What the Changing Corporate Governance Landscape Means for You

November 12, 2015

Panelists: **David Frank,** CFA, Portfolio Manager, Columbia Wanger Asset Management, LLC
Ed Hauder, Senior Advisor, Exequity
Reid Pearson, Executive Vice President, Alliance Advisors
Brendan Sheehan, Managing Director, Corporate Governance, Rivel Research Group

Moderator: **Shep Dunlap,** Vice President, Investor Relations, Motorola Solutions

Key Takeaways

As companies adapt to the changing dynamics of corporate governance, it has become a greater communication priority for IROs. More and more, IROs play an important role by helping to create a strong corporate governance value proposition and proactively communicating this to the market.

Corporate governance issues influence institutional investor behavior.
A survey of global portfolio managers conducted by Rivel Research brought into sharp relief how institutional investors view and respond to corporate governance:

- Poor corporate governance prevented 61% of the global buyside from buying a stock.
- Almost half of these investors placed corporate governance right after corporate earnings in ranking the key drivers of their investment decision-making.
- Shareholder activists successfully recruited 45% of the investors polled in this survey.

The biggest governance issue is compensation.
Portfolio manager David Frank evaluates whether a company's CEO compensation plan makes strategic sense for the company. His priority is to evaluate how well management makes value-creation decisions, rather than to measure the CEO's compensation against an arbitrary benchmark. The consultants on the panel argued that sophisticated investors view management compensation as a reflection of the board's strategic decision-making and specifically, how it makes capital allocation decisions.

Opinions were mixed about involving directors in corporate governance communication.
A subject matter expert – such as the head of the compensation committee, lead independent director or non-management board chairman – can be an asset in investor communication. However, the panel urged caution because most directors are not highly skilled at communicating with investors. Columbia portfolio manager David Frank noted that he rarely speaks to the board. He has less interest in talking with directors if he trusts the IRO and management has credibility.

Despite their limitations, proxy advisory firms are not going away.
David Frank flatly stated, "I don't mind if a company tells me that ISS is wrong (about them)." Columbia uses proxy advisor Institutional Shareholder Services as "one tool," and Frank acknowledges that its formulaic guidelines don't account for a company's individual circumstances. The panelists agreed that ISS and Glass, Lewis serve as a filter for institutional investors – and that companies are getting better at strategically engaging with their shareholders' proxy voting teams.

– By Bess Gallanis