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Diller derides investor watchdog groups

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By Martha Graybow

NEW YORK (Reuters) - IAC/InterActiveCorp. <IACI.O> Chief Executive Barry Diller, who had an estimated \$295 million in compensation last year, said on Monday many corporate governance activists are "birdbrains" who are hurting American business.

The chairman and controlling shareholder of the Internet media conglomerate singled out governance research groups as well as the business page of The New York Times, which he said had a "loony" view of executive pay.

He also said he had no use for the cottage industry of compensation consultants who advise boards of directors.

"I think the whole consultant group should be flushed into the East River and no value loss would ever be seen by man," Diller told the Reuters Media Summit in New York.

Diller ranked as the highest paid CEO in 2005, with 98 percent of his compensation coming from the exercise of stock options he previously had been granted, according to calculations by governance researcher The Corporate Library.

The IAC chief said 97 percent of his compensation over the past 11 years came from one stock option, granted at a time when his company was formed and losing money. Today IAC has a market capitalization close to \$10 billion.

Diller said the issue of governance is "completely misunderstood, certainly by the birdbrains that write about it. I mean their reactions to everything are so dim, and I am talking about The Corporate Library and I'm talking about these people that analyze these things and haven't a clue."

The Corporate Library, a Portland, Maine-based research firm, gives IAC's governance a "D," on an "A" to "F"-like academic scale.

"I'm sure he is bothered by the bad grades that we have given him," Nell Minow, a co-founder of the research firm, said on Monday. "All of our governance metrics are based on the effect that governance has on strategy. I would be happy to explain it to him if he would like but clearly he doesn't understand what we do."

Diller said his board operates well and there is plenty of honest debate among directors. But, he said, "Ninety-nine percent of the observers would say, 'you have lousy corporate governance because of interlocking relationships (among directors), because you are a controlled company,'" he said.

He said that an excessive focus on governance can hurt companies' ability to take on risk to develop their business, and will not necessarily improve the way companies are run. "My problem with governance is that it's really hurting American business."

Diller also said he laughed after reading a New York Times op-ed column by Nicholas Kristof earlier this month that suggested Diller "may be the laziest man in America." Kristof said that a breakdown of Diller's pay shows he is paid

roughly \$150,000 an hour to get motivated to do his job.

He said the column used a nominal figure for the value of his options, but if it had taken into account the context of the grant and the fact that he continues to hold the shares, "it is impossible then to make these representations."

Diller said he found "the whole issue of executive compensation and particularly the policy of The New York Times business section toward executive compensation ... absolutely loony." He singled out, in particular, business writer Gretchen Morgenson, who often writes about executive pay and corporate governance.

Morgenson told Reuters, "Well he's certainly entitled to his opinion. I think when someone like Barry Diller says that our focus on executive pay is loony, it must mean that we're doing the right thing."

"The assessment of his compensation was from research firms that specialize in compensation. As for our business section, I'm sure it could do a better job if we were able to pay reporters \$150,000 an hour, but frankly I think they do a terrific job with the resources they have," said Nicholas Kristof, op-ed columnist at The New York Times, responding to Barry Diller. Kristof spoke to Reuters by phone, as did Morgenson.

New York Times Executive Editor Bill Keller said, "Ordinary investors and other readers look to Gretchen Morgenson as one of the market's shrewdest and most fearless guides. She won a Pulitzer prize for a body of work that the Pulitzer board called 'trenchant and incisive.'

"We are proud of the journalism she and other Times reporters have produced on executive compensation."

(With additional reporting by Robert MacMillan)

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