

Redstone, Karmazin Highest-Paid Duo: Graef Crystal (Correct)

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(Corrects combined earnings to \$279 million from \$139 million. Commentary. Graef Crystal is a columnist for Bloomberg News. The opinions expressed are his own.)

Nov. 19 (Bloomberg) -- I don't know whether Sumner Redstone and Mel Karmazin are hooked together in series or in parallel. Whichever way, the power they produce has been rerouted, not to their shareholders' interests, but to their own pay packages.

There hasn't been a time in recent memory when Redstone, the chief executive officer of Viacom Inc., wasn't paid hugely. Until Karmazin, the company's chief operating officer, showed up in 2000 with the acquisition by Viacom of CBS Inc., Redstone received freight cars full of stock options and no cash. For example, in 1998, Redstone received an option covering 4 million shares that the company itself claimed was worth \$52 million at the time of its grant. That was the only item in his pay package that year.

Karmazin, in contrast, arrived with a lavish pay package, including lots of cash. In 1999, his last full year as CEO of CBS, his bonus came to \$19 million.

All that cash triggered in Redstone, to paraphrase Sigmund Freud, an acute case of pay envy.

Redstone, who has absolute control of Viacom through his Class A holdings, decided he should match Karmazin dollar for dollar. And he has.

Two things immediately stand out when looking at the compensation for Redstone and Karmazin. First, except for some tiny amounts of miscellaneous compensation, each and every element of the pay package is exactly the same for both executives, something that almost never happens to the CEO and the COO of the same company. Second, their combined pay is far more than any CEO-COO combination that I can find among comparably sized companies.

Base Salary

Using data furnished by Equilar Inc., an independent supplier of executive pay information, I identified U.S. companies with 2002 net sales in the \$15 billion to \$35 billion range. (Viacom's net sales of \$24.6 billion were right in the middle of that range.)

Each of the 30 companies had both CEO and COO positions, enabling me to add together the pay of the two executives for various forms of compensation.

Here's what I found:

-- In base salary, the Viacom duo earned \$7.3 million last year, a figure that was twice the \$3.7 million earned by the next highest-paid combo -- Archer-Daniels-Midland Co. -- and 3.9 times the median pay.

-- In the combination of base salary and bonus (total cash compensation), the Viacomers earned \$40.3 million, a level that was 2.1 times higher than the next highest-paying company - Goldman-Sachs Group Inc. -- and 8.9 times the median.

All Compensation

-- Finally, in all pay elements combined, Redstone and Karmazin together earned \$68.3 million, which weighed in at 1.6 times the next highest-paid company -- UnitedHealth Group Inc. -- and 5.3 times the median. (That includes: total cash compensation; the estimated present value of stock options measured at the time of the grant, using the Black-Scholes model; the value at grant of free share awards; payouts under other long-term incentive plans; and miscellaneous compensation.)

Note that the most overpaid part of the Viacom pay packages is in the cash bonus area. There, the two executives' combined bonus of \$33 million was 1.9 times that of the next highest company -- Goldman Sachs -- and 13.1 times the median.

Indeed, even their combined target bonuses of \$13.3 million -- the bonus that is theoretically paid just for average performance -- is higher than the actual bonuses paid by any of the 29 other companies.

The Viacom Numbers

That's a big sea change from the days when Redstone turned his back on cash and favored stock options. To me, that suggests that Redstone is nowhere near as bullish on his company's prospects as he once was.

For the three years 2000 through 2002, Redstone and Karmazin have earned, by my estimation, the munificent sum of \$279 million.

So what have they done in return for all that largesse?

The short answer is hardly anything.

Measuring from May 4, 2000, the effective date of Viacom's acquisition of CBS, total return, through this Nov. 14 was negative 10.6 percent a year, a level that was a full four percentage points behind the negative 6.6 percent a year return on the Standard & Poor's 500 Index.

Looking at price appreciation alone, Viacom, during the same period, ranked at only the 23rd percentile of the price gains made by the members of the S&P 500 Index, meaning that 77 percent of the companies outperformed it.

Price Volatility

Equally as bad, for having to endure such low performance, the beleaguered shareholders of Viacom have also had to put up with 2.1 times more stock price volatility compared to having put their money in the S&P 500 Index.

What to do? Barring a dramatic reversal in performance, Karmazin's pay package needs to be cut hugely. The obvious place to start would be with his out-of-sight bonus.

As for Redstone, he needs to get over his pay envy and to realize that his \$7.5 billion of Viacom stock makes it unnecessary for him to pay himself even a competitive wage, much less one that vaults him into first place compared with his major company peers.

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The members of Viacom's board compensation committee are:

-- William Schwartz, committee chairman, and counsel to Cadwalader, Wickersham & Taft and professor of law, Yeshiva University.

-- William Gray, president and CEO, the United Negro College Fund.

-- Jan Leschly, chairman and CEO, Care Capital LLC.

-- Frederic Salerno, chairman, Lynch Interactive Corp.

-- Patty Stonesifer, co-chair and president, Bill and Melinda Gates Foundation.

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