Smaller Fish Are Also Doing Swimmingly

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Corporate governance watchdogs and shareholder activists have focused much of their attention on the growing compensation packages of executives at the country's biggest corporations, but the people who run smaller companies have also been quietly racking up impressive gains, according to pay experts.

To be sure, pay packages of chief executives at small and midsize companies are modest when compared with those at the biggest conglomerates: cash compensation for people who run small companies those with market capitalizations of less than $1.5 billion is typically one-third that of big-company C.E.O.'s, and long-term incentives are often less than one-sixth the size, said Tim Ranzetta, the president and chief operating officer of Equilar Inc., a compensation research firm in San Mateo, Calif.

The executive compensation plans at small and midsize companies also tend to be simpler and more transparent, without the long-term incentive plans and deferred income that big companies increasingly use to lure top talent, he said.

Perks like corporate-paid penthouses and private jets are less lavish at smaller companies, too, though they do exist. "It's the magnitude of the issue that captures people's attention," Mr. Ranzetta said.

Some changes in executive compensation at bigger companies, notably the shift from stock options to restricted shares, have been slower to reach smaller companies. When profits from stock options are added, many small-company C.E.O.'s are in the big leagues of executive comp.

Robert A. Kotick, the co-chairman, chief executive and "principal executive officer" of Activision, a maker of computer games with $1.4 billion in 2005 revenue, had total cash compensation, mostly in the form of base salary, of $501,912 last year.

When profits from exercising stock options are added, his 2005 income ballooned to $48.8 million, according to an analysis by the Corporate Library, a research firm in Portland, Me., that specializes in governance issues. Shareholders have benefited, as well: Activision's stock quintupled from the end of 2002 to late 2005, though it has fallen by more than 20 percent since early November.

Murry S. Gerber, the chairman, chief executive and president of Equitable Resources Inc., a $1.25 billion natural gas utility based in Pittsburgh, realized $54.8 million in 2005, the bulk of it

in options and long-term incentives. Shareholders, meanwhile, had gains of 25 percent for the year, most of it attributable to record high prices of natural gas.

Based on preliminary data from 175 companies in the Standard & Poor's small-capitalization index and 83 in the S.& P. mid-cap index that disclosed their executives' pay by March 20, the Corporate Library found that median compensation salary, bonus and perks rose 8.02 percent in 2005 for the small-cap chief executives and 6.34 percent for the mid-cap C.E.O.'s. Both of those percentage gains exceeded the 5.71 percent for the top executives in much larger companies: those in the S.& P. 500-stock index.

The difference in executive-compensation gains was sharper when stock options, restricted shares and long-term incentives were included: C.E.O. compensation surged by 19.2 percent at small-caps, 13.33 percent at mid-caps and 3.66 percent at the biggest companies. The top five earners among small-cap and mid-cap executives in the survey received a total $226.3 million, including options-related compensation.

"Small companies are still seeing significant pay growth," said Paul Hodgson, senior research associate at the Corporate Library. He noted that it was still early in the season for companies to file their proxy statements, in which they tell shareholders how much they pay their top executives. Once all the data is in, he said, the results could be different.

Another early tally, by Equilar, suggests that small-company compensation is down after sharp increases in 2004. Median annual pay declined by 5.5 percent, compared with a 21.4 percent increase in 2004, Mr. Ranzetta said.

He looked at 153 companies with market capitalizations of less than $1.5 billion (median revenue was $740 million), as well as 120 S.& P. 500 companies. He excluded C.E.O.'s who had held their positions for less than three years, to eliminate the influence of front-loaded pay plans and signing bonuses.

Though their pay numbers may be tiny when compared with those for corporate titans, smaller-company C.E.O.'s are getting more than meets the eye, compensation experts said.

"In proportion to market cap and earnings, C.E.O. pay is much larger at small and midsize companies," said Lucian A. Bebchuk, a professor at Harvard Law School and co-author, with Jesse M. Fried, of "Pay Without Performance: The Unfulfilled Promise of Executive Compensation."

What explains the difference? One reason is that smaller companies often outperform their bigger peers, which have to work harder to show growth. Or it could be, Professor Bebchuk said, that C.E.O.'s play a more crucial role at smaller companies than they do at larger ones.

A less charitable explanation, he added, is that smaller companies are simply not watched as closely. "They can get away with it a bit more," he said.

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