

Board Briefing: The Changing Expectations of Corporate Responsibility

Briefing and Action Steps for
Boards and the C-Suite

How to use this report

Methodology

Assembled from best-in-class presentations across clients, this presentation contains PowerPoint slides that provide information and data about the changing expectations of corporate responsibility.

Goal of This Report

Provide context, expert opinions and recommended actions to facilitate effective board discussions on news topics with legal, compliance, privacy and security implications.

How to Use This Report

- Review the slides to gain critical context.
- Customize and use the slides to facilitate a discussion with your board.



Trends in Expectations of Corporate Responsibility



Companies Face Increasing Scrutiny

Recent examples of stakeholder dissatisfaction

Consumer Boycotts

 Washington Post


Why SoulCycle and Equinox could be especially vulnerable to boycotts

Luxury fitness brands SoulCycle and Equinox faced a chorus of calls for a boycott last week over news that Stephen Ross, the billionaire ...

1 month ago



Employee Protests

 CNBC

Wayfair employees walk out, customers call for boycott in protest over bed sales to Texas border detention camp

Wayfair drew political criticism and calls from some customers for a boycott after employees protested the company's apparent sale of \$200,000 ...

Jun 26, 2019



Activist Investors

 Bloomberg


Rich Families Pour Wealth Into \$31 Trillion ESG Opportunity

Super-rich families are increasingly including sustainability and ethics in founding principles of their private investment firms, according to ...

4 days ago



Aggressive Regulators

 Washington Post

Top DOJ official signals intensifying state and federal antitrust probe of big tech

ASPEN, Colo. — The U.S. government is forging ahead with its review of online platforms for potential antitrust violations, coordinating with ...

1 month ago



Sources: [Washington Post](#), [CNBC](#), [Bloomberg](#), [Washington Post](#)

Is There A Redefining Of Corporate Purpose?

Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'

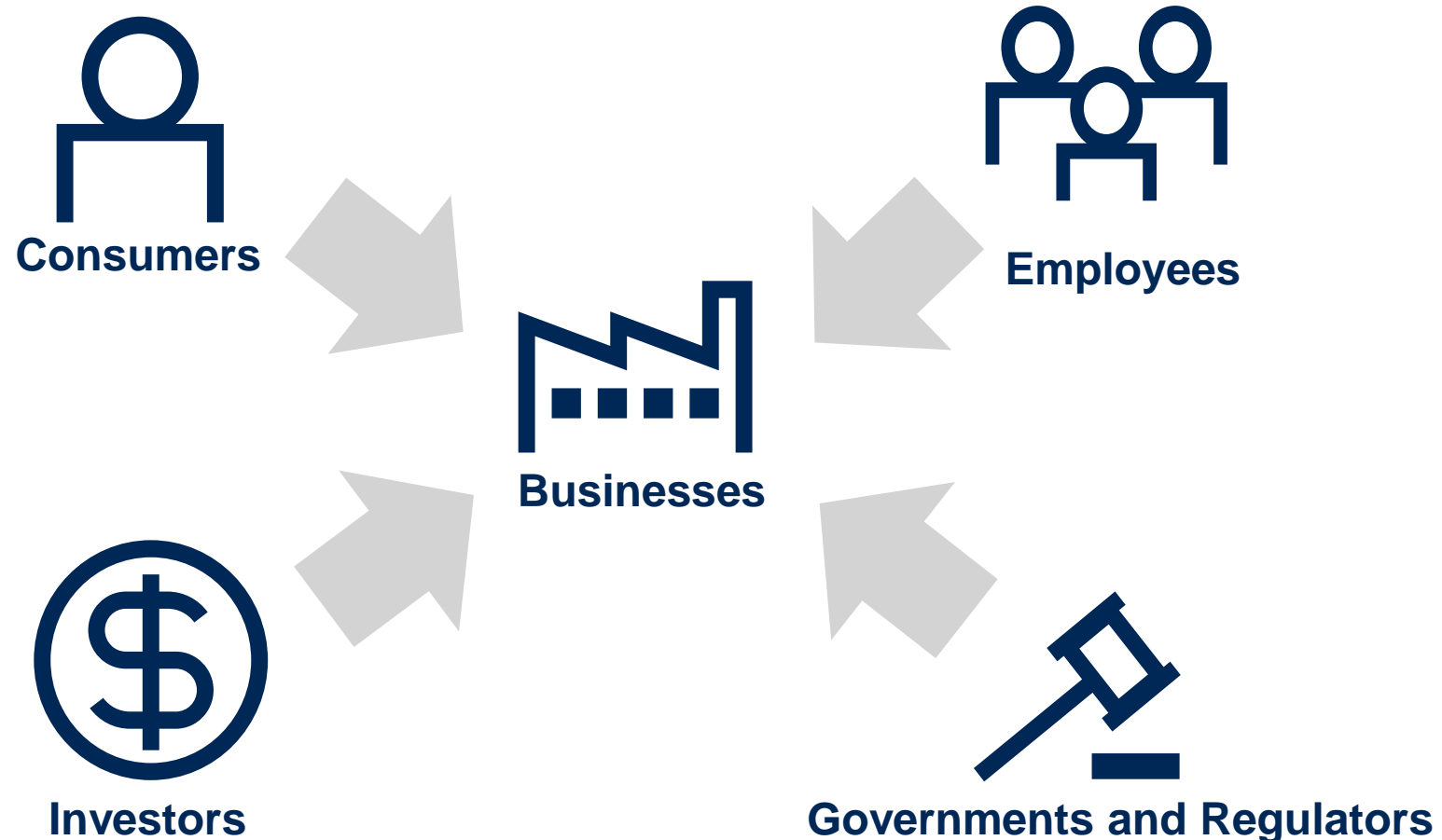
AUG 19, 2019

WASHINGTON – Business Roundtable today announced the release of a new Statement on the Purpose of a Corporation signed by 181 CEOs who commit to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders.

Source: Statement on the Purpose of a Corporation – The Business Roundtable.

The Sources of Change

Expectations of corporate behavior from various corporate stakeholders are changing. Companies should track and consider the interests and requests of their consumers, employees, investors and regulators. In particular, companies should recognize when many of their stakeholders possess similar or countervailing interests.



Consumers Want Sustainable and Ethical Products

Consumers



Sustainable and ethical product production is big business. Most consumers, but especially young adults, are looking for sustainable alternatives to the products they are purchasing.

62%

Of consumers buy goods from companies that reflect their values and beliefs ¹

47%

Of consumers have stopped doing business with a company because of its actions ¹

35%

Of consumers are willing to pay 25% or more for a sustainable version of a product ²

50%

Of all revenue growth in consumer packaged goods from 2013-2018 came from the sustainable product market ³

Sources:

1: Global Consumer Pulse Research - Accenture

2: Retail Sustainability Survey - CGS

3: CSB Sustainable Market Share Index – NYU Stern School of Business

Employees Want Companies to Take A Stand

Employees



Employees are increasingly looking for companies to represent their values, act ethically and take stands on social issues.

97%

Of recent MBA graduates say they are willing to forgo financial benefits to work for a company with a better reputation for ethics and ESG

87%

Of employees want companies to take a stand on social issues relevant to their business

74%

Of employees want companies to take a stand on social issues regardless on if they are relevant to their business

Investors Push for Sustainability

Investors



Investors care about ESG and want companies to be transparent in their practices. As such, they are increasingly turning to shareholder proposals to get information on corporate practices and/or push for change. These proposals most often cover environmental, social, political and compensation issues, such as climate change, executive compensation and corporate political donations.

\$30.7

Trillion is currently held in ESG-related investments (34% growth in the last two years) ¹

56%

Of shareholder proposals last year related to environmental, social, political, or compensation issues ²

4X

Increase in shareholder support for environmental, social, and political proposals since 2000 ²

Sources:

1: 2018 Global Sustainable Investment Review – Global Sustainable Investment Alliance

2: 2019 Proxy Season Review Part 1 – Sullivan & Cromwell LLP

Regulators Focus On Culture Amid Broad Uncertainty

Governments and Regulators



The focus on corporate culture has intensified even as the global regulatory agenda shows signs of uncertainty and fragmentation.

Consistent Focus on Corporate Culture

- The Department of Justice published guidance telling prosecutors to analyze a company's culture of compliance when issuing penalties ¹
- The Securities and Exchange Commission published guidance explaining that "culture is not an option" and that companies are expected to exceed legal requirements in creating a positive culture ²
- The UK Financial Reporting Council published a new governance code that requires companies to better engage each of its stakeholders, establish a set of corporate values, create a plan for diversifying its board and base executive compensation on more than a company's stock price ³

Global Regulatory Uncertainty

- Governments and regulators are struggling to reach legal and regulatory consensus on a range of issues such as privacy, digital technology use and environmental responsibility
- Geopolitical tensions, national security concerns and at least a temporary retreat from multinational institutions makes it more difficult to reach a global regulatory consensus
- Populist political environments mean rapid swings in enforcement priorities
- The result is an increasingly complex patchwork of local, national and multi-national regulations and enforcement priorities that organizations must navigate

Sources:

1: Evaluation of Corporate Compliance Programs – U.S. Department of Justice

2: Observations on Culture at Financial Institutions – U.S. Securities and Exchange Commission

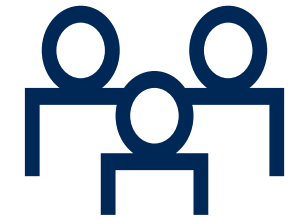
3: 2018 UK Corporate Governance Code – Financial Reporting Council

The Sources of Changing Corporate Expectations

Corporate pressure is building because there is a gap between the actions stakeholders are expecting companies to take and what they have done so far. Today's stakeholders increasingly expect companies to build a positive culture, actively demonstrate their values and display a greater ESG consciousness.



Want businesses to **create ethical and sustainable** products.



Want businesses to **take a stand on social issues** and pursue a strong set of values.



Want businesses to **be transparent** in their corporate practices, and to **push for sustainable change**.

Want businesses to **establish a positive corporate culture** and will likely increase pressure in other areas soon.



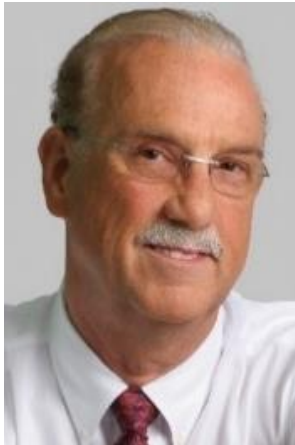


Perspectives From Experts



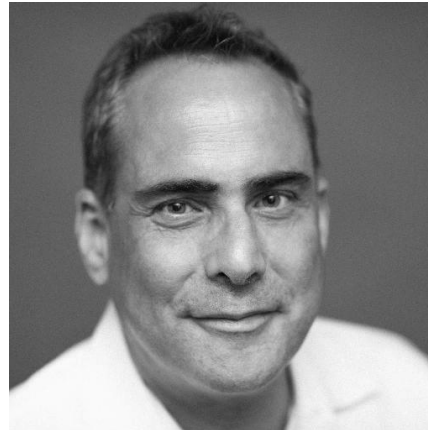
Expert Perspectives on Corporate Responsibility

“How can businesses navigate changing stakeholder expectations?”



**Build Trust With
Your Stakeholders**

Charles Green
Founder and CEO
Trust Advisory Consultants



**View ESG as an
Extension of Your
Company's
Values**

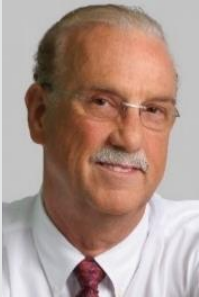
Bob Axelrod
Senior Vice President
Fleishman Hillard



**Align Your
Company's
Decisions With Its
Values**

Brian Kropp
Distinguished VP
Gartner

Build Trust With Your Stakeholders



“A trusted company is a company where all employees behave in a trusting and trustworthy manner with all stakeholders.”

Charles Green
Founder and CEO
Trusted Advisor Associates

Build an Internal Culture of Trust

Companies want to build trust with their stakeholders. But before a business can successfully export trust, it must build a widespread internal culture of trust through consistent demonstration and reinforcement of its corporate values. Specific values may vary, but might include:

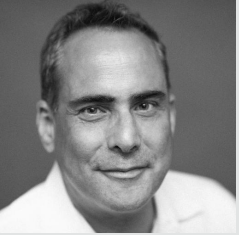
- A focus on the stakeholder for their sake
- A habit of collaboration
- An instinct to transparency
- A focus on building relationships with a long-term orientation

Focus on Direct Stakeholder Interactions

As personal interactions are replaced with digital ones, the remaining personal interactions have an *increased* impact on public perceptions of a business. Companies should focus on improving the quality of existing touch points to strengthen public trust. Companies can do this by:

- Identifying critical stakeholder touch points (not just with customers, but also with suppliers, investors and other partners)
- Being accurate, transparent, and timely in providing information to stakeholders
- Making trust personal by building strong relationships with its stakeholders
 - Stakeholders' trust in a company itself is weak; trust in the people who operate it is strong.

View ESG as an Extension of Your Company's Values



“Your ESG platform is a tangible way to give employees a mechanism to execute on your company’s values.”

Robert Axelrod
Senior Vice President
FleishmanHillard

Better Coordinate your ESG Efforts

Every company conducts ESG-related work. That work is just not always effectively organized and communicated. Companies should create a steering committee with relevant functional groups—Environment, Health and Safety, HR, Logistics, Procurement, Legal, Commercial, etc.—to set ESG goals, to integrate their efforts and to identify the most relevant ESG reporting framework(s).

Directly Engage with Activist Stakeholders

The best way to manage stakeholder pressure—whether from employees or in the form of a challenging ESG-related shareholder proposal—is often to directly engage. Connecting with stakeholders in this way provides an opportunity to highlight what the company is already doing, gives a constructive voice to stakeholder concerns and frequently results in new and innovative approaches. Often stakeholders are willing to work collaboratively toward improving outcomes in both the short and long term. Ignore them at your peril.

Use ESG Initiatives to Demonstrate a Commitment to Your Company's Values

When companies think ESG, they often do not know where to start. Luckily, the answer is simple; when trying to improve your ESG initiatives, you should look at your company's values. How do your values manifest across your most important ESG issues? Ultimately, ESG efforts should be a demonstration and communication of company values to stakeholders.

Align Your Company's Decisions With Its Values



"Governments and laws typically change more slowly than society desires. Companies are increasingly expected to fill the void between the two."

Brian Kropp
Distinguished VP Analyst
Gartner

Understand Employees' Perspectives

Many employees see governments as unresponsive to pressure and slow to adapt. As a result, they are increasingly turning to businesses to drive change. The issue with this, though, is that many businesses are not well-equipped to handle such demands for change.

Consequently, companies must engage with employees to understand their expectations and attempt to work with them on desired changes. Companies can not accommodate every employee wish, but they can establish processes to ensure employees feel heard and valued. This means creating channels where employee voices are heard and being transparent about company decision-making.

Design Company Actions With Values In Mind

Social disengagement occurs when employees feel the company is acting in contradiction to its stated values. This was evident during Google's employee walkouts, in Travis Kalanick's resignation as CEO of Uber and in countless other examples. As such, companies should align their actions with their stated values. In practice, this means using corporate values as a framework for reviewing strategic plans and constantly questioning how a given action might be perceived by employees and external stakeholders.



Putting It Into Practice



Improvement Areas for [ORGANIZATION NAME]



Create a Plan for Shareholder Proposals

Does your organization have a system in place that outlines how it addresses shareholder proposals?



Report Under an ESG Framework

Does your company report under a set ESG framework?



Strengthen Stakeholder Communications

How well does your business communicate with both internal and external stakeholders?



Assess Responsibilities to Your Stakeholders

How does your company balance sometimes competing stakeholder interests?

Gartner Note

Customize this slide to facilitate a discussion with your board about your organization's progress on these action items

Create a Plan for Shareholder Proposals

Engage Activist Shareholders

While the number of shareholder proposals covering environmental, social, political and compensation topics have grown, most of these proposals are withdrawn or fail. In the 2018-2019 proxy season, 48% of proposals were withdrawn by the proposer, and, out of those voted on, only 6% passed.¹

Companies have become increasingly willing to compromise with proposers. When a problematic shareholder proposal is submitted, companies should engage with the proposer to understand what changes they wish to see and if there is middle-ground. Often, activists want the company to undertake small changes, or show a willingness to gradually change, even when their proposal may seem to suggest something more sweeping.

Determine When To Challenge Shareholder Proposals

Of course engagement does not always work. It is therefore worth creating a set of criteria to analyze when a proposal should be challenged. Key criteria might include:

- The negative impact the proposal can have on the business
- The reputational impact of fighting or accepting the proposal
- The legal risk of either challenging or accepting the proposal
- The expected level of investor support for the proposal
- The potential to compromise with the proposer
- The worsened relationship fighting the proposal can cause with various stakeholders

Sources:

1: 2019 Proxy Season Review Part 1 – Sullivan & Cromwell LLP

Report Under An ESG Framework(s)

Choose an ESG Reporting Framework That Reaches Critical Stakeholders

In 2018, 92% of S&P 500 companies disclosed sustainability information on their website and 78% issued a formal sustainability report. Yet, just 36% had external assurance of their findings and only 2% closely followed a single ESG reporting framework. Instead, most companies loosely referenced one or two reporting frameworks, and a quarter of companies did not reference any frameworks at all. ¹

While different companies benefit from different reporting frameworks, reporting under at least one established framework shows a commitment of purpose and may improve communication with key stakeholder groups. For instance, GRI standards are often valued by the public for focusing on environmental impact while SASB standards are valued by the financial community for addressing corporate impact. Companies should use one or more reporting frameworks to provide desired information to stakeholder groups. To do this:

- **Perform a materiality assessment** – discover which aspects of standard ESG reporting are material to your business. If an aspect is not material, do not report it.
- **Conduct a gap analysis** – review the major ESG reporting frameworks (GRI, MSCI, SASB, UN SDG, etc.) and analyze where your ESG efforts exceed expectations and where they fall short.
- **Choose which framework(s) you wish to report under** – pick a framework that best communicates your ESG efforts to your key stakeholders.

Sources:

1: State of Sustainability and Integrated Reporting 2018 – Investor Responsibility Research Center Institute (IRRCI)

Strengthen Stakeholder Communications

Create an open-line of communication for stakeholders to relay concerns/ideas

Shareholder proposals, challenges to board slates, and other actions often arise because stakeholders feel as though they lack a voice. As such, companies should establish and/or strengthen channels for customers, employees and investors to relay concerns, requests and recommendations to management. To do so, respective teams – human resources, investor relations, marketing and others – should use their existing contact with stakeholders to establish which issues are most pressing and escalate them to management for review.

Additionally, defined monitoring efforts, such as social media sentiment about the company, trends in shareholder proposals and employee perception surveys, can help track changes in employee sentiment.

Create a "Social Engagement" playbook

Taking a "Social stand" can be difficult. Doing so can have negative consequences, especially when dealing with highly controversial topics. Yet, companies should not necessarily avoid these topics. Rather, companies should create external communications that maximize positive sentiment while minimizing negative responses. To accomplish this, companies should:

- Determine which audiences are most important to their business, then seek to understand how involvement in societal issues resonates with them.
- Create stakeholder engagement criteria to provide confidence in and a basic level of consistency in decision making. Common engagement criteria might include the impact a social issue can have on stakeholder groups or the connection of an issue to the company's employee value proposition.
- Articulate company values and business goals as a rationale for engagement, emphasizing whichever will seem most authentic to their target audience.

Assess Responsibilities to Your Stakeholders

Have a candid discussion with your executive committee

With The Business Roundtable's announcement that it is rethinking shareholder primacy, it is worth having board and executive-level conversations on the subject. GC and Chief compliance and ethics officers should facilitate conversations that:

- Discuss the changing notions of corporate responsibility and how your organization views them
- Reaffirm your company's current legal responsibility – as you determine it – to your shareholders
- Ensure that your executive committee and board of directors receive consistent updates on your stakeholders' changing expectations
- Anticipate future stakeholder pressure points and identify potential ways to address them

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