Chapter One

AN AUDIENCE WITH THE EMPEROR

May 28, 2003

The temperature was already bordering on hot as I approached the Morton H. Meyerson Symphony Center a little before nine in the morning. Located north of downtown Dallas, the Meyerson is reached via a miniplaza adorned with sculptures and plantings. Over the past 14 years, the venue has housed countless musical performances, banquets, rehearsals, even film shoots. Today's audience was there for a different kind of entertainment: corporate theater—ExxonMobil's Annual Meeting.

The day before, eight protestors from the Greenpeace environmental movement had run around outside Exxon's Irving, Texas, headquarters in tiger suits, an ironic tribute to the company's famous spokesanimal. More protestors must have been expected this morning because the Meyerson entrance was protected by barriers and sawhorses and watched over by police. In fact, only a few dozen demonstrators had turned up, pluckily acting out the philosopher's classic conundrum: If a tree falls in the forest and no one hears it, is there any sound?

Shareholders were also few and far between, maybe 200 of us in all, an infinitesimal fraction of the hundreds of thousands of people around the globe who own a stake in the company individually or through one or more mutual funds. It wasn't that ExxonMobil was unimportant—far from it. As I write, it's the largest corporation in the history of the planet judged by market value—something on the order of half a trillion dollars, larger than the national budget of France.

Nor was there any absence of issues to discuss. Exxon has been blamed for everything from despoiling the environment to harassing gay employees and backing foreign governments in their efforts to drive rebels out of potentially oil-rich provinces. The Greenpeace demonstrators of the day before were only the surface manifestation of a widely held belief that Exxon is one of the world's worst corporate citizens, and Exxon didn't seem to mind in the least.

Then-CEO Lawrence Rawl's 1989 explanation that he was ''too busy'' to visit the *Exxon Valdez* oil tanker while it was gushing 30 million gallons of crude into Alaska's Prince William Sound might have been the most headline-grabbing gaffe, but current CEO Lee Raymond had done his best to stoke the fires. Raymond's outspoken resistance to the science of global warming, to the Kyoto Accords, and to fossil-fuel alternatives had spurred concern not just from hard-core environmentalists but from an order of nuns in New Jersey and shareholder groups inside Exxon. Raymond's stances had even isolated his company from the other colossi of the oil world, many of which had begun promoting the possibilities of renewable fuels. Under Lord John Browne's leadership, BP was already claiming that its initials stood not just for British Petroleum but for ''Beyond Petroleum.''

There were intracompany issues as well. No one was faulting Raymond for his financial stewardship of Exxon. The gross operating profit in 2002 had been a healthy $35 billion. 2003 promised to be even better, and the future looked limitless. By December 2005, the *Economist* magazine would declare, ''Raymond could claim to be the most successful oil boss since Rockefeller.'' The question was, in a publicly held company, did he deserve compensation that even the rapacious John D. Rockefeller might have admired?

In 2003, according to *Forbes,* Raymond would be paid $23 million, an income near the top of Fortune 500 executives. To be sure, even such an astronomical figure was generally in step with the explosion in executive compensation through the 1980s and 1990s. While many stocks and shareholders did quite well over that same period, the growth in executive earnings far outstripped the growth of the S&P 500—by a ratio of roughly 2:1.

Arguably, too, Raymond and his peers were even underpaid by comparison with leading entertainers and professional athletes. Eighteen miles down Tom Landry Highway in Arlington, shortstop Alex Rodriguez and his Texas Rangers would lose 6 to 4 to the Tampa Bay Devil Rays on the night of Exxon's annual meeting, on the way to a disappointing 91-loss season. Nonetheless, A-Rod, as he is known, would be rewarded that fall by the New York Yankees with a 10-year $252-million contract, slightly more on an annualized basis than Lee Raymond's 2003 pay. Raymond at least had a record operating profit to show for his troubles.

Still, if the owners of Exxon's 6.7-billion outstanding shares had been able to vote on his $23-million salary, quite a few might have been willing to turn the company over to some capable person willing to take a mere $5 or $10 million for the privilege of running the company. That was one in-house issue that needed airing, or so many of us felt. The other was one of my ongoing battles with the company: whether to require that the positions of chairman and CEO be filled by two different people. At present, Raymond held both posts, a situation akin to having the president of the United States serve simultaneously as chief justice of the Supreme Court. Alex

Rodriguez might have made slightly more money than Lee Raymond in 2003, but he couldn't approve his own raises or his own perks on top of the raises. In effect, Raymond could do just that.

One might reasonably ask why, with so much potentially on the table, so few ExxonMobil owners had bothered to attend? Annual meetings are the one time each year when management is legally required to make itself accessible to shareholders, the only time we owners can put questions to those who oversee our money. No one expects CEOs and corporate directors to rise to the level of Periclean Athens, but in theory annual meetings should be a time for taking the long view of the enterprise, for raising and answering—via shareholder resolutions and floor questions—vital concerns about its place in society and its broader mission, even for parsing the books with an outsider's eye. In practice, of course, annual meetings are anything but.

Over the past seven decades, corporate lawyers, with the complicity of the Securities and Exchange Commission (SEC), have waged a relentless war against a ''shareholder democracy.'' Today, any meaningful participation by shareholders at an annual meeting can be easily quashed, while any shareholder resolution that the SEC actually does require a company to include on its proxy statement is virtually certain to have no real significance. My own history with Exxon is a case in point.

In 2002, Exxon was allowed by the SEC to exclude my resolution to separate the CEO and chairman positions even though its required *inclusion* was common practice. Instead, the company's artful and highly compensated legal counsel managed to persuade the commission that my resolution was really a disguised solicitation for votes to replace Lee Raymond on the board and therefore excludable under existing SEC rules. Given that there were only as many nominees on the proxy card as there were vacancies, the argument was absurd on its face, but such absurdities have nourished the corporate bar for many decades.

In 2004, there was no challenge by the company to this same resolution, and it was approved by better than one in four Exxon shareholders who submitted proxy votes prior to the annual meeting. The next year was an atrocity: The same word-for-word, comma-for-comma resolution was rejected in 2005 by the SEC on the grounds that it would be ‘‘impossible’’ for the company to comply with. As with monarchies and oligarchies, so with the SEC; there is no appeal from censorship, no matter how arbitrary.

The SEC was one disincentive to attend. ExxonMobil’s caustic chairman/CEO was another. Raymond not only acts the emperor; he actually seems to enjoy it. At this same meeting two years prior, he had belittled shareholders who opposed his positions, while allowing another shareholder with whom he agreed to digress at length. That drew a protest from Shelley Alpern, a shareholder sponsoring a resolution to ban employee discrimination based on sexual orientation.

‘‘I thought our comments were supposed to be linked to the proposal,’’ Alpern said, according to the *Wall Street Journal*.

‘‘True,’’ Raymond sarcastically responded, ‘‘I assure you if *you* tried to do that, I would enforce the rules.’’

Good to his word, Raymond intervened later in the same meeting during the passionate plea of activist Radhi Darmansyah to halt the violence in Banda Aceh. (Exxon has been accused of colluding with the brutal military government of Indonesia.)

‘‘They are murdering my brothers and sisters,’’ Darmansyah lamented in halting English.

Murder or not, at exactly two minutes, the officially allotted time, Raymond stopped Darmansyah, suggesting he could ‘‘come back another time.’’ With that, Darmansyah’s microphone went dead, and security guards moved closer to be sure he returned to his seat.

Were those of us who did attend the 2003 meeting with the intention of braving Raymond's ire the few, the proud, the brave? Were we idealists or borderline delusional? In truth, we were probably something of all three. Shareholder activists inevitably owe a debt to Don Quixote. As we shuffled toward the entrance to the Meyerson, you could almost hear our shabby armor clanking.

At the entrance to the Meyerson, I presented my ticket and began negotiating security. Previously, I had transferred all my written materials about Exxon into a single file folder, another house rule, and cleared my leather wallet of any of the miscellany I usually carry with me. The clean wallet got me through the metal detector, but afterward, I had to hand my papers over to a woman clearly in distress over how to do her job. She twice called over her supervisor, who eventually told her, ''It's a matter of your judgment.'' No question, he'll go far in Exxon.

In fact, I had the feeling that both the paper checker and her boss knew exactly who I was and were passing the word on. Was this just my old paranoia or was it the result of all the attention? Indeed, might not paranoia be the purpose of all the attention? Shareholders who have already experienced the baseless guilt brought on by even the routine questioning of security agents are surely more likely to be self-censoring and politely deferential when they finally get their chance to speak.

The anterooms at the Meyerson worked well for the small number of attendees. Strolling around the open spaces, I listened to the company's explanation of its policies on upstream logistical problems and global warming. Later, I made myself known to a man identified by his badge as a corporate official, asking him whether I could be introduced to any of the directors of the corporation who I presumed were available. He assured me that they were but that he personally did not know a director and therefore couldn't help. I remember thinking that ignorance must be bliss.

The arrangement of acoustic baffles allows for two doors through which to enter the concert hall, and the two doors, in turn, allowed for yet another level of security. Inside, though, the Meyerson was almost cozy. We had been told that there would be two microphones—one for proponents of the resolutions and the other for opponents. As the mover of Resolution 9, I asked the attendant whether the blue-scarved seats were reserved for proponents. They were, which enabled me to accommodate my overlength legs in the aisle.

All the board members were positioned in slightly raised seats to the left of the stage, which was guarded by pairs of armed police officers. This was a meeting by the rules. Ten minutes could be spent on each of the nine shareholder resolutions. The mover was allowed four minutes, which could be split between opening statement and rebuttal. Each person subsequently desiring to talk had two minutes. A mover and three commentators were permitted. Green, yellow, and red lights on each microphone and on each side of the stage let speakers know when they were reaching the end of the line. When the light turned red, an increasing level of auditory static was projected—doubtless as a courtesy to the impaired. As usual, more people wanted to speak than had been allotted time slots, but we all knew the rules and that they would be scrupulously enforced.

A very attractive blue backdrop had been projected with ''ExxonMobil, 121st Annual Meeting'' and three views of Earth from space. At the sides stood two flags—American on the left and Texan on the right. Framed by this galactic setting, CEO and Chairman Lee Raymond entered the stage from the right precisely at 9:00 a.m. and convened the meeting.

Raymond had joined Exxon in 1963 as a chemical engineer, before moving into management roles in the 1970s. In 1984, he was named a senior vice president and elected to the board, becoming president in 1987. Raymond took over as chairman and chief executive officer (CEO) of Exxon in 1993. Six years later, he engineered the $82-billion takeover of Mobil, creating the world's biggest publicly traded oil company.

Raymond launched the meeting with a well-produced, genuinely powerful account of the state of the company. ExxonMobil is something new in the history of the world—a sophisticated enterprise bristling with new technology and operating in more than 200 countries or territories, from Equatorial Guinea to Venezuela to the Russian Far East. The British Empire at the height of its power had less reach and far less capacity to generate profit. I had more than a passing interest in the profit side of the equation. Ram Trust Services, which is my family office, then managed in excess of 100,000 shares of ExxonMobil, which on the day of the 2003 annual meeting would close at $36.45 a share, a figure that would double over the next three-and-a-half years.

Once Raymond had finished his report, we moved on to the first item of business—the election of directors. This was a unique possibility for real discussion as the 10-minute overall time limit was not imposed. Anybody who had managed to find a way into the concert hall could get in his or her two minutes' worth.

The charismatic Franciscan Michael Crosby started with a point of order and ended wrangling with Raymond, who rather disappointingly retreated to New Jersey law and ''I make the rules here.'' Then Public Issues Committee Chair Phil Lippincott was targeted for abuse. He was asked to explain what had been done during the year on the subject of global warming. Lippincott had no microphone and no obvious enthusiasm to answer the question, but Lee Raymond answered for him by saying this was a board issue and the board had considered the question appropriately. End of discussion. Finally, about an hour and twenty minutes after convening—precisely at 10:20, no fooling around here—we turned to confirming the auditors and approval of the 2003 executive incentive program, all of which went unsurprisingly smoothly.

With that, we moved on to the nine shareholder resolutions that had somehow found their way past the SEC censors. When we finally came to Number 9, my resolution to separate the CEO and chairman positions, I stood up and approached the microphone.

''As we speak,'' I began, ''the great nations are meeting in St. Petersburg for the G-7 summit. It is not beyond possibility that sometime in the future they will expand their number. If they did so, ExxonMobil could be invited to the meeting, as it is today the 21st largest economic system in the world. And, Mr. Chairman, you have less restraints on the exercise of power than any of the leaders of countries today. You are effectively less accountable than the assembled presidents, prime ministers, or chancellors. The scope of your operations is global, and goes beyond the usual language of business into politics and foreign policy. The scope of your power, Mr. Chairman, is truly imperial. You are an Emperor.''

As I moved to sit down, Raymond demurred, but he didn't exactly look upset at his imperial prospects. Then the proponents and opponents of my resolution debated until Raymond, constantly aware of the clock, called me up again. My opening statement had taken exactly one minute and 23 seconds. For my closer, the always exact Raymond reminded me, ''You have two minutes and thirty-seven seconds.''

This time, I turned to talk directly to the directors.

''In referring to you as Emperor, Mr. Raymond, I meant no disrespect. I use this language to point out the real nature of the problem of governance for ExxonMobil. You have the nature of a country. The board must think more in terms of the mode developed for a national system and stop trying to apply the business precedents that ExxonMobil has grown beyond. As Americans, we must think with pride of the care that the Framers of our Constitution organized a system in which the power of the Chief Executive was effectively accountable to that of a Congress and a Supreme Court. ExxonMobil is an empire, and the board needs to look at the political model to find a counterforce for the power of the executive. Mr. Raymond, if you don't like what I say, you have only yourself to blame. You are a victim of your own success, and, remember—Napoleon Bonaparte had his Talleyrand.''

The yellow light was on as I finished. I remember feeling a surge of victory that I had crammed everything I wanted to say into such a thin time frame. Then I realized, ''Oh, my God, they have me thinking like them.''

The clock tolled the end of the meeting as Sister Pat Daly implored the chairman to take note of the mockery over which he was presiding—the needless restrictions on shareholder communication, the minatory security apparatus, the anal fixation on the clock, the obvious enlistment of ''bought'' testimony on particular resolutions.

Afterward, I walked out of Meyerson into the noonday Dallas spring with chapters of Russian history flashing through my mind. Maybe it was my talk of emperors. A hundred years ago, the masses respectfully petitioned the Tsar for reform. But the enduring image was the Show Trials of the 1930s. We were all playing roles, reciting the lines allocated to us by our masters. I felt diminished—no, I felt dirty—for having participated in this charade.

Give Exxon credit: It has no problem producing the same stale theater year after year. At the same meeting held in the same location on May 26, 2004, the treasurer of the state of Maine, Dale McCormick, representing the Maine State Retirement System, moved to ask a question. The exchange is worth reporting in full, from Exxon's own videotape of the meeting:

McCormick: Good Morning, Mr. Raymond, I'm Dale McCormick, the Treasurer of the great State of Maine. (*applause*) Ah, I see people have been to our fair State and come again, please. I'm an Institutional Investor. I represent many Institutional Investors, and I'd like to know if the auditor is here so that I might pose a question?

Raymond: Mr. Patterson, right down here.

McCormick: Great, hello Mr. Patterson. I'd like to know what provisions you have made on the financial statements for damage caused by climate change. Climate change is a potential liability and I wonder if you have reserved for it on the balance sheet?

Patterson: The responsibility for provisions in the financial statements are those of management, and I'm not sure that I am the appropriate person to respond to that question.

McCormick: Thank you. Then may I pose that question to Mr. Houghton, who is the chair of the audit committee?

Raymond: You may not.

McCormick: Why, sir?

Raymond: Because that's not — the audit committee looks at the recommendations of management.

That's properly the responsibility of the controller of the corporation.

McCormick: May I pose it to you?

Raymond: Oh, sure. You can pose anything to me. (*laughter*)

McCormick: Will you answer me?

Raymond: Oh, that's a different question? (*more laughter*)

McCormick: Sir, I do not think it is a matter of laughter when an institutional investor representing over 3 million shares cannot get answers to an important question like this.

Raymond: The question is precisely what?

McCormick: What provisions have you made on the financial statements for the damage caused by climate change and the potential liability there?

Raymond: It's neither likely nor could it be estimated.

End of scene, but not end of story. The emperor decides who will be allowed to ask questions and who will be allowed to answer them. That in this instance he could feel free to trivialize a question that compels the attention of most of the people on Earth is the clearest possible indication of the state of corporate power within the United States at the present time.

Two years later, I resumed my role in the charade with the same resolution I had advanced in 2003. This time, I changed tack slightly and wrote some weeks before the annual meeting to the entire board. In the letter, I acknowledged Exxon's superlative operating record. ''The important question for the board now,'' I wrote, ''is to devise an appropriate strategy to make the most profitable company in the history of business the best company in the world for the foreseeable future.''

Among the issues to be considered, again to quote myself:

> Why is our company the one with the bull's eye on its chest? Why are we the target of so much hostility? Is this simply envy of our size and profitability? Is there a particular confrontational Exxon style that is essential to our quality of operation? Do we have to be ornery to be successful? Or are we needlessly creating antagonism in a world that does not always accommodate the efficient operation of large companies?

All those issues, I wrote, are important, as are the perceptions that Exxon has inappropriate influence over government, especially on environmental matters: that it earns too much money and does little with the excess profit it does earn other than to sit on it; and that it is indifferent to its obligations to be a good corporate citizen.

''In sum,'' I ended, ''there is basis to conclude that Exxon 'dances to a different drummer' and in doing so invites all constituencies to interpret its activities from an unfavorable perspective. Even though we are the biggest company in the world, does it make sense—almost as bravado—to defy human needs to be able to relate to us?''

I asked at the meeting whether anybody had read my letter, but there was no response. When I requested from the chairman extra time to read it to them, the audience lent me substantial support, but from the chair I met only inflexibility. I have abbreviated the preceding content both because I believe the questions I raised in this letter are the kind corporations should answer to someone and because I know from years of experience that no one in the United States today can elicit any such responses as a matter of right or law.

I wasn't alone in writing Exxon's top management. In October 2006, five months after I had sent my letter, U.S. senators Olympia Snowe, a Maine Republican, and John D. Rockefeller IV, the West Virginia Democrat, wrote to the chief executive officer and board of directors of ExxonMobil:

> We are writing . . . as U.S. Senators concerned about the credibility of the United States in the international community, and as Americans concerned that one of our most prestigious corporations has done much in the past to adversely affect that credibility. We are convinced that ExxonMobil's longstanding support of a small cadre of global climate change skeptics, and these skeptics' access to and influence on government policymakers, have made it increasingly difficult for the United States to demonstrate the moral clarity it needs across all facets of its diplomacy. Obviously, other factors complicate our foreign policy. However, we are persuaded that the climate change denial strategy carried out by and for ExxonMobil has helped foster the perception that the United States is insensitive to a matter of great urgency for all of mankind, and has thus damaged the stature of our nation internationally.

Maybe a letter from such high councils ultimately will have an effect. Maybe the fact that the letter is cosigned by the great grandson and namesake of the founder of Standard Oil, Exxon's progenitor, will carry the day in the long run. But the signs are not hopeful.

Lee Raymond had been gone for nearly two years by the time the letter was sent, escorted serenely into his golden years with a retirement package worth an estimated $400 million, awarded by the grateful board of directors he had so long chaired. In his place, ExxonMobil was now being run by Rex Tillerson. Like his predecessor, Tillerson assumed the dual titles of CEO and chairman. After all, why should an emperor be accountable to anyone but himself?