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TEN MYTHS OF "SAY ON PAY"

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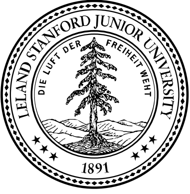

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TEN MYTHS OF "SAY ON PAY"

INTRODUCTION

"Say on pay" is the practice of granting shareholders the right to vote on a company's executive compensation program at the annual shareholder meeting. Say on pay is a relatively recent phenomenon, having been first required by the United Kingdom in 2003 and subsequently adopted in countries including the Netherlands, Australia, Sweden, and Norway. The U.S. adopted say on pay in 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under Dodd-Frank, companies are required to hold an advisory (nonbinding) vote on compensation at least once every three years. At least once every six years, companies are required to ask shareholders to determine the frequency of future say-on-pay votes (with the options being every one, two, or three years, but no less frequently). Advocates of say on pay contend that the practice of submitting executive compensation for shareholder approval increases the accountability of corporate directors to shareholders and leads to more efficient contracting, with rewards more closely aligned with corporate objectives and performance.

MYTH #1: THERE IS ONLY ONE APPROACH TO "SAY ON PAY"

Despite what many believe, there is no single policy for implementing "say on pay" that is uniformly adopted across countries. Instead, models for say on pay vary considerably. In some countries, shareholders are asked to vote on the compensation of executive officers, while in others they are asked to vote on the compensation of the board of directors (which typically includes the CEO). In some instances, shareholders are asked to approve the compensation *policy* (its overall objectives and approach), while in others they are asked to approve the compensation *structure* (the specific size and elements granted the previous year as well as current policy). Say-on-pay votes might be *binding*, meaning that the board of directors must take action to address shareholder dissatisfaction if the pay plan is rejected. Alternatively, say-

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on-pay votes might be *advisory* (precatory), whereby the board of directors has discretion whether to make changes or leave the plan unchanged. In some countries say on pay votes are legally mandated, while in others they are voluntarily adopted due to market pressures. For example, prior to the enactment of Dodd-Frank, companies such as Aflac and Verizon voluntarily offered shareholders a vote on executive compensation contracts even though they were not legally required to do so. Countries such as Switzerland, Germany and Canada continue to allow voluntary adoption of say on pay, without making it a legal requirement—although Switzerland is moving toward a compulsory system (see **Exhibit 1**).

Currently nobody knows which, if any, of these approaches is the best for rectifying compensation problems. It might very well be that different mechanisms are effective at mitigating different problems (e.g., excessive pay levels vs. lack of pay-performance alignment) or that market pressures are sufficient, without say on pay being required at all.

MYTH #2: ALL SHAREHOLDERS WANT THE RIGHT TO VOTE ON EXECUTIVE COMPENSATION

A related myth is that markets respond favorably to a regulatory requirement for say on pay. That is, many governance experts and lawmakers believe that shareholders as a whole want the right to vote on executive compensation and that making say on pay a legal requirement leads to improved governance quality and shareholder value at firms with "excessive" compensation.

Research evidence, however, does not support this. Prior to Dodd-Frank, shareholder support for proxy proposals requiring say on pay routinely failed to garner majority support. Among the 38 companies where shareholders were asked to vote whether they wanted the right to vote on executive compensation in 2007, only two received majority approval (see **Exhibit 2**). Furthermore, the stock market tends to react negatively to a legal requirement for say on pay. Larcker, Ormazabal, and Taylor (2011) find that companies with high executive compensation exhibited negative excess returns on days when it looked like say on pay was going to be included in Dodd-Frank. If the market believes that say on pay would be effective in reducing excessive pay levels, the results should have been the opposite. The authors posit that "the market perceives that the regulation of executive compensation ultimately results in less desirable contracts and potentially decreases the supply of high-quality executives to public firms." They conclude that a regulatory requirement for say on pay is likely to harm shareholders of affected firms.[1]

MYTH #3: "SAY ON PAY" REDUCES EXECUTIVE COMPENSATION LEVELS

Prior to the enactment of Dodd-Frank, advocates of say on pay also expected that shareholders would take advantage of a right to vote on executive compensation to register their widespread dissatisfaction and that this in turn would create pressure on boards of directors to reduce pay. Neither of these outcomes has occurred. Among approximately 2,700 public companies that put their executive compensation plans before shareholders for a vote in 2011, only 41 (or 1.5 percent) failed to receive majority approval. Support levels across all companies averaged 90.1

[1] David F. Larcker, Gaizka Ormazabal, and Daniel J. Taylor, "The Market Reaction to Corporate Governance Regulation," *Journal of Financial Economics* 101 (August 2011): 431-448.

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percent.[2] During 2012, results have been similar. To-date, fewer than 2 percent of companies have failed to receive majority approval, and average support levels remain at 90 percent.[3]

These trends have held steady despite the fact that average compensation levels continue to rise. According to a recent study, total median compensation among large U.S. corporations rose 2.5 percent in 2011, following an 11 percent increase the previous year.[4] The failure of say on pay to reduce compensation levels was to some extent anticipated by researchers. Ferri and Maber (forthcoming) studied compensation trends in the United Kingdom and concluded that say on pay did not reduce overall pay levels in that country.[5]

MYTH #4: PAY PLANS ARE A FAILURE IF THEY DO NOT RECEIVE VERY HIGH SUPPORT

Given the general approval rates of say on pay, attention has shifted to the pay packages of companies that receive passing, but not overwhelming, support. For example, the proxy advisory firm Institutional Shareholder Services (ISS) gives additional scrutiny to companies whose plans received less than 70 percent support the previous year. ISS will recommend against these companies' plans if the board does not "adequately respond" to the voting outcome in the following year's proxy statement.[6] Similarly, the Australian government recently adopted a "two strikes" test that grants shareholders the right to force directors to stand for reelection if the company's compensation plan receives less than 75 percent support in two consecutive years.

Viewpoints such as these treat relatively low levels of opposition as equivalent to a failed vote. Implicitly, they raise the threshold for approval from a simple majority to a supermajority. However, there is no evidence that these low levels of opposition to a company's compensation program indicate that the plan requires change nor does it mean that the plan is economically flawed. Calls for supermajority approval might reflect the desire of dissidents to increase their influence over corporate directors and executives rather than a true economic need. Moreover, these same dissidents commonly complain that supermajority voting is an outrage in other settings (such as mergers and acquisitions) but seem perfectly fine adopting a supermajority voting standard for say on pay.

MYTH #5: "SAY ON PAY" IMPROVES PAY FOR PERFORMANCE

Critics of executive compensation contend that CEO pay is not sufficiently tied to performance. They point to a frequent disconnect between compensation levels reported in the proxy statement and total shareholder returns. To remedy this, they recommend voting against any increase in executive compensation if a company's total shareholder return (or other financial metrics) trails the industry average over a given period.

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[2] Glass, Lewis & Co., "Say on Pay 2011: A Season in Review."

[3] Semler Brossy, "2012 Say on Pay Results, Russell 3000," (May 16, 2012).

[4] The Wall Street Journal / Hay Group 2011 CEO Compensation Study (May 20, 2012).

[5] Fabrizio Ferri and David Maber, "Say on Pay Votes and CEO Compensation: Evidence from the United Kingdom," *Review of Finance* (forthcoming).

[6] Institutional Shareholder Services, "ISS 2012 U.S. Proxy Voting Summary Guidelines," (January 31, 2012).

While it is true that executive compensation levels are not always justified at all companies, the general relation between compensation and performance is stronger than critics contend. Over 75 percent of the value of compensation offered to executives takes the form of bonuses, stock options, restricted shares, and multi-year performance plans whose ultimate values vary directly with current- and long-term results (see **Exhibit 3**). For this reason, the amount ultimately *earned* by an executive very often differs materially from the original amount *expected* (i.e. what is reported in the proxy statement) in the year the compensation awards were granted. For example, in 2011, the median expected value of CEO compensation among large U.S. corporations differed from the median earned value by $2 million, or 18 percent (see **Exhibit 4**). This fact is almost never clearly disclosed in the summary compensation table for the annual proxy, which takes a mostly prospective view of compensation. A more reasonable assessment of pay for performance would compare the amount earned by an executive (determined as the value vested or received in a given period) relative to the operating and stock price performance during the same period. The results of this analysis are often very different from those that rely on compensation amounts disclosed in the summary compensation table.[7]

MYTH #6: PLAIN-VANILLA EQUITY AWARDS ARE NOT PERFORMANCE-BASED

A similar myth in executive compensation is that restricted stock grants and stock options should not be considered "performance-based" incentives unless they contain performance hurdles in addition to time-based vesting criteria. For example, the proxy advisory firm Glass Lewis argues that "long-term incentive plans that rely solely on time-vesting awards do not fully track the performance of a company and do not sufficiently align the long-term interests of management with those of shareholders."[8] However, researchers have long observed that stock options are an effective tool for encouraging risk-averse executives to invest in promising but uncertain investments that can improve the long-term value of a firm. For example, Rajgopal and Shevlin (2002) find that executives understand that the expected value of a stock option increases with the volatility of the stock price and that they tend to respond to stock option awards by investing in risky projects to create this volatility. The authors conclude that stock options are an effective tool for overcoming risk-related incentive problems and encourage long-term investment.[9] That is, the research evidence does not support the notion that plain-vanilla equity awards are insufficient as performance incentives or that they fail to align the interests of shareholders and managers.

MYTH #7: DISCRETIONARY BONUSES SHOULD NEVER BE ALLOWED

Many governance experts also believe that the board of directors should not be allowed to use discretion in determining the size of an executive's bonus and that bonus calculations should be based strictly on whether the executive has achieved predetermined performance targets. They contend that shareholders should vote against any compensation plan that allows discretion because it signals excessive CEO power and the ability of executives to extract economic rents.

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[7] For a detailed discussion of expected, earned, and realized pay, see: David F. Larcker, Allan McCall, and Brian Tayan, "What Does It Mean for an Executive to 'Make' $1 Million?" CGRP-22 (Dec. 14, 2011). Available at: http://www.gsb.stanford.edu/cgrp/research/closer_look.html.

[8] Glass, Lewis & Co., loc. cit.

[9] Shivaram Rajgopal and Terry Shevlin, "Empirical Evidence on the Relationship Between Stock Option Compensation and Risk Taking," Journal of Accounting & Economics 33 (2002): 145-171.

However, this is not always the case. There are clearly settings where discretionary factors can produce positive incentive benefits, particularly when the economic environment or industry setting is highly uncertain, making it difficult for the board to assign meaningful performance goals at the beginning of the year. In these cases, relying on a year-end review of results can be appropriate for rewarding executives rather than potentially relying on factors outside of the executive's control. For example, in 2009, Bassett Furniture, Danaher, and Starbucks all awarded discretionary bonuses to reward executives whose results were impacted by the recession.[10] The economic importance of discretionary bonuses is also documented in the research literature. Ederhof (2010) studies the use of discretionary bonuses between 2004 and 2006 and finds that discretionary bonuses are paid based on "non-contractible" performance measures that are important for future performance. (Examples of non-contractible measures include the negotiation of new contracts with customers or suppliers that will pay off in the future, implementation of important strategic initiatives, team work, leadership, initiative, and talent development). She does not find evidence that discretionary bonuses are related to CEO manipulation or to CEO power over the board of directors.[11]

MYTH #8: SHAREHOLDERS SHOULD REJECT NONSTANDARD BENEFITS

Another myth in say on pay is that significant pay in the form of perquisites and benefits is "bad compensation," and that almost all compensation should come in the form of cash or equity. To this end, proxy advisory firms frequently recommend that shareholders vote against compensation plans that include nonstandard benefits such as tax-gross up payments, personal use of corporate aircraft, and large golden parachute payments or supplemental pension programs (SERPs). However, rather than reject such benefits categorically, shareholders should first determine whether they have an economic justification. For example, a company might offer large golden parachute payments to insure a newly recruited CEO from the risk that the company will be acquired by a third-party bidder before a difficult turnaround is complete. Similarly, a company might offer tax gross ups on nonstandard benefits that are required given the situation of the company and would otherwise impose a significant tax cost on the executive. For example, in 2011, Lockheed Martin paid $1.3 million for personal security (including the value of tax gross ups) to protect CEO Robert Stevens and his family. While ISS recommended that shareholders reject the compensation plan because of this unusual benefit, Lockheed argued that Stevens had access to classified national security information that required high-levels of security for himself and his family. Nonstandard benefits should be evaluated in terms of their economic value to the firm, rather than fixed rules or guidelines.

MYTH #9: BOARDS SHOULD ADJUST PAY PLANS TO SATISFY DISSATISFIED SHAREHOLDERS

One of the reasons that shareholders delegate authority to a board of directors is that they do not and cannot have all of the information they need to make optimal decisions regarding a company's strategy and operations. This includes decisions about the design of executive compensation packages and the specific levels of compensation needed to retain each individual. Because investors tend to be a highly fragmented group—with differing objectives, time horizons, and investment strategies—they are likely to give conflicting feedback on how

[10] Securities and Exchange Commission, form DEF 14A.
[11] Merle Ederhof, "Discretion in Bonus Plans," *The Accounting Review* 85 (2010): 1921-1949.

compensation should be optimally structured. For these reasons, it may be impractical or impossible for members of the compensation committee adjust executive compensation packages to satisfy all shareholders.

Still, there is considerable evidence that open dialogue between boards and shareholders goes a long way toward mollifying shareholder dissatisfaction, without regard to whether shareholder recommendations on compensation are adopted. One review of say on pay in the United Kingdom concludes that even though the practice has not reduced compensation levels in that country, it has "improved the dialogue between companies and their investors," creating significant goodwill.[12] Research by Tapestry Networks finds that, even when shareholders and directors disagree, open and direct dialogue creates "mutual respect."[13] To this end, companies such as Amgen actively solicit investor feedback on their executive compensation program (see **Exhibit 5**). However, it is not clear whether investors—even large institutional investors—know enough about the relation between strategy and compensation design to make such outreach programs informative. The true benefit of say on pay might be improved relationships between boards and institutional investors, rather than improved economic decision making.

MYTH #10: PROXY ADVISORY FIRM RECOMMENDATIONS FOR "SAY ON PAY" ARE CORRECT

Proxy advisory firms rely on proprietary methodologies to develop their guidelines for say on pay. For example, ISS takes into account factors such as total CEO pay, one- and three-year total shareholder return, the performance metrics used in incentive plans, the presence of "problematic" pay practices, communication and responsiveness to shareholders, the use of peer groups in benchmarking pay, and the mix of performance and nonperformance-based pay elements.[14] Glass Lewis considers similar factors.[15]

Research evidence demonstrates that these recommendations are highly influential, both on voting outcomes and on pay structure. Ertimur, Ferri, and Oesch (2012) find that an unfavorable recommendation from ISS reduced shareholder support for an executive compensation program by 24.7 percent in 2011.[16] The results of say-on-pay votes suggest that several institutional investors vote in lock step with the recommendations of ISS and Glass Lewis (see **Exhibit 6**).[17] Survey data finds that over 70 percent of companies were influenced by the policies,

[12] Deborah Gilshan, "Say on Pay: Six Years On—Lessons From the UK Experience," (September 2009).

[13] Tapestry Networks, "ViewPoints: Advancing board-shareholder engagement," (June 2012).

[14] Institutional Shareholder Services 2011 voting policies. Available at: http://www.issgovernance.com/policy/2011/policy_information.

[15] Glass, Lewis & Co. voting policies. Available at: http://ims.schwab.wallst.com/repository/?doc=ProxyVotingProcedures.

[16] Yonca Ertimur, Fabrizio Ferri, and David Oesch, "Shareholder Votes and Proxy Advisors: Evidence from Say on Pay," working paper (March 7, 2012). Available at SSRN: http://ssrn.com/abstract=2019239.

[17] To be fair, there are also institutional investors that generally vote *with management* when proxy advisor recommendations differ from management recommendations. For example, Rydex Investments, Goldman Sachs Asset Management, and Vanguard Group vote with ISS less than 10 percent of the time.

recommendations, or guidance received from proxy advisory firms regarding their executive compensation programs.[18]

Unfortunately, the research evidence also suggests that these recommendations are not only influential but also that they might not be correct. Using a sample of 2,008 firms, Larcker, Ormazabal, and McCall (2012) find that companies that amend their executive compensation plans to avoid a negative recommendation from proxy advisory firms exhibit statistically significant negative stock price returns on the date these changes are disclosed. This suggests that proxy advisory recommendations for say on pay actually decrease shareholder value.[19] The results of this study are consistent with previous studies that find that the voting recommendations of proxy advisory firms regarding stock option exchange programs are similarly value decreasing.[20]

WHY THIS MATTERS

1. Say on pay was adopted in the United States with the expectation that it would improve the design of and reduce perceived excesses in executive pay. The early evidence, however, suggests that say on pay is not achieving these objectives broadly. Is it time to rethink say on pay?

2. Prior to the enactment of Dodd-Frank, say on pay was a voluntary practice in the United States. It remains a discretionary practice in many countries outside the U.S., including several in Europe. Should the U.S. rescind the requirement of mandatory say-on-pay votes and return to a voluntary regime?

3. Proxy advisory firms are highly influential in the proxy voting process particularly in matters relating to executive compensation, and yet the evidence suggests that their recommendations not only fail to increase shareholder value but actually impose an economic cost on investors. Why don't proxy advisory firms base their recommendations on evidence-based guidelines proven to improve economic outcomes, rather than arbitrary factors that are unsupported by the research literature? Why doesn't the Securities and Exchange Commission regulate the use of proxy advisory opinions, just as they regulate the opinions of credit-rating agencies?

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[18] David F. Larcker, Allan L. McCall, and Brian Tayan, "The Influence of Proxy Advisory Firm Voting Recommendations on Say-on-Pay Votes and Executive Compensation Disclosure." Director Notes. The Conference Board (March 2012).

[19] David F. Larcker, Allan L. McCall, and Gaizka Ormazabal, "The Economic Consequences of Proxy Advisory Say-on-Pay Voting Policies," Rock Center for Corporate Governance at Stanford University working paper (May 2012).

[20] David F. Larcker, Allan L. McCall, and Gaizka Ormazabal, "Proxy Advisory Firms and Stock Option Exchanges: The Case of Institutional Shareholder Services," Stanford Rock Center for Corporate Governance at Stanford University working paper No. 100 (Apr. 15, 2011). Available at: http://ssrn.com/abstract=1811130.

Exhibit 1
Models of "Say on Pay" in Selected Countries

Country	Year Adopted	Directors or Executives	Pay Policy or Structure	Binding or Advisory	Frequency	Required or Voluntary
United Kingdom	2003	Directors	Pay Structure	Advisory	Annually	Required
The Netherlands	2004	Executives	Pay Policy	Binding	Upon Changes	Required
Australia	2005	Directors	Pay Structure	Advisory	Annually	Required
Sweden	2006	Executives	Pay Policy	Binding	Annually	Required
Norway	2007	Executives	Pay Policy	Binding	Annually	Required
Denmark	2007	Executives	Pay Policy	Binding	Upon Changes	Required
United States	2011	Executives	Pay Structure	Advisory	Annually/ Biennially/ Triennially	Required
Switzerland	2013 (pending)	Directors	Pay Structure	Advisory	Annually	Currently Voluntary
Germany	None	Executives	Pay Structure	Advisory	Annually	Voluntary
Canada	None	Executives	Pay Structure	Advisory	Annually	Voluntary

Note: "Year adopted" represents the year that say on pay first went into effect. Practices in countries with voluntary adoption vary.

Source: Research by the authors; Jeremy Ryan Delman, "Survey: Structuring Say-on-Pay: A Comparative Look at Global Variations in Shareholder Voting on Executive Compensation," Columbia Business Law Review (2010); State Board of Administration of Florida, "Annual Report of Corporate Governance," (February 2012). The authors thank Maria-Cristina Ungureanu for clarification of say-on-pay rules in certain European countries.

Exhibit 2
Shareholder Proposals for "Say on Pay": Summary Statistics (2007)

Company	Sponsor	For	Against	Abstain
Abbott Laboratories	Unitarian Universalist Association	40.0 %	57.7 %	2.3 %
Affiliated Computer Services	AFSCME	23.9 %	73.4 %	2.8 %
Apple	AFL-CIO	41.3 %	47.2 %	11.5 %
AT&T	Individual Investor	39.7 %	51.0 %	9.3 %
Bank of New York Mellon	AFSCME, Convent of Mary Reparatrix	42.4 %	52.2 %	5.5 %
Boeing	Individual Investor	40.2 %	54.9 %	4.9 %
Capital One	Marianists, Society of Mary	37.0 %	60.1 %	2.9 %
Citigroup	AFSCME	43.0 %	50.0 %	7.0 %
Clear Channel Comm.	Unitarian Universalist Association	41.7 %	41.7 %	16.6 %
Coca-Cola Company	Benedictine Sisters	29.2 %	66.7 %	4.1 %
Countrywide Financial	AFSCME	31.7 %	59.6 %	8.7 %
Exxon Mobil	Needmor Fund	39.1 %	55.6 %	5.3 %
Home Depot	New York City Pension Funds	39.6 %	52.1 %	8.2 %
Ingersoll-Rand Company	AFSCME	54.6 %	41.7 %	3.7 %
Jones Apparel Group	Calvert Asset Management	48.0 %	51.2 %	0.8 %
JP Morgan Chase	SEIU, Needmor Fund	38.6 %	56.6 %	4.7 %
Lockheed Martin	Individual Investor	39.7 %	53.4 %	6.9 %
Merck	AFL-CIO	44.4 %	45.9 %	9.7 %
Merrill Lynch	AFSCME	42.9 %	51.3 %	5.8 %
Morgan Stanley	AFSCME	37.2 %	57.7 %	5.1 %
Motorola	Individual Shareholder	51.8 %	44.1 %	4.1 %
Nabors Industries	AFL-CIO	35.1 %	55.5 %	9.4 %
Northrop Grumman	SEIU	37.2 %	60.4 %	2.4 %
Occidental Petroleum	Needmor Fund	46.3 %	49.4 %	4.3 %
Qwest Communications	AFSCME	19.6 %	66.5 %	13.8 %
Simon Property Group	IBEW	40.4 %	56.2 %	3.4 %
Sprint Nextel	SEIU	37.9 %	57.7 %	4.4 %
Time Warner	IBEW	38.7 %	56.7 %	4.7 %
U.S. Bancorp	AFSCME	40.9 %	54.6 %	4.5 %
United Technologies	AFL-CIO	37.7 %	56.2 %	6.1 %
UnitedHealth Group	Hermes Investment Management	38.9 %	54.3 %	6.8 %
Valero Energy	Unitarian Universalist Association	43.7 %	38.8 %	17.4 %
Verizon Communications	Individual Investor	47.8 %	47.4 %	4.8 %
Wachovia	AFSCME	36.5 %	57.8 %	5.7 %
Wal-Mart Stores	LongView	17.6 %	78.0 %	4.4 %
Wells Fargo	Walden Asset Management	33.1 %	61.2 %	5.8 %
Wyeth	Individual Investor	38.6 %	54.9 %	6.5 %
Yum Brands	Glenmary Home Missioners	40.0 %	58.3 %	1.7 %

Source: Georgeson, "2007 Annual Corporate Governance Review."

Exhibit 3
Mix of Compensation Paid to CEOs in the United States

Company Size	Salary	Bonus	Stock Options	Restricted Shares	Performance Plans	Other
Top 100	9.2%	17.9%	32.1%	18.3%	19.3%	3.1%
101-500	10.8%	18.1%	32.0%	19.7%	15.8%	3.9%
501-1000	13.8%	18.6%	28.1%	23.9%	12.4%	3.2%
1001-2000	20.6%	15.8%	25.4%	23.6%	9.1%	5.5%
2001-3000	26.0%	13.2%	23.6%	20.5%	8.1%	8.6%
3001-4000	40.4%	12.7%	21.6%	15.5%	4.1%	5.7%
1-4000	**17.5%**	**16.6%**	**27.9%**	**21.1%**	**12.1%**	**4.7%**
		- Compensation elements whose values vary with performance -				

Source: Calculation by the authors using Equilar, Inc. compensation and equity ownership data for fiscal years from June 2008 to May 2009.

Exhibit 4
Total CEO Compensation: Earned versus Expected

Median Compensation (2010)

Decile	Market Capitalization (in millions)	Expected Value	Earned Value	Average Difference
Highest	$ 22,522	$ 11,210,876	$ 9,218,322	$ 1,992,554
	6,895	6,763,005	5,696,422	1,066,583
	3,257	4,837,471	3,799,896	1,037,575
	2,061	3,942,680	3,046,327	896,353
	1,312	3,159,052	2,437,328	721,724
	853	2,328,114	1,873,891	454,223
	574	2,073,491	1,700,898	372,593
	372	1,577,976	1,200,413	377,563
	241	1,226,952	976,996	249,956
Lowest	149	865,041	794,706	70,335

Sample includes 2,471 companies with fiscal years ending between June 2010 and January 2011.

Source: Equilar. Calculations by the authors.

Exhibit 5
Investor Feedback on "Say on Pay": Amgen

Amgen has implemented a unique method for soliciting shareholder feedback on executive compensation. The company's proxy invites shareholders to fill out a survey to provide input and feedback to the compensation committee regarding executive compensation. Survey questions were provided to the company by TIAA-CREF.

The survey asks questions such as

- Is the compensation plan performance based?
- Is the plan clearly linked to the company's business strategy?
- Are the plan's metrics, goals, and hurdles clearly and specifically disclosed?
- Are the incentives clearly designed to meet the company's specific business challenges, in both the short and long term?
- Does the compensation of senior executives complement the company's overall compensation program, reinforce internal equity and promote the success of the entire business enterprise?
- Does the plan promote long-term value creation, which is the primary objective of shareholders?
- Does the plan articulate a coherent compensation philosophy appropriate to the company and clearly understood by directors?

Each question allows for an open-text-field response and links to a pop-up box where shareholders are given expanded information.

This type of survey raises a variety of important questions. Do shareholders have the necessary information to make a correct judgment about these issues? What happens if shareholders indicate that they do not like some part of the compensation program? When does the board have a "duty" to make changes? What type of investor relations activity is needed to support this survey?

Source: Amgen, Executive Compensation Survey. Available at: www.amgen.com/executivecompensation/exec_comp_form_survey.jsp

Exhibit 6
Influence of ISS Recommendations on "Say-on-Pay" Votes

Selected Firms that Follow ISS Say-on-Pay Recommendations (2011)

Institutional Investor	% Vote "Against" when ISS is "Against"
SEI Investment Management Corporation	100.0%
Bridgeway Capital Management	100.0%
Grantham Grantham, Mayo, Van Otterloo	100.0%
ProShare Advisors LLC	99.6%
ProFund Advisors LLC	99.5%
Dimensional Fund Advisors	99.4%
Wells Fargo Funds Management	99.3%
First Trust Advisors	99.2%
Nuveen Asset Management	99.2%
The Dreyfus Corporation	98.8%
Northwestern Mutual Funds	96.9%
New York Life Investment Management	96.7%
Calvert Asset Management	96.7%

Source: ISS Voting Analytics, 2011.