Investments

Private investors left in the dark by online AGMs

Virtual meetings make it easier for companies to ignore shareholder questioning, research finds

How it used to be: a traditional company annual general meeting © Bettmann Archive/Getty

Madison Darbyshire YESTERDAY

Private investors seeking to question company strategy at annual general meetings are increasingly being ignored as AGMs have moved online, research has found.

Only 36 per cent of questions posed to companies by shareholders at virtual AGMs in the US in 2020 were addressed at the event or after the fact, according to an academic study. In more than half of AGMs studied, shareholders faced obstacles to asking questions, and in 32 per cent of AGMs the shareholders were unable to submit questions at all.

"What this is telling us is that not having physically present people leads to less information being communicated," said Miriam Schwartz-Ziv, a lecturer at the School of Business Administration at the Hebrew University of Jerusalem and the study's author.

The new research study tracked the questions of two active shareholders, who attended 88 AGMs and submitted questions at each. Half of companies did not answer any questions posed by these shareholders.

The issue has been thrown into sharp relief as many companies look to move their AGMs online to increase investor participation. Using AGM transcripts from 94 companies in the US S&P 500 index in 2019 and 2020, the study found that the time managers spent answering questions fell by 14 per cent from 2019 to 10 minutes in 2020. The time taken to answer a question fell on average by 29 per cent this year.

Ms Schwartz-Ziv said questions may be ignored if management deems them irrelevant. “But at the end of the day, the company said they addressed all the questions, when we know this is not the case. It is more difficult for companies to say that . . . when they can physically see people lined up behind the microphone.”

Obstacles for shareholders included companies announcing at the meeting that they would only accept questions on proposals. The study found that of 11 companies which took this route, 10 did not answer any questions at all. “It was essentially a way for a company to kill questions,” said Ms Schwartz-Ziv.

Lawyers and regulators commenting on the study said the reduction in time for questions could be a function of more streamlined meetings, which do not suffer the lags and delays of in-person events. The average duration of an AGM fell by 18 per cent to 32 minutes in 2020.

They noted that the experience of two very active shareholders might not be indicative of the broader picture for investors, given companies’ lack of transparency about the content of their questions or those which were asked by others.

More than 2,000 companies held virtual AGMs this year, said Douglas Chia, a fellow at the Rutgers Center for Corporate Law and Governance, and rapid changes to AGMs mean the next few years will give an important indication of how the virtual approach can affect shareholder participation.

“Whether it is in person or virtual there will be companies prone to be shareholder friendly and transparent . . . and there will be companies that will essentially try to suppress the voices they don’t like, and virtual makes it easier for them to do that,” he said.

“Virtual does not create the intent or incentive . . . it just makes it easier for the bad apples to behave poorly.”