Why Should Captains Stick By Their Ships?

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Francesco Schettino, the captain of the sinking Costa Concordia, owned by the Carnival Corporation [CCL], is a true man of his times.

Ordered by the Italian coast guard to return to his capsized cruise ship that had struck a reef, he declined. It was, he said, just a “small technical failure.”

He assured port officials that “as soon as it’s resolved, we’ll communicate to you.” He did not call back. He subsequently explained to the coast guard that he was not on board “because the bows of the ship are coming up. We’ve abandoned her.” After that, he added that it was dark. He did not deny that he wanted to go home.

The idea that captains stick by their ships and should be the last to leave in times of trouble is an ancient and honored naval tradition. But times have changed. We live in times where those in charge often look after themselves first. Only when they have secured their own safety and prosperity do they look to the safety and prosperity of those they are supposed to look after.

Executive compensation

We need only look at the captains of industry to see how far the pervasive phenomenon looking after oneself ahead of one’s charges has come to be the norm. In Lucian Bebchuk and Jesse Fried’s comprehensive book, *Pay without Performance*, “Flawed compensation arrangements have been widespread, persistent, and systemic, and they have stemmed from defects in the underlying governance structure that enable executives to exert considerable influence over their boards…”

Between 1992 and 2000, the average real (inflation-adjusted) pay of chief executive officers (CEOs) of S&P 500 firms more than quadrupled, climbing from $3.5 million to $14.7 million.’..” “In 1991, the average large-company CEO received approximately 140 times the pay of an average worker; in 2003, the ratio was about 500:1…”

During this period, corporate performance declined. In a Deloitte study of 20,000 US firms, the rate of return on assets and invested capital declined by 75 percent during the period 1965-2011.

Commenting on the inverse relationship between corporate performance and executive compensation, Bebchuk and Fried write, “Firms have systematically taken steps that make less transparent both the total amount of compensation and the extent to which it is decoupled from managers’ own performance. The critique of Bebchuk and Fried doesn’t just come from fairness
or populist perspectives. Their concern is that the compensation arrangements run counter to those of the organization.

**Retirement heists**

Retirement is another area where captains of industry have looked after themselves first before taking care of those whose interests they are supposed to be looking after. Ellen Schultz’s incisive book, *Retirement Heist: How Companies Plunder and Profit from the Nest Eggs of American Workers* (Portfolio, 2011) documents the retirement practices of top executives and their facilitators in the retirement industry—benefits consultants, insurance companies and banks. Executives present themselves “as beleaguered captains valiantly trying to keep their overloaded ships from being sunk in a perfect storm.” In reality, her study concludes, “they’re the silent pirates who looted the ships and left them to sink, along with the retirees, as they sailed away safely in their lifeboats.”

**Private equity**

The promoters of private equity also like to present themselves as the new captains of industry, dwelling on the energy and dynamism that they bring to resuscitate moribund companies and sectors. These new captains spend less time talking about the pervasive practice looking after their own interests first, at the expense of other investors and the companies they are said to be trying to save. As explained in Josh Kosman’s book, *The Buyout of America*, (2005) private equity often loads the target up with debt so that the promoters can get repaid first, regardless of whether the rescue effort succeeds or fails. They make a killing regardless of whether the company they are trying to rescue sinks or swims.

Private equity owes its explosive growth largely to America’s pension funds. They have fared less well than the managers of the funds. According to the *New York Times*, buyout funds raised $200 million in 1980 and $200 billion in 2007. The organizers of the funds, made billions for themselves when times were good. But some of their biggest investors, public pension funds, are still waiting for the hefty rewards they were promised. Two professors, Steven Kaplan of the University of Chicago and Per Strömberg of the Stockholm School of Economics, contend that, after fees, many private equity investments just about match or even trail the returns of the broad stock market between 1980 and 2001.

**The culture of narcissism**

Several decades ago, Christopher Lasch warned us in a masterful book about the dangers of *The Culture of Narcissism* (1979). He gave us a picture of the modern manager. “He extols
cooperation and teamwork while harboring deeply antisocial impulses. He praises respect for rules and regulations in the secret belief that they do not apply to himself. Acquisitive in the sense that his cravings have no limits, he does not accumulate good and provisions against the future, in the manner of the acquisitive individualist of nineteenth-century political economy, but demands immediate gratification and lives in a state of restless, perpetually unsatisfied desire.”

Lasch continues: “To live for the moment is the prevailing passion—to live for yourself, not for your predecessors or posterity. We are fast losing the sense of historical continuity, the sense of belonging to a succession of generations originating in the past and stretching into the future.” What was beginning to be apparent in 1979 has become the norm in 2012.

Captains and their ships

The tradition in which captains stick with their ships until the last and look after their charges first has practically died. There are exceptions of course.

But Captain Francesco Schettino is a true representative of his times. He would be right at home as a top executive of the Fortune 500 company assuring his own compensation and retirement ahead of the welfare of his firm and his employees. He could be the perfect man to run a private equity firm, making sure that he got his own lavish return before worrying what happened to his partners or the companies he was supposedly rescuing. In fact, Captain Schettinos’ only mistake was to be in a domain—shipping—where the notion of captains sticking with their ships to the last has not totally died.