

Fair Remuneration

TACKLING BOTH THE TOP AND BOTTOM OF THE INCOME PYRAMID

How are corporations performing in terms of sustainable development? This is what standards and practices related to “triple bottom line” or environmental, social and governance (ESG) reporting try to assess. But the current approach has a number of blind spots, rendering it impossible to gauge effectively whether corporations are working for or against a core dimension of inclusive and equitable development, namely distributive justice. Focusing on the issue of fair remuneration, this Brief highlights ways in which measurement and disclosure related to (i) income inequality within the firm and (ii) the adequacy of wages need to be repurposed if the transformative vision of the 2030 Agenda for Sustainable Development is to be realized.

While the issue of fair remuneration has gained currency within corporate sustainability reporting, attention focuses primarily on the base of the income pyramid. But it is not only low or stagnant wages of workers but also the rapid rise in senior executive—notably C-suite—remuneration that accounts for the extreme levels of income and wealth inequality seen since the 1990s. Far more attention needs to focus on the top of the pyramid.

940% Increase in CEO pay
12% Increase in worker pay

Source: Mishel and Wolfe 2019; 1978–2018 data for the largest 350 firms in the United States.

Furthermore, reporting aimed at demonstrating the adequacy of wages for lower-paid employees tends to focus narrowly on the extent to which entry level or average wages comply with—or are above—minimum wage or industry norms. From the perspective of norms related to sustainable development, the minimum wage benchmark amounts to a low bar. More attention also needs to be focused on the payment of a wage that provides for a decent standard of living as defined by the concept of “the living wage”.

From the perspective of transformative change, then, reporting on both income distribution within the firm and the adequacy of wages are deficient. This Brief draws on findings in *Accounting for Sustainability: What Can and Should Corporations Be Doing?* (Utting with O'Neill, forthcoming) to show what's wrong and what needs to change.

The CEO-worker pay ratio

Until fairly recently, the enrichment of corporate elites tended to fly under the radar as an issue within corporate sustainability disclosure. This is now changing, not least in the wake of the global financial crisis of 2008–9 which spurred a wave of media attention and social activism targeting the “1%”. The crisis also prompted considerable academic analysis that connected the dots between the vast salaries of “supermanagers”

Table 1. CEO–worker pay ratio in the United States

1965	20 to 1
1989	58 to 1
2000	386 to 1
2009	195 to 1
2018	278 to 1

Source: Mishel and Wolfe 2019; CEO pay is calculated on the basis of the “stock options realized” method.

(Reich 2007) and a model of capitalism that was inherently anti-competitive, anti-democratic and not conducive to productive investment or balanced and inclusive growth (see UNCTAD 2017, Piketty 2014, Stiglitz 2018). In a few countries, including the United States, legislation called on publicly-traded companies to disclose their pay ratios. An obvious indicator for

Box 1. Sustainable Development Performance Indicators Project (SDPI)

UNRISD's SDPI project (2018–2022) aims to contribute to the measurement and evaluation of the performance of economic entities—both in the for-profit sector and in the social and solidarity economy—in relation to the vision and goals of the 2030 Agenda for Sustainable Development. The project will assess the adequacy of existing methods and data associated with sustainability accounting; expand the scope of sustainability measurement, disclosure and reporting beyond for-profit enterprises to encompass enterprise models in the social and solidarity economy (SSE); identify and test a set of indicators that can effectively measure impacts, while ensuring that the economic behaviour of enterprises and other organizations contributes to maintaining environmental and social resources at the thresholds required for sustainable development. Phase 1 of the project, comprising both a state-of-the-art review and preliminary guidance on key performance issues, indicators and targets, was completed at the end of 2019, in view of a testing phase in 2020–2021. For more information, visit www.unrisd.org/sdpi.



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Box 2. Pay ratios by country and region

Pay ratios vary significantly by country, region or what are sometimes referred to as “varieties of capitalism”. A Bloomberg ranking comparing CEO salaries to average per capita income* notes that five countries, including several so-called “Anglo-American” economies, have ratios above 200 to 1. This contrasts with the Nordic countries and several Asian jurisdictions (Hong Kong, Malaysia, Singapore, Japan) which have far lower ratios.

South Africa	541
India	483
US	299
UK	229
Canada	203
Switzerland	179
Germany	176
Spain	172
Netherlands	172
Norway	101
Denmark	82
Sweden	75
Finland	61
Hong Kong	66
Malaysia	66
Singapore	65
Japan	62

Source: Based on Lu and Melin 2016

* The term “average income” refers here to per capita gross domestic product adjusted for purchasing power parity.

measuring income inequality within the firm is the pay ratio between employees at or near the bottom of the income pyramid and the highest paid employee, usually the CEO.

Beyond the fact that many companies do not disclose such data, there are two major concerns regarding pay ratio reporting and assessment. Firstly, the way it is calculated is problematic, as methods for calculating CEO remuneration vary considerably. Often omitted are certain elements that make up the full compensation package. A comprehensive definition—one used by the Economic Policy Institute (EPI)—includes not just base salary but also bonuses, restricted stock grants, long-term incentive payouts and stock options realized or options granted (Sabadish and Mishel 2013).

Similarly, what CEO remuneration should be compared to also varies. Most indicators focus on “other employees”—a category that also includes managers and senior executives, as opposed to simply “workers” or employees in lower income brackets. The average pay of “other employees” may not bear a close relation to the wages of the lowest paid workers. Accordingly, when calculating pay ratios, the EPI focuses more directly on “workers”, defining them as employees in production and non-supervisory positions (Mishel and Wolfe 2019).

A further issue is whether companies report the median or the mean average of “other employees” pay, a choice which some standard-setting and ratings organizations leave to the reporting company. Given the wide range of staff that make up the category of “other employees”, the median and mean average can vary depending on the employment and pay structure of the company. The median—the mid-point of a set of values—is generally considered to reflect more accurately the pay level of “typical” employees, notably in contexts of skewed distribution.

The second concern relates to the lack of a normative target or benchmark against which to assess progress. What might a fair CEO-worker pay ratio be? What should we make of the fact that a corporation has reduced its CEO-worker pay ratio from, say, 300 to 1 down to 200 to 1? In incremental terms this seems significant but from the perspective of assessing performance in relation to sustainable development, is 200 to 1 a suitable pay ratio? Unless we have an idea of what a fair allocation should be, it is not possible to assess sustainability performance in any meaningful way.

Identifying a normative target or target range will require a systematic review of different ethical, cultural, historical, institutional and political perspectives regarding fair pay ratios. A preliminary review carried out for the SDPI project (Utting, forthcoming) provides several pointers. One reference point is pay ratios associated with countries or models of capitalism often considered more equitable (see Box 2). Other reference points more directly related to intra-firm contexts are indicated in Table 2. While

Table 2. What is a fair pay ratio?

General public	2–20 to 1*
Ratings or certification entities**	8–11 to 1
Cooperative corporations (e.g. Mondragon)	9 to 1
State-owned enterprises	10–20 to 1***
Historical norms–1970s	20–30 to 1
Progressive fiscal policy proposals (USA and Canada)	30–50 to 1

* lowest and highest ideal ratio, based on a survey in 40 countries; see Kiatpongsan and Norton 2014;

** refers to normative guidance adopted by certain organizations to assess positive performance;

*** regulatory norms in France, South Africa and China.

norms related to pay ratios might vary according to different institutional and sectoral settings, this exercise points to a target range of roughly 10–50 to 1, with a mid-point of about 30 to 1. Returning, then, to the above question, from the perspective of sustainable development a decline in the pay ratio to 200 to 1 still means that the company in question can in no way claim to have a fair pay ratio.

Towards a living wage

To assess progress toward distributive justice and sustainability, it is also important to improve reporting on how adequate wages are. Greater attention has been paid to what global corporations disclose about wages and overtime within their supply chains since the anti-sweatshop movement of the 1990s. But norms related to adequate wages have tended to focus on whether wages comply with or exceed minimum wage or industry norms, or annual increases in real wages.

Far less attention has been paid to the “the living wage” as a normative benchmark. The defence of the minimum wage and gradual increases in real wages, while certainly important, constitute low-hanging fruit in the challenge to achieve fair remuneration. A more meaningful norm, from the perspective of sustainable development, is the living wage.

Drawing on over 60 different descriptions and definitions, the Global Living Wage Coalition (GLWC) defines the living wage as:

remuneration received for a standard work week by a worker in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs including provision for unexpected events (GLWC undated).

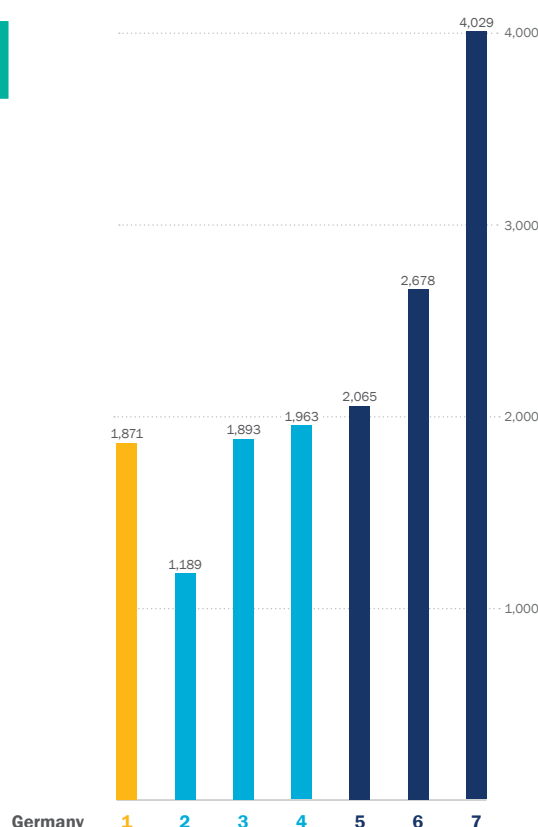
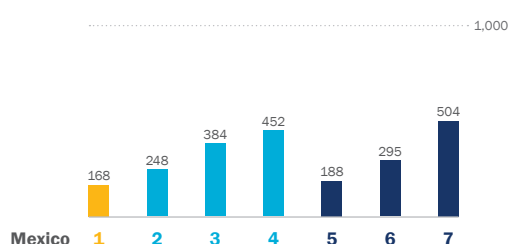
A growing number of standard-setting and advocacy organizations, as well as some companies, are now assessing wages in relation to a living wage benchmark, notwithstanding variety in the definitions and methods used to calculate the living wage. Several corporations—adidas, PUMA, Unilever, H&M, IKEA, AstroZeneca, Vodafone and Standard Chartered Bank, for example—are now referencing fair remuneration or the living wage

Figure 1. Minimum, living and actual wages per month, USD equivalent* (Selected countries, 2020)

- 1 Minimum wage
- 2 Living wage: Individual
- 3 Living wage: Standard family **
- 4 Living wage: Typical family **
- 5 Wage: Low-skilled worker
- 6 Wage: Medium-skilled worker
- 7 Wage: High-skilled worker

* The Wage Indicator Foundation presents both a low and high estimate for living and actual wages. The data reported here correspond to the low estimate.

** The “standard” family and “typical” family vary in number of children and hours of paid employment. For definitions, see link in figure source.



Source: Based on data from the WageIndicator Foundation. *Wages in Context*. <https://wageindicator.org/salary/wages-in-context>. Accessed 10 August 2020.

in their pay strategies (Vaughan-Whitehead 2019). In 2015, the Fair Labor Association (FLA) enhanced its work on the compensation element of building socially responsible supply chains by implementing the FLA Fair Compensation Work Plan.

Using the living wage as a benchmark can shed a very different light on the adequacy of wages. As noted in a study by the FLA in Vietnam:

... although the average worker in FLA affiliate factories in Vietnam earns more than double the minimum wage, a worker would need a pay increase of almost 25 percent to adequately provide for themselves and their family according to the Global Living Wage Coalition benchmark. Those workers who earn an adequate wage can do so only through long hours and excessive days of work without rest, in clear violation of international standards (FLA 2019).

Disclosing data on the actual wages of different categories of workers and comparing them with (i) the minimum wage, and (ii) the living wage can reveal significant variations in wage relationships whether by country, industry or company. Data for 76 countries presented by the WageIndicator Foundation not only compare the living wage to the minimum wage but also to the prevailing wage of low-, medium- and high-skilled workers. Figure 1 shows that in the case of Mexico, low-skilled workers earn just above the minimum wage but neither they nor medium-skilled workers earn anywhere near the living wage for a family. This contrasts with the situation in Germany where the minimum wage approximates the living wage for a standard family and even low-skilled workers earn above the living wage.

Beyond different methods for calculating the living wage, there are various concerns with the living wage approach. For some, it sets the bar too high given the economic realities of companies (Vaughan-Whitehead 2019). But like other sustainability indicators involving normative goals—for example, science-based carbon emissions targets—ambitious or even aspirational goals may be necessary to effectively assess performance along a sustainable development pathway. Not only qualitative indicators related, for example, to the quality of management systems, but also quantitative indicators related to sustainability thresholds and fair allocations are important.

Another concern relates to trade-offs and contradictions. A push for markedly higher wages may indeed cause firms to reduce the number of full-time employees, rely more on temporary and part-time workers, or outsource or sub-contract workers via labour brokers. From the perspective of measuring how a firm is performing in relation to sustainable development, this does not mean that the living wage goal should be jettisoned; rather that reporting should allow stakeholders to judge performance in relation to both the adequacy of wages for workers on different types of contracts and the quality of employment. Sustainability reporting should not be about cherry picking only the positive aspects. Disclosure should reveal instances of contradictory performance, where they exist. Attaining a degree of transparency about any shift to more precarious forms of employment, which runs counter to widely accepted guidance by standard setters such as the Ethical Trading Initiative and SA8000 that call for a commitment to regular or stable employment (Wilshaw et al. 2013), is a vital first step toward reversing it.



“...the spectacular increase in inequality largely reflects an unprecedented explosion of very elevated incomes ... of the top managers of large firms ... [who] by and large have the power to set their own remuneration, in some cases without limit and in many cases without any clear relation to their individual productivity ...”

Piketty 2014:24

Recommendations and targets

CEO-worker pay ratios should:

- lie in the range of 10–50 to 1 or below depending on sectors and institutional settings;
- be calculated by including not just the CEO's base salary but also bonuses and the full compensation package;
- compare the CEO's income with that of "workers" or employees in lower income brackets, not that of all "other employees" including managers and senior staff;
- compare the median wage of workers with CEO remuneration, not the mean average.

Indicators for adequate wages should:

- be assessed from the perspective of the living wage, not the minimum wage;
- compare the median wage of each quartile of wage/salary earners in a company to the living wage;
- reveal the living wage gap, that is, the percentage of employees within a company that earn below the living wage.

Key takeaways

- Any assessment of the social impacts or performance of corporations needs to factor in aspects of distributive justice concerned with income inequality. Pay ratio data are important in this regard.
- To assess sustainability performance, progress should be measured in relation to norms that reflect a level of ambition consistent with a transformative notion of sustainable development.
- This implies the need to raise the bar in sustainability reporting. Corporations need to disclose where they stand in terms of (i) pay differentials, by accurately calculating and presenting in a transparent manner pay ratios between CEOs and employees toward the bottom of the income pyramid, and (ii) the adequacy of wages from the perspective of the living wage.
- Corporate sustainability disclosure should be able to reveal trade-offs or contradictory areas of performance related to the quality of both wages and employment.
- Organizations engaged in research, standard-setting and advocacy in this field, including the

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