There seems to be “prevailing wisdom”, or we could call it a school of thought, that ifthe CEO of a public company owns stock, that their interests are aligned with shareholders.

The underlying logic is that all shareholders want the price of the stock they own to go up. So if management owns stock, and they work to get the price up, then management and shareholders have achieved a meeting of the minds and everyone is happy. Right ? Wrong.

There is one primary disconnect that makes this completely untrue and at its heart, the reason why executive pay has gotten so out of line and why individual shareholders are being taken advantage of every single day.

Lets start with shareholders and their interests.

There is a survey published by the Securities Industry Associationthat provides some fascinating data about who owns stock in the US, how much and how they hold it.

Here is the link to the survey, entitled Equity Ownership in America 2005.

For the sake of this argument, the highlights of the survey are that nearly 90 pct of equity owners hold some or all of their equity assets in tax deferred accounts,90 pct of all equity holders dont have any sell transations in any given year and 96 pct of investors agree with the statement, “I view my equity investments as savings for the long term”

My “analysis” of this data is that if corporate management wants to be in alignment with shareholders, they better understand the shareholder credo, which is:

“Ive invested in your company for my future and the future of my family. Dont screw it up !”

I understand that at this point some may suggest that the first disconnect is between individuals and the people who run the mutual funds they invest in. As I have written about before, I agree. But for the sake of discussion, lets move past that. The numbers and perspective mentioned above hold with those people who own stocks directly in companies

Now lets look at the perspective of the corporate insider, in particular the CEO.

There are two types of CEOs, those who are the founders or co-foundersof their companies, and those who were hired to do the job. The difference is important because those involved with the founding of their companies not only have a different personal connection with the company and its employees, but more importantly, since they founded the company, they most likely already own a lot of stock. The motivation of a founding CEO will be money, but there will be other considerations. Sometimes.

Then there are those hired to be CEOs. What are the goals of hired CEOs ?. Plain and simple, its to get paid. To make as big a chunk of money as they possibly can in the shortest amount of time. No one in their right mind is going to take on a job with the amount of pressure, stress and away from familytime that comes with being the CEO of a public companywithout getting paid incredible sums of money.

There is an interesting kinship between hired CEOs and professional athletes. Both realize that there are limited opportunities to make the big financial score, and if they dont make it this time through, they may never get the opportunity again.

There isnt a CEO in America with the opportunityto take the helm of a public corporation that didnt run the numbers in their head and play “what if”. What if the stock went to this price ? What if the stock went to that price? Then based on the total number they needed to get to the networth they always dreamed of, and using the CEO pay totals of men or women who had already done the same thing to get their current jobs as comps, they negotiated their deal from there. Any CEO in this position who tells you otherwise is lying.

Which is why the concept of CEO and shareholders interest being in alignment because they both own stock is a big lie. The CEO wants to hit the homerun of their career when they take the job, the shareholder just doesnt want to strike out with their life savings.

Stay tuned for Part2 for some ideas.