U.S. income inequality
(also see notes on Robert Reich's book – Saving Capitalism)

The Economic Policy Institute

http://www.epi.org/publication/wage-inequality-continued-its-35-year-rise-in-2015/

Introduction and key findings

Over the last three-and-a-half decades, rising inequality has been a defining feature of the American economy. The way rising inequality has directly affected most Americans is through sluggish hourly wage growth in recent decades, despite an expanding and increasingly productive economy. For example, had all workers' wages risen in line with productivity, as they did in the three decades following World War II, an American earning around $50,000 today would instead be making close to $75,000. A hugely disproportionate share of economic gains from rising productivity is going to the top 1 percent and to corporate profits, instead of to ordinary workers—who are more productive and educated than ever. This rising inequality is largely the result of big corporations and the wealthy rewriting the rules of the economy to stack the deck in their favor. This has prevented the benefits of productivity growth from "trickling down" to reach most households.

Glassdoor Economic Research
https://www.glassdoor.com/research/ceo-pay-ratio/

CEO to Worker Pay Ratios: Average CEO Earns 204 Times Median Worker Pay

Dr. Andrew Chamberlain | August 25, 2015

Executive pay has long been controversial. In recent years, a number of studies have highlighted the gap between CEO pay and average salaries for workers. But all of them suffer from a basic problem: CEO compensation is widely available for public companies, but information about average worker pay is not, making it hard to accurately report the ratio of CEO pay to average worker pay.

New rules adopted by the Securities and Exchange Commission (SEC) this month mean all that is about to change. Beginning in 2017, public companies will be required to disclose the ratio of CEO

pay to median worker pay, providing transparency into pay inside some of the largest companies—all the way up to the top.

At Glassdoor, we have a unique window into worker pay. Since 2008, we've collected thousands of voluntary and anonymous salary reports from employees in an effort to encourage pay transparency in the workplace. Using these unique data, the table below offers a sneak preview of what the ratio of CEO pay to median worker pay might look like once these new SEC disclosures go into effect.

CEO Pay vs. Worker Pay

In the table below, we show the ratio of CEO pay to median worker pay for companies listed in the S&P 500.[1] CEOs are those listed in SEC filings for 2014, the most recent year available for most companies. Total CEO compensation is from SEC filings, and median total worker compensation is based on Glassdoor salary reports. To ensure statistical reliability, we include only companies with at least 30 salary reports on Glassdoor.[2] For each employer, we also show their overall company rating on Glassdoor (based on a 5-point scale: 1.0=very dissatisfied, 3.0=OK, 5.0=very satisfied) as of August 19, 2015.

Across all companies, the average CEO pay was $13.8 million per year, the average median worker pay was about $77,800, and the average ratio of CEO pay to median worker pay was 204. In other words, on average, CEOs earn around 204 times what his or her median worker earns.

CEO Pay vs. Median Worker Pay

Employer Search
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Employer	Rank	2014 CEO	CEO Total Pay	Median Worker Total Pay	Ratio of CEO Pay to Worker Pay	Overall Company Rating
Discovery Comm.	1	David M. Zaslav	$156,077,912	$80,000	1,951	3.8
Chipotle	2	Steve Ells	$28,924,270	$19,000	1,522	3.4
CVS Health	3	Larry J. Merlo	$32,350,733	$27,139	1,192	2.7
Walmart	4	C. Douglas McMillon	$25,592,938	$22,591	1,133	3.0
Target	5	Brian C. Cornell	$28,164,024	$30,000	939	3.2
CBS Corp	6	Leslie Moonves	$57,175,645	$66,365	862	3.5
Bed Bath & Beyond	7	Steven H. Temares	$19,116,040	$26,047	734	2.9
Macy's	8	Terry J. Lundgren	$16,497,220	$22,800	724	3.0
Gap	9	Glenn Murphy	$16,064,312	$22,800	705	3.6
Starbucks	10	Howard D. Schultz	$21,466,454	$32,080	669	3.8
Kroger	11	W. Rodney McMullen	$12,987,582	$20,420	636	3.0
Ross Stores	12	Barbara Rentler	$12,083,834	$19,120	632	2.8
Time Warner Cable	13	Robert D. Marcus	$34,615,597	$55,006	629	3.3
Microsoft	14	Satya Nadella	$84,308,755	$137,000	615	3.8
Walt Disney Co.	15	Robert A. Iger	$46,497,018	$79,211	587	3.8
Oracle	16	Lawrence J. Ellison	$67,261,251	$117,415	573	3.3
Best Buy	17	Hubert Joly	$13,881,219	$25,160	552	3.4
Comcast	18	Brian L. Roberts	$32,961,056	$59,745	552	3.2
Viacom	19	Philippe P. Dauman	$44,334,858	$82,094	540	3.6
Walgreens	20	Gregory D. Wasson	$16,732,555	$30,980	540	2.9
UPS	21	D. Scott Davis	$16,994,449 *	$31,880	533	3.5
Regeneron Pharma.	22	Leonard S. Schleifer	$41,965,424	$79,332	529	3.8
Polo Ralph Lauren	23	Ralph Lauren	$24,537,936	$47,452	517	3.3
Prudential	24	John Robert Strangfeld	$37,483,092	$72,771	515	3.5

Methodology: Companies are based on the S&P 500. CEOs total compensation is drawn from SEC proxy filing statements as of 8/14/2015. CEOs were those listed as of 2014 or 2013, whichever was the most recent year available from SEC filings. Median worker total compensation is from Glassdoor salary reports for US workers from 1/1/2009 through 8/17/2015. Only companies with 30 or more Glassdoor salary reports are included. Total compensation includes base pay, tips, commissions, bonuses and all other forms of income reported. Salaries are for full- and part-time employees and are inflation adjusted into 2014 dollars. Overall average employer rating is from Glassdoor as of August 19, 2015. In cases when two or more CEOs are reported for the year, we show the CEO who served longest during that calendar year. In addition, in cases where two or more CEOs served equal time during that calendar year, we show the CEO who was current at the end of the year (December 31). *Indicates companies with extended information in the SEC proxy filing explaining CEO total pay.

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The Financial Times May 8, 2016 11:24 pm

FT City Network: Is a pay revolution nigh? And if not, should it be?

Patrick Jenkins, Financial Editor


©Bloomberg

Canary Wharf in London's Docklands financial district

In their latest monthly debate, the members of the FT City Network were asked for their views on executive pay. The network, which comprises more than 50 top City names, many of them highly paid, was unanimous in its view that reform is vital.

The average British blue-chip chief executive today earns £5m, more than 180 times the average wage, according to the High Pay Centre. The introduction of a far higher minimum wage is doing little to ease mounting tension about the pay gap, especially given the tactic of many employers to recoup wage inflation from overtime rates, non-cash benefits and other means. At the same time, commentators have talked of another “shareholder spring”, given rising investor anger that top pay is out of kilter with corporate performance. Is a pay revolution nigh? And if not, should it be? Those were the questions put to the network. Below is a full transcript of their responses.

Nigel Wilson, L&G

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Nigel Wilson

Global capitalism has lifted 800m people out of absolute poverty over the last couple of decades: a huge success for poor people, in poor countries. But the benefits aren't felt by poorer people in rich countries. As we head towards a "world of zeroes" — zero growth, zero inflation, zero interest rates and zero growth in real wages — the problem intensifies.

A very visible example of inequality is the growing disparity between the pay of CEOs — seen as super-rich — and the "average worker". Globalisation has been kind to CEOs and harsh on the average worker in all advanced economies. Few resent high pay for global stars in show business, sport, or for genuine entrepreneurs, but the current approach to executive pay in public companies is very obviously not fit for purpose and needs to be reformed before it undermines the genuine economic and social benefits that business provides.

Executive pay needs to align better with long-term performance. The FTSE at 6,200 is at the same level as 18 years ago, but CEO pay has trebled. Major misalignments, which we have seen at recent contentious AGMs, erode public confidence in the system. If boards don't take ownership and work with investors to tackle the issue head-on, regulators and politicians will.

There was a "shareholder revolt" against the rewards for executives in 2012, particularly in the banking sector. The revolt is happening again in 2016. The interim report of the [Investment Association] working group I'm chairing sets out the issues and options to tackle these problems. By improving transparency, shareholder engagement and accountability, as well as bringing flexibility into the system, we can better align exec pay with shareholder returns over the long term. We must move away from a one-size-fits-all approach, away from reliance on medians and on exec pay consultants. That approach delivered remuneration creep, not better outcomes for all stakeholders. We cannot reward failure, we should not reward mediocrity or short-termism.

Business faces huge challenges as we enter the “second machine age”, but until investment to drive growth in productivity and wages spreads from the super tech firms to the majority of firms, the gap between workers and bosses will continue to rise. We can rise to meet the challenges of a global digital economy — but not if we have lost the confidence of our employees, policymakers and regulators by giving ourselves rewards which are not seen to have been earned.

Brenda Trenowden, 30% Club

This is a very timely discussion topic and I personally believe that the debate and noise levels on this are only going to increase. I recently heard of an exec who had capped her salary at 20 times the firm’s average. She said that being ‘The Big I’ was not right for the business, that the cap was about attracting talent and also about making a statement about the kind of organisation that they want to be. This particular company is a private company, and I’m not saying that this is the right model for every organisation, but I think it’s an interesting concept.

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Brenda Trenowden

While shareholders are taking a stronger stand on executive pay versus performance, income inequality in general is becoming a wider societal issue as evidenced in the huge success of Thomas Piketty’s book on wealth and income inequality.

Although it is not exclusively focused on the executive level, the new requirement to disclose the gender pay gap adds another dimension to the income inequality argument. However, this is a longer-term structural issue as it typically highlights the fact that there are more men in the higher paying jobs than there are women. That will take time to shift, but it is certainly an issue that the 30% Club investor group members are now discussing with their portfolio companies.

So, is a pay revolution nigh? It’s a complex issue which will probably result in an evolution rather than a revolution.

Sir Nigel Rudd, Wells House

The short answer is yes, but to understand why this has arisen might give us a clue as to what we can do about it.

©Daniel Jones

Sir Nigel Rudd

As you know I have been a director of public companies since the early 1980s before disclosure of remuneration was required. The unintended consequence was that we all became carried away with comparators and the race to be in the upper quartile began.

Once we had disclosure then the search was on to find a mechanism to legitimise bonus payments.

This mechanistic approach that attempts to link pay to performance seldom reflects real effort but certainly rewards executives who join a company at the start of a business upturn in an excessive manner (the mining industry).

Scrap all the complicated schemes, give power back to the board but be ruthless in firing those who fail to safeguard the interests of the shareholders

- Sir Nigel Rudd

We now have the situation where remuneration committees and particularly their chairs are castigated for presenting the results of schemes that have been agreed by the shareholders in prior years.

The problem is that the mechanistic approach does not work. Investors should either trust the directors to reward appropriately or find others that will. What is the point of a remuneration committee that has to ask shareholders' approval for every decision?

I have been involved in my long career in just about every situation that can impact a company from riding a boom to near bankruptcy. The executives I most admire are the ones that succeed in extreme adversity and those who do the right thing for the long term, knowing that in the short term they will lose out. The present system punishes them but rewards those that come after and reap the rewards.

In summary: scrap all the complicated schemes, give power back to the board but be ruthless in firing those who fail to safeguard the interests of the shareholders.

Jean-Pierre Mustier, Tikehau

Jean-Pierre Mustier

The Harvard Business Review, which can be seen as fairly objective in such a polarising debate, published in September 2014 an interesting paper on executive pay. A survey on the topic showed that respondents from various countries felt the ideal pay ratio of CEOs to unskilled workers should be 4.6 to 1, while the real ratio was estimated at around 10 to 1. The reality is of course very different, the USA topping the list, with an actual ratio of 351 to 1, the U.K. being "only" at 75 times. The article concludes that the debates about whether CEO pay should be capped or the minimum wage increased are based on extreme lack of knowledge about the true state of affairs. One wonders what should be the reaction of stakeholders (employees, clients, politicians etc) if the facts were properly known.

London leaders back action on 'unfair' pay

Government and regulators will intervene if executive pay is not addressed, City figures warn

In a free-market economy, the remuneration committee and the shareholders have absolute discretion to define and approve executive pay and they should keep it, no question about this. But when real median salary in industrial countries is flat or lower (it is down 10 per cent in the US since 2000), there is inevitably higher sensitivity about executive pay as the vast majority of people are feeling poorer, and do not feel they share the benefit of a growing economy.

Remuneration committees should very carefully look at such issues, as too high CEO pay could badly reflect on staff morale and on client perception. As we have seen in the recent Panama issues, there is more and more a “moral” perception about what is acceptable or not, and this should be part of the various parameters that remuneration committees and boards should take into account, before asking for shareholders’ approval.

Helena Morrissey, Newton

©Bloomberg

Helena Morrissey

There can be no dispute, surely, that something has gone badly awry given how far executive pay has — in general — outstripped both value creation and average wage growth over the past two decades. And of course there are obvious particularly egregious cases where individuals have been over-rewarded by some multiple of what seems justifiable, benefited merely from being in post rather than driving success or, at worst, paid handsomely for outright failure.

The current shareholder revolt is just the tip of the iceberg of a wider societal need — and demand — that this inequity be addressed. Pointing to the US is no defence — Jean-Pierre [Mustier] sets out the stats — but rather shows us that action needs to be taken on both sides of the Atlantic. A reset is in order — not just to prevent more shareholder unrest but to help restore faith in capitalism and stem the relentless rise of ‘non-establishment’ political figures and parties. Put simply, people are angry, and understandably so.

Daniel Godfrey, The Investor Forum

Yes. Executive pay is often far too high. But not always.

The problem we have is similar to the problems that arose with MPs’ expenses. Instead of big salaries that risked public revulsion, they had lots of perks and expenses that gradually caused excesses that then caused public revulsion far greater than would have been the case if MPs had just been paid that was a multiple of their current pay.


©Rosie Hallam

Daniel Godfrey

In the corporate world, bonuses and incentives or performance pay has prevented the need for stratospheric basic salaries, but has led to opaque, complex pay structures that can lead to obscene pay for mediocre or flat-out bad performance and whose true value is sometimes not crystallised until a point in time at which the company is doing badly and everyone has buyer's remorse.

All the efforts of government, media, the unions and the corporate governance community over the last 20 years have just led to more complexity and huge increases in total pay.

My kids would call that an "epic fail". It's damaged the reputation of business and of investment management. And that's been unfair to some executives who have delivered substantial and sustained wealth creation and who fully deserve the rewards they've received.

Pay is an arms race and arms races are hard to stop. Some thoughts that might start a process of disarmament in this area:

1. Pay the right salary and stop thinking the optics are better if some of it is structured as a "minimum bonus".
2. A higher but certain salary removes some of the justification for massive potential variable pay, so reduce the quantum of variable.
3. Pay any annual bonus based on the metrics that the board decides and shareholders agree are the inputs that, if repeated on a consistent basis, are the key inputs that will lead to long-term, sustainable success for the company and all stakeholders. Be transparent about the metrics and any judgment applied.
4. Make any long-term award a "money value certain" award at the time it is awarded. In other words, if we're going to keep LTIPs, reverse them. So, if I get an award under an LTIP in 2016, it should be in the form of a number of shares (that would then have to be held at least five years) whose value at the time of grant is determined by a transparent formula and measured against cumulative

performance over the past five years. Then we would know what the single figure really means every year. Be transparent about any judgment applied.
5. Handle remuneration consultants with care.
6. Stop using pay structures as a substitute for leadership and management.
The high pay of investment managers calls into question the integrity of those who can hold management and remuneration committees to account.
Investors know that their fund manager may earn an awful lot of money. They don't have the right to know how much their manager earns but they do have the right to understand the principles behind their manager's incentivisation package and to receive an explanation as to how those principles are aligned to their interests. So investment management firms should be transparent about the ways in which they incentivise their fund managers and explain why they believe their policies are aligned to their client's interests as opposed, for example, purely to asset gathering.
If none of that works, maybe the government should consider rules requiring the stacking of remuneration committees with a majority who've never earned more than the median. I know that would be deeply unpopular, but....
Douglas Flint, HSBC
I think Nigel is spot on.


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Boards and remuneration committees take considerable care to take a balanced view of what is in the long-term interests of all stakeholders and in relation to the sustainability of the company. It is impossible to imagine that a "one size fits all" template can accommodate the variety of challenges that face public companies whose business cycles are at different points and which have different durations. The dialogue with investors on pay is often around current 'best practice' rather than what works best for the particular company at a point in time. The Investment Association is to be congratulated for its recent study that suggested that different models of pay might well be appropriate in different circumstances.

This is a far better approach than a consultant-driven 'these are the features that will attract the majority support needed'.
Some other observations:
It cannot make sense to have pay policy dictated by the domicile of the company's listing — institutional shareholders support pay policies in some countries they would soundly reject in others, suggesting their voting is not based on principles but on governance norms. This makes competing for talent extremely difficult for truly international companies. We need an international consensus on pay policy. The Investment Association is to be congratulated for its recent study that suggested that different models of pay might well be appropriate in different circumstances

- Douglas Flint

There needs to be transparency and equivalence between institutional shareholders' policy on reward in private enterprises and those in the public domain lest we discourage talent getting to the top in public companies.
Better alignment in my view works best with restricted share awards without forward conditions but with significant retention periods and malus and clawback features in defined circumstances.
If we are to have forward conditions there needs to be more acceptance of judgmental criteria around strategic objectives and less on short-term financial metrics — again retention periods with the possibility of malus/clawback protects shareholders from rewards for failure.
In terms of the 'pay gap' we need to accept the more complex we make awards the more discounted they are in the minds of management and therefore the more leveraged they need to be to be seen as motivating — sad but true. Again, restricted share awards are simpler and deliver better alignment.

Paul Drechsler, CBI

Clearly there is something wrong with executive pay. Recent votes and voices by shareholders make that clear. While this may capture the headlines, far more important is the perception by society of executive pay. While 'the establishment' might argue that this is a complex issue, ordinary people, the vast majority of society, may see it quite simply as unfair.


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Paul Drechsler

I think the real issue is in how it impacts the assessment of trust. A sustainable society is predicated on trust in its leadership. We already know from Edelman and others that trust in business and political leadership is not where it needs to be. Business leadership is a vital part of any nation's leadership community.

I strongly believe that business is a force for good and that business is the prime means by which we can solve the nation's and the world's greatest challenges. But only if we are trusted. Our decisions must be anchored in an understanding of society and demonstrate that we are listening to its views.

Remuneration has to be transparent and judged as satisfactory to shareholders, and fair by employees

- Paul Drechsler

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At a time when people are screaming about 'unfairness' and an 'unjust society', actions that reinforce those concerns will be brought under intense pressure. As always perceived, foul play by few will lead to criticism of all. The vast majority of CEO's are primarily motivated by success of their business and their people, profitable growth and the creation of long-term shareholder value. It's not often that I have seen a CEO work smarter or harder primarily because of money.

The outcry about remuneration is never as loud when there is no question about the correlation with performance and shareholder value.

So we need to recalibrate and clarify the principles that determine base pay, annual bonus and long-term reward. Beyond annual salary, additional remuneration should be determined primarily by financial results and long-term shareholder value. Remuneration has to be transparent and judged as satisfactory to shareholders, and fair by employees.

Ultimately investors demonstrate where they really stand on these issues by their actions; whether in voting against reports or by not supporting the

reappointment of directors. In so doing it's important they take into consideration the views of all their stakeholders.

Simon Walker, Institute of Directors

©Daniel Lynch

Simon Walker

In the public mind, there is now a gap between FTSE CEOs and the public as wide as that between Crassus and the Roman plebs. It is no surprise that when people hear the chief executive of BP was paid £14m for a year in which the company made record losses, their blood boils. Why was no one at BP telling the board that, even though it may fit with agreed remuneration policy, they had to see the pay award in context? If the board was told, why didn't it listen?

One of the most important instructions of the Executive Pay Working Group set up by the Investment Association was that boards should be more flexible, respond to changing situations and tailor pay accordingly. BP's pay policy may have been passed by shareholders in 2014, but that was before oil fell below $50 a barrel. As one shareholder asked at the AGM, surely there must be some link between recent losses and executive pay, even if Bob Dudley can't control the oil price?

If companies fail to listen to shareholders — fail to make pay more transparent, performance-linked and responsive to circumstances — politicians will intervene

- Simon Walker

Believers in the free market must look to shareholders for the solution. Following BP, 72 per cent of Weir shareholders rejected its pay policy, while Shire's only very narrowly passed, with 49% voting against. The key now is how boards respond. They are in a shaky position. If companies fail to listen to shareholders — fail to make pay more transparent, performance-linked and responsive to circumstances — politicians will intervene. Fiddling with pay ratios or similar tinkering will almost inevitably be ham-fisted and counter-productive, so I urge boards to realise the danger they are in.

The sense that the system is rigged is causing deep and justified public anger and will lead to a situation where any government, including a Conservative one, will feel pressured by media and voter demands to legislate to force change. This will have even more perverse consequences than the transparency requirements Nigel Rudd rightly cites as having exacerbated the situation. There is a lot at stake.

Sir Philip Hampton, GlaxoSmithKline

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Sir Philip Hampton

We've probably been going in the wrong direction for 20 years or more. The push has been to have by far the biggest element of pay as both incentive-based and linked to shareholder experience. These two issues will frequently look loosely correlated or even unrelated. Incentive arrangements in bonuses or LTIPs often include measures which can't be tracked directly in a short period to shareholder value, and the targeted achievements of management teams are quite often dwarfed by external forces beyond their influence, in their favour or against.

A CEO's basic pay may now routinely be a small portion of total pay. The objections to high pay normally arise from crystallisation of high incentives in a particular year. Getting a better balance between basic pay and incentives, and through that almost certainly reducing pay overall, should reduce these objections significantly.

Few companies and arguably fewer shareholders have much of an appetite to see basic pay increase. But if part of a larger basic package was (restricted) equity, and if spikes in pay were less dramatic than is sometimes the case because the incentive potential was lower, we should have a clearer view of what pay actually is over time. We'd then have a better understanding of what to regard as appropriate.

Dame Fiona Woolf, CMS Cameron McKenna


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Dame Fiona Woolf

We have taken pride in developing and sharing our thinking on governance and many countries have looked to us to take the lead. This issue could develop into a reputational risk as it appears increasingly like a failure of governance and remuneration committee know-how.

The point is well made that each company is different, so one size will not fit all. But one size to fit all is what we would expect from politicians and regulators if boards, shareholders and stakeholders do not collaborate urgently to find the right solutions and share their learning.

Rhydian Lewis, RateSetter


©Ratesetter

Rhydian Lewis

As a young growing business, we have focused on equity incentives — across the whole company — to make sure our remuneration can compete with larger corporates and to align the interests of all employees at all levels. I don't think people bemoan remuneration if it is attached to business growth; they do if it is high reward for business failure or stagnation or if little attempt is made to share the potential gains of equity upside. Maybe there should be a renewed focus on equity remuneration, tied to long-term delivery and loyalty.

The fact that remuneration has grown so substantially alongside the emergence of external remuneration consultancies exposes an unhelpful creep in business for more and more decisions to be made by reference to consultancies as opposed to the judgment of management and the board and the scrutiny of shareholders. If there is going to be a pay revolution, it should be driven by shareholders. Otherwise, government may fill the gap which would constitute a market failure.

David Roberts, Nationwide

There are two interlocking but different issues at play; firstly, the quantum of senior executive pay, and secondly the complexity of pay schemes and their alignment to corporate performance.

©Bloomberg

David Roberts

The first is a broad societal issue. Rising wealth inequality and a sense that all the spoils of economic performance are going to “the elite”, is starting to undermine the legitimacy of companies to manage for the long-term generation of shareholder return, whilst feeding an increasingly hostile public and political environment. When average real wages are at best stagnant, FTSE performance is stagnant and yet executive pay is both growing and at a level that is incomprehensible to “ordinary” people, the sense of injustice will only rise. In my view, Helena’s diagnosis is correct.

The second issue is rooted in complexity, and the inability to design pay schemes to cater for all eventualities. Here there is no “one size fits all” solution. Different business strategies, for example, growth, restructuring or harvesting, need quite different pay incentives. However, even the best-designed scheme can fall foul of unforeseen eventualities. Remcos need to look through the scheme design to the underlying performance, whilst management need to recognise that short-term unforeseen gain can often lead to unforeseen pain as their performance and competence is questioned.

So, in answer to your question, is a pay revolution needed? In my view, yes. The answer, perhaps, lies somewhere in the nexus of radical scheme simplification, a

relentless focus on long-term performance and value creation allied with significant management pay restraint, thoughtful use of Remco discretion, and boards being more demanding of demonstrable top performance. Business needs to get a grip on this, otherwise the politicians will, and the answer will, in all likelihood, be suboptimal for all involved.

Dame Helen Alexander, UBM

I'm concerned we are talking too much about the role of shareholders and of government, but not about executives.

©Bloomberg

Dame Helen Alexander

I do not believe that all executives are driven by remuneration alone, and indeed even amongst those who are concerned about 'keeping score', or matching what their peers get, there is growing concern about a loss of public trust. These executives realise that they are well paid, and that being paid many multiples of average salaries can bring difficulties as well as rewards.

We all recognise that the current structures are not perfect, but we are light on practical ideas of how to get from where we are now, to where we'd like to be. One group who are important in this equation are the executives themselves. We should not assume that they must only have constraints imposed from outside. Some of the answers may lie with them, and their own views of what is fair and possible.

RELATED TOPICS

- Executive Pay

The Financial Times May 1, 2016 6:49 pm

Norway's oil fund to target high executive pay votes

Richard Milne in Oslo

A Norwegian oil platfom. Norway's oil fund, the world's largest sovereign wealth fund, has increased its exposure to UK government bonds

The world's biggest sovereign wealth fund is launching a crackdown on executive pay, targeting high salaries at companies around the globe in an attempt to exert its influence in a debate that has been gathering pace in recent months.

Norway's $870bn oil fund, which has previously refused to interfere in how much chief executives are paid, has decided that its position is untenable and is looking for a first company to target publicly on pay in the coming months.

The move is significant for almost every listed company in the world as Norway's oil fund owns on average 1.3 per cent of each one.

The decision comes as executive pay faces increased scrutiny from shareholders, with British companies in particular facing renewed anger from investors over excessive wages.

Weir Group investors last week defeated management pay plans at the UK engineering company with a 72 per cent majority in the biggest protest against executive pay since binding UK votes were introduced.

"We have so far looked at this in a way that has focused on pay structures rather than pay levels. We think, due to the way the issue of executive remuneration has developed, that we will have to look at what an appropriate level of executive

remuneration is as well," Yngve Slyngstad, chief executive of the fund, told the Financial Times.

The fund has been making a big push to be more active in corporate governance matters such as election of directors and board composition. But it has previously shied away from taking a view on executive pay, due to concerns that its actions would be perceived as being influenced by Scandinavian pay conditions. Executives in the region are paid much less than in the UK or US and the gap between the highest and lowest paid in companies is far smaller.

Last month the fund voted in favour of BP chief executive Bob Dudley's pay rise, despite an overwhelming majority of other investors voting against his 20 per cent increase after it made its worst ever financial loss.

But it did vote against miner Anglo American's pay policies, as the main problem — the large number of shares executives could receive in a long-term bonus plan — was structural. It also abstained on the pay vote at Weir.

We are looking at to how approach this issue in the public space. We will choose the right instance for the right case of voting

- Yngve Slyngstad, chief executive of Norway's oil sovereign wealth fund

The fund now believes that remuneration has become a global issue and is on the lookout for a sufficiently egregious example of bad pay for it to launch what it calls a position paper, laying out its principles for what it expects on a subject from its more than 9,000 shareholdings.

"We are looking at to how approach this issue in the public space. We will choose the right instance for the right case of voting," Mr Slyngstad said.

The oil fund until recently was highly cautious about speaking out on corporate governance matters, arguing that it was purely a financial investor. But after seeing its assets rise sevenfold in the past 11 years, it concluded that it cannot escape its responsibility as a large investor.

It has led a successful campaign to persuade many Swedish companies to allow the election of directors individually rather than as an entire team, and has been part of the big push on proxy access — the ability of shareholders to propose board members — in the US. The fund has also slowly started publishing some of its voting intentions ahead of annual meetings in perhaps its most radical step so far.

This story has been amended to reflect the fact that the fund abstained on Weir's pay vote and did not vote against it.