

Ceo compensation

Business



The 2008 global financial crisis brought not only hard times for ordinary Americans but also to the chief executive officers (CEO) of the biggest companies in the United States. During this time, which lasted for about two years, the total CEO compensation was declining steadily. However, since the economy is now on the mend, albeit it is recovering very slowly, the amounts that the CEOs are taking home as compensation are steadily rising. This increase comes against the backdrop of high unemployment rate in the country and almost stagnant salary scale for their juniors. This paper will analyze the recent trends of CEO compensation, the implications of “say-on-pay” on this compensation and, finally, give an opinion if these perks are justified. Trends in CEO Compensation For the times of the financial crisis and recession (2007-2009), the total CEO compensation declined. This was the first time in two decades that the total CEO compensation had declined in three successive years. Between the years 2007-2009, the CEOs of the 500 biggest companies actually accepted a reduction in their compensation. In the latter year, the total pay cut was 30%.

For 2007 and 2008, the pay cut was 11% and 15% respectively. These 500 executives earned about \$4 (DeCarlo, 2010). The median cash compensation (takes into account both basic salary and bonuses) increased by 3% in 2009. On the other hand, the total direct compensation (cash compensation, equity awards and long term incentives) went down by about 1% (Bednarz, 2011). After the economy showed signs of a recovery in 2010, the CEOs were back at it: earning huge compensation perks.

The median cash compensation increased by an incredible 17% in 2010. After declining in 2009, the total direct compensation rose by 9%. This was an incredible increase. Most of the 500 CEOs earned bigger bonuses in 2010, while some of them earned a lot. For instance, Sam Palmisano from IBM got a cash bonus of almost \$10 million which was more than double what he got in 2009.

John Chambers from Cisco had his bonus rise from \$2 million to \$4.8 million in the same period. Another CEO to benefit from a huge bonus increase was Tom Georgens from NetApp who got some \$2 million, which represents more than a 500% increase (Bednarz, 2011). CEOs also had the luxury of being given stock awards. When VMware had a 40% growth in revenue, coupled with an 81% increase in profits, its CEO (Paul Maritz) could manage a big smile for the turnaround.

However, his smile probably turned into a loud laughter when he realized that he would receive a grant of about \$4 million in stock awards, tripling his compensation package. For a man that received zero equity awards in the previous year, this was a huge increase. Paul Maritz was not the only beneficiary of stock awards in 2010. Take the case of F5 Networks that gave its executive stock awards worth \$7.5 million, an incredible increase by 92%.

John Tucci from EMC also received \$7.4 million worth of stock awards, taking his total package for the year to \$12.4 million. This package also included option awards worth \$1.3 million. However, all these could not match the perks that Apple CEO, Tim Cook, earned as bonuses. He took home a cash

bonus of \$5 million coupled with a mind boggling \$52.3 million worth of stock awards (Bednarz, 2011). While other CEOs were being compensated for their work, improving performances of their companies, others were being compensated for leaving their work. Take the case of Mark Hurd who moved from HP to Oracle, only to receive \$12 million as severance payment.

Mark Canepa, formerly from Extreme Networks, received close to \$0.5 million upon his resignation. John Swainson received \$4.5 million after retiring from CA (Bednarz, 2011). While the compensation perks for the CEOs for 2011 are yet to be released, it can be argued that they would be more than outrageous than those posted in 2010. This is because the country's economy is showing a steady growth as the effects of the recession slowly die down.

While this is good news for Americans, it is even better news to the CEOs. Say-on-Pay For many years, shareholders had their hands tied when it came to control how their companies paid their top executives; they simply had no control over their salaries and bonuses. That was until the "say-on-pay" rule was formulated. At the core of this rule, the shareholders of the most publicly owned companies are given the opportunity to be more vocal on matters touching on the executives' salaries and packages. Like never before, the investors can express their displeasure, if they believe that they are being given a raw deal by their executives. This rule allows the investors to hold a vote whether they approve the current pay package of the company's top executives (Krantz & Hansen, 2011).

This rule has already affected some executives of HP, Shuffle Master and Jacobs Engineering. Many of them are expected to give up many of the perks they were used due to the greater scrutiny they are being subjected to (Krantz & Hansen, 2011). Although the vote is not binding, it is effective because no executive would want to go against the will of many shareholders. As a result, executives are giving up golden parachutes, company sponsored jet travels, tax gross ups, some pension schemes and other perquisites. Compensation is now given according to performance and is long term (AFL-CIO).

Personal Take on CEO Compensation I am one of the people that believe that excellence should always be rewarded. When a person performs exceptionally, he/she has to be rewarded for their efforts. Therefore, I believe that when a company performs very well, it is a good practice to reward the management. However, the figures that some of them are getting as compensation for good work are just too big to be true. So a company realizes a 65% increase in profit, and you give the CEO \$12.5 million for this? Is this not his job anyway? Ensuring the company makes profit is their job.

Why pay them so much money when they are doing what they are supposed to? When a company performs very well, it's the collective effort of all the employees of the company. Are the juniors also compensated in a big way, just like their seniors? I declare, absolutely not. This disparity is the underlying factor. As long as the other employees are not recognized and compensated accordingly, just like the top executives, I think that it is very

unfair. All in all, I believe that the executives do not deserve these huge sums of money as compensation.

They are simply not worth it. Conclusion At a time when many Americans are going through dire conditions, a few of them are actually laughing all the way to the bank. While the recession brought a much needed sobriety in the compensation of CEO, the apparent end of the period has taken this sobriety away. However, the "say-on-pay" rule has come at such an opportune. It will help to check the excesses of a lucky few who have largely benefited from the collective efforts of many under their watch.