

Verizon shareholders to vote on executive pay

May 6 2009, By PETER SVENSSON , AP Technology Writer

(AP) -- A movement to give shareholders influence over compensation awarded to company executives gets an early test Thursday as Verizon Communications Inc. becomes the latest to hold a "say on pay" vote.

At Verizon's annual meeting in Louisville, Ky., shareholders will decide whether they approve the pay package for the CEO and other [top executives](#) at the phone company.

Although the vote is merely advisory, and the company isn't obligated to do anything in response to a "no" vote, a rejection by shareholders would be an embarrassing slap on the wrist that could sway the board to action. Failure to heed shareholders' will on pay could bring unwanted attention on the compensation and prompt calls to oust board members.

New York-based Verizon is one of 15 companies adopting their own provisions for letting shareholders vote on pay this year. Some financial companies that have received money from the Troubled Assets Relief Program, or TARP, also will be required to conduct similar votes.

Rich Ferlauto, director of corporate governance and pension investments at the American Federation of State, County and Municipal Employees, or AFSCME, believes Congress will likely pass legislation this year to force all companies to conduct such votes. President Barack Obama sponsored a bill to that effect when he was a senator.

Verizon CEO Ivan Seidenberg's pay package is hardly unusual, and the company has been posting consistent profits, making the possibility of a

"no" vote a long shot.

But his pay has been the target of a campaign by the Association of BellTel Retirees, which claims 100,000 members and has a history of marshaling [shareholder](#) votes.

That makes this case an example of what happens when a company faces well-organized and motivated shareholders. Already, Verizon has eliminated some of the pay practices its shareholders deemed objectionable.

"I think it's a tool that shareholders will have to learn to use," Ferlauto said. "Particularly the mutual funds will have to step up their game and to get more actively involved in analyzing what appropriate pay is."

Seidenberg's compensation was valued at \$20.2 million in 2008, essentially the same as in the previous two years, according to calculations by The Associated Press, which factor in salary, bonus, incentives, perks, above-market returns on deferred compensation and the estimated value of stock options and awards granted during the year.

At face value, he is the best-paid CEO in the U.S. telecommunications industry, though much of his compensation is in stock that has fallen in value since it was granted.

The company introduced the "say on pay" provision after the BellTel Retirees group got a slim majority for its proposal to institute such a provision at the 2007 annual meeting.

The group estimates it commands at most 5 percent of Verizon's shares. To try to get a majority for the "no" position, the association has been meeting with shareholders.

The company has been conducting its own campaign, sending letters to investors and employee shareholders, urging them to approve the compensation policies, in much the same way it usually argues for its positions.

RiskMetrics Group, which advises shareholders on how to vote, supports Verizon in urging a "yes" vote, giving the company a large advantage. The habit of large institutional investors to vote with the company further boosts its chances of getting a majority "yes" vote.

Ferlauto also believes early say-on-pay adopters like Verizon have built some shareholder goodwill that makes them less likely to get "no" votes.

The real drama may come when stragglers are forced by legislation to give their own shareholders a voice, he said.

RiskMetrics recommended a "no" vote at Motorola Inc., which gave investors their first "say on pay" vote on Monday, but "yes" still prevailed, with 64 percent of the vote. Motorola co-CEO Sanjay Jha was the second-highest paid executive at an S&P 500 company last year, with a compensation package valued by the AP at \$104.4 million. However, the ailing company's prospects have to improve considerably before Jha can actually cash out that money, most of which is in the form of stock options.

Intel Corp. is another high-profile company providing a say on pay, at its annual meeting May 20.

Ultimately, the main effect of the shareholder advisory vote at Verizon, and other companies, may not lie in the company's reactions to a "no" vote. The mere existence of the vote is likely enough to force a company to change its practices.

In recommending a "yes" vote, RiskMetrics notes that while there's room for improvement, Verizon has recently eliminated several objectionable pay practices, like tax gross-ups - payments to cover taxes incurred - on executive life insurance for current and terminated executives, and the post-retirement personal aircraft use for the CEO.

"We believe this tool motivates boards to reach out to shareholders early on in their decision-making process, and that's good," Ferlauto said.

"We're already beginning to see the payoff on that."

Bill Jones, president of the BellTel Retirees, said he doesn't have a good feel for how shareholders will vote, but agrees that the process is more important than the vote. Every shareholder proposal the association has introduced, except one that was tossed out for regulatory reasons, has affected how the company was run, whether it passed or not.

"The way we look at it, it's all positive," Jones said.

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