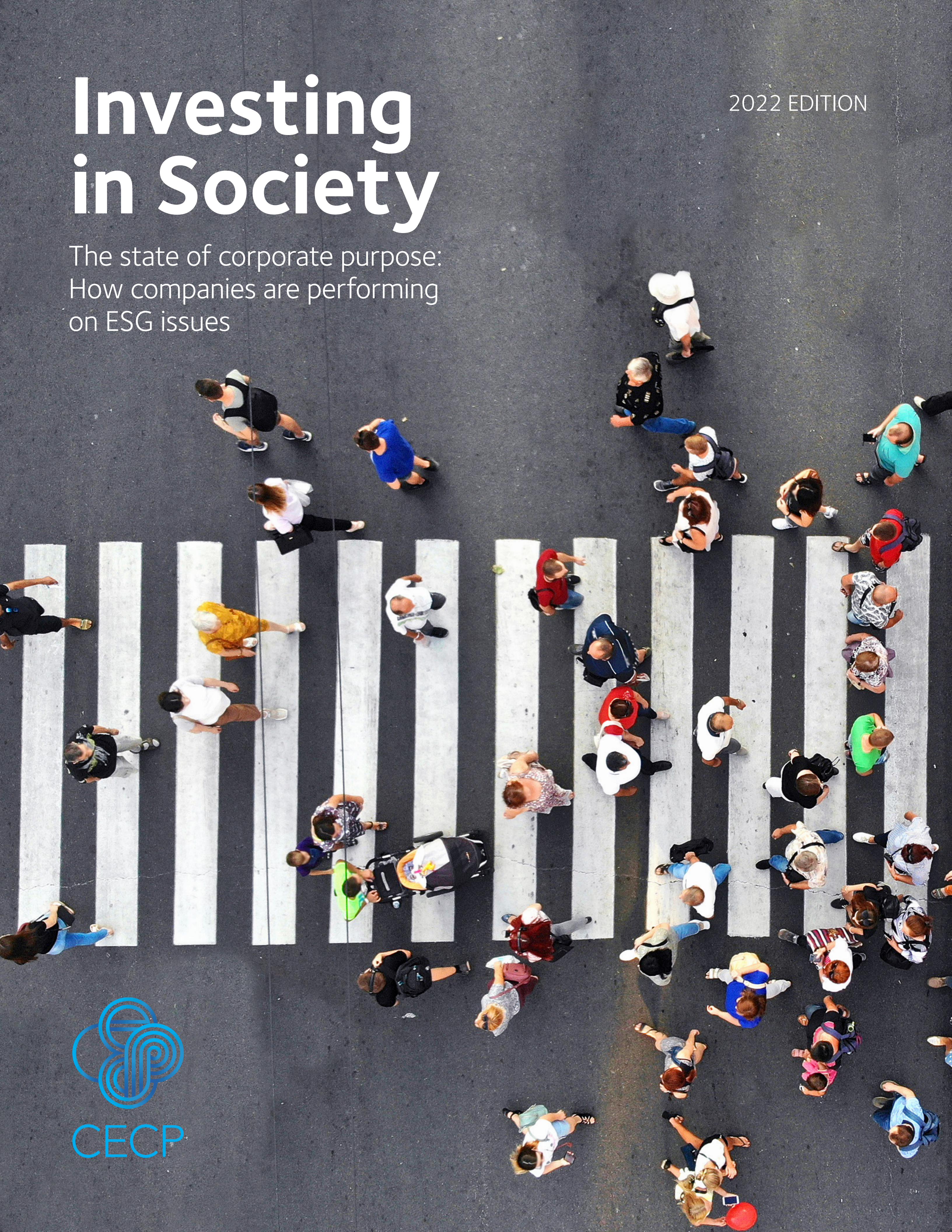
Investing in Society

2022 EDITION

The state of corporate purpose: How companies are performing on ESG issues



CECP

About CECP

Chief Executives for Corporate Purpose® (CECP) is a trusted advisor to companies on their corporate purpose journeys to build long-term sustainable value and tell their impact stories. Working with CEOs and leaders in corporate responsibility, sustainability, foundations, investor relations, finance, legal, and communications, CECP shares actionable insights with its CEO-led coalition to address stakeholder needs.

Founded in 1999 by actor and philanthropist Paul Newman and other business leaders, CECP is a movement of more than 200 of the world's largest companies that represent US$11.2 trillion in revenues, US$23 billion in total community investment, 14 million employees, 30 million hours of employee engagement, and US$21 trillion in assets under management. CECP helps companies transform their strategy by providing benchmarking and analysis, convenings, and communications in the areas of societal/community investment, employee engagement, ESG and sustainability, DEI, and telling the story.

Investing in Society

Investing in Society is the must-read source for trends on the corporate sector's shift to be increasingly purpose-driven. Developed from CECP's premier research on, thought leadership for, and strategic engagements with more than 200 of the world's largest companies, this report brings to light the state of corporate purpose in an evidence-based way and assesses corporate purpose-driven actions around Environmental, Social, and Governance (ESG) issues and sustainable business. Reinforced by CECP's insights on the actions that the world's leading companies are taking to address ESG issues, identify and effectively meet stakeholder needs, and build a better world through business, *Investing in Society* is a far-reaching examination of how companies are pursuing business practices that align with their corporate purpose.

Unique in the industry, *Investing in Society* provides a quantitative and qualitative examination of the current state of corporate purpose. This year's report analyzes the latest trends in ESG metrics for companies in the Fortune 500 and summarizes these findings through three tools: the CECP ESG Scorecard; CECP's ESG Factor Analysis; and a breakdown of each Key Performance Indicator (KPI) in the scorecard with an analysis of the three-year (2018-2020) median performance on each metric, enhanced by CECP's thought leadership and a review of sector-wide opinion and research.

Download this report, and/or prior editions, at: https://cecp.co/home/resources/thought-and-leadership/?tid=1585.

When referencing findings from this report, please list the source as: Chief Executives for Corporate Purpose. *Investing in Society: 2022 Edition.*

Contents

Preface

Dear Colleagues,

CECP is pleased to share the fifth edition of *Investing in Society*. This report highlights the most pressing issues for corporate leaders and their teams as well as potential areas of consideration for companies aspiring to foster a more prosperous future. Unique in the industry, *Investing in Society* provides a quantitative and qualitative examination of the current state of corporate purpose.

This year's report analyzes the latest trends in Environmental, Social, and Governance (ESG) metrics for companies in the Fortune 500 and summarizes these findings through three tools: the CECP ESG Scorecard; CECP's ESG Factor Analysis; and a breakdown of each Key Performance Indicator (KPI) in the scorecard with an analysis of the three-year (2018-2020) median performance on each metric, enhanced by CECP's thought leadership and a review of sector-wide opinion and research.

Past editions of *Investing in Society* have demonstrated how companies have pivoted their strategies away from shareholder primacy to a stakeholder-focused approach that addresses the needs of employees, customers, communities, suppliers, and investors. There is now almost universal acceptance of ESG as a measurement foundation, and this report provides a direct analysis of ESG KPIs and performance trends as well as a deep dive into the state of corporate purpose. For the second year, CECP conducted a Factor Analysis, which explores the degree to which ESG metrics correlate with each other and explains movement in the total ESG performance of Fortune 500 companies. We consider this rating to be CECP's measurement of the state of corporate purpose in the largest 500 companies by revenue in the U.S.

In each of the Environmental, Social, Governance, ESG Disclosure, and Purpose sections of this report, we guide the reader through an analysis of salient KPIs and provide a wide view of the corporate sector's performance on those factors overall, while identifying some of the underlying trends impacting the KPI. We offer our key takeaways where appropriate. Your company can use these findings to explore which actions have more importance under each ESG factor and may need more action or more public disclosure from your company. The Factor Analysis uncovered that the lack of disclosure by companies on many ESG metrics hinders a better understanding of both the importance and correlation of those metrics within each ESG pillar. This limits the depth to which we can measure the state of corporate purpose, as some potentially informative KPIs must be excluded due to a lack of data.

CECP's ESG Scorecard can be used by corporate leaders to benchmark their performance against peers in the Fortune 500. The COVID-19 pandemic, a continued racial justice awakening throughout the U.S. and world, geopolitical instability, a global labor crunch, supply-chain logjams, increased attention to worker safety and workplace conditions, the acceleration of investor interest in ESG data, the dramatic rise of green finance, the explosion of carbon-neutrality goals across companies, cities, regions, and countries; and the evolving expectations of society that companies will prioritize sustainable long-term value creation over short-term profits—all of these factors have been accounted for in this report. Our understanding of so many societal and planetary dynamics has been informed by a series of research initiatives CECP has undertaken over the last two years, including weekly Pulse Surveys that address in real time different world events and the corporate sector's response, peer-to-peer conversations with CSR leaders on the corporate response to COVID-19, and collaborations with partners and thought leaders to support education and advancements toward racial equity.

This report is evidence that companies are changing their approach to business and in many instances taking the lead in redefining and reinvigorating society during this critical decade. We are confident CECP's research will contribute to the integration and standardization of ESG metrics at all companies and help you to address the needs of *all* of your stakeholders over the long term. We welcome your feedback for how to make *Investing in Society* better every year. CECP is proud to work alongside the companies featured in this report and we look forward to partnering with you in the future as we collectively advance the state of corporate purpose.

Sincerely,

Beth Gallagher

Beth Gallagher
Director, Corporate Insights
CHIEF EXECUTIVES FOR CORPORATE PURPOSE (CECP)

KEY TAKEAWAYS

Environmental

Click on a Key Takeaway for more context.

GHG emissions and energy use both fell early in the pandemic but rose again as the economy rebounded.

Access to clean water for personal and industrial use remains a key global issue for companies to manage.

Companies have adapted very quickly to set net-zero and carbon-neutrality goals in line with the Paris Accords.

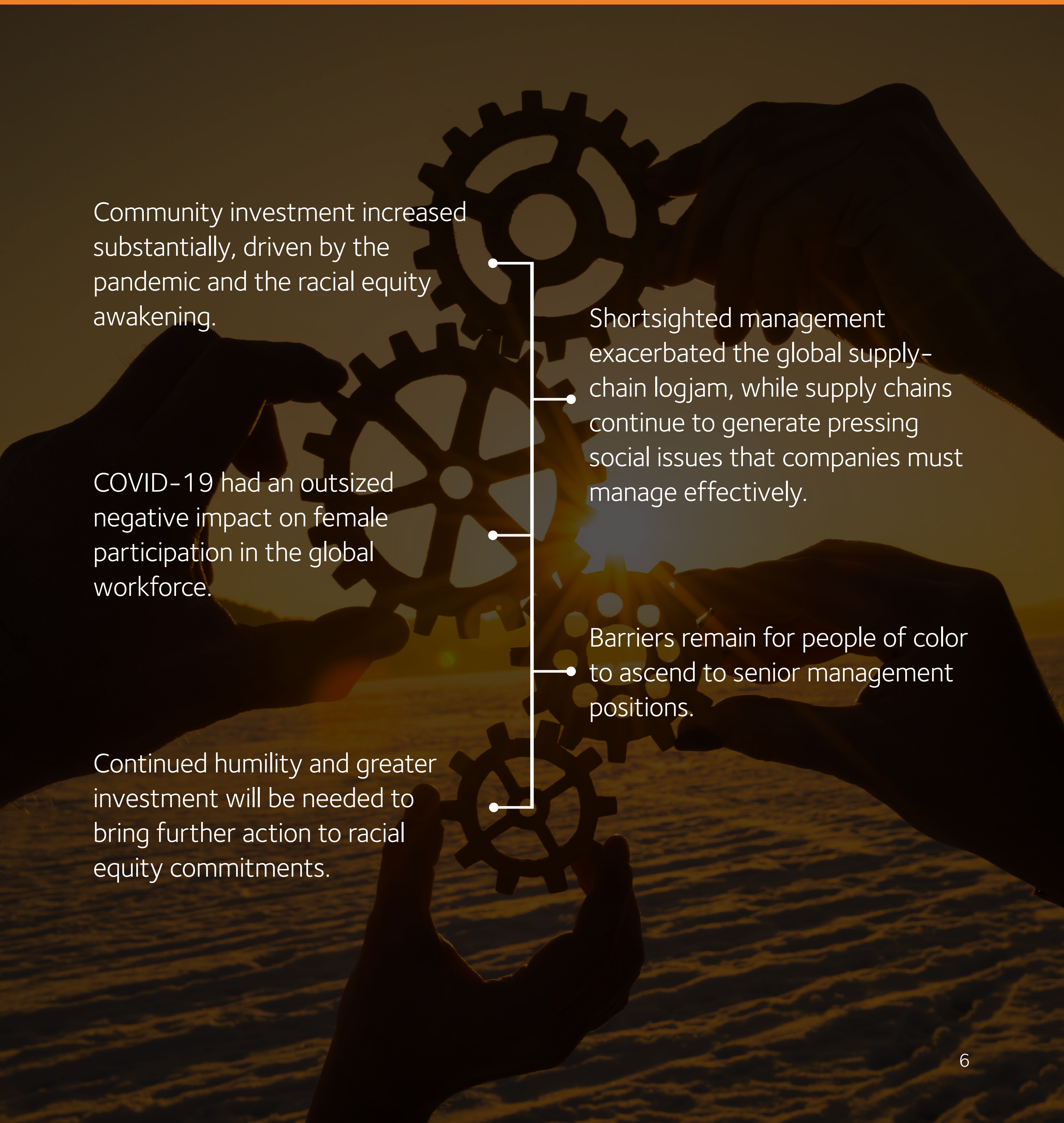
The transition to a decarbonized economy is a once-in-a-lifetime business opportunity measured in the hundreds of trillions of dollars.

Sustainable debt and green bond issuance continue to break records year over year.

KEY TAKEAWAYS

Social

Click on a Key Takeaway for more context.



Community investment increased substantially, driven by the pandemic and the racial equity awakening.

Shortsighted management exacerbated the global supply-chain logjam, while supply chains continue to generate pressing social issues that companies must manage effectively.

COVID-19 had an outsized negative impact on female participation in the global workforce.

Barriers remain for people of color to ascend to senior management positions.

Continued humility and greater investment will be needed to bring further action to racial equity commitments.

KEY TAKEAWAYS

Governance

Click on a Key Takeaway for more context.

Boards of directors are becoming increasingly involved in ESG as companies with effective ESG management experience superior financial performance.

There is widespread pressure on companies to increase board diversity and investors are the greatest source of that pressure.

Executive compensation is increasingly tied to ESG performance.

Due to external pressures, boards may have to adapt and recalibrate how they govern to ensure long-term value is created for investors.

Investors are skeptical that companies can meet their ESG commitments and achieve their ESG goals.

KEY TAKEAWAYS

ESG Disclosure

Click on a Key Takeaway for more context.

Companies continue to increase the amount of ESG data they disclose, while pushing for standardized metrics.

U.S. SEC Climate Change Guidance increases the stakes for corporations in relation to their material disclosure of environmental data.

The European Union continues to push companies that operate within the EU towards greater disclosure of ESG data and greater consideration of material ESG issues.

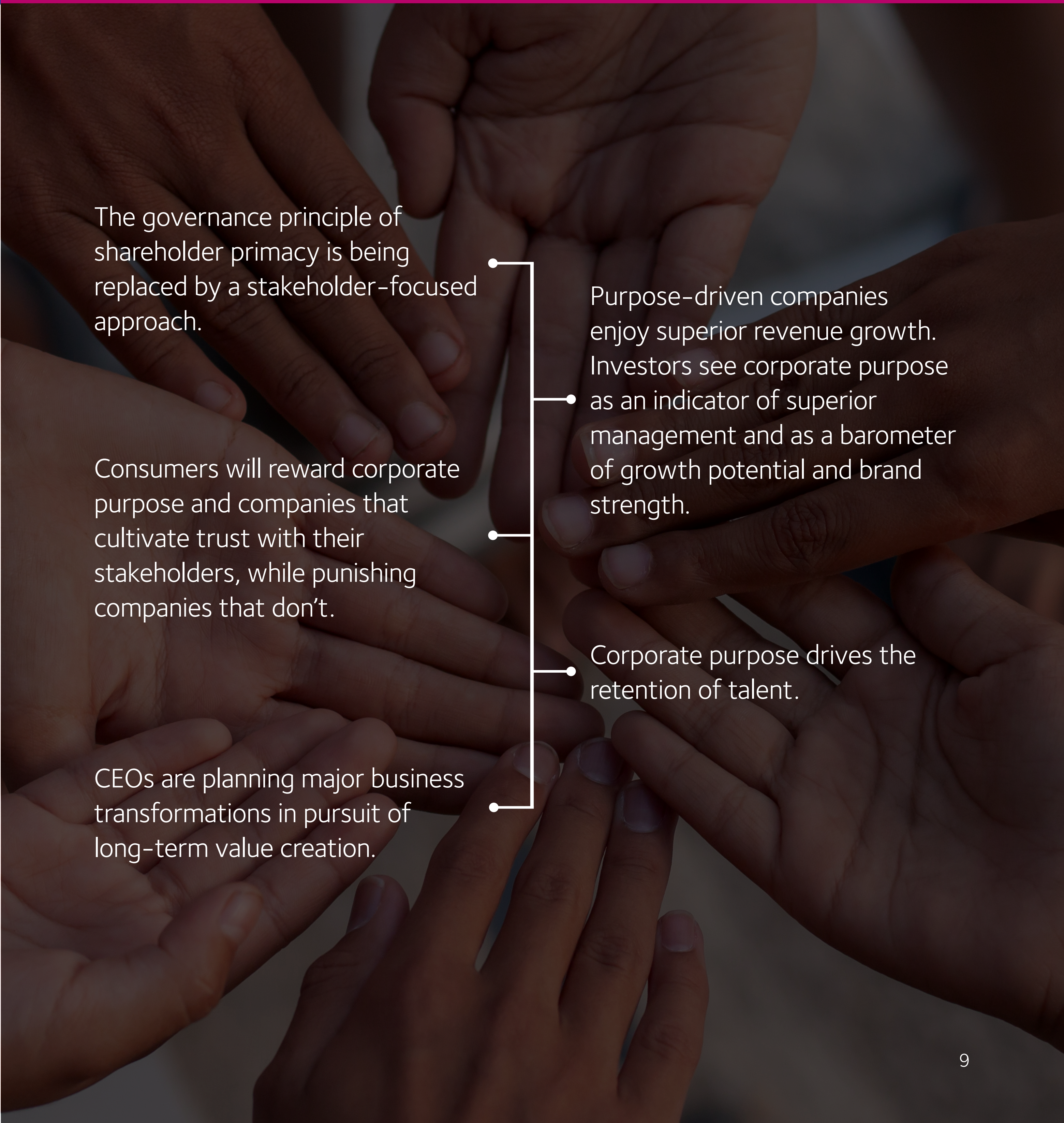
Social factors are increasingly important to investors, but also difficult to measure.

Societal expectations for effective governance and accountability are on the rise.

KEY TAKEAWAYS

Purpose

Click on a Key Takeaway for more context.



The governance principle of shareholder primacy is being replaced by a stakeholder-focused approach.

Purpose-driven companies enjoy superior revenue growth. Investors see corporate purpose as an indicator of superior management and as a barometer of growth potential and brand strength.

Consumers will reward corporate purpose and companies that cultivate trust with their stakeholders, while punishing companies that don't.

Corporate purpose drives the retention of talent.

CEOs are planning major business transformations in pursuit of long-term value creation.

CECP ESG Scorecard

CECP's ESG Scorecard evaluates changes in corporate sector ESG performance and measures how well companies in the Fortune 500 embrace the principles of stakeholder capitalism. Using Bloomberg ESG data, CECP conducted an analysis of companies' Key Performance Indicators (KPIs) from 2018, 2019, and 2020: Financial (eight KPIs), Environmental (seven KPIs), Social (eight KPIs), Governance (three KPIs), and ESG Disclosure (four KPIs) metrics. The scorecard indicates the median change in these KPIs over the three-year period of 2018-2020 within a matched set of companies that disclosed data for all three years.

There are many publications that offer detailed analysis of financial KPIs. For this reason, we note these key financial metrics in the scorecard for context, but we do not analyze them in this report. Each of the four remaining categories of metrics (Environmental, Social, Governance, and ESG Disclosure) are analyzed in detail later in this report.

Performance Snapshot of Fortune 500 Companies

FINANCIAL	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
Company Revenue (Median, in US$ Billions)	11876.7	11958	+0.68%
Number of Employees (Median, in Thousands)	24000	24300	+1.25%
EBITDA (Median, in US$ Billions)	2085.5	1957.2	-6.15%
Historical Market Capitalization (Median, in US$ Billions)	16381.5	21424.1	+30.78%
EBITDA / Revenue (Median)	15.7	15.8	+0.80%
Cash Paid for Taxes (Median, in US$ Millions)	200.1	188.1	-6.00%
Enterprise Value / EBITDA (Median, %)	10.38	10.38	0.00%
Return on Investment (Median, %)	9.4	7.0	-25.79%

ENVIRONMENTAL	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
Total GHG Emissions (Median, in Millions of Metric Tons)	805.8	709.6	-11.95%
Total Energy Consumption (Median, in Megawatt Hours)	2148.4	1915.0	-10.86%
Total Water Use (Median, in Millions of Cubic Meters)	3906.1	3833.6	-1.86%
Offers Water Policy (%)	64.6%	73.79%	+9.19pp
Waste Recycled (Median, in Thousands of Metric Tons)	33.8	32.4	-4.23%
Offers Waste-Reduction Policy (%)	74.54%	84.17%	+9.63pp
Net-Zero Emissions Target (%)	2.9%	31.61%	+28.71%

SOCIAL	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
Total Community Investment (Median, in US$ Millions)	27	44.75	**+65.75%**
Volunteered Hours (Median, in Thousands)	99.58	54.16	**-45.61%**
Social Supply Chain Management (%)	71.30%	82.00%	**+10.70pp**
Human Rights Policy (%)	65.19%	80.93%	**+15.74pp**
Employee Turnover (Average, %)	15.30%	13.80%	**-1.50pp**
Women in Management (Median, %)	29.00%	30.00%	**+1.00pp**
Women in Workforce (Median, %)	36.00%	36.95%	**+.95pp**
Minorities in Workforce (Median, %)	31.00%	33.40%	**+2.40pp**

GOVERNANCE	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
CSR/Sustainability Committee (%)	41.41%	59.47%	**+18.06pp**
Women on Board (Median, %)	25.00%	27.27%	**+2.27pp**
ESG Linked to Bonus (%)	25.99%	27.53%	**+1.54pp**

DISCLOSURE	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
ESG Disclosure Score (Median)	37.19	44.21	**+18.88%**
E' Disclosure Score (Median)	31.13	37.98	**+22.02%**
S' Disclosure Score (Median)	38.6	43.86	**+13.64%**
G' Disclosure Score (Median)	58.93	60.71	**+3.03%**

Source: Bloomberg ESG data, CECP Analysis.

Companies included in the analysis consist of companies in the Fortune 500. *Fortune* Magazine is a registered trademark of Time, Inc. Monetary figures are measured in nominal U.S. dollars. Data is retrieved from CECP's dataset and the Bloomberg database. Fortune 500 companies include companies from all nine industries from the Bloomberg Terminal.

Median KPIs that moved in a positive direction over the period 2018 to 2020 are denoted in green (e.g., reduction in greenhouse gas emissions and more women on boards). KPIs that moved in a negative direction over the period 2018-2020 are denoted in red (e.g., reduction in amount of waste recycled and reduction in volunteer hours). In most cases, movement is denoted by the overall percentage change, over the three-year period 2018 to 2020 (%). In a limited number of cases, movement is denoted by the number of percentage points a single metric moved up or down over the three-year period 2018-2020 (pp). Year-over-year calculations used a three-year, matched set of companies that reported metrics in 2018, 2019, and 2020.

When choosing which KPIs to include in the scorecard, some data points were omitted due to a low number of company responses. To allow for a robust Factor Analysis, and to be able to draw conclusions with a reasonable level of accuracy, only KPIs that had data for at least 70 companies were included.

Factor Analysis

In addition to the ESG Scorecard, CECP performed an ESG Factor Analysis, a robust way to determine indicators of positive or negative ESG performance. The aim is to measure the overall state of ESG performance among Fortune 500 companies.

Percentage of Companies with Positive Performance on Each Factor

57%

Environmental

57% of companies had positive weighted Environmental Factor Scores. Companies with scores greater than zero are associated with having a better environmental performance than their counterparts with negative scores.

53%

Governance

53% of companies had positive weighted Governance Factor Scores. Companies with scores greater than zero are associated with having more effective governance than their counterparts with negative scores.

44%

Social

44% of companies had positive weighted Social Factor Scores. Companies with scores greater than zero are associated with having a deeper social impact than their counterparts with negative scores.

53%

ESG Disclosure

53% of companies had positive weighted ESG Disclosure Factor Scores. Companies with scores greater than zero are associated with having more robust disclosure than their counterparts with negative scores.

Source: CECP Factor Analysis of Bloomberg ESG data for Fortune 500.

After the analysis began with over 1,000 ESG variables from Bloomberg data, 41 variables were selected that had some degree of data availability. After iterations with all variables had been run, the Factor Analysis showed that 28 of the 41 ESG variables had strong representation when condensed into four factors. The Factor Analysis produced coefficients that were used to calculate four weighted Factor Scores for each company. For a detailed description of the Factor Analysis, see the Appendix.

Environmental Factor

CECP ESG Scorecard: Performance Snapshot of Fortune 500 companies—Environmental

CECP analysis of Bloomberg Environmental data of Fortune 500 companies shows positive performance on six out of seven KPIs.

ENVIRONMENTAL	UNIT	NUMBER OF RESPONDING COMPANIES	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
Total GHG Emissions	Median, in Millions of Metric Tons (Mt)	N=251	805.8	709.6	**-11.95%**
Total Energy Consumption	Median, in Megawatt Hours (MWh)	N=214	2148.4	1915.0	**-10.86%**
Total Water Use	Median, in Millions of Cubic Meters	N=133	3906.1	3833.6	**-1.86%**
Offers Water Policy	% of Companies	N=435	64.6%	73.79%	**+9.19pp**
Waste Recycled	Median, in Thousands of Mt	N=132	33.8	32.4	**-4.23%**
Offers Waste-Reduction Policy	% of Companies	N=436	74.54%	84.17%	**+9.63pp**
Net-Zero Emissions Target	% of Companies	N=310	2.9%	31.61%	**+28.71pp**

Total GHG emissions and energy consumption both had double-digit decreases between 2018 and 2020. However, this good news is tempered by the fact that the drop in emissions and energy consumption is largely due to COVID-19-related travel restrictions, business closures, and slowed economic activity. As the economy has rebounded and travel and business operations have resumed, emissions have unfortunately rebounded also.

- Total GHG emissions fell by 11.95% between 2018 and 2020, from a median of 805 million metric tons (Mt) to 709.6 million Mt (N=251)
- Total energy consumption fell by 10.86% between 2018 and 2020 (N=214)

The number of companies managing water and waste issues at a formal level has increased by almost 10% with almost three-quarters of the Fortune 500 companies having a water and waste policy in place. Total water use across all companies has dropped slightly, likely a result of slowed operations in the pandemic.

- Median total water use fell 1.86% between 2018 and 2020 (N=133)
- 73.79% of companies had a water policy in place in 2020, up from 64.6% in 2018, a 9.19pp increase (N=435)

The COVID-19 pandemic had a negative impact on commercial recycling, due to disruptions in operations. Greater investment in recycling infrastructure is needed to more effectively support companies in their waste-management efforts.

- The median amount of waste recycled fell by 4.23% between 2018 and 2020 (N=132)
- 84.17% of companies in 2020 had a waste-reduction policy in place, up from 74.54% in 2018, a 9.63pp increase (N=436)

The most dramatic positive increase in the scorecard is in the number of companies developing and committing to a net-zero decarbonization goal, rising more than 28 percentage points. This increase reflects the increased commitment of companies to actively tackle their greenhouse gas emissions and transition to a post-carbon economy.

Factor Analysis: Environmental

CECP ESG Factor Analysis suggests that 57% of companies have Environmental scores greater than zero. These companies have a greater positive correlation with the reduction of environmental impacts than their peers, suggesting these companies have a greater sense of corporate purpose in relation to the environment.

Analysis and Key Takeaways: Environmental

GHG emissions and energy use both fell early in the pandemic but rose again as the economy rebounded.

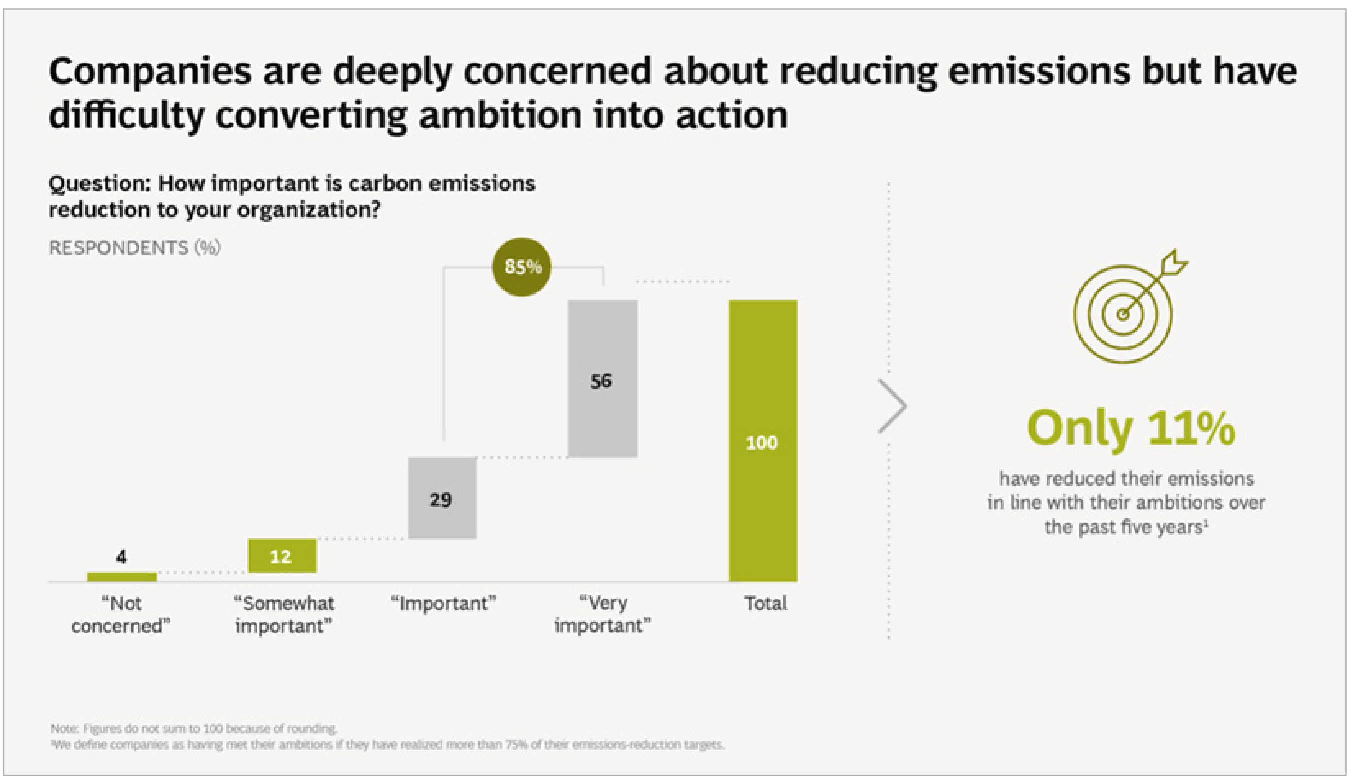
Globally, emissions fell by 6% in 2020 over 2019, and emissions in the U.S. fell 10% year over year.[1] However, much of this drop was due to the COVID-19 pandemic and its impact on transportation and energy use. The two billion-ton plunge in global emissions in 2020 was the largest absolute decline in history, with about half due to lower use of oil for transportation. As the global economy rebounded, emissions rose to pre-pandemic levels, and by December 2020 U.S. emission levels approximated those in December 2019, while total global emissions were 2% higher.

The International Energy Agency (IEA) reported that power sector emissions fell by 3.3% (or 450 Mt) in 2020[2] and the increasing share of power generation from renewable energy sources was the biggest contributor. The share of renewables in global electricity generation rose 2%, from 27% in 2019 to 29% in 2020. Over the last decade, renewable energy sources have been driving an increase in avoided carbon emissions by an average of 10% each year. The United National Environmental Program (UNEP) reported that in the decade 2010-2019 renewable energy capacity rose from 414 gigawatts (GW) to 1,650 GW,[3] almost a fourfold increase. Solar power rose to more than 26 times the 2009 level, from 25 GW to 663 GW, and by 2018 investment in renewable energy capacity was triple that of investment in fossil fuel generation. Renewables generated 12.9% of global electricity in 2018, avoiding 2 billion tons of carbon dioxide emissions.

UNEP predicts that investment in green energy technologies will double over the next decade, with the world on track to hit US$2.6 trillion in renewable energy investments by 2030. The IEA predicts that roughly half of our improved carbon efficiency in energy by 2050 will use technology that exists now only as prototypes,[4] creating an enticing investment and business opportunity.

BlackRock announced in January 2020 that it had raised US$1 billion for its Global Renewable Power III fund, which will focus on renewable power generation and energy storage and distribution.[5] The 2021 United Nations Climate Change Conference in Glasgow, COP26, resulted in a series of agreements among developed and developing countries called the Glasgow Breakthroughs, designed to rapidly scale up clean technologies in five sectors that collectively account for more than 50% of global emissions

Figure 1.



Source: Boston Consulting Group Carbon Measurement Survey, 2021.

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1 https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020
2 https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020
3 https://www.unep.org/news-and-stories/press-release/decade-renewable-energy-investment-led-solar-tops-usd-25-trillion
4 https://www.iea.org/reports/net-zero-by-2050
5 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/56669181

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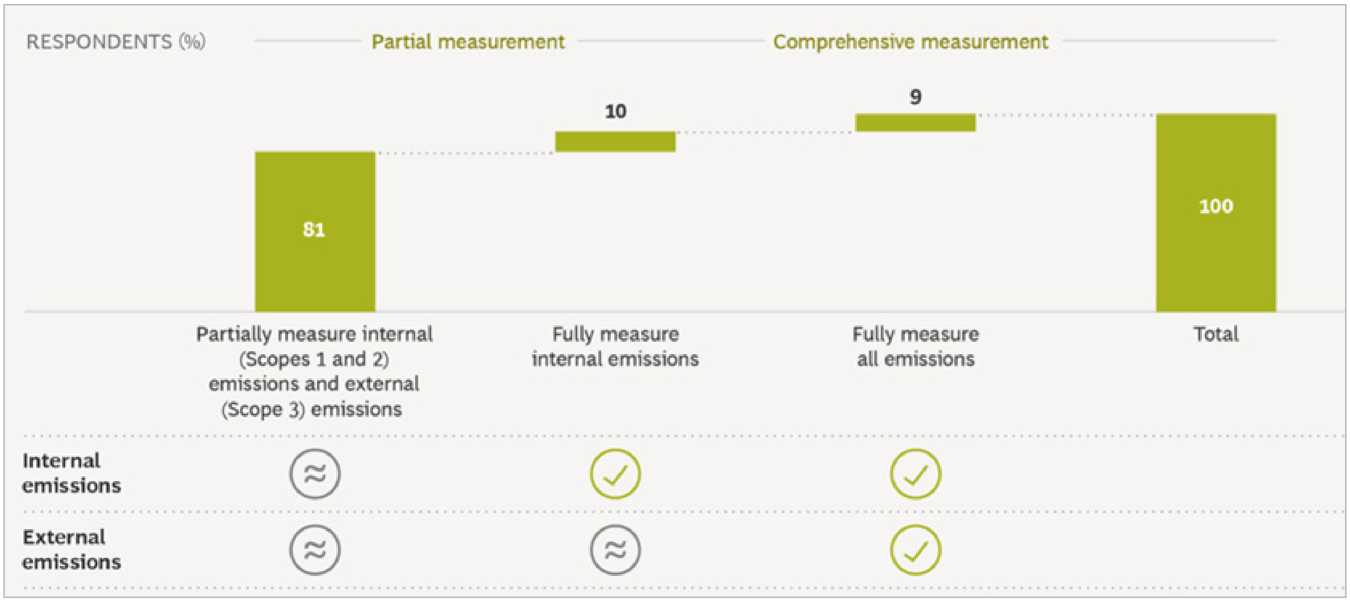


Source: Boston Consulting Group Carbon Measurement Survey, 2021.

by concentrating on alternative energy sources, land transportation, steel, hydrogen, and agriculture.[6]

Companies are deeply concerned about carbon emissions but have difficulty converting ambition into action. A 2021 Boston Consulting Group Carbon Measurement Survey reported that 85% of companies regard reducing emissions as important or very important, but only 11% have reduced their emissions in line with their goals[7] (Figure 1). This is partly because only 9% of companies accurately measure all emissions (Figure 2). Tracking and identifying the sources of Scope 3 emissions remain one of the biggest environmental challenges for companies. Companies can't manage what isn't being measured. *The United Nations Global Compact–Accenture CEO Sustainability Study* reports that 55% of CEOs (N=1,230) say they have begun measuring and reporting Scope 3 GHG emissions, yet only 16% are doing so at an advanced level.[8]

Access to clean water for personal and industrial use remains a key global issue for companies to manage.

Only 133 companies in the Fortune 500 disclosed their water use for all three years of 2018-2020. Yet water scarcity is a pressing phenomenon on every continent. Water use has grown globally at more than twice the rate of the population over the last century. Many regions of the world are reaching the limit at which water services can be maintained sustainably.[9] The World Meteorological Association (WMA) reports that 3.6 billion people had inadequate access to water for at least one month in 2018.[10] By 2050, this is expected to rise to more than 5 billion people, increasing the pressure on companies, cities, and people alike to use water more judiciously.

Climate change is impacting every stage of the water cycle. It affects how much water is stored in ice, aquifers, lakes, rivers, and the ocean, leading to dry lakes and rising sea levels. It affects clouds, the transportation of water vapor, and condensation (the latent heating of the atmosphere). It affects precipitation, and evaporation, monsoons and storms, and it affects stream flow, river discharge, surface runoff, and soil infiltration and percolation. According to Upmanu Lall of The Earth Institute at Columbia University, most of the impacts of climate change are water-related. When people talk about climate change affecting agricultural output, sea level rise, wildfires, and extreme weather, "they're all essentially a water story."[11]

Climate change is also fueling water-related natural disasters. Water stress is being intensified by climate change, which is already causing extreme precipitation events such as floods and droughts, events that in turn can exacerbate water stress.[12] WMA reports that since 2000 flood-related disasters have risen by 134% compared with the two previous decades, while the number and duration of droughts also increased, by 29%.

6 https://racetozero.unfccc.int/system/glasgow-breakthroughs/
7 https://www.bcg.com/publications/2021/measuring-emissions-accurately
8 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-2021-CEO-Study-SlideShare.pdf
9 https://www.unwater.org/water-facts/scarcity/
10 https://public.wmo.int/en/media/press-release/wake-looming-water-crisis-report-warns
11 https://news.climate.columbia.edu/2019/09/23/climate-change-impacts-water/
12 https://10nics2020.futureearth.org/10-new-insights-in-climate-science/4-climate-change-will-severely-exacerbate-the-water-crisis/

McKinsey reports that, under a scenario with 1.5°C of warming above preindustrial levels by 2030, 5 billion people could be exposed to a climate hazard related to heat stress, drought, flood, or water stress in the next decade, up from 3.3 billion people today[13] (Figure 3).

Under a scenario of warming 2.0°C above preindustrial levels by 2050, nearly one in seven of the total global rural population projected to be employed in the agricultural sector by 2050 (100 million people) could be exposed to an average of seven to eight drought years per decade. Based on 2050 population projections, in a 2°C warming scenario almost 40% of the U.S. population could be exposed to at least one of the four climate hazards: heat stress, urban water stress, agricultural drought, and flooding. *The 2021 United Nations Global Compact–Accenture CEO Sustainability Study* found that 49% of CEOs report supply-chain interruptions due to extreme weather events are a top risk for their company.[14]

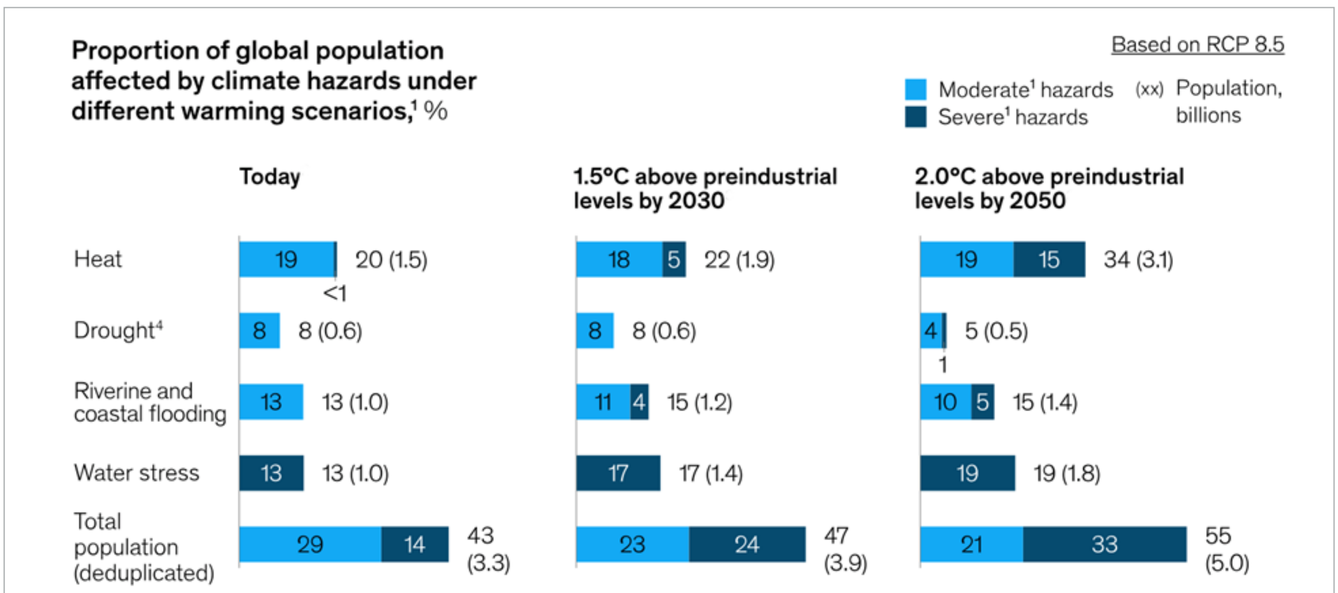
A study by Dartmouth University on the impact of climate change on water availability in the agricultural sector shows how agriculture in the U.S. could be impacted by water stress.[15] 52% of irrigated land is used for corn, soybean, and winter wheat production. 17% of corn production and 12% of soybean production comes from unsustainable groundwater irrigation. Even under the most optimistic water availability scenarios, U.S. irrigated production of corn, soybean, and winter wheat could be potentially reduced by 20%, 6%, and 25% respectively by 2030. Under the most pessimistic scenario, corn, soybean, and winter wheat production would be reduced by 45%, 37%, and 36% respectively over the same period. The U.S. will have difficult choices to make regarding aquifer use, which will impact people and businesses alike.

While waste management and reduction pledges have increased, commercial recycling has declined.

While emissions, energy, and water consumption experienced positive performance trends, the amount of commercial waste recycled by Fortune 500 companies declined by 4.2% between 2018 and 2020. The National Association for PET Container Resources' (NAPCOR) *2020 PET Recycling Report, 26th Edition*, found that PET bottles had a 26.6% recycling rate in the U.S. in 2020, down from 27.9% in 2019 and 28.9% in 2018, partially due to collection disruptions during the COVID-19 pandemic. This was despite a substantial demand increase for recycled PET bottles, driven by company commitments to use recycled plastic.[16]

The As You Sow plastics pollution scorecard, which reports on 50 U.S. companies' waste patterns, reveals a nine-fold increase in plastic reduction goals, and a fourfold increase in support for "extended producer responsibility" between 2019 and 2020.[17] While companies' commitments and goals are strong, two-thirds of companies studied had not actually taken either of these steps forward.

Figure 3.



Source: McKinsey, "Protecting people from a changing planet: The case for resilience."

13 https://www.mckinsey.com/business-functions/sustainability/our-insights/protecting-people-from-a-changing-climate-the-case-for-resilience
14 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-2021-CEO-Study-SlideShare.pdf
15 Dartmouth College. "The future of US corn, soybean and wheat production depends on sustainable groundwater use." ScienceDaily. ScienceDaily, 28 January 2022. www.sciencedaily.com/releases/2022/01/220128141308.htm
16 https://napcor.com/news/napcors-2020-pet-recycling-report-reveals-an-800-million-pound-increase-of-recycled-pet-for-end-market-use-over-the-past-decade/
17 https://static1.squarespace.com/static/59a706d4f5e2319b70240ef9/t/6154c623609b283fdc013b6c/1632945709916/AsYouSow2021_PlasticsScorecard_fin-v2_20210927.pdf

Although companies recognize that the U.S. recycling infrastructure needs updating, only 5% of the funds necessary to expand and update the system have been secured. Recycling infrastructure has not kept pace with modern waste streams. Consumers are confused about what materials can be recycled and performance is not well measured. The Environmental Protection Agency released a national strategy to address these challenges in 2021.[18]

According to *The 2021 United Nations Global Compact–Accenture CEO Sustainability Study*, 81% of CEOs (N=1,230) say they are already developing new sustainable products and services and 74% of CEOs say they have begun deploying new and circular business models.[19]

Companies showing leadership though the World Wildlife Fund's ReSource: Plastic program cut their use of problematic plastic by 57% between 2018 and 2020, with 31% of members' plastic footprints recycled in 2020, compared to a global average of 14%.[20] In 2019, just two companies had goals to reduce virgin plastic use, and, by 2020, 18 companies had a virgin plastic packaging reduction goal. 29 companies in total have set goals for 100% of their packaging to be recyclable, compostable, or reusable, up from just 19 in 2019.

A CECP Pulse Survey asked company representatives if they had been involved in internal meetings on circular economy in the past year or were reducing raw materials in products through recycled content or reuse. 38% reported many meetings and 24% said one or two.[21] New business opportunities are emerging as consumer patterns change to reduce waste. Deloitte predicts that by 2028 the used fashion market will reach US$64 billion in the U.S., while fast fashion is expected to reach only US$44 billion.[22]

Companies have adapted very quickly to set net-zero and carbon-neutrality goals in line with the Paris Accords.

What sets the net-zero commitments apart from earlier climate initiatives is that, for the first time, a global goal and timeline have been established to limit the adverse effects of climate change. Although parties may not currently know exactly how they can achieve net zero, goals are being set and commitments are being made. The World Economic Forum reports that 92 countries responsible for 78% of global emissions now have a sincere net-zero commitment, up from 3% of global emissions covered in 2018.[23]

It is evident that companies are deepening their carbon strategies and moving away from simply reducing emissions towards full decarbonization. A CECP analysis of Bloomberg data of which Fortune 500 companies have set net-zero targets showed that, in financial year 2020, 31% had set a net-zero target (N=310). This is up from only 2.9% in 2018, a more than tenfold increase over three years. By the end of 2020, 21% of the world's 2,000 largest public companies had set net-zero targets, according to a report by the Energy and Climate Intelligence Unit and Oxford Net Zero.[24] These companies together represent annual sales of nearly US$14 trillion. In 2021, net-zero pledges covered 68% of the global economy, up from 16% in 2019. Most of these net-zero targets have a 2050 goal, but 153 companies have set a more ambitious 2030 goal.

939 companies, which account for approximately 35% of MSCI ACWI Index constituents, have set some type of target to achieve decarbonization as of January 2021, with 15% of these companies setting net-zero targets.[25] The Science Based Targets initiative (SBTi) reports that 2,643 companies worldwide are leading the zero-carbon transition by setting emissions reduction targets through the initiative.[26] Of these, 1,317 companies have made commitments to holding global warming to 1.5°C above normal levels, and 1,226 companies have set science-based targets. The trend is now clear that science-based net-zero strategies have become the gold standard for managing decarbonization.

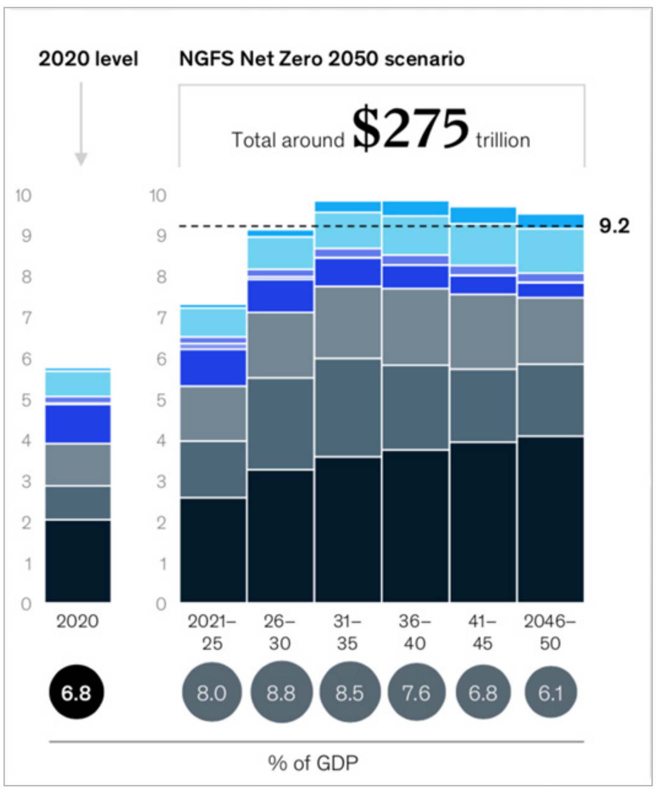
The U.N. has identified two leadership principles that all companies should aim to follow when setting net-zero targets. First, companies should include the elimination of Scope 3 emissions from upstream and downstream value chains in their goal. 27% of all companies that have set net-zero targets have included Scope 3. This is notable, as mapping emissions over the entire value chain from suppliers to customers is a complex paradigm. Second, companies are asked to concentrate on mitigating emissions from their core operations, energy use, and supply chains. If carbon offsetting, such as purchasing carbon credits, is used in setting a target, these offsets must meet robust scientific standards, and companies must reduce the use of these offsets over time to the minimum feasible amount. Only 11 companies globally were able to incorporate both principles into their net-zero targets by the end of 2020.[27]

18 https://www.epa.gov/newsreleases/epa-releases-bold-national-strategy-transform-recycling-america
19 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-2021-CEO-Study-SlideShare.pdf
20 https://www.asyousow.org/report-page/waste-and-opportunity-2020-searching-corporate-leadership
21 CECP Pulse Survey March 30, 2021 (N=34)
22 https://www2.deloitte.com/xe/en/insights/topics/strategy/sustainable-transformation-in-business.html
23 https://www3.weforum.org/docs/WEF_Winning_the_Race_to_Net_Zero_2022.pdf
24 Taking Stock. The Energy & Climate Intelligence Unit and Oxford Net Zero https://ca1-eci.edcdn.com/reports/ECIU-Oxford_Taking_Stock.pdf?v=1616461369
25 https://www.msci.com/documents/10199/9172b38f-5d67-4346-a15b-9b8233f81da0
26 https://sciencebasedtargets.org/companies-taking-action
27 Taking Stock. The Energy & Climate Intelligence Unit and Oxford Net Zero https://ca1-eci.edcdn.com/reports/ECIU-Oxford_Taking_Stock.pdf?v=1616461369

The transition to a decarbonized economy is a once-in-a-lifetime business opportunity measured in the hundreds of trillions of dollars.

The net-zero transition to a decarbonized economy will require a large investment across all sectors of society and can be regarded as a once-in-a-lifetime business opportunity. Using the Network for Greening the Financial System (NGFS) scenario models, McKinsey projects that capital spending on physical assets for energy and land-use systems in the net-zero transition between 2021 and 2050 will require an investment of US$275 trillion.[28] This will amount to 8% of global GDP between 2021 and 2025, peaking at 8.8% of global GDP between 2026 and 2030 and gradually falling to 6.1% of global GDP between 2046 and 2050 (Figure 4).

Figure 4.



Annual Spend on Physical Assets for Energy and Land-Use Systems, $ Trillion Per Year

Hydrogen, biofuels, and heat | Agriculture | Industry | Forestry | Fossil fuels | Buildings | Power | Mobility

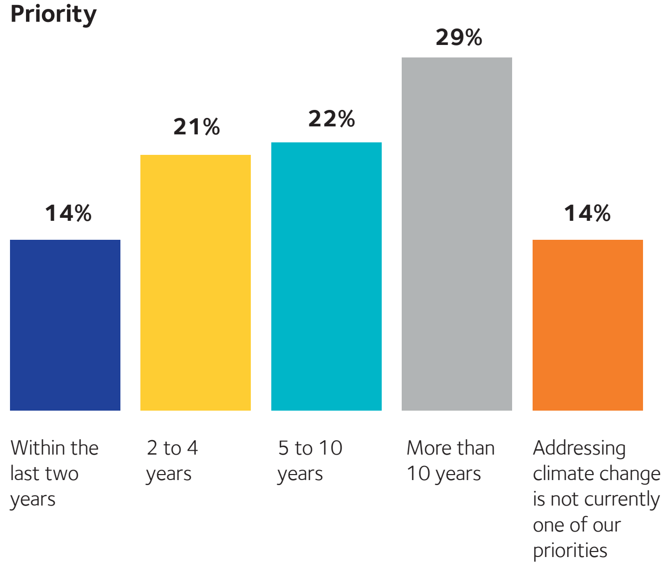
Source: McKinsey, *The net-zero transition: What it would cost, what it could bring.*

The 2021 United Nations Global Compact–Accenture CEO Sustainability Study found that 65% of CEOs say they have already started advancing net-zero business models, yet only 16% say they are at an advanced level. 46% of CEOs say they have begun exploring nature-based solutions, but only 7% say they are utilizing them at an advanced level.[29]

A CECP Pulse Survey (N=63) from January 2022 asked, "How long has addressing climate change been one of your corporate responsibility priorities?" 29% of respondents said more than 10 years, 22% said 5-10 years, 35% said 4 years or fewer, and only 14% said climate change was not currently a priority (Figure 5).

Figure 5.

Timeline on Climate Change as a Corporate Responsibility Priority



Source: CECP Pulse Survey, 2022.

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28 https://www.mckinsey.com/business-functions/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring?cid=netzero-pse-gaw-mst-mck-oth-2201&gclid=Cj0KCQiA3rKQBhCNARIsACUEW_ZSnthRRWGiVdR_CAtwsfxav6RXRL0xyDID2-YXJ0h1szTeHX22YwsaAl1REALw_wcB&gclsrc=aw.ds

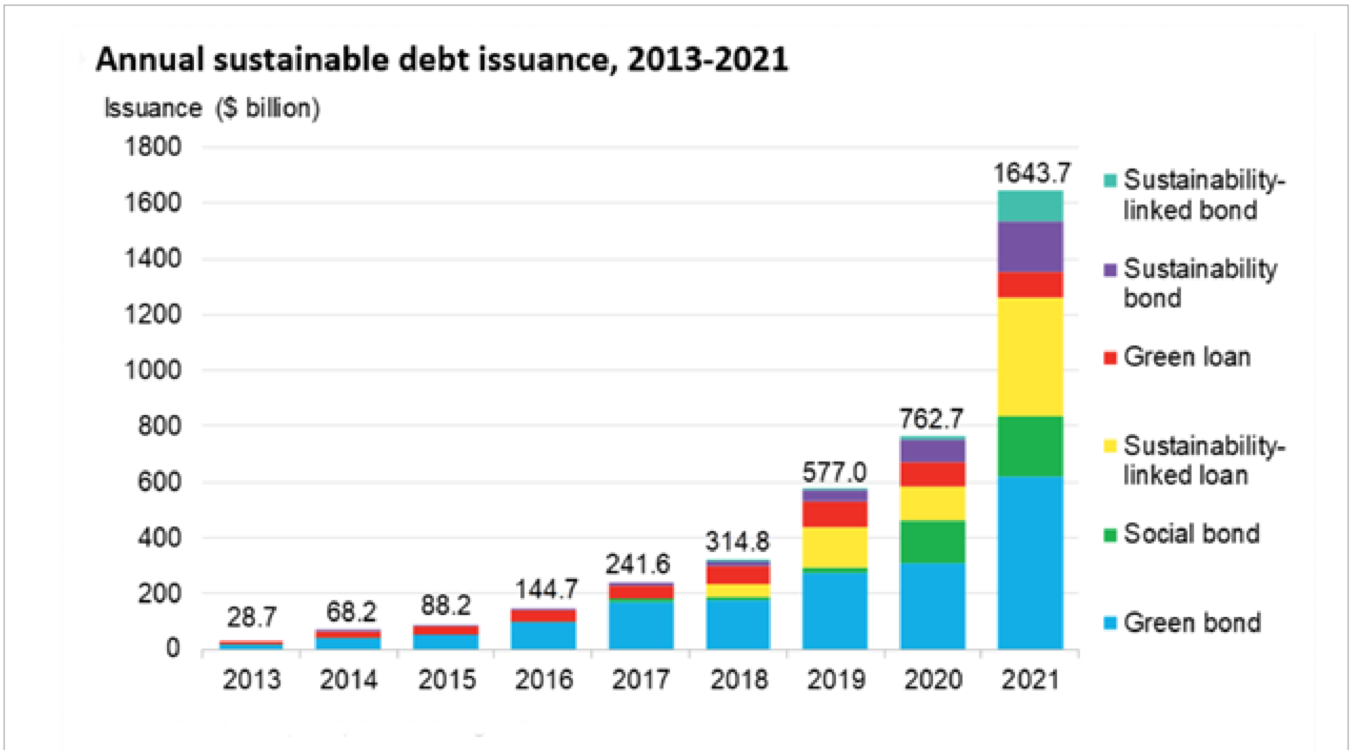
29 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-2021-CEO-Study-SlideShare.pdf

Sustainable debt and green bond issuance continue to break records year over year.

Record sums were borrowed with sustainable debt issuances surpassing US$1.6 trillion in 2021, more than doubling 2020's end-of-year value[30] (Figure 6). Sustainability-linked loans and bonds saw more than US$530 billion issued in 2021, more than four times 2020's totals. Social and sustainability bonds, which finance social and community-based projects and are often combined with environmental objectives, reached nearly US$400 billion in combined issuance in 2021.

PwC's State of Climate Tech 2020 found that between 2013 and 2019 venture capital investments in companies offering decarbonization solutions rose from US$418 million to US$16.3 billion, a 3,750% increase.[31] PwC's 2021 report showed that from July 2020 to June 2021 US$87.5 billion of VC investment funding went towards climate tech, which now accounts for 14% of all VC investments,[32] including megafunds such as Brookfield's US$7 billion Global Transition Fund and TPG's US$5.4 billion Rise Climate fund.[33] Food systems, which are responsible for 20% of global greenhouse gas emissions, are underfunded, having received only 12% of climate-tech investment from 2013 to the first half of 2021,[34] with most of the investment in alternative foods and proteins, a sector that grew 111% from July 2020 to June 2021. Meat-based diets entail significantly more food loss than consuming plants directly.[35] Plant-based meat substitutes are expected to become a US$140 billion global industry in the next decade, capturing 10% of the global protein market.

Figure 6.



Source: BloombergNEF, Sustainable Finance Market Outlook.

30 https://about.bnef.com/blog/1h-2022-sustainable-finance-market-outlook/
31 https://www.pwc.com/gx/en/services/sustainability/assets/pwc-the-state-of-climate-tech-2020.pdf
32 https://www.pwc.com/gx/en/services/sustainability/publications/state-of-climate-tech.html
33 https://www.bloomberg.com/news/articles/2021-07-27/brookfield-gets-7-billion-for-impact-fund-with-temasek-on-board
34 https://www.strategy-business.com/article/A-rising-tide-of-green-capital
35 https://environment-review.yale.edu/food-waste-its-about-what-you-choose-eat

Social Factor

CECP ESG Scorecard: Performance Snapshot of Fortune 500 companies—Social

CECP analysis of Bloomberg Social data of Fortune 500 companies shows positive performance on seven out of eight KPIs.

SOCIAL METRIC	UNIT	NUMBER OF RESPONDING COMPANIES	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
Total Community Investment	Median, in US$ Millions	N=131	27	44.75	**+ 65.75%**
Volunteered Hours	Median, in Thousands	N=74	99.58	54.16	**- 45.61%**
Social Supply Chain Management	% of Companies	N=439	71.30%	82.00%	**+ 10.70pp**
Human Rights Policy	% of Companies	N=451	65.19%	80.93%	**+15.74pp**
Employee Turnover	Average, %	N=74	15.30%	13.80%	**- 1.50pp**
Women in Management	Median, %	N=127	29.00%	30.00%	**+ 1.00pp**
Women in Workforce	Median, %	N=228	36.00%	36.95%	**+ 0.95pp**
Minorities in Workforce	Median, %	N=73	31.00%	33.40%	**+ 2.40pp**

CECP data shows that community spend rose substantially, driven by the corporate responses to the COVID-19 pandemic and the global racial equity awakening.

- Data from CECP's 2021 *Giving in Numbers* Survey[36] shows that median total community investment among participating Fortune 500 companies rose from US$27 million in 2018 to US$44.75 million in 2020, a 65.75% increase over three years (N=131). CECP defines total community investment as the sum of three types of giving: direct cash, foundation cash and non-cash (pro bono and in-kind donations of goods and services).

Volunteering is the one decreasing metric on the scorecard as community lockdowns and social-distancing protocols took their toll on the ability of corporate employees to volunteer.

- Median volunteer hours fell 45.61% between 2018 and 2020, driven by social-distancing guidelines implemented to combat the COVID-19 pandemic.

Social supply chain management initiatives cover a wide array of activities and include efforts to improve working conditions, support Human Rights, or eliminate the use of child or forced labor. The number of companies actively managing social supply issues increased by double digits between 2018 and 2020. The global supply chain logjam has been an issue for many companies and consumers, an issue exacerbated by poor management. Global supply chains also create potential risk for corporations around social issues such as Human Rights and child labor, placing increasing demand on companies to mitigate exposure.

- The number of companies engaging in social supply chain management initiatives increased by 10.70pp between 2018 and 2020, from 71.30% to 82% (N=439).
- Between 2018 and 2020, the number of companies that reported having a Human Rights Policy increased 15.74pp (N=451).

36 https://cecp.co/home/resources/giving-in-numbers/

The employee turnover rate among Fortune 500 companies fell slightly during the early stages of the pandemic as employees sought stability in an uncertain context. However, as the economy has rebounded, The Great Resignation and labor dissatisfaction have begun to take their toll on the corporate workforce and have gained the attention of many CEOs.

- The employee turnover rate fell by 1.5pp between 2018 and 2020, from 15.3% to 13.8% (N=74).

The number of women working in corporate America rose slightly between 2018 and 2020, but elsewhere in the economy women have suffered more than men from the impacts of the COVID-19 pandemic. The percentage of minorities in the workforce rose slightly, as did the percentage of women in management positions, but many would say the rate of growth is not keeping pace with societal expectations.

- The percentage of women in the workforce rose by slightly less than 1pp between 2018 and 2020, from 36% to 36.95% (N=127).
- The percentage of women in management increased by 1pp between 2018 and 2020, from 29% to 30% (N=127).
- The percentage of minorities in the workforce increased by 2.4pp between 2018 and 2020, from 31% to 33.4% (N=73).

Factor Analysis: Social

CECP ESG Factor Analysis suggests that 44% of companies have Social scores greater than zero. These companies have a greater correlation with positive social outcomes than their peers, suggesting a greater sense of corporate purpose in relation to social factors.

Analysis and Key Takeaways: Social

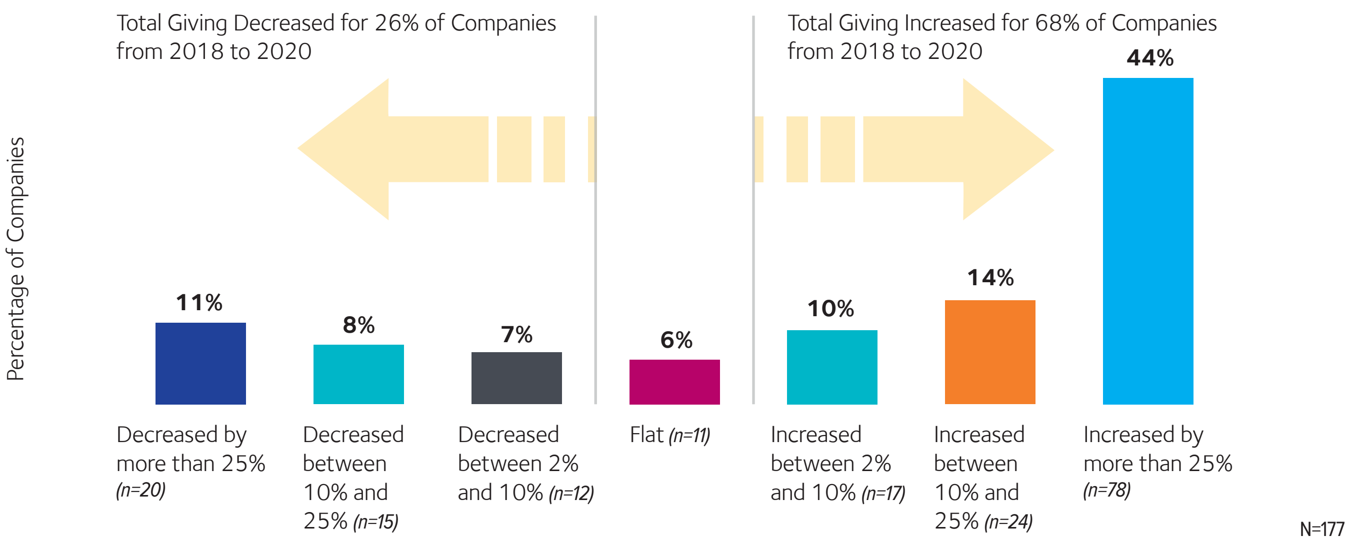
Community investment increased substantially, driven by the pandemic and the racial equity awakening.

CECP *Giving in Numbers* data shows that total community investments increased for 68% of companies between 2018 and 2020 (N=177), with community investments increasing by at least a quarter for 44% of these companies (Figure 7). *Giving in Numbers: 2021 Edition* also reported that median direct cash investments increased by 32%, from US$13.1 million in 2016 to US$17.3 million in 2020 (N=147). For companies reporting foundation cash in each of the last five years, median foundation cash increased by 51%, from US$8.5 million in 2016 to US$12.8 million in 2020 (N=111).

Globally, a CECP analysis of Bloomberg ESG data for the top 3,000 global companies by revenue shows that the median total community spend across all companies in 2020 was US$4.95 million (N=1,149) (Figure 8), rebounding from US$2.8 million in 2019 (N=995) and up from US$3.57 million in 2018 (N=1,234).[37]

Figure 7.

Distribution of Companies by Changes in Total Community Investments Between 2018 and 2020, Inflation-Adjusted, Matched-Set Data



Source: CECP, *Giving in Numbers: 2021 Edition.*

37 https://cecp.co/download-pdfform/?pdflink=wp-content/uploads/2022/01/CECP-2021-Global-Impact-at-Scale.pdf

Figure 8.

Median Community Spend by Companies

INDUSTRY	US$M
Communications	$8.57
Consumer Discretionary	$2.50
Consumer Staples	$8.76
Energy	$6.74
Financials	$8.77
Health Care	$9.59
Industrials	$2.27
Information Technology	$3.82
Materials	$3.36
Utilities	$4.93
ALL COMPANIES	$4.95

N=1,149

Source: CECP, *Global Impact at Scale, 2021 Edition.*

CECP's *Giving in Numbers: 2021 Edition* data also showed that the spike in total community investments in 2020 was due in large part to the global COVID-19 pandemic. The two main program areas associated with COVID-19 response were Disaster Relief and Health and Social Services, which between 2018 and 2020 experienced growth rates of 352% and 41%, respectively (Figure 9). The growth rate for investments in Culture and Arts as a percentage of giving fell by 18% between 2018 and 2020.

Figure 9.

Median Community Spend by Companies

PROGRAM AREA	GROWTH RATE OF MEDIAN CASH COMMUNITY INVESTMENTS BY PROGRAM AREA BETWEEN 2018 AND 2020
Disaster Relief (n=68)	352%
Health & Social Services (n=89)	41%
Community & Economic Development (n=75)	9%
Education: Higher (n=72)	6%
Education: K-12 (n=82)	-5%
Environment (n=69)	-9%
Civic & Public Affairs (n=59)	-13%
Culture & Arts (n=82)	-18%

N=1,149

Source: CECP, *Giving in Numbers: 2021 Edition.*

To explore how the pandemic has changed community investment priorities globally, the *Global Impact at Scale* Survey asked companies whether they had increased their community investment budgets for the purpose of COVID-19 response in 2020. 41% of companies reported they had (N=131). When asked if their COVID-19 response yielded specific new community interventions, just over half of companies (N=166) said yes (Figure 10). When those companies were asked to classify their new investments (Figure 11), 65% said they were health care-related (N=83).

Figure 10.

Companies with New Community Interventions as Part of COVID-19 Response

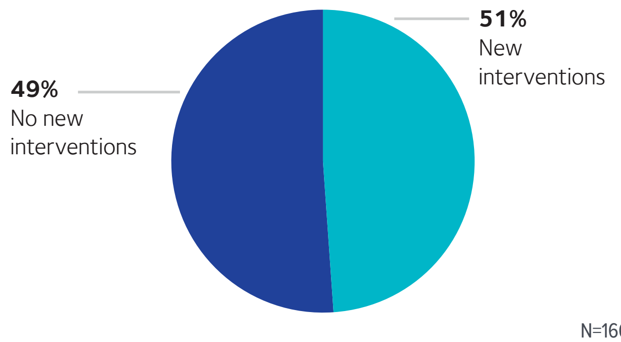
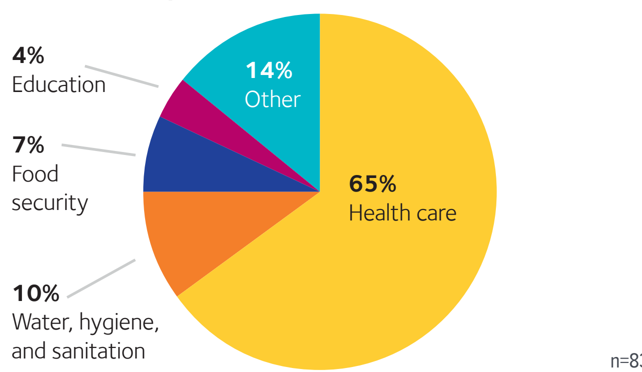


Figure 11.

Types of New Community Interventions Developed as COVID-19 Response



Source for Figures 10 and 11: CECP, *Global Impact at Scale: 2021 Edition.*

In addition, the racial equity awakening in 2020 created a rush in giving to social justice organizations. Benevity reports that on its platform donations supporting social justice and racial equity organizations made up 51% of June 2020's donations, totaling US$166 million, versus US$10 million in May. Racial equity nonprofits accounted for almost all the top 10 recipient organizations that month.[38] By the end of 2020, monthly giving to these causes returned to previous levels.

38 https://f.hubspotusercontent30.net/hubfs/20293139/Previous%20website%20assets/benevity_microsite_assets_2021/corporate_purpose_report_page/State%20of%20Corporate%20Purpose%20Report%202021.pdf

Blackbaud, Changing our World Inc., and the Association of Corporate Citizenship Professionals conducted a survey of corporate citizenship practitioners on *Diversity, Equity and Inclusion in Corporate Grantmaking*. 92% of respondents believed that their companies' leadership teams are committed or very committed to advancing and promoting DEI initiatives across their company.[39] However, the number dropped to 65% when the practitioners were asked if they believed their leadership was committed or very committed to securing the resources for DEI-related giving (Figure 12).

Volunteer hours fell, due to government lockdowns and social-distancing measures. Virtual volunteering made up some of the service hours lost.

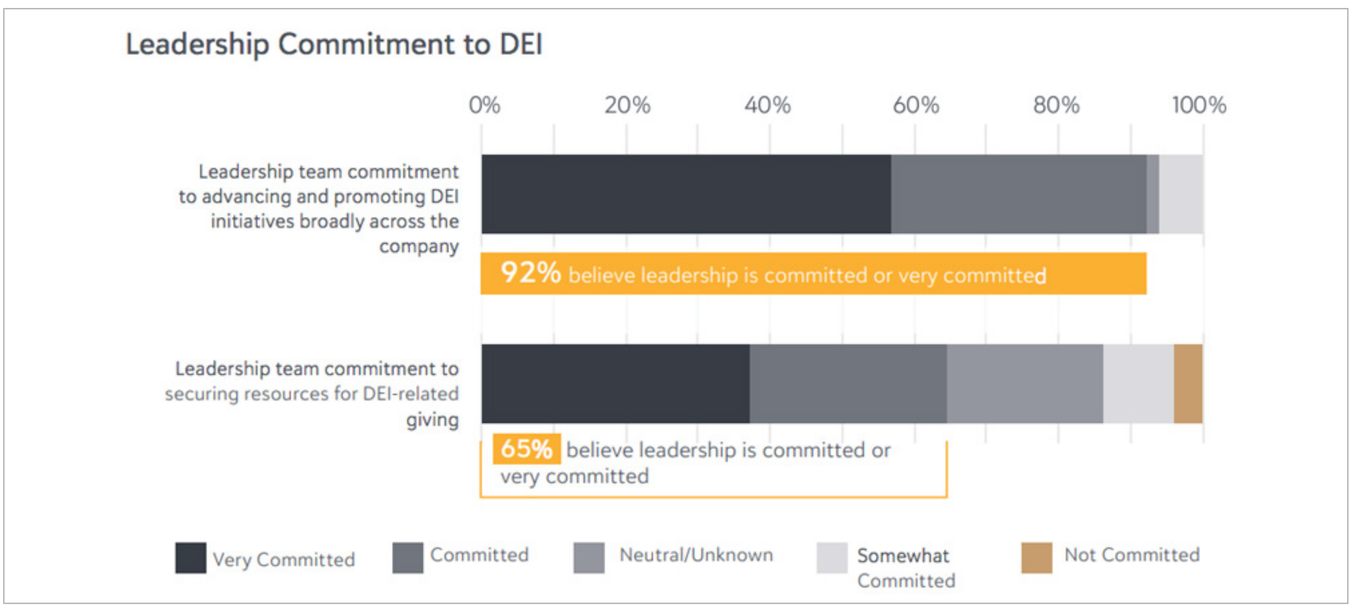
CECP's *Giving in Numbers: 2021 Edition*[40] reported that in 2020 the average percentage of employees volunteering at least one hour was 17% for all companies, whereas pre-pandemic this figure was typically close to 30%. In a three-year, matched-set data comparison, the average volunteer participation rate declined from 33% to 20% between 2018 and 2020 (N=91).

With so many employees working from home due to the pandemic, and with all in-person activities greatly limited by social distancing, virtual volunteering became one of the most viable options for those wanting to donate their skills and time. CECP's *Giving in Numbers: 2021 Edition* showed, within a three-year matched set, domestic virtual volunteering increased from only 38% of companies offering the option in 2018 to 86% in 2020 (N=139). Similarly, the percentage of companies offering virtual volunteering to international employees increased from 19% of companies in 2018 to 47% in 2020 (Figure 13).

A study by Fidelity Charitable[41] reported that in March 2020, at the beginning of the pandemic, 30% of volunteers in the general population said that the amount of time they volunteer had increased in the past two years. By August, once social-distancing guidelines had been enforced, 66% of Fidelity Charitable donors said they had decreased the amount of time they volunteer or had stopped volunteering entirely due to the pandemic. Of those who continued to volunteer, two in three turned to virtual or remote opportunities, compared to 81% of volunteers who volunteered in-person before the pandemic.

CECP's *Global Impact at Scale* survey asked companies whether they had made any changes to their volunteer programs in 2020 to mitigate the challenges posed by COVID-19. 90% of companies reported having changed their approach to volunteering in some way, with only 9% proceeding with business as usual and not making any changes (N=76). 36% of companies created a virtual volunteer program from scratch, while 45% adapted an existing virtual volunteering program to the current pandemic situation and 34% deepened their partnerships with nonprofit partners already offering virtual service options (Figure 14).

Figure 12.

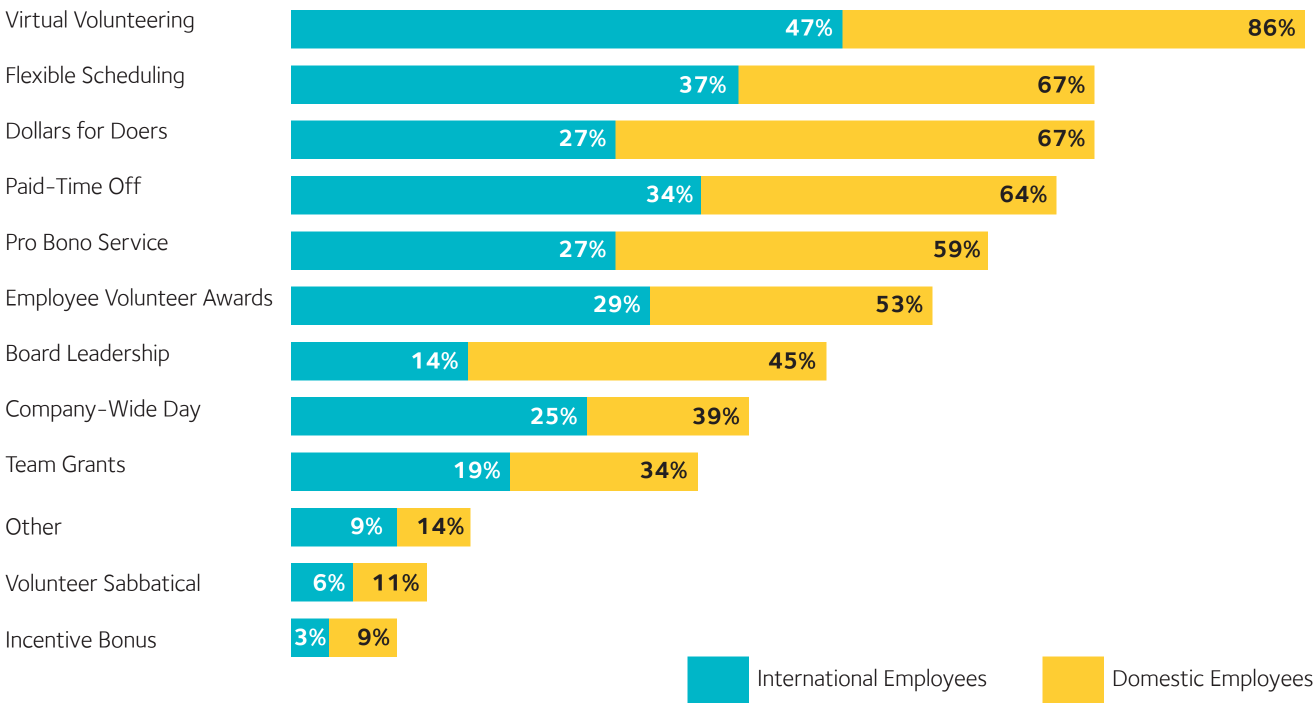


Source: Blackbaud, Changing our World Inc., and the Association of Corporate Citizenship Professionals, *Diversity, Equity and Inclusion in Corporate Grantmaking.*

39 https://hello.blackbaud.com/rs/053-MXJ-131/images/DEI_grantmaking_Report_2022.pdf
40 https://cecp.co/home/resources/giving-in-numbers/
41 https://www.fidelitycharitable.org/insights/the-role-of-volunteering-in-philanthropy.html

Figure 13.

Percentage of Companies Offering Each Volunteer Program, 2020

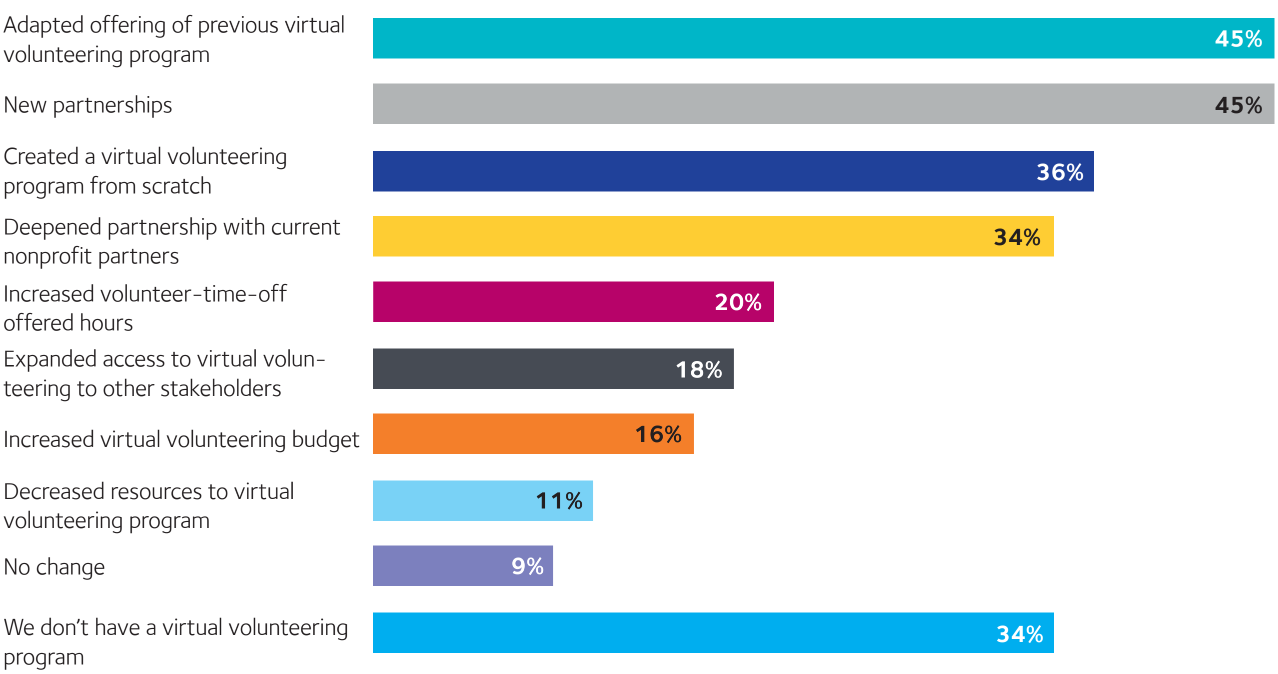


Source: CECP, *Giving in Numbers: 2021 Edition.*

N=217

Figure 14.

Changes to Virtual Volunteering Programs



N=76

Source: CECP, *Global Impact at Scale: 2021 Edition.*

Value Volunteering

To help companies support their communities while also developing new modes of workplace volunteering informed by a clear sense of its benefits, CECP's *Value Volunteering* report[42] outlines the multiple forms of value that strategically designed volunteer programs can create. While communities and social outcomes remain the central focus of service for corporate volunteer programs, business results are an added layer of value for companies. The report provides tips for setting metrics, collecting data, and measuring impact around these indicators. Built-in results are the outcomes or forms of value that can be expected from high-quality volunteer programs: employee engagement, corporate reputation, and trust and team building. Some programs also produce additional, built-for results in areas such as recruitment, leadership skills development, improved retention, greater customer insights, and strengthened client relationships.

Source: CECP, *Value Volunteering 2021*.

Shortsighted management exacerbated the global supply-chain logjam, while supply chains continue to generate pressing social issues that companies must manage effectively.

Governance problems throughout the global supply chain were partially responsible for the logjam that has plagued the efforts of companies to meet changing consumer demands. Consumers, spurred by fear of a toilet paper shortage, created one through panicked overbuying. Many companies also engaged in excessive purchasing, ordering more parts and materials than they needed, wanting to be first in line when normal business resumed, even though they were aware suppliers could not meet their demands. Suppliers were committed by contract to deliver what their customers ordered and companies were protected from overbuying by contracts that allowed them to return all unused inventory for a refund. Suppliers that tried to reason with their customers were met with threats of lawsuits. This over-ordering exacerbated shortages across the supply chain, just like hoarding at the consumer level.[43]

KKS Advisors note in "Losing Sight of ESG in the Global Supply Chain Crisis": "To some extent, shortcomings in ESG are ingrained in the way goods are imported cheaply to bypass the increased costs of production in a developed economy. Sourcing overseas often means cheaper labor, less regulatory hurdles, and natural resources up for grabs, which can be indicators of adverse social or environmental impacts."[44]

In April of 2020, a group of 101 international investors representing over US$4.2 trillion in assets issued a joint call for greater regulatory measures requiring companies to carry out Human Rights due diligence.[45]

A CECP analysis of Bloomberg ESG data showed that, among the top 3,000 global companies by revenue, 82% had a Human Rights Policy in place in 2020 (Figure 15). Analysis of an unmatched data set found that 10% of companies had developed a Human Rights Policy during the three-year period of 2018-2020, reflecting a growing trend among businesses in all regions toward making a public commitment to respect and support Human Rights (N=2,123). Companies in the Materials sector were leaders, with 90% having a Human Rights Policy in place, closely followed by Energy and Utilities companies, both at 89%.

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42 https://cecp.co/thought_leadership/value-volunteering/?more=value-volunteering
43 https://sloanreview.mit.edu/article/what-everyone-gets-wrong-about-the-never-ending-covid-19-supply-chain-crisis/#:~:text=Multiple%20factors%20have%20led%20to,soaring%20demand%2C%20and%20government%20interventions
44 https://www.kksadvisors.com/blog/losing-sight-of-esg-in-the-global-supply-chain-crisis
45 https://www.maplecroft.com/insights/analysis/why-human-rights-in-supply-chains-are-a-growing-concern/

Figure 15.

Percentage of Companies with a Human Rights Policy

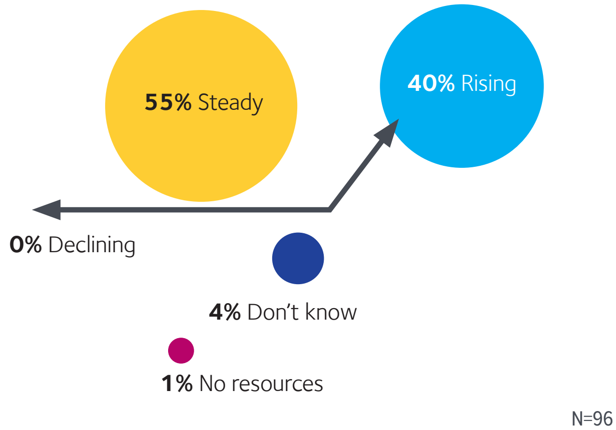
INDUSTRY	%
Communications	74%
Consumer Discretionary	75%
Consumer Staples	82%
Energy	89%
Financials	77%
Health Care	80%
Industrials	85%
Information Technology	84%
Materials	90%
Utilities	89%
ALL COMPANIES	82%

N=2,123

Source: CECP, *Global Impact at Scale: 2021 Edition.*

Figure 16.

Human Rights Resource Change



Source: CECP, *Global Impact at Scale: 2021 Edition.*

CECP's analysis of Bloomberg data for Fortune 500 companies shows that the number of companies with a Human Rights Policy in place rose from 65.4% to 80.75% between 2018 and 2020, nearly a 16 percentage point increase (N=452). In CECP's *Global Impact at Scale: 2021 Edition*, 40% of surveyed companies reported an increase in the resources allocated to Human Rights, while another 55% reported that resources were steady, demonstrating that this is an area of continued investment for the strong majority (95%) of companies. (N=96) (Figure 16).

Ethical social supply chain management requires companies to consider how purchasing behavior can have downstream impacts on the livelihoods, well-being, and working conditions of workers in their value chains. The Business and Human Rights Resource Council (BHRRC) reported that as a result of the pandemic millions of garment workers were impacted globally as brands cancelled orders from their suppliers due to decreased demand. The BHRRC also reported that garment workers in eight countries alleged wage theft linked to the pandemic.[46] In a report by the Worker Rights Consortium, *Hunger in the Apparel Supply Chain*, 38% of garment workers reported that, due to either temporary suspension of employment (11%) or permanent dismissal (27%), they no longer had jobs. Workers that retained employment during the pandemic experienced a 21% decrease in income between March and August 2020.[47]

The COVID-19 pandemic has changed how companies approach the well-being of frontline workers.The global pandemic increased the workforce safety expectations of frontline and blue-collar workers; it also changed societal expectations surrounding worker compensation, engagement, and employee well-being. In 2018 and 2019, there was an annual average of 455,400 workers involved in the Bureau of Labor Statistics tally of major work stoppages or "strikes."[48] During the COVID-19 pandemic, the number of people involved in major work stoppages fell to 24,000, only 5% of the 2018/19 averages, and the lowest count since The Great Recession in 2009.

However, these metrics do not paint an accurate picture of the labor market during the COVID-19 pandemic. The BLS data did not capture the many workers who walked off the job to protest working conditions. Also, 2021 Bloomberg data, once available, will no doubt reflect the escalation in employees voluntarily leaving their jobs, which rose from a typical 2.3% in January 2021 to a new record of 3.0% in December 2021.[49] In the winter 2022 installment of the Fortune/Deloitte CEO Survey, when asked what could influence or disrupt their business strategy within the next 12 months, 71% of CEOs cited the labor/skills shortage. It was the number one factor cited.[50]

The pandemic brought worker health and safety and employee well-being to the fore. Mind Share Partners conducted a study of global employees, in partnership with Qualtrics and SAP, and found that the mental health of almost 42% of employees declined in the first months of the global pandemic.[51]

46 https://www.business-humanrights.org/en/big-issues/covid-19-coronavirus-outbreak/supply-chain-workers/
47 https://www.workersrights.org/wp-content/uploads/2020/11/Hunger-in-the-Apparel-Supply-Chain.pdf
48 https://www.epi.org/publication/2020-work-stoppage-report/
49 https://fred.stlouisfed.org/series/JTSQUR
50 https://www2.deloitte.com/us/en/pages/chief-executive-officer/articles/ceo-survey.html?id=us:2el:3dp:wsjspon:awa:WSJCIO:2022:WSJFY22
51 https://hbr.org/2020/08/8-ways-managers-can-support-employees-mental-health

Frontline Worker Well-Being in a Time of Crisis

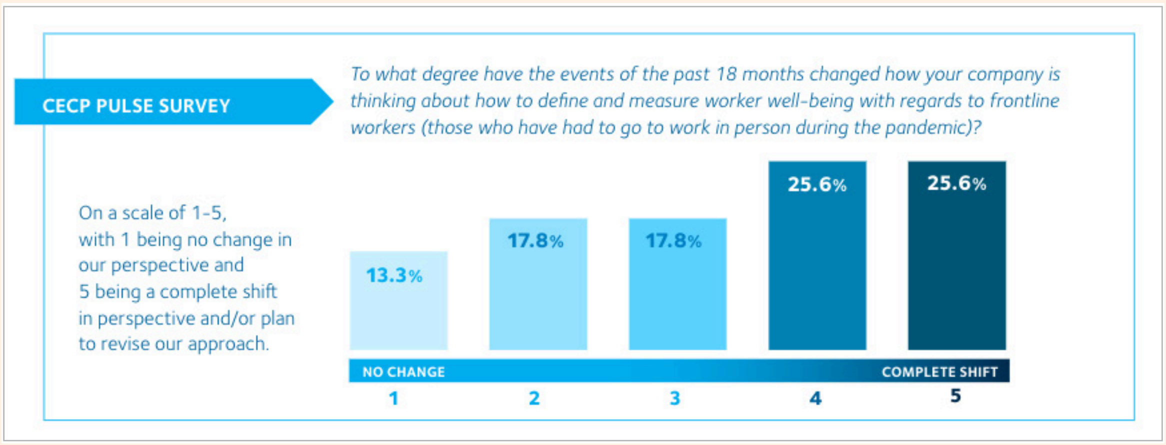
In the *Frontline Worker Well-Being in a Time of Crisis* report,[52] CECP, with the support of the Ford Foundation, explores how companies have supported their frontline workforce employed in the manufacturing, processing, and warehousing of consumer staples, as well as how the lessons learned from that time are now influencing approaches to human capital management. The report illuminates how the pandemic and social justice movements have spurred companies to continue responsive practices that inform their employee value proposition.

Companies were asked to what degree the pandemic had changed their thinking about how to measure the well-being of frontline workers. Given a scale of 1 to 5, with 5 being a complete shift, 51% of respondents chose 4 or 5, indicating a near-complete or complete shift in perspective and/or plans to revise the current approach (Figure 17).

The report makes recommendations for companies to better protect, attract, retain, and upskill frontline workers and proposes focusing on three main areas:

- Employees' health and safety, as well as offering a thorough frontline employee value proposition, including benefits such as paid time off (PTO).
- Empowering and engaging the workforce and communities by strengthening communications, listening to workers' voices, and conducting local outreach.
- Supporting innovation by building alignment across the whole business, such as integrating DEI into daily operations.

Figure 17.



Source: CECP, *Frontline Worker Well-Being in a Time of Crisis*.

COVID-19 had an outsized negative impact on female participation in the global workforce.

Deloitte Insights reports that the COVID-19 pandemic widened gender disparity in the global labor market.[53] According to the International Labor Organization (ILO), female employment around the world fell by 4.2% in 2020 compared to the previous year, in comparison to a 3% decline in male employment.[54] In the U.S., female employment fell by 17.9% between February and April 2020, compared to a 13.9% decline in male employment.[55] This could be due to the fact that women are more likely to dominate sectors of the economy that were hardest hit by social-distancing measures such as hospitality and personal care. Mothers working full-time spend 50% more time each day caring for children than fathers working full-time.[56] COVID-19 increased the pressure on working mothers. Two out of eight women who became unemployed in May or June of 2020 attributed the job loss to a lack of childcare, twice the rate of men.[57]

The decline is a major setback to pre-pandemic gains at increasing gender equality.[58] Although there has been somewhat of a rebound as attitudes and responses to the pandemic have evolved, the ILO

52 https://cecp.co/download-pdfform/?pdflink=wp-content/uploads/2022/02/CECP-Frontline-Worker-Report_FINAL.pdf
53 https://www2.deloitte.com/xe/en/insights/economy/impact-of-covid-on-women.html
54 https://ilostat.ilo.org/topics/employment/
55 https://www2.deloitte.com/xe/en/insights/economy/impact-of-covid-on-women.html
56 https://www.bls.gov/tus/tables/a6-1519.htm
57 https://www.brookings.edu/essay/why-has-covid-19-been-especially-harmful-for-working-women/
58 https://sdgs.un.org/goals

reports that in the U.S. between Q4 2019 and Q2/3 2021 female workforce participation fell by 4.3%, versus 2.4% for men. While these numbers may improve as the female-dominated sectors of the economy rebound and more children return to school, it will take a concerted effort to recover the advances in female workforce participation made in previous decades.

S&P Global Market Intelligence's study *When Women Lead, Firms Win,*[59] found that companies with female CFOs experience higher profitability and have a superior stock price performance than those that do not, and that companies with greater gender diversity on their boards have higher profits than those with less gender diversity. However, there has been little change in the past three years in the number of women in management.

A CECP analysis of Bloomberg data shows that, in 2020, of the top 3,000 companies in the world by revenue the percentage of women in management was 26% (N=775), inching up from 25% in 2019 (N=833) and 24% in 2018 (N=763), across an unmatched set (Figure 18).

Figure 18.
Percentage of Women in Management Positions

INDUSTRY	%
Communications	25%
Consumer Discretionary	26%
Consumer Staples	30%
Energy	23%
Financials	31%
Health Care	35%
Industrials	22%
Information Technology	19%
Materials	21%
Utilities	23%
ALL COMPANIES	26%

N=775

Source: CECP, *Global Impact at Scale: 2021 Edition.*

Barriers remain for people of color to ascend to senior management positions.

92% of companies surveyed by Accenture/U.N. Global reported that they had ongoing diversity and inclusion initiatives and 94% of CEOs surveyed reported that their initiatives to build an inclusive workforce were not impacted by COVID-19.[60] Nevertheless, a CECP analysis of Bloomberg data of the 3,000 largest companies in the world by revenue in 2020 found that the percentage of minorities in management positions across all sectors was 26% (Figure 19), increasing only 1% in the past three years across an unmatched set. The Communications sector, which has seen a 3% increase in the past three years, leads with 36%. The Energy sector is behind the curve, with only 15% of senior management positions held by minorities. It should also be noted that only 102 companies out of the top 3,000 companies in the world responded to the question in 2020,[61] suggesting that most companies do not track these KPIs or may not be comfortable disclosing their numbers publicly.

Figure 19.

Percentage of Minorities in Management Positions

INDUSTRY	%
Communications	36%
Consumer Discretionary	32%
Consumer Staples	32%
Energy	15%
Financials	28%
Health Care	24%
Industrials	25%
Information Technology	29%
Materials	29%
Utilities	20%
ALL COMPANIES	26%

N=102

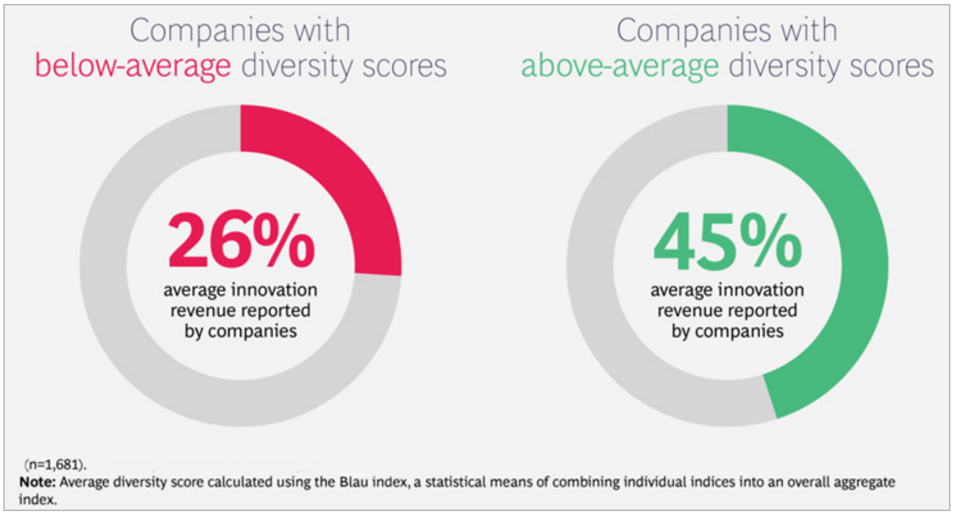
Source: CECP, *Global Impact at Scale: 2021 Edition.*

To better understand why diverse candidates don't ascend to executive positions in the consulting industry at a higher rate, Boston Consulting Group, in their report *The Real Reason Diversity Is Lacking at the Top,* suggests that a weak sense of belonging for diverse leadership candidates and difficulty navigating professional environments that are traditionally white are particularly challenging for underrepresented racial and ethnic groups and therefore a barrier to entry for executive positions in corporations.[62] A PwC employee survey on diversity and inclusion reported that 75% of respondents believed diversity was a stated value or priority for their company, but 32% of respondents indicated that they view diversity as a barrier to career progression at their company.[63]

59 https://www.spglobal.com/en/research-insights/featured/when-women-lead-firms-win
60 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-Accenture%20CEO%20Study%202021%20-%20Gender%20Equality%2C%20Diversity%20and%20Inclusion%20Spotlight%20.pdf
61 https://cecp.co/thought_leadership/global-impact-at-scale-2021-edition/?more=global-impact-at-scale-2021-edition
62 https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation
63 https://www.pwc.com/gx/en/services/people-organisation/global-diversity-and-inclusion-survey.html

This is troubling, as companies with diverse senior management teams have higher-than-average innovation revenue (Figure 20). Companies with below-average diversity scores report average innovation revenue of 26%, while companies with above-average diversity scores report average innovation revenue of 45%. This suggests that almost half the revenue of companies with more diverse leadership comes from products and services launched in the past three years. These companies also reported superior financial performance with EBIT margins 9% higher than those of companies with below-average management diversity.

Figure 20.



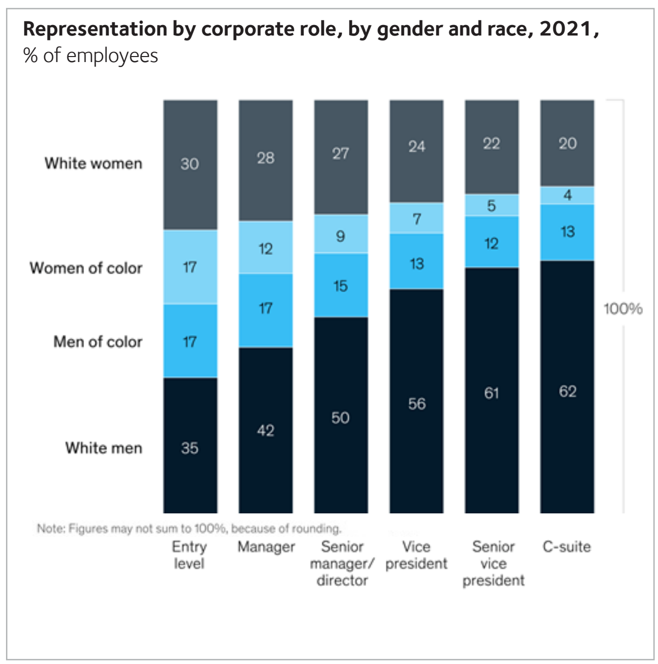
Source: BCG Diversity and Innovation Survey, 2017.

BCG uncovered factors that help diverse candidates rise to senior leadership positions, such as equal pay, participative leadership, different views being heard and valued, a strategic emphasis on diversity led by the CEO, frequent and open communication, and a culture of openness to new ideas. Fewer than 40% of people that BCG surveyed said their company exhibited one or more of these five factors, meaning the majority (60%) felt none of these foundational conditions currently existed at their company.[64]

Despite small gains in diverse representation in the workforce, women and people of color remain heavily underrepresented in major companies. Leanin.Org and McKinsey report in *Women in the Workplace 2021*[65] that women and people of color still hold far fewer management positions than white men, also that the higher up the corporate ladder the greater the lack of representation, with 56% of Vice Presidents, 61% of Senior Vice Presidents, and 62% of C-suite roles being held by white men (Figure 21).

In CECP's *Global Impact at Scale: 2021 Edition*,[66] 70% of the largest 3,000 global companies reported an increase in the resources allocated to DEI (Figure 22), 23% reported that resources were steady, and only 2% reported a decline (N=86). *Global Impact at Scale* also reported that 94% of companies (N=2,140) had an equal-opportunity policy in place in 2020, up from 91% in 2019 (N=2,364) and 89% in 2018 (N=2,346).

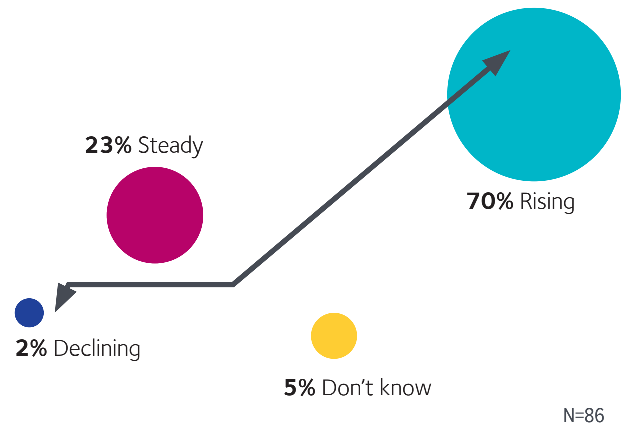
Figure 21.



Source: McKinsey/LeanIn.Org: *Women in the Workplace 2021*.

64 https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation
65 https://www.mckinsey.com/featured-insights/diversity-and-inclusion/women-in-the-workplace
66 https://cecp.co/thought_leadership/global-impact-at-scale-2021-edition/?more=global-impact-at-scale-2021-edition

Figure 22.
Diversity, Equity, and Inclusion Resource Change



Source: CECP, *Global Impact at Scale: 2021 Edition.*

The celebration of our differences builds a more inclusive workforce that reflects and reacts to the diverse global customer base. While the increased emphasis on DEI is encouraging, companies must still take further urgent action to embed DEI strategically in all business functions and levels.

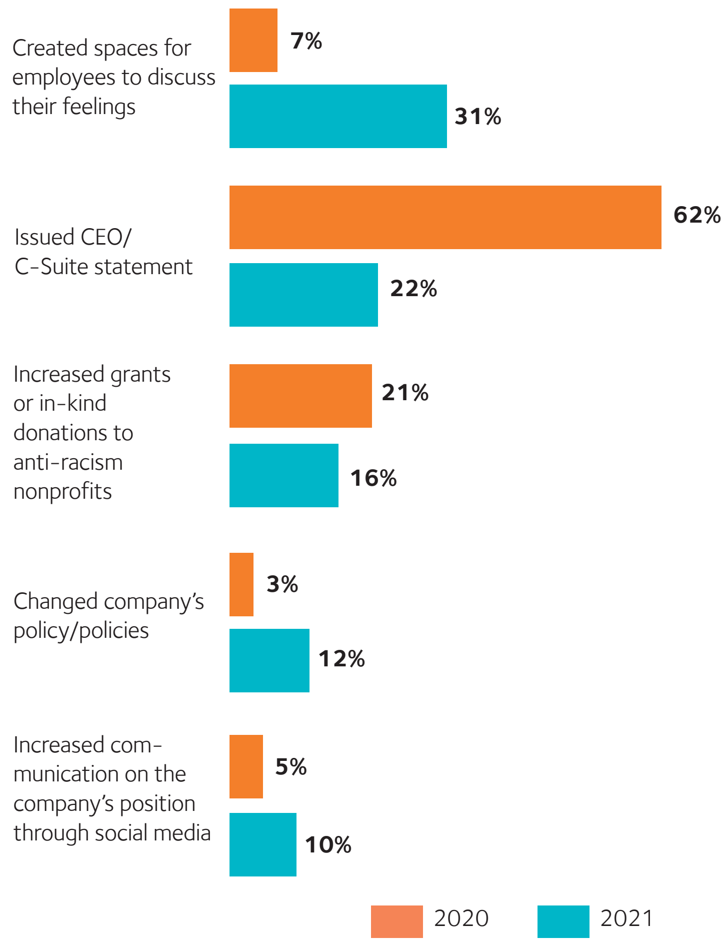
Continued humility and greater investment will be needed to bring further action to racial equity commitments.

The COVID-19 pandemic has had an especially negative impact on Black-owned businesses. Within a month of the pandemic reaching the U.S., 41% of Black-owned small businesses collapsed, while the same was true for only 17% of white-owned small businesses.[67] Black-owned businesses were often located in poorer neighborhoods that bore the brunt of the pandemic economically, had fewer reserves, and lacked relationships with the financial institutions empowered by the government to administer economic aid.

The murder of George Floyd in June of 2020 was the tipping point that led to a national reckoning on racial justice, especially in the U.S. but also globally. While many companies issued public statements[68] decrying racism and expressing commitments to promoting racial justice at the outset of these crises, in the months that followed corporate leaders took time to reflect on how their operations, programs, policies, and workplace culture contribute to inequity within and outside their organizations. For many CEOs and corporate leaders this meant orienting themselves to concerns of employees and recentering themselves on community needs by engaging in deep listening.

CECP's Pulse Survey of companies on anti-racism actions revealed that initial action taken by the majority of companies in 2020 focused on issuing CEO/C-Suite statements (62%), whereas by 2021 priorities had shifted to creating safe spaces where employees could discuss their feelings (31%) and enacting policy changes (12%) (Figure 23).

Figure 23.
Action Taken on Anti-Racism

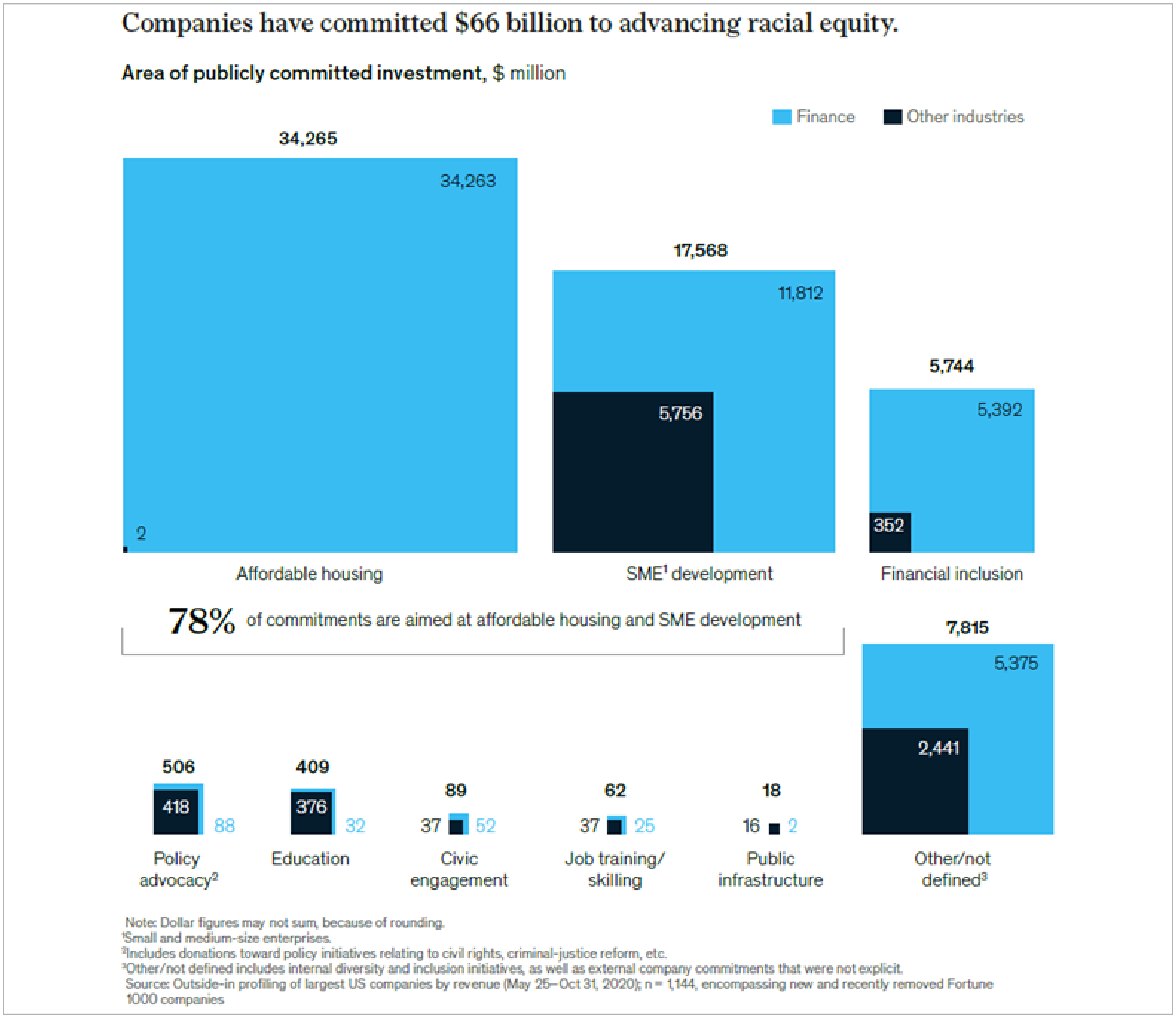


Source: CECP Pulse Survey: Racial Equity.

Business Roundtable CEOs undertook an examination of the racial wealth gap and developed a set of policy recommendations that were launched in October of 2020 that address racial disparities in education, employment, finance and housing, health, and the justice system. By 2021, Business Roundtable member companies had committed US$900 million to support minority education and more than US$20 billion to minority-owned small businesses. Nearly 80 companies are adopting more inclusive hiring practices through the Multiple Pathways Initiative and 38 members signed on to the Second Chance Business Coalition, making a commitment to eliminate barriers to employment.[69]

67 https://www.ft.com/content/8287303f-4062-4808-8ce3-f7fa9f87e185
68 https://cecp.co/cecp-anti-discrimination-statement/
69 https://www.businessroundtable.org/equity/2021update

Figure 24.



Source: McKinsey, *It's a start: Fortune 1000 companies commit US$66 billion to racial-equity initiatives.*

Through public pledges, companies committed some US$66 billion to advancing racial equity by the end of 2020. According to analysis from McKinsey, 78% of those commitments were directed to affordable housing initiatives and small and medium-sized business development (Figure 24).[70] By May 25, 2021, commitments had reached US$200 billion, with financial institutions notably accounting for 90% of these resources, which means that all other industries combined committed just US$20 billion.[71]

Further, a recent analysis by Just Capital outlines that companies have been far more ready to disclose data-related DEI policies and commitments but are far less likely to conduct disclosure on the data that would lend itself to evaluations of accountability.[72]

While some companies are reluctant to share DEI data because of what it may reveal, disclosure and accountability will be key for companies to demonstrate to stakeholders that their commitments are authentic and that real resources have been invested to advance the movement toward equity. Corporate leaders will need to continue to behave courageously and with humility around these issues.

70 https://www.mckinsey.com/featured-insights/coronavirus-leading-through-the-crisis/charting-the-path-to-the-next-normal/its-a-start-fortune-1000-companies-commit-66-billion-to-racial-equity-initiatives
71 https://www.mckinsey.com/featured-insights/diversity-and-inclusion/its-time-for-a-new-approach-to-racial-equity#
72 https://justcapital.com/reports/corporate-racial-equity-tracker/

Governance Factor

Governance

CECP ESG Scorecard: Performance Snapshot of Fortune 500 companies—Governance

A CECP analysis of Bloomberg Governance data of Fortune 500 companies shows positive performance on all three KPIs.

GOVERNANCE	UNIT	NUMBER OF RESPONDING COMPANIES	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
CSR/Sustainability Committee	% of Companies	N=453	41.41%	59.47%	**+18.06pp**
Women on Board	Median, %	N=453	25.00%	27.27%	**+2.27pp**
ESG Linked to Bonus	% of Companies	N=453	25.99%	27.53%	**+1.54pp**

The Governance Scorecard shows that the increasing linkages between material ESG factors, a company's Corporate Purpose and its financial success are being reflected in the number of companies that have a dedicated Sustainability Committee to consider such issues. By the end of 2020, almost six out of ten companies formally managed ESG through a dedicated committee that reports directly to the board.

- The number of companies that have a Sustainability Committee reporting to the board rose from 41.41% to 59.47%, an 18.06pp increase between 2018 and 2020 (N=453).

Investors are also becoming more focused on ensuring boards enjoy gender diversity, as research indicates diversity of thought leads to superior financial returns. However, the percentage of women on boards rose only slightly between 2018 and 2020, slower than investors would prefer.

- The percentage of women on boards increased by a little over 2pp, from 25% to 27.27%, between 2018 and 2020.

And although the formal consideration of ESG has been shown to lead to increased profitability, still less than a third of companies link executive bonuses to ESG performance, although that number is increasing slowly.

- 27.53% of companies linked executive bonus to ESG performance in 2020, up 1.54pp from 2018 (N=453).

Factor Analysis: Governance

CECP ESG Factor Analysis suggests that 53% of companies have Governance scores greater than zero. These companies have a greater positive correlation with governance and accountability than their peers, suggesting that they enjoy a greater sense of corporate purpose in relation to governance factors.

Analysis and Key Takeaways: Governance

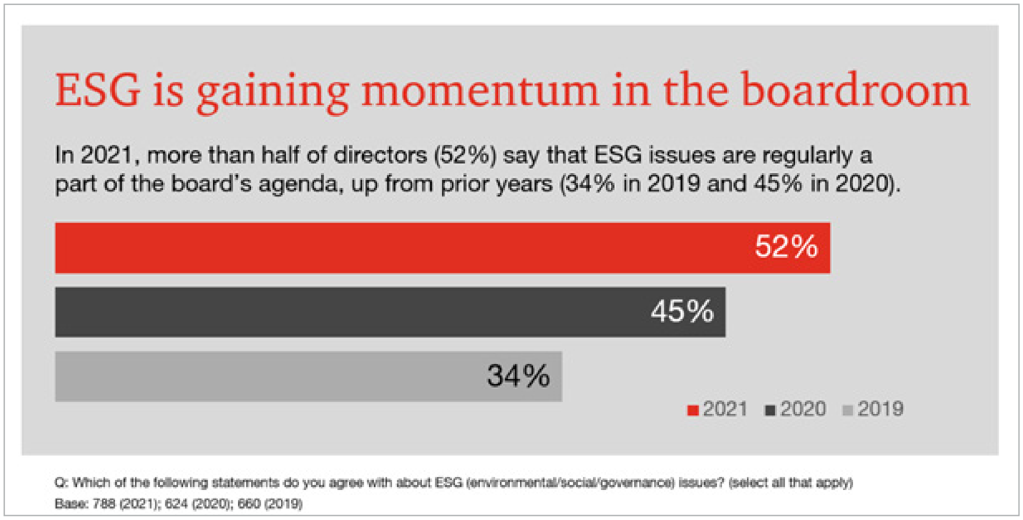
Boards of directors are becoming increasingly involved in ESG as companies with effective ESG management experience superior financial performance.

The addition of a dedicated Sustainability Committee is an important step for boards. Reconsidering business as usual through a long-term sustainability lens could lead to profound changes in how business is conducted and can drive boards to recalibrate or adjust business models. PwC noted that between 2019 and 2021 the number of board directors reporting that ESG issues were a regular part of the board agenda rose from 34% to 52%[73] (Figure 25). Almost two-thirds of directors (64%) now say their strategy is tied to ESG issues, a 15% increase from 2020 to 2021.[74] However, only 15% of board directors think boards understand ESG issues well.

73 https://www.pwc.com/us/en/services/governance-insights-center/library/esg-corporate-directors-guide.html
74 https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html

BlackRock notes in its 2022 "Global Principles"[75] that it believes well-managed companies deal effectively with material environmental and social factors relevant to their businesses and that the board can oversee the creation of sustainable, long-term value though appropriate risk oversight of ESG considerations. BlackRock encourages companies to use popular frameworks such as those developed by the Task Force on Climate-Related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB).

Figure 25.



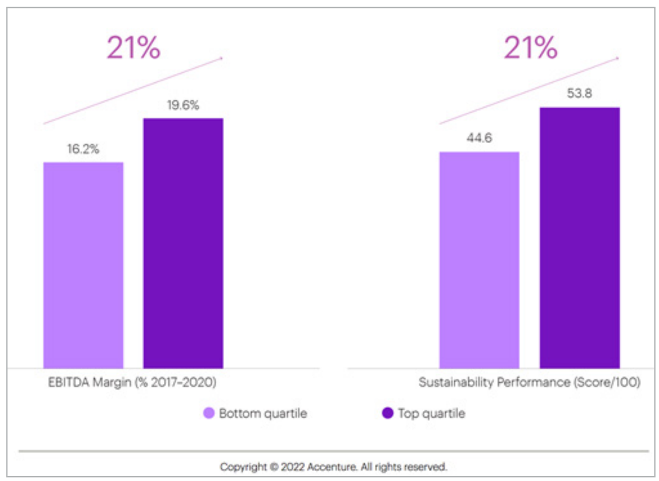
Source: PwC 2021 Annual Corporate Directors Survey.

EY reports in "Is your ESG data unlocking long-term value?" that the COVID-19 pandemic was an ESG catalyst. 90% of investors surveyed said that since the pandemic their investment strategy attaches greater importance to companies' ESG.[76] EY also reports in "The CEO Imperative: U.S. executives recalibrate risk radar" that 82% of CEOs see ESG as a value driver to their business.[77]

A study conducted by State Street Associates of more than 3,000 companies around the world found that companies seen as protecting employees and securing their supply chain during the COVID-19 pandemic experienced higher institutional money flows and less negative returns, especially when those practices received media and public attention.[78]

Accenture notes that companies with strong positive executive-employee alignment on sustainability performance (top quartile) are financially outperforming those where alignment is weakest (bottom quartile) by 13%.[79] Accenture rates 4,000 companies according to market-facing evidence of ESG-supporting practices in 146 areas and found that companies with stronger alignment between sustainability and strategy are more likely to deliver financial value and a lasting positive impact on society and the environment than companies with a weaker alignment. The EBITDA margin of top quartile companies on the index is 21% higher compared with the bottom quartile. Their sustainability performance is also 21% higher (Figure 26).

Figure 26.



Source: Accenture analysis: Arabesque S-Ray® and S&P Capital IQ data.

75 https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf
76 https://www.ey.com/en_gl/assurance/is-your-esg-data-unlocking-long-term-value
77 https://www.ey.com/en_us/ceo/ceo-survey-2022-us-findings
78 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/5f7ecd526a214c683036faca/1602145632672/TCP_Report-07.10.pdf
79 https://www.accenture.com/us-en/insights/sustainability/sustainable organization?c=acn_glb_buildingsustaingoogle_12379558&n=psgs_0921&gclid=EAIaIQobChMIkZSiwuTD9gIVJGpvBB0GxQGgEAAYASAAEgIuy_D_BwE&gclsrc=aw.ds

Based on a sample of the top 100 commercial banks by market capitalization, KKS Advisors found that an annually rebalanced portfolio of the top 20 banks, ranked by material ESG factors, outperformed a portfolio of the bottom 20 banks by a significant margin (Figure 27). The gap between the two cohorts widened significantly after 2013.[80]

Investors are seeking opportunities linked to superior ESG performance. The Forum for Sustainable and Responsible Investment's 2020 *Trends Report* noted that total U.S. sustainably invested assets under management grew 42%, from US$12 trillion in 2018 to US$17.1 trillion in 2020.[81] Net flows to ESG funds in 2020 were more than double those in 2019, and nearly 10 times more than in 2018.[82]

There is widespread pressure on companies to increase board diversity and investors are the greatest source of that pressure.

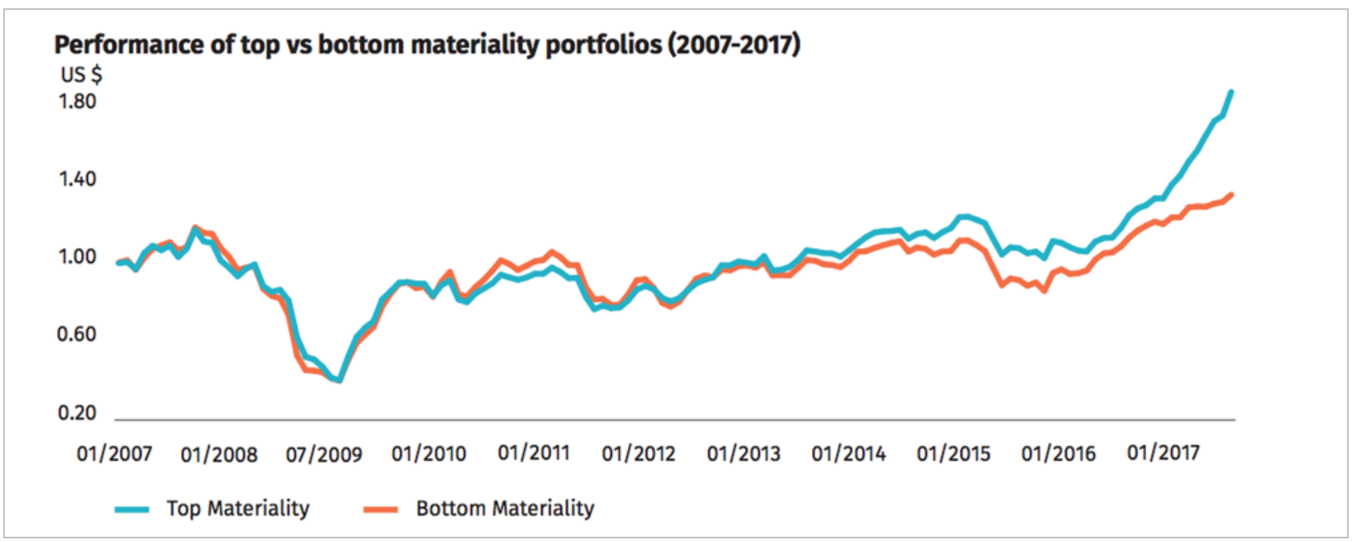
While it is encouraging that the percentage of women on boards rose 2% between 2018 and 2020, boards may have to increase the pace of change to satisfy a diverse group of stakeholders from investors to regulators.

Regulatory pressure is increasing at the state level. In Illinois, boards must disclose female and minority board membership. California requires domicile-based companies to have directors who are diverse in gender, race, or sexual identity. Washington, Colorado, and Pennsylvania have also passed legislation to encourage diverse boards and other states are considering this step.[83] Some of the new regulations include penalties for companies that do not comply, while others are merely advisory. At least for now, the reputational incentive to diversify a board is larger than the compliance incentive. It's in the best interests of companies to get ahead of this issue now. 71% of board directors say the diversity issue won't solve itself.[84]

In 2021, Nasdaq created a new rule, approved by the Securities and Exchange Commission, that will require companies listed on its exchange to publicly disclose board-level diversity statistics using a standardized template and to have at least two diverse directors or explain why they don't.[85] State Street Global Advisors (SSGA) announced that beginning in the 2022 proxy season they expect all companies, globally, to have at least one woman on their boards. In addition, beginning in the 2023 proxy season, SSGA expects boards to be at least 30% women directors for companies in major indices in North America, Europe, and Australia. This is predicted to add as many as 3,000 to 4,000 additional female directors across indices covered by SSGA.[86] SSGA also announced that its primary focus for 2022 will be to support the acceleration of the systemic transformations underway in climate change and the diversity of boards and workforces.

BlackRock reported it voted against 10% of company directors in 2021, up from 8.5% in 2020. The company cited a lack of boardroom diversity in 1,862 cases out of

Figure 27.



Source: KKS Advisors, *Do sustainable banks outperform? Driving value creation through ESG practices.*

80 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/5df21c705b62b55cb765b941/1576148095995/Do+Sustainable+Banks+outperform.pdf
81 https://www.ussif.org/fastfacts
82 https://www.morningstar.com/articles/1019195/a-broken-record-flows-for-us-sustainable-funds-again-reach-new-heights
83 https://insight.kellogg.northwestern.edu/article/board-diversity-laws
84 https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html
85 https://listingcenter.nasdaq.com/assets/Board%20Diversity%20Disclosure%20Five%20Things.pdf
86 https://www.ssga.com/library-content/pdfs/insights/ceo-letter-2022-proxy-voting-agenda.pdf

a total of 6,560 votes against a director's nomination as the reason for voting no. BlackRock also revealed it did not support management on 35% of shareholder resolutions nor on nearly two-thirds of environmental proposals, up from 11% in 2020.[87] BlackRock voted against 255 directors and against 319 companies for climate-related concerns that they felt could negatively impact long-term shareholder value. BlackRock also engaged with companies 2,150 times on board quality and governance, 2,330 times on climate and natural capital issues, and 1,350 times on companies' impacts on people (Figure 28). PwC advises boards seeking to diversify to follow three simple steps: 1) Take stock of where they are now and where they want to be; 2) Develop a pipeline of diverse candidates; and 3) Embrace inclusivity as well as diversity.[88]

Figure 28.

Engaging across our five engagement priorities

Engagement priority	# of engagements
Board quality and effectiveness	2,150
Incentives aligned with value creation	1,240
Climate and natural capital	2,330
Strategy, purpose, and financial resilience	2,200
Company impacts on people	1,350

Source: BlackRock Investment Stewardship, July 2020 through June 2021.

Executive compensation is increasingly tied to ESG performance.

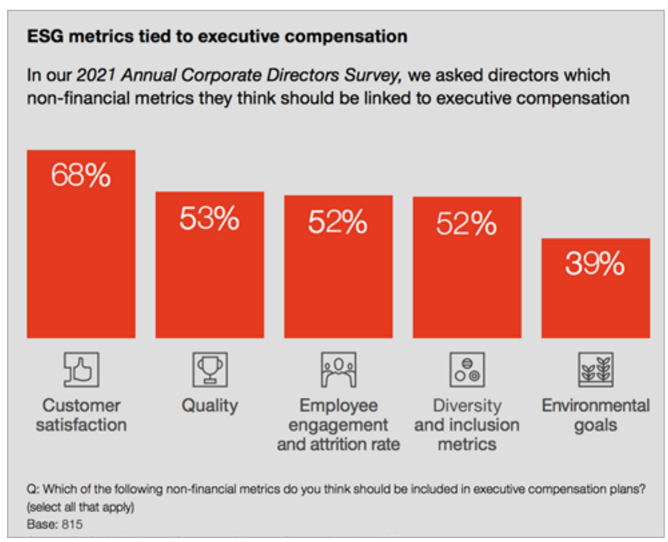
Driven by the move away from pure profit maximization to sustainable value creation, 28% of companies linked executive bonus to ESG performance in 2020, up 2% from 2018. The Willis Towers Watson ESG Survey of Board Members and Senior Executives reported that 78% of respondents indicate they believe ESG is a key contributor to strong financial performance (N=168),[89] so it would not be surprising to see boards make this practice more widespread.

Respondents to the survey also reported that their approach to ESG was shaped by several factors including increasing long-term value (79%), moral and ethical reasons (80%), and alignment with core business strategy (74%). The U.S. still trails Europe in the linkage of ESG and executive pay.

Research published by London Business School and PwC found that 45% of the 100 largest U.K. companies had introduced ESG metrics into executive compensation plans, while one in four U.K. companies had added ESG metrics to long-term incentive packages.[90] Research suggests that across Europe the number of companies linking ESG metrics to executive compensation has risen from 3% to 34% between 2008 and 2020, with French companies leading the change with 74% of companies now linking ESG and executive pay.[91] Climate, water, and waste goals are more naturally aligned with long-term incentive packages, as meaningful progress can take many years to realize, while employee safety and morale goals are more easily aligned with annual pay and bonus.

The PwC ESG Annual Corporate Directors Survey reports that 39% of directors believe that environmental goals should be tied to executive compensation, while 68% believe customer satisfaction should be aligned with compensation (Figure 29). The survey also reported that while 86% of directors are in favor of companies doing more to promote equity in the workplace, in 2020 just 39% of directors agreed that executive compensation should be tied to those diversity KPIs. However, in 2021, that figure rose 13% to 52%, indicating a significant shift in thinking on both diversity and CEO accountability.[92]

Figure 29.



Source: PwC, 2021 Annual Corporate Directors Survey.

87 https://www.blackrock.com/corporate/literature/publication/2021-voting-spotlight-full-report.pdf
88 https://www.pwc.com/us/en/services/governance-insights-center/blog/increase-board-diversity.html
89 https://www.wtwco.com/en-US/Insights/2020/12/2020-esg-survey-of-board-members-and-senior-executives
90 https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/nearly-half-of-uk-s-100-biggest-companies-link-executive-pay-to-esg-measures-63248983
91 https://www.diligentinstitute.com/commentary/the-growing-influence-of-esg-in-executive-compensation/#:~:text=Our%20research%20suggests%20that%20the,from%203%25%20to%2034%25.
92 https://www.pwc.com/us/en/services/governance-insights-center/library/annual-corporate-directors-survey.html

Executive compensation can have negative impacts on company performance and societal outcomes. Executive pay has risen dramatically in recent decades based on the pay-for-performance principle that doesn't extend down to lower tiered employees who greatly contribute to a company's profitability. The Economic Policy Institute reported that from 1978 to 2018 CEO compensation grew by 940%. In comparison, S&P stock market growth was 707% and the wage growth of very high earners was 339%. In contrast, wages for the average worker grew by just 12%.[93]

Boards must consider compensation carefully to understand and acknowledge that this degree of increasing inequity can have negative impacts.[94] Research has linked income disparity to harmful outcomes for both companies and society, including decreased employee morale and reduced collaboration, as well as underinvestment in public goods and higher societal crime rates driven by poverty.

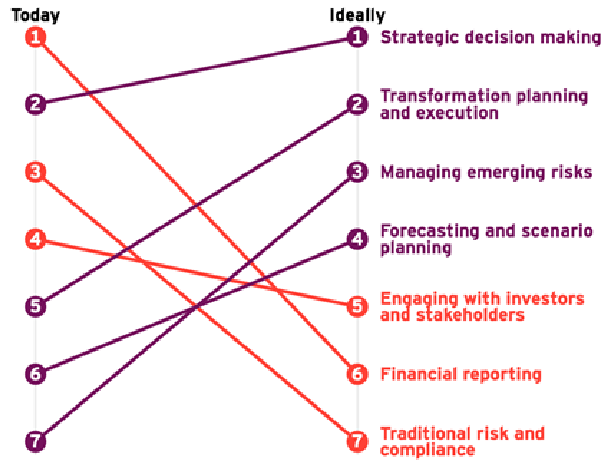
Due to external pressures, boards may have to adapt and recalibrate how they govern to ensure long-term value is created for investors.

The EY Global Board Risk Survey 2021 reported that 87% of boards say market disruptions are becoming more frequent; 83% say they are increasingly impactful (N=510).[95] The study reported that 84% of board members believe business strategy needs to be more agile and evolve more quickly, 79% believe improved risk management will be critical to building and protecting value in the next five years, and 55% believe risk management has difficulty keeping pace with changes in business strategy. In *The Board Imperative: How today's boards can meet tomorrow's challenges*, EY suggests three areas of opportunity for boards to explore: 1) Review and re-think what you do, and how you do it; 2) Promote diversity at the board level; and 3) Make purpose your path to prosperity.[96]

Board members reported wanting to spend less time on financial reporting and traditional risk and compliance and more time on transformation planning and managing emerging risks (Figure 30).

Figure 30.

Ranking of where boards spend the most time



Respondents could select up to two areas were they spend the most time

Source: EY, *The Board Imperative: How today's boards can meet tomorrow's challenges.*

The EY survey also reports that to evaluate long-term value more effectively, 79% of investors would like greater insight into company culture. However, only 37% of companies report KPIs on culture and only 15% of boards are extremely confident in reporting received on culture and conduct, making meaningful evaluation difficult.

The Edelman 2021 Trust Barometer Special Report *Institutional Investors* notes that investors are also holding the board of directors responsible for company culture, with 71% of U.S. investors believing that the board should be held accountable for maintaining a positive company culture. In addition, more than 75% of U.S. investors are likely to engage in shareholder activism on the environmental efficiency of a company's operations, environmental impact of supply chain, and greenhouse gas emissions.[97] Clearly, investors' expectations of what a board of directors' responsibilities should be have expanded beyond traditional governance and financial performance.

93 https://www.epi.org/publication/ceo-compensation-2018/
94 https://knowledge.wharton.upenn.edu/article/corporate-governance-changing/
95 https://www.ey.com/en_us/global-board-risk-survey
96 https://www.ey.com/en_us/risk/how-todays-boards-can-meet-tomorrows-challenges
97 https://www.edelman.com/sites/g/files/aatuss191/files/202111/Trust%20Barometer%20Special%20Report_Institutional%20Investors_Top%208.pdf

Overall, investor stewardship is on the rise. The High Meadows Institute, in their report *Investor Stewardship: The Path Forward,* notes that large investor stewardship initiatives have expanded significantly since their inception in terms of the number of members and associated amount of assets under management.[98] Three examples are: The Principles for Responsible Investment, with more than 2,300 signatories and US$86 trillion in assets under management, which encourages investors actively to incorporate ESG into investment decisions; Climate Action 100+, with 450 members and US$40 trillion under management, which encourages large GHG emitters to take action on climate change; and The Investor Stewardship Group, comprised of 60 institutional investors, with US$31 trillion in assets under management, which encourages the adoption of investor stewardship and corporate governance principles.

Investors are skeptical that companies can meet their ESG commitments and achieve their ESG goals.

The Edelman 2021 Trust Barometer Special Report *Institutional Investors* notes that investors agree companies that excel in ESG merit a premium, but 86% of U.S. investors believe that companies exaggerate their progress on ESG when disclosing results and 72% of investors globally don't believe companies will actually achieve their ESG commitments.[99] Edelman also reports that 94% of U.S. investors actually anticipate litigation as a result of companies not delivering on ESG goals and commitments. 94% of U.S. investors expect companies to establish and communicate a net-zero plan, but 92% are concerned companies are not effectively executing on these net-zero pledges.

An Accenture analysis of corporate net-zero targets notes that, even by doubling the pace of emissions reduction by 2030 and then doubling it again by 2040, only 42% of companies in their sample across all sectors would achieve net zero emissions by their current target date, and only 83% of companies would achieve net zero before 2050.[100]

98 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/5f6db0d851ee9e7c97710bda/1601024225529/Investor-Stewardship_2020.pdf
99 https://www.edelman.com/trust/2021-trust-barometer/investor-trust
100 https://www.accenture.com/gb-en/insights/consulting/reaching-net-zero-by-2050

ESG Disclosure

CECP ESG Scorecard: Performance Snapshot of Fortune 500 companies—ESG Disclosure

A CECP analysis of Bloomberg ESG Disclosure data of Fortune 500 companies shows positive performance on all four KPIs.

DISCLOSURE	UNIT	NUMBER OF RESPONDING COMPANIES	FY2018	FY2020	FAVORABLE DELTA Δ IN GREEN
ESG Disclosure Score	Median	N=389	37.19	44.21	**+18.88%**
E' Disclosure Score	Median	N=358	31.13	37.98	**+22.02%**
S' Disclosure Score	Median	N=389	38.6	43.86	**+13.64%**
G' Disclosure Score	Median	N=389	58.93	60.71	**+3.03%**

Disclosure scores range from 0.1 for companies that disclose a minimum amount of ESG data to 100 for those that disclose every data point collected by Bloomberg. A consistent list of topics, data fields, and field weights apply across sectors and regions.

The ESG Disclosure Scorecard shows that driven by investor demand companies are increasing the disclosure of material ESG data year over year. Overall, there has been noteworthy growth in ESG data that companies disclose.

- The Bloomberg ESG Disclosure Score increased from 37.19 in 2018 to 44.21 in 2020, an 18.88% increase (N=389).

  The score is based on the extent of a company's Environmental, Social, and Governance (ESG) Disclosure. Each data point is weighted in terms of importance, with data such as greenhouse gas emissions carrying greater weight than other disclosures. This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point.

Environmental data has shown the greatest levels of increased disclosure between 2018 and 2020 as investors, in addition to society at large, place increased importance on a company's management of climate-related impacts and the transition to a post-carbon economy.

- The Bloomberg Environmental Disclosure Score moved from 31.13 to 37.98 between 2018 and 2020, a 22.02% increase.

  The score is based on the extent of a company's environmental disclosure. This score measures the amount of environmental data a company reports publicly and does not measure the company's performance on any data point.

Companies are also increasing by double digits their disclosure of how they are addressing social factors. Both the global pandemic and the equity awakening have increased societal expectations on companies in this regard.

- The Bloomberg Social Disclosure Score measures the amount of social data a company reports publicly. Between 2018 and 2020, the median score increased by almost 14%, from 38.6% to 43.86%.

  The score is based on the extent of a company's social disclosure. This score measures the amount of social data a company reports publicly and does not measure the company's performance on any data point.

There has been a slight increase in the disclosure of metrics related to governance and accountability. However, companies were already disclosing governance data at a high level, so the margins for increased disclosure in the governance factor are much smaller than in the environmental and social factors.

- The Bloomberg Governance Disclosure Score rose by 3.03% between 2018 and 2020 (N=389), from 58.93 to 60.71.

  The score is based on the extent of a company's governance disclosure. This score measures the amount of governance data a company reports publicly and does not measure the company's performance on any data point.

Factor Analysis: ESG Disclosure

CECP ESG Factor Analysis suggests that 53% of companies have ESG Disclosure scores greater than zero. These companies have a greater positive correlation with the disclosure of ESG data than their peers, suggesting that these companies have a greater sense of corporate purpose in relation to the disclosure of material ESG data.

Analysis and Key Takeaways: ESG Disclosure

Companies continue to increase the amount of ESG data they disclose, while pushing for standardized metrics.

The 2021 United Nations Global Compact–Accenture CEO Sustainability Study: Climate Leadership in the Eleventh Hour reported that 31% of CEOs cite investors as among the most influential stakeholders to manage future sustainability efforts in 2021, up from 18% in 2018 (N=1,230). However, 63% of CEOs say that difficulty in measuring ESG data across the value chain is a barrier to sustainability.[101]

Investor demand for ESG data and consistent reporting continues to accelerate. The G7 backed making climate risk disclosure mandatory in June 2021.[102] 91% of banks monitor ESG, along with 24 global credit rating agencies, 71% of fixed income investors, and over 90% of insurers.[103] Media mentions of ESG data, ratings, or scores grew by 303% from 2019 to 2020.[104]

The Task Force on Climate-Related Financial Disclosures (TCFD) had over 2,600 supporters globally in 2021, including 1,069 financial institutions, responsible for assets of US$194 trillion. TCFD supporters now span 89 countries and jurisdictions and nearly all sectors of the economy, with a combined market capitalization of over US$25 trillion—a 99% increase between 2020 and 2021.[105]

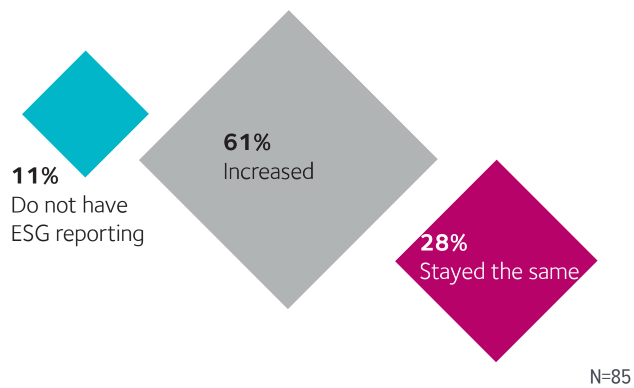
At the end of 2020, 9,600 companies worldwide were disclosing emissions data to the CDP (formerly the Carbon Disclosure Project).[106] Of these, around 3,000 had set emissions-reduction targets, up from fewer than 900 in 2017. More than 2,000 companies had set science-based targets validated by the Science Based Targets initiative (SBTi), up from only 116 in 2015.[107]

The 2020 KPMG Survey of Sustainability Reporting[108] found that 73% of the world's largest 250 companies (the G250) use the Global Reporting Initiative (GRI) to report on their sustainability performance, while 67% of the N100 (5,200 companies comprising the largest 100 firms in 52 countries) also use GRI.

Sustainability Accounting Standards Board (SASB) reporting also continues to grow.[109] SASB tracks unique reporters over a two-year period because many companies prepare sustainability reports every other year. There have been 1,428 unique SASB reporters since 2019, including over half of the S&P Global 1200. 51% of these SASB reporting companies are headquartered outside of the U.S.

CECP's *Global Impact at Scale: 2021 Edition* noted that the majority of responding companies to a global corporate survey (N=85) indicated that the amount of publicly released ESG reporting increased in 2020, with 61% of companies reporting an increase from 2019 (Figure 31). 28% of companies stated that ESG reporting stayed at about the same levels in 2020, while 11% of companies still did not engage in ESG reporting at all.

Figure 31.
Prevalence of Publicly Released ESG Data



Source: CECP, *Global Impact at Scale: 2021 Edition.*

101 https://ungc-communications-assets.s3.amazonaws.com/docs/publications/UNGC-2021-CEO-Study-SlideShare.pdf
102 https://www.reuters.com/business/environment/g7-backs-making-climate-risk-disclosure-mandatory-2021-06-05/
103 https://www.gartner.com/smarterwithgartner/the-esg-imperative-7-factors-for-finance-leaders-to-consider
104 https://www.gartner.com/smarterwithgartner/the-esg-imperative-7-factors-for-finance-leaders-to-consider
105 https://www.fsb-tcfd.org/press/fourth-tcfd-status-report-highlights-greatest-progress-to-date-on-tcfd-adoption/
106 https://www.cdp.net/en/
107 https://sciencebasedtargets.org/companies-taking-action
108 https://home.kpmg/xx/en/home/insights/2020/11/the-time-has-come-survey-of-sustainability-reporting.html
109 https://www.sasb.org/about/global-use/

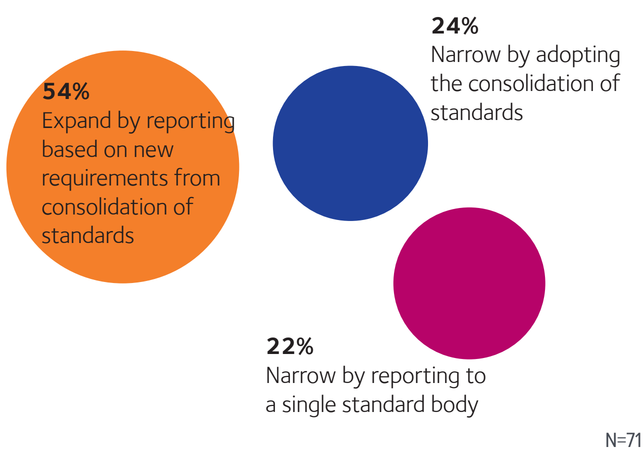
Due to the resources required to collect and collate data for non-financial reporting, the increased demand for disclosure can put a strain on a company's internal resources. Both companies and investors have long bemoaned the inconsistency of reporting standards that encourage a company to disclose similar information in multiple formats. EY reports in "Is your ESG data unlocking long-term value?" that 89% of investors surveyed would like to see consistent reporting of ESG performance measures become mandatory.[110]

The International Sustainability Standards Board (ISSB) announced in 2021 that it was developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. The ISSB will use the existing, complimentary standards, set by the Carbon Disclosure Project and the Value Reporting Foundation (which encompasses the Sustainability Accounting Standards Board (SASB) and the Integrated Reporting Framework) to create a single, global reporting system, by June 2022.[111]

CECP's *Global Impact at Scale: 2021 Edition* reported that 54% of companies believed that ESG reporting would continue to rise in the future based on new requirements for a consolidation of standards, while 24% predicted that reporting would narrow due to the consolidation of standards and 22% believed that reporting would narrow due to the adoption of a single standard (Figure 32).

Figure 32.

How Non-Financial Reporting at Companies Will Change



Source: CECP, *Global Impact at Scale: 2021 Edition.*

In 2020, the International Business Council (IBC) of the World Economic Forum (WEF), in collaboration with Deloitte, EY, KPMG and PwC, released *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, to identify a set of universal, material ESG metrics that could be used in the mainstream annual reports of companies on a consistent basis.[112]

These two new collaborations are complementary and could form the building blocks of a single, global, ESG reporting system. Despite these promising developments, governmental bodies continue to be the main driver of reporting standards.

U.S. SEC Climate Change Guidance increases the stakes for corporations in relation to their material disclosure of environmental data.

The U.S. Securities and Exchange Commission (SEC), citing that climate change was one of the most momentous risks ever to face capital markets, announced its proposals for mandatory climate disclosures for U.S. companies in March 2022. The proposals would require publicly listed companies to provide information on the climate risks they face, how they plan to address those risks, their risk management process, their GHG emissions (in some cases, subject to assurance), as well as information on climate-related goals and transition plans. For companies with a carbon transition plan, the SEC would require disclosure of the metrics and targets used to identify and manage risk associated with that plan, and would also require disclosure about the company's use of an internal carbon price mechanism, as well as the financial impact of climate-related severe weather events.[113]

The U.S. is not the only country increasing regulatory requirements for companies. The fifth edition of *Carrots and Sticks*,[114] a report compiled by the GRI and the University of Stellenbosch Business School, documented 614 reporting requirements across over 80 countries in 2020, an increase from the 383 documented in the previous report in 2016. Governments accounted for almost 400 of these requirements, an increase of 76% in four years.

The European Union (EU) continues to push companies that operate within the EU towards greater disclosure of ESG data and greater consideration of material ESG issues.

The reporting rules introduced by the European Commission's proposed *Non-Financial Reporting Directive* have established the concept of "double materiality," meaning that companies

110 https://www.ey.com/en_gl/assurance/is-your-esg-data-unlocking-long-term-value
111 https://www.ifrs.org/news-and-events/news/2021/11/ifrs-foundation-announces-issb-consolidation-with-cdsb-vrf-publication-of-prototypes/
112 https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf
113 https://www.sec.gov/files/33-11042-fact-sheet.pdf
114 https://www.carrotsandsticks.net/

must report on the material ways sustainability issues affect their business and about how their business impacts people and the environment.

In March 2018, the European Commission published an action plan to finance sustainable growth. This plan called for the establishment of an EU Taxonomy on sustainable activities. In October 2020, the commission established the Platform for Sustainable Finance and created five working groups, including the Subgroup on Social Taxonomy, which was tasked to explore the extension of the taxonomy regulation to social topics. In July 2021, the platform published its first draft report on a proposal for a social taxonomy, as well as approaches for defining a substantial contribution and Do No Significant Harm criteria.[115]

The *Sustainable Finance Disclosure Regulation* (SFDR) was introduced in 2019 and came into effect in March 2021, to support the European Green Deal, which reimagines a European economy that is climate neutral by 2050. It modifies the core approach to investing by increasing sustainability-related disclosure, creating more clarity in relation to what's material, and increases transparency. Investment fund managers will have to disclose ESG risks in their portfolios. The SFDR aims to counter greenwashing and improve disclosures so that investors can understand and compare financial products and company's sustainability practices, while creating a level playing field within the EU so that European companies will not be exposed to unfair competition from companies located outside of the EU.[116]

Social factors are increasingly important to investors, but also difficult to measure.

Investor interest in environmental performance has driven companies also to consider the investor perspective when reporting on social issues. CECP's *Giving in Numbers: 2021 Edition* reports that 78% of companies across all sectors of the economy consider the investor perspective when reporting on social KPIs in their sustainability disclosures (Figure 33) (N=207). CECP's *Global Impact at Scale: 2021 Edition* similarly showed that 74% of surveyed companies consider the investor's perspective when reporting on the social aspects of ESG data in their disclosures, with 49% of companies reporting that they did so frequently and 25% sometimes.[117]

Although social issues are increasingly important to the investor community, they are also difficult to measure accurately. The BNP Paribas ESG Global Survey 2021 surveyed 356 institutional investors across Europe, North America, and the Asia Pacific, representing more than €11 trillion assets under management, and revealed that 51% of investors surveyed found social factors to be the most difficult to analyze and embed

Figure 33.

Percentage of Companies Considering the Investor Perspective When Reporting Social KPIs in Sustainability Report, by Industry, 2020

INDUSTRY	PERCENTAGE OF COMPANIES
Communications, n=6	80%
Consumer Discretionary, n=21	65%
Consumer Staples, n=15	73%
Energy, n=6	100%
Financials, n=56	73%
Health Care, n=29	86%
Industrials, n=20	72%
Materials, n=13	85%
Technology, n=27	80%
Utilities, n=15	83%

N=207

Source: CECP, *Giving in Numbers: 2021 Edition.*

115 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en
116 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en
117 https://cecp.co/thought_leadership/global-impact-at-scale-2021-edition/?more=global-impact-at-scale-2021-edition

in investment strategies, as data is more difficult to come by and there is an acute lack of standardization around social metrics.[118]

The study also reports that external factors such as brand and reputation, at 59% (up from 47% in 2019), have overtaken investment returns, at 45% (down from 52% in 2019) as the main driver of ESG, while external stakeholder requirements have also risen from 32% in 2019 to 46% in 2021. The lack of precision in clearly defining "S" is almost certainly a major reason why it's not widely measured in a standardized way. Social factors include workforce issues such as employee retention and safety, supply chain issues concerning Human Rights and child labor, and changes in consumer preferences and expectations, among others.[119]

Measuring Total Social Investment

In an effort to provide companies with guidance and clear standards for reporting, the World Economic Forum's International Business Council in collaboration with Deloitte, EY, KPMG, and PwC worked to identify a set of universal, material ESG metrics and recommended disclosures. The resulting paper *Measuring Stakeholder Capitalism*[120] includes CECP's Total Social Investment (TSI) framework, which was introduced through CECP's report *What Counts: the S in ESG.*[121] TSI is a metric summing up all resources (operational expenses, staff time and more) that the company uses for "S" in ESG efforts. Criteria for measuring TSI can be found in CECP's *Valuation Guide*.

Societal expectations for effective governance and accountability are on the rise.

Stakeholders place a high value on transparency because it enables them to make informed choices. 88% of investors now subject ESG data to the same level of scrutiny as operational and financial considerations.[122] The 2021 Edelman Trust Barometer found that almost two-thirds of all respondents said "CEOs should hold themselves accountable to the public and not just to the board of directors or stockholders." The days are gone when companies simply created products and consumers purchased them.

118 https://securities.cib.bnpparibas/esg-global-survey-2021/
119 https://ssir.org/articles/entry/fixing_the_s_in_esg
120 https://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf
121 https://cecp.co/wp-content/uploads/2018/04/CECP_SinESG_2_digital_full.pdf
122 https://www.edelman.com/sites/g/files/aatuss191/files/202201/2022%20Edelman%20Trust%20Barometer%20FINAL_Jan25.pdf

Corporate Purpose

When a company embraces purpose as a key corporate attribute and weaves purpose into the fabric of all its activities, it creates lasting value for all its stakeholders, including employees, customers, suppliers, investors, and society at large, while safeguarding the planet for future generations. Purpose is the "why" in how a company chooses to operate, the "for whom" it is in operation to serve, and the North Star that guides decision making. This section reviews changing attitudes towards corporate purpose and how the COVID-19 pandemic accelerated the trajectory of purpose as a management and governance paradigm that executive teams and board directors must embrace to build value or risk being left behind by evolving societal and market expectations. The rise of ESG as a core business filter suggests an acceptance that prior investment analysis provided an incomplete picture of the sources of value creation—and destruction. The discourse on corporate purpose suggests that companies see value in charting a path toward approaches that balance outcomes across groups impacted by corporate practice.[123]

The governance principle of shareholder primacy is being replaced by a stakeholder-focused approach.

Even before the pandemic, the modern governance model of "shareholder primacy" that has been widely practiced since it replaced the "retain and reinvest" model of corporate governance in the late 1970s was being challenged. COVID-19, geopolitical instability, supply-chain log jams, a global labor shortage, and changing consumer preferences broadened acceptance that a wider group of stakeholders require a board's attention, not only shareholders. Board members sometimes declare they cannot elevate corporate purpose as a company priority because they have a fiduciary duty to put shareholders' interests first. However, there is continual evidence that high performance on material ESG issues leads to superior financial performance.[124]

Shareholders are obviously important, but other stakeholders are also vital to a company's long-term profitability, such as employees, customers, and suppliers. A recent study collected legal memos on fiduciary responsibility from 34 countries including all G20 members, and none offered an endorsement of shareholder primacy.[125] The PwC 2021 Annual Corporate Directors Survey[126] reported that 59% of board directors agree that companies should prioritize a broader group of stakeholders than just shareholders and 62% of directors say ESG issues are part of the board's enterprise risk-management discussions.

GlobeScan's stakeholder survey reports that 92% of influencers think the purpose of business is to create value for all stakeholders, rather than simply increase profit (N=561). 85% of stakeholders disagreed with Milton Friedman's famous statement that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits." This disagreement with Friedman's ideas is present among different stakeholders including civil society, companies, influencers, and even investors, 76% of whom disagreed with Friedman's statement (Figure 34).[127]

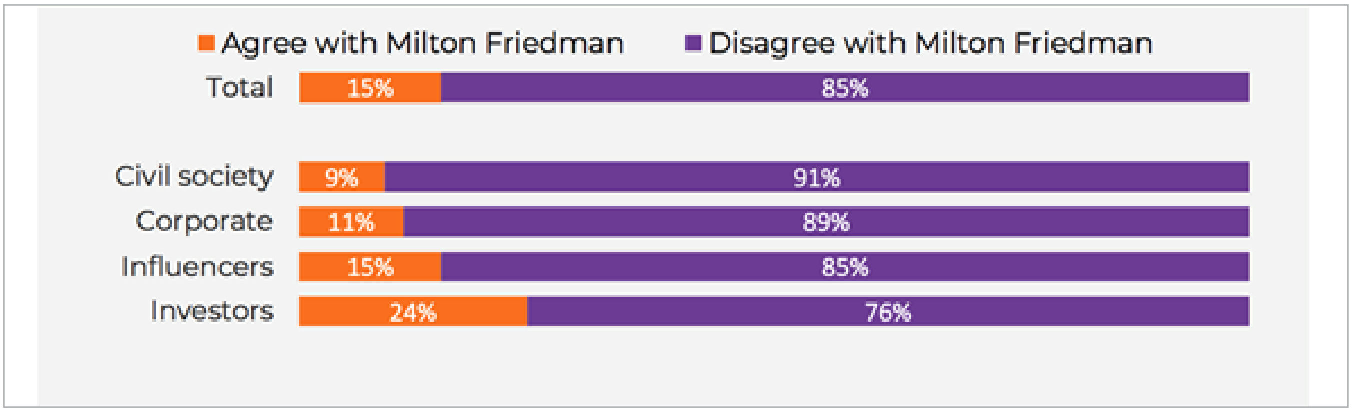
However, skepticism has been expressed by some institutional investors, who ask whether high-level policy statements on a stakeholder approach can be reconciled with their political contributions and the policy positions taken by groups funded with their corporate money—groups that often lobby for lower taxes and corporate advantage at the expense of other stakeholders.[128] For those who believe the stakeholder focus is credible, it's not clear how executives should make trade-offs across stakeholder groups. If a strategy benefits consumers but has negative implications for employees, or for society at large, how is such a strategy decision to be made?[129]

The concept of corporate purpose is not only a business concept, but also a discussion point in social culture. There has been increasing interest in corporate purpose and the concept of stakeholder value in Internet search traffic and

123 https://www.edelman.com/sites/g/files/aatuss191/files/2022-01/2022%20Edelman%20Trust%20Barometer%20FINAL_Jan25.pdf
124 https://www.top1000funds.com/2021/04/seeing-systemic-risks/
125 https://hbr.org/2020/09/the-boards-role-in-sustainability
126 https://www.pwc.com/us/en/services/governance-insights-center/esg-guidebook-layout-final.pdf
127 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/5f7ecd526a214c683036faca/1602145632672/TCP_Report-07.10.pdf
128 https://fortuna-advisors.com/wp-content/uploads/2021/08/A-Deeper-Look-at-the-Return-on-Purpose-JACF.pdf
129 https://fortuna-advisors.com/wp-content/uploads/2021/08/A-Deeper-Look-at-the-Return-on-Purpose-JACF.pdf

Figure 34.

Reaction to Milton Friedman's statement "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits."



Source: GlobeScan/TCP Survey of Influencers.

printed materials for the past 20 years, along with decreasing interest in shareholder value as a principle that should be independently upheld. In 2020, for the first time, searches for corporate purpose and stakeholder value exceeded those for shareholder value.[130] The general population is increasingly interested in these concepts as a more balanced approach to corporate purpose that puts other stakeholders on equal footing with shareholders and embraces corporate purpose as fundamentally beneficial.

Defining Corporate Purpose

Corporate purpose is a difficult concept to define. A commonly held understanding of purpose would imply that if a company provides high value for consumers, fulfilling jobs for employees, high value for suppliers, purposefully considers its environmental and social impacts, and has a strong connection with its local community stakeholders, it could be said to demonstrate strong corporate purpose. This in turn strengthens the bond between the company and its customers, employees, and society at large, while improving the company's brand standing and reputation. The converse is that if a company dedicates all its resources to short-term profits, even when this is to the detriment of other stakeholders, it may be seen as lacking corporate purpose. The brand management company BERA,[131] in collaboration with the Jim Stengel company,[132] has developed a data set that defines corporate purpose in more detail, across four dimensions and 13 attributes:

- **Universal Connection:** Personal and emotional connection with consumers;
- **Consistent Focus:** Employer brand, innovation, differentiation from competitors, appropriate brand and product market placements, and clarity;
- **Social Impact:** Humanitarian activities, beliefs and values, societal commitment; and
- **Protagonism:** A clear point of view and cultural relevancy.

Purpose-driven companies enjoy superior revenue growth.

Fortuna Advisors partnered with BERA and CECP to analyze the difference between the financial returns of high-purpose and low-purpose companies. High-purpose companies delivered a more than 5% higher median return on invested capital than low-purpose companies. Investors also assigned a more than four times higher EBITDA multiple to high-purpose companies than low-purpose companies, and high-purpose companies experienced an almost 20% advantage in annualized total shareholder value versus low-purpose companies (Figure 35).[133]

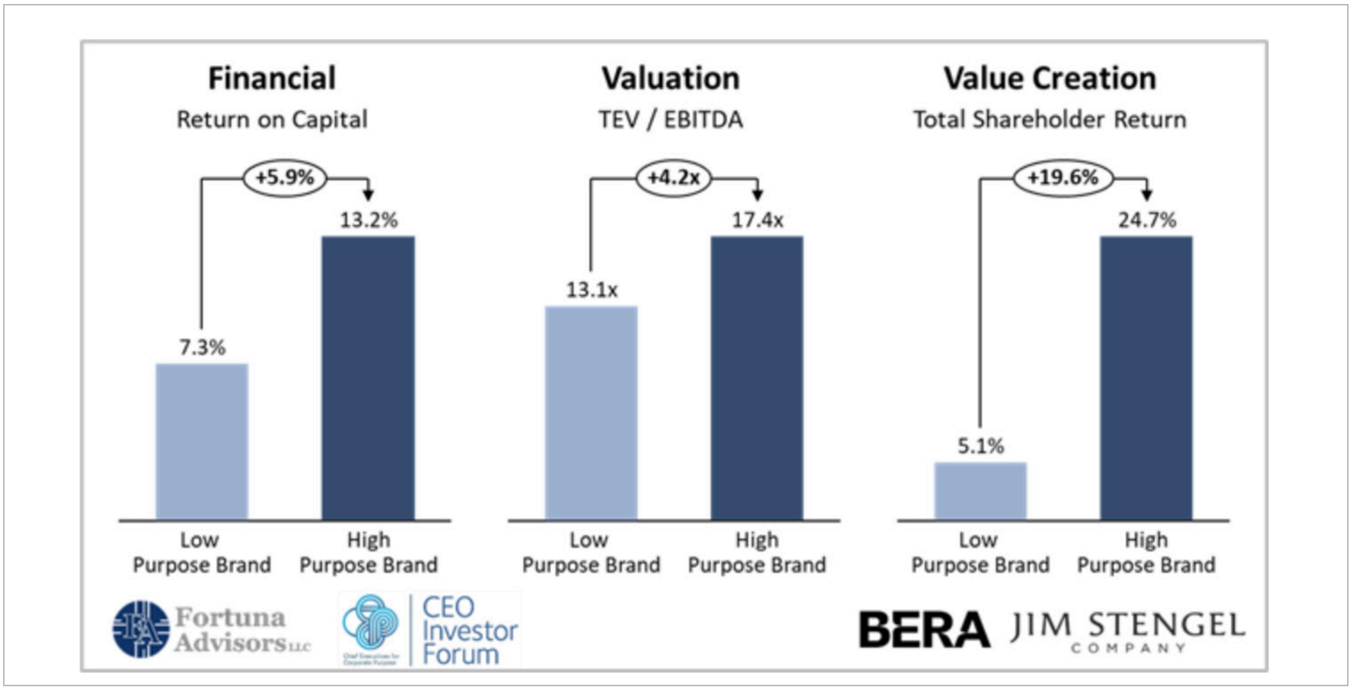
The superior financial returns for high-purpose companies have been clearly demonstrated during the COVID-19 pandemic. In terms of revenue growth, in the three years ending in December 2019, high-purpose companies delivered median revenue growth of 6.4% per year while low-purpose companies delivered median growth of 4.0%, a 2.5% premium for

130 https://fortuna-advisors.com/wp-content/uploads/2021/08/A-Deeper-Look-at-the-Return-on-Purpose-JACF.pdf
131 https://bera.ai/about-bera
132 https://www.jimstengel.com/
133 https://fortuna-advisors.com/is-corporate-purpose-like-personal-character/

high-purpose companies. As the COVID-19 pandemic emerged during Q1 and early Q2 2020, both high- and low-purpose companies faced declining revenue growth, but the impact on high-purpose companies was far less severe. High-purpose companies dramatically expanded their incremental revenue growth advantage over low-purpose companies from 2.5% to 14.1% over the rest of 2020[134] (Figure 36).

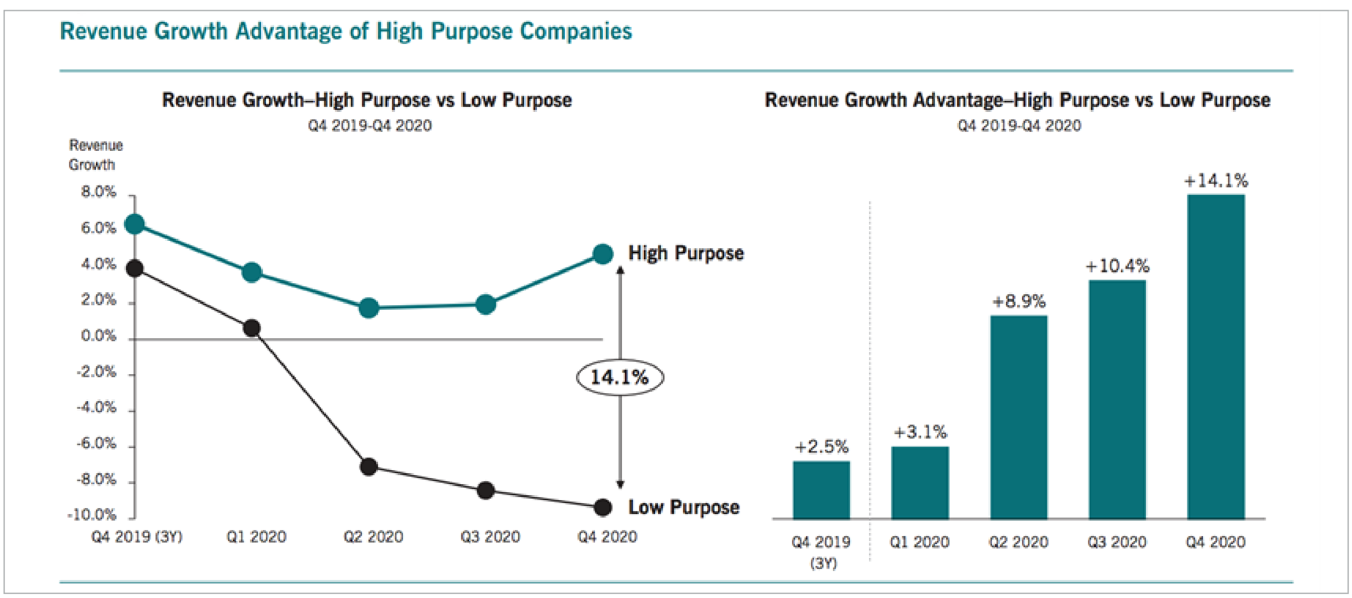
Boston Consulting Group BrightHouse (BCGBH) reports that their analysis shows that over the past 15 years purpose-driven organizations have grown 10% faster than the market and have reduced turnover, generating an average savings of US$5.5 million per year. BCGBH also notes that over the past 12 years brands with a strong sense of purpose have seen their value increase by 175%, on average, compared to the median growth rate across all companies of 86%.

Figure 35.



Source: CECP CEO Investor Forum.

Figure 36.



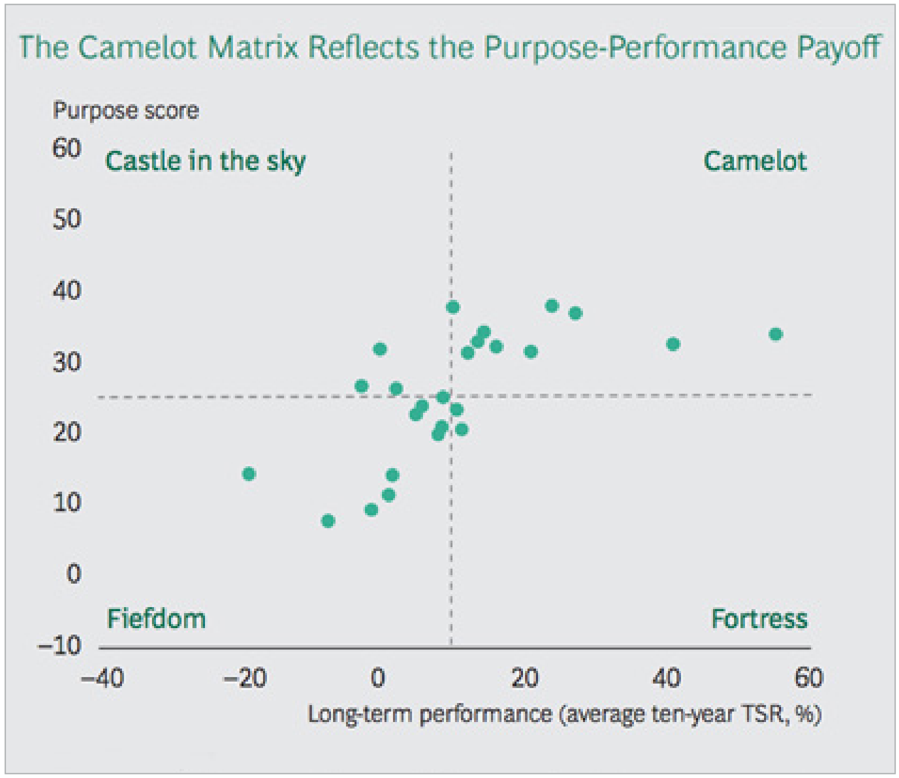
Source: Fortuna Advisors, *A Deeper Look at the Return on Corporate Purpose.*

134 https://fortuna-advisors.com/wp-content/uploads/2021/08/A-Deeper-Look-at-the-Return-on-Purpose-JACF.pdf

BCGBH surveyed the employees and managers at 25 top companies in the consumer, financial services, and technology sectors to evaluate purpose by determining how well purpose is articulated, if the purpose is inspiring, how deeply it is integrated into the core business, and how well that purpose is recognized. Some companies received high scores on one or two variables but low scores on others.

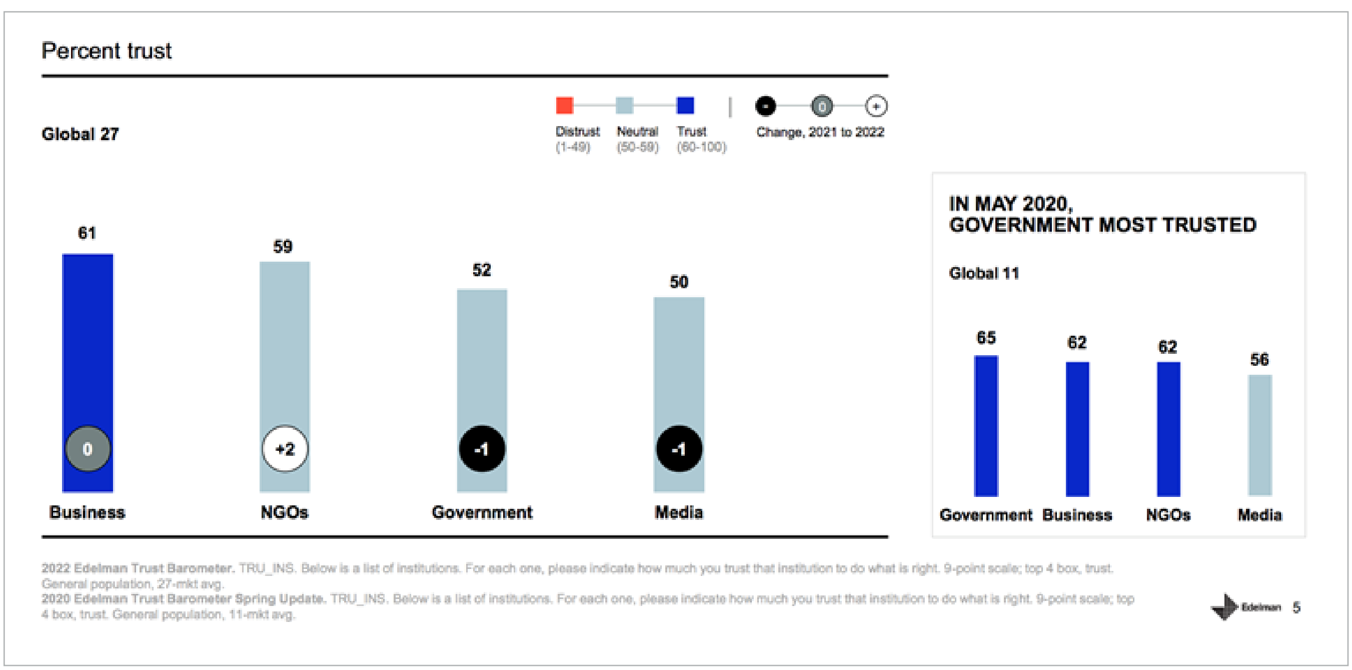
BCGBH determined that companies with high purpose scores also had superior total shareholder returns (TSR) (Camelot companies). Organizations with low purpose scores also had low-to-average TSR (Fiefdom companies). Companies with high purpose scores but lower financial performance (Castle in the Sky companies) and companies with high financial performance but low purpose scores (Fortress companies) were rare (Figure 37). The correlation between purpose and financial performance is clear.

Figure 37.



Source: BrightHouse BCG, "For Corporate Purpose to Matter, You've Got to Measure It."

Figure 38.



Source: 2022 Edelman Trust Barometer.

Consumers will reward corporate purpose and companies that cultivate trust with their stakeholders, while punishing companies that don't.

The 2022 Edelman Trust Barometer[135] reported that nearly 60% of its 36,000 respondents across 28 countries say their default tendency is to distrust something until they see evidence it is trustworthy. 61% cited business as the most trusted institution, ahead of NGOs, cited by 59% (Figure 38). Almost half of all respondents believe that government and the media are divisive forces in society. While business maintained its level of trust during the pandemic, dropping just 1%, government experienced a 13% erosion of trust between 2020 and 2021. Business also outscores government by 53 points on competency and 26 points on ethics. Despite this higher level of trust in the private sector, business is seen by 52% of respondents as not doing enough on climate change, by 49% as insufficiently engaged with economic inequality, and by 46% as not doing enough to reskill the workforce. Employment and the climate are most respondents' top concerns, with 85% expressing worry about job loss and 75% expressing worry about climate change.

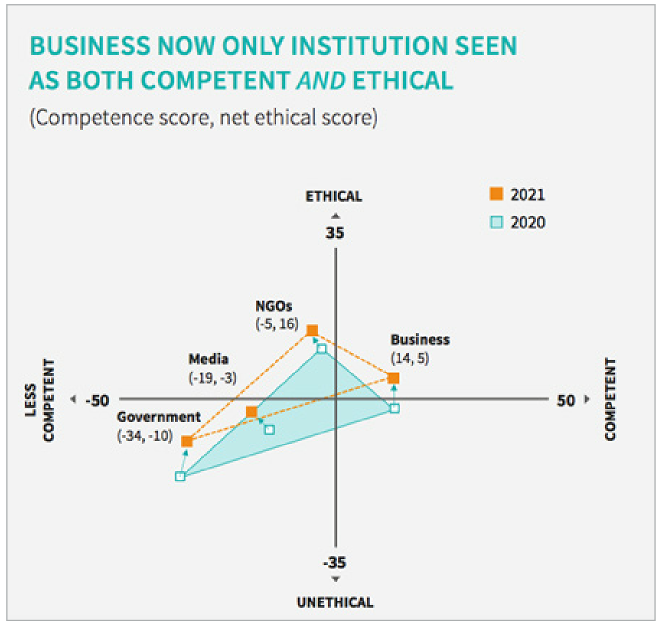
The rewards for corporate engagement with trust and purpose are high. Edelman reports that 58% of respondents will buy or advocate for brands based on their beliefs and values, 60% will choose a place to work based on their beliefs and values, and 80% will invest in companies based on their beliefs and values.

With the high rewards for trust come high societal expectations for corporate leaders. When considering a job, 60% of employees want their CEO to speak out on controversial issues they care about. Edelman reports that CEOs are also expected to shape conversation and policy on jobs and the economy (76%), wage inequity (73%), technology and automation (74%), global warming, and climate change (68%).

CEOs are seen as more trustworthy leaders than government officials or journalists. Scientists, at 75%, are the most trusted, followed by coworkers (74%) and an employee's CEO (66%). In fact, an employee's own CEO tends to be considered more trustworthy than people in the local community or national health authorities. However, trust in business leaders is not interchangeable or absolute. Although 66% of respondents cite their own CEOs as trustworthy, 63% of respondents reported believing that business leaders in general intentionally mislead people by saying things they know are false or making gross exaggerations.

Although trust is a key dynamic affecting perceptions of corporate purpose, competency is equally vital. It takes a lot to trust a company; it takes even more to believe that the company is both trustworthy and competent. The 2021 Edelman Trust Barometer found that the private sector is the only institution deemed both ethical and competent by people globally, and that many believe businesses should step up when government leaders do not address societal problems (Figure 39).

Figure 39.



Source: 2021 Edelman Trust Barometer.

The 2021 Porter Novelli Purpose Premium Index (PPI) reports that American consumers expect companies to do more than make money or produce a quality product.[136] The pandemic has accentuated this trend and now 69% of American consumers won't support companies that are in business for profit alone (Figure 40).

Clearly, American consumers are paying attention to corporate actions and their expectations are high. The PPI study notes that for 76% of consumers the pandemic has made it more clear which companies are out purely to make money and which want to improve society while also making money. 75% of consumers believe it is no longer acceptable for a company just to make money; it must positively impact society, too.

Deloitte notes in "Purpose is everything" that purpose-driven companies experience higher market share gains and grow three times faster than their competitors, all while achieving higher workforce and customer satisfaction.[137] The 2019 Deloitte Consumer Pulsing Survey identified top issues consumers identify with when making decisions about brands. 28% of consumers identified how a company treats its employees, 20% identified how a company treats the environment, and 19% identified how a company supports the communities in which it operates as a top issue to be considered when making decisions about brands (Figure 41).

135 https://www.edelman.com/sites/g/files/aatuss191/files/2022-01/2022%20Edelman%20Trust%20Barometer%20FINAL_Jan25.pdf
136 https://www.porternovelli.com/findings/introducing-the-2021-porter-novelli-purpose-premium-index-ppi/
137 https://www2.deloitte.com/us/en/insights/topics/marketing-and-sales-operations/global-marketing-trends/2020/purpose-driven-companies.html

Accenture reports that 66% of consumers plan to make more sustainable or ethical purchases over the next six months and that 74% of consumers believe ethical corporate practices and values are important reasons to choose a brand.[138]

Philip Martens, former President and CEO of Novelis and an experienced board director, believes companies should rethink the old frameworks of being either B2B or B2C and replace them with B2S: business-to-society.[139]

Figure 40.

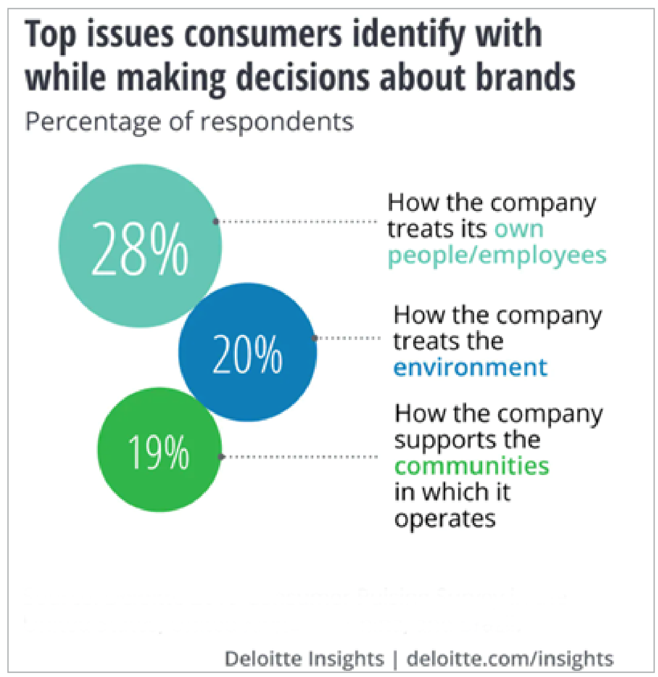
Source: The 2021 Porter Novelli Purpose Premium Index.

Corporate activism is rising as business steps up to fill the vacuum left by government inaction.

Increasingly, business is stepping up to fill a vacuum left open by government inaction. In April 2021, more than 300 businesses signed a letter to President Biden calling on his administration to set a new Paris Agreement-aligned goal of slashing U.S. GHG emissions by at least 50% below 2005 levels by 2030.[140] Business leaders are also becoming increasingly vocal when they see the government act in ways they consider at odds with their values or their employees' values. A group of Black business executives took out a full-page ad in *The New York Times* condemning Georgia's election law reforms, which they believed were designed to restrict voting. Other companies also canceled or withdrew from commitments in Georgia: for example, Major League Baseball announced that it would move its All-Star Game out of Atlanta because of what they viewed as an assault on voting rights.[141]

How much of this is purpose-driven activism and how much is reputation management? This remains an open question. The Center for Political Accountability observes that a company's political donations and lobbying in state and local elections is often directly opposed to their stated public positions.[142] Companies, however, are beginning to address these inconsistencies. After the January 6th insurrection on Capitol Hill, many corporations pledged to cease or suspend donations to the 147 members of Congress who voted to oppose the certification of the 2020 Electoral College vote for President of the United States.[143]

Figure 41.



Source: Deloitte 2019 Consumer Pulsing Survey.

A CECP Pulse Survey gathered insights on potential changes in PAC donations to legislators after the January 6th attack on the Capitol. 55 companies responded to the question "How did your company decide to change its political action committee (PAC) donations to elected officials who opposed certifying the election results on January 6th?" 52% of companies suspended donations, while 25% continued them. 23% of responding companies did not have a PAC.

138 https://www.accenture.com/us-en/insights/sustainability/sustainable-organization?c=acn_glb_buildingsustaingoogle_12379558&n=psgs_0921&gclid=EAIaIQobChMIkZSiwuTD9gIVJGpvBB0GxQGgEAAYASAAEgluy_D_BwE&gclsrc=aw.ds
139 https://www.strategy-business.com/blog/The-purpose-of-purpose
140 https://www.nytimes.com/2021/04/13/climate/business-executives-climate-change.html
141 https://www.nytimes.com/2021/03/31/business/voting-rights-georgia-corporations.html
142 https://politicalaccountability.net/hifi/files/2020-CPA-Zicklin-Index.pdf
143 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/618a3ecfda87f46c8ec3f704/1636450001132/21st-Century-Business-Leadership_2021.pdf

Analyzing a sample of U.S.-based events where CEOs personally advocated for social issues, two researchers, Shubhashis Gangopadhyay and Swarnodeep HomRoy,[144] found that CEO activism was associated with a 1.3% increase in firm value and a 3% increase in profitability. They also found that companies in more competitive industries selling consumer-facing products benefit the most from CEO activism, driven by a short-term increase in positive customer perception of activist companies.

The LGBTQ100 ESG Index, which tracks 100 top corporations that have established a solid track record of support on LGBTQ+ issues, outperformed the S&P 500 from November 2019 to April 2021 by 6%.[145] However, serving as a caveat to CEOs regarding the authenticity, timing, and proportionality of their corporate activism, a 2019 event study of 55 U.S.-based brands by Vrangen & Rusten found that if a company's activist statements are seen as highly controversial, the activism can have a negative impact on cumulative financial returns.[146] Which controversies a company chooses to engage with can play an important role in improving or damaging consumer relationships. Younger generations react more positively to, and indeed sometimes expect, corporate involvement in societal debates. Companies must consider carefully who their customers are and try to predict their responses to activism.

CECP Guidance:
When and How to Speak Up: How Companies Can Communicate their Corporate Purpose

CECP has developed a framework through which CEOs and their teams can assess why, when, and how to take positions on social issues, including six questions for CEOs and their teams to consider:

1. What are your company's purpose and values? Start with the basics.
2. What issues matter to your company and its stakeholders? Relevance is key.
3. Should the company respond? Pick your battles.
4. How to act: What are your options? Internal messaging, external, or partnering with others.
5. Success or backlash? Anticipate the reaction(s).
6. What's next? Lip service matters but is only the start.

Investors see corporate purpose as an indicator of superior management and as a barometer of growth potential and brand strength.

As BlackRock notes in *Our approach to engagement on corporate strategy, purpose, and financial resilience*,[147] companies with a well-defined purpose are more likely to have a strong sense of direction that better positions them to compete, navigate short-term challenges, and achieve long-term growth. "We have observed that companies that effectively embed a purpose have been better able to maintain investor confidence, attract and retain a high caliber workforce and build stronger customer loyalty. These are all factors important to building business resiliency and delivering long-term profitability."

The CECP CEO Investor Forum and Edelman, as part of their joint research on "Communicating Long-Term Plans," report that when institutional investors were asked what they look for in a company (beyond financials) to evaluate long-term growth potential, many of the indicators mentioned were either directly related to or had a strong relationship with ESG and corporate purpose (Figure 42).[148]

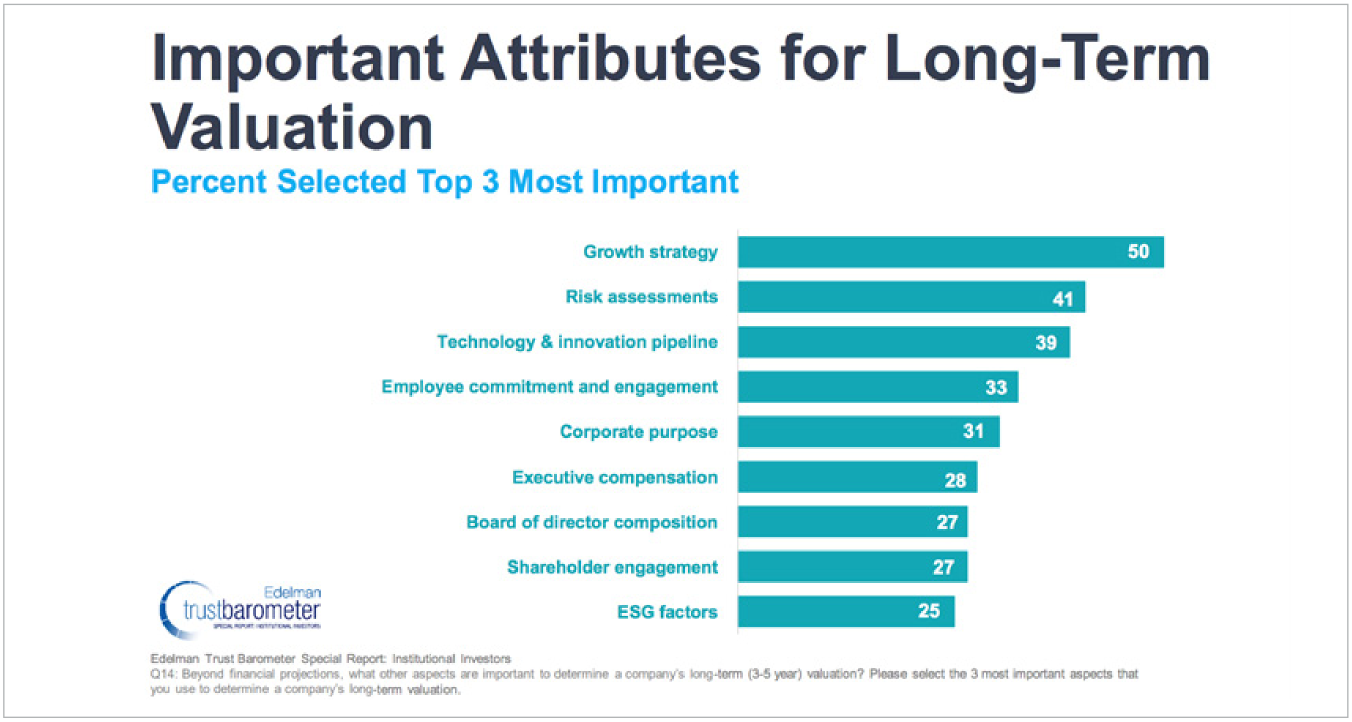
CECP's Long-Term Plan Framework, developed with KKS Advisors and Harvard Business School Professor George Serafeim, with input from institutional investors, sets out nine themes and 22 forward-looking, decision-relevant disclosures for investors. By identifying the most essential components, this framework helps enable CEOs to develop and communicate effective long-term plans.

Corporate purpose drives the retention of talent.

Deloitte's research shows that purpose-driven companies report 30% higher levels of innovation and 40% higher levels of workforce retention than their competitors;[149] purpose-oriented companies also have a more satisfied workforce overall.[150] Simply put: people want to work for a company whose purpose is focused on the greater good of society at large.[151] As McKinsey notes in "Help your employees find purpose—or watch them leave," employees expect their jobs to bring purpose to their lives; if employers cannot help meet this need, their talent will move to companies that will.[152] McKinsey reports that 89% of employees at all levels in the organization say they want purpose in their lives, and 70% of employees, including two-thirds of those in nonexecutive positions, said

144 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3622605
145 https://static1.squarespace.com/static/5143211de4b038607dd318cb/t/618a3ecfda87f46c8ec3f704/1636450001132/21st-Century-Business-Leadership_2021.pdf
146 https://biope https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-strategy-purpose-financial-resilience.pdf n.bi.no/bixmlui/bitstream/handle/11250/2622499/2288320.pdf?sequence=1&isAllowed=y
147 https://www.blackrock.com/corporate/literature/publication/blk-commentary-engagement-on-strategy-purpose-financial-resilience.pdf
148 https://cecp.co/wp-content/uploads/2020/06/Communicating-Long-Term-Plans_CEO-Investor-Forum_Edelman.pdf
149 https://www2.deloitte.com/us/en/insights/deloitte-review/issue-16/employee-engagement-strategies.html
150 https://www.jimstengel.com/purpose/
151 https://www.forbes.com/sites/caterinabulgarella/2018/09/21/purpose-driven-companies-evolve-faster-than-others/?sh=c620f8c55bcf
152 https://www.mckinsey.com/business-functions/people-and-organizational-performance/our-insights/help-your-employees-find-purpose-or-watch-them-leave

Figure 42.



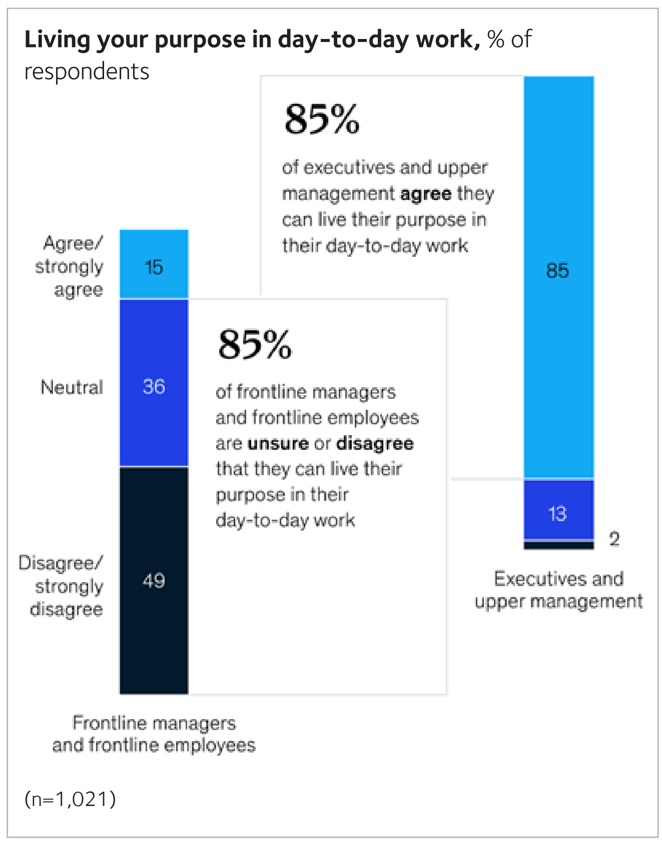
Source: CECP CEO Investor Forum and Edelman.

their sense of purpose is largely defined by their work. Despite this desire for purpose in their jobs, while 85% of executives and upper management agreed or strongly agreed that they are living their purpose at work, only 15% of frontline managers and frontline employees reported the same. McKinsey calls this disconnect the purpose hierarchy gap (Figure 43). 49% of frontline managers and workers surveyed said they disagreed with the idea that it is possible to live their purpose in their jobs, compared to just 2% of senior managers.

Accenture, in collaboration with the World Economic Forum, reports in *Shaping the Sustainable Organization* that 66% of employees believe organizations should be responsible for leaving their people "net better off" through work, and 83% of employees want the flexibility to be productive anywhere.[153] There is a large gap between what leadership teams believe has been achieved in terms of sustainable progress at their companies and what other key stakeholder groups believe has been achieved.

Executives in general believe they are on track to operate more sustainably, while employees are less enthusiastic about progress. 68% of executives say they have developed a robust sustainability plan for their companies, but only 21% of employees say the plan goes beyond superficial levels (Figure 44).

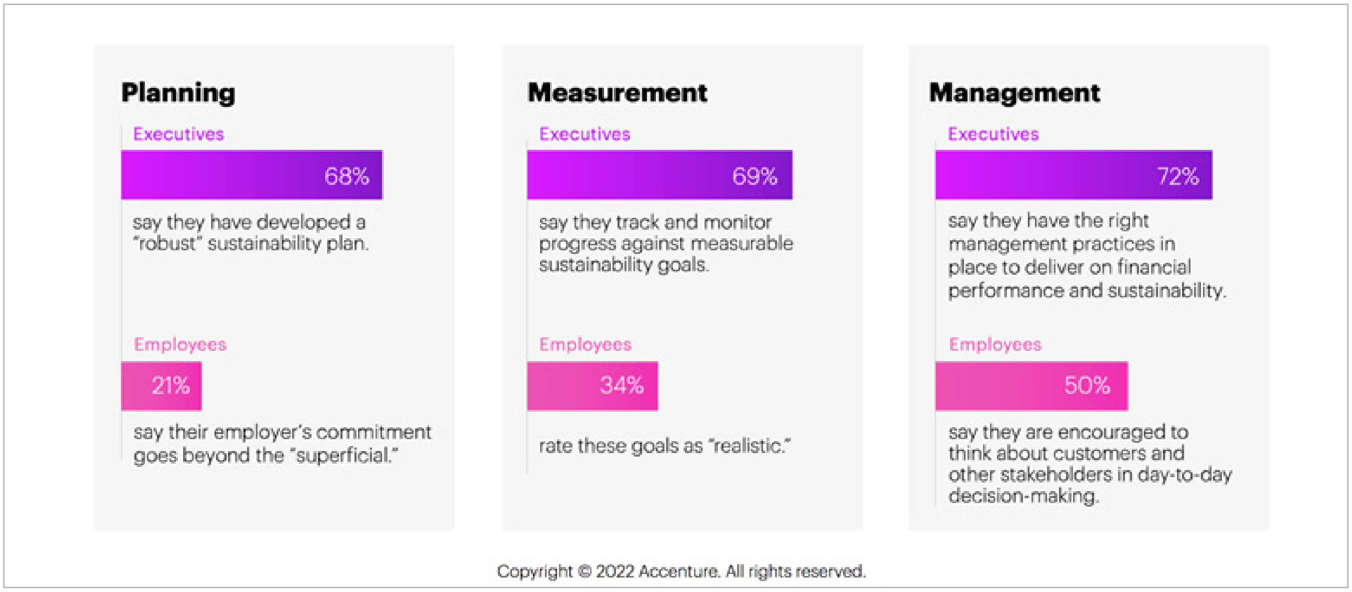
Figure 43.



Source: McKinsey, "Help your employees find purpose—or watch them leave."

153 https://www.accenture.com/us-en/insights/sustainability/sustainable-organization?c=acn_glb_buildingsustaingoogle_12379558&n=psgs_0921&gclid=EAIaIQobChMIkZSiwuTD9gIVJGpvBB0GxQGgEAAYASAAEgluy_D_BwE&gclsrc=aw.ds

Figure 44.



Source: Accenture analysis of executive and employee/consumer/citizen surveys.

69% of executives say they track and monitor progress against measurable sustainability goals, while only 34% of employees rate these goals as realistic. 72% of executives say they have the right management practices in place to deliver on financial performance and sustainability, while 50% of employees say they are encouraged to think about customers and other stakeholders in day-to-day decision making. These gaps in performance and perception will have to be overcome before companies can truly perform with purpose.

Benevity reports in their Racial Justice and Equity Survey that companies that don't address social or racial injustice may lose top talent. More than a third (37%) of respondents said they would likely quit their job if their company failed to include addressing social or racial injustice as a top priority in corporate culture.[154]

According to the Edelman 2021 Trust Barometer Special Report *Institutional Investors*, 86% of U.S. investors say a workplace culture that fosters employee empowerment is important for building trust and 74% of global investors believe employee activism is indicative of a healthy workplace culture.[155]

GS5 Index

In partnership with CECP, The Gallup Sustainability 5 (GS5) Index[156] helps companies ensure ESG reporting includes the voice of the employee. Corporate culture plays a major role not only in driving profitability and raising morale but also in the effectiveness of safety, training, compliance, and diversity programs. When organizations experience ethical issues and scandals, employees are the first to know—long before leaders find out.

Gallup identified five survey items that are highly predictive of future behaviors and business outcomes.

1. If I raised a concern about ethics and integrity, I am confident my employer would do what is right.
2. At work, I am treated with respect.
3. There is someone at work who encourages my development.
4. My organization cares about my overall well-being.
5. My organization makes a positive impact on people and the planet.

154 https://f.hubspotusercontent30.net/hubfs/20293139/benevity_main_assets_2021/Thank-you/Benevity-Employee-Survey-on-Racial-Justice-Equity.pdf
155 https://www.edelman.com/trust/2021-trust-barometer/investor-trust
156 https://www.gallup.com/workplace/348977/gallup-sustainability-five-index-esg-reporting.aspx

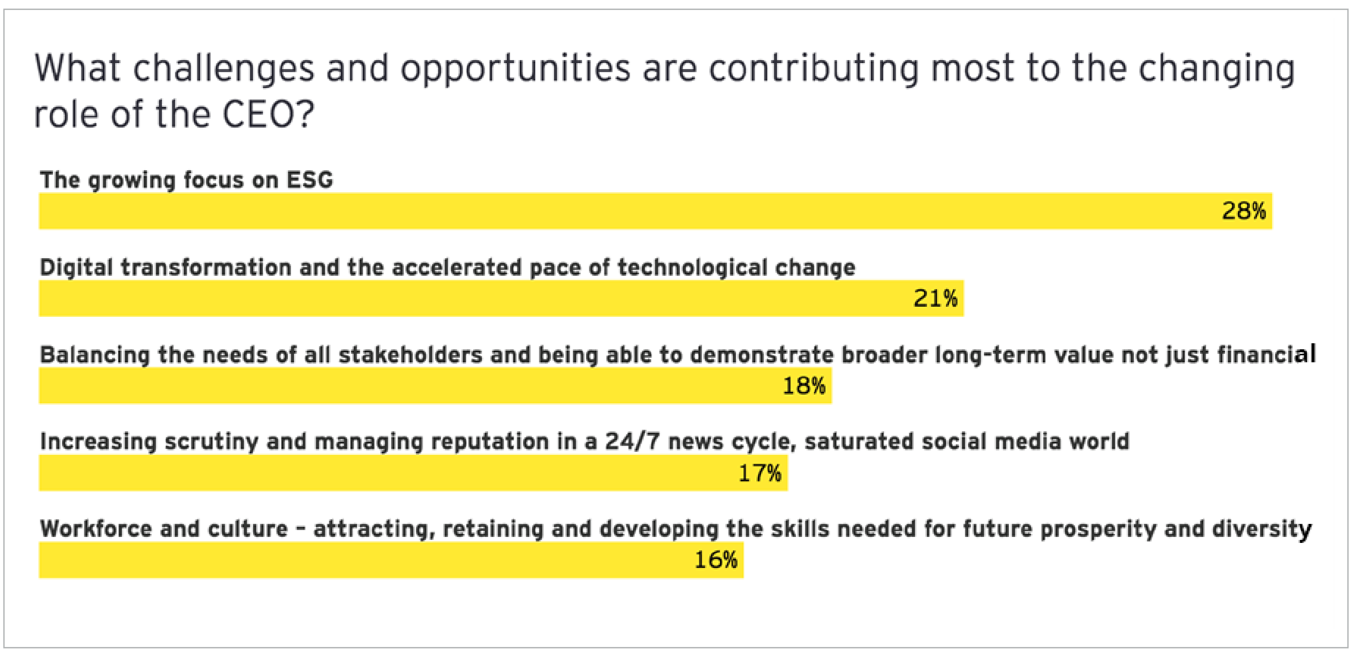
CEOs are planning major business transformations in pursuit of long-term value creation.

As ESG considerations become an accepted barometer of long-term company success, CEOs must rise to the challenge and manage ESG to the highest level. When EY asked CEOs what was contributing most to the changing role of the CEO, the top issue cited (by 28% of respondents) was the growing focus on ESG (Figure 45).[157]

CEOs must now embrace great uncertainty and ambiguity in preparing for potential challenges. In the EY study "The CEO Imperative,"[158] 61% of CEOs surveyed said they plan to undertake a major new transformation initiative in the next three years (N=305), while 56% want to reorient their business model towards long-term value creation.

CEOs reported they are focused on transforming their companies' human dimensions, such as talent, leadership, organizational structure, and culture and purpose. 68% of CEOs cited having at least one people-related transformation priority, and 15% cited having two or more people-related priorities. 71% of CEOs want to create a culture that embraces change and transformation and 73% want to prioritize stakeholder outcomes as part of company culture. 42% want to increase diversity of leadership profiles, backgrounds, and skills, while 64% implement more agile decision-making processes.

Figure 45.



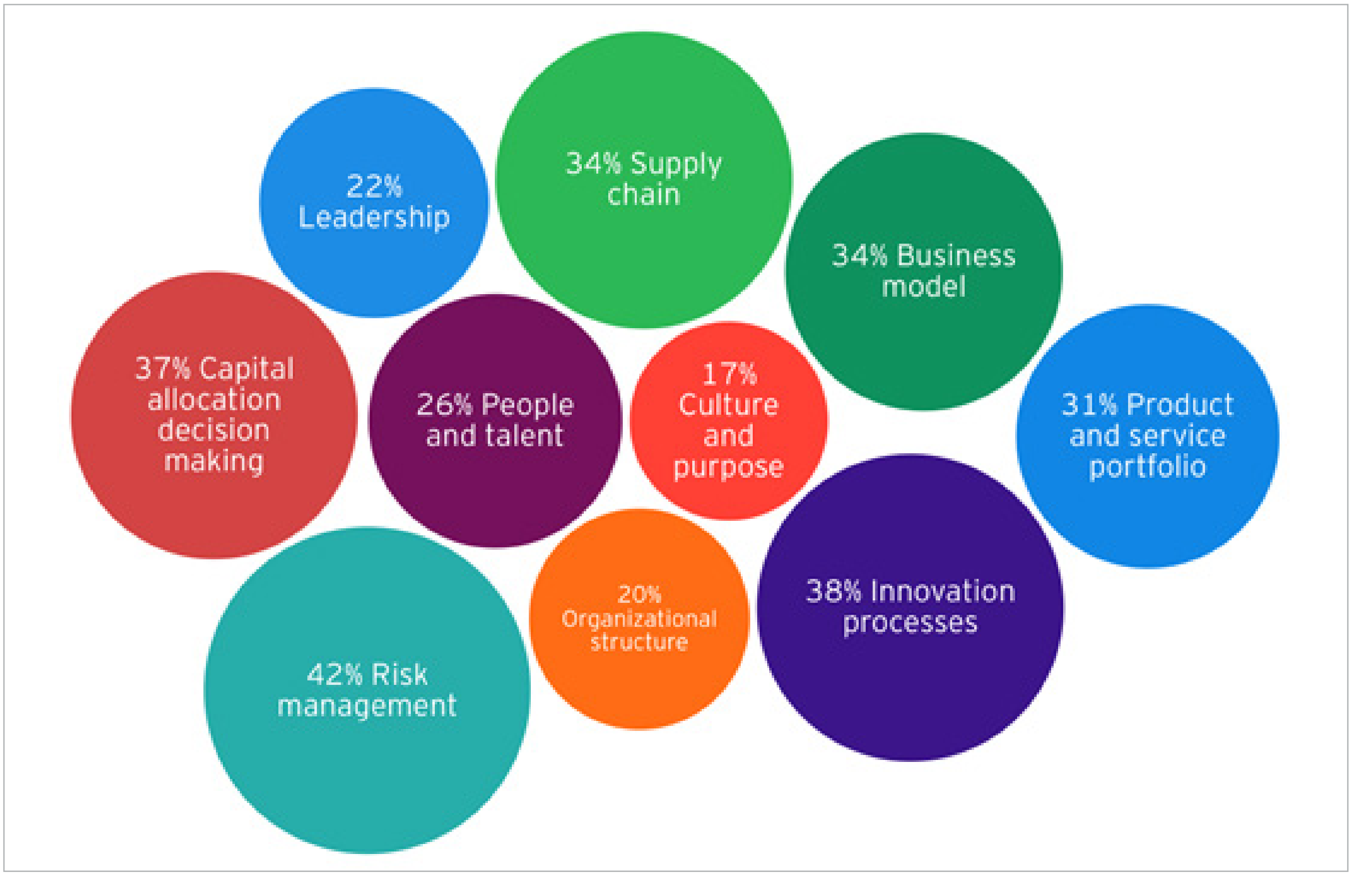
Source: EY, "The CEO Imperative: U.S. executives recalibrate risk radar."

62% of CEOs will prioritize the upskilling and reskilling of employees for new market imperatives, while 55% will increase investment in maintaining and enhancing employee well-being. In addition, 70% will consider sustainability and the circular economy in supply-chain decision making and 40% want to increase the importance of ESG factors in risk assessments. (Figure 46) shows the high-level areas of most concern reported by CEOs.

157 https://www.ey.com/en_us/ceo/ceo-survey-2022-us-findings
158 https://www.ey.com/en_gl/ceo/the-ceo-imperative-how-has-adversity-become-a-springboard-to-growth

Figure 46.

Areas Where CEOs Expect to Make the Most Changes in the Next Three Years



Source: EY, "The CEO Imperative: How has adversity become a springboard to growth?"

Appendix: CECP's Factor Analysis

Background

Investing in Society: 2022 Edition provides continuity with last year's assessment of the interconnection among Environmental, Social, and Governance (ESG) metrics. CECP conducted another Factor Analysis to explore the degree to which ESG metrics are correlated. Financial metrics were not considered this year, to isolate ESG dynamics. The correlation among ESG variables allowed grouping these variables into "factors" that condensed variables with more similarities (in terms of total variance explained across all observations).

Executive Summary

This year, CECP performed two alternative Factor Analysis procedures, one in SPSS and one through R (a programming language). *Investing in Society's* main analysis centered on the findings from R; nevertheless, SPSS provided similar findings that reinforced these conclusions.

The purpose of Factor Analysis is to condense many variables into just a few unobserved or latent variables. In this sense, the analysis aims at reducing all variables to just a handful of factors. Each factor represents variables with stronger correlation among each other: variables that share more similarities and variance. There were 41 initial ESG variables that had some degree of data availability for companies in the Fortune 500. Running many iterations of the Factor Analysis with all variables allowed us to estimate the number of factors that explained at least 60% of the variance across all variables. This exercise showed that 28 of the 41 ESG variables had strong representation when condensed into four factors. This helped dismiss variables not contributing to explaining any of the factors. The Factor Analysis from R allowed us to condense these 28 ESG variables into four main factors that explained 68% of the variance among all variables.

Main findings from the correlation table between variables and factors:

- The first factor was more positively correlated with variables that had to do with ESG data disclosure/reporting.
- The second factor was more positively correlated with variables representing social impact and workforce representation (e.g., Total Community Investment, Volunteered Hours, Percentage of Minorities in Workforce).
- The third factor had a larger number of environmental performance variables with strong negative correlations with that factor (e.g., a strong negative correlation between Water Use, Energy Consumption, Electricity Used, and Greenhouse Gas Emissions and this third factor grouping, a factor that can be associated with a sustainable environment).
- The fourth factor had a group of governance/corporate accountability variables that showed the strongest correlation between them and this factor (e.g., Governance Score, Percentage of Women on Boards, Percentage of Indirect Directors on Compensation Committee, Number of Compensation Committee Meetings).

The Factor Analysis produced coefficients used to calculate scores for each of the four factors for each of the companies in the Fortune 500. Scores helped to get a sense of a company's placement or ranking under each factor. The chart on the next page shows the proportion of companies that obtained scores greater than zero, an indicator of how strong a company is performing under each factor (zero being the starting point to assess the strength of performance). Scores greater than zero are associated with a positive performance in the areas of Environmental, Social, Governance, and ESG Disclosure.

For the complete Factor Analysis Methodology, please click here.

Rotated Component Matrix For 28 ESG Variables

Scores greater than zero are associated with a positive performance and are indicated with yellow to green shading. Scores less than zero are associated with negative performance and are indicated with orange to red shading.

-1 – -0.76	-0.75 – -0.51	-0.5 – -0.26	-0.25 – 0	0 – 0.25	0.26 – 0.5	0.51 – 0.75	0.76 – 1

ESG VARIABLES	ENVIRONMENTAL	SOCIAL	GOVERNANCE	ESG DISCLOSURE
Percentage of Women on Boards	0.269	0.3836	0.5524	0.1539
Size of Compensation Committee	0.3043	-0.1696	0.2054	0.3209
Percentage of Indirect Directors in Compensation Committee	0.1129	-0.3475	0.5438	0.1442
Number of Compensation Committee Meetings	-0.2454	0.1158	0.4767	0.1377
Compensation Committee Meeting Attendance	-0.1052	-0.1601	0.1561	0.1975
Governance Score	0.4228	-0.0252	0.5778	0.2987
ESG Disclosure Score	0.2465	0.1696	0.0324	0.9147
Social Disclosure Score	0.1919	0.1541	0.0681	0.8123
Governance Disclosure Score	0.2984	0.0438	0.1135	0.789
Environmental Disclosure Score	0.2347	0.165	-0.003	0.8811
Percentage of Women in Workforce	0.1967	0.5691	0.3461	-0.5382
Greenhouse Gas Emissions	-0.4287	-0.2888	0.224	0.6373
Percentage of Employees Unionized	0.1084	-0.3377	-0.2961	0.5738
Energy Consumption	-0.7179	0.0404	0.2765	0.5247
Electricity Used	-0.7602	0.3736	0.1498	0.2372
Percentage of Women in Management Positions	0.268	0.6943	0.278	-0.3364
Community Spending	0.4098	0.5174	-0.3582	0.1296
Waste	0.4389	-0.2364	0.0505	0.6053
Environment Score	0.19	0.5335	-0.2303	0.6714

ESG VARIABLES	ENVIRONMENTAL	SOCIAL	GOVERNANCE	ESG DISCLOSURE
Waste Recycled	0.4476	-0.7086	-0.2002	0.0533
Water Use	-0.7527	-0.0484	0.1787	0.3836
Travel Emissions	-0.2309	0.8041	-0.1895	0.3129
Total Community Investment	-0.0868	0.8269	-0.1964	0.2234
Percentage of Minorities in Workforce	0.1645	0.818	-0.1134	-0.2481
Volunteered Hours	-0.114	0.7501	-0.0842	0.4036
Percentage of Employee Turnover	0.4947	-0.0946	0.3161	-0.5545
Bloomberg Gender Equality Index	0.779	0.1031	0.0292	0.3092
Percentage of Women in New Hires	0.0888	0.6801	0.2468	-0.6322

Conclusions From The Factor Analysis

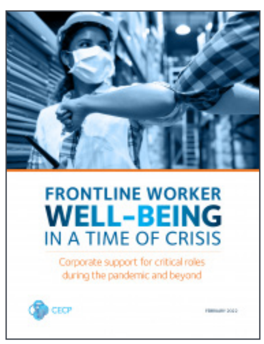
The ESG Factor Analysis revealed which ESG variables have more representation in terms of data availability but also in terms of explaining variance across all relevant ESG variables. The ESG Factor Analysis helped identify which 28 ESG variables most strongly affect four main factors that with a significant degree of confidence can condense most of the variance among those variables. The ESG Factor Analysis showed how each variable can be interconnected with more than one factor. For instance, despite being considered a governance metric by Bloomberg, Percentage of Women in the Workforce had a stronger influence under the second factor related to social impact (this is congruent with last year's *Investing in Society*'s findings). However, Percentage of Women in the Workforce also had a significant influence under the third factor related to governance (noted in table above). The ESG Factor Analysis also reinforced that current ESG frameworks are grouped in a congruent way: the data on its own tended to have stronger correlations under the four main underlying factors: three factors corresponding to Environmental, Social, and Governance plus one ESG Disclosure factor.

The analysis also serves as the basis for CECP's assessment of how well companies are performing under each of those factors in terms of the percentage of companies above an initial value of zero under each factor. This exercise underlines the importance and responsibility that big corporations have in terms of disclosing their ESG data. The level of definition of what each factor represents could be more easily analyzed with more available data, as well as the correlation among ESG variables.

Appendix: CECP Research and Thought Leadership

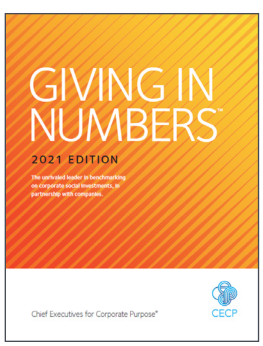
For more information about CECP affiliate benefits, [click here].

[Frontline Worker Well-Being In A Time Of Crisis]



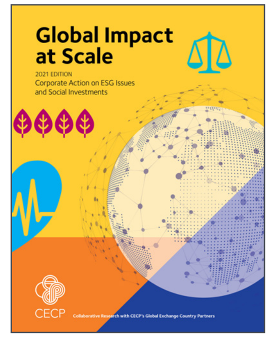
In this report, CECP, with the support of the Ford Foundation, explored the recent challenges faced by frontline workers employed in the manufacturing, processing, and warehousing of consumer staples, as well as the private sector's response to those challenges.

[Giving In Numbers]



CECP's *Giving in Numbers*™ is the premier industry survey and research, providing standard-setting criteria in a go-to guide that has defined the field and advanced the movement. The report is embraced by professionals across all sectors globally to understand how corporations invest in society, with topics ranging from cash and in-kind/product, employee volunteerism and giving, and impact measurement.

[Global Impact At Scale]

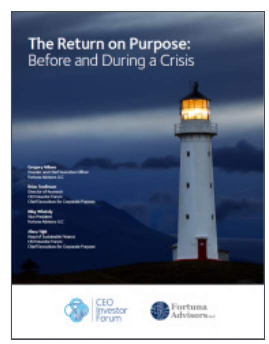


The research that contributed to CECP's *Global Impact at Scale: 2021 Edition* suggests that the triple crises of the COVID-19 pandemic, the ensuing economic downturn, and the global reckoning with racial injustice made 2020 a landmark year for external pressures on a company's performance, bringing the management of ESG issues and community response even closer to the fore among companies of all sizes and sectors.

[Racial Equity: Moving Companies From Promise To Action]

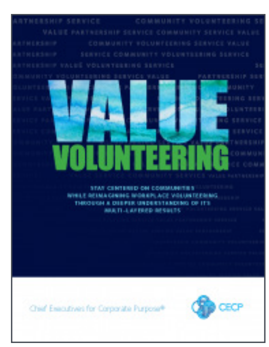
Racial Equity summarizes the work of the Association of Corporate Citizenship Professionals (ACCP), CECP, Council on Foundations, and Points of Light to support leaders of corporate purpose in acting with courage and determination to respond to the compounding health and economic crises.

[The Return On Purpose: Before And During A Crisis]



CECP and Fortuna Advisors examine the impact of corporate purpose on financial performance by assessing customer perceptions.

[Value Volunteering]



CECP's *Value Volunteering* report brings together focus groups of corporate practitioners, interviews with and surveys of nonprofits, a public opinion survey, and a synthesis of research on volunteering.

Acknowledgments

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