

Shareholders reject GlaxoSmithKline CEO's golden parachute: the reality behind the hyperbole

Jean Shaoul
28 May 2003

Shareholders at the annual general meeting of the British based pharmaceutical giant GlaxoSmithKline (GSK) narrowly rejected chief executive Jean-Pierre Garnier's severance pay or "golden parachute". The package, estimated to be worth a massive \$35.7 million (£22m) should he be sacked before the term of his two-year contract expires, is nothing less than a reward for failure.

It was the first time that shareholders had rejected a pay package, although there have been skirmishes over increased pay, bonuses and severance packages at Reuters, Barclays, Shell Transport and Trading, Royal & Sun Alliance, Reed Elsevier, Aviva and Hilton.

With the press trumpeting this as a "shareholders' revolt", a "historic rebellion", a "landmark in corporate governance", and a "grim warning" to the rest of industry, one could be forgiven for thinking that this was the beginning of the end for the corporate fat cats. The owners of GSK had ridden into town on their white horses and struck a blow against the greed of their lieutenants. The shareholders were the new agents of change that would set us on the road to social equality. From now on, the boardroom fat cats had better watch out.

This is a gross distortion.

Consider first what they were "rebellious" against. Not Garnier's staggering annual pay packet—he took home £6 million in the last financial year and is one of the highest paid CEOs of a British company—but his severance package should he lose his job or the corporation be taken over. The package was indeed obscene. It included not just the two years' pay and bonus worth some £6 million, but a pension plan that would treat Garnier and his wife as though they were three years older than they really were and provide "outplacement counselling" to help him find his next job.

And what was the size of this "rebellion"? A mere 50.7 percent of the 80 percent of shareholders who voted. So more than half the shareholders did not feel sufficiently sickened to oppose the package. Indeed, the National Association of Pension Funds (NAPF), which led the revolt against Garnier's severance package, had recommended abstaining on the resolution.

In any event the revolt has no teeth. The vote was merely advisory and does not bind the board to alter the contract. Under a revision of the Companies Act that came into force at the beginning of 2003, stock market companies are required to disclose full details of their executive contracts and allow shareholders an "advisory vote". Moreover the vote will not be the start of a major campaign, as the organisations that purported to be leading the shareholders' revolt are scared at their own success. The Association of British Insurers (ABI

and NAPF have said they will not oppose the executive pay at HSBC, Britain's largest banking corporation at HSBC's AGM on May 30. Yet one director, William Aldinger who is CEO of a US consumer finance group recently taken over by HSBC, could receive a payoff worth \$37.5 million (£23m), including private medical and dental treatment for the rest of his and his wife's lives.

The Labour government, which has in the past employed populist rhetoric against corporate fat cats, is just about to publish a consultation paper on the issue of corporate pay and how to avoid "rewarding failure". But Patricia Hewitt, the secretary of state for trade and industry, has already let it be known that the government has ruled out legislating against excessive payoffs for directors whose companies have turned in lower profits or made huge losses. As far as she is concerned, the GSK result is being used to claim that voluntary restraint is possible and shareholders can be relied upon to police boardroom greed.

Neither is there any indication that GSK will heed the vote and withdraw the contract. The most the chairman agreed to do was to let Deloitte & Touche, the international accountancy services firm, include severance packages in its review of boardroom pay. This is likely to inflate rather than reduce their pay packets. After all, GSK had commissioned the review after shareholder unease last November when it first proposed a US-style two-year (instead of the normal one-year) contract for Garnier worth £18 million because GSK paid its top management less than its rival drug corporations in the US.

Jean-Pierre Garnier, the man at the centre of the row, has made no secret of the fact that he thinks he is worth every last penny of his £6 million pay last year. Yet profits have fallen by 25 percent to £4.5 billion, the share price has fallen 30 percent to £13.48 over the last two and a half years and Glaxo has had a poor record in developing new drugs during his watch. He has no intention of giving up his lucrative contract and has the corporation over a barrel. Commentators have already calculated that withdrawing the contract could cost the company millions in compensation. In an interview published in the *Daily Telegraph* he said, "I didn't seek this contract ... I accepted it. I'm not Mother Theresa. This is a highly competitive business."

There is no doubt that the size of corporate pay packets in general and more particularly the grotesque payouts for directors forced out in boardroom conflicts after sharp profit falls and even losses have provoked widespread public anger and disgust, not to say incredulity. But the much vaunted shareholder revolt is about defending their perceived long term interests. After all, securing broad public approval or at least avoiding public opprobrium is crucial for their

long term financial survival.

Peter Montagnon, a former *Financial Times* correspondent, who now heads investment affairs at the Association of British Insurers, said, “The severance package was tilted so far in terms of payment for failure that had we voted in favour, we would simply have looked foolish and lacking in integrity.”

So the underlying message from shareholders, government and industry bodies is that fat pay-checks for CEOs are fine as long as they are successful. But what is success really based upon?

For most companies, in the context of over capacity and cut throat competition, success in the form of increased profits comes at the expense of workers’ jobs, wages and conditions. GSK laid off 3,500 workers in the wake of the recent merger between Glaxo and SmithKlineBeecham and has announced that another 2,000 jobs must go, as the merger has failed to deliver the profits and share prices that the City demands.

The government’s promotion of active shareholder involvement and so-called corporate social responsibility is in line with its embrace of the philosophy of the “stakeholder society”, employee shareholdings, mutual societies, public benefit corporations and all the rest of the shibboleths that imply that corporations are one big happy family. Such a conception assumes that companies can balance the interests of their various “stakeholders”—employees, shareholders, consumers, suppliers or the public at large. It denies the inherent conflict between the workers who produce the wealth and the providers of finance, be they the banks or shareholders, who take the surplus created by the workforce.

Success for the giant pharmaceutical corporations has additional dimensions that makes the concept of excessively rewarding management even more nauseating. It is underpinned at every level by the state, statutes and regulations. Most of their revenues come from the sale of prescription medicines in just a dozen industrial countries where there is socialised medicine, whether it is the state or private insurance that picks up the tab. Most of this comes in turn from the sale of a few patented drugs, backed up by the World Trade Organisation’s Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement that enables them to charge monopoly prices for the life of the patent. Once the patent expires, other companies are free to produce them and prices and therefore profits fall drastically.

In Britain the government’s Pharmaceutical Price Regulation Scheme (PPRS) sets prices that guarantee the drug companies a 21 percent return on capital employed and drains the National Health Service of 15 percent of its revenues. The ostensible justification for this profiteering at public expense is the cost of research into new drugs. Yet much of their research is carried out or heavily subsidised by publicly funded universities and they typically spend much more on sales and marketing than they do on research and development.

In the last ten years, the pharmaceutical industry, including Glaxo, has seen a wave of mergers and takeovers as the corporations sought to compensate for their drugs going ex-patent by buying up companies that had a promising pipeline of drugs under development and improve their bargaining position with governments and purchasing authorities alike.

According to a Public Citizen report, the corporations spent \$78.1 million lobbying the US government in 2001 and employed 623 different lobbyists. Of these 340 had “revolving door” connections—having previously worked in Congress or other parts of the federal government. Many were “well connected” and had influential access to officials high up in the administration. In 2001,

the most recent year for which data is available, GSK, more than half of whose sales are in the US, spent \$4 million and employed 36 lobbyists.

Money that went on lobbying was money well spent. To cite but one example, in 1996 GlaxoWellcome’s (as GSK was then known) most important product Zantac’s patent was about to expire. Glaxo and other drug companies lobbied hard to exploit a loophole in the WTO that delayed generic copies of Zantac and other drugs appearing by up to two years. This earned Glaxo a cool \$1 billion windfall. Glaxo increased its political donations when Congress was discussing closing the loophole and made its first \$100,000 soft money contribution to the Republican Party.

More recently the industry succeeded in getting the Bush administration to block the decision reached at the WTO’s meeting at Doha in November 2001 to secure an international agreement to allow poor countries to get access to cheap drugs.

Thus, far from the profits being the result of management skills or indeed the workings of the “free market”, they come courtesy of a truly generous system of state handouts, hidden subventions, corporate lobbying and—the only positive aspect—the efforts of their workforce.

Lord Haskins, lying on a stretcher in the head of Northern Foods who now chairs various government taskforces, spelt out his fears that corporate greed was bringing business into disrepute and calling capitalism itself into question. In a comment piece in the *Financial Times* he wrote, “Because of these excesses, public perception of business people is low and trust in them is negligible. Therefore, when responsible business want to express a serious opinion about, for example, genetically modified food, their views are discredited. Everyone therefore loses because of the behaviour of the few. It must be in the interest of shareholders and the business community for directors to regain the confidence of the public.”

It is no coincidence that million dollar pay checks for directors began in the late 1970s and early 1980s as the rate of profit began to fall. Performance bonuses linked to share prices and share options were seen as ways of aligning the interests of managers and owners and ensuring that managers would deliver. Where profits could not be generated at the point of production, the CEOs turned to corporate looting in the form of acquisitions, asset stripping, creative accounting, tax avoidance and all the rest of the financial engineering schemes to release dividends for shareholders.

That these “incentive” schemes now extend to golden parachutes is symptomatic of a profound pessimism. In essence it expresses not just individual greed on the part of CEOs, but a lack of confidence in the economy and long term viability of the corporations they head. After all, what need would there be for golden parachutes if they believed that they and their corporations had a secure future?



To contact the WWS and the Socialist Equality Party visit:

wws.org/contact