Barrick Gold Corp.'s Executive Compensation Games Hurt Shareholders

Description

Executive compensation has become a major issue in the investment world, as shareholders balk at the often-ridiculous compensation packages given to executives at large corporations. The latest example is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), whose shareholders voted this week 75% against Chairman John Thornton's $13 million compensation package.

Thornton's pay was $9.5 million last year, and coincidentally his raise nearly matched the stock's decline over the last year. Although there's no direct correlation between executive compensation and stock price, some analysts believe the massive pay packets dished out to executives undermine the goal of achieving superior returns.

In a speech at Barrick's annual meeting, Thornton said shareholders made their point "loud and clear" and he vowed to take the feedback and refine Barrick's executive pay system. Barrick faced a similar vote at its last two shareholder meetings, but those votes failed to pass.

This time, however, Barrick was the focus of a campaign, led by major pension plans, including the Canada Pension Plan Investment Board, to change its executive compensation metrics. The company's current executive compensation program is "structured in a way that does not align pay with performance," the British Columbia Investment Management Corporation said in a statement.

The "say on pay" movement, while well meaning, has one major flaw: it's non-binding. That means boards of directors are free to ignore the wishes of shareholders, even if 100% of them vote against a company's proposed compensation package. So, pledges like Thornton's to change the system are essentially meaningless and must be taken with a grain of salt.

Still, the movement is growing. The number of Canadian companies that allow their shareholders to vote on advisory resolutions increased last year to a total of 147 companies, according to a report by business law firm Osler, Hoskin & Harcourt.

Somewhat lost in the noise of the compensation controversy were Barrick's latest quarterly earnings, which were also released this week. Barrick's adjusted earnings per share in Q1 2015 were $0.05, down 75% from $0.20 last year. Revenue declined 15% to $2.25 billion. The company said it sold 1.39

million shares of gold during the quarter, a 14% decrease from last year. Lower gold prices also contributed to Barrick's weak results.

What does all this mean for investors? The earning results suggest Barrick is a buying opportunity, especially if you believe gold prices are heading higher in the long term. But if you're against Barrick's executive compensation practices, you might want to choose another stock in the gold sector with a better record.

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