

How does Chain Restaurant CEO Compensation Change with size? - By Brad Ellman
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The correlation between the market capitalization and compensation mix for CEO's in chain restaurants is extremely low, in contrast to the positive correlation between market cap and CEO pay.

As established in previous reports, it is clear that there is a direct correlation between market capitalization and total CEO compensation. (see chart 1). As the chart indicates, as market capitalization increases, CEO pay in dollars also increases.

We wanted to find out if correlation exists between market cap and compensation mix.

In conducting this analysis, we calculated the percentage mix for each component: base salary, short and long-term incentives and other compensation from a peer group of 60 restaurant companies. We then applied a regression formula to determine the strength of the relationship. The regression indicated a very low correlation between the market capitalization and the compensation mix. The r squared values (standard deviation) were statistically zero (see chart 2).

Why was the relationship so low? There are myriad reasons for the wide deviations in the pay mix including the compensation philosophy of the company, age of the company, market position, long and short term goals, CEO's tenure and so on. Each company has a unique set of circumstances which determine pay mix, rather than simply the size of the business.

For example: At Champps, with a market cap of \$77 million at the time of our study, their CEO earned \$502,000 (13%) in base and short term pay and \$3,393,000 (87%) in stock options. Total compensation was \$3,895,000. At Kona Grill, with a market cap of \$105 million, the CEO earned \$350,000 (42%) in base and short term pay and \$475,000 (58%) in stock options. Total compensation was \$825,250.

Steak N Shake's, CEO earned \$414,000 (18%) base & short term compensation and \$1,907,000 (82%) in stock options. Total compensation was \$2,321,000 with a company market cap of \$433 million.

As 2007 proxy statements are released we will re-examine the industry, report on variable trends and expose further comprehensive comparisons.

CHART 1

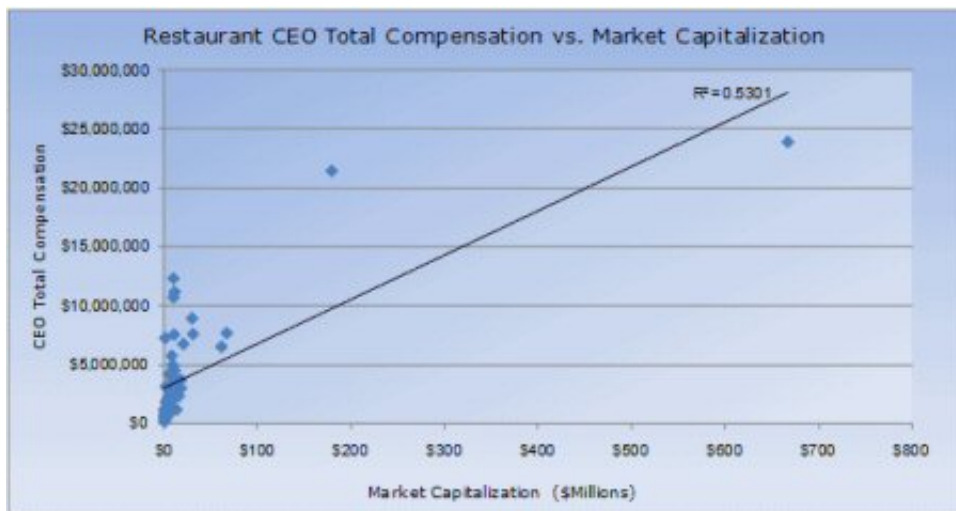


CHART 2



About the Author

Brad Ellman is Managing Director of HVS Executive Search in New York and specializes in executive search, compensation consulting and counseling for the retail and manufacturing industries. Brad has over twenty years of domestic and international retail and apparel experience in the areas of sales, marketing and operations and has consulted internationally on brand and intellectual property protection. Brad has worked with domestic and international companies, in Asia, Europe, and the Americas. He can be reached by phone at (516) 248 8828 x 209.

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