



16.4.06 (smz) – **THE NEXT SALARY INCREASE FOR CEOS IN 2006**

Anybody who believes that the current discussion of salaries for top managers helps to reduce the growing gap between workers pay checks and top managers salaries is naïve.

Sandro V. Gianella, whose high-profile executive search company in Zurich is specialized on CEO and board room positions says that from his experience in many searches “it is clear that the growing transparency in top salaries has lead to increases in executive pay.” Any CEO and board member collects benchmarking data to negotiate compensation packages.

The 2005 salary increase of the top 350 CEOs in the U.S. was 15,8 percent on average, after an astonishing 41 percent increase in 2004. For 2006 positive economic signals point to another year of record results in many corporations and subsequently massive pay increases for the top brass. Many people find this development unfair and would like to stop the parallel development at least in Europe, but how? Dirk Schütz, the editor in chief of Swiss weekly “Cash”, wrote an entire book on the subject.*

If transparency and public criticism drive prices for CEOs up, if board members do not cut compensation packages, if CEOs negotiate successfully for more, what is the game? It is nice to compare the numbers (see below) to the numbers of the average worker, but the idea of justice seems not to apply. The pricing for a CEO’s compensation package resembles pricing for an investment. The board (the investor) prices in future performance expectations today.

Expectations are rising, so are prices. European examples: The new CEO for Adecco SA, who will succeed Klaus J Jacobs will have to master Herculean tasks to keep the share price up, maintain revenue and profit levels during a massive internal reorganisation. Dieter Zetsche, after 100 days at the helm of DaimlerChrysler, must still implement his new management model and prove that this will lead to more efficiency, better products and higher quality. Reto Francioni has inherited a bunch of interesting shareholders as CEO of Deutsche Börse and at the same time faces all the pressure of the current consolidation of stock exchanges in Europe.

The CEO, like a share, is acquired and disposed of much faster than in the past. As the European CEO last on average 2.5 years on the job, the timeframe to meet expectations is very short. Supply and demand dictate the current pay levels. This is hard to change, so one can expect an increase of probably 16 percent or more in executive pay for 2006.

Jack Welch, the former CEO of General Electric recently confessed that he does not consider himself rich, just “well off”. His benchmark for wealth is the entrepreneur, like Bill Gates or Warren Buffet. – There is always a good reason to feel bad.

CEO total compensation examples for 2005*:

0,7 m. €	Helge Lund (Statoil)
1 m. €	Jean Laurent (Crédit Agricole)
3,27 m. €	Klaus Kleinfeld (Siemens)
3,75 m. €	Dieter Zetsche (DaimlerChrysler)
6,9 m. €	Paul S. Walsh (Diageo)
8 m. €	Jack Welch (annual retirement plan)
10,3 m. €	Arun Sarin (Vodafone)
12 m. €	Joe Ackermann (Deutsche Bank)
17,2 m. CHF	Marcel Ospel (UBS)
11,1 m. €	Lord Browne (BP)
15 m. \$	Katie Couric (CBS news woman)
14,1 m. €	Oswald Grübel (Credit Suisse)
18,5 m. €	Peter Wuffli (UBS)
40 m. \$	John T Chambers (Cisco)
40 m. \$	CEOs of investment banks (on average)
45 m. \$	Lawrence J Ellison (Oracle)
56 m. \$	Richard D. Fairbank, Capital One
88 m. \$	Lew Francfort (Coach)
102 m. \$	Scott McGregor (Broadcom)
134 m. \$	Henry Silverman (Cendant)
156 m. \$	Barry Diller (InterActive Corp.)
230 m. \$	Terry S Semel (Yahoo)

*Sources: Company websites, Forbes U.S., Manager Magazin, the 'total' is difficult to compare, these are best estimates

Recommended links:

Contra high CEO pay: http://www.changex.de/d_a01989.html

Pro high CEO pay: <http://www.boardmembereurope.com/>

The current US statistics (salary compared to performance)

<http://www.forbes.com/static/execpay2005/totcomp.html>)



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