

ESG – Evolution or Revolution – and how to deal with it

APAC FY23 Q3 EDITION

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About Lighthouse

Welcome to Morrow Sodali's Lighthouse Magazine, our quarterly publication providing insights on shareholder engagement, corporate communications, IR and ESG.

In this edition, we look at some of the key trends for 2023, and what steps can be taken to navigate the complexities of the ESG space. Future Directors Institute Founder, Paul Smith, gives his thoughts on what the role of board directors will look like in the years ahead and Morrow Sodali's Senior Managing Director, APAC, Angus Booth explains how retail investors are experiencing a 'great awakening' when it comes to ESG.

Themes of equity, diversity and inclusion drive the conversation this quarter, as we celebrate International Women's Day and explore why #EmbraceEquity is more than just a hashtag, rather a critical step for companies to take in order to achieve success. We hope you enjoy this edition of APAC's Lighthouse Magazine.



morrow sodali.com

infosydney@morrow sodali.com



'Embrace Equity' - Why it's more than a hashtag

On International Women's Day, we explore why embracing diversity is a critical business decision in 2023.

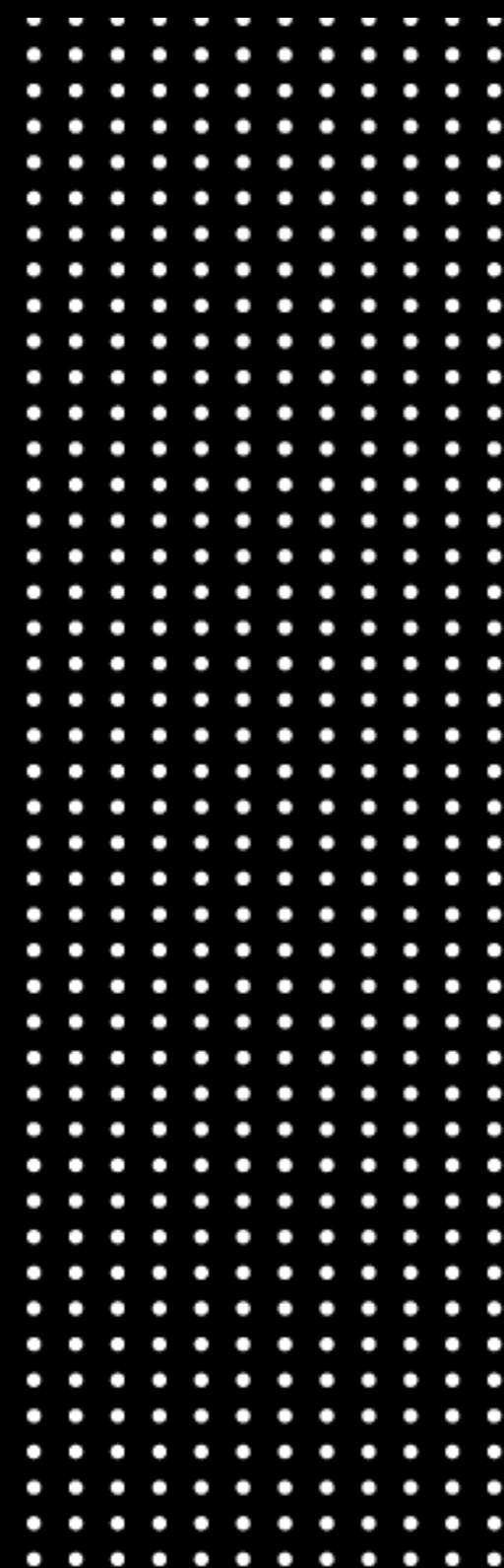
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ESG Trends in 2023

While the past two years have almost exclusively focused on the impacts of COVID-19, **investors' attention is once again shifting back towards more long-term issues.**

The ESG focus will remain on the 'G' – 'governance' – in 2023 but will move on from how directors have managed COVID-19 to how they oversee the 'E' and 'S': climate change and social issues, according to Jana Jevcakova, Head of International ESG at Morrow Sodali.



Jana Jevcakova
Managing Director,
Head of ESG International



Aldi Djajaputra
Director,
Corporate Governance
APAC

The 'E' In ESG

While investors will continue to watch how large companies embrace the **Task Force on Climate-Related Financial Disclosures** (TCFD), Jevcakova says the focus will hone in on how much companies are investing in their transition to renewables and managing climate change risks. "That's largely not been discussed yet," she says, noting that the capital allocation question is one of the key identifiers for **Climate Action 100+**, an investor-led initiative aimed at ensuring that the world's largest corporate greenhouse gas emitters act on climate change.

Just Transition

Jevcakova, one of Asia-Pacific's leading experts in corporate governance and proxy research, believes "Just Transition" will also become more of a hot topic. It acknowledges the disruption in jobs and communities that could happen as the world takes action against climate change and the need for coordinated plans and investment to help those left behind. "We started hearing about Just Transition last year, but now with some developments in Europe and in other parts of the world, I believe investors will start bringing it up much more frequently," says Jevcakova.

Biodiversity

Jevcakova also believes questions on how boards and organisations deal with nature and biodiversity will increase in 2023. Here, she points to the **Taskforce on Nature-related Financial Disclosures** (TNFD) which aims to help companies and financial institutions integrate nature into their decision-making. Its final recommendations will be published in September 2023. She says: "Structurally, it's similar to the TCFD, but content-wise, what's currently being discussed is 30 per cent restoration of nature by 2030 as a key goal. There are also massive discussions about how we should measure this." When it comes to climate change, Jevcakova says 1.5°C became the acceptable limit to rising temperatures. "We then set targets and recognised that we need to transition to net zero. But with nature, there's still a question mark," she says. "I think that 2023 will be telling. It will give us better visibility over what companies need to measure and how they need to manage the question of biodiversity and nature-related issues."

Jevcakova says the TNFD is at an infant stage worldwide. Some mining or large companies have started addressing some of its issues, but she believes it will take time before they better understand what this framework actually looks like.

Massive Opportunities

Jevcakova says many companies that believe they are not affected by climate change may not be exploring its massive opportunities – something that will increasingly be noticed by their investors. "Active fund managers are already looking at this and are questioning certain strategic decisions. They are also providing feedback," she says, adding that it all comes down to understanding your investors and what, in their view, makes you a better company to invest in than another one. According to Jevcakova, this makes sense from a business perspective. The theory is that a company should perform better financially if it manages climate issues well and takes advantage of the opportunities from transitioning to a net zero world. "It's all about making money in the end."



The 'S' in ESG

On the social side, Jevcakova believes human capital management – attracting, retaining and incentivising employees – will be key in 2023. “This very closely relates to gender, culture and business ethics,” she says.

According to Aldi Djajaputra, Director - Corporate Governance APAC at Morrow Sodali, “While we have seen improvements in gender diversity on ASX boards over the past decade, global investors are starting to look more closely at what companies are doing to increase diversity of underrepresented groups, such as racial or ethnic minorities and LGBTQI.”

Djajaputra says “Globally, social movements like Black Lives Matter have raised awareness of this topic, and we have now seen major investors such as BlackRock and State Street introducing racial and ethnic diversity requirements into voting guidelines for US and UK markets, as well as the NASDAQ stock exchange's introduction of diversity disclosure requirements and quotas. This drive is starting to flow through conversations between investors and Australian companies, which is likely to increase over time.”

Jevcakova says “We're starting to see new generations coming into the workforce. They're looking beyond pay to what the organisation they want to work for stands for. Does it have diversity and a good culture? Will they be a good fit and is it a place where they can make an impact? “So, it's about understanding that not only investors', but other stakeholders', views are changing. Looking beyond pure short-term financial outcomes is key.”

Jevcakova also believes better understanding customers and suppliers will be crucial in 2023. “New generations are coming into the workforce and will have new purchasing powers. Their parents will no longer be making their decisions,” she says. “We need to understand their customer preferences, especially in

... global investors are starting to look more closely at what companies are doing to increase diversity of underrepresented groups, such as racial or ethnic minorities and LGBTQI.

Aldi Djajaputra

B2C businesses. B2B businesses are spared a bit, but even they face reputational risks if they don't manage their ESG risks effectively.” For example, Jevcakova says companies' reputations could be tarnished by suppliers who don't pay employees properly or aren't ethical.

And, while many companies are across their legal requirements around modern slavery statements, she believes they will have to move beyond compliance when examining their supply chains. “Some investors see advantages in having information about supply chains because that can definitely be very significant in their valuations,” she says. “Companies that are particularly exposed to modern slavery risks, such as manufacturing and construction, or others with large footprints in countries with weak labour rights or vulnerable communities, are facing more questions around what they have done to assess and combat modern slavery and how they are looking to improve their practices and disclosures going forward,” says Djajaputra.

Jevcakova adds: “Some investors are very interested in seeing with their own eyes the suppliers' factories and sites, especially where these are located in the developing world, to check on their practices. “Companies will be expected to engage with suppliers and educate them on sustainable practices, especially if they are based in countries with weak regulatory environments.

Jevcakova further adds: “It's really about understanding each company's role in your value chain. If I had to summarise it, we are getting out of this maybe 1980s or 1990s mindset where the key objective of a company was to maximise returns for shareholders to now being a profitable business sustainably. That's a change. It's about understanding all your stakeholders' preferences and your impact on them while also being aware of the impact they have on you. It's a two-way street.”

Key steps for ESG success

With **environmental, social and governance** reforms sweeping Australia and the globe, 2023 is set to be a big year in the ESG and sustainability space. Morrow Sodali's Director of Corporate Governance and Sustainability, Laura Reed, outlines major developments ahead and how corporate leaders can successfully prepare.



Laura Reed
Director, Corporate Governance
and Sustainability

1. International sustainability reporting standards

The International Sustainability Standards Board is close to finalising the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures. These standards will form a comprehensive global baseline for sustainability-related disclosures designed to meet the information needs of investors in assessing enterprise value.

The new reporting standards are expected to be released **by mid-2023** and to be effective from January 2024, with companies beginning to issue disclosures against the standards in 2025.

In Australia, Treasury has signalled the likely introduction of mandatory climate reporting with the release of **a paper** on 12 December 2022 seeking initial views on key considerations for the design and implementation of standardised, internationally aligned requirements for disclosure of climate related financial risks and opportunities in Australia.

2023 preparation tips

Sustainability reporting is an increasingly important engagement and compliance tool for investors and other stakeholders. Major items to be across in 2023 include:

- Keep a watching brief on the development of global and Australian ESG reporting standards
- Starting or continuing to align to existing frameworks e.g. Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD), as the new reporting regime will build on these standards
- Some investor groups, for example the Investor Group on Climate Change, have called for mandatory climate reporting **to also extend to private companies**.
- Australian businesses operating abroad may become subject to the sustainability requirements of the **European Union** and the **US**.

2. Cybersecurity and data privacy

Several high-profile cybersecurity attacks have accelerated changes to Australia's privacy regime, with the Federal Government passing the **Privacy Legislation Amendment (Enforcement and Other Measures) Bill 2022** as an initial measure while it addresses a bigger reform agenda of Australia's privacy laws.

The amendments passed include the following:

- Increased penalties (from \$10 million to \$50 million); or three times the value of any benefit obtained through the misuse of information; or 30% of a company's adjusted turnover in the relevant period
- Expanded powers for the Australian Communications and Media Authority, increasing its ability to share information
- Greater information sharing and enforcement powers to the Office of the Australian Information Commissioner to address privacy breaches
- Changes to the extraterritorial jurisdiction of Australia's Privacy Act mean foreign companies undertaking business here are also subject to the amended laws.

2023 preparation tips

Failure to take privacy seriously can result in multimillion-dollar fines and fatal damage to an organisation's reputation, intellectual property and infrastructure.

To meet cyber challenges head-on, you can:

- Review the privacy legislation amendments
- Place data and cybersecurity at or near the top of your risk register
- Instil regulator-backed **cyber resiliency best practices** to protect privacy
- Create a crisis communications plan.

3. Voice to Parliament referendum approaching

This year will see the **First Nations Voice to Parliament** go to a referendum. The goal is to give Aboriginal and Torres Strait Islander people a constitutionally recognised pathway to help inform policy and legal decisions that impact their lives.

Empowering the Voice to Parliament is the **Uluru Statement**, an invitation to all Australians to help support Voice to Parliament and help Indigenous people achieve a rightful place in their homeland.

2023 preparation tips

To prepare for the referendum you can:

- Read the Uluru Statement and understand the background to the Voice to Parliament proposal
- Create clear and open communications channels with Indigenous organisations and learn about the challenges facing them
- Consider how your organisation's actions and frameworks affect Indigenous populations.

4. Greenwashing enforcement increasing

Government enforcement actions and civil suits alleging greenwashing are increasing globally through a myriad of different laws, including securities regulations and consumer protection legislation.

In Australia, both the **Australian Securities and Investments Commission** and the **Australian Competition & Consumer Commission** are publicly targeting the misrepresentation of the sustainability credentials of companies, products and services.

If such misrepresentations are made in annual reports or market filings, they may fall foul of the misleading disclosure provisions under Part 7 of the Corporations Act, or Part 2D of the ASIC Act.

If they are made in trade or commerce, they may contravene the general prohibition on conduct that is misleading or deceptive (or likely to mislead or deceive) under section 18 of the Australian Consumer Law, or the specific prohibitions against misrepresentations in the supply of goods or services under Part 3.1 of that Law.

2023 preparation tips

The pressure on boards and management around sustainability-related disclosure has never been greater - or more consequential. Companies need to:

- Ensure sustainability-related disclosures are aligned with strategy
- Be readily able to substantiate the disclosures if challenged
- Ensure the measures are appropriately resourced through clear action plans
- Embed climate goals in enterprise risk and compliance frameworks.





5. Modern Slavery Act review underway

Australia's Modern Slavery Act 2018, which aims to increase transparency in business operations and supply chains, requires organisations to undertake due diligence, report on their modern slavery risks and address issues identified.

Since the Act's commencement, however, compliance with the reporting requirements continues to be reported as inadequate; see for example The Australian Human Rights Legal Centre's recent **Broken Promises report**.

The Government is undertaking a statutory review of the operation of and compliance with the Act. This commenced on 31 March 2022 and is to be completed within a year. Amongst other issues, the review is considering whether the existing \$100 million annual turnover reporting threshold remains appropriate (or should be lowered) and whether penalties for non-compliance should be introduced.

2023 preparation tips

Companies need to continuously improve their alignment to the Modern Slavery Act reporting:

- Review **benchmarking** of modern slavery disclosure on the ASX
- Consider **upskilling** responsible teams on modern slavery requirements.

6. Other current issues

6.1 Emerging biodiversity disclosure standard

Nature loss poses a major risk to businesses, while moving to nature-positive investments offers opportunity. The market-led, science-based Task Force on Nature-related Financial Disclosures (TNFD) framework will enable companies and financial institutions to integrate nature into decision making. **V0.3 of the TNFD beta framework** is now out for market consultation, with final recommendations due in September.

6.2 Changes to gender and pay equity legislation

From early 2024, the **Workplace Gender Equality Amendment (Closing the Gender Pay Gap) Bill** will require employers with at least 100 workers to publicly disclose their gender pay gaps. This data will then be published on the Workplace Gender Equality Agency for public viewing. The bill also introduces new rules for companies with 500 employees and over, requiring these companies to have a dedicated gender equality strategy. The legislation's aim is to encourage more accountability and action around gender pay gaps.

Retail investors' 'great awakening' a wake-up call for boards

Retail investors are experiencing a "great awakening" on environmental, social and governance (ESG) issues, new research reveals, and business leaders are being urged to pay attention.

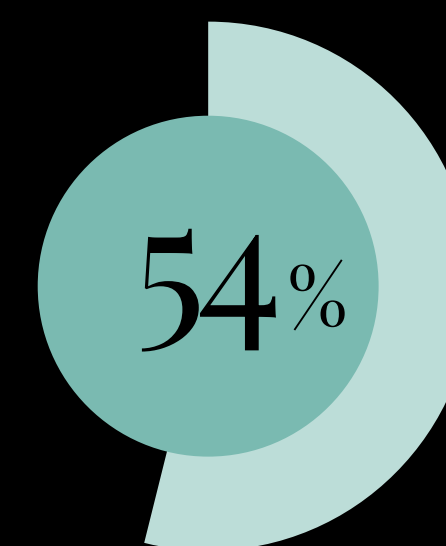
An increasingly activist mindset among non-institutional shareholders is being fuelled by a range of drivers including concerns about the economy, a growing focus on sustainability, and cynicism about corporate 'spin', changing the way company performance is evaluated.

Research conducted by Morrow Sodali earlier this year found that most retail investors expect the Australian economic outlook to deteriorate over the next six months (52%), and many believe it will continue to struggle across 2023 (46%).

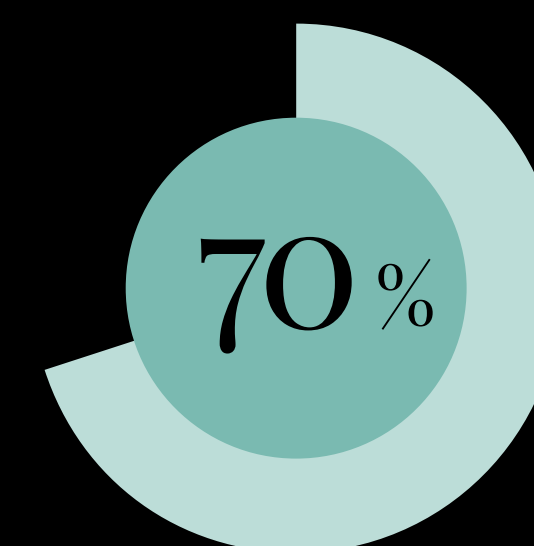
This is leading to a greater interest in long-term investment horizons (54%) rather than short-term trading (11%). As a result, the traditional financial metrics of business activity are not mum-and-dad investors' only focus. They are attracted to companies that take their duties to their stakeholders, the wider community and the environment seriously, because these are viewed as "well-run", "stable" and likely to "stay profitable" and provide solid returns and consistent growth.

Importantly, this attitude shift is not restricted to younger investors but applies across all age and gender groups, as well as levels of portfolio sophistication.

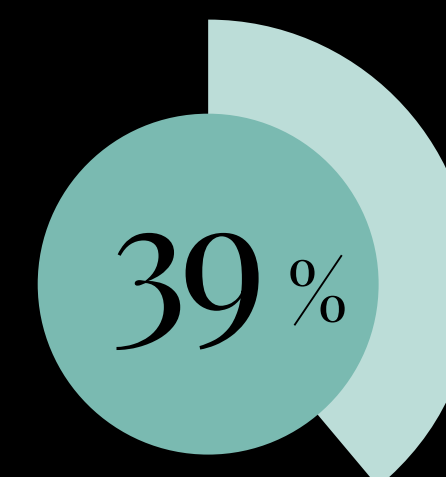
Angus Booth, Morrow Sodali's Senior Managing Director – APAC, says the same sea change in public sentiment that wrong-footed the Liberal-National Coalition in last year's federal election is also reshaping the investment landscape.



54%
of retail investors
are for long-term
investments



70%
of retail investors
believe ESG factors
are important



39%
of small investors
are concerned about
the economic outlook

"The 2022 federal election was the canary in the coal mine on this issue. The May federal election provided insight into the way the Australian electorate behaved, showing that millennials and baby boomers are willing to throw partisan loyalties away in order to support action on issues that are important to them such as the environment, integrity and personal financial security. They are trying to compensate for the perceived loss of control over their own destiny in a complex, uncertain world." says Booth.

"Our research confirms there's been a significant shift in the way in which people perceive and react to these broader societal issues and political allegiances, and organisations who fail to recognise this shift will pay a hefty a price.

For example, recently we've seen activist investors able to win the hearts and minds of retail investors that ultimately leads to non-executive directors losing Board seats or proposed corporate transactions failing on the back of ESG driven initiatives. Why? Because the companies involved failed to understand what motivates both their institutional and increasingly retail investor's purpose for investing and their strategy and messaging did not align with expectations.

"Retail shareholder activism is on the rise, it's like a great awakening. They're realising they have a say in company decisions which they feel affect them, and they're starting to put ESG more toward the centre of their decision-making not only as voters, but as investors too."

"Political and corporate leaders must quickly recognise that for many Australians, hope is in the detail. Generic, broad-based policy agendas will be rejected in favour of issue-focused forward agendas. They want to know leaders are getting on with the job of dealing with the issues that matter most to them. This voter trend will be tested as the battlelines emerge in the lead up to the Voice to Parliament Referendum."

A perceived lack of accountability from corporate leaders, and distrust of vague ESG commitments and greenwashing from companies, is leading retail investors to search for new markers of business success and resilience, and they increasingly believe that unless companies are meeting their obligations to all stakeholders, they will not remain profitable into the future.

Until now, they have had a low rate of participation voting in company meetings, however they believe ESG factors are important (70%), which means related resolutions can easily motivate them to turn out and vote.

With recent events like the APRA Prudential Inquiry into the Banking sector, the destruction of first nations heritage sites or the data breaches that occur on an almost weekly basis, retail shareholders have come to expect sound corporate governance, and a board and executive who are transparent, accountable and provide appropriate disclosures; that customers deserve a customer-centric approach which anticipates their needs, and the very best in products and services; that staff and suppliers have a right to care and respect. And they are increasingly intolerant of companies which fail to pay their fair share of taxes, or to protect their data.

Booth says it's important for listed Australian companies, and political parties, to understand how far their retail investor or voter base has shifted in its thinking over the past 3 years, and adapt accordingly or risk their social license to operate or right to govern.

"The ESG sensitivities of the large institutional investors are well understood at board level. But it's vital to appreciate that there is now a large and growing cohort of retail investors who are ESG-conscious too," he says.

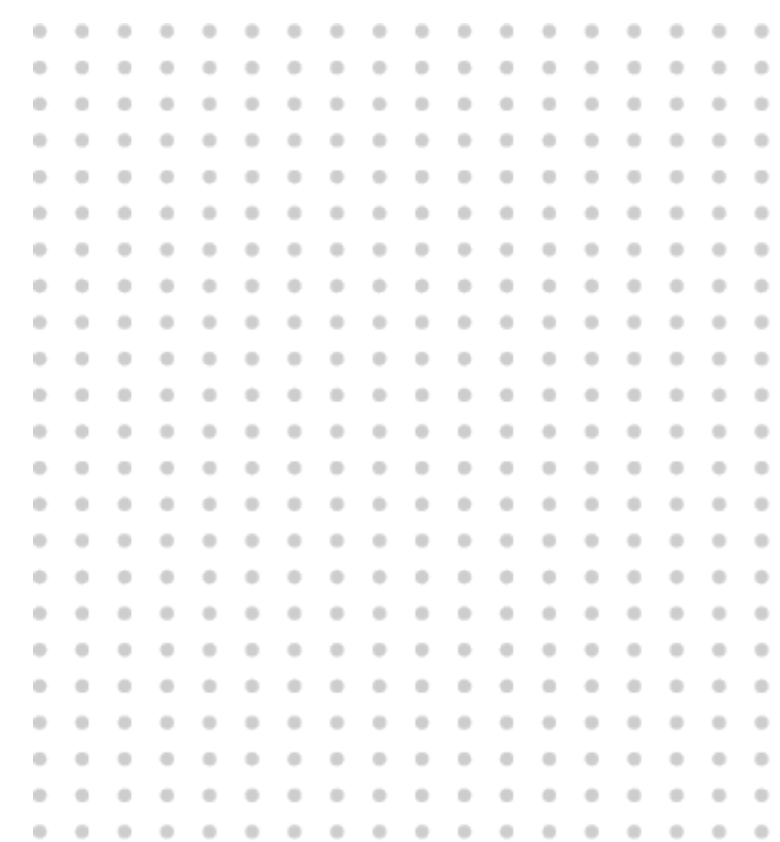
"This should inform the narratives which organisations provide investors around their day-to-day business operations, as well as their ESG reporting and initiatives.

"What comes out in the research is that today investors of all sizes are looking for companies that tick the traditional boxes, but are also future-proofing themselves through their ESG initiatives."

Uncertainty regarding finances and the outlook for the economy is small investors' primary concern for now (39%), the survey found, and climate was identified as the next most important issue (22%), followed by health & aged care (9%), and housing (3%). Top-line reasons given for investing in a company were good returns/dividends (15%), capital growth (9%), consistent performance/reliability (7%) and strong growth potential (6%).



Angus Booth
Senior Managing Director, APAC
Morrow Sodali



(R)evolution of the role of a board director

A company director is without doubt one of the most important roles in a company. A good board can lead the business to great success, a bad one to its demise. But what was considered 'good' yesterday, may no longer be sufficient today.

Is it possible to achieve the ideal and have businesses led by razor-sharp directors, prepared to face any challenges that come their way?

Are the directors of today ready for tomorrow? Can and should directors show curiosity and vulnerability? And how do Australian directors compare to those in the UK and the US?

Morrow Sodali had the pleasure of sitting down with Paul Smith, founder of the Future Directors Institute, to discuss these and other questions about the role of a director now and in the future.

Paul is the award-winning founder of FDI and is described as a 'boardroom futurist'. He is one of the leading thinkers on the 'where next' for corporate governance and speaks regularly around the world on the themes of board diversity, inclusive decision-making and the concept of the 'Future Director'.

Paul established the Future Directors Institute (FDI) in 2015, to help directors at all stages (and all stripes) to break down the barriers to board positions and help them usher in a new era for corporate governance.

Since then, Paul has grown FDI's global community to over 3500+ directors and it now provides training, education and a community platform that includes events, programs, awards, a global summit and board consulting.



Paul Smith
Founder
Future Directors Institute

We'll start with an 'easy' question. How would you describe a typical Australian listed company director in three words?

Paul: The first would be 'professional', as in they are typically full-time board directors. The second is 'regulatory-burdened', or in other words 'compliance focused'. And the third word I would use is 'white'.

If I could add a fourth word, it would be 'older'. There are very few directors under the age of 45, especially in the ASX200.

How does this compare to directors in UK and US?

It's actually quite similar. Their backgrounds are similar to directors in Australia, especially in the listed company space. Bankers, former CEOs, lawyers etc. The UK and US do tend to have a higher degree of ethnic diversity. But what's very similar? They are all highly educated corporate types.

In Australia we tend to have a very heavy bias towards the banking and resources sector, which is where most directors are coming from. The UK and US are more diverse across different sectors. UK directors also tend to have a greater degree of international experience.

Is it a function of the close geographic proximity of the UK to continental Europe?

Yes, and availability of being able to work elsewhere as well. A lot of UK directors have worked or often travel overseas.

And I think there's a parochial nature to Australia. Many directors who have worked overseas and came back struggled to sit on an Australian board, because they no longer felt like they were part of that network anymore.

There is this observed phenomenon - if you haven't been

working specifically in your industry, and in a particular region recently, you're not seen as relevant. And yet in my mind, the role of a board director is not to lend industry expertise all the time. You need a blend of people who have done that and who are industry experts, but you also need people who have a more rounded experience. After all, we should be hiring board directors for the way they think and the way they help make decisions and think strategically around the opportunities and risk for business.

I heard you say that "the world needs more razor-sharp directors." Wouldn't the focus on industry expertise alone produce them?

Not necessarily. Mainly because they all have the same education, so you are not really getting any diversity of perspective and I think that it lends itself to the next question about what's really wrong with the current state of the directorship.

What is wrong with the current state of directorship?

For me, the main problem is board recruitment and composition. Too many people are playing it safe rather than recruiting the sort of people they really need on their boards, people who can help them make the best strategic decisions. It's keeping it within a small group. Very few boards are taking a risk on a candidate that's really going to think differently and challenge the status quo.

There are a number of reasons for this, one being the regulatory pressure and the other being, human behaviour.

The only way current boards are going to change is through a new generation of directors coming in who have

a different way of looking at things. And it's not related to age. It could be people who are in their 50s and 60s but have come with a very different life experience, whether it's their vocation or something else.

Do you think that there are perhaps pockets of that happening? Is it something like what started the Silicon Valley?

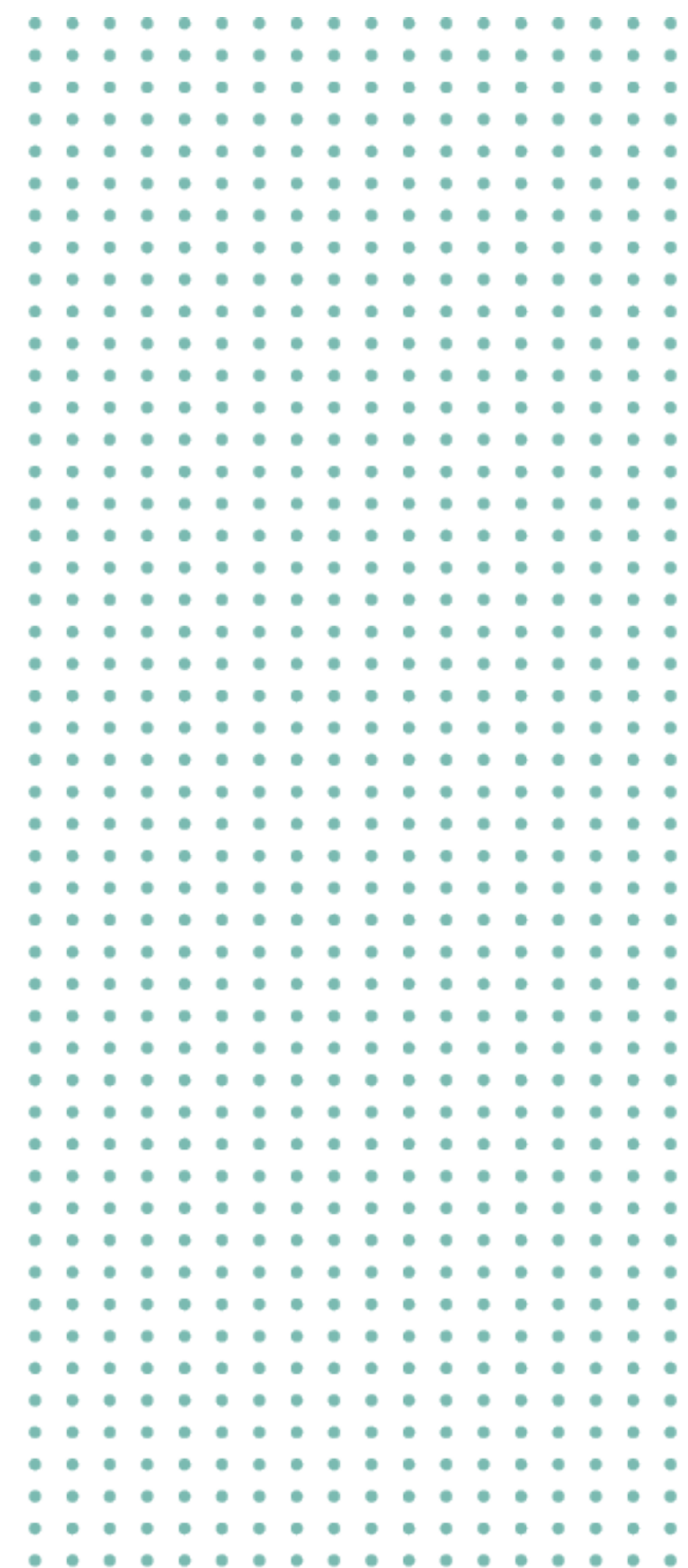
You are seeing it increasingly in the private business sector where independent directors are being brought in. I'm hearing more of our clients saying that they 'need to mix it up on the board' because they feel they're not 'razor sharp'. They want someone to challenge their thinking. It's happening in businesses where the owners are running the company or they're very closely aligned to it, and they want that to happen.

Why is it not happening in the listed space as much?

One of the main reasons is the incentive pay structure. There are few incentives to truly act in the long-term interest as is the main role of most boards – even more so in the listed space.

The institutional investors, which are the majority shareholders in Australia, are more interested in long-term returns, but brokers and some fund managers have a much shorter-term focus. There's this inherent incentive to keep the share price propped up and obviously that means layoffs. It means short-term decision making. It often also means sacking the CEO instead of changing the board.

We have a superannuation system that throws money into these listed companies on a daily basis and, as a result, they're constantly being propped up. This gives top Australian companies and their directors an over-inflated sense of



confidence in what they're doing because it's almost like they can't fail.

In the US, the Fortune 500 companies are almost completely different than they were 20-30 years ago. In the UK, the FTSE100 has got a few mainstays in there, but there's at least a bit of turnover, but not in Australia. Here, the top 10, top 20 have barely changed in that time. There is nothing there to challenge them.

And I think that that's where the razor sharpness comes from. How can you be razor sharp if you've gone soft through complacency?

Do we have battle-hardened boards who are tested? Do we have boards that can look beyond the status quo and how things used to be done? No, but we need them to blend these two things. What I call blending the "wisdom of experience with the wisdom of inexperience".

Disruption is now a constant but we still don't see boards innovate their thinking as much as they should be. The banking sector is being challenged from internal and external stakeholders (mainly employees and investors) on cultural reforms. In the resources sector, we have seen this through the lens of their social license to operate and the risk of losing it. Those companies are being challenged, they're being forced to adopt, adjust their models.

But even if we had, say ,10 'razor sharp' directors, they might not make up a good board. How should companies think about 'a good director' vs 'a good board'?

There's a few C's to answer this. Number one is curiosity. Curiosity about themselves. Asking questions like 'Why am I thinking this way?' 'What's triggering me?' 'What's driving my thought processes?' It's sort of self-governance. Then you've

But you need to show vulnerability to say “...you know what? Maybe we don't know everything, or maybe I don't know everything. Maybe I don't have an answer to this. It's OK.”

And then you need a good board showing vulnerability to say “maybe we don't have all the answers.”

Paul Smith

got curiosity about the people around you – 'Why are they thinking that way?' 'How can I work better with them?' 'What's their filter?' And then there's curiosity about your stakeholders – 'Who are they?' 'How are they thinking?' 'What's driving them?' 'How are we going to impact that?'

The second one is collaboration. It's working together, creating that safe, inclusive space where all views are heard, but where you're still challenging each other in a respectful way. If you have a group of people who are curious by nature, and it's well led by the chair, that should lend itself to a collaborative group. And again, because you'll have that curiosity, you're always bringing in new voice viewpoints, new information, and you're always challenging old information.

But one of the things that's lacking in the boardroom that I really would love to see is vulnerability. Both at the director and at the board level. The current lack of vulnerability is both internal and externally driven. There's this need to be the

smartest person in the room at all times and directors feel like they cannot say 'I don't know', because they are supposed to be the most senior. Vulnerability comes and goes along with courage and curiosity.

That vulnerability can lend itself to culpability. The regulatory and the legal setup dictates that if the board shows any signs of vulnerability, then that board needs to be ready to be put to the sword or sued for not knowing what the directors are doing. But I am absolutely certain that more boards would love to be vulnerable.

I am not suggesting this must be done publicly. I'd love to see more vulnerability in the boardroom, behind closed doors where the admittance that maybe we just don't have all the answers is acceptable. But where 'we're going to go and find the answers' closely follows because the curiosity would drive that attitude.

It's a dog chasing its tail situation though - if a director shows vulnerability and admits that they don't have all the answers then they might be held liable, because 'why am I sitting on the board if I don't have all the answers?' ...

There's this myth about the board directors joining a boardroom having to be 'complete' in relation to their knowledge. An expectation that they're there to give, rather than to learn. But we no longer live in a world where that's possible. We are living in some of the most uncertain volatile times there ever have been, where decisions are ambiguous at best. It is impossible to come in knowing everything that needs to be done. But that doesn't mean we can't be curious and go and find out and get as much input as possible. And I think this is where I'd love to see boards become more transparent. Talking about the decisions they've made and how they've made them.

In fact, the findings of the Royal Commission into banking and the way the board minutes were scrutinized have demonstrated the importance of this. I really would love to see boards becoming more transparent about how they found the answers, not how they had them.

Many suggest that diversity on the boards is the answer. We are slowly increasing the gender diversity on the listed boards with 32% of boards occupied by women in 2022 (finally exceeding the 30% mark), but those are just numbers. What should be the real impact or a consequence of board diversity and are we experiencing that impact now?

On the positive front, I think these numbers represent flags to other people -- women, non-Caucasian, not of traditional corporate backgrounds -- that it's possible, that the boardrooms are not just for men. Whether the women in

the boardroom are the right people to be there doesn't really matter, because maybe the men were not the right people to be there either.

It's impossible to say with certainty that having a gender diverse board is better than not having it. But a law of averages would suggest that a more diverse board is going to be better as long as it has the culture of inclusivity. That's where you really see the impact of diversity -- is it a bunch of people just disagreeing with each other because they're so different, or are they getting to better answers and better decisions because they've got a whole bunch of different perspectives?

Measuring the impact of diversity is really hard because you don't have control experiments. Every single company is different. Causality is really hard to measure. You can put some numbers together and show that the share price performs better at companies with more diverse boards but, just like with any other statistics, you can create it to support the story. It also depends on what measures you are using, i.e., is the share price and dividends the only success measure? Is it recruitment and retention rates? Is it health and safety? Also, how can you prove causality?

Having said that, under no circumstances I am suggesting that we shouldn't bother because it's too hard. The overarching argument I made around a signal to society about what's possible should be key.

In my view, the real impact is more robust decisions, but it's really hard to measure the impact of more robust decisions. I think it's more a case of a risk. Just thinking about it smartly, surely a more diverse board is going to make more robust decisions, better decisions because of the different perspectives. As long as it has that culture that supports a curious and collaborative environment.



To enhance a board, each director needs to have individual skills that collectively contribute to the board skills matrix. But what are the skills and perhaps abilities necessary for any director regardless of what board they are on (what should be the minimum entry requirement for any director to join a board)?

A few more C's – communication or 'two ears and one mouth – listen more and talk less' is a real skillset. Especially in an environment where people have opinions and want to share them. Curiosity and self-governance, which we mentioned before. Elements of self-governance and self-care are actually very important. It is closely linked to health, wellbeing and cognitive abilities. Asking yourself 'are you distraction-free and ready to go? If not, what are you doing to address that? What is the board doing to make sure the board is mentally and emotionally present?'

Learner mindset – tied to curiosity but a constant desire to learn. Have the past be an inspiration rather than the guide.

It's impossible to suggest that you are always representing. It doesn't mean that you should go rogue in the social media for example.

What skills differentiate a chair from a director?

Traditionally, the chair has been the most senior person in the room. In the US, the President and CEO are often the same person; both the operational and governance leader. In Australia, senior often means the longest serving or the person with the best reputation.

The fundamental role of the chair is that they really set the tone. They are the board's leader. They are there to keep the board on track and get the best out of the group. They must listen, move things forward. They are also a therapist. There's a very different role for a chair. Everyone has different style; some are passive and some are more active. But they need to be great facilitators and be the main connection point inside and outside the boardroom.

Can this be taught? It's hard, so you need to have people who are naturally inclined to operate in this way in a group which means rethinking who should be chair of a board.

In your board evaluations, you assess the BQ or 'board intelligence'. What do you typically find? Is the BQ high in Australia? Does it appear to be sector-specific?

This is where we work with boards and conduct healthchecks with an aim towards uncovering issues that are barriers to high performance. To achieve it, boards need to allocate far more time and resources to learning and development. But BQ is relative to the needs of the board and needs of the company. They need to set their own roadmap towards what is high performance. As such, benchmarking is difficult to do.

We measure performance across 150 indicators in 15 categories. Training and development invariably ranks the lowest among companies in Australia. Board leadership and compliance usually rank the highest.

The main thing that high BQ leads to is the realization that you are not whole and complete as a board (or directors) and you can't rely on annual membership and a few webinars. L&D is critical for boards as it is for employees.

Research shows that there is a lot of unconscious bias that obviously affects what we think we know. Can you ever completely remove unconscious bias from decision-making?

No. Bias is part of being a human. But with the right techniques you can minimize it on an individual and group level. You can reduce conscious bias, but with unconscious bias - you can just become more aware of it. One type of bias is selective perception and a great example of this is when you buy a new car and all of a sudden you see that type of car everywhere. It's the bias part of the brain that makes those connections. Suddenly you see what is important to you. You can train your brain by making conscious decisions and it comes back to that self-governance. If we train as a collective, then a board can start to recognize individual or group bias in decisions and use training techniques to alleviate the risk of it becoming a performance barrier.

There is also a technique called 'Deep Democracy' that should be used by all boards in Australia to assist with difficult decisions. DD is used to uncover more of the hidden views of a group by creating a safe space where everyone can share all views.

If we were to start with a blank sheet of paper, what would an ideal board of directors look like?

There is no such thing as ideal, but there is fit-for-purpose. It's actually less about diversity and skills and more about common values, behaviours and attributes, because that is what you really need



for optimal functioning of a board. Commitment to the role is one of those.

Around the world, directors – especially of listed companies, are being asked or required to disclose more about their skills. But, for me, I wish to see boards disclosing more information beyond fulfilling any legal responsibilities.

What common mistakes do you see in how boards communicate with the CEO, executives and other employees?

All challenge and no support or all support and no challenge. It needs to be a blend and done respectfully. Boards are often not communicating clearly what they need to the CEO. This creates a lot of stress, unless you have really open lines of communication where the boards are really coaching the CEO. Blended thinking is required. Boards can't rely on management to read their minds.

The board has fiduciary responsibility to get the information they need, not to rely on the CEO or other executives to give them all the details. Cultural incentives are a big thing that could help a lot.

In our line of work, we often work with well-established directors who might have been founders of businesses or have had a track record of getting the businesses up to speed and, as such, their mindset is very much commercial. When it comes to governance, they often consider it to be compliance, a 'tick the box' exercise not requiring follow-ups or changes in processes and generally slowing down the business. Are there any circumstances under which this view may be correct? How can a board with a founder ensure it has strong governance?

It depends on how you define governance. If it's just compliance, then yes. If it's defined as stewardship, then no. There is a combined blame here of regulation and undereducation. The commercial side is always going to trump the rest because a business cannot exist without money. Therefore, success and sustainability starts with the financial.

But the rules about commercial sustainability are changing quickly. Work-place culture is becoming one of the key topics, and how the company works with different stakeholders can determine its commercial success or failure. Financial success doesn't also mean striving for growth beyond all else. You don't have the biggest, you don't have to be the fastest growing, you don't have to be the most profitable. What if you were both financially successful *and* **a healthy place to work and a positive impact on the world?**

Short-term and long-term distinction is even more challenging now – the board's responsibility is even harder in this space now. Commercial still trumps environmental and social responsibility in the short-term and we have trade-offs happening all the time – for example to reduce costs, the company might need to lay off staff, or to increase profits the company might have to increase prices. You will always have one or more stakeholders negatively impacted by the need to secure the short-term commercial certainty.

What are your views on how directors are remunerated? Should the structure and amounts change?

All board directors should be compensated but very few people agree on this, or by how much. Remuneration data vastly differs, even between comparable companies.

There is also the constant conflict of interest between a director's independence and getting paid. How can you strive to speak your mind when sticking your neck out could cost you a significant part of your income?

Incentive structures beyond remuneration are stacked against it.

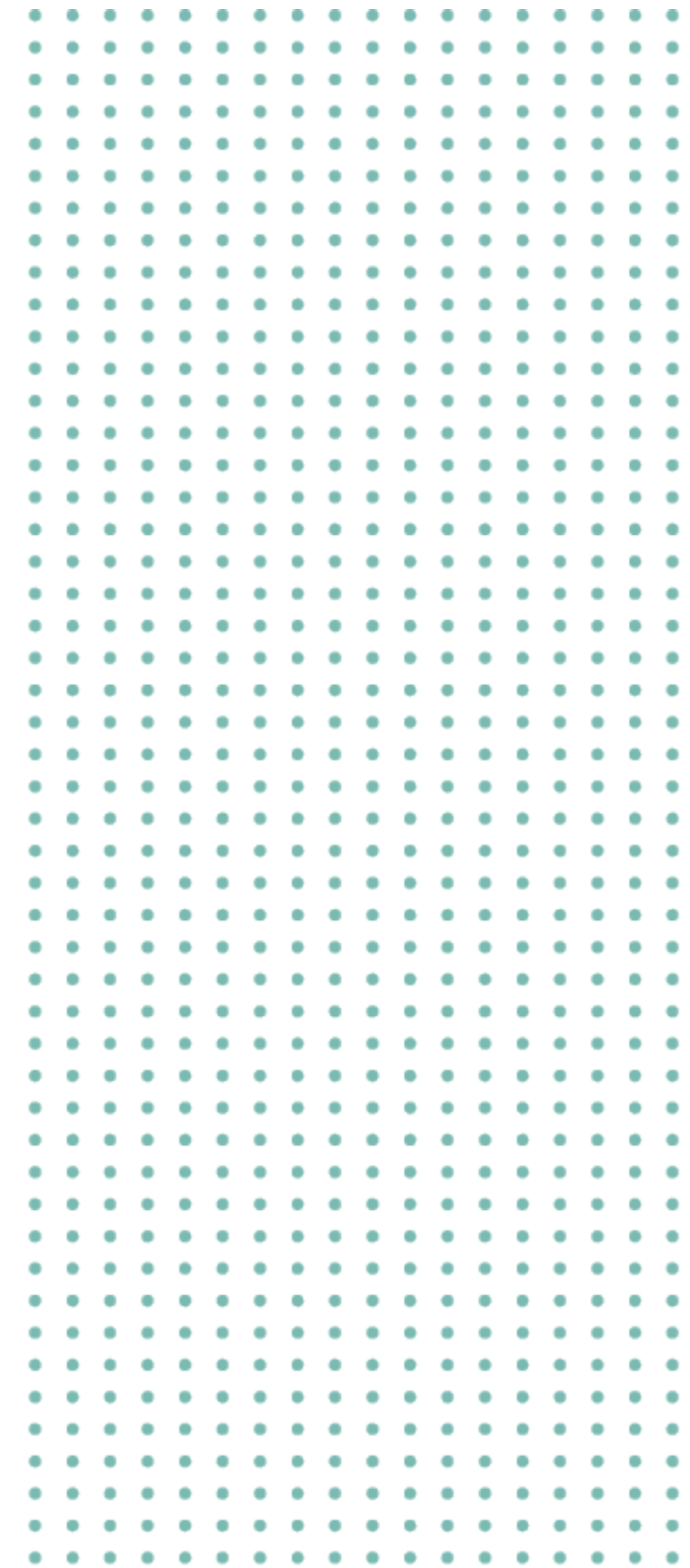
If we first understand the objective and purpose of the board then we can link incentives to those. As the role of the board director gets more complex, so remuneration needs to be looked at. For example, potential overcommitment of directors is a real issue. Too many roles to be effective or more hours leading to the need to cut back.

A 2020 McKinsey study showed that directors spent on average 20-30% more time on the boards compared to previous years – and this was pre-Covid times. There are already not enough quality directors to go around and we might soon have a vacuum of directors or most directors will be stretched.

And lastly, what would you like investors to start asking the boards during engagement meetings?

Here's my list:

- What mechanisms do you have in place to balance short-term vs long-term success metrics?
- How do you map and prioritise different stakeholder interests?
- How are you ensuring that your board members are up to speed around critical areas, both internal and external?
- How is the board working collectively to ensure that they are fulfilling not just fiduciary duty but the rest – and striving for excellence?
- And, how do you recruit your board members to create a group that is fit for purpose?



'Embrace Equity'

Why it's more than a hashtag

Every day across our broad base of local and global clients, we work with teams that include **incredibly talented women** making invaluable contributions to business and the world we live in.



Through these relationships, and our work advising boards and leadership teams on their approach to ESG, we understand why this year's International Women's Day theme, #EmbraceEquity is critical to achieving successful outcomes. Companies that embrace gender equity are well documented to deliver better financial results, accelerate innovation and enjoy stronger talent retention.



We also see that more than ever, investors, regulators and other stakeholders are holding directors accountable on an increasing range of environmental, social and governance (ESG) considerations. The result is that companies around the world are being urged to move faster on diversity or risk jeopardising their reputation and ability to attract and retain both customers and exceptional talent – both key measures for shareholders.

Yet there are still many obstacles to narrowing the gender equity gap. A recent study by McKinsey found that while female leaders around the world are as likely as men to aspire to senior-level roles, they experience micro-aggressions that undermine their authority and make it harder for them to advance.

This year's International Women's Day is the first to be celebrated in the wake of the worst economic ravages of the Covid-19 pandemic, which exacted an immense and lasting toll on gender equity in the workplace. A 2023 report reveals that the global pipeline for leadership positions for women has yet to recover to pre-pandemic levels because, amongst other things, women suffered greater job losses than men and were more likely to choose to leave the paid labour market to pick up childcare and undertake other domestic responsibilities.

At Morrow Sodali we are proud of our global corporate advisory work, helping companies improve their ESG maturity. We do this by assisting them to challenge and evolve consideration of equity, diversity and inclusion issues in their business, and integrate appropriate goals into their long-term strategies and disclosures.



Morrow Sodali's Managing Director, Head of ESG International - Jana Jevcakova speaking at the 2022 HKIRA 'ESG & Beyond' event in Hong Kong.

Who is Morrow Sodali?

Morrow Sodali is the leading independent global consultancy specialising in M&A advisory, annual meeting services, shareholder and bondholder services, corporate governance, proxy solicitation and capital markets transactions.

From headquarters in New York and London, and offices and partners in major capital markets, Morrow Sodali serves more than 1,000 corporate clients in 80+ countries, including many of the world's largest multinational corporations. In addition to listed and private companies, our clients include financial institutions, mutual funds, ETFs, stock exchanges and membership associations.

Our Purpose:

We bring together all the expertise, information, technology and resources companies need to effectively engage with their shareholders and other important stakeholders to maximise support for strategic events and business as usual initiatives.

Our Services:

- Corporate Governance Advisory Services
- ESG Advisory Services
- Proxy Solicitation and Shareholder Meeting Services
- Capital Market Intelligence Services
- M&A Shareholder Engagement Services
- Proxy Contests, Hostile Takeovers, Shareholder Activism and Special Situations
- Retail Services and Additional Capabilities
- Debt Services
- Board of Director Services
- Services for Registered Funds - Mutual Funds, Exchange Traded Funds (ETFS) and Closed-end Funds - **Morrow Sodali Fund Solutions**
- Transaction Communications Services
- Investor Relations Services
- Corporate Reputation Services
- Research Services

Annual recurring clients:

500+

Shareholder meetings

200+

Corporate governance
advisory clients

95%

Retention rate annual
meeting clients

80+

Countries

1,000+

Corporate clients

Who is Citadel-MAGNUS?



In November 2022, Morrow Sodali formally announced the acquisition of Australian-based corporate and financial communications firm, Citadel-MAGNUS.

Citadel-MAGNUS is Australia's leading independent corporate and financial communications firm with an experienced team of professionals based in both Sydney and Perth. Citadel-MAGNUS's core Investor Relations, Financial Communications and Board Advisory service offerings are highly complementary to Morrow Sodali's current expertise in ESG advisory, proxy solicitation and research and stakeholder campaign development.

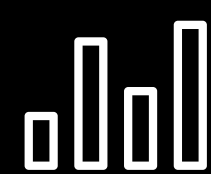
The combination of Morrow Sodali and Citadel-MAGNUS is the largest of its kind in Australia and brings together more than 80 professionals in Australia, across 12+ disciplines, servicing more than 400 ASX listed companies each year.

Our Expertise



Corporate Reputation

- Corporate Brand Profiling
- Issues Management
- Stakeholder Mapping/Engagement
- Community Relations
- Corporate Social Responsibility
- Thought Leadership
- Media & Presentation Coaching



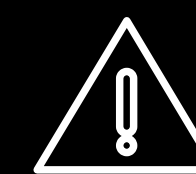
Investor Relations

- Shareholder & Analyst Communication
- Investor Perception Audits
- Financial Results & Calendar
- ESG Reporting
- Proxy Campaigns
- Shareholder Activism
- Investor Roadshows/Events



Transaction Communication

- Mergers & Acquisitions
- Initial Public Offerings
- Equity/Debt Raisings
- Corporate Restructures
- Trade Sales
- Asset Divestments
- Post-Merger Integration
- Media Strategy & Management



Special Situations

- Crisis Preparedness & Management
- Product Failure/Recall
- Restructuring & Financial Issues
- Change Management
- Litigation Communication
- Regulatory/Public Affairs
- Employee Engagement
- Data Breaches & Technology Issues

Strategic Financial Communications and Investor Relations Advisory

Contact

Our expert APAC team
providing listed companies
with market-leading services.

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P: (02) 9066 4040
Level 24, 68 Pitt Street,
Sydney NSW 2000, Australia
morrowsodali.com

Our APAC Team



Christian Sealey
CEO,
International

P: +61 9066 4060
M: +61 452 032 771
c.sealey@morrowsodali.com



Justin Grogan
Senior Managing Director,
Corporate Governance
& Sustainability APAC

P: +61 9066 6161
M: +61 416 757 972
j.grogan@morrowsodali.com



Raymond Chen
Managing Director,
Hong Kong and Mainland China

P: +852 2319 4471
M: +852 5984 8375
r.chen@morrowsodali.com



Angus Booth
Senior Managing Director,
APAC

P: +61 9066 4062
M: +61 457 560 179
a.booth@morrowsodali.com



Jana Jevcakova
Managing Director,
Head of ESG International

P: +61 9066 4072
M: +61 411 275 275
j.jevcakova@morrowsodali.com



Stanley Chung
Managing Director,
South Korea

P: +82 2 6226 7266
M: +82 10 8170 1000
s.chung@morrowsodali.com

