EXECUTIVE COMPENSATION PRACTICES OF RETAIL COMPANIES

1928–1937

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FOREWORD

The social importance of able public spirited executives in our business corporations was never clearer than it is at this time. One of the conditions on which private employment may be increased is that the leaders of American business learn to direct successfully the organizations for which they are responsible under far more difficult conditions than ever before. I am not referring to the political action without which full private employment is probably impossible, nor am I raising any questions as to the conditions which will exist if too rapid and too prolonged "reform" drives us into either Fascism or Communism. The changes made thus far, with the constant multiplication of red tape, the difficulty placed in the way of long-time investment, and the huge increase in taxes, present and prospective, will under the most favorable conditions add greatly to the burdens on management, and consequently to the difficulty of restoring employment.

Under these conditions any research which throws light on the incentives that produce able leaders when they are needed becomes of importance. Clearly there are many types of incentive, other than financial, some of which are difficult to appraise in any way. For over a hundred years success in business with consequent employment of labor and profits earned by capital was highly esteemed in this country. This public esteem has attracted able men into business as a career. Perhaps an undue proportion of our able men was brought into this field. Certainly politics suffered — and still suffers — by comparison. Today the danger is the other way. Competent men starting their careers may be influenced against business by such words as "economic royalists," applied indiscriminately to a whole group in spite of the fact that ethical standards in most kinds of large business have been in my judgment at least as high as in any of the professions and certainly higher than in local politics. If such indiscriminate attacks keep too many able and public spirited men from entering business, the outlook for our democracy is dark indeed.

A second form of incentive of great importance has been the opportunity offered by business for the acquisition and constructive use of power to do worthwhile things. This incentive also has been weakened in the last decade to a dangerous degree. The most curious part of the situation is the extent to which the man of ability and imagination but with limited capital has been handicapped in building up his own business, and the preference, unintended of course, which has been given to the well-established, powerful corporation. High taxes, elaborate rituals surrounding the issue of securities, and complicated accounting routines imposed by law bear hardest on the small man. Thus the incentive offered by the opportunity to go into business for one's self and, if successful, the subsequent chance to acquire power and use it constructively have been weakened dangerously. Yet the general social importance of adequate leadership in business is increased by the unemployment situation, on the one hand, and by the growth in size of business units, on the other. Society cannot long tolerate widespread unemployment such as we now have, and the failure of great companies employing many thousands of men is far more serious than the scattered failures of small companies. Under the most favorable circumstances, the development of able leaders in any

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field of human endeavor, whether teaching, science, or business, is a slow and difficult process. When conditions are sufficiently unfavorable, leaders of necessary quality may not develop. Examples are too common in business today of areas like the railroads, in which conditions have stifled the growth of sound leadership and where its lack has been one of the contributing influences which have brought on serious difficulties.

The two incentives above mentioned, public esteem for accomplishment and the opportunity for constructive success in personal business, have in my judgment been at least as important in the past as financial incentives. Nevertheless, the fact that men without capital but with sufficient ability, imagination, and vigor have been able to realize substantial financial success has been one of the greatest forces at work in upbuilding this nation. Something of tragic importance has happened if this kind of financial incentive has disappeared for good out of our economy.

The entire problem of leadership or management at every level has been too little examined and is consequently too little understood. One reason for this has been the failure of sociologists and economists, with certain notable exceptions, to study objectively management and management problems; another has been the lack of interest of business leaders themselves in the encouragement of such studies. We have had great wealth devoted to research in physics and chemistry, but outside of the medical field comparatively little to the study of human problems.

Such questions, therefore, as how can society secure, perpetuate, and reward adequate leadership, and change it when it is no longer successful, present great opportunities for research. These questions must be answered if free enterprise is to continue to flourish in this country.

The particular research here published has to do with a limited aspect of the problem of business incentives, namely, those offered to executives in retail stores. It follows an earlier study published by Mr. Baker in 1937 on *The Compensation of Executive Officers of Retail Companies: 1928–1935*, and broadens that study to include the plans used by such companies in paying executives, including such questions as cash salaries, formal and informal bonus plans, retirement pay, contracts, options and stock purchase plans, their advantages and disadvantages, and their functioning.

The opportunity for such studies was given when Senate Resolution No. 75, 73rd Congress, 1st Session, 1933–1934, was passed, requesting the Federal Trade Commission to collect data on amounts paid to the officers of listed corporations, and when the Securities and Exchange Commission law was passed, authorizing the collection of data on methods used and amounts paid by listed corporations. With the basic material thus made available, and *pari passu*, an increase of interest in these matters by companies themselves, a careful study of such problems became possible.

The present monograph follows and is based in part upon the earlier monograph on compensation of retail executives. It is one of a series of studies based on this information. The first of these was an exploratory article, published in 1935 by Professor W. Leonard Crum and Mr. Baker in the *Harvard Business Review*, entitled "Compensation of Corporate Executives: The 1928–1932 Record." This article attempted to bring together the facts about payment of corporate executives and the fluctuations over a series of years. The sources were mainly the Federal Trade Commission and Treasury Department figures.

One of the earliest conclusions reached was that no general pattern of amounts paid or methods used applied to the entire field of business. It was clear that

a general study concealed in a capricious way many fundamental variations between groups of corporations. Department store company practices and policies, for example, varied widely from those of industrial companies; and those of large companies differed from those of small companies. These variations suggested the desirability of special studies in particular fields of business.

The present monograph includes in a statistical appendix information showing not only the total dollar payments to executives but their fluctuations over a period of years as well as the relations of these amounts to sales and to earnings. These data make possible a comparison of the amounts paid to stockholders or owners, on the one hand, and to management or executives, on the other. In the future more attention rather than less will be given to the division of profits between these two groups of interests.

WALLACE BRETT DONHAM,
Dean

Boston, Massachusetts
July, 1939

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Financial help from the William F. Milton Fund and the Joseph H. Clark Bequest has made this study possible, as it has several of my earlier projects. I am deeply indebted for the continuing assistance that I have received from these funds.

The labor of analyzing the data of the Securities and Exchange Commission on plans used in paying executives, annual company reports, and other material on which this monograph is based was great, and I have had the assistance of a number of persons from time to time. I am greatly indebted to those who made the completion of this work possible. I owe special thanks to Miss Esther Love, Miss Marion White, Mr. Peter Cogan, and Mr. Arthur R. Hodgson, Jr.

Also I am appreciative of the cooperation and the courteous help of the members and certain employees of both the Federal Trade Commission and the Securities and Exchange Commission. Finally, I must acknowledge assistance from many of my colleagues and numerous business executives with whom I frequently discussed the involved problems in the field of executive compensation.

JOHN CALHOUN BAKER

Boston, Massachusetts
July, 1939

EXECUTIVE COMPENSATION PRACTICES OF RETAIL COMPANIES: 1928–1937

INTRODUCTION

Rapid changes are taking place in the methods of paying executives in large retail and industrial companies. Among the reasons for these changes are publicity, tax laws, wide distribution of voting stock, critical investigation of present compensation methods, the attitude of directors, and demands of executives. Therefore, not only directors and stockholders but also officers themselves need to know the trend in such changes, the importance of formal salary payments without other financial emoluments, the wisdom of formal or informal bonus plans, the significance of contracts, options, and stock purchase plans, and the advantages and disadvantages of retirement pay. Furthermore, because of the bearing of large business units on the social and economic welfare of the country, both the government and the public are interested in how executives are paid, and in the methods which will secure the best results from a social point of view, or, stated more directly, in the methods which will develop and retain good business leadership.

The plan of this monograph is to stress first in a general way the human side of executive payments — a side which is often overlooked — and to indicate wherein some of the present methods of payment have failed to recognize the underlying motives back of executive performance. After this discussion is a brief explanation of certain characteristics of the data to be examined. Then follows a detailed description of the various methods of paying executives and a critical examination of these methods, with some comparison of similar methods in industrial companies, revealing advantages and disadvantages. Methods are not limited to cash salaries, bonus payments, and similar plans, but include options, stock purchase plans, and contracts for executives. Reference is also made to the attitude of courts toward executive payments and toward stockholders in cases where executive compensation is involved, and at various points the discussion touches on amounts paid to executives.[1] Finally, the conclusion summarizes the author's findings, and in addition stresses certain questions of broad significance on the subject of retail practices in the compensation of executives.

The Executive Group Defined

No one narrow definition of the term, executive, exists. The scope of the work assigned to an executive in one company may not correspond closely to the activities for which a similarly named officer in another company is responsible. In the retail companies considered in this survey the executive group usually includes the chairman of the board, such officers as president, vice president, secretary, and treasurer, as well as other employees with important responsibilities. In the case of department stores, the store manager and controller, for example, may be ranked as executives, whereas in large chain organizations divisional managers and buyers may be so considered. In industrial concerns with which some comparisons are drawn, the list of positions may include purchasing agents, production managers, and sales managers.[2]

Executive Motivation

Before examining critically the companies and their plans for paying executives, the nature of executive compensation should receive particular attention. Essentially it is a human problem, and all plans relating to it should be considered from this point of view. Since the human angle is of outstanding importance, any sound method of compensating executives must consider human desires, which like the shape of clouds may change rapidly from time to time; their outline today may not be recognizable tomorrow. Back of all the minor changes are human desires and wants, and it is with these that executive compensation plans must deal. Some of the fundamental satisfactions desired by executives are given below, although no attempt has been made to give a complete list.

[1] See in particular Appendix II.

[2] For a more complete discussion, see Appendix II, page 45.

Many of these points, it should be observed, have little if any connection with dollar payments, and it is of interest to compare them with the plans used by the companies under consideration in this study.

1. Pride in the organization with which an executive is associated is important. Part of this feeling is the existence of inspired leadership.

2. Freedom of action, with responsibility and power, is a prerequisite of any executive position.

3. The opportunity of perceiving an organization function rewards many executives for the most arduous work.

4. Title and position loom large in the minds of many officers.

5. The financial rewards of executive positions are adequate and even large, and must be gratifying to many men.

6. An executive position carries with it the opportunity of great public service.

7. Stability of position and an accustomed standard of living are desired by most men.

8. Fun and interest in the job inspire many leaders.

Any ranking of these points in order of importance is futile, for they are of varying significance to different executives, possibly changing from day to day.

Variations and Limitations of Plans

Previous studies of executive compensation have shown that there is no generally accepted method of paying either retail or industrial executives.[1] None of the problems involved in the payment of executives is simple. The question of how and how much any executive should be paid involves consideration of a man's ability, his contribution to the success of a company, his experience, age, and character, his bargaining ability, the tradition of the industry, competition, the responsibilities of the position, the ability of the company to pay, and sundry other factors. With such a large number of variables, it is not surprising that no unanamity of opinion exists as to proper policies. Perhaps it may never develop.

During the last twenty years, many intricate plans were adopted to solve the problem of paying both retail and industrial executives. Few of these plans proved to be adequate; often they brought in their wake more misunderstandings than they solved. Failure to appreciate the true nature of executive compensation and lack of perception of definite objectives were the main reasons for the unsatisfactory results. The following generalizations reveal some of the limitations and weaknesses of many of the retail plans, and, it may be added, of the industrial ones as well.

1. Certain plans permit large annual cash payments without any definite relationship to executive performance and corporate earnings.

2. Certain plans focus an executive's attention on speculative interests rather than on the immediate problems of his job.

3. Certain plans cause an executive's income to fluctuate so widely from year to year that his standard of living becomes unsettled.

4. Few plans deal satisfactorily with the problems of an executive's retirement or his estate.

5. Only a few plans consider the tax problems faced by most executives today.

6. Few plans furnish security — a desire popular today not only with workers but also with executives.

7. Certain plans overemphasize an executive's immediate rather than long-time interest in a company.

8. Few if any plans indicate an appreciation of the nonmonetary satisfactions which an executive desires from his job.

Very few, if any, cases of actual "skulduggery" and official connivance in executive payments will be found among the group of large companies on which this analysis is based, although the belief has existed in certain quarters that such conditions must be prevalent.

Doubtless one of the major reasons for the lack of uniformity in compensation plans has been the paucity of specific information available for examination concerning the various methods. Prior to the revelation of data by the Securities and Exchange Commission in 1934, information on such practices and policies was jealously guarded and was almost nonexistent for general study. Now quantities of such data are available for examination and analysis.[2]

[1] Baker, John C., *Executive Salaries and Bonus Plans* (New York, McGraw-Hill Book Company, Inc., 1938).

[2] The Securities and Exchange Commission, which annually collects information on methods used and amounts paid by all companies listed on the New York Stock Exchange, furnished most of the data on which this study is based. Annual corporation reports to stockholders supplied much additional material on methods used. Invaluable information and interpretations of the ways in which specific plans operated were obtained from personal interviews with executive officers of many of the corporations studied. The Federal Trade Commission made available the statistical data in its files on amounts paid to

Retail Companies Studied

Nearly all large, widely owned corporations of the present day began as small proprietorships, or as family or local companies. Retail trade, traditionally a stronghold of small proprietors and family ownership, only recently has been influenced markedly by the trend toward wide diversity of ownership which has been evident in other business areas for many years. Only 10 of the 38 companies examined in this study were listed on the New York Stock Exchange prior to 1922, while 28 were listed during or since that year, approximately one-third of the 28 during or since 1928. Usually the listing of a company on the New York Stock Exchange leads to a wide dispersion of shares. Nevertheless, a high degree of concentration of stock ownership still exists among retail companies as contrasted to industrial companies. On the average, 34% of the voting stock of the 38 retail companies studied was owned by management or closely related groups in 1934, while the average was only 8.1% for a sample of 107 industrial companies in the same year.[1] How significant this condition may be with respect to the methods of paying executives is of course mainly a matter of conjecture.

A previous study by the writer,[2] as well as appendices in this monograph,[3] indicated that the amounts paid to executives by department stores differ widely from those paid by chain store companies. It was therefore considered advisable in this analysis to differentiate clearly between the two types of retail companies. Fifteen of the 38 companies studied operated department or specialty stores, and 23 were chain store companies. It should be remembered that although the selection of companies included all those listed on the New York Stock Exchange for which adequate statistical data were available, the large number of unlisted department and chain stores were omitted. Great care should be observed, therefore, in attempting to extend the conclusions of this study to the many nonlisted or privately owned companies not represented.

Statements of Policy

When the analysis of the various methods of paying retail executives was made, all data for the years 1928–1937 were examined to discover, if possible, statements of policy or a philosophy back of such plans, which would explain and justify them. Today such a philosophy is important; the decisions concerning executive compensation are known not only by the directors and officers involved but also are examined and criticized by both stockholders and the public. Few companies ever state definitely in detail their philosophy of executive compensation. Among well-known industrial and utility companies, an exception is the American Telephone and Telegraph Company, and among retail companies, the Jewel Tea Company. The statement of the Telephone Company in 1934, which follows, is more elaborate than any of the other statements, and is of interest to the officers both of retail and of industrial companies.

> The Board of Directors have fixed the salaries of the executive officers of the American Telephone and Telegraph Company on the basis that it is necessary for the Bell System with its essential service to maintain itself as an institution of opportunity for the best brains and ability in the land.
>
> The Directors feel that the salaries paid are in no way disproportionate to the size and importance of the Company and that they were not before they were reduced. No bonuses have been or are paid. Moreover, the individuals concerned pay anywhere up to one-half of their salaries in State and Federal income taxes.
>
> The Company has to compete with opportunities for talent in all other fields. It is necessary, therefore, to pay management adequately for, unless this is done, the business will not retain or draw to it in the future the ability it needs. If we could get better men by paying more money, it would be wise to do so. On the other hand, to have it understood that first-class talent can hope for but relatively poor reward in the Bell System would be the most certain way to breed decay in this great enterprise.[4]

executives from 1928 through 1932. Such data for 1933 are incomplete. See Appendix, p. 43.

Every care has been taken to avoid error and misinterpretation of the data. If, however, other information is available which would have changed any of the statements or conclusions, implied or otherwise, the author wishes to acknowledge here his oversight and that of his assistants and would appreciate receiving any information which would help correct any false impression.

[1] Gordon, R. A. "Stockholdings of Officers and Directors in American Industrial Corporations," *Quarterly Journal of Economics*, August, 1936, p. 632.

[2] Baker, *op. cit.*, Chapters IV, V.

[3] See Appendices, p. 45.

[4] Read by Mr. Walter S. Gifford at Annual Stockholders' Meeting on April 18, 1934.

METHODS OF PAYING EXECUTIVES

Among the various methods used by retail companies in paying executives over the 1928–1937 period were the following: formal salary; commission; informal and formal bonuses; contracts; salary with bonus in cash or stock; salary with stock rights and options, frequently in addition to bonus; and many variations of these, some exceedingly intricate because of special features. It should be noted, however, that there are basically only three methods of paying executives: salary; salary with some form of bonus; and bonus or commission only. Almost every plan is a variation of one or more of these methods, all of which are defined in detail in the appropriate sections of this study.

The analysis was complicated not only by the many different methods used in paying executives but also because several companies changed their methods drastically during the period examined. Furthermore, certain companies used dissimilar methods in paying different executives. For example, in one company the president received a formal salary with no bonus, and one officer received no formal salary but a substantial share of earnings, if any, while other officers received a salary with a percentage of earnings as a bonus. The wide use of options and stock purchase plans by certain companies at some time or other over the period studied added further difficulties. Such rights could not be considered simply as bonus payments and therefore are referred to in a special section.[1]

About 25 companies, or two-thirds of the group, paid salaries only to all their executives during one year of the period studied. All companies but one appear to have paid one executive a straight salary in at least one year. There was definite indication that 24 companies paid a cash bonus in addition to salaries to one or more executives for one or more years over the period, and possibly one or two other companies followed this policy. Five companies appear to have paid both cash and stock bonuses, or to have had provisions for such payments, one of these paying an executive both forms of bonus as well as salary, and another paying some of its executives cash bonuses during certain years and others stock bonuses in later years, in addition to salary. Four firms at least paid a certain number of their executives commissions only, based on net profits in certain years. This method did not apply to all executives in any one company, however; a certain number of them received straight salary, or salary plus commission or bonus, at some time during the 1928–1937 period. Exhibit 1 and columns 1 and 2 of Exhibits 2 and 3 show the various methods used by the 38 individual companies being examined. From these exhibits it would seem that bonus plans, although appearing frequently for both groups, are more characteristic of chains than of department and specialty stores.

Of the 36 companies for which Federal Trade Commission data were available in 1928, 12 companies paid their executives salaries only in that year. Securities and Exchange Commission data in 1936, available for all 38 companies although presented in a slightly different manner,[2] clearly indicated that at least 17 companies paid their executives in this way. All but three of the companies paying salaries only in 1928 used this method exclusively in 1936, including Kroger Grocery & Baking Company, Walgreen Co., Arnold Constable Corporation, and Franklin Simon & Co., Inc.

A detailed study of practices and policies of individual companies in paying executives was made for the years 1929 and 1936. Certain companies gave a few of their executives a stock bonus in addition to salary. One of these companies, R. H. Macy & Co., Inc., made an outright gift of stock. Other companies required executives to pay for the stock allotted to them at an advantageous price, the stock to be issued with certain provisos after the date of allotment. In both 1929 and 1936 a number of companies gave certain of

[1] See pp. 29–33.

[2] The data available from Federal Trade Commission reports for 1928–1932 show the definite amounts in addition to salary paid to each executive. For the years 1934–1937, similar data available from reports to the Securities and Exchange Commission (items 5 and 10 in Form 10K) include only information as to whether the company had a bonus plan, and whether bonuses exceeding $30,000 were paid to any individual.

Exhibit 1 — Methods of Executive Compensation Used or Provided for by 38 Retail Companies: 1928–1937 [1]

Company	Salary Only	Commissions Only	Salary with Cash Bonus	Salary with Stock Bonus	Salary with Stock Options [2]	Salary with Both Stock and Cash Bonus	Salary with Cash Bonus and Stock Options [2]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
15 Department and Specialty Store Companies:							
Abraham & Straus, Inc.	x	..	x	..	..	..	..
Arnold Constable Corporation	x	..	..	..	..	..	..
Associated Dry Goods Corporation	x	..	x	..	x	..	..
Best & Co., Inc.	x	..	x	..	..	..	..
Bloomingdale Bros., Inc.	x	..	x	..	..	..	..
The Fair	x	..	x	..	..	..	..
Wm. Filene's Sons Company	x	..	x	..	..	..	..
Franklin Simon & Co., Inc.	x	..	..	..	x	..	..
Gimbel Brothers, Inc.	x	..	..	..	x	..	..
Kaufmann Department Stores, Inc.	x	..	..	..	..	..	..
R. H. Macy & Co., Inc.	x	..	x	x	..	..	..
Marshall Field & Company	x	..	x	..	x	..	..
The May Department Stores Company	x	x	x	..	..	..	..
Oppenheim Collins & Co., Inc.	x	..	..	..	x	..	..
The Outlet Company	x	..	x[3]	..	..	..	..
23 Chain Store Companies:						..	..
Davega Stores Corporation	x	..	x[4]	x	x[5]	..	..
First National Stores Inc.	x	..	..	x	x	x	..
The Grand Union Company	x	..	..	..	x	..	..
W. T. Grant Company	x	..	x	..	x	..	..
Jewel Tea Co., Inc.	x	..	x	x[6]	..	..	..
G. R. Kinney Co., Inc.	x	..	x	..	..	..	..
S. S. Kresge Company	x	x	x	..	..	..	..
S. H. Kress & Co.	x	..	..	..	..	..	..
The Kroger Grocery & Baking Company	x	..	x[7]	..	x	..	..
McCrory Stores Corporation	x	..	x	..	..	..	..
McLellan Stores Company	x	..	x	..	..	..	..
Montgomery Ward & Co., Incorporated	x	..	x	..	x	..	..
National Tea Co.	x	..	x	..	..	..	..
Neisner Brothers, Inc.[8]	x	..	..	x	..	..	..
J. J. Newberry Co.	x	..	x	..	..	..	..
J. C. Penney Company [9]	..	x	x	x[6]	..	..	..
Peoples Drug Stores, Incorporated	x	..	x	..	..	..	x[10]
Safeway Stores, Incorporated	x	..	x	..	x	..	x
Schulte Retail Stores Corporation	x	..	..	..	..	..	..
Sears, Roebuck and Co.	x	..	x	..	x[11]	..	..
Frank G. Shattuck Company	x	..	x	..	x	..	..
Walgreen Co.	x	..	..	..	..	..	..
F. W. Woolworth Co.	x	x[12]	..	..	..	..	..

[1] This exhibit is intended to indicate merely the variety of methods used in paying any executive at any time during the period from 1928 to 1937. It does not purport to be complete, since the information upon which it is based is not complete. The Federal Trade Commission data for 1928–1932 related to salary and cash bonus payments only; the Securities and Exchange Commission data covered total individual payments, cash bonus payments in excess of $30,000, bonus plans, and options.

[2] In some cases it was possible to determine whether options were exercised. A discussion of options will be given later in this study.

[3] This method was used only for merchandise buyers, some of whom, however, were also executives.

[4] Cash bonuses were provided for in the plan, but apparently were not paid.

[5] The options definitely were not exercised.

[6] The plan provided for bonus payments in cash or stock in addition to salary. No evidence that stock bonuses were paid was found.

[7] Cash payments made to certain executives in settlement of stock contracts may have been in the nature of bonuses.

[8] It is possible that this company also paid salaries with cash bonuses.

[9] Apparently no executives were paid salaries only.

[10] Although not specifically stated, it seems probable that options were extended to the same group of executives as received bonuses.

[11] The following statement qualified the company's reply to a request of the Securities and Exchange Commission for information on options: "No options were outstanding at the close of the fiscal year [1936] to purchase securities of the registrant from the registrant. However, the registrant heretofore entered into Stock Purchase Contracts with various employes and officers of the registrant and its subsidiaries, providing for the purchase and sale of shares of capital stock of the registrant under three plans, herein called 'Plan I,' 'Plan II,' and 'Plan B,' respectively consented to and approved by the stockholders of the registrant on March 27, 1933, April 27, 1936, and November 27, 1936. The following information is submitted with reference to the above Stock Purchase Contracts; it being expressly stipulated that the registrant in submitting such information hereunder does not intend thereby to admit or construe said Stock Purchase Contracts to be options."

[12] Although remuneration for certain positions was figured on a straight commission basis, some of these positions carried a guaranteed minimum of compensation.

Note: Informal plans apparently are not reported to the Securities and Exchange Commission. The exhibits, therefore, give no consideration to arrangements not revealed in reports to the commission and not mentioned in other available published sources.

their executives a cash bonus in addition to salary, and also gave them an option to purchase stock at prices substantially below the current market price.

A group of companies, including F. W. Woolworth Co. and S. S. Kresge Company, paid many of their executives a commission based on net earnings. The Kresge company gave a drawing allowance, which was deducted from commission when determined, to each executive with the exception of the president and the chairman of the board, who were paid a formal salary, usually with a bonus. Certain positions in F. W. Woolworth Co. carried a guaranteed minimum remuneration, the executives receiving in addition only the amount by which their designated percentage of profits exceeded this minimum. The May Company paid certain of its officers a fixed salary and, in addition, a varying percentage of profits of different stores. One store manager, however, received instead of a formal salary 10% (originally 9%) of the profits of his store.

Available information on the methods of paying executives for the 1928–1932 period and for the 1934–1937 period is not exactly comparable, as stated previously. Nevertheless, the continuing use of bonus plans through 1937 among both department and chain store companies is clearly indicated; such a situation was not characteristic of the many industrial companies using bonus plans in 1928 and 1929.

The scope of the plans, because of special provisions and the contractual nature of certain arrangements, is wider than is indicated by the stated or unstated objectives. Certain of the plans refer to many individuals in managerial posts other than those designated as executives for this study. For the purpose of this analysis, therefore,

Exhibit 2 — Information Concerning Incentive Executive Compensation for Each of 15 Department and Specialty Store Companies [1]

Company	Type of Supplementary Payments Made or Provided for		Existence of Bonus Arrangements for Executives Reported to the Securities and Exchange Commission	Number of Executives Receiving Additional Compensation as Indicated in Federal Trade Commission Reports (many = more than 6)	Bonus Arrangements Revised or Terminated
	Cash or Stock Bonus, or Both	Options, Employee Stock-purchase Plans, or Both			
	(1)	(2)	(3)	(4)	(5)
Abraham & Straus, Inc.	Cash	None	Yes	Few	Not revised[2]
Arnold Constable Corporation	None	None	No	....	....
Associated Dry Goods Corporation	Cash	Options	No	Many	Terminated[3]
Best & Co., Inc.	Cash	E. st.-pur.[4]	Yes	Few	Revised[5]
Bloomingdale Bros., Inc.	Cash	None	Yes	Few	Revised
The Fair	Cash	None[6]	Yes	Few	Terminated
Wm. Filene's Sons Company	Cash	None	Yes[7]	Many	Revised[5]
Franklin Simon & Co., Inc.	None	Options	No	....	....
Gimbel Brothers, Inc.	None	Options	No	....	....
Kaufmann Department Stores, Inc.	None[8]	None	No	....	....
R. H. Macy & Co., Inc.	Both	None	Yes	Few	Revised
Marshall Field & Company	Cash	Both	No	Few	Terminated[3]
The May Department Stores Company	Cash	E. st.-pur.	Yes	Many	Revised
Oppenheim, Collins & Co., Inc.	None	Options[9]	No	....	....
The Outlet Company	Cash[10]	None	Yes[10]	Many	Apparently not revised

[1] To prepare this exhibit the reports filed with the Federal Trade Commission and the Securities and Exchange Commission by all 15 department and specialty store companies during the period 1928–1937 were examined. If a company paid supplementary compensation to any officer in any one of the years, the fact is reflected in the data presented.

[2] An old plan terminated in 1925 and new arrangements were made. Apparently there were no revisions from 1928 to 1937.

[3] This company paid cash bonuses during one or more of the years from 1928 to 1932. Since no bonus plans or payments were reported for the years 1934–1937, it is assumed that the earlier arrangements were terminated.

[4] Reference is made to the following liability appearing on balance sheets for years ending January 31, 1928–1936: "Preferred stock, 6% cumulative . . . authorized for issue to employees."

[5] Comparison of the plans reported in 1934 with the amounts of bonuses paid during the period from 1928 to 1932 indicated that changes in bonus arrangements must have been made.

[6] However, it is stated in the report to stockholders for the year ending January 31, 1926: "Practically every department manager and a great many of our co-workers . . . are stockholders."

[7] The plan reported covers buyers, division managers, and assistants, some of whom appear to be executives.

[8] The only indication of bonuses was found in an item, "Accrued payroll and bonus," appearing on the consolidated balance sheet as of December 31, 1934, submitted to the Securities and Exchange Commission. This apparently did not apply to executives.

[9] However, the balance sheet report to stockholders for years ending July 31, 1928 and 1929, shows an item: "Capital Stock purchased for Employees."

[10] Bonus arrangements cover merchandise buyers only; several of these employees also serve in executive capacities.

bonus plans are those contractual or understood arrangements providing for the payment of commissions or of compensation to *executives* either in cash or in stock, in addition to regular salaries. Options or rights to purchase stocks at preferential prices are considered in a separate category.

It might be well to point out before going further that four distinct groups of companies appear when classified according to their actual practices of paying executive compensation, irrespective of plans:

1. Those paying a straight salary only.
2. Those having bonus plans in some form but not paying bonuses.
3. Those having no formal bonus plan but paying additional compensation to their executives in cash or stock.

Exhibit 3 — Information Concerning Incentive Executive Compensation for Each of 23 Chain Store Companies [1]

Company	Type of Supplementary Payments Made or Provided for		Existence of Bonus Arrangements for Executives Reported to the Securities and Exchange Commission	Number of Executives Receiving Additional Compensation as Indicated in Federal Trade Commission Reports (many = more than 6)	Bonus Arrangements Revised or Terminated
	Cash or Stock Bonus, or Both	Options, Employee Stock-purchase Plans, or Both			
	(1)	(2)	(3)	(4)	(5)
Davega Stores Corporation	Both[2]	Both	Yes	Many[3]	Not revised
First National Stores Inc.	Both	Both	Yes	Few	Revised
The Grand Union Company	None	Options	No	....	....
W. T. Grant Company	Cash	Both	Yes	Many	Revised[4]
Jewel Tea Co., Inc.	Both[5]	E. st.-pur.	Yes	Many	Revised[6]
G. R. Kinney Co., Inc.	Cash	E. st.-pur.	No	Many	Terminated[7]
S. S. Kresge Company	Cash	E. st.-pur.	Yes	Many	Not revised[8]
S. H. Kress & Co.	None	E. st.-pur.	No	....	....
The Kroger Grocery & Baking Company	Cash[9]	Both	No[10]	Few[9]	Terminated[9]
McCrory Stores Corporation	Cash	None[11]	Yes	Few	Revised[4]
McLellan Stores Company	Cash	E. st.-pur.	Yes	Many	Revised[4]
Montgomery Ward & Co., Incorporated	Cash	Both	Yes	Many	Revised[4]
National Tea Co.	Cash	E. st.-pur.	Yes	Few	Revised[4]
Neisner Brothers, Inc.	Stock[12]	None	No[13]	Few	Apparently not revised
J. J. Newberry Co.	Cash	E. st.-pur.	Yes	Many	Not revised
J. C. Penney Company	Both[14]	E. st.-pur.	Yes	Many	Revised
Peoples Drug Stores, Incorporated	Cash	Both	Yes	Many	Not revised
Safeway Stores, Incorporated	Cash	Both	Yes	Few	Revised
Schulte Retail Stores Corporation	None	None	No	....	....
Sears, Roebuck and Co.	Cash	Both[15]	No[16]	Varying number	Terminated[7]
Frank G. Shattuck Company	Cash	Both	No	Few	Terminated[7]
Walgreen Co.	None[17]	E. st.-pur.	No[18]	....	....
F. W. Woolworth Co.	Cash	E. st.-pur.	Yes	Many	Not revised

[1] To prepare this exhibit the reports filed with the Federal Trade Commission and Securities and Exchange Commission by all 23 chain store companies during the period 1928–1937 were examined. If a company paid supplementary compensation to any officer in any one of the years, the fact is reflected in the data presented.

[2] Apparently no cash bonuses were paid to executives although such payments were provided for.

[3] The plan reported to the Securities and Exchange Commission apparently covered many executives.

[4] The company apparently terminated one plan and adopted another.

[5] The plan states "Payments not made in cash . . . may be made in the form of company negotiable notes bearing five per cent interest . . . or in common stock of the corporation."

[6] The basis of calculation of the bonuses is changed slightly each year.

[7] This company paid cash bonuses during one or more of the years from 1928 to 1932. Since no executive bonus plans or payments were reported for the years 1934–1937, it is assumed that the earlier arrangements were terminated.

[8] Arrangements were waived in 1932, however.

[9] Reference is made to payments to certain officers in settlement of stock contracts.

[10] A plan was reported, however, for a branch manager not considered an executive.

[11] Reports to stockholders prior to 1928 reveal the existence of an employee stock purchase plan.

[12] According to statement in 1934 report to the Securities and Exchange Commission, cash bonuses may have been paid to certain executives prior to 1934 although such amounts did not appear in reports for 1928–1932.

[13] The only plan reported was for store managers.

[14] There is no evidence that stock bonuses were paid although they were provided for in the bonus plan.

[15] See, however, note 11, Exhibit 1.

[16] No data are available for any bonus plan for executives. The company has, however, an "Employees' Savings and Profit Sharing Pension Plan."

[17] Additional compensation was paid to only one executive in only one year. This payment was not considered to be a bonus.

[18] However, the balance sheet for September 30, 1935, submitted to the Securities and Exchange Commission, shows accrued "Salaries, wages and bonuses."

Exhibit 4—Total Compensation of Chief Executive Officers of the S. S. Kresge Company, 1928–1937[1]

Officer	1928	1929	1930	1931	1932[2]	1934	1935	1936	1937
Chairman of the Board	$269,250	$266,675	$249,500	$111,250	$18,000	$107,000	*	*	*
President, Director	241,750	239,175	224,500	111,250	18,000	106,365	$110,000	$119,000	$88,750
Vice President, Director	143,250	140,675	125,200	115,500	75,000	107,000	110,000	119,000	89,250
Vice President, Director	91,250	88,675	74,900	66,400	48,000	9,000	....	....	....
Vice President, Director	44,395	43,365	48,600	43,750	35,000	43,500	44,000	45,500	45,100
Vice President, Director	....	....	....	....	....	40,352†	48,750	51,000	59,400
Treasurer, Director	143,250	140,675	125,200	115,500	75,000	107,000	110,000	119,000	89,250
Secretary, Director	17,250	16,735	12,975	11,100	10,000	12,400	*	*	*
Director	56,500	55,470	48,600	43,750	35,000	43,500	44,000	45,500	45,100
Director	0	0	0	0	0	....	....	....	....
Director	....	....	....	....	1,000	6,000	*	*	*
Director	....	....	....	....	....	....	40,663	41,875	41,525
Comptroller	23,000	22,485	20,000	....	....	....	....	....	....
Comptroller	....	....	....	10,500	10,500	*	13,500	....	....
Comptroller	....	....	....	....	....	....	....	7,655	10,000
All Executives	$1,029,895	$1,013,930	$929,475	$629,000	$325,000	$595,617‡	$589,613	$635,000‡	$529,875

* Data not available. Amount included in total, however. † Director only in 1934. ‡Estimated. [1] Source: 1928–1932, Federal Trade Commission; 1934–1937, Securities and Exchange Commission, Forms 10 and 10K. Complete figures for 1933 were not available. [2] The arrangement to pay commissions was dropped in 1932 and resumed in either 1933 or 1934. Since the 1933 figures were reported as annual cash salary rates in effect September 1, 1933, and since commissions would not have been calculated until the end of the fiscal year, it is impossible to tell definitely in which year the arrangement was resumed.

4. Those having definite bonus and commission plans and paying their executives by these plans.

It is obvious that companies would fall into Group 2, for instance, if their bonus payments were based on a percentage of earnings over a certain amount and this quota was not reached. Likewise, if a company paid no stated salary, but only a commission on net profits to one or more of its officers, this company would be classified in Group 4.

Formal Salary

In any discussion of executive compensation plans, the question of formal cash salary merits special consideration. Too little attention is given to this simplest and most direct method of remuneration. Certainly the payment of formal salaries to executives is one of the least complicated ways of reimbursing them. A salary is generally considered as cash payment for time and effort contributed by the executive in carrying out the functions of his position. However, it signifies much more; in a vague way it is based on the size of a company and its ability to pay, earnings over a period of years, responsibilities of the office, competitive demand for executives, standards of living, and occasionally stock ownership. That this method, as is sometimes stated or implied, is outmoded is not necessarily a fair conclusion. Although few of the chain and department store companies in this study used the method solely throughout the period, nevertheless in 1936, out of a sample of 59 large industrial companies listed on the New York Stock Exchange, approximately two-thirds of them appear to have paid all their officers a fixed salary only. This situation prevailed even though in 1929 the opposite was true; at that time nearly 70% of the same group used other incentive compensation plans in paying senior officers.

Furthermore, it must not be concluded that dollar payments to executives are low among companies paying formal salaries, as is sometimes implied. The median payments for presidents thus compensated in the large industrial companies listed on the New York Stock Exchange, referred to above, were $80,000 in 1929, $64,000 in 1932, and $71,000 in 1936. In 1929 salary payments to these presidents ranged from $18,000[1] to $345,000; in 1932, from $18,000 to $249,000; and

[1] The president was a large stockholder, and all officers were paid relatively low salaries.

in 1936, from $18,000 to $165,000. Only a few companies in the retail group used the formal salary method of paying executives, thus making any median figures of little significance. However, in 1928, out of the 12 companies which paid formal salaries to all their executives, the range in payments to presidents was from $19,000 to $104,000; in 1932, for the 20 companies paying straight salaries, the range was from $12,000 to $100,000 (one president received no compensation); and in 1936, the range for the companies following similar policies was from $20,000[1] to $90,000.

One disadvantage frequently ascribed to formal salaries is that such payments lack "incentive." Certainly this method does not permit an executive to share in the profits, no matter how large they may be. However, the payment of such substantial salaries as are indicated above should itself constitute a real incentive to secure satisfactory results.

It is interesting to reflect what comments might have been made by the active proponents of incentive compensation plans or profit-sharing plans for management in past years if information regarding salary payments could have been secured, and if the functioning of bonus plans (as revealed by recent studies) and recent corporate history had been available for their examination.

Commission Payments

A much less frequently used method of paying executives than either formal salaries or salaries with bonuses is the payment of commissions. By commissions are meant small monthly salaries or drawing accounts with the main part of an executive's compensation based on a percentage of earnings (or occasionally sales) which is distributed at the end of a period, generally a year. In previous studies of executive compensation plans of many industrial and retail companies, the commission method was, with one exception,[2] found only among retail companies. In certain of the retail companies commission arrangements applied to almost all the officers, and in others to only a few. The plan apparently presupposes regular annual earnings and a direct connection between the efforts of the executives and these earnings. If the theory of a close relationship between executive compensation and earnings is sound, then it might be admitted that the need for an incentive to secure the best results from an executive is of real significance. The weakness of this theory, however, is discussed later in this analysis.[3] Because of its very limited use, it may be assumed that there are many practical disadvantages to the commission method. One doubtless is that there are few executives who can afford to make such arrangements with a company. Most men need to be assured of a regular income; and today, with corporate earnings fluctuating widely, payments to executives might also vary widely from year to year.

There is little in the plan to suggest its general use in the future. The chief characteristic is great flexibility, with large payments to executives when business is good and diminishing executive charges when earnings shrink.

The possibilities in the commission method and some of its concomitant problems are suggested by Exhibit 4, a statistical history of compensation payments by the S. S. Kresge Company over a ten-year period.

The following explanatory note appeared on the Federal Trade Commission reports for this company during the 1928–1931 period:

> With the exception of ——— and ———, whose salaries are in addition to commissions, the item of "salary" for each other person is simply a drawing allowance to be deducted from commission when the latter is determined.

These allowances usually were $6,000.

In 1932, when the company's earnings (before executive compensation and interest) had declined to a point 54.3% below earnings in 1929, a note appeared explaining that:

> With the close of 1931, all commission arrangements were discontinued and such additional compensation as was paid for 1932 was determined by a consideration of previous personal earnings, value of service to the Company, and the earnings of the Company for the year; ——— and ——— waiving any claim for additional compensation and taking a considerable reduction in salary as well.

In 1934 faith in this method of paying officers was restated in Item 29 of the company's report to the Securities and Exchange Commission:

> All major employees have for years been compensated by a commission arrangement by which in

[1] Two companies, which did not report the amounts paid to their presidents, probably paid them less than $20,000.

[2] Zonite Products Corporation paid its president a commission only, based on net profits. In 1934 the company had a deficit, and the president received nothing except his fees as a director. The following year the company had a new president to whom, apparently, a formal salary was paid.

[3] See pp. 17–18.

varying degrees they participate in the profits of the Company, that plan having proved by experience to be far more satisfactory than straight salary.

Informal Bonus Plans

The use of informal bonus plans is still widespread. This type of plan generally presupposes a fair annual salary to executives, below or near the going market rate. At the end of the year a committee of directors or disinterested officers reviews the contributions made by the various officers normally included under such a plan. Additional payments in cash or in stock then may be made to these men on the basis of individual achievement, company profits, and general conditions. It is difficult to state specifically how many in the group of retail companies studied have such plans, but doubtless there are more than appear at first glance. These plans continue to exist, even though there has been considerable criticism of them. The literature on this subject in past years stated specifically that informal bonus plans had little corporate advantage. This conclusion many business concerns apparently agreed with, because the number of companies adopting formal plans rose steadily during the 1920's. Opposition to this method developed from the philosophy of incentive payments; it was reasoned that there would be little incentive to executives if a definite plan was not adopted in advance, indicating amounts to be paid if certain bench marks of success were reached.

It is surprising to find, however, in discussing informal plans with officers of several companies using them, that the executives are satisfied with their informal arrangements and are not contemplating changing them. One company in particular has had such a plan for many years and is well pleased with the way it has worked. The president and other officers of this company have a stated drawing account, the president's amounting to $30,000. At the end of each year a special committee of directors considers the problem of the payment of bonuses to all officers. Their decisions are based, first, on the final earnings of the company; second, on the contribution, as nearly as can be estimated, of the individual to these earnings; and third, on the success of the department or store which the officer has managed. They also evaluate each officer — their desire to retain him as an employee of the company and many other points — and after a discussion with him concerning their decision, the final bonus is estimated. In certain years this amount has equalled the drawing account, while in others it has dropped to merely a fraction of that amount.

In another company informal bonus arrangements include divisional managers and buyers, and the operating heads of several subsidiary companies in various parts of the country are paid by this same method. Certain of the directors interviewed felt that the adoption of a formal plan might be wise but that there was no evident need for it, and until such need arose they doubted if any action would be taken. The stock of the company is closely held in a few families, and there is only a small group of outside stockholders. Some of the officers believe that this plan makes them part of the family group which originally composed the entire official staff of the company.

Another retail company using an informal bonus plan prefers it to a formal plan because in the opinion of the directors it gives the company far more freedom than a fixed plan, and the officers have just as much incentive under such an arrangement as they have under a formal plan. This company, although its stock is listed, is also a closely held, family concern, and a number of the officers receive larger returns in dividends than they do in salary and bonus.

Under informal plans also must be classified those arrangements making extraordinary distributions to employees, including executives, from time to time. Sears, Roebuck and Co.'s report to stockholders for 1936 carried the following note:

> Included in the 1936 payroll is a special jubilee year wage payment of $1,530,000 to regular employes of more than six months' service.

Another example appeared in the annual report of Frank G. Shattuck Company for the year ended December 31, 1937, and read:

> The Directors voted approximately $135,000.00 special compensation to all executives and employees who had been with the Company and its subsidiaries for one year or more, in recognition of the good work and fine cooperative spirit of the personnel.

Successful informal bonus plans are almost always operated by a strong and responsible bonus or "final pay" committee, with power and courage to act decisively on questions of year-end payments. Such committees generally are composed of men not directly connected with operations and therefore theoretically removed from pressure that might come from executives eligible for additional payments. Nevertheless, they are known to exec-

utives and may be exposed to blandishments of all sorts and the ever-present pervasive influences set in motion by any bonus plan. Another real objection to informal bonus plans is the constant danger of favoritism in their operation. If this does not really occur, fear that it will lurks in the minds of those officers not close to the committee administering the bonus. The automatic feature of formal plans removes this criticism. Finally, it is doubtful if such plans would prove successful in very large companies with numerous senior and junior officers to be rewarded. The element of personal understanding would be absent.

The answer to the question as to why certain companies persist in having informal plans is that such plans are traditional with them, and also that the operation of the plans has proved satisfactory to the officers involved, so that they feel they are being as liberally treated, if not more so, under an informal plan as they would be under any formal plan. Furthermore, certain directors believe that their officers have the same incentive to carry on their work successfully under an informal plan as they would under some formal bonus plan.

In conclusion it may be argued that the strength of an informal plan lies in certain weaknesses of a formal plan. An informal plan receives much less publicity, and therefore may create less personal envy and draw fewer lines of distinction than a formal plan. The success of any bonus plan must lie in the spirit with which it is administered, and frequently an informal plan may be administered as well as or even better than a formal plan. Furthermore, executives administering informal bonus plans use "hindsight" rather than "foresight" in making awards; the former is much simpler to follow than the latter.

Formal Bonus Plans

The importance of formal bonus plans in the payment of retail executives can readily be seen when it is realized that three-fourths of the chain store and two-thirds of the department and specialty store companies paid bonuses in one form or another at some time during the period. In addition to the analysis of the type of bonus payments used during the period 1928–1937, the results of which appear in Exhibit 1, an examination of the size of payments indicates that bonuses as a percentage of total executive compensation ranged in any one year from 0% to over 96%. The average percentage also fluctuated widely from year to year; by 1932 these payments constituted a much smaller percentage of total executive compensation than they did in 1928 and 1929.

Before delving into the theory of retail bonus (or, as it is sometimes called, profit-sharing) plans and the analysis of various specific plans, it is important to examine briefly the evolution of bonus or incentive compensation plans generally in this country. Their history is vague and sketchy, because of secrecy regarding them and because of changing terminology used in describing them. Piece rates, standards, profit-sharing, and bonus plans for executives need not and do not mean the same thing, yet confusion in thinking and writing is such that they are often considered together. The idea of incentive compensation plans for executives apparently began to form in the minds of those considering wage payments and profit-sharing plans for employees which were widely discussed in this country and in Europe from 1875 to 1920. The movement also probably received some impetus from the frequent discussion of the proper distribution of industrial profits. Certainly any broad consideration of profit-sharing plans in past years included management bonuses. A commonly accepted practice in drawing up such arrangements was to recognize sales, earnings, or some other measure of achievement over a specific period as a basis for making payments to employees over and above their regular salaries. Three "principles" of proper plans were:

1. Payments should be in addition to the generally accepted wage or salary rate.
2. Payments should be substantial (incidentally, "substantial" was generally assumed to mean 5% or 6% of salaries).
3. Any profit-sharing plan should be a definite, formal plan.

Careful examination of the interesting literature of this subject prior to the middle 1920's disclosed that no definite line was drawn between executives and their functions, and workers and their duties. When thinking about payments to executives did lead to a line of demarcation between executives and wage earners it stopped there. Moreover, while writers often stated or implied that payments to executives should have a direct connection with earnings, as payments to workers should have a direct connection with production or some other standard, nevertheless it was frequently pointed out that "it was impossible to measure results secured by executives." However, preconceived ideas, not critical analyses, seem to have

predominated, and the conclusion was reached that incentive plans were important and especially applicable to executives. Furthermore, it was occasionally stated that so far as could be learned, few if any such plans for salaried employees and officers had been abandoned because they were unworkable or unsatisfactory.

These writings were based for the most part on meager or confidential information. Since most of the plans were not open even to limited public scrutiny, abuses were not revealed. Furthermore, corporate organization was somewhat different in the past from that which exists today. A successful plan for a small, privately held company would not necessarily be an advantageous plan for a large company with its stock widely distributed. Evidence was based on theory, opinions of executives, and opinions of protagonists of the plan from humanitarian, personal, and economic points of view. Few definite figures on profits or on the percentage of profits paid to executives were obtainable when previous conclusions concerning such plans were drawn. It is surprising how publicity on such plans and the way they functioned changed the emphasis on their merits and invited criticisms. Revisions in plans during the last five years have occurred frequently.

Among industrial companies, one of the first important incentive compensation plans for executives of a widely owned corporation was that of the United States Steel Corporation, adopted in 1902 just after the founding of the corporation. This plan seems to have met with general approval, since an examination of the records discloses no litigation over it up to the time of its abrogation in 1935. The corporation furnished information concerning additional compensation in annual reports to stockholders, and also made public detailed information about its plan from time to time.

On the other hand, the incentive payment plan of the Bethlehem Steel Company, adopted around 1903, caused litigation in 1929 even though the plan was voted upon by stockholders. Little definite information was made public concerning the functioning of this plan until after stockholders had taken legal action. From public statements at the time of the investigation, it was obvious that the same philosophy in a more extreme form had been applied to the payment of executives as to the payment of workers in the mills. Here again there was definite failure to recognize the difference between the functions of management and the functions of workers. Even today there is all too little recognition of the difference between the two groups.

Objectives of Bonus Plans

Although cash and stock bonus plans were more widely used among the retail companies studied than among industrial companies, the objectives of the plans used by retailers were not so clearly stated. For industrial companies, the purpose of the plans, when any was stated, almost always was to "provide an incentive to increase efficient and profitable management." Among retail companies the objectives were seldom mentioned, and when referred to they varied greatly. The W. T. Grant Company drew up and accepted in February, 1933, one of the few plans with its purpose clearly indicated in its title: "Executives' Profit-Sharing Plan." In the body of the plan, a brief elaboration of the title appeared:

> You will participate directly in the results of your own efforts and also jointly with other executives in this agreement.[1]

The Jewel Tea Company also stated specifically the purpose of its plan:

> At a meeting of the Board of Directors held on April 15, 1924, a profit-sharing plan was approved for that year and each succeeding year a profit-sharing plan has been approved and adopted in substantially the same form.
> The purpose of the profit-sharing plan is to establish a means of producing more profit and not as a method of distributing profits. . . .[2]

McCrory Stores Corp. referred to its bonus arrangements simply as a "Plan for Additional Compensation for Executives and Employees."

Some plans, as in the case of industrial company bonus plans, had other objectives, but as indicated above these often were not clearly expressed. An example is found in letters to several executives of R. H. Macy & Co., Inc. On the surface it appears that the Macy plan was specifically directed at retaining certain executives in a highly competitive market; but the only mention made of the purpose was as follows:

> . . . it is agreed that in addition to the actual cash salary paid to you during each fiscal year beginning

[1] Although a new plan was put into effect in February, 1939, all subsequent references to the W. T. Grant Company plan refer to this 1933 version.

[2] Securities and Exchange Commission, Form 10; the Jewel Tea Company; Item 29.

> February 3, 1935, there shall be issued and transferred to you at or about the end of each fiscal year, as additional compensation for the services rendered by you during such elapsed fiscal year, that proportion of 500 shares of the common stock of this corporation which the annual net profits of R. H. Macy & Co., Inc., (exclusive of its affiliated stores) for the fiscal year preceding such elapsed fiscal year, shall bear to the net profit of R. H. Macy & Co., Inc., (exclusive of its affiliated stores) for the fiscal year ended January 31, 1931.[1]

Other motives, however, may have actuated R. H. Macy & Co., Inc., when on August 27, 1931, it first announced its stock distribution plan. No mention was made of executive compensation or the usual reasons given for such plans. Since the chief executives at that time were majority stockholders, the company's offer to give 500 shares of stock outright annually for ten years probably had a personal angle. These executives perhaps felt that such a distribution would give to younger executives a feeling of security and a personal interest in the company, and would be an expression of the company's appreciation of and confidence in the younger group of men whom it had developed and on whom the future administration of the business would fall.

It is difficult to discover the reasons for the lack of a stated purpose back of many of the plans. The wide use of executive contracts constitutes one plausible reason; another may be that many of the executive officers were large stockholders and therefore did not see the need for making a definite statement of purpose.

Methods of Establishing Bonus Plans

How are bonus plans established and what corporate commitments are made when bonus plans are adopted? In Column 1 of Exhibit 5 is indicated the method of establishing the most recent bonus plan used by each of the eight department and specialty store companies and fourteen chain store organizations reporting such arrangements. Six companies of the first group established bonus plans by contract and two apparently by policy. In contrast only three chain store companies reported definite bonus arrangements established entirely by contract while ten companies (including two which had contracts with certain executives) reported that bonuses were a matter of policy and were determined by directors. One chain store company had its plans incorporated in its by-laws. Here again appears a noticeable difference in the practices of the two groups of retail companies. The methods used by chain store companies in establishing plans follow industrial procedure much more closely than do those of department and specialty store companies.

A plan adopted by policy generally permits much flexibility and adjustment on the part of directors, together with annual examination and revision. A bilateral contract, on the other hand, often runs for a period of years and gives little opportunity of adjustment by directors. Where contracts were used, they usually covered salary payments as well as bonus payments. Companies which had a contractual salary and bonus relationship with executives could exercise little control over the provisions during the period of the contract. Changes in the contracts were few, and in instances where they were made, came slowly and often with exceptional provisions.

The following is a summary of a plan established by policy of directors:

> (4) On November 9, 1936, the Board of Directors of the Registrant approved and recommended to the holders of the Common Stock of the Registrant a "Plan for Additional Compensation for Executives and Employees" of the Registrant. Under the Plan there is to be set aside, for each of the fiscal years ending December 31, 1937 to 1941, inclusive, from the net profits of the Registrant for such year in excess of an amount equal to the aggregate of the dividends on the Convertible 6% Cumulative Preferred Stock and net earnings equivalent to $1.50 a share on the aggregate number of shares of Common Stock outstanding on November 9, 1936, 15% of such excess up to the first $1,000,000 and 10% of such excess over $1,000,000 and up to $2,000,000. Profit and loss on the sale of investments or capital assets as carried on the balance sheet of the Registrant are not to be included in such net profits in computing such excess. Upon completion of the audit for each such fiscal year, a distribution is to be made, subject to the approval of the Board of Directors, of the net profits thus set aside, by a committee (none of whom will share in the distribution) appointed by the Board from among the directors, to such executives and employees of the Registrant as in the opinion of such committee shall have contributed to the earning of such net profits.
>
> The Plan was approved by the holders of a majority of the issued and outstanding Common Stock of the Registrant given by vote at a special meeting held December 9, 1936.[2]

[1] Securities and Exchange Commission, Form 10; R. H. Macy & Co., Inc.; Exhibit F 2 a.

[2] Securities and Exchange Commission, Form 22, 1936; McCrory Stores Corporation; Item 19, A, 4.

Exhibit 5 — Analysis of Available Data on Recent Bonus Arrangements for Executives of 22 Retail Companies Reporting Such Arrangements: 1928–1937

Company	Method by which Bonus Plan was Established[1]	Stockholder Knowledge of Arrangements			Participation in Bonus Arrangements		Calculation of Bonus Payments	
		Plan Approved by Stockholders	Arrangements Mentioned in Published Company Reports	Report to Stockholders of Amounts Paid	Application of Plan Wide or Restricted[2]	Participants	Basis	Income Deductions[3] for Stockholders before Calculations
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8 Department and Specialty Store Companies:								
Abraham & Straus, Inc.	Contract	*	No	No	Restricted	2 senior officers	*	*
Best & Co., Inc.	Contract	*	No[4]	No	Restricted	4 senior officers	Net earnings or increase in net sales	No[5]
Bloomingdale Bros., Inc.	Contract	*	No	No	Restricted	2 senior officers	Net earnings	Yes (preferred dividends)
The Fair	Contract	*	No	No	Restricted	3 senior officers	Net earnings[6]	Yes
Wm. Filene's Sons Company	Policy	*	No[7]	No	Wide	Division mgrs., buyers, etc. and some in non-selling activities	Sales volume, gross profit, earned discount, etc.	No
R. H. Macy & Co., Inc.	Contract	*	Yes[8]	No	Semi-restricted[9]	5 senior officers and 5 other employees	†	†
The May Department Stores Company	Contract	*	No[10]	No	Restricted	10 senior officers	Net earnings of various stores	No
The Outlet Company	Policy	*	No[11]	No	Semi-restricted	Mdse. buyers only (8 are directors)	Sales over quota	No
14 Chain Store Companies:								
Davega Stores Corporation	By-law	Yes	Yes	No	Semi-restricted	Executives and others in managerial positions	Net earnings	Yes
First National Stores Inc.	Contract	*	No	No	Restricted	1 vice president	Net earnings of special departments[12]	No
W. T. Grant Company	Policy	Yes	Yes	Yes	Semi-restricted[13]	General and regional executives, buyers, etc.	Net earnings	Yes
Jewel Tea Co., Inc.	Policy	*	Yes	Yes	Wide[14]	Executive and supervisory force, clerical and production force	Net earnings	Yes
S. S. Kresge Company	Policy	*	No	No	Semi-restricted	All major employees	Net earnings	No
McCrory Stores Corporation[15]	Policy	Yes	‡	No	Wide	Executives and employees	Net earnings	Yes
McLellan Stores Company	Policy	Yes	‡	No	Wide	Executives and employees	Net earnings	Yes
Montgomery Ward & Co., Inc.	Policy	*	Yes	No	Semi-restricted[16]	Executive and administrative personnel	Net earnings	Yes
National Tea Co.[17]	Policy	*	No	No	Semi-restricted	5 senior officers and one other employee	Net earnings	Yes
J. J. Newberry Co.	Policy[18]	*	No[19]	No	Semi-restricted	Store managers and executives	Net earnings	No
J. C. Penney Company	Policy	Yes	‡	No	Semi-restricted	Executives and others in managerial positions	Net earnings	No
Peoples Drug Stores, Inc.	Policy	*	Yes[20]	No	Restricted	Senior executives except president	Net earnings	Yes (preferred dividends)
Safeway Stores, Incorporated	Contract	*	Yes[21]	No	Semi-restricted	Executives and others in managerial positions	Net earnings	Yes
F. W. Woolworth Co.	Contract	*	No	No	Semi-restricted	Executives and others in managerial positions	Net earnings	No[22]

* Data not available.

† The plan referred to covers the payment of stock bonuses. Although the actual number of shares paid seems to have been more or less fixed for each individual participating, the number provided for in a modifying clause of the plan varies with net earnings.

‡ Not mentioned in available reports to stockholders, although statements to the Securities and Exchange Commission indicate that plans were approved by stockholders. The 1936 and 1937 balance sheets of the McCrory company show "Accrued Employees' Bonus," which probably includes accrued bonuses to executives, since the plan covered both executives and employees.

[1] The word "policy" is used to indicate that bonus payments have been sanctioned by established policy of the company rather than by formal by-law or bi-lateral contract.

[2] The word "restricted" indicates that the plan or contracts apply to senior officers only. The term "semi-restricted" indicates that arrangements cover certain individuals employed in managerial capacities, including one or more senior officers, but not necessarily senior officers only. The designation "wide" indicates that bonuses may be paid to rank and file employees as well as to those in positions of authority. In preparing this exhibit only those bonus arrangements which cover top executives have been considered. Some firms may have, in addition, other arrangements which exclude officers and directors, as, for example, the "Employees' Investment and Profit Sharing Plan" of Davega Stores Corporation.

[3] The word "deduction" is used to indicate that a minimum prearranged amount of dollar profit, set rate of return on invested capital, or minimum earnings per common share must be deducted from balance available for dividends before computing bonus paid for the year.

[4] The balance sheet as of January 31, 1936, however, shows "Accrued salaries, wages, bonuses, and commissions."

[5] In the case of one of the four executives a deduction is made before calculating the bonus.

[6] An arrangement with one executive, however, provided for additional compensation equal to 20% of the amount of reduction of rentals secured by that executive.

[7] Balance sheets, however, show "Reserve for Bonus"; balance sheet as of January 31, 1929, specified "Reserve for Bonus to Officers and Employees."

[8] Reference is made to the following item in a published financial statement for the fiscal year ended January 29, 1938: "Charges arising from issuance of treasury stock as compensation to employees. . . ."

[9] Company also has arrangements for cash bonuses with the controller (not considered a senior executive in this instance), certain operating sub-executives, and the general manager of a subsidiary.

[10] The balance sheets as of January 31, 1935–1938, however, show accrued "Salaries, wages, bonuses, and commissions."

[11] The balance sheets as of January 31, 1929–1931, however, show "Salaries and Bonuses" as accrued liabilities. In later years this item was referred to as "Salaries and Commissions."

[12] Part of this bonus is payable in stock, a fixed number of shares each year.

[13] For the fiscal year ended January 31, 1935, $197,522.94 was distributed to 45 men.

[14] In 1924, the first year the plan was in effect, 71 employees received a bonus; by 1934 this number had increased to 387. The chairman of the board is excluded from participation.

[15] The company also has contracts with two executives providing in addition to salary such "additional compensation as (they and the company) may mutually agree." Information concerning the contracts was found in a prospectus issued July 7, 1936.

[16] In 1936, bonuses were paid to approximately 300 employees in the executive and administrative group, in general those with salaries of $4,000 or more per year. In 1937, approximately 450 in this group received bonuses.

[17] In addition to the plan referred to, there is also a three-year contract with one executive which did not become effective until January, 1938. The arrangements call for a salary plus a bonus based on a percentage of net earnings after dividends on preferred stock.

[18] The company may have contracts with its executives.

[19] Balance sheets as of December 31, 1931–1936, show "Accounts Payable, Bonuses, Interest, etc."

[20] Among the liabilities appearing on balance sheets as of December 31, 1933–1936, is the item "Accrued Bonuses Payable to Executives and Store Managers."

[21] Bonus arrangements with "employees in managerial positions" were mentioned in the annual reports to stockholders for 1934–1937.

[22] In addition to the usual deductions for taxes and depreciation, however, this company states that it also deducts interest at 5% on capital invested in unamortized balances.

The difference between the above plan, in force under the supervision of directors, and a contract arrangement can readily be seen by comparing it with the following contract:

FIRST: Corporation does hereby employ ——— in its said business as General Manager and in such other executive capacities as Corporation may determine, in connection with the general conduct of its business, for and during the period of one (1) year, commencing on February 1st, 1935, and ending on January 31st, 1936, and agrees to pay to said ——— for his said services the sum of ——— per annum payable in equal monthly instalments during said term, and in addition thereto Corporation hereby agrees to pay ———, provided the annual net profit of said Corporation for the fiscal year from February 1st, 1935 to January 31st, 1936 shall be $400,000 or more, the following sums:

$8,000. or 2% if such net profits shall be $400,000. and the same percentage up to $450,000.
$12,000. or 2-2/3% if such net profits shall be $450,000. and the same percentage up to $550,000.
$20,625. or 3-3/4% if such net profits shall be $550,000. and the same percentage up to $650,000.
$28,600. or 4-4/10% if such net profits shall be $650,000. and the same percentage up to $750,000.
$37,500. or 5% if such net profits shall be $750,000. and the same percentage up to $850,000.
$46,138. or 5-428/1000% if such net profits shall be $850,000. and the same percentage up to $950,000.
$54,625. or 5-3/4% if such net profits shall be $950,000. and the same percentage up to $1,050,000.
$64,155. or 6-11/100% if such net profits shall be $1,050,000. and the same percentage up to $1,150,000.
$74,750. or 6-5/10% if such net profits shall be $1,150,000. and 6-5/10% on all of such profits in excess of such sum.

which net profits are to be ascertained in manner herein set forth, namely:

Net profits for the purposes of this contract shall be deemed to be the profits of said Corporation after deduction of all expenses, losses, usual reserves for accounts receivable, usual depreciation allowances and all sums paid or properly reserved for payment of all Federal, State, City or other Government taxes, including income and excess profits taxes properly assessable against and payable or assumed by said Corporation, but excluding from such expenses the bonuses, which are paid or accrue to executives based on net profits.

———'s share of the net profits shall be payable to him as soon after the close of such fiscal year, as such net profits shall be ascertained, but in no event later than thirty (30) days after the close of such fiscal year.

The compensation herein provided to be paid to said ——— shall be in full compensation for his services as General Manager and in any elective position in the Corporation he may occupy, as well as in any other executive capacity in which he may act.

SECOND: ——— does hereby covenant and agree to well and truly serve Corporation, and to the best of his ability perform the duties of General Manager and such other executive duties and positions as Corporation may assign to him in connection with the general conduct of the business, for and during the said term of his employment, and to accept as compensation therefor the salary and his share of the net profits as in paragraph FIRST of this agreement more fully set forth. ——— agrees to devote his entire time and exclusive attention to the furtherance of the business of Corporation, and not to engage in any other business or business occupation whatsoever during the term of this agreement.

THIRD: In the event of ———'s death during the term of this contract, his legal representatives shall be entitled to receive such proportion of his share of net profits earned in the said fiscal year, as the period of time, namely, from the beginning of the fiscal year to the date of his death, shall bear to the entire fiscal year; and such share of net profits shall be payable within thirty (30) days after the close of the fiscal year.

FOURTH: It is mutually understood and agreed that ——— shall be entitled to receive a statement of the net profits of the business of Corporation at the end of the fiscal year, showing the amount of such net profits to which he shall be entitled in accordance with the terms of this agreement.

IN WITNESS WHEREOF, Corporation has caused these presents to be signed by its Treasurer and its corporate seal to be hereunto affixed, and ——— has hereunto set his hand and seal the day and year first above written.[1]

Provisions of Bonus Plans

Eligibility Clauses. Some of the plans considered in this study apply not only to that limited group of men usually known as officers, such as the chairman of the board, president, vice presidents, treasurer, and general manager, but also to many other employees, occasionally as many as several hundred, who could by no stretching of the definition be described as executives. For example, the plan of the Jewel Tea Company in 1934 included 387 employees.

The eligibility clause in certain plans reads somewhat as follows: The specific employees who

[1] Securities and Exchange Commission, Form 10; Best & Co., Inc.; Exhibit F.

may share in the profit sharing bonus are the officers, except the chairman of the board of directors; all members of the executive and supervisory forces who are in a position to contribute to the company's profits. . . .

With eligibility clauses, as well as with other phases of bonus payments, there is a distinct difference between the policies of chain and department store companies. Department and specialty stores apparently tend toward limited and chain stores toward wide eligibility. Exhibits 2 and 3, column 4, and Exhibit 5, columns 5 and 6, indicate the character of eligibility clauses in the plans of the individual companies.

The trend in eligibility clauses of specific companies over a period of years is enlightening. Although it is impossible to measure this trend accurately, nevertheless there is evidence that the clauses include an ever-widening group of employees. One chain store company which, when it adopted its original plan, included 7 officers, now has widened its plan to cover 52 men, including such employees as furniture and fixtures buyers. Also it must be borne in mind that the number of executives included in the bonus group in any specific company may vary from year to year. The variations may come from a change in policy, increasing or decreasing the number of participants, from resignations, or for other reasons. That substantial changes do occur among different companies was clearly indicated by detailed statistical data not published with this study.

By no means the simplest problem in devising any bonus plan, and a particularly disturbing one in the light of present publicity, is the selection of the proper executives to participate in such a plan. It is surprising to learn that of the 38 retail companies examined, of which 24 made bonus payments in 1929, only 4 chairmen of the board [1] and only 15 presidents received bonuses. The tendency for the two top officers not to receive bonus payments was also pronounced among industrial companies.

These trends deserve careful consideration, because certain companies with bonus plans specifically forbade directors or other corporate officers, if they were eligible for a bonus, to select participants or to determine the amounts to be paid.

Formulae for Bonus Payments. Retail bonuses, as stated previously, are paid both in cash and in stock, the most common method being annual cash payments. For this reason, the method used in computing the total bonus fund is naturally one of the most significant parts of any plan. In the majority of plans there is a stipulation that a percentage of corporate earnings should be allocated to this fund. Just as important as the percentage of earnings to be allotted is the interpretation of earnings. It is one of those business terms which may mean all things to all men. From the many definitions of earnings for estimating bonus payments, it appears that the makers of each plan had a different conception as to what should constitute earnings. The term is variously described:

> . . . From the amount of said net earnings shall be subtracted the amount of the dividends on the preferred stock of the Employer accrued during said fiscal year. The balance remaining after such subtraction is hereinafter referred to as the basic net earnings.[2]
>
> . . .
>
> In the event the audited consolidated net income of the registrant and its subsidiaries for any fiscal year exceeds an amount which, after provision for Federal taxes thereon, equals 60¢ per share on 219,700 shares of Common stock . . . plus 6% per annum on any additional invested capital subsequently paid in or accumulated, one-third of the excess earnings (but not more than $90,000) is to be set apart . . .[3]

In another company's plan, however, which fails to give such specific directions, it is indicated that at the end of each fiscal year when the results of the year's operations are known, the directors shall determine whether there are sufficient funds available for bonuses.

To decide on a definition of earnings, however, is a simple task compared with the problem of deciding to just what extent these earnings and increases in earnings from year to year are attributable to efforts of administrative officers. How do earnings and net profits arise, and what increases them? Do they result from executive management? Certainly to some extent, but what other factors affect them vitally? Two general conclusions are clear: many factors affect earnings, and at best earnings are a highly fortuitous result of the operations of an enterprise. Causes of earnings or lack of earnings are numerous and constantly changing. Beside the most obvious retail operations closely associated with manage-

[1] Nine of the 24 companies did not indicate that they had a chairman.

[2] Securities and Exchange Commission, Form 10; Bloomingdale Bros., Inc., Item 32, Exhibit F.

[3] Securities and Exchange Commission, Form 10; Davega Stores Corporation; Item 29.

ment, such as shrewd buying, rapid stock turn, and maintenance of high sales volume, the following forces, among others, influence earnings:

Capital — through its investment and use
Inventory appreciation or depreciation
Cyclical swings in the volume of business
Return on and appreciation or shrinkage of investments
Earnings of independently managed subsidiaries
Unexpected style trends which are occurring constantly
Competitive changes
Finally, tax and other legislation

In this connection, the comment of an executive in a large New York department store is interesting. He suggested that New York retail stores expected their 1939 sales to improve materially because of the World's Fair. Such an increase would undoubtedly increase earnings, and as a result executives whose compensation was based on earnings would profit from unusual circumstances over which they had little control.

It can readily be seen that earnings resulting from these forces cannot be attributed to executives directly or entirely, yet few plans attempt to segregate them. Occasionally one or two items are considered, but this is rare. The reason so little is done with these uncertainties is fairly clear; such an attempt would further complicate an already exceedingly involved problem.

In computing bonuses or commissions, for example, in the F. W. Woolworth Co., the arrangements stipulate that there shall be deducted from net profits (in addition to the usual deductions for taxes, depreciation, etc.) interest at 5% on capital invested in unamortized balances. It is required, however, that all extraordinary outlay be amortized.

Annual earnings, as is generally recognized, even after following the most accurate accounting methods, may be grossly misleading and merely constitute a laboriously reached estimate of the results of annual operations. It must not be forgotten that changes in retailing are rapid, and that obsolescence and depreciation are operating on store location as well as merchandise, buildings, and fixtures.

The significance of this complicated situation is readily appreciated by anyone examining the balance sheets of large and well-managed retail and industrial companies since 1932. Large capital adjustments and charges to surplus frequently have been made to correct past overstatement of earnings. A number of these companies paid bonuses based on earnings, but earnings appear to be an unreliable basis for computing such payments.

Revisions of Plans. Bonus plans, in the years previous to the Securities and Exchange Commission publicity, irrespective of the method by which they were established, tended to take on an air of permanence, particularly if they were in effect during a long period of steady or increasing earnings. This situation has changed completely since 1934; revisions are now necessary and do occur, as indicated in column 5 of Exhibits 2 and 3,[1] and therefore should be carefully provided for. Three of the plans used by the 15 department and specialty store companies apparently were terminated and 5 revised during the period under review. None of the 23 chain store companies terminated their plans during the period examined, but 5 of these later adopted new arrangements; 4 chain store companies merely revised their arrangements. Thus, over one-half of the entire group of retail companies either terminated or revised their plans substantially during the period from 1928 to 1937. These changes in the methods of paying executive bonuses become even more surprising when it is recognized that 9 of the 38 companies did not make additional payments to executives, nor did they have bonus plans which applied to executives, so that 21 companies out of 29, or over two-thirds of those which had incentive compensation arrangements, made rearrangements in their methods.

Incidentally, examination indicated that 40% of a group of large industrial companies with bonus plans had special provisions pertaining to revisions, generally vesting full power in the Board of Directors. With many corporate changes taking place constantly and with the possibility of misunderstanding inherent in such plans, great need exists for flexibility in all plans, whether industrial or retail.

The W. T. Grant Company plan recognized clearly the need for possible revisions as follows:

> This compensation plan for executives becomes effective February 1, 1933, and will continue in effect until January 31, 1936, subject to revision, modification or cancellation by and in the sole discretion of the Board of Directors at any time.

The wide use of contracts injected rigidity into many of the retail plans. None of the retail com-

[1] See pp. 6 and 7.

pany plans, however, appear to have depended on a vote of stockholders to change them as did several plans in use by industrial companies.

Rigidity in plans or failure to revise them often leads to unforeseen results. During the period under consideration few if any of the retail companies incurred litigation. This may occur more frequently in the future than it has in the past, however, because of the publicity which is being given to the operation of such plans.

Bonus Funds and Tax Regulations. In bonus or incentive plans adopted in recent years, there is frequent reference to the "bonus fund." This is the pool or fund in which cash available for bonus payments is segregated before any distribution to officers. In 1936 certain of the plans, as for example that of W. T. Grant Company, called for the use of a fund rather than direct distributions.

Several reasons explain the use of bonus funds. (1) In certain companies the total bonus fund frequently is based on corporate profits. The division of the fund among the various groups of executives generally varies, thus making a bonus fund essential. (2) Such a fund is of great convenience over a period of years when distribution is made among large numbers of executives. (3) It may be important because of tax regulations.

Such a fund permits the distribution of payments over a period of years without incurring special tax liability. Section 165 of the Revenue Act of 1938, entitled *Employees' Trusts*, reads in part as follows:

> (a) Exemption from Tax. — A trust forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of some or all of his employees —
>
> (1) if contributions are made to the trust by such employer, or employees, or both, for the purpose of distributing to such employees the earnings and principal of the fund accumulated by the trust in accordance with such plan, and
>
> (2) if under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees,
>
> shall not be taxable under section 161, but the amount actually distributed or made available to any distributee shall be taxable to him in the year in which so distributed or made available to the extent that it exceeds the amounts paid in by him. Such distributees shall for the purpose of the normal tax be allowed as credits against net income such part of the amount so distributed or made available as represents the items of interest specified in section 25 (a).[1]

Relation of Salary to Bonus Payments

After a careful consideration of the bonus plans and contracts of the retail companies studied and the character of earnings, one becomes interested in the theory behind certain of these plans. Here a query becomes obvious: what is fair executive compensation? Is it an average competitive wage paid over a period of good and bad years, or is it the payment of a fixed salary with additional liberal bonus payments in good years?

Frequently in discussing methods of executive compensation, much time is spent in arguing the theory of paying an executive a certain fixed cash salary well below the "going rate" and giving him a handsome bonus for earnings in a successful year, thus paying liberally for the results secured. Many concur in this theory, believing that if executives are willing to run a risk on what the company earns, they also should gain liberally when earnings are particularly large. But is there real substance behind this proposal? A careful study of the salaries of the three highest paid executives in each company in 1928, when conditions were most suitable for this theory to function, seems to indicate that in the retail business such a practice was not universally the custom.

Exhibit 6 was prepared to throw light on this much discussed point. Roughly this exhibit indicates that among the three highest paid executives of chain store companies, the average (median) formal cash salary was higher for men receiving no bonus than for executives receiving a bonus. Specifically, the group of executives not receiving bonuses in chain stores in 1928 typically received in formal salary $28,000, while the group receiving bonuses was paid on the average $12,000 in formal salary. The range in formal salary among the executives not receiving bonuses was from $5,000 to $104,000 and among the group receiving bonuses, from $0 to $100,000. The additional payments received by the bonus group, however, brings total average compensation per executive up to $36,000, with an exceedingly wide

[1] This is in slightly different form from the same section in the 1936 Revenue Act.

range in total compensation, from $8,000 to $752,000.

The payments among department and specialty store companies differed greatly from those in chain store companies. The three highest paid department store executives receiving formal cash salary only in 1928 received about $37,000 each, while similar executives in bonus paying companies received $58,000 on the average in formal salary. The range in these formal dollar payments among nonbonus paying companies was from $15,000 to $100,000, and among the bonus paying companies, from $0 to $125,000. Bonuses, however, added substantially to the payments to the second group, bringing the average total dollar compensation among bonus paying companies up to $83,000. The range in total payments for the latter group of companies was from $26,000 to $201,000.

It seems fair to conclude that the three highest paid executives in bonus paying companies among both chain store organizations and department

Exhibit 6 — Classification of the Three Highest Paid Executives in Nonbonus Paying Companies by Amount of Salary and of the Three Highest Paid Executives Receiving a Bonus in Bonus Paying Companies by Amount of Salary and of Total Compensation: 22 Chain and 13 Department and Specialty Store Companies,[1] 1928

Amount	Chain Store Companies			Department and Specialty Store Companies		
	Three Highest Paid Executives in Nonbonus Paying Companies	Three Highest Paid Executives Receiving a Bonus in Bonus Paying Companies		Three Highest Paid Executives in Nonbonus Paying Companies	Three Highest Paid Executives Receiving a Bonus in Bonus Paying Companies[3]	
	Classified by Amount of Salary[2]	Classified by Amount of Salary	Classified by Amount of Total Compensation	Classified by Amount of Salary	Classified by Amount of Salary	Classified by Amount of Total Compensation
	(1)	(2)	(3)	(4)	(5)	(6)
Less than $ 10,000	1	14	2	....	2	....
$ 10,000 to 20,000	5	16	12	1	3	....
20,000 to 30,000	6	3	3	....	3	2
30,000 to 40,000	4	2	5	6	3	2
40,000 to 50,000	4	1	4	....	....	1
50,000 to 60,000	2	1	....	3	3	2
60,000 to 70,000	1	2	2	....	4	....
70,000 to 80,000	....	1	....	1	1	4
80,000 to 90,000	....	1	1	....	....	1
90,000 to 100,000	....	....	....	....	....	....
100,000 to 110,000	1	1	1	1	1	....
110,000 to 120,000	....	....	....	....	....	4
120,000 to 130,000	....	....	....	....	3	....
130,000 to 140,000	....	....	1	....	....	3
140,000 to 150,000	....	....	1	....	....	2
150,000 or More	....	....	10	....	....	2
Number of Executives Classified	24	42	42	12	23	23
Number of Companies Represented	8	14	14	4	9	9
Median Payment	$28,000	$12,000	$36,000	$37,000	$58,000	$83,000
Range in Payments:						
Low	5,000	0	8,000	15,000	0	26,000
High	104,000	100,000	752,000	100,000	125,000	201,000
Median Sales	$51,200,000	$48,400,000		$27,100,000†	$31,100,000†	
Range in Sales:						
Low	10,300,000	11,300,000		13,200,000	13,300,000	
High	207,400,000	319,800,000		121,100,000	169,600,000	

[1] Usable figures for one chain and two department store companies were not available for 1928.
[2] Estimated figures for 12 months based on data for 7 months have been used for one firm.
[3] Two department store companies each paid bonuses to only one executive.
† Since 1928 sales data for two companies were not available, the medians for department and specialty stores are based on figures for only eight bonus paying and three nonbonus paying companies.

and specialty store companies in 1928 received substantially greater amounts than did the same group of men in nonbonus paying companies. The study of a larger sample of executives and companies might have altered this conclusion somewhat. It is interesting to note, however, that among a much larger group of industrial companies, a similar condition was even more pronounced.

Stockholders and Bonus Plans

Although the objectives of most bonus plans indicate a desire to further stockholders' interests, after analyzing certain plans one can readily see features which might be divergent from rather than harmonious with the best interests of owners. Today, under existing corporate organization, the mutuality of interest between stockholders and management-executives may be rapidly disappearing. Although numerous executives are still large stockholders, in certain of the large retail companies many have only a small stock interest, and average holdings doubtless will continue to decline over a period of years. The influence of executives, however, which naturally affects bonus plans, is in many companies far greater than that of the owners of even substantial blocks of stock, because of actual powers of control arising from the executives' prominent positions in their respective companies. It is important, therefore, to examine critically the ties between bonus plans and stockholders.

All evidence suggests that the average stockholder has very little to do with bonus plans in large, widely owned retail or industrial companies. The extent to which such plans had the formal approval of stockholders in retail companies is indicated in column 2 of Exhibit 5. Only about one-third of the chain store plans and none of the department and specialty store plans or contracts appear to have been approved formally by stockholders. This record is not particularly significant because of concentrated stock ownership in these companies. Doubtless majority stockholders approved informally many of the plans. Recent court records of bonus litigation among industrial companies frequently contain the statement that "none of the acts or proceedings in question were ever ratified by stockholders."

Another question of much interest is: How much do stockholders know about these plans? An exact answer to such a question is of course difficult to find, and evidence must be secured from every possible source; even then some of it doubtless will be overlooked. As stated above, little material could be found indicating that the stockholders in the department and specialty stores being studied knew any of the details of the various bonus contracts until such information was made public by the Securities and Exchange Commission. While at least five and possibly more of the chain store companies did submit their plans to stockholders for approval, only two of them reported the amount of the payments made to executives. However, the financial statements issued by several firms in their reports to stockholders revealed or implied the existence of bonus arrangements. For instance, the balance sheet for Wm. Filene's Sons Company as of January 31, 1929, contains an item: "Reserve for Bonus to Officers and Employees." And a statement of comparative consolidated accrued surplus for the fiscal year ended January 29, 1938, for R. H. Macy & Co., Inc., shows "charges arising from issuance of treasury stock as compensation to employees," which doubtless refers to the arrangements described previously providing for the payment of stock bonuses to several major employees, including a few executives.

The trend is still in the direction of more rather than less information in the area of executive payments. An example of detailed information is the report of the Jewel Tea Company, prepared and presented to stockholders at the Annual Meeting, March 12, 1934.[1] The treasurer outlined in detail both the bonus plan and the employee stock purchase plan used by the company and quoted complete annual figures on the payment of bonuses, the purchase of stock, and other financial data of interest to stockholders in connection with the operation of these plans. Such information as the principles of the bonus plan, the method of computation of the bonus fund, the considerations affecting the size of payments to individuals, and the specific individuals eligible to participate are clearly stated. The figures as presented show that the financial operations of the company in the years which followed the inauguration of the bonus plans were conspicuously more successful than those in the years which preceded its adoption.

With the submission of total compensation data to the Securities and Exchange Commission, the

[1] Securities and Exchange Commission, Form 10; Jewel Tea Company; Exhibit F (1).

need for publicity in annual reports may not appear so great as previously, but the wisdom of having carefully prepared executive compensation plans, with their functioning frankly reported, should not be minimized.

The failure of the great majority of corporations to expose proposed bonus plans for the consideration of stockholders apparently has been characteristic of industry in the past. A condition of secrecy naturally places great responsibility on the officers and directors of corporations having bonus plans. Full publicity lightens this responsibility considerably, which is an important reason for complete disclosure.

At present many corporations have their incentive compensation plans approved in entirety by stockholders. From a corporate point of view this is wise; from the stockholders' point of view it is of little significance unless the plans are appraised critically by competent individuals. Since 1930 many stockholders have taken an active interest in the problem of executive payments, both at annual meetings and at other times. In 1931, upon settlement of the litigation over the Bethlehem Steel Corporation's bonus plan, a specific provision was included stating that total executive bonus payments should be reported annually to stockholders. The Westinghouse Electric & Manufacturing Company also follows this policy.

That stockholders have a definite interest in the determination of bonus payments can scarcely be questioned, and yet this has been overlooked in many bonus plans. Both public opinion and legislation recently have favored publicity of all corporate affairs, and it is evident that more publicity rather than less is in prospect. Therefore, one may conclude that it will be sound policy for directors and executives of both retail and industrial companies to favor publicity in the future regarding bonus plans, contracts, and actual payments under such plans.

One very definite trend significant to stockholders is the inclusion of clauses in the provisions of all plans limiting the possibilities of bonus payment. In Exhibit 5, column 8, this information is indicated for the individual companies. Certain of these clauses require that the corporation earn a specific percentage of total capitalization before bonus payments may be made; others require the payment of dividends on both preferred and common stocks; and still others forbid payments until definite amounts are earned by a company. Such limitations help to avoid misunderstanding and litigation, but tend to reduce the incentive feature of bonus plans and destroy what value there is, if any, in such incentive arrangements. One of these plans reads as follows:

> . . . Under this plan, out of the final net profit in excess of approximately $13,000,000 a percentage was distributed as adjusted compensation to approximately 300 of the registrant's executive and administrative personnel. The maximum payment to any individual was in most cases limited to 30% or 40% of annual salary, and in no case exceeded 50% of annual salary.[1]

Another question of importance to stockholders is the policy of paying bonuses when dividends are not being paid. In 1929, of 24 bonus paying retail companies only 3 failed to pay dividends on all classes of stock, and 6 of 14 companies not paying bonuses failed to do so. In 1936 all the 19 companies which apparently paid bonuses also paid dividends on all classes of stock.

Still another phase of executive compensation significant to stockholders is the percentage of executive compensation to earnings and sales. These percentages for the chain store companies and department and specialty stores, classified according to whether or not bonuses were paid in 1929, are included as Exhibits 7 and 8. Medians were not secured and comparisons of averages were not made because of the limited number of companies in each group. The exhibits, therefore, are chiefly of interest for the statistical information which permits comparison of figures among the individual companies.

Courts and Bonus Plans

In recent years the courts in interpreting the fairness of bonus plans have favored stockholders, taking the position that stockholders' consent to any plan is largely formal and fictional. If stockholders approved a vague plan, it may be set aside in equity because stockholders approved blindly. Courts assume jurisdiction for various reasons, among which are fraud, irregularities in the adoption of the plan, and failure to give stockholders sufficient notice or information. Judgment in the past as to the fairness of any particular bonus plan seems to a large extent to have depended on contemporary practice, or what little was known about it.

With the great mass of statistical data now

[1] Securities and Exchange Commission, Form 10K, 1936; Montgomery Ward & Co., Incorporated; 5 (a) (iv).

available for interpretation, it will be interesting to observe its effect, if any, on court decisions. Current legal opinion on executive compensation practices and payments is summed up briefly in the following quotation:

> We have long since passed the stage in which stockholders, who merely invest capital and leave it wholly to management to make it fruitful, can make absolutely exclusive claim to all profits against those whose labor, skill, ability, judgment, and effort have made profits available. The reward, however, must have reasonable relation to the value of the services for which it is given and must not be, in whole or in part, a misuse or waste of corporate funds, or a gift to a favored few, or a scheme to distribute profits under a mere *guise* of compensation, but in fact having no relation to services rendered. *Rogers* v. *Hill*, 289 U.S. 582, 590, 53 S. Ct. 731, 77 L.Ed. 1385, 88 A.L.R. 744; *Godley* v. *Crandall & Godley Co.*, 212 N.Y. 121, 105 N.E. 818, L.R.A. 1915D, 632. To come within the rule of reason the compensation must be in proportion to the executive's ability, services and time devoted to the company, difficulties involved, responsibilities assumed, success achieved, amounts under jurisdiction, corporation earnings, profits and prosperity, increase in volume or quality of business or both, and all other relevant facts and circumstances: nor should it be unfair to stockholders in unduly diminishing dividends properly payable. — *Gallin* v. *National City Bank*, 273 N.Y.S. 113–114. Affirmed, 281, N.Y.S. 800.

Advantages and Disadvantages of Formal Bonus Plans

The foregoing detailed analysis of formal bonus plans makes possible a critical examination of the advantages and disadvantages of such plans. Here, as elsewhere with highly complicated data involving human beings, simple conclusions may be far more misleading than enlightening. Thus a study of actual experience may be more significant than apparently logical deductions. Experiences of various companies with different types of bonus plans, therefore, are drawn on heavily for this discussion of advantages and disadvantages of formal bonus plans.

Arguments favoring bonus plans advanced by their proponents may be summarized as follows:

> The greatest incentive for the development of any business is a sense of proprietorship. Under present conditions, with management generally a separate group from owners, something in the nature of a management bonus plan is essential to insure the same drive and direction to an organization.
>
> A liberal reward for unusual effort and ability on the part of an officer or employee is returned many-fold to stockholders of a corporation.
>
> A bonus plan attracts and holds men of unusual ability in the corporation that pays additional compensation.
>
> The salary and bonus method of paying executives makes possible lower formal executive salaries and furnishes a convenient way of reducing executive compensation when earnings decline.
>
> Executives give their entire attention to a corporation paying them substantial amounts.

None of these commonly advanced arguments supporting incentive compensation plans seems to be entirely adequate or frank, and all are open to serious questioning and criticism. The last argument, for example, can hardly be accepted seriously. Surely proponents do not wish to imply that they believe executives will be loyal and faithful and spend their full time performing their duties only when receiving what can easily be described as substantial compensation. Incidentally it is interesting to remember on this point that in 1929, when bonus payments were widely used and frequently very large, certain conservative businessmen deplored publicly the lack of attention given by many of their colleagues to their responsibilities. Pleasure boats, it has been stated by competent individuals, during that period were frequently more time-consuming and attention-consuming to many than was business.

It is doubtful if the disappearance of bonus payments between 1931 and 1935 affected adversely the work or interests of executives, many of whom broke physically under the terrific strain of the period. It is also questionable whether the largest bonus ever drove officers to work as effectively or created such intense interest as did the disappearance of earnings and the fear of corporate failure during the great depression, when few companies paid bonuses and most companies reduced executive pay substantially.

The proponents of bonus plans did not advance four arguments for these plans which they might well have used. First, there is the possibility that a corporation may be compelled to adopt such plans to retain its able executives because of competition with many other companies following this method of executive payment. The second argument applies to retail companies particularly: because of the limited capital required, certain able executives may go into competitive retail business for themselves, if not given a feeling of ownership through bonus payments. The third reason raises directly the question of the distribution of profits or earnings between stockholders and executive officers. After stockholders receive an

adequate return on their investment (sometimes defined as 6% on invested capital and surplus), is there any reason why officers should not participate in earnings above this point? Today there is little understanding of the relationship of bonus payments to profit sharing.

The fourth argument is that a properly drawn executive bonus plan may well bring flexibility into executive payments by actually reducing fixed or contractual salary payments to executives when earnings decline as well as paying bonuses when earnings increase. This little used practice at present suggests not only profit sharing but loss sharing as well.

Exhibit 7 — Executive Compensation as a Percentage of Earnings and of Sales, and Earnings as a Percentage of Sales for 22 Chain Store Companies Classified According to Payment of Bonuses to Executives in 1929: 1929, 1937, 1928–1937, Combined

Company [1]	Executive Compensation						Earnings [2]		
	Percentage of Earnings [2]			Percentage of Sales			Percentage of Sales		
	1929	1937	1928–1937 combined [3]	1929	1937	1928–1937 combined [3]	1929	1937	1928–1937 combined [3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Chain Store Companies Paying Bonuses to Executives in 1929:									
W. T. Grant Company [4]	9.1%	4.2%	5.4%	0.5%	0.2%	0.2%	5.2%	3.7%	4.3%
Jewel Tea Co., Inc. [4]	13.3	16.1	14.1	1.5	1.2	1.4	11.6	7.4	9.9
G. R. Kinney Co., Inc.	13.6	35.2	33.4	0.7	0.8	0.8	5.1	2.2	2.3
S. S. Kresge Company [4]	6.2	4.6	5.4	0.6	0.3	0.5	10.4	7.4	8.5
McCrory Stores Corporation [4]	2.8	6.0	*	0.2	0.4	*	7.0	6.2	*
McLellan Stores Company	8.6	8.9	9.5†	0.4	0.5	0.4†	4.6	5.5	4.1†
Montgomery Ward & Co., Incorporated [4]	6.2	2.1	5.9	0.3	0.1	0.2	5.4	4.7	3.3
National Tea Co. [4, 5]	8.4	‡	12.9	0.3	0.1	0.2	3.3	*d.2.1*	1.7
J. J. Newberry Co. [4]	5.4	5.7	5.3	0.4	0.3	0.3	6.5	5.4	5.8
J. C. Penney Company [4]	2.5	2.3	2.3	0.2	0.1	0.1	6.1	6.2	6.3
Peoples Drug Stores, Incorporated [4]	8.8	10.6	10.3	0.6	0.6	0.6	6.3	5.3	5.7
Safeway Stores, Incorporated	2.4	3.8	3.5	0.1	0.04	0.1	3.0	1.0	1.8
Sears, Roebuck and Co.	2.5	*	5.5§	0.2	*	0.3§	7.6	*	5.2§
F. W. Woolworth Co. [4, 6]	7.4	*	6.6§	0.9	*	0.9§	12.7	*	12.8§
Chain Store Companies Not Paying Bonuses to Executives in 1929:									
Davega Stores Corporation	6.7%	75.9%	30.2%†	0.5%	1.3%	1.2%†	8.0%	1.7%	4.0%†
First National Stores Inc. [4, 5]	7.3	9.1	7.5	0.4	0.2	0.3	4.9	2.4	3.9
The Grand Union Company	7.6	19.9	13.3	0.2	0.3	0.3	3.0	1.4	2.1
S. H. Kress & Co. [5]	4.4	3.7	4.4	0.4	0.3	0.3	8.9	6.9	7.5
Neisner Brothers, Inc.	4.3	8.6	7.6	0.4	0.5	0.4	8.5	5.7	5.5
Schulte Retail Stores Corporation	28.4	*	89.5†	*	*	0.9†	*	*	1.0†
Frank G. Shattuck Company [5]	4.3	15.3	9.2	0.6	0.7	0.7	13.7	4.9	7.7
Walgreen Co. [5]	3.5	5.5	5.5¶	0.3	0.2	0.3¶	7.0	4.3	5.1¶

* Usable data not available.
† Nine-year average.
d Deficit.
‡ Since a deficit was sustained, no percentage could be computed.
§ Average for the first five years.
¶ Eight-year average.

[1] Data for the Kroger Grocery and Baking Company have been omitted.

[2] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[3] Complete data on executive compensation were not available for 1933. In order that a ten-year average might be secured for executive compensation and for earnings before executive compensation and interest, estimates of compensation based on amounts paid in 1932 have been included for each company. The published annual income statements used in preparing this exhibit in many cases reflect the operations of a changing number of stores.

[4] This company seems to have paid a bonus to one or more of its executives in 1937.

[5] Interest figures for this company were not available in all the years of the period studied. The earnings figures are after rather than prior to interest charges and the percentages given in columns 1–3 may be slightly overstated while those in columns 7–9 may be slightly understated. Earnings figures for First National Stores Inc. and for National Tea Co. are based in part on estimated interest figures.

[6] The earnings figures for F. W. Woolworth Co. include dividends from foreign subsidiaries.

Criticism of bonus plans for executives may rightly begin with a careful scrutiny of all the reasons favoring them, but here it cannot end. There cannot be too much emphasis on certain general objections. First, as previously explained, it is very difficult to justify bonus plans completely on the grounds that they are incentives for executives; too many other incentives of a nonmonetary character are always in effect. Furthermore, answers to the questions, what is an incentive, how does it work, and how can it be measured, are elusive.

Certainly one quality for which executives are paid is foresight — planning many years in advance — yet by emphasizing executive reward on an annual basis the bonus method may tend to confuse an executive and force him to choose between immediate personal gain and proper planning. Such a condition is an unfortunate one.

Also the complexity of what appear to be simple details in administering a bonus fund may well be so great as to stir up within a company personal antagonism that would nullify any corporate benefit from a bonus scheme. "Who gets how much" is more than a matter of gossip today and must be reckoned with as a factor of great social importance in any organization. Even when an attempt is made to enforce secrecy regarding

Exhibit 8 — Executive Compensation as a Percentage of Earnings and of Sales, and Earnings as a Percentage of Sales for 14 Department and Specialty Store Companies Classified According to Payment of Bonuses to Executives in 1929: 1929, 1937, 1928–1937, Combined

Company [1]	Executive Compensation						Earnings [2]		
	Percentage of Earnings [2]			Percentage of Sales			Percentage of Sales		
	1929	1937	1928–1937 combined [3]	1929	1937	1928–1937 combined [3]	1929	1937	1928–1937 combined [3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Department and Specialty Store Companies Paying Bonuses to Executives in 1929:									
Associated Dry Goods Corporation	12.9%	19.4%	16.3%	*	0.6%	1.3%	*	3.1%	7.8%
Best & Co., Inc.[4, 5]	18.1	15.9	18.5	2.0%	1.5	1.8	11.1%	9.2	9.5
Bloomingdale Bros., Inc.	29.9	35.1	38.4	1.0	1.4	1.3	3.2	4.1	3.4
The Fair [6]	11.5	59.3	29.1	0.7	0.7	0.9	6.5	1.2	3.0
Wm. Filene's Sons Company	23.5	41.2	33.0	1.5	1.5	1.8	6.4	3.7	5.4
R. H. Macy & Co., Inc.[4]	4.7	8.1†	7.2†	0.3	0.3†	0.4†	7.5	3.8†	5.0†
Marshall Field & Company [4]	1.3	‡	9.7	0.1	0.3	0.2	5.7	*d.0.7*	2.2
The May Department Stores Co.[4, 6]	11.7	10.7	13.1	0.7	0.6	0.6	6.2	5.5	4.7
Department and Specialty Store Companies Not Paying Bonuses to Executives in 1929:									
Abraham & Straus, Inc.	16.1%	17.2%	18.1%	0.9%	0.8%	1.0%	5.4%	4.7%	5.5%
Arnold Constable Corporation	‡	22.1	56.1	1.1	0.9	1.0	*d.3.3*	4.1	1.8
Franklin Simon & Co., Inc.	33.5	‡	348.1	*	0.9	*	*	*d.0.9*	*
Gimbel Brothers, Inc.	16.3	17.8	25.6	0.5	0.7	0.6	3.0	4.0	2.3
Kaufmann Department Stores, Inc.	10.2	13.1	15.3	0.7	0.9	0.9	7.0	6.7	5.6
Oppenheim, Collins & Co., Inc.	12.4	27.4	27.7§	1.1	0.8	1.2§	9.0	2.7	4.3§

* Usable data not available.
† The cash value of stock bonuses to executives is reported to be included in the compensation figures for 1935, 1936, and 1937.
d Deficit.
‡ Since a deficit was sustained, no percentage could be computed.
§ Nine-year average.
[1] Data for The Outlet Company have been omitted.
[2] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.
[3] Complete data on executive compensation were not available for 1933. In order that a ten-year average might be secured for executive compensation and for earnings before executive compensation and interest, estimates of compensation based on amounts paid in 1932 have been included for each company.
During the ten-year period covered by this exhibit, several mergers or consolidations occurred in the department store field. The published annual income statements used in preparing this exhibit in such cases reflect the operations of a changing number of stores.
[4] This company seems to have paid a bonus to one or more of its executives in 1937.
[5] The earnings figures for this company include estimates for interest on funded debt.
[6] Interest figures for this company were not available for all the years of the period studied. The earnings figures are after rather than prior to interest charges and the percentages given in columns 1–3 may be slightly overstated while those in columns 7–9 may be slightly understated.

amounts paid, there is usually "leakage," causing jealousy and friction among the executive group.

Large bonus payments for an extended period raise the standards of living of those receiving payments so much that the curtailment of such payments because of general adverse conditions or for other reasons beyond the individual's control becomes disturbing and painful if not critical.

It is almost impossible to devise any method of distributing bonus funds which will not create "yes men." It is unfortunate but true that many expectant receivers of bonus payments tend to agree with and "play up to" the individual or individuals immediately responsible for their share of the bonus fund. Therefore, if it is true that the free clash of critical opinion is one of the most valued assets of any executive group, does it not follow that any method of executive payment which tends to upset such a relationship may in all probability destroy an important element contributing to corporate success?

One executive who has had some experience with bonus plans reported that he never knew of a formal bonus plan which did not sooner or later lead to misunderstandings and complications. The reason for this, in his opinion, was that the framers of almost all formal plans attempted to forecast the impossible, and when they succeeded, did so only by chance. He pointed out, however, that the informal plans of small and moderate sized corporations used hindsight, and for this reason tended to be more equitable and just than formal plans.

Finally, another fundamental objection to bonus payments is the undue emphasis placed on monetary rewards. After a certain limit is reached, financial payments probably have much less influence than many other incentives, and to overstress monetary rewards is to lose sight of important human motivating factors which should be considered.

Executive Employment Contracts

No discussion of executive compensation policies among retail companies is complete without an examination of executive employment contracts, referred to previously.[1] Such contracts are as common among retail companies as they are rare among industrial concerns.

According to available data, 12 of the 15 department and specialty store companies in this study had contracts with one or more executives, while only 6 of the 23 chain store organizations indicated that they used such arrangements. Possibly other companies also had contracts, but for one reason or another did not submit the information to the Securities and Exchange Commission. An explanation of the prevalence of such plans among department stores is difficult to discover. To state that contracts are traditional in that retail field is merely begging the question. Reasons probably will be revealed only after careful historical research. Certainly it can be said that contract agreements indicate an attempt to avoid misunderstanding between directors and officers when executive payment arrangements are complicated.

Department and Specialty Store Contracts

At least 38 of the executive officers in the 12 department and specialty store companies had contracts. The number of executives affected by contracts varied widely among the companies, as indicated in Exhibit 9. The Associated Dry Goods Corporation, Marshall Field & Company, Gimbel Brothers, Inc., and Oppenheim Collins & Co., Inc., each reported one executive only under contract. The May Department Stores Company, however, included 11 executives, by far the largest number among the entire group. The period of years covered by the contracts also varied widely. The 4 executives under contract at Best & Co. had arrangements for one year only, but these apparently were extended to two years after date of expiration. The 4 executives under contract at Wm. Filene's Sons Company, on the other hand, had contracts covering a period of 12 years.

Among the group of 38 executives, about one-third had what might be termed long-period contracts, running from 8 to 12 years, and over one-half, short-term contracts, for 3 years or less; the median was 3¾ years, but this is of no great statistical significance.

Contracts referred to formal annual cash salary, bonus, and option on stock. The typical contract cash salary was $30,000, with the range in such payments from $0 to $100,000. Seven of the 38 contracts referred to formal salary only; 18 of the contracts covered the payment of cash bonuses; 8 contracts granted options to executives; 2 stipulated stock bonus payments; and 1 regulated a straight commission arrangement. Obviously, contracts for the payment of cash bonuses were the most common.

[1] See particularly pp. 13–16.

Exhibit 9 — Analysis of Available Data on Employment Contracts with Executives as Reported to the Securities and Exchange Commission [1] by 12 Department and Specialty Store Companies

Company	Number of Executives Having Each Type of Contract	Period of Contract in Years	Stipulated Annual Salary	Provisions in Contract for Bonus or Options to Purchase Stock
	(1)	(2)	(3)	(4)
Abraham & Straus, Inc.	1	3	$75,000	None
	2†	5‡	58,250	Bonus (no details given)
	1	1	35,000	None
Associated Dry Goods Corporation	1	3	75,000	Options
Best & Co., Inc.	1	1§	60,000	Cash bonus
	1	1§	25,000	Cash bonus
	1	1§	27,000	Cash bonus
	1	1§	12,000	Cash bonus
Bloomingdale Bros., Inc.	2†	5	75,000	Cash bonus
	1	10	75,000 (later 25,000)‖	None
	1	10	50,000 (later 15,000)‖	None
The Fair	1	1#	60,000	Cash bonus
	1	1#	25,000	Cash bonus
	1	1#	18,000	Cash bonus
Wm. Filene's Sons Company	4†	12	100,000¶	Options [2]
Franklin Simon & Co., Inc.	1	3	30,000	None
	1	1	20,000	None
Gimbel Brothers, Inc.[3]	1	4½	*	Options
R. H. Macy & Co., Inc.[4]	1	10	*	Stock bonus [5]
	1	8**	*	Stock bonus [5]
Marshall Field & Company	1	*	*	Options [6]
The May Department Stores Company	1	*	100,000	None
	1	1‡	none	Straight commissions
	1	10‡	30,000	Cash bonus
	1	10‡	15,000 (originally 10,000)	Cash bonus
	1	*	18,000 (originally 15,000)	Cash bonus
	1	10‡	12,000	Cash bonus
	2†	3	10,000	Cash bonus
	1	*	12,000	Cash bonus
	1	3	15,000	Cash bonus
	1	10‡	10,000	Cash bonus
Oppenheim, Collins & Co., Inc.	1	3	25,000	Options
Median	....	3¾	$30,000	....

* Data not available.

† Although the contracts in question are not necessarily identical except in duration and stipulated salary, they are sufficiently similar to be included together in this exhibit.

‡ Contract renewed from year to year after date of expiration.

§ Term of contracts apparently extended for at least two years after date of expiration.

‖ Reduction effective beginning as of January 1, 1938.

Extended for one year.

¶ In 1933, by mutual agreement, salaries were reduced to $80,000 and by 1936 had not been increased.

** After elapse of two years a new, modified agreement was made for another eight years.

[1] The Securities and Exchange Commission requested information concerning material contracts between the registering corporations and any officer or director, any principal underwriter of securities sold within the past three years, or any security holder owning of record 10% or more of the company's equity securities. An answer in summary was frequently accompanied by the complete text of the contracts. Only those contracts with executives which related to terms of employment were considered for this study. Data on bonus plans and stock options were reviewed for additional information on agreements which might fall in this category. The exhibit does not pretend to be complete; it represents merely a summary of such specific data submitted to the Securities and Exchange Commission as were available to the author at the time of writing.

[2] Options are for subscription to any new issue of common or voting common stock pro rata to the executive's then holdings.

[3] This company also has stock purchase agreements with eight other executives.

[4] This company also has similar contracts with other individuals who are not senior executives. Recently, a resolution of the Board of Directors extended such arrangements to five other men, three of whom are executives. but it is not known whether definite agreements were made between the parties concerned. In addition, there is a contract with the controller (who is not considered a senior executive in this company) providing, in addition to salary, a bonus of 0.1% of the excess of net sales in a fiscal year over net sales for the fiscal year ended February 3, 1923.

[5] Bonuses may be paid in cash upon request at the discretion of the president.

[6] These options are shown since they evidently seem to be part of an employment contract other details of which are not given. Since the executive has his choice of purchasing a certain number of shares of stock at a reduced price or receiving in cash the difference between the market value and the option price, these options are very similar to a bonus.

Chain Store Contracts

Only six chain store companies reported contracts, as indicated in Exhibit 10. Contracts for five of these companies covered a total of seven men. The sixth company, F. W. Woolworth Co., had two types of contract, but the number of executives covered by these contracts was not definitely stated. The duration of the contracts made by the chains with their executives varied from one to ten years, with four of the contracts, exclusive of the Woolworth company agreements, in effect for three years or less. Only two executives had contracts extending over a ten-year period. Stipulated annual cash salary varied from $0 for the Woolworth company, with straight commission arrangements, to $60,000 for one of the executives of Safeway Stores, Inc.

With the exception of those for the Woolworth company executives, each contract had a stock, cash, or option bonus clause. The provisions for two executives referred only to options, but five contracts included cash bonus arrangements, and two of these had in addition either stock or option features.

Significance of Contracts

Executive employment contracts, as stated previously, remove vagueness concerning payments to an executive. Since few if any such misunderstandings appear to have occurred, however, and since few industrial companies use contracts, this simple justification has little significance. Another reason advanced from a company's point of view is that a contract helps retain the services of leading executives. This need may be greater among retail companies because of the ease of change from one retail company to another and because of the small capital required to enter the field of retailing. Also retail executives have frequently established their own stores or groups of stores. All this may be of doubtful importance, however, because it is questionable whether any company should attempt, by contract or otherwise, to hold an executive against his wishes or better judgment. It seems evident, therefore, that the main function of a contract is to formalize arrangements for cash bonus payments, or for option or stock distributions.

If the practice of offering such bonuses or op-

Exhibit 10 — Analysis of Available Data on Employment Contracts with Executives as Reported to the Securities and Exchange Commission[1] by 6 Chain Store Companies

Company	Number of Executives Having Each Type of Contract	Period of Contract in Years	Stipulated Annual Salary	Provisions in Contract for Bonus or Options to Purchase Stock
	(1)	(2)	(3)	(4)
First National Stores Inc.	1	10	$25,000	Stock and cash bonus
The Grand Union Company[2]	1	5	40,000	Options
	1	1†	20,000 (originally 18,000)	Options
McCrory Stores Corporation	1	3	40,000	Cash bonus
	1	3	20,000	Cash bonus
National Tea Co.[3]	1	3	25,000	Cash bonus
Safeway Stores, Incorporated[4]	1	10	60,000	Cash bonus and options
F. W. Woolworth Co.[5]	*	1‡	none	Commissions

* Data not available.
† Renewed for one additional year.
‡ These contracts are automatically renewed until terminated by either party.

[1] The Securities and Exchange Commission requested information concerning material contracts between the registering corporations and any officer or director, any principal underwriter of securities sold within the past three years, or any security holder owning of record 10% or more of the company's equity securities. An answer in summary was frequently accompanied by the complete text of the contracts. Only those contracts with executives which related to terms of employment were considered for this study. Data on bonus plans and stock options were reviewed for additional information on agreements which might fall in this category. The exhibit does not pretend to be complete; it represents merely a summary of such specific data submitted to the Securities and Exchange Commission as were available to the author at the time of writing.

[2] This company also has five-year agreements with two directors, not considered senior executives. These men hold options on stock as their sole compensation for services as voting trustees.

[3] Information for this firm was found in the report to stockholders for 1937 and subsequently reported to the Securities and Exchange Commission. The contract became effective January 26, 1938.

[4] The executive referred to here and two others appear to have had earlier contracts providing cash bonuses and separate agreements covering options to purchase stock.

[5] This company has two types of contracts: that for the highest officials provides compensation based on a percentage of consolidated net profits, while that for district managers provides compensation based on net profits of stores within a district. Those district managers who were also directors or assistant treasurers were reported as executives.

tions should become less general, there might possibly be a corresponding decrease in the number of contracts in use. Any forecast on the prevalence of executive employment contracts for the future, therefore, naturally depends on the nature of executive compensation plans. Since these plans are now changing from year to year, it is impossible to foretell with any degree of accuracy whether contracts in the future will be an important factor in executive payments.

Stock Purchase and Option Plans

Indirect methods of paying additional compensation to executives, as well as to other employees, include stock purchase and option plans permitting the purchase of stock at advantageous prices. Although frequently such arrangements are incorporated in broad bonus plans, here, for clarity's sake, they are considered separately. Stock purchase and option plans are often in the nature of a bonus, and the objectives appear to be the same. With such plans often goes the right to elect cash payments in lieu of stock. The difference between the two is one of form and method rather than results.

Students of employee stock purchase plans have, with certain notable exceptions, made only feeble attempts to differentiate between the application of such plans to executives and to the rank and file of employees. The chief line of demarcation between executives and employees in this respect frequently lies in the number of shares for which they may subscribe. It is doubtful whether employees with small or modest salaries should be exposed financially to the hazards and uncertainties of such investment, even though small in total amount. Their need is security rather than a chance for speculative profit. The use of stock purchase plans for management, however, is an entirely different question and may have real merit.

As shown in Exhibits 2 and 3, 22 of the entire group of 38 retail companies being examined appear to have had employee stock purchase plans. Nineteen of these 22 companies operated chains while 3 operated either department or specialty stores. Nine chains and 1 department store with such plans also granted options to executives. Among the department and specialty store companies there were 4 others which granted options to executives, and among the chains, 1 other. In other words, 27 out of 38 companies had employee stock purchase plans, options, or both at one time or another from 1928 to 1937. Certain of the companies with stock purchase plans terminated them between 1928 and 1937.

For the purpose of the foregoing and following analyses, the distinction between "options" and "employees' stock purchase plans" was made as follows. A company was considered to have an option plan if the offers to executives were of sufficient importance to require individual description in statements to the Securities and Exchange Commission or were mentioned specifically as options in annual reports to stockholders.

Employee stock purchase plans, on the other hand, refer to more general arrangements, in which a large number of employees, frequently including executives, participate and the amount subject to purchase is fixed by rule. Employee stock purchase plans were occasionally described under Item 33, Form 10, and Item 6, Form 10K, of the reports to the Securities and Exchange Commission, but information concerning individuals holding options was required only where the number of shares subject to option by the individual amounted to more than 5% of the total amount subject to option.[1]

Some firms had both types of arrangements entirely distinct from each other. For example, in the annual report of Montgomery Ward & Co., Incorporated, for the year ended December 31, 1929, "Employees' Investment and Savings Plans" for 1928 and 1929 are mentioned, and in the 1934 reports to the Securities and Exchange Commission an executive's option on 100,000 shares, given in connection with the terms of his employment, is described.

In other companies in which both appear, the line of demarcation is not so clear cut. First National Stores Inc., in particular, had a stock purchase plan for employees, yet several of the offers were sufficiently large to require individual mention as options in the reports to the Securities and Exchange Commission.

Stock Purchase Plans

An adequate discussion of the wisdom of stock purchase plans for executives requires much more analysis than so far has been devoted to it. In this study the writer makes no attempt to discuss in detail the advantages and disadvantages of this method of rewarding executives, but the recognition of its existence requires some critical comment.

[1] See Appendix, p. 42.

Stock purchase plans involving stock fluctuating widely in price frequently have proved to be worthless and at times even a positive liability to the executives concerned. An example of this is revealed in the annual report of the Kroger Grocery & Baking Company for 1931, which states:

> Since that date (April 1, 1930) the market price has been lower than the various purchase prices named in this class of contracts.

What may have appeared at one time to have been an offer of exceedingly liberal terms may prove, because of a decline in earnings and stock market conditions, to be a price well above the market for such stock when it is finally being paid for. Occasionally this situation has placed such a severe financial burden on executives that it has been necessary to abrogate the plan entirely, sometimes canceling both back payments due and future commitments. Such cancellation generally casts suspicion on the entire plan and creates resentment among stockholders, who seldom receive such favored treatment.

And finally, there is the general question of the wisdom of executives, irrespective of personal finances and circumstances, investing substantial amounts in the company on which they depend for employment and salary. It must be remembered that the majority of officers are simply employees, even though highly paid ones. If salaries paid are normal and stock is given outright, or practically so, of course much of this criticism disappears.

The serious implications of stock purchase plans for executives can readily be seen today in several of the chain grocery companies. Some of these plans were adopted in the late 1920's, when stocks rose to unprecedented levels, and when the future seemed rosy and certain. Today, because of competition, laws, and other conditions, the outlook for some of these companies appears less bright, and many officers find themselves with their savings "frozen" in common stocks of uncertain value, from which situation they can extricate themselves only at a considerable loss. In presenting this dark side of the stock purchase plan picture, however, the attractive features must not be overlooked, since plans in the past frequently have repaid participants liberally.

The question really raised concerning stock purchase contracts in this study is not so much what chance there is for individual executive profit as it is whether a stock purchase contract is a good feature in an executive compensation plan. Because of the tax angle and the various hazards involved, it seems fair to conclude that such a feature is far from a perfect one for most executives, particularly if it involves a substantial investment on their part. Indeed, if the plan leads executives to think of stock quotations rather than store operations, as it is alleged it sometimes does, it is a definite disadvantage. This discussion does not apply to a modest ownership of stock by various executives or directors, or to the importance of having large numbers of shares of voting stock in influential hands.

The Industrial Relations Section of Princeton University concluded in its study, *Employee Stock Ownership and the Depression*, that "The clearest and, probably, the most important trend in changes in employee stock ownership plans from 1926 to the present is one toward plans limited to selected groups of executive employees." [1]

Options

Options to executives to purchase stock, usually at advantageous prices, appeared to be common among the 38 retail companies studied. Five department and specialty store and seven chain store companies reported such offers in statements submitted to the Securities and Exchange Commission or to the Federal Trade Commission for the years 1928 through 1937, although in the latter instance the information was not specifically requested by the commission, but was voluntarily given. Three additional chain store companies mentioned options in reports to stockholders, but no further data were available. In spite of the publicity required by the Securities and Exchange Commission, the available material is not nearly so complete as that on stock purchase plans for the rank and file of employees, about which much has been written.

Since March, 1935, the Securities and Exchange Commission has been publishing in its "Official Summary of Security Transactions and Holdings" valuable data concerning the transactions and holdings of executives. From this material it is possible to determine in many cases whether options were exercised and if exercised, whether they were disposed of at a profit to the executive.

It was sometimes possible to glean information

[1] *Employee Stock Ownership and the Depression* (Princeton, N. J., Industrial Relations Section, Princeton University, 1933), p. 32.

relative to the purpose of options either from company reports to stockholders or from reports to the Securities and Exchange Commission. The purpose seems to be closely allied to the type of contract made. Options fall into four general categories: (1) options which are one phase of individual employment contracts or service agreements in which such matters as length of service, salary, and duties are also specified; (2) contracts or agreements with individual executives relating to options only; (3) restricted stock purchase plans applicable either to executives only or to executives and other employees in managerial positions (the emphasis here is on the plan rather than on the individual contract); and (4) employee stock purchase plans which include executives as well as the rank and file of employees.

The reasons most frequently advanced for options and stock purchase plans were: to pay additional compensation, to reward service, to encourage interest in a company, to secure increased capital, and to hold executives. It is interesting to note how closely these reasons parallel those favoring cash bonus payments.

Options among the retail companies frequently were found as clauses inserted in employment contracts. This often was the case among department and specialty stores offering options. The chain stores, however, appeared to use more formal plans.

Number of Shares Subject to Option. The number of shares reported under option to any one executive varied from 100,000 shares to around 400 shares. The Securities and Exchange Commission, however, did not require information on executives who held options on less than 5% of the total number of shares subject to option, and it is possible, therefore, that others may have held even fewer than 400 shares.

The numbers of optioned shares in different companies cannot really be compared unless one considers also the value of the stock and the total number of shares outstanding. Obviously 4,000 shares of Grand Union Co. common offered at $2.50 (the range in market price for the initial year being from 8¾ to 4) is not equivalent in value to 4,000 shares of Safeway common at $50, where the market price in the initial year varied from 59¼ to 30⅛. In one firm the 15,000 shares offered to an executive was 11% of the total number of shares outstanding at the end of the fiscal year in which the offer was made, yet in another company 100,000 shares constituted only 2% of the total outstanding. These percentages varied all the way from 14% to less than ½ of 1%.

Both Marshall Field & Company and Montgomery Ward & Co., Incorporated, offered their chief executives large blocks of stock, 100,000 shares in each case, although in the case of the former the options on the second 50,000 shares could have been exercised only if the employment contract was in effect December 31, 1937.

It was not always possible to determine the source of stock offered to executives. Marshall Field & Company, Davega Stores Corporation, and probably Sears, Roebuck and Co. offered stock authorized but previously unissued; Gimbel Brothers, Inc., and First National Stores Inc. gave certain executive officers options on stock acquired by the companies by purchase at prices approximately equal to cost. In the report to the stockholders of Montgomery Ward & Co. for the year ended January 31, 1933, the following statement is made:

> The 99,764 shares of common stock held in the treasury consist of 50,586 shares acquired prior to 1932, of which 43,117 were repurchased from employees at cost to them plus 5% interest in accordance with contracts of sale. The remaining 49,178 shares were purchased in the open market at an average cost to the Company of $8.43 per share. These are substantially all of the block of 100,000 shares of the Company's common stock on which your President was granted an option at $11.00 per share, under the arrangement made when he came with the Company.

Option Prices and Duration of Options. For the most part the option prices of stock offered to executives were lower than the market prices at the time the options became effective, as is indicated in Exhibit 11, page 32. Executives of Davega Stores Corporation, The Grand Union Company, Marshall Field & Company, and Sears, Roebuck and Co., all held options on stock at prices considerably below the market at the time the options became effective. Gimbel Brothers, Inc., and Oppenheim, Collins & Co., Inc., had some options at prices near market and some below market. Prices quoted on the New York Stock Exchange fell below option prices for stock of Associated Dry Goods Corporation, The Kroger Grocery & Baking Company, and First National Stores Inc. Two firms sold to their executives approximately at cost stock purchased in the open market; the selling price in one case was about equal to market at the time the offer was made, and in the other was higher than market.

Exercise of Options. Perhaps the most interesting phase of option agreements is the question of when and to what extent options on stock are exercised. On this point the evidence is all too meager. The Securities and Exchange Commission, pursuant to Section 16 of the Securities Exchange Act of 1934, requires that all purchases and sales of stock by officers and directors and others holding more than 10% of the stock of a corporation be reported to the commission. These data, beginning with March, 1935, have been published in the "Official Summary of Security Transactions and Holdings," from which it was possible in many cases to derive information showing whether or not options were exercised. Under the same section of the act it also was required that any profit realized by officers or directors on purchases and sales of stock within a six-month period must be turned over to the corporation, but that losses must be sustained by the officers and directors themselves.

The executives in roughly half the retail stores which have had options in effect since March, 1935, took up the options either partially or fully. The period during which executives might exercise option rights was usually three, four, or five years, although Safeway Stores, Incorporated, allowed its president ten years, while Gimbel Brothers, Inc., appears to have limited the time to one month for the first block of stock offered to its executive vice president. Where executives did not take up their options, the market price of

Exhibit 11 — Comparison of Option Prices of Common Stock with Market Prices at Time Options Became Effective

Company	Date Option Became Effective	Option Price	Market Price of Common Stock (New York Stock Exchange)[1]			
			As of Date Option Became Effective		For Year in which Option Was First Offered	
			High	Low	High	Low
	(1)	(2)	(3)	(4)	(5)	(6)
Department and Specialty Store Companies:						
Associated Dry Goods Corporation	Feb. 1, 1936	$16.00	14 3/8	14	27 7/8	12 5/8
Franklin Simon & Co., Inc.	Feb. 6, 1937	7.00	*	*	*	*
Gimbel Brothers, Inc.	July, 1936	10.00	16 1/8	12 1/2	27 1/2	6 3/4
	Feb. 1, 1937	14.00	23 7/8	22 3/8	29 3/8	6 1/4
	July, 1936	13.71	16 1/8	12 1/2	27 1/2	6 3/4
Marshall Field & Company	Oct. 1, 1936	10.00	18	17 5/8	25 1/8	11 1/8
	Dec. 31, 1937	17.00†	7 7/8	7 1/2	30 7/8	7 1/4
Oppenheim, Collins & Co., Inc.	July 15, 1935	6.50	6 3/8	6 1/8	11 5/8	4 3/4
	July 15, 1936	10.00	11	11	19 5/8	8
	July 15, 1937	13.50	16	16	19 3/8	5 1/2
Chain Store Companies:						
Davega Stores Corporation	Oct. 18, 1929	$25.00	35‡	33 1/4‡	74 1/2§	14 1/2§
First National Stores Inc.	June 2, 1932	48.08	39 1/8	37 1/2	54 1/2	35
The Grand Union Company	1929¶	5.00	32 7/8¶	9 1/8¶	32 7/8	9 1/8
	June 1, 1934	2.50	5 7/8	5 1/2	8 3/4	4
The Kroger Grocery & Baking Company	Jan. 2, 1932	25.00	14 1/8	13 1/8	18 7/8	10
Montgomery Ward & Co., Incorporated	Nov., 1931	11.00	14	9 3/8	29 1/4	6 5/8
Safeway Stores, Incorporated	Jan. 1, 1932	50.00	43 1/2§§	41 5/8§§	59 1/4	30 1/8
	Jan. 1, 1937	40.00	43	42 1/2	46	18
Sears, Roebuck and Co.	June 1, 1933	25.00	31 3/8	29 3/4	47	12 1/2

* Data not available. The preferred stock only of this company is listed on the New York Stock Exchange.
† Approximate.
‡ Week of October 12–18, Chicago Stock Exchange, for Atlas Stores Corporation, the predecessor company.
§ Chicago Stock Exchange.
¶ It is not known during what month or on what day these options became effective. The range in columns 3 and 4, therefore, is for the entire year 1929.
§§ Prices for December 31 of preceding year.
[1] Data taken from *The Commercial & Financial Chronicle.*

the stock fluctuated above and below the option price; on the other hand, in the cases where executives did purchase stock under their options, market prices fluctuated almost entirely above the option price and were well above it at the time of purchase.

As revealed in Exhibit 12, page 34, the executives of Marshall Field & Company, Montgomery Ward & Co., and Sears, Roebuck and Co. took up options at times when the spread between option prices and market prices was wide. The contract between Marshall Field & Company and its chairman was generous. The contract provided that the executive could either purchase 50,000 shares of stock at $10 per share or receive in cash the difference between the market value (as defined in the contract) and $500,000. Later the contract was amended so that the choice of receiving cash applied only to 30,000 shares. The executive took up the first 10,000 shares on January 7, 1937, when the stock was selling for 20, and the second 10,000 on March 8, 1937, when prices quoted ranged from 28⅛ to 29¼, thus making on the first block a paper profit of at least $100,000 and on the second, at least $181,250.

With respect to the next 20,000 shares, the chief executive before his death on November 30, 1937, elected to receive the sum of $313,929.90 which was the difference between the market price and the option price of 20,000 shares. In March, 1938, when the annual report to stockholders was published, it was stated that of this amount only $13,929.90 had been paid; the balance remained credited to the estate of the deceased officer pending the outcome of two suits which raised certain questions concerning the contract.

Thus the executive actually exercised the option on only 40,000 of the original 50,000 shares. The option on the final 10,000 shares apparently was granted to the estate under the same terms allowed to the executive, for it was reported to stockholders[1] that on November 29, 1938, the estate elected to take in cash the sum by which the market price of the 10,000 shares exceeded $100,000. This excess, amounting to $33,737, was not paid but was added to the $300,000 already credited to the estate to be held until the settlement of the litigation.[2]

[1] Annual report, February 8, 1939.

[2] The litigation was initiated by the stockholders. See Securities and Exchange Commission, Form 10K. 1938; Marshall Field & Company; Item 10.

The study of options and their significance is by no means simple. There seems to be little doubt that in many cases they have been profitable for executives who received them. Whether they have been a wise form of executive remuneration from corporate stockholders' point of view is another question which requires further examination. Of particular interest to students of methods of paying retail executives is the widespread use of options among retail companies, and the lack of uniformity in the number and value distributed to different officers.

Retirement Allowances

Retirement allowances or pension plans currently are coming into prominence and allowances and pensions may become an integral part of executive compensation. They may even supplant bonus payments as a method of rewarding executives. The few plans of this type studied offer to pay the executive or executives for a long period of years or until death approximately one-half of the executive's pay at retirement, whatever reasons lead to retirement. Thus an officer receiving $50,000 annually, during his active years, would be paid $25,000 upon retirement for the balance of his life. Such a plan has obvious advantages: it furnishes the fortunate officers with financial security; permits removing such executives from the salary and bonus list; may permit the payment of lower annual salaries; should increase an officer's long-run interest in a company's success; and, finally, should permit an officer to be retired at an earlier age than would otherwise be possible, if earlier retirement were deemed to be in accord with best corporate interests.

The disadvantages, too, are apparent. Such a plan is open to wide abuse if not intelligently administered. The payment of large retirement allowances soon may become burdensome, and be open to severe public criticism. A retirement plan, superimposed on a bonus plan, may lead to even more confusion than now exists and thus become merely an additional corporate burden. If abused, it would lead to a large number of contracts which might prove embarrassing and permit an officer "to have his cake and eat it too."

Retirement allowances are used by both retail and industrial companies and may appear under various titles. Abraham and Straus, Inc., and the United States Rubber Company have such plans and include them in certain executive contracts.

Exhibit 12 — Options Exercised by Executives of Retail Companies from March, 1935, to September, 1938 [1]

Company	Executive Position	Options Exercised			Market Price [2] (Date of exercise of option)		Minimum Possible Profit	
		Date	No. of Shares	Option Price	High	Low	Dollars	Percentage of Option Price
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Associated Dry Goods Corporation	President	Feb. 26, 1937	4,000	$16.00	22 5/8	21 7/8	$ 23,500	36.7%
Gimbel Brothers, Inc.	Exec. Vice Pres., Gen. Counsel	July 29, 1936	5,000	10.00	15 7/8	15 1/4	26,250	52.5
	Exec. Vice Pres., Gen. Counsel	Mar. 31, 1937	1,000	14.00	25 7/8	25 1/2	11,500	82.1
	Six executives	Jan. 26, 1937	700 each	13.71	21 3/4	21 1/4	5,278	55.0
	Six executives	May 25, 1937	700 each	13.71	22 1/2	22	5,803	60.5
	Vice President	Jan. 26, 1937	500	13.71	21 3/4	21 1/4	3,770	55.0
	Vice President	May 25, 1937	500	13.71	22 1/2	22	4,145	60.5
	Treasurer, Asst. Secretary	Jan. 26, 1937	200	13.71	21 3/4	21 1/4	1,508	55.0
	Treasurer, Asst. Secretary	May 25, 1937	200	13.71	22 1/2	22	1,658	60.5
The Grand Union Company	Vice President	Apr. 30, 1936	1,000	2.50	3 1/2	3 1/8	625	25.0
	Vice President	Apr. 30, 1937	1,000	2.50	3 1/2	3 1/2	1,000	40.0
The Kroger Grocery & Baking Company	Vice President, Treasurer	Sept. 30, 1935	2,000	*	28	27 5/8	*	*
Marshall Field & Company	Chairman of Board	Jan. 7, 1937	10,000	10.00	20 1/4	20	100,000	100.0
	Chairman of Board	Mar. 8, 1937	10,000	10.00	29 1/4	29 1/8	181,250	181.3
	Chairman of Board	*	20,000	10.00	*	*	313,930†	157.0
Montgomery Ward & Co., Incorporated	President	June 12, 1935	47,764	11.00	26 3/4	26	716,460	136.4
	President	June 17, 1935	236	11.00	27 1/8	26 1/2	3,658	140.9
Sears, Roebuck and Co.	Chairman of Board	May 5, 1936	6,600	25.00	66 1/8	65 1/4	265,650	161.0
	Chairman of Board	July 16, 1936	1,800	25.00	80	78 1/2	96,300	214.0
	Chairman of Board	Oct. 28, 1936	1,500‡	25.00	96	95	105,000	280.0
	Chairman of Board	July 1, 1937	2,310	25.00	88 5/8	87 1/4	143,798	249.0

* Data not available.
† Cash actually credited to the account of the executive. See report to stockholders for the year ended December 31, 1937.
‡ On December 29, 1936, 210 shares were deducted.
[1] Data in columns 2 and 3 were taken from the Securities and Exchange Commission's "Official Summary of Security Transactions and Holdings."
[2] Data from the *Commercial & Financial Chronicle.*

The Abraham and Straus, Inc., agreement reads as follows:

> These agreements further provide that in case of voluntary or other retirement, for any reason, from the active management or participation in the affairs of the Corporation, these officers shall receive the sum of $29,000 per annum for 15 years after retirement or until death, if that occurs sooner.

Other retail companies have arrangements which do not guarantee in advance a specified rate of retirement pay. Under these plans, each year a certain percentage of profits is set aside to be credited to the accounts of the eligible executives and employees in predetermined proportions, the funds so accumulated constituting the principal of retirement allowances for the participating individuals.

Sears, Roebuck and Co.'s "Employes' Savings and Profit Sharing Pension Fund Agreement" [1] is a conspicuous example of this type of plan. Every employee, regardless of position, who has completed three years of continuous service, is eligible to participate. To do this he must deposit annually in the fund 5% of his salary, but no more than $250. The company contributes 5% of its combined net profit before dividends and Federal taxes; this amount is shared by participants according to length of service and amount contributed.

In the 1938 report of the Jewel Tea Company to the Securities and Exchange Commission the following information is given:

> As a part of the registrant's 1938 profit sharing plan for the executive and supervisory force, the board of directors created Jewel Supplementary Retirement Trust. . . . Part of the funds made available under the said profit sharing plan was paid over to trustees in order to provide retirement funds for sixty-two company employees.[2]

For 1938 a total of $69,500 was credited to the accounts of eight senior officers.

Retirement allowance plans for executives have important features, and with all of their inherent weaknesses have great possibilities and should be studied carefully. In certain industrial companies such plans have become regular executive pension plans.

[1] Securities and Exchange Commission, Form 10; Sears, Roebuck and Co.; Item 29, Exhibit F-3.

[2] Securities and Exchange Commission, Form 10K, 1938; Jewel Tea Company; Item 9.

SUMMARY AND GENERALIZATIONS

Any detailed analysis of formal salary, bonus, and other plans for paying executives brings to the reader's mind a significant question: What conclusions appear as to the best method of paying executives? The following general summary comments pertinent to this question therefore are in order. The conclusions are not only a summary of different phases of this study, but also an interpretation of certain facts and implications revealed by the various analyses. In appraising these conclusions, it must not be forgotten that the many hundreds of large and small unlisted retail companies have been omitted from the analysis because information concerning them was not available.

Methods of Payment

The methods of paying executives followed by the retail companies studied are: formal salaries; salaries and some form or forms of bonus payment; and straight bonus or commission payment. From year to year and for individual executives the same company often followed different policies. Three-fourths of the chain store companies and two-thirds of the department and specialty store concerns used formal salary with bonus payments either consistently from 1928 to 1937, or at some time or other during the period. In addition, many of the companies included in their executive payment plans contracts, retirement pay or pensions, and stock purchase plans and options.

Because of the human side to all compensation plans, several conclusions are immediately obvious: no matter how attractive any specific method of payment might appear, its adoption could not seriously be considered without weighing carefully customary practices in any company as well as competitive practices. Likewise, steps to amend or to discontinue a plan already in effect should not be taken, however desirable otherwise, without careful consideration of the effects of the proposed change on individual executives. Many companies have found it easier to adopt than to discontinue special plans.

Custom can be a powerful element, even in the payment of executives. Annual reports from time to time have contained some such statement as: "This method of paying executives has been deemed to be most satisfactory for this company." From all evidence, the real meaning was: "The plan the company follows has not in the past been considered unsatisfactory by the officers." Certain changes frequently have been made in specific retail plans, for example, in bonus plans, but seldom have retail companies taken such drastic action as the complete termination of bonus plans. On the other hand such action has occurred among industrial companies.

Stock Purchase Plans, Options, and Contracts

In addition to cash bonus payments to executives, the use of stock purchase and option plans was exceedingly common. Also many retail companies used executive employment contracts covering a period of one or more years. Executive contracts were more common among retail than among industrial companies.

The significance of stock purchase plans and options, although difficult to evaluate, is at times great. Certain of these plans proved exceedingly profitable to executives; others were worthless. The use of stock purchase plans for executives can be justified from a corporate and individual point of view better than similar plans for the rank and file of employees. The latter group needs regular income and security more than a chance for speculative profit. Even for executives, however, it is doubtful whether in a well-established company sufficient stock can be acquired through executive compensation plans so that dividends from such stock ever become so large a part of their total dollar compensation as to affect substantially payments to them or change their attitude from that of employee to that of owner. Stock purchase or option plans can be devised which will have personal merit for executives, but it is only fair to add that certain of the present plans lack both personal and corporate merit.

Impressions of Executive Compensation Plans

An examination of the various methods of paying executives indicates that many of the plans have been inadequately considered before adoption by specific companies. In the absence of a clear-cut philosophy in regard to executive compensation, imitation rather than analysis probably was the guiding light when the plans were made. From the context of the different plans, as well as from the way they functioned, it often appeared that bonus plans, retirement provisions, and even formal salary arrangements had been adopted without thorough analysis of the needs of the company or of the executives involved. The lack of a clear-cut philosophy is serious, because without well established standards grave errors have occurred and may occur in the future which might lead to the legislative control of executive payments. Such action would be most unfortunate because it would restrict rather than encourage initiative, a required quality in any successful executive.

Another criticism of plans examined is their failure to coincide with the desires and interests of executives. The plans for the most part stress financial rewards, which are by no means the exclusive motivating factors in executive effort or success. From the individual as well as the corporate point of view, it is important to consider other phases, such as taxes, security for the executive, his long-time interest in a company, and his professional rather than speculative interests. Indeed this problem of securing able executive management is so intimately associated with the question of executive motivation that the relationship between the two should be kept constantly in mind.

One reason that executive payment plans, though originally satisfactory, later lead to trouble, is found in their inflexibility or lack of subsequent revision. In a world with constantly changing social conditions, plans should be reviewed and revised whenever necessary.

In establishing or continuing policies many business men overlook the significance of complete publicity on executive plans. Publicity leads to a careful public scrutiny of all procedures of a corporation in relation to its executives. Retail companies in particular can ill afford to have policies which do not receive stockholder and public approval. Another phase is the importance of full disclosure of practices in annual reports. The directors and officers of many companies still find the practice of full disclosure of executive payment methods and amounts distasteful, and only reveal the information as demanded by the Securities and Exchange Commission. More rather than less attention to such practices in the annual report should prove to be sound policy.

An important problem for all corporations today is that not only of securing and paying for adequate executive personnel, but also of retiring inefficient executives. All too few of the plans consider this phase of the problem. It is becoming increasingly evident that many executives "burn themselves out" by the time of retirement or before, and yet are paid in such a way that automatic retirement does not occur when the executive's contribution to the corporation's success has declined to the point where he should be replaced. Corporations in the future may find it unwise to discharge such men preëmptorily, nor can they continue them in important corporate positions. Plans for their retirement, therefore, become an important part of executive payment policies.

Changes in policies may even be brought about by executives themselves, as they develop a clearer appreciation of executive responsibilities, public relationships, tax burdens, and the present-day needs for security. The widespread demand for security and the heavy surtax burden on high salaries have been little recognized in executive payment plans. Furthermore, little attempt has been made to differentiate clearly between bonus and profit sharing plans. These and other criticisms of executive payments suggest that substantial changes may occur in these policies in the near future.

Amounts of Payments to Executives

Although bonus plans were used widely by both groups of retail companies studied, on the average the amounts paid to officers by the 23 chain store companies differed noticeably from corresponding payments by the 15 department and specialty store companies, being distinctly higher among the department and specialty stores. For example, in 1937 the presidents of the department and specialty stores typically received $75,000, while for the presidents of the chains under consideration the average was $40,000. It should be noted that all 38 companies were listed on the New York Stock Exchange and were substantially larger than the average retail establishment.

An even larger difference is apparent when total executive compensation is considered as a percentage of earnings. The chain stores covered typically paid 6.2% of earnings to executives in 1929, 8.6% in 1937, and 7.5% for the 1928–1937 period. The department and specialty store companies, on the other hand, paid 12.9% of earnings to executives in 1929, 19.4% in 1937, and 18.5% over the 1928–1937 period. From these data one may conclude that the latter companies paid substantially more to executives in both actual amounts and percentages of earnings. For both groups of firms, however, the range of such payments was exceedingly wide.

Wisdom of Bonus Payments

The prevalence of bonus payments among retail companies does not answer the question whether it is the best method or will continue to be the most generally accepted method for paying executive officers in the future. A substantial number of industrial companies have turned to formal salary payments without any additional bonus arrangements. Also among industrial companies plans have been so changed as to remove chairmen of the board and presidents from participation in bonus plans, thus affecting substantially the character of the plans as well as the amounts involved. Such tendencies have not appeared to any great extent so far among retail companies, perhaps because of the dearth of careful thinking in the area of bonus plans.

In the future, retail directors must discuss critically such questions as: Should the company adopt a formal or an informal bonus plan? Is a bonus plan wise from the point of view of the company's organization, its stockholders, its executives, and the public? Without discounting the merits of bonus plans, directors must recognize that fixed formal plans in the past occasionally have disrupted organizations, incensed stockholders, and alienated public opinion. Furthermore, with knowledge of such plans public property, stockholders will take much more interest in them than previously, and doubtless in certain instances will become exceedingly critical.

A careful examination of the functions of executive officers suggests that executive duties do not necessarily lend themselves to measurable payments, which bonus plans presuppose. These functions are to coordinate and direct corporate activities from a long-range and comprehensive point of view, rather than to stress annual profits, to which bonus plans generally are attached. If the exercise of good managerial judgment rather than immediate return is the objective, then bonus plans may hinder rather than help.

Finally, since most bonus plans are based on earnings and on the assumption of the importance of monetary incentives, it must be remembered that the computation of earnings is based merely on carefully prepared estimates, which often come under the jurisdiction of those being paid bonuses.

Even for executives themselves, there are certain drawbacks to bonus plans. Wide fluctuations in income, high surtaxes, public reaction, and responsibility for the division of bonus among junior officers and among officers of subsidiary companies are questions which may well make executives desire other methods of payment. One large retail company which recently decided to discontinue its bonus plan did so because of the critical attitude of certain executives. Since they desired a higher formal salary, they offered to forego the chance for large gain through their bonus plans in order to secure it.

Informal bonus payments at the end of a fiscal period appear to be open to somewhat less criticism that a rigid formal plan which rapidly becomes entrenched in an organization. Ordinarily informal plans apply to a limited number of executives, and are combined with fair formal salaries. Distributions under such an arrangement are made by a "final pay" committee of directors who do not participate in such payments. They consider corporate earnings, individual contributions, the outlook for earnings, special situations such as local business conditions, and all other pertinent facts. Since no special rules exist for these payments, merited bonuses may be paid when earnings seem small or doubtful, and small bonuses may be distributed when earnings are large but not necessarily attributable to executive management. Such flexibility should add to the successful functioning of any plan.

Highlights of Executive Payment Methods

In concluding this study of the methods of paying executives used by retail companies, it seems desirable to stress or highlight certain questions of broad significance.

A first question which arises is: Are the methods used and the amounts paid under existing plans adequate to attract and retain proper leadership? Present methods commonly create conditions and

make payments of such size as to attract able individuals. Of just as much influence in attracting able individuals as the amounts paid, however, are the power and prestige which surround executive positions. All too little attention is given to this phase of executive compensation. When able executives, therefore, do not appear in retail companies — a not infrequent occurrence — the cause need not necessarily be attributed to methods of payment but rather to the functioning of the plans.

Financial payments at present are stressed to such an extent that other rewards which may be of the greatest significance are almost forgotten. The basic qualities or talents of any able executive cannot be either purchased or made to operate simply by means of financial rewards, as many plans imply. Society in appraising the typical retail executive compensation plan can only conclude that any attempt to pay executives simply on a monetary basis overlooks not only the nature of corporate earnings but the character of executives as well. Total salary and bonus payments above a liberal market rate for similar positions in competing corporations probably have less effect on executives than pride in achievement.

A second significant question is: Can executive payment methods be socially justified? In such brief space as a summary, this question can only be answered in a general way. Justification naturally must be based on economic and social factors. The primary justification for permitting executives to hold positions of great power and to pay them liberally lies in their promotion of the true economic interests of society. These objectives are in general to furnish or distribute desirable goods and services at reasonable prices, to make profit which will compensate the owners of the business for the capital employed and the risks assumed, to provide a means of livelihood for members of their organization at adequate rates, and to perpetuate a company's existence through the maintenance of its solvency and by keeping its services and products abreast of the times. If these objectives are not furthered, then it is difficult to justify present methods of rewarding executives.

Two important corollaries to this general statement are: the effects of any plan should not be contrary to sound economic policies; and payments should be so coordinated with an executive's duties that they do not distract him from his proper functions.

From a social point of view, executives should be so rewarded as to develop an appreciation of public responsibility and the professional rather than the speculative character of executive positions. To conclude that the present methods often in themselves fail to achieve these general economic and social standards is neither a tortuous nor a difficult decision. Indeed, one can say without too much criticism that the plans and methods themselves often lead to troubles and complications not willed by those responsible for them.

Another important issue is: Are the typical methods and plans for rewarding executives satisfactory as they now exist, or do they need revising? Here also any short answer may be an oversimplification of an involved and complicated task. It seems fair, however, to draw the following conclusions: (a) In past years no adequate philosophy of executive payments was developed. With general consideration of all plans now possible, new bench marks and standards for evaluating plans are developing, in the light of which they should be examined and revised. (b) Constantly changing business conditions and public thinking necessarily affect executives and executive payments. Such changes suggest the need for constant review and the possibility of frequent revisions. For these reasons the disappearance of an air of permanence from all plans may be considered a virtue rather than a vice.

A final question is: From this entire study what generalizations can be made as to desirable future methods of paying retail executives? Several may be suggested: (a) Executive methods and payments must be in the broadest sense socially acceptable; i.e., they should not be so spectacular as to create universal discussion and disapproval. (b) Methods and payments must be revealed to and understood by both stockholders and the general public. (c) More attention should be devoted to executive motivation and specific requirements of individuals. Methods should stress the professional as contrasted to the speculative character of executive responsibilities. (d) Less attention may be devoted to perfecting incentive payment plans, and as a substitute executive retirement or pension plans may appear. (e) Plans adopted should be those that can readily be justified from an economic and social point of view. (f) The methods used in paying executives may change radically from period to period, and there may be no permanent answer to these vexing problems except that of constant revision.

APPENDIX I

SOURCE MATERIAL

The compensation plans for executive officers of retail companies, like those of industrial companies, have long been shrouded in corporate secrecy. Prior to 1933, data regarding them often were treated as highly confidential, even at annual meetings of stockholders. Now, however, by virtue of the disclosures by the Securities and Exchange Commission and other governmental bodies, such information has become for the most part public property, and the foregoing study is based mainly on this material.

The bulk of the descriptive data on bonus arrangements and methods of paying executives was secured from Item 29 of Form 10, the application filed by corporations for permanent registration with the Securities and Exchange Commission.[1] Item 32 often furnished supplementary material where the bonus arrangements were of a contractual nature. The questions as they appear on the form, followed by the replies submitted by one of the companies, are given below:

29. General effect, briefly and concisely stated, of material bonus and profit-sharing arrangements now in effect; including the name of, and amount received by, each person who received as bonuses or shares in profits $30,000., or more, from the registrant or its wholly-owned subsidiaries, during the past fiscal year.

None, except the one referred to in answer to Item 32.

. . . . . .

32. Dates of, parties to, and general effect briefly and concisely stated of every material contract, except as provided by the Instructions, between the registrant and any director or officer of the registrant, any underwriter named in answer to Item 23, or any security holder named in answer to Item 25.

Contract dated. Feb. 12, 1930.

Between. *Registrant and ———— Vice President*

General Effect. *10 year service contract expires Feb. 1, 1940.*

$25,000. per year plus 500 shs. Registrant's Common Stock each year plus—either

$5,000. per year if profits of his departments exceed $100,000. yearly and do not exceed $200,000. yearly

or

$10,000. per year if profits of his departments exceed $200,000. yearly.

On Form 10K, the annual report submitted subsequent to permanent registration, and for the purposes of this study covering data for 1935, 1936, and 1937, corresponding information was requested under Items 5 and 10. Item 5 reads as follows:

5. State briefly the general effect of: (a) Material changes, made within the fiscal year and not previously reported, in contracts and arrangements of the categories enumerated below which have been previously reported; (b) such contracts and arrangements, made or in effect within the fiscal year and not previously reported, including the dates thereof and names of parties thereto.

(i) Material management or general supervisory contracts providing for management of, or services to, the registrant or any of its subsidiaries.

(ii) Material advisory, construction or service contracts with affiliates providing for management of, or services to, the registrant or any of its subsidiaries.

(iii) Material contracts, except as provided by the instructions, between the registrant or any affiliate of the registrant on the one hand, and, on the other hand, any director or officer of the registrant, any principal underwriter of any securities of the registrant sold by the registrant within the past 3 fiscal years, or any security holder named in answer to item 3.

(iv) Material bonus and profit-sharing arrangements.

[1] For most of the companies considered in this study, data submitted on Form 10 related to the fiscal year 1934.

NOTE: Names of companies, as well as names of officers and any significant figures which might make possible identification of the company, are omitted throughout the Appendices; the author does not wish to bring any group of men into prominence. Otherwise, the examples given throughout Appendix I, including those in Exhibits A, B, and C, are exact copies of returns which are on file with the Federal Trade Commission or the Securities and Exchange Commission.

A typical answer was:

(a) *No material changes were made within the fiscal year in contracts and arrangements of the categories listed above which have been previously reported; and*

(b) *No such contracts and arrangements were made or in effect within the fiscal year which had not previously been reported.*

Item 10 required information on cash bonuses in excess of $30,000. The question with the reply most commonly made by the 38 retail companies is given below:

10. State the name of, and amount received by, each person who received as bonuses or shares in profits $30,000, or more, from the registrant or its wholly-owned subsidiaries, during the fiscal year.

None

Options to purchase stock were reported in Item 33, Form 10, and Item 6, Form 10K. Frequently data on contracts submitted in Item 32, Form 10, and Item 5, Form 10K, furnished supplementary information. The following is Item 33 as taken from the application for permanent registration filed by one of the retail companies examined:

33. As to any securities subject to options to purchase from the registrant; (a) state the amount, with the title of the issue, called for by such options; (b) state briefly the prices, expiration dates, and other material conditions on which such options may be exercised; (c) give the name and address of each person holding options from the registrant calling for more than five per cent. of the total amount subject to option, and give the amount called for by the options of each such person; and (d) for each such class of options granted within three years state the consideration for the granting thereof.

None

The report of the same company for the following year (1935) read thus:

6. As to any options outstanding at the close of the fiscal year to purchase securities of the registrant from the registrant;

(a) state the amount, with the title of the issue, called for by such options;

12,000 shares of the registrant's common stock, par value $1 per share.

(b) outline briefly the prices, expiration dates, and other material conditions on which such options may be exercised;

(1) Under the terms of an executive employment agreement an option has been granted for the purchase from the registrant of its common stock at $16 per share, up to a total of 12,000 shares proportionately over a three-year period (term of employment) commencing February 1, 1936.

(2) At any time during said term of employment and within thirty days thereafter, or, in case for any reason such employment shall terminate prior to the expiration of said term, within thirty days after such termination, grantee may purchase at said price a proportionate part of said twelve thousand shares equivalent to the proportionate part of said three-year term of employment which shall then have been completed (less such number of shares, if any, as shall have been previously purchased pursuant to this option) or any less number of shares.

(3) In case grantee shall die during said term of three years said option may be exercised by such person or persons as he may designate in his will duly admitted to probate, or, failing such designation, by the executor of such will, or if there be no such will, by his administrator, and in any such case the option shall be exercised within ninety days after the granting of letters testamentary or of administration. The number of shares which may be so purchased shall be the number of shares which grantee would have been entitled to purchase pursuant to said option had he been living and continuing in said employment at the end of the month in which his death shall have occurred.

(4) Option not assignable.

For the years 1928 through 1933 the source of data on actual dollar payments to executives was the Federal Trade Commission's salary schedule, shown as Exhibit C. Particular attention should be given to the column requesting data for other compensation paid during the year. Small regular amounts, usually multiples of $20, $50, or $100, and less than $1,000 were considered to be directors' fees, while large, frequently irregular amounts were treated as bonuses.[1] From 1934 on, as indicated in the example given earlier of Item 29 of Form 10, and Item 10, Form 10K, only bonuses

[1] Federal Trade Commission reports for the year 1933 gave figures for actual cash salary as of September 1. Since any additional payments for that year were not given, figures for 1933 are omitted in most cases, and where used, are merely carefully arrived at estimates.

Exhibit A — Securities and Exchange Commission Salary Schedule

(Item 26 of Form 10 for 1934)

26. 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:

(a) The name and aggregate remuneration of each director of the registrant.

(b) The name and aggregate remuneration of each of the officers of the registrant receiving the three highest aggregate amounts of remuneration.

(c) The aggregate remuneration of all other officers of the registrant, whatever the amount of the respective remuneration of each; indicate the number of such officers without naming them.

(d) The aggregate remuneration of all employees of the registrant who, respectively, received remuneration from the registrant in excess of $20,000 during the past 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 during Registrant's Past Fiscal Year	
		Salaries	*Directors Fees*
(a) *Omitted*	*Chairman of Board*	$ — 0 —	$ — 0 —
"	*Director and President*	56,071.48	— 0 —
"	*Director and Vice-President*	28,162.95	— 0 —
"	*Director and Vice-President*	28,162.95	— 0 —
"	*Director, Vice-President and Treasurer*	21,122.21	— 0 —
"	*Director*	— 0 —	200.00
"	"	— 0 —	200.00
"	"	— 0 —	100.00
"	"	— 0 —	50.00
"	"	— 0 —	100.00
"	"	— 0 —	100.00
(b) *Omitted*	*President*	$56,071.48	
"	*Vice-President*	28,162.95	
"	" "	28,162.95	
"	" "	28,162.95	
(c) 2	*Officers*	$42,244.42	
(d) 5	*Executives*	$106,750.06	

All above remuneration was paid by *Omitted*.

Author's Note: "All other officers" in section (c) was variously interpreted by the reporting companies to mean all other officers not directors, all other officers not receiving any of the three highest amounts of remuneration, and all other officers not directors and not among the three highest paid. It was often exceedingly difficult to decide which interpretation a reporting firm had used.

Exhibit B — Securities and Exchange Commission Salary Schedule

(Item 9 of Form 10K for 1935, 1936, and 1937)

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:

(a) 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.

(b) The aggregate remuneration of all directors of the registrant; indicate the number of such directors without naming them.

(c) The aggregate remuneration of all officers, other than those who are directors, of the registrant; indicate the number of such officers without naming them.

(d) 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*	*Director and President*	$84,195.63
"	*Director and Vice-President*	84,195.63
"	*Director and Chairman of the Board*	75,010.00
(b) 11	*Directors and/or Officers*	$294,531.26
(c) 3	*Officers*	$97,030.00
(d) 3	*Merchandise Managers*	$87,818.24*

* This amount represents payments to other than officers and directors.

of $30,000 or more to individual executives were reported to the Securities and Exchange Commission; however, the figures for the total compensation of each of the three highest paid men in a company were reported, and aggregate salary figures were given for the rest of the executive group. The compensation figures reported to the Securities and Exchange Commission were somewhat more difficult to interpret than those submitted to the Federal Trade Commission; not only did the questionnaires differ from those used by the latter

Exhibit C — Federal Trade Commission Salary Schedule

Name of Company *Omitted*	Address *Omitted*	Period *12 months*		Ending *12/31/30*
Name of Officer or Director	Position	Cash Salary Paid During Year	Other Compensation Paid During Year	Total Cash and Other Compensation
Omitted	*Chr. Bd.*	*$75,000*		*$75,000*
"	*P. & D.*	*60,000*	*$3,000*	*63,000*
"	*V.P., D.*	*60,000*	*3,000*	*63,000*
"	" "	*50,000*		*50,000*
"	*V.P., S. & A.T.*	*20,589*	*7,500*	*28,089*
"	*T. & A.S.*	*16,542*		*16,542*
"	*V.P., A.S.*	*5,029*		*5,029*
"	*D.*		*20*	*20*
"	"		*40*	*40*
"	"		*60*	*60*
"	"		*80*	*80*
"	"		*120*	*120*
"	"		*20*	*20*
"	"		*60*	*60*
"	"		*140*	*140*
"	"		*160*	*160*
Total		*$287,161*	*$14,200*	*$301,361*

Total Assets *Omitted*
Net Income "

commission, but the forms used in 1935, 1936, and 1937 differed from those used in 1934. Reproductions of the 1934 form and of the form used for the later years, including actual figures filed by one of the companies in the group studied, are shown as Exhibits A and B.

Because the information requested by the Securities and Exchange Commission was not so explicit as that requested by the Federal Trade Commission, reports from the former commission had to be analyzed carefully to prevent inclusion of highly paid non-executive employees. All the material available for each company from both sources was examined, and the figures for the later four years were so adjusted as to make them approximately comparable with the figures reported for the earlier years. Firms filing data with the Securities and Exchange Commission, for instance, sometimes reported figures for a larger group of men than they did in response to the Federal Trade Commission questionnaire. In such cases it seemed desirable to limit the lists of officers reported in 1934–1937 to groups corresponding to those reported in the earlier years, 1928–1932. This necessitated occasionally substituting lower total compensation figures than the aggregate figures reported by the Securities and Exchange Commission.

APPENDIX II

SUPPLEMENTARY STATISTICS

In March, 1937, the Harvard Bureau of Business Research published a monograph, the seventeenth in a series of Business Research Studies, and entitled *The Compensation of Executive Officers of Retail Companies, 1928–1935*. This study, based mainly on Federal Trade Commission and Securities and Exchange Commission statistical data, analyzed dollar payments to retail executives, showing the year-to-year change in these payments as well as the relationship of such dollar executive compensation to sales and corporate earnings. Since this report is out of print, some of the most significant figures presented in it have been repeated together with data for 1936 and 1937 in Exhibits D, E, and F of this bulletin.

For the purpose of this analysis, several definitions are needed. Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Earnings before executive compensation is used so that the remuneration of officers may be related to their achievements as measured by company income before executive payments and so that payments to executives and dividends to stockholders may be compared with a common base. Because of the numerous statistical difficulties, interest is not included in expense in arriving at earnings.

Who constitute the executive group? This question cannot be answered by a brief specific definition since the classification differs somewhat among the companies. Executive functions naturally vary with the aptitudes of the man and of his associates in the company. Again, in one company there may be more men classed as executives than in another firm of like size and type. Nevertheless, some definition of the term "executive," no matter how arbitrary, is necessary as a preliminary step in undertaking this study.

Since the compensation data for the first five years covered by the study were secured from reports received from individual companies by the Federal Trade Commission, it will be well to inquire first into the nature of the material thus made available. The Federal Trade Commission, in assembling data, requested companies to submit information on "salaries and all compensation, direct or indirect, including that from subsidiary and affiliated companies, paid to executive officers and directors for each year 1928–1932, inclusive, and also the rate of salary as of September 1, 1933."[1] A survey of the reports filed indicates that the compensation figures submitted to the Federal Trade Commission are for the senior or top men ordinarily described as officers. Except when otherwise indicated in the bulletin, therefore, the executive group is limited to officers, or those men who devise and direct general corporation policies. A characteristic list of executive positions would include the following: chairman of the board, president, vice president, treasurer, store manager (in the case of department store companies), controller, and certain directors.

The compensation material available for the years 1934–1937 from the Securities and Exchange Commission covers a somewhat larger group of executives; in many instances, adjustment of the figures available for those years has been necessary in order to establish a series of comparable data for the entire period under review.

In order to provide some indication of the relative level of executive payments in the various retail companies the total dollar compensation of presidents for the years 1929, 1932, 1934, and 1937 is shown in Exhibit D. It will be noted that for each of the years specified, the presidents of the 15 department and specialty stores *on the average* received more than did the presidents of the 23 chain store companies.

Exhibit E (columns 1–6) contains percentage figures for individual companies for executive compensation in relation to earnings and sales and for earnings in relation to sales for 1929 and 1937. For the 38 retail companies, the median for executive compensation as a percentage of earnings was 8.0% in 1929 and 14.2% in 1937.

[1] Federal Trade Commission, *Report of the Federal Trade Commission on Compensation of Officers and Directors of Certain Corporations*, p. 4. (Washington, mimeographed, 1934.)

Exhibit D — Compensation of Presidents of 15 Department and Specialty Store Companies and 23 Chain Store Companies: 1929, 1932, 1934, and 1937

(Ranked According to Compensation in 1929)

Company	1929	1932	1934	1937
Department and Specialty Store Companies:				
The Outlet Company	$39,999	$37,407	$32,400	$33,048
Arnold Constable Corporation	50,000	36,658	30,200	30,200
Gimbel Brothers, Inc.	50,000	41,249	46,220	84,000
Marshall Field & Company	50,000	60,000	60,000	75,000
Abraham & Straus, Inc.	58,250	51,431	57,500	75,000
Bloomingdale Bros., Inc.	75,000	54,615	60,962	75,000
Kaufmann Department Stores, Inc.	75,700	68,555	61,098	72,400
Oppenheim, Collins & Co., Inc.	76,377	57,370	*	17,500
The Fair	84,309	92,500	60,000	60,000
Franklin Simon & Co., Inc.	87,589	70,030	35,000	25,244
Wm. Filene's Sons Company	100,000	89,333	80,000	80,000
The May Department Stores Company	100,000	90,000	100,075	100,175
R. H. Macy & Co., Inc.	139,240	127,002	112,217	100,360
Best & Co., Inc.	152,288	60,000	130,095	114,740
Associated Dry Goods Corporation	200,000	73,166	60,000	75,000
Median	$76,377	$60,000	$60,000	$75,000
Chain Store Companies:				
Frank G. Shattuck Company	$13,300†	$12,004†	$16,000†	$37,385
J. J. Newberry Co.	18,000	13,500	*	24,583
Davega Stores Corporation	19,317	23,542	21,787	24,080
J. C. Penney Company	21,799	0‡	0‡	*
McLellan Stores Company	23,916	30,000	24,000	44,000
Neisner Brothers, Inc.	24,000	24,000	36,000	36,040
McCrory Stores Corporation	25,000	93,326	*	77,428
The Grand Union Company	25,200	37,386	36,000	36,260
First National Stores Inc.	26,000	20,000	27,540	30,040
G. R. Kinney Co., Inc.	37,306	6,972§	20,000	20,000
S. H. Kress & Co., Inc.	40,000	35,653	40,000	40,000
Safeway Stores, Incorporated	40,000	51,729	37,500	76,951
Peoples Drug Stores, Incorporated	50,000	45,000	50,000	50,000
The Kroger Grocery & Baking Company	50,000	53,077	77,756	75,000
Walgreen Co.	52,000	48,966	36,900	36,000
W. T. Grant Company	65,227	32,796	56,071	65,349
Schulte Retail Stores Corporation	104,166	0‡	18,000	*
Jewel Tea Co., Inc.	105,967	72,043	87,860	100,350
National Tea Co.	108,000	73,500	60,000	21,600
S. S. Kresge Company	239,175	18,000	106,365	88,750
Sears, Roebuck and Co.	250,320	83,688	81,818	100,000
Montgomery Ward & Co., Incorporated	430,874	99,999	100,000	100,390
F. W. Woolworth Co.	726,957	637,170	337,479	200,414
Median	$40,000	$35,653	$37,500	$40,000¶
All Companies:				
Median	$55,125	$51,580	$56,071	$62,674¶

* Data not available.

† Apparently the Chairman of the Board was the chief executive officer in 1929, 1932, and 1934. He received in those years $66,000, $55,021, and $41,840 respectively.

‡ The president of this company was one of the principal stockholders.

§ The executive receiving this amount may not have been president for the entire year. The preceding president, listed as Chairman of the Board for 1932, received $13,053.

¶ The median reflects estimated figures for J. C. Penney Company and for Schulte Retail Stores Corporation.

When the firms were classified by type, the median percentage for this item was at least twice as great for the 15 department and specialty store companies as for the 23 chain store companies. Although both groups paid more to executives in relation to earnings in 1937 than in 1929, the difference was again much greater for the former than for the latter group. Figures for earnings as a percentage of sales (columns 5 and 6) and the index of change in executive compensation (columns 9–18) show clearly that this situation was due to a pronounced lowering of the earnings of department and specialty stores as a percentage of sales for 1937 as compared with 1929, which more than compensated for the drop in executive payments.[1] Among the chain store companies, however, payments to executives in 1937 had on the average reached 1929 levels, while earnings had not yet reached similar levels.

Medians for executive compensation as a percentage of sales for 1929 and 1937 were respectively 0.5% and 0.6% for the 38 companies, 0.4% and 0.3% for the chain store companies, and 0.8% in both years for the department and specialty stores. Since dollar executive compensation fluctuates comparatively little during a business cycle, differences in these percentages reflect mostly differences in the level of sales in the two years. For the 15 department and specialty store companies, sales were on the average about 10% lower in 1937 than in 1929, while for the 23 chains, probably in part as a result of continued expansion, sales were about 25% higher than in 1929.

Earnings as a percentage of sales were typically 6.4% in 1929, the same for both groups separately and combined. As previously noted, this median percentage was lower in all cases in 1937, but more appreciably so for the department and specialty store group than for the chain store group.

Columns 7 and 8 indicate by company the number of individuals classified as executives in 1929 and 1937 and, in so far as could be determined, refer only to full-time executives. The median number of such executives employed in 1929 was eight for both groups. Although there was a slight decrease in the intervening years, the median was again eight in 1937 for chain store companies and six for department and specialty stores. Figures for 1937 are largely estimates.

[1] Earnings in 1937 for department and specialty stores on the average were about 50% lower than 1929 and for the chain store companies slightly over 10% lower.

The indices[2] presented in columns 9–18 show that, so far as is known, low points in total dollar executive payments typically occurred in 1932 for both chain store companies and the 38 retail companies combined, with figures 28% and 18% below 1929 levels respectively. Payments for these two groups may have been even lower in 1933, as was undoubtedly the case among department and specialty stores.[3] From the figures available from 1929 through 1936, it appears that payments made by department and specialty stores on the whole fell more hesitantly and less sharply than those of chains and recovered more slowly and less completely. In 1936, typical department and specialty store executives were receiving 90% and typical chain store executives 96% of the compensation they had received in 1929. In 1937 the chain store payments had on the average returned to the 1929 level, but in department and specialty stores they had dropped to 21% below 1929. It should be pointed out, however, that average dollar payments to individual department and specialty store executives had over the entire period been substantially higher than similar payments to individual chain store executives.

Exhibit F presents graphically fluctuations in executive compensation for the 38 retail companies combined, as well as typical changes in earnings, balance available for dividends, and total cash dividends. The exhibit shows clearly that executive compensation fluctuated least of the four series. The indices for earnings and balance available for dividends closely paralleled each other, both falling off sharply after 1929, the one to a low of about 40% of the 1929 level in 1932 and the other to a low in the same year which was less than 30% of 1929. Both series

[2] In recognition of the fact that year-to-year changes in the number of officers employed might influence the total compensation figures, similar index numbers were prepared, based on the total payments made by each company to the three highest paid officers only in the years 1928–1937. These figures, furthermore, were not subject to estimate as were the figures for all executives. The analysis of the two series revealed that the compensation of all executives and of the three highest paid fluctuate together for the most part. This serves to show, in the first place, that changes in the number of officers employed had but a minor effect on the total compensation figures; and in the second place, that the estimated figures for 1934–1937 were not far out of line. For a more complete discussion of the results for 1928–1936, see *Executive Salaries and Bonus Plans*, pp. 59–60, 70.

[3] From the records of the Harvard Bureau of Business Research it was found that over the period from 1929 to 1936, 22 department stores reporting sales of $10,000,000 or more each in 1929 typically made their smallest total payments to executives in 1933. See *Executive Salaries and Bonus Plans*, p. 58.

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Exhibit E — Executive Compensation as a Percentage of Earnings[1] and of Sales, Earnings as a Percentage of Sales, and Number of Executives: 1929 and 1937; Fluctuation in Executive Compensation: 1928–1937[2]

(15 Department and Specialty Stores and 23 Chain Store Companies)

Company	Executive Compensation				Earnings	
	% of earnings		% of sales		% of sales	
	1929	1937	1929	1937	1929	1937
	(1)	(2)	(3)	(4)	(5)	(6)
Marshall Field & Company	1.3%	†	0.1%	0.3%	5.7%	*d.*0.7%
Safeway Stores, Incorporated	2.4	3.8%	0.1	0.04	3.0	1.0
J. C. Penney Company	2.5	2.3	0.2	0.1	6.1	6.2
Sears, Roebuck and Company	2.5	*	0.2	*	7.6	*
McCrory Stores Corporation	2.8	6.0	0.2	0.4	7.0	6.2
The Kroger Grocery & Baking Company[4]	2.8	5.3	0.1	0.1	2.1	1.3
Walgreen Co.[4]	3.5	5.5	0.3	0.2	7.0	4.3
Neisner Brothers, Inc.	4.3	8.6	0.4	0.5	8.5	5.7
Frank G. Shattuck Company[4,5]	4.3	15.3	0.6	0.7	13.7	4.9
S. H. Kress & Co.[4]	4.4	3.7	0.4	0.3	8.9	6.9
R. H. Macy & Co., Inc.	4.7	8.1	0.3	0.3	7.5	3.8
J. J. Newberry Co.	5.4	5.7	0.4	0.3	6.5	5.4
S. S. Kresge Company	6.2	4.6	0.6	0.3	10.4	7.4
Montgomery Ward & Co., Incorporated	6.2	2.1	0.3	0.1	5.4	4.7
Davega Stores Corporation	6.7	75.9	0.5	1.3	8.0	1.7
First National Stores Inc.[6]	7.3	9.1	0.4	0.2	4.9	2.4
F. W. Woolworth Co.[7]	7.4	*	0.9	*	12.7	*
The Grand Union Company	7.6	19.9	0.2	0.3	3.0	1.4
The Outlet Company	7.7	12.0	0.8	0.9	10.0	7.5
National Tea Co.[4,5]	8.4	†	0.3	0.1	3.3	*d.*2.1
McLellan Stores Company	8.6	8.9	0.4	0.5	4.6	5.5
Peoples Drug Stores, Incorporated	8.8	10.6	0.6	0.6	6.3	5.3
W. T. Grant Company	9.1	4.2	0.5	0.2	5.2	3.7
Kaufmann Department Stores, Inc.	10.2	13.1	0.7	0.9	7.0	6.7
The Fair[5]	11.5	59.3	0.7	0.7	6.5	1.2
The May Department Stores Company[4]	11.7	10.7	0.7	0.6	6.2	5.5
Oppenheim, Collins & Co., Inc.	12.4	27.4	1.1	0.8	9.0	2.7
Associated Dry Goods Corporation	12.9	19.4	*	0.6	*	3.1
Jewel Tea Co., Inc.	13.3	16.1	1.5	1.2	11.6	7.4
G. R. Kinney Co., Inc.	13.6	35.2	0.7	0.8	5.1	2.2
Abraham & Straus, Inc.	16.1	17.2	0.9	0.8	5.4	4.7
Gimbel Brothers, Inc.	16.3	17.8	0.5	0.7	3.0	4.0
Best & Co., Inc.[6]	18.1	15.9	2.0	1.5	11.1	9.2
Wm. Filene's Sons Company	23.5	41.2	1.5	1.5	6.4	3.7
Schulte Retail Stores Corporation	28.4	*	*	*	*	*
Bloomingdale Bros., Inc.	29.9	35.1	1.0	1.4	3.2	4.1
Franklin Simon & Co., Inc.[4,5]	33.5	†	*	0.9	*	*d.*0.9
Arnold Constable Corporation	†	22.1	1.1	0.9	*d.*3.3	4.1
Median						
Total Group	8.0%	14.2%	0.5%	0.6%	6.4%	4.1%
Department and Specialty Stores	12.9	19.4	0.8	0.8	6.4	4.0
Chain Stores	6.2	8.6	0.4	0.3	6.4	4.8

* Data not available. *d.* Deficit.

† Company incurred a deficit before executive compensation and interest. In computing the median, the percentage was considered to be extraordinarily high.

‡ In arriving at this median, an estimate was included for Oppenheim, Collins & Co., Inc.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest.

[2] Figures for 1928–1932 were based on data furnished by individual companies to the Federal Trade Commission, while those for 1934–1937 were based on figures reported to the Securities and Exchange Commission. In some instances it appeared desirable to adjust the figures for 1934–1937 in order to make them more nearly comparable with those available for the earlier years. Several of the compensation figures for 1934–1937, therefore, are estimates. It proved advisable to revise or eliminate certain figures previously published, in the light of more recently available data.

Exhibit E — Executive Compensation as a Percentage of Earnings[1] and of Sales, Earnings as a Percentage of Sales, and Number of Executives: 1929 and 1937; Fluctuation in Executive Compensation: 1928–1937[2] (*continued*)

(15 Department and Specialty Stores and 23 Chain Store Companies)

Number of Executives		Fluctuation in Executive Compensation (relatives; 1929 = 100)									
1929	1937[3]	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
8	8	100	100	177	235	167	*	188	211	249	227
5	6	52	100	106	101	116	*	134	139	54	92
11	9	110	100	60	65	45	*	115	106	153	124
10	*	281	100	104	77	47	*	*	*	*	*
8	5	114	100	137	216	220	*	*	*	122	160
9	4	66	100	86	300	69	*	93	*	*	95
5	12	99	100	146	135	119	*	146	*	137	140
3	8	97	100	99	99	98	*	118	153	182	198
7	9	*	100	103	103	82	*	89	90	97	100
10	8	97	100	100	93	72	*	100	90	87	84
4	6	98	100	100	104	97	*	88	78	91	89
8	9	105	100	98	93	84	*	122	137	188	162
9	11	102	100	92	62	32	*	59	58	63	52
8	12	100	100	77	50	40	*	33	40	50	46
7	7	*	100	142	157	114	*	106	109	139	125
20	16	74	100	93	95	88	*	72	72	79	72
30	*	98	100	87	75	60	*	*	*	*	*
6	7	98	100	105	126	118	*	98	99	94	105
4	4	107	100	92	107	98	*	88	88	96	79
5	6	95	100	85	59	57	*	44	48	41	31
8	7	87	100	83	76	81	*	55	79	114	117
5	7	143	100	102	102	95	*	114	129	139	145
8	4	98	100	44	44	32	*	59	70	69	49
8	5	99	100	99	96	90	*	82	95	116	121
9	6	92	100	108	97	86	*	68	69	72	61
11	11	105	100	75	56	37	*	73	74	88	77
7	5	*	100	79	82	67	*	*	43	43	34
12	9	94	100	89	56	40	*	31	37	53	66
9	11	82	100	109	83	65	*	83	97	107	107
12	10	96	100	88	77	50	*	75	90	85	86
4	4	137	100	100	117	95	*	99	100	94	85
16	16	128	100	96	80	72	*	75	86	103	116
7	5	90	100	95	83	49	*	84	97	90	81
11	12	118	100	95	96	89	*	87	80	85	77
11	9	104	100	59	46	44	*	45	45	33	19
8	7	90	100	129	122	111	*	138	153	168	157
8	6	105	100	116	107	88	*	56	39	35	29
5	4	68	100	95	61	64	*	54	54	55	56
8	7	98	100	97	94	82	*	84‡	88	91	87
8	6	100	100	96	96	88	*	82‡	80	90	79
8	8	98	100	98	93	72	*	91	90	96	100

[3] Since the number of executives employed in 1937 was in many cases not clearly stated, several of the figures shown are estimates.

[4] Interest figures were not available for this company for 1929. The earnings figure, therefore, in this instance, is after rather than prior to interest charges. The earnings figure given in column 5, consequently, is relatively low, and the percentage in column 1 expressed in relation to earnings is somewhat overstated.

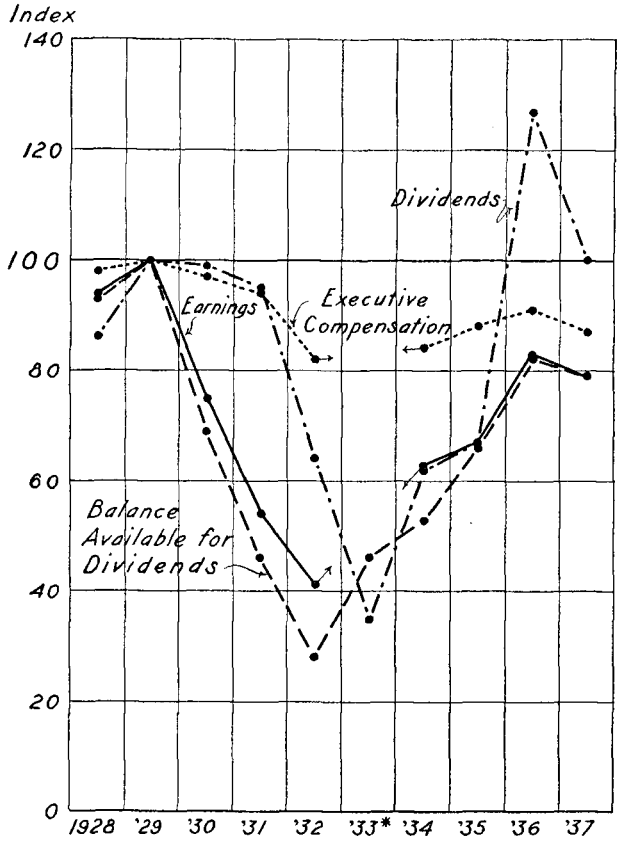
[5] Interest figures were not available for this company for 1937. The percentages in columns 2 and 6 are respectively somewhat high and low as explained in footnote 4.

[6] The earnings figures for First National Stores Inc. for 1929 and for Best & Co., Inc., for both years reflect estimates for interest on funded debt.

[7] The earnings figures for F. W. Woolworth Co. include dividends from foreign subsidiaries.

Exhibit F — Fluctuation in Executive Compensation, Balance Available for Dividends, Dividends, and Earnings for 38 Retail Companies: 1928–1937 [1]

(1929 = 100)



* Data for executive compensation and earnings not available.

[1] Earnings is defined as net income after all charges including depreciation and Federal taxes, but before executive compensation and interest. Balance available for dividends is defined as earnings minus executive compensation and interest.

rose thereafter to a point in 1936 about 18% below 1929, and dropped slightly in 1937. Department and specialty stores experienced a more severe decline in earnings and in balance available for dividends than did chain stores, and as has been mentioned, did not recover as completely. The fluctuations in executive payments to chain store executives corresponded more closely with fluctuations in earnings than they did among the department and specialty stores.

Dividends among the 38 companies declined slowly between 1929 and 1931, as did payments to executives. From 1931 to 1933 a precipitous drop paralleled that which had begun earlier in balance available for dividends, so that in 1933 dividends nearly reached the bottom experienced by the other series in 1932. After 1933 dividend payments responded quickly to increases in income, rising to a point about 25% above the 1929 level in 1936, but dropping in 1937 to a point approximately equal to 1929. The more marked decline and less marked recovery in balance available for dividends and earnings among the department and specialty store companies resulted in lower dividend payments relative to 1929 than those made by chain store companies. Even the department and specialty stores, however, paid about 12% more to stockholders in 1936 than in 1929.[1] Tax laws doubtless greatly affected such payments.

[1] Comparison of typical amounts going to stockholders and executives as percentages of earnings are interesting. Such figures reveal that in the years 1929 and 1937 and over the entire period 1928 through 1937, stockholders received approximately 4 to 5 times as much as executives in the 38 retail companies as a whole, 6½ to 7½ times in the 23 chain store companies and 3 to 4 times as much in the 15 department and specialty store companies. For discussion of corresponding figures for 1928–1936, see *Executive Salaries and Bonus Plans*, Chapter V.