Vanguard Investment Stewardship Insights

A proxy contest at Genesco related to oversight of strategy and risk

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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: Genesco Inc. (Genesco)

Meeting date: July 20, 2021

Proposals: Items 1.1 through 1.9—Director Elections

How the funds voted

At a proxy contest meeting for Genesco, a U.S.-based retailer and wholesaler of footwear and apparel, the Vanguard funds voted on the management proxy card and supported the reelection of all incumbent Genesco directors. The funds considered, but did not support, the director nominees on the dissident 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 diversity of skill, experience, and opinion as well as of personal characteristics such as gender, race, and ethnicity. We expect directors to bring a wealth of experience and diverse perspectives to the boardroom.

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, the company should maintain a governance structure and culture that enable the board to apply independent oversight of strategy and material risks. A company's management team and its board of directors have a responsibility to create long-term value for shareholders and should be held accountable for long periods of underperformance.

When we engage with portfolio companies, we work to assess how well the board of directors understands the company's strategy and how deeply it is involved in identifying and governing material risks.

Analysis and voting rationale

The dissident, Legion Partners, a Los Angeles-based investment firm, contended that Genesco leaders had failed to address strategic and operational failures that had led to long-term underperformance relative to peers. Legion conducted a similar proxy contest in 2018; under a settlement, two of Legion's director nominees joined the board.

In advance of voting at proxy contests, we seek to understand both the dissident's case for change and the company's strategic vision for creating long-term value.

We engaged with Legion executives and each of its four director nominees to inform our analysis of their relevant skills and qualifications, as well as Legion's case for change. Specifically, Legion advocated for a strategic review that would identify options for divesting noncore businesses. It took issue with expenses that have grown faster than revenue and eroded profit margins. Legion also proposed leveraging the company's Journeys retail shoe chain to cross-sell other popular Genesco footwear brands.

We also engaged with Genesco board members and company leaders to discuss their strategy. Company leaders shared their vision for delivering sustained and profitable growth with holistic consideration of the company's operations. In our assessment, Genesco's plans adequately addressed historical operational concerns and prioritized long-term shareholder return.

Our evaluation of the current board's composition noted that the board had recently undergone a refresh, with four of nine directors serving in their roles for less than nine months. Although this board evolution was likely a direct response to the proxy campaign, it resulted in enhancements to the board's diversity characteristics, independence, and experience that compared favorably with peers in the consumer sector.

While the dissident raised concerns about Genesco's underperformance that aligned with Vanguard's analysis, we were comfortable that the current board directors brought the appropriate experience and perspective to move the company forward. The Vanguard funds therefore supported the directors on management's proxy card.

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. Directors should be knowledgeable about a company's strategy and capable of identifying and governing material risks.

We believe directors can be held accountable for long periods of total shareholder return underperformance in relation to peers. 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.

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