Why Barrick Gold Still Doesn’t Get It

Description

Last year, **Barrick Gold** (TSX: ABX)(NYSE: ABX) caused an investor uproar over excessive pay packages. The most objectionable was a $17 million signing bonus given to incoming chairman John Thornton. That bonus was still fresh in everybody’s mind as the company filed its newest information circular on Monday. What would the company do for an encore?

A lot of steps taken

The new pay structure is drastically different from the old one, evidence that Barrick was listening to its largest shareholders. The company is emphasizing pay for performance, something that many people said wasn’t in place last year. For example its new “scorecard” scheme will see its executives paid largely in restricted stock that they’ll have to hold until they leave the company.

Barrick also reduced the salary of Mr. Thornton, as well as that of outgoing chairman Peter Munk and CEO Jamie Sokalsky. Base salaries for all employees have been frozen in 2014.

Don’t worry, they still get paid well

Unfortunately, old habits die hard. Mr. Thornton was still paid $9.5 million (USD) while Mr. Munk was paid $3.9 million. CEO Sokalsky was still paid $7.7 million. By comparison, the median compensation for a non-executive chairman among Canada’s largest public companies is $350,000. Warren Buffett only pays himself $500,000 for his efforts.

And this all occurred in the worst year in Barrick’s history, one in which its stock sunk 45%.

Still not enough

So how are executives judged now? What is on the scorecard? If one takes a look at the long-term scorecard, the first metric is Return on Invested Capital, accounting for 20% of the “score”. Not a bad start.

But there are other metrics that seem a little odd: Strong Capital Structure, Capital Project

Performance, Strategic Execution, Reputation & License to Operate, and People Development. These metrics cannot be measured precisely, rather they must be judged qualitatively. Are these really good measures used to calculate a bonus? They better be, because these measures account for 65% of the scorecard.

And that's just the long-term scorecard. The company still uses a short-term scorecard, something that probably should be scrapped altogether. It contains various measures that are either impossible to measure precisely or are based on meeting predefined targets. So the executives have plenty of incentive to set a low bar for themselves – once they jump over it, a nice bonus will follow.

Foolish bottom line

It is clear that Barrick still doesn't get it. The company claims it is emphasizing pay for performance, but 2013 was another year in which executives won while shareholders lost. And there are still too many performance measures used that have no place on any scorecard.

For investors looking to bet on a rebound in gold, a much better option is a gold ETF. At least you won't have to worry about costs you can't see or predict.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
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