Taking Control of Your Company's Executive Compensation Narrative

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Proxy Season 2015 is Already on the Horizon

Now that Institutional Shareholder Services ("ISS") has launched its 2015 policy survey, it means another year of CD&A disclosures, CEO pay-for-performance assessments and shareholder Say-on-Pay votes is just around the corner. This realization prompted us to reflect back on one of the key lessons we learned during our lively "*Executive Compensation in a New Era of Governance*" panel at Radford IMPACT 14—namely that effective *external communication* is vital to executive compensation plan success.

That might be hard to fathom in a world often dominated by complex legalese, but now is unquestionably the right time to mix a little public relations and marketing strategy into the worlds of disclosure, executive pay and corporate governance. For many companies, this is an understandably scary thought. Yet, in reality, it's increasingly the safest way to travel in a rocky compensation governance landscape.

To be clear, we're not advocating for companies to open up the flood gates and share all of their best-kept boardroom secrets. Rather, it's a matter of stealing a few pages from the public relations handbook to mold the conversation around how your company manages executive pay and sets governance policies. It's about doing all you can to take control of a conversation that will happen with or without you.

Break-Down Your Internal Silos

To begin the process of controlling your 2015 executive compensation narrative, you should start by breaking-down functional silos within your organization. For example, take the oft-discussed topic of CEO pay-for-performance. Your human resources department understands how your bonus plans and performance shares work on a technical level, but why should they face the challenge of articulating how these programs make strategic sense for your long-term growth alone? More importantly, does your human resources team have all of the resources they need, namely time and established external communications channels, to share your message with *all* of the right audiences? By combining forces across multiple departments, the messages emanating from your human resources and compensation teams will only get stronger.

Building on the skill sets that your human resources and compensation teams do best – keeping track of emerging best practices, implementing and administering pay programs, and educating the business on changing policies – allow other departments to team-up with human resources to complete the external communications cycle. Rely on your investor relations group to identify key points of contact in the governance community and to place a Wall Street-facing point of view on the conversation. Count on your public relations and marketing teams to fine-tune messages around performance and long-term vision, and to align your discussion of executive pay to broader corporate messages and goals. Also, loop-in your legal team at the start of the process so they can ensure compliance as external messages are developed, rather than after the fact. By leveraging the collective wisdom of these groups, it's far more likely you'll accurately and effectively communicate the critical thinking behind your pay decisions.

Understand Your Constituents

Building on this point, set aside time to truly understand your executive compensation constituency. This group could include, but is not limited to, institutional shareholders, retail investors, your employees, proxy advisory firms, proxy solicitors and the media. Who are the people within these groups who matter most to your company and your next Say-on-Pay vote? Do you have a plan to reach out to them early and often between now and next proxy season?

For instance, we hear time and time again from institutional shareholders, like **Aeisha Mastagni** who represented CalSTRS on our Radford IMPACT 14 panel, that their doors are open, and that they are ready and willing to listen to companies. Take them at their word. Build a list of your 10 to 20 largest institutional shareholders and systematically create dialogues with them before, during and after proxy voting season. You'll have a much better chance of effectively sharing your story, particularly when it comes to complex issues like pay-for-performance, long-term strategy and any governance practices you consider important in the face of changing sentiment. Most importantly, don't wait until issues flare up to begin the conversation. Be proactive, have a plan for what you want to say and establish relationships before any significant problems arise.

Treat Your CD&A as an Opportunity, Not a Hurdle

Next, treat the creation of your forthcoming Compensation Discussion and Analysis (CD&A) report as a marketing opportunity rather than an onerous compliance hurdle. While it probably still makes sense to have legal counsel oversee the effort, opening up the CD&A drafting process to include groups beyond human resources, finance and legal is increasingly important.

These days, CD&A reports at large companies can easily exceed 30 pages in length and are reviewed by large and influential audiences, ranging from Wall Street analysts to top journalists. As such, many reports – filled to the brim with boilerplate language recycled from year-to-year – are wasted opportunities. Think about your end readers and the key messages you'd most like them to walk away with. Highlight the progress you're making to improve governance policies, talk about big wins for your overall business and don't shy away from the steps you're taking to prudently address shareholder concerns.

With this in mind, we increasingly counsel clients to consider a more proactive approach to disclosure, including discussions covering corporate performance highlights, graphical displays of the link between pay-and-performance, detailed comparisons of the real differences between reported compensation and realized or realizable pay, and any actions taken in light of Say-on-Pay voting results. In sum, don't side-step an excellent chance to explain your side of the narrative.

Fellow panelists, **Robert McCormick** of Glass Lewis and **Chris Wightman** of CamberView Partners, would agree. Respectively, they counseled companies to “embrace their uniqueness” and to “explain why they are different and how their approach to pay reflects that.”

Naturally, significant risks can accompany new, expanded or voluntary disclosures. These risks should be considered carefully. Still, we believe the market is near a tipping point for many of the disclosure areas cited above. Someday soon, the risks of staying mum on the sidelines could be more significant than jumping into the fray.

Prepare for a Crisis

Finally, prepare a crisis communications strategy. Create a game plan for scenarios where your performance falters or a key proxy advisory firm publishes a negative report on your pay policies. When faced with any number of adverse situations, how will you identify and reach out to critical stakeholders? How might you alter forthcoming public disclosures to address concerns? Who in your organization will call the shots on what issues get escalated to the board of directors? Who will act as your spokesperson? And what policy changes, if any, are you willing to make to placate outside groups?

In addition to identifying key players in a potential crisis communications scenario, be sure to train responders ahead of time. It’s not enough to appoint a compensation policy spokesperson, increasingly the Chairperson of the Compensation Committee; they have to be trained in detail on compensation programs and well-versed in responding to tough questions from shareholders and the media. Again, use a public relations lens to think ahead and don’t wait for problems to come to you.

Leverage Your Collective Strengths

While it may seem like there are more questions than answers at this stage, one point is increasingly clear: Companies should begin to open up their approach to communicating around issues of corporate governance and executive pay by including a more diverse set of voices from within their own organizations. In the process, they will begin to leverage existing capabilities to more effectively communicate their side of the story. Additionally, these organizations will build better external relationships, develop new approaches to explain complex topics like the connection between pay and performance, and ultimately stand a far greater chance of shaping the executive compensation narrative for their company.

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