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Buffett Pressures Coca-Cola Over Executive Pay

Coke Rethinks Awards After Objections From Chief of Berkshire Hathaway, Which Holds Coca-Cola Shares

Coca-Cola Co. likely will revise its executive-compensation plan before it goes into effect next year, bowing to pressure from billionaire investor Warren Buffett, according to people familiar with the matter. Mr. Buffett aired his reservations about the plan privately in recent weeks to Coke Chief Executive Muhtar Kent in three conversations, including at a dinner in Mr. Buffett's hometown of Omaha, Neb., according to some of the people familiar with the matter. Mr. Buffett's conglomerate, Berkshire Hathaway Inc., is Coke's largest holder of stock in the company, owning 9% of the beverage giant's shares.

Mr. Buffett has frequently expressed his distaste for pay plans that rely heavily on stock options, calling them "lottery tickets" for executives that often generate outsize rewards. Such options give the recipient the right to purchase shares at a later date for a set price.

On Wednesday, Mr. Buffett said he has been clear with Coke management from the outset that he thought the plan was excessive. "I'm against the plan, and they know it," Mr. Buffett said in an interview with The Wall Street Journal.

Coke officials decided to revisit the plan after considering the feedback of Mr. Buffett and other investors, according to people familiar with the matter. Coke's equity plan has built-in flexibility that allows the board to tweak it from year to year.

In Coke's 2014 proxy, which is a notice to investors seeking votes, the board's compensation committee said it determined the current mix of long-term equity awards—60% in options and 40% in performance-share units—"continues to be the most optimal." Performance-share units are a form of stock in which individuals earn shares based on a certain performance measure.

Among the possible changes would be awarding fewer options per staffer each year, so the pool of options in the new plan lasts longer, this person said. A longer vesting period for options than the usual four years the plan calls for is another potential alternative. A third move would involve flipping the 60%-40% split between stock options and performance units.

Mr. Buffett's role in the Coke vote is being closely watched by shareholders of Berkshire Hathaway, which holds its annual meeting in Omaha this weekend. More than 38,000 people are expected for the event, which is typically a celebration of Mr. Buffett's investing prowess and wisdom. Mr. Buffett, who is CEO and chairman of Berkshire, has criticized executive pay at the event in the past. At Berkshire's 2009 annual meeting, he said that, if large investors spoke out against compensation practices, it could be more effective than having greater regulation. "The way to get big shots to change their behavior is to embarrass them," he said.

Berkshire, long Coke's largest shareholder, has continued to support the company and its management. "I'm 100% in accord with Coca-Cola's business strategy and regard Muhtar Kent as the ideal CEO for Coca-Cola," Mr. Buffett told The Wall Street Journal in a written statement in early April.

Instructions: Discuss the governance mechanisms that are presented in this article. Be very specific.