Remarks from Kerrie Waring, CEO, ICGN
Japan 2020 Vision Summit
Driving occupational health and safety through corporate governance
17 Feb 2022 (1500-1700)

Introduction

I have been asked to reflect on the role investors play in promoting safety, health, and well-being in the workplace and how this relates to human capital management more broadly.

As Chief Executive of the International Corporate Governance Network, my views reflect those of many ICGN Members responsible for assets of $59 trillion, based mainly in Europe and North America but with growing Asia representation, particularly in Japan.

We have long advocated that both companies and investors share a mutual responsibility to preserve and enhance long-term corporate value through high standards of governance and stewardship, ultimately contributing to sustainable economies, societies and the environment.

This is communicated through the ICGN Global Governance Principles, which was published over 20 years ago and was updated last year. Many ICGN Members default to the Principles as a bellwether for their voting policies and company engagements. And many governments use them to help inspire the evolution of national codes.

I also serve on the Council of Experts convened by the FSA and JPX which reviewed the Japan Corporate Governance Code last year. The updated Code has strengthened language around social and environmental matters and now calls on corporate boards to articulate their human resource policies and strategies and how this contributes to increasing corporate value over the mid-long term.

Both the Japan and ICGN Codes, encourage us to focus, not only on aspects relating to a company's long-term financial value, but also on factors impacting the health of society and the environment, too. In essence this is about 'the governance of sustainability' and the role of the board and investors in overseeing financial, human and natural capital management in alignment with the company's purpose and strategy for value creation.

Long gone are the days where shareholder primacy prevailed. Stakeholder capitalism is increasingly acknowledged in laws, regulations, and Codes around the world. This requires boards to identify their key stakeholders and clarify how their interests are taken into account when promoting the long-term success of the company through the oversight of strategy, innovation, and risk.

HCM Priorities

And a company's most important stakeholder is often the workforce. So, the effective oversight of human capital management is a primary board responsibility which is why it features prominently in the updated ICGN Principles.

There are six recommendations I would draw your attention to:

- Firstly, workforce safety has been included as entirely new guidance. We call on boards to oversee management's approach to protecting workforce safety in operations and supply chains - and not just physical safety but psychological too. There are a number of initiatives in this space – for example, the collaboration 'Investors for Opioid and Pharmaceutical Accountability' developed guidance for investors when engaging with companies around employee health and safety in public health emergencies. It sets out expectations of boards to provide oversight and disclosure including on issues such as compensation structures, business productivity targets, appropriate resources, and communications.

- Secondly, we clarify that CEO pay and incentives should be aligned fairly and effectively with the workforce and long-term company strategy. This is set within a broader expectation that companies have effective pay strategies in place to recruit and retain talent, particularly given today's tight labour market. And this extends to benefits such as medical insurance, particularly in countries where regulatory sick pay provisions are lacking. For example, a few weeks ago, letters were sent by investors to over 40 US companies coordinated by the Interfaith Center on Corporate Responsibility demanding permanent paid sick leave benefits for workers.

- Third, the protection of human rights, particularly in relation to modern slavery issues, and the degree to which corporate boards are held accountable (or possibly even liable). In fact, the European Parliament is considering new binding laws on companies if they contribute to harming human rights, the environment and good governance. In particular, how do companies encourage workers to voice concerns or whistle-blow? Are there policies and procedures in place?

- Four, as the world's industrial economies transition towards net-zero carbon emissions, workers, suppliers, communities, and entire regions are in peril of being stranded. Last year, ICGN published a statement to COP 26 which included reference for there to be a just transition to net-zero to effectively address social inequality as a systemic risk. We call on countries to ratify and implement relevant labour standards that contribute to decent work for workers and businesses affected by the just transition.

- Five, it is now widely recognised that companies that employ a diverse, equitable and inclusive (DEI) workforce are more likely to make better and fairer business decisions. ICGN encourages all companies to publish DEI policies, with clear goals and measurable time-bound objectives. This sits alongside the importance of achieving appropriate gender diversity at board level and across the workforce.

- Six, many companies are embracing the digital revolution using artificial intelligence to enhance corporate efficiency, productivity, innovation, and competitiveness. So, we encourage boards to reflect on workforce impacts such as privacy infringements, algorithmic coercion, and workforce displacement.

All of these issues are likely to be top of the agenda for many investors in their company engagements this year, given potential financial, regulatory, and reputational impacts – and particularly as we begin to emerge from the Covid pandemic.

Disclosure

Key to demonstrating proper board oversight of these issues is through corporate disclosure. But consistent and reliable data is lacking because mandatory requirements are limited in most markets. So, many ICGN Members are calling on regulators to require companies to publish better information around their human capital policies, practices, and performance.

Last year, ICGN welcomed references in the updated Japan Corporate Governance Code for better disclosure around workforce diversity, health, human rights, and fair treatment. We also welcomed US SEC rules introduced in 2020 to require companies to report material human capital objectives following lobbying by the Human Capital Management Coalition.

These regulatory developments are good steps forward and we continue to encourage higher quality reporting to facilitate comparable, and verifiable human capital related information across markets and industries. For example, this could include information around workforce training, lost-time injury rates, pay ratios, turnover, demographics, and diversity particularly in relation to recruitment, retention, and promotion.

This would help provide genuinely useful information to investors in their investment, voting and company engagement decision-making and help companies demonstrate a competitive edge. Many companies already generate this kind of data for internal reporting purposes so why not publicly disclose?

Ultimately, good human capital management enhances worker satisfaction leading to higher productivity and superior services for customers. This helps companies innovate and remain competitive in a global economy. Conversely, a weak corporate culture with poor practices can contribute to under-performance. So, it is imperative that boards and management recognise this to preserve and enhance long-term corporate value in the best interests of shareholders and stakeholders alike.

Thank you.