

Pay Gap between CEOs and Workers in Canadian Industry, 2010



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By Pushpa Kumari

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Economic Policy Dialogue

Economic Policy Dialogue (EPD) is a Toronto-based independent research organization that brings forth the economic policy issues which affect the people, society, business, and environment at national and international level; and also, seeks to put forward the policy alternatives through constructive dialogue.

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Executive Summary

Pay Gap Survey 2010 reports the pay gap between CEOs of the top 100 companies and workers in the Canadian industry as a whole and also in its various sectors during 2009. Some of the key points of this year's survey are presented here.

Top 100 public companies had 103 CEOs in the list during 2009. The highest and lowest compensation earning CEOs were: Aaron Regent of Barrick Gold Corp. (\$24,217,040), and Keith MacPhail of Bonavista Energy Trust (\$185,000).

These all 103 CEOs received a total compensation of \$563,863,200 in 2009. Total compensation pool decreased by more than 4 per cent from that of the last year.

Three sectors – Oil and Gas, Financial Services, and Precious Metals – seemed to have dominated the total compensation pool by taking away about 51 per cent share of it; whereas, remaining about 49 per cent share was being distributed among another 14 sectors.

A CEO of the top 100 companies earned an average of about \$5.5 million, whereas a typical Canadian employee (hourly-&-salaried) earned an average of about \$43 thousand and an hourly paid employee about \$32 thousand in 2009. A CEO experienced about 4 per cent decrease in his annual average compensation from the last year, whereas an employee had an increase of 1.6 per cent and hourly employee about 0.3 per cent in their respective pays. A 3% fall in GDP growth in the Canadian economy during 2009 as an aftermath of the global financial crisis might be responsible for this fall in average compensation.

A CEO earned 128 times than a typical employee and 171 times than an hourly-paid employee in 2009.

Food Services sector had the lowest average employees' pay (salaried-&-hourly: 16,048, hourly: 13,426), and Oil and Gas had the highest average employees' pay (salaried-&-hourly: 105,396, hourly: 106,519).

With respect to sectoral pay ratios: out of total given 27 sectors, CEO-employee pay ratio was the highest for Merchandising-Health & Personal Care at 314, and lowest for Utilities at 32; whereas out of 18 industrial sectors for which data were available on hourly employees, Banking had the highest pay ratio of 284 and Oil and Gas sector had the lowest of 47.

30% sectors of total given 27 sectors had higher than the national average of CEO-employee pay ratio (128), and 28% sectors of total given 18 sectors had higher than the national average CEO-hourly employee pay ratio (171). Whereas, 26% sectors had less than half the national average (<64) CEO-employee pay ratio, and 22% sectors had less than half of the national average ratio (<81) CEO-hourly employee pay ratio.

Banking sector is found to be the most representative case of higher pay gap in 2009 (where CEO compensation was very high across the sector and employees' pay was low) followed by another sector, Manufacturing- Transportation Equipment.

Higher pay ratios always show greater pay difference between the CEOs and employees, which is considered not a good sign for a society. Worst are the higher-pay-ratio cases where sectors have also one of the lowest employees' earnings, e.g. Food Services, Merchandising-Food & Beverage, Merchandising-General, and Merchandising-Health & Personal Care.

Pay Gap between CEOs and Workers in Canadian Industry, 2010

Introduction

High and yet increasing CEO pays phenomenon has led pay gap surveys, of late, become almost an annual ritual internationally. How big and ballooning CEOs' pays have been – this is shown easily by comparing these with the other workers' pays. How the fat pays of the CEOs are fixed, how these have led to the reckless decisions and excess risk taking, and how these are affecting the image of corporate world, stability of the national economies and sustainability of the global economies – these are some of the serious issues related with the pays of CEOs which have been drawing a lot of attention and activism.

Generally, surveys show the pay gap between a CEO and a typical worker at a macro level. But here the analysis takes a step further to see how different sectors fare at the pay gaps between the executives and workers. Present analysis, thus, adds a unique perspective by surveying the pay gaps at sectoral level besides these gaps in the Canadian industry as a whole.

This year's survey reports the pay gap for the year of 2008. In the first part, annual compensation pool of CEOs will be analyzed. Highlights of the year will be discussed along with the exhibition which major sectors have dominated the total CEO compensation pool. In the second part, industry-level absolute and relative gaps will be portrayed between average annual pays of a CEO and a worker of the Canadian industry. In the third part, pay gap between CEOs and workers in the various sectors of Canadian industry will be presented. Methodology and sources of data will be detailed at the end.

Part 1: Highlights of the Year on CEOs' Compensation

There were 103 CEOs in the list of top 100 corporations during 2009. Four companies, namely Magna International, Research in Motion, IGM Financial, and Power Corporation of Canada, have two CEOs each in the list as these were there last year list too. One company, Bell Aliant Regional Communications Income Fund, was not included in the Globe and Mail list because its compensation data was not available.

Top three CEOs and their compensation were: Aaron Regent of Barrick Gold Corp. with \$24,217,040, Hunter Harrison of Canadian National Railway Co. with \$17,343,160, and Gerald Schwartz of Onex Corp. with \$16,689,758.

These all 103 CEOs received a total compensation of \$563,863,200 in 2009. Total compensation pool decreased by more than 4 per cent from the last year's total compensation of \$587,763,653. Global financial crisis and consequent recession in the Canadian economy during 2009 (GDP growth fell by 3%) might have taken a toll on the total compensation pool too.

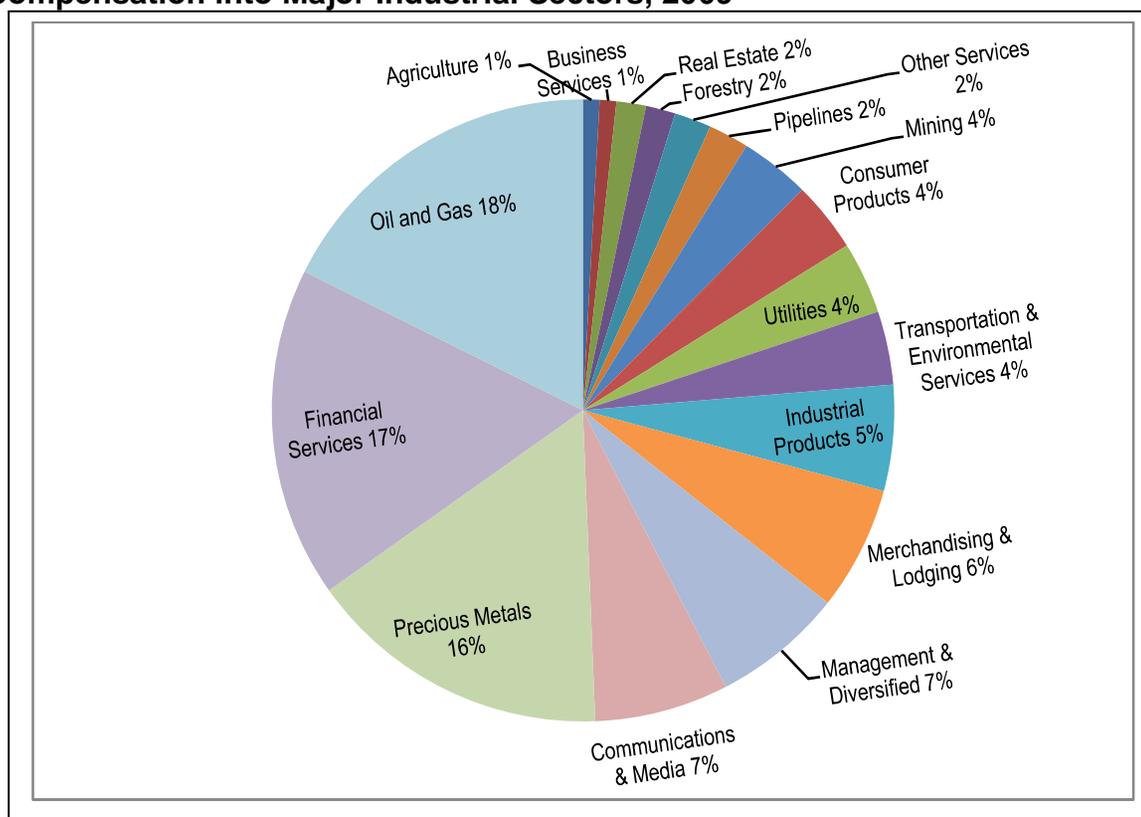
Sectoral distribution of total compensation pool: to see the sectoral distribution, all the 100 corporations were divided into 17 major sectors and presented here in the Table 1 and Graph 1. Three sectors, namely, Oil and Gas, Financial Services, and Precious Metals took away more than 51 per cent of the total CEO pay cake, and remaining 49 per cent cake was distributed among other 14 industrial sectors. "Pay-for-luck" theory might perfectly seem as being applied on these three sectors' CEOs' pay-checks. Canada's relative resilience from the world recession because of comparatively strong commodity demand by emerging markets, Canadian conservative financial regulations, and real estate beat owing to the historically low interest rates during 2009 might be some of the main factors for the better performance of the corporations in these three sectors rather than it is any CEO-specific performance.

Table 1: Distribution of (Top 100 Companies') Total CEO Compensation into Major Industrial Sectors, 2009

Major Industrial Sectors	Sectoral Distribution of CEO Compensation
Agriculture	4,786,357
Business Services	4,950,357
Real Estate	8,601,251
Forestry	8,678,204
Other Services	10,789,187
Pipelines	11,852,368
Mining	20,475,404
Consumer Products	20,616,995
Utilities	21,198,596
Transportation & Environmental Services	21,537,018
Industrial Products	30,996,322
Merchandising and Lodging	36,301,662
Management & Diversified	38,331,739
Communications & Media	39,270,106
Precious Metals	89,102,035
Financial Services	96,955,884
Oil and Gas	99,419,715
All – Canada Industry	563,863,200

Note: Three sectors - Agriculture, Forestry and Other Services - have one company each.

Graph 1: Percentage Distribution of (Top 100 Companies') Total CEO Compensation into Major Industrial Sectors, 2009



Part 2: Pay Gap between CEOs and other Employees in entire Canadian Industry, 2009

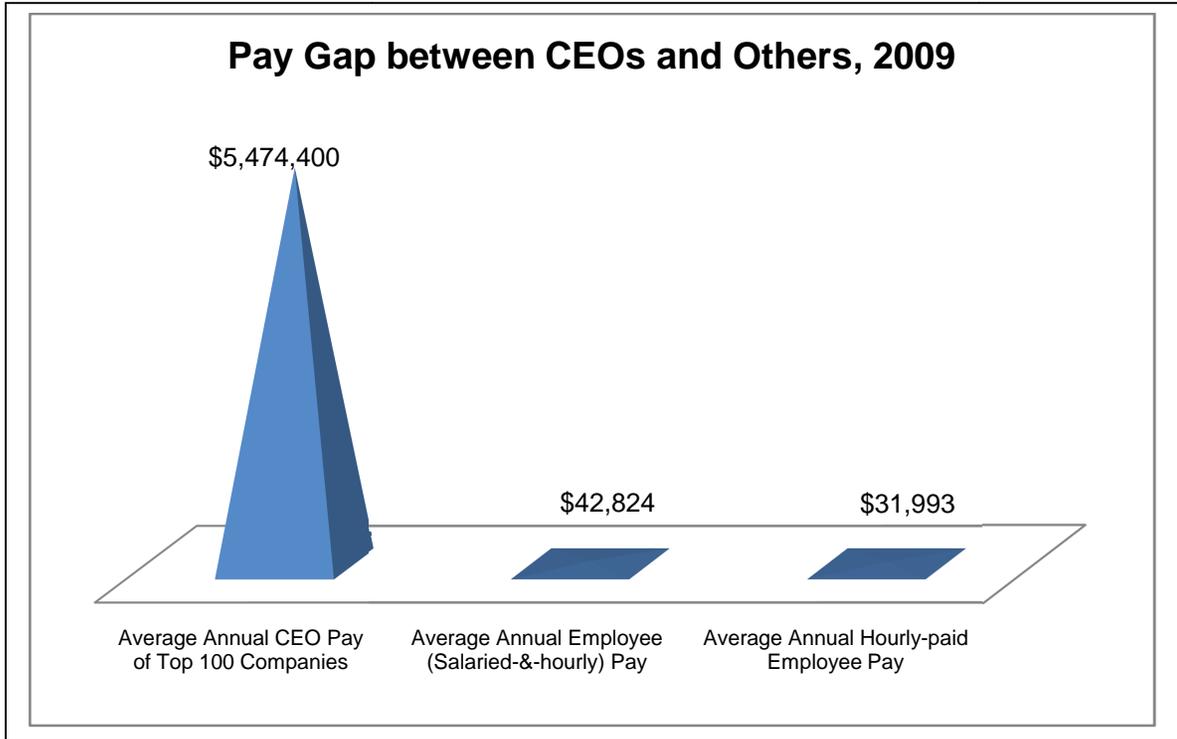
A CEO of the top 100 corporations bagged average annual compensation of about \$5.5 million, whereas a typical Canadian industry employee (hourly-&-salaried) earned an average annual pay of about \$43 thousand and an hourly-paid employee about \$32 thousand in 2009 (Graph 2).¹ That means a CEO earned 128 times than a typical employee and 171 times than an hourly-paid employee in 2009 (Graph 3).² Big boss is really too big to be compared with rest others!

As compared to 2008, a CEO saw about 4 per cent decrease in the annual average compensation in 2009; whereas an employee had an increase of 1.6 per cent and hourly employee increase of about 0.3 per cent in their respective pays. As already mentioned in last part of the survey, a 3% fall in GDP growth in the Canadian economy during 2009 in the aftermath of the global financial crisis might be responsible for fall in average CEO compensation too.

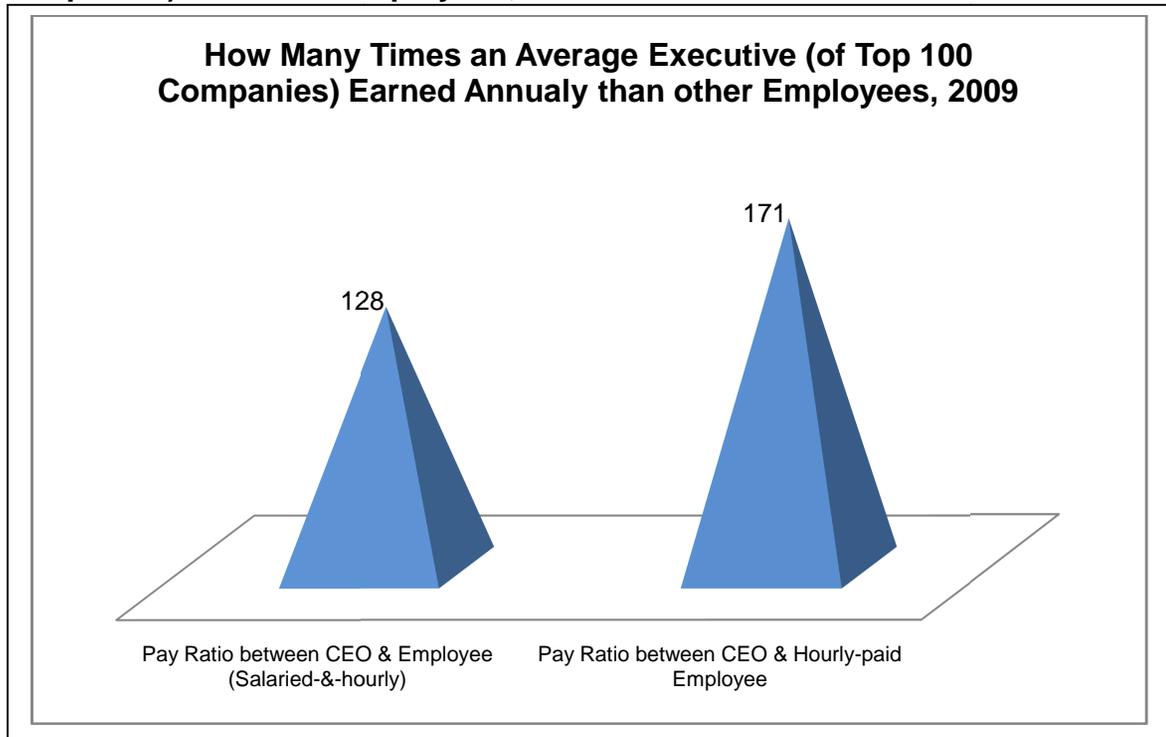
¹ A CEO got an annual average compensation of \$5.7 million and a typical employee about \$42 thousand and an hourly-paid employee slightly less than \$32 thousand in 2008.

² These ratios were 135 and 179, respectively in 2008.

Graph 2: Comparison between Average Annual Pays of a CEO (of the Top 100 Corporations) and other Employees, 2009



Graph 3: Ratio between Average Annual Pays of a CEO (of the Top 100 Companies) and other Employees, 2009



Part 3: Pay Gap between CEOs and Other Employees in various Sectors of Canadian Industry, 2009

In this part of the paper, sectoral level pay gap is computed and analyzed to see which sectors have more pay gap than the others during 2009. The above sectoral overview-analysis in the Part 1 was based on the Globe and Mail sectoral division of the top 100 companies. However, in this part, those industrial sectors were being rearranged from general to more specific depending on the type of activity of the companies. This division was done to facilitate the workers' pay (at three digit level) corresponding to the sectors for which CEOs' compensation was available. For example: Financial Services sector was divided into Banking, Financial Investment & Related Activities, and Insurance & Related Activities; and the same way Industrial Products sector was divided into Manufacturing-Chemical, Manufacturing-Metal, and Manufacturing-Transportation Equipment.

All the 100 companies and Globe and Mail list's original 17 sectors were therefore re-arranged into 27 more specific sectors. Out of these 27 industrial sectors, 11 were single company sectors.³ Graph 4 and Table 2 show the CEO-employee (salaried-&-hourly) pay ratios for all the 27 industrial sectors and CEO-hourly employee pay ratios for 18 sectors, as in the latter case data on the wages and working hours were not available for 9 sectors (these were: Merchandising-Health & Personal Care, Merchandising-General, Forestry and Logging, Agriculture, Management and Diversified, Financial Investment and Related Activities, Manufacturing-Metal, Publishing, and Utilities). Following are the key points from the analyses:

- a. Out of all 103 CEOs of the top 100 companies, Aaron Regent of Barrick Gold Corp. received the highest pay of more than \$24 million, and Keith MacPhail of Bonavista Energy Trust received the lowest pay of about \$2 million.
- b. Food Services sector had the lowest average employees' pay (salaried-&-hourly: 16,048, hourly: 13,426), followed by Merchandising-Food & Beverage (20,252,

³ These sectors were: namely, Agriculture, Food Services, Forestry and Logging, Manufacturing-Clothing, Manufacturing-Food, Manufacturing-Metal, Merchandising-General, Merchandising-Health & Personal Care, Merchandising-Vehicles, Publishing, and Real Estate-Engineering & Construction.

- 18,146), Merchandising-General (21,038, N.A.), Merchandising-Health & Personal Care (28,050, N.A.), and Manufacturing-Clothing (29,893, 20,887).
- c. Oil and Gas had the highest average employees' pay (salaried-&hourly: 105,396, hourly: 106,519), followed by Utilities (78,041, N.A.), Mining and Precious Metals with the same pay (71,226, 64,244), and Financial Investment & Related Activities (65,244, N.A.).
 - d. With respect to the CEO-employee (salaried-&hourly) pay ratio, out of total 27 sectors, Merchandising-Health & Personal Care had the highest pay ratio of 314, whereas Utilities had the lowest of 32. On the other hand, with respect to the CEO-hourly employee pay ratio, in all 18 industrial sectors for which hourly data were available, Banking had the highest pay ratio of 284 and Oil and Gas sector had the lowest of 47.
 - e. Total 8 sectors out of given 27 (i.e. 30%) had higher than the national average CEO-employee (salaried-&hourly) pay ratio of 128, these are: Merchandising-Health & Personal Care (314), Merchandising-General (306), Banking (195), Forestry & Logging (191), Food Services (174), Transportation-Rail (173), Communications & Media (131), and Manufacturing-Chemical (131). With respect to the CEO-hourly employee pay ratio, 5 sectors out of total given 18 (i.e. 28%) have higher than the national average ratio of 171: Banking (284), Food Services (208), Transportation-Rail (198), Manufacturing-Chemical (175), and Communications & Media (165). These are the same sectors which were also on the top ranks in the above CEO-employee pay ratio list when those sectors are ignored where data on hourly wage and work-hours are not available.
 - f. As regards to the CEO-employee (salaried-&hourly) pay ratio, 7 sectors (i.e. 26%) had less than half the national average (<64): Utilities (32), Oil & Gas (47) and Mining (48), Real Estate (57), Manufacturing-Clothing (58), Publishing (62), and Real Estate-Engineering & Construction (63). Regarding CEO-hourly employee pay ratio, 4 sectors (i.e. 22%) had less than half of the national average ratio (<81): Oil and Gas (47), followed by Mining (53), Real Estate-Engineering & Construction (66), and Manufacturing-Food (78).

- g. Sectors with lower pay ratio, like Utilities, and Oil & Gas may not be seen as conclusive; because of higher CV for CEO pays in these sectors, sectoral averages do not truly represent all the comprising corporations' CEO pays. Therefore higher variability in the CEOs' pays makes these sectors as less reliable as true cases of low pay ratio.
- h. Although lower pay ratios are good, but any judgment on a particular sector with low ratio requires a prior qualification. Because low ratio might be due to either or both the numerator and denominator effects. For example, low pay ratios in two sectors – Oil & Gas and Mining – are due to both relatively high CEO pay and employees' pay, but in other two sectors – Real Estate and Manufacturing-Clothing – because of both lower CEO pay and employees' pay, whereas in another sector – Real Estate-Engineering & Construction – it is due to both pays being relatively moderate, and in yet another case of Utilities, it is due to relatively lower numerator, i.e. CEO pay. It would require a normative call to settle on which case is better than the other.
- i. Two sectors – Banking and Manufacturing-Transportation Equipment – were found to be the most representative case of higher pay gap where CEO compensation (the numerator) was very high across the sector (as indicated by low CV) and employees' pay (the denominator) low.
- j. Higher pay ratios always show greater pay differences between the CEOs and other employees, which are considered a bad sign for any society. Worst are those cases where besides higher pay ratios, sectors have also very low employees' earnings, for example: Food Services, Merchandising-Food & Beverage, Merchandising-General, and Merchandising-Health & Personal Care.

Table 2: Sectoral Pay Averages and Ratios, 2009

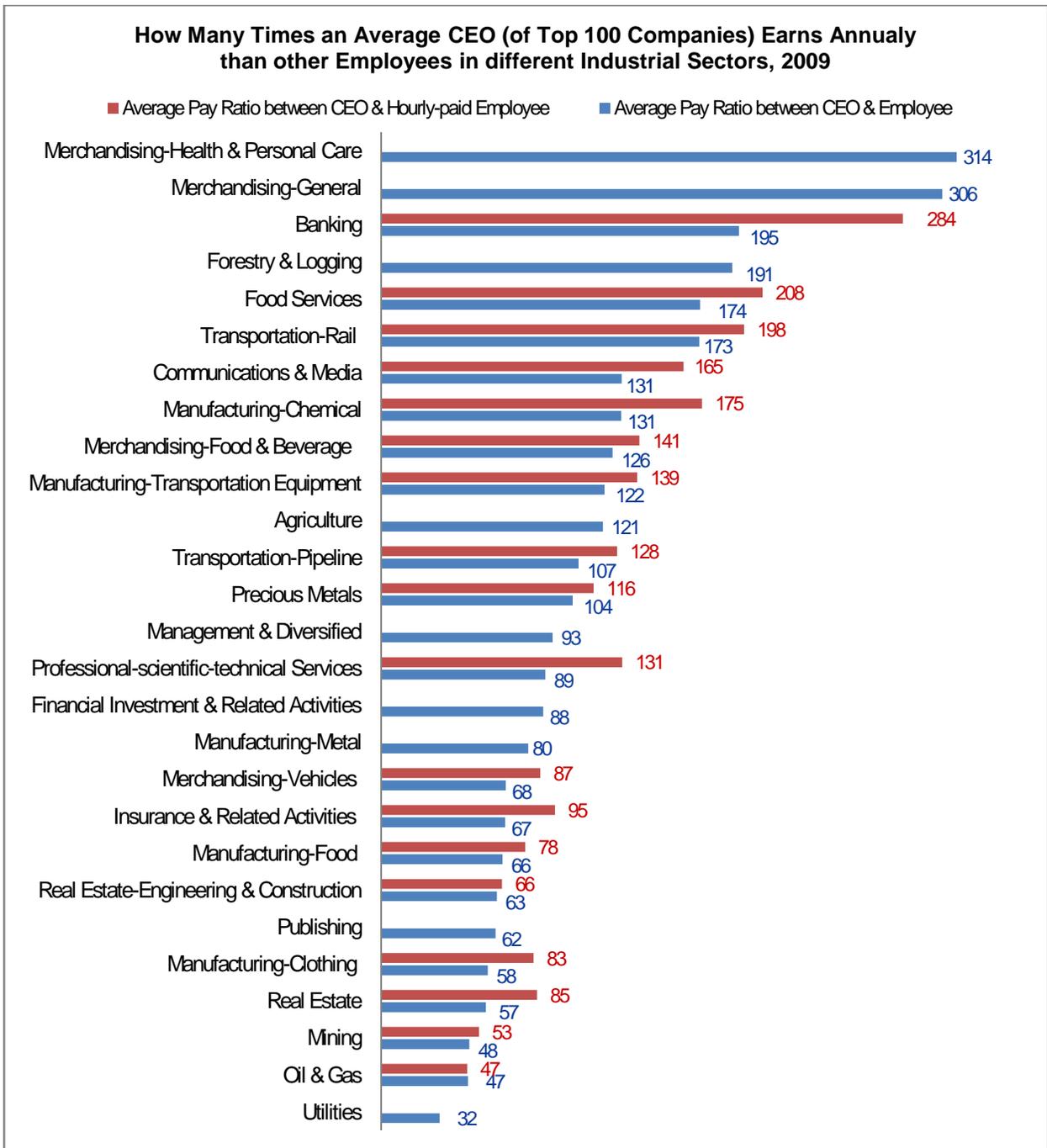
Sectors	CEO Pay - Sectoral Average	CEO Pay – Coefficient of Variation (CV)	Employee Pay - Sectoral Average	Hourly Employee Pay - Sectoral Average	Average Pay Ratio between CEO & Employee	Average Pay Ratio between CEO & Hourly Paid Employee
Utilities	2,475,990	0.63	78,041	NA	32	NA
Oil and Gas	4,970,986	0.81	105,396	106,519	47	47
Mining	3,412,567	0.49	71,226	64,244	48	53
Real Estate	2,284,886	0.36	40,103	26,930	57	85
Manufacturing-Clothing	1,733,385	-	29,893	20,887	58	83
Publishing	3,690,844	-	59,387	NA	62	NA
Real Estate-Engineering & Construction	4,031,480	-	64,073	61,333	63	66
Manufacturing-Food	2,525,775	-	38,280	32,233	66	78
Insurance and Related Activities	3,672,037	0.86	54,473	38,833	67	95
Merchandising-Vehicles	2,967,207	-	43,783	34,293	68	87
Manufacturing-Metal	4,725,124	-	59,095	NA	80	NA
Financial Investment and Related Activities	5,752,680	1.27	65,244	NA	88	NA
Professional-scientific-technical Services	5,246,515	0.93	58,713	39,946	89	131
Management and Diversified	5,552,998	0.65	59,533	NA	93	NA
Precious Metals	7,425,170	0.86	71,226	64,244	104	116
Transportation-Pipeline	4,887,687	0.49	45,484	38,047	107	128
Agriculture	4,786,357	-	39,660	NA	121	NA
Manufacturing-Transportation Equipment	6,831,509	0.13	56,136	48,996	122	139
Merchandising-Food & Beverage	2,552,549	0.40	20,252	18,146	126	141
Manufacturing-Chemical	7,378,168	0.50	56,464	42,227	131	175
Communications & Media	7,844,958	0.49	59,891	47,626	131	165
Transportation-Rail	10,768,509	0.86	62,109	54,481	173	198
Food Services	2,788,628	-	16,048	13,426	174	208
Forestry and Logging	8,678,204	-	45,355	NA	191	NA
Banking	9,610,411	0.37	49,315	33,804	195	284
Merchandising-General	6,432,255	-	21,038	NA	306	NA
Merchandising-Health & Personal Care	8,798,279	-	28,050	NA	314	NA

Notes

NA : not available

: Cannot be calculated as these sectors comprise of single companies each. For the list, see 'Note number 2' of the Graph 4.

Graph 4: Ratio between Average Annual Pays of a CEO (of Top 100 Companies) and other Employees in various Industrial Sectors, 2009



Notes:

1. When there is no red bar, it means data for hourly-paid employees are not available.
2. 9 sectors are single company sectors – Agriculture, Food Services, Forestry and Logging, Manufacturing-Clothing, Manufacturing-Food, Manufacturing-Metal, Merchandising-General, Merchandising-Health & Personal Care, and Merchandising-Vehicles.

Methodology

Two data sources were relied on: Globe and Mail lists and Statistics Canada resources. Two 'Globe and Mail' lists were used: 2009 Compensation Rankingⁱ, and Top 1000 Publicly Traded Companiesⁱⁱ. First list contained basically the compensation of 103 CEOs of the 100 largest companies (by market capitalization) in the S&P/TSX composite index as of April 1, 2009. Second list included the basic financials of the largest 1000 publicly traded Canadian corporations measured by assets. Three summary tablesⁱⁱⁱ of the Statistics Canada were used to calculate the pays of workers: industry-wise average weekly earnings for (hourly-&-salaried) employees, industry-wise average hourly earnings for hourly employees, and industry-wise average weekly hours for hourly employees. 'North American Industry Classification System 2007 – Canada', published by Statistics Canada, was used to determine the industry classification^{iv}. Three digit level industry classifications were used; when three digit data was not available, two digit data was relied on.

For the sectoral CEO-employee pay ratios' computation, Globe and Mail list's original broad 17 sectors were re-arranged into more specific 27 sectors depending on the type of activity of the corporations. This rearrangement was done in order to facilitate the employees' wages and working hours (at three digit level) corresponding to the CEOs' pays in those sectors. For example, Financial Services sector was divided into Banking, Financial Investment & Related Activities, and Insurance & Related Activities. After rearranging the sectors, data on employees' wages and working hours were collected correspondingly.

As it is obvious, CEOs' Total compensation figures (comprising of salary, bonus, stock awards, option grants, and pension value) were taken from the Globe and Mail list. To calculate employees' average annual earnings, weekly earnings were multiplied by 52 [i.e., (weekly earnings)*(52)]. In case of hourly-paid employees, work hours and hourly earnings were given; therefore, to arrive at average annual earnings, hourly earnings were multiplied by weekly hours and 52 [i.e., (hourly earnings)*(weekly hours)*(52)]. These annual pays were used to calculate the respective pay ratios.

Endnotes and Data Sources

ⁱ Globe and Mail. Executive compensation 2008. Published on 22 June 2009. “Executive Compensation 2009: The complete list”. Accessed on 14 July 2009. <<http://www.theglobeandmail.com/report-on-business/managing/executive-compensation-2009-the-complete-list/article1192473/>>.

ⁱⁱ Globe and Mail. “Top 1000 Publicly Traded Companies”. 2010. Accessed on 17 Nov. 2010. <<http://www.theglobeandmail.com/report-on-business/rob-magazine/top-1000/definitions-for-top-1000/article1614721/>>

ⁱⁱⁱ Following are the Sources of these three summary tables:

iii-a. Statistics Canada. “Earnings, average hourly for hourly paid employees, by industry”. Summary Tables. Accessed on 23 Dec. 2010. <<http://www40.statcan.ca/l01/cst01/labr74a-eng.htm>>

iii-b. Statistics Canada. “Earnings, average weekly, by industry”. Summary Tables. Accessed on 23 Dec. 2010. <<http://www40.statcan.ca/l01/cst01/labr73a-eng.htm>>

iii-c. Statistics Canada. “Weekly hours of hourly paid employees, average, by industry”. Summary Tables. Accessed on 30 Aug. 2009. <<http://www40.statcan.gc.ca/l01/cst01/labr81a-eng.htm>>

^{iv} Statistics Canada. “North American Industry Classification System (NAICS) 2007 – Canada”. 2007. Accessed on 23 Dec. 2010. <<http://www.statcan.gc.ca/subjects-sujets/standard-norme/naics-scian/2007/list-liste-eng.htm>>