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## **Lee Iacocca Is Not a Good Role Model, Sen. Grassley**

**by Graef Crystal**

**November 18, 2008**

As if to underscore the utter dysfunctionality that pervades the federal government, Sen. Charles Grassley, (R-Iowa) has held up Lee Iacocca's pay package as a model, notwithstanding that his pay package would almost assuredly have been prohibited under current federal bailout rules.

Hearken to these words from the worthy Senator: "Lee Iacocca essentially worked for pennies to demonstrate leadership and forcefully prove to his colleagues that he was ready to make the same sacrifices they would have to make in order to reinvigorate Chrysler."

That's certainly romantic. Too bad it wasn't true.

I have taken a keen interest in Mr. Iacocca. Although I was not his pay consultant when he joined Chrysler in 1978 (after being fired as president of Ford Motor Co. by Henry Ford II), I later became his pay consultant.

### **The Facts**

Now, here's what really happened:

- Mr. Iacocca joined Chrysler in Nov. 1978 at a salary of \$360,000 a year.
- He was also granted an option on 400,000 shares carrying a strike price (which was also the market price) of \$11.07 a share.
- In Sept. 1979, not quite a year after joining the company, Chrysler's board decreed a 10 percent reduction in salaries for bonus-eligible executives for two years. That would have reduced Mr. Iacocca's salary to \$324,000, a reduction of \$36,000.

- The amount of the salary reduction was then converted into free shares of restricted stock, with the stock to be delivered two years later.
- But Mr. Iacocca proposed to his board that his salary be reduced all the way to \$1 a year.
- Still, he didn't really see his pay reduced to \$1 per year, because the entire difference -- \$359,999 -- was converted into free shares of restricted stock.
- His pay cut to \$1 was supposed to last just one year. But when it came to restoring his pay to \$324,000 in the second year, Mr. Iacocca told the board that he would contribute anything above \$1 to charity. That, according to the company's proxy statement, was to continue "until such time as he deems it appropriate to retain it."
- During those lean salary years, Mr. Iacocca received no bonus whatsoever.
- But he did continue to receive more large option grants.
- Eventually, the company turned around, and its stock price soared. During the period between his hire and Dec. 31, 1987, Mr. Iacocca exercised stock options with pre-tax gains of \$43 million.
- Far from being criticized for what were then huge option rewards, Mr. Iacocca became a cult celebrity -- the rare CEO who was willing to take pay risk to obtain pay reward. It also didn't hurt that he was the TV pitchman for his company.
- Of course, it could have turned out differently. Had Chrysler failed, Mr. Iacocca's free shares and option shares would have been rendered worthless. And he would have ended up working for just \$1 a year.

### **The New Treasury Regulations**

The just-passed executive compensation regulations for financial services firms feature "limits on compensation that exclude incentives for executive officers of a financial institution to take unnecessary and excessive risks that threaten the value of the financial institution during the period that the Secretary [of the Treasury] holds an equity position in the financial institution." (Please see my article, "The Bureaucrats Take Over", published on Nov. 17.)

Although the Treasury regulations do not establish a bright line between what is necessary and not excessive and what is unnecessary and excessive, it seems pretty obvious, at least to me, that were a financial institution to adopt a pay package like that granted to Lee Iacocca, that institution would be found to be in violation of the law.

After all, to earn any money, Mr. Iacocca was required to hit for the fences. And that, as I understand it, is not the sort of ball the Treasury and the Congress want to play these days.

There have been a few CEOs who have worked for \$1 a year and have taken nothing in return. But, to my knowledge, those CEOs were already extremely wealthy and major shareholders in their companies.

Even so, Iacocca-like CEOs do show up once in a while. One is Richard Fairbank of Capital One Financial Corp., who has in past years given up his salary, his bonus and his benefits in return for monster-sized stock options. And there is Steve Jobs of Apple Inc., who does in fact work for \$1 a year. Except that his board compensation committee staged a “pay festival” in the 2000-2003 years, during which period Mr. Jobs received a free jet and the taxes to pay for it, all worth about \$90 million. And he also received options on 55 million shares, which when they went underwater were cancelled and exchanged for 10 million free shares.

I understand where Sen. Grassley was going when he make his remarks. But he does need to get his facts straight. Lee Iacocca was a pay hero, but he would not likely have been allowed to do things his way had the U.S. Treasury been in the picture like it is today.

That’s sort of ironic, don’t you think, because it was the same federal government which bailed out Chrysler and seemed at the time to cast a benign eye on Mr. Iacocca’s pay arrangements.?

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. In the Spring of 2009, he will be teaching a course in executive compensation at the University of California at Berkeley’s Boalt School of Law.