Best-Paid CEOs Run Some of Worst-Performing Companies

Analysis by MSCI calls into question the idea that high CEO pay helps drive better results. July 25, 2016.

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MSCI found that $100 invested in the 20% of companies with the highest-paid CEOs would have grown to $265 over 10 years. The same amount invested in the companies with the lowest-paid CEOs would have grown to $367. *PHOTO: GETTY IMAGES*

By
THEO FRANCIS
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7 COMMENTS

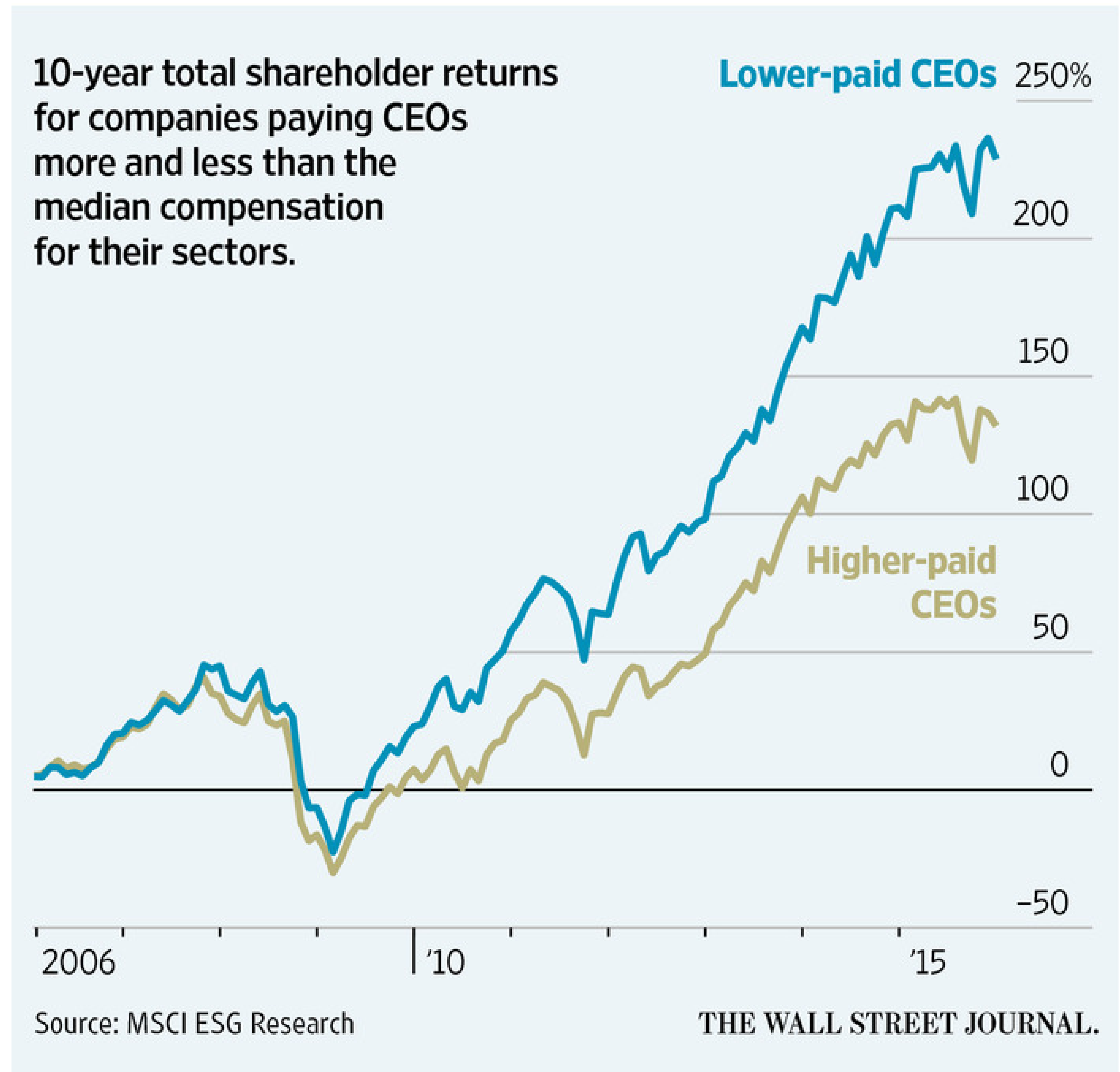
The best-paid CEOs tend to run some of the worst-performing companies and vice versa—even when pay and performance are measured over the course of many years, according to a new study.

The analysis, from corporate-governance research firm MSCI, examined the pay of some 800 CEOs at 429 large and midsize U.S. companies during the decade ending in 2014, and also looked at the total shareholder return of the companies during the same period.

MSCI found that $100 invested in the 20% of companies with the highest-paid CEOs would have grown to $265 over 10 years. The same amount invested in the companies with the lowest-paid CEOs would have grown to $367. The report is expected to be released as early as Monday.

The results call into question a fundamental tenet of modern CEO pay: the idea that significant slugs of stock options or restricted stock, especially when the size of the award is also tied to company performance in other ways, helps drive better company performance, which in turn will improve results for shareholders. Equity incentive awards now make up 70% of CEO pay in the U.S.

“The highest paid had the worst performance by a significant margin,” said Ric Marshall,a senior corporate governance researcher at MSCI. “It just argues for the equity portion of CEO pay to be more conservative.”



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Executive-pay critics have long said pay and performance could be better aligned, and in June, The Wall Street Journal reported little relationship between one-year pay and performance

figures for the S&P 500. Most longer-term analyses have used considered three or five years at a time.

The MSCI study compared 10-year total shareholder return—stock appreciation plus dividends—and cumulative total CEO pay as reported in proxy-filing summary-compensation tables.

The study also examined pay and performance among companies within the same broad economic sectors and found similar results: The top-paid half of CEOs in a sector tended to run companies that performed worse than their peers, while the lower-paid half tended to outperform.

"Whether you look at the entire group or adjust by market-cap and sector, you really get very similar results," Mr. Marshall said.

One possible factor driving the results, the researchers concluded: Annual pay reviews and proxy disclosures, which discourage boards and executives from focusing on longer-term results. The report recommended that the Securities and Exchange Commission require disclosure of cumulative incentive pay over long periods, to help illustrate a CEO's pay relative to longer-term performance. Sign In to comment

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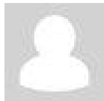
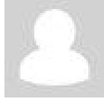


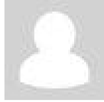
mathew laba33 minutes ago

If they own the company...if they have their entire life and treasure invested in the success of the company they can pay themselves what ever they want. If they don't own the company...if they don't have their entire life and treasure invested in the company then they are just another employee and should get the same as the rest of us. A base salary and a 10% bonus tied to written SMART objectives established at the beginning of the year. If they don't like what they are getting paid let them leave...I'll bet they will chain themselves to their desk rather than walk out!



Daniel Davis 1 hour ago

Everybody in the world knows CEO's are grossly over paid, except the blind boards of directors. One of the reasons there are so many M&A's is simply for average executives to look busy.



Giacomo Austin 1 hour ago

For many years a bubble has been forming in executive compensation for a variety of reasons - not the least is the difficulty in quantifying the positive/negative impact of the CEO on company performance. There is also a secondary issue in that company performance is not always directly correlated to stock price performance, whereas the CEO's incentive is tied to stock price performance.

While we can pick at the methodology of this study, I think the more interesting question is: what can we do to fix this? Introduce laws allowing shareholders direct control on executive compensation? Increase fixed aspects of pay vs other types of compensation? They are trying several things in Europe but it is too early to tell what works and what doesn't.