HIGH MEADOWS
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21st Century Business Leadership and the Rise of Corporate Activism

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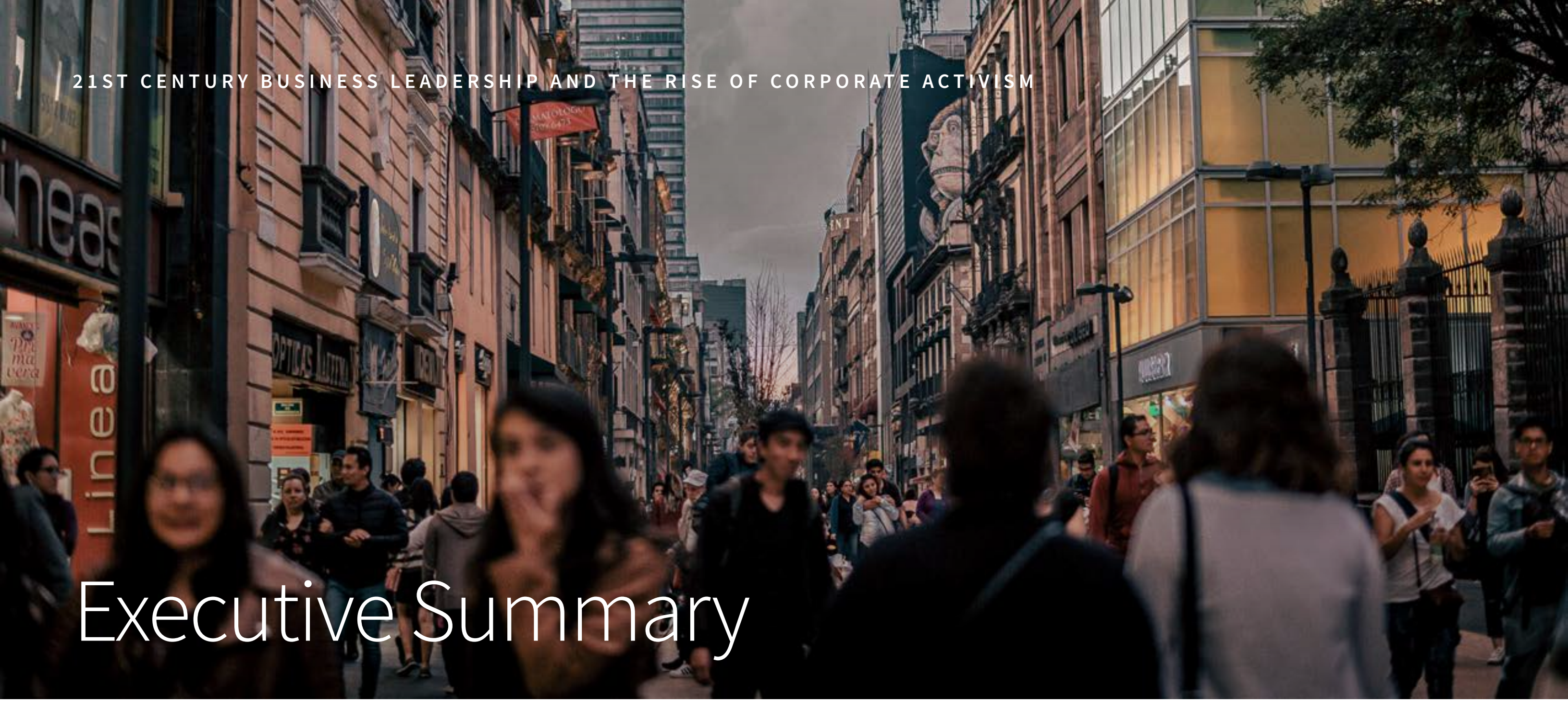


Executive Summary

The macro-environment for business is changing and with it, expectations for corporate responsibility and leadership. The 21st century has brought profound systemic challenges, from climate change to global health crises, that governments are incapable of addressing alone. Rising income inequality in the OECD and the inability of governments to deliver on their mandates is leading to mounting public frustration with traditional politics and political leadership. Under globalization, the power and influence of large firms in society has increased dramatically and the public is increasingly looking to business to assume a leadership role and take responsibility for societal well-being. In this environment, and particularly in the United States, we are starting to see business leaders speaking out publicly on relevant environmental, social and political issues and leveraging their firms' economic power to support their stance. In recent years, we have seen CEOs, both individually and collaboratively, speaking out on contentious social and political issues, from gun violence to voting and transgender rights, that are potentially consequential to shareholders, and backing their statement with actions. While corporations have always engaged politically with governments through lobbying and other more traditional activities behind the scenes, it is only recently that the type of public corporate activism we are now witnessing has come to the forefront. This report explores the motivations behind this expanded form of corporate political engagement and the risks and opportunities it presents for both business and society. We also summarize in the appendix some of the key findings on strategies firms are using to manage corporate activism successfully.

The world needs fixing – but by whom?

The 21st century has brought with it profound challenges to our systems of governance. On the one hand, we face an accelerating pace of change and disruption to our social and political institutions and the way we work and live together, driven by new technologies from social media to artificial intelligence to biotech. On the other, we face global systemic-level threats, from pandemics to global warming and mass migration. All of the above is occurring in the context of an increasingly interdependent global economic system – one on which the continued progress of human development for much of humanity depends.

In the face of these challenges, the 20th century governance system based on the sovereignty of nation-states and a patchwork network of intergovernmental global institutions is proving increasingly inadequate.

- At the nation-state level, governments find that their ability to control their economic future, steward the environment and ensure their citizens' social well-being is fast unraveling.
- At the global level, the multilateral system has been unable to deliver a coherent framework of regulation and policy to govern a global economy.

To meet these governance challenges, extraordinary leadership from all sectors of society is required. The public is now looking to the private sector and civil society to work with and alongside governments to address these challenges and be active participants in 21st century governance.

Public frustration with government is increasing in the OECD in particular

The failure to deliver on political mandates is translating into public frustration with local and national politics in many nations. Distrust in government is a widespread phenomenon today, as results from the 2021 Edelman Trust Barometer indicate. In addition to many countries in Africa, South America and Europe, the US is also showing skepticism at their government's competence.

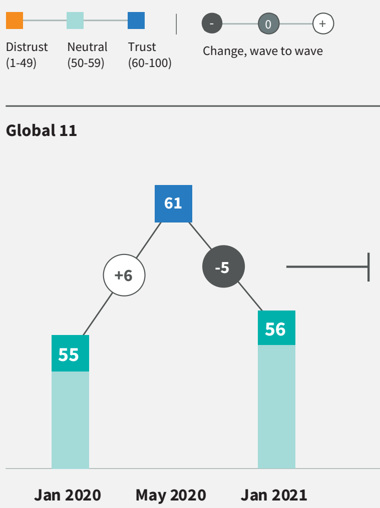
The public is looking to business for leadership

The changing expectations for the role the public expects business to play in global governance is not surprising. As the primary beneficiaries of globalization, large firms are among the most powerful and visible institutions in society. Over half of the world's top 100 economies by revenue are global corporate and financial firms with an impact, reach and resources exceeding that of many nations. This reality, coupled with the diminishing capabilities of governments, has led to an extraordinary rise in public expectations for business to take leadership on social challenges.

The 2021 Edelman Trust Barometer found that business is the only institution deemed both ethical and competent by people globally and that many believe CEOs should step in when government leaders do not address societal problems.

SPRING TRUST BUBBLE BURSTS; BIGGEST LOSS FOR GOVERNMENT

Trust index, 11 countries included in the 2020 Trust Barometer Spring Update



	+/- May 2020 to Jan 2021
Government	-8
Media	-6
NGOs	-6
Business	-3

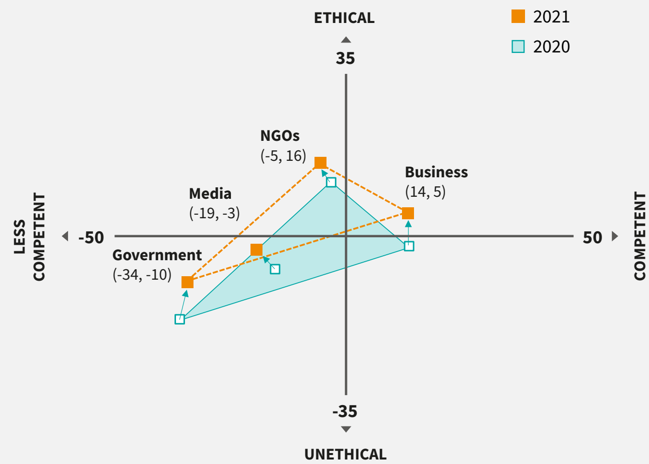
Government was the most trusted institution in May, then lost its lead 6 months later

Government	+/- Jan 2020 to May 2020	+/- May 2020 to Jan 2021
S. Korea	+16	-17
UK	+24	-15
China	+5	-13
Mexico	+12	-12
Canada	+20	-11
India	+6	-8
U.S.	+9	-6
Germany	+19	-5
Japan	-5	-1
Saudi Arabia	+5	-1
France	+13	+2

Source: Edelman

BUSINESS NOW ONLY INSTITUTION SEEN AS BOTH COMPETENT *AND* ETHICAL

(Competence score, net ethical score)



Source: Edelman

More than 80% of those surveyed expect CEOs to speak publicly on societal issues, such as the impact of the pandemic, local concerns and job automation;

68% of respondents believe that CEOs should step in when societal problems are not fixed by governmental institutions;

66% of respondents argue that CEOs should not wait for governments to impose change but pick up the reins themselves;

65% of respondents believe that CEOs should hold themselves accountable not only to their board and their shareholders but to all stakeholders.

These high public expectations of business to take a visible leadership role on social issues and societal challenges are key drivers for corporate activism and are consistent across the key stakeholders that corporations engage with.

Worker and customer expectations

- In their study, Schmidt et al (2021) found that *"73% of millennials and 70% of Generation Z consumers claim they are willing to pay extra for brands that align with their values and engage with brands they feel make a difference."* Similar studies show strong expectations from workers and consumers for corporate leaders to take stands on social issues they see as important.

- In a recent Gartner study of more than 30,000 people worldwide, 87% of employees said businesses should take a public position on societal issues relevant to their business. Seventy-four percent said companies should take a position on issues even when they are not directly relevant to their business.

- Salesforce's CEO Marc Benioff stated that *"Today's CEOs need to stand up not just for their shareholders but their employees, their customers, their partners, the community, the environments, schools, everybody."*

Investor expectations

With the rapid integration of ESG in investment management, there is increased pressure on companies and their leaders to articulate the purpose of their business and their commitment to stakeholders and society. Larry Fink, CEO of BlackRock, the world's largest asset manager, has been at the forefront of calling for greater business leadership on social issues, noting in his 2018 letter to CEOs, *"We [...] see many governments failing to prepare for the future [...]. As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges. Indeed, the public expectations of your company have never been greater. Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."*

Business is responding to these expectations

For most of the last century, it would have been hard to imagine business leaders on the front lines in the fight to preserve democracy. Today, however, we see CEOs speaking out, individually and collectively, on hot-button social issues from voting rights to gender and racial equality. At a collective level, we see business organizations from the Business Roundtable to the World Economic Forum making public declarations and commitments to sustainability and stakeholder capitalism – unthinkable a decade ago.

Leaders of large firms are now recognizing that to maintain public trust, they are expected by many to take on "statesman" roles alongside governments in helping address global challenges. Meeting these expectations requires business leaders to move well beyond their companies' fence line and the confines of "ESG" (Environmental, Social, and Governance) and responsible business practices. It requires active awareness of their role as leaders in society and their involvement in public policy debates and initiatives to solve pressing foundational challenges from climate change to income inequality.

THERE'S AN INCREASED URGENCY TO ADDRESS FOUNDATIONAL PROBLEMS

1	Improve the healthcare system	5	Combat fake news
2	Address poverty	6	Protect individual freedoms
3	Improve the education system	7	Close the economic and social divide
4	Address climate change	8	Address discrimination and racism

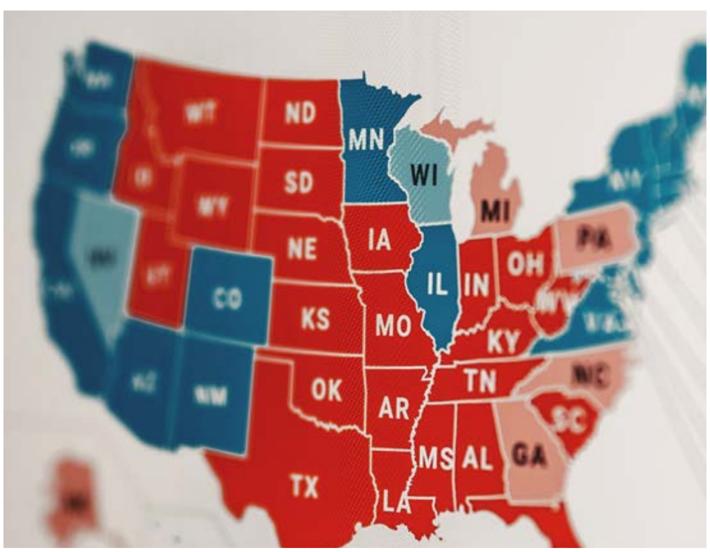
Source: Edelman

In taking on this challenge, business leaders must take stock of their existing political engagement strategies, which for most firms are still anchored in the traditional lobbying activities as outlined below.

Corporate Engagement 1.0 – Political Engagement

The intersection of business and public policy is not new. There has always been a symbiotic relationship between corporations and politics and governments. Policy shapes the business environment and for decades, corporations have utilized their economic power, through lobbying and campaign donations, to influence policies in their favor. If done in a responsible and ethical manner, political engagement can support the creation and maintenance of a dynamic business environment. By providing subject-matter expertise and allowing the presentation of varying points of views to public decision-makers, it can also benefit the democratic process and result in laws and regulations that are well-designed and in the public interest. Traditional political engagement includes:

1. **Political donations and expenditure:** Contributions made directly or indirectly to a political party or its local branches, elected officials or political candidates. Contributions made to an organization, such as a research organization or think tank, or activity, such as assisting with the drafting of legislation or carrying out funding or research, that is aligned with a political cause.



2. **Lobbying:** Formal advocacy carried out by in-house lobbyists, consultant lobbyists and trade associations. Informal advocacy by board members, senior executives or specialists.

3. **Trade associations and business chambers:** Membership organizations that lobby on behalf of their members.

4. **The revolving door - exchanges of people between business and the public sector:** Post-employment positions, two-way, to and from public office. Long-term and short-term work experience placements in either direction. Depending on the laws of the jurisdiction, elected politicians may be contracted as consultants to the company or appointed to the board.

5. **Political activities and the workplace – Campaigning for office:** Release for public office, such as carrying out duties as a local councilor. Unpaid leave to campaign for office.

For most of the 20th century, this engagement has taken place behind the scenes and focused exclusively on policy impacting the economy. It now must be rethought and aligned with the broader social goals that companies and their leaders are being asked to stand up for.

Corporate Engagement 2.0 – Corporate Activism

In the 21st century, particularly in the US, we have seen corporate engagement in politics move rapidly beyond simply political engagement in the backrooms of government to the public square, as CEOs and the companies they lead increasingly speak out and take public stands on politically controversial social and economic issues. While research from Tufts University found that liberal CEOs are more likely to engage in activism than conservative ones and to engage in it more often, corporate activism is inherently non-ideological. In speaking out, CEOs cite corporate values and purpose as their motivation, as well as their own personal convictions.

Corporate values and purpose

- Regarding North Carolina's bathroom bill, PayPal said its decision not to build its Charlotte facility "reflects PayPal's deepest values and our strong belief that every person has the right to be treated equally, and with dignity and respect."

- Within a week of the white supremacist Charlottesville protests in 2017, "64 companies spoke out. Of the 64 responses issued, '77% came from CEOs, former CEOs, company founders, or managing partners' with 'the most common means of response through Twitter (47%), statements to the news media (39%), employee memos (17%), Facebook posts (8%), and media interviews (5%)."

CEOs' personal convictions

- David Gren, founder and CEO of Hobby Lobby, cited his religious beliefs when opposing the Obamacare requirement that health insurance for employees should cover the morning-after pill and other forms of birth control.

- In 2012, the CEO of Chick-fil-A, Dan Cathy, spoke out against gay marriage, citing the biblical definition of marriage.

- In 2012, Lloyd Blankfein, the then-CEO of Goldman Sachs, released a YouTube video, in partnership with The Human Rights Campaign, where he publicly supported marriage equality. Similarly, in 2015,in addition to his Tweets, Apple CEO Tim Cook wrote an op-ed in the Washington Post to voice his disapproval at the Indiana Religious Freedom Law and similar laws under consideration across the US, which have been deemed to promote discrimination against same-sex couples and the LGBTQ+ community.

Collective Action

One of the characteristics of corporate activism in the US is increasing collaboration between business leaders as they take public positions on societal issues, both through formal business associations and ad hoc coalitions. Examples include:

- In 2019, the Business Roundtable, the leading CEO council in the US, shocked many in the business community when it issued a statement declaring that the role of CEOs is to lead their companies for the benefit of all stakeholders – customers, employees, suppliers, communities and shareholders. This was a marked change from the Friedman doctrine that dominated business for much of the 20th century that states that the role of business leaders is to maximize value for shareholders.

- In April 2021, more than 300 businesses, including Google, McDonalds and Walmart, signed a letter to President Biden calling on his administration to set a new Paris Agreement goal of slashing the nation's carbon dioxide, methane and other planet-warming emissions at least 50 percent below 2005 levels by 2030.

- In the same month, a statement opposing laws that restrict voting rights was signed by major companies, including EY, IBM and Netflix, and published as an ad in The Washington Post, the New York Times and other major newspapers.

- In May 2021, Iceland and other leading UK retailers signed a joint letter to members of the Brazilian Congress urging them to reject proposed legislation by the Bolsonaro government that will grant amnesty to illegal land grabbers, allow the construction of major projects in well-conserved areas, open indigenous areas to exploitation and expose tens of millions of fresh hectares to deforestation.

- This year, the World Economic Forum created a global coalition, Partnering for Racial Justice in Business, to tackle racism in business, with a starting point of Black inclusion and addressing anti-Blackness. The coalition aims to operationalize and coordinate commitments to eradicate racism in the workplace and set new global standards for racial equity in business. Partners include UPS, Salesforce, BlackRock, Bank of America and AstraZeneca.

Backing up words with action

To back up their public position on issues, companies are increasingly using economic pressure to influence legislation and policies related to social issues. These measures include relocating business activities, pausing business expansion and funding political and activist groups. Examples include:

- A group of 72 Black executives, including Kenneth Chenault, a former chief executive of American Express, and Kenneth Frazier, the chief executive of Merck, placed a full-page ad in the New York Times condemning Georgia's election law reforms designed to restrict voting. Some companies also canceled or pulled out of commitments in Georgia. Major League Baseball, for example, announced that it would move its All-Star Game out of Atlanta, citing their support for voting rights and opposition to restrictions to the ballot box.

- In 2016, Paypal CEO Dan Schulman announced that PayPal had canceled its plans for a new global operations center in Charlotte, which was expected to employ 400 people. This was in response to North Carolina's bathroom bill, which mandated students in state schools should use the bathrooms that correspond to the gender they were born with.

- In response to Donald Trump's immigration ban, Lyft pledged $1 million to the American Civil Liberties Union, which was challenging the ban in court.

Aligning corporate activism with traditional forms of political engagement

The alignment of corporate political engagement and corporate activism can be challenging, and lack of alignment can undercut trust in the authenticity of activism. Most of the focus of corporate political engagement historically has been on creating an economic environment favorable for business, with little regard for its social impact, and this can often be at odds with the new focus of corporate activism on social issues. For example, the Center for Political Accountability suggests firms' spending in state and local elections is often "diametrically opposed" to their stated positions. Companies are beginning to recognize this challenge and address it. In the wake of the January 6th insurrection on Capitol Hill, corporations, including Morgan Stanley, AT&T, Marriott and Dow, pledged to cease or suspend donations to the 147 members of Congress who voted to oppose the certification of the Electoral College vote which made Joe Biden the 46th President of the United States.

Corporate activism: A double-edged sword?

Business leaders speaking out can result in multiple benefits, not only for the company itself but also for the wider society. On the other hand, there are certain risks associated with corporate activism – ranging from hypocrisy allegations to public outrage impacting the firm's financial performance.

Benefits

The positive impact of business leadership in the public policy debate plays out in two dimensions: benefits for the corporate entity and benefits for society.

For the company:

Corporate activism may increase customer identification with the company, boosting loyalty, purchase intent and brand equity. Corporate activism can be a strategic tool to gain a competitive advantage in a politically polarized environment.

Using a sample of US-based CEO activism events from 2014-2019, i.e., events where CEOs personally advocated for social issues, Gangopadhyay and Homroy found that CEO activism is associated with a 1.3% increase in firm value and a 3% increase in profitability. They also found that firms in more competitive industries and selling final goods seem to benefit more from CEO activism. This increase in profitability is said to be driven by a short-term increase in customer perception towards activist companies.

Tina Casey also showed that corporate 'wokeness' appears to pay off financially. For example, the LGBTQ100 ESG Index, which tracks 100 leading corporations that have established a solid track record of support on LGBTQ+ issues, outperformed the S&P 500 from November 2019 to April 2021. The Index generated a 43.84% return versus a 37.65% return for the S&P 500, while keeping volatility lower by 66 basis points of the benchmark.

Mkrtchyan et al and Lee and Tao also found that CEO activism results in a **positive market reaction and higher valuations, caused by increased employee productivity and innovation.** If employees respond positively to the CEO's public statements, they may be more willing to direct their behaviors towards activities that are in line with the goals and values of their firms. Therefore, CEO activism may solidify the company's values and culture and boost the productivity of their employees.

CEO activism can help companies **attract talent:** Research shows that people are over 20% more likely to want to work for a company where the CEO takes a humanistic stance on a political issue unrelated to their business. In addition, over 40% of Millennials said they would be more loyal to a job at a company where the CEO had taken a stand on a social issue.

CEO activism may take time to pay off. For example, according to Edison Trends, after Nike ran Black Lives Matter ads featuring former NFL player Colin Kaepernick, "Nike sales grew 31% from Sunday through

Tuesday [after the Kaepernick ad] over Labor Day [2018], besting 2017's comparative 17% increase." The immediate stock market reaction to Nike's Kaepernick campaign, however, was negative, despite the sales numbers. This later reversed as investors began to understand the real impact of the campaign on financial performance. This reveals the asymmetric effect that occurs when positive associations later outweigh initial negative brand associations from the majority of key stakeholders and how the gain from taking a public stance on non-product related issues can outweigh the potential losses.

For society:

Since these are the early days of corporate activism, it is difficult to comprehensively assess its impact on society. We are, however, starting to see good anecdotal examples of how corporate activism can impact public policy and social issues. Examples include:

- In The Dawn of CEO Activism, Weber Shandwick & KRC Research note that public disapproval from Apple CEO Tim Cook and other corporate chieftains caused the Indiana State Governor to revise its position on its Religious Freedom Restoration Act.
- Last year, BP issued a statement and invested in a two-week long campaign in support of Washington state's proposed Climate Commitment Act, which passed in April 2021. The law introduces a cap-and-trade system in the state, which will go into effect in 2023. This was in contrast to 2018, when BP successfully spent $13 million to block a carbon tax in Washington state.
- Last June, Internat Association, the trade association that represents Amazon, Facebook, Google and Twitter, released a racial justice and reform policy proposal, as part of its ongoing efforts to lobby Congress and state legislatures to eliminate qualified immunity for police officers and to demilitarize police departments across the country.
- Unilever has committed to paying a living wage throughout its supply chain – if other companies followed this approach, a meaningful contribution to solving inequality issues could be achieved.
- In 2019, Cathay Pacific's flight attendants' union put its name to a joint statement with other aviation industry employees backing the Hong Kong pro-democracy protests after some of its members joined a general strike. In return, Cathay Pacific has endured a fierce backlash on the mainland. A #BoycottCathayPacific thread on Chinese social media platforms has attracted more than 17 million views and 8,000 comments, partly fuelled by articles from the powerful state-run press. However, Cathay Pacific chairman John Slosar defended his workforce and freedom of thought.

Risks

As corporate activism increases, however, so does pushback against it. Frequent arguments against corporate activism include:

It's not business's role. A number of politicians, as well as other stakeholders, strongly believe that business should not be playing a public policy advocacy role on social issues. They support the view that "CEOs get paid to lead and protect their brands, not to be led by people who think business should embrace their politics," as recently stated by the Wall Street Journal Editorial Board. Politicians such as Mitch McConnell, Republican Senate Majority Leader, went further, noting in reaction to corporate activism around the new Georgia voting laws, there will be "serious consequences" if corporate America continues acting like "a woke parallel government."

Corporate activism is not authentic. Activism can be seen as a cover companies use to hide behaviors that are at odds with their social rhetoric: Consumer Research released an ad campaign in May 2021 bashing Nike and others multinationals

for their political engagement. The group claims that corporations are spending their time and efforts on 'woke' politics instead of serving customers. They also accused companies of hypocrisy, critiquing Nike's involvement in forced labor in China, Coca-Cola's link to childhood obesity, and American Airlines' reliance on public bailouts while its CEO Doug Parker took home $11 million in compensation. North Face recently rejected an order from a Texas oil company for its outdoor jackets because it did not want its brand associated with fossil fuels. However, in April, an oil industry group in Colorado awarded the company an 'extraordinary customer award,' noting that many of their clothing products are made with petroleum byproducts. Salesforce's Marc Benioff and Apple's Tim Cook have been criticized for denouncing religious freedom laws in the US, yet still doing business in countries that persecute LGBTQ+ communities. And many of the corporations that protested North Carolina's 2016 "bathroom bill" also donated to political groups that helped fund the candidacies of the politicians who passed the bill.

Corporate activism is just a smokescreen for brand building and profit. Some argue that brands now leverage politics to cash in on public outrage and foster greater brand identification. An example pointed to is Nike's Black Lives Matter ads featuring former NFL player Colin Kaepernick, which in turn boosted the company's sales.

Corporations (and the capital they represent) are less democratic, accountable and responsive than our ramshackle democracy. In a New York Times opinion piece, one critic finds that corporations rally to the defense of democracy while "aggressively quashing that very thing in the workplaces where its workers labor." For example, Amazon defended voting rights yet will not allow its workers to unionize, denying them the ability to exercise and fight for their rights. So, while companies attempt to hold governments accountable, companies themselves are faced with very little accountability.

CEOs are hypocritical. Because of their role as leaders of firms, CEOs are seen to favor their commitment to profit making over their role as social advocates and to value revenue over workers' rights. For example, while society pushes for higher minimum wages and living wages, business will push back in opposition. In January, business groups in the US prepared for a lobbying fight after Democrats in both chambers reintroduced a bill to raise the federal minimum wage to $15 by 2025. In Australia, in response to union calls for a $43 a week increase in the minimum wage in 2019, the Australian Chamber of Commerce and Industry pushed back and suggested a $12.95 increase in line with inflation.

Corporate Advocacy is putting investors at risk. If stakeholders (customers and employees) disagree with the CEO's stance, it can create a backlash against the firm, hurting its financial performance.

- A study by Vrangen & Rusten (2019) found that when a statement is considered highly controversial, corporate activism has a negative effect on cumulative financial returns.
- In an analysis of stock market reaction to 293 incidents of corporate activism initiated by 149 firms across 39 industries, Bhagwat et al (2020) found that, on average, corporate activism elicits an adverse reaction from investors. This is because investors evaluate corporate activism as a signal of a firm's allocation of resources away from profit-oriented objectives and toward a risky activity with uncertain outcomes.
- Legislators in Georgia rescinded an estimated $40 million tax break and NRA supporters threatened to boycott Delta, after the company cut ties with the NRA following a school shooting in 2018.

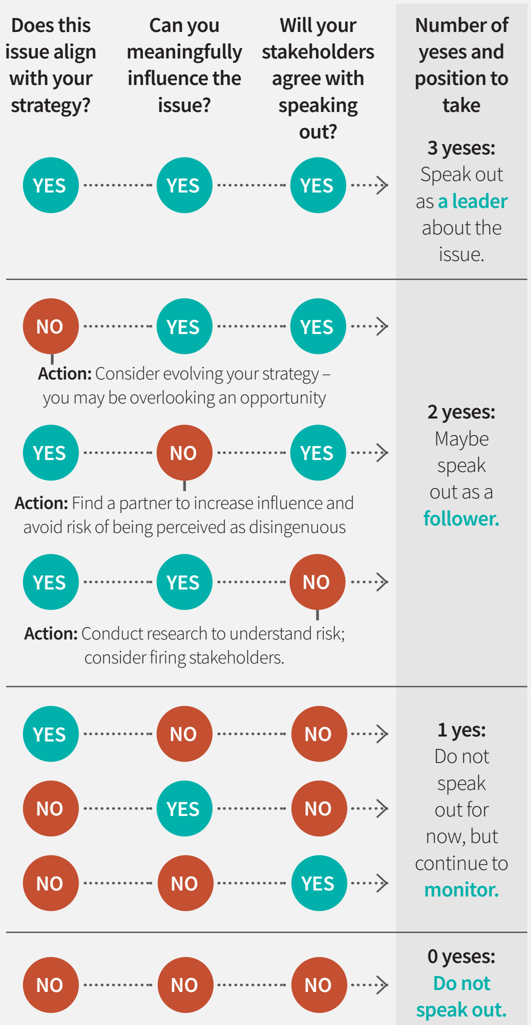
Reputational Risk. There is also a potential ongoing **reputational risk** when a statement is highly controversial and not in line with key stakeholder beliefs.

- In 2014, two years after Dan Cathy spoke out against gay marriage, he admitted that he regretted getting involved in the gay marriage debate – he did not regret what he said but instead the fact that he said it. Since his statement, Chick-fil-A has struggled to shake off its association with homophobia. While Cathy's statement and donations to anti-LGBTQ+ organizations did not make any clear financial dent to Chick-fil-A, President and COO Tim Tassopoulos is trying to reinvigorate Chick-fil-A's public image by publicly stating that the company's new donation strategy will not include charities that take anti-LGBTQ+ stances. This is especially relevant when corporate activism solely derives from a CEO's personal beliefs.

Doing corporate activism right

WHEN TO SPEAK OUT

Companies are under increasing pressure to address hot-button political and social issues. Sometimes there will be a clear moral reason to speak out; at other times it may not be so clear. Asking yourself these three questions will help you determine when to speak out and which actions to take.



Source: *Harvard Business Review*

Corporate activism comes with numerous risks, as outlined in the previous section. As companies are pushed to speak out on social issues because the cost of silence is rising, many are discovering that the costs of "woke washing" — appropriating the language of social activism into marketing materials, for instance — can be high if not managed strategically. In that regard, there is now a growing industry of academics and consultants working with companies to help them manage their activism. Paul A. Argenti, for instance, suggests the approach shown on the left.

The research suggests that companies that are successful with corporate activism first establish a formal strategy for their engagement that includes:

1. Ensuring there is a clear statement of purpose that aligns corporate values with corporate strategy
2. Consulting internally with their workforce
3. Consulting externally with key stakeholders
4. Evaluating risks & opportunities
5. Acting purposefully

A further summary of key points in the guidance offered by experts can be found in the appendix to this report.

Next, firms need to ensure that there are proper oversight and accountability mechanisms for their strategy. These include:

1. Outlining board expectations for managing corporate political activity
2. Outlining the scope of political activity to be undertaken
3. Setting up a management-level committee to manage stakeholder response
4. Publicly disclosing political activity and engaging investors

Additional information on how to manage corporate activism successfully can be found in the appendix to this paper.

Looking forward

Despite some recent pushback, the involvement of business and its representatives in corporate political activism will likely not decelerate anytime soon. Most citizens in both developed and emerging markets have recognized the private sector as an active participant in 21st century governance. A few of the trends we can expect to play out in coming years include:

Increased scrutiny

As businesses play more vocal roles in the public domain, corporate political activities come under increased scrutiny. Stakeholder pressure will only continue to increase in this hyper-transparent era – a company can no longer publicly support a certain position when its lobbying and political spending tell another story. There are several organizations that monitor such behavior, as the following examples show:

1. Transparency International – Corporate Political Engagement Index

Transparency International seeks to raise standards of corporate political engagement worldwide by assessing the policies, procedures and practices of international companies against TI-UK's guidance on responsible political engagement. Results are consolidated and rated within an index, enabling comparison of companies by boards of directors, investors, analysts and other stakeholders, providing them with a tool to raise standards and prevent corruption.

2. InfluenceMap

The Lobbying and Corporate Influence Project accurately assesses, ranks and communicates the extent to which corporations are lobbying around climate and energy policy worldwide. The 2017 InfluenceMap Report, for example, revealed that only six of the 50 most influential industry groups were supportive of policy directed at greenhouse gas emissions.

3. OpenSecrets.org

Companies, labor unions, trade associations and other influential organizations spend billions of dollars each year to lobby Congress and federal agencies. Some special interests retain lobbying firms, many of them located along Washington's legendary K Street; others have lobbyists working in-house. The organization has gathered information on totals spent on lobbying, beginning in 1998, for everyone from AAI Corp. to Zurich Financial. (See also: Foreign Lobby Watch.)

CENTER FOR POLITICAL ACCOUNTABILITY

4. Center for Political Accountability

The Center for Political Accountability is a US-based non-partisan, non-profit advocacy organization leading the effort to achieve corporate political disclosure and accountability. CPA is normalizing disclosure and accountability by: Publishing the annual CPA-Zicklin Index, which benchmarks S&P 500 companies, and is the only index of its kind; building and maintaining the TrackYourCompany.org database, which includes undisclosed company spending and profiles, available to the public and the press; and educating companies on how voluntary disclosure and spending oversight can help them manage risk for both company and shareholders.

Inclusion of corporate engagement and activism in ESG measurement and disclosures

The political influence practiced by a company and its leadership is not yet widely considered in most sustainability-related reporting frameworks and rankings. For instance, the reporting framework developed by the World Economic Forum, in collaboration with Deloitte, EY, KPMG and PwC, includes just one indicator related to public policy. Falling into the pillar of Principles of Governance, the group encourages firms to disclose their alignment of strategy and policies to lobbying (following GRI 415: Public Policy 2016). Such a high-level metric fails to address what a company is doing to advance issue-specific public policies (e.g., driving down GHG emissions) and support certain political positions.

As we look towards a standardized framework for non-financial reporting, we can expect to see the inclusion of more specific metrics on corporate's political activity and its impact.

Education and training

With mounting expectations from the public for corporate political engagement and activism on social issues, there is a need for both policy and political experts who can develop and support political engagement strategies. Going forward, companies will need to actively recruit people with relevant academic and professional experience (i.e., a combination of business, law, and government). Interestingly, in both 2018 and 2019, most MPP graduates from Harvard Kennedy School were employed in the private sector (40% and 37%, respectively). With this level of demand, we can expect to see greater attention from educators to this market, including:

Integration of public policy considerations in business school education:

- In its Special Report on Responsible Business Education, the FT noted that business schools are being urged to incorporate ESG into their core course offerings and that both employers and students are seeking greater focus on sustainable business.
- Many business schools have blended MBA and MPA (Masters of Public Administration) or MPP (Masters of Public Policy) programs together into dual degrees, including some of the world's leading organizations such as Harvard (launched fall 2008) and Oxford.

Growth in executive education offerings:

- Communications consultancies such as BOLDT have been launching interactive training programs, run by teams of former journalists, political advisers, and business leaders, to strengthen engagement with political stakeholders.

Appendix

Managing corporate activism

Effective corporate activism requires careful strategic consideration to align the issues to be advocated on with the company's values, purpose and social impact. It also requires effective implementation and oversight.

In recent years, guidance on effective management of corporate activism has been published by a number of authors, consultants and industry association, such as Aaron K. Chatterji and Michael W. Toffel (2018), Yeunjae Lee and Weiting Tao (2021), Weber Shandwick and The Conference Board.

A summary of the key elements for building an effective corporate activism campaign compiled from these publications includes the following steps:

Developing a Corporate Activism Strategy

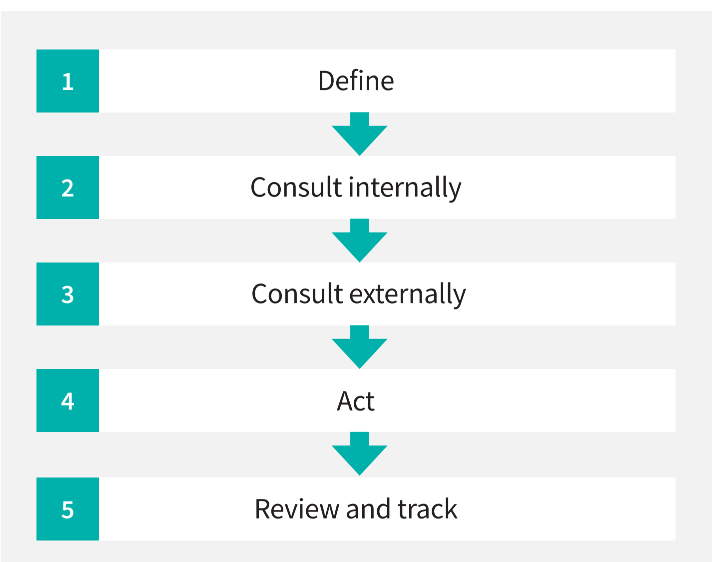


Figure: Framework for Developing a Corporate Activism Strategy

1. **Define** what your company stands for and align your corporate strategy with your values:

   a. **Make an explicit commitment:** Start with the CEO's explicit commitment to strategic and operational processes that include an important public policy dimension.

   b. **Broaden the definition of stakeholder interests:** Since companies exist to serve their stakeholders, stakeholders should be assessed according to their evolving priorities and expectations of a company – for example, examining whether the company's employees, customers and shareholders will be negatively affected if a specific issue is not addressed and effectively managed.

   c. **Make change integral to your company's values:**

      - Align corporate culture with impact: A way to do this could be co-creating a set of guiding principles with all employees in which key values and goals of the company are clearly stated. This type of concrete deliberation of how corporate activism should be reflected in everyday work can enable every individual to consider the importance of their roles in achieving these goals.

      - The chief executive should require division business leaders and senior staff executives to reflect on how their industry impacts global challenges, ranging from climate change to diversity. To create cultural change:

1. *Leadership teams need to have a strong and future-oriented analysis of society and its challenges.*

2. *Corporate activism should be stated as a strategic position that is reflected in all operational activities. For instance, in order to cut emissions, CO2 reduction should be used as a key performance indicator in determining employee incentives, alongside more traditional profitability metrics.*

2. **Consult internally:**

   a. Employees are now considered to be reputational stakeholders, given that employees' words are perceived as credible sources of a company's values by external stakeholders such as consumers. Senior management needs to ensure that they have employee 'buy-in':

   - *Integrate sentiment reports, which assess and summarize employees' views on key issues, to gauge how they will be impacted by the CEO's stance and the degree of support the CEO's position will garner internally.*

   - *Create a plan for employees who might not be aligned with the CEO's position. Consider what role management can play in promoting a culture of inclusiveness to ensure that they do not feel excluded or stigmatized. Essentially, how can your culture minimize disengagement and disloyalty in the event of misalignment?*

   b. **Start talking about activism internally:** Social-political issues and CEO activism need to be continually discussed in-house to minimize the chance of employees being blindsided and action being taken without full comprehension.

   - *There needs to be a company-wide understanding of what criteria is being used to take a stand on socio-political issues and how these issues align with corporate values. It is essential that an action-oriented plan provide clear reasons for why the company is taking the specific next steps it is to advance corporate social justice.*

   - *Even topics that the company does not take a public stand on warrant discussion.*

   - *Consider having a core group of executives representing key functions in decision-making (e.g., communications, legal, corporate citizenship, government relations, investor relations) or establish an office – with a direct line to the C-Suite – to take the lead in addressing social issues.*

3. **Consult externally:**

   a. Consulting external stakeholders, customers, business partners and the public at large, is a key component for assessing the risks and benefits of speaking out on social issues.

   - This is crucial when we consider that CEO activism influences purchase intent: Four in 10 Americans (40%) say they are more likely to buy from a company when they agree with the CEO, while a comparable number (45%) say they are less likely to buy if they disagree with the CEO's position.

4. **Act: Prior to taking action, consider the following:**

   a. **Define the right approach:** What approach would work best in this instance? This needs to be defined on a case-by-case basis. Think about which method of communication best lays out your viewpoint in an approachable and authentic manner. There are multiple avenues that can be taken (press release, op-ed, tweets, video, advertising…).

   b. The reasons behind a company's public stance need to be transparently communicated and articulated over time, not just when it is topical and on the news.

c. Openly admit where your company needs to improve. Authenticity is key. It is better to be transparent about how your company needs to improve because this minimizes backlash related to hypocrisy.

d. **Consider the benefits of collaboration**, as teaming up with peers and non-governmental organizations can have greater impact. For example, in April more than 300 corporate leaders, who employ nearly 6 million American workers and manage more than $1 trillion in assets, submitted a letter asking the Biden administration to nearly double the emission reduction targets set by the Obama administration, to at least 50 percent below 2005 levels by 2030, which Biden pledged later that month.

e. **Follow through** on your public stance: Sometimes a public statement is not enough. It is crucial to follow up a public stance with actions. For example, it is not enough to issue a public statement to support mitigating climate change without actively working to reduce your emissions.

5. **Review and track:** If it is not measured, it cannot be monitored. Consider the following questions:

   a. What impact have previous events of CEO activism had on sales?

   b. What impact have previous events of CEO activism had on the company's reputation?

   c. Is your market intelligence about stakeholder perceptions up to date?

Multinational corporations need to take the time to consider and understand the **cultural and geographic nuances** that are intrinsic to socio-political issues. For example, diversity means different things depending on the national and cultural setting. So, when looking to speak on diversity and inclusion, the question you should ask yourselves is: 'How do we meaningfully contribute to the discussions around diversity in this context?'

Implementing a corporate activism strategy effectively

Board oversight and engagement

1. Establish a sophisticated control environment
2. Outline board expectations for managing corporate political activity
3. Outline the scope of current political activity
4. Set up a management-level committee to oversee political activity
5. Publicly disclose political activity and engage investors

Figure: Framework for Accountability

As an organization's governance body, boards play an important role in mitigating the risks associated with corporate political activity. The board should advise on policies for the various forms of political activity to ensure that positions taken align with the company's values and provide oversight of political engagement and corporate activism.

The board should be made aware of and approve of the scope, aims and strategy for political activity and review the results of implementation. Combining recommendations from a range of researchers and practitioners, we identified that best practice for accountability covers the following components:

1. **Establish a control environment for responsible political engagement:** First, it is essential to establish a solid control environment. This entails corporate culture, values, operational style and organizational structures that underpin a company's approach to political engagement. According to Transparency International, best practice involves:

    a. Committing to values-driven political engagement – focus on integrity, ethical behavior and transparency;

    b. Having a legitimate voice – ensure political engagement focuses on meeting business objectives;

    c. Ensuring accountability – make sure responsibility for political engagement rests in the boardroom. The board must clearly define its expectations for the company's approach to its political activities, as well as the board's role in oversight;

    d. Being consistent – implement group-wide, global approaches to political activity.

2. **Outline board expectations for managing corporate political activity:** In collaboration with the CEO, boards should **discuss expectations** on whether and how to get involved in a political issue. They should apply processes similar to those used for approving corporate political contributions and lobbying activities in regard to corporate activism.

3. **Outline the scope of current political activity:** Boards should ask management for an inventory of its activities. This may help lead some companies to consider whether to simplify the scope of their efforts because the greater the complexity, the more difficulty companies may face in managing reputational and other risks.

4. **Set up a management-level committee:** Companies should also set up a management-level committee (the CEO, the General Counsel, and relevant leaders in internal and external communications, government and community relations, employee and investor relations, and marketing) to:

    a. Identify political or social issues that the company should consider taking a position on, both in reaction to current events and proactively;

    b. Determine which issues are directly connected to the company's interests and in line with the company's core corporate values;

    c. Assess potential benefits and risks associated with taking a position on a certain issue (for example, through engagement with employees, customers or suppliers), in consultation with communications and policy experts, as appropriate:

        - Investors on average react negatively to corporate social-political activity when it deviates from the values of key stakeholders. Thus, board members should be made aware of the process and criteria used to take a stand on political issues and how these issues are viewed by key stakeholders.

    d. Identify in advance a response team and protocol to:

        - assess and prepare the company's response to an issue;
        - seek broad consensus internally, as appropriate;
        - articulate why the issue is important to the company and CEO (or not appropriate for company action if the decision is to not engage);

- address questions from key constituents about the company's reasoning; and
- assess and manage the impact once a position is taken, including procedures for managing negative reactions from employees, customers and suppliers.

e. Monitor impact of corporate activism on the company.

5. **Publicly disclose political activity and engage investors:** Companies should report on how they are managing their political engagements, how their activities are linked to their guiding principles and the effect this has had on financial performance to shareholders and other stakeholders with material interests in the company's operations. Shareholder proposals seeking reports on corporate lobbying payments have become more frequent, and the average support for reports on political contributions grew from 25% in 2018 to 40% in 2020.

Blackrock's 2019 Policy Statement on Corporate Political Activity

In its statement, BlackRock encouraged companies to:

1. Disclose on the company website or through a separate report linked to the company website the company's policy for political expenditures from corporate assets, including lobbying activities.
2. Ensure that appropriate oversight of political activities is in place, which in many cases would include oversight by the appropriate board committee. This oversight could include review of the company's policy on political expenditures and lobbying activities.

Shareholder activism is on the rise, and companies are increasingly expected to respond to and act on sociopolitical issues: Shareholders requested that Delta's Board of Directors conduct an evaluation and issue a report within the next year describing if, and how, Delta Air Lines' lobbying activities (direct and through trade associations and social welfare and nonprofit organizations) align with the Paris Climate Agreement's goal of limiting average global warming to well below 2 degrees Celsius, and how the company plans to mitigate risks presented by any such misalignment.

Other considerations:

- **Manage investor expectations:** How does the company's approach compare to recommendations of key institutional investors?
- **Conduct a peer comparison:** Is the company lagging, following, or leading industry and peer standards in the policies and procedures it has adopted, including with respect to disclosure?
- **Establish a protocol for responding in a time of crisis:** Boards should know who takes the lead in crisis response efforts, who is consulted, and the process that management has in place to incorporate learnings from crises as they inevitably occur. In the realm of political activity, crises can include: the sudden pressure to take a position on an issue or a scandal arising from some person or entity to which the company provided money.

21st Century Business Leadership and the Rise of Corporate Activism

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