

Wall Street Chiefs' Pay Is Tied to Performance: Graef Crystal

March 24 (Bloomberg) -- While some people may object to the amount of money paid to Wall Street chief executive officers, major securities firms including Citigroup Inc. and Goldman Sachs Group Inc. do practice pay-for-performance.

In 2001, the median rise in the share prices of the six biggest securities firms -- Bear Stearns Cos., Lehman Brothers Holdings Inc., Merrill Lynch & Co., Morgan Stanley, Citigroup and Goldman Sachs -- was 4.5 percent, assuming reinvestment of dividends. The median total CEO pay declined 40 percent to \$20.6 million.

The median return was a decline of 13.8 percent in 2002, when median pay dropped by 29 percent to \$14.6 million. Last year, the return was a 23.8 percent gain, while pay rose 76 percent to \$25.7 million.

During the past three-year period, the median share-price gain was 13.6 percent, while the median pay dropped 25 percent. It's hard to think of any other industry in America where CEO pay decreased over the same period and to the same extent.

The firms, their CEOs, stock return and 2003 CEO pay:

Company	CEO	Total Return FY2003 (%)	Total Pay (\$ mln)
Bear Stearns Cos.	James Cayne	14.5	40.1
Citigroup Inc.	Sanford Weill	41.5	54.2
Goldman Sachs Group Inc.	Henry Paulson	22.9	21.4
Lehman Brothers Holdings Inc.	Richard Fuld	18.5	23.0
Merrill Lynch & Co.	Stanley O'Neal	56.8	28.4
Morgan Stanley	Philip Purcell	24.7	15.6
	Low	14.5	15.6
	Median	23.8	25.7
	Average	29.8	30.5
	High	56.8	54.2

(Pay here means the combination of salary, annual bonus, my estimate of the value at grant date of stock options awarded using the Black-Scholes pricing formula, the value at grant date of share awards, long-term incentive pay and miscellaneous compensation. Data were obtained from Equilar Inc., an independent supplier of executive pay information.)

The six companies can be grouped into three size categories: big (Citigroup); medium (Goldman, Merrill and Morgan); and small (Lehman and Bear Stearns).

The pay given to the CEOs of the three medium-sized firms is extremely high compared with the pay at non-securities firms of similar size. Still, there are precedents for pay of this level. And there's no question that the three firms did well in 2003.

Lehman, Bear Stearns

The pay for the CEOs of the two small firms -- Lehman and Bear Stearns -- is a different matter. While Fuld's \$23 million pay package is not totally without precedent among non-securities firms of similar size, the \$40 million earned by Cayne is a chart-buster. A package this large in a company

this small occurs about as often as a year with 40 inches of rain in the Mojave desert.

Face it, Cayne and before him, Alan ``Ace'' Greenberg, have never let the small size of Bear Stearns get in the way of outpaying their bigger rivals. I can almost hear them saying: ``Well, if we can't be the biggest, we can at least be the biggest-paying.''

Not quite, though. Jimmy and Ace have almost always ended up breathing the fumes from Sandy Weill's pay exhaust. I included Weill as Citigroup's CEO for the 2003 comparison, even though he wasn't CEO at the end of the year, because he had served for nine months of the year.

Comparable Companies

Citigroup's market value is four to five times that of Goldman, Merrill or Morgan Stanley, and Weill ran a company of such immense size and international scope that his compensation should be compared with that of CEOs of three other companies: Jeffrey Immelt of General Electric Co., Exxon Mobil Corp.'s Lee R. Raymond and Wal-Mart Stores Inc.'s H. Lee Scott.

Compared with these companies, Citigroup ranked fourth in revenue, and second in net income. While Citigroup was last in return on equity, its stock gain of 42 percent was the best.

Pay is a different matter. Based on my estimates of 2003 pay, Weill earned double the average compensation of the three other CEOs. My estimate for Weill's compensation is higher than the \$45 million Citigroup listed in its proxy statement because the company has, in my opinion, low-balled option values by predicting that an option will be exercised extremely early in its term and then applying a 25 percent discount.

In sum, a pay package of \$54 million for Weill is hard to justify. He was, of course, a CEO far longer than any of the CEOs in the other three companies, and his long-term performance record was spectacular. That should count for something.

No doubt, Citigroup's shareholders would be pleased if Weill had taken considerably less pay. Still, if faced with a choice between Sandy Weill and a cheaper CEO, there isn't much doubt which alternative they would have chosen.

The bottom line: While the size of their pay packages shows how much off course the whole world of executive compensation has sailed, the Wall Street CEOs do believe in pay-for-performance. And that's how things are supposed to work in America.

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