

## As Economy Rebounds, so Does CFO Compensation

August 3, 2011

by Nicole Stempak

2010 was a good year for many companies and many CFOs saw it in their paycheck.

According to a recent analysis by Compensation Advisory Partners, 78 percent of studied CFOs received salary increases at a median rate of 3.5 percent in 2010.

Mike Kesner, principal of human capital advisory services at Deloitte Consulting LLP, isn't surprised CFOs received a raise.

CFOs are one of the most important jobs during a financial downturn, he says, because they are involved in debt refinancing, must demonstrate financial discipline to Wall Street, help restructure the company and oversee company-wide cost savings initiatives. Then, in a recovery, there's the need to raise new capital, increased mergers and acquisition activity and business expansion strategizing.

"You name it," Kesner says. "The CFO is the position that's charged with leading a lot of those activities. In downturns, they're worth their weight in gold. In an upturn, they're going to help the CEO capitalize on the opportunities that are out there. The role is very valuable."

The CAP study analyzed executive pay data from proxy statements of 55 U.S. public companies with revenues from \$1 billion to \$150 billion. The study did not include financial services firms and analyzed only companies with the same incumbent CEO and CFO from 2008 to 2010.

"We wanted to see if the elevated role resulted in elevated pay," says Kelly Malafis, partner at CAP who reviewed the data and co-authored the report, the first of its kind for CAP.

It has.

The study found from 2009 to 2010, CFO salary increased by 3.5 percent, bonuses increased by 15.6 percent and long-term incentives increased by 18.6 percent.

"I think that the takeaway is that the CFO is an important role," Malafis says. "They're part of the senior management team and, therefore, their pay is very strongly linked to the company financial results and the company stock price performance.

"It's important to realize that your pay will fluctuate based on how the company does and this is what compensation committees are looking for. They're looking for performance. They will pay for it when they have it, and they don't want to pay for it when the company doesn't have it."

In 2009-2010, 21.8 percent of CFOs did not see a salary increase, down from 30.9 percent in 2008-2009.

A similar survey by the Wall Street Journal found median pay for CFOs at 431 of S&P 500 companies increased 19 percent to \$2.9 million in 2010.

"I think the 19 percent is high, and I wouldn't expect that to continue," Kesner says. "2009 was not the best year, so when you go from 2009 to 2010 that's what the 19 percent is based on."

The sharp increase may be based off of a not so good year but as companies are returning to profitability, it's being reflected in incentive compensation.

"In other words, there has to be performance to earn it," Kesner says. "CFOs' performance is one of the positions that I think is most easily measured because the company's financial performance is one of the best ways to measure it."

The CPA study found of the total compensation breakdown for CFOs, 80 percent was incentive-based compared to 77 percent in 2008. Incentive-based compensation was defined as bonuses, stock options, time vested restricted stock and performance based long-term incentives.

In 2010, the pay mix for CFOs was 60 percent long-term incentives, 20 percent bonus and 20 percent salary and has been moving closer to the pay mix of CEOs. In 2010, the pay mix for CEOs was 67 percent long-term incentives, 19 percent bonus and 14 percent salary.

Kesner says the mix has changed from when he first started 34 years ago, but the emphasis on long-term incentives has been the standard for the last five to 10 years.

"This is reflective of the new environment, this new 'say on pay' environment that we are in where companies are really being tested on their pay for performance philosophy," Malafis says, adding this applies to most senior management positions.

The CFO seems to have moved to the front and center among investors and within the senior management team after the Sarbanes-Oxley Act held CEOs and CFOs accountable for companies' financial statements and the SEC required companies to list the five highest compensated employees in their proxy statements.

Every company has to report the salaries of CEOs and CFOs, so they stand out simply because there's more data about those positions than most others, Kesner says, adding the other three listings largely depend on the company's organizational structure.

CFO pay has increased relatively comparable to other senior executives and comes with lots of responsibility, Kesner says.

"\$2.9 million is a ton of money," he says. "I'm not saying it's not. It's just that it's all variable, and it's a very important role in corporate America."

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