

Goldman, Occidental Finance Officers Lead in Pay

By Graef Crystal

July 18 (Bloomberg) -- When it comes to pay, it's not just chief executive officers who are cleaning up. The people running their finance departments aren't too far behind.

And if you're a chief financial officer working for a highly paid CEO such as Lloyd Blankfein at Goldman Sachs Group Inc., Terry Semel at Yahoo! Inc. (who stepped down earlier this year) or Ray Irani of Occidental Petroleum Corp., then you are really sitting pretty.

I took a look at total pay in 2006 versus 2005 for 545 CFOs working at U.S. companies with \$4 billion or more of market value. Here's what I found: The median total pay in 2006 for a CFO was \$2.5 million, an increase of 17 percent from 2005, and the average total pay was \$3.3 million, or 9 percent more. The pay of all the CFOs was reported under the new proxy disclosure format, which came into effect at the beginning of 2007.

That \$2.5 million median pay obscures that compensation for some CFOs soared last year. Two of the CFOs earned more than \$20 million in 2006: Susan Decker of Yahoo, with \$29 million, and Stephen Chazen of Occidental Petroleum, with \$21 million. (It should be noted that Decker had a second job, head of the company's advertiser and publisher group. Now she is Yahoo's president.)

And then there is David Viniar at Goldman Sachs, with total pay of \$42 million. He wasn't part of my 545-CFO group because his company's fiscal year ended Nov. 30 and wasn't reported under the old proxy disclosure format.

Lowest Paid

Turning to the lowest-paid CFOS, at the very bottom is Stanley Young, the former CFO of Brookdale Senior Living Inc. His total pay in 2006 was \$213,000, followed by John Kyees of Urban Outfitters Inc., with \$421,000. Some others had lower pay but didn't serve as CFOs for the entire year. (See link at end of column for a list of the highest- and lowest-paid CFOs.)

My analysis determined that 32 percent of the variation in total pay for CFOs can be traced to differences in company size and pay risk. The larger the company, other things being equal, and the higher the proportion of stock options to total pay, the more a CFO earned.

If Viniar had been in my study and those two factors were included for him, he would have been paid approximately 600 percent above a competitive rate. Decker and Chazen had competitive overages of 423 percent and 298 percent, respectively.

As for a correlation between CFO pay and a company's total return in 2006, there are performance differences among only a handful of CFOs in the most highly paid and the most lowly paid categories. Yet in the middle 90 percent of the 545-CFO group, there isn't any statistically significant relationship between pay and performance.

Highly Paid Bosses

The biggest explanation for the difference in CFO pay is a combination of company size and whether the CEO's compensation is more or less than a competitive standard. This explained 56 percent of the variation in pay.

So, it really helps to be in the company of such blue- ribbon CEOs as Blankfein, Semel and Irani.

In the late 1950s, when I started as a compensation consultant, the top-paid jobs under a CEO were often vice presidents running the company's manufacturing, marketing and engineering units. CFOs typically came in fourth. Now the CFO position often ranks second.

There may be a simple explanation. We don't make much any more in this country -- we import. And we do a great deal of counting.

(My definition of total pay starts with the total figure shown in the proxy's Summary Compensation Table. From this figure are deducted the stock award and option grant values also shown in that table. Then the grant date fair values of stock awards and performance-contingent share awards made in 2006 are added, as is my estimate for the grant date fair value of 2006- granted stock options. Data for this study were obtained from Equilar Inc.)

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