Season's greetings

Breakingviews
By Reynolds Holding
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Shareholder ire outlasts recovering market

Shareholder ire is outlasting the recovering stock market. Company owners are demanding a slew of reforms this proxy season despite near record share prices. Overpaid executives, entrenched directors and combination chairmen-CEOs vex them the most. Board directors, even at solid performers like Walt Disney, may not like what they hear, but they'd be wiser to listen than resist.

Shareholder interest in corporate governance generally rises and falls with stocks. Investor proposals spiked in 2002 after a recession uncovered malfeasance at the likes of Enron and WorldCom. They dropped off during the boom before soaring even higher during the financial crisis, from about 900 in 2006 to more than 1,000 in 2009, according to proxy adviser ISS.

This year's numbers may look lower, with just 780 shareholder resolutions. But say-on-pay votes mandated under the Dodd-Frank Act mean angry shareholders no longer need to craft as many objections to executive pay themselves.

What's more, proposals have so far garnered stronger support than in past years. More than a third of Disney's shareholders voted at its annual meeting to split the chairman and chief executive roles, even though the company delivered a total return to shareholders of 76 percent in 2012. Almost 40 percent supported an easier path to challenging directors. Meanwhile, Costco's impressive financial performance did not prevent about three-quarters of its shareholders from backing a non-binding proposal to eliminate staggered elections for directors.

Recent changes have given investors greater ability to exert influence, even as the Dow and S&P 500 soar. Dodd-Frank, limits on broker voting and other measures granted them proxy-season power that translates into leverage for negotiating reform year-round. Proxy advisers and advocates like Harvard Law School's Shareholder Rights Project have boosted their influence, too. So far in 2013, all six Harvard project-backed proposals to eliminate staggered boards have passed overwhelmingly.

Of course, not everyone views these as positive developments. Law firm Wachtell, Lipton, Rosen & Katz has been particularly vocal in questioning whether activist shareholders and the principles they espouse are necessarily in companies' best interests. That's a worthwhile debate. The good news is that shareholders are now in a position to make it a real contest.