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BlackRock Wields Its Big Stick Like a Wet Noodle on C.E.O. Pay

By GRETCHEN MORGENSON APRIL 15, 2016

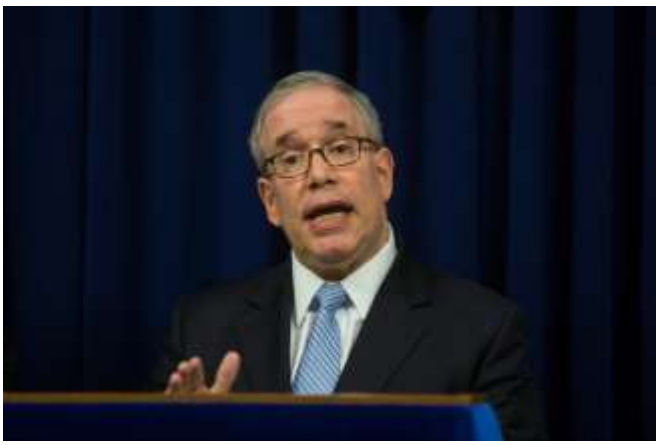
For several years, Laurence D. Fink, chairman and chief executive of BlackRock, the money management giant, has been on a crusade, exhorting corporations to change their short-term ways. Executives should forgo tricks that reward short-term stock traders, he argues, like share buybacks purchased at high valuations. Instead, corporate managers should focus on creating value for long-term shareholders.

It's an admirable argument that has won Mr. Fink wise-man status on Wall Street and accolades in the press. Hillary Clinton has echoed his ideas on the campaign trail.

Certainly, as the head of BlackRock, Mr. Fink wields an outsize stick. With $4.6 trillion in assets and ownership of shares in roughly 15,000 companies, BlackRock is the world's largest investment manager.

But if Mr. Fink really wants to get the attention of company executives on stock buybacks and other corporate governance issues, why doesn't BlackRock vote more often against C.E.O. pay packages of companies that play the short-term game?

Executive compensation is inextricably linked to the shareholder-unfriendly actions Mr. Fink has identified; voting against pay packages infected by short-termism would help curb the problem.



Funds overseen by Scott M. Stringer, comptroller of New York City, voted against company pay practices 33 percent of the time. Credit Hiroko Masuike/The New York Times

But BlackRock rarely takes such a stance. From July 1, 2014, to last June 30, according to Proxy Insight, a data analysis firm, BlackRock voted to support pay practices at companies 96.2 percent of the time.

On pay issues, anyway, Mr. Fink's big stick is more like a wet noodle.

BlackRock's "yes" percentage runs far higher than that of other money managers that express concern about corporate responsibility. Domini Funds supported pay practices only 6 percent of the time

during the period, while Calvert Investments did so at 46 percent of companies.

Public pension funds are also big on rejecting pay policies, Proxy Insight said. Since 2011, the State Universities Retirement System of Illinois has voted no 63 percent of the time while the city of Philadelphia rejected 52 percent of pay policies it voted on.

Scott M. Stringer, the New York City comptroller, said that in the 2015 proxy season, the five pension funds under his oversight have voted against pay practices 33 percent of the time. He added that his funds voted their shares directly "to avoid the risk that money managers may cast proxy votes that aren't aligned with the long-term interests of our beneficiaries."

"This is especially true," Mr. Stringer added, "when it comes to votes on executive pay, political spending disclosure and climate risk."

It's true that BlackRock's voting record is not much of an outlier compared with some other big money managers'. Fidelity Funds, known for keenly supporting corporate management in its proxy voting, said yes on pay 96 percent of the time, Proxy Insight said. Vanguard's most recent record was to support 95 percent of pay practices; Putnam Investments did a bit better, voting yes on 93 percent.

But none of these firms' chief executives have taken up the public fight against short-termism that Mr. Fink has.

Even at companies that have made big repurchases of their shares in recent years, including Yahoo, General Electric, Home Depot and IBM, BlackRock has voted yes on pay. BlackRock also supported the pay policy under fire at Valeant Pharmaceuticals International, the crippled drug maker.

Ed Sweeney, a BlackRock spokesman, provided this statement: "Executive compensation that is disconnected from company performance is a symptom of broader governance failures. When governance issues are identified in companies, we've found that engaging with senior management and directors is the most effective way to catalyze change."

Last year, he added, the firm "engaged with approximately 700 companies in the U.S. and executive compensation was a focus of 45 percent of those meetings. If we determine that issues will not be remediated through engagement, we vote against specific proposals as well as the directors on related committees."

But Stephen Silberstein, a retired software company founder and a BlackRock investor, isn't buying this argument. So he wrote a shareholder proposal addressing BlackRock's record on pay that the firm's stockholders will vote on at their annual meeting on May 26.

The proposal would require BlackRock's board to issue a report to shareholders by December that "evaluates options for bringing its voting practices in line with its stated principle of linking executive compensation and performance, including adopting changes to proxy voting guidelines, adopting best practices of other asset managers and independent rating agencies,

and including a broader range of research sources and principles for interpreting compensation data."

In an interview, Mr. Silberstein told me why he focused on BlackRock: because it's huge, its record on pay votes is bad and he is a shareholder. "I've been interested in income inequality for quite some time," Mr. Silberstein said. "On the bottom end, it's raising the minimum wage and on top end, it's reducing the pay of C.E.O.s."

Perhaps BlackRock hesitates to call out other chief executives on their pay because of Mr. Fink's own compensation, which is lush. In 2015, he received $26 million, an 8 percent increase from the previous year; BlackRock's net income, meanwhile, rose just 2.7 percent during that period.

In his annual letter to shareholders, Mr. Fink said his firm believed "in a pay-for-performance culture, aligning employee incentives and compensation with company-level performance."

As You Sow, a nonprofit organization that promotes shareholder advocacy, disagrees. In a recent study, it concluded that Mr. Fink was the 39th-most-overpaid chief executive among 100 large companies.

Mr. Silberstein says he knows his is an uphill battle. Nevertheless, he is hopeful that shareholders will vote for his proposal. "I'm going and talking to every pension fund financial manager I can see," he said.

Mr. Fink has done a service by highlighting corporate activities that compromise the potential for long-term shareholders' prosperity. This is an important conversation to have.

But talking the talk is one thing, walking the walk another. Why not lead the parade, BlackRock, instead of merely waving from the sidelines?

http://www.nytimes.com/2016/04/17/business/blackrock-wields-its-big-stick-like-a-wet-noodle-on-ceo-pay.html?smid=nytcore-ipad-share&smprod=nytcore-ipad&_r=1