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ast summer, when David Calhoun went from being a vice chairman at General Electric Co. to CEO of the publishing company VNU Group BV for a reported \$100 million pay package, it confirmed what executive recruiters already

knew: The market for senior executives was being flooded by compensation dollars from hedge fund and private equity buyouts, which were not susceptible to pressure from shareholders or the Securities and Exchange Commission.

A man in a dark pinstriped suit and a patterned tie sits in a dark leather chair. Three hands, each holding a stack of US dollar bills, are reaching towards him from the left, right, and bottom right. The background is a plain, light-colored wall.

# Private Equity Creates

Put this deluge together with the reality of a small pool of experienced, scandal-free executives, and there is only one conclusion possible: the squeeze on executive pay anticipated in the wake of new compensation disclosure rules and investor disapproval is not materializing, at least for now. "In fact, what we have seen is just the opposite," says Russell Boyle, head of the U.S. financial officers practice of Egon Zehnder, the international search firm.

The law of supply and demand, it would seem, has trumped the laws of Congress and the SEC when it comes to senior executive pay—and nowhere is that more true than in the finance arena. Look at the numbers: According to Mercer Human Resource Consulting, median pay for a CFO—considering only cash compensation—dropped to \$330,000 in 2003 from \$351,000 in 2002, when the Enron Corp. scandal was still fresh. But for the next three years, it jumped up—peaking in 2006 at \$421,500. While that represented only a 1.2% increase over the year before, it followed a 15.5% increase between 2004 and 2005 and a 20.1% increase between 2002 and 2006. Treasurers, on the other hand, experienced almost no fallout from Enron and saw the biggest year-over-year growth of any of the three finance titles in 2006—up 7.6% to \$248,200 over 2005 and 24% between 2002 and 2006. Corporate controllers fared the worst over the longer period—up only 18% between 2002 and 2006.

The numbers, of course, do not include some of the most lucrative areas for senior finance ex-

ecutive limited universe and contributing to the upward pressure on supply and, ultimately, pay. "Most companies shopping for a new CFO, for instance, insist on an experienced sitting CFO," notes Chris Langhoff, executive recruiter with Russell Reynolds. "They're not willing to trade experience for potential."

For this reason, companies are increasingly looking abroad. Cross-border hiring of CFOs and treasurers "is at the highest level I've seen in 13 years," Egon Zehnder's Boyle says. "Cross-border hiring is difficult, but global companies [can't afford not to] look globally for the best talent."

Private equity wants no less, of course, but these investors can offer potential candidates something public companies cannot: a substantial equity stake and freedom from at least some regulation. "It's not unusual in a private equity portfolio company for a CEO and CFO to split as much as 5% of the equity," reports Allen Geller, managing director of Raines International, a New York-based executive search firm. "If they're successful and turn the company around and sell it to the public or another private equity group at a high price, the CEO may get \$10 million to \$15 million, the CFO \$3 million to \$5 million [based on that stake]. But they'll have small offices and maybe share a secretary. These private equity firms are expected to run lean."

Private equity enterprises embody the risk-reward equation, says John Elliott, dean of Baruch College's Zicklin School of Business. "They will more boldly link compensation to the success or failure of the venture, so they will appeal to peo-

**Thanks to a limited supply, neither rules on disclosure nor investor unrest can stop the rise in executive comp**

—BY RICHARD GAMBLE

# A Seller's Market

executives: restricted stock grants, options or long-term incentives. If you look at the entire package, Equilar Inc., a compensation research firm in San Mateo, Calif., puts the median CFO pay package in 2006 at \$5,676,163, 9.9% higher than in 2005.

In finance, the definitions of a quality candidate for CFO, treasurer and controller are getting more precise and demanding, narrowing an al-

ple with an appetite for risk," he notes. And strangely enough, this indisputable connection to performance actually makes the largesse of private equity more palatable to public company investors.

At the end of the day, regardless of myriad shareholder proposals for say-on-pay packages, it boils down to performance, the experts say. As long as everyone is enjoying the fruits of success or

**FINANCE CHIEF COMPENSATION**

COMPANY NAME	EXECUTIVE NAME	TOTAL SHAREHOLDER RETURN	BASE SALARY	BONUS	NON-EQUITY INCENTIVE	STOCK AWARDS	
AETNA INC.	BENNETT, ALAN M.	\$5,551,962	-8.4%	\$568,269	0-	\$1,971,150	\$900,075
ALCOA INC.	MUSCARI, JOSEPH C. (6)	\$2,790,567	3.5%	\$570,769	0-	\$550,000	\$1,590,962
AMERICAN EXPRESS CO.	CRITTENDEN, GARY L. (6)	\$5,800,363	18.9%	\$575,000	\$1,850,000	\$1,218,900	0-
AMERICAN INTERNATIONAL GROUP INC.	BENSINGER, STEVEN J.	\$11,386,195	6.0%	\$750,000	\$3,250,000	\$2,093,078	\$4,059,394
AMGEN INC.	NANULA, RICHARD D.	\$6,164,224	-13.4%	\$812,250	0-	\$1,240,000	\$2,432,717
AT&T	LINDER, RICHARD G.	\$6,055,395	51.4%	\$677,833	\$300,000	\$1,914,050	\$2,866,304
BANK OF AMERICA CORP.	DE MOLINA, ALVARO G.	\$9,865,073	20.3%	\$700,000	0-	\$3,310,000	\$4,013,871
BOEING CO.	BELL, JAMES A.	\$3,254,017	28.2%	\$690,769	0-	\$846,900	0-
CHARLES SCHWAB CORP.	DODDS, CHRISTOPHER V.	\$3,287,375	32.8%	\$550,000	0-	\$1,664,500	\$500,000
CHUBB CORP.	O'REILLY, MICHAEL	\$4,412,950	10.1%	\$661,251	0-	\$1,262,300	\$2,385,932
CITIGROUP INC.	KRAWCHECK, SALLIE L. (6)	\$10,573,333	18.8%	\$500,000	\$5,820,000	0-	\$4,253,333
COMCAST CORP.	ALCHIN, JOHN R. (1)	\$6,951,466	63.3%	\$1,026,000	\$157,889	\$1,435,000	\$2,142,000
COMCAST CORP.	SMITH, LAWRENCE S. (1) (6)	\$8,385,244	63.3%	\$1,226,000	\$473,685	\$1,715,000	\$2,454,375
DUPONT E I D E NEMOURS & CO	KEEFER, JEFFREY L.	\$3,892,814	18.1%	\$451,014	0-	\$459,000	\$2,630,046
ELI LILLY & CO.	RICE, DERICA W. (2)	\$2,605,088	-5.1%	\$615,000	0-	\$580,466	\$450,000
EMC CORP.	GOULDEN, DAVID I.(3)	\$1,057,345	-3.1%	\$550,000	\$50,000	\$434,173	0-
EXXON MOBIL CORP.	HUMPHREYS, D. D.	\$8,474,531	38.7%	\$750,000	\$1,750,000	0-	\$5,877,200
FORD MOTOR CO.	LECLAIR JR., DONAT R. (4)	\$7,831,531	0.5%	\$1,000,933	0-	\$1,684,000	\$4,928,679
GENERAL ELECTRIC CO.	SHERIN, KEITH S.	\$8,817,411	9.1%	\$1,225,000	\$2,550,000	0-	\$2,834,189
GOOGLE INC.	REYES, GEORGE	\$1,188,843	11.0%	\$250,000	\$171,052	\$764,367	0-
HALLIBURTON CO.	GAUT, C. CHRISTOPHER	\$4,483,538	1.0%	\$575,000	0-	\$1,535,000	0-
HOME DEPOT	TOME, CAROL B.	\$6,799,005	2.1%	\$757,308	\$350,000	\$658,125	\$4,899,350
HONEYWELL INTERNATIONAL INC.	ANDERSON, DAVID J.	\$8,301,268	23.9%	\$753,365	0-	\$2,950,000	\$2,874,750
INTEL CORP.	BRYANT, ANDY D.	\$2,873,900	-17.3%	\$355,000	0-	\$1,178,500	\$279,000
INTERNATIONAL BUSINESS MACHINES	LOUGHRIDGE, MARK	\$6,576,812	19.5%	\$659,167	\$200,000	\$920,000	\$3,900,111
JOHNSON & JOHNSON	DARRETTA, ROBERT J. (6)	\$7,499,175	12.3%	\$1,023,846	0-	\$2,574,880	\$626,226
KIMBERLY CLARK	BUTHMAN, MARK A.	\$2,515,005	17.2%	\$507,517	0-	\$405,425	\$1,133,372
MERCK & CO INC.	LEWENT, JUDY C.	\$3,015,509	41.8%	\$828,130	0-	\$875,000	\$789,526
MERRILL LYNCH & CO INC.	EDWARDS, JEFFREY N.	\$14,093,911	38.9%	\$270,833	\$5,625,000	0-	\$8,183,359
MOTOROLA INC.	DEVONSHIRE, DAVID W.	\$3,751,398	-8.1%	\$625,000	0-	\$300,000	0-
PEPSICO INC.	GOODMAN, RICHARD A. (5)	\$3,173,584	7.8%	\$470,508	0-	\$696,007	\$1,974,995
PFIZER INC.	LEVIN, ALAN G.	\$4,414,712	15.2%	\$784,575	\$580,600	0-	\$1,434,492
SUNOCO INC.	HOFMANN, THOMAS W.	\$2,287,809	-19.2%	\$500,000	0-	\$470,960	\$650,085
TIME WARNER INC.	PACE, WAYNE H.	\$7,186,984	26.1%	\$1,000,000	0-	\$2,750,000	\$1,305,000
TRIBUNE CO.	GRENESKO, DONALD C.	\$2,469,704	4.1%	\$574,346	0-	\$440,325	\$892,817
UAL CORP.	BRACE, FREDERIC F.	\$16,750,420	N/A	\$501,000	0-	\$654,872	\$8,055,100
VERIZON COMMUNICATIONS INC.	TOBEN, DOREEN A.	\$6,373,529	34.6%	\$825,000	0-	\$1,002,400	\$4,331,829
WHOLE FOODS MARKET INC.	CHAMBERLAIN, GLENDA J. FLANAGAN	\$1,144,332	-7.8%	\$268,500	\$339,300	\$449,532	0-

1.Comcast has co-CFO. 2. Rice was named CFO in May 2006. 3. Goulden was named CFO in August 2006. 4. Ford's numbers exclude 20,583 stock equivalents earned for 2005 performance. 5. Goodman was named CFO in October 2006. 6. These CFOs are no longer in these jobs. N.A. stands for Not Available

OPTION AWARDS	OTHER	% CHANGE
\$2,097,670	\$14,798	-4%
0-	\$78,836	N/A
\$1,914,000	\$242,463	-41%
\$1,215,400	\$18,323	-3%
\$1,449,300	\$229,957	57%
\$171,527	\$125,681	N/A
\$1,688,000	\$153,202	N/A
\$1,518,000	\$198,348	-57%
\$500,000	\$72,875	-31%
0-	\$103,467	-42%
0-	0-	5%
\$2,175,050	\$15,527	-37%
\$2,493,350	\$22,834	-33%
\$330,512	\$22,242	N/A
\$921,900	\$37,722	N/A
0-	\$23,172	N/A
0-	\$97,331	N/A
\$197,000	\$20,919	-26%
\$1,900,000	\$308,222	N/A
0-	\$3,424	46%
\$2,141,741	\$231,797	-2%
0-	\$134,222	
\$1,641,500	\$81,653	35%
\$913,200	\$148,200	-32%
\$765,087	\$132,447	74%
\$1,696,359	\$1,577,864	36%
\$389,810	\$78,881	-43%
\$421,800	\$101,053	-7%
0-	\$14,719	N/A
\$2,781,000	\$45,398	-28%
\$4,460	\$27,614	N/A
\$1,544,700	\$70,345	N/A
\$612,188	\$54,576	-25%
\$1,574,089	\$557,895	
\$506,600	\$55,616	60%
\$7,152,460	\$386,988	2,227%
0-	\$214,300	-42%
\$87,000	0-	-40%

Source: Equilar Inc.

tasting the bitterness of failure, most investors are willing to live with almost any level of compensation. “We’ve seen this,” says Boyle. “The only time someone is taken to the woodshed over pay is when the performance is not there.”

The tools of compensation have also been changing. Getting a restricted stock grant instead of a quantity of stock options is becoming a fact of life that most CFOs and treasurers accept—and in fact appreciate. “CFOs and treasurers were never big fans of stock options anyway,” reports Kevin Ford, senior client partner at Korn Ferry International. “They are financially sophisticated enough to understand that the potentially explosive wealth contained in stock options was largely illusory.”

Still, restricted stock grants usually involve fewer shares than the options programs they replace, points out Kevin Connelly, chairman of the executive search firm Spencer Stuart. “So yes, grants are worth something even if the share price declines, while options normally would be worthless,” he says. “However, if the company substantially outperforms expectations, options would probably make the exec richer than the stock grants.” This is where, in the race for talent, private equity can best public company bids.

To be fair, not everyone buys the short supply scenario. “There are plenty of good candidates outside the Fortune 500 and with different titles,” argues Charles Elson, the Willard professor of corporate governance at the University of Delaware. “What keeps compensation high is the fact that companies pay attention to what everyone else is doing and then always want to be in the fifty-first percentile on pay. The supply issue is a gross exaggeration that has created an artificial labor market.”

Elson suggests that the secret to keeping com-

## Companies are going beyond time-based to performance-based vesting for stock grants

—PEARL MEYER'S KOORS

### PAY FOR SELECT CORPORATE FINANCE POSITIONS {\$}

#### MEDIAN TOTAL CASH COMPENSATION\*

	2002	2003	2004	2005	2006
CHIEF FINANCIAL OFFICER	351,000	330,000	360,700	416,700	421,500
CORPORATE TREASURER	200,000	197,700	217,000	230,700	248,200
CORPORATE CONTROLLER	172,400	159,100	159,500	194,800	204,800
CORPORATE BUDGET MANAGER	100,900	100,900	99,800	105,000	106,000
SENIOR FINANCIAL ANALYST	64,000	66,000	67,600	70,000	70,800
INTERMEDIATE FINANCIAL ANALYST	49,700	51,500	52,500	54,000	55,000

Source: Mercer Human Resource Consulting; Finance, Accounting & Legal module of the Mercer Benchmark Database  
\* Median total cash compensation includes base pay and annual bonus

compensation down is to truly tie it to performance—but performance that is related to an executive's actions as a manager. "If performance is good because commodity prices fell—something the executive has no control over—why should that be rewarded?" he asks. "A loose line on pay happens when board compensation committees must not simply focus on the result," he adds.

In fact, some public company leaders in compensation are getting more sophisticated in how they tie compensation to performance, especially for CFOs and treasurers, Korn Ferry's Ford notes. "They're getting rewarded for hitting more specific targets," he reports. That includes metrics like return on invested capital and cash flow.

"They're going beyond time-based vesting to

## Admittedly, investors don't spend sleepless nights worrying about the fact that executive compensation is now more than 500 times greater than the average worker's pay. As long as their investments are performing on a par or better than the market they

are happy. But if that performance is not cutting it and executives are padding their pockets, then watch out. Example in point: Robert Nardelli and his \$210 million golden parachute. While compensation in general is inching up, experts predict that the market is unlikely to see many more severance deals on that scale.

Democrats on the House Financial Services Committee pushed through a say-on-pay bill in late March that would let shareholders give a thumbs up or down in a nonbinding vote on executive pay plans, much as shareholders do in Australia, the U.K. and Sweden. In those countries, shareholders rarely vote against pay packages, but advocates contend that the prospect of the vote discourages true excess.

Activist shareholders are pushing forward without a law. Six say-on-pay proposals had come to a vote by April 18, all of them failing, and some 50 others were pending, re-

ports Pat McGurn, executive vice president of Institutional Shareholders Services. The closest was Bank of New York, with 47% voting in favor.

The big problem, McGurn says, is the persistent disconnect between CEO pay and company performance. Shareholder advocates hope to use say-to-pay provisions to force dialog with boards and tighten that linkage. If say-on-pay happens by individual proxy votes, it will be a long, slow process. If legislation passes to mandate it, the transformation will be relatively sudden and complete, he explains.

But not all companies come kicking. For instance, Aflac Inc., the supplemental life and health insurer, adopted a "say on pay" proposal voluntarily, and AT&T seemed poised at press time to do the same. John Elliott, dean of the Zicklin School of Business at Baruch College, predicts that given the trend in Europe to give shareholders a voice in compensation, it is only a matter of time before the practice successfully establishes itself here, with or without a law.

### FINANCE CHIEF COMPENSATION

COMPANY NAME	EXECUTIVE NAME	TOTAL	SHAREHOLDER RETURN	BASE SALARY	BONUS	LTIP PAYOUTS	RESTRICTED STOCK AWARDS
APPLE INC.	OPPENHEIMER, PETER	\$15,480,206	43.6%	\$615,006	\$450,000	0-	\$14,402,000
ARCHER DANIELS MIDLAND CO.	SCHMALZ, DOUGLAS J.	\$2,495,943	94.8%	\$735,360	0-	0-	\$1,505,587
BEAR STEARNS COMPANIES INC.	MOLINARO JR., SAMUEL L.	\$27,814,500	38.4%	\$250,000	\$12,967,500	0-	\$10,971,750
BEST BUY CO INC.	JACKSON, DARREN R.	\$2,390,594	50.4%	\$535,980	\$650,346	0-	0-
CISCO SYSTEMS INC.	POWELL, DENNIS D.	\$4,011,429	-6.6%	\$410,385	\$1,060,470	0-	0-
FEDEX CORP.	GRAF JR., ALAN B.	\$4,862,560	22.6%	\$778,137	\$994,460	\$1,125,000	\$554,218
GENERAL MILLS INC.	LAWRENCE, JAMES A.	\$3,716,781	7.5%	\$600,000	\$742,500	0-	\$855,068
GOLDMAN SACHS GROUP INC.	VINIAR, DAVID A.	\$40,334,108	52.1%	\$600,000	\$20,243,500	0-	\$11,479,507
HEWLETT PACKARD CO.	WAYMAN, ROBERT P. (6)	\$10,738,293	39.3%	\$975,000	\$4,095,000	\$4,063,759	0-
ORACLE CORP.	CATZ, SAFRA A.	\$14,643,079	11.1%	\$800,000	\$3,737,000	0-	0-
STARBUCKS CORP.	CASEY, MICHAEL	\$5,151,873	35.9%	\$622,308	\$635,000	0-	0-
SUN MICROSYSTEMS INC.	MCGOWAN, STEPHEN T. (6)	\$2,798,874	11.3%	\$597,289	\$157,437	0-	\$834,773
WALT DISNEY CO.	STAGGS, THOMAS O.	\$11,225,520	29.2%	\$1,037,500	\$4,790,000	\$4,299,012	0-

6. These CFOs are no longer in these jobs. N.A. stands for Not Available

performance-based vesting for stock grants,” reports Jan Koors, managing director at Pearl Meyer & Partners. Some industries tie stock grant vesting to industry-specific performance metrics, she notes, like same-store comparisons for retail, R&D results for pharmaceuticals and on-time launches for tech firms.

The linkage of risk and reward drives the executive comp market. So, not surprisingly, growing rewards also reflect rising risk. Boards are moving more quickly to replace a CFO at the first whiff of trouble. “When things go wrong, they start at the top,” Ford notes. “When a CEO leaves, the CFO is likely to follow. It’s standard practice when a company reports serious performance or accounting issues for both to be replaced.”

Consequently, public companies put a high premium on CFOs with solid credentials in accounting and control, which can easily dominate many CFO searches, Connelly agrees. “When auditors take a hard line on accounting issues, it helps if the company has a CFO who can engage them in a peer-level discussion,” he says. “We see a much greater emphasis on technical accounting skills in a CFO.” Without a CFO with accounting and control skills, a company may need a chief accounting officer position.

ESTIMATED OPTION AWARDS	OTHER	% CHANGE
0-	\$13,200	1,278%
\$243,996	\$11,000	10%
\$1,260,750	\$2,364,500	63%
\$1,202,372	\$1,896	35%
\$2,533,974	\$6,600	N/A
\$886,260	\$524,485	-2%
\$1,476,750	\$42,463	40%
\$7,653,073	\$358,028	66%
\$1,539,000	\$65,534	37%
\$10,100,979	\$5,100	83%
\$3,851,598	\$42,967	340%
\$286,545	\$922,830	11%
\$1,093,400	\$5,608	146%

Source: Equilar Inc.