



CEOs And Their Counsel

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Over the last twenty-four months, no ongoing headline, outside the war in IRAQ, has received as much attention and press as “executive corporation and abuse” and “excessive executive pay”. Lay, Skilling, Grasso, Kozlowski, Fastow and Rigas are names of leaders that have come under intense scrutiny, especially with regards to their pay and now are the subject of many a dinner discussion.

The question on everyone’s mind seems to be... how did this happen? And, who’s responsible? One critic’s explanation is modern American CEO is a cross between an ancient pharaoh and Louis the XIV.” But is there more to this equation than meets the eye?

It would seem there has been a confluence of factors that have resulted in where we find ourselves today. Specifically:

The Environment

The last ten years, although lucrative for certain CEOs, clearly hasn’t been the easiest to deal with for those in positions of corporate leadership. CEOs have been confronted with:

1. Both a recession and a severe downturn in the stock market;
2. A major war with IRAQ;
3. Terrorism and 9/11;
4. Growing shareholder impatience for solid returns;
5. Growing mistrust of employees, shareholders and the general public with every new article that heralds “excessive executive compensation;”
6. 90% of employees that hold a stock option in the US have at least one underwater option;
7. Excessive overhangs (shares held by employees or reserved for employee awards as a percent of the total shares outstanding);
8. Unfunded/Under-funded pension plans;
9. The rising cost of healthcare; and
10. Increased risk associated with the job due to passage of Sarbanes-Oxley

Added together, this “Letterman Top 10” could be perceived as either the “Insurmountable” or the “Perfect Storm;” a storm that has changed not only the way CEOs lead but also their concerns surrounding public perception-whether real or imagined.

The Age of “The Advisor”

Like any boat captain will tell you, as they prepare to set off, there are scores of people ready to prepare them for the voyage ahead. Dock personnel, harbormasters, etc. are ready to advise them on every nuance of the trip. With this “business storm” has come a plethora of advisors for CEOs as well – the “middlemen” hired to guide, advise and even outright recommend actions for the CEO to take. On issues ranging from pay to accounting; internal audit to furnishings, there is no shortage of advisors willing to collect a sum for their opinions.

Rest assured, GE had advisors who opined on the rational of Mr. Welch’s perquisites; Mr. Grasso and the New York Stock Exchange utilized three different outside advisory firms to determine his pay package; and Enron had a very well-known human resource consulting firm confirming the reasonableness of their pay packages as well. Mr. Carty at AMR had advisors helping him along the way too. Where are they today? Well Mr. Welch’s retirement is looking good compared to all the others who were “sacked” or “resigned” from their respective companies.

And what about their advisors? I doubt any have “resigned.” Most are probably “advising” that next client in hopes of a good payoff.

Advisory Consequences

Outside advisors, whether they are attorneys, auditors, consultants or bankers, need to be held accountable as well. If they have made the recommendations that have created a stir in the marketplace, they should be able to show their approach, methodology and processes to insure the opinion was independent and reasonable.

Too often CEOs and their boards are left “high and dry” with all the so-called “advisors” having abandoned ship.

Summary

CEOs and Boards can surely take a lot of the blame for some of the corporate miscues we’ve seen of late. However, one must remember not only the unprecedented environment they’ve been asked to maneuver through, but also the “advisors” who have been making recommendations all along the way.

Advisors need to “step it up” if they truly want to help and be of assistance in this changing world. If, at the first sign of trouble, they want to run, then they need to find another occupation. A few come to mind, but we’ll close without their mention.

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