Written Evidence submitted by Michael Nisbet (CGP0043)

Overview

• This is evidence to the BEIS Select Committee’s “Delivering Fair Pay” inquiry.
• It provides new data published in the past 12 months showing the trends for
  (a) typical and also outlier FTSE100 CEO remuneration (from CIPD);
  (b) higher pay generally, for the top 1% of all UK employees (from ONS).
• It comments on written and oral evidence provided in May and June 2018.
• It offers both reinforcements to and corrections of some of the evidence.
• It supports the view that the 2013 shareholder voting reforms are having an effect.
• It finds that, since the 2013 peak, top CEO pay has been flat to declining.
• It finds that in under a decade the national pay scale has shrunk by one-quarter.

FTSE100 CEOs - Recent Average Remuneration

1. The Committee Chair was quite correct to refer 1 to the typical FTSE100 CEO having total pay of “about £3.5 million”.
   (a) This is the latest median (£3.45mn) of their total remunerations, in 2016;
   (b) Both CIPD and Minerva Analytics (Manifest) concur that it was £3.5mn.

2. So it would be wrong to claim that the representative FTSE100 CEO is typically earning as much as an “average of £4.5mn” 2.
   (a) Because this claim of £4.5mn was their ‘mean’ remuneration in 2016 (CIPD);
   (b) The mean is known not to be a representative average of this small pay distribution, since it is pulled up dramatically by a few high earners;
   (c) The ONS is very clear that, because of the higher end of earnings, the representative average to use of pay is always the median and not the mean 3;
   (d) Minerva (Manifest) refers 4 to the median as the ‘more indicative figure’;
   (e) The appropriate use of the median as a representative average is taught in UK primary school arithmetic (National Curriculum 5);
   (f) In 2016, half of the FTSE100 CEOs had remuneration from £3.45mn to £1mn;
   (g) So a representative figure of “average of £4.5mn” would be misleading.

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1 BEIS Select Committee, Evidence Session, Wednesday 6 June 2018, Question 233
2 for example, Evidence Session, answer to Question 233
3 see Annex B here, p.8
4 Evidence CGP0042, Minerva Analytics, 31 May 2018, p.2
5 see Annex C here, p.9
3. In written evidence, Minerva Analytics (Manifest) noted that CEO remuneration for 2017 is emerging at a median increase of about +6% on 2016 among the majority so far reporting, implying a projected **£3.6mn** outturn median for 2017.

4. Most witnesses concurred that the trend in recent years in FTSE100 CEO pay has been “flat” overall, whilst acknowledging the presence of “outliers”. This may be too cautious. The data actually shows a sustained *reduction* in FTSE100 CEO pay since its 2013 peak, both for their typical pay - and also among their outliers.

   (a) The median is **down by 13%**, from £4.0mn (2013) to £3.45mn (2016);

   (b) This median in 2016 was back down to where it was six years earlier in 2010 (£3.4mn). Since then, across the UK economy median employee earnings increased by +10%. So the gap between FTSE100 CEO pay and typical UK employee pay had clearly **narrowed by a tenth** relative to eight years ago;

   (c) For the outliers, the upper decile (#10) of FTSE100 CEOs’ pay is **down by -30%** in just 3 years, from remuneration of £10.0mn in 2013 down to £6.9mn in 2016. So the range of FTSE100 outliers is markedly closer to the average.

5. The change in direction of FTSE100 CEO pay, from increasing in the decades up to 2008-10, then flat at around £4mn, and then reductions of 13-30% recently, appears to be due to the establishment of the new shareholder voting rights on pay in 2013, which on the available evidence seem to be being applied by shareholders to reduce extreme pay.

### FTSE100 CEOs - Recent Pay Ratios to Average Employee

6. In recent years the actual typical FTSE100 CEO pay ratio to their average employee has been in the range of **73-87x**. This data comes from authoritative research, including the Judge Business School, University of Cambridge, and the Chartered Institute of Personnel & Development, London, who both provide a consistent picture.

7. The data is available for most of the past six years from these two sources. It shows a *reduction* in the median FTSE100 CEO pay ratio since 2011. In particular, the data shows a marked drop in these CEO pay ratios, **lower by over 16%** across the latest 3 years, from a peak median ratio of 87x in 2013 to 73x in 2016.

8. CIPD reports the latest total remuneration pay ratio for FTSE100 CEOs was **73x**.

   (a) the **73x** is the correct latest representative measure of the pay ratio;

   (b) it is the **median** of the 100 pay ratios in 2016 for FTSE100 companies;

   (c) it is **13% lower** than the 84x ratio in the prior year (2015);

   (d) it is the **lowest** of all the four years of data we have during 2011 - 16;

   (e) in 2016, one half of FTSE100 CEO pay ratios are from 73x to below 20x.

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6 Evidence CGP0042 of 31 May 2018, p.2
7 for example, Evidence Session answers to Questions 236, 237, 296, 301, 334, 335, 337, 365. (but not Qn235).
8 High Pay Centre, London
9 Evidence Session, Questions 339-352, answer to Qn375,
9. The correctness of the latest 73x as the median of all 100 pay ratios can quickly be corroborated by a simple cross-check for that year. The median CEO remuneration was £3.45mn. The median of the 100 companies’ average employee remunerations was £49,200 (including the company paid pension contributions and national insurance for future pension receipts, but excluding CEOs). These two comparable overall average remunerations are in the ratio 70x, reinforcing the actual 73x median of the 100 ratios.

10. The £49,200 average employee total remuneration among FTSE100 companies is typical for them because it is the median of these 100 companies’ mean employee pay (excl CEO pay). Note that the total remuneration or employer cost of an employee is here typically +27% more than the employee’s earnings (of salary and bonus, pre-tax).

11. The CIPD data implies the average FTSE100 employee might earn nearly one-tenth more than the average employee in the UK economy. Excluding the company paid items, the average FTSE100 employee earned £38,600 (the median of 100 means in 2016), whereas the ASHE survey shows the comparable UK employee earned £35,400.

False Claims

12. In past sessions and reports the Committee has received claims in some evidence that the typical FTSE100 CEO is paid amounts well over 100x their average employee. Pay ratios of 129x, 150x, 160x and even 174x have been asserted in the past as being representative averages of the FTSE100. All such ratios are misrepresentations.

13. The Committee can be more discerning in the credence it gives to such claims. It turns out that many such claims are deliberately exaggerated for publicity and campaigning purposes. These false exaggerations are derived by a combination of
   (a) intentionally not comparing ‘like with like’ (eg all remuneration vs earnings);
   (b) knowingly using a misleading average (eg the mean instead of the median).

14. The scale of this exaggeration from using the wrong average alone is significant:
   (a) using the ‘mean’ remuneration exaggerates the typical CEO pay by +30%;
   (b) using the ‘mean’ pay ratio exaggerates the typical CEO pay ratio by +50%.

15. Certainly there are examples of individual FTSE100 CEO pay ratios of well over 100x, but they are demonstrably not typical or representative of this group of 100 companies.

16. Any claim that the typical FTSE100 CEO is paid “over 100x” their average employee pay is a deliberate misrepresentation of their typical relative pay.

Charts of FTSE100 CEO Pay

17. The recent trends in typical and in outlier FTSE100 CEO pay are charted overleaf.
Figure 1: FTSE100 CEO Total Remuneration

Financial Year

CEO Total Remuneration (£m)

3.4 3.8 4.0 4.5 5.4 5.0 5.6 4.9 4.7 4.1


Mean

Median

Upper Decile

Figure 2: FTSE100 CEO Pay Ratios (Total Remuneration)

Financial Year

CEO Pay Ratio to Average EmployeePay (£m)

100 Companies

Mean of Pay Ratios

Median Pay Ratio

84 87 84 73


Sources:
High Pay Relative to Other Employees

18. More than one Committee Member raised the issue of high pay relative to other UK employees. Reference was made to average pay and to those on the minimum wage. Not all Committee Members understand the actual recent trends in UK pay.


20. This section describes recent trends of high pay relative to other pay, from the ONS ASHE data. It reports the pay of the top 1% relative to the median and to the adult minimum wage. Since 2008, both the average and the lower paid employee have had higher pay increases than have the top 1%, so the pay range has materially narrowed.

21. The ASHE data is authoritative for the earnings of full-time employees, which include both basic salary and bonuses. (It excludes company paid pension & NI contributions.) In the latest data, for April 2017 published in November 2017:-
   (a) the top 1% of UK employees earned above £139kpa;
   (b) the median employee earned £28.8kpa;
   (c) the adult minimum rate was £14.4kpa (on 37hrs/wk @ £7.50/hr).

22. In the 8 years to 2008, the trend of higher pay was simply to match low pay:
   (a) the growth in earnings of the top 1% matched the minimum wage growth;
   (b) in both 2000 and 2008, the top 1% was about 12.5x the minimum wage.

23. But, in the 9 years after 2008, high pay has been noticeably outpaced by other pay:
   (a) the top 1% increased by only 5%, from £133k in 2008 to £139k in 2017;
   (b) the growth in earnings of the top 1% was less than the median or the minimum;
   (c) so from 2008 to 2017 the ratio of the top 1% narrowed:
      (i) relative to the median, it shrank by nearly a tenth from 5.3x to 4.8x;
      (ii) relative to the minimum, it shrank by one-quarter, from 12.5x to 9.7x.

24. In effect, over the last 9 years, the national pay scale has shrunk by one-quarter.

25. So the Committee should not imply the opposite, a widening in the UK pay range since 2008. Instead, the Committee should be getting concerned at the intensifying compression of appropriate pay differentials across organisations’ responsibility levels:-
   (a) among the lower half of the workforce, the pay range has compressed by 20% since 2000. One half all UK employees, despite their differing responsibility and skill levels, now have their pay rates compressed into a narrow range of just 2:1;
   (b) among the upper half of employees, the pay range has shrunk by nearly a tenth since 2008. Now the top 1% earn less than 5x the median. There are implications for management effectiveness and organisation performance.

26. The shortages of skilled employees and the shortcomings in energetic organisation improvements are constraining our productivity that enables rising living standards. We know the economic and social consequences from our actual experience of the 1970s.

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13 for example, Evidence Session, Questions 237, 245, 250, 252, 253, 254, 296, 297, 332, 339, 388.
14 for example, Evidence Session, assertions within Questions 237, 295, 296.
15 ASHE shows 190,000 employees earned over £139kpa, and 23,000 employees earned over £350kpa.
Figure 3: High Employee Pay Relative to Other Pay

Top 1% relative to NMW

2017
Top 1% relative to NMW

£139k

£14.4k

(£7.50/hr)

Median

£28.8k

Median/NMW Earnings = 1.0

Top 1% relative to NMW

(ONS: ASHE, full-time employees)

Figure 4: Low Employee Pay Relative to Median

Lower 10%

2017

Median Earnings = 1.0

£28.8k

£15.9k

£14.4k

(£7.50/hr)

National Minimum Wage

Lower 10%

(ONS: ASHE full-time employees)
Annex A

Remuneration of FTSE100 CEOs

(a) Total Remuneration (£mn)

<table>
<thead>
<tr>
<th>FY</th>
<th>Median Pay</th>
<th>Upper Decile</th>
<th>Derived from:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Median CIPD</td>
</tr>
<tr>
<td></td>
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<td>Median MAM</td>
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<td></td>
<td></td>
<td></td>
<td>U.Decile CIPD/HP</td>
</tr>
</tbody>
</table>
| 2010 | 3.39 | ... | ... | 3.39 | ... | ...
| 2011 | 3.82 | ... | ... | 3.82 | ... | ...
| 2012 | 3.81 | ... | ... | 3.81 | ... | ...
| 2013 | 4.02 | 10.0 | ... | 4.02 | ... | ...
| 2014 | 3.87 | 9.23 | ... | 3.87 | 4.0 | 10.0 |
| 2015 | 3.95 | 8.77 | 3.95 | ... | 4.2 | 8.77 |
| 2016 | 3.45 | 6.92 | 3.45 | ... | 3.5 | 6.92 |
| 2017 | (3.65?) | nya | nya | ... | (+6%)? | nya |

(b) Pay Ratio to Average Employee (both at Total Remuneration)

<table>
<thead>
<tr>
<th>FY</th>
<th>Median Ratio</th>
<th>Mean Ratio</th>
<th>Derived from:</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Median CIPD</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Median JBS</td>
</tr>
<tr>
<td>2011</td>
<td>84x</td>
<td>123x</td>
<td>...</td>
</tr>
</tbody>
</table>
| 2012 | ..... | ..... | ... | ..... | ... | ...
| 2013 | 87x | 122x | ... | 87x | ... | 122x |
| 2014 | ..... | ..... | ... | ..... | ... | ...
| 2015 | 84x | 128x | 84x | ... | 128x | ... |
| 2016 | 73x | 112x | 73x | ... | 112x | ... |
| 2017 | nya | nya | nya | ... | nya | ...

Sources:

CIPD: Chartered Institute for Personnel & Development, London (Louisa Shand)
JBS: Judge Business School, Cambridge (“Form over Substance?”, June 2016)
HPC: High Pay Centre, London (annual Autumn reports on FTSE100 CEO pay)
MAM: Minerva Analytics (Manifest) (Evidence CGP0042, 31 May 2018)
The Role of the “Median” when Describing Earnings

(1) ASHE Tables (2017)

The official ONS notes attached to every ASHE earnings table:

- “(The median) is ONS’s preferred measure of average earnings.”
- “In earnings distributions, the mean can be disproportionately influenced by a relatively small number of high paying jobs.”
- “(The median) gives a better indication of typical pay than the mean.”

(2) Position Paper (2009)

The official published position* of the Office for National Statistics:

- “the median is the best measure of average pay”
- “the median is thought of as the best estimate of typical earnings”
- “the median is preferred to the mean when presenting earnings estimates”
- “the median is considered a better indicator of typical pay than the mean”
- “The median is also a more stable measure (which) is important when looking at trends over time, annual changes, and in particular when one is dealing with smaller domains.”
- “the median better represent(s) the statistical properties of the underlying data.”
- “When confronted by a skewed distribution the median is the most appropriate measure of central tendency.”
- “ONS continues to give prominence to the medians because of the statistical properties of earnings.”

(* ‘Presentation of the Gender Pay Ratio’, ONS Position Paper, October 2009)
Primary School - KS2, Year 6, age 10yrs

- “The principal focus of mathematics in the upper key stage 2 is to ensure that pupils extend their understanding of the number system and place value … pupils should develop their ability to solve a wide range of problems, including increasingly complex properties of numbers and arithmetic.”

- “Pupils should be taught to calculate and interpret the mean as an average (…including an awareness of other measures, like the median).”

- “Pupils know when it is appropriate to find the mean of a data set.”

Secondary School - KS3, Years7-9, age 11-13yrs

- “Use language and properties precisely to analyse numbers and statistics.”

- “Explore what can and cannot be inferred in statistical settings, and begin to express their arguments formally.”

- “Pupils should be taught
  (i) to describe, interpret and compare observed distributions of a single variable through … appropriate measures of central tendency (mean, mode, median) and spread (range, consideration of outliers).”
  (ii) to construct and interpret appropriate tables … for grouped and ungrouped numerical data.”

21 June 2018