Did Say On Pay Cost A CEO His Job?

Forbes
Susan Adams
May 8, 2012

A story from the U.K. is raising the question of whether shareholders' decision to vote against a CEO's pay package, even when the vote is non-binding, can cause that CEO to lose his job.

Today Andrew Moss, the chief of Britain's second-largest insurer, Aviva, resigned unexpectedly after 54% of shareholders voted against his pay package. What's most intriguing: On April 30, Moss had turned down the 5% raise his board had wanted to give him. The shareholder vote came on Thursday, after Moss had already said no to the pay hike. But the shareholders still voted against the company's compensation report.

Today Aviva said that Moss "felt it was in the best interests of the company that he step aside to make way for new leadership."

Did the shareholder vote cause Moss to resign? Those who closely track executive compensation think not. "It's probably the straw that broke the camel's back," says Harvard Law professor Jesse Fried, author of *Pay without Performance: The Unfulfilled Promise of Executive Compensation*. "I don't think that by itself a negative vote on pay is going to make a CEO resign."

Fabrizio Ferri, a professor at Columbia Business School and author of a study on the first three years of Britain's "say on pay" legislation, agrees with Fried. Says Ferri, "I suspect the CEO read between the lines of the vote, and saw that there was opposition not just to the compensation package but to the way he was running the company."

Indeed Moss, 54, has been CEO of Aviva for five years, a time when the insurer's share price has dropped 60%. The company also expanded in Europe during Moss's tenure, just as the sovereign debt crisis was hitting the continent.

Reports today are raising two other recent cases where investor pressure led to the resignation of British CEOs. Sly Bailey stepped down as head of Trinity Mirror last week, after a decade at the newspaper publisher. But while shareholders were objecting to Bailey's $2.7 million compensation package, and had threatened to vote against it, she resigned before the vote was held. Like Aviva, Trinity Mirror had been troubled for some time. Along with News Corp., it has been a target of phone hacking allegations, and its stock price has fallen 90% over the last five years.

Likewise, at British drug maker AstraZeneca, CEO David Brennan announced two weeks ago that he would resign on June 1. AstraZeneca, hit by competition from generic drug manufacturers and the failure of several drugs in development, has seen shares tumble and profits slide 38% in just the last three months. Brennan, who had held the chief's job for six years, announced he would resign hours before the company's annual shareholder meeting.

According to Fried, say on pay provisions on their own have yet to lead to a CEO's resignation, either in the UK, where say on pay started in 2003, or in the U.S., where the provision took effect last year. "If the company had done well for shareholders but [Moss] had pigged out on pay, and he had gotten a negative vote from shareholders, I don't think he would have resigned," says Fried. It was the lethal combination of poor company performance and the ultimate no-confidence vote on pay from shareholders, that led to Moss's resignation.

Fried and Ferri believe that say on pay provisions in the U.S. and the U.K. are improving corporate governance in both countries. Though Ferri says that compensation is "the tip of the iceberg" of most companies' problems, he says that companies are nevertheless responding to shareholder objections to pay provisions. Since say on pay took effect in the U.K., companies have been more likely to align pay with performance. Nevertheless, CEO pay has kept climbing without much shareholder objection, until now.

In the U.S., there has been much talk over the shareholder vote last month against Citigroup CEO Vikram Pandit's $15 million compensation package (which could be worth as much as $34 million if you factor in retention awards), in the face of the company's poor stock price, which lagged 90% over the last five years. But the problems at Citi are much broader than Pandit's pay, agree Fried and Ferri. Fried predicts that the company will make adjustments to Pandit's compensation next year, and tie it more closely to performance. Says Ferri, "The CEO pay vote gives shareholders a microphone to make their point strong and clear." But the issues at Aviva, Times Mirror, AstraZeneca and Citigroup are all much broader than the amount of money the CEO makes.