Vanguard Investment Stewardship Insights

Voting Insights: Executive compensation at Electronic Arts

August 2021

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

Company: Electronic Arts Inc. (EA)

Meeting date: August 12, 2021

Proposal: Item 2—Advisory Vote to Ratify the Named Executive Officers' Compensation

How the funds voted

At the Electronic Arts annual meeting, the gaming company sought support for a nonbinding management proposal seeking approval for the compensation of named executive officers. The Vanguard funds supported the proposal, which drew the backing of 42% of the votes cast.

Vanguard's principles and policies

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 employs a thoughtful, structured, case-by-case approach to evaluating compensation plans. We focus on pay-for-performance alignment (supported by relative performance metrics, such as relative total shareholder return), reasonable total pay relative to a relevant peer group, and compensation structures that incentivize long-term outperformance of peers and promote sustainable value for a company's shareholders. In cases where the Vanguard funds fail to support Say on Pay in consecutive years, we may also withhold our support for the reelection of certain members of a board's compensation committee.

Analysis and voting rationale

Vanguard has regularly engaged with members of EA's board and company leaders, including several engagements over the last year that focused primarily on compensation for its named executive officers.

We initially engaged with members of EA's compensation committee last year, ahead of its 2020 annual meeting, to share concerns about consecutive one-off monetary awards and unfavorable structural elements in the company's executive compensation plan. One-off awards may indicate that the plan is not working as intended and may unnecessarily boost the total quantum of executive payouts.

At the time, EA directors were unable to commit to restricting future one-off awards. Company leaders cited increased retention concerns from nontraditional competitors among the chief reasons for going outside the plan's structure and awarding additional grants. Given the plan's poor design elements and the lack of future award restrictions, the Vanguard funds did not support the 2020 Say on Pay proposal, which drew support from only 26% of the votes cast.

After that vote, we continued engaging with company leaders to discuss the low support for the proposal and the board's plan to respond. EA leaders shared several actions it had taken, including a compensation committee leadership change, which increased our confidence in the committee's direction. Other changes included replacing EA's compensation consultant and committing to considering further plan enhancements in response to shareholder feedback. EA acknowledged that although the plan could be improved, the board's key concern was recruitment and retention of key executives—a top priority given the industry's changing landscape.

Ahead of EA's 2021 annual meeting, Vanguard engaged again with the compensation committee chair and several management team members to discuss the upcoming Say on Pay proposal. The company communicated a commitment to restrict future one-off awards until at least fiscal year 2026. Although we viewed this commitment favorably, we separately shared with the company our concerns regarding adjustments to the CEO's equity award and the timing of the most recent award. The company explained that these structural changes addressed retention issues while also being responsive to shareholder feedback.

Vanguard's Investment Stewardship team considered many factors in evaluating EA's latest compensation proposal. We found that since EA's 2020 meeting, when we did not support the Say on Pay proposal, the board had taken several steps that addressed our concerns, including changes to its compensation committee, commitments against one-off awards in the medium term, and other structural changes to the plan. We determined that structural improvements, such as placing greater emphasis on long-term performance and including additional performance metrics, appropriately aligned executives' incentives with long-term value creation.

After considering the timeline of EA's plan changes, the board's commitment to restrict future one-off awards until at least fiscal year 2026, and its responsiveness to shareholders in the form of disclosure and favorable revisions to the structure of its compensation plan, we determined that the board's approach in 2021 was appropriate. The Vanguard funds supported the proposal.

What we expect from companies on this matter

Vanguard expects compensation committees to emphasize long-term pay-for-performance alignment through a rigorous compensation plan structure. Any significant decisions regarding 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. Furthermore, when a Say on Pay proposal fails to draw a high level of support over consecutive years, we may vote against certain compensation committee members and use engagement to advocate for oversight in a way that better serves long-term shareholder interests.

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