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(BW)(CORPORATE-BOARD) San Francisco Economist Blueprints Potential Revolution In The Corporate Boardroom; An End To CEO Dominance

Business Editors

SAN FRANCISCO--(BUSINESS WIRE)--Sept. 2, 1997--Small shareholders of large corporations can exercise surprising control over their CEOs by means of a new mechanism developed by San Francisco financial economist Mark Latham.

Latham's article in the September/October issue of The Corporate Board, a leading journal of corporate governance, shows how stockholders can wield their considerable power to rein in unrealistic CEO pay, increase stock returns, and generate such benefits as reduced layoffs.

Entitled "Proposed: A Governance 'Monitor,'" the article suggests that shareholders vote to choose an independent entity empowered to nominate candidates for their board of directors, a move replacing the current system which allows the CEO and incumbent board members to control nominations.

Latham points out that share owners rarely have any real choice in director elections and are typically given only enough nominees to fill the available board seats, largely because they lack the time and knowledge to distinguish one candidate from another.

Making the selection from a handful of monitoring firms is more feasible, he said, because there would be far fewer of them than director candidates nationwide and each firm would compete to build public reputations for serving shareholder interests effectively.

An expanded version of the article entitled "The Corporate Monitoring Firm" is available free on the web at http://www.corpmon.com, along with a discussion forum.

At $390 for six issues annually, The Corporate Board is not for the casual reader. Bank of America, Coca-Cola, and Xerox are among the many Fortune 500 subscribers listed on its web site: http://www.corporateboard.com . Executives pay a corporate rate of $2,495 per year for a glimpse of its pages.

The current issue may be more than its subscribers bargained for. If shareholders adopt Latham's proposal, some CEOs and directors will find their power reduced, and may even lose their jobs; so they are likely to oppose any such initiative. Implementation will require strong support from institutional investors, the author said, but public discussion must determine whether the idea is worth trying.

So far, preliminary reviews are positive. U.C. Berkeley Haas School of Business Professor Mark Rubinstein said: "If Latham's ideas work out, the contribution to economic practice will be one of the most significant of this century."

The plan can be seen as the logical conclusion of the past decade's emphasis on improving corporate governance. Led by CalPERS

and other public pension funds, activist investors have pressed corporate management to be more responsive to shareholders. A top priority has been to increase the number and influence of outside directors -- board members from outside the firm.

But the CEO can still screen those outside candidates for "cooperativeness." Putting nominations in the hands of an independent firm answerable to investors would result in screening only for the cooperativeness necessary for profitable management.

The creation of corporate monitoring firms should lessen the debate on excessive CEO pay, Latham said. "Fair market compensation can only be expected to result if both sides, payer and receiver, are effectively represented at the bargaining table," he wrote. "Approval of executive pay by truly independent shareholder representatives would enable highly paid CEOs to hold their heads higher before a public confident that they are indeed worth it."

Latham is a financial economist and consultant based in San Francisco. He holds a Ph.D. in finance from MIT's Sloan School of Management. After joining the U.C. Berkeley business school faculty in 1982, he left for Wall Street in 1989, spending six years as a derivatives modeler, risk manager and trader for Salomon Brothers and Merrill Lynch in New York and Tokyo.

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