

## THE DECLINE AND FALL OF CORPORATE ADVICE (AND ITS POSSIBLE REBIRTH)



by

**Matthew R. Simmons**

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### Disinformation on Wall Street

It just got a lot harder for Wall Street analysts to claim that they were merely ignorant when they found all those dubious dot-com stocks up until the day they went bust. An affidavit submitted this week in a legal proceeding by New York State's attorney general, Eliot Spitzer, provides strong evidence for a more troubling explanation: that the research departments of the big investment and brokerage firms were simply too blinded by conflicts of interest to deliver objective analysis.

Mr. Spitzer's 14-month investigation into Wall Street's generally mediocre performance focused on Merrill Lynch's waned team of Internet analysts. What he learned from 32,000 internal e-mails obtained from Merrill is that, at the height of the dot-com mania, only the clients were deflated, not the analysts. In these e-mails, Merrill analysts routinely listed stock recommendations by the firm as "a powder keg," "a pile of junk," or "stupid."

The attorney general's 31-page affidavit is compelling reading, and offers a glimpse of what Wall Street research was like when it was a practice of "each doing his own research."

Further suggest that the supposed "Chinese Wall" separating Merrill's researchers from its bankers was more like Swiss cheese. Indeed, according to some e-mails, the practice of a favorable report by Mr. Blodgett's team appears to have been one of the inducements Merrill used to attract banking business from Internet companies. Other e-mails refer to negotiations between the firm's bankers and their corporate clients over what a stock's rating issue by the supposedly independent analysts should be.

In one e-mail, reacting to dubious guidance from Merrill's corporate clients, a Blodgett subordinate, Scott Givens, said: "We are losing people money and I don't think that's the right thing to do." In another, Mr. Blodgett, whose compensation was linked to the outside world assumed to be "calling each other."

- Enron was trading tens of millions of dollars in stocks through an internal hedge fund in the months before the firm's collapse
- Respect for business leaders has fallen due to the Enron scandal, a new poll shows

### S.E.C. Expanses Xerox Inquiry To Ex-Auditor

By CLAUDIA H. DEETSCH and FLOYD NORRIS

The Securities and Exchange Commission is expanding its investigation of the Xerox Corporation's accounting practices to include the company's former auditors, KPMG, as well as several people affiliated with Xerox and KPMG, according to a memo dated in the investigation. The commission says the KPMG firm will be named in a report in several days. The report also says that KPMG auditors were involved in the investigation.

### Qwest Ends

By Steve Foxworth

Qwest Communications International Inc. said it dropped its auditor, Arthur Andersen LLP, from performing annual audits, services like consulting, and one of its divisions to perform other services, a decision that may result in a new audit firm.

# **THE DECLINE AND FALL OF CORPORATE ADVICE (AND ITS POSSIBLE REBIRTH)**

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These days, every CEO and CFO worth his or her salt should be asking themselves the same question: “What is the quality of the advice my company is paying for?” Whether they know it or not, the answer is grim.

The argument of this paper is that many of the corporate meltdowns now making headlines cannot be explained simply by poor self-governance. Rather, they grow from a systematic, potentially devastating failure of the professional service industry that has historically provided excellent advice to corporate America.

The demise of highest-quality corporate advice is one of the best-kept secrets on Wall Street. It deserves to be exposed.

As someone who has spent over three decades in the investment banking business, I believe that the corporate advisory system is in crisis. It is badly in need of meaningful

reform. In this paper, I will hopefully explain why the crisis has reached its current state and explore what can be done about it.

The longest-running bull market in U.S. history is now over. It began in August 1982. At its peak, the market had grown twelve-fold. By the time this great bull market had run its course, the intricate community of advisors serving corporations and financial institutions changed profoundly. Major independent public accounting firms evolved into financial service emporiums. Money center banks changed from being true lenders of money to giant “loan distribution” centers. Once the restrictive legal provisions preventing banks from also being security firms disappeared, these same banks began exercising their greatly expanded reach by using their balance sheets to secure lucrative investment banking assignments, a new trend often described as “Pay to Play.”

All these changes were disquieting. But investment banks underwent an even more dramatic metamorphosis. As recently as the early to mid-1970s, most of the elite Wall Street firms were relatively small, highly effective partnerships. Their reason for being was to provide valued financial advice to their clients on raising capital and executing mergers and acquisitions.

Over the next couple of decades, massive consolidation eliminated many of these firms. Those who survived became global financial powerhouses, often with as many managing directors as they had total employees only two decades earlier. These new

behemoths began using their highly leveraged balance sheets to provide lucrative bridge loans to bolster deal execution. The scale of fees soared. Advisory firms began encouraging hostile raids. Sometimes, advisors were hired not for their advice, but instead for the sole purpose of preventing them from serving another client.

As all these changes were occurring, the “financial creativity” unleashed by these firms soared too. Once “staid” investment banks began creating exotic forms of new financial instruments as rapidly as patents are filed in Silicon Valley. Under the mantra of “Market Efficiency”, some of the best and brightest investment banking talent began exploiting every minute loophole of tax and accounting laws to create exotic partnerships and synthetic instruments beyond the comprehension of most Boards of Directors. The risks embedded in many of these wild new instruments exceeded the grasp of many corporations issuing them. In hindsight, it is not clear whether anyone, including the investment banks who were the architects of these corporate schemes, truly appreciated the profound risks these new investment vehicles represented.

Sadly, today’s powerhouse investment banks bear little resemblance to the great advisory firms of two or three decades ago. They now manage money, engage in venture capital and leveraged buyouts for their own account. They also trade in derivatives, commodity contracts and other exotic instruments. Some of the largest firms today employ 100 to 1,000 times the number of people they had only two or three decades ago.

As the community of corporate advisors grew by leaps and bounds, few corporate executives asked the critical question: Has the **quality** of their advice improved over this era of tumultuous change? Or, in the rush to be all things to all people, did the overall quality of corporate advice -- and even ethics -- undergo a tragic decline? Did conflict of interest lines blur so badly that they really did evolve into the bad joke, "If there is no conflict, I have no interest"? Can adequate changes be made fast enough in the way these firms do business to prevent the rash of corporate failures from growing into an epidemic?

## **THE ENRON COLLAPSE**

When the bull market ended, a burst of the Dot-Com bubble was inevitable. So few of these new-concept businesses had genuinely sound business plans. More surprising was the rapid meltdown throughout the telecommunications industry as the money thrown at this hot area was almost ten times that of the Dot-Com craze. But the biggest shock in decades had to be the overnight evaporation of Enron, once America's seventh-largest company. Only a year ago, Enron's goal was to become the largest company in the world. Instead, it became the largest bankruptcy in business history.

Enron's unraveling also created a painful education for America on what happened to our corporate governance system. Convuluted accounting concepts were revealed that surpassed the excesses of even the most imaginative Dot-Com business plans.

Brought to light were special-purpose entities and accounting alchemy that not only kept

billions of dollars of real corporate debt obligations off Enron's books, but often also turned corporate losses into one-time imaginary profits.

To make matters worse, these exotic financial concepts were not created by immature professionals. They were not hatched in the back offices of unknown firms. Instead, these "creative schemes" were designed by highly regarded and highly educated senior corporate managers, aided and abetted by a large number of highly paid and well-respected corporate advisors. The architects (or at least the "blessors") of Enron's strange new financial concepts included a "Who's Who" of the world's leading advisory firms.

In the post-Enron environment, the integrity of many public companies' reported numbers has suddenly become suspect. Reports of Enron-type accounting "irregularities" can easily cause a company's stock to drop by 20-30% on the mere rumor that accounting adjustments may have to be made.

It has also become quite apparent that "creative" accounting and complex off-balance-sheet partnerships were not limited to Enron. These contraptions were being sold by advisors to a significant number of other corporations as ways to create earnings, or hide debt.

## **ENRON'S COLLAPSE CAN BE THE CATALYST FOR ADVISORY REFORM**

Someone has to shoulder the blame for all these Enron-type traumas. There is no question that corporate boards are where “the buck has to stop”. But if the blame for every corporate error is placed on the outside directors of corporate America, will any rational, busy executive ever voluntarily serve on another Board? The answer, I’m afraid, will be “No!” -- unless the Board compensation is so high that a prospective director could justify dropping all other commitments to become a corporate Sherlock Holmes whenever a recommended management action (endorsed, by the way, by America’s finest professional advisors) does not smell right.

Outside corporate board members can only provide their best guidance based upon their ability to judge the corporate facts that are presented to the boards in a short time frame. In order to make intelligent judgments, these board members must rely on a network of professional corporate advisors to “scrub out” all the potential problems or irregularities embedded in transactions or accounting practices that boards then ultimately approve.

This network of corporate advisors has been the foundation of America’s corporate governance. But, as the roles of these advisors changed, and as so many advisors diversified and grew so fast, the system went awry. It is time to return to the far higher

standard that was once commonplace throughout the network of advisory firms, from accountants and consultants, to banks and law firms.

Most important in this badly needed “upgrade” is the reform of the investment banking industry, once the bastion of some of the finest corporate advice in the world.

## **WHAT HAPPENED TO CORPORATE ADVICE?**

It is hard to find any sector in the wide network of corporate advice that did not change significantly over the last twenty years. While all industries change over time, the extent to which advisory firms changed makes it hard even to recognize the way most high quality advisory firms once operated their businesses.

Start with our accounting firms. Their profitability was once totally devoted to performing independent audits and dispensing advice on tax matters. Today, their same economics are driven by an ever-growing series of services these firms provide. What a change from the days when, at the Academy Awards, Price Waterhouse would epitomize the highest integrity and impeccable independence of the public accounting industry!

An audit firm whose economic model is highly dependent on selling a wide number of other services to an audit client can still perform a truly independent audit. But the need

for stringent checks and balances becomes much greater. It defies human nature to be as tough on a corporate client if such advice risks losing not only millions of dollars in audit fees but also the even more lucrative additional services now sold to the very same client.

Switch from accountants to commercial banks. The country's major commercial banks now have little to do with how their predecessors conducted business two or three decades ago. Back then, the primary purpose of these major financial institutions was to make loans. Yes, it is true that major loans have long been widely syndicated to a broader lending group, but for years, the institutions creating these loans also had to maintain a substantial portion of the loans they granted until such loans were repaid in full. Thus, there was a far higher penalty for making a credit mistake than in today's world of corporate lending, where in many cases only a fraction of a major loan stays on the originating bank's books.

Today, most large loans are sold to other banks as quickly as possible. The pendulum of credit risk has swung to the other end of the spectrum. Some of the more exotic new banking practices include the creation of "Investment Trusts," where all the real credit risks of a loan are sold to third-party investors.

In this new scheme of things, where does lending responsibility start or stop? If few loans ever stay with the originating institution for any length of time, what incentive does a bank now have to ensure that its credit approval process is pristine? How can a

corporate borrower secure the best possible lending proposal if the lender's primary motivation is to create a credit package so attractive that it can immediately be resold to third parties?

When the up-front and syndication fees became more important economically to a lending institution than collecting the stream of interest income over the life of a loan, the overall quality and rigor of a lender's credit analysis had to suffer.

Law firms have also undergone drastic changes. In the early 1970s, when our investment banking firm was founded, the third largest Houston-based law firm was the fifth largest law firm in the U.S. The firm employed less than 150 attorneys. Today, a legal firm this small is described as a "specialty boutique."

Even the major consulting firms experienced explosive growth over the last twenty years. Back then, most major consulting assignments were conducted by highly experienced senior consultants. Today, young analysts, only a few years out of college, bill the bulk of consulting hours.

As all the professional advisory practices expanded both in total size and globally, it became an ever-increasing management challenge to keep quality advisory standards high. Sadly, too many firms grew so fast that little attention was paid to this critical issue. After all, corporate advice is only as good as the quality of hard analysis, judgment and integrity put into the advice in the first place. In a quest to become large,

too many corporate advisors let their ethics lapse and lost sight of the professional vision which underpinned the existence of most professional advisory firms.

## **HOW INVESTMENT BANKING HAS CHANGED**

Investment banking changed as profoundly (if not more so) than all the other advisory firms. Two or three decades ago, most elite investment banks were still genuine partnerships. As such, the partners' net worths were at risk for, and directly connected to, the quality of advice they were dispensing. The partners of these highly prestigious firms were well paid, but their total compensation was hardly the equivalent of contemporary movie stars and world-class athletes. The advice they gave to their clients was a by-product of years of experience. In fact, long-term client relationships were most firms' single most precious asset. Giving advice simply to get a deal closed and a lucrative fee collected, rarely occurred. The risk of losing a long-standing client outweighed any short-term gain. As the concept of a long-standing client relationship gradually disappeared, the risks and rewards associated with less than pristine advice also changed.

Let me make clear that highest-quality advice is still the product of a handful of firms (our own firm, I believe, remains among this small but elite group.) A small number of senior bankers at various firms have also ignored the pressure to bring in as many deals as possible. They still dedicate most of their time and energy to giving remarkably

astute advice. But this group is small. It is no longer representative of the corporate financial advice business as it has evolved over the past twenty years.

For years, respected corporations had one or two investment banks as their primary financial advisors. These key advisors would occasionally get replaced, but such a move was rare. When an investment bank became a company's financial advisor, the firm was expected to get to know their client inside and out. The firm was also expected to fully understand the industry in which the client operated; review all major transactions the client was considering and advise on the best ways and ideal timing to raise new money and maintain a sound balance sheet.

The corporation receiving such high quality advice expected and received tons of "free" and specific advice from its investment banking advisors in exchange for the fees they were paid when a specific M&A transaction or financing was undertaken. This old-fashioned system, which is now largely gone, created a true "win-win" relationship between the advisor and the client. It was a relationship built on trust and loyalty between a firm and its client.

Often advice given garnered no immediate fee. The advice was given, however, with great thought and care. After all, the quality of the advice was what protected the franchise of the great investment banks. In the past, an investment banking franchise was defined, not by its ranking in number of deals or managed offerings, but rather by the quality and stability of its client list.

Slowly but surely, the concept of a company having an exclusive investment banking advisor began to disappear. In its wake came the concept of buying advice on a transaction-by-transaction basis. In theory, this change was supposed to dismantle the clubby and (perhaps) too cozy relationship between the corporation and its financial advisor. In theory, having to compete for each business transaction would make these fine firms even more astute, encouraging them to deliver financial advice at an even higher level of quality. In theory, this competitive process would also save corporations money on the fees they paid.

This thesis, unfortunately, was flawed. Rather than making the investment banking industry better, it essentially destroyed high quality investment banking advice.

By the time this new “competitive bid by transaction” business had come into full bloom, the routine of investment bankers totally changed from the days when senior bankers gave impartial advice to their clients. Instead, today’s senior investment bankers spend most of their precious time pitching for new business and making “beauty contest” presentations. Lost in the shuffle is having the time to genuinely advise the client.

A day in the life of an investment banker, circa 2002, would show many senior bankers spending a disproportionate amount of their time making calls to prospective clients instead of working on an existing client’s project. These marketing calls usually involve giving prospective clients thick “pitch books,” laden with new deal ideas or possible new

types of exotic financings. Merely preparing such pitch books devours a vast amount of the corporate finance analysts' and associates' time, despite evidence that such pitch books rarely generate real assignments. In fact, much anecdotal evidence suggests that most pitch books rarely get read. Instead, so much of the high-dollar time consumed by this low-yield effort should have been spent making sure a client received even better advice. But this possibility died when corporations decided to bid out their advice on a deal-by-deal basis.

Once corporations began selecting their financial advisor through a "beauty contest," a terrible and insidious process began. The firm most often hired in the beauty contest happened to be the very same firm that dispensed the most optimistic advice on the type of financing that could be achieved, or the potential value of a possible offering or divestiture. Corporate clients being wooed are far too ready to believe that the advisory firm proposing the highest value of a potential project must have "seen something" that the other firms missed. And the advisory firm is indeed seeing something, namely, the efficacy of the classic bait and switch tactic.

In a perfect world, when a firm suggests a very high value for a project and then fails to deliver, that firm would be penalized. Too often, what was in fact an extremely unrealistic "guess" at the value of a deal gets rationalized by chalking it all up to "a sudden change in market conditions."

The decline of investment banking quality did not stop on the corporate finance side of the firm. In the sales, research and trading side of these firms, a similar erosion of quality has occurred.

Wall Street's sell-side research has become something of a joke to a number of highly vocal critics. The single biggest factor responsible for this sad decline goes back to May Day, 1975, when fixed commissions disappeared. Until then, brokerage commissions had been \$.35 a share. Back in the high-margin commission era, it was extremely lucrative to produce exceptional research on a given industry or company. These high-margin commissions produced some of the greatest investment banking research firms the industry has ever known, such as DLJ in its formative years, Mitchell Hutchins, F. Eberstad, Hambrecht and Quist, Laidlow, and others.

But once the high commissions disappeared, so did most of these great research institutions. Over time, even the best sell-side research analysts quietly evolved into corporate cheerleaders. And as their cheerleading role grew, they became increasingly important generators of new business. Over time, too much of a research analyst's compensation was based on the amount of investment banking deals they helped generate, not the quality of the research they were doing.

Another trend emerged to weaken sell-side analysis. Once a sell-side research analyst's reputation began to grow, the person would be lured into spending more and more of each day answering questions on the industry or the specific stock the analyst

covered. More and more of each day was spent telling corporate clients how good they were, in order to increase the chances of the analyst's firm being included in the next deal. Lost in this shuffle was any time for serious analysis.

A truly great analyst can only claim this title if the person has the time and interest to actually conduct high quality analysis on specific companies and industries. Over the last few years, this purist analyst role has virtually disappeared.

As a result, a vast amount of sell-side written analysis is ignored by most sophisticated institutional money managers. Many of the envelopes sent by even the best "superstar" Wall Street analysts are discarded without ever being opened, let alone read.

The decline of high quality investment banking also extended into public offerings, which used to be one of the industry's finest products. Two decades ago, lengthy, serious due-diligence by all the great investment banking firms kept many bad investment ideas from ever seeing the light of day. The various members of underwriting syndicates all used to take active roles in placing the shares being offered. In the "old days", great book-running investment banks known as lead managers were firms that could ferret out the best long-term investors for a particular company.

Today, the process of selling a public offering is vastly different. Most co-managers rarely get very involved in any aspect of the offering process, other than sending relatively junior people to attend drafting sessions of the offering document. The rest of

the syndicate members now play an almost invisible role. The lead manager of an offering expects to (and generally does) collect the vast majority of the fees involved in an offering's spread.

Here is how the investment banking economics in a typical equity stock offering process used to work. Most of the available shares in an offering were put into an "institutional pot" and a "jump ball" was created. In other words, all of the co-managers (and even some syndicate members) had some chance of getting a good share of the commissions -- if the research and sales force at the non-lead bank worked hard to ensure a successful offering.

Unfortunately, what is now called a "jump ball" process has become a sham. The lead manager has total control of the "book" or institutional pot and has total control over which firm is deemed to have done "the best". For one reason or another, most of the commissions created by this supposedly competitive "jump ball" almost always go to the salesmen of the lead manager's own firm. There is no "jump ball". Instead, it has become an internal passing of the ball. The other firms are not even invited to the gymnasium! As a result, the other co-managers and the rest of the syndicates generally just go along for the ride. Even worse, the lucrative profits which lead managers earn led too many firms away from the once strict guidelines of what type of IPO's these firms were willing to underwrite.

Recent SEC fines levied against various Wall Street firms have drawn attention to an even uglier aspect of the offering process born out of the roaring bull market. Too often it turns out that the investors who got the highest portion of an offering's stock were "flippers" who often pay extra commissions for this privilege. These flippers crowd out genuine long-term investors and prevent them from obtaining a meaningful stake. Of course, the primary loser in this process is the corporation issuing the shares. The second loser is the serious institution that might have become a core owner of the company doing the offering.

There are still great investment banking franchises and many highly skilled investment bankers. But the trends that so profoundly reshaped the investment banking industry have taken a major toll on high quality advice and high quality research. How badly the process has deteriorated is a subject of intense debate. But it would be hard to find a seasoned, knowledgeable investment banker who could honestly argue that the advice given by today's giant investment banking firms follows the same high standards of the advice these firms gave in the past.

## **THE ROAD TO REFORM**

There is still a valid, if not urgent need for honest corporate advice. There is still a need for skillful lenders to design lending packages that combine the best terms and most likely repayment scenarios for corporate borrowers. There is still a need for truly independent auditing firms to review a public company's books and assure the stakeholders that the numbers are genuine and also make economic sense.

More than ever, there is a vital and urgent need to reform the entire cadre of corporate advisors.

The days of needing a great financial advisor never died. What almost disappeared, instead, was the universe of such high quality advisors. A single sound piece of investment banking advice is still worth far more than all the fees charged by good investment bankers. But rendering sound advice cannot be done overnight, nor can it be the result of several "all-nighters" strung together by overworked and inexperienced analysts. Sound advice can be rendered only by senior bankers who do some of the analysis themselves, not by those who merely read advice to their clients (often for the first time) from spreadsheets and analysis put together almost entirely by junior analysts and associates.

Corporations, their boards and their shareholders deserve the highest quality corporate advice. It can make a tremendous difference in how smart companies stay out of

trouble and create excellent financial performances. But rendering such advice takes time. It takes the application of genuine business judgment; a trait not acquired overnight and not taught by even the best business schools in the world.

Given the growing number of congressional hearings on various aspects of corporate governance, a host of new laws will probably be tabled in an attempt to correct the worst of these “advisory abuses.” Some new laws might be needed, but there is also a risk that radical legislative changes to our corporate governance and the corporate advisory arena will do more harm than good.

Most urgently needed reforms are not new laws but simply attitudinal changes on the part of corporation decision-makers. These decision-makers have to change the way they reach important financing, merger/acquisition, and other key corporate transaction decisions. They must reassess exactly what they expect and demand from the chorus of advisors helping execute these important transactions.

My suggested reforms need no new legislation. These reforms begin by returning the entire corporate governance and corporate advice system back to work of the highest integrity.

There is no question that the process and standards of sell-side research are badly in need of a major overhaul. But this does not mean passing a law to separate investment banking research from corporate finance advice. It means setting genuinely high

research standards and rewarding with genuine accolades those analysts who “toe the new line.”

It makes no sense to ban a security research analyst from owning any stocks. Serious analysts put greater effort into genuine research if they actually have some money on the line. Had some of the wildly optimistic research analysts in the Dot-Com craze actually put their own money into their stocks every time they created strong buys, this exercise might have tempered their enthusiasm.

The country’s major money management institutions need to demand higher quality sell-side research. But, as these demands are made, the same institutions must then make sure they use their lucrative commissions to reward genuinely excellent research. Today’s system, in which the research mail is not even opened, has failed. A change needs to take place.

The various professional advisory firms can eliminate most of the flaws that have emerged over the past two decades. Implementing reforms will not be easy. Some firms probably are too large for genuine change. But if enough corporations begin demanding a higher standard of advice, the more successful firms will improve their work ethics.

For this process to succeed, not only do corporate advisors need to improve their work. Most important of all, corporate clients must become far more discerning in how they

select their advisors and what they demand of these advisors. They must know, and act upon, the difference between excellent advice and yet another “feel good” opinion letter.

An important early step on this road to reform is for all advisory firms to decide what real role they want to assume as they “grow up.” Trying to be all things to all people does not work. It dilutes high quality specialized advice and leads to gigantic conflicts of interest.

The investment banking industry needs a new code of ethics as well as updated guidelines for what constitutes a conflict of interest. These conflicts then need to be avoided just as diligently as firms should uphold Chinese Walls. The investment banking industry also needs some simple guidelines on what constitutes “proper moral behavior.”

If certain corporations want to continue hiring advisors on a deal-by-deal basis, the executives who select their advisors should at least change the standards for how an advisor is chosen.

How can a corporate executive increase the odds of selecting the best advisor? By no longer focusing solely on what values can be achieved in a potential transaction. By focusing instead upon how an advisor really works. By understanding precisely how the

advisors' quality control processes are (or are not) working. By insisting that the senior bankers making the pitch remain heavily involved throughout the entire transaction.

Instead of asking, "How much is the transaction worth?" ask which specific individual(s) will actually be doing the analysis. Ask what process the firm will employ when the particular deal is not going as planned.

Finally, ask if there is any good reason why the corporation should not at least consider returning to a single firm, or a small group of firms, to provide the corporation with most of its most significant financial advice.

Let me cite one example of what the benefits can be to both a company and its advisor when a long-term relationship works as it is supposed to work.

Some years ago, our firm was interviewed by the CEO of a company seeking to hire a long-term advisor. The company was looking for a firm willing to spend the necessary time and resources to help this company achieve some very ambitious goals.

The CEO's initial interview with us lasted several hours. His questions were thoughtful and serious. We were subsequently asked to meet with his entire board. Finally, we met with his largest shareholder for yet another interview. A few weeks later, we were asked to become the company's "financial advisor." The selection was thoughtfully made. The interviewing process was intellectually rigorous.

Once hired, our firm was this company's primary advisor. The relationship has lasted for over 15 years. From time to time, this company has used various other investment banks on particular deals. Occasionally, we have been facing this valued client from the other side of the table. But the relationship worked, and continues to work. It has truly been a "win-win" situation for both companies.

The particular corporation I am speaking of was Noble Drilling. The chief executive officer is Jim Day. Since the day we were hired to help Noble grow, the firm's market capitalization grew almost 80,000 times.

If I could prescribe a single "pill" for all CEOs to take in the post-Enron era, it would be to spend whatever time it takes to get comfortable with hiring one primary advisor, and then stick with the firm unless it lets you down. Good advice can make a difference. Financial engineering is not like the old T.V. Western, "Have Gun . . . Will Travel."

It is also time for institutional money managers to begin re-assessing how their valuable commission dollars are paid. Too many sell-side investment banks whose research mailings are not even opened still get commission votes simply because of the size of their firm or a personal relationship with the institutional salesperson assigned to the account. Even worse, some commissions are simply repayment for tickets to sporting and social events!

Like good corporate advice, sound sell-side research does make a difference. It can help a savvy money manager far out-perform the market. You cannot show me a serious financial paper demonstrating that good execution of trades creates genuinely good stock market performance. The edge still belongs to those who find ways to know more, not trade better. Smart institutions do not need to be guided by “strong buys” or “holds.” Rather, they will benefit the most from high quality research on key trends for either a specific company or an entire industry. Unfortunately, it has been so long since many serious institutional money managers read high quality research that they have almost forgotten, or have never known, what great research is all about.

Having said all this about the desirability of self-reform through attitudinal change, it must be acknowledged that some of the corporate advisory system’s worst abuses may require the introduction of some regulations. At the top of my list is the new practice of “Pay to Play,” where commercial banks and some investment banks use their balance sheets and available credit to demand investment banking fees, regardless of the quality of advice given. It is the root evil that the Glass-Steagall Act was supposed to have prohibited so many years ago.

New legal reforms are hard to implement. And many do not even need to occur if serious corporations of the world simply demand better advice their voices will be heard. If the various leading professionals throughout the universe of corporate and institutional advisors vow to clean up their act, then Enron or Global Crossing-type disasters will lead to huge changes for the better.

The time for reform is here. It is better for the industry to self-reform than leave it to our government to perform the role. Providing high quality advice is still possible. It is actually intellectually stimulating.

The corporate governance process was badly in need of a wake-up call. The call came.

The wake up needs to begin.

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