CIPD

Championing better work and working lives

Pulse survey

December 2015

The view from below: What *employees* really think about their CEO's pay packet

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Introduction

In 2014 the CIPD commissioned research to draw insights from behavioural science into reward practice (CIPD 2015a). In the first half of 2015 we built on this by looking more specifically at executive pay (CIPD 2015b). This work considers how CEO pay is set, what impact this has on CEO behaviour and performance, and challenges and opportunities in establishing more productive approaches to executive remuneration.

In early September 2015, we surveyed employees' views on executive pay. We wanted to get a sense of what employees really think about their CEO's pay packet and how CEO pay impacts on areas such as employee motivation, organisation reputation and the ability to attract the best people to do the job. We also examined employee attitudes towards pay transparency and CEO–employee pay ratios. Finally, we explored employees' views on a range of practical suggestions to better link CEO pay to their employees and their organisation's success. YouGov conducted an online survey for the CIPD of their research panel with a total sample size of 1,030 working adults. The figures have been weighted to be representative of the UK workforce in relation to sector and size (private, public, voluntary), industry type and full-time/part-time working by gender.

Headline findings

- Nearly half of employees (44%) feel their CEO's pay is either far too high or too high.
- Employees were more likely to say that their CEO is not rewarded in line with the level of the organisation's performance, 38%, compared with 32% who said that it is in line with the organisation's performance.
- Despite a substantial number of employees believing that CEOs are paid too highly and not in line with the organisation's performance, more than three-fifths (63%) believe that to some extent the success/overall goals of their organisation is dependent on the leadership of their CEO.
- When considering CEO and employee pay ratios, over a quarter (26%) don't think that they are relevant. Of those that do think they are relevant, around a third (34%) think their CEO's pay should be less than five times an average employee's salary, around a fifth (22%) believe it should be five times and above and 18% ten times and above.

- Seventy-two per cent of employees would like to see more pay transparency within their organisations. Of those, over half of employees (53%) would like to see greater pay transparency at *all levels*.

- The negative impact and consequences of current CEO pay levels in the UK are far-reaching:

  - 71% agree that CEO pay levels in the UK are generally too high (while only 5% disagree).
  - 64% disagree that CEO pay levels in the UK inspire employees to work hard (while only 8% agree).
  - 60% agree that CEO pay levels in the UK demotivate employees (while only 13% disagree).
  - 54% agree that CEO pay levels in the UK are bad for an organisation's reputation (while only 11% disagree).

- When it comes to practical suggestions to better align CEO pay with their employees and organisation's success, employees ranked equal first the suggestions to:

  - 'Publish the ratio between the CEO's pay and the pay of the typical employee' (20%)
  - 'Limit the size of the CEO bonuses and incentives' (20%).

Survey findings

Satisfaction with own pay

Overall more employees are satisfied (40%) than dissatisfied (34%) with their own current level of pay. However, there is also quite a high proportion who feel neutral (25%). Satisfaction with pay remains the same across gender. When it comes to sector and size of organisation, employees working in the public sector are least satisfied with their pay and employees in small organisations seem most satisfied with their pay.

Views on executive pay

Almost half of employees (45%) feel their CEO's pay is either far too high (22%) or too high (23%). There are some differences according to sector, size and geography for this question. The larger the organisation, the more likely employees are to say their CEO's pay is too high. Public sector employees are also more likely to say their CEO's pay is too high/far too high (62%). In terms of geography, those based in the south of England are least likely to say their CEO's pay is too high.

Table 1: Satisfaction with current level of pay, by sector and size of organisation (%)

		Sector			Organisation size			
	Total	Private	Public	Not-for-profit	Micro	Small	Medium	Large
Very satisfied	6	7	4	9	11	10	7	2
Satisfied	34	36	28	38	34	35	34	37
Neither satisfied nor dissatisfied	25	25	26	24	29	33	18	32
Dissatisfied	26	24	32	24	18	14	35	24
Very dissatisfied	8	8	10	5	9	7	7	5

Base: All (1,036); Unweighted base: 1,030

All figures in tables have been rounded to the nearest percentage point. Because of rounding, percentages may not always total 100.

Table 2: Views on CEO pay, by sector and size of organisation (%)

		Sector			Organisation size			
	Total	Private	Public	Not-for-profit	Micro	Small	Medium	Large
Far too high	22	18	30	28	3	7	14	23
Too high	23	20	32	18	7	21	22	16
About right	22	23	17	27	52	35	16	27
Too low	3	3	2	4	12	1	7	1
Far too low	1	1	0	–	4	1	1	–
Don't know	30	34	19	25	23	35	40	33

Base: All (1,036); Unweighted base: 1,030

Employees were more likely to say that their CEO is not rewarded in line with the level of the organisation's performance, 38%, compared with 32% who said that it is in line with the organisation's performance (almost a third (29%) don't know). Employees in micro (51%) and smaller (46%) organisations are more likely to say their CEO is rewarded in line with the level of their organisation's performance. Public sector employees are less likely to agree with this (19% agree, 56% disagree).

Despite a substantial number of employees believing that CEOs are paid too highly and not in line with the organisation's performance, they nevertheless recognise the important leadership roles they play. The majority of employees (63%) believe that, to some extent, the success/overall goals of their organisation *is* dependent on the leadership of their CEO. This figure drops to 54% in the public sector and decreases as the size of respondents' organisations increases.

Pay ratios

We asked our respondents how much more they think that their CEO should earn than the average employee, considering the role and responsibilities of their chief executive. When considering CEO and employee pay ratios, over a quarter (26%) don't think that they are relevant. Of those that do think they are relevant, around a third (34%) think their CEO's pay should be less than five times an average employee's salary, around a fifth (22%) believe it should be five times and above and 18% ten times and above. Those in the not-for-profit (56%) and public (40%) sectors are more likely to say that the pay ratio should be less than five times as opposed to employees in the private sector (30%).

Desire for pay transparency

Seventy-two per cent of employees would like to see more pay transparency within their organisations. Of those, over half of employees (53%) would like to see greater pay transparency at *all levels*. Some employees would also like greater pay transparency, specifically at director (13%) and CEO (12%) levels and to a lesser extent at managerial (8%) and non-managerial (3%) levels.

Employees in micro and small organisations are more likely than employees in medium and large organisations to say they would not like to see pay transparency at any level. Private sector employees are also more likely than public sector employees to say they would not like to see more pay transparency at any level (private: 31%; not-for-profit: 24%; public: 18%). Public sector employees are more likely than private sector employees to say they would like to see more pay transparency at all levels (public: 66%; private: 48%; not-for-profit: 57%).

All figures in tables have been rounded to the nearest percentage point. Because of rounding, percentages may not always total 100.

Table 3: Success of organisation dependent on leadership of the CEO, by sector and size (%)

		Sector			Organisation size			
	Total	Private	Public	Not-for-profit	Micro	Small	Medium	Large
To a great extent	23	26	14	23	51	39	28	23
To some extent	40	40	41	38	31	39	35	38
To a lesser extent	18	16	23	20	9	12	16	23
Not at all	9	7	15	15	3	4	11	10
Don't know	10	11	7	4	6	7	9	6

Base: All (1,036); Unweighted base: 1,030

The consequences of current UK CEO pay levels

Having explored employee perceptions about pay specifically in their own organisations, we wanted to broaden the scope of the debate and explore perceptions about CEO pay levels in the UK generally and their impact upon areas such as employee motivation, organisation reputation and the ability to attract the best people to do the job. The statements below are ordered in terms of strength of agreement/disagreement.

Forty-four per cent disagree that restrictions on CEO pay would see the UK lose the best talent to other countries (while 25% agree).

Thirty-six per cent disagree that UK CEO pay levels attract the best people to do the job (while 24% agree).

These results show that UK employees believe the negative impact and consequences of current CEO pay levels are far-reaching. There is a strong sense of agreement that CEO pay levels are too high and a strong sense of disagreement that they inspire employees to work hard. In fact, three-fifths of employees feel that national CEO pay levels actually demotivate employees and more than half believe they are bad for an organisation's reputation. Just under half (45%) of employees disagree that CEO pay levels are worthwhile in terms of the return investors get from their investment and a similar number (44%) disagree that restrictions on CEO pay levels would run the risk of the UK losing the best talent to other countries. The only statement that draws a more mixed response is that UK CEO pay levels attract the best people to do the job, but even on this issue more employees disagree (36%) than agree (24%).

Practical suggestions to better link CEO pay to their employees and their organisation's success

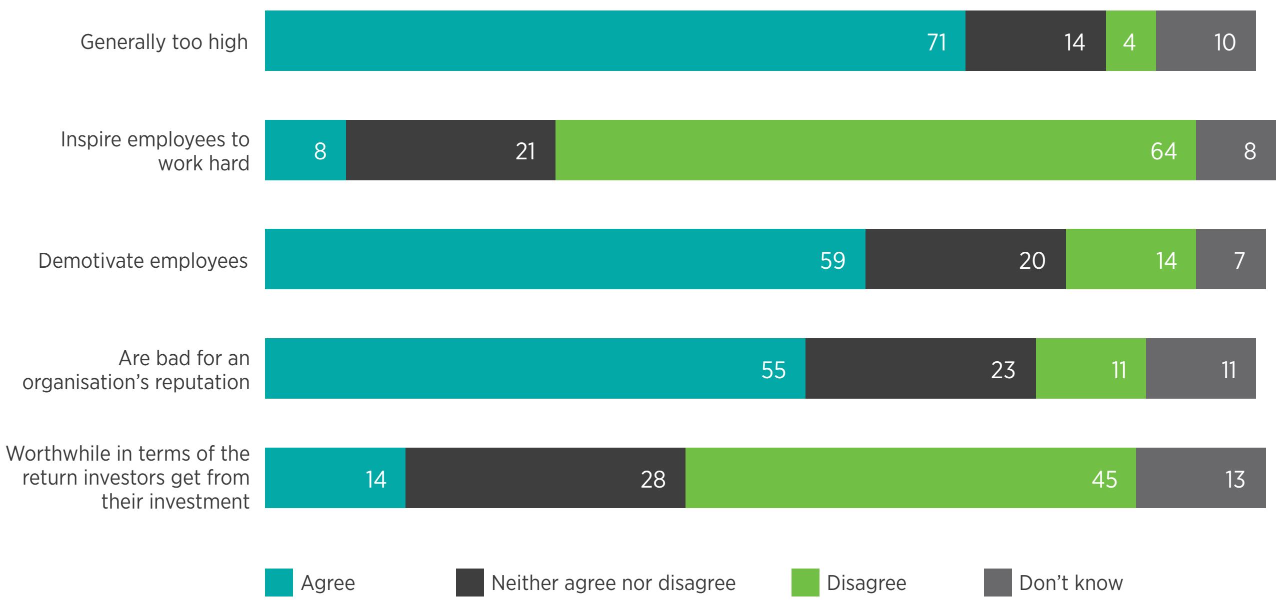
In the final part of the survey, we sought to explore employees' support for practical ways of better linking CEO pay to their employees and their organisation's success. We asked respondents to rank their top three preferences.

Employees ranked equal first the suggestions to 'Publish the ratio between the CEO's pay and the pay of the typical employee' and to 'Limit the size of the CEO bonuses and incentives'. Support for 'paying back CEO bonuses and incentives if the company's performance declines' was also strong, with employees ranking this second and third in terms of preferences.

Overall there were not many differences in terms of organisation size or sector for this question. Employees from larger organisations were more likely to want to publish pay ratios (large: 57%;

All figures in tables have been rounded to the nearest percentage point. Because of rounding, percentages may not always total 100.

Figure 1: Strength of agreement about current CEO pay levels in the UK (%)



medium: 43%; small: 31%; micro: 41%) and employees in the not-for-profit sector were more likely than those in the private sector to want to introduce a national maximum wage (public: 43%; private: 39%; not-for-profit: 52%).

Overall, respondents were most likely to select 'pay back CEO bonuses and incentives if the company's performance declines' as a top three option, with 62% of respondents selecting this as either their first, second or third best option. The next most commonly selected options were 'publish the ratio between the CEO's pay and the pay of the typical employee in that firm' and 'limit the size of CEO bonuses and incentives' with 51% of respondents selecting these as either their first, second or third best options (see Table 4).

This survey highlights the perceived corrosive effects on workforce productivity of having CEO pay out of kilter with organisational performance. The CIPD report *The Power and Pitfalls of Executive Reward: A behavioural perspective* looks at what steps can be taken to better link reward with success in large firms. By taking a behavioural science perspective, it looks at how reward drives CEO pay and finds that too much reliance is being placed on pay, bonuses and incentives to manage executive performance. For instance, by focusing on a few financial metrics, we may not necessarily be rewarding our business leaders for the behaviours and achievements that are needed by modern firms. Similarly, we may not be rewarding our CEOs in the right way; for example, rather than large, complex, incentive plans, deferred over many years, smaller, simpler and more immediate bonuses may be more appropriate. Through a better understanding of how CEOs help drive corporate success we can better reward them in a way that improves our economy.

Table 4: Top ranked suggestions to improve the link between CEO pay, the pay of employees and their organisation's success (%)

	Rank 1	Rank 2	Rank 3	Total rank combined
Make the bonuses and incentives less complicated to understand	11	14	14	39
Publish the ratio between the CEO's pay and the pay of the typical employee in that firm	20	15	16	51
Limit the size of CEO bonuses and incentives	20	16	15	51
Take into account employee views before increasing	8	13	16	37
CEO pay or giving a bonus				
Introduce a national maximum wage that prevents	16	14	10	40
CEOs from earning more than a certain sum or above a certain multiple of average employee earnings				
Pay back CEO bonuses and incentives if the company's performance declines	19	21	22	62
NA – no changes should be made	6	6	6	6

Base: All (1036): Unweighted base: 1030

References

CHARTERED INSTITUTE OF PERSONNEL AND DEVELOPMENT. (2015a) *Show me the money! The behavioural science of reward.* London: CIPD.

CHARTERED INSTITUTE OF PERSONNEL AND DEVELOPMENT. (2015b) *The power and pitfalls of executive reward: A behavioural perspective.* London: CIPD.

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The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

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