High Pay Centre analysis of FTSE 350 pay ratios

Executive summary

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Financial Fairness Trust

HIGH
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Scottish Charity Number SC040877
Registered in Scotland Number SC359717 (a company limited by guarantee)

May 2022

01 Executive Summary

This summary highlights the key findings and insights from the second set of FTSE 350 companies' 'pay ratio' disclosures in 2020/21. More detailed analysis can be found in the main report.

Key findings

Our analysis of FTSE 350 companies' pay ratio disclosures, based on their most recently published annual report as of 31 December 2021, found the following:

- The median CEO/median employee pay ratio across the FTSE 350 was 44:1 in 2020/21, down from 53:1 in 2019/20.
- This year also saw a decrease in the median CEO/lower quartile employee pay ratio for the FTSE 350, at 59:1 compared to 71:1 the previous year.
- In the FTSE 100, the median CEO/median employee ratio was 67:1 and the median CEO/lower quartile employee ratio was 93:1 (73:1 and 109:1 in 2019/20)
- 28 Companies (14% of the total) had a CEO/median employee pay ratio of over 100:1, compared to 43 in 2019/20.

These falls are predominantly due to a large number of companies seeing reduced CEO pay as a result of the Covid-19 pandemic.

However, an analysis of the companies which have published their second report since the pandemic suggests that CEO pay might be bouncing back: for the 34 companies with year ends in or after May 2021, the median CEO/median employee ratio was 56:1. This is significantly higher than the median CEO/median employee ratio for this same group of companies in their 2020 annual reports, which was 36:1.

Similarly, across the 69 companies that disclosed pay ratios in Q1 2022, the median CEO/median employee ratio was 63:1. This is, again, much higher than the median CEO/median employee ratio for the same group of companies' annual reports from the previous year, which was 34:1.

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10 highest CEO/lower quartile employee ratios

The companies with the highest CEO/lower quartile employee ratios were as follows.

Table 1: 10 highest CEO/lower quartile employee ratios

Company	Index	Industry	CEO/lower quartile employee ratio
CRH	100	Construction & Materials	368
Flutter	100	Travel & Leisure	340
AstraZeneca	100	Health Care	284
Ocado	100	Retail	283
JD Sports	100	Retail	251
Reckitt Benckiser	100	Consumer Goods	244
Diploma	250	Industrial Goods & Services	228
Morrisons	100	Retail	219
Ashtead	100	Industrial Goods & Services	217
RSA	100	Insurance	211

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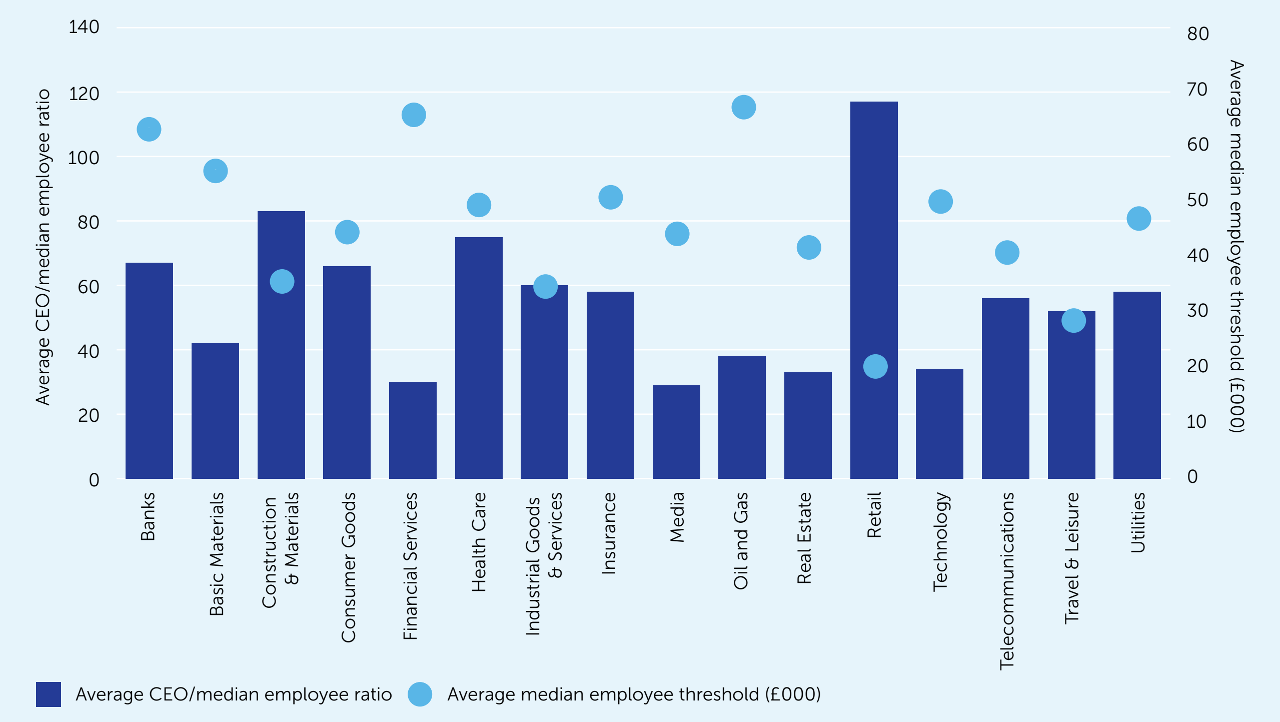
Industry analysis

Figure 1 shows the average CEO/median employee pay ratio and the average pay threshold for median earners across different industries. Across industries, retail has the highest average CEO/median employee ratio at 117:1, and also the lowest average median employee threshold at £22,088. Media has the lowest average CEO/median employee ratio at 29:1, with financial services a close second at 30:1.

Figure 1: CEO/median employee ratios and median employee thresholds by industry



It is important to note that the pay ratio calculations do not take into account indirectly employed workers. This omission is likely to mean that the pay ratios for sectors such as technology and finance are much lower than they would be if they included indirectly employed workers such as cleaners and caterers.

Pay for low earners

Figure 2 shows the 10 companies with the lowest paid lower quartile employees for 2020/21. The average total remuneration of the 10 companies in Figure 2 is £16,596, compared to £15,549 for the lowest-paying companies in 2019/20. This means that pay for the very lowest paid employees of FTSE 350 companies has gone up by roughly £1,000 since last year, indicating that there has been some progress on raising pay levels for the lowest earners, at least for those who are direct employees.

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Figure 2: 10 lowest lower quartile thresholds in 2020/21

Company	Index	Lower quartile employee's pay in 2020/21 (£)
SSP Group	250	15,203
Mitchells and Butlers	250	15,215
JD Sports	100	15,624
Intercontinental Hotels	100	16,736
WH Smith	250	16,795
Cineworld	250	16,832
William Hill	250	17,162
Dixons Carphone	250	17,254
Kingfisher	100	17,500
B&M European Value Retail	100	17,514

However, this masks variation from company to company. In many cases reporting was also unclear on how companies had treated furloughed workers in their calculations. Similarly, changes in full-time equivalent pay may have been distorted by changes in working hours or employment populations resulting from the pandemic.

Using accreditation by the Living Wage Foundation, it is also possible to estimate pay for the lowest

Paid worker at the organisation. We have assumed lowest pay of £17,920 for accredited firms, based on a 35 hour week paid £9.50 an hour, the Real Living Wage rate for 2020/21. For non-accredited firms we have assumed that the lowest-paid worker earns the annualised equivalent of the statutory minimum wage for 2020/21 for those aged 25 and over (£8.72), equating to £15,870.

Using this calculation, the median CEO/lowest-paid worker ratio was 111:1, significantly higher than the median CEO/lower quartile employee ratio of 59:1.

Pay gaps beyond the CEO

The median upper quartile to lower quartile ratio is 1.9:1, which is dwarfed by the median CEO to upper quartile ratio of 31:1.

These findings suggest much bigger pay increases for career progression within the top quarter of the companies' earners than within the bottom three quarters. In a typical organisational hierarchy there will be larger numbers of workers at the lower levels of the organisation than the top, and therefore the top quarter of the employee population would encompass more different grades of seniority than the lower quarters.

Nonetheless, the difference between the typical upper quartile/lower quartile and CEO/upper quartile ratios are sufficiently large to suggest that taking small steps from one level of management to another are rewarded much more lavishly than increases in experience or responsibility further down the organisation.

Public opinion on pay gaps

Opinion polling carried out for this report by Survation suggests strong public support for reduced pay gaps and that prevailing pay gaps represent a threat to businesses' social license to operate. below.

Most survey respondents felt that ay ratios between CEOs and their workers should be much lower than they currently are. The most popular option, chosen by 29% of survey respondents, was that CEOs should be paid 1-5 times more than their lower- and mid-level employees. In total, 62% of respondents chose options falling between 0 and 20 times. Only 3% of respondents thought that CEO pay should be more than 50 times the pay of lower- and mid-level employees.

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The public also perceive that high levels of income inequality within companies is causing harm to society. More respondents (49%) said that businesses behave in a way that is generally harmful to society as compared to those (38%) who said that businesses behave in a way that is generally beneficial. Amongst those who responded that businesses are largely harmful, tax evasion/avoidance was the most popular reason why (chosen by 71% of respondents), closely followed by poor pay and conditions for workers (67%) and the capture of excessive profits/income by executives and investors (63%).

Key insights

1. The fall in typical pay ratios is predominantly due to a large number of companies seeing reduced CEO pay as a result of the Covid-19 pandemic. This is a welcome case of very high CEO pay proving slightly sensitive to a difficult socio-economic climate, and potentially of boards responding to stakeholder engagement. **However, more recent disclosures suggest that we can expect pay gaps to widen again in future.**
2. Similarly, the increase in pay for the lowest earners in our sample is a welcome development. However, the pay ratios substantially understate the extent of low pay in the UK - the median CEO/lower quartile pay ratio of 59:1 based on official disclosures, is barely half the size of our estimated CEO to lowest paid worker ratio of 111:1. The furlough programme may also have complicated reporting of the pay of low-earning employees. **Therefore, it would be premature to celebrate a meaningful and lasting change in the pay of low-paid workers.**
3. Comparing the gaps between upper and lower quartile employees (median ratio 2:1) to the vastly larger gaps between CEOs and the upper quartile (median ratio 31:1) suggests substantial and progressively increasing rewards for taking (relatively speaking) small steps at the top of the corporate ladder. **Very large pay awards for those at the top could reflect hierarchical structures where decision-making and influence over the company is concentrated, rather than democratised or de-centralised**, and thus the perceived importance and indispensability of senior staff relative to colleagues is heightened.
4. There is greater discussion of pay ratios in this year's annual reports, largely due to explanations of the impact of Covid-19 on pay. However, **considerations of how companies are addressing the issue of pay fairness and inequality remain conspicuous by their absence**.
5. This year's analysis has reinforced last year's findings that **industry, market capitalisation and employment model are key factors influencing the size of pay ratios.**
6. The two main limitations of the pay ratio reporting requirements identified in last year's report remain the same. These are:

   a. **the lack of information regarding the pay of top earners beyond the CEO**, making it harder to estimate the potential to raise low and middle earners pay by redistributing from the very top;

   b. **the failure to account for indirectly employed workers in the ratios**, meaning that pay gaps and the scale of low pay are understated.
7. Public opinion polling implies strong support for measures to reduce pay differences, to a much bolder degree than is proposed by most policymakers or business leaders. The **large proportion of the public who view business negatively is a potential long-term risk to the UK's business climate, and creates a strong business case for action to reduce inequality**.

02 Conclusions and recommendations

The two main limitations of the pay ratio reporting requirements identified in last year's report remain the same. These are 1) the lack of information regarding the pay of top earners between the CEO and the upper quartile threshold and 2) the failure to account for indirectly employed workers. Nonetheless, this year's fall in CEO pay and the rise in pay for some of the lowest earners indicates that the pay ratio disclosures are helping to create pressure on companies to improve the pay of low earners and reduce pay inequality.

Last year's report outlined recommendations for how pay ratio reporting could be improved. The possibility of these being adopted is dependent on when the government sees fit to review the reporting requirements. Since only a year has passed since we carried out our first analysis of the pay ratios, it is unrealistic to expect any instant revisions. However, investors, unions, the workforce and other stakeholders can still push individual companies to change their practices with immediate effect. We have reiterated these recommendations below: they can be understood both as policy recommendations for the future and as changes that stakeholders should encourage companies to make voluntarily.

Recommendations for better reporting

- Companies should provide more granular information on the earnings of those between the upper quartile threshold and the CEO.
- Outsourced workers should be included in the pay ratio calculations.
- There should be higher standards and clearer expectations of narrative reporting.
- Companies should directly provide information on pay ratios to their workers.
- Companies should provide data on their number of UK employees.

Recommendations for wider policy change

- Allow trade union access to workplaces, to inform workers of the benefits of collective bargaining.
- Establish sectoral governance bodies to monitor fair pay.
- Legislate for worker representation on company boards.
- Require companies to introduce all-employee profit sharing or share ownership schemes.
- Amend company law to give the interests of all stakeholders equal importance, rather than elevating shareholder interests above those of others.
- Make the shareholder vote on directors' remuneration reports legally binding.
- Require companies to include guidance on potential future pay ratio sizes in their remuneration policies so that shareholders can vote on this.
- Apply the pay ratio disclosure requirements to all large employers.

Taken together, these measures would boost transparency, governance and accountability to stakeholders at the UK's biggest businesses, while strengthening the bargaining power of low- and middle-income workers and significantly improving living standards.

abrdn Financial Fairness Trust

We are an independent charitable Trust supporting strategic work which tackles financial problems and improves living standards. Our focus is on improving the lives of people on low-to-middle incomes in the UK.

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STA0422873552-001