

THOUGHT LEADERSHIP

Understanding the ‘G’ in ESG: Thinking Beyond Proxy Season

Five strategies to increase shareholder engagement and promote board reelection

By Third Economy Staff, September 2022

Companies are facing headwinds when it comes to board director reelection. New ‘Universal Proxy’ rules are giving shareholders more voice, while prevailing proxy voting trends continue to shade toward director opposition.

In this environment, companies need to be proactive both with shareholder engagement and director preparation. Below we share the key trends shaping the environment. Then explore five strategies to increase shareholder engagement and promote board reelection.

TRENDS SHAPING DIRECTOR ELECTIONS

In August 2022, new [‘Universal Proxy’ rules](#) went into effect, changing the way contested director elections are held.

Under the new rules, solicitors must distribute a single proxy card listing all nominees from both management and proponents. As a result, shareholders may now vote for a combination of nominees, instead of a single slate of nominees under previous rules.

These new proxy rules could make it easier for shareholders to vote against individual directors. In turn, this could accelerate growing opposition toward director elections—a trend in motion for the past several years.

According to 2021 [Proxy Pulse data](#) (captured before the ‘Universal Proxy’ went into effect) 514 directors failed to receive majority support, an increase of nearly 40% since 2017. And 1,635 failed to receive 70% support, an increase of nearly 35% in the same period.

HOW CAN CORPORATIONS RESPOND?

Given this environment, it’s more important than ever to create a roadmap that can help your board navigate these trends—and insulate themselves from risk.

Your roadmap will obviously be unique to your company. But there are proven strategies and best practices you should consider as you evaluate next steps.



Here are the top five strategies we recommend.

1. CONDUCT A RISK AND VULNERABILITY ASSESSMENT

Before you develop a board reelection strategy, it's valuable to identify existing risk—and opportunities. Corporations should work with the board and management to conduct a formal risk and vulnerability assessment.

Some questions to consider might include:

- Are there pending shareholder proposals that could create risk for individual directors?
- How might proxy advisory and institutional investor policies and guidelines impact board reelection?
- Are there gaps in director expertise?
- Which directors are the most effective communicators?

2. KEEP DIRECTORS PREPARED

It's essential to work with your board to prepare for potential shareholder proposals, especially around ESG issues. Help your board understand shareholder expectations and the issues they care about most.

In addition, keep your directors informed on the latest trends. Help them understand your corporation's positioning compared to others in your industry. To that end, data and measurement around ESG can be invaluable. Be sure to choose a partner who will help you maintain ESG analytics that are easy to consume and interpret.

Also consider formal training. The [Conference Board](#) recommends holding mock meetings, so directors can practice fielding complex questions and anticipating shareholder responses.

3. ENHANCE DIRECTOR EXPERTISE

As ESG issues gain prominence, not all board members will have the requisite knowledge to evaluate specific risk and speak confidently to those issues. That's why many corporations are investing in upskilling director expertise, alongside a risk and vulnerability assessment.

Here's where choosing the right ESG consulting team can make a big difference. Not only can ESG consultants work with you to hone data and measurement, but they'll also work with board members to clarify strategy and help craft targeted narratives that will appeal to stakeholders.

4. STAY CONNECTED WITH INSTITUTIONAL INVESTORS ALL YEAR LONG.

Proactive engagement (beyond just proxy season) is critical. Make sure your board actively reaches out to investors even before they reach out to you.

Open lines of ongoing communication will give investors greater confidence—and make them less likely to vote against your nominees.

Wonder how to proactively engage investors during shoulder season? Consider hosting Investor Days or non-deal roadshows. These more relaxed settings (where investors don't encounter a formal pitch) can facilitate greater candor and help strengthen relationships.

Another key strategy? Consider engaging on prior proposals that earned significant vote but failed. Activist proposals will give you enormous insight into shifting investor sentiment and the issues that could mobilize opposition.

5. DON'T FORGET TO ENGAGE RETAIL SHAREHOLDERS

Although institutional shareholders still own approximately [70 percent of outstanding shares](#), your retail base can make a difference—especially in tight contests. This is because historically retail shareholders tend to vote with management.

But it's an uphill climb. Compared to institutional shareholders, who usually vote 90 percent of their shares, retail shareholders only vote about [30 percent of their shares](#). So, there's some extra work involved in mobilizing the vote.

Among other things, effective retail engagement requires comprehensive data, social media ad buys, and targeted email outreach. Here again the right partner can help you execute with speed—and precision. Another benefit? Retail engagement may also get noticed by your institutional investors. In this way, retail engagement has the potential to impact institutional perceptions as well.

A GOOD DEFENSE IS THE BEST OFFENSE

Ultimately, a successful director reelection strategy requires you to anticipate shareholder activism before it materializes. And that requires systematic preparation and proactive engagement with all your shareholders—all year long.

We can help. Third Economy advises companies across nearly every industry on proactive shareholder engagement, offering practical strategies to navigate trends in corporate governance.

Contact our team today to build your roadmap and put your best ESG strategy in motion.



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