THE CENTRE FOR ENTERPRISE, MARKETS AND ETHICS

ENTERPRISE AND FAITH SERIES

CORPORATE EXECUTIVE REMUNERATION:
AN ASSESSMENT

ANDREW HARTROPP
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CHAPTER 1

INTRODUCTION
Corporate executive remuneration (CER) has become a topic of intense debate in recent years. I define the term to include not only pay but also bonuses, share options of various kinds and long-term incentive plans (LTIPs); that is, the total value of the monetary and financial package agreed between any given corporate executive and the corporation for which he or she works. In this publication, I will review the recent empirical trends regarding CER (Chapter 2) and then the literature on their causes (Chapter 3). I will then move on to consider the moral and ethical issues related to growth in CER. The recent debates around CER are reviewed in Chapter 4, while Chapter 5 presents a biblically rooted understanding of economic justice as a framework for a coherent and contemporary means of evaluating the moral dimensions, and of pointing to some implications that follow (Chapter 6). Chapter 7 explores what might be done in practice to address the ethical challenges associated with significant growth in CER. One of the themes developed is that this is not an independent phenomenon; rather, it is closely connected with the emphasis on shareholder value maximisation (SVM) that has come to dominate corporate values and culture since the 1970s, especially in the USA and UK. It is argued here that the moral concerns about growth in CER cannot be fully dealt with unless the deeper issues to do with corporate purpose are also addressed.
CHAPTER 2

REVIEWING THE LATEST EMPIRICAL TRENDS
In the UK in 2017, the average pay – including salary, pension, benefits, short-term and long-term incentive plans – for a CEO was £4.5 million. For the UK in 2014, the average pay ratio between FTSE 100 CEOs and the average wage of their employees was 148:1. This compares to 47:1 in 1998.¹ The chart in Figure 1, from Incomes Data Services (IDS), part of Thomson Reuters, presents a similar picture.

**FIGURE 1: FTSE 350 MEDIAN EARNINGS**
Indexed median earnings comparison, CEOs against all full-time employees.

These statistics give a sense of both the overall size of CER in the UK, and the way it has grown rapidly, compared with employees’ average wage, over the last two decades. The average pay ratio tripled over a period of only 16 years. Particular headline-grabbing CER packages could easily be added here, but there is no need, nor to single out specific examples. The trends are clear.