

After a brief pause, Chicago CEO pay is on the rise again

By: John Rosenthal May 23, 2011



The recession-era talk of belt-tightening in the executive suite didn't last long: Chicago executives saw their total 2010 pay rise at a faster clip than the national average, faster than last year's 15% surge in the Standard & Poor's 500 Index, and far faster than the 2.7% pay bump that Chicago-area private-industry workers got last year.

According to Buck Consultants LLC research on 130 Chicago companies compiled for *Crain's*, the median CEO salary was \$3.3 million last year, 32% higher than the median salary of \$2.5 million among companies surveyed in 2009. The *Crain's* index of publicly traded Chicago stocks, meanwhile, rose 19.6% in 2010.

Among the executives near the top of *Crain's* annual **Fortunate 100** list of the area's highest-paid CEOs in 2010, Aon Corp.'s Gregory Case, John Deere & Co.'s Samuel Allen and Sanjay Jha of Motorola Mobility Inc. received some of the heftiest pay raises.

After two years of holding steady in the neighborhood of \$10.4 million, Mr. Case's 2010 compensation at Aon roughly doubled to \$20.8 million. The Chicago insurance brokerage's stock rose 20% last year in the wake of its 2009 acquisition of Lincolnshire's Hewitt Associates, though net income declined 5.5% for the year and the three-year total return for Aon shareholders was a flat 0.8%.

"Mr. Case's compensation was commensurate with the company's extraordinary 2010 performance," an Aon spokesman says, noting that 93% of his pay package was in the form of performance-based stock awards.

CHICAGO'S TOP-PAID CEOs



No. 1
Miles D. White



No. 2
James Owens



No. 3
Gregory Case



No. 4
James McNerney



No. 5
Irene Rosenfeld

Meanwhile, Mr. Allen got a 51% raise, elevating his base salary to \$1.2 million, while the bulk of his pay bump came from option awards (\$4.2 million) and performance-based cash incentives (\$5.3 million). Deere stock climbed 54% in 2010, although the three-year total shareholder return slipped by 4.8%.

“Pay for performance is an important component of our longstanding compensation philosophy,” the Moline-based maker of agricultural equipment says when asked about Mr. Allen's pay.

And Mr. Jha and his corporate cousin, Motorola Solutions Inc. CEO Gregory Brown, both got raises in connection with the January split-up of the old Motorola empire. Mr. Jha, now running the cellphone business, saw his 2010 pay more than triple from the previous year to \$13 million. About \$10 million of that came in the form of stock-option awards. For Mr. Brown, now selling police radios and bar-code scanners, total compensation jumped 62% to \$13.7 million.

James Owens stepped down from the CEO job at Peoria-based Caterpillar Inc. in July, but not before receiving a thank-you from the board of directors: Pay for Mr. Owens, who remained chairman until Oct. 31, more than doubled to \$22.5 million, buoyed by a stock grant worth \$16 million as a reward for his “significant contributions in leading Caterpillar through the present economic downturn and positioning it for future success,” the company's proxy says.

Cat's performance was indeed solid in 2010, with net income rising 202% to \$2.7 billion on revenue of \$42.6 billion. Mr. Owens' successor, Doug Oberhelman, saw his compensation more than triple in 2010 to \$10.6 million. Cat stockholders shared in the bounty: The heavy-equipment maker's three-year total shareholder return was 42%.

' The good news is that pay actually does follow performance now more than it did before.'

— Don Delves, president, Delves Group LLC

It's difficult to draw a direct line between company performance and executive compensation—industry factors, market movements and the value of stock option awards vary from company to company. But, as stunning as a 32% rise in Chicago CEOs' median compensation might be to typical workers, whose pay is stuck in neutral, “executive compensation is much more tied to

performance now than it was 10 years ago,” says Don Delves, president of Chicago-based compensation consultancy Delves Group LLC.

He points to the Sarbanes-Oxley Act, the rise of “say on pay” initiatives, expanded proxy disclosure and other reforms for making directors and CEOs more accountable to shareholders. Corporate America, he notes, “had a pretty decent year in 2010, and the market improved. The good news is that pay actually does follow performance now more than it did before.”

A study of 200 large companies conducted for the *New York Times* by Redwood City, Calif., compensation-tracker Equilar showed that CEO pay last year increased by 12%, to a median \$9.6 million. A similar study by New York-based GovernanceMetrics International for *USA Today* reported a 27% increase. (National medians are higher than Buck's Chicago sample because they generally exclude smaller companies.)

Bonuses are up nationwide, too, by 30%, according to Philadelphia-based consulting firm Hay Group, which studied CEO awards at 50 of the largest corporations. Among the top 10 on *Crain's* Fortunate 100 list, however, annual bonuses were out in 2010; only Motorola's Mr. Jha received one, at \$426,000. But cash awards under incentive plans remained in fashion.

Stock grants also were an important part of the compensation mix last year. The largest stock-award recipient also happens to be No. 1 on the Fortunate 100 list: Abbott Laboratories CEO Miles White, who received stock awards valued at \$10.9 million. His total pay package actually shrank 2.5% last year to \$25.6 million.

Abbott's net income shrank even more, down 19.5% to \$4.63 billion.

Even though executive compensation is on the rebound, the frothy pre-crash days aren't exactly here again, and PR-sensitive companies are bracing for new rules designed to hold corporate chieftains, and their boards, more accountable when it comes to pay.

SPEAKING UP

Most of the buzz this proxy season is about the Wall Street Reform and Consumer Protection Act of 2010, better known as Dodd-Frank for its champions in Congress, former Sen. Chris Dodd, D-Conn., and Rep. Barney Frank, D-Mass. Many of the watershed law's requirements don't take effect until after this year's proxy season (See sidebar), but one provision in particular, say on pay, already is causing ripples throughout boardrooms.

“If you look at most proxy statements, there's a seemingly relentless focus on the linkage between pay and performance,” says Claudia Allen, chairman of the corporate governance practice group at Chicago-based law firm Neal Gerber & Eisenberg LLP. “Discussion of compensation can go on for 20 to 40 pages, and it can be hard for many people to understand.”

Despite say on pay's shortcomings, compensation experts say its greatest value is in giving shareholders the ability to weigh in on any and all questionable pay practices. That makes it the power that ultimately enforces any other tools investors might acquire to influence compensation.

“Most shareholders are not interested in micromanaging the pay program,” says Carol Bowie, head of compensation policy development at Institutional Shareholder Services Inc., a proxy advisory company based in Rockville, Md. “They just want to be sure the board is going to be responsive to their concerns. We’ve always had the media pointing fingers at the overpayers or poor performers who pay too much. Now, it really does compel companies to pay attention to their investors.”

“Say on pay is a significant net positive for shareholders,” adds Mr. Delves, the Chicago-based compensation consultant. “In addition to making executive compensation more accountable and more tied to performance, it will, to some degree, moderate the excesses and lead to a reduction in bad behavior.”

PERKS DECLINE

While overall compensation has returned to pre-recession levels, CEO perquisites like free medical care, country club memberships and gross-ups (in which the company pays the taxes on the cash value of a perk so the executive doesn't have to) are largely a thing of the past.

“Shareholders don't want to see companies paying for \$100,000 worth of stuff that CEOs should be paying for themselves,” says Michael Kesner, principal of the human capital practice at Deloitte Consulting LLP in Chicago.