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*The Crystal Report on Executive Compensation*



## **True Sacrifice: CEO Pay Rises 2% in 2008**

**by Graef Crystal**

**April 6, 2009**

What? You expected CEO pay to drop? Get real.

I just completed a study of 64 huge companies. All had current market caps of \$10 billion or higher. And each CEO had been in his job for two years or more.

I thereupon measured the increase in total pay between 2007 and 2008. (Total pay is the sum of base salary; bonus; the grant date fair value of stock options granted during the year; the value at grant of free share awards made during the year; the target award value of performance share awards granted during the year; pension accruals and deferred compensation for the year; and, as defined by the U.S. Securities and Exchange Commission, All Other Compensation.)

The median CEO's total pay rose 2 percent during 2008. Now those who study trends in CEO pay know that a 2 percent increase in CEO pay represents true sacrifice.

The median company had a good year in 2008. It beat the Standard & Poor's 500 Index by 9 percentage points (the so-called "excess return").

By itself, that's an impressive finding, until you reflect on the fact that the S&P 500 Index went into the tank in 2008 by 37 percent.

In actual returns (i.e., not adjusted for what happened to the market), our median CEO produced a 27 percent negative return.

So, let's see. The shareholders took a 27 percent haircut. And in return, the CEO got a 2 percent raise.

This is the Marie Antoinette School of Management at its best.

There's also the matter of bonuses for performance in 2008. Seems that 83 percent of our 68 CEOs received a bonus. Or to state the reverse, in a year when a typical shareholder lost 27 percent of his investment, only 17 percent of CEOs were sent to bed without a bonus.

I tried correlating the change in total pay against the excess total return and came up empty handed. Even after outlier removal, there is no significant relationship.

Herewith a table showing for each of the 64 CEOs the company's excess return in 2008 and the change in the CEO's total pay between 2007 and 2008. The table has been arrayed in descending order of excess return:

Company	CEO	EXCESS_RETURN	PAY_GROWTH
AMGEN	SHARER, KEVIN	61%	17%
COVIDIEN	MEELIA, RICHARD	53%	-85%
WASTE MGMT	STEINER, DAVID	42%	-1%
ABBOTT LABS	WHITE, MILES	34%	-7%
CHUBB	FINNEGAN, JOHN	33%	3%
NORFOLK SOUTHERN	MOORMAN, CHARLES	32%	12%
BRISTOL MYERS SQUIBB	CORNELIUS, JAMES	31%	25%
BAXTER INTL.	PARKINSON, ROBERT	31%	-15%
BUR. NORTH. SANTA FE	ROSE, MATTHEW	29%	30%
JOHNSON & JOHNSON	WELDON, WILLIAM	29%	1%
QUALCOMM	JACOBS, PAUL	25%	17%
TRAVELERS	FISHMAN, JAY	23%	-11%
KELLOGG	MACKAY, DAVID	23%	5%
US BANCORP	DAVIS, RICHARD	20%	-1%
PFIZER	KINDLER, JEFFREY	20%	-15%
KOHL'S	MONTGOMERY, LAWRENCE	19%	-7%
VERIZON COMMUN.	SEIDENBERG, IVAN	19%	-8%
LOCKHEED MARTIN	STEVENS, ROBERT	18%	6%
ST JUDE MEDICAL	STARKS, DANIEL	18%	29%
NUCOR	DIMICCO, DANIEL	18%	4%
IBM	PALMISANO, SAMUEL	16%	6%
KIMBERLY CLARK	FALK, THOMAS	16%	-11%
DOMINION RES.	FARRELL, THOMAS	15%	-10%
DUKE ENERGY	ROGERS, JAMES	15%	6%
PNC FINL. SVCS.	ROHR, JAMES	15%	-28%
COCA COLA	ISDELL, NEVILLE	13%	5%
WALT DISNEY	IGER, ROBERT	12%	56%
CSX	WARD, MICHAEL	12%	30%
AMERICAN ELEC. PWR.	MORRIS, MICHAEL	12%	3%
PEPSICO	NOOYI, INDRA	11%	8%

HEWLETT PACKARD	HURD, MARK	11%	45%
CVS CAREMARK	RYAN, THOMAS	10%	12%
SEMPRA ENERGY	FELSINGER, DONALD	8%	-13%
3M	BUCKLEY, GEORGE	7%	-31%
EXELON	ROWE, JOHN	7%	6%
BERK. HATHAWAY	BUFFETT, WARREN	5%	0%
ILLINOIS TOOL WORKS	SPEER, DAVID	4%	17%
BOSTON SCIENTIFIC	TOBIN, JAMES	4%	4%
APPLIED MATERIALS	SPLINTER, MICHAEL	3%	-12%
GENERAL DYNAMICS	CHABRAJA, NICHOLAS	3%	24%
REYNOLDS AMERICAN	IVEY, SUSAN	2%	7%
DANAHER CORP	CULP, LAWRENCE	2%	-6%
ALLERGAN	PYOTT, DAVID	0%	18%
DUPONT	HOLLIDAY, CHARLES	-3%	18%
ANADARKO PET.	HACKETT, JAMES	-4%	-13%
APPLE	JOBS, STEVEN	-4%	0%
EMC	TUCCI, JOSEPH	-6%	35%
HONEYWELL INTL.	COTE, DAVID	-8%	-46%
MERCK	CLARK, RICHARD	-8%	17%
FRANKLIN RES.	JOHNSON, GREGORY	-8%	59%
STRYKER	MACMILLAN, STEPHEN	-9%	-7%
HESS	HESS, JOHN	-10%	53%
CARNIVAL	ARISON, MICKY	-13%	-33%
BOEING	MCNERNEY, JAMES	-13%	-20%
DEERE	LANE, ROBERT	-13%	26%
TEXAS INSTRUMENTS	TEMPLETON, RICHARD	-16%	-9%
MARATHON OIL	CAZALOT, CLARENCE	-17%	-24%
GENERAL ELECTRIC	IMMELT, JEFFREY	-17%	-37%
GOOGLE	SCHMIDT, ERIC	-18%	6%
SCHLUMBERGER	GOULD, ANDREW	-19%	-10%
CORNING INC	WEEKS, WENDELL	-23%	-17%
BANK OF AMERICA CORP	LEWIS, KENNETH	-26%	-65%
AMERICAN EXPRESS	CHENAULT, KENNETH	-27%	-16%
MORGAN STANLEY	MACK, JOHN	-33%	-97%

<b>MIN</b>	<b>-33%</b>	<b>-97%</b>
<b>MEDIAN</b>	<b>9%</b>	<b>2%</b>
<b>AVERAGE</b>	<b>8%</b>	<b>-1%</b>
<b>MAX</b>	<b>61%</b>	<b>59%</b>

## Endnote

Readers of *The New York Times* on Sunday, April 5, will likely have noted The Times' annual survey of executive pay, the raw data for which were compiled by Equilar Inc., the very same supplier of the data I used for my study.

But whereas I concluded that year-over-year pay had advanced by 2 percent, Equilar's study showed a decrease of 9.4 percent.

So who is right here?

The answer is that both findings are likely right.

First, there are some methodological differences in measuring pay. Equilar seems not to include in total pay pension accruals and above-market interest on deferred compensation. I do. I see them as legitimate forms of executive pay that should be counted. I recognize that the vagaries of actuarial practice not infrequently cause the pension accrual series to be relatively volatile, but in a world where the norm seems to be NOT to get a lush defined benefit pension plan, I figure that counting accruals for such plans calls attention to the fact that the biggies are often being treated far more generously than the little people.

Second, and most important, there are sampling differences in the two studies. My study reported on 64 companies, while Equilar's covered 198 companies.

My companies were selected on the basis of current market caps. To make the cut, a company had to have a market cap of \$10 billion or higher. Equilar, on the other hand, selected on the basis of revenues. To make their cut, you had to have revenues of \$6.3 billion or higher.

Although The Times study didn't mention the average revenues of the 198 companies selected by Equilar, the average revenues of my 64 companies were an extremely-high \$32 billion.

It is highly likely that my sample consists of much bigger companies, on average, than Equilar's sample. And that by itself would tend to explain the differences in pay growth. The largest companies have generally always presented the largest problems when it comes to paying their CEOs.

Pay data for this article were obtained from Equilar, Inc., a leading provider of executive pay data ([www.equilar.com](http://www.equilar.com)).

2009 marks Graef Crystal's 50<sup>th</sup> anniversary in the executive compensation field. He has been a director of compensation for General Dynamics and Pfizer, worked as a consultant for Booz, Allen & Hamilton, served as worldwide practice director at Towers Perrin for 18 years, was a professor at the University of California at Berkeley's Haas School of Business for 10 years and a syndicated columnist for Bloomberg News for almost nine years. He has written six books and more than 1,600 articles on executive pay.