ISS CORPORATE SOLUTIONS

U.S. CEOs Widen Gap with CFOs

Paul Hodgson, Senior Editor, ISS Corporate Solutions

WWW.ISSCORPORATESOLUTIONS.COM

Chief Financial Officers are often the first in line for internal promotions to the CEO position because of their detailed knowledge of a company's day-to-day financial operations. As such, pay levels for CFOs are a matter of careful consideration for compensation committees, especially as large internal pay differentials may be an indication of potential succession planning issues. In this white paper, we conduct a detailed comparison between CFO and CEO pay by index and by industry.

KEY TAKEAWAYS

- The gap between CEO and CFO pay widened substantially from reporting year 2021 to reporting year 2022 in each of the four indices examined
- In reporting year 2021, the increase in CFO pay across all industries was higher than the rise in CEO compensation
- CFOs were the second-highest paid Named Executive Officer after CEOs at 37% of the companies in the Russell 3000 in 2020
- The analysis of median CEO pay as a multiple of median CFO pay by industry shows a marked degree of volatility
- The CEO pay advantage is wider among the larger companies

INTRODUCTION: A DECADE OF STEADY GAINS

Overall, CEO and CFO pay trends appear to be closely aligned; each has increased steadily over the 10-year period of this study. However, while pay fell for some CEOs (typically those working for the largest companies) in fiscal 2013, 2015 and 2020, declines in CFO compensation took place in different years, such as fiscal 2016. The rate of increase for S&P 500 CEOs outpaces those in any other index, while the rate of increase in median pay for CEOs outpaces that for CFOs more broadly. Interestingly, median pay for S&P 500 CFOs is higher than the median for CEOs in the S&P 600 and in the Russell 3000, excluding the S&P 1500.

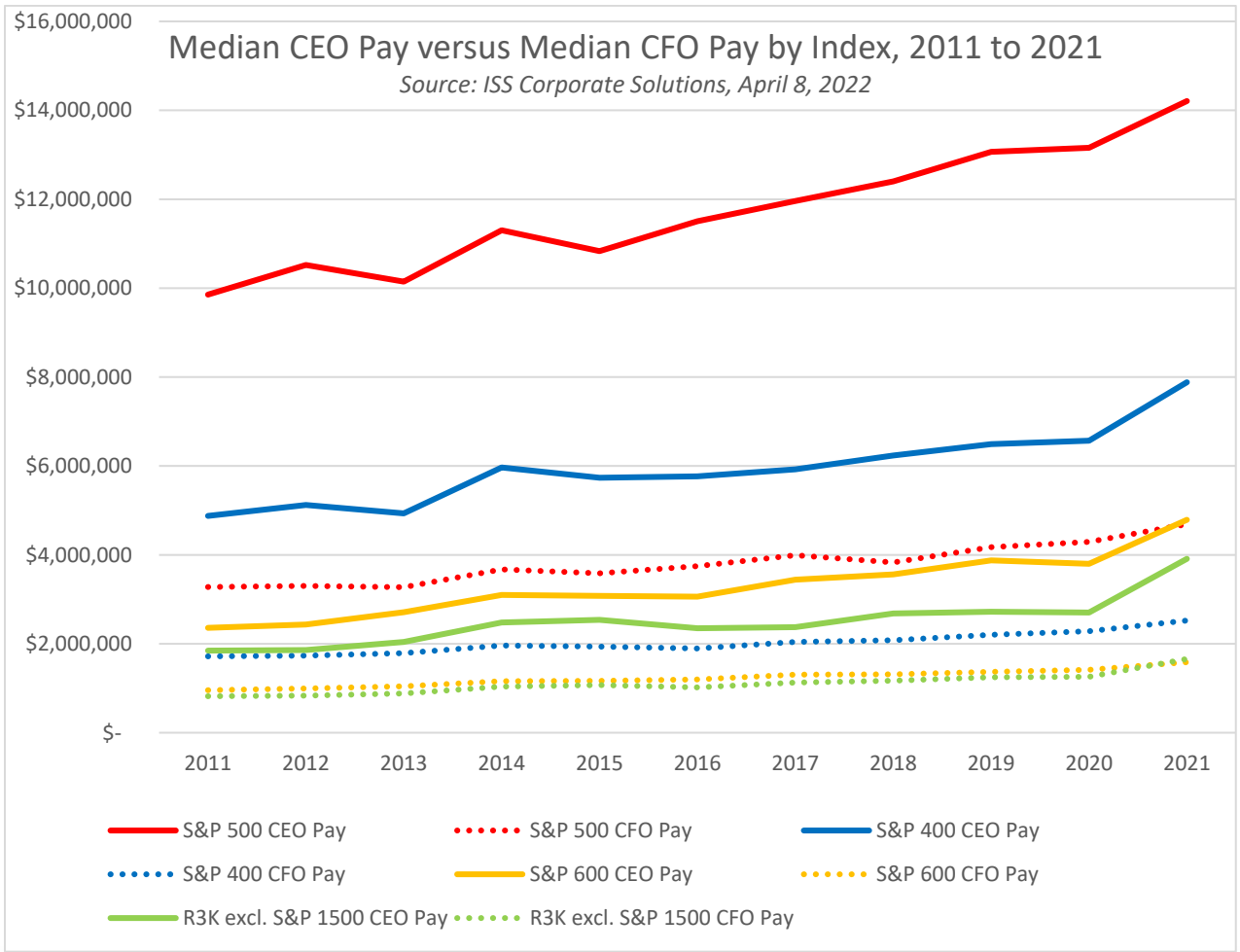
For fiscal 2020 – at this stage of the proxy season a more complete dataset than is available for 2021 – in the full Russell 3000, about 37% of the next highest paid named executive officers were CFOs. Anecdotally, this figure is probably higher, but is likely being depressed by a number of complicating issues, such as the inclusion in the data set of executive chairs, newly-hired officers in receipt of large up front golden hellos and other officers leaving with golden handshakes distorting the picture.

As is noted in the full analysis below, the multiple of CFO median pay to CEO median pay is between 2.1X and 3.1X; higher in indexes with larger companies. For the next highest paid NEO, according to a separate analysis of data from ISS Governance QualityScore, the multiple is an average of 2.4X, with a median of 2.0X, a tighter differential, indicating that the CFO is not always the second-highest paid NEO.

CEO PAY MORE VOLATILE: A COMPARISON BY INDEX

As can be seen from the chart below, median CFO pay (broken lines) has tracked CEO pay (solid lines) closely over the 10-year period from 2011 to 2021. Pay is defined as Summary Compensation Table (SCT) CEO and CFO total pay data as captured by ISS. In general, especially in the early years of the period under study, CEO pay was more volatile than CFO pay. It should be noted that data was extracted for companies' relevant fiscal years; fiscal 2021/reporting year 2022 figures reflect data from proxies filed through April 8, 2022, which is early in the proxy season.

In general, larger companies tend to file earlier than smaller companies. As such, the medians for fiscal 2021 likely reflect samples skewed toward larger companies, and this might explain the substantial rise in median pay in 2021. With that proviso in mind, however, the same kind of substantial rise in median pay is not seen for CFOs. Commenting on the findings, Brian Johnson, Executive Director, Advisory ISS Corporate Solutions said: "Fiscal 2021 pay increases were higher for CEOs than CFOs in three of the four indexes, which suggests a rebound from fiscal 2020 pay decisions. In other words, CEOs experienced a bigger hit in fiscal 2020 pay compared to CFOs, and now committees are making them whole again."



DOLLAR DIFFERENCE BETWEEN CEO AND CFO MEDIAN PAY BY INDEX

While CFO pay has generally tracked CEO pay over the period under study, differentials between pay for the two positions have increased in each of the four indexes looked at; accelerating between 2020 and 2021 (see table below). In between those last two years, the differential increased by around $1 million in each of the four indexes. In prior years, such a level of increase in the differential, even in the S&P 500, took around three years.

Dollar Difference Between CEO and CFO Median Pay by Index, 2011 to 2021

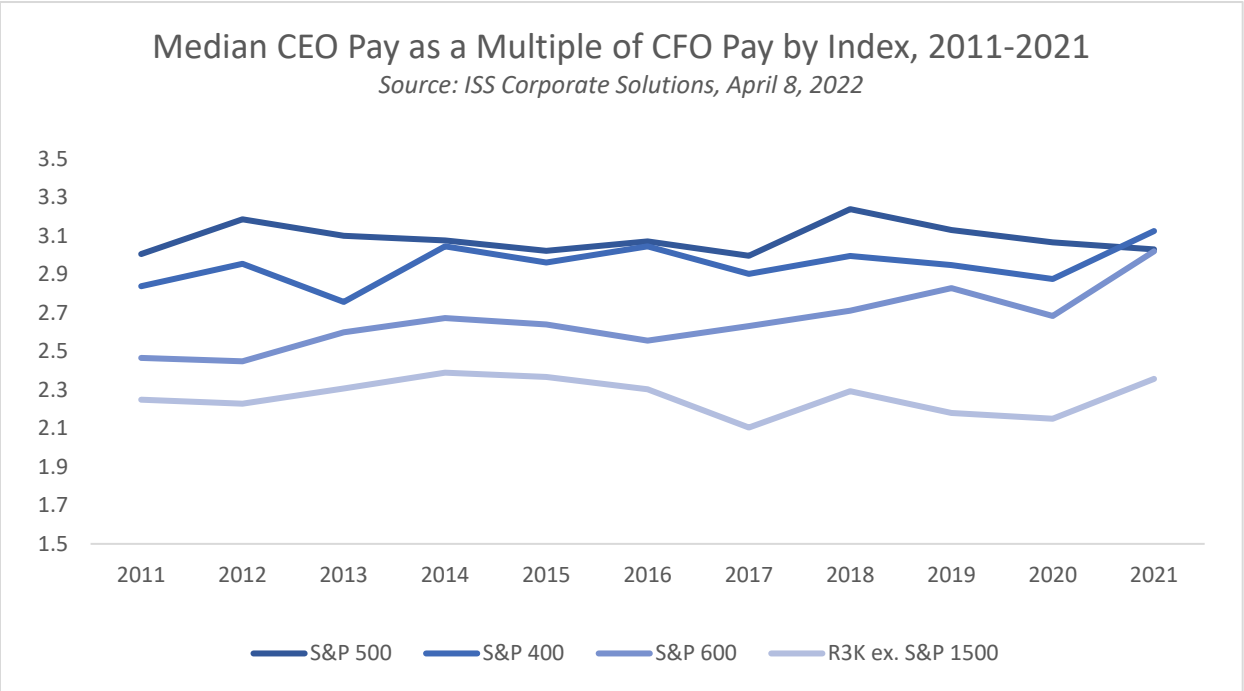
Source: ISS Corporate Solutions, April 8, 2022

	2011	2014	2017	2020	2021
	$	$	$	$	$
S&P 500	6,575,598	7,626,895	7,967,188	8,866,360	9,518,731
S&P 400	3,158,626	4,007,516	3,882,411	4,284,706	5,360,188
S&P 600	1,402,501	1,938,916	2,133,370	2,383,907	3,202,737
Russell 3000 excluding S&P 1500	1,025,738	1,442,018	1,245,228	1,446,281	2,252,165

MEDIAN CEO PAY AS A MULTIPLE OF CFO PAY BY INDEX

The chart below presents another way of looking at the relationship between CFO and CEO pay, as a multiple. As can be seen, CEO pay as a multiple of CFO pay increases as companies in the indexes get larger. For example, the CEO pay multiple in the S&P 500 is around 3.0 over the whole 10-year period; it is relatively close to that for much of the period in the S&P 400. By contrast, it is around 2.6 in the S&P 600 and around 2.2 in the Russell 3000 excluding the S&P 1500. Compared with the dollar differences in pay, which have increased over the period, CEO pay as a multiple of CFO pay has remained fairly constant.

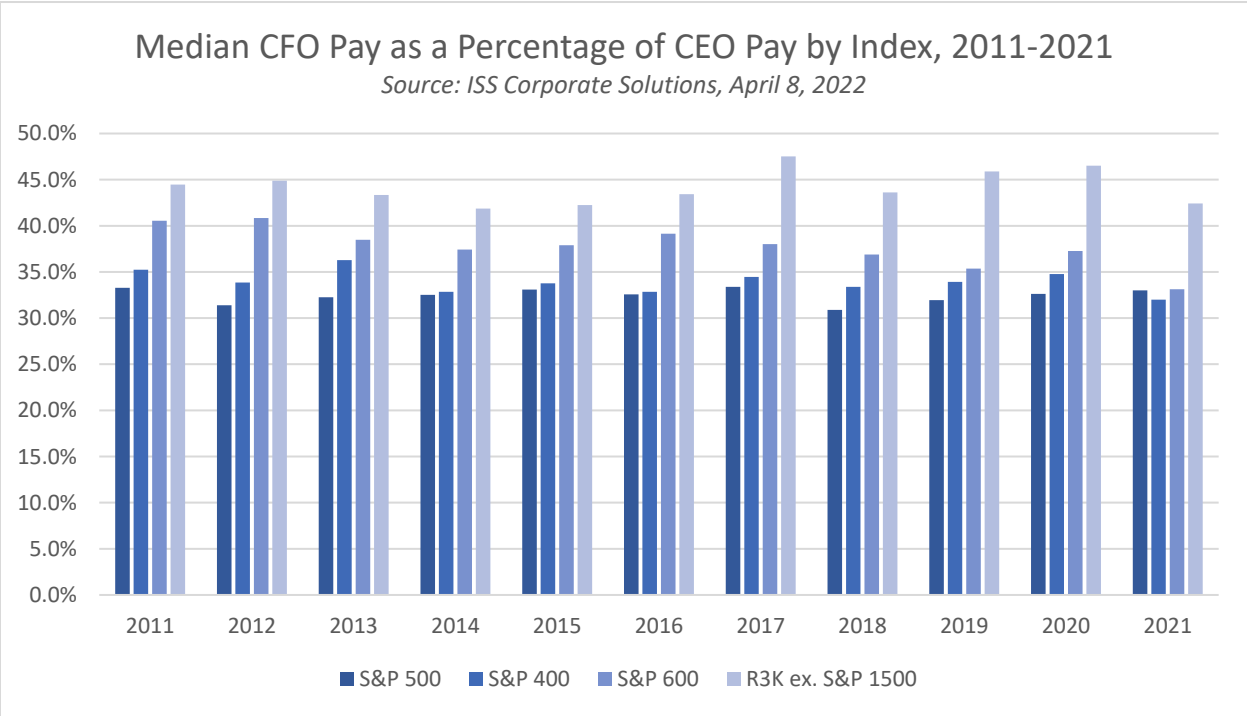
Johnson said: “The ratio of CFO to CEO pay has remained relatively constant for S&P 500 companies over the past 10 years, which suggests the role of the Finance group relative to a company’s strategic business focus has also remained constant. Indeed, other corporate functions such as Information Technology and Legal have largely retained ownership of the growing investor focus on cybersecurity and ESG-related matters, and this also may be contributing to a stable CFO pay ratio over this period.”



MEDIAN CFO PAY AS A PERCENTAGE OF CEO PAY BY INDEX

The bar chart below represents another way of comparing CFO/CEO pay by index, looking at CFO pay as a percentage of CEO pay. In 2011, there were clear differences between the indexes, with CFO pay representing a smaller percentage of CEO pay in the largest companies. CFO pay represented around a third of CEO pay in the S&P 500, 35.2% in the S&P 400, just over two-fifths of CEO pay in the S&P 600, and almost 45% of CEO pay in the rest of the Russell 3000.

The differences among the companies in the S&P 1500, the index that combines the S&P 500, 400 and 600, however, have narrowed substantially over the period, clustering around the percentage figure seen in the S&P 500 at the beginning of the period. By 2021, CFO pay as a percentage of CEO pay was around 33% in each of the three larger company indexes. In the Russell 3000 excluding the S&P 1500, however, it had fallen, though only to 42.4% from 45%.



A COMPARISON BY INDUSTRY

In general, CEO pay experiences a much greater level of variability than CFO pay when viewed at the industry level. In general, however, pay for both officers has been increasing over time in each industry. Industry-by-industry graphs – collected at the end of this paper – demonstrate how closely pay for the two positions tracks.

DOLLAR DIFFERENCE BETWEEN CEO AND CFO MEDIAN PAY BY INDUSTRY

Excluding figures for 2021, the dollar difference between CFO and CEO median pay by industry increased over the 10-year period, though in most cases only by between $500,000 and $1,000,000. As with other analyses, the differential increased significantly between 2020 and 2021, but it is possible that this phenomenon will be smoothed out once a more complete data set is available.

Said Johnson: “Across all industries, the increase in CFO pay was higher relative to the increase in CEO pay in fiscal 2020, which potentially suggests CFOs were rewarded for their efforts to preserve liquidity and fortify cashflow positions during the pandemic, likely through higher bonus payouts as a percent of target relative to what CEOs received. It’s also possible that compensation committees decided to award higher bonus payouts (as a percent of target) to non-CEO NEOs in fiscal 2020 and let the CEO take a hit to their bonus payout since they’re the most visible executive to shareholders.”

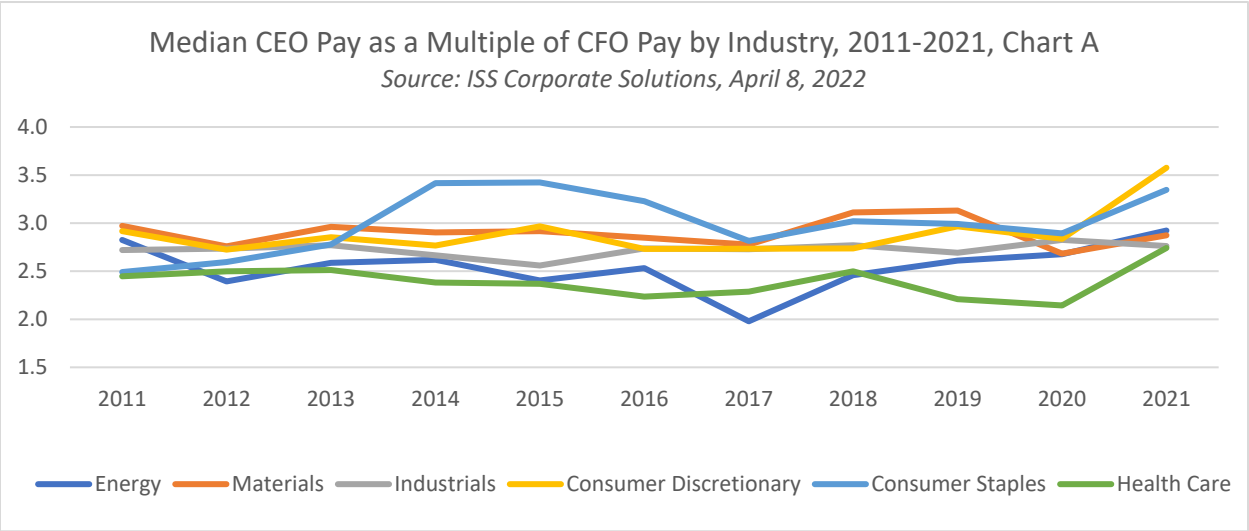
Dollar Difference Between CEO and CFO Median Pay by Industry, 2011 to 2021

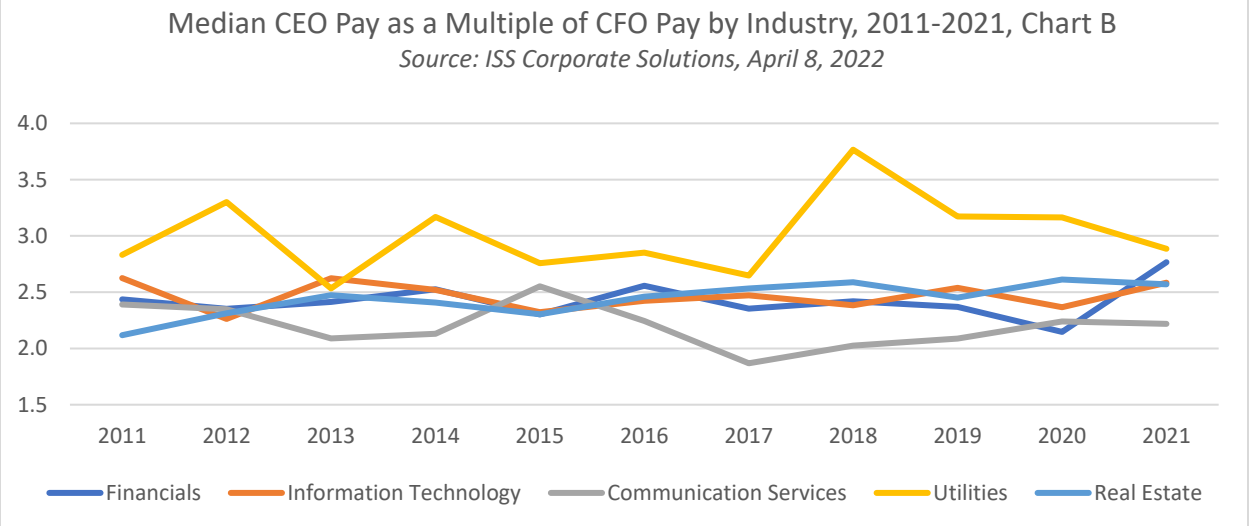
Source: ISS Corporate Solutions, April 8, 2022

	2011	2014	2017	2020	2021
Energy	$ 2,722,736	$ 3,244,592	$ 2,597,783	$ 3,191,659	$ 4,820,407
Materials	$ 2,462,654	$ 3,286,954	$ 3,315,252	$ 3,589,562	$ 4,765,911
Industrials	$ 1,929,560	$ 2,368,849	$ 2,627,491	$ 3,184,795	$ 3,881,453
Consumer Discretionary	$ 2,346,101	$ 2,426,028	$ 2,814,432	$ 3,460,372	$ 5,631,786
Consumer Staples	$ 2,306,656	$ 3,981,694	$ 3,301,408	$ 4,071,513	$ 5,416,722
Healthcare	$ 1,492,100	$ 1,985,065	$ 2,071,222	$ 2,109,439	$ 4,397,200
Financials	$ 1,219,462	$ 1,609,651	$ 1,287,866	$ 1,288,556	$ 2,768,234
Information Technology	$ 1,927,739	$ 2,277,154	$ 2,879,931	$ 3,292,231	$ 5,080,973
Communications Services	$ 2,013,304	$ 1,796,296	$ 1,768,421	$ 2,890,963	$ 3,559,276
Utilities	$ 2,830,877	$ 3,790,320	$ 3,131,200	$ 3,921,535	$ 4,542,952
Real Estate	$ 1,598,849	$ 2,163,153	$ 2,701,220	$ 3,130,004	$ 3,721,216

MEDIAN CEO PAY AS A MULTIPLE OF MEDIAN CFO PAY BY INDEX

An analysis by industry shows a much more marked degree of volatility than the breakdown by index, especially in Consumer Staples and Utilities. The level of volatility was unevenly distributed over the 11 years, with no single period for any individual industry showing consistency. For Consumer Staples, the multiple's trend line increased overall, though substantial increases were moderated later in the period under study. Real Estate also generally showed an increase in the multiple, while in Communications Services, the trend was downwards, with the multiple decreasing. The industries were split into two charts, to aid visibility.



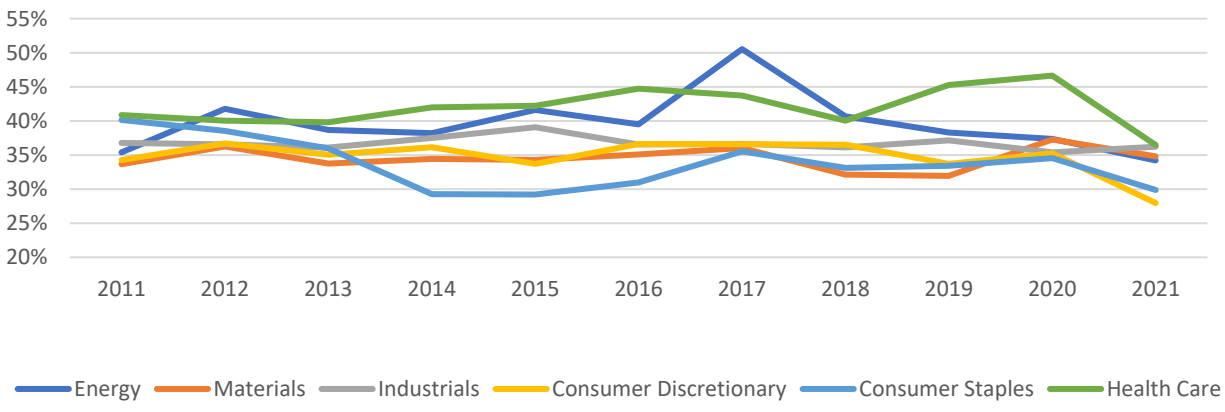


MEDIAN CFO PAY AS A PERCENTAGE OF CEO PAY BY INDEX

Median CFO pay as a percentage of CEO pay showed similar levels of volatility over the 10-year period as did median multiples. However, the industries with the most volatility were different, with the most volatility seen in Energy and in Utilities and Communications Services. While median percentages in each year for all industries were remarkably constant, ranging from 39% to 41% from 2011 to 2021, medians by industry across all years were very different. For example, the median percentage of CEO pay represented by CFO pay in Communications Services was 45%, while in Consumer Staples it was 33%. Indeed, in five industries the median was 40% or higher, and 39% or lower in the remaining seven.

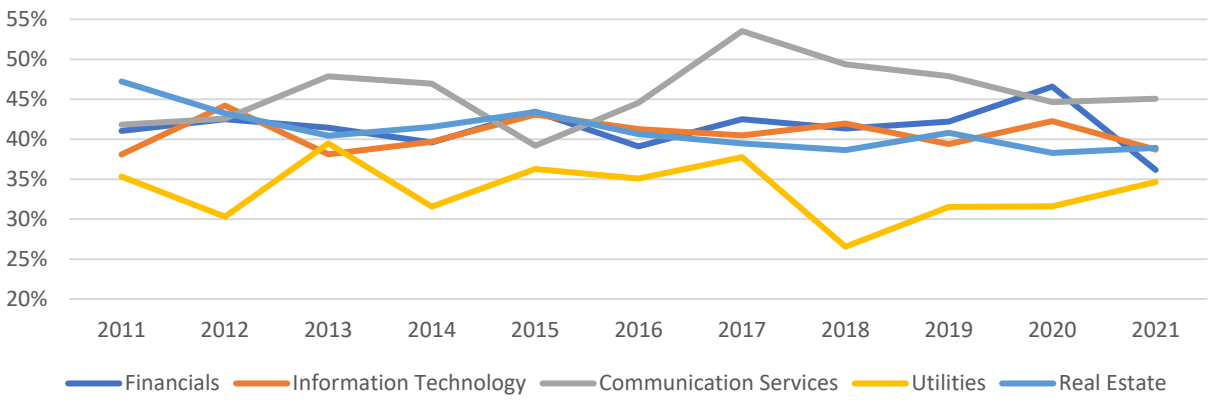
Median CFO Pay as a Percentage of CEO Pay by Index, 2011-2021, Chart C

Source: ISS Corporate Solutions, April 8, 2022



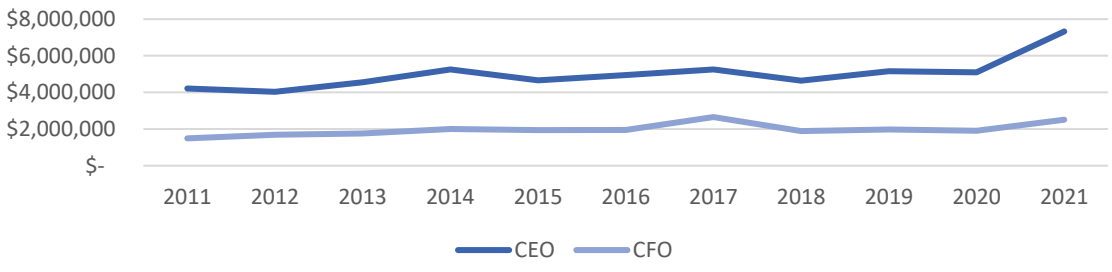
Median CFO Pay as a Percentage of CEO Pay by Index, 2011-2021, Chart D

Source: ISS Corporate Solutions, April 8, 2022



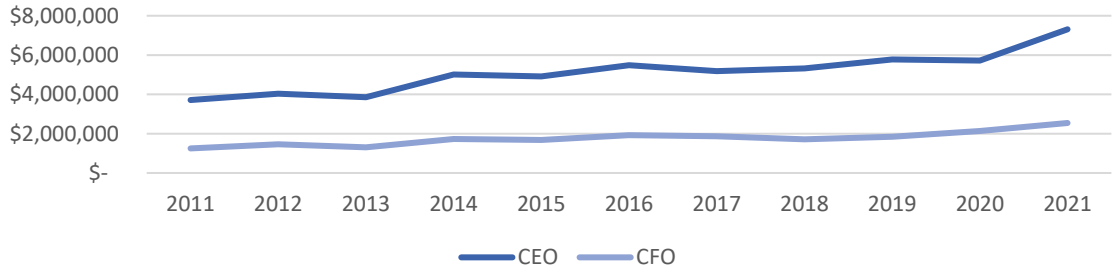
Median Energy CFO and CEO Pay, 2011-2021

Source: ISS Corporate Solutions, April 8, 2022



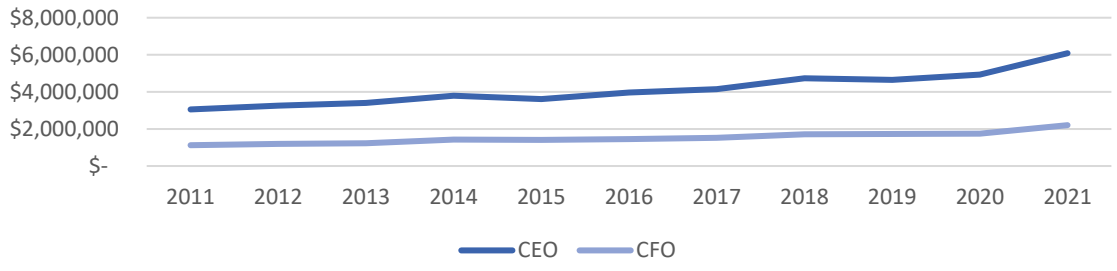
Median Materials CFO and CEO Pay, 2011-2021

Source: ISS Corporate Solutions, April 8, 2022



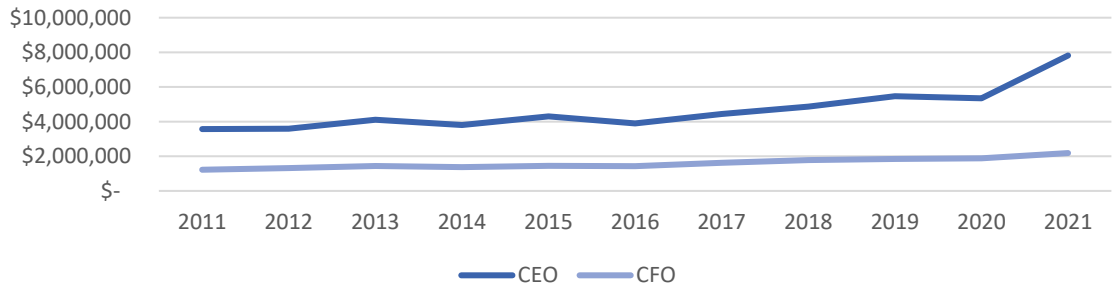
Median Industrials CFO and CEO Pay, 2011-2021

Source: ISS Corporate Solutions, April 8, 2022



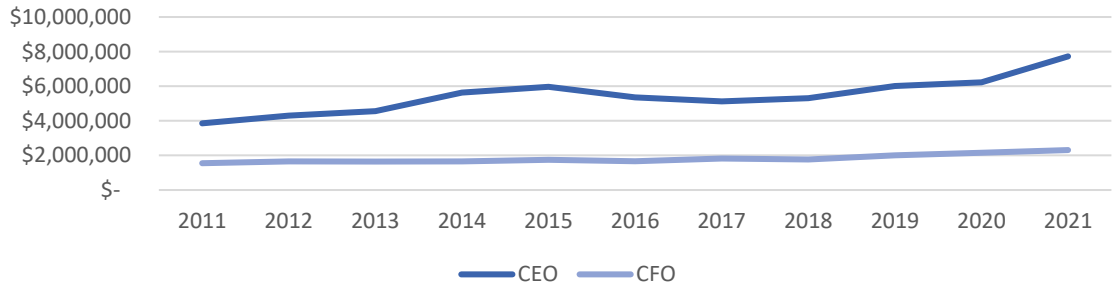
Median Consumer Discretionary CFO and CEO Pay, 2011-2021

Source: ISS Corporate Solutions, April 8, 2022

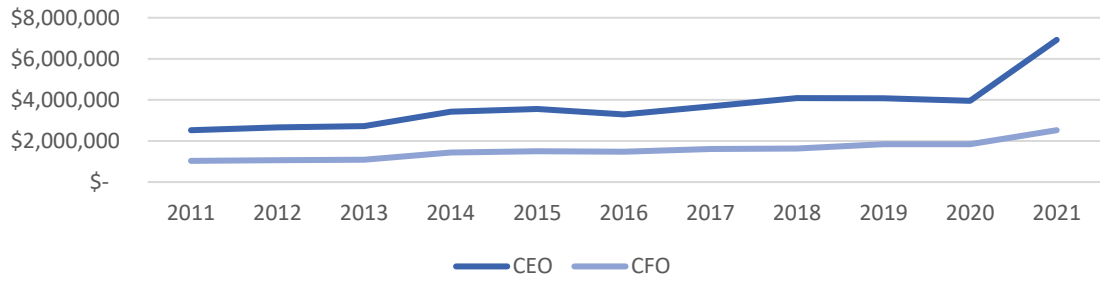


Median Consumer Staples CFO and CEO Pay, 2011-2021

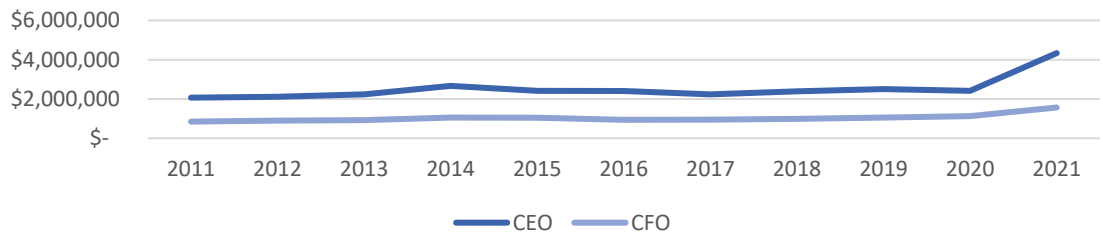
Source: ISS Corporate Solutions, April 8, 2022



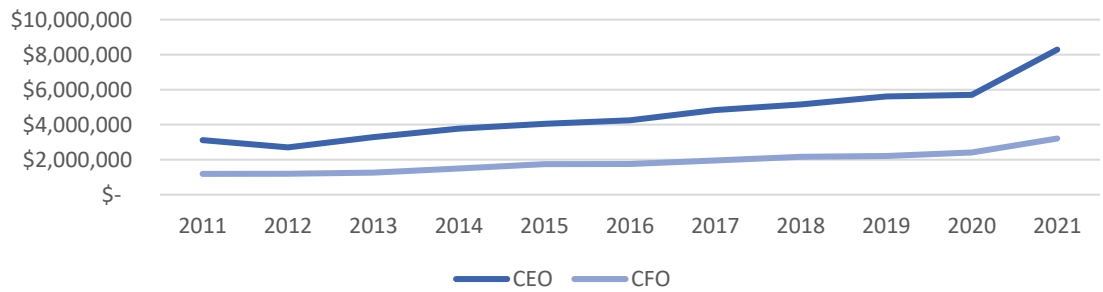
Median Health Care CFO and CEO Pay, 2011-2021
Source: ISS Corporate Solutions, April 8, 2022



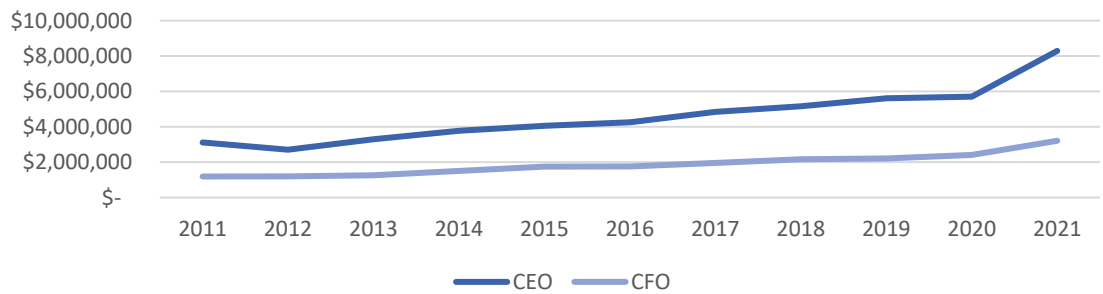
Median Financials CFO and CEO Pay, 2011-2021
Source: ISS Corporate Solutions, April 8, 2022

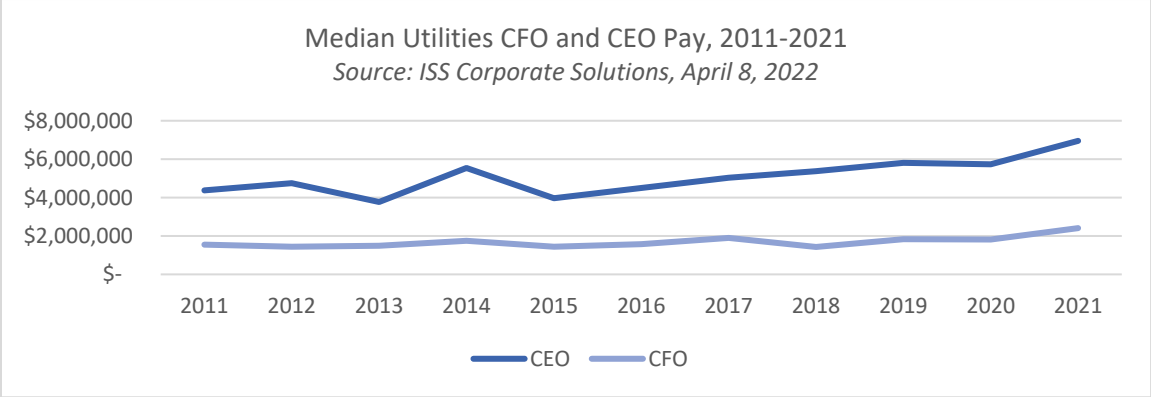


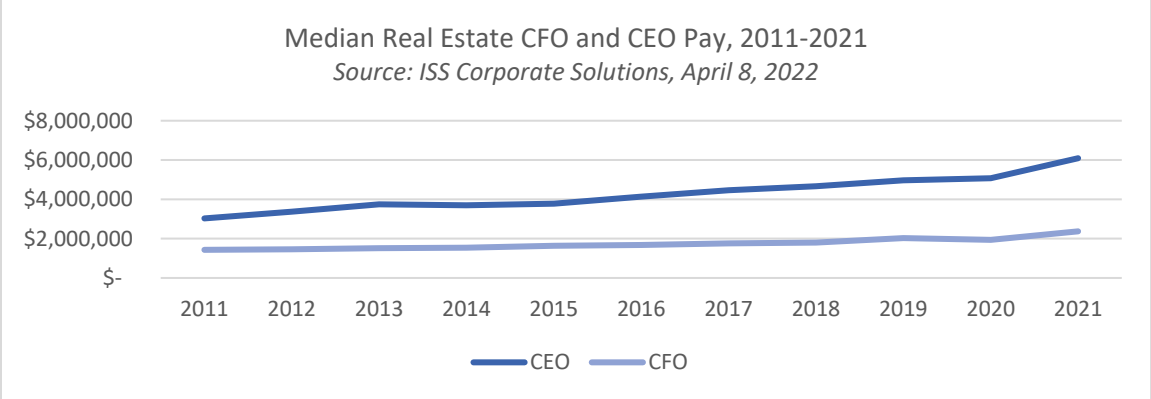
Median Information Technology CFO and CEO Pay, 2011-2021
Source: ISS Corporate Solutions, April 8, 2022



Median Communications Services CFO and CEO Pay, 2011-2021
Source: ISS Corporate Solutions, April 8, 2022







ISS CORPORATE SOLUTIONS

ISS Corporate Solutions is a leader in delivering corporate governance, executive compensation, and sustainability solutions to companies globally.

LEARN MORE ABOUT ICS

ICS_Info@isscorporatesolutions.com
Americas: +1 301 556 0570
EMEA: +44 203 192 5773
APAC: +852 39051840
www.isscorporatesolutions.com

ISS Corporate Solutions (ICS) understands corporate governance. Since 1997, corporate issuers have leveraged our expertise in executive compensation, corporate governance, sustainability, financial measurement, and investor voting trends to build shareholder value through strong governance programs and disclosure. ICS' global client base extends to more than 1,500 companies each year located in the U.S., Canada, the U.K, continental Europe, Australia and Japan, as well as other established and emerging markets worldwide. Companies leverage ICS' resources, tools and advisory services to help them design, manage and measure their corporate governance programs in order to improve shareholder value and reduce risk. Headquartered in Rockville, Maryland, ICS has offices in New York, San Francisco, London, Sydney, and Hong Kong.

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of ISS Corporate Solutions, Inc. (ICS) or its affiliates. The Information may not be reproduced or redisseminated in whole or in part without prior written permission of ICS. ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION. ICS is a wholly owned subsidiary of Institutional Shareholder Services Inc. (ISS). ICS provides advisory services, analytical tools and publications to companies to enable them to improve shareholder value and reduce risk through the adoption of improved corporate governance practices. The ISS Global Research Department, which is separate from ICS, will not give preferential treatment to, and is under no obligation to support, any proxy proposal of a corporate issuer (whether or not that corporate issuer has purchased products or services from ICS). No statement from an employee of ICS should be construed as a guarantee that ISS will recommend that its clients vote in favor of any particular proxy proposal.

© 2022 | Institutional Shareholder Services and/or its affiliates