Upstart Investors For Director Accountability Targets Pfizer

MarketWatch.com
Tiffany Kary
Apr 13, 2006

New York -- In choosing Pfizer Inc. (PFE) as its first target, the newly launched Investors for Director Accountability is hoping to be the brave voice that yells, "The emperor has no clothes!"

The Texas-based governance group, which seeks to "restore director accountability to owners," is urging investors to vote against the re-election of Pfizer's compensation committee. It says the four committee members have been remiss in allowing the pension package of Chief Executive Hank McKinnell to balloon to what some estimate to total $83 million, while the company's stock has fallen around 44% during the five years he's been at the company's helm.
The group is a roster of governance luminaries and market legends. Its 17-member steering committee includes influential founder and former CEO of Vanguard mutual fund group John C. Bogle; legendary corporate raider T. Boone Pickens, now general partner at BP Capital Inc.; and one of the foremost academic experts in governance, Robert A.G. Monks.

The group, which launched in March, said it plans to publicize similar issues at other companies in the near future. But it has chosen a difficult first target, as Pfizer has projected a squeaky-clean governance image and been a leader on many governance initiatives, such as adopting a majority vote standard, and most recently, being first to improve disclosure of executive pay in advance of coming regulations from the Securities and Exchange Commission. The group said it decided to focus on Pfizer after quantitative screens applied to the largest 1,000 American corporations showed its CEO to have a particularly large pension, and qualitative factors, such as its popularity and the fact that it's a widely held stock, were weighed.

"To an ordinary person who has Pfizer in their retirement account, this amount of money being paid to Mr. McKinnell's retirement and his pay in general is obnoxious given how terribly their stock has performed," said Investors for Director Accountability President Frederick E. Rowe, who is also a general partner at Greenbrier Partners Ltd., a Texas-based private partnership that invests primarily in publicly traded securities. Rowe is also chairman of the Texas Pension Review Board, which oversees public pensions in Texas.

He said part of the inspiration for the new group, which coalesced over the past year as members discussed the pension crisis and governance issues in the U.S., arose from him watching fire departments volunteer to reduce benefits for firemen because communities couldn't afford to pay what was promised.
"Almost every pension fund holds an interest in Pfizer," Rowe said, noting that the gap between what average Americans may be entitled to and the vast retirement packages chief executives are

receiving is a subject on everyone's lips that no one seems to be able to act on.

Rowe said the philosophy of Investors for Director Accountability is simply to exercise free speech. It's entirely staffed by volunteers, doesn't plan to take an economic interest in any of the companies it targets, doesn't intend to wage proxy fights, and doesn't plan to approach companies or investors for dialogue. Rowe said that he or some of the members may own stock in the companies they target, as many members own index funds, but they "have no economic interest in the outcome" of their campaigns and don't intend to pursue any voting strategy if they do own the stock directly.

Specifically, Investors for Director Accountability is urging shareholders to withhold their votes for the four nominees for the Pfizer's compensation committee: Robert N. Burt, Stanley O. Ikenberry, George A. Lorch and Dana G. Mead. All have served at Pfizer for some time - Ikenberry since 1982, Mead since 1998, and Burt and Lorch since 2000.

While Pfizer doesn't face any shareholder proposals on CEO pay on its next proxy, the preliminary version of its proxy did contain a proposal that urged the company to let shareholders have more say over executive pay. The proposal focused on pension issues, quoting a study by Harvard Law School Professor Lucian Bebchuk that estimated that McKinnell has received about $67 million in total compensation during his tenure as Pfizer's CEO. In contrast, the study estimates the actuarial present value of McKinnell's expected pension benefit to be approximately $71.5 million to $83 million.

Pfizer didn't return calls for comment in time for this story, but Margaret Foran, senior vice president corporate governance, associate general counsel and corporate secretary of Pfizer, recently told Dow Jones Corporate Governance that the cost of the pension plan has grown because Pfizer's stock, which is used in calculating the pension, has risen since the early '90s when the plan was created. She also noted that the compensation committee changed the plan to rein in costs slightly.

Rowe said that's no excuse. "That might be reasonable if there hadn't been continuity in the board over that time," he said.

Investors for Director Accountability noted several other details about McKinnell's pay on its Web site. For instance, during his five-year tenure, his annual cash compensation has risen to $5.97 million. Pfizer estimates the present value of McKinnell's total compensation for 2005 at $15.88 million and the value of McKinnell's direct holdings of Pfizer stock at less than one month's compensation, the Web site notes.

This comes despite troubled times for the business. "At the same time, in the five years since Mr. McKinnell became CEO, Pfizer's stock price has declined approximately 44%," the group said, adding that "a number of Pfizer's leading drugs, representing billions in sales, will soon go off patent."