Vanguard Investment Stewardship Insights

Voting insights: Executive compensation at Aramark

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.

February 2021

Company: Aramark

Meeting date: February 2, 2021

Proposal: Item 3—Advisory Vote to Ratify Named Executive Officers' Compensation

How the funds voted

At Aramark's annual general meeting, the Vanguard funds voted against management's advisory proposal to ratify executive compensation. The funds did not support the nonbinding proposal because executive pay and shareholder performance were misaligned. Aramark accelerated stock awards, granted one-time option grants, and made changes to its incentive plans in response to pandemic-related impacts on the business. The proposal drew 57.5% support from shareholders.

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. Executive pay should reflect the level of shareholder value. When shareholders do well, so should executives. When companies underperform, however, executives' pay should move in the same direction.

Analysis and voting rationale

In our analysis, we identified misalignment between pay and performance, a situation driven by a high level of pay resulting, in part, from accelerated and one-time awards. We were also concerned with the compensation committee's decision to remove six months from the plan's three-year performance period when calculating payouts. The six months that were removed matched the time frame most heavily affected by the pandemic. In our view, this decision further exacerbated the misalignment of pay and performance. We found the resulting high level of overall pay (or quantum) to be worrisome, particularly given the misalignment with shareholders' experiences and the context that Aramark employees had been furloughed and laid off over the past year.

Ahead of Aramark's annual meeting, our Investment Stewardship team engaged with members of Aramark's board and management team, including the chair of its compensation committee. The Aramark team discussed the negative effects of COVID-19 on the business and provided details about the pandemic-related compensation adjustments. We concluded, however, that the business challenges did not warrant the Vanguard funds' support of the changes to executive compensation.

The Aramark team said it anticipated that the company would return to its previous compensation practices in the forthcoming year. Although this was encouraging, we noted that Vanguard funds vote on compensation proposals each year based on compensation and performance from the previous year.

What we expect from companies on this matter

The Aramark proposal demonstrates how a company's adjustments to incentive programs can negatively affect the alignment between pay and performance, and consequently between executives' interests and those of long-term shareholders. Vanguard expects to see pay aligned with performance, as measured by relative total shareholder return over multiple years. It is crucial that companies provide effective disclosure of their executive compensation plans and that those demonstrate the shared interests of company leaders and long-term shareholders.

INVARAM_022021

Vanguard®