

Pay Gap between CEOs and Workers in Canadian Industry, 2012

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Executive Summary

Pay Gap Survey 2012 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 2011. Some of the main points of this year's survey are summarized here.

Top 100 public companies had 103 CEOs in the list during 2011. The highest and lowest compensation earning CEOs were: J. Michael Pearson of Valeant Pharmaceuticals International (\$36,318,841), and Keith A. MacPhail of Bonavista Energy (\$521,635).

These all 103 CEOs received a total compensation pool of \$634,817,907; it increased by less than one (0.92) per cent from that of the last year.

Three sectors – Oil and Gas, Materials (mining and quarrying, except oil and gas), and Finance – seemed to have dominated the total compensation pool by taking away about 55 per cent share of it; whereas, remaining about 45 per cent share was being distributed among another nine sectors.

A CEO of the top 100 corporations bagged an average annual compensation of about \$6.2 million, whereas a typical Canadian industry employee earned an average annual pay of about \$45 thousand and an hourly-paid employee about \$34 thousand in 2011.

A CEO earned 135 times than a typical employee and 179 times than an hourly-paid employee in 2011. These ratios were lower than the last year. An exit of one of the highest earning CEOs from the list, and a huge fall in bonus and option-based awards components of the compensation this year (most probably due to underperformed stock market) might explain the decrease in the pay ratios. However, the amount by which a CEO's average pay increased in 2011 over the last year (the increment only, i.e. \$114,936) was 2.5 times of the total average pay of an employee during the entire year, or 3.3 times of the total average pay of an hourly employee.

Food Service sector had the lowest average annual employees' pay (salaried-&hourly: \$17,136 and hourly: \$14,611), and Oil and Gas had the highest average annual employees' pay (salaried-&hourly: \$114,747) in the given list of sectors. The highest available pay for hourly employees in our list of sectors was \$76,685 for Oil & Gas-Support services.

With respect to sectoral pay ratios: out of total given 23 sectors, CEO-employee pay ratio was the highest for Manufacturing- Chemical at 283 and lowest for Oil & Gas-Support services at 19; whereas out of 17 industrial sectors for which data were available on hourly employees, CEO-hourly employee pay ratio was highest and lowest for the same sectors as above at 373 and 21, respectively.

26% sectors of total given 23 sectors had higher than the national average of CEO-employee pay ratio (135), and 35% sectors of total given 17 sectors had higher than the national average CEO-hourly employee pay ratio (179). Whereas, 17% sectors had less than half the national average (<67.5) CEO-employee pay ratio, and 12% sectors had less than half of the national average ratio (<89.5) CEO-hourly employee pay ratio.

Banking sector is found to be the most representative case of higher pay gap in 2011 (where CEO compensation was very high across the sector and employees' pay was low) followed by other two sectors, namely Manufacturing- Transportation Equipment, and Communications & Media.

Higher pay ratio always shows greater pay differences between CEOs and other employees, which is 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, and almost all the Retail sector covered here in the survey (except Motor Vehicle Dealers), e.g. Food & Beverage Stores, General Stores, Health & Personal Care Stores.

Pay Gap between CEOs and Workers in Canadian Industry, 2012

Introduction

The pay gap survey aims to expose basically how the benefits of prosperity of the Canadian industry are distributed in favor of a few. This inequality in income distribution does not stop here; rather, reinforces further in the society the inequality of wealth, power, polity and policy. Movements, like Occupy Movement of 2012, are nothing but the manifestation of public intolerance and resentment against the increasingly unfair society. Corporations have to heed the social concerns; the sooner the better!

Pay Gap Annual Survey reports the yearly pay gap between CEOs and workers in the Canadian industry as a whole and also in its different sectors. Sectoral level exercise adds a unique perspective and, thus, differentiates our work from other pay gap surveys.

This year's survey reports the pay gap for the year of 2011. 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.

Annual compensation of top 100 corporations' CEOs are considered to represent the pay of Canadian Industry's CEOs. And average annual earnings of employees (hourly-&-salaried) and hourly-paid employees are used to represent the pay of industry workers. Industry-level pay gap is computed in terms of ratio between average CEO compensation and average worker earnings during the year. Sector-level pay gap is calculated by a ratio between the average CEO compensation of all the firms in an industrial sector and average annual earnings of workers in that particular sector.

Part 1: Highlights of the Year on CEOs' Compensation

There were 103 CEOs in the list of top 100 corporations during 2011. Three companies, namely Research in Motion, IGM Financial, and Power Corporation of Canada, have two CEOs each in the list. These companies were the same as in previous years except Magna International which has now one CEO as another co-CEO Siegfried Wolf left the company in Nov 2010.

Top three CEOs and their compensation were: J. Michael Pearson of Valeant Pharmaceuticals International with \$36,318,841 (saw 641% increase from last year's compensation of \$4,897,517; and shot up to 1st position from 57th), Bradley Shaw of Shaw Communications with \$15,851,336, and Donald Walker of Magna International with \$14,841,085.

These 103 CEOs received total compensation of \$634,817,907 in 2011. Total compensation pool increased by less than one (0.92) per cent from the last year's \$629,027,838 (Table 1).

Why the total compensation pool has increased that little, there seems to be two reasons. First, last year there were 104 CEOs in the list and the CEO who left was not an ordinary one, he was at number three who received compensation of \$16,047,490 (Siegfried Wolf of Magna International) in 2010; if such a top notch CEO had not left, total compensation pool this year would have definitely been higher. To examine further what else might have triggered such a small increase in the total CEO compensation pool of the top 100 companies, all the components of the compensation are analyzed (Table 1). Here seems to lay the second reason, two components, bonus and option-based awards, which in fact account for nearly 50 per cent share of the total compensation, saw a significant fall in 2011. Bonus shrank by more than 10 per cent and option-based awards by more than 15 per cent. Both seem to be incentive-linked at best. Stock market underperformance during 2011 (the S&P/TSX composite index being spotted dropped off more than 11 per cent) may be seen as a factor responsible for the casualty in these two components.

Sectoral distribution of total compensation pool: to see the sectoral distribution, all the 100 corporations were divided into 12 major sectors and presented here in the Table 2 and Graph 1. As already observed in the previous years' surveys, three sectors – oil and Gas, materials (mining and quarrying, except oil and gas), and Finance – seemed to have stolen the show; these took away about 55 per cent share of the total CEO compensation. Remaining about 45 per cent was shared by other nine industrial sectors.

Table 1: Economic Indicators and Top 100 Companies' CEO Compensation Components, 2008-2011

Year/Item	Economic Indicators		CEO Compensation Components (C\$ unless specified)***								Number of CEOs in Top 100 Companies
	GDP Growth*	S&P/TSX Composite Index**	Base Salary	Bonus	Sub-Total	All Other Compensation	Share-Based Awards	Option-Based Awards	Pension Value	Total Reported Compensation	
2008			90,593,310	129,041,548	219,634,858	48,115,632	137,118,274	144,391,128	38,502,733	587,763,653	103****
Share in Total			15%	22%	37%	8%	23%	25%	7%	100%	
Change from Previous Year	0.6%	-35.03%	—	—	—	—	—	—	—	—	—
2009			92,471,645	131,229,095	223,700,740	32,035,490	119,515,006	151,747,070	36,882,894	563,863,200	103
Share in Total			16%	23%	40%	6%	21%	27%	7%	100%	
Change from Previous Year	-3.0%	30.69%	2.07%	1.70%	1.85%	-33.42%	-12.84%	5.09%	-4.21%	-4.07%	
2010			94,156,419	165,881,807	260,038,226	17,004,513	145,761,333	162,617,038	43,606,750	629,027,838	104
Share in Total			15%	26%	41%	3%	23%	26%	7%	100%	
Change from Previous Year	3.4%	14.45%	1.82%	26.41%	16.24%	-46.92%	21.96%	7.16%	18.23%	11.56%	
2011			97,599,815	149,066,159	246,665,971	26,725,998	180,734,523	137,930,354	42,761,061	634,817,907	103
Share in Total			15%	23%	39%	4%	28%	22%	7%	100%	
Change from Previous Year	2.6%	-11.07%	3.66%	-10.14%	-5.14%	57.17%	23.99%	-15.18%	-1.94%	0.92%	

Notes: * Sourced from Statistics Canada, Canadian Economic Observer. Text Table 1.1. Various Issues.ⁱ

** Sourced from EconStats.ⁱⁱ

*** Absolute figures Sourced from Globe and Mail annual CEO lists.ⁱⁱⁱ Shares and Changes were calculated from those lists.

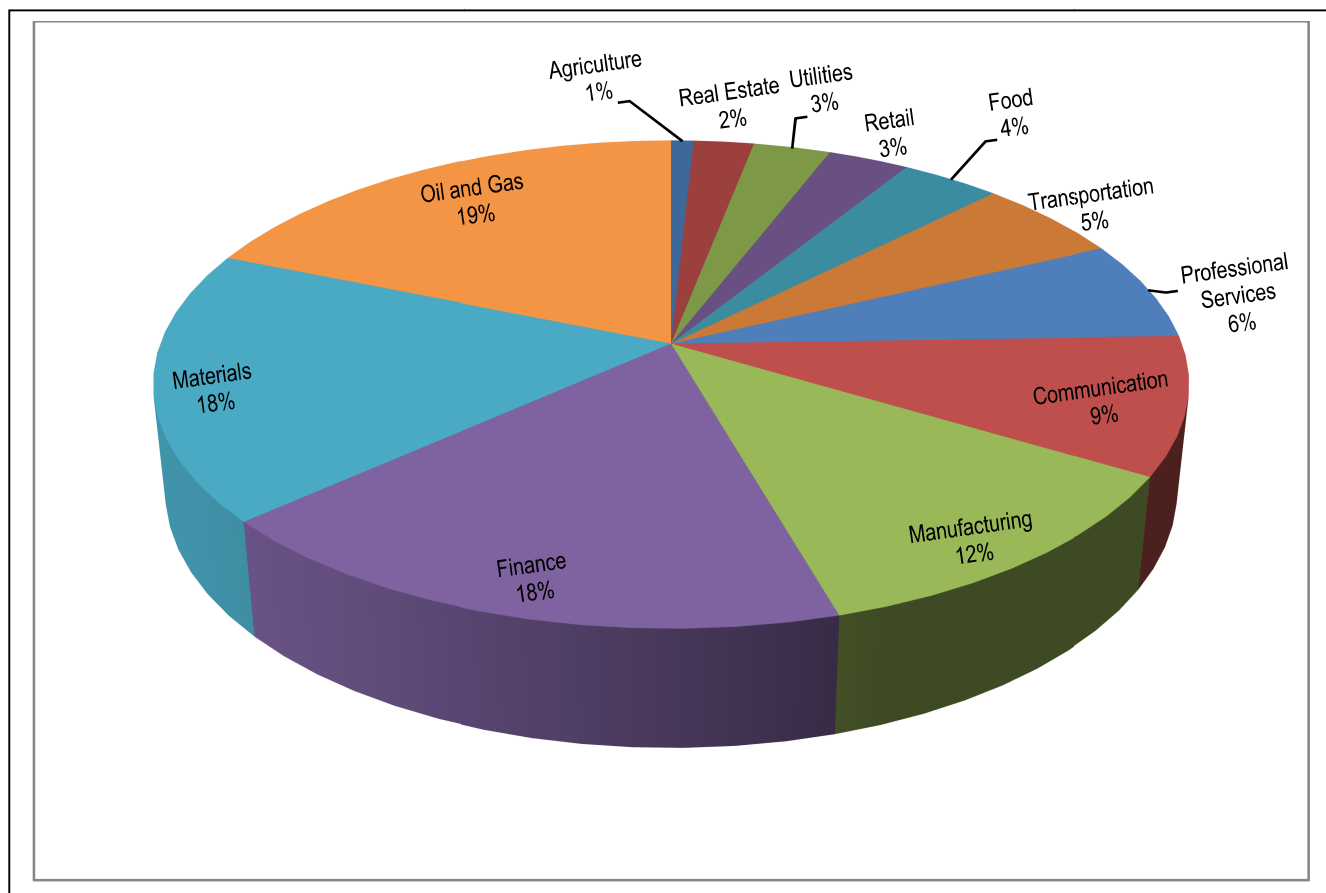
**** Although there were 104 CEOs in the list, but data was available for only 103 CEOs.

— Cannot be calculated as Globe and Mail CEO List prior to 2008 not available.

Table 2: Distribution of (Top 100 Companies') Total CEO Compensation into Major Industrial Sectors, 2011

Major Industrial Sectors	Sectoral Distribution of CEO Compensation
Agriculture	5,209,477
Real Estate	14,002,966
Utilities	17,976,453
Retail	18,841,108
Food	23,138,276
Transportation	34,777,249
Professional Services	41,608,163
Communication	57,786,443
Manufacturing	75,793,007
Finance	113,001,174
Materials	113,573,983
Oil and Gas	119,109,608
Total	634,817,907

Graph 1: Percentage Distribution of (Top 100 Companies') Total CEO Compensation into Major Industrial Sectors, 2011



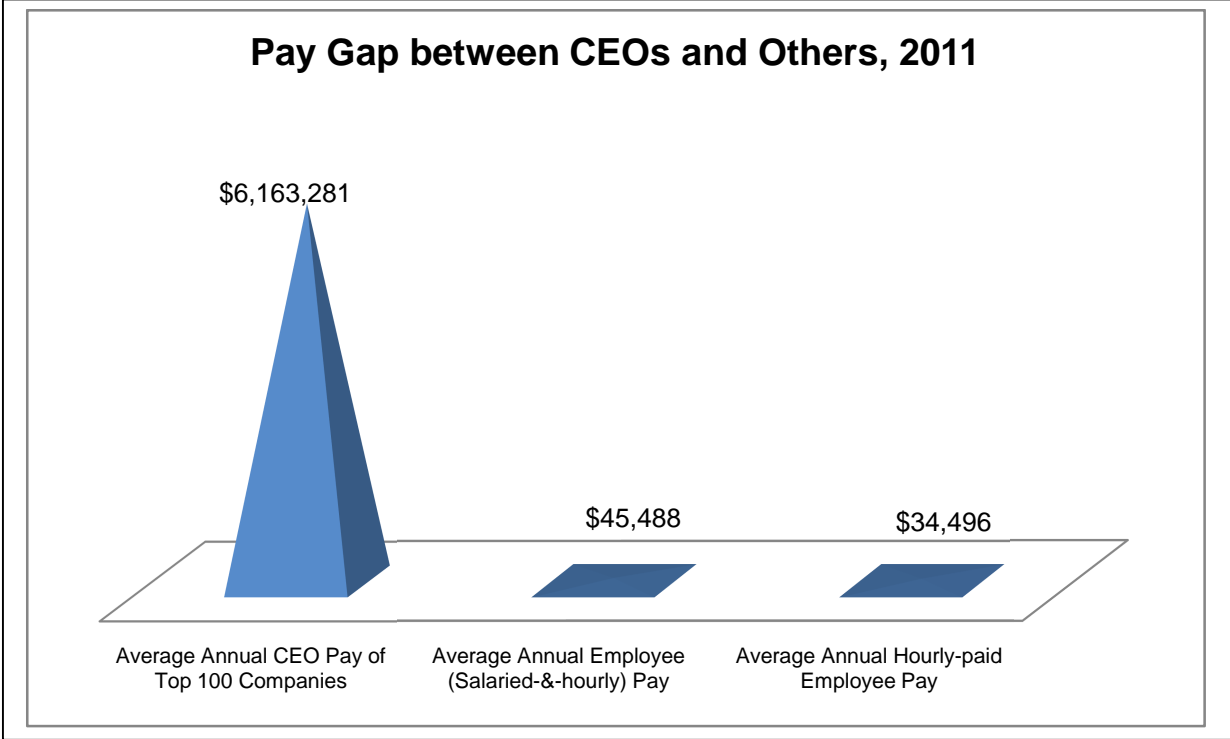
Part 2: Pay Gap between CEOs and other Employees in entire Canadian Industry, 2011

A CEO of the top 100 corporations bagged average annual compensation of about \$6.2 million, whereas a typical Canadian industry employee (hourly-&-salaried) earned an average annual pay of about \$45 thousand and an hourly-paid employee about \$34 thousand in 2011 (Graph 2 and Table 3). That means a CEO earned 135 times than a typical employee and 179 times than an hourly-paid employee in 2011 (Graph 3 and Table 3).

As compared to 2010, pay ratios have decreased in 2011 because of a lower increase in average CEO's compensation (the numerator) than the increase in average pays of an employee and an hourly employee (the denominator). A CEO has seen about 2 per cent increase in the annual average compensation, an employee 2.5 per cent and hourly employee 4.5 per cent in 2011 (Table 3). As explained above in the Part 2 and observed in the Table 1, an exit of one of the highest earning CEOs from the list, and a huge fall in two major components of the total compensation, namely bonus and option-based awards, might explain the lower increase in the average CEO compensation and consequently a decrease in the pay ratios.

However, one should not be swayed by the relatively higher percentage increase in the average pay of workers. Because one has to keep in mind the difference in absolute pay amounts of these two, CEOs and workers. On an average, one CEO alone earned the pay of about 135 employees or around 180 hourly employees (as interpreted from the ratios). And the amount by which CEO's average pay had increased in 2011 from the last year (the increment only, i.e. \$114,936) was 2.5 times of the total average pay of an employee during the entire year (\$45,488), or 3.3 times of the total average pay of an hourly employee (\$34,496).

Graph 2: Comparison between Average Annual Pays of a CEO (of the Top 100 Corporations) and other Employees, 2011



Graph 3: Ratio between Average Annual Pays of a CEO (of the Top 100 Companies) and other Employees, 2011

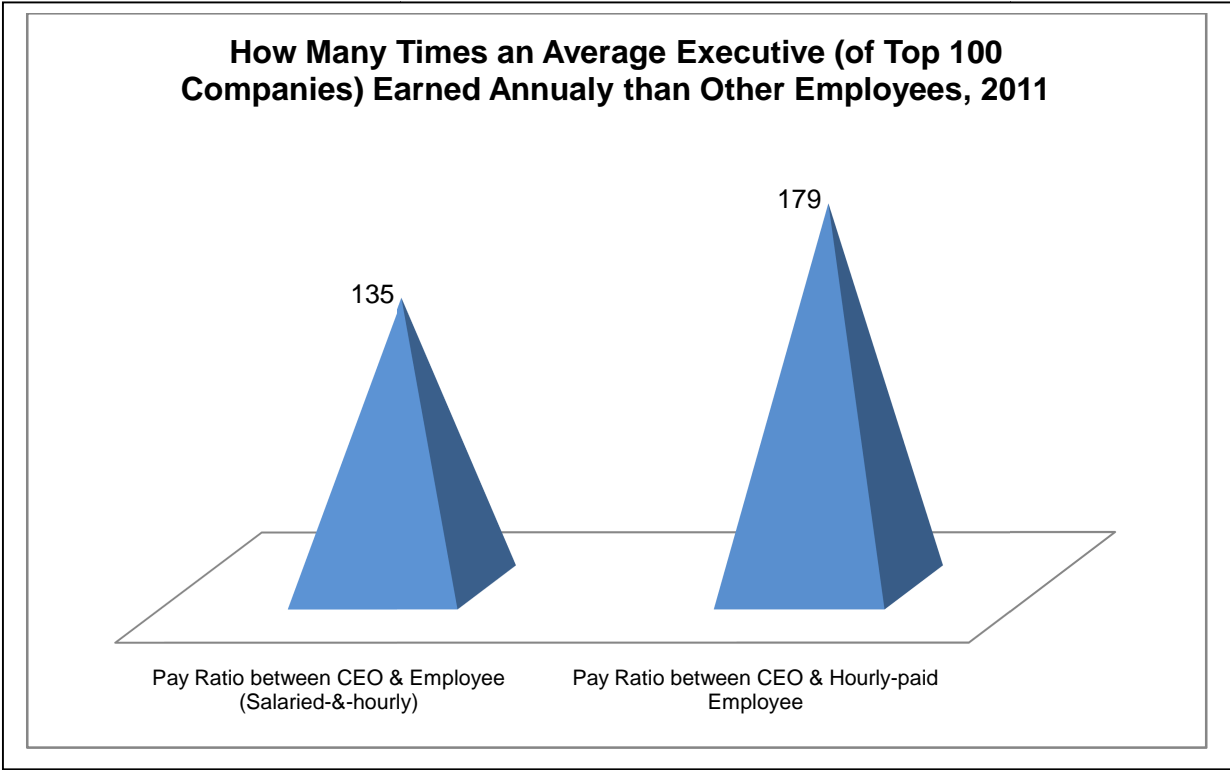


Table 3: Pay Averages and Ratios in Canadian Industry, 2007-2011

Year	CEO Average Annual Compensation	Average Annual Pay of an Employee	Average Annual Pay of an Hourly Employee	Pay Ratio between CEO & Employee (Salaried-&hourly)	Pay Ratio between CEO & Hourly-paid Employee
Amount in Canadian \$					
2007	—	40,988	30,895	—	—
2008	5,706,443	42,169	31,885	135	179
2009	5,474,400	42,824	31,993	128	171
2010	6,048,345	44,366	33,009	136	183
2011	6,163,281	45,488	34,496	135	179
Per cent Change from Previous Year					
2008	—	2.9	3.2	—	—
2009	-4.1	1.6	0.3	-5.5	-4.4
2010	10.5	3.6	3.2	6.6	7.1
2011	1.9	2.5	4.5	-0.6	-2.5

Note: — Cannot be mentioned/calculated as Globe and Mail CEO List prior to 2008 not available.

Part 3: Pay Gap between CEOs and Other Employees in various Sectors of Canadian Industry, 2011

For sectoral pay-gap analysis, all the 100 companies and above 12 more general sectors were rearranged into more specific 24 industrial sectors. 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: (for the given companies) broad Retail sector was divided into Retail- Food & Beverage Stores, Retail- General Stores, Retail- Health & Personal Care Stores, Retail- Motor Vehicle Dealers; and Financial Services sector was divided into Banking, Financial Investment & Related Activities, and Insurance & Related Activities. Out of these 24 sectors, 8 sectors¹ were single-company sectors. One sector, Transportation- Pipeline could not be considered for the pay ratio calculation as data on wages were not available for the employees.

Graph 4 and Table 4 show the CEO-employee (salaried-&hourly) pay ratios for 23 industrial sectors and CEO-hourly employee pay ratios for 17 sectors, as in the latter case data on the wages and working hours were not available for 6 sectors (these were:

¹ Agriculture, Food Services, Manufacturing- Food, Oil & Gas- Support services, Real Estate- Engineering & Construction, Retail- Health & Personal Care Stores, Retail- Motor Vehicle Dealers, and Transportation & Warehousing.

Retail- General Stores, Retail- Health & Personal Care Stores, Management and Diversified, Other Financial Investment and Related Activities, Oil and Gas, and Utilities). Following are the key points from the analyses:

1. J. Michael Pearson of Valeant Pharmaceuticals International, Inc. earned the highest annual compensation of more than \$36 million. On the other hand, Keith A. MacPhail of Bonavista Energy Corporation was the last in the list earning \$521,635.
2. Food Service sector² had the lowest average annual employees' pay (salaried-&-hourly: \$17,136 and hourly: \$14,611) in the given list of sectors, followed by most of the retail sector including Retail- General Stores³ (\$21,331, N.A.), Retail- Food & Beverage Stores⁴ (\$21,592, \$19,264), and Retail- Health & Personal Care Stores⁵ (\$30,003, N.A.).
3. Oil and Gas⁶ had the highest average annual employees' pay (salaried-&-hourly: \$114,747, hourly: N.A.) in the given list of sectors, followed by Utilities⁷ (\$85,473, N.A.), Oil & Gas- Support services⁸ (\$84,813, \$76,685), Precious Metals^{9,10} (\$76,384, \$70,842), and Other Financial Investment & Related Activities¹¹ (\$65,244, N.A.).
4. With respect to the CEO-employee (salaried-&-hourly) pay ratio, out of 23 sectors, Manufacturing- Chemical had the highest pay ratio of 283, and whereas Oil & Gas- Support services had the lowest of 19. With respect to the CEO-hourly employee pay ratio, the same sectors as above had the highest and lowest pay-ratios – Manufacturing- Chemical had the highest pay ratio of 373 and Oil & Gas-

² Like, Tim Hortons Inc.

³ Like, Canadian Tire Corp. Ltd., and Dollarama Inc.

⁴ Like, Empire Co. Ltd., and Loblaw Companies Limited.

⁵ Like, Shoppers Drug Mart Corp.

⁶ Like, ARC Resources Ltd., and Athabasca Oil Corporation.

⁷ Like, Canadian Utilities Ltd., and TransAlta Corp.

⁸ Like, Keyera Corp.

⁹ Like, Barrick Gold Corporation, and Centerra Gold Inc.

¹⁰ This comes under 'Mining and Quarrying (except Oil and Gas)' sector at three digit level.

¹¹ Like, IGM Financial Inc., and CI Financial Corp.

Support services had the lowest of 21 in all 17 industrial sectors for which hourly data were available.

5. Total 6 sectors out of given 23 sectors (i.e. 26%) had higher than the national average CEO-employee (salaried-&-hourly) pay ratio of 135, these are: Manufacturing- Chemical (283), Food Services (251), Banking (225), Retail- General Stores (211), Manufacturing- Transportation Equipment (206), Retail- Health & Personal Care Stores (186). With respect to the CEO-hourly employee pay ratio, 6 sectors out of given total 17 sectors (i.e. 35%) have higher than the national average ratio of 179: Manufacturing- Chemical (373), Banking (332), Food Services (294), Manufacturing- Transportation Equipment (217), Communications & Media (191), and Agriculture (183).
6. As regards to the CEO-employee (salaried-&-hourly) pay ratio, 4 sectors (i.e. 17%) had less than half the national average (<67.5): Oil & Gas (43) Utilities (42), and Mining (48), Real Estate- Engineering & Construction (39), and Oil & Gas- Support services (19). Regarding CEO-hourly employee pay ratio, 2 sectors (i.e. 12%) had less than half of the national average ratio (<89.5): Real Estate- Engineering & Construction (41), and Oil & Gas- Support services (21).
7. Higher pay ratio always shows greater pay differences between CEOs and other employees, which is 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, and almost all the Retail sector covered here in the survey (except Motor Vehicle Dealers), e.g. Food & Beverage Stores, General Stores, and Health & Personal Care Stores.
8. Banking sector is 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 a low CV) and employees' pay (the denominator) low. Banking sector was followed by other two sectors with the similar features, namely Manufacturing- Transportation Equipment, and Communications & Media. Although Manufacturing- Chemical had the highest pay-gap ratio, but very high

CV means that there was much variation in the CEOs' compensation¹²; pay-gap ratio in that case may not be a true representative of the sector.

Table 4: Sectoral Pay Averages and Ratios, 2011

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
Manufacturing- Chemical	17,584,443	0.92	62,093	47,187	283	373
Food Services	4,298,178	–	17,136	14,611	251	294
Banking	10,609,931	0.10	47,160	32,006	225	332
Retail- General Stores	4,506,966	0.66	21,331	N.A.	211	N.A.
Manufacturing- Transportation Equipment	11,519,840	0.41	56,050	53,121	206	217
Retail- Health & Personal Care Stores	5,582,515	–	30,003	N.A.	186	N.A.
Transportation and Warehousing	6,875,371		47,778	41,150	144	167
Retail- Food & Beverage Stores	3,072,380	0.22	21,592	19,264	142	159
Communications & Media	8,255,206	0.50	60,910	43,108	136	191
Agriculture	5,209,477	–	41,774	28,520	125	183
Professional, scientific and technical services	6,433,163	0.28	63,099	46,424	102	139
Transportation- Rail	6,760,010	0.31	67,187	58,570	101	115
Retail- Motor Vehicle Dealers	4,244,661	–	46,254	37,846	92	112
Management and Diversified	5,577,169	0.29	61,809	N.A.	90	N.A.
Real Estate	3,769,382	0.27	42,684	32,425	88	116
Precious Metals	6,680,823	0.54	76,384	70,842	87	94
Insurance and Related Activities	5,170,948	0.58	59,497	40,308	87	128
Manufacturing- Food	3,478,200	–	40,589	34,257	86	102
Other Financial Investment and Related Activities	5,871,713	0.94	72,425	N.A.	81	N.A.
Oil and Gas	4,896,334	0.58	114,747	N.A.	43	N.A.
Utilities	3,595,291	0.55	85,473	N.A.	42	N.A.
Real Estate- Engineering & Construction	2,694,821	–	68,471	66,026	39	41
Oil & Gas- Support services	1,597,604	–	84,813	76,685	19	21
Transportation- Pipeline	4,793,953	0.53	N.A.	N.A.	N.A.	N.A.

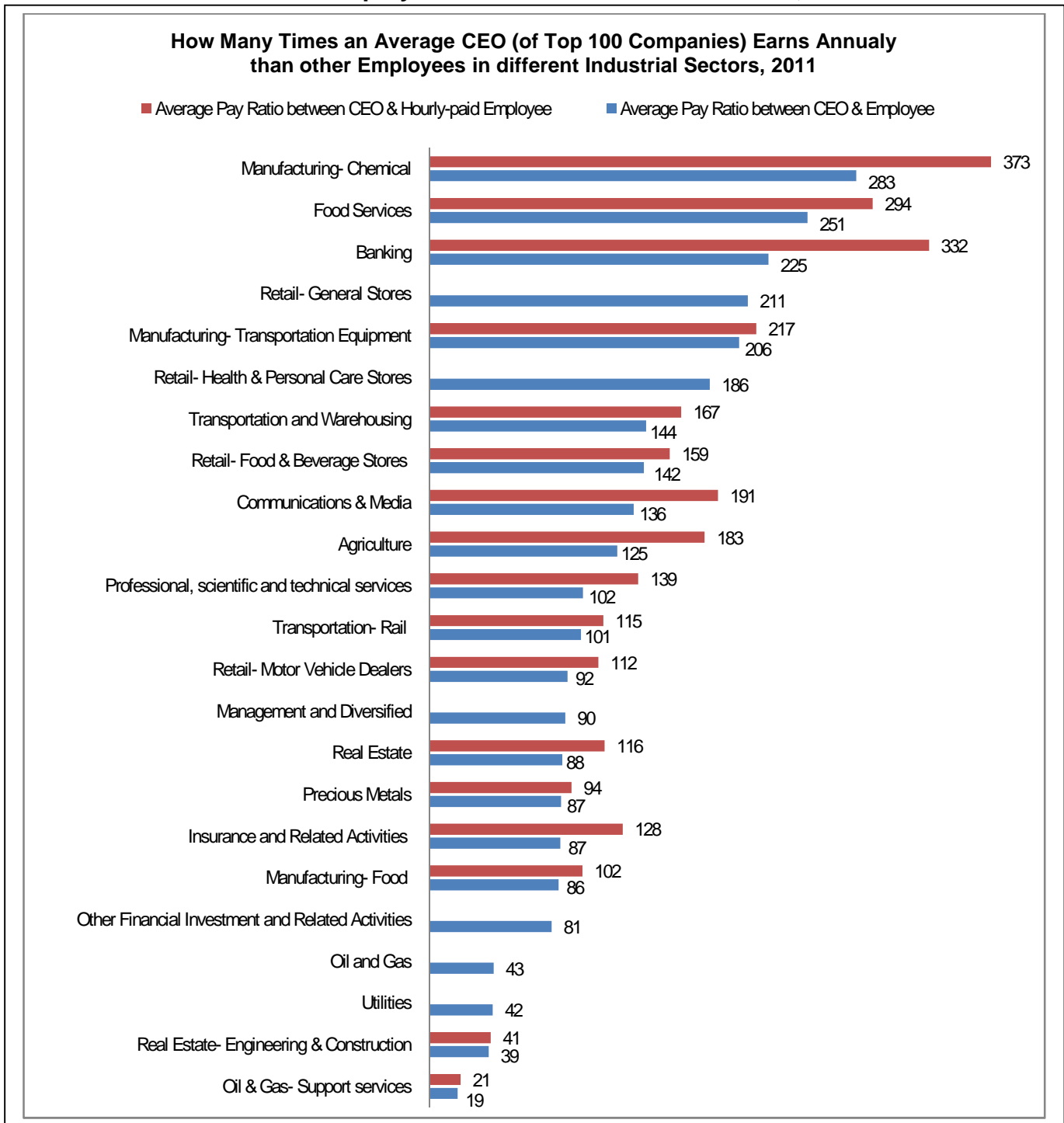
Notes:

N.A. Not Available

– Cannot be calculated as these are single-company sectors. For the list, see 'Note number 2' of the Graph 4.

¹² William Doyle of Potash Corp. of Saskatchewan earned \$11,601,796 as his compensation, whereas Michael Wilson of Agrium Inc. \$8,918,539, and Michael Pearson of Valeant Pharmaceuticals Intl. Inc. earned \$4,897,517.

Graph 4: Ratio between Average Annual Pays of a CEO (of Top 100 Companies) and other Employees in various Industrial Sectors, 2011



Notes:

1. When there is no red bar, it means data for hourly-paid employees are not available.
2. There were 8 sectors with single company each – Agriculture, Food Services, Manufacturing- Food, Oil & Gas- Support services, Real Estate- Engineering & Construction, Retail- Health & Personal Care Stores, Retail- Motor Vehicle Dealers, Transportation and Warehousing.

Methodology

Two data sources were relied on: Globe and Mail 2012 list 'Executive Compensation: Rankings for Canada's top earners' (see footnote III for source detail), and Statistics Canada resources. The former list contained the ranking and compensation of 103 CEOs of the 100 largest public companies (by market capitalization) in the S&P/TSX composite index as of December 31, 2011. Three summary tables^{IV} 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 (NAICS) 2007 – Canada', published by Statistics Canada, was used to determine the industry classification^V. Three digit level industry classifications were used; when three digit data was not available, two digit data were relied on (only one such instance this year).

For the sectoral CEO and employee pay ratios' computation, companies were arranged into more specific 24 sectors depending on the basis of their type of activity. This arrangement 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 industrial 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 Statistics Canada, Canadian Economic Observer. Accessed on 7 Jan. 2013.

<<http://www5.statcan.gc.ca/bsolc/olc-cel/olc-cel?catno=11-010-X&chprog=1%29=eng>>.

ⁱⁱ EconStats. Accessed on 6 Jan. 2013. <http://www.econstats.com/eqty/eqea_na_23.htm>.

ⁱⁱⁱ Following are the Globe and Mail sources for CEO compensation lists:

Globe and Mail. Executive compensation 2011. Published on 8 June 2012. "Executive Compensation: Rankings for Canada's top earners". Accessed on 27 Sep. 2012.

<<http://www.theglobeandmail.com/report-on-business/careers/management/executive-compensation/executive-compensation-rankings-for-canadas-top-earners/article4243534/#>>.

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<<http://www.theglobeandmail.com/report-on-business/managing/executive-compensation/executive-compensation-rankings-for-canadas-100-biggest-companies/article2038022/>>.

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^{iv} Following are the Sources of these three summary tables:

Statistics Canada. "Earnings, average hourly for hourly paid employees, by industry". Summary Tables. Accessed in 2012. <<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr74a-eng.htm>>.

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^v Statistics Canada. "North American Industry Classification System (NAICS) 2007 – Canada". 2007. Accessed in 2012. <<http://www.statcan.gc.ca/subjects-sujets/standard-norme/naics-scian/2007/list-liste-eng.htm>>.