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MANAGEMENT & CAREERS

CEO Pay and Performance Often Don't Match Up

The S&P 500 CEOs who received the biggest pay increases scored middling shareholder returns



Activision Blizzard Chief Executive Robert Kotick was one of only two CEOs to be in the top 20 of total pay and shareholder return. PHOTO: PATRICK T. FALLON/BLOOMBERG NEWS

By *Vanessa Fuhrmans*

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The best-paid CEOs don't necessarily run the best-performing companies.

Corporate boards have tried for years to tie chief executive compensation to the results they deliver. The better the company and its shareholders do, the more the top boss should be paid, or so the pay-for-performance mantra goes. In reality, **CEO pay and performance often don't match up**, and 2017 was no exception.

Among S&P 500 CEOs who got raises last year, the 10% who received the biggest pay increases scored—as a group—in the middle of the pack in terms of total shareholder return, according to a Wall Street Journal analysis of data from MyLogIQ LLC and Institutional Shareholder Services.

Similarly, the 10% of companies posting the best total returns to shareholders scored in the middle of the pack in terms of CEO pay, the data show.

"Stars are often underpaid, while average performers are often overpaid," said Herman Aguinis, a professor of management at George Washington University School of Business.

One reason for the mismatch is that boards often set **CEO pay by benchmarking the average compensation for leaders at a peer group of companies and setting performance targets accordingly**, Mr. Aguinis said. That works if CEO performance doesn't vary too greatly from the average. But a study co-written by Mr. Aguinis and published last week in the journal *Management Research* found that, much like with professional athletes, there were vast differences in the performance of CEOs.

The disparity between chief executive compensation and performance appears to persist over longer periods, too, Mr. Aguinis said. In the study, researchers analyzed the earnings of more than 4,000 CEOs over the course of their tenures against several performance metrics. They found virtually no overlap between the top 1% of CEOs in terms of performance and the top 1% of highest earners. Among the top 10% of performers, only a fifth were in the top 10% in terms of pay.

In 2017, only two out of the 20 highest-paid CEOs who didn't leave their jobs before the end of the year landed in the top 20 for shareholder return.

Robert Kotick of Activision Blizzard Inc., known for "Call of Duty," "World of Warcraft" and other videogames, made \$28.7 million and posted a 76% return. Steve Wynn was paid \$34.5 million, while Wynn Resorts Ltd. posted a 98% total return. Mr. Wynn stepped down as CEO in February amid sexual-assault allegations, which he has denied.

Many firms condition a big share of pay on three-year performance metrics that are only partially affected by a single bad year, compensation consultants say.

CBS Corp. paid its chief, Leslie Moonves, \$69.3 million last year; total shareholder return was negative 6.2%. His pay was virtually unchanged from \$69.6 million in 2016 when the broadcaster achieved a one-year return of 37%. Likewise, Comcast Corp. CEO Brian Roberts's annual pay has hovered around \$33 million the past three years as annual shareholder returns ranged from 25% to negative 1.1%.

In its proxy, CBS said Mr. Moonves received \$12 million more in 2017 stock awards than the prior year, in part because of his contract renewal. Comcast said in its filing that it prefers to base executive pay on longer-term business-management metrics, not total shareholder return.

Allergan PLC's Brent Saunders received a 700% raise in 2017 to \$32.8 million, despite total shareholder return of negative 21%. The compensation package came during a year when Allergan ran into patent setbacks for one of its best sellers, dry-eye drug Restasis, which contributed to a 22% drop in the firm's share price for the year.

Part of the \$8.8 million Mr. Saunders got in incentive payments stems from longer-term performance targets met since Allergan's 2014 acquisition of Forest Laboratories Inc., the company said in its proxy statement. Another portion of his 2017 compensation, \$22.6 million in stock awards, won't vest until future years and is contingent on meeting specific research and shareholder-return goals. The drugmaker said in its proxy that because the award covers two years, it will report less compensation for Mr. Saunders for 2018 and 2019.

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One of the biggest gaps between CEO pay and shareholder return was at aerospace-parts company TransDigm Group Inc. For much of the year, TransDigm's stock took a beating from short sellers who have criticized the its acquisition-driven business model, but the volatility had little effect on then-CEO Nicholas Howley's pay package.

Shares, including reinvested dividends, returned just shy of 5% for the fiscal year that ended Sept. 30, 2017, underperforming the broader S&P 500 index for the first time in a decade. During the same period, Mr. Howley

earned \$61 million, more than triple the \$18.9 million he made in 2016.

The bulk of his compensation—\$51.2 million—came from dividend-like payments on vested options, stemming from \$46 in special cash dividends the company awarded shareholders during the fiscal year. TransDigm paid no dividends the previous fiscal year. Mr. Howley also received \$9.8 million in stock options. His base salary was \$7,000.

Mr. Howley stepped down in April after a 17-year run as CEO and remains as TransDigm's executive chairman. The company declined to comment on his pay package but pointed out that its proxy statement shows the company's one-year return for the calendar, versus fiscal, year was 20% and that its longer-term returns dramatically outpace the broader market.

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