

Pay is about more than the market

Executive pay is subject to many factors; Christians can play a part, says *Richard Higginson*

THE ethics of executive pay are the subject of heated debate. While the Government implements severe cuts in the public sector to reduce the national deficit, high salaries and bonuses continue to be paid in the private sector.

One of the main questions is whether pay levels should be decided by “the market” or by some elusive concept of fairness. Does it matter that the average full-time employee working for a FTSE 100 company earns just over £26,000, and the average chief executive in such companies earns £3.1 million — a pay differential of more than 100:1?

These are questions I have wrestled with. I was commissioned by the Church Investors Group (with David Clough, Professor of Theological Ethics at the University of Chester) to write a report on the ethics of executive remuneration. We drew on biblical material about just pay, the dangers of wealth, concern for the poor, and good stewardship; and we recommended that church investors engage with companies that pay a differential no higher than 75:1 — a moderate but significant reduction on the average figure of more than 100:1.

Soon afterwards, a BBC documentary about John Lewis revealed that 75:1 is the maximum pay differential it uses in calculating salaries. Andy Street, John Lewis’s managing director, earns a very modest salary compared with the chief executive of Tesco, whose pay differential is 750:1.

John Lewis and Tesco are both successful retailers, but they operate using radically different philosophies, with regard both to pay and share ownership. John Lewis’s impressive performance through the recession demonstrates that excessive executive pay is not necessary to ensure strong corporate performance. But the fact that John Lewis is a partnership draws attention to the significance of corporate ethos and structure in this debate. Where alternative corporate models to the conventional plc operate, there is more scope for bucking the trend in what senior executives are paid.



Run with precision? Bonuses have been an issue at the RBS

THE fact that different pay scales prevail in different sectors emerged clearly in the recent Hugh Kay lecture, “Pay, poverty and inequality”, organised by the Christian Association of Business Executives. The speaker was Chris Stephens, a former HR director who now serves in a variety of posts.

He described how, within a short space of time recently, he took part in three decisions about remuneration. As a member of the Senior Salaries Review Board, he consented to a pay freeze at £240,000 for the most senior officers in the Civil Service because of the underlying state of government finances.

As chairman of the remuneration committee of a medium-sized company, he agreed to a financial package potentially worth three times as much for a new board member — the going rate in that sector. Then, as chairman of Traidcraft, the fair-trade organisation, he agreed to a pay freeze and some redundancies — this in a company/charity where the pay differential is a mere 6:1.

These decisions all made sense in their own sphere, but they highlight the question of inequality. Mr Stephens admitted his discomfort: “Operating

in separate sealed containers seems at odds with Christian teaching — teaching about a single created universe, about men and women being equally precious in God’s sight.”

Mr Stephens noted how the high rewards in the financial sector are affected by a global marketplace, where the most talented individuals will be attracted by higher financial packages elsewhere — lower tax rates in, for example, Hong Kong being a significant factor.

On poverty, he described the way in which premium prices are transforming the lives of fair-trade producers in India, Kenya, Bangladesh, and Swaziland. On inequality, he cited *The Spirit Level* (Penguin, 2009), whose authors, Richard Wilkinson and Kate Pickett, suggest that countries with a high degree of inequality, such as the United States and the UK, also suffer the greatest number of social problems — for the rich (the “affluenza virus”) as well as the poor.

IT IS easy to feel powerless in the face of market forces, but there are things that we can do. Mr Stephens suggested that employers:

- recognise other values apart from

pay (such as job satisfaction and intellectual stimulus), which can attract staff;

- be transparent about pay, at the bottom as much as the top;
- attempt to pay not just the minimum wage, but the living wage.

He also encouraged high earners to give more; in Brian Griffiths’s words, to be “recklessly generous”. And he noted that all consumers can be aware of the impact of their decisions and buy fairly traded goods.

I would add some further suggestions. At this time of uncertainty about money and jobs, it is easy to retreat into doing whatever is necessary for our own survival, buying cheap and selling dear. But it is precisely during a testing time that Christians should be characterised by a different attitude, loving our neighbours as much as ourselves.

The world is interdependent, and there are no limits to who constitutes our neighbour, in Bangalore as much as in Birmingham. One encouraging development in recent years is the growth of social enterprise — business aimed not just at making money but at transforming society, bringing marginalised people out of poverty — in the developing world. Christians are playing a significant part in this.

We could invest what money we have in the following and similar organisations, which are all doing sterling work that I have witnessed: Five Talents (www.fivetalents.org.uk), the Anglican micro-finance organisation that provides loans and capital to small producers; and Shared Interest (www.shared-interest.com), the ethical-investment co-operative, which lends money to fair-trade businesses in the developing world. There is much we can do.

Dr Richard Higginson is Lecturer in Christian Ethics and Director of Faith in Business at Ridley Hall Theological College, Cambridge, and the co-author of The Ethics of Executive Pay (Grove, 2010). He is running a conference on debt in April (www.faith-in-business.org).