/press-releases/fall-in-trade-union-membership-linked-to-rising-share-of-income-going-to-top-1
[6] *Social Europe, Collective bargaining and rising inequalities: do the IMF and OECD get it?*, 2016 via https://www.socialeurope.eu/collective-bargaining-rising-inequalities-oecd-imf-get

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Lower quartile pay threshold (£) | Median threshold (£) | Upper to lower quartile ratio |
|---|---|---|---|---|---|---|---|---|
| BAE Systems | 100 | Aerospace and Defence | 3,934 | 90 | 72 | 43,873 | 54,833 | 1.53 |
| Meggit | 100 | Aerospace and Defence | 2,490 | 76 | 58 | 32,879 | 42,861 | 1.78 |
| Melrose | 100 | Automobiles and Parts | 1,049 | 30 | 24 | 32,000 | 40,000 | 1.56 |
| Rolls Royce | 100 | Aerospace and Defence | 3,159 | 66 | 56 | 48,000 | 56,000 | 1.35 |
| Aston Martin | 250 | Automobiles and Parts | 1,353 | 34 | 29 | 40,000 | 47,000 | 1.43 |
| TI Fluid Systems | 250 | Automobiles and Parts | 2,450 | 93 | 77 | 26,455 | 31,746 | 2.00 |
| Ultra Electronics | 250 | Aerospace and Defence | 1,592 | 54 | 37 | 29,549 | 43,151 | 2.01 |

**Table 2: Pay ratios in the aerospace and defence sector and the automobiles and parts sector**

The average ratios for industries shown in Figure 1 hide immense variation. For example, the **oil and gas industry** has an average CEO/median employee pay ratio of 67: 1. The lower ratios within the industry are mainly due to high levels of pay across the wider workforce, as shown in table 3. This indicates that these companies mainly employ highly specialised workers in the UK.

However, BP is a significant outlier within the industry and indeed within the whole sample, with the highest CEO/lower quartile ratio of all companies at 543: 1. The size of this ratio is due both to a high CEO pay of £10.4m and to the fact that BP's workforce includes a large proportion of low-paid retail employees in its petrol stations, giving it a particularly low lower quartile threshold of £19,108. BP also has the highest upper/lower quartile ratio of the companies surveyed, meaning that there is wide dispersal of pay levels within the UK workforce.

Notably, Shell's ratios are much lower than BP's despite being an ostensibly similar organisation with a similarly high CEO pay award. This is because Shell franchises its petrol stations, meaning that petrol station staff are not included in its pay ratio calculations. The fact that pay ratios fail to account for different employment models means that the comparability of ratios across apparently similar companies demands more attention and analysis than is apparent upon first reading. The oil and gas industry therefore highlights the complexities of the factors that determine the size of pay ratios.

| Company | Index | CEO pay (£000) | Lower quartile ratio | Median ratio | Lower quartile pay threshold (£) | Median threshold (£) | Upper to lower quartile ratio |
|---|---|---|---|---|---|---|---|
| BP | 100 | 10,371 | 543 | 188 | 19,108 | 55,071 | 6.6 |
| Royal Dutch Shell | 100 | 8,746 | 147 | 87 | 59,419 | 100,755 | 2.72 |
| Petrofac | 250 | 963 | 20 | 14 | 49,288 | 68,929 | 1.66 |
| Premier Oil | 250 | 1,631 | 20 | 12 | 82,237 | 136,538 | 2.43 |
| Wood Group | 250 | 1,690 | 48 | 36 | 35,000 | 46,000 | 1.94 |

**Table 3: Pay ratios in the oil and gas industry**

As well as individual outliers within industries, there are also clear sectoral differences within the industries that have already had a large number of disclosures to date. The **financials industry** is an example of this. The banking sector has a high average CEO/ lower quartile ratio at 146: 1, whilst financial services has a much lower average CEO/ lower quartile ratio at 50: 1.

These sectoral differences are mainly due to workforce composition rather than CEO pay. Companies in the insurance, financial services and real estate sectors, whose UK workforce consists solely or predominantly of analytical and specialist roles, tend to have lower pay ratios. Conversely, financial companies such as banks, with large numbers of staff in lower-paid customer-facing roles (i.e. branch staff), have much higher pay ratios. Similarly, sectors in other industries with high ratios, including travel and leisure or industrial support services share similar characteristics, in that many essential roles in the sector are less highly valued by the market.

Very often these businesses are labour (as opposed to physical or intangible capital) intensive. Intuitively, it makes sense that running a larger company with more employees might be deemed more challenging or complex, and thus might entail greater responsibility for the CEO and therefore higher pay. Equally, where the total value of the company is generated by a larger number of workers, we would expect average pay across the workforce as a whole to be lower than a less labour intensive business with similar market value.

However, given that the disclosures relate to UK employees only, while many of the companies in the sample have extensive international operations with large numbers of employees based overseas. Therefore, a low number of UK employees does not necessarily mean that the CEO is only responsible for a small workforce. Again, we will examine the relationship between pay ratios and company size in more detail in our subsequent report.

## Section 2: Highest and lowest pay ratios

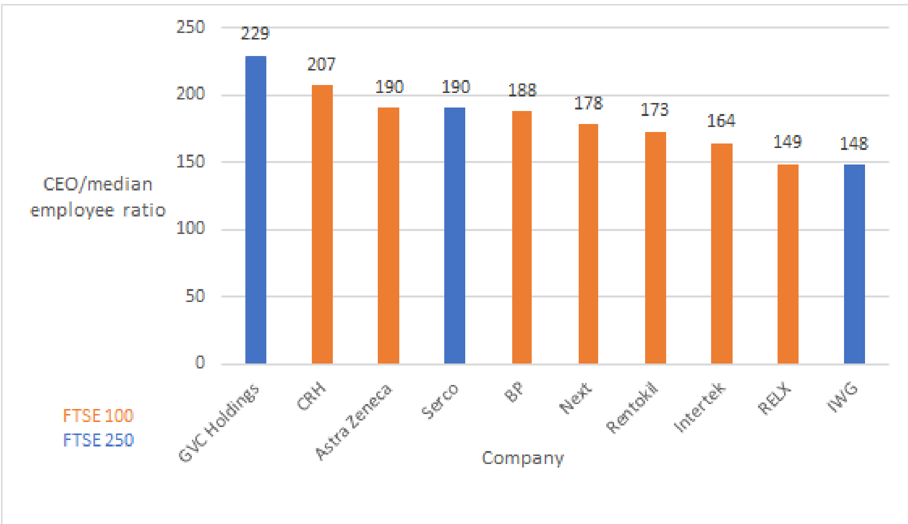
**In this section we identify the companies with the highest and lowest pay ratios in our sample and identify potential drivers of pay gaps.**

In addition to enabling broad comparisons between sectors, the ratio disclosures mean that we can identify the widest pay differentials across UK listed companies. The objective of putting these figures in the public domain is to inform understanding of the scale of pay gaps and their causes.

In some cases, stakeholders may use the disclosures to engage with particular companies and exert influence on them to reduce their ratios, by cutting or freezing top pay and in particular by raising pay for low and middle income workers.

However, we caution against assuming that those companies with low ratios are necessarily examples of ‘better practice’ than those with high ratios, given the complexities of the disclosures.

Figures 2-5 detail the companies with the highest and lowest CEO/median employee and CEO/lower quartile employee pay ratios.

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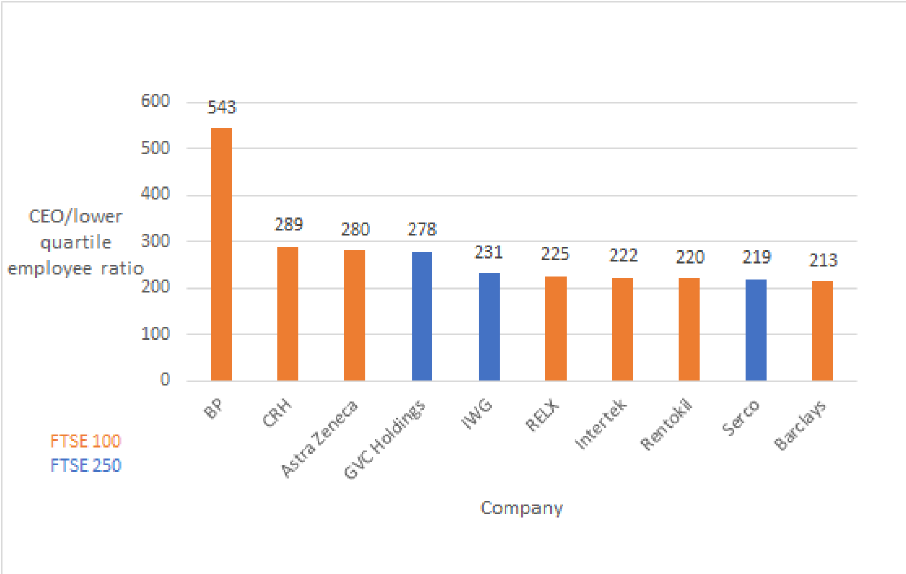


**Figure 3: 10 highest CEO/lower quartile employee ratios**

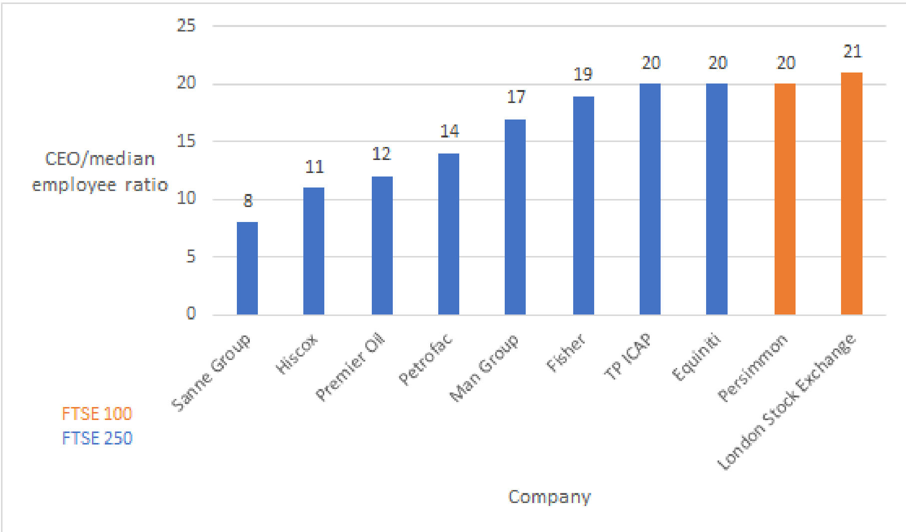


**Figure 4: 10 lowest CEO/median employee ratios**

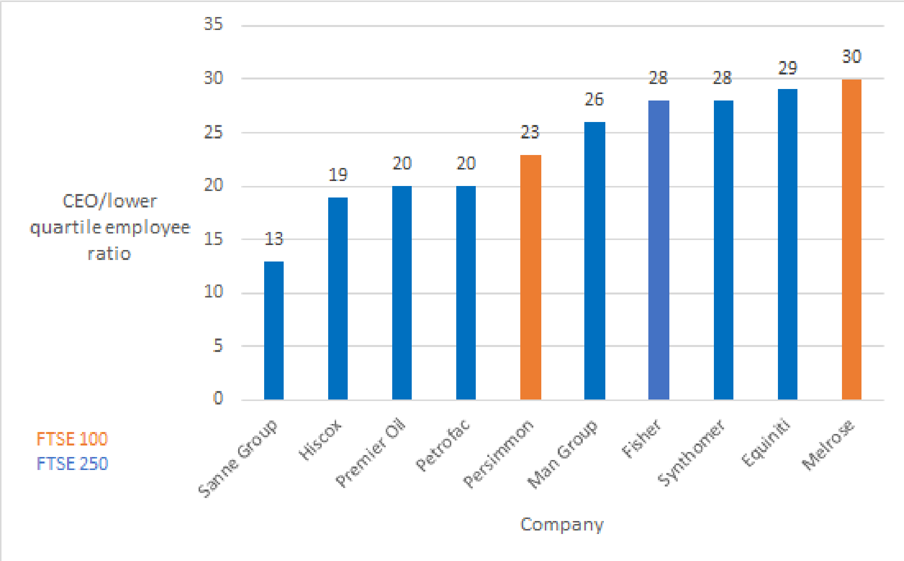


**Figure 5: 10 lowest CEO/lower quartile employee ratios**

One of the most immediately striking things about these two lists is the similarity between figures 2 and 3, and figures 4 and 5. Nine of the ten companies with the highest CEO/median worker ratios also have the largest gaps between the CEO and the lower quartile. Eight out of ten with the lowest CEO/median ratios also have the lowest CEO/lower quartile ratios.

This suggests that gaps between those at the bottom and in the middle are much smaller than those between the middle and the top. If the lower quartile of employees are amongst the lowest-paid relative to their CEO, then it is highly likely that those at the median will be as well. We discuss how this fits with income distribution across the UK in subsequent sections.

These figures also reiterate the importance of company size in influencing pay gaps, with bigger gaps between CEOs and those at the median and lower quartile at larger companies. Most of those with the lowest ratios are FTSE 250 companies while those with higher ratios are mainly from the FTSE 100 index.

For a fuller analysis of whether a company's pay ratio is particularly unusual, one would need to analyse disclosures from companies of similar size in similar sectors, as well as a more qualitative analysis of the different companies' characteristics. Nonetheless, the companies highlighted in figures 2-5 that have amongst the highest/lowest ratios across the entire FTSE 350 index are also certain to have the highest/lowest in their sector.

**Box 1: Impact of public scrutiny**

Persimmon, a FTSE 100 company in the home construction sector, prompted widespread criticism when its former CEO, Jeff Fairburn, received total remuneration of almost £85m in 2017/18. Following the criticism, the current CEO did not receive an annual bonus or LTIP award in 2019. The company also introduced a new Remuneration Policy whereby the future CEO remuneration "*will be positioned at or below the lower end of the market compared to similar sized FTSE 100 companies.*" This is an interesting example of the effect that public scrutiny and pressure can have.

## The CEO pay debate

Furthermore, even if it appears to be standard practice for pay gaps to be determined – at least in part – by company size, it is also worth examining why this is the case.

It is true that at larger organisations, decisions taken by the CEO will have a higher financial value, while one might also expect to encounter a larger number of employees (with more levels between the CEO and the median worker), more extensive supply chains, and involvement in a wider range of markets, all adding to the complexity of the CEO's role.

At the same time, however, a larger company also makes the CEO more dependent on their colleagues. It is arguably impossible for a single individual or executive team to maintain oversight of an organisation with extensive operations and supply chains spanning multiple continents, time zones and regulatory regimes. As Sir Philip Hampton, former Chair of GSK and RBS, said in a research interview for a previous High Pay Centre publication,

"**the bigger the system, the more it's the system that counts rather than the person on top of it**" [7].

Putting issues of comparability to one side, the fact of any one individual making 100, 200 or even 500 times their colleagues within the same organisation will be concerning to anyone worried by issues of inequality in the UK today.

Even if median or lower quartile pay was the annualised equivalent of the UK minimum wage (£8.72), a CEO pay award of 100 times this amount (based on a 36-hour working week for the minimum wage earner) would equate to annual pay of £1.6 million, enough to afford an extremely comfortable lifestyle far beyond the means of the overwhelming majority of the population and surely a meaningful reward or incentive for taking on a demanding role.

The economic importance and impact of executives on company performance, and whether or not this justifies such vast pay gaps, continues to be extensively debated. There is a long-running debate in management research over how much of the variance in firm performance can be attributed to an individual CEO [8]. However, in addition to arguments around the merits of wide pay gaps from a business perspective, the moral and social questions of whether an individual who earns 200 times more than a quarter of their employees works 200 times as hard or is fundamentally 200 times more valuable than these employees also deserve to be discussed.

By highlighting the most extreme intra-company pay differences, the pay ratio disclosures will inform this discussion.

[7] High Pay Centre, Made to measure: How opinion about performance becomes fact, 2015 via http://highpaycentre.org/files/FINAL_MADE_TO_MEASURE.pdf

[8] See e.g. Fitza M A, *How much do CEOs really matter? Reaffirming that the CEO effect is mostly due to chance*, 2017, Strategic Management Journal, 38(3), 802-811.

## Section 3: Pay for low earners - a snapshot

**This section examines absolute pay levels at the lower quartile threshold, highlighting the companies with the highest and lowest paid lower quartile employees in the sample and discussing the implications. It also looks at the possible impact of outsourcing on pay ratios, and calculates ratios based on the CEO pay to the annualised national minimum or real living wage (dependent on whether the company in question is an accredited living wage employer).**

Amongst the most important information contained in the CEO pay disclosures is the thresholds they provide for the lower quartile of earners at UK companies - i.e. the boundary between the bottom quartile of earners and the next (lower middle) quartile.

There are undoubtedly questions about whether relative pay levels, particularly very wide pay ratios are morally appropriate, and the impact they have on social cohesion. But raising absolute pay for the lowest earners should be one of the foremost priorities for any society. In this respect, what the lowest-paid employees at some of the UK's largest employers earn is of considerable interest.

It is noteworthy that the median lower quartile threshold for the companies in our sample is £29,500. This figure seems high, and is only slightly below the median gross annual earnings for full-time workers in the UK of £30,353 [9]. It is worth noting that the figure refers to total employee remuneration, rather than just wages or salaries: it therefore also includes taxable benefits, pensions and any share-based pay or cash bonuses. Furthermore, as the tables below show, it masks considerable variation across different companies.

It is also very important to emphasise that 25% of employees at these companies are earning less than the lower quartile threshold, meaning that the disclosures do not show what the lowest paid employees are earning. Similarly, as we have already noted, the outsourced jobs that may to all intents and purposes be on behalf of a particular company (security guards or cleaners maintaining a firm's offices, for example) are also not included in the sample.

Figures 6 and 7 show the companies with the lowest and highest levels for the lower quartile pay threshold.

[9] Office for National Statistics, Annual Survey of Hours and Earnings, 20 October 2019

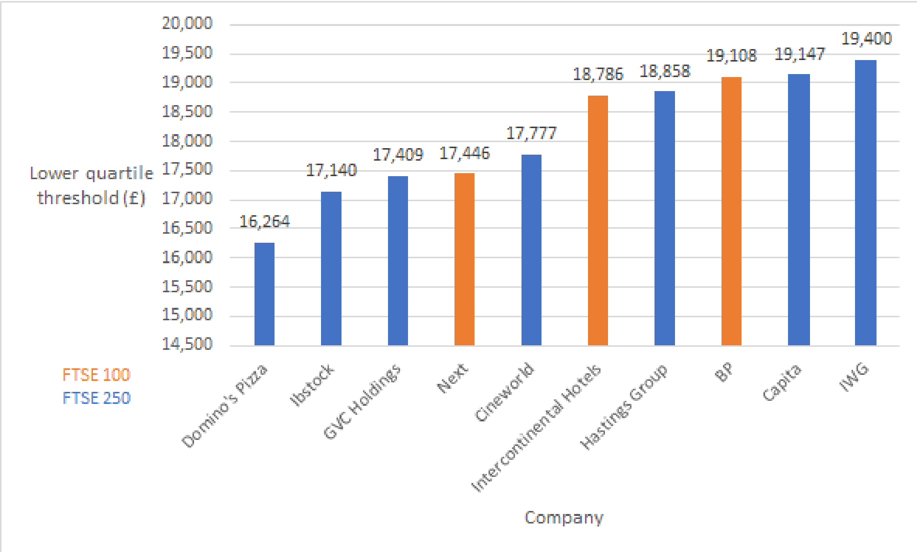


**Figure 6: 10 lowest lower quartile thresholds**

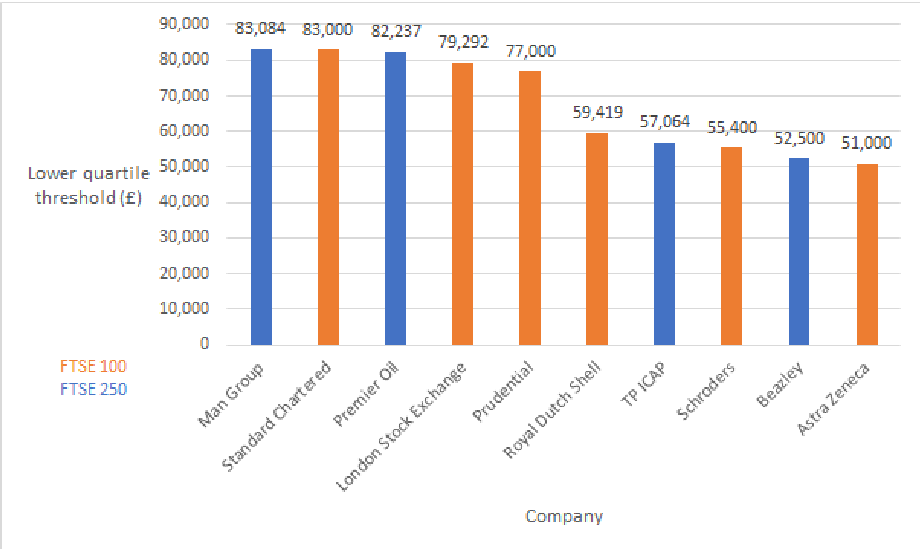


**Figure 7: 10 highest lower quartile thresholds**

The fact that two essentially similar companies, Shell and BP, appear in the top and bottom ten respectively because one company operates a franchise model while the other manages outlets in-house highlights the limitations of these disclosures. Nonetheless, the thresholds do illustrate a number of important points.

Four out of the ten companies with the highest threshold for their lowest quartile of employees are in the financial services sector, where a high proportion of people are employed in analytical roles requiring high levels of education and training. The same point can be made about the oil and gas companies listed. Thus, the threshold for the lowest quartile at each of these companies is still enough to put anyone paid that amount in the top 10% of UK earners [10].

Conversely, the lowest thresholds for lower quartile earners at FTSE 350 companies are strikingly low. The UK real living wage, calculated by the Living Wage Foundation, is £9.30 an hour across the UK and £10.75 in London. This is the minimum hourly rate on which the recipient is able to cover their living expenses and live a healthy lifestyle. Based on a 36-hour week, this equates to £17,410 per annum for the UK rate and £20,124 per annum for the London rate.

[10] An employee at the 90th percentile of annual gross pay earns £60,890 (Office for National Statistics, Annual survey of hours and earnings, 29 October 2019).

Only Domino's Pizza and Ibstock have a lower quartile threshold below this figure for the UK annual Real Living Wage, and it is reassuring that the rest of the companies in our sample are above this.

However, all of the ten companies in table 9 are below the London Living Wage for a 36-hour week, and at least some of these companies are certain to have London employees. For example, Next has stores in London but is not an accredited Living Wage Employer. Furthermore, pay ratio calculations are expected to include irregular bonuses and pension payments that cannot be accessed until retirement alongside base salary, so the disclosures do not necessarily equate to the hourly living wage that the Living Wage Foundation calculate is the minimum necessary to live on. Finally, as previously noted, for each company a quarter of the UK workforce are earning less than the lower quartile threshold. This suggests that low pay is potentially widespread at these companies, and should be a source of concern to their stakeholders.

## Highest to lowest paid workers

Companies are not required to detail ratios relating to their lowest-paid workers (i.e. those earning below the lower quartile threshold), nor to contracted workers, such as cleaners or caterers, who may spend their entire working lives on a single company's premises helping that company to function, but are not included amongst its employees and are therefore not included in the ratio calculation.

These workers are very often amongst the lowest-paid in the UK economy, so their omission will have a significant impact on the recorded pay ratio in many cases. It will be important for stakeholders to study the pay ratio disclosures in conjunction with reporting of the company's broader employment practices, as detailed in the 'strategic report' section of their annual report (see Box 2). Provided this is properly understood, it will again promote a useful debate about employment models and the use of outsourced workers.

Box 2: Workers excluded from the pay ratio calculation

As we have noted throughout the report, the pay ratio calculations do not include certain types of worker who many people would understand to be working for a particular company. We have highlighted how Shell, for example, uses a franchise model for its petrol stations, meaning that their staff are employed by the franchisee rather than Shell, even though they work in Shell-branded outlets. Other companies such as Intercontinental Hotels and Dominos also use a franchise model.

In the construction sector, many self-employed workers are engaged on building sites on behalf of major building and construction firms without being counted amongst their employees. It is noticeable that Morgan Sindall (£50,249) Persimmon (£33,409) and Taylor Wimpey (£41,483) in our sample have median pay levels much higher than the £24,964 suggested by Unite the Union as a typical rate for a construction worker within the National Vocational Qualification level 2 band covering the largest number of workers in the sector.

Insights from Unite, who represent many outsourced workers across the companies in our sample, provide further indication of the extent of outsourcing of low-paid work. In the financials industry, Aviva, Barclays, HSBC, Lloyds, M&G, Phoenix, Prudential, RBS and RSA amongst others have outsourced roles in areas including facilities management, post-room, scanning, cleaning, catering, maintenance and pensions administration.

However, there is a crude way of estimating highest to lowest earner ratios, in order to gain some insight into the true gaps between top and bottom. The Living Wage Foundation accredits employers that pay a ‘living wage’ (to all workers including contracted staff) of at least £9.30 that independent experts calculate is the minimum needed to support a decent standard of living.

For those companies accredited by the Living Wage Foundation, we have assumed their lowest paid employees are paid £17,410, the equivalent of £9.30 annualised, based on a 36-hour week. For everyone else, we have assumed that they are paid the annual equivalent of the statutory minimum wage based on a 36-hour week, £16,324.

Using this methodology, the median CEO/low paid worker (i.e. national minimum or real living wage earner) ratio is 133:1, significantly higher than the median CEO/lower quartile ratio of 78:1. Tables 4 and 5 show the ten largest gaps between companies’ CEOs and the annualised equivalent of either the real living wage (if the company is an accredited living wage employer) or the national minimum wage. Table 6 also shows the largest gaps between the upper quartile pay threshold and the annualised real living wage or national minimum wage. For FTSE 100 companies the ratio is 253: 1 compared to the median CEO/lower quartile ratio of 109: 1.

| Company | Index | Industry | Sector | Living/ minimum wage | CEO/lowest paid ratio |
|---|---|---|---|---|---|
| AstraZeneca | 100 | Health Care | Pharmaceuticals and Biotechnology | 17,410 | 823 |
| BP | 100 | Oil and Gas | Oil and Gas Producers | 16,324 | 635 |
| Royal Dutch Shell | 100 | Oil and Gas | Oil and Gas Producers | 16,324 | 610 |
| CRH | 100 | Industrials | Construction & Materials | 16,324 | 503 |
| RELX | 100 | Consumer Services | Media | 17,410 | 499 |
| GSK | 100 | Health Care | Pharmaceuticals and Biotechnology | 17,410 | 481 |
| Prudential | 100 | Financials | Life insurance | 16,324 | 412 |
| BAT | 100 | Consumer Goods | Tobacco | 16,324 | 408 |
| Convatec | 250 | Health Care | Health Care and Equipment Services | 17,410 | 395 |
| Schroders | 100 | Financials | Financial Services | 17,410 | 372 |

**Table 4: 10 highest CEO/low paid worker ratio**

| Company | Index | Industry | Sector | Living/ minimum wage | CEO/lowest paid ratio |
|---|---|---|---|---|---|
| Sanne Group | 250 | Financials | Financial Services | 16,324 | 18 |
| Hiscox | 250 | Financials | Non life insurance | 17,410 | 40 |
| Equiniti | 250 | Industrials | Support Services | 16,324 | 41 |
| Persimmon | 100 | Consumer Goods | Household Goods and Home Construction | 16,324 | 41 |
| Hastings Group | 250 | Financials | Non life insurance | 16,324 | 41 |
| Domino's Pizza | 250 | Consumer Services | Travel & Leisure | 16,324 | 43 |
| Ibstock | 250 | Industrials | Construction & Materials | 16,324 | 45 |
| Capita | 250 | Industrials | Support Services | 16,324 | 48 |
| FDM Group | 250 | Technology | Software and Computer Services | 16,324 | 49 |
| Synthomer | 250 | Basic Materials | Chemicals | 16,324 | 55 |

Table 5: 10 lowest CEO/low paid worker ratio

| Company | Index | Industry | Sector | Living/ minimum wage | Upper quartile/ lowest paid ratio |
|---|---|---|---|---|---|
| TP ICAP | 250 | Financials | Financial Services | 16,324 | 14.12 |
| Man Group | 250 | Financials | Financial Services | 16,324 | 13.92 |
| Premier Oil | 250 | Oil and Gas | Oil and Gas Producers | 16,324 | 12.26 |
| Standard Chartered | 100 | Financials | Banks | 17,410 | 12.18 |
| BAT | 100 | Consumer Goods | Tobacco | 16,324 | 11.22 |
| Royal Dutch Shell | 100 | Oil and Gas | Oil and Gas Producers | 16,324 | 9.91 |
| Prudential | 100 | Financials | Life insurance | 16,324 | 9.50 |
| Schroders | 100 | Financials | Financial Services | 17,410 | 8.88 |
| Beazley | 250 | Financials | Non life insurance | 17,410 | 8.52 |
| London Stock Exchange | 100 | Financials | Financial Services | 16,324 | 7.90 |

Table 6: 10 highest upper quartile/low paid ratio

The tables show that at the extremes, the impact of the difference between the national minimum and living wages on the highest and lowest pay ratios is minimal – both 'top tens' are the ten companies with the highest and lowest paid CEOs. Paying the living wage means Hiscox and Convatec rank higher and lower in their respective tables than would be the case if they were not living wage employers.

The figures do suggest potential extreme pay differences within UK companies, with some CEOs making 500, 600 or even 800 times workers on the minimum or living wage.

The ratios between the top quartile and minimum/living wage salaries are less striking. Even so, they suggest that, depending on the number of workers earning around the minimum or living wage, small reductions in pay for top earners redistributed to the lowest paid workers would make a major difference to those at the bottom while not substantially harming those at the top (annual pay eight times as much as an annualised minimum wage salary would still be enough to put the recipient in the richest 1% of all UK earners).

We discuss upper to lower quartile redistribution in more detail in the following section.

## Section 4: Upper quartile/lower quartile ratios

**This section examines pay ratios between the upper and lower quartiles, highlighting the companies with the highest ratios. It also discusses hypothetical redistributions from the upper to the lower quartile, examining what difference various levels of redistribution would make to the lower earners and at what cost to the higher earners.**

While the scale of CEO pay awards subjects them to considerable media scrutiny, most CEO pay awards, if distributed across the wider workforce, would not make a substantial difference to the earnings of low and middle earners. This is because even millions of pounds shared across thousands of employees does not necessarily amount to a large sum of money per employee at large companies.

However, redistributing from top earners more broadly could result in much bigger gains for those in the middle and at the bottom. The pay ratios between the top quartile and bottom quartile thresholds illustrate this point.

Figure 8 shows the highest ratios between the 75th and 25th percentiles in our sample.

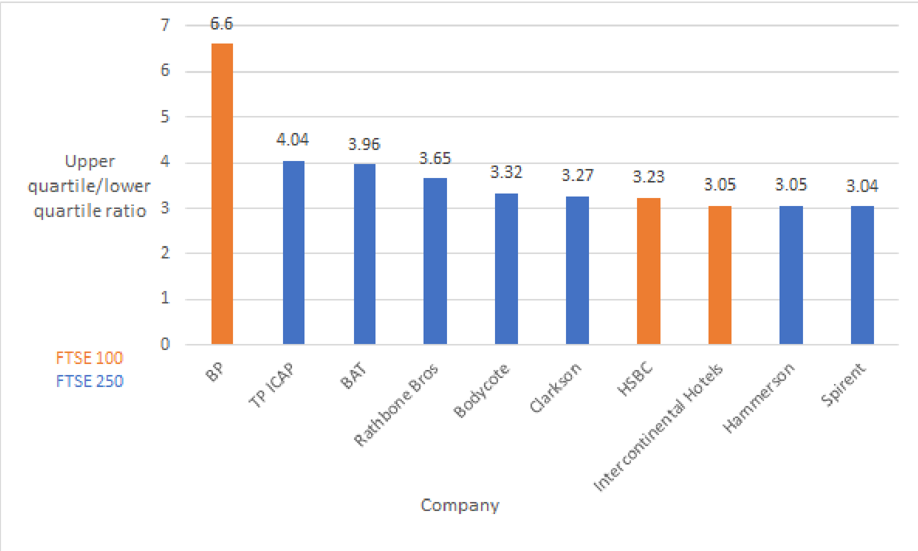


**Figure 8: 10 highest upper quartile/lower quartile ratios**

Perhaps the most striking aspect of these ratios is that even the widest gaps are small compared to those between CEOs and the median. In this respect, the disclosures mirror income distributions across society as a whole, where the gap between the top quarter and the median is trifling compared to the gap between the richest 1% or 0.1% and everybody else.

Research by the Institute for Fiscal Studies (based on UK incomes in 2014/15) found that the threshold for the top 1% of UK taxable incomes was at least £160,000 while the threshold for the top 0.1% was nearly £650,000. That same year, the thresholds for the median and the 90th percentile of UK taxpayers respectively were roughly £22,000 and £51,000 [11].

[11] Institute for Fiscal Studies, *The Characteristics and Incomes of the top 1%*, 2019 via https://www.ifs.org.uk/uploads/BN253-Characteristics-and-Incomes-Of-The-Top-1%25.pdf

However, this is not to say that there is not scope for substantial pay redistribution from the upper quartile to the lower quartile. In the case of BP, which has the highest upper/lower quartile ratio, if 10% of the salary of an employee at the upper quartile mark was transferred to an employee at the lower quartile mark, this would raise the latter's salary from £19,108 to £31,717 – a salary increase of 66%.

This would at most result in a reduction in pay of the top quartile earners at BP from £126,085 to £113,477. Indeed, bearing in mind that top quartile earners at BP earn above £126,085, it is arguable that there is potential to raise pay for lower earners significantly with even more minimal redistribution from those in higher earning brackets.

Across the FTSE 100 as a whole, the median upper quartile threshold of earnings is £65,000. The table below shows the increases in pay for lower quartile earners that would result from different levels of hypothetical redistribution from the median upper quartile threshold.

| % redistribution from median upper quartile threshold to lower quartile earners | Median increase in pay for lower quartile earners |
|---|---|
| 1% | £650 |
| 3% | £1,950 |
| 5% | £3,250 |
| 10% | £6,500 |
| 15% | £9,750 |

Table 7: hypothetical redistributions from median upper quartile to lower quartile earners

Similar hypothetical exercises reveal the general potential for minor redistributions from upper to lower quartile earners to achieve meaningful pay increases for the latter.

- The median lower quartile pay threshold is £29,500. To increase a salary of this amount by 10% would require just 4.5% of the median upper quartile threshold pay of £65,000 (so this hypothetical redistribution would reduce the upper quartile pay from £65,000 to £62,000).
- In absolute terms, awarding a £1,000 pay rise for the lower quartile earners at the 30 companies in our sample where the lower quartile pay threshold is below £25,000 would require a 2.6% pay cut for the upper quartile earners at these companies.

It is important to emphasise that we are not necessarily arguing for these pay redistributions to be enacted. It might be challenging to ask upper quartile earners to accept immediate pay reductions, even by the small amounts suggested in our hypothetical examples. But the fact that quite minor rebalancing of pay awards from those in the top quarter to those in the bottom could yield substantial pay increases for the latter group is significant, and one of the most interesting findings from the pay ratio disclosures. Whether or not rebalancing pay in this way should be a medium term objective of UK employers is a question that stakeholders including businesses, investors, workers and policymakers should consider.

## Pay bands

While the median upper quartile threshold across the FTSE 350 of £65,000 is undoubtedly enough to lead a very comfortable lifestyle, it is perhaps not what most people consider seriously rich. The pay ratio disclosures do not provide an insight into what redistributions from those at the very top – the people who could afford to reduce their pay without experiencing any meaningful change to their lifestyle - could achieve. Breaking down pay into four quartiles is insufficiently granular to do so. We would need more detail on top earners between the CEO and the 75th percentile.

The UK-listed banks, which do provide more detailed disclosures, are an interesting case study in this respect. For example, the RBS 2019 annual report produced a table, replicated in figure 9, which shows the number of employees falling into particular pay bands.

| Summary of remuneration levels for employees in 2019 |
|---|
| 46,152 employees earned total remuneration up to £50,000 |
| 12,117 employees earned total remuneration between £50,000 and £100,000 |
| 5,218 employees earned total remuneration between £100,000 and £250,000 |
| 910 employees earned total remuneration over £250,000 |

**Table 8: RBS earners by pay band**

The banks also detail their total expenditure on so-called 'material risk takers' (their highest paid staff in the most strategically significant positions). Figure 5 shows that 751 RBS staff (around 1% of their total employee population) were paid £327 million in total in 2019.

| Aggregate remuneration | Senior management | Material risk takers | Total |
|---|---|---|---|
| Number of beneficiaries | 27 | 724 | 751 |
| | £m | £m | £m |
| RBSG plc EDs | 9.56 | - | 9.56 |
| Other RBS Group EDs | 12.13 | - | 12.13 |
| RBSG plc NEDs | - | 2.78 | 2.78 |
| Other RBSG Group NEDs | - | 2.49 | 2.49 |
| Corporate Functions | 10.10 | 43.57 | 53.67 |
| Control Functions | 5.89 | 66.84 | 72.73 |
| NatWest Holdings | 3.44 | 50.37 | 53.81 |
| NatWest Markets | - | 110.3 | 110.3 |
| RBSI | - | 9.74 | 9 |
| Total | 41.12 | 286.09 | 327.21 |

**Table 9: RBS staff costs relating to 'material risk takers' (highest earning staff)**

The figures suggest that a hypothetical re-balancing of pay away from RBS's highest earners to lower-paid employees would significantly boost the wages of the latter group while the former would retain pay packages significantly higher than the vast majority of workers.

This is true across the major UK banks more generally. Table 16 shows that a hypothetical redistribution of 50% of the money spent on high earning “material risk takers” (between 0.4% and 2% of all employees) across the lowest paid 50% of the total employee population would raise the lower earners' pay by thousands of pounds at each bank. The high earners would continue to enjoy average pay awards worth hundreds of thousands of pounds even after the redistributions had taken place.

| **Company** | **Total employees** | **Number of high earners (MRTs)** | **Spend on high earners (£m)** | **Value of 50% of high earners earnings per below-median employee (£)** | **Average high earner pay post hypothetical redistribution (£000)** |
|---|---|---|---|---|---|
| Barclays | 86,931 | 1,704 | 1,405 | 16,162 | 412 |
| HSBC | 247,055 | 1,159 | 1,048 | 4,241 | 452 |
| Lloyds | 70,083 | 292 | 157.8 | 2,252 | 270 |
| RBS | 64,200 | 751 | 327.21 | 5,097 | 218 |

**Table 10: Hypothetical redistribution at UK-listed banks (all figures for the year 2019)**

Of course, banks are unusual in terms of their number of very high earning employees, so it is not necessarily the case that there is the same hypothetical potential to rebalance pay at companies in other industries.

Nonetheless, recent research suggests that the richest 1% of the UK population captures 17% of total incomes, so it is plausible that this scale of inequality is reflected to some degree in the pay distributions of individual companies [12].

While CEO pay awards attract attention, pay for the senior managers beneath them – the heads of departments, regions or markets – also represents a significant cost to companies as borne out by the recent coronavirus outbreak. When announcing measures to strengthen their financial position, one of the first steps taken by many companies was to reduce pay awards (most often salaries or fees rather than variable pay), not just to the executive team but to senior staff across the company [13].

Therefore, a more granular examination of pay distribution could yield a useful insight into precisely what these costs are, and the potential to achieve a more even balance between top, middle and bottom. The pay ratios may provide a useful starting point for discussions between, for example, trade unions or investors and companies looking at the breakdown of top pay - and business expenditure more generally - in closer detail.

[12] Resolution Foundation, *Top 1% received a sixth of the nation’s income pre-crisis, due to hidden rise of capital gains* (2020), via https://www.resolutionfoundation.org/press-releases/top-1-per-cent-received-a-sixth-of-the-nations-income-pre-crisis-due-to-hidden-rise-of-capital-gains/

[13] High Pay Centre, *High Pay Centre Briefing: Corporate Response to the Economic Shutdown*, 2020 via http://highpaycentre.org/pubs/high-pay-centre-briefing-corporate-response-to-the-economic-shutdown

## Section 5: Narrative reporting

This section examines the pay ratios of companies receiving public money via mechanisms designed to support businesses throughout the COVID-19-induced shutdown and outlines why this is a matter of particular public interest.

As well as publishing the pay ratio data itself, companies are also required to provide a 'narrative' to justify the size of the pay ratios. This is an important requirement, given that, as discussed, the data on its own does not explain a company's pay structure or the link to the broader business model and strategy. A qualitative explanation of the pay ratio data can add useful context for stakeholders in this respect. Concrete data underpins and validates the narrative, but the narrative explains the data in a way that uncontextualised numbers fail to do.

As might be expected, the pay ratio data tends to be accompanied by a more detailed narrative when the ratios involve high CEO pay and/or low worker pay. Justifications of high CEO pay usually state that CEO pay is much more performance-dependent than pay across the wider workforce, and therefore that it will fluctuate year-on-year. With very high pay, it is often emphasised that this year has seen exceptional circumstances, such as the vesting of Long-Term Incentive Plans. High pay is presented as a 'one-off' occurrence.

Justifications of low worker pay tend either to stress the 'diversity' of roles within the workforce or to point out that most staff are in roles which are not highly valued by the market. For example, BP's annual report states that the pay ratio 'includes BP hourly paid retail workforce in its fuels and convenience stations who are employed in roles which attract relatively lower market rates of pay'. The responsibility for low pay is thus shifted away from the company and onto 'the market'.

We have also noted that a large number of companies use very similar wording in their narratives. For example, Rentokil's annual report states that:

'***The median pay ratio is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.***'

ITV uses almost exactly the same phrase:

'***The median pay ratio for 2019 is considered to be consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.***'

HSBC, IMI, Spectris and Drax also use very similar variants of this in their annual reports.

It is significant that Rentokil, ITV and HSBC all receive advice or data from the consultancy firm Deloitte, and the use of such similar statements may suggest that consultants are developing standardised texts to justify pay ratios without really engaging with the issue.

It is certainly questionable how much value this statement adds – one would expect this to be the view of the company (it would be remarkable if they felt that their pay ratios were not consistent with the company's policies) and they do not explain why it is consistent, or engage with any of the criticisms of pay gaps regarding fairness or proportionality. The statements also fail to engage with the gaps between the upper quartile, median and lower quartile thresholds. As we have shown in the previous section, these are potentially material to employees' absolute pay levels and will be of as much interest to them as the gap between them and the CEO. These gaps therefore also merit discussion.

Equally, however, companies may be sensitive to criticism that annual reports, and the remuneration report sections in particular, have become overly long (with reports in excess of 20 pages now commonplace) and the examples we have cited are at least concise.

The pay ratio disclosures have been complemented by a number of other recent corporate governance and stewardship reforms. These include the 2019 update to the Stewardship Code, setting expectations of the investment industry in terms of their engagement with investee companies. The 2018 Corporate Governance Code requires companies to report on their engagement with their stakeholders, and to introduce mechanisms such as worker representation on boards, non-executive directors with specific responsibility for stakeholder issues, or stakeholder committees, to ensure that stakeholder perspectives are incorporated into strategic decision-making.

Narrative pay ratio reporting is very relevant to both of these initiatives. Executive pay practices have historically been a key area of engagement between investors and companies, while other stakeholders – particularly the company's workforce - have an obvious interest in pay ratios and pay distribution. Therefore, we would expect both investors' stewardship activities and stakeholder representation mechanisms in corporate governance structures to encourage useful narrative reporting on these topics in future.

## Section 6: Pay ratios of companies using government support during Covid-19

**This section examines the pay ratios of companies receiving public money via mechanisms designed to support businesses throughout the Covid-19-induced shutdown and outlines why this is a matter of particular public interest.**

In response to the economic shutdown brought about by Covid-19, the UK government has offered various forms of support to companies. The 'Coronavirus Job Retention Scheme' covers 80% of the wages of furloughed workers from March to August 2020, with more limited support available until the Autumn.

Though payments are made to the workers of these companies, they are also a critically important subsidy for businesses, enabling them to make significant savings on staff (and potentially redundancy) costs, and ensuring they have a financially secure and experienced workforce ready to return to work as soon as the restrictions on the business in question are lifted, rather than having to dedicate time and resources to recruiting and training new workers.

The Coronavirus Corporate Financing Facility (CCFF) is a more direct form of support offered via the Bank of England, effectively providing short-term loans to assist with disruptions to cash flow.

Both facilities are vitally important measures dedicated to supporting businesses, jobs and living standards at a time of great economic uncertainty. However, it is reasonable to expect that companies drawing on these schemes should make certain social and environmental commitments, in order to ensure that public money contributes to building a fairer society and is spent as effectively as possible. What is most relevant to this report is the argument that companies in receipt of state support should commit to fairer pay practices, so that public funds can go further to help low earners.

From Regulatory Notification Service (RNS) announcements listed on the London Stock Exchange website and other public statements, it is possible to estimate how many UK-listed companies have drawn on the Government's furlough scheme to cover wage costs throughout the shutdown. The first companies to have used the CCFF were published by the Bank of England on 4 June, and our information on companies using the furlough scheme was up to date as of 8 June 2020. We found that of the 39 companies in our sample that have used the furlough scheme and/or the CCFF, the **median CEO/median worker ratio is 60: 1** and the **median CEO/lower quartile ratio is 78: 1**. These are similar to the median ratios for the whole sample, where the median CEO/median worker ratio is 55: 1 and the median CEO/lower quartile ratio is also 78: 1. Of the 11 FTSE 100 companies receiving COVID-19 financial support, the **median CEO/median employee ratio is 80: 1** and the **median CEO/lower quartile employee ratio is 109: 1**.

The size of these ratios is a matter of public interest and an important issue to be debated. All companies have a duty to consider how they can pay workers - including indirect workers - more fairly. This is especially the case for those companies relying on public money, who have an even greater responsibility to ensure that their business practices are aligned with the public interest.

## Conclusions

**This section summarises the key insights from our research and highlights the debates we hope that it will prompt. It also discusses some of the limitations of the pay ratio disclosures that we have identified and hope will be resolved.**

The pay ratio disclosures are intended to inform our understanding of pay practices at major UK private sector employers. Just as gender pay gap reporting has prompted a debate about issues such as working hours, workplace culture and division of labour in the home, so pay ratios can encourage discussion about what top, middle and low earners make, and why.

Given that policymakers, business leaders, trade unions and many other stakeholder groups all have an interest in raising the incomes and living standards of UK workers - particularly the lowest paid workers - this is a critically important issue to debate.

While acknowledging the vital and informative resource that the first pay ratio disclosures provide, however, it is also important to identify their limitations. These include:

- The difficulty of making comparisons between companies, particularly due to differing employment models and the use of agency workers or franchise agreements. This should prompt a discussion about the use of outsourced or franchised employment and business models and their implications for stakeholders including the business, their investors, the workers themselves and wider society.

- The lack of information on privately-owned UK companies or foreign-owned firms operating in the UK. Only UK-listed companies are required to disclose their pay ratios, and many of these base the majority of their operations overseas. Therefore, the pay ratios only provide an illustration of pay distribution at the largest UK employers, rather than something more definitive. This challenge is compounded by the fact that the majority of companies in the sample do not disclose their number of UK employees.

- The lack of more granular information on pay of those between the top quartile and the CEO. The top quartile covers everyone from CEOs typically earning millions of pounds to those at the 75th percentile who are undoubtedly comfortable, but not what most people would consider super rich. The disproportionate share of incomes captured by those at the very top (the top 1% or even 0.1%) is one of the biggest issues relating to economic inequality in the UK, and more granular information of how this occurs at particular employers would develop the initial insights provided by the pay ratio disclosures on how to ensure a better balance and achieve a fairer share accruing to those in the middle and at the bottom.

Despite these limitations, the initial disclosures under the pay ratio reporting requirements yield a number of interesting insights and suggest several potential avenues for further research as well as action.

Specific insights include:

- The median pay ratios and the typical thresholds for upper, median and lower quartile pay for particular industries and sectors. This data provides useful evidence to inform vital discussions between companies and their investors, workers and other stakeholders about their employment models and the link to their wider strategy. Data on Environmental, Social and Governance (ESG) issues is becoming increasingly important to investors, and pay distribution relates closely to the 'S' in ESG, which has become even more relevant given the interest in how companies are treating their workers in the aftermath of the coronavirus outbreak.

- The scale of pay gaps within the UK's largest listed companies, ranging from between 10: 1 and 20: 1 at the companies with the lowest CEO/median employee ratios to 100 and 200: 1 at those with the highest. Even starker gaps of over 200: 1 occur at the companies with the widest gaps between the CEO and the lower quartile employee, and the gaps between the highest-paid CEO and a worker earning the real living wage rise to 823:1.

- The fact that, on average, the lower quartile of employees at large UK companies earn almost as much as the median full-time wage across the UK economy as a whole. However, there are still a number of companies where the threshold for lower quartile earnings is not substantially higher than the annualised equivalent of the real UK living wage. This suggests that there are a number of employees at these large, high value companies struggling with the cost of living – even before non-contracted or agency workers are taken into account.

- The scope for a hypothetical re-balancing of pay distribution, with a small proportion of top pay redistributed from the top quartile to the bottom, has the potential to make a huge difference to the incomes of lower quartile earners in many cases, without drastically reducing the incomes of those in the top quartile. That said, pay gaps between those in the top quartile and at the median or in the lower quartile are less stark compared to the gap between CEOs and everybody else.

- The scale of pay ratios at companies receiving public support through schemes intended to mitigate the coronavirus, with the median CEO at the companies in question receiving 78 times the pay of employees at the lower quartile threshold of their pay distribution.

The research also suggests a number of factors which could be relevant to the size of pay ratios, and which could inform debate around why CEOs and different types of workers at different points of the organisational pay distribution are paid what they are:

- The size of the company, in terms of market capitalisation if not necessarily employee numbers, appears to be a key factor in CEO pay levels, and thus in pay ratios, with larger companies having higher-paid CEOs and higher ratios.

- Companies requiring highly educated staff with specialist knowledge, often in relatively capital-intensive businesses, appear frequently in the lists of companies with the lowest pay ratios and the highest thresholds for lower quartile employees. This suggests that, as is the case more generally across the economy, highly educated workers are better paid and effectively capture a bigger share of the value created by the company relative to the CEO.

- Conversely, companies from sectors such as support services and travel and leisure were disproportionately represented amongst those with the highest ratios and lowest-paid lower quartile workers. Obviously the corollary of higher pay for more educated workers at less labour-intensive businesses, in absolute terms and relative to the top earners at their company, is that those with fewer qualifications do less well.

- Though there were only two companies in the sample, pay ratios at utilities companies with a history of public ownership were lower. More generally, companies in industries that typically have higher than average trade union membership - such as utilities and industrials - typically have lower ratios, suggesting that active trade unions could be a factor in containing pay gaps between high and low earners.

We hope that these insights can lead to further discussion, research and ultimately improvements to policy and practice in relation to pay. Obvious questions that might begin this discussion could include:

- Whether increased company size should necessarily result in higher CEO pay and why/why not?

- How can we ensure that we increase education, specialist knowledge and productivity, while also recognising the need to value low-paid but essential jobs more highly, and to identify measures we can take to raise the pay of these workers?

- What changes to corporate governance and employment policies and practices might realise the hypothetical redistributions discussed in this paper, and what would be the economic and business implications?

- How might we instil a public service ethos and expand trade union membership across more companies, and again what would be the implications of this?

- How will investors and the directors and committees responsible for stakeholder representation in corporate governance structures engage with pay ratio disclosures – particularly in terms of explanations of pay structures and their link to the company's broader strategy and business model?

The High Pay Centre will continue to raise these questions as we monitor ongoing publication of pay ratio disclosures. We intend to publish a full analysis looking at a complete set of annual reports for the FTSE 350, building on our initial insights and identifying ways in which the disclosures could be improved.

## Appendix[1]

### i. Table of industry averages

| *Industry/ sector* | *No. of disclosures* | Average of lower quartile ratio | Average of median ratio | Average of upper quartile ratio | Average of lower quartile threshold (£) | Average of median threshold (£) | Average of upper quartile threshold (£) | Average of upper to lower quartile ratios |
|---|---|---|---|---|---|---|---|---|
| **Basic Materials** | 4 | 65 | 52 | 40 | 29,847 | 36,954 | 47,206 | 1.57 |
| **Consumer Goods** | 5 | 100 | 73 | 43 | 38,394 | 51,905 | 90,774 | 2.28 |
| **Consumer Services** | 16 | 118 | 92 | 64 | 26,576 | 36,356 | 54,430 | 2.04 |
| **Financials** | 30 | 82 | 55 | 34 | 39,376 | 59,904 | 99,918 | 2.51 |
| **Health Care** | 4 | 181 | 129 | 82 | 40,630 | 56,794 | 90,544 | 2.22 |
| **Industrials** | 37 | 93 | 70 | 50 | 27,736 | 37,069 | 53,462 | 1.95 |
| **Oil and gas** | 5 | 156 | 67 | 36 | 49,010 | 81,459 | 127,513 | 3.07 |
| **Technology** | 4 | 58 | 42 | 27 | 31,692 | 42,807 | 69,587 | 2.14 |
| **Utilities** | 2 | 38 | 27 | 19 | 31,226 | 43,365 | 62,813 | 2.07 |
| **Grand Total** | **107** | **97** | **69** | **46** | **33,128** | **47,247** | **73,831** | **2.19** |

[1] Note that Centrica, Ibstock, Senior and Rentokil have not disclosed the absolute pay thresholds for upper quartile, median and lower quartile, but only the CEO pay and the ratios. In these cases, we have calculated the thresholds from the CEO pay and ratios given.

## ii. Full details of individual companies, grouped by industry

### Basic materials

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Croda | 100 | Chemicals | 1,800 | 61 | 46 | 39 | 29,552 | 38,856 | 46,113 | 6.41 |
| Mondi | 100 | Forestry and Paper | 3,337 | 126 | 98 | 67 | 26,084 | 33,399 | 48,500 | 5.38 |
| Hill and Smith | 250 | Industrial Metals and Mining | 1,187 | 43 | 39 | 38 | 27,682 | 30,550 | 31,593 | 8.76 |
| Synthomer | 250 | Chemicals | 900 | 28 | 23 | 16 | 36,069 | 45,012 | 62,619 | 5.76 |

### Consumer goods

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| BAT | 100 | Tobacco | 6,655 | 144 | 86 | 36 | 46,216 | 77,754 | 183,179 | 2.52 |
| Persimmon | 100 | Household Goods and Home Construction | 673 | 23 | 20 | 15 | 29,500 | 33,409 | 44,728 | 6.60 |
| Reckitt Benckiser | 100 | Household Goods and Home Construction | 5,537 | 158 | 115 | 70 | 33,224 | 45,795 | 75,561 | 4.40 |
| Taylor Wimpey | 100 | Household Goods and Home Construction | 3,024 | 93 | 73 | 48 | 32,342 | 41,483 | 62,418 | 5.18 |
| Unilever | 100 | Personal Goods | 4,316 | 83 | 69 | 48 | 50,689 | 61,086 | 87,982 | 5.76 |

**Consumer Services**

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Flutter | 100 | Travel & Leisure | 2,099 | 107 | 89 | 54 | 19,555 | 23,707 | 38,890 | 5.03 |
| Intercontinental Hotels | 100 | Travel & Leisure | 3,317 | 177 | 119 | 58 | 18,786 | 27,766 | 57,383 | 3.27 |
| International Airlines | 100 | Travel & Leisure | 3,198 | 109 | 72 | 49 | 29,360 | 44,208 | 64,673 | 4.54 |
| ITV | 100 | Media | 3,839 | 92 | 80 | 53 | 41,535 | 47,711 | 72,680 | 5.71 |
| Next | 100 | General Retailers | 3,185 | 183 | 178 | 128 | 17,446 | 17,859 | 24,891 | 7.01 |
| Pearson | 100 | Media | 1,857 | 66 | 47 | 36 | 28,164 | 39,375 | 51,575 | 5.46 |
| RELX | 100 | Media | 8,681 | 225 | 149 | 100 | 38,582 | 58,261 | 86,810 | 4.44 |
| Rightmove | 100 | Media | 2,156 | 71 | 45 | 33 | 30,203 | 48,433 | 66,054 | 4.57 |
| WPP | 100 | Media | 2,594 | 79 | 55 | 34 | 32,636 | 46,975 | 77,416 | 4.22 |
| Ascential | 250 | Media | 1,681 | 48 | 33 | 22 | 34,854 | 51,416 | 77,858 | 4.48 |
| Cineworld | 250 | Travel & Leisure | 2,109 | 119 | 114 | 100 | 17,777 | 18,467 | 21,074 | 8.44 |
| Domino's Pizza | 250 | Travel & Leisure | 694 | 42 | 23 | 15 | 16,264 | 30,022 | 45,553 | 3.57 |
| GVC Holdings | 250 | Travel & Leisure | 4,843 | 278 | 229 | 170 | 17,409 | 21,120 | 28,524 | 6.10 |
| Inchcape | 250 | General retailers | 1,639 | 67 | 48 | 32 | 24,000 | 34,000 | 52,000 | 4.62 |
| National Express | 250 | Travel & Leisure | 3,730 | 156 | 136 | 110 | 23,889 | 23,942 | 33,804 | 7.07 |
| Playtech | 250 | Travel & Leisure | 2,931 | 73 | 52 | 35 | 34,761 | 48,441 | 71,696 | 4.85 |

**Financials**

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Admiral Group | 100 | Non life insurance | 1,514 | 62 | 54 | 38 | 24,319 | 27,980 | 40,371 | 6.02 |
| Aviva | 100 | Life insurance | 2,457 | 90 | 63 | 37 | 27,285 | 39,134 | 65,664 | 4.16 |
| Barclays | 100 | Banks | 5,929 | 213 | 140 | 77 | 27,875 | 42,362 | 77,488 | 3.6 |
| HSBC | 100 | Banks | 4,899 | 169 | 105 | 52 | 28,920 | 46,593 | 93,365 | 3.1 |
| Legal & General | 100 | Life insurance | 4,592 | 168 | 112 | 68 | 27,408 | 41,177 | 67,744 | 4.05 |
| Lloyds Banking | 100 | Banks | 4,727 | 179 | 128 | 71 | 26,419 | 36,975 | 66,944 | 3.95 |
| London Stock Exchange | 100 | Financial Services | 2,456 | 31 | 21 | 19 | 79,292 | 114,401 | 128,917 | 6.15 |
| M & G | 100 | Financial Services | 3,737 | 80 | 58 | 35 | 46,854 | 64,707 | 105,542 | 4.44 |
| Phoenix | 100 | Life insurance | 2,976 | 94 | 62 | 40 | 31,605 | 47,899 | 74,469 | 4.24 |
| Prudential | 100 | Life insurance | 6,719 | 87 | 67 | 43 | 77,000 | 100,000 | 155,000 | 4.97 |
| RBS | 100 | Banks | 4,517 | 175 | 118 | 69 | 25,742 | 38,199 | 65,684 | 3.92 |
| RSA | 100 | Non life insurance | 2,678 | 175 | 120 | 68 | 23,152 | 33,754 | 59,663 | 3.88 |
| Schroders | 100 | Financial Services | 6,483 | 117 | 72 | 42 | 55,400 | 89,743 | 154,667 | 3.58 |
| St James's Place | 100 | Life insurance | 1,554 | 45 | 28 | 17 | 34,437 | 53,936 | 88,595 | 3.89 |
| Standard Chartered | 100 | Banks | 5,932 | 72 | 46 | 28 | 83,000 | 128,000 | 212,000 | 3.92 |
| Standard Life Aberdeen | 100 | Financial Services | 1,472 | 34 | 23 | 13 | 44,000 | 64,000 | 117,000 | 3.76 |
| Beazley | 250 | Non life insurance | 2,194 | 42 | 25 | 15 | 52,500 | 89,500 | 148,300 | 3.54 |
| Direct Line | 250 | Non life insurance | 2,042 | 86 | 71 | 47 | 23,665 | 28,894 | 43,275 | 5.47 |
| Hammerson | 250 | Real Estate Investment Trusts | 1,465 | 38 | 22 | 12 | 39,000 | 65,000 | 119,000 | 3.28 |
| Hastings Group | 250 | Non life insurance | 673 | 36 | 32 | 23 | 18,858 | 21,236 | 29,233 | 6.45 |
| Hiscox | 250 | Non life insurance | 698 | 19 | 11 | 7 | 36,210 | 61,155 | 94,661 | 3.83 |
| Just | 250 | Financial Services | 1,573 | 41 | 26 | 15 | 38,000 | 61,000 | 102,000 | 3.73 |
| Man Group | 250 | Financial Services | 2,197 | 26 | 17 | 10 | 83,084 | 126,740 | 227,235 | 3.66 |
| One Savings | 250 | Banks | 1,609 | 66 | 39 | 26 | 24,600 | 41,800 | 61,500 | 4 |
| Provident Financial | 250 | Financial Services | 1,507 | 62 | 53 | 44 | 24,200 | 28,000 | 32,300 | 7.49 |
| Quilter | 250 | Financial Services | 1,896 | 62 | 39 | 27 | 30,478 | 48,486 | 69,114 | 4.41 |
| Rathbone Bros | 250 | Financial Services | 1,592 | 42 | 23 | 13 | 30,161 | 52,142 | 110,100 | 2.74 |
| Sanne Group | 250 | Financial Services | 287 | 13 | 8 | 5 | 33,128 | 53,614 | 83,593 | 3.96 |
| Savills Group | 250 | Real Estate Investment and Services | 2,377 | 86 | 58 | 32 | 27,626 | 40,981 | 73,564 | 3.76 |
| TP ICAP | 250 | Financial Services | 2,184 | 38 | 20 | 9 | 57,064 | 109,716 | 230,554 | 2.48 |

**Healthcare**

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| Astra Zeneca | 100 | Pharmaceuticals and Biotechnology | 14,330 | 280 | 190 | 123 | 51,000 | 75,000 | 117,000 | 4.36 |
| GSK | 100 | Pharmaceuticals and Biotechnology | 8,370 | 166 | 123 | 76 | 50,467 | 68,200 | 110,638 | 4.56 |
| Smith & Nephew | 100 | Health Care and Equipment Services | 3,727 | 116 | 81 | 51 | 30,400 | 43,375 | 68,614 | 4.43 |
| Convatec | 250 | Health Care and Equipment Services | 6,878 | 163 | 123 | 76 | 30,652 | 40,601 | 65,922 | 4.65 |

**Industrials**

| Company | Index | Sector | CEO pay (£000) | Lower quartile ratio | Median ratio | Upper quartile ratio | Lower quartile threshold (£) | Median threshold (£) | Upper quartile threshold (£) | % redistribution of upper quartile threshold to raise lower quartile threshold by 10% |
|---|---|---|---|---|---|---|---|---|---|---|
| BAE Systems | 100 | Aerospace and Defence | 3,934 | 90 | 72 | 59 | 43,873 | 54,833 | 66,964 | 6.55 |
| Bunzl | 100 | Support Services | 2,731 | 131 | 110 | 74 | 20,880 | 24,905 | 36,718 | 5.69 |
| CRH | 100 | Construction & Materials | 8,211 | 289 | 207 | 158 | 28,395 | 39,594 | 51,940 | 5.47 |
| Intertek | 100 | Support Services | 5,397 | 222 | 164 | 116 | 24,351 | 32,895 | 46,738 | 5.21 |
| Meggit | 100 | Aerospace and Defence | 2,490 | 76 | 58 | 43 | 32,879 | 42,861 | 58,479 | 5.62 |
| Melrose | 100 | Automobiles and Parts | 1,049 | 30 | 24 | 19 | 32,000 | 40,000 | 50,000 | 6.4 |
| Rentokil | 100 | Support Services | 4,558 | 220 | 173 | 119 | 20,718 | 26,347 | 38,303 | 5.41 |
| Rolls Royce | 100 | Aerospace and Defence | 3,159 | 66 | 56 | 48 | 48,000 | 56,000 | 65,000 | 7.38 |
| Spirax Sarco | 100 | Industrial Engineering | 2,788 | 110 | 74 | 46 | 25,391 | 37,503 | 60,618 | 4.19 |
| Aggreko | 250 | Support Services | 1,539 | 44 | 30 | 21 | 34,875 | 50,513 | 72,890 | 4.78 |
| Aston Martin | 250 | Automobiles and Parts | 1,353 | 34 | 29 | 24 | 40,000 | 47,000 | 57,000 | 7.02 |
| Balfour Beatty | 250 | Construction & Materials | 2,953 | 92 | 65 | 45 | 32,170 | 45,678 | 65,173 | 4.94 |
| Bodycote[2] | 250 | Industrial Engineering | 2,156 | 96 | 52 | 29 | 22,379 | 41,424 | 74,341 | 3.01 |
| Capita | 250 | Support Services | 790 | 41 | 25 | 14 | 19,147 | 31,708 | 57,049 | 3.36 |
| Clarkson | 250 | Industrial Transportation | 3,027 | 88 | 50 | 27 | 34,428 | 60,725 | 112,569 | 3.06 |
| Equiniti | 250 | Support Services | 665 | 29 | 20 | 12 | 23,102 | 32,712 | 53,224 | 4.34 |
| Essentra | 250 | Support Services | 1,368 | 67 | 50 | 36 | 20,499 | 27,101 | 38,131 | 5.38 |
| Fisher | 250 | Industrial Transportation | 1,063 | 28 | 19 | 13 | 25,459 | 36,541 | 55,240 | 4.61 |
| Grafton Group | 250 | Support Services | 2,144 | 105 | 87 | 66 | 20,490 | 24,697 | 32,596 | 6.29 |
| Ibstock | 250 | Construction & Materials | 737 | 43 | 35 | 23 | 17,140 | 21,057 | 32,043 | 5.35 |
| IMI | 250 | Electronic and Electrical Equipment | 2,353 | 83 | 62 | 45 | 28,415 | 38,070 | 51,812 | 5.48 |
| IWG | 250 | Support Services | 4,482 | 231 | 148 | 102 | 19,400 | 30,300 | 44,100 | 4.4 |
| Marshalls | 250 | Construction & Materials | 2,213 | 78 | 61 | 51 | 28,000 | 36,000 | 43,000 | 6.51 |

[2] The pay ratios given in Bodycote's annual report of 33: 1, 18: 1 and 10: 1 are far lower than the ratios that result from dividing the CEO pay by the pay thresholds. We have therefore recalculated the ratios according to the CEO pay and pay thresholds provided in the annual report.

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Morgan Advance Materials | 250 | Electronic and Electrical Equipment | 1,748 | 80 | 67 | 44 | 21,958 | 25,927 | 39,926 | 5.5 |
| Morgan Sindall | 250 | Construction & Materials | 2,186 | 58 | 43 | 27 | 37,481 | 50,249 | 80,430 | 4.66 |
| Page Group | 250 | Support Services | 4,105 | 160 | 105 | 64 | 25,614 | 39,093 | 64,281 | 3.98 |
| Polypipe | 250 | Construction & Materials | 930 | 44 | 37 | 28 | 21,260 | 24,984 | 33,112 | 6.42 |
| Rotork | 250 | Industrial Engineering | 1,422 | 48 | 43 | 27 | 29,000 | 33,000 | 53,000 | 5.47 |
| Senior | 250 | Industrial Engineering | 1,241 | 55 | 40 | 33 | 22,564 | 31,025 | 37,606 | 6 |
| Serco | 250 | Support Services | 5,701 | 219 | 190 | 166 | 26,066 | 30,072 | 34,420 | 7.57 |
| Signature Aviation | 250 | Industrial Transportation | 2,241 | 80 | 60 | 50 | 27,932 | 37,120 | 44,980 | 6.21 |
| Spectris | 250 | Electronic and Electrical Equipment | 1,163 | 40 | 30 | 21 | 28,509 | 37,789 | 54,990 | 5.18 |
| TI Fluid Systems | 250 | Automobiles and Parts | 2,450 | 93 | 77 | 47 | 26,455 | 31,746 | 52,910 | 5 |
| Travis Perkins | 250 | Support Services | 2,622 | 133 | 109 | 81 | 19,760 | 24,154 | 32,332 | 6.11 |
| Ultra Electronics | 250 | Aerospace and Defence | 1,592 | 54 | 37 | 27 | 29,549 | 43,151 | 59,500 | 4.97 |
| Vesuvius | 250 | General Industrials | 1,263 | 35 | 28 | 17 | 37,119 | 45,000 | 75,293 | 4.93 |
| Weir Group | 250 | Industrial Engineering | 1,738 | 56 | 44 | 34 | 30,977 | 39,772 | 51,374 | 6.03 |

**Oil and gas**

| **Company** | **Index** | **Sector** | **CEO pay (£000)** | **Lower quartile ratio** | **Median ratio** | **Upper quartile ratio** | **Lower quartile threshold (£)** | **Median threshold (£)** | **Upper quartile threshold (£)** | **% redistribution of upper quartile threshold to raise lower quartile threshold by 10%** |
|---|---|---|---|---|---|---|---|---|---|---|
| BP | 100 | Oil and Gas Producers | 10,371 | 543 | 188 | 82 | 19,108 | 55,071 | 126,085 | 1.52 |
| Royal Dutch Shell | 100 | Oil and Gas Producers | 8,746 | 147 | 87 | 54 | 59,419 | 100,755 | 161,717 | 3.67 |
| Petrofac | 250 | Oil Equipment and Services | 963 | 20 | 14 | 12 | 49,288 | 68,929 | 81,686 | 6.03 |
| Premier Oil | 250 | Oil and Gas Producers | 1,631 | 20 | 12 | 8 | 82,237 | 136,538 | 200,076 | 4.11 |
| Wood Group | 250 | Oil Equipment and Services | 1,690 | 48 | 36 | 25 | 35,000 | 46,000 | 68,000 | 5.15 |

**Technology**

| **Company** | **Index** | **Sector** | **CEO pay (£000)** | **Lower quartile ratio** | **Median ratio** | **Upper quartile ratio** | **Lower quartile threshold (£)** | **Median threshold (£)** | **Upper quartile threshold (£)** | **% redistribution of upper quartile threshold to raise lower quartile threshold by 10%** |
|---|---|---|---|---|---|---|---|---|---|---|
| Computacentre | 250 | Software and Computer Services | 2,913 | 93 | 62 | 43 | 31,435 | 47,335 | 67,083 | 4.69 |
| FDM Group | 250 | Software and Computer Services | 802 | 32 | 29 | 21 | 24,911 | 27,339 | 37,305 | 6.68 |
| Moneysupermarket | 250 | Software and Computer Services | 1,244 | 35 | 25 | 18 | 35,444 | 49,490 | 67,634 | 5.24 |
| Spirent | 250 | Telecommunications Equipment | 2,517 | 72 | 53 | 24 | 34,979 | 47,063 | 106,327 | 3.29 |

**Utilities**

| **Company** | **Index** | **Sector** | **CEO pay (£000)** | **Lower quartile ratio** | **Median ratio** | **Upper quartile ratio** | **Lower quartile threshold (£)** | **Median threshold (£)** | **Upper quartile threshold (£)** | **% redistribution of upper quartile threshold needed to raise lower quartile threshold by 10%** |
|---|---|---|---|---|---|---|---|---|---|---|
| Centrica | 100 | Gas, Water & Multi Utilities | 1,186 | 34 | 29 | 22 | 34,882 | 40,897 | 53,909 | 6.47 |
| Drax | 250 | Electricity | 1,164 | 42 | 25 | 16 | 27,569 | 45,833 | 71,716 | 3.84 |

**Authors**: Rachel Kay and Luke Hildyard

**High Pay Centre**

An independent, non-partisan think tank focused on the causes and consequences of economic inequality, with a particular interest in top pay. It runs a programme of research, events and policy analysis involving business, trade unions, investors and civil society focused on achieving an approach to pay practices that enjoys the confidence of all stakeholders.

www.highpaycentre.org/

**Standard Life Foundation**

An independent charitable foundation supporting strategic work which tackles financial problems and improves living standards. Its focus is improving the lives of people on low-to-middle incomes in the UK.

www.standardlifefoundation.org.uk

**The full report is available at:**
http://highpaycentre.org/pubs