

Client Alert

October 2019

Corporate Governance: How Often Do Directors Fail to Receive Majority Support?

How often do directors fail to receive majority support when they stand for reelection? The answer is not often. According to a recent report, however, director “against/withhold” votes are on the rise even though they remain rare. In 2019, 478 directors failed to receive majority support—a small number, but up 38% from 2015. Likewise, the number of directors failing to receive at least 70% support for reelection increased 45% from 2015 to 2019. Overall average shareholder support for directors last year was 95% (votes cast). Thus, it is rare for directors to receive less than 70% support, but this data reveals that in recent years institutional investors have become more willing to vote “against” directors in uncontested elections.

Key take-aways from the *Proxy Pulse* report, which is a joint initiative of Broadridge and PWC that covered 4,059 public company annual meetings in 2019, include:

- Overall shareholder support in director elections in 2019 was 95%
 - This is consistent with prior years, and a decline of 1% from 2018
- The number of directors failing to receive majority support:
 - Increased 38% from 2015 to 2019
 - Increased 15% from 2018 to 2019
 - Has increased in all but one of the last four years
 - Remains low in absolute numbers (478 directors in 2019)
- The number of directors failing to receive at least 70% support:
 - Increased 45% from 2015 to 2019
 - Increased 23% from 2018 to 2019
 - Remains low in absolute numbers (1,726 directors in 2019)
- Institutional shareholders are driving against/withhold votes:
 - Directors who failed to receive majority support last year received average support of 30% from institutional investors, compared with 77% support from retail shareholders

The failure of directors to be reelected with significant support (90+%) is unusual, but proxy advisory firm guidelines and customary voting policies of institutional investors are likely contributing to more “against/withhold” votes.

Authors

Steven M. Haas
shaas@HuntonAK.com

Lawton B. Way
lway@HuntonAK.com