When the Boss Makes Big Money

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When Newell Rubbermaid Inc. cut 650 production jobs at its injection molding plant in Wooster, Ohio, in 2003, many of the 150 unionized workers who remained took pay cuts, in some cases losing $5 an hour in wages, union officials said.

That year, Chief Executive Officer Joseph Galli got a 16 percent raise in his base pay, to $1.16 million, and the company put in place a new cash bonus plan for salaried workers that for Galli would have been worth another $300,000 had it been in place in 2002.

The company brought in Galli in 2001 with high hopes. He'd had a career resurrecting a struggling division of Black & Decker and heading online retailer Amazon Inc., and his goal was refashioning the old-line manufacturing firm and building its brands in a world of retail cost cutting, dramatic resin price increases and global manufacturing threats.

For a tall order like that, some would argue, the firm needed to pay well. Newell Rubbermaid said in a statement that its executive pay plan is designed to recruit and motivate good executives who will benefit the company and its shareholders.

But others see it as an example of how a globalizing economy is putting pressure on worker wages and exacerbating what many see as a growing gap between executive pay and worker pay.

``Most economists agree that global competition is putting downward pressure on worker wages,'' said Sarah Anderson, author of a report on executive pay and globalization at the Washington-based Institute for Policy Studies. ``Since so many workers are in a global labor pool, companies can say we'll move elsewhere.''

One thing is certain. Since the stock market stumbled, executive pay has gotten more attention, and not just from think tanks.

William McDonough, head of the Public Company Accounting Oversight Board in Washington, said in an April speech that large-company CEOs in 2000 made 400 times what workers did, up from 40 times worker salary in 1980.

``There is no economic theory, however far-fetched, which can justify that increase,'' he said, according to prepared remarks for a speech at a New York conference. ``In my frequently stated view, it is also grotesquely immoral.''

The plastics angle

So how does the plastics industry stack up?

Overall, the gap is widening, although it's much less pronounced than McDonough's figures for corporate America CEOs as a whole.
Over the last decade, average pay for the top 100 executives in the plastics processing industry has gone up 65 percent, to $1.22 million. Average pay for U.S. production workers, by contrast, rose only half as much, by 32.6 percent, to $28,660, according to government figures.

In 1994, the gap between average pay for plastics executives' and their workers' was 34-1. Last year, it stood at 42-1. By that measure, the split between workers and executives in plastics processing looks positively egalitarian compared with McDonough's view of the big picture.

Some analysts, like Salary.com's senior vice president of compensation, Bill Coleman, say that figures suggesting a widening gap between workers and executives are overstated.

To be fair, he said, analysts should compare CEO wages to the best-paid production workers, rather than comparing the best executives to the average production worker.

Still, pay for executives at the top of Plastics News' chart is growing much faster than the 3-4 percent raises that compensation experts and surveys say are typical for production employees and salaried workers. Salaries for the top 100 executives in PN's ranking rose an average of 8.5 percent the past two years. Total compensation for the 100 best-paid executives in our ranking went up 36 percent last year.

Plastics News decided to take a look at a couple of companies to see how executive and worker wages are playing out

Bemis

Bemis Co. Inc. President and CEO Jeff Curler received a 16 percent raise Jan. 1, to $950,000, for example. Since he assumed his present job five years ago, his pay has risen from $600,000, a boost of nearly 10 percent a year.

That doesn't include compensation from stocks, or an annual cash bonus, which in 2004 was $1.03 million, but Plastics News focused strictly on salary as the most conservative way to measure pay. Ignoring stock and bonus incentive pay, however, vastly understates executive compensation.

Even by that limited measure, Curler seems to be doing much better than Bemis workers.

Unionized workers at the firm's polyethylene film plant in Terre Haute, Ind., for example, have been receiving 3 percent raises since 2002.

In its last contract talks, the union concentrated on limiting health-care costs for its members, and succeeded in getting Bemis to pick up most of the increases and still get salary raises above the national average, said Pat Cronin, Indiana state director for the Unite Here union. Unite Here Local 1426 represents workers at the Terre Haute plant.

Officials at Minneapolis-based Bemis acknowledge that Curler's salary has climbed more than the 4.75 percent annual pay increases it assumes in long-term pension calculations, a figure that includes employee promotions. But the company contends Curler's salary is money well-spent.

Spokeswoman Melanie Miller said Bemis is much larger now than when Curler signed on in 2000, growing from $2 billion to $3.5 billion in sales, and shareholders have done well: $100 in Bemis stock at the end of 1999 would have been worth $188 at the end of last year.

``We've grown a lot under his leadership,'' Miller said. She added that the company needs to be competitive with executive pay, and wants to tie Curler's pay to performance in a way that recognizes his role in that growth.

Bemis said in SEC filings that it has more than beat the S&P 500 index and a peer group of companies.

Tupperware

Like Curler, Tupperware Chairman and CEO Rick Goings has seen his salary rise much faster than typical salaries on the shop floor. But unlike Bemis, Tupperware has not seen that kind of sales growth - it's roughly the same size as it was when Goings took the job.

Goings' salary has jumped 63 percent since 1998, his first full year in that job, going from $556,000 to $910,000. That also does not include stocks or a cash bonus, which in 2004 was $1.8 million.

That's much more than the 20 percent aggregate raise that federal government statistics show for plastics industry production workers in those years. Tupperware declined to comment for this story.

Most of Goings' salary increase came in 2002, and the company said the rise came in recognition for his work revamping the firm since 1998. In 2004, he did not receive a salary increase. (As well, he still owes the company $10.6 million for loans to purchase company stock.)

Company sales have not gone up anything close to the 63 percent that Goings' salary has. Sales in 1998 were $1.1 billion, with profit of $69 million. In 2004, they stood at $1.22 billion, with profit of $87 million.

Shareholders have made money: the value of Tupperware stock rose 52 percent between 1999 and 2004. But company performance lags the market and competitors, including the investment return from consumer product makers the firm compares itself to in financial filings.

Like many consumer product companies, Tupperware has faced a tough business environment with sky-high resin costs. It is trying to make the leap from commodity storage containers to more profitable items, and Tupperware wants to position itself as fashionable and innovative, featuring products like its line of Elegenzia serving bowls.

But the company has stumbled in some business moves, like an unsuccessful and ultimately abandoned attempt to broaden from a direct sales force to selling at mass retailer Target.

Some of Tupperware's plastics workers have not fared well, either.

The firm shed nearly half its 560 workers at its Hemingway, S.C., injection molding plant in January, and the site earned a designation from the U.S. government as a factory hurt by international trade, making workers eligible for further help.

But during the layoffs, Tupperware gave government officials plenty of notice and set up transition offices for retraining and resume development, according to Jaganna Kinloch, a business manager with the Waccamaw (S.C.) Regional Council of Governments.

Kinloch said many of the workers who had been at the plant a long time were lower-skilled, so they have opted for retraining. The rural area where the factory is located has a double-digit unemployment rate, one of the highest in the state, he said.

In deciding that the plant's fortunes had been damaged by trade, the Department of Labor said its workers face challenges: ``A significant number of workers at the facility are age 50 or over and possess skills that are not easily transferable. Competitive conditions within the industry are adverse.''

While not addressing Tupperware directly, IPS' Anderson said executive pay critics recognize that sometimes companies face unpleasant choices.

``It's true that some companies don't have a choice and have to make cuts, but then why give the CEO a big pay raise?'' she said. ``We think that gives the wrong message.''

`System is gamed'

Anderson said an Institute for Policy Studies analysis found a link between outsourcing and rising CEO compensation.

IPS and Boston-based United for a Fair Economy issued a study last year saying that CEO compensation at 50 firms that outsourced the most service jobs went up 46 percent in 2003. That compares with the 9 percent increase Business Week reported for execs at the largest 365 firms the same year.

Other critics, like Harvard professor Lucian Bebchuk, argue that compensation problems stem from boards that are not independent enough from the executives they oversee. The problem, as they see it, is a corporate power structure that favors the CEO.

``First and foremost, yes, the system is gamed," said Salary.com's Coleman, who has worked as an executive pay analyst for two large consulting firms. ``CEOs do influence their own pay, particularly when the CEO is more powerful than the chairman of the [compensation] committee."

IPS' report recommended that companies be required to disclose more information on executive pay, to put employee representatives on boards and to eliminate deductions; in particular, it advocated limiting deductions that exceed a certain multiple of pay and eliminating deductions for pensions and other perks not broadly available to all employees.

But others suggest more market-based reasons for the rise in CEO pay, such as firms consolidating or getting larger, requiring more complex management skills.

Companies also have flattened management ranks, so that senior executives often are responsible for much more than they used to be, said James Aslaksen, sector leader for executive recruiting in Los Angeles-based Korn/Ferry International's performance materials business.