May 10, 2015 2:20 pm – Financial Times

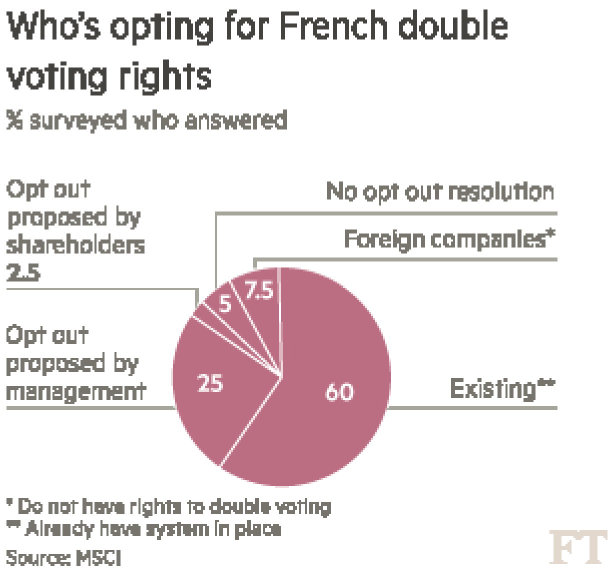
Activist shareholders lead new French revolution of pay excess
Michael Stothard

©Reuters

A labour council representative holds a facsimile 500 euro note bearing the portrait of Carlos Ghosn, chairman and CEO of Renault-Nissan, before the carmaker's shareholder meeting
Three years after the UK's "shareholder spring" inspired a rash of investor protests against excessive executive pay, the largest companies in France are facing their own activist revolution.
In the past two weeks, French minority shareholders have made dramatic use of new "say on pay" votes, to express their frustrations over high fixed remuneration – as well as a perceived lack of transparency about the way bonuses are calculated.

"It's quite a revolt," says Loïc Dessaint, chief executive of Proxinvest, the French proxy adviser. "Companies are going to have to realise that shareholders care about this issue and enact some change," he said.
Last year was the first in which shareholders were allowed a non-binding vote on executive pay in France. On average, 92 per cent of votes were cast in favour of the board proposal, according to an analysis by Proxinvest.
One year on, however, and the mood is very different. Last month, 47 per cent of shareholders in Danone voted against the pay package of Franck Riboud, the food group's chairman, while 42 per cent voted against the package of Renault chief executive Carlos Ghosn.
More than a third of voters at Vinci, Veolia, and Schneider Electric have now voted against resolutions on management remuneration – and these are all companies where management pay packages had won more than 90 per cent support last year.
As a result, the average level of shareholder support for resolutions at 350 of the largest French companies is expected to fall to 80 per cent, Proxinvest says — highlighting growing dissent just halfway through the AGM season.
"Shareholders are becoming much more demanding on this issue," said Denis Branche, partner at Paris-based PhiTrust Active Investors. "For the average French person, salaries are decreasing, so why are they always rising for executives?"
A €4m one-time 'golden handshake' for Olivier Brandicourt, the new chief executive of drugmaker Sanofi, in addition to a pay package of up to €4.2m a year, caused a stir in the public domain, with the French government calling it "incomprehensible".

More than one third of shareholders opposed parts of the package, but there was no vote on the golden handshake payment.
Shareholders are not just fighting back on executive pay, either. There have also been rebellions against government attempts to enshrine double voting rights for long-term shareholders.
These fights follow the introduction last year of the Florange law, which from 2016 will automatically grant double voting rights to shares registered for more than two years, unless two-thirds of shareholders vote against the change.
Opponents say that double voting rights – which are supposed to encourage long term investing – only entrench the power of majority shareholders and weaken smaller institutional investors, thereby making management less accountable.
More than 90 per cent of investors at Unibail-Rodamco, Vinci, L'Oréal, Air Liquide and Capgemini have now voted to overturn the law, with similar levels of support expected at the annual meeting of Crédit Agricole this month.
More video
But, while shareholders are increasingly flexing their muscles on pay and fighting back on double voting, they are not always winning the battles.
In April, institutional shareholders could only look on helplessly as the French government spent €1.23bn to buy shares in Renault on a short-term basis, to give it the votes it needed to defeat plans for keeping the one-share-one-vote system.
It worked. In the end, 60 per cent of shareholders voted against the ruling, but this was not enough as a two-thirds majority was needed. Renault's management was sharply critical of the government's manoeuvre, fearing that increased state influence will scupper plans for greater integration with Japanese partner Nissan.



On Friday, the French state repeated the ploy: it spent €46m to increase its stake in Air France to ensure it would be able to enforce double voting there as well.
Government victories on double voting have also been secured at GDF Suez, and further wins are expected at EDF and telecoms group Orange. At Vivendi, the Florage law change was similarly adopted, but this time through the support of major shareholder Vincent Bollore.
Cédric Lavérie, head of corporate governance at Amundi, a European asset manager with €954.2bn under management, says the double votes system is not always bad for companies, but can be "unfavourable when it is conducive to "creeping" takeovers, or wrests disproportionate control away from minority shareholders.

Even strong shareholder protests on pay can prove in vain. While analysts say investor pressure may result in more disclosure of performance-related pay targets, company boards can ignore them.
At the Renault AGM, one investor stood up and asked if the board had learnt any lessons from the 36 per cent vote against management pay last year — one of the biggest investor protests in France.
Mr Ghosn passed the question to board member Marc Ladreit de Lacharrière, who said: "Well, there is no lesson to be learnt from that . . . We saw that it was 64 per cent [of votes in favour]."