CEO Thievery Triggers Shareholder Outrage

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An efficient and proper corporate system needs the competence and integrity of directors to oversee a firm's management while preserving high ethical standards.

To that point, ethical corporate governance tied with independence from management will only strengthen the system of checks and balances, while promoting a positive corporate culture within public companies.

Independent directors underscore a company's continued commitment to ensuring that the firm benefits from the best possible oversight from its board. It therefore is imperative that corporate boards have some sort of independent vehicle to protect the interests of shareholders.

Take, for example, the latest financial services scandal: the backdating of stock option grants.

This accounting manipulation thankfully is triggering outrage from shareholders around the country.

When is corporate America going to realize that it needs to find ways to inspire investor confidence - not to challenge it continually?

When chief executives receive backdated stock options and have their pay packages padded, they basically are stealing money from shareholders.

How companies compensate their executives has become appropriately a major concern for investors, and they apparently are looking to do something about it.

Corporate America had better pay close attention, because companies will be placed under a microscope by activist investors at annual meetings next year when shareholders look to find ways to rein in executive compensation, according to Institutional Shareholder Services Inc. in Rockville, Md.

It's been well documented and reported that shareholders are becoming more and more involved and outspoken in regard to controversial executive pay packages and the overall poor payment policies that exist at corporations.

It's therefore essential that shareholders use their proxy-voting power to push companies to do a

much better job of tying pay to actual performance.

What's more, investors need to push corporations to create policies that make it difficult to backdate stock options.

This issue clearly is on the collective minds of shareholders, and it is time they did something about it. After all, the backdating of stock options was ranked by investors as the "most problematic" among corporate-pay practices, according to a recent ISS survey.

Companies that lacked a majority of independent board members were more likely to be involved in the controversial practice of backdating stock options to boost executive pay, according to a recent study from Harvard University in Cambridge, Mass.

About 12% of some 5,800 companies examined engaged in backdating options, according to the study. That's when grant dates are manipulated to give executives a bigger profit when they cash in their shares.

The practice of backdating went hand in hand with poor corporate-governance practices. Under it, senior executives also were more likely to receive questionably timed stock options, the study concluded.

Such practice bumped up a chief executive's pay, on average, by 10%. In hard numbers, the study found that executives received an average of an extra $1.3 million to $1.7 million through each backdated-stock-option occurrence.

Meanwhile, an independent board reduced by 33% the chance that a company would be involved in the backdating of stock options, the study concluded.

The study, by Harvard University professor Lucian Bebchuk, Ithaca, N.Y.-based Cornell University professor Yaniv Grinstein and visiting University of Chicago professor Urs Peyer, examined stock grants between 1996 and 2005. It's the latest in a series of papers by academic and governance research groups that attempt to measure the extent of the backdating scandal and to explain how it spread.

Many companies apparently manipulated accounting and financial-reporting rules in an attempt to make stock option grants more lucrative for their greedy executives. More than 130 companies are under federal investigation in the stock-option-timing scandal. The Department of Justice and Internal Revenue Service are conducting separate reviews.

Corporate America, beware. Shareholders are mad as hell, and they're not going to take it anymore. The key to this stock option controversy and other issues involving executive compensation is tougher disclosure, period.