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The AGM: A Perfect Storm Waiting To Happen?

This season of annual general meetings may well prove to be a historic one. As the first AGM season at which shareholders can evaluate businesses and pass judgement on how their boards have responded to the crisis caused by the Covid pandemic, it has already begun with a bang. It's clear that the AGM can no longer be just another date on the corporate calendar, to be handled as a 'box-ticking' exercise.

Significant numbers of large investors are taking their stewardship role very seriously, taking heed of a rising tide of environmental, social and governance (ESG) concerns among stakeholders to guide the toughness of their stance. Not only has the need for action on climate become compelling as environmental risk escalates around climate change, but the economic and human suffering caused by the pandemic is everywhere in plain sight.

Against that backdrop, executive remuneration is under unflinching scrutiny at every AGM, and is likely to remain firmly in the media spotlight. It is no longer only about the size of the pay packet, but about the human as well as the financial context.

In the United Kingdom, any businesses that have made redundancies, furloughed staff and taken advantage of the government's economic support schemes or cancelled dividends would be advised to have clear thinking on how these measures are reconciled with increased pay packets at the top table.

The Investment Association (IA), which represents the UK's £8.5 trillion fund management industry has provided regular updates to its February 2020 guidance on shareholder expectations during the pandemic. Even then, it issued an early warning of the "reputational ramifications" of "windfall gains" at executive level. Its renewed emphasis on maintaining a sense of employee context in considering remuneration policy reinforces the message coming from the regulator on the need for businesses to ensure they engage with their workforce.

The 2018 UK Corporate Governance Code specifically refers to the role of the workforce and promotes its involvement in company governance. In its report just published: Workforce Engagement and the UK Corporate Governance Code, the Financial Reporting Council (FRC) makes it clear that it feels there is still a long way to go on implementing its thinking.

It finds the number of firms that "provide rather vague platitudes and boilerplate statements on workforce engagement in their annual reports, remains disappointingly high." While the Code is a flexible tool that respects companies' different circumstances, in future years the FRC would like to see "better reporting in how companies have used this flexibility," said Sir Jonathan Thompson, FRC CEO. Not only must the practices adopted towards better workforce engagement be clearly laid out in company reports, so must the thinking behind their adoption, and the company's views on how effective they are judged to have been.

For the mindset in many companies to change, they will need to remain open to fresh thinking on ways in which to open those conversations with the workforce as key stakeholders in the business. Not only do they need to put engagement mechanisms in place, but to complete them with a feedback loop linked to measuring results.

Companies must be able to identify all their key stakeholders and understand the societal shift in emphasis from hierarchical organisations to inclusive ones, in line with best practice laid out by all revisions to the Code. No boardroom plan for stakeholder engagement can afford to be unaware of the trends emerging elsewhere. Voting patterns at AGMs should also be monitored and assessed to ensure that feedback and engagement align with intended outcomes.

Far from being "routine", every AGM should be seen as an open stage for a potential piece of theatre that is likely to be unscripted. Investor activism is on the rise and has been for several years across the United States and Europe. With a total of 17 activist campaigns recorded in 2020, the UK continued to be Europe's centre of shareholder activism.

Many analysts expect this dominance to continue amid the compounded economic uncertainties around Brexit and the economic impact of the pandemic.

The small activists who have increasingly been making a big noise have just become stronger with newly launched hedge fund Engine No.1's successful debut on the global stage of activism at the ExxonMobil AGM.

At a dramatic AGM on May 26th, a majority of ExxonMobil shareholders selected at least two of the four directors who had been nominated by Engine No 1 with a focus on clean energy. It is a bruising corporate defeat that will be seen not only as a harsh judgement on company management but as an indication of management 'disconnect' with their stakeholders' concerns on inaction in the face of climate reality.

Engine No. 1 could not have done it without the support of big institutional investors committed to climate action as a fiduciary duty. Boardrooms need to make sure they are listening to all their stakeholders if they are not to be caught out by dramatic AGMs with unexpected consequences.