Vanguard Investment Stewardship Insights

Voting Insights: Proxy contest at Box involving risk oversight and shareholder rights

September 2021

Vanguard publishes Investment Stewardship Insights to promote good governance practices and to provide investors and public companies with our perspectives on important governance topics and issues that come up for shareholder votes.

Company: Box, Inc. (Box)

Meeting date: September 9, 2021

Proposals: Items 1.1 through 1.3—Director Elections

How the funds voted

At a proxy contest meeting for Box, a U.S.-based cloud content management platform provider, the Vanguard funds voted on the management proxy card and supported the reelection of the three management director nominees. The funds considered but did not support the director nominees on the dissent proxy card.

Vanguard's principles and policies

Good governance starts with a company's board of directors. An effective board provides oversight of the company's strategy and is deeply involved in identifying and governing material risks. The board should be independent and reflect both diversity of skill, experience, and opinion and diversity of personal characteristics (such as gender, race, and ethnicity). We expect directors to bring a wealth of experience and diverse perspectives to the boardroom.

On behalf of the Vanguard funds, we carefully evaluate these board composition factors, among other considerations, as we analyze proxy contests. Our overall analysis focuses on

- the case for change at the target company,
- the quality of company and dissident nominees, and
- the quality of company governance.

In addition to constructing a well-composed board that is highly engaged in overseeing both strategy and risk, we expect companies to adopt governance structures that empower shareholders with a voice and a vote. Governance structures that empower shareholders and protect their rights can ensure that boards and management serve in the best interest of the shareholders they represent.

Analysis and voting rationale

Box has maintained a classified board structure since its January 2015 initial public offering. Under that structure, three of the ten board seats were up for election at the company's 2021 annual meeting. Box's incumbent director nominees included its founder and CEO. The dissident, Starboard Value LP (Starboard), sought three board seats because of concerns about Box's operational and financial progress, mergers-and-acquisitions strategy, and recent financial transactions. This proxy contest followed a March 2020 settlement between Box and Starboard in which Box appointed three new independent directors to the board, two of whom were approved by Starboard.

Ahead of the annual meeting, Vanguard's Investment Stewardship team held several engagements with Starboard leaders and met with each of the Starboard director nominees. Starboard leaders raised concerns about Box's strategy, capital allocation, and governance practices. They also underscored Starboard's history of constructive engagement with Box and noted their belief that they could continue positively contributing to Box through direct shareholder board representation. The dissident separately committed publicly to reappointing Box's CEO to the board if it prevailed in the proxy contest, should the CEO receive insufficient support.

We also engaged numerous times with Box independent directors and executives to inform our funds' votes. We discussed the company's history with Starboard as well as Box's recent financial transaction with the global investment company KKR & Co., Inc.—a deal that the Box team considered beneficial for shareholders. Box directors highlighted the company's improved financial performance and recent board refreshment (seven new independent directors joined the board in the last three years) as reasons to support the management slate. The company also said its current directors were highly engaged and committed to driving progress regarding Box's strategy, operations, finances, and governance.

Box has made several governance changes in recent years, including separating the CEO and chair roles and eliminating Box's dual share-class structure. We shared our perspective that the company's classified board structure, lack of proxy access, and lack of a shareholder right to call a special meeting still had room for improvement. After engagements with shareholders, including Vanguard, Box announced plans to further improve its governance practices by adopting proxy access—a shareholder right to place director nominees on a company's ballot.

Ultimately, the Vanguard funds supported the three incumbent directors. Several factors guided our decision. First, the time between this proxy contest and the March 2020 settlement between Box and Starboard represented a short, complex performance period from which to draw conclusions about Box's longer-term performance. Second, our analysis of Box's board composition did not support a strong case for change in light of the board's recent refreshment, which included two Starboard-approved independent directors and the company's qualified and engaged directors. Last, the board's continued governance improvements demonstrated to us the company's responsiveness to shareholder feedback and commitment to good governance.

What we expect from companies on this matter

On behalf of the Vanguard funds, we expect boards to represent the interests of all shareholders and to make independent decisions about a company's leadership, strategy, and risks to long-term value. We also expect companies to have governance structures in place that serve as a safety net to safeguard and support foundational rights for shareholders.

If a board lacks the appropriate composition to independently oversee areas of material risk and company strategy, we expect the company to conduct a thorough search to identify qualified directors who will bring the necessary skills to the boardroom.