

Raking it in

Sure, local CEOs' pay is hefty, but it's finally more in line with performance

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by Dan Monk, Lisa Biank Fasig, Steve Watkins

Even with the average CEO pay in the millions, 2006 can be viewed as the year when many local companies right-sized the money pile.

Based on the Business Courier's annual analysis of local executive compensation and how it ranks against company performance, more Cincinnati-area CEOs were considered fairly paid in 2006 than in the previous two years. Of the 41 public-company CEOs, 27 ranked as appropriately paid. That compares with 18 CEOs in 2005 and 20 in 2004, the year we launched our "bang for buck" evaluation.

The pool of overpaid CEOs, meanwhile, drained to six in 2006 from 14 in 2005. Underpaid CEOs thinned in rank as well, to eight from 11.

Part of the reason is accountability. Median CEO pay in Cincinnati increased 0.8 percent from 2005 to 2006, to almost \$1.8 million, against a median shareholder return of almost 8 percent. The strongest profit performers rewarded their chief executives with a 6 percent median increase in salary and bonus, while the weakest took a median pay cut of 6 percent.

This trend is reflected nationally, according to research by both **Mercer Human Resource Consulting** and **Equilar Inc.**, a compensation research firm in San Mateo, Calif. Based on Equilar's research, 61 percent of S&P 500 CEOs received some sort of performance-based - not time-based - stock awards.

"These types of awards are becoming more prevalent," said Alexander Cwirko-Godycki, research manager at Equilar. "There has been a lot more pressure for performance-based compensation."

Local companies did cut back on use of stock options, by 18 percent, as other incentives gained favor. But the value of those options declined by an even greater measure, 55 percent. As a result, total CEO compensation declined by almost 9 percent in 2006. Take out stock awards, and local CEOs actually earned almost 12 percent more - \$67 million over almost \$60 million.

(Companies in 2007 changed the way they determined options value. Because of this, the Courier also measured CEO bang-for-buck performance excluding year-over-year options value. Without the awards, four executives would be ranked differently: One of the underpaid

would be appropriately paid; two of the appropriately paid would be underpaid; and one of the appropriately paid would be overpaid.)

How does \$38,950 look now?

How does that compare to the rest of us pencil pushers? Cincinnati CEOs on average earned 94 times more than the typical local worker, \$3.7 million compared with \$38,950, according to the U.S. Department of Labor. But the national comparison is 237 times that of the average worker, \$8.2 million versus \$34,566, according to Mercer.

While some compensation experts complain chief executive pay is exorbitant, the argument persists that the job is far more demanding than that of other workers.

"It's rare that you see shareholders at high-performing companies complain about CEO pay," said Russell Miller, managing director of Executive Compensation Advisors, a unit of **Korn Ferry International**.

They also do not complain when the chief's take-home is below average. The Courier's analysis once again favors those who head small firms and who, for the most part, took minor pay increases or pay cuts. Median compensation for those eight rose to \$918,000 in 2006, from \$575,000 in 2004.

The median pay package for overpaid CEOs declined to \$3.7 million in 2006 from a \$4.6 million figure in 2004. For the appropriately paid executives, the median steadily rose to \$1.9 million from \$1.4 million.

As for why some CEOs make so much less than others, Boston executive consultant Larry Stybel has a theory: the talent pool. "If the board thinks that this person is hard to replace, they will want to pay that person accordingly."

Shareholders' best, worst bang for buck

Top 3

- 1, Ceco, Phillip DeZwirek
- 2, LSI Industries, Robert Ready
- 3, General Cable, Gregory Kenny

Bottom 3

- 41, Macy's, Terry Lundgren
- 40, Resolve Staffing, Ronald Heineman
- 39, AK Steel, James Wainscott

E-mail dmonk@bizjournals.com, lfasig@bizjournals.com or swatkins@bizjournals.com.