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Oil Executives Strike Gushers as Highest Paid: Graef Crystal

May 3 (Bloomberg) -- No one is striking bigger pay gushers these days than the top executives in the oil industry.

Think it's a coincidence that while the rest of us fork over \$3 a gallon these roughnecks of remuneration are making a killing? I wouldn't bet on it.

In a study of the 2005 total pay of 492 CEOs running companies with stock market values of \$3 billion or more, I found that five of the 16 most highly-paid CEOs were involved in the oil business, including the chief executive officers in first and second place.

They were Ray Irani, CEO of Occidental Petroleum Corp., whose pay of \$64 million busted the springs on the executive pay scale. The runner-up was Lee Raymond, the former chief of Exxon Mobil Corp., the world's biggest oil company. His 2005 pay package was \$49 million.

For the entire group, the median and average total pay was \$6 million and \$8.8 million, respectively.

(Total pay is the sum of: base salary; annual bonus; my estimate for the present value at grant of stock options granted during 2005, using the Black-Scholes model; the value at grant of free shares awarded during 2005; payouts made in 2005 under other long-term incentive plans; and miscellaneous compensation. Data for this study were obtained from Equilar Inc., a provider of executive pay information.)

Conservative Raises

The median increase in total pay between 2004 and 2005 for the 492 CEOs was 11 percent. The increase in average total pay, on an aggregate payroll basis, was 9.9 percent.

Although these numbers are several times more than what the average American worker received in the way of a raise in 2005, they are quite conservative compared to the trends in earlier years.

So what explains why one CEO earns a ton of money and another earns a relative pittance?

My statistical analyses showed that three factors, taken together, could explain 32 percent of the variation in pay levels:

-- The size of the company, as measured by 2005 net sales.

-- The excess return of the company, determined by subtracting from the company's actual total return for its fiscal 2005 the return on the Standard & Poor's 500 Index for the same period.

-- The degree of risk in the CEO's pay package, determined by the ratio of stock-option present value to total pay. (Stock options are the most risky form of pay.)

Reasonable Pork

All three factors were positive, meaning that an increase in any one of them would cause the competitive pay level to increase.

For an example, consider Henry McKinnell, the CEO of Pfizer Inc., the world's biggest drugmaker. In 2005, his pay package was worth \$17.2 million, a figure that itself was 22 percent lower than his 2004 pay of \$22 million.

With a pay level of \$17.2 million, McKinnell turned out to be paid 94 percent more than the simple average pay of the 492 CEOs.

Surely, he's a pay hog if there ever was one.

But wait a minute:

-- The average net sales of the companies in the study was \$12.7 billion. Pfizer's 2005 net sales were \$51.3 billion, or four times more than the average. Correcting for this huge difference in size raises the competitive pay level to \$18.8 million from the simple average of \$8.8 million.

Insufficient Penalty

-- The average total return of the 492 companies in 2005 was 13 percentage points above the S&P 500 return level. But Pfizer's total return was 11 percentage points below that level. If Pfizer's higher net sales are combined with its lower total return, competitive pay decreases to \$16.6 million. That's a 12 percent penalty for poor performance. (Many, me included, think that's an insufficient penalty for performing so far below the S&P 500. But the fact that there is even that much of a penalty is heartening, because in many earlier years I couldn't find any correlation of pay to total return.)

-- Finally, if Pfizer's higher sales and lower total return are combined with its slightly higher pay-risk ratio, McKinnell's final competitive pay figure comes out to \$17 million.

So, from a starting point where McKinnell appeared to be paid almost double the market rate, we find that, after correcting for the three factors, he ends up being paid 1 percent above the market.

Give Us a Break

Still, adjusting for all those factors doesn't save either Irani or Raymond or, for that matter, any of the other three energy CEOs in the Top 15 from making the grade as pay porkers. The median percentage by which the pay of the five oil boys exceeded all my competitive adjustments was 361 percent.

Giving consumers a \$100 rebate on their gasoline purchases is utterly laughable -- especially considering that the federal budget is not exactly in balance. A better idea would be for the oil company CEOs and their doubtless bloated subordinates to give back, say, half their pay so that their companies could, in turn, cut the price of gas.

The table that follows shows, in descending order of total pay, the 100 most highly paid CEOs in the group of 492 CEOs. Next to each pay level is shown the percentage by which actual pay is either higher or lower than a competitive level that takes account of differences in company size, company performance and CEO pay risk.

Company	CEO	Total Pay in 2005 (millions)	Percent Above/ Below Competitive Level
Occidental Petroleum	Ray Irani	\$64.3	403%
Exxon Mobil Corp.	Lee Raymond *	\$48.9	64%
Coach Inc.	Lew Frankfort	\$46.1	386%
Yahoo Inc.	Terry Semel	\$43.8	296%
KB Home	Bruce Karatz	\$43.2	311%
Valero Energy Corp.	William Greehey *	\$40.0	61%
Goldman Sachs Group	Henry Paulson	\$39.1	128%
Lehman Brothers	Richard Fuld	\$38.3	123%
Unitedhealth Group	William McGuire	\$37.7	44%
Home Depot Inc.	Robert Nardelli	\$37.4	95%

Toll Brothers Inc.	Robert Toll	\$36.0	290%
Massey Energy Co.	Don Blankenship	\$36.0	545%
Merrill Lynch	Stanley O'Neal	\$35.5	135%
Ryland Group Inc.	Chad Dreier	\$34.4	398%
Freeport McMoRan C&G	Richard Adkerson	\$32.8	273%
XTO Energy Inc.	Bob Simpson	\$32.2	361%
Lennar Corp.	Stuart Miller	\$31.7	196%
EMC Corp.	Joseph Tucci	\$31.1	264%
Bear Stearns	James Cayne	\$30.2	224%
Genentech Inc.	Arthur Levinson	\$29.9	86%
United Technologies	George David	\$28.1	18%
CVS Corp.	Thomas Ryan	\$28.1	90%
Omnicare Inc.	Joel Gemunder	\$26.1	158%
Sprint Nextel Corp.	Gary Forsee	\$25.8	74%
American Express Co.	Kenneth Chenault	\$25.2	86%
Comcast Corp.	Brian Roberts	\$24.8	117%
News Corp.	Rupert Murdoch	\$23.6	120%
Citigroup Inc.	Charles Prince	\$23.0	14%
MGM Mirage	Terrence Lanni	\$22.9	124%
Sunoco Inc.	John Drosdick	\$22.9	29%
Harrahs Enter.	Gary Loveman	\$22.8	88%
CSX Corp.	Michael Ward	\$22.7	165%
JPMorgan Chase	William Harrison *	\$22.3	28%
Motorola Inc.	Edward Zander	\$21.5	19%
PNC Financial Svcs.	James Rohr	\$21.2	146%
MetLife Inc.	Robert Benmosche *	\$21.0	20%
Bank of America	Kenneth Lewis	\$20.9	12%
Procter & Gamble Co.	Alan Lafley	\$20.7	7%
Equitable Resources	Murry Gerber	\$20.6	386%
Tyco International	Edward Breen	\$20.4	15%
TCF Financial Corp.	William Cooper	\$19.8	456%
Aetna Inc.	John Rowe *	\$19.6	3%
Pulte Homes Inc.	Richard Dugas	\$19.5	54%
Verizon Commun.	Ivan Seidenberg	\$19.4	30%
Prudential Financial	Arthur Ryan	\$19.0	21%
W. R. Berkley Corp.	William Berkley	\$19.0	150%
Capital One Finl.	Richard Fairbank	\$18.9	11%
Intl. Bus. Machines	Samuel Palmisano	\$18.6	-10%
Colgate Palmolive	Reuben Mark	\$18.6	110%
Wellpoint Inc.	Larry Glasscock	\$18.3	-20%
Altria Group, Inc.	Louis Camilleri	\$18.1	0%
Peabody Energy Corp.	Irl Engelhardt *	\$18.1	107%
Gap Inc.	Paul Pressler	\$18.0	27%
Time Warner Inc.	Richard Parsons	\$17.8	12%
Hartford Finl. Svcs.	Ramani Ayer	\$17.6	29%
Schering Plough	Fred Hassan	\$17.6	65%
Cigna Corp.	Edward Hanway	\$17.5	28%
Caremark Rx Inc.	Edwin Crawford	\$17.3	-21%
AT&T Inc.	Edward Whitacre	\$17.2	24%
Pfizer Inc.	Henry McKinnell	\$17.2	1%
Cooper Cameron Corp.	Sheldon Erikson	\$17.1	82%
Wells Fargo & Co.	Richard Kovacevich	\$17.0	-10%
Ametek Inc.	Frank Hermance	\$17.0	275%
McGraw-Hill	Harold McGraw	\$16.9	59%
Marathon Oil Corp.	Clarence Cazalot	\$16.7	-19%
Lyondell Chemical	Dan Smith	\$16.7	70%
Western Digital	Matthew Massengill *	\$16.4	114%
Target Corp.	Robert Ulrich	\$16.4	-12%
Edison Intl.	John Bryson	\$16.3	43%
Honeywell Intl.	David Cote	\$16.0	2%
Textron Inc.	Lewis Campbell	\$15.9	86%
Halliburton Co.	David Lesar	\$15.9	5%
Emerson Electric Co.	David Farr	\$15.8	42%
Nuveen Investments	Timothy Schwertfeger	\$15.8	317%
Maxim Integ. Prod.	John Gifford	\$15.7	122%
Wachovia Corp.	Kennedy Thompson	\$15.7	3%
General Dynamics	Nicholas Chabraja	\$15.4	11%
Black & Decker Corp.	Nolan Archibald	\$15.4	89%
General Electric Co.	Jeffrey Immelt	\$15.4	-27%
Washington Mutual	Kerry Killinger	\$15.4	30%
Pepsico Inc.	Steven Reinemund	\$15.3	-5%
Ross Stores Inc.	Michael Balmuth	\$15.3	96%

Genzyme Corp.	Henri Termeer	\$15.2	62%
Cardinal Health Inc.	Robert Walter *	\$15.1	-42%
Wal Mart Stores Inc.	Lee Scott	\$14.9	-54%
Cisco Systems Inc.	John Chambers	\$14.9	-20%
Abbott Laboratories	Miles White	\$14.7	6%
Devel. Div. Realty	Scott Wolstein	\$14.7	329%
Qwest Communications	Richard Notebaert	\$14.6	14%
Norfolk Southern	David Goode *	\$14.4	60%
Trizec Properties	Timothy Callahan	\$14.2	305%
Johnson & Johnson	William Weldon	\$14.2	-23%
Pepsi Bottling Grp.	John Cahill	\$14.0	18%
Deere & Co.	Robert Lane	\$14.0	13%
KLA Tencor Corp.	Kenneth Schroeder *	\$13.9	129%
Xcel Energy Inc.	Wayne Brunetti *	\$13.9	70%
Plains Expl.& Prod.	James Flores	\$13.9	215%
HCC Ins. Holdings	Stephen Way	\$13.8	146%
Eaton Corp.	Alexander Cutler	\$13.8	42%
Alcan Inc.	Travis Engen *	\$13.5	10%
	Low	\$13.5	-54%
	Median	\$18.2	62%
	Average	\$22.1	101%
	High	\$64.3	545%

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