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Executive pay ‘rubber stamping’ rife

Madison Marriage l May 8, 2016

Pot, kettle, black — three words that typically describe hypocritical behaviour crop up frequently when discussing investor attitudes to executive pay.

According to several non-profit groups, and a handful of outspoken fund managers, shareholders are fundamentally unable to rein in excessive pay at the biggest companies.

This is because those voting on pay awards tend to be highly paid asset managers, sovereign wealth fund executives and rich individuals. In essence, they are compromised.

Pension fund executives, who also account for a large chunk of the shareholder universe, tend to earn far less than their counterparts elsewhere in financial services, but pay is rising for the bosses of the world’s largest retirement schemes.

The concern is that this makes it difficult for the heads of most investment organisations publicly to criticise pay at the companies they invest in, or to vote against remuneration packages at annual meetings.

Luke Hildyard, policy adviser on corporate governance at the Pensions and Lifetime Savings Association, a UK group that represents 1,300 pension schemes, says: “There is quite an obvious conflict of interest in that the high pay culture in big business sets the tone for what financiers are paid and vice versa.

“The idea that top executives are so few and far between that you have to pay them astronomical sums of money to beat your rivals and get the top talent is debatable, but it’s an idea that suits big business to endorse.”

A report published in February by As You Sow, a US non-profit group, reinforced the view that investors do not want to take a tough stance on executive pay.

The California-based body found that many investment organisations “routinely rubber stamp management pay practices, enabling the worst offenders [to continue awarding excessive pay to senior management] and failing in their fiduciary duty”.

As You Sow highlighted BlackRock, the world’s largest asset manager, and Vanguard, the second largest, as two of the fund companies most likely to approve “excessive compensation for CEOs” routinely.

“The 100 most overpaid CEOs deserve more scrutiny than they are getting today from mutual funds and pension funds,” says Rosanna Landis Weaver, corporate pay expert at As You Sow.

Excessive executive pay: Chris Duggan, illustrator ©Chris Duggan

Proxy Insight, a company that tracks the voting habits of large investors, has similarly found that four of the world's 10 largest fund companies voted in favour of pay reports at UK and US companies on at least 95 per cent of occasions from July 2014 until June 2015.

The four investment companies that tended to back management proposals on pay most often were Vanguard, Northern Trust Asset Management, Wellington Management and Fidelity Investments.

TIAA, the New York-based retirement provider that oversees $900bn of assets, backed pay reports 100 per cent of the time, according to data shared exclusively with FTfm from Proxy Insight.

By contrast, many large investors, typically pension funds, have taken a much more aggressive approach to votes on executive pay.

This includes PGGM, the Dutch pension fund, which rejected nearly half of UK companies' pay reports in 2014-15; Aviva Investors, which approved just 56 per cent of companies' pay reports over that period; and Fidelity International, the global asset manager that backed 65 per cent of corporate pay proposals. In the US, PGGM and fellow Dutch pension fund APG voted against more than three quarters of companies' pay reports.

Asset management support for executive pay

Most overpaid* US CEOs, according to As You Sow

Total disclosed compensation, 2014-15 ($m)

Rank CEO	Company	Total disclosed compensation, 2014-15 ($m)
11. Marc Benioff	Salesforce.com	39.9
12. David Cote	Honeywell Int.	29.1
13. Robert Iger	Walt Disney	46.5
14. Lamberto Andreotti	Bristol-Myers Squibb	27.1
15. Philippe Dauman	Viacom	44.3
16. James Dimon	PMorgan Chase & Co	27.7
17. John Strangfeld	Prudential	37.5
18 Muhtar Kent	Coca-Cola	25.2
19. Leonard Schleifer	Regeneron Pharma.	42.0
20. Larry Merlo	CVS Health	32.4
21. Brian Cornel	Target	28.2
22. Stephen Wynn	Wynn Resorts	25.3
23. Brenton L. Saunders	Allergan	36.6
24. Brian Roberts	Comcast	33.0
25. Steven H. Temaras	Bed Bath & Beyond	19.1

* Based on an analysis of company financial performance with a regression to identify predicted pay, as well as an index that considers more than 30 additional factors
Source: As You Sow, 2016

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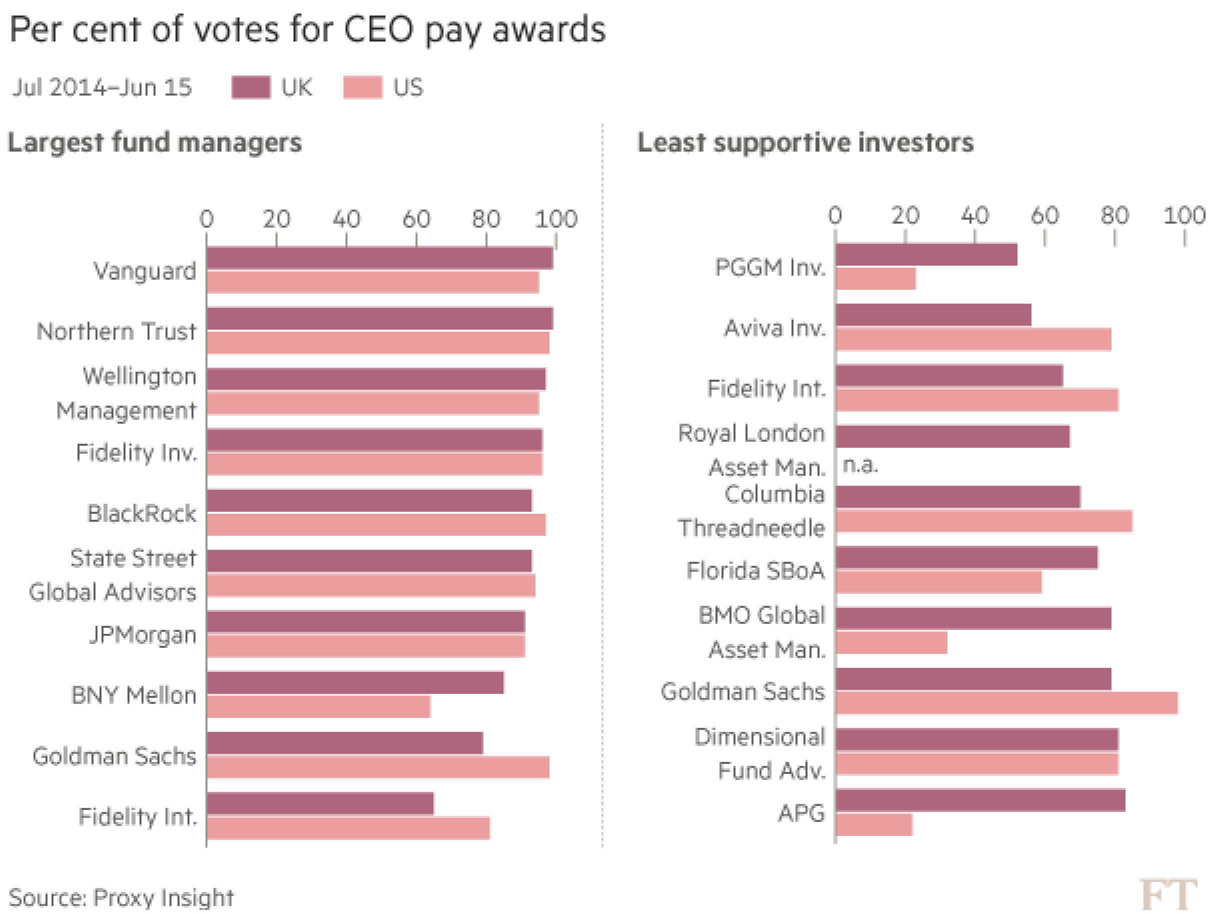

The asset managers that frequently support pay proposals maintain that they do take a serious approach to corporate governance and that potential conflicts of interest — such as high pay in the investment industry — do not affect their voting decisions.

Vanguard, which oversees $3.2 tn of assets, says: "Executive compensation is but one consideration among many that we factor in to our voting and engagement with companies. Our votes tell only a part of the story, and we are often able to make more progress through nuanced communication with the company and its board than through a binary proxy vote.

"We discussed elements of compensation with many more companies where we may have had concerns that did not rise to the level of an 'against' vote. Let's not underestimate companies' responsiveness to these discussions over time."

BlackRock makes similar arguments, adding that in 2015 it voted against 16 per cent of management proposals on compensation globally.

The $4.6tn New York-headquartered fund house says: "When governance issues are identified in companies, we've found that engaging with senior management is the most effective way to catalyse change. If we determine that issues will not be remediated through engagement, we vote against specific proposals."

Dan Mannix, chief executive of RWC, the UK fund house, says that campaigners who want asset managers to clamp down more aggressively on executive pay often overlook the fact that talent is hard to find, and frequently worth paying for.

“If you simply take a number, you miss the context of the scarcity of that person’s ability, and the amount of time and knowledge they have within that organisation,” he says.

. . .

Other asset managers highlight the fact that many of the UK’s largest listed companies have recently borne the brunt of shareholder rebellions over pay. This suggests investors are not as apathetic as critics claim.

It’s just not in the interest of asset managers to draw attention to the issue [of pay], or to hold business leaders too tightly to account

- Luke Hildyard

Last month engineering group Weir, pharmaceutical company Shire and building materials business CRH all suffered large shareholder revolts at their AGMs in themost dramatic day of protests against chief executive rewards in four years.

Shareholders at BP reacted angrily to the company’s decision to increase chief executive Bob Dudley’s pay by 20 per cent after the company made its worst ever loss last year. More than half of shareholders rejected the oil group’s pay report last month.

Sacha Sadan, head of corporate governance at Legal & General Investment Management, the UK’s largest investment company, expects more protests to follow. “Companies trying to get [excessive] executive pay through often tell me that they are unique — I must get 50 ‘unique’ companies coming to me in AGM season,” he says. “There has got to be a slight common sense check”. Mr Sadan adds that shareholder protests over pay are unlikely to be limited to UK companies in future. “There is more of a social political backlash now [to high pay].”

Mr Hildyard, who previously worked at the High Pay Centre, a think-tank that lobbies against excessive remuneration, says the rebellions at BP and other large UK companies are “encouraging”. But he is less convinced that this shareholder spring on pay is likely to have a meaningful long-term impact on executive remuneration levels, or gain traction overseas. “It’s just not in the interest of asset managers to draw attention to the issue, or to hold business leaders too tightly to account,” he says.

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