Soaring Executive Pay Meets Reforms

Reuters
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WASHINGTON (Reuters) - Mention shareholder rights or excessive executive pay and the typical U.S. chief executive reflexively drops into a defensive crouch.

In Congress, among shareholders, at the Securities and Exchange Commission, even at the White House, executive pay and how much input shareholders have on it, are hot topics.

No one is talking about capping pay, a boogeyman frequently raised by critics of any attempt to reform the existing process for determining pay levels.

Rather, the latest proposal -- known as "say on pay" -- would give shareholders the right to hold annual, nonbinding advisory votes on executive pay as outlined under SEC rules each year in corporate proxy statements.

These largely symbolic shareholder votes are already commonplace in Britain, Australia, Sweden and the Netherlands, but they are a controversial idea in the United States.

"Shareholders' rights in the U.S. are weak and significantly weaker than in other common law countries," says Harvard University Law Professor Lucian Bebchuk.

"Introducing advisory votes on compensation at the annual meeting, as the UK and Australia did, would help shareholders," he said this week at a congressional hearing.

A "say on pay" bill is being considered by the House of Representatives Financial Services Committee, with action on the legislation scheduled for March 21.

In addition to an annual advisory vote on compensation, the bill would let shareholders vote on any "golden parachute" packages for executives if a company is sold.

SAY ON PAY

The Business Roundtable, which represents 160 big-company CEOs, opposes "say on pay," saying it would politicize and complicate the compensation-setting process.

Right now, the pay of top corporate managers is set by boards of directors, who are nominated by managers. Directors often get advice on setting pay from compensation consultants.

Median U.S. CEO pay in 2005 was $13.5 million, up 16 percent from 2004, according to the Corporate Library, a research group.

Viewed another way, in 2003, the average CEO got roughly 500 times as much pay as the average worker, compared to a multiple of 140 in 1991, one academic study showed.

The "say on pay" bill has strong support among Democrats, who now control the House. Massachusetts Democrat Barney Frank, who introduced the bill, chairs the financial services panel.

Republicans generally oppose "say on pay," but some expressed concern about pay issues at a hearing on Thursday.

"Lavish executive compensation packages for CEOs have contributed to the growing public perception -- justified or not -- that the rules in corporate America are rigged in favor of well-insulated insiders," said Alabama Rep. Spencer Bachus, the senior Republican on the committee.

No companion bill has emerged in the Senate, but a measure to limit deferred compensation plans for corporate executives is part of minimum wage legislation.

SHAREHOLDER RESOLUTIONS

With the 2007 corporate annual meeting season about to begin, "say on pay" resolutions have been filed by institutional investors with dozens of companies, including Wall Street brokerage Morgan Stanley <MS.N>.

The company's April 10 annual meeting will be a key test, with shareholders expected to vote on a "say on pay" resolution filed by an American Federation of State, County and Municipal Employees pension plan.

The Morgan Stanley board is asking shareholders to vote against the resolution. Company CEO John Mack took home $41.4 million in cash and stock in 2006, during which Morgan Stanley's stock price rose strongly.

"Say on pay" resolutions have been filed at United Technologies <UTX.N>, which holds its annual meeting on April 11, and at many other companies.

Similar resolutions were filed last year by pension funds at seven companies. They gained 40 percent shareholder support, on average, encouraging funds to file more measures this year.

Last month, disability insurer AFLAC Inc. <AFL.N> voluntarily became the first major U.S. company to give shareholders a nonbinding vote on executive pay, winning praise from corporate governance activists.

Executive pay is a perennial issue, resurfacing each spring when companies report compensation packages awarded to top managers in the previous year.

This year, critics focused on a $210 million exit package awarded to Robert Nardelli, former CEO of retailer Home Depot Inc. <HD.N>, and a $198 million package given to Hank McKinnell, former CEO at drugmaker Pfizer Inc. <PFE.N>.

In January, President George W. Bush complained about the size of some executive pay packages and urged boards to tie pay more closely to performance.

The SEC last year imposed new pay disclosure rules on corporate America. Some critics of "say on pay" have said the SEC rules should be given a chance to take effect before Congress takes any further action.