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THOMAS KOSTIGEN'S ETHICS MONITOR

A say on pay

Commentary: Executive compensation focus for 2008 shareholder action

By [Thomas Kostigen](#), MarketWatchLast update: 5:59 p.m. EDT June 1, 2008 | [Comments: 5](#)

SANTA MONICA, Calif. (MarketWatch) -- It's that time of year again: proxy season. And along with it comes a good indication of what's on investors' minds. Actually, more to the point, it's which issues investors would like addressed by the companies in which they invest.

At Exxon Mobil Corp. ([XOM](#): 87.37, +1.62, +1.9%), the "green" theme is playing out (again), with investors calling for an executive -- maybe even a chairman -- who will push the company in a new, alternative energy direction.

[Shareholders vote not to split chairman/CEO roles](#)

But most of the proposals being waged at companies in the form of "shareholder resolutions" have to do with executive pay. Close to 100 companies are being met with proposals for corporate-governance reform with regard to executive pay.

This year, a diverse network of more than 75 investors with over \$1 trillion in assets under management filed shareholder proposals pressing for the advisory vote, dubbed "say on pay," at more than 90 companies, according to findings by Boston-based Walden Asset Management.

The firm found that thus far in 2008 the great majority of proposals that have gone to a vote have received backing in excess of 40%, with six winning majority voting support over 50%. Last year shareholders filed more than 60 "say on pay" resolutions that averaged over 42% support and included a majority vote at eight companies. "Shareholders continue to send a clear message that they want an opportunity for an advisory vote on pay," Walden said.

Timothy Smith, senior vice president at Walden Asset Management, says "this is an enormous demonstration of voting support for this governance reform as investors seek different ways to be heard on compensation." He goes on to say that "the depth of shareowner support is highlighted by the fact that companies with no strong concerns on executive compensation, like IBM ([IBM](#): 128.42, +0.87, +0.7%) and Johnson & Johnson ([JNJ](#): 66.94, +0.39, +0.6%), are receiving votes in the 40% range in addition to companies that have faced controversy surrounding their compensation plans."

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but a voice. The "say on pay" proposals do just that and companies should take up the issue more seriously and give investors the attention they so well deserve.

Heartening, investors are coming packing a punch; they are the large institutions that have large positions in companies' stock. So it's very likely that companies will indeed take "pay" proposals seriously.

Money is this year's green

For some reason the executive-pay resolutions are gaining more traction than the other frequently lobbed investor issue: green policies. These proposals have much to do with companies putting into practice more energy-efficient programs and becoming more mindful of their polluting ways.

In any event, greed is trumping green for now. However, I expect that to change next season when investors wake up to the fact that resource inefficiency is sucking profits.

Meanwhile, compensation is king of corporate governance and will stir things up. For example, at Aflac, the first company to put a management-sponsored advisory vote on the proxy ballot, approximately 93% of investors endorsed the executive compensation report, illustrating that companies with reasonable executive pay packages that are tied to performance and clearly explained are likely to receive strong investor support, Walden notes.

Such a huge percentage and turnout number means the issue is hot.

"I am encouraged by the breadth of investor support for the advisory vote reform including state and city pension funds, foundations and religious investors, individuals, trade union pension funds and mutual funds," Smith says.

The big guns are out, so companies may be wise to prune the outrageous sums we've seen over the past years from compensation packages. Corporate boardrooms beware: Investors are listening hard and speaking out loud about pay. ■

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It's quite apparent that top management and boards see corporations as their own little piggy banks with which to enrich themselves beyond all reasons. Everyone works for a living and no one lives in a





vacuum, so it's completely unreasonable for these CEOs to be paid multimillion dollars in compensation when they rely on the rest of the people for performance. Sadly, the ones who could possibly prevent this abuse seem to be looking forward to the day when they can be in the same position. These high compensations are stealing from the shareholders...pure and simple!

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Stealing from shareholders yes, but even worse is stealing from the employees who make their salaries possible.

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Good example...while most employees of NT received no pay increase (I consider \$650 a year ZERO!!) or COL, the CEO made a \$21 million bonus and some of the execs also received a 25% salary increase. What a joke. No wonder there was no money for the rest of us.

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Mainland Chinese regulators have issued a regulation restricting sale of company stock by directors or officers to 25 percent of the shares owned outright or vested at the end of the previous year. Effectively, that imposes external vesting of options and extends management's time line of concern for stock performance. It was a brilliant victory of socialist thought; take 25% of the money and run. Perhaps the SEC and the American legislature could adopt similar godless commie ideas. On second thought, Naw!

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