

What is Your CEO Worth?

Is your company's top brass correctly compensated or the happy recipient of "old-board's network" largesse? The answer is becoming increasingly difficult to discern.

By Scott Williams

You are The Boss. You wield the power and hold your company's future in your hands. People listen when you talk and do what you tell them. You work hard and, you hope, your company profits. So how much should you be paid?

For Getty Images CEO Jonathan Klein, the online image empire decided he was worth \$17.1 million in salary, bonuses, special payments and stock options in 2005. Klein tops the latest list of Washington's highest-paid CEOs, according to data collected by Equilar Inc., a San Mateo, Calif. company specializing in tracking executive compensation.

Washington Mutual Chairman and CEO Kerry Killinger follows Klein with earnings of \$16 million. Starbucks Corp.'s new president and chief executive, James Donald, ranks third with \$13.9 million. Such windfalls beg the question: Are these CEOs really worth that much money? Does Jim Donald deserve to take home a paycheck hundreds of times larger than his average employee? If you are the one foaming those lattes, you might not think so. But, apparently, Starbucks' board of directors believes he is worth every penny.

CEO compensation remains one of the most controversial issues in business today. In Washington and across the country, compensation experts are asking pointed questions about the true value of a CEO. How should a chief executive's performance be measured? Should he or she be evaluated against the long-favorite criteria of internal, fundamental standards, such as revenue growth or income performance?

Is the appreciation in a public company's stock price the best gauge? Should employee turnover be considered? Or should an increasingly popular new set of benchmarks be used, such as "peer comparisons," a calculation that balances a CEO's compensation against that of chief executives at other, similar companies? Perhaps even less quantifiable measures such as employee or customer satisfaction should be factored in, too.

As chief executives and their extremely complicated pay packages face increasing scrutiny, there is no consensus yet on how to gauge the person's worth. But one thing is certain: the monetary standards by which CEOs are judged are changing.

Politics of pay

Even compensation experts differ on the issue of CEO pay. The criteria used by interest groups vary, and their choices of standards may at times reflect political bias.

"How well is [the company] doing in the community? What is it doing for employees? Are they laying off people, outsourcing? These are all reasonable [considerations]," that do not usually enter into the calculations, explains Warren Boeker, a business professor at the University of Washington. Throw in, too, the element of luck. "The CEOs might just happen to be the right person at the right time," Boeker adds.

While the compensation numbers for Washington's top CEOs might seem huge, they sound like paupers when compared to the really big earners in other parts of the country. Take, for instance,

the \$190 million in pay and retirement money the New York Stock Exchange gave its former boss, Dick Grasso. After a public furor, Grasso is being forced to give part of his severance pay back. And current Yahoo CEO Terry Semel, according to Equilar, earned \$439 million in various forms of compensation from 2003 to 2005.

Such nine-figure pay packages have earned criticism from people like Michael Cunningham, founder of the Minneapolis-based, socially responsible investment firm Creative Investment Research. By Cunningham's calculations, the ratio of executive compensation to earnings of the average employee—which stood at 42:1 in 1980—has grown by more than 10 times to 431:1 in 2004.

In addition, the statistics represent only annual direct compensation, defined by Equilar as a combination of base salary, bonuses, stock options and restricted stock awards, long-term incentive payouts and other compensation. Not included is one key factor in determining a CEO's total wealth: the value of his or her stock holdings in the company.