

Shareholders want 'say on pay' in push against excessive CEO compensation

The Associated Press

Friday, April 11, 2008

NEW YORK: Wall Street's high-rolling CEOs live a lifestyle that would make Hollywood movie stars jealous — penthouse apartments, private jets, and paychecks tipping \$60 million (\$37.9 million) a year.

Corporate boards in recent years have rubber-stamped generous bonus packages for an elite set of executives, a reflection of a go-go stock market and soaring profits. Now, as the credit crisis roils Wall Street and decimates stock prices, shareholders are demanding a voice.

Fund managers and individual investors alike are campaigning for a "say on pay" rule giving shareholders a vote on executive compensation at major corporations, especially America's biggest banks. This is the latest salvo in the battle against Wall Street's exorbitance, and this time it appears shareholders might stand a chance.

Timothy Smith, a senior vice president at Boston-based Walden Asset Management, nearly pulled off a "say on pay" resolution at Goldman Sachs Group Inc.'s annual meeting Thursday. The proposal garnered 43 percent of the vote, despite strong recommendations for its rejection from Chief Executive Lloyd Blankfein and the investment bank's board.

"To us it appears that Wall Street has a severe rash, to which its boards, made up of corporate members, respond 'you scratch my back, and I will scratch yours,'" said Smith, whose firm owns 65,000 shares of Goldman Sachs.

Indeed, most boards these days are hand-picked by management and typically include executives from other companies. Goldman's board has former top executives from Sara Lee Corp., Medtronic Inc., Colgate-Palmolive Co. and Allstate Corp.

They might find the latest push on compensation difficult to ignore. Shareholders who voted in favor of "say on pay" represented a wide swath of big institutional investors, like mutual funds, foundations, and pensions.

Smith complimented Blankfein for navigating Goldman Sachs for the most part clear of the credit crisis, which has cost global banks nearly \$200 billion (\$126 billion) in write-downs and led to the implosion of Bear Stearns Cos. However, he said "as owners of this company" shareholders should have a seat at the board.

Blankfein, who took home about \$54 million (\$34 million) in 2007, rejected the proposal, saying he did not want anyone "less sophisticated and have less understanding" of the financial industry making decisions on pay. Goldman's top five executives were paid about \$250 million (\$158 million) total last year, including cash bonuses, stock awards and other compensation, according to the company's proxy statement.

"This would create a feedback loop. It would create a cloud, a constraint, a limitation on decisions that have been at the heart of what a board has done," he said at the company's annual meeting.

He likely has not seen the last of Smith, and CEOs across every industry are facing similar challenges as companies hold their annual meetings throughout April and May.

Some 100 companies — from General Electric Corp. to Wal-Mart Stores Inc. — will be voting on "say

on pay" proposals, but the odds might not be in shareholders' favor. The average level of support for 51 say-on-pay-type resolutions in 2007 was 43 percent, according to RiskMetrics Group.

But shareholder-sponsored proposals rarely pass on the first vote and can sometimes take a few years before they catch on.

"These sort of proposals take about three to four years to gain acceptance," said Rich Ferlauto, director of corporate governance and pension investments at the American Federation of State County and Municipal Employees. "Goldman is one of a few companies that have done a good job in the middle of this credit crisis, but that's not to say shareholders shouldn't have a general right to ratify a compensation program as a check and balance system."

Bank of New York Mellon Corp. and Morgan Stanley both rejected proposals this past week. But there are companies whose shareholders have a say on compensation, such as Verizon Communications Inc., Blockbuster Inc., Apple Inc., and Aflac Inc.

The idea has also become a populist hot button for politicians especially for Democratic presidential candidates Barack Obama and Hillary Clinton.

Obama demanded during a stop in Indianapolis Friday that company shareholders have a say in executive pay, and he wants Congress to pass legislation that would require it.

"This isn't just about expressing outrage," Obama said. "It's about changing a system where bad behavior is rewarded so that we can hold CEOs accountable, and make sure they're acting in a way that's good for their company, good for our economy, and good for America, not just good for themselves."

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