SHAREHOLDER COMMUNICATION

Five Guiding Principles for Better Shareholder Communication

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Whoever coined the phrase "There's no such thing as bad publicity" never had his or her company's less-than-stellar say-on-pay vote or executive pay practices featured on the pages of the *Wall Street Journal*. Seeing your CEO's name in an unflattering headline about income inequality is not how you want to start your day. Let's face it, in light of today's debates about pay disparity and executive greed, media scrutiny is relentless. Yes, executive pay has gone mainstream.

With investors, proxy advisers, employees, and the media now experts at tracking executive pay issues, trends show that CD&As have emerged as the most important tool in the shareholder communication toolbox. In fact, in PM&P's recent survey, Looking Ahead to Executive Pay Practices in 2014, almost 70% of the public companies surveyed have tried to make their CD&As more reader friendly by adding executive summaries. But that is not enough.

Shareholders are demanding a regular dialogue about executive pay—and not just with the CEO and management, but with those directly accountable for making pay decisions. That means directors must do a better job of explaining the rationale for pay decisions in their proxy statements and beyond. Being on the periphery of how their companies describe the designs and outcomes of pay programs is no longer optional.

According to the PM&P survey, over 50% of respondents indicated it is a struggle preparing for say on pay and conducting shareholder outreach beyond required disclosures. Not only does management need to craft the narrative for the CD&A, but directors also need to have a strategy to communicate with key constituents year-round. This makes it critical to have a carefully planned, consistent set of key messages about your executive pay program.

While there is no surefire way to ensure your program is going to please everyone, there are some battle-tested guiding principles for developing clear and meaningful communication that can mitigate potentially negative noise—regardless of the format used:

1. Link business and leadership strategy to pay philosophy. Boilerplate doesn't work. People are invested in your organization and are rooting for the leadership team to drive results. If the leadership team is doing its job well, then presumably their work is paying off for shareholders. People need help to make the connections between what the business strategy is, why the leadership team is critical to executing on the strategy, and how the executive pay program supports these fundamental business imperatives.

2. Highlight performance results and resulting pay outcomes. While total shareholder return (TSR) is one of the most meaningful measures of performance success to shareholders, it alone will not sell your story. Companies need to be clear about the metrics or strategic initiatives on which executives are focused and held accountable and that are expected to drive shareholder value. People want to be clear on the milestones achieved and how those achievements were considered in making any pay decisions.

3. Be transparent about responses to shareholder feedback. Everyone likes to be heard—especially unhappy investors. Take the time to prioritize and outline key feedback themes and have responses for each. Even if some themes are not addressed in a way that makes everyone happy, those people still deserve a clear explanation for the actions taken (or not) and why.

4. Agree that clarity trumps pride of authorship. Have a referee. Companies have a myriad of internal constituents involved in crafting messages to shareholders (e.g., legal, human resources, corporate communications), which contributes to complexity. Having an objective party help facilitate discussions about key messages and navigate through language viewed as sacred cows can help make the drafting process more efficient and simplify your key messages.

5. Strike a balance between compliance and marketing. Come to terms with your audiences' changing expectations. While they know you are required to cover a standard checklist of issues, they do not want to be mired in technical and legal jargon. So while it's critical to dot your i's and cross your t's, you also need to make sure people grasp what you mean and how what you are saying reflects your broader business and leadership strategies. Do not underestimate the extra credit you get for making things easier for your stakeholders to understand.

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