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Shareholder Advisory Vote on Executive Compensation

The effort by labor unions, public pension funds and other corporate governance activists to impose the "English Rule," providing for a shareholder advisory vote on executive compensation, on American corporations has been picking up steam since it achieved an average 40 percent support at seven companies in 2006. This year some 50 English Rule proxy proposals are pending. A number of large companies, led by Pfizer, have formed a working group with union and pension funds to discuss the adoption of the English Rule in the United States. On February 14 Aflac Incorporated announced it was adopting the English Rule and Rep. Barney Frank, who chairs the House Financial Services Committee, has announced that he plans to introduce legislation that would mandate the English Rule and give investors an advisory vote on executive compensation.

The English Rule is a bad idea. It is another attempt by corporate governance activists to emasculate boards of directors and empower activist shareholders to control all aspects of a corporation's business. This transfer of basic responsibility of corporate management from directors to shareholders would leave management and directors subservient to the whims of shareholders (or, more accurately, to the demands of the most radical and vocal of them) no matter how self-serving they may be, no matter how parochial their interest and no matter how inconsistent with long-term corporate performance. Every effort should be made to resist the importation of the English Rule.

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