

As Featured in **Seattle Business**

Executive Compensation and the Economy

Can we learn from our mistakes?



Even Warren Buffett didn't see this one coming. In this difficult economy, arming yourself with an MBA and business acumen may no longer be enough if you're a senior executive. You still need to know what it takes to make or sell a widget if you're president of a widget company. (If not, perhaps you need to find another line of work.) But the way you approach the widget business is probably changing in many ways. Quicker market responses and fully-integrated information systems may be just the start. You also need to rethink the way to meet responsibilities to shareholders or to compensate executives.

Who can pick up a paper without reading about the global impact of the credit crisis, changes in consumer spending habits or a lack of confidence in the financial markets? Most of us can recall the savings and loan crisis and certainly the Enron collapse, but can we also count on our business leaders to avoid the mistakes of the past? You only need to watch the push for increased government regulation or the Securities and Exchange Commission's efforts to maintain

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integrity in the securities markets to answer that question. In spite of mounting pressures on the executive team to meet current business challenges, there is continuing public belief that executive compensation is out of control. It seems that executive compensation has become one of the key litmus tests for good corporate governance. You can almost hear Harry Truman in the background with his "buck stops here" slogan.

In the public arena, there will be further demands for transparency to shareholders as well as the prospect of new legislation described as a "Shareholder Bill of Rights." That legislation (if made law) would affect American public companies by mandating shareholder approval of so-called "golden parachute" compensation arrangements and requiring a shareholder advisory vote on executive compensation (also known as "Say on Pay").

Even private companies will have their share of pressure from

these changes. Just as businesses that don't participate in government loan programs may be expected to "toe the line" on the compensation protocols under those programs, many private firms find themselves judged by similar standards imposed on their public company brethren (also known as "best practices"). The business community actually seems to be asking for these new restrictions by failing to learn from the very public, and seemingly frequent, examples of corporate folly.

Somehow, we do not gain as much insight from those experiences as we would like. Shouldn't the \$6,000 shower curtains that Dennis Kozlowski allegedly ordered for his office at Tyco in 2002 have kept John Thain of Merrill Lynch from apparently spending \$1,400 for a wastebasket just six years later? Successfully managing a company for the long term demands a level of integrity and know-how one would expect from the top brass. It also requires pure common sense. In hindsight, who among the chief executives of General Motors, Chrysler and Ford could fail to grasp the "optics" of traveling on separate corporate jets to Washington, D.C., to ask for government bailouts? Unless and until we begin to learn from these and other examples, we seem doomed to repeat past mistakes and should not be surprised by the regulatory consequences.

Beyond the need to learn from others' mistakes is the need to learn from within the organization. Listening to your workforce is critical. The strongest executives interact regularly with employees. In fact, some of the best business intelligence is often gathered from the floor. Also, by fostering relationships with members of the workforce at all levels, successful executives are able to share their vision for success, help employees capture that vision and instill loyalty throughout the organization, all while demonstrating the importance of integrity within the culture of the company. With that heightened level of insight into the business and the dynamic economic climate, executive compensation and regulatory oversight issues won't loom as large.

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