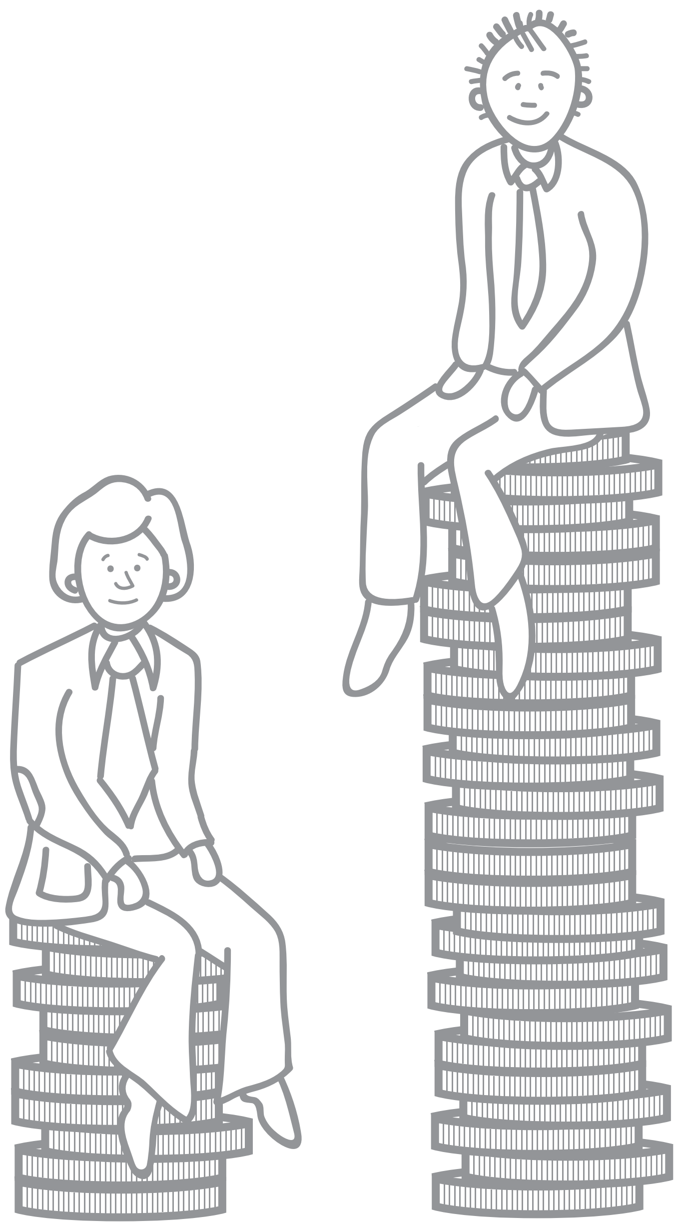
Four Decades in Management Pay: the 2013 National Management Salary Survey

April 2013



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Foreword

We are proud that 2013 marks the 40th year of the National Management Salary Survey, the UK's most comprehensive survey of remuneration packages paid to professional staff, managers and directors.

This short paper provides highlights from this year's full report, which is published by XpertHR, and identifies some key trends over recent years. Surveying over 40,000 employees across 180 organisations, this survey gives a unique insight into changes in earning power and benefits over the years and provides comparative data across regions, industry sectors and gender.

This year's data shows that company directors, including Chief Executives, have enjoyed pay increases almost twice the size of the average UK executive over the last 12 months. Overall increases remain behind inflation, rising at just 2.6 per cent, below both the consumer and retail price inflation measures of 2.7 and 3.3 per cent reported by the ONS in February[1]. Yet directors and CEOs saw rises of 5.3 per cent when bonus payments are accounted for, with CEOs taking home as much as five times as much as the average. Can that be justified with economic performance still so sluggish?

The data also suggests that bonus cultures are becoming more elitist. Fewer people are receiving bonuses – yet those that do reap larger rewards, with the average bonus for a director now more than 14 times the size of the average bonus for all executives (£64,594 compared to £4,665).

What though of the long view? Looking back to that very first survey, there are some striking similarities: for one, 2011-12 was the first double-dip recession since 1973-75, when Britain was also in the grip of a banking crisis and trying to rebalance the economy. But much has changed too. In 1973 – or, five recessions ago – average salaries stood at £3,855 for a middle manager and £10,600 for a chief executive. Today, they are £43,456 and £215,879 respectively.

That represents a growing gap between CEOs and other managers. Chief executives are earning much more in real and relative terms than 40 years ago – some 30 per cent more than what might be expected from 1973's data, while middle managers' pay is 28 per cent less. This gap. which will only widen as a result of the sort of pay movements seen in this year's data, risks doing real damage to employee engagement and trust in management, at a time when we need it more than ever.

On behalf of CMI I would like to acknowledge the work carried out by XpertHR in producing the National Management Salary Survey report. It is a testament to the strength of the survey that, after 40 years, it is still going strong. The National Management Salary Survey continues to be an essential source of information – and will remain just as valuable in the years ahead.

Ann Francke
Chief Executive
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1. http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/february-2013/stb---consumer-price-indices---february-2013.html

The long view: management pay in 1973

The National Management Salary Survey celebrates its 40th anniversary in 2013. This section looks at data from the first ever report and at what has changed since.

1973 was a year of substantial economic turmoil. Inflation hit double figures for the first time, with the Retail Prices Index ending the year at 10.6 per cent. Wage rises were limited by ministerial order to £2.25 a week or 7 per cent, whichever was the greater. But despite widespread dissatisfaction on the shop floor, the number of strike days dropped dramatically from 24 million to just over 7 million. In the face of massive increases in the price of Middle East oil, motorway speed limits were cut to 50mph, shop window displays curtailed and the Trafalgar Square Christmas tree had its lights turned off. At midnight on 31 December, Britain was put on a three-day working week.

To borrow a title from Pink Floyd's album release that year, Britain's economy in 1973 looked about as dead and desolate as the Dark Side of the Moon. But it was also the year in which a small company called Remuneration Economics published its first National Management Salary Survey, working with the then British Institute of Management to produce a report employers could rely on to benchmark the pay levels of their more senior employees, from works superintendents and personnel officers up to general managers and chief executives.

Remuneration Economics has long since become part of XpertHR and the BIM is now the Chartered Management Institute. And looking back, the salaries on offer all those years ago now appear tiny. Here, then, are some examples of the sorts of salary tables you would have found had you participated in the 1973 National Management Salary Survey.

Table 1 Salaries in 1973: all participants

Job level	LQ - £	Med - £	UQ - £
Chief Executive	7750	10600	16750
Deputy Chief Executive	6850	10000	14850
Director	5850	8250	12000
Senior Function Head	4498	6060	8250
Function Head	4200	5349	7275
Senior Manager 1	3744	4608	6000
Senior Manager 2	3380	4350	5926
Middle Manager 1	3172	3855	4716
Middle Manager 2	2920	3610	4970

Key: LQ = lower quartile; Med = median; UQ = upper quartile.

Table 2 Personnel administration services 1973

Job level	LQ - £	Med - £	UQ - £
Director	6800	8751	10907
Senior Function Head	4236	5451	8500
Function Head	4065	5150	7375
Senior Manager 1	4175	5079	7596
Senior Manager 2	3690	5532	7208
Middle Manager 1	3120	4068	4764
Middle Manager 2	2790	3400	3972

Key: LQ = lower quartile; Med = median; UQ = upper quartile.

But how much would such salaries be worth today? The answer depends on whether you choose to index and update them in line with rising average salaries or with prices. Indexing in line with average earnings shows how 1973 salaries should appear today if there had been no change in pay differentials between jobs at different levels of seniority. On that measure, every £1 of income in 1973 would be the equivalent of £15.70 today. So a median chief executive salary of £10,600 in 1973 would be £166,000 now. In fact, the XpertHR National Management Salary Survey for 2012 showed a median basic salary for chief executives of £200,000 – so chief executives have fared rather better than the average. At the 1973 Middle Manager 1 level, a median salary of £3,855 would today be worth £60,300. This is comparable with the Team Leader level in our 2012 salary survey, for which the actual median salary was £42,597. So most managers have actually fared worse than might have been expected. In other words, the pay gap between the top layers of management and even those at middle management levels has opened up over the past 40 years.

Indexing in line with the Retail Prices Index shows a slightly different picture. These figures give an idea of how the purchasing power of wages has changed over time. So, to be able to buy the same basket of goods and services in 1973 and in 2011, our chief executive's salary would have had to rise to just £105,000. Since the median salary actually rose to £200,000, chief executives can now, in effect, buy almost twice as much with their salary as they could do 40 years ago. For a middle manager, salaries would have had to rise from £3,855 to £38,100. As they actually rose to £42,597, it would appear that middle manager's purchasing power has increased, though by only a relatively small amount compared with those at the top of the organisation.

Data from the National Management Salary Survey for 1973 also shows other clear divides – not least in terms of the gender pay gap. The table below shows, for our national sample, the percentage of the male salary earned by women working at the same level in both 1973 and 2012.

Table 3 Women's salaries as a percentage of men's, 1973 and 2012

Job level 1973 (2012)	Women's salaries as a percentage of men's at the same job level 1973 %	2012 %
Chief executive	n/a	73.6
Deputy Chief Executive	n/a	63.6
Director	63.6	106.7
Senior Function Head	92.4	93.3
Function Head	70.1	94.5
Senior Manager 1 (Dept Manager)	91.0	92.5
Senior Manager 2 (Section Manager)	95.0	95.1
Middle Manager 1 (Team Leader)	76.9	94.3
Middle Manager 2 (Senior Professional)	63.9	96.4

The first thing to note is that there are no comparisons at chief executive and deputy chief executive level for 1973. This is because, in sample sizes of 429 and 326 individuals respectively, there was only one woman at each level. At lower levels of seniority, it is obvious that the Equal Pay Act of 1970 had yet to have a great deal of impact. However, the Counter Inflation (Price and Pay Code) Order, placing a cap on pay increases, had a specific exemption allowing pay differentials between men and women to be reduced by up to one-third, even if this took the pay rise for women above the cap. The Order also allowed for working hours to be reduced down to 40 a week, net of meal breaks, and for holidays to be increased up to three weeks – both of which were intended to help the lower paid.

That aside, there has clearly been some closing of the gap at almost all levels of seniority. But it is worth noting that even though there are now sufficient women at the top two levels to provide comparisons, their pay lags behind that of their male counterparts far more than the pay of women at lower levels of seniority.

So what could you have bought with your 1973 salary? According to figures from the Nationwide Building Society, a modest new house costing £173,000 today would have set you back just under £10,000 in 1973. A pint of beer was 13p, a loaf of bread 11p, and a 7 inch record (quite possibly, given their chart dominance that year, something from Slade, Donny Osmond or David Cassidy) was 45p at Woolworth. Obviously there were no mobile phones, no music downloads, and no home or laptop computers. Neither was there any need to pay your children's way through university – for those lucky enough to go, the state paid and even gave them a financial grant each year for good measure.

Some things, on the other hand, feel more familiar. As if to demonstrate that nothing much ever changes, there was a new James Bond film in the cinemas, Last of the Summer Wine was on television, Britain was in the grip of a banking crisis and the prime minister of the day was condemning one big business's tax avoidance scheme as "the unacceptable face of capitalism".

Key findings from the 2013 report

The National Management Salary Survey 2013 is based on data provided for 43,701 individual employees, submitted by 180 organisations geographically spread across the UK. This section looks at key data from this year's report.

One feature of the survey's methodology is that data is collected at the level of the individual employee, making it possible to calculate movement in actual salaries, or earnings – including bonuses – over time, based on a constant sample of matched individuals. The latest data shows that while inflation today may not be hitting the double-digit heights seen in the early 1970s, it has still outstripped average management pay increases over the last year – indeed, since the start of 2011[2]. As Table 4 shows, overall salary figures have fluctuated over the last five years, with a proportionately lower increase between 2009 and 2010 (4.9 per cent to 2.5 per cent) coinciding with a 0.4 per cent shrink in GDP in quarter 3, 2009.

[3]

Table 4 Overall average increases in basic salary by seniority level

	2009 %	2010 %	2011 %	2012 %	2013 %
Directors (10-12)	5.2	2.4	3.2	2.9	2.7
Managers (13-16)	4.8	2.3	2.1	3.2	2.9
Other staff (20-24)	4.9	2.9	2.3	3.1	2.6
Whole Sample	4.9	2.5	2.2	3.1	2.6

2. http://www.guardian.co.uk/news/datablog/2009/mar/09/inflation-economics
3. NB: these numbers refer to codes used in National Management Salary Survey to identify different levels of seniority, i.e.Chief Executive=10, Directors=11-12, Managers=13-16, other professional staff=20-24. In some instances the survey combines Chief Executives and Directors; where relevant, the codes are included here for clarity.

Figure 1 Movement in basic salary by seniority level: trends over time

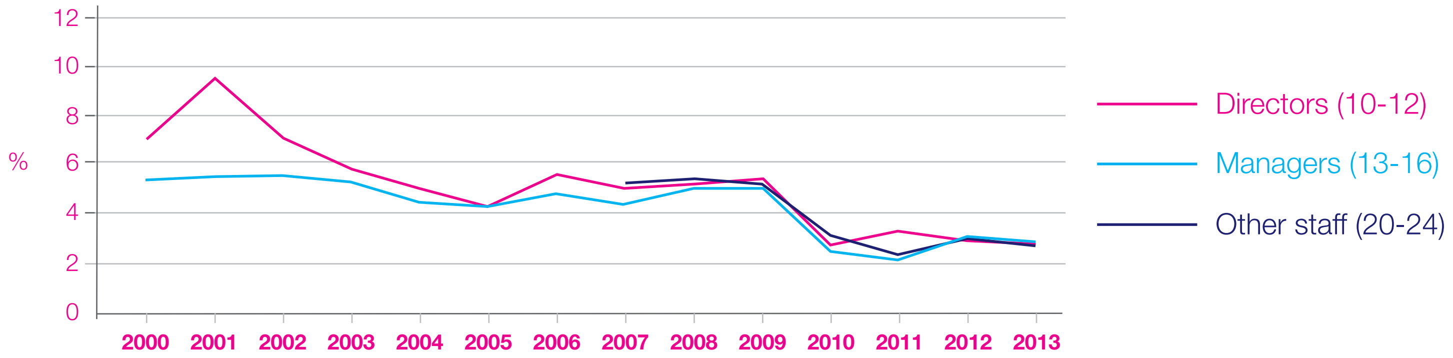


Figure 1 shows basic salary movement since 2000, highlighting the proportionately lower increases in 2009 at all levels.

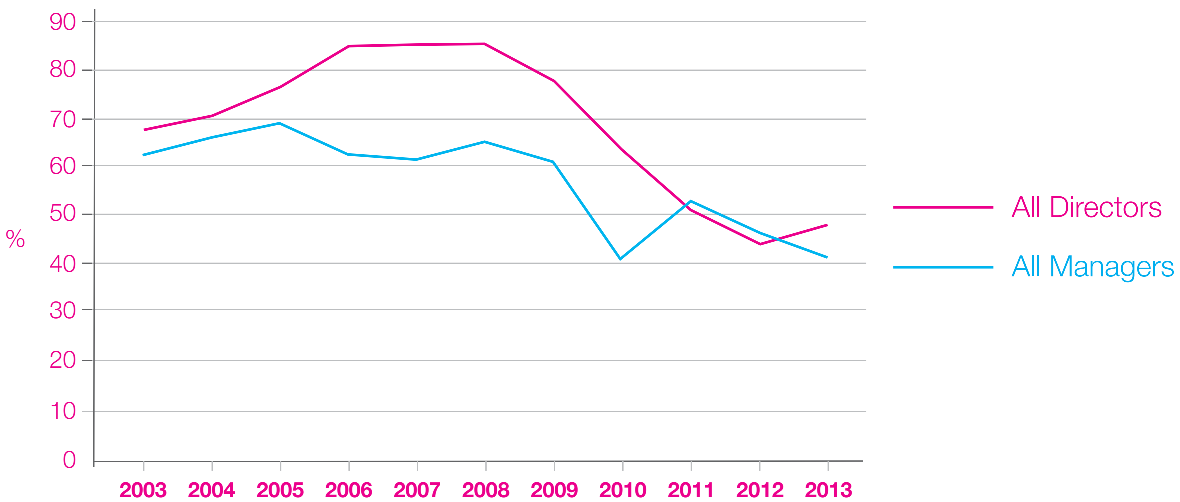
On average, basic salaries plus bonuses increased by 3.0 per cent this year for managers across all levels, the same level as last year. In contrast, while the average basic salary for Chief executives increased by 1.8 per cent, this rises to 15.8 per cent over the past year when bonus payments are accounted for, following a 0.5 per cent fall in the previous year. As Table 5 shows, this is substantially higher than in any of the previous five years. Directors' bonuses have also nearly doubled since last year after a more conservative 2012: take directors and CEOs as a whole and the data shows that while the average basic salary increase was lower than in 2012 (2.7 per cent compared to 2.9), bonuses lifted this year's increase in total earnings to 5.3 per cent, some two and a half times the increase seen in 2012.

Although the overall percentage of managers receiving bonuses has decreased for the second time since 2011, the percentage of directors (10-12) receiving bonuses remains higher at 48.2 per cent. With the exception of 2012, as demonstrated in Figure 2, this is lower than at any point over the last 10 years.

Table 5 Overall average increases in salary plus bonus by seniority level

	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %
CEO (10)	10.1	3.1	?	5.7	-0.5	15.8
Directors (11-12)	5.3	7.2	1.4	10.7	2.3	4.5
All Directors (10-12)	6.5	5.9	2.0	10.4	2.1	5.3
Managers (13-16)	6.9	4.4	0.8	4.4	2.9	3.9
All employees (10-24)	6.7	4.6	1.0	3.9	3.0	3.0

Figure 2: Percentage of staff being paid a bonus 2003-2013 (Managers vs Directors, inc. CEOs)



Disaggregating the data by region shows that managers in the North West, Scotland and Inner London have enjoyed the biggest salary increases at 3.4, 3.3 and 3.1 per cent respectively. In monetary terms these managers now earn on average £34,718, £35,368 and £57,625 respectively per annum. This contrasts with the experiences of managers in the South West who received the smallest increase of 1.3 per cent (an annual salary of £37,902). Basic salary plus bonus is highest in Inner London and the Midlands with managers enjoying increases of 3.9 and 3.7 per cent (£17,442 and £2,827 respectively).

Manufacturing tops the industry list with pay rises of 3.5 per cent closely followed by Consultants/Business services with 3.3 per cent. Manufacturing also tops the industry list of basic salary plus bonus followed by IT (£4,071 and £11,098 respectively). Yet, in the longer term, it remains to be seen whether the decline in manufacturing output in quarter 1 2013 will have an effect on bonuses within the industry. Bonuses within the Distribution and Retail sectors have seen the lowest industry increases whereas they have remained static in the Public/Charity sectors.

As Table 6 below shows, salary varies depending on industry sector as well as by level within organisations. Manufacturing industries pay the highest average salary at junior professional and team leader levels, whereas IT pays the highest at Function Head level and – perhaps unsurprisingly – Banking, Finance and Insurance provide the highest average pay at Director levels.

Table 6 Average pay by level and industry sector

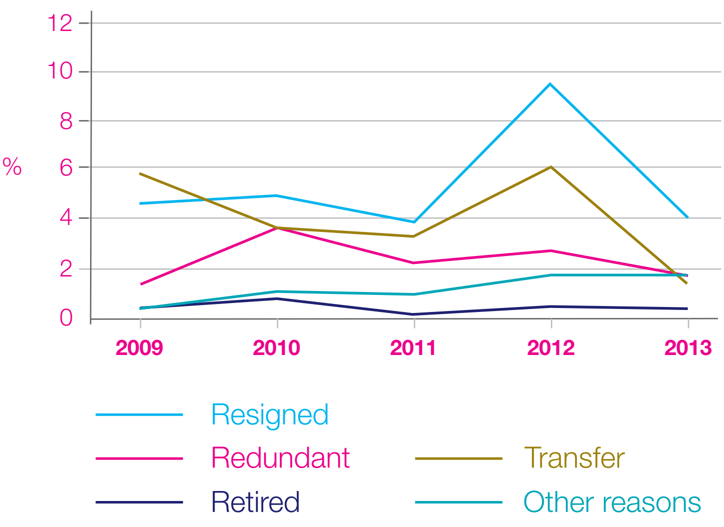
Level	National £	Manufacturing £	Distribution Retail £	Banking Finance Insurance £	IT £	Public Sector Charities £
Junior professional (23)	21,113	22,646	18,725	21,841	20,684	21,481
Team Leader (21)	35,371	39,823	34,259	36,221	32,789	34,220
Function Heads (14)	81,027	83,923	84,121	88,209	98,805	62,172
Director (11-12)	136,839	115,279	130,102	151,360	148,287	102,731
CEO (10)	215,879	n/a	n/a	n/a	n/a	158,829

Labour Turnover, Recruitment and Skills

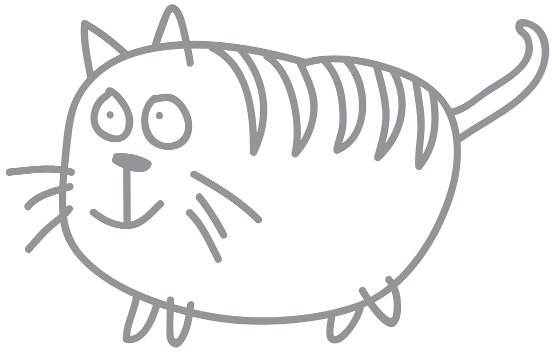
The National Management Salary Survey also collects valuable data about labour turnover and its causes, as well as employers' experiences in recruiting and retaining staff. The research shows that the number of employers struggling with staff recruitment continues to increase year-on-year. Almost two thirds (64.7 per cent) of employers experienced problems with staff recruitment over the last 12 months – up from 58.7 per cent in the 2012 report and 48.9 per cent in 2011. Finding managers with the right skills was identified as the biggest recruitment issue (by 76.4 per cent), followed by competition with other organisations for quality candidates (45.5 per cent) and the salaries on offer (43.6 per cent).

2012 saw a peak in resignations as well as smaller rises in transfers and redundancies, resulted in a noticeable peak in overall labour turnover, as high as 20.3 per cent, while this year's turnover data is less than half at 9.2 per cent. Resignations remain the major contributing factor at 4.0 per cent. Rates of redundancies, retirement and transfers are also down from the previous year as shown in Figure 3.

Figure 3: Labour turnover last five years



Conclusion & Recommendations



Management pay has been a mainstream news topic in recent years. There has been substantial public outcry over 'fat cat' salaries, particularly those juxtaposed against high-profile management failings like those in the City which contributed to the economic crash. As a result, the Government has edged towards reforms aimed at strengthening the hand of shareholders to challenge directors' pay. A particular has been the issue of 'reward for failure'. As Sir Roger Carr, President of the CBI and a CMI Companion, has put it: "High pay must be for exceptional performance, not mere attendance".

As the National Management Salary Survey has shown, many managers have endured below-inflation pay rises for several years. This year though, there have been some inflation-busting gains, especially for directors and chief executives. Perhaps these individuals have all indeed delivered truly "exceptional performance". Yet, even if that is the case – and the UK's flat-lining GDP suggests that, just perhaps, not all of them are – is it right that pay at the top outstrips every other layer of the organisation by such a distance?

The risk is that top managers become more distanced from employees at a time when employees' pay – including more junior management tiers – is being eroded by inflation, when economic growth is limited or non-existent, and when the quality of working life is being undermined as working hours rise. Under these circumstances, more than ever, managers need to build employee engagement and a shared commitment to success.

Yes, we would benefit from giving shareholders more power to rein in out-of-control executive pay. Those responsible for setting pay should consider mechanisms that link top managers and employees' pay. At a time when too many companies are hitting the headlines for the wrong reasons, John Lewis's recent 17 per cent bonus payment to all its 84,700 members, from shop-floor assistant to CEO, is a great example. Models that increase employee ownership of their businesses should be encouraged, although managers are sceptical that this should be at the cost of basic employment rights. Companies should also track directors' pay against both wider management and employee salaries and overall corporate performance to be clear where pay rewards are really justified.

Fundamentally though, the question of high pay begs questions of how companies can move beyond narrow notions of shareholder value to make pay fairer and also more effective. The Salz review of Barclays' business practices found that pay "tended to reward revenue generation rather than serving the interests of customers and clients" – and they are not alone. Other chief executives have recently enjoyed huge pay-offs on the basis of high stock market valuations which often overlook the broader context of their business.

Astronomical pay can only be justified by stellar performance. Without that link and without a sense of fair play across organisations, top pay levels risk corroding employee engagement and trust in management – just when we need it most.

4 See, for example, https://www.gov.uk/government/publications/directors-pay-government-reforms
5 Worrall L and Cooper C, The Quality of Working Life 2013, CMI www.managers.org.uk/workinglife
6 http://www.johnlewispartnership.co.uk/media/e-zine/newsroom/jlp-e-zine-8-march-2013-john-lewis-partnership-reveals-bonus-figure.html
7 Musgrave, B and Woodman, P, (2012) Future Forecast: expectations for 2013,CMI http://www.managers.org.uk/forecast2013
8 The Salz Review of Barclays' Business Practices, www.salzreview.co.uk

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The Chartered Management Institute is the only chartered professional body in the UK dedicated to promoting the highest standards of management and leadership excellence. CMI sets the standard that others follow.

As a membership organisation, CMI has been providing forward-thinking advice and support to individuals and businesses for more than 50 years, and continues to give managers and leaders, and the organisations they work in, the tools they need to improve their performance and make an impact. As well as equipping individuals with the skills, knowledge and experience to be excellent managers and leaders, CMI's products and services support the development of management and leadership excellence across both public and private sector organisations.

Through in-depth research and policy surveys of its 90,000 individual and 450 corporate members, CMI maintains its position as the premier authority on key management and leadership issues.

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