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Some Useful Sacrilege on Sinful CEO Wages

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NAPA, Calif. — There is something medieval about Bud Crystal. Balding and pudgy like some wine-making friar, he might have burned for heresy in a less indifferent age. Strange as it may seem today, his is a morality tale.

As a crusader dedicated to harrowing the corporate greed he misspent a lifetime abetting, Crystal follows in a great medieval tradition. St. Godric of Finchal grew prosperous in 16 years of business until he saw the light and gave everything to the poor. St. George slew dragons, which passed from myth to metaphor with no stay on the endangered species list. The sale of indulgences flourished; pay up and the church was only too glad to grant salvation.

At 57, Bud Crystal has not thrown over his worldly possessions, though he readily abandoned an annual income that reached $800,000. He uses a personal computer instead of sword and steed, but he still tries to slay dragons. Most important, after years of hawking indulgences, you can no longer buy from him redemption.

Graef S. Crystal was probably America's foremost compensation consultant. He started that business at Towers, Perrin, Forster & Crosby in New York, and for years was paid handsomely to bless often astronomical salaries at firms such as Chrysler, Paramount, American Express, Transamerica, BankAmerica, Arco, Carter Hawley Hale, CBS and Salomon Bros.

Troubled, Crystal designed pay packages to link compensation to performance. The pay package of Disney Chairman Michael Eisner was his brainchild. So far it has made Eisner worth more than $300 million since 1984. Eisner has indeed performed.

Around 1988, Crystal had a conversion experience and left Towers. Perhaps it was his return to his native California a couple of years earlier. Perhaps it was years of accumulated remorse. For whatever reason, it was time to attack the monster he had helped create.

Since then, the great consecrator of overblown executive pay has become its leading scourge. He's also probably the smartest. Six times a year, his tiny but influential Crystal Report newsletter skewers corporate salary excesses with sharp wit and hard data.

His attack on ITT Chairman Rand V. Araskog's pay so incensed the giant California Public Employees' Retirement System that it decided to vote its 1.1 million shares against ITT's board at ITT's annual meeting today. Crystal valued Araskog's 1990 package at $11 million under the headline "ITT Board to Shareholders: Drop Dead!" Unnerved, ITT dispatched a pair of executives from New York, who presented a personally inscribed copy of Araskog's new book. Despite such blandishments, Crystal still thinks what he thought when he wrote the newsletter: "Shareholders can only wish that their returns had been indexed to Mr. Araskog's pay package rather than to ITT's stock price."

With Crystal's help, CalPERS decided to make an example of Araskog, whom it complained got $30 million over four years while ITT stock fell 10% and the S&P 500 rose 37%. (The ITT shareholder meeting was scheduled for Leominster, Mass.)

ITT spokesman Jim Gallagher says Crystal interpreted ITT's results in the worst possible light and ignored inconvenient facts. Gallagher calls him a zealot and, sounding wounded, adds: "Mr. Crystal has never *met* Mr. Araskog."

ITT isn't Crystal's only enemy, but Steve O'Byrne, a principal at Towers, says corporate directors and other big shots won't often criticize him publicly: "I heard an executive say they didn't want to make a Ralph Nader out of him."

Many executives aren't pleased that someone is calling attention to this racket. During the 1980s, chummy directors, themselves often overpaid, raised CEO pay 212%, while corporate profits rose 78%

and worker pay rose 53%.

Crystal, who's also an adjunct professor at the UC Berkeley business school, has plenty of fans among the institutional shareholders who now account for about 40% of all equity holdings in U.S. publicly traded companies.

The Council of Institutional Investors, for example, hired Crystal to target the best and worst executive compensation packages.

"He has a rare combination of thoroughness and creativity," says Sarah Teslik, the council's executive director, adding that by flailing away at excessive CEO pay, "he's one of the people who's contributing the most to the U.S. effort to be competitive."

Crystal appreciates the irony of his position. At Towers, "he was entirely responsible for building our practice," O'Byrne says. He billed more than 2,000 hours in some years and lived in two apartments in posh Trump Plaza on Manhattan's East Side. He even played a major role in the growth of incentive-based compensation packages.

"The trouble with incentive plans is, they just pile on top," Crystal says now. "The CEO never gives anything back."

He adds that of his 600 or 700 career assignments, only three or four ever resulted in lower pay for somebody. Worse, Crystal has intensively studied the connection between long-term incentives and long-term performance.

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