Britain: New "fat cats" row over £1 million corporate payoffs

Neil Hodge
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Golden handshakes of more than £1 million ($1.4m) were paid to a record 14 senior executives in the UK last year. More than twice the number in any previous year, the payoffs have triggered a new row over the sums that executive “fat cats” are being awarded, sometimes despite poor company performance.

In the year ending September 2001, a total of 75 directors left their posts with six- or seven-figure sums worth an average £703,618 ($1m). Top of the list was a £9.1 million ($13m) retirement gift to Klaus Esser, after Vodafone took over German telecoms group Mannesmann. The size of the award has prompted an inquiry by the Dusseldorf state prosecutor to see if the payment influenced the outcome of the takeover negotiations.

In second place was Jim Mueller, who presided over 14,000 job cuts (or to put it in euphemistic business jargon, “rationalised the workforce”) when a City merger created Invensys, the troubled automation group. He left his post with a £3.2 million ($4.5m) handshake while pushing for the company to relocate “manufacturing capacity” to low cost markets such as Mexico, China and Malaysia in a drive to boost profits.

Others include executives who worked for some of the biggest corporate names in the UK, including Barclays Bank, the Alliance & Leicester building society, Reuters news agency and the Sainsbury’s supermarket chain.

Many of the payments include compensation for notice periods and tax-free lump sums channelled into pension schemes. The payoff given to former Railtrack chief Gerald Corbett is listed at £444,000, ($632,000) yet a pension deal pushed him into the millionaire league when he was ousted following the Hatfield train disaster two years ago, which killed four people and injured dozens more.

The union-funded Labour Research Department (LRD), which compiled the figures, said: “Top executives who have been sacked, have left the company over boardroom disagreements or by mutual consent, or simply retired, often get phenomenally generous payoffs that can amount to six or even seven figures.”

The total of 14 instant corporate millionaires last year is the highest since the LRD started routinely analysing company accounts in 1994, and is more than double the previous record—six cases—in 1998. Calls are being made for Trade and Industry Secretary Patricia Hewitt to use the study as ammunition to give shareholders a right to an annual vote on directors’ pay packages from 2003.

The legal minimum wage in Britain is just £4.10 per hour ($6). At this rate, it would take 171,614 hours, or over 19 years working 24 hours a day without a break to earn the average UK corporate payoff.

Roger Lyons, Trades Union Congress spokesman on corporate governance, said the size of boardroom payouts revealed in the report were, “further evidence, if any was needed, of corporate greed running out of control.”

“Even incompetents managed to depart their posts with a king’s ransom after destroying the jobs of thousands of workers in companies left in tatters,” Lyons said.

It is not difficult to find cases where directors were rewarded handsomely despite company failure. Last September, struggling telecoms company Marconi—which has seen its share value decimated and its workforce massively cut during the past 12 months—awarded its CEO Lord Simpson £300,000 ($427,000) on leaving the company. The package was originally set at £3.5 million ($5m) until shareholders protested. Sir Peter Bonfield was also fortunate enough to get a bonus of £2.9 million ($4.1m) after landing British Telecom into £30 billion ($43bn) of debt through buying commercially dubious “third-generation” mobile phone licences.

But a spokesman for the Confederation of British Industry (CBI), the largest business executive lobby group in the UK, defended boardroom decisions to pay executives such large leaving packages. “These are legal commitments entered into when a contract is signed and honoured if it is ended in particular circumstances. They are open to shareholder scrutiny, with full details given in a company’s annual report. We need to understand that contracts have to allow for the fact that companies have to compete for executive talent in a global market place,” he said.

Yet this is contrary to the recommendations of the CBI-backed Greenbury committee—drawn up in the mid-nineties to address corporate best practice and directors’ pay—which said that the broad aim of such golden handshakes should be to avoid rewarding poor performance.

In total, 17 of the companies listed made big payments to more than one director during the 12 months covered by the report. Leading the field was mobile phone company Vodafone, which shelled out over £10 million ($14) to two of its departing executives, with pharmaceuticals giant GlaxoSmithKline coming in at second place, awarding three of its executives with £1 million-plus golden handshakes. Despite its recent financial troubles, retail group Marks & Spencer also rewarded three of its departing executives handsomely with a combined payout of £1,653,000 ($2.4m).

Yet such sums are chickenfeed compared to the remuneration packages that top executives are being paid in the US. In 2000, Jack Welch, the former CEO of the company with the largest stock market valuation General Electric, earned $231,149,232. This figure does not include unexercised stock options totalling $341,518,062 from previous years. To put this figure into context, Welch’s package for 2000 would support 21,578 minimum wage earners in America for a full year. Alternatively, it would take until 23579 AD on minimum wages to equal Welch’s pay compensation just for that one year.

Corporate big spenders

The following table lists corporations in the UK awarding £100,000 or more to at least two executives leaving the company during 2001