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A Millionaire Is Telling BlackRock to Say No to Big CEO Pay

Caleb Melby | May 20, 2016

Stephen Silberstein is fed up with elite complacency, corporate fat cats and self-dealing. And he's threatening to make himself heard at the ballot box.

Silberstein knows a thing or two about fat cats. He amassed a fortune as the co-founder of Innovative Interfaces Inc., a developer of library software for services including cataloging and circulation. Now he's deploying a trust he owns in an attempt to prod BlackRock Inc. to vote no on big executive pay packages. He's among a growing number of investors and nonprofit groups pressuring fund managers to keep a closer eye on how companies pay top executives and influence politics.

"There's momentum here," said Silberstein, 73, who likens his campaign to the abolitionist movement and has given more than $1 million to Hillary Clinton since she first ran for office in 2000 in a bid for a U.S. Senate seat from New York.

"You have every presidential candidate, from Donald Trump to Bernie Sanders to Hillary, talking about this excess CEO pay," he said. "Four years ago, you didn't have these kinds of conversations in the presidential campaign."

The retired entrepreneur's trust holds stakes in companies through funds managed by BlackRock, which votes his shares. The $4.7 trillion asset manager doesn't vote the way Silberstein would, he says, so he's seizing this populist moment to change that. His proposal, up for vote at BlackRock's May 25 annual meeting, asks the fund manager to reconsider how it evaluates and votes on executive-pay plans. SumOfUs, a New York-based nonprofit that advocates on behalf of consumers, has collected 74,500 signatures in support of Silberstein's resolution.

Largest Shareholders

BlackRock and Vanguard Group Inc., which manages $3.3 trillion, are among the largest shareholders at most big U.S. companies. Both say they most effectively exercise influence through private meetings with corporate directors.

Still, they vote with boards on executive pay 97 percent of the time, according to **As You Sow**, an advocacy group that has received financial support from Silberstein. That record conflicts with popular sentiment. About 74 percent of those surveyed in a nationwide poll in February don't believe chief executive officers are paid appropriately relative to workers, and 62 percent say there should be caps on their pay. The survey, conducted by Stanford University's Rock Center for Corporate Governance, found those views are held across the political spectrum, and despite respondents underestimating how much CEOs actually earn.

While so-called say-on-pay votes are advisory and nonbinding, meaning companies don't need to change their practices even if investors disapprove, boards tend to bristle if investors appear unhappy and often make changes to placate them. As mutual funds and exchange-traded funds have grown in popularity, the number of households that own stock has shrunk, shifting the balance of power in proxy votes away from individuals.

"Most people aren't direct shareholders in these companies, but many people are shareholders through their pension funds or mutual funds, so there definitely is a piece around educating people that they can have a say that way," said Liz McDowell, campaign director at SumOfUs. "I was surprised at the amount of momentum behind this petition."

Vanguard became the target of a campaign in November that included 65,000 e-mails asking it to change how it votes on resolutions calling for disclosure of corporate political spending. Neither Vanguard nor BlackRock voted in favor of any such proposals in 2014 or 2015, according to the Washington-based Center for Political Accountability.

"The reason we're so focused on Vanguard and mutual funds is that they are the holdouts," said Lisa Gilbert, a director at Public Citizen, which tracks such votes and says that as many as 40 percent of shareholders at some companies support disclosure of political spending. "If they changed their tune, we would see a pretty sweeping majority of votes in support."

Awkward Position

Vanguard, whose assets have swelled thanks to middle-class investors attracted by its low fees, is in an awkward position: It's at odds with Jack Bogle, its legendary founder. "We are powerful and we don't use the power," Bogle said in a 2014 interview. "I think we should speak up and be active, in things like corporate political contributions." He described CEO pay in the U.S. as "pretty much out of hand."

"It's important to remember that our votes tell only a part of the story, and that we are often able to make more progress through nuanced communication with the company and its board than through a binary proxy vote," Linda Wolohan, a Vanguard spokeswoman, said in an e-mail.
BlackRock says that being able to talk to boards is its most important tool and that "the key to effective engagement is constructive and private communication," according to its 2015 corporate governance report. Last year, the company engaged with about 700 U.S. companies, and executive compensation was a focus of 45 percent of those meetings, said Ed Sweeney, a BlackRock spokesman.

"If we determine that issues will not be remediated through engagement, we vote against specific proposals and will generally also vote against the directors on related committees," Sweeney said in an e-mail. BlackRock voted against 16 percent of management proposals related to pay and against 162 directors serving on compensation committees in 2015, he said. Those figures include votes on adding equity to pay pools in addition to say-on-pay proposals and cover a wider universe of companies than the **As You Sow** survey.

Fink Pay

BlackRock CEO Larry Fink was paid $25.8 million last year, according to a company disclosure. Vanguard, owned by investors in its funds, isn't publicly traded, and therefore is not subject to proxy actions. It also doesn't disclose what CEO Bill McNabb earns.

Silberstein said he doesn't have high hopes for his proposal, which would require the company to evaluate options for bringing its voting practices in line with its stated principle of linking executive compensation and performance.

PNC Financial Services Group Inc., BlackRock's biggest owner with about one-fifth of the shares, has agreed to vote in "accordance with the recommendation of the Board of Directors on all matters," BlackRock filings show. Silberstein describes Vanguard and Wellington Management, which together own about one-tenth of the shares, as "acquiescent to management." Through its funds, BlackRock owns about 4 percent of itself.

Silberstein has hopes for Norway's central bank, which owns 6 percent of BlackRock. The $850 billion sovereign-wealth fund plans to identify a company it deems to be overpaying executives and use it as an example in a report to outline how it weighs compensation matters, it told the Financial Times earlier this month. Absent support from Norway, Silberstein said he'd be happy if his proposal gets 2 percent of the votes. If he got twice that, he said, "people would begin to suspect that the natives are restless."

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