February 2005

How to control and reward managers? The paradox of the 90s

From optimal contract theory to a political economy approach

Robert BOYER
CEPREMAP, CNRS, E.H.E.S.S.
48, Boulevard Jourdan 75014 PARIS, France
Tél. : +33 (0)1 43 13 62 56 - Fax : +33 (0)1 43 13 62 59
e-mail : robert.boyer@cepremap.cnrs.fr
Site web : http://www.cepremap.ens.fr/~boyer

This paper develops the ideas presented at the Conference on "Controlling and Rewarding Managers", held at University of Manchester, 14th May 2004.

How to control and reward managers? The paradox of the 90s

Robert BOYER

Abstract

Why did CEOs remuneration exploded during the 90s and persisted to high levels, even after the bursting out of the Internet bubble? This article surveys the alternative explanations that have been given of this paradox mainly by various economic theories with some extension to political science, business administration, social psychology, moral philosophy, network analysis. Basically, it is argued that the diffusion of stock-options and financial market related incentives, that were supposed to discipline managers, have entitled them to convert their intrinsic power into remuneration and wealth, both at the micro and macro levels. This is the outcome of a *de facto alliance of executives with financiers*, who have thus exploited the long run erosion of wage earners' bargaining power. The article also discusses the possible reforms that could reduce the probability and the adverse consequences of CEOs and top-managers opportunism: reputation, business ethic, legal sanctions, public auditing of companies, or shift from a shareholder to a stakeholder conception.

Comment contrôler et rémunérer les managers ? Le paradoxe des années quatre-vingt-dix

Robert BOYER

Résumé

Quelles sont les raisons de l'explosion, au cours des années quatre-vingt-dix, de la rémunération des hauts dirigeants des entreprises cotées en bourse et de la persistance de niveaux élevés de leur rémunération, même après l'éclatement de la bulle Internet ? L'article passe en revue différentes théories économiques et étend l'analyse aux recherches en science politique, en gestion, en psychologie sociale ou encore en philosophie morale. Il entend montrer que la diffusion des stock-options, qui étaient supposés aligner l'intérêt des gestionnaires avec celui des actionnaires, leur a en fait permis de convertir leur pouvoir en des augmentations de rémunération et de richesse. De fait, c'est le résultat de l'alliance, plus implicite qu'explicite, des hauts dirigeants avec les financiers, exploitant ainsi l'érosion du pouvoir de négociation des salariés. Il est aussi discuté des possibles réformes qui permettraient de réduire la probabilité et les conséquences défavorables de l'opportunisme des hauts dirigeants des entreprises cotées en bourse. Effets de réputation, éthique des affaires, durcissement des sanctions pénales, contrôle public de la sincérité des comptes et plus encore prise en compte de l'intérêt de l'ensemble des parties prenantes a l'entreprise constituent autant de solutions qui demeurent partielles.

JEL Classification : D21 – D23 – G32 – G34..

Keywords: Managers control and remuneration – Stock-options – History of quoted corporations – Optimal contract theory – Economic and political power of managers – Internet bubble.

Mots clefs : Contrôle et rémunération des gestionnaires – Stock-options – Histoire des entreprises – Théorie des contrats optimaux – Pouvoir économique et politique des entreprises – Bulle Internet.

How to control and reward managers? The paradox of the 90s

Robert BOYER

Synopsis

Why did CEOs remuneration exploded during the 90s and persisted to high levels, even after the bursting out of the Internet bubble? This article surveys the alternative explanations that have been given of this paradox mainly by various economic theories with some extension to political science, business administration, social psychology, moral philosophy, network analysis. Basically, it is argued that the diffusion of stock-options and financial market related incentives, that were supposed to discipline managers, have entitled them to convert their intrinsic power into remuneration and wealth, both at the micro and macro levels. This is the outcome of a *de facto alliance of executives with financiers*, who have thus exploited the long run erosion of wage earners' bargaining power.

At the company level, the power of top-managers derives from their control over financial information, and from a better knowledge than outsiders of the sources of company profitability. This power of top-managers is directly linked to the ability for a company to generate profits, via the complementarity of specific assets, at odds with the conventional neoclassical theory that assumes a cybernetic approach concerning the substitution of factors of production in response to the price signal of markets. Insider trading, the low sensitivity of CEOs compensation with respect to performance in large companies, the contradictory impact of mergers and acquisitions upon managers on one side shareholder on the other side, and the rarity of indexed stock-options are relevant empirical evidences of this intrinsic, micro founded, power of managers.

Why financial scandals about excessive CEOs compensation took place at the end of the 90s and not before? A political economy approach complements the previous one and conveys the hypothesis that CEOs and CFOs have converted a part of their economic power into a political power, expressed at the society wide level. Generous stock-options grants derive from the impact of financial liberalisation, contemporary societies seem to accept more easily the widening of inequalities, whereas many governments tend to be pro-business: they lower the taxation of capital but they increase households taxation and weaken the redistributive role of tax and welfare systems.

The article finally discusses the possible reforms that could reduce the probability and the adverse consequences of CEOs and top-managers opportunism: reputation, business ethic, legal sanctions, public auditing of companies, or shift from a shareholder to a stakeholder conception).

Contents

1. INTRODUCTION: A PUZZLING PARADOX

In the era of shareholder value, how to explain the boom of managers, especially CEOs remuneration that persisted even after the bursting out of the Internet bubble? This paper tries to disentangle among *alternative explanations* of this paradox. It suggests a likely interpretation: the diffusion of stock options and financial market related incentive mechanisms, that were supposed to discipline managers, has entitled them to express their *power*, including in terms of their remuneration and wealth. This is the outcome of a *de facto alliance of executives with financiers*, who have exploited the long run erosion of wage earners' bargaining power.

Such a conclusion is built upon the conjunction of various approaches that investigate the links between corporate governance, managers' incentives and performance (section 2). The first stage consists in a brief historical *retrospective analysis* of the factors that have been shaping the internal organisation of the modern corporation (section 3). A second question has then to be addressed at: why such an acute concern for managers' remuneration took place at the end of the 90s and not before? Both corporate related factors and the macroeconomic context seem to play a major role in the emergence of the paradox of managers' compensation (section 4). The complexity of the forces that shape the performance of corporations and the incentives that govern managers behaviour, addresses challenging questions to economic as well as managerial theories of the firms. In a sense, the search for an optimal principal/agent contract is bound to fail precisely because *the objectives of the managers and shareholders can never be totally reconciled.* This paper develops an unconventional interpretation of the seminal analysis by Jensen and Meckling (1976). Given the near impossibility to converge towards a first best pay system for managers, there is some room for an alternative approach, taking into account the existence of a significant *managerial power* within the modern large corporations (section 5).

This theoretical analysis help to explain the recurring conclusions of many empirical studies: the public corporation run by managers facing dispersed shareholders may be *less efficient* than patrimonial corporations run by family related managers. Actually, less agency conflicts seem to exist in family run corporation than in typical public corporations. Similarly, private equity is again an effective option for reducing agency costs (section 6). These converging findings call for a *political economy approach.* During the last half-century, the relationships between executives, employees, consumers, finance and State have been transforming themselves. Taking into account the shifting alliance between these stakeholders casts some light upon the issue under scrutiny: how to explain an unprecedented boom of executive remuneration far ahead of corporate performance in terms of value creation and shareholders wealth? The answer is simple, if not trivial: managers have used the pressures of institutional investors and diverted them at their own benefit. This gives ex post the impression of a *de facto* alliance of managers with institutional investors. This shift has contributed to the process that had already curbed down the bargaining power of employees; furthermore the financialisation of the wage-labour nexus has imposed/induced labour to accept a larger share of risk (section 7).

The bulk of the paper provides a survey of the empirical evidences from the abundant literature about managers' compensation. Numerous converging statistical analyses confirm the rather large autonomy and significant power of managers at the firm level (section 8). Similarly, it is argued that the highly specific social and macroeconomic context of the 90s has given a renewed power of managers in political arena. Even economic policy and the tax system have been redesigned according to this new distribution of power between corporations, institutional investors and wage earners (section 9). The analytical framework mixing a managerial power approach and a political economy analysis is then applied in order to enlighten the apparent paradox of the 90s and especially the reason why stock-options have become the dominant form of remuneration for managers, at least in the US (section 10). In order to complete this survey, the article proposes to benchmark the present explanation against a series of other approaches belonging to various social sciences (sociology, business history, theory of justice, social psychology). The related interpretations appear as largely complementary to the central explanation presented by this paper. This is an opportunity to present alternative strategies that would or could overcome the present lack of confidence of public opinion concerning the transparency of financial markets and the accuracy of the financial reports of quoted companies (section 11).

A short conclusion summarises the core arguments and findings. It is argued that history does not stop here. The public opinion is infuriated by the persistent rise of some CEOs remuneration in spite of poor corporate performance and sharp stock market decline. This puts at the forefront two other actors: the lawyers and more generally the judiciary system. Finally, the State, even though basically pro-market and pro-business, is compelled to intervene: the Sarbanes Oxley bill, passed in the US under the pressure of recurring scandals, probably opens a new epoch for corporate governance with uncertain long term consequences.

2. MANAGERS' REMUNERATION AND CONTROL: HOW IMPORTANT IS THE ISSUE?

The emergence of the publicly quoted corporation has implied the separation between a group of managers and dispersed ownership, thus creating a major challenge both in practical terms and for economic and legal theory. The debate was somehow muted during the Golden Age of the 60s, but it is reappearing with the surge of financial markets after deregulation and the multiplication of new instruments, including the rise of the financial intermediaries in charge of pension funds management. What are the reasons of such an emphasis and what are the issues at stake?

A major component of corporate governance: a symptom or a cause?

Basically, the inflow of large funds into the stock market has renewed the basic question: how could dispersed shareholders be sure that the managers of the corporations they invest into are taking the correct decisions, i.e. adopt a prudent strategy and/or try to maximise shareholder value? Therefore, the issue of managers' remuneration is part of the concerns about the search for a "good" corporate governance. Basically, four components are generally considered to be integral part of the checking list that any investor should consider.

- *Board composition* should be analysed with respect to the defence of the best interest of all shareholders In order to bind the use of corporate power by managers, the appointment of independent external directors is considered as crucial.

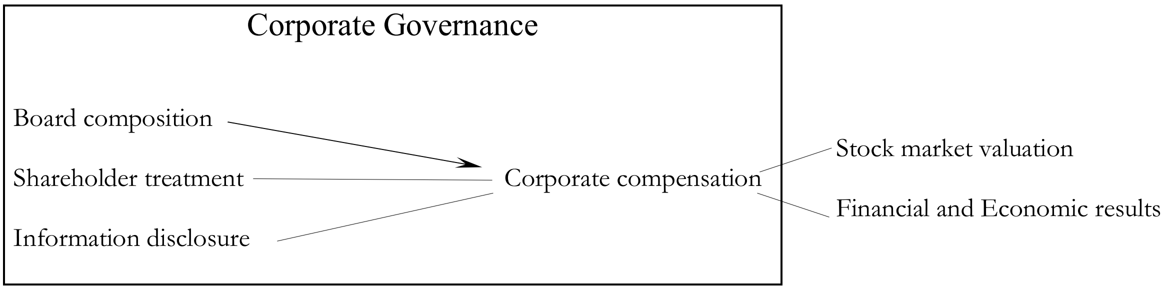
- *Shareholder treatment* deals with the consequence of capital structures upon the voice and contribution to decisions by shareholders. Under this respect, the rights of minority shareholders are a major concern.

- *Information disclosure* deals with the quality, the extent and the timeliness of information provided to analysts and the investors. The major issue is about the threat of insider trading, both revealing relevant information and possibly playing against the interest of typical shareholders.

- *Corporate compensation* is defined by the setting and monitoring of directors in charge of determining executive compensation. It includes base salary, bonus, performance related compensation and finally setting and disclosure of CEO performance targets.

These four components are somehow interdependent. The degree of independence of the board has some influence upon the nomination to the remuneration committee, thus corporate compensation itself. The dispersion or the organisation of shareholders may have an influence upon compensation packages. Therefore, from a theoretical standpoint, it is quite difficult to disentangle the influence of corporate compensation upon economic and financial performances of companies (figure 1). Some studies try to measure the quality of corporate governance and use these data to diagnose a possible impact upon the performance for FTSE 350 ex-investment trusts (Deutsche Bank, 2004). On one side, over the period 2001-2003, the companies with top 10% best performance display significantly better performance compared with the bottom 10%. Nevertheless, the time series of the financial performance of both groups display the same pattern but not the same level. On the other side, the link between return on equity and an historic corporate governance index is mildly positive, but only a very little fraction of total variance is explained when the individual corporate data are considered.

Figure 1 – Managers' compensation: a part and a symbol of corporate governance



Why to investigate managers' remuneration?

Many social groups have shown interest in the study of managers' compensation but their objectives differ and this diversity explains partially the difficulty and sometimes the confusion of the debate. Actually, minority shareholders, financial market regulatory authorities, workers of the publicly quoted corporation usually have different concerns about this issue. Public authorities, financial analysts and economists may develop still different approaches. Some clarification might be useful (Table 1).

At least, four notions have to be considered and *a priori* they deliver different diagnoses.

- The objective of shareholders values implies a complete *accountability* of managers with respect to shareholders. According to this conception of the publicly quoted corporation, the unique and exclusive responsibility of managers concerns shareholders, of course within the compliance with the legal system. This requirement has emerged as a central issue during the last 15 years. Ideally, the majority of stockholders should therefore decide the compensation of top managers.

- A second assessment is based on *economic efficiency*. At the firm level, have the managers taken the good decisions? Have they created value for shareholders or, on the contrary, destroyed it. At the macro level, does the general system of managers' compensation promote the efficiency of the allocation of human resources, capital, research and development expenditures? The question about the managers' compensation is thus: are the related incentives and constraints good for economic efficiency? This is typically an issue for economists and civil servants in charge of the surveillance of financial markets..

Table 1 – Four criteria for assessing managers' control/reward

Objectives	Actors/Definition	Contemporary issue	Methodological problems
Accountability	Shareholders ask for a management according to their interests	Frequent discrepancy between managers and shareholders	Information and power asymmetry
Efficiency	Economists analyse the quality of management in terms of global economic indicators	Cases of poor management but high executive compensation	Many different performance indexes; short run and medium run impacts differ
Legitimacy	Acceptance by		
	shareholders	Possible divergence between the value of stocks and the remuneration of top executives	Difficult measure of the impact of lack of trust on stock markets performance
	and stakeholders	De-motivation and protest of workers in response to CEOs compensation excesses	Relevance of efficiency wage models, but few empirical studies
Social justice	Public opinion defends some fairness principles	The social network of top executive has divorced from the rest of the society	Moral philosophy does not provide unambiguous principles of justice

- A pay system may trigger some inefficiencies but be nevertheless considered as fair and legitimate. *Legitimacy* is a third issue to be addressed at. The appraisal of legitimacy is different for shareholders or for the workers. But in both cases, a loss of legitimacy can erode the trust in the fairness of financial markets for shareholders. Similarly, excessive managerial pay deteriorates the morale of workers and thus may hinder the performance of the firm.

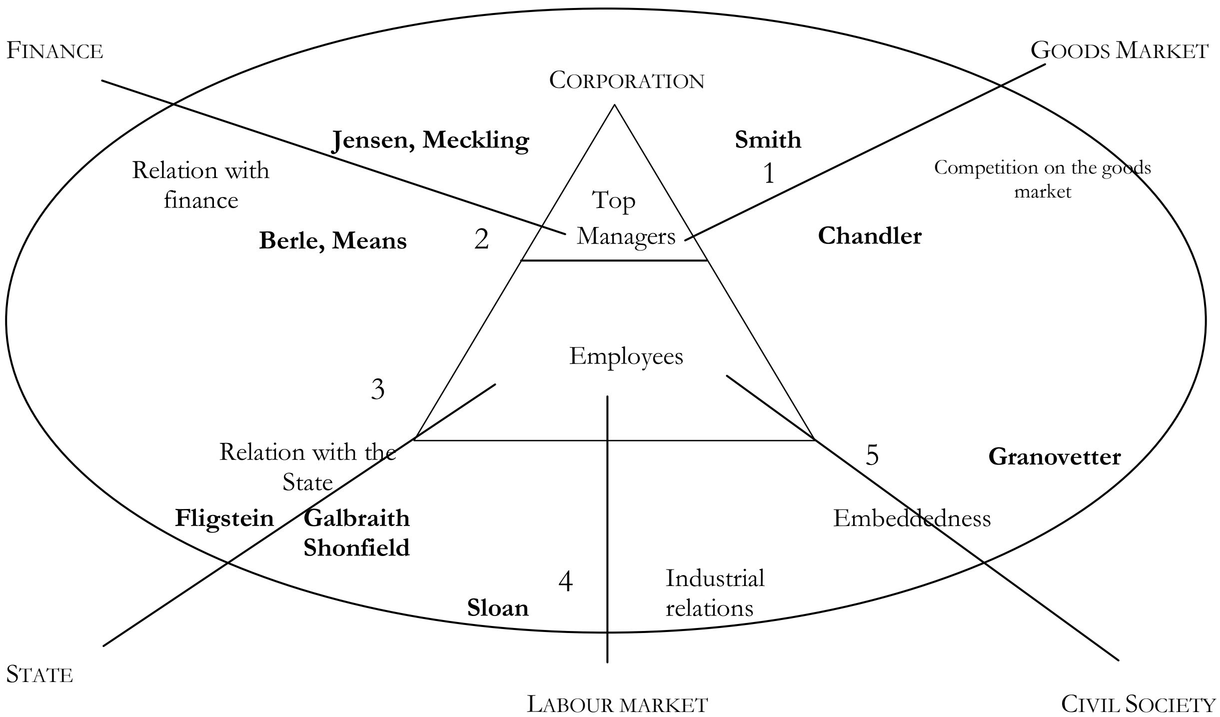
- In each society, public opinion expresses its *conception of social justice*, by reacting to excessive remuneration in times of economic down turn, corporate restructuring and workforce sliming down. During such periods, citizens address strong demands to the government and they ask for new corporate laws reinforcing the public control over managers' opportunism. This legislation usually imposes more or less large costs on publicly quoted corporation and this may affect their performance: negatively in the short run, positively in the long run. If the boom of top manager compensation is part of a general process of widening inequalities, the implementation of a more progressive income tax may appear as a demand from public opinion, in response to the prevailing sense of social justice.

Thus, legitimacy, social justice and efficiency are interdependent. But analytically, they need to be distinguished. Accountability is still another conception that may relate or not to legitimacy and efficiency. This distinction is especially important in the assessment of any reform of managers, control and reward. Furthermore, these notions are useful in any retrospective analysis of corporate governance top managers' remunerations.

3. THE EMERGENCE OF PROFESSIONAL MANAGERS: TWO CENTURIES OF THEORISING BY SOCIAL SCIENTISTS

The complex issues related to the control and rewarding of managers cannot be captured without an assessment of the origins and rationales of the modern joint stock corporation. This entity has to overcome a series of coordination problems among the various actors, and simultaneously to prevent the related mechanisms from eroding the competitive advantage associated to the large corporation. Just to paraphrase a well known contributor (Fligstein, 2001:126): "The joint corporation comes into existence in situations where *technology* requires a large among of capital, a demand exists for *specialised agents* to utilise economies of scale and a *large pool of capital* is needed to bond contracts and organisation – *specific assets*". As Fama and Jensen (1983: 346) put it, "the benefits of unrestricted common stock residual claims in activities where optimal organisations are large and complex offset the agency costs resulting from separation of decision functions and residual risk-bearing". This is an opportunity to explicit the core mechanisms that explain the emergence and the persistence of the organisation form associated to the joint stock corporation (figure 2, *infra*).

Figure 2 – The factors that shape the internal organisation of the corporation



Division of labour and size of the market: from Adam Smith to Alfred Chandler

The pin factory of Adam Smith is the starting point of this story. Given the large increasing returns associated to the specialisation of workers to a specific and repetitive task, this process of industrial manufacturing calls for a large size of the product market. The entrepreneur is then coordinating the labour process, observing the market and he pays the workers at the ongoing wage, set according to competitive mechanisms. By definition, his remuneration is the residual income when receipts exceed the costs of labour and raw materials. In such a configuration, there is no distortion between property and management that are jointly remunerated by the profits. Such a configuration has been the implicit reference and has inspired the neo-classical theory of the firm, as a profit maximising entity.

When transportation costs are drastically reduced by the building of the railways network, the increasing returns to scale associated to mass-production can be extended to an unprecedented level. So does the division of labour, both within and among firms. The large modern corporation therefore has to be reorganised (Chandler, 1990). First, the entrepreneur can no more manage himself the whole productive, marketing and financial routines that define the corporation: managerial tasks have to be delegated to non-proprietary managers. Second, the capital required for being cost efficient might be so large that the entrepreneur has to rely on credit or equity. Here begins the historical process of corporation reorganisation, quite complex indeed.

From a pure legal entity to an organic conception of the firm: Berle and Means

The creation and the success of the joint stock corporation entitle a significant increase of the size of the workforce, associated to a deepening of the specialisation both of workers and of managers. Consequently, the large corporation becomes a pyramid like bureaucratic organisation, with multiple layers decomposing the chain of command. The performance of the corporation appears to depend crucially from the firm specific investment and competence developed by the employees. It is no surprise if emerges a new conception of the corporation. Whereas from a strictly legal point of view, the joint stock corporation appears as the collective property of the shareholders, from an economic standpoint, its survival, performance and growth clearly depend upon the distinctiveness of the products that result from the complementarity of the competences of the employees. This is no more than the emergence of a duality between the management responsibility and the property rights (Berle, Means, 1932).

This separation of ownership from control challenges the conventional hypothesis that the firm should maximise profits. *A priori*, the top managers cannot be totally controlled by the shareholders and they may thus pursue distinctive objectives such as growth, size, diversification, risk minimisation, enjoyable environment, or attractive career. Actually, the top managers are in good position to allocate residual claims of the corporation, even if formally shareholders have to vote about their proposals. This primacy of managers can be accepted by patient capital markets and dispersed shareholders under the condition of a minimal but rather safe rate of return: actually, the configuration of strong managers but *de facto* weak owners, have been observed in Europe and Japan (Roe, 1994). But the standard answer in other capitalisms is quite different: the task of public authorities should be to design devices in order to align again the interest of managers with the core objective of profit maximisation and/or shareholder values (Jensen, Meckling, 1976; Fama, Jensen, 1983). Unfortunately, there is no general solution in order to restore the first best solution of profit maximisation: various configurations at different epochs have just generated a whole spectrum of corporate governance structures.

State interventions and legal conceptions shape the internal organisation of the corporation: from Kenneth Galbraith to Neil Fligstein

Economists tend to interpret simply the rise of modern corporations by the diffusion of the principles of rationality and competition: this would be the direct consequence of their intrinsic superiority in mobilising increasing returns to scale and fostering innovations. By contrast, political economists and economic sociologists (Fligstein, 1990) show the significant impact of State regulations that govern competition on goods markets, the organisation of the financial system and of course, the legal regime for firms. Property rights themselves display a large variety of regimes through time and across nations (Kay, 2003: 317-8). Consequently, the nature of the competition regime, the organisation of the tax system, the style of economic policy, as well as the general principle of corporate law do play a role in explaining organisational choices.

Actually, the American history displays significant variations in the legal framework and this has had a clear impact upon the internal organisation of the joint stock corporation, but also on the nature of the incentives designed in order to control top managers. Just an example: some researches suggest that the adoption of executive stock option plans in US corporation is more linked to the tax code than pure efficiency criteria about wealth maximisation or value creation (Long, 1992). Similarly, the nature of public procurement for defence for instance, may shape the strategy of corporations in terms of investment, innovation, price formation. All these relationships between the State and the corporations affect their performance and the role of executives (Galbraith, 1993).

The employees recognition as stakeholders: Alfred Sloan

Many historical studies point out a major transformation of the American capitalism after the New Deal and the Second World War: the wage earners have gained a significant bargaining power in terms of wage negotiation, access to welfare and more generally in the political arena. Some political scientists consider that the period 1932-1971 has exhibited a pro-labour alliance of the managers of large corporations, a quite unprecedented episode in American history. This is precisely the origin of the Fordist growth regime that has been investigated by regulationist approaches (Aglietta, 1982). Such an epochal change has affected the internal distribution of power within the joint stock corporation.

On one side, the wage earners have become part of the mass production society, *via* their access to mass consumption: clearly, the size and the prosperity of the American corporation have benefited from this socio-political change. On the other side, given the bargaining power of workers unions both on the labour market and within the firm, the managers have been induced to adopt an organic conception of the firm. In a sense, General Motors appeared as the prototype of such a government compromise, combining the interests of workers and managers, in the context of rather weak stock holders (Sloan, 1963). A variant of this conception of the corporation is the Japanese one: managers and permanent workers seem to have the leading role provided that the corporation deliver a minimum rate of return to shareholders and bondholders (Aoki, 1988). Another variant of this conception has long been operating in Germany, given the large recognition by law of the role of wager earners in one of the board governing the firm.

The embeddedness of the firm into civil society: Mark Granovetter

The previous visions of the corporation do share a common feature: this entity is not simply the property of stock holders since it has to take into account various requirements outside the pure economic sphere. Recognition of labour's voice and social rights, prevention of negative externalities caused by the firm to the rest of the society, conformity with the prevailing conception of fairness or social justice: all these factors imply the embeddedness of the firm into a web of legal, social and ethical relations.

This feature may explain a significant differentiation in the role of managers, the form of the control and the rewards they get. Therefore, during at the long run history of American corporations, various configurations are observed. Across developed countries, various conceptions of the corporation still coexist even in the era of good corporate governance that is largely inspired by the American business model. This feature is especially relevant concerning CEOs remuneration. On one side, the boom of the remuneration quite unsuccessful top executives has triggered a protest of shareholders and wage earners as well. In some extreme case, the CEOs were compelled to abandon an extravagant pay, because they had violated the society wide conception of fairness[1]. On the other side, contrary to the expectations, in the US and to a minor extend in European countries, the pay of some CEOs continued an upward spiral in 2002 and 2003.

Hence a major contemporary question addressed to accountants and economists: does theory deliver any device in order to overcome the opportunistic behaviour and erroneous strategy of CEOs, since these patterns are detrimental to shareholders, wage earners and finally the very survival of some corporations[2].

4. At the origin of the contemporary concerns for managers' remuneration

The history of intellectual representation of the corporation and its various legal conceptions in a sense mirror the actual long term historical process of transformations of business. Each of these conceptions tries to capture a specific feature that has been dominant at some epoch. Thus, the complexity of the issue of controlling and rewarding managers cannot be understood without a brief history of the factors that have shaped the present configuration. For simplicity sake, a contemporary queries about executive compensation might be seen as the most recent act of a plot that began more than one century and half ago.

The crisis of the previously successful managerial corporation

The first act takes place in the last third of the XIXth century. In most industrialised countries, and especially in the US, family founded and owned firms encounter limits in capturing the advantage derived from the new technologies that required more capital and closer links with scientific advances. A wave of mergers makes clear the merits of the joint stock corporation as a method for mobilising dispersed savings. This is so for the railroad industry and then the chemical industry. The invention of the limited liability of shareholders plays a crucial role: individuals can diversify risk by investing in a portfolio of various traded companies. Thus, the stock and the bond markets become highly liquid via the activity of buying and selling shares, quite independently from the irreversibility of productive capital and the everyday management of the company.

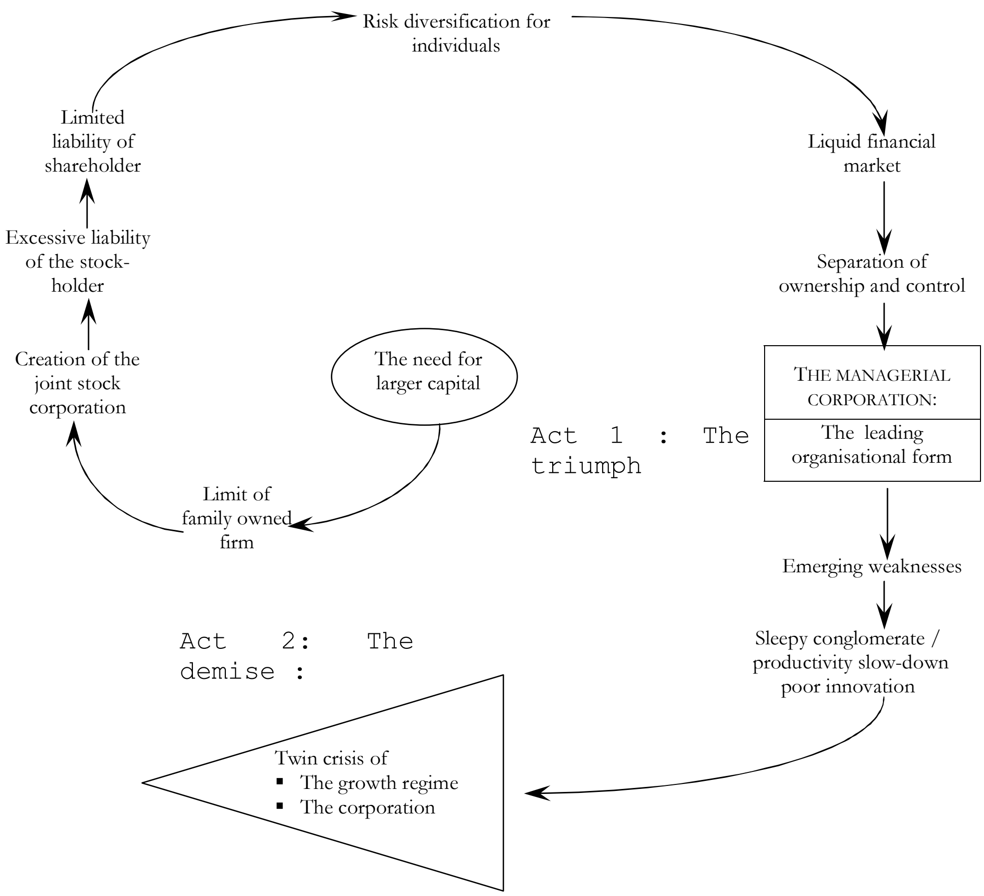
Consequently, there are two sources to the separation of ownership and control. On one side, family managers are replaced by salaried ones who are delegated the management of the firm. Incidentally, the division of labour that had taken place at the shop floor level is also observed in the management of large companies. In a sense, managers tend to become bureaucrats in charge of taking rational decisions, informed by the advance of science, technology and management. On the other side, individuals, as investors, enjoy the freedom to optimise the rate of return of their wealth par transacting on more and more developed financial markets in London and New

[1] This is more common in Europe than in the US. The Ahold CEO Anders Moberg had to adjust his remuneration package on September 2003, after the debate in Netherlands (www.ahold.com). Similarly the French CEO of Alstom had to renounce to a quite generous golden parachute after quitting a quasi-bankrupt firm.

[2] One has to remember Enron, Worldcom, Vivendi, Ahold, Parmalat.

York. By the way, except during periods of hot scandals, the individual investors do not ask for a close monitoring of the managers, provided they deliver a modicum rate of return. It is the epoch of the triumph of the managerial corporation "à la Berle and Means": the *de facto* complementarity between the liquidity of saving and the specialisation of management delivers an unprecedented dynamic efficiency, and therefore few criticisms are voiced by experts and public opinion on behalf of discontent shareholders. The only concern is about the risk of monopolisation of product markets and concentration of capital…but these are mainly the complaints of labour and socialist movements (figure 3).

Figure 3 – Act I and II: The emergence and the crisis of the managerial corporation



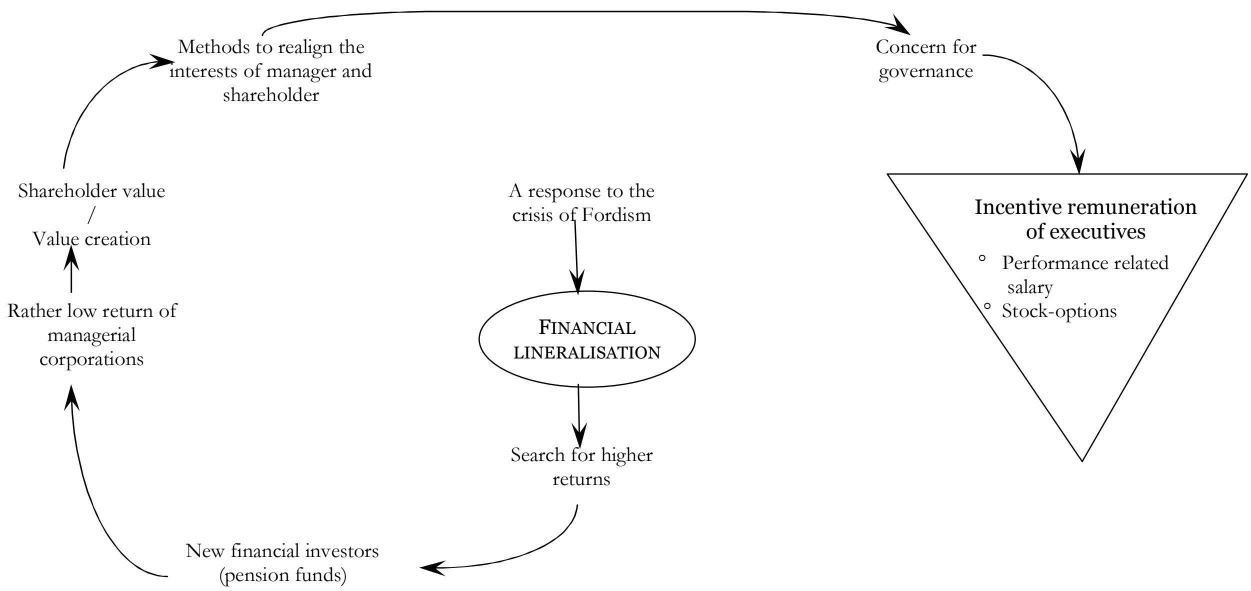
But the heyday of the managerial corporation does not survive to the 1970s. *Act II* begins when the previous favourable trends are reversed. The very diffusion of this canonical model to many activities finally triggers adverse trends. First, managers enter into an excessive diversification without any clear synergy with their "core-competences" to use the term that will be proposed during the 80s to promote the split the large conglomerates. Second, this excessive diversification and the strains associated to the impact of near full-employment upon labour discipline and work intensity trigger a significant productivity slow-down. Third, the oligopolistic nature of competition on product markets erodes the innovativeness of maturing large corporation, at the very moment when newcomers in Europe and Asia, challenge the American way of doing business. These strains on the managerial corporation are correlated at the macro level with the demise of the Post-World War II growth regime: productivity slow-down generates pressures on costs that are turned into prices increases due to a rather accommodating monetary policy (Aglietta, 1982). The stage is ready for act III.

Value creation and shareholder value as disciplinary devices

The first reversal takes place in the conduct of monetary and budgetary policy. Conservative Central bankers replace the Keynesian principles by a monetarist credo according to which inflation has to be curbed down in order to fulfil toward a monetary and financial stability, at the possible cost of a growth slow down, due to high and unprecedented real interest rates. Since the real interest rate on bonds becomes superior to the dividend/price ratio on stocks, corporation have to adjust accordingly wages, employment and their investment decisions (Lazonick, 1992). The bargaining power of wage earners is therefore eroded and this opens a new epoch for the evolution of the distributive shares between wage, profit and the revenue from finance. Financial liberalisation defines the second structural transformation of the 80s and 90s: new financial instruments are created and diffused especially in the US and to a minor extend to the UK. Derivatives and stock options are good examples of the success of financial innovations. Consequently, financial instruments are more and more diversified and therefore attract new customers in response to an unprecedented specialisation of financial institutions and investors. A final shift, in the US, concerns the transformation of pay as you go pension system into pension funds: the large and permanent inflow of saving on financial markets improve their liquidity and deepness and simultaneously increases the probability of financial bubbles (Orléan, 1999). Furthermore, the concentration of the management of these savings brings a counter tendency to the extreme dispersion of ownership: some pension funds may use not only exit (selling the shares of a badly managed corporation) but also voice (by expressing conditions for approving the decisions of the boards).

It is the epoch of *value creation*, and then *shareholder value* (figure 4). In this context, the divergence of interest between managers and owners pops out as a crucial issue. Why not to try to align the strategy of top managers with the objectives of stock market value maximisation on behalf of the shareholders? The use of stock options therefore widely diffuses, not only to the traditional corporation operating in mature industries but also in the start-ups of the information

Figure 4 – Act III: disciplining the managers by shareholder value



and communication technology industry. In the former industries, stock options are conceived as an incentive for good management and shift the strategy of CEOs from extreme diversification to the concentration on their core business, and the economising of capital. In the later industries, a large fraction of the personnel receives a modest wage but a significant number of stock-options that can be cashed when if the expected profits will manifest themselves. By the way, this reduces production costs and makes higher profits, since the American accounting principles in the 90s did not require stock-options to be included into the costs. The search for radical innovations and stock options as a form of remuneration are closely associated in the vision of the "new economy".

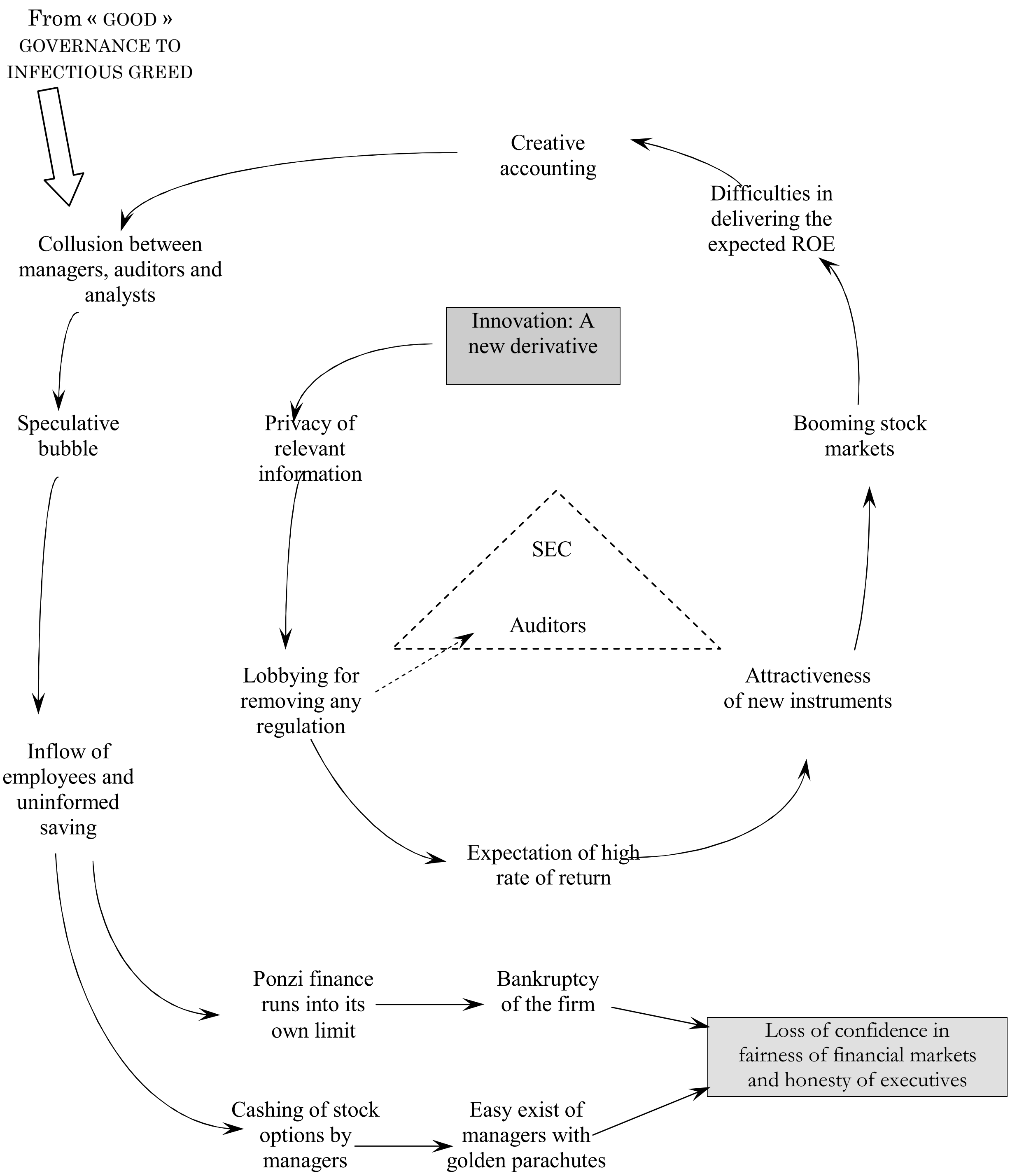
Stock-options are therefore central to American business in the 90s: they are supposed to *control* the managers of mature corporations and *reward* the professionals and managers of the sunrise sectors. Act III seems to announce an happy end…but this was not the case.

Financial bubble and infectious greed: executive compensation under scrutiny

Actually the very optimistic views about the higher and higher rate of return on equities drive the boom of the mid 90s in the American stock market. What was supposed to be a rational method for generating value and wealth has become "a casino economy" whereby every body tries to get rich as quickly as possible, without any concern for the long run viability of her/his strategy. The implicit rate of return of most of the start-ups of the new economy was totally unlikely, but nevertheless attracted the investment of well established investment banks and institutional investors. The public was convinced by the financial and popular press that the boom on the stock markets was not at all a bubble but the evidence of an unprecedented area featuring totally new economic regularities. This was an illusion since the divorce between the actual rate of return and the expected one was bound to be recognised thus reduced, if not by a progressive reappraisal, by a brusque down turn of the financial market. This takes place in March 2001, when the Internet bubble bursts out, and generates an impressive series of bankruptcies: in a sense, the trajectory of Enron is typical for this new relations between corporate governance and fiancial markets (Figure 5).

In this context, the divorce between the supposed rational goals of incentive pay and the effective use of financial performance related compensation is made clear by the multiplication of financial scandals and some spectacular bankruptcies. In retrospect, the surge of stock-options appears as a method for fast wealth accumulation from top executives and not so much a method for rewarding the quality of their management. The previous methods for controlling and rewarding managers are therefore under public scrutiny. Should it be a surprise for the proponents of the indexation of top-managers compensation to shareholder value?

Figure 5 – How an alleged virtuous circle turn into a vicious spiral: the Enron story



5. A MAJOR CHALLENGE TO ECONOMIC THEORIES

Actually this issue is not so new. Since Berle and Means and all the subsequent literature, economists have deployed two contrasted strategies. The first group takes into account the transformation of the joint stock corporation and finally adopts a *stakeholder conception*, with no primacy to shareholders. A second group considers that this discrepancy between the optimal profit maximizing strategy and actual strategies of managers should be removed as far as possible in order to restore the primacy of shareholders. In periods with patient capital and a leading role of bank in financial intermediation, the first conception may prosper. When, on the contrary, finance is liberalised, many new financial instruments are created and diffuse all over the world, and when professional investors manage a large fraction of savings – especially pension funds –, the issue of control and reward of CEOs becomes central and trigger a boom in academic research (Murphy, 1999).

Back to Michael Jensen and William Meckling's seminal article

Within the patrimonial conception of the joint stock corporation, the problem is simple: the top executives are the agents of the shareholders since they are hired by them in order to defend and promote their interests, namely their income and wealth. Generally speaking, principal/agent relations were already used in the Roman Empire, within rural economy but the novelty of the manager/shareholder principal/agent relation is to mobilise specific economic incentives. What type of contract, including pay system, dismissal conditions, and fringe benefits would realign the objectives of the CEOs with the interests of shareholders?

The literature provides an hint: in order to limit the distortion of the CEO's decision in favour of form of spending that benefits to him/her but reduces the value of the firm, a fraction of the capital should be given to the CEOs in order to fill the gap between a patrimonial firm run by the owner and a joint stock corporation under the supervision of a manager (Jensen, Meckling, 1976:221). This result has frequently be interpreted optimistically: adequate incentive mechanisms (profit sharing, stock options, indexation of CEOs compensation on performance index) could overcome the discrepancy between a first best solution and organisation, i.e. profit maximisation, and the actual decision of the managers that distorts the strategy of the firm in the direction of their own interests.

A closer look at the argument shows that the cost of agency cannot be reduced to zero because the manager has to be compensated at the expense of shareholders…unless he is given the totality of the capital, thus becoming an entrepreneur without shareholders. From a pure theoretical point of view, the dichotomy between management and ownership cannot be overcome. Whatever the pure economic and financial incentive mechanism, *there is a cost of agency* associated with the joint stop corporation. A second wave of the literature has progressively recognised the limits of these incentives. For instance, Michael Jensen and Kevin Murphy (1990) are surprised by the low sensitivity of CEOs compensation with respect to shareholder wealth (approximately $ 3 for $ 1.000 change in stock market value. They hypothesise that public and private political forces explain this discrepancy with respect to the suggestions of the theory. It is probably why other devices have been proposed: the strength of a *corporate culture* may reduce the opportunism of the executives, or a form or another of *business ethic* may have the same role. But this overestimates the degree of conformity to social norms and their effectiveness, at odds with the principle of individualism that is at the centre of modern societies. This is the reason why still other devices have been proposed and are actually implemented.

A whole spectrum of incentives and constraints

Actually, many CEOs pay systems are coexisting and do not deliver the same outcomes in terms of free cash-flow, investment, diversification, risk, innovation policy, and the choice between internal growth and expansion via merger and acquisition. A priori, the compensation scheme could be tailored to any precise objective expressed by the board that would transmit the will of shareholders … and stakeholders if they are represented. Within the conventional patrimonial conception of the corporation, many devices have been proposed in order to control and reward managers (table 2).

The value of the stock of the corporation is only one possible reference index, since *a bonus payment* can be indexed to profits measured according to various definitions. If financial markets are imperfect, inefficient and if stochastic shocks affect the result of the firm and its valuation by the stock market, then profit related pay system and stock options are far from equivalent. Furthermore, stock options are different from the attribution of stocks to the managers. A basic divergence is related to accounting rules: until recently, the stock options were not taken into account as costs, whereas a profit sharing mechanism would explicitly affect the financial situation of the corporation. The various components of CEOs compensation – wage, bonus, stock options, fees for participation to boards, special credit conditions, severance payment, contribution to retirement – do not have the same taxation. Thus indirectly, government may indirectly influence the form of CEOs compensation.

Table 2 – How efficient are the various methods available in order to control managers?

Devices	Rationale	Limits
1. INCENTIVE PAY		
• Indexing wage on performance	Aligning managers' and rank and file workers interests	• Possible manipulation of performance by managers
• Bonus linked to profit	Aligning managers' interests and firm' strategy	
• Stock options	Aligning CEO's interest with shareholders wealth	• Still a major gap between CEOs and shareholders' interest
• Attribution of stock of the company	Aligning CEO's interest with shareholders wealth	• Loosely correlated with CEO's strategy and large benefits during financial bubble
2. TRANSPARENCY		
• Public disclosure of CEOs remuneration	Trigger *outrage* from shareholders and institutional investors	• *Camouflage* tactic by managers in spite of statements of favour of transparency
3. REMUNERATION SETTING		
• Creation of an independent remuneration committee	• Prevent a self-determination of remuneration by CEOs	• Actually, the CEOs may largely control the committee
• Large number of independent members of the board	• Prevent excessive remuneration at the detriment of shareholders	• The income of members may depend from their generosity towards the manager.
• Survey by consultant firms on CEOs remuneration.	• Provide an objective benchmark	• The reference to average or median remuneration induces spill over and excessive pay increases
4. MARKET FOR CORPORATE GOVERNANCE		
• Firing of CEOs	• Incentive for commitment	• Exceptional configuration in the past
• Threat of take-over	• Puts a limit to CEO's opportunism	• Golden parachute for loosers
		• CEO's income may increase even if shareholders suffer from value destruction

Source: inspired by Ayre Bebchuk, Fried (2003).

Incentive pay is not the only mechanism: the access of shareholders to the information about CEOs remuneration may trigger their demand for their control of these remunerations, on top of the remuneration committee. Simple *transparency* may have a disciplinary role when CEOs compensation explodes whereas their corporation is near bankruptcy. But such a mechanism can only affect major discrepancies between firm performance and executives compensation and does not deliver the fine tuning that would be required for a good governance on an every day basis. Another avenue explores the role of the *independency* of the members of the remuneration committee: *a priori* they could adjust at each period the compensation to the actual achievements of the managers. The issue is about the choice between an automatic rule and pure discretion.

But for most economists, only competition can govern this complex process. If CEOs diverts too much resources from an efficient allocation, the undervaluation of the firm on the stock market will trigger an hostile takeover. In order to prevent such a take over, the Board should *ex ante* limit the opportunist behaviour of top managers. The last resort threat is of course bankruptcy. Back in the 60s and 70s, large corporations were supposed to be "too big to fail" but it is no more the case nowadays. But if bankruptcy is the last resort deterrent weapon against excessive CEOs remuneration and bad managers, there is a more common mechanism, i.e. the creation of *a market for corporate governance*. Actually, firing of CEOs has become more frequent and the duration of employment of CEOs has actually been reduced specially in the US. For instance, notice periods for executive directors have drastically been reduced from 1994 to 2001 (PIRC, 2003: 8). This is an interesting evolution since it could be a Smithian solution to CEOs remuneration: the creation of a fully fledged market for managers could provide an objective basis. But this assumes that a complete recognition and assessment of the quality of managers are possible, and this is not at all evident given the idiosyncratic nature of managerial talents. After all, the net profit of a corporation is the outcome of the mix of complementary and specific assets including executive talents (Biondi, Bignon, Ragot, 2004). Therefore, generally speaking, the market is unable to fix a standard price for managers.

Clearly, all these devices are far from granting the implementation of shareholders value since all of them experience strong limits (table 2, 3rd column supra). Managers can manipulate the index of performance, including via dubious if not illegal accounting practices. During financial bubbles, the tide of speculation make rich the CEOs who benefit from stock-options but only a small fraction of their extra compensation is related to the quality of their management. Even when the bubble burst out, it is quite surprising to note that some CEOs re-negotiate their stock options in order to maintain their total remuneration. In 2001, the value of stock options granted to the CEOs of S&P companies, America's largest, rose by 43.6% in a year when the total return of those companies fell by almost 12% (The Economist, 2003). Similarly in 2002, the median pay of the 365 CEOs covered by *Business Week* increased by 5.9%, but the total return of the S&P 500 companies was down by 22% (Johnson, 2003).

Transparency is quite difficult to achieve since a part of the profitability of corporations derives from proprietary information, knowledge and technology. The public disclosure of CEOs remuneration may trigger outrage from shareholders and institutional investors, but the managers can adapt their tactic and adopt camouflage, the more easy, the more complex and diverse the compensation mechanisms. Similarly, independent directors and members of the Board and remuneration committee are a priori desirable but do not necessarily overcome the large asymmetry of information and power between CEOs and these directors. Another mechanism may hinder the efficiency of remuneration committee: the directors and CEOs may belong to the same web of boards therefore forming a network of mutual exchange of high remuneration (The Economist, 2003). Furthermore, the reference to the current remuneration of CEOs via the survey made by consultant firms may have perverse effects: the reference to average or median remuneration generally triggers a spill-over of excessive increases. Last but not least, the frequent negotiation of golden parachutes even for the most unsuccessful CEOs drastically reduces the incentives for managers to be efficient and fulfil shareholder value and wealth creation.

From optimal contracting to a managerial power approach

Both the historical retrospective study of American corporations and the conclusions derived from transaction costs, principal/agent theories confirm that it is quite difficult to monitor executives in order to comply with the objective of profit maximisation or shareholder value. Therefore, it is not so surprising to observe during the 2000s a discrepancy between still booming executive compensation and poor stock market performance. The normative theory of CEOs compensation should be completed by another approach. One of the best candidate stresses the *entrenched managerial power* (Ayre Bebchuk, Fried, 2003) and it enlightens the apparent paradox that optimal contracting recurrently face.

Here the diagnosis is quite different (table 3). For optimal contracting, the opportunistic behaviour of managers should be controlled by the strengthening of competition on product, labour and corporate governance markets. More precisely, the recognition of value creation and shareholder value should be imposed to managers as a core if not a unique incentive mechanism. The managerial power theory develops a more machiavelian vision: in order to minimise the outrage of shareholder and public opinion, the managers adopt camouflage strategies. Similarly, the enthusiasm of investors for equity based compensation is adopted and used by CEOs who find a justification to large increase of their incomes. Whereas in the 60s and 70s, the wage of executive was defined as a multiple of median workers income, during the 90s the larger part of their income was related to the flow of profit or the appreciation of their shares. A device that was supposed to discipline managers has actually been distorted in order to extend their wealth to unprecedented level (see figure 10, infra).

Table 3 – Two approaches of the control of managers

	Optimal contracting	Managerial power
Diagnosis	1. Opportunistic behaviour of managers	1. Minimize outrage, via camouflage
	2. Market for capital, labour, and corporate control is not sufficient	2. The enthusiasm about equity-based compensation benefits to managers'*
Solution	3. Design incentive pay systems managers behaviour optimizes value creation and/or shareholder wealth	3. Compensation consultants justify *executive* pay CEOs control the board in charge of their remuneration
Adverse effects	4. Managers reap windfalls income via stock price increase independent from their action	4. Option plans that filter out windfalls are not in the interest of managers. Therefore they are not used**
	5. The threat of take-over should discipline CEOs	5. Mergers and acquisitions justify higher compensation of managers but do not always increase shareholder value

* 2000: CEOs compensation was an average 7.89 percent of corporate profits in firms making up the 1500 company exe comp dataset (Balsam, 2002).

** 2001: 5% of 250 largest US public firms used some form of reduced wind fall options (Levinston, 2001).

Source: inspired by Ayre Bebchuk, Fried (2003).

Even the reference to a market benchmarking for CEOs compensation, instead of disciplining the remuneration committee, may quite on the contrary trigger a spill-over and an escalating mechanism, whereby less paid managers ask for median or average pay, thus initiating a perverse path. Similarly, the shift from an indexation with respect to profit or cash-flow to stock options is not without risk. First, the stock market valuation takes into account macroeconomic situation, the level of short term interest rate, sectorial effects, and does not exclusively gauge the contribution of the managers to the prosperity of the joint stock corporation. Furthermore, there are a lot of stochastic elements and mimetism in the valuation of a firm. It is therefore risky not to filter stock market value by these macro and sectorial determinants. Second, and still more important, the net profit of any firm does not result from the optimal mix of substitutable standardised factors valued on the markets. Nearly by definition, higher than average profit rates derive from the complementarity of firm specific assets: among them the talent of the manager cannot be measured by a typical competitive market. Third, today decisions of top executives make the investment of tomorrow and the products/profits of the day after tomorrow. Stock options that can be used over a short period of time cannot capture the necessary long term orientation of an efficient pay system.

Thus, the *merit of managerial power approach* is to explain all these features that are at odds with the predictions of *optimal contracting*. Option plans that filter out windfalls are not in the interest of CEOs. Mergers and acquisitions frequently destroy value instead of creating value, but the executives nearly always increase their compensation along with the size of the corporation. More basically, CEOs have by definition access to insider information[3] and they are generally better informed of the specific sources of competitiveness of their firm than financial analysts working outside the firm, even highly specialised. They are experts in crunching financial data base and getting ad hoc information during the road shows, but they are rarely able to capture the intrinsic assets and liabilities of a firm.

6. HOW EFFICIENT HAS BEEN CORPORATE GOVERNANCE AND SHAREHOLDER VALUE?

The historical retrospective analysis (section 2) suggests that the competitive hedge of the joint stock corporation (capturing increasing return to scale, risk pooling, search for market power…) is mitigated by the rise of agency costs along with the size of the firm. These costs result from the dichotomy between management and ownership and more generally the multiplicity of principal/agent problems when the internal division of labour and specialisation leads to a multiple layer organisation (functional divisions, operational divisions, productive units, teams,…). Therefore, one could observe different phases according to the cost/efficiency balance of the joint stock corporation compared with other organisational forms of the firm. Under with respect, the large diffusion of the discourse on value creation, shareholder value and good governance would suggest that the joint stock corporation was the most efficient organisational form. A quick look at American and French evolutions does not confirm this hint.

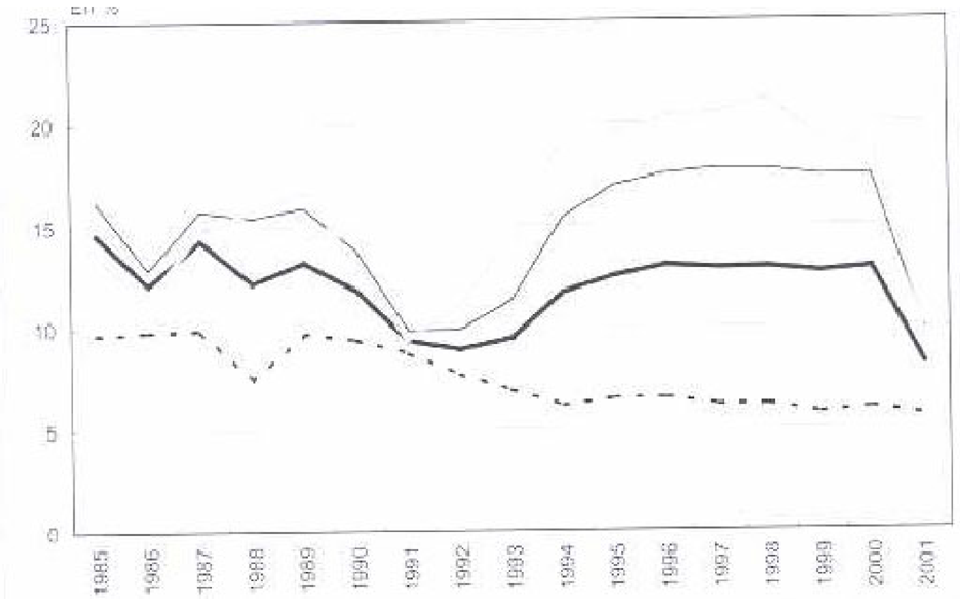
The joint stock corporation in the 90s: good financial performance but moderate improvement of economic efficiency

The boom of American stock markets (New York stock exchange and Nasdaq) was initially interpreted as an evidence for an unprecedented efficiency of production, specially in information and communication technologies. In retrospect, the national account data do not confirm

[3] For instance, Chauvin and Shenoy (2001) show that on average stock prices usually decrease prior to executive stock options grants.

diagnosis suggested by the financial results as presented by American corporations CEOs and CFOs (figure 2). On one side, the rate of return on equity of the 100 S&P larger corporations actually increased from 10% to nearly 17%. But a closer look shows that such an impressive boom results from a declining interest rate paid on corporate debt and a typical leverage effect based upon the difference between this interest rate and the rate of return of total capital. On the other side, when one computes the economic rate of return according to the national account methodology, the recovery of large corporations profitability is far less impressive: the slow decline from 1985 to 1992 is interrupted and the economic rate of return increases by only 3% from 1993 to 2000 and then declines with the bursting out of the Internet bubble. In retrospect, the prosperity of American corporation that was supposed to be attributed to the impact of SCI and a new management style was largely due to the quality of the policy of the Federal Reserve Board and a clever management of credit and bonds by corporations.

Figure 2 – S&P 100 American corporations: High financial profitability due to the leverage of debt

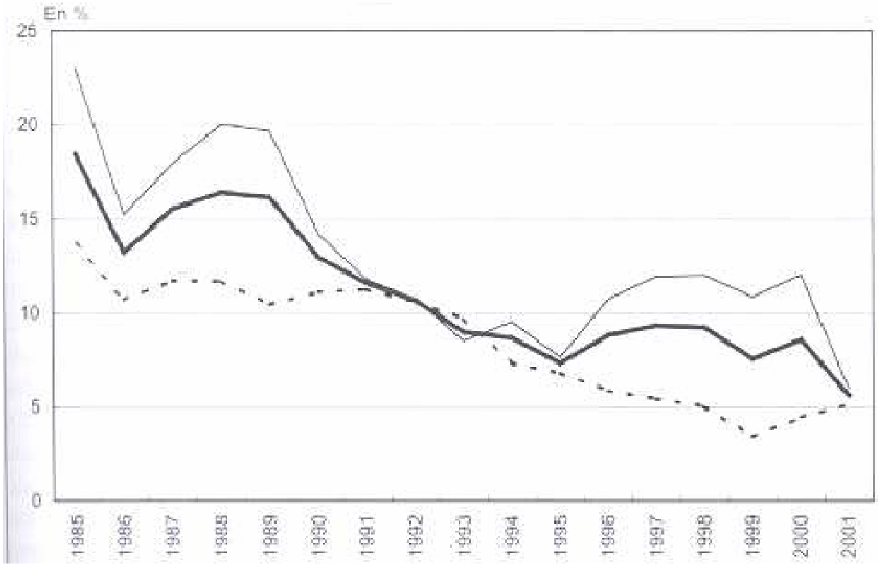


Average interest rate of corporate debt
Economic rate of return (Profit after tax/total capital)
Rate of return on corporate capital

Source: Plihon (dir.) (2002: 90)

This movement has been diffusing to many developed and developing countries. The evolution of the CAC40 index for larger French joint stock corporation is similar to the US configuration, but the recovery of financial profitability is more limited (figure 3). Again, the erosion of financial profitability is stopped in 1995 and it reaches 12% in 2000 starting from 8% in 1995. But the economic rate of return of total capital does not experience an equivalent rise. Of course, the French economy is lagging both in terms of corporate governance and access to the new economy, but the conclusion is the same: financial management of debt and the decline of nominal interest rate have been quite important in the good financial reports of CAC40 corporations.

Figure 3 – CAC40 French corporations:
Moderate rise of financial profitability due to the leverage of debt



Average interest rate of corporate debt
Economic rate of return (Profit after tax/total capital)
Rate of return on corporate capital
Source: Plihon (dir.) (2002: 101)

Thus, the positive impact on efficiency of shareholder value and changing pay system for CEOs has still to be documented. But there is a second challenge to conventional wisdom.

The surprising coming back of patrimonial capitalism even in the US…

Basically, given the expected superiority of the joint stock corporations managed by professional CEOs and CFOs under the scrutiny of analysts, investors and shareholders, one should observe the progressive vanishing of founding-family ownership. This is the case neither in the US nor in France.

Recent researches show that in the *United States* founding-family ownership is common in large, publicly traded firms and is related, both statistically and economically, to a lower cost of debt financing (Anderson, Mansi, Reeb, 2002). These authors show that "the relation between founding-family holdings and debt costs is non-monotonic: debt costs first decrease as family ownership increases but then increase with increasing family ownership. However, irrespective of the level of family holdings, *family firms enjoy a lower cost of debt* than non-family firms". Given the impact of leverage upon firms profitability (see figure 2, supra), this result is quite important indeed. Anderson, Mansi and Reeb attribute this result to the fact that founding-family ownership in publicly traded firms reduces the agency costs of debt. They conclude that "founding family firms have incentive structures that result in *fewer agency conflicts* between equity and debt payment, suggesting that bond investors view founding family ownership as an organisational structure that better protects their interests". Nevertheless, the relationships between a low credit spread and family-ownership is not linear: this spread first decreases with the size of family ownership and then increases up to a 12% of family ownerships. This suggests that hybridisation of corporate structures is better than purest forms, a quite suggestive result indeed, that should call for more empirical research. Last caveat, these conclusions are obtained by statistical and econometric methods and do not exclude outliers[4] .

A follow up of this research by Anderson and Reeb (2003) refined the previous results. Using Standard and Poor's 500 firms from 1992 to 1999, they document significant corporate governance differences between family and non-family firms. Whereas neoclassical theory suggests that founding-families are in unique positions of power and control that would enable them to expropriate wealth from minority shareholders, the statistical evidence shows that in large publicly traded companies, *firms with founding-family outperform those with more dispersed ownership structures*. But there is a key factor according them that limits family opportunism in US firms: the relative influence of independent and family directors. Finally, they mitigate their previous findings: "rather than focussing on divergences in family ownership and control as reported in East Asian firms, investors in US firms appear to focus on the *presence of independent monitors* to counterbalance family influence". In any case, by contrast, this means that the agency costs in managerial corporations might be higher than in family founded corporations. Implicitly, this means that the *sophisticated pay systems* for top executives in the US has not necessarily curbed down *CEOs and CFOs power and opportunistic behaviour*.

… Family controlled firms outperform managerial corporations in France

The findings are still more surprising for the larger manufacturing firms in France (Allouche, Amann, 2000). Among the 500 larger French manufacturing firms, the forms of control take many forms: family, managerial, technocratic, cooperative, workers, ownership … Contrary to a widely diffused belief, the importance of family control has not been declining from 1982 to 1992

Table 4 – The Share of family owned firms does not decline
(500 larger French manufacturing firms)

Form of Control	1982 % Total sales	1992 % Total sales	Variation 1982/1992 %
Family	48.89 % 238	58.86 % 246	9.97 % 8
Managers	3.91 % 6	0.23% 3	- 3.69 % - 3
Technocratic-industrial	31.11 % 154	27.25 % 145	- 3.86 % - 9
Technocratic-banking	9.09 % 45	8.19% 56	- 0.90% 11
Cooperative	5.54 % 44	4.11 % 41	- 1.43 % - 3
Wage-earners	0.76 % 7	0.90% 5	0.14% - 1
Unknown	0.70 % 7	0.45% 4	- 0.26 % - 3
Total	100.00 % 500	100.00 % 500	

*Sour*ce: Allouche, Amann (2000), p. 9, tableau 3.

in terms of total sales, quite on the contrary: in 1992, family control led firms represent nearly 59% of total sales, up from 49 % back in 1982. The typical managerial control is quite limited in size, but the technocratic industrial and technocratic banking controls are finally rather similar to

[4] In Italy, the Parmalat scandal would be a good example of a tentative of expropriation of bond and equity holders by founding-family members…in spite of the supervision role attributed to international accounting firms and institutional investors.

what is considered in US as managerial control. In any case, this group is not growing in size (table 4).

This success cannot be attributed to a pure inertia of the distribution of manufacturing firms nor to a form or another of archaism of the French capitalism. Actually, quite all the ratios measuring economic efficiency and profitability deliver better results for family controlled firms compared with other large manufacturing firms (table 5). The economic rate of return, the profit margin, the growth rate of return, and even the return for shareholders are quite superior for family firms. Furthermore, family controlled firms exhibit more satisfactory social indexes. The top wage earners – frequently managers and professionals – are less paid than their counterpart in non-family firms but the average wage is higher and the dispersion of compensation is lower. The social expenditures financed by the firms are higher and the stability of employment and the access to training are superior in family controlled firms.

Table 5 – Family firms are outperforming public corporations

France (1989 – 1992)

Ratios (%)	Family firms	Other firms
Economic rate of return	9.30	7.60
Economic performance	5.30	3.80
Profit margin	5.40	3.60
Cash-flow / sale	5.80	3.80
Rate of return of net capital	18.50	12.60
Gross rate of return	34.60	19.50
Return on shareholder funds	25.20	15.80
Net profitability	3.10	2.20
Returns on total assets	7.60	6.10

Source: Allouche, Amann (2000), p. 10 Table 4 et p. 13, tableau 6.

The authors (Allouche, Amann, 2000) attribute this hierarchy to the *lower agency costs* in the family controlled enterprises, thus confirming the findings for the US economy (Anderson, Mansi, Reeb, 2002). *A contrario*, these costs appear quite important for managers controlled firms. The result is rather strong since the authors have been matching family and non-family firms belonging to the same sector and profession, a methodology that corrects the differences in techniques of production and type of competition on various good markets.

Thus, the conventional vision, which assumes that the family firm is only efficient at the early beginning of an activity and then it has to convert into a typical managerial firm, because this form is more efficient, has to be challenged. Of course, this kind of research should be updated, in order to substantiate this provisional conclusion[5].

The surge of private equity: a challenger to dispersed ownership?

There is a third evidence about the limits of shareholder value as a method for restoring more efficiency to publicly quoted corporations. Actually, back in the 80s, corporations near bankruptcy have triggered innovations such as leverage buying out (LBO) or managerial buying out (MBO), i.e. the equivalent of a take-over with a single operator or at least an homogeneous

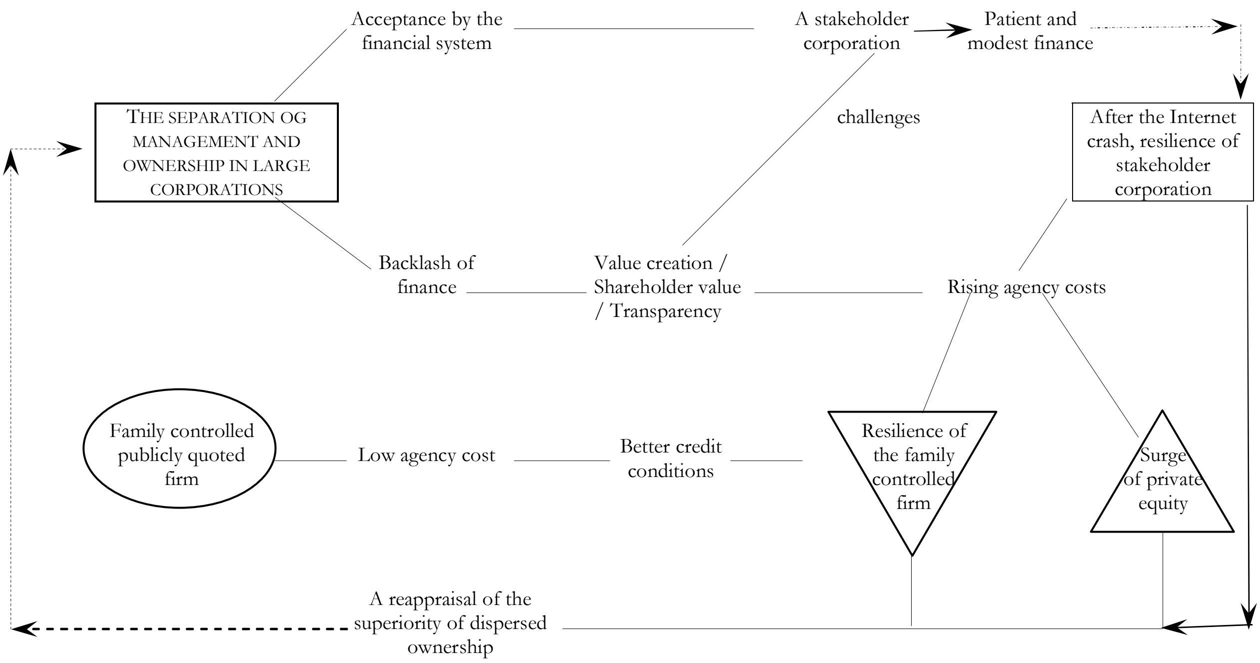
[5] A clear limit of the French study is recognised by the authors: after 1992, they experience many difficulties in the determination of forms of control. Therefore, the cost of agency typical to the non-family firms only relates to a pre-shareholder value epoch.

group of shareholders. In many cases it turned out that the restructuring could deliver a significant profit that could not be extracted from the firm under typical managerial corporation. In the 90s, some publicly quoted corporations have opted out and preferred to adopt the statute of private equity firm. A rather intuitive interpretation emerges: the contemporary attractiveness private for equity would mean that this organisational form reduces transaction costs and the typical agency problems between ownership and management (figure 4).

Similarly, the stakeholder company that was supposed to be inefficient and obsolete, enjoys a noticeable coming back, once the mirage of the new economy has dissipated. Actually, when corrected distortions in accounting practices, the rate of return of capital is not so different between these companies and the most promising corporations in the high tech sector. The stakeholder company is thus a third challenger to the ideal of shareholder value and transparent governance.

Thus, when all the previous findings are gathered, implicitly at least, the sophisticated incentives put in order to align the interest of managers and shareholders do not seem to have overcome the curse of the principal/agent problem. Back again to the limits of the strategy proposed by Jensen and Meckling (1976).

Figure 4 – The publicly quoted corporation under pressure of an old and a new challenger



7. CONTROLLING AND REWARDING MANAGERS: AN ISSUE OF POLITICAL ECONOMY

If the managerial joint stock corporation is not more efficient and does not increases it share via the selective mechanisms of competition –both on product and financial markets – how to explain the boom of CEOs remuneration during the 90s? Nearly any country is affected and this trend persists in spite of the suspicion from minority shareholders and public opinion. For instance in France, one still observes diverging trends of CEOs remuneration and financial results for a significant number of corporations (see Annex 1). This paper proposes a two fold explanation.

- First, history suggests that managers have always been part of the leading alliance, compromising successively with various groups. The novelty of the present period would be an alliance with finance, at odds with the golden age of Forsdism, when a compromise was struck with wage-earners.

- Second, there is a more theoretical and structural reason for this hegemonic role of managers. Where does the profit of any firm come from? Basically, from the idiosyncratic mix of firm specific assets and it is precisely the role of managers to organise the related complementarity and they have a significant autonomy in deploying their strategies and still more informing the outsiders about the financial situation of the firm.

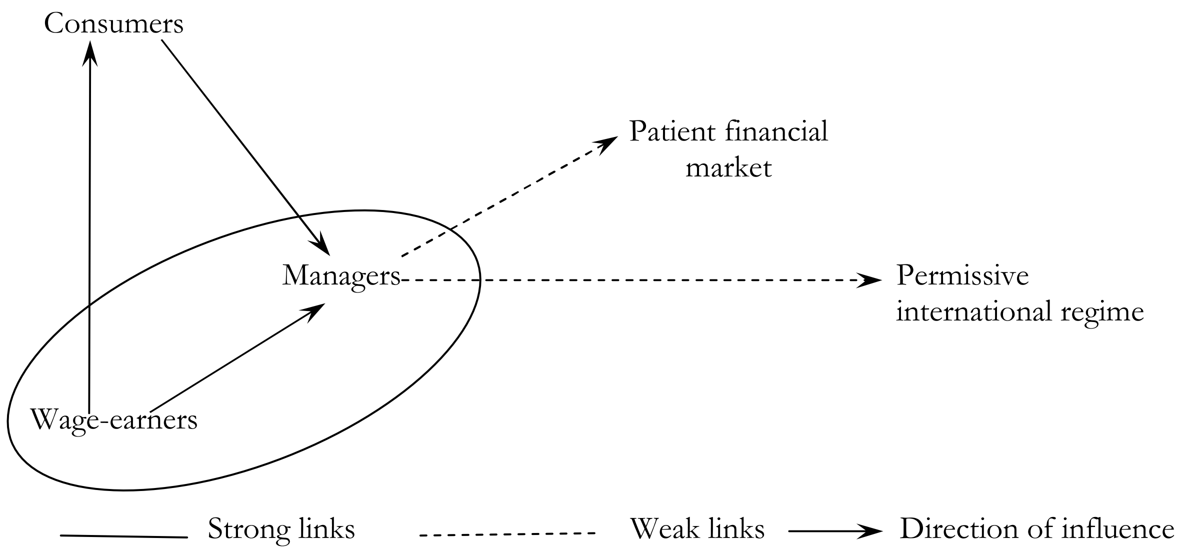
Managers are the centre of shifting alliances, recently with the financiers

The current bargaining position of executives is the outcome of a series of long run transformations in the relations between wage earners, consumers, financial markets, the international economy and the Nation-State. Three quite distinctive periods can be distinguished.

The 60's: An alliance between wage earners and managers and the Fordist growth regime

This period has already been mentioned by the brief history of the concept and the forces that shape the modern corporation. Actually, the 60s experienced a quite atypical compromise between wage earners and managers. Given the strong bargaining power of workers unions, the pro-labour orientation of many governments and the high control over finance via a series of national regulations, a Sloanist corporation was built upon three premises. First, workers exchange the acceptance of modern productive methods, and productivity increases against an indexation of real wage on productivity (Aglietta, 1982; Boyer, Juillard, 2002). This creates a large market for mass production and sustains the multidivisional and large conglomerates (Boyer, Freyssenet, 2002). Second, the professional managers consider themselves as part of the wage earners and express their income as a multiple of the average wage. Third, the financial markets are not in position to exert a strong influence on the strategic choices of corporations. This de facto alliance of managers with wage earners triggers an unprecedented growth regime. Its economic benefits easily sustain the related social compromise (figure 5). Paradoxically, this period was perceived by contemporary as highly prone to conflicts between labour and capital, whereas in retrospect the demand for higher wage and better welfare were highly functional to this growth regime.

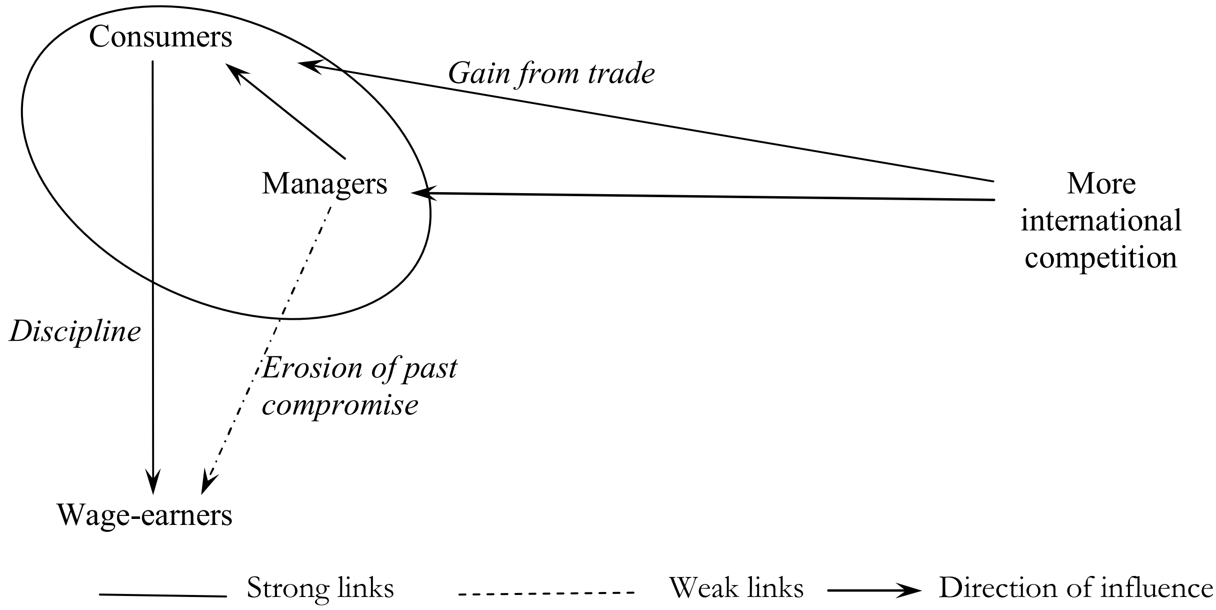
Figure 5 - The 60's. The first configuration of actors: the Fordist compromise



The 80's: The internationalization erodes the previous alliance

But such a regime was not to last forever: its very success triggers adverse trends such as an accelerating inflation, a rise of unemployment and more basically an internationalisation that progressively erodes the alliance between managers and wage earners. Whereas the international regime was highly permissive in the 60s, recurring external trade deficits put the question of competitiveness of firms at the centre of the political and economic agenda. The corporations have to restructure their organisation and frequently slim down their workforce, and this is quite a drastic reversal with respect to the previous Fordist compromise. During this period, the competition on the product market puts at the forefront the consumers that are presented to gain from external competition via a moderation of the price of imported manufacturing goods. The competitiveness motive is invoked by managers in order to redesign the labour contracts and the internationalisation becomes the main preoccupation of governments. In a sense, the sovereignty of *consumers* plays the role of an enforcement mechanism in order to discipline workers, and managers cleverly used this device (figure 6). Implicitly at least, the managers invoked the role of consumers demand in the context of a more acute international competition, in order to impose or negotiate a new configuration of the wage labour nexus. During this period, the adjustments required by a rather turbulent international economy involve a larger risk sharing by workers via the flexibility of hours, the revision of the laws protecting about employment and of course, a larger flexibility of wage and a slimming down of welfare.

Figure 6 - The 80's. The second configuration of actors: An international competition led regime



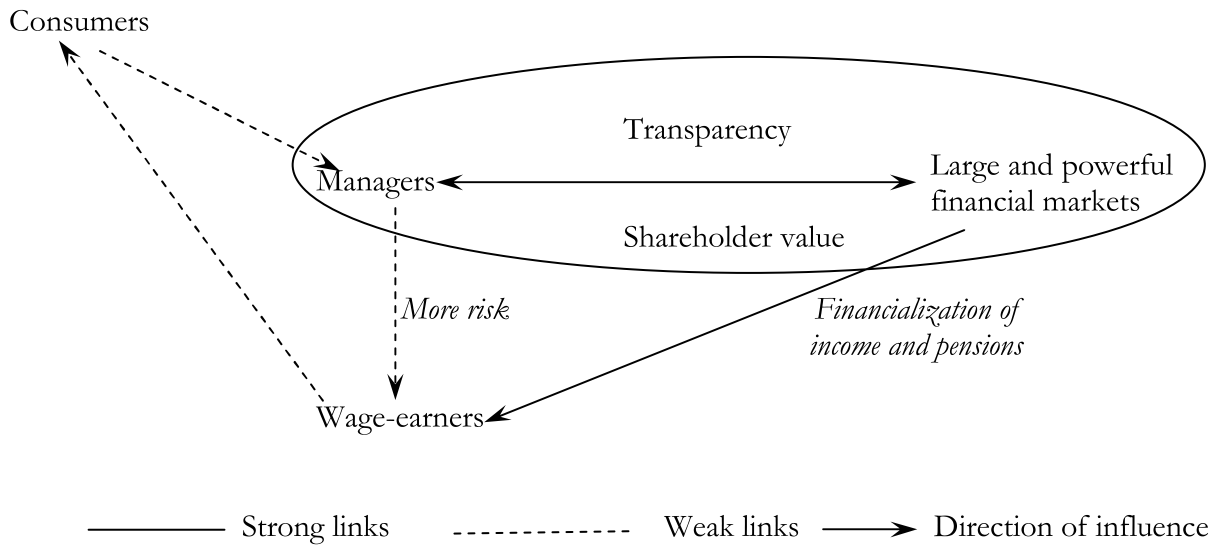
The 90's: Under the aegis of shareholder value, the hidden alliance between managers and financiers

The internationalisation of production is not the only feature of the last two decades. Since the mid-80s, the financial liberalisation, the multiplicity of financial innovations and their diffusion from the US to the rest of the world have drastically changed the conception of corporate governance and the conduct of economic policy as well. The conventional vision states that the joint stock corporations that operate in the manufacturing and service sectors have been submitted to the strong requirement of institutional investors. The power of these new actors precisely derive from financial deregulation and the high mobility of capital entitles them to ask for new rules of the game: higher rate of return on invested capital, conformity of actual profits to previous forecasts and financial analysts expectations, stability of the flow of profits generated by the corporations. In the US and to a minor extend in the UK, a finance led growth regime has replaced the Fordist one, but the relevance of this model was not warranted in countries such as Germany or Japan (Boyer, 2000a). In spite of this divergence in the national growth regimes, the ideal of shareholder value, or at least its rhetoric, has been diffusing all over the globe.

Nevertheless, a more precise investigation suggests a more nuanced appraisal. Given the fad promoted by financial investors about the promotion of stock-options, the support of many experts in corporate finance, the objective of realigning the interests of shareholders and managers has been widely diffused, first in the US, and then in many other OECD countries. Cleverly, without necessarily admitting it openly, the managers have used this demand of institutional investors in order to redesign their own compensation. On top of their wage, many forms of remuneration out of profit and stock market valuation have therefore been developing, and they have drastically increased the total income of CEOs (see figure 21, infra). Top executives have been practising the art of judoka: converting the pressure of the financial community into a countermove that benefits to them and continues to erode the bargaining power of wage earners.

Thus beneath the tyranny of investors, an implicit alliance between *managers* and *investors* takes place…and the wage earners have to comply with a new wave of labour market deregulation (figure 7). For instance, they have to bear a larger share of risk, just to stabilise the rate of return of the corporation, in order not to be fired. The wage labour nexus itself is transformed accordingly. First of all, the shift from pay as you go pension scheme to pension funds generates a huge inflow of saving into the stock market (Montagne 2003), and this propels in the US a finance led growth regime. Second, in order to try to compensate modest wage increases, permanent workers accept various forms of profit sharing and even they have access to the corporate shares via special schemes. Thus, managers have been reorienting their alliances and this has definite consequences about macroeconomic patterns – régulation modes – income inequality and even economic policy formation.

Figure 7 - The 90's. The third configuration of actors: the alliance of investors and managers



The power and informational asymmetry in favour of executives

How to explain this pivotal role of managers? A political economy approach suggests one interpretation: given their position in the firm, structurally managers are able to exert a power within the economic sphere. Power relations are not limited to the political sphere they exist under other forms in the economy (Lordon, 2002). Many factors may explain a clear asymmetry both with respect to labour and to finance.

- A mundane observation first: executives make decisions on an *everyday basis* and directly affect the strategy of the firm. By contrast, the control of the boards has a *low frequency*, the control by financial analysts is only *indirect* and in most OECD countries wage earners have *not any say* about the management of the firm they work for.

- Therefore, managers built up *special knowledge* and competences that have not to be revealed to financial markets, competitors or labour representatives. External financial analysts may gather statistical information about the firm and its competitors, but the real sources of profitability may be still mysterious by lack of familiarity with the intricacies that make the success of a given corporation.

- By definition, all *insider information* has not to be revealed and provided to outsiders since it might well be the source of extra profits. There is therefore a clear incentive to use strategically and opportunistically this information. Of course, insider trading on stock market is illegal but not the every day use of insider information and knowledge.

- There is *a strong asymmetry of power and information* between the top managers and the various boards and committees. Their members are appointed by the executives, the information they are provided is elaborated by the staff of corporations and finally, the members of the board tend to belong to the same social network. Thus, the probability of accepting the agenda and the proposal put forward by the CEOs is quite high. Similarly, during the general assembly of shareholders, minorities do not have the resources to propose alternative nomination and proposals (Bebchuk, 2004). Therefore, the control of managers by auditors, financial analysts, shareholders organisations, is operating *ex post* and generally when the situation has become dramatic. A fine tuning of the control of managers is quite difficult indeed.

All these arguments derive from the same central feature of profit generation. The *patrimonial conception of the corporation* assumes that the profit derives from the mix of substitutable and generic factors of production, according to the prevailing system of prices. The basic hypothesis is that each factor is paid according to its marginal productivity. This model breaks down as soon as one adopts an organic conception: the corporation is defined by a set of complementary competences that are difficult to replicate. This is the origin of the net profit of the firm, once the capital has been paid at the ongoing interest rate. Therefore, the entrenched power of executives is the mirror image of the ability of the firm to generate profits. It is therefore illusory to think that the traders on the financial markets know better than the managers the origin and causes of the success of a given corporation. Their informational advantage derives from the statistical analysis of the macro and sectoral determinants of a sample firms belonging to the same sector.

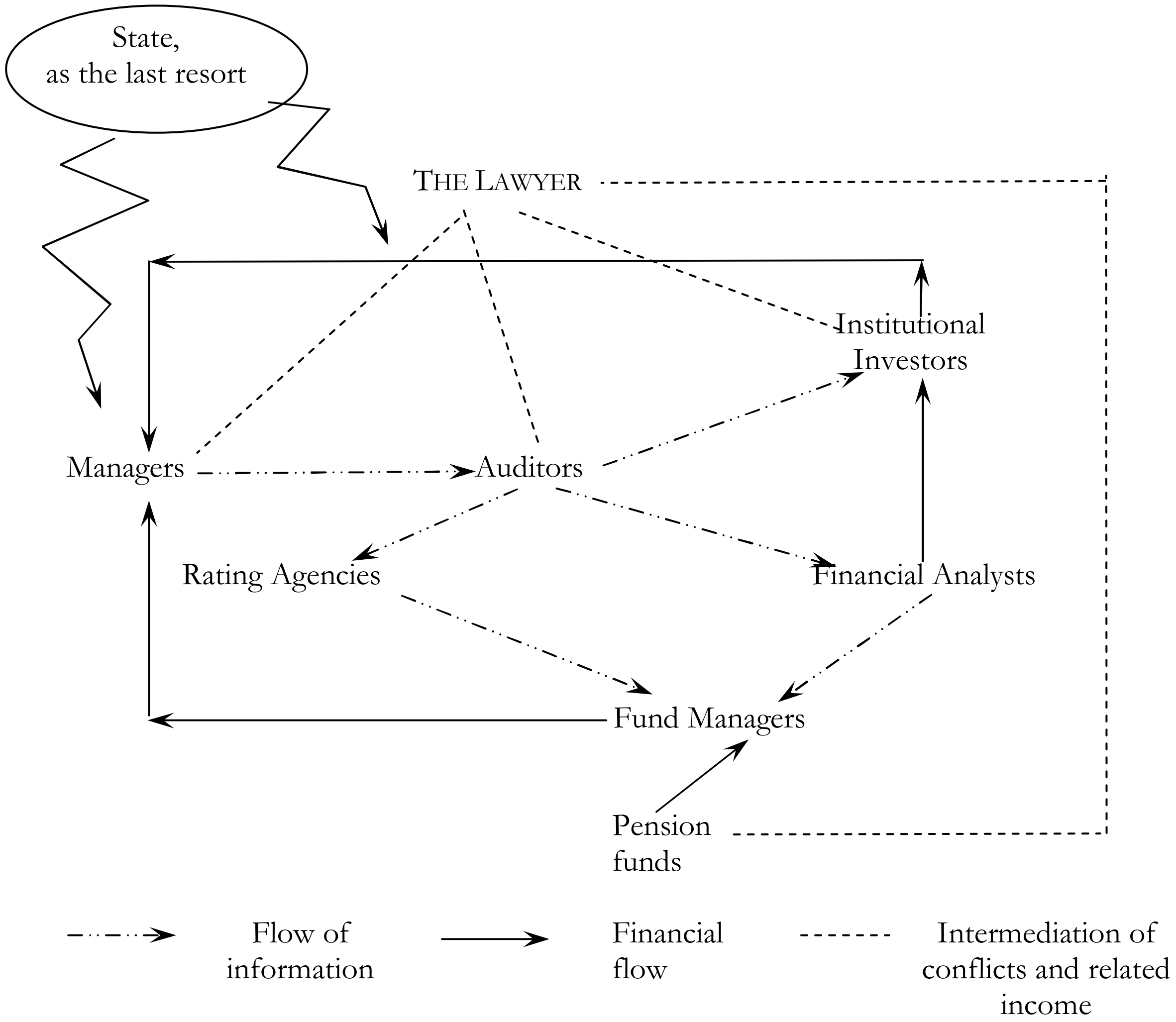
When the financial crises and scandals burst out: two new actors, the lawyer and the activist

The bursting out of the Internet bubble in the US and the financial scandals that affected the US and many other OECD countries have again shifted the previous alliances. Paradoxically, the instability of finance led growth regime could somehow be forecasted and the history of financial crises reveals that the situation of the 2000s is not totally new. Then, two new actors enter into the plot.

Whatever the conflict of interests, the lawyer wins

Given the role of lawyers, and the judiciary in the US, it is not surprising to observe that the excess of greed of some managers has implied the multiplication of lawsuits whereby disappointed shareholders or wage earners made redundant ask for compensation to the top executives. But since the responsibility are shared among a whole spectrum of professionals (institutional investors, financial analysts, auditors, rating agencies and fund managers and of course corporate managers), this is a wonderful opportunity for lawyers to extract a quasi secure income: who ever wins the case, lawyers benefit from a positive and significant fee! The key role of these actors probably means the disruption of the previous alliance between managers and financiers (figure 8).

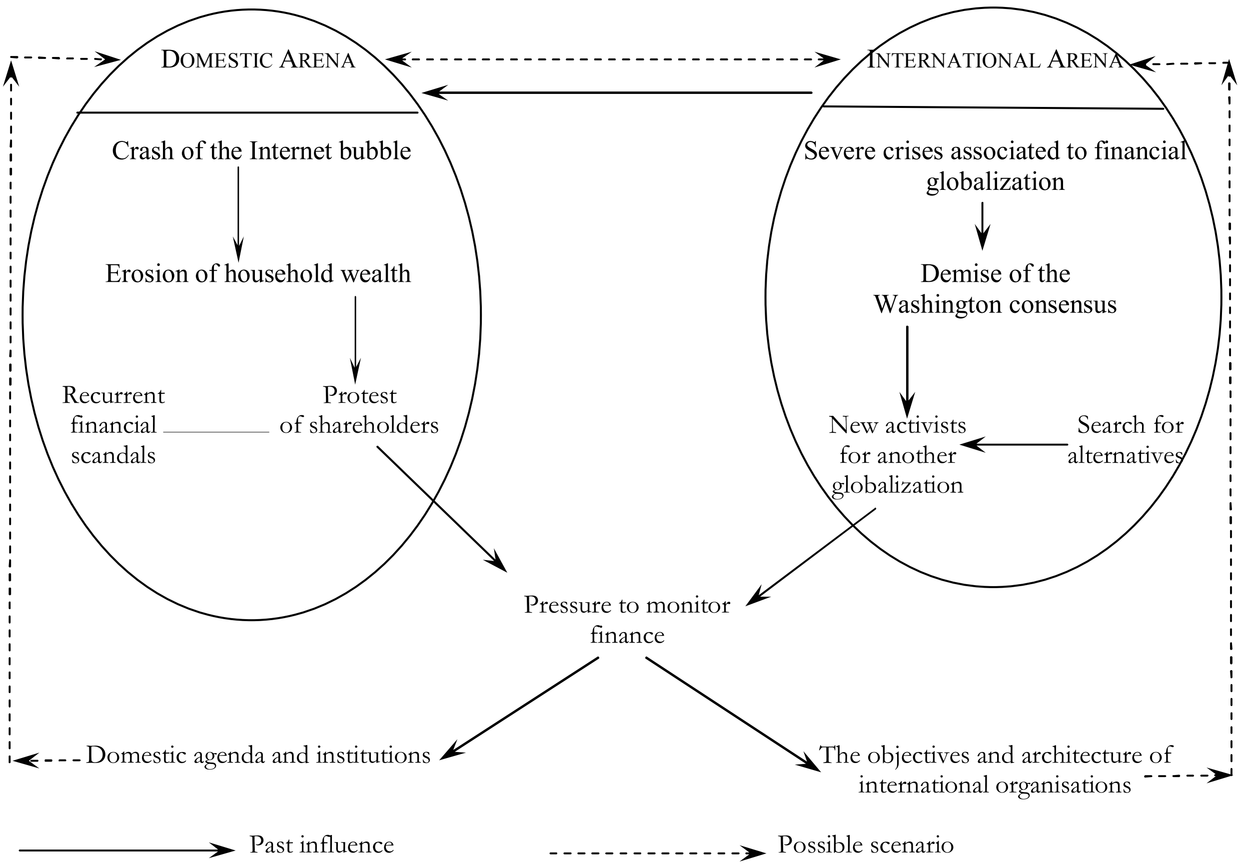
Figure 8 - The 2000's in the US. The fourth configuration of actors: the lawyer wins whatever the situation



A public concern for financial regulation: domestic and international activists

Last two actors have to be brought into the picture. First, households that have lost a significant part of their capital do complain and precisely sue joint stock corporations, pension funds, financial analysts, institutional investors. Second, activists express their voice and ask for legal reforms of the responsibility of managers and financial intermediaries as well. Both domestic activists and international activists focus their criticisms and demands for reform against finance. The second complains about the social cost of globalisation, including financial globalisation (figure 9). The only method for converting this voice into actors is by pressuring the State to pass laws in order to try to curb down the power of corporations and institutional investors. This is essentially a matter of domestic policy: where the financial scandals have been the more acute, new bills have been passed, such as the Sarbanne-Oxley law in the US.

Figure 9 – The 2000s. The fifth configuration of actors: the threat of State intervention in order to discipline global finance



8. THE POWER OF MANAGERS AT THE FIRM LEVEL: NUMEROUS CONVERGING EMPIRICAL EVIDENCES

In many of the previous configurations, top managers have a pivotal role since they develop alliances with other social groups and these alliances vary according to the institutional, political and economic context. The previous hypothesis about the intrinsic power of managers, both at the micro and macro level, is difficult to test fully and directly, but many scattered evidences suggest the existence and permanence of such a power.

Insider trading: a manifest use of strategic information

Top managers and members of the board of directors of publicly traded corporations possess more information about their company than the individual shareholder or even professional analysts. Given this asymmetry, insider trading conveys some information to outsiders and this may contribute to the efficiency of the stock market. Generally the literature finds that the stock prices increase after publicly announced grants of stock-options to executives (Yermack, 1997). Two opposite interpretations might be given to this phenomenon. Either the incentive mechanisms of stock options trigger better management that is afterwards translated into more profits and higher stock market prices. Or executive time their option grants in anticipation of news, likely to boost stock prices.

A recent study on the UK listed companies (Fidrmuc, Goergen, Renneboog, 2004) does confirm that market reaction to the announcement of directors purchases is positive (figure 10A) and conversely, that the announcement of directors sales induces a decline of the stock market (figure 10B). The mere observation of the sequence of announcements and returns suggests that the second hypothesis is likely. Actually, the insider purchases are associated with a previous decline of the rate of return and conversely, insider sales are observed after a period of abnormal positive returns. This could be an evidence of a strategic behaviour by managers and directors.

Figure 10A – Market reactions to insider purchases

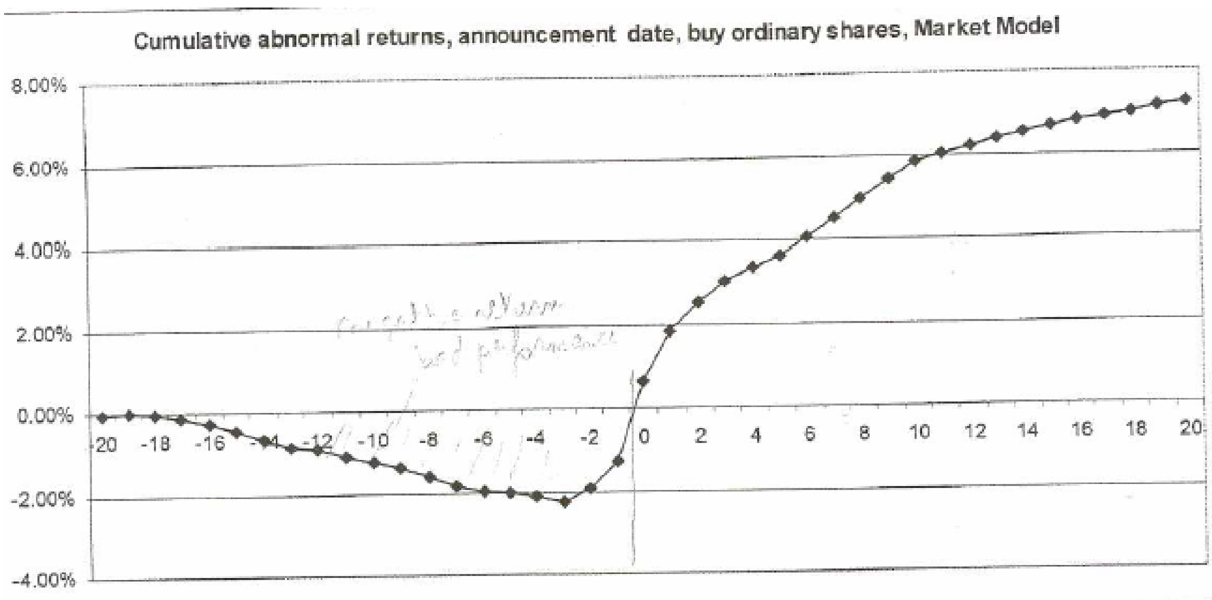
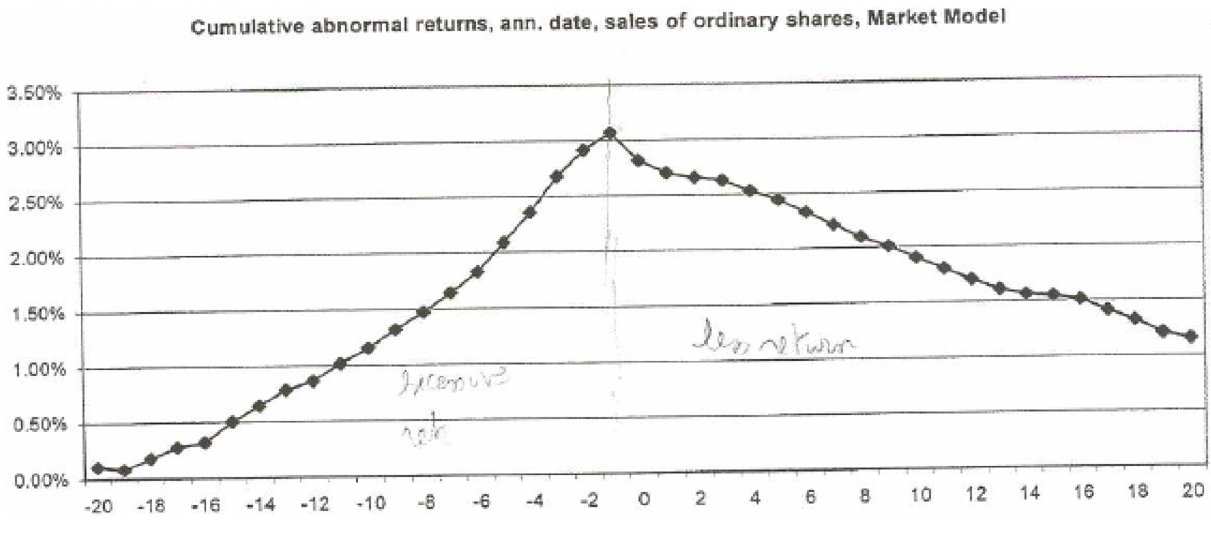


Figure 10B – Market reactions to insider sales



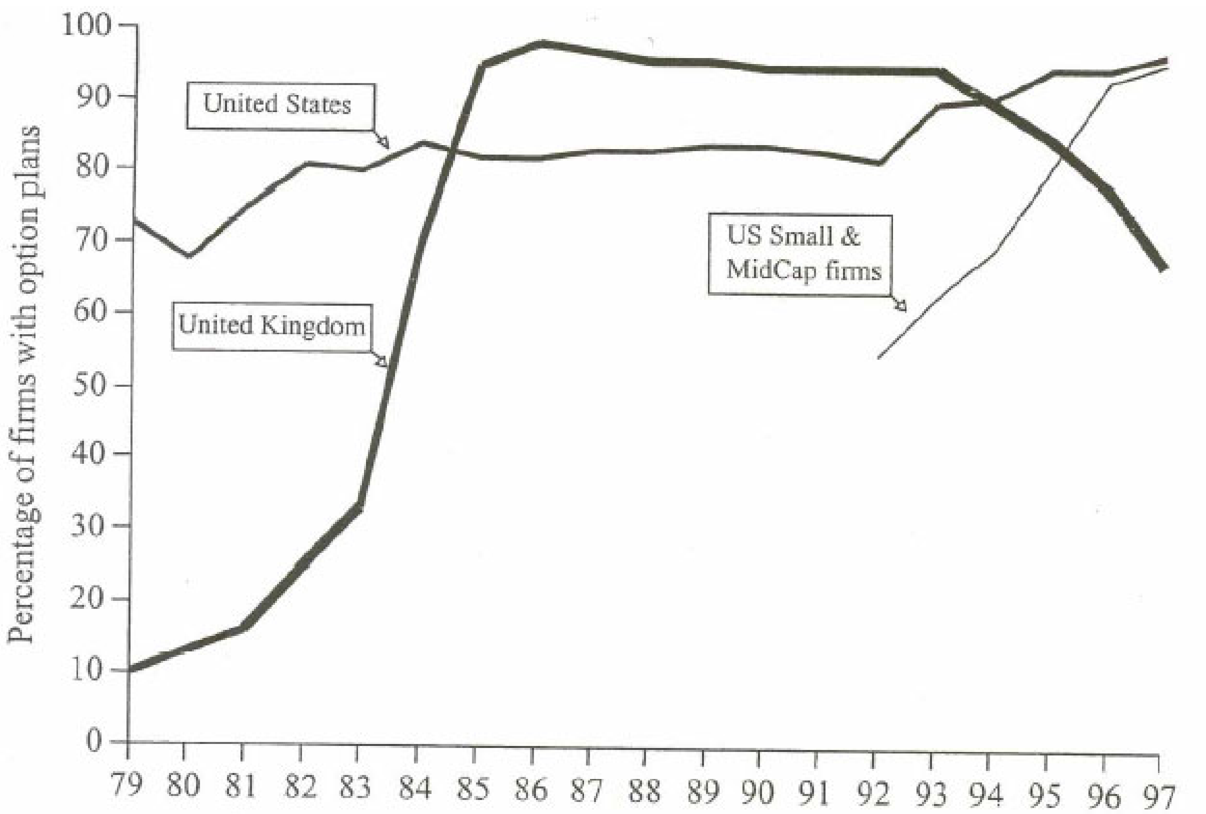
Source : Fidrmuc & al. (2004), p. 41.

The diffusion of stock options plans: a response to shareholder value

If in theory, stock options are supposed to discipline managers according to the interest of shareholders, it cannot be excluded that managers use this pressure in order to increase their total compensation. Such a hypothesis comes out from a comparison of CEOs pay in the United States and United Kingdom (Conyon, Murphy, 2000).

- First *the timing of the diffusion of stock-option plans* is quite different in the two countries. In the United-States, the top executives of the S&P 500 benefit from stock option plans with a high frequency since the 1980s and they experience a new increase in this frequency during the 1990. But the novelty of the 1990s is the diffusion to small and medium capitalisation firms of this type of remuneration for executives (figure 11). In the UK, the pattern of diffusion is U shaped: nearly non existing stock-options in the early 80s, then a boom of their diffusion until they reach the plateau and then they decline since 1993. These contrasted trajectories could sustain the hypothesis that the unequal maturation of financial markets, including the diffusion of pension funds, may explain the differences observed in the structure of the remuneration of top executives in both countries.

Figure 11 – The contrasted patterns of stock option diffusion in the US and UK



Source: Conyon, Murphy, 2000: F650

Table 6 – The structure of CEO compensation is quite different in UK and US (1997)

Group	Sample firms	Total pay Average (£000s)	Total pay Median (£000s)	Average composition of total pay (%) Base salary	Annual bonus	Option grant	LTIP shares	Other pay
United Kingdom								
All companies	510	589	414	59	18	10	9	5
By firm sales (millions)								
Less than £200	152	452	287	64	17	10	4	5
£200 to £500	119	403	335	61	19	8	6	6
£500 to £1,500	116	601	507	54	20	10	12	4
Above £1,500	123	927	811	55	16	10	15	4
By industry								
Mining/manufacturing	217	564	436	59	17	9	9	5
Financial services	84	559	411	60	22	6	7	4
Utilities	19	448	382	58	15	6	14	8
Other	190	645	397	58	17	11	8	5
United States								
All companies	1,666	3,565	1,508	29	17	42	4	8
By firm sales (millions)								
Less than £200	339	1,166	686	38	14	43	1	4
£200 to £500	379	1,833	926	36	18	36	3	7
£500 to £1,500	458	3,038	1,604	28	18	40	5	9
Above £1,500	490	7,056	3,552	20	17	48	5	10
By industry								
Mining/manufacturing	842	3,388	1,540	28	17	43	3	8
Financial services	198	6,277	2,787	19	20	47	5	8
Utilities	120	1,333	707	43	15	23	6	13
Other	506	3,326	1,438	32	16	43	3	6

Source: Conyon, Murphy (2000), p. F646.

Table 7 – The CEOs total compensation in the US and UK (2001-2002)

US: S&P companies, 2001-02

	Total compensation	Of which: Base salary	(all) bonuses	Cashed options
	$mill.	%	%	%
S&P 500	7.990	11.5	17.3	71.2
S&P 400 (Midcap)	3.493	17.6	20.7	61.7
S&P 600(Smallcap)	1.809	26.1	19.0	54.9

UK: listed companies, 2001-02

	Total pay	Of which: Basic pay %	Bonus %
	£		
Small company (turnover up to £5m)	62,250	93.2	6.8
Medium company (turnover £5m to £50)	94,997	86.3	13.7
Large company (turnover £50m to £500)	129,000	89.1	10.9
FTSE 100 (turnover range £403m to £119bn)	1,249,000	74.5	25.5

Source: Erturk, Froud, Johal, Williams (2004), p. 22.

- Actually, *the structure of CEOs compensation* is quite different in both countries. In UK, base salary is the largest fraction of total compensation, annual bonus is the second source of remuneration whereas option grants represent only 10 % of total CEOs compensation. By contrast, in the US, base salary is less than a third of CEOs compensation but the stock-options represent the largest source of income for top executives (table 6). Total pay only doubles in UK when the size of the firm goes from less than 200 million £ to more than 1.5 billion £, but in the US this remuneration is multiplied by more than 6 for the same range of size. Lastly, the US display an interesting feature: the CEOs remuneration is far higher in financial services, nearly the double of average remuneration, and option grants in this sector are the major source of total compensation. This is another evidence of the financialisation of corporate remuneration that starts from the financial sector and then diffuses afterward to the rest of the sectors.

The divergence of CEOs remuneration between UK and US is confirmed by the most recent studies that provide data for the early 2000s (Erturk, Froud, Johal, Williams, 2004). The CEOs of the FTSE 100 have 74.5 % of their compensation by the way of basic pay, whereas the share of base salary is only 11.5 % for the CEOs who run the S&P 500 companies. Conversely, cashed options are more than 71.2 % of total compensation of the largest quoted American companies (table 7). These findings are coherent with the general hypothesis that share holder value has permeated more easily the American than the British corporations. Thus, the American managers have been able to capture a larger remuneration via the adoption of stock option plans.

The larger the corporation, lesser CEO pay-performance sensitivity

If the hypothesis that stock options were designed as incentive mechanisms in order to control the opportunistic behaviour of the CEOs in charge of the large quoted corporations, one should observe a larger sensitivity of CEOs compensation when the size of the company increases. Quasi unanimously, the econometric literature finds the opposite result. For instance, Conyon and Murphy (2000) find that the pay performance sensitivity is about 0.07 for small companies but only 0.02 for the largest ones in the US. Similar result emerges from the British data: the pay performance sensitivity is around 0.05 for small companies and monotonously decreases along with size (only 0.003 for the largest companies) (table 8). Of course, this is not necessary an evidence for the immunisation of large corporation CEOs from the valuation by the market of their performance. Actually, the estimated coefficient combines the impact of the size and the elasticity of CEOs remuneration.

There is another evidence of the significant autonomy in the determination of the CEOs remuneration: the very mechanism of stock options gives them a room for manoeuvre. If the options are under water, CEOs suffer no downward adjustment of their actual remuneration, since the only loss is unobserved, due to the gap between the actual performance of the company on the stock market and the expected one, when the stock-options were granted. Conversely, an exceptional performance of the company is rarely rewarded by an increase of the volume of stock-options (Stathopoulos et al., 2004).

Table 8 – Statistics for stock-based CEO incentives by size

Group	Share holdings (£ millions)		Share holdings (% of common)		Option holdings (% of common)		Pay-performance sensitivity (%)	
	Average	Median	Average	Median	Average	Median	Average	Median
United Kingdom								
All companies	7.01	0.46	2.13	0.05	0.24	0.11	2.33	0.25
By firm sales (millions)								
Less than £200	9.86	1.41	4.38	0.63	0.38	0.21	4.72	1.09
£200 to £500	9.50	0.70	2.55	0.14	0.24	0.14	2.75	0.42
£500 to £1,500	4.55	0.13	0.76	0.02	0.19	0.12	0.91	0.16
Above £1,500	3.40	0.33	0.21	0.01	0.10	0.04	0.31	0.05
United States								
All companies	60.37	3.26	3.10	0.29	1.18	0.72	4.18	1.48
By firm sales (millions)								
Less than £200	16.63	2.07	5.32	0.96	1.84	1.37	6.98	3.65
£200 to £500	23.84	2.93	3.94	0.58	1.39	0.94	5.20	2.05
£500 to £1,500	32.25	2.64	2.36	0.25	1.12	0.70	3.43	1.26
Above £1,500	145.26	4.96	1.61	0.09	0.62	0.40	2.17	0.56

Source: Conyon, Murphy (2000), p. F655.

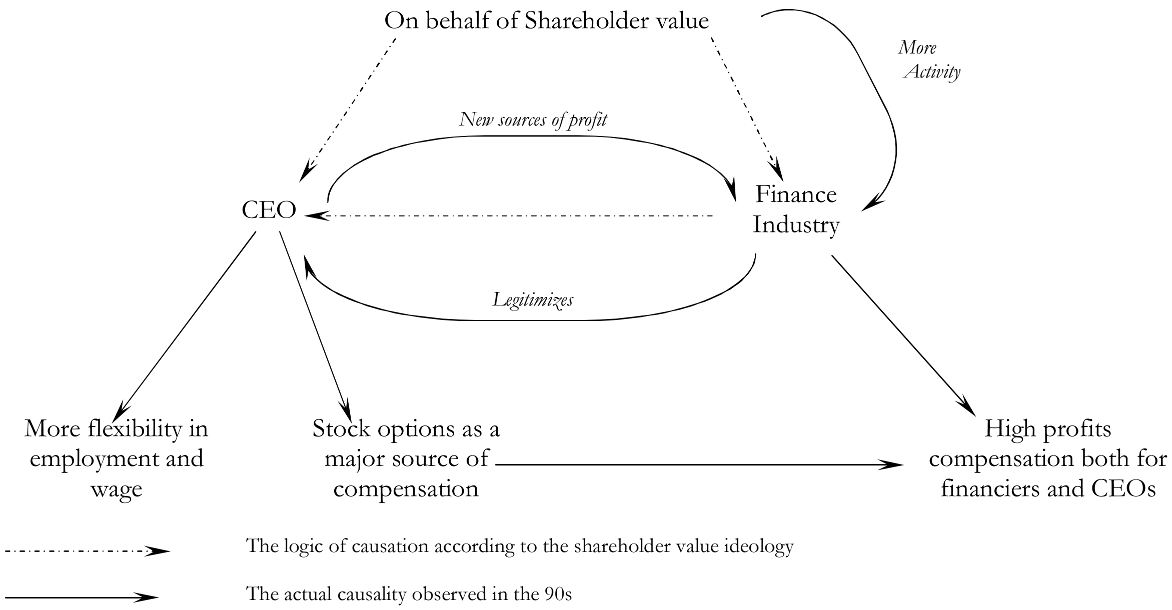
The surge of mergers and acquisitions: a benefit for the managers, more rarely for shareholders

Another evidence of the power of CEOs can be found, just looking at the merger mania of the 90s and the previous episodes. On one side, most studies find no correlation between financial performance and the size of quoted companies (Main, O'Reilly III, Wade, 1995). On the other side, total CEOs remuneration clearly increases with the size, especially so in the US (see supra, table 6). Consequently, the interest of shareholders would be a careful approach to external growth, but the CEOs usually have a different vision: big is beautiful especially for their remuneration. Therefore if the financial market is highly liquid and if a financial bubble distorts the valuation of the company, it is highly tempting for CEOs to use mergers and acquisitions in order to extend their turn-over and the capital they control.

These conditions were precisely fulfilled in the American stock market during the 90s: once again, a merger mania took place in spite of the robust evidence that previous episodes have generally been quite detrimental to the rate of return of the company resulting from mergers and acquisitions (Kaplan, 2000). The Internet bubble was not an exception: *ex post* it is clear that the start-ups of the new economy have globally been destroying stock market value, whereas the so-called mature industries have been more profitable than the sunrise industries. Nevertheless, the compensation of CEOs has skyrocketed, largely due to the fact that the speculative wave moved nearly all the stock market prices, whatever the company.

This is a new evidence of the implicit alliance between CEOs and top executives on one side, investment banks and high level financiers on the other side. The first ones got fast rises of their total remuneration, the second ones developed larger and larger profits, by the multiplication of the fees associated to merger and acquisition operations and an active portfolio management, for example on behalf of pension funds. The average shareholder only obtained a fraction of the total financial gains, precisely because the operational costs have been increasing with the sophistication of financial methods. Thus, beneath the shareholder value rhetoric, an implicit alliance between the financial industry and the top management seems to have been operating during the 90s (figure 12).

Figure 12 – From the rhetoric to the reality of shareholder value



Clear windfall profits for managers benefiting from stock options

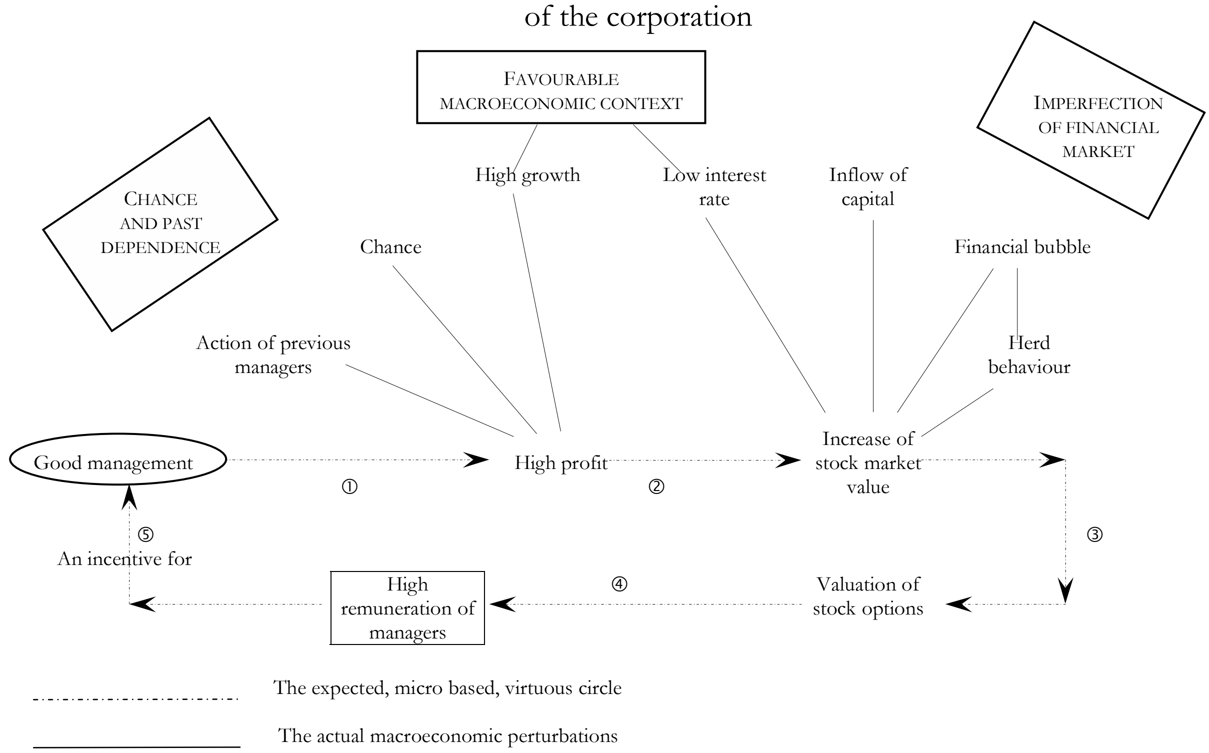
The intensive use in the US of stock options was supposed to adjust the strategies of CEOs along with the interest of shareholders. It has already been argued that, at the *micro level*, such alignment of interests can never be perfect. New sources of discrepancies emerge when the firm is immerged into the *macroeconomic context* (figure 13).

- First, the contemporary financial performance of a firm is largely shaped by the decisions taken by previous CEOs, given the large time lag between an investment (and still more an RD expenditure) and their impact on the competitiveness of the firm. Actually the *time of financial valuation* by stock markets is far shorter than the *time of maturation of innovation* and productive investment. The car industry and still more the biotech sector are good examples of such time lags that might cover nearly one or two decades.

- There is a second source of discrepancy between stock options and actual merits of CEOs. During the second half of the 90s, a fast and stable growth with quasi no inflation had entitled very *low interest rates*, thus generating and diffusing *a speculative bubble* that had no direct correlation with the quality of management (Boyer, 2004). Bad and good managers equally benefited from the common belief that a new growth regime had emerged, and that profit could only grow and thus sustain unprecedented rates of return for invested capital.

- A third limit of stock options derives from the fact that financial markets are generally *micro efficient* (i.e. in valuing the relative price of stocks) but *macro inefficient* in the sense that they are not immune for bad inter temporal allocation of capital: over confidence and mimetism are the response to the typical uncertainty of highly liquid financial markets, thus generating speculative bubbles (Orléan, 1999). During such speculative periods, the compensation of CEOs has no more any relation with their contribution to the performance of the company they run.

Figure 13 – Why stock options do not sort out the contribution of managers to the performance of the corporation



These three mechanisms (path dependency and chance, impact of macroeconomic context and imperfection of financial markets) totally distort the core virtuous circle contemplated by the proponent of stock options (figure 13).

These divergences between the incentive mechanism of stock-options at the micro level and their macro determinants have had a major impact in the skyrocketing of CEOs remuneration from 1995 to 2000 (Table 9). If financial markets were perfect the distribution of dividends would be the only relevant performance index…and source of remuneration of shareholders and CEOs benefiting from stock options. Actually, since the early 80s, the increase of the share price has represented between 2/3 and ¾ of the total return for shareholders. This is a rough estimate of the over valuation of CEOs compensation during this period.

Table 9 – The source of shareholder gains in the UK and US (2003)

		Total shareholder returns %	Of which		Price-earnings ratio (average year)
			Share price (%)	Dividends (%)	
UK					
FTSE 100 (constituents)	1983-1992	20.4	72.8	27.2	12.7
	1993-2002	7.9	57.2	42.8	21.9
	1983-2002	21.8	63.4	36.6	17.3
FTSE 100 (survivors)	1983-1992	17.7	69.7	30.3	14.1
	1993-2002	10.4	59.6	40.4	18.7
	1983-2002	21.4	63.2	36.8	16.4
US					
S&P 500 (constituents)	1983-1992	11.4	64.9	35.1	15.3
	1993-2002	11.5	75.8	24.2	32.4
	1983-2002	16.3	72.0	28.0	23.8

Source: Erturk, Froud, Johal, Williams (2004), p. 25.

CEOs have an asymmetric power on the remuneration committee

In large US corporations, the compensation level for chief executives is set by a remuneration committee. The conventional wisdom states that independent board of directors safeguard shareholder‘s interests and reduce opportunism on part of management. Nor social science theories neither empirical studies do confirm this optimistic view (Main, O'Reilly. Wade, 1995). From a theoretical standpoint, the CEOs have at least three series of trumps compared with the members of the remuneration committee.

- The first bias in favour of top management may be termed as *cognitive*: the insiders such as the CEOs have a better knowledge of the company activity, strengths and weaknesses than the outsiders. Furthermore, the executive and financial officers do control the information given to the various boards as well as to the financial markets. This first asymmetry is well documented, when one considers the average time spend by independent directors for controlling the management of company, compared with the full-time activity of top executives.

- *Social psychology* point out a series of other small group mechanisms that take place in the board of directors or/and remuneration committee. The principle of reciprocity plays a role in the escalation remuneration, since the members of the board and CEOs tend to belong to the same densely knit social group. The respect due to the authority of the CEOs is a second factor that may explain the overpaid top executives with respect to an accurate assessment of their contribution to the performance of the firm. A third mechanism relates to similarity and potential liking for the members of the same "small world" (Témin, 1999).

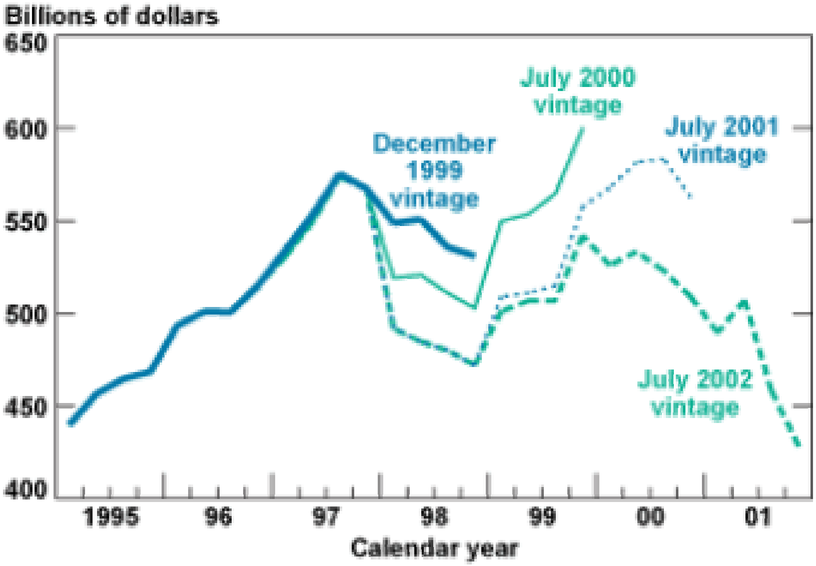
- The issue of *power* introduces a third asymmetry between CEOs and members of the various boards: who nominates whom? If the CEO is nominated before the remuneration committee, econometric studies show that this has a positive impact upon the level of remuneration of the CEO, once added the relevant economic variables capturing the situation of the corporation.

Actually, some econometric studies based on *Business Week* compensation survey, even dated (1985) confirm the prevalence of these asymmetries in favour of top executives (Main, O'Reilly, Wade, 1995: 317-318). One interesting and one surprising result emerge. On one side the ability of the board to monitor CEO performance and set pay appears greater in owner-controlled firms. On the other side, CEO compensation is the higher when directors are independent! This is the strict opposite of the prognosis put forward by the advocates of transparent corporate governance (see section 2 supra).

After 1997, a favourite corporate strategy: distorting the profit statements

The relative autonomy of top executives by the way the CEOs as well as the CFOs, concerns also the information provided to capital markets. Under this respect, the American system entitles a significant freedom in the interpretation of the general principles of accounting. Actually, during the Internet bubble, many firms have used and abused of this opportunity (Himmelberg, Mahoney, 2004). In retrospect, the overestimation of corporate profit is so large that the *ex post* accurate figures show a *reduction* of corporate profit after 1997, whereas *ex ante* until July 2001, the corporations have persistently announced an ongoing *rise* of their profit (figure 14).

Figure 14 – The systematic overstatements of profits after 1997: as slow process of adjustment in the US



Source: Himmelberg, Mahoney (2004), p. 10.

Such a discrepancy between real time private information and *ex post* public evaluation by American national accounts might have many sources. First of all, the accounting rules are not the same for corporations and for national accounts…. But this cannot explain the discrepancy shown by figure 14 that only deals with Bureau of Economic Analysis estimates elaborated according constant rules. A second and quite important source of discrepancy, relates to an *unexpected surge of employee stock options exercised* during the second half of the 90s. During this period, stock options were not considered to be a cost by corporation. This feature has contributed to the spiralling of stock markets: the shift of employee remuneration from basic wage to stock options increases corporate profit, hence a higher valuation of the shares of the corporation and finally a new incentive to grant stock options to a wider category of personnel. Of course, the CEOs and CFOs have been key beneficiary of this trend.

From the mid-90s to the early 2000s, two independent surveys show that the share of stock options exercised in total corporate profit has steadily increased. For the Bureau of Economic Analysis, they represented 12.4% in 1997 and continuously grew until 2000s when they represented nearly 39% of corporate profits. According to the survey of *Business Week* (2003: 38), option expenses as a percent of net earnings of S&P companies represented only 2% in 1996, 8% in 2000, and finally 23% in 2003 (table 10).

Table 10 – Two evaluations of the impact of stock-options on corporate profits in the US

a. Stock options exercised as a percent of after corporate profit

	1997	1998	1999	2000
1. Stock options exercised	68.61	100.08	139.29	197.37
2. Profit estimated by Bureau of Economic analysis	552.1	470.0	517.2	508.2

Stock options exercised compared to profit	12.4%	21.3%	26.9%	38.8%

Source: Himmelberg, Mahoney (2004: 10)

b. Options expenses as a percent of net earnings for S and P companies

1996	1998	2000	2002
2%	5%	8%	23%

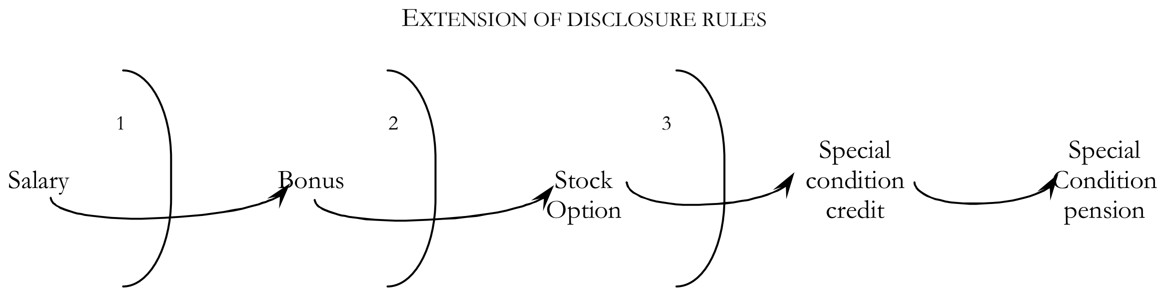
Data: The analyst's accounting observer in Business Week, July 20, 2003: 38.

Nevertheless, a third and more problematic strategy has to be put into the picture in order to explain the diverging evaluations in figure 14: quoted corporations have intentionally inflated their profit statements, largely using the flexibility of GAP, playing the game of *creative accounting* and in some extreme case using lies in order to sustain the rise of their shares (Enron, Worldcom, Ahold). This is the unintended fallout of the conjunction of shareholder value and the convention of a required ROE of 15%. Such a target cannot be reached on a permanent basis by the majority of firms and sectors, thus it is not really a surprise if creative accounting has become one of the favourite discipline taught in prestigious business schools and practiced by CFOs. During this process, CEOs, CFOs and top executives became rich, potentially or really when they had the opportunity to exercise their stock options before the crash of stock market. Again, this is another evidence about the discretionary power that benefits to top management in modern corporations.

A last resort weapon of CEOs: shift from the transparent to the hidden

Corporate misbehaviour is a recurrent pattern in the history of financial systems. The lawmakers then pass new bills in order to prevent the repetition of financial scandals that actually are detrimental to the transparency required in order to foster and sustain the confidence of the savers about the fairness of financial markets. The Sarbanes-Oxley bill is not an exception…but will it overcome the diverging interests between top executives and shareholders? Not necessarily, given the structural power exerted by CEOs at the corporate level. A brief retrospective analysis of the evolution of disclosure rules suggests a cautious approach to the issue of managers' reward and control (figure 15).

Figure 15 – From the transparent to the non apparent: the trickle down strategy of CEO about their compensation



First the salary of top management had to be made public, second it was extended to bonus and more recently to stock options…and this has not prevented the use and abuse of this quite specific and not very efficient form of remuneration (See insert 1, infra). Recently, the financial press has pointed out that some CEOs had departed their corporation after quite unsuccessful strategies not only with golden parachutes but also they had access to special condition credit and in some instance special condition pension. All these conditions were not known by the financial markets. This means that if legislation puts control over an extended share of CEOs remuneration, they are able to develop new and innovative methods in order to have access to other and hidden (at least transitorily) forms of compensation.

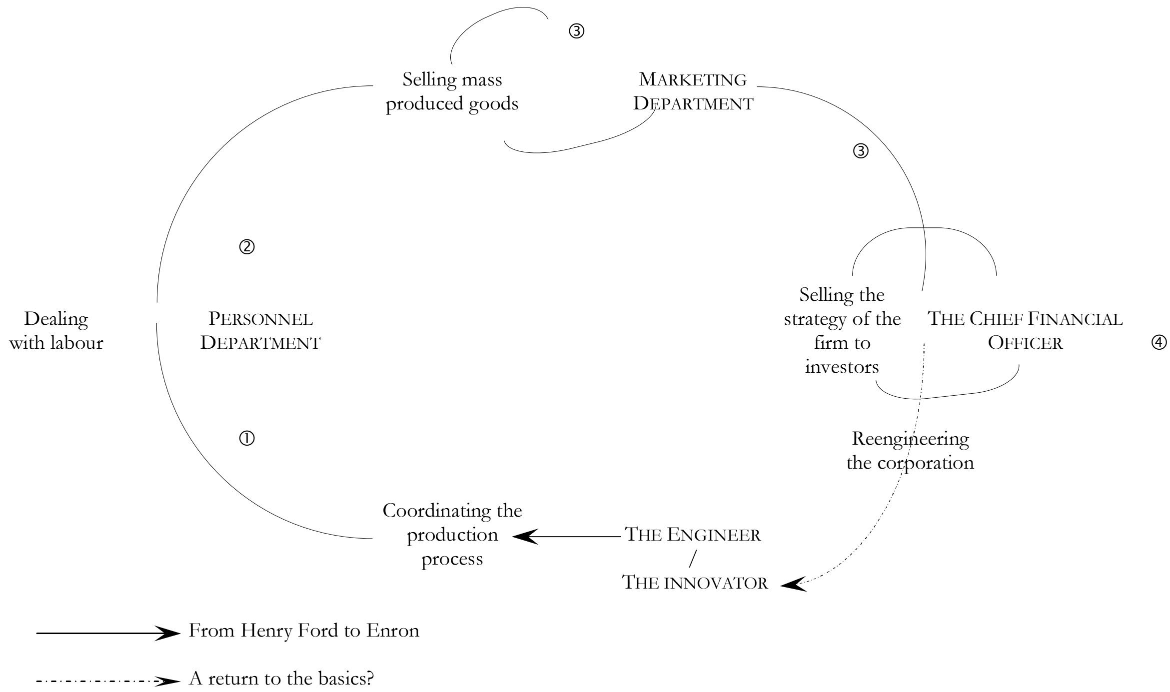
The financialisation of CEOs compensation: the consequence of the internal restructuring of the divisions of the quoted corporation

The transformation of the structure of CEOs compensation suggests another interpretation derived from the history of the internal organisation of the large American corporation. At the origin of the so-called American mass production system, there is the emblematic figure of the *engineer* who finds out a new production methods and products: Henry Ford is a good example of such a vision of corporation. But the implementation of mass production has triggered a lot of problems with personnel management (large turn-over, strikes, absenteeism, low quality of products). Thus comes the time of *the personnel management* as an important division of the large corporation. During the interwar period, one of the issues is the discrepancy between an explosion of mass production and still a limited market due to an income distribution distorted in favour of the richest fraction of the population. Such an unbalance puts at the forefront the *marketing and design* department. Adding all these components delivers the configuration of the American corporation during the Golden Age of sloanism.

But the progressive financial liberalisation triggers a series of innovations that call for a specialisation of top management in *financial assets management*: Since the mid-80s, the chief financial officer has become a central component of the American corporation. Whereas the expertise of the engineer and the specialist of production system was largely specific to a sector, a product, a method of production, a type of equipment, the financial management is much more homogeneous across corporations. Furthermore, in the era of global finance, the ability to generate financial profits by a clever portfolio management contributes largely to the performance of the corporation that used to be concentrated on the manufacturing and the marketing side. Last but not least, the rise of the CFOs fits quite well with the growing role of direct finance, since the CFO is in good position to discuss with institutional investors, analysts, trusts and pension funds and convince them to buy the share of his/her company (figure 16).

This shift in the distribution of power within quoted corporation may contribute to explain simultaneously the increasing share of stock options in the compensation of CEOs (table 1O, supra) and the rapid increase of their total compensation: is not the financial sector the promoter of higher compensation (see table 6, supra)? If one believes in the cyclical pattern of managerial strategies and fads, the bursting out of the Internet bubble and the rediscovery that mature sectors can provide a significant and stable rate of return could imply a comeback of the production manager, and by extension the RD manager, as the key competitive assets of the large corporation.

Figure 16 – The shift of internal control within the corporation: the rise of CFO as CEO



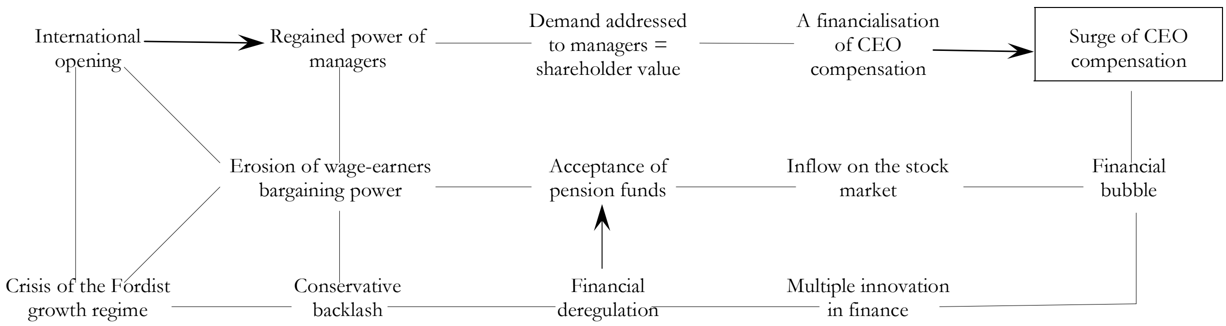
9. THE POWER OF MANAGERS IN THE POLITICAL ARENA

It is now time to go out of the inner *micro structure* and functioning of the large corporation that generate a significant autonomy and power of the top executives and explore how the insertion of the large quoted corporation into the social and political system has changed since the mid 80s. The rise of CEOs compensation and especially the surge of stock options may find a series of relevant explanations at the *macro level.*

Financial liberalisation has been a prerequisite for CEOs compensation explosion

Actually, the internal shift in the hierarchy of the departments of the large firm shown by figure 16 is closely related to the transformation in the American growth regime. Clearly, the explosion of CEOs compensation and the rise of the CFOs could not have happened under the Fordist regime, since finance was strictly regulated and the major issue was about the mutual adjustment of production along with (largely domestic) demand, in accordance with the then overwhelming reference to the Keynesian style for monetary and budgetary policies. But the crisis of Fordism back in the late 60s opens a period of major structural change, basically penetration of imports, labour market deregulation, and financial innovation and liberalisation. The wage earners bargaining power is therefore eroded and symmetrically the managers have to respond to the demands of financial markets and not so much those of labour. The reform of pensions plays a crucial role, since it links the evolution of the wage labour nexus along with the transformation of the financial regime (Montagne, 2003). On one side, the inflow of the pension funds into the stock market increases its *liquidity* and thus makes the market prone to financial bubbles. On the other side, the financial intermediaries and institutions put forward the idea that *shareholder value* should be the only concern of quoted corporations. The financialisation and explosion of CEOs compensation is the logical outcome of the interaction of these two mechanisms (figure 17).

Figure 17 – The main episodes and factors in the financialisation of executive remuneration



When economic power is converted into political power

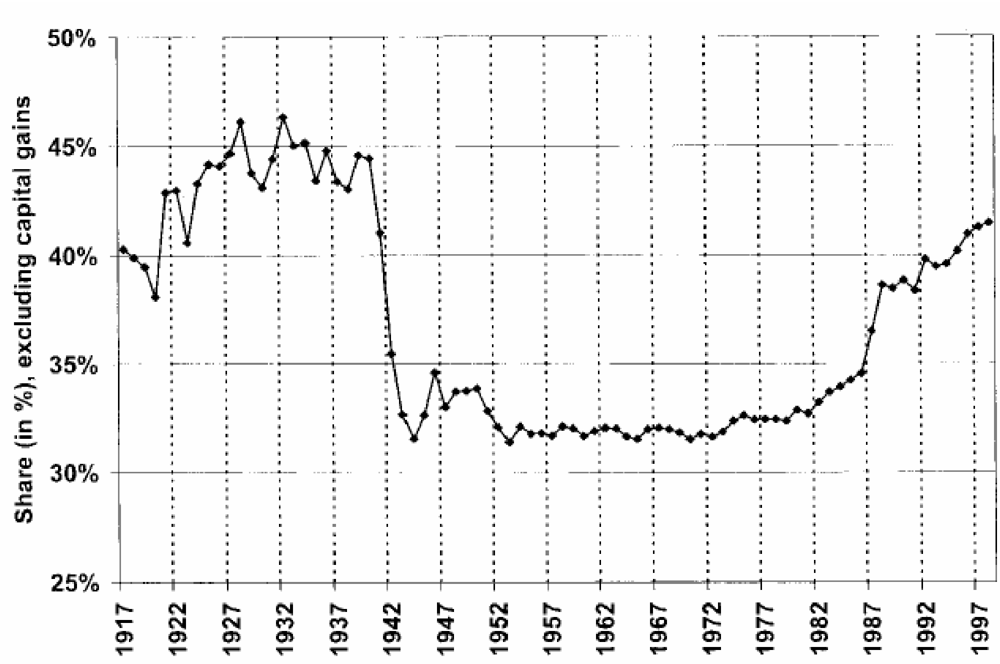
This explanation in terms of political economy usefully complements a typically micro grounded analysis of the power of managers within the corporation. It is an invitation to explore how they convert their economic power into the ability to partially shape economic policy according to their interests. During the last two decades, large corporations have used both *exit and voice* in order to be influential in the political arena. First, with the large opening of national economies and the free movements of capital, the managers of multinational corporations have been able to redesign domestic labour contracts according to the requirements of the competitiveness of their domestic sites of productions (see supra figure 6). Second, they asked for lower taxation of profits, arguing that they could benefit from preferential treatment abroad. Thus the managers have been combining the threat of delocalisation, i.e. *exit*, along with *voice* via the lobbying in direction of lawmakers.

During the Golden Age prevailed an implicit alliance between a fraction of the managers and wage earners, and this compromise was also embedded into the style of economic policy: search for full-employment, constitution of welfare, high and redistributive taxation. Nowadays, governments are, implicitly or explicitly, adopting pro-business policies: deregulation of labour markets, slimming-down of welfare benefits, lower taxation of high incomes, accommodating conception of fair competition. This is the context that entitles the deep transformation of the economic and social position of top managers. The purpose of the next sections is to provide some evidence in order to sustain the hypothesis put forward by figures 7 and 12: the transformation of core economic institutions during the last two decades have consolidated and legitimised the power of top managers at the society wide level.

The general context of rising inequality

In retrospect, the period 1950-1970 has experienced a quite unprecedented reduction in inequalities. The top deciles income share that represented nearly 45% in the 30s, is drastically reduced to 32% after the second World War. This share experiences a slow rise from 1973 to 1987 and then a quick increase during the 90s (figure 18). This upward trend coincides first with the stiffening of foreign competition and labour market deregulation (period 1973-1987) and second with the evolution of the American economy towards a finance led regime (1988-1997).

Figure 18 – The US: The top deciles income share, 1917-1998

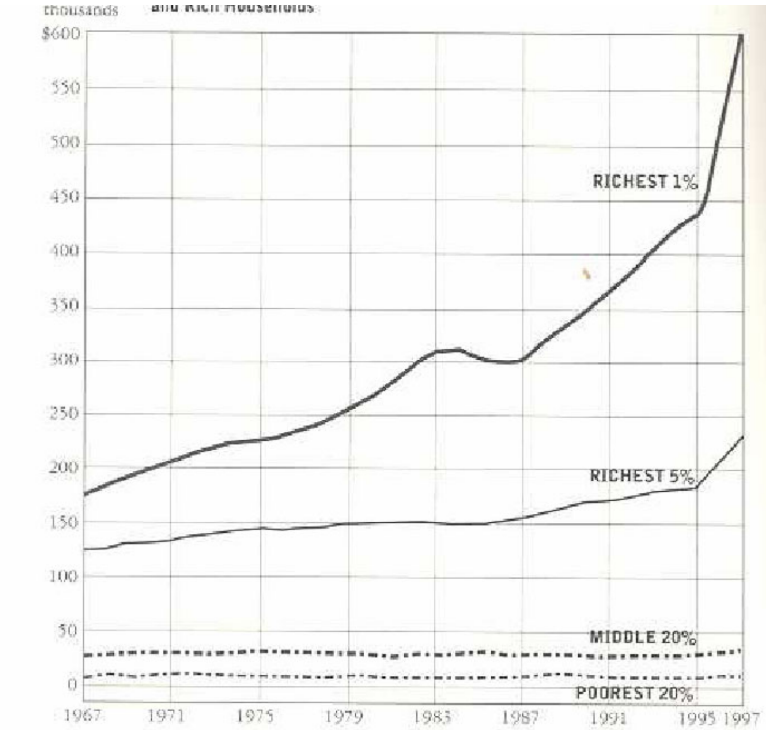


Source: Piketty, Saez (2003), figure 1, p. 11.

This rising inequality within household takes a specific form in the US where the redistributive role of taxation (see tables 11 and 12, infra) and a limited universal welfare cannot counteract the trends generated by labour markets. Since nearly three decades – more precisely, 1971-1995 – the 20% poorer households have experienced a near stagnation of their real income after taxation. By contrast, the richest such have become richer and richer, especially after 1987 and ultimately 1995 (figure 19). Again, households are precisely the dates of international pressures on American competitiveness (mid-80s) and the boom of financialisation (1995).

The compensation of CEOs has been evolving within this general context. In the US, during the last two decades, the feeling of the population about the dividing line between legitimized and exorbitant inequalities has been shifting. The question is then: how have capital and entrepreneurial incomes contributed to such a rise of the income of the 1% richest part of the population?

Figure 19 – The polarisation of America (1967-1997)
Average inflation-adjusted annual after tax income of poor, middle class, and rich households.



source: Phillips (2002), p. 128.

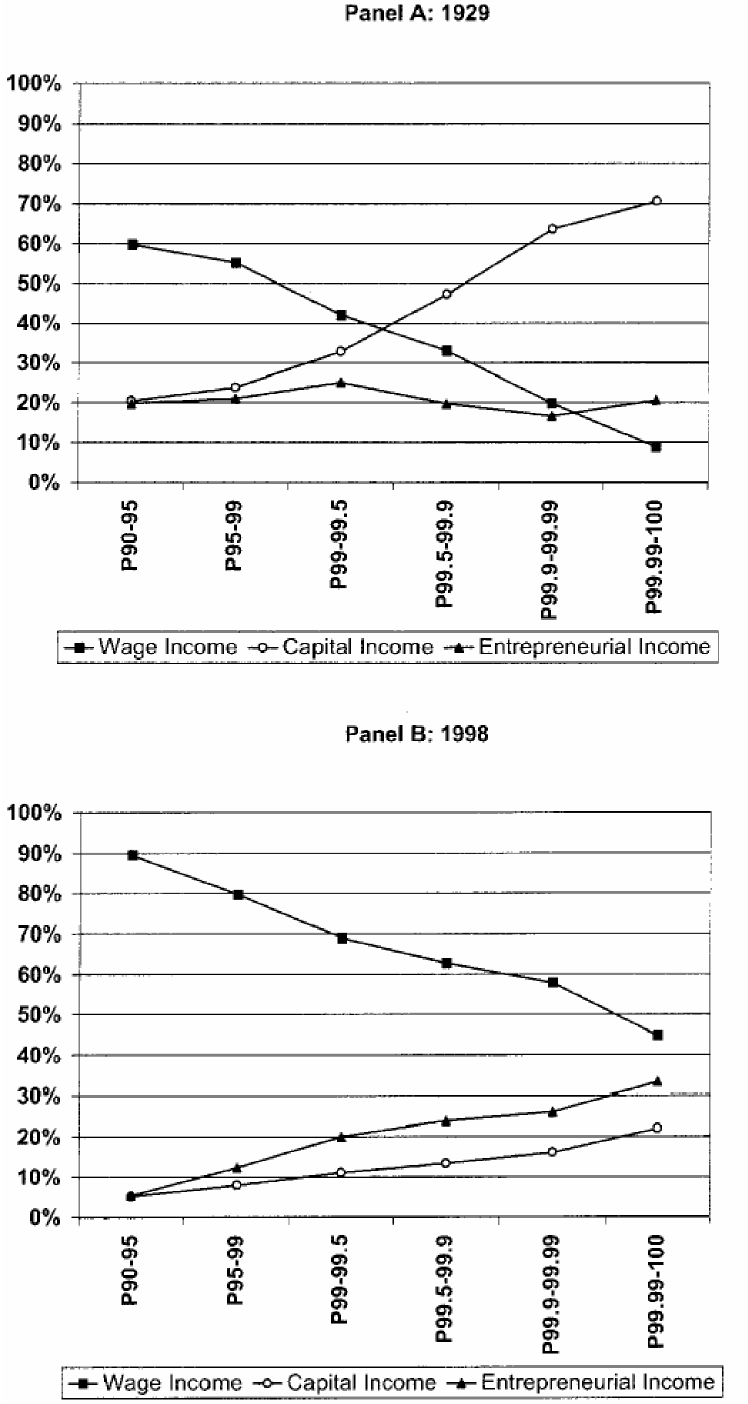
The surge of entrepreneurial incomes contributes to the growing number of super rich

A recent study compares the distribution of total income between wage, capital income and entrepreneurial income among the 10% richest part of the population at two periods, in 1998 and 1929 (Piketty, Saez, 2003). Whereas in 1929, capital income represented 70% of the income of the 1% richest households, in 1998 this source of income only represents 10%, since the largest fraction of income is related to wage. Nevertheless, a quite interesting feature is that the share of entrepreneurial income is increasing monotonously as individuals shift from the 5% to the 1% richest (figure 20). Interestingly enough, the share of capital income is also increasing but at most it represents 20% of total income for the 1% richest. By comparison with the interwar period, these data suggest two conclusions.

- First, the richest part of the population nowadays belong to *the elite of wage earners* and they combine the two other sources of income, that appear as complement not at all substitute for wage.

- Second, the fact that the income of entrepreneurial origin is increasing along the top centiles faster than the income derived from capital suggests that the *power of managers* has been more significant *than the power of financiers*.

Figure 20 – US: Income composition of top groups within the top deciles in 1929 and 1998



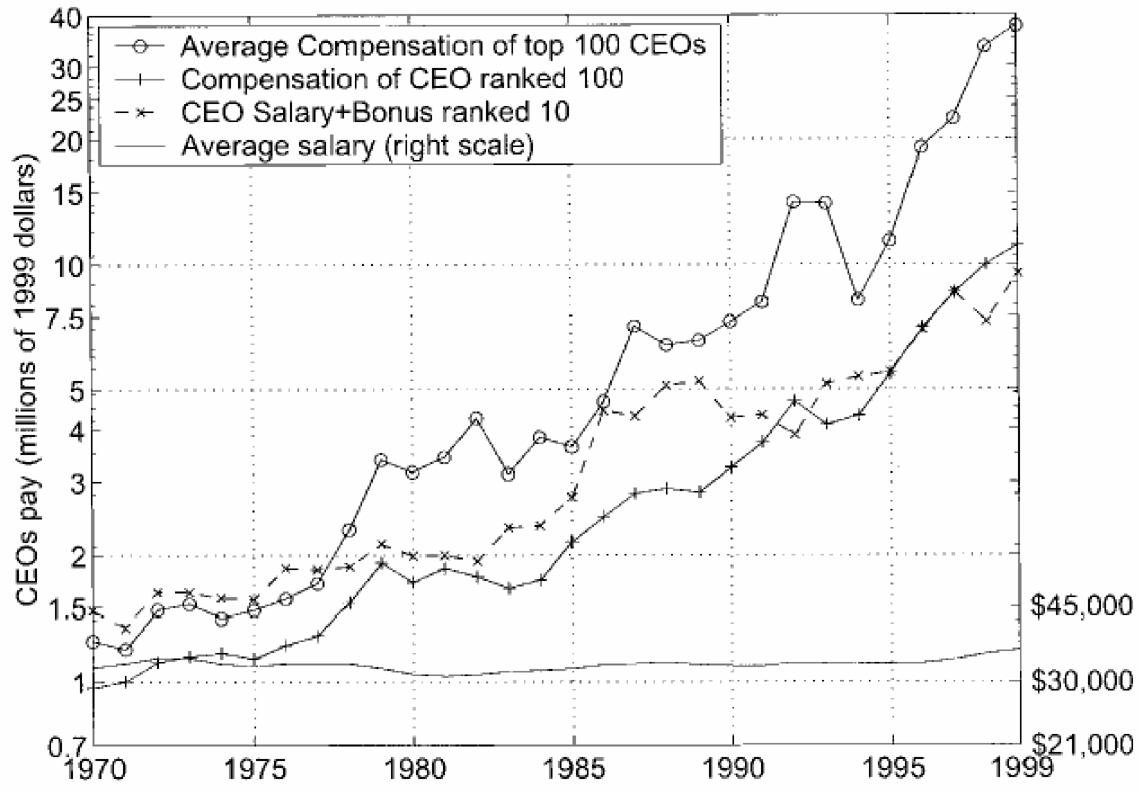
Source: Piketty, Saez (2003), figure 4, p. 16.

Top executives have divorced from labour

One can find a more direct evidence of the power of CEOs in the same research (figure 21). Back in the early 70s, the average compensation of top 10 CEOs was around 1.3 millions of $-1999, whereas the average salary was around 40 000 $. Since 1975, the trends of these two variables have been diverging: over a quarter century, quasi stagnation of the average salary, fast and quasi continuous increase of the average compensation of top 100 CEOs that reaches the level of 40 millions in 1999. One notes again an acceleration of their total compensation after 1995, i.e. the beginning of the financial bubble in the US.

These figures seem to confirm the core hypothesis of this paper: benefiting from the competitive threat exerted by foreign competition and still more of the consequence on corporate governance of financialisation, the American CEOs no more consider themselves as the elite of the permanent wage earners. Nevertheless in Gemany or Japan, CEOs continue to see themselves as the upper strata of wage-earners. Not anymore in the US, where they are part of an implicit alliance with the financiers.

Figure 21 – US: CEOs' pay versus average wage, 1970-1999

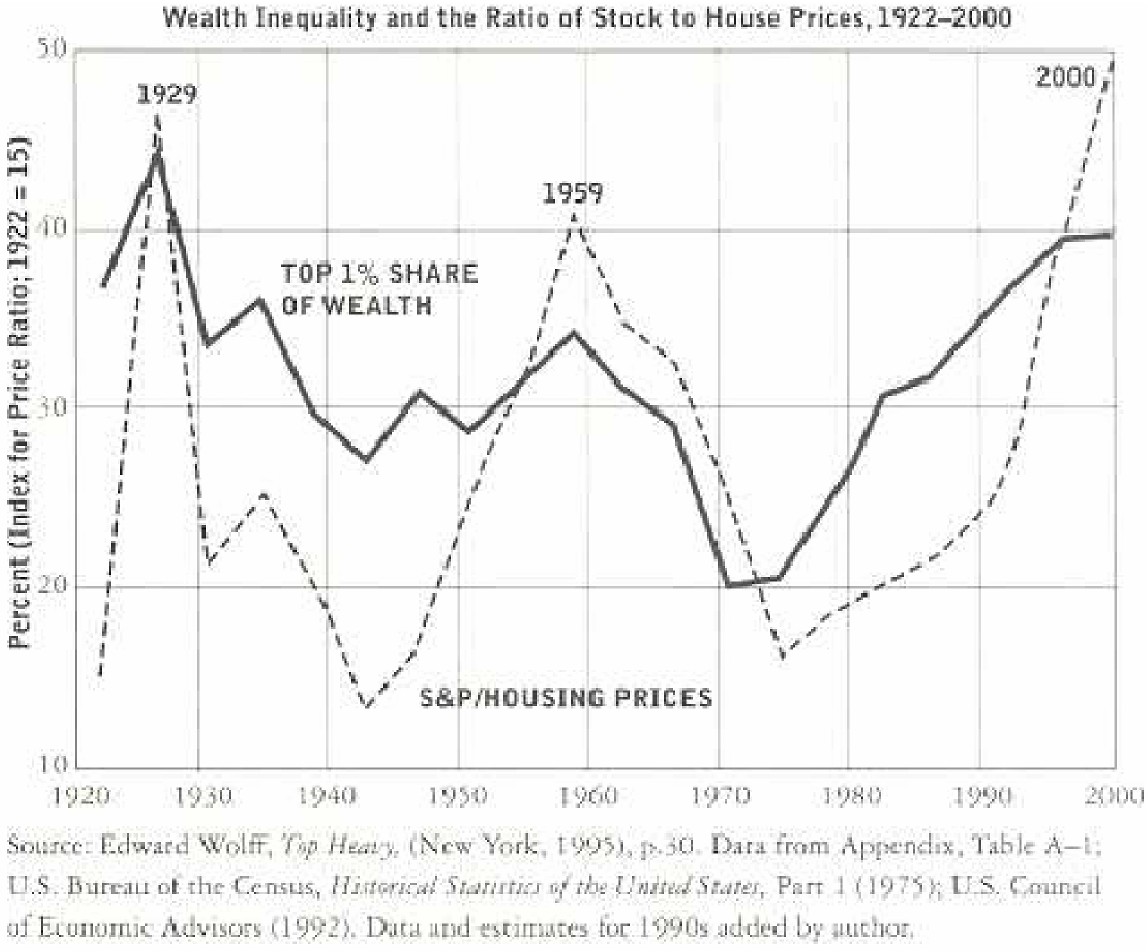


Source: Piketty, Saez (2003), QJE, p. 33, figure 11.

The concentration of wealth goes along with stock market bubbles

In historical retrospect, the surge of inequality in terms of income and still more wealth are closely associated with the waves of financial speculation, at least in economies such as the US, where the tax system and the welfare do not have significant redistributive effects (figure 22). The previous developments suggest that the top executives benefit more than the typical *rentiers*, even though finance seems to have the leading role in shaping the objectives and the organisation of the corporate world. If financial markets may constrain corporate strategies in the short run by their brusque changes in the valuation of the stocks, in the long run, executives of service and manufacturing firms do control the sources of profit.

Figure 22 – Wealth inequality and stock market peaks



Source: Phillips Kevin (2002), p. 79.

The tax system is redesigned in favour of the richest

In European countries, such a pattern is milder and can be mitigated by intensive redistribution via a progressive income tax, heavy inheritance tax and of course the role of a universal welfare. It is not the case in the US, since the rich individuals do participate to political debates and polls. Consequently, they are more efficient in lobbying in order to get an alleviation of the high bracket income marginal tax than under privileged are able mobilise in favour of redistributive measures.

Whereas the effective Federal tax rate for median American family is nearly constant since 1980, after a significant increase since the 60s, the shift is opposite for millionaires and top 1% richest households (table 11). Similarly, corporate taxes have been declining to very modest levels (10%), but the pay roll tax and welfare contribution is up to 31% in 2000 from 6.9% in 1950 (table 12). This is a new evidence in favour of *a political economy interpretation* that links the political and economic spheres.

Table 11 – Contrasted evolutions of tax rates for middle class and rich families

	Effective Federal Tax rate	
	Median family	Millionaire or top 1%
1948	5.30	76.9
1955	9.60	85.5
1960	12.35	66.9
1965	11.35	68.6
1970	16.06	
1975	20.03	35.5
1977		31.7
1980	23.68	
1981	25.09	
1982	24.46	
1983	23.76	
1984	24.25	
1985	24.44	24.9
1986	24.77	
1987	23.21	
1988	24.30	26.9
1989	24.37	26.7
1990	24.63	

Source: Phillips Kevin (2002), p. 96.

Table 12 – The declining share of Federal tax burden paid by corporations and the rising share of payroll taxes

	Share of total receipts (%)	
	Corporate taxes	Payroll taxes*
1950	26.5	6.9
1960	23.2	11.8
1970	17.0	18.2
1980	12.5	24.5
1990	9.1	35.5
2000	10.2	31.1

Source: Phillips (2002), p. 149

* Social security and medicare

Considering all the previous evidences, it becomes clear that the power of managers is not restricted to the information and power asymmetry typical of the firm, that is exacerbated in the large corporation. At the *society wide level*, the rise of entrepreneurial income, the evolution of the conception of social justice (market allocations are fair), the revision of the income tax, and finally the reduction of the share of the corporations in total State receipts do confirm the hypothesis of a *renewed political power of large corporations*, and especially of their top executives.

10. THE PARADOX OF CEOS COMPENSATION REVISITED

The staggering evolution of CEOs compensation has triggered a renewed interest from economists and they now deliver a more balanced view about the ability of incentive payments to fully monitor the opportunistic behaviour of CEOs. Stock-options appear as a quite costly form of compensation, recent scandals put at the forefront the large autonomy of managers, the significant of stock-options differ greatly between mature firms and start-ups and finally international comparisons show that, outside the US, other governance systems do not rely on the same methods for controlling and rewarding managers…and they are not necessarily inferior in terms of performance.

After the Internet bubble: a critical reappraisal of the virtues of stock-options

The basic and simple rationale for stock-options as an incentive mechanism for managers has been challenged by a large variety of authors, from the academics (Kevin, 1999) to journalists and novelists (Partnoy, 2003). Among the 10 reasons why to be sceptical about stock-options (insert 1), let us mention the more fundamental ones. Firstly of course, the asymmetry of typical stock-options (no losses but only gains) might be an incentive to take too much risk. Secondly, since the risk for the CEOs is already highly concentrated upon the company they run, stock-options are thus an expensive form of compensation: paradoxically, direct pay or still more bonus would reduce the total costs of compensation for the company.

Insert 1 – Ten reasons against the use of stock-options

1. Stock-options align the interests of managers and shareholders when stock market rises, *but not when it declines*. This feature is specially clear with the bursting out of the Internet bubble
2. *Restricted stocks* that could be sold in the market after a period of several years are *a better device* for aligning managers and shareholders interests. Thus, they make more sense but they are not widely used. Both in US and UK, the stocks held by CEOs declined during the Nineties (Murphy, 1999, p. 2533).
3. The exercise of stock options *dilute the value of existing shares* unless the corporation is buying back its own stocks, but this distorts the valuation by the market.
4. Given the concentration of the risks on the same firm, the stock options are *an expensive form of compensation* for the corporation. Direct pay via salary or bonus would alleviate the total cost of managerial compensation.
5. Basically, stock options benefit more to rich CEOs who are *prone to take risks*…and this is not necessary a good strategy from the point of view of shareholders.
6. Generous stock options are an *incentive to reduce dividends*, contrary to what was observed during previous periods when the payment of dividends represented the majority of the returns to shareholders.
7. Stock options are *quite hard to value*: long maturities and restrictions to then use limit the relevance of Black and Scholes option pricing.
8. This may be an argument to keep stock options *outside the accounting system* of the corporation, but consequently the costs are undervalued and the profits overvalued.
9. Given the temptation of insiders trading, stock options may exacerbate the *incentives to fraud* and adopt creative accounting, already present given the political power of managers.
10. Stock options are not indexed on the relative performance of managers (only 1/1000 corporation offered index option) therefore managers benefit from *windfall benefits* associated with a financial bubble, good macroeconomic or sectoral environment.

Source: Collected from Murphy Kevin (1999) and Partnoy Frank (2003)

Thirdly, not only are stock-options very difficult to value due to long maturities and restrictions in their exercise, but they are not included as expenditures in the corporation financial statement: the profits the firm are overstated and the shareholders suffer from a dilution of the value of their portfolio. Fourthly, when stock-options represent the bulk of top managers' remuneration, they face a strong incentive to fraud…especially so if the rate of return required by the financial community is very high and out of reach *via* normal methods. Lastly, as already mentioned, since the large majority of stock-option plans are not indexed on the relative performance of the company, managers enjoy the windfall benefits typical of good macroeconomic and sectoral conditions (see figure 13 supra). The bursting out of the Internet bubble has made quite clear all these limits.

The recent literature: a rediscovery of the power of managers

A similar trend has transformed the analysis of managerial activity within large corporations (Demsetz, 2003). *De facto*, being at the core of managerial activities, CEOs may deploy their privileged information and exert their power in many spheres, that are supposed to be controlled by a sophisticated corporate governance (insert 2). The more challenging issue could be that the top executives may take *erroneous decisions* by insufficient work and information… whatever the sophistication of the routines designed to deliver good governance. Basically, *incentives* do not replace *talent and vision* (Kohn, 2001): a bad manager will not be turned into a good one only by being granted a stock-options plan. Conversely, a talented manager does not necessarily require high compensation in order to be motivated to fulfil the objectives of the corporation. Moral philosophers and experimental psychology even suggest that devices designed in order to control an alleged misconduct, may well trigger the very misbehaviour it was supposed to prevent (Petit, 1997). Under this hypothesis during the 90s, the stock-options fad would have exacerbated the issue of CEOs autonomy and opportunistic behaviour.

Insert 2 – How managers use their relative autonomy with respect to shareholders

Given the asymmetry of information and power in favour of top managers, they can deploy numerous strategies in order to shift the decision in favour of their own interest.

1. Excessive compensation, via base salary or generous bonus is a first method.
2. Nepotism is another method available to top managers who may want to enjoy on the job perks.
3. Managers may neglect firms' problems and they can take erroneous decisions by insufficient information.
4. Managers can use a fraction of the cash and assets of the corporation in order to acquire stature in the community.
5. They can ally with core workers in order to extract rents from the firms and extend firm competence and competitiveness at the cost of the rate of return of capital for shareholders.
6. Top managers may ally to a fraction of shareholders against a minority.
7. Misdoing against shareholders: fraud, creative accounting,…

Source: Inspired by Demsetz Harold (2003)

Corporate America versus Silicon Valley: two different uses of stock-options

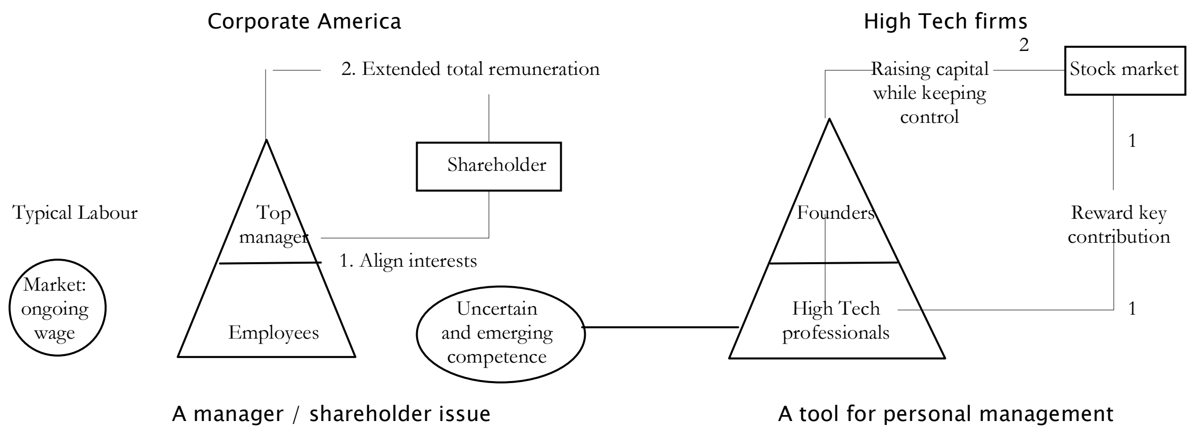
The diffusion of stock-options in the US economy points out an ambiguity, since at least two models of corporate governance have been merged into a single one. After 1997, any single quoted company, even in mature sectors, had the objective of belonging to (or mimicking) the new economy. Thus, the stock-options were not presented only as a method for aligning top managers and shareholders interests but they have been diffusing to professionals, high-tech specialists or even rank and file workers in the start-ups. The purpose was then to share risk by shifting a fraction of the remuneration of labour from wage towards stock-options. The rationale was therefore rather different (figure 23).

- For *corporate American*, the issue about stock-options concerns the relationships between *shareholders and top-managers*. Consequently, the majority of employees and workers of the internal market were not part of this incentive mechanism, since their remuneration was set by the market ongoing wage or bonus linked to specific performance criteria.

- For *high-tech firms*, the main purpose of stock-options is about risk sharing between the *founders of a start-up and the employees* after an Introductory Public Offer (IPO). A second objective relates to the minimization of the fixed costs, such as the wage bill, in order both to react to the basic uncertainty typical of innovation. A third objective is to upgrade the financial results of the firm, in order to convince the financial markets to continue to finance a quite risky business that initially incurs loser.

This conjunction of two contrasted motives in these different sectors probably explain the positive welcome of stock-options during the 90s, as well as the fact that these options had not to be expended in the account of the company. Mature companies managers benefited thus from this positive appreciation by the financial markets of start-ups.

Figure 23 – Two conceptions of stock options



The emergence of a corporate governance market?

The tenants of market efficiency may address an objection to the main hypothesis developed by the present paper. On one side, surveys show that the remuneration is higher when CEOs are hired from outside and not promoted within the company. On the other side, the mobility of top executives has been increasing during the last decade. These facts may imply that a market for corporate governance talents is emerging, at least, in the US (Murphy, Zabojnik, 2004). Thus, the relevance of the interpretation in terms of idiosyncratic power on top managers would vanish (table 13).

Table 13 – Three stories about CEO remuneration in the 90's

General interpretation	Rent extraction by CEO due to idiosyncratic skills and social connections	Response of markets to higher efficiency of general managerial skills	Managers shift from a public spirited technocratic creed to a property right ideology, elaborated in academia by financial agency theorists
Author	BEBCHUK Lucian, FIRED Jess and WALKER David (2002)	MURPHY Kevin, Jan ZABOJNIK (2004)	Ernie ENGLANDER, Allan KAUFMANN (2004)
In favour	• In accordance with the origin of net profit	• Permanent increases of outside hires of CEO (1970: 15%; 1980s: 17%; 1990s: 26%) in the US	• A fall of the technocratic system implemented during the period 1950-1970
	• Fits with some recent scandals	• More CEO with MBA degrees	• Managers adopt shareholder value and interests: 1990-2000
	• Actual evidence by econometric studies	• US is leading the market for corporate governance	• The wide adoption of stock-options
			• The capturing of a larger share of the new wealth by managers
Against	• The independence of the remuneration committee has improved, not deteriorated and nevertheless CEOs compensation accelerated	• No clear evidence of a perfect market competition for CEOs • MBA deliver transferable competences, but they are not homogenous: competition is largely imperfect	• Why this strategy proved successful: new market power of CEO? Or idiosyncratic skills have become less important?
	• CEOs hired from outside earn 15.3 % more than internally promoted CEOs	• If perfect market for CEO, net profit should be zero	• Why shareholders did no react before the stock-market crash?

See AER, May 2004, p. 196; see Enterprise and Society (September, 2004)

Actually, the argument is not totally convincing. Of course, financial expertise is largely transferable from one company to another, but it is not so for the organisation of production, product development and human resources management, since these activities are largely shaped by the idiosyncratic mix of specific managerial tools that are the very source of the performance of the firm. A second objection challenges the idea that the information upon the talents and abilities of managers is common knowledge and therefore competition among firms contribute to set the relevant price for managerial talents. Just to hint how imperfect this market is, let us recall that in France, nearly every time a CEO is granted the award of "best manager of the year", one year later his/her company enters into a severe crisis, that makes the front page of business news…and challenges the wisdom and the competence of the jury in charge of the prize. This actually means that the excellent performances observed during the previous years are simply extrapolated and attributed to the talent of the CEO, whereas, in most of the cases, it is largely due to the legacy of past strategic choices, a booming macroeconomic context or pure chance (see figure 13 supra).

Business historians (Englander, Kaufmann, 2004) propose a totally different interpretation: the surge of CEOs compensation would be the outcome of the shift in values and behaviour of top management. From technocratic and allied to the permanent workers they would adopt a property right ideology, by opportunism. Thus, they would welcome the academic literature on principal agent models, value creation, good corporate governance. The reference to a market for corporate governance would itself be a pure pretext to cover unprecedented increases in their compensation, actually decided in the closed circle of the American business elite (Temin, 1999).

The explosion of CEOs remuneration: the symptom of a specific form of corporation

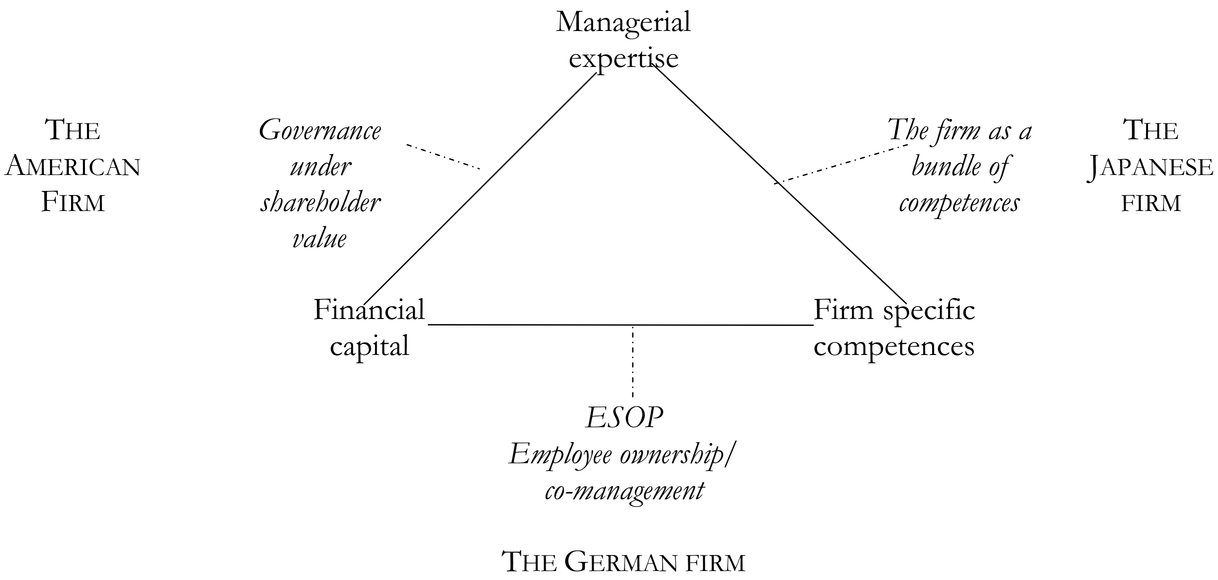
Of course, most of the managerial principles and fads originate from American business schools and corporations and they tend to diffuse to the rest of the world, via the network of multinationals specialised in consultancy. This pattern may give the illusion that all over the world, all the corporations emulate the American system and finally should converge towards a single one best way. Careful comparative studies contradict this simple and attractive vision and show that even within the same highly internationalised sector, for instance the car industry, several productive models do coexist and they are embedded into quite different internal organisation of the firm (Boyer, Freyssenet, 2002). Each of them is built upon a specific *government compromise* and displays a definite profit strategy: the contemporary American corporation is only one of these organisational models (figure 24).

- When the alliance takes place between *top managers and financiers*, the governance of the company is organised according to shareholder value. The financialisation of CEOs compensation is part of this configuration. The competence of the rank and file workers are supposed to be available on the labour market, since labour is viewed and managed as a variable cost. By contrast, the stability or progression of the rate of return of invested capital is a core feature of such a model. This is the *American configuration*.

- A second type of compromise may explicit the alliance of *top managers with permanent workers* who are supposed to be part of the fix costs, since they have been nurturing the specific competences that make the competitive edge of the corporation. The labour flexibility is internal and uses hours worked, and thevariation of the bonus as adjustment variables. Consequently, the financial rate of return is more variable than within the previous configuration. One recognises the *Japanese corporation* of the Golden Age (Gerlach, 1992; Aoki, 1988). This model has been altered by the financial globalisation but not totally eroded.

- A third organisational form would result from an alliance between *permanent workers and a patient banking system*. At the extreme, the company could be an ESOP with partial or complete ownership of employees. Such an ideal is difficult to observe in contemporary capitalism, but the *German system* and its co-determination and the significant impact of länders on corporations exhibits some features of this theoretical model. Basically, the top managers are engineers or specialists of production/innovation who consider themselves as part of the personnel. Of course, and again, financial liberalisation has altered this model.

Figure 24 – Alternative alliances, different conceptions of the firm, various rewards and controls of managers



The ideal structure of managers' compensation is different for each model: stock-options for the model governed by shareholder value; bonus for the configuration built upon the cumulative increase of collective and individual competence; wage for the ESOP/co-management configuration. Thus, the political economy approach explains simultaneously the *drastic change* in corporate compensation that took place in the US during the 90s and the *large heterogeneity* observed at the international level in the methods for controlling and rewarding managers.

11. ALTERNATIVE EXPLANATIONS: HOW DO THEY FARE?

This is an invitation to compare the relevance of the various theories mentioned in the previous developments, with a special emphasis on economic analyses that are then extended to other social sciences. Basically, the various interpretations of social and economic status belong to four broad categories.

Optimal contract, managerial power, political economy

Can any single of these approaches give a satisfactory answer to the four questions raised by the stylised facts. Why stock options are unequally distributed across sectors and among nations? What are the factors at the origin of the rapid rise of stock-options in the US? Why do large quoted corporation use so intensively stock-options, while they are quite inefficient methods for controlling and rewarding managers? Is there any evidence about a positive and significant impact of CEOs compensation upon corporate performance? (table 14).

First of all, *optimal contract theory* is not very well equipped since it is mainly *a normative theory* about how should be organised the status of top managers. The heterogeneity across countries is explained by an unequal degree of risk aversion, i.e. a quite *ad hoc* explanation as far as this risk aversion is not directly measured and confronted with the diffusion of stock-options. The hypothesis of an emergent market for corporate governance (Murphy, Zabojnik, 2004) would in a sense downsize the importance of optimal contracts. But one may question the very existence of such a market due to the large uncertainty about the real competence of a manager, especially he/she moves from one company to another. Similarly, it is hard to swallow that clever directors and members of the boards, appointed according to their competences, are unable to estimate the real cost of stock-options, as argued by some recent researches (Hall, Murphy, 2003). Given the very imperfect nature of financial markets and the sensitivity of stock market valuation to the conduct of monetary policy, the link between managers' remuneration and corporate governance is quite tenuous. Nearly no existing econometric studies has shown a positive, important and robust, correlation between the adoption of stock-options and the improvement of corporate performance.

Table 14 – The stylised facts about executive compensation: how are they explained by alternative theories?

STYLISED FACTS	OPTIMAL CONTRACT	MANAGERIAL POWER	POLITICAL ECONOMY
1. HETEROGENEITY ACROSS FIRMS COUNTRIES			
1.1. Sizes matter: higher pay, lower pay-performance sensitivity	• Indirect link with the degree of risk aversion	• Easier exercise of power in large companies (information asymmetry)	• Political power of large companies (in the political sphere too)
1.2. Higher pay and sensitivity in the US than the UK	• Different risk aversion in US and UK	• Strength of lobbying by managers in the US	• Reconversion of the power inherited from the period of managerial capitalism
1.3. Pay-performance sensitivities are driven by stock options and stock ownership	• Implementation of shareholder value, but not implied by the theory	• Instrumental use of shareholder value to increase compensation and wealth	• De facto alliance between managers and financiers
2. HISTORICAL TRENDS			
2.1. Level of pay and pay-performance sensitivity has increased in the US	• Diffusion of shareholder value and influence of principal/agent theory upon actual practices	• Stock options are used to increase total compensation	• Outcome of the financialisation of the US economy
2.2. Larger turnover of CEO, replaced by outside hires	• A market for corporate governance, complement to optimal contract	• Shift towards the dominance of CFOs over marketing and production	• Impact of the evolution of legislation on take-overs and mergers
2.3. But no strengthening of the relation between turnover/performance	• Still a very imperfect market for corporate governance	• Negotiation of "golden parachutes" in order to compensate higher turnover	• Permissive legal systems, lack of shareholders' voice
3. THE PUZZLE OF STOCK OPTIONS			
3.1. Why such an increase?	• No reason from the theory of optimal contracting	• No apparent cost, a convenient method for capturing stock market gains	• Favourable tax treatment of stock options
3.2. Why their international diffusion?	• Globalisation of the market for corporate governance	• Trickle down from financial sector	• Globalisation of finance and shareholders value principles
3.3. Causes and consequences of growing disparity between CEOs and rank and file pay?	• Ambiguous impact on performance: tournament incentive versus unfairness feelings	• Outrage from employees, shareholders, public opinion	• Formation of a new elite, divorced from rank and file workers
4. EFFECT ON COMPANY PERFORMANCE			
4.1. How CEO affect shareholder value?	• Only partially relevant (value creation) but also dubious methods (creative accounting)	• When shareholder value coincides with managers interest	• Also by the redesign of the legal system
4.2. Impact of broad-based stock for employees	• More commitment but more risk born by employees	• Reduction of labour cost	• Tentative to enlarge the social basis of managers
4.3. Accounting based versus stock-based compensation	• Relative performance evaluation should be preferred	• Diverging interests between finance and manufacturing sectors	• A matter of public intervention

The *theory of managerial power at the micro level* takes into account the basic fact of corporate life: the net profit does not originate from the simple substitution of factors of production according to the signal of relative price. Quite on the contrary, the complementarity of firm specific investments, largely irreversible, is at the core of successful companies. The task of the top-management is precisely to build, enlarge and update this kind of competitive edge. Therefore, the insiders are in better position than the financial analysts in order to assess the future profits. Top managers can use this asymmetry in terms of knowledge and information in order to extend their own power, including promoting their own compensation. This kind of idiosyncratic generation of profit may explain why the rate of returns on invested capital and systems of remuneration vary so much across sectors and countries. The development of stock options is associated with the rise of the CFOs in the hierarchy of the large corporation: having to deal with financiers, it is not a surprise if they import a practice widely diffused in finance. This interpretation has some weaknesses: why did CEOs compensation exploded since the early 90s and not before?

A *political economy interpretation* of the current status of CEOs has the merit to complement the micro grounded interpretation of managerial power. First, the large size of quoted corporation gives to their managers a leverage upon the political sphere. They may use lobbying or the threat of delocalisation of jobs and tax base, if the domestic legislation is not adapted according to their interests. Again in the 90s, political leaders have tended to think that "what is good for multinationals is good for the country". Second, the rise of financial markets, supposed to be more efficient than the banks, is also the consequence of the decisions made by governments about financial liberalisation. Third, the chronology of economic policy and specially the evolution of the tax system confirm that the tax burden has shifted from the corporations to the households i.e. from mobile capital to fixed and residential capital. The political economy brings back history into the picture of CEOs compensation and control. This is why the timing of CEOs compensation reforms differ in the US and UK, in UK and in Continental Europe and Japan. Finally, the drastic change in the macro context explains why the long lasting and the structural micro power of managers has materialised into an unprecedented boom of stock-options.

The CEOs remuneration paradox: the vision of social science

If one comes back to the central issue of the present paper: "how to explain the staggering increases of CEOs compensation in the 90s?", it is useful to assess the relevance of the three major explanations and to extend the range of social science theories (table 15).

Optimal contract theory nowadays recognises that the stock-options grant mechanism is not at all delivering an efficient control of managers. Actually, since below average performers reap huge gains from stock-options when the market is rising rapidly, conventional stock-options should be replaced by options that are tied to a market or a peer index (Rappaport, 2001). Furthermore, these stock-options should be restricted to top-managers, whereas the managers of business units should not be judged on the companies' stock price but on the value added by their unit. The very low frequency of stock option based on relative performance (Murphy, 1999) is an evidence of the large imperfections that affect modern corporations and their links with financial markets. All these facts give some indirect support to the approach in terms of managerial power.

The alliance of the microeconomic approach of *managers' power* along with a *political economy* interpretation of their role in the redesign of regulations and tax codes helps in understanding why the surge in CEOs compensation took place in the 90s. In a sense, CEOs have converted their intrinsic power within the corporation into financial wealth, thus surfing on the wave of financial deregulation. The historians that have investigated the factors at the origin of rising inequalities have found a correlation between wealth concentration and episodes of stock-markets speculation (Phillips, 2003). Similarly, *business history* have put into perspective the recent transformations of corporation and found that the technocratic conception of CEOs, typical of the 60s, has vanished and it has been replaced by a new system of values that put a strong emphasis upon wealth accumulation, as an unchallenged legitimised goal (Englander, 2004).

A *sociological analysis* confirms the divorce of top managers from upper middle classes during the last two decades. The financialisation of modern economy has exacerbated this trend, since the liquidity of financial wealth has entitle a large widening of remuneration within corporations (O'Sullivan, 2000).

Table 15 – Economics and social science interpretations of CEOs compensation in the 90s

Explanation	Author	Argument	Limits
Optimal contract theory	Michael JENSEN	An imperfection to be corrected by more sophisticated contracts	Underestimates the structural power of managers
Microeconomic managerial power	Lucian BEBCHUK	Entrenched power of executive within the corporation	How to explain their new form of power in the 90s?
Political economy	William LAZONICK	The executives have converted their power into wealth	What kind of empirical evidence of such a direct causation?
History of business	Ernie ENGLANDER	New value and behaviour far away from the technocratic model	What are the explaining factors: at the firm level or society wide?
Sociological theory	Mary O'SULLIVAN	Disconnection from upper middle class	Why did it happen in the 90s?
Theory of social justice	David MARSDEN	Conception of justice has changed. Competences should be rewarded	A rather ad hoc argument No clear relation with performance
Social psychology	Alfie KOHN	Any reward system alters behaviours in a unintended direction	Why has the abuse of stock-options been so large?
Complexity theory	Gerry STOCKER	Unintended consequence of financialisation	What are the key factors and episodes?
Discourse analysis	Karel WILLIAMS	Interesting narrative about stock-options	Power relations play a role too

An approach in terms of *theory of justice* would argue that the implicit concept of fairness has shifted. The less unequalitarian values of the 60s entitled significant redistribution via the tax and welfare system, thus the hierarchy between average wage and CEOs remuneration was moderate. By contrast, the last two decades have experienced another conception justice: the income should reflect competence differentials and the market price is assumed to measure this competence. One has to add two other hypotheses: the productivity of top managers would have drastically increased but the productivity of typical worker would have remained nearly constant.

Social psychology proposes a totally different interpretation. Any incentive system is likely to a trigger unexpected behaviour and strategies, and this applies to stock-options grants (Kohn, 2001). Thus, the paradox of buoyant CEOs compensation and poor financial performance of the firm they run could be explained by this general feature of reward systems. Actually, there is some probability that the frequency of corporate misbehaviour has been increasing along with the implementation of shareholder value and stock-options that was supposed to form quite complementary and efficient devices.

Complexity theory converges towards the same conclusion but according to a different argument. The series of financial innovations have had untended consequences, since nobody could prognosis that the objective to subordinate CEOs to shareholders would in fact trigger a wave of opportunistic behaviour and "infectious greed" of top-managers.

Discourses analysis provides another entry into the issue of managerial rewards and control. In spite of the limits of stock-options that were clearly pointed out by the afterthoughts of microeconomists, consultants and financial intermediaries have been able to build a quite attractive and convincing discourse about the merit of shareholder values, value creation and stock-options. They were presented as the necessary instrument to defend and promote the interest of shareholders a many decision makers were convinced.

In a sense, each of these frameworks may explain a part of the paradox, since they are more complementary than substitutes, with the exception of optimal contract theory that is clearly a normative analysis.

Four conceptions of the firm, control and reward of managers

Finally, managers' compensation analysis cannot be disentangled from the conception about the position of the managers within the corporation (table 16).

When the managers consider themselves as *part of the employees* of the corporation, their compensation is essentially, if not exclusively, based upon *salary*. The remuneration hierarchy is generally based upon the level and the seniority within the internal market. This was the typical configuration of the *sloanist corporations* back to the 60s.

According to a second vision, managers can enter into a *principal/agent relation with owners* and have their remuneration set according to the sharing with them of the residual surplus of the firm. Then, a *bonus* linked to the profit is the ideal form of reward of managers. This form is typical of the *Japanese firm*, since even the permanent workers, and not only managers, have a significant fraction of their income set according to the financial results of the firm. These results are derived from the accounts of the firms and do not rely on the stock market valuation and this is an important difference with a third conception.

If ownership is dispersed, and the company quoted on the stock market, the managers can then enter into another *principal/agent relation with shareholders*. In the ideal model, the assembly of shareholders would fix the number of *restricted shares or stock-options* granted to top-managers, and then the valuation by the financial community would *ex post* determine the total compensation. The exercise of options would add another source of income to the basic salary, and possibly bonus. This is the emblematic configuration of *American corporations during the 90s*, with a special diffusion for high-tech firms and finance.

The maturation of the American corporate governance has produced a fourth vision of the control and reward of top-executives: their competences are assessed by *a professional market of managers*, but the exact composition of compensation between basic wage, bonus, stock-options, special credit facility and specific pension fund conditions is negotiated at the level of each corporation. Since the mobility of top-executives has increased, especially in reaction to the divergence between the compensation of CEOs and the results of their company, this is the *emerging model* for English speaking countries.

Table 16 – Four conceptions of managers' control and reward

Principle	Form of compensation	Nature of control	Source of efficiency	Assessment
1. The managers belong to the pool of employees	*Salary*, in accordance with an internal market hierarchy	Via competition on product market and peer control	Competence and commitment of employees are the sources of performance	Assumes patient capital Bias towards diversification and large size
2. The managers share the residual surplus with owners	*Bonus* linked to profit creation	Via competition on product market and selection of managers by tournaments	Incentive to monitor the process of value creation	Open bargaining process with owners Possible conflict of interests with both employers and shareholders
3. The managers share (part of their) interests with shareholders	Restricted *shares* and *stock options*	Via the evolution of stock market valuation of the firm	Less distortion of resources allocation at the detriment of shareholders	Still diverging interests between managers and shareholders Poor measure of the quality of management
4. The managers are hired on a competitive market for corporate governance	According to the valuation by the market of managerial competence	Adversarial take-overs Hiring and firing of managers	Pressure of financial markets, competition for top managers	Value destruction as well as creation Idiosyncratic expertise required for each activity

This correspondence between the social position of managers and their compensation brings two important teachings. First, there is *not a single on best way* for organising the control of managers, but a multiplicity according to the time period and the society where the company operates. Second, one observes *an historical sequence* linking corporate governance, managers' social position and their compensation. The very maturation of the existing configuration gives rise to the emergence of another one, in response both to the evolution of economic institutions and social values and the intrinsic weakness or adverse evolution of the current configuration.

What next?

The open question is now the following. Is the paradox of booming CEOs remuneration coexisting along with poor or mediocre performances of the corporations they run a fatality? The rich debate that takes place since the bursting out of the Internet bubble opens some space for democratic debate and governments interventions (table 17).

A first proposal for reform does believe in the *reputation effect* for disciplining CEOs. Anticipating the adverse consequences upon shareholders, stock market valuation and their own compensation and stability of their job, rational CEOs should be prevented from any misconduct. This is a quite optimistic strategy indeed. First, it might be optimal for a CEO to build a reputation and then cash on this reputation to cheat and extract income from the company. Second history is rich of recurring financial scandals and it is rather exceptional that top-managers recognise their misbehaviour. The Ahold story is at odds with the Enron, Worldcom, Vivendi, Parmalat trajectories.

Why not to reinforce the power of *minority shareholders*? Of course, this could weaken the alliance between CEOs and institutional investors but this would contradict the principle "one share, one voice". The firing of the CEO of Eurochannel by the general assembly of shareholders seems to be an exception.

The very fashionable idea about the need for *independent directors* in the Board of large corporations is challenged by the available empirical literature. Since the CEO generally appoints many of the members of the Board and the remuneration committee, these members are not so independent and generally belong to the same network, whereby the reciprocity principle prevails. Furthermore, really independent directors do not have necessarily the competences required, nor the incentive, in order to exert a countervailing power. Should honest idiots be systematically preferred to opportunistic and competent directors? (Hodgson, 2004).

Table 17 – Alternative strategies for the control/reward of managers

Strategy	Impact	Problems
1. Let the *reputation effect* play its role	Exists (Ahold) but rather rare	Partial and *ex-post* threat that has not checked greed during the bubble, nor during previous bubbles
2. Reinforce the power of *minority shareholders*	Weakens the alliance between managers and institutional investors (Eurochannel)	Problematic given the principle of "one share, one voice"
3. Promote *independent directors* in the board	Should alleviate the probability of opportunistic behaviour of the managers	Forgets the role of managers in the selection/control of directors Neglects the issue of the competence of independent directors
4. Let the judiciary decide about misbehaviour of CEOs and CFOs	Rising judiciary costs, only partial influence upon the frequency of abuses	An *ex-post* solution, that shifts income from shareholders to lawyers
5. More *public control* on corporate accounts and larger personal accountability of CEO	Potentially important, due to the coercitive power of the State	Whatever the institutions, greed prospers during speculative bubbles
6. Give more voice to *stakeholder* (wage earners, suppliers, citizens,…)	Significant: fewer excesses of managerial greed in social market economies such as Germany	It is difficult to import/adapt such institutions in typical liberal market economies

The financial scandals associated with the end of the Internet bubble have triggered a lot of *legal cases*: the judges have been asked to assess the legality of the behaviour of CEOs and the legitimacy of their compensation. In a sense such *a third party* is absolutely necessary for the enforcement of any contract, since quite few contracts are self-enforcing and reputation effects have never totally prevented corporate misbehaviour. Nevertheless, this "judiciarisation" of corporate governance only provides *ex post* solution and basically transfers a significant fraction of income from shareholders to lawyers.

Since CEOs and CFOs have some autonomy in the selection of principles governing profit and financial statements, some of them are recurrently tempted by a form or another of creative accounting and fraud. Of course, auditors should prevent such a strategy, but the last decade has shown that they are more the allies of top-executives than the representatives of the shareholders. Thus, the institution of a *public control on corporate accounts* might be more efficient, especially if the CEOs are legally responsible of any misreporting about the financial situation of their firm. This is the meaning of the Sarbanes Oxley bill passed by the American Congress in order to stop to defiance of public opinion with respect to the fairness and transparency of financial markets. Nevertheless, the repetition of financial bubbles and their association with waves of corruption suggest that greed prospers periodically… and it is difficult to prevent such episodes by private or public methods. Actually, Europe and Japan were not immune from financial scandals, in spite of a more significant public auditing of private accounts.

A last option is to give more *voice to stakeholders*, i.e. all the individuals that have a long lasting relation with the corporation: the permanent workers, the first rank subcontractors, the public authorities at the local and national level. Actually, international comparisons suggest that fewer excesses of managers have been observed in social market economies or social democratic configurations. But it is difficult to import any form of co-management in typical liberal market economies.

Thus, theory and historical evidence show that there is *no panacea* for curbing down the intrinsic power of managers, but that the whole internal organisation of the corporation, as well as its relations with financial markets and public authorities, has to be redesigned in order to reduce the probability of misconduct and excess power of top-managers.

12. CONCLUSION: MANAGERS, FINANCIERS AND POLITICIANS

The main objective of this paper has been to propose an explanation for one of the contemporary paradoxes, i.e. the explosion of CEOs compensation far ahead and frequently quite independently from the actual performance of their corporations.

The contemporary configuration in historical perspective

The issue of control and reward of managers is an integral part of the wider question about the nature of corporate governance in a world of largely open national economies and global finance. The contemporary concerns about the legitimacy and efficacy of stock-options grants as an incentive for controlling managers have their origins in the crisis of the sloanist corporation and the related domestic growth regime. The progressive opening to world competition, labour market and then financial deregulation, the rise of pension funds and the evolution of the bargaining power of unions have induced a dual shift. At the company level the restructuring has affected productive organisation but also promoted the priority to financial management. At the macroeconomic level, the previous model based on mass-production and consumption has entered into a crisis and after a long period of trials and errors, the engine of growth has been the outcome of the synergy between financial innovations and the creation and diffusion of information and communication technologies.

The plea for stock-options has no theoretical rationale

The arguments that have been used to justify the introduction of preferred stocks or stock-options have proven to be erroneous by contemporary theories as well as by many empirical evidences. The interests of professional managers and owners can never be fully reconciled and the diffusion of ownership makes the control of managers still more difficult. By the way, optimal contract theory would advice the use of indexed stock-options, that would reward only the relative performance with respect to peer, filtering out the perverse effects associated to past dependency, lax monetary policy, macroeconomic and sectoral booms and last but not least the macro inefficiency of financial markets. The fact that only a minority of stock-options are indexed means that they are not at all endorsed by contemporary micro analyses of principal/agents literature and the theory of contracts. The idea that stock-options were the required complements to shareholder value and value creation has been invalidated by the evolution of the rate of returns on equity of the large corporations during the 90s. Nearly no empirical study exhibits a positive correlation between option grants and economic performance of the firms. The repeated financial scandals have made clear the difference of interests and returns respectively for top-managers and the average stockholders.

The intrinsic power of manager at the firm level and its extension at the society wide level

The observed asymmetry between top-managers and stockholders finds its origins at the core of the objective of the firm: how to generate profits? The old conventional neoclassical theory states that profit results from the optimal combination of totally substitutable factors of production: labour, equipments, managerial talents, in response to their market prices. Quite on the contrary, modern theorising on the firm stresses that a positive net profit is the outcome of the combination of complementary assets and firm specific competences: none of these factors can be bought or mimicked by the market, still less the financial markets. Who is in charge of generating these profits? Precisely, the top-executives. The very reason that makes the firm efficient entitles CEOs and CFOs with a significant economic power. First, they have access to the relevant and private information that has not necessarily to be made public (for instance about the real sources – and even amount – of profit generated by the firms). Second, they have a better knowledge than shareholders, analysts, fund managers about the strengths and weaknesses of the firm, since they know the routines and the synergies that make the firms profitable (outsiders are best equipped to analyse the impact of macroeconomic/sectoral variables upon the evolution of the profit, not its internal determinants). Third, the CEOs and the directors have the power to make decisions about the strategy as well as the everyday management of the firm (shareholders have only an ex post control, mainly by exit i.e. selling their shares, and annually they have a chance to voice their opinion and cast their vote on an agenda set by the corporation). The control of managers over their remuneration largely results from this intrinsic asymmetry. In the era of financialisation, this superiority took the form of a remuneration by stock-options. In the past, it had another form (salaries, bonuses) and in the future, it will evolve toward new forms.

In the 90s, on behalf on defence of shareholders, managers have converted this internal power into financial wealth, thus benefiting from the liquidity and the speculative bubble associated to the Internet. Given the long lasting erosion of wage earners bargaining power and the shift of governments towards a pro-business stance, the business community has lobbied in order to reform the labour laws, the welfare and the tax systems. In a sense, the economic power of managers has been extended to a significant dose of political power. For instance, the fact that stock options had a privileged taxation and was not considered to be a cost to be taken into account in the evaluation of profits, has created a virtuous circle of seemingly impressive company performance and rise of the stock market.

It is why optimal contract approach to the control and rewarding of managers is bound to fail given the intrinsic power of top managers, the origin of which is related to the very sources of profit in contemporary capitalism. By contrast, combining a managerial power approach with a typical political economy analysis conveys a simple and rather convincing interpretation of the paradox under review. *Under the motto of shareholder value, managers implicitly allied with financiers in order to extend their power and remuneration.*

The search for a new form of corporation?

The limits of the current organisation of quoted corporations have become clear since the early 2000s and nearly any country is trying to cope with the issue of managerial control. The paper has argued that there is no panacea but pointed two possible items on the agenda of corporate reform. First, any move from a pure shareholder vision towards *a stakeholder conception of the corporation* would reduce the probability of managerial greed and erroneous strategic decisions. Second, quite no contract is self-enforcing and therefore *a form of another public control* of the accounting practices for quoted corporations is required in order to prevent an alliance between CEOs and auditors, at the determinant of the rank and file shareholders. Lastly, some macroeconomic contexts are prompt to generate speculative bubbles and allow an excessive power of CEOs: when inflation and consequently interest rates are low, *de facto* the central bankers might be at the origin of financial speculation, and indirectly trigger quite detrimental strategies from top executives. During the 80s in Japan and subsequently during the 90s in the US, *monetary policy* has been at the origin of erroneous business strategies and unjustified wealth from CEOs. All policy makers should learn from this episode.

REFERENCES

AGLIETTA Michel (1982), *Regulation and Crisis of Capitalism*, Monthly Review Press, New York.

AGLIETTA Michel, REBÉRIOUX Antoine (2004), *Dérives du capitalisme financier*, Albin Michel, Paris.

ALLOUCHE José, AMANN Bruno (2000), Le retour triomphant du capitalisme familial?, Mimeograph Université de Versailles-Saint Quentin en Yvelines (LAREGO) et Université de Pau et des Pays de l'Adour (LAREGO) (http://www.univ-pau.fr/~amann/cafiabs.html).

ANDERSON Ronald C., MANSI Sttar A., REEB David M. (2002), "Founding family ownership and the agency cost of debt", Mimeograph Kogod School of Business, American University, Washington, February 6.

ANDERSON Ronald C., REEB David M. (2003), Who monitors the family?, Mimeograph Kogod School of Business, American University, Washington, March 5.

AOKI Masahiko (1988), *Information, Incentives, and bargaining in the Japanese Economy*, Cambridge University Press, Cambridge MA.

AOKI Masahiko (2001), *Toward a Comparative Institutional Analysis*, The MIT Press, Cambridge Ma.

BEBCHUK Lucian Arye (2004), The Case for Shareholder Access: A Response to the Business Roundtable, SEC roundtable on March 10.

BEBCHUK Lucian Arye, FRIED Jesse M. (2003), "Executive Compensation as an Agency Problem", *The Journal of Economic Prospectives*, 17 (3), Summer, p. 71-92.

BERLE Adolphe., MEANS Gardiner (1932), *The Modern Corporation and Private Property*, (réédition : New Brunswick, Transaction Publishers, The State University [1991]).

BIONDI Yuri, BIGNON Vincent, RAGOT Xavier (2004), « Une analyse économique de l'évolution des normes comptables européennes : le principe de « juste valeur » », ronéotypé, Conférence débat, Centre de Recherche en Economie Saint Gobain, 24 Mars.

BOYER Robert (2000a), « Is a finance-led growth regime a viable alternative to Fordism? A preliminary analysis » *Economy and Society*, Vol. 29, n° 1, February, p. 111-145.

BOYER Robert (2000b), « The political in the era of globalization and finance; focus on some Régulation School Research », *International Journal of Urban and Regional Research*, Vol. 24, n° 2, p. 274-322.

BOYER Robert (2004), *The Future of Economic Growth. As new becomes old,* Edward Elgar, Cherltenham UK.

BOYER Robert, FREYSSENET Michel (2002), *The Productive Models*, Palgrave/Gerpisa, Chippenham UK.

BOYER BOYER Robert, HOLLINGSWORTH Rogers Eds (1997), *Contemporary Capitalism: The Embeddedness of Institutions*, Cambridge University Press, Cambridge.

BOYER Robert, JUILLARD Michel (2002), "The United-States: Good bye, Fordism !", in BOYER Robert, SAILLARD Yves Eds, *Régulation Theory: The State of Art*, Routledge, London, p. 238-256.

BOYER Robert, SAILLARD Yves Eds (2002), *Régulation Theory: The State of Art*, Routledge, London.

BUSINESS WEEK (2003), "Beyond options", European edition, July 28, p. 38-39.
BUSINESS WEEK (2004a), "The best and the worst managers of the year", European edition, January 12, p. 35-63.
BUSINESS WEEK (2004b), "Special report. Corporate governance: investors fight back", European edition, May 17, p. 53-67.
CHANDLER Alfred D. (1990) *Scale and Scope: The Dynamics of Industrial Capitalism*. Cambridge: Harvard University Press.
CHAUVIN Keith W., SHENOY Catherine (2001), "Stock Price Decreases Prior to Executive Stock Option Grants", *Journal of Corporate Finance*, 7 (1), March, p. 53-76.
COATES David (Ed.) (2002), *Models of Capitalism: Debating strengths and weaknesses*, Vol. III, Edward Elgar, Cheltenham UK.
CONYON Martin J., MURPHY Kevin J. (2000) "The Prince and the Pauper? CEO Pay in the United States and United Kingdoàm", *The Economic Journal*, 110, November, p. F.640-F.671.
CORIAT Benjamin (2002), "France: The end of Fordism…and no successor in sight"in BOYER Robert, SAILLARD Yves Eds, *Régulation Theory: The State of Art*, Routledge, London, p. 247-253.
DEMSETZ Harold (2003), Business governance and the institutions of capitalism, Mimeograph University of California, L.-A., June 16.
DEMSETZ Harold, LEHN Kenneth (1985), "The structure of Corporate Ownership: Causes and Consequences", *Journal of Political Economy*, 95 (6), p. 1155-1177.
DEUTSCHE BANK (2004) "Beyond the numbers: corporate governance in the UK", *Global Equity Research*, 18 February.
ENGLANDER Ernie, KAUFMAN Allen (2004) "The end of managerial ideology: from corporate social responsibility to corporate social indifference", *Enterprise & Society*, 5(3), p. 404-450.
ERTURK Ismail, FROUD Julie, JOHAL Sukhdev, WILLIAMS Karel (2004), Pay for corporate performance or pay as social division: re-thinking the problem of top management pay in giant corporations, Working Paper Manchester University, May.
FAMA E., JENSEN Michael (1983), "Agency problems and residual claims", *Journal of Law and Economics*, 26 (2), p. 301-325.
FERGUSON Thomas (1999), "Business Leadership and Discrimination: An Alternative Econometric Test", *International and Corporate Change*, 8 (4), p. 777-798.
FIDRMUC Jana P., GOERGEN Marc, RENNEBOOG Marc (2003), Director's Share Dealing and Corporate Control, Mimeograph, Manchester University.
FLIGSTEIN Neil (1990), *The Transformation of Corporate Control*, Cambridge (Mass.), Harvand University Press.
FLIGSTEIN Neil (2001), *The Architecture of Markets. An Economic Sociology of Twenty-First Century Capitalist Societies*, Princeton, Princeton University Press.
FLIGSTEIN Neil, SHIN Taekjin (2004), Shareholder Value and the Transformatyion of the American Economy, 1984-2001", Mimeograph University of California,Berkeley, March.
FROUD Julie, HASLAM Colin, JOHAL Sukhdev, WILLIAMS Karel (2000), "Restructuring for shareholder value and its implications for labour", *Cambridge Journal of Economics*, 24, p. 771-797.
GALBRAITH John Kenneth (1958), *The Affluent Society*, Pelican book, Boston.
GALBRAITH John Kenneth (1993), *American Capitalism : The Concept of Countervailing Power*, Reprint, New Brunswick, (N.J.), Transaction, Classsics in Economics series.
GERLACH Michael L. (1992), *Alliance capitalism : The social organization of Japanese business*, University of California Press, Berkeley.
GRANOVETTER Mark (1985), "Economic Action and Social Structures: The Problem of Embeddedness", *American Journal of Sociology*, 91, p. 481-510.
GRANOVETTER Mark, SWEDBERG Richard (1992), *The Sociology of Economic Life*, Westview Press, Boulder, San Francisco CA.

HALL Brian J., MURPHY Kevin J. (2003) "The trouble with stock options", *The Journal of Economic Perspectives*, 17 (3), Summer, p. 49-70.
HALL Peter, SOSKICE David (eds) (2001), *Varieties of Capitalism : The Institutional Foundations of Comparative Advantage*, Oxford, Oxford University Press.
HELPEL Suzan, MAC DUFFIE John-Paul, SABEL Charles (2000), "Pragmatic Collaborations: Advancing Knowledge while Controlling Opportunism", *Industrial and Corporate Change*, 9(3), p. 443-488.
HENDRY J. (2002), "Opportunism is not the only reason why firms exist: why an explanatory emphasis on opportunism may mislead management strategy", *Industrial and Corporate Change*, 13 (2, 401-418.
HIMMELBERG Charles P., MAHONEY James M. (2004) "Recent revisions to corporate profits: What we know and when we knew it", *Federal Reserve Bank of New York*, 10(3), March.
HODGSON Geoffrey (2004), "The principal's other problems: honest incompetence and the specification of objectives" *Academy of Management Review*, 27, p. 98-113.
JACOBY S.M. (1990) "The new institutionalism: what can it learn from the old?", *Industrial Relations*, 29, p. 316-359.
JENSEN Michael (2000), *A theory of the firm. Governance, Residual Claims and Organizational Forms*, Cambridge, Harvard University Press.
JENSEN Michael, MECKLING William (1976), « Theory of the firm: managerial behavior agency costs and ownership structure », *The Journal of Financial Economics*, 3, p. 305-360.
JENSEN Michael, MURPHY Kevin (1990), "Performance Pay and Top-Management Incentives", *Journal of Political Economy*, 98 (2), p. 225-264.
JOHNSON Jeremy (2003), "US: CEO pay continued upward spiral in 2002", (www.wsws.org/articles/2003/ceo-j03_prn.shtml).
KAPLAN Steven N. (ed.) (2000), *Mergers and productivity*, **NBER** Conference Report series. Chicago and London: University of Chicago Press, 2000;
KAY John (2003), *The Truth about Markets*, Penguin Books, Londres.
KOHN Alfie (2001) "Why incentive Plans Cannot Work", in *Harvard Business Review on Compensation*, Cambridge, Harvard Business School Press, p. 29-49.
LAZONICK William (1992), "Controlling the market for corporate control: the historical significance of managerial capitalism", *Industrial and Corporate Change*, 1 (3), p. 445-488.
LAZONICK William, O'SULLIVAN Mary (1996), "Organisation, finance and international competition", *Industrial and Corporate Change*, 5 (1), p. 1- 49.
LONG Michael (1992), « The incentives behind the adoption of executive stock-options plans in US corporations, *Financial management*, 21 (3), autumn, p. 12-21.
LORDON Frédéric (2002), *La politique du capital*, Éditions Odile Jacob, Paris.
MAIN Brian C., O'REILLY III Charles A., WADE James (1995), "The CEO, the board of directors and executive compensation: economic and psychological perspective", *Industrial and Corporate Change*, 4 (2), June, p. 293-332.
MCCRAW Thomas (Ed.) (1997), *Creating modern capitalism: How entrepreneurs, companies, and countries triumphed in three industrial revolutions*, Harvard University Press, Cambridge (Massachusetts).
MONTAGNE Sabine (2003), *Les métamorphoses du trust: les fonds de pension américains entre protection et spéculation*, Thèse Université Paris 10-Nanterre.
MURPHY Kevin J. (1999), "Executive compensation", in Orley C. Ashenfelter, David Card (eds), *Handbook of Labor Economics*, vol. 3b,,chap. 38, p. 2485-2563.
MURPHY Kevin J., ZABOJNIK Jan (2004), "CEO Pay and Appointments: A Market-Based Explanation for Recent Trends", *American Economic Review*, 94 (2), May, p. 192-196.
ORANGE Martine (2004), "Les patrons du CAC40 se sont largement augmentés en 2003", *Le Monde* , 11 mai, p. 16.
ORLEAN André (1999), *Le pouvoir de la finance*, Odile Jacob, Paris.

O'SULLIVAN Mary (2000), "Le socialisme des fonds de pension ou « plus ça change… » : financement des retraites et *corporate governance* aux Etats-Unis", *l'Année de la régulation 2000*, n°4, La Découverte, Paris, p. 47-87.
PARTNOY Frank (2003), *Infectious Greed*, Profile Books, London.
PETERSEN T., SAPORTA I., SEIBEL M.-D. L. (2000), "Offering a Job: Meritocracy and Social Networks", *American Journal of Sociology*, 106.
PESQUEUX Yvon (2002), *Organisations : modèles et représentations*, Presses Universitaires de France, Paris.
PETIT Philip (1997), « La regulation du choix rationnel : deux strategies », in Dupuy Jean-Pierre, Livet Pierre (dir.) Tome 1 : rationalité, éthique et cognition. *Les limites de la rationalité*, Coll. Recherches, La Découverte, Paris, p. 297-315.
PHILLIPS Kevin (2003), *Wealth and Democracy*, Broadway Books, New York.
PIKETTY Thomas (1999), "Attitudes toward income inequality in France: Do people Really Disagree?", *Couverture Orange CEPREMAP*, n° 9918, Mai, Paris.
PIKETTY Thomas (2003), "Income inequality in France, 1901-1998", *Journal of Political Economy*, 11(5), p. 1004-1042.
PIKETTY Thomas, SAEZ Emmanuel (2003), "Income inequality in the United-States, 1913-1998", *Quarterly Journal of Economics*, February, p. 1-39.
PIRC (Pensions & Investment Research Consultants Ltd (2003), Directors' remuneration : Evidence to the trade and industry committee, Mimeograph, June, London.
PLIHON Dominique (Dir.) (2002), *Rentabilité et risqué dans le nouveau regime de croissance*, Rapport du Commissariat Général du Plan, La documentation française, Paris.
PRENDERGAST Canice (2000), "What Trade-off of Risk and Incentives?", *American Economic Association Papers and proceedings*, 90 (2), p. 421-425.
PRENDERGAST Canice (2002), "The Tenuous Trade-off between Risk and Incentives", *Journal of Political Economy*, 110 (5), p. 1071-1102.
RAPPAPORT Alfred (2001) "New Thinking on How to Link Executive Pay with Performance", in *Harvard Business Review on Compensation*, Cambridge, Harvard Business School Press, p. 1-28.
ROE Mark (1994), *Strong Managers, Weak Owners: the Political Roots of American Corporate Finance*, Princeton, Pinceton University Press.
SHONFIELD Andrew (1967), *Le capitalisme d'aujourd'hui. L'Etat et l'entreprise,* Gallimard, Paris.
SLOAN J.P. (1963). *My Years With General Motors*, Doubleday, New York.
SMITH Adam. (1776), *The Wealth of Nations.* Traduction française, *Recherches sur la nature et les causes de la Richesse des Nations*, Gallimard, Paris.
SRAER David (2003) « Les enterprises familiales sont-elles inefficaces ? Le cas des entreprises françaises cotées de 1990 à 2000 », Mémoire de DEA « Analyse et Politique Economique », EHESS, Paris, 24 septembre.
STATHOPOULOS Konstantinos, ESPENLAUB Susanne, WALKER Martin (2004), How does management compensation respond to exceptional performance?, Mimeograph Manchester School of Accounting and Finance, University of Manchester, May.
SUMMERFIELD Daniel (2003), Executive compensation: General weaknesses in remuneration systems and practices which generally provide inappropriate and inadequate incentives for directors, Mimeograph..
TÉMIN P. (1999), "The Stability of the American Business Elite", *Industrial and Corporate Change*, 8, p. 189-209.
THE ECONOMIST (2003), "Executive pay: Fat cats feeding", October 9th.
WHITLEY Richard (Ed.) (2002), *Competing Capitalism: Institutions and Economics,* Vol. I, Edward Elgar, Cheltenham UK.

Annex 1

The remuneration of French CEO (2003)

Still a discrepancy with respect to stock market evolution and profitability

Dirigeant	Groupe	Salaire total* 2003 (En millions d'euros)	Variation	Stock-options attribuées en 2003 (En nombre)	Jetons de présence comme administrateur dans d'autres sociétés du CAC 40 (En euros)	Evolution du cours de l'action en 2003 (En %)	Résultat net en 2003 (En millions d'euros)
Lindsay Owen-Jones	L'Oréal	6,57	(+ 4,6 %)	1 000 000	95 720	– 10,41	1 653
Edouard Michelin	Michelin	4,26	(+ 146 %)	15 000		10,71	280
Antoine Zacharias	Vinci	3,03	(=)	150 000		22,25	541
Daniel Bernard	Carrefour	2,96	(+ 11,6 %)	nd	64 169	2,57	1 629
Daniel Bouton	Société générale	2,80	(+ 55 %)	109 000	136 500	26,13	2 492
Igor Landau	Aventis	2,77	(+ 38,4 %)	300 000		1,16	1 901
Patrick Le Lay	TF1	2,63	(+ 42 %)	300 000		8,72	192
Thierry Desmarest	Total	2,52	(+ 5 %)	60 000	80 000	8,30	7025
Martin Bouygues	Bouygues	2,49	(+ 19,8 %)	200 000		4,13	450
Franck Riboud	Danone	2,49	(+ 4,7 %)	50 000	104 830	0,94	839
Jean-René Fourtou	Vivendi Universal	2,25	(ns)	1 500 000	349 680	25,21	– 1 143
Jean-François Dehecq	Sanofi Synthélabo	2,10	(+ 10,7 %)	150 000		2,49	2 076
Henri de Castries	Axa	2,09	(+ 34,7 %)	904 496		34,60	1 005
Philippe Camus	EADS	2,03	(=)	135 000		91,37	152
Louis Schweitzer	Renault	1,97	(+ 20 %)	100 000	74 210	22,15	2 480
Jean-Martin Folz	Peugeot	1,89	(=)	60 000	38 460	3,96	1 497
Patrick Ricard	Pernod Ricard	1,88	(– 19,1 %)	15 840	19 900	19,38	464
Serge Weinberg	PPR	1,87	(+ 6,90 %)	60 000	30 490	9,34	645
Henri Lachmann	Schneider Electric	1,82	(+ 43,20 %)	150 000	154 320	15,10	433
Gérard Mestrallet	Suez	1,77	(– 22 %)	350 000	104 340	– 3,69	– 2 165
Michel Pébereau	BNP Paribas	1,72	(– 13,6 %)	225 000	159 950	28,56	3 761
Thierry Breton	France Télécom	1,70	(ns)	pas de plan	66 580	56,87	3 206
Jean-Louis Beffa	Saint-Gobain	1,66	(+ 1,2 %)	240 000	20 960	38,80	990
Bertrand Collomb	Lafarge	1,63	(– 9,1 %)	100 000	108 920	3,39	728
Henri Proglio	Veolia environn.	1,61	(+ 22,1 %)	220 000		– 4,14	– 2 055
Jean-Marc Espalioux	Accor	1,53	(– 4,6 %)	pas d'attribution	80 083	24,39	270
Serge Tchuruk	Alcatel	1,53	(=)	500 000	46 500	144,26	– 1 944
Pierre Richard	Dexia	1,41	(+ 17 %)	120 000		16,80	1 431
Arnaud Lagardère	Lagardère	1,41	(ns)	nd	142 000	18,24	334
Benoît Potier	Air Liquide	1,34	(+ 28,8 %)	pas d'attribution	11 000	11,38	726
Paul Hermelin	Cap Gemini	1,21	(+ 32,3 %)	135 000		61,66	– 197
Jean Laurent	Crédit agricole	1,05	(ns)	nd		32,65	1 026
Jean-Philippe Thierry	AGF	0,92	(– 7 %)	100 000		34,98	808
Charles Dehelly	Thomson	0,90	(ns)	pas d'attribution		3,75	26
Guy Dollé	Arcelor	0,78	(=)	50 000		17,92	257

Les chiffres sont tirés des rapports annuels déposés auprès de l'AMF. Cinq groupes (Casino, LVMH, Sodexho, STMicroelectronics, Thales) n'ont pu être pris en compte, faute de rapport annuel à jour. "Pas de plan" signifie qu'aucun programme de stock-options n'existe dans le groupe ; "pas d'attribution" signifie que le conseil n'a pas accordé de stock-options en 2003 ; nd (non disponible) ; ns (non significatif)

*Salaire total : partie fixe + partie variable sur résultats 2002 versés en 2003 + jetons de présence touchés pour la participation aux conseil de leur groupe et de ses filiales + avantage en nature.

Source: Le Monde (2004), 11 mai, p. 16.