CEO Pay Flap Reaches House

Experts debate whether public companies should be required to give shareholders an advisory vote on executive compensation packages.

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NEW YORK (CNNMoney.com) -- The issue of whether or not shareholders should get a say on company CEO compensation drew experts on both sides to a House hearing Thursday.

Investors have serious and legitimate concerns about executive pay structures, Lucian Bebchuk, a professor at Harvard Law School, said at the hearing before the House Financial Services Committee.

Providing them with tools to influence a company's pay decisions is necessary for enhancing shareholders' rights, he said.

Earlier this month Rep. Barney Frank, D-Mass., chairman of the Financial Services Committee, introduced legislation that would give investors a non-binding vote on executive pay.

The bill doesn't set limits on executive pay but gives shareholders the opportunity to state their opinion on compensation.

Executive compensation has become a battleground as CEO pay packages have spiraled. The issue has come further into focus in light of new SEC rules approved last year that require better reporting on executive compensation.

Skyrocketing pay has raised concerns about the widening wealth gap in the United States. But the bigger issue for shareholders has been what they view as a gap between pay and performance.

Ousted Home Depot (Charts) CEO Robert Nardelli, for instance, received a $210 million severance package earlier this year - despite the retailer's slumping stock - and former Pfizer (Charts) CEO Hank McKinnell received a $180 million package even after being forced into early retirement.

Shareholders need a way to make sure they get what they pay for - that their return on investment on CEO pay is justified - or else they may choose to invest elsewhere, Nell Minow, co-founder of the corporate governance research group Corporate Library, said.

"I am concerned that the current system we have for pay is so excessive it undermines the credibility of our economy. People will invest elsewhere if we cannot solve this problem," she said.

But not everyone agreed that legislation is best way to better link pay to performance.

Corporate boards are still the best mechanism for setting executive compensation, said John Castellani, president of the Business Roundtable, an association of CEOs.

While shareholders are the owners of a corporation, they shouldn't be the ones running it. "Corporations were never designed to be democracies," he said.

Furthermore, any advisory vote runs the risk of disrupting boards' ability to operate cohesively, Castellani said.

One expert warned that the bill would reduce the attractiveness of being a public CEO, and public companies and the economy could suffer as a consequence.

"Good CEOs can and do quit public companies," Steven Kaplan, a professor at the University of Chicago Graduate School of Business, said. And they're already leaving to run private equity companies for higher pay, he noted.

The current system isn't broken, Kaplan added. When shareholders believe a company has CEO pay problems, they can propose a shareholder vote, or address the issue in a public campaign.

But the proposed legislation would force a vote on companies with no executive compensation problems. "The market is working well under the current rules. The bill doesn't have appreciable benefits relative to the current system," he said.

Insurer Aflac (Charts) last month adopted a resolution giving shareholders the right to a non-binding vote on executive pay packages.

But major U.S. companies have lagged their European counterparts when it comes to adopting so-called "say on pay" measures, which are required in the United Kingdom.