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Pay cuts, pay ratios, and moral panic

Reports suggest that more than half of FTSE 100 CEOs have now taken a substantial cut to their base salary in response to the Covid-19 crisis. To date, a select band of university Vice-Chancellors and senior leaders have done the same, with 20% salary reductions fast establishing themselves as the default figure.

Whose attention are these pay cuts intended to grab, and to what end? The interests they serve are a mix of the personal and the organisational. On the personal side, CEOs and Vice-Chancellors are facing tough internal negotiations about cuts to jobs and pay. To be credible in these negotiations, the leaders concerned need to show that sacrifice starts with them: they and their senior colleagues are not asking employees to do what they are not willing to do themselves. That message carries through to the external negotiations they will be undertaking: shareholders and customers alike need to be re-assured that a sense of seriousness and purpose permeates the organisation from the top downwards. A pay cut coming from the face of the organisation is a potent way of making that point.

Whether you are an airline or a university, no negotiating partners are likely to be more sensitive about the issue of pay than government ministers, particularly where they are being asked for cold, hard taxpayer cash. Governments enjoy styling themselves as representatives of the taxpayer and the evidence is that taxpayers dislike the idea of bailing out high earners, even in the best of economic times. That attitude will only harden as we hit the worst of economic times.

Given all this, how likely is a pay cut at the top to have the desired effect? In terms of internal negotiations, it might buy some goodwill with staff and their representatives, if only to suggest that the organisational leader in question has some economically sensitive bones in her or his body. But the we-are-all-in-it-together line is hard to sustain when you are negotiating about people *losing* their jobs: in those cases, the danger is that taking a pay cut might be seen as like shifting from a bigger life raft to a smaller one as the ship goes down. And even if the negotiations are about pay freezes and cuts rather than job losses, the gesture of taking a pay cut yourself is likely to work only if your position *relative to others in the organisation* is worse after the new settlement than it was before. A cut in your absolute pay has the desired effect only if feeds through to a cut in your relative pay as well.

Three questions arise from all this. The first is what might be called the issue of herd immunity: once one CEO or Vice-Chancellor has taken a pay cut, how much pressure does it put on another to follow suit? A lot depends on how far the pay cuts in question are following a discernible logic. If they are, then cutting the salary of organisation A's CEO because of its financial performance as measured by x and y puts pressure on organisation B's CEO if it is performing similarly in respect of x and y. At the same time, it takes the pressure off the CEO of organisation C if its performance along x and y is otherwise healthy.

The suspicion is that there is no such clear logic to the pay cuts attaching to the FTSE 100 CEOs and that they are less the product of an algorithm common to all than of organisation-by-organisation calculations of stakeholder and market sensitivity, with some moral panic thrown in for good measure. This tide of *sentiment* behind the decisions about CEO pay is hard to resist by appealing to logic and evidence: there may be a sense for many organisations that if they do not go with the flow of the times when it comes to CEO pay, the cost of the resulting exposure will not be worth the benefit of having stood their ground and (as they would see it) relied on rational argument.

These sorts of considerations apply to universities also, with the added dimension that universities form part of *a sector* – making it a natural impulse for people to compare practices within *their* university to practices in *other* universities – and that there is a great deal of detailed information about the salaries of university leaders already in the public domain: finding out what Vice-Chancellors, across the board, are paid is but a Google search away. In short, the impulse to compare sits alongside a lot of data to make comparisons with.

This leads onto the second question. The fact CEOs and Vice-Chancellors are taking pay cuts in an ad hoc fashion only serves to undermine whatever logic there was to the pay differences between them *before* the push to reduce salaries set in: carefully calibrated benchmarks that justified organisation A paying its CEO or Vice-Chancellor 20% more than organisation B's on the grounds of A's greater earnings or turnover or scale or prestige are fast becoming redundant (if only temporarily). The process is zero-sum: as one organisational leader goes down the salary league table, another necessarily goes up and thereby becomes subject to the kind of scrutiny from which they had hitherto been shielded. Put in a way the tabloid press would approve of, as the fatter cats get thinner, the thinner cats start to appear fatter and it is they who now find themselves thrust into the limelight and required to justify the logic of *their* pay relative to others. And so it can go on, each salary cut making the position of one leader more tenable at the same time as making that of another less tenable: a process of endless correction and counter-correction.

The third question concerns the longevity of the pay cuts currently being taken. Within the university world, the salary reductions being taken by the Vice-Chancellors and their senior teams that are commonly billed as *temporary*, generally for a period of six months. While the language of temporariness is also being used widely in the commercial sector, the issue of timing is of even greater significance to university leaders, whose reward packages are dominated by base salary without the benefit of large bonuses and substantial long-term incentive payments.

What would have to be true for an organisation to feel able to restore the pay cuts (or for a leader to feel confident enough push their case for having them restored)? To say that *the organisation will need to be back in the shape it was in before Covid-19 kicked in* raises difficult questions about which measures to concentrate on in assessing this state of affairs, given the indelible mark the pandemic will leave on most organisations and the markets they operate in. In a number of cases, the *status quo ante* may very well be gone forever. That is not to say that new will necessarily be *worse*: for example, the on-line innovations universities have introduced to their teaching are most likely here to stay and they open up new possibilities for students as well as for the business models of the universities themselves. But away from these operational changes, what we are seeing is a broader shift in the social and political climate surrounding senior executive pay in particular and unequal pay in general: the pandemic appears to have created a political push towards both levelling-up and levelling-down. This new climate is not going to pass within six months, however successful individual leaders might be in restoring their organisation's fortunes over that period. For the foreseeable future, any moves towards restoring the pay differences of the pre-Covid-19 era are likely to come up against stiff resistance.