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Executive Compensation Payments by Large and Small Industrial Companies

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EXECUTIVE COMPENSATION PAYMENTS BY LARGE AND SMALL INDUSTRIAL COMPANIES¹

SUMMARY

The data, 404.— Definitions, 407.— Number of executives, 409.— Fluctuation in compensation, 409.— Executive compensation and earnings, 411.— Executive compensation and sales, 415.— Executive compensation, earnings and dividends, 420.— Dollar compensation of chief executives, 426.— Relationship of assets to dollar executive compensation, 428.— Bonus policies, 429.— Conclusions, 432.

Students of economics have long desired detailed statistical data showing the practices and policies followed by corporations in paying executives. The dearth of information concerning executive compensation has made the area of business profits and their division one of the least satisfactory parts of economic theory. An early study based on actual policies was made by Professor F. W. Taussig and Mr. W. S. Barker, and the findings were published in this Journal in November, 1925, under the title: "American Corporations and Their Executives." Information for this study, however, secured directly from corporations, was for the pre-war period, when the methods of paying executives, as well as the amounts paid, differed widely from current practices.

Changes in corporate structure, in the power and responsibilities of officers, and in the methods of paying executives, as well as the influence of diffused stock ownership, have been so great in the last twenty-five years that a new approach to the theory of profits and their division may be necessary. It is possible that attention may be diverted from the traditional entrepreneur and his duties, so frequently alluded to in the past, and directed to executives and their functions. The character of income, as well as its division between executives and stockholders, needs to be scanned carefully. Furthermore, students must examine profits and their division over a period of years, rather than for a single fiscal year, since circumstances may be such that conclusions drawn from an analysis based on the shorter period might be entirely misleading.

1. The author wishes to acknowledge his indebtedness to the Harvard University Committee on Research in the Trade Cycle for a grant of money which enabled him to pursue the research on which a part of this article is based.

In 1933 it became possible to examine carefully payments to executives. Senate Resolution No. 75 of the Seventy-Third Congress, First Session, directed the Federal Trade Commission to obtain data on executive salaries from each of the companies listed on the New York Stock Exchange for each year from 1928 to September, 1933; and in February, 1934, the findings were made available to the public. From 1934 to the present time somewhat similar statistical information has been collected by the Securities and Exchange Commission and made available for examination under provisions of the Securities Exchange Act of 1934.

The purpose of the following study, which is primarily an excursion into the factual side of the subject, is threefold: (1) to indicate the size of executive payments by large and by small companies, both as percentages of earnings and in actual dollar amounts; (2) to examine the fluctuations in payments made by the two groups over a period of years; and (3) to examine the share of profits or earnings paid to executives as compensation and to stockholders as dividends. Only brief reference will be made to the functions of executives or to the theories concerning the payment of executives.

For this study, figures for a group of 51 companies, each with assets over \$100,000,000² in 1929, and for a group of 53 companies with assets less than \$10,000,000² in 1936 were analyzed statistically over the 1928-36 period. In previous studies by the author³ it became clear that the size of a corporation, as measured by assets, affected payments to executives, both in dollar amounts and as percentages of earnings and sales. Admittedly, there is less justification in employing assets as a yardstick for the measurement of size than there is for using sales figures, but the paucity of sales data precluded the latter approach. Nevertheless, comparisons of data on executive payments for large and small companies, as

2. Of the 84 largest American industrial corporations in 1929, as listed by Berle and Means in *The Modern Corporation and Private Property*, 51 with adequate statistical data available were selected for analysis. Of somewhat more than 200 companies listed on the New York Stock Exchange in 1936 with assets below \$10,000,000, 53 with adequate statistical data available were selected. These companies are small among those reporting to the Commission, but not among the many very small companies, which amount to about half, by number, of all corporate industry.

3. Baker, John C., *Executive Salaries and Bonus Plans*; New York, McGraw-Hill Book Company, Inc., 1938.

classified on the basis of assets, reveal certain pronounced contrast which should prove of wide significance.

The disparity in size of the two groups for 1929 and 1936 can be realized by examining Table I, which shows the medians of

TABLE I
ASSETS AND SALES OF 51 LARGE AND 53 SMALL INDUSTRIAL COMPANIES
1929 and 1936

(Median Figures; Unit = \$1,000,000)

Group	ASSETS ¹		SALES ²	
	End of Fiscal Year 1929	End of Fiscal Year 1936	1929	1936
51 large industrial companies	\$177.8	\$173.0	\$157.2	\$124.6
53 small industrial companies	7.6	5.1	7.8	6.2

¹ Assets include total assets as published by the company, less treasury stock and depreciation reserves.

² Medians for sales are based upon figures for only those 35 large and 19 small companies for which data were available in both years. Figures were usually quoted as net sales. However, for the large companies they were designated in three cases as gross sales and in eleven cases as gross operating income; figures for small companies in one instance were cited as gross sales and in two instances merely as sales.

assets for all companies and of sales for the companies furnishing such data. In 1936, the median asset figure for large companies was 34 times that for the small companies, and the median sales figure about 20 times larger.

Of importance also, in any measurement of size over the 1928-36 period, are the annual changes in assets and sales. Assets fluctuated relatively little annually; sales, however, fluctuated much more widely. Table II reveals such changes in median sales annually from 1928 to 1936 for those large and small companies which published figures. Indices derived from relatives for individual companies, with 1929 as a base, are also included to show the average change in sales.

A rough industrial classification of the two groups of companies assumes real significance for study of comparative experience of manufacturers in the durable goods and non-durable goods industries. Definite classification of companies into these two groups is open to so much controversy that detailed consideration of it is not included here. It appears, however, that the group of smaller companies includes more companies manufacturing durable goods than does the group of larger companies; and a previous study has shown that earnings for the two industrial groups fluctuate differ-

TABLE II
 FLUCTUATION IN SALES FOR 35 LARGE AND 17 SMALL INDUSTRIAL COMPANIES:
 1928-1936¹
 (Median Figures)

Year	35 LARGE COMPANIES		17 SMALL COMPANIES	
	Dollar Sales (Unit = \$1,000,000)	Index (1929 = 100)	Dollar Sales (Unit = \$1,000,000)	Index (1929 = 100)
1928	\$144 ²	88 ³	\$5.8	97
1929	157	100	7.8	100
1930	132	83	6.3	78
1931	98	64	4.3	63
1932	77	55	2.8 ⁴	47 ⁴
1933	73	52	2.3 ⁴	55 ⁴
1934	96	63	3.3	68
1935	108	71	4.6	73
1936	125	92	6.2	85

¹ Complete sales data were available in all years except 1928 for only 35 large and 17 small companies.

² Median based on data for 34 companies, including estimated figures for two companies. One company was not incorporated until 1929.

³ Based on data for 33 companies, including one estimated figure.

⁴ The discrepancy between the dollar sales figures and relatives for small companies in 1932 and 1933 occurs because, although more than half of the small companies with complete sales data experienced their lowest sales relative to their respective 1929 levels in 1932, it so happens that the index based on medians for the group was lowest in 1933. With a larger sample of companies, this apparent discrepancy would undoubtedly have been less likely to occur.

ently through a business cycle, those for durable goods companies varying more widely.⁴

DEFINITIONS

In any study of executive compensation, it is essential to understand clearly just what is meant by the terms "executives" and "earnings," particularly when executive payments are to be related to earnings. What officers are included in the executive group? This naturally varies among companies, but the compensation figures submitted to the two Commissions were for the senior or "top" men, ordinarily described as "officers." Those men, therefore, consistently classified by the companies themselves — the men who devise and direct general corporation policies — were considered by the author to compose the executive group. A characteristic list would include the chairman of the board of directors, the president, the vice-presidents, the secretary, the treasurer, and possibly the controller, the general manager, and certain directors.

4. Baker, John C., "Fluctuation in Executive Compensation of Selected Companies, 1928-1936." Review of Economic Statistics, May, 1938, pp. 68-71.

The term "executive compensation" refers to the total dollar payments made to executive officers. It includes the regular annual cash salary; additional cash payments, whether or not the company had a formal bonus plan; and any directors' fees. It does not include other types of compensation, such as warrants or options to purchase stock in a company, since the value of these depends on whether or not they are exercised and when, which could not be discovered in most cases.

An understanding of what is meant by earnings also is most important, because earnings are at best an arbitrary figure. For this study, the term "earnings" is defined as net income after all charges, including Federal taxes, depreciation and obsolescence, but before executive compensation and interest.⁵ Executive compensation is included in the earnings figures, in order that the remuneration of officers could be related to their achievement as measured by company income before executive payments, the element being studied; and so that a basis could be established for comparing the share of profit or net income diverted to executives with the share going to stockholders. Earnings as defined, therefore, was arrived at as follows for a particular company:

THE AMERICAN SUGAR REFINING COMPANY	1936
Balance available for dividends	\$4,352,564
Plus: Interest	33,839
Executive compensation	285,500
	<hr/>
Earnings	\$4,671,903

5. The exclusion of interest from expense in arriving at earnings was prompted by the need for comparison among companies in previous studies. Some corporations operate on substantial amounts of borrowed capital, while others operate almost entirely on owned capital, against which no interest charges are recorded in published statements.

It was somewhat difficult to secure comparable data for interest, particularly in the case of the small companies. In general the figures used were restricted to those which covered interest on long-term debts only, but for large companies inclusion of interest on certain short-term obligations was unavoidable in a few instances. Amortization of debt discount and expense were included with interest, likewise minority interest and dividends on preferred stock of subsidiary companies.

It will appear later that interest as a percentage of earnings (as defined) was much greater for the large than for the small firms; in fact, for more than half the small firms interest charges on liabilities of the type mentioned were apparently nonexistent. If it had been possible to include interest on short-term borrowings in every case, it is very likely that the comparison might have been reversed and that the smaller firms would have been found to pay the heavier interest charges.

NUMBER OF EXECUTIVES

Anyone conversant with executive staffs realizes that not only is their personnel changing constantly, but also that they may differ widely in functions, number, and responsibilities. Detailed studies have been made for both large and small companies of the number of men classified as executives, and the changes in the number from year to year. Statistical data concerning these items are omitted here because of lack of space. It is sufficient to state that over the 1928-36 period the small companies typically considered five or six men as executives; the large companies, twelve to thirteen. It should be noted, however, that the range in the number of men classified as executives by the various companies is exceedingly wide; this range is also clearly shown in columns 3 and 4 of Tables IV and V.

FLUCTUATION IN COMPENSATION

The information requested by the Securities and Exchange Commission on executive payments is unfortunately not identical with that formerly secured by the Federal Trade Commission. The Securities and Exchange Commission's request appears to include a larger group of men than that of the Federal Trade Commission and requires individual salary figures for only the three highest paid men. With the number of executives changing from year to year, there is a possibility that comparison of year-to-year aggregate payments might be misleading. Even in the case of the three highest salaries, there is some chance of misinterpretation, since the question on the 1935 and 1936 forms (Securities and Exchange Commission) covered all corporate employees, whether or not they held executive positions. Fortunately, in very few cases did one of the three highest salaries go to any employee other than an executive; and when this did occur, it was usually possible to substitute an estimate, based on the available data, for the amount going to the third highest paid executive.

The index of total dollar compensation to the three highest paid executives shows the trend in executive payments over the 1928-36 period, without being influenced by variations in the number of men classified as executives from year to year. Table III presents this index, as well as that for compensation to all executives, for both the large and small companies. In preparing the indices, dollar figures for each company were translated into

TABLE III

FLUCTUATION IN TOTAL COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES AND OF ALL EXECUTIVES FOR 51 LARGE AND 53 SMALL INDUSTRIAL COMPANIES: 1928-36

Year	THREE HIGHEST PAID EXECUTIVES				ALL EXECUTIVES			
	Large Companies Number of Firms	Index (1929) =100	Small Companies ¹ Number of Firms	Index (1929) =100	Large Companies Number of Firms	Index (1929) =100	Small Companies Number of Firms	Index (1929) =100
1928	49	93	50	93	49	91	52	93
1929	51	100	51	100	51	100	53	100
1930	51	100	51	100	51	100	53	100
1931	51	89	51	90	51	85	53	89
1932	51	71	51	67	51	70	53	75
1933	..	..³	..	..³	..	..³	..	..³
1934 ²	49	63	51	64	46	72	53	69
1935 ²	48	63 ⁴	48	74 ⁴	46	75 ⁴	53	75 ⁵
1936 ²	48	73	46	85	47	80	51	83

¹ Figures for two small companies which employed only two executives in 1929 were omitted throughout in the preparation of the index.

² It was necessary to adjust certain of the 1934-36 figures obtained from the Securities and Exchange Commission, in order to make them more nearly comparable with the Federal Trade Commission data for 1928-32. In a few instances, where only one of the three highest paid individuals reported in 1935 and 1936 was not an executive, it was possible to make estimates within narrow limits of error.

³ Usable data not available.

⁴ Reflects an estimate for one company for which usable compensation data for 1935 were not available.

⁵ Reflects estimates for two companies for which no compensation data were available in 1935.

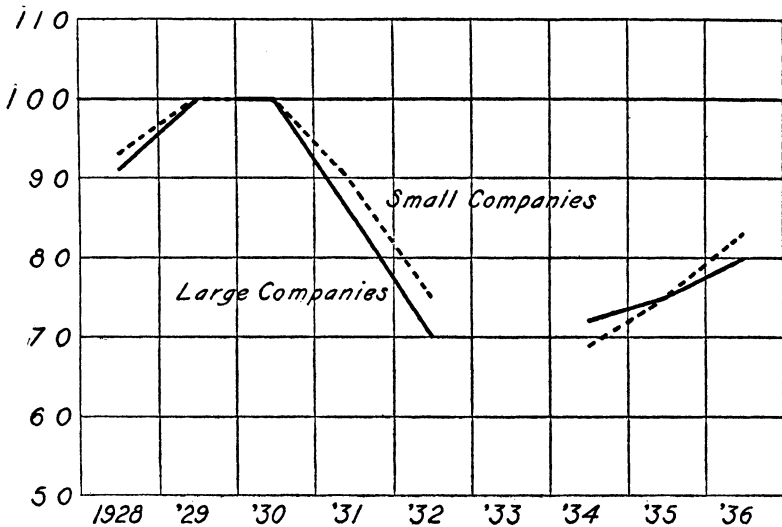
relatives to 1929, the median relative for all companies for the respective items being considered the index number for a particular year. Fluctuation in total executive compensation for both groups is also shown graphically in Chart 1.

The indices of compensation of the three highest paid executives for both groups of companies show closely parallel fluctuations from 1928 through 1931. In the 1932-36 period the two tended to separate. The available data indicate that the low in such payments for both groups was in 1934, but the low may have occurred in 1933, for which period complete information could not be secured. After 1934, payments by the small companies, on the average, rose more rapidly than payments by the large companies. In 1936 the typical compensation of the three highest paid executives in the small companies was within 15 per cent of 1929, while for the large companies such payments were 27 per cent below 1929.

There is considerable difference between the indices for the compensation of the three highest paid officers and that for all the

executives, especially for the large companies. Various interpretations are possible, but no one appears conclusive. Columns 5 to 11 of Tables IV and V reveal total dollar payments to executives by individual companies in the group of large and small companies, expressed in relatives of 1929; the median fluctuations are shown at the bottom of the columns in each table. Among the 51 large com-

CHART 1.—FLUCTUATION IN EXECUTIVE COMPENSATION FOR FIFTY-ONE LARGE AND FIFTY-THREE SMALL INDUSTRIAL COMPANIES: 1928-36¹
(1929 = 100)



¹ Usable data for 1933 were not available.

panies, 11 paid to all their executives more in 1928 than in 1929; and 13 paid them more in 1936 than in 1929. Payments to executives in 1936 for 19 large companies were at least 25 per cent lower than similar payments in 1929. Among the 53 small companies, 16 paid to all their executives more in dollars in 1928 than in 1929; and 15 paid to all their executives more in 1936 than in 1929. Seventeen companies, however, paid in 1936 less than 75 per cent of what they paid in 1929.

EXECUTIVE COMPENSATION AND EARNINGS

A constantly recurring question in past years has been: what share of earnings is paid to executives? This question is clearly

TABLE IV
 EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS, AND NUMBER OF EXECUTIVES, 1929 AND 1936;
 FLUCTUATION IN EXECUTIVE COMPENSATION, 1928-36: FOR EACH OF 51 LARGE INDUSTRIAL COMPANIES¹

Company	Executive Compensation % Earnings		Number of Executives		Executive Compensation (Relative; 1929=100)						
	1929	1936	1929	1936 ²	1928	1930	1931	1932	1934	1935	1936
United States Steel Corporation	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	0.5%	1.5%	13	.. ³	82	103	85	79	67	76	76
Kennecott Copper Corporation	0.5	1.6	7	12	84	121	116	110	123	127	152
R. J. Reynolds Tobacco Company	0.6	1.0	12	12	99	102	102	102	167	157	158
Shell Union Oil Corporation	1.2	1.0	5	8	103	96	103	68	76	58	92
Anaconda Copper Mining Company	1.2	2.3	10	.. ³	126	100	93	73	46	46	51
Marshall Field & Company	1.3	7.9	8	9	100	177	235	167	188	211	249
Standard Oil Company of California	1.3	2.6	11	12	90	116	109	109	100	107	107
The Texas Corporation	1.3	1.2	15	15	64	93	61	53	54	49	74
Standard Oil Company (New Jersey)	1.4	0.6	20	12	58	106	77	56	40	37	37
Ohio Oil Company	1.4	2.2	8	11	95	118	127	128	95	97	101
The Goodyear Tire & Rubber Company	1.5	2.2	16	14	103	101	95	85	87	88	88
Phillips Petroleum Company	1.5	.. ³	8	.. ³	99	105	94	104	82	101	.. ³
Wheeling Steel Corporation	1.6	4.8	13	14	87	100	94	74	165	.. ³	177
The Youngstown Sheet & Tube Company	1.6	2.3	18	16	156	191	149	79	67	77	80
American Rad. & Stand. Sanit. Corp.	1.7	3.8	7	7	.. ³	87	70	67	58	87	87
Atlantic Refining Company	1.9	5.0	8	11	85	94	112	92	118	124	121
International Shoe Company	1.9	3.4	24	23	101	102	84	85	89	.. ³	92
Eastman Kodak Company	2.1	3.3	11	14	107	113	116	120	94	123	134
E. I. duPont de Nemours & Company	2.1	2.2	27	.. ³	95	69	65	40	.. ³	89	120
Consolidated Oil Corporation	2.2	4.8	13	15	120	110	97	121	143	146	173

Sears, Roebuck and Co.....	2.5	.. ³	10	.. ³	281	104	77	47	.. ³	.. ³	.. ³	100
Tide Water Associated Oil Company	2.6	3.8	6	19	91	66	53	49	43	45	.. ³	100
United Fruit Company	2.7	2.3	16	18	99	107	103	70	55	63	69	88
American Smelting and Refining Co.	2.7	3.1	18	16	92	105	87	72	83	82	.. ³	88
Westinghouse Electric & Mfg. Company ..	2.8	.. ³	21	.. ³	78	133	80	63	.. ³	.. ³	.. ³	.. ³
National Dairy Products Corporation	3.0	6.2	27	.. ³	80	113	134	125	99	107	146	146
Inland Steel Company	3.2	4.2	14	.. ³	81	92	78	65	85	112	149	149
Phelps Dodge Corporation	3.6	2.7	10	8	89	123	95	92	88	83	88	88
Radio Corporation of America	3.8	3.7	10	10	58	81	53	45	29	37	38	38
The Firestone Tire and Rubber Company ..	4.0	3.5	11	13	98	92	74	71	95	.. ³	98	98
The American Sugar Refining Company	4.2	6.1	14	13	91	88	88	75	76	77	76	76
The Borden Company	4.3 ⁴	6.3	15	18	73	117	125	71	58	57	58	58
Continental Oil Company	4.4	2.7	14	8	92	69	61	60	62	48	54	54
R. H. Macy & Co., Inc.	4.7	7.6	4	6	98	100	104	97	88	78	91	91
The American Rolling Mill Company	5.0	5.9	15	13	88	117	85	72	76	107	130	130
The International Harvester Company	5.3	1.7 ⁵	13	15	85	71	22	18	18	20	25 ⁶	25 ⁶
Liggett & Myers Tobacco Company	5.3	2.7	12	12	88	97	60	62	.. ³	40	53	53
Warner Bros. Pictures, Inc.	5.5	8.7	20	15	.. ³	106	140	87	67	73	76	76
Corn Products Refining Company	6.0	4.8	9	.. ³	87	112	107	62	56	46	55	55
The American Tobacco Company	6.1	5.1	21	17	78	175	183	116	38	52	57	57
Montgomery Ward & Co., Incorporated ..	6.2	2.2	8	13	100	77	50	40	33	40	50	50
S. S. Kresge Company	6.2	5.2	9	11	102	92	62	32	59	58	63	63
Pure Oil Company	6.2	2.8	12	10	65	86	59 ⁶	58 ⁶	48	51	56	56
Jones & Laughlin Steel Corporation	6.3	7.6	11	12	82	59	47	41	36	27	30	30
American Locomotive Company	6.6	20.5	16	.. ³	78	93	80	67	54	53	61	61
Bethlehem Steel Corporation	6.9	4.6	17	.. ³	58	65	31	27	26	26	25	25
F. W. Woolworth Co.	7.4 ^r	.. ³	30	.. ³	98	87	75	60	.. ³	.. ³	.. ³	.. ³

TABLE IV — *Continued*
 EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS, AND NUMBER OF EXECUTIVES, 1929 AND 1936;
 FLUCTUATION IN EXECUTIVE COMPENSATION, 1928-36: FOR EACH OF 51 LARGE INDUSTRIAL COMPANIES¹

Company	Executive Compensation % Earnings		Number of Executives		Executive Compensation (Relatives; 1929=100)						
	1929	1936	1929	1936 ²	1928	1930	1931	1932	1934	1935	1936
National Lead Company	7.7	5.7	22	17	(5)	(6)	(7)	(8)	(8)	(10)	(11)
Pittsburgh Coal Company	9.0	8	7	9	72	71	59	46	43	44	52
United States Rubber Company	16.6	2.7	14	8	84	74	71	69	123	98	98
American Woolen Company, Inc.	8	9.2	10	8	119	80	78	70	85	72	75
Median	3.0%	3.5% ⁹	13	13 ¹⁰	91	100	85	70	72	75 ¹¹	80

¹ Figures for 1928-32 are based on data furnished to the Federal Trade Commission, while those for 1934-36 are based on figures reported to the Securities and Exchange Commission. Usable data for 1933 were not available. In some instances, it appeared desirable to adjust the figures for 1934-36 to make them more nearly comparable with those for the earlier years; in a few cases it was necessary to apply the reverse procedure. Several of the compensation figures, especially for the last three years, are estimates.

² Since the number of executives employed in 1936 was in many cases not clearly stated, several of the figures shown are estimates.

³ Usable data not available.

⁴ The earnings figures used include estimates for interest at 6% of the debt outstanding.

⁵ The 1936 data cover 10 months only. Estimates for 12 months were considered in computing the medians.

⁶ Because of a change in fiscal year, data for January-March, 1932, are included in the figures for both 1931 and 1932.

⁷ Earnings include dividends from foreign subsidiaries.

⁸ Company reported a deficit before executive compensation and interest. In computing the median, the percentage was considered to be unusually high.

⁹ Estimates for two companies for which figures are not shown were considered in computing the median.

¹⁰ The median reflects estimates for nine companies for which figures are not shown.

¹¹ The median reflects an estimate for one company for which a relative is not shown.

answered for the years 1929 and 1936, for the companies here studied, in Table IV, columns 1 and 2, for large companies, and in Table V, columns 1 and 2, for small companies. A detailed study of the percentages paid by the individual companies is worth while. Of outstanding significance for this purpose, however, are the median percentages of such payments, which appear at the bottom of each exhibit.

In the group of large companies, median percentage payments for 1929 were 3.0 per cent, and for 1936, 3.5 per cent; for small companies in 1929, 11.0 per cent; in 1936, 16.1 per cent. To appreciate the true significance of these percentages, it must be remembered that "earnings" is defined as profits prior to executive compensation and interest. If earnings were defined in the usual way, as balance available for dividends, it would appear that an even larger percentage was paid to executives, but this would not constitute an appropriate divisor for these ratios. The typical percentage of earnings paid by the group of smaller companies to executives is surprisingly high. Some of the individual corporate percentage payments even appear fantastic. Two subsequent sections of the study reveal additional information on this problem.

These percentages are likely to be misleading, unless one realizes the varying nature of both earnings and compensation in the two groups of companies. To stress this, Table VI was prepared, showing that typically the large companies, as contrasted with small companies, paid roughly about five times more to executives in total dollar amounts in 1929 and six times more in 1936. Correspondingly, the earnings of large companies were about 18 times those of small companies in 1929, and 30 times as large in 1936. It appears, therefore, that the extreme percentage of executive compensation to earnings for small companies comes from low earnings rather than high dollar compensation.

EXECUTIVE COMPENSATION AND SALES

Another approach to the significance of executive compensation payments is a study of their relationship to dollar sales volume. Unfortunately, particularly for the group of small companies, sales data over the 1928-36 period are inadequate; comparable sales figures could be secured for the entire period for only 17 small companies and 35 large companies. Among the small companies, the figures for all companies giving data in either 1929 or 1936

TABLE V
 EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS, AND NUMBER OF EXECUTIVES, 1929 AND 1936;
 FLUCTUATION IN EXECUTIVE COMPENSATION, 1928-36: FOR EACH OF 53 SMALL INDUSTRIAL COMPANIES¹

Company	Executive Compensation % Earnings		Number of Executives		Executive Compensation (Relative, 1929=100)						
	1929	1936	1929	1936	1928	1930	1931	1932	1934	1935	1936
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Motor Products Corporation	3.2%	9.3%	4	7	72	100	75	75	132	139	197
The National Acme Company	3.4	8.0	7	7	106	157	89	77	78	85	86
Budd Wheel Company	3.6	12.5	7	6	47	329	250	115	94	100	171
Cutler-Hammer, Inc.	4.0	8.0	6	5	92	76	56	42	55	83	103
Hamilton Watch Company	4.1	7.1	5	3	96	108	98	76	39	45	94
The Cream of Wheat Corporation	4.2	4.8	3	2	93	104	104	98	93	85	86
The Bon Ami Company	4.4	6.5	3	6	121	100	103	121	174	161	125
Chicago Yellow Cab Company, Inc.	5.4	12.4	7	7	105	102	94	84	85	83	84
Campbell, Wyant & Cannon Foundry Co.	5.5	6.3	4	4	87	102	97	78	71	75	93
Adams-Millis Corporation	6.3	8.7	4	4	69 ⁴	116	107	97	93	75	78
Spicer Manufacturing Corporation	6.4	15.6	7	8	101	109	99	99	88	101	188
Eureka Vacuum Cleaner Company	6.6	14.6	4	5	100	89	73	43	39	41	48
Briggs & Stratton Corporation	7.1	8.1	3	5	148	78	76	60	69	72	76
Thatcher Manufacturing Company	7.5	7.4	5	6	86	96	70	63	70	77	109
White Rock Mineral Springs Company	7.8	14.6	6	5	63	81	80	76	82	75	74
S. R. Dresser Manufacturing Company	8.1	15.1	5	6	162	106	99	77	74	75	88
Air-Way Electric Appliance Corporation	8.4	...	4	4	96	85	57	41	44	19	
Ritter Dental Manufacturing Co., Inc.	8.7	15.3	6	8	86	100	74	59	43	44	58
Weston Electrical Instrument Corp.	8.9	20.7	5	4	86	92	76	64	63	66	71
Transue & Williams Steel Forging Corp.	9.1	41.0	3	3	135	104	99	66	64	128	142

National Enameling and Stamping Co.	9.5	12.8	2	3	222	111	151	144	182	...	142
United States Hoffman Mach. Corp.	10.0	10.0	5	3	136	139	109	93	67	68	77
The Vulcan Detinning Company	10.1	...	5	5	98	104	100	88	80	80	79
Scott Paper Company	10.17	9.0	9	..	96	104	86	78	81	...	96
The Deisel-Wemmer-Gilbert Corporation.	10.2	18.0	8	8	...	108	115	113	127	130	135
Vadeco Sales Corporation	10.9	85.6	6	7	45	80	70	64	64	62	58
Clark Equipment Company	11.0	...	6	8	107	67	54	49	56	58	...
The Fairbanks Company	11.3	45.5	4	4	94	117	93	88	86	86	85
Real Silk Hosiery Mills, Inc.	11.77	45.0	6	10	70	59	51	41	41	45	42
Federal Motor Truck Company	12.0	16.8	5	5	85	97	82	38	47	51	49
Savage Arms Corporation	12.3	22.8	4	4	82	107	77	61	57	62	72
General Bronze Corporation	14.0	...	11	9	67	123	108	58	25	28	40
Telautograph Corporation	14.3	23.2	3	3	91	109	120	76	77	74	74
The Sweets Company of America, Inc.	14.8	31.8	3	3	84	103	85	66	95	146	149
The Bullard Company	15.0	17.0	11	11	101	94	79	71	53	58	80
Federal Screw Works ²	15.4	36.3	9	6	61	84	61	41	17	20	21
Doehler Die Casting Co.	15.5	12.1	8	8	80	111	71	45	54	72	88
United American Bosch Corporation	15.8	...	6	7	93	99	134	83	80	94	111
American Zinc, Lead and Smelting Co.	16.3	61.9	9	9	108	80	69	67	62	68	75
Intertype Corporation	16.47	23.37	12	9	63	74	74	65	66	67	77
Artloom Corporation	16.6	77.3	8	6	147	95	92	62	41	41	51
Zonite Products Corporation	17.9	37.3	4	6	55	151	160	131	62	71	76
Atlas Tack Corporation	23.5	31.2	2	6	146	92	99	27	86	60	150
Phillips-Jones Corporation	24.1	...	6	..	83	117	123	90	115	98	...
American Colortype Company	25.0	30.0	10	10	98	113	93	66	42	41	45
Van Raalte Company, Inc.	25.9	16.1	4	6	113	100	98	107	99	155	170
Reynolds Spring Company	26.0	11.3	5	6	86	92	81	56	73	104	124

TABLE V — *Continued*
 EXECUTIVE COMPENSATION AS A PERCENTAGE OF EARNINGS AND NUMBER OF EXECUTIVES, 1929 AND 1936;
 FLUCTUATION IN EXECUTIVE COMPENSATION, 1928-36, FOR EACH OF 53 SMALL INDUSTRIAL COMPANIES¹

Company	Executive Compensation % Earnings		Number of Executives		Executive Compensation (Relatives; 1929=100)						
	1929	1936	1929	1936	1928	1930	1931	1932	1934	1935	1936
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Webster Eisenlohr, Inc.	31.6	....⁵	5	8	88	139	125	106	95	95	127
Belding Heminway Company.	78.7	13.5	5	5	67	74	65	41	56	59	83
Century Ribbon Mills, Inc.	122.5	48.9	5	5	100	100	82	100	94	101	100
The Crosley Radio Corporation ³ .....	....⁵	5.1	4	5	93	54	42	24	40	53	61
The Gabriel Company .....	....⁵	....⁵	3	3	82	116	99	90	46	41	41
The Standard Commercial Tobacco Co. ....	....⁵	31.3	6	6	165	75	70	88	59	138	51
Median	11.0%	16.1%	5	6	93	100	89	75	69	75 ⁸	83

¹ It was necessary to adjust certain of the 1934-36 figures obtained from the Securities and Exchange Commission in order to make them more nearly comparable with the Federal Trade Commission data for 1928-32. Usable data for 1933 were not available.

² Figures for 1929 reflect operations of a subsidiary not acquired until June 30, 1929.

³ Because of two changes in fiscal year, data for January through March, 1929, were omitted, while corresponding data for 1935 were used twice.

⁴ Figure covers data for 9 months only.

⁵ Company reported a deficit before executive compensation and interest. In computing the median, the percentage was considered to be unusually high.

⁶ Usable data not available.

⁷ Earnings figures used include estimates for interest.

⁸ Median reflects estimates for two companies for which data were not available.

TABLE VI

TOTAL EXECUTIVE COMPENSATION AND EARNINGS IN DOLLARS
FOR 51 LARGE AND 53 SMALL INDUSTRIAL COMPANIES: 1929 AND 1936
(Median Figures; Unit = \$1,000)

Group	EXECUTIVE COMPENSATION		EARNINGS ¹	
	1929	1936	1929	1936
51 large industrial companies	\$507	\$435 ²	\$18,454	\$14,576
53 small industrial companies	95	74 ²	996	462 ²

¹ Earnings is defined as net income after depreciation and Federal taxes, but prior to executive compensation and interest.

² In arriving at the median, figures for two firms were omitted.

were examined, and since the medians were practically the same as those for the 17 companies, it may be concluded that the latter constitute a fairly representative sample.

In 1929 the small companies paid to executives about 1.3 per cent of sales, on the average; in 1936, a slightly higher percentage. For the large companies, both in 1929 and 1936, about 0.3 per cent of sales went to executives. The contrast between these percentages is striking, and supports the conclusion arrived at above, that small companies typically pay proportionately more to executives than large companies. Indeed, in certain companies the percentage of executive compensation to sales appears to be exceedingly high.

The percentages are so significant that Table VII was prepared to indicate median percentages from 1928 to 1936 and the range in annual figures, both for large and small companies. Medians for the large companies varied not more than 0.1 per cent from 1928 to 1936, and it seems reasonable to conclude that 0.4 per cent was on the average the percentage of executive compensation to sales over the period. The annual ranges in such payments, however, were substantial. The greatest extremes occurred in 1931 and 1932, the variation being from 0.1 per cent to 3.9 per cent. For the group of small companies, on the other hand, the median percentage fluctuated from 1.3 per cent in 1929 to 2.4 per cent in 1932. The ranges in percentages upon which the medians are based in each year are, however, exceedingly wide. In 1929 it was from 0.3 per cent to 5.5 per cent; and in 1932, when the median was the highest, the range was from 0.5 per cent to 19.8 per cent. Other years showed almost as wide variations.

TABLE VII

EXECUTIVE COMPENSATION AS A PERCENTAGE OF SALES
FOR 35 LARGE AND 17 SMALL INDUSTRIAL COMPANIES:¹ 1928-36

Year	LARGE INDUSTRIAL COMPANIES			SMALL INDUSTRIAL COMPANIES		
	Number of Companies	Executive Compensation % of Sales Median	Compensation Range	Number of Companies	Executive Compensation % of Sales Median	Compensation Range
1928	33	0.4% ³	0.1—1.1%	17	1.3%	0.6—5.0%
1929	35	0.3	0.1—3.2	17	1.3	0.3—5.5
1930	35	0.3	0.2—2.0	17	1.7	0.4—6.6
1931	35	0.4	0.2—3.9	17	2.1	0.7—9.8
1932	35	0.4	0.1—3.8	17	2.4	0.5—19.8
1933	..	..⁴	.....⁴	..	..⁴	.....⁴
1934	33	0.4	0.1—2.5	17	2.0	0.3—7.2 ⁵
1935	33	0.4 ⁶	0.1—2.3	17	1.6 ⁶	0.3—14.2
1936	33	0.3 ³	0.1—2.2	16	1.6	0.3—14.7
1928-36 combined ²	35	0.4	0.1—2.8	17	1.7	0.5—6.5

¹ Complete sales data were available in all years except 1928 for only 35 large companies and 17 small companies. Figures for additional companies were omitted, because of lack of usable compensation data.

² Data for 1933 omitted. Combined averages for three small and six large companies covered seven years only; usable figures for two additional large companies covered the period 1928-32.

³ The median reflects an estimate for one company.

⁴ Usable data not available.

⁵ The second highest percentage is shown; the highest was fantastically large.

⁶ The median reflects estimates for two companies.

Although high dollar executive compensation for both groups seems to be associated with high dollar earnings, it is *not* true that high executive compensation as a percentage of sales accompanies high earnings as a percentage of sales. However, for about two-thirds of the small companies and at least three-fourths of the large companies in 1936, high *dollar* payments to executives did accompany high dollar sales and low dollar payments accompanied low sales. This naturally affects percentage figures.

EXECUTIVE COMPENSATION, EARNINGS AND DIVIDENDS

Overemphasis on data for a single year, whether relating to earnings, dividends, or payments to executives, often occurs in discussions of corporate affairs, while conditions over an extended period are frequently understressed. Table VIII and Charts 1, 2 and 3 present the changes in these items for both groups of companies over the entire 1928-36 period. The percentages as well as the index numbers are median figures. It should be remem-

TABLE VIII
 EXECUTIVE COMPENSATION, INTEREST, BALANCE AVAILABLE FOR DIVIDENDS, EARNINGS, AND DIVIDENDS FOR 51 LARGE AND 53
 SMALL INDUSTRIAL COMPANIES: INDEX NUMBERS, 1928-36; PERCENTAGES OF EARNINGS, 1929, 1936, AND 1928-36 COMBINED
 (Median Figures)

Items	Index Numbers Based on Dollar Figures ¹ (1929=100)										Percentage of Total Earnings	
	1929	1928	1930	1931	1932	1933	1934	1935	1936	1936	1928-1936 Combined ²	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
I												
<i>51 Large Industrial Companies:</i>												
1. Executive compensation	3.0%	91	100	85	70	.. ⁴	72	75 ⁵	80	3.5%	4.9%	
2. Interest	7.0	..	..	..	..	..	..	..	..	5.2	13.6
3. Balance available for dividends	89.9	83	51	6	45	17	34	51	71	89.6	79.5	
4. Earnings	100.0	87	58	13	10	.. ⁴	42	51	69	100.0	100.0	
5. Total dividends	46.9	77	106	77	32	12	42	54	81	60.1	70.5	
II												
<i>53 Small Industrial Companies:</i>												
1. Executive compensation	11.0%	93	100	89	75	.. ⁴	69	75 ⁵	83	16.1%	25.5%	
2. Interest	0.0	..	..	..	..	..	..	..	..	0.0	0.0
3. Balance available for dividends	87.8	83	39	45	426	2	11	29	42	83.2	72.5	
4. Earnings	100.0	85	42	0	423	.. ⁴	17	34	50	100.0	100.0	
5. Total dividends	43.6	80	99	54	5	0	0	27	53	58.2	61.7	

¹ The index numbers are based on figures for all firms for which usable data were available, the number of companies, figures for which were considered in preparing the indices of executive compensation, being the same as noted in Table III. The index numbers for earnings (before or after executive compensation and interest) and dividends, however, reflect no figures for a few companies which, respectively, sustained losses or did not pay dividends in 1929. In preparing indices for these three items, usable data for a maximum of two additional companies were not available in each group in certain other years, with the exception of 1928, when figures for a maximum of three large companies were lacking. Since many companies did not have interest bearing liabilities in 1929, no index numbers for this item were prepared.

² Figures for two large companies and two small companies were omitted in computing the median percentages for 1936.

³ Data for 1933 were incomplete hence figures for that year were omitted in the preparation of the averages for the combined period. Figures for six small and eight large companies covered seven years only; figures for two additional large companies cover the period 1928-32.

⁴ Usable data not available. † Deficit.

⁵ Reflects an estimate for one firm for which data were not available.

⁶ Reflects estimates for two firms for which data were not available.

CHART 2.—FLUCTUATION IN BALANCE AVAILABLE FOR DIVIDENDS FOR FIFTY-ONE LARGE AND FIFTY-THREE SMALL INDUSTRIAL COMPANIES: 1928-1936 (1929 = 100)

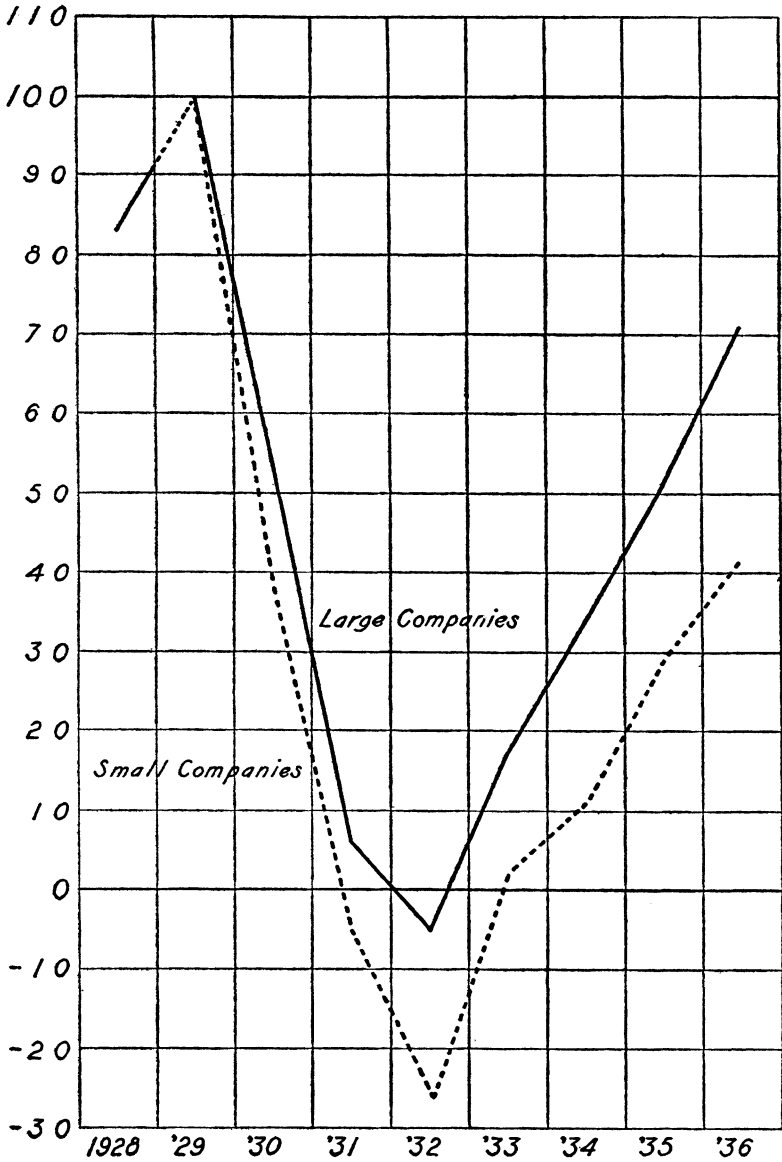
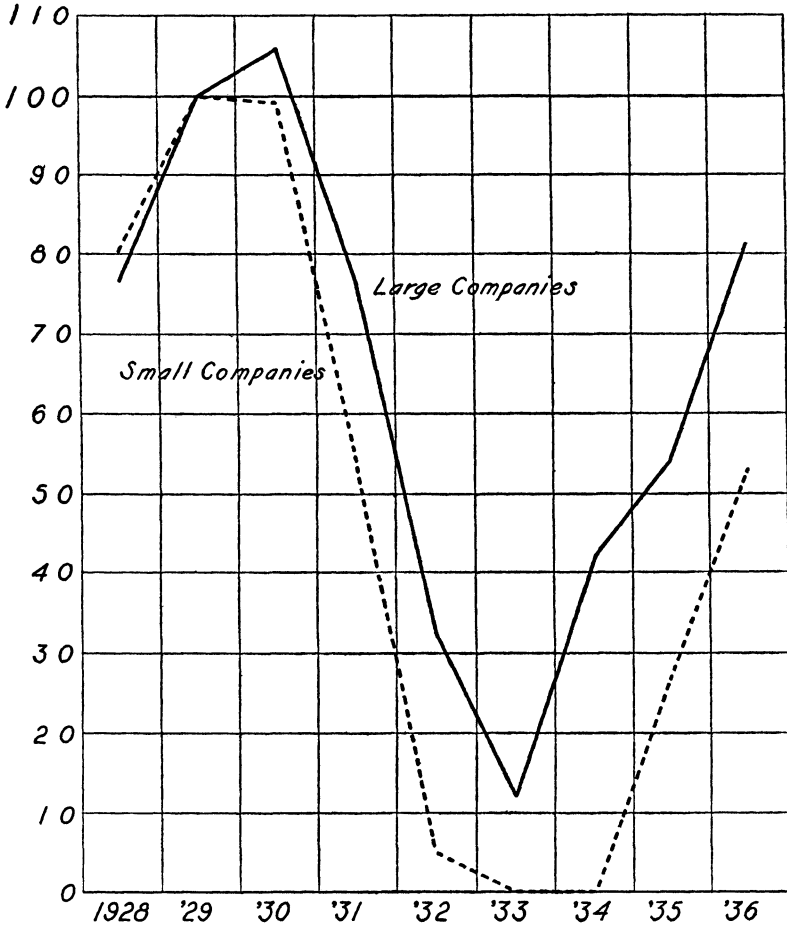


CHART 3.— FLUCTUATION IN TOTAL CASH DIVIDENDS FOR FIFTY-ONE LARGE AND FIFTY-THREE SMALL INDUSTRIAL COMPANIES: 1928-36
(1929 = 100)



bered that the range in the averages is wide for both large and small companies, annually as well as for the period.

In the first section of Table VIII, the first item in column 1 indicates for large companies the median percentage ratio of executive compensation to earnings in 1929, column 10 the same percentage for 1936, and column 11 the percentage for the period.⁶

6. Figures for 1933 omitted because of lack of data.

Columns 2 to 9 inclusive show the relative dollar amounts paid from 1928 to 1936, based on 1929. Similar data for balance available for dividends, earnings and cash dividends also are presented. Interest data were so meagre that, while the figures are given, little emphasis was placed on them. Section II reveals comparable data for small companies.

The percentage of executive compensation to earnings for both groups of companies has been discussed for 1929 and 1936. No mention, however, has been made of these percentage payments for the entire 1928-36 period. Large companies paid over this period typically only 4.9 per cent of earnings to executives, while small companies paid out 25.5 per cent — an extremely wide spread. Admitting the possibilities of bias, because more manufacturers of durable goods are included among the smaller companies, the conclusion still seems inescapable that smaller companies, over a period of years, pay to their executives exceptionally high percentages of earnings. However, there is little difference between the fluctuations in the median total dollar payments made by the two groups over the period, as indicated in columns 2 to 9 of Table VIII and graphically in Chart 1.

The variation in earnings as indicated by index numbers is not presented graphically, since it is quite similar to the series for balance available for dividends. The only noteworthy difference is that the median index of earnings for large companies did not fall below zero in 1932.

Line 3 of Sections I and II refers to medians for balance available for dividends for large and small companies, or what is ordinarily accepted as a net earnings figure. In 1929 this percentage for large and small companies was quite similar. For 1936 and for the 1928-36 period, the percentage for the smaller companies was six to seven per cent below that for the large companies, indicating that their executives, as revealed in other data, were taking a larger proportional share, both in 1936 and for the entire period, than they did in 1929.

The fluctuations in the index numbers referring to balance available for dividends, based on 1929 as 100, are shown in columns 2 to 9. Both groups reveal losses in this item in 1932, and small companies also in 1931. By 1936, however, the median balance available for dividends for large companies had risen to within 29 per cent of 1929, and for small companies to within 58 per cent of

1929. Chart 2 also shows the fluctuating nature of the index for balance available for dividends, as compared with the index for executive compensation shown in Chart 1. A study of annual reports reveals that 12, or one-quarter of the entire group of small companies, had no balance available for dividends for the combined 1928-36 period.

Another significant series in Table VIII is that portraying dividend payments. The percentages of earnings (as herein defined) paid out in dividends in 1929 are roughly comparable for the large and small companies, 46.9 per cent for the former, and 43.6 per cent for the latter. In 1936 such payments for the two groups were again almost identical, 60.1 per cent for large companies and 58.2 per cent for small companies. For the entire period, however, the spread is wider, 70.5 per cent for the large and 61.7 per cent for the small companies.

The fluctuations in the median dollar amounts paid in dividends, based on 1929, show that large companies paid higher dividends in 1930 than in 1929, while such payments by small companies declined very rapidly after 1929. Both groups reached a low point in 1933, but by 1936 the payments by large companies were back to within 19 per cent of 1929, those by small companies to within 47 per cent. These figures are also shown graphically in Chart 3.

Items 1 and 5 of Table VIII, columns 1, 10 and 11, make clear the comparison between the percentage of earnings going to executives as compensation and to stockholders as dividends. In 1929 large companies paid stockholders over 15 times more in dividends than they paid executives in compensation. During the same period small companies paid stockholders in dividends less than four times the amount they paid executives. In 1936 the difference is even more marked. Large companies distributed typically to stockholders nearly 17 times the amount they did to executives; small companies only slightly over $3\frac{1}{2}$ times more to stockholders than executives. For the entire period, large companies typically paid from earnings over 14 times more to stockholders than to executives; small companies, on the other hand, paid less than $2\frac{1}{2}$ times more to stockholders than to executives. The differences in the fluctuations of the executive compensation and dividend series can readily be observed by comparing Charts 1 and 3.

An objection to these data is that dividends are not shown as a

TABLE IX

TOTAL CASH DIVIDENDS AS A PERCENTAGE OF EARNINGS
AND OF BALANCE AVAILABLE FOR DIVIDENDS FOR 51 LARGE AND 53 SMALL
INDUSTRIAL COMPANIES: 1929, 1936, AND 1928-36, COMBINED

Items	1929	1936	1928-36 Combined ¹
<i>51 Large Industrial Companies:</i>			
Dividends as a percentage of earnings . .	46.9%	60.1% ²	70.5%
Dividends as a percentage of balance available for dividends	54.1	67.0	85.1
<i>53 Small Industrial Companies:</i>			
Dividends as a percentage of earnings . .	43.6	58.2 ²	61.7
Dividends as a percentage of balance available for dividends	52.6	69.8	89.2

¹ Data for 1933 omitted. Figures for eight large companies and six small companies cover seven years only, and usable data for two additional large companies cover the period 1928-32.

² Usable earnings figures for two companies in each group were not available for 1936.

percentage of balance available for dividends, as earnings are usually defined. To meet this criticism, Table IX was prepared, showing dividends both as a percentage of earnings and as a percentage of balance available for dividends. The outstanding features of this table are as follows: (a) the percentage of balance available for dividends paid out in dividends is of course substantially larger than the percentage of earnings (as defined herein) so paid out. By nature of the definition of earnings, this is true for both groups for all three periods. (b) For the entire period 1928-36, slightly less than nine-tenths of net earnings were paid out in dividends by both groups. (c) Percentages for the entire period compared with those for 1929 and 1936 suggest the dangers of generalizing from annual data.

DOLLAR COMPENSATION OF CHIEF EXECUTIVES

The least complicated examination of payments to executives by large and small companies is a comparison of the average dollar amount each group paid to individual executives. The figures most readily available were those for payments to the three highest paid executives, for average payments to all other executives exclusive of the three highest paid, and for the average payments to all executives. Table X shows median dollar payments for these items in 1929 and 1936 for 44 large and 46 small companies.

TABLE X
TYPICAL DOLLAR COMPENSATION OF EXECUTIVES OF 44 LARGE AND 46 SMALL INDUSTRIAL COMPANIES:¹
1929 AND 1936

Ranking of Executive	44 LARGE INDUSTRIAL COMPANIES Executive Compensation		46 SMALL INDUSTRIAL COMPANIES Executive Compensation	
	Amount (Median) Unit=\$1,000	Percentage of Median Compensation of Highest Paid Executive	Amount (Median) Unit=\$1,000	Percentage of Median Compensation of Highest Paid Executive
1929				
Highest paid executive	\$101	100%	\$31	100%
Second highest paid executive	75	74	20	65
Third highest paid executive	59	58	12	39
All other executives (averaged)	27	27	9 ⁴	29
Total executives (averaged)	40	40	18	58
1936				
Highest paid executive	93	100	25	100
Second highest paid executive	64	69	18	72
Third highest paid executive ²	48	52	11	44
All other executives (averaged) ³	24	26	7 ⁴	28
Total executives (averaged) ³	35	38	13	52

¹ Usable data for the three highest paid executives for both years were available for only 44 large and 46 small industrial companies. The figures for the last two items are slightly overstated, since total compensation includes that of all officers and directors reported to the Federal Trade Commission and the Securities and Exchange Commission, whereas the number of executives as determined for this study excludes those directors who received only nominal sums. Directors' fees could have been excluded in 1929, but since separate amounts for such fees were not specifically required by the Securities and Exchange Commission in 1936, directors' fees could not be excluded in 1936. For purposes of comparison, therefore, directors' fees have been for the most part included in both years.

² Information for 1936 concerning the three highest paid men did not always cover executives as defined for this study. Estimates were made in cases where only one of these executives was not in the executive group, whenever such estimates could be made within narrow limits. Figures for one large and five small companies were so estimated.

³ These averages for 1936 are to be considered merely suggestive, since the total dollar amounts paid to executives in 1936 were, in a few cases, based in part on estimates made for use in the study, and in many instances the total number of executives employed, particularly in the large companies, was not clearly stated on the Securities and Exchange Commission, Form 10K for 1936.

⁴ Based on data for 40 firms. In each year six of the 46 firms had three or fewer executives.

The highest paid executive in the group of large companies received on the average \$101,000 in 1929 and \$93,000 in 1936. The highest paid executive in the group of small companies received \$31,000 in 1929 and \$25,000 in 1936. Among the small companies there was a tendency for payments to the second and third highest paid men to be larger in 1936, relative to the amounts received by the highest paid, than in 1929. This tendency, however, is not apparent among the large companies. In both years the third highest paid man among the large companies was typically receiving more, as compared with the highest paid, than was the third highest paid man among the small corporations.

These figures also bear upon the ubiquitous question: what is the average salary for executives in large and small companies? The average payment to the official classified as an executive in the large companies was \$40,000 in 1929 and \$35,000 in 1936. Similar payments in the small companies averaged \$18,000 in 1929 and \$13,000 in 1936.

RELATIONSHIP OF ASSETS TO DOLLAR EXECUTIVE COMPENSATION

In the preceding paragraphs, the difference in dollar payments to executives by large and small companies is clearly visible. This should occasion little comment, because of the extreme variations in size of the two groups — the larger with assets over \$100,000,000 and the smaller with assets less than \$10,000,000. The significance of this conclusion is of sufficient importance, however, to warrant an examination of the effect of size within the two groups. Median asset figures were secured for both groups of companies, and each group was again divided into sub-groups comprising those with assets above and those with assets below the median. The median asset figure for the group of large companies was \$178,000,000 in 1929, and for the group of smaller companies \$5,100,000 in 1936. Medians were also secured for compensation to the three highest paid men for each year from 1928 to 1936 for all four groups. Table XI reveals clearly the effect that size within the two original groups of companies had on payments to executives. Among the original group of large companies, higher payments clearly were made to executives of the corporations with assets over the median every year of the period studied. For the small companies this tendency was not apparent in the years 1928, 1929 and 1930, but

TABLE XI
 TOTAL COMPENSATION OF THE THREE HIGHEST PAID EXECUTIVES
 FOR 49 IDENTICAL LARGE INDUSTRIAL COMPANIES
 AND 47 IDENTICAL SMALL INDUSTRIAL COMPANIES
 SUBDIVIDED ACCORDING TO SIZE:¹ 1928-36
 (*Median Figures; Unit = \$1,000*)

Year	LARGE INDUSTRIAL COMPANIES		SMALL INDUSTRIAL COMPANIES	
	22 Companies with Assets of \$178,000,000 or more in 1929	17 Companies with Assets of less than \$178,000,000 in 1929	23 Companies with Assets of \$5,100,000 or more in 1936	24 Companies with Assets of less than \$5,100,000 in 1936
1928	\$251	\$182	\$61	\$64
1929	255	214	72	75
1930	292	220	73	74
1931	243	191	66	61
1932	192	161	55	41
1933	... ²	... ²	... ²	... ²
1934	210 ³	150	51	40
1935	201	164 ³	55 ⁴	43 ⁴
1936	236	185	61 ³	45 ⁵

¹ The size groups used in this table were established by securing the 1929 median asset figure for the large companies and the 1936 median for the small companies and dividing the companies in each group into those with assets above the respective medians and those below them. In preparing this table figures were used for only those firms for which usable data were available in every year of the period studied with the exception of 1933.

² Data not available.

³ Median reflects estimated figure for one firm.

⁴ Median reflects estimates for two firms.

⁵ Median reflects estimates for five firms.

did appear for the 1928-36 period. To discover more exactly what relationship existed, scatter charts were examined for the small firms, showing executive compensation plotted against assets for the years 1929, 1932, 1934, and 1936. No correlation whatever was revealed between assets and compensation for 1929, and there was only a slight suggestion of such a tendency in 1932; but in 1934 and 1936 there was a definite indication that high dollar payments to the three highest paid executives were concomitant with high assets, even among these small firms.

BONUS POLICIES

In past years little information was available concerning the prevalence of bonus plans and payments made under such plans. These questions can now be examined with the aid of Tables XII and XIII. In the group of large companies, 49.1 per cent of the men listed as executives received both salary and bonus in 1929; by 1930 this number had risen to 51.5 per cent of the total; and by

TABLE XII
 CHANGES IN PERCENTAGE OF EXECUTIVES RECEIVING BOTH SALARY AND BONUS:¹ 1928-32
 (58 Large² and 53 Small Industrial Companies)

Year	LARGE COMPANIES			SMALL COMPANIES		
	Number of Companies	All Executives Total Number	Executives Receiving Salary and Bonus Percentage of Total	Number of Companies	All Executives Total Number	Executives Receiving Salary and Bonus Percentage of Total
1928	54	696	43.1%	46	251	28.7%
1929	56	736	49.1	47	268	29.9
1930	56	738	51.5	47	270	26.7
1931	56	750	31.6	47	265	17.0
1932	56	742	18.9	47	259	11.2

¹ The bonus data for 1928-32 have been drawn from the material filed with the Federal Trade Commission for "Other Compensation Paid During Year." Directors' fees were also considered under this category; in order to distinguish between them and bonuses, all relatively small, regular amounts (usually divisible by \$20 or \$25 for small firms and often larger round amounts for large firms) were considered to be fees and all relatively large and sometimes irregular amounts to be bonuses. Supplementary data on bonus plans in the Securities and Exchange Commission reports and occasionally in company reports to stockholders were examined to substantiate the decisions arrived at from the Federal Trade Commission data. Figures for this table were not available for the years following 1932.

² Eight additional large firms furnished interesting data on bonuses. Figures for seven of these have been included in this exhibit.
³ No data for one company were available in 1928. From statistics available for following years it seems probable that the company had seven or eight officers, none of whom received a bonus. If this were the case, the percentage would have been 27.9%.

TABLE XIII
 CHANGES IN PERCENTAGE OF COMPANIES PAYING BONUSES:¹ 1928-36
 (58 Large² and 53 Small Industrial Companies)

Year	LARGE COMPANIES			SMALL COMPANIES		
	Companies with Bonus Data Available Total Number	Companies Paying Salary and Bonus Number	Percentage of Total	Companies with Bonus Data Available Total Number	Companies Paying Salary and Bonus Number	Percentage of Total
1928	55	39	70.9%	52	24	46.2%
1929	58	41	70.7	50	25	50.0
1930	58	42	72.4	50	22	44.0
1931	58	29	50.0	51	15	29.4
1932	58	27	46.6	51	10	19.6
1933	.. ³	.. ³	....³	.. ³	.. ³	....³
1934	58	14	24.1	52	6	11.5
1935	56	16	28.6	52	7	13.5
1936	52	16	30.8	52	8	15.4

¹ See footnote 1, Table XII. Figures for 1934-36 were based on data secured from the Securities and Exchange Commission.

² Eight additional large firms furnished interesting data on bonuses. Figures for seven of these have been included in this exhibit.

³ Data not available.

1932 it had declined to 18.9 per cent. For small companies, bonuses were less frequent. In 1928, 28.7 per cent of the men classified as executives received a bonus in addition to their salary. This percentage reached a peak the following year, although only slightly above the 1928 level, but by 1932 it had declined to 11.2 per cent. After 1932 information concerning the number of men participating in bonus payments in either group could not be secured.

The number of companies making bonus payments is of equal interest. Prior to 1932 this classification includes both companies with formal bonus plans and those making payments without a definite written plan, since more specific data could not be secured from the Federal Trade Commission figures denoting "additional compensation." The Securities and Exchange Commission, however, requires definite information as to whether or not a company had a bonus plan. The two sources of information may give slightly different results, but a careful check revealed no great discrepancies. In 1928 and 1929 over 70 per cent of all the large companies examined made bonus payments to one or more officers or had formal or informal bonus plans. By 1932 this number had declined to 46.6 per cent and in 1934 reached a low point of 24.1 per cent, increasing slightly to 30.8 per cent in 1936.

A somewhat similar decline occurred for the group of small companies, although at no time during the period studied did such a high percentage of these companies pay bonuses. The top number was 25, or 50 per cent, in 1929, declining to 6, or 11.5 per cent, in 1934; by 1936, only 8 companies, or 15.4 per cent, paid bonuses. Annual changes in bonus policies among the group are shown in Table XIII.

CONCLUSIONS

Much of the material presented in this comparative study of payments to executives by large and small companies may be of current significance and importance only from particular points of view. There are other phases of such wide interest, however, that they merit general consideration, and we shall conclude this paper with a brief summary of them.

Dollar payments to all executives were substantially higher in large companies than in small companies. This can be explained both by the higher amounts paid to individual executives, and by the larger number of executives. Large companies, for example, on the average paid their presidents \$81,000 in 1936, compared with \$25,000 for small companies in the same year. Large companies, however, clearly distributed a lower percentage of earnings to executives than did the small companies. In 1929 they paid on the average 3 per cent as compared with 11 per cent for the small companies; and for the entire period, 4.9 per cent as compared with 25.5 per cent. In addition, the range in these percentages for each period examined was exceedingly wide in both groups.

Large companies also paid to their executives a much smaller percentage of sales than did small companies. In 1929 they paid 0.3 per cent, as against 1.3 per cent for small companies; and for the 1928-36 period, 0.4 per cent as against 1.7 per cent. The percentage of earnings and sales paid to executives in both groups fluctuated widely among companies. Abrupt changes in sales and earnings, however, caused this, rather than adjustments in payments to executives.

The fluctuation in the total average dollar amounts paid to executives over the 1928-36 period by the two groups of companies differed little. During the 1932-34 period the average for both groups was about 30 per cent below 1929, but by 1936 it had risen substantially; payments in the large companies were within 20

per cent, and in the small companies within 17 per cent of 1929 levels. Total dollar compensation was so inflexible that it might fairly be regarded as a fixed charge.

The statistics revealing the share of profits going to executives as compensation and to stockholders as dividends in 1929, 1936 and throughout the period are particularly significant. Stockholders in the large companies in 1929 typically received as their share of earnings 16 times more than did the executives; in 1936, 17 times more. In the small companies the stockholders received 4 times more than the executives in 1929; $3\frac{1}{2}$ times more in 1936. Over the entire period the contrast is even more marked. Stockholders in the large companies received typically 14 times more than executives, while in the small companies stockholders received only $2\frac{1}{2}$ times the amount going to executives.

The above conclusions for large and small companies appear to be the more important characteristics of the 1928-36 practices in paying executives and of distributing earnings between executives and stockholders. This information should be of use not only in clarifying and improving corporate policies, but also in providing a definite factual background for the development of economic theory in this area.

So far as corporate policy is concerned, there is a conflict of interest between management and owners in the distribution of earnings. Under present conditions the strategic position of management has given it at least a temporary advantage in bargaining, but the long-run need of corporations for new capital may enforce a reconsideration of the comparative share of earnings going to each, in order that the supply of risk-taking capital may be adequate. The publicity now being given to executive payments also may facilitate such a division of profits.

The above study suggests that from a theoretical point of view we are still a long way from recognizing the identity of the entrepreneur. In the modern corporation some portion of the entrepreneur's function undoubtedly still resides in the risk-taking owners, but a large part is at present unmistakably, and perhaps permanently, in the hands of executives or managing officials. The executives whose compensation is examined in the foregoing pages participated in these functions as well as the ordinary managerial functions, long recognized by theory as tasks of hired executives. The economic theorist, therefore, in his further study

of the position of the entrepreneur in the corporation, is confronted with the difficult problem of determining to what extent executive compensation is in fact a reward for the successful performance of the entrepreneur's function. Assuming that some such estimate can be made, the question then arises whether society is paying too much or too little from the net product of industry over a period of years for the exercise of these functions.

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