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Workers earned less, bosses lot more

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Last year was not kind to your paycheck.

Workers across the Rochester region saw pay freezes and cuts to benefits as the Great Recession hammered the business world. For the first six months of 2009, workers made, on average, 1.4 percent less than they had in the first half of 2008, the state Labor Department said.

But many of their bosses, the top executives at some of the area's biggest employers, received larger compensation packages than they had the year before, according to a *Democrat and Chronicle* analysis of financial reports that publicly traded companies are required to file with the government.

CEOs of 33 companies with a strong local presence were paid higher salaries and bonuses, compared with 17 companies that reduced CEO pay. Stock and stock options, which are less tangible because they depend on the future performance of a company's share price, were granted more generously at 17 companies and less so at 29.

Among some of the region's highest-profile executives, 2009 wasn't too shabby.

While Eastman Kodak Co. CEO Antonio M. Perez saw his salary go down almost 10 percent to roughly \$989,000, he received a \$1.7 million performance award he hadn't gotten in 2008. Perez's total compensation, not counting the stock he was given, more than doubled from \$1.4 million in 2008 to \$2.9 million last year.

Ursula Burns' promotion in mid-2009 to CEO of Xerox Corp., replacing Anne Mulcahy, didn't make much difference in her salary, which rose slightly to \$900,000. But Burns was paid \$1.8 million in incentive-plan compensation — essentially performance bonuses — that was more than three times what she received in 2008. Overall, the longtime Xerox executive took home almost \$3 million last year, up from \$1.6 million.

And those figures for Perez and Burns don't include the estimated value of the stock and options they received. For the Kodak leader, such awards rose to an estimated \$7.2 million from \$3 million in 2008. Burns' stock awards increased to an estimated \$6.9 million from \$4 million.

Paychex Inc.'s Jonathan Judge, CEO of the third-biggest local public company based on employment, received a raise of less than 1 percent, to \$915,000. But his incentive-related compensation dropped by more than two-thirds, and, as a result, his total compensation exclusive of stock fell to \$1.27 million from almost \$2 million in 2008.

Kodak, Xerox and Paychex, as is typical for most companies, decline to discuss executive pay and refer questions to their proxy statements, where compensation policies are explained.

Hot-button issue

Executive pay became even more of a hot-button issue than usual during the recession as tempers flared over pay and bonuses going to the titans of Wall Street and private jets taking Detroit auto executives to testify before Congress — even as the financial giants and automakers were receiving taxpayer-funded bailouts. Those inflammatory events came atop frequent public grumbling about the growing disparity between the paychecks of CEOs and the lowest-paid workers in a company, said Jerry Newman, a faculty member at the School of Management at the State University of New York at Buffalo and co-author of the textbook *Compensation*.

"It used to be 250 to 1," Newman said of the top-bottom ratio. "If a janitor made \$10,000, the CEO made \$2.5 million. Then it went to 500 to 1. Sometimes now it's 1,000 to 1. The spread in other countries is not moving as quickly."

The outlook for additional CEO pay increases this year is favorable. While some top executives joined the rank-and-file last year in participating in salary freezes or reductions and even unpaid furloughs, most companies this year planned to raise executive salaries, according to a survey by New York City-based human resources consulting firm Mercer LLC.

To be sure, shareholders of many companies also are doing better than they did during the depths of the recession in 2008. An index of Rochester-area stocks compiled by Bloomberg Financial Markets for the *Democrat and Chronicle* rose 15.5 percent in 2009 after plunging 32.6 percent the year before. The index is flat so far this year.

2009 was better

Leading one of the Rochester region's prominent companies pays handsomely.

The list of companies at which the CEO made a salary of more than \$1 million in 2009 is lengthy and includes Constellation Brands Inc., Harris Corp., Global Crossing Ltd., Corning Inc. and ITT Corp.

Companies paying more than \$1 million in performance awards include Time Warner Cable, Johnson & Johnson, Xerox, Kodak and Dr Pepper Snapple Group. And companies with stock and option grants in 2009 that exceeded \$10 million included Verizon Communications Inc., United Technologies Corp. and Thermo Fisher Scientific Inc.

In addition to Kodak and Xerox, CEOs whose total compensation packages rose in 2009 led companies such as Corning, Verizon, Gannett Co. Inc. and Kraft Foods Inc. And that was to be expected, given the beginnings of an economic rebound that lifted the financial performance of many companies, said Mercer partner Peter Oppermann.

"2008 was terrible, 2009 was better," Oppermann said. "So you got an increase in bonus. 2009 numbers are still not up to 2007 levels. Any increase over 2008 is going to look big."

Publicly held companies, in their annual proxy statements filed with the Securities and Exchange Commission and sent out to shareholders, take pains to make the case as to why they pay as much as they do. In case after case, companies justify the sizable payouts to top executives as being necessary to "attract and retain high quality talent" — the words Kodak used — and to keep up with the competition, as Cooper Cos., the parent of CooperVision, said in its proxy.

Fierce competition

"Let's face it, the market out there for talent at any level in an organization, especially at an executive level, is pretty fierce," said Denise Watson, senior vice president of compensation and benefits at Victor-based Constellation Brands. "Our philosophy is that on the salary side of things to be market-competitive, targeting at the median of our peer group. Our philosophy on the incentive side is pay for performance."

"The better we do as a company, the better shareholders gain and executives have an opportunity to

share in that," Watson said.

The board of trustees, which determines compensation for top executives, pays big attention to shareholder sentiment, she added. Less of a concern is how the CEO's salary compares with what rank-and-file workers make.

"We want to be competitive," Watson said. "We want to hire good, smart people. We don't hire an accountant saying 'we want you to make 20 percent of what (CEO Robert Sands) makes.' That's just not pertinent."

For many companies, the salary paid to CEOs often comes out around \$1 million, the maximum amount that is deductible by a company for corporate tax purposes. But instead of acting as something of a ceiling on executive pay, the \$1 million cap instead has played a large role in the explosive growth of total compensation in the past 20 years, said Joel Stern, head of the New York City management consulting firm Stern Stewart and Co.

Stern explained that instead of higher salaries, companies chose to give stock and options. Because the ups and downs of the market mean that stock and options are inherently riskier than cash, executives were given huge amounts. As a result, during the virtually uninterrupted growth in the market during the 1990s, total compensation grew much faster than historical averages, he said.

But according to research by Harvard University professors Lucian A. Bebchuk and Jesse M. Fried, using stock as compensation is one of the most effective ways of tying top executives' pay to performance.

Shareholders increasingly are demanding input on CEO compensation — a "say on pay." Since 2008, more than 50 companies around the country have started holding annual shareholder advisory votes on executive compensation.

Financial companies that received bailout funding under the federal government's Troubled Asset Relief Program also are required to have these annual votes.

Given public sentiment, "say on pay" likely will become law by 2011 or 2012, said Mercer's Oppermann. While such a vote isn't binding, "It will have influence, I think," he said.

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Additional Facts

Perks

Being the head of a major company comes with a lot of perquisites.

- Along with his salary, bonus and stock and options, Constellation Brands Chairman Richard Sands in the company's most recent fiscal year took personal flights on corporate aircraft valued at \$254,228 and received a \$9,600 automobile allowance.
 - While Eastman Kodak Co. suspended its 401(k) match in 2009, CEO Antonio Perez still received \$232,000 in other perks, including \$5,796 worth of home security and \$218,000 worth of personal use of the company jet.
 - Perks for Genesee & Wyoming Inc. Executive Chairman Mortimer Fuller III included \$208,000 to pay for insurance premiums and \$139,000 in tax gross ups — additional money paid by the company to cover Fuller's taxes.
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