

Corporate Governance

A Stark View of the Realities of Big-Time Corporate Boards of Directors

By Thomas J. Fuller

The failure of the board of directors at General Motors to fire CEO Richard Wagoner gives us a stark view of the realities of big-time corporate boards of directors. Even years after the colossal corporate failures of Enron and MCI and the chicanery of CEO's Skilling, Lay, and Ebbers along with Kosloski of TYCO, resulting in incessant calls for more board scrutiny and accountability, the sight is not pretty.



In 2007, Mr. Wagoner's compensation rose 64% to almost \$16 million in a year when the company lost billions. When Mr. Wagoner took the helm eight years ago the stock was trading at around \$60 per share. The stock had fallen to around \$11 per share before the current financial crisis. It's now below \$5 per share.



The board has been a staunch backer of Mr. Wagoner despite consistent erosion of market share and shareholder value. GM spokesman Steve Harris defends him saying, "GM employees, dealers, suppliers and the GM board of directors feel strongly that

Rick is the right guy to lead GM through this incredibly difficult and challenging time."

Top corporate executives in the United States get about three times more than their counterparts in Japan and more than twice as much as their counterparts in Western Europe. In his new book "Corporate Governance: Promises Made, Promises Broken" (Princeton University Press) Yale University professor Jonathan Macey argues that "executive compensation is too high in the U.S. because the process by which executive compensation is determined has been corrupted by acquiescent, pandering and otherwise "captured" boards of directors. Like parents unable to view their children objectively, boards reject statistical reality."

At the same time, Boards face a constant threat of losing a CEO if more lucrative opportunities arise. This is the primary consideration of corporate boards' compensation committees when they set executive pay. The turnover rate for CEOs is very high and acts as a constant reminder to boards that CEOs can leave their jobs. In 2007 CEOs changed at 57 of the Standard & Poor's 500 companies. Between 1995 and 2006 annual CEO turn-

over increased 59 percent, according to a survey of the world's 2,500 largest publicly traded corporations. In the United States, almost half of the largest corporations will have to replace their CEOs over the next four years, according to Kevin P. Coyne and Edward J. Coyne Sr., in their published study "Surviving Your New CEO" (HarvardBusinessReview).

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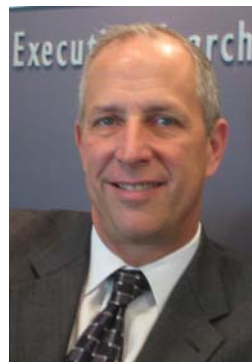
- HarvardBusinessReview

But is this reason enough for complete disregard by corporate boards as to their

fiscal and operational accountabilities to the shareholders they serve? In yet another example of runaway compensation, the top tier of executives at Goldman Sachs, Merrill Lynch, Morgan Stanley, Lehman Brothers and Bear Stearns made a total of \$613 million, or an average of \$123 million for those investment banks. According to Graef Crystal, a pay expert and author of "The Crystal Report on Executive Compensation", that's three times the average in other industries.

When it comes to paying the CEO and, even more importantly, blowing the whistle when things aren't right, most often only an outsider can provide the objectivity necessary to realize the obvious: That the directors of a company are generally the last people to recognize management failure.

About the Author



Thomas J. Fuller is General Managing Partner of Epsen Fuller/IMD International Search Group. Serving the strategic talent needs of Fortune 1000 clients as well as venture-backed, emerging-growth companies, the firm is widely recognized for their Performance Based AssessmentSM acquiring talent, giving organizations the ability to make an informed strategic hiring decision.

Tom is a frequent speaker on leadership and high-performance organizations and creative talent acquisition. While active in many civic and community organizations, Tom is President of Freedom Riders Cycling Club, a not-for-profit cycling team dedicated to Cancer research.

Corporate Governance

Market driven solutions -- not bureaucratic ones - are the best strategy for addressing the corporate governance failures we face today. Activist investors and a public that will not stand for government ownership of private industry are the solution, not the problem.

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The auto industry has spent more than \$50 million on lobbying and influence peddling this year, and they now want a \$15 billion return on that money. The industry's special interest pleading may work with politicians, who see this as an opportunity to increase their power, but it is bad news for taxpayers and consumers.

Ironically, this also is bad for the Big Three since this delays the inevitable restructuring that needs to happen in a non-politicized bankruptcy court, starting first with their management structures. The auto bailout will be a waste of tax dollars, an insult to good economic sense, and a great injustice to millions of working Americans. No lender in their right mind would offer a \$10 billion loan to a company like GM

with a market capitalization of only \$3 billion.

At some point, the market deserves answers to these questions: Isn't the Big Three management culpable for a lack of foresight in not having diversified their product offerings when they were making big profits on gas guzzlers? Isn't the United Auto Workers union blameworthy for extracting concessions that it (and management) knew were unaffordable and would exacerbate the cost gap between Detroit and the U.S. foreign nameplate producers such as Toyota? The Big Three management and the unions are not innocent victims of circumstance. And their Boards have stood by all the while giving tacit approval to a failed business model that has run its course, and is likely to cost taxpayers, and our children, for decades to come.

Little if anything has changed since the call over recent years for board accountability. The broader problem is that there are far too many "insiders" and CEO cronyism is still rampant on the boards of U.S. companies.