

| OPINIONS |

Watch your pocket; someone may pick it

This is a cautionary tale. Beware of your best commercial friends, your most trusted business allies, your most generous corporate supporters. They may abandon you when you need them most.



EYE ON THE PIE

Morton Marcus

Let's fill in the details. NCR Corp. (formerly National Cash Register) was founded in Dayton, Ohio, in 1884. It became one of the great innovative companies in American business history. Now NCR is moving from Dayton to Duluth, Ga., an Atlanta suburb.

The company has been part of your life since your birth. Your commercial activities have been rung up on its cash registers or point-of-sale terminals. In the past week alone, you probably used one of its ATMs at your bank. Your utility payments may have cleared through its check-processing systems. NCR bar-code scanners have followed your packages across the nation.

NCR was a respected member of the Dayton community. It was to that western Ohio city what Cummins Engine is to Columbus, Ind.—home-grown, internationally prominent and locally responsible.

Now, NCR is moving its corporate head-

quarters and more than 1,000 jobs from the Buckeye to the Peach state. The leaders of Dayton and Ohio are outraged. They claim they had no warning of this impending move.

If those political and business leaders had looked, the signs were there.

In 1991, NCR was bought by AT&T, a conglomerate engaged in agonized restructuring and unable to define itself in a new environment. Within five years, NCR's worldwide work force shrank from 53,800 to 41,100. By 1996, AT&T was ready to spin off NCR. The damage, however, was done. NCR had spent half a decade as a foster child in a dysfunctional family. From that time forward, NCR has been a different company, buying and selling companies rather than innovating, and its worldwide work force has declined to 22,000.

After AT&T, NCR shipped its voluminous corporate records to the Montgomery County Historical Society. A nice civic gesture or a weighty goodbye?

NCR was a company with a history of promoting from within and whose executives held office for decades. Yet in 2005, the top executive position at NCR was given to Bill Nuti, a 41-year-old with no ties to NCR or Dayton. Soon, many NCR executives were working and living in New York City. The company said its world headquarters were in Dayton, but decisions

flowed from NYC.

Among those decisions were new customer service and manufacturing facilities in Georgia. The corporate headquarters move, announced June 2, should not have been a surprise if anyone wanted to pay attention.

NCR denies that the \$60 million in tax breaks from Georgia has any bearing on its move. Ohio was ready to offer only half that amount. But NCR and Georgia agree there is a highly skilled work force available in the home of the Braves. The education institutions of the state are becoming among the best in the nation. The Atlanta airport offers direct flights to everywhere. The art museum, the symphony, the sports teams . . .

Now that Atlanta has lured NCR, what about Dayton? The answer depends on what Dayton did in the past 10 years to provide for the future. No doubt there will be a sudden interest in economic development, many committees, task forces, and fingers pointed, all of little consequence.

The best economic development work keeps an eye on the present and builds for the future. It cannot undo the neglect of the past. •

Marcus taught economics for more than 30 years at Indiana University and is the former director of IU's Business Research Center. His column appears weekly. He can be reached at mmarcus@ibj.com.

CEO: Do you deserve your salary?

First in a three-part series on executive compensation, in conjunction with IBJ's special report on the same topic, which begins on page 3. Next week: Is the value of executive talent a myth?

Executive compensation is the only wealth creation not determined by competition or by disinterested negotiation, and not subject to tension between owners and recipients.

Producers of films, music and books risk personal funds when committing to projects and negotiating with stars. To the extent producers believe that Julia Roberts or Brad Pitt attracts patrons, higher fees and future bonuses are paid. The wealth of inventors is a result of sales of their inventions. Most salesmen are paid directly by the amount of product sold. Attorneys and accountants are paid by hours worked. The profits of small-business owners are related to both sales and to expenses they incur (and most new jobs are created by small businesses).

In contrast, an exaggerated share of the nation's wealth is paid to CEOs of public companies, their minions and directors, through agreements made inside boardrooms, by highly compensated individuals who commit other people's money—shareholders' money—and are not subject to effective oversight.

At Eli Lilly and Co., compensation decisions, including the amount of directors'

fees, are approved by a board of 13 highly paid executives, nominated by or at least friendly to the CEO, who have voted for themselves close to \$300,000 a year for board service, which is five times the salary of many teachers. A director's total income from corporate activities varies widely, depending on whether he is employed or retired, and on how many boards he serves, but could reach \$20 million or more per year, or more than 300 times the income of teachers, and more than 50 times the amount paid to the president of the United States. Directors live well and pay well. Paying is easy. It is not their money.

To create an appearance of reasonable deliberations, boards hire compensation consultants who, I presume, would not long serve if they recommended \$100,000 for the CEO or \$3,000 for directors. (Directors of Berkshire Hathaway receive \$2,000 to \$7,000 annually. Its chairman, Warren Buffett, receives \$100,000.)

A standard for the pay of Lilly's CEO is "the broad middle ground" of nine other pharmaceutical companies. Therefore, increasing compensation of one CEO affects the compensation of all.

Another standard is corporate annual performance targets set each year by independent directors meeting with the CEO. Since the CEO has more facts than anyone, he can propose targets that are likely to be exceeded, thereby increasing his compensation.

However, performance is not subject to executive control. As an oil company's profit depends on the price of oil, a pharmaceutical company's growth depends on patent expirations, research success, and

actions of the U.S. Food and Drug Administration. A CEO can do little more than watch the passing scene. Also, one-year targets are flawed, because shareholders invest for years, not months. Indianapolis has notable examples of companies that appeared to do well for a few years, then had disastrous results due to decisions of the highly paid CEO. Society can pay Tiger Woods for visible performance, but no measurable standard exists for corporate executives.

Lilly's CEO is paid approximately \$13 million. This is small compared to the \$104 million received by the CEO of Motorola, or the \$21 million paid at IBM. IBM's board includes the chairman emeritus of Lilly, whose private-jet expense to IBM meetings is paid by Lilly. The retirement plan of the CEO who retired last year was \$30 million. Teachers retire with \$50,000 to \$500,000, depending on years of service and the plan's investment success. Teachers seem to live well with one house, one or two cars, and adequate opportunities to travel. Who needs more than that?

In a free society, no amount of jawboning, law or regulation can effectively control compensation. Only self-restraint, personal modesty and a reasonable sense of value can produce evenhanded decisions. On page 32A is a list of compensation paid to CEOs of Indiana public companies. Each person on the list should look in the mirror and ask, "Am I worth it?" If the answer is no, then do as Warren Buffett does: Accept less. •

Guy is an Indianapolis money manager, certified financial planner and president of Wealth Planning & Management LLC.

LETTERS

Chrysler is to blame for its own downfall

[Morton Marcus] certainly managed to spread the blame all right [in his June 8 column], however a little thinly, I feel.

I'm less inclined to fault the people who bought Chryslers over the years, though thank God I never made the mistake of buying one because I always perceived them as junk. Presumably, people buy certain cars because they like the style, dependability, drivability and, probably, their affordability. In whatever combination is anybody's guess.

My bet is that, ultimately, consumers eventually found some or all of the above to be lacking in the manufacture and sale of Chrysler vehicles and thus the demise of Chrysler.

So, I suggest the brunt of Chrysler's downfall may well be its inability to make cars people want to buy and [can] afford. Thus there should be no need to search further for scapegoats.

Frank Sauer

What's wrong with prayer at Mini?

I won't bother to argue [Mickey] Maurer's point [in his June 15 column] about what kind of prayer should be offered at the start of the Mini-Marathon. I won't change his mind, and he won't change mine. I do want to mention two points, though:

■ I believe the 500 Festival is a private, not-for-profit organization that accepts no public money. As such, it shouldn't be bound by the same rules as the speaker of the House of Representatives, who is paid by the public and serves the public in a government setting.

■ If Maurer believes the job of a Christian youth minister is to teach and guide our youth that all points of view are equally acceptable, he is sorely mistaken.

Steve Wallen
Cicero

Ezra Goldberg

Column on prayer was right on

If anyone is counting reader responses to the prayer article, count one for "Good job, Mickey." This kind of thing happens too much; in fact, any is too much, and it has been the way things are done in Indianapolis long enough.

Do you remember once-a-week Christian religious instruction in Indianapolis Public Schools in the 1950s? If we don't say "Ouch," the infliction of pain goes unrecognized among the well-meaning and ignored by the uncaring.

Morris Klapper

See **LETTERS** next page

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