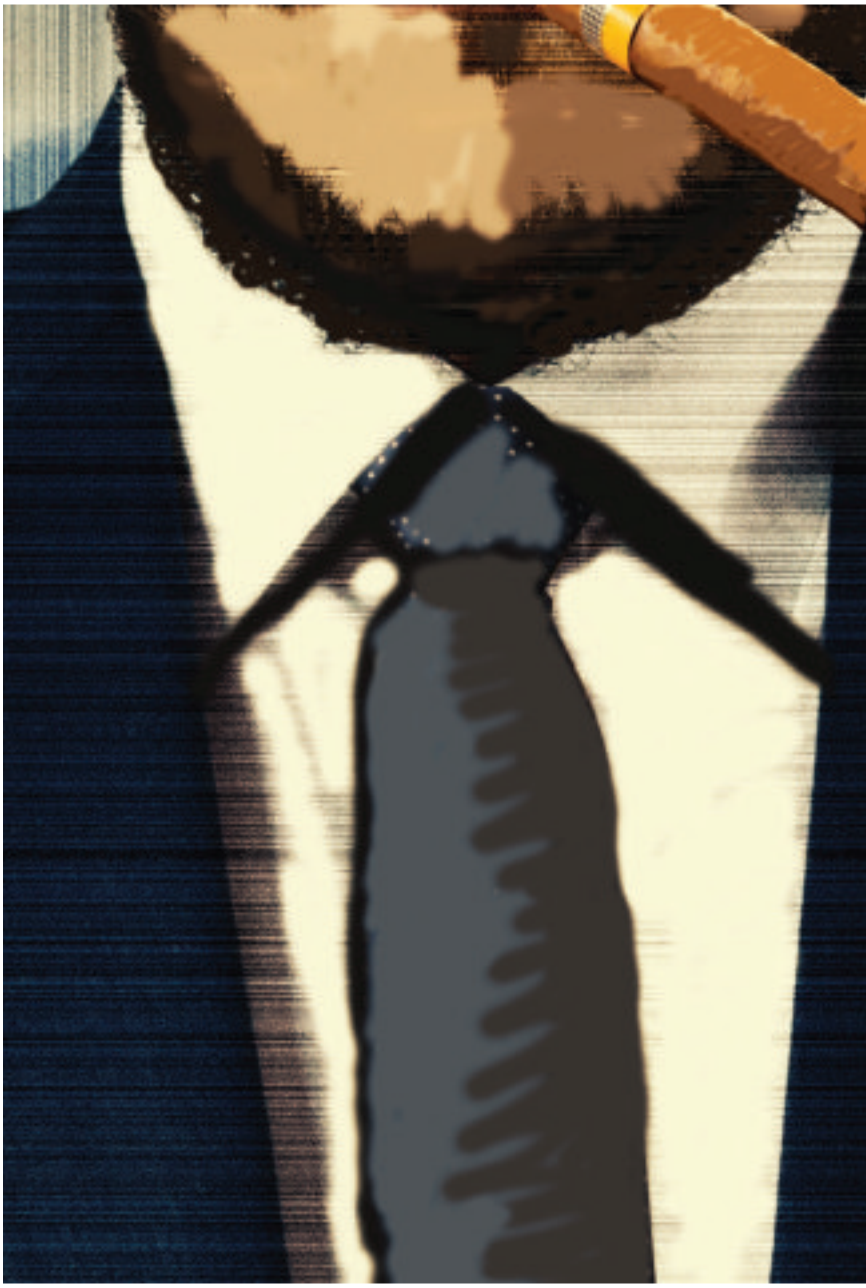
THE**BIG**IDEA

BUSINESS HQ PANEL DISCUSSION

CEO pay should be capped at no more than 20 times that of the average employee within the organisation – this would remove an unwholesome culture of excessive reward that benefits a few gilded individuals



GORDON MATHESON CBE *Institute for Future Cities, University of Strathclyde. Also honorary professor at Caledonian University's School for Business and Society and former leader of Glasgow City Council.*

I AM a moderate, social democratic, mixed economy kinda guy; not likely to be heard anytime soon chanting "Oh, Jer-e-my Cor-byn."

Indeed, it is precisely because I am moderate that I share the sense of justified anger about the grossly distorting excesses of executive pay.

There are some who seek to justify this racket by claiming that elite executives incomparably contribute towards a company's share value and competitive strength. Moreover, it is argued, the elite are in global demand and will be poached beyond our shores, thus depriving us of the best talent.

Yeah right. If you would really move abroad to protect a salary 180 times higher than the UK average, then good riddance. We don't share your values and, bluntly, we're better off without you.

And if the precipitous increases in executive pay even nearly matched the actual strength of the UK economy, we would be enjoying turbo-charged levels of growth and unprecedented increases in productivity. The reality, as we all know, is rather more modest.

Gross inequality cripples the market. It reflects an opaque, short-termist, unaccountable and, in the final analysis, an unsustainable business culture.

And it stokes the kind of simmering social disconnectedness that contributes to the rise of populist demagoguery in our politics. It is in all of our interests that we follow a fairer path.

DAVID EISER *Research Associate at the Fraser of Allander Institute. Based at the University of Strathclyde, the FAI is one of Scotland's leading economic research institutes. David leads the institute's work on fiscal policy.*

CEO pay in major FTSE companies is clearly excessive. The idea that pay packages in the multi-millions of pounds can be justified by performance is largely nonsense. CEO pay in the UK and US outstrips that of other countries, yet there is no evidence that CEOs in UK and US based firms have been substantially outperforming their overseas rivals. Excessive pay simply reflects the bargaining power of CEOs where performance is difficult to reliably measure, and shareholders are dispersed. It reflects too the nature of the CEO talent revelation process, with firms bidding excessively for incumbent CEOs in other organisations at the expense of trying new talent.

Gross inequality cripples the market and creates an unsustainable business culture

And excessive CEO pay can be damaging, especially where it is linked to share prices. These reward structures can incentivise keeping short-term profits high at the expense of investment. This in turn limits productivity growth, and inhibits the achievement of inclusive, equitable growth.

What should be done? Recent years have seen calls to encourage shareholders to have greater say and clout in the setting of Executive pay. But this is easier said than done, and has limited effect so far.

A pay cap is a more direct way of addressing the issue, but is perhaps too blunt. Should it just apply to CEOs in certain sectors? What about the issue of high pay among sportspeople, creatives, or even public sector managers?

Perhaps a better solution is simply to have higher top rates of income tax. Countries that have cut top tax rates most significantly in recent decades have seen the biggest increases in wage inequality, but have not experienced faster rates of economic growth. This suggests that the primary effect of lower top tax rates is that they incentivise CEOs to lobby for higher pay, rather than incentivising innovation and entrepreneurship.

JENNIFER MACKENZIE *Managing Director, TEFL Org UK. Co-founded the company in 2008, now an accredited Living Wage employer with staff in Inverness, Edinburgh, Madrid and Beijing.*

FOR one person in a company to be paid 129 times the amount of the average worker is obscene and it's hard to say how you can put the value of one person so much higher than others. Contrary to suggestions that these men, and apparently, they all are men, are earning huge salaries and bonuses based on performance it doesn't seem to be the case. There are examples of CEOs within the FTSE 100 who have not achieved targets or performed well still getting tremendous wage hikes.

Claims that performance related bonuses specifically have gone up to compensate for the 'drop' comparatively in executive level salaries is also wrong. While performance-related pay is inherently 'riskier', it's the same for everyone within a business and general employees' compensation has not risen by anything like the same amount.

It seems fundamentally unfair that there are people earning huge salaries in top firms where employees are on the minimum wage. The issue of the stagnation of general workers' pay is of equal if not greater importance. As the owner and CEO of an SME, you do feel that all 'business' starts to get tarred by the same brush and that the behaviour of a tiny few affects how people view private enterprise throughout the country. However, we, and many like us, try very hard to pay a reasonable wage, and have Scottish Living Wage accreditation.

The government's naming and shaming of businesses not paying the National Living Wage has helped to bring businesses into line, maybe the new proposed public list of firms who face significant shareholder opposition to executive pay deals will rein in some of the greater excesses and reduce the general mistrust in business.

JO KENNEDY *Lead Partner, Animate Consulting. Consultancy practice working with the NHS, local authorities and voluntary sector on leadership, strategy and engagement*

AT Animate we don't have a CEO. Instead we employ four equal lead partners, and contract with others, when we need them. This presents its own challenges, and we have regular supervision with a paid consultant to help us work them out, but one of the

Continued on page 62

Continued from page 61

advantages is that there is no one we can pass the buck to. We are all responsible for the success of our business.

Paying a CEO any more than 20 times the salary of an average employee inevitably leads to the illusion that the leader is in some way set apart from ordinary mortals. Extraordinary power and childlike hope is projected on to them and consequently they have a long way to fall when they make mistakes.

We believe that healthy organisations are ones in which leadership is seen as something which can and needs to be exercised at every level. We know that it is those who are nearest to the ground who are often in the best position to make decisions. Passing responsibility up the chain means that decision making is slowed down and sometimes no longer fit for purpose. But a big differential in pay grades encourages those at the top, on the highest salaries to be viewed as the ones who need to make all the really important decisions.

We are currently working with organisations who are trying to distribute decision making to what are referred to as 'self-managing teams'.

This includes decision making about what people should be paid. There is no doubt this takes longer and requires a level of mature and honest discussion that many people are not accustomed to in their work.

But there are also benefits. Macleod and Nita Clarke's report to the UK Government as long ago as 2009, showed that employees who are more involved, feel more ownership, are generally happier in their jobs, stay longer and are more productive.

Paying CEOs large amounts of money is based on the assumption that the most talented people are only motivated by money. Daniel Pink's work on the puzzle of motivation questions this assumption, arguing instead that once tasks become more demanding and basic financial needs are met, people are motivated by a range of rewards including having more autonomy, opportunities to learn and clear sense of purpose.

All that said, we wouldn't advocate a cap. That just encourages people to work round it. Instead we would advise transparency – so that pay is an issue that is on the table, not behind closed doors.

The projection of extraordinary power on to highly paid, high flying executives leads to the illusion that they are different from ordinary mortals

SEAN DUFFY Commercial Director, Newsquest Scotland. *Strathclyde Business School Advisory Board, non-executive director of the Crichton Trust and South Lanarkshire College*

THE arguments over the pay of CEOs have been around for decades. But, by focusing merely on the salary itself, we miss the opportunity to look at the additional qualities which make a good chief executive officer. It is only when we examine and properly assess their role at the top of the organisational chart that we can have a reasoned discussion about remuneration.

Every leader of a company should be equipped with what are referred to as basic hygiene factors, such as the ability to think strategically and implement their plans, to be financially astute and to understand and value the need for strong and transparent corporate governance.

However, those who truly excel are the CEOs who are also Chief Engagement Officers, Chief Empowerment Officers and Chief Energising Officers. If they can deliver all that, they'll deliver at the optimum level for their employees, for their management team and for their shareholders ... and that's where and when the financial assessments should be made.

Milton Friedman said: "There is one, and only one, social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game..."

I believe it is equally important for CEOs to also increase the cultural wealth of its stakeholders – staff, partners, customers and the society in which the business co-exists. If these outcomes are realised it follows that Friedman's view would be satisfied AND that leaders' remuneration levels would better reflect their success across the business and beyond.

A great CEO can, quite literally, make a winner out of everyone they have a business relationship with ... and for that they may well deserve to be rewarded with what would, in other circumstances, be considered an exorbitant reward for sub-prime performance. ■