

GraefCrystal.com

The Crystal Report on Executive Compensation



Sixteen CEO Pay Heroes

by Graef Crystal

September 29, 2010

Yes, Virginia, there are a few CEOs out there who are terrific buys. Those folks give their shareholders fine performance and yet take substantially below-market levels of total pay.

Measuring Pay

I revisited a 271-CEO database I created for Bloomberg News last April. Every CEO in the database was running a company in the Standard & Poors 500 Index. And every CEO had two or more years of service.

By employing regression analysis, where the dependent variable was total pay and the independent variable was the company's 2009 sales, I could explain 41 percent of the differences in CEO pay levels.

By subtracting from the CEO's actual pay the result from the regression analysis, I could then determine the extent to which the CEO was paid above or below the "market". That in turn allowed me to calculate the CEO's market percentile ranking. The CEO whose actual pay most lagged the regression reading for his company was assigned a percentile rank of zero. The CEO whose actual pay most exceeded that regression reading was assigned a percentile rank of 100. And if there was a CEO whose actual pay exactly equaled the regression pay, that CEO was assigned a percentile rank of 50.

Measuring Performance

Next, I turned to the performance of these 271 CEOs.

My favorite performance measure is total return, i.e., stock price appreciation plus reinvested dividends. It is the favorite of every shareholder, too. And what is more, the CEO cannot manipulate the outcome, as might well be the case were his performance to be measured by the extent to which actual profits were above or below a budgeted level proposed by – guess who.

Normally, if we're talking about pay in 2009, I would use as my performance factor the company's total return in 2009 – or better yet, the company's 2009 excess return (i.e., actual return less the return for the same period on the S&P 500 Index). But we haven't been in "normal" times for at least two years.

Indeed, something abnormal was going on. The median total return in 2009 for all 271 companies was 30.4 percent, suggesting that shareholders ought to have been thrilled. But the median total return for 2008 was almost a mirror image of the 2009 results – a median return of **negative** 35.9 percent.

I reasoned here that shareholders would not allow themselves to be suckered in by a brilliant result for 2009 without also taking into account the dismal result for 2008.

Therefore, I decided to base my analysis on total returns for **both** 2008 and 2009. The median, calculated this way, was a negative return of 6 percent.

I then determined the two-year excess return for each company and ranked the resulting excess total returns. Then these excess returns were converted into percentiles, where a percentile rank of 0 denoted the poorest-performing company and a percentile rank of 100 denoted the best-performing company.

Searching for the Pay Heroes

Finally, I queried the pay and performance databases to select CEOs who met two criteria:

- The CEO's pay rank had to be at or below the 25th percentile.
- The company's performance rank had to be at or above the 75th percentile.

My 271 CEOs immediately shrunk to just 16.

But these 16 CEOs are the ones shareholders ought to be thinking about when they decide to put some money in the stock market or move some money around.

These, after all, are the very best buys. They and their board compensation committees should be congratulated for being so shareholder-friendly.

Herewith the list of the 16 CEOs, showing for each his percentile pay ranking and his percentile performance ranking. The list is arrayed in descending order of the performance percentile rank.

Company Name	CEO Name	PAY PCTILE	PERFORMANCE PCTILE
Watson Pharmaceuticals Inc	Paul M Bisaro	18	99
Amazon.com Inc	Jeffrey P Bezos	0	99
Autonation Inc	Michael J Jackson	7	96
Public Storage	Ronald L Havner Jr	2	93
O'Reilly Automotive Inc	Gregory L Henslee	4	92
Teradata Corp	Michael Koehler	15	90
LSI Corp	Abhijit Y Talwalkar	11	90
C.H. Robinson Worldwide Inc	John P Wiehoff	1	89
Life Technologies Corp	Gregory T Lucier	18	88
Waste Management Inc	David P Steiner	9	87
Nicor Inc	Russ M Strobel	6	86
Fastenal Co	Willard D Oberton	0	83
TECO Energy Inc	Sherrill W Hudson	3	81
Equity Residential	David J Neithercut	15	79
Gap Inc	Glenn K Murphy	4	76
Simon Property Group Inc	David E Simon	17	75

2010 marks Graef Crystal's 51ST 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 for 18 years, 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.