

## Executive summary

# Shared pain

## As shareholder returns fall, CEO pay increase hits 5-year low

America's top business executives will be sharing corporate shareholders' pain, with CEOs getting their smallest pay increase in five years, new research by Korn Ferry Hay Group finds.

Shareholders, the firm has found, saw their total returns decline this year for the first time in five years. There was a negative total shareholder return of -0.3% in 2015, compared with a 17.5% return in 2014. Total revenue also was down by -0.4%. Net income growth among the companies was only 1.8%, compared to last year's growth of 7.1%.

Corporate boards and shareholders reacted accordingly when considering CEO pay: Total, direct compensation increased 2.7% to \$11.7 million for the 300 CEOs at the largest firms to file their latest proxy information from last year.

That's a slower growth rate than the previous year, which saw a median growth rate of 5%.

Median annual compensation for CEOs was flat at \$3.5 million, including base salary growth of 2.3% to \$1.3 million and annual incentive payments remaining at \$2.3 million. (All dollar figures are medians and are calculated independently. Medians should not be added to create another data point.) For the fifth year running, long-term incentives increased, growing 5.1% to a median value of \$8.4 million.

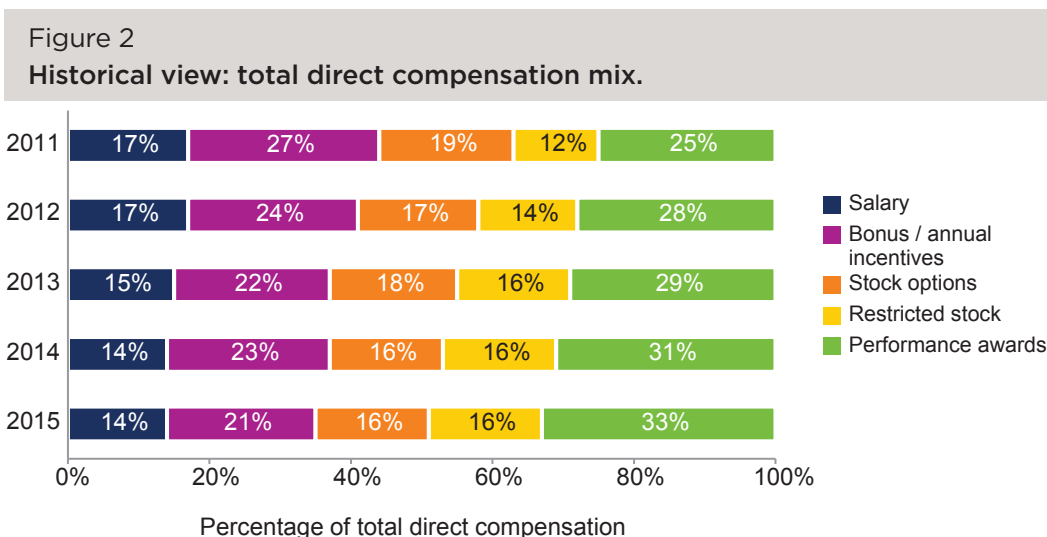
Figure 1  
2015 median CEO compensation increases and values.

	Base salary	Annual incentive	Total annual	LTI	Total direct
Median value	\$1,250,00	\$2,300,000	\$3,486,167	\$8,350,236	\$11,700,344
Percent change	2.3%	0.0%	0.0%	5.1%	2.7%

“When companies were seeing double-digit returns, boards and shareholders were much more likely to approve higher CEO compensation packages,” said Irv Becker, North America Leader for Korn Ferry Hay Group’s Executive Pay and Governance practice. “But with today’s uncertain market and slower growth rates, compensation committees and shareholders will put CEO pay under a much more intense spotlight.”

Indeed, the firm found that companies put ever more increasing weight in rewarding CEOs for their performance with long-term incentives. These reached their highest level ever in this year’s study, accounting for 33% of CEO pay packages in 2015. That is up over all from 25% in 2011.

Bonuses were the second-heaviest weighted component of pay, making up 21% of the median CEO’s total direct compensation.



“Based on the current environment, we continue to see a shift to performance-based and long-term compensation packages for US CEOs,” Becker said. “With this being the lowest total shareholder return since the beginning of the ‘say on pay’ era, and active shareholders pushing for more performance-linked pay, it’s no surprise that we continue to see the use of more performance-based equity awards in our study this year. This is a trend that we expect to continue.”

Hay Group, a division of Korn Ferry, has reported on CEO compensation for nine years. The firm examined all forms of pay for CEOs at 300 companies with revenue in excess of \$9.2 billion in fiscal year 2015. These latest results focus on the primary elements of compensation for CEOs of the 300 largest public companies by revenue to file their final definitive proxy statements between May 1, 2015, and April 30, 2016.

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