

# Corporations as “Good Actors”

## The S and G in ESG

Global Law and Business Seminar

COLUMBIA LAW SCHOOL

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María Luisa Cánovas  
mlcanovas@canovasls.com

# WHAT IS ESG? -- RECAP



## ENVIRONMENTAL

- Climate change
- Net zero economy
- Water scarcity
- Waste management
- Pollution mitigation



## SOCIAL

- Diversity and inclusion
- Workplace health and safety
- Labor standards
- Supply chain management
- Product safety
- Community impact



## GOVERNANCE

- Board composition
- Executive compensation
- Political contributions
- Shareholder rights
- Accounting & reporting

## FOUR TOPICS:

1. The “S” in ESG
2. Diversity, Equity and Inclusion
3. Mental Health in 2023
4. Class Discussion

**INTERVIEW:** Carin Knoop (Harvard Business School)







# The “S” in ESG

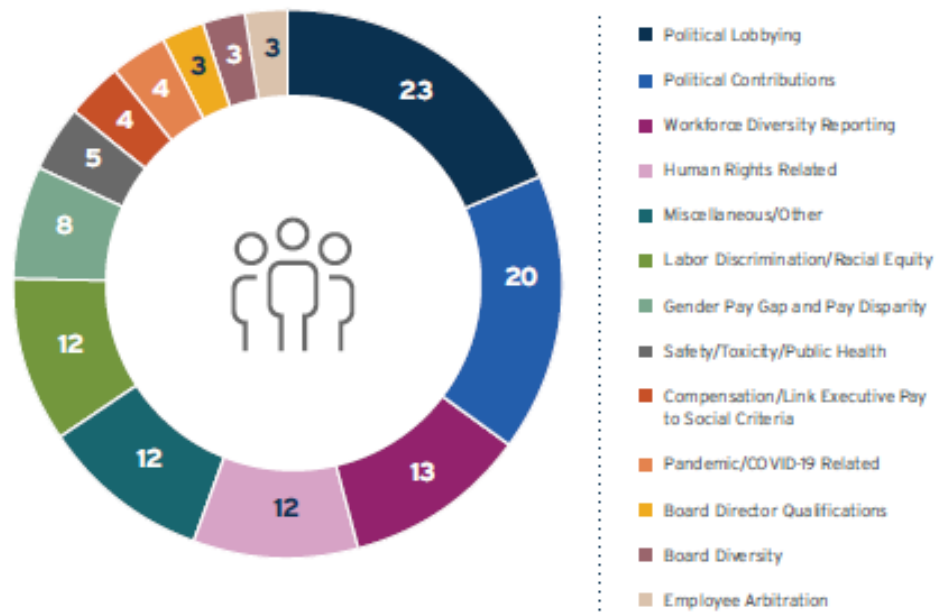
## WHAT IS THE “S” IN ESG? - THE S AND A COMPANY’S CULTURE

Diversity, Equity & Inclusion	Social Justice	Human Trafficking
Human Capital	Community Engagement and Investment	Workforce Issues
Human Rights	Supply Chain	Community

## FOCUS ON “S”: SOCIAL JUSTICE AND HUMAN CAPITAL IN PARTICULAR

- “S” has now moved to front-of-mind for investors and is high on the agenda for corporate stakeholders and society
- Investors view human capital as vital to assessing the potential value and performance of a company over the long term
- Social Justice focus: diversity, human rights related, labor discrimination and racial equity

S&P 1500 SOCIAL PROPOSALS VOTED BY TYPE, 2021



## 2022 SOCIAL SHAREHOLDER PROPOSALS

Over the past three years, there has been significant growth in workforce diversity proposals

- Many of these shareholder proposals were met with overwhelming support
- Institutional investors are supporting proposals to require workforce diversity disclosures
- In 2022, a notable trend was the request that companies report on the steps they are taking to implement their DEI initiatives
- “S” factors appear in various forms across rating agencies:
  - *Workforce* - “Labor Relations,” “Unions” “Employee Engagement”; *Social Capital* - “Product Quality & Safety,” “Product Labelling” or “Access and Affordability”; *Community* - “Community Incidents,” “Stakeholder Opposition,” or “Data and IT Security”

### Of the 562 proposals voted this year:



60

related to environmental matters



231

involved social issues, and



271

related to governance issues



We have seen several types of proposals that attracted majority support for the first-time this season, including shareholder proposals addressing racial equity and civil rights audits, sexual harassment concerns and gender pay equity.





**Diversity, Equity and Inclusion**



# DEI IN 2023: D&I AS PREREQUISITES TO ACHIEVE EQUITABLE OUTCOMES

- Some of the main challenges that organizations face in furthering DEI progress are:
  - **Too much emphasis on activities, not enough on achieved outcomes:** investors are requiring reports on D&I that describe the company's policies, performance and improvement targets related to material human capital risks and opportunities
  - **More focus on the individual than on addressing structural bias:** Increase in unconscious bias training and professional development activities versus targeting performance metrics
  - **Over-aggregated data to report progress or results**
  - **Disconnect between achievements in “S” and the bottom line**
  - **Integrating AI and the workforce:** combination of job creation, reskilling programs and AI-human collaboration fueling improvements in productivity

The background of the image is a dense, textured pattern of dried corn husks. The husks are a light tan or yellowish-brown color, showing natural veining and some darker, brownish spots. They are arranged in a somewhat vertical, overlapping fashion, creating a rich, organic texture. In the bottom right corner, there is a solid blue rectangular overlay.

**Mental Health**

## PUTTING THE H(UMAN) IN ESG\* – MENTAL HEALTH

- The pandemic and its shock waves continue to disrupt the workplace according to the [2022 Gallup World Report](#):
  - Employee engagement was on the rise in 2022, reaching 23% (20% in 2021)
  - The majority of the world's employees are “quiet quitting”



Gallup estimates that low engagement costs the global economy US\$8.8trillion and accounts for 9% of global GDP

\* [Putting the H\(uman\) in ESG](#), by Carin-Isabel Knoop, Medium (2022)

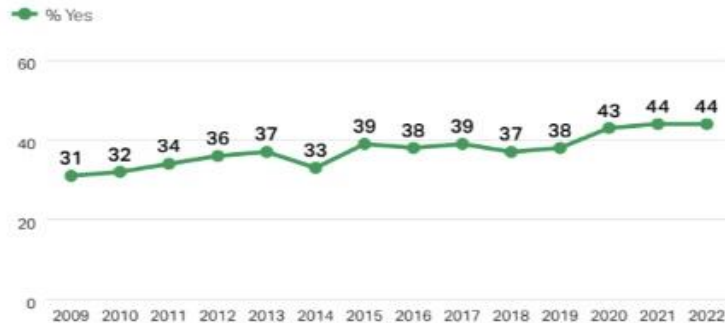


# PUTTING THE H(UMAN) IN ESG – MENTAL HEALTH

- According to the [2022 Gallup World Report](#):
  - Although the world has recovered from the worst of the pandemic, employee stress remained at a record-high level although the world experienced a widespread resurgence in jobs

## Daily Stress

Did you experience the following feelings during A LOT OF THE DAY yesterday? How about stress?



Percentage of employees who felt A LOT of stress the previous day

When engaged

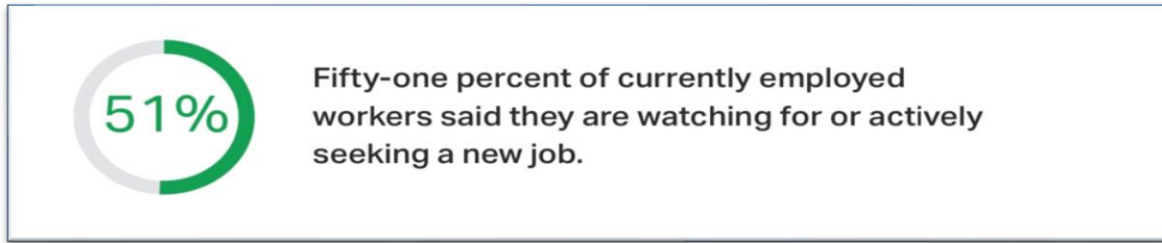
30%

When actively disengaged

56%

## PUTTING THE H(UMAN) IN ESG – MENTAL HEALTH

- According to the [2022 Gallup World Report](#), globally, over half of employees expressed some level of intent to leave their job



- The cost of days lost averages \$4,783 per year per employee (absenteeism), and the costs of turnover averages \$5,733 per year per employee. In addition, there is an increase in safety incidents, quality defects and theft, and a decrease in customer loyalty/engagement, productivity and profitability
- We all know that the workplace itself affects mental health and wellbeing. As executives what are you going to do about this?

# PUTTING THE H(UMAN) IN ESG – MENTAL HEALTH (GALLUP REPORT)

State of the Global Workplace: 2023 Report

## United States and Canada

*Canada, United States*



### TOP TAKEAWAYS

- highest regional percentage of daily stress (tied with East Asia)
- second highest regional percentage of employees who say now is a good time to find a job
- highest regional percentage of female employees who experience high daily stress

Discover more global and regional insights on the state of the global workplace at [Gallup.com](https://www.gallup.com).

■ Countries that Gallup included in analysis of this region

State of the Global Workplace: 2023 Report

## Latin America and the Caribbean

*Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela*



### TOP TAKEAWAYS

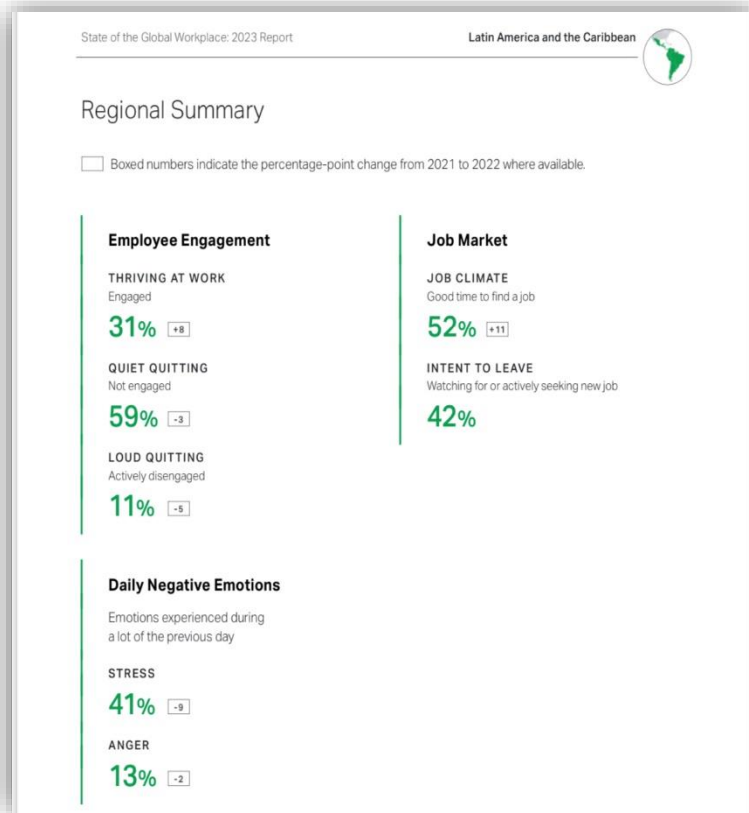
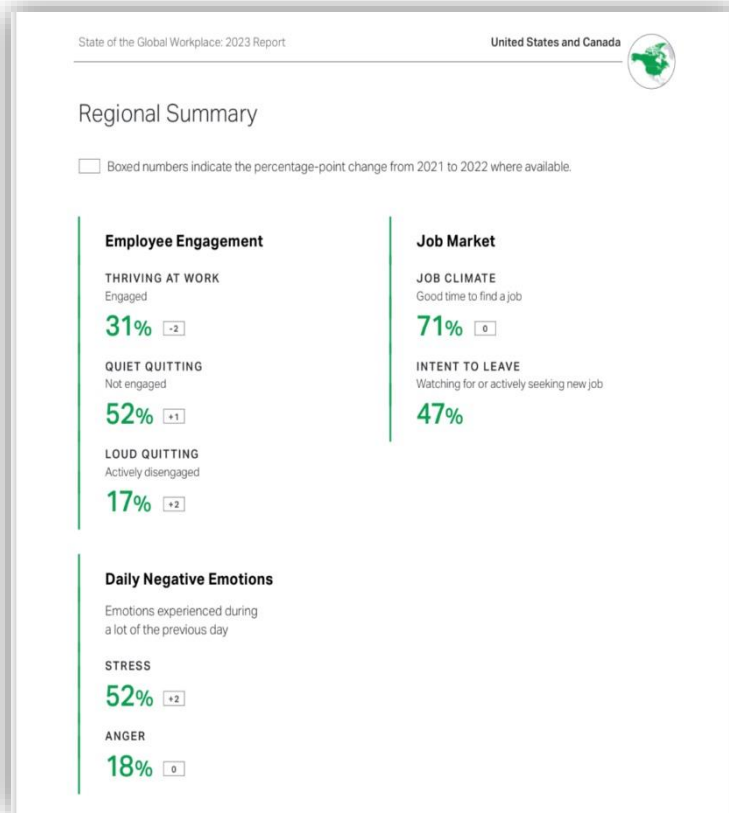
- lowest regional percentage of daily anger
- second highest regional percentage of engaged employees (tied with U.S. and Canada)
- third lowest regional percentage of employees watching for or actively seeking a new job

Discover more global and regional insights on the state of the global workplace at [Gallup.com](https://www.gallup.com).

■ Countries that Gallup included in analysis of this region



# PUTTING THE H(UMAN) IN ESG – MENTAL HEALTH (GALLUP REPORT)



## PUTTING THE H(UMAN) IN ESG – CLASS DISCUSSION

1. In Latin America quiet quitting is much higher than in the U.S., but the intent to leave is at 42%, 5% points below the U.S. Why is that?
2. One point that strikes me is that despite the frustration that is usually associated with quiet quitting, only 54% of the work force in LatAm reports daily negative emotions, while in the U.S. some 70% of the respondents are either stressed or angry. What could be the reason for this?
3. As managers, when you review these numbers, what do you think this says about the workplace culture and how do you plan to improve it?

## PUTTING THE H(UMAN) IN ESG – CLASS DISCUSSION

- What are the drivers of employee engagement?:
  - Providing fair pay with the promise of bonus pay for excellence. Giving access to coaches. Providing opportunities for advancement [*Key word: transparency*]
  - Matching job demands with job resources
  - Giving employees control over more decisions, which makes them accountable, but also empowers them, increasing their engagement and satisfaction
  - Access to an effective employee assistance program (wellbeing and mental health)
  - A caring manager: makes employees feel safe, valued, heard and respected
    - Encourages risk-taking
    - Appreciates good work
    - Is not afraid to engage - ongoing effort





Wellbeing in the Workplace

## PUTTING THE H(UMAN) IN ESG – CLASS DISCUSSION

- The challenge of making investments in humanity count: developing a system of evaluation, accounting and certification (the [Human Sustainability Index](#))
- What is an Employee Assistance Program?: a confidential workplace service that employers pay for and is voluntary and free to employees. Usually includes short-term counseling programs for work-related or personal problems. State and federal law does not require employers to provide or pay for EAPs. [Are EAPs mandatory in your country?]
  - Did your employer have a mental health program? What programs did it include? Was it open to your loved ones? Was there stigma associated with its use?
  - Next slides:
    - What does an effective mental health program look like?
    - How to implement it?
    - What are the biggest challenges? And what can you do about them?
    - Calculating the ROI of your EAP

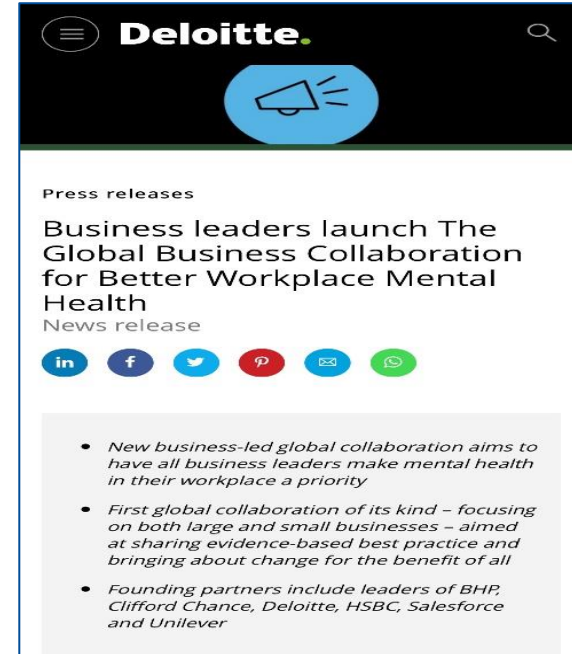
## PUTTING THE H(UMAN) IN ESG - GUIDANCE

- What does an effective mental health program look like?
  - Quantitative approach:
    1. Reduces healthcare costs
    2. Reduces absenteeism: Depression
    3. Increases retention: reducing turnover, which is one of the most expensive costs for businesses
    4. Reduces disability leave: mental illness has been estimated to account for about one-third of disability claims and 70% of workplace disability costs, according to McKinsey
    5. Attracts new talent
  - Qualitative approach: [employee surveys, focus groups, lived experience panels]
    1. Increases job satisfaction
    2. Improves company culture: employees are invested in the company



## PUTTING THE H(UMAN) IN ESG – GUIDANCE

- How to implement an effective mental health program?
  - Top leadership guidance and bottom-up input
- What are the biggest challenges?
  - No communication and stigma
- How to address them?
  - Live experience panels
  - Role-modeling by leaders speaking on these issues
  - Trainings to equip employees with tools to support each other
  - Measuring the impact of the efforts and discussing progress
  - Leaders taking time off, leaves of absence and mat/paternity leave, scheduling visible therapy appointments, avoiding working after hours





## PUTTING THE H(UMAN) IN ESG – CLASS DISCUSSION

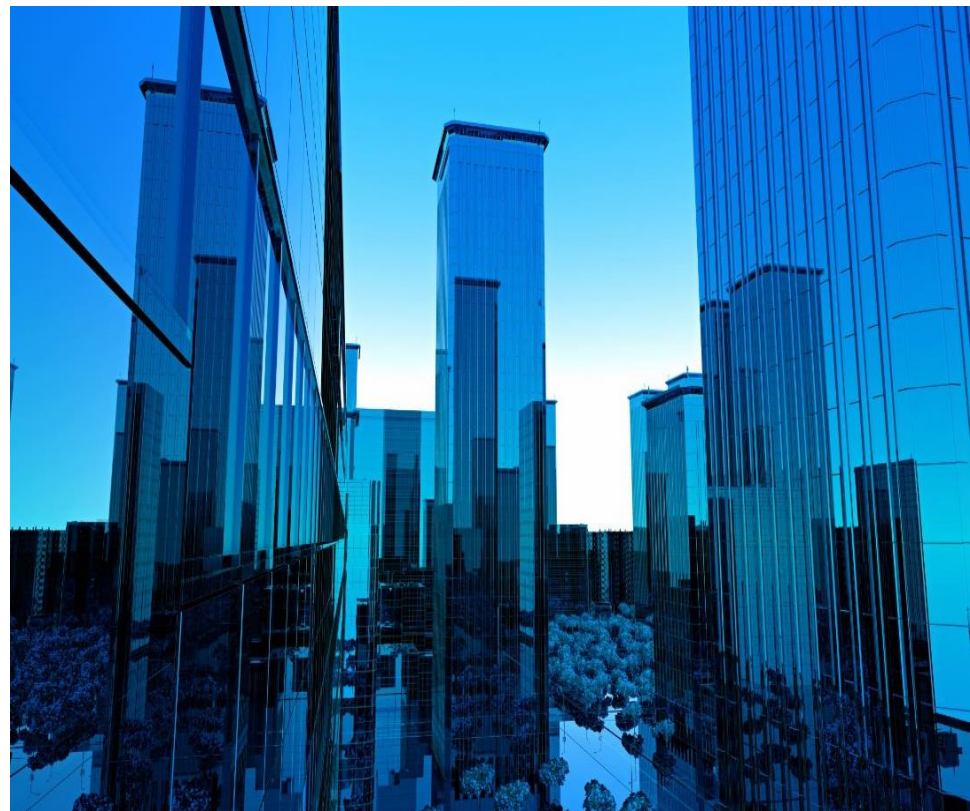
- Calculating the ROI of your mental health program: there are a number of mental health or EAP calculators that monetize the cost of managing mental health in the workplace. For example, the National Safety Council has created an easy-to-use [tool](#) that provides specific information to companies about the cost of mental health (including depression, anxiety, and general mental distress) in their workplace based on the size of employee base, industry and state. These costs include an estimate of the dollars lost in days of work missed, excess turnover and replacement costs, and greater health care use by distressed workers and family members.

A 3D rectangular sign with a red face and a dark red border. The words "ON AIR" are written in large, white, sans-serif capital letters on the red face. The sign has a slight shadow on the surface below it.

**ON AIR**

**30 MINUTES WITH CARIN KNOOP (HARVARD  
BUSINESS SCHOOL)**

# THE “G” IN ESG



# THE “G” IN ESG OR HOW A COMPANY IS MANAGED

- What is “good corporate governance”?
  - Good corporate governance is delivered by a board that proactively seeks to produce the best outcomes for all stakeholders, going beyond compliance
  - To ensure good corporate governance, boards may want to focus on the following key pillars:
    - Effectiveness: directors must have the knowledge and skills necessary to do their job well, and the board must have a structure that promotes independence and diversity
    - Fair compensation and remuneration system: that balances attracting top talent at the board and senior management with the best interests of the company. It is often recommended that compensation systems include both fixed income and two types of variable income: one associated with individual performance and another with long term performance measures (3 to 5 years)
    - Risk and crisis management: forming a risk management committee
    - Relationships with stakeholders: increasing shareholder involvement; proactiveness
    - Ethics and transparency: establishing codes of conduct, anti-bribery policies, effective reporting channels, regulations of conflicts of interest, and employee hiring and promotions



## THE “G” IN ESG OR HOW A COMPANY IS MANAGED

- Encompasses a variety of issues including without limitation: board composition, executive compensation, political contributions, shareholder rights, accounting and reporting
- Who owns ESG compliance? It's not clear, not all businesses have an ESG compliance officer or dedicated ESG team, but often the GC plays a critical role on evaluating ESG risk and disclosing it
- The potential impacts of not being ESG compliant are so high that most companies are bringing ESG compliance issues to the Board
  - This is in line with the SEC proposed new rules to enhance and standardize the disclosures registrants make about climate-related risks, which require (i) disclosures on how the board of directors and management oversee climate-related risk (including a description of the processes by which the board/board committee discusses climate-related risks – e.g., how and how often is the board informed of such discussions? How are interim target or goals established?), and (ii) the identification of any director with climate-related risk expertise

# THE “G” IN ESG - QUESTIONS FOR THE BOARD

1. **Scope:** what do your ESG efforts need to cover?
  - a. Work from home; diversity, racial diversity, equity and inclusion
  - b. Data privacy: cybersecurity and data protection
  - c. Increased shareholder accountability
  - d. Developing a “tone in the middle culture”
2. **Prioritize:** in what order would you tackle your ESG goals? (regulatory vs. voluntary imperatives)
3. **Practicalities:** how will you collect the ESG data you need to measure and drive your ESG compliance program?
4. **Responsibility:** who should be responsible for implementing and overseeing the progress of your ESG compliance strategies?
5. **Communication:** how will you communicate your ESG strategy internally and externally?



# THE EVOLVING ROLE OF THE CHIEF SUSTAINABILITY OFFICER (CSO)

- 1. Evolving Role:** From focus on PR messaging to shaping corporate strategy in order to embed sustainability throughout the organization (trade-offs)
- 2. Professionalization:** Traditionally CSOs had NGO or public affairs backgrounds and reported to PR, communications or public policy departments. Now we are looking at CSO's with a background on innovation, legal and finance backgrounds and C-suite credentials
- 3. Visibility:** CSOs frequently participate in investor meetings with the CEO, CFO and the head of investor relations. [Vale, Conoco Phillips, Anglo American]
- 4. Reporting Lines:** Varies, but mostly other members of the C-Suite – CEO (Unilever), COO (Nike) or CFO (Autostrade). They also report to the Board





**ON AIR**

**30 MINUTES WITH PALOMA VALOR (JONES  
DAY)**



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