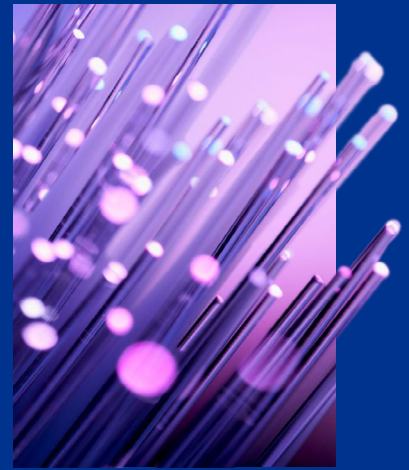


Investors are acting:

Is your board prepared for 2022?

Board Leadership Center



The last year proxy season was remarkable for several reasons but for boards, perhaps the most notable takeaway is shareholders' increasing willingness to act.

Investor voting behaviours are changing. Investors are more inclined than ever before to use their votes to push boards rather than wait for companies to engage on issues of strategic importance. The last few years have witnessed numerous instances where shareholders succeeded in pushing back on resolutions proposed by the management such as reappointment of directors, managerial remuneration and related party transactions.

Additionally in the past, some boards and management teams have complained that the policies and rationales of institutional investors were unknown or misaligned with the majority of other investors. This is not the case today; investor policies and intentions are explicit and unambiguous at large institutional investment firms.

The past proposals of shareholders and boards' responses to them were clearly reflective of the times. In addition to proposals on COVID- and workforce-related issues, environmental and climate issues continued to take on increasing prominence.

The push towards better and more transparent diversity, equality and inclusion (DE&I) efforts has broadened beyond a focus on boardroom gender diversity to include diversity of age, skill set, expertise and experience at all levels of an organisation including senior management and the workforce in general. While this does not garner as many headlines, a number of perennial governance proposals resurface. This frequently wins majority support, but some reappear season after season as a signal that investors believe change is needed at the board level.

ESG issues are no longer issues considered by investors as strategic 'nice to have'. Investors believe these invite important strategic questions and pose material risks to

be considered. On these issues and more, it is imperative for boards to understand shareholder views not only to avoid unpleasant surprises during proxy season but also to foster productive engagement during the off-season.

During this proxy off-season, here are some considerations for boards:

1

Conduct a postmortem of the last year proxy season to analyse the issues that directly affected your companies, your peers, and your industries.

Additionally, be aware of novel issues that surfaced this season. This assessment should be the basis for strategic discussions on how to address these issues in business operations, engagement with investors and in potential disclosures in the coming year.

2

Assess preparation and readiness to confront key shareholder issues during the next proxy season.

Run tabletop exercises based on real 2021-22 shareholder proposals to explore how the board would respond. Doing these off-season exercises gives you time to build robust response processes rather than making reactionary decisions when confronted with shareholder proposals.

3

Review with management shareholder engagement plans for the next year to enable understanding with whom the management will meet and its outcomes.

Don't assume such engagement plans are in place unless you actually see them.

During this proxy off-season, here are some considerations for boards:

4

Review the structures of your oversight of ESG and adjust if necessary.

ESG concerns and assessing their impact on companies' financial and sustainability performance are here to stay. Recent shareholder actions demonstrate that investors want to understand where you are on this journey and that you are adequately responsive.

5

Determine if management has the appropriate talent and training to tackle issues important to shareholders.

Additional training and education or outside expertise may be needed.

This article is an India cut of the original article authored by Stephen L. Brown, senior advisor with the KPMG BLC. The article originally appeared in the September/October 2021 issue of NACD Directorship magazine.



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