

Excerpt from

Gartner Business Quarterly

Proven Guidance for C-Suite Action

In this issue: **How to Rebuild Better**

The Pandemic, Protests and a Test of Corporate Commitment

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COVID-19 and a renewed spotlight on persistent racism are putting last year's high-profile corporate pledges to benefit society to the test.¹ Even as executives move to keep their companies afloat by cutting costs during the downturn, critical stakeholders say they must keep their promises to serve workers, customers, suppliers and the greater good, in addition to shareholders.

Nearly eight in 10 (78%) consumers worldwide expect businesses "to act to protect employees and the local community" during the pandemic, according to Edelman, the global communications firm.² Investors in control of nearly 25% of the \$74.3 trillion in worldwide assets under management are taking similar stands.³ BlackRock, which had \$6.5 trillion in assets as of March, and State Street Global Advisors, which had \$2.7 trillion, have made high-profile commitments to sustainable investing.⁴ In addition, a group of more than 300 other long-term investors who manage more than \$9.2 trillion urged companies to provide emergency

paid leave to workers and prioritize staff health and safety.⁵ And no wonder: Even during the crisis, investing in environment social and governance (ESG) issues has paid off. Funds that focus on sustainability outperformed traditional funds in the first four months of the year.⁶

Since late May, mass protests against police brutality, set off by the death of George Floyd, expanded into a national and global discussion of the daily discrimination faced by people of color. The debate adds new urgency to employee and public demands for more diversity and inclusion in the workplace. Employees are

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looking for companies to uphold their stated values, such as Best Buy's announcement of a task force representing varied demographics and seniority levels to recommend ways the leadership and the board can address injustice.⁷

The call to companies on these issues, the muscle behind it and the strategic import are clear. "The question is, will they do it — and how will they do it?" Ioannis Ioannou, associate professor of strategy and entrepreneurship at London Business School, said during an interview with us.

The GC Has the Opportunity and the Duty to Keep ESG on the Board's Radar

The general counsel (GC) has a critical role to play in the answer. First, the GC has ample opportunity right now. Legal leaders tell us they are communicating with the board more frequently since the coronavirus outbreak so that their latest risk analysis gets to corporate directors quickly. In some cases, briefings occur weekly or twice a week — either at the committee level or with individual board members — and over multiple channels, including teleconference, email and ad hoc meetings.

As an advisor to the board, it's imperative to help its members consider ESG implications — even as they grapple with thorny issues involving cash flow and debt. The GC should help frame their thinking on how to keep sustainability in front of decision makers facing tough choices.

"Every moment in a crisis, there are a thousand microdecisions you have to make," Davia Temin, president and CEO of management consultancy Temin and Company, told us. "You can make them with generosity, and generosity for your stakeholders, or you can make them parsimoniously."

Questions and Examples to Prime the Pump for Board Discussion

These four questions will help GCs guide corporate directors:

- What can our company do to protect our employees, customers and suppliers during a crisis?
- How can we tie shifts in our corporate strategy that result from the crisis to our sustainability efforts? Should we be reporting metrics that we're not?
- How can we use our company's resources and capabilities to address the urgent needs of our community and respond to the social environment?
- How can we make sure that crisis management efforts do not interfere with what we intend to do for our stakeholders in the long term?

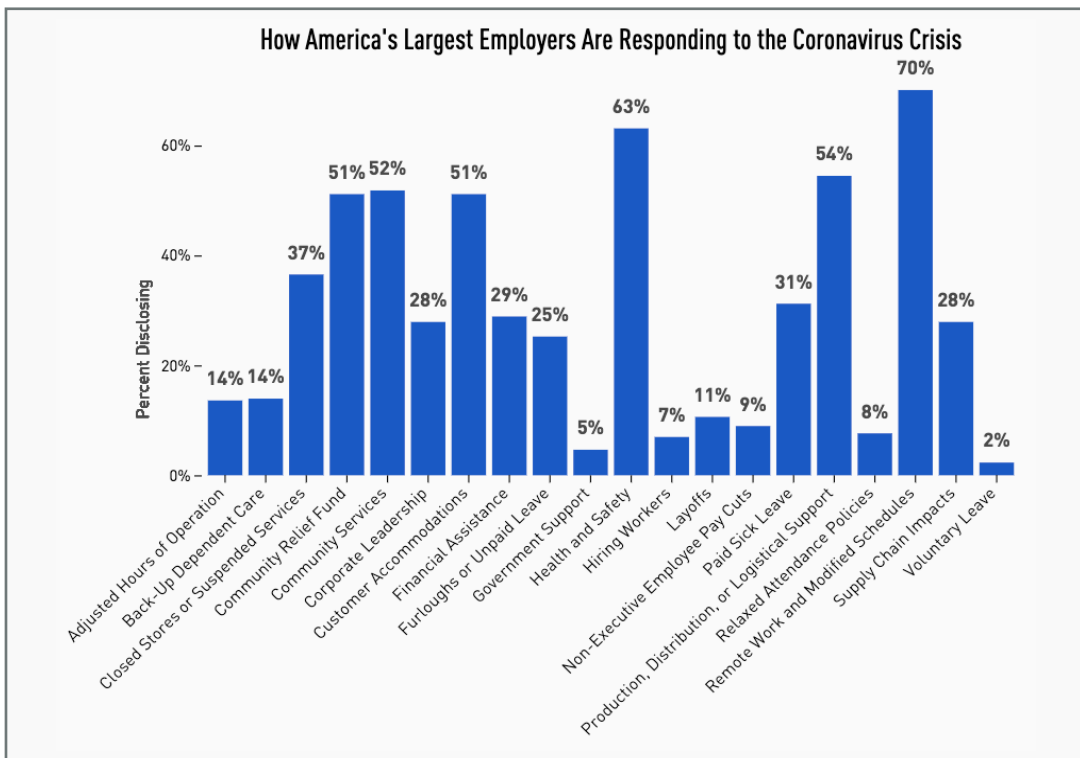
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What can our company do to protect our employees, customers and suppliers during a crisis? Unsurprisingly, big companies are best equipped to both manage their own survival and stay true to their ESG commitments. The cash position of large-enterprise companies increased over the past year. The average nonfinancial company in the S&P 500 held \$3.9 billion in total cash and short-term investments in the first quarter of this year, according to S&P Global Market Intelligence. That's a 22% jump from \$3.2 billion in the first quarter of 2019.

JUST Capital, a nonprofit research organization that tracks how companies treat external and internal stakeholders, reported that as of 1 June:

- Fifty-one percent of the largest 100 U.S. employers had cut prices and/or allowed customers to defer payments.
- Seventy percent of them have allowed employees to work remotely with modified schedules.
- Sixty-three percent have instituted health and safety measures for customers and workers.
- Fifty-one percent have contributed to community relief funds.

Figure 1: The Response of Large U.S. Companies to COVID-19



Source: JUST Capital

More than a quarter (28%) cut executive pay, a sign that leadership is willing to shoulder some of the burden (see Figure 1).

Revelations of insensitive treatment of employees could damage an employer’s brand for years to come. Conversely, those that excel during this time period and demonstrate their commitment to employees will be viewed as top-tier employers for the future.

“It starts with fair wages and benefits and goes to safety and opportunities for inclusion,” Alison Omens, JUST Capital’s chief strategy officer, told us. “At its core, it’s how a company treats its workers.”

Some organizations are redeploying employees whose work has slowed down rather than resorting to layoffs. For example, internal audit teams are pivoting when travel restrictions delay fieldwork. At Heineken, Global Audit Manager Paul Hamaker assigned auditors to

help the business with short-term pressing projects. And at Mars, Kenny Zheng, the company’s global internal audit senior manager, is using the extra time to build his team’s data analytics skills.

Similar shifts can support the supply chain as well as protect staff jobs. Procurement leaders tell us they have asked communications and marketing employees to reach out to vendors in their portfolio that could benefit from regular contact during the crisis but are not on procurement’s priority list. And they’ve asked finance departments to work directly with distressed suppliers to avoid the need to pass documents back and forth.

Even organizations that must cut or furlough workers can take steps to soften the blow. For instance, U.S. companies in the entertainment and hospitality industries that have furloughed workers pledged to continue to provide health benefits to their staff for several months, sometimes longer.⁸

And when offices get ready to reopen, companies have communicated to set expectations and show empathy about the risks of returning. Take the morning commute. This could be a dangerous moment in an employee's day, particularly for those who take public transit. To make it easier, companies could provide private transportation, discounts for ride-sharing apps or flexible hours that allow employees to travel during nonpeak times and more easily maintain social distancing.

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How can we tie shifts in our corporate strategy that result from the COVID-19 crisis to our sustainability efforts? Should we be reporting metrics that we're not? Strategists tell us they are revisiting underlying assumptions, developing scenarios and reprioritizing initiatives to make their long-term plans more flexible at a time of heightened health, social and economic pressure.

As companies work to make supply chains more resilient and production more efficient, it is an opportunity to lock in long-term ESG goals at a moment of negotiating leverage. If you need ideas on new areas of sustainability to focus on or metrics to report, check the list of standards found in "How to Select the Right ESG Reporting Framework."

Make this a priority. Assurance leaders tell us that the highest-velocity enterprise risks — those that would hit fast should they occur — are related to social change or the workforce.

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How can we use our company's resources and capabilities to address the urgent needs of the community and respond to the social environment? Some companies have reconfigured manufacturing operations to produce hand sanitizer instead of beer — or face masks instead of apparel.^{9,10}

Others have donated medical supplies to hard-hit areas such as New York City. Executives should ask whether their companies can afford to donate money to help local organizations provide critical services. In Michigan, the Detroit Pistons partnered with Wayne County and other organizations to donate \$375,000 to Forgotten Harvest, a local food bank that has seen increased demand during the crisis.¹¹

If you're reducing staff, take care not to undermine progress you may have made on your diversity efforts. And protect your outside parties. It's critical to make sure each stakeholder, whether it's an employee or a vendor, has "an equitable opportunity to succeed," Jean Lee, president and CEO of the Minority Corporate Counsel Association, told us. "Those are the kinds of things that GCs can really drive."

It's important to listen to and fund employee resource groups that represent segments of the workforce such as women, veterans, or racial and ethnic minorities. These groups offer help achieving diversity and inclusion goals.

Employee groups can also provide tips for supporting supplier diversity. Another resource the company might have overlooked to bring more minority firms into its network: primary vendors with owners from underrepresented groups who may know of others. Minority suppliers tell us companies should also ask them for insight into diverse segments of the consumer base.

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How can we make sure that crisis management efforts do not interfere with what we intend to do for our stakeholders in the long term? Most importantly, think about how your actions will look to others. For instance, public companies that used the U.S. Treasury's \$350 billion bailout fund for small businesses faced a backlash from both Congress and the public since they had other routes to access capital.¹²

If you're not sure about a certain crisis management strategy, check with a trusted advisor such as a particular board member, outside counsel or someone that the CEO relies on, the consultant Temin told us.

Temin also recommends applying what she calls the "karmic cockroach test." It goes like this: Ask yourself whether this action or statement will lead to reincarnation as a bug that incites disgust in others. "Somewhere deep inside," she said, "no matter what religious tradition you come from, you know you will come back as a cockroach if you do it."

- ¹ "Shareholder Value Is No Longer Everything, Top C.E.O.s Say," The New York Times.
- ² "Edelman Trust Barometer Special Report on COVID-19 Demonstrates Essential Role of the Private Sector," Edelman.
- ³ "2018 Marked Uncertainty in Asset Management — Boston Consulting Group," Pensions & Investments.
- ⁴ "Stewardship Engagement Guidance to Companies in Response to COVID-19," State Street Global Advisors (registration required).
- ⁵ "Investor Statement on Coronavirus Response," Interfaith Center on Corporate Responsibility, Domini Impact Investments and the New York City Comptroller
- ⁶ "ESG Investing Shines in Market Turmoil, With Help From Big Tech," The Wall Street Journal (subscription required).
- ⁷ "Best Buy's Corie Barry on the Aftermath of George Floyd's Killing: 'We will do better,'" Minneapolis/St. Paul Business Journal.
- ⁸ "These 21 Prominent U.S. Businesses Are Among Those Temporarily Laying Off the Most People," USA Today.
- ⁹ "Distilleries and Breweries Pivot to Producing Hand Sanitizer," Bloomberg Businessweek.
- ¹⁰ "Brooks Brothers General Counsel Seeks Solutions in COVID-19 Era," Bloomberg Law.
- ¹¹ "Pistons Owner Tom Gores Announces \$375,000 Grant for Forgotten Harvest," Detroit Free Press.
- ¹² "Scores of U.S. Public Companies Take Small Business Rescue Funds," Financial Times (subscription required).

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