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'Say on Pay' trend awaits vital push from Congress

Executive pay is taking center stage.

The topic has dominated many hours of debate in Washington in recent weeks.

Members of Congress grilled bank executives. The Obama administration introduced limits on executive pay for financial institutions receiving bailout money, including a $500,000 cap on cash pay for some executives.

Congress also is likely to take up legislation on the "Say on Pay" measure -- which would require that companies give shareholders an annual advisory vote on senior management's pay packages.

Ex-Merrill Lynch chief John Thain's reported $35,000 toilet has come to symbolize waste in the same way the government's $435 hammer once did.

"It's a brand-new context," said Timothy Smith, a leader in the "Say on Pay" movement who is senior vice president at Walden Asset Management, a Boston investment firm. "We need corporate leaders to step up and not simply be defensive and say 'no' to a whole range of reforms."

Let's be clear: The U.S. faces plenty of formidable capitalistic rivals in the global economy. But when it comes to executive pay, the U.S. stands alone.

CEOs at U.S. companies averaged $2.16 million annually in 2005, according to a report on compensation in 26 nations by consulting firm Towers Perrin. Switzerland, with CEO pay of $1.39 million, was a distant second.

Are our CEOs that much better? Whose financial firms led the world into this downturn?

Now, please understand, this column is in no way advocating socialism or pay limits. Plenty of entrepreneurs and business leaders richly deserve the millions and billions they've earned.

They create jobs, enrich shareholders and produce innovative products and services. They're to be admired.

Too often, though, CEOs are lavished with millions for mediocre performance or for strategies that look good in the short term but ultimately leave companies (and economies) in crisis.

Just look at CEO pay at the biggest financial institutions -- companies with assets over $10 billion -- that have received federal TARP bailout money: In 2007, those CEOs received average total pay worth $11.07 million, according to data from Equilar, a California-based executive pay research firm.

And if you want to reform executive pay, "Say on Pay" seems like a sensible place to start. It provides shareholders with a simple "thumbs-up" or "thumbs- down" method for advising the board on executive pay.

Some aren't waiting for Congress to mandate "Say on Pay."

Intel, the Silicon Valley computer-chip giant, is one of the latest companies to agree to a "Say on Pay" shareholder vote.

Smith said about 100 other companies face similar shareholder proposals this proxy season. One of those is Indianapolis drug maker Eli Lilly and Co.

Lilly investor Gretchen Parrish of Indianapolis has filed a "Say on Pay" proposal -- to be voted on at Lilly's annual meeting April 20 -- that would give shareholders an annual advisory vote on executive-pay packages.

Lilly's board recommends shareholders reject the proposal, saying the measure is not in the long-term interest of investors. The board also says investors should reject "Say on Pay" since proposed U.S. legislation could make such a policy mandatory.

"We should not adopt advisory voting until the rules are clear and apply to all companies equally," Lilly's proxy states.

Lilly's course seems clear: Let the government lead the way.