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Fairness in the Workplace: pay

Whilst there are many ways in which fairness in the workplace can be achieved, one way can be through clear and balanced pay structures which mitigate accusations of '*excess*' for those at the top, or '*exploitation*' of those at the bottom.[1] In ensuring fairness, it is also important that employees not at either of these extremes feel they are justly rewarded for the work they do.

This Briefing looks at how fairness can be achieved in the specific areas of executive remuneration and paying a living wage. It also briefly addresses some additional pay issues, and provides examples of ways in which some companies are addressing the issue of fairness in pay.

Excess at the top

One issue which invokes significant public reaction is **executive remuneration**, with some pay packages described as "*excessive*", "*lavish*" and even "*eye watering*".[2] IBE research (conducted by Ipsos MORI) consistently reveals *executive remuneration* to be one of the most significant issues which the British public feel businesses need to address. In 2013, 30% of respondents believed this was the case, making it the second most chosen issue behind *taxation*.[3] It is also one of the business ethics issues most reported by the British press, accounting for approximately 11% of all business ethics news coverage between 2012 and 2013.[4]

One area of perceived unfairness lies in claims of excess. Whilst it is difficult to calculate an objective figure for executive remuneration, the High Pay Centre, an independent UK think tank, make one estimate that in 2012 the average pay awarded to FTSE100 chief executives was £4.3m. By comparison, the average salary in Britain was £26,500.[5]

Another view taken is that inequality in pay has increased substantially over the past two decades. High Pay Centre research suggests that "*over the past 15 years, pay for a FTSE100 CEO has gone from being 60 times the average UK worker to 160 times, without any justification*."[6] In a ResPublica collection of essays, Professor Baroness Ruth Lister CBE suggests that "*while the elite have seen increasing rewards, the majority have seen stagnation in wages and a decline in living standards*."[7] In a letter to the regulator, the High Pay Centre also suggested that such disparities between levels of pay for top employees in comparison to the average workforce affects both employee morale and trust in business, saying:

> "*A cavalier attitude towards pay differentials and the regulations intended to contain them creates significant risk to employee morale in some of the UK's key companies and is harmful to trust in business more generally*."[8]

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1. Other issues which also play a role in ensuring fairness in the workplace will be covered in future Briefings.
2. Warren Buffett called the Coca Cola pay plan for executives "excessive"; a Guardian article labelled the rewards paid to a number of executives in the banking sector as "lavish ... despite weak results"; and the Robin Hood Tax campaign described the HSBC payment of £10bn to executives over the past four years as "eye watering".
3. **See IBE Briefing 35**: Attitudes of the British Public to Business Ethics – 10 year trends and 2013 findings (November 2013). Accessed 16/06/14.
4. **See IBE Briefing 37**: Ethical Concerns and Lapses 2012 – 2013 (January 2014). Accessed 16/06/14.
5. **See The Daily Mirror**: Where do you rank in the official earnings list? Figures reveal huge pay gap between rich and poor (09/01/14). Accessed 19/06/14.
6. **See The Independent**: Pay packets of top bosses soar as wage reform flops (02/06/14). Accessed 16/06/14.
7. **ResPublica**: The Virtue of Enterprise – Responsible Business for a New Economy (January 2014). Accessed 16/06/14.
8. **See The Guardian**: Vince Cable warns 30 biggest firms over executive payouts (26/03/14). Accessed 16/06/14.

Further to this argument are claims that executive remuneration packages are not appropriately linked to company or individual performance. In 2014, UK Business Minister Vince Cable warned 30 of the largest FTSE100 companies about their conduct in this area in the wake of accusations of "*lavish rewards for ... top staff despite weak results*", especially in the banking sector.[9] Additionally, a discussion paper released by the High Pay Commission in 2010 noted that since the mid-1990s, the link between executive pay and performance has led "*to huge increases in performance-related remuneration*" without a "*corresponding leap forward in company performance*".[10]

Recently, the annual meetings of a number of companies have seen a substantial proportion of shareholders refusing to back pay schemes. In 2014 **Barclays**, **Standard Chartered**, **Hiscox**, **ITV**, **AstraZeneca**, **Ocado**, **Reckitt Benckiser** and **BG Group**, and others, have all experienced significant resistance to their proposals. The largest dissent was at engineering firm **Kentz** where 49.7% of shareholders failed to back the executive pay package.

Regulatory reforms. Over the past few years there have been two significant changes to regulation aimed at improving transparency in the boardroom and linking pay to performance. The first gives shareholders a binding vote on company remuneration policy every three years and the second requires companies to take into account the pay and conditions of the average employee at their organisation when setting executive pay.

Further, the ethics of the approach adopted by a number of UK banks to the EU bonus cap which was introduced in 2014 has been questioned. The cap, which limits the bonus payable to senior bankers to 100% of annual salary, or 200% with shareholder approval, is intended to limit the size of remuneration packages. However, organisations including **Lloyds Banking Group**, **Barclays**, **Virgin Money** and **HSBC** have been accused of side stepping the proposals by introducing monthly *allowances* payable in cash or shares and consequently ignoring the spirit of the new law.[11] For example, Barclays agreed an £18,000-a-week payment in shares for its chief executive, with Lloyds also offering a similar package to its CEO. HSBC agreed to pay its chief executive a quarterly "*allowance*" in shares or cash, resulting in a 140% pay rise, compared to the 3% offered to staff in call centres and branches.[12]

Exploitation at the bottom

Minimum wage. At the opposite end of the scale, issues of fairness also arise around the wages of the lowest paid employees.[13] One company currently experiencing global employee unrest due to perceived unfairness in levels of pay is fast food giant **McDonalds**. In an escalation of a campaign that began in November 2012 when approximately 200 employees went on strike demanding an hourly minimum wage of $15, further protests occurred in May 2014 across the US, Brazil, Japan and South Korea. The aim of the protests was to highlight that it is not only workers in sweatshops who suffer to produce corporate profits.[14]

In the UK, the legal minimum wage is currently £6.31 per hour for employees over the age of 21. However, it is generally acknowledged that this is considered to be insufficient to support a reasonable standard of living. By contrast, the Living Wage, calculated to be £7.65, (£8.80 in London), is an initiative aimed at paying employees enough to live on (see Box 1).

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9. *ibid* fn[8].
10. **The High Pay Commission**: What are we paying for? Exploring executive pay and performance (November 2010). Accessed 16/06/14.
11. **See The Guardian:** Barclays and Lloyds sidestep EU rules and hand bosses almost £1m in shares (05/03/14). Accessed 16/06/14.
12. **See The Mirror**: HSBC chief banks pay rise of 140% in order to sidestep EU bankers bonus cap (24/02/14). Accessed 16/06/14.
13. This Briefing makes the assumption that employers abide by relevant legislation, and pay their employees at least the National Minimum Wage.
14. **See The Guardian**: You want fries with your poverty wages and exploited McDonald's workers? (15/05/14). Accessed 16/06/14.

Box 1 The Living Wage

The Living Wage initiative "*embodies the notion of a fair day's pay for a fair day's work*",[15] and asks employers to choose to pay the Living Wage on a voluntary basis. The Living Wage Foundation lists KPMG, Nationwide and Aviva (amongst others) as principle partners, and a number of financial institutions, including Barclays, were amongst the earliest adopters. As of June 2014, there are 712 Living Wage accredited employers and an additional sixteen major service providers.

The London Living Wage is based upon calculations by the Greater London Authority (GLA) which use a combination of two calculations to work out the *poverty threshold wage*, to which a 15% margin is added to "*protect against unforeseen events*".[16] Outside London the rate is calculated by the Centre for Research in Social Policy at Loughborough University. This calculation is based on the Minimum Income Standard for the UK, and looks at what households need in order to have a minimum acceptable standard of living.[17] Both are based on the findings from focus groups.[18]

The Living Wage reports to be: '*Good for Business'*, quoting an independent study which suggested that more than 80% of employers believe that the Living Wage had enhanced the quality of the work of their staff, while absenteeism had fallen by approximately 25%; '*Good for Families*', as the Living Wage affords people the opportunity to provide for themselves and their families and 75% of employees reported increases in work quality as a result of receiving the Living Wage; and '*Good for Society*'.

There are a number of arguments both for and against paying a living wage. Some economists suggest that increasing the minimum wage would decrease the availability of jobs due to increased costs for organisations,[19] and introducing a statutory living wage has been argued against, with the National Institute of Economic and Social Research suggesting that there "*could be a net reduction of around 160,000 jobs in the labour market from a statutory Living Wage*."[20] This is amongst the reasons that it is proposed that the Living Wage remains a voluntary initiative for the time being.[21] However, others, such as London Mayor Boris Johnson, stress that paying a living wage is "*...not only morally right, but makes good business sense too.*"[22] To this end, the Living Wage Commission summarises the business benefits of paying a living wage as: productivity increases associated with higher effort and openness to change of job role; lower staff turnover; reduced absenteeism; increased stability of the workforce; improved morale, motivation and commitment; reputational benefits; and for many employers, a relatively small increase in wage budgets.[23]

It is not just large commercial organisations accused of exploiting their employees. Claims have also been made against the UK government, public sector organisations, and academic institutions where research by the National Union of Students and Unison suggested that over 12,500 people across 80 UK academic institutions are paid less than a living wage.[24]

Additional Issues

In addition to these issues, practices that can be perceived to be unfair can also arise at any level across the workforce. Examples of these include pay differences between men and women, paying equally skilled/qualified staff different amounts for performing the same role, and not paying part-time employees the same salary pro rata as full time equivalents. See Box 2 for examples.

15. **The Living Wage Commission**: Work that pays – the final report of the Living Wage Commission (June 2014). Accessed 24/06/14.
16. **GLA Economics**: A Fairer London – The 2013 Living Wage in London (November 2013). Accessed 20/06/14.
17. **See Centre for Research in Social Policy**: The Living Wage. Accessed 20/06/14.
18. *ibid* fn[15].
19. **See Institute of Economic Affairs**: Living Wage likely to destroy jobs and increase poverty (11/09/12). Accessed 16/06/14.
20. **See NIESR discussion paper**: Modelling demand for low skilled/low paid labour: Exploring the employment trade-offs of a Living Wage (January 2013). Accessed 24/06/14.
21. *ibid* fn[15].
22. **See The Living Wage Foundation**: www.livingwage.org.uk
23. *ibid* fn[15].
24. **See TSL Education**: Almost 13,000 university employees 'paid less than living wage' (04/11/13). Accessed 16/06/14.

Box 2 Examples of unfair pay practices

Gender pay differences. Figures from the Office of National Statistics (ONS) show that in the UK full-time female workers earn 15.7% less than men overall, with the disparity widest amongst middle earners. This difference is exaggerated further for those on part-time contracts.[25]

Rewarding loyalty. A Forbes' article suggests that over the course of a lifetime, employees who stay at an organisation for more than two years on average will earn 50% less than those who move on every two years. This is based on the fact that wage rises for employees have not kept pace with market conditions. The average employee receives a yearly salary increase of 3%, whereas the average raise received by those who leave and start fresh somewhere else is between a 10% to 20% increase in salary.[26] Organisations should compensate all employees commensurate with their experience and qualifications for the role. A Palo Alto blog suggests that organisations ask the question: "*if you had to hire a new person to replace your existing one, would you have to pay more than their salary, or less?*"[27]

Conversely, in an example of the reverse of this practice, a number of predominantly younger employees at **British Airways** have recently voted for strike action in response to schedules and salaries where the belief is that they are employed under inferior terms and conditions to pre-existing crew, and basic pay is believed to be £12,000 pa.[28]

Corporate practice

Living wage. Of the specific issues considered in this Briefing, paying a living wage is the one being most actively addressed by organisations. When **Gap** announced in 2014 that it was increasing the wage of its employees at the bottom of its pay scale its Chief Executive emphasised both the benefits to the company and the employees, as well as the link to corporate values:

> "*Our decision to invest in front-line employees will directly support our business, and is one that we expect to deliver a return many times over.... We have very good people today but to attract and retain the best talent we have to make sure we invest in them.... We work for a company with a strong set of values, which can be directly linked to our founders, Doris and Don Fisher. They invented specialty apparel retail, but Don also challenged us to live up to our promise to 'do more than sell clothes.'*"[29]

Another organisation proactively engaging with this issue and communicating clearly on it is **Ben & Jerry's** (owned by Unilever) which has a section of its website explicitly covering a "*livable wage*", saying:

> "*Ben & Jerry's commitment to economic justice starts with our employees. That's why we're committed to paying all of our Ben & Jerry's Vermont full time workers a livable wage.... Every year, we recalculate the livable wage to make sure it's keeping up with the actual cost of living in Vermont. In recent years, Ben & Jerry's livable wage has been nearly twice the national minimum wage, landing at $16.13 in 2013.*"[30]

Despite being unable to commit to paying a living wage to all workers in factories in its supply chain, **Patagonia** communicates its stance on paying a Living Wage openly on the FAQ page on the corporate website. See Box 3.

25. **See The Guardian**: Gender pay gap hits middle-earning women hardest (07/06/14). Accessed 25/06/14.
26. **See Forbes**: Employees who stay in companies longer than two years get paid 50% less (22/06/14). Accessed 25/06/14.
27. **See Bplans**: Are you treating your long-term employees well? Accessed 25/06/14.
28. **See The Guardian**: British Airways cabin crew 'ready to strike' over pay claim (22/06/14). Accessed 25/06/14.
29. **See New York Times**: Gap to Raise Minimum Hourly Pay (19/02/14). Accessed 16/06/14.
30. **See Ben & Jerry's**: Livable Wage. Accessed 16/06/14.

Box 3 Do workers in factories making Patagonia clothes earn a living wage?[31]

"*Not all do. We require that factories pay their workers a legal minimum wage or better, that working conditions be decent, and that workers have the right to join a union.... We prefer to work with factories who pay workers enough to meet basic needs – and more.*

We agree with the living wage principle [but] living wage can be hard to define.

...There's no excuse, though, for exploitation of the labour of poor people to make nice things for the better off. We believe the best way to achieve a living wage is for a collaborative association like the Fair Labour Association (FLA) to establish a living wage (or fair wage) clause, which would ensure that all companies who are members agree to add to their Codes of Conduct the same standard as well as a graduated or "stepped" timetable for achieving it.

For the moment, we track minimum and prevailing wages in each country from which we source; we work toward a higher, fair or living wage in our costing negotiations with each factory."

In the UK, cosmetics company **Lush** committed to paying a living wage to staff in 2011. When the move was announced the company was recognised as the first in the UK to make this guarantee to staff. The scheme is reported to have lifted 200 employees out of poverty. Despite the cost to the company being estimated at £300,000 per annum, Mark Constantine, Chief Executive, believed that it was about "*fairness and good business practice*" saying *"it makes business sense to pay a living wage because staff can deliver better service if they're not also worrying about the rent*".[32] Other UK organisations committed to paying a living wage are **Nationwide Building Society** – who were the first high street brand to sign up to the scheme, and **Aviva** – who in 2014 extended their commitment to all employees, whether full-time or part of the subcontracted workforce.

Executive remuneration.

The ethical issues surrounding executive remuneration have elicited various reactions from organisations including seeking to engage with shareholders, listening to their perceptions and acting on them where appropriate. According to Will Pomroy, National Association of Pension Funds, "*it is vitally important that companies engage with their shareholders. It is even more important that they subsequently both listen to and reflect upon the messages they hear.*"[33]

For example, when **Standard Chartered** failed to consult properly with shareholders about new bonuses for the chief executive and other senior directors, 41% voted against the proposed pay packet. By contrast, when confronted with shareholder discontent about a proposed increase to the chairman's remuneration, **HSBC** held talks with shareholders and adjusted the proposed package accordingly.[34] The revised package was accepted by 83.95% of shareholders.[35]

Fair pay throughout the workforce.

Pay levels and payment terms should be fair to all employees across an organisation, and not limited to just those at the top and bottom. Organisations could include a short statement addressing this in the code of ethics to provide guidance to staff and as a reiteration of its commitment to its employees. At present such statements appear to be rare. The IBE Illustrative Code offers one such example:

> "*In recognition of the efforts of the individual in helping to create the success of the company, it will maintain a framework of fair and just remuneration policies and structures. Pay systems will seek to recognise both the contribution of the individuals and the performance of the departments of the business in which they work.*"[36]

Achieving a perception of fairness in terms of pay is a difficult reality currently facing organisations. Including employees in processes will help to ensure balance in this area. In order to satisfy this need, as a minimum, organisations need to be able to justify policies and structures internally, and communicate clearly with employees.

31. **See Patagonia Inc**: FAQs. Accessed 16/06/14
32. **See The London Evening Standard**: Lush founder becomes first store boss to pledge living wage of £7.85 (20/04/11). Accessed 16/06/14.
33. **See The Guardian**: Standard Chartered under pressure over executive pay after investor revolt (18/05/14). Accessed 16/06/14.
34. *ibid* fn[33].
35. **See eFinancialNews**: Shareholders pass HSBC pay plan (23/05/14). Accessed 16/06/14.
36. **See IBE Illustrative Code – updated**: available from www.ibe.org.uk/list-of-publications/67/47

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