ADVISOR BLOG | MAY 2021

# The Ultimate Checklist: Responding to Weak, But Not Failed, Say-on-Pay Results

ISS and Glass Lewis are the dominant proxy advisory firms. Each has policies covering weak say-on-pay results, and they will review the actions compensation committees take when shareholder response is inadequate. ISS set this threshold at 70% or less say-on-pay shareholder support while Glass Lewis has an 80% threshold. Their policies are similar, and they expect committees to demonstrate the actions taken to raise shareholder support.

It's easy for compensation committees to take lower shareholder support lightly. A committee might ask if there really is a problem if we didn't fail say-on-pay, or a committee might conclude the results were an anomaly due to one-time unusual pay actions. But this line of thinking can backfire and result in meaningful say-on-pay opposition from shareholders in the subsequent year. Compensation committees should attack weak say-on-pay results with the same gusto, thoughtfulness, and resources needed to address a failed say-on-pay outcome. Why? Unintended, subpar say-on-pay results will bring increased shareholder and proxy advisory firm scrutiny in the subsequent year, potentially resulting in failing say-on-pay with a board and management team on edge scrambling to address the issues. It is simply not worth the agony the board and management team will realize when ignoring weak shareholder support.

Committees can effectively deal with weak shareholder support. These steps will demonstrate considerable committee responsiveness and address soft shareholder support:

- **Establish the Dream Team**: The compensation committee chair, CHRO, and head of investor relations is the team that can most effectively interact with institutional shareholders and proxy advisory firms. The committee chair can speak to executive compensation philosophy and how the program supports the company's long-term strategy. The CHRO is the executive compensation program expert, and the head of investor relations will ensure consistent shareholder communications.
- **Communicate to the Full Board**: The board must understand the intensity of the outreach process and the reason for this approach. It is equally essential to achieve board buy-in and allow the board to ask questions and provide feedback. You want to ensure the board demeanor remains calm and committed, and you want to keep the board briefed during the process.
- **Develop Your Deck and Seek Feedback**: Keep your shareholder presentation to ten slides. That is all you need to discuss background issues, the evolution of your executive compensation program, your interactions with institutional shareholders, and request feedback.
- **Meet with Institutional Shareholders Representing at Least 50% of the Combined Votes**: Shareholders and proxy advisory firms will view this level of interaction to be meaningful and responsive. Before setting up the meetings or calls, develop a chart showing the major institutional investors, the number of shares they own, the proxy advisory firms they follow, and a three-year history of voting results covering each

company. During the meetings with shareholders, you will find some feedback will be too general to be helpful. Press for detailed responses.

- **Meet with ISS and Glass Lewis**: The proxy advisory firms will not react to any program changes the committee may consider, but they may provide helpful directional feedback. Also, meeting with these firms shows committee responsiveness.
- **Don't Cave**: It may be tempting to agree to all requested changes to put this issue to bed. Don't go down this path. If a plan design feature is critical, such as the metrics used in the incentive plans, stick to your guns. The committee and management team know more about linking metrics to long-term strategy than shareholders and proxy advisory firms. In this example, disclose shareholders comments and explain why the committee decided not to make these changes.
- **Swing at the Soft Pitches**: The committee and management team should work together to consider changes. Some of these modifications may be controversial and take time to resolve, so give yourself at least six months to analyze and evaluate significant plan design changes. You will receive feedback that you may not consider material such as updating your hedging/pledging policies or your stock ownership guidelines. In most cases, these changes may be relatively simple to make. Take advantage of these softballs and agree to policy modifications. It further demonstrates committee responsiveness.
- **Polish Up Your Prose:** You are at the end of the process, and you are starting to draft the CD&A. Make every attempt to write with clarity. Use plain English, avoid all legalese, and write a killer executive summary that includes ample charts and graphs. Simplicity also helps. Be sure to state upfront the shareholder feedback you received and the changes you made based on this feedback. Where you disagree with the input, include a compelling explanation.

Not only do I find this process effective, but the committee and management team will develop a more transparent and trusting line of communications with shareholders—a side benefit of considerable value.

## About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.