Poor financial performance key driver for investor support for UK activist campaigns

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Survey identifies factors that lead investors to support activist proposals

Poor financial performance is the key driver for traditional investor support for UK activist campaigns, finds the Institutional Investor Survey 2017 on corporate governance trends, produced by Morrow Sodali, the global consultancy firm.

The survey focuses on identifying the contributing factors that lead traditional investors to support activist proposals. To this end, 60 percent of respondents (representing $10 tn in assets under management) view poor governance practices as the most important contributing factor in leading them to support activist claims/proposals, followed by companies not acting on previous shareholder dissent.

Both of these factors suggest it is important for companies to continuously review their governance practices and disclosures as well as identify key areas for improvements through effective communication and dialogue.

All survey participants confirm they will communicate with activists. Although investors will evaluate each case individually, they are now more willing to lend an ear to activists' arguments. Close to 60 percent of respondents say they will listen to the activist only if approached; the remaining 40 percent suggest they will not only listen to activists reaching out to them but will also be willing to reach out to activists if not contacted.

All investors participating in the survey confirm that they will vote against the compensation/remuneration committee chairs or members in the case of chronic poor pay practices in 2017.

Reza Eftekhari, a director at Morrow Sodali, says: 'In the UK, executive pay is expected to once again dominate the agendas for both investors and companies ahead of the AGM season. Since the introduction of the binding vote on remuneration policies three years ago, this is the first time UK companies are required to renew their policies.

'While many companies are expected to make some adjustments to their current policies, the structure of their executive pay is expected to remain largely unchanged. This might seem to be a safe approach but just because their policy worked three years ago, it doesn't mean it would still be relevant and in line with the market's best practice today.

'As such, companies need to engage with their key investors and explain the changes in well-timed and well-structured consultations. Companies need to understand who is responsible for making the voting decision and what internal and external factors influence such decisions.

‘As highlighted in our 2017 investor survey, investors appear to be less forgiving this year and will question companies recommending significant pay increases, especially those with poor performance and remuneration report scores in the last three years.’

The report notes that to cater to the demand from investors, boards should seek assistance from their investor relations teams. In addition to market data and IR reports, the board should receive regular briefings on investors’ engagement profiles and ESG policies.

Investors representing $19 tn in assets under management, or close to three quarters of the respondents, view board members as their preferred counterpart when engaging with companies, followed by senior executives.

The report also notes: ‘Corporate boards are required to demonstrate that they are improving the integration of governance frameworks within their business strategy, sustainable economic performance and long-term value creation. The good news for companies is that shareholders give more attention to customized governance arrangements.

‘Companies should emphasize that the ‘one size fits all’ approach is ineffective and does not benefit the company or shareholders, [but] the board must show willingness to articulate performance measures and business goals with sufficient detail and specificity. To do so, board members themselves should work harder to understand the business fundamentals of the companies they oversee and to articulate the strategic rationale for their governance policies and decisions.’

The report also observes that the corporate governance landscape is rapidly changing and companies and investors must do more to improve trust in business and promote strong global economies. ‘The proliferation of stewardship codes is a positive movement that heightens the pace of change for boards with an increase in demand for continuous improvement and transparency in 2017,’ it states.

The full report can be found here.