Using Your Proxy to Tell a Compelling Story

Proxies have come of age as effective communication tools to influence investor perceptions in a positive way.

BY MOLLY DORAN
proxies have become sexy. Once considered just another perfunctory compliance document, proxy statements today are an opportunity for companies to show they are listening to and acting on investor concerns. Beyond satisfying SEC disclosure requirements, companies are using their proxies to clearly explain where they are going and how they are going to get there.

What is our vision and our strategy to achieve it? How do we decide how we will pay top executives? Who sits on our board and why? How do we manage people? What are we doing about climate change and increasing gender equality?

To respond to these and other critical issues, leading companies are spending more time and effort to turn their proxy statements into a vehicle to tell their story and build confidence and trust with investors.

As regulators and investors demand more transparency, corporate messages are attracting the scrutiny of a growing number of audiences. To address these challenges and meet the demands of all stakeholders, corporate investor relations and legal teams are tasked with developing communications that cater to a diverse readership in a way that is both clear and accessible.

An annual review of the top U.S. publicly traded companies’ proxy filings shows the recent changes in how companies are approaching corporate disclosure and how they have evolved to provide greater transparency for readers. There has been significant progress in the topics being addressed, the depth of detail provided, and the design and structure of reports to ensure clarity.

Let’s explore some best practices for creating an impactful, reader-centric proxy statement that addresses stakeholder expectations.

**Using Structure for Simplified Reading**
Labrador’s 2019 proxy trend report found that the proxy statements of the S&P 250 companies averaged 86 pages in length, up three pages from 2018. With investors pressed for time, it is crucial to have a well-structured document that allows them to quickly locate the information they need and digest the content.

**Document Cover Design**
The cover is the most important page of the proxy statement, as it is the first thing the reader sees. It is the earliest opportunity to present brand identity or allow company leadership to engage with readers. It is also good practice to utilize the inside of the front cover instead of leaving it blank. Design this space to effectively offer an easy-to-find table of contents or highlight the company mission and values. Out of the top S&P 250 companies, 13 percent capitalized on this space in 2019.

Companies are also increasing the inclusion of a designed back cover to their proxy that notes important information, including directions to the annual meeting, sustainability highlights, or links to additional publications.
**Summaries**

In 2013, only 36 percent of companies included a proxy summary. That number has grown over the years to 73 percent, which reflects a significant commitment to providing more understandable and transparent proxies, as well as supporting readers who prefer to skim the document.

A well-thought-out summary should focus on the key information a company wants readers to retain without providing too much detail. To minimize unnecessary details in this short section, companies can include page references where additional information is available, when appropriate. The summary should highlight major themes and notable company updates such as changes to the compensation program, governance practices, or the board. For example, Delta Air Lines, Inc. highlighted environmental, social and governance (ESG) sustainability issues within its 2019 proxy statement summary (see sample in this article).

It is also good practice to include company background and corporate strategy details in the summary, as not all investors have a strong understanding of the overall company. This information can outline how and why the company was founded, how and why board members were chosen, and how the compensation program is aligned with company performance.

**Letters from Leadership**

Whether on the cover page or near the front of the document, positioning a letter here from company leadership is an easy way to engage shareholders on specific topics of relevance for the year and sets the tone for all information thereafter. Of the companies reviewed in the 2019 proxy study, 39 percent included a letter with substantive information from the chairman or CEO as an easy way to connect with readers and update them on company performance and news.

**Headers & Footers**

While providing identifiers at the top or bottom of a page may not seem relevant to the structure of a proxy, identifiers’ impact for readers can be significant. Having details to show what they are reading and where they are in the document can limit confusion and help the reader to better navigate the document.

**Using Graphics to Highlight Key Information**

It has become a standard best practice to add visual elements to proxy statements, including the use of graphics, charts, and images. Again, readers often lack time to thoroughly review lengthy documents, and graphics are essential for helping them to easily locate the information and metrics they need.

As the interests and demands of investors evolve, so will the number and types of required graphic information. In the Labrador 2019 proxy study, four key areas revealed increased use of visual support:

- Board breakdown and accountability
- Compensation
- ESG issues
- Human capital management (HCM)

The rise in graphic usage for these areas reflects the heightened investor scrutiny of these topics in recent years.

**Corporate Governance**

To address increased public interest in board makeup and responsibilities, companies are providing additional details in their disclosure and often rely on graphics to make the information digestible and easy to locate.

- **Board photos.** Of the S&P 250 companies reviewed in the 2019 proxy study, 87 percent included director photos in their document. This is a simple yet effective way to make a document more attractive while also wordlessly highlighting diversity.
- **Diversity.** The SEC now requires disclosure of how diversity factors into the board nomination process. Companies with a diverse board composition should look to highlight this information with graphics. The 2019 proxy study found that 34 percent of companies included a graphic highlighting age diversity on their board (up from 20 percent in 2018), and 50 percent of companies added a visual noting
gender diversity (up from 41 percent in 2018).

- **Meeting attendance.** Companies are required to disclose the number of board members attending at least 75 percent of board meetings. The 2019 proxy study found that 36 percent of companies, including Caterpillar Inc., through the use of a chart (see chart in this article), went beyond disclosure requirements by providing a visual showing the exact meeting attendance for each board member. Going beyond disclosure requirements to offer a precise figure grants better transparency and inspires investor trust.

**Compensation**

The CD&A section is the most read portion of the proxy statement. To maintain stakeholder confidence, companies need to make sure they are explaining the structure and philosophy of their compensation system completely, attractively and truthfully. Using graphics and different colors in this section helps readers to determine the hierarchy of relevant information and understand the big picture quickly. In 2019, the following nine S&P 250 companies broke down compensation in cash versus stock: Accenture, BlackRock, Coca-Cola, Cognizant Technologies, CVS Health, Goldman Sachs, PepsiCo, UPS, and Zoetis. However, this number should start to grow as companies work to improve how they present pay mix structure and reasoning.

**ESG and HCM Reporting**

ESG issues have become increasingly important to stakeholders. Greater use of graphics related to sustainability, as well as the increase in standalone sustainability reports likely reflects this interest. The 2019 proxy study found that 25 percent of companies currently include graphics in the ESG section of their proxy, a significant increase from 6 percent in 2018.

While currently unregulated, disclosure of HCM is of growing interest to investors as they look to corporations to help address societal concerns. Only 81 companies in the top S&P 250 addressed HCM in their 2019 proxies. However, this topic is expected to grow in interest in 2020 as workforce diversity, gender pay equity, and employee retention continue to be major topics in the national conversation.

**Going Forward**

As we move into a new decade, proxy statements will continue to grow in length as investors demand disclosure on a widening range of topics. As the proxy increases in size, companies will need to strive to be innovative in addressing new demands through the use of visuals and strategic organization, making their disclosure more reader-centric and accessible to all. The more transparent the disclosure, the greater its ability to inspire trust.

---

Molly Doran is director of advisory and design services at Labrador. She is a frequent speaker at conferences and events held by the Society for Corporate Governance, the National Association of Stock Plan Professionals, and NIRI. doran.m@labrador-company.com