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Executive Pay Weighs Heavy with Shareholders

by Anne Moore Odell

With more than 90 "say on pay" resolutions this year, shareholders continue to push for advisory votes on executive compensation.

SocialFunds.com -- As most Americans see their paychecks stretched tighter by rising costs, the huge paychecks and special perks given to the people running publicly traded companies are under closer scrutiny than ever by shareholders. Shareholders are voting in growing numbers for an advisory vote on compensation-- a "say on pay"--this proxy season.

This year over 90 companies have faced, or are going to face, shareholder resolutions on "say on pay." The resolutions were filed by a broad coalition of 75 plus investors managing over \$1 trillion in assets. [Walden Asset Management](#), one of the lead filers of these resolutions, reports that of the proposals that have faced voters this year, a majority have received at least 40% approval with six proposals reaching over 50%.

"The advisory vote on executive compensation would help insure that corporate boards, specifically the compensation committees, do a better job at explaining to shareholders how executive pay is linked to performance," said Brother Steven O'Neil, shareholder action coordinator for the [Marianist Province of the United States](#).

"Even if the shareholder vote is advisory, the board would have a lot of explaining to do if they implemented a pay plan that the majority of shareholders were against," explained O'Neil. The Marianists were the primary filer on "say on pay" resolutions at Capital One and Oracle. They were co-filers at Exxon-Mobil.

The 2008 proxy season has seen a 50% increase in the number of "say on pay" resolutions from 2007, jumping from over 60 resolutions in 2007 to over 90 in 2008. The first "say on pay" resolution was filed by the AFSCME Employees Pension Plan in 2006.

[RiskMetrics Group](#) reports in its Midseason Review of the proxy season that executive pay vote proposals have averaged 43.1% support over 35 meetings where preliminary or final results are known. This compares to 42.5% support of these proposals in 2007.

State and city pension funds, religious investors, foundations, and individuals are included in the groups filing "say on pay" resolutions. They include the AFL-CIO, AFSCME, CalPERS, City of New York Pension Fund, the Marianists, Nathan Cummings Foundation, [Needmor Foundation](#), State of Connecticut Pension Fund, John and Ray Chevedden, TIAA-CREF, the Unitarian Universalist Association, The United Church of Christ Foundation, United Methodist General Board of Pensions and Health Benefits, and Walden Asset Management.

"Under new SEC rules, companies have to disclose the total compensation of their top officers," explained Tim Brennan, treasurer and vice president of finance for the [Unitarian Universalist Association](#). "In the past, much of this information had been buried in the annual filings."

"Now, what can investors do with this information? The most effective and efficient way for shareholders to communicate whether company management, their agents, are being fairly compensated is to have a vote at the annual meeting. This is also a

great way for boards to get a reading on the judgment of the shareholders, whom they represent," Brennan continued.

Aflac became this first company to support an advisory vote on executive pay. Shareholders overwhelmingly supported the issue, voting 93% for the measure.

"I think that the fear of the proposals on the part of the companies is largely unfounded, at least for those with rigorous and fair compensation systems," said Brennan. "Witness the vote at Aflac, the first company to conduct such a vote. Management compensation received approval from over 90% of the shareholders. That's a great vote of confidence for the company and the board."

Other companies that have adopted policies regarding advisory votes on compensation include Blockbuster, Verizon, RiskMetrics, and Par Pharmaceuticals.

As of the end of May, the 2008 "say on pay" resolutions votes that received a majority, some of which are preliminary, include Apple Computer (51%), Alaska Air (53%), Lexmark (60%), PG&E (52%), Motorola (54%), and South Financial Group (52%).

Other results on "say on pay" include Bank of New York Mellon, (46%), Bank of America (45%), Citigroup (42%), Dresser Rand (46%), Dupont (45%), Edison International (47%), Boeing (46%), Goldman Sachs (46%), IBM (43%), Johnson & Johnson (45%), Lockheed Martin (46%), Occidental Petroleum (45%), Merck (48%), PepsiCo (44%), and Waddell & Reed Financial (49.5%).

RiskMetrics notes that as of May 23, no "say on pay" proposal has received less than 30% support.

O'Neil clarified the importance of the "say on pay" resolutions to the Marianists: "The say-on-pay resolution fits our mission to insure shareholder rights are maintained. They are the owners of the company and have a right and responsibility to see that the company acts in a fair and just manner, not only produces a profitable bottom line."

Brennan explained why the UUA has worked on executive compensation issues, "These resolutions reflect our commitment to economic justice and, specifically, to our guiding Second Principle: 'We affirm and promote justice, equity and compassion in human relations.' Equity here being the key term. Further, we believe that giving shareholders the right to a vote on executive compensation embodies our Fifth Principle, 'The right of conscience and the use of the democratic process... in society at large.' We believe that democratic principles should be applied to corporate governance, not just the public sector."

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