# Outcry on Exec Pay May Spur Rise In Whistle-Blower Suits

Widespread outcry about executive pay could spur a rise in whistle-blower suits by fired employees. Two such lawsuits were filed in March.

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**May 8, 2009**

## Outcry on Exec Pay May Spur Rise In Whistle-Blower Suits

As public outrage over executive compensation intensifies, experts believe there will be an increase in whistle-blower lawsuits filed by employees alleging they were fired for opposing their executives' compensation packages.

Two such lawsuits were filed in March—one involving Citizens Republic Bancorp, a Flint, Michigan-based bank that has been approved to receive $300 million in bailout funds through the Troubled Asset Relief Program, and the other against McDonald's Corp.

Experts say that given the heightened scrutiny regarding executive compensation, particularly in the wake of President Barack Obama's opposition to bonuses given to AIG executives, more lawsuits are coming.

"Employees are feeling more empowered to report corporate fraud because they recognize the consequences of upper management ignoring fraudulent activity," says Jason Zuckerman, a principal at the Employment Law Group, a Washington-based firm that represents whistle-blowers. "If management hadn't ignored employees' efforts to blow the whistle, then the current economic crisis might not be as severe as it is today."

According to the March 24 lawsuit filed against Citizens, John D. Schwab, the bank's former executive vice president and chief credit officer, says he was fired because he opposed a request by then-CEO William Hartman for a $7.5 million bonus, stating that it was "wrong and inappropriate," particularly since the bank was applying for bailout funds.

After Schwab expressed his concerns, the bank's board terminated Hartman's employment. But, according to the suit, Hartman fired Schwab before he left the bank.

Similarly, on March 26 Lisa Bridges, McDonald's former senior director of compensation, filed a suit in federal court stating she was fired after refusing to certify some executive compensation disclosures in the company's 2007 proxy statements.

Among the issues that the suit says Bridges opposed were McDonald's failure to disclose that it had paid for two country club memberships, totaling $3,000, for Tim Fenton, president of the company's Asian operations.

Given the economy, companies receiving TARP funds are particularly vulnerable to whistle-blower lawsuits, says Mike Behn, a partner at Chicago-based Behn & Wyetzner.

"There is a high degree of public outrage about the use of taxpayers' money to fund executive compensation," Behn says.

But this issue will spread beyond companies receiving bailout funds, experts say.

"Even in nonpublic companies, boards of directors are under pressure to increase accountability and oversight over the executive compensation process," says James Hostetler, managing director of McBride Associates, a Washington-based consulting firm that works with boards on governance issues.

While many employers have claimed they must pay executives large amounts to recruit and retain them, that argument is losing strength, Hostetler says.

"I would hope that HR is thinking about better ways to compensate top executives, but also about how to create a safe haven for employees to report these problems," he says.

***—Jessica Marquez***

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