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Saturday, 31 January 2009

## Some good news on executive pay



**Rachel Beck** - The Associated Press

NEW YORK -- There's finally some good news on executive pay.

The public outcry over sky-high compensation appears to have shaken some corporate boardrooms enough that changes are being made to curb pay, redefine appropriate practices and give shareholders more influence over compensation.

Wall Street has been the target of criticism for paying executives exorbitant amounts, all while allowing them to take excessive risks. Those firms now have been forced to alter their pay practices by the government under the taxpayer-funded bailout.

But outside the financial world, companies like Applied Materials Inc. and Intel Corp. are making changes on their own. It's too early to tell if what's being done will shift behavior in the long run, but it is a step in the right direction.

"We don't want changes that are just about shame," said Richard Ferlauto, director of pension and benefits policy for the American Federation of State, County and Municipal Employees, a Washington labor group representing government workers. "We want changes that tell how the CEO did in creating value for the shareholders."

After the corporate scandals involving Enron and WorldCom earlier this decade, there were calls to rein in executive pay. Just like now, investors charged that executives were rewarded for short-term results rather than sustained profitability.

But CEO compensation never came back down to earth, and the big rewards for taking big risks only ballooned.

That's why investors are demanding change. They don't want to see executives being pampered, overpaid and oblivious to shareholders.

It turns out that some directors are listening, at technology, retail, energy companies and more.

They recognize they can't just rubber-stamp CEO pay anymore, and then try to defend its size by saying it has to be that way to keep up with competitors.

Huddled in boardrooms nationwide right now, compensation committees and executives are pulling apart their pay programs. They are dissecting what they did, why they did it and what needs to be done going forward.

"There is a heightened awareness of power, accountability and stewardship in the compensation committee," said Myrna Hellerman, senior vice president at Sibson Consulting in Chicago who works with boards on executive pay. "There is a renewed intensity and focus in their decision making."

Already there is evidence that such changes are making a difference.

At Applied Materials, CEO Michael Splinter saw his pay shrink by 12 percent to \$9.7 million for the company's fiscal year ended Oct. 28, according to an Associated Press calculation. Last year, Applied Materials' profit fell 44 percent to \$961 million, sales fell 16 percent to \$8.1 billion and the company cut 2,800 jobs.

Part of Splinter's pay decline came from the 10 percent cut in executives' salaries for the last half of its fiscal 2008. Splinter's salary dropped from \$945,000 to \$929,385. The company also decided to not increase base salaries in 2009, the Santa Clara, Calif.-based semiconductor equipment maker said in its proxy statement.

In addition, Splinter's performance-based cash bonus totaled \$650,000, less than half the \$1.71 million that the company had targeted as his possible incentive pay during the year. That reduction came on Splinter's recommendation to cut costs in the face of the ongoing financial crisis and weakening global economy.



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Momentum is also building to give shareholders a vote on executive pay. This proposal seemed to be losing steam last year, with opponents arguing that investors aren't equipped to understand complicated pay issues.

But now, given the current state of the economy and financial system, "say on pay" seems to be gaining support. In recent weeks, three major companies -- Intel, Hewlett-Packard Co. and Occidental Petroleum Corp. -- have all said they will let investors have an advisory vote on compensation. That vote isn't binding, but it shines a bright light on the companies' pay policies.

So far, 16 companies grant or will allow such votes on executive pay, and dozens of other corporate boards are considering the same this year, said Timothy Smith, senior vice president at Walden Asset Management, which co-sponsored a shareholder resolution at Intel for say on pay.

"Very few companies are arguing back that this is terrible for governance," Smith said. "That's different from what we heard in the past."

Other companies are being more proactive about reaching out to shareholders to hear what they have to say about compensation.

Schering-Plough Corp. will survey its investors this spring on director and executive pay, as part of the proxy materials for its 2009 annual meeting.

While corporate boards wrangle with pay practices, the discussion in Washington regarding executive compensation is expected to heat up under the Obama administration.

U.S. Treasury Secretary Tim Geithner has said he might try to extend to all U.S. companies a restriction that prohibits banks participating in the bailout from taking a tax deduction of more than \$500,000 in pay for each executive.

New say-on-pay legislation is also expected to resurface in Congress, and new Securities and Exchange Commission chief Mary Schapiro has endorsed the idea of giving shareholders an advisory vote on pay.

There's still a long way to go to ratchet down executive pay. Every bit of progress counts.

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