Tech industry takes unlikely lead on reforming executive pay

October 2 2009, By John Letzing

Technology companies are hardly the most prominent villains in the ongoing drama over exorbitant executive pay.

Nevertheless, the industry is taking a leading role in giving shareholders more influence over top salaries -- thereby preempting impending legislation, shielding compensation-committee members and sharpening technology's appeal to institutional investors.

Microsoft Corp. made one of the most recent high-profile moves on compensation last month, when it trumpeted its adoption of a so-called "say-on-pay" policy that will let shareholders take a nonbinding vote on management's rewards every three years. While Microsoft and other technology firms have fielded related shareholder proposals for years, the news took some by surprise.

"Microsoft is not a company I've heard people complain a lot about," said Ben Silverman, director of research at InsiderScore.com, "It never seemed to be an issue."

Instead, the call to rein in executive pay has been most closely associated with the Wall Street firms at the center of last year's market meltdown and subsequent government bailouts. "Obviously the financial industry would be ripe for it, or some of the major energy names," Silverman added.

Still, soon after Microsoft's say-on-pay announcement, the Conference

Board announced that supporters of the research group's new efforts to curb suspect executive-pay practices include fellow technology giants Cisco Systems Inc. and Hewlett-Packard Co.

Earlier, chip giant Intel Corp. endorsed its own say-on-pay provision in January, well ahead of a shareholder meeting where a related resolution would have been put up for a vote.

Even corporate-software titan Oracle Corp., where Chief Executive Larry Ellison is renowned for his extravagant compensation, has moved to rein in top officers' compensation -- albeit while deflecting shareholder say-on-pay proposals.

The proactive efforts from technology firms on executive pay may stem from Silicon Valley's long-standing drive to operate outside of the influence of Washington. The Obama administration signaled support for say-on-pay legislation in June, and a related bill has since been passed in the House and received in the Senate.

"This is the last year you'll probably have the opportunity to put in your own version of say-on-pay," according to Patrick McGurn, special counsel to shareholder advisory firm RiskMetrics Group.

Technology companies are "shining up their governance resumes" prior to action on Capitol Hill expected many months down the road, McGurn said, adding: "Why not get a year of credit for being a willing player?"

According to a study published recently by the Corporate Library, compensation for top corporate executives remained relatively consistent last year, even as the swooning markets sent share prices tumbling.

Moves by technology firms to potentially restrain executive pay could therefore distinguish them in the eyes of large, institutional investors.

Those large investors -- pension funds, hedge funds and others -- have had to become more discerning amid the down economy, according to Silverman.

Oracle's proxy statement includes a shareholder say-on-pay proposal, which is opposed by the company's board as 'counterproductive.' But the same filing disclosed that Larry Ellison had agreed to cut his salary to $1.

"As a company, you need to try and attract institutional investors, and say-on-pay is certainly up that alley," he said.

McGurn of RiskMetrics allowed that a strong say-on-pay policy "might be a tiebreaker" for a large player picking investments. But more importantly, McGurn commented, a move now to address executive pay could protect board members later. "We have seen in recent years some pretty high 'no' votes against boards on compensation issues."

Rather then letting things come to a boil with a vote on board membership, accepting some form of say-on-pay creates a "safety valve," he said. "It might be a smart thing at this point in time to maneuver that vote into one on say-on-pay, rather than leaving your board members hanging."

Oracle's proxy statement, filed in August, includes a shareholder say-on-pay proposal -- which is opposed by the company's board. Such a move would be "counterproductive," the company advises, while noting that owners of only 23 percent of its outstanding stock voted for an identical proposal at last year's annual meeting.

But the same regulatory filing disclosed that Ellison had agreed as chief executive to cut his salary to $1 for Oracle's current fiscal year, though that will not affect his other forms of compensation, including stock options. Oracle will hold its annual shareholders' meeting on Oct. 7.

Ellison took home a pay package for the company's prior fiscal year ended in May worth $56.8 million. Oracle's stock fell roughly 15 percent during that fiscal year, though still faring better than the Nasdaq Composite Index's 30 percent decline over the same period.

In Microsoft's proxy statement filed earlier this week, the company notes that if it fields a "significant negative say-on-pay vote," it will consult with shareholders and take "constructive feedback" into account when making future decisions on compensation.

While Microsoft and others have moved voluntarily to address shareholder concerns on executive pay, Microsoft rival Apple Inc. was compelled to accept a surprise shareholder vote in favor of a say-on-pay policy earlier this year.

The company said in April that it "anticipates that new laws or regulations will require some form of say-on-pay vote at all public companies in the near future. ... Even if that does not occur, Apple is committed to implementing an advisory say-on-pay vote next year."

Citation: Tech industry takes unlikely lead on reforming executive pay (2009, October 2) retrieved 10 May 2024 from https://phys.org/news/2009-10-tech-industry-reforming.html