



Board leadership and the upcoming AGM season

Take-aways for boards of directors

The last two years of Covid-inflicted uncertainties have not only impacted the exchange and collaboration between the executive management and the board of directors, but also the view and expectations from the market vis-à-vis the board of directors and its leadership. In this article, SWIPRA Services highlights some of the key findings from their most recent Corporate Governance Survey, how they see some of these findings reflected in the proxy advisors' and institutional investors' priorities for the 2022 AGM season and what challenges the board of directors will face beyond this year's shareholder meetings.

Market views on corporate governance and sustainability in 2021

The ninth edition of the SWIPRA Survey broadly confirmed many presumptions of experts in the field ([summary of results](#)):

- Environmental and social items shouldn't be seen in isolation but need to be fundamentally anchored in a company's corporate governance framework; a view that was shared by 94% of participating institutional shareholders and 78% of companies
- Swiss boards enjoy a high level of confidence from the majority of the institutional shareholders, but only a minority of 33% of shareholders believe they are taking sufficient responsibility with respect to corporate sustainability matters
- Boards' ESG-relevant strategic considerations regarding board composition, capital allocation or remuneration often do not reach or are not understood by institutional shareholders
- The meaningfulness of sustainability reports is considered sufficient by only 13% of shareholders, mainly because most (90% of shareholders) do not understand how ESG topics are linked to a company's strategy
- With respect to external audits of non-financial reporting, only 32% of investors and 12% of companies indicated that benefits would outweigh costs. This is in contrast to the role of the internal audit, which is considered (highly) value adding by almost half of the corporate and investor survey participants.





Implications for the 2022 AGM season

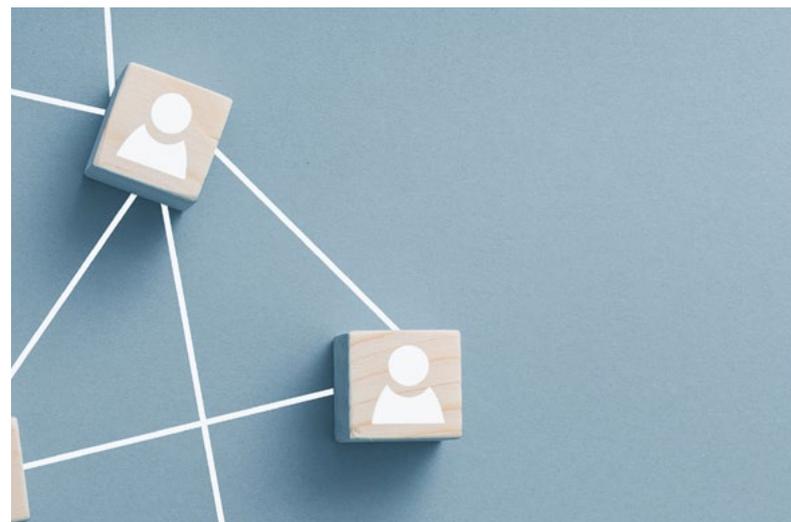
The revised policy and expectations documents of proxy advisors and large institutional investors reflect some of the survey's findings. Evidently, they should be on the radar of companies and their boards. Proxy advisors and institutional investors state the following priorities for the upcoming AGM season:

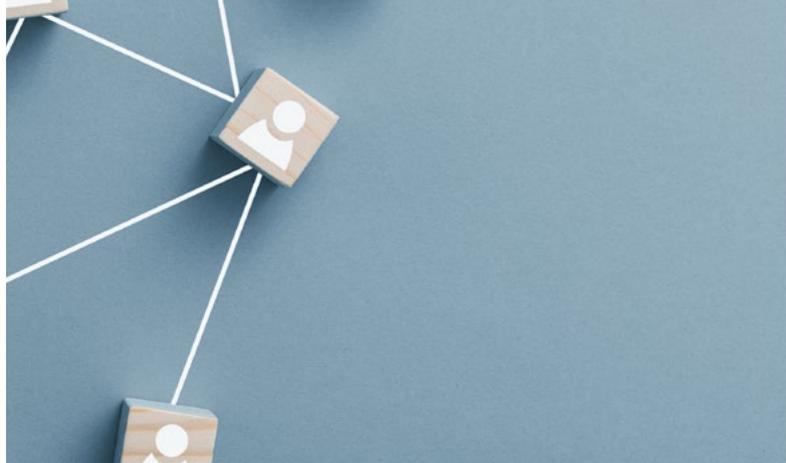
- Boards should clearly outline how they include ESG considerations in their regular work plan and how responsibilities for these topics (beyond the legally required) are assigned amongst the board and its committees
- Board compositions are under increased scrutiny and shareholders not only seek to understand whether a board is organized efficiently and effectively, but also whether it has the right skills and experiences at the table now and in the future. They also like to see how this is reflected in a regular evaluation process. The most pressing issue in this regard is gender representation, which, compared to other EMEA countries, shareholders assessed relatively leniently in Swiss companies so far. This will no longer be the case.
- Decisions and communication regarding strategically relevant ESG factors can no longer be postponed. Companies are simply expected to understand and speak about the risks and opportunities evolving from how they do business with their suppliers, employees and customers to ensure long-term success.
- Compensation systems are often not aligned with the aspired strategic priorities of companies, in particular with respect to non-financial objectives. From the investors' point of view, more pressing than adjusting compensation systems prematurely is to increase transparency on existing systems, specifically related to performance target levels and non-standard payments (e.g. discretionary adjustment, replacement payments, arrangements with leaving members, etc.).

- Treatment of employees, specifically with respect to compensation, is also considered crucial and should be aligned with the often-stated importance of employees for a company to prosper. The focus in this regard will be on an equal development of compensation levels within the company, e.g. on the CEO to average employee pay ratio and the gender pay ratio.
- Net-zero targets were widely announced in 2021, but the substance behind and timeline to achieve them as well as the related accountability within the company are not always clear yet. Boards are expected to reach out to their stakeholders and clearly outline how they intend to lead the company towards these long-term goals in order to embark on this journey together with their stakeholders.

Implications for the board of directors

The pace of the current developments and expectations towards companies and their boards is increasing at an ever-faster rate. A notable example is a shareholder proposal at the US chemical company DuPont, which was asking the board to produce an annual report on plastic pollution. In 2019, when the proposal was first put on the agenda, the proposal was supported by only 6.7% of shareholders. The same proposal in 2021 was approved by 81.2%. Especially for issues related to a broader set of ESG issues, AGM support for shareholder proposals has increased on a broad basis, and the SWIPRA Survey 2020 revealed that institutional shareholders tend to be willing to support other shareholders' proposals. This will be facilitated by the amended Swiss Code of obligations coming into force in 2023 with lower hurdles for shareholders to put proposals on the AGM agenda.





These developments were discussed by a panel at the SWIPRA Survey event in December 2021 and during the [KPMG Board Leadership Circle](#) event with high-caliber board members in January 2022. Key take-aways for boards for 2022 and in preparing for the new vote on the non-financial report 2024 are:

- Boards need to clarify and foster transparency within as well as outside their organizations on who is driving the ESG integration in the company and which parties are involved to what extent.
 - ESG board committees may be a way to make the related responsibilities very apparent and can drive this process, but often have the drawback of creating duplications or ambiguities with respect to leadership with, for example, the full board and the audit or the compensation committees. In addition, they may not be suitable for smaller boards.
 - Boards need to review their agendas and organizational rules to ensure they are complete and explicitly extended in the ESG space. Only because ESG has been an implicit part of board and committee discussions already in the past does not mean internal and external stakeholders explicitly understand this. Providing more transparency on what the board is already doing may therefore be a good starting point.
 - Review the risk and compliance management systems with respect to your suppliers' ESG behavior. While the financial materiality of such factors at supplier companies themselves may be difficult to assess and is often not considered high, the reputational damage arising from insufficient screening may be substantial for your company.
- Stakeholder engagement will become even more important during the implementation phase of the say-on-sustainability AGM vote. Boards and in particular their chairs are asked to regularly interact with their stakeholders and familiarize them with the envisioned journey. All parties involved in this dialogue are currently learning from each other, so waiting on the sidelines until the "perfect" solution has been developed by the regulator or other market participants may keep you from building up the required knowledge and reputation.
 - Culture, incentives and compensation are increasingly scrutinized by the market to assess whether a company is actually "walking the talk" as suggested in the strategy outlooks and purpose statements. The structure and intention of the incentive system is, therefore, a crucial task for the full board as it shapes the culture of the company. The compensation committee will have to follow suit and ensure that the compensation system ensures that financial as well as non-financial incentives are aligned with the strategic priorities and only rewards desired tasks and behaviors.

An integrated and tailored approach

The current developments with respect to board leadership and non-financial transparency are complex and highly interlinked. To approach them appropriately and find solutions to deal with these challenges, a comprehensive view is required. Focusing too much on a single item and ignoring the many interactions with other topics may solve the problem at hand but create many new issues at the same time. To tackle these complexities and offer companies and their boards of directors the support needed to navigate these challenges, SWIPRA Services provides a holistic set of services tailored to the needs and requirements of your company.





Swiss boards' assumed responsibility in CSR

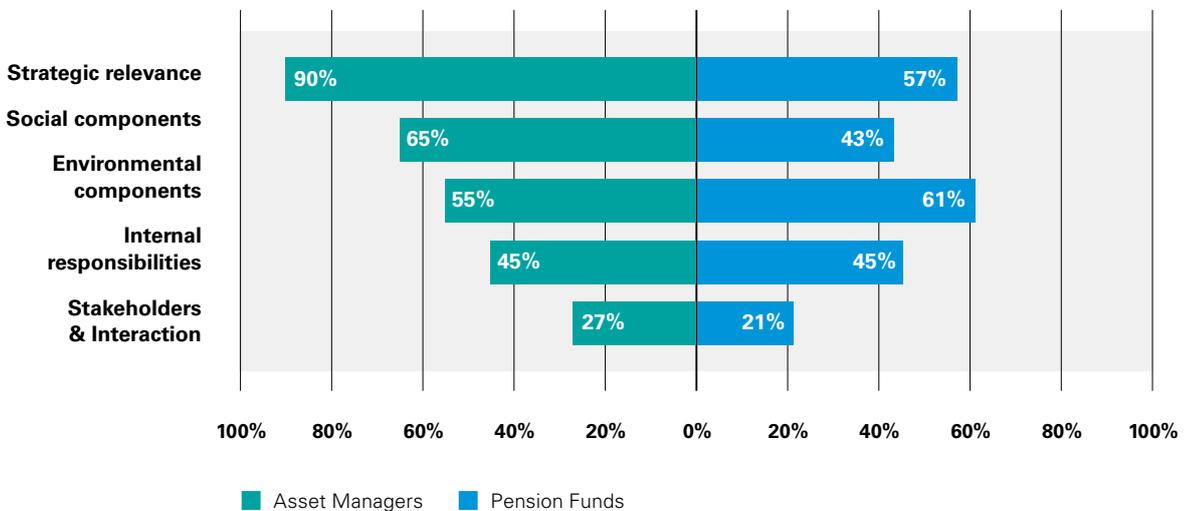
SWIPRA Survey 2021



Questions: In your view, do listed Swiss companies, in particular their boards of directors, generally take sufficient responsibility in topics related to corporate social responsibility?

Missing pieces of relevant information in sustainability reports

SWIPRA Survey 2021



Question: What relevant information is missing to make these reports more meaningful?

About the SWIPRA Survey on Corporate Governance and Sustainability

The Survey queries all companies listed on the Swiss Performance Index SPI® as well as institutional shareholders from Switzerland and abroad on corporate governance in Switzerland. In 2021, 76 Swiss companies listed on the SIX Swiss Exchange, representing about 73% of the market capitalization of the SPI®, and 73 institutional asset managers and asset owners from Switzerland and abroad, representing at least 30% of the equity investments managed worldwide (Source: IPE) and including the 10 largest institutional investors throughout the largest 100 SPI companies.



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On the 2022 agendas: As every year, KPMG has put together the most pressing topics for board members, focusing on the critical issues that should be high on board, audit committee, nominating and governance committee, and compensation committee:

- [On the board of directors](#)
- [On the audit committee](#)
- [On the compensation committee](#)
- [On the nomination committee](#)

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