CEO COMPENSATION AND GENDER PAY GAP

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ABSTRACT

In this paper we study the gender pay gap among top executives of 2,043 public companies listed on the different stock exchanges in the United States. First, we not only find that there is a significant relationship between total compensation and the gender of the CEO, but also that male executives earn more than double the salary of women, but generate lower returns for the corporation. Secondly, we focus on the bonuses granted to CEOs, because it is an instrument that is used to incentivize senior executives to generate value for shareholders; In this case we find that for every $1 that a woman receives, the male CEO receives $1.89, but women are more efficient in achieving better returns for the company. That is, for every dollar invested by shareholders, female executives achieve approximately 70% more profitability than their male peers. As for base salary, for every dollar received by female executives, men receive $1.27. Finally, we conclude that there is a gender pay gap.

Keywords: *CEO compensation, women compensation, gap CEO pay, bonus compensation, corporate governance, gender pay equity*

1. INTRODUCTION

Executive compensation is a fascinating topic and has always generated a great debate since the separation of corporate ownership and control (Berle & Means 1932), these payments are the sum of base salary, bonuses, stock options, restricted stock, etc. The amount of executive salary can vary by factors such as industry, company size, taxes, CEO talent, among others. Compensation policy and corporate governance are linked, if the corporation establishes an optimal contract, supervised by a good governance structure, it contributes to the success of a company, because adequate compensation tries to balance between attracting and retaining talented managers and the interests of shareholders.
High executive compensation always generates debate and discussion in business and social spheres due to the salary inequality that exists between managers and the rest of the company's workers. From 1990 onwards, there was a huge increase in some components of executive pay, particularly in compensation through stock options and restricted stock (Frydman & Jenter, 2010). The question is whether the pay-performance relationship is correlated.

There are two approaches to CEO compensation in the literature. The first, is the optimal contract approach, according to Bebchuk & Fried (2003) is “the official story”, because it is the most common and dominant. According to this perspective, the board of directors designs an optimal compensation that maximizes wealth for shareholders. This theory is based on the separation of ownership and control proposed by Berle & Means (1932), the agency theory of Jensen & Meckling (1976) and the payment-performance relationship proposed by Holmstrom (1979). According to these authors, CEO compensation should be designed to resolve the divergence of interests that could exist between agent and principal. In