Charles Wookey led a discussion bringing together economic and societal arguments on whether executive pay is a market or racket. He was joined on the panel by Dirk Jenter, Diandra Soobiah, and Stefan Stern.

A recurring question in the session was whether it is fair for executive pay to rise while worker pay stagnates. Soobiah said that executive pay levels have increased due to growing amounts of variable pay, often linked to metrics tied to the market. As markets have performed strongly, CEOs have been well compensated—but workers and wider society have not been. She said that companies must be accountable to society and spoke out against companies that give top executives large pay packages without giving workers a ‘living wage’ (the minimum income necessary for a worker to maintain his or her basic needs). Some participants in the audience echoed this sentiment. One said that society is being hurt by pay inequality and a second person said more needs to be done to help people at the bottom. Another argued that the trade-off around inequality in society and earnings should be decided democratically by policymakers, rather than through the corporate process.

Jenter felt that pay disparity between management and workers is a key driver of much of society’s opposition to high executive pay. He said that if worker pay had increased at the same rate as executive pay over the past 40 years, there would be much less outrage. Jenter acknowledged that pay disparity is a problem but said that cutting CEO pay was not necessarily the right answer. He argued that reining in CEO compensation would lead to shareholders becoming richer, rather than employees receiving a greater proportion of profits.

Soobiah criticised investors for not taking a tougher stance on executive pay. She pointed out that shareholders have won increased powers on say-on-pay through corporate governance developments, yet executive pay has continued to rise. Soobiah argued that the world’s biggest asset managers are not motivated to make appropriate decisions on CEO pay and are not using their influence effectively. She charged that these investors have high executive pay packages themselves, so are “not incentivised to hold invested companies to account on this”. Soobiah said she would like to see remuneration committees play a more powerful role, to make executive pay better structured and to encourage the right kind of corporate behaviours.

Wookey encouraged participants to consider the evolution of the board and the recent shift by the Business Roundtable stating that companies create value for all stakeholders, rather than just shareholders. He said that what you pay the CEO should not come as a trade-off between what they are compensated versus what shareholders receive, but what they get versus what the workforce gets and how well customers and suppliers are treated.

Stern argued that the nature of how companies are run has changed, with more decision-making shared between the CEO and the board. He questioned why companies still give “disproportionately large rewards to one human being called CEO” when many major decisions are now taken collectively. He also quoted a Lancaster study which claimed to find a “negligible” link between CEO
pay and performance. A practitioner in the audience said that he believed a lot of a CEO’s value is not what they personally do, rather the team they are able to bring together. He said there is a high correlation between a good quality CEO and the people who are prepared to work for him or her. Professor Steve Kaplan in the audience took a different view, saying that CEOs can make a huge impact on a company, positive or negative, and can create billions or even hundreds of billions of dollars in value. Wookey spoke about how the CEO role has changed and will continue to evolve, for instance through technological developments and with wider stakeholder considerations. He argued that people at the top operate complex roles and add can enormous value to their companies, which should be reflected in their compensation packages.

Before opening up questions from the audience Wookey encouraged people to imagine a citizen’s jury sitting on the side of the room. He said that this would help people to think about what different members of society might say in response to the debate and that this could help in bringing together economic and societal arguments.

People in the audience shared a diverse range of views. One participant said it is important to consider the wider impact of globalisation on workers and the fact that CEOs are incentivised to cut costs. He made the point that these factors have contributed to high levels of wage disparity. Another expressed his view that companies are currently getting away with not paying for external damage they are causing to society. A practitioner in the audience defended high executive pay, particularly in large companies. He made the point that large companies can have a huge impact on society and said that the people running these companies, such as in the oil and gas sectors, will be making decisions that will determine our futures for the next 20 years. He said he would not want to be in these CEOs’ shoes. Wookey said that he strongly agrees that leadership matters, although said we are often prone to exaggerate the impact that one individual, such as a CEO, has made. Another participant said he did not think CEOs should be rewarded for shifts in macroeconomic policy which have helped to lift share prices.

A member of the audience discussed whether shareholder empowerment has had an impact or not. He said he believes there is a relationship between shareholders getting involved and the plateauing of executive pay that we have seen in recent years. Jenter agreed that there is much evidence suggesting that say-on-pay has had an effect on executive pay levels. He also said that while say-on-pay has not quite brought pay down to levels seen in the 1980s, it has compressed pay levels and we no longer see very big outliers anymore.