The Lone Ranger of Boardroom Battles

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In his high school days, Ralph Whitworth used to spend Saturday nights racing friends in souped-up cars around his northern Nevada desert home town of Winnemucca.

"We were serious – street races, illegal," recalls Mr Whitworth, who runs Relational Investors, the activist investment fund he co-founded 11 years ago.

In the ensuing 30 years, Mr Whitworth kept up his passion for "muscle cars" – he claims that his collection of hot rods is "probably the best in the world" – but channelled his competitive spirit and aggression into another cut-throat world: finance.

The illegal races may be a thing of the past but many of the corporate executives who have faced Mr Whitworth will recognise the determination and focus of that youthful drag racer.

Just ask Bob Nardelli, the chief executive of Chrysler, who lost his previous job as head of the retailer Home Depot last year shortly after Mr Whitworth began questioning his pay and managerial nous.

Or Dan Hesse, the new chief executive of Sprint Nextel, the troubled telecommunications group that this month gave Mr Whitworth, a vocal critic of its expansion plans, a seat on its board.

Now 52, and heading a fund with some $7bn under management, Mr Whitworth has come a long way from his nomadic childhood spent following his father, a geologist, round the Nevada desert hamlets.

"We bounced around mining towns all over Nevada. I went to 12 different schools," he says, munching on a meagre lunch of bread and sliced ham in his airy office in the hills around San Diego.

Today, Mr Whitworth is one the most powerful investor voices in corporate America, with veteran activists such as Carl Icahn and Nelson Peltz. But unlike the two wily New Yorkers, whose stock-in-trade are contentious "proxy fights" and sharp barbs about a company's strategic direction, Mr Whitworth's trademark issue is corporate governance.

"We have become more sophisticated and refined at what we do as activist investors," he says in a rare interview. "We don't go and argue over strategy and the business plan."

Instead, Mr Whitworth picks fights with companies where he considers boards are in thrall to their chief executive and are making poor decisions, be it on executive compensation, acquisitions or corporate malfeasance.

By entering the fray and forcing companies to change their ways, often from the inside as a board member, Mr Whitworth believes it can quickly add value for itself and other shareholders. The approach seems to have worked. Although Relational does not publish performance figures, it is believed to have earned significant returns for its investors, which include Calpers, the large Californian pension fund, and Hermes of the UK.

Those who have seen him at work say that when he joins a board – which, he says, only happens with particularly troublesome companies – Mr Whitworth comes armed with stacks of research and a keen understanding of his rights.

He then proceeds to challenge directors and executives with insistent, precise questions, threatening to disagree publicly when he feels he is being sidelined. It is a technique that usually annoys fellow board members but gives him much more influence than his minority position would allow. "These boards work on consensus. There's very few split votes so, as one person, you can have a lot of influence," he says.

Robert Monks, one of the fathers of US shareholder activism, has known Mr Whitworth for decades. He believes Relational's approach can unlock the cosy relationships at the top of the corporate ladder. "Ralph makes a board listen to a point of view that is not the point of view of the CEO," he says.

After years of being attacked by corporate executives as a short-termist "gadfly" and ruthless self-promoter, Mr Whitworth believes that his dogged efforts to pursue change among US companies have been bolstered by Enron-era scandals.

In his view, even mutual funds and pension funds – for so long a dormant force in US corporate life – appear ready to ditch their traditional reluctance to rock the corporate boat. "Institutional investors are much more willing today to support dissidents than they were and I think the fault line was the corporate scandals," he argues.

And while increased regulation in the form of the Sarbanes-Oxley law has had a positive impact on corporate governance, Mr Whitworth does not appear concerned that it may have removed his chances of making money on the back of dysfunctional corporations. "I think the changes have been positive, but it's been a mile wide and an inch deep...Sarbanes-Oxley was a non-event in terms of addressing the fundamental issues that caused those corporate scandals," he says.

With his well-fed physique, near-bald pate and penchant for free-wheeling, trenchant, language, Mr Whitworth looks and sounds more like the lawyer he tried to become than a corporate crusader.

But after graduating from Georgetown University's law school in the early 1980s, he practised law for precisely "three months, 21 days and six hours", he says, before being swept up in the early enthusiasm of the "Reagan revolution" and moving to Washington to work for Paul Laxalt, the Republican senator from Nevada.

By 1985, he had been hired by T. Boone Pickens, the Texas oilman who was shaking up corporate America through no-holds-barred, hostile takeovers. "I learnt more from him than anybody in my business career and I had more fun working for him than anybody else. I got a PhD in capitalism there," says Mr Whitworth.

Within a year Mr Pickens had chosen his trusted lieutenant to run the United Shareholders Association, an influential investor rights group that Mr Whitworth headed until its dissolution in 1994.

A messy falling-out with the oil tycoon ensued and, in 1996, Mr Whitworth and another Pickens alumnus, David Batchelder, got Relational off the ground with a $200m investment from Calpers.

With activism increasingly recognised as a mainstream force in US corporate life, Mr Whitworth is now thinking about his legacy. His grand plan is to create a set of standards on issues such as compensation, capital allocation and shareholder communications. Companies that abide by those would be given Relational's "seal of approval", which in turn could attract other investors interested in corporate governance.

“You’re going to be considered a Relational-friendly company. And you’re going to get a higher multiple for that,” he says.

But why should an activist investor whose job is to target company after company even think about a lasting legacy? Mr Whitworth hints at a reply when he says he inherited his “maverick independence” from his father, a mining engineer.

“My dad was a dreamer basically, out there looking for the next big hit. He actually got one – uranium in south-eastern Utah in the 1950s – and then spent it all, pretty quick, and never got another one.”

His goal is to keep the hits coming for himself and his investors for many more years to come.

An eye for the pay packet that matches the company performance

As Ralph Whitworth scours the US corporate landscape looking for targets, he keeps his sights trained on a crucial variable: executive compensation and its link to a company’s performance.

He believes that the upward trend in executive pay in the US over the past few decades is symptomatic of a widespread corporate governance failure.

“That’s the smoking gun that tells me that there’s something fundamentally wrong,” he says. “How could you have that kind of escalation [in executive pay] that’s not connected to performance and so out of proportion to general inflation and other wage inflation?”

Mr Whitworth’s philosophy is simple: large paychecks for chief executives are fine provided that their shareholders also do well.

“I don’t mind quarterbacks getting paid more than executive managers. I don’t mind Madonna being paid a lot: it’s for a performance,” says Mr Whitworth, who once famously paid Paul McCartney $1m to play at his wife’s birthday.

In the corporate sphere, however, Mr Whitworth believes boards and compensation consultants do not set the bar high enough for chief executives.

“We’ve conceded in corporate America that the bonus, the proverbial annual performance bonus, is essentially part of the base compensation,” he complains.