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Exec Comp Pot Boils for Proxy Season

More success for investor activists could result from widespread complaints about excessive pay, especially in a time of economic hardship.

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Executive compensation, long a lightning rod for shareholder activists, could draw more bolts of electricity than ever for the proxy and annual meeting seasons this year -- rife with global recession and government bailouts.

Already, more than 100 resolutions calling on companies to give shareholders an annual advisory vote on executive compensation packages have been filed for 2009 proxy consideration. The "Say on Pay" measures are being pushed by a diverse network of institutional and individual investors organized by the American Federation of State, County, and Municipal Employees' (AFSCME) pension plan, and by Walden Asset Management, a division of Boston Trust & Investment Management Company.

The resolutions were submitted at a wide range of companies that have executive compensation that these groups perceive as having a misalignment between pay and performance over the past three to five years.

"The greed that sent our economy off the cliff has got to stop," said AFSCME President Gerald W. McEntee. "Too many CEOs are being rewarded for taking risks that result in massive losses. That's why shareowners must have a say on executive pay packages."

The position of the investors also has had the support of President Obama, who as a senator sponsored legislation that would require corporations to have a nonbinding vote on executive pay. In fact, last April in a speech Obama singled out two companies -- KB Home and Countrywide Financial -- as examples of those that have provided excessive compensation packages.

"This isn't just about expressing outrage," Obama said at the time. "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."

Major business groups such as the Business Roundtable and U.S. Chamber of Commerce oppose these kinds of measures. However, a number of companies have voluntarily agreed to adopt a Say-on-Pay policy, or at least ask their shareholders whether they are interested in one. Last week, Hewlett-Packard announced that it will allow shareholders to determine whether the company should conduct an annual nonbinding advisory stockholder vote related to executive compensation. Under the procedure, HP will present at its 2010 annual meeting a management proposal authorizing the company to conduct an annual nonbinding advisory vote on its executive compensation policies and procedures. If HP stockholders approve that proposal, HP will conduct a nonbinding advisory vote on its executive compensation policies and procedures beginning with its 2011 annual meeting.

"We have adopted this procedure because executive compensation involves important issues relating to corporate governance," said Mark Hurd, HP chairman and CEO. Last year he received a pay package valued by the company at \$42.5 million, up from more than \$25 million the previous year. In 2008 he also netted more than \$10 million from exercising previously awarded stock options.

HP also announced that it supports legislation providing stockholders with an opportunity to express their views on the executive compensation policies of publicly held companies.

The companies implementing the advisory vote at this year's meeting so far include Verizon, Aflac, Blockbuster, Motorola, MBIA, and Ingersoll Rand. Others have informed proponents that they are putting a management-sponsored advisory vote on their proxy in 2009 and 2010, according to the investor group.

Last year, resolutions asking for an advisory vote went to a vote at over 80 companies and averaged 42 percent votes, including 11 companies which received majority votes. In 2007 a similar resolution was filed at more than 50 companies, also averaging about 42 percent support, including eight companies where the proposal received over 50 percent of the vote.

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