



# THE BDO 600

2019 CEO and CFO Compensation Practices:  
Trends in the Manufacturing Industry



The outlook for the manufacturing industry in 2020 and beyond is guarded, given that the sector is facing several significant challenges: trade wars, political instability, and a worldwide slowdown in economic growth. Trade policy issues, specifically with China, are an ongoing concern. M&A activity earlier in the year fell to its lowest level in more than three years.

Given the long-term market uncertainty, many manufacturers are focused on enhancing ongoing operational performance. Innovation supported by advances in technology continue to result in improved annual performance that is reflected in larger annual incentive payouts in the C-suite.

In fact, annual bonuses and incentive compensation in 2018 increased by 22% for CEOs and 11.2% for CFOs. Improvements in annual operating results and operating efficiencies fueled by technological innovations, such as robotics and digitalization, led to larger annual incentive and bonus increases compared to prior years.

The overall increase in total compensation for 2018 was approximately 3% for CEOs and 1.4% for CFOs. A similar pattern is expected for 2019 and 2020.

Annual and long-term compensation for CEOs and CFOs remains balanced and consistent with prior years. Approximately 46% of total compensation is provided in annual cash (base and bonuses) for CEOs and 52% annual cash for CFOs.

Full value rewards continue to dominate the long-term incentive programs with more plans linked to performance thresholds rather than tenure-based grants.

In this year's [BDO 600 – CEO/CFO Compensation Practices](#) study, researchers examined the relationship between CEOs' "at-risk" pay and the financial performance of companies. Our findings indicate that higher levels of at-risk pay for manufacturing CEOs are correlated with higher three-year total shareholder returns and are most pronounced among small and mid-sized companies.

The study provided a special review identifying the metrics used by manufacturing organizations to fund their incentive plans and determine the degree to which they align with shareholder value creation measured by TSR (total shareholder return). The most prevalent metrics used to describe shareholder value creation were TSR, return measures, and EBITDA. However, the measures that best predicted total shareholder return were return measures, such as return on invested capital.



## KEY TAKEAWAYS AND TRENDS TO WATCH

Industry experts are predicting a talent shortage for manufacturing executives in the coming years as industry executives retire and the leadership requirements for industry executives continue to evolve.

Executives who demonstrate digital literacy, as well as the ability to lead virtual teams and build customer-focused strategies, will be in demand and command higher compensation.

The attraction and retention of leaders with critical leadership competencies underscores the need for manufacturing organizations and their boards to consider strategic compensation issues, including:

- ▶ Customizing compensation programs to match the career cycle of key executives and managers. The one-size-fits-all pay philosophy is giving way to program design that provides cash and/or equity that are more attractive to executives at different career stages.
- ▶ Savvy boards will pay close attention to selecting annual and long-term measures to fund incentive plans that align with business models that emphasize technological innovation.
- ▶ Executive talent planning will become more critical to ensure that potential leaders possess the skills, abilities, and competencies required for manufacturing companies to compete in an Industry 4.0 world.

## MANUFACTURING INDUSTRY: CEOS

The average component and total direct compensation (TDC) paid to manufacturing CEOs for fiscal years 2017 and 2018 is listed below.

Positions	Average Salary	Bonus & Annual Incentives	Stock + LTI	TDC
CEO 2018	\$753,290	\$829,168	\$1,871,770	\$3,454,227
CEO 2017	\$743,709	\$679,572	\$1,925,274	\$3,348,555
Change Over Prior Year	1.3%	22%	-2.8%	3.2%

The resulting compensation mix is listed below.

Position	Year	Annual Cash	Stock + LTI	Total
CEO	2018	46%	54%	100%
	2017	43%	57%	100%

## MANUFACTURING INDUSTRY: CFOS

The average component and TDC paid to manufacturing CFOs for fiscal years 2017 and 2018 is listed below.

Positions	Average Salary	Bonus & Annual Incentives	Stock + LTI	TDC
CFO 2018	\$420,264	\$320,711	\$687,690	\$1,428,686
CFO 2017	\$413,709	\$288,350	\$697,235	\$1,399,294
Change Over Prior Year	1.6%	11.2%	-1.4%	2.1%

The resulting compensation mix is listed below.

Position	Year	Annual Cash	Stock + LTI	Total
CFO	2018	52%	48%	100%
	2017	50%	50%	100%

# Contact Us

If you have any questions, comments or suggestions, please contact our Compensation Consulting practice by emailing us at [compensation@bdo.com](mailto:compensation@bdo.com) or by calling your local BDO office.

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