

Swiss AGM Season 2024 – Brace for more controversial shareholder votes with sustainability as a catalyst

Zurich, February 22th 2024 – The upcoming AGM season has some controversial discussions in store. SWIPRA expects an increased focus on

- board compositions,
- overall good corporate governance, and
- individual board member accountability.

Apart from the ever-increasing expectations for credible leadership to manage the more challenging business environment, this is also related to

- increasingly diverging views on the importance and implementation of sustainability measures, as well as to
- revived criticisms regarding compensation, in particular the pay for performance relation and overall bonus levels.

A new common underlying catalyst for all these hotspots is the upcoming shareholder vote on the non-financial report for a broad range of listed companies in Switzerland.

Credible leadership, individual board member accountability and reputation

In a time when currency effects eat away a substantial part of the margins of Swiss-based companies and supply chain disruptions complicate the regular course of business, boards and managements are already under increased scrutiny by markets and clients. They are expected to demonstrate their leadership capabilities and proof that their business strategies are robust. On top of that, they are also responsible for the non-financial report, which puts Swiss boards additionally into the spotlight for their companies' sustainability efforts. Balancing business and

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stakeholder requirements in challenging times is increasingly demanding for companies and their leadership. Therefore, a **growing number of institutional shareholders will assess board compositions and leadership succession plans more critically.**

It is not only about board composition, but as past SWIPRA AGM Season Reviews have shown, also about the performance of individual board members. **Shortcomings in a company's governance, compensation, overall stakeholder management and disclosure quality, and now also sustainability reporting,** will be associated with specific committees or board positions, which SWIPRA expects to lead to an increasing discrepancy across individual board member election results. Stakeholders expect an improvement of disclosure from a "duties-only" to a more "action-driven" one as they want to understand how boards reflect on feedbacks and external views in their strategic considerations and whether boards assess their performance through external evaluations. These developments **expose a company's leadership, challenge its credibility, and have an impact on the overall reputation of a company.**

Revival of "pay for performance"

The relation between executive pay and company performance has been considered mostly insufficient by shareholders over the past decade as several SWIPRA Surveys have shown.



For the 2024 AGMs, SWIPRA expects this critical view to intensify. A more challenging global business environment and an increasing number of conflicts around the world have impacted companies' revenues, both positively as well as negatively, in sometimes unpredictable ways. Compensation committees and **boards will be challenged with how they reflect and explain macroeconomic impacts in their company's executive pay levels, their pay for performance assessments and their responsibilities towards employees and the value chain.**

Swiss Codes

[Swiss Code of Best Practice in Corporate Governance](#)

[Swiss Stewardship Code](#)

Relatedly, SWIPRA expects the discussion around sustainability KPIs to continue. It oftentimes remains unclear to external observers what such KPIs measure and which achievements lead to what kind of pay outcome. The [SWIPRA Survey 2023](#) clearly showed that sustainability KPIs remained largely unclear to shareholders. This is particularly relevant when achievement levels of financial and non-financial KPIs diverge notably and make pay levels look discretionary. While such an outcome may be conceivable from an internal business perspective, it is, considering the uncertainty around the KPI definitions, often difficult to grasp from the outside. **This has the potential of harming the credibility of the members of the remuneration committee and ultimately the reputation of the company overall.**

In addition, there is a high probability that the increased pay for performance transparency in the US, required by the "Pay versus performance" rule that came into force towards the 2023 AGM season, will eventually spill over as shareholders look for comparable information from Swiss peer companies. This disclosure rule requires

information not only on granted compensation levels, but also on actually paid out remuneration and further demands an easy to grasp comparison between pay and KPI performance levels over time. For Swiss companies, this means that **not providing sufficient disclosure regarding the relation between the relevant KPI level developments and actual pay will be increasingly difficult to defend.**

New shareholder vote on non-financial report

The shareholder vote on the non-financial report will become mandatory for most Swiss listed companies as of their 2024 AGMs.

Unfortunately, **the run-up to this vote has been dominated by discussions about its legal form, this is, whether such a vote should be binding or non-binding, instead of its strategically relevant content.** The vocal proclamation of some local market participants that the vote on the non-financial report should be a binding one does not hold. The law requires an annual vote, without specifying whether binding or advisory. In addition, the law does not define any consequences in case this vote fails to receive majority shareholder support. From a governance point of view, this vote is intended to provide the board with valuable direct feedback from its shareholders on how well the company has fared, and reported, on their sustainability strategies and efforts. This clearly speaks for the advisory nature of the vote. This is also what most listed companies (92%) and

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institutional investors (73%) prefer according to the [SWIPRA Survey 2021](#), indicating that **shareholders want to leave the responsibility for a company's sustainability strategy clearly with the board of directors.**

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Moreover, in case critical feedback regarding a company's sustainability strategy is not heard by the board, shareholders will always have the possibility to escalate the issue and vote, bindingly, against board member elections. SWIPRA has observed such mechanisms at work in the past for compensation-related votes. As pointed out in past [SWIPRA AGM Analyses](#), elections of board members appointed to the remuneration committee received a higher level of against votes if shareholders had voiced concerns on compensation-related issues. Shareholders would even have the option to bindingly vote against compensation amounts of listed Swiss companies. Yet, as ten years of votes have shown, shareholders are reluctant to take such drastic, operationally impactful measures that potentially interfere with or limit a board's decision.

Hence, there is **little benefit for shareholders to request a binding vote on the non-financial report instead of making use of a mechanism that has evolved over the past decade and generally proven to work well.**

The call on how the 2024 votes on non-financial reports will fare is still out, with expectations differing between shareholders (average expected approval rate of 80-90%, [SWIPRA Survey 2023](#)) and companies (90-100%). SWIPRA expects rather high approval rates at the 2024 AGMs as this will be the first time for many investors to vote on non-financial reports in a systematic manner. At the same time, it must be anticipated that this vote may gradually become more challenging over time as investors will adapt to it. Despite expected high overall approval rates, **boards should be aware that this vote can have significant effects, positive as well as negative, on their reputation if the process is not managed sufficiently well.**



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

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