Pay Ratios in Aotearoa New Zealand

Are the levers set right?

We want an Aotearoa where everyone in paid work earns enough to look after their family and raise their tamariki with dignity. From the CEO to the cleaner, working hard should mean being paid fairly.

ANGLICAN advocacy

A pay ratio is the ratio between the highest-paid and average or lowest paid in a company. There has been rising global concern about ballooning pay ratios in recent years. This discussion paper looks at pay ratios between the highest and lowest paid in Aotearoa companies and describes some of the options to begin addressing the disparity.

Chief executive remuneration in New Zealand has gone up by 67% over the period 2000-2020. (The most significant increase in this period happened during and immediately after the Global Financial Crisis. Why this happened is a topic that warrants further investigation but is beyond the scope of this report.) Minimum wage earners have been lifted by government policy with a similar increase of 63%. While that is positive, those gains have been lost in other areas as we will see later (fig. 3). Average workers have seen the least gain, with an increase of 31% over the same period.

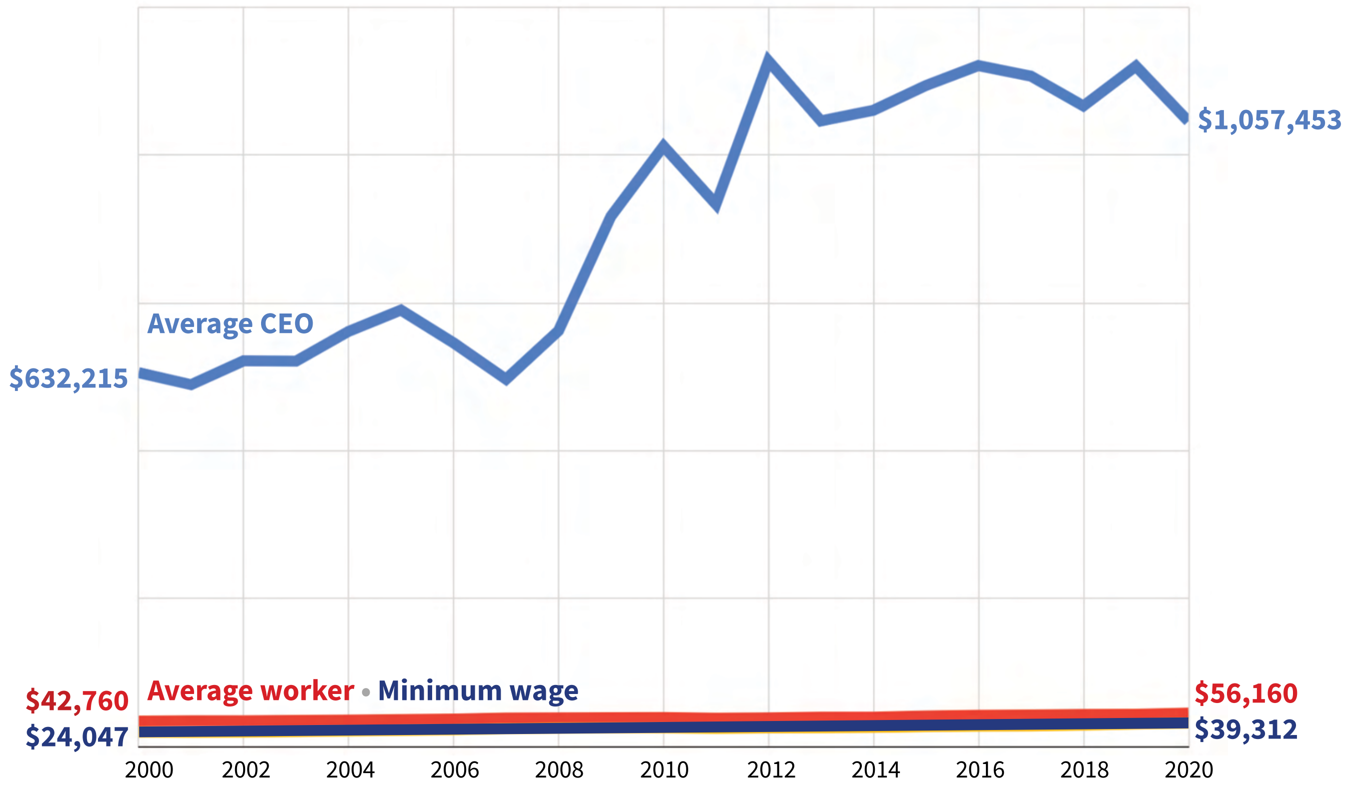
One of the most common inequality measures, called the Gini coefficient, has shown very little change over the last 20 years[1]. That is not what you would expect looking at changes in compensation over that same time. It also does not match many people's lived experience. Why does the story told by our graph, and the Gini measure differ?

One explanation might be that the Gini measure is unresponsive to changes at the extreme ends. For example, taking most of the income from the poorest 1% and giving it to the wealthiest 1% would not significantly move our inequality rating.

Regardless of the reason, the pay ratios of more than 100 New Zealand companies provides some insight into where many people experience inequality: the workplace. After all, inequality is a relational issue.

Figure 1: The big-picture trend, two decades of NZ wages

This chart shows the average CEO total remuneration packages, the average New Zealand worker wage, and the minimum wage from 2000 to 2020. All figures are inflation-adjusted and expressed in 2020 dollars.



Mean CEO wages from Helen Roberts, Otago University, tracking around 20 NZ CEOs each year. Minimum and mean NZ worker wages from Reserve Bank NZ. All figures are inflation-adjusted to be in 2020 dollars. Yes, the bottom of the y-axis is at 0.

Table 1: Pay ratios for 2019/2020

Pay-ratio	Organisation	Highest pay
151:1	A2 Milk Company	6,237,000
139:1	Fonterra	5,267,090
136:1	Fletcher Building	5,110,923
120:1	Air New Zealand	4,680,572
113:1	Telstra Corporation	4,660,000
100:1	Xero	4,144,000
90:1	EbosGroup	3,742,058
85:1	IAG NZ	3,163,000
82:1	Warehouse	3,333,000
74:1	Fisher & Paykel Healthcare	3,026,377
74:1	Sky City Entertainment	2,788,366
71:1	Mainfreight	2,951,572
63:1	BNZ	2,910,700
63:1	Auckland International Airport	2,344,456
54:1	Sanford	2,120,000
52:1	Mercury Energy / MightyRiverPower	1,933,432
50:1	Contact Energy	2,131,716
50:1	Genesis Energy	2,071,613
49:1	Meridian Energy	2,039,841
49:1	Port of Tauranga	2,022,501
49:1	Chorus	2,017,453
49:1	ASB New Zealand	1,831,020
48:1	TrustPower	1,985,150
45:1	Sky Network TV	1,878,300
43:1	Kiwi Property Group	1,579,217
40:1	Vector	1,925,001
39:1	Kathmandu	1,617,567
37:1	Ryman Healthcare	1,356,641
35:1	Downer	1,281,700
31:1	Z Energy	1,240,908
31:1	MetlifeCare	1,199,615
30:1	ANZ New Zealand	1,361,356
29:1	Spark	1,200,000
28:1	MichaelHillInternational	1,159,712
27:1	Synlait Milk limited	1,101,511
26:1	T&Gglobal	1,074,271
26:1	Delegat'sGroup	1,067,000
25:1	Arvida	1,164,787
25:1	Mercer	1,045,145
25:1	NZME	1,034,907
25:1	Skellerup Holdings	932,000
24:1	Radius	870,000
23:1	Eroad	944,000
23:1	MetroGlass	934,546

Pay-ratio	Organisation	Highest pay
23:1	Summerset	887,625
23:1	TourismHoldings	830,917
22:1	Briscoes	219,038
22:1	New Zealand Post Group	906,632
22:1	Rakon	837,332
21:1	ColonialMotorCompany	879,829
21:1	New Zealand Exchange	860,000
20:1	Freightways	843,483
20:1	Scales	813,448
20:1	Restaurant Brands	806,000
19:1	NZOil&Gas	794,232
19:1	PGG Wrightson	770,440
18:1	Steel&TubeHoldings	702,880
18:1	TilLogistics	670,306
18:1	AMP New Zealand	650,000
17:1	Hallenstein Glassons	706,119
17:1	Oceania Healthcare	637,029
16:1	IkeGPS	658,413
16:1	GreenCross/LifePharmacy/BeautyDirect	655,000
15:1	Serko	630,734
15:1	AWFMadison	608,348
14:1	Super Retail Group	596,079
14:1	Turners	593,985
14:1	AFTPharmaceuticals	592,353
14:1	AbanoHealthcare	584,560
14:1	VistaGroup	571,297
13:1	Vital/TeamTalk	552,870
13:1	Pacific Edge	533,000
13:1	Cavalier	526,669
12:1	Comvita	515,000
12:1	PushPay	492,060
11:1	My Food Bag	500,000
10:1	BlisTechnologies	399,906
9:1	WellingtonDriveTechnologies	392,800
9:1	SouthPortNewZealand	382,004
9:1	GEO Limited	361,000
8:1	SeaDragon	345,000
8:1	AlliedFarmers	314,349
7:1	FMS/Sealegs	289,675
6:1	QEXLogistics	250,000
5:1	Marsden Maritime Holdings	223,452
3:1	MoaGroup	125,000
3:1	CannaSouth	104,352

Figure 2: CEO pay vs company size

Generally speaking, CEO pay relates to the size of the company, although this is not always the case and there are some significant outliers in the graph.

Figure 3: Percentage changes in key indicators, 2007 – 2020

Although the income of the lowest and average paid employees have risen, they have risen slower than increases in the cost of renting. As with every other social issue, housing remains a key factor. But not the only factor.

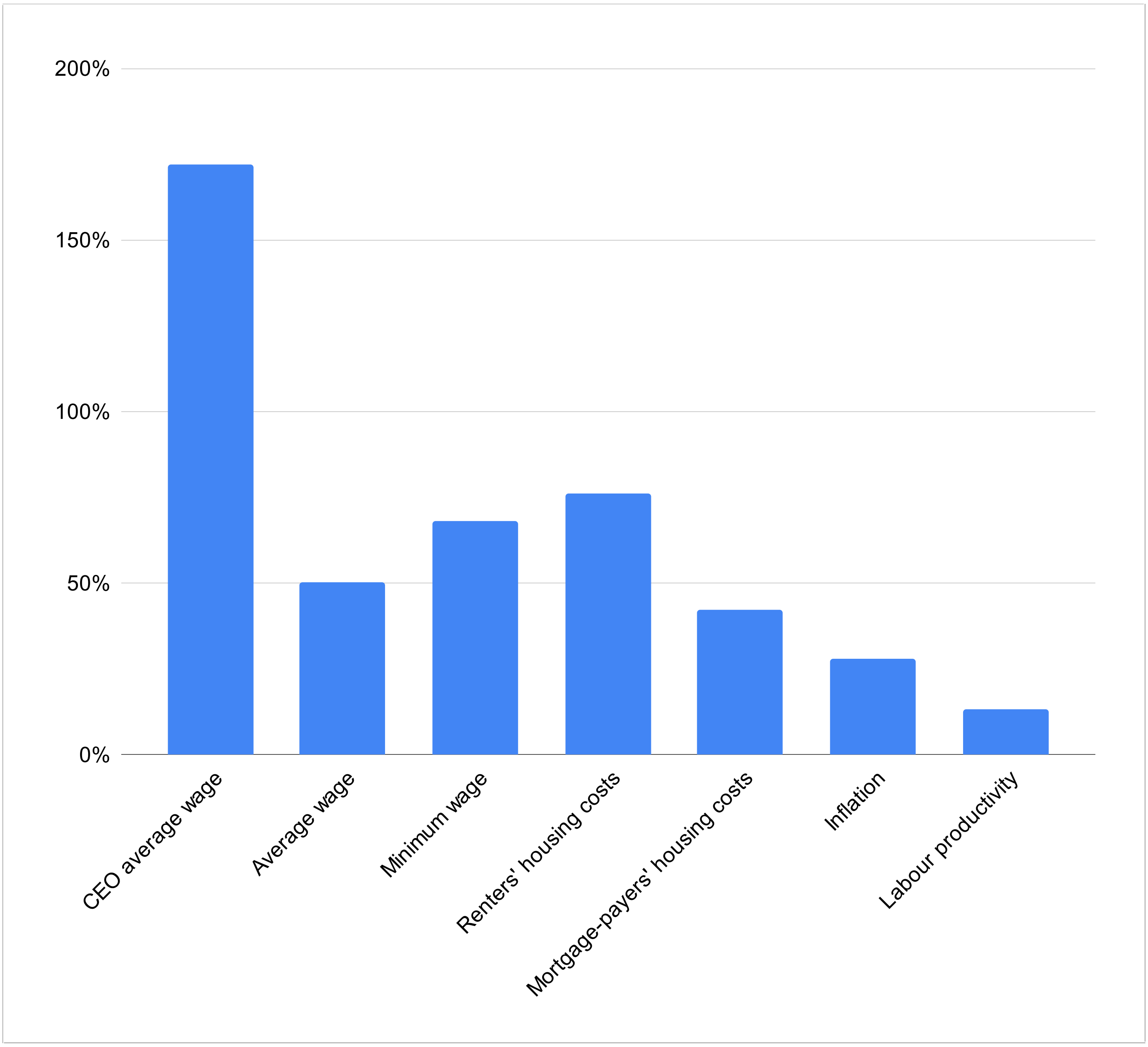


Table 2: Weeks for CEO to earn the yearly salary of the lowest-paid employee for selected companies

Organisation	Weeks to earn lowest-paid annual salary
A2 Milk Company	0.3
Fonterra	0.4
Fletcher Building	0.4
Air New Zealand	0.4
Telstra Corporation	0.5
EbosGroup	0.6
IAG NZ	0.6
Warehouse	0.6
Fisher & Paykel Healthcare	0.7
Sky City Entertainment	0.7
Mainfreight	0.7
BNZ	0.8
Auckland International Airport	0.8
Sanford	1.0
Mercury Energy / MightyRiverPower	1.0

Table 2 shows the number of weeks it takes for a CEO to earn the yearly salary of the lowest-paid employee in that company. The CEO of Rymans (the lowest in this sample) received the yearly salary of an employee in about 7 days. It is difficult to argue that they could have worked that much harder than frontline people looking after the dignity of our elders.

While employment was once seen as the answer to poverty, being employed is no longer a guarantee of escaping poverty traps. There are an estimated 56,825 children living below the poverty line in households with a working parent.[2]

Our social services agencies are seeing an increase in people looking for support who have a job. Or, more often, multiple jobs. The question we face is about the way we value work and workers. What is our vision for society?

> *I can't get my kids into sport, or afford the dentist. If my old car breaks down we go without a meal. It's depressing. I'm so tired, I feel like there is no point. I cry at night when the kids are in bed... I can't keep up.*

> *There's always another bill around the corner that kills us. Our power is on prepay which is more expensive. But we got too far behind. I can't see a way out.*

Both comments are from people who required social service support despite being in full-time employment with the same employer for more than 3 years.

What story does this tell us?

No one factor can give a complete picture of the way a company values its people. A simple pay ratio for example doesn't capture the differences between long and short-term incentives or the possibility of a large retirement payment influencing the average.

However, while pay ratios don't tell the entire story, they do tell a story. When you stand back and look at the big picture, the rising inequality that many people feel is evident.

Companies in New Zealand operate not only under the Companies Act and their own constitutions, but also within a broad social licence framed by the values we hold and aspire to as a nation. Giving ever-increasing rewards to the highest earners in our society, while leaving the average and lower-income earners behind says something about those values regardless of carefully worded ethical statements on company websites

High inequality lowers social cohesion and trust. Inequality leads to worse social outcomes across society, harms social mobility, and increases barriers to kids breaking out of cycles of poverty. The rising inequality indicated by the pay ratios in Figure 1 reflects peoples' lived experience.

None of this is inevitable. It has been built by the decisions we have made. The rising pay ratios we are seeing in New Zealand are not unique. However, compared with other countries, there are fewer measures being put in place in New Zealand as a response. Following are descriptions of some of the responses being seen elsewhere.

Some Possible Levers

Pay ratio disclosure

The UK, India, and the United States all require pay-ratio disclosure. The UK legislation includes disclosure of CEO to lower quartile pay, with a requirement to explain the ratio. Pay ratio reporting has also been discussed in Australia and the EU and forms part of the non-binding reporting guidelines in Germany. Good governance begins with transparency.

Pay ratio caps

Israel has passed a pay cap of 44:1 that covers bank executives and insurance companies.[3]

Switzerland held a referendum on a pay ratio cap, which failed. The intention of a pay ratio cap would be to limit the ballooning of CEO payout of step with the workforce. If a company board wanted to give their CEO another million dollars they would need to pay a proportionally equivalent increase to their lowest-paid workers to keep the ratio the same. However, some fear that in practice companies would find workarounds for adding to CEO compensation, and companies below the cap would see it as a target rather than a limit.

	Before increase	After increase	Change
Highest wage	$1,800,000	$2,200,00	18%
Lowest wage	$41,600	$50,844	18%
Lowest wage (per hour)	$20.00	$24.44	$4.44
Ratio	43.3	43.3	

Say on Pay legislation

'Say on Pay' is a term used for a wide range of policies that give shareholders a vote on executive remuneration. Various forms of say on pay are in place in many countries, including the United Kingdom, the United States, Switzerland and Australia. The specifics differ, including whether the vote is binding or non-binding, includes exit packages, or has provision for the removal of board members in the event of shareholders voting against a decision. In Australia, if 25% of shareholders vote against the remuneration package at two consecutive annual general meetings the board may have to go up for re-election.

Shareholder Advocacy

One of the benefits of both pay-ratio reporting and say-on-pay legislation is that they add a data point for shareholders who take an interest in the companies they support and give an additional tool to be able to engage.

Blackrock - an investment firm managing around $5 trillion in assets - encouraged companies that executive pay should only be increased each year, if at all, at the same level of the wider employee base, and in line with inflation. Large compensation increases should not be justified principally by benchmarking.[4]

Blackrock made this appeal based on financial risk, not just ethics. They are questioning the objectivity and decision making of boards who continue to raise CEO pay, out of step with their workers. It is good that a call for genuine ethical and values-based conversations to take place around the board table aligns with the call for wise governance by a 5 trillion dollar investment firm.

As investing is made easier through organisations like Sharesies[5], or ethical KiwiSaver firms who are responsive to people who invest with them, we will see more people take an interest in the ethics of the companies they support. As such people concerned about ESG (environmental, social, governance) considerations may start to ask questions about how workers are treated at home as well as abroad.

Worker representation

Worker participation or co-determination are terms for a variety of practices that give workers a voice in corporate decision-making. This may be on the board, on remuneration committees, or in some countries such as Germany with a two-tier governance structure, on an advisory board.

The goal in one way or another is to help reorientate a company to ensure that workers have some say in conditions that affect them. Co-determination seeks to address an imbalance where CEOs and people on boards who make decisions about CEO compensation may have interests that largely align while having no real connection with anyone in a low-wage job.

The empathy gap that this power imbalance creates may be helped somewhat by some form of co-determination.

Companies can lead the way

Companies have as much impact on the lives of people in New Zealand as people in government do. Government legislation is not always the answer. There are numerous examples of companies supporting the dignity and future of their workers. The Living Wage is a well-known example. It is the voluntary practice of paying a minimum figure, arrived at independently, based on the actual cost of living.

Self-imposed pay ratio caps have been the practice of several companies and cooperatives for years. Well-known examples include Ben and Jerry's (7:1) and the Mondragon Corporation, a federation of worker cooperatives in Spain employing over 80,000 people, who have a current cap of around 5:1.

Dan Price, CEO of Gravity Payments famously raised the pay for minimum wage workers by reducing his own compensation.[6]

A number of New Zealand companies offer share schemes for workers. These give workers a stake in the company as well as allowing them to have a voice at AGMs. Contact Energy, Countdown, and Port of Tauranga, among others, have worker share schemes. In some cases, the share schemes still cost enough to put them out of reach of the lowest-paid employees.

Anglican Advocacy is starting to collect stories from New Zealand companies taking their own approaches to better support workers. We will profile more homegrown solutions in the future.

Wealth tax

Some form of additional income tax bracket or wealth tax offers the widest range of options for directly dealing with inequality. This option may also provide a way of addressing the poverty-related outcomes at the bottom end of widening pay ratios without requiring companies to pay their employees more, which some companies simply cannot afford to do.

Charity

When we were putting this discussion paper together it was suggested to us by a former CEO and board member that a possible solution might be to require companies who earn over a certain after-tax profit to donate a percentage to charity. However, charity should be a last resort in the event of unforeseen circumstances. It should not be a policy choice in the foreseen circumstances of not looking after our workforce. The suggestion is a wealth tax made palatable - an argument that accepts the need for a wealth tax but doubts the Government's ability to administer it wisely.

Final comment

CEO pay has ballooned in the previous decades, while average and low paid workers have lagged well behind. In both CEO pay and pay ratios we see the rising inequality that many people feel. The loss of dignity and stress that comes from working full time and still struggling to make ends meet is a reflection of the values we have as a society. Low wages have dropped far enough behind that we have rising rates of in-work poverty.

With an increasing number of people investing, as well as taking an interest in the social, environmental, and governance values of the companies they support, there will likely be a rise in pressure on boards to stop supporting in-work poverty and ballooning CEO pay. While New Zealand is not unique in having escalating pay ratios, there are fewer measures being put in place here to try to reset the balance in the way large companies operate.

This all matters because inequality matters. It matters because although we live in a global economy, events like Covid-19 remind us that we also live locally. “Team of 5 million” and kindness rhetoric aside, we really are in this together. And how the big picture looks in coming years will say a lot about the values we actually hold, rather than the ones we aspire to.

Report

This report has been prepared by Anglican Advocacy Ōtautahi by Jolyon White and Matthew Bartlett. Many thanks to Helen Roberts from Otago University for historic CEO averages and compensation data.

References

1. Income inequality: The Social Report 2016 – Te pūrongo oranga tangata (msd.govt.nz) Compare this report to our Gini rating for the previous two years of 32.7 and 32.6

2. Plum, A., Pacheco, G., & Hick, R. (2019). In-Work Poverty in New Zealand. Auckland

3. https://www.sbs.com.au/news/israel-passes-law-to-cap-bankers-salaries

4. BlackRock Investment Stewardship, Letter on Executive Remuneration, 2017, https://www.blackrock.com/corporate/literature/publication/blk-remuneration-letter-investor-stewardship-0117.pdf

5. An investment with Sharesies does not currently allow you exercise any voting rights as a shareholder, though it is an issue that they have said they are looking into.

6. Paul Keegan, Here's What Really Happened at That Company That Set a $70,000 Minimum Wage (November 2015), Inc. Magazine.

Disclaimers

CEO remuneration - which includes bonuses and performance pay - is for the reporting year ending in 2020. We have endeavoured to use the most accurate information available, with thanks to Otago University Associate Professor Helen Roberts for the data.

In terms of the lowest paid employees, some data came from personal conversations with employees, and some came from anonymised collective bargaining information from unions. As such there may be people paid under the rate we found. For other companies with a known low-paid work force we estimated a number slightly below or above Living Wage, depending on whether they are a Living Wage employer. In these cases, the actual lowest paid employee may be paid slightly higher than our estimate. The differences at the lower end have little impact on the overall picture. However, if any company feels their ratio differs significantly to what is reflected here, we would gladly discuss with them and make any changes appropriate.

Lowest paid employees include permanent contracts such as cleaners. Companies have control over their pay through their procurement policy. It does not include temporary or occasional contracts.

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