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GM's 2018 Proxy Statement: Time To Fix The Flawed Senior Executive Compensation Plan

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Summary

- We have reviewed General Motors' 2018 proxy statement from a shareholder perspective; it leaves much to be desired.
- GM's senior executive compensation system is unnecessarily complex and does not align the interests of management with shareholders.
- We recommend that shareholders WITHHOLD votes from all four members of the compensation committee (Item 1) and vote AGAINST approval of the named executive compensation plan (Item 2).
- In addition, we recommend that shareholders vote IN FAVOR OF Item 4 (Separate Chairman and CEO) and Item 5 (Shareholder Written Consent Right).

On April 27, 2018, General Motors (GM) issued its 2018 proxy statement. Sadly, the proxy statement is inordinately convoluted and confusing, and most likely impenetrable for the average GM shareholder (the document runs over 40,000 words or about two-thirds the length of Stephen King's debut novel Carrie). However, we have done the hard work to decipher it and explain in plain English in this article what we believe an engaged GM shareholder needs to know. Based on our analysis, as more fully described herein, our voting recommendations are as follows (note that we make no recommendation regarding Items 3 and 6 in the proxy):

(1) **ITEM NO. 1** - ELECTION OF DIRECTORS: Shareholders should WITHHOLD votes from all four directors on the compensation committee, namely Carol M. Stephenson, James J. Mulva, Joseph Jimenez, and Patricia F. Russo.

(2) **ITEM NO. 2** - APPROVAL OF, ON AN ADVISORY BASIS, NAMED EXECUTIVE OFFICER COMPENSATION: Shareholders should vote AGAINST the approval of, on an advisory basis, the Named Executive Officer Compensation;

(3) **ITEM NO. 4** - SHAREHOLDER PROPOSAL REGARDING INDEPENDENT BOARD CHAIRMAN: Shareholders should vote FOR approval of this proposal; and

(4) **ITEM NO. 5** - SHAREHOLDER PROPOSAL REGARDING SHAREHOLDER RIGHT TO ACT BY WRITTEN CONSENT: Shareholders should vote FOR approval of this proposal.

The Power Of Incentives

In this article, we will principally be discussing GM's executive pay plan because in our view this is by far the most important aspect of the proxy statement. Why is this? Because any compensation plan is at its heart an incentive plan (if result A is achieved, pay is X; if result B is achieved, pay is Y); and incentives drive behavior; and behavior drives outcomes for shareholders, employees, customers, etc. Thus, to a substantial degree, the future of the company and its stakeholders depends on the level of rationality or irrationality of the company's compensation scheme, since this determines the behavior of those that work there. On this general topic, Berkshire Hathaway (NYSE:BRK.A) (NYSE:BRK.B) Vice Chairman Charlie Munger has stated the following:

> Never, ever, think about something else when you should be thinking about the power of incentives... I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and all my life I've underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther.

As an initial matter, let's take a step back and consider what exactly is the purpose of executive compensation. Clearly, executives should be compensated in a way that motivates them to work hard to achieve operational results for the company and its shareholders. What executive compensation is ***NOT*** for is to reward executives for results that do not ultimately benefit the true owners of the company, the shareholders. In other words, the interests of management and the shareholders must be aligned in order for an executive compensation system to properly serve its ends (heads the shareholders win, so does management; tails the shareholders lose, so does management). If a compensation system results in the clear misalignment of incentives (tails the shareholders lose, yet management still comes out great financially), something is seriously wrong.

Now it would stand to reason that if the financial interests of management and the shareholders were ***NOT*** properly aligned, one might expect some of the following things to occur with respect to the subject company:

1. Despite making record profits, the company would fail to raise its dividend for an extended period of time. Note: below is GM's recent dividend track record, inexplicably showing no increase since February 2016 despite the company making record profits during that period:

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Historical Dividends - GM Common Stock, $0.01 Par Value

DECLARATION DATE	RECORD DATE	PAYABLE DATE	AMOUNT PER SHARE
04/25/2018	06/08/2018	06/22/2018	$0.38
02/05/2018	03/09/2018	03/23/2018	$0.38
10/23/2017	12/08/2017	12/21/2017	$0.38
07/24/2017	09/08/2017	09/22/2017	$0.38
04/27/2017	06/09/2017	06/23/2017	$0.38
02/06/2017	03/10/2017	03/24/2017	$0.38
10/24/2016	12/07/2016	12/22/2016	$0.38
07/20/2016	09/09/2016	09/23/2016	$0.38
04/20/2016	06/10/2016	06/23/2016	$0.38
02/02/2016	03/11/2016	03/24/2016	$0.38
12/08/2015	12/18/2015	12/29/2015	$0.36
09/02/2015	09/14/2015	09/29/2015	$0.36
04/13/2015	06/10/2015	06/23/2015	$0.36

2. Despite having massive amounts of cash and marketable securities, the company would fail to repurchase a meaningful amount of shares in its most recent fiscal quarter, despite having forward P/E ratio ranking the company towards the very bottom (if not actually dead last) of all companies in the S&P 500 index. Note: GM ended Q1 2018 with over $21 billion in cash and marketable securities, yet only repurchased $100 million worth of its stock (constituting about 1/5th of 1% of all shares outstanding), despite a forward P/E of ~6X.

3. High-level company executives would avoid purchasing shares of company stock on the open market since they could reasonably expect to receive boatloads of free stock courtesy of the shareholders regardless of whether the shareholders make or lose money over time. This buying strike would also signal that they had little confidence in their own leadership abilities and capability to generate shareholder returns going forward. Note: The six named executives in GM's proxy statement (namely, CEO Mary Barra, CFO Chuck Stevens, President Dan Ammann, EVP Mark Reuss, EVP Alan Batey, and EVP Karl-Thomas Neumann) have purchased a grand total of ZERO GM SHARES on the open market over the past two years.

4. Only the threat of a proxy contest would light a fire under the company's management to actually make shareholder-friendly decisions such as instituting a large buyback program or divesting operations that were historically unprofitable (in each case, diminishing the scope of management's empire in order that shareholders might prosper). Note: It took a proxy contest in 2015 to cause GM management to do the obvious and institute a $5 billion stock repurchase program; in addition, GM's management procrastinated about exiting the company's European operations (in which the company had squandered a mind-boggling $20 billion over the previous 17 years) until just days before (coincidence?) Greenlight Capital launched a public proxy fight last year.

5. The company's stock would woefully underperform the S&P 500 index over an extended period of time. Note: Below is a chart showing the performance of GM stock versus the S&P 500 since GM's IPO in late 2010, evidencing GM's 115% underperformance(!) versus the index:

6. Finally (and this might sound truly insane to a layperson), the company would actually spend shareholder money to hire a supposedly "independent" consultant to instruct the company's CEO that for "security reasons" she should be ***forbidden from flying by anything other than private jet*** (yes, sadly, you read that correctly). Note: Sure enough, GM has done just that, as shown on page 43 of the proxy:

Perquisites and Other Compensation

We provide perquisites and other compensation to our NEOs consistent with market practices. The following perquisites and other compensation were provided to NEOs in 2017:

- **Personal Air Travel** – Ms. Barra is prohibited by Company policy from commercial air travel due to security reasons identified by an independent third-party security consultant. As a result, the Company pays the costs associated with the use of private aircraft for both business and personal use. Ms. Barra is permitted to be accompanied by guests for personal travel and incurs imputed income for all passengers, including herself, at the U.S. Internal Revenue Service (the "IRS") Standard Industry Fair Level rates. Other NEOs may travel on private aircraft in certain circumstances with prior approval from the CEO or the Senior Vice President, Global Human Resources, and also incur imputed income for any personal travel.

Brevity: Not The Soul Of GM's Proxy

Our first clue that something may be amiss with the executive compensation plan laid out in the GM's 2018 proxy statement lies in the incredible length and complexity of the document. If a management team wanted the true owners of their company to understand the logic behind the remuneration paid to top executives, the pay plan would be laid out in 4-6 pages of plain, straightforward prose - ***and, most importantly, it would make rational sense***. Recall the famous Amazon (NASDAQ:AMZN) memo system:

From: Bezos, Jeff [mailto:[redacted]
Sent: Wednesday, June 09, 2004 6:02 PM
To: [redacted]
Subject: Re: No powerpoint presentations from now on at steam

A little more to help with the question "why."

Well structured, narrative text is what we're after rather than just text. If someone builds a list of bullet points in word, that would be just as bad as powerpoint.

The reason writing a good 4 page memo is harder than "writing" a 20 page powerpoint is because the narrative structure of a good memo forces better thought and better.understanding of what's more important than what, and how things are related.

Powerpoint-style presentations somehow give permission to gloss over ideas,flatten out any sense of relative importance, and ignore the interconnectedness of ideas.

What is Bezos saying? He is saying that less is more, basically ("well structured, narrative text is what we're after", not verbosity). Summarize things coherently yet succinctly. And, most importantly, describe what's more important than what and how things are related.

GM's proxy statement is more or less the equivalent of a 150-slide PowerPoint presentation. The proxy runs a full 80 pages (as indicated above, nearly the length of a novel) with dozens of different sections and various charts and graphs. True, it includes a 2-page Q&A session with the CEO at the beginning of the proxy (which could have been used to present the "Amazon 4-page Memo" for GM), yet nothing therein elucidates why GM's compensation structure makes sense, which should be a main purpose of the proxy. Moreover, the section entitled "Executive Compensation" runs on for 33 pages(!) and includes the following sub-sections:

Overview, principles, elements, performance measures, decisions, policies, practices, report, tables - it just goes on forever. Below is one of the tables from this section, which requires 8 explanatory footnotes. Can the average GM shareholder really be expected to understand what any of this means, why it makes logical sense or how it aligns the interests of management and shareholders? We doubt it.

▶ Outstanding Equity Awards at Fiscal Year-End

	Option Awards						Stock Awards(1)			
Name	Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units or Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights That Have Not Vested ($)
Mary T. Barra	6/7/2017	—	652,611(2)		34.34	6/7/2027				
	2/14/2017								261,816(7,8)	10,731,838(8)
	2/10/2016						78,191(6)	3,205,049	351,859(7,8)	14,422,700(8)
	7/28/2015	1,041,215(3)	520,608(4)	1,041,214(5)	31.32	7/28/2025				
	2/11/2015						504,380(6,7)	20,674,536		
Charles K. Stevens, III	6/7/2017	—	186,998(2)		34.34	6/7/2027				
	2/14/2017								75,021(7,8)	3,075,111(8)
	2/10/2016						20,750(6)	850,543	93,378(7,8)	3,827,564(8)
	7/28/2015	—	124,729(4)	249,458(5)	31.32	7/28/2025				
	2/11/2015						120,842(6,7)	4,953,314		
Daniel Ammann	6/7/2017	—	247,867(2)		34.34	6/7/2027				
	2/14/2017								99,440(7,8)	4,076,046(8)
	2/10/2016						28,269(6)	1,158,746	127,211(7,8)	5,214,379(8)
	7/28/2015	390,456(3)	195,228(4)	390,455(5)	31.32	7/25/2025				
	2/11/2015						189,143(6,7)	7,752,972		
Mark L. Reuss	6/7/2017	—	203,314(2)		34.34	6/7/2027				
	2/14/2017								81,566(7,8)	3,343,390(8)
	2/10/2016						23,457(6)	961,502	105,558(7,8)	4,326,822(8)
	7/28/2015	—	165,944(4)	331,887(5)	31.32	7/28/2025				
	2/11/2015						160,771(6,7)	6,590,003		
Alan S. Batey	6/7/2017	—	135,226(2)		34.34	6/7/2027				
	2/14/2017								54,251(7,8)	2,223,748(8)
	2/10/2016						16,240(6)	665,678	73,079(7,8)	2,995,508(8)
	7/28/2015	—	117,137(4)	234,273(5)	31.32	7/28/2025				
	2/11/2015						113,487(6,7)	4,651,832		

(1) The awards are valued based on the closing price of common stock on the NYSE on December 29, 2017, which was $40.99.

(2) Options awards granted on June 7, 2017 and vest ratably each February 14 of 2018, 2019, and 2020.

(3) Option awards granted under the DSV Option Grant on July 28, 2015. This portion represents the 40% of the award that featured time-based vesting and vested on February 15, 2017.

(4) Option awards granted under the DSV Option Grant on July 28, 2015. This portion represents the 20% of the award that features performance-based vesting and vested on February 15, 2018 for the performance period ending December 31, 2017.

(5) Option awards granted under the DSV Option Grant on July 28, 2015. This portion represents the unearned 40% of the award that features performance-based vesting and vests ratably each February 15 of 2019 and 2020.

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EXECUTIVE COMPENSATION

(6) RSU awards granted on February 10, 2016, and vest ratably each February 10 of 2017, 2018, and 2019. RSU awards granted on February 11, 2015 and vest ratably each February 11 of 2016, 2017, and 2018.

(7) 2017 PSU awards granted on February 14, 2017, cliff-vest on February 14, 2020, upon completion of results for the performance period January 1, 2017–December 31, 2019. 2016 PSU awards granted on February 10, 2016 and cliff-vest on February 10, 2019, upon completion of results for the performance period January 1, 2016–December 31, 2018. 2015 PSU awards granted on February 11, 2015 and cliff-vested on February 11, 2018, upon completion of results for the performance period January 1, 2015–December 31, 2017. The final performance for the 2015–2017 PSU was 200% and is discussed on page 47.

(8) Assumes target-level payout of PSU awards. If maximum-level payout of PSU awards, the number of shares (and market value of such shares) with respect to unvested 2016–2018 PSUs and 2017–2020 PSUs, respectively, outstanding as of December 31, 2017 was for Ms. Barra: 703,718 shares ($28,845,401) and 523,632 shares ($21,463,676); for Mr. Stevens: 186,756 shares ($7,655,128) and 150,042 shares ($6,150,222); for Mr. Ammann: 254,422 shares ($10,428,758) and 198,880 shares ($8,152,091); for Mr. Reuss: 211,116 shares ($8,653,645) and 163,132 shares ($6,686,781); for Mr. Batey: 146,158 shares ($5,991,016) and 108,502 shares ($4,447,497); for Dr. Neumann: 128,564 shares ($5,269,838) and 95,664 shares ($3,921,267).

Critical Analysis Of GM's Executive Compensation Plan

Page 38 of the proxy states that "[t]he Compensation Committee seeks to align the Company's executive compensation program with the interests of the Company's shareholders". However, our analysis leads to the conclusion that this is emphatically not the case; in fact, the opposite appears to be the case. We believe that GM's compensation plan was doomed from the start because the process used to formulate it was completely backwards. On page 42, under the section entitled "How We Plan Compensation", we find the following flowchart:

How We Plan Compensation

So, the first step is that management makes its recommendations on how the compensation should work (akin to a self-graded exam). Next a hired gun compensation consultant weighs in, and, in our view, basically rubber-stamps whatever comp structure management has come up with. Why do we assume this? Think about the incentives. You run a compensation consultancy; a company hires you to advise on the compensation plan they have already formulated (which in this case means formulated by the high-level executives regarding ***THEIR OWN PAY***). Are you (as consultant) really going to jeopardize your annually recurring consulting fee by challenging the already-baked plan that management (who is paying your fees, using shareholder funds) has already decided they desire? Of course not, you are simply going to (perhaps after a minor tweak or so, just to prove that you aren't being paid completely for nothing) approve their plan as the best possible one. Finally, after all of the foregoing has taken place (meaning that at this point the executive compensation plan is pretty much set in stone), ***the people who are actually tasked by the board of directors with structuring executive compensation***, namely the members of the compensation committee, show up and sign off on the structure. Note that the flowchart in the proxy statement states that the main task of the compensation committee is to "approve" and/or "review and approve" the compensation structure, not "design" or "develop" or "come up with an optimal structure for" the plan.

Perhaps, though, management could conceivably design a rational compensation plan for themselves so as to align their economic interests with those of the shareholders, right? Is this actually the case with GM's plan described in the 2018 proxy? On page 36 of the proxy, in the section entitled "Our Company Performance", we note that none of the listed bullet points discussing said performance refer to total shareholder return (or TSR) (please see the full performance summary below). In fact, the closest one comes is the reference to dividends and share repurchases (but not to the stock price). This is very telling since if a compensation plan were properly aligned with the interests of shareholders, any "company performance" summary at a bare minimum should show how company performance translated into TSR.

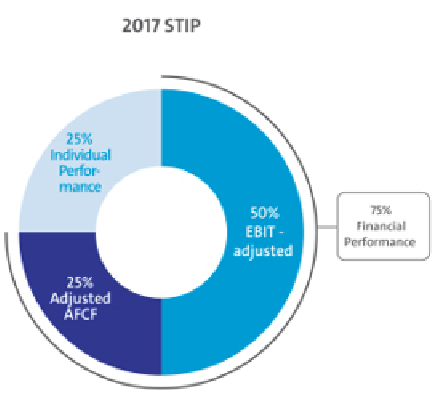
Our Company Performance

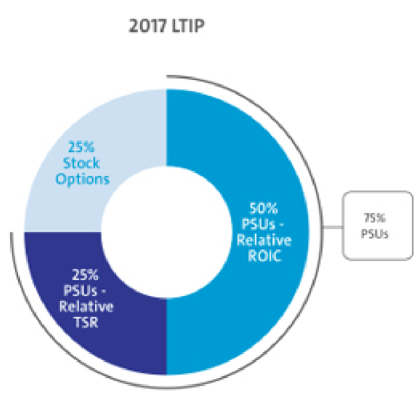
In 2017, we continued progress toward our goal of making GM the most valued automotive company for our shareholders. The results below demonstrate how we are positioning GM as an industry leader both now and in the future:

- Completed the sale of Opel/Vauxhall and GM Financial European businesses to Peugeot, S.A. ("PSA");
- Exited franchises in South and East Africa and discontinued retail sales operations in India;
- For the fourth consecutive year, sold more pickup trucks in the United States than any other automaker – a record 948,909 units;
- Completed the refresh of GM's crossover portfolio and became the fastest-growing crossover company in the United States, with retail market share up 1.6 percentage points to 13.1%, according to J.D. Power PIN estimates;
- Increased global Cadillac sales 15.5% in 2017 with significant sales increases in international markets, including a 50.8% increase in China;
- Improved EBIT-adjusted margin to 8.8% for continuing operations;
- Returned a total of $6.7 billion to shareholders through dividends and share repurchases;
- Increased EPS-diluted-adjusted to $6.62;
- Launched Super Cruise, the world's first hands-free highway driving technology, on the Cadillac CT6;
- Shared the vision for zero crashes, zero emissions, and zero congestion and outlined an all-electric future with plans to launch at least 20 electric vehicle models by 2023;
- Announced plans to deploy self-driving vehicles in a dense urban environment in 2019;
- Acquired Strobe, Inc. to help develop next-generation LiDAR solutions for self-driving vehicles and reduce LiDAR costs by 99% over time; and
- Became the first company to use mass-production methods to build autonomous electric test vehicles.

Note: EBIT-adjusted margin and EPS-diluted-adjusted are non-GAAP financial measures. Refer to Appendix A for a reconciliation of these non-GAAP measures to their closest comparable GAAP measure.

Next, on page 39 of the proxy, under the section entitled "Compensation Program Evolution", we note that GM's short-term incentive plan, or STIP, also includes no relative TSR test; and the long-term incentive plan, or LTIP, only includes a relative TSR test for 25% of the payout:

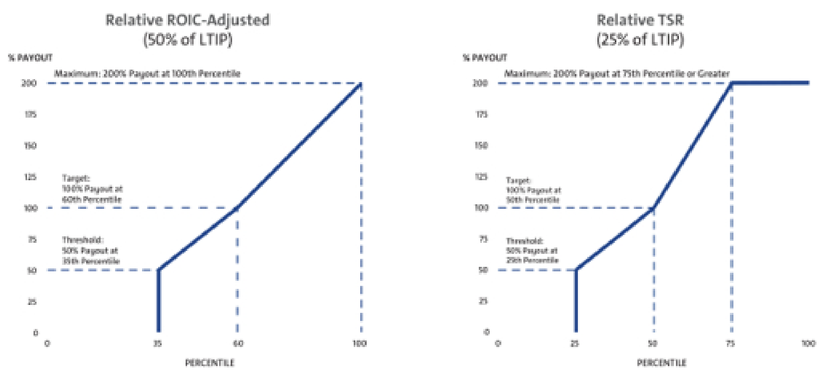




We believe that if a board of directors truly wanted its senior executives to be aligned with the shareholders (as GM claims repeatedly in its proxy), then ***all of the STIP and LTIP should be conditioned on a relative TSR test***. After all, 100% of the shareholders' overall financial result is measured by the TSR, so why shouldn't management be judged (and compensated) on the same basis? The various metrics that the company instead uses to determine short and long-term incentive payouts refer to adjusted EBIT, adjusted AFCF, global market share, and "global quality". Looking at these four items, clearly, management has discretion in determining whether three out of the four have been met because they are somewhat subjective. The first two are "adjusted" metrics, meaning that management has latitude to "adjust" the numbers until the end result magically falls within pre-conceived targets. With respect to the final metric of global quality, this is also quite "squishy". However, there is nothing subjective about whether the stock price has outperformed or underperformed GM's peer group (assuming, of course, that management has not cherry-picked the peer group composition to flatter their own results in comparison).

Moreover, on page 40 of the proxy, we find yet another problem with GM's compensation structure, namely that for its performance-based LTIP (75% of the total LTIP), payouts are based on a sliding scale from 0% to 200% of the target bonus amounts (rather than, as one might reasonably expect, 0% to 100%):

The percentile rank required for each performance level relative to OEM peers and associated payouts for PSUs are displayed below.



Look closely at these figures. GM's management receives 100% bonus payouts for attaining performance at the 60th percentile and 50th percentile of the respective metrics. In other words, mediocre results result in full bonuses, which makes absolutely no sense. Only in executive C-suites in corporate America do employees get massively compensated simply for "shooting par". No doubt GM's management would push back on this argument by saying that most companies in their peer group use a 0% to 200% bonus payout ratio range. However, as the old saying goes, just because your friend decides to jump off the Brooklyn Bridge does not mean that you should also (unfortunately, illogicality seems contagious among compensation committees generally today).

And what about that "Peer Group for Compensation Comparisons", which we find listed on page 41 of the proxy? Here it is in all its glory:

Company	Industry	Company	Industry
3M Company	Industrial Conglomerates	Honeywell International Inc.	Aerospace and Defense
The Boeing Company	Aerospace and Defense	IBM Corporation	IT Consulting and Other Services
Caterpillar Inc.	Construction Machinery and Heavy Trucks	Intel Corporation	Semiconductors
Deere & Company	Agricultural and Farm Machinery	Johnson & Johnson	Pharmaceuticals
The Dow Chemical Company(1)	Diversified Chemicals	Johnson Controls Inc.(1)(2)	Auto Parts and Equipment
Du Pont(1)	Diversified Chemicals	PepsiCo, Inc.	Soft Drinks and Food
Ford Motor Company	Automobile Manufacturers	Pfizer Inc.	Pharmaceuticals
General Electric Company	Industrial Conglomerates	The Procter & Gamble Company	Household Products
HP, Inc.	Technology Hardware, Storage, and Peripherals	United Technologies Corp.	Aerospace and Defense

(1) Companies were involved in significant mergers, acquisitions, or divestitures. The Committee will evaluate each peer company for inclusion in the peer group for 2018 and beyond.
(2) The Committee removed Johnson Controls Inc. from the peer group during their 2017 annual review.

Note that the peer group that GM has chosen is totally bizarre. ***The so-called "peers" for GM "for compensation comparisons" include just a single automobile manufacturer, Ford.*** That's it. Out of 18 supposed peers, Pfizer, Pepsi, HP, IBM, Dow and Du Pont all make the cut, but not Chrysler, Daimler, BMW, Toyota or Tesla(!). Why would this be? A cynic might guess that the peers GM has chosen above perhaps have higher overall compensation levels than GM's "real" peers in the auto industry. ***Yet, amazingly, when GM measures its TSR for the small portion of the LTIP that actually has a relative TSR hurdle, suddenly GM's compensation committee deems it appropriate to compare performance with the following "peer group", comprised solely of auto manufacturers***:

Dow Jones Automobiles & Parts Titans 30 Index – OEM Peer Group		
Toyota Motor Company	Volkswagen AG	Suzuki Motor Corp.
Daimler AG	Bayerische Motoren Werke AG	Fiat Chrysler Automobiles NV
Ford Motor Company	Nissan Motor Co. Ltd	Tesla, Inc.
Honda Motor Co. Ltd.	Renault SA	Mazda Motor Corp.
General Motors Co.(1)	Hyundai Motor Co.	Kia Motors Corp.

(1) GM's performance will be determined on a continuous ranking for performance relative to OEM peers following the completion of the performance period.

So, just to recap, when coming up with baseline salary and target bonus levels, GM's comp committee thinks Pfizer (NYSE:PFE), PepsiCo (NYSE:PEP), and IBM are good comparisons for GM (setting a very high bar), yet when measuring TSR for LTIP purposes, the comp committee believes that Toyota (NYSE:TM), BMW (OTCPK:BMWYY), and Daimler (OTCPK:DMLRY) are appropriate (setting a lower bar). How convenient (for GM's management, that is).

It should come as no surprise, given the foregoing discussion, that GM's C-suite executives have made out quite handsomely financially during the past three years, during which time the company's share price has barely budged. Below we present the trailing three-year Summary Compensation Table from page 57 of the proxy statement:

▶ Summary Compensation Table

Name and Principal Position(1)	Year	Salary(2) ($)	Bonus(3) ($)	Stock Awards(4) ($)	Option Awards(5) ($)	Nonequity Incentive Plan Compensation(6) ($)	Change in Pension Value and NQ Deferred Compensation Earnings(7) ($)	All Other Compensation(8) ($)	Total ($)
Mary T. Barra Chairman and Chief Executive Officer	2017	2,100,000	—	10,737,570	3,250,003	4,956,000	52,792	861,683	21,958,048
	2016	2,000,000	—	13,000,036	—	6,760,000	181,777	640,246	22,582,059
	2015	1,750,000	—	12,000,004	11,167,029	3,062,500	12,012	597,118	28,588,663
Charles K. Stevens, III Executive Vice President and Chief Financial Officer	2017	1,100,000	—	3,076,744	931,251	1,622,500	54,114	316,430	7,101,039
	2016	1,100,000	—	3,450,007	—	2,673,800	135,146	244,132	7,603,085
	2015	1,000,000	—	2,875,049	2,675,437	1,375,000	—	176,738	8,102,224
Daniel Ammann President	2017	1,450,000	—	4,078,222	1,234,378	2,138,800	—	356,918	9,258,318
	2016	1,450,000	—	4,700,032	—	3,513,100	—	560,852	10,223,984
	2015	1,200,000	—	4,500,021	4,187,636	1,650,000	—	262,420	11,800,077
Mark L. Reuss Executive Vice President, Global Product Development, Purchasing and Supply Chain	2017	1,200,000	—	3,345,168	1,012,504	1,770,000	54,390	344,446	7,726,508
	2016	1,200,000	—	3,900,018	—	2,905,000	134,777	272,866	8,412,661
	2015	1,100,000	—	3,825,012	3,559,495	1,515,000	—	199,629	10,199,136
Alan S. Batey Executive Vice President, & President, North America	2017	1,025,000	—	2,224,928	673,426	1,447,800	316,601	287,373	5,975,128
	2016	950,000	—	2,700,035	—	2,406,900	133,151	225,078	6,415,164
Karl-Thomas Neumann Former Executive Vice President & President, Europe	2017	916,936	2,000,000	1,961,676	593,751	1,276,317	126,796	12,563	6,888,039

Does the above table, evidencing that the top-6 GM executives have received approximately $175,000,000 in overall comp over the past three years, makes any sense in light of the following stock chart (note that the S&P is up over 26% since May 2015 while GM is basically flat)???

Market Summary > General Motors Company
NYSE: GM

+ Follow

36.61 USD −0.100 (0.27%) ↓

May 7, 11:38 AM EDT · Disclaimer

1 day | 5 days | 1 month | 1 year | 5 years | Max

Open	36.63	Div yield	4.15%
High	36.77	Prev close	36.71
Low	36.40	52-wk high	46.76
Mkt cap	50.79B	52-wk low	31.92
P/E ratio	8.80		

(GM might object that we are negatively cheery-picking here since the numbers in the summary compensation table are supposedly subject to "performance" tests that could eventually reduce the actual payout amounts under the STIP and LTIP. However, as we discussed above, the fact that 0% of the STIP and only 25% of the LTIP payouts are dependent on a relative TSR hurdle, combined with the fact that (1) the STIP payouts are largely based on "squishy" adjusted or subjective metrics and (2) most of the LTIP payouts are on a 0% to 200% (instead of 0% to 100%) scale, collectively mean that GM's executives will be highly likely to eventually receive most of - if not even more than (given that the figures above assume a 100% payout under the LTIP, when in fact these payouts could potentially be up to 200% of the targeted amounts) - the compensation outlined in the summary table.)

Given the foregoing, we conclude that the GM senior executive compensation scheme outlined in the 2018 proxy statement does **NOT** align the financial interests of senior executive management with those of the shareholders and therefore is hopelessly flawed. At a bare minimum, all of the compensation awarded to senior management other than base salaries and any stock option grants should be subject to a relative TSR test (we would recommend zero additional compensation if GM ranks in the bottom TSR quartile, additional compensation reduced by 50% if in the second from bottom quartile and additional compensation reduced by 20% if in the second from top quartile). In addition, bonuses should be calculated on a 0% to 100% scale, not 0% to 200%. ***We thus recommend that shareholders (1) WITHHOLD their votes from the four members of the compensation committee responsible for approving the plan, namely Carol M. Stephenson, James J. Mulva, Joseph Jimenez and Patricia F. Russo (Item #1 listed in the proxy) and (2) VOTE AGAINST, on an advisory basis, approving the plan itself (Item #2 listed in the proxy).***

GM Needs To Separate Its Board Chairman And CEO Positions

Warren Buffett cannily described the typical flawed board of directors/C-suite dynamics at work in many American corporations, and which we believe is evidenced in GM's 2018 proxy filing, in his 1988 Berkshire Hathaway shareholder letter:

> The supreme irony of business management is that it is far easier for an inadequate CEO to keep his [or her] job than it is for an inadequate subordinate.
>
> If a secretary, say, is hired for a job that requires typing ability of at least 80 words a minute and turns out to be capable of only 50 words a minute, she will lose her job in no time. There is a logical standard for this job; performance is easily measured; and if you can't make the grade, you're out. ***Similarly, if new salespeople fail to generate sufficient business quickly enough, they will be let go. Excuses will not be accepted as a substitute for orders.***
>
> ***However, a CEO who doesn't perform is frequently carried indefinitely.*** One reason is that performance standards for his [or her] job seldom exist. When they do, they are often fuzzy or they may be waived or explained away, even when the performance shortfalls are major and repeated. ***At too many companies, the boss shoots the arrow of managerial performance and then hastily paints the bullseye around the spot where it lands.***
>
> Another important, but seldom recognized, distinction between the boss and the foot soldier is that ***the CEO has no immediate superior whose performance is itself getting measured***. The sales manager who retains a bunch of lemons in his sales force will soon be in hot water himself. It is in his immediate self-interest to promptly weed out his hiring mistakes. Otherwise, he himself may be weeded out. An office manager who has hired inept secretaries faces the same imperative.
>
> ***But the CEO's boss is a Board of Directors that seldom measures itself and is infrequently held to account for substandard corporate performance.*** If the Board makes a mistake in hiring and perpetuates that mistake, so what? Even if the company is taken over because of the mistake, the deal will probably bestow substantial benefits on the outgoing Board members. (The bigger they are, the softer they fall.)
>
> Finally, relations between the Board and the CEO are expected to be congenial. At board meetings, criticism of the CEO's performance is often viewed as the social equivalent of belching. No such inhibitions restrain the office manager from critically evaluating the substandard typist.

In our opinion, GM's senior executive compensation plan is flawed - and shareholder returns are thereby muted - because of the inherent conflicts in having a board of directors headed by the CEO as its Chairman. When the CEO/Chairman controls the board, presumably the CEO will make sure that the board's compensation committee (which is supposedly in charge of designing the pay plan applicable to the CEO and his or her senior lieutenants) is composed of members that will operate in the manner the CEO wishes. In other words, in this scenario, the CEO/Chairman, rather than "independent" board members, really controls the compensation plan and will often ensure that those occupying the C-suite prosper regardless of how the shareholder's fare (tails the shareholders lose, yet senior management still does great financially). All of the evidence we have from the proxy statement (discussed in depth above) indicates that this exact situation prevails at GM, despite their claims to the contrary of "alignment of management and shareholders".

We, therefore, recommend that if GM shareholders want a board that actually prioritizes their financial interests (rather than protecting the interests of management regardless of whether shareholders prosper), ***they should vote for IN FAVOR OF Item 4 - SHAREHOLDER PROPOSAL REGARDING INDEPENDENT BOARD CHAIRMAN***, which states in pertinent part as follows:

> Shareholders request our Board of Directors to adopt as policy, and amend our governing documents as necessary, to require henceforth that the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. The Board would have the discretion to phase in this policy for the next CEO transition, implemented so it does not violate any existing agreement.
>
> If the Board determines that a Chairman who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the requirements of the policy within a reasonable amount of time. Compliance with this policy is waived if no independent director is available and willing to serve as Chairman. This proposal requests that all the necessary steps be taken to accomplish the above.

The board of directors is supposed to represent (by proxy) the interests of the shareholders as the true owners of the company; indeed, they have a fiduciary duty to look out for the shareholders' interests. Yet how can a board which is chaired by a member of management possibly be expected to prioritize the interests of shareholders vis-a-vis the interests of management when these conflicts? The answer is that it cannot (unless the board chairman is independently a substantial shareholder of the company, such as Bill Gates with Microsoft or Warren Buffett with Berkshire Hathaway). Despite GM's claims in opposing this proposal, having a lead independent director is not enough, since CEO Mary Barra via her role as Board Chairman is in firm control of the company's board.

GM Shareholders Should Be Able To Act By Written Consent

Finally, we recommend that to further promote the ability of the shareholders to protect their financial interests and prevent overreach and/or neglect by incumbent management or board directors, ***shareholders should vote for IN FAVOR OF Item #5 - SHAREHOLDER PROPOSAL REGARDING SHAREHOLDER RIGHT TO ACT BY WRITTEN CONSENT***, which states in pertinent part as follows:

> Shareholders request that our board of directors undertake such steps as may be necessary to permit written consent by shareholders entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting. This written consent is to be consistent with applicable law and consistent with giving shareholders the fullest power to act by written consent consistent with applicable law. This includes shareholder ability to initiate any topic for written consent consistent with applicable law...
>
> Taking action by written consent in lieu of a meeting is a means shareholders can use to raise important matters outside the normal annual meeting cycle. A shareholder right to act by written consent and to call a special meeting are 2 complementary ways to bring an important matter to the attention of both management and shareholders outside the annual meeting cycle. More than 100 Fortune 500 companies provide for shareholders to call special meetings and to act by written consent.
>
> General Motors shareholders have no right to act by written consent. Shareholders of companies incorporated in Delaware, like General Motors, automatically have the right to act by written consent. However, the GM charter specifically takes away this important right. GM shareholders also do not have the full right to call a special meeting that is available under Delaware law.

Currently, shareholders have just one chance per year to assert their rights as the real owners of GM. Once the annual meeting has passed, however, senior management and the board realize they are "off the hook" (so to speak) for another 365 days. Allowing the applicable percentage of GM shareholders to act by written consent outside of the normal annual meeting cycle for certain corporate actions (such as electing a new board) means that GM's board and management could potentially be on placed on the spot ***at any time***. This, in essence, gives shareholders the right to subject incumbent management and board to a "pop quiz", as it were. We believe that this proposal, if approved, would force these incumbents to keep shareholder interests constantly in mind, in contrast to the current scenario, where they are only held accountable one time per year.

Conclusion

Charlie Munger is 100% correct - incentives drive behavior. If GM shareholders expect to prosper financially (and don't suffer from an incurable case of Stockholm Syndrome), they need a board and management that is actually incentivized to act in their interests rather than pursuing self-centered goals. In order to achieve this happy state, several corporate governance reforms ***MUST*** be made at the company. First, GM's senior executive compensation system must be revamped to actually align the interests of the C-suite executives with those of shareholders. Shareholders withholding their votes from the four members of the compensation committee (Item #1) and voting against approval of GM's executive compensation plan (Item #2) at the 2018 annual meeting will send exactly this message of change to those at the top. Furthermore, voting in favor of Item #4 (independent board chairman) and Item #5 (ability for shareholders to act by written consent) will reinforce to them the notion that shareholders intend to control their own destiny. ***In sum, it is time to forcefully communicate to Chairman & CEO Mary Barra and the rest of the board at the 2018 annual meeting that the status quo is NOT acceptable, that over seven years of a stagnant stock price during a raging bull market is NOT acceptable and that the shareholders, not management or the board, are the TRUE OWNERS of General Motors Company.***

Disclosure: I am/we are long GM.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it. I have no business relationship with any company whose stock is mentioned in this article.

Like this article 5 Likes

Comments (25)

Ray Merola, Contributor
Good article. I believe GM is instituting a reasonable share repurchase program, but that's a point-of-view difference that doesn't detract from the hard work put into this article.

I agree the exec comp setup is weak. Too much pay for mediocre results.

Separation of the chairman and CEO roles is important. The point of the chairman is to provide oversight to the CEO. Combining these defeats the purpose.

08 May 2018, 10:02 AM

Seven Corners Capital Management, Contributor
Author's reply » "The point of the chairman is to provide oversight to the CEO. Combining these defeats the purpose."

This is EXACTLY the point. The BoD Chairman is supposed to be the shareholders' designated "watchdog" to make sure senior management is working on behalf of the owners (the shareholders), not pursuing their own self-interested goals (e.g., receiving massive compensation for mediocre results).

In fact, the ONLY time a BoD chair and CEO should be combined is either (A) in a situation where the CEO is independently a very large shareholder (in which case the value of the CEO's stock holdings is so large that the annual comp for such person is basically immaterial--think Warren Buffett) or (B) the CEO has demonstrated the ability to generate significant outperformance versus peers based on TSR over an extended period (Reed Hastings at NFLX, for example). In ALL other cases the roles should be separate.

08 May 2018, 12:19 PM

Seven Corners Capital Management, Contributor
Author's reply » Note that Mr. Joseph Jimenez of the GM comp committee has been apparently implicated in the Michael Cohen controversy (another reason to vote against him):

"At the time Swiss pharmaceutical giant Novartis entered into a contract with Michael Cohen's limited liability company, its CEO had just been elected to a leadership position at one of the most powerful lobbying groups in American politics.

Joseph Jimenez was CEO of Novartis in February 2017 when the company entered into a $100,000-a-month consulting agreement with Essential Consultants LLC, the company set up by Cohen, Donald Trump's personal attorney, in October 2016. Cohen had previously used the shell company to make a $130,000 payment to adult film actress Stormy Daniels (whose real name is Stephanie Clifford) in exchange for her silence about an alleged affair with Trump, who has denied the allegations."

http://bit.ly/2ID7OG8

In addition, GM comp committee member Patricia Russo was the lead independent director at Arconic during the fiasco (relating to the Elliott Management proxy contest) which resulted in the resignation in disgrace of then CEO Klaus Kleinfeld. Here is what Elliott had to say about Ms. Russo:

"§ Ms. Russo did not and still does not recognize the need for fundamental change. Nevertheless, Ms. Russo insists she should lead Arconic's Board
§ We – and many other shareholders – believe Ms. Russo's professional background is ill-suited to the task at hand. Moreover, her deep and interlocking relationship with Dr. Kleinfeld may have been a major impediment to change at Arconic
§ Further, Ms. Russo, now the Chairman of Arconic, is now the Chairman or Lead Director of two public companies, and on the Board of five public companies – only enhancing our concerns that the current Board has yet to grasp even the most rudimentary understanding of good corporate governance principles.
"Under the leadership of Patricia Russo, the Board of Arconic has demonstrated a pattern of poor judgement and intolerable behavior that can't be redeemed by their reluctant decision to finally remove [Dr.] Klaus Kleinfeld. Given Ms. Russo's extraordinarily poor track record as both an executive and board leader, and the severe breaches of shareholder trust that have occurred at Arconic under her watch, it's clear to us that the Board should seek new leadership." – Adam Karr, Orbis Investment Management, April 17, 2017"

http://bit.ly/2wCvPst
[see slide #12]

13 May 2018, 12:41 PM

Seven Corners Capital Management, Contributor
Author's reply » ...apparently the only time Ms. Russo gets overly busy is when an activist dares to challenge one of the CEOs whose board she sits on - then it seems she flies into action in order to entrench both the CEO and the board at the expense of shareholders (as with ARNC recently).

But otherwise she has plenty of free time, as per the following interview she gave to Forbes:

"Q: How do your current life and work compare to when you were running Alcatel-Lucent?

Patricia Russo: When you are chairman and CEO of a global company, it's 24/7. It's full time, with lots of travel around the world. When you're on a board, you're spending time preparing for the meeting and spending time at the meeting, but in between you're not working full time on behalf of the company. The major difference is the amount of time I have now.

Q: That must be a relief. Are you having fun?

It feels good. I said to myself when I stopped working full time that I would take at least a year and reflect on life, figure out what I wanted to get involved in and how I wanted to spend my time. I think it's healthy. I have time to do other things. I have time for family and time for golf."

http://bit.ly/2Kls7Fr

So it appears that GM shareholders are supposed to be thrilled that Ms. Russo has loads of "time for family and time for golf" in between her sporadic entrenchment activities. God forbid she actually slave over designing a comp program that would benefit GM shareholders instead of management - THEN THERE MIGHT NOT BE ADEQUATE TIME FOR GOLF!!!

13 May 2018, 01:36 PM

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garyreynolds.rdg
CEO compensation for MOST large Corporations is exorbitant and totally out of line with Global standards.
GM is indicative of USA CEO and Top Executive groups. Overpaying for less than stellar results and then awarding large quantities of options is all too common.

I've held back on adding additional GM shares over the past several years due to my prejudice on the bail out they received and their subsequent failure to try and compensate shareholder from that time period.

08 May 2018, 10:22 AM

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jncrump1939@gmail.com
Great article!! I would like to see the author on the GM board.

08 May 2018, 10:22 AM

uokoro1
I voted against the compensation plan but sadly I only own 235 shares. Buffet own a truck load of their shares I wonder how he voted

08 May 2018, 10:27 AM

Sustainable Free Cash Flow, Contributor
Seven,

It looks to me that they have watered down the ROIC targets dramatically from the last two years?? Which is VERY frustrating. Do you agree?

08 May 2018, 10:32 AM

Rudester
The problem of outrageous executive compensation is not limited to GM. For example, look at KO. The problem is that institutions, which hold the majority of the shares, rubber stamp the board recommendations. As a retail investor I have been voting no on most proposed compensation packages and even voted "against" members of the compensation committee (eg. KO).

08 May 2018, 10:37 AM

> **Seven Corners Capital Management, Contributor**
> Author's reply » Correct - Vanguard, Blackrock, Fidelity - they are all completely clueless and worthless. They allow shareholders to be endlessly abused by overreaching boards and management teams. That is why activist investors are so important - the good ones actually work on behalf of all of the shareholders to correct these kinds of abuses of the corporate machinery.
>
> 08 May 2018, 12:13 PM

dmc7553
I completely agree with the author. Owned GM for several years and sold last year. No dividend increases and stock holders were not getting rewarded while the executives are getting rich. GM isn't the only company where executive compensation is lopsided compared to performance results. This kind of greed and "the good ole boys club" mentality is the major reason ordinary individuals complain about executive exorbitant compensation!

08 May 2018, 10:37 AM

sam026
Sounds like the it is recycling old GM's "old boy" network of rewarding mediocrity in performance.

08 May 2018, 10:38 AM

c21vintage
Excellent article, thanks! I am a huge fan of Mary Barra when it comes to running GM but like everyone long GM, I am frustrated with the moribund stock price. We're told the dividend won't be hiked because 2/3 of the $ supposedly being 'returned' to shareholders is being done via the buybacks, which are clearly not happening per your #s. Buybacks mainly benefit management as it acts to keep the P/E looking good even as earnings decline, they rarely actually do benefit the shareholders. I want to see the dividend increased by a substantial amount, or at the least a special dividend. As an owner of a few shares, I believe it's my $$$, pay me and let me worry about the taxes. It is very concerning to me that none of the senior management has made a stock purchase on the open market, despite the depressed price. I will be taking the author's recommendation to vote against the compensation board.

08 May 2018, 10:50 AM

> **Ray Merola, Contributor**
> Since the end of 2014 through YE 2017, it appears GM reduced the number of common shares outstanding by 4.3% a year; from ~1.6 billion to 1.4 billion.
>
> Actually, that's not bad.
>
> This doesn't diminish my agreement with the author about exec remuneration, combo chairman / CEO roles, etc.

I just wanted to offer some additional color; to avoid piling on too much. My data was taken from S&P 500 reports as supplied to FAST graphs. I didn't research via the 10-Q to doublecheck the math.

08 May 2018, 03:04 PM

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c21vintage
If they have bought back 200 million shares, or about 15% of outstanding shares and the price of the stock has continued to decline, I think it might be time for our management to find a better way to 'return' our money to us. If the dividend were increased by a substantial amount making GM that much more attractive to investors, I have little doubt the price of the shares would increase. I like the idea of management's compensation having SOME link to the good they are doing for the owners of the company.

08 May 2018, 04:02 PM

Risk Advisor
This is one of the best SA articles which has ever been published. Can you compose a similar article on Ford, a company whose BOD doesn't give a tinkers damn about the Class A shareholders while receiving $250,000 per board member per year to attend four scheduled meetings for the purpose of rubber stamping whatever the Ford Family desires? And do not forget to emphasize the price of Ford's stock against the S & P 500 for the past four or five years. The data may show that Ford ranks in the bottom 2.0%, if not the worst as the price has declined form $15.43 per share on 12-31-13 to $11.34 per share on 05-07-18. Expect the Ford faithful to argue that they are only in it for the dividend.

08 May 2018, 10:53 AM

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s77nu
Jeff Bezos is a genius.

08 May 2018, 11:20 AM

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s77nu
Oh yeah Charlie Munger is too. :)

08 May 2018, 11:20 AM

David Hsu, Contributor
7corners: Why do you continue to hold GM stock when you have been unhappy with the management for such a long time. You were trying to force a tracking stock a while ago, and now you're after the executive compensation. There are thousands of companies out there. Why not move on?

08 May 2018, 11:57 AM

Seven Corners Capital Management, Contributor
Author’s reply » The company belongs to the shareholders, that's why. It doesn't belong to management. If some stranger moves into your house and starts sleeping in your bed, is your solution to "find another house" to live in?

Once one or more of the large shareholders wakes up to the fact that they are being drastically short-changed, management will magically get religion on rewarding the real owners of the company. It's a matter of when, not if.

08 May 2018, 12:09 PM

David Hsu, Contributor
@7 Corners. Good luck with that. Major shareholders look like mutual funds, not activist investors. http://bit.ly/2HYPpnK. Even Greenlight only has 1.8% of shares.

08 May 2018, 02:59 PM

Neil 81
I had 300 shares and sold all after getting frustrated.I have been holding since 2014.It was a good playing stock for option trading but if the shareholder is looking for a growth I dont see that and getting frustrated.Now I am holding 100 shares and made a wrong entry at 44 ...got stuck and next aim is to sell of and get out from GM...

08 May 2018, 02:15 PM

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bobpaulo
I do agree that the Executive compensation is out of touch with the minimal Shareholder share price appreciation. As a result, at least some portion of these stock and option benefits, should be calculated to only pay for meaningful share price appreciation. Maybe higher exercise price points for stock options and awards.

GM Management has been excellent, and continues to make the very best decisions.

The missing link with this whole situation is that GM continues to earn substantial money. At this rate, within five years, GM can buyout all of the outstanding shares. That said, GM needs to step up their near term buyback of shares to 15%+ in 12 months. If GM wipes out 200 million shares at $36, they would save close to $300 million in dividend payments per year, and earnings would move close to $8 per share.

GM needs to take a bit more risk at this juncture, while shares are very low. Even if it means a little more debt and a little less cash.

Once they get ahead of the curve on buybacks, the shares will get off of this runway and never look back!

08 May 2018, 08:22 PM

Microcap Growth Investor, Contributor
Well Done! Great analysis. Its time to really shake up the archaic auto industry. One would think since so many tech giants are coming after them, auto companies would review ALL facets of its business, including executive pay and incentives and rework them to fit the current, modern competitive landscape. This is clearly one area where GM and F NEED to do better. Thanks for the article.

Toyota, Honda, BMW and Mercedes all have market caps that dwarf GM and F... How long will shareholders accept that?

09 May 2018, 10:47 AM

Tyrone Blue
So to summarize, GM should forgo investing in its products in order to generate a one windfall for the shareholders, because as we all know the consumer makes a vehicle purchase solely on the OEM’s shareholder value status?

Ever wonder why Toyota was able to execute a 20 year campaign to become the premier automotive company? Here’s a hint, they focus on the customer, the produce, and the process / employees required to produce the highest value product, not the best TSR.

09 May 2018, 08:44 PM