SEMLER BROSSY

What is executive compensation?

New to compensation consulting? Learn the history of this complex area of corporate practice.

1890 1910

THE EMERGENCE OF THE CORPORATION

- Major corporations take shape with the founding of GE in 1892
- Bethlehem Steel adopts one of the first executive incentive (bonus) plans in 1902

1920 1940

DEPRESSION ERA INCREASED AWARENESS OF EXECUTIVE COMPENSATION

- Bonus and profit-sharing plans become prevalent; 64% of companies have established plans by 1928
- Stockholders file suits against Bethlehem Steel and American Tobacco Co. in 1931 contesting executive bonuses and options
- In 1935, the NY Times publishes names of individuals receiving particularly large compensation

1970 1980

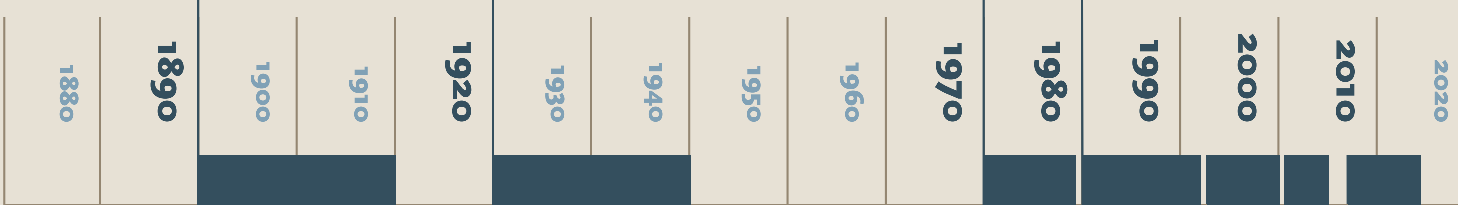
ECONOMIC STAGNATION

- Emergence of performance-based compensation plans tied to financials in response to President Nixon's 90-day freeze on non-performance based wages (including exec pay) in 1971
- Stock market stagnates, leading new plan designs designed to provide more predictable payouts
- Attack on perquisites in 1977-1978

1980 1990s

FOCUS ON CEO PAY

- Increased hostile takeover activity leads to development of golden parachute agreements
- Change in control arrangements become controversial following $4.1 million payment to CEO of Bendix in 1982
- Japanese trade concessions are hindered by excessive executive compensation practices
- SEC passes new rules in 1992 on the disclosure of top executive compensation in public company annual proxy statements



1995 2000

INTRODUCING THE INTERNET BUBBLE

- Congress passes the Omnibus Budget Reconciliation Act of 1993, including Section 162(m) of the tax code that limits the deductibility of non-performance based compensation for the CEO and four highest paid executive officers
- As corporate boards shift the mix of executive compensation from cash toward stock options, corporate profits and the stock market soar to record highs, generating unprecedented gains for option holders
- The stock market peaks in March 2000

2001 2005

THE REALITY OF CORPORATE SCANDALS

- Shareholders demand more accountability for executives and boards as stock prices slide (e.g., Tyco, Enron, WorldCom, Adelphia, HealthSouth, Grasso, and Disney)
- The introduction of Sarbanes-Oxley, new NYSE rules, and significant tax changes in 2002 signal increased scrutiny and oversight on corporate governance
- Scandals emerge in 2005 related to "back-dating" of stock option grants, leading to even more scrutiny of executive pay practices
- Stock options are reassessed as the preferred LTI vehicle, driven by 1) new accounting regulations (FAS 123R) revising the accounting treatment of share-based payments, 2) the stock market crash associated with the burst of the Internet bubble and the terrorist attacks on the World Trade Center

2008 present

LEGISLATION AND ECONOMIC RECESSION

- The mortgage crisis accelerates to full blown financial meltdown
- The government implements severe restrictions on pay at financial institutions participating in the Treasury's Troubled Asset Relief Program (TARP), e.g., payment of only base salaries and small amounts of restricted stock, no severance pay, etc.
- Congress passes the Dodd-Frank Act, which includes noteworthy reforms to executive compensation and corporate governance
- "Say on Pay" becomes a reality — additional regulations are still being developed that will continue to influence executive pay for the next several years