

# PRI COORDINATED ENGAGEMENT ON THE DIRECTOR NOMINATION PROCESS: REQUEST FOR RESEARCH PROPOSAL

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## THE PRI INITIATIVE

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and to support signatories into incorporating these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating environmental, social and governance (ESG) issues into investment practices across asset classes.

## INVESTOR ENGAGEMENTS TEAM

With the mission of fostering sustainable long-term value creation through collaboration, benefiting the environment and society as a whole, the Investor Engagements team is responsible for coordinating and supporting collaborative investor dialogues with listed companies and policy makers on environmental, social, and governance issues. The team is currently managing 14 priority in-depth engagements. For further information please see <http://www.unpri.org/areas-of-work/clearinghouse/coordinated-collaborative-engagements/>

## BACKGROUND

Following a consultation with the PRI signatory base, the topic of the director nomination process was identified as a priority for a new collaborative investor engagement to be coordinated by the PRI Secretariat. A steering committee (SC)<sup>1</sup> consisting of PRI signatories representing more than USD1 trillion was formed at the beginning of 2013 to further define the parameters of the project and the engagement proposal.

The overarching mission of the SC is to better understand what investors can do to improve director nomination practices and enable boards to work most effectively in order to protect and create long

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<sup>1</sup> The SC members include: Church of England, Governance for Owners, ING Investment Management, Natixis Asset Management, Nelson Capital, Qube Investment Management, RPMI Railpen, and Rathbones.

term shareholder value.

Following several months of research and dialogue, the members of the SC have agreed that the engagement should have a market-by market focus to allow for individual market characteristics to be taken into consideration.

The ultimate objective is to engage with companies across different sectors and regions to improve disclosure and overall effectiveness of their director nomination processes, based on a set of market-specific good practice indicators.

The SC decided to focus initially on developed markets as:

- Existing enhanced disclosure of information on candidates and formal structures such as nomination committees do not ensure a transparent, independent and effective nomination process
- Box ticking by companies and lack of attention on the issue by investors in these markets affects the quality of director candidates and hence board effectiveness, which translates into significant risk
- Governance failures related to board composition at companies in developed markets may have a far reaching impact
- There is an opportunity to build on existing market expertise of SC members, while establishing good nomination processes for developed markets could set a paradigm for improvement in other markets

Within developed markets, the SC decided to identify good practices in three regions and seven different markets, namely Australia, Canada, France, Italy, Sweden, UK, and USA, for the following reasons:

- Different corporate governance models and market culture affect the director nominations process significantly, and there does not seem to be a one-size fits-all set of practices. Therefore it was considered important to look into a variety of perspectives.
- Identifying good practices at market level could first and foremost improve company performance within the chosen market, address the impact of individual market characteristics on the nomination process, and potentially inspire good practices in other markets.

## OBJECTIVES

The desired outcomes of the current initiative are to:

- Provide investors with a better understanding of existing good practices and to help them understand what it is sensible to expect of companies across different markets
- Enable investors to better understand what they can do to improve director nomination practices, and in so doing help boards to work more effectively as well as create and protect long term shareholder value.
- Facilitate investor engagement with companies to:
  - Promote corporate awareness and understanding of investor concerns on related issues
  - Encourage laggard companies to undertake an assessment of their director nominations processes in the hope they will feel empowered to adopt better practices
  - Encourage enhanced company reporting on the nominations process

## STEERING COMMITTEE PLANNED OUTPUTS

The SC will concentrate efforts on the following three outputs:

1. Market-by-market good practice indicators: Production of a series of market overviews, case studies and a list of good practice indicators for director nominations in each of the seven markets. A document outlining this research and indicators will be available as a resource for PRI signatories in June 2014.
2. Benchmark on 2 priority markets: Out of the list of seven markets originally selected, the SC has identified **2 priority markets** for piloting collaborative engagement with companies. Prioritisation was based on the following overarching criteria:
  - Clear need for market improvement
  - Company engagement is critical (vs. for example, dialogue with regulators)
  - A global collaborative engagement will achieve higher impact
  - Relevance to a potentially large number of signatories due to the size of the market
  - Relevance to a potentially large number of signatories due to extensive foreign ownership of the market

In order to assess individual company performance and guide future dialogue, the SC decided to commission a benchmark analysis of current corporate practices based on identified good practice indicators. The benchmark will be commissioned to an external research provider, with an open RfP process.

3. Collaborative engagement: After receiving the results of the market research and company benchmark the SC will set up the framework for a collaborative engagement with target companies in the two priority markets.

## REQUEST FOR PROPOSAL

To achieve output 2 above, the PRI Secretariat has allocated a small budget to commission external research with the purpose of providing a gap analysis, and mapping companies' current practices against relevant indicators identified by the SC. The analysis will allow for the identification of leader and laggard companies in the two priority markets.

This research is intended to support engagement by investors with companies in these two priority markets, in order to improve their disclosure and use of current good practices. The requested research will be shared with PRI signatories participating in the collaborative engagement, and will be referred to during the engagement process with companies. An abridged version of the research will also be shared with all PRI signatories.

## MARKETS

The research will focus on global companies in the following priority markets:

- USA
- France

## TARGET COMPANIES

The research will focus on companies making up the CAC 40 and the S&P 100.

## PROJECT APPROACH

The research will be mainly desk-based. For each company in the universe, the research provider will be expected to collect information on the selected indicators based on public disclosure such as company website, proxy materials, annual reports etc.

Please contact the PRI Secretariat for a list of selected indicators.

- USA – 12 indicators (tbc)
- France – 10 indicators (tbc)

## DELIVERABLES

1. In consultation with the SC, revision of the indicators for the 2 priority markets, in order to analyse disclosure and use of current good practices by the companies on the target list.
2. For each of the identified companies, a summary of their approach towards the director nomination process, and a completed set of data points / indicators for the market (in an excel spreadsheet as per point 3 below).
3. An excel spreadsheet containing the data collected for each company, including its source. The first draft of the spreadsheet will be circulated to the SC prior to final delivery to allow for comments to be taken into account.
4. Following completion of the research, recommendations for the companies from this universe that would be good candidates for investor engagement.
5. An executive summary, to be made available to all PRI signatories, which would describe the research methodology, overall patterns seen in the data and recommendations for investor engagement.

## RESEARCH TIMELINE

The service provider selected by the SC will be informed **by 8 April 2014**, and research will commence immediately. Research should be completed **by 20 May 2014**.

Please indicate a detailed timeline in your response within the above timeframe. The PRI Secretariat and the SC members will be available for a call with the selected service provider before research commences and midway through the research period to discuss preliminary findings and clarify any questions about the project.

## SERVICE PROVIDERS PROPOSALS

Proposals by service providers are requested **by 4 April** and should include:

- Price
- Envisioned turnaround time, bearing in mind the above timelines
- Related expertise/projects undertaken
- Brief biography of personnel carrying out the research
- Proposed methodology

## FURTHER INFORMATION

Interested service providers are welcome to contact the PRI Secretariat for further information on the research, indicators, and available budget.

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