Vanguard Investment Stewardship Insights

Voting insights: Executive compensation at Disney

Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

March 2021

Company: The Walt Disney Company (Disney)

Meeting date: March 9, 2021

Proposal: Item 3—Consideration of an advisory vote to approve executive compensation.

How the funds voted

At Disney's annual meeting, the company put forth a nonbinding management proposal seeking approval of the compensation of Disney's named executive officers. The Vanguard funds voted in favor of the proposal, which passed with 69% support.

Vanguard's principles and policies

Vanguard believes that performance-linked compensation policies and practices are fundamental drivers of sustainable, long-term value creation. On behalf of the Vanguard funds, our Investment Stewardship team evaluates executive compensation proposals case by case and looks for pay plans that incentivize long-term outperformance versus peers. When shareholders do well, so should executives. When companies underperform, however, executives' pay should move in the same direction.

Analysis and voting rationale

Vanguard has engaged with Disney each year since 2012. We have discussed a wide range of governance matters, including executive compensation practices; succession planning; and other environmental, social, and governance (ESG) topics. Levels of shareholder support for Disney's executive compensation proposals have been low in recent years, with 54% support in 2020, 56% in 2019, and 44% in 2018. The Vanguard funds voted against Disney's compensation plan in 2018 to express concern about the then-CEO's level of compensation relative to peers and its lack of a compelling link to shareholder returns compared with Disney's competitors. The funds supported Disney's compensation proposals in subsequent years after the compensation committee showed responsiveness to shareholder feedback.

Ahead of Disney's 2021 annual meeting, Vanguard engaged with both the board's lead independent director and a member of the compensation committee. We discussed the board's continued involvement in executive officer succession planning; we also discussed how the compensation committee adjusted the pay plan during the COVID-19 pandemic and responded to the prior years' low levels of shareholder support for compensation proposals.

Our Investment Stewardship team considered many factors in evaluating Disney's latest compensation proposal. We found the structure and overall amount (or quantum) of the new CEO's compensation plan to be responsive to shareholder feedback and better aligned with shareholder interests. The plan's target compensation was lower, at the 25th percentile of that of peer-company comparable executives. Our analysis also showed that Disney's misalignment between pay and performance compared with peer firms was largely driven by the compensation paid to its former CEO, and now chairman, whose contract with the company concludes at the end of 2021.

In addition, the compensation committee made a series of decisions in response to the pandemic that considered shareholders' best interests and ensured that pay adequately reflected the negative impacts to the business. We viewed the reduction in base salaries and bonuses for the named executive officers to be an appropriate step in aligning executive compensation with shareholders' experiences during the pandemic.

After considering the new CEO's pay-and-performance alignment, the board's commitment to engage with shareholders and ensure continued attention to this matter, and the adjustments made in response to the pandemic, we determined that the board's approach over 2020 appropriately represented shareholders' interests and supported sufficiently strong performance over a difficult year.

What we expect from companies on this matter

We expect companies to structure executive compensation programs in a way that incentivizes executives to think about their company's long-term success. Any significant decisions that are made regarding these compensation programs should be paired with substantial disclosure of the compensation committee's rationale, alongside any alternatives considered, to ensure that investors understand the process behind the decisions.

Disclosure should also reflect a commitment and responsiveness to shareholder feedback, especially where previous compensation proposals drew low levels of shareholder support. With a structural focus on long-term goals and metrics, a company can better align its executive pay with its performance relative to peers.