

In Calculating Your CEO Pay Ratio, Relativity to Peers is the New Math

Comparing your CEO pay ratio to your peer group is the analysis most shareholders will likely make. Our research shows how ratios differ within the technology and life sciences sectors.

Is it premature to plan for disclosure that is nearly a year away and faces an uncertain future? Not if it's the CEO pay ratio rule. The business community has anticipated the rule since the passage of the Dodd-Frank Act over six years ago, although it took the SEC five years to pass a final rule.

The CEO pay ratio rule is still scheduled to go into effect with 2018 proxy statements and many companies are proceeding cautiously with internal planning. The SEC issued a statement on February 6, saying it was accepting public comments for 45 days from companies that have run into compliance difficulties and would consider amending or delaying the rule. The new administration and Congress have expressed a desire to repeal the rule altogether.

While the rule's merits and broader implications have been the subject of heated debate, many companies are still assessing how they will comply and what the number will mean to investors, employees, proxy advisory firms, the media—and, by extension, the general public. For more details about what the rule requires and help with calculating the ratio, please see our client alert [What the SEC's Final CEO Pay Ratio Rules Mean for Companies](#).

From our viewpoint, while calculating the rule accurately should not be underestimated, the next important question should be putting your CEO ratio in context. To do that, companies need to calculate how their own ratio stacks up to their peers. We would expect certain industries like retail and hospitality that have a higher percentage of lower wage jobs and/or a greater percentage of their workforce in lower wage countries to have higher ratios. However, within the technology and life sciences sectors, there are important nuances as well. We used our extensive survey data from the [Radford Global Technology Survey](#), [Radford Global Life Sciences Survey](#) and [Radford Global Sales Survey](#) to calculate low, median and high point ratios by sector, company size and percentage of employees outside of the United States.

Beginning with industry, we see biopharma companies, which tend to be smaller and have a greater proportion of employees with advanced degrees, have the smallest ratios. As biopharma companies go commercial and add a manufacturing component to their operations, the ratios climb from the CEO making 10.9 times the median employee to 30.7 at the mid-point. Software and internet companies have the next largest ratios at 43.0 followed by medical device companies at 46.0 and semiconductor companies—which often have large offshore manufacturing operations—at 63.0.

Industry CEO Pay Ratio Breakouts

	Pre-Commercial Biopharma	Commercial Biopharma	Medical Device	Software & Internet	Semiconductor
75 th Percentile	17.6x	54.8x	129.4x	75.3x	140.0x
50 th Percentile	10.9x	30.7x	46.0x	43.0x	63.0x
25 th Percentile	6.0x	19.6x	21.4x	21.5x	35.7x
Company Count	102	51	32	104	39

Source: Radford Global Technology Survey, Radford Global Sales Survey, Radford Global Life Sciences Survey

After analyzing industry breakouts, we then combined all of the industries across technology and life sciences and separated them by low, medium and high buckets of revenue. Companies that reported greater than \$1 billion in annual revenue have over six times the CEO ratio as smaller companies reporting less than \$250 million in annual revenue. When we only discriminate for size, there are larger swings in ratios vs. industry breakouts. There are two likely reasons for this. One, companies with higher revenues are more likely to have a diverse set of employees earning wide ranges of compensation unlike pre-commercial biopharma companies, for example. Larger companies are also more likely to have a greater proportion of their workforce outside of the United States in lower-wage regions. Secondly, most executive performance-based incentive plans are measured by revenue, which is a primary driver of executive compensation levels (as opposed to non-executive pay, which is largely influenced by location).

Revenue CEO Pay Ratio Breakouts

	Less than \$250M	\$250M - \$1B	Greater than \$1B
75 th Percentile	28.4x	70.6x	150.4x
50 th Percentile	16.8x	44.6x	103.5x
25 th Percentile	8.8x	25.2x	62.0x
Company Count	238	108	210

Source: Radford Global Technology Survey, Radford Global Sales Survey, Radford Global Life Sciences Survey

Finally, we examined ratios by combining all industries and separating them by percentage of their workforce outside of the US. We only included companies reporting greater than \$1 billion in revenue as size can be an influencing factor (larger companies are more likely to have bigger global operations). The median revenue for the domestic cut is \$2.5 billion and the international cut is \$2.8 billion.

Similarly to the chart above where we used revenue to analyze ratios, the location of employees outside the US appears to be a contributing factor in CEO pay ratios, although not as dramatic. At the median, the ratio for companies with more than 50% of their employees in the US is 88.0 vs. 138.5 for companies with less than 50% of their employees in the US.

Workforce Distribution CEO Pay Ratio Breakouts

	Greater than 50% of Population in US	Less than 50% of Population in US
75 th Percentile	126.3x	176.5x
50 th Percentile	88.0x	138.5x
25 th Percentile	48.3x	94.3x
Company Count	52	48

Source: Radford Global Technology Survey, Radford Global Sales Survey, Radford Global Life Sciences Survey

Next Steps

Radford offers CEO pay ratio services to our existing and new clients. Using our extensive survey data, we can help you calculate the pay ratio and put the figure into context among a wider set of peers. With the broader resources of the Aon Hewitt global governance team, we can also assist you in messaging, disclosure and engagement related to this rule. To learn more about our CEO pay ratio services or for any questions about this topic, please write to consulting@radford.com.

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