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REGULATION > The Revolving Door

One of the persistent characteristics of regulation is that people who start to work in the government, as young ambitious executives, serve time there. And then come out into the private sector and work for the companies who are being regulated by that agency. The difficulty with this is that it creates a culture where the general public doesn't have much of a chance of dealing with that agency well. You have to go to the law firms who are hiring the former agents to it.

There is a wonderful story and it's probably a bit rude but it has to do with, it probably violates every single rule of political correctness. But there was a, the tale of a Japanese commercial attaché recently assigned to Washington who drank quite a bit. And he was invited to come and speak on a late night talk show. And the talk show host said Mr. Whatever-his-name-was, what a wonderful contrast it must be for you trying to promote business in the United States. In contrast to your previous job which was in this extremely corrupt African country. And the Japanese person was utterly unfazed and he said, oh no it's been very much the same thing.

He said in that country I would get up in the morning and I would take my briefcase and I would put money in it. And I would walk around and I would give it to people in the government. In this country I get up in the morning and I put money in my briefcase and I take it to people who used to be in the government. And that is a little bit of the way in which the co-optation process can be caricatured.

CORPORATIONS AND GOVERNMENT > Accounting For Greed

The 1990s saw CEO pay in America rise to levels that had never been dreamed of in any other country, in any other time. And the explanation for this must lie in what happened with the accounting treatment of options. And here is a classic case of where corporate power in the form of CEOs and the Business Round Table focused their energy on the United States Senate first of all.

And second of all on the Financial Accounting Standards Board to change the rules for accounting for options. Warren Buffet, a great investor testified about this and said it was the worse thing they could possibly do but they had the votes.

After that 1995, or 1996 Senate vote, the pay of CEOs went up like a rocket. Because from that day on a company did not have to charge against its earnings

the options that it granted to executives. Many of which went to the CEO. Now there is the clearest case that historians will look back on and they will say that the American government was a branch of business.

THE NATURE OF THE CORPORATION > Ingeniously Designed

I think the basic design of the corporation is one that is ingenious. It is ingenious in terms of taking into account the realities of human nature. On the one hand people are willing to take chances. But they're not willing to risk their entire wealth on a given venture. On the other hand some people can contribute labour of a particular kind. Other people couldn't possibly do that but they can contribute their own kind of specialized labour.

Many people would like to invest in a corporation but they're scared to death about putting all of their resources into one venture. They'd like to diversify it. Well the modern publicly held corporation permits all of these very understandable and strong forces to be accommodated. So you have a diversification at the level of the investor. The investor can buy in ten companies, rather than one company. Or he can buy in one company if he wants to.

You're a person with a particular and unique talent can have the value of that talent recognized by a venture. And you can have people fit together according to what works and not according to some predesigned scheme. The result is that the corporation has provided the flexibility and the framework within which genius has been able to express itself.

And it really is the ability of genius to be organized and to find financial backing that has made possible the increases in technology and the increases in wealth. That have so dramatically altered our world.

STRATEGIES FOR CHANGE > Shareholder Activism

You have to advise the average shareholder who finds himself affronted by corporate conduct to ask himself very, very hard: How much pain can you endure? Because he's never going to get paid for what he does. Because if he manages to affect a recovery in the stock price his stock will go up a little bit but everybody else's does too, everybody gets a free ride off of him.

If he has to spend any money, if he has to take any time off work. If he has to do any of these things it all comes out of his pocket. No one is going to pay him back. So you want to be very, very sure before you undertake a cause like this that you're prepared to pay the price and you're not going to be discouraged. And that you have the ability to stay in there and bear the pain.

Remember the corporation all this time can spend your money hiring lawyers to obstruct you. And if you don't, if you don't want to play don't put on this track suit

because this is not a game for people who are motivated in the usual way. The usual way of acting only in immediate self interest you wouldn't do it.

... Individual shareholders can find shareholder resolutions that the company must put in to its annual proxy report. And a shareholder can then solicit support from other large institutions and over time build up a very good basis of support.

I mean I started along with some partners a company called Institutional Shareholder Services some 15, 20 years ago. And we started with nothing. And we started to provide proxy advice to people as to how they should vote. It took us about five years but after about five years we were able to get 40% of the vote at almost every corporation we wanted to.

And it is possible to have that kind of impact. And the amount of money that we were involved in wasn't gigantic in the world's terms. But it was not something that you could do in your spare time and with your spare cash.