As I noted in my column last month, a key area of HRM concerns remuneration. This perennially important and ‘hot’ topic concerns the ‘top’ and ‘bottom’ of the pay range as well as its basis, calculation and components. Yet, this area is full of subjectivities and inconsistencies and poor logic and weak argument. Following last month’s piece on the bottom of the pay range, minimum wages, this month I will look at the other end of the scale, executive pay.

Executive pay has attracted increasing attention and ire across ever more countries and sectors with: 1) high levels and large increases; 2) growing gaps with average pay ratios; and 3) and its spread across both countries and sectors from its traditional heartland of the US private sector.

First, the high level and growth in pay. CEOs in the US earn more than their foreign counterparts, even over US$50 million, as at Walt Disney and over US$100 million, as at McKesson. Overall, US CEOs made 26% more, even controlling for firm size, sales and type of board and ownership (Fernandes et al, 2013), as shown below.

![Panel B. Controlling for sales, industry, and firm, ownership, and board characteristics](image-url)


Large increases in CEO pay are not new. These, in international comparison, are shown below.
The OECD found similar increases between 2004-07, a period when overall wage growth was only about 2%-3%.
Second, there have been widening CEO-worker pay gaps. This ratio situation is extreme in the US, especially at certain companies, as shown below.

The US disparity is greater than in most other countries. The US ratio nearly twice that of some other countries, as seen in the 6 below. Japan stands out as the other extreme, with the narrowest ratios.

Likewise, in the UK pay gaps have grown, despite the 2008 Global Financial Crisis. This can be seen below.
One example, at Barclays top pay was 75 times that of the average worker; in 1979 it was 14.5 while the lead executive’s pay rose by 4,900% from £87,323 to £4,365,636 (High Pay Commission, 2011).
Another example is Switzerland, where the average pay ratio grew from 6-to-1 (1984) to 43-to-1 (2013), with the country’s largest listed firms at well above 200-to-1, as seen below.

The average CEO-worker ratios at the largest firms shows gaps, across countries. Examples of 10 are shown below.

The response to these trends has been widespread public and political anger and a flurry of ideas and possible policies, from limits on ‘golden parachutes’ (Netherlands), taxes on severance packages (France, Spain), legislation (Germany) and greater disclosure (Japan). The US, along with other G20 countries, enacted laws in 2009 to tie pay to company performance. The EU introduced caps on bankers’ bonuses, while other countries, like France, imposed limits on pay ratios at state-owned firms. Switzerland (where in both absolute and relative terms executives are among the highest-paid in Europe), has seen increasing shareholder responsibility for pay setting with some of the strictest rules: a ban on signing bonuses and severance packages, a binding vote for shareholders on compensation and other measures, although a pay cap of no more than 12 times that of the lowest-paid workers was rejected.
Interestingly, there are some international differences. CEOs in the Nordic region, Denmark, Sweden, Finland and Norway, despite some recent changes and pay scandals, often earn less than elsewhere in Europe and the US and have narrower salary ratio gaps. In China, Jiang Jianqing (of Industrial & Commercial Bank of China) was paid about US$235,000 in 2008, just 2% of Jamie Dimon (JP Morgan Chase) (Eder, 2009). In Japan there is lower executive pay and narrower pay ratios, with its culture, team spirit and labour market conditions (employment security, seniority pay and limited job mobility), albeit with differences between pay for foreign and indigenous executives, eg Sony’s US$8 million versus Panasonic’s US$1.2 million (Economist, 2010; Hall, 2009).

Finally, there is inconsistent and weak arguments about what pay is based on and links to robust, meaningful ‘performance’ measures’. We will examine these issues in a later column.

References
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