Special Report: The Real Story Behind Rising CEO Pay

By Elliot Blair Smith,
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This four-part series presents CEO pay and compensation consultants through a new lens, reporting *how* an executive is paid can be as important as how much — and detailing how Ira Kay of Pay Governance LLC and other executive-compensation specialists are little-known architects of pay-bracket bulge for the 1 percent:

Part 1: The Man Pushing CEO Pay to the Stratosphere

- On average, the S&P 500 boards advised by Kay’s firm compensated their CEOs $1.6 million above the median of their own peer groups, based on an analysis of the companies’ 2012 proxy filings; and this understates an estimated $3 million gap. Columbia University researchers randomly produced 100 alternative peer groups for each of the firm’s big-company clients, using the client industry codes, revenues and market capitalization, and found the companies' baseline was $1.4 million more than comparable alternatives.

  One Pay Governance client, DirecTV, replaced the lowest-paid CEO in its 15-member media peer group with another earning almost five times as much in 2012, "because of the limited access to executive pay data" on deleted peer British Sky Broadcasting, and the fact the new peer, Charter Communications, had "emerged from bankruptcy." But Charter exited bankruptcy three years earlier and British Sky continues to report CEO pay. One change is that the Charter CEO's compensation recently had doubled to $20.5 million.

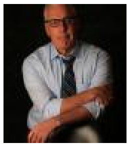
Part 2: How Smithfield Foods Larded Its CEO's Pay Package

- Opaque disclosures and amorphous bonus targets cloak the packaging and delivery of big-money rewards to well-paid executives. Wal-Mart paid its former CEO a $2 million bonus for "achieving at least 2.5 percent revenue growth" in a year when adjusted revenues grew by 1 percent. Alcoa doubled the shares and options granted to its CEO amid a 45 percent decline in the stock price, and took credit for having "reduced the grant value" of the equity incentive. Smithfield Foods accelerated millions of dollars in previously undisclosed performance payments to its CEO after the sale in September of the company to Chinese investors. Included was $4.4 million in performance shares granted to the CEO *after* the merger price had been set, in a quarter when profits fell by 36 percent and that vested in just three months. It was disclosed in the footnote to the CEO’s stock-sales form, filed a day after the merger closed.

  Each of the firms is a Kay client. Usha Haley, a management professor at West Virginia University, says the payouts to Smithfield produced short-term benefits to management and long-term benefits to China by making the United States "an exporter of the commodity of pork to China and an importer of higher value-added processed foods."

Part 3: The High-Stakes Fight Over How to Measure CEO Pay

- The 848-page Dodd-Frank Wall Street Reform and Consumer Protection Act dedicates 149 words to requiring a new disclosure about "pay versus performance" at public companies. Nearly four years later, the law remains hollow as big business groups and executive-pay consultants lobby over how to define such terms as "paid." Three-quarters of the $15.8 million in pay for one S&P 500 CEO wouldn't count toward performance pay because of temporarily out-of-the-money stock options, under a proposal by the Conference Board and Kay that they presented to policy makers and rule-writers at the Securities and Exchange Commission last month. The nearly $1 million in above-market interest paid into another CEO's retirement savings last year wouldn't count either. "If you're stripping out pension valuations and other things, you're cooking the books," says Harvard Law School professor Jesse Fried.



Elliot Blair Smith
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Elliot Blair Smith is a Gerald Loeb Award winner for investigative journalism and a two-time finalist. He has worked as a foreign news bureau chief in Latin America; a war correspondent in Afghanistan, Pakistan and Iraq; and now specializes in economics, finance and government policy.
