CEOs get pay raise despite low profits

By Kathleen Day
The Washington Post

At Staples Inc., the big office-supply chain, profits have slowed and the stock price is down by about 47 percent from last year's high of more than $28.

Its plan to spin off a separate Internet subsidiary was a flop.

So in an age when executive pay is supposed to be linked to performance, how has Staples' board of directors responded? With what some investors call a big bailout for themselves and senior executives — to compensate the top brass for money lost in the failed spinoff effort and give them an extra $18 million.

The plan is justified because the directors and executives have created an Internet division that, although unable to be spun off, "has added tremendous value to Staples' shareholders," said Staples executive vice president John Mahoney.

Falling stock prices, disappointing earnings and other bad news don't seem to be hurting the compensation of many U.S. executives, according to surveys of this year's proxy statements. The chief executives of the top 200 U.S. companies received a record average of $10.89 million in 2000, a 16 percent increase over the 1999 average, according to a survey by Pearl Meyer & Partners, a New York-based executive compensation consulting firm.

Stock options made up an average of $6.45 million of the compensation, an increase of 28 percent from 1999, according to the survey of companies that have reported or will soon report their pay packages in proxy statements to shareholders. Annual bonuses rose 20 percent, to an average $2.01 million.

Base salaries rose 4 percent and accounted for an average $1.13 million, or 10 percent of total pay.

The compensation committees of corporate boards of directors — which approve executive pay packages — attempted to address investors' protests during the 1990s about high executive salaries by making stock options a larger proportion of compensation packages. They touted options as a way to tie the interests of executives to the interests of shareholders: Both would do well if a company's stock price rose. Stock options also enabled cash-strapped technology firms to give big rewards to executives.

But many companies' stock prices have tanked and, in several cases, their chief executives are not suffering to the same degree as their shareholders.

Proxy statements from Staples, Amazon.com, Microsoft Corp., Qualcomm Inc. and Sprint Corp. reflect that executive pay is not following the downward direction of the companies' stock prices.

Companies are pulling from a grab bag of goodies — cash bonuses, stock awards, loan forgiveness and tweaking of option values — to give top executives a helping hand.

Qualcomm shareholders, led by the giant pension fund California Public Employees' Retirement System (Calpers), balked in February at a block of options for executives and other employees whose existing options had declined in value. Proxy votes at first ran against the authorization.

Qualcomm countered with a letter to shareholders saying the "no" votes "may be due to a misunderstanding." It implored investors to "review their voting positions" and "if necessary to re-cast their ballots." Qualcomm eventually won approval for the proposal. Shareholders won't know until next year how the plan affected the chief executive's pay, a company spokesman said.

Some executives of big firms are taking a hit. Charles Schwab Corp. co-chief executives Charles Schwab and David Pottruck cut their salaries in half for January, February and March. Hewlett-Packard CEO Carly Fiorina returned $625,000 of her $2.77 million cash compensation package for last year.

Other executives have had their compensation cut in one area but increased in others. Eric E. Schmidt, chairman and chief executive of Novell Inc., whose stock price has plunged from more than $43 in early 2000 to $5.06 last week, had his base salary of $602,308 frozen at last year's level and his cash bonus reduced to $399,495, down from $600,540 in 1999.

But he was awarded 1 million new stock options last year, twice what he received in 1999. Schmidt also got $103,216 in "other annual compensation" last year, up from zero in 1998 and 1999. The amount included $31,304 for financial planning, $21,548 for personal use of the corporate jet and $36,276 for one week of pay in lieu of "flexible time off."

Novell's proxy said its executive compensation programs are designed, in part, to "retain and motivate superior executive personnel."

Other executives, like those at Staples, would be buffered from their stock's poor performance under plans outlined in their proxies. Staples executives want to receive regular Staples stock in exchange for dot-com stock they hold — the market downturn torpedoed that stock in its initial public offering.

The deal would give the group, led by Thomas G. Stemberg, Staples' chairman and chief executive, enough to repay $34 million in bank loans that Staples arranged for them to buy the dot-com stock in the first place — and leave them nearly $18 million in profit.

Staples is "asking shareholders' approval to convert worthless shares into cash," said corporate governance expert Nell Minow. "It's outrageous."

Ken Bertsch, corporate governance director of TIAA-CREF, the world's largest pension fund and a Staples shareholder, said of the proposal: "There are fundamental issues raised in this deal about accountability and who the directors owe their allegiance to: Is it to the shareholders of Staples or to themselves?"

Staples manager Mahoney said the Internet division of Staples has added greatly to shareholder value by giving customers another venue for purchases.

He said the unit is expected to generate a profit within a year.