

**Annual Pay Gap Survey**

Pay Gap between  
CEOs and Workers in  
Canadian Industry,  
2013

**By Pushpa Kumari**

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## Executive Summary of Annual Pay Gap Survey 2013

Annual pay gap survey 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 in a given year. Some of the main points of the 2013 survey are mentioned below:

This year, 98 CEOs of the top public companies were considered for the survey.<sup>1</sup> The highest and lowest compensation earning CEOs were: Hunter Harrison of Canadian Pacific Railway Ltd. (\$49,151,065), and Prem Watsa of Fairfax Financial Holdings Ltd. (\$622,970).

These all 98 CEOs received a total compensation pool of \$673,763,184 in 2012; it increased by slightly more than six per cent from that of last year.

CEOs of three sectors – Oil and Gas, Materials, and Finance – have dominated the total compensation pool by taking away about 48 per cent share of it; however CEOs of all other eight sectors shared remaining about 52 per cent.

A CEO of these top corporations bagged an average annual compensation of about \$6.9 million, whereas a typical Canadian industry employee earned an average annual pay of about \$47 thousand and an hourly-paid employee about \$36 thousand in 2012. Thus, a CEO earned 147 times than a typical employee and 193 times than an hourly-paid employee. These ratios saw the highest annual increase of more than eight per cent since the onset of current economic downturn in 2008.

Average industrial employees' (salaried-&-hourly) pays were analyzed for 23 industrial sectors and average hourly employees' pays for 17 industrial sectors<sup>2</sup>. Out of these given sectors, an average employee (salaried-&-hourly) and also an hourly employee received the lowest average annual pay in the Food Service sector (salaried-&-hourly: \$17,564; hourly \$14,933), and the highest in the Oil and Gas sector (salaried-&-hourly: \$119,541, hourly: 108,063).

With respect to the CEO-employee (salaried-&-hourly) pay ratio: top three sectors with their pay ratios were Transportation- Rail (399), Food Service (223), and Banking (206); and three sectors at the bottom of this pay ratio were Oil & Gas- Support services (17), Utilities (45), and Oil & Gas (48). As regards to the CEO-hourly employee pay ratio: top three sectors were Banking (317) Professional, scientific and technical services (282), and Food Service (263); and three sectors at the bottom were Oil & Gas- Support services (19), Oil & Gas (53) and Real Estate (81).

39% sectors of those given 23 sectors had higher than the national average CEO-employee pay ratio (147), and 35% sectors of the given 17 sectors had higher than the national average CEO-hourly employee pay ratio (193). Whereas, 17% sectors had less than half the national average (<73.5) CEO-employee pay ratio, and 29% sectors had less than half of the national average CEO-hourly employee pay ratio (<96.5).

Banking sector is found to be the most representative case of higher pay gap in 2012 (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), i.e. Food & Beverage Stores, General Stores, Health & Personal Care Stores.

# Pay Gap between CEOs and Workers in Canadian Industry, 2013

## Introduction

Inequality is traditionally criticized on the social grounds linking it with fairness or justice. It is hardly criticized on the economic grounds because inequality is assumed to be a pre-condition for higher economic growth in the mainstream circles. Quality of growth has rarely been a concern for them. However, surprisingly, its negative economic consequences are pointed out recently in a research study by the IMF. According to this study<sup>3</sup>, higher top income shares are generally responded with a policy of financial liberalization, as a consequence of which household debt and current account deficits are accumulated. Consequently economic anomaly is said to be generated as a side effect, under which capital flow takes place from the emerging countries to the developed countries.

Therefore, it is domestic imbalance (in terms of economic inequality) that has helped generate further imbalances in the western nations (like household debt, current account deficits) and has also penetrated another layer of imbalances into global economic system (capital flows from emerging countries to rich countries). Who bears the brunt of these imbalances in the society (whether domestic or global) ... obviously not the CEOs whose pays are skyrocketing!

With this introductory note, the 2013 annual survey on pay gap is presented here. It reports pay gap between CEOs and workers in the Canadian industry as a whole and also in its different sectors during the year of 2012. Sectoral level exercise adds a unique perspective and, thus, differentiates our work from other pay gap surveys.

In the first part, annual total compensation pool of the CEOs will be analyzed and highlights will be discussed along with the exhibition which major sectors have dominated the total CEO compensation pool. In the second part, absolute and relative gaps will be portrayed between average annual compensation of a CEO and a worker for overall 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 CEO Compensation in 2012**

From the original Globe and Mail list of 100 CEOs of the top corporations, 98 CEOs were considered for the 2013 survey. Two CEOs excluded from our analysis were: Sam Kolas at 99th rank (of Boardwalk REIT) for being listed with zero total compensation; and Bradley Shaw at 100th rank (of Shaw Communications Inc.) for being shown with negative total compensation of around 6.6 million in the original Globe and Mail list.

Two companies – IGM Financial and Power Corporation of Canada – have two CEOs each in the list. Both of these companies, having two CEOs each, have remained unchanged since the beginning of our work on pay gap with survey 2010.

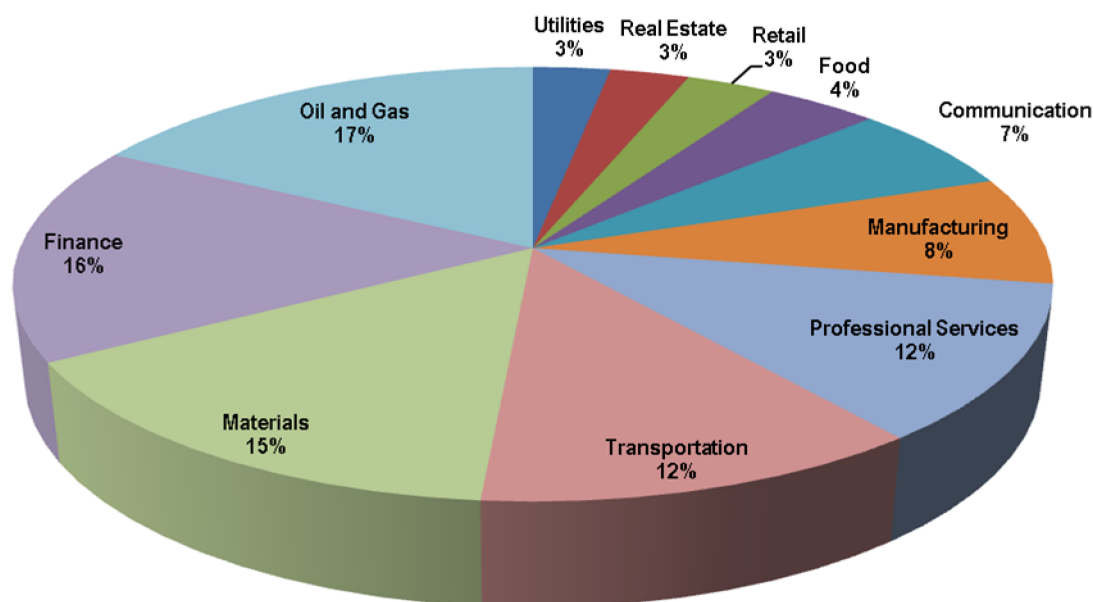
Top three CEOs and their compensation were: Hunter Harrison of Canadian Pacific Railway Ltd. with \$49,151,065 (new CEO in 2012), James Smith of Thomson Reuters Corp. with \$18,805,051 (also new CEO in 2012), and John Manzoni of Talisman Energy Inc. with \$18,670,958 (former CEO as he left in Sep 2012).

These 98 CEOs received a total compensation pool of \$673,763,184 during 2012. Total compensation pool increased by 6.1 per cent from that in 2011 when all the 103 CEOs of the top 100 companies received a total of \$634,817,907.

To see the sectoral distribution of total compensation pool, all the 98 corporations were divided into 11 major sectors and presented here in the Table 1 and Graph 1. Three sectors, same as the last year – oil and Gas, materials (mining and quarrying, except oil

and gas), and Finance – seemed to have dominated the show taking away about 48 per cent share of the total CEO compensation. Remaining 52 per cent compensation pool was shared by other eight industrial sectors.

**Graph 1: Percentage Distribution of (Top Companies') Total CEO Compensation into Major Industrial Sectors, 2012**



**Table 1: Distribution of (Top Companies') Total CEO Compensation into Major Industrial Sectors, 2012**

Major Industrial Sectors	Sectoral Distribution of CEO Compensation
Utilities	19,058,811
Real Estate	19,493,907
Retail	21,742,825
Food	27,729,679
Communication	43,776,779
Manufacturing	54,323,614
Professional Services	78,692,083
Transportation	81,208,304
Materials	103,345,481
Finance	109,064,087
Oil and Gas	115,327,614
<b>Total</b>	<b>673,763,184</b>



## Part 2: Pay Gap between CEOs and other Employees in entire Canadian Industry, 2012

A CEO of these top corporations bagged average annual compensation of about \$6.9 million, whereas a typical Canadian industry employee (hourly-&-salaried) earned an average annual pay of about \$47 thousand and an hourly-paid employee about \$36 thousand in 2012 (Table 2 and Graph 2). That means a CEO earned 147 times than a typical employee and 193 times than an hourly-paid employee in 2012 (Graph 3 and Table 2). These above ratios have seen the highest annual jump of 8.8 per cent and 8.2 per cent respectively this year since the onset of current economic downturn in 2008 (Table 2). However, one should interpret this jump cautiously as this might have been caused by the selection of CEOs in which two CEOs (from the original list), earning the lowest total compensation being at 99th and 100th ranks, were not included; and that might have generated an upward bias in the average compensation.

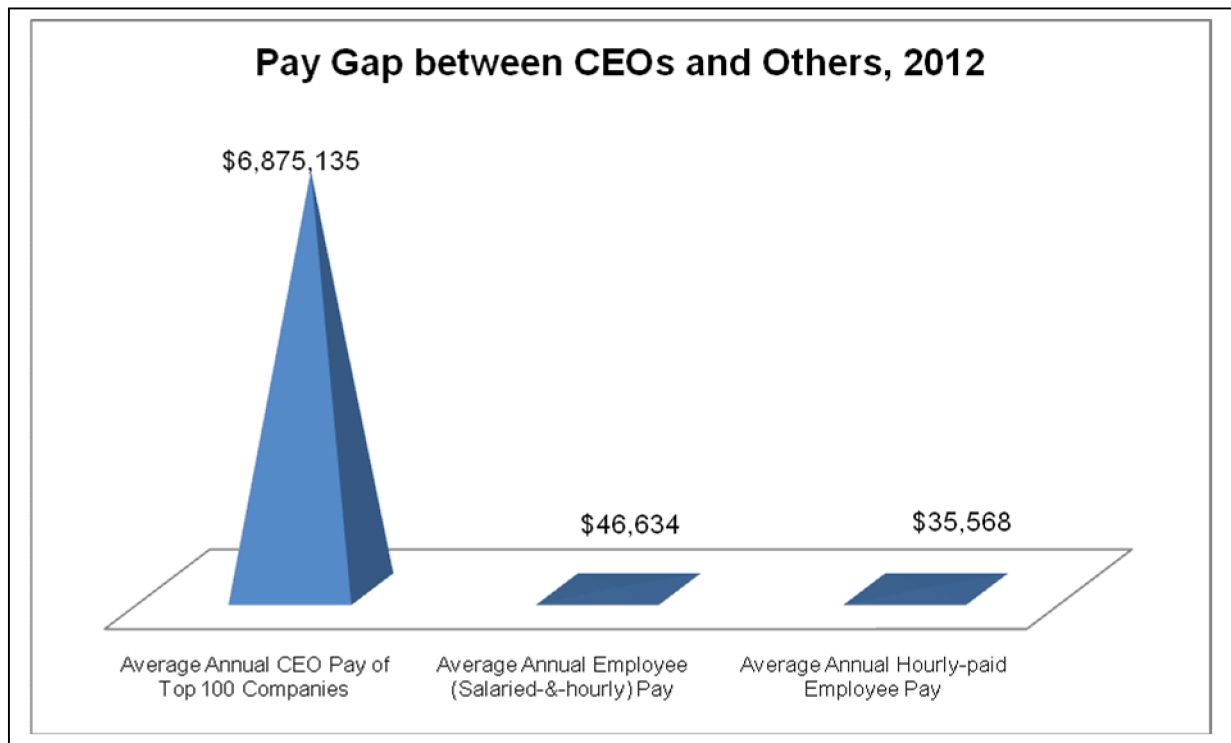
**Table 2: Pay Averages and Ratios in Canadian Industry, 2007-2012**

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
<b>Amount in Canadian \$</b>					
<b>2012</b>	6,875,135	46,634	35,568	147	193
<b>2011</b>	6,163,281	45,488	34,496	135	179
<b>2010</b>	6,048,345	44,366	33,009	136	183
<b>2009</b>	5,474,400	42,824	31,993	128	171
<b>2008</b>	5,706,443	42,169	31,885	135	179
<b>2007</b>	—	40,988	30,895	—	—
<b>Per cent Change from Previous Year</b>					
<b>2012</b>	11.5	2.5	3.1	8.8	8.2
<b>2011</b>	1.9	2.5	4.5	-0.6	-2.5
<b>2010</b>	10.5	3.6	3.2	6.6	7.1
<b>2009</b>	-4.1	1.6	0.3	-5.5	-4.4
<b>2008</b>	—	2.9	3.2	—	—

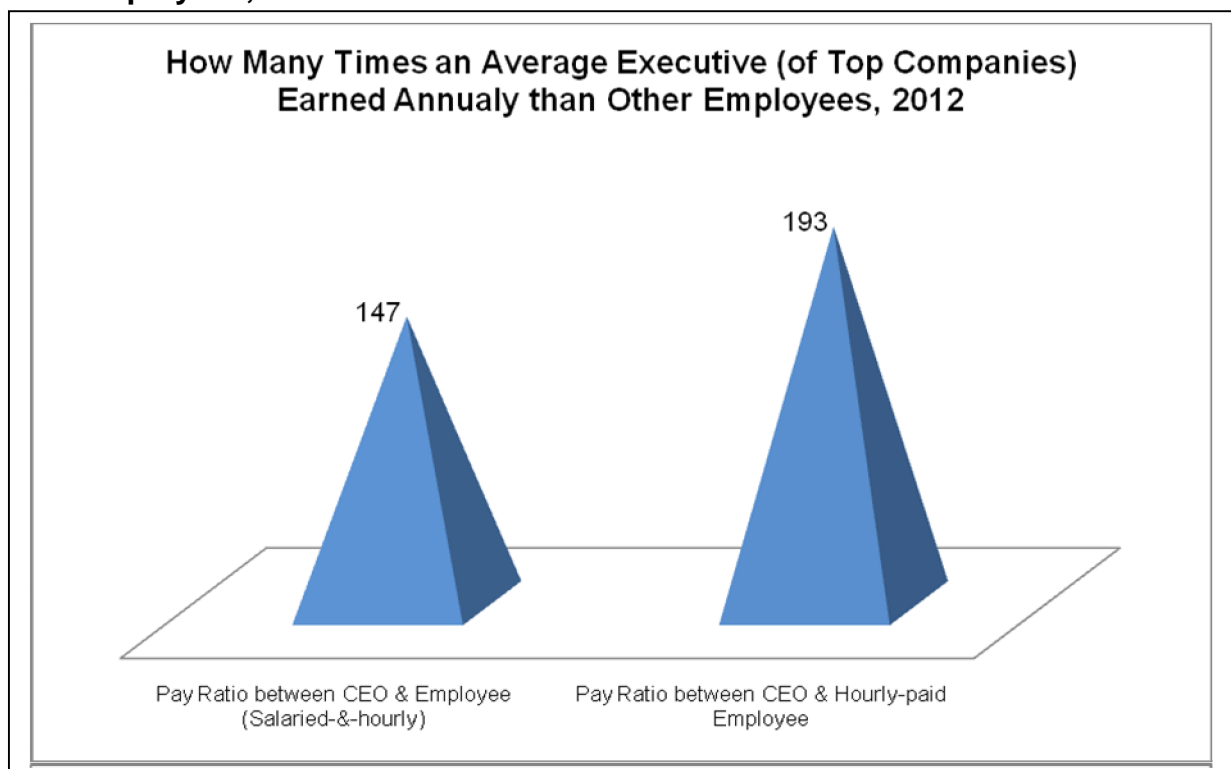
Source: For 2007 to 2011 figures, see Table 3 on page 9 of last year survey by the Economic Policy Dialogue (Pay Gap between CEOs and Workers in Canadian Industry, 2012, published in January 2013).

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

**Graph 2: Comparison between Average Annual Pays of a CEO (of Top Companies) and other Employees, 2012**



**Graph 3: Ratio between Average Annual Pays of a CEO (of Top Companies) and other Employees, 2012**



## Part 3: Pay Gap between CEOs and Other Employees in various Sectors of Canadian Industry, 2012

For sectoral pay-gap analysis, this year's entire list of top companies (and also, above 11 more general sectors in Part 1) 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: broad Retail sector was divided into Retail- Food & Beverage Stores, Retail- General Stores, Retail- Health & Personal Care Stores, and Retail- Motor Vehicle Dealers; and Financial Services sector was divided into three others, namely, Banking, Financial Investment & Related Activities, and Insurance & Related Activities. Out of these 24 sectors, seven were single-company sectors.<sup>4</sup> One sector, Transportation- Pipeline could not be considered for the pay ratio calculation as data on wages were not available for the employees.

CEO-employee (salaried-&-hourly) pay ratios are calculated for all these 23 industrial sectors, however CEO-hourly employee pay ratios could be calculated for 17 industrial sectors as wages and working hours were not available for hourly-employees in case of other six sectors<sup>5</sup>. Table 3 and Graph 4 show these sectoral pay ratios. Following are the key points from the analyses:

1. Hunter Harrison, CEO of Canadian Pacific Railway Ltd., earned the highest annual compensation of more than \$49 million. Whereas, Prem Watsa of Fairfax Financial Holdings Ltd. earned the lowest annual compensation of \$622,970 in the list of 98 CEOs.
2. Food Service sector<sup>6</sup> had the lowest average annual employees' pay (salaried-&-hourly: \$17,564 and hourly: \$14,933) in the given list of sectors, followed by most of the retail sector including Retail- General Stores<sup>7</sup> (\$21,919, N.A.), Retail- Food & Beverage Stores<sup>8</sup> (\$22,284, \$19,699), and Retail- Health & Personal Care Stores<sup>9</sup> (\$31,392, N.A.).

3. Oil and Gas<sup>10</sup> had the highest average annual employees' pay (salaried-&-hourly: \$119,541, hourly: 108,063) in the given list of sectors, followed by Oil & Gas-Support services<sup>11</sup> (\$90,338, \$80,578), Utilities<sup>12</sup> (\$85,341, N.A.), Precious Metals<sup>13,14</sup> (\$83,283, \$73,647), and Other Financial Investment & Related Activities<sup>15</sup> (\$73,382, N.A.).
4. With respect to the CEO-employee (salaried-&-hourly) pay ratio, out of 23 sectors, Transportation- Rail had the highest pay ratio of 399, and Oil & Gas-Support services had the lowest of 17. As regards to the CEO-hourly employee pay ratio, in all the 17 industrial sectors for which hourly data were available, Banking had the highest pay ratio of 317 and the same as above Oil & Gas-Support services had the lowest pay ratio of 19.
5. Total nine sectors out of given 23 sectors (i.e. 39%) had higher than the national average CEO-employee (salaried-&-hourly) pay ratio of 147, these are: Transportation- Rail (399), Food Services (223), Banking (206), Professional, scientific and technical services (201), Retail- General Stores (197), Manufacturing- Transportation Equipment (190), Retail- Food & Beverage Stores (179), Transportation and Warehousing (179), Manufacturing- Chemical (153). 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 193: Banking (317), Professional, scientific and technical services (282), Food Services (263), Transportation and Warehousing (204), Manufacturing- Transportation Equipment (203), Retail- Food & Beverage Stores (203).
6. Sectors with less than half the national average pay ratio were also categorized to find out which sectors had lower pay ratio. As regards to the CEO-employee (salaried-&-hourly) pay ratio, 4 sectors (i.e. 17%) had less than half the national average (<73.5): Oil & Gas- Support services (17), Utilities (45), Oil and Gas (48), and Real Estate (59). Regarding CEO-hourly employee pay ratio, 5 sectors (i.e. 29%) had less than half of the national average ratio (<96.5): Oil & Gas-Support services (19), Oil and Gas (53), Real Estate (81), Precious Metals (94), and Real Estate- Engineering & Construction (94).

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 three sectors with the similar features, namely Manufacturing- Transportation Equipment, and Communications & Media, and Professional, scientific and technical services. Although Transportation- Rail had the highest pay-gap ratio, but it had very high CV too which means there was much variation in the CEOs' compensation across the sector<sup>16</sup>; pay-gap ratio in that case may not be a true representative of the sector.

**Table 3: Sectoral Pay Averages and Ratios, 2012**

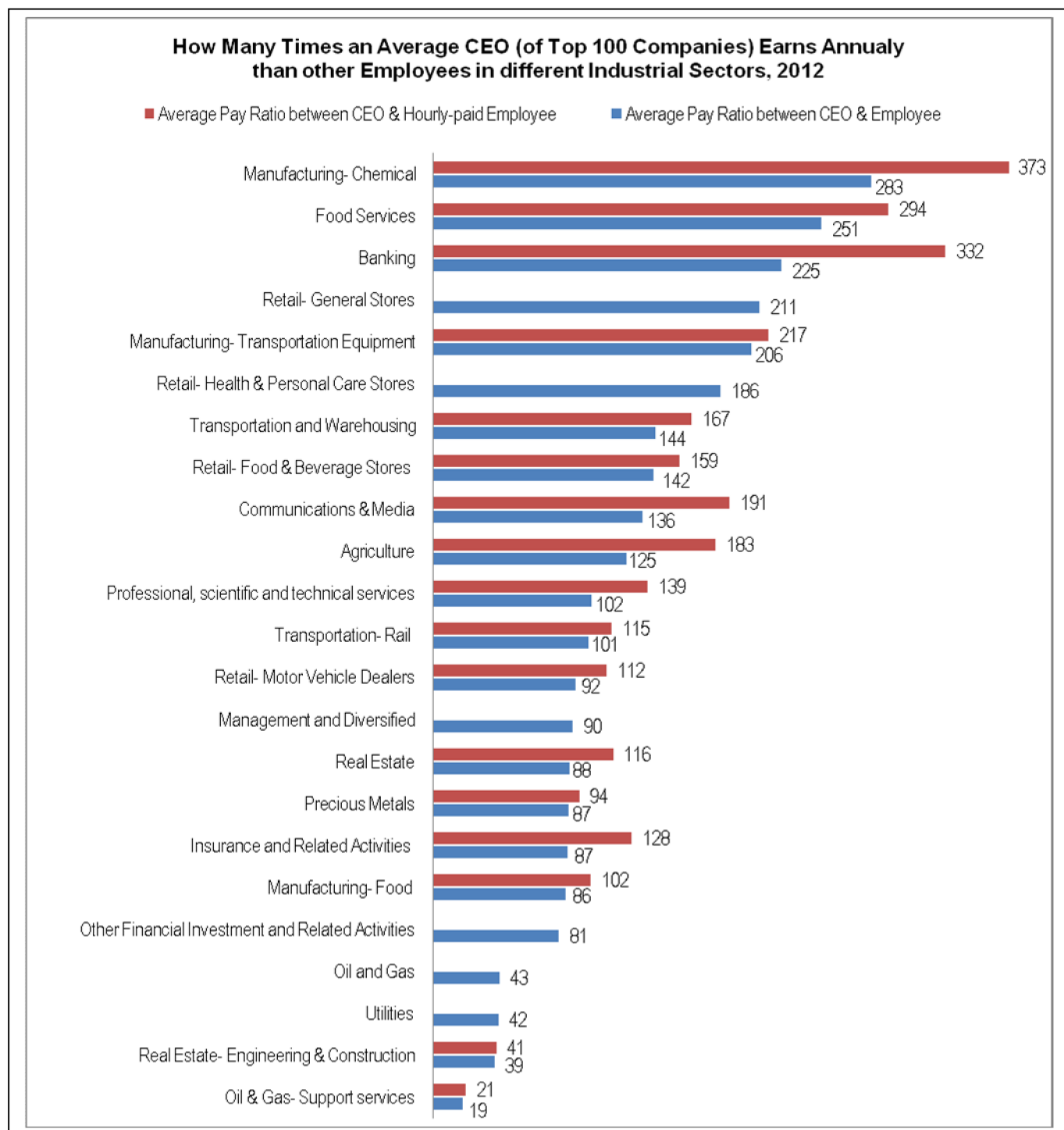
Sectors	CEO Pay - Sectoral Average (\$)	CEO Pay – Coefficient of Variation (CV)	Employee Pay - Sectoral Average (\$)	Hourly Employee Pay - Sectoral Average (\$)	Average Pay Ratio between CEO & Employee	Average Pay Ratio between CEO & Hourly Paid Employee
Transportation- Rail	28,555,285	1.02	71,602	N.A.	399	N.A.
Food Services	3,921,073	–	17,564	14,933	223	263
Banking	10,487,647	0.19	50,982	33,035	206	317
Professional, scientific and technical services	13,037,830	0.42	64,955	46,183	201	282
Retail- General Stores	4,315,311	0.87	21,919	N.A.	197	N.A.
Manufacturing- Transportation Equipment	11,414,788	0.67	60,228	56,214	190	203
Retail- Food & Beverage Stores	3,991,721	0.50	22,284	19,699	179	203
Transportation and Warehousing	8,679,314	–	48,601	42,630	179	204
Manufacturing- Chemical	9,415,641	0.30	61,716	52,383	153	180
Communications & Media	8,755,356	0.37	62,431	51,402	140	170
Retail- Health & Personal Care Stores	4,129,206	0.63	31,392	N.A.	132	N.A.
Management and Diversified	6,635,191	0.35	63,147	N.A.	105	N.A.
Retail- Motor Vehicle Dealers	4,853,792	–	46,879	36,924	104	131
Manufacturing- Clothing	3,247,115	–	32,151	24,911	101	130
Insurance and Related Activities	5,629,651	0.67	57,301	43,603	98	129
Manufacturing- Food	3,850,000	–	41,350	34,895	93	110
Real Estate- Engineering & Construction	6,430,758	–	71,863	68,064	89	94
Precious Metals	6,889,699	0.70	83,283	73,647	83	94
Other Financial Investment and Related Activities	5,996,650	1.05	73,382	N.A.	82	N.A.
Real Estate	2,612,630	0.71	44,184	32,228	59	81
Oil and Gas	5,689,239	0.75	119,541	108,063	48	53
Utilities	3,811,762	0.53	85,341	N.A.	45	N.A.
Oil & Gas- Support services	1,542,832	–	90,338	80,578	17	19
Transportation- Pipeline	5,139,473	0.52	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.

**Graph 4: Ratio between Average Annual Pays of a CEO (of Top Companies) and other Employees in various Industrial Sectors, 2012**



**Notes:**

1. When there is no red bar, it means data for hourly-paid employees are not available.
2. There were 7 sectors with single company each – Food Services, Manufacturing- Food, Manufacturing- Clothing, Oil & Gas- Support services, Real Estate- Engineering & Construction, Retail- Motor Vehicle Dealers, Transportation and Warehousing.

## Methodology

Two data sources were relied on: Globe and Mail 2013 list on executive compensation and Statistics Canada resources. The former 'How much Canada's top 100 CEOs got paid last year'<sup>17</sup> contained a table on the "ranking of compensation in fiscal 2012 for CEOs from the 100 largest public companies (by market capitalization) in Canada's benchmark S&P/TSX composite index as of Dec. 31, 2012." Three summary tables<sup>18</sup> 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. Another source 'North American Industry Classification System (NAICS) 2007 – Canada' published by Statistics Canada was used to determine the industry classification<sup>19</sup>. Three digit level industry classifications were used; when three digit data was not available, two digit data were relied on (only one such instance, i.e. 'Transportation and Warehousing').

For the sectoral CEO and employee pay ratios' computation, companies were arranged into more specific 24 sectors 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) comparable with 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.

Thus, 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 weeks  $[(\text{weekly earnings}) \times (52)]$ . 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 weeks  $[(\text{hourly earnings}) \times (\text{weekly hours}) \times (52)]$ . These annual pays were used to calculate the respective pay ratios.



## Endnotes and Sources

<sup>1</sup> There were originally 100 CEOs in the Globe and Mail's list. Two CEOs excluded from our survey were: Sam Kolias of Boardwalk REIT (99th ranked) listed with zero total compensation and Bradley Shaw of Shaw Communications Inc. (100th ranked) with negative total compensation.

<sup>2</sup> Working hours and earnings were not available for other six industrial sectors in the case of hourly employees.

<sup>3</sup> Kumhof, Michael, Claire Lebarz, Romain Rancière, Alexander W. Richter, and Nathaniel A. Throckmorton. "Income Inequality and Current Account Imbalances", IMF Working Paper No. 12/8, Jan. 2012. Accessed on 20 Jan. 2013. <[www.imf.org/external/pubs/ft/wp/2012/wp1208.pdf](http://www.imf.org/external/pubs/ft/wp/2012/wp1208.pdf)>

Summary: "... Cross-sectional econometric evidence shows that higher top income shares, and also financial liberalization, which is a common policy response to increases in income inequality, are associated with substantially larger external deficits. To study this mechanism we develop a DSGE model that features workers whose income share declines at the expense of investors. Loans to workers from domestic and foreign investors support aggregate demand and result in current account deficits. Financial liberalization helps workers smooth consumption, but at the cost of higher household debt and larger current account deficits. In emerging markets, workers cannot borrow from investors, who instead deploy their surplus funds abroad, leading to current account surpluses instead of deficits."

<sup>4</sup> Food Services, Manufacturing- Food, Manufacturing- Clothing, Oil & Gas- Support services, Real Estate- Engineering & Construction, Retail- Motor Vehicle Dealers, Transportation and Warehousing.

<sup>5</sup> These were: Retail- General Stores, Retail- Health & Personal Care Stores, Management and Diversified, Other Financial Investment and Related Activities, Oil and Gas, and Utilities.

<sup>6</sup> Like, Tim Hortons Inc.

<sup>7</sup> Like, Canadian Tire Corp. Ltd., and Dollarama Inc.

<sup>8</sup> Like, Empire Co. Ltd., and Loblaw Companies Limited.

<sup>9</sup> Like, Shoppers Drug Mart Corp.

<sup>10</sup> Like, ARC Resources Ltd., and Athabasca Oil Corporation.

<sup>11</sup> Like, Keyera Corp.

<sup>12</sup> Like, Canadian Utilities Ltd., and TransAlta Corp.

<sup>13</sup> Like, Barrick Gold Corporation, and Goldcorp Inc.

<sup>14</sup> This comes under 'Mining and Quarrying (except Oil and Gas)' sector at three digit level.

<sup>15</sup> Like, IGM Financial Inc., and Onex Corp.

<sup>16</sup> Hunter Harrison of Canadian Pacific Railway Ltd., the number one in the list, earned \$49,151,065 as compensation, whereas Claude Mongeau of Canadian National Railway Co., at 32<sup>nd</sup> rank, earned \$8,918,539.

<sup>17</sup> Globe and Mail. Executive compensation 2012. Published on 27 May 2013. "How much Canada's top 100 CEOs got paid last year". Accessed on 27 May 2013.

<<http://www.theglobeandmail.com/report-on-business/careers/management/executive-compensation/how-much-canadas-top-100-ceos-got-paid-last-year/article12136604/?from=12161097>>

<sup>18</sup> Following are the Sources of these three summary tables:

Statistics Canada. "Earnings, average hourly for hourly paid employees, by industry". Summary Tables. Accessed in 2013. <<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr74a-eng.htm>>.

---. "Earnings, average weekly, by industry". Summary Tables. Accessed in 2013. <<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr73a-eng.htm>>.

---. "Weekly hours of hourly paid employees, average, by industry". Summary Tables. Accessed in 2013. <<http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/labr81a-eng.htm>>.

<sup>19</sup> Statistics Canada. "North American Industry Classification System (NAICS) 2007 – Canada". 2007. Accessed in 2013. <<http://www.statcan.gc.ca/subjects-sujets/standard-norme/naics-scian/2007/list-liste-eng.htm>>.