
AMERICANS AND CEO PAY:

2016 PUBLIC PERCEPTION SURVEY ON CEO COMPENSATION

ROCK CENTER **FOR** CORPORATE GOVERNANCE STANFORD

STANFORD GRADUATE
BUSINESS SCHOOL OF

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EXECUTIVE SUMMARY AND KEY FINDINGS

CEOS ARE VASTLY OVERPAID, ACCORDING TO MOST AMERICANS.

MOST SUPPORT DRASTIC REDUCTIONS.

THE PUBLIC IS DIVIDED ON GOVERNMENT INTERVENTION.

Seventy-four percent of Americans believe CEOs are not paid the correct amount relative to the average worker. Only 16 percent believe they are. While responses vary across demographic groups (e.g., political affiliation and household income), overall sentiment regarding CEO pay remains highly negative.

“There is a clear sense among the American public that CEOs are taking home much more in compensation than they deserve,” says Professor David F. Larcker of Stanford Graduate School of Business. “While we find that members of the public are not particularly knowledgeable about how much CEOs actually make in annual pay, there is a general sense of outrage fueled in part by the political environment.”

“Corporations and their boards need to do a better job explaining and justifying CEO pay arrangements,” adds Nick Donatiello, lecturer in corporate governance at Stanford Graduate School of Business. “It is remarkable when 74 percent of Americans agree about anything in today’s environment—particularly something as politically charged as CEO pay. This is a warning that companies need to do a better job of justifying CEO pay levels by communicating how much value their CEO creates and how much compensation is required, given the market for talent, to attract and motivate the right people.”

According to Brian Tayan, researcher at Stanford Graduate School of Business, “Whether high pay packages are deserved is a controversial subject. Whether the government can or should

intervene is even more divisive. Public consensus is that there is a problem. There is much less agreement on a solution.”

The controversy over CEO compensation has reached new heights with labor unions, media, and political candidates from both major parties expressing public criticism. According to Democratic candidate Hillary Clinton, the average CEO “... is now earning 200 times the average hourly wage. Twenty years ago the ratio was about forty times. People all over this country are really upset about this.” According to Republican candidate Donald Trump, CEO compensation is a “total and complete joke. ... They get whatever they want.” On its website, the AFL-CIO cites a CEO-to-worker pay ratio of 331:1, adding that “... in recent decades, corporate CEOs have been taking a greater share of the economic pie while wages have stagnated and unemployment remains high.” A Bloomberg report claims “... the gap between pay for U.S. chief executive officers and the people who work for them has widened sevenfold in three decades. Are bosses seven times smarter these days? Company boards seem to think so.”¹

Recently, the Rock Center for Corporate Governance at Stanford University conducted a nationwide survey of 1,202 individuals—representative by gender, race, age, political affiliation, household income, and state residence—to understand public perception of CEO pay levels among the 500 largest publicly traded corporations.

¹SALLY BEDELL SMITH, *FOR LOVE OF POLITICS* (NEW YORK, NY: RANDOM HOUSE, 2007); DAVID KNOWLES, “TRUMP CALLS CEO PAY A ‘JOKE’ BUT VOWS TO SLASH CORPORATE TAXES,” BLOOMBERG.COM (SEPTEMBER 13, 2015); AFL-CIO, “EXECUTIVE PAYWATCH 2014”; CALEB MELBY, “EXECUTIVE PAY: VALUING CEOS,” BLOOMBERG.COM (AUGUST 13, 2015).



KEY FINDINGS INCLUDE THE FOLLOWING:

THE AVERAGE AMERICAN GROSSLY UNDERESTIMATES HOW MUCH CEOs MAKE

Public frustration with CEO pay exists despite a public perception that CEOs earn only a fraction of their published compensation amounts. Disclosed CEO pay at Fortune 500 companies is 10 times what the average American believes those CEOs earn. The typical American believes a CEO earns \$1 million in pay (average of \$9.3 million), whereas median reported compensation for the CEOs of these companies is approximately \$10.3 million (average of \$12.2 million).²

Responses vary based on the household income of the respondent, but all groups underestimate actual compensation. Lower-income respondents (below \$20,000) believe CEOs earn \$500,000 (\$9.7 million average), while higher-income respondents (\$150,000 or more) believe CEOs earn \$5,000,000 (\$14.9 million average).

STILL, AMERICANS BELIEVE CEOs ARE OVERPAID RELATIVE TO THE AVERAGE WORKER

The vast majority (74 percent) of Americans believe that CEOs are not paid the correct amount relative to the average worker. Only 16 percent believe they are paid an appropriate amount. While responses vary by political affiliation, they remain largely

negative. Only one quarter (25 percent) of Republicans believe CEOs are paid the correct amount relative to the average worker, compared to 16 percent of Democrats and 11 percent of Independents.

Nearly two-thirds (62 percent) of Americans believe that there is a maximum amount CEOs should be paid relative to the average worker, regardless of the company and its performance. Interestingly, a majority of all political groups believe CEO pay should be capped in some manner, though Republicans are somewhat less likely to hold this opinion (52 percent) than Democrats (66 percent) or Independents (64 percent).

Those who believe in capping CEO pay relative to the average worker would do so at a very low multiple. The typical American would limit CEO pay to no more than 6 times (17.6 times, based on average numbers) that of the average worker. These figures are significantly below current pay multiples, which are approximately 210 times based on recent compensation figures.³

“CEO compensation figures are much higher than the public is aware of,” observes Professor Larcker. “In many parts of the country, it is incomprehensible that anyone can earn this much money. It is understandable that any limit on CEO pay would be low for most citizens.”

²MEDIAN VALUE REPRESENTS THE VIEWPOINT OF THE RESPONDENT AT THE 50TH PERCENTILE. THE MEAN AVERAGE IS THE AVERAGE AMOUNT ACROSS ALL RESPONSES. MEAN AVERAGES CAN BE INFLUENCED BY A RELATIVELY SMALL NUMBER OF OUTLIERS, AND FOR THIS REASON *MEDIAN AVERAGE* IS A BETTER DESCRIPTOR OF A TYPICAL RESPONDENT'S VIEWPOINT. REPORTED COMPENSATION FIGURES FROM EQUILAR, “2015 CEO PAY STRATEGIES” (2015).

³BASED ON MEDIAN CEO COMPENSATION FIGURES IN EQUILAR 2015 AND AVERAGE U.S. PER CAPITA INCOME OF \$50,000.



OPINIONS VARY ON HOW MUCH TO PAY CEOs FOR PERFORMANCE

Public opinion varies widely about the degree to which executives should share in the value created at a company. For example, when respondents are given a hypothetical situation in which a company's value increases by \$100 million over the course of a year, the median respondent believes that the CEO should receive only 0.5 percent (\$500,000) as compensation. The mean response is 3.2 percent (\$3.2 million). Responses do not vary by political affiliation, with Democrats, Republicans, and Independents willing to share value in roughly the same proportion.

"This gets to the heart of the issue of 'pay for performance,'" says Donatiello. "Either the public is not sold on the idea that CEOs should share in value creation to the extent that they do. Or they do not believe that CEOs play an important role in value creation. Clearly, companies need to make a stronger case for how pay is tied to performance—to the extent it is."

AMERICANS AGREE THERE IS A PROBLEM BUT ARE SPLIT ON WHETHER THE GOVERNMENT SHOULD GET INVOLVED

The public strongly believes that CEO compensation is a problem. A large majority (70 percent) hold this opinion, compared with only 18 percent who do not think it is a problem. The view that CEO pay is a problem is substantially more prevalent among those who identify themselves as Democrats (78 percent) and Independents (72 percent) than those who identify themselves as Republicans (54 percent). Perhaps unexpected, lower-income respondents are less likely to believe that CEO pay is a problem (54 percent) than higher-income respondents (72 percent).

In terms of a solution, approximately half of respondents (49 percent) believe the government should do something to change current CEO pay practices, approximately one-third (35 percent) do not believe the government should

intervene, while the remainder have no opinion. Higher-income respondents (38 percent) are much less likely to favor government intervention than middle-income (55 percent) and lower-income (52 percent) respondents. Republicans and Independents (36 percent and 47 percent, respectively) are also less likely to favor government intervention than Democrats (60 percent).

POSSIBLE GOVERNMENT ACTIONS VARY, NONE OF WHICH IS WIDELY SUPPORTED

Those who favor government intervention support a range of possible actions, although none alone receives majority or even close to near-majority support. Twenty-eight percent of respondents who advocate government intervention would substantially increase taxes on CEO compensation above a certain amount; 25 percent would set a strict limit on the dollar amount a CEO can receive relative to the average worker; 17 percent would limit the absolute dollar amount that a CEO can receive; 17 percent would require more performance-based compensation; 9 percent would ban the use of stock options in executive compensation contracts; and 8 percent would ban the use of all equity compensation in CEO pay packages.

Responses do not vary significantly by income bracket. However, higher-income respondents are less likely to support both absolute and relative limits on CEO pay. They are also less likely to support higher taxes on CEO pay.

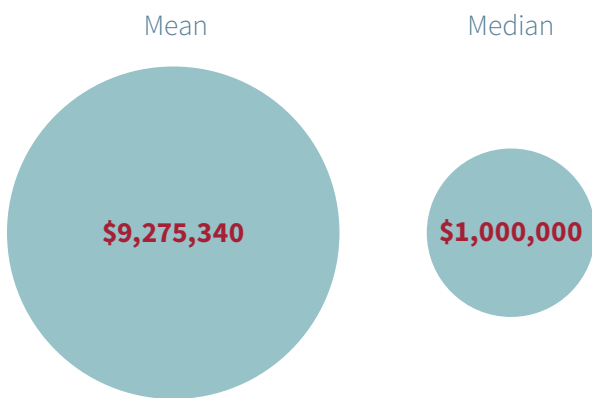
Responses do vary by political affiliation, with Democrats significantly more likely than Republicans to support each of the interventions listed above.

"The concept of government intervention in restricting or influencing CEO pay is highly charged," observes Tayan. "It is not surprising that viewpoints on government intervention would be split along ideological lines, especially given the current political environment."

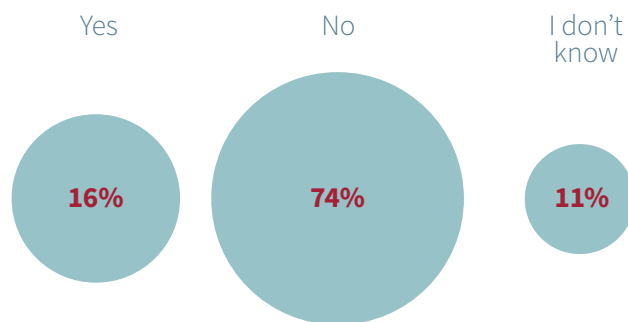


Review of Findings

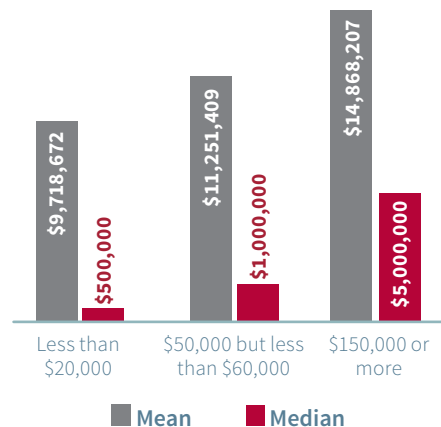
1. How much do you think the average CEO in the largest 500 U.S. companies is paid in annual compensation?



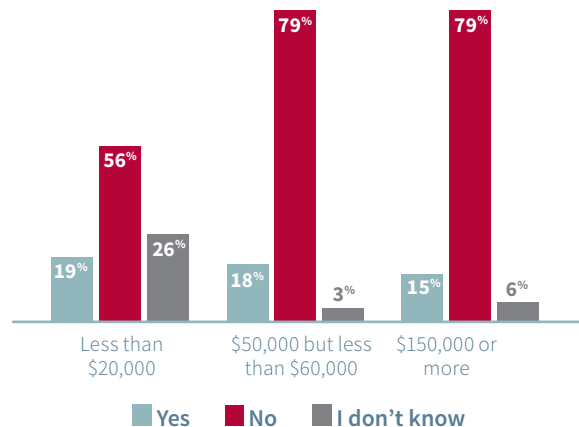
2. In general, do you think that CEOs in the largest 500 U.S. companies are paid the correct amount relative to the average worker?



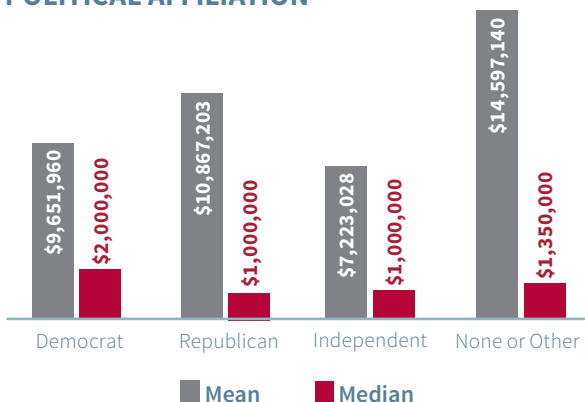
HOUSEHOLD INCOME



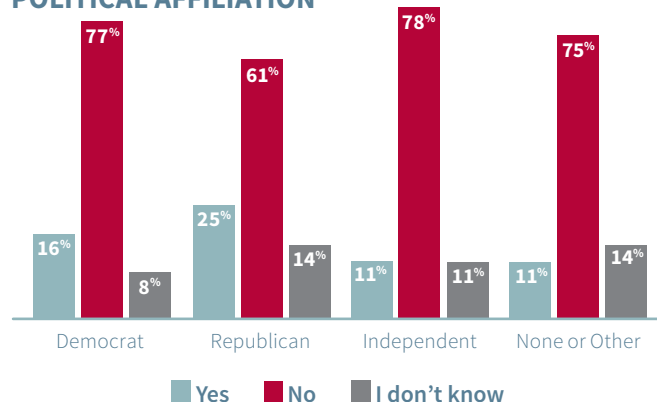
HOUSEHOLD INCOME

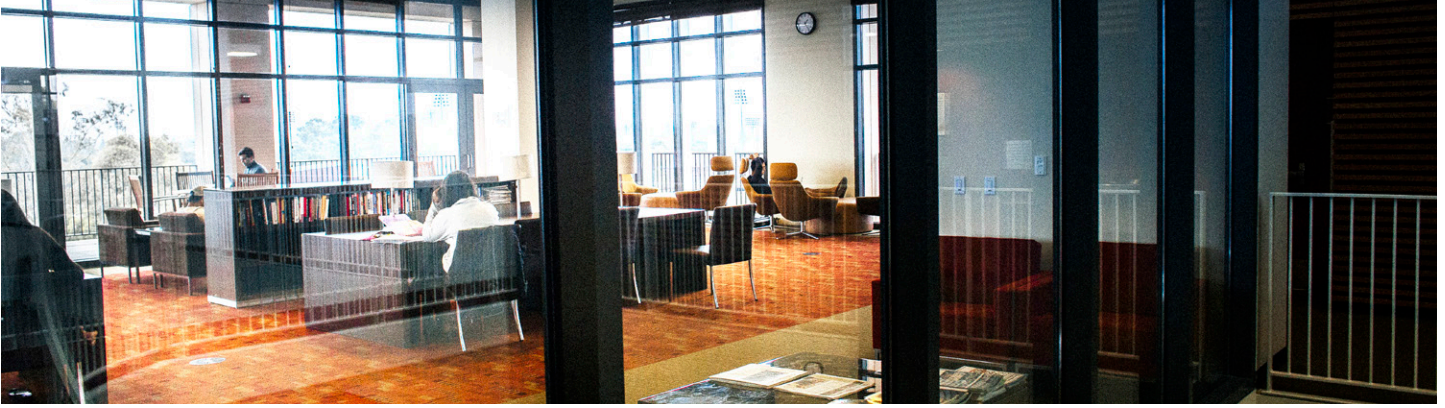


POLITICAL AFFILIATION

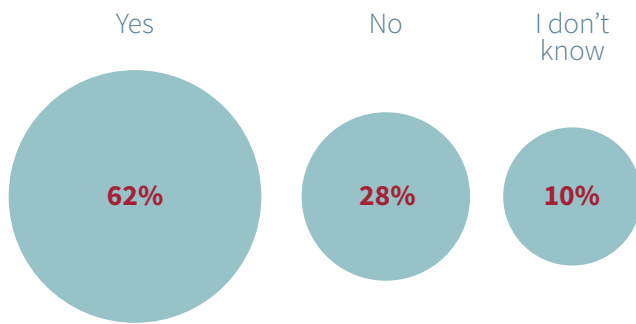


POLITICAL AFFILIATION

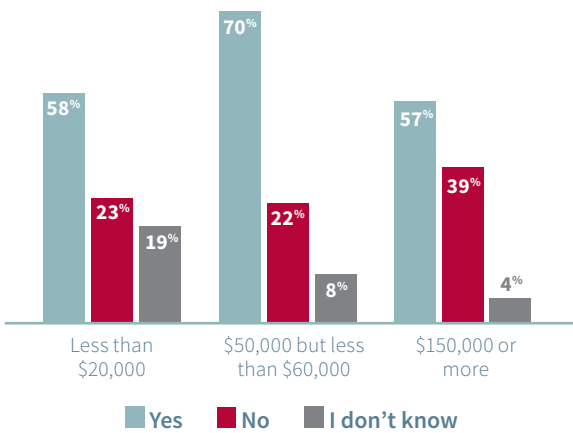




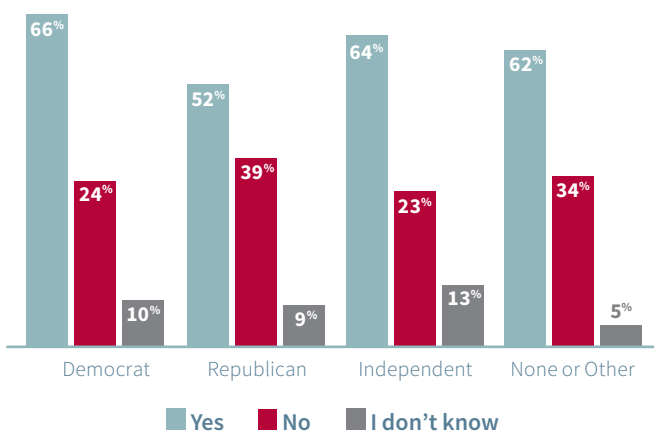
3. In general, do you believe there is a maximum amount that a CEO should be paid relative to the average worker, no matter the company and its performance?



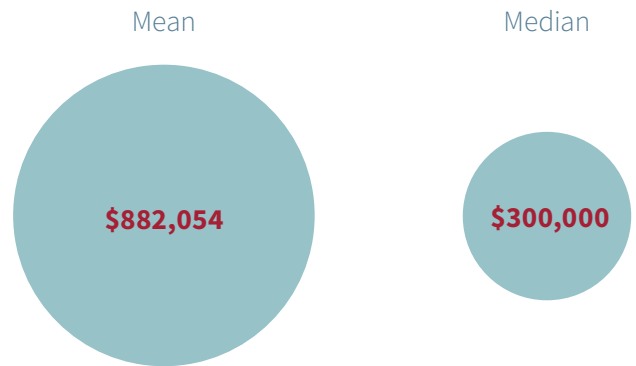
HOUSEHOLD INCOME



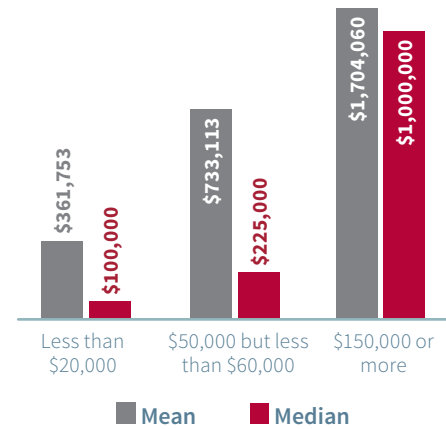
POLITICAL AFFILIATION



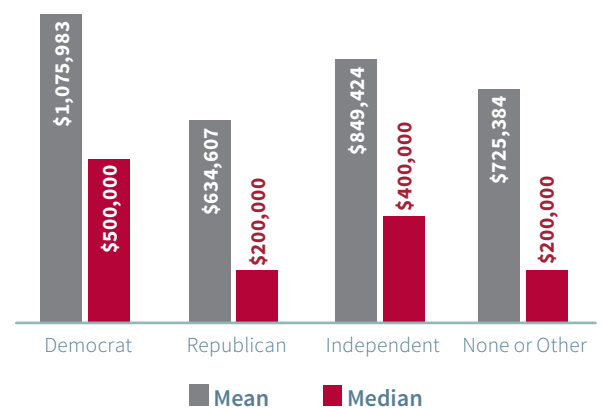
3.1. [If yes]: If the average worker in a company has an annual income of \$50,000, what is the maximum amount the CEO of that company should make?



HOUSEHOLD INCOME



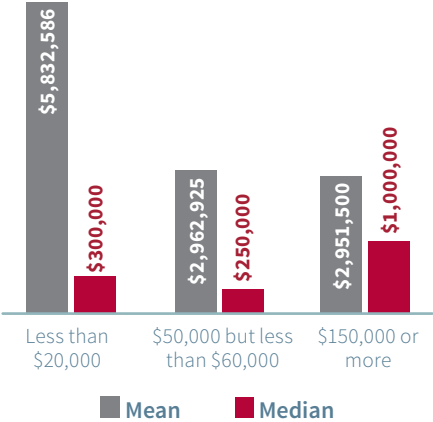
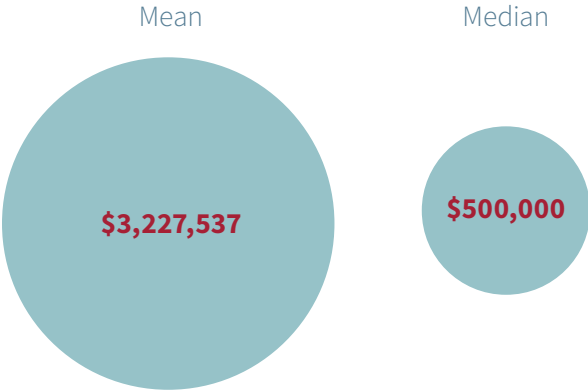
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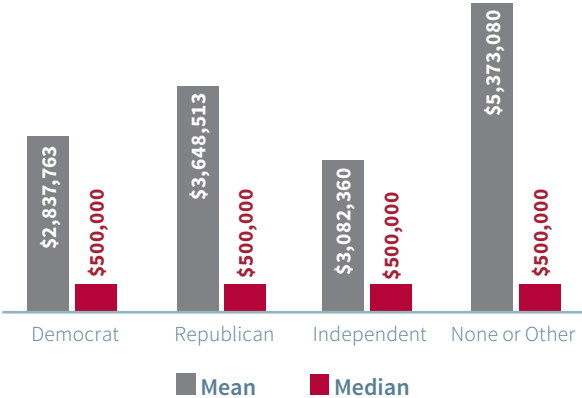


4. Hypothetically, if a company is worth \$100 million more than at the beginning of the year, how much of this \$100 million should be given to the CEO as compensation?

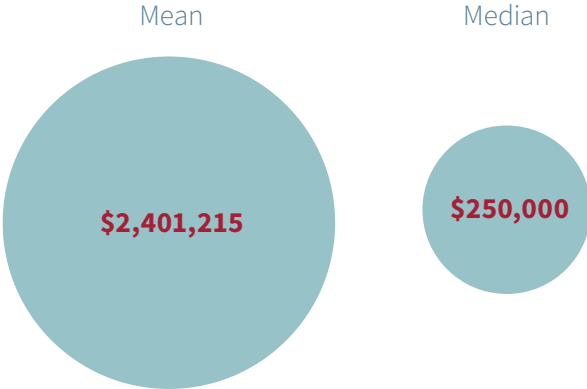
HOUSEHOLD INCOME



POLITICAL AFFILIATION

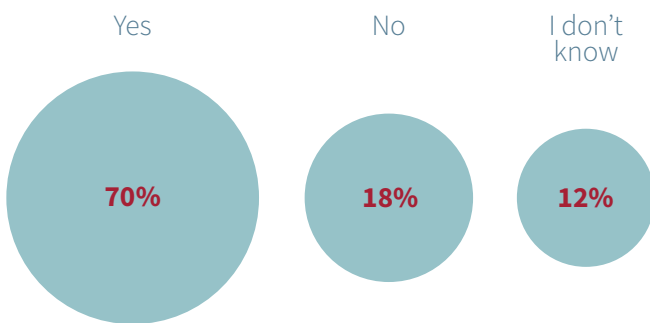


[Only people who said Yes to Q3]

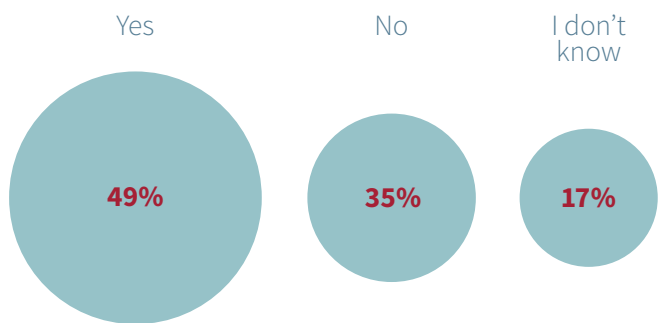




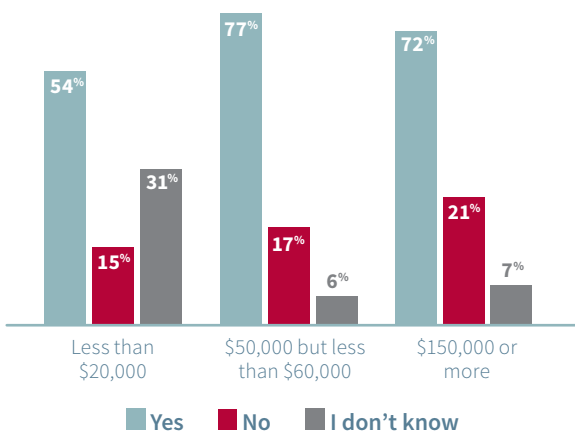
5. In general, do you believe that CEO compensation at the largest companies in the U.S. is a problem?



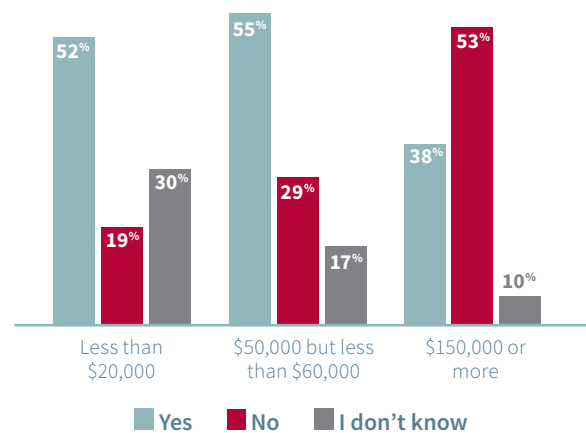
6. Do you believe the government should do something to change current CEO pay practices?



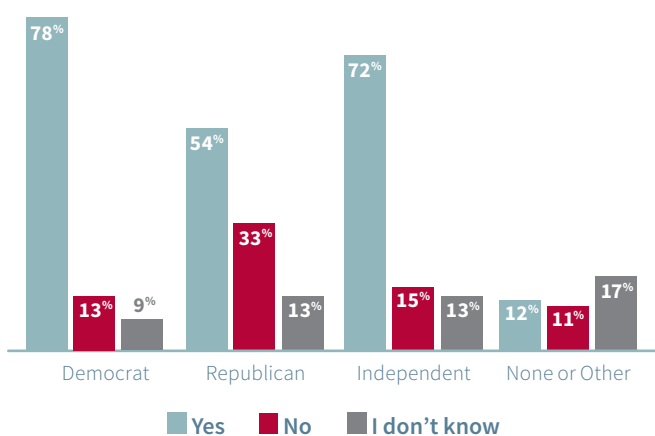
HOUSEHOLD INCOME



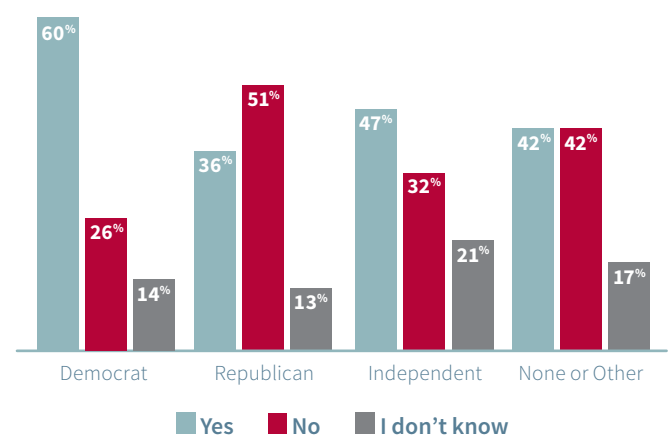
HOUSEHOLD INCOME



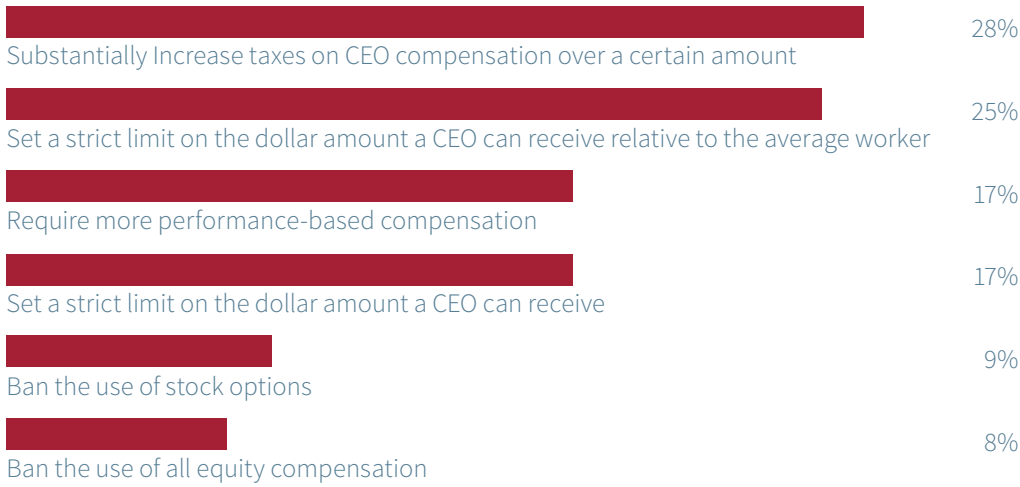
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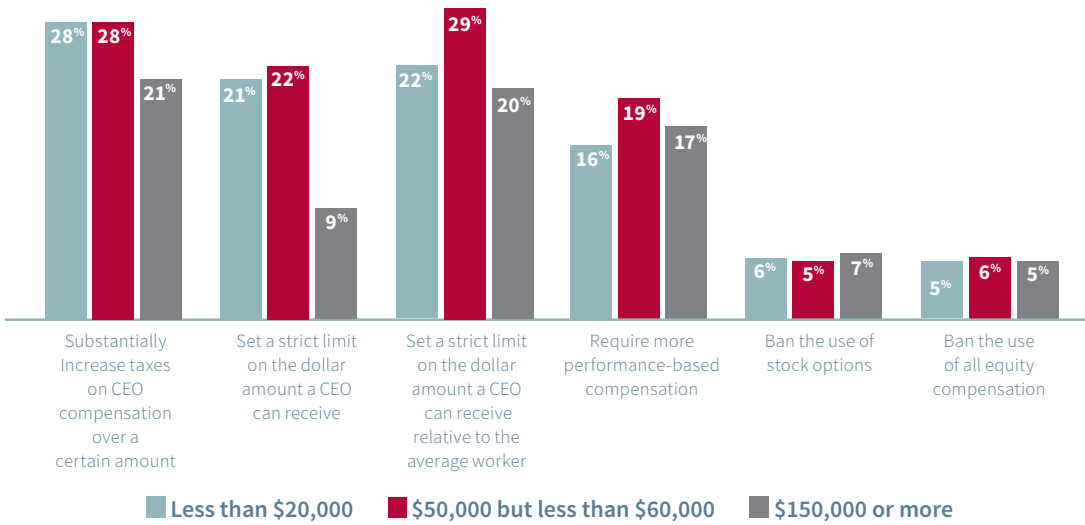
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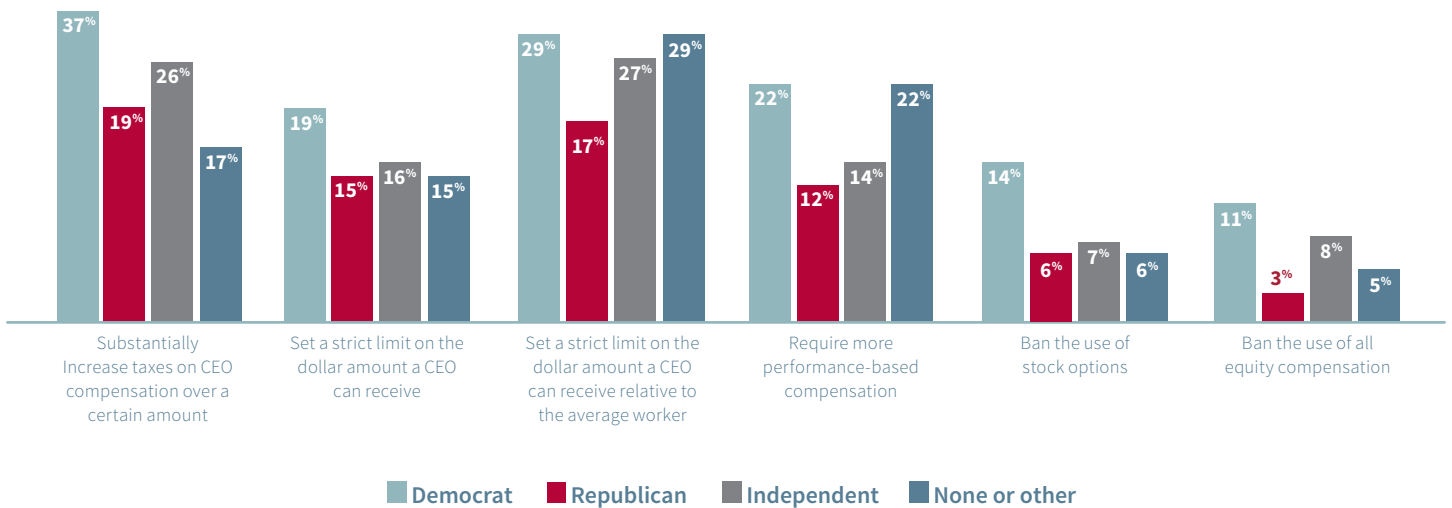
6.1. [If yes]: What should the government do? (select all that apply)



HOUSEHOLD INCOME



POLITICAL AFFILIATION



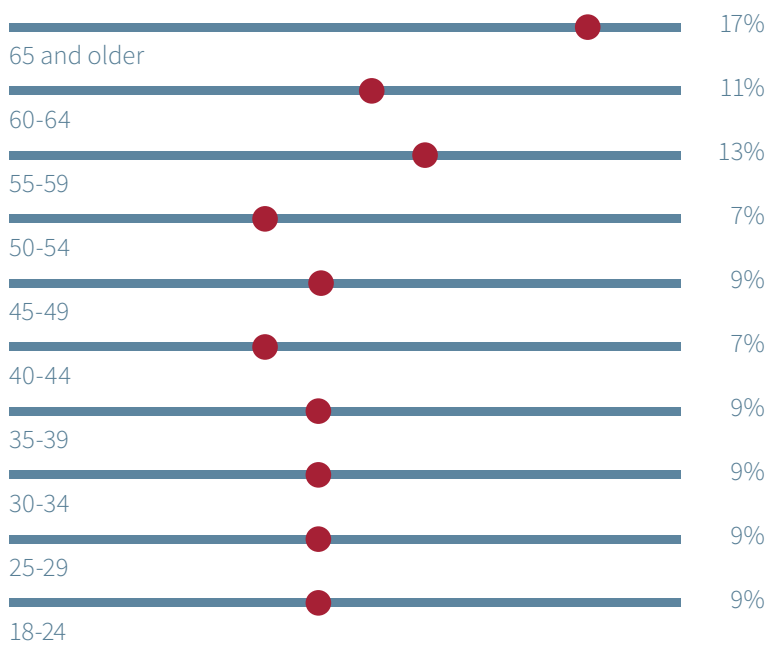


Demographic Information

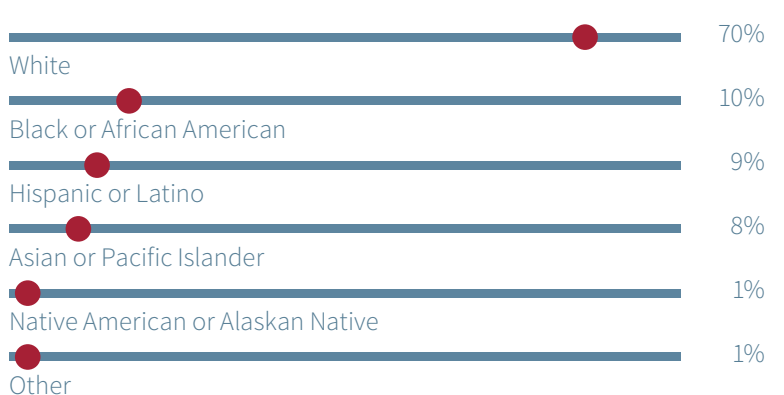
1. Gender



2. Age

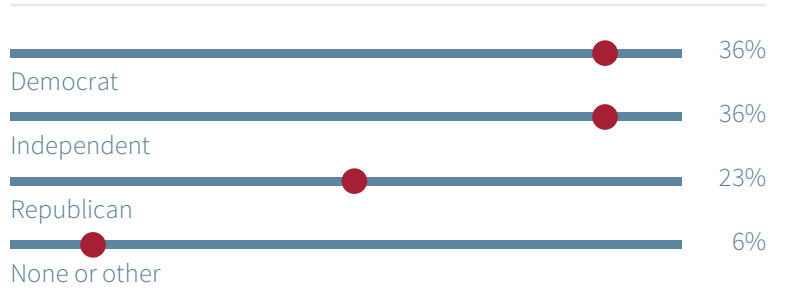


3. Ethnicity





4. Political Affiliation

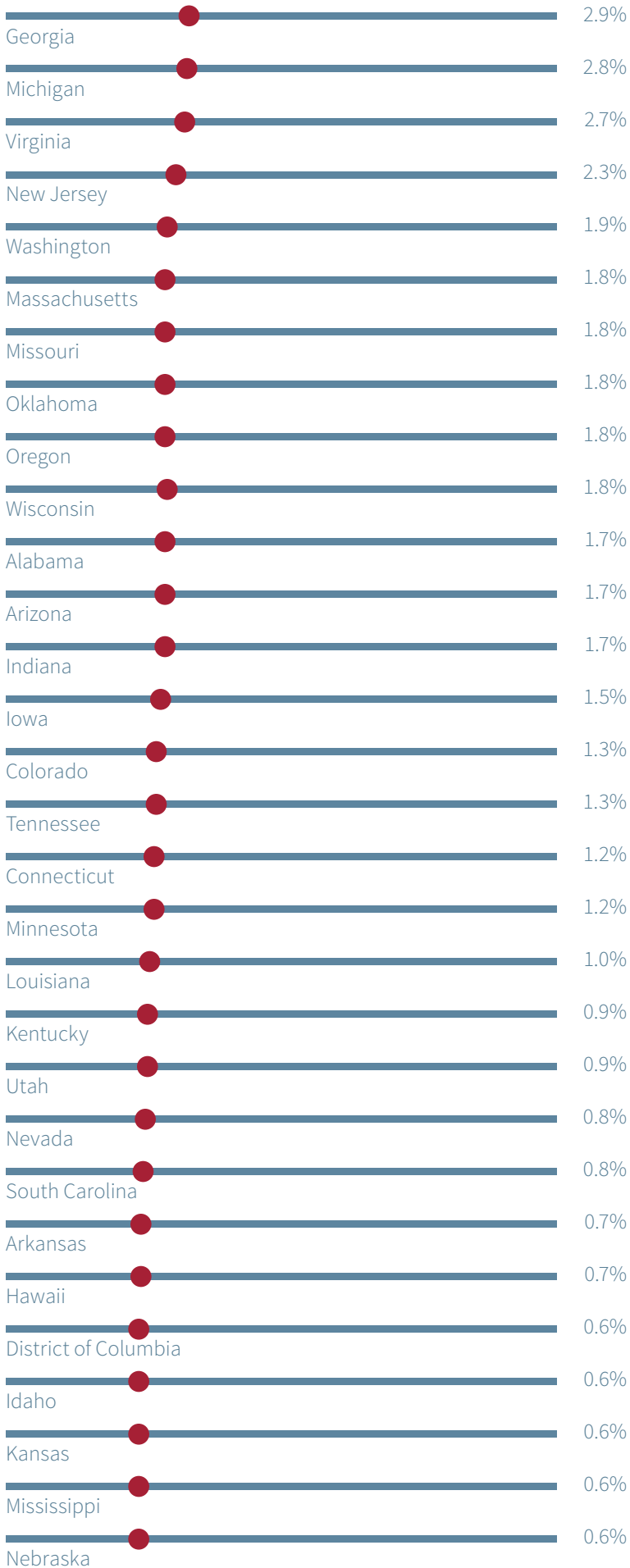


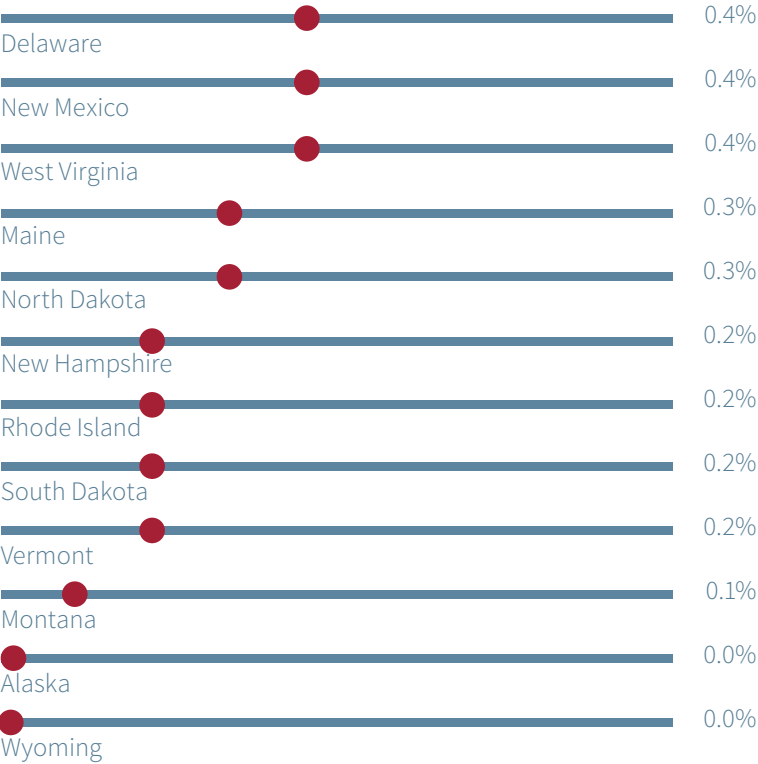
5. Household Income



6. State









METHODOLOGY

IN NOVEMBER 2015, THE ROCK CENTER FOR CORPORATE GOVERNANCE AT STANFORD UNIVERSITY CONDUCTED A NATIONWIDE SURVEY OF 1,202 INDIVIDUALS—REPRESENTATIVE BY GENDER, RACE, AGE, POLITICAL AFFILIATION, HOUSEHOLD INCOME, AND STATE RESIDENCE—TO UNDERSTAND PUBLIC PERCEPTION OF CEO PAY LEVELS AMONG THE 500 LARGEST PUBLICLY TRADED CORPORATIONS.

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ABOUT

CORPORATE GOVERNANCE RESEARCH INITIATIVE

The Corporate Governance Research Initiative at Stanford Graduate School of Business focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting. gsb.stanford.edu/cgri

THE ROCK CENTER FOR CORPORATE GOVERNANCE

The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and Stanford Graduate School of Business. The center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policy makers, practitioners, and regulators can meet and work together. www.rockcenter.law.stanford.edu

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