CIPD

Championing better work and working lives

in association with high pay centre

Executive pay in the FTSE 100

Is everyone getting a fair slice of the cake?

RESEARCH REPORT

August 2019

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 150,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

The High Pay Centre is 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.

Research report

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Contents

Acknowledgements

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1 Foreword

According to the Edelman Trust Barometer, more than half of the UK's public say business today is 'not good' for society. When asked what needs to change, 62% said addressing the high pay and bonuses given to senior management and business leaders was either 'important' or 'very important'. Is it any wonder the public feels this way considering the share of total incomes going to the top 1% and 0.1% of UK earners is on the increase[i], and the median FTSE 100 CEO reward package stands at 117 times higher than the average worker?

In an era dominated by Brexit and rising dissatisfaction with the status quo, corporate governance practices, including the issue of executive pay, are an increasingly important means of rebuilding trust in business and strengthening social cohesion.

The UK Government has already introduced significant reforms to improve corporate governance and increase transparency around CEO pay. For example, the Corporate Governance Code now requires boards to give workers, customers and wider society a voice in corporate governance structures. And from 2020, large listed companies will have to report and explain the 'pay ratio' of their chief executive to their median employee, and to report on how their boards take a range of stakeholder interests, beyond shareholders, into account. These are positive steps, but are they enough to improve corporate behaviour and culture over the long term? The jury is still out.

To understand the extent to which publicly listed companies are responding to the new standards in corporate governance, particularly in relation to how they reward their most senior executives, we conduct an annual review of FTSE 100 firms' annual reports.

This year's report shows a fall in mean and median CEO pay. We hope this is a sign that some boards are starting to be more mindful of wider stakeholder expectations on top pay, and that shareholder scrutiny is improving, but it's too early to tell. CEO pay has gone up and down every year since 2010, so we won't know if this is the start of a longer-term downward trend until next year.

Even if average CEO pay is falling, our analysis finds that 43 companies did in fact increase CEO pay in 2018, and a number of CEOs have seen their multi-million pound reward packages more than double. Despite the rhetoric about shareholder dissent, most remuneration packages in 2018 were voted through with levels of support of 90% or more, and between 2014 and 2018, shareholders approved every single FTSE 100 company pay policy put to AGMs.

Celebrating what could be a temporary dip is also dangerous because FTSE 100 CEO pay only tells us so much about inequality within firms and across the wider economy. It's a useful symbolic reflection of pay gaps in the UK, but could just be the icing on the cake, masking a bigger issue. FTSE 250 company reports reveal that 18 FTSE 250 CEOs were paid more than the median FTSE 100 CEO, and while FTSE 100 CEOs were paid a total of £465.4 million in 2018, the total spend on 'key management personnel' in the FTSE 100 was £2.08 billion – an average of £1.56 million per person at this level. Disclosures related to this group of senior managers are inconsistent and lack transparency – making them like a sugary layer of marzipan beneath the icing on a cake.

There's substantial evidence, beyond this report, to show that the levels of executive pay that have become the norm cannot be justified. The justifications most often cited are based on flawed assumptions about what drives and incentivises performance. Behavioural science, stakeholder insights and this annual analysis have all shown that not only do very high levels of executive pay undermine public trust in business, contribute to economic inequality and represent failings in corporate governance and shareholder stewardship, but they also do little to improve business performance.

To address this, we want to see more transparent reporting of pay – and the financial and non-financial measures used to determine pay – for a broader range of top earners. This would provide greater insight into how much companies are spending on those at the top, their basis for doing so and the opportunity costs that might impact their performance (for example, investment in research and development or staff training) and therefore their ability to raise pay for low- and middle-earners.

Current reporting requirements apply only to listed companies. But workers at privately owned firms are affected by unequal pay practices too, so there's a strong argument for them being subjected to regulations such as the new pay ratio requirement. Both the CIPD and the High Pay Centre will continue to push for these reforms and to study the causes and consequences of very high pay ahead of our next executive pay report in 2020. In the meantime, we'll be challenging some of the assumptions that are preserving the status quo.

Charles Cotton
CIPD Senior Adviser, Performance and Reward

Luke Hildyard
Director, High Pay Centre

2 Summary of key findings

Our review of FTSE 100 CEO reward shows that both median and mean pay packages have dropped since last year's report and median pay is now at its lowest level since 2010.

We have seen cases of pay constraint being applied by companies and their CEOs; however, there are also a number of firms where CEOs have seen their multi-million-pound reward packages more than double compared with the previous year.

The gap between the highest paid executives and the rest of the workforce has shrunk, though the median FTSE 100 CEO reward package is still 117 times bigger than that of a UK full-time worker on a median salary of £29,574.

While women make up 6% of the FTSE 100 CEOs, they earn just 4.2% of the total pay, a modest improvement on last year when they got 3.5%

CEO median pay has decreased by 13%

If we rank FTSE 100 CEO single figure pay from the highest amount to the lowest amount, the single figure in the middle of this ranking (defined as the median) is £3.46 million. This amount is 13% lower than the median recorded in our previous report.

The single figure pay of CEOs consists of a base salary, bonus, long-term incentive plans (LTIPs), benefits, and pension or pay in lieu of a pension.

Over the past decade, the median single figure pay of FTSE 100 CEOs has ranged from £3.40 million in FYE 2010 to £4.20 million in FYE 2011 (using revised figures).

Although this year's figure of £3.46 million is the lowest since FYE 2010, the median pay of a FTSE 100 CEO is still 144 times higher than the UK median of £24,006 for all workers. It is 117 times that of a UK full-time worker earning a median salary of £29,574. These ratios are lower than seen over the past two years.

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Our research reveals that 75 FTSE 100 CEOs now earn more than 100 times the UK median all-worker salary, the same number as last year but a rise from 72 in 2016.

This year, we have extended some of our analysis to the FTSE 250, which consists of the 101st to the 350th largest companies listed on the London Stock Exchange. Median single figure pay of FTSE 250 CEOs has remained relatively steady over the past three years, from £1.58 million in FYE 2016, up 2% to £1.61 million in 2017 and down 2% to £1.58 million in 2018.

CEO mean pay has decreased by 16%

In total, CEOs of companies in the FTSE 100 received £465.4 million in the financial year ending 2018. If we divide this amount equally among the 99 chief executives covered by our report, they would each receive a mean annual package worth £4.70 million.

This represents a 16% drop from the previous year, a pattern we also observed in our report published two years ago when we saw a 15% drop in single figure pay from FYE 2015 to FYE 2016 (see Figure 3 for more detail). However, mean pay did increase by 1% from FYE 2016 to FYE 2018. Based on the pattern of pay over the past five years, it is possible that CEO pay will increase again in FYE 2019.

Despite the constraint we have seen in some of this year's company reports, the mean FTSE 100 CEO reward package is still 158 times bigger than that of a UK worker on a salary of £29,832, or 128 times bigger if we compare it with only UK full-time workers, who earn a mean salary of £36,611.[1]

In contrast to the median, the mean single figure pay of FTSE 250 CEOs has risen steadily over the past three years, from £1.88 million in FYE 2016 to £2.05 million in FYE 2017 and £2.12 million this year, an annual increase of 8% and then 4%.

Jeff Fairburn was the highest paid FTSE 100 CEO

The highest paid CEO in the financial year ending 2018 was Jeff Fairburn of Persimmon plc, who received £38.97 million (in 2017 he received £45.74 million, also the highest payout in that year). This is 1,318 times the median salary of a full-time UK worker. At this rate, it would take an average full-time worker nearly three working days to earn what Jeff Fairburn could earn in one minute. However, this level is unlikely to remain as high since most of the pay received this year and last year came in the form of a 2012 LTIP, 40% of which vested on 31 December 2017 and the remaining 60% vested on 2 July 2018. Mr Fairburn also stepped down as chief executive on 31 December 2018, after the full value of the 2012 LTIP had been awarded.

Some of the other biggest FTSE 100 pay climbers in 2018 include:

- Ben van Beurden of Royal Dutch Shell, whose total pay package more than doubled from £7.78 million in 2017 to £17.77 million in 2018
- Mark Cutifani of Anglo American, whose total pay package more than doubled from £6.69 million in 2017 to £14.67 million in 2018, as he received stock awarded during the depths of the commodity price crash three years ago[2]
- Rakesh Kapoor of Reckitt Benckiser Group, whose total pay package rose by over two-thirds from £9.00 million in 2017 to £15.21 million in 2018
- Ivan Menezes of Diageo, whose package increased by over two and a half times, from £3.40 million in 2017 to £9.06 million in 2018.

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We have also seen examples of pay restraint in this year's annual reports. Here are a few:

- David Potts of Morrisons was awarded an increase of 2.4% (in line with the wider workforce) but he waived his increase, so his salary has remained unchanged since his appointment. He received a single figure of £5.81 million in FYE 2018.
- David Stevens of Admiral Group does not participate in any incentive plan 'given his significant shareholdings' and was paid a single figure of £0.40 million, the lowest in the FTSE 100 this year.
- Rio Tinto revealed that its chief executive Jean Sébastien Jacques had received only a 12% pay rise last year even though the company returned a record $13.5 billion to investors. Mr Jacques received £4.29 million in 2018, up from £3.82 million a year earlier.

Gender diversity

Despite efforts to improve boardroom diversity, a FTSE 100 CEO is more likely to be called Steve or Stephen than to be female. There are only six female CEOs in this year's analysis, a slight drop from seven last year, and they were paid 32% less on average compared with their male counterparts. In FYE 2018, male CEOs in the FTSE 100 earned a mean of £4.80 million compared with £3.25 million for women.

Across the FTSE 100, 31% of the 1,053 board positions are held by women. Furthermore, 41% of FTSE 100 remuneration committee positions are held by women. However, only 8% of executive board members are women, a drop from 10% last year. By the end of FYE 2018 there were just 22 female executive directors in the FTSE 100 compared with 237 male executive directors.[3]

Summary table of findings

Table 1 summarises the key findings from our analysis of FTSE 100 companies from the past three years, as well as new analysis of the current FTSE 250 companies.

In almost all measures, the FYE 2018 pay figures for FTSE 100 companies are lower compared with the previous two years. Figures for current FTSE 250 companies have seen less variation, but the mean has risen steadily over the past three years.

Table 1: Summary of findings from financial years ending 2016–18

Measure	FYE 2016 (revised)	FYE 2017 (revised)	FYE 2018
FTSE 100 companies as at June each year			
CEO mean pay package	£4,656k	£5,615k	£4,701k
CEO median pay package	£3,632k	£3,970k	£3,461k
Mean ratio of CEO pay to employee pay package	130:1	144:1	114:1
Median ratio of CEO pay to employee pay package	84:1	77:1	72:1
Ratio of median CEO pay to median UK full-time worker	128:1	137:1	117:1
Ratio of median CEO pay to median UK full- and part-time worker	157:1	167:1	144:1
Ratio of mean CEO pay to mean UK full-time worker	135:1	160:1	128:1
Ratio of mean CEO pay to mean UK full- and part-time worker	165:1	195:1	158:1
FTSE 250 companies as at June each year			
CEO mean pay package	£1,876k	£2,045k	£2,124k
CEO median pay package	£1,578k	£1,611k	£1,581k
Ratio of median CEO pay to median UK full-time worker	56:1	56:1	53:1
Ratio of median CEO pay to median UK full- and part-time worker	68:1	69:1	66:1
Ratio of mean CEO pay to mean UK full-time worker	54:1	58:1	58:1
Ratio of mean CEO pay to mean UK full- and part-time worker	66:1	71:1	71:1

3 Our recommendations

This year's report finds a reduction in the median level of FTSE 100 chief executive pay packages compared with the previous year, but it is too early to regard this as a trend. It is possible the increased transparency and scrutiny on these reward packages has started to have a moderating effect, but these packages remain at elevated levels compared with the wider workforce. This year's report highlights that it is not just on base salary and bonuses that FTSE 100 CEOs are highly rewarded compared with the rest of the workforce, but also on key benefits such as pensions.

Our analysis also broadens this year to look at the pay of executive directors and other key decision-makers beyond the CEO and leads us to conclude that there needs to be more consistent reporting on other key management personnel to improve transparency on pay.

There would be much less concern about the level of CEO reward if there was a stronger, more definitive evidence base to justify pay awards. However, our research suggests that the relationship between the CEO's level of responsibility, experience, individual performance (as opposed to stock market movements) and reward packages is weak. Similarly, the quality of shareholder governance of executive pay levels is mixed.

In addition, the measures of performance used to assess a CEO's contribution are often too complex or indirect for key stakeholders, such as shareholders and employees, to be able to easily gauge whether they are genuinely linked to positive outcomes for the business over the longer term. There is also not enough focus on non-financial measures of performance, particularly how the organisation has invested in its workforce to improve diversity, create the right culture, develop key skills and support employee motivation and retention.

To help address these concerns, we have four key recommendations:

1 Better reporting on top pay beyond the CEO
The single pay figure disclosures for CEOs have improved the quality of the debate and understanding around corporate governance and inequality. This will further improve in the future with the publication by large companies both of their CEO/worker pay ratios and the explanations for the size of these ratios. However, pay for 'key management personnel' and other high earners is a better indicator of the share of company resources captured by a firm's top earners. Reporting on this is inconsistent.

Therefore, we recommend that reporting requirements should be extended to cover single figure pay for each of the key management personnel and to disclose the pay for the top 1% of earners to further improve transparency around pay and performance and ensure this area of reporting practice improves.

We also believe that large private firms should be subject to the requirements to publish a single figure for CEO pay, a pay ratio and details of pay for their key management personnel. This is because many of the biggest employers are privately owned, and their top pay practices have a critical impact on the quality of working lives in the UK.

2 Reform the role of the RemCo
Another major area for reform that is key to organisations making better informed and balanced decisions on CEO pay is the role and make-up of the remuneration committee (RemCo). We believe its remit should be broadened to focus on other issues linked to the performance and behaviour of the CEO, including organisation culture and how the wider workforce is rewarded. The requirement for RemCos to have a broader remit to ensure

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decisions on executive director remuneration take account of wider workforce issues is also set out in the UK Corporate Governance Code, which was revised in 2018.

Our report, *Reforming the RemCo: Governing successful organisations that benefit everyone*, found that RemCos in their current guise will not be able to meet these requirements. It recommended firms establish a formal 'people and culture' committee in place of their RemCo. At the very least they need to fundamentally revise its purpose and make-up to ensure they have the necessary expertise and insights on the RemCo.

We would recommend that succession planning and development of long-term executive capability within the organisation should be explicitly included in the committee's remit, as should organisational culture and fairness in relation to pay.

In terms of the composition of the RemCo, professionals with HR and people management experience and expertise should be represented, as well as members of the company's stakeholder communities, including its workforce.

3 Put greater emphasis on non-financial measures of CEO performance
There also needs to be a much greater emphasis on non-financial measures of success in assessing CEO achievements, such as the impact their organisation has on the environment, society and its people.

This would help ensure that there is greater focus on what most organisations state is their greatest asset – their people – when the CEO is leading on decisions about investment in the business.

Too few organisations are investing enough in their workforce management and development, evidenced by the long-standing fall in training investment at work and the UK's low productivity growth. The spate of recent sexual harassment scandals that have shone a light on toxic corporate cultures further highlights the comparative lack of attention CEOs and boards pay to people issues in many companies.

There is also too often a lack of focus at senior levels within many organisations on improving workforce diversity and inclusion, something the Gender Pay Gap Reporting Regulations have emphasised, and which will be brought into additional focus by the introduction of ethnicity pay gap reporting. This underlines the need for many more organisations to broaden their approach to recruitment and improve their people management and training/development processes.

Rewarding CEOs for their efforts to improve and manage workforce diversity, development, well-being and performance would ensure they are held more accountable and prioritise more of their attention and company resources on these issues at the heart of sustainable business performance and corporate responsibility.

The CIPD will be conducting further research to explore in detail the extent to which current CEO reward packages are linked to measures relating to the management and development of the workforce and making recommendations on what these should include.

4 Simplify CEO reward packages
There is a valid argument that remuneration reports are already too long and too complex – however, it would be simplistic to blame this entirely on regulation, given that some of the more useful and interesting disclosures (such as the single figure for CEO pay or the historic comparison of CEO pay with shareholder returns) are regulatory requirements that were not previously contained in these reports. Much of the content in remuneration reports explains complex pay packages involving multiple components each linked to a

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number of different performance targets. Stakeholders are understandably interested in how and what chief executives are paid, but this complexity makes it harder to discern what material factors are taken into account when it comes to rewarding CEOs and where they are really adding value.

To reduce time spent reporting and make it easier to understand the CEO's contribution to firm performance, companies should consider introducing simpler pay packages. This could involve paying a base salary, with a small share award, deferred for a period of years in order to align the long-term interests of the executive with the shareholders, and conditional on meeting certain thresholds in terms of people management targets (for example, employee engagement or staff turnover). A further advantage of this model would be that, unlike more complicated executive pay packages, it could be applied to pay arrangements for all workers, helping to foster a sense of fairness and collectivity throughout the organisation.

Summary of recommendations

1 Single figure reporting requirements and guidance should be extended to cover key management personnel and pay for the top 1% of earners disclosed, to further improve transparency and ensure this area of reporting practice improves.
2 Replace remuneration committees with formal 'people and culture' committees or broaden their remit to consider organisational culture, fairness and wider workforce reward policies.
3 CEO pay should reflect financial and non-financial measures of performance. In people management terms this can include talent management, inclusion and employee well-being.
4 Simplify CEO reward packages and ensure they are linked to fewer and more meaningful measures of performance.

In-depth analysis of executive pay

4 CEO pay trends

There has been an increase in the number of CEOs whose single figure pay is between £1 million and £4 million, meaning the overall range of remuneration packages is narrowing. This year, 57 CEOs were paid between £1 million and £4 million compared with 48 last year, suggesting a clustering of pay towards the median (see Figure 1).

Likewise, there is a decrease in pay above £4 million, from 48 CEOs last year to 40 CEOs this year. Along with a drop in single figure pay under £1 million, this demonstrates a slightly narrower variation in CEO pay levels, with fewer pay awards substantially above or below the median.

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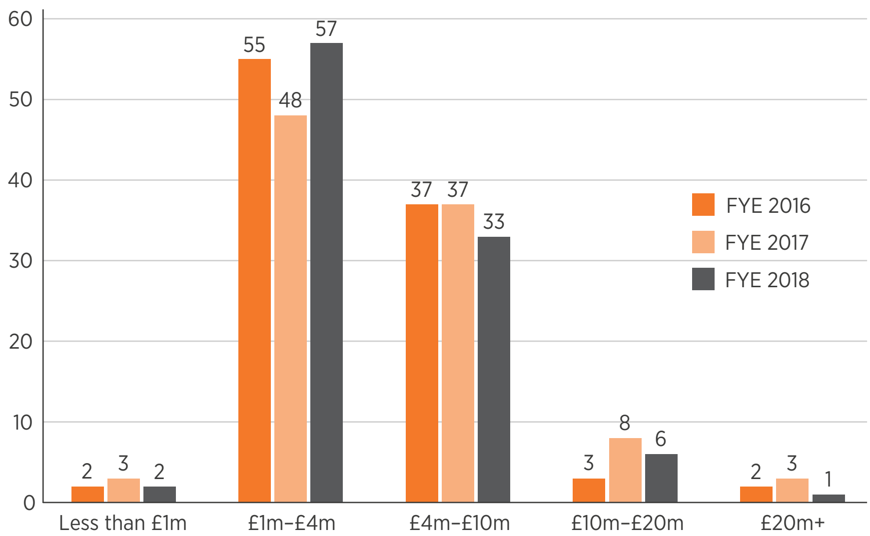
Figure 1: Distribution of CEO single figure pay



Overall, companies have shown more constraint in rewarding their CEOs this year compared with previous years.

Fewer than half (43) of the FTSE 100 companies awarded their CEO a higher pay package than in 2017, and some drops in pay were significant, ranging from a drop of £41.72 million at Melrose Industries and £20.16 million at Berkeley Group to a drop of just £50,454 at DCC. Pay increases ranged from a modest £4,000 at Bunzl plc up to an increase of £9.99 million at Royal Dutch Shell.

In terms of pay increases, Table 2 shows the ten highest climbers in pay in absolute terms from 2017 to 2018, out of our FTSE 100 cohort of CEOs.

Table 2: Top ten FTSE 100 CEOs whose pay increased the most from 2017 to 2018

Chief executive	Company	2018 pay	% increase	2017 pay (revised)
Ben van Beurden	Royal Dutch Shell	£17,771k	128%	£7,778k
Mark Cutifani	Anglo American	£14,669k	119%	£6,693k
Rakesh Kapoor	Reckitt Benckiser Group	£15,207k	69%	£8,999k
Ivan Menezes	Diageo	£9,063k	167%	£3,399k
Christopher Bailey (3 months) then Marco Gobbetti	Burberry Group	£7,421k	112%	£3,508k
David Potts	Morrison (WM) Supermarkets	£5,810k	84%	£3,160k
Brian Cassin	Experian	£5,852k	60%	£3,647k
Tim Steiner	Ocado	£3,077k	130%	£1,337k
Said Darwazah (2 months) then Sigurdur Olafsson	HIKMA	£4,482k	63%	£2,748k
Vittorio Colao	Vodafone Group	£7,984k	26%	£6,332k
Mean of the above		**£9,134k**	**96%**	**£4,760k**

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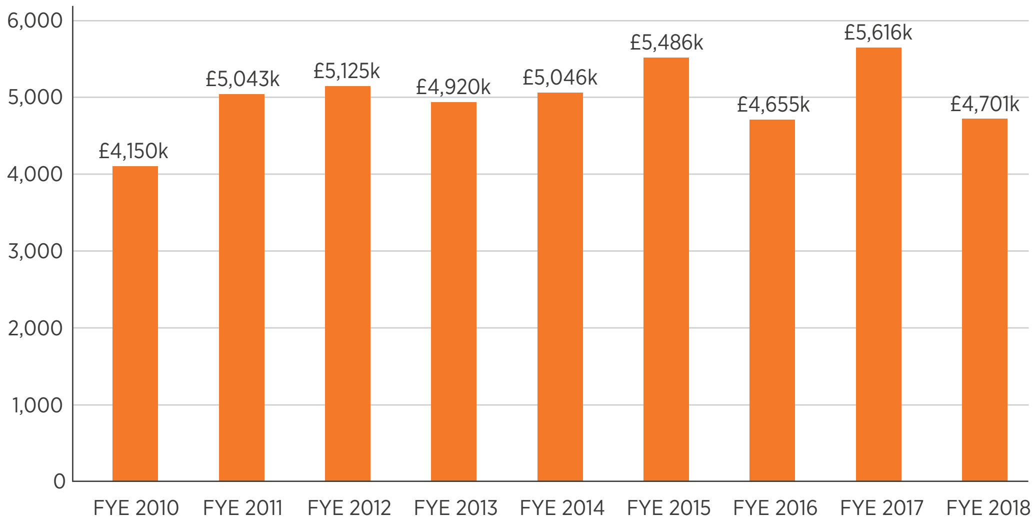
Historic figure trends

To understand longer-term trends in CEO pay, we recorded the single figures of companies that have been in the FTSE 100 during the past ten years, taking the cohort as at 1 June each year and using data from each company's prior financial year. As a result, cohorts used in previous years are slightly different from the one used in our analysis this year, and that is why these figures may differ slightly from the ones reported previously.

Our dataset is complete from June 2014, but prior to that some companies did not report on single figures, so from June 2011 to June 2014 we had data from between 89 and 98 companies in the FTSE 100.

Mean pay of these companies since FYE 2013 has been around the £5.10 million mark, as can be seen in Figure 2.

Figure 2: Historic mean single figure of all FTSE 100 company CEOs



Median pay of these companies has been oscillating around the £3.80 million mark since FYE 2011, as seen in Figure 3.

Figure 3: Historic median single figure pay of FTSE 100 company CEOs

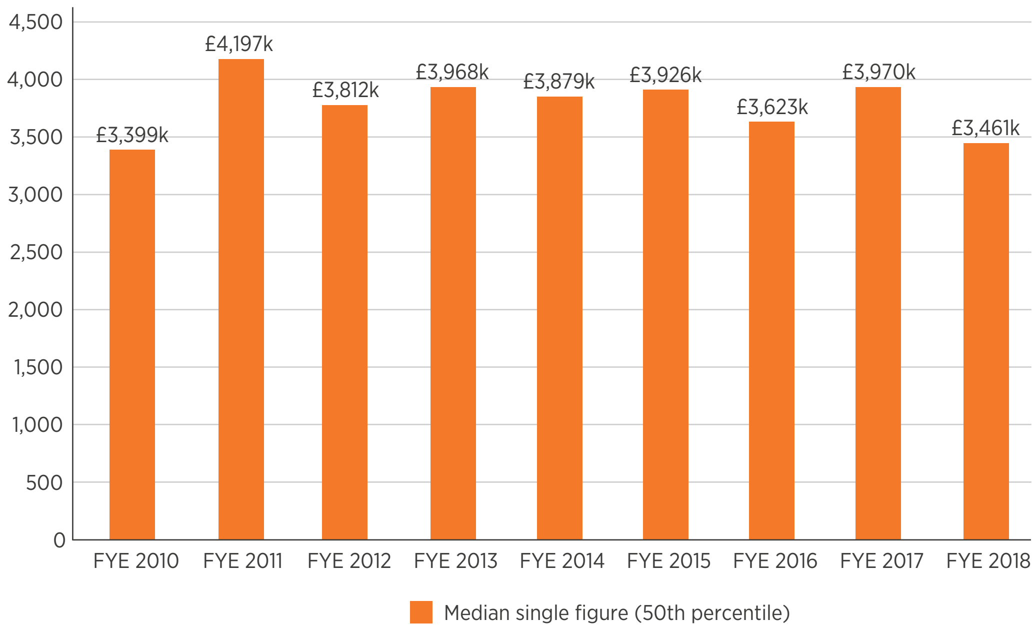


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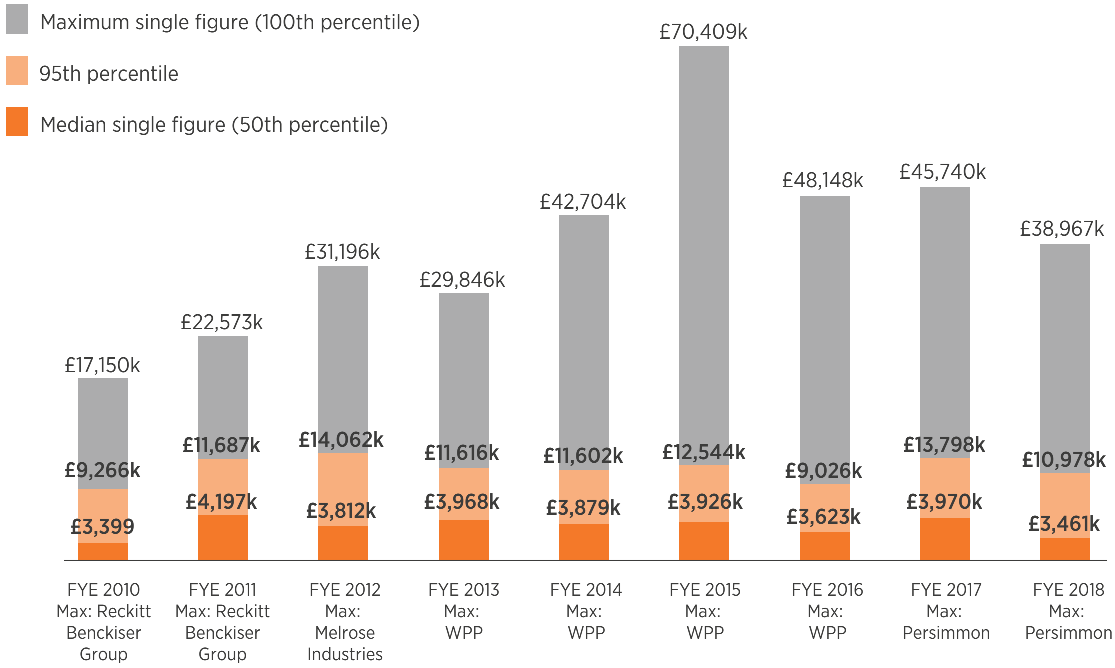
Figure 4 shows the highest single figure CEO pay (100th percentile), the median pay and the 95th percentile of CEO pay since FYE 2010. It reveals a significantly uneven distribution of pay, with large and generally widening gaps between the 95th and 100th percentiles. It also demonstrates the overall rise in single figure maximums from FYE 2010 to FYE 2015, with the overall maximum paid in FYE 2015 to the CEO of WPP; the maximum single figure has been declining since.

Figure 4: Analysis of single figure pay of all FTSE 100 company CEOs since FYE 2010



5 The disconnect between CEO pay and employee pay

The ratio between mean or median FTSE 100 CEO remuneration and the mean or median pay of their employees has fallen. However, despite this drop, the gaps are still wide, raising possible concerns among staff that the way that CEO performance is rewarded isn't fair compared with how their own efforts are recognised.

New regulations introduced in 2018 will require UK-listed companies with more than 250 employees to report on the 'pay ratio' between their CEO and the pay of their median UK employees (as well as the pay at the 25th and 75th percentiles of the pay distribution).

With pay stagnation and income inequality remaining major political issues, these new pay ratio disclosures should show how pay levels for ordinary workers at major employers are changing relative to those at the top and their share in the firm's success.

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Although the new regulations only apply from 2019, meaning the disclosures will not appear in annual reports until 2020, 34 FTSE 100 companies chose to comply with these regulations early and publish them in their annual reports this year. We have compiled these figures and have published them in Table A1 in the Appendix to this report.

We have also calculated pay ratios for the entire FTSE 100, by comparing the CEO single figure with what we have termed as the employee 'pay package' of each company, based on staff wages, bonuses, pensions and any share-based pay but excluding social security costs, since these are not given directly to employees or the CEO. Unlike the figures published by the companies, these detail the ratios between the CEOs and their entire employee population, as opposed to just their UK employees, because most annual reports do not break down their number of employees by country.

The mean of each FTSE 100 employee's pay package in FYE 2018 is £55,264, and the weighted mean[4] is £38,516. These figures are likely to be higher than the median pay for employees at FTSE 100 companies, as the mean can be skewed by a small number of high earners receiving very large pay awards.

The ratio of CEO pay to their company's mean staff pay package has dropped this year. For every £1 awarded to their employee on a mean pay package, a CEO in FYE 2018 typically (as measured by the median) earned £72, a drop from £77 in FYE 2017, and the mean CEO earnings per £1 of employee pay were £114 – a significant drop from the revised £144[5] per £1 paid in FYE 2017.

Overall, our calculated pay ratios yield a similar result to the reported pay ratios across all 34 companies in aggregate, but this is likely to be a coincidence since on a company-by-company basis the figures vary by different amounts, some being higher and some being lower. The differences between these pay ratios are reported in Table A1 in the Appendix to this report.

We will be able to make a more meaningful comparison of pay ratios across all FTSE 100 companies next year when all listed companies with 250 or more employees will have published their UK employee pay ratios.

Table 3 shows the ten highest CEO to mean staff pay package ratios, which we calculated from data available in the 2018 reports on all FTSE 100 companies.

Table 3: Ten highest FTSE 100 calculated pay ratios (global employees)

FTSE 100 company	Chief executive (2018)	FYE 2018 single figure	Calculated mean staff pay ratio
Persimmon	Jeff Fairburn	£38,967k	956:1
Carnival	Arnold Donald	£9,300k	422:1
Reckitt Benckiser Group	Rakesh Kapoor	£15,207k	419:1
Anglo American	Mark Cutifani	£14,669k	378:1
Evraz	Alexander Frolov	£4,022k	348:1
Morrison (WM) Supermarkets	David Potts	£5,810k	339:1
Tesco	Dave Lewis	£4,874k	330:1
Unilever	Paul Polman	£10,347k	310:1
Compass Group	Dominic Blakemore	£4,568k	301:1
British American Tobacco	Nicandro Durante	£8,837k	301:1

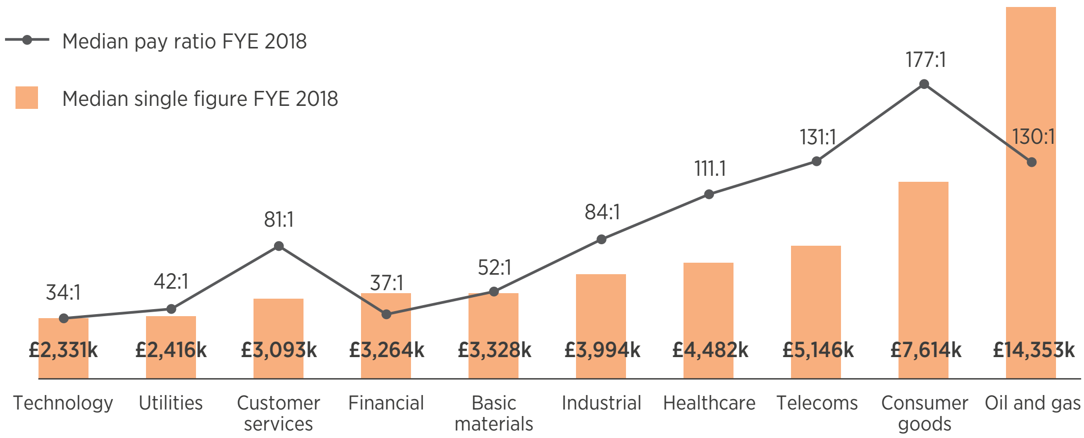
The mean staff pay package at Persimmon was £40,757, but with a single figure of £38.97 million, CEO Jeff Fairburn earned almost 1,000 times that of his average employee.

Pay ratios by sector

We have calculated industry pay ratios of the FTSE 100 by comparing the CEO single figure with the mean employee pay package for each company and grouping the results by industry sector. Our median pay ratios take the median ratio results of all the companies within each of the sectors.

In Figure 5 we see the median FTSE 100 ratios of CEO pay to employee pay package broken down by industry classifications using the Industry Classification Benchmark. The figures also show the median single figures paid to the CEOs of the FTSE 100 companies in each of these sectors.

Figure 5: Median CEO single figure and staff pay ratio by sector, FYE 2018

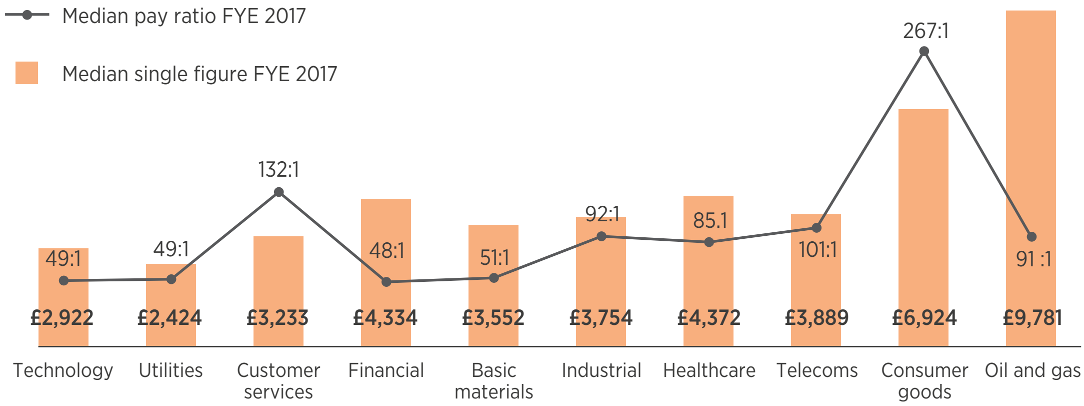


The oil and gas industry sector continues to have the highest median single figure of £14.35 million, followed by consumer goods in second position and telecoms in the third. Oil and gas, consumer goods, and telecoms are also the three industries with the highest median pay ratio in FYE 2018. Utilities and technology continue to be two industries with the lowest median single figure and lowest median pay ratio.

Median pay ratios tend to be higher in industries with a higher median single figure; customer services and oil and gas are the biggest exception due to relatively lower and higher employee pay packages in these industries.

In Figure 6 we see the median FTSE 100 ratios of CEO pay to employee pay package broken down by industry classifications for FYE 2017, for comparison purposes.

Figure 6: Median CEO single figure and staff pay ratio by sector, FYE 2017



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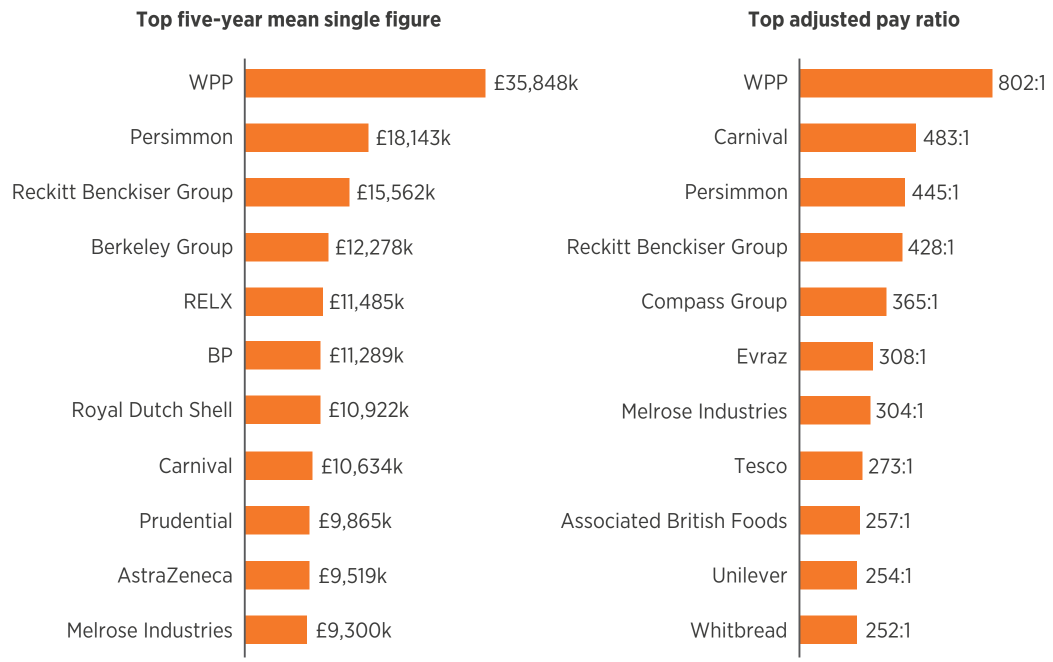
Adjusted pay ratios

Because of the differences in remuneration policies and performance criteria, single figure and pay package ratios can vary significantly year on year.

To even out these differences, we have compared the mean single figure of the chief executives of our 2018 cohort over the five years up to and including FYE 2018. The top companies with the highest five-year mean single figures and the top companies with the highest adjusted pay ratios are both shown in Figure 7.

Figure 7: Top five-year adjusted mean single figures and adjusted pay ratios

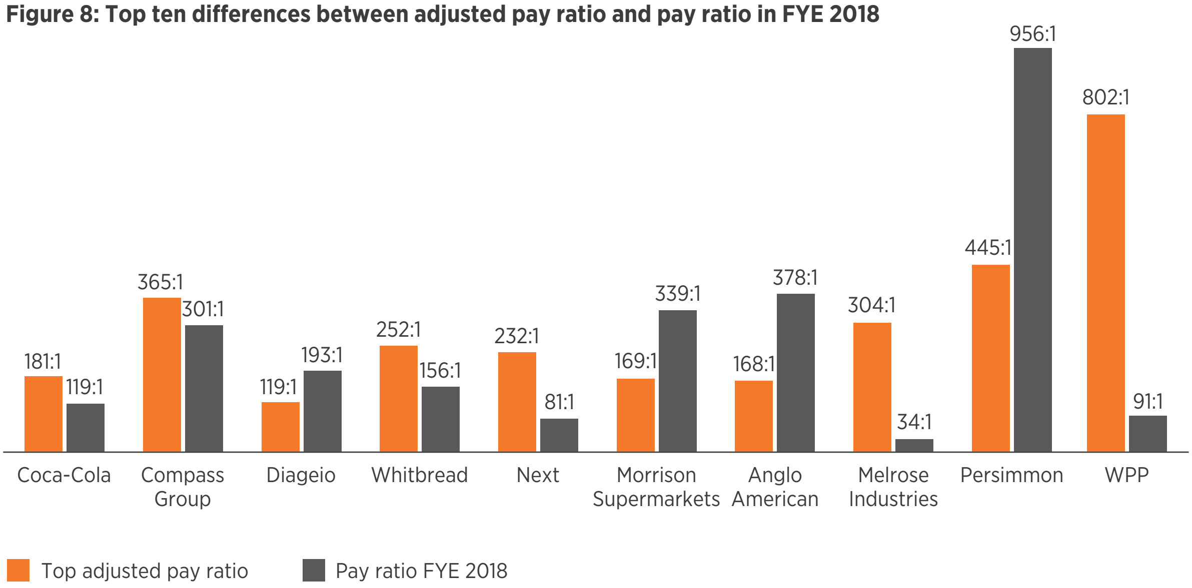


The ten companies with the greatest difference between their five-year adjusted pay ratio and their actual pay ratio for FYE 2018 are shown in Figure 8.

The differences are largely due to irregular LTIP vesting periods. For example, the differences in actual and adjusted pay ratios for Persimmon are due to the final vesting of the 2012 LTIP, an award that covers a ten-year period first vested last year, and the average single figure in prior years was around £2 million. Similarly, Melrose Industries has a five-year LTIP policy that resulted in very high payouts in the years it vested (FYE 2012, FYE 2017) and just under £1 million payout on average in other years.

In other cases, the difference between the one-year and five-year pay ratios are due to company performance against their performance indicators. For example, the CEOs of Anglo American, Morrisons and Diageo received higher payouts this year compared with previous years because of improvement in key performance indicators used in the policy. On the other hand, the CEOs of Next and Whitbread had a significant reduction in their pay this year because of the decline in performance according to their set of indicators.

Figure 8: Top ten differences between adjusted pay ratio and pay ratio in FYE 2018



Addressing the issue of fairness

For the first time, this report analyses how firms discuss fairness in the pay-setting process. As noted in the previous section, new legislation, which came into force on 1 January 2019, will require listed firms with more than 250 employees to report the pay ratio between their CEO and workers at the 75th, median, and 25th percentile of the company's pay distribution. This means that in company reports from 1 January 2020, publicly listed firms will be required to include this data in their annual reports.

In addition, changes to the UK Corporate Governance Code, which was revised in 2018, mean that publicly listed companies are expected to disclose in their annual reports the *'reasons why the remuneration [of executive directors] is appropriate using internal and external measures, including pay ratios and pay gaps'.* It also requires firms to report on *'what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy'.*

However, despite this changing regulatory context, relatively few businesses in this year's FTSE 100 cohort provided a meaningful discussion about the role of fairness in the pay-setting process for CEOs, executive directors or key management personnel.

This year, just 23 companies discussed how fairness is factored into the remuneration process, although chairs of remuneration committees routinely make a general reference to the company's broader pay structure or pay ratios but without going into any further detail.

Firms that provided clear external benchmarks, strategies, policies, and measures to assess their progress set the standard. For example, Barclays commented that their 2018 Fair Pay Report sets out their progress against each of the five themes of Barclays' Fair Pay Agenda, as referenced in their previous year's remuneration report.[6]

Similarly, Standard Chartered referred to its Fair Pay Charter, which covers payment for all employees including senior management and executive directors, and Unilever measured its progress against its Framework for Fair Compensation, which includes Living Wage compliance for all global employees by 2020.[7]

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More generally, good examples of fairness-based discussions made a principled commitment to aligning executive with employee pay and recognised that employees create value with examples of policies and changes to reflect it. They also referred to external benchmarks such as Living Wage accreditation and even exceeding the Living Wage.

However, less than a quarter of businesses in the FTSE 100 discussed fairness in a meaningful way when setting executive pay and aligning it with the wage levels of the broader workforce. In the context of a changing regulatory framework that is placing more emphasis on aligning pay through pay ratios, there remains a lot of room for improvement.

Just 33 of this year's cohort of FTSE 100 companies are accredited with the Living Wage Foundation, similar to last year's figure of 34. The mean CEO single figure pay of FTSE 100 companies paying the Living Wage is £5.14 million, higher than that of the companies which have not joined the Living Wage Foundation, whose mean CEO single figure pay is £4.48 million.

What do employees think about CEO pay?
In June 2019, the CIPD commissioned YouGov to survey employees regarding their views on several pay issues, including some regarding executive remuneration. Based on a sample of 2,180 employees, the research finds that 64% of workers agree that CEO pay is too high in the UK, with just 4% disagreeing that this is the case. When it came to their own CEO, 33% of employees think that their chief executive's pay is too high, while 20% think that it's about right and 5% that it's too low. Around one in four (39%) report that their CEO's level of pay does not encourage them to go the extra mile for their employer, while 17% say that it does.

More employees agree (46%) than disagree (13%) that, if organisations published and explained the difference between chief executive pay and the pay of other employees, pay decisions would become fairer. Similarly, more employees agree (44%) than disagree (12%) that, if organisations considered employees' views when deciding how much to pay their chief executives, this decision would be fairer.

CIPD viewpoint
If employees perceive that their CEO is rewarded more generously by their organisation than their own contributions, this could impact on their motivation and the willingness to go the 'extra mile' for their employer. It could also impact on how customers and investors regard the firm as a good place to buy or invest. Communicating the rationale for CEO pay, its link to company performance and how it aligns with the pay of the wider workforce can help ensure there is greater understanding and support for CEO reward levels.

6 The disconnect between CEO pay and performance

Given the controversy attached to executive pay awards, it is important to look at the factors shaping pay levels. In this section, we examine how pay relates to performance (as measured by changes in the company's share price) and the size of the company (both in terms of market capitalisation and employee numbers).

We have measured the correlation coefficient between single figure pay and other potential drivers. This coefficient can vary in magnitude from 0–1, with 0 representing absolutely no

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correlation and 1 representing where two datasets are directly dependent on each other. For more details please refer to the later section on correlation coefficients in 'Our methodology'.

Share price and stock market movements

The long-term incentive plans that form the largest component of executive pay are typically tied to shareholder returns, driven largely by changes to the company share price, over the preceding three years.

Thus, we would expect to see a relationship between changes in the share price and changes in levels of executive pay. There is some evidence to suggest that this was the case in 2018 – overall the FTSE 100 grew less in the three years from 2015–18 (around 8%) than from 2014–17 (around 17%), and as we have seen both median and mean CEO pay fall in 2018 compared with 2017.

A minority of 32 individual companies did show greater share price growth from 2015–18 than from 2014–17. Of these companies, 20 increased CEO pay in 2018.

Conversely, 66 companies saw lower share price growth from 2015–18 than from 2014–17, and of these only 22 increased CEO pay.[8]

Therefore, while changes in share price do not completely explain changes in CEO pay level, in general most of the companies that increased their share price increased their pay levels, while most of those that experienced a fall in share price also paid their CEO less.

It could be argued that this finding is to be welcomed. It makes sense that people should be paid more when their company does better. However, there are several important caveats.

First, the stock market, along with its constituent sectors, is driven by much wider economic factors than the performance of the CEO. If share price changes drive CEO pay to a significant degree, there is a risk that executives will simply cash in from being in the right place at the right time when the economy does well.

Second, if executives benefit from increases to company value, surely the same should be true for the wider workforce, who also contribute to organisational success. While not every worker will take major strategic decisions that influence the share price, they will have responsibility for executing them, and are critical to the successful functioning of the company.

Third, even if performance is related to executive pay, the question of fairness and proportionality remains – if pay goes up or down in line with the share price, it may still be excessively high.

Finally, a company has many stakeholders beyond its shareholders, and the share price and returns to shareholders are a crude and limited indicator of its success. The share price can be manipulated in a way that may not be beneficial to the company – for example by undertaking share buybacks in order to raise the share price, which may come at the expense of long-term investment.

We will be undertaking work in autumn 2019 looking at other dimensions of company performance, and how these are incorporated into executive pay packages.

Link between market capitalisation and pay packages

In Figure 9, our analysis reveals a link between single figure market capitalisation (the total value of the company) and CEO single figure pay, which is stronger for FTSE 100 firms than for those in the FTSE 250. The correlation coefficient for this is 0.42, which demonstrates a moderate correlation between chief executive pay and the market capitalisation of their companies. The equivalent data for the FTSE 250 shows a weaker positive correlation of 0.18.

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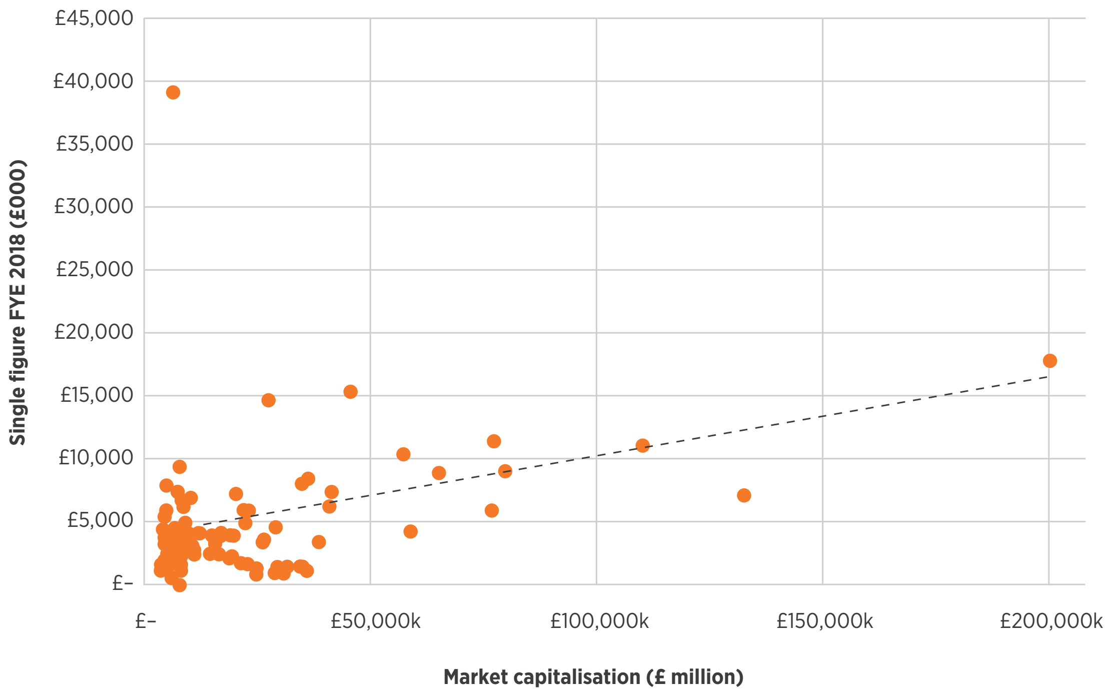
As with the relationship between pay and share price, the relationship between pay and the size of the company makes sense in narrow terms – the larger a company, the more responsibility.

Good or bad decisions that affect the value of a company by a few percentage points will be worth much more in absolute terms at a larger company. Therefore, it can be argued that the CEOs at larger companies are taking decisions of higher value and thus should be paid more.

At the same time, the larger the system, the more the system counts rather than the individual at the top of it. The extent to which individual CEOs shape the fortunes of companies in the stock market (as opposed to wider factors such as the economic context, policy and regulatory decisions or the contribution of the wider workforce) is questionable. A CEO of a large, complex organisation is likely to be more dependent on the advice and guidance of their colleagues than a counterpart at a smaller, more concentrated organisation.

Figure 9: CEO single figure pay FYE 2018 vs market cap of FTSE 100



Link between employee headcount and pay packages

There is almost no link between employee headcount and single figure pay among the FTSE 100. The correlation coefficient for these measures is just 0.07, which is a surprising finding.

The number of employees should be a good indicator for the size and scale of the organisation, so if we accept that a larger company should have a more highly paid CEO, this might also apply to size in terms of employee numbers as well as market capitalisation.

Instead, the lack of a discernible connection between pay and headcount suggests that boards and companies as a whole see their CEO's responsibilities as being to preserve or expand market value (on behalf of shareholders) rather than to serve the interests of their workers or society as a whole.

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Throughout this section we have compared FTSE 100 CEO pay with various factors to see where the strongest correlations lie.

Listed below are the drivers we have considered, in order of magnitude of correlation coefficient. Negative correlation coefficients are shown in orange:

- Votes for the remuneration report: **0.59**
- Market cap: 0.42
- Votes for the remuneration policy: **0.18**
- CEO tenure excluding the two highest earning CEOs: 0.17
- CEO tenure of all FTSE 100 CEOs: 0.11
- Employee headcount: 0.07

Other than shareholder votes on the remuneration report, which follows on from CEO pay, market capitalisation of a company has the strongest correlation with single figure pay. Other measures showed only a very weak correlation.

There are other potential drivers of CEO pay that we will explore in future years.

CIPD viewpoint

Excessively high CEO pay packages damage trust in business as too often they are the result of external events, for example, movements in an organisation's share price, which is unconnected to the contribution of the individual CEO. A good example would be the £45.74 million awarded to Persimmon CEO Jeff Fairburn in 2017, when increases in the firm's profits were to a large degree generated by the Government's Help to Buy scheme for first-time buyers.

7 The effects of shareholder dissent on CEO pay

Under the Business and Regulatory Reform Act (2013), companies are required to put their future remuneration policy to a binding shareholder vote at least once every three years. This policy governs the annual advisory vote on the remuneration report, detailing what the company paid its directors in the previous year.

If the company loses the binding vote on its future remuneration policy, it is expected to amend the policy and put it to another vote. While the vote on the annual remuneration report is only advisory, companies that lose the vote are required to put their remuneration policy to another shareholder vote even if they have held one in the past three years.

The relationship between CEO pay levels and shareholder dissent provides an insight into the types of pay packages favoured by shareholders and are thus more likely to be proposed by remuneration committees.

We have examined the voting patterns of shareholders in the current FTSE 100 cohort at their annual general meetings (AGMs) for the most recent FYE and at the most recent pay policy vote that govern the companies' annual pay packages – see Figure 10.

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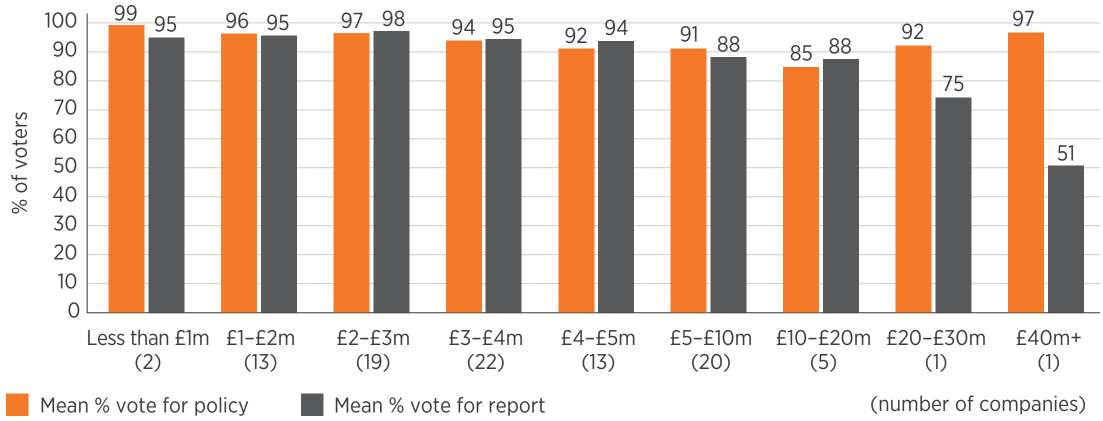
Figure 10: Distribution of AGM votes on remuneration policy and report (%) by CEO pay



For all AGM resolutions, 'dissent' levels of over 20% (of those voting their shares failing to support the resolution) are, in line with the Directors' Remuneration Reporting Guidance published by the GC100 and Investor Group, considered to be significant. Similarly, the Investment Association maintains its Public Register of listed companies that have received significant opposition by shareholders to a resolution or that have withdrawn resolutions before a vote. If a firm experiences significant opposition, it is good practice for companies to issue a public statement saying how they intend to respond to the vote.

For votes on remuneration packages this year, the mean level of dissent, taking in abstentions and votes against, was 7%. Most remuneration packages were voted through with levels of support upwards of 90%.

No remuneration reports were defeated this year. Indeed, only six resolutions on remuneration reports have been defeated in the past five years. Eleven companies did experience significant shareholder dissent of over 20% for their pay packages (AstraZeneca, British American Tobacco, Burberry, CRH, Direct Line, Lloyds, Melrose, Persimmon, Royal Dutch Shell and WPP).

Research by the High Pay Centre shows that such low levels of shareholder opposition to pay packages has been routine since the new shareholder say-on-pay regime came into force in 2014.[9] Between 2014 and 2018 – the first five full years of the regime – every single FTSE 100 company pay policy put to AGMs was approved by shareholders. Across more than 700 pay resolutions, the average level of shareholder dissent was just 8.8%. Only 11% of resolutions attracted significant levels of dissent and just six resolutions were defeated.

Table 4: Ten lowest levels of votes for remuneration report among FTSE 100

Company	CEO single figure pay	Votes for report	Votes for policy
Persimmon	£38,967k	51%	97%
CRH	£8,230k	60%	59%
AstraZeneca	£11,356k	65%	96%
Burberry Group	£7,421k	69%	93%
WPP	£4,050k	73%	92%
Royal Dutch Shell	£20,138k	75%	92%
British American Tobacco	£8,837k	76%	74%
Direct Line	£3,238k	77%	98%
Melrose Industries	£1,049k	77%	82%
Lloyds Group	£6,270k	79%	98%

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To illustrate the point, Table 4 lists the ten companies that received the lowest level of shareholder support for their non-binding votes on remuneration reports (votes for report) and their binding votes on remuneration policy (votes for policy).

Overall, the mean voting support for remuneration reports in the FTSE 100 was 93%, ranging from 51% at Persimmon to 100% at Fresnillo, with the median acceptance level being 97%.

We have observed a strong negative correlation between votes for the remuneration report and single figure pay, with a correlation coefficient of –0.59, meaning that the higher the single figure, the lower the level of votes cast in support of the remuneration report. However, it is likely that the single figure will have driven the vote rather than the other way around. Furthermore, the correlation when CEO pay is between £1 million and £4 million is negligible (–0.03), and mean votes for pay within these boundaries are 96% for the remuneration report.

At the same time, our findings do suggest that shareholder pressure is a relevant factor in pay awards. Companies that award higher levels of pay are more likely to face higher levels of shareholder dissent, resulting in negative publicity both for the whole company and for individual directors. This is likely to be a consideration, even if not an overriding one, for remuneration committees in making pay awards.

For the most recent remuneration policies, the mean level of dissent was 6%. Eight companies experienced significant shareholder dissent (British American Tobacco, CRH, Experian, Informa, Pearson, Reckitt Benckiser, Rentokil and Unilever). There have been no proposed remuneration policies defeated (for FTSE 100 companies) since they were introduced in 2013. The weak relationship between pay and votes on the pay policy again suggests that shareholders may not entirely understand what the policies entail. They are much more likely to vote (retrospectively) against a very high pay award than to oppose the policies that ultimately lead to those awards.

Table 5: Ten lowest levels of votes for remuneration policy among FTSE 100

Company	CEO single figure pay	Votes for report	Votes for policy
CRH	£7,262k	60%	59%
Informa	£4,075k	93%	64%
Unilever	£10,347k	97%	64%
Pearson	£3,142k	99%	67%
British American Tobacco	£8,837k	76%	74%
Rentokil International	£4,407k	97%	75%
Experian	£5,852k	84%	76%
Reckitt Benckiser Group	£15,207k	89%	76%

CIPD viewpoint

The discrepancy between the very high levels of approval for the remuneration policies and the much lower levels of support for the outcomes that those policies produce also supports the argument that CEO pay packages are too complex – not even shareholders in the company know what the policies will result in.

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8 Exposing the layer of other top earners

While the spotlight has been on CEO pay in recent years, other senior FTSE 100 executives have received large payouts for their work, sometimes more than the pay awarded to the CEO.

On its own, the CEO's pay, even when amounting to millions of pounds, may not be a significant expense for companies worth billions of pounds. However, CEOs are not the only highly paid employees of large companies. Indeed, they are sometimes not even the highest paid. For example, Prudential paid an unnamed employee £16.6 million last year — more than double the total package earned by chief executive Mike Wells.[10]

The remuneration awarded to other executives and other senior managers potentially create a more significant cost than the amount of money just being spent on FTSE 100 CEOs. It is important to understand the scale of this cost, and discuss whether it represents value for money in relation to the opportunity cost – for example, increased pay for workers in the middle and at the bottom.

Key decision-makers, known as 'key management personnel', would typically include both non-executive and executive board members, and sometimes would include other members of senior management. However, companies differ in their approach to defining their key management personnel.

First, we examine the reward of key management personnel, before exploring the reward of executive directors who are not the CEO.

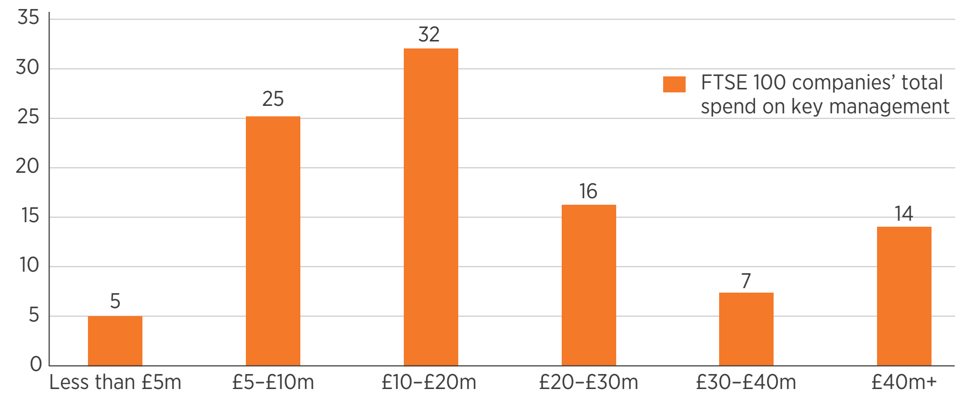
Key management personnel

According to the Financial Reporting Standard (FRS) 102, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.[11] Companies are required to disclose the pay awarded to this group. These disclosures are the closest proxy for pay of senior personnel . However, our analysis suggests that current reporting is inconsistent across the different companies.

FRS 102 goes on to explain that compensation includes all employee benefits, including those in the form of share-based payments.

Across the FTSE 100, a total of over £2.08 billion was reported as remuneration of key management personnel, a breakdown of which can be seen in Figure 11.

Figure 11: FTSE 100 companies' total spend on remuneration of key management personnel



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Mean company spend on key management personnel is £21.04 million and median company spend on key management personnel is £15 million. Total spend on key management personnel ranges dramatically from £1.83 million at Admiral Group to £127.3 million at Persimmon, taking into account the gains on exercise of options by key management personnel of £121.5 million.

We were able to analyse 'per person' remuneration of key management personnel in 96[12] of the FTSE 100 companies, where we could be confident about how many individuals the remuneration of key management personnel related to, which totalled 1,394 individuals, around 0.03% of the total employees of these companies.

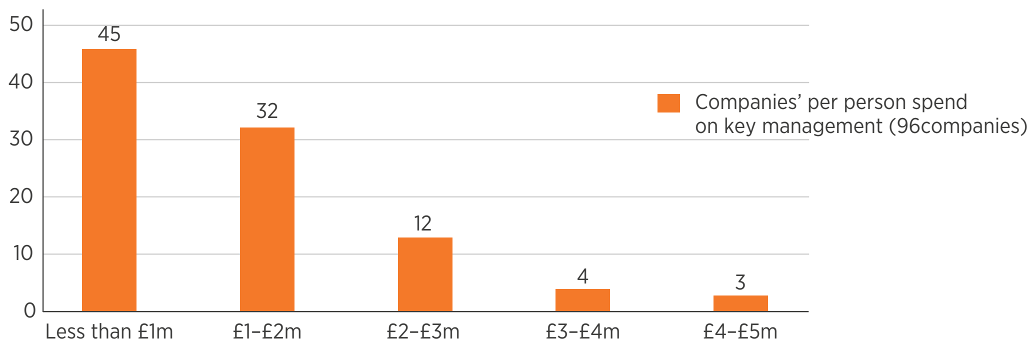
Unfortunately, the number of people included under 'key management personnel' varies significantly from company to company, from 2 to 32, so caution should be shown when comparing remuneration of key management personnel of different companies. This suggests that more consistent direction is required in terms of corporate reporting so as to enable better comparisons.

Of the 96 companies mentioned, we calculated the mean remuneration of key management personnel for each company. The mean of these results comes to £1.56 million and median per person remuneration is £1.09 million. Per person spend on key management personnel ranges from £187,000 at Fresnillo to £18.19 million at Persimmon, most of which comes from gains on the exercise of options.

The share-based pay elements of key management personnel remuneration are sometimes calculated differently to those of single figure pay and, in a few cases, the combined single figure for the executive directors is higher than the total remuneration reported for the key management personnel. Furthermore, a small handful of companies have only the executive directors as their key management personnel. However, if we exclude these few companies, we are able to isolate the mean pay of the non-executive key management personnel of the remaining 87 companies with a reasonable degree of accuracy. The median company pays £0.72 million to each of its non-executive key management personnel, and the mean company pay is £1.05 million each.

Figure 12 shows the distribution of FTSE 100 'per person' remuneration of key management personnel.

Figure 12: FTSE 100 companies' per person remuneration of key management personnel



With such large quantities of money being paid to key management personnel, both in total and per person, we would expect greater transparency in the individual payments akin to that of the executive directors' single figure analysis, to improve accountability and fairness.

Non-CEO executive directors

We extend our pay analysis to consider the single figure payments of other executive directors in the FTSE 100. Executive directors sit on the board of the company alongside the CEO and the non-executive directors. Like the CEO, but unlike more junior key management, they are named in remuneration reports and their individual pay is reported.

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Median pay of these executive directors was £1,840k and mean pay was £2,571k. Non-CEO pay ranged from £149k at Flutter Entertainment (formerly Paddy Power Betfair) to £25,964k at Persimmon, as illustrated in Figure 13.

Figure 13: Single figure pay distribution of FTSE 100 non-CEO executive directors

For 15 non-CEO executive directors, they were awarded a single figure payment that exceeded that of their CEO. Executive directors at Direct Line, BAE Systems, Micro Focus, London Stock Exchange Group and Admiral Group were paid single figures that were more than 20% higher than the single figures paid to their chief executives.

Table 6 shows the ten highest paid executives in FYE 2018 who are not CEOs.

Table 6: Top ten non-CEO executives in FYE 2018 by single figure pay

FTSE 100 company	Executive director's name and role	Single figure
Persimmon	M H Killoran, Group Finance Director	£25,964k
Persimmon	D Jenkinson, Interim Group CEO	£24,986k
Micro Focus[13]	Kevin Loosemore, Executive Chairman	£10,099k
Prudential	Barry Stowe, Chairman and CEO of North American Business Unit	£8,850k
Berkeley Group	A W Pidgley, Chairman	£8,256k
Anglo American	Tony O'Neill, Technical Director	£8,226k
BP	Brian Gilvary, CFO	£7,977k
Anglo American	Stephen Pearce, Finance Director	£7,407k
Diageo	Kathryn Mikells, CFO	£6,936k
Micro Focus[13]	Mike Phillips, CFO until January 2018	£6,263k

It is striking that half of those named on this list are either finance directors or chief financial officers, with four of the others being either executive chairmen or the interim CEO. The convention that the finance director is the second most important in the organisation, over functions relating to people, strategy, innovation or societal/environmental impact, for example, is an interesting insight into how large companies view their priorities, with the primary focus on managing financial assets rather than, for example, raising the productivity of the workforce or developing new products or services.

Pay distribution

Our findings on pay for the 'marzipan layer' suggest that pay for top earners can be a significant cost to companies. The relatively tiny proportion of the employee population covered in 'key management personnel' disclosures takes a much larger share of the total wage spend. Looking at a slightly higher pool of top earners (the top 0.1% or top 1%, for example) is also likely to show a significant amount of the company's resources expended on a comparatively small number of employees

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This raises several important questions. What are the qualities and skills that enable high earners to earn such high incomes? Why does it make economic sense for companies to spend so much on such a small number of people? How could a more even distribution be achieved and what are the opportunities and risks associated with trying to do so?

At a time of limited economic growth and moderate pay increases across the whole economy, the fairness of pay distribution within firms becomes more pertinent, but it will be difficult to discuss without better disclosure of top pay below the CEO level.

The forthcoming pay ratio requirements, which will require firms to demarcate the pay threshold for their top quartile of UK employees, will help in this respect. Companies could also follow the example of the major banks such as RBS and Standard Chartered, who provide single figure pay of their highest paid senior executives and the number of employees in various pay bands.

CIPD viewpoint
Greater transparency over the pay of top earners in organisations, what they are being rewarded for and how their pay aligns with wider workforce remuneration can help reduce unjustified pay inequality and improve perceptions of fairness and trust among employees. If business leaders expect their workers to go the extra mile for their organisation, they need to communicate pay decisions and the reasons for these more effectively, including those that relate to senior managers.

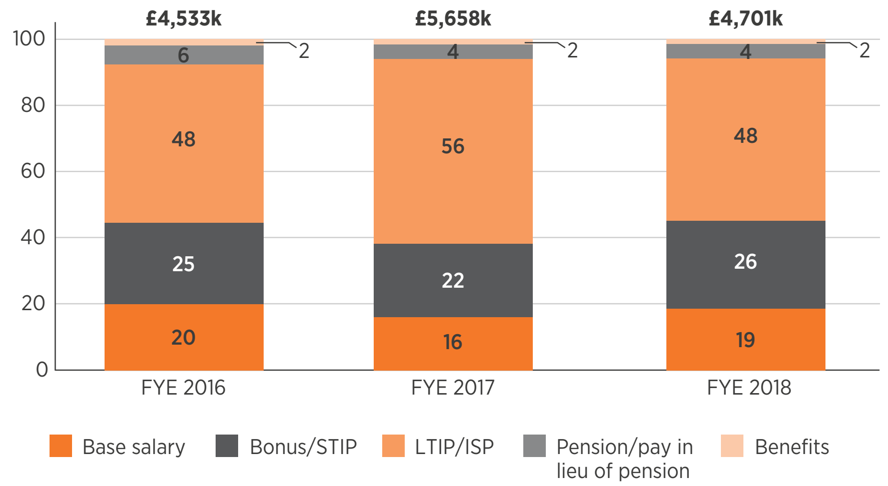
9 What makes up CEO pay packages?

The CEO single figure consists of a base salary, bonus or short-term incentive plan (STIP), long-term incentive plan (LTIP), pension or pay in lieu of pension and benefits. It excludes National Insurance contributions, which are reported on for the whole company.

Most of the average CEO pay package continues to come from variable pay; however, the percentage of remuneration represented by variable pay has declined slightly from 78% to 74% compared with the past financial year. The large reduction in the proportion of LTIPs (from 56% to 48%) is offset to some extent by the growth in the proportion of STIPs from 22% to 26%.

The breakdown is illustrated in Figure 14.[14]

Figure 14: Year-on-year comparison of components in FTSE 100 single figure pay[15] (%)



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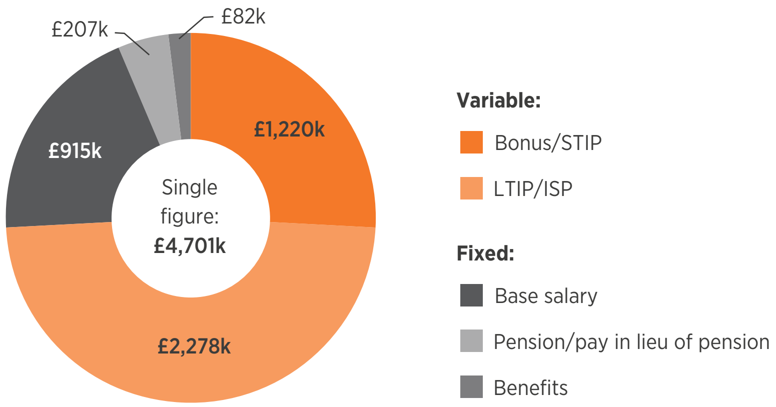
Fixed pay covers salary, pension and benefits, and for every £10 received, typically around £2.56 is fixed pay. The rest is made up of variable short-term and long-term incentive plans.

Figure 15 shows the same breakdown of money awarded to FTSE 100 CEOs in 2018, but in absolute terms. It is important to note that the variable element of total pay has probably not been paid in full yet. The single-figure methodology counts remuneration that is paid or payable, and some of the CEO packages will include estimated pay from LTIPs that have yet to vest.

Figure 15: Mean components in FTSE 100 single figure pay for FYE 2018 [16]



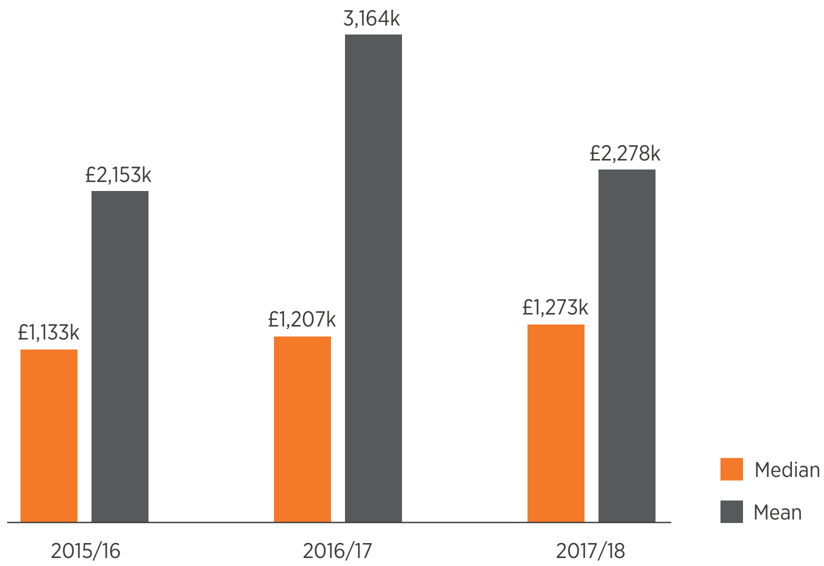
Long-term incentive plans (LTIPs)

An executive LTIP is a remuneration arrangement whereby an individual gets rewarded after a certain number of years, such as three years, for the achievement of a firm's long-term goals.

LTIPs are the largest component of single figure pay, representing 48% of total pay, a reduction compared with 56% last year.

Figure 16 shows historic median and mean LTIPs paid to CEOs in the FTSE 100 over the past three years of data.

Figure 16: Historic median and mean LTIPs paid to FTSE 100 CEOs



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The notable differences between the mean and median LTIPs reflect the impact of a small number of LTIPs paid out at the top end. Median numbers are also a lot more stable, while mean numbers fluctuate significantly from year to year.

The mean fluctuations can be a result of long-term pay policy structures. For example, Persimmon's 2012 LTIP and Berkeley Group's 2011 LTIP paid out the biggest portion in FYE 2017. Companies that have cyclical remuneration policies can also impact the mean values. For example, the CEO of Melrose Industries receives a large payout every four years, while the pay of the CEO of Sky plc goes up and down every two years, and in both cases the highest recent payout occurred in FYE 2017.

This year 83 CEOs received an LTIP, which is slightly higher compared with 82 in last year's analysis. The main reason for missing out on an LTIP is not meeting performance targets (BT, Schroders, BHP Billiton, Standard Life Aberdeen, Land Securities and Next). Some CEOs did not participate in recent LTIP cycles (those of Barclays, Admiral Group and Glencore); in other cases, the LTIP will vest in future years (such as Johnson Matthey, EasyJet); a couple of companies do not have an LTIP in place, namely Evraz and Fresnillo.

If we only consider those CEOs who received LTIPs, the median LTIP pay in 2018 was £1.64 million compared with £1.80 million in 2017, and the mean LTIP pay in 2018 was £2.73 million compared with £3.82 million in 2017.

The continuing use of LTIPs is surprising for various reasons. For one, the term 'incentive' plans could be considered misleading, when receiving one is the norm rather than the exception.

The continuing use of LTIPs is also surprising given the interest in alternative pay mechanisms. For example, the Investment Association Executive Remuneration Working Group in 2016 concluded that firms should adopt a more flexible, individualised approach to executive pay, rather than automatically deferring to the prevailing LTIP model.[17] Similarly, the Government's 2017 response to the Green Paper on Corporate Governance noted that a large majority of respondents to the consultation question on LTIPs *'expressed concern that LTIPs are not adequately aligning executive remuneration with long-term company performance'*.[18]

However, these concerns do not yet appear to have translated into changes in pay practices. In some cases, remuneration committees do not appear to be exercising discretion when the terms of a pay policy mean a CEO is due a payout, but wider circumstances mean it might not be appropriate.

Short-term incentives or bonuses

Executive STIPs or bonuses are designed to reward executives for the achievement of short-term goals.

Just over a quarter (26%) of total FTSE 100 CEO pay comes in the form of a bonus or short-term incentive, which is slightly larger compared with last year. Many FTSE 100 companies (92%) awarded bonuses or STIPs in 2018, paying out a total of £120.79 million. As with LTIPs, we question whether this should be termed a bonus when it is paid out to such a large proportion of the CEO population.

In FYE 2018, median STIPs or bonuses came to £1.40 million and mean STIPs or bonuses came to £1.22 million, similar to last year's figures of £1.09 million and £1.24 million respectively. The data from both years suggest a skew of pay at the top.

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Pensions

As with last year, pension contributions, or payments in lieu of a pension contribution, represent just 4% of CEO pay. However, such payments have dropped in absolute terms from a total worth £23.85 million in FYE 2017 to £20.47 million in FYE 2018.

In FYE 2018, the median pension contribution (or equivalent) given to a CEO is £202,000 and the mean is £206,804, suggesting a relatively even distribution of deferred pension pay. Both figures are slightly lower than the figures recorded in FYE 2017, when they were £213,000 and £240,949 respectively.

Some pension contributions have remained the same since last year. Of the FTSE 100 CEOs, 18 saw no change in their pension, 54 received a higher pension than last year and 27 had a drop in their employers' pension contributions. Scottish Mortgage is excluded from this analysis as it has no CEO.

The highest pension contributions paid were to Albert Manifold of CRH. Table 7 shows the ten highest pension contributions made to FTSE 100 CEOs in FYE 2018.

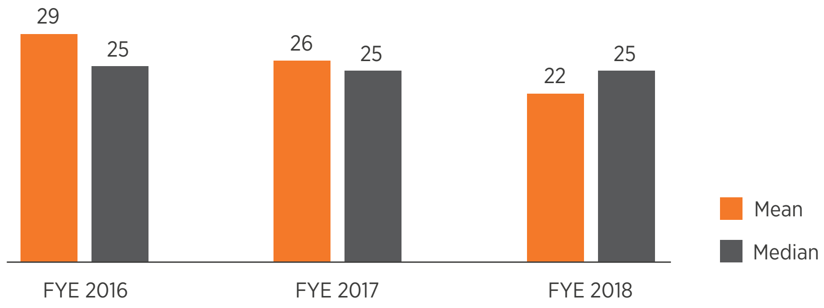
Table 7: Top ten pension contributions made to FTSE 100 CEO pay

FTSE 100 company	Chief executive (2018)	Pension contribution in FYE 2018	% of base salary
CRH	Albert Manifold	£604k	46%
Lloyds Group	António Horta-Osório	£573k	46%
RELX	Erik Engstrom	£545k	45%
TUI Group	Friedrich Joussen	£497k	51%
Standard Chartered	Bill Winters	£460k	40%
SSE	Alistair Phillips-Davies	£446k	52%
British American Tobacco	Nicandro Durante	£430k	33%
DCC	Tommy Breen/Donal Murphy	£419k	50%
Barclays	Jes Staley	£396k	17%
Anglo American	Mark Cutifani	£395k	30%

As seen in Figure 17, the median pension contribution as a percentage of base salary remains unchanged at 25% over the past three years. However, mean pension contribution as a percentage of base salary has dropped because of a reduction in the number of extremely large payments and an increase in the number of CEOs not receiving pension benefits at all.

To illustrate this point, in 2016, nine CEOs had a pension contribution that was over 50% of base salary. In 2017, just five got this amount and by 2018 it had dropped to three companies. Similarly, we have seen an increase in the number of CEOs who received no pension contribution or payment in lieu of a pension contribution at all, from four in 2016, to five in 2017 and six in 2018 (plus a pension claw-back of £16,405 for Octavio Alvidrez of Fresnillo).

Figure 17: Pension contribution, or equivalent, as a proportion of FTSE 100 CEO base salary (%)



Benefits

The value of the benefit package ranges from zero to £1.23 million, but the mean benefit package received by FTSE 100 CEOs in FYE 2018 was worth £81,780 and the median benefits £34,000, indicating a skew at the top.

As with last year, benefits represent 2% of total pay, the smallest piece of the CEO reward pie. They include items such as car allowance or a private chauffeur-driven car, health insurance, life insurance, personal tax return preparation, spouse business-related travel, cost of living adjustment, exchange rate protection, tax gross-up arrangements, security assistance, housing and education allowances, telephone costs, private fuel allowance, financial advice, dental and vision cover, income protection and gym membership.

Some notable benefit recipients include:

- David Schwimmer of London Stock Exchange Group, who was paid £1,050k to compensate for the forfeit of cash compensation for 2018 from his previous employer. This was in addition to a benefits package of £174k, including relocation costs, commuting expenses, medial and income protection, etc
- Frank van Zanten of Bunzil received a £385k relocation package which included assistance with accommodation, removal costs and school fees together with any associated tax liability, along with other benefits amounting to £402k
- Unilever CEO Paul Polman, who was paid €526k (approx. £464k) in benefits, which included ‘medical insurance cover and actual tax return preparation costs, provision of death-in-service benefits and administration, payment to protect against difference between employee social security obligations in country of residence versus UK’, the latter coming to over £400k
- Mike Wells from Prudential plc, who received £407k in benefits, which included the cost of providing the use of a car and driver, medical insurance, security arrangements and relocation benefits
- Zoran Bogdanovic of Coca-Cola HBC, who received €420k (approx. £410k) in benefits, which included cost of living and exchange rate adjustment, housing allowance and social security contributions.

Breakdown of employee costs

Figure 18 gives a breakdown of what FTSE 100 firms spend on their employees. It shows that most expenditure relates to cash pay. By contrast, Figure 14 shows that just 19% of CEO remuneration is made up of base pay. The reason for this is because CEOs receive more performance-related pay compared with their workers.

In addition to wages, employers also spend money on pension contributions and share-based pay for their workers.

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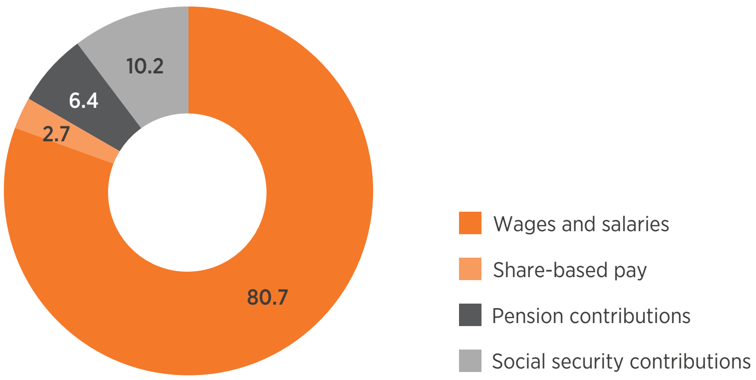
There is a 'fairness' issue here: if chief executives are able to benefit from the success of their firm through higher pay, shouldn't the same be said for employees, given that in many cases corporate achievement is a collective endeavour?

Similarly, there is a question about why chief executives, who earn so much already, should also get such high retirement-related payments compared with the modest pension contributions that their employees are receiving.

Figure 18: Breakdown of all FTSE 100 employee pay, FYE 2018 (%)



If we look at the median of the mean pay distributions for each of the FTSE 100 companies, we find similar results to those reported in Figure 18.

CIPD viewpoint

A large part of CEO remuneration is linked to performance. However, there is little evidence as to whether so much money in the form of LTIPs and bonuses is needed to motivate CEOs to improve their and their firms' performance. There is an argument that CEOs could value a smaller but more immediate bonus over a larger but more complex scheme which could take many years to pay out.

By contrast, employers appear not to think that you have to give employees a lot of money to motivate them to improve their performance. However, these approaches could stoke staff resentment if they think there is one rule for some and another for the rest.

Instead, employers should look at how all employees are able to share in how well the organisation is doing. Options can range from individual to collective rewards, the recognition can be in cash, equity or non-financial rewards, and payouts can be immediate or deferred.

There is no one approach that will guarantee success. Instead, firms should look at the evidence regarding what works, ensure that such payments reflect the principles of the organisation and be focused on the achievement of outcomes that create and add value for the firm. Success will depend on the ability of the firm to appropriately define, communicate, measure, manage, develop and ascribe performance.

Firms should also consider whether the amount of money being spent on employee retirement plans is fair in relation to how it varies by grade. Firms should also compare their pension plan with the organisation's principles, what the evidence is telling them, and the impact of the plan, such as on employee financial well-being.

10 Gender diversity

Despite efforts to improve boardroom diversity, if you are a FTSE 100 CEO, you are more likely to be named Steve or Stephen than you are to be female.

By FYE 2018, there were six Daves or Davids in the FTSE 100 CEO list and seven Steves or Stephens. Having risen from five in 2015 to six in 2016 and seven in the 2017 cohort, in 2018 there were six female CEOs.

Overall, 42 FTSE 100 companies have at least 33% female representation on their boards, meeting the 2020 target for women in senior leadership positions as set by the Hampton-Alexander Review.

However, most of these positions are non-executive – female representation among executive board members is very low and dropping. Only 8% of executive board members are women, a drop from 10% last year. By the end of FYE 2018 there were just 22 female executive directors in the FTSE 100 compared with 237 male executive directors.[19]

Just 31% of all 1,053 FTSE 100 board positions are held by women – slightly higher compared with last year's figure of 30% – in a fairly even distribution, as the mean and median proportion of women on FTSE 100 boards are 34% and 33% respectively.

Across all FTSE 100 companies, 41% of all remuneration committee members were female in the FYE 2018. This represents a small increase on the 37% last year; the number of women on remuneration committees has grown from 160 to 182 this year. Only six firms, compared with five last year, had no women on their remuneration committees in the FYE 2018.

Female executives represent just 8% of the total number of executives, and over three-quarters of FTSE 100 companies (81) have no female executive. It is interesting to note that, of the six companies that have a female CEO, two of them have also appointed another female executive, compared with just 13 of the 93 companies that have a male CEO (14%). We would need a larger sample size to draw any significant conclusions regarding whether female executives are more likely to employ other women, or whether this is just coincidence.

There are also significant differences in pay between men and women at CEO level. As a male CEO, you are likely to earn 68% more on average than your female counterpart, based on mean pay figures. In FYE 2018, male CEOs in the FTSE 100 earned a mean of £4.80 million, compared with £3.25 million for women. This gap drops to 15% when we compare the median single figure of £3.02 million for females with the median single figure of £3.46 million for males.

GlaxoSmithKline's Emma Walmsley was the only female in the list of 25 highest paid CEOs in the FTSE 100.

While women make up 6% of the FTSE 100 CEOs, they earn just 4.2% of the total pay, a modest improvement on last year, as illustrated in Figure 19.

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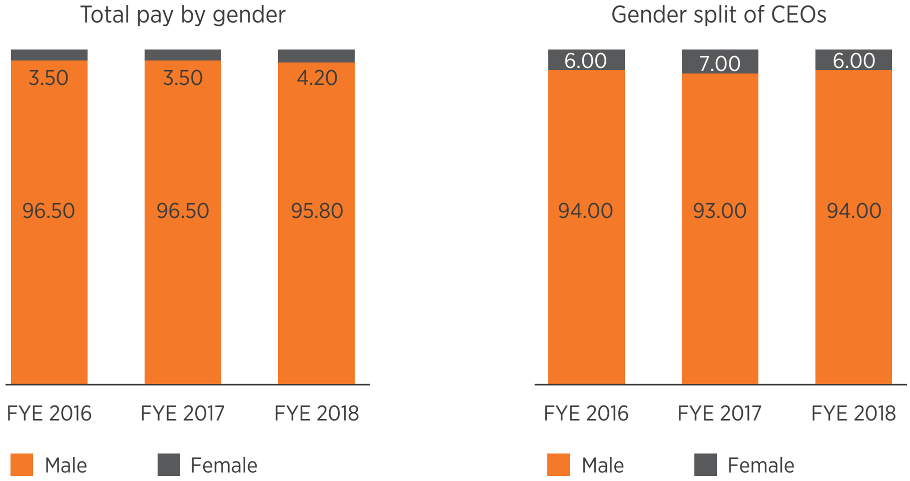
Figure 19: CEOs and CEO pay, by gender (%)



In our analysis of the FTSE 250, we noted that there are just eight female CEOs compared with 181 male CEOs. The other companies had no CEO – these were investment trusts or equity funds, which are not required to have a CEO.

Interestingly, the mean pay of the eight FTSE 250 female CEOs was £5.45 million compared with £1.96 million for the male CEOs. However, this is largely due to an exceptional payout received by Avril Palmer-Baunack of BCA Marketplace of £29.79 million, most of which was an LTIP, which represented *'the value at the point of vesting of the Company's long-term share incentive scheme that was established in July 2014 prior to the acquisition of the BCA Group to reward Directors for the creation of value for shareholders'.*[20] In each of the two previous years she received just over £1 million in single figure pay.

Median pay among the eight FTSE 250 female CEOs was £1.62 million and median pay of the 181 male CEOs was £1.58 million, both close to the overall median pay of £1.58 million.

CIPD viewpoint

More needs to be done to increase the proportion of female executive directors in publicly listed companies. The latest report by the Hampton-Alexander Review shows that the number of women on FTSE 100 boards has exceeded 30% for the first time, there are more women on the boards of the FTSE 250 companies, and women on FTSE 100 executive committees has passed 21%, again for the first time ever. This is welcome progress and should be celebrated, but the very significant increase in the proportion of female non-executive directors has obscured the fact that the proportion of women who make it to executive director positions has hardly shifted over the last decade. To address this the Hampton-Alexander Review should set a specific target aimed at increasing the number of female executive directors.

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11 Individual remuneration packages

Table 8 shows a list of individual remuneration packages from FYE 2018, the calculated ratio of CEO single figure pay to each company's mean staff package.[21] For example, for every £1 an employee earned in the FYE 2018 at Persimmon, the CEO earned £956.

Table 8: The ten highest paid FTSE 100 CEOs in FYE 2018

Chief executive (2018)	Company	2018 pay	2017 calculated pay ratio
Jeff Fairburn	Persimmon	£38,967k	956:1
Ben van Beurden	Royal Dutch Shell	£17,771k	150:1
Rakesh Kapoor	Reckitt Benckiser Group	£15,207k	419:1
Mark Cutifani	Anglo American	£14,669k	378:1
Pascal Soriot	AstraZeneca	£11,356k	165:1
Bob Dudley	BP	£10,936k	111:1
Paul Polman	Unilever	£10,347k	310:1
Arnold Donald	Carnival	£9,300k	422:1
Ivan Menezes	Diageo	£9,063k	193:1
Nicandro Durante	British American Tobacco	£8,837k	301:1
Mean of top ten		**£14,645k**	**340:1**

The mean of the top ten single figures this year is 28% lower than that of last year's cohort, which was £20.42 million based on revised figures in 2018 annual reports.

Table 9 shows the ten highest paid FTSE 100 CEOs in FYE 2017. Companies restate the previous year's figures in their accounts, sometimes making amendments, meaning that some figures in this list differ slightly from those published in our August 2018 report.

Table 9: The ten highest paid CEOs in 2017 based on revised figures in 2018 reports

Chief executive (2018)	Company	2017 revised pay	2017 calculated pay ratio (revised)
Jeff Fairburn	Persimmon	£45,740k	1,098:1
Simon Peckham	Melrose Industries	£42,764k	1,134:1
Rob Perrins	Berkeley Group	£27,963k	273:1
Jeremy Darroch	Sky	£16,112k	307:1
Martin Sorrell	WPP	£13,930k	295:1
Dimitris Lois then Zoran Bogdanovic	Coca-Cola HBC	£13,783k	563:1
Bob Dudley	BP	£11,785k	119:1
André Lacroix	Intertek	£11,417k	447:1
Pascal Soriot	AstraZeneca	£10,429k	152:1
Nicandro Durante	British American Tobacco	£10,244k	380:1
Mean of top ten		**£20,417k**	**477:1**

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Table 10 shows the remuneration of all six female CEOs in the FTSE 100. Their total remuneration represents just 4.2% of total FTSE 100 CEO remuneration (last year the seven female CEOs received 3.5% of total CEO pay) and their mean 2018 pay of £3.25 million is approximately two-thirds that of their male counterparts (£4.80 million), though in last year's analysis it was just half that of their male counterparts.

Table 10: FTSE 100 female CEO remuneration in FYE 2018

Chief executive	Company	2018 pay	2017 pay (revised)	2018 calculated pay ratio
Emma Walmsley	GlaxoSmithKline plc	£5,887k	£5,598k	70:1
Alison Cooper	Imperial Brands	£3,935k	£4,657k	138:1
Carolyn McCall	ITV	£3,695k	n/a	55:1
Alison Brittain	Whitbread plc	£2,336k	£2,509k	156:1
Liv Garfield	Severn Trent plc	£2,084k	£2,424k	54:1
Veronique Laury	Kingfisher plc	£1,583k	£1,715k	84:1
Mean of female CEO pay		**£3,253k**	**£3,381k**	**93:1**

For comparison purposes, this year we have examined CEO pay within the FTSE 250. Not all firms quoted in the FTSE 250 have a CEO because they are investment trusts. However, of the 185 that do, two CEOs would have made it into the top ten highest earners list for the FTSE 100. These are Avril Palmer-Baunack of BCA Marketplace, who received a pay package of £29.79 million, and Kenneth Jack Alexander of GVC Holdings, who received a pay package of £19.10 million. Two of the top ten highest earners in the FTSE 250 are females, a contrast to the all-male list of top ten earners in the FTSE 100.

Overall, 18 of the FTSE 250 CEOs received a single figure pay that was greater than the median pay of the FTSE 100 CEOs. Table 11 shows the single figure pay of the ten highest earners in the FTSE 250 in FYE 2018, and shows single figure pay as a percentage of company market capitalisation.

Table 11: The ten highest paid FTSE 250 CEOs in FYE 2018

Company	CEO in FYE 2018	2018 pay	2017 revised pay
BCA Marketplace	Avril Palmer-Baunack	£29,792k	£1,098k
GVC Holdings	Kenneth Jack Alexander	£19,100k	£18,210k
Homeserve	Richard Harpin	£8,563k	£4,256k
Sophos	Kris Hagerman	£6,607k	£1,763k
KAZ Minerals	Andrew Southam	£6,379k	£5,828k
SSP Group	Kate Swann	£6,247k	£7,388k
Plus500	Asaf Elimelech	£4,496k	£2,067k
Serco	Rupert Soames	£4,478k	£3,805k
Balfour Beatty	Leo Quinn	£4,341k	£5,296k
PageGroup	Steve Ingham	£4,340k	£3,660k
Mean of top ten		**£9,434k**	**£5,337k**

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12 Our methodology

Summary of our approach

We focused our research on the top 100 FTSE companies as at June 2019 and analysed the information published in their annual reports for the financial year ending in 2018. Additionally, we analysed some of the key single figure data of the next 250 FTSE companies as at 11 June 2019.

All our calculations are based on actual figures rather than rounded figures. However, we sometimes present the numbers in this report as rounded.

We excluded Scottish Mortgage from our analysis as it is an externally managed investment trust and not relevant to the study of CEO and employee pay because it has a different business model from normal trading companies and is obliged by regulation to have non-executive boards that are independent of the manager. Our cross-company analysis of the FTSE 100 is therefore based on the remaining 99 firms.

We also excluded any other investment trusts from the FTSE 250 list.

Previous detailed analysis which we refer to in this report was of the FTSE 100 list from June 2018, June 2017, March 2016 and May 2015, unless otherwise stated. Nine companies left/joined the FTSE 100 list between June 2018 and June 2019.

Where we have had a choice of 'remuneration paid' and 'remuneration awarded', we have used the 'remuneration paid' figure (in the case of TUI) since the other value is hypothetical.

Where last year's CEO pay has been restated, we've used restated figures, for example, Ferguson's.

In all cases, we use the revised 2017 single figures based on FYE 2018 accounts. Out of the FTSE 100 companies, 63 revised their 2017 single figure in the FYE 2018 accounts, though only 23 companies had an adjustment of more than 5%.

Micro Focus changed their year-end so they quote figures for the 18 months to year-end as well as the 12 months to year-end. We have taken the 18 months and pro-rated them to 12 months, so that no payment figures are lost in the six-month period in between. Some significant payments were made during those six months.[22]

Industry sectors

Companies have been grouped into ten industry groups and broken down further into sectors, as defined by the Industry Classification Benchmark.[23]

Averages (mean and median)

Both the mean and the median are single values that describe the middle or average value of a range of values. The mean is calculated by adding up all the numbers in a dataset and then dividing the result by how many numbers are in the dataset. To find the mean pay received by CEOs working in the FTSE 100, we have added all the CEO single figures together and then divided the total by the number of FTSE 100 CEOs in our sample (99 excluding Scottish Mortgage, as discussed).

The median is the numerical value that splits the top 50% of the population from the bottom 50%. To find the median, we have listed all the data in numerical order. If there is an odd number of values, our median is the number in the middle; if there is an even number of values, the median is the mean of the two central numbers.

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Both the mean and median figures are useful in exploring the spread of remuneration enjoyed by FTSE 100 CEOs. If the mean and median single figures for remuneration were the same, this would indicate that there was no skew in how pay has been distributed.

If the mean and the median are widely different, the dataset is skewed, either by the presence of very low earners (where the mean is below the median) or by a group of very high earners (where the mean is above the median).

Our research indicates that CEO pay is skewed by a group of very high earners. Whether their level of remuneration is justified is open to debate. Another issue is that these high pay packages can increase the benchmark for all CEO pay packages and this may cause a shift in executive pay levels over the coming years.

Correlation coefficients

We used the correlation coefficient to measure the strength of the relationship between two sets of data. This coefficient can vary in magnitude from 0, where there is absolutely no correlation, to 1, where two datasets are directly dependent on each other. If the coefficient is negative, it simply means that the datasets work in opposing directions – in general, as one set of data increases, the other set is likely to decrease.

Foreign exchange rates

All pay figures have been converted to sterling before making comparisons. We have applied weighted average exchange rates for the 12 months prior to each company's year-end. These are taken from government sources.[24]

Ratio analysis

When calculating the pay ratios, we have compared the CEO single figure with various employee or UK average pay packages.

The CEO single figure includes base pay, benefits, pensions, short-term bonuses or incentive plans and long-term incentive plans (LTIPs).

The number for the employee pay package includes wages and bonuses, pension costs and share-based pay but excludes social security costs.

When calculating the mean employee pay package, we have divided the total employee pay package by the 12-month average headcount (or full-time equivalent if average headcount is unavailable).

We are aware that many firms will employ some part-time staff, which is not reflected in the headcount numbers. It would have been preferable to use the full-time equivalent headcount in all cases to reflect any part-time workers, but this is not usually available.

In some cases, the CEO may be based in a different country from some of their employees, but adjustments were not able to be made for different costs of living in the different countries because of insufficient available information.

Where pay ratios have been published by companies, they are based on median (and upper and lower quartile) pay and usually on UK employees, which is why they are different from our pay ratio calculations that are based on mean pay and the whole workforce, which can include non-UK staff, who may earn more, or less, than their British-based colleagues.

Key management personnel

We have included 50% of the "additional provisions and payables of Euro 20.6m" that were recognised relating to the long-term incentive programme under TUI Group's remuneration of its Key Management Personnel, since only the payables would be considered relevant to our analysis."

Most firms include non-executive directors in their key management personnel definition. Usually they are paid a fee, typically between tens of thousands and low hundreds of thousands of pounds, and so their inclusion lowers the average. This limits further the value of pay disclosures for key management personnel as a way of measuring top pay beyond the executive team.

Comparison with UK average pay

When comparing CEO pay with UK employee averages, we sourced UK wage data from the ONS Annual Survey of Hours and Earnings (ASHE).[25] The ASHE is based on a 1% sample of employee jobs, drawn from HM Revenue and Customs Pay as You Earn records.

The ASHE collects information on the levels, distribution and make-up of earnings and hours paid. Results are produced by gender and by various industrial, occupational and geographic breakdowns, as well as by public and private sectors and age groups.

The numbers we used from this source are as shown in Table 12.

Table 12: UK earnings data used in this report

Full-time UK worker comparison	2016 (revised)	2017 (revised)	2018
Median of UK full-time gross pay (£)	28,195	28,759	29,574
Mean of UK full-time gross pay (£)	34,447	35,398	36,611

UK all-worker comparison	2016 (revised)	2017 (revised)	2018
Median of UK all-worker gross pay (£)	23,084	23,484	24,006
Mean of UK all-worker gross pay (£)	28,306	29,002	29,832

13 Appendix

Table A1: Comparison of all quoted pay ratios and our calculated pay ratios

FTSE 100 company	Chief executive (2018)	FYE 2018 single figure	Reported pay ratio (UK employees)	Calculated mean staff pay ratio (global employees)
Carnival	Arnold Donald	£9,300k	813:1	422:1
Intertek	André Lacroix	£6,226k	189:1	249:1
Lloyds Group	António Horta-Osório	£6,270k	169:1	123:1
AstraZeneca	Pascal Soriot	£11,356k	160:1	165:1
Unilever	Paul Polman	£10,347k	147:1	310:1
Royal Dutch Shell	Ben van Beurden	£17,771k	143:1	150:1
RSA Insurance	Stephen Hester	£4,068k	124:1	78:1
Anglo American	Mark Cutifani	£14,669k	119:1	378:1
HSBC Holdings	Stuart Gulliver then John Flint	£6,969k	118:1	143:1
Direct Line	Paul Geddes	£3,238k	116:1	85:1
Aviva	Mark Wilson (until Oct 2018)	£2,448k	111:1	45:1
BP	Bob Dudley	£10,936k	105:1	111:1
Prudential	Mike Wells	£7,434k	102:1	103:1

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Royal Bank of Scotland	Ross McEwan	£3,578k	97:1	67:1
Barclays	Jes Staley	£3,362k	96:1	33:1
Smith & Nephew	Olivier Bohuon then Namal Nawana	£3,888k	95:1	61:1
GlaxoSmithKline	Emma Walmsley	£5,887k	90:1	70:1
Taylor Wimpey	Pete Redfern	£3,152k	77:1	63:1
Legal & General Group	Nigel Wilson	£3,289k	77:1	38:1
Informa	Stephen Carter	£4,075k	73:1	73:1
Rolls-Royce Holdings	Warren East	£3,943k	72:1	58:1
Croda International	Steve Foots	£3,196k	67:1	62:1
Schroders	Peter Harrison	£6,735k	63:1	37:1
SSE	Alistair Phillips-Davies	£2,693k	62:1	62:1
International Consolidated Airlines Group SA	Willie Walsh	£3,030k	60:1	75:1
Standard Chartered	Bill Winters	£5,950k	48:1	110:1
BAE Systems	Charles Woodburn	£2,416k	48:1	33:1
Rio Tinto Group	Jean-Sébastien Jacques	£4,289k	45:1	57:1
St James's Place	Andrew Croft	£1,901k	42:1	26:1
Hiscox	Bronek Masojada	£1,863k	30:1	37:1
Melrose Industries	Simon Peckham	£1,049k	20:1	34:1 [26]
Standard Life Aberdeen	Keith Skeoch and Martin Gilbert as co-CEOs	£2,178k	19:1	26:1
Rightmove	Peter Brooks-Johnson	£1,490k	19:1	27:1
Admiral Group	David Stevens	£404k	15:1	12:1
Mean of above			**107:1**	**101:1**
Median of above			**84:1**	**65:1**

Table A2: Full list of FYE 2018 single figures

Chief executive (2018)	Company	Revised single figure FYE 2017	Δ	Single figure FYE 2018 CEO	Calculated pay ratio CEO to avg. staff package
Jeff Fairburn	Persimmon	£45,740k	↓	£38,967k	956:1
Ben van Beurden	Royal Dutch Shell	£7,778k	↑	£17,771k	150:1
Rakesh Kapoor	Reckitt Benckiser Group	£8,999k	↑	£15,207k	419:1
Mark Cutifani	Anglo American	£6,693k	↑	£14,669k	378:1
Pascal Soriot	AstraZeneca	£10,429k	↑	£11,356k	165:1
Bob Dudley	BP	£11,785k	↓	£10,936k	111:1
Paul Polman	Unilever	£10,180k	↑	£10,347k	310:1
Arnold Donald	Carnival	£9,188k	↑	£9,300k	422:1
Ivan Menezes	Diageo	£3,399k	↑	£9,063k	193:1
Nicandro Durante	British American Tobacco	£10,244k	↓	£8,837k	301:1
Erik Engstrom	RELX	£8,748k	↓	£8,414k	125:1
Vittorio Colao	Vodafone Group	£6,332k	↑	£7,984k	213:1
Rob Perrins	Berkeley Group	£27,963k	↓	£7,806k	82:1

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Mike Wells	Prudential	£8,560k	↓	£7,434k	103:1
Christopher Bailey (to 5/7/17) then Marco Gobbetti (5/7/17)	Burberry Group	£3,508k	↑	£7,421k	161:1
Albert Manifold	CRH	£7,559k	↓	£7,262k	161:1
Stuart Gulliver then John Flint (21/2)	HSBC Holdings	£6,086k	↑	£6,969k	143:1
Simon Borrows	3i Group	£7,544k	↓	£6,847k	23:1
Peter Harrison	Schroders	£7,059k	↓	£6,735k	37:1
António Horta-Osório	Lloyds Group	£6,434k	↓	£6,270k	123:1
André Lacroix	Intertek	£11,417k	↓	£6,226k	249:1
Bill Winters	Standard Chartered	£4,683k	↑	£5,950k	110:1
Emma Walmsley	GlaxoSmithKline	£5,598k	↑	£5,887k	70:1
Brian Cassin	Experian	£3,647k	↑	£5,852k	94:1
David Potts	Morrison (WM) Supermarkets	£3,160k	↑	£5,810k	339:1
Friedrich Joussen	TUI Group	£4,072k	↑	£5,340k	197:1
Dave Lewis	Tesco	£4,147k	↑	£4,874k	330:1
Geoffrey Drabble	Ashtead Group	£5,461k	↓	£4,834k	94:1
Dominic Blakemore	Compass Group	£5,617k	↓	£4,568k	301:1
Said Darwazah (Jan–Feb) then Sigurdur Olafsson (20 Feb->)	HIKMA	£2,748k	↑	£4,482k	111:1
Andy Ransom	Rentokil International	£3,970k	↑	£4,407k	164:1
Tommy Breen/Donal Murphy	DCC	£4,408k	↓	£4,357k	112:1
Jean-Sébastien Jacques	Rio Tinto Group	£3,821k	↑	£4,289k	57:1
John Martin	Ferguson	£5,514k	↓	£4,138k	70:1
Prasanth Manghat	NMC Health	£4,640k	↓	£4,089k	175:1
Stephen Carter	Informa	£4,132k	↓	£4,075k	73:1
Stephen Hester	RSA Insurance	£5,077k	↓	£4,068k	78:1
Martin Sorrell to 14/4/18 / Mark Read from 3/9/18	WPP	£13,930k	↓	£4,050k	91:1
Miles Roberts	SMITH(DS)	£4,861k	↓	£4,045k	109:1
Alexander Frolov	Evraz	£4,303k	↓	£4,022k	348:1
Warren East	Rolls-Royce Holdings	£2,331k	↑	£3,943k	58:1
Alison Cooper	Imperial Brands	£4,657k	↓	£3,935k	138:1
Olivier Bohuon / Namal Nawana	Smith & Nephew	£3,991k	↓	£3,888k	61:1
Peter Oswald	MONDI	£3,342k	↑	£3,880k	132:1
George Weston	Associated British Foods	£4,849k	↓	£3,826k	220:1
Carolyn McCall	ITV	£2,275k	↑	£3,695k	55:1
David Sleath	SEGRO	£4,125k	↓	£3,596k	24:1
Ross McEwan	Royal Bank of Scotland	£3,487k	↑	£3,578k	67:1
John Pettigrew	National Grid	£4,623k	↓	£3,519k	36:1
Andrew Mackenzie	BHP Billiton	£3,552k	↓	£3,461k	31:1
Mike Coupe	Sainsbury (J)	£2,354k	↑	£3,429k	217:1
Andrew Williams	Halma	£2,337k	↑	£3,429k	78:1
Jes Staley	Barclays	£3,873k	↓	£3,362k	33:1

Nigel Wilson	Legal & General Group	£3,439k	↓	£3,289k	38:1
Andy Reynolds Smith	Smiths Group	£2,320k	↑	£3,282k	80:1
Paul Geddes	Direct Line	£4,039k	↓	£3,238k	85:1
Steve Foots	Croda International	£3,570k	↓	£3,196k	62:1
Pete Redfern	Taylor Wimpey	£3,697k	↓	£3,152k	63:1
John Fallon	Pearson	£1,758k	↑	£3,142k	50:1
Keith Barr	Intercontinental Hotels	£4,368k	↓	£3,093k	72:1
Tim Steiner	Ocado	£1,337k	↑	£3,077k	115:1
Zoran Bogdanovic	Coca-Cola HBC	£13,783k	↓	£3,036k	119:1
Willie Walsh	International Consolidated Airlines Group SA	£3,954k	↓	£3,030k	75:1
Stephen Murdoch	Micro Focus	£2,296k	↑	£3,000k	36:1
Tony Smurfit	Smurfit Kappa	£2,162k	↑	£2,976k	88:1
Frank van Zanten	BUNZL	£2,812k	↑	£2,816k	69:1
David Thomas	Barratt Developments	£3,331k	↓	£2,811k	51:1
Alistair Phillips-Davies	SSE	£2,917k	↓	£2,693k	62:1
Trevor Mather	Auto Trader Group	£980k	↑	£2,630k	43:1
Chris Hill	Hargreaves Lansdown	£2,203k	↑	£2,498k	42:1
Clive Bannister	Phoenix Group	£2,888k	↓	£2,482k	30:1
Mark Wilson (until Oct 2018)	Aviva	£4,334k	↓	£2,448k	45:1
Iain Conn	Centrica	£1,678k	↑	£2,416k	42:1
Charles Woodburn	BAE Systems	£3,365k	↓	£2,416k	33:1
Alison Brittain	Whitbread	£2,509k	↓	£2,336k	156:1
Nicholas Anderson	Spirax-Sarco	£2,173k	↑	£2,323k	50:1
Gavin Patterson	BT Group	£1,345k	↑	£2,307k	50:1
Chris Grigg	British Land Co	£1,938k	↑	£2,244k	24:1
Keith Skeoch and Martin Gilbert as co-CEOs	Standard Life Aberdeen	£4,345k	↓	£2,178k	26:1
David Schwimmer	London Stock Exchange Group	£5,799k	↓	£2,153k	21:1
Liv Garfield	Severn Trent	£2,424k	↓	£2,084k	54:1
Steve Mogford	United Utilities Group	£2,144k	↓	£2,075k	41:1
Robert Macleod	Johnson Matthey	£1,971k	↑	£2,013k	39:1
Peter Jackson	Flutter Entertainment (prev. Paddy Power Betfair)	£3,233k	↓	£1,959k	45:1
Andrew Croft	St James's Place	£2,458k	↓	£1,901k	26:1
Bronek Masojada	Hiscox	£2,394k	↓	£1,863k	37:1
Robert Noel	Land Securities Group	£2,692k	↓	£1,693k	17:1
Stephen Kelly until 31/8/18 then Steve Hare from Sept 2018	Sage Group	£3,547k	↓	£1,661k	31:1
Iván Arriagada	Antofagasta	£1,396k	↑	£1,656k	29:1
Carolyn McCall / Johan Lundgren (Dec 2017)	easyJet	£757k	↑	£1,625k	28:1
Veronique Laury	Kingfisher	£1,715k	↓	£1,583k	84:1

Peter Plumb (now replaced)	Just Eat	£1,365k	↑	£1,574k	37:1
Peter Brooks-Johnson	Rightmove	£1,111k	↑	£1,490k	27:1
Lord Simon Wolfson	Next	£1,831k	↓	£1,153k	81:1
Ivan Glasenberg	Glencore	£1,180k	↓	£1,121k	47:1
Steve Rowe	Marks & Spencer Group	£1,642k	↓	£1,120k	65:1
Simon Peckham	Melrose Industries	£42,764k	↓	£1,049k	34:1
Octavio Alvidrez	Fresnillo	£836k	↓	£661k	40:1
David Stevens	Admiral Group	£395k	↑	£404k	12:1
n/a	Scottish Mortgage	n/d		n/d	n/d

14 Notes

i *Top Incomes in the UK: Analysis of the 2015-16 Survey of Personal Incomes*, University of Essex 2019. Source: www.iser.essex.ac.uk/research/publications/working-papers/iser/2019-06

1 All UK earnings data from the Office for National Statistics which have been used in this report can be found in Table 11: UK earnings data used in this report.

2 Mr Cutifani's pay was boosted by a £10.9 million share award, and *'highlights the challenges of setting remuneration policies in a volatile and highly cyclical mining sector, where commodity prices can fluctuate widely both up and down'*. Source: www.ft.com/content/efabb9ee-3e60-11e9-b896-fe36ec32aece

3 This report by Cranfield University laments *'the complete lack of progress developing the female executive pipeline'*. Source: www.cranfield.ac.uk/som/expertise/changing-world-of-work/gender-and-leadership/female-ftse-index

4 Calculated by adding up the pay packages of all employees in the FTSE 100 and dividing by the average number of employees in the FTSE 100, so this is weighted more heavily towards companies with a larger headcount.

5 Recalculated using revised 2017 single figures from the FYE 2018 annual reports.

6 Barclays PLC, Annual Report (2018, p100).

7 Standard Chartered PLC, Annual Report (2019, p92); Unilever PLC, Annual Report and Accounts (2018, p51).

8 We did not include Auto Trader in this analysis, as they were not listed on the stock exchange for the full period covered.

9 High Pay Centre. (2019) *The myth of shareholder stewardship: how effectively do shareholders oversee FTSE 100 executive pay?* Available at: http://highpaycentre.org/pubs/the-myth-of-shareholder-stewardship

10 Source: https://on.ft.com/2Yt0n9H

11 This definition is used at paragraph 33.6 of the Financial Reporting Standard applicable in the UK and Republic of Ireland, FRS 102 dated March 2018.

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12 We excluded Ferguson, Barclays and the London Stock Exchange Group and Scottish Mortgage.

13 Micro Focus changed their financial year-end from 30 April to 31 October. To ensure the whole period since the last annual report is covered, we have taken the figures for 18 months ended 31 October 2018 and annualised them.

14 That breakdown of FYE 2016 and FYE 2017 single figure pay shown in Figure 14 relates to numbers reported in 2016 and 2017 annual reports rather than restated numbers from 2018 reports.

15 This is based on the CEO single figure stated in the annual reports, which is a statutory requirement. We note that certain elements of these figures will not have been paid out, for example variable awards that have vested but have not actually been paid. We also note that in some cases the bonus awarded may not have been accepted by the CEO to whom it was awarded. Averages have been taken from 99 companies and exclude Scottish Mortgage, since it is an investment trust.

16 This is based on the CEO single figure stated in the annual reports, which is a statutory requirement. We note that certain elements of these figures will not have been paid out, for example variable awards that have vested but have not actually been paid. We also note that in some cases the bonus awarded may not have been accepted by the CEO to whom it was awarded. Averages have been taken from 99 companies and exclude Scottish Mortgage, since it is an investment fund and does not pay any salaries.

17 Investment Association, Executive Remuneration Working Group: Final Report, 2016, p10.

18 Department for Business, Energy and Industrial Strategy. (2017) *Corporate governance reform: the government response to the green paper consultation*. p17. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/640470/corporate-governance-reform-government-response.pdf

19 This report by Cranfield University laments *'the complete lack of progress developing the female executive pipeline'*. Source: www.cranfield.ac.uk/som/expertise/changing-world-of-work/gender-and-leadership/female-ftse-index

20 www.bcamarketplaceplc.com/~/media/Files/B/BCA-V2/reports-and-presentations/annual-report-and-accounts-2018.pdf

21 This figure includes all employee wages and bonuses, pension costs and share-based pay but excludes social security costs. When calculating the mean employee pay package, we divided the total employee pay package by the 12-month average headcount (or full-time equivalent if average headcount is unavailable).

22 See page 97 of https://investors.microfocus.com/media/1504/microfocus_ar18.pdf

23 www.ftse.com/products/indices/icb

24 www.gov.uk/government/publications/hmrc-exchange-rates-for-2018-monthly

25 www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/allemployeesashetable1

26 Melrose bought GKN, hence their headcount went from 12,000 to approximately 62,000. This will affect the pay ratio to some extent.

Notes

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