

# THE SHAREHOLDER FORUM

## Survey of Investor Voting Criteria for Compensation Issues

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As part of its public interest program addressing “[Say on Pay](#),” the Shareholder Forum conducted an independent survey of investors to rank their criteria and information sources for voting on compensation related issues.<sup>1</sup>

Two conclusions are clearly established by the responses reported below, with surprising consistency among the types of funds and professional responsibilities represented:<sup>2</sup>

- ▶ *Most investors want to know what the company’s board has done to define a compensation plan that supports their corporate strategies, rather than whether the compensation conforms with guidelines established by corporate governance experts.*
- ▶ *Investors also want to get both the facts and explanations directly from a company’s management, rather than from firms that are selling governance opinions.*

With equal consistency, the strong preference for company-specific and management-sourced information was coupled with comments recognizing the administrative efficiencies of commercially produced guidelines and recommendations, the lowest ranking source.<sup>3</sup> The cost and value choices available to investors were explained by a survey participant who had ranked proxy adviser guidelines as well as

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<sup>1</sup> The survey was initiated on November 11, 2009. The Forum directly invited its program participants and a list of several thousand professional investor users of research to respond anonymously to a questionnaire, and both the [Council of Institutional Investors](#) and the [New York Society of Security Analysts \(“NYSSA”\)](#) also invited their members to do so. Copies of the invitations and questionnaire are available through these links:

- [Shareholder Forum invitation to its program participants](#)
- [Shareholder Forum invitation to list of professional investors](#)
- [Council of Institutional Investors invitation to its members](#)
- [New York Society of Security Analysts invitation to its members](#)
- [Questionnaire](#)

<sup>2</sup> Comparisons of responses among segments based on size and type of portfolio, nature of responsibility, and sampling source showed no meaningful differences in the general rankings of either criteria or information sources, but did show some notable variations in levels of importance such as a significantly reduced rate of “unimportant” ratings by the sampling of NYSSA members with its higher concentration of professional analysts. (See [Analysis of Responses to 2009 Survey of Investor Voting Criteria – Comparison of NYSSA Members with Other Participants](#).)

<sup>3</sup> For copies of all respondent comments, see [2009 Shareholder Forum Survey of Investor Voting Criteria: Comments of Participants](#).

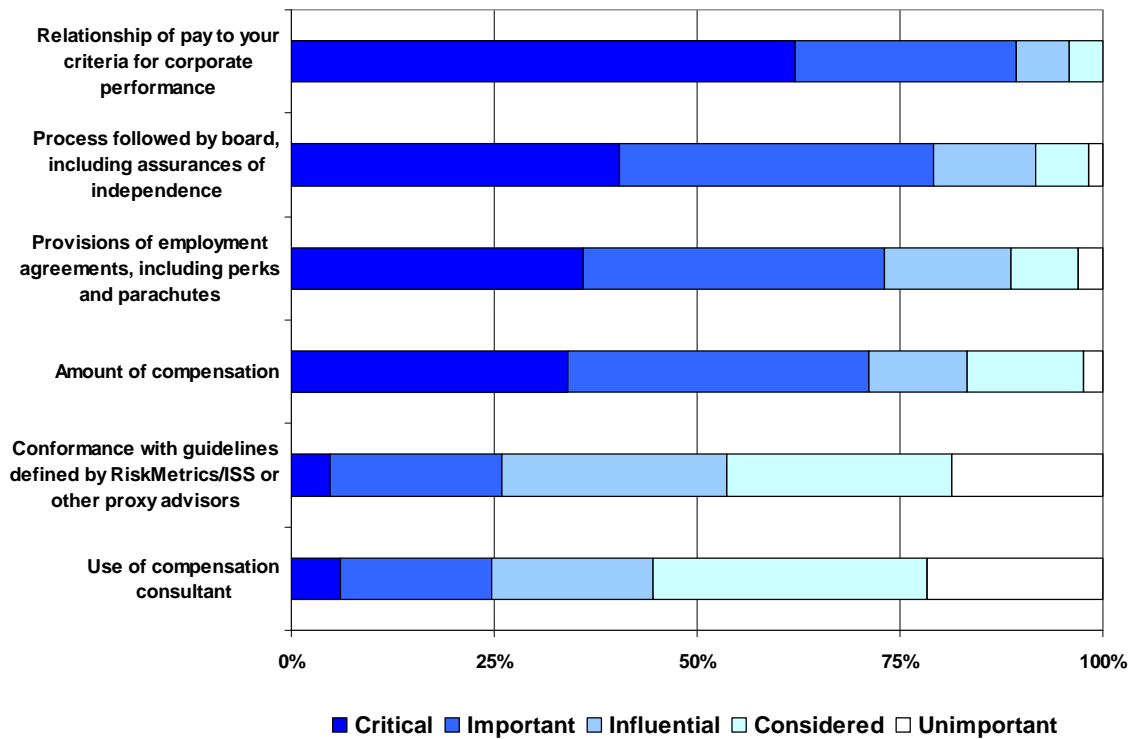
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recommendations “important,” and who reported being responsible for proxy policy and voting decisions (not investment decisions) at a pension fund with over 1,000 companies in a portfolio of between \$10 and \$100 billion:

“There is a big difference between the ‘ideal’ considerations and reality. For instance, proxy advisor guidelines should not matter much, but in reality, they will be the first indication of whether or not to look further – even if you end up disagreeing with them.”

This compelling evidence of investor demand for both quality and efficiency is the most significant result of the survey. It plainly justifies the development of practical processes to give investors what they want, and will be addressed by the Forum in [continuing projects](#).

### Investor Rankings of Criteria



	<u>Critical or Important</u>	<u>Unimportant</u>
Relationship of pay to your criteria for corporate performance	89%	0%
Process followed by board, including assurances of independence	79%	2%
Provisions of employment agreements, including perks and parachutes	73%	3%
Amount of compensation	71%	2%
Conformance with guidelines defined by RiskMetrics/ISS or other proxy advisors	26%	19%
Use of compensation consultant	25%	22%

The first question presented to survey participants asked them to rate the importance of various criteria in their consideration of a vote to approve a company’s executive compensation.<sup>4</sup> As shown in the graph and chart above, the most remarkable observation is the strikingly low value investors attributed to the guidelines that are widely believed to influence a significant portion of institutionally managed voting.

Explanations of “other” voting criteria offered in comments to this question included the following:

<sup>4</sup> The question was stated as follows: “If you are asked to vote for shareholder approval of executive compensation for your portfolio companies, how important would you consider each of the following?”

“Compensation is aligned with the company’s strategy.” – reported voting responsibilities for between 25 and 100 companies in a fund between \$10 and \$100 billion

“Strategic rationale for pay decisions and clear articulation of the links between pay incentives, specific performance measures and the achievement of strategic goals (both short and long-term),” – *reported responsibilities for between 100 and 250 companies in a fund between \$1 and \$10 billion*

“Fair balance of treatment between senior mgmt, employees, and shareholders.” – *reported both voting and investment responsibilities for between 25 and 100 companies in a fund between \$1 and \$10 billion*

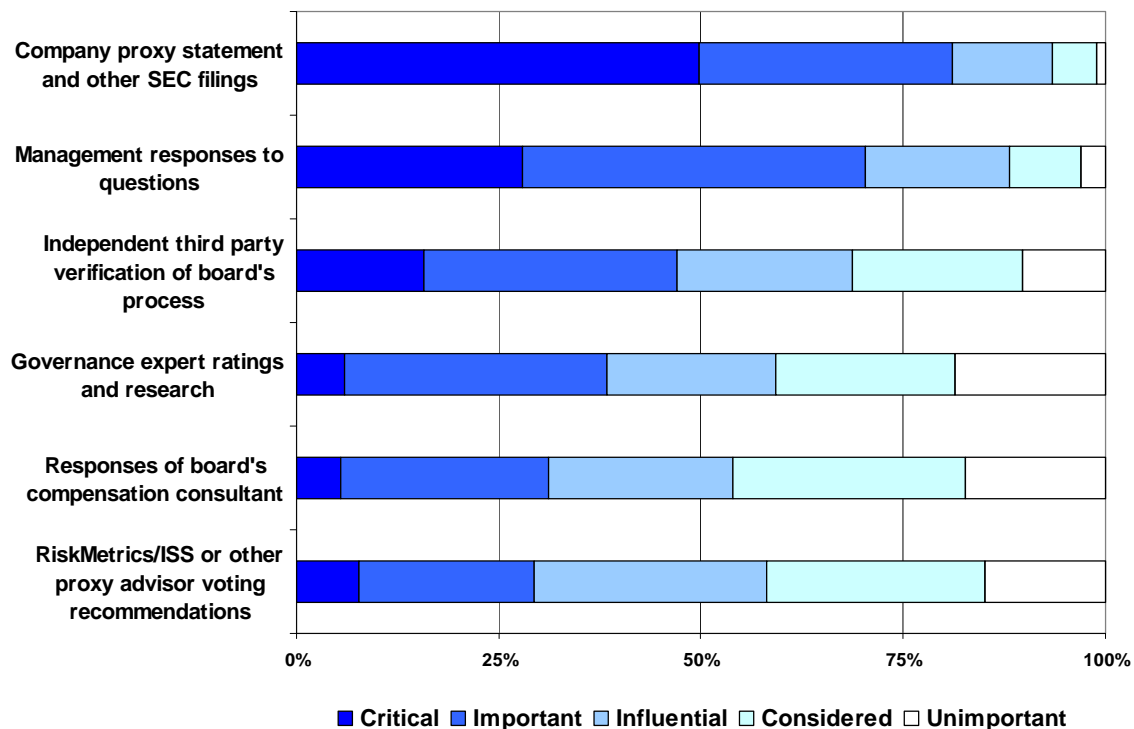
“Relationship of pay to long-term performance criteria, including the management of extra-financial factors.” – *reported voting responsibilities for between 250 and 1,000 companies in a fund between \$1 and \$10 billion*

“A clear statement of the remuneration strategy or philosophy and how this board has chosen to make its decisions. This should be unique for each board. I’m not a great believer in ‘one size fits all’ regulations or guidelines. I want to see informed and involved boards making their own decisions based on a proper process that suits their company.” – *reported response as an individual<sup>5</sup> with fewer than 25 companies in a fund of less than \$100 million*

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<sup>5</sup> Note that some participants stated that they had reported their response as “individual” since they were offering their own views rather than those of an employer.

### Investor Rankings of Information Sources



	<b>Critical or Important</b>	<b>Unimportant</b>
Company proxy statement and other SEC filings	<b>81%</b>	1%
Management responses to questions	<b>70%</b>	3%
Independent third party verification of board's process	<b>47%</b>	10%
Governance expert ratings and research	<b>38%</b>	19%
Responses of board's compensation consultant	<b>31%</b>	17%
RiskMetrics/ISS or other proxy advisor voting recommendations	<b>29%</b>	15%

The second question asked participants to rate their expected reliance on various sources of information for voting decisions,<sup>6</sup> with results showing a similarly remarkable difference between the high rankings of direct corporate sources and the low rankings of the commercial reports, even though most institutional investors subscribe to and apparently rely upon the commercial reports. It is notable in this context that the concept of a third party “verification” source, suggesting only objective review rather than analysis and opinion, ranked significantly higher than the third party sources of opinion-based reports.

<sup>6</sup> The question was stated as follows: “How much would you expect to rely on each of the following sources of information for your voting decisions?”

These are examples of “other” information sources suggested in comments:

“Management ...proposal of their long term goals and year by year target. Third party verify the process.” – *reported responsibilities for between 25 and 100 companies in a fund between \$10 and \$100 billion*

“Any information from the board of directors is extremely important. This may come in meetings (e.g., Pfizer’s meeting with institutional investors) or the compensation committee’s report. ...See TIAA-CREF’s 10 Questions to be answered in CD&As.” – *reported responsibilities for between 100 and 250 companies in a fund between \$1 and \$10 billion*

“Reports on nonfinancial metrics including corporate citizenship performances, environmental performances, carbon audit results, etc.” – *reported response as an individual with fewer than 25 companies in a fund of less than \$100 million*

“You forgot the press ...and whatever investigations / comparisons, comments they may make. More often than not, they are ‘ahead of the curve’ here...and give us the real poop.” – *reported response as an individual with fewer than 25 companies in a fund of less than \$100 million*

### **Respondent Comments on Information Needs**

Responses to a third question inviting comments on what information is needed for voting on compensation<sup>7</sup> reflected a range of concerns about the challenges of managing the process as well as questions about the merits of shareholder voting to approve compensation. Constructive suggestions relating to the stated purpose of the survey included the following:

“Companies need to provide useful disclosure and not complain that proxy advisers are misinterpreting their opaque confusing statements. Companies need to own their responsibility to clearly and concisely disclose compensation to shareholders.” – *reported voting responsibilities for over 1,000 companies in a fund of more than \$100 billion*

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<sup>7</sup> The question was stated as follows: “If you have any comments on what information is needed to support effective investor voting on executive compensation, please tell us here.”

“Clear disclosure from the Company as well as experience in voting in the markets so that there is a build up of knowledge on individual companies. Comparison to other company data is also helpful. History of any issues raised with the Company would also be beneficial so that a vote in any one year is not taken in isolation.” – *reported voting responsibilities for over 1,000 companies in a fund between \$10 and \$100 billion*

“Independently verifiable data to support the ‘measured’ performance, with a clear understanding of the time horizon chosen to measure, and a set of terms and conditions that minimize asymmetric games.” – *reported both investment and voting responsibilities for fewer than 25 companies in a fund of between \$100 million and \$1 billion*

“Investors need to have this info tightly summarized and ‘bulletized’. We do NOT have time to analyse 20+ page disclosure docs!” – *reported response as an individual with fewer than 25 companies in a fund of less than \$100 million*

### **Projects to Satisfy Information Requirements**

The responses to this survey have told us what investors want. What we must do now is learn more about the specific requirements so that corporate managers can deliver it.

The Forum is currently developing project plans to support this objective:

- Second phase survey – Another survey will be conducted in January to get a more detailed definition of the information investors need for their voting decisions.
- Corporate participation in survey – A limited number of companies will be invited to include samplings of their own shareholders in the January survey so that they can analyze and more effectively respond to their particular interests.
- Ten Questions – The survey project will be closely coordinated with the “Ten Questions” workshop project initiated a year ago to encourage adaptations of the TIAA-CREF list for standardized investor and corporate use.

Your interest in any of these projects will be welcomed.

In concluding this report, I want to thank all the survey participants who offered their views, as well as the Council of Institutional Investors and New York Society of

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Security Analysts for inviting their members to contribute views, and I am especially grateful to the members of the Program Panel and other Forum participants who contributed their time and expertise to guide this project.

*GL – December 14, 2009*

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