

# Monks' tale is a governance tragedy

*Canada Globe and Mail*

Harvey Schachter

January 30, 2008

## CORPOCRACY

By Robert A. G. Monks

John Wiley, 252 pages, \$35.99

If a chief executive officer saw an expense rise five per cent over a few years, most would try to find a way to beat back that cost. But many of them haven't acted on one glaring example: Their own pay and that of their close associates.

A study by Harvard law school professor Lucian Bebchuk has found that, in total, the top five executives of U.S. public companies saw their compensation rise significantly between the mid-nineties and early 2000s. As a function of a company's profit, he found that, over all, their compensation rose from 4.7 per cent of profits in 1993-1995 to 10.3 per cent in 2001-2003. And the trend continues: For example, in 2005, the CEO of Exxon was paid 16.25 times what his predecessor was making 12 years earlier. Many other companies have witnessed similar soaring compensation.

Robert A. G. Monks, the crusader who has tried to make companies more responsive to shareholders, says the only credible explanation for skyrocketing CEO pay is the competent, motivated - and highly greedy - men who benefit from it.

"God in Heaven did not suddenly decide one day that a CEO was worth 10 times what he was previously worth. This was not something the stork brought. Stock options didn't come about through one of those blinding moments of revelation such as Saul received on the road to Damascus," he writes in *Corpocracy*.

"This money grab has been engineered by mortal men (and therefore prone to sin) conspiring to bully the scorekeeper - accountants and legislators - so that the frequently functional idiots on captive compensation committees and boards could be induced to 'align executive and shareholder interests' (another bankrupt mantra) through the exercise of super-mega grants to those who set the deal in motion in the first place."

By the way, this is not coming from an anti-capitalist zealot. Mr. Monks is a wealthy investor in companies, and was U.S. president Ronald Reagan's Republican appointee to oversee the U.S. pension system. But he is also frustrated by years of being thwarted in efforts to open up large companies to some relatively benign democratic motions that would make them more responsive to their supposed owners - shareholders.

The chief villain, to his mind, is the Business Roundtable in the United States, which limits its membership to CEOs, and has enormous clout with government and regulators. Instead of allowing corporations to reflect the U.S. political model of checks and balances between competing interests and centres of power, the result has been tight CEO control.

"What is most objectionable and alarming is the failure of governance. The illusion is that we have a system of checks and balances that oversees executive compensation and allows market forces to flow through fairly to the paycheque. The reality is that CEOs in essence pay themselves and do so in ways that need not be disclosed or approved by anyone," he insists.

"For 30 years and more, reformers have been throwing themselves into the battle against executive arrogance and corporate hegemony; mostly what we have to show for all our blood, sweat and tears are tactical successes, moral victories, and at best marginal advances. The Business Roundtable and its allies bend here, they yield there, but on the critical issues that would lead to meaningful change, they never break. Their funds - paid from company coffers - are inexhaustible."

He points to the wry comment from Warren Buffett - "nobody invites me to be on compensation committees" - presumably because Mr. Buffett's no-nonsense honesty might be dangerous. While compensation committees claim their work involves hard bargaining and finely honed calculations, Mr. Monks reprints some of the generous contractual clauses. One would be the retirement package that former CSX Corp. CEO John Snow received when he resigned to become U.S. Treasury secretary. It's almost word for word as the perks that former General Electric Co. CEO Jack Welch had gained earlier - a boilerplate that CEOs are likely to follow.

"The chimera is objectivity and the scientific method. The reality is self-perpetuating, self-protective, and rampant with conflicts of interest. The system is flawed to its ears, and the more so because it pretends so earnestly to accuracy," he charges.

The book covers more than the compensation issue, looking broadly at the battle for shareholders to be better represented. And although he has been bruised, his last chapter is titled "Still I Dare to Dream," and he offers some solutions that he hopes institutional investors and others will embrace. The book is U.S.-focused, but the issues are echoed in Canada. It's an insightful, hotly argued book with some lovely tales from the corporate-democracy campaign trail that makes for enjoyable reading - if you're not a CEO.

In Addition: In *The Greatness Guide Book 2* (HarperCollins, 203 pages, \$19.95), Toronto-based leadership and personal success coach Robin Sharma offers some inspirational insights to push you toward success, from exploring the invisible fences that constrain you to the power of outrageous optimism as exemplified by Virgin founder Robert Branson. The essays come in easy-to-read, blog-sized bits of about 200 to 300 words - indeed, some are from his blog - and at least a few will prod you to make changes in your life. Mr. Sharma's brisk writing is more noticeable than it ought to be with pronouns stripped away and sentences without verbs, stopping me on many occasions, and I cringed at his tendency to create hokey acronyms like OAD (Obsessive Attention To Detail), NLG (Next Level of Greatness), and ABC (Always be Connecting). But if you enjoy motivational books, this one will probably be satisfying.

Just In: Test Drive Your Dream Job (Business Plus, 237 pages, \$19.75) by Brian Kurth with Robin Simons is a step-by-step guide to finding and creating the work you love, based on a "vocation vacation" in which you spend a few vacation days actually working in the profession you have always wanted.

Business Leadership (Jossey-Bass, 598 pages, \$41.99) is the second edition of a reader with contributions from luminaries such as Warren Bennis, Larry Bossidy, Jim Collins, James Kouzes and Marcus Buckingham on a range of issues.

Consultant Ken Lizotte shows you how to become the go-to authority in an organization in The Expert's Edge (McGraw-Hill, 269 pages, \$24.95).