

Vanguard Investment Stewardship Insights

Voting insights: Workers' rights and board accountability at Boohoo



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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: Boohoo Group plc (Boohoo)

Meeting date: 18 June 2021

Proposals: Item 2 – Approve Remuneration Report; Item 4 – Re-elect Carol Kane as a Director; Item 7 – Elect Shaun McCabe as a Director



How the funds voted

At the 2021 annual meeting for Boohoo plc, a UK online fashion retailer, the Vanguard funds voted against the re-election of two directors and against the company's 2020 remuneration report.

Vanguard's principles and policies

Boards are responsible for overseeing a company's long-term strategy and material risks. As a result, Vanguard's Investment Stewardship team regularly assesses a board's understanding of company strategy and the board's own role in overseeing the identification, mitigation and disclosure of material risks, including social risks.

Another important consideration is director capacity and commitment. Directors' responsibilities are complex and time-consuming, and therefore we expect to see directors with appropriate workloads, so they can focus on their roles and deliver value for shareholders.

Performance-linked remuneration (compensation) policies and practices are fundamental drivers of sustainable, long-term value. On behalf of the Vanguard funds, our Investment Stewardship team evaluates executive remuneration proposals case by case and looks for pay plans that incentivise long-term outperformance versus peers and promote sustainable value for company investors.

Analysis and voting rationale

Where supply-chain risks are material to a company, we expect boards to oversee and govern those risks effectively and disclose them to shareholders. In our research, we reviewed investigative reports from July 2020 that uncovered that workers at one of Boohoo's UK-based suppliers were receiving pay below the minimum wage and enduring poor working conditions, which were exacerbated by the pandemic. These findings highlighted the board's failure to monitor and govern material risks in the company's supply chain.

In response to public reports on the findings, Boohoo commissioned an independent review of its supply-chain practices.¹ The review concluded that senior directors had been aware of the poor working conditions but had not acted immediately to remediate them. The review issued 17 recommendations that the company has since adopted through its Agenda for Change programme. Boohoo has amended its long-term incentive plan to make vesting contingent upon successful implementation of the programme. We consider these actions appropriate but remain concerned that the board did not pursue remediation at the first opportunity. Based on our analysis and research, we concluded that further accountability for the oversight failures was appropriate.

We recognise that the company has taken steps to increase disclosure about its response to and awareness of the findings. In this instance, however, we believe that the inadequate oversight by Boohoo's tenured founding executives played a fundamental part in the governance failures and enabled a corporate culture that allowed poor working conditions in the supply chain to transpire and continue. As the company's elections are staggered, the Vanguard funds voted against Boohoo's founder, who was on the ballot for re-election this year. The funds also did not support the re-election of a director whom we considered overboarded in line with our UK voting policy.

¹ Source: *Independent Review into the Boohoo Group PLC's Leicester Supply Chain*, 24 September 2020.

The Boohoo board recommended that shareholders support all director re-elections, explaining that the company was remediating the issues identified and that the founding directors play a pivotal role in the strategy of the business. We remain concerned that these events could erode society's trust in Boohoo and that damage to its reputation could harm future performance. In addition, we have strong reservations about the leadership and culture of a company that delayed action once issues were made known to directors.

We also evaluated Boohoo's remuneration report, which the company put to a shareholder vote. We are concerned that the newly proposed management incentive plan has the potential for excessively large payouts based solely on the compound annual growth rate and does not include other metrics that reflect long-term value creation or relative total shareholder returns. For this reason, the Vanguard funds voted against the remuneration report for the third consecutive year because of concerns about excessive quantum without an adequate rationale or a clear link to pay for performance.

What we expect from companies on this matter

Poor board oversight, coupled with inadequate disclosure of supply-chain risks, may lead to financial, legal and reputational risks that can jeopardise a company's long-term performance. Vanguard expects boards to have strong governance and oversight processes in place to identify, mitigate and remediate material risks, such as supply-chain issues. When a company has experienced a crisis that has resulted from governance and risk oversight failures, we expect boards to accept and recognise deficiencies and take suitable actions to hold directors and/or executives accountable for such material failures. In such cases, boards should consider appropriate methods of disciplinary sanction, which might include loss of employment or pay reductions for the most senior parties involved. Boards may also need to re-evaluate company and board culture that prevents proper risk escalation.

In analysing a company's remuneration, Vanguard expects clear disclosure of pay structures that promote long-term performance and outcomes that align executives' interests with those of shareholders. We also expect disclosure of directors' capacity and commitments where relevant.