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# Executive Compensation 2021

CEO TALENT SUMMIT

MAY 19, 2021



CEO & Senior Executive  
Compensation Report for  
Private Companies

# Why It's Important to Get Executive Compensation Right

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- ▶ Your company's executive compensation program will impact your success:
  - ▶ Recruiting
  - ▶ Retaining
  - ▶ Motivating
  - ▶ Aligning
- ▶ Executive compensation is a significant expense
  - ▶ But it's really an investment, not a cost – and should have a strong ROI
  - ▶ Don't want to overpay or underpay
- ▶ There's a lot of misinformation when it comes to executive compensation
  - ▶ Headlines focus on public companies—and a subset of the Fortune 500 CEOs
  - ▶ Many private companies make uninformed and reactive compensation decisions

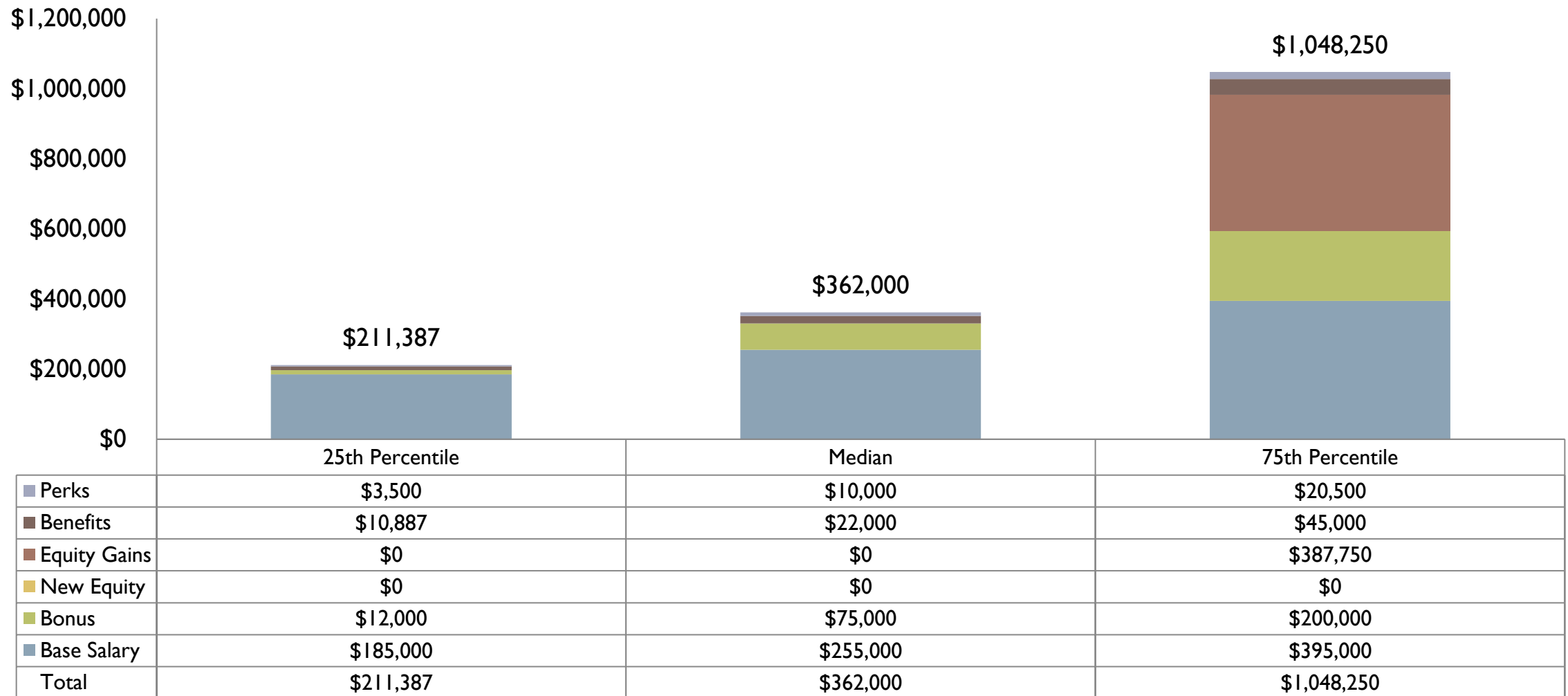
# Chief Executive Research Study

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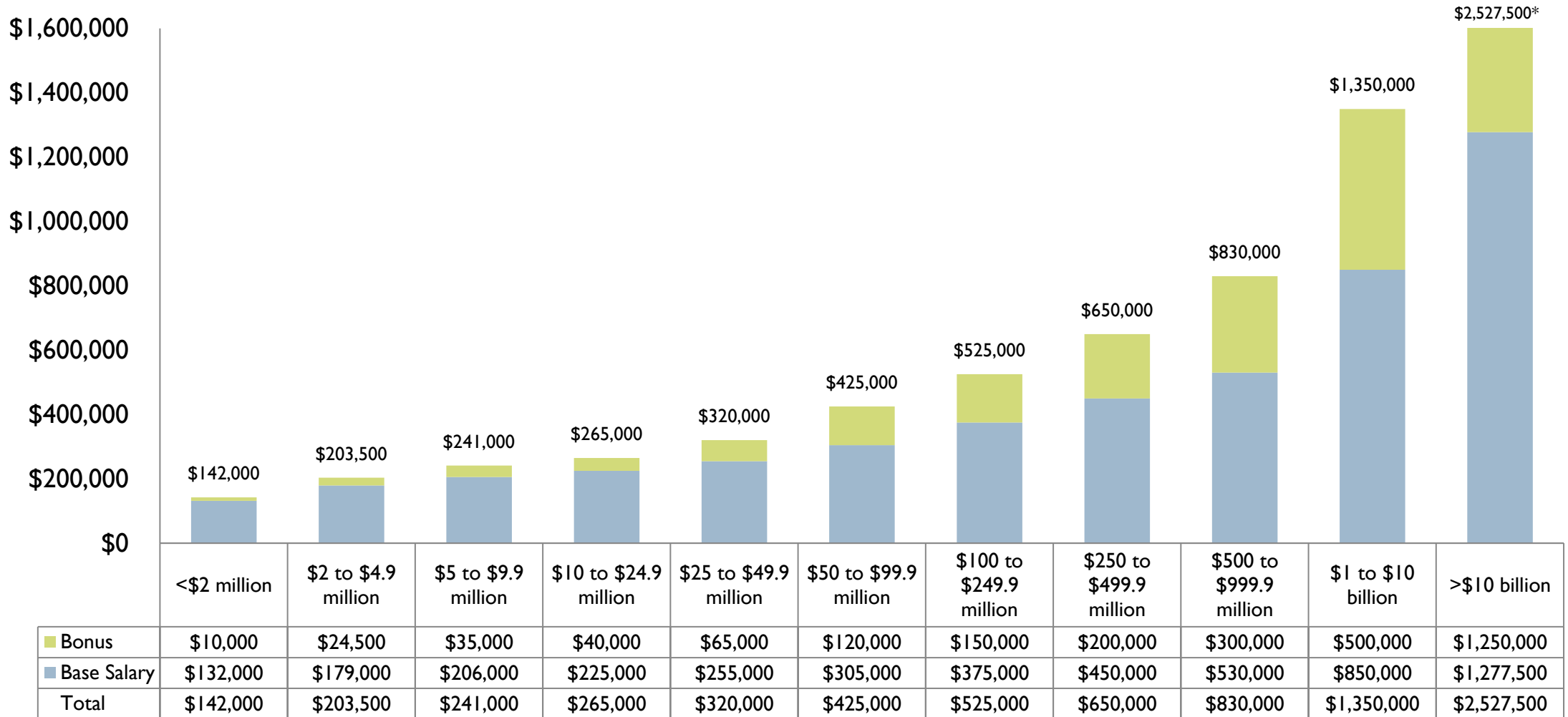
- ▶ 10th year
- ▶ 1,780 companies participated
- ▶ Top 9 senior executive positions
- ▶ Salaries, bonuses, benefits, perks and long-term equity incentives
- ▶ Average and quartile by:
  - ▶ Company size (revenues and employees)
  - ▶ Industry
  - ▶ Ownership type
  - ▶ Growth rate
  - ▶ Profitability
  - ▶ Region
  - ▶ Size of market



# 2019 Total Private Company CEO Compensation

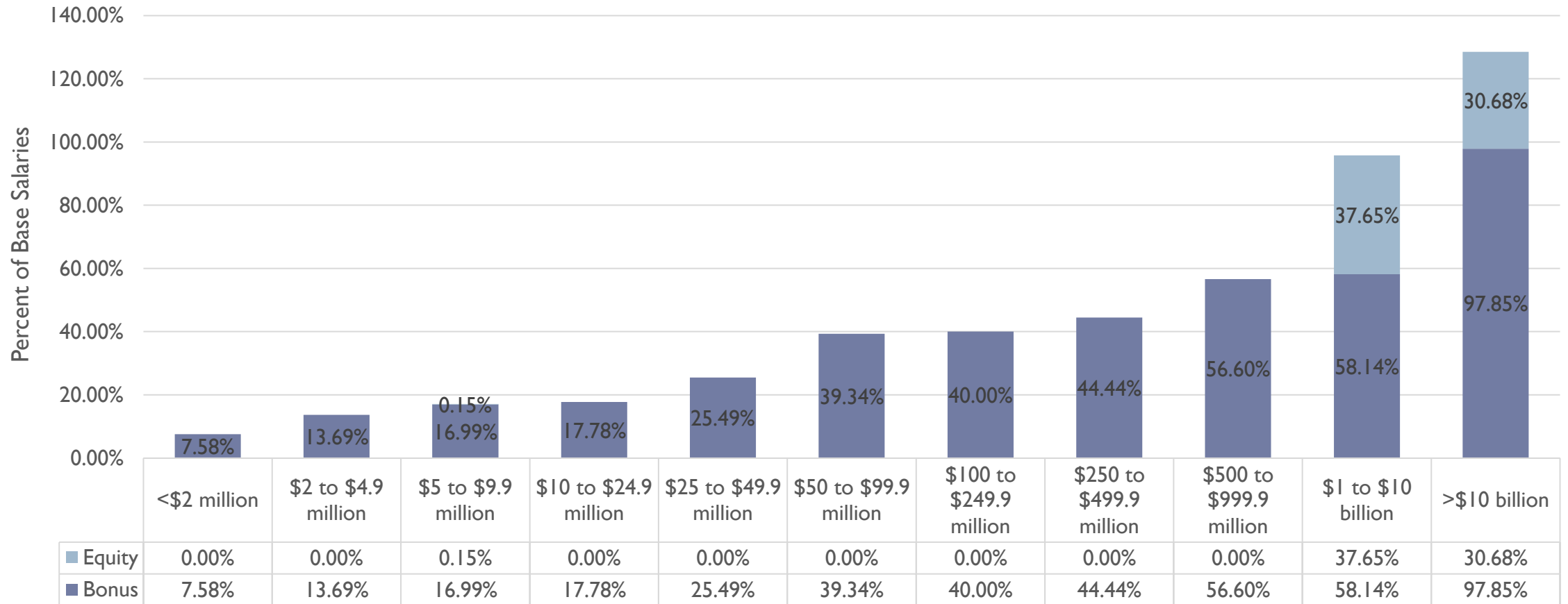


# 2019 CEO Total Cash Compensation by Company Revenue — Median



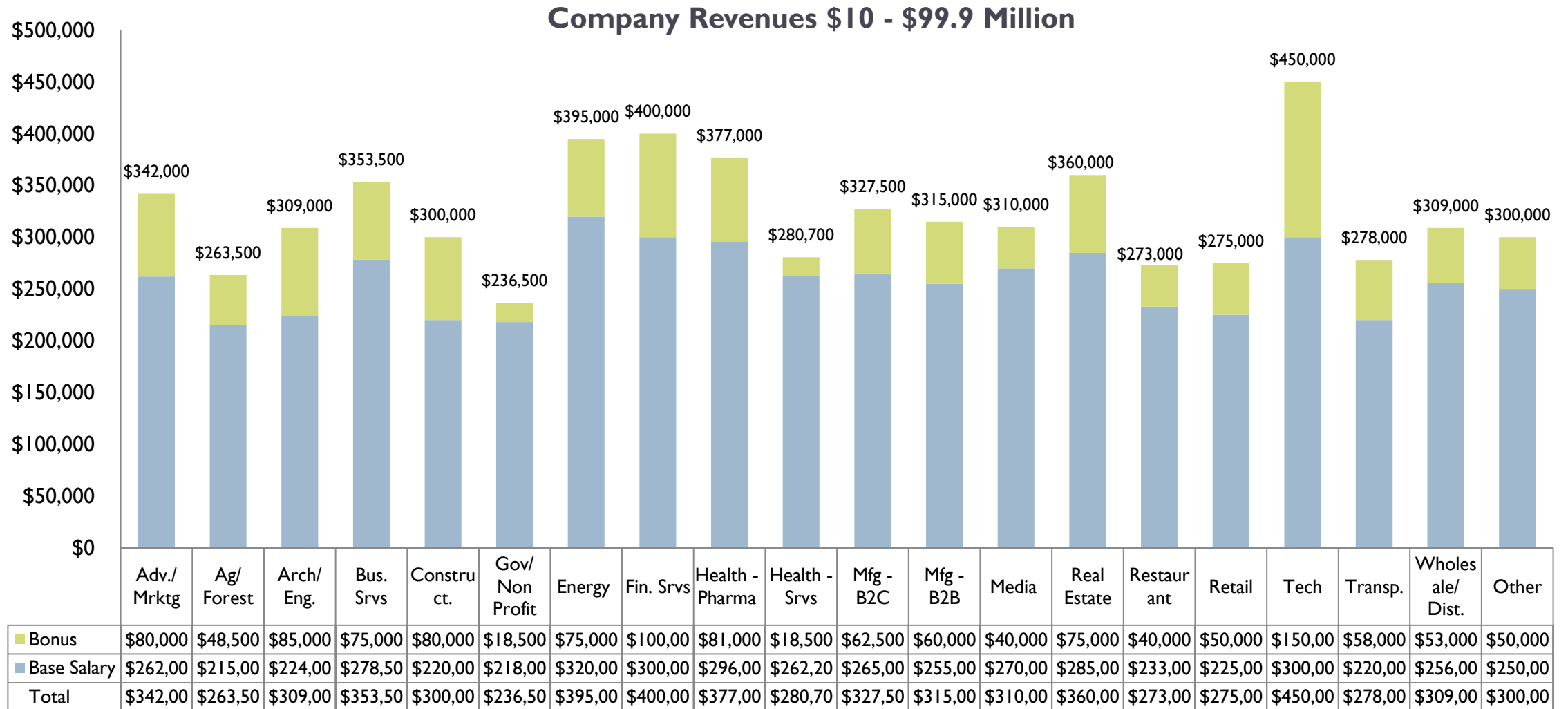
\*Bar not up to scale, but data shown in table.

# CEO Variable Pay as % of Base Salary by Company Revenue — Median

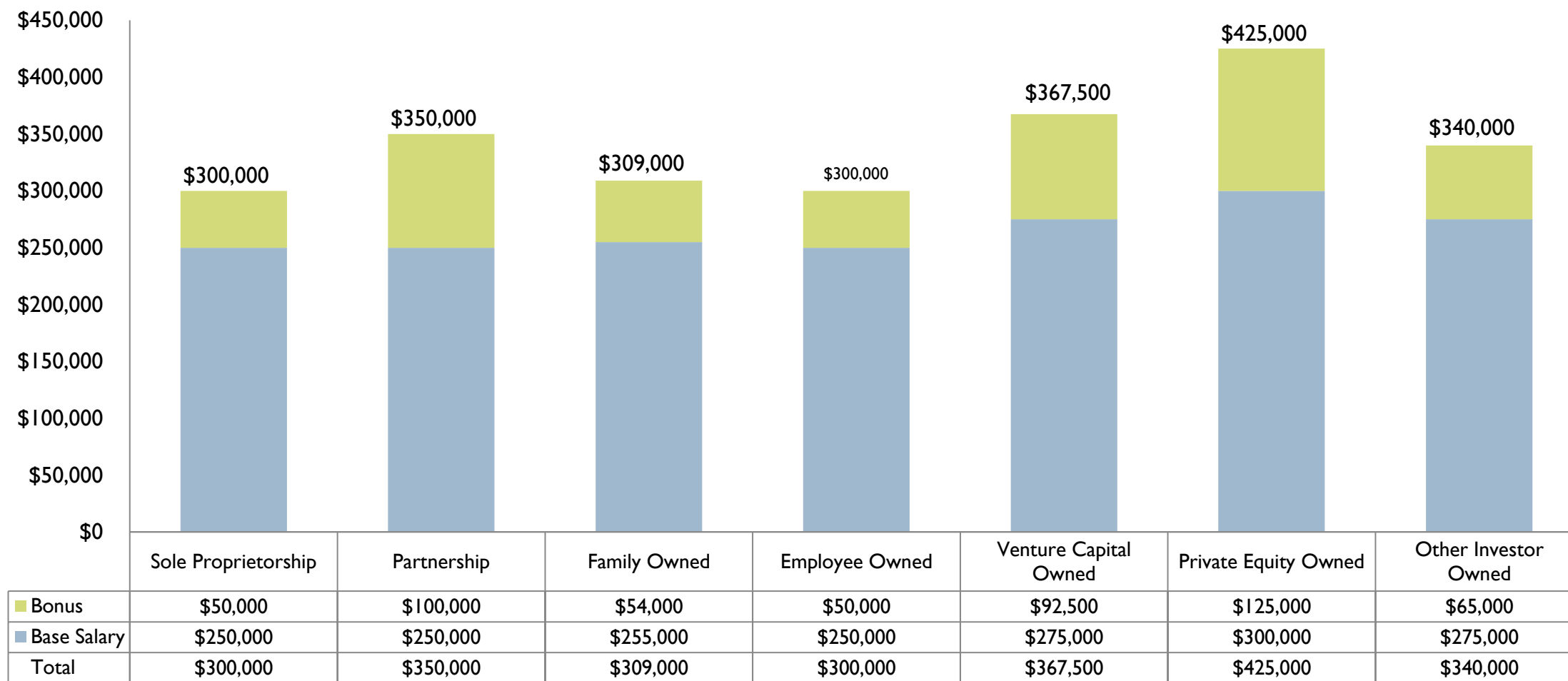


- ❖ Large companies tend to make better use of short-term bonuses, so variable pay as a percentage of base salaries typically increases with the size (and sophistication) of companies
  - ❖ The majority of firms of across all sizes don't make use of annual equity incentives

# 2019 CEO Cash Compensation by Company Revenue For Select Industries — Median

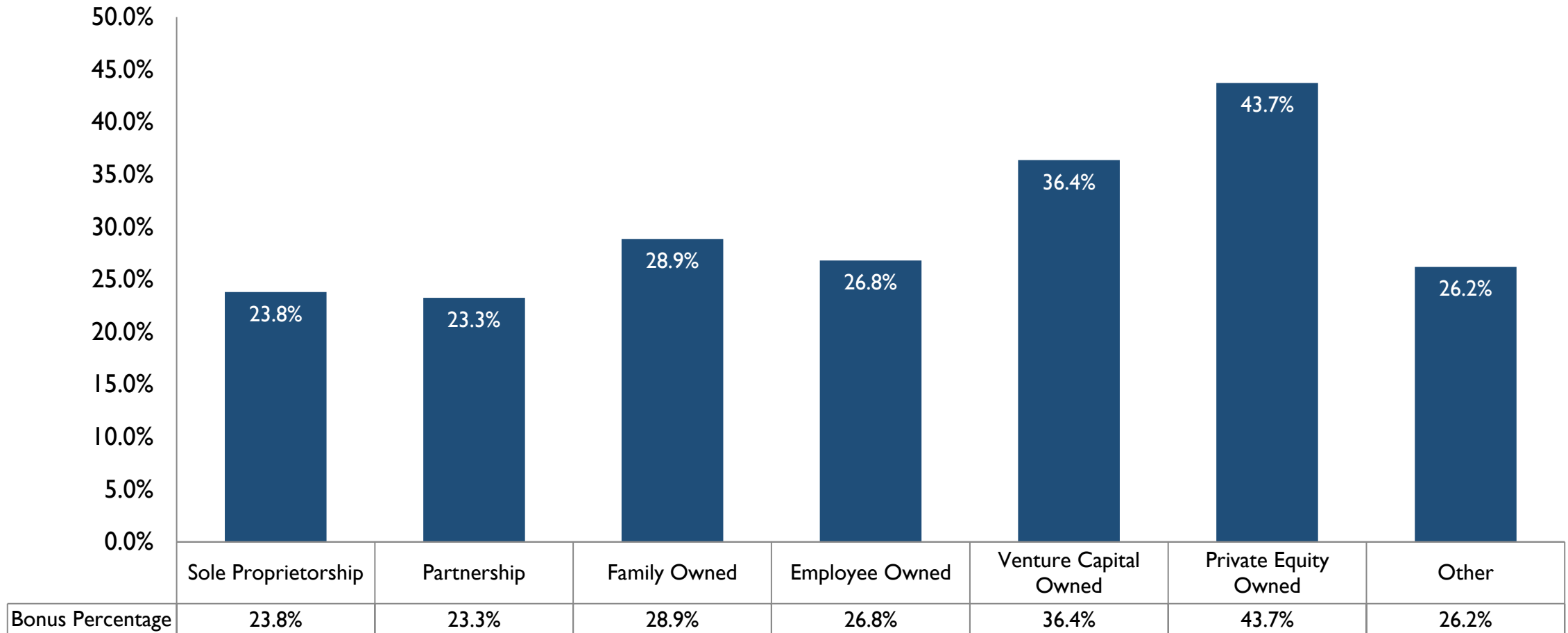


# 2019 CEO Total Cash Compensation by Ownership Type Among Companies with Revenues of \$10 to \$99.9 Million — Median



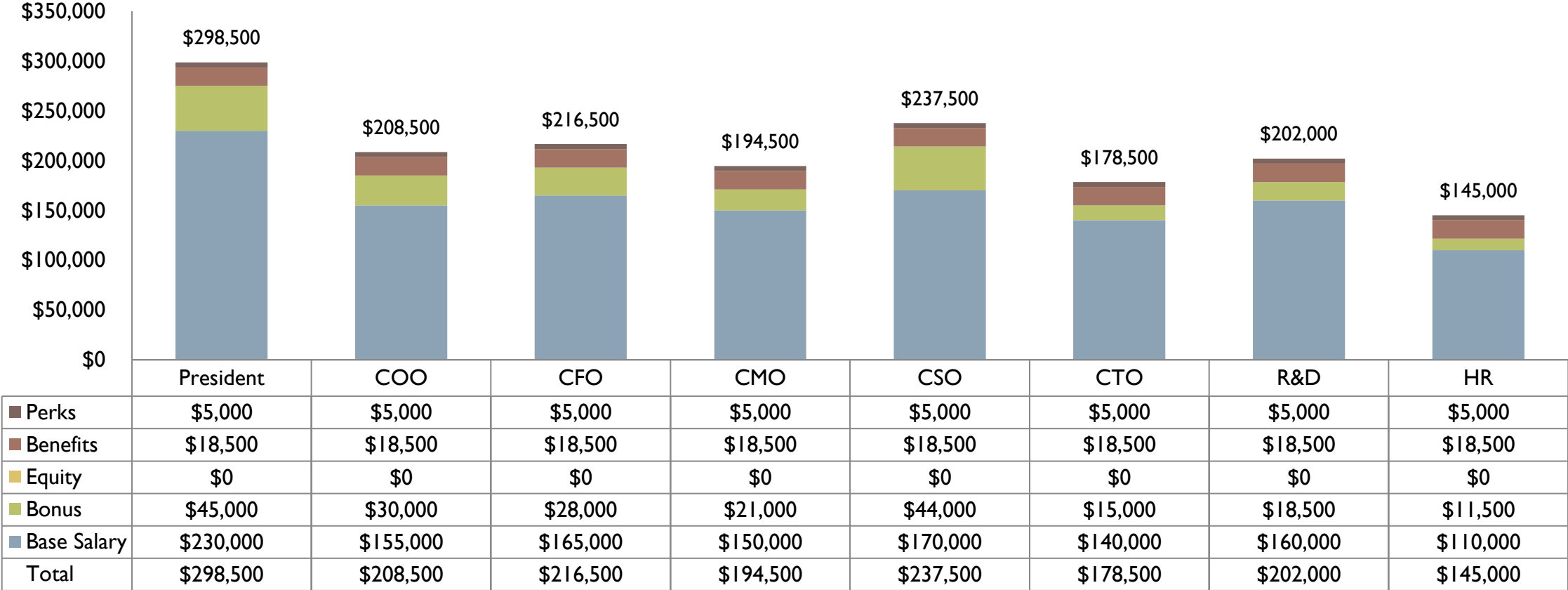


## CEO Bonus as % of Base Salary by Ownership Type — Median



❖ Private-equity-owned companies tend to be more aggressive in using bonuses as an incentive tool

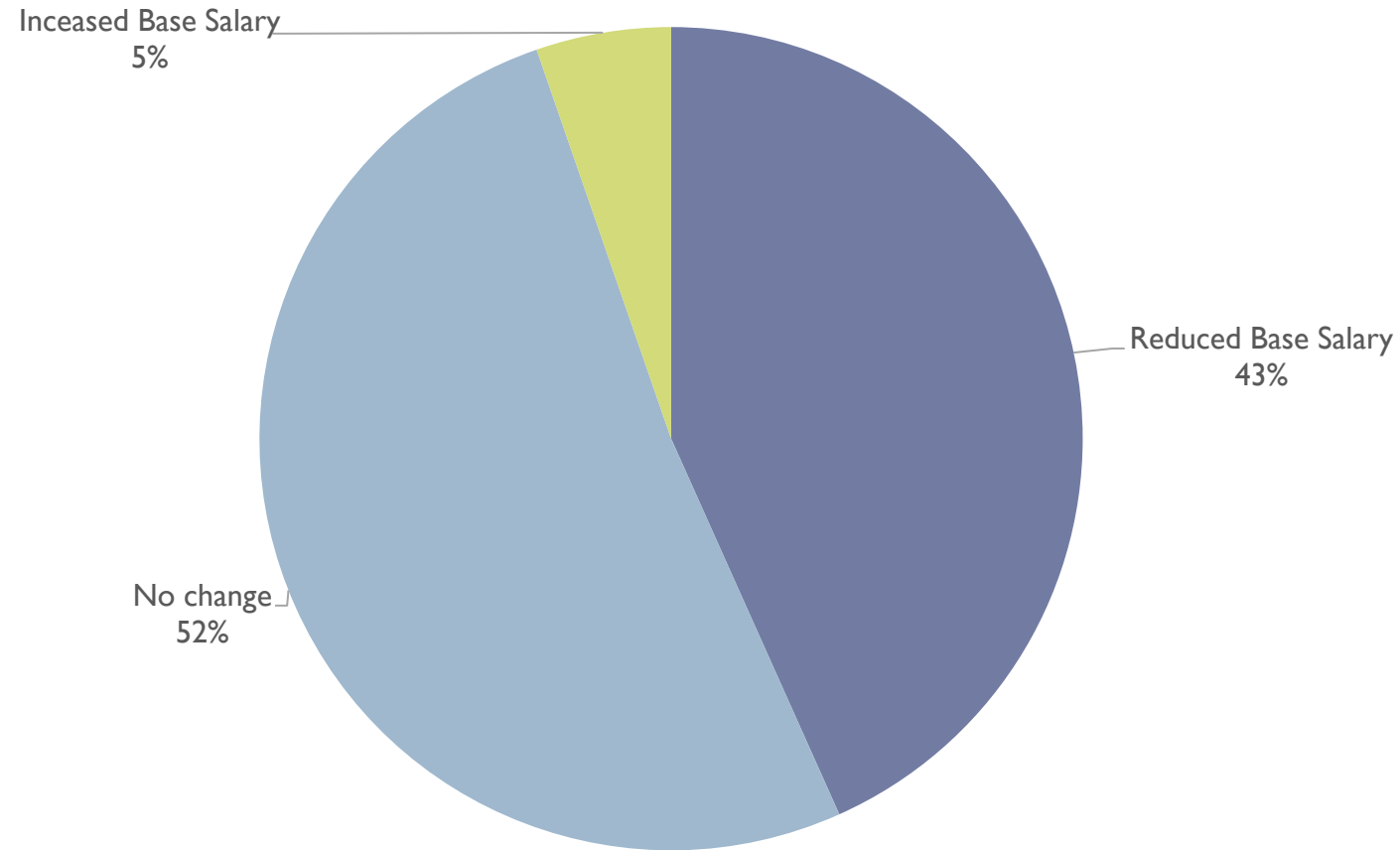
# Compensation in Private Companies with \$10 to \$99.9 Million in Revenue - Median



❖ There are also large variances within each position by quartile and by company size, industry, ownership type, geography, growth rate, level of profitability and geo market

# % of Companies that Reduced 2020 CEO Base Salary Due to Covid-19

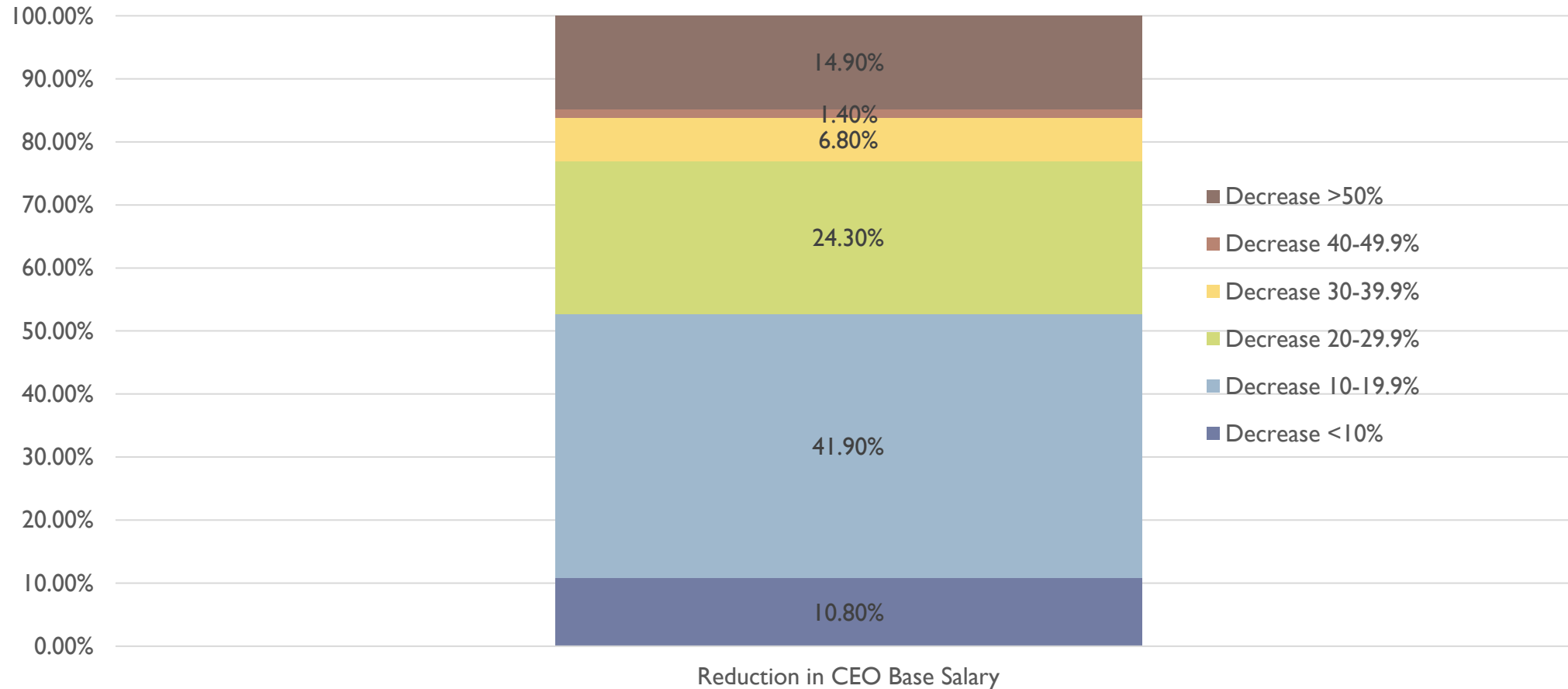
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- ❖ According to a preliminary sample of 300 privately owned U.S. companies, 43% of them reduced their CEO's base salary in 2020 to help navigate the Covid-19 crisis.

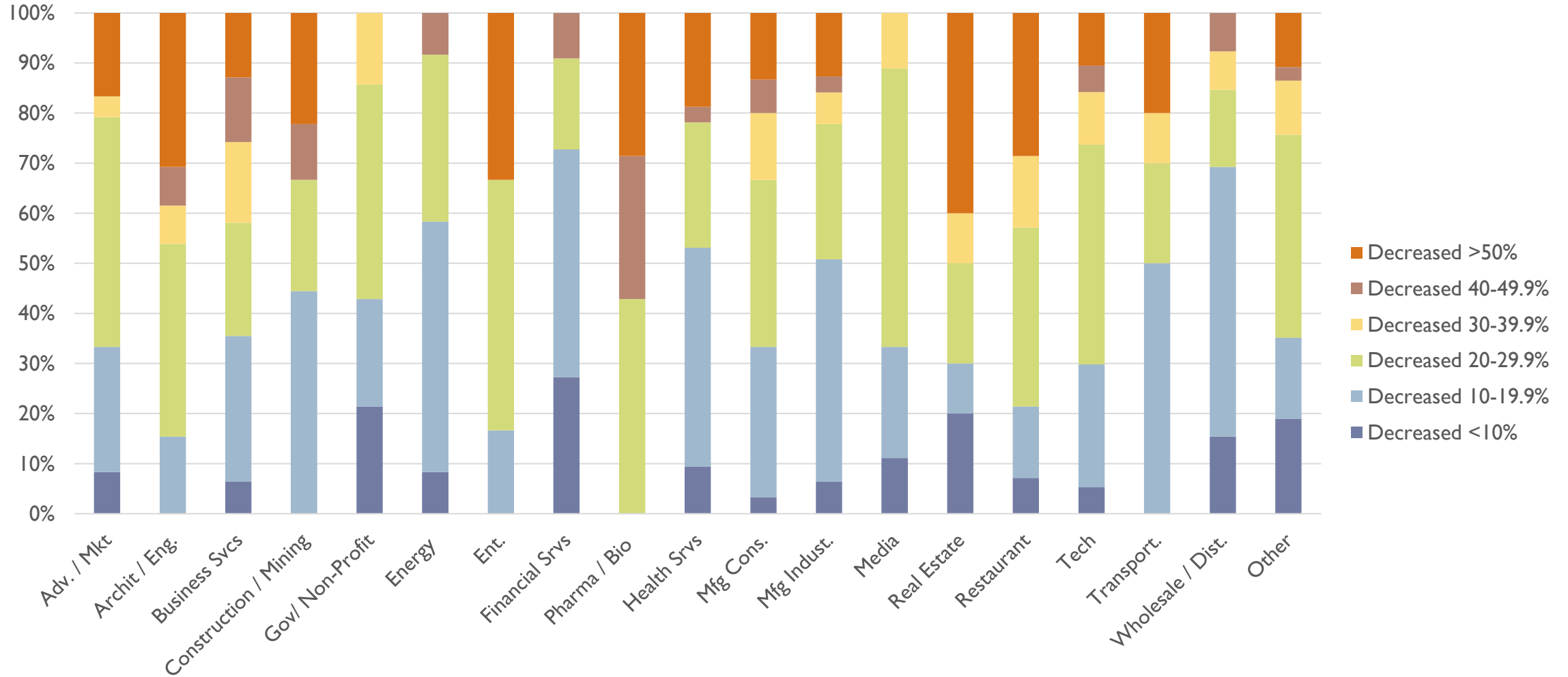
# Extent of CEO Base Salary Reductions

*(Among the 43% Who Reduced CEO Pay)*



- ❖ Fully two-thirds of companies that adjusted 2020 CEO compensation for Covid-19 decreased the base salary by 10 to 29.9%, according to our preliminary data.

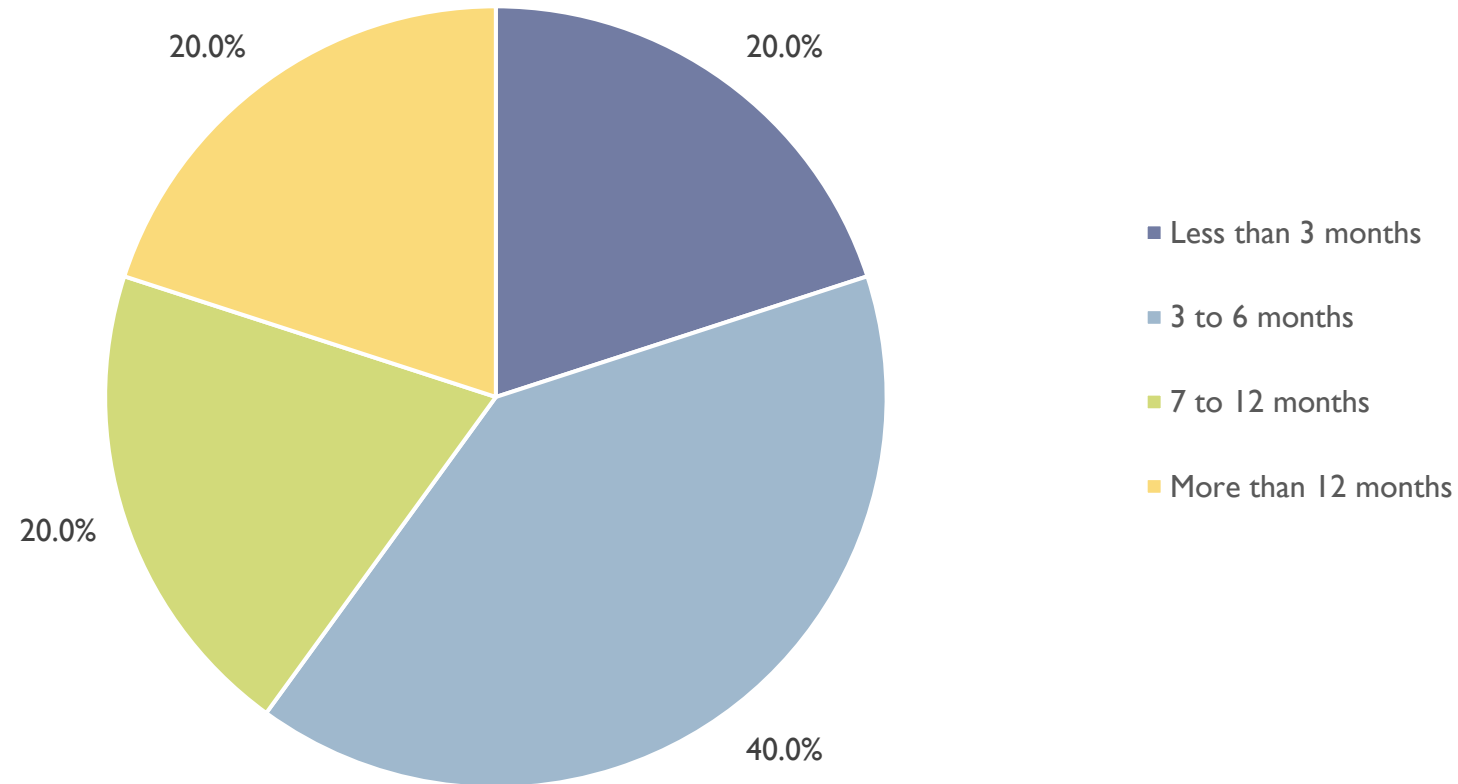
# Extent of CEO Base Salary Reductions, by Industry (Expected\*)



\* Source: 2020-21 CEO & Senior Executive Compensation Report for Private Companies

# Duration of 2020 CEO Base Salary Reductions (Overall)

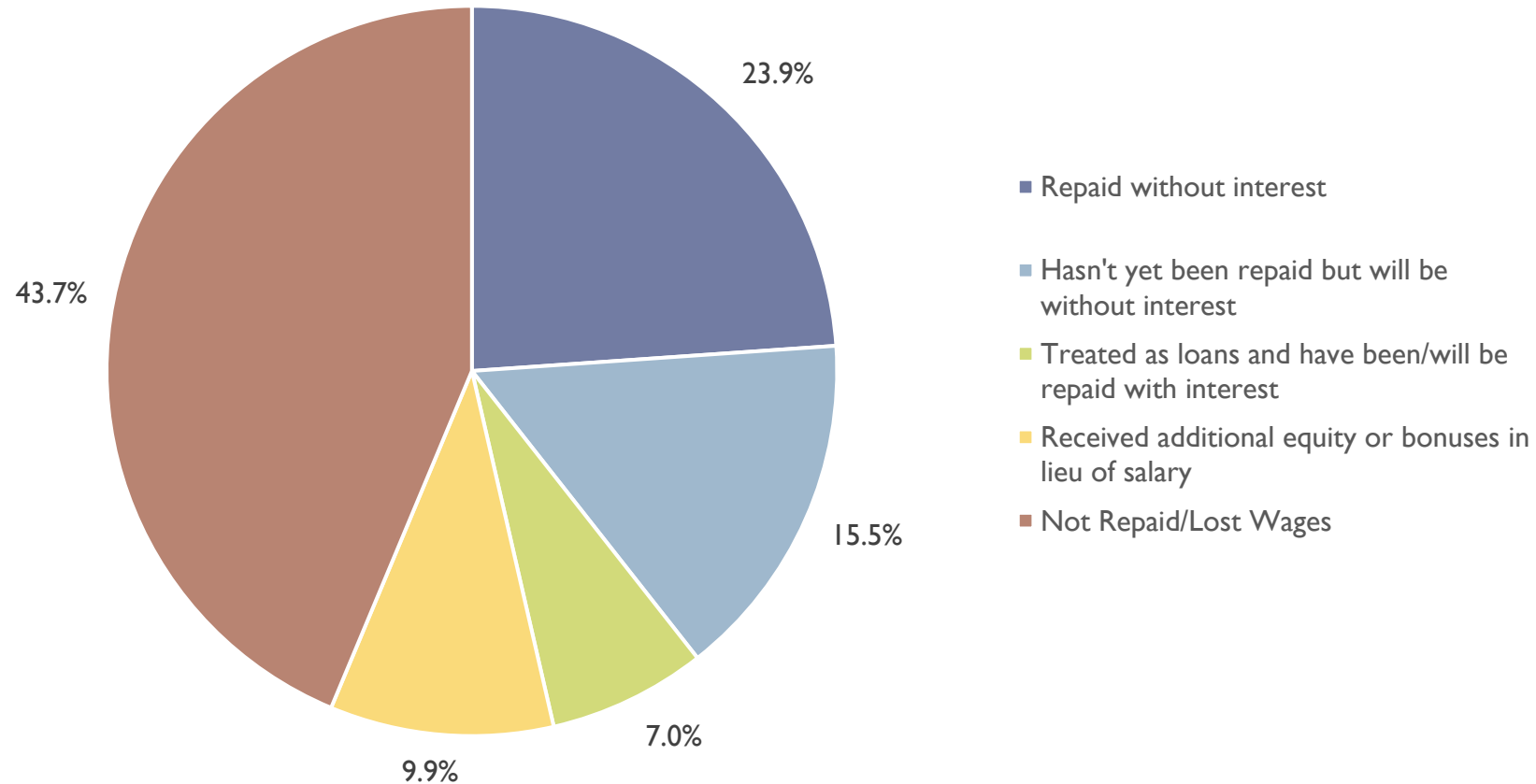
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❖ The majority of companies that cut 2020 CEO base salary due to Covid-19 did so for a period of 3 to 6 months, according to our preliminary data.

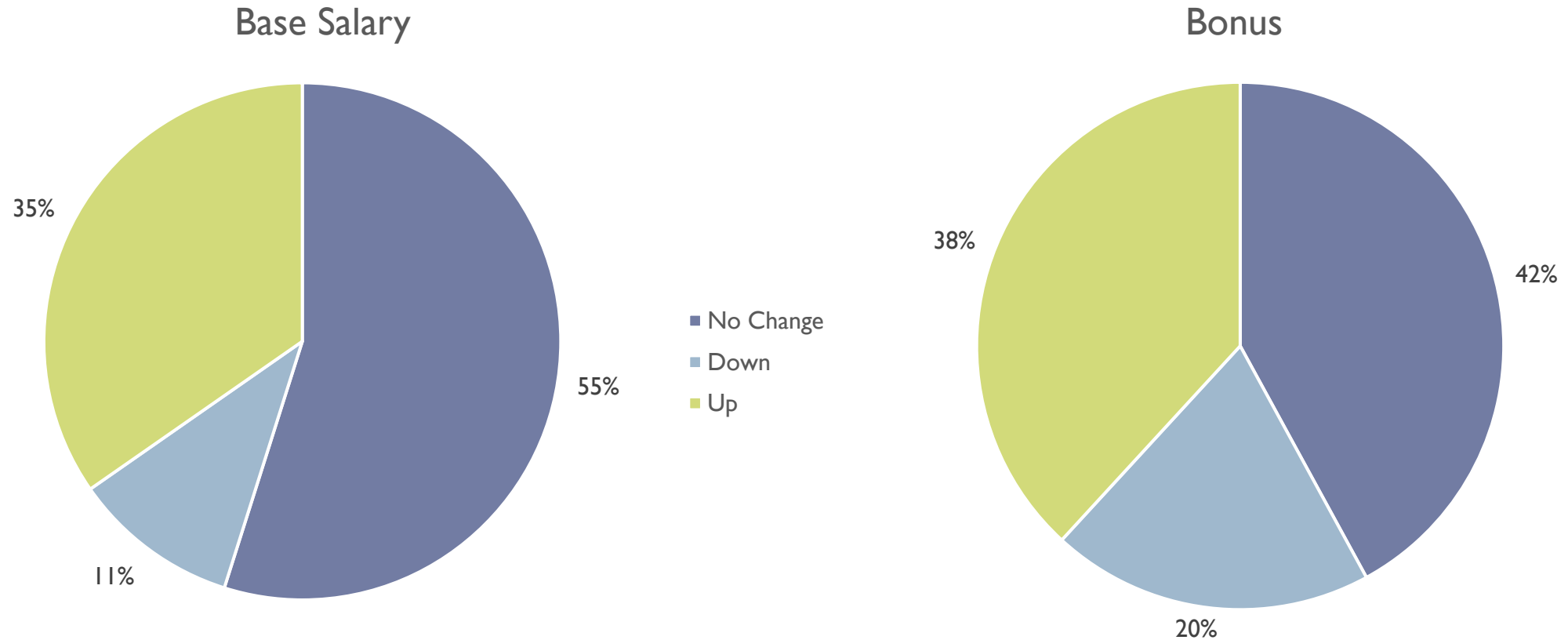
# Treatment of 2020 CEO Base Salary Reductions (Overall)

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- ❖ 44% of companies that cut 2020 CEO base salary due to Covid-19 have no plans to repay the lost wages, according to our preliminary data.
- ❖ The majority have made arrangements to compensate lost pay.

# 2020 CEO Cash Comp vs. 2019 (Overall)

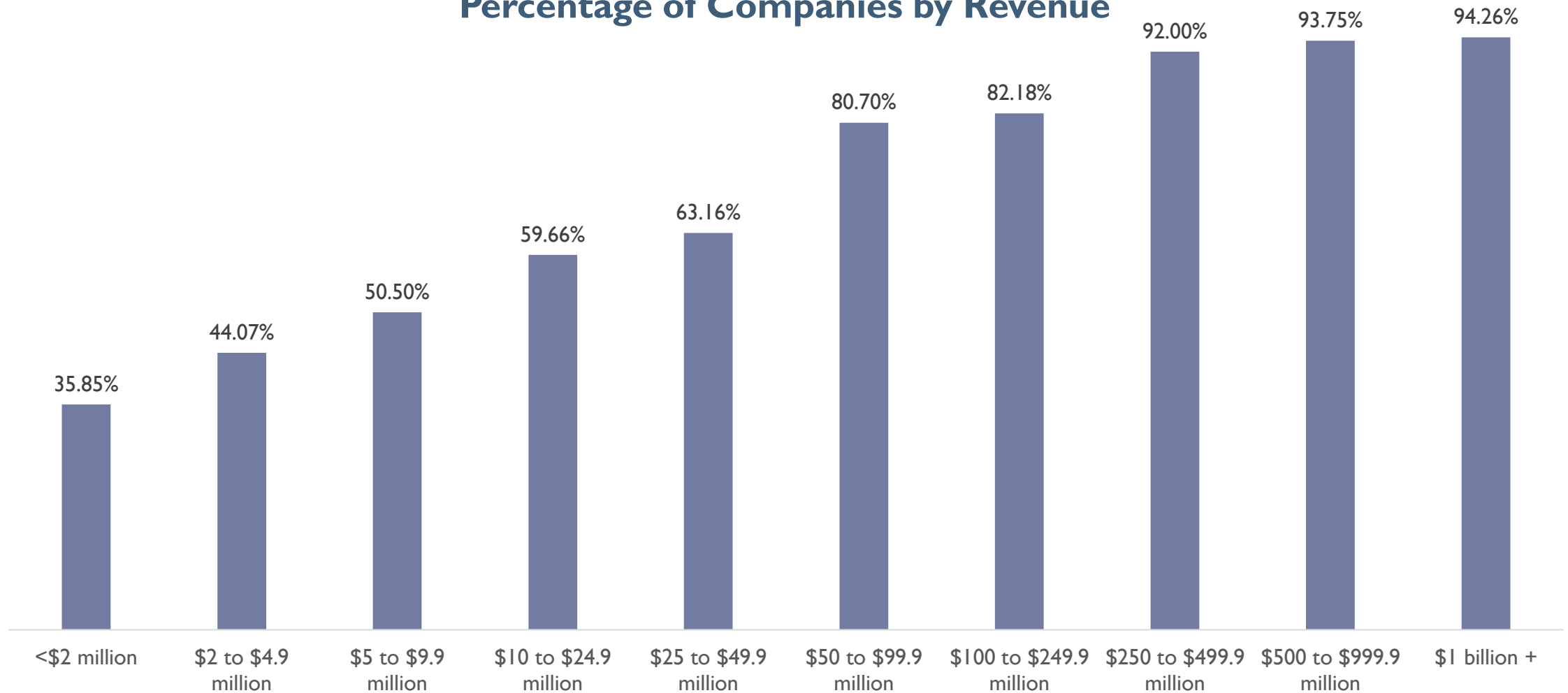


- ❖ Preliminary data shows majority of CEO base salaries remained unchanged from prior year, while bonus awards were split
- ❖ Average 2020 base salary increased 0.5%; bonus +1.8% = +2.2% cash compensation
- ❖ At the median, however, while the base salary is slightly up, the bonus is down approx. 20%



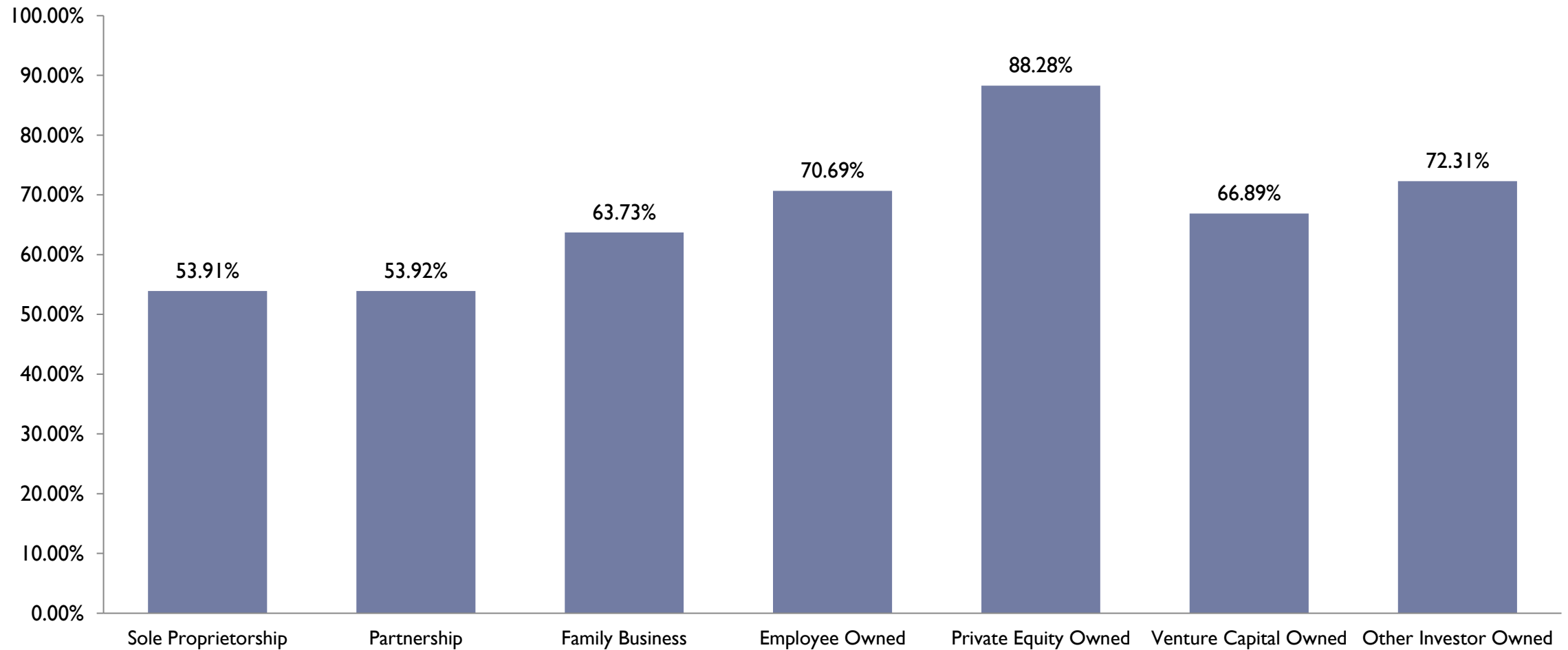
# Companies with Formal Annual Incentive Plans for Executives, by Company Revenue

## Percentage of Companies by Revenue

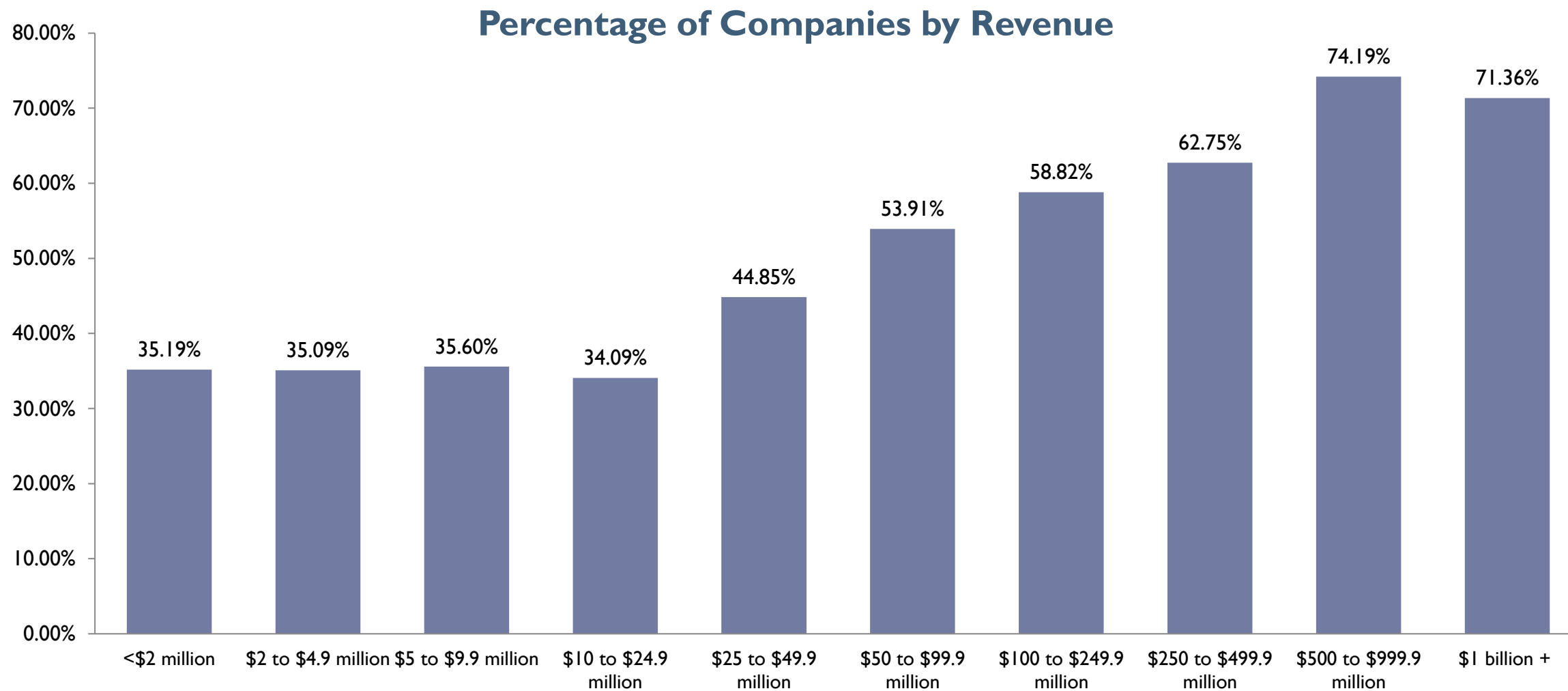


# Companies with Formal Annual Incentive Plans for Executives, by Ownership Type

## Percentage of Companies by Ownership Type

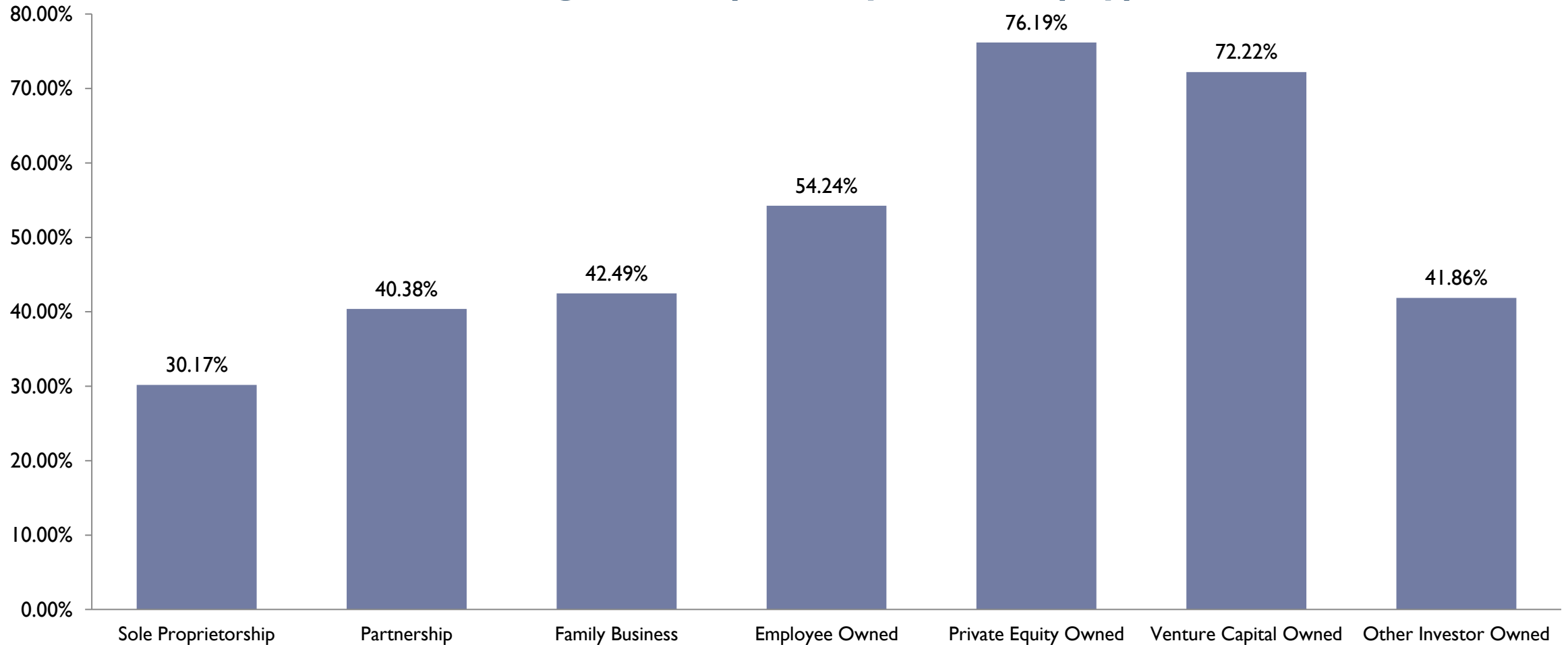


# Companies with Formal Long-Term Incentive Plans, by Company Revenue



# Companies with Formal Long-Term Incentive Plans, by Ownership Type

## Percentage of Companies by Ownership Type



# Common Mistakes

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- ▶ Being “average” across the components of compensation and job titles is a bad strategy
  - ▶ The reality is – some positions are more strategic – and a top-quartile executive (who requires a top-quartile package) may be warranted for select positions
  - ▶ Companies have different tools available based on their ownership, level of profitability, rate of growth/maturity, etc.
  - ▶ Executives have different personal priorities and situations (some are more risk averse based on age/life stage, family situation, personality and other factors)
- ▶ Most companies have equity or equivalent long-term incentives, but the majority of private companies don’t get the full benefit from these investments because they don’t update and communicate the progress and value of these programs to key executives
- ▶ Many private companies do not use reliable benchmark data to ensure that they are paying competitively but not too much – and making informed decisions

# CEO & Senior Executive Compensation Best Practices

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- ▶ Leverage culture
  - ▶ Sell the company's story and mission to executives – don't just focus on \$
- ▶ Use all elements of compensation:
  - ▶ Salaries and benefits provide guaranteed security to strong executives
  - ▶ Bonuses encourage short-term goals
  - ▶ Equity and other long-term incentives align and reward executives for increasing enterprise value

# CEO & Senior Executive Compensation Best Practices (Continued)

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- ▶ Approach compensation strategically
  - ▶ Consider the importance of the role and having a top vs. average executive in key positions
  - ▶ Leverage your company's strengths
    - ▶ Based on ownership type, rate of growth, level of profitability, cash vs. equity availability, etc.
  - ▶ Consider the individuals' needs (guaranteed vs. at-risk compensation)
  - ▶ Most companies try to be average across all components vs. selectively differentiating themselves to target executives

# CEO & Senior Executive Compensation Best Practices (Continued)

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- ▶ Have good processes:
  - ▶ A formal annual incentive plan
  - ▶ Annual compensation reviews and discussions
  - ▶ A formal long-term incentive plan
    - ▶ Ensure annual valuation updates and communicate valuations to key shareholders
    - ▶ Vesting based on performance metrics rather than just time
    - ▶ Structure equity plans and other components for tax efficiency
- ▶ Be proactive vs. reactive
  - ▶ Don't wait until you lose a key executive to pay competitively
    - And competitive might be median for an average performer or top quartile for an outstanding performer



# Learning from race car drivers

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- The best drivers don't break in the turn
  - They break before the turn and accelerate thru the turn
- Those who enter the turns too hot are the ones who lose control and crash

# CEO & Senior Executive Compensation Best Practices (Continued)

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- ▶ With the current skills shortage, companies need to go on the offense to attract great talent
  - ▶ CEOs tell us attracting skilled talent to propel them forward in the digital era is one of the biggest challenges they face – and biggest constraints to growth
  - ▶ Additionally, many of your baby boomer employees are getting ready to retire – leaving holes in capabilities and institutional knowledge
  - ▶ Compounding the challenge, many of you “hit the brakes” when Covid-19 erupted – did layoffs and furloughs early and reduced salaries and comp for others
  - ▶ If you’re able to:
    - ▶ 1) Try to become competitive again for your key executives so no one gets recruited away by a competitor
    - ▶ 2) This is a great time to attract talent from competitors who furloughed or reduced compensation for key executives and haven’t reacted as quickly to be competitive
  - ▶ Also, consider non-cash factors to attract and retain talent (e.g., work from home or hybrid/flex hours and locations)

## For more information

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### **Melanie Nolen**

Research Director

Chief Executive Group

615.592.1169

[mnolen@ChiefExecutiveGroup.com](mailto:mnolen@ChiefExecutiveGroup.com)

### **Wayne Cooper**

Executive Chairman

Chief Executive Group

203.930.2702

[wcooper@ChiefExecutiveGroup.com](mailto:wcooper@ChiefExecutiveGroup.com)

[CompReport.ChiefExecutive.net](http://CompReport.ChiefExecutive.net)

[SurveyMonkey.com/r/TalentSummit2021Comp](https://SurveyMonkey.com/r/TalentSummit2021Comp)