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MARKETS

# Vanguard to Take Tougher Stance Against Overextended Board Members

The index-fund giant is preparing to issue updated proxy-voting guidelines


Vanguard Group's tougher stance on the number of board seats it believes one person should hold comes as the asset manager updates its corporate-governance guidance more broadly. PHOTO: KRIS TRIPPLAAR/SIPA USA/ASSOCIATED PRESS

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Vanguard Group is taking a tougher stance against companies whose board members it believes are stretched too thin.

The world's second-largest asset manager plans to vote, in most cases, against corporate executives running for two or more public-company board seats beyond where they are employed, a Vanguard spokeswoman said. Vanguard said it would generally vote against other board candidates seeking more than four board seats at one time.

Vanguard, which has roughly $5.3 trillion under management, is a large shareholder in many major public companies. It has recently begun informing U.S. companies it invests in about the new policy, which is part of a broader update on corporate-governance guidance planned for release this week. Vanguard said it is following the new policy as it votes on proxies at this year's annual meetings.

Index-fund managers such as Vanguard and rival BlackRock Inc. BLK **0.67%** ▲ control roughly 26% of the S&P 500, according to an analysis by J.P. Morgan Chase & Co. This means their voting policies and opinions influence how American corporations conduct themselves. BlackRock has tended to be more outspoken than its peers. Last year, the firm made changes to its voting guidelines and indicated it would be more likely to vote against chief executives on more than one other public company board.

Some in the money-management business have criticized the firms for not going far enough given their size. This is forcing index-fund managers to be more transparent on how they're thinking about everything from boards' gender diversity to compensation practices to share buybacks. So-called overboarding is another focus, driven by concerns that directors can have too many demands placed on their time.

"Overboarding has become a bigger and bigger issue because the role of the director has increased over time," said Jack "Rusty" O'Kelley, who leads Russell Reynolds Associates' board advisory and effectiveness practice. "To serve on a board is requiring more time and effort."

The executive-search firm estimated in a recent report that each public-company directorship requires an average of 200 hours a year, not including the time it takes to travel to board meetings and other events.

More than 60% of public-company directors sit on least two public boards and 45% of CEOs sit on at least one outside board, according to a 2018 analysis S&P 500 corporations by Spencer Stuart.

"As we go into the U.S. proxy season, we are engaging with and voting at a substantial number of companies. It's an appropriate time to put these matters front and center," said Glenn Booraem, who heads stewardship at Vanguard.

Voting isn't the only way Vanguard can nudge companies as to how they are governed. It can use other methods, such as engaging with firms behind the scenes. The timing of Vanguard's change could disrupt some companies' plans, as many are nearing annual meetings, where shareholders will vote on the directors, and may need to rethink their nominees.

There can be potential downsides on placing more restrictions on company boards, according to some advisers.

"Losing valuable directors, depriving shareholders of these directors' contributions and limiting the pool of effective director candidates are downsides of board-service limits that are too tight," said Sabastian Niles, a partner at Wachtell, Lipton, Rosen & Katz who advises clients on activism defense and corporate governance.

Vanguard will weigh many factors in assessing boards and push for a variety of viewpoints in corporate boardrooms. It is also expected to indicate in the updated guidelines it will support more disclosures on board diversity across gender, age, ethnicity and other aspects. It will likely support proposals to separate the roles of chairman and CEO if it thinks boards aren't providing enough independent oversight.

Vanguard's push to cast itself more aggressively as a corporate steward comes as the firm is locked in an intensifying price war and heightened competition with other firms. Across the industry, the importance of showing strong corporate oversight has become a selling point for asset-management firms.

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