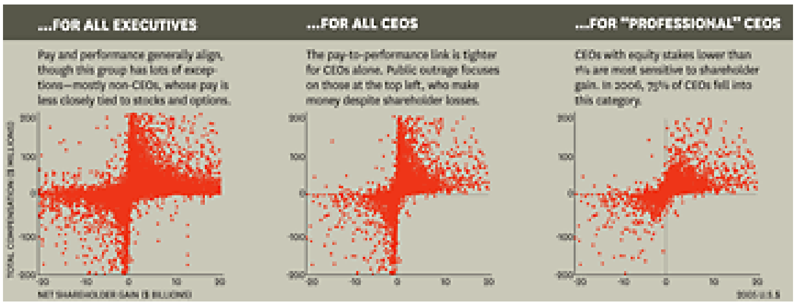
A New Way to Assess Pay and Performance

The ongoing executive-pay debate hinges largely on average compensation, which has skyrocketed despite companies' decline in performance. But that's a highly skewed metric, say Gian Luca Clementi and Thomas Cooley of NYU's Stern School of Business. For example, SEC filings show that a few mega-earners boosted the 2006 average to $46 million, whereas the median was just $5 million.

To better assess pay and performance, the researchers mapped compensation at companies publicly traded in the U.S. against net shareholder gain over a 14-year period (1993–2006). The charts here illustrate the relationship for more than 30,000 executives at 2,800-plus companies.



Overall, shareholder gains mean higher pay (top-right quadrants); shareholder losses, lower pay (bottom left), mainly as the result of yearly changes in the value of executives' stocks and options.

CEOs earn more for their performance than before, some as much as $35 for every $1,000 of shareholder gain—a 25% increase from a decade ago. But with a greater portion of compensation now tied up in stocks and options, they also take on more risk, and their wealth takes a bigger hit when markets sour.

That's why "every year [some] CEOs lose money," the researchers note. "Sometimes, they lose a lot."