

Investors seek more insight into boardrooms: survey

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A survey by global proxy solicitation firm Morrow Sodali suggests institutional investors are lusting for more insight into how boardrooms are operating, raising the demands on directors.

More than 60% of asset managers surveyed placed a high importance on disclosures related to companies' business strategy, board composition, financial performance, and environmental, social, and governance (ESG) policies.

"Respondents want to know boards are heavily involved in evaluating, challenging and monitoring the company's strategy," the report said.

On activist campaigns, the survey suggested investors would prioritize activists with the ability to tell "a credible story focusing on long-term strategy," mirroring their demands on companies. A target's capital allocation approach ranked as the second highest priority in activist situations, ahead of a weak board and poor engagement practices.

"The survey is actually good news for companies," Morrow Sodali Chairman John Wilcox said in an interview with Activist Insight Wednesday. "It reinforces the willingness of investors to listen to individual stories at individual companies, as opposed to a box-ticking approach at annual meetings."

Issuers with a good case to make in the face of an activist challenge could still win support in 2018 without a favorable proxy voting adviser recommendation, Wilcox argued.

Wilcox said the results did not point to a desire to micro-manage companies, drawing a comparison between the appetite for greater disclosure and the introduction of "say on pay" votes almost a decade ago. Investors "want to know more about how the board is doing its job in order to be sure the board is doing its job well," he said.

83% of investors surveyed placed a high priority on receiving more information about the link between long-term goals and performance and 76% wanted more disclosure on board member qualifications.

A majority of respondents said they would find disclosure of the ratio between CEO and median employee pay useful and wanted companies to engage with shareholders when planning for board refreshment. Only 41% of respondents said a skills matrix was among the most important factors in their voting decisions on director elections, behind the background and experience of board members.

Indeed, engagement was consistently ranked as important by respondents, although sanctions for companies that refused to engage were apparently mild. Only 19% would withhold support for the nominating committee members on boards where directors did not meet with shareholders, and only 12% would take up the issue with other investors. A majority would simply engage more.

On ESG issues, 71% of respondents sought more disclosure on the links between sustainability and strategy.

"ESG and SRI [socially responsible investment] have suffered from being viewed by companies as being outside the core of the business," said Wilcox. "I think we're seeing an effort to break down that separation."



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