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Wall Street faces new frontier on bonuses, perks

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By Jonathan Spicer and Jonathan Stempel - Analysis

NEW YORK (Reuters) - During the years of fat if illusory profits, Wall Street and the rest of the U.S. banking industry justified doling out lavish bonuses to top employees by arguing that if they did not, someone else would.

Times change.

President Barack Obama's call to cap executive pay at \$500,000 for financial companies getting taxpayer aid comes as lenders try to cut costs and risk, and as Washington politicians and other critics demand a new austerity.

"Low compensation is something that CEOs of large banks have not seen before," said Yaniv Grinstein, a professor at Cornell University's business school and an executive pay specialist. "At the same time, market conditions today are probably such that opportunities elsewhere are not as they used to be, so (caps) might not be as detrimental."

Executives and other top performers may once have been more of a flight risk had they not received that seven-figure bonus or that extra bottle of Sassicaia after closing a big deal.

But tens of thousands of jobs have been lost in the banking industry, and those who still have jobs might feel fortunate to be employed at all.

And while smaller banks such as Evercore Partners Inc Greenhill & Co and Lazard Ltd that have not joined the Troubled Asset Relief Program could pluck top talent from bigger rivals, they may not need to pay up for new recruits when there is less cash going around to begin with.

Talent flight is "certainly a possibility," said Lauren Smith, a Keefe, Bruyette & Woods Inc analyst. "But you would go to a Lazard, Greenhill (or) Evercore because of the difference in the business model relative to the big firms, and because of the cultural aspects. It's a real cultural divide."

FROM CELEBRATION TO JUNKET

Changing that culture comes slowly, too.

That executives as prominent as former Merrill Lynch & Co chief John Thain have argued for the need to pamper top talent suggests that banks have been slow to accept the market's change in perception as to what is fair and what is wasteful.

(Thain was ousted from Bank of America on January 22 after a brouhaha over, among other things, bonuses.)

Wells Fargo & Co saw that change on Tuesday, as it hastily canceled employee outings at pricey Las Vegas casinos. The bank had held such gatherings for years, but in the current environment the fetes won a pejorative sobriquet -- "junkets."

The bank got \$25 billion from TARP.

Wells Fargo isn't alone among commercial banks to tighten purse strings. Atlanta's SunTrust Banks Inc scrapped "award trips" for good producers. Wachovia Corp, which Wells Fargo bought on December 31, slashed corporate and investment bank bonuses 80 percent -- and seven equity analysts promptly left.

And the insurer American International Group Inc scrapped executive retreats after being vilified and ridiculed in Congress for shelling out \$440,000 at a California spa and resort -- in the wake of getting an \$85 billion taxpayer bailout.

"SHAMEFUL"

Last week, Obama refashioned the bonus debate by blasting Wall Street's \$18.4 billion of bonuses in 2008 as "shameful."

Indeed, though the amount fell 44 percent from a year earlier, it still looked preposterous in light of the \$1.5 trillion of market value lost by financial companies in the Standard & Poor's 500 since the end of 2007.

Much of that vanished because of ill-conceived or downright foolish bets that the housing market would never crumble, or that there would be bottomless demand for a stream of debt and derivatives that few could understand or value.

But for every executive or banker who did his jobs poorly, there are others who performed competently, even admirably, and yet must now suffer with their colleagues.

"Wall Street people will not put up with a 70-hour work week to get fired or to get no bonus," said Joe Wein, president and chief executive of JR Partners, a New York recruiting firm.

MINDING THE SHAREHOLDER

Brady Dougan, chief executive of Credit Suisse Group AG, at a conference on Wednesday said the industry must find a balance between delivering value for shareholders and "making sure also that there are some incentives and some ability to build wealth for people who work in the business."

Credit Suisse, like other non-U.S. firms, is not eligible for TARP and thus is not subject to Obama's pay proposal.

Jannice Koors, managing director at pay consultant Pearl Meyer & Partners, said banks have to make sure that even for the executives they keep, pay is not slashed too much.

"It is a 'deferred brain drain' risk," she said. "The minute this market turns around, and those executives' phones start to ring with other opportunities, they will be more willing to listen," she said.

For now, they may have to sit tight, and substitute a good Chianti Classico for that Sassicaia.

"It doesn't seem like any industry has a bunch of 'Executive Wanted' signs," said Darin Manis, chief executive of RJ & Makay, a Colorado Springs, Colorado, recruiting firm.

(Additional reporting by Paritosh Bansal, Dan Wilchins and Elinor Comlay; editing by John Wallace)

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