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HOW TO EARN AND KEEP SHAREHOLDER TRUST

SIX ESSENTIAL MOVES FOR BOARDS

boardspan

How to earn and keep shareholder trust

6 Key Insights

What does it really take for today's boards to earn and keep shareholder trust? In an insightful conversation with Barbara Novick, co-founder and Senior Advisor of BlackRock, we explored that question in depth. Among the many insights we gleaned from that conversation, the six shared below offer a practical perspective on how boards can build stronger relationships with shareholders while navigating the increasing complexity of today's governance landscape.

1. Keep Board Engagement with Shareholders Intentional

When it comes to shareholders, management are almost always the right people to develop and maintain relationships. After all, they're the team accountable for running the company. That doesn't mean the board shouldn't help interact with investors when governance-specific issues arise. Compensation concerns and capital structure are typical areas where the board, especially its leadership, might be part of the conversation. Further, selectively participating in a dialog around governance matters gives directors a chance to demonstrate they're listening to stakeholders. Adding value at the right moments – and recognizing what those are – is part of the board's role.

2. When Shareholder Proposals Deserve Attention

The number of shareholder proposals that companies receive in this current environment is staggering. The pace has picked up, often as a result of changing policies, regulatory agendas and financial empowerment, and the foreboding sense that it's easier for a smaller investor to "hijack" the system is real. Empowered by the success of others, vocal minorities can opportunistically influence the topics that get attention. What's a board to do? Invest the time to research and understand the issues, know who is driving them, understand what is important to the majority of your investors, and respond accordingly albeit always respectfully. The board can control the agenda so long as they're fully informed and open to working with the majority stakeholders.

3. Proxy Advisors: Wielding Influence vs. Rattling Sabers

Proxy Advisors can have sway, sometimes a lot and other times not so much. It's important to stay mindful that they are not investors and have no vote of their own. The role of the Proxy Advisor is to work for the shareholders, which sometimes is the voice of the masses although that's not always the case. Boards are well served to know who the Proxy Advisor is truly representing which can vary company-by-company, topic-by-topic. One way to stay ahead is by reviewing investors' published guidelines, anticipating their areas of concern, and proactively engaging with the major shareholders when nuance or context matters. Gaining clarity and offering transparency can often shift a challenging conversation, especially if done early and intentionally. Treat these interactions – whether with shareholders or their chosen representatives – as strategic touchpoints, not onerous obligations.

4. TSR Is a Data Point Although Not the Only One

A conundrum for many, there's a lot of discussion about Total Shareholder Return even though boards almost always want to avoid short termism. After all, directors bring their greatest value when staying strategic and long-term focused. Nonetheless, looking beyond stock price fluctuations can be easier said than done. TSR serves as one of a number of relevant performance signals, however, when considered exclusively it can miss the bigger opportunity. A board's contribution lies in constructively challenging, sometimes massaging, and ultimately endorsing management's strategy, even while monitoring execution and the milestones along the way. Performance metrics such as TSR provide a board with data points to assess whether strategy and goals are appropriately set, communicated and sufficiently accepted. Using the data in all of its forms helps keep governance anchored, even when markets shift.

5. ESG: Separating Signal From Noise

ESG may be a hot-button topic in public forums, however, in the boardroom it typically translates to stakeholder capitalism and deserves attention. To serve constituents well, boards will always be having conversations that are grounded in fundamentals: how the organization treats its customers, employees, shareholders, and the communities in which it operates. These matters are core to long-term performance, not political considerations. Evolving labels are often distractions whereas underlying imperatives will remain foundational. Despite the rhetoric, a board staying focused on sustained practices that foster trust, mitigate risk, and generate enduring value will serve everyone well.

6. DEI is About Equal Opportunity, Not Equal Outcomes

The DEI conversation has seen more pendulum swings than almost any other topic in the boardroom. To thrive, leaders want to ensure they're providing equal opportunities across all aspects of the organization. After all, it is in their own best interest to ensure talent succeeds and individuals grow, contribute, and lead to their fullest potential. Creating opportunity does not, however, mean guaranteeing uniform results. Nonetheless, it does require an open-mindedness to all possibilities to foster performance, strengthen engagement, and avoids the pitfalls of surface-level metrics.

We welcome your perspective, questions, and any thoughts on your mind.
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