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Brigid Rosati

Board diversity and climate change

‘As companies look to accelerate their transition to net-zero, the evidence suggests the more gender and age diverse a boardroom is, the better the quality of challenge, debate, and more holistic decision-making on climate.’

Helena Wayth and Rajalakshmi Subramanian

Content

Essential, Authoritative Analysis and Opinion for Board Directors, Senior Executives, Investment Professionals and Advisers

Feature

ESG profoundly impacted the 2021 US AGM season

Brigid Rosati looks at some common themes coming out of the US AGM season.

Environmental, Social, and Governance (ESG) issues had a profound impact on the 2021 US proxy season. There were more shareholder proposal submissions than ever before. More shareholder proposals passed than in previous years, and there were unprecedented levels of average shareholder support for the proposals, too.

The growing focus amongst investors on ESG risks and opportunities was evident in significant changes in shareholder voting behavior, particularly in relation to environmental proposals and director elections. Conversely, the notably large volume of withdrawn proposals indicated a high level of engagement between companies and shareholders.

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Climate change
More than a third (13 of the 36) of environmental shareholder proposals that went to a vote passed, more than double the number of environmental proposals passed in the 2020 proxy season (five). Climate change proposals dominated this category.

Climate-related shareholder proposals at four major oil companies received majority support in 2021, a historical record. All four companies were among those targeted by Climate Action 100+, an investor-led initiative focused on the NetZero Economy, with recent, notable signatories including State Street and BlackRock.

Social: workforce diversity
Nearly 35% (43) of the 122 socially-focused proposals that went to a vote were related to political spending, with workforce diversity, racial equity and human rights each accounting for approximately 10%.

Workforce diversity-focused shareholder proposals in 2021 saw exponential growth in submissions, from 15 in 2019 to 90 in 2021. Likewise, average support increased dramatically, from approximately 35% in 2020 to more than 55% in 2021.

Considering the momentum around diversity seen in the 2021 season, we believe shareholders will continue to engage companies on topics such as workforce and board diversity in 2022.

Nasdaq requires listed companies to have at least two 'diverse' directors, including a self-identified female and a self-identified underrepresented minority or LGBTQ+. Under Nasdaq's new listing rule, companies must disclose if they do not comply with this requirement. As a result, ahead of the 2022 AGM season, we may see investors examining broader workforce diversity issues, which may increase shareholder proposal submissions and director opposition.

Director elections
Key issues that impacted director (re)elections during the 2021 AGMs were board composition, accountability, responsiveness and overboarding. The number of director nominees in the S&P 1500 that failed to receive at least 50% shareholder support increased from 19 in 2020 to 28 in 2021.

On the issue of accountability, many investors added poor risk oversight of environmental and social (E&S) issues among the examples of what may result in negative votes for directors.

Directors at S&P 500 companies attracted reduced levels of support from the big three passive investors – BlackRock, Vanguard Group and State Street. BlackRock showed the largest increase in opposing director elections – voting against 170% more directors in 2021 at 2.7% (132 directors out of 4868 S&P 500 directors) compared to 1% (49) in 2020 – which was likely attributable to changes in its voting policies intended to hold directors accountable for poor risk oversight of E&S issues.

Perceived poor board oversight of E&S may continue to drive more votes against director (re)elections in the 2022 AGM season, along with further scrutiny of compensation plans around governance.

Say-on-pay
Executive pay adjustments and disclosure dominated shareholder compensation discussions this year. As a result of the pandemic, uncertainty for businesses made goal-setting difficult, and compensation committees often adjusted the annual incentive programmes whilst at the same time increasing the use of discretionary bonuses. However, shareholders saw the adjustments made to the in-progress, long-term incentive awards as problematic, and such measures were therefore met with some investor disapproval. While average support for say-on-pay remained relatively similar to 2020 with 91% investor support, the failure rate for S&P 1500 companies increased sharply to 3.3% (48 companies) in 2021 compared to 1.7% (25 companies) in 2020.

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Feature

Global entity management and governance

Jazz Dhoofer sets out three key principles for governance and entity management in a digital world.

The world's governance and entity management landscape is changing fast, according to global financial service institution and corporate governance organisation Computershare.

A recent Government consultation designed to restore trust in corporate governance recommended new measures to increase the accountability of directors and improve audits of large companies.

> 'Remote working, which enabled many companies to "keep the lights on" during the pandemic, has also brought challenges around managing subsidiary entities and other regular governance responsibilities.'

Remote working, which enabled many companies to 'keep the lights on' during the pandemic, has also brought challenges around managing subsidiary entities and other regular governance responsibilities.

At a virtual subsidiary governance event organised by The Chartered Governance Institute UK & Ireland, Computershare asked companies about the factors that concerned them most about managing subsidiaries. UK firms said remote working and business continuity was their top concern (33%), followed by governance standards and practices (27%), with worries about transparency on local regulations, compliance status and levels of risk and cost in third place (20%).

Additionally, Computershare clients at a US event said that maintaining, sourcing and providing subsidiary information efficiently was their top concern (34%), followed by transparency on local regulations, compliance status and levels of risk and cost (26%). The third highest concern was keeping on top of group restructures and M&A transactions (17%).

Global entity management and governance is getting more complex, especially during the pandemic, exposing operational deficiencies and highlighting the importance of technology.

During the pandemic, employees have spent more time working from home, making conventional ways of working and collaboration between teams more difficult or impossible, potentially leading to issues with data access or integrity and increased time spent on processes.

Technology can help companies gain full oversight of entity governance, compliance and transactions-related activity by automating approvals, audit trails and formal documents such as attestations, among others.

Systematic management of data and processes can, in turn, protect data accuracy, improve business continuity and efficiency as well as reduce risk, save time and provide powerful insights for management.

Even companies already working on streamlining business workflows may not fully optimise, or simply might not know enough about how to use technology to its fullest to best support legal entity activities.

Below are three key principles from Computershare to enable companies to incorporate technology into their governance management and entity compliance approach.

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AGMs

As risks related to travel and large gatherings continued to be a concern in the 2021 proxy season, most companies that opted for a virtual meeting in 2020 did so again this year. According to Institutional Shareholder Services (ISS) Corporate Solutions, an estimated 3,000 companies hosted virtual meetings this year, up from 2,600 in 2020 and significantly up from 2019 with 250.

As the world begins to adjust to the 'new normal' in 2022, investors continue to focus on ESG in the upcoming season. We believe that directors will likely continue to have their feet held to the fire on E&S issues in 2022, especially on diversity, climate change and executive compensation. Supply chains may be a new area of concern for investors and companies this coming year, given recent problems, increased public discourse on the subject and how they have been affected by the pandemic. As a result, there is a potential that opposition during director elections may increase along with more intense scrutiny.

The 'new normal' will likely require more shareholder engagement during the off-season.

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