



The Ethics of Executive Remuneration:

A Guide for Christian Investors

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Summary

1 Executive remuneration: The current situation

Current levels of executive pay in the UK are strikingly high: a 2008 survey showed the highest earner as being paid £23m annually, with 34 receiving packages valued at more than £5m. The average Chief Executive Officer (CEO) package in the FTSE 100 was £2.9m. The average salary of a FTSE 100 employee is £26,000, so the pay of FTSE CEOs is on average over 100 times that of average salaries in these companies. In 1970 this differential was approximately 10:1. The UK is reckoned to be second only to the US in executive pay.

2 A cause for concern

2.1 General ethical objections

Critics of these levels of executive pay judge them unfair because they overvalue the contribution made by chief executives. Defences of high executive pay on the basis of market rates fail to recognise the ways in which the market differs from free market conditions. Shareholders are disadvantaged by competition between companies on levels of top executive pay and this competition also risks attracting candidates more strongly motivated by their own financial interests than the interests of the company or its shareholders. It is unclear that high pay is a significant motivator for top executive performance. Extreme economic inequality may well also have damaging social consequences.

2.2 Particular crisis-related concerns

The global financial crisis heightened public concern about excessive executive remuneration, especially in relation to banking and financial institutions seen as bearing some responsibility for it. Such institutions seem to have been cavalier regarding the risk of their strategies and this approach may well have been encouraged by remuneration policies. Market mechanisms were not successful in limiting the adverse effects of remuneration policies on risk management and executives have often escaped the consequences of their mistakes.

2.3 Church investment

Church investors have been active in voting against excessive pay packages, but the theological and ethical basis for this stance has not yet been made clear.

3 Theological considerations

3.1 Distributive justice

The Bible makes economic justice a central focus of its moral concern. Biblical accounts of justice include four elements: impartiality between persons, rendering

to each what is their due, respecting proportionality between labour and its reward, and recognising the normativity of judgements rooted in God's moral law.

3.2 Wealth

The Old Testament sees wealth as a good gift for God's people to enjoy, but it is stern concerning the misuse of wealth and its dangers. The wealthy are expected to be generous and are warned of the potential for wealth to make them greedy and turn them from God. The prophets condemn the rich who oppress the poor, love luxury and flaunt their wealth. In the New Testament, Jesus warns against the idolatry of serving Mammon in place of God, tells the rich young ruler to sell his possessions and makes clear how hard it is for rich people to enter the kingdom of God, though some of his followers and members of the early church are among the wealthy. Christian attitudes to wealth in the later history of the church include medieval ideals of monastic poverty and a Reformation emphasis on the legitimacy of using God's gifts in business. 19th century Christian entrepreneurs who founded successful businesses were often generous with their wealth and careful to treat their employees well. The rich in the twenty-first century seem to be less generous.

4 Investors' responsibility

Shareholders have a responsibility to exercise proper stewardship of the companies in which they invest, but often fail to do so. Even serious long-term institutional investors suffer from the 'agency problem' of the gap between shareholders and the board and their respective interests. Several of Jesus' parables relate to the stewardship of resources and picture stewards being judged on long-term performance, with attention to both financial and inter-personal behaviour. Recent reports on remuneration policies emphasise non-financial measures of performance and advocate that such policies should promote effective risk management.

5 Conclusions

5.1 Theological values

Four theological values arise from the analysis of the report:

1. Concern for the poor. Investors should be more concerned with helping the poor than restraining the rich, and therefore even more vigilant about levels of pay at the bottom of an organisation than those at the top.
2. Just pay. Market arguments for unrestricted pay

policies should be rejected on the grounds of distributive justice and in recognition that the markets in question are not sufficiently free to set remuneration appropriately. Pay differentials are more important than outright value, and attending to differentials makes clear that some companies have fairer policies than others. Investors should examine the ratio between top executive pay and the average pay of the lowest 10% of employees, and set an appropriate rule of thumb for engaging with companies. The authors suggest 75 times as an upper limit for this ratio, reduced over time through engagement with companies. It is also crucial that remuneration packages be made simpler and more transparent in order to judge whether they are proportionate.

3. The dangers of wealth. Attracting candidates with high levels of pay means they are disproportionately likely to put their own financial interests ahead of those of the company and its shareholders. Companies seeking to enhance their prestige through competitive remuneration policies are operating in clear opposition to shareholder interests.
4. Good stewardship. Remuneration for those such as CEOs responsible for stewarding the resources of others should be based on long-term performance and appropriate attitudes to risk. Investors should object to overly generous severance packages and encourage 'claw back' mechanisms to recover remuneration that proves to have been awarded on the basis of mistaken estimates of performance.

5.2 Recommendations

1. Investors should be most concerned about pay for the poor.
2. Investors should consider corporate pay differentials as more important than absolute pay packages. A maximum multiple of the ratio between the pay of the top executive and that of the average pay of the lowest 10% of employees should be identified, and over time the ratio should be set on a downward trajectory. In the opinion of the authors, it would be difficult to justify a ratio in excess of 75 times.
3. Investors need to hold executives to account over performance – with an emphasis on sustained performance.
4. Investors should discourage companies from seeking to compete with one another through levels of executive remuneration, recognising the disadvantages of motivating senior executives primarily through concern for their personal wealth.
5. Investors should dissuade companies from offering pay packages which encourage high-risk behaviour.
6. Investors should encourage companies to adopt simple and transparent packages of executive remuneration in order to facilitate accountability.
7. Where companies operate executive remuneration policies at strong variance with these recommendations and investor engagement with a company does not lead to any change of policy, disinvestment should be considered.



1. Executive remuneration: The current situation

The high level of executive remuneration is a subject that has attracted a great deal of public attention in recent years, especially since the global financial crisis in 2008 and the recession that has followed. The figures are striking, both in an absolute sense (how much money is being paid to senior executives) and a relative sense (how executives' pay compares with that of average workers).

In September 2008, the Guardian's annual survey of directors' pay found that 34 directors out of 956 in the FTSE 100 Index of companies received financial packages of salary, bonuses and shares totalling more than £5m. Eight directors earned more than £10m and three more than £20m.¹ The highest earner was Sir Martin Sorrell, chief executive of the advertising group WPP, with £23,372,504. The average chief executive's package in the FTSE 100 was £2.8m. This is actually a slight decline from the 2007 average of £2.9m, indicating that the economic slowdown has had some (slight) effect on executive remuneration. Nevertheless, there had been a substantial increase in previous years – the 2005 figure was £2.5m, and the number of FTSE directors earning more than £3m has doubled from 35 to 70 between 2005 and 2008. Among the second tier of companies, the FTSE 250, the average chief executive's pay is considerably lower (£1.45m) but that group still contains eight executives who earned over £5m.

How do such earnings compare with that of the average British worker? The average full-time employee who worked for a FTSE 100 company earned just over £26,000. This means that the pay differential between chief executives and average workers in such companies now stands at over 100 to 1. In 1970, the differential was approximately 10 to 1.² Taking the FTSE as a whole, the 2008 figure is 66:1.

These average differentials mask some major discrepancies between different companies. At Tesco, the total salary package of chief executive Sir Terry Leahy adds up to £6,267,360. This compares with an average employee salary of £11,918, a staggering differential ratio of 526:1. At Sir Martin Sorrell's WPP it's 550:1, but the average WPP employee gets over £42,000. Compare those differentials with British Airways, where chief executive Willie Walsh earns £701,000 and the average salary is £47,984. That represents a much smaller pay differential of 15:1. That is a massive contrast, even allowing for the fact that it reflects the current relative fortunes of a thriving retailer and a struggling airline. The gap is similarly lower at Severn Trent (18:1).

At 3i, the chief executive Philip Yea has a total package of £5,091,137, which makes him one of the highest earners. But the pay differential there is only 22:1, because the average salary per employee is a remarkable £230,570. This makes 3i the best paid firm in the Guardian's survey.

3i is a private equity investor which is also a Public Limited Company. But many hedge funds, private equity firms and City investment banks are either privately owned or quoted in the USA rather than the UK. This means that they fall outside the Guardian data. It is no secret, however, that earnings in many of these private firms far outstrip those already cited in public listed companies. Two of London's wealthiest hedge fund managers, Noam Gottesman and Pierre Lagrange, founders of GLG Partners, paid themselves an estimated £400m each in 2007.³ Marshall Wace, another of Europe's leading hedge funds, is said to pay \$250m a year in commissions to individual brokers.⁴ The investment bank Goldman Sachs, which is two thirds owned by the public and a third owned privately by partners, paid 212

¹ These and the figures that follow are taken from <http://www.guardian.co.uk/business/series/guardianexecutivepaysurvey>.

² The 10:1 figure for 1970 is cited in the Guardian survey by Nick Isles, director of advocacy at the Work Foundation think-tank. Martin Conyon and Joachim Schwalbach provide figures comparing ratios between executive pay and the pay of manufacturing workers between 1984 and 1996 in the UK and Germany. In the UK the ratio rose from 9:1 to 16:1 in this period, while in Germany the ratio fell from 6:1 to 4:1 ('Executive compensation: evidence from the UK and Germany', Long Range Planning 33 issue 4 (2000), 504–26). Frederick Guy shows that this followed a period between 1974 and 1983 when pay differentials between chief executives and averagely paid workers had actually fallen ('Earnings distribution, corporate governance and CEO pay', International Review of Applied Economics, 19(1), 2005, 51–65).

³ http://www.thisismoney.co.uk/markets/article.html?in_article_id=438693.

⁴ <http://www.efinancialnews.com/privateequity/fn100/content/1046717369/ianwace>. Marshall Wace is owned by Paul Marshall and Ian Wace. They made a major advance in the development of hedge funds in 2001, when Marshall Wace launched its Trade Optimized Portfolio System (TOPS). This electronically screens and assesses share recommendations made by analysts at investment banks.

employees \$3m in bonuses as recently as July 2009,⁵ based on a strong corporate performance during the second quarter of 2009.

Goldman Sachs is an American firm with a strong base in London. This leads to the observation that while the figures for UK executive remuneration (considered in both absolute and relative terms) give cause for concern, the comparative figures for US companies show much greater extremes. According to the Economic Policy Institute, a Washington-based think-tank, a typical chief executive in a US company in 2005 was paid nearly \$11m a year, 262 times the \$41,861 pay of an average worker. This 262:1 ratio compares with 24:1 in 1965 and 71:1 in 1989.⁶

Although UK pay packets and differentials are still markedly less than those in the USA, there is no doubt that what has happened on the other side of the Atlantic has exerted a major impact on trends in the UK. The UK is reckoned to be the second most generous employer in the world when it comes to executive remuneration. Executive pay in France and Germany has also risen sharply during the last decade, but the pattern is less marked in some developed nations,⁷ notably those with a stronger ethos of social egalitarianism, such as Sweden.⁸



2 A cause for concern

Why are the high levels of executive remuneration attracting such attention? Why has it become a major cause for concern? It is possible to identify two waves of public objections to the trends described. The first wave was already rolling – albeit relatively gently – prior to the global financial crisis. The second wave has gathered momentum since the crisis and is indeed related to behaviour which is deemed to have provoked the crisis.

2.1 General ethical objections

The first wave of objections concerns the ethics of high pay in general. So wage packages that are considered excessive and wage differentials that are clearly massive are apt to be described as ‘unfair’. The issue is seen as one of distributive justice.⁹ Critics rarely dispute that senior executives should be paid more than other employees. They recognise that senior executives handle complex issues which entail a high degree of responsibility, require a high level of skill, and entail a considerable measure of risk (not least risk to reputation) should corporate fortunes experience a downturn. But critics of ‘excessive’ pay feel that current pay packages over-value the contribution made by senior executives, and in some companies under-value the contribution made by employees at other levels in the organisation. The success of a company depends on everyone from the highest position to the lowest fulfilling their duties, ‘pulling their weight’ and providing excellent customer service. Each person – e.g. receptionist, accounts clerk, marketing manager – plays a vital and distinct role; each role brings its challenges and opportunities. In recent years, chief executives appear to be extracting gains far beyond those attributable to higher productivity and profitability. A wage structure that rewards certain individuals in excess of the contribution that they have made and recognises the contribution made by ordinary workers all too little flies in the face of natural justice. It also contributes to inflation, as corporate costs rise and reduce long-term shareholder value.

The counter-objection often made by those who defend high levels of executive pay is that, in the corporate world, justice is something of an abstract notion; ‘the market’ determines how much chief executives should be paid. The laws of supply and demand come into play, and since executive talent is deemed to be thin on the ground — much slimmer than the pool of ‘ordinary’ labour, anyway — high salaries are necessary to attract the most talented staff. Economists tend to see this as an ‘amoral’ process. If a company fails to pay a salary which is the ‘going market rate’, it won’t get the executives it wants. Defenders of the status quo present that as a fact of life. Even those who believe that companies need to approach the issue of remuneration sensitively, and to be prepared to adjust their policies, such as Stephen Green, argue that ‘as a matter of practical fact, the laws of supply and demand operate

⁵ <http://www.nwotruth.com/tarp-banks-award-billions-in-bonuses/>. By this stage Goldman Sachs had repaid the assistance it received in October 2008 from the US Government’s Troubled Asset Relief Program.

⁶ http://www.redorbit.com/news/general/546217/ceos_earn_262_times_pay_of_average_worker/index.html.

⁷ <http://www.guardian.co.uk/business/2008/sep/13/executivesalaries.europe>.

⁸ The following figures are dated but the trend almost certainly remains: in 2000-1 CEO pay was 367% higher in the USA than in Sweden, one of Europe’s most developed nations, but the base pay of McDonalds workers was 8% lower in the USA than in Sweden. See O. Ashenfelter and S. Jurajda, *Cross-country Comparisons of Wage Rates: The Big Mac Index*, Princeton University, 2001.

⁹ See the discussion in e.g. Robert W. Kolb (ed.), *The Ethics of Executive Compensation*, Blackwell, 2006, and a paper by Guillermina Jasso and Eva Meyersson Milgrom, ‘Distributive Justice and CEO Compensation’, versions of which they have given at several academic conferences: papers.ssrn.com/sol3/papers.cfm?abstract_id=1136398.

in the market for people as well as in the market for goods and services. And they will always produce differentials.¹⁰

There is of course a measure of truth in this argument. What individuals expect and demand is undoubtedly influenced by the salaries commanded by those of comparable ability and occupying comparable positions. We live too in an increasingly mobile world where talent can be attracted from other countries and other business sectors. The market for executives, however, is far from the ideal competitive market for a range of reasons. As Patrick Gerard notes, high levels of pay do not result in increased supply of executives: in fact, high pay levels reduces the number of candidates who could fill the post because expectations are correspondingly higher.

Although executive directors are not permitted under the Combined Code to be involved in deciding their own remuneration, the non-executive directors who set their pay tend to be drawn from the same circle of high-earning corporate executives – raising questions about their independence of judgment. Gerard also notes that from the perspective of shareholders holding shares in more than one company, the argument about paying market rates fails because competition based on level of remuneration packages between companies succeeds only in raising average levels of remuneration without any benefit to shareholders.¹¹

In addition, it is worth noting that the market varies a great deal from country to country, even between countries of comparable economic stature. It is difficult to avoid the conclusion that ‘the market’ is not an objective force which operates in a quasi-universal way; rather, it is subtly yet substantially shaped by the culture in which companies operate. In some countries, like the USA, a huge salary has been regarded as fair game if you can get it - though there is some evidence even there of changing public attitudes. In other countries, like Sweden and Japan, it is regarded as greedy and socially divisive. The attitudes of people make themselves felt. There is something self-deceptive about sheltering behind the so-called truism that the market decides. Ultimately, most executive packages are decided by the remuneration sub-committees of boards of directors. They have real choices to make about how much they choose to pay their senior executives – just as the executives

do about the packages they choose to accept. Whether in the business world or the financial world, paying vast amounts to and for an individual does not guarantee exceptional performance.

In their fascinating book *The Seven Cultures of Capitalism*, Charles Hampden-Turner and Fons Trompenaars argued that capitalism is not one seamless robe but has countless variations, rooted in different national histories and cultures.¹² Although the book was written in 1993, and globalization has led to some narrowing of the gap between these differences, their fundamental argument remains sound. They look specifically at the issue of executive pay, comparing salaries between countries and noting (even then) that ‘top US Salaries are astronomical by European and Asian standards’.¹³ They explain this by a deep-seated individualism in American culture, and plot their selected countries on an individual-communitarian spectrum, showing how the more community-focused a society is, the less marked are the pay differentials that are tolerated.

In some countries, then, high levels of executive pay are seen as damaging society. The Prime Minister of Luxembourg, Jean-Claude Juncker, has called them ‘a social scourge’.¹⁴ Presumably what is meant by this is that a rift is created between people by huge pay packets and massive differentials. They affect national and corporate morale; they exacerbate social divisions. Those at the lower end of the wage spectrum are left feeling demoralised and under-appreciated. Those at the higher end become objects of envy and resentment. The negative social results of this are amply documented in *The Spirit Level*, by Richard Wilkinson and Kate Pickett. They draw on around 200 different sets of data from reputable sources such as the United Nations, the World Bank and the World Health Organisation. They show that on almost every index of quality of life, happiness or deprivation, there is a strong correlation between a country’s level of economic inequality and its social outcomes. In other words, countries with extreme inequality like the UK and the USA score poorly on indices such as mental health, obesity, crime and longevity, compared with more egalitarian countries such as Sweden and Japan. The countries which lie somewhere in between economically, like Australia and Germany, also occupy the middle ground socially.¹⁵ The alleged necessity of paying large salaries to attract

¹⁰ Stephen Green, *Good Value: Reflection on money, morality and an uncertain world*, Allen Lane, 2009, p.158. Stephen combines the roles of HSBC Chairman and non-stipendiary priest.

¹¹ Patrick Gerard, *Performance and Reward: Managing Executive Pay to Deliver Shareholder Value* (Leicester: Matador, 2006), 161–6.

¹² Charles Hampden-Turner and Fons Trompenaars, *The Seven Cultures of Capitalism: Value System for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden, and the Netherlands*, Piatkus, 1993.

¹³ *Op.cit.*, 57.

¹⁴ http://www.riskmetrics.com/press/articles/20080816_smh.html.

¹⁵ Richard Wilkinson and Kate Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, Allen Lane, 2009. There is a qualification to be added, viz: that though the general mental health of Sweden and Japan is better, these two countries have quite high rates of suicide. This suggests that individuals who resist the social conformity that tends to go with egalitarianism experience severe stress.

the best people also begs major questions about personal motivation. The economists' view of a market which operates amorally makes at least three questionable assumptions: that people are motivated by self-interest; that self-interest is not a matter of morality; and that self-interest consists essentially in a calculation of financial benefits. Clearly, the lure of money is a strong motivating factor for many people. But human beings are too varied, too interesting and too imbued with concern for other people for this view of 'homo economicus' to be convincing as a universal description.¹⁶ Senior executives may be motivated to work hard and serve their company well for a whole variety of reasons including self-respect, job satisfaction, intellectual stimulus, innate creativity, leadership drive, joy in teamwork, a congenial working environment, meeting a formidable challenge, and a spur to excellence. There is also a significant risk that attracting executives through high levels of remuneration will serve only to ensure that applicants are motivated to improve their own financial interests above the interests of others, such as those of the company and its shareholders.¹⁷

In the case of many highly paid executives, their affluence is such that the presence or absence of, say, an additional half-million in their pay package is unlikely to make much difference to their lifestyle – or, for that matter, their work-rate. The outgoing chief executive of Royal Dutch Shell, Jeroen van der Veer, received a salary of 10.3m euros in 2008, his final year of office. At a conference in Abu Dhabi he told the *Financial Times*: "You have to realise: if I had been paid 50 per cent more, I would not have done it better. If I had been paid 50 per cent less, then I would not have done it worse".¹⁸ It would be interesting to carry out a survey among senior executives to see how many would agree with that statement. The answer might well be quite high.

Assessing motivation is also complicated by the fact that remuneration packages are precisely that – packages – and not to be measured in terms of salaries alone. As well as the basic salary, remuneration may consist of short-term bonuses, long-term incentive plans, share options, compensation arrangements, pension provision, and perks that may include anything from

company cars and private executive jets to country club membership and insurance schemes. These 'extras' can easily end up doubling or tripling a basic salary. Clearly the level of take home pay will also be affected by the amount of tax paid – and that can vary greatly both between countries and within countries, depending on the rate of taxation, the nature of the package and the advice taken from an executive's accountant. The complexity of remuneration packages has the side-effect of diminishing the motivational benefit of executive pay, since executives themselves may well not be clear about how their actions will impact the different components of their remuneration.¹⁹ Such complexity has given rise to another objection – that there is often a lack of clarity about a package's total value and how it is arrived at. So executive remuneration is the subject of cries for greater transparency and fuller public disclosure. The more complicated the package, the more difficult it is for the outsider to ascertain the full value of what executives are being paid.²⁰

2.2 Particular crisis-related concerns

The global financial crisis, which has led to economic recession, rising unemployment, and a surge in public sector debt, has certainly heightened public concern about excessive levels of executive remuneration. In particular, it has concentrated attention on the sector which is held largely responsible for the advent of the crisis, banks and other financial institutions, and the levels of remuneration pertaining in that sector.

This is not the place for a detailed analysis of the causes of the crisis, but most commentators²¹ would agree that they include the following:

- A serious imbalance between different parts of the global economy, with certain countries such as the USA and the UK spending and borrowing beyond their means - relying on other, Asian, countries (notably China) to finance Western debts through their contrasting habits of saving and lending.
- The increasing availability in the West of credit on easy terms at low rates of interest, rates which also prompted investors to look for higher returns, and accelerated

¹⁶ For a helpful account and interesting critique of economic orthodoxy's view of human beings as rational self-interested utility seekers, see Donald E. Frey, 'The Good Samaritan as Bad Economist', <http://www.crosscurrents.org/frey2.html>. See also Robert C. Solomon, *Ethics and Excellence: Cooperation and Integrity in Business*, OUP, 1992, 45. He talks about Milton Friedman's 'pathetic understanding of stockholder personality as homo economicus'.

¹⁷ Gerard, *Performance and Reward*, 161.

¹⁸ See www.ft.com/cms/s/0/d8ed7afa-5458-11de-a58d-00144feabdc0.html?ncklick_check=1. Mr van der Veer also received a bonus from an incentive scheme of 1.35m euros, even though Shell failed to meet performance targets for 2006-8. Critics have asked why, if he was so indifferent to the money, he did not return the bonus or the part of the salary he considered superfluous.

¹⁹ See Gerard, *Performance and Reward*, 47-50.

²⁰ See Gerard, *Performance and Reward*, 50-3. Gerard proposes a Fully Invariable, Linear Long-term Incentive Plan as a simpler and more transparent remuneration package (84-97).

²¹ Commentators consulted include Adair Turner (*The Turner Review*, FSA, 2009), Robert Peston (*Who Runs Britain?*, Hodder, 2008), Stephen Green (*Good Value*, Allen Lane, 2009), Vince Cable (*The Storm*, Atlantic, 2009), Gillian Tett (*Fool's Gold*, Little, Brown, 2009)) and a host of other individuals and groups known to the authors.

the development of private equity and hedge funds which brought substantial wealth to those in a position to benefit from them – but used sophisticated financial practices that were not always well understood even by those who practised them.

- The packaging, selling and widespread distribution of loans through the process of securitisation, which was intended to achieve the spreading of risk, but in sectors where the loans were fundamentally unsound (as in the US sub-prime mortgage market) had catastrophic effects when confidence was eroded.
- The abandonment of classical virtues such as moderation and prudence, so that e.g. a building society which had turned itself into a bank, Northern Rock, lent money far in excess of its small basis of customer deposits, and was left with no alternative strategy when other banks stopped lending it money.
- The encouragement of risky financial strategies through an excessive focus on short-term results, the achievement of which were in turn linked to individual bonus schemes.
- The rapid switch from a pattern of banks lending on very undemanding terms (often to financially naïve customers) to a pattern of banks, even those rescued by Government intervention, scarcely lending at all, causing major problems for the rest of the economy.

What this overall picture amounts to is a serious failure of judgment by many different parties. These include governments, regulators and the general public, but the mistakes with the most serious implications were made by executives working in the financial sector.²² Yet it is precisely executives in this sector whose remuneration has tended to rise most rapidly in recent years. It is not surprising that there has been a public outcry.

This outcry has three main foci.

First, there is a perceived change in the ethos and practice of banking. Banks appear to have lost sight of their original servant role, which was to provide a secure haven for the public's deposits and help them to manage the element of risk. Banks have come to think of themselves much more in a money-making role: as businesses in their own right rather than institutions which support others' businesses. It may be that the decline in other parts of the nation's economy (e.g. the manufacturing sector) has encouraged that way of thinking in the financial sector; if they do not create wealth, not just for themselves but for the nation, who will? Yet it is also arguable that the rich rewards now paid in the financial sector attract a disproportionate amount of the nation's talent away from other worthwhile occupations.

The upshot is that a sector which used to be associated with a conservative attitude to risk is now linked with the reverse: a cavalier attitude to risk, at any rate in the period leading up to the so-called 'credit crunch'. This may not be a fair judgment about all banks, risk-taking clearly being more characteristic of investment banks than retail banks, yet the fact is that most high-street names like Barclays and HSBC combine the two – and the fortunes of the one affect the other. The public cannot rid itself of the feeling that people who are too clever by half have taken risks with money that they, the public, have deposited with the banks for their safe keeping.

Second, the development of this cavalier approach to risk appears to have been encouraged by remuneration policies followed by banks and other financial institutions. The Financial Services Authority, in the introduction to its new corporate code, has acknowledged that 'inappropriate remuneration policies, practices and procedures were a contributory factor' (though not, it believes, 'a dominant factor') behind the market crisis.²³ Sir David Walker, author of the Walker Review on Corporate Governance, makes the point more strongly. He said that 'Failure in governance in banks and other financial institutions made the financial crisis much worse. Many boards, relying unduly on mathematical models for the outworking of novel banking practices, inadequately understood the type and scale of risks they were running. Crucially, they failed to hold executives accountable to high standards of sustainable performance. Bonus schemes contributed to excessive risk-taking by rewarding short-term performance.'²⁴

In its report the FSA spells out the nature of the problem in more detail:

If remuneration consists predominantly of cash bonuses that are paid out immediately without any deferral or claw back mechanism, and are based on a formula that links bonuses to current year revenues rather than risk-adjusted profits, there are strong incentives for managers to shy away from conservative valuation policies, strong incentives to ignore concentration risks, strong incentives to rig the internal transfer pricing system in their favour and strong incentives to ignore risk factors, such as liquidity risk and concentration risk, that could place the institution under stress at some point in the future. These strong incentives could undermine effective risk management.²⁵

The report goes on to say that 'market discipline' has not been effective in limiting the adverse effect of poor remuneration policies on risk management. In

²² In saying this, there is a danger of tarring the whole of the financial sector with the same brush. Clearly there were some banks and other financial institutions which had pursued wiser and more balanced strategies; they tended to be the ones that required less support in the shape of government intervention.

²³ FSA PSO 9/15: Reforming remuneration practices in financial services, 1.18.

²⁴ http://www.hm-treasury.gov.uk/walker_review_pn_160709.htm.

²⁵ Reforming remuneration practices in financial services, 2.1.

many cases shareholders have allowed management to introduce compensation policies that ‘in effect subordinate the interests of shareholders to those of employees, particularly senior employees engaged in trading businesses. Bonuses in many firms are accrued before taking into account the risk-adjusted return that shareholders should receive in return for providing the capital to the firm that allows management to take risk.’²⁶ These are serious charges, calling to account both shareholders who had unrealistic aspirations and management who sought to satisfy those aspirations.

Third, part of the justification for granting executives large incentives to take risks is that, should the risks prove mistaken, no rewards are forthcoming. Yet while in some cases individual bonuses may have been reduced or withheld, the overall picture is one of senior executives escaping lightly for their mistakes. True, there are chief executives whose glaring errors in strategy have led to them losing their jobs. But even then the levels of their financial compensation have left the public aghast and angry. Adam Applegarth, the Chief Executive of Northern Rock, was given a settlement of £760,000, despite the fact that he presided over a run on his bank which led to eventual nationalization.²⁷ The former Chief Executive of the Royal Bank of Scotland, Sir Fred Goodwin, departed with an annual pension initially valued at £703,000 even though his tenure of the bank brought it close to collapse.²⁸ The relationship between responsibility, risk and reward appears to be seriously skewed in the case of remuneration packages for senior executives.

2.3 Church investment

It is in this context of heightened awareness, concern and excitement about executive remuneration that this report about an appropriate response on the part of Church investment bodies has been commissioned. These bodies place strong emphasis on attention to corporate governance as part of their investment responsibility. In fact, executive remuneration and the composition of boards were the main reasons for the Church investing bodies to abstain from voting on, or – in some cases – oppose, company resolutions during 2008-9.²⁹

The Church investing bodies have in fact been unusual among institutional shareholders in routinely taking potential for excess into account as part of their evaluation of executive remuneration. Half of the Church investing bodies’ UK votes against management or abstentions relate to corporate remuneration reports. In particular, the Church of England Ethical Investment Advisory

Group developed a template resulting in votes against the remuneration reports of all the major UK banks where these were submitted to shareholders. This was done on grounds either of excess or procedures which inadequately challenged performance.³⁰ In 2008–9, the Central Finance Board of the Methodist Church voted against 74 remuneration reports and abstained from a further 33.³¹

However, serious questions remain, questions which have led to the commissioning of this report:

- Are the Church investing bodies justified in taking this stand, or is there a danger of them simply getting on to a popular bandwagon?
- Are the reasons why Christian concerns should be identical with those felt by the public at large (and already identified in this report), or are there specifically theological reasons which should direct thinking on this issue?
- Is there more that the Churches could do by way of acting as responsible investors in relation to this issue?
- What are appropriate criteria for church investors seeking to make decisions about executive remuneration packages?

3 Theological considerations

There is good reason for thinking that church bodies should take seriously the issues of justice felt by many over the issue of executive remuneration.

3.1 Distributive justice

The Biblical writers talk about justice a great deal. The four words used for justice (two of them Hebrew – *tsedaqaoh* and *mishpat* – and two of them Greek – *dikaioisune* and *krisis*) occur over 1000 times. This is not always obvious from biblical translations, because these words are sometimes translated ‘righteousness’ and sometimes ‘judgment’, but justice is the core meaning of each. ‘Righteousness’ expresses the concern for justice which looks to restore broken relationships and damaged community; ‘judgment’ the action which implements or puts into force God’s decision for justice.

In their book *Kingdom Ethics: Following Jesus in Contemporary Context*, Glen Stassen and David Gushee pay particular attention to Isaiah, a book which has a great deal to say about justice, and show how several key passages are either applied to Jesus or by Jesus in the Gospels.³² These include:

- Isaiah 9:1-7 - a familiar passage often read at Christmas.

²⁶ Op.cit., 2.2.

²⁷ http://www.thenorthernecho.co.uk/business/indepth/northernrock/2157740.Anger_at___760_000_for_ex_Rock_chief/.

²⁸ <http://news.bbc.co.uk/1/hi/business/7921778.stm>.

²⁹ <http://www.cofe.anglican.org/info/ethical/annualreports/eiag13thannualreport.pdf>

³⁰ Ibid.

³¹ 2009 Annual Report of the Joint Committee on the Ethics of Investment of the Central Finance Board of the Methodist Church, available from: <http://www.cfbmethodistchurch.org.uk/ethics>.

³² Glen H. Stassen & David P. Gushee, *Kingdom Ethics: Following Jesus in Contemporary Context*, IVP, 2003, chs. 1 & 2.

Its language of light dawning in the darkness is taken up by Zechariah in Luke 1:67-79, his prophecy about his son John 'going before the Lord to prepare his ways'. Note the reference to the establishment of justice and righteousness in Isaiah 9:7.

- Isaiah 42:1-9 – the first of the 'servant' passages applied by Matthew to Jesus in Matthew 12:15-21. The servant 'will bring forth justice to the nations' (Is.42:1) and is determined to 'establish justice in the earth' (Is.42:4).
- Isaiah 56:1-8 – a remarkable vision of an open community in which outcasts (e.g. eunuchs) and foreigners are welcome. Isaiah 56:7 is cited by Jesus when he cleansed the temple (Mark 11:17). He objects to the fact that the court intended to be reserved for the Gentiles had become a trading post.
- Isaiah 61 – the first one and a half verses of which were read by Jesus in the synagogue at Nazareth at the start of his ministry; he then caused consternation by saying 'Today this scripture has been fulfilled in your hearing' (Luke 4:16-30). Note the references in Isaiah 61 to 'oaks of righteousness' (v.3) and 'I the Lord love justice' (v.8).

It is notable that when Jesus, in the course of his diatribe against the scribes and Pharisees in Matthew 23, identifies certain core values or principles as 'the weightier matters of the law', justice features among them: 'Woe to you scribes and Pharisees, hypocrites! For you tithe mint, dill and cummin, and have neglected the weightier matters of the law: justice and mercy and faith. It is these you ought to have practised without neglecting the others' (Mt 23:23).

Taken cumulatively, the biblical material on justice integrates the interrelated notions of impartiality, rendering of what is due, proportionality and normativity.³³ These are all concepts relevant to the setting of wages.

First, impartiality implies treating people equally. Jesus' command to love one's enemy is actually modelled on God's egalitarian treatment of humanity: 'he makes the sun rise on the evil and the good, and sends rain on the righteous and the unrighteous' (Mt 5:45). The Torah commands impartiality in the administration of justice: 'you shall not be partial to the poor or defer to the great; with justice you shall judge your neighbour' (Lev.19:15). Some theologians talk about God's bias to the poor,³⁴ but that has no biblical support if it is held to mean absolving the poor from responsibility for their misdeeds. However,

it is probably true that society's more recurrent temptation is a bias to the rich, as we see in the prophets' complaints about the administration of justice,³⁵ and which James warns against in his advice to stewards ushering people to their places in church services (James 2:1-7).

Second, justice requires rendering what is due. Within the context of a general equality of treatment, biblical writers identify different groups as warranting particular kinds of treatment. The notion of *suum cuique*, 'rendering to each what is due', discussed early in Plato's Republic, is implicitly apparent.³⁶ Paul believed that husbands owe it to their wives, parents to their children and masters to their slaves to treat the other party in a particular way.³⁷ 'Similar treatment for similar cases' underlies the instructions of other biblical passages with regard to a wide range of groups, from widows on the one hand to strangers to the religious community on the other.³⁸ This enshrines the idea that there is a way of treating each type of person which accords them the dignity they deserve. In the Mosaic law, attention is given to the conditions under which day labourers were to be paid. Such labourers had probably lost their own land – hence the necessity to work for others – but still they are to be treated with respect. Leviticus 19:13 says 'You shall not keep for yourself the wages of a labourer until morning': an instruction which follows the core commandments 'do not defraud' and 'do not steal', so perhaps late payment was seen as a form of one or both.³⁹ Deuteronomy 24:14-15 makes a similar prohibition about delaying the payment of labourers' wages even more emphatically:

You shall not withhold the wages of poor and needy labourers, whether other Israelites or aliens who reside in your land in one of your towns. You shall pay them their wages daily before sunset, because they are poor and their livelihood depends on them, otherwise they might cry to the Lord against you, and you would incur guilt.

Even worse than paying a labourer late is not paying him at all. Jeremiah 22:13 pronounces 'Woe to him who builds his house by unrighteousness, and his upper rooms by injustice; who makes his neighbours work for nothing, and does not give them their wages.' This is a denunciation of Shallum, son of King Josiah; the prophets were clear that even monarchy should not expect people to work for nothing.

³³ As argued by E. Calvin Beisner in 'Justice and Poverty: Two Views Contrasted', in H. Schlossberg, V. Samuel and R. Sider (eds.), *Christianity and Economics in the Post-Cold War Era: The Oxford Declaration and Beyond*, Eerdmans, Grand Rapids, 1994, 57-80. See also Richard Higginson, *Dilemmas*, Hodder & Stoughton, 1987, 172-177.

³⁴ Notably David Sheppard, in his book of that name, *Bias to the Poor*, Hodder & Stoughton, 1983, and many Latin American liberation theologians.

³⁵ See e.g. Isaiah 5:23, which mentions 'those who acquit the guilty for a bribe, and deprive the innocent of their rights'. The rich were more likely to be able to afford to pay bribes.

³⁶ Plato, *The Republic*, book 1.

³⁷ See his 'household tables' in Ephesians 5:21-6:9 and Colossians 3:18-4:1.

³⁸ See e.g. Deuteronomy 24:17-22 and 1 Timothy 5:3-16.

³⁹ In similar vein, James 5:4 says 'The wages of the labourers who mowed your fields, which you kept back by fraud, cry out...'

Third, justice requires proportionality between labour and reward. While the Bible contains an abundance of material on the principle of paying people and the conditions in which they should be paid, it offers less guidance on how much they should be paid. There is a paucity of material on pay differentials! However, there are passages where the extent of reward offered is linked to work well done - notably certain parables of Jesus, which we discuss below. At this stage we draw attention to a notable example of proportionality in making recompense in 1 Timothy 5:17, which read: 'Let the elders who rule well be considered worthy of double honour, especially those who labour in preaching and teaching.' The interpretation of this has been much debated. Is Paul saying that such elders should be paid twice as much as those who don't rule well or are not involved in preaching and teaching? That may be a crudely materialist understanding of Paul,⁴⁰ but it is likely that his notion of honour certainly includes financial reward, because verse 18 continues: 'for the scripture says. "You shall not muzzle an ox while it is treading out the grain", and "The labourer deserves to be paid".'⁴¹ So this text appears to provide implicit support to the practice of pay differentiation - though it is somewhat ironic that it occurs in the context of workers in the church, a sphere where today differentials are extremely small compared with those that prevail in contemporary commercial contexts.

There is, of course, a famous passage in Scripture where labourers are all paid the same wage, irrespective of how many hours they have worked: Jesus' parable of the labourers in the vineyard (Matthew 20:1-16). The landowner pays 'the usual daily wage', one denarius, to labourers who worked for nine hours, six hours, three hours or one hour. It is extremely unlikely that Jesus was commending this as sensible commercial practice; rather, he is deliberately citing unusual practice as an aid to explaining God's grace in forgiving and accepting even those who repent late on in life. In other words, grace is a great equaliser; when it comes to salvation, we are all dependent on God's favour. Despite this, it is still common for many reading and hearing the parable to empathise with the complaint expressed by the labourers who worked all day: "These last worked only one hour, and you have made them equal to us who have borne the burden of the day and the scorching heat" (Mt 20:12).

The landowner replies "Friend, I am doing you no wrong; did you not agree with me for the usual daily wage?" (20:13). When Latin fathers like Jerome and Augustine came to comment on this parable, they are at pains to labour this

point. They both reject the claim of injustice because the vineyard owner was not paying less than the agreed sum; the labourers had entered freely into negotiation with him and in their mutual dealings the owner stayed true to his word. This leads both Jerome and Augustine to advocate free bargaining as a means to discerning a just wage.⁴²

When the medieval Scholastic theologians developed their concept of the just wage,⁴³ they drew upon this tradition of Patristic exegesis, along with that of Roman law. Overall, the Scholastics were content to accept the just price as the market price, whatever was agreed by employers and labourers prior to work commencing. However, they recognised that this process might be distorted by fraud or coercion. A wage was considered unjust if one party has been deceived or forced into accepting terms against his will.⁴⁴

Fourth, the biblical understanding of justice includes normativity, expressing the truth that justice is ultimately grounded in the norm of God's moral law. It derives from the will and character of God. True justice is *God's* justice. The opening verses of Psalm 72 are a prayer that human justice (in this case the justice meted out by Israel's king) will be precisely that:

Give the king your justice, O God, and your righteousness to a king's son. May he judge your people with righteousness, and your poor with justice? May the mountains yield prosperity for the people, and the hills, in righteousness. May he defend the cause of the poor of the people, give deliverance to the needy, and crush the oppressor. (Ps.72:1-4)

When biblical writers speak of justice in this fundamental, normative sense, they frequently mention God's concern for the poor. There is perhaps a right way to understand the phrase 'God's bias to the poor', namely, as a concern to redress the unjust way in which societies tend to balance privileges in favour of those who are already rich and powerful. The need of the under-privileged provokes partiality on God's part, and should inspire remedial action on our part. But this partiality does not mean that, in the meantime, God abandons his loving interest in the rich and powerful. It is time now to look at what the Bible and Christian thought have to say about those who are wealthy: the privileges, responsibilities and challenges that come with that position.

⁴⁰ It is a view supported by Sir Fred Catherwood in *God's Time, God's Money*, Hodder & Stoughton, 1987, 159. He says 'A commonsense practical interpretation would give the teaching elder double the average salary of the congregation'.

⁴¹ Paul here follows a similar argument to that used in 1 Corinthians 9:8-12, applying the same Old Testament text about the treatment of animals, Deuteronomy 25:4, to the proper compensation of church workers.

⁴² On this see Edd S. Noell, 'Bargaining, Consent and the Just Wage in the Sources of Scholastic Economic Thought', *Journal of the History of Economic Thought*, 20:4, 1998, 476.

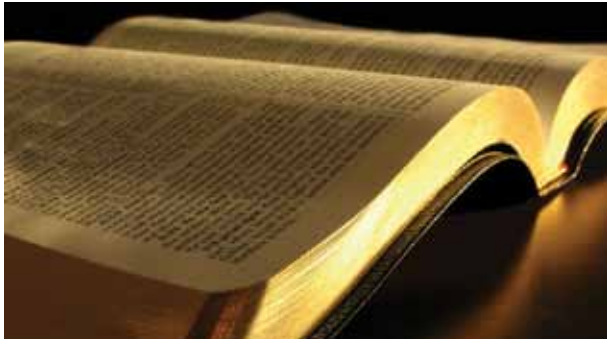
⁴³ They wrote about this in conjunction with the just price; indeed, wages were often described as the price of labour. Odd Langholm, *The Legacy of Scholasticism in Economic Thought*, CUP, 1998, is a leading authority on the subject.

⁴⁴ Noell, *op.cit.*, 477.

3.2 Wealth

3.2.1 Old Testament

The biblical material on wealth is varied, complex and not easily condensed into a small space. However, Craig Blomberg makes a fair and balanced summary in his book *Neither Poverty nor Riches*.⁴⁵ His initial premise is that material possessions are a good gift from God meant



for his people to enjoy. 'This is made plain from God's creation of the material world as good, from his desire that all have access to at least a modicum of property, and from the fact that material possessions within God's covenant with Israel are a blessing for their obedience.'⁴⁶ In Genesis, God's promise to give Abraham and his descendants a land is repeatedly emphasised,⁴⁷ and the fact that Abraham becomes very rich (in livestock, silver and gold: Gen.13:2) is presented as a foretaste of God's blessings. The riches accumulated by the patriarchs are mentioned several times, without any sense of embarrassment.⁴⁸

As the Israelites leave Egypt and prepare to enter the Promised Land, the Israelites are promised great material prosperity in the shape of a wonderfully fruitful land, so long as they remain obedient to God's laws. Moses instructs the people to observe these diligently, 'so that it may go well with you, and so that you may multiply greatly in a land flowing with milk and honey, as the Lord, the God of your ancestors has promised you' (Deut.6:3).⁴⁹ At the apex of Israel's history, the reigns of David and Solomon, the land was clearly prosperous,⁵⁰ and these two kings became enormously wealthy. The extent of Solomon's wealth and possessions is spelt out in great detail in 1 Kings 4:22-28 and 10:14-29. Again, there is no hint of embarrassment about such riches; rather, Solomon's wealth is seen as a blessing from God because Solomon prayed for the gift of wisdom: 'I give you also

what you have not asked, both riches and honour all your life; no other king shall compare with you' (1 Kings 3:11).

Another Old Testament hero who is formidably rich is Job. His possession of huge quantities of animals meant that this man was considered 'the greatest of all the people of the east' (Job 1:3). As a result of the Satanic testing which is allowed by God, Job loses his wealth, his health and his children, and experiences extreme desperation. After faithfully withstanding all these trials, during which he debates with his friends and with God but never sacrifices his integrity, the Lord restored his fortunes, and 'gave Job twice as much as he had before' (Job 42:11). What that means becomes clear in the remaining verses with their reference to 14,000 sheep, 6,000 camels, 1000 oxen, 1000 donkeys, seven sons and three daughters.

This link between material wealth and divine blessing may appear to suggest that paying individuals huge salaries is unproblematic from a biblical perspective. The passages cited above are those beloved by Christians who propagate a 'health and wealth gospel' or 'prosperity theology'.⁵¹ But as Craig Blomberg makes clear, this message comes with some important caveats.

The first is that those who are rich are expected to be generous, and the godly rich are usually described as being so. Abraham was generous in allowing his nephew Lot to choose the more fertile land (Gen.13:1-13). Solomon's generosity extended at least to the Queen of Sheba! (1 Kings 10:13). Job, according to his own testimony (which we have no particular reason to doubt), was exemplary in his kindness to the poor (Job 29:12-16) and protests that he has never put his trust in gold (Job 31:24-28).

The second is that although material possessions may be a blessing, they 'are simultaneously one of the primary means of turning human hearts away from God'.⁵² Solomon's wealth seems to have encouraged an attitude of 'I can have whatever I want', an attitude that played havoc in his attitude to the opposite sex; his love of foreign women eventually turned his heart away from God (1 Kings 11:1-5). The forced labour he conscripted for his ambitious building projects also caused hardship and stirred up resentment which caused problems for his son Rehoboam – problems the latter dealt with foolishly and disastrously (1 Kings 5:11-18; 12:1-20). It is also notable

⁴⁵ Craig Blomberg, *Neither Poverty nor Riches: A Biblical Theology of Possessions*, Apollos, 1999.

⁴⁶ *Op.cit.*, 244.

⁴⁷ E.g. Gen 12:2-3, 15:18, 17:8, 22:17.

⁴⁸ See Gen.20:14-16, 24:35, 26:13, 30:43, 47:27.

⁴⁹ See similarly Lev.26:3-5, Dt 28:1-14 & Dt 30:15-20.

⁵⁰ A state summed up in the idyllic statement of 1 Kings 4:20: 'Judah and Israel were as numerous as the sand by the sea; they ate and drank and were happy'.

⁵¹ Leading proponents of prosperity theology include Oral Roberts, Kenneth Hagin, Kenneth and Gloria Copeland and Benny Hinn. A best-selling book in this vein is Bruce Wilkinson's *The Prayer of Jabez: Breaking through to the Blessed Life*, Multnomah, 2001, which is based on the little-known Jabez' prayer for God's blessing in 1 Chronicles 4:9.

⁵² Blomberg, *Neither Poverty nor Riches*, 244.

that the extent of Solomon's possessions went far beyond that recommended for a king in Deuteronomy 17:14-20: 'he must not acquire many horses for himself...he must not acquire many wives for himself...silver and gold he must not acquire in great quantity for himself' – a passage that supports the principle of showing restraint in the setting of differentials.

One of the kings unambiguously described as being evil, Ahab, illustrates the covetous depths to which an already rich man can fall. He aspired after the vineyard of his neighbour Naboth, and by crooked means his wife Jezebel ensured that he got it (1 Kings 21:1-16). Naboth refused to accede to the king's request because the vineyard was his ancestral inheritance. When the Israelites entered Canaan, the land was systematically shared out between different families and clans, based on the principle that everyone should have their own piece of property. Various Mosaic laws were designed to protect this.⁵³ Inevitably, some people proved more prosperous than others, who fell upon hard times and had to sell their land; but the Jubilee provisions ordained that every fifty years there should be a redistribution of land and cancellation of debt with everyone returning to their original property.⁵⁴ Taken overall, the Torah embodies a delicate balance between economic freedom and social equality; individuals have freedom to trade, accumulate and improve their financial position, but they must always remember their responsibilities to those less fortunate or less productive than themselves. Ideally, 'there should be no poor among you' (Dt 15:4). Although this statement is immediately tempered by realism that there will in fact 'always be poor among you', the command remains: 'Open your hand to the poor and needy neighbour in your land' (Dt 15:11).

The wisdom literature (the books of Psalms, Proverbs and Ecclesiastes) contain a fascinating mixture of perspectives on wealth and poverty. On the one hand, there is the view that faithfulness and hard work lead to God's covenant blessings, which include material wellbeing.⁵⁵ 'In all toil there is profit' (Prov.14:23; 'the plans of the diligent lead surely to abundance' (Prov.21:5). The opposite attitude (and consequence) is stressed as much as the positive, if not more so:

A little sleep, a little slumber,
a little folding of the hands to rest,
and poverty will come upon you like a robber,
and want, like an armed warrior. (Prov.6:10-11).

On the other hand, the wisdom writers recognise that some poor people are notable for their integrity, and that some rich people are wicked, flourish undeservedly, and will ultimately come under judgment.⁵⁶ As Blomberg points out, several proverbs take the form of 'Better a little with...than wealth with...'⁵⁷ For example,

Better is a little with the fear of the Lord
than great treasure and trouble with it.
Better is a dinner of vegetables where love is
Than a fatted ox and hatred with it. (Prov.15-16-17)⁵⁸

Blomberg's book takes its name from the prayer in Proverbs 30:8-9, which explains why both riches and poverty are dangerous and best avoided, but for different reasons:

...give me neither poverty nor riches,
feed me with the food that I need,
or I shall be full, and deny you,
and say, 'Who is the Lord?'"
or I shall be poor, and steal,
and profane the name of my God.

Although this passage is unusual in articulating a material 'mean' so explicitly, the writer's conviction that extremes of both wealth and poverty are undesirable has clear resonances among other biblical writers.

In the prophetic literature, we find some of the most critical material pertaining to the wealthy. This reflects the historical situation which had developed. It appears that many Israelites had lost their ancestral property to wealthy landowners, and that the gap between rich and poor had widened. The rich are roundly condemned for their oppression of the poor, their love of luxury and ostentatious flaunting of their wealth. Amos is particularly sharp in his pronouncement of God's punishment on those who 'sell the righteous for silver and the needy for a pair of sandals – they who trample the head of the poor into the dust of the earth' (Amos 2:6-7). He calls rich women who oppress the poor and command drink from their husbands 'cows of Bashan' (Amos 4:1).⁵⁹ He describes the idle lifestyle of the rich in vivid terms:

Alas for those who lie in beds of ivory, and lounge on their couches,
and eat lambs from the flock, and calves from the stall;
who sing idle songs to the sound of the harp,
and like David improvise on instruments of music;

⁵³ E.g. the law regulating the boundaries of fields (Dt 19:14), the insistence on firstborn rights (Dt 21:15-17) and the provision for kinsman redemption of property (Lev.25:25).

⁵⁴ See Lev.25:1-18 & Dt 15:9. We do not know whether the Jubilee was ever observed; one can imagine that strong vested interests would militate against such an attempt to redistribute wealth radically on a regular basis.

⁵⁵ See e.g. Psalms 112 & 128; Proverbs 12:11 & 13:21.

⁵⁶ See e.g. Psalms 37 & 73; Proverbs 11:4 & 22:16.

⁵⁷ Op.cit., 65.

⁵⁸ Cf Prov.16:8, 19:1, 28:6.

⁵⁹ Bashan was renowned for its cattle, which were both sleek and fat.

who drink wine from bowls, and anoint themselves with the finest oils but are not grieved over the ruin of Joseph! (Amos 6:4-7).⁶⁰

Such a critique is not confined to the chosen people of God. Ezekiel 26-28 is an example of a prophetic word against a neighbouring nation, namely Tyre. Tyre is a fascinating case of a small city-state which achieved a pre-eminent position in world trade, largely due to its fine natural resources and situation. Tyre was blessed with two excellent harbours, one on the mainland where a portion of the city was built and the other on an island, just offshore, which gave Tyre its name.⁶¹ Ezekiel's 'word of the Lord' actually gives credit to Tyre because

...by your wisdom and understanding you have amassed wealth for yourself and have gathered gold and silver into your treasures. By your great wisdom in trade you have increased your wealth... (Ezek.28:4-5)

One example of the skill shown by the people of Tyre and Sidon (a couple of centuries earlier) is cited by King Solomon when commissioning his contemporary, King Hiram of Tyre, to supply wood for the temple in Jerusalem: Solomon acknowledges 'there is no one among us who knows how to cut wood like the Sidonians' (1 Kings 5:6).

Nevertheless, Tyre too comes under judgment, because its 'heart had become proud' both with its wealth and its beauty (28: 5.17).⁶² There is also mention of 'violence' that had marked 'the abundance of your trade' (28:16), 'the multitude of your iniquities' and 'the unrighteousness of your trade' (28:18), though the form these took is not spelt out. Wealth too seems to have had a corrupting effect on Tyre, but one cannot avoid the note of lament in Ezekiel's prophecy: in chapters 27 and 28 God's judgment is expressed more in sorrow than in anger. The fact is that Tyre exhibited a huge amount of promise: it is the greatness of Tyre's position that serves to accentuate the tragedy of its fall. Amidst all the strident and perhaps self-righteous condemnations now being launched against people who work in the City, one wonders whether Ezekiel's prophecy against Tyre, with its rather more nuanced pronouncement of judgment, has something to teach us.

3.2.2 New Testament

Many of the Old Testament perspectives on wealth and possessions are carried over into the New Testament, but they undergo a process of refinement and, in some respects, a change of emphasis. The theme of material prosperity as a sign of God's blessing on a particular

nation disappears under the new covenant: the followers of Jesus are not designated a promised land. However, images of plenty and prosperity are not eradicated from biblical vocabulary; they feature in some of Jesus' language about the kingdom of God.⁶³ and in eschatological prophecies about a new heaven and a new earth, both in Isaiah 65-66 (this not yet having been fulfilled) and Revelation 21. Jesus' teaching positively



throbs with illustrations taken from the world of trade and commerce. It features farmers going out to sow (Mk 4:3-9), merchants purchasing precious stones (Mt 13:45-46), builders working out their estimates (Lk 14:28-30) and middle managers faced with the sack providing for their future (Lk 16:1-8) – to name only a few examples. While his parables are often primarily concerned to teach lessons about the relationship between God and humanity, they also demonstrate that Jesus took for granted a world of work and exchange where buying and selling were everyday human activities.

Against that background, Jesus issued some stern warnings about the persistent human tendency to make an idol out of money.

No one can serve two masters: for a slave will either hate the one or love the other, or be devoted to the one and despise the other. You cannot serve God and Mammon. (Mt 6:24)

'Mammon' is derived from a Hebrew word for money, here given the status of a false god. That Jesus saw money and possessions as exerting a powerful hold over people, deterring them from following him and imperilling their prospects of salvation, is evident from several other sayings and incidents. The parable of the rich fool (Lk 12:13-21) warns against greed, hoarding and complacency. The parable of Dives and Lazarus (Lk 16:19-31) is an indictment of rich people who ignore the poor on their doorstep.

⁶⁰ For similar themes in other prophets, see e.g. Isaiah 3:13-15; Hosea 12:7-8, Micah 2:1-2.

⁶¹ Tyre means rock. See Richard Higginson, 'Oracles against Tyre: Pride before a Fall', *Faith in Business Quarterly* 9:2, 3-8, for a detailed exposition and application of these chapters.

⁶² Although the prophecy in Ezekiel 28 is addressed against the prince of Tyre, no details are given about him; he appears to have symbolic status in a comment which is more about the ethos or culture of Tyre in its entirety.

⁶³ See e.g. the parables of the great banquet, Luke 14:7-24.

The law-abiding rich young ruler who is too attached to his possessions cannot be a follower, even though Jesus loved him – an encounter that prompted Jesus to observe how hard it is for rich people to enter the kingdom of God (Mk 10:17-31). In Luke 19:1-10, however, a rich man does precisely that: Zacchaeus, the chief tax collector and social outcast who is overwhelmed by Jesus' acceptance of him, and resolves to give generously to the poor and handsomely recompense those he has defrauded.

Despite the radical nature of Jesus' challenge over material possessions, rich (or relatively rich) people do feature among his followers, both during his time on earth and in the formative stages of the early church. Jesus and his disciples are supported in their itinerant lifestyle by certain women with means (Lk 8:1-3). Jesus is not averse to receiving a lavish gift of expensive ointment which is lovingly poured over him by at least one woman grateful for the love and forgiveness she had received from him.⁶⁴ After his death, he is the recipient of a rich man's generosity when Joseph of Arimathea places Jesus' body in his tomb. In the book of Acts, we can infer the presence within the Christian community of people of significant means, owning houses large enough to host sizeable groups to stay or for incipient congregations to meet: see e.g. Lydia, the businesswoman who dealt in purple cloth (Acts 16:14-15, 40), Titius Justus (Acts 18:7) and Mnason (Acts 21:16). Blomberg suggest that as the Gospel spread into more well-to-do Greco-Roman circles, 'a middle class and even an upper class in Christianity developed... although these classes still remained a minority in the church'.⁶⁵ St Paul's description of the church at Corinth is that 'not many were wise by human standards, not many were powerful, not many were of noble birth' (1 Cor. 1:26). This implies that a few were! In the letter of James, rich people feature as at least attending services of Christian worship (James 2:1-11), but they are depicted as oppressing the poor, who comprise the majority of the people whom James is writing to, and the rich are on the receiving end of severe words of judgment in James 5:1-6.

Generosity in giving is an attitude consistently taught in the New Testament, especially in the early chapters of Acts and by Paul in 2 Corinthians 8-9. Those who have more should be prepared to help those who have less. The challenge is starkly put in 1 John 3:17: 'How does God's love abide in anyone who has the world's goods and sees a brother or sister in need and yet refuses help?'

3.2.3 Later Christian practice

Given the rich variety of biblical material relating to material wealth, it is not surprising that the Christian Church has exhibited a variety of attitudes during the

20 centuries of its existence.⁶⁶ There have always been Christians who have been entrepreneurs, though the institutional churches have not, for the most part, given them much encouragement. Ironically, some of the most entrepreneurial attitudes during the medieval era were shown by the monastic orders which, while being committed to vows of individual poverty, engaged collectively and constructively in business. The



Cistercians pioneered the wool industry in England and the iron industry in France. Both Luther and Calvin, the great Protestant Reformers, advocated a rethinking of the concept of vocation to include the use of God-given gifts in business, and there appears to be some truth in Max Weber's thesis that Protestant attitudes of 'worldly asceticism' were well suited to the gaining of money and the saving of money. John Wesley – notably in his famous sermon on 'The Use of Money' – was at pains to add a third duty, that of *giving* all you can.⁶⁷ Christians have often found this more difficult! But in the 19th century there developed an impressive tradition of Christian entrepreneurs, founders and owners of businesses who were both rich and generous with their wealth. Some, like Andrew Carnegie and John D. Rockefeller, were fairly ruthless about the way in which they made their money, but then gave much of their fortunes away in later years. Others, like Sir Titus Salt, George Cadbury and Joseph

⁶⁴ The anointing stories in Mt 26:6-13, Mk 14:3-9 and John 12:1-8 probably refer to one incident and that in Lk 7:36-50 to another.

⁶⁵ Op.cit., 174. Blomberg's class designations are perhaps a little anachronistic.

⁶⁶ For more detail on the contents of this paragraph, see Richard Higginson, *Questions of Business Life: Exploring Workplace Issues from a Christian Perspective*, Spring Harvest with Authentic Media, 2002, ch.1.

⁶⁷ See John Wesley, 'The Use of Money', *Sermons on Several Occasions*, Epworth, 1944.

Rowntree, were much more scrupulous in their conduct of business, treating their employees humanely (even to the point of providing them with new housing) as well as committing substantial sums of money into charitable trusts.⁶⁸

Many of these companies have now moved from family into public ownership, and in the process much of their distinctive corporate ethos has tended to get lost. It is difficult for Christians who hold senior positions in large public limited companies to exert the influence of a Cadbury or a Rowntree. Nevertheless, they still have important decisions to make about what they do with the huge salaries that they are able to command.

In his recent book, *Good Value*, and in particular the intriguingly titled chapter, 'Faust and the Rich Young Man', Stephen Green wrestles with the question why an individual (and, by implication, a company) which is rich and privileged should act altruistically, putting eradication of poverty and saving the planet above their own selfish wishes. The message that comes through loud and clear, interestingly, is a strong sense of guilt: 'something is owed by the affluent. And a debt not paid makes a debtor who is guilty'.⁶⁹ So selfishness cannot lead to true fulfilment; it is in giving – he believes – that we are forgiven, and in forgiving that we receive. He recognises that for some people it may be right to opt out of 'the system' and devote themselves to charitable work (the book begins with some notable examples of individuals who have done this in Calcutta and Nairobi) but he thinks that a path which can only be taken by a minority: 'The fact is that human welfare and development depend on most of us being involved in one way or another in productive exchange'.⁷⁰ Hence the vocation which he continues to follow as leader of one of the world's most powerful banks, seeking to shape its policy in a way that addresses the concerns of all HSBC's different stakeholders (shareholders, customers, employees, communities) and to be generous with the personal wealth that he has accrued.

One possible answer to the question 'what should be done about high levels of executive remuneration?' is simply to urge those who are well paid to give more of their earnings away. Some of the individuals cited as receiving huge salaries in the opening section of this report are known to give large sums away to worthy causes – Ian Wace and Paul Marshall being notable examples. They are the co-founders of ARK (Absolute Return for Kids), which raises charitable contributions from the hedge fund industry for children who are victims of abuse, disability, illness and poverty.⁷¹ But Robert Peston, speaking from extensive knowledge of

the City, thinks that they, along with Chris Hohn and Sir Tom Hunter, are exceptions: there is not a strong culture of charitable giving among the super-rich in the UK. Peston comments: 'The UK has returned to the nineteenth century in respect of the opportunities to make vast fortunes. But the habit of philanthropy, lost when the welfare state took on the responsibility for looking after the neediest, has not been re-acquired.'⁷²

Christian organisations that invest in companies may understandably feel themselves torn at this point. They may, like Craig Blomberg, feel that 'There are certain extremes of wealth and poverty that are in and of themselves intolerable'.⁷³ They may believe, with some justification, that being paid a huge salary is actually bad for individuals: it is likely to encourage selfishness, have a morally corrupting effect, and create an obstacle in individuals' relationships with God. A concern for the rich's own welfare may be a motive urging restraint! But such an attitude appears paternalistic, and it would be difficult to use it as a policy argument in the public arena. If certain pay packages are to be deemed excessive and warranting investor intervention, it needs to be on wider grounds: the overall wellbeing of the company and those affected by its actions. This brings us to the final major area of inquiry, the relationship between those who hold executive positions in a company and those who hold shares in it.

4 Investors' responsibility

Reference has already been made in the opening section of this report to the Walker Review of Corporate Governance, and its criticism of the way many banks and other financial institutions have operated in recent years. Sir David Walker feels that corporate executives have not sufficiently been held to account. He sees this failure as due in part to deficiencies in corporate boards. He argues that the correct sequence in board discussion on major issues should be presentation by the executive, a disciplined process of challenge, decision on the policy or strategy to be adopted and then full empowerment of the executive to implement. Walker believes:

The essential challenge step in the sequence was missed in some board situations and must be unequivocally embedded in future. The most critical need is for an environment in which effective challenge of the executive is expected and achieved in the boardroom before decisions are taken on major risk and strategic issues. For this to be achieved will require close attention to board composition to ensure the right mix of both financial industry capability and critical perspective from high-level experience in other major business.⁷⁴

⁶⁸ See Ian Bradley, *Enlightened Entrepreneurs: Business Ethics in Victorian Britain*, Lion Hudson, 2007

⁶⁹ *Good Value*, 159.

⁷⁰ *Op.cit.*, 175.

⁷¹ See en.wikipedia.org/wiki/Absolute_Return_for_Kids.

⁷² Robert Peston, *Who Runs Britain?* pp.342-3. See also 202-3.

⁷³ *Op.cit.*, 245.

⁷⁴ Walker Review, 8-9.

He recognises that this will require an increased time commitment from non-executive directors and especially from chairmen, who will need exceptional leadership skills. Walker also says that there is a need for fund managers and other major shareholders to engage more constructively with their investee companies, with the aim of supporting long-term improvement in performance. Boards, in turn, should be more receptive to such initiatives. 'The institutional Shareholders' Committee (ISC), the FRC and the FSA should play a larger role in promoting such enhanced engagement by owners on the basis of principles of stewardship with which fund managers should be expected to conform on a "comply or explain" basis.'⁷⁵ Walker recognises that at present, shareholders often fail to exercise proper stewardship. His analysis appears fundamentally sound and is worth quoting in some detail:

Company performances will be influenced, directly or indirectly, actively or passively, by the initiatives and decisions that shareholders or their fund management agents take or choose not to take. Fund managers whose management strategies substantially relate to active trading in stocks may have little interest in engagement with the boards of their investee companies. If they dislike a stock they can sell it. Other institutional investors whose mandates and management strategies make them at least potentially longer-term investors are confronted with the agency problem. This stems from the gap between owner (the shareholder) and manager (the board) and the potential for misalignment of interest between them. The size of this gap is a measure of potential imperfection in a relatively free market capitalist system which will generally succeed best where the alignment of interest between owner and manager is as close as possible.⁷⁶

Walker thinks that in private equity, the distance between owner and manager is relatively short – effectively that between the general partner as manager of a fund and the executive of a portfolio company.⁷⁷ In the case of a listed company, 'the combination of widely fragmented ownership and market regulatory arrangements that are prescriptive and restrictive as to the form, timing and content of communication between boards and shareholders means that direct engagement between owner and manager is less readily achievable'.⁷⁸ Shareholders who are investing on a purely short-term basis may

communicate with the board simply by the selling of stock. Walker clearly wants to encourage long-term engagement, and to this end proposes that fund managers should be required to declare whether they are willing to commit to a stewardship obligation which long-term engagement implies. Chapter 5 of his review discusses ways 'to encourage a wider group of fund managers to see engagement initiatives, in particular if well-executed on a collaborative basis, as a responsible and appropriate means of discharging their obligations to their clients as an alternative to selling stock'.⁷⁹

There is no doubt that the Church Investors Group who have commissioned this report fall into the category of serious long-term institutional shareholders. They will however be aware that the 'agency problem' identified by Sir David Walker is a real one. It is an issue with which Christians should be familiar, because it mirrors a problem in God's relationship with humanity. Patrick Gerard has pointed out that Jesus comments on the agency problem extensively – it features in no less than four of his parables.⁸⁰ These parables are therefore worth attention at this stage. In each of them, agents who are variously described as servants, slaves, managers, stewards or tenants, are given responsibility by someone who stands in a master / owner relationship to them.

In the parable of the faithful and unfaithful servant (Lk 12:42-48; Mt 24:45-51) Jesus poses two possible scenarios. Interestingly, the servant is described both as a steward (oikonomos) in Luke 12:42, and as a slave (doulos) in 12:45; this reflects the dual nature of his relationship, in authority over other slaves and under authority to the one who employs and presumably owns him. This servant is put in charge of the house while the master is away. If the master returns and finds the house in good order, with the household having been fed at the proper time, the servant will be praised and promoted – given the extra responsibility of being put in charge of all the master's possessions. But if the master returns and finds that the servant has been maltreating others and gorging himself on food and drink, he will lose his position and be punished.⁸¹ The parable emphasises trust (the master may be away for a long period of time – the second servant says 'the master is delayed in coming'), responsibility and recompense, which may be either positive or negative depending on the agent's performance. In his comment at the end of the parable

⁷⁵ Op.cit., 9. FRC is the Financial Reporting Council. It is interesting that Walker uses the word 'stewardship', with its strongly Christian overtones.

⁷⁶ Op.cit., 60. The phrase 'agency problem' is often used by academics when discussing issues of corporate governance.

⁷⁷ Op.cit., 22.

⁷⁸ Op.cit., 61.

⁷⁹ Op.cit. 63.

⁸⁰ See Patrick Gerard, 'Executive Pay and Corporate Governance', *Faith in Business Quarterly* 11:2, 23-8, along with his more detailed book on the subject, *Performance and Reward*. Patrick worked in management for British Gas before becoming ordained in 2006.

⁸¹ The punishment is actually very drastic 'cut to pieces'. Jesus goes on to talk in comparative terms about a 'severe beating' and 'light beating' depending how culpable the failure had been.

(12:48), Jesus makes clear that the greater the degree of trust shown, the higher the expectations: more is expected.

The better-known parable of the talents (Mt 25:14-30; Lk 19:11-27) echoes similar themes. Here, as Gerard points out, the master asks no question about the behaviour of the servants, but judges them solely on the financial return they have made.⁸² Three servants are allocated talents, to one five, to another two, and to a third one, 'to each according to his ability' (Mt 25:15). The master seems to have been perceptive in his assessment, because the first two servants – through the exercise of trade – both double their number of talents, whereas the third servant fails to do anything profitable, simply digging a hole to hide his solitary talent. When the master returns after 'a long time', servants one and two are warmly praised in identical terms: 'Well done, good and trustworthy servant; you have been trustworthy in a few things. I will put you in charge of many things; enter into the joy of your master' (25:21, 23). Servant three seeks to defend his lack of action on the grounds that his master was a harsh man, but the master has no truck with this, scolding him, punishing him and reallocating the one talent he had to the most productive servant. Again we are given a sense of weighty responsibility which issues in very diverse outcomes depending on how it is handled.

The parable of the wicked tenants (Mk 12:1-12; Mt 21:33-46; Lk 20:9-19) should be read against the background of Isaiah's picture of Israel as an unfruitful vineyard (Is.5:1-7). Here none of the agents are praiseworthy. They all violate the trust of the vineyard owner, to the extent of attacking and killing the various go-betweens sent by the owner to collect his share of the produce. In Luke 16:1-9, the alternative titles given to the parable are indicative of its complexity and uncertain interpretation: the central character is both a dishonest steward (because he rewrites bills owing to his master to debtors' advantage) and a shrewd manager (because he thereby wins friends who will help him once he has been sacked). He is certainly not being commended as a good example in the discharge of his responsibilities; the quality that is praiseworthy is the urgency (and sensible provision for self) which he demonstrated in a situation of crisis.

In relation to the issue of shareholder-investors and company executives, it is the first two parables which have most potential relevance. Even here we must be wary of reading more into them than Jesus intended – of seeking to draw too direct a comparison between

a parabolic way of describing God's relationship with humanity and contemporary corporate governance. Yet there are certain details of the parables which are highly suggestive, notably:

- The servants are judged on their performance over a lengthy period of time – it is no superficial, short-term assessment.
- The judgment that issues is decisive – promotion in some cases, dismissal in others. Sustained long-term performance is rewarded, but there is no tolerance given to ongoing failure.
- The judgment covers both financial performance (in the Matthew 25 parable) and interpersonal behaviour (in the Luke 12 parable).

Long-term, performance-related, decisive and holistic: these are all criteria that have their place in the setting of executives' pay packages.

Interestingly, the FSA's report on remuneration policies argues that, in the London market, insufficient weight has been given to non-financial measures of performance alongside financial performance measures. They specify among these non-financial measures attitudes to risk and compliance.⁸³ They say that a key element of effective risk management is the communication of the firm's values and objectives to employees, and a high degree of transparency about what is required of them if they are to benefit from variable remuneration awards.⁸⁴ The report's principal message, however, is that the remuneration structures of senior employees and risk takers should be consistent with and promote effective risk management.⁸⁵ Most of the more specific recommendations relate to this, e.g. 'guaranteed bonuses which run for a period of more than one year and similar payments in addition to salary are unlikely to be consistent with effective risk-management'.⁸⁶ Like the Walker Review, the FSA are keen to raise the awareness and involvement of both company boards and shareholders with regard to risk management. So a remuneration committee should 'be able to demonstrate that its decisions are consistent with a reasonable assessment of the firm's financial situation and future prospects'⁸⁷; and the report urges shareholders to 'reconsider the current practice, common in many firms, of accruing bonus pools ahead of any distribution of risk-adjusted returns to the providers of equity capital'.⁸⁸

5 Conclusions

Both the Walker Review and the FSA Report appear to be moving in a sensible direction. They seek to reduce the

⁸² 'Executive Pay and Corporate Governance', 25.

⁸³ Reforming remuneration practices in financial services, 2.8.

⁸⁴ Op.cit., 2.10.

⁸⁵ Op.cit., 1.15.

⁸⁶ Ibid

⁸⁷ Op.cit., 4.12.

⁸⁸ Op.cit., 1.24.

repetition of corporate practice, recently prevalent in the financial services industry, where company directors pay themselves huge salaries and bonuses based far too much on short-term financial results which shield risk-laden strategies. They seek to encourage non-executive directors and institutional shareholders to take a more challenging and discerning role in a company's activities, holding executives to much closer account for their actions. If their recommendations pass into enforceable policy they may help to reduce some of the excessive pay packages detailed in our first section; but we should not underestimate the formidable vested interests that may stand in the way of those changes happening.

Whatever changes are made in the regulatory structure, there will remain a question concerning the responsibility of investors. It will be clear by now that it is not straightforward to specify this responsibility. What counts as excessive pay is a highly subjective opinion and a constantly moving target. The make-up of executives' pay packages is complex so simply to judge by salary alone is sadly inadequate. There are differentials which pertain



between different business sectors, with higher rewards corresponding to more profitable sectors, though we have failed to discover a consistent pattern in this respect. The packages which are within the capacity of church investors to influence, those relating to publicly listed companies, are considerably lower than the pay meted out in some private companies, so there is a danger that restricting levels in one sphere could accentuate the gulf with another.

Nevertheless, we believe we have established solid grounds for believing that the levels of executive pay currently being paid in many FTSE 100 companies are a legitimate cause for concern. Biblical and theological considerations concerning the nature of justice, the effects of wealth and the responsibility of investors add weight to the cries that are being expressed by the general public. But they also point in some distinctive directions.

5.1 Theological values

We offer four key theological values following from the preceding analysis, which we propose should be used by Christian investors in their engagement with companies concerning executive pay.

5.1.1 Concern for the poor

- Our survey of biblical material suggests the central

concern of Bible in relation to economic justice is adequate provision for those least well-off. This means that church investors should be as much concerned – arguably, more concerned – with helping the poor as restraining the rich. Of course, the two may be connected. An astronomically high salary paid to a chief executive could affect the remuneration made to the lowest paid (though probably not by much); more likely, perhaps, it may make the lowest paid feel devalued and affect company morale. The substantive point being made is that investors should be vigilant about the levels of pay at the bottom of an organisation (including workers from companies to which work is outsourced), not just the top.

5.1.2 Just pay

- Biblical visions of justice suggest a just remuneration policy should be impartial, render what is due to each, proportionate to contribution and based on normative judgements of God's justice. Market arguments for unrestricted pay policies are weak even in their own terms, as the markets in question are not sufficiently free to set reliable prices. They must also be resisted in relation to concerns for justice: executives should not be rewarded at levels that are grossly disproportionate to the average pay of company employees.
- This leads to the observation that the issue of pay differentials is more important than the levels of pay outright. Any salary in excess of £5m is apt to take the breath away, but it is even more disturbing to discover e.g. that the pay differential at Tesco is 526:1, compared with the much more modest differential at BA of 15:1. Of course, such figures do not lend themselves to straightforward comparison. Some business sectors by their nature employ a greater number of lower skilled people; we cannot expect shelf-stackers to be paid the same as pilots. But even when such variables are taken into account, it does appear that some companies have a fairer pay salary than others – i.e., a structure which shows greater respect both for human beings' fundamental equality of status and the distinctive contribution made by every type of worker.
- It is not possible to specify a precise maximum ratio of executive pay to those earning the lowest on the basis of the theological tradition. Specifying such a ratio as a rule of thumb for investors, however, would bring considerable benefits in guiding decisions about voting on company annual reports. Focusing on the ratio rather than the absolute level of executive pay is particularly valuable because it recognizes the potential divisive effect of grossly disproportionate levels of pay and allows a company to pay its executives more if it is also prepared to raise pay for the lowest paid. It also ensures the welfare of the lowest paid is kept to the forefront in discussions of executive pay, which we have argued is a distinctive feature of the Christian tradition. The Companies Remuneration Reports Bill, a Private Members' Bill introduced by Lord Gavron that received its third reading in the House of Lord in July 2009, stipulates that companies should publish the ratio

between top executive pay and the average of the lowest paid 10% of its workers. We propose that an appropriate rule of thumb for investors to engage with companies in the current context is that executives should never receive a total remuneration package worth more than 75 times the average pay of the lowest paid 10% of employees of their company.⁸⁹ Over time, through shareholder engagement with companies, we would hope that this figure could be reduced.

- The demand for just pay also requires that remuneration packages be made simpler and more transparent in order for accurate judgements to be made about whether they are proportionate.

5.1.3 The dangers of wealth

- Biblical texts are clear about how wealth can lead to greed and rejection of God's ways. Not all of these are irrelevant to company remuneration of executives. In particular, attracting candidates with inflated remuneration packages means they are disproportionately likely to be focussed on promoting their own financial interests rather than the interests of the company and its shareholders. Those for whom remuneration is less significant in a decision to join a company are likely to take company and shareholder interests more seriously.
- Biblical warnings about the perils of wealth apply to companies, not merely to individuals. In particular, companies seeking to enhance their prestige by paying executives more than their rivals succeed only in fuelling spiralling executive pay. Such competition for status is in clear opposition to shareholder interests.

5.1.4 Good stewardship

- Stewardship of the resources of others is a significant biblical motif. Rewards for executives entrusted with the stewardship of the resources of companies should be based on long-term performance with clear incentives and disincentives related to appropriate attitudes to risk.
- Our survey confirms the importance of holding executives to account over their performance. We emphasise that this should be reasonably long-term (giving staff time to prove their worth), and that it should cover benefits to all stakeholders and not just financial value to shareholders. Performance-related pay is far from easy to work out equitably, but it is sound in principle. Bonuses have their place (properly handled) in a fair and competitive market. If substantial bonuses are to be paid, however, there is a case for lowering basic salaries. The corollary of paying extra for exceptional performance is that those who bear primary responsibility for culpable corporate failure should not be allowed to escape scot-free. Church investors ought to be asking hard questions of remuneration committees about 'golden parachutes' and other unduly comfortable severance packages. 'Claw back' mechanisms to recover generous remuneration which has proved to be misplaced should be considered.

- One aspect of good stewardship of company resources is communicating clearly to shareholders concerning the remuneration packages of executives. For any accountability or progress on reform of executive remuneration it is necessary for packages to become simpler and more transparent. As we have noted, this may also be to the advantage of companies since complex remuneration packages reduce the motivational impact of executive pay.
- The recent financial crisis has highlighted the high-risk strategies undertaken by certain firms in the financial sector (though there is an element of paradox about this, because some of these institutions mistakenly thought that they were pursuing policies that reduced or spread risk). Pay packages should not encourage risky behaviour which can lead to serious consequences not just for the individual company, but many other companies that are affected. Clearly, risk cannot be eliminated from business, nor would that be desirable. But the commercial climate in recent years has exaggerated the virtues of risk-taking to the neglect of the classical virtue of prudence. Pay packages which reward executives who pursue prudent, steady strategies aimed at gradual growth are to be commended. Church investors should be seeking to ask hard questions of remuneration committees about whether and how they encourage this.

5.2 Recommendations

1. Investors should be most concerned about pay for the poor.
2. Investors should consider corporate pay differentials as more important than absolute pay packages. A maximum multiple of the ratio between the pay of the top executive and that of the average pay of the lowest 10% of employees should be identified, and over time the ratio should be set on a downward trajectory. In the opinion of the authors, it would be difficult to justify a ratio in excess of 75 times.
3. Investors need to hold executives to account over performance – with an emphasis on sustained performance.
4. Investors should discourage companies from seeking to compete with one another through levels of executive remuneration, recognising the disadvantages of motivating senior executives primarily through concern for their personal wealth.
5. Investors should dissuade companies from offering pay packages which encourage high-risk behaviour.
6. Investors should encourage companies to adopt simple and transparent packages of executive remuneration in order to facilitate accountability.
7. Where companies operate executive remuneration policies at strong variance with these recommendations and investor engagement with a company does not lead to any change of policy, disinvestment should be considered.

⁸⁹ It would be important to introduce safeguards to ensure that companies did not seek to affect this ratio by merely outsourcing jobs of the lowest paid employees to other companies. One way to address this would be to consider employees of companies providing outsourced services as company employees for these purposes.

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It has four key aims:

- to encourage the formulation of investment policies based on Christian ethical principles;
- to assist each other in putting such policies into practice;
- to encourage responsible business practices through engagement with company managements;
- to share information and views on ethical matters related to investment.

The re-formed CIG took effect from 1 January 2005, building on an informal ecumenical ethical investment network that had existed since 1973. It is a collaborative ecumenical venture that seeks to empower and inform members as they pursue their own independent views and policies. Membership is open to investment or trustee bodies representing the charitable and pension funds of denominations, dioceses (or their equivalent), religious orders and Christian-based charities. Members of the CIG include:

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Servite Friars	URC Ministers' Pension Trust
Diocese of Arundel & Brighton	Joseph Rowntree Charitable Trust
CIG South Africa	Methodist Ministers' Pension Scheme
Catholic Trust of England & Wales	Trustees for Roman Catholic Purposes (SJ)
Diocese of Salford	Church in Wales
Christian Aid	The Church of Scotland Investors Trust
Diocese of Middlesbrough	The Salvation Army
Methodist Church in Ireland	The Baptist Union of Great Britain
The William Leech Foundation Limited	CFB Methodist Church

To fulfill its aim of encouraging responsible business practices, the CIG commissions papers that provide theological insight for the business and investment communities to help them find practical ways of addressing issues of public concern.

Any opinion and recommendation contained in this report are those of the authors and may not reflect the views of CIG members. Neither should the conclusions of the report be seen as representing those of the CIG consensus.

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