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Recession whacks away at executive compensation

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Richard Sands had a good 2008.

The chairman of Constellation Brands Inc., the wine and spirits giant, saw his compensation rise 69 percent from the previous year, to slightly more than \$3 million. And that doesn't count the stock and stock options he received with an estimated potential value of \$4.2 million.

At the same time, shareholders of the Victor-based company didn't make out so well. The average stock price for the fourth quarter of the company's fiscal year was down 17 percent from the year before.

Arunas Chesonis, chief executive of PAETEC Holding Corp., had a much less lucrative 2008, with his compensation down 50 percent to \$507,000. Shareholders of the Perinton telecommunications company fared less well, as the stock fell 89 percent from fourth quarter to fourth quarter.

Numerous leaders of publicly traded companies doing business in the Rochester area experienced thinner wallets in 2008, according to a *Democrat and Chronicle* analysis of executive compensation packages. That likely is cold comfort in the global recession for shareholders who have seen their investments wither and for workers who have seen their paychecks frozen or even sliced because of unpaid furloughs.



http://www.democratandchronicle.com/graphics/arrow_big.gif border="0"/>
http://php.democratandchronicle.com/RocDocs/executive_compensation/">View the executive compensation database

The drop in executive compensation came as the stock market values of most companies also decreased significantly. A number of indicators point to 2009 being another year in which the pay of top bosses will be on the decline.

"To the credit of many of the leaders here ... as companies have to go to four-day work weeks or cut pay, top management folks are included in that," said Sandy Parker, CEO of the Rochester Business Alliance.

First drop since 2001

Equilar Inc., a California-based executive compensation research firm, said that in 2008 the median CEO compensation for companies in the Standard & Poor's 500 index fell nearly 7 percent — the first time pay dropped since 2001, when the economy was reeling from the Sept. 11 terrorist attacks and the collapse of the dot-com bubble. With much of executive pay tied to business performance, particularly as CEOs increasingly are compensated with stock, the average package is shrinking because of the recession, according to the Conference Board, a New York City business research organization.

And a recent survey by business consulting firm Watson Wyatt Worldwide Inc. found a growing number of companies freezing executive salaries and planning to reduce what they spend on bonuses and incentive awards.

"There's been a general consensus that freezing merit increases is a good sign to the market," said John Ohrenberger, a senior consultant with Virginia-based Watson Wyatt. "It's not saving zillions of dollars, (but) if you're laying people off or cutting back, you getting a raise would not be a good message to send to your own employee group as well as to shareholders."

While the average worker's compensation is usually in the form of a weekly or biweekly paycheck, salary is often just the starting point for a top executive. CEOs and other top officers typically get substantial or even the majority of their compensation in the form of incentives that are tied to a company's stock price or other performance metrics, said Clifford Smith, professor of business administration at the University of Rochester's Simon Graduate School of Business Administration.

Constellation Brands said its overall philosophy about executive pay is to remain competitive with comparable companies — among them Molson Coors Brewing and PepsiAmericas — and to motivate and retain its workers. The bonus structure is based on meeting certain financial performance goals for pre-tax earnings and free cash flow.

Part of Richard Sands' 2008 compensation was a \$670,000 bonus. His brother, Robert, the Constellation Brands CEO, received a \$606,000 bonus. Other companies also paid bonuses — Exxon Mobil CEO Rex Tillerson's was \$4 million — but the *Democrat and Chronicle* found that only 16 of 58 companies it surveyed did so, another casualty of the recession and falling stock prices in 2008.

Among S&P 500 companies, CEOs receive on average about 60 percent of their compensation in stock, stock options and other long-term compensation, according to Equilar.

Options separate

The *Democrat and Chronicle*, in its analysis, calculated total compensation by adding salary, bonus, nonequity incentives, the value of perquisites, and above-market earnings on deferred compensation. The figures are found in companies' proxy statements, which in most cases are filed each spring with the U.S. Securities and Exchange Commission. Companies are required to disclose the packages for their five most highly compensated executives.

The value of executives' stock and stock option awards was calculated separately and not included in total compensation because options have only a hypothetical value. But options also are where Midas-like fortunes are potentially made by executives.

Xerox Corp. CEO Anne Mulcahy received \$9.2 million in stock and options in 2008. Marijn E. Dekkers, head of Thermo Fisher Scientific, whose Rochester-area operations include the Nalge Nunc water bottle manufacturer, received \$15.5 million. And stock and options awarded JPMorgan Chase CEO Jamie Dimon topped \$34 million.

Eastman Kodak Co. typically tries to have about 87 percent of its CEO's compensation "at risk," meaning it isn't guaranteed like a salary but is pegged to metrics such as increased revenue and growth of Kodak's digital business, said Virginia Meredith, director of executive compensation. But starting in the second half of 2008, "the global recession broadened dramatically and began to negatively impact all of our businesses," Kodak said in its proxy statement. The downturn cost Kodak executives their annual variable pay and long-term equity incentive compensation plan payments in 2008.

Ultimately, CEO Antonio M. Perez took a 74 percent cut in his compensation in 2008 to \$1.4 million. He also received a potential \$3 million worth of stock and stock options.

A small number of CEOs have seen their personal rewards decline even as shareholders have benefited.

Harris Corp. CEO Howard Lance's compensation dropped 22 percent between 2007 and 2008, to slightly less than \$3 million, while company shares went up 7 percent. If Harris' stock continues to rise, Lance will benefit — he received stock and options with an estimated potential value of \$4 million.

Small-bank gains

The fortunes of other executives have gone up in lockstep with their shareholders. Community Bank CEO Mark Tryniski saw his compensation up a modest 2 percent, to \$709,000, in 2008. He also received stock and stock options with an estimated value of \$150,000. Meanwhile, the value of the bank's stock went up 14 percent. Total compensation doubled for First Niagara Financial CEO John R. Koelmel, to almost \$1.3 million in 2008, and the bank's stock value went up 15 percent. CEO pay long has been a contentious issue as executive pay packages have grown at a rapid clip.

According to the American Federation of State, County and Municipal Employees, shareholders of about 80 companies will decide this year on "say on pay" proposals, which would give shareholders an advisory vote on executive compensation. Such votes would be nonbinding.

Sen. Charles Schumer, D-N.Y., recently introduced a Shareholder Bill of Rights Act in Congress, which would require that companies give shareholders a say on pay.

Meanwhile, 2009 will likely end up being another year in which the compensation packages of American CEOs shrinks further. The Rochester area's largest publicly traded company, Kodak, has frozen pay across the board for all employees, including the CEO, and won't be giving out performance-based or leadership stock bonuses to executives. The CEOs of major employers Paychex Inc. and Xerox similarly had their pay frozen this year.

Heated environment

"It's reasonable to expect pay will continue to fall," said Alexander Cwirko-Godyck, research manager at Equilar. "This recession is pretty severe, and the environment around compensation is much more heated. The potential for having a real change (in how corporate executives are paid) is much greater than ever."

The Association of Retired Xerox Employees had contemplated putting a proposal before shareholders requiring that a sizable part of executive compensation packages at the company be tied to revenue growth. The company instead for its 2009 bonus program removed revenue growth as one of the benchmarks for deciding bonuses.

Dave Coriale, chairman of the Penfield-based association, couldn't say whether the group would pursue another such proposal in 2010.

However, he said, "I would expect that next year will bring another discussion of how we can best serve the retiree population. Shareholder activism with an emphasis on excessive executive compensation against a backdrop of benefits reductions and employee downsizing is one of the ways we have done it in the past."