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HIGH PAY CENTRE

A CHARTER FOR FAIR PAY

Policy reforms to raise pay and reduce inequality

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Executive Summary

Introduction

Policy measures that can raise growth and reduce inequality in the immediate term, without requiring major public spending or tax commitments, will be of critical importance to the new Government. Our ‘Charter for Fair Pay’ sets out a series of policies that could meet these criteria.

The Charter focuses on ways to empower workers, facilitate dialogue and enhance transparency in a way that would enable fairer, more equal pay outcomes negotiated between employers and employees, rather than by trying to dictate business practice through heavier handed restrictions and regulations.

The recommendations relate to key policies already outlined in the new Government’s 2024 Employment Rights Bill and how they might be most effectively implemented. They also include measures that could apply as part of the forthcoming Audit Reform and Corporate Governance Bill and wider reforms relating to corporate governance, reporting and investment stewardship that the Government might also consider.

Policy 1: Provide all new workers with information on key employment rights and prohibit ‘union-busting’ employment practices

Case for action: Many workers are unaware of their existing employment rights, particularly those who are disproportionately represented in low-earning roles like recent migrants to the UK, younger workers unfamiliar with standard employment practices or gig economy workers who work in isolation from their colleagues.

There is overwhelming evidence that unions and collective bargaining agreements reduce economic inequality and income disparities and that the decline of union and collective bargaining coverage has had the opposite effect. Enabling unions to operate on a level playing field is crucial to addressing income gaps and raising living standards

Policy 2: Define and clarify meaningful consultation rights for trade unions and works councils, enabling real worker voice in business decision-making

Case for action: International evidence suggests that works councils or similar bodies have a positive effect on employee earnings, while also enabling better employee engagement and productivity.

There is therefore a strong basis to believe that a culture of proper workforce voice in strategic decision-making, via stronger rights for consultation bodies and trade unions, would lead to better pay for low- and middle-earning workers.

Policy 3: Revise company directors’ legal duties and strengthen enforcement mechanisms

Case for action: Instituting this policy would mean that where the interests of shareholders and workers conflict – for example, the conflict between higher profits and higher wages – directors would have a mandate to take a more balanced approach to their decision-making.

Encouraging a mentality that prompts business leaders to reflect on how fairly the wealth they generate is divided between different stakeholder groups might see a larger proportion of this wealth flowing to company workers.

Policy 4: Create seats for ‘worker directors’ on company boards

Case for action: Directors who are accountable to the workforce and more sensitive to workers’ financial needs and the daily contribution they make to organisational success are likelier to promote a culture of higher pay.

Equally importantly, research also suggests that worker directors can help direct boards away from the corporate short-termism that has often dominated decision-making in Britain.

Policy 5: Cap ‘CEO-to-worker’ pay gaps for public service providers, such as water or social care

Case for action: How employers distribute their expenditure on pay is a key determinant of living standards. HPC research has previously highlighted how some large companies spend tens of millions on a small number of executives, creating significant opportunity costs in terms of pay for lower earning workers or investment in R&D. Studies have also documented the way that wide intra-company pay gaps can have a negative impact on employee morale and productivity.

Policy 6: Establish a framework for tax and procurement incentives for responsible businesses with fair and democratic pay-setting processes

Case for action: This would incentivise businesses to adopt employment and governance practices that are likely to lead to favourable pay outcomes for their workforce. There is a range of research highlighting how corporate social responsibility, which measures the extent to which a business operates in the wider interests of society, improves following tax incentives.

Policy 7: Require investors to state how they account for the values and non-financial interests of their beneficiaries when making investments

Case for action: Investment and stewardship practices relating to pension funds’ capital should reflect the interests of pension savers. The negative socio-economic impact of inequality or low-paid, precarious work will affect the world that pension savers have to live in, so it is incumbent on fiduciaries charged with managing pension fund investments to consider how their investment and stewardship practices may perpetuate these issues.

Policy 8: Establish a task force for the expansion of worker ownership and profit sharing, with voluntary targets for large companies

Case for action: Britain’s biggest companies channel huge payouts to investors every year. Between 2011 and 2018, the UK’s 100 largest non-financial firms distributed over £400 billion in dividends and £61 billion in share buybacks. These payouts currently disproportionately benefit those at the top of the income distribution. Expanding worker share ownership would redirect a proportion of this wealth to the workers who create it.

Furthermore, there is significant evidence that worker share ownership has positive by-products in terms of employee engagement, productivity, company performance and long-term firm survival. In particular, such firms are found to be more resilient in times of crisis.

Policy 9: Expand pay ratio reporting to ensure consistent disclosure of what all employers spend on their top earners

Case for action: If companies disclosed high earners' pay, stakeholders could better assess the value these individuals provide compared to alternative uses of funds, like pay rises for lower earners or R&D investment. Moreover, more detailed information on what employers are spending on top earners can inform the negotiating position of individual workers or trade unions, enabling them to contrast pay levels within the organisation and compute hypothetical redistributions from top earners to the wider workforce.

Policy 10: Introduce a right for workers to know how their pay compares to pay across their organisations

Case for action: Understandably, when workers are contributing to an organisational goal, they want to know that their efforts are being rewarded proportionately - subject to factors such as how hard someone works, their levels of responsibility or the skills and expertise required – and not labouring for the enrichment of others. Hence, the argument that for workers to assess whether their own pay is fair, they need to know both how it relates to other people doing the same job, as well as where it is located within a wider organisational context. This can then inform and strengthen their position in pay negotiations.

Conclusions

The policies proposed in this paper would establish a framework for business designed to achieve fairer pay by re-directing income that currently flows to those at the top of the income distribution towards those in the middle and at the bottom.

Critically, however, beyond this pre-distributive effect, the policies would also improve business decision-making by facilitating participatory governance models incorporating greater cognitive diversity and frontline business experience. They would strengthen employee engagement and wellbeing, through stronger consultation rights and access to information. And they would align business practice more closely with the wider socio-economic interest, by encouraging boards and investors to reflect on the societal impact of their decisions.

In this way, a Government implementing these policies would not only contribute towards a fairer and more equal country but also one more prosperous and productive.

Introduction

This 'Charter for Fair Pay' sets out policies to reform work, particularly corporate governance and the relationships between workers, boards and management, that can lead to better pay, reduce inequality and contribute to stronger growth. The development and implementation of reforms outlined by the new Government in the King's Speech of July 2024 represent a huge opportunity to distribute the wealth created by the UK economy more evenly, lifting the incomes and living standards of low- and middle-income workers across the country.

In particular, the Charter focuses on the sometimes under-discussed concept of 'predistribution' – policy measures that can achieve a more equal income distribution pre-taxation. While there is an understandable interest in the potential for progressive taxation to reduce income gaps, pre-tax pay -and the processes at work that determine pay - are often more important in influencing economic inequality than the extent of redistributive tax and transfer policies.[1]

The Charter includes recommendations relating to the Employment Rights Bill published in October 2024, suggesting how the policies set out in the Bill might be implemented most effectively in order to boost incomes and living standards. It also sets out measures that could comprise part of the forthcoming draft Audit Reform and Corporate Governance Bill, establishing a corporate governance model that supports better pay and reduced inequality through stronger worker voice in governance. These proposals are supplemented by ideas to strengthen investment stewardship and transparency and reporting in relation to pay and employment practices.

Importantly, the Charter focuses on ways to empower workers, facilitate dialogue and enhance transparency in a way that would enable fairer, more equal pay outcomes negotiated between employers and employees, rather than by trying to mandate pay outcomes directly through heavier handed restrictions and regulations.

All the proposed policies would help to re-direct income that might otherwise flow to those at the top to those in the middle and at the bottom instead. But there are also strong grounds to believe that as a package, the policies would increase aggregate wealth, as well as distributing it more evenly – a bigger pie, as it were, as well as one cut into more evenly-sized slices.

Some of the policies are inherently technical and would require careful deliberation and consultation ahead of their introduction. But they are also simultaneously both feasible and transformative. We have carried out accompanying polling on selected policies recommended in this report, which suggests that they are supported by a majority of people in the UK, sometimes a significant majority.

In the main sections, this paper details how our proposals might work and makes the case for their implementation, in four chapters covering Employment Rights; Corporate Governance; Ownership and Stewardship; and Reporting and Transparency.

[1] Thomas Piketty Malka Guillot Bertrand Garbinti Jonathan Goupille-Lebret Antoine Bozio (2020), *Pre-distribution versus redistribution: Evidence from France and the US* via https://cepr.org/voxeu/columns/pre-distribution-versus-redistribution-evidence-france-and-us

Economic context

Background: Raising incomes and living standards is a priority for any Government, and naturally since the election of the Labour administration in July 2024, there has been considerable interest in its plans to this effect. The prosperity of a country depends on aggregate levels of wealth and how that wealth is apportioned – and the new Government has set out its intention to both generate economic growth and to ensure that the proceeds of that growth are fairly distributed across the population.

Growing the aggregate pool of income and wealth in the UK, and dividing it more evenly, makes sense as a policy objective, however it will not be easy to achieve. The debate about fiscal policy and the UK's capacity to undertake public spending projects, as well as the political difficulties associated with increasing taxes as a means of funding redistribution and investment, represent particular challenges. The positive impact of investment in infrastructure and public services can also take a long time to materialise.

In this context, policy measures that can raise growth and reduce inequality in the immediate term, without requiring major public spending or tax commitments, will be of critical importance to the new Government. The policies set out in this paper are focused mostly on reducing pre-tax inequality, in line with the High Pay Centre's area of expertise. But there is also good reason to think that the improvements in employee engagement, productivity and job security they would entail could also generate positive sum growth.

Extreme income inequality is a defining characteristic of the UK economy. The OECD currently ranks Britain as the 8th most unequal of 40 major economies in terms of income inequality; of EU member states, only Bulgaria and Lithuania are more unequal.[2] Moreover, this income gap shows no sign of narrowing. In 2022, income inequality, as measured by the Gini coefficient (a technical measure of inequality), grew by 1.3%.[3] The majority of this growth was caused by a reduction in the disposable incomes of the UK's poorest 20% of households by 3.4%, whilst the disposable incomes of the richest 20% of households grew by 3.3%.[4]

Inequality is not just a moral issue, but also a practical one. How an economy distributes the wealth it generates is a critical determinant of living standards. An unequal economy, where disproportionately high shares of total incomes and wealth are held by those at the top, will provide a lower standard of living for the majority of people than in a similar sized but more equal comparator. The Resolution Foundation's 2030 inquiry found that median household incomes in the UK were lower than in most North West European countries, while incomes at the 10th per centile (the upper threshold for the poorest 10% of households) were significantly lower than at the comparable point of the income distribution in the comparator countries – over 20% lower in the UK than in Germany and France, for example.[5] But at the 90th per centile (the qualifying point for the richest 10% of the population) incomes in the UK were higher than in many countries where median incomes were higher than the UK including France, Belgium, Sweden, Finland and Ireland.

Put simply, if our economy generated the same level of income but distributed it more evenly, in line with other European countries, most people would be significantly better off.

Re-distribution and pre-distribution

Typically, progressive redistribution has been seen as the antidote to growing inequality, targeting wealthier individuals downstream through taxation in order to mitigate imbalances. By taxing the wealthiest and using the proceeds to support the less wealthy, we can raise incomes and living standards, either directly through social security programmes and higher pay for public sector and publicly contracted workers, or indirectly through the provision of improved public services.

However, while taxation and redistribution will undoubtedly remain an important tool of social and economic policy, we should also seek to prevent such stark inequalities from emerging in the first place. Research suggests that pre-tax outcomes are often more critical determinants of economic inequality than the extent of redistributive tax and transfer policies.[6]

This means that beyond progressive redistribution, we need to think about mechanisms that reduce our reliance on taxes and transfers by assuring more equal pre-tax outcomes. Such 'pre-distributive' measures have always played a role in ensuring that the proceeds of economic growth are spread throughout society. From the legalisation of trade unions helping ordinary workers to win a greater share of the spoils of the industrial revolution at the expense of Victorian factory owners to the

[2] OECD Data. *Income Inequality.* (https://data.oecd.org/inequality/income-inequality.htm).
[3] ONS. (2023). *Household Income Inequality, UK: Financial Year Ending 2022* via https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householdincomeinequalityfinancial/financialyearending2022#:~:text=3.,as%20seen%20in%20Figure%201
[4] Ibid.
[5] Resolution Foundation. (2023). *Britain Needs A New Economic Strategy To End Its Stagnation and Close Its £8,300 Living Standards Gap With Its Peers* .via https://www.resolutionfoundation.org/press-releases/britain-needs-a-new-economic-strategy-to-end-its-stagnation-and-close-its-8300-living-standards-gap-with-its-peers/
[6] Thomas Piketty, Malka Guillot, Bertrand Garbinti Jonathan Goupille-Lebret Antoine Bozio (2020), *Pre-distribution versus redistribution: Evidence from France and the US* via https://cepr.org/voxeu/columns/pre-distribution-versus-redistribution-evidence-france-and-us

introduction of the minimum wage, directing a greater share of business revenues to low earning workers since the turn of the millennium, improvements to general prosperity have regularly involved interventions to win a greater pre-taxation share of aggregate wealth for those at the bottom and in the middle.

Policy context

Work and business are the means through which much of the wealth in an economy is created or channelled. There are many factors that determine how this wealth is apportioned between profits for generally wealthier managers and investors and wages for the workforce, as well as how wages are divided between high low and middle earners. These include:

- Employment rights that empower workers and shape their bargaining position when negotiating their share of the wealth they help to create.
- Corporate governance structures and directors' legal responsibilities that determine who runs a company, how and in whose interests – in particular the extent to which workers influence decision-making and the broader corporate culture.
- The ownership and stewardship of companies, who holds shares in them and how these shareholders enact their stewardship responsibilities.
- Societal pressure on employers that influence the parameters of social acceptability within which companies' pay practices must operate. This is often affected by what information companies are required to disclose.

Some of these issues have featured prominently in the new Government's policy programme in the aftermath of the 2024 general election. A new 'Employment Rights Bill' was introduced in October 2024, committing to measures such as the expansion of collective bargaining arrangements, the establishment of a single enforcement body to enforce workers' rights, measures to strengthen job security and new rights for trade unions that will enable them to recruit and support workers more effectively. The Bill will be subject to Parliamentary Scrutiny before becoming law in 2025.

The King's Speech of July 2024 also set out proposals for a draft 'Audit Reform and Corporate Governance Bill' to be published in the next Parliamentary year, committing to better reporting on finance and other related issues.[7] The Financial Reporting Council is undertaking a review of the UK Stewardship Code, which sets the standards in respect of responsible investment practices for UK investors and investment intermediaries.[8]

A Charter for Fair Pay

The development and implementation of the new Government's reforms represent a huge opportunity to distribute the wealth created by the UK economy more evenly, lifting the incomes and living standards of low- and middle-income workers across the country. This Charter sets out policies that could play a role in effecting this change.

The Charter includes recommendations relating to the Employment Rights Bill, suggesting how policies set out in the Bill might be implemented most effectively in order to boost incomes and living standards. It also sets out measures that could comprise part of the Audit Reform and Corporate Governance Bill, establishing a corporate governance model that supports better pay and reduced inequality through stronger worker voice in corporate governance. These proposals are supplemented by ideas to strengthen investment stewardship and transparency and reporting in relation to pay and employment practices

All the proposed policies are focused on reducing the concentration of existing income flows at the top of the income distribution. They would divert income currently accruing to those at the top of the distribution to those in the middle and at the bottom instead. But there are also strong grounds to believe that as a package, the policies would generate improvements to workers' engagement and productivity, thereby increasing the aggregate pool of income, as well as distributing the pool more evenly – a bigger pie, as it were, as well as one cut into more evenly-sized slices.

The changes proposed are not revolutionary – very often they refine existing policies to ensure they apply in a more effective, less cumbersome manner, or represent the adoption of measures that already operate in other countries.

But they are potentially transformative. Although immediate results are unlikely, we believe that the long-term benefits will be both enduring and rewarding and that adoption of the proposals would be politically popular. We commissioned opinion polling on selected policies relating to each of the different policy areas covered by the Charter. In each case, we found strong support for the proposed policies indicating that there is not just a strong socio-economic case for pre-distributive measures, but that there will also be an electoral dividend for a Government that implements them.

In the following sections, this paper details how our proposals might work and makes the case for their implementation, in four chapters covering Employment Rights; Governance; Ownership and Stewardship; and Reporting and Transparency.

[7] Gov.uk (2024), The King's Speech 2024 via https://www.gov.uk/government/speeches/the-kings-speech-2024.
[8] Financial Reporting Council (2024), FRC announces significant update to the UK Stewardship Code via https://www.frc.org.uk/news-and-events/news/2024/07/frc-announces-significant-update-to-the-uk-stewardship-code/

Methodology

All policy recommendations have been compiled based on research and analysis in previous High Pay Centre reports, as well as those by other organisations working on issues including pay, work and inequality, and in academic literature. We have also drawn on practical examples from overseas.

The recommendations were informed by discussions with an expert steering group involving representatives from business, academia and trade unions, as well as individual conversations with expert stakeholders from across the academic, business and policy worlds. However, all external input was advisory. Although all individual policies enjoy considerable public and expert support, and are justified by a substantial body of evidence, the policy proposals represent the views of the High Pay Centre only.

The opinion polling was conducted by Survation, who conducted online interviews with a representative sample of 2007 UK residents aged 18 and over from 25th September to 2nd October.

Employment Rights and implementation of the 2024 Employment Rights Bill

Policy 1: Provide workers with information on key employment rights and prohibit 'union-busting' employment practices

Action: The mandatory information on trade unions that employers will have to provide to workers when the Employment Rights Bill takes effect should also include details of key employment rights included in the Bill, plus selected existing rights, such as their right to protection from unfair dismissal, rights to sick pay, holiday pay and consultation rights.

Rules governing processes for workplace votes on trade union recognition should limit management's capacity to interfere in the election, with compulsory anti-union meetings prohibited

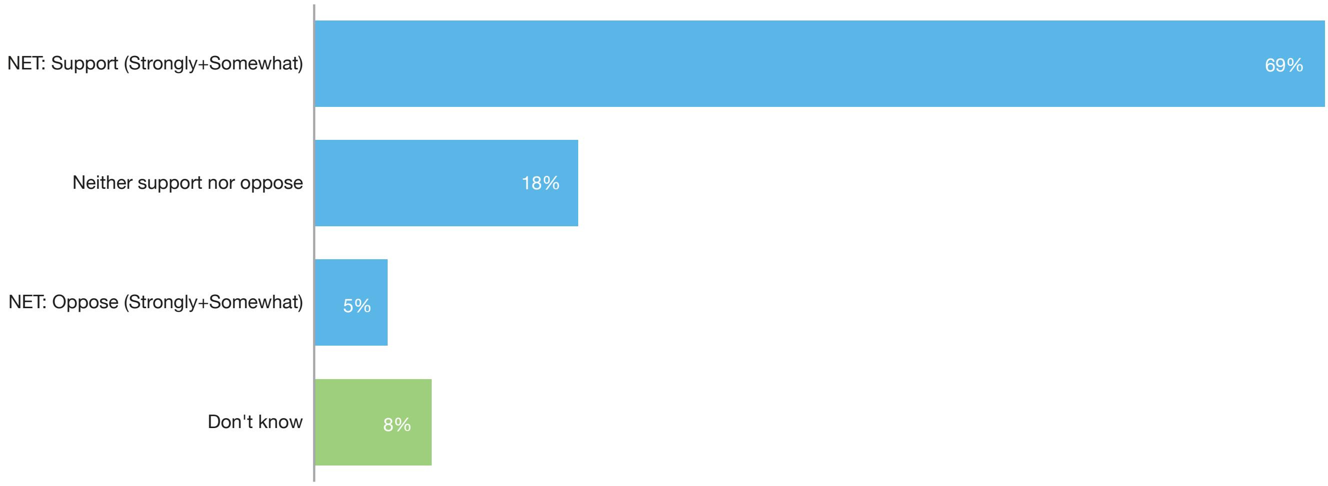
Background: The Employment Rights Bill published in October 2024 proposes a requirement for employers to inform workers of relevant trade unions operating in their industry, and to guarantee unions reasonable access to workplaces, so that workers can make an informed choice about whether to join a union.

The Bill will be subject to Parliamentary scrutiny and potential amendments, before becoming law in 2025. A public consultation on aspects of the Bill relating to trade unions, including the rules governing union recognition processes, will close in December 2024.

Case for action: Many workers are unaware of their existing employment rights, particularly those who are disproportionately represented in low-earning roles like recent migrants to the UK, younger workers unfamiliar with standard employment practices or gig economy workers who work in isolation from their colleagues. In industries with high turnover and unstable shift patterns, institutional knowledge of rights at work is less likely to take hold or spread via word of mouth. A 2021 BEIS survey highlights these disparities, finding that just 50% of workers without qualifications had a good understanding of their employment rights, compared to 70% of individuals with degree-level qualifications.[9] Additionally, 43% of 16-24 year olds reported that they had good understanding of their rights, compared to 66% of those aged 25 and over.[10]

Figure 1: Public support for greater freedom for trade unions

To what extent do you support or oppose the following policy?
The management of companies should be required to remain neutral when workers are voting on whether to join a trade union, so workers do not feel pressured one way or the other.



[9] BEIS. (2021). *BEIS Public Attitudes Tracker: Workers' Rights Autumn 2021*.(BEIS PAT Autumn 2021 Workers' Rights (publishing.service.gov.uk)).
[10] Ibid.

Unfortunately, not all employers can be relied on to inform their workforce of their rights. This limits the valuable impact that expanded rights or even better enforcement of existing rights can have. Guaranteeing that all new workers receive information on key employment rights as standard would help to ensure the awareness of rights that is a necessary precondition of their application. A sense of greater job security rooted in greater awareness of employment rights might also strengthen low-earners confidence to negotiate higher pay awards, or move to higher-paying and more productive work.

A trade union presence can also help to safeguard against exploitative employment practices and help secure better pay for their members. However, even when unions are able to reach workers and secure a vote on union recognition, there is evidence in the UK of firms using 'union-busting' tactics. This can include employment of large numbers of new workers likely to be less engaged with union activity or the aggressive promotion of anti-union messages, sometimes through presentations with compulsory attendance, in a way that creates asymmetries of information around votes on union recognition.[11] The 'Protecting the Right to Organise Act' proposed in the US Senate in 2023 proposed to prohibit some of these activities in America.[12]

Workers should retain the right to associate or not with a union but it is vital that the choice is made in a fair and informed way. There is overwhelming evidence that unions and collective bargaining agreements reduce economic inequality and income disparities, while the decline of union and collective bargaining coverage has had the opposite effect.[13]

Enabling unions to operate on a level playing field is crucial to addressing income gaps and raising living standards.

Policy 2: Define and clarify meaningful consultation rights for trade unions and works councils, enabling real worker voice in business decision-making

Action: Clarify workers' existing rights to consultation on business decision-making by setting out a clearer regulatory definition of what meaningful consultation should involve. Where the workforce requests the right to be consulted, this should require the board or senior management to engage with a democratically selected works council on a periodic basis; to share key information with the council; and to comply with the agenda set by the council (while also feeding in relevant information so that agenda items can be appropriately prioritised).

These rights to information, engagement and accountability should also apply to trade unions, where the workforce have voted to recognise a union. The trigger for a vote on union recognition should be a request from 2% of the workforce, in line with the threshold necessary to request a works council.

Background: In the UK, 'consultation rights' for workers exist via the Information and Consultation of Employee Regulations, guaranteeing workers the right to consultation on business decision-making if more than 2% of the workforce request it. However, uptake of these rights has been low and the regulations do not guarantee proper worker voice in business decision-making. Even where consultation bodies have been established, this has often been on management terms with decision-making scope restricted to surface-level operational issues. Some employers have withheld information flows and resisted meaningful dialogue on major business issues.[14]

Trade Unions need to secure the support of 10% of the bargaining unit to trigger a vote on union recognition. Again, where a vote on recognition is successful, this does not formalise any right to consultation on business decision-making.[15]

Case for action: International evidence suggests that works councils or similar bodies have a positive effect on employee earnings, while also enabling better employee engagement and productivity.[16] One study in Germany, for instance, found a wage premium of roughly 15% to 18.5% for workers in firms with works councils.[17] A stronger and more formalised voice for workers in business decision-making can lead to business practices more aligned with workers' concerns and priorities, as well as better decisions informed by the reality of life at the front line of the company. This would be particularly applicable where works councils and unions feeding into business decision-making are supplemented by worker directors on boards actually taking decisions.

There is therefore a strong basis to believe that a culture of proper workforce voice in strategic decision-making akin to the German model, via stronger rights for consultation bodies and trade unions, would lead to better pay for low- and middle-earning workers.

[11] Guardian (2024). *Amazon accused of using 'union-busting' tactics at Midlands warehouses* via https://www.theguardian.com/technology/2024/feb/08/gmb-accuses-amazon-union-busting-tactics-midlands-warehouses

[12] American Bar Association (2023), The Protecting the Right to Organize Act and the Radical Roots of Labor Law Reform via https://www.americanbar.org/groups/crsj/publications/human_rights_magazine_home/labor-and-employment-rights/protecting-right-to-organize-act

[13] For examples of research demonstrating the link between declining trade union membership and rising inequality see OECD. (2018). *OECD Employment Outlook* via https://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2018_empl_outlook-2018-en?itemId=/content/publication/empl_outlook-2018- ; Deakin, S and Pourkermani, K. (2024). *The Economic Effects of Changes in Labour Laws: New Evidence for the UK*. Digital Futures at Work Research Centre; Jaumotte, F and Osorio Buitron, C. (2015). *Power from the People*. Finance & Development, IMF March 2015, Vol. 52, No. 1.

[14] For examples of research finding varied applications of rights to consultation see Hickland, E, Cullinane, N, Dobbins, T, Dundon, T, Donaghey, J. (2020). *Employer Silencing in a Context of Voice Regulations: Case Studies of Non-Compliance*; Hickland, E, Cullinane, N, Dobbins, T, Dundon, T, Donaghey, J. (2017). *Triggering Employee Voice under the European Information and Consultation Directive: A Non-Union Case Study*. Economic and Industrial Democracy.

[15] Gov.UK (2024) Employers: *Recognise a Trade Union* via https://www.gov.uk/trade-union-recognition-employers/statutory-recognition

[16] For examples of research showing how works councils can have a positive effect on employee earnings see Addison, John T, Claus Schnabel, and Joachim Wagner. (2001). *Works Councils in Germany: Their Effects on Firm Performance*. Oxford Economic Papers 53 (October): 659-694; Coats, D. (2013). *Just Deserts? Poverty and Income Inequality: Can Workplace Democracy Make a Difference?*. The Smith Institute; Mohrenweiser, Jens. (2022). *Works Councils*, GLO Discussion Paper, No. 1103, Global Labor Organization (GLO), Essen.

[17] Addison, John T, Claus Schnabel, and Joachim Wagner. (2001). *Works Councils in Germany: Their Effects on Firm Performance*. Oxford Economic Papers 53 (October): 659-694.

Corporate Governance

Policy 3: Revise company directors' legal duties and strengthen enforcement mechanisms

Action: Re-write the legal duties of company directors as specified in Section 172 of the Companies Act (2006) so they no longer elevate the interests of shareholders over other stakeholders. A revision to these duties would set out a responsibility to promote the long-term, sustainable success of the company, balancing the interest of all stakeholders.

This could be accompanied by enforcement mechanisms to ensure the revised duty is taken seriously. The Financial Reporting Council's (FRC) regulation of the audit profession offers an interesting template, whereby complaints regarding an auditor's professional duties can be submitted to the FRC, who are empowered to investigate and sanction. In cases of breaches of duties, the FRC has the authority to impose restrictions on practice, fines or removal from the register of statutory auditors.

Background: In accordance with Section 172 of the 2006 Companies Act, company directors are currently required to promote "the success of the company for the benefit of its members" (shareholders). This effectively elevates shareholder interests above those of workers, customers, suppliers and other stakeholders for whom they must merely "have regard."[18] There have been prominent calls to revise this clause, including from business groups, arguing that directors should be empowered to have scope to take a more balanced approach to conflicts of interests between different groups of stakeholders.

Similar arguments have also been advanced in the US. In 2019, the Business Roundtable group of leading corporations revised their principles of corporate governance to replace their statement in favour of shareholder primacy with a commitment to leading their companies for the benefit of all stakeholders — customers, employees, suppliers, communities and shareholders.[19]

Case for action: Instituting this policy would mean that where the interests of shareholders and workers conflict – for example, the conflict between higher profits and higher wages – directors would have a mandate to take a more balanced approach to their decision-making. At already profitable companies, they might choose to raise pay rather than extract even greater profits.

A clearer duty to balance the interests of stakeholders would help achieve an important cultural change regarding how directors conceive of their responsibilities. A mechanism for redress that avoids the cost and bureaucracy of a legal complaint, with a mandate to assess whether all stakeholder interests had been properly considered on a balance of probability basis, would facilitate this change. Under the current rules enforced in the courts, even in the case of the most egregious corporate scandals where obsession with short-term returns to shareholders has brought about the collapse of the company, there are no instances of directors being held accountable for a breach of their duties to 'have regard' for other stakeholders under Section 172.

The potential of this change to benefit workers' wages is considerable. A previous High Pay Centre, Common Wealth and TUC analysis found that, in 27% of cases over the five-year period analysed, FTSE100 companies returns to shareholders exceeded the profits they generated. Research also shows that, between 2014 and 2018, returns to FTSE100 shareholders grew by 56% whilst median wages in these companies rose by just 8.8%.[20] If UK pay had risen at the same pace, the average worker would have been £9500 better off by 2018.[21]

Encouraging a mentality that prompts business leaders to reflect on how fairly the wealth they generate is divided between different stakeholder groups might see a larger proportion of this wealth flowing to company workers.

[18] Institute of Directors. *Directors Duties and Responsibilities*. (2021) via https://www.iod.com/resources/company-structure/directors-duties-and-responsibilities/
[19] Business Roundtable, *Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'* (2019) via https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans
[20] High Pay Centre, the Trades Union Congress and Commonwealth (2019). *How the shareholder-first business model is contributing to inequality*. High Pay Centre and the TUC via https://www.tuc.org.uk/research-analysis/reports/how-shareholder-first-business-model-contributing-inequality
[21] The TUC. (2021). *Restoring trust in audit and corporate governance - TUC Response.*

Policy 4: Create seats for 'worker directors' on company boards

Action: Require large businesses to reserve a certain proportion of board positions for directors elected by the workforce. The appointment of elected worker directors could either be mandatory, or introduced as a right for the workers to take up should they wish to do so.

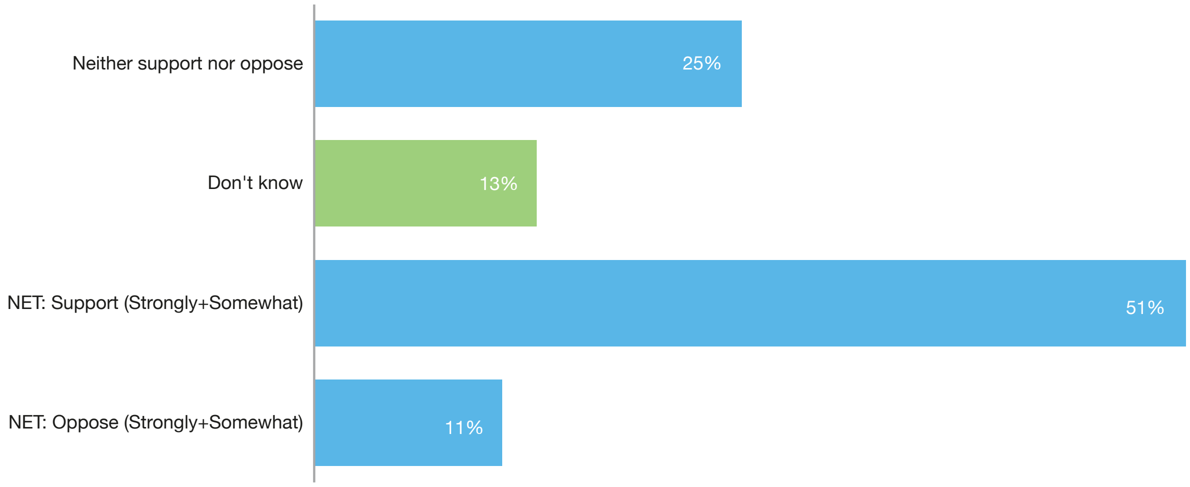
Worker directors would hold significant voting rights on key board decisions, including company strategy, Environmental, Social and Governance (ESG) initiatives and wider remuneration policy. They would not function strictly as representatives responsible for defending workers interests but rather would have the same legal duties to act in the long-term interest of the company as any other director. However, in practice, their accountability to the workforce would increase the likelihood of board's fulfilling their legal duty to pursue the best interest of the company in terms of all its stakeholders, rather than prioritising the interests of shareholders. Directors drawn directly from the workforce would also diversify the professional and life experience of board members, including the operational understanding of the company.

Background: The UK Corporate Governance Code currently recommends worker directors as one of three possible mechanisms for workforce engagement. However, this is at the board's discretion and as of September 2024 only five FTSE 350 firms have appointed any worker directors (FirstGroup, Mears Group, Capita, Wetherspoons, Frasers Group).[22] Most companies have instead responded to the Code by utilising one of the two alternative, and arguably weaker, mechanisms for workforce engagement - establishing an advisory panel or, in the majority of cases, assigning the engagement brief to a designated NED. An FRC analysis of FTSE350 firms found that just 6% of firms said workforce representatives had been 'very involved' in the process, of selecting which mechanism would be most appropriate for their company whilst 65% said such representatives were 'not at all' or 'not particularly' involved.[23]

Case for action: International evidence of worker representation on company boards leading to better pay outcomes is mixed, given that workforce pay is not generally set at boardroom level. However, there are studies supporting the conclusion that directors who are accountable to the workforce and more sensitive to workers' financial needs and the daily contribution they make to organisational success are likelier to promote a culture of higher pay.

Figure 2: Public support for worker directors on company boards

To what extent do you support or oppose the following policy?
Companies should be required to appoint at least two directors to the company board who are workers chosen from the workforce, to bring workers closer to decisions about pay and employment.



For example, evidence from Finland has found that the introduction of workers on boards led to higher worker pay and increased job security, with one study showing an increase in average wages of 1.6%.[24] Additionally, a stronger European Participation Index (EPI) ranking is correlated with lower inequality and poverty rates, lower levels of executive remuneration and higher productivity. The EPI ranks the degree of worker participation in business decision making in different European countries - the UK is rated 26th out of 28, with lower participation than all countries except Latvia and Estonia.[25]

[22] Rees, C and Brione, P. (2021). *Workforce Engagement and the UK Corporate Governance Code: A Review of Company Reporting and Practice.*
[23] Ibid.
[24] Harju, J, Jager, S and Schoefer, B. (2021). Voice at Work via https://www.nber.org/system/files/working_papers/w28522/w28522.pdf
[25] For examples of research showing the link between worker participation in business decision-making and positive socio-economic outcomes, see Commmonwealth (2024) *A Firm Partnership* via https://www.common-wealth.org/publications/a-firm-partnership; Institute for Public Policy Research (2017). *Corporate Governance Reform: Turning Business Towards Long-Term Success*; Thannisch, R. (2011). *Reorienting management remuneration towards sustainability: lessons from Germany*. The Sustainable Company: A new approach to corporate governance. Brussels: ETUI.

Equally importantly, research also suggests that worker directors can help direct boards away from the corporate short-termism that has often dominated decision-making in Britain. Research and development (R&D) expenditure is twice as high in European countries with strong worker representation compared to those with weak participation.[26]

Again, this stands to reason – workers are strongly incentivised to favour investment of available cash into the business, ensuring it thrives in the long run and their jobs are protected. Directors accountable to workers will feel less pressure, conscious or otherwise, to maximise payments to shareholders rather than investing in their business, whilst also bringing pivotal knowledge of the firm that can improve board decision-making.[27]

Moreover, it is arguable that workers (as labour investors) have a stronger interest in the long-term health of the company and bear a greater risk, such as through potential pay cuts or job losses, than shareholders (capital investors) who are able to hedge their risk through increasingly diversified portfolios. Workers should therefore be provided with the corollary representation and voice to influence company strategy.

Policy 5: Cap CEO to worker pay gaps for public service providers, such as water or social care

Action: CEO to median worker pay ratio caps should be introduced in industries providing public services or utilities. Caps could be introduced via existing mechanisms – for example, the remit of Ofwat could be extended to introduce a cap across the water industry, where executive pay levels have been a source of considerable public anger.

They could also be negotiated as part of the Fair Pay Agreements that the new Labour Government has committed to establishing in the social care industry and potentially across other sectors. Negotiating parties could have a remit to agree a maximum ratio, with an independent arbiter setting a level in the event of a failure to reach agreement.

Background: Executive pay and pay inequality has been a source of considerable controversy for many years. In industries delivering what are widely considered to be public services, top pay awards have been particularly inflammatory. In the water industry, for example, executive pay awards exceeded £10 million in 2022/23 while firms remained mired in scandal relating to the discharge of sewage into Britain's seas and rivers.[28] Similarly, there are instances of care home bosses extracting millions in financial rewards from their companies while overseeing homes with unsafe, unsanitary and substandard conditions.[29]

The Labour Party's 2024 general election manifesto committed, as part of the commitment to full implementation of the Party's 'Make Work Pay' programme, to 'Fair Pay Agreements' setting pay standards across the social care sector (with potential application to other industries) negotiated by employers and trade unions.

Case for action: How employers distribute their expenditure on pay is a key determinant of living standards. While there is no 'zero-sum' game where lower executive pay will directly translate to higher incomes for low-earners, limiting expenditure on top earners could free up resources for investment in the wider workforce. HPC research has previously highlighted how some large companies spend tens of millions on a small number of executives, creating significant opportunity costs in terms of pay for lower earning workers or investment in R&D.[30] Studies have also documented the way that wide intra-company pay gaps can have a negative impact on employee morale and productivity.[31]

The argument that this would hinder the capacity of companies to attract talented leaders should be offset against the fact that a cap of twenty or even ten times median earnings would still enable pay awards in the low hundreds of thousands, which would put the recipient comfortably inside the top 1% of UK earners. For organisations responsible first and foremost for delivering public goods, this ought to prove a more than sufficient reward or incentive. Indeed, executives that are committed to providing a public good, rather than being driven by solely financial incentives, would help to nurture a public service ethos in their organisation, ultimately leading to better outcomes for public service users. This is supported by research suggesting that incentive payments (which form the largest component of executive pay awards at major companies) have the effect of creating financial motivation for doing a job (often focused on specific, narrow targets).[32] This can override their intrinsic motivation for the job deriving from their belief in the importance of the work and its holistic, long-term objectives, ultimately leading to poorer performance.

[26] Worker Participation.EU. *Why Worker Participation?* via https://www.worker-participation.eu/why-worker-participation#:~:text=The%20relationship%20with%20the%20strength,and%20R%26D%20in%20individual%20countries

[27] Oxfam. (2024). *Getting Ahead of the Curve on Dynamic Materiality*. Joint Agency Discussion Paper.

[28] Liberal Democrats. (2023). Water Firm Exec Pay Tops £10 million for first time amid sewage scandal. (Water firm exec pay tops £10 million for first time amid sewage scandal - Liberal Democrats (libdems.org.uk)).

[29] Booth, R. The Guardian. (2023). *Owner of UK care home paid himself £21m despite safety concerns*. (https://www.theguardian.com/society/2023/jan/17/owner-of-uk-care-home-group-paid-himself-21m-despite-safety-concerns).

[30] High Pay Centre (2023), *Rethinking Reward: High Pay Centre analysis of FTSE 350 pay ratio disclosures.*

[31] Boone, A, Starkweather, A and White, J. (2023). *The Saliency of the CEO Pay Ratio.*

[32] For examples of research showing how incentive-based pay can override individuals' intrinsic motivation for doing a job see Weibel, A, Rost, K and Osterloh, M. (2010), *Pay for Performance in the Public Sector- Benefits and (Hidden) Costs. Journal of Public Administration Research and Theory*, Volume 20, Issue 2; Powdrill, T. (2012). Pay Gone Astray: The Failure of Executive Incentive Schemes via https://renewal.org.uk/wp-content/uploads/2020/09/powdrill_final-1.pdf

Figure 3: Public support for capping executive pay

To what extent do you support or oppose the following policy?

The pay of company CEOs should be capped in relation to the pay of their average employee, so that pay differences between the high and low or middle earners don't grow too wide.

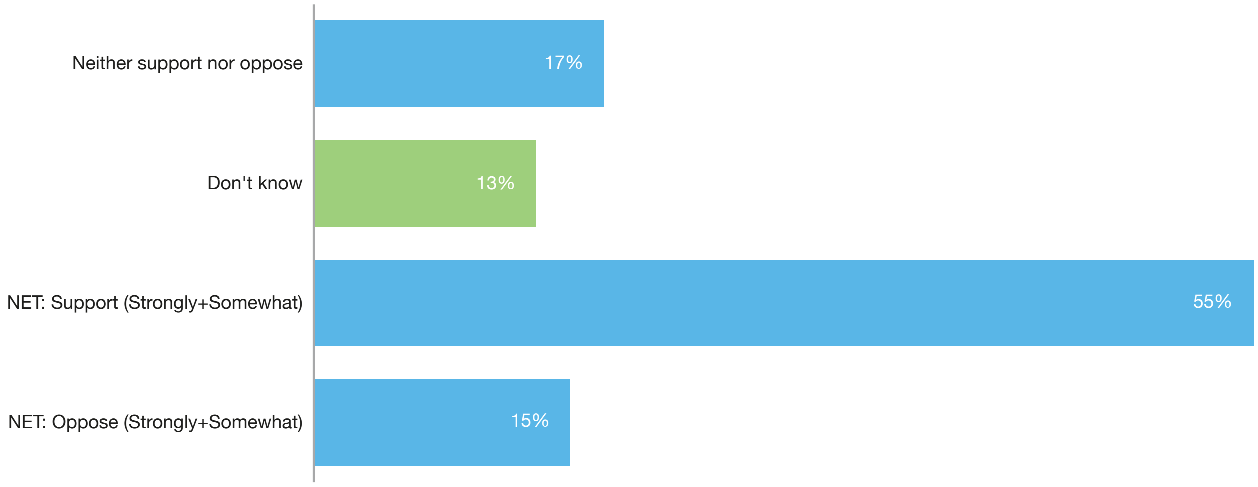
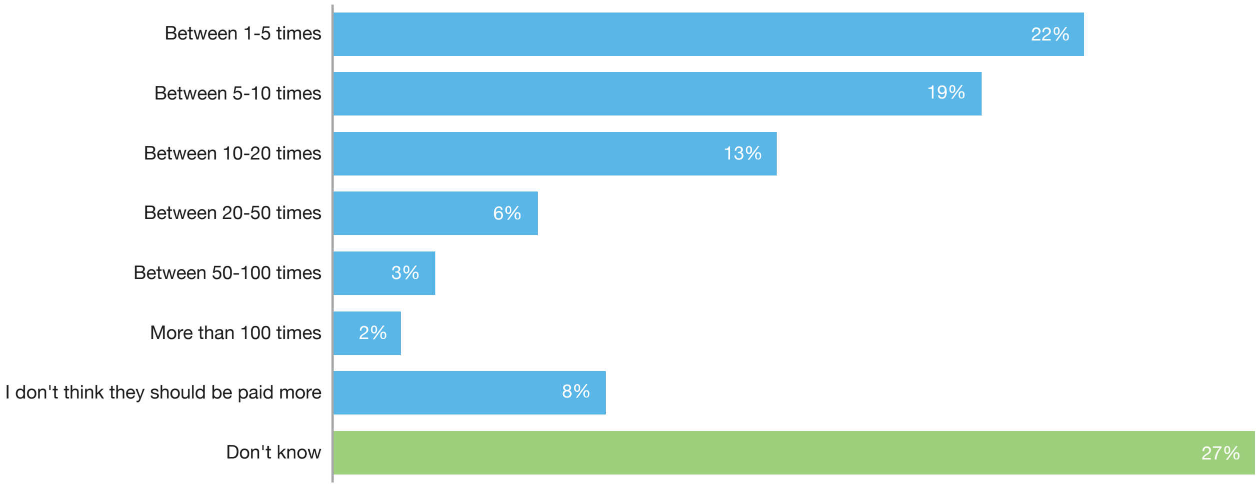


Figure 4: Public opinion on appropriate CEO to worker pay gaps

How much, if at all, do you think the CEOs of the UK's biggest businesses should be paid compared to their lower- and mid-level employees?



Policy 6: Establish a framework for tax and procurement incentives for responsible businesses with fair and democratic pay-setting processes

Action: Establish via review a set of criteria that could be used to provide a legal or regulatory definition of responsible or ethical businesses. The criteria might include democratic governance structures, full and transparent social and environmental reporting, and fair and transparent employment practices, including living wage accreditation and respect for trade union rights.

This could then be used to inform differentiated rates of corporation tax for these businesses, or favour them in public procurement, providing a stronger financial incentive for companies to implement progressive pay practices.

The review could draw on similar initiatives undertaken by industry or civil society. It could consider other pre-existing corporate forms including co-operatives and mutual societies. It could also cover the work done commercially and by government and regulatory bodies defining ESG criteria for the labelling of investment products.

Background: There is considerable interest in the social and environmental impact of businesses, including the impact of their employment practices in terms of workforce pay and wellbeing.

Industry and civil society initiatives set out recommendations for how a responsible business aligned with the public interest might operate in terms of their governance model or business practices. Examples include the Purposeful Business project at the British Academy, and the B Corp movement promoting companies with a purpose defined in their articles of association to deliver positive outcomes for society and the environment. [33] [34]

Similarly, regulators are taking an interest in investment concepts such as 'ESG' or 'Impact' investing that seek to encourage investors to consider environmental and social factors alongside investment returns. The UK's Financial Conduct Authority has introduced standards that investment products should fulfil in order to use the ESG label or related terms.[35] The European Union's 'Taxonomy Regulation' sets out conditions that an 'economic activity' carried out by businesses must meet before it is considered sustainable.[36]

Case for action: The value to society of businesses that protect the environment, pay their workforce fairly and respect the letter and spirit of tax laws, is clearly higher than those who fulfil only some or none of these criteria. The former should be favoured where possible by government policy.

If it were possible to differentiate tax rates dependent on businesses' social and environmental practices this might reduce some of the controversy around business taxation, raising additional revenue for public services while minimising the cost to businesses that provide good work and other positive societal outcomes. It would also create a further incentive for businesses to adopt employment and governance practices that are likely to lead to favourable pay outcomes for their workforce. This is reflected in a range of research highlighting how corporate social responsibility, which measures the extent to which a business operates in the wider interests of society, improves following tax breaks or incentives.[37]

[33] The British Academy (2019), *Principles for Purposeful Business* via https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business

[34] B Lab UK (2024). The *UK B Corporation Movement* via https://bcorporation.uk/?gad_source=1&gclid=CjwKCAjw0aS3BhA3EiwAKaD2ZQJVPUmxO05qwxFX5Ow2LbX7TA5JF6wqbfsIDx1tpumFEpotmzpD-xoCjzIQAvD_Bw

[35] Financial Conduct Authority. (2023). *Sustainability Disclosure Requirements (SDR) and Investment Labels* via https://www.fca.org.uk/publication/policy/ps23-16.pdf

[36] European Commission. *EU Taxonomy for Sustainable Activities* via https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

[37] For example of research showing the success of tax incentives successfully incentivising corporate social responsibility, see Tang, M and Wang, Yu. (2022). *Tax Incentives and Corporate Social Responsibility: The Role of Cash Savings from Accelerated Depreciation Policy*. Economic Modelling, Vol. 116; Kong, D, Xiong, M and Qin, N. (2022). *Business Tax Reform and CSR Engagement: Evidence From China*. International Review of Financial Analysis; Kohler, C, Laredo, P and Rammer, C. (2012). The Impact and Effectiveness of Fiscal Incentives for R&D. Nesta Working Paper.

Investment and Stewardship

Policy 7: Require investors to state how they account for the values and non-financial interests of their beneficiaries when making investments

Action: Refine pension funds' reporting of the social and environmental consequences of their investments, through a requirement to explain how they consider the indirect impact of their investments on their beneficiaries. For example, how they approach investments in companies with unequal pay structures or poor working conditions and balance any returns they generate against the potentially negative contribution these companies make to the societies in which the fund's beneficiaries live.

Pension funds should also be required to state how they consider the non-financial (ethical) preferences of their beneficiaries.

Background: Pension funds are currently required to state their approach to material ESG issues in their Statements of Investment Principles. The term 'ESG' is generally understood to refer to 'financially material' considerations (for example, wasteful energy usage by a firm in a pension fund's investment portfolio may harm both its environmental record and the returns it generates for shareholders). Treating and paying workers poorly may not be considered an ESG issue, even if it affects a great many people (potentially including those in the pension savers' communities), if it increases the company's profitability.

Pension Funds are also required to state if they consider the non-financial preferences of their beneficiaries. This sends a perceptibly different message to regulated funds than requiring them to say how they consider such preferences without significantly reducing their reporting obligations.

Case for action: UK pension funds control about £900bn of investments in listed companies (globally) and thus have considerable ability to influence the practices of those companies.[38] There are multiple case studies of areas such as the living wage or supply chain ethics where action from the investment industry has helped to deliver progressive outcomes in terms of pay and working practices. A 2022 resolution at the Sainsbury's AGM co-ordinated by the responsible investment campaign group 'Share Action' led to a significant pay rise for employees outside of London, while investor pressure has also contributed to a number of FTSE 100 companies now reporting their ethnic pay gap.[39] [40]

Investment decisions and engagement of companies with pension funds' capital should reflect the interests of pension savers. The negative socio-economic impact of inequality or low-paid, precarious work will affect the world that pension savers have to live in, so it is incumbent on fiduciaries charged with managing pension fund investments to consider how their investment and stewardship practices may perpetuate these issues.[41]

This is not a simple matter because pension savers also require a sufficient income in retirement to support their standard of living, whilst fiduciaries need to ensure that this is met. Equally, while some companies may contribute to inequality or a culture of exploitative employment practices in certain industries, divesting from them or even forcing them to change their ways will not eradicate these problems but may result in reduced investment returns.

However, the evidence of the socio-economic problems resulting from these issues is sufficiently robust, thereby justifying much stronger requirements on pension funds to at least demonstrate how they consider them. This is also supported by polling of pension savers showing that they believe that social and environmental problems, including widening inequality, will affect their standard of living in retirement.[42]

[38] Thinking Ahead Institute. (2023). *Global Pensions Assets Study 2023.* (https://www.thinkingaheadinstitute.org/research-papers/global-pension-assets-study-2023/)
[39] Share Action (2022). *Living Wages for Supermarket Workers- Decision Time for Investors* via https://shareaction.org/news/living-wages-for-supermarket-workers-decision-time-for-investors
[40] High Pay Centre (2022) *How do companies report on their most important asset?* via https://highpaycentre.org/how-do-companies-report-on-their-most-important-asset-2/
[41] The Taskforce on Social Factors. (2023). *Considering Social Factors in Pension Scheme Investments* via https://www.taskforceonsocialfactors.co.uk/siteassets/shared-media/images/uk_social_factors_consultation_v4.pdf
[42] High Pay Centre. (2023), *High Pay Centre briefing: Pension saver views on the social and environmental impact of investments* via https://highpaycentre.org/high-pay-centre-briefing-pension-saver-views-on-the-social-and-environmental-impact-of-investments-2/

Policy 8: Establish a task force for the expansion of worker ownership and profit sharing, with voluntary targets for large companies

Action: Establish a Government-backed task force exploring the case for the expansion of worker shareholdings and profit-sharing schemes in UK businesses, bringing together company representatives, investors, trade unions and other independent experts. The aim of the task force would be to review the current extent to which workers are incentivised and rewarded for the success of their company, and to set ambitious recommendations for improvement.

Considerations for the review should include the extent of shareholdings or profits set aside for the workforce necessary to be considered meaningful; how to ensure that profit sharing and shareholdings are equitably distributed across the workforce; and principles for communicating profit sharing and worker share ownership in corporate reporting. The review would aim to realise these objectives of a greater, more evenly distributed and more transparently reported share of shareholdings and profits accruing to workers but would not necessarily prescribe a certain model for how to realise this outcome. However, it could include voluntary targets for the proportion of shareholdings or profits reserved for the workforce, to which companies would commit. Models for this approach include the targets for female representation on boards set by the Parker Review, or the Mansion House Reforms committing pension funds to targets for investments in unlisted UK equities.[43] [44]

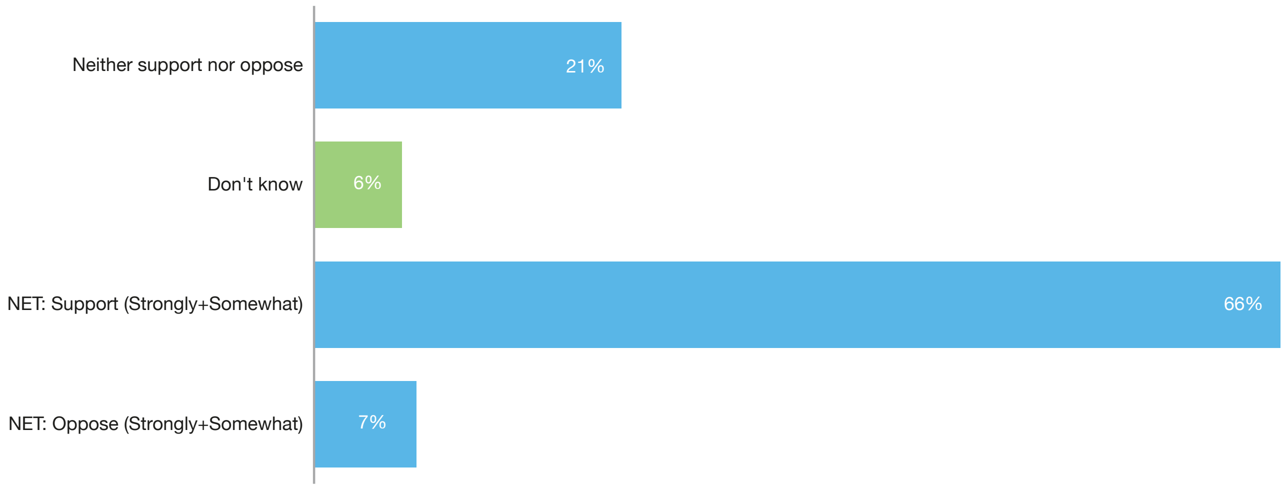
Background: There has been considerable interest from policymakers in the concept of worker share ownership. The Coalition Government conducted a review and in 2012 proposed a scheme where employment rights would be reduced at companies offering workers shares in their companies. Most businesses operate some form of employee share plan, and business groups have spoken enthusiastically about the concept.

However corporate disclosures on worker share ownership are infrequent and opaque. Policy proposals designed to increase worker ownership have either been too radical to win stakeholder confidence, such as Labour's 'Inclusive Ownership Funds' in 2017, or have been accompanied by insufficient incentives to encourage uptake, such as the 'shares for rights' proposal in 2012. As such, there are few companies where workers own a meaningful shareholding – figures from the Employee Ownership Association suggest there are only twenty companies with more than 1,000 employees that are more than 25% employee owned.[45] Furthermore, where workers are offered shares in the company, they are often required to buy them out of their pay packet, which is hugely prohibitive for lower earners, meaning that worker shareholdings do not provide a stake in business success or governance for these workers.

Case for action: Share ownership in the UK is highly unequal with the richest 1% of the population owning more direct share-based wealth than the poorest 90% combined.[46] Even when pension fund shareholdings are included, the richest fifth of the population hold roughly as much pension-based wealth as the poorest four fifths.

Figure 5: Public support for worker share ownership

To what extent do you support or oppose the following policy?
Companies should be required to set aside a certain amount of shares in the company for a fund for their workers, so that some of the profits generated by the business go to the workers.



[43] Tyler, D. (2024). *An Update Report from the Parker Review* via https://parkerreview.co.uk/wp-content/uploads/2024/03/The-Parker-Review-March-2024.pdf
[44] Gov.UK. (2023). *Mansion House* 2023 via https://www.gov.uk/government/collections/mansion-house-2023
[45] Employee Ownership Association (2022), *The Employee Ownership Top 50 2022*, via https://www.rm2.co.uk/resources/eo-top-50/employee-ownership-top-50-2022/)
[46] High Pay Centre, Commonwealth and TUC. (2022). *Do dividends pay our pensions? A report from the TUC, Common Wealth and the High Pay Centre*.(https://highpaycentre.org/wp-content/uploads/2022/01/Do-dividends-pay-our-pensions-Jan-2022.pdf).

Britain's biggest companies channel huge payouts to investors every year. Between 2011 and 2018, the UK's 100 largest non-financial firms distributed over £400 billion in dividends and £61 billion in share buybacks.[47] These payouts currently disproportionately benefit those at the top of the income distribution. Expanding worker share ownership would redirect a proportion of this wealth to the workers who create it.

This is highlighted in studies of profit-sharing and worker ownership. In France, where profit sharing is mandatory for certain companies, a recent study found that the share of the affected firms' value-added accruing to workforce pay increased by 1.8 percentage points as a result of the profit-sharing requirements, with no adverse effects on investment.[48] While pay for high earners was reduced to offset their share of profits, pay for lower earners increased. The profit-sharing rules effectively reduce inequality and act as a tool for redirecting profit from generally wealthier investors to lower earning workers. There is also an 'employee ownership premium' for shareholding households in the UK, whereby worker ownership makes a significant difference to household wealth. In the lowest income quartile, median net financial wealth is £10,900 greater for low-income employee shareholders.[49]

Furthermore, there is significant evidence that worker share ownership has hugely positive by-products in terms of employee engagement, productivity, company performance and long-term firm survival.[50] In particular, such firms are found to be more resilient in times of crisis.[51]

[47] Ibid.
[48] Nimier-David, E, Sraer, D and Thesmar, D. (2023). *The Effects of Mandatory Profit-Sharing on Workers and Firms: Evidence from France*. National Bureau of Economic Research.
[49] Co-operatives UK. (2020). *Employee and worker ownership in COVID-19 recovery strategies.*
[50] Oxfam. (2024). *Getting Ahead of the Curve on Dynamic Materiality*. Joint Agency Discussion Paper.
[51] Ibid.

Reporting and Transparency

Policy 9: Expand pay ratio reporting to ensure consistent disclosure of expenditure on the pay of top earners by all employers

Action: Existing pay ratio reporting requirements should be refined to require companies to provide more detail on the pay of high earners beyond the CEO.

Companies should be required to report how many of their employees are paid beyond a set threshold, and report the number in different pay bands (for example £150,000 - £249,999; £250,000-£499,999 £500,000-£999,999; and £1,000,000+) as well as the total expenditure on earners in each band. Government, in consultation with business, unions and other stakeholders, should decide the exact threshold and bands. Our recommendation would be a starting point of annual pay of around the £150,000 - £200,000 mark, which would put the recipient around the top 1% of UK residents by income.

The pay ratio reporting requirements that these measures would supplement should also be applied to large employers, both privately owned as well as those listed on the stock market.

Background: Companies with a premium-listing on the UK stock market and over 250 UK employees are required to report their 'pay ratio' showing the CEO's pay compared to UK employees at the 75th (top quarter), median and 25th (bottom quarter) percentile points of the pay distribution of the company's UK employees. However, the pay ratio calculations do not include the lowest-paid workers, nor do they provide any insight into pay for top earners beyond the CEO, meaning the total cost and opportunity cost to the company on pay for very high earning employees and its impact on societal inequality is not understood by stakeholders.

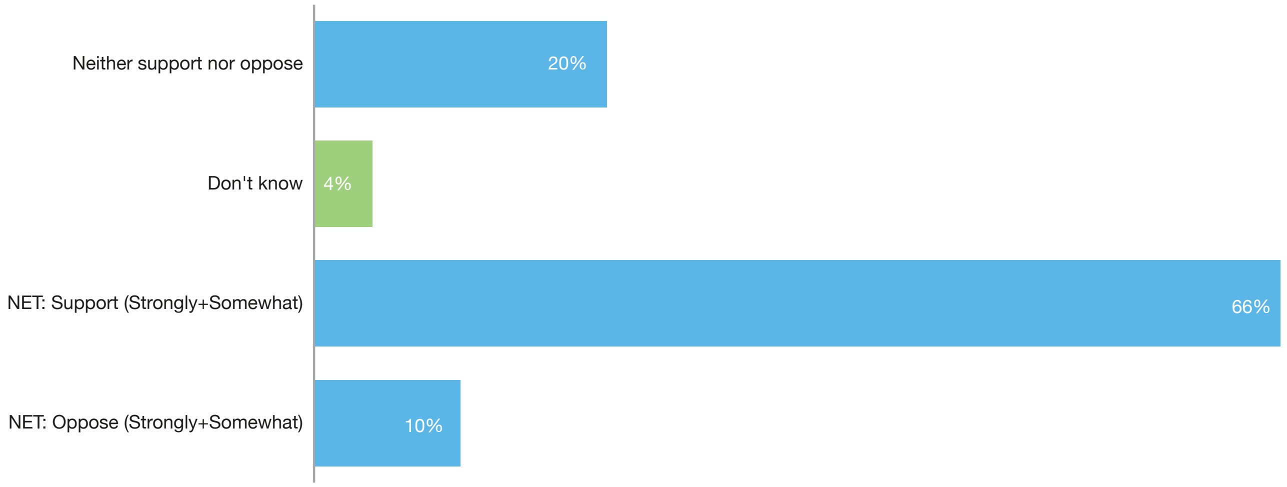
Other models for the reporting of pay for top earners apply in the public and voluntary sectors and in the banking industry, whereby the number of earners in pay bands above a certain threshold is disclosed annually.

The Labour Party's 2024 general election manifesto committed, as part of the commitment to full implementation of the Party's 'Make Work Pay' programme, to expand pay ratio reporting requirements to cover indirectly employed workers.

Case for action: Pay for high earners often represents a substantial expense to companies – High Pay Centre analysis has found that the biggest UK companies often spend tens of millions on their executive teams alone. When the pay of other senior managers is included, this amounts to even more significant sums.

Figure 6: Public support for more transparency on the pay of top earners

To what extent do you support or oppose the following policy?
Companies should be required to publish how much they spend on the pay of employees paid over £150,000, so that workers understand the gap between their pay and those on higher salaries



If companies disclosed high earners' salaries, stakeholders could better assess the value these individuals provide compared to alternative uses of funds, like pay rises for lower earners or R&D investment. Moreover, more detailed information on what employers are spending on top earners can inform the negotiating position of individual workers or trade unions, enabling them to contrast pay levels within the organisation and compute hypothetical redistributions from top earners to the wider workforce. Better disclosure would not prohibit very high pay awards, it would just mean that companies would have to demonstrate to stakeholders that the individuals in question generate outstanding value for money, thereby either ameliorating conflict over pay inequality if they were able to do so successfully, or strengthening the argument for greater equality if not.

Listed companies argue with some justification that they have been subject to an increasing reporting burden in recent years. However, the fact that something as fundamental as who works for a company and what they get paid is not reported, even in very broad terms, consistently highlights the need for change. Recent HPC analysis of FTSE100 remuneration reports found that a typical report is now 29 pages long, but that on average around 17 pages of this is made up of narrative reporting explaining and justifying their pay structure – this is not a regulatory requirement but a choice of the companies, largely arising from their adoption of highly complex pay policies.[52] Should the Government choose to review the supposed reporting burden, it could consider elevating requirements to report specific key data points around pay and working conditions, while discouraging this lengthier and vaguer narrative reporting. This would make reporting simpler and more succinct for companies while also improving the provision of information to stakeholders.

Policy 10: Introduce a right for workers to know how their pay compares to pay across their organisations

Action: Empower workers with a right to know their approximate position within the organisation's pay distribution. Upon request, employers would be required to provide workers with their approximate position in the company's pay distribution – for example their ranking within a percentile or decile band. This could be contextualised by the pay ratio disclosures which report the pay levels at the 25th (bottom quarter), median (halfway) and 75th (top quarter) percentile points of the distribution.

This right would be subject to certain caveats. Importantly, the privacy of individual workers would need to be respected. Additionally, when ranking an individual in relation to workers across the company as a whole, companies would be permitted to provide good faith estimates based on the available data rather than undertake potentially time-consuming precise calculations

Background: There are domestic and international precedents for greater transparency on pay. The Equalities Act (2010) creates a right to equal pay between men and women for equal work, and can in some circumstances lead to employers being ordered to conduct an equal pay audit and sharing the findings with affected staff.[53] The recent 'EU Pay Transparency Directive' giving workers the right to know how their pay relates to colleagues performing similar roles provides a potential model.[54] However, in each case comparisons are focused on other workers performing the same or similar work, when research shows that perceptions of fairness are also driven by comparisons with colleagues throughout the organisation in higher or lower ranking roles.[55]

Case for action: The first step towards fairness in pay outcomes requires an understanding of current outcomes, enabling individuals to make an informed assessment of whether or not they are fair and proportionate. Where pay is more transparent, egregiously high or low levels of pay are more likely to be identified, subjected to criticism and ultimately addressed - in famously egalitarian Norway, income levels for all individuals are publicly available, and it is widely agreed that this is a factor in explaining the country's low level of income inequality.[56]

[52] The High Pay Centre. (2023). Rethinking Reward: High Pay Centre Analysis of FTSE350 Pay Ratio Disclosures.

[53] Legislation.gov.uk (2014), *The Equality Act 2010 (Equal Pay Audits) Regulations 2014* via https://www.legislation.gov.uk/ukdsi/2014/9780111116753

[54] Official Journal of the European Union, (2023). *Directive (EU) 2023/970 of the European Parliament and of the European Council.* (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L0970).

[55] For examples of studies showing that employees perceptions of fairness are driven by comparisons with employees at different levels throughout the organisation, as well as those doing similar work see Martin, J. (1982). *The fairness of earnings differentials: an experimental study of the perceptions of blue collar workers*. Journal of Human Resources 17: 110–22; Pfeffer, J and Langton, N. (1991). *Wage dispersion, satisfaction, and performance: evidence from college administrators.* Graduate School of Business, Stanford University.

[56] For examples of research suggesting a link between greater transparency of income differences and greater equality in Norway see Perez-Truglia, R. (2019). *The Effects of Income Transparency on Well-Being: Evidence from a Natural Experiment*. NBER; Enskog, D. (2023). ADP. *The Nordics' Wage Transparency Experiment* via https://rethinkq.adp.com/nordics-wage-transparency-experiment/#:~:text=In%20Norway%2C%20researchers%20at%20the,by%205%25%20within%20a%20year

Fairness can relate to how much people are paid relative to those in similar roles, but it can also depend on how much workers earn compared to those at different levels of the organisation. Understandably, when workers are contributing to an organisational goal, they want to know that their efforts are being rewarded proportionately - subject to factors such as how hard someone works, their levels of responsibility or the skills and expertise required – and not labouring for the enrichment of others. Hence, the argument that for workers to assess whether their own pay is fair, they need to know both how it relates to other people doing the same job, as well as where it is located within a wider organisational context. This can then inform and strengthen their position in pay negotiations.

While compliance with this requirement might superficially represent an additional burden on employers, well-run organisations would keep accurate and up-to-date records of pay across their workforce, and would have policies and practices in place to ensure that different pay levels are fair and proportionate. Acas guidance already advises companies to have a consistent pay structure across their business with limits on the number of people who can set pay, meaning that comparisons are easier.[57]

For the economy as a whole, enabling people to make more informed decisions about whether or not their pay is fair, would likely lead to better pay outcomes via negotiation on a case-by-case basis, thereby improving people's satisfaction at work and reducing the need for more direct regulation of pay.

[57] Acas (2024) *Equal Pay: Employer responsibilities – preventing issues* via https://www.acas.org.uk/equal-pay/employer-responsibilities

Conclusion

The policies proposed in this Charter would establish a framework for business designed to achieve fairer pay by re-directing income that currently flows to those at the top of the income distribution towards those in the middle and at the bottom.

Critically, however, beyond this pre-distributive effect, the policies would also improve business decision-making by facilitating participatory governance models incorporating greater cognitive diversity and frontline business experience. They would strengthen employee engagement and wellbeing through stronger consultation rights and access to information. And they would align business practice more closely with the wider socio-economic interest, by encouraging boards and investors to reflect on the societal impact of their decisions. In this way, the proposed policies would not only contribute towards a fairer and more equal country but also one more prosperous and productive.

Moreover, measures that promote dialogue, enhance businesses' sense of their societal responsibilities, expand transparency and empower workers to negotiate fairer and better organic pay outcomes with their employers (rather than attempting to mandate pay outcomes through heavy handed regulation) are in keeping with the spirit of our age. In a less deferential, more connected, more socially and environmentally conscious society with ever more access to data and information, the Charter represents a modernising approach. It is therefore unsurprising that polling suggests the policies would be popular.

At the same time, it is important to be realistic about the proposals. Our paper has concentrated on a specific remit to re-route income flowing to those at the top to those in the middle and at the bottom, pre-taxation. While this is a necessary part of improving living standards in Britain, it is also far from sufficient. There are other important debates to be had around the role of progressive taxation, investment in infrastructure, or support for education and skills.

Furthermore, in addition to being only one part of the agenda to fulfil Britain's economic potential, the policies outlined would take time to implement and would in some cases be keenly contested. During research interviews as part of a High Pay Centre project comparing international corporate governance systems, it was noted that while the German system of worker directors on company boards is now widely supported across the country, it was opposed by industry groups for two decades after its introduction.[58] Similarly, our policies would involve some degree of change to Britain's corporate culture which would inevitably require time and patience.

That said, the changes proposed are incremental, not radical. We have already noted that they are in keeping with wider social change. Businesses in the UK and globally are increasingly conscious of their societal and stakeholder responsibilities and our proposals merely imply a 'nudge' to accelerate this process. This agenda refines rather than revolutionises existing regulations and practices, and in many cases the policies represent measures that have operated successfully in other countries.

Finally, it is crucial to recognise that the recommendations detailed in this Charter do not exist in isolation – rather, their effectiveness relies on their interdependence. For example, greater pay transparency provides more information for trade unions to use in pay negotiations, while unions provide a means through which workers exercised by the unfairnesses exposed by greater pay transparency can seek redress. Revising directors' legal duties and strengthening enforcement would provide a high-level safeguard for the representation of stakeholders in business decision-making while the presence of worker directors would ensure more direct application of the principle of stakeholder voice. Vehicles for strengthening bargaining power like works councils and trade unions are what will ultimately raise incomes and living standards, but a duty for employers to inform workers of their access to these mechanisms would help to expand the number of people they can help.

It is therefore as a package that we advance the Charter for Fair Pay. We believe it represents a potentially transformative yet feasible and politically practical programme, supported by strong evidence, and justified in both economic and social justice terms. We now look forward to engaging with policymakers and policy influencers to discuss how it might inform the new Government's bold agenda.

[58] High Pay Centre (2013), *Workers on boards: interviews with German employee directors* via https://highpaycentre.org/wp-content/uploads/2020/09/workers_on_German_boards.pdf