ShareAction helps exert pressure on BG Group to drop £25 million pay deal for its new CEO

Overview

ShareAction became alert when in November 2014 BG Group, the UK oil and gas giant, announced their plan to pay their new CEO Helge Lund a ‘golden hello’ of £12 million in shares, plus the chance to earn £13.5 million a year for hitting certain performance targets. This pay package of £25 million overall doesn’t only sound very high; it also ignored a binding three-year pay policy that had been approved by shareholders only five months before, in May 2014. The very fact that they had to be consulted was down to the UK Government’s introduction of shareholders’ right to a ‘say on pay’: since 2014 shareholders have to be consulted on executive pay via a binding vote.

ShareAction has campaigned against ballooning boardroom pay since 2011 as it is in ShareAction’s view in severe conflict with the principles of good corporate governance. It reduces staff morale and public trust in businesses, in particular when it is unrelated to the – long-term – performance of a company. It also significantly contributes to rising income inequality, which has, besides other wider negative impacts on societies and their economies, even shown to slow down economic growth. And finally, the cost of paying for the CEO’s salary is passed on to the company’s ultimate customers, in this case through rising energy bills for households and businesses.

There was also an ‘undertone of threat’ to shareholders in BG’s corporate statement, which accentuated that ‘Helge is not obliged to join BG Group if the share award is not approved’. While some of BG’s large investors, like Legal and General and Aviva Investors, as well as the influential Institute of Directors had encouragingly spoken out against the exorbitant pay deal – the latter calling it ‘excessive and inflammatory’ – many pension funds and asset managers kept quiet. This is why ShareAction decided to exert some extra pressure.
Empowering pension savers to get involved in the debate, ShareAction set up an email tool that any member of the public could use to email their pension fund and ask for clarification on the pay issue – and to encourage them to vote against it. In the Daily Mail, Catherine Howarth, ShareAction’s chief executive, described the email action as being ‘about making the big investors accountable to pension savers when it comes to the votes they cast on our behalf on outlandish rock-star pay packages. At the end of the day it’s our money in these investment and pension funds, and that makes it our business.’

Our approach

Why did we decide to get pension savers involved? The collective money of pension savers adds up to substantial amounts (in the UK that’s £3 trillion!), making pension funds and other institutional investors the largest investors in the UK. Most institutional investors (especially insurance companies and pension funds) have very widely diversified investment portfolios, and are likely to be invested in most large listed companies like BG Group, especially if the company is based in the same country. In effect this means that it is ordinary savers who are the indirect owners of Britain’s largest companies like BG Group – and they should hence have a say on how their money is being used.

A recent Law Commission ruling on fiduciary duty, a core working area of ShareAction, added more pressure to the campaign: it had set out that asset owners are allowed to include savers’ views when making investment decisions. This gave pension funds the flexibility to act on the views’ expressed by its members as long as the decision wouldn’t entail any significant financial detriment to the fund.

To ensure the tool was seen far and wide, ShareAction mobilised its press contacts, leading to coverage in some of the world’s most read newspapers including the Daily Mail and The Guardian and leveraged social media. ShareAction also liaised with a number of large institutional investors, recommending that they vote against the excessive pay of BG’s new CEO.

Fiduciary Duty explained

Fiduciary duties are the strict legal obligations that apply to certain people who look after others’ money, like trustees of pension funds. Fiduciaries have to act in beneficiaries’ best interests, rather than their own. Fiduciary duties require a higher standard of behaviour than is expected in an ordinary contract. Fiduciaries are expected to be loyal; to treat each beneficiary equally and to act prudently in their protection of savers’ interests.

Our email action is about making the big investors accountable to pension savers when it comes to the votes they cast on our behalf on outlandish rock-star pay packages. At the end of the day it’s our money... and that makes it our business.

- Catherine Howarth
Chief Executive, ShareAction
Outcome

- Building a movement: thousands of savers emailed their pension funds in just a few days.
- Empowering investors: four of BG’s top investors with billions of pounds in assets under management spoke out against the deal.
- Changing company behaviour for good: BG backed down and renegotiated the deal.

The voices of thousands of pension savers who wrote to their pension funds, as well as at least four of 15 BG’s top investors, jointly created a shareholder revolt that made BG back down. In fear of risking an embarrassing vote against the deal, the fossil fuel giant dropped the vote altogether, admitting that it had not struck ‘the correct balance’, and reduced the offer to a maximum of £14 million. This renegotiated pay package amount was in line with the company’s agreed payment policy and hence removed the need for renewed shareholder approval.

In the end, Helge Lund took the job anyway, making a mockery of companies’ claims that they have to offer ‘rock-star’ salaries to attract key talent.

What we’ve learned

When you try to influence company behaviour, never forget the power of shareholders, particularly when joined up as a collective force. One investor alone could never have caused BG to make a U-turn but their collaborative power made the company drop Mr Lund’s excessive pay offer. Ordinary savers played a key role in this, and so they should: it’s their money that is being invested.

While the UK Government’s introduction of shareholders’ ‘say on pay’ formed the legal basis for the shareholder uproar, the case shows that civil society’s involvement was crucial to actually monitor and enforce implementation of the policy. Involving ordinary pension savers significantly increased the reach and media interest of the case, ensuring that from then on all boards could be certain that, in the words of the Guardian, ‘a binding pay policy is indeed binding’.

Timeline

Beginning of November 2014
BG Group publishes circular to invite shareholders to attend a general meeting on 15 December 2014 to approve the pay package of its new CEO Helge Lund

Mid/End of November 2014
Story gets picked up by major newspapers
Major investors & influential institutions publicly criticize BG pay deal:
- The Investment Management Association issues ‘red top’ alert, its most serious warning signal for corporate misconduct
- The Institute of Directors describes the deal as “excessive, inflammatory and contrary to the principles of good corporate governance”
- Legal & General “unhappy” that the deal broke 3-year pay policy previously approved by BG shareholders

Beginning of November 2014
BG Group announces revision of remuneration package, bringing it back in line with the agreed payment policy

To find out more

Read more on how ShareAction makes the case that savers should have a greater say in how their money is invested in our report, ‘Our Money Our Business’ here.

Find out more on why it makes sense for investors to engage with companies in our investor briefing here.

Explore the topic in more detail on the High Pay Centre’s website.

To enable further exchange and skill sharing in investor-focused campaigning, ShareAction is developing a European Network for civil society organisations. To find out more, don’t hesitate to get in touch with ShareAction’s European Outreach Officer, Friederike Hanisch, on friederike.hanisch@shareaction.org

Fairshare Educational Foundation is a company limited by guarantee registered in England and Wales number 05013662 (registered address 16 Crucifix Lane, London, SE1 3JW) and a registered charity number 1117244, VAT registration number GB 211 1469 53.