Engaging for Excellence: How Shareholder Dialogue Transforms Executive Compensation

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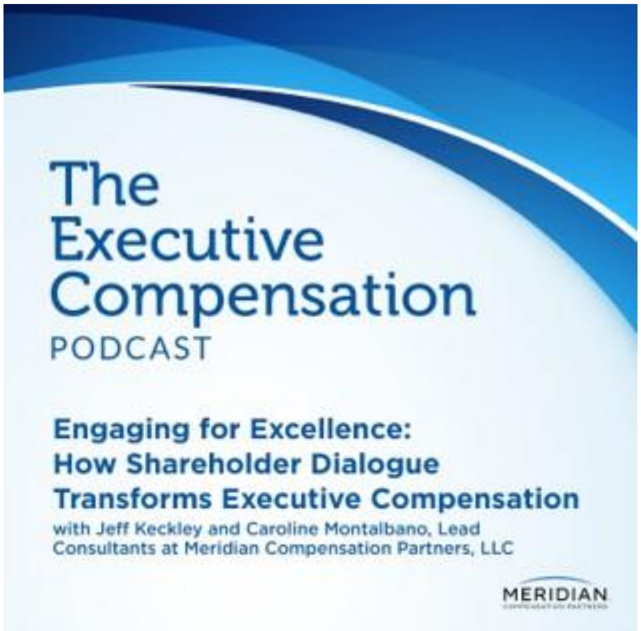

In the ever-evolving landscape of executive compensation governance, companies are increasingly recognizing the value of direct engagement with shareholders. While proxy statements have traditionally been the primary means of communicating executive compensation structures, engaging investors directly has emerged as a powerful tool for companies to build relationships, gather feedback, and enhance their governance programs. In a recent podcast, industry experts shed light on the key themes surrounding shareholder engagement and its impact on executive compensation.

Shareholder engagement encompasses various passive and active communication channels through which companies interact with their shareholders. The passive channels include public filings, such as the 10-K and proxy statements, as well as earnings releases, investor presentations, and sustainability reports. However, direct active engagement with shareholders has gained significant importance in recent years, with investors seeking opportunities to engage in a dialogue with company management and the board. This proactive engagement allows companies to better convey their vision, align decisions with long-term strategies, and understand investor priorities.

Several factors have contributed to the growing emphasis on shareholder engagement. The expanded proxy rules and Say-on-Pay regulations have spurred companies to adopt a more proactive approach to engaging with shareholders over the past decade. Evolving governance standards, increased focus on Environmental, Social, and Governance (ESG) issues, and regulatory trends have also played a role. Companies are also influenced by the lasting effects of the pandemic and the changing business environment. Shareholder proposals and activism have seen a resurgence, giving shareholders a greater voice in the governance process.

When engaging with shareholders, companies should establish a regular cadence of communication, typically once per year, with the possibility of additional touchpoints during the proxy season. These engagements serve as an opportunity to gather insights, anticipate trends, and enhance external communication. It is crucial to assemble the right team, including individuals comfortable discussing executive compensation, governance practices, and ESG strategy. Understanding the shareholder's perspective, researching their voting history and guidelines, and preparing talking points are essential for productive discussions.

During engagements, companies should be prepared to address a range of topics, even if they differ from the initially intended agenda. Feedback from shareholders provides valuable input for companies to consider potential changes, industry trends, and opportunities for improving their external narrative. Taking detailed notes during engagements is crucial for accurately summarizing feedback, identifying themes, and preparing for future engagements. It also helps when crafting proxy disclosures to highlight the company's responsiveness to shareholder feedback and its alignment with compensation philosophy and business strategies.

Disclosing shareholder engagement efforts in proxy statements has become increasingly common, with over 90% of large-cap companies sharing details of their outreach. More than just acknowledging the meetings, companies delve into the specific feedback received and the subsequent actions taken. Such transparency not only fosters trust but also has a positive impact on proxy advisory firms' evaluations of compensation programs and say-on-pay votes.

While it is the board's responsibility to set compensation philosophies and uphold fiduciary duties, shareholder engagement provides critical input to the decision-making process. By actively listening to shareholders, companies can gain valuable insights, build relationships, and demonstrate their commitment to governance. Incorporating feedback into future compensation designs, proxy disclosures, and ongoing shareholder engagements enables companies to align their programs with investor expectations.

Watch the podcast: Engaging for Excellence: How Shareholder Dialogue Transforms Executive Compensation