

Executive Compensation Fueling Inequality in Canada



Perhaps you heard the news that by noon on January 2nd, 2014, Canada's top CEO's made as much as the annual income of the average worker. What executive to employee compensation ratio is acceptable?

It is a tricky question because it is loaded with emotion and divided opinions about entitlement and social injustice. Executives, it can be said, take more risks, have more qualifications, and have earned their roles and the privileges that go along with them.

Executives in Canada are often significantly rewarded regardless of the success or failure in their leadership. According to the Canadian Centre for Policy Alternatives, there is no evidence of a link between CEO compensation and any measure of corporate performance.

The reality is, growing income disparity can have a demotivating impact on the average worker. When many people believe hard work is an investment in a better life, aspiring to become top income earners is motivating. When everyone is gaining, it is less noticeable when some gain much more. This perception is changing, however.

A Profile of High Income Earners in Canada.

According to a 2010 Stats Canada report (the most recent full data available), the average income for the top 1% of income earners in Canada was \$429,000 (and often much more). The average for the rest of the country, the other 99%, was \$36,600. In January 2014, the Canadian Centre for Policy Alternatives reported that the average Canadian's salary was \$46,000 (this number is higher compared to the 2010 Stats Canada data not because of an increase in salary but because it includes 100% of income earners and not only the average of bottom 99%). The top 100 CEOs averaged 7.9 million.

| 2010 Stats Canada data | Top 1% over 201,000 | Bottom 99% under 201,00 |
|------------------------|---------------------|-------------------------|
| Number of Tax filers | 254,730 | 25,217,145 |
| Gender – % of Males | 79% | 47.7% |
| Gender – % of Females | 20.9% | 52.3% |
| Median Age | 51 | 47 |
| Median Income | \$283,400 | \$28,400 |

| | | |
|----------------|-----------|----------|
| Average Income | \$429,600 | \$36,600 |
|----------------|-----------|----------|

Economic Mobility

The growing inequality of Canadian income distribution is driven by the accumulation of wealth among the top income earners while the income of the many is stagnant. According to Stats Canada, the wealthy “one percent” earned 10.6% of Canada’s total income in 2012. In fact the top 20% of income earners control 70% of the country’s net-worth.

122 Times Their Employees Income

According to a Globe and Mail report, [How Income Inequality Hurts Every Canadian’s Chance of Building a Better Life](#), on average, the executives of the largest Canadian companies earned 122 times the income of the average worker. The top income-earning executives earned over 177 times, and as much as 800 times, that of their employees. This is an increase from 10 years ago when the difference was 84%.

The Income Gap Keeps Everyone in Their Place

Why does this inequality in wage keep some income earners down? In the past there was more opportunity for more people to climb to the top, not all the way to the top but up the ladder. As the wage gap has increased it has become more difficult for poor and middle-income earners to create opportunities for building success.

Peter Drucker, management consultant and founder of the Drucker Institute, suggests that compensation for CEOs should not exceed that of the average worker by more than 19% or 20% of their organization. Other voices suggest the ratio should be closer to 10-1. Drucker says that too large of an income disparity fosters distrust within an organization and hampers team work. Employees will not be motivated to work as hard when they see that their efforts benefit others much more than themselves.

What Should You Pay Your Executives?

Should executives earn a solid income? There are legitimate reasons to compensate people for their leadership. But 122 times that of the average worker could mean short-term gain for some individuals and long-term loss for organizations and society.

Consider instituting an executive to average employee ratio cap on executive compensation packages. If your average worker is earning the Canadian average of the bottom 99%, \$36,000 per year, a 10x ratio still allows compensation of \$360,000 per year. If that does not seem like a lot to your executives perhaps they should consider trying to live on \$36,000.