CRAIN'S NEW YORK BUSINESS

Facing the music on boss pay (part 1)

Led by Verizon and others, companies grant more power to shareholders

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After years of pressure from shareholders angry about top executives getting paid millions of dollars while producing disappointing results, Verizon Communications agreed to change its ways on pay last year.

It eliminated free flights on the corporate jet for a retired chief executive and officially granted shareholders a say in how the company paid its top people. For good measure, the board even whacked 14% off CEO Ivan Seidenberg's pay, leaving him with a still-hefty $17.5 million.

True, the company had good reason to make that cut. It came in a year when Verizon's operating income fell 17% and its shares hugely underperformed compared with the market. Nonetheless, even some of the company's staunchest critics say Verizon's compensation practices are improving, although not exactly at a lightning pace.

“Slowly but surely, they're getting better,” says Bill Jones, president of the Association of BellTel Retirees, a group of 100,000 former Verizon workers who sponsored an unsuccessful shareholders' resolution to reduce Mr. Seidenberg's “performance” bonus.

After years of battling over excessive pay, shareholders are finally beginning to win ground as more companies pledge to grant them increased power over compensation decisions. Last month, shareholders at Motorola Inc. and Occidental Petroleum Corp. voted against the pay packages awarded to the CEOs—the first time investors in the United States have risen up in such a way.

Expect more action in the years to come as say-on-pay votes become more common. Washington lawmakers are mulling making such votes mandatory for publicly traded companies as part of the financial reform bill currently before Congress. The provision is one of the less controversial matters in the bill and has a good chance of becoming law.

Wall Street changes, too

Even Wall Street is changing. Goldman Sachs, citing the need “to ensure that our employees are accountable for the future impact of their decisions,” declared last year that no members of its management committee would receive cash bonuses; instead they would get them entirely in shares. As a result, CEO Lloyd Blankfein, for one, saw his total compensation shrivel to about $900,000 last year from $40 million in 2008. Most banks also now promise to claw back pay earned by executives for financial performance that later proves to have been inflated—or worse.

Financial firms are increasing cash salaries and reducing bonuses, which typically account for the vast bulk of compensation, and paying them more in stock that takes years to vest than in cash.

Among companies that have moved furthest to reform compensation practices, J.P. Morgan Chase said earlier this year that it would revoke grants of stock to employees who cause “material financial or reputational” harm. In a widely praised move, it also pledged to do the same for members of the 16-member operating committee that runs the bank who fail “to properly identify, raise or assess, in a timely manner and as reasonably expected, risks and/or concerns with respect to risks material to the firm or its business activities.”

Of course, having been at the epicenter of the biggest financial collapse in decades and receiving billions of dollars in federal assistance goes a long way toward explaining why banks have emerged as leaders on compensation reform. Such shifts at nonfinancial companies including Verizon, on the other hand, have been more modest.

Different from banks

There's a simple reason for that, says Paul Hodgson, a senior research analyst at The Corporate Library. “Business at telecommunications companies hasn't collapsed like it did at banks or for media companies,” so companies like Verizon are less vulnerable to shareholder pressure.

That is precisely what the company's retirees found out last month when they put a measure to make it harder for Mr. Seidenberg to get a “performance” bonus to a vote at the shareholders' meeting. The retirees wanted the board to award performance-based bonuses only if the company performed at least as well as the median company in a peer group selected by directors. Under the present system, they noted, Mr. Seidenberg and other top execs could get large bonuses even if Verizon's total shareholder return put it in the bottom quartile of its peer group.

“Large payouts for below-median performance ... do not adequately align pay with performance,” the retirees said in their proposal.

Verizon opposed the measure. In a letter to shareholders, human resources chief Marc Reed said imposing an “arbitrary limitation” would “unduly restrict the [board's] ability to design and administer a competitive compensation program.”

In the end, only 30% of shareholders supported the retirees' proposal.

Still, Mr. Jones says he's pleased with other steps Verizon has taken in the past year that he hopes will better align executives' interests with those of shareholders. Among other things, he points to the company's scrapping of a contract for Mr. Seidenberg and its decision not to renew any outstanding executive-employment agreements. Those decisions reduce the amount of money guaranteed to executives.

A NEED TO ALIGN INTERESTS

Ivan Seidenberg's total compensation (in millions)

2005 $19.3
2006 $21.3
2007 $20.5
2008 $20.3
2009 $17.5

Verizon operating income (in billions)

2005 $19.3
2006 $13.4
2007 $15.6
2008 $16.9
2009 $14.0

Source: Company reports