

Fare and Square

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Absolutely nothing riles people more than the subject of money. Whether a beggar, a welfare recipient, a minimum-wage earner, an up-and-comer, a CEO, or a descendent of wealthy parents, everyone wants more. The real question is whether or not the fare squares with one's due.

BEGGARS HAVE RIGHTS

Many years ago when I was a schoolboy a classmate stopped to give a beggar some money. Something I had never done. When asked why he did so he replied: "I hope someone will do the same for me someday if I ever find myself down on my luck and having to beg just to survive." Ever since I have had greater appreciation of, and respect for, street people, to the point of realizing that many prefer their way of life than ours. Yes, living under a bridge, or in a cardboard box, has its benefits when compared to the highfalutin ways of many CEOs. Some make enough money to get by in a morning's work, and spend their afternoons in a park. Why I even came across one in Starbucks! As to those who are mentally ill, I believe society has a responsibility to provide for their basic needs, including psychological care. Whatever the cost, these people are harmless and far less expensive to deal with than the crooks who roam our communities. Beggars have rights and we must respect their lot in life. Don't be so square, and accept the fare of providing for our down-but-not-outers.

GETTING OFF THE DOLE

From 1971 through 2005 the number of habitual claimants drawing Employment Insurance rose from 100,000 to 550,000. Despite four straight years of economic growth in all regions, the number has not declined, nor did the nearly \$15 billion paid out to those on the dole. Many examples abound of the perverse incentives of EI, whereby able-bodied workers have refused jobs because Ottawa's largess would pay them almost as much just to stay at home. The programme has also discouraged many from retraining to acquire the skills required by employers, some of whom have had to import workers from afar to satisfy their needs. Ideally the federal government should reform the entire system and make both the premiums and payouts more consistent with the risks of becoming unemployed – like an actual insurance programme. The fare should square with reality. At the moment, it does not!

MINIMUM-WAGE EARNERS DESERVE BETTER

According to the United Nations Committee on Economic, Social and Cultural Rights, Canada's minimum wage is inadequate for workers and their families to enjoy a decent standard of living. Those working full-time should be able to keep themselves out of poverty. Furthermore, many of these poor souls who lose their jobs do not qualify for EI. Their only choice is to go on welfare. But to do so they must dispose of most of their assets, eliminating any cushion that might help them finance the cost of securing and maintaining employment. Once in the welfare system, many find it difficult to climb back up into the work force. The expense of accepting a low-paying job can leave one worse off than staying at home on welfare. It is a vicious circle!

Canada's future prosperity depends on having a labour force operating at full capacity, particularly as our society ages. Immigration can contribute by filling gaps in the skills required. Nonetheless, we must ensure that all working-age adults, including those with disabilities, have the support they require to participate fully in their communities, and to contribute in a positive way to keeping Canada's economy healthy and growing. The fare should square with what needs to be done to position our minimum-wage earners to do better in the future.

ALLOW THE UP-AND-COMERS TO SHINE

Apart from an array of summer jobs, my first taste of big business occurred when I joined Union Carbide Canada Limited as a technical sales representative marketing petrochemicals to a wide variety of industries. Thanks to an enlightened boss, there was no limit as to who I could call on or what questions I might ask. However, when his successor told me I was too young to be promoted, I quit on the spot. Ever since, I have been acutely aware of the up-and-comers and their ability to make a real difference. If I have a concern, it is that many are poor listeners, and one needs to listen in order to learn!

Not everyone aspires to being a CEO, or to own a business. Many just want to be part of a group, rather than do their own thing. Whatever the case, we must give them the tools, capital, guidance, and encouragement to test their limits. Age should never be a factor. If they fail, it is not the end of the world. For they will have gained valuable knowledge and contacts along their way. To have never ventured is a fault. To change directions, even in midstream, is not. Whether a computer geek, an Internet maverick, a space-age scientist, a best-selling author, an accomplished artist, an all-star athlete, a top-ranked research analyst, or an investment guru, each pursuit requires discipline and respect for one's confrères. However, if your ambitions do not square with your superior's sense of adventure, may I offer that you are in the wrong milieu and a job change may be required to allow you to continue to follow your dreams, and eventually realize your potential. Never stop trying to make the world a better place!

EXECUTIVE FARE DOES NOT SQUARE WITH RESULTS

A recent study published in the *Harvard Business Review* found that only one-third of Fortune 500 CEOs last more than three years. The failure rate is estimated to be as high as 75 percent, and rarely less than 30 percent. Believe it or not, two out of five fall by the wayside in their first eighteen months on the job. One of the main reasons cited for this dismal track record is the gap between how corporate leaders see themselves, and how others assess their performance. The wider the difference, the more resistance there is to

change. It also makes it difficult to create a positive organizational culture where openness and honesty are encouraged. Unquestionably, candid and constructive feedback can help a leader grow in ability and stature. Times are a-changing. The command-and-control method of the past, though perhaps well-meaning, does little to foster problem solving. Only by empowering employees will value-added products and services be provided to customers. Leaders must also adapt to globalization, diversity, flexible working conditions, changing values, and continuous evolution. Most CEOs lack training to cope with the new ways of doing business, and many have as much chance of being successful as they do winning the lottery. Most come up short of expectation because they fail to build partnerships with subordinates and peers. The great ones make people around them successful. They are passionate and committed, authentic, courageous, honest, and reliable. Professional coaches can help to eliminate their blind spots, cause them to be open to criticism, not only reducing the odds of failure and premature burnout, but also providing an atmosphere in which they can express fears, failures, and dreams. Becoming a highly regarded CEO is no easy task. Believing one can be successful without living within the spirit of the law, and retaining the most trustworthy advisors, is foolish. That is not the way the world turns these days.

According to the Ontario Teachers Pension Plan there is little correlation between CEO pay and total shareholder returns, including both share price appreciation and dividend payments. Companies with higher executive compensation were not likely to have better performance, while those with lower relative pay are not generally those with the worse performance. Overall, those with the most mediocre returns seemed to have the highest pay levels. Whereas the pay-for-performance philosophy may be the wave of the future, the definition of performance remains nebulous, or the criteria changes from year to year, and disclosure remains wanting. How real the retention concern is is open to debate, despite what the collusive compensation consultants may proclaim. In sum, many companies are poorly managed, and senior executives compensation has gone wild. Only time will tell if the pressure groups, the independent directors and the shareholders will have the muscle to get them back in line with the financial performance, and overall returns to investors.

The good news is that Canada's securities regulators are bent on finding ways to ensure greater clarity in the way executive compensation is reported. The bad news is that the Canadian CEOs and the consultants tend to key their compensation demands off what the top-flight investment bankers and hedge fund managers are reported to earn in Canada and the U.S., and those fares are far beyond what a straight shooter deserves to earn!

All the while, protectionist sentiments are being fueled by the widening income disparities, the loss of manufacturing jobs, a less than satisfactory health-care system, and inadequate pension provisions. Whereas average incomes have increased in instances where there has been an impressive growth in productivity, median wages have remained flat for the past ten years, or declined. Stagnating take-home pay has been accompanied by soaring inequality. The difference in earnings between CEOs and the workers has risen from a multiple of 26 times in 1973, to more than 300 in 2004. The classic safety valve which enabled those who did their best to move into a higher class no longer seems to exist. While there is no simple solution, the widening inequality could eventually lead to a populist backlash.

So it behooves our business leaders and politicians to start thinking long and hard about what can be done to provide a more level playing field. Unless the defenders of our

open-market economy find solutions, we are in real danger of succumbing to a rising tide of government intervention and that, as we all know, is not the answer. A good starting point would be to dramatically improve our public school system, as would skills training and apprentice programmes, and incentives for everyone to save more in the hope of one day owning their own business. Eliminating the capital gains tax and/or doubling capital loss write-offs would be a giant step in the right direction. As recent polls suggest, 80 percent of Americans and Canadians believe that if you are poor and prepared to work hard you should have a fair chance of becoming rich – up from 60 percent in 1980. It is not a matter of them demanding more for doing less!

The public policy choice is not whether to have worker protection or not. It is whether to have jobs or not. Canada places in the top ten for its ease of doing business, which sounds good. But we lag New Zealand, the United States, Singapore, China, Hong Kong, Australia, and Norway, which is not good. Our challenge is to minimize regulations and allow our entrepreneurs to flourish. Governments only get in the way. While well meaning, their demands must be kept in check. The way senior managers in business are paid needs to be reformed to ensure it reflects the creation of long-term value. Whereas earnings per share can be manipulated, growth in market share is harder to fudge. Some outsiders are suggesting there be an internal compensation officer, who would report to the board of directors and check to see if the compensation plans are operating as intended.

Whatever the case, CEO egos seems to range from those who never lack faith in their abilities, to those whose take almost matches their ego, to those who are out-and-out pigs. My very favourite quotation is that of Ted Turner: “If I only had a little humility, I’d be perfect!” Unfortunately, this man’s company’s stock performance over the past ten years has been quite disappointing, and with good reason, the board unwilling to step forward and do their duty on behalf of the long-suffering public shareholders.

Ever since I came to make my living on and about Bay Street, I have been dismayed by the lack of get-up and go demonstrated by most Canadian CEOs. Just because our chartered banks have been held back by legislation, there is no valid excuse why so many other entrepreneurs have proven to be so timid as to expanding their businesses beyond our borders. Complicating matters is the feeling held by many investors that CEOs are but a bunch of liars, cheats, and bullshitters. Just as politicians skirt issues, sports stars talk in clichés, and priests tend to sermonize, CEOs often rely on the language of business accounting and the market. Many are accomplished rhetoricians capable of fashioning a view of financial affairs that serves their ends. They spare little thought for those less well served by the market’s invisible hand, and believe their prescience, impeccable leadership, and judgment will eventually produce riches for the investors. It is little wonder that many expect to be rewarded with pots of gold in the form of stock options, and other types of compensation. Experience tells us that all the rules, regulations, and accounting standards under the sun will not ensure good corporate behaviour in the absence of effective monitoring. Therefore, we must somehow infuse greater ethicality into the way business is conducted, and into the way CEOs speak about their contribution to an outfit’s success. It is about time the average shareholder got a square deal, commensurate with the CEOs fare.

ALL IN THE FAMILY

Over the years a goodly number of friends and acquaintances have sought my advice as to how best to handle their money, and deal with its inheritance. While some intend to give

much of their fortune away to good causes before they die, most plan to leave a healthy portion to charities, schools and universities, and their offspring. In my experience, there is no perfect way to satisfy everyone. Nonetheless, I do believe that each child must be treated fairly. I would even go so far as to suggest that, in today's world, close-in stepchildren be given an equal-size slice of the pie. If you fail to be all inclusive, you will hurt feelings at best, trigger litigation and alienation at worst. However, if you insist in being preferential, please do so during your lifetime so as to be able to explain the rationale. Otherwise your descendants will always wonder why you played favourites, and chose to "punish" the others after you were dead and buried.

Yes, one or two of your children may have disappointed you, some may have special needs, and others may have no idea how to handle money. In which case, you may set up trusts to control the distribution of the assets left to them. You may also consider purchasing life insurance to equalize the estate in the event that the family business is to go to the select few capable of following in your footsteps. To give every one an even shareholding when they are not equally involved in the enterprise(s) is a recipe for disaster. Judging by the odds of any CEO ever being successful, the chance of a son or daughter being capable of filling *le patron's* shoes are limited indeed. As such, it may be best to sell the business as part of the astute estate planning process, aiming to square the fare for the next generation.