
Executive Compensation

CHIEF EXECUTIVE TALENT SUMMIT

APRIL 11, 2024



CEO & Senior Executive
Compensation Report for
Private Companies

Why It's Important to Get Executive Compensation Right

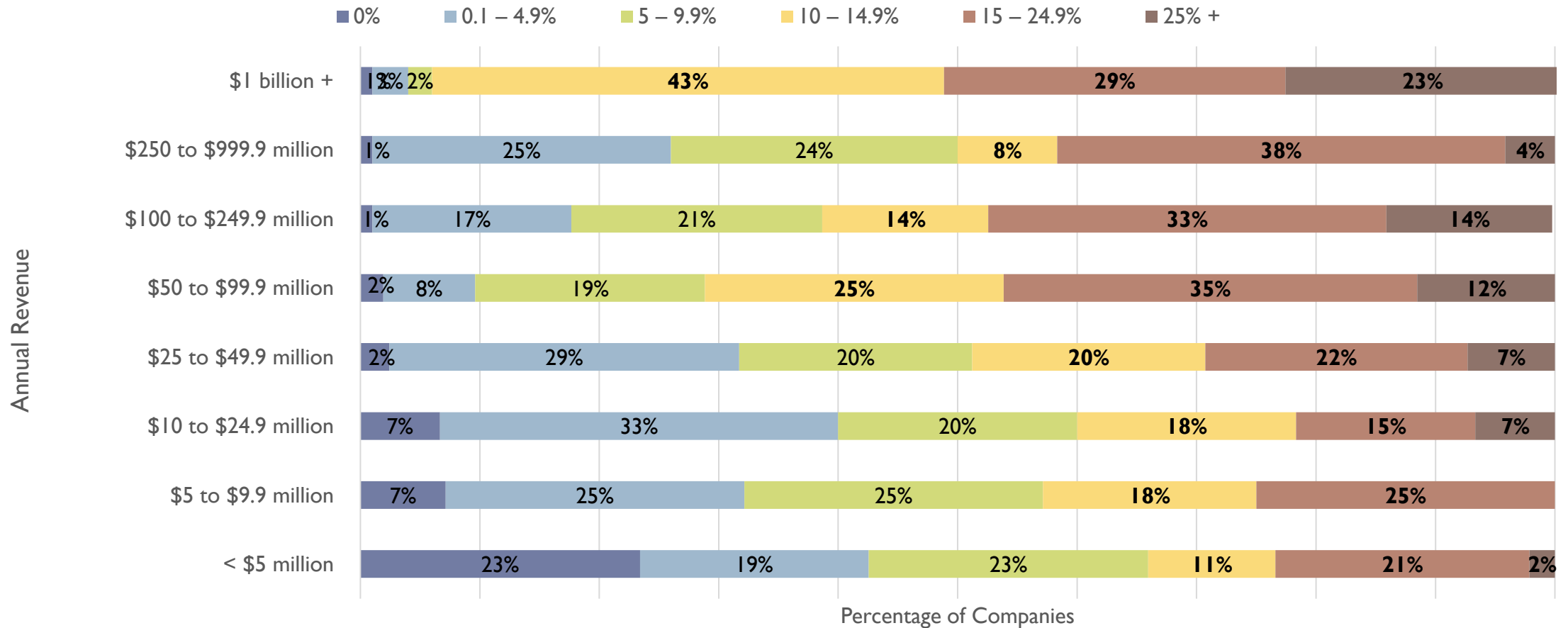
- ▶ Your company's executive compensation program will impact your success:
 - ▶ Recruiting
 - ▶ Retaining
 - ▶ Motivating
 - ▶ Aligning
- ▶ Executive compensation is a significant expense
 - ▶ But it's really an investment, not a cost — and should have a strong ROI
- ▶ There's a lot of misinformation 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

- ▶ 13th year
- ▶ 1,634 companies participated
- ▶ Top 9 senior executive positions
- ▶ Salaries, bonuses, benefits, perks and long-term equity incentives
- ▶ Average and quartile by:
 - ▶ Company size (revenues and headcount)
 - ▶ Industry
 - ▶ Ownership type
 - ▶ Growth rate
 - ▶ Profitability
 - ▶ Region
 - ▶ Size of market

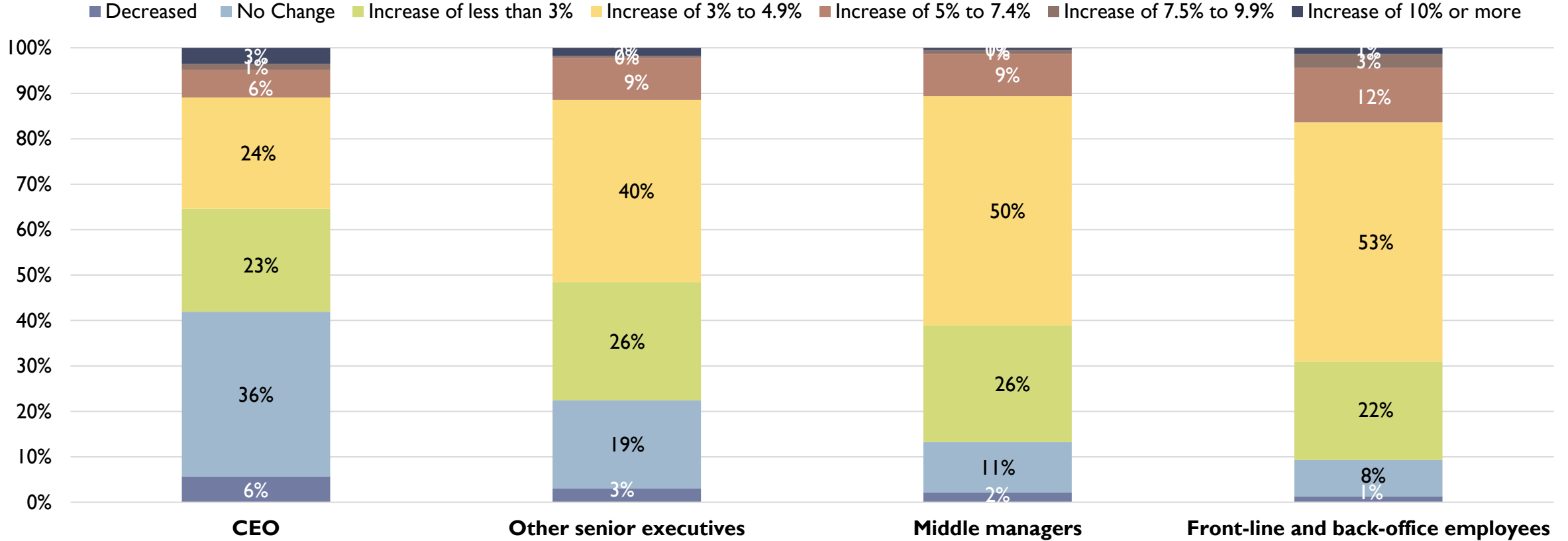


Overall Employee Turnover 2023, by Company Revenue



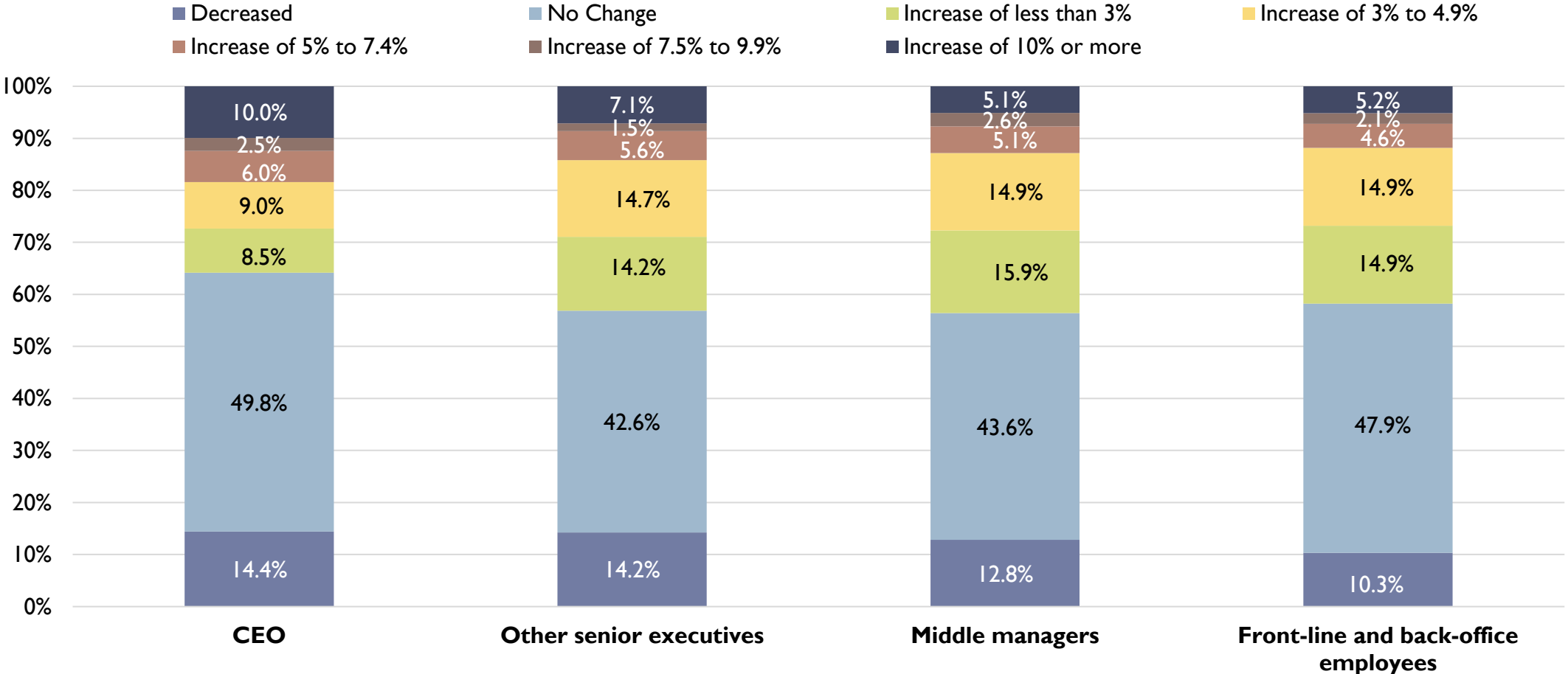
- Smaller companies tend to have the lowest employee turnover rates on average.

Base Salary Changes in 2024 by Title – Overall



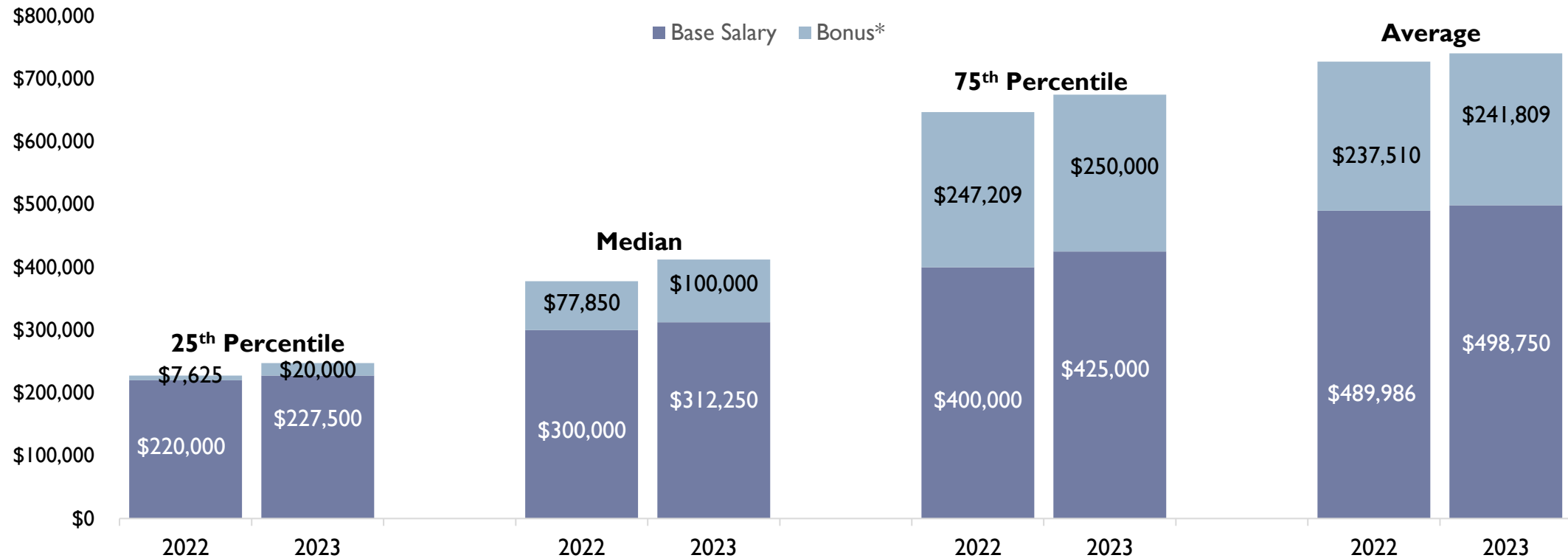
- The median base salary change for CEOs in 2024 was below 3%, while other senior executives saw a median increase of 3 to 4.9%, both unchanged from 2022.
- Middle managers, front-line and back-office employees saw a median increase of 3 to 4.9%, down from 5 to 7.5% the prior year.

Expected Bonus Changes in 2024 by Title – Overall



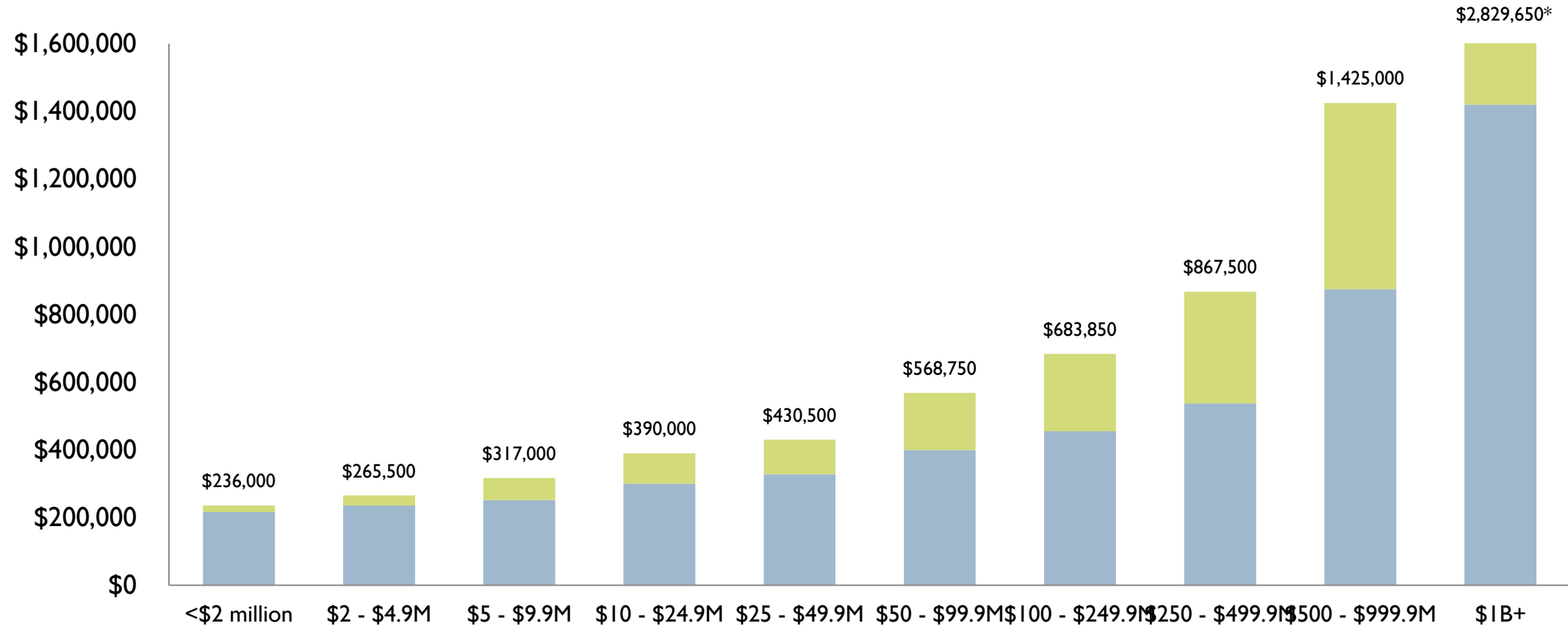
- The majority of employees across seniority are likely to get small or no bonus increases in 2024
 - 64.2% of CEOs will get no increase and 72.7% less than a 3% increase

CEO Cash Compensation – 2022 vs. 2023



- CEO compensation across all companies is much lower than the headlines
- The median U.S. CEO earned \$412,250 in cash comp in 2023
 - base salary increased by 4.1% in 2023, and the final bonus was expected to rise 28.5%—for a total cash compensation increase of 9%.
- At the top quartile, CEOs saw an increase of 6.3% to their base salary in 2023 but expected a smaller increase in their bonus of 1.1%, because more companies faced margin pressure from economic headwinds in 2023.

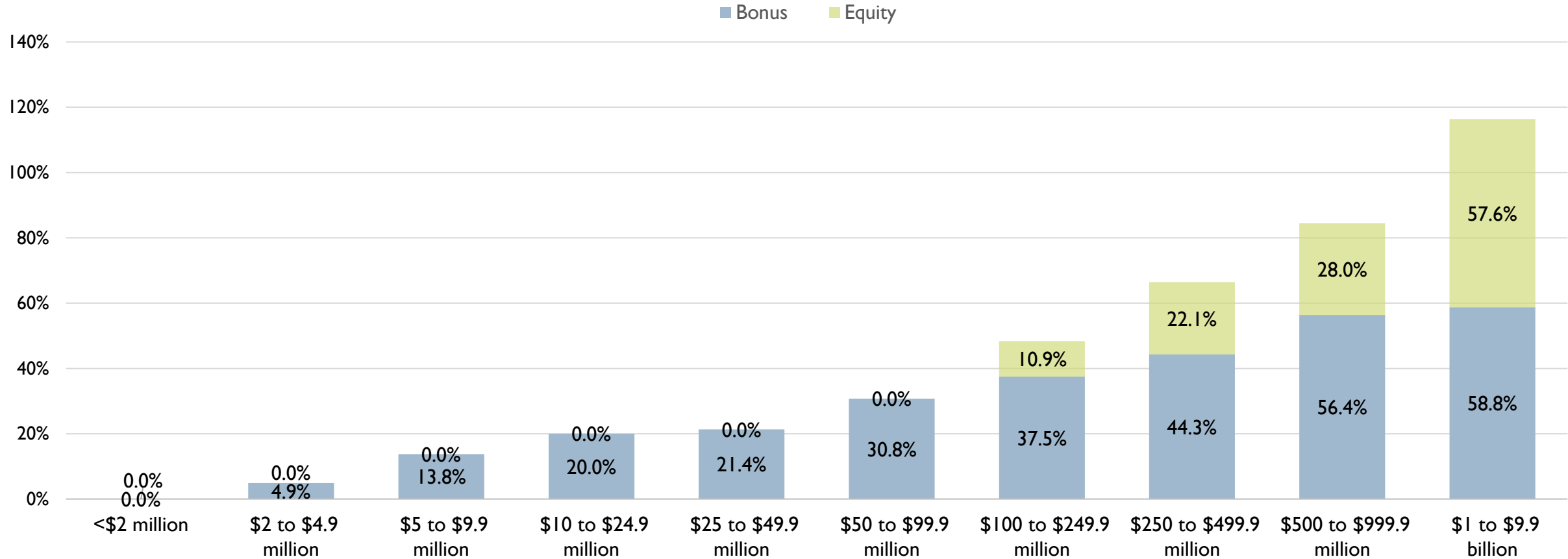
2023 CEO Total Cash Compensation, by Company Revenue — Median



- CEO compensation is highly correlated with company size

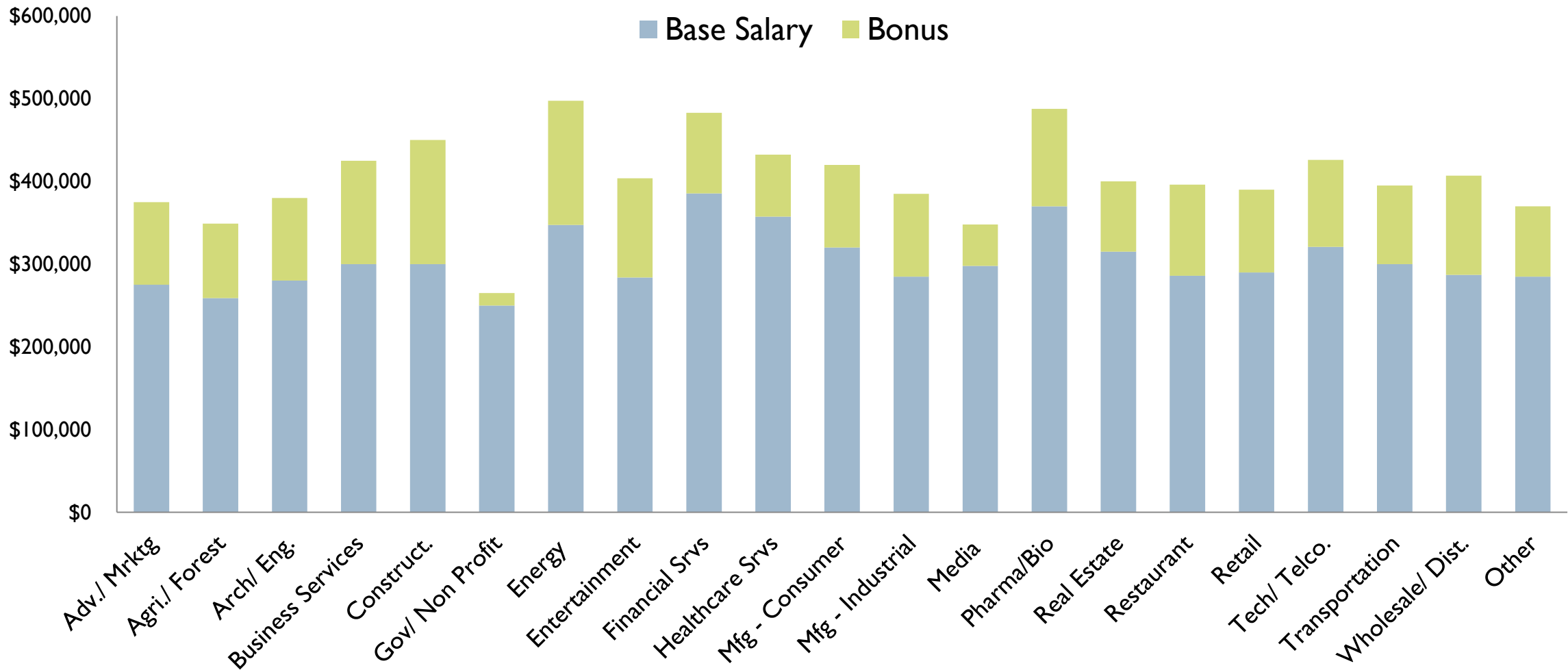
*Bar not up to scale, but data shown in report.

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

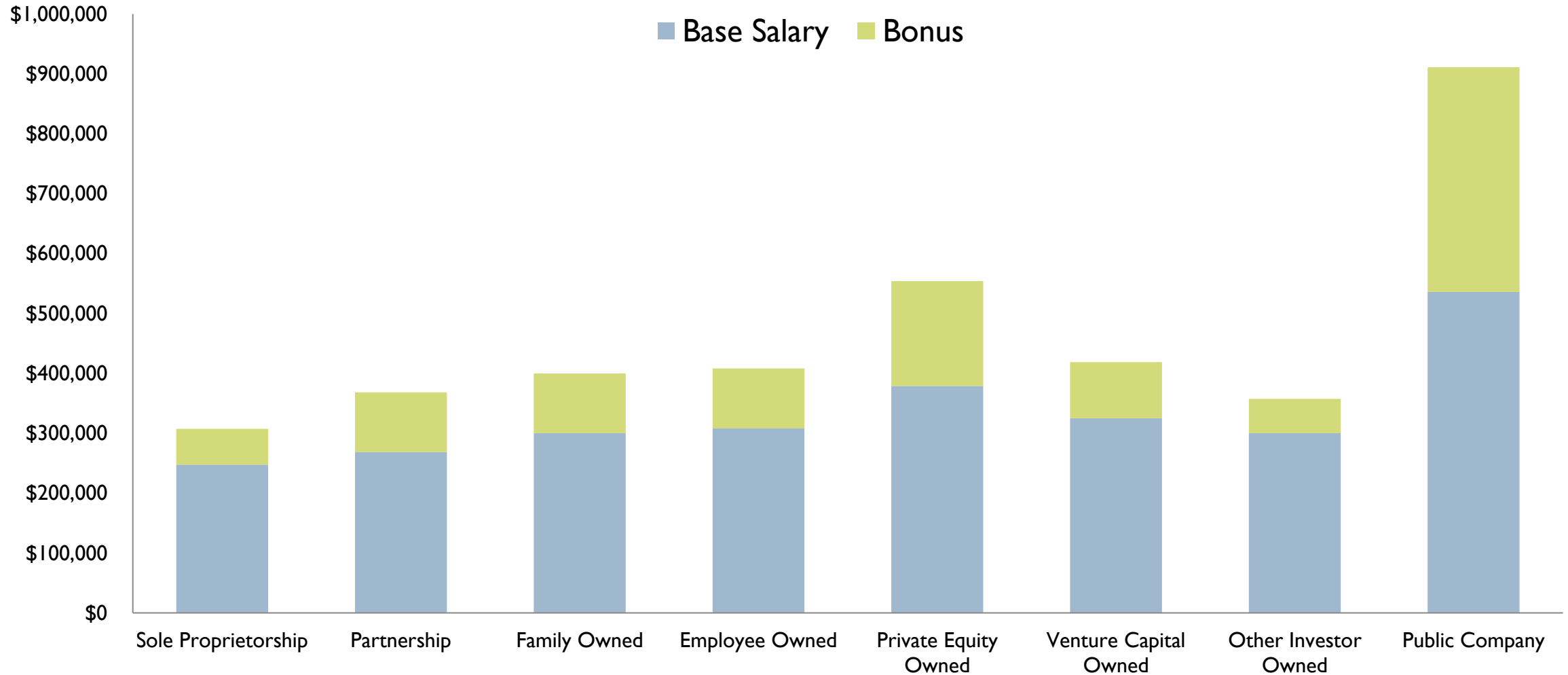


- Variable pay as % of base salary tends to increase with size (and sophistication) of companies. The largest companies tend to make better use of both long-term (equity) incentives and short-term bonuses.

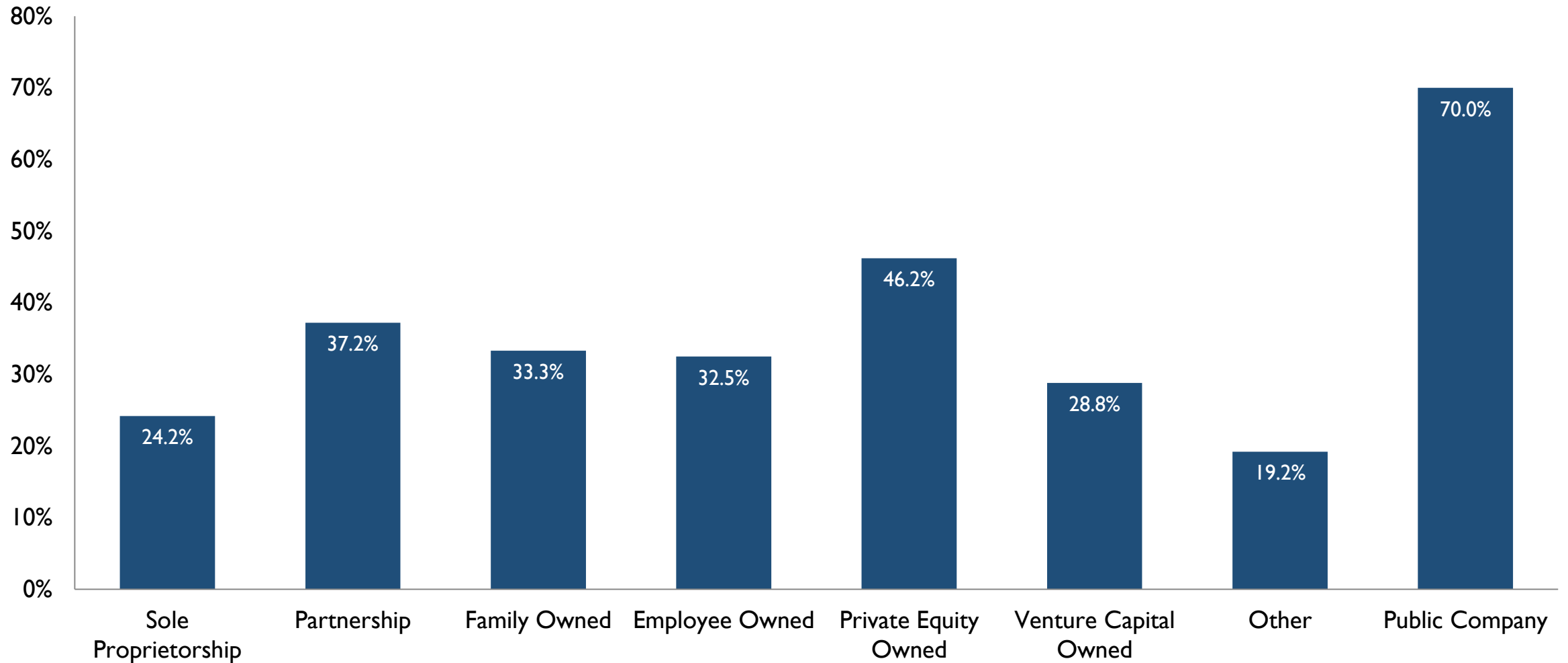
2023 CEO Cash Compensation, Across Industries — Median



2023 CEO Total Cash Compensation, by Ownership Type — Median



2023 CEO Bonus as % of Base Salary, by Ownership Type — Median



Common Compensation Mistakes

- ▶ Being “average” across the components of compensation and job titles is a bad strategy.
 - ▶ The reality is, some positions are more strategic; a top-quartile executive (who requires a top-quartile package) may be warranted for select positions.
 - ▶ Companies should use different tools based on their own strengths and characteristics (e.g., ownership, profitability, growth rate, etc.).
 - ▶ Executives have different personal priorities and situations — Some are more risk averse based on age/life stage, family situation, personality and other factors, and the compensation mix should reflect that.
- ▶ 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

- ▶ 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)

- ▶ 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)

- ▶ 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 remember, competitive might be median for an average performer or top quartile for an outstanding performer.

CEO & Senior Executive Compensation Best Practices (Continued)

- ▶ There are economic cycles - but focus on long term needs
- ▶ There will continue to be a shortage of skilled employees
 - ▶ Attracting skilled technical talent in the digital era is one of the biggest challenges companies face — and biggest constraints to growth.
 - ▶ Many baby boomer employees are getting ready to retire, leaving holes in capabilities and institutional knowledge.
- ▶ If you can:
 - ▶ 1) Remain competitive with your key executives, so no stars get recruited away by a competitor
 - And don't just focus on cash – find other non-cash factors (e.g., work from home or hybrid/flex hours and locations, appreciation)
 - ▶ 2) There will be opportunities to attract talent from competitors who miscalculate

Learning from Race Car Drivers (Lesson from a CEN member)



- The best drivers don't break in the turn —
- They take their foot off the gas before the turn (and gently tap brakes only if required) --and accelerate thru the turn
 - Those who enter the turns too hot and have to hit the breaks are the ones who lose control and crash.
 - But those who wait to accelerate until they are through the turn lose ground.

For more information

- For more information about the report, go to ChiefExecutive.net/CompensationReport
- To participate in this year's survey, go to: <https://www.surveymonkey.com/r/compstudy>

Isabella Mourgelas

Research Analyst

Chief Executive Group

203.889.4972

imourgelas@ChiefExecutiveGroup.com

Melanie Nolen

Research Director

Chief Executive Group

615.592.1169

mnolen@ChiefExecutiveGroup.com

Wayne Cooper

Executive Chair

Chief Executive Group

203.930.2702

wcooper@ChiefExecutiveGroup.com