

Benchmarking of Pay Components in CEO Compensation Design

by

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Abstract

Extant literature presumes benchmarking of total compensation, whereas eighty-nine percent of S&P500 companies highlight the benchmarking of CEO pay components. Analyzing a panel of CEO compensation data entailing 1,251 S&P 1500 firms during 2007-2013, we find that: 1) component-of-pay benchmarking more effectively explains CEO compensation than does total compensation benchmarking; 2) the strength of compensation components' adjustment to their benchmarks appears similar across the various components; the only exception is the salary that adjusts less pronouncedly to its benchmark, and 3) benchmarking is used not only regarding the level of compensation components but also regarding the weight of each component in total compensation. We discuss possible motivations for pay component benchmarking.

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