

Vanguard Investment Stewardship Insights

Support for an independent chair at Boeing



April 2020

Note: Vanguard publishes Investment Stewardship Insights to promote good corporate governance practices and to provide public companies with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard's investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard's stance on governance matters beyond what a policy document or a single vote can do. We view it as a complement to our regular reporting. In the future, Vanguard intends to provide rationale for key votes and deeper levels of disclosure in our engagement case studies as part of our regular reporting. The vote insight below is the first in a series of commentaries that we will publish this proxy season.

Proxy voting rationale: The Boeing Company (Boeing)

Annual general meeting: April 27, 2020

Proposals: Item 1 – Election of Directors

Item 6 (shareholder proposal) – Policy Requiring Independent Board Chairman

“Shareholders request our Board of Directors to adopt as policy, and amend our governing documents as necessary, to require that the Chairman of the Board be an independent member of the Board whenever possible.”



How the funds voted

At Boeing's annual meeting on April 27, 2020, the Vanguard funds voted to support a shareholder proposal requiring an independent board chairman.

The funds also voted against Director Lawrence Kellner, who served as chair of the audit committee until late 2019.

Vanguard's principles and policies

Good governance starts with a company's board of directors. An effective board should be independent, diverse, and capable of overseeing strategy and governing risk. Boards must serve as an independent body to oversee risks that can hurt shareholder value and even threaten the health and safety of our broader communities.

Strong independent board leadership is a responsibility of the company's board of directors. While there is no “one-size-fits-all” approach to effective independent board leadership, the Vanguard

funds will consider supporting proposals seeking an independent chair if we believe the proposal will enhance the company's board leadership and benefit shareholders.

Analysis and voting rationale

Vanguard, on behalf of the Vanguard funds, has engaged with Boeing's directors and company leaders to assess the board's involvement in risk oversight and strategy after Boeing 737 MAX plane crashes in 2018 and 2019, and subsequent disclosures of failures by Boeing management and board in risk oversight and governance. Our engagements have focused on the company's response to both catastrophic events and the company's long-term strategy for identifying, governing, and disclosing material risks to investors.

Boeing received a shareholder proposal requesting that the company formalize its structure of having an independent board chair. In light of the events of the last few years, the board's response, and the significant impact on shareholder value, an independent chair of the Boeing board is currently appropriate. In recent months, the Boeing board took steps to separate its chair and CEO roles, and we believe the formalization of that independent leadership remains critical to shareholders. The Vanguard funds therefore voted to support the independent chair proposal. While Vanguard believes that strong independent board leadership may take different forms, the vote for this proposal underscores the importance of an independent chair as Boeing continues to respond to this crisis and rebuild trust with the markets.

At the time of the 737 MAX events, the audit committee was responsible for assessing and overseeing risk at the board level. After the crashes, the company formed a new safety committee of the board. However, given the oversight failures under the audit committee, we believe the committee chair should be held accountable. At Boeing's annual meeting, therefore, the Vanguard funds did not support the reelection of Mr. Kellner, the director, who served as chair of the audit committee through much of 2019.

What we expect from companies on this matter

We expect boards to make decisions on independent leadership that are in the best interests of their shareholders, which we communicate through direct engagement with companies and through voting. If a board lacks strong independent leadership, if its governance practices create an environment that prevents shareholders' voices from being heard, or if there is a significant governance failure—these factors may warrant the funds' support of an independent chair proposal and/or votes to hold directors accountable.