Executive pay outreach

The continued scrutiny of executive compensation coupled with the rise of shareholder activism has prompted many US companies to consider specific strategies around shareholder communications. In response, Bob Romanchek and Tom Ramagnano, partners at **Meridian Compensation Partners**, provide effective solutions and independent advice for executive compensation and corporate governance.

Historically, a company's communication with investors has been centred around the quarterly presentation of financial business results and forward-looking guidance, along with year-end results. However, developments over the past several years have led companies to engage with major institutional investors on a more frequent and individualised basis on executive compensation matters.

Tom Ramagnano, partner, Meridian Compensation Partners

Bob Romanchek, partner, Meridian Compensation Partners

The case for effective shareholder engagement

In the past, strong financial performance was sometimes regarded as a 'free pass' to scrutiny from shareholders and other parties. Today, however, there are new areas shareholders and proxy advisers are focusing on and they expect interaction, regardless of company performance. Such areas include:

- board governance issues (board leadership structure, diversity and so on)
- business strategy and attendant risks
- CEO succession planning (leadership 'bench strength')
- executive compensation (pay-for-performance alignment, magnitude of CEO compensation and 'say on pay' vote outcomes).

In fact, for companies receiving low 'say on pay' support from shareholders (for example, less than 70%), the proxy advisory companies will expect that shareholder engagement be undertaken, with the process, outcomes and actions taken, disclosed in the following year proxy statement. As a result, companies are now implementing specific and detailed strategies around ongoing annual shareholder outreach efforts on executive compensation.

Engagement process considerations

Companies have a variety of methods of engaging with shareholders, both direct and indirect. First, the annual proxy statement, and other required public disclosures, have been the primary communication vehicle to provide information to shareholders. Over the past several years, the proxy has evolved from primarily a technical/legal document to an advocacy and public relations piece that includes a significant level of voluntary disclosures that 'tell the story' of why and how compensation decisions are made.

Second, companies engage with shareholders through a variety of other methods including pre-scheduled conference calls, social media and on the company's website, among others.

However, it is the direct outreach efforts to engage major shareholders on executive compensation matters (including say on pay) that has now garnered much attention. The following key process elements should be considered by companies seeking direct dialogue with (primarily) key shareholders:

- **Who should attend the meeting?** Management is sometimes reluctant to have members of the board engage with shareholders; however, this engagement is often critical if the agenda includes executive compensation programmes, pay-for-performance or executive succession planning. Management (often investor relations, CFO and the CHRO) should be present at these meetings to provide overall coordination and address key financial performance measures. If the discussion is about senior executive pay, management should be represented by someone other than the CEO, such as the chairman of the compensation committee and/or the lead director.
- **What information should be provided at the meeting?** Care must be taken not to disclose material non-public information that has not been communicated to all shareholders at a similar time. When the meeting is to provide information, or persuade shareholders, use of publicly available information may be appropriate, such as the company's performance relative to a peer group, or a discussion of the company's process for setting incentive plan metrics.
- **Which shareholders should the company engage?** The reason for the engagement will determine the selection of which shareholders should be targeted. A company will generally attempt to meet with its largest shareholders to build or retain a relationship and to understand their perspectives on compensation programmes. A company may also wish to engage with a particular shareholder to resolve a matter that would otherwise be the subject of a shareholder proposal or hostile proxy contest. However, companies are finding it increasingly difficult to get quality time with major institutional investors, who often hold significant shares in US public companies (and all typically want to meet at the same time, following year-end).

The careful planning and development of an engagement strategy is critical to establishing effective and efficient shareholder communications. Ongoing engagement helps build trust and improve relations with key shareholders at a time of increasing scrutiny and skepticism over executive pay.

For further information

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