

Insights from Vanguard's Chairman and CEO: Corporate Governance Should Not Be a Mystery

November 18, 2014 | Client Update | 2-minute read

Directors can provide more insight on how they govern their companies, and investors can give more information on how they cast their votes, so that there is less mystery from both sides, stated Vanguard Chairman and CEO F. William McNabb in a [recent speech](#) at the University of Delaware's Weinberg Center for Corporate Governance.

According to McNabb, Vanguard is the world's largest mutual fund and owns about 5% of every U.S. public company, and the fact that they are "permanent shareholders" as an index fund is exactly the reason that they care about good governance.

Engagement was the primary focus of his discussion, and the impetus behind the more than 900 letters Vanguard sent to U.S. companies last year, with 358 of those requesting that companies make specific changes, which we previously discussed [here](#) in a conversation with Glenn Booraem of Vanguard. Over 80 companies have responded by making revisions.

McNabb cited two boards as setting good examples of proactive outreach to investors: Microsoft by using videos from their directors as one simple form of "one-to-many" engagement that provide insights for the board's thinking; and Dell's special committee, when they interacted with investors after announcing their intent to go private. In terms of board composition, he praised both GE's disclosure of a skills matrix in its proxy statement that explains directors' qualifications and State Street's framework for board tenure (which we discussed [here](#)). Although State Street uses a formula, it still provides a data point for boards to be aware of since other investors like Vanguard may well have similar questions about lengthy director tenure.

Boards should "think like an activist" by looking beyond management's perspectives and focusing on blind spots of the management team and the board, said McNabb. For example, some boards bring in analysts who have sell ratings on the company to provide another viewpoint. McNabb indicated that he believes that there is a trend toward constructive activism, and noted that Vanguard sided with the activists in Canadian Pacific Railway and Commonwealth REIT due to concerns that those companies were being poorly managed and governed.

As for the future of engagement, he pointed to Vanguard's involvement in developing the SDX protocol as a guideline for getting directors and investors to talk, and the potential for a Shareholder Relations Committee on public boards as a way to obtain outside perspectives.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

This communication, which we believe may be of interest to our clients and friends of the firm, is for general information only. It is not a full analysis of the matters presented and should not be relied upon as legal advice. This may be considered attorney advertising in some jurisdictions. Please refer to the firm's privacy notice for further details.