

The New Executive Aristocracy

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Have you ever been a tourist in Western Europe? If you have then there is a good chance you have seen the odd castle, palace and church. A ride in the English countryside could take you to Chatsworth, home of the Duke and Duchess of Devonshire. (www.aboutbritain.com). It is a small palace or large house, depending on one's perspective on things large and small. It is full of amazing treasures and surrounded by magnificent gardens.

Closer to London, there are two of the many residences of the current monarchy of Great Britain; Windsor Castle and Buckingham Palace. Here, the tourist can appreciate the difference between a duke and a king; a duchess and a queen. In England, the remnants of an old and powerful European aristocracy are somewhat intact. Here we see the distant relatives of some of the most powerful families who controlled the western world in the second millennium.

If our travels take us through Vienna, then the magnificent Schonbrunn Summer Palace (<http://www.arch.kth.se/hemsidor/otherhome/octavianhome/Austria/schonbrn.html>) and its vast gardens are most likely on the list of things to see. While the palace is striking, its history is more striking. It is a monument to the Habsburg dynasty and was a significant focal point for the Habsburgs as they ruled the lands of the Austro-Hungarian Monarchy for over four hundred years. If the walls of the palace could talk, we would hear the conversations of a few powerful men and women who controlled the fate of millions through war and peace. At one point in history, the Habsburgs managed one of the largest empires on earth; an empire that engulfed the Balkans and truly represented the fault line between eastern and western traditions.

But outside Paris, there is the Palace of Versailles. This is the place where you really start to imagine what power a select few could command during the 17th and 18th centuries (www.chateauversailles.com). Louis XIV really must have had a magic wand to create such opulence in the one place. This monument was in stark contrast to the poverty that was apparent throughout France and the rest of Europe. Versailles, as the monument to absolute power, represented another fault line; the tension between a royal aristocracy and the down-trodden masses. It was a tension between the haves

and have-nots that like a volcano, spewed out blood in the form of the French Revolution. A symbolic break with the past occurred in 1793 with the execution of the king.

The kings and queens of Europe represented a few families and dynasties that ruled over vast empires for centuries. This aristocracy developed through birth and maintained itself by the authority of the monarch to rule by divine right.

The 19th century saw the rise of another European aristocracy; the capitalists and entrepreneurial set that created their own empires as the industrial revolution gained momentum. America became the monument to this new breed spawned by the exodus of the down-trodden and opportunists from Europe. The new barons controlled vast physical, financial and production resources. They lived in mansions rather than castles. They controlled the media, transportation, and labour. These barons gained their nobility not by divine right but by the power of money. They became central figures in a new fault line that played out in various forms in the 20th century; the tension between capitalism and socialism. The common thread to the power of the kings, queens and capitalists is the way they managed the evolving relationship between the haves and have-nots.

Today, there is an emerging aristocracy; the managerial elite. The industrialisation of the 20th century promoted big business, big government and big innovation. A managerial profession emerged to plan, organise, lead and control the diverse range of organisations that represent the economies of the modern world. Today also, we are told that industrial society has given way to an information and knowledge-based society. We have intelligent managers and intelligent knowledge workers. The power of this new nobility is based on a professional craft of manipulation. It is the subtle art of getting results for shareholders, governments, banks and themselves by influencing intelligent people to be more creative and resourceful with less and less available resources. It is the art of equating performance and rewards to share prices and yesterday's balance sheets. It is the art of claiming success on behalf of other people. Is this the basis of a new fault line?

Each year, *Business Review Weekly* values Australia's top 50 chief executives by calculating salary against market capitalisation (share price increases or decreases) at June 30. Dividends from shares held in the company are not included in the salary calculations. For 1999, the average salary was \$1.92 million for the top 50.

Top of the list for best value was Chris Morris, CEO of Computershare¹. He was followed by Gerry Harvey of Harvey Norman, Fred Hilmer of Fairfax, James Strong while he was still with Qantas and Chris Anderson of Optus. The worst value CEO was Rupert Murdoch.

The salaries being paid to some Australian chief executives are outrageous according to Morris and he adds that these executives need to ask themselves what they can do for their staff, company and Australia rather than worrying about the size of their remuneration. Chris Anderson of Optus insists that his executives are measured on performance and says that they all have shares in the company so they can be sensitive to the value they add for shareholders. Performance management is a sound practice and remuneration linked to performance can be a motivating factor. However,

staff are still not convinced about the large packages even though they may be linked to performance.

Morris observes that the big salaries can be a disincentive to other staff particularly when many of the senior staff in the company could run the company effectively. So why such large differentials in pay? Another point not missed on staff is the fact that CEOs who have presided over corporate losses and operational disasters are still rewarded very well anyway. Two companies that have had significant financial difficulties are AMP and BHP. The outgoing CEO of AMP received a payout of \$27 million while the outgoing CEO of BHP received a payout of \$11.1 million. Employees are also nervous that linking remuneration to performance as defined in terms of shareholder value, can unbalance what good practice dictates as the achievement of a balanced scorecard — a combination of financial and non financial performance criteria.

And a final point why employees are nervous by the big money to be had for CEOs is the fact that many have been made redundant by famous people such as ‘Chainsaw’ Al Dunlap. He attempted to turn Sunbeam around and significantly downsized the workforce in the restructuring that occurred. Those who survived were so demoralized that they were unable to help in making the company profitable again. Dunlap was himself ‘chain-sawed’, after he had destroyed a proud workforce without improving shareholder value². In his book, *Mean Business*, Dunlap insists that the \$100 million he made from 20 months of intense work at Scott Paper company did not come from laying off workers³.

If the constant reminder in the press about excessive remuneration for our CEOs is any indication, then there is a growing tension between the haves and have-nots. In this case, the have-nots tend to be knowledge workers whose intellectual capital provides the foundation for success for business and government rather than the over-paid and over-sized administration that protects its turf and stranglehold on bureaucracy.

How will this fault line be played out in the future? Another revolution? Previous revolutions have been fought over poverty, independence, liberty and ideology. Maybe the next revolution will be fought over the three Rs of intellectual capital: Rights, Recognition and Rewards.

More than ever, executives need to be sensitive to all their constituencies. They need to be more socially and personally responsible than they have in the past. They need to reflect on who contributes the real value to their organisations and let the rewards reinforce true competence and contribution. And they need to personally reflect on the question of real sustainability in the future; for their masters and for their children of a world that we now refer to as the global village.

¹ Adele Ferguson and Kate de Clercq 1999, ‘Boss Cocky’, *Business Review Weekly*, November 5, pp. 60-65.

² Patricia K. Zingheim; Jay R. Schuster 2000, ‘Before It’s Too Late’, *Across the Board*, March, Vol. 37, Issue 3, p. 23.

³ Albert Dunlap with Bob Andelman 1996, ‘Mean Business: how I save bad companies and make good companies great’, Butterworth Heinemann Asia, Singapore.