

SUBJECT: **Grounds for Supporting Shareholder Proposal No. 4:**  
[Appoint Independent Chair](#)

COMPANY: **News Corporation**

SYMBOL: **NWS (NASDAQ)**

AGM DATE: **October 16, 2012**

LOCATION: **Los Angeles, California**

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Current Indices: S&P500, Russell 1000  
Sector: Movies & entertainment

This Proxy Alert provides grounds for supporting a shareholder proposal submitted to News Corporation by [Christian Brothers Investment Services](#) (CBIS) and members of the [Local Authority Pension Fund Forum](#) (LAPFF). Both CBIS and LAPFF have engaged with News Corp board directors over the need for governance reform over a prolonged period. Although this engagement has been positive in nature, the board continues to lack independent representation. Therefore the resolution is intended to demonstrate shareholder support for governance reform.

## Proposal

The shareholder proposal requests:

*That stockholders of News Corporation (the "Company") ask the Board of Directors to adopt a policy that the Board's Chairman be an independent director according to the definition set forth in NASDAQ listing standards, unless Company common stock ceases being listed there and is listed on another exchange, at which point, that exchange's independence standard should apply.*

We recommend a vote **FOR** this shareholder proposal.

## Our Rationale

The shareholder proponents call for an independent Chair to improve the board's oversight of management and risk and strengthen accountability to shareowners. We believe:

- The role of the Chief Executive Officer (CEO) and management is to run the company.
- The role of the Board of Directors is to provide independent oversight of management and the CEO.
- There is a potential conflict of interest for a CEO to be her/his own overseer while managing the business.
- Chairing and overseeing the Board is a time intensive responsibility; a separate Chair leaves the CEO free to manage the company and build effective business strategies.

- One individual holding the joint role leaves the company vulnerable, if the individual becomes incapacitated as both positions must therefore be filled.

## News Corp's Response

The company states in its [Definitive Proxy Statement](#) that an Independent Chair is not warranted since:

- 1) The company has strong governance practices;
- 2) The lack of conclusive data on the impact of independent board leadership on stockholder value;
- 3) The current board leadership structure is flexible and strong and would be weakened with a separate Chair and CEO; and
- 4) The board is independent and led by an Independent Lead Director.

CBIS and LAPFF maintain that:

- 1) Weak governance at News Corp threatens shareholder value and has increased the company's financial, legislative, regulatory, legal and reputational risk;
- 2) Compelling research and strong investor support exists for the practice of appointing an Independent Chair to lead the board; and
- 3) An Independent Chair at News Corp strengthens board oversight of management, business risk, and the interests of all shareholders.

In summary, by naming an Independent Chair, the company can create greater independence and objectivity on the board, begin to rebuild the public confidence and trust that is critical to a major news organization, and assure shareholders that governance failures are being addressed. The dual-class share structure and level of family control makes the establishment of an Independent Chair that is empowered to challenge management, foster a culture of accountability, and reflect the interests of the wider shareholder body, critically important to the long-term value of the company.

## Arguments

### 1. Weak corporate governance at News Corp

Events leading to the closure of *The News of the World* in July 2011, the U.K.'s most widely read Sunday paper, have raised investor concerns about the cost—in jobs, reputation, market position, and enterprise value—of inadequate oversight and maintenance of corporate culture within News Corp and its subsidiaries. As of August 2012, more than 4,700 people had been identified as victims of illegal phone-hacking in Britain and at least 60 people have been arrested since police began probes last year into hacking and bribery. These arrests include the former chief executive of News International. The company still faces multiple police investigations in the U.K. for hacking into mobile phones and computers as well as bribing public officials and the FBI is also conducting a wide-ranging investigation.

The fact that these revelations took years to uncover and are only now being addressed suggest a lax ethical culture and a lack of effective board oversight. Indeed, the UK parliamentary committee which investigated phone-hacking concluded earlier this year that there was a “lack of effective corporate

governance at News Corporation and News International”.<sup>1</sup> The committee also stated that it had been misled “corporately” by *The News of the World* and News International, and that News Corporation had exhibited “willful blindness” for which the company’s directors should take responsibility.

**COSTS TO SHAREHOLDERS:** Weak governance practices have come at a cost to shareholders. According to the proxy, the company has incurred “significant costs and expenses (including legal and professional fees) for the related investigations, litigation and civil settlements,”<sup>2</sup> including the following:

- A \$2.9 billion write down on its publishing segments<sup>3</sup>;
- A \$125 million charge taken for fiscal 2011 for the settlement of litigation at the integrated marketing services business; and
- A \$224 million charge for fiscal 2012 principally for the costs incurred for the U.K. and related investigations.<sup>4</sup>

In addition to actual charges and write downs, there is also the opportunity cost associated with News Corp’s inability to take full control of British Sky Broadcasting (“BSkyB”) in July 2011, after the company admitted public condemnation of phone hacking made the climate “too difficult”. The UK broadcasting regulator Ofcom has recently ruled, as expected, that BSkyB was ‘fit and proper’ to hold a broadcasting license.<sup>5</sup> However it was severely critical of James Murdoch, and said the hacking scandal “raise[d] questions regarding James Murdoch’s competence... and his attitude towards the possibility of wrongdoing in the companies for which he was responsible.” The regulator also stated that it would be monitoring the findings of the Leveson Inquiry and the results of ongoing criminal proceedings.

**CONCERNS OF MAJOR PROXY VOTING AGENCIES:** Proxy advisory firms in the U.S. and the U.K. have criticized the company’s corporate governance practices and the resulting risk to shareholders:

- Governance Metrics International (GMI), a provider of global corporate governance ratings and research has rated News Corp worst in class since it launched its ratings in 2003, consistently rating the board’s governance “F”;
- In October 2011, Glass, Lewis & Co., a governance analysis and proxy voting firm serving institutional investors globally, noted the board’s high number of inside or affiliated directors and expressed concern about the directors’ ability to perform proper oversight of management; and
- PIRC, a UK research and advisory consultancy, rated News Corp in the worst five percent of the S&P500 index constituents in its governance risk model.

## **2. Compelling research and investor support for independent board leadership**

The opposition statement notes the lack of conclusive and compelling data concerning the impact of board leadership on stockholder value by citing a nearly decade-old Wharton study.<sup>6</sup> However, a 2007 Booz & Co. study found that all of the underperforming North American companies whose CEOs had

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<sup>1</sup> para 229, *News International and Phone-hacking*, House of Commons Culture, Media and Sport Committee

<sup>2</sup> Pg. 38, Definitive Proxy Statement – News Corp.

<sup>3</sup> News Corp. Quarterly Earnings Statement, August 2012

<sup>4</sup> Pg. 37, Definitive Proxy Statement – News Corp.

<sup>5</sup> <http://stakeholders.ofcom.org.uk/binaries/broadcast/tv-ops/fit-proper/bskyb-final.pdf>

<sup>6</sup> “Splitting Up the Roles of CEO and Chairman: Reform or Red Herring?” Knowledge@Wharton, June 02, 2004.

long tenure lacked an independent board chair.<sup>7</sup> A more recent study found worldwide, companies are now routinely separating the jobs of chair and CEO: in 2009 less than 12 percent of incoming CEOs were also made chair, compared with 48 percent in 2002.<sup>8</sup>

Further, 2012 data from [GMI](#) shows that five-year shareholder returns are nearly 28% higher at companies with a separate CEO and chair. Furthermore, the cost of employing a combined CEO/chair is 151% of the cost of employing a separate CEO and chair, demonstrating an economic rationale for the separation of the roles. Not only do combined CEO/chair cost more than the sum of the compensation for a separate CEO and chair, separated roles also present a lower risk profile both from an ESG (environmental, social and governance) standpoint and an accounting risk standpoint. Not only that, but companies run by a separate CEO and chair show better long-term shareholder returns than those run by a combined CEO and chair.<sup>9</sup>

INCREASING SUPPORT FOR INDEPENDENT CHAIR: In the United States, the number of companies with independent board chairs has risen from 1% of S&P 500 companies in 2000 to 22% in 2011. In the United Kingdom and many international markets, an independent Chair is the prevailing practice. In the UK, only 3% of the FTSE all-share have joint chair/chief executive (13 companies).

Investor support for this reform remains strong. As of June 2012, there have been thirty-seven shareholder proposals filed at S&P 500 companies calling for separation of the CEO and chair roles and often specifically calling for the chair to be an independent director. Two resolutions to date have garnered over 50 percent support from shareholders (KeyCorp and Sempra Energy).

Board members have also demonstrated a preference for separation. According to a 2010 corporate governance survey of 400 board members by Sullivan & Cromwell LLP, approximately 70% of respondents believe the head of management should not concurrently be the head of the board.

AN INDEPENDENT CHAIR AT NEWS CORP: Many shareholders and proxy voting firms have voiced support for an Independent Chair at News Corp:

- Eighteen investors with more than US \$1.6 trillion in assets under management and 13.4 million News Corp Class A shares sent a [letter to the News Corporation board](#) in August 2012 expressing support for the CBIS/LAPFF shareholder resolution seeking the appointment of an independent chair.
- Prominent investors with over \$400 billion in assets under management, including CalPERS, Hermes Equity Ownership, the Church of England, and the Local Authority Pension Fund Forum, expressed support for the resolution<sup>10</sup> to appoint an Independent Chair at the 2011 News Corp annual shareholder meeting.

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<sup>7</sup> *The Era of the Inclusive Leader*, Booz Allen Hamilton, Summer 2007.

<sup>8</sup> *CEO Succession 2000-2009: A Decade of Convergence and Compression*, Booz & Co., Summer 2010.

<sup>9</sup> Less than one percent of companies in the sample (defined as companies with a market cap in excess of \$20 billion) with a combined chair and CEO score an ESG rating of above average compared to almost 20 percent of companies with separate roles. Corporations with combined CEO and chair roles are 86 percent more likely to register as “Aggressive” in GMI’s Accounting and Governance Risk (AGR®) model.

<sup>10</sup> CBIS filed a floor resolution to request the appointment of an Independent Chair at News Corp. in 2011.

- Glass Lewis confirmed its preference for independent board leadership in its analysis of the News Corp proxy statement in 2011: “While evidence of the impact of separating the roles of chairman and CEO is not determinative, upon a full review of the relevant literature, Glass Lewis believes that the installation of an independent chairman is almost always a positive step from a corporate governance perspective and serves the best interest of the Company and its shareholders.”

### **3. Lack of independence on and make-up of the News Corp board**

While the board notes in the proxy that, “Independent oversight of management is critical to the Company’s corporate governance structure,” it goes on to state that it does not consider the mandated separation of the Chairman and CEO necessary to accomplish this goal. “The Company achieves independent oversight of executive management through the composition of the Board, use of an independent Lead Director and the Company’s corporate governance policies and practices.”

BOARD COMPOSITION: The composition of the board has been a contentious issue. At the 2011 AGM, shareholders voiced opposition to Murdoch family members and board members perceived to have inside ties to the company and/or family. James Murdoch received a vote against of 34.9%, more than triple from the prior year. The vote against Lachlan Murdoch was ten times higher than the previous year to more than a third of all votes cast. Subtracting the nearly 40% of voting shares controlled by the Murdoch family, votes against James and Lachlan Murdoch rise to 66% and 64%, respectively.

Despite these high votes and recommendations opposing the re-elections from major proxy voting agencies and institutional investors, including ISS, Glass Lewis, PIRC, Australian Council of Superannuation Investors, CalPERS, and CalSTRS, both were reappointed in 2012.

Remaining on the board in 2012 is Natalie Bancroft, who also received a high vote (31%) against reappointment at the 2011 AGM.

Of Lead Independent Director Sir Rod Eddington, leading proxy voting agency ISS noted in its analysis of the proxy in 2011 the lack of robust and substantive duties: “In the case of News Corporation, the board's lead independent director is not tasked with all of the responsibilities necessary to counterbalance a combined CEO/chairman, because he merely reviews and does not necessarily approve meeting schedules, agendas, and information sent to the board; less than two-thirds of News Corporation's directors are independent; and the phone hacking scandal suggests that stronger independent board leadership is needed.”

Standing for election for the first time in 2012 is former Colombian President [Alvaro Uribe](#), who has been accused by prosecutors of ordering illegal wiretaps against political opponents, journalists, and Supreme Court justices.<sup>11</sup> Also standing for election as an independent board member is former U.S. Secretary of Labor Elaine Chao, who until August 2012 was a regular contributor to News Corp-owned firm Fox News.

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<sup>11</sup> Lee, Edmund. “News Corp. Picks Board Member With Ties to Colombia Wiretaps.” *Bloomberg*. Web. 5 Sept. 2012.

Regarding his own performance, Rupert Murdoch said he "failed" to make any attempts to find out what was going on at his newspaper and claimed he was in the dark about the extent of phone hacking. The Culture, Media and Sport committee in the House of Commons wrote in May 2012, that he "turned a blind eye and exhibited willful blindness to what was going on in his companies and publications," and concluded that he "is not a fit person to exercise the stewardship of a major international company."

NEWS CORP CORPORATE GOVERNANCE POLICIES: Although the proxy claims that News Corp's corporate governance policies help to achieve independent oversight, the company does not provide guidance or explain the triggers or events that may cause the board leadership structure to be evaluated or changed. The guidelines state only: "The Board shall be responsible for establishing and maintaining the most effective leadership structure for the Company. To retain flexibility in carrying out this responsibility, the Board does not have a policy on whether the Chairman of the Board shall be an independent member of the Board."

While the Board states that a combined Chair and CEO enables consistent direction with one clear leader, the proponents believe that any conflict can be eliminated by clearly spelling out the different responsibilities of the Chair and CEO.

LACK OF RESPONSIVENESS: The board has not taken sufficient steps to address shareholder discontent on numerous governance concerns raised by independent shareholders, including the high votes against directors at last year's annual meeting or about the dual class structure that not only disenfranchises non-voting Class A shareholders but prevents Class B shareholders from effecting change due to the nearly 40% of voting stock controlled by the Murdoch family. The board's inaction led Nathan Cummings Foundation to file a shareholder [proposal to eliminate the dual-class share structure](#), which will be presented at the company's 2012 annual meeting.

Furthermore, the board has not addressed the vocal support from a broad range of institutional investors at the 2011 annual meeting for an independent chair, nor did the board respond to a letter from major Class A shareholders calling for this reform.

Finally, despite a year of continuous dialogue with the company, the Church Commissioners and the Church of England Pensions Board sold its total £1.9m shareholdings in News Corp, stating in August 2012: "The Church of England was not satisfied that News Corp. had shown, or is likely in the immediate future to show, a commitment to implement necessary corporate governance reform."

## Summary and Recommendation

An Independent Chair provides important checks and balances in order to minimize the concentration of power on the board and improve board oversight. We believe that separation would provide greater accountability of management to shareholders and greater independent oversight of management, including the CEO, by the board.

We recommend a vote **FOR** this shareholder proposal.