

What Matters Most to Investors?



Benjamin D. Panter | Friday, February 27, 2015

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A recent [study](#) that surveyed institutional investors to understand how these investors use information in corporate proxy statements, highlights the need for companies to tailor disclosures to shareholders, rather than focus solely on meeting regulatory requirements.

As a general matter, institutional investors agreed that proxy statements were unclear and ineffective at disclosing the reasons behind decisions, particularly with respect to executive compensation. Specifically, the study revealed the following:

- Investors are dissatisfied with the quality and clarity of compensation disclosures;
- Proxies are too long and difficult to navigate;
- Proxies are less frequently used for investment decisions; and
- Say-on-Pay votes do not seemingly have a significant impact on influencing pay practices.

In light of these findings, it is important to understand that the SEC rules provide a framework for disclosures, but should not act as a barrier for a company to connect with its shareholders. While the rules covering the CD&A and related tables are intricate and often complex, the SEC has repeatedly stated its focus on concise, plain English disclosures that are of use to shareholders. Thus, by addressing the investor concerns raised by the study, companies are likely to actually enhance their regulatory compliance.

Several of the concerns noted in the study can be addressed through relatively minor modifications to the usual approach to disclosures. For example, the use of charts and graphs in lieu of, rather than in addition

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to, narrative disclosures can provide investors with a sharper image of compensation trends and decisions without swallowing the substance of the disclosures in a sea of words. Illustrative charts can also decrease the length of the proxy statement, leading investors to read a larger percentage of the disclosures and focus on the items disclosed. Issuers should also be mindful that charts can be cost effective in that they can utilize shading and other depictive images to highlight specific disclosure items without the need for words. An example of this approach is shown in the proxy statement for Public Service Enterprise Group Incorporated.

Companies should embrace the idea of the proxy statement summary as a mechanism to improve shareholder engagement in the annual meeting process. Examples of issuers with proxy summaries that provide business highlights as well as summary proxy statement information are General Dynamics Corporation, KeyCorp, and Prudential.

The study underscores the need for companies to regularly revisit their disclosure process and, from time to time, significantly alter the manner in which they prepare their annual proxy statement. While many companies find it efficient to start with the prior year's proxy statement when drafting their disclosures, in the current landscape of investor dissatisfaction, this approach may result in continued investor discontent. Rather, companies should revisit the use of existing practices and constantly seek out innovative and more effective methods to connect with investors.



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