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Shareholders rise up in annual meetings to oppose mega-salaries for CEOs

By Meghan Drake
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The combined salaries of Chipotle's co-CEOs could pay for an order of 7.5 million burritos.

The almost $50 million executive pay package proved to be something shareholders couldn't swallow. Nearly 77 percent of shareholders at Chipotle Mexican Grill Inc.'s annual meeting voted against the compensation package.

While President Obama and congressional Democrats hope to make an issue of the minimum wage this midterm election season, the hottest topic at this spring's slew of corporate annual meetings has been rising unhappiness with the maximum wages for many of America's best-known executives.

Challenges, some successful and some not, were raised to pay packages for top executives at companies such as JPMorgan Chase & Co., McDonald's Corp., Target Corp. and Abercrombie & Fitch.

Coca-Cola Co.'s board of directors, including the son of billionaire investor Warren Buffett,* faced heat from some of the company's biggest shareholders for approving a compensation package that will award stock to senior managers over the next four years. During the shareholders meeting for McDonald's, union activists wanting the company to raise the pay of entry-level workers protested at its headquarters chanting, "No Big Macs, no fries, make our wage supersize."

Chipotle officials say they will take "seriously" such a strong expression of shareholder unhappiness with the pay at the Denver-based chain, even though the vote was only advisory. Among those criticizing the company's compensation structure were the California State Teachers Retirement System, CalPERS, the New York City Pension Funds and the Florida State Board of Administration.

"Shareowners overwhelmingly said today they are fed up with excessive executive pay at Chipotle," New York City Comptroller Scott Stringer said in a statement. "The onus is now on the board to rein in the company's egregious pay practices."

Shareholder skepticism for executive pay packages has come out as CEO compensation continues to rise. An Associated Press/Equilar study released Tuesday found that average CEO pay has increased 8.8 percent to $10.5 million, up from $9.6 million in 2012. The AP survey found that, for the first time, media CEO pay topped 10 figures, with at least half of America's top executives at public companies earning $10.6 million or more.

Analysts say the major investment players who own big chunks of corporate America are devoting more attention these days to the size and structure of executive pay scales.

"We're seeing some changes in the way the big institutions that control most of the vote in big companies are responding to new information about how CEOs are being paid," said Richard Clayton, CtW Investment Group research director.

The pay increase — which could include salaries, cash bonuses, stocks, stock options and other perks — usually are attributed to a recovering economy after the Great Recession, with bigger profits and climbing stock prices, the AP/Equilar study found.

This time of the year marks the annual meetings of large, public companies where many shareholders will conduct the "say on pay" vote, either approving or disapproving the CEO compensation packages.

Dan Mitchell, a senior fellow at the Cato Institute focusing on economics and fiscal policy, said the shareholders — not politicians or the corporate board that often consists of the CEO's executive peers — are the ones who should make the call for how much the CEO is paid. Although unbinding, the "say on pay" vote carries different levels of power.

"For the average shareholder, not much," Mr. Mitchell said. "For the big shareholders, they have a lot of say."

Target targeted

Shareholders at troubled retailer Target heard and acted on "say on pay."

The Minneapolis-based chain recently announced the resignation of CEO and President Gregg Steinhafel, citing disappointing financial results, a challenging expansion into Canada and the massive hacking of customer accounts just before the holiday retail rush.

While the search commences for a new CEO, the annual shareholder meeting June 11 is expected to focus heavily on concern exhibited about the pay vote last year.

In Target's proxy statement and notice of shareholder annual meeting, a 41 percent decrease from $9.5 million to $6.6 million in CEO total direct compensation will take effect. An emphasis on linking pay to performance also will take effect in response to shareholder concerns.

Pay for performance is a popular philosophy at corporations, where the CEOs could be generating even more money.

"I'd want to reward that CEO and keep that CEO happy," Mr. Mitchell said.

The other side of the coin is a growing gap in pay between CEOs and rank-and-file workers. The Associated Press/Equilar study found, in 2009, an executive's salary was 181 times that of an average worker's salary. Now, the ratio stands at 257-to-1.

In the fast-food industry, the minimum wage for many is paired with a huge payout for the CEO. Mr. Clayton noted the high turnover rate in fast-food chains but said there are ways to take care of employees.

"It's more than just increasing pay. It's about ensuring the workers feel as if when they make a contribution to the company, that that's going to be respected and it will be recognized," he said.

Mr. Clayton said a more balanced approach, where incentives are given to everyone in the company, is the best solution.

Besides "say on pay" votes during annual meetings, Mr. Mitchell said, shareholders have some power through hostile takeovers, in which investors buy big chunks of stock in the company and change the executive management. Keeping an atmosphere in the company that allows this is important, but sometimes is hurt by regulations.

Mr. Clayton said an important factor is not feeling obligated to give a huge sum to keep one CEO. The board of directors shouldn't feel trapped into keeping the executive, but should set limits in how much money is given, he said.

The AP/Equilar study found that many companies are paying in stock rather than cash bonuses and stock options, causing a 17 percent increase in focus on stocks in pay packages or $4.5 million. Even with stocks, however, the study found an increase in cash bonuses. The average cash bonus increased 12.9 percent, averaging $1.9 million.

Pay packages increased most for banking executives, the report found, with a median increase by 22 percent after a 22 percent the previous year.

This spring's activism on CEO pay suggests the issue is far from dead, Mr. Clayton said. As more and more shareholders and boards of directors become aware of different human capital management practices, there will be a call for change.

"This is the probably the beginning of something, rather than the end of it," he said. "I anticipate that if we don't see a constructive response, then next year this issue will still be live."

**Due to an editing error, the original story identified Warren Buffett as a member of the Coca-Coal board. Mr. Buffett's Berkshire Hathaway fund in a major shareholder in Coke but he does not serve on the company's board.*