



Collective intelligence in the boardroom and beyond

‘So how do you build an organisation that’s fuelled by *collective* rather than *individual* intelligence? Our view, having studied this for the past 15 years, is that it boils down to building three capabilities at every level: critical thinking, great communication, and a shared focus on what matters most.’

Jennifer Sundberg and Megan Pantelides

The impact of relationships on board effectiveness

‘Where the dialectic between executive directors and non-execs works well, the board’s decision-making will be well-considered, objective and balanced. Where it does not work well, the opposite is likely to be the result. How, then, do these two constituencies contribute to the board’s effective decision-making?’

Chris Stamp and Ian White

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Preparing for activism at AGMs

Kirsten van Rooijen and **Cas Sydorowitz** look at issues companies should be considering around activism at AGMs in the forthcoming season.

During 2023, some European companies faced disruptions at AGMs due to escalating actions by climate activists. Some of the more notable incidents at such AGMs involved cake-throwing, protests and fireworks. These actions by activists increased concerns about the safety of employees, board members and shareholders, prompting some companies to shift to virtual or hybrid meetings to enhance security.

Interestingly, virtual-only meetings during the 2023 AGM season saw an overall decrease across markets around the world amongst Computershare clients, with a few exceptions, such as in the UK. However, more Computershare issuers elected to host hybrid meetings (offering physical and virtual options) in 2023, offering shareholders the option of attending virtually or in person; hybrid meetings jumped by 95% compared to the previous year.

As the 2024 AGM season approaches, concern about potential disruptions remains significant. Regulatory adjustments in certain European countries have added to the number of strategic reasons for some organisations choosing virtual-only meetings this year. Others have opted for a hybrid model.

Meeting format choices alone cannot resolve activism issues and companies must consider how to actively address issues raised by activists. Activists have recently become more likely to use annual meetings as a stage to garner headlines and coverage for their causes.

Below are several long- and short-term strategies for companies to consider in the lead-up to their AGMs for this year and future years.

Longer-term strategies

Different types of activists. Companies preparing for an AGM will be on the lookout for activism and public opposition. Boards will need to differentiate between activism types – and types of activists. Typically, there are two types of activists: capital and ESG. Their primary objectives differ significantly.

Capital or investor activists, more commonly associated with ‘traditional activism’, are investors actively trying to unlock unrealised value in specific stocks. Rather than selecting stocks and hoping that the company's share price improves through macro or other management initiatives, these activists advocate changes in companies that they think will create enhanced returns. They may seek to force a merger or divestiture. Capital activists typically leverage their stock ownership to support or oppose an issue at the annual meeting. The size of their holding carries significant weight, lending credence to their calls for change.

On the other hand, ESG activists focus on drawing attention to issues predominantly related to environmental and social concerns within a company or group of companies. Unlike capital activists, ESG activists lack the influence of holding a significant number of shares. Instead, they use their voice to attract other investors' attention and use their combined voting power to oppose a particular ESG issue at the meeting. They may use their influence to garner media attention.

ESG activists typically comprise:

- Environmental activist groups, such as Extinction Rebellion or Just Stop Oil, are the most likely to plan and execute protests at company AGMs.
- Non-government organisations (NGOs), such as Climate Action 100+, Market Force and Follow This, typically focus on obtaining shareholder support from current company shareholders to oppose or support climate issues, and support new green initiatives.
- Impact ESG investor activists, such as boutique investment firms Engine No. 1 or Bluebell, which only hold a small number of the target company's shares (usually between one and a few hundred). This type of activist will typically run a public activism campaign to encourage change at the target company.

An institutional investor may adopt aspects from the ESG activist's playbook and publicly express dissatisfaction with how a particular portfolio company has handled an environmental or social issue, although such tactics are unusual. It is important to note that an institutional investor is more likely to lodge an opposing vote during the annual meeting than to run a public ESG activist campaign.

Engage with activists and shareholders. Year-round engagement with activists and shareholders is therefore essential for addressing concerns, fostering understanding, and maintaining open communication with these stakeholders. Companies should specifically engage with investors on ESG topics such as climate change. Investors, for their part, expect an ongoing, transparent and robust dialogue to influence portfolio companies' climate change strategies.

It is worth noting that investors may escalate their actions based on a company's response during an engagement. Traditional investor activism can take hostile or constructive forms, ranging from shareholder litigation to private engagement. Shareholder litigation, often used as a last resort, is one of the most aggressive forms of activism. The objective of shareholder litigation is to take action on a specific demand, such as committing to some ESG initiative or reporting demand.

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As a result, companies must actively manage relationships with all investors. They should always consider the spectrum of activist approaches, ranging from traditional investor activism to reaching out to companies directly to ensure their chosen strategic direction remains credible in the eyes of such communities.

The investor activist's arsenal. Capital activists (including NGO activists) use different tactics to affect change at a company. Some examples are:

- conduct a private engagement with the company;
- issue a public letter from the activists to the company to signal their discontent;
- create a microsite that articulates why change at the company is warranted;
- create a slide deck that further details and evidences why change is warranted;
- submit a shareholder resolution;
- seek a board change or strategic review by requisitioning for an Extraordinary General Meeting (EGM).

In some instances, capital activists may run a public campaign that includes any or all of the above tactics to increase shareholder value. Clients of the activist pay for these professionally-led campaigns. It is important to note that activist investors who hold a substantial share position at a company are more likely to engage directly with the company and less likely to disrupt the annual meeting.

Preparing for activists attending an AGM

By actively managing communication, setting clear expectations and employing preventive measures, companies can navigate AGMs smoothly and effectively address concerns from shareholders or activists.

Remaining vigilant about potential disruptions and staying informed about activist activities ensures proactive and strategic handling of AGM proceedings. This proactive and strategic approach contributes to a successful AGM that serves the company's and its stakeholders' interests.

Below are some shorter-term guidelines for companies preparing specifically for AGMs.

Effective communication before an AGM is crucial. Effective communication and thorough preparation play a central role in mitigating disruptions and addressing concerns from shareholders or activists before the annual meeting. It is essential to actively manage various aspects, including communication transparency, expectation setting, and maintaining standards of behaviour throughout the event.

Set expectations in the notice of meetings. The first form of shareholder communication for an AGM is the notice of meeting. The notice includes updated AGM procedures, such as prohibiting food or beverages inside the venue or details

of a new registration process that has enhanced security controls. It may also include other procedural guidelines, such as encouraging early arrival for shareholders to ensure they are registered correctly before the start of the meeting. This proactive step ensures that shareholders are well-informed in advance, creating a smooth and secure meeting environment.

Training for moderator. The company's Chair typically acts as the meeting's moderator to ensure that AGM discussions remain productive and respectful. The Chair must keep composure, adhere to the script and maintain an effective and calm environment. Most meetings will run as expected, but some do not, and the moderator's skill is critical. As such, additional training should be considered for the moderator to prepare for all types of situations. Moderator training helps to mitigate and minimise disruptions.

Rehearse! Rehearse! Rehearse! Prioritise meeting rehearsal and preparation for board members, executives, and non-executives to familiarise them with the proceedings. Conduct in-depth script rehearsals, discuss potential challenges and run through the day. This proactive approach significantly contributes to a successful AGM.

Attendance list. Understanding the mix of shareholders, proxies, and guests in attendance provides valuable insights and helps to set expectations for the Chair. For example, it is important to know if the person attending the meeting is a shareholder, who are the appointed proxies other than the Chair, and if one shareholder has appointed many different proxies. Not all activists are discreet in their planning, and some may continue to use their own names when organising a group. Cross-referencing the registration list can potentially help avert an inflammatory situation.

Research potential questions. Arm directors and executives with information about climate or other activists that may disrupt the meeting. Scrutinise activist websites and social media for possible actions and be aware of any training sessions for activist group members. Learn how these activists will likely act or react by watching their actions or questions at early season AGMs before tailoring responses accordingly.

In addition, develop and review general and specific questions the company will likely face based on proposals submitted to the annual meeting, proxy advisors' opposition to specific issues, and strong shareholder sentiment on particular matters in the lead-up to the meeting. Pay close attention to the initial voting block, which will highlight the top shareholder concerns.

In some cases, companies may consider extending meetings to address concerns raised by climate activists.

Set the rules of engagement. Setting expectations on meeting conduct is vital to a successful AGM. Communicate rules of

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The impact of relationships on board effectiveness

Chris Stamp and **Ian White** explore the central dynamic that underpins board challenge and effectiveness – the characteristics of the roles and relationships of executive and non-exec directors.

The relationship between executive and non-exec directors

At its most fundamental level, the relationship between executive directors and non-execs centres on a common output – the board’s decision. Their respective roles in achieving that outcome are, however, quite different. Where the dialectic between executive directors and non-execs works well, the board’s decision-making will be well-considered, objective and balanced. Where it does not work well, the opposite is likely to be the result. How, then, do these two constituencies contribute to the board’s effective decision-making?

Executive directors have three discreet roles to play: (i) in conjunction with the Chair, they decide what needs to be discussed or decided; they contribute to the agenda; (ii) they provide the relevant information to support the board’s discussion and decision-making; and (iii) they answer questions and provide additional information as it is requested. In summary, executive directors should be proactive in driving the decision process.

Non-execs, on the other hand, are reactive – receiving information about the matter to be decided, evaluating it and providing support and/or challenge based on their knowledge and experience.

It is a truism, therefore, that when executive directors and non-execs play their parts, open-mindedly and respectfully, their roles will interplay well making the whole discussion and outcome rounded and responsibly considered.

This is not, however, a representation of board proceedings that many directors and board observers might recognise. In particular, the generic relationship between the executives and the non-execs can be sub-optimal for a number of reasons.

The proactive role that executive directors play in the process can also bring an emotional investment which can make them defensive and unreceptive to challenge, especially if they have spent a lot of time in preparing the case for the board’s decision and/or they have third party relationships that they fear could be damaged if the decision is not positive (for example, a merger proposal). For similar or perhaps other

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conduct, including guidelines on behaviour, speaking limits, and Q&A protocols to ensure a productive and respectful meeting. The Chair should convey this information at the start of the event, clearly articulating the actions that will be taken in case of violations. This is particularly useful when there is a virtual meeting component.

Decide on the company’s AGM media policy. Some companies consider prohibiting audio/video recording of the meeting. However, it is important to understand that despite the restriction on recording, activists may still use their phones to capture and share content during and after the meeting. Be mindful that everything discussed may appear on platforms like YouTube or social media sites like Reddit.

Review security plans and take preventive measures. Companies should consider the following questions to maintain a safe environment for the duration of the meeting:

1. Are there clear rules about the length of the annual meeting and when it can adjourn?
2. Has the company specifically looked at how to safeguard board members, especially for those sitting on stage?
3. In case of extreme actions by activists, is there an evacuation plan for the board, shareholders and others in attendance?

4. If events prevent a meeting from continuing, is a secondary room fully set up to continue the meeting?
5. Understand local laws regarding security, especially regarding the removal of individuals from the meeting.
6. If disruptions are expected, inform local authorities to ensure readiness.

Post-AGM: review, improve and continue. Companies should consider a thorough review of the event to identify areas for improvement, including engaging with shareholders and activists about the meeting, which will foster ongoing dialogue that will address concerns for future events and help build relationships.

The landscape for AGMs is evolving rapidly, with climate activism posing challenges and opportunities. Proactive engagement, transparent disclosures and strategic security measures are essential elements for companies navigating this dynamic environment.

As we approach the 2024 AGM season, staying vigilant and adopting best practices will be key to ensuring the security and effectiveness of shareholder interactions.

Kirsten van Rooijen is Head of Issuer Services Continental Europe, Computershare and Cas Sydorowitz is Global CEO of Georgeson.

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It transforms governance forums from frustrating bottlenecks into drivers of performance that enable transformation and innovation.

But it also ensures governance can be a force for good, by injecting robust questioning, deep thinking, and healthy challenge into corporate cultures and ways of working. When we routinely ask more and better questions, we're forced to confront uncomfortable truths and acknowledge inconvenient risks. We see challenge not as confrontation but as an opportunity to sharpen our thinking. And it becomes hard to ignore the ripple effects of our decisions, making it more likely that we'll think before acting, and therefore act in everyone's interests.

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Jennifer Sundberg is the founder and co-CEO of Board Intelligence, which supports over 3,000 organisations to drive performance and high-impact governance through board and management reporting. She has played a vocal role in shaping governance best practice and is the co-author of 'Collective Intelligence: How to build a business that's smarter than you'.

jennifer.sundberg@boardintelligence.com | <http://collectiveintelligence-book.com/>

Megan Pantelides is Executive Director, Research at Board Intelligence. She has worked closely with boards and leadership teams for over 15 years, advising on corporate strategy, board effectiveness, and executive performance.

megan.pantelides@boardintelligence.com | www.boardintelligence.com

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