



Tuesday June 09, 2009

Pay Craze

June 8, 2009 — Thursday's a big day for corporate payroll departments – and corporate shareholders, by extension – as executive compensation takes the hot seat in Washington. Barring some catastrophic event, the topic will control the biggest money-issue headlines this week.

Rumblings are already beginning. A transcript came out today (Monday) from a "Clawback Breakfast" hosted in Washington last week by a group called [Institutional Investor Education Foundation](#) (no relation to this company), in which you could feel the populist rancor. Within the first five minutes, you had this from [William A. K. Tittleman](#), a lawyer with Grant & Eisenhofer, a firm in Wilmington, Delaware: "As I think everybody here knows, there's been nearly a universal anger across the country about the outside compensation paid to a small group of senior executives who have run major corporations into the ground and then taken huge amounts of taxpayer dollars to help fix the messes they have created."

That pretty much set the tone. [Congressman Paul Kanjorski](#) (Democrat of Pennsylvania) took the microphone to say that the whole idea of government regulation of pay made him queasy and then coming up with an analogy rooted in Supreme Court jurisprudence. "Pornography is not easy to define, but we know it when we see it? Well, salaries aren't easy to set, but excessive salaries are known when we hear them. That's the era we're moving through now, I think, and it's not bad, but I say do it with a measure. Let's not get carried away, let's not light up our torches, let's not go down the street to burn because the reality is that until we are willing to create a different system, which I'm not certain we are capable of doing or will do it properly, I think we sometimes make a mistake, but the biggest mistake we make is it takes our focus off the situation."

Nell Minnow, editor at the [Corporate Library](#), a Portland, Maine, research firm that specializes in corporate governance, piled on with the best line of the morning, suggesting there's been too much money going out the door to underperforming executives. "That's the Lake Wobegone approach, all the children are above average when you look at comparables. We need to look at pay in terms of return on investment just like any other allocation, and if the pay does not return a fair and justifiable return, then it is a bad pay plan."

I heard a different view on Monday afternoon when I called Gustavo Dolfino, president of [WhiteRock Group](#), a finance-sector recruiter in Manhattan who seems to see the compensation furor as a witch hunt. Dolfino told me he that federal guidelines on executive compensation will serve only to force the best talent to find jobs elsewhere. People working at banks that have received money from the Trouble Asset Relief Program will flee for less-troubled institutions, he said, hinting also that there was something not quite American about the whole pay-control deal. "It goes against everything we stand for, which is you get paid for results." Dolfino, whose company has eight offices around the world argued, too, that government oversight of compensation will lead to one form or another of a brain drain, people "relocating to the buy side or to hedge funds or asset managers."

Footnote: the Obama administration's pay czar, [Kenneth R. Feinberg](#), will have a lot to sort out, but he looks like the type who knows his way around a morass like this. He oversaw the federal program that awarded compensation to the survivors of the victims of 9/11, supervising distribution of roughly \$7 billion in which the average payout was \$1.8 million for each death claim and \$400,000 for about 2,500 injury claims. More recently, Feinberg was overseer of a \$7 million donor fund that went to the families of the victims of the April 2007 massacre at Virginia Tech, in which 32 people were murdered, 30 were injured and dozens of others were psychologically affected.