

# viewpoint

## TRENDS IN AUTO INDUSTRY EXECUTIVE COMPENSATION

Watson Wyatt Worldwide is just releasing details of its *2006 Automotive Industry Executive Board and Stock-*



*Based Compensation Study.* Results reveal how external forces influence how top executives are compensated. Steve

Rann, executive compensation consultant at Watson Wyatt, discusses the trends.

### What major trend do you see in executive compensation?

There's real demand among shareholders for pay-for-performance compensation programs. It's very apparent in the auto industry, where our survey shows that one in four CEOs received no raise in base pay in 2005, and bonuses fell an average of 20%. Nearly one in five companies paid their CEOs no bonus at all, and bonuses were down for other top executives at one-third of the companies we studied.

The figures show that company boards are increasingly linking top executives' compensation to such measures of company performance as cash flow, margins, earnings per share or other financial metrics.

### What factors are driving the shift?

Shareholders have always desired high performance from the companies in which they own stock. In recent years there has definitely been heightened focus on executive compensation and an increased demand for accountability. That pressure helped influence the U.S. Securities and Exchange Commission to draft proxy reporting rules that will require disclosure of more detail about public companies' executive compensation packages.

The SEC is finalizing new executive compensation disclosure rules now that are likely to be announced within weeks and become effective for the next proxy season. These rules will likely require companies to reveal termination benefits, annual retirement values, certain perks and

other components of executive compensation that have not historically been disclosed. Some of these numbers will likely be significant, creating some eye-opening moments next year when 2007 proxy statements become public.

### How does the SEC want compensation data presented next year?

In addition to more detail, we expect the SEC will require companies to display compensation information in more user-friendly tabular form. The Summary Executive Compensation Table, which has historically included various components of executives' compensation packages, will now likely include a single "Total Compensation" figure—the tally of all components of an executive's annual compensation.

### What about disclosure for board members?

Publicly traded companies disclose compensation paid to directors now, usually in narrative form. The SEC is expected to require this information to be posted in tabular form.

### Are companies still offering stock options?

Some 70% of the auto companies we studied were still offering stock options in 2005, about the same proportion as in 2004. But the value of options being awarded is generally declining and being supplemented with other long-term incentive vehicles. The proportion of surveyed companies that offer cash-based long-term incentives doubled to 31%. And the proportion of those that grant restricted stock jumped 12 points to 43% in one year.

The shift, which has been underway for several years, was accelerated by accounting rule FAS 123(R), which now requires companies to record an expense for stock options on the company's income statement. Demand for greater accountability is another factor. About 40%

of the 70 companies we studied offer some form of performance-based long-term incentives linked to such things as revenue growth or shareholder value over multi-year periods.

*To learn more about this year's Watson Wyatt executive compensation study, visit [www.watsonwyatt.com](http://www.watsonwyatt.com) or contact Steve Rann at [steve.rann@watsonwyatt.com](mailto:steve.rann@watsonwyatt.com) or call (248) 936-7639.*

## DECLINING EXECUTIVE COMPENSATION

In the U.S. auto industry, total executive compensation fell from 2004 to 2005:

CEO	
base pay	+3%
bonuses	-20%
long-term incentives	-3%
total direct	-5%

### ALL OTHER EXECUTIVES

base pay	+7%
bonuses	-32%
long-term incentives	-9%
total direct	-4%

Data: Watson Wyatt *2006 Automotive Industry Executive Board and Stock-Based Compensation Study*