

6th SWIPRA survey on the development of corporate governance in Switzerland

Decisions and responsibilities - Decreasing influence of proxy advisors and growing demands on the board of directors

Zurich, November 7, 2018 - The 6th SWIPRA Corporate Governance Survey provides new insights into the role of proxy advisors. Large international investors are increasingly using standardized data from proxy advisors as a basis for their own decisions instead of just following voting recommendations. In view of the diminishing direct influence of proxy advisors, the dialogue between the board of directors and shareholders, which fosters a mutual understanding, continues gaining importance. The SWIPRA survey shows that investors are demanding more information on board composition, board member independence and the board's accountability regarding corporate social responsibility (CSR). Issues relating to remuneration and disclosure remain highly relevant. In particular international investors are of the opinion that Swiss companies do not act in a sufficiently socially responsible manner and that CSR goals are not adequately anchored in variable compensations' performance assessments.

Less proxy advice and more dialogue

Proxy advisors are important, but controversial players in the governance landscape. Their work is assessed differently by market participants: According to the SWIPRA survey, 72.9% of the participating institutional investors believe that proxy advisors carry out their analyses with sufficient care. This view is shared by only 35.5% of the participating companies.

International institutional investors are increasingly using the proxy advisors' standardized analyses instead of their voting recommendations. This makes portfolio companies comparable and enables investors to conduct their own analyses to form an opinion. In the survey, 71.4% of the international institutional investors state that they primarily use such standardized governance information from their proxy advisors; 71.4% of the Swiss asset managers and 90.0% of the pension funds, on the other hand, mainly rely on actual voting recommendations. The increasing use of own analyses by institutional shareholders can explain the decreasing direct influence of proxy advisors on the outcomes of annual general meetings (AGM) in Switzerland (see [SWIPRA AGM Analysis 2018](#)).

This development has led to greater demand for company-specific information, in particular on compensation, which was the most important engagement topic for 40.0% of the institutional investors during the 2018 AGM season. This dialogue is necessary as half of the investors are still dissatisfied with the companies' disclosure regarding compensation, especially on pay for performance.

Barbara Heller, Managing Partner at SWIPRA, comments: "Regular engagements are important to build trust between shareholders and the board of directors. Shareholders want to understand the relationship between the strategy, the composition of the board and the executive management as well as the incentives provided. This transparency is often missing, leading to potential conflicts between companies and their shareholders."

Trust and diversity in the Board of Directors

According to the SWIPRA survey, 64.6% of the investors trust the boards of Swiss companies. For 76.2% of the investors and 91.9% of the companies, succession planning within the board of directors is



important. However, opinions regarding the disclosure of this information differ: 69.2% of the companies consider the information provided on succession planning as adequate, whereas 57.9% of the investors judge such information as clearly not sufficient.

Compared to previous surveys, SWIPRA observes shifts in the importance of board member selection criteria. The proportion of issuers who consider a director's professional industry experience as essential rose from 68.8% in 2016 to 75.7% in 2018 (institutional investors: unchanged at 81.0%). General management experience is considered less relevant by the institutional investors, falling from 73.3% in 2016 to 50.8% in 2018, while considered more important by the issuers (from 68.8% to 75.7%). Both, companies (95.9%) as well as investors (84.4%) consider diversity of professional knowledge very important. There are different views on personal diversity on the board (e.g. gender, origin, age, etc.): Only 39.1% of Swiss investors and pension funds rate personal diversity as important (unchanged compared to 2016), while 78.0% of international investors do so, almost 10 percentage points more than in 2016. The observation that personal diversity is more important for international investors is also reflected in their regulatory preferences: In contrast to only 23.9% of Swiss asset managers and pension funds, 40.0% of international investors are in favor of a gender quota, binding or non-binding. Yet, the survey has, consistent to previous years' editions, again shown that the vast majority of companies (80.9%) and institutional investors (72.1%) are, overall, clearly against any gender quotas on the board of directors.

Major shareholders and independence of the board of directors

Minority shareholders in companies with one or more major shareholder(s) tend to vote more critically at AGMs ([SWIPRA AGM Analysis 2018](#)). This may be attributed to disclosure quality: 41.0% of investors state that the disclosure of companies with large shareholders is generally less meaningful. This is of particular importance, since 76.2% of investors (68.3% in 2016) and 57.1% of companies (32.1% in 2016) consider the independence of the board of directors from major shareholders important. Similar results obtain for the independence of the members of the board from management or for directors' financial independence from the company as well as regarding the general disclosure quality in relation to these independence criteria.

Corporate social responsibility and remuneration

For a majority of investors ([SWIPRA survey 2016](#): 69.5%), the board of directors is responsible for the CSR framework of a company. The boards are called upon to take this responsibility more visibly as more than one third of all investors (35.8%) and more than half of the international institutional investors (53.3%) believe that Swiss companies do not operate sufficiently socially responsible. Companies disagree: 60.3% consider their current CSR commitment to be appropriate, 29.4% even believe that too much is done in the area of CSR. The survey provides possible explanations for this discrepancy: Only 22.9% of the investors are satisfied with the disclosure regarding CSR, and 75.5% of the investors believe that CSR targets do not receive sufficient weight in the performance assessment of variable compensation in general. On the other hand, 64.6% of the companies consider the weighting of CSR targets in variable compensation to be appropriate or even too high.

CSR is often included in variable compensation through qualitative (non-financial) performance targets. According to 70.5% of the investors and 73.3% of the companies, qualitative performance targets, such as ethical conduct or a functioning compliance system, have a major influence on the achievement of long-term strategic goals. However, 72.7% of the investors state that they are not satisfied with the disclosure of *qualitative* targets (38.6% are not satisfied with *quantitative* targets). Moreover, half of the investors (48.2%) are of the opinion that the achievement of qualitative targets should not lead to a higher bonus - but that the bonus should be reduced if these targets are *not* achieved. Only 26.3% of the companies share this view.



Professor Alexander Wagner of the Department of Banking and Finance at the University of Zurich comments: "Particularly as regards to the qualitative, non-financial criteria of compensation, there are too often different opinions between investors and companies. However, the incentive system continues to be central to the general trust investors have in a company. Trust creates value. It helps to lower the cost of capital and supports long-term thinking. Therefore, it is worth investing in a common understanding as regards to value-based management in a company."

Further results

The SWIPRA Survey 2018 provides further findings on the following topics, among others:

Auditors: Only half (50.8%) of the investors consider the external auditor to be independent, in contrast to 91.7% of the companies that classify the external auditor as independent. More than half of the investors (58.6%) would like the external auditor to also review the CSR report, which 73.2% of the companies do not support.

Payout policy: 53.0% of the investors consider the payout policy of companies listed in Switzerland to be sustainable. Yet 91.6% of the investors believe that the payout policy can directly influence the level of variable management compensation.

Regulation: 74.6% of companies and 57.1% of investors generally consider the protection of minority shareholders in Switzerland to be sufficient. In this context, international investors are critical primarily with regard to opting-out/opt-up provisions, Swiss investors primarily with regard to different share categories.

A summary of the study's results can be downloaded using the following link: <http://swipra.ch/en/survey/>. Figures and data are available at presse@swipra.ch.

The SWIPRA Corporate Governance Survey

In collaboration with a team of researchers from the Department of Banking and Finance at the University of Zurich, all issuers of the Swiss Performance Index SPI® as well as national and international institutional investors were invited to participate in the sixth SWIPRA Survey on Corporate Governance in Switzerland. During the survey period (August/September 2018), 80 issuers listed on SIX Swiss Exchange, covering approximately 77% of the market capitalization of the Swiss Performance Index®, and 74 institutional investors, of which approximately one third non-Swiss, representing approximately 26% of the worldwide assets under management participated. These shareholders belong to the largest institutional investors worldwide and hold substantial investments in Swiss companies.

About SWIPRA

SWIPRA Services provides corporate governance services for listed companies and their boards of directors as well as for institutional investors. We work with our clients with the aim of increasing the value of the company in the long term, based on principles of value-based management and empirically relevant criteria.

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