

Global and Regional Trends in Corporate Governance in 2022

The July, 2022 edition of The Hub highlights this survey article based on interviews by Russell Reynolds Associates with global institutional and activist investors, pension fund managers, proxy advisors, and other corporate-governance professionals to identify the corporate-governance trends that will impact boards and directors in 2022 and beyond.

A brief overview of such trend predictions are as follows-

Global Trends

1. Assertive investors willing to vote for change

More assertive, demanding investors who feel empowered to demand action and disclosure on a growing number of topics, and, with failure to meet those demands, more likely than ever to vote against companies and individual directors at annual shareholder meetings.

2. Higher standards for climate disclosure and action

Higher standards for corporate attention to the climate as the materiality of climate change to individual businesses and society writ large is beyond question.

3. Enhanced board effectiveness becomes the norm

Enhanced board-effectiveness practices become the norm as investors and other stakeholders realize that good composition, refreshment, and evaluation practices result in improved corporate performance and decreased risk exposure.

4. Further emphasis on equity, diversity, and inclusive culture initiatives at the board and corporate level

Urgency regarding equity and diversity initiatives both in the enterprise and the boardroom, as evidence mounts those diverse organizations outperforms others and stakeholders demand progress without delay.

Regional Trends

1. Expectations regarding environmental oversight, reporting, and performance

- Over the past several years, investors have increasingly focused on portfolio companies' environmental oversight, reporting, and performance. Proxy-voting guidelines for these investors, including several of the world's largest asset managers, are becoming significantly more stringent.
- Companies that do not elevate their own sustainability efforts will be scrutinized more rigorously.
- Various sustainability standards boards have merged to create the International Sustainability Standards Board (ISSB), governed by IFRS. This movement towards a

consistent set of market-based standards will likely be accompanied by legally required disclosures.

- While mandated disclosure will set standards for what companies must disclose regarding sustainability efforts, organizations should expect that, in 2022, many important stakeholders—including large shareholders—will request additional clarity beyond what the law requires.

2. Shareholders becoming more assertive leading to corporate programs shareholder-engagement.

- Each proxy season showcases investors that push a company to change course. And 2021 was no exception; Engine No. 1's successful proxy contest at ExxonMobil was likely the most discussed corporate governance story of the year.
- Shareholder assertiveness will not be confined to the "E" of ESG.
- In 2021, there were more votes for shareholder proposals and against directors than ever before. The same is also expected in 2022.
- While environmental proposals will continue to attract attention and shareholder support, proposals about other important topics—including diversity, equity, and inclusion, corporate political involvement, and shareholder rights—will also win sizable support.

3. Spotlight shines brightly on DE&I, culture, and human capital management.

- The demand for board diversity is increasingly reflected in mandates, such as California's requirements for gender and racial/ethnic diversity on boards.
- Nasdaq's rule change requiring board-diversity disclosure and comply-or explain mandates for minimum board-diversity statistics.
- The ongoing pandemic has also placed a spotlight on corporate relations with employees.
- Workers demanding more from their employers is an essential feature of effective capitalism. It drives prosperity and creates a more competitive landscape for talent, pushing companies to create better, more innovative environments for their employees.
- Interest in a wide range of employee topics—including corporate culture, return to work, mental health, childcare, and income inequality—will rise in importance in 2022 and beyond.

4. Focus on board effectiveness, including composition, evaluation, and refreshment.

- Stakeholders will continue to expect the right board composition for the company's present and future; this includes a collectively diverse and effective board.
- Boards will be under pressure in 2022 to demonstrate ongoing commitments to self-assessment and purposeful refreshment planning.
- Some of the largest investors and proxy advisors are directly calling for robust board-evaluation programs.

- Board refreshment is best implemented through an ongoing program of individual director evaluations, conducted annually, to ensure the evolving needs of the board are met and to bring in fresh perspectives, skills, and diversity as needed.

5. The S of ESG has taken notable strides.

- The topic will garner more shareholder attention, due to the ongoing economic inequality that exists throughout the region.
- Boards will face more pressure this year to ensure they are effectively overseeing risk from a reputational, social, and health perspective to ensure the well-being of employees, customers, and other stakeholders.

6. Enhanced board composition

- Investors are increasingly concerned with the quality of board composition and diversity.
- More boards will embark on developing a skills matrix to objectively assess the competency of directors.
- There has been a new focus on ethnic diversity as well.
- Boards should aim for more-expansive director criteria in order to expand the candidate pool, and the long-term board pipeline must be improved.

7. Rising ESG activism

- Investors are increasingly active in ESG (particularly in “E”) as European shareholders have realized it is possible to bring shareholder resolutions.
- There is also an intention to tie ESG into executive remuneration.
- Norway’s corporate governance code puts sustainability on boards’ agenda, their recommendation for remuneration is to keep it simple and easy to understand, with performance-related remuneration subject to an absolute limit.

8. Scrutiny on director diversity and capacity

- The focus on board diversity will continue as companies in several markets, including Spain and the Netherlands, work to reach mandatory targets for the representation of women.
- The new Danish corporate governance recommendations clarify diversity in relation to “age, gender or education, and business background.”
- Investor focus on director and board engagement remains strong, with overcommitment of directors remaining a particular concern.

9. Social justice, equity, and inclusion are key

- The board’s role in overseeing diversity and inclusion is coming under increased scrutiny.

- The FTSE Women Leaders Review continues the work in increasing the representation of women on board and leadership teams of FTSE 350 companies.
- Investors are already moving beyond these guidelines and will start voting against chairs of nomination committees where a board is not sufficiently diverse.

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