Workers Lose, CEOs Win

An Analysis of Executive Salaries at Top Job-Cutting Firms

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Delta's plans announced Thursday to lay off 12,000–15,000 workers was bad news for employees. However, new figures on CEO salaries at other top job-cutting firms suggest that Delta CEO Ronald Allen can expect a nice bonus.

Forbes 500 figures released last week showed that 27 U.S. companies have announced layoffs of more than 10,000 workers since March 1991, for a total of 630,000. The undisputed layoff leaders are IBM, AT&T, and General Motors, each with more than 74,000. Business Week's April survey of executive pay shows that most of these companies' leaders were loosening, rather than tightening their own belts during this period of austerity.

Compensation data are available for CEOs of 23 of the 27 biggest job-destroying companies. On average, their annual compensation (not including stock options) rose 30 percent in 1993 to about $1.9 million. All of the men (and they are all men) made more than $1 million in salary and bonuses in 1993; most have an extra million or two in stock options.

Corporate leaders not only lack incentives to prevent mass layoffs, they are often handsomely rewarded for carrying them out, whether it be for the purpose of re-engineering, streamlining, or responding to reduced demand. A new tax law passed last year gives executives an extra incentive to slash jobs. The law imposes a $1 million cap on the amount of executive pay that is deductible, unless the pay raise is linked to performance. In response, corporations have rushed to develop performance criteria that are usually related to increased cash flow and productivity. According to Steve Abrecht, of the Communications Workers of America, "In the short term, the only way you could meet these criteria is through drastic job cuts. So for executives to get their bonus, that's what they have to do."

Sears CEO Edward Brennan is a good example of the distorted priorities of U.S. business. When the bedrock American company announced mass layoffs in January 1993, it was a jolt to the national psyche, not to mention the 50,000 workers slated to lose their jobs. Meanwhile, Brennan quietly accepted a 200 percent pay hike, raising his 1993 compensation to more than $3 million.

Although IBM's John Akers and Eastman Kodak's Kay Whitmore got the boot themselves last year, their replacements who will actually carry out the companies' layoffs (of 85,000 and 20,000 workers respectively) each received a hefty $5 million hiring bonus.

However, a CEO's willingness to ax tens of thousands of workers does not necessarily make him a good value to the company's shareholders. The Business Week survey rated CEOs by examining how closely their pay has been linked to shareholder returns during the past three years. Of the 21 top job-cutting CEOs for which data are available, nine fell in the bottom 30 percent of CEOs surveyed in terms of shareholder returns.

The worst possible pay-performance rating was awarded to GE's John Welch, whose total 1991–1993 take (salary, bonus, plus long-term compensation) totaled about $32 million. During that period, GE announced plans to lay off 10,250 workers.

So if neither mass layoffs nor poor performance for shareholders affect CEO pay, what does? One consultant gave Business Week an easy explanation: "most compensation committees simply base pay on what CEOs at peer companies are getting."

For U.S. workers, the worst period of job insecurity is not over. The Wall Street Journal predicts that another 25 million workers may lose their jobs in the years to come to re-engineering alone. It is a perverse set of priorities that in this age of corporate downsizing, pink slips are viewed as a sign of progress. The long-term costs to workers, communities, and the nation far outweigh the enormous benefits to the few.

Corporate Downsizing Doesn't Apply to CEO Salaries

Mass Layoff Companies	Announced Job Cuts Since 3/91	CEOs	'93 Total Annual Compensation (thousands)	% Change From '92
IBM	85,000	Louis Gerstner	* $2,785	na
AT&T	83,500	Robert Allen	$2,517	11
GM	74,000	John Smith, Jr.	$1,375	84
Sears, Roebuck	50,000	Edward Brennan	$3,095	198
GTE	32,150	Charles Lee	$1,746	-6
Boeing	30,000	Frank Shrontz	$1,421	3
Nynex	22,000	William Ferguson	$1,438	-3
Hughes (GM)	21,000	na	na	na
Eastman Kodak	20,000	George Fisher	** $485	na
Martin Marietta	15,000	Norman Augustine	$1,651	18
Du Pont	14,800	Edgar Woolard, Jr.	$1,242	0
Philip Morris	14,000	Michael Miles	$1,355	-27
Citicorp	13,000	John Reed	$4,150	90
P&G	13,000	Edwin Artzt	$1,763	11
Woolworth	13,000	John Adams	na	na
Phar-Mor	12,987	na	na	na
Xerox	12,500	Paul Allaire	$1,316	-30
BankAmerica	12,000	Richard Rosenberg	$2,200	9
Aetna	11,800	Ronald Compton	$1,325	71
United Technologies	10,697	George David	$1,479	115
GE	10,250	John Welch, Jr.	$4,013	15
BellSouth	10,200	John Clendenin	$1,503	9
McDonnell Douglas	10,200	John McDonnell	$1,055	54
Ford Motor	10,000	Alexander Trotman	na	na
Pacific Telesis	10,000	Sam Ginn	$1,630	18
TRW	10,000	Joseph Gorman	$1,558	-1
Unisys	10,000	James Unruh	$1,573	-15
	631,084 (TOTAL)		$1,855 (AVERAGE)	30 (AVERAGE)

Sources: layoff figures from Forbes, April 25, 1994; compensation data from Business Week, April 25, 1994.
* joined the company in 3/93; figure doesn't include $4.9 million paid under agreement.
** joined the company in 12/1/93; figure doesn't include $5 million hiring bonus.