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Quick pay, near-sighted execs

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Until this week, most people believed that when two of the biggest financial firms in the country collapsed, their top executives went down with them. But a report released Sunday by the Program for Corporate Governance at Harvard Law School showed that the top five executives at Bear Stearns and at Lehman Brothers made a collective $1.4 billion and $1 billion, respectively, in cash bonuses and stock sales in the years preceding their firms' failure. The executives, with the exception of former Bear Stearns CEO James E. Cayne, sold more stock shares between 2000 and 2007 than they held when the firms collapsed in 2008. The firms also paid the executives large cash bonuses based on high earnings and stock prices but never "clawed back'' those bonuses when the firms failed. In the end , the executives fared a heck of a lot better than shareholders. Their near-sightedness was rewarded.

Now regulators, shareholders, and corporate governance boards seeking to rein in executive pay should heed the lessons implicit in recent revelations about Lehman Brothers and Bear Stearns.

A bill sponsored by Representative Barney Frank that passed the House and is now in committee in the Senate would prohibit certain pay schemes for bank executives, even if they did not get federal assistance, and allow shareholders to vote on executive pay. Such legislation is vital, but will be effective only if those enforcing it directly tackle incentives for executives to focus on short-term payoffs. Regulators, as well as corporate boards and shareholders, need to look beyond salary figures and basic stock restrictions when setting their rules - and the rules must have teeth. New substantial limits should be imposed on the percentage of stock executives can cash in while they remain at the helm, and their bonuses must be clawed back when short-term successes turn out to be long-run mistakes.

There is no doubt that top executives at Bear Stearns and Lehman Brothers would have profited much more if their firms had not failed, and it's doubtful they foresaw the demise. But they benefited from taking big risks for immediate gain at the expense of the longevity of their firms. The story behind the failure of the two financial giants shows that without meaningful reform of executive pay, catastrophe will continue to loom over financial system.

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