# Shareholder proposals reflect evolving concerns

**The frequency of shareholder proposals and their levels of support are gradually gaining steam in Canada. Directors are wise to pay heed. If your board isn't a target today, it might be tomorrow**

**By Ken Hugessen with Michelle Tan**

Directors and executives are increasingly aware of the trend towards increasing engagement with shareholders. It runs the spectrum from relatively civilized dialogue behind closed doors to fractious proxy contests. Somewhere in between is a third form of engagement: shareholder proposals. In Canada, they have tended to fly under the radar screen for most directors and shareholders due to their relative scarcity (approximately 80 per year) and sometimes frivolous nature (e.g., overly prescriptive requests relating to issues with a very narrow scope, such as sponsoring an award in the name of a retiring CEO). Regardless, these proposals can be an early warning signal for emerging shareholder concerns.

In analyzing shareholder proposals submitted to Canadian companies this year, Hugessen found almost 60% of all proposals focused on compensation topics, up from 40% in recent years. The average level of support for shareholder proposals, historically in the single digits, increased to 20%. While proponents typically continue to represent a small subset of shareholders, often with a special interest (i.e., labour unions, religious organizations or individual investors), they have over time developed a better sense of what is of concern to other shareholders. Factors contributing to proposals' increased success include: companies supporting and actually recommending shareholder proposals they deem reasonable; proponents focusing on issues that appeal to mainstream investors and drafting requests that don't appear to handcuff boards unduly; and shareholders' openness to supporting proposals on a wider range of concerns they believe companies are not adequately addressing.

While the incidence of shareholder proposals is still relatively low, if one is received it can be disruptive to management and the board. With that in mind, here are three steps directors can take if a proposal arrives:

- Engage with the proponent to understand their concerns and to then develop and outline the company's position. Often, constructive dialogue may be sufficient for the proponent to withdraw the proposal. One in five proposals submitted in 2014 were withdrawn before being voted on.
- Know your shareholders and topics that concern them. Some requests resonate more with global investors (e.g., European shareholders were inclined to support majority voting standards for director elections well before they began to take hold in North America).
- Understand the positions taken by proxy advisers (ISS, Glass Lewis, etc.), since proposals drafted to align with the advisers' published guidelines all but assure a favourable recommendation from those advisers.

Even boards that don't receive a shareholder proposal can benefit by monitoring them in the market, as it keeps directors abreast of emerging issues and the different views of shareholders. History has shown that some new ideas quickly become accepted norms—even regulatory requirements—when they appeal to the broader shareholder base.

Shareholder proposals can also illustrate the different priorities and perspectives among shareholders in different markets. For instance, proposals to adopt a say-on-pay (SOP) policy continue to appear in Canada and the Canadian Coalition of Good Governance advocates for mandating SOP in a non-binding form. Yet, the EU is now considering *binding* SOP votes, the UK, Australia and Switzerland have implemented them in some form, and similar conversations have begun in the U.S.

In analyzing shareholder proposals submitted to Canadian companies this year, Hugessen found almost 60% focused on compensation topics. The average level of proposal support, historically in the single digits, increased to 20%.

Likewise, foreign investors are also looking to export governance practices from their domestic markets. In one proposal this year, for example, a U.S. pension fund asked a Canadian large-cap oil and gas company to change the vesting of equity awards in the event of a change of control from accelerated to partial, pro-rata vesting. It based its position on a number of U.S. corporations that had made a similar change.

Looking ahead, we expect to see more focused proposals, and higher acceptance by shareholders. As such, monitoring these proposals as an indicator of emerging shareholder priorities can provide directors with an opening for dialogue and an opportunity to shape the shareholder perspective as it evolves.

*Ken Hugessen is founder and president of Hugessen Consulting Inc. E-mail: khugessen@hugessen.com. Michelle Tan is a manager at Hugessen.*

Photograph: Jeff Kirk