A Checklist for Navigating Proxy Season 2018

Whenever proxy season rolls around, it's easy to get caught up in the minutia of new policies and methodologies, but don't neglect the big picture in the process. This checklist will help.

Evaluate How Investor Voting Policies Impact Your Business

Reexamine who your biggest investors are and take time to understand how their proxy voting polices might impact your business, paying particular attention to any policies that changed in the past year. Additionally, assess the degree to which your investors consider recommendations from proxy advisory firms Institutional Shareholder Services (ISS) and Glass Lewis, both of which recently released updated 2018 voting policies of their own. Finally, as an added twist, we recommend following the Investor Stewardship Group, a new but highly influential assembly of large institutional investors calling on companies to better explain their governance practices in 2018 via disclosures and improved shareholder engagement. In sum, make sure you know what your investors are looking for.

Make Your Compensation Disclosures a Strategic Tool

A growing number of companies understand the value of using proxy disclosures as a shareholder engagement tool, but there is still ample room for improvement. This is particularly true at small and mid-size companies with fewer internal resources. To get started, think about the issues and themes most likely to resonate with your investors and other key stakeholders (remember, the media, analysts and employees are all listening, too). For example, are you telling a growth story, an innovation story, or a story of exceptional performance benefiting both employees and shareholders? And how might these themes color your compensation narrative? You must also pay close attention to your first-ever CEO pay ratio disclosure, which is sure to spark intense interest among employees, investors and the media no matter the result.

Know When Enhanced Engagement is Necessary

If any of your compensation and governance programs conflict with investor policies, direct engagement with shareholders (beyond the proxy) may be warranted. In these cases, you'll want to do your homework on how their policies have evolved over time and their past voting histories. This information will help you determine who from your organization should engage (executives vs. board members) and how they should engage (in person, telephonically or in writing). Furthermore, if your company is the target of a letter writing campaign by a major shareholder, don't ignore it and hope for the best. Address the letter head-on via a two-way discussion. If you believe in the efficacy of your policies, its best to explain your thinking directly, rather than allowing outsiders to speculate on your intent.

Be Ready to Modify Your Compensation Programs

It's always a good idea to enter proxy season with some solid scenario planning in place. Are there policies your board and business leaders might be willing to introduce to address potential shareholder concerns? For example, risk-mitigating measures like ownership guidelines and claw back polices are fairly easy to create and usually don't have a direct impact on pay levels and structure. On the flip-side, are there compensation programs so integral to *your* current business strategy that you plan to hold firm no matter what shareholders might say? Of course, no action should be taken lightly, which is why some advanced thinking and dialogue with your leadership team is helpful.

We're here to empower results

If you have questions about our proxy season checklist, write to our governance and executive compensation teams at consulting@radford.com.

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