

### Observations from the Swiss AGM Season 2023: Focus on reputation

Zurich, June 21<sup>st</sup>, 2023 – In the 2023 Swiss AGM season, boards were again confronted with higher expectations from their stakeholders and faced more criticism from their shareholders. Also, proxy advisors have started to take a more nuanced view at boards. Consequently, board chairs and board committee chairs were held accountable for issues identified within their respective responsibilities.

Compensation amounts were increasingly scrutinized, not only because of increased executive pay packages, but also due to widening gaps between management and employee pay levels. The inclusion of ESG incentives in management pay plans increased again, but the related targets and resulting payout remained mostly unexplained to external observers.

75% of companies deal with the ESG topic in the full board, while only 25% have formed a specific sustainability committee. ESG efforts are most often reported according to the GRI standard (over 80%), few according to TCFD. Slightly more than half of the SPI100 companies include their non-financial ESG information as part of their annual report and approximately 40% have some form of external verification on it.

The average female representation on boards of the 100 largest Swiss companies has for the first time crossed the 30% threshold.

#### Board of Directors – Increasing reputational exposure

- Board elections received higher levels of AGAINST votes overall, with the 10% most contest board elections receiving an average of 44% AGAINST votes (excl. anchor shareholders).
- Specific board functions are increasingly held accountable for developments in their respective field of responsibility

### Next Events



Cooperation-Partner of SWIPRA Services

#### Board Workshop I/2023 – Non-financial Reporting

by invitation only

#### Board Workshop II/2023 – ESG and Reputational Management

by invitation only

#### SWIPRA Corporate Governance Survey 2023

Presentation / discussion with distinguished guests  
November 23, 2023

- Gender diversity increased again with an average representation of female directors in SPI100 boards crossing the 30% mark for the first time
- 25% of the SPI100 companies have opted to establish a specific sustainability committee, often paired with governance and/or nomination

Expectations towards boards and the related reputational pressure are notably increasing, not only in the media: Boards are now formally responsible for the non-financial report to be published and voted on as of 2024. Also, the new Swiss Code of Best Practice in Corporate Governance explicitly expects that board lead their company's sustainably efforts, addressing the expectations and requirements of all stakeholders. As experience shows, the board is increasingly in the spotlight and has become even more of a key reputational risk factor when stakeholders perceive the board's actions as ethically and socially irresponsible.

Consequently, boards are under increased observation by shareholders. In 2023, the median fraction of AGAINST votes in board chair elections increased by 39% to 10.5% in 2023, corresponding to more than a five-fold increase compared to five years back. Similarly,



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## For Boards to watch towards the 2024 AGM

**Board of Directors:** Know the demands of institutional shareholder and proxy advisors and engage with them, addressing the increasing expectations from shareholders and proxy advisors of individual board members with specific roles, regarding board composition, overboarding and independence assessments

**Compensation:** ESG-related compensation elements, pay-for-performance and disclosure

**Non-financial reporting:** Beyond just a compliance exercise, Boards need to cope with stakeholders' expectations and understand reputational effects of sustainability reporting, positive or negative.

in companies where shareholders judged the remuneration report critically, compensation committee chairs received a median level of AGAINST votes of 17%, more than three times as much as their fellow board colleagues (see Figure 1). And nomination committee chairs of companies with more than 30% female board representation faced 8% AGAINST votes, compared to 22% for those with less than 30%. However, 2023 also showed that particular board organization arrangements, such as a combined CEO-Chair, can be acceptable if there is a business rational and a solid governance framework in place.

Despite more responsibilities and higher pressure, board sizes of SPI100 companies have remained unchanged, with a median of seven members for non-SMI and 11 members for SMI companies. Boards therefore need to become more efficient and effective.

This requires process optimization, a suitable board composition, and in particular sufficient availability of its members.

During the 2023 AGM season, gender diversity further increased. The average fraction of female representation on SPI100 boards increased to 30.8%, passing the 30% hurdle ahead of the regulatory deadline as of 2026 for the first time. The average fraction of female board members amongst newly elected directors reached 34%.

### Compensation

- The development of CEO total compensation levels diverged between companies in the SMI, with a 13.5% increase, and SPI100 ex-SMI companies, with a 13.3% decrease

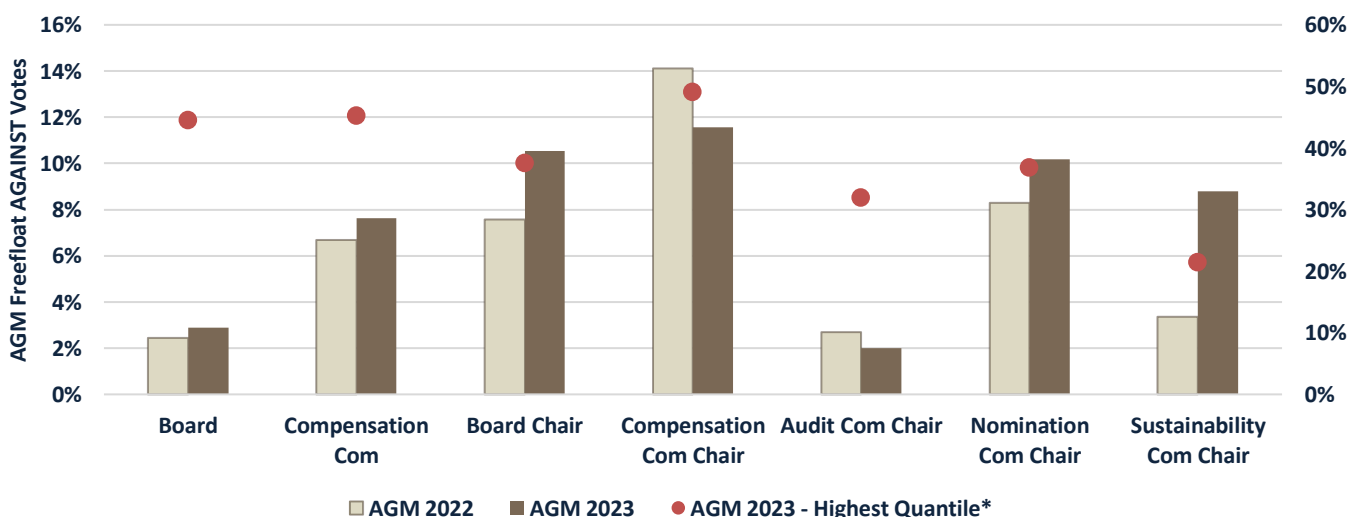


Figure 1: Function-specific specific board elections in SPI 100 companies

Median AGM AGAINST Votes (excl. anchor shareholders)

\* Corresponding to the highest decile for Board elections and the highest quartile for all other displayed agenda items.



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- Average bonus payments relative to base salaries of CEOs, often a good indicator for performance achievement levels, were 20.9% lower in 2023 compared to 2022
- The fraction of AGAINST votes for management compensation amount approvals increased to over 30% for the most contested quarter (excl. anchor shareholders). Higher variable pay levels at SMI companies, driven by higher levels of share-based, long-term compensation, triggered shareholder concerns regarding executive compensation total amounts.

For 2022, 60% of companies disclosed lower bonus (short-term incentives, STI) achievement levels for their CEOs (compared to 19% last year). CEO STI payments relative to fix pay decreased to 95% (down from 133%) for SMI and to 59% (down from 69%) for the other companies. However, median total pay only declined for non-SMI CEOs, from 1.84m in 2021 to 1.60m in 2022. For SMI companies, total CEO median pay levels increased to CHF 8.62m, up from CHF 7.59m. This increase was often driven by a higher allocation of share-based long-term incentives in SMI companies, raising concerns with shareholders.

The average level of AGAINST votes on executive compensation amounts increased from 16.9% to 28.7% for the 25% most contested votes. At the same time, AGAINST votes on compensation reports, often a proxy for shareholders' acceptance of the compensation system, remained largely unchanged. Shareholders thus become more concerned with the overall compensation quantum. One aspect for criticism may be the pay ratio, measuring the CEO's total compensation relative to a company's average employee pay, which continued to increase in 2023. In times of overall higher costs of living, this is not a positive signal that boards act in an overall socially responsible manner.

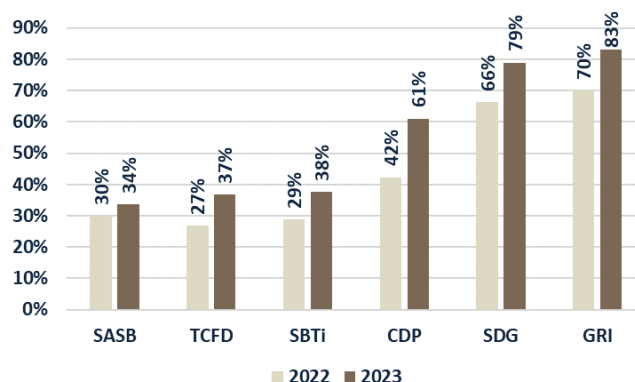
The number of companies including sustainability metrics in their variable compensation plans increased to 63% for the financial year 2022, up from 47% a year

ago. However, these targets remain unclear to the external observer. 59% of these ESG targets were qualitative measures, without any further information on what is assessed. Only 21% of the ESG achievement levels are measured against disclosed quantitative ESG target levels that generally are also reasonably comprehensible. Without any further disclosure, such ESG performance elements can quickly become a reputational risk. Especially if such opaque ESG indicators lead to higher performance levels and thus higher payouts, which often was the case in the past.

## ESG reporting and voting behavior

- More companies apply ESG reporting standards for their sustainability reporting. GRI is the most widely spread ESG reporting standard used by 83% (up from 70% a year ago). CDP reports saw the biggest growth, from 42% a year ago to now 61% of all SPI100 companies, whereas companies reporting according to TCFD remain a minority of currently only 37%.
- More than half of the SPI100 companies (57%) include their non-financial disclosure as a separate chapter in their annual report and, therefore, do not publish a separate sustainability report.
- Almost two out of five companies have an external review on parts of their non-financial reporting

**Figure 2: Companies' ESG Disclosure Frameworks Annual Reporting FY2022**



In the past year, there was a significant pickup of CDP reporting amongst the SPI100 companies (see Figure 2). CDP reports and scores are increasingly used by



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international companies to assess their global supply chains in terms of sustainability. This increase in CDP reporting shows that sustainability reporting requirements have a high impact along the supply chain, cascading down from the largest global companies to smaller local ones. Although companies not falling under a regulatory obligation to report their non-financial information will eventually be asked to do so by their suppliers and customers.

The recently published ordinance regarding the publication of a climate report in accordance with TCFD., starting with the business year 2024 (requirement on a comply or explain basis), has not led to a significant pickup of this standard. For 2022, 37% of the companies published some form of a TCFD-aligned report, up from 27% a year ago. While some companies indicated that they are or will be implementing TCFD, others will opt for using their existing GRI and/or CDP reporting as an alternative to a TCFD report (on a comply or explain basis). Companies are also monitoring whether and how the various standards are developing and how fast a convergence could take place.

Most companies within the SPI100 (56.5%) provide their sustainability information in a separate chapter of their annual report. This inclusion in the existing report indicates that these companies have already aligned their financial and non-financial reporting schedule, a requirement for next year's shareholder vote on the non-financial report. Yet the quality of these disclosures varies widely, and most companies will face the challenge of providing a more tangible, more comprehensible and better strategically aligned non-financial report to the 2024 AGM.

### Proxy Advisors

- Proxy advisors' views on what constitutes good governance deviates notably and may lead to opposing voting recommendations

- Recommendations by proxy advisors can, in specific situations, still have a significant influence on institutional shareholders voting behavior
- Companies should by all means avoid focusing solely on proxy advisor recommendations as institutional shareholders are increasingly use their own policies for specific topics

The most influential proxy advisors in Switzerland, ISS, Glass Lewis, and Ethos advised their clients to vote AGAINST an average of 13% of agenda items. There is variation, however, on how proxy advisors consider certain agenda items and how they escalate identified issues over time. Ethos, for example, has recommended to vote against 49% of all SPI100 remuneration reports, 41% of all executive remuneration amounts, but only 17% of all compensation committee elections. ISS on the other hand, recommended against 29% of all remuneration reports, 23% of all compensation committee elections, but only 9% of all executive remuneration amounts. Besides the overall level-difference in AGAINST recommendations, Ethos and ISS clearly follow a different strategy to voice and escalate compensation-related concerns with companies.

Proxy advisors continue to have a notable impact on institutional shareholders and through them on AGM outcomes. If all of them recommend their clients to vote against an AGM item, this will on average lead to 66% AGAINST votes. The estimated overall level of influence of individual proxy advisors has largely remained unchanged over the past years. On average, ISS is expected to influence about 23% of shareholders (excluding anchor shareholders), followed by Glass Lewis 14% and Ethos 13%.

However, companies are well-advised to not focusing too much on individual proxy advisors as institutional shareholders have started to increasingly use their own policies. As shareholders start to follow their own policies, companies may suddenly be confronted with a worse than expected voting outcome despite positive



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recommendations from a proxy advisor. In 2023, a board election that received a FOR recommendation by ISS was subject to a median fraction of AGAINST votes of 3.6%. However, the 25% of elections with the most opposition, over 200 elections, received a median fraction of AGAINST votes of 21% (excluding anchor shareholders). To avoid such an unexpected outcome, it is in the boards' own best interest to reach out to their company's main shareholders ahead of the AGM and discuss potentially contentious proposals.

### Revision of the Articles of Association

Close to 90% of the SPI100 companies have amended their Articles of Association to be in line with the revised Swiss corporate law. The introduction of the capital band and the option of a virtual AGM were the most discussed items ahead of the AGM. Thirty companies introduced a capital band, receiving a median level of AGAINST votes of 7.1%, while one company was not able to secure the legally required two-thirds majority for this change in the articles. 67 companies proposed to their shareholders in 2023 the possibility of virtual AGMs in the future. While all these proposals passed, the median fraction of AGAINST votes of 17.7% indicates a considerable reservation by institutional shareholders regarding this option. This view was primarily supported by Ethos.

### On the SWIPRA's AGM analysis 2022/2023

SWIPRA, together with researchers from the University of Zurich, analyzed the results of the AGMs of the 100 largest listed Swiss companies held between July 1, 2022, to June 14, 2023. Unless otherwise indicated, shareholder votes analyses exclude holdings of large anchor shareholders such as families or the government. ISS recommendations are not publicly available and are approximated by market observations. Data on international developments was obtained from Insightia. The overall analysis contains more data than described here. For further information and individual assessments, please contact SWIPRA.

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SWIPRA Services provides **corporate governance and corporate social responsibility services** for companies and their boards of directors. We advise our clients in a hands-on manner, considering relevant stakeholder opinions, with the aim of increasing the company's value in the long term, based on principles of value-based management and empirically relevant criteria. [www.swipra.ch](http://www.swipra.ch)

SWIPRA Services is working with a high-profile think tank to further develop corporate governance and CSR in Switzerland.

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