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CREATING VALUE THROUGH CORPORATE GOVERNANCE

Value and Governance are such familiar words that we do not often enough reflect on their meanings in a specific situation. **[Slide 1]** This paper will suggest:

Value is in the eye of the beholder. **[Slide 2]**

The appearance of governance may be preferable to the real thing. **[Slide 3]**

In order better to understand value, we will work with a simple question – is it appropriate for a Global Investor to purchase common shares in Volkswagen? **[Slide 4]** There are many kinds of shareholder, each with distinctive interests that are not always compatible with the interests of the other investors. A Global Investor is typically the trustee of a pension plan with the simple obligation to collateralize the pension promise by maximizing the long-term value of trust assets. The beneficiaries of pension funds are not rich people. Fluctuations in market values are no longer primarily a question as to whether rich people are a bit richer or poorer, they are a question as to whether pensions will be paid to the roughly half of the population of the OECD world who have interests in employee benefit plans. This makes investment a matter of social and political concern.

Volkswagen has a widely known and respected brand name. Its design and product qualities are at the top of the automobile industry. Innovest, the Toronto based, strategic value advising firm concludes that Volkswagen will out-perform the industry. Its June 2001 rating is “Volkswagen received a rating of AA, ranking 3 out of 14 Automobile companies in this sector.” This suggests that Volkswagen would be an attractive investment – but it is not the whole story.

The largest shareholder in Volkswagen is the Government of Lower Saxony with a little less than 20% (18.6%), which has been adequate to maintain control. Government officials have typically been on the Supervisory Board – Federal Chancellor Schroeder used to be Chairman, when he was the chief state officer- and it is clear that the company is run in large measure for the benefit of the state. **[Slides 5 & 6]** Five out of its seven manufacturing plants are located there, notwithstanding a productivity of 46 cars per worker per year in contrast to 101 cars for the Japanese plants in northern England. Volkswagen stock is at approximately the same level - \$45/shares – as it was in 1997 even though it rose 40% in 2000 representing the effect of a \$2 billion stock buy back. Using conventional investment ratios, VW is valued by the market at about half the level of its competitors – 7-8 times projected 2002 earnings as against an average of 13-14 and Daimler Chrysler at 16. VW's market capitalization \$17.6 billion is 20% less than that of BMW although it has twice the revenue.

Volkswagen appears twice cursed from an investment point of view. Its earnings are reduced by needlessly high operating costs dictated by non commercial considerations and the multiple that the market applies to even these reduced earnings is drastically lower than the industry average representing lack of confidence that there is commitment to earnings growth. Lower Saxony as the controlling shareholder receives additional benefits of (i) subsidy of non-competitive wages and (ii) subsidized tax revenues, the subsidy being extracted from the other shareholders. Like many large companies, VW has been able to finance its operations from internal sources and is, as a practical, matter not subject to the cost of capital discipline of the market place. It would be

interesting to know the extent to which the compensation of the principal officers of VW depends on the stock price.

[Slide 7] How can a Global Investor justify acquiring VW common stock? In the short term, it is always possible to “buy low and sell high”, but that is not a responsible investment policy for fiduciaries. A long-term investment decision would have to be based on the conclusion that the level of political and social harmony achieved through subsidies to Lower Saxony compares favorably to the costs of competitors in achieving comparable conditions in other locations. Otherwise, the holder of VW is faced with the prospect of never being able to generate free cash, either for distribution or reinvestment, at the level of others in the industry. The Global Investor must evaluate the extent to which attention to non-profit oriented values decreases the risk of continuing earnings and profits. When these values are unique to a major shareholder – like Lower Saxony in the case of Volkswagen – it would be difficult to conclude spillover benefits adequate to compensate the Global Investor.

We live in times of substantial public protest over the power and influence of large corporations. Even the most ardent advocates of profit-oriented capitalism understand the need for inclusion of societal values. Milton Friedman, the Nobel Prize winning economist from the University of Chicago, has proclaimed the clearest articulation of corporate purpose as “the pursuit of profit within the rules.” Included within everyone’s definition of rules are applicable laws.

[Slide 8] A difficult but essential question need be asked. Can the Chief Executive Officers of modern transnational corporations accept the legitimacy of laws? This must seem a rhetorical question as nobody claims that private citizens have the right to determine what laws they find convenient to obey. When a CEO knows that laws affecting his company were enacted on the basis of imperfect information and that the imperfection resulted from the failure of his company to make available full information, he cannot claim that obedience with this flawed law discharges the corporation’s obligations. Consider, as an example, W.R. Grace & Company’s liability for damages caused by asbestos:

“...Grace’s new product was not completely asbestos free. A little known kind of asbestos, tremolite, laced the ore used in the spray. *And while Grace knew this, for years it kept that knowledge largely hidden from workers who applied the fireproofing and clients who wanted their buildings asbestos free, according to confidential company documents obtained by the New York Times. (Emphasis added)*”^[i]

Nor should CEOs be permitted to be oblivious of the reality that their own lobbying creates socially controvertible results. The thirty-year Congressional effort to encourage industry to manufacture more fuel-efficient cars is a case in point.

“Congress imposed CAFÉ^[ii] standards in 1975 after the Arab oil embargo. The law gradually increased the standard for cars from 18 mpg to 27.5 mpg in 1985... [I]t has remained there since. The law set a lower standard of ‘light trucks’: SUVs, pickups and minivans. The discrepancy didn’t attract much attention, initially. But such vehicles now represent about half of all new U.S. vehicle sales, decreasing the average for all sales to 24.5 mpg, the lowest level in two decades... the industry persuaded lawmakers to attach riders to annual spending bills to bar CAFÉ increases. Leading the effort was one of the House’s most powerful members, Republican Whip Tom DeLay of Texas.”^[iii]

One cannot put private company executives into the position of deciding in which instances they, and their industry, have overreached “legitimate” boundaries of involvement in the law making process. One can ask that they exercise restraint. A clear example of industry excess is coal’s response to Senator Jefford’s recent accession to Chairman of the Senate Environment and Public Works Committee. “...[A] mere two weeks after his announcement, eight power companies involved in New Source Review litigation announced that they had formed a lobbying group, the National Electric Reliability Coordinating Council. The group hired Haley Barbour, the former

chairman of the Republican National Committee and a high profile lobbyist, to help apply pressure in the right places...”[iv]

What is appropriate, what is excessive? One is put in mind of the late Supreme Court Justice Potter Stewart’s unwillingness to verbalize a definition of pornography: “... I know it when I see it.”

If we can arrive at the place where laws are enacted with lawmakers having the benefit of all available information on the subject and without excessive influence of lobbyists, the law will be the unique definition of appropriate behavior. Long-term value can only be based on legitimate laws. We are not there today.

Corporate governance has to do with the process by which the ways in which corporations have impact on society and corporate managers are responsible to owners. **[Slide 9]** Governance is not management; it creates the framework within which management takes place. Informed, motivated owners elect directors who, in turn, select a Chief Investment Officer, Governance rules are apt to be relational and not linear, they are not static they are dynamic. Management is typified by a hierarchical structure rather on the pattern of the military. Value is largely added by the skill and application of managements. And yet, governance is also important. It is easiest to express this importance as a negative. Governance can prevent value destruction.

McKinsey & Company **[Slide 10]** has worked for several years with institutional investors in the effort to place an exact number on the value they attribute to governance. The July 2000 study indicated a range from 20 –40 percent of value. When you consider the enormous efforts that management invests in the effort to improve performance by five or ten percent, one can begin to appreciate how important the perception of governance is. How much would sales have to increase, how many plants would need be consolidated, how many employees let go in order to increase value by 20 percent. Notice that we talk of the “perception of governance”. McKinsey queried the institutions with a number of commonly accepted indicators of good governance. It must be said that there has never been shown in any of the academic literature – literally hundreds of PHD theses – that any correlation exists between any of these indicators and corporate performance. And yet, “independence” of directors and the existence of board committees are commonly associated with “good governance”. I will later turn to some of the mythology surrounding the roles of directors and shareholders.

Chancellor Gordon Brown has announced that the Myners Review of Institutional Investment will be the law of Britain. **[Slide 11]** This is perhaps the most important single development in the evolution of corporate governance in the Anglophone world. Paul Myners brought to his study certain unique qualities – long experience as the Chief Executive Officer of a major money management firm, a keen insight beyond the apparent into the real implications of widely accepted City practices and a determination to make available for public scrutiny and government action recommendations for appropriate implementation. This is a subject of keen immediate concern.

Notice **[Slide 12]** that Myners is primarily concerned with the needless loss of value to investors. The popular mindset envisages the typical shareholder as a rich individual. In fact, today, the majority shareholder of virtually every company in the English-speaking world is the pensioners, former employees of these companies. Bad governance in times past may have been a nuisance to the rich; today it is a crime against the security of the pension promise. Myners is impatient with the reasons given him for lack of activism by institutional investors. The truth is uglier than the assigned reasons. Money management is the most lucrative line of work in the world today. The richest people do not run companies; the richest people run companies that manage investments. Everybody **[Slide 13]** is very comfortable. Change must be for the worst and therefore it is resisted with the virulence of the very powerful. Government has created the new majority owners. In the common law and in the practice in this country up to twenty years ago, individual – flesh and blood – human beings comprised majority ownership of the great public companies. As the unintended consequence of government policy creating incentives for

individuals to save for their retirement, pension trusts have become the majority shareholder. The ugliest truth is that government has continually and conspicuously failed to enforce the law of the land and, thereby, has enabled and condoned the conflicts of interest that envelope the institutional ownership world.

Look at the web of mutually self-supporting interests [**Slide 14**]. Somebody is missing from this cozy circle – who is it? It is the beneficiaries of the pension schemes whose neglect is the continuing disgrace of government. Let's follow the money, as they used to say in Watergate days. We start with the board of Directors of company X. By law they are required to create a trust and appoint the trustees for employee benefit plans. There is no prohibition against company officers themselves serving as such trustees, notwithstanding the apparent conflict of interest. Candor about what is really at stake somehow gets lost in politeness. In brief, it is not wide of the mark to suggest that the entire profit of the financial service sector is derived from the management and brokerage fees of the employee benefit plans. As Myners, so cogently points out, many of these charges are “invisible” – the brokerage costs are uncontrolled, are never segregated and reported as such, and are accounted only as a reduction in the market value of the portfolio. In American terms, management and brokerage fees from pension accounts must total close to \$50 billion. This is an important source of revenue to a great many important people. The investment managers of equity portfolios hold shares in two companies, we will call Y and Z. The scene is set, the persona have been identified, the drama is very simple and in one act. Called “The Golden Rule”; “Companies Y and Z implicitly agree with Company X – Our pension funds will monitor your activities in the same way that your pension fund monitors our activities.” Is it any wonder that there has never been – apart from Hermes – any sustained commitment to activism by any of the great company pension funds? Without the legitimization of involvement by the most prominent, informed and powerful members of the employee benefit community, is it any wonder that the activity has been marginalized?

How to enforce the recommendations of Myners. Should a public authority – possibly a special purpose agency, monitor these policies? We must recognize the asymmetries in enforcing public policy against large private corporations. [**Slide 15**] The imbalance is more stark in the United States than in the United Kingdom. One has only to recall how The Business Roundtable – an association comprised only of large company CEOs - was able to persuade the United States Senate by an overwhelming majority (like 88-7) to direct the QUANGO regulating the accounting profession to cease treating the grant of options as an expense on the profit statements. When the leaders of business choose to organize the resources for which they are responsible so as to overpower regulators and decree that “white is black”, one is wary of the prospects for direct government repudiation of practices that mean so much to so many powerful people.

If government cannot directly enforce the conflict of interest provisions of Myners, it is still possible for government to empower classes of private parties to do so. In simplest terms, shareholders can be given sufficient power and incentive under a revised Company Act to raise governance issues. There are many ways in which this could be accomplished. Ten years ago [**Slide 16**] I was able to require EXXON to put to its Annual Meeting the creation of a special shareholders committee, which would be paid to monitor on behalf of all the owners. The details are not important. The principles are important – any long term shareholder can actuate the electoral mechanism; the committee has the right of access to company officials and materials; the committee is assured access to the proxy statement; compensation and expense allowances are calculated with reference to those allowed the board of directors. Many may feel that this is just another committee, another tax, and another enthusiasm that will ultimately be bureaucratized or dumbed down by the relentless pressures of company counsel.

One would also urge clarification of existing laws to assure that shareholders and, possibly, the participants of employee benefit plans have access to the courts for effective remedy. [**Slide 17**] The experience in America suggests that two elements are necessary to make litigation feasible for injured individuals. The individuals must be able to bring a suit on behalf of the whole class that has been injured and counsel fees must include legitimating bonus for success. The price is

that some lawyers make too much money; the benefit is that individuals are empowered to seek relief.

The creation of value through governance requires an agent of change. The publication of governance codes **[Slide 18]** creates an atmosphere of sensitivity, but – by itself – is not effective to transform corporate functioning. Socially responsible investing, again, is of principal interest because of raising consciousness about the connection of owners to what corporations do. There has never been any proof that the self-exclusion of certain classes of owners has adversely affected a corporation. “Naming and Shaming” **[Slide 19]** can be effective in certain situations. CalPERS has published an annual “target” list for more than ten years. This list has attracted a large following and it has become likely that someone will do something about the companies in their list. This is a kind of vacuum effect. We must note that this is not as effective as if CalPERS did it themselves. This is the rub. The activist institutions very rarely have the political, financial or professional competency to intervene themselves in malfunctioning corporations. Social investing is maturing into a more integrated activist effort. **[Slide 20]** this includes resolutions at the annual meetings, direct contact with company management, advertisements in the press, even participation in demonstrations. Some companies have developed their own governance codes **[Slide 21]**. This demonstrates a commitment from within the enterprise to follow certain organizing principles. Real progress can only be obtained when it comes from the corporation itself. Confrontation can raise the issues, but ultimately governance will add value only to the extent that company managements “buy into” the underlying principles. Shareholder consciousness **[Slides 22 + 23]** moves across the threshold of commitment – money, time, professional and personnel – to change. As this consciousness escalates up to the level of soliciting proxy votes for binding resolutions at the Annual Meeting the likelihood that the company will react increases dramatically. At this point value creation is very real. This is the informing energy of special purpose activist and relational funds like LENS in the U.S. and Hermes in the U.K. Their long-term investment record *proves* that activism adds value. The custom of direct shareholder involvement with Chairmen, CEOs and independent board members **[Slide 24]** is characteristic of the UK in contrast to the US. In my view this is a very important level of activity. It reflects the “peaceful” accommodation of the reforming energy. This preserves values better than confrontation. In both the US and the UK **[Slide 25]** election to the board of directors is the ultimate expression of the power to force change. Takeovers, whether from outside **[Slide 26]** or by management itself **[Slide 27]**, combine – if only briefly – ownership and management. There is some speculation that this form of organization is inherently the most efficient. Possibly, this accounts for the popularity of “private equity” and such scholarly articles as that by distinguish Harvard Business School Professor Michael Jensen titled “The End of the Public Corporation”.

Governance – no matter how eloquently and fully explicated – does not – in and of itself – create value. It describes a process involving real activism by informed shareholders effectively requiring managements to be accountable. In a longer term broader context **[Slide 28]** Governance is concerned with the impact of corporations on society. As increasingly larger portions of world economic activity are concentrated in a relatively few huge transnational enterprises, the concern of individuals has been combined with traditional authorities, like government, to raise many questions about the future implications of corporate power. Metaphor for this concern is the escalating violence accompanying various summit conferences. Political leaders – unhappily including Prime Minister Blair – see Genoa violence as a challenge to the legitimate authority of elected officials. It is more than that – it is an expression of concern over the largely unaccountable power of large corporations. Corporations cannot continue to increase in value in a world that is suspicious, hostile and threatening. This is the agenda for governance in the years to come. In the absence of effective CEO leadership – conspicuous in Sir John Browne of BP - institutional investors must meet this challenge in order to insure continued growth.

In considering the McKinsey study earlier in this paper, we have noticed the difference between the appearance of governance and the reality. It is clear that everybody today in talking about governance is talking about apparent governance. We will proceed to discuss some of the

mythology surrounding the roles of directors and shareholders – some of the more conspicuous gaps between appearance and reality. But first we need to pause. Does the appearance of effective ownership monitoring create an optimum climate within which management can best create value? By breaking through to “real” accountability, do we run the risk of destroying the “golden goose” of capitalism? Is more governance automatically better governance from the point of view of creating value? Only one thing is now clear – we don’t know. In the American context, the levels of CEO pay clearly are a “smoking gun” indicating a level of disease that ultimately will destroy the present system unless there is reform. The experience of activism in America indicates that “governance” really exists in the grace of the existing system of power. Occasionally, a CEO loses his job – in many cases, the existence of shareholders has provided a “political” cover for the transfer of power. In important matters, like how much do we pay ourselves, CEO hegemony remains untrammelled.

In the UK, the situation is very different. Shareholders actually have power. They can call meetings and remove directors. This fact means that the institutions, who are increasingly informing themselves and working together, are capable actually of making changes. Note that the suggestion by Marconi management of repricing options was ‘dead on arrival’ due to the prompt public opposition of shareholders. We will have an answer to the question of what level of governance is optimal – will UK companies outperform US companies in the next time period?

We turn to what I call Model 1 – a system of apparent accountability **[Slide 29]**. One subject on which students of governance wax rhapsodic is the critical role of the “independent non executive director.” **[Slide 30]** The presence in the corporate constellation of individuals – independent, loyal, brave, all unknowing, never tiring, and willing always to confront their friends – is “a quietus devoutly to be wished”. Looking at the responsibilities that the law places on directors and the additional duties of “independent” directors by judicial gloss puts one in mind of the Book of Genesis. Whenever the corporate system requires a perfect arbitrator law and practice puts this responsibility on the independent director. As far as can be determined, nobody has been so rude as to analyze the capability of any flesh and blood human being to satisfy the job requirements. Nor has anyone realistically considered the amount of time that would be required to perform this task. I can only recount to you my own experience as a non-executive director of a Federally created corporation in the United States – 85 hours a week for two years and all I managed to accomplish was to prevent fraud. We must face up to the reality that the “independent director” is a myth. **[Slide 31]** Some myths are useful **[Slide 32]**. My own experience is that a director makes real contribution in two areas **[Slide 33]**.

If the CEO is functioning well, the board’s level of concern can be substantially reduced. It is, therefore, important for the independent directors to understand the health and state of mind of the CEO. This has become a lonely and difficult task. The election for vast wealth is not always a blessing. The strains on family life have led to divorce by the most prominently successful U.S. CEOs. It is unusual for a CEO not to be under an unnatural amount of pressure. The board needs to be very intrusive and to move very quickly if there is dangerous distraction. One of the least satisfactory elements in corporate functioning today is the audit relationship. Competitive pressures among the Big 5 accounting firms along with a parallel consulting relationship with clients has led to dangerous incursions on independence. There is frequent problem of the co-optation by the independent accountant of the financial staff of the client company. For example, in the case of Waste Management, it was determined that there had never been an employee in the finance department who did NOT come from Arthur Andersen. The entire system of confidence in valuing companies is based on a professional independent audit. It is essential that board members commit substantial time to understanding and monitoring this relationship. Indeed, the requirements are so severe that I will make a rather novel suggestion in aid of solution at the end of this paper.

Shareholder activism is not all that it is cracked up to be **[Slide 34]**. Here, again, we are dealing with mythology. The most solemn precept of law and lore is that the shareholders elect the directors. Even to say these words must generate repugnance in all those who love the English

language. However one characterizes the process by which shareholders coercively ratify the incumbents' nominees to the board, it is plainly not "election". **[Slide 35]** There have been many suggestions over the past fifty years in both the US and the UK to permit the direct nomination of one or more directors by shareholders. Every proposal has come to naught. Short of taking control of the nomination process themselves, there seems little choice under existing practice for shareholders other than to acquiesce in the self-perpetuating process. Running independent nominees is very expensive and quite impractical. **[Slide 36]**. I am the world's expert in this having contested a seat at Sears Roebuck some years ago. This is, frankly, not as serious in the UK as in the US. In the UK shareholders can call an EGM and can remove directors; in the US they can for the most part do neither.

Shareholders have derived some sense of accomplishment from placing resolutions in the agenda for the annual meeting and in the company proxy statements. After a dozen years or so, company managements caught on. They simply ignore a majority vote against them. **[Slide 37]** They are calling the shareholders' bluff – getting a majority of the votes against – say – a staggering of the election of the directors cannot be simply translated automatically into a majority vote against the reelection of the incumbent board. One of the areas of greatest concern has been the excessive involvement of corporations in the financing of elections to public office. **[Slide 38]** Owners have been utterly incapable of enforcing restraint in this area with the accompanying threat to the legitimacy of the entire corporate system.

We will move from the mythology of effective shareholder and director involvement in apparent governance to Model 2 **[Slide 39]** which contemplates a system of effective accountability for corporate power. It all comes down to individuals – a good individual can make a bad system seem tolerable. **[Slide 40]**. There are real activists who, in their own ways have each made a huge difference in the governance of corporations – Peter Butler, the Chief Executive Officer of the Hermes Focus Funds and, also, of the Hermes governance operations, Martin Ebner, the brilliant and independent Swiss investor who has almost found life in the fossil-like structure of local companies and is now turning to the land of internal contractions – Sweden and Investor and the inherited monarchy of the Wallenberg family in the midst of the most liberal political democracy, Sophie L'Helias, the brilliant French lawyer who has taken on a myriad of challenges in that most difficult of cultures and Ralph Whitworth who has actually been in "the belly of the beast". Ralph serves on boards of directors. He makes a difference. He organized the company that took over Waste Management, he fired the managements several times, he served as Chairman, he found the right CEO, and he is still a director. The shareholders have made a lot of money. I would like to have a German and a Japanese name to insert here. There are some candidates but they are not in the league of the four above.

Shareholders have not been involved effectively in the problems of assuring an accurate independent audit **[Slide 41]**. There is some confusion as to whether their support is legally required. Briefly, some years ago, Employers Union attempted to present its accounts to the AGM without shareholder approval of the Auditor selected. They were forced to back down. In the U.S. the legal requirements originate, not in the state laws governing incorporation, but in the Federal Laws creating the Securities and Exchange Commission. No one has really pressed the point as to whether there is a legal requirement for shareholder approval. Everyone assumes that there is. So it is obtained in a process that is a model of meaninglessness. At the bottom of every proxy statement is the rote recitation of ratification of the appointment of Auditor. I cannot recall an instance when this resolution was not overwhelmingly passed, nor does an instance come to mind of an alternative being required. Even in the case of Arthur Andersen's fraud with the Waste Management accounts they have been retained as the auditor.

The existing process is not going to produce reform. We cannot make full-time professional auditors out of non-executive directors, no matter how dedicated and competent they may be. I suggest that we consider seriously **[Slide 42]** adding representatives from institutional investors to audit committees. So far as I know, there is no legal prohibition against non-directors serving on board committees. Unusual, yes, illegal I do not think so. The institutional investor community

is going to have to invest and to co-operate more if there is to be effective governance. There will need emerge a new professionalism – firms and individuals who are comfortable that the commitment of institutions to governance assures that they can lead productive lives under circumstances where their focus puts them in confrontation with the large corporate community. Maybe, it would even be a good career step – there are many instances of poachers being hired to be gamekeepers! The institutions will – as a group – have to agree loosely to support this cadre of new professionals.

Perhaps the greatest failure of governance in the United States is in the area of CEO compensation. **[Slide 43]** Largely, the UK has been spared the “vice American”, but it is creeping in through mergers and the reputed need for competitive pay – a tired old rabbit pulled out of the hat even by Labor Government ministers. **[Slide 44]** Here, again, I see no alternative but the involvement by institutional investors directly in compensation committees. The complexities of compensation are, frankly, beyond me. The ability of management paid consultants to obscure and, at the same time, comply with law in the details of compensation is undeniable. The institutions need their own experts. They won’t get them in the absence of a credible long-term commitment that would make a career choice by appropriate professionals to be rational. The institutions have such a huge stake in the integrity of the corporate system that the expense of committing to additional professional help should not be inhibiting.

At the end of our trip through the mythology and prospects for adding value to corporate enterprises through effective governance, we come to a very simple conclusion. I bastardize a celebrated principal of physics **[Slide 45]** to conclude that both in science and in business **[Slide 46]** a watched particle behaves differently than one that is not watched. “An observed board behaves differently” and is more likely to generate value for corporate owners.

ENDNOTES

[i] Moss, Michael and Appel, Adrienne, Company’s Silence Countered Safety Fears About Asbestos, *New York Times* (July 9, 2001), p.1.

[ii] Corporate Average Fuel Economy

[iii] How Auto Makers Got on the Bad Side Of Their GOP Friends, *Wall Street Journal* (July 18, 2001) p. 1.

[iv] Goodell, Jeff, How Coal Got Its Glow Back, *The New YorkTimes Magazine* (July 22, 2001) pp 30,36.