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Heard Off the Street: 'Evolution, not a revolution' in curbing pay

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Opinions vary on the impact of "say on pay," nonbinding shareholder referendums on the way public companies pay their executives. The votes are in their second year after being mandated by Congress when it enacted the Dodd-Frank financial reform legislation in 2010.

While shareholders overwhelmingly approve the majority of pay plans, companies whose compensation practices are narrowly approved or rejected are mending their ways in hopes of garnering more support at the polls next year.

"It's evolution, not a revolution," said Todd Sirras, with Semler Brossy, a Los Angeles compensation consultant.

Others say the exercise is useful because it highlights the issue and encourages discussions between companies and shareholders.

"I'm glad there's more light being shed on compensation these days. Say on pay is helping that," said Tim Pollock, a Penn State University business professor who studies compensation issues.

Opinions are more uniform when it comes to assessing the impact of firms who advise pension funds, mutual funds and other institutional investors on say-on-pay voting. Recommendations from Institutional Shareholder Services and Glass Lewis, the two major proxy advisers, have a huge influence on the outcome of the voting.

"They're not proxy advisory firms anymore. They're proxy decision firms," said Allegheny Technologies Chairman, President and CEO Richard J. Harshman.

ISS and Glass Lewis recommended voting against the specialty metals producer's pay plan. It was approved, 59 in favor, 40 percent opposed.

That puts Allegheny Technologies among the 6 percent of nearly 1,000 companies whose pay plans garnered 50 to 70 percent support from shareholders this year, according to Semler Brossy. Mr. Sirras said so far, 74 percent of pay plans have passed with more than 90 percent shareholder support.

Shareholder support was 28 percent lower at companies that received negative recommendations from ISS, he said. The firm has recommended voting no at 14 percent of the firms it looked at this year, up from 12 percent last year.

Randy Ramirez, a compensation expert with BDO USA -- an accounting, tax and consulting services firm -- said proxy advisers "can manipulate huge blocks of shareholder votes."

Shareholders "will strictly vote their shares in accordance with what proxy adviser firms tell them to," he said.

Bruce Ellig, a New York-based corporate pay consultant, said a thumbs down on pay from one of the firms means one thing: "You're going to get a lot of negative votes."

Southern Methodist University business professor Mel Fugate said the firms' recommendations prompt disparate shareholders to vote as a bloc on pay, re-electing directors and other issues.

"They are essentially organizing larger masses of shareholders that otherwise would not be organized," he said.

Each of the firms has its own formula for assessing whether a company's pay plan is fair. They look at what targets companies use as incentives, how much executives are paid for meeting or exceeding those targets, and how those incentives and rewards compare to what similar companies pay. They also look at perquisites that executives receive. They oftentimes frown on excessive use of the corporate jet and "gross-ups," money companies give executives to pay taxes on the benefits they receive.

But their overarching concern is how well executive pay reflects the company's performance.

"That is still the red flag and draws the most scrutiny," Mr. Fugate said.

Companies are increasingly responding to bad reviews from proxy advisers by supplying shareholders with information defending their practices or critiquing the advisers' methodology.

"The flavor of the day is, tell your story and tell it in great detail," Mr. Ramirez said.

Allegheny Technologies rebutted negative reviews from ISS and Glass Lewis in a second mailing it made to shareholders in advance of their May 11 meeting in Pittsburgh.

"The process is frustrating. It takes a lot of effort on our part to educate the institutional investor," Mr. Harshman said.

The specialty metals producer told shareholders the firms were wrong or misguided on certain points. It faulted ISS for comparing its pay plan with those used by companies that make paper, bubble wrap and other products unrelated to specialty metals.

Pay consultants say a company's choice of a peer group can skew pay. Choosing bigger companies that offer rich incentives means "you're going to have some very high-pay packages," Mr. Ellig said.

While the influence of the proxy firms cannot be denied, ISS recommended no votes at only 14 percent of the companies it reviewed this year. So while the firms pack a punch, the jury is still out on whether say on pay will lead to big changes on the compensation front.

"I'm cautiously optimistic," Mr. Fugate said. "These are small steps, and we have a long way to go."

Mr. Pollock at Penn State isn't so sure.

"I don't know that it's going to change compensation practices that much," he said.

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