Event Recap: How Proxy Advisory Firms Play a Part in the Decline in Public Companies

On September 19, 2017, U.S. Chamber of Commerce’s Center for Capital Markets Competitiveness (CCMC) hosted an event “Proxy Season 2017: Examining Developments and Looking Forward to 2018.” Although the event focused on the past proxy season and the emerging issues facing companies in the forthcoming season, it was clear that perils of proxy advisory firms contribute to the decline in public companies to the tune 50% over the last two decades.

In the third annual proxy season survey conducted by Nasdaq and the U.S. Chamber, which was released at Tuesday’s event, results showed while there has been a modest increase in communication between companies, proxy advisory firms, and institutional investors, many issues remain creating challenges for public companies. For example, companies find it difficult to have a substantive meeting with a proxy advisory firm regarding recommendations, and outreach rarely leads to a new recommendation being issued. And only about one third of companies believe that proxy advisory firms carefully research and take into account all factors in developing the recommendations.

Because proxy advisory firms play an important role in our capital markets, it is clear that more needs to be done to reform the industry to ensure the public company model remains attractive. Event participants highlighted Congressman Duffy’s legislation “Corporate Governance Reform and Transparency Act of 2016”, which would require proxy advisory firms to register with the SEC and become subjected to proper oversight as a step in the right direction.

Proxy advisory firms are only but a piece of the complex issues keeping companies from going and staying public. Special interest activists who use the proxy process to push agendas that run counter to the long-term economic benefit of companies are another factor.
Jim Copland, senior fellow and director of legal policy at the Manhattan Institute and the scholar behind Proxy Monitor’s database, a record of all proxy proposals submitted by shareholders of the 250 largest American public companies, pointed out that shareholder activism continues to increase. In fact, in 2017, 56% of all shareholder proposals introduced were social-oriented proposals versus corporate governance oriented proposals.

Effective shareholder participation is more critical in the corporate governance process. The event’s concluding panel moderated by CCMC’s executive vice president Tom Quaadman and made up of Ted Allen, vice president, National Investor Relations Institute (NIRI); Randall Hopkins, senior vice president, Nasdaq; and Zach Oleksiuk, head, Corporate Governance America, BlackRock, discussed the 2018 season, how shareholder engagement has changed over the years, and the impact of the decline of public companies.

Allen pointed out the need to take action legislatively, and companies and investors need to call on the SEC to require more transparency and disclosure for proxy advisory firms. Finally, Oleksiuk talked about the impact of diverse boards of directors.

During the panel Hopkins of Nasdaq highlighted that 92% of job growth occurs after a company’s IPO. Quaadman expanded on Hopkins’ point saying companies are not going public in the early stages, but later when they have seen much of their growth. This in turn is limiting opportunities for individuals to invest in the next up and coming company.

The conclusion of the event was clear. Without changes, we will see more companies like Blue Bottle seek alternatives to going public to raise capital, and economic growth and individual investors will suffer because of this.

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