

Pay Up

With finance talent in high demand, companies are boosting compensation — and making some demands of their own.

[Don Durfee](#), CFO Magazine
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The past few years have been good for Occidental Petroleum CFO Stephen Chazen. In 2005, he earned nearly \$33 million, including gains on options he exercised and long-term incentive-plan payouts. That puts him at the top of the latest list of highest-paid finance executives, compiled for *CFO* magazine by Mercer Human Resource Consulting. He was number four when we did the study last, in 2004.

Chazen owes some of his wealth to luck. He became CFO of Los Angeles-based Occidental in 1999, when the price of oil was below \$20 a barrel and few expected much of the company. Since then, of course, the price of oil has more than tripled, and Occidental's stock price has followed suit.

"When the company gave out [the executive team's] options, our stock had traded at \$20 to \$30 per share for years. No one actually thought it would be a \$100 stock," says Chazen.

Still, much of Chazen's options-related pay depends not on the simple rise of Occidental's stock price but on whether shareholders' returns exceed competitors' returns — and they have for several years. Starting this year, Chazen will have to clear a new hurdle to receive restricted stock grants. In July, Occidental declared that the top five executives will get stock only if the oil company meets or exceeds its cost of capital. If Occidental's average return on equity over three years matches its 11 percent cost of capital, executives receive one-fifth of the (undisclosed) target number of shares. They receive the full target number at 15 percent ROE, and double that number at 20 percent.

Even if the surge in his pay has been extraordinary, much about Chazen's arrangement shows how compensation for a growing number of CFOs is evolving: they're making more, but boards are also making them work harder to achieve the mega-pay levels that became common in the 1990s.

The Price of Experience

On average, CFOs have seen a significant — if not extravagant — increase in their earnings in the past year. Average base pay for corporate finance chiefs in 2004 was \$274,000, with bonus pay of \$283,000. For 2005, base pay climbed to \$306,000 and bonus pay to \$341,000. Long-term incentive amounts rose more sharply, from \$701,000 to \$812,000, an increase of 16 percent.

For CFOs at big companies, total pay surged 25 percent, from an average of \$2 million to \$2.5 million. True, pay for top CFOs hasn't quite reached the heights seen in our 2002 survey (based on 2001 salaries). That year, Michael Lehman of Sun Microsystems pulled in \$37.2 million. But CFO pay shows signs of soaring once again.

"Our survey records the gains CFOs realize on their equity awards, so we're seeing the net benefit of strong corporate performance," says David Cross, a principal at Mercer. But in addition to record earnings, unprecedented demand for skilled public-company CFOs is driving up compensation.

"I've been recruiting CFOs for 30 years, and have never seen so much demand in the mid-to-large-cap market as I have in the last 36 months," says Peter Crist, CEO of Crist Associates.

Silicon Valley firms are back in the hunt. "Funding dried up after the dot-com crash, but the VCs are back," says John Wilson, CEO of JC Wilson Associates, which recruits finance executives for the high-tech sector. "We're getting CFO requests from early-stage companies once again."

One reason for the surging demand: many big firms hope to upgrade their finance talent. As *Fortune* 1,000 companies get bigger and more global, and investor pressure intensifies, companies need a broader set of skills. The dwindling of the chief operating officer post contributes, since CFOs often are asked to take on many of the former COO's duties. Indeed, Chazen's wide-ranging job description at Occidental is beginning to sound almost typical. In addition to being CFO, he runs Occidental's chemical business and its gas marketing operation, and oversees its power plants, liquid-natural-gas facilities, and reservoir engineers.

Small firms are competing for specialized talent, too, mostly among finance professionals who are CPAs. "There's great skittishness on the part of investors," says Wilson, much of it reflecting concerns about compliance if their firm goes public. "They want someone who's a proven public-company CFO," he says.

Coaxing such executives into a new job has required some hefty equity offers. "To get a CFO out of his or her seat, you have to either have really substantial long-term incentives or you must offer a big block of stock," says Crist. "Compensation committees aren't wild about that, but they don't have much choice."

Today, that stock rarely comes in the form of equity alone. Instead, many companies pass out restricted stock as well. The move away from options isn't new, of course; it began after the dot-com crash pushed many options programs underwater and investors noted the role of options in high-profile accounting scandals. FAS 123R, which requires options expensing, accelerated the shift. Because options no longer confer an accounting benefit, boards consider options a less-attractive approach compared with other forms of equity pay.

And since the alternatives are costly, boards are studying them more closely as well. "Options expensing has caused firms to think about equity programs in a more strategic way," says Cross. Companies now make fewer employees eligible to receive stock. The 2006 data shows that within finance, compared with two years ago, those executives less likely to get stock-based long-term incentive plans include top accounting executives, risk managers, cost-accounting managers, and payroll managers. Going forward, companies are *more* likely to provide stock-based pay to CFOs, treasurers, divisional controllers, and the top tax, internal-audit, and financial-analysis executives.

Proof, Then Payment

Much of that incentive pay has a closer link to performance than in the past. For example, some CFOs receive options only if their companies' stock price rises faster than that of their peers. Others aren't allowed to cash in restricted stock grants unless they hit certain financial targets. Even qualifying for a bonus — which traditionally involves a performance component — is more challenging.

"This is a common theme among my clients," says Cross, who estimates that more than half of the (mostly manufacturing) firms with which he works are now using pay that is more closely linked to performance. Hurdles are typically market-based. Under the 10-year-old plan that governs Steve Chazen's pay package, for example, the compensation committee reviews Occidental's total shareholder returns for the previous four years and ranks them against a peer group, which includes companies such as ExxonMobil and Kerr-McGee. If Occidental ranks first, executives receive 200 percent of the target amount of options (10,000). Poorer performance means gradually fewer shares. If the company ranks last or second-to-last, executives get nothing.

At other times, companies' internal metrics determine the measures. As part of his compensation plan at transportation concern CSX, Oscar Munoz (#14 on this year's list) will receive performance units only if the rail company meets predetermined cash-flow targets over a two-year period. Insurer Consecro does something similar, tying the vesting of options to the achievement of operating ROE over a three-year period.

Oshkosh Truck now splits CFO Charles Szews's bonus between an earnings-per-share target and return on invested capital as compared with competitors' returns. Before 2002, bonuses were based 25 percent on net sales growth, 60 percent on EPS, and only 15 percent on predetermined (not relative) ROIC.

Should CFOs Get Incentives?

Does it make sense to link CFO pay to such goals? After all, Chazen notwithstanding, most CFOs lack the operational influence of a business-unit head. Internal Revenue Service commissioner Mark Everson is among those who raise governance concerns about CFO compensation that includes stock or other variable incentives. Speaking before the Senate Finance Committee in September, Everson argued that

finance chiefs, top corporate attorneys, board chairs, or other executives responsible for "minding the cookie jar" should receive generous, fixed cash payments only. Take away any incentive for mischief, runs his argument, and less fraud will result.

Neither CFOs nor compensation consultants like that idea, of course. Steve Van Putten, who runs the East Coast executive-compensation practice of Watson Wyatt Worldwide, notes that as the CFO's job expands into areas of strategy, variable pay is appropriate. "The CFO helps drive the performance and strategic direction of the company," he says. "And the best way to get the CFO to do that is with long-term incentives linked to shareholder value."

Slimmer paychecks for finance executives, moreover, could mean that the smartest candidates opt for more-lucrative work. "I think you would see a lot of ex-CFOs out there," says Chazen. "Of course," he adds, laughing, "I'd gladly take all of my compensation in cash, including the Black-Scholes value of the options."

For now, at least, incentive pay for CFOs shows no sign of disappearing. In fact, some experts believe we'll see more of it next year when the Securities and Exchange Commission's new compensation-disclosure rules take effect and CFOs will have to be included in the proxy statement's compensation table. Currently, the five highest-compensated managers — a group that doesn't always include the finance chief — must appear.

"Now that CFOs are required to be listed with the top-five list, you'll see many of them getting raises," says Van Putten. That's because CFOs will be able to compare their pay with that of their peers and lobby for an increase. Also, some boards may decide to increase CFO pay to levels similar to that of the other listed executives.

Higher CFO pay would leave some executives with another challenge: what to do with the bonanza. "Now I need to figure out how to give away all this money," says Chazen. "I want to arrange it so that when I die my hand opens up and the last quarter rolls out and into some charity's pocket."

Don Durfee is research editor of CFO.

Topping the CFO

Which finance executives have score the sharpest gains in pay?

One group of finance executives saw its pay rise more than any other last year, but it wasn't CFOs. It was controllers.

Between 2003 and 2005, the average base salary for corporate controllers rose 22 percent, from \$305,700 to \$340,600. Bonus and long-term incentive payments climbed even more sharply, by 37 percent and 29 percent, respectively.

It's a simple matter of supply and demand, says John Wilson, CEO of recruiting firm JC Wilson Associates. Still worried about the possibility of damaging accounting slipups, directors are pushing CFOs to hire the most qualified controllers they can find. Indeed, a recent survey of finance executives conducted by CFO Research Services (a division of *CFO Publishing*) and Ajilon finds that executives rate demand as stronger for controllers than for any of a CFO's other direct reports.

Controllers are in no greater supply today than they were five years ago, however. Given aggressive hiring by accounting firms, there may even be fewer.

"Controllers — especially the really good ones — are highly prized these days," says Wilson. "It's driven by the board's fear of surprises. As CFOs spend more time on strategy, directors want a strong controller as a second line of defense, knowing that the CFO won't be spending much time on green-eyeshade activities."

And as the numbers show, they're willing to pay to get one. — *D.D.*

Controllers in Control

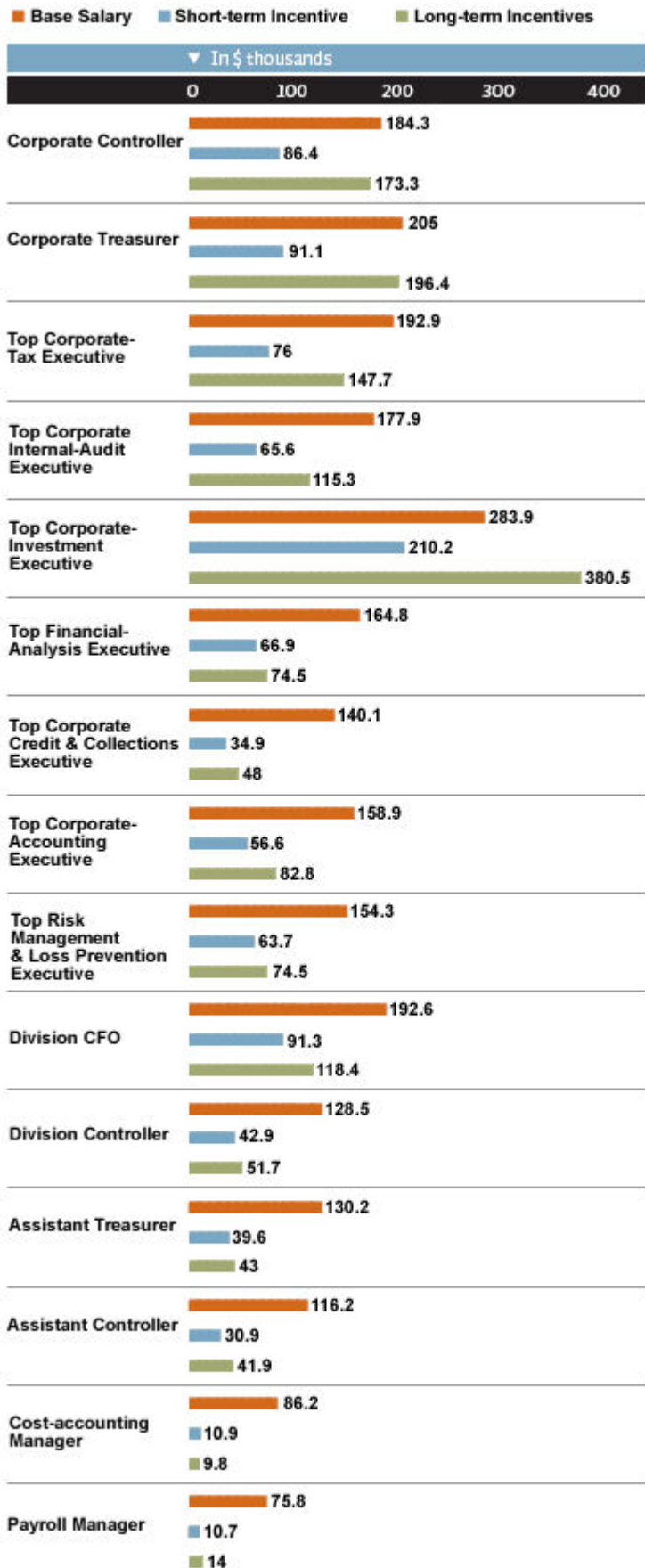
How finance executives rate the demand for key specialties

Specialty	% rated as in highest demand								
Controllers	27								
Sarbox specialists	21								
Financial analysts	20								
Senior-level finance (CFOs, VP/finance)	14								
Internal auditors	9								
Clerical staff	3								
Temporary/seasonal support positions	2								

Source: CFO Research Services/Ajilon

Inside Finance

Average pay for your peers in the finance department.



Source for all charts, except where noted: Mercer Human Resource Consulting

The Highest-Paid CFOs

With long-term incentive values up, CFOs are making more.

	Executive/Company	Base Salary	Bonus	Total Cash Compensation	Gain on Option Exercise	Restricted Stock Grant Value	Long-term Incentive Payouts	Total Direct Compensation	Change from 2004
1.	Stephen I. Chazen Occidental	\$720,000	\$1,200,000	\$1,920,000	\$18,065,254	\$10,494,520	\$2,274,898	\$32,754,672	39.0%
2.	David A. Viniar Goldman Sachs	\$600,000	\$18,772,681	\$19,372,681	\$0	\$0	\$0	\$19,372,681	2.3%
3.	Joel H. Rassman Toll Brothers	\$1,000,000	\$1,000,000	\$2,000,000	\$15,386,033	\$0	\$0	\$17,386,033	423.9%
4.	Samuel L. Molinaro Jr. Bear Stearns	\$200,000	\$15,563,000	\$15,763,000	\$0	\$0	\$0	\$15,763,000	15.7%
5.	Charles L. Szews Oshkosh Truck	\$435,800	\$479,380	\$915,180	\$14,248,882	\$266,760	\$0	\$15,430,822	1,127.8%
6.	Bruce E. Gross Lennar	\$600,000	\$1,595,000	\$2,195,000	\$5,596,604	\$3,798,900	\$0	\$11,590,504	519.8%
7.	Sallie L. Krawcheck Citigroup	\$500,000	\$8,800,000	\$9,300,000	\$0	\$733,333	\$0	\$10,033,333	NA*
8.	Andy D. Bryant Intel	\$330,000	\$1,765,000	\$2,095,000	\$7,880,100	\$0	\$0	\$9,975,100	50.9%
9.	Alan M. Bennett Aetna	\$550,000	\$540,000	\$1,090,000	\$7,539,678	\$0	\$952,200	\$9,581,878	179.8%
10.	Alan W. Rutherford Crown Holdings	\$700,000	\$1,890,000	\$2,590,000	\$5,245,200	\$1,169,998	\$0	\$9,005,198	535.5%
11.	Alvaro G. De Molina Bank of America	\$700,000	\$6,529,022	\$7,229,022	\$1,555,625	\$0	\$0	\$8,784,647	7.1%
12.	Lawrence S. Smith Comcast	\$1,163,750	\$1,563,100	\$2,726,850	\$3,381,531	\$2,583,240	\$0	\$8,691,621	-8.5%

Pay-Package Pieces

Base salary:

Base salary earned in the fiscal year.

Total cash compensation (TCC):

Sum of base salary and annual incentive.

Total direct compensation (TDC):

Sum of base salary, annual incentive, and long-term incentive.

Short-term incentive:

Annual bonus (cash).

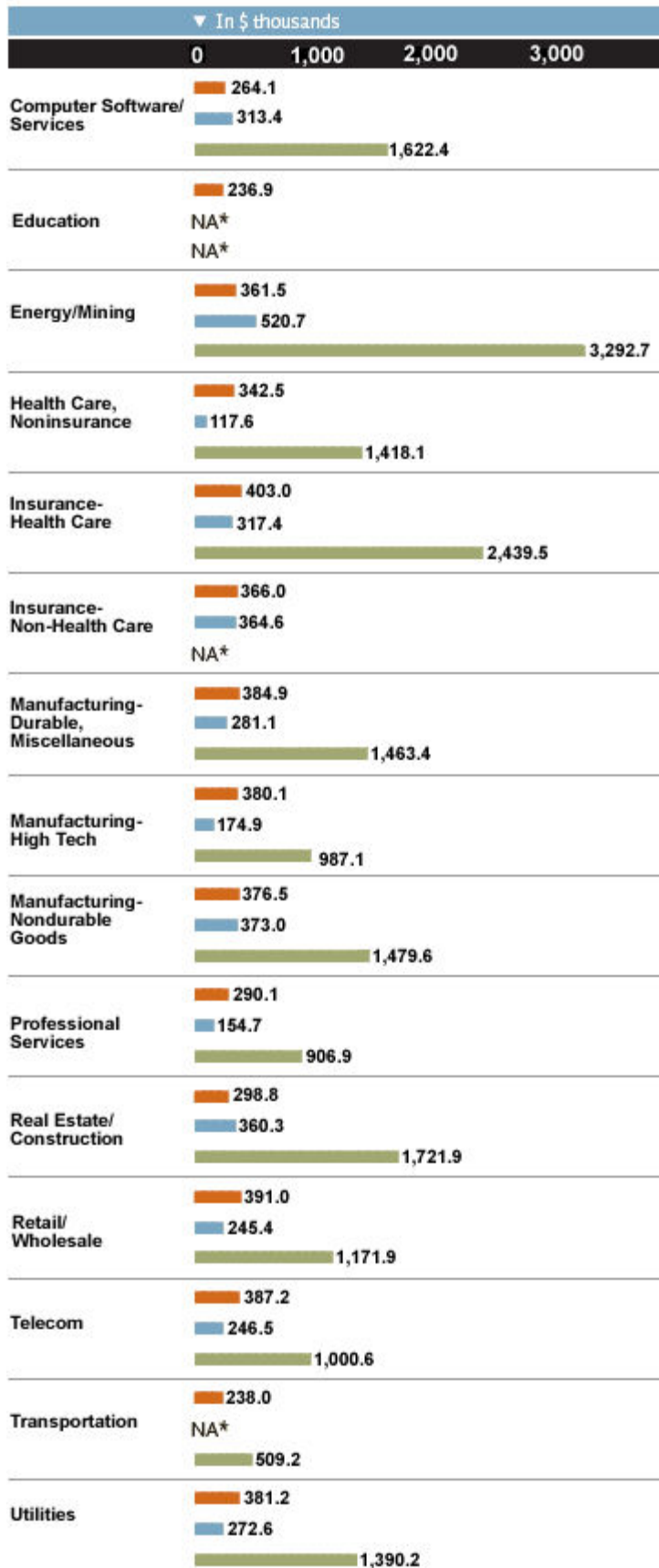
Long-term incentives:

Include stock options, restricted stock, long-term incentive-plan compensation, and/or performance shares.

Where the Money Is

It's a good time to be a CFO in the energy business.

■ Base Salary ■ Short-term Incentive ■ Total Direct Compensation

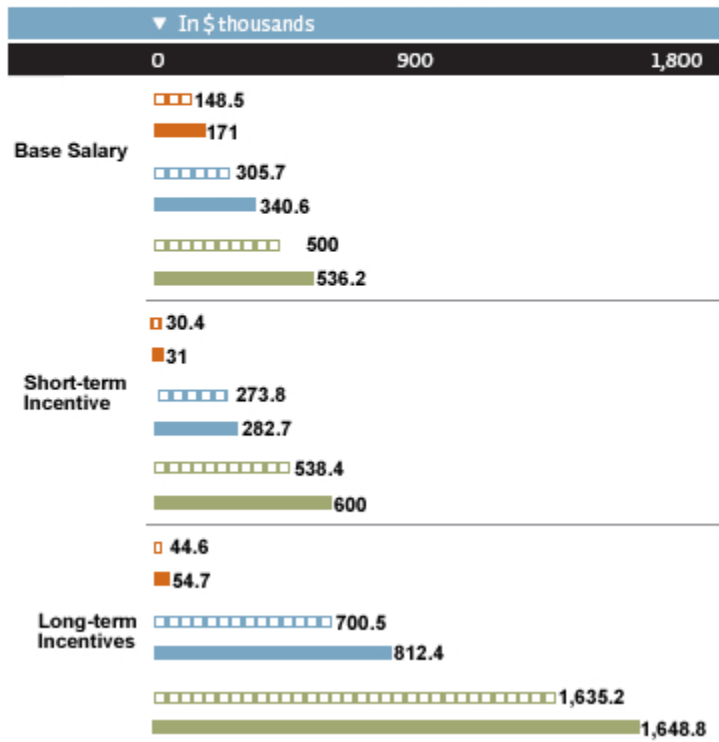


*Insufficient Data

Rising Tide

CFOs are getting bigger salaries, bonuses, and long-term incentives

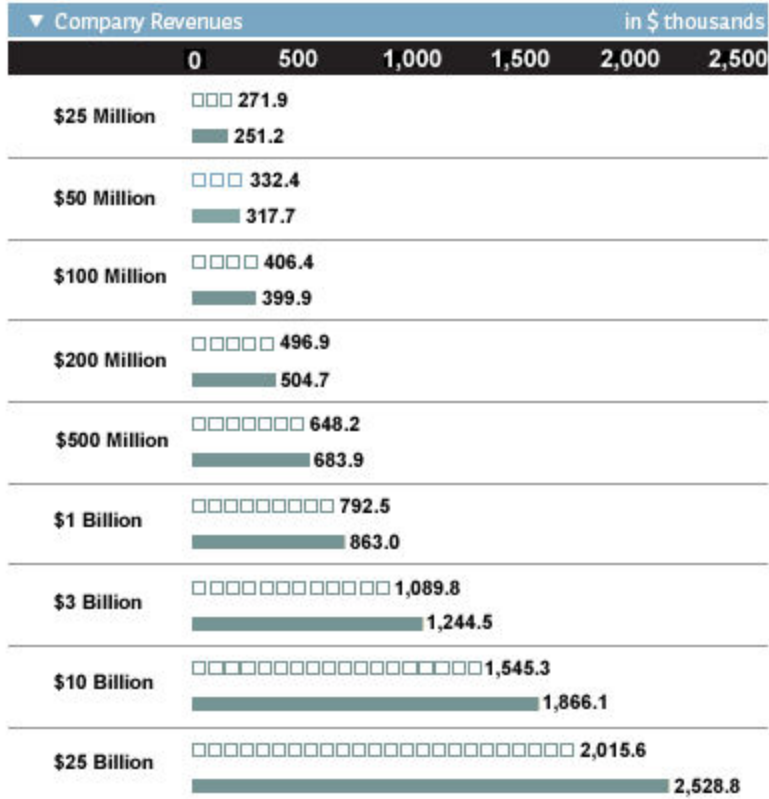
2003 ■ Bottom 10% ■ Average ■ Top 10%
2005 ■ Bottom 10% ■ Average ■ Top 10%



Big Firm, Bigger Pay

Average total direct compensation for CFOs by company size

□ 2003 ■ 2005



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