



Some Facts About CEO Pay and Corporate Governance

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Some Questions About CEO Pay and Corporate Governance:

- Is the pay process for public companies broken?
 - Do boards pay CEOs too much?
 - Do boards pay CEOs for performance?
- How aggressive are boards in firing CEOs for poor performance?

What are CEOs paid?

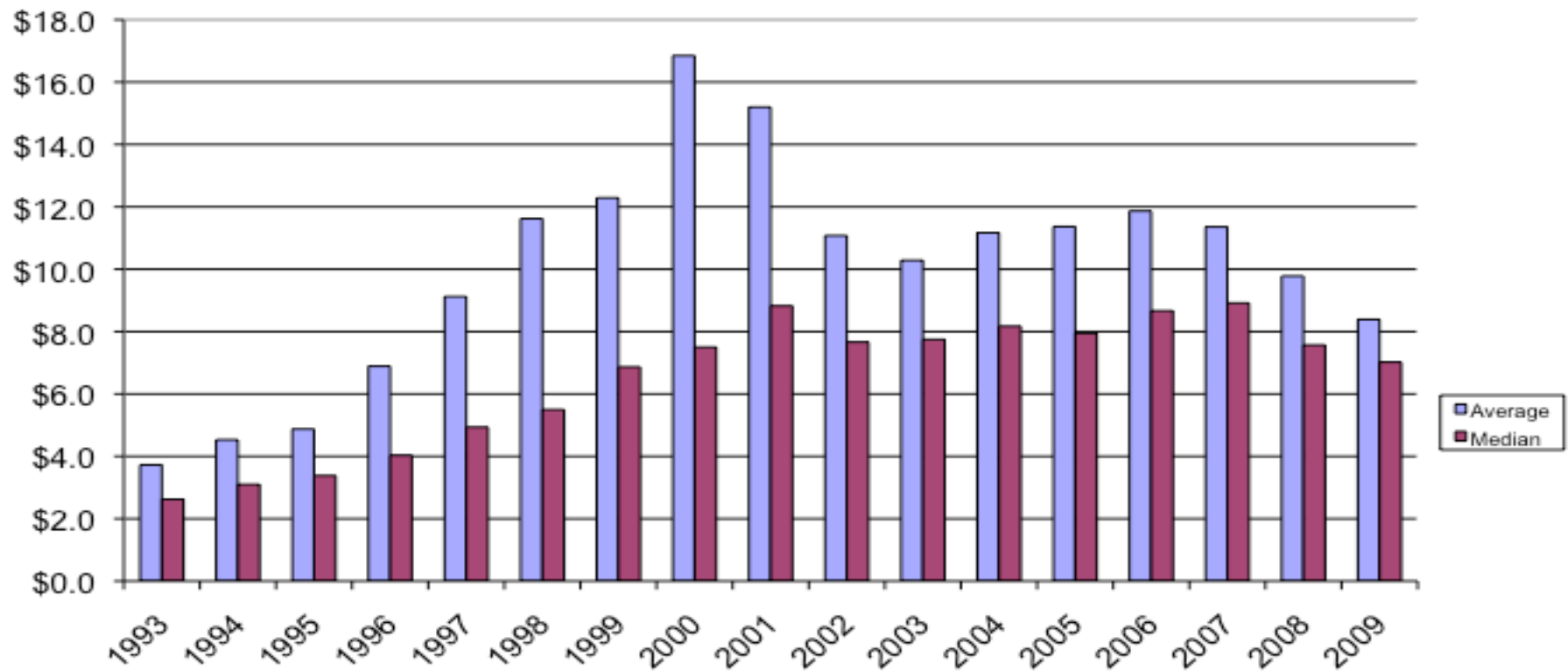
- Two ways to look at pay:
 - Expected or estimated. What boards give CEOs.
 - » Salary + Bonus + Restricted stock +
Expected value of options (calculated using Black-Scholes).
 - » More relevant for evaluating what boards are doing.
 - Realized. What CEOs actually get.
 - » Salary + Bonus + Restricted stock +
Value of options exercised / realized.
 - » More relevant for evaluating pay-for-performance.

U.S. S&P 500 CEOs

- What has happened to average CEO pay since 1997?
 - Up?
 - Flat?
 - Down?

Expected CEO Pay (inflation-adjusted)

Average & Median Total Pay (estimated or ex ante)
of S&P 500 CEOs from 1993 to 2009 (in millions of 2009 \$)



Source: ExecuComp, Steven Kaplan

U.S. S&P 500 CEOs

- What has happened to average CEO pay since 1997?
 - Up?
 - Flat?
 - Down?
- While criticism continues as if CEO pay keeps increasing, in fact, U.S. CEO pay peaked in 2000 / 2001.
 - Average CEO pay has declined since 1997.
 - It is down by 50% since 2000.

- Can measure CEO pay as a fraction of the very top brackets.
 - S&P 500 CEO pay to pay of all income in top 1%.

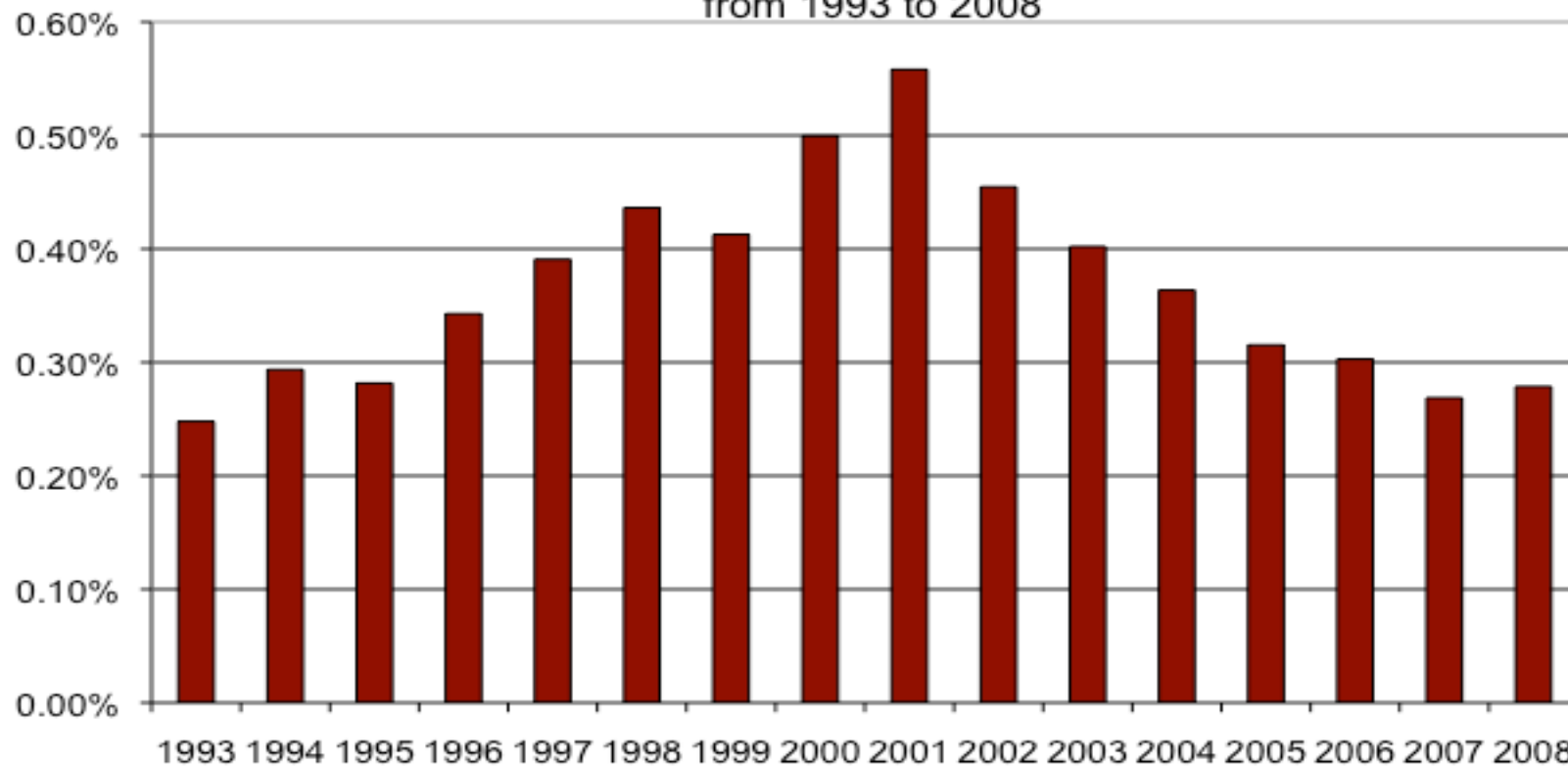
- How have CEOs fared since 2000?
 - Better than others?

 - Same?

 - Worse?

Expected CEO pay represents small fraction of top 1% incomes And, that fraction has declined since 1993

Total (Ex Ante) Pay of S&P 500 CEOs to
Total AGI of Top 1% of Taxpayers
from 1993 to 2008



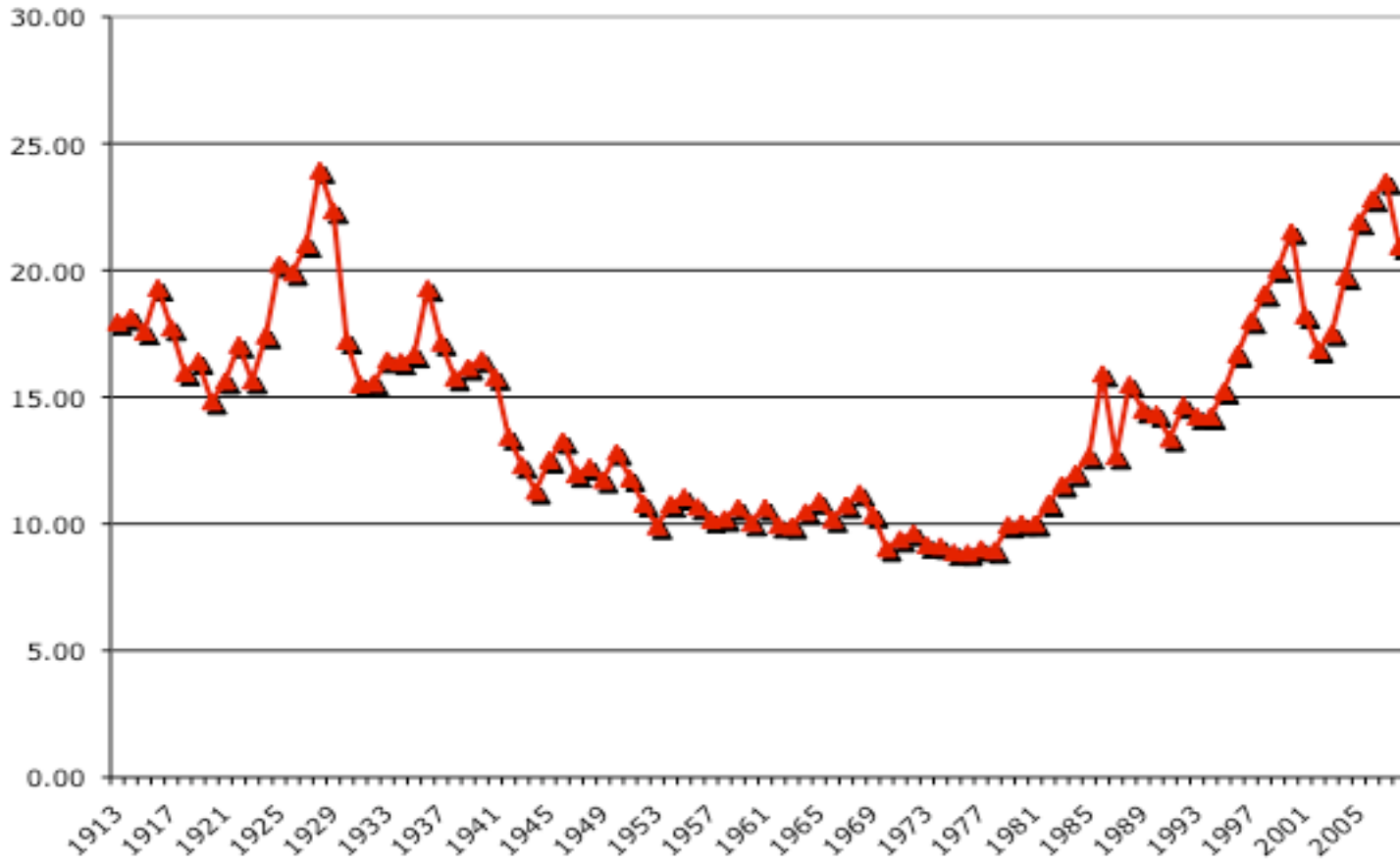
Source: ExecuComp, Saez (2008), Steven Kaplan

■ Ex Ante

- Income inequality, particularly at the top end, increased substantially from 1980 to 2000.
 - CEOs benefited, but so did other groups.
- Income inequality in 2008, was about the same as in 2000.
 - But CEO pay has gotten much lower.

Income Inequality

Income Share (AGI) of Top 1% in U.S. from 1913 - 2008



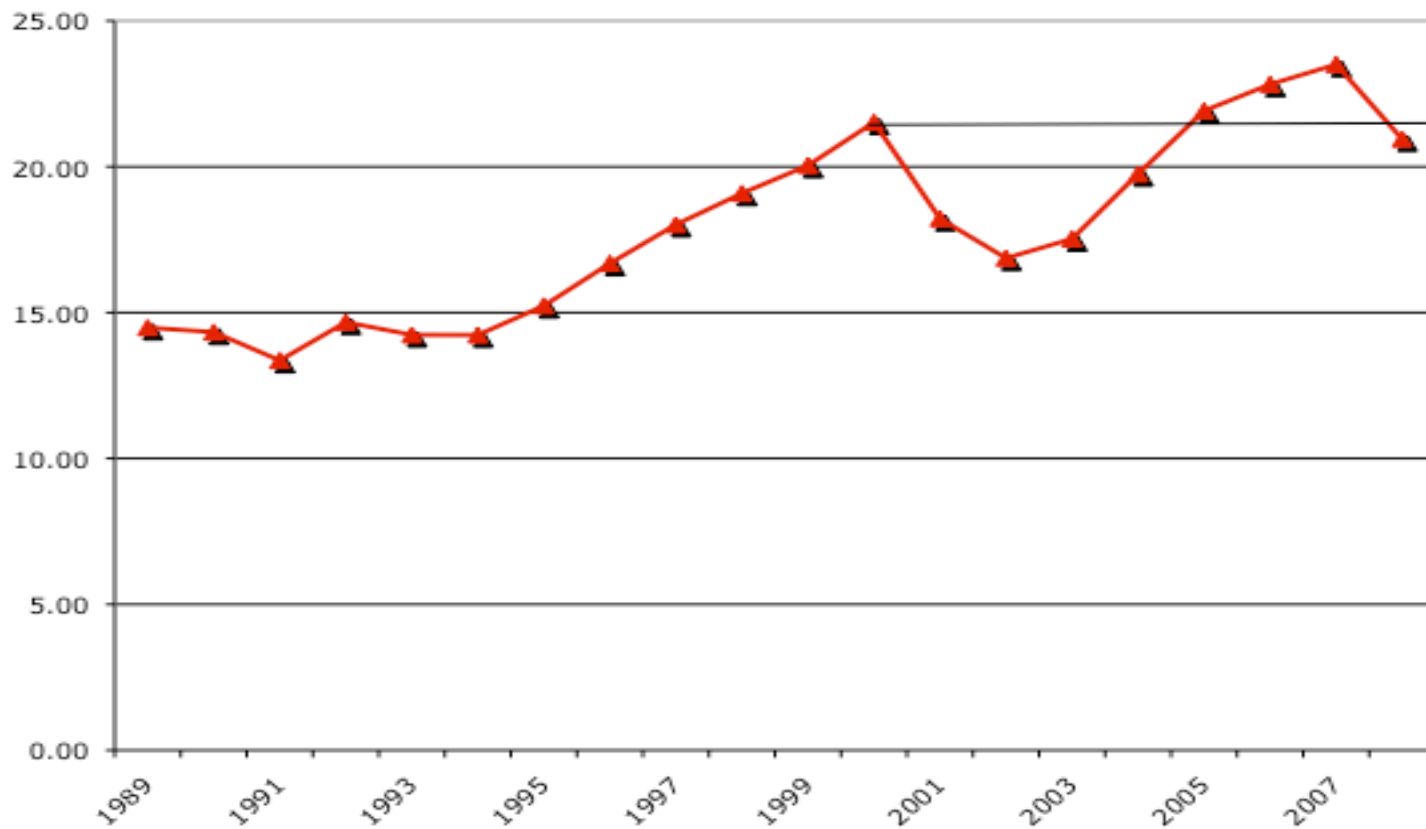
Source: Piketty and Saez (2008)

— Share top 1%

Income Inequality

Higher in 2000 than in 2008

Income Share (AGI) of Top 1% in U.S. from 1989 - 2008



Source: Piketty and Saez (2008)

—▲— Share top 1%

CEOs are not the only ones who earn more / earn a lot.

- Hedge Fund (and other) public market investors, Private Equity Investors, Investment Bankers, Athletes, Entertainers.
- Pay increases have been systemic at the top end.
- Hard to understand why one would conclude CEO pay increases are driven by managerial power / agency problems.

CEOs are not the only ones who earn more / earn a lot

- Hedge funds:
 - In 2007, top 25 hedge fund investors earned over \$22 B.
 - In 2007, all 500 S&P 500 CEOs combined earned:
 - » \$5.6 B (expected) or \$7.5 B (realized).
 - 3.9 X or 2.9 X

John Paulson	\$3,700
George Soros	\$2,900
James Simons	\$2,800
Philip Falcone	\$1,700
Kenneth Griffin	\$1,500
Steven Cohen	\$900
Timothy Barakett	\$750
Stephen Mandel Jr.	\$710
John Griffin	\$625
O. Andreas Halvorsen	\$520
John Arnold	\$480
James Dinan	\$470
Joseph DiMenna	\$450
David Slager	\$450
Seth Klarman	\$425
Lawrence Robbins	\$420
William von Mueffling	\$410
Charles (Chase) Payson Cc	\$400
Raymond Dalio	\$400
Israel Englander	\$400

CEOs are not the only ones who earn more / earn a lot

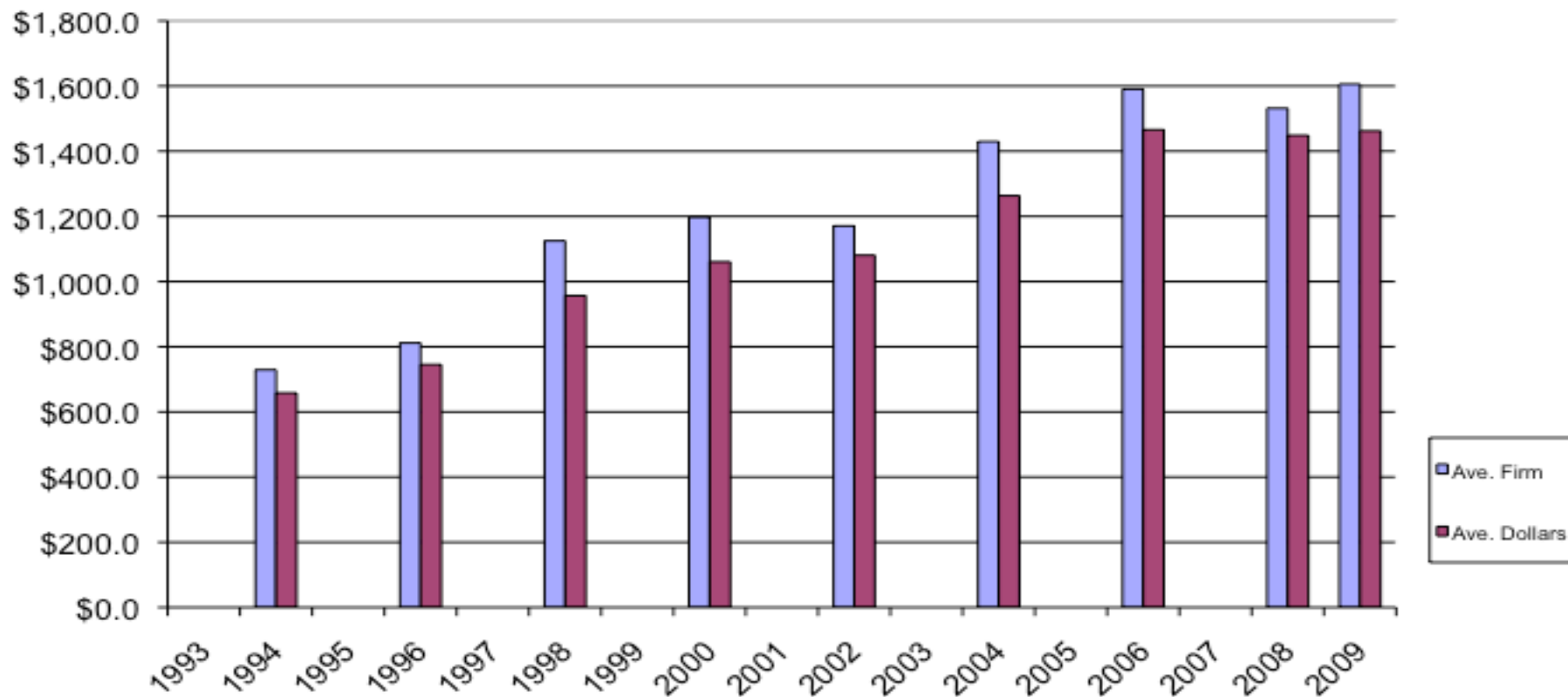
- Hedge funds:
 - In 2009, top 25 hedge fund investors earned over \$25 B.
 - In 2009, all 500 S&P 500 CEOs combined earned:
 - » \$4.2 B (expected) or \$4.4 B (realized).
 - 6.0 X or 5.7 X

What About Lawyers?

- Since 1996, has the ratio of CEO pay to Law Partner pay:
 - Increased?
 - Stayed the same?
 - Decreased?

What About Lawyers?

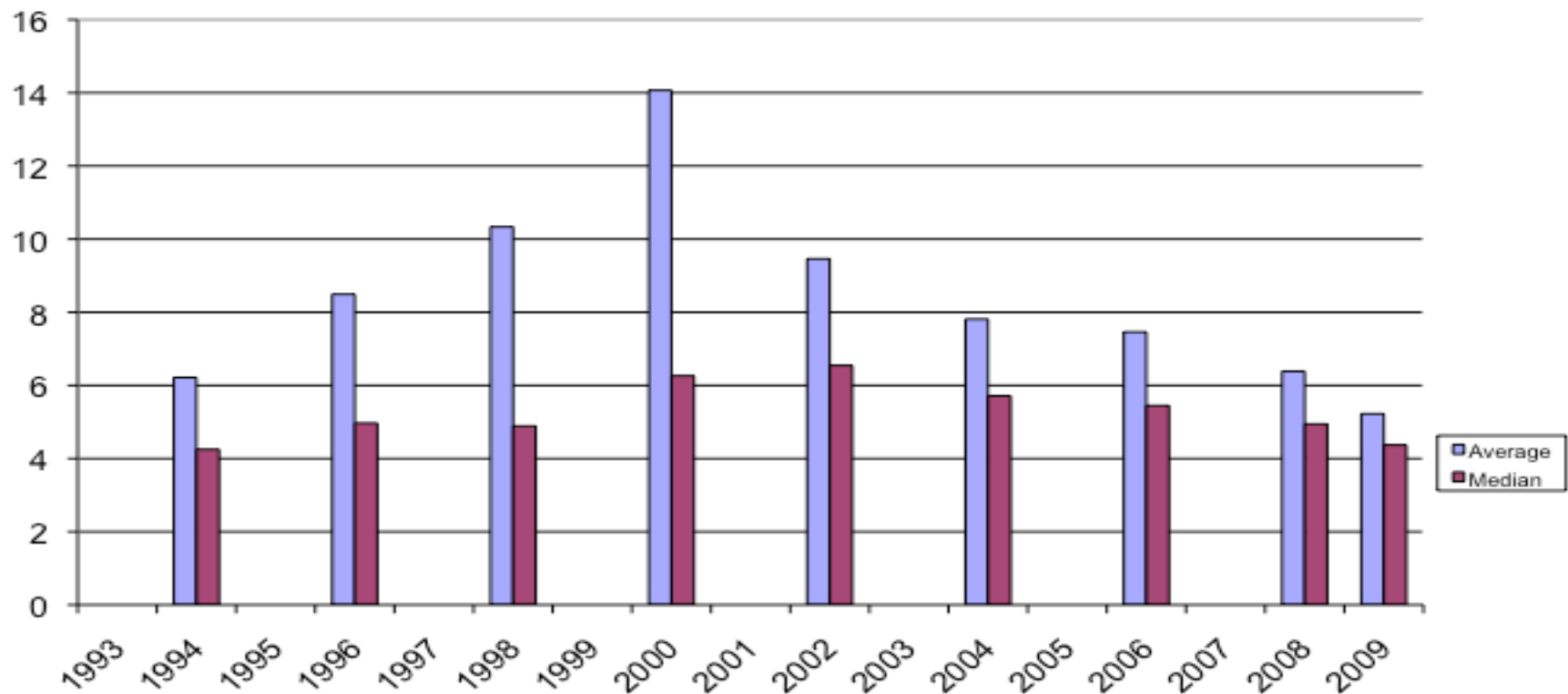
Average Profit Per Partner at Top 50 Law Firms
from 1994 to 2009 (in millions of 2009 \$)



Source: America Lawyer, Steven Kaplan

Top Law Partners Have Done Better on Average Than CEOs Since 1996.

S&P 500 CEO Estimated Pay to Average Profit Per Partner at Top 50 Law Firms from 1994 to 2009



Source: ExecuComp, American Lawyer, Steven Kaplan

Is the CEO job cushy?

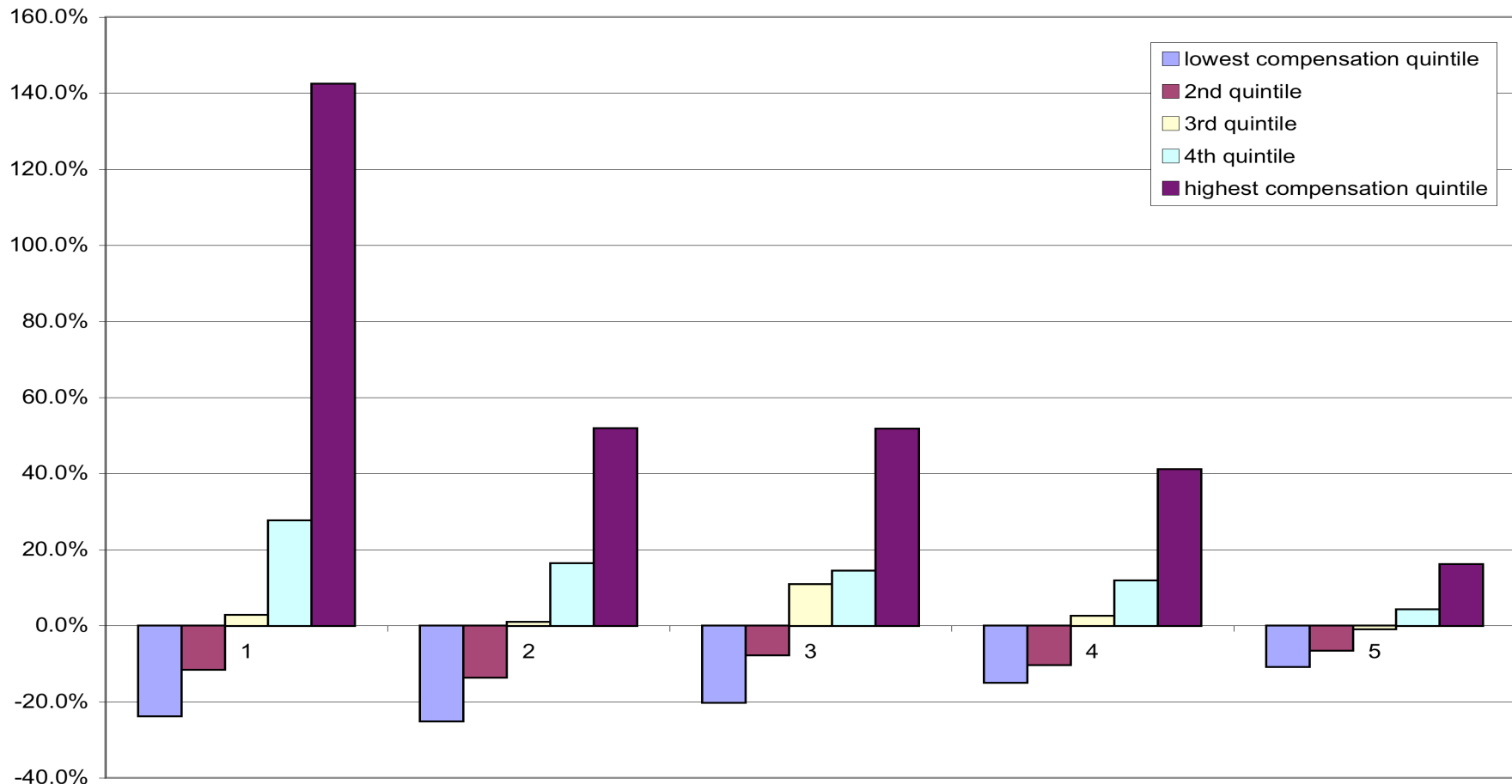
- Warren Bennis on advice to CEOs. (Business Week 9/27/10):
 - “The first thing I would say is forget about balance of work and family. It is more than a full-time job....
 - “You have to be realistic as hell about the sacrifices to become a leader.
 - “But if you pull it off, you can make life better for so many people...”

Are CEOs Paid for Performance?

- Compare stock performance of most highly paid CEOs relative to least highly paid CEOs.
 - Look within similar sized firms (because pay increases with size).
- Realized pay is highly related to performance.
 - I.e., there is strong pay-for-performance.

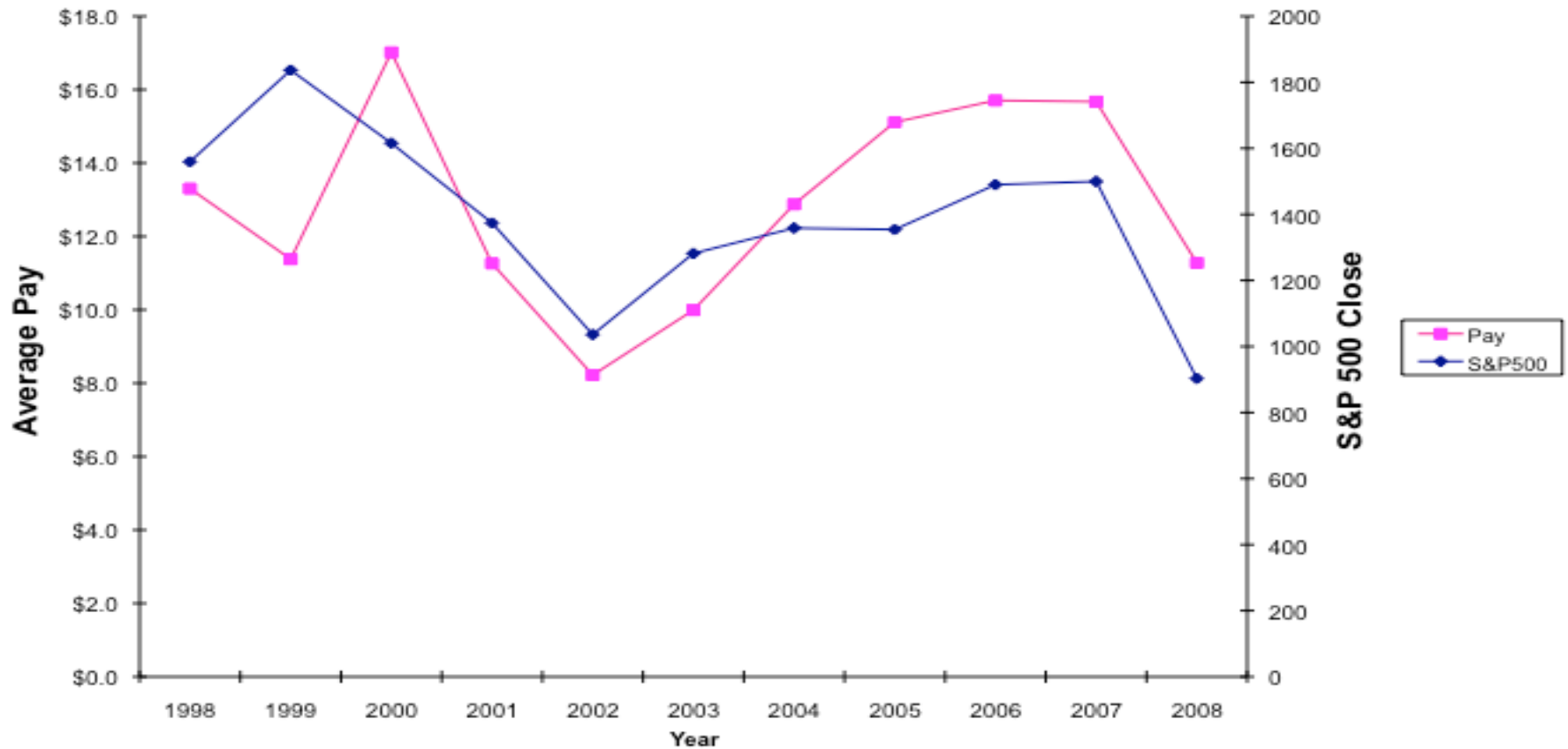
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Figure 3: Three Year Performance Relative to Value Weighted Industry, CEOs Only



Average Realized CEO Pay vs. S&P 500

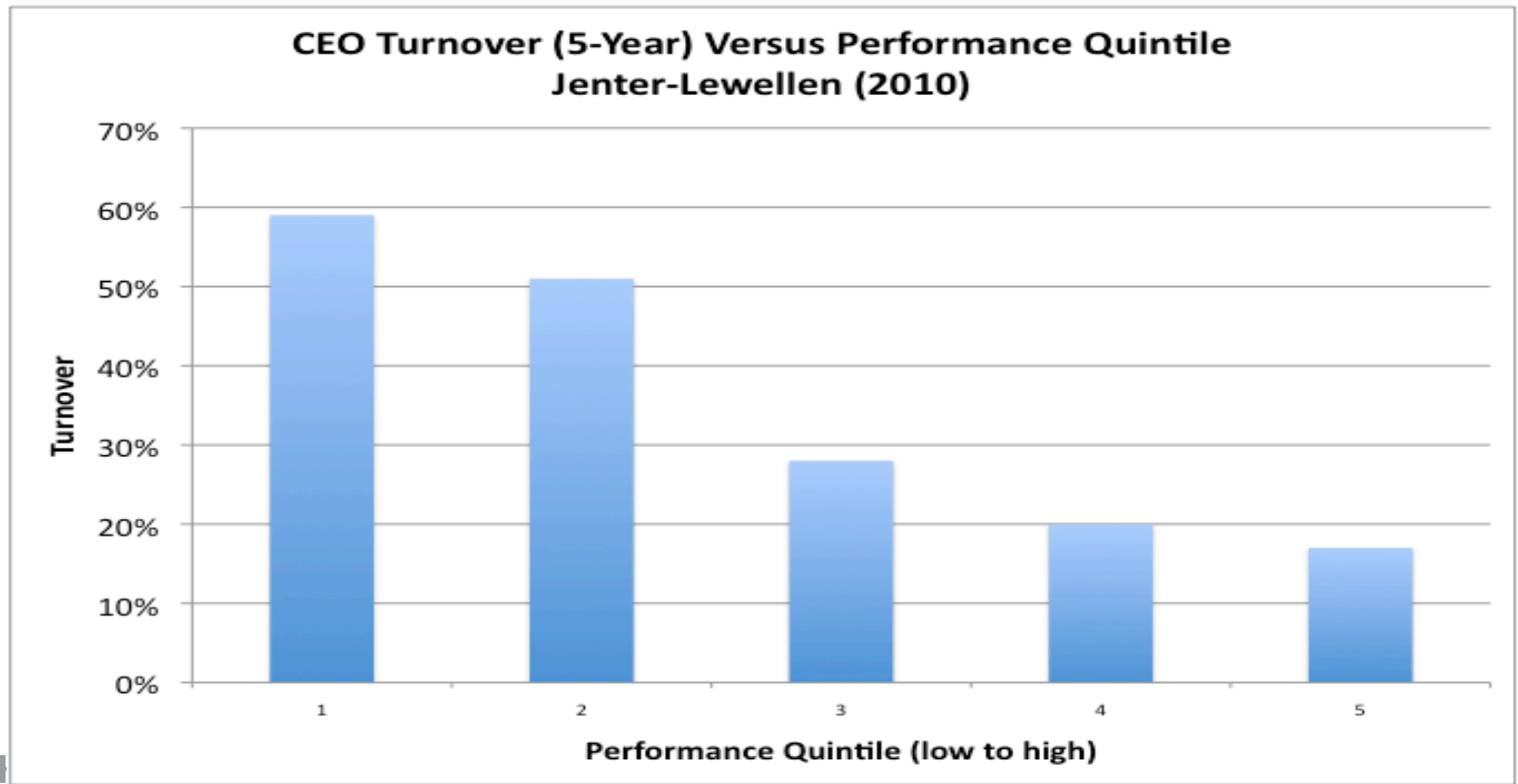
Realized CEO Pay Versus S&P 500 (Inflation-Adjusted)



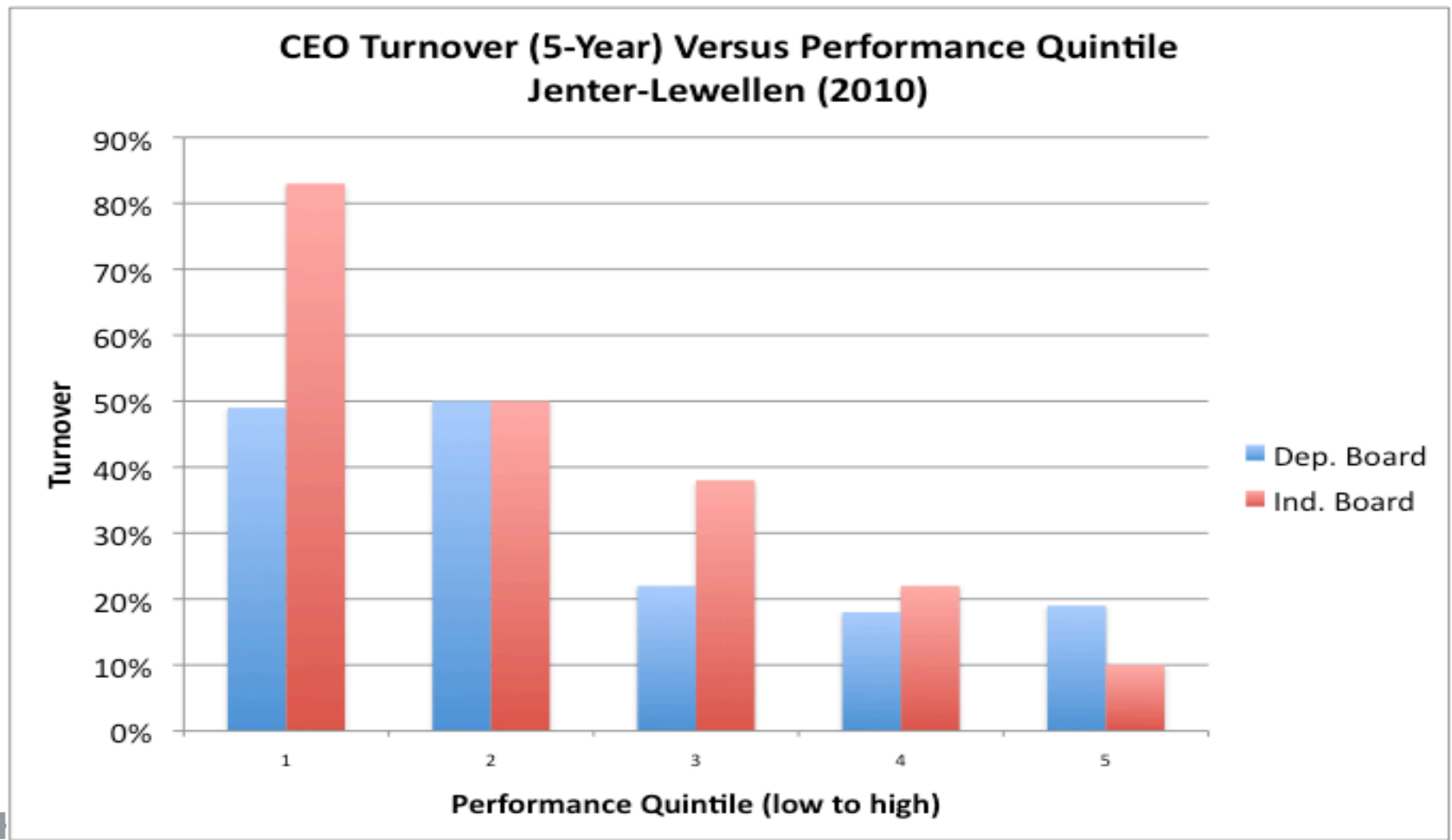
Are boards doing anything? Are CEOs penalized for poor performance?

- Bernadette Minton and I studied CEO turnover in Fortune 500 firms from 1992 to 2007.
 - Turnover levels much higher than before, particularly after 1997.
 - Turnover strongly related to poor performance.
- Jenter and Lewellen (2010) looks at CEO turnover in the S&P ExecuComp database -- over 1,600 firms.
 - Boards aggressively fire CEOs for poor performance.

Huge difference in turnover for poor performers.



Difference is even greater for higher quality boards.



Some corroborating data from the Forbes 400 in 2008

- Hedge fund investors: 27
- Private equity investors: 33
- Real estate investors: 29
 - Total investors: 89+

- Entrepreneurs who founded company after 1970: 77
- Entrepreneurs who founded company before 1970: 59
- Total Entrepreneurs: 136

- Non-founder CEOs / employees in Forbes 400: 9

- Non-founder CEOs / employees hired after company went public: 4

Summary

- CEO pay is not obviously high.
 - Average pay has decreased by 50% since 2000.
 - Relative to other highly paid groups, average pay has
 - » declined substantially since 2000, not increased since 1994.
- CEOs are paid for performance.
- CEOs are highly penalized for poor performance.
 - I.e., CEO job is very risky.
 - Pay-for-performance is huge.
- Boards, overall, are doing a good job.
 - Boards and CEOs have been overly criticized by the media, activists, union shareholders, etc.



Thank you.

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