Executive Compensation Debate: Congress Set to Weigh In

Investors could get more voice

Atlanta Journal-Constitution
Marilyn Geewax
March 9, 2007

Washington — Investors should be seen but not heard when boards of directors are setting salaries for top executives, John Castellani, president of the Business Roundtable, told Congress on Thursday.

"Corporations were never designed to be democracies," said Castellani, whose organization represents chief executives of large U.S. companies. "While shareholders own a corporation, they don't run it."

But many members of the House Financial Services Committee voiced support for legislation to restrain executive compensation. The bill would allow shareholders to take an annual nonbinding vote to express their approval or disapproval of executive pay plans.

The compensation issue flared up earlier this year when Atlanta-based Home Depot announced that former Chairman and Chief Executive Bob Nardelli would get a $210 million severance package. He was ousted after six years marked by controversies over extravagant pay and lackluster share performance.

Committee Chairman Barney Frank (D-Mass.) introduced legislation March 1 in response to shareholder advocates who have been calling for "say-on-pay" votes to dampen the growth of compensation packages.

Frank said such votes would discourage excesses without imposing heavy regulation. "There have been past efforts to have the government set salaries," Frank said. "That would be a mistake."

Bill co-sponsor Rep. David Scott (D-Ga.) said he supports say-on-pay votes because compensation has become "dangerously outsized." With CEO pay rising far more rapidly than average wages, "rank-and-file employees are being left behind," he said.

In 2005, annual median CEO pay in this country was $13.5 million, up 16 percent from 2004, according to Corporate Library, a research group.

Harvard Law School professor Lucian Bebchuk said that in 2003, the average CEO got about 500 times as much pay as the average worker, compared with a multiple of 140 in 1991.

"An expression of widespread shareholder dissatisfaction would provide a valuable signal to the board," Bebchuk said. "The fact that the outcome of the vote would be publicly known would apply some pressure on the board to take the shareholders' preferences into account."

In a number of countries, including Britain, Australia and Sweden, shareholders already vote on executive compensation.

But in this country, where private equity funds often generate lavish compensation for top executives, the "hounding of public company CEOs may have a major cost," University of Chicago professor Steven Kaplan said. "CEOs can and will leave public companies to do something else. And it is the better CEOs who will tend to do so."

Many Republicans expressed worries about CEO pay, if not outright support for the bill intended to head off pay for poor performance.

"I am troubled by news media reports of enormous compensation packages for corporate executives, especially when they seem to reward incompetence," said Rep. Spencer Bachus of Alabama, the senior Republican on the committee. "Lavish executive compensation packages for CEOs have contributed to the growing public perception —- justified or not —- that the rules in corporate America are rigged in favor of well-insulated insiders."

But Rep. Scott Garrett (R-N.J.) said passing the Shareholder Vote on Executive Compensation Act would be premature, given that the Securities and Exchange Commission just last year established rules requiring greater disclosure about compensation. Enhanced transparency "should be given a chance" before Congress imposes more rules, he said.

Last month, Aflac Inc., based in Columbus, became one of the first U.S. companies to allow investors to vote on executive compensation. Several committee members praised the insurance company for its voluntary action.

The House committee is expected to approve the legislation at a March 21 meeting.