Delta chief stands out for sacrifice (w/photo)

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ATLANTA — Who walks away from millions of dollars?

Bosses of some giant companies do, it turns out.

RICH ADDICKS
(enlarge photo)
Gerald Grinstein.

While CEOs are regularly lambasted for accepting big pay packages, it isn't unusual for corporate titans to swallow short-term pay cuts, skip bonuses or temporarily opt for $1 salaries — although it is often for the promise of long-term rewards. It happens at companies that are soaring as well as at those where employees need to be convinced that top leaders are sharing the burdens of hard times.

Now, Delta Air Lines' 74-year-old Chief Executive Gerald Grinstein has taken the concept a step further. Not only did he forgo part of a comparatively low salary while leading Delta through its Chapter 11 case, but last week the company announced that Grinstein will get none of the usual payouts that typically go to CEOs after such cases. No stock in the reorganized company. No cash bonus. Nada.

"I like it," said Tim Pollock, an associate professor of management at Penn State University, who studies executive compensation. "Our own low expectations about CEO self-interest make the gesture that much more powerful."

Usually, said Don Lindner, an executive compensation expert with human resources association WorldatWork, CEOs "are sacrificing now because they want the company to turn around, and then if it works out they can profit."

Pat McGurn describes the practice as "trading dimes for dollars."

McGurn is executive vice president of Institutional Shareholder Services, which provides research and voting advice for shareholders. He used to keep a file with information about all the CEOs taking what looked like pay cuts, but it grew too big.

He cites Terry Semel. The Yahoo chief's salary dropped to $1 last year, but over time he has received options to buy millions of shares in the company.

"They get their pot of gold at the end of the rainbow, not at the beginning," McGurn said. "They are more than willing to trade off short-term income in order to receive a longer-term share of the pie. That ends up being a hell of a lot more than the salary would have been."

Sometimes, superwealthy bosses volunteer for less pay even when times are good, McGurn said. Those "share-the-wealth" moves include the $1 salaries of Google's co-founders, who became billionaires from their stock in the business and will make even more if the company continues to thrive.

McGurn said he also sees examples of "share the pain" cuts — such as those by General Motors chief Rick Wagoner — where corporate leaders accept pay reductions to take part in the sacrifices at their troubled companies.

Sometimes short-term moves can backfire. Grinstein's predecessor at Delta, Leo Mullin, gave up nearly $200,000 of his $795,000 salary and took no bonus for 2001 in the wake of the Sept. 11 attacks. But two years later, he stepped down amid lingering controversy after it was disclosed that Delta had given top executives big bonuses in 2002 and spent millions on special bankruptcy-proof pension trusts for them. He got $16 million when he left.

Series of pay cuts

Grinstein started as CEO with less pay than his predecessor. And it went down from there.

Like employees at all levels of Delta, his salary was chopped during the more than three years he has been CEO. His $338,000 salary is among the lowest for chief executives of major U.S. corporations. Meanwhile, the value of Delta stock he had accumulated evaporated, just as it has for everyone who held common stock when the airline filed for bankruptcy protection.

Now, he is refusing to take any extra cash, stock awards, stock options or salary raise as part of what may be the greatest success of his long career in business: Delta's pending exit from bankruptcy protection.

His top two lieutenants — both of whom already make a bigger salary than Grinstein — are each in line to receive $8.4 million in equity awards over the next few years if goals are met, plus another $765,000 in possible cash incentives, according to Delta.

Grinstein has told the company to consider putting the extra compensation it would have given him into charitable funds for needy Delta workers and to provide scholarships for Delta employees, retirees and their families.

He says he plans to step down from the airline this summer. Grinstein has been on Delta's board since 1987, but his company pension will be based on a portion of his time as CEO, giving him just over $300 a month. He'll get some travel privileges on Delta jets, but no continuing health care benefits, no office nor any club memberships, according to Delta.

'Sign of good faith'

Observers say CEO pay cuts often are more about image than substance.

"Typically, when it is done it is cosmetic," said Charles Elson, who directs the University of Delaware's corporate governance center.

And corporate chiefs who get major pay after leading a company out of bankruptcy risk poisoning potential goodwill with workers, Elson said. But he said moves like Grinstein's resonate with employees. It's "an important sign of good faith."

Grinstein, a Seattle investment firm principal when he came off the board to succeed Mullin, is an unusual example in several respects.

By the time he took Delta's controls, he was already in the twilight of a lucrative career. He had amassed enough wealth to buy Bill Gates' old lakefront house in Seattle, tear it down and build one he and his wife liked better.

He'd been a partner in a prominent law firm; served as chief executive of Western Airlines before that carrier was acquired by Delta in 1987; and ran Burlington Northern railroad.

Some friends worried when he took the CEO post at Delta. The job didn't seem to come with much upside, other than that it was challenging. The airline was in a deepening financial crisis, and employee morale — already hurt by pay and job cuts — was further wounded by controversy over bonuses and the bankruptcy-proof pension trusts targeted for Mullin and other top executives.

As an influential member of Delta's board, Grinstein had played a key role in Mullin's 1997 hiring and mentored him early on. He was on the board that approved the 2002 executive pay perks.

Friends wondered whether Grinstein's motive — at least in part — might be that he felt he owed it to Delta to help repair the company's problems.

Grinstein brushed that idea aside in a 2004 interview: "I must say I don't think of it that way."

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