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National average pay rises outstripped those of FTSE 100 executives last year

David Woods, 22 January 2010

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FTSE executives' pay increases are lower than the average UK pay rises, for the first time in 10 years.

According to PricewaterhouseCoopers (PwC), the 2009 national average earnings increases (2.5%) outstripped FTSE 100 (1%) and FTSE 250 (0%) base pay increases. The PwC research also found one in six FTSE 100 executive directors did not receive a bonus in 2009, with median bonus payments falling by 20%.

Shareholder opposition to remuneration proposals also grew - 20% of FTSE 100 companies had more than one in five of their shareholders withhold support for the remuneration report, up from 3% in 2008.

PwC's research also found that median maximum bonus potential for CEOs remained stable at 150% of salary in the FTSE 100, equivalent to around £1.2 million and 100% in the FTSE 250, which would equate to around £425,000 if paid out in full. But, actual bonus payments decreased by 20% in 2009 reflecting business performance and the economic climate. The median bonus payout for CEOs in the FTSE 100 and FTSE 250, respectively, were £525,000 and £217,000.

The number of executives receiving nil bonuses doubled in the FTSE 100 last year and increased by 40% in the FTSE 250, meaning one in six executive directors in the FTSE 100 and FTSE 250 did not receive a bonus in 2009. Banks withholding bonuses last year significantly influence this statistic.

Tom Gosling, reward partner, PricewaterhouseCoopers, said: "Remuneration committees must balance the need to motivate executives in the face of a challenging business environment, reduced bonuses and increased taxation against shareholders' perceptions that the link between pay and performance is not strong enough, and that one year of pay restraint is not sufficient given the severity of the downturn and the impact on profits.

"Shareholder activism on pay increased significantly last year and with the next AGM season taking place during or in the run up to an election, against a backdrop of continued economic uncertainty, scrutiny on executive pay arrangements will not diminish this year. The appropriateness of performance measures and payments in respect of annual bonus and long-term incentive plans will be subject to great debate.

"Some new issues will break waves this year - pension arrangements for top executives and contractual arrangements in areas such as termination terms will be the focus for many shareholders in the current AGM round.

"The current interactions between shareholders, remuneration committees and executives regarding plan designs and performance conditions are leaving all parties frustrated. We need to break the mould of traditional thinking in this area and move to a new model if we want executive pay to work more effectively.

"This means using simpler plans, with a greater role for remuneration committee discretion in making a rounded assessment of performance. Ensuring executives are significant shareholders will often be more successful in achieving alignment than complex long-term incentive plans."

Commenting on the findings, Bettina Bender, partner and employment specialist at law firm CM Murray, added: "This is seen as a sign that boards are linking executive pay more closely to performance and also an attempt to link in with cost-cutting across the organisations. Controls on executive remuneration has long been a thorny issue and it will be interesting to see whether pay restraint and creating a more direct link between pay and performance will be here to stay. Comparisons with bankers' bonuses will no doubt follow."

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