

Benchmarking of Pay Components in CEO Compensation Design

Abstract

We examine CEO compensation benchmarking using a relatively large ultimate sample of 4,892 firm-year observations (and 70,347 peer-year observations) on 1,251 unique firms included in the S&P Composite 1500 during 2007-2013. We offer three novel observations. First, benchmarking is used not only with respect to pay levels, but also with respect to pay structure (the weights of each pay component in total compensation). Second, the benchmarking process of various pay components appears similar; the only exception is the salary component which adjusts more mildly. Last, we show that CEO's pay depends also on the current year update in peers' pay.

JEL classification: G34, G38, M12, M52

Keywords: Benchmarking, CEO compensation, peer group, target pay, pay structure, pay components.