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Proven Guidance for C-Suite Action

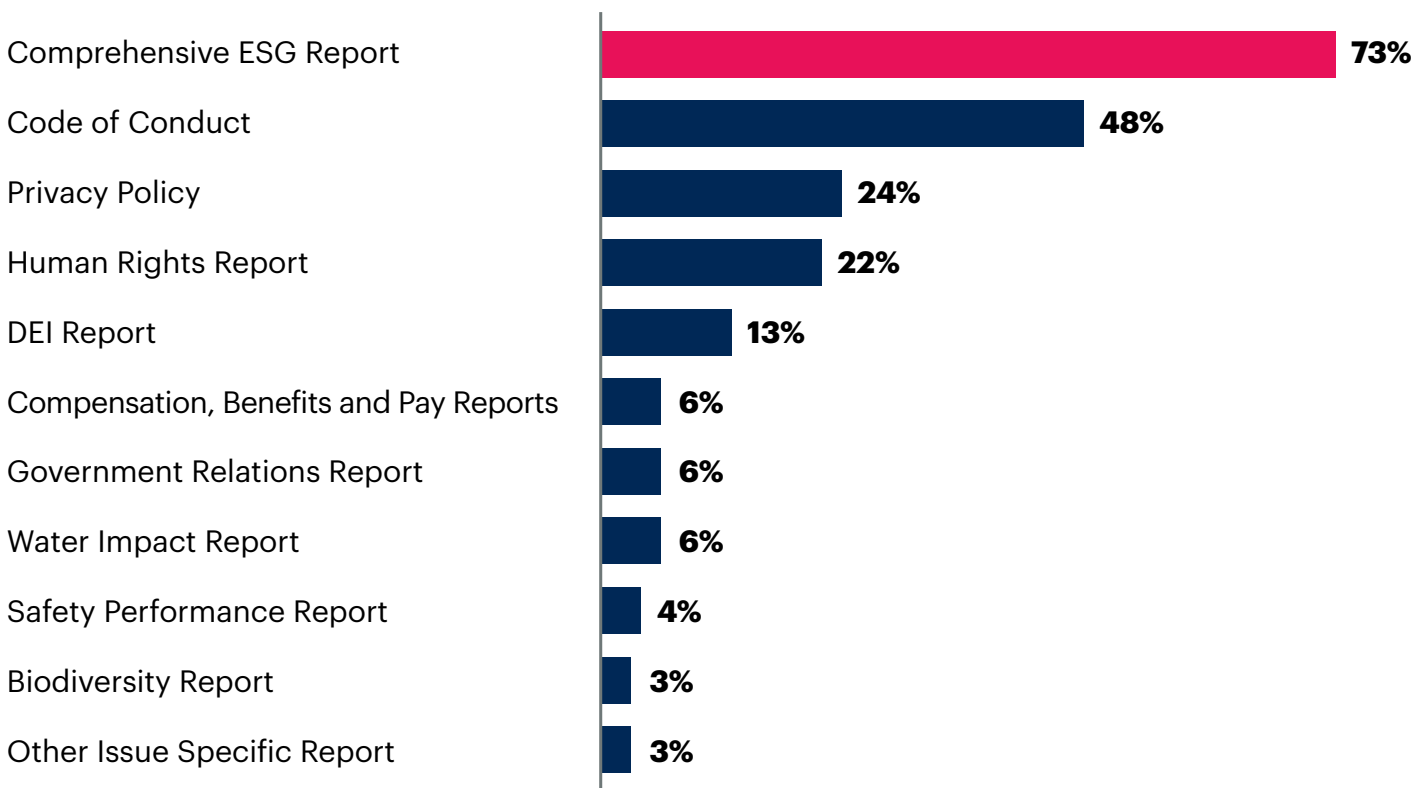
## The Transparent Enterprise Builds Trust to Weather Storms

by Laura Cohn and Abbott Martin

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and Maesea McCalpin

Secrecy is a relic of the past for a range of corporate operations once considered private. Beyond the now-ubiquitous environmental, social and governance (ESG) report, organizations are publishing deeper dives into their water use, diversity in their workforce, labor practices in their supply chains and how they manage the personal data they collect (see Figure 1). Stakeholders have come to expect it.

**Figure 1. Percentage of Organizations Issuing ESG Report Types**



n = 495

Source: Gartner analysis of S&P 500 companies' ESG reports

These disclosures have become critical building blocks of trust — and trust is critical to weathering a constant barrage of external shocks that keep organizations asking investors, customers, regulators and employees to understand tough decisions. Being transparent lays the groundwork for the sympathy and tolerance they seek when they are taking hard steps to delay deliveries, raise prices, close retail outlets or freeze pay.

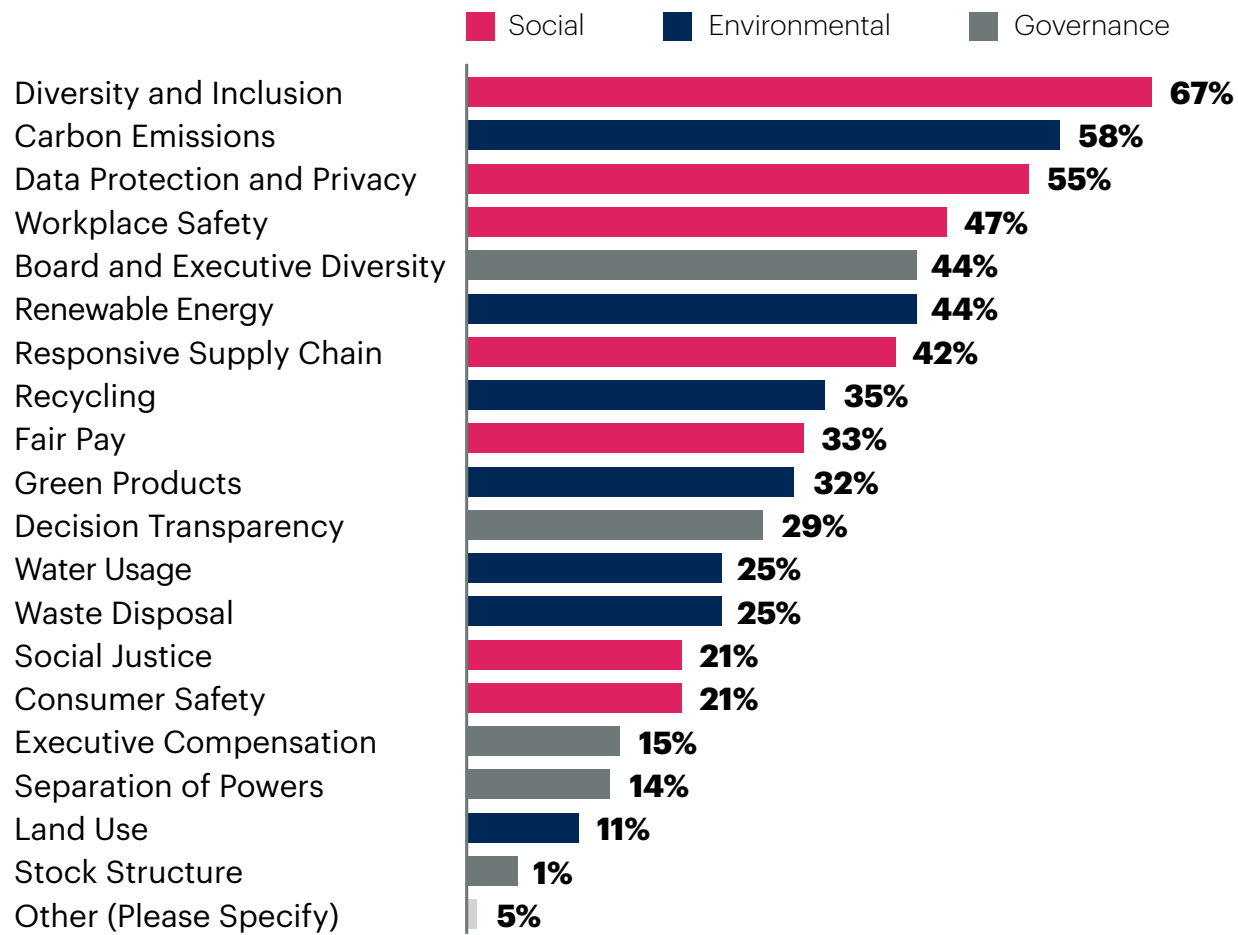
After all, high brand trust leads to an 18% increase in loyalty and 40% brand preference from customers, while 81% of customers say they'll refuse to do business with a brand they don't have faith in.<sup>1</sup> At the same time, companies with high levels of trust between employees and managers triple the average annualized returns for the S&P 500.<sup>2</sup> They also see better talent outcomes in terms of engagement, team innovation, performance and retention.<sup>3</sup>

General counsel (GC) and other legal and compliance leaders should collaborate with HR, investor relations and all departments tasked with environmental and data management practices to get a handle on what the enterprise is making public now. The GC also should work with these functions and the board to determine whether stakeholder priorities warrant further transparency and what enhanced disclosure would mean for strategy and operations — including the acceptance of vulnerability. Once you start sharing information, you'll need to continue, even when metrics don't tell a positive story.

While environmental impact is the most prominent category of disclosure, stakeholders are also demanding more information about the "S" and "G" in ESG (see Figure 2). Indeed, social-related metrics made up 52% of the performance measures in our analysis of S&P 500 ESG reports in 2021.

**Figure 2. Biggest ESG Challenges Over the Next 12 Months**

Percentage of Respondents



n=175

Q: Which of the following ESG areas present the biggest challenge(s) for your organization in the next 12 months?  
Select all that apply.

Source: 2021 Gartner ESG Panel Benchmarking Survey

Among the areas of interest: the workforce, human rights risk in the supply chain and data privacy practices. What follows is a look at organizations in Germany, the U.K. and the U.S. that have opened up about these topics — and how executives have harnessed the new transparency to build trust.

**Allianz Enhanced Workforce Disclosure**

Between 2018 and 2021, the number of shareholder resolutions filed on human capital management with Russell 3000 companies in the U.S. nearly doubled, according to The Conference Board (see Figure 3).

**Figure 3. Shareholder Resolutions on Human Capital Management in Russell 3000 Companies**

Proxy Season	Filed	Voted	Average Support (rounded)	Passed
2021	112	46	37%	14
2020	90	37	23%	5
2019	88	49	24%	4
2018	62	22	25%	0

Source: Adapted From ESGAUGE and The Conference Board

Last year, a record 14 proposals passed as investors pushed corporations to be more open about employee demographics, efforts to diversify both the staff and the board, and mandatory arbitration policies. Average support is also rising.

In the U.S., organizations need help with this. Human capital disclosure by the largest 100 employers in the country is “low across the board,” according to a report from JUST Capital, a nonprofit research organization that tracks how companies treat external and internal stakeholders.<sup>4</sup>

European companies disclose more. Allianz, for instance, has published an annual workforce report since 2011.<sup>5</sup> It has more than doubled in size, expanding to 57 pages from an initial 25 pages, and describes recruitment practices, employee engagement and stories from leaders heading up initiatives on management training and equal pay. The company added insights in the past two years as investors requested information about diversity at the company. Leaders at the Munich-based financial services company use the information in its “People Fact Book” in presentations to analysts, investors and clients (see Figure 4). They also find it helpful when updating the board and recruiting top talent, Chief Human Resources Officer Stefan Britz told us.

When Britz recruited a woman in 2021 for a senior role, the candidate told him she didn’t mine news articles to get background on the firm. Instead, she used the report she found on the company website about its 150,000 employees to learn about her potential employer.<sup>6</sup>

“It really helps us in terms of talent attraction,” Britz said. “Transparency helps to explain who we are, what the culture of Allianz is, how diverse we are, what you can expect if you join Allianz Group.”

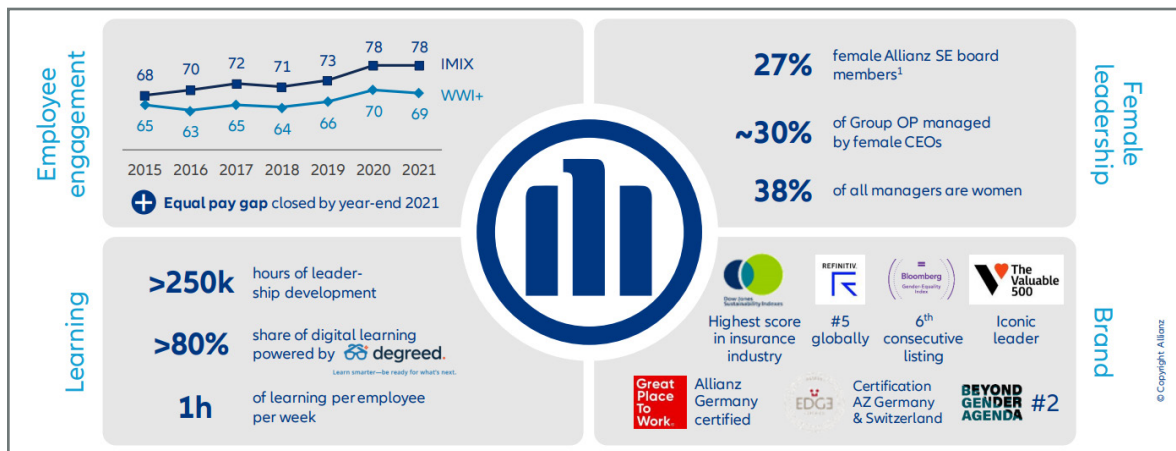
### Sunbelt Rentals U.K. Partnered With an NGO on Supply Chain Transparency

Greater visibility into the practices of contracted parties is among the top three most important areas to focus on for supply chain risk management.<sup>7</sup> But only 53% of companies have good visibility (of 90%+) into their Tier 1 suppliers. Only 4% of companies know who 90% of their Tier 2 suppliers are — and only 3% have that information for lower tiers.

It’s hard to contemplate the possibility that the products in your supply chain might be mined, harvested or assembled by forced labor, but the risk is real. Global estimates indicate 16 million people are in these conditions within international supply chains.<sup>8</sup> In 2019, for instance, 400 slaves were identified by the Sunday Times within the primary supply chain of some of the U.K.’s major supermarkets.<sup>9</sup>

In 2021, the industrial equipment lender Sunbelt Rentals U.K. joined the Slave-Free Alliance, which offers its members expert counsel for rooting out forced labor from their networks. ALDI, AstraZeneca and Experian are among the other members of this group, an offshoot of the charity Hope for Justice.<sup>10</sup> Hope for Justice said its efforts that year helped more than 4,800 people rescued from human trafficking and modern slavery, assisted through outreach or cared for in the aftermath of a rescue.

**Figure 4. Allianz’s Workforce Disclosure to Analysts**



Source: Allianz

Sunbelt’s logistics and supply chain director, David Phillips, told us the alliance advised these first steps: Find out who in the company talks to its 4,000 suppliers and how those suppliers recruit labor. The alliance also trained Sunbelt suppliers and employees — using an e-learning module and tailored training in the highest-risk areas — on how to watch out for human rights issues. For example, when hiring temporary labor, watch to see if the workers all arrive together in a single vehicle. That’s a red flag.

The effort will help build customer trust in a hypercompetitive market, Phillips said. “When our customers come to us, they are looking for a business that not only is committed to ESG but can also demonstrate its commitment to it,” said Phillips.<sup>11</sup> Phillips added that there’s been a “byproduct” of the initiative: Company postings about corporate sustainability efforts on LinkedIn and on the company’s internal social media channel have helped attract and retain talent.

### Disclosing Privacy Practices to Build Trust

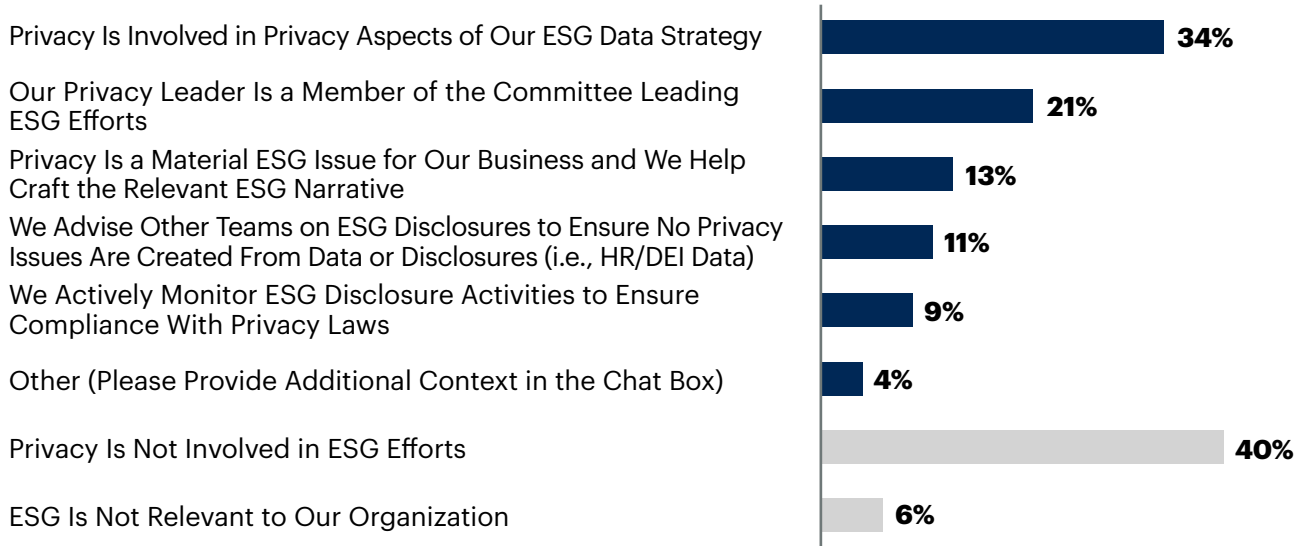
Disclosure of data protection efforts is an emerging area for stakeholders. Thirty-four percent of privacy leaders are involved in ESG strategy (see Figure 5).

A noteworthy example of a company using privacy as a business differentiator is Apple.<sup>12</sup> In an introduction to its 2021 ESG report, CEO Tim Cook explains the company is “innovating to protect people’s privacy, which we believe is a fundamental human right.”<sup>13</sup>

Leaders at other technology companies have told us that they, too, are exploring ways to promote their privacy programs as a competitive advantage.

Beyond the tech sector, banking and financial services firms also want to gain an edge by publishing their privacy principles, privacy “philosophy” or data ethics initiatives to the public. Legal leaders are also discussing privacy as a part of the employee value proposition. The thinking there is that a strong privacy program that respects individuals makes a company a better place to work. This helps organizations tie privacy to important ESG objectives related to employee engagement and strengthens what they offer employees.

**Figure 5. Privacy Teams’ Involvement in ESG Efforts**



n = 47

Q: What Is the Current Level of Involvement of Your Organization’s Privacy Team in ESG Efforts? (Multiple Responses Allowed)

Source: Gartner Privacy Webinar Live Poll (2 March 2022)

## Worldwide, Regulators Have Turned Up the Heat

Trust is not the only reason organizations must be more transparent. The regulatory push for this is global.<sup>14</sup> For climate change alone, the EU, the U.K., China, India and Japan released or proposed new disclosure guidelines and regulations in 2021 (see Figure 6). Meanwhile, the U.S. Securities and Exchange Commission (SEC) is moving toward new reporting requirements covering climate-related risks and is also weighing disclosure mandates covering the workforce and cybersecurity risk.<sup>15,16,17</sup>

As for privacy, years after the EU's landmark General Data Protection Regulation and China's Personal Information Protection Law came into force, the playing field for legislation has moved to the U.S. New requirements for informing consumers about the use of their personal information take effect in 2023 in California, Colorado, Utah and Virginia. And more than half of U.S. states are considering privacy laws.<sup>18</sup> Regulators are signaling a willingness to enforce new measures quickly.<sup>19</sup>

## Corporate Executives Worry About Greenwashing Risk

A final note of caution: Don't be tempted to claim more progress than you've made or gloss over problem areas. Large investors do their own research to check out corporate practices. In fact, 27% of executives who are part of corporate ESG initiatives track "greenwashing" as a risk.<sup>20</sup> That's in no small part because of the intensifying scrutiny from all sides.

<sup>1</sup> 2019 Gartner Brand Trust Survey.

<sup>2</sup> [The Connection Between Employee Trust and Financial Performance](#), HBR.

<sup>3</sup> 2021 Gartner Hybrid Work Employee Survey.

<sup>4</sup> [The Current State of Human Capital Disclosure in Corporate America: Assessing What Data Large U.S. Employers Share](#), JUST Capital.

<sup>5</sup> Allianz's report has expanded. Initially, it was a 25-page document with charts on demographics, turnover, training programs and personnel expenses.

<sup>6</sup> [Allianz People Fact Book 2020](#), Allianz.

<sup>7</sup> 2021 Gartner Supply Chain Risk and Resilience Survey (BME Collaboration). The survey was conducted online from 19 July through 3 September 2021. BME partnered with Gartner to recruit the participants from their membership. The sample was augmented with recruitment efforts by social media. In total, 83 respondents in Germany and six in other countries participated. Qualifying organizations operate in the manufacturing, healthcare provider, natural resources, retail, transportation and logistics, utilities and wholesale trade industries. Qualified participants have a role tied to a supply chain function. *Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.*

<sup>8</sup> [Global Estimates of Modern Slavery](#), International Labour Office (PDF download).

<sup>9</sup> [Britain's Biggest Trafficking Gang Used Slaves to Supply Top Supermarkets](#), The Times.

<sup>10</sup> Slave-Free Alliance Inc. is expanding in the U.S. It is now incorporated in Delaware and has business operating licenses in two other states, according to Tim Nelson, the group's CEO.

<sup>11</sup> Sunbelt Rentals U.K.'s program is being expanded to the North American market.

<sup>12</sup> [Apple Is Turning Privacy Into a Business Advantage, Not Just a Marketing Slogan](#), CNBC.

<sup>13</sup> [2021 Environmental, Social and Governance Report](#), Apple (PDF download).

<sup>14</sup> The U.K. mandates companies make information public on the gender pay gap (see [Gender Pay Gap Reporting: Guidance for Employers](#)). Germany in 2021 passed a law requiring companies to conduct due diligence of their supply chains to prevent the abuse of human rights, building on requirements in the U.K. and California. And the EU is weighing the [Data Act](#), which would expand the requirements of the General Data Protection Regulation (GDPR), as well as a measure on "corporate sustainability due diligence" that would require companies to report on the environmental and human rights practices of their suppliers.

<sup>15</sup> [U.S. SEC Chair Provides More Detail on New Disclosure Rules, Treasury Market Reform](#), Reuters.

<sup>16</sup> [Proposed Rule: Cybersecurity Risk Management](#), SEC.

<sup>17</sup> [The SEC Moves Closer to Enacting a Sweeping Climate Disclosure Rule](#), New York Times.

<sup>18</sup> [Proposed State Privacy Law Update: March 21, 2022](#), Husch Blackwell.

<sup>19</sup> [CCPA Enforcement Case Examples](#), State of California Department of Justice.

<sup>20</sup> 2021 Gartner ESG Benchmarking Panel Survey.

**Figure 6. Major Climate-Related Disclosure Regulations**

<b>Economy</b>	<b>Regulation</b>	<b>Applicability</b>	<b>Aligned to International Frameworks</b>	<b>In Force</b>
China	Revised guidelines on the format of annual and semiannual reports for listed companies	Companies offering securities to the public	No	Jun. 2021
	Measures for the Administration of Legal Disclosure of Enterprise Environmental Information	Key polluters; enterprises implementing compulsory cleaner production audits; listed companies being investigated or penalized for environmental violations in the previous year; listed companies and bond-issuing enterprises	No	Feb. 2022
EU	Corporate Sustainability Reporting Directive (CSRD)	All large companies and all companies listed on regulated markets (except listed microenterprises)	TCFD and international standardization initiatives	Oct. 2022
	Non-Financial Reporting Directive (NFRD)	Listed companies, banks, insurance companies, other companies designated by national authorities as public-interest entities with more than 500 employees	Global Reporting Initiative, other recognized international frameworks	Jan. 2018
India	Business Responsibility and Sustainability Reporting (BRSR)	Top 1,000 listed companies by market capitalization	GRI, SASB, TCFD, integrated reporting	FY 2022-2023
U.K.	The Companies (Strategic Report) (Climate-Related Financial Disclosure) Regulations 2022	Companies with more than 500 employees that are publicly traded, banks, insurers or that have an aggregate annual turnover of more than £500M	TCFD	Apr. 2022
	Limited Liability Partnerships (Climate-Related Financial Disclosure) Regulations 2022	Traded or banking LLPs with more than 500 employees	TCFD	Apr. 2022
U.S.	EPA Mandatory Reporting of Greenhouse Gases	Fossil fuel suppliers and industrial gas suppliers, direct greenhouse gas emitters and manufacturers of heavy-duty and off-road vehicles and engines	World Resources Institute and World Business Council for Sustainable Development Greenhouse Gas Protocol standards and guidance	Dec. 2009
	SEC Guidance Regarding Disclosure Related to Climate Change	Public companies	No	2010
	Updated SEC Guidance Regarding Disclosure Related to Climate Change (forthcoming)	Public companies	TCFD	In Phases (Dates TBD)

Source: Gartner

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