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RiskMetrics Group
Building Financial Confidence

The Boss Actually Said This: Pay Me Less

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BLIZZARDS swept through Wall Street last week -- bonus blizzards, that is. Henry M. Paulson Jr., chief executive of Goldman Sachs, received $37 million in shares and options. Richard S. Fuld Jr. of Lehman Brothers got $15 million in restricted stock, while John Mack, Morgan Stanley's new chief executive, pocketed an $11.5 million stock grant for six months' work.

But one Wall Street executive atop a fast-growing firm is saying no to the piles of pay that make corporate America's world spin so splendidly. In a remarkable two-page letter to the chairman of his company's compensation committee, this executive requested that he receive no increase in salary, zero stock options, a smaller bonus than last year and a piece of the company's profit-sharing pie equal to that received by all employees. This, in a year when his company's revenue grew by more than 40 percent.

Who is this magnanimous executive? Ethan Berman, founder and chief executive of RiskMetrics, a private company that was formed at J. P. Morgan Chase and spun out to private investors in 1998. RiskMetrics, based in Manhattan, helps institutions and corporations assess risk in their investments; it is owned by its employees and three private equity firms. It will generate revenue of $100 million this year.

Haven't heard of Mr. Berman? That is not surprising: his company is small and he is no self-promoter. Unlike other executives uttering the bromide about how the team contributes to a company's success, Mr. Berman not only says it, he also acts on it.

While Mr. Berman's may not be a household name, his egalitarian executive pay philosophy is worthy of the spotlight. His letter to the board, outlining this philosophy, should be read by anyone who serves on a compensation committee. It should also be memorized by institutional investors, who too often let managers siphon wealth from their pockets. (The letter can be found at www.nytimes.com/morgenson.)

As soon as the letter begins, you know that you've left the me-first executive world behind. "I know H.R. will be giving you a formal presentation outlining our overall proposed plan," Mr. Berman wrote, "but last year I was disappointed in the way I was compensated and I have therefore taken to writing this note in the hope that it does not happen again in 2005." His unhappiness last year? Excessive pay.

First, he asked that his relatively modest salary remain the same. "The banker J. P. Morgan once said that he would never lend money to a company where the highest-paid employee was paid more than 20 times the lowest-paid, as it was in his view unstable," Mr. Berman wrote. "While we are a long way from that threshold, last year I felt I was given an overly generous raise, putting my salary 20 to 40 percent higher than my direct reports. If the proposed salary increases are given to the other managers within the firm, my current salary will be at a level more appropriately above the other key employees in 2006."

Then he requested that bonuses across the company be raised significantly above last year's -- except for his own. "I do not feel my own performance was as strong as in previous years," he wrote. "I would therefore ask that my discretionary bonus reflect this by an appropriate amount."

On the subject of stock options, Mr. Berman recommended that he receive none. "As I told the committee before last year's meeting, there is no amount of stock options, restricted stock or any other stock-based compensation that would make me feel more of an owner, or increase my commitment to the company," he advised. "Instead, I ask the committee in looking at the list to broaden its definition of 'leaders' beyond employees with significant managerial or financial responsibilities to those who display time and time again the values that we as a company believe in and therefore 'lead' others by example not by mandate. That, as much as any other attribute, will create value in the long run."

Mr. Berman did not intend for his letter to be made public. But Arthur Levitt, the former chairman of the Securities and Exchange Commission and the head of the compensation committee at RiskMetrics, found it notable enough to send to me, a sharp critic of runaway executive pay.

During his career, Mr. Levitt has served on some 20 boards and a dozen compensation committees. "I never heard a C.E.O. say, 'I didn't do so well, don't give me a bonus,' " he said. "It's always, 'I didn't do so well because we couldn't get the parts on time, or the C.F.O. didn't do the job,' or some other excuse."

Mr. Berman, 44, said in an interview that when the RiskMetrics directors first learned that the company's profit-sharing plan made identical grants to all employees each year, they were shocked. "This was designed by me," he said. "If your assets are your people and you treat them well, you will bring more people and profits to your organization. I think it's in the long-term interests of the shareholders, the company and the clients of the company." RiskMetrics began with 25 workers and now has 270.

Why did he ask for a lower bonus this year? "My job at this point is developing people, developing success plans to make sure this company will continue to grow and be successful 5 to 10 years from now, and I didn't get that done," he said. "I'm a hard grader. I think I did more in that way last year than I did this year."

GIVEN his unusual background, it is perhaps not all that surprising that Mr. Berman takes a different view on compensation from others on Wall Street. A theater major who graduated from Williams College in 1983, he initially moved to Paris to write plays. Several were performed, but he returned to New York in 1985. He started working for a temporary agency and was dispatched to several Wall Street firms. J. P. Morgan hired him permanently, and he began doing risk management work for the bank in 1995.

Mr. Berman recalls when he realized how wacky corporate compensation practices had become. He was working for a large firm and had just received his first bonus that was more than his salary. "After hearing the amount from my boss, I immediately called my father with the news," he wrote. "The first words out of his mouth were 'don't ever feel that you are worth it.' I don't want him to say that to me again."

While 2005 has been RiskMetrics's best year by financial measures, Mr. Berman said that other areas of the company could have performed better. "I don't think one should simply look at a company's financial results for a year, because they were probably not impacted by the C.E.O." but by many employees, he said.

"I wrote the letter because it's something I believe in," Mr. Berman said. "But if other people read the letter and say, 'Maybe I should rethink this,' that would be success, to me." And to shareholders everywhere.