

## Why Management Should Embrace Say on Pay: A Letter to Executives from Walden's Tim Smith

By: Alan Petrillo | Tuesday, February 10th, 2009

Last week, the KLD Blog considered [efforts by both shareholders and the Obama Administration to curb executive pay](#). Investors such as [Walden Asset Management](#) have actively sought management support for non-binding advisory votes on executive compensation.

For a closer look at investors' thinking on "say on pay," Walden Executive Vice President Tim Smith has shared the text of his February 5 letter to "Colleagues in the Business Community."

Mr. Smith explains why a management-supported advisory vote may be "a moderate, reasonable response to the executive compensation issue, and is not the fringe proposal it was perceived to be 2 or 3 years ago."

He also notes the mood in Washington and across the country.

"Proposed 'solutions to the executive pay issue' now range from the reasonable to the zany, from small specific reforms to large systematic changes," Mr. Smith writes. "I am sure some of these "solutions" are causing tremendous angst among many in business dealing with compensation as new Congressional legislation is discussed or Treasury Department regulation is promulgated."

As if to confirm Mr. Smith's point about angst-causing "solutions," the CEO of Netflix wrote a February 6 *New York Times* op-ed [calling for the government to raise his taxes](#).

Perhaps the specter of such a "zany" reform will inspire a warm response to shareholders' call for transparency and accountability.

(Also see Steven Syre's [column on this issue](#) in the *Boston Globe*.)

The full text of Mr. Smith's letter follows:

Dear Colleagues in the Business Community involved in Advisory Vote

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Discussions:

As you know, Walden Asset Management is actively involved in promoting the Advisory Vote on executive compensation. In addition, I also served as co-chair of the Working Group on the Advisory Vote so I have been deeply involved in this issue for the last several years.

I write with a sense of urgency as the issue of executive compensation is on the front pages of our newspapers and floods our airwaves as never before.

Proposed "solutions to the executive pay issue" now range from the reasonable to the zany, from small specific reforms to large systematic changes. I am sure some of these "solutions" are causing tremendous angst among many in business dealing with compensation as new Congressional legislation is discussed or Treasury Department regulation is promulgated.

Some of these changes are moving so swiftly that they don't offer time for rational dialogue about the implications.

Obviously, a series of missteps by some companies and business leaders have prompted a populist urgency that new solutions need to be enacted and enacted now. Certainly the context for discussing new steps regarding executive compensation has changed significantly in the last 2 months, and even within the last week.

With this backdrop, I write to urge you to reconsider your position on the Advisory Vote. Business leaders have raised a number of concerns about the Advisory Vote. Proponents have worked hard to respond as best they could to many of these stated concerns, sometimes successfully, sometimes with continuing quizzical responses from some company management and Boards.

However, it seems clear that the Advisory Vote increasingly fills the space of a moderate, reasonable response to the executive compensation issue and is not the fringe proposal it was perceived to be 2 or 3 years ago.

Other reforms like clawbacks, golden parachutes, golden coffins, even salary caps, are now front and center in the compensation debate.

I believe the time has come for businesses to embrace and put the Advisory Vote into effect. The business case for companies to move in that direction is orders of magnitude stronger today than even a few months ago when you received your shareholder resolution.

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Points worth considering are:

- The Treasury Department's position on TARP recipients putting the Advisory Vote in place and their stated goal of moving toward the Advisory Vote with all companies. We have a clear government policy direction stated. The handwriting is on the wall!
- If businesses individually or through industry associations, such as the Chamber of Commerce or Business Roundtable, are seen to be lobbying strongly against the Advisory Vote or trying to hold back the inevitable tide for the Advisory Vote, it will result in further public relations backlash. The public will be further outraged if companies attempt to block reasonable reforms on executive compensation. While that may not be the way you see it, I believe this will be exactly the way it will play in the press and the public relations results for companies will be problematic at best.
- There is growing public support and private acceptance in the business community that the Advisory Vote is reasonable, middle-ground and is inevitable. Hewlett-Packard, Occidental Petroleum and Intel recently endorsed Say on Pay.
- There is flexibility in what a company can put in their proxy statement for a shareholder vote. Proponents are open to withdrawing the resolution for companies that commit to starting the Vote in 2010 and certainly support companies crafting their own language for the proxy.
- Many companies have expanded their communications effort with investors to both communicate their philosophy and changes in compensation practices and to gather input and perspective from investors. This will be extremely helpful in evaluating the level of shareowner support for and confidence in the compensation philosophy and disclosure when a vote occurs.

In summary, the pendulum is swinging toward the inevitability of the Advisory Vote. I write to urge your company and Board to embrace the Advisory Vote as a fair, middle-ground approach that will help gain credibility and support in the investor community and to step back from the traditional statements of opposition in your proxy. The timing is right for a shift in position by your company and others.

Timothy Smith  
Senior Vice President  
Walden Asset Management

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