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INVESTORS STILL DON’T GIVE BOARDS HIGH MARKS ON EXECUTIVE COMPENSATION

In a Survey Investors Expressed Their Lack Of Trust in Board for Executive Compensation Decisions

Posted by Jim Wolf on October 31, 2013

A recent PricewaterhouseCoopers (PwC) survey found that two-thirds of institutional investors don’t think that corporate boards are effective in controlling executive compensation.

The PwC survey results imply that despite on average receiving over 90% shareholder support for Say on Pay, most companies and their boards could do better in building investor confidence about corporate governance.

Other interesting findings:

- Investors had no consistent opinion about what if anything has changed about compensation since Say on Pay; the leading vote-getter was “no change” (20% of respondents).
- Investors set a high bar for when a board should respond to voting results. Over two-thirds of investors set minimum thresholds of 70% support or higher for when boards should worry about Say on Pay results, and the majority of investors thought companies needed at least 75% support or higher to feel good about director elections.
- Investors ranked consultants as having the most influence on board decisions about executive compensation, higher than CEOs or investors.

Viewed cynically, many investors don’t think boards have changed anything about executive pay in the past few years, they think boards should make big changes if they get even small degrees of voting opposition, and they think boards just do what their consultants tell them to do.

As detailed in earlier blog posts, energy companies have made meaningful changes to respond to investor concerns. Also apparent is that many large investors seem to have been caught off guard when Say on Pay voting began three years ago. Some have since developed thoughtful standards for evaluating governance; others appear still to be getting their arms around their role and approach. In the meantime, boards should consider how they can dispel these misperceptions about their work. Some ideas that come to mind:

1. **Establish ongoing dialog with top investors** – with the help of the IR function, a board (representative) should have direct dialog with top shareholders. And the early meetings should focus on listening to investor perceptions more than campaigning for the company’s programs.
2. **Educate about the process** – the survey results indicate many investors don’t understand or appreciate the lengthy process and review behind a board’s compensation actions.
3. **Focus on transparency** – in a change from past practice, we think companies should err on the side of transparency in their CD&As about their pay process and outcomes. Companies shouldn’t share information they view as confidential, but they could improve investor perceptions by sharing more and withholding less about how things really work.

A healthy governance environment requires informed investors. Hopefully future surveys will measure better results.