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## EXECUTIVE COMPENSATION PATTERNS

THE COMPENSATION which executives receive in return for their managerial efforts on behalf of the corporations which employ them forms the background to our appraisal of ownership income flows. The aggregate amounts of remuneration involved, the relative weight of each of the constituents, the changes observable over time, and the relationships among firms and between executive positions all merit our attention. It is only after these patterns of reward have been documented that the significance of management's dividend and capital gains experiences as shareholders can be put in perspective. The initial task, therefore, is to address the analytical procedures described in the preceding chapter to the earnings histories of the individual executives who make up the three samples with which we shall be concerned.

### *The Large Manufacturing Companies*

Because the compensation of the senior officers of the fifty corporations in the large manufacturing sample has been examined in considerable detail in the original National Bureau volume cited, an abbreviated version of those findings should satisfy present requirements. We may begin by treating the chronology of the most familiar, as well as most easily obtainable, measure of executive pay: direct cash salary and bonus income. Table 1 records the mean values of such payments, both before and after taxes, from 1940 through 1963, for the top executive in each of the fifty firms and for the top five executives in each combined. The latter figures are calculated by adding the means determined for the five separate positions every year

TABLE 1

Average Salary Plus Bonus Earnings:  
 Large Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Before Taxes	After Taxes	Before Taxes	After Taxes
1940	136,916	77,009	80,934	50,874
1941	143,138	66,437	85,101	44,018
1942	143,453	51,564	87,048	36,659
1943	144,208	43,036	88,054	31,886
1944	143,612	42,960	86,744	31,771
1945	142,892	42,818	87,066	31,815
1946	143,247	51,592	92,326	38,178
1947	149,446	53,051	94,596	38,843
1948	161,959	77,776	102,949	55,591
1949	169,703	80,270	108,134	57,427
1950	178,452	83,008	116,033	60,315
1951	182,876	79,396	122,592	59,474
1952	185,190	75,413	125,795	56,985
1953	193,556	77,717	133,459	59,382
1954	197,369	83,518	137,053	64,341
1955	205,121	85,508	143,257	66,171
1956	215,767	88,178	150,298	68,045
1957	207,586	86,303	146,248	67,248
1958	207,101	86,153	141,234	66,085
1959	205,741	86,369	144,423	67,234
1960	202,610	85,522	141,452	66,554
1961	200,375	85,057	137,855	65,313
1962	203,578	85,845	142,150	66,903
1963	212,230	88,095	150,264	69,526

and then dividing by five. In this instance, the rankings within the relevant firms are on the basis of salary plus bonus receipts alone, rather than according to the levels of *total* compensation enjoyed by the executives in question. The complete pay package, and its implied rankings, will be discussed below.<sup>1</sup>

From the tabulation, it is apparent that while the absolute amounts at issue are substantial, the rates of increase over the years are quite modest. The typical top executive received just 55 per cent more in the way of annual pre-tax direct current remuneration in 1963 than his predecessor did in 1940. For the top five men as a group, the gain was 86 per cent. Given that neither of these findings denote a really outstanding performance, the after-tax figures look even less impressive under the influence of a concomitant sharp rise in personal income tax rates.<sup>2</sup> Mean after-tax salaries and bonuses climbed by merely 14 and 37 per cent, respectively, for the top and top-five executive categories over the quarter-century interval shown. The lower-ranking men in the hierarchy did better historically both because their before-tax pay grew somewhat more rapidly, and because the burden of a progressive tax structure fell more lightly on their smaller absolute rewards.

When the after-tax "current income equivalents" of the same individuals' pension promises, deferred compensation, profit-sharing benefits, and stock options are added to the indicated salary and bonus earnings so as to arrive at the appropriate aggregate remuneration figures, the results listed in Table 2 and diagrammed in Chart 1 emerge. The ranking of executives within their firms here uses total after-tax compensation for the year as the ordering criterion. We see

<sup>1</sup> Most of the slight differences between certain of the figures presented here and those recorded in the original compensation study are attributable to the marginally smaller current sample size which resulted from the inability to secure stock ownership data for every year and for every man included in the earnings analysis (see Chapter 2). In addition, some minor improvements in the compensation data themselves were found to be possible on the second pass through the proxy statements.

<sup>2</sup> Only federal tax liabilities are taken into account in the analysis. The inclusion of state and local levies would, of course, reinforce the evidence that after-tax earnings have risen slowly.

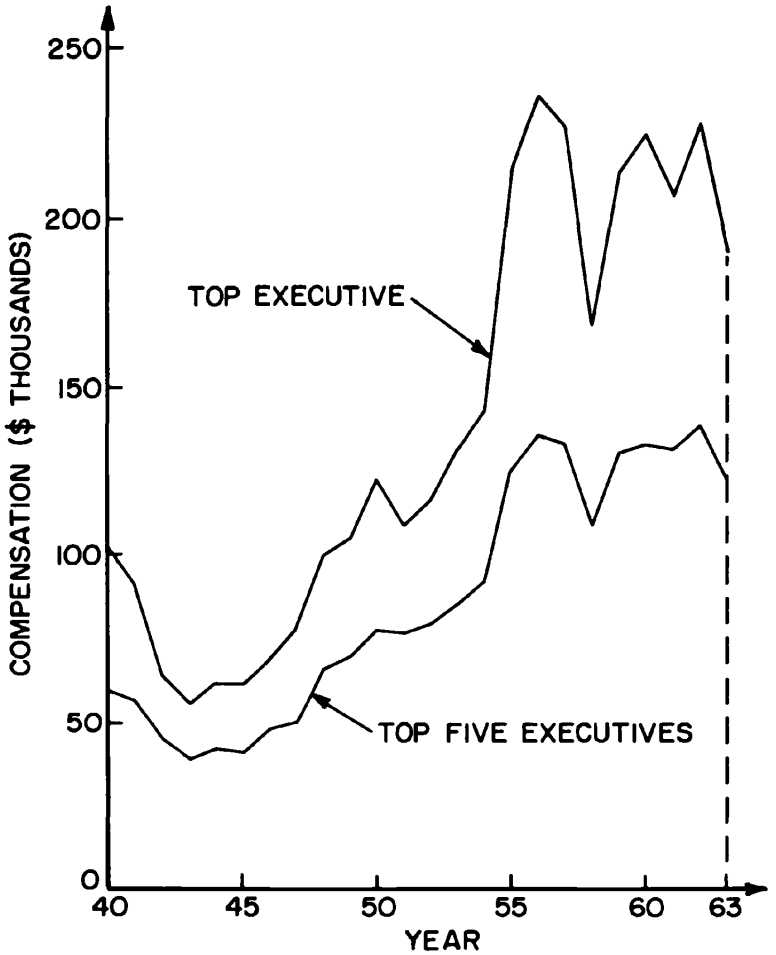
TABLE 2

Average Total After-Tax Compensation:  
 Large Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive	Top Five Executives
1940	101,979	59,673
1941	91,535	57,019
1942	65,960	44,545
1943	56,461	39,020
1944	63,667	41,720
1945	61,632	41,447
1946	69,043	47,919
1947	78,317	49,907
1948	99,754	67,427
1949	105,311	70,776
1950	122,790	78,995
1951	109,341	77,367
1952	116,657	79,551
1953	131,782	85,982
1954	143,470	93,267
1955	214,430	125,011
1956	235,674	136,365
1957	227,227	132,843
1958	168,807	108,945
1959	214,010	131,163
1960	224,853	133,464
1961	207,119	131,672
1962	228,232	139,245
1963	189,824	121,549
Average: 1955-63	212,242	128,917

CHART I

AVERAGE TOTAL AFTER-TAX COMPENSATION:  
LARGE MANUFACTURING SAMPLE, 1940-63



that, over time, the experience of the men in the sample appears a bit more favorable when this comprehensive view of the pay package is adopted. The annual after-tax rewards tabulated slightly better than doubled from 1940 to 1963 for both the top, and top-five, executive groups. The World War II declines—caused by heavy tax increases—were more than offset in the immediate postwar period; by the mid-1950's, significant gains in remuneration, as compared with prior years, were the rule.

One especially interesting feature of these data is the severe volatility of total executive income from year to year, likewise beginning in the mid-1950's. This is a direct consequence of the growing corporate reliance on forms of reward, such as stock options, in which shares of the employer company's common stock were utilized as the compensation medium. Fluctuations in the securities markets therefore came to be reflected strongly in managerial earnings, a phenomenon about which more will be said subsequently. In order to identify more clearly the levels which executive pay reached in the later years of the study, Chart 2 replicates the findings of Table 2, but with the annual after-tax remuneration provided by stock options during the years 1955 through 1963 spread evenly over that interval, and the revised total compensation figures replotted.<sup>3</sup> These smoothed data, because they highlight a kind of "plateau" in earnings which persisted generally for the last nine years depicted, will be extremely useful in several connections when one is drawing comparisons with executives' ownership income and with the other two company samples examined.

The secular shifts in emphasis within the pay package toward deferred and contingent items, and the volatility they introduced, are evident from Table 3, in which the components of aggregate remuneration are broken down for the two executive groups. The same data are diagrammed in Chart 3. Whereas, in the 1940's, salaries and bonuses accounted for roughly three-fourths of total pay for the top

<sup>3</sup> That is, the nine relevant option earnings figures for 1955-63 were added within each of the five executive positions, the five means obtained, and the results substituted for the original annual option figures at each rank.

## CHART 2

AVERAGE TOTAL AFTER-TAX COMPENSATION:  
LARGE MANUFACTURING SAMPLE, 1940-63  
(STOCK OPTION DATA SMOOTHED)

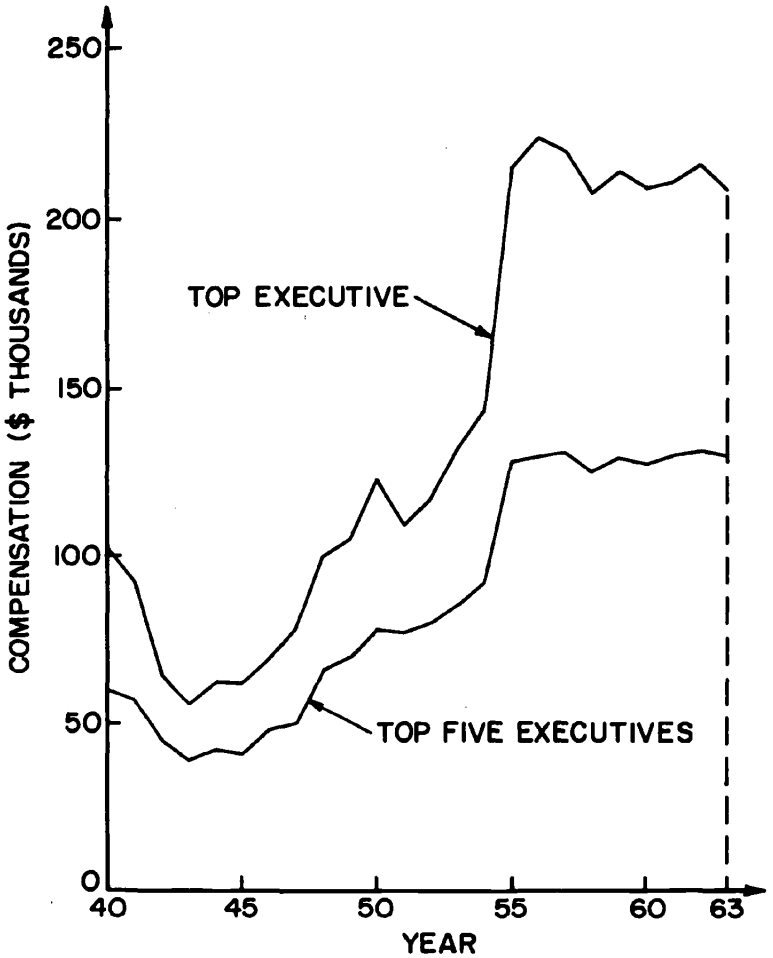


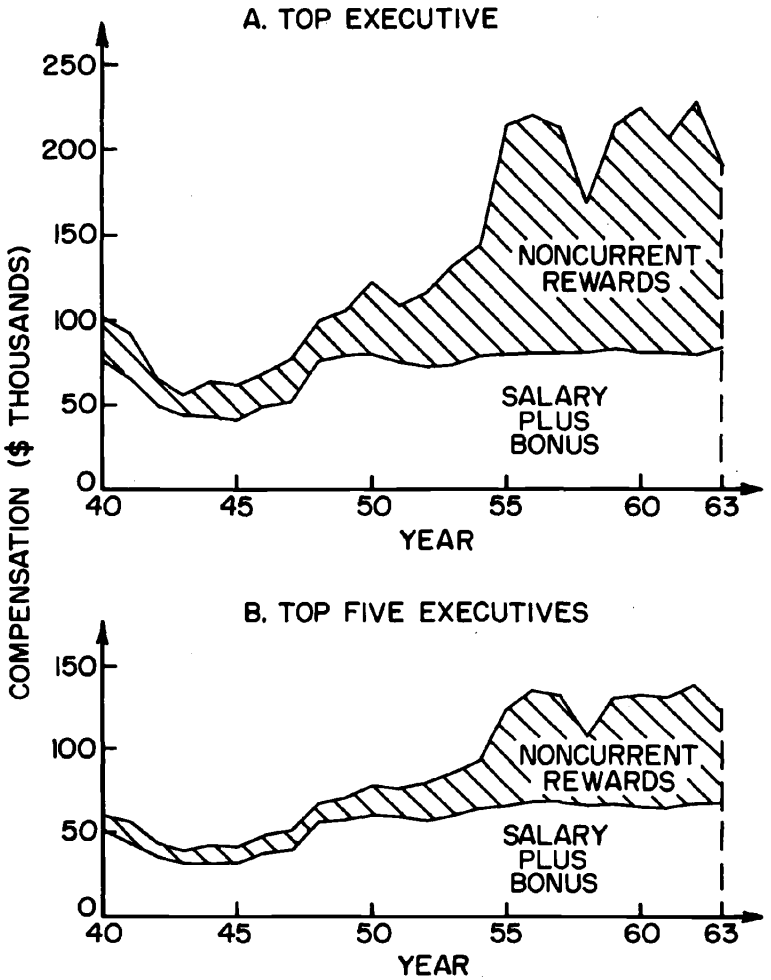
TABLE 3

Elements of After-Tax Compensation:  
 Large Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Salary and Bonus	Noncurrent Rewards	Salary and Bonus	Noncurrent Rewards
1940	76,382 (75)	25,597 (25)	50,847 (85)	8,826 (15)
1941	65,804 (72)	25,731 (28)	43,869 (77)	13,150 (23)
1942	49,627 (75)	16,333 (25)	36,445 (82)	8,100 (18)
1943	42,523 (75)	13,938 (25)	31,625 (81)	7,395 (19)
1944	41,795 (66)	21,872 (34)	31,493 (75)	10,227 (25)
1945	41,221 (67)	20,411 (33)	31,676 (76)	9,771 (24)
1946	48,569 (70)	20,474 (30)	38,072 (79)	9,847 (21)
1947	51,497 (66)	26,820 (34)	38,800 (78)	11,107 (22)
1948	75,201 (75)	24,553 (25)	55,536 (82)	11,891 (18)
1949	78,767 (75)	26,544 (25)	57,334 (81)	13,442 (19)
1950	79,595 (65)	43,195 (35)	60,183 (76)	18,812 (24)
1951	74,536 (68)	34,805 (32)	59,167 (76)	18,200 (24)
1952	71,894 (62)	44,763 (38)	56,893 (72)	22,658 (28)
1953	73,100 (55)	58,682 (45)	59,195 (69)	26,787 (31)
1954	78,353 (55)	65,117 (45)	64,243 (69)	29,024 (31)
1955	79,480 (37)	134,950 (63)	66,036 (53)	58,975 (47)
1956	81,347 (35)	154,327 (65)	68,009 (50)	68,356 (50)
1957	80,736 (36)	146,491 (64)	67,566 (51)	65,277 (49)
1958	80,985 (48)	87,822 (52)	65,894 (60)	43,051 (40)
1959	82,695 (39)	131,315 (61)	67,022 (51)	64,141 (49)
1960	80,733 (36)	144,120 (64)	66,056 (49)	67,408 (51)
1961	80,741 (39)	126,378 (61)	65,369 (50)	66,303 (50)
1962	79,539 (35)	148,693 (65)	67,207 (48)	72,038 (52)
1963	83,568 (44)	106,256 (56)	68,982 (57)	52,567 (43)
Averages:				
1940-49	57,139 (72)	22,227 (28)	41,570 (80)	10,376 (20)
1955-63	81,092 (38)	131,150 (62)	66,905 (52)	62,012 (48)

NOTE: Numbers in parentheses denote per cent of after-tax total each year.

CHART 3

ELEMENTS OF TOTAL AFTER-TAX COMPENSATION:  
LARGE MANUFACTURING SAMPLE, 1940-63

men in each firm, that contribution had dropped to just a little more than one-third by the late 1950's and early 1960's. For the top five men together, the corresponding change was from four-fifths down to one-half of the total.<sup>4</sup> Thus, direct cash compensation subject to immediate taxation has not merely declined in relative importance over the years, but has, in a great many instances, actually fallen to a minority role in the over-all structure of rewards.<sup>5</sup> The significance of this development can perhaps best be appreciated when we observe that virtually all of the recorded growth in the earnings of the senior management group in large manufacturing enterprises between 1940 and 1963 can be traced to the introduction and expanded utilization of deferred and contingent arrangements. Had salaries and bonuses remained the dominant source of executive income, the men in the sample would very likely have been little better off in the 1960's than they were before World War II.

Even with the emergence of noncash forms of compensation, however, the historical earnings experience of these executives still turns out to be relatively poor in comparison with other changes that have taken place in the environment since 1940. The companies for whom the men worked—and, presumably, whose success depended on the policies they formulated—have grown much more rapidly in every important dimension. The income of other professional occupational groups increased at a noticeably faster pace, as did the remuneration of individuals at the lower end of the corporate organizational structure—manufacturing production workers. In fact, the price level in the community rose between 1940 and 1963 at almost exactly the same rate as total after-tax managerial pay, implying that no advances at all in real income terms were achieved by the indicated senior executives during the quarter-century at issue. The following tabulation summarizes the comparisons:

<sup>4</sup> The annual amounts tabulated for items other than salary and bonus represent, of course, the sum of their after-tax current income equivalents as defined in Chapter 2. All are mean values for the sample.

<sup>5</sup> The salary-plus-bonus figures in Table 3 differ somewhat from those in Table 1 because, as noted, the executive rankings are now established according to the levels of *aggregate* after-tax remuneration calculated.

THE OWNERSHIP INCOME OF MANAGEMENT  
COMPOUND ANNUAL RATES OF GROWTH, 1940-63

A. The 50 Sample Companies (aggregate figures):

Assets	7.0%
Net Worth	6.8
Sales	9.1
Profits, Before Taxes	9.1
Profits, After Taxes	8.1
Equity Market Value	10.2

B. After-Tax Earnings, Other Occupations:

Physicians	5.2%
Lawyers	3.9
Dentists	5.2
Manufacturing Production Workers	5.5

C. Consumer Price Index 3.4%

D. Total After-Tax Manufacturing Executive Compensation:

Top Executives	3.2%
Top Five Executives	3.3

The rates of growth in executive pay listed are computed by using as the values for 1963 the annual compensation averages over the period 1955-63 for each of the two categories (see Table 2). The fluctuations in yearly earnings noted above suggest that such averages are more reliable indices of attained levels of remuneration than the figure for any single recent year would be.<sup>6</sup> While evidence of this sort alone does not, of course, permit the inference that senior industrial executives have come to be underpaid as compared with a rigorous measure of their worth to their firms—their respective marginal revenue products—it is clear that a realignment of earnings relationships has occurred within the interval examined.<sup>7</sup>

<sup>6</sup> The corresponding figures for the professions and for hourly workers do not exhibit similar annual fluctuations. The data on sample-company characteristics, professional incomes, production workers' wages, and price changes are drawn from the original compensation study (Lewellen, *op. cit.*, Chapter 9). The equity market value data represent high-low price averages for each year.

<sup>7</sup> The difference between, say, a 3 per cent and a 6 per cent compound annual growth rate over twenty-three years, it should be pointed out, is the

Identification of the most significant characteristic of aggregate executive compensation for our present purposes, however, requires a different perspective on the data presented. If our concern is primarily with the possible links between managerial and shareholder incomes, the importance of common-stock-based sources of reward in the totals heretofore recorded is of special interest. That issue is addressed in Table 4 for the top, and top-five, executive groups, and the findings are depicted in Chart 4. Included in the category "stock-based" in the tabulations are stock options, stock bonuses, and any deferred compensation or profit-sharing plans in which the amounts set aside for the participants are invested in—and later distributed in the form of—shares of the employer corporation's common stock. Arrangements such as salaries and cash bonuses, pensions and cash deferred pay, and profit-sharing schemes are denoted "fixed dollar" rewards. For situations wherein a portion of the relevant benefits under a given plan were payable in cash and the remainder in stock, separate figures for each segment were compiled and allocated to the appropriate columns. Insofar as the magnitude and timing of certain of the fixed-dollar payments themselves were determined by firms as a function of, say, annual gross profits, the comparisons offered here will, of course, understate the true extent of management's effective earnings dependence on company performance.

As they stand, the data show that the highest-paid individuals in these 50 large manufacturing corporations received, on average, just under *half* their aggregate after-tax remuneration from stock-based devices of one kind or another during the period 1955 through 1963. For the five highest-paid executives in each firm combined, the proportion was one-third of total pay.<sup>8</sup> In both instances, these contributions represent increases from figures which were in the neighborhood of 2 to 5 per cent of earnings in the early 1940's. The growing volatility of senior executives' annual compensation in recent years appears as a direct result.

difference between a doubling and a quadrupling of the initial value. Fairly small variations in the annual percentages therefore give rise to substantial disparities in the over-all results.

<sup>8</sup>The criteria throughout being the magnitude of the various "after-tax current income equivalents" of the noncurrent rewards in question.

TABLE 4

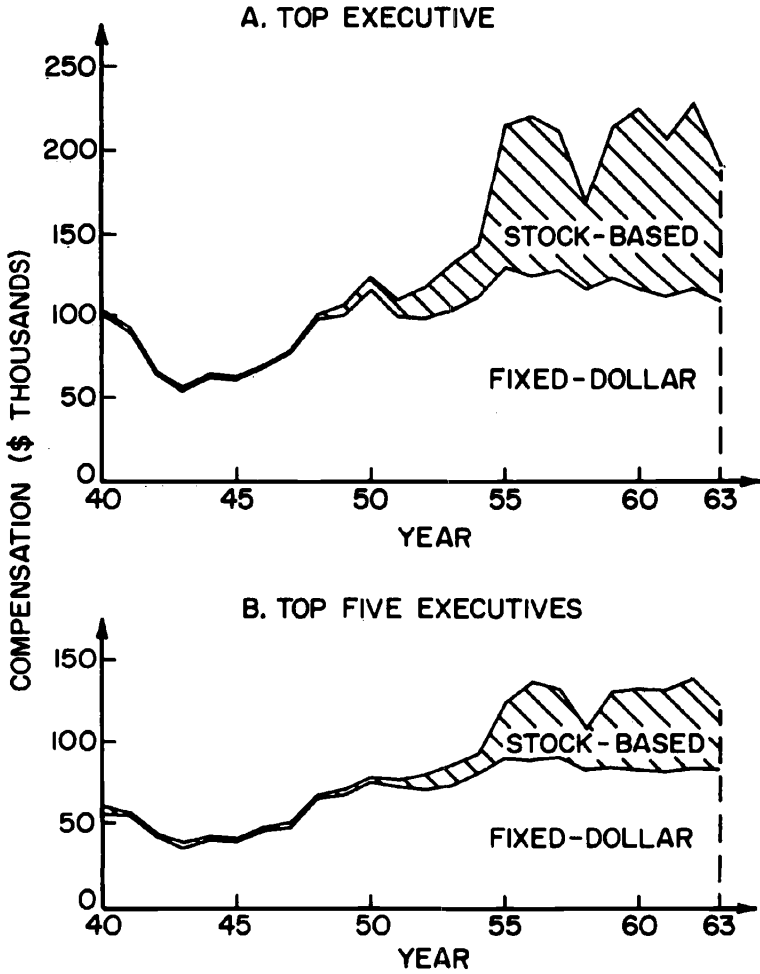
Components of Total After-Tax Compensation:  
 Large Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards
1940	98,755 (97)	3,224 (3)	56,904 (95)	2,769 (5)
1941	88,776 (97)	2,759 (3)	54,757 (96)	2,262 (4)
1942	63,864 (97)	2,096 (3)	42,787 (96)	1,759 (4)
1943	54,467 (97)	1,994 (3)	37,486 (96)	1,534 (4)
1944	62,353 (98)	1,314 (2)	40,787 (98)	933 (2)
1945	60,682 (98)	950 (2)	40,780 (98)	667 (2)
1946	68,295 (99)	748 (1)	46,974 (98)	945 (2)
1947	77,693 (99)	624 (1)	49,306 (99)	601 (1)
1948	97,379 (98)	2,375 (2)	66,028 (98)	1,400 (2)
1949	99,450 (94)	5,861 (6)	68,202 (96)	2,575 (4)
1950	113,944 (93)	8,846 (7)	75,146 (95)	3,849 (5)
1951	99,317 (91)	10,024 (9)	72,843 (94)	4,524 (6)
1952	96,563 (83)	20,094 (17)	70,791 (89)	8,760 (11)
1953	102,072 (77)	29,710 (23)	74,242 (86)	11,740 (14)
1954	110,582 (77)	32,888 (23)	80,811 (87)	12,456 (13)
1955	130,450 (61)	83,980 (39)	90,332 (72)	34,679 (28)
1956	125,208 (53)	110,466 (47)	89,153 (65)	47,212 (35)
1957	127,552 (56)	99,675 (44)	90,023 (68)	42,820 (32)
1958	115,935 (69)	52,872 (31)	84,322 (77)	24,623 (23)
1959	121,837 (57)	92,173 (43)	85,779 (65)	45,383 (35)
1960	116,445 (52)	108,408 (48)	83,727 (63)	49,737 (37)
1961	111,100 (54)	96,019 (46)	81,657 (62)	50,015 (38)
1962	115,906 (51)	112,326 (49)	85,854 (62)	53,390 (38)
1963	107,596 (57)	82,228 (43)	84,357 (69)	37,191 (31)
Average 1955-63	119,115 (56)	93,127 (44)	86,134 (67)	42,783 (33)

NOTE: Numbers in parentheses denote per cent of total each year.

CHART 4

COMPONENTS OF TOTAL AFTER-TAX COMPENSATION:  
LARGE MANUFACTURING SAMPLE, 1940-63



That volatility turns out to be greater, the higher in the managerial hierarchy a man climbs, since the emphasis on stock-based arrangements in his pay package rises simultaneously. Thus, a breakdown of the data by position indicates the following:

SOURCES OF AFTER-TAX COMPENSATION, 1955-63

Executive Rank	Per Cent of Total Earnings	
	Fixed-Dollar	Stock-Based
#1	56%	44%
#2	66	34
#3	69	31
#4	77	23
#5	81	19

On the basis of these findings alone, we might be tempted to conclude that executives' fortunes have become tied sufficiently strongly to their shareholders' economic interests over the years that nowadays a professional manager would be unlikely to adopt policies inimical to those interests. If nothing else, the evidence is at least consistent with the notion of such a general congruence of goals, and it establishes the existence of a relationship whose dimensions have not previously been well-documented. In that light, it comprises an important part of the story which the data on stock ownership below will complete.<sup>9</sup>

### *The Retail Trade Sample*

The senior executives of the 15 large retailing firms examined display a historical compensation experience which, in its broad outlines, is similar to that of their manufacturing counterparts. In particular, the rates of growth in earnings observed since 1940 are

<sup>9</sup> It should be stressed again that none of the foregoing figures include any dividends or capital gains resulting from actual outright ownership of employer-company shares by executives. That "investment" income is recorded—as it will be in subsequent chapters—only *after* the relevant shares are formally conveyed to the executive and are valued here first as compensation receipts. See the discussion in Chapter 2.

roughly comparable, and the same trend toward heavier emphasis on deferred and contingent devices can again be seen. In this respect, the findings for the large manufacturers—and the implications thereof—are confirmed more generally for the managerial community. On the other hand, the differences in the results for the two samples are equally noteworthy. These relate primarily to the nature of the hierarchical compensation profile within companies, and they allow some interesting contrasts to be drawn.

The mean salary plus bonus income of the top, and top-five, officer categories in retailing is listed for the years 1940 to 1963 in Table 5.<sup>10</sup> While the absolute values shown are approximately two-thirds to three-fourths the size of the manufacturing averages throughout, the proportionate increases over time match up well with those indicated in Table 1. The highest-salaried men in each retailing firm enjoyed a 55 per cent gain in mean before-tax annual direct cash receipts; and the five highest-salaried together, a 63 per cent gain, between the beginning and the end of the interval studied. These compare with figures of 55 and 86 per cent, respectively, for the fifty large manufacturers.

Because increases of this order are fairly modest for a quarter-century of activity—and because personal tax rates were raised concurrently—the after-tax record is again unimposing. The corresponding take-home amounts for retail executives appreciated by just 19 and 26 per cent at the two levels in question. Clearly, those findings would suggest a pronounced upward rigidity in corporate pay policies at the top of the organizational structure.

The aggregate remuneration experience, however, belies such a ready interpretation. As Table 6 and Chart 5 illustrate, the mean total after-tax compensation of senior retailing executives somewhat more than doubled from 1940 to 1963. The figures were computed by adding to after-tax salary plus bonus receipts the after-tax current income equivalents of all other rewards observed, and then reranking individuals within their companies according to the new totals. From this standpoint, both the top, and top-five, executive groups display an income history which is a near-duplicate of the large-manufacturing data. While a “plateau” in earnings in the present instance does

<sup>10</sup> The rankings there are by salary plus bonus payments only.

TABLE 5

Average Salary Plus Bonus Earnings:  
Retail Trade Sample, 1940-63  
(amounts in dollars)

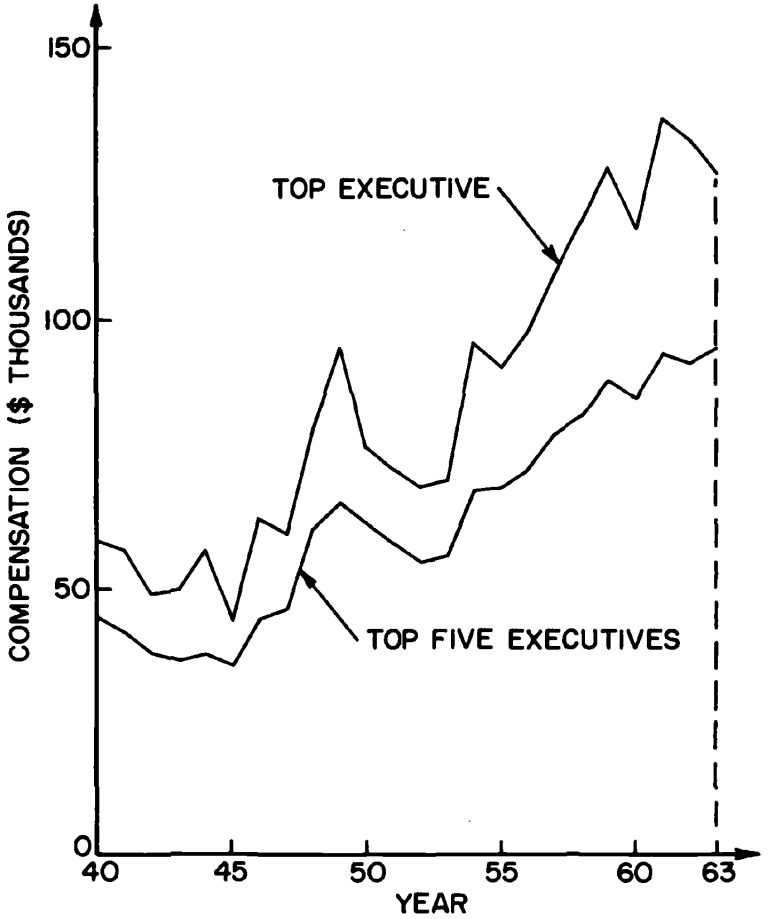
Year	Top Executive		Top Five Executives	
	Before Taxes	After Taxes	Before Taxes	After Taxes
1940	93,382	58,666	65,926	44,833
1941	113,405	55,995	76,487	41,151
1942	109,643	43,661	77,868	34,764
1943	111,859	37,602	79,259	30,861
1944	115,674	38,292	82,601	31,595
1945	112,567	37,833	82,552	31,661
1946	133,816	49,535	95,685	39,663
1947	122,131	46,878	96,153	39,981
1948	123,272	65,366	96,722	54,427
1949	117,094	63,060	90,586	51,940
1950	122,272	65,098	97,486	54,879
1951	116,057	59,835	91,376	50,463
1952	115,873	55,928	89,262	46,361
1953	118,993	57,005	91,115	46,985
1954	120,186	61,369	93,242	51,091
1955	135,299	65,938	99,865	53,420
1956	136,026	66,048	100,404	53,609
1957	135,622	66,098	100,704	53,847
1958	132,849	65,258	101,470	54,268
1959	142,299	68,082	106,336	55,907
1960	135,294	66,199	102,679	54,777
1961	141,627	68,293	104,488	55,377
1962	143,137	68,834	105,844	55,963
1963	144,452	69,606	107,623	56,704

TABLE 6

Average Total After-Tax Compensation:  
Retail Trade Sample, 1940-63  
(amounts in dollars)

Year	Top Executive	Top Five Executives
1940	59,148	45,304
1941	57,338	41,769
1942	48,602	37,497
1943	49,709	36,884
1944	56,976	38,450
1945	44,404	35,762
1946	62,757	45,462
1947	59,730	45,586
1948	79,776	60,865
1949	95,043	66,004
1950	75,662	61,580
1951	71,793	58,126
1952	68,652	55,406
1953	70,410	56,321
1954	96,039	67,933
1955	90,580	68,778
1956	98,324	71,740
1957	109,314	78,834
1958	117,514	81,629
1959	128,091	88,684
1960	116,513	84,694
1961	136,617	94,227
1962	133,456	92,277
1963	127,290	95,180
Average: 1959-63	128,393	91,012

CHART 5  
AVERAGE TOTAL AFTER-TAX COMPENSATION:  
RETAIL TRADE SAMPLE, 1940-63



not appear to occur until perhaps 1959, rather than as early as 1955, the over-all record of pay increases is remarkably like that identified earlier for industrial firms. Presumably, a similar set of market forces and environmental pressures were at work.

The more vigorous performance of total compensation over the years vis-à-vis salaries and bonuses is, of course, attributable to the same growing reliance on noncurrent forms of remuneration to which the manufacturing time series attested. The retail sector does, on the other hand, exhibit this phenomenon to a smaller degree. Table 7 and Chart 6 show that the highest-paid executives in large retailing organizations received approximately *half* their earnings from arrangements other than salary and bonus during the last few years investigated.<sup>11</sup> For the large-manufacturing sample, the corresponding proportion was roughly two-thirds. In like fashion, the five highest-paid retail officers combined relied on noncurrent rewards for 39 per cent of their total after-tax pay in the early 1960's, as compared with a figure of 48 per cent in the case of their industrial counterparts. Nonetheless, because the pre-World War II percentages tabulated for both retail officer groups were quite small, a sharp secular restructuring of the compensation package is again evident.

One consequence of the more important role for salaries and bonuses—which are characteristically among the more stable income elements—in retail executives' earnings is a somewhat less volatile behavior of total annual remuneration than was indicated by the manufacturing analysis. The peaks and troughs recorded in Table 6 are not nearly as prominent in recent years as those depicted in Table 2. We shall examine this difference further in a subsequent comparison.

The fact that, despite these variations in experience, historical aggregate compensation growth rates in retailing and manufacturing have been very similar implies that the senior retail management group has also lost ground over time in relation to the pay of other professional occupations and has just about held its own in terms of purchasing power. In addition, the retail firms themselves expanded

<sup>11</sup> The differences between these salary-plus-bonus figures and those in Table 5 are attributable to the reranking of individuals within firms now by total compensation rather than by cash payments alone.

TABLE 7

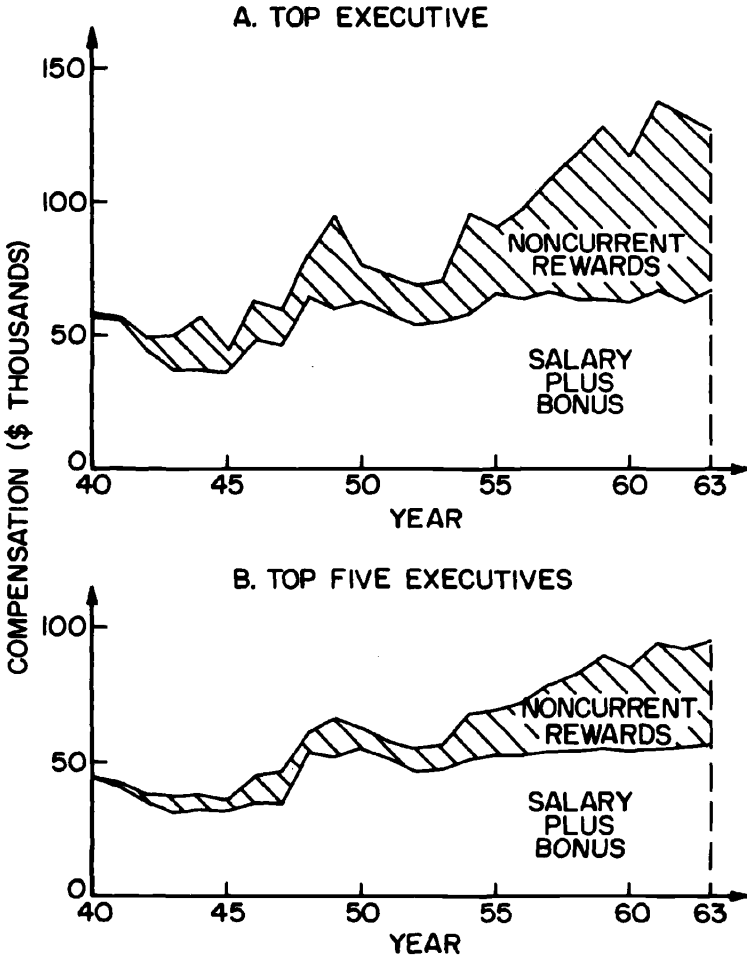
Elements of After-Tax Compensation:  
Retail Trade Sample, 1940-63  
(amounts in dollars)

Year	Top Executive		Top Five Executives	
	Salary and Bonus	Noncurrent Rewards	Salary and Bonus	Noncurrent Rewards
1940	58,666 (99)	482 (1)	44,835 (99)	469 (1)
1941	55,995 (98)	1,343 (2)	41,120 (98)	648 (2)
1942	43,661 (90)	4,941 (10)	34,752 (93)	2,745 (7)
1943	36,904 (74)	12,805 (26)	30,855 (84)	6,029 (16)
1944	37,278 (65)	19,698 (35)	31,652 (82)	6,799 (18)
1945	36,259 (82)	8,145 (18)	31,582 (88)	4,180 (12)
1946	49,068 (78)	13,689 (22)	39,663 (87)	5,799 (13)
1947	45,941 (77)	13,789 (23)	39,994 (88)	5,591 (12)
1948	63,500 (80)	16,276 (20)	54,387 (89)	6,478 (11)
1949	60,288 (63)	34,755 (37)	51,741 (78)	14,263 (22)
1950	62,744 (83)	12,918 (17)	54,769 (89)	6,811 (11)
1951	57,872 (81)	13,921 (19)	50,527 (87)	7,599 (13)
1952	54,074 (79)	14,578 (21)	46,350 (84)	9,056 (16)
1953	54,834 (78)	15,576 (22)	46,920 (83)	9,401 (17)
1954	57,524 (60)	38,515 (40)	50,975 (75)	16,958 (25)
1955	65,683 (73)	24,897 (27)	53,373 (78)	15,406 (22)
1956	64,185 (65)	34,139 (35)	53,398 (74)	18,342 (26)
1957	65,824 (60)	43,490 (40)	53,716 (68)	25,119 (32)
1958	64,295 (55)	53,219 (45)	54,039 (66)	27,590 (34)
1959	64,283 (50)	63,808 (50)	55,405 (62)	33,279 (38)
1960	63,120 (54)	53,393 (46)	54,275 (64)	30,419 (36)
1961	66,657 (49)	69,960 (51)	55,264 (59)	38,964 (41)
1962	63,461 (48)	69,995 (52)	55,945 (61)	36,332 (39)
1963	66,833 (53)	60,457 (47)	56,590 (59)	38,590 (41)
Average: 1959-63	64,871 (51)	63,522 (49)	55,496 (61)	35,516 (39)

NOTE: Numbers in parentheses denote per cent of after-tax total each year.

CHART 6

ELEMENTS OF TOTAL AFTER-TAX COMPENSATION:  
RETAIL TRADE SAMPLE, 1940-63



more rapidly by every significant measure than did the remuneration of their top officials, a result which again resembles the manufacturing findings. For example:

COMPOUND ANNUAL RATES OF GROWTH, 1940-63

A. The 15 Retailing Companies (Aggregate Figures):

Assets	7.2%
Sales	7.3
Profits, Before Taxes	7.1
Profits, After Taxes	5.8
Equity Market Values	7.8

B. Total After-Tax Retail Executive Compensation: <sup>12</sup>

Top Executives	3.4%
Top Five Executives	3.0

The generally sluggish chronological record of executive rewards therefore appears to extend beyond the circumstances of the industrial sector.

The intra-firm structure of rewards in retailing, however, has its own set of parameters. Specifically, the compensation spread among the men at the top of the several organizations is considerably narrower than is true of manufacturing enterprises. Thus:

BEFORE-TAX SALARY-PLUS-BONUS AS A PER CENT OF  
TOP EXECUTIVE'S SALARY-PLUS-BONUS

Executive Rank *	Retail Trade		Manufacturing	
	1940-41	1959-63	1940-41	1955-63
#1	100%	100%	100%	100%
#2	73	79	63	75
#3	61	69	50	64
#4	57	63	45	57
#5	53	61	38	53

\* By salary and bonus receipts.

<sup>12</sup> Based in this case on the 1959-63 compensation averages as the assumed terminal values for the 23-year interval at issue. See the commentary on page 48.

The two different averaging periods adopted for the two samples in the later years examined are functions simply of the times at which some coherent pattern in both the level and the composition of earnings seemed to evolve in the two instances. Alternative choices would yield equivalent comparisons, since the phenomenon identified is a persistent one. More important, it shows up in the total compensation figures as well:

TOTAL AFTER-TAX COMPENSATION AS A PER CENT OF  
TOP EXECUTIVE'S TOTAL AFTER-TAX COMPENSATION

Executive Rank *	Retail Trade		Manufacturing	
	1940-41	1959-63	1940-41	1955-63
#1	100%	100%	100%	100%
#2	79	77	65	67
#3	69	65	53	55
#4	65	57	45	44
#5	61	55	39	38

\* By total compensation.

Whatever our index, then, the remuneration gradient at the senior executive level is clearly much gentler for retailers. A full appraisal of these findings and their implications, on the other hand, exceeds the legitimate needs of the current study and can be better dealt with elsewhere.<sup>13</sup>

The key item in the present context is the proportion of total executive pay which is accounted for by stock-related forms of reward. Table 8 and Chart 7 show that the highest-paid men in the 15 firms received 1 per cent or less of their aggregate earnings from such devices in the early 1940's, but experienced 35 per cent of a sub-

<sup>13</sup> One possible explanation for the smaller retail pay differentials is the chain-store nature of the typical organization. Many of the corporate vice presidents in retailing appear to hold their positions by virtue of being the chief operating officers of one of the major stores in the chain, for which the parent organization is a kind of holding company. In manufacturing, by contrast, there is usually a functional-area division of responsibilities at the vice presidential level.

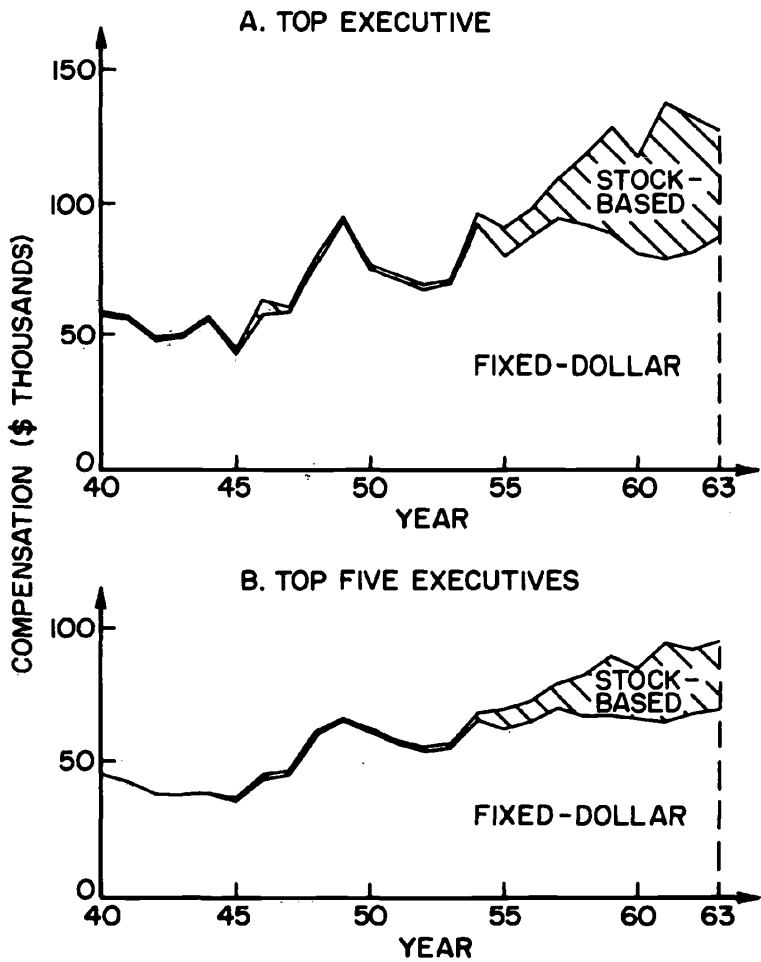
TABLE 8  
 Components of Total After-Tax Compensation:  
 Retail Trade Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards
1940	58,718 (99)	430 (1)	45,080 (100)	223 (0)
1941	56,587 (99)	751 (1)	41,510 (99)	258 (1)
1942	48,409 (100)	193 (0)	37,407 (100)	89 (0)
1943	49,557 (100)	152 (0)	36,708 (100)	175 (0)
1944	55,803 (98)	1,173 (2)	38,041 (99)	409 (1)
1945	43,239 (97)	1,165 (3)	35,248 (99)	513 (1)
1946	57,842 (92)	4,915 (8)	44,099 (97)	1,362 (3)
1947	59,424 (99)	306 (1)	45,430 (100)	154 (0)
1948	78,247 (98)	1,529 (2)	60,329 (99)	535 (1)
1949	94,550 (99)	493 (1)	65,675 (100)	328 (0)
1950	74,482 (98)	1,180 (2)	60,994 (99)	585 (1)
1951	70,892 (99)	901 (1)	57,582 (99)	543 (1)
1952	67,434 (98)	1,218 (2)	54,628 (99)	777 (1)
1953	68,688 (98)	1,722 (2)	55,213 (98)	1,108 (2)
1954	91,791 (96)	4,248 (4)	65,232 (96)	2,700 (4)
1955	80,049 (88)	10,531 (12)	61,905 (90)	6,873 (10)
1956	87,584 (89)	10,740 (11)	64,678 (90)	7,061 (10)
1957	94,292 (86)	15,022 (14)	69,822 (89)	9,011 (11)
1958	91,683 (78)	25,831 (22)	67,384 (83)	14,244 (17)
1959	89,253 (70)	38,838 (30)	67,724 (76)	20,959 (24)
1960	81,194 (70)	35,319 (30)	65,752 (78)	18,941 (22)
1961	79,338 (58)	57,279 (42)	65,599 (70)	28,628 (30)
1962	80,726 (60)	52,730 (40)	67,520 (73)	24,756 (27)
1963	87,222 (69)	40,068 (31)	69,346 (73)	25,833 (27)
Average: 1959-63	83,547 (65)	44,846 (35)	67,188 (74)	23,824 (26)

NOTE: Numbers in parentheses denote per cent of total each year.

CHART 7

COMPONENTS OF TOTAL AFTER-TAX COMPENSATION:  
RETAIL TRADE SAMPLE, 1940 - 63



stantially higher total from the same sources between 1959 and 1963. The five highest-paid men, taken together, started from a comparably low base to end up with a 26 per cent contribution in the later years. The breakdown by position is as follows:

SOURCES OF AFTER-TAX RETAIL EXECUTIVE  
COMPENSATION, 1959-63

Executive Rank *	Per Cent of Total Earnings	
	Fixed-Dollar	Stock-Based
#1	65%	35%
#2	73	27
#3	76	24
#4	80	20
#5	81	19

\* By total compensation.

These are far from trivial fractions and are only slightly below the corresponding stock percentages for the large manufacturing sample. The fact that they *are* slightly below explains in part the somewhat less pronounced volatility of annual after-tax pay in retailing than in manufacturing.<sup>14</sup> Nonetheless, the phenomenon of an important direct link between managerial compensation and shareholder returns appears to hold for the leading firms in this sector of the economy as well, even though separation of ownership and management would, in the usual view, be alleged a potential problem in their operations because of the wide public stock distribution that they enjoy.

*The Small Manufacturing Sample*

The compensation history associated with the senior executive positions in smaller industrial enterprises provides additional support for

<sup>14</sup> As it happens, the bulk of retail executives' stock-based earnings originate in post-retirement deferred compensation plans, while stock options are the dominant element in manufacturing. Since the former generally give rise to milder annual fluctuations in value in response to a particular change in stock prices due to the longer planning and accrual horizon involved, it is consistent to observe a greater degree of income stability in the retail remuneration figures.

the central conclusions which the foregoing data suggest.<sup>15</sup> There is an especially strong resemblance between the structure and the chronology of managerial earnings in such companies and those of executives in very large manufacturing corporations. Indeed, the similarity both in rates of growth of total pay and in intra-firm compensation differentials for the two samples is sufficiently marked as to imply that they are symptomatic of some basic attributes of industrial organizations in this country.

The record of salary-plus-bonus payments to the senior officers of the 15 companies which comprise the small-firm sample is presented in Table 9. We see that the mean pre-tax direct cash remuneration of the highest-salaried men in each firm increased by 67 per cent between 1940 and 1963, while that of the five highest-salaried, as a group, rose by 108 per cent. This is a more impressive performance than that displayed by the corresponding large-manufacturing time series. It does, however, fit logically and neatly into a consistent overall result, whose dimensions we shall examine.

The attendant after-tax magnitudes—calculated according to the procedures regarding outside income, deductions, and exemptions described in Chapter 2—were 31 per cent greater in 1963 than in 1940 for the typical top executive. For the top five men combined, the gain was 58 per cent. Because the *absolute* pre-tax amounts involved are substantially below those enjoyed by the large-manufacturing managerial contingent, progressive personal income taxes fall rather more lightly over the years on the current sample, raising the proportion of take-home pay to gross receipts throughout, as well as enhancing the observed historical growth rates in the after-tax figures.

The secular pattern of *total* after-tax compensation experienced by small-manufacturing executives is recorded in Table 10 and illustrated by Chart 8. These data indicate that during the quarter-century interval studied, mean aggregate annual remuneration almost exactly doubled, both for the highest-paid, and for the five highest-paid, individuals in each company. Average earnings for the period 1956–63 are utilized in making that comparison—once again simply as a

<sup>15</sup> It should be noted again that “smaller” refers here to firms with annual sales in the \$100 million range. See Chapter 2.

TABLE 9

Average Salary Plus Bonus Earnings:  
Small Manufacturing Sample, 1940-63  
(amounts in dollars)

Year	Top Executive		Top Five Executives	
	Before Taxes	After Taxes	Before Taxes	After Taxes
1940	51,598	37,264	30,353	24,207
1941	53,916	31,744	32,621	21,555
1942	55,274	27,996	33,907	19,693
1943	53,339	24,329	32,547	17,449
1944	54,584	24,666	33,029	17,636
1945	55,487	24,896	34,055	18,047
1946	58,829	29,047	37,883	21,247
1947	62,526	30,202	41,419	22,707
1948	66,559	41,114	42,981	29,116
1949	63,494	40,106	41,847	28,733
1950	68,576	42,722	42,906	29,302
1951	70,333	42,216	46,509	30,550
1952	76,692	42,002	49,210	30,013
1953	76,819	42,132	48,516	29,755
1954	75,181	44,128	47,966	31,136
1955	76,792	44,772	50,094	32,221
1956	84,103	47,851	53,488	33,849
1957	84,279	47,894	53,611	33,946
1958	81,466	46,594	52,953	33,638
1959	88,362	49,518	57,635	35,760
1960	84,567	48,033	58,397	36,256
1961	82,575	47,135	57,763	35,876
1962	85,971	48,609	61,603	37,538
1963	86,071	48,607	63,044	38,201

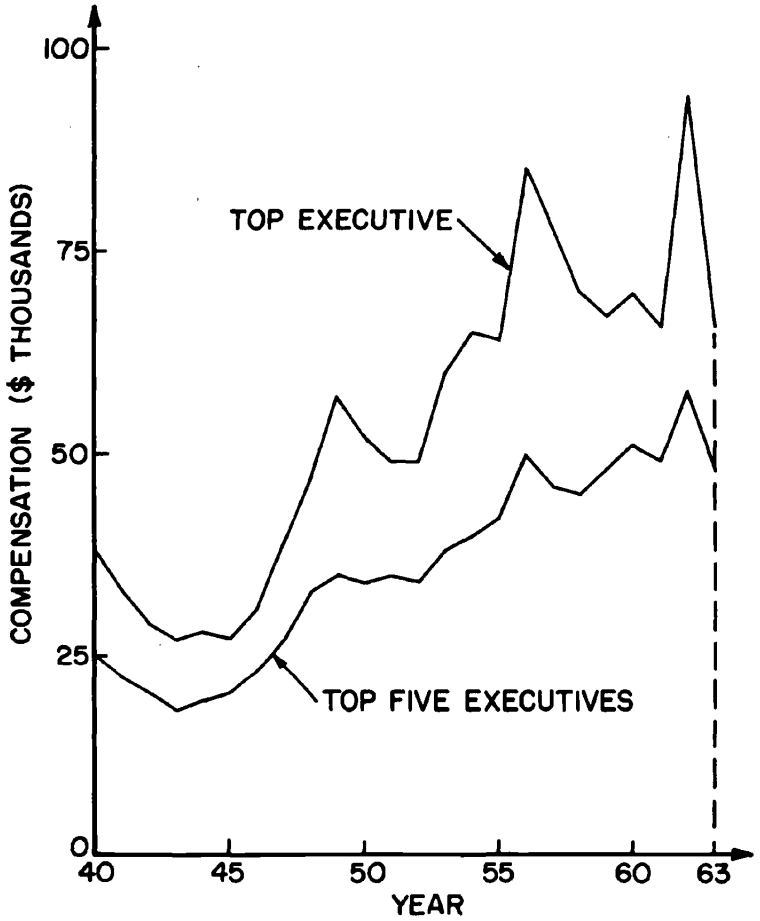
TABLE 10

Average Total After-Tax Compensation:  
 Small Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive	Top Five Executives
1940	37,682	24,502
1941	33,201	22,088
1942	29,481	20,227
1943	26,591	18,031
1944	28,001	18,991
1945	26,870	19,617
1946	30,877	22,886
1947	38,616	27,162
1948	46,595	32,607
1949	56,915	34,607
1950	51,872	33,728
1951	49,361	34,588
1952	49,360	34,106
1953	60,351	38,324
1954	65,472	40,224
1955	64,244	41,854
1956	85,126	49,735
1957	77,648	46,262
1958	69,513	44,457
1959	66,889	47,916
1960	70,165	51,252
1961	66,422	49,093
1962	94,486	57,459
1963	65,550	48,414
Average: 1956-63	74,475	49,324

## CHART 8

AVERAGE TOTAL AFTER-TAX COMPENSATION:  
SMALL MANUFACTURING SAMPLE, 1940-63



device to circumvent the recent volatility in the yearly figures. On this basis, the full compensation history of senior management in small industrial firms comes extremely close to that exhibited by the two previous samples. Clearly, the conclusion that such a result may be interpreted as evidence of a fairly pervasive phenomenon in the business community now becomes quite tempting. Certainly the three groups in question cover a broad range of employment and environmental circumstances. They would not ordinarily be expected to produce the kind of similarity in earnings experiences observed unless some fundamental market or institutional forces were more generally at work in the economy. Despite substantial differences in the *level* of top executive rewards among firms of varying sizes and orientations, then, the pace of *increases* in those rewards has been notably consistent across sectors and over time.

The relationship of the current figures to the large-manufacturing findings deserves particular scrutiny. It happens that the more vigorous rate of appreciation of salary and bonus payments in the smaller companies has been accompanied by a relatively less intensive degree of income supplementation through deferred and contingent compensation arrangements. The effect, as we have seen, is to produce neatly a total pay package displaying virtually the same proportionate net increase since 1940. This outcome is portrayed in Table 11 and Chart 9, and may be summarized as follows:

SALARY PLUS BONUS AS A PER CENT OF TOTAL  
AFTER-TAX COMPENSATION

	Large Manufacturers		Small Manufacturers	
	1940-49	1955-63	1940-49	1956-63
Top Executives	72%	38%	87%	60%
Top Five Executives	80	52	91	72

The influence of a lighter burden of progressive personal income taxes on the more modest absolute direct cash rewards of the small-manufacturing sample obviously underlies these figures. A corresponding

TABLE 11

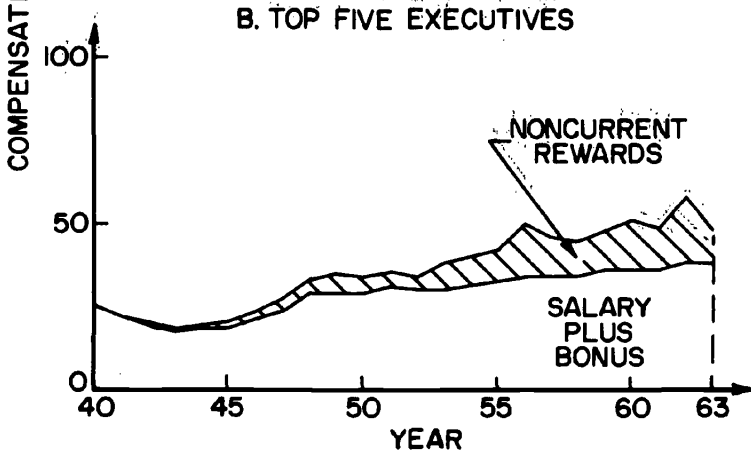
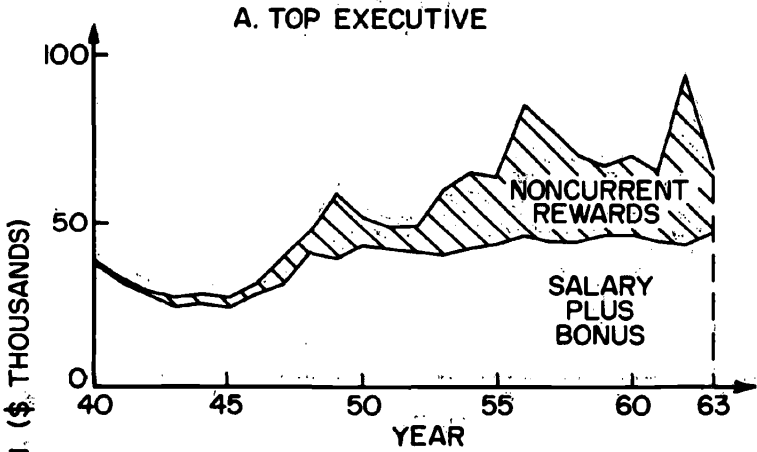
Elements of After-Tax Compensation:  
 Small Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Salary and Bonus	Noncurrent Rewards	Salary and Bonus	Noncurrent Rewards
1940	37,264 (99)	418 (1)	24,207 (99)	295 (1)
1941	31,744 (96)	1,457 (4)	21,555 (98)	533 (2)
1942	27,996 (95)	1,485 (5)	19,693 (97)	534 (3)
1943	24,329 (91)	2,262 (9)	17,431 (97)	600 (3)
1944	24,492 (87)	3,509 (13)	17,592 (93)	1,399 (7)
1945	24,444 (91)	2,426 (9)	17,933 (91)	1,684 (9)
1946	28,342 (92)	2,535 (8)	21,196 (93)	1,690 (7)
1947	29,787 (77)	8,829 (23)	22,662 (83)	4,500 (17)
1948	41,114 (88)	5,481 (12)	29,073 (89)	3,534 (11)
1949	38,530 (68)	18,385 (32)	28,656 (83)	5,951 (17)
1950	42,722 (82)	9,150 (18)	29,256 (87)	4,472 (13)
1951	41,668 (84)	7,693 (16)	30,541 (88)	4,047 (12)
1952	40,994 (83)	8,366 (17)	30,012 (88)	4,094 (12)
1953	39,634 (66)	20,717 (34)	29,582 (77)	8,742 (23)
1954	41,881 (64)	23,591 (36)	31,082 (77)	9,142 (23)
1955	42,594 (66)	21,650 (34)	32,164 (77)	9,690 (23)
1956	46,128 (54)	38,998 (46)	33,726 (68)	16,009 (32)
1957	43,652 (56)	33,996 (44)	33,861 (73)	12,401 (27)
1958	44,088 (63)	25,425 (37)	33,761 (76)	10,696 (24)
1959	46,444 (69)	20,445 (31)	35,653 (74)	12,263 (26)
1960	45,638 (65)	24,527 (35)	36,260 (71)	14,992 (29)
1961	44,475 (67)	21,947 (33)	35,722 (73)	13,371 (27)
1962	43,077 (46)	51,409 (54)	37,604 (65)	19,855 (35)
1963	46,858 (71)	18,692 (29)	38,423 (79)	9,991 (21)
Average:				
1940-49	30,804 (87)	4,679 (13)	22,000 (91)	2,072 (9)
1956-63	45,045 (60)	29,430 (40)	35,626 (72)	13,698 (28)

NOTE: Numbers in parentheses denote per cent of total each year.

CHART 9

ELEMENTS OF TOTAL AFTER-TAX COMPENSATION:  
SMALL MANUFACTURING SAMPLE, 1940-63



point can be made in connection with the composition of retail trade executives' earnings, which in the aggregate were somewhat under the comparable large industrial levels and were—presumably in response to the tax situation—comprised more heavily of salaries and bonuses. The logic of tax planning in the design of corporate pay policies, therefore, seems to be reflected consistently in the patterns which emerge.<sup>16</sup>

An additional type of consistency is discernible in the hierarchical structure of compensation in the manufacturing sector. The salary-plus-bonus profile among the top five managerial positions turns out to be almost identical for small and large enterprises. Thus, we have:

BEFORE-TAX SALARY PLUS BONUS AS A PER CENT OF  
TOP EXECUTIVE'S SALARY PLUS BONUS

Executive Ranks *	Large Manufacturers		Small Manufacturers	
	1940-41	1955-63	1940-41	1956-63
#1	100%	100%	100%	100%
#2	63	75	62	71
#3	50	64	52	61
#4	45	57	45	55
#5	38	53	39	50

\* By salary-plus-bonus receipts.

Except for a very minor 2 to 3 percentage point difference in the more recent figures, both the initial and final pay relationships match up extremely well between the two samples. The experience of either one offers a sharp contrast to the much tighter compensation pattern in retail trade organizations.

<sup>16</sup> Further evidence of such planning was uncovered in the original compensation study of large manufacturers, where it turned out that the firms which provided the highest levels of reward for their executives were precisely the firms which utilized deferred and contingent pay schemes most extensively. When companies were ranked within particular periods first by the size of their top executives' earnings and then by the percentage of the latter which was attributable to noncurrent arrangements, correlation coefficients between the rankings on the order of .9 were obtained. See Lewellen, *op. cit.*, pp. 253-254.

Rather less over-all similarity in policies within manufacturing is implied by the aggregate after-tax remuneration data, but the relevant profiles in the two instances have, at least, been maintained intact since prior to World War II:

TOTAL AFTER-TAX COMPENSATION AS A PER CENT OF  
TOP EXECUTIVE'S TOTAL AFTER-TAX COMPENSATION

Executive Rank *	Large Manufacturers		Small Manufacturers	
	1940-41	1955-63	1940-41	1956-63
#1	100%	100%	100%	100%
#2	65	67	69	72
#3	53	55	61	60
#4	45	44	52	52
#5	39	38	47	47

\* By total compensation.

The widespread uniformity of historical growth rates in total manufacturing executive earnings thereby appears again as an important characteristic of the compensation process.

Because of that uniformity, the senior officers of small firms can be observed to have experienced the same sort of decline in income over the years relative to other professional groups and to hourly production workers that the large-firm findings suggested. In like manner, the corporations involved in the current sample grew noticeably more rapidly since 1940 than did their executives' annual remuneration, though the differences here are not quite as pronounced as is the case in the larger industrials. The record is:

COMPOUND ANNUAL RATES OF GROWTH, 1940-63

A. The 15 Sample Companies (aggregate data):

Assets	5.1%
Sales	7.7
Profits, Before Taxes	5.8
Profits, After Taxes	4.3
Equity Market Value	5.4

## B. After-Tax Earnings, Other Groups:

Physicians	5.2%
Lawyers	3.9
Dentists	5.2
Production Workers	5.5

C. Total After-Tax Compensation, Small-Firm Executives: <sup>17</sup>

Top Executives	3.0%
Top Five Executives	3.0

Indeed, at a 3.4 per cent compound annual rate of growth, the Consumer Price Index has outpaced the gains in the indicated managerial earnings during the interval considered, leaving real income for the sample *below* counterpart 1940 levels.

The significant historical difference between the figures for the small and large industrial companies, however, lies in the extent to which stock-based compensation devices have been relied upon as instruments of executive reward. Table 12 and Chart 10 illustrate the point, the dimensions of which are apparent from the following summary:

STOCK-BASED REWARDS AS A PER CENT OF  
TOTAL AFTER-TAX COMPENSATION

Executive Rank *	Large Manufacturers	Small Manufacturers
	1955-63	1956-63
#1	44%	11%
#2	34	10
#3	31	7
#4	23	5
#5	19	6

\* By total compensation.

Interestingly, all the stock-based earnings shown for the smaller companies were accounted for by stock options. None of the fifteen firms studied had either a profit-sharing or a deferred compensation plan utilizing employer-corporation common shares as the means of

<sup>17</sup> The 1956-63 averages shown in Table 10 are used as the 1963 terminal values in these computations.

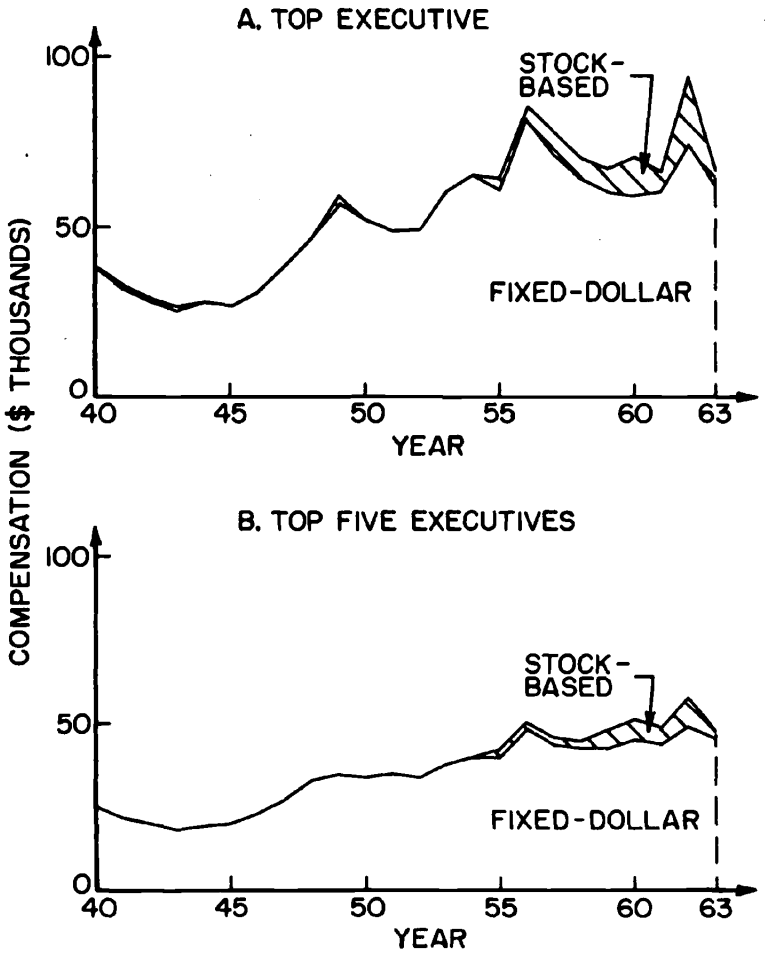
TABLE 12

Components of Total After-Tax Compensation:  
 Small Manufacturing Sample, 1940-63  
 (amounts in dollars)

Year	Top Executive		Top Five Executives	
	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards	Earnings from Fixed-Dollar Rewards	Earnings from Stock-Based Rewards
1940	37,682 (100)	— (0)	24,502 (100)	— (0)
1941	32,168 (97)	1,033 (3)	21,854 (99)	235 (1)
1942	28,746 (98)	735 (2)	20,055 (99)	172 (1)
1943	26,030 (98)	561 (2)	17,896 (99)	134 (1)
1944	28,001 (100)	— (0)	18,991 (100)	— (0)
1945	26,870 (100)	— (0)	19,617 (100)	— (0)
1946	30,877 (100)	— (0)	22,886 (100)	— (0)
1947	38,616 (100)	— (0)	27,162 (100)	— (0)
1948	46,595 (100)	— (0)	32,607 (100)	— (0)
1949	56,915 (100)	— (0)	34,607 (100)	— (0)
1950	51,872 (100)	— (0)	33,728 (100)	— (0)
1951	49,361 (100)	— (0)	34,588 (100)	— (0)
1952	49,323 (100)	37 (0)	34,041 (100)	65 (0)
1953	59,910 (99)	441 (1)	38,057 (99)	267 (1)
1954	65,309 (100)	163 (0)	40,174 (100)	50 (0)
1955	60,972 (95)	3,272 (5)	40,310 (96)	1,544 (4)
1956	81,355 (96)	3,771 (4)	47,647 (96)	2,087 (4)
1957	70,581 (91)	7,067 (9)	44,235 (96)	2,026 (4)
1958	64,311 (93)	5,202 (7)	43,048 (97)	1,409 (3)
1959	59,800 (89)	7,089 (11)	43,329 (90)	4,588 (10)
1960	59,258 (84)	10,907 (16)	44,734 (87)	6,517 (13)
1961	59,905 (90)	6,517 (10)	44,133 (90)	4,959 (10)
1962	74,496 (79)	19,990 (21)	49,094 (85)	8,364 (15)
1963	62,017 (95)	3,533 (5)	45,938 (95)	2,476 (5)
Average: 1956-63	66,465 (89)	8,010 (11)	45,271 (92)	4,053 (8)

NOTE: Numbers in parentheses denote per cent of total each year.

## CHART 10

COMPONENTS OF TOTAL AFTER-TAX COMPENSATION:  
SMALL MANUFACTURING SAMPLE, 1940-63

payment. Moreover, because options themselves were substantially less of a factor than was true for large manufacturing executives, only a minor portion of total pay for the current group can be categorized as ownership-related. This observation will be seen to fit into a broader set of relationships between the samples, whose features will become apparent upon examination of executives' stockholdings.

### *Summary*

The foregoing findings trace out a system of historical compensation patterns which indicates a considerable degree of similarity in earnings growth rates among diverse aggregations of senior corporate officials. The key elements of that experience are salary-plus-bonus payments on the one hand, and total annual after-tax remuneration on the other. Indices of the latter were generated by applying the "current income equivalent" concept discussed in the preceding chapter to the compensation information contained in company proxy statements. The results, which involve a wide range of enterprises, suggest a level of consistency in pay policies across firms that should permit some confidence in interpreting many of them as general attributes of the business community.

In particular, we discover a remarkable resemblance between the large and small industrial samples, both in terms of the pace of secular increases in income, and in the intra-firm hierarchical structure of rewards. The retail trade evidence displays a somewhat different set of internal characteristics, but nonetheless traces out over-all historical rates of growth which match quite closely the corresponding manufacturing figures.<sup>18</sup> The proportionate representation in the total pay package of fixed-dollar and stock-based sources of earnings was identified as a starting point for our analysis of the shareholder-management income link. Having laid that foundation, and having provided a body of compensation data against which to measure the importance of other income items, we may now proceed to consider the consequences of the executive stock ownership phenomenon.

<sup>18</sup> While the investigation thus far has dealt only with the mean values of the various receipts at issue, the dispersion about those means will also be treated in the discussions which follow.