

11. SWIPRA Corporate Governance Survey: From ambitions to implementation – Where do Swiss companies stand in terms of sustainability?

Zurich, November 23, 2023 - The majority of Swiss companies have anchored sustainability in their strategy, and institutional shareholders now have a better understanding of what this implies for the composition of board of directors or capital allocations. Nevertheless, the implementation of the sustainability transformation has only just started: According to SWIPRA's 11th Corporate Governance Survey, almost two thirds of companies see themselves in the process of making their products more sustainable, but only a quarter has recognized notable changes in their corporate culture yet. Shareholders, on the other hand, are critical of whether the current boards are properly positioned for the envisioned change. Investors also see current geopolitical uncertainties as less of an obstacle to sustainability than companies.

Looking ahead, the focus is shifting to data and its quality: most companies and shareholders recognize that improvements in terms of sustainability data are needed, but collecting these data is considered to be up to twice as costly as collecting financial data. When it comes to interpreting this data, NGOs are taking an increasingly prominent role, but seem to be relying more on indirect influence on companies via their shareholders. To not be left out of the opinion-forming process, companies are well advised to maintain an active dialogue with their shareholders. Data is also becoming a factor in the topic of remuneration: only 10% of shareholders consider sustainability data to be reliable enough yet to be considered in remuneration systems.

In the upcoming 2024 AGM season, non-financial reports (NFRs) will be presented on a broad basis to shareholders for the first time. 77% of companies expect approval rates of over 90%, while 33% of shareholders expect approval rates below 90%, 19% even below 80%.

Next Events

NFR 2024 – Quo Vadis?

Roundtable (by personal invitation only)
November 2023

Outlook AGM Season 2024

Webinar
January 2024

Swiss AGM Season 2024

Webinar
June 2024

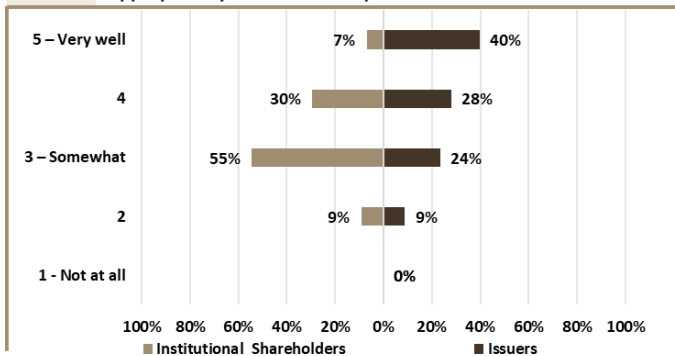
Sustainability transformation – a step towards implementation

- 94% of companies see sustainability anchored in their corporate purpose, 65% are currently in a sustainability-driven product transformation process.
- Shareholders understand the influence of sustainability on corporate strategy and the associated remuneration, board composition and capital allocation better than in 2022, but often still insufficiently.
- According to shareholders (54%, see Figure 1) boards are considered to have only a partial understanding of the current sustainability challenges of their companies, and less than 10% of shareholders understand how boards are evolving.

Boards regularly discuss sustainability issues ([SWIPRA Survey 2022](#)) and have to set strategic ESG targets. The next step is a successful implementation: But only 26% of companies observe notable changes in their corporate culture so far and 71% stated that they are in the initial phase of transformation, which is full of challenges: Almost twice as many companies as shareholders mentioned that the current geopolitical challenges are affecting their sustainability goals in the short term – wars disrupt the supply chains immediately while investment strategies are less directly affected by this.



Figure 1: Does your board have the right skills and experiences to approach the current sustainability-related challenges appropriately? SWIPRA Survey 2023



Non-financial report (NFR) – ambiguities and missing data

- Only 43% of shareholders consider the NFRs of SMI companies and 9% those of non-SMI companies as meaningful, often because material topics are not understood (31%) or the respective measures taken not clear (27%).
- The collection of sustainability data is perceived as up to twice as time-consuming as for financial data by 56% of shareholders and 53% of companies, and 63% of each group see (much) potential for improvement in this area; among companies, a lack of workforce (55%) is said to be the main limiting factor for faster data collection, hardly surprising given the rapid developments in this area.
- The opinions regarding the potential outcomes on the NFR at the 2024 AGMs (voting legally required for the first time) are divided: 77% of companies are confident and expect approval rates of above 90%, while 33% of shareholders expect approval rates below 90% and 19% even below 80% (see Figure 2).

In the 2024 AGM season, the NFRs will be submitted for shareholder approval on a broad basis for the first time. Like the introduction of the remuneration votes in Switzerland in 2013/14, the market now also primarily sees an increase in disclosed information (89% of shareholders and 68% of companies) as a result of the vote. However, unlike ten years ago, only a minority (47% and 45%, respectively) believe that this vote will increase the influence of proxy advisors. Given the already strained

analytical capacities of shareholders, this could, however, prove to be a fallacy.

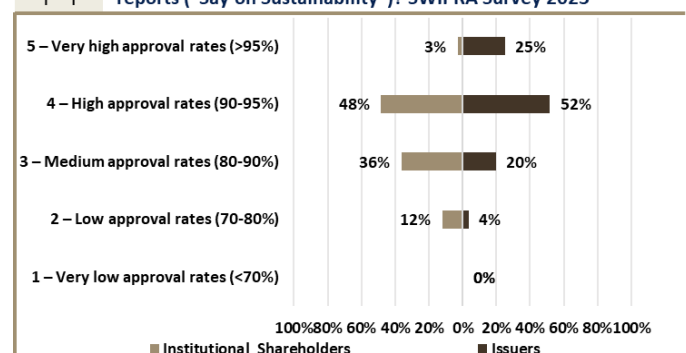
At the same time, however, the willingness of shareholders to take on the analysis of the NFR will also determine whether this new shareholder right is exercised in the spirit of the existing vote on the financial report (95%+ approval) or rather the remuneration report (<90%). Going forward, shareholders will now have an instrument to express their opinion on a company's sustainability efforts in a targeted manner.

Concerning the presentation of the sustainability report, 41% of companies and 42% of shareholders are of the opinion that the NFR should be presented as an individual section in the annual report. 30% of the companies prefer a fully separate report, while this is only supported by 16% of the shareholders. Compared to the previous year, companies' preference for the latter format has increased, while shareholders' preference has decreased. Clear views regarding the type of vote, advisory or binding, were already expressed in the [2021 SWIPRA Survey](#): approximately three quarters of shareholders and over 90% of companies were in favor of a non-binding, advisory vote. However, as there are no well-defined requirements from the legislator, companies and shareholders are well advised to seek a dialog to find a mutual understanding on the form of voting.

Companies are well advised to be aware of the non-negligible influence of NGOs and shareholder organizations on this vote but also on the associated reputational risks for them.



Figure 2: What is your expectation for the AGM approval rates of the first shareholder votes on Swiss companies' non-financial reports ("Say on Sustainability")? SWIPRA Survey 2023





Engagements - Who has what kind of influence?

- 77% of shareholders see engagements with the board as the most effective channel to influence a company's governance structures.
- Towards the 2023 AGMs, the board was an increasingly discussed topic in these engagements, remuneration remained important, and companies explained their capital allocation more often.
- In addition to shareholders, proxy advisors and NGOs also exert influence on companies. According to half of the companies, the influence of the former has remained unchanged over the last five years, while 60% of shareholders noted an increase in the influence of NGOs over the same period, only 34% of companies feel this way.

In addition to engagements, shareholders say that AGM votes are particularly efficient means to influence the governance structures of companies, in particular board elections (60%) and votes on remuneration amounts (49%). Only 41% consider share sale announcements as an effective means to affect governance frameworks.

Compared to the previous year, the focus of companies on environmental and social issues ("E&S") decreased (from 39% to 28%) but increased among shareholders (from 49% to 56%). However, companies have likely perceived E&S issues as integrated, thus addressing them within strategic topics such as remuneration, the board of directors or capital allocation. Engagement activity increased in all three of these areas, and so has shareholders' understanding of these topics.

A third of the companies perceived an increasing influence of NGOs on the sustainability debate over the last five years, while 57% saw no change. In contrast, 60% of shareholders noted a (strong) increase in NGO influence. Hence, NGOs appear to be taking the indirect approach through shareholders rather than trying to directly influence companies. NGOs often collect proprietary data that lends them sizeable credibility. Due to the current data situation, which often is considered inadequate as

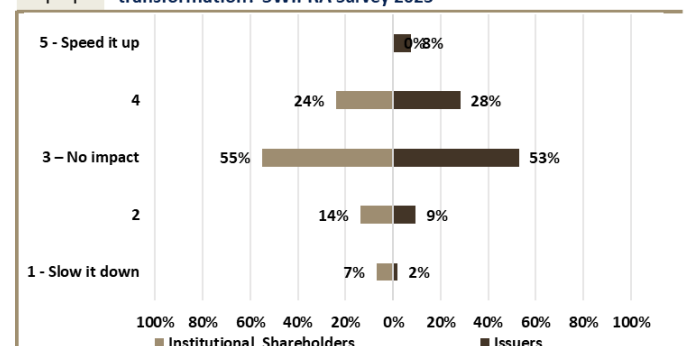
pointed out above, and a lack of sustainability-related resources, it should be assumed that the influence of NGOs will continue to increase with the vote on the NFR. Boards are therefore well advised to proactively approach their shareholders and transparently outline their sustainability efforts and path forward, but also the limitations of their companies. It is still unclear how proxy advisors will deal with the NFR. From the companies' perspective, there is also a risk that they will rely on NGOs, at least for the time being.

Remuneration - The ineffectiveness of ESG factors

- Only 19% of shareholders are satisfied with the current remuneration structures of Swiss companies. 34% of the pension funds are not satisfied at all, while this applies only to 12% of asset managers.
- Less than half of the companies are still of the opinion that environmental and social objectives (42% and 44%, respectively) are assigned too little weight in their incentive systems. Two years ago, this number stood at 65% and 50%, respectively. The opinion of investors remained unchanged: Still more than 70% believe that these factors are given too little weight.
- The effectiveness of sustainability targets on the speed of transformation is only viewed positively by 25% of shareholders and just over a third of companies. The vast majority see no influence at best, and even a negative influence at worst (see Figure 3).



Figure 3: How do current executive compensation systems and incentives impact the speed of the sustainable business transformation? SWIPRA Survey 2023





Remuneration issues have always been the subject of controversial debate and were one of the top 3 topics in engagements in recent years. It may thus seem odd that the sustainability indicators should have no influence on setting effective incentives for the transformation process. However, the survey also revealed that only 10% of shareholders (compared to 52% of companies) believe that sustainability data are reliable enough to be used as a basis for variable remuneration. This finding should be taken as a warning to companies when integrating sustainability measures into variable remuneration. Key performance indicators should only be based on parameters that can be reliably measured and whose impact can also be clearly assessed.

In addition, pay-for-sustainability, the way how strategically relevant sustainability efforts are reflected in remuneration, is often still unclear, especially for shareholders. Only 19% stated that they understood this connection well or very well, half had a partial understanding and 31% had no understanding at all.

Regulation & audit

- Regulation is seen as effective by a third of the companies and 38% of the shareholders to turn the markets more sustainable.
- In Europe in particular, various sustainability regulations will come into force over the next few years. In Switzerland, it should be noted that 45% of institutional shareholders and 60% of companies think that listed companies have already been subject to too much regulation around sustainability recently.

- Most shareholders (54%) consider an external audit of the NFR to be important. Though there is a big difference in this view between asset managers (71%) and pension funds (37%).

About the survey

In collaboration with researchers from the University of Zurich, all companies in the Swiss Performance Index SPI® and institutional shareholders from Switzerland and abroad were invited to take part in the eleventh SWIPRA survey on corporate governance in Switzerland. During the survey period (August to November 2023), 86 representatives of companies listed on the SIX Swiss Exchange, representing around 78% of the market capitalization of the Swiss Performance Index, and 77 institutional asset managers and asset owners from Switzerland and abroad took part. The participating investors, around a third of whom are based abroad, represent at least 36.5% (source: ThinkingAhead Institute) of the equity investments under management of the 100 largest asset managers and the majority hold substantial stakes in Swiss companies.



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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

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

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