2020 CD&A Tip of the Year: Be Transparent About Shareholder Engagement

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If there's one new thing you are looking to do to upgrade your CD&A narrative for this year, consider telling a more robust story about your organization's shareholder engagement process. Over the last few years, we've seen a sizeable shift in readers' expectations when it comes to understanding what steps companies have taken to listen to their shareholders about executive compensation matters, regardless of the previous year's say-on-pay results.

Of course, ISS and Glass Lewis have also added weight to the importance of being transparent about shareholder outreach. Historically, if you found your company with a say-on-pay result with support lower than 70%, ISS said you had some explaining to do. In the fall of 2019, Glass Lewis took it a step further: for companies that receive shareholder support lower than 80%, not only should you provide a substantive description of your engagement with shareholders, but you should describe any changes that were made to those address concerns. The level of detail should be tailored to voting results. In other words, the higher the "Against" vote, the more robust shareholder engagement detail should be.

Of course, the way in which your company tells this part of the shareholder engagement and board responsiveness story should be reflective of its unique situation. However, for companies that failed say-on-pay or are in the 70% - 80% range, there are simple yet key pieces of content that should be considered when developing your narrative.

How did you respond?

- Timing of outreach?
- Who was involved—management, board members, or both?

To whom did you speak?

- Investors representing shares outstanding?
- Proxy advisory firms?

What did you hear?

- Specific feedback on program design and/or pay outcomes?

What did you change?

- Why?
- Why not?

But even if you received more than 80% support for your program, don't shy away from including a sentence or two about your engagement process and/or positive themes you've heard from your investors along the way. Shareholders should have confidence that the board is always open to feedback on compensation matters—especially given heightened sensitives around environmental, social, and governance issues, including gender pay equity. Reinforcing that the board has a disciplined process for staying connected with investors and implementing changes when needed can help bolster support in the long run.

About the Author

Sharon Podstupka is a principal in the New York office of Pearl Meyer. She is a key member of the firm's Thought Leadership team and is focused on executive and broad-based employee pay communication consulting. She works closely with her clients in a wide range of industries to develop internal communications that educate and engage people in their pay programs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, Raleigh and San Jose.

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