



CEO and Senior Executive Compensation in Private Companies 2022-23

EXECUTIVE SUMMARY

About the Research

Chief Executive Research surveyed 1,849 companies in May through July of 2022 about their 2021 fiscal year compensation levels and practices, their expected compensation levels for the remainder of 2022 and the impact of inflation on compensation across all levels of the organization.

The data was analyzed and presented across more than 600 pages in our 2022-23 *CEO & Senior Executive Compensation Report for Private Companies*, for which we're happy to provide you, as a survey respondent, this executive summary. While most data sources on CEO compensation focus on large public companies, our research brings real-world insight into the compensation of CEOs of the approximately 6 million private companies in the U.S., not just the S&P 500.

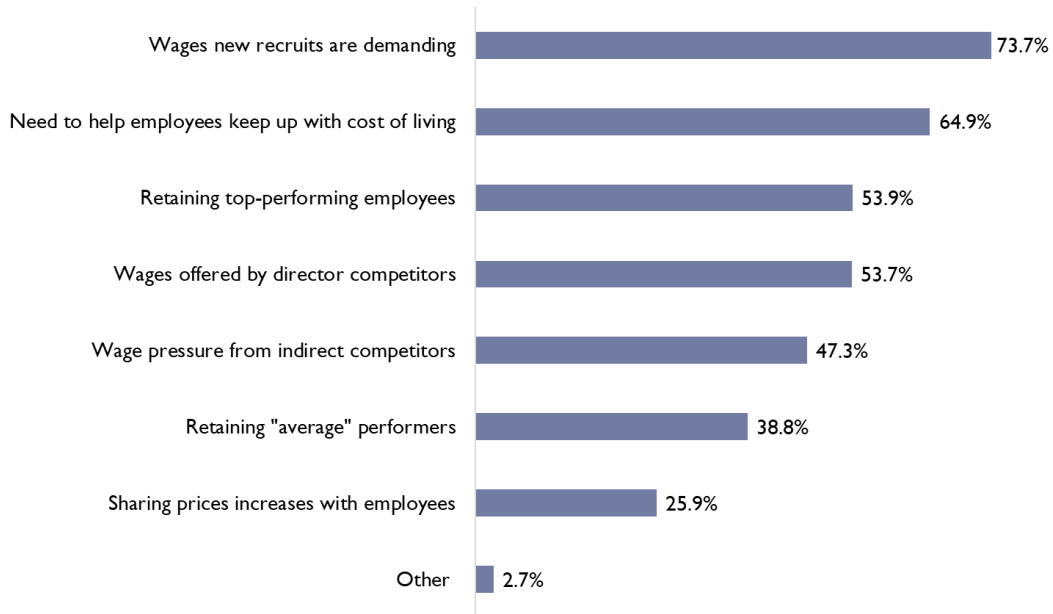
The report provides detailed data about compensation packages for CEOs and eight other senior executive positions—Presidents, COOs, CFOs, CMOs, CSOs, CIOs, Heads of R&D and CHROs—their salaries, bonuses, equity/long term incentives, benefits and perks and how they varied by company size, industry, region, ownership type and level of profitability, among other variables, as well as comprehensive information about companies' compensation policies and practices. What follows are some of the key highlights from the research.

Inflation Implications

2022 has been a historic year for inflation and wage increases. The 2022-23 report includes an additional report detailing how the cash compensation of CEOs, senior executives, middle managers, and front-line and back-office employees changed in 2022 as a result of the volatility, and how companies are responding to the economic environment.

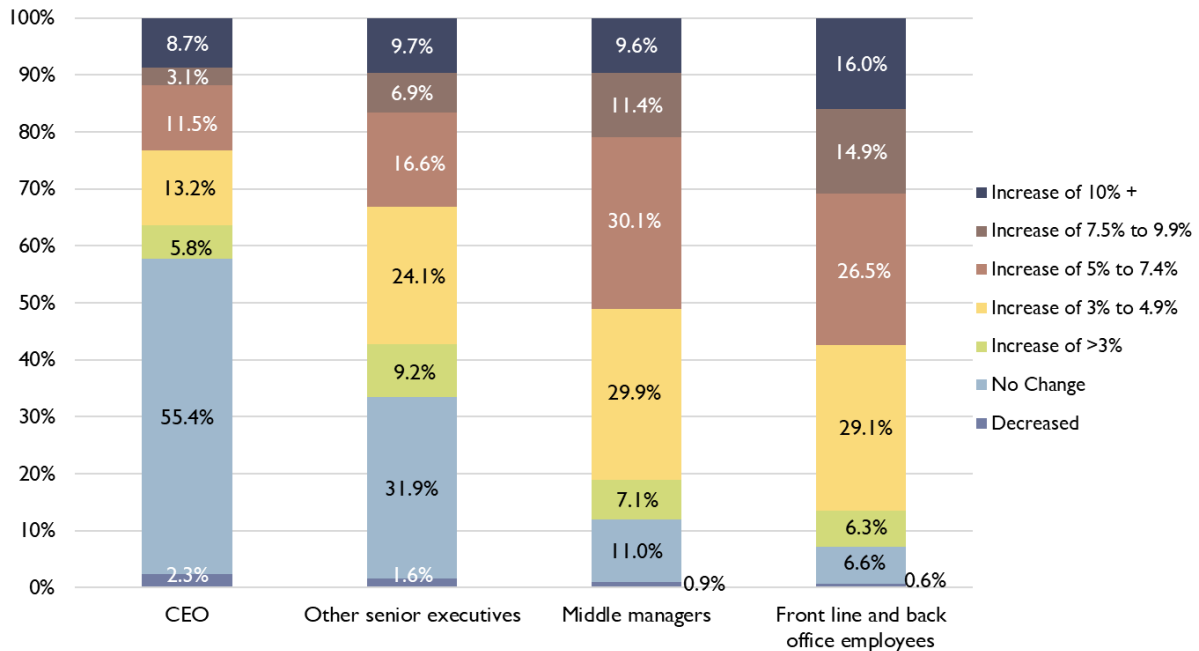
Overall, 74 percent of the companies surveyed said that high starting wages are a factor materially impacting compensation practices for all employees—not just executives.

Factors Materially Impacting Compensation Practices in 2022 for All Employees



In response, 88 percent reported raising the base salary of their middle managers, with 30 percent implementing an increase of 5 to 7 percent, and 93 percent increasing the base salaries of their front-line and back-office workers. A slight majority of CEOs—who are typically less likely to receive cost-of-living increases in their pay packages—saw no change to their base salary as a result of economic factors.

Base Salary Changes in 2022 by Job Title

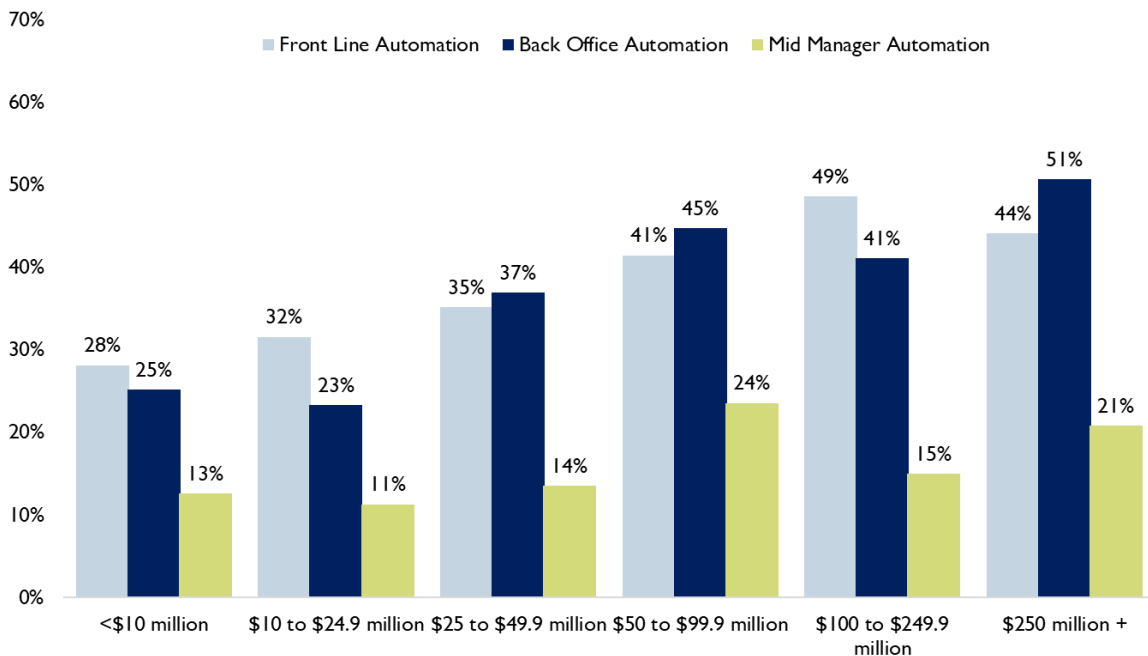


To counter costs brought on by rising wages, 67 percent of companies said they are reducing their costs elsewhere, and 52 percent are increasing their average prices in line with wage increases.

Automation also plays an important part in dealing with the current situation. Overall, 36 percent said they are investing in tech/automation to reduce the number of front-line employees they require, while 34 percent said the same for back-office roles. Only 15 percent said they are investing in tech to reduce the number of middle managers.

The data shows that larger companies are more likely to invest in automation to counter rising wages, possibly because they tend to have larger workforces at the front/back office and mid-manager levels—and the scale to justify the investment.

Companies Investing in Automation to Reduce Headcount in Response to Rising Wages by Company Revenue



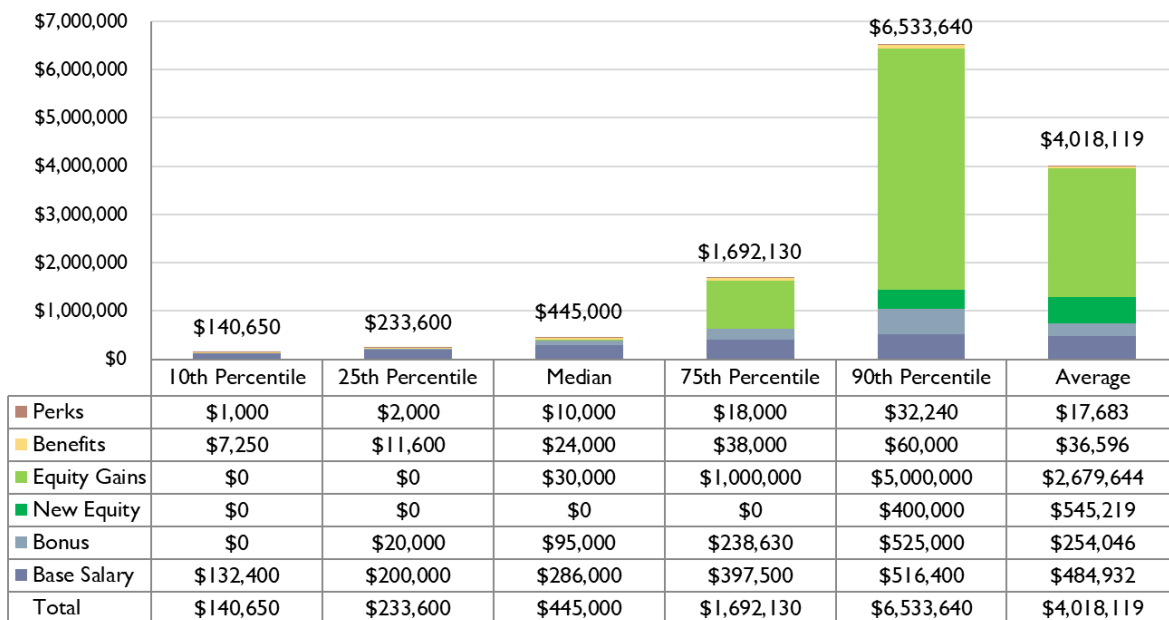
This additional report included with the purchase of the 2022-23 *CEO & Senior Executive Compensation Report for Private Companies* also explores automation trends, and base salary and bonus changes in 2022 across job titles by revenue ranges, ownership type, industry, region, level of profitability, revenue growth rate and labor market.

2021 CEO Compensation

The average private company CEO total compensation package for 2021 was \$4,018,119, but the median was a more modest \$445,000. These figures include base salary, bonus, equity appreciation, new equity/option grants, benefits and perquisites.

As one would expect, the average total compensation figure is significantly higher than the median total compensation, as CEOs at the largest private companies have pay packages substantially greater than those of smaller companies. It is interesting to note that a small number of CEOs in our study had liquidity events (their companies were sold or revalued), which drove up equity gains in the top 10th percentile.

2021 Total Compensation for CEOs in Private Companies



The median CEO cash compensation (base salary and bonus) was \$381,000—86 percent of the total compensation package—and the “at risk” portion (i.e., bonuses and incentives) was \$125,000, or 44 percent of the base salary. This represents an average change of +4 percent to the CEO base salary and a 16 percent increase to the bonus, on average, vs. prior year. The median change in salary and bonus remained zero.

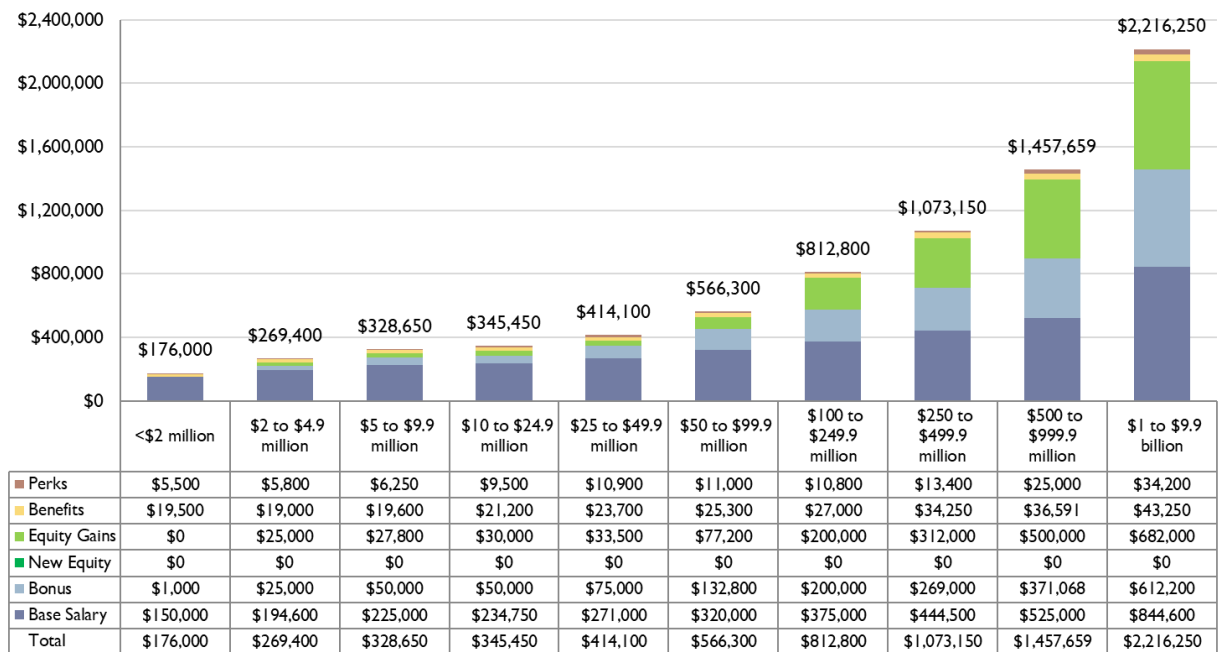
The vast majority of companies surveyed reported the CEO owning a material equity stake in the business, around 10 percent at the median, while top-quartile equity stakes were 50 percent. Many private companies conducted a formal valuation exercise in 2021, and the median CEO reported \$30,000 in equity gains while top-quartile CEOs reported gains of \$1,000,000.

2021 was a strong year for the stock market and for private businesses. As public companies continue to offer equity incentives to top executives, more and more private companies are estimating their enterprise value increases—and communicating that to their CEO.

CEO Compensation Is Highly Correlated with Company Size and Success

Private company CEO compensation is heavily correlated with the size of the company, both in terms of revenue (as the next chart demonstrates) and number of employees. The larger and more complex an organization, the more substantial the compensation package provided to the CEO. The mix between base salary and at-risk compensation (bonuses and incentives) also shifts dramatically by size of company (as well as by other variables such as industry and type of ownership).

2021 CEO Median Total Compensation by Company Revenue



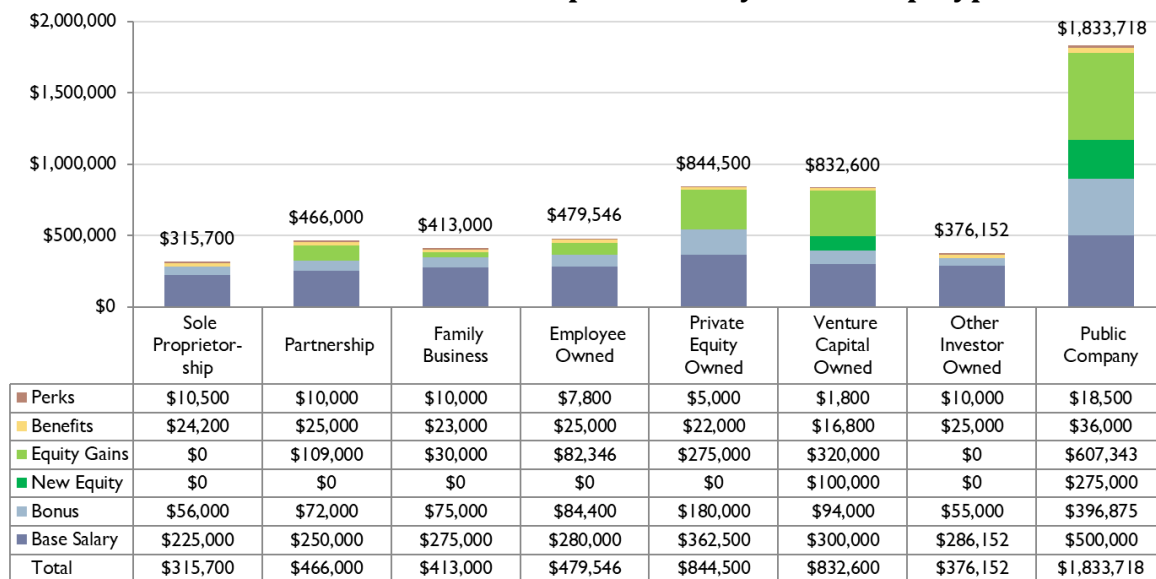
The median total compensation package for CEOs of companies with revenues of \$1 to \$9.9 billion is 2.75 times that of CEOs whose companies generate between \$100 and \$250 million in revenues. The median CEO running a company with between \$10 and \$25 million in revenues earned nearly 43 percent of the total compensation of the median CEO leading a company with revenues of \$100 to \$250 million.

CEO Compensation Also Varies by Ownership Type

There are various private company ownership types: sole proprietorships, partnerships, family businesses, employee-owned organizations, private-equity and venture-capital-backed companies, as well as companies owned by private groups of outside investors (e.g., angel investors). CEO compensation differs substantially based on ownership type.

Public companies are usually excluded from all calculations in our annual compensation reports, and while they are shown in the chart below, they were not included in the other data sets unless otherwise expressly noted.

2021 Total CEO Median Compensation by Ownership Type



CEOs of VC-owned companies typically have some of the highest total compensation packages overall among privately owned companies, due largely to gains on their equity. In 2021, the median total compensation package for VC-backed CEOs was more than twice that of sole proprietorship CEOs, and the base salary alone was 33 percent higher.

While the differentials between the compensation packages at different ownership types are significant, some of this difference is also attributable to average company size by ownership type and industry mix (e.g., more SaaS and biotech companies among VC-owned companies). The 2022-23 report breaks out compensation of CEOs at the various ownership types by company revenue and shows, for example, that the base salary of CEOs that run sole proprietorships with revenues between \$100 to \$999.9 million was only 7 percent less than that of their VC-backed counterparts. This further illustrates the material significance of company size in CEO compensation.

CEO Compensation by Industry

As expected, there are also significant differences in CEO compensation when looking at the numbers by industry: Wholesale/distribution CEOs earned the highest median total compensation package in 2021. More specifically, the median wholesale/distribution CEO earned almost 5 percent more than the median healthcare pharma/bio CEO, who had the highest median total compensation in 2020.

Other noteworthy industries included the tech and financial services industries. CEOs of tech companies enjoyed significant “at risk” compensation with median equity gains of \$166,400, while financial services CEOs received substantial benefits and perks with a median total of \$42,500—as well as healthy bonuses.

Similar to what we observe with ownership types, some of the variances by industry are driven by differences in median company revenue. For instance, in companies with \$10 to \$99.9 million in revenues, tech CEOs had the highest median total compensation packages—42 percent more than their financial services peers.

The full report provides compensation details for CEOs in 20 industries.

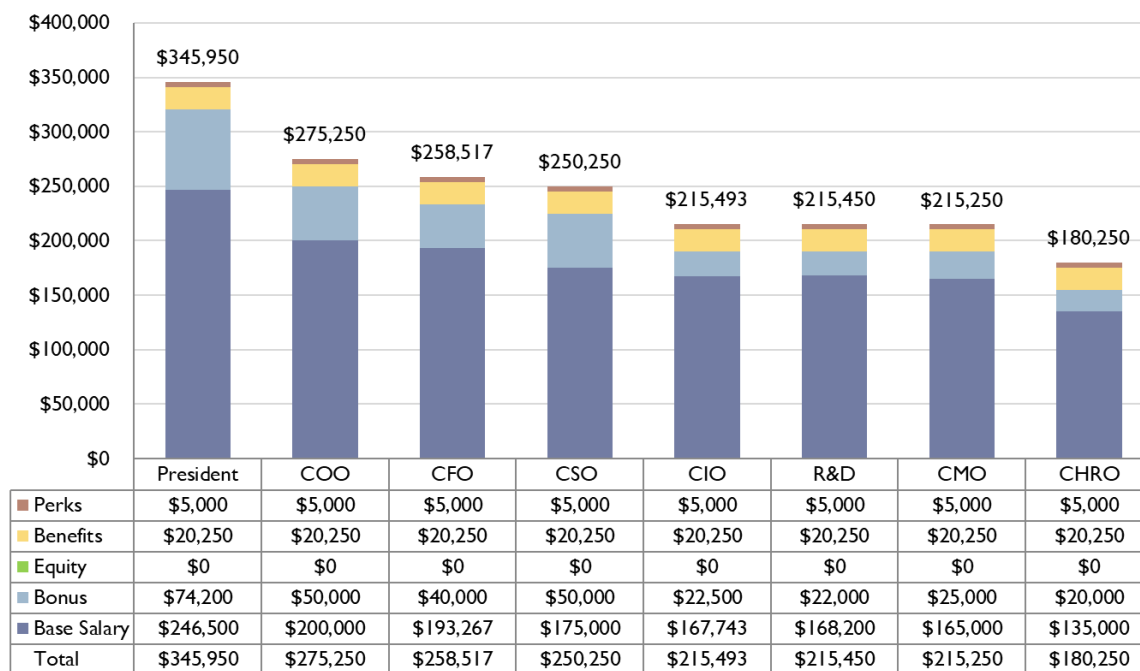
Senior Executive Compensation

C-Suite compensation varies by job title and areas of responsibility. After the CEO, the most highly compensated senior executive position in private companies is the President, with a median total compensation package of \$345,950 in 2021, followed by the senior operations executive (COO), with a median total compensation package of \$275,250.

Like the CEO, there are significant variations in senior executive compensation based on company size, industry, ownership type, growth rate, profitability, region and labor market. For example, CIOs in the Pacific region tend to earn more than their peers elsewhere in the U.S.—and 27 percent more than their senior IT executive peers in the West North Central region, the group with the lowest level of compensation again in 2021.

The complete breakdown of how senior executive compensation varies by these factors is available in Volume 2 of the report, but the chart on the following page highlights the overall compensation for each title, across the different components of the pay package.

2021 Median Compensation of Senior Executives at Private U.S. Companies



Compensation Best Practices

Compensation is a strategic tool that can be used to align a company's most important talent with the overall business strategy. Properly crafted, an executive compensation plan can help attract top-notch talent, retain best performing executives, motivate the leadership team to succeed and align their activities to help ensure the company's goals are being reached.

The best-performing companies use incentive-based compensation to achieve their goals. However, still half of U.S. private companies do not have a formal long-term incentive plan. And among companies that do, only 19 percent use performance-based vesting (vs. time-based vesting). Further, more than half of private companies do not have their company value appraised at regular intervals, meaning senior executives have no idea what their equity-linked incentives are truly worth.

Based on our comprehensive research, most private companies spend a significant amount of money on executive compensation, but many are not spending it optimally as a strategic tool. There is great leverage in refining one's executive compensation programs to align key executives' incentives for outstanding vs. average performance.

For More Information

More detailed information (including quartiles) on base salaries, bonuses, equity grants and gains, benefits, perks and company compensation policies and practices, as well as how these elements vary by company size, industry, ownership type, geographic region and other key variables, is available in the full report at CompReport.ChiefExecutive.net.

As a survey participant, you are entitled to a \$1,000 credit towards the one-time purchase of the 2023-24 report or save \$1,500 when you subscribe. To order your copy, use coupon code **CompStudyInsider2023** at checkout on CompReport.ChiefExecutive.net or contact our research team at research@ChiefExecutiveGroup.com.