

# Activism Defense and Preparedness:

Three ways boards can prepare for the upcoming proxy season

Boards of directors are facing intensifying scrutiny and heightening expectations — from directors' skills, qualifications, tenure and recency of experience to boardroom diversity. And with the newly mandated universal proxy card, with all director candidates on a single card — including both board- and investor-nominated candidates — individual directors will be under the microscope as never before.

In our long experience as trusted advisers to boards facing pressure on their board composition and individual directors, in particular from activist shareholders, we in Spencer Stuart's Boards Practice know that boards require agile teams that can work swiftly and collaboratively with the board, management and other advisers. It's why we created a new Activism Defense and Preparedness Group within our practice to advise our clients on how best to navigate these boardroom situations.

Looking ahead to 2023, we spotlight three practices for boards to consider as they prepare for the upcoming proxy season.

## 1. Proactively assess your board and identify potential vulnerabilities

Do you have the right talent in the boardroom given the company's forward-looking strategy and risks? That's the fundamental question being asked by investors as they evaluate boards. To answer the question, boards should:

- » **Ensure that it has a range of tools to assess the board.** Tools such as robust skills matrices, meaningful board evaluations, constructive peer evaluations and third-party evaluations can ensure that the board has the skills and perspectives appropriate for its unique considerations. It can also balance the skills and perspectives needed in the boardroom today against the needs going forward.
- » **Reexamine mandatory retirement policies.** Boards can review their reliance on mandatory retirement policies, and instead consider adopting a culture of continuous evolution.
- » **Address director underperformance.** Boards can promptly and courageously address director underperformance by articulating expectations for improvement, seeking the director's resignation or determining to not renominate the director.

## 2. Enhance the narrative on board composition disclosures

Proxy statements, once largely considered a compliance obligation, are now a communications tool — an important way for boards to document their governance practices, provide a rationale for the board's composition and explain how each director's skills, experiences and backgrounds add value. Our analysis of proxy statements finds significant variability around the quality of director-specific and board-related proxy statement disclosures.

With the universal proxy card now in place and the resulting potential for not only more proxy fights but more director-specific fights, all boards should evaluate whether proxy statement disclosure enhancements are warranted. Some approaches for evaluating proxy disclosures include:

- » **Taking a step back.** Bring in a fresh set of eyes to evaluate proxy disclosures and share their understanding of the strategy underlying the board's composition and how each director's skills, qualifications and backgrounds support the boardroom composition goals.
- » **Assess the current skills matrices.** Now is the opportunity to review the quality of the skills matrices used internally and/or included in proxy statements. To maximize the effectiveness of the matrix, formalize definitions for each category on the matrix, including qualifications connected to recency of experience. To avoid over-filled matrices with directors checking nearly all the boxes, consider asking directors to weight each skill (very strong, moderately strong, weak, none) and/or asking directors to identify their top four to five skills.
- » **Ensure robust diversity disclosures.** Make sure your board provides strong disclosures around board diversity beyond skills and experiences to include gender, race, ethnicity and sexuality.

### 3. Commit to a boardroom culture that appreciates the value of board refreshment

Boards should adopt a culture of continuous evolution, with new directors and fresh perspectives added at least every other year. To support this culture, boards should ensure that each director — new or incumbent — understands that his/her board appointment is not a guaranteed decade-plus role, and that renomination is based solely on boardroom needs and director performance. This tenet should be explained at the initial appointment of any new director and reinforced every year when considering the re-appointment of existing directors.

## Conclusion

Interest in the board and individual directors is only expected to increase. The best defense is a good offense. Boards can and should take steps now to enhance their composition and disclosures. Failure to be proactive may result in an activist doing this work for the board.

## Spencer Stuart's Activism Defense and Preparedness Group

Our Activism Defense and Preparedness Group is a cross-discipline team within the firm's Boards Practice including professionals with deep experience in corporate governance and the boardroom and activism situations, always supported by colleagues with relevant, specialized industry expertise.

We bring to each situation a deep knowledge of director candidates, their availability and performance in the boardroom. Our decades of experience contribute to our

knowledge of activists and our understanding of investor views of board composition and other governance issues.

We are proud of our long record helping boards of small-, mid- and large-cap companies on needs ranging from the evaluation of board composition and director vulnerabilities to the rapid referencing of activist-suggested candidates and the recruitment of directors in extremely compressed time frames.

### Julie Daum

Leader, North American Board Practice

[JDaum@SpencerStuart.com](mailto:JDaum@SpencerStuart.com)

### Ann Yerger

Corporate Governance Expert

[AYerger@SpencerStuart.com](mailto:AYerger@SpencerStuart.com)

### Laurel McCarthy

Senior Associate

[LMcCarthy@SpencerStuart.com](mailto:LMcCarthy@SpencerStuart.com)