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Study assails "pay for failure" at U.S. companies

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By Martha Graybow

NEW YORK (Reuters) - Dell Inc., Eli Lilly and Co. and Ford Motor Co. are among the 12 worst offenders of so-called "pay for failure" for their chief executives, a study released on Monday has found.

CEOs at these companies have all received total pay of more than \$15 million over the last two fiscal years, according to governance research firm The Corporate Library.

At the same time, the report said, the companies' total shareholder returns have fallen over the last five years and performance against peers slumped over the same period.

"It continues to be the case that far too much executive compensation is delivered without any link to performance at all," said the report, written by Corporate Library senior research associate Paul Hodgson.

The list includes five companies targeted by the research group in a similar study last year: Home Depot Inc., Pfizer Inc., Time Warner Inc., Verizon Communications Inc. and Wal-Mart Stores Inc.

New to this year's list were Dell, Eli Lilly, Affiliated Computer Services Inc., Ford, Abbott Laboratories Inc., Qwest Communications International Inc. and Wyeth.

At Verizon, Chairman and CEO Ivan Seidenberg was awarded \$32.5 million in total compensation over the last two fiscal years, while total shareholder return declined 5 percent over the past five years, according to the Corporate Library.

A Verizon spokesman said he had not seen the report, but the company's compensation programs are benchmarked against its peers. He said Verizon's stock has risen steadily over the last 16 months, with a 34.6 percent total shareholder return in 2006, ranking eighth among 33 peer companies.

Verizon spokesman Peter Thonis said that he did not believe The Corporate Library was using accurate figures, saying the 5-year total shareholder return during that period was up 0.9 percent. The Corporate Library's Hodgson said the figure was based on two sources of data and reflects the change in stock price plus dividends reinvested during the 5-year span.

Several companies on the list have had changes at the top recently. Home Depot and Pfizer, for example, both came under sharp criticism from investors who complained that exit packages worth an estimated \$200 million apiece for their outgoing chiefs were too generous given the companies' poor performance.

The Corporate Library said that, in the past year, Home Depot had changed its ways.

"Having done everything wrong in the employment agreement for former CEO Robert Nardelli, the same board -- or at least two-thirds of them -- turned a corner with the employment agreement for new CEO Francis Blake," the study said.

Blake took over as CEO in January. Home Depot said the new CEO and the board of directors "agreed to construct a compensation agreement that closely links his success with that of our associates and shareholders." It said 89 percent of Blake's pay "is at risk based upon company performance as determined predominantly by share price."

A spokesman for Eli Lilly said: "Our position on CEO compensation and our performance in general is that we feel we get very high value from our current leadership."

Dell spokesman Dwayne Cox declined to comment on the study, but said: "In

the 23 years since we've been founded, we've been focused on building long-term value, and that focus continues."

Dell founder Michael Dell in January replaced Kevin Rollins as CEO after the computer maker repeatedly missed analysts' financial forecasts amid slowing growth. Dell last year was displaced by Hewlett-Packard Co. as the world's market share leader in personal computers.

The Corporate Library said Dell handed out \$192.5 million in total CEO compensation in the last two fiscal years. Michael Dell made almost \$150 million in stock option profits in 2006, while Rollins made more than \$36 million from exercising stock options in 2005, according to the study.

Three companies named in the report -- Abbott, Qwest and Wyeth -- all qualified as "pay for failure" companies based on their 5-year shareholder return, although their stocks have recovered over the shorter term, the research group said.

A Wyeth spokesman, Doug Petkus, said the company ranked third in its peer group in total shareholder return from 2004 to 2006. He said CEO Robert Essner's compensation reflected his "outstanding leadership."

The study said Wyeth paid \$40 million in total CEO compensation over the past two years, while its 5-year shareholder return declined 9.3 percent.

Ford spokeswoman Becky Sanch said the auto maker's CEO compensation reflected the fact it recruited a new CEO, former Boeing Co. executive Alan Mulally.

"The compensation committee looked at the competitive environment and did what they needed to do to recruit him," she said.

Pfizer, Wal-Mart, Affiliated Computer, Time Warner, Qwest and Abbott were not immediately available for comment.

(Additional reporting by Bill Berkrot in New York, Poornima Gupta in Detroit and Philipp Gollner in San Francisco)

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