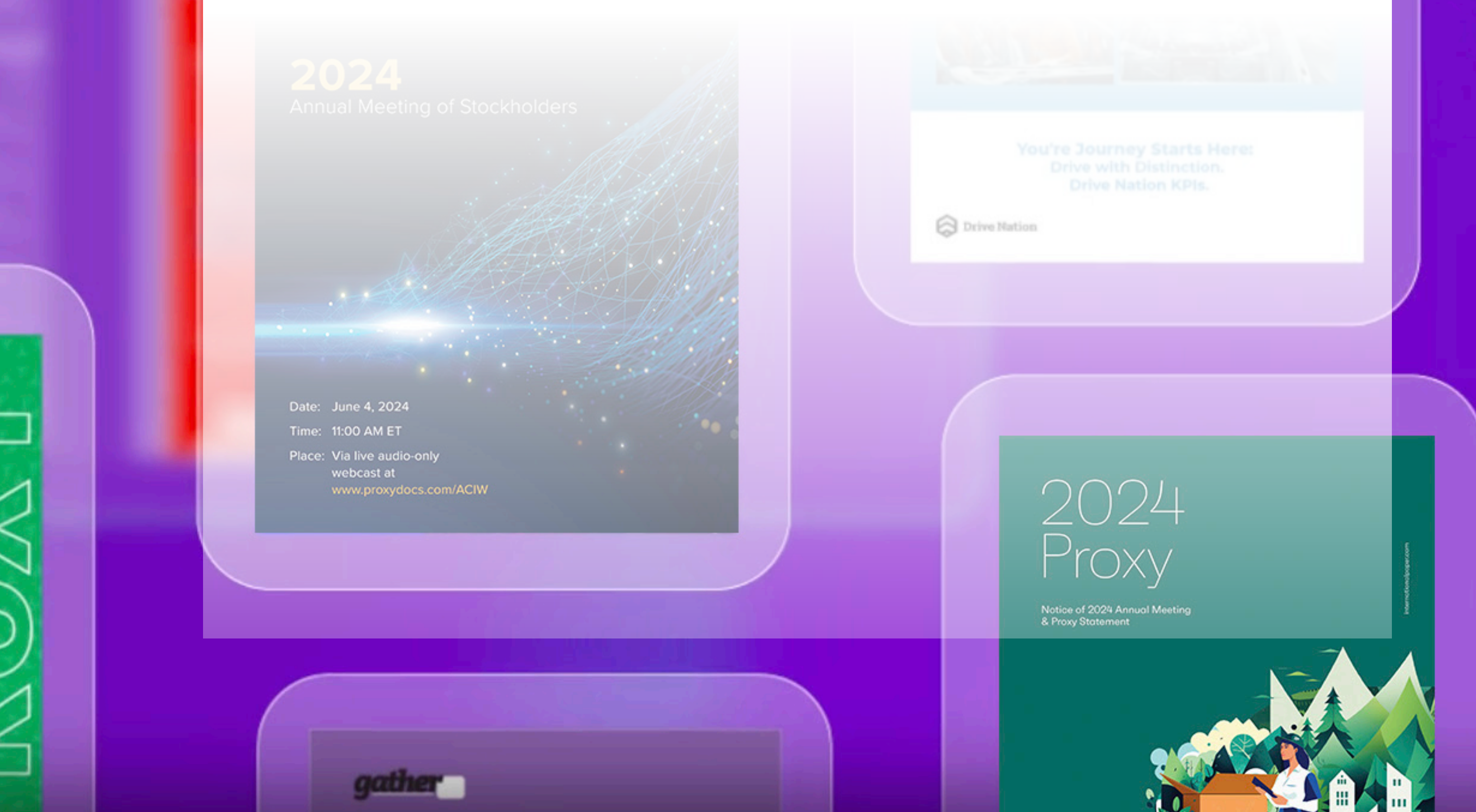
Proxy
by DFIN

WHITE PAPER

Say on Pay

Navigating shareholder expectations in a volatile market



Navigating shareholder expectations in a volatile market

CEOs and executive teams around the world are under scrutiny amid the growing economic instability that has recently been front-page news. This scrutiny isn't the result of typical events, stock pricing or quarterly results; it stems from the combination of macroeconomic volatility, rising geopolitical tensions and the current administration's unpredictable policy moves.

Reporters from trusted U.S. business media outlets have closely followed these policies and reported on their impacts.

- In an April 2025 *New York Times* **article**, reporter Joe Rennison writes that following the unveiling of tariffs on April 2, "...volatility erupted. Wall Street frantically began to grapple with the economic consequences of the new government's policies."
- The article features a quote from Mohamed El-Erian, president of Queens' College at Cambridge University and the former chief executive of Pimco. El-Erian states that **"The U.S. economy has gone from being celebrated for economic exceptionalism to concerns that it is slipping into stagflation or recession. That is a huge change in the paradigm for the world's most important economy."**
- The *Wall Street Journal* reporter Nick Timiraos also shared a view in an April **article**, writing, "The tariff increases pose a significant threat to consumers' inflation-adjusted incomes, potentially pushing the U.S. economy into recession within the year."
- In a recent **article** in *Barrons*, reporter Megan Leonhardt writes, "It is becoming evident that the tariff hikes will be much larger than anticipated. The economic consequences are likely to mirror this trend, resulting in heightened inflation and a slowdown in growth."
- In addition, a recent *Bloomberg* article from May, titled **"The Recession Chatter Is Getting Louder. Watch These Metrics,"** reports that "Economists surveyed by Bloomberg now put the odds of a U.S. recession in the next year at almost 50-50. Americans' views on the economy have soured, and some businesses have reported pausing investments."

While the stock market has recently displayed indications of growth, this alone hasn't been enough to alleviate concerns among shareholders, with many keeping a close eye on boards of directors—particularly compensation committees. **In addition to stock prices, shareholders are looking at executive compensation, which serves as a signal or "grade" of how leadership is performing.** As the lightning rod for business performance, the chief executive receives a large share of the praise when a business performs well and the full sting of investor criticism when it doesn't.

Shareholders assess many factors, including how CEOs manage risk, preserve capital and prioritize long-term value to help determine whether executive compensation aligns with company performance. They get to convey their evaluations through Say on Pay votes. Say on Pay was introduced as part of the Dodd-Frank Act in 2012 in response to rising shareholder frustrations around perceived excessive executive pay. Now, shareholders can cast an advisory (non-binding) vote on a company's executive compensation practices, typically at the company's annual meeting.

When shareholders feel that the CEO's performance is commensurate with the company's performance, the CEO generally will receive a passing Say on Pay vote. However, in a climate like today's, the voting process becomes more nuanced. Assessments no longer rely solely on the traditional criteria with external factors, such as legislative policy, becoming a point of increasing consideration.

This can create a misalignment between CEO compensation and shareholder returns, which has the potential to erode investor trust—even in companies that are otherwise performing well. **As a result, shareholder dissatisfaction with executive pay is likely to spike, especially if compensation packages appear excessive or disconnected from broader economic conditions**— particularly when shareholder returns are declining. This discontent may be reflected in sub-par and even failed Say on Pay votes.

Taking action

When a company receives lower than normal Say on Pay votes—increasingly defined as below 80 percent support—the course of action should never be to turn a blind eye. Most investors and proxy advisors will apply "greater scrutiny" to the next year's proxy for companies receiving below 80 or 75 percent support. While it's true that these votes are non-binding, **poor results do have consequences, including increased investor scrutiny along with questions about the reasons behind the poor result** and how the company will respond to the results of the vote.

Failed or subpar Say on Pay votes often spark pressure from proxy advisors and invite potential activist involvement. If companies fail to respond effectively, these tensions can escalate—sometimes culminating in "withhold" or "against" votes targeting members of the board's compensation committee. At DFIN, we work closely with businesses to implement steps that boost investor confidence and bolster trust. **Here are four proven actions businesses should take to provide clarity and simplicity during the process:**

1. Companies should use their proxy statements to tell a compelling story

Start by focusing on strategic actions and performance. A great place to share this is the company proxy, which provides the opportunity to tell a compelling, investor-focused story. Some key areas to focus on include:

- **How leadership navigated challenges:** Clearly detail some of the key decisions the company had to make.
- **How leadership made difficult decisions:** Don't just share the actions that were taken. Provide shareholders with some of the rationale that led the team to make these decisions and how they are aligned with the company's strategy. Today, more than 90% of large-cap companies include such details which helps build trust. This may not influence proxy advisory quantitative models and vote recommendations, but it will provide investors with the context they need to "get to yes" on the vote.
- **How leadership earned their compensation:** One option here is the Compensation Discussion and Analysis (CD&A), where the business explains the company's executive compensation policies and practices. By reading the CD&A, shareholders can learn why and how the business determined compensation amounts for the CEO and other named executive officers.

2. Direct feedback

It's important that businesses not only encourage shareholders to ask questions but also include guidelines on the best way to communicate directly with the board. Many businesses direct these inquiries to the company's corporate secretary and chief governance officer, who will then ensure that they reach the intended recipient. Of course, investor relations activities may generate extensive feedback from investors relating to company strategy and performance, executive compensation, corporate governance and other areas of investor interest.

It is the board's responsibility to demonstrate that it not only listens to the questions and concerns of its shareholders but also responds to them effectively. **The company proxy should provide direct feedback in the form of anonymized quotes or summary insights from shareholder engagement that demonstrate responsiveness.**

For example, shareholders at one Fortune 500 company voiced their preference for a simpler bonus plan framework and for annual performance plan metrics to measure more than just financial performance with pipeline metrics, which are commonly supported. There was mixed support for ESG metrics, and stockholders voiced support for continued market access expansion.

In response, the business took the following steps which were summarized in the annual proxy:

- The 2024 Annual Bonus Plan continues to go beyond financial performance measurement, including pipeline, health equity and DEI metrics.
- The 2024 Bonus Plan contains a simplified framework linking short-term compensation with performance.
- The 2024 Bonus Plan's ESG goal includes metrics focused on clinical trial diversity, expanding global market access for SMA patients and human capital initiatives.

3. Operating and stock performance

At the heart of any Say on Pay vote is the company's stock performance, and during times like today's, many companies feel the brunt of dissatisfied investors who don't understand that share price is not always an indictment of internal performance. While these numbers cannot be ignored, rather than directly addressing the rollercoaster that has been a stock price over the first and second quarters, reporting on the business's operating and stock price performance relative to industry peers or an index is a sound approach.

Successfully outperforming the index even in a down market will support the case that your company's CEO and management team outperformed others. It will also show that the business has the right leader (with the right compensation structure) to successfully guide the company through this turbulent period and beyond.

4. Company selected peer groups vs. third-party peer groups

Investors and proxy advisors often use third-party peer groups to benchmark executive compensation and ensure their pay practices are competitive and aligned with market standards. However, these groups are often comprised of incomparable companies from unrelated industries with stock performance that is irrelevant to businesses.

It's important to align your business with companies that reflect its industry, size, business model and more. **Encourage investors and proxy advisors to focus on your company-selected peer group, which provides a more accurate, relevant and defensible benchmark when comparing key business metrics** such as executive compensation, financial performance or strategic positioning.

When sharing the company-selected peer group, there are a few options to consider:

- **List the peers and the selection criteria** while also showing where they stand relative to peers on key peer selection criteria, such as market cap, revenues, profitability or other relevant industry metrics.
- **Consider ranking your company alongside peers on these criteria**, including the 25th percentile, median and 75th percentile. It can be helpful to present this information visually by showing where each business stands relative to the high, low and median of peers on these metrics. Regardless of which you select, your business does not have to be at the median of your peers on all metrics, nor should it fall in the bottom quartile across metrics. This positioning will send up red flags and spark shareholder accusations that the company is using "aspirational" peers. Here are some examples from *DFIN's 2025 Guide to Effective Proxies*.

Go on the offensive

While the proxy is the key platform for conveying the information and messages around Say on Pay, some shareholders may demand more frequent, year-round communications.

Engage with top investors post-vote to understand reasons for dissent, address investor concerns and make necessary changes. Subpar (below 80% support) or failed (below 50% support) votes can attract activist investors looking to take advantage of this evidence of shareholder discontent, along with decreasing stock prices. These investors may attempt to force management changes and ultimately create additional corporate governance challenges. Responding quickly can help to preempt these activist actions.

Don't just wait until the voting is complete; be proactive. **At DFIN, we recommend establishing a consistent cadence of communication with shareholders throughout the year.** Start by identifying key shareholders. Then, proactively reach out to each one to gain a better understanding of their perspectives on executive compensation, their voting history and any relevant guidelines. With this information, prepare tailored materials to facilitate meaningful discussions.

Next, present the executive pay information in a straightforward and easy-to-understand manner, using digital platforms, visuals (charts, infographics) and graphs in any communications (including your proxy) to help simplify complex pay structures and make it easier for investors to clearly see the ROI of leadership decisions. As noted earlier, be sure to also disclose the feedback received from shareholders and the specific actions that were taken as a result. Clearly explain the company's rationale for using specific performance metrics in short- and long-term pay programs, ideally indicating their link to the company's overall business strategy.

Real-life turnaround examples

No business wants to receive a poor Say on Pay, but when one does, there are steps companies can take to successfully recover. DFIN has refined a playbook that has helped many businesses do just that. Key elements of the playbook include:

- **Identify who voted against:** Work with your proxy solicitor to determine which investors cast significant “no” votes.
- **Conduct post-meeting engagement:** Reach out to those investors. Many will gladly explain their rationale—they want their concerns heard and addressed.
- **Group feedback into themes:** Categorize investor responses into key concerns (e.g., pay practices, disclosure clarity, misalignment with performance).
- **Brief the C-suite and board:** Share these insights with senior leadership and the compensation committee to drive awareness and accountability.
- **Decide on changes:** Evaluate whether to adjust compensation practices or improve transparency around decisions that may have been misunderstood.
- **Enhance future disclosures:** Work with experts to clearly communicate your engagement process, investor feedback and company response in proxy materials.

Earn confidence with every proxy

By following a well-executed playbook, companies can recover from low votes. However, it's also important to remember that a strong passing vote doesn't safeguard you from future scrutiny. **Make it a priority to conduct ongoing assessments of the situation.** A failure to respond adequately can lead to votes against compensation committee members and turn a passing vote in one year into a failed vote the next. Addressing the vote proactively is not just smart governance, it's essential reputation management.

Ask your team if they have established a proactive, transparent and strategic approach to executive compensation communication that allows you to maintain investor trust and protect long-term value. If the answer is no, you're likely putting the business in a precarious position. Following the guidance provided in this paper is a great way to connect with investors, share your key messages, weigh their concerns and ultimately secure strong voting results year after year.

Let's solidify your proxy. Get started.

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