

THE COMPENSATION OF EXECUTIVE
OFFICERS OF RETAIL COMPANIES
1928-1935

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FOREWORD

Following the development of the large corporation, frequently with wide public ownership, as a predominant form of business organization, there has been a marked growth of interest in regard to the salaries paid to principal executives. This interest has been expressed concerning both the amounts paid and the modes of payment. Not only has the general public lacked information on these matters, but even stockholders customarily were not given such data; and actually a great many business men themselves have been in the dark as to the salaries paid in companies other than their own. A common query among business executives is, "What constitutes a fair salary to pay for the job of president, or general manager, or vice president, or treasurer?"

From quite another standpoint also, namely, that of the economist, the dearth of information in regard to executive salaries was keenly felt. Partly because of the lack of such data, theories relating to the whole subject of business profits and the intimately related problem of executive compensation have been considered one of the least satisfactory parts of economic theory. A number of years ago, a preliminary study of some of these problems was made on a questionnaire basis by Professor F. W. Taussig and Mr. W. S. Barker, and the findings were published in the *Quarterly Journal of Economics*, November, 1925, under the title, "American Corporations and Their Executives". Most of the data used in that study were for the pre-war period, a time when the practice of executive profit sharing was far less common than it later became. Although some joint plans were tentatively considered by the Business School and the Department of Economics looking toward the inauguration of similar studies covering a later period, the project was laid aside both because of lack of financial support and also because of the anticipated difficulty of obtaining so much confidential information from a large number of American corporations.

In 1933 the situation was changed radically by government action. Senate Resolution Number 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 and the New York Curb Exchange for each year during the period from 1928 to 1933; and in February, 1934, the early findings of the Federal Trade Commission were made public. Since that time, there has been a fairly steady stream of information on corporate salaries emanating first from the Federal Trade Commission and later from the Securities and Exchange Commission.

Recognizing the importance of these figures and the need for interpretation, Mr. John C. Baker, the Associate Director of Research at the School, with assistance from the Milton Fund began a study of these reports, utilizing photostatic copies of original data submitted to the Federal Trade Commission and the Securities and Exchange Commission. At the outset Mr. Baker, in collaboration with Professor William Leonard Crum, made a survey of executive salaries for a sample of 100 companies listed on the New York Stock Exchange. The results of this analysis were published in an article entitled "Compensation of Corporation Executives—The 1928-1932 Record" in the Spring, 1935, issue of the *Harvard Business Review*. Subsequently Mr. Baker published in the *Review* the findings of two further studies: "Executive Compensation Compared with Earnings" (Winter, 1936); and "Incentive Compensation Plans for Executives" (Autumn, 1936).

At this point further examination of the data indicated the desirability of a number of special studies of executive compensation in particular fields of business. For the first of these, retailing was selected, partly because of the background afforded by the quantity of statistical material on retail costs and profits that was available over a period of years as a result of the continued studies of the Harvard Bureau of Business Research. This monograph, then, deals with the executive compensation of officers in retail companies for the years 1928-1935. The purpose is primarily to make a factual report, to indicate what the average payments to executives were; what form they took; how they fluctuated from 1928 to 1935; and how they were related to sales, expenses, general pay roll, earnings, dividends, executive stock holdings, and so on. No effort is made to express judgment as to the soundness or propriety of the policies followed. These are problems for economists and business analysts at some time in the future when a larger quantity of data is available than now exists.

In the statistical work involved in the preparation of this monograph, Mr. Baker had the assistance of Mr. Andrew R. Towl and Miss Evelyn H. Puffer. Miss Elizabeth A. Burnham, Chief Statistician of the Bureau of Business Research, collaborated with Mr. Baker throughout the greater part of the study, especially in the preparation and analysis of the statistics.

Boston, Massachusetts
March, 1937

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Source Material

Executive compensation material for this study was derived from reports filed by retail companies with the Federal Trade Commission and the Securities and Exchange Commission. Data on earnings and dividends were obtained from printed annual reports and financial manuals.

The Federal Trade Commission, following Senate Resolution No. 75 of the 73d Congress, designed a form for collecting data from individual corporations concerning executive compensation. A reproduction of the form with figures filed by one of the retail companies for 1929 is given in Exhibit 1. This form was used to assemble figures for the years 1928-1932 and for the first nine months of 1933. No exact definition was supplied for the term, executive. Reporting firms listed the names of their executive officers and directors, designating the position held by each. In effect, therefore, the companies themselves defined the term executive. A study of the statements filed disclosed the fact

Exhibit 1. Federal Trade Commission Salary Schedule for a Retail Company

Name of Company	Address	Period	Ending
Omitted*	Omitted*	12 months	Dec. 31, 1929

Name of Officer or Director	Position	Cash Salary Paid During Year	Other Compensation Paid During Year	Total Cash and Other Compensation
Omitted*	P., D.	\$ 58,250	\$ 58,250
"	V.P., D.	58,250	58,250
"	V.P., Gen.			
"	Mgr., D.	58,250	58,250
"	V.P., T., D.	50,250	50,250
"	D.	\$140	140
"	D.
"	D.	120	120
"	D.	100	100
"	D.
"	D.

Total	\$225,000	\$360	\$225,360
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Total Assets	*
Net Income	*

* The name of the company, as well as the names of the officers and some significant figures, were omitted because of the desire of the author not to bring any one company or any group of men into prominence. Otherwise, the above material is a true copy of the returns which are on file with the Federal Trade Commission.

that, in general, the compensation of only the senior or top men, ordinarily described as officers, was reported. These men usually held such key positions as chairman of the board, director, president, vice president, treasurer, store manager, and controller.

In connection with the form used by the Federal Trade Commission, it will be well to call attention to the column requesting figures for other compensation paid during the year. The entries of less than \$1,000 in this column often were merely nominal fees to directors. When amounts in excess of \$1,000 were entered for officers, the payments were considered to be bonuses in addition to the salaries noted in the preceding column.

The Securities and Exchange Commission, following the Securities and Exchange Commission Act of 1934, collected data from individual corporations on many aspects of company operation, including executive compensation, methods of paying officers, and ownership of company stock by executives. The compensation material reported to the Securities and Exchange Commission was somewhat more difficult to interpret than that submitted to the Federal Trade Commission. The questionnaires used differed from those employed by the Federal Trade Commission and were not the same for 1935 as for 1934. A reproduction of Item 9 of Form 10K filed by one of the retail corporations for 1935 is given in Exhibit 2.

It was necessary to examine carefully the material filed with the Securities and Exchange Commission, in order to prevent the inclusion in the study of data for highly paid non-executive employees. Section (a) of Item 9, for example, provided for reporting the amounts paid to employees if they were among the three highest paid men in the company.¹ The material reported under section (d) also was excluded from consideration. It is at once apparent from a review of Exhibit 2 that the information on executive compensation for 1935 collected by the Securities and Exchange Commission was not so explicit as that assembled by the Federal Trade Commission. The questionnaire used for 1934 by the Securities and Exchange Commission, however, was somewhat more detailed. In Form 10, used for that year, provision was made for the listing of each individual

¹ Except in a very few instances among the 38 retail companies studied the three highest paid men held executive positions.

director with his remuneration and an indication of the position held in the company, if the director had responsibilities in addition to his duties as a director. Other sections of the question on executive compensation provided for the reporting of compensation paid to the three officers receiving the highest aggregate amounts of remuneration and the aggregate remuneration of all other officers, stating the

**Exhibit 2. Securities and Exchange Commission
Salary Schedule (Item 9 of Form 10K)
for a Retail Company**

9. Give the information required below in tabular form concerning the aggregate remuneration paid by the registrant and its subsidiaries, directly or indirectly, to the following persons in all of their capacities:
- The name and aggregate remuneration of each person among the officers, directors and employees of the registrant receiving one of the three highest aggregate amounts of remuneration.
 - The aggregate remuneration of all directors of the registrant: indicate the number of such directors without naming them.
 - The aggregate remuneration of all officers, other than those who are directors, of the registrant: indicate the number of such officers without naming them.
 - The aggregate remuneration of all employees of the registrant who, respectively, received remuneration from the registrant in excess of \$20,000 within the fiscal year: indicate the number of such employees without naming them.

Name, or Number of Persons Not Named	Capacities in Which Remuneration Was Received	Aggregate Remuneration Within Registrant's Fiscal Year
(a) Omitted*	Chairman of the Board	\$ 36,589.72
"	President and Director	58,250.00
"	Vice President and Director	75,000.00
		\$169,839.72
(b) 8	Directors	\$225,199.84
(c) 10	Officers	\$117,354.46
(d) 1	Merchandise Manager	\$ 21,999.72

* The name of the company, as well as the names of the officers, were omitted because of the desire of the author not to bring any one company or any group of men into prominence. Otherwise, the above material is a true copy of one of the returns which are on file with the Securities and Exchange Commission.

number of such officers without naming them. Both Form 10 and Form 10K required that corporations furnish a list of all officers and directors with the positions held by each. Here, as was the case in the questionnaires used by the Federal Trade Commission, reporting companies were forced to define the term, executive. Although the lists of executives did not appear in connection with the compensation material, they could be used in interpreting the figures.

There was a tendency for firms filing data with the Securities and Exchange Commission to report compensation figures for a larger group of men than they did in response to the Federal Trade Commission questionnaire. The definition of the term, executive, was broadened. It was necessary in using the figures from the two sources to study carefully all the material available for each company and so to adjust the figures for 1934 and 1935 that they might be approximately comparable with the data for 1928 through 1932. For each company the lists of official positions reported in the early years were compared with the lists filed with the Securities and Exchange Commission. In some instances the two groups were the same. In other cases, however, it seemed desirable to limit the lists of officers reported in 1934 and 1935 to groups corresponding to the groups reported in earlier years. This necessitated substituting lower total compensation figures for the aggregate figures reported by the corporations for 1934 and 1935. In arriving at such estimates for these years, consideration was given to the compensation paid to the three highest paid officers throughout the entire period. It was believed that percentage changes in the total compensation of all officers would be similar to percentage changes in the compensation of the three highest paid men.

The reports submitted both to the Federal Trade Commission and to the Securities and Exchange Commission referred mainly to parent companies and did not necessarily include figures for any independent subsidiaries; such subsidiaries were not required to submit compensation data. The figures used in the study, therefore, were for officers in the "top" companies.

It is also to be remembered that the compensation figures given were for dollar remuneration only. No consideration has been given to payments made in the form of warrants or options to purchase stock in the company served. Such warrants and options were granted by certain of the retail companies, particularly the chains, in addition to the dollar remuneration.