

# Alibaba

Covering governance, ESG strategy and reporting, we have engaged extensively with Alibaba on a range of key sustainability issues and are pleased to see various improvements.

## Company overview

Alibaba Group Holding engages in providing online, offline and mobile marketplaces in retail and wholesale trade. It operates through the following business segments: core commerce; cloud computing; digital media and entertainment; and innovation initiatives and others, in both China and internationally. Alibaba employs over 250,000 people<sup>1</sup> directly and more indirectly, and has approximately 1.31 billion active consumers, including over one billion in China, an increase of 28.3 million during 2021.

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## Our engagement

Alibaba is dual-listed in the US and Hong Kong, with foreign investors accessing the stock via a variable interest entity structure (VIE)<sup>2</sup>. However, there was initially little information about the governance, appointed directors and oversight of this entity and how it interacted with the Hong Kong listed company. Alibaba has a partnership structure that raised concerns about board and committee independence and transparency about how the partnership interacts with the board.<sup>3</sup> A combined chair/CEO and lack of lead independent director were also of concern. Its significant employee base and use of contractors and 'gig' workers, requires effective management of people and their wellbeing, therefore development of a human capital management strategy has also been a significant objective for our engagement. In addition, the company's varied business segments for

## Engagement objectives:



### Environmental:

Science-based target setting



### Social and Ethical:

Human capital management strategy



### Governance:

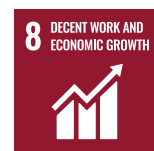
Establish governance engagement mechanism, board independence



### Strategy, Risk and Communication:

ESG reporting

## Sustainable Development Goals:



online and offline retail, consumer and digital sectors creates an ecosystem of billions of consumers and suppliers, introducing a range of ESG risks and opportunities which require more detailed reporting and shareholder engagement. Particular concerns included the lack of climate change targets and the company's approach to ethical data governance and the use of artificial intelligence.

**We first raised our concerns about lack of shareholder communications in 2015 and insufficient board and committee independence in 2016.**

<sup>1</sup> As of March 3, 2022, Alibaba employed 254,941 people, up from 259,316 as of December 31, 2021.

<sup>2</sup> An offshore entity allowing foreign investors to buy the offshore entity's stock.

<sup>3</sup> Alibaba's Annual Report 2021 provides more information on the partnership structure (pages 148-153).

## Governance concerns

We first raised our concerns about lack of shareholder communications in 2015 and insufficient board and committee independence in 2016, which the company acknowledged, although we were unable to arrange a follow up discussion. At an investor day in 2017, we raised our concerns about governance, board independence and data privacy directly with the founder/chair. Based on these concerns, at the 2017 AGM, we recommended voting against the re-election of the founder, chair/CEO.

**In 2019, having had little success in arranging a follow-up discussion, we sent a letter to the board of directors seeking dialogue about our concerns.**

Ahead of the 2018 AGM, we issued a public statement to urge clarification on the company's board governance structure including the VIE structure, improved board independence (at least 50%), appointment of a lead independent director and independent chairs for the nominating and governance committee and the compensation committee.

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In a call with the company in June 2021, we highlighted the company's opportunity to improve its board independence by replacing a non-independent non-executive director with an independent director, who would ideally be female. The investor relations director said this was a useful suggestion and would relay it to the board.

## ESG strategy and reporting

Given the range of ESG concerns, in 2017 we requested improved ESG strategy and reporting, sharing best practice examples. We therefore welcomed publication of the company's first ESG report in 2019, which focused on seven priorities. We provided feedback on this reporting, proposing improvements including more information on ESG governance, aligning to the UN Sustainable Development Goals, further disclosure on cyber security, carbon emissions, the inclusion of science-based targets and reporting based on the Task Force on Climate-related Financial Disclosures (TCFD). We also requested inclusion of more strategic social aspects such as human capital management strategy and metrics to align with the company's six core values. During a meeting at the company's Hong Kong offices in 2019, we responded to questions about our feedback on governance and structuring the team, which demonstrated the company was thinking carefully about further improvements. We also urged the company to report annually, rather than every other year, as planned.

In light of allegations of a '996' culture (working from nine in the morning until nine at night, six days a week), we enquired how the company ensures employees are engaged and deliver high performance whilst maintaining their wellbeing and work/life balance. The company took us through a variety of examples of how the company seeks to engage with employees, monitor their 'happiness score', and provide training and dialogue with senior leadership. We encouraged the company to develop this into a clear strategy with disclosure.

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## Outcomes

At the 2021 AGM we were pleased that the company did not propose to re-elect one of the non-independent non-executive directors, as we had also suggested, meeting the goal of 50% board independence. In addition, the company made the audit and compensation committees 100% independent, and appointed an independent chair to the nomination and corporate governance committee. The 2019 and 2020 20-F reports<sup>4</sup> provided more information on the VIE structures, including information about the governance and the holding structures as well as the names of the individuals from the Alibaba Partnership who form the limited liability companies as part of the VIE structure.

**At the end of 2021, we were pleased to receive more information about the company's ESG strategy, and confirmation that it would issue a 2022 ESG report and subsequently report annually.**

As part of establishing a credible plan to improve minority shareholder engagement, the company appointed a director responsible for engaging with shareholders on all aspects of ESG, leading to significantly improved shareholder engagement.

At the end of 2021, we were pleased to receive more information about the company's ESG strategy, and confirmation that it would issue a 2022 ESG report and subsequently report annually. The company announced a new sustainability development committee reporting into the board, committed to carbon neutrality by 2030 including halving Scope 3 emissions by 2030 and net zero by 2030 on Alibaba Cloud's Scope 3 emissions. The company announced a new Scope 3+ ecosystem commitment – to reduce 1.5 gigatons of emissions by 2035.

On commitments to social considerations, the company joined the United Nations Global Compact in 2021 and in early 2022, it published a status update (currently only in Chinese). During the chair and CEO's update to investors at the end of 2021, he talked about the company's social responsibility and launched 10 initiatives aligned with the UN Sustainable Development Goals which include high-quality employment and training, as well as improving the welfare of some of its more vulnerable workers, such as gig workers.



## Next steps

**We have been pleased to see Alibaba make significant progress in many aspects of ESG activities and commitments, as well as an established and ongoing dialogue with the company. Alibaba has also assured us that its upcoming ESG report will include enhanced disclosure on key topics. Nevertheless, there remain important areas of further engagement, including on governance: separation of the chair and CEO, appointment of a lead independent director and improved board director engagement with minority shareholders.**

**On the environment, we would like to see the company commit to accredited science-based targets and then deliver on its ambitious Scope 3+ emissions. On social impacts, we want to see more granularity on its UN Global Compact commitments, together with a clearer overview of human capital management strategy and accompanying disclosures on performance against its existing commitments. Finally, we continue to request more information from the company on digital rights, including the ethical use of artificial intelligence.**

## Current engagers



**Judi Tseng**  
**Engagement**  
EOS



**Olivia Lankester**  
**Investment**  
Global Emerging Markets

The company announced a new Scope 3+ ecosystem commitment – to reduce

**1.5** gigatons of emissions by 2035.

<sup>4</sup> SEC Form 20-F is an annual report filing for non-U.S. and non-Canadian companies that have securities trading in the U.S.

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- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

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