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## Executive pay swells, signaling progress Average salaries increased more than twice as fast as employees'

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Yeehaw! Or more precisely, Yahoo!

That kind of exuberance matches the pay days executives enjoyed in the Bay Area during 2004. At a time when it wasn't always apparent that the labor and salary markets had rebounded for rank-and-file employees, it was crystal clear that executives in this region rounded up a lot of loot from the cashier's window.

The average total pay for executives working at the 100 largest Bay Area companies and the 50 largest East Bay companies rose during 2004 more than twice as fast as the average annual wage for all Bay Area employees. Total pay, officially called total direct compensation, is a combination of salary, bonus, restricted stock awards, long-term incentive payments, the estimated value of stock option grants and all other forms of compensation.

While the swift rise in executive pay in 2004 might stir resentment in some quarters, the improvement in paychecks does offer positive signs for the region's economy.

"These are among the indicators that suggest the Bay Area economy is getting better," said Brandon Cherry, a consultant with San Francisco-based Presidio Pay Advisors. "There is growing demand for employees. Venture capital financing is really picking up. And demand for office space that would be filled by small startup companies is extremely high right now."

The largest stash of cash was roped in by Terry Semel, chairman and chief executive at Yahoo Inc. Including stock options valued at an estimated \$108.7 million that Semel corralled, the top boss of the online and media trailblazer landed \$109.3 million in total pay in 2004.

Semel also rounded up a stunning windfall from stock he had been awarded in previous years. Through sales of stock options, Semel realized nearly \$230 million in gains in 2004.

In the East Bay, the gusher of oil profits helped David O'Reilly, the leader at San Ramon-based Chevron Corp., float to the top of the list of executive compensation. O'Reilly drove his way to a total pay package of \$20.1 million in 2004.

So, are these company officers and others who made this year's lists of highly paid executives in the Bay Area and East Bay really worth this much money?

Reviews are mixed.

"The corporate scandals of recent years have yet to convince company directors that they should rein in executive pay, insisted David Broman, chief executive and co-founder of Lafayette-based Syzygy Consulting Group.

"Executive compensation still does not reflect the performance of many companies," said Broman, whose consulting firm advises companies about compensation policies. "Some companies are becoming very aggressive in adopting more responsible approaches. But the majority of companies still ignore the idea of pay for performance."

Semel's total pay swelled by more than 18,000 percent in 2004, well ahead of profit and stock gains, which leads some critics to argue he was overpaid. But others say it looks as if he was worth it.

"Back when Semel joined the company, there was a real possibility Yahoo would melt in the dot-com bubble burst and end up being worth nothing," said Peter Christy, an analyst with the Internet Research Group. "That didn't happen. Semel clearly influenced the outcome and the company's current success."

During 2004, Yahoo's profits soared 259 percent and its stock jumped 67 percent.

"Yahoo was a vastly different company in 2001 when Terry joined us," said Joanna Stevens, a spokeswoman for the Sunnyvale-based firm. "He took a large risk when he came on board. And now he is being rewarded for the excellent performance that Yahoo and he deliver to the shareholders."

The company also indicated that it wanted to be certain that another corporation would be unlikely to lure away Semel because he has done so well at Yahoo, according to the firm's proxy filing.

"Mr. Semel's unique skills, experience spanning the Internet and media industries, and repeated past success make him an attractive candidate to competing organizations that believe they could leverage his compensation into significant shareholder returns. Consequently, the Compensation Committee took aggressive action in 2004 to retain Mr. Semel."

To be sure, Yahoo could hire 500 engineers for the compensation the company provides Semel. But to the shareholders who enjoyed huge returns, a \$109 million pay package might seem reasonable.

"It isn't about the how-much, it's about the what-for," said Steve Patchell, a senior compensation consultant with the Bay Area office of Watson Wyatt, a consulting firm. "What did they deliver to the shareholders? If you look at how well the shareholders did, that usually gives you a better picture about the thought process of whether the guy is worth it."

Still, the mega-paydays for executives in the region far outstripped those of all employees in the nine counties, according to a Times analysis of public company filings and state wage data.

Executives with the 100 largest public companies amassed an average total pay package of \$3.7 million in 2004, which was up 9 percent from the year before. East Bay executives combined for an average pay package of \$1.8 million, up 12 percent during the year.

In contrast, the average wage in the Bay Area in late 2004 was about \$51,000, a gain of 3.7 percent from the previous year. The average East Bay wage was \$46,500, a gain of 4.2 percent. The average San Francisco-area wage was \$51,300, up 2 percent. And the average South Bay wage was \$55,200, a gain of 4.8 percent.

"In the long term, this kind of a wage gap is problematic," said James Hawley, a director with the Moraga-based Center for Fiduciary Responsibility at St. Mary's College. "It does raise some concerns about resentment against executives."

The average pay of executives with the Bay Area's 100 largest public companies was about 73 times larger than the average wage in the Bay Area.

"A generation and a half ago, the compensation of a CEO might be 50 times the compensation of an entry-level worker," said George Parker, a Stanford University professor. "Now, it's been observed that a number of companies have CEO pay that is 1,000 times the entry level."

That sort of chasm has spread from some specialized industries, such as entertainment and sports, Parker suggested. He pointed out that top-level baseball players and actors are paid many times more than their bottom-rung counterparts.

"That suggests that when it comes to compensation, America has gravitated to what people call the star system," Parker said.

Andrew Williams, a director of the fiduciary responsibility center at St. Mary's College, is disappointed with the continued large gains in executive pay.

"We have a long way to go to get to pay for performance," Williams said. "There are still too many where there is pay for no performance."

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