GOVERNANCE

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ESG and the link to purpose

'There is demonstrably space for seeking to improve matters for all stakeholders and wider society while still driving successful business. The rapid rise of ESG, now a central reputational and financial question for all organisations, means that identifying "purpose" is no longer progressive but a prerequisite to running an effective business.'

Tom Proverbs-Garbett

Governance: the key to unlocking ESG

'Thus, the need for a comprehensive and integrated ESG policy is essential in the age we live in; this can only be achieved with the supervision and broad view that comes from the board or an equivalent body in the organisation's hierarchy. This is also vital in ensuring that balance exists within and between each strand of ESG – if ideas and action all come from the bottom-up, it is easy for one component to receive more attention than the others with no one to really keep this in check.'

Claude Brown

Content

Feature

Say on Climate

Daniele Vitale and **Hal Dewdney** analyse Say on Climate resolutions in Europe during the 2022/2023 AGM season.

The 2023 AGM season marked the third year that companies voluntarily put forth Say on Climate resolutions in Europe. The season (1 July 2022 to 30 June 2023) revealed some notable trends that offer valuable insight into the climate commitments and actions of European companies. For example, 24 companies across Europe presented board-sponsored advisory resolutions relating to their climate disclosures and action plans at their AGMs.

Reduction in the number of 'Say on Climate' votes

During the 2022 AGM season (1 July 2021 to 30 June 2022), 36 European companies voluntarily introduced Say on Climate votes for shareholders, triple the number compared to the 2021 season.

By comparison, there was a notable decrease in the number of European companies putting forward Say on Climate proposals during the 2023 AGM season, with 24 companies putting forward such resolutions, a 33% fall from 2022 (36).

UK and French companies led the way in proposing Say on Climate votes during the 2023 season, even though the number of UK companies proposing such votes dropped to eight from 16 the previous season.

One reason for the decline in Say on Climate proposals among European companies in 2023 was that some firms had already presented their climate strategies and did not plan significant changes within a year. Many companies had also adopted a three-year cycle for Say on Climate votes, encompassing an initial vote for the climate strategy followed by yearly progress reports. This approach allows companies to efficiently implement their short-term strategies and report on their commitments efficiently.

Proxy advisors' support for Say on Climate

Strong shareholder support was evident during the inaugural year of Say on Climate reporting in 2021. During that time proxy advisors recommended reporting for all companies and institutional shareholders, and they also endorsed companies' climate-related proposals.

In 2022, however, proxy advisors and asset managers undertook increased scrutiny of companies, resulting in decreased shareholder support for companies' Say on Climate proposals. In the 2023 AGM season, the average level of support for Say on Climate proposals remained stable at 91%, with the lowest level of support recorded at 53.1%.

During 2023, proxy advisors Glass Lewis and ISS took divergent paths in supporting or opposing Say on Climate resolutions at European companies. Glass Lewis showed greater support for these resolutions during the 2023 AGM season than the previous year.

By contrast, ISS shifted from unanimously supporting Say on Climate management resolutions during the 2021 AGM season to recommending voting against certain company Say on Climate proposals in 2022 and 2023.

Notable developments in France, Germany and Portugal

The 2023 AGM season saw a significant development in climate-related governance in France. The French National Assembly adopted a Say on Climate amendment into a broader proposed 'Green Industry Bill'.

The pending Bill incorporates recommendations from the French financial regulator's Climate and Sustainable Finance Commission. All listed French companies must submit their climate strategies for shareholder approval every three years via an advisory vote, with an annual vote each year on the strategy's implementation.

Once passed, the Bill will represent a significant step forward for climate governance in France. However, the proposed Bill must first attain a final vote from a joint committee comprising deputies from the French National Assembly and the country's upper house, the Senate, in October to become law.

The anticipated Say on Climate regulation in France will likely lead to an increase in such resolutions during future AGM seasons.

In 2023, German and Portuguese companies held their inaugural Say on Climate votes, indicating a growing interest and engagement in climate-related matters in these countries.

Sustainability and non-financial climate reporting in Switzerland

In Switzerland, the focus is shifting towards forthcoming mandatory sustainability reports that will include climate transition plans. The country has made significant efforts to update its legislation to mandate that certain companies publicly report on non-financial matters, including ESG concerns, along with employment-related issues, human rights and anti-corruption.

Known as the 'Ordinance on Climate Disclosures', these requirements apply to large Swiss companies, banks and insurance companies. Reporting entities within such

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Feature

Governance: the key to unlocking ESG

Claude Brown argues that governance is the most critical aspect to ESG as a whole and organisations would cease to function without it.

ESG considerations and its impacts on businesses world-wide have been well-documented in recent years, and will likely remain in the spotlight for years to come – a Thomson Reuters report this year revealed that, for the third year in a row, more large global companies were disclosing ESG matters than in previous years; the latest figure standing at 95%.

But do all three aspects of ESG receive equal consideration in the workplace? It cannot be denied that the environmental strand has remained front and centre thus far, understandably so given the importance of addressing climate change and preserving our planet. The social aspect comes next in terms of making a tangible difference to people and communities we live in, leaving governance trailing behind. But this risks undermining the importance of 'governance' as a strand of ESG – it is arguably the most critical aspect to ESG as a whole and organisations would cease to function without it.

What is governance?

Governance is about more than just how an organisation runs itself internally – taking this view vastly limits the scope of what governance hopes to achieve and overlooks a variety of wide-ranging issues that can impact a company. This includes important company-wide policies addressing critical issues ensuring fairness and happiness in the workplace; addressing employment issues to do with racism, sexism, mental health and well-being, alongside more typical considerations like health and safety, rates of progression, whistleblowing, and complaints procedures. These good practices ensure that an organisation can function effectively and reflect management's willingness to take responsibility for treating employees with respect and fairness.

However, it is no longer enough that organisations address the aforementioned issues alone to ensure the workplace is a happy and healthy one – they must also have governance strategies in place to deal with ESG considerations. Today's workforce is keen not only to ensure that their needs, professionally and personally, are met but also to try and do work that is meaningful to the communities – and the world – they live in. Hence, it is no surprise that ESG has risen to the top of the corporate agenda as this shift has gripped the workplace.

The question of accountability

The simple answer is that it should be the board that is responsible for implementing and regulating how organisations interact with ESG obligations, lest we risk them falling to the bottom of the agenda when left with a person out of the board's immediate oversight: more often than not,

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organisations can alternatively choose to follow the global Task Force on Climate-related Financial Disclosures (TCFD) recommendations or other standards and guidance, as long as they align with Swiss legislative requirements.

Starting in 2024, Swiss company boards and shareholders must publish a report on non-financial matters, including climate-related disclosures. Spain has proposed similar regulations, requiring companies to submit a report based on the EU's Non-Financial Reporting Directive (NFRD) to a shareholder vote. Notably Swiss law differs from Spanish law in terms of KPIs, independent verification, and the inclusion of a climate transition plan.

Investor expectations

Say on Climate is a relatively new concept, leading to a wide range of investor opinions based on particular areas of focus, such as governance and reporting or climate transition plan ambitions. Some investors consider Say on Climate votes to be problematic when they don't adhere to industry best practices, raising concerns about potential implications for companies' accountability. Others view the votes as a useful engagement tool that allows them to give feedback on a company's climate strategy.

Investor expectations and policies concerning Say on Climate remain steady, despite the decrease in votes on the topic during 2023. Shareholder support has stabilised at an average of 91%, with distinct expectations and trends across different markets.

The Say on Climate movement continues to shape corporate climate strategies and actions across Europe. Investors have established expectations for corporate climate governance, reporting and strategy. Meanwhile, regulators are moving towards making boards more accountable for climate-related issues.

Companies must ensure clear responsibility among the board and management and use disclosures that support the organisation's strategy for managing climate-related risks and opportunities in the short, medium and long term.

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