

GraefCrystal.com

The Crystal Report on Executive Compensation



The Endless Circle of Executive Pay

by Graef Crystal

February 2, 2009

Bank of America Corp. has just announced that it is going to pay 2008 bonuses of \$50,000 or more over three years, instead of all at once.

In a Jan. 30 Bloomberg News article by David Milken and Josh Fineman, Jeanne Branthover of Boyden Global, an executive search firm, gushed: "This is historic".

Not by a longshot Ms. Branthover.

Back in 1967, when I was the newly-appointed compensation director of General Dynamics Corp., I received my first bonus – for \$5,000.

My boss put the bonus check in my left hand while he pumped my right hand.

I was thrilled but the thrill wore off when I glanced down and saw that the check was drawn in the amount of \$1,250, not \$5,000.

That's because General Dynamics had a policy of paying bonuses in four equal annual installments.

Our head of human resources had come over from General Motors Corp., where bonuses were also paid over multiple years, and he brought the practice with him. In those days, GM was the model of the very best in corporations. (Hard to think that today.)

The purpose back then was not to set up a "clawback" position but merely, as General Dynamics said, "to provide an incentive to remain with the company."

It seemed to me, the recipient, that it was less an incentive to remain with the company than a disincentive to leave the company. If I had received further \$5,000 bonuses every year, it would have taken three more years before I actually received a real check for \$5,000.

In the meantime, I would be vulnerable to the blandishments of another company, one that would give me the money all at once. Which is how I came to depart General Dynamics and join Pfizer Inc.

If you learn one thing after being in the executive pay field for 50 years, you learn that the field doesn't move in a straight line. Rather, it moves in a circle. Stay in it long enough, and you will see old ideas recycled as new ideas.

2009 marks GRAEF Crystal's 50th anniversary in the executive compensation field. He has been a director of compensation for General Dynamics and Pfizer, worked as a consultant for Booz, Allen & Hamilton, served as worldwide practice director at Towers Perrin, was a professor at the University of California at Berkeley's Haas School of Business for 10 years and a syndicated columnist for Bloomberg News for almost nine years. He has written six books and more than 1,600 articles on executive pay. He is now teaching a course in executive compensation at the University of California at Berkeley's Boalt School of Law.