

The Best & Worst Bosses

The worst kind of boss: someone who pockets a fortune while making his shareholders poorer. The best: someone like Jeff Bezos | **BY SCOTT DECARLO**

CORPORATE BOARDS WERE UNDER THE GUN LAST YEAR TO change the way chief executives were paid—rightly so, given the scandals. The trend was to hand out fewer stock options and more cash and outright stock grants. But no matter how the compensation is configured, the question remains: Which bosses delivered the best return to stockholders while taking home a reasonable paycheck? That's the focus of our annual scorecard on compensation.

In his second consecutive year as number one boss: Amazon.com's Jeff Bezos, who has delivered a 58% annual return to shareholders since taking his company public in 1997.

For our pay-versus-performance rankings we combed our database for executives with six years of tenure as chief

executive and a six-year pay history. We came up with 194 bosses who fit the bill. We rank them four ways. The first is by six-year stock performance (including dividends) relative to a company's industry peers. Second and third are the stock performance during the chief's tenure and performance relative to the S&P 500 over the same period. The final measure is total pay over the six years—pay being defined to include cash realized from the exercise of stock options. We combined these four rankings to create a bang-for-the-buck score. The ten best bosses on this scorecard are listed on page 124. Five of the worst appear on page 116. To see how the rest of the chief executives fared, go to www.forbes.com/ceos.

The median six-year pay for this group came to \$4.1 million a year, while

the median six-year return to shareholders was an annualized 8%. In a quick comparison you can easily see how Bezos was number one, with an annual average pay of \$82,000 and a 34% return. Our worst chief executive, Richard Manoogian of Masco Corp., checked in with an average annual paycheck of \$13 million and a 2% annual return to shareholders. On page 110 we profile Thomas P. MacMahon of Laboratory Corp. of America, who has given shareholders a solid 42% annualized return since 1998. And we look at one of the worst, Sidney Taurel of Eli Lilly. This year we also study pay for board members and conjure the ideal pay package.

A list of the 2003 paychecks of 500 chief executives of America's biggest companies begins on page 124. **F**

Best-Performing Bosses

CHIEF EXECUTIVE OFFICER/COMPANY	TENURE AS CHIEF (YEARS)	ANNUALIZED TOTAL RETURN		6-YEAR AVERAGE COMPENSATION (\$MIL)	STOCK OWNED
		DURING TENURE	6-YEAR		
Jeffrey P Bezos/Amazon.com Surfed Amazon to its first full-year profit last year. Salary of \$82,000 befits midlevel manager, but stock worth \$5 billion.	10	58% ¹	34%	\$0.1	26.7%
Joseph R Ficalora/NY Community Bancorp Collection of community banks in New York, New Jersey is nation's third-largest thrift. Stock up from \$1.19 to \$28.97 in past decade.	11	41 ¹	32	1.6	0.7
Frank C Lanza/L-3 Communications Defense industry veteran has led L-3 since formation in 1997. Last year sales grew 26%; shooting for another 20% this year.	7	29 ¹	29	3.2	3.1
Vernon W Hill II/Commerce Bancorp Hill's strategy of making Philadelphia-area bank as convenient as burger joints paying off. Wants to supersize into Washington, Boston.	31	27 ¹	24	1.6	1.9
Mark C Pigott/Paccar Son of founder following Dad's example: truckmaker Paccar just had 65th straight year of profitability.	7	25	18	2.5	1.0
Charles W Ergen/EchoStar Comm Cofounder of satellite TV firm controls 91% of voting stock. Battles with Rupert Murdoch investment DirecTV.	24	37 ¹	50	4.0	49.5
Salomon Levis/Doral Financial On top of \$1.8 million salary, gets massive cash bonus when shareholder return exceeds 15%.	14	41	32	3.7	0.5
B Thomas Golisano/Paychex Started \$1.1 billion payroll enterprise with \$3,000 in 1971. Bought troubled Buffalo Sabres hockey franchise in 2003.	33	30 ¹	15	0.9	10.5
Dane A Miller/Biomet Outspoken foe of corporate greed, Ph.D. turned \$500,000 Small Business Administration loan into \$1.4 billion orthopedic prods company.	26	31 ¹	21	0.4	2.8
Jeffrey L Bleustein/Harley-Davidson Hog-loving chairman has company outpacing S&P 500 since 1998. His 2 million shares now worth \$40 million.	7	25	23	5.3	0.3

Returns as of Apr. 2. ¹Return is for period less than tenure. Source: FT Interactive Data via FactSet Research Systems.

Blame the Board

Does the amount of money paid board directors influence company performance? | BY NEIL WEINBERG

CENDANT CORP. CHIEF EXECUTIVE HENRY SILVERMAN HAS been bashed by the media for taking home princely pay even as his shareholders have suffered one of the worst stock price performances around. Less well known is that Cendant's independent directors are richly paid, too.

Their \$138,000 average annual compensation is, in fact, nearly three times what directors earned at the five companies whose stock prices have appreciated the most relative to their industries' over the past half-dozen years (one of four criteria used in the table below), according to data provided by BoardEx, a firm that analyzed corporate board pay for FORBES.

Could there be a connection between fat pay for directors and thin returns for shareholders? FORBES turned up some evidence of that. We ranked 194 companies in stock performance over the past six years relative to their industry averages. Then we looked at average director pay at the best and worst companies by this performance measure. At \$69,887 each, outside directors at the five laggards earned 1.6 times what outside directors did at the five leaders.

At long-suffering Hilton Hotels, Chief Executive Stephen Bollenbach's average \$2.3 million annual pay wasn't excessive; the \$89,000 paid to each of his four outside directors last year was.

At wireless technology developer Qualcomm, in contrast, Chief Executive Irwin Jacobs has done very

Nice Job If You Can Get It

Median board size, outside directors	9
Median total pay	\$461,000
Median cash portion	\$350,000
Median total pay per director	\$50,000

Figures based on pay-versus-performance companies.

well, taking home \$15 million a year. His shareholders have also been rewarded with a stock price that has done 38% better annually than the industry average. Qualcomm's 11 outside directors, meanwhile, each took home a modest \$27,000 last year—a little over one-third what independents got at the five laggards.

What might explain the inverse correlation between director pay and shareholder returns? Quite possibly the hesitancy of board members with cushy sinecures to challenge a boss who helped land them the job. Board members with less cash at stake in their board jobs, on the other hand, can presumably afford to be bolder with their legal assignment, which is to make demands on the chief executive and fire him if he doesn't deliver. **F**

Best-Performing CEOs' Company Boards

COMPANY	NUMBER OF OUTSIDE DIRECTORS	BOARD COMPENSATION (\$THOU)			AVERAGE PER DIRECTOR
		CASH PORTION	EQUITY PORTION	TOTAL	
Amazon.com	6	\$0	\$2,352	\$2,352	\$392
New York Community Bancorp	6	254	957	1,212	202
L-3 Communications	6	253	60	313	52
Commerce Bancorp	10	193	346	539	54
Paccar	7	350	70	420	60

Worst-Performing CEOs' Company Boards

Masco	6	\$160	\$0	\$160	\$27
Hilton Hotels	11	685	292	977	89
Walt Disney	10	405	167	572	57
Eli Lilly	10	409	495	904	90
Textron	14	1,161	109	1,270	91

Latest available data. Cash portion includes annual retainers and meeting fees. Equity portion includes the value of company stock awards, long-term incentive awards (assumption of 100% realization/achievement of targets) and value of option grants at the end of the company's fiscal year.

Source: BoardEx.

Executive Pay

What the Boss Makes

COMPANY/CHIEF EXECUTIVE	RANK AMONG 500 CEOs	COMPENSATION						STOCK OWNED VALUE \$mil
		SALARY & BONUS		OTHER \$thou	STOCK GAINS \$thou	TOTAL		
		\$thou	1-YEAR CHANGE %			1-YEAR \$thou	5-YEAR \$thou	
Knight Ridder /P Anthony Ridder	160	1,428	-18	2,236	2,487	6,151	18,590	16.1
Kohl's /R Lawrence Montgomery	11	1,015	-18	10	29,209	30,234	58,545	31.6
Kroger /David B Dillon	443	745	NA	490	—	1,235 ^{5,6}	NA	13.2
L-3 Communications /Frank C Lanza	71	1,850	10	6	10,484	12,340	17,753	195.3
Laboratory Corp Amer /Thomas P Mac Mahon	88	2,289	-14	5,671	2,296	10,256 ⁵	34,999	24.2
Lear /Robert E Rossiter	85	2,639	15	780	6,960	10,379	23,589 ³	5.0
Legg Mason /Raymond A Mason	104	7,639	0	1,025	622	9,286	45,465	145.8
Leggett & Platt /Felix E Wright	487	3 ⁸	0	152	—	155	7,095	52.5
Lehman Bros Holdings /Richard S Fuld Jr	3	7,400	311	22,742	37,540	67,682	284,478	365.6
Lennar /Stuart A Miller	42	13,071	40	2,358	—	15,429	54,115	31.6
Lexmark International /Paul J Curlander	66	2,505	19	1,048	9,040	12,593	33,534	30.4
Liberty Media /Robert R Bennett	439	1,000	0	271	—	1,271 ⁵	5,509	42.0
Eli Lilly & Co /Sidney Taurel	135	2,626	NM	195	4,445	7,267	63,664	53.9
Limited Brands /Leslie H Wexner	202	4,372	40	110	—	4,483 ⁵	19,893	1,205.4
Lincoln National /Jon A Boscia	130	5,098	83	2,139	328	7,565	30,455	11.7
Linear Technology /Robert H Swanson Jr	246	1,687	18	257	1,534	3,477	36,350	10.0
Liz Claiborne /Paul R Charron	70	2,968	-5	5,218	4,207	12,393	31,028	10.8
Lockheed Martin /Vance D Coffman	61	4,985	20	8,778	—	13,763	61,139	22.2
Loews /James S Tisch	429	1,359	-34	49	—	1,407	8,328	176.3
Lowe's Cos /Robert L Tillman	208	4,000	40	400	—	4,400 ⁵	36,145	5.2
Lucent Technologies /Patricia F Russo	190	4,445	NA	425	—	4,871	NA	10.4
M&T Bank /Robert G Wilmers	51	931	-7	13	13,873	14,817	43,840	383.4
Manpower /Jeffrey A Joerres	309	2,104	110	48	610	2,762	7,476	3.6
Marathon Oil /Clarence P Cazalot Jr	224	2,700	43	1,230	—	3,930	10,355 ⁴	5.6
Marriott Intl /J Willard Marriott Jr	346	2,118	-5	210	—	2,328	16,701	876.7
Marsh & McLennan /Jeffrey W Greenberg	177	4,700 ¹⁰	-18	594	—	5,294	27,350	28.3
Marshall & Ilsley /Dennis J Kuester	207	2,065	11	1,331	1,013	4,409	13,273 ⁴	14.8
Masco /Richard A Manoogian	49	3,030	71	3,403	8,492	14,925 ⁵	59,341	181.7
Mattel /Robert A Eckert	63	1,884	-50	10,962	—	12,846	39,984 ³	9.5
Maxim Integrated Prods /John F Gifford	490	81 ²⁰	-73	—	—	81	150,541	111.6
May Dept Stores /Eugene S Kahn	391	1,713	10	108	27	1,848 ⁵	14,439	18.6
MBIA /Gary C Dunton	191	700	NA	4,166	—	4,866 ⁶	NA	10.6
MBNA /Bruce L Hammonds	33	4,625	NA	3,024	10,870	18,519 ⁶	NA	59.2
McDonald's /James R Cantalupo	171	3,525	NA	172	1,857	5,554	NA	11.2
McGraw-Hill Cos /Harold W McGraw III	235	2,065	-6	1,636	—	3,702	36,244	38.6
McKesson /John H Hammergren	124	3,491	-12	4,602	—	8,094	22,171	12.5
MeadWestvaco /John A Luke Jr	395	1,096	-23	462	256	1,814	7,070	4.2
Medco Health /David B Snow Jr	415	1,600 ¹	NA	29	—	1,629	NA	—
Medtronic /Arthur D Collins Jr	39	2,394	30	12,121	1,576	16,091	34,358 ⁴	38.8
Mellon Financial /Martin G McGuinn	349	2,025	-4	266	—	2,291	30,194	40.5
Mercantile Bankshares /Edward J Kelly III	454	850	-32	243	—	1,093	3,368 ⁴	3.3
Merck & Co /Raymond V Gilmartin	287	2,958	-1	9	—	2,967	17,963	28.1

Rank is based on total compensation for latest fiscal year. **Market value** of chief executives' stock is based on Apr. 2 stock price and includes all classes of common. **Compensation percent change** is based on combined salary and bonus. ¹Annualized salary and/or bonus. ²Paid to date. ³Four-year total. ⁴Three-year total. ⁵Prior-year data. ⁶New chief executive; compensation may be for another executive office. ⁷Less than \$100,000. ⁸Received options or restricted stock in lieu of portion of salary and/or bonus. ⁹Includes shares indirectly held. ¹⁰Includes value of stock units awarded as bonus. ¹¹Chief executive elected to forgo bonus. ¹²At his request chief executive received \$1 in salary and no bonus. ¹³Includes long-term incentive payouts made by SICO, a private holding company. ¹⁴Compensation is paid by Apollo Group for services rendered to the Education Group and University of Phoenix Online. Stock gains include value of Phoenix Online's exercised options. ¹⁵Chief executive declined bonus and asked for amount to be distributed among members of the executive management team as additional compensation. ¹⁶Chief executive's employment agreement establishes compensation to be provided solely in the form of stock-based compensation, in lieu of salary and bonuses. ¹⁷Office jointly held with Gregory E. Johnson. ¹⁸Office jointly held with Eric F. Billings. ¹⁹Office jointly held with Herbert M. Sandler. ²⁰For the last three quarters of fiscal 2003 chief executive did not receive salary, in support of companywide cost-reduction goals. ²¹Chief executive voluntarily elected to forgo his salary since Oct. 28, 2001. ²²Chief executive elected to forgo bonus to ensure other midlevel employees received substantial incentive compensation. ²³Chief executive did not receive salary or bonus. ²⁴Compensation paid by St. Paul Cos. before merger with Travelers Property Casualty on Apr. 1. ²⁵Chief executive declined bonus so it would be available for other employees' bonuses. ²⁶Salary and other compensation represent pro forma figures as well as payments made by Northrop Grumman for services rendered to company. ²⁷Chief executive does not receive compensation from company. NA: Not available or not applicable. NM: Not meaningful. Sources: Company proxy statements; CoreData Group (www.coredatagroup.com); FT Interactive Data via FactSet Research Systems.