

**Inflated Corporate Bonuses:  
Only Real Solution Is to End Government Subsidies;  
Financial Sector and U.S. Congress to Blame for Recession,  
Business Press Not to Blame**

**BDO Dunwoody Weekly CEO/Business Leader Poll  
By COMPAS in *Canadian Business*  
For Publication September 28, 2009**



**COMPAS Inc.  
Public Opinion and Customer Research  
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### 1.0 Overview

CEOs and business leaders on the COMPAS business panel were asked to recommend solutions and assign blame in the wake of immense controversy over the size of bonuses given to the executives in firms that had received U.S. government bailouts. The bottom line is that panelists believe that the only real solution is to allow firms in trouble to reorganize or go into bankruptcy but not to extend large bailouts.

As for who was responsible for the recession, panelists blame business and the U.S. Congress equally while tending to absolve the business press of any responsibility.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

### 2.0 Solutions—No Bailouts; Blame—Congress and Financial Business

Tables 2a and 2b provide quantitative detail on panelists' opinions—the former showing that panelists believe that the only real solution is no bailouts, the latter showing that they absolve the business press while holding Congress and the financial services industry both responsible for the recession. Panelists certainly do not believe that taxpayers should learn to live with the bonuses.



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Table 2a: (Q1) As you know, there's been much controversy over large bonuses paid to senior executives of financial services and other firms that received very large bailouts from the U.S. government. On a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, please score your agreement with the following views on this matter. RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
Governments should learn not to provide these immense subsidies and allow losing enterprises to go bankrupt or otherwise restructure.	5.4	31	20	24	12	5	6	1	1
Governments should increase the cost to the recipient firm by a multiple (say, five times) of the magnitude of the unreasonable bonuses.	4.4	14	17	20	13	5	6	16	9
Governments should invest more resources to ensure that there exist adequate services to facilitate quick reorganizations so that the successful part of any losing company can resurface and thrive after reorganization.	4.1	10	14	17	19	7	16	10	8
Governments should ban the bonuses.	3.7	19	8	11	10	9	16	25	2
Taxpayers should learn to accept that unreasonable bonuses are just an inevitable cost that needs to be absorbed to enable an economy to function.	2.3	4	5	5	6	12	20	46	3



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Table 2b: (Q2) Looking back on the recession that we've been experiencing, on a 7 point agreement scale where 1 means disagree strongly and 7, agree strongly, please score your agreement with the following views about who should receive blame for the situation. The recession was substantially the fault of... RANDOMIZE

	Mean	7	6	5	4	3	2	1	DNK
Unethical, unscrupulous conduct in the financial services industry.	6.0	45	32	15	3	2	2	1	0
Mediocre or incompetent conduct in the financial services industry.	6.0	37	41	13	6	2	0	2	1
Politicians in Congress for encouraging the two privileged mortgage players, Fannie Mae and Freddie Mack, to create an unsustainable volume of mortgages given to people with inadequate incomes to make monthly payments.	5.8	36	30	24	5	3	2	1	0
Governments for not adequately regulating the hedge funds and other giant financial players.	5.8	33	29	28	5	2	2	1	1
The business press and business community for not warning of the dangers of inadequate regulation.	4.2	13	14	19	18	16	13	9	0

The following verbatims provide a nuanced sense of panel opinion:

I would like to see one more line added to the Charter of Rights stating: That every person and company has the right to go broke. As a country we would encourage everyone to make wise decisions with their money and businesses but,



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that we would recognize that this wouldn't always happen and those that make mistakes should be allowed to fail.

With regards to default the major fault line between Canada and the U.S. is mortgage interest deductibility. Only one pen controls that policy, and that pen sits with the U.S. government. The financial leverage envisioned by that policy was simply taken to "vision fulfillment" by the private sector mortgage brokerage industry.

A large cause of the recession was simple politics: the difficulties arose during a critical time in both the American and Canadian election cycles when politicians - amply aided and enthusiastically abetted by the media - eagerly were seeking bad news to ensure political change. The facts were: We did NOT have high unemployment (still don't), did NOT have record high inflation, did NOT have record high interest rates - anyone who had lived through the seventies and eighties should have recognized this. In some very real sense this was a 'crisis' manufactured for political purposes that should never have been allowed to 'get away' as it did when Lehman was abandoned - and there is reason to suspect that occurred again for rather personal political reasons. This is not to deny here were very real issues related to the derivative markets and Fannie and Freddie that badly needed to be addressed, but all in all it has been quite poorly managed, and should not have happened.

As a taxpaying business owner I highly resent paying one dime of my money to help bail out large companies, if my company does not earn money the first one not paid is me. If I go broke I can't even get unemployment insurance benefits, let alone my regular salary and a million dollar bonus.

Blame can be shouldered by many but in the end the primary reason for the collapse is "greed" combined with a lack of morals, ethics, scrutiny and common sense.



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Without restraints, people with low or no moral and ethical compasses operate with reckless abandon and no thought of anything but themselves and their gains financial or otherwise. They show no care for their fellow man.

It is tough for governments to effectively regulate compensation. The system is fundamentally corrupt with committees of peers all with a vested interest in seeing compensation for senior managers grow. Shareholders need to be more active.

Wall Street - Las Vegas West. The shooters had a great time making bets they couldn't cash. Invented and bought off the politicians, to deregulate, and now they're whistling to the banks with their performance bonus.

The people who have abused the system will never have to repay their dishonest earnings, and the taxpayers will end up covering this once the shareholders have been exhausted. Who is responsible? Mostly the political and policy directions set by the regulators and the politicians who appointed them. They in turn were elected by the U.S. voters, who therefore collectively have to accept some responsibility for their lack of due diligence. Having granted this, it is now those taxpayers who are the shareholders, through their government, and they certainly have the right and responsibility to bring about a compensation system that rewards increases in shareholder wealth - and this means acceptable risk management.

Financial services firms consider their investors' money as theirs, not their investors'. Paying unreasonable bonuses out of investors' monies is not only 'unreasonable' but an outright crime and should be treated as such, with suitable penalties (i.e.: prison or fines).

Everyone looks at the financial industry as the scape goats. I agree that they have a major role to play, but I believe their role should have been to be ringing the alarm bells much



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earlier that the Government (U.S.) was too far into debt and would jeopardize the entire economic structure of the economy. Instead they only focused on the potential profits to be made in the short term!

Gaps in controls will always allow people to take advantage of those or stretch them to their own benefit. If one door closes, efforts will be made to open others that will result in other opportunities. The results may not be the same as was the cause of the last recession, but there will be another knock against retail investor confidence. While governments increase their debt load, increase taxes by whatever means are possible and not control inflation and interest rates to the level they should, investors will look for high returns to protect their wealth. That is an open field for opportunities based on greed.

There is no reason to pay the big shots that kind of a bonus. I bet there are just as many qualified people out there that would do the job for less. It's just friends keeping friends in the top positions and some of them are not qualified to run a daycare.

If you deny bonuses the slimy business will take the money by other means. They will invent some other way of taking stockholders money.

All large contracts should contain a clause that prohibits and cancels bonuses when public funds are used to bail out a corporation. Bonuses should be tied to the success of a company over a period of time. Perhaps a bonus fund. The fund can only be in safe investments and paid out once a number of successful years have been achieved.

This is all a result of everyone behaving rationally in microcosm, but hugely irrationally macro economically. I have spoken to mortgage brokers from California who knew without a doubt that they were giving loans that made no economic sense except to the borrower and themselves.



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Their employers also knew these loans were rubbish, but the system allowed them to unload the risk to others. So it is not a matter of people suddenly finding out that their mortgagees could not pay: They knew that going in.

### **3.0 Methodology**

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted September 23 - 25, 2009. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=129 are deemed accurate to within approximate 8.7 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

