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# *Companion Slides, December 13, 2022 WEL Webinar: “Business and the Social Agenda”*

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## Corporate Activism / The “CEO Activist”



“... when CEOs take public stands on controversial issues, they can galvanize support for their company from those who share their values. In this manner, CEO Activism’s primary effect is through signaling **which side of a public debate CEOs and, by implication their companies, are on.** At the same time, **CEO activism risks alienating consumers who disagree with the CEO’s public stance.**”

-- Aaron Chatterji, Mark Burgess & Lisa Benson-Burgess Distinguished Professor, 2019, Sage Journals

*Although corporations have been taking a stance on social, political and environmental issues for decades, an increase in mainstream media and social media focus on ESG has combined with social media, resulting in movements such as #METOO and #BLM*





## The Business Case: Why Speak Out Publicly?

- Pressure from Board / C-Suite; a feeling of responsibility
- Pressure from employees
- Pressure from customers
- Pressure from legislators and regulators

*“Consistent with the idea that CEO activism may bolster firms’ relationships with stakeholders, we show that CEO activism results in positive market reactions and higher valuations. These results can be explained by increased employee productivity and greater investor demand. Employees are especially receptive to CEO activism, as their response to activism contributes more to higher valuations than do the responses of customers and investors.”*

-- [CEO Activism and Firm Value](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3699082), Anahit Mkrtchyan, Jason Sandvik, Vivi Z. Zhu, September 2022; [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3699082](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3699082)



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- 2020: “Ethical attributes drive 76 percent of the trust capital of global companies, while competence drives 24 percent.”
- 2021: “Trust drives growth.”

2022: “Societal leadership is now a core function of business.”



## *Implications and Evolving Legislation*

“A profusion of state and local legislation targeting companies that express public positions or adopt policies on sociopolitical issues or conduct their businesses in a manner disfavored by the government in power. Bloomberg observes that, while ‘companies usually faced mainly reputational damage for their social actions, politicians are increasingly eager to craft legislation that can be used as a cudgel against businesses that don’t share their social views.’ And many of these state actions are aimed, not just at expressed political positions, but rather at environmental and social measures that companies may view as strictly responsive to investor or employee concerns, shareholder proposals, current or anticipated governmental regulation, identified business risks or even business opportunities. These laws are presumably detrimental to the targeted companies, but are there any adverse consequences for the state or locality adopting this legislation and its citizens? (*Bloomberg; CooleyPubCo, Dec. 2, 2022*)

A paper published by authors from the University of Pennsylvania and the Federal Reserve of Chicago looked at the impact of a recent Texas law that blocks banks from government contracts in-state if the banks restrict funding to oil & gas companies or gun manufacturers. The authors conclude that the Texas legislation has had, and is expected to continue to have, a large negative impact on the ability for local governments to access external finance. “If economies worldwide that are heavily reliant on fossil fuels attempt to undo ESG policies by imposing restrictions on financial sector, local borrowers are likely to face significant adverse consequences such as limited credit access and poor financial markets outcomes.” The authors estimate that Texas will pay an estimated “\$303 - \$532 million in interest on the \$32 billion in borrowing during the first eight months following the Texas laws.”

([https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4123366](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4123366))



# *The Year(s) of the Shareholder Revolt*

## 2021

- **Exxon Mobil**
  - The Little Engine that did! Climate change activist...historic vote
  - 4 Board seats challenged; \$35M spent by company on campaign
  - Final votes showed Engine No. 1 received enough votes for 3 Board seats
- **Royal Dutch Shell**
  - A Dutch court held Royal Dutch Shell partially responsible for global warming and ordered the company to reduce its carbon emissions
  - Historic ruling
- **Chevron**
  - Shareholders approved an investor-backed resolution calling for cuts in carbon emissions, focusing on GHG Scope 3
  - Accountability for indirect emissions; not just direct (Scope 1 and 2)
  - Historic vote

## 2022

- **Unprecedented number of shareholder proposals (567)**
  - 21% focused on climate change reporting / accountability
  - 19% focused on political contributions and lobbying
  - 15% focused on human rights: systemic racism / racial audits



## What Do Investors Want? Topics Are Diverse...

- Board accountability / oversight
- Director diversity by gender and ethnicity; composition & disclosure
  - (NASDAQ requirement; state laws)
- Human Capital
- “Say on Climate”
- EEO-1 report published
- Environmental goals and targets
- Racial audits and gender-ethnicity wage-gap analyses

- Political spending policy, oversight and reporting; trade associations
- ESG metrics tied to compensation
- Traditional governance:
  - Clear compensation philosophy, payout explanations & future targets (calculation)
  - Chair / CEO split or Lead Independent Director
  - Majority voting; (Written Consent; Right to Call a Special Meeting)
  - Exclusive forum provision
  - Double-trigger in CIC agreements

For the 2023 proxy season, we expect more of the same.



# The Growing Importance of Vision, Mission, Values

- Business RoundTable: The Purpose of a Corporation (<https://purpose.businessroundtable.org>)

## BlackRock®

### CEO Larry Fink's Annual Letter to Public Company CEOs

- 2018: *"I wrote urging every company to **articulate its purpose** and how it benefits all stakeholders, including shareholders, employees, customers, and the communities in which they operate."*
- 2019: *"**Purposeful** companies have outperformed their ESG peers."*
- 2020: *"During 2020, 81% of a globally-representative selection of sustainable indexes **outperformed their parent benchmarks.**"*
- 2021: *"The more your company can **show its purpose in delivering value** to its customers, its employees, and its communities, the better able you **will be to compete and deliver long-term, durable profits...**"*
- 2022: *"It's never been more essential for CEOs to have a **consistent voice, a clear purpose, a coherent strategy, and a long-term view.** Your company's purpose is its north star in this tumultuous environment."*



## Recent Examples of Corporate / C-suite Activism

*Penzey's  
spices*

*Coca-Cola*

*Ben &  
Jerry's*

**P&G**

**Ye**

**REI**

**Walmart**

**Delta**

**CVS**

**Nike**

**Patagonia**

**KFC-Germany**

**Balenciaga**

*... and then there's Elon Musk (#NEVERTESLA, Twitter & "free speech")*