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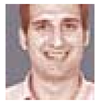
TAPE EXCHANGE

By JESSE EISINGER



Tape Readers Share Thoughts On Excessive CEO Pay Packages

April 19, 2004

My column on the excesses of CEO pay (Acid-Test Failure[1], April 16) brought in a lot of e-mail, with most readers concerned or even outraged that after all the talk, CEO pay isn't just going up but it is accelerating by many measures. And the idea that pay is becoming more attached to performance is, as of now, still wishful thinking. Perhaps it will be in the coming years, but I am skeptical. So does this matter? Yes, because investors and customers are paying these salaries. And they could be getting lower prices and better stock performance if pay packages were structured more intelligently. But they are driven by individuals' greed and the system that tolerates it, rather than by a sense from the CEOs that they and the companies they run (but aren't theirs) are citizens of the community.

Buffing Buffett

It is interesting to see you reference Warren Buffett in your column on CEO pay. I acknowledge that his own compensation is very modest, but I imagine that it is easy to accept a smaller salary when one's net worth is measured in billions. I question whether Mr. Buffett really means what he says about CEO compensation. In Mr. Buffett you have someone who is probably uniquely positioned to speak out on this issue -- it's unlikely anyone could call him a hypocrite on the subject given his salary -- yet he frames his supposed outrage on the subject in generalities that reference no specific person or company. Mr. Buffett could certainly be an instrument for change in this area if he would take a stand and name names. There is no shortage of candidates -- Michael Eisner, Sanford Weill, Sumner Redstone, Larry Ellison. Plenty of less influential people criticize these and other CEOs over shameful compensation and governance. Why not Mr. Buffett? His opinions are surely more highly regarded than most and more likely to have an impact on behavior.

I do not know why Mr. Buffett is not more vocal on this issue, but I have one guess. Criticizing other fabulously wealthy people offers no upside to him, but it potentially alienates a small group of influential business folks who do not want Mr. Buffett screwing with their pay schemes. Perhaps acceptance in this "club" is more important than addressing the "acid test of corporate improvement."

ABOUT JESSE EISINGER

Jesse Eisinger writes the Ahead of the Tape column for The Wall Street Journal. Prior to writing Ahead of the Tape, Mr. Eisinger wrote the Heard in Europe column for The Wall Street Journal Europe. Mr. Eisinger has also covered pharmaceuticals and biotechnology for TheStreet.com and Dow Jones Newswires. He has a BA in American Studies from Columbia University.

Will Farr

My Reply:

Well, you have a point. Buffett could name names, which would be more courageous and really p--- off those whom he named. But should we hold him to that standard? I think it is enough that he criticizes the excess in generalities, because, in fact, one could argue that in general CEO pay is excessive. The real problem is the routine overpayment of the average CEO who isn't irreplaceable and hasn't created anything of any significance but merely has risen steadily through the ranks to become the top person.

Then there are the outrageous cases at the top, like Eisner, as you bring up. But not all excessively paid people are overpaid, I think. Weill? I would argue yes, but one has to grant that he has built something significant -- Citigroup -- out of mergers that have worked without significant financial dislocations (but some scandal -- i.e. Jack Grubman). Same story with Redstone. Larry Ellison? Well, he is a founder of a successful company, so I think he gets a pass.

Buffett gets a pass from almost everyone because of his folksy manner and willingness to mildly prick our sensibilities. For me, much of what Buffett says reminds me of the Samuel Johnson quote about the dog walking on hind legs: "It is not done well, but you are surprised to find it done at all."

CEOs and Their Friends

The problem continues to center in the incestuous relationship among boards of directors, compensation committees and the compensation consultants. It results in most companies offering the same justification for CEO pay amounts: "This is a competitive level of compensation that is required in order to attract, motivate and retain the executive talent we need."

They would have us believe there is a limited pool of sufficiently skilled executives whose services are being bid up in a competitive arena. The pool is in fact quite large -- there are thousands of highly competent executives at the second and third levels of corporate management who would be fully capable of discharging the "caretaker" duties to which you refer.

I am not holding my breath in anticipation of meaningful change, however.

Bob Augusta
Simsbury, CT

My Reply:

You are absolutely correct. The problem is the myth that most CEOs are irreplaceable. In fact, most of these guys come up through their companies after having been there for years. Could they go from an auto-parts maker to a retailer? No. And the pool of folks at a sizeable company who could run the business is, as you say, great. So there is plenty of supply and little demand -- a true indication of a market failure. Clearly the compensation experts have no real interest in telling a CEO he deserves less. That's the sure way to not getting hired back. The boards should be acting more strongly. Maybe they are. It's very hard to tell. Alas, I also agree that the problem seems intractable to me. I can't figure out what would change things. Thanks for the comments.

Wal-Mart's Bad Image

Re: your article on Wal-Mart's negative image (The Wal Comes Down[2], April 9). The only thing the article failed to state is that when you are at the top, there is only one direction you can go.

At some point the long lines, lack of service, indifferent and underpaid staff, etc. will do them in. Will Wal-Mart's managers ever notice? Not a chance. Someday service will return to the competition equation. Even airlines might again compete on service instead of price. Funny how Southwest and Costco don't draw the ire that Wal-Mart does. There has to be a reason.

Bob McMillan
Santa Ana, CA

My Reply:

You raise an interesting point that goes beyond Wal-Mart: Now that inflation seems to be coming back, especially in the service sector, are people going to demand better service? Don't they want shorter lines? Don't they want to find products quickly and easily? Don't they want to speak with helpful, informed people over the phone?

It is one thing when the economy is weak and prices are staying low or going lower to not be overly concerned about service. It is quite another thing to be in an inflationary environment and get lousy service. I wonder what impact that could have on profits, on hiring and consumption. I don't know.

More Gloom, More Doom

I had to laugh when you kindly posted Art Goold's comment that most of your articles seem all gloom and doom like (Tape Readers Dispute Reasons for Wal-Mart Vote in California[3], April 12). But I do remember when you were defending Genentech and I remember your defense of Best Buy, a name we owned for some time, and earned a handsome return from last year. But I much prefer the glass-is-half-empty perspective on topics Jesse, because it's too easy to find the glass-is-half-full articles in the reports of Wall Street.

Norman C. Leon

My Reply:

Thanks very much. I like hearing from people out there who enjoy a more skeptical take every now and then. My feeling is that the machine to put out positive news is huge. Analysts, executives, most investors, and even most of the media put out positive spin on companies most of the day. Investors need to hear the other side, if only to evaluate it, have their assumptions challenged and then, if warranted, reject it.

--Some letters have been edited for content and clarity.

Please send comments and questions to tape@wsj.com[4].

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