Vanguard Investment Stewardship Insights

Voting insights: Executive compensation at Walgreens

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: Walgreens Boots Alliance, Inc.

Meeting date: January 28, 2021

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

How the funds voted

At the annual meeting of Walgreens Boots Alliance (Walgreens), the Vanguard funds voted against management's nonbinding proposal to approve executive compensation. The funds did not support the proposal because of changes that the company made to the compensation plan in response to the COVID-19 pandemic. The proposal drew 47.2% 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. When shareholders do well, so should executives. When companies underperform, however, executives' pay should move in the same direction.

Analysis and voting rationale

The Investment Stewardship team identified elements in the Walgreens compensation program that were not in the best long-term interests of Vanguard shareholders, particularly the use of upward adjustments during the pandemic—changes that did not appropriately reflect Walgreens' performance versus peers. The company's compensation committee employed discretion through the use of a scorecard for the final six months of the three-year compensation performance period—a time frame that coincided with the COVID-19 pandemic. We had questions about the rigor of the scorecard in part because of limited disclosure.

Vanguard engaged with independent Walgreens directors to share our concerns about the compensation adjustments. The Walgreens team outlined the critical role the company has served in providing essential services during the pandemic. The directors spoke about compensation topics such as level-setting in an uncertain environment, the use of scorecards to determine performance targets, and the use of compensation consultants. They also discussed the context and influence of being in the midst of a CEO search. Our discussion with members of the compensation committee did not sufficiently address our focus on linking executive compensation outcomes with shareholders' experience.

These changes resulted in a misalignment between pay and performance when compared with peers. Although we are sympathetic to the pandemic's impacts on many companies, we would prefer to have seen more disclosure and a compelling rationale regarding Walgreens' use of upward discretion for executive payments—particularly during the pandemic-affected portion of its performance period.

What we expect from companies on this matter

Vanguard recognizes that it is difficult for compensation committees to independently set performance targets in a volatile market environment. Still, we work to ensure that targets and time frames are appropriately rigorous given the information available. Vanguard expects companies to align executive compensation with long-term company performance. Ensuring that executive pay is inextricably linked to a company's long-term performance versus its peers is crucial in protecting boards from overpaying (or underpaying) its executives. As always, we expect to see robust disclosure that describes the rationale for compensation plans, especially when a board uses its discretion to make changes to a plan.

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