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vault.

THE PURPOSE DRIVEN ISSUE

Maximizing strategic
potential while
minimizing risk





THE VALUE OF VALUES

For much of the last 40 years, the world of business has subscribed to a school of thought popularized by economist Milton Friedman and beloved of members of the Baby Boomer generation that run most large enterprises.

That way of thinking ultimately trickled down to a philosophy that shareholder profit must be achieved at any cost and that businesses - and by extension their employees - have only purely selfish motivations.

There have always been detractors, but in recent years the tide of social consciousness, in general, has shown signs of shifting in a more socially beneficial direction, signaled by the popularisation of acronyms such as CSR (Corporate Social

Responsibility), ESG (Environment, Social, and Governance), and D&I (Diversity & Inclusion). Meanwhile, modern economists have written much about the replacement of Friedman's SHAREholder benefitting approach with a multi-STAKEholder approach that seeks to recognize a corporation's responsibilities to employees, customers, communities, and the planet as well.

Yet while the notion that corporations have responsibilities beyond profit has gained widespread acceptance, corporate law, regulatory policy, and business leadership - broadly speaking - has yet to catch up. This has created an uneven playing field that creates risks for companies that want to 'do the right thing' and rewards for those that don't.

Of course, there are laws and regulations that companies must adhere to, but these only set a bare minimum of boxes that need to be checked for an organization to operate legally. The key argument affecting more forward-thinking businesses is that a company replacing equipment with more environmentally friendly alternatives, or sourcing materials from local suppliers that are unionized and pay employees a living wage, for example, will have a significant up-front investment and lead time that disadvantages them against those competitors that seek to get stuff done as quickly and cheaply as possible with a view to maximizing profit.

In some cases, the challenge is constitutional. In Delaware for example, where more than half of American public companies are incorporated, executives are still legally prevented from using their corporations as a “vehicle for purely philanthropic ends.” As a result, “a corporate policy that specifically, clearly and admittedly seeks not to maximize the economic value of a for-profit Delaware corporation for the benefit of its stockholders” remains illegal under Delaware law ¹.

There are hopes for change with a Biden administration in the US, but lagging and inconsistent legislation are just some of the reasons why several sectors, big tech in particular, are actually calling for increased regulation. After all, it’s easier to do the right thing if it’s a legal requirement that applies to everyone.

While conduct and compliance are cornerstones of company culture there to protect the business from breaches that incur costly fines and significant reputational damage, the pressure of the pandemic has seen standards slip as companies circumvent their processes to move things along. A true measure of a company’s integrity can be taken from an exercise in observation - where bullying or harassment flourish, you will likely find neglected safety protocols, careless use of protected data, environmentally damaging behavior and incidents of white-collar crime, and vice versa. In short, there’s no smoke without fire.



¹ <https://www.litigationandtrial.com/2010/09/articles/series/special-comment/ebay-v-newmark-al-franken-was-right-corporations-are-legally-required-to-maximize-profits/>

ALL RISKS ARE FINANCIAL RISKS

2020 should have been a milestone year in terms of sustainability, societal, and governance issues, and in some respects it still was, but when the Covid-19 crisis hit, the world's attention was diverted. For much of the year, the focus has been on economic recovery and while everyone has been affected by the crisis, the pandemic has been anything but a great leveler². Through its disproportionate impact on certain groups, especially women and people of color, it has in fact drawn more attention to persistent and systemic inequality and injustice on a grand scale. The disadvantages are wide-ranging, from lower pay, less access to healthcare and benefits, to working in roles more vulnerable to exploitation or with greater exposure to the 'front lines' of the pandemic.

As a result, the pandemic has sharpened the focus of society at large, governments, and almost all industries on the importance of social and environmental progress. The lesson is that corporate purpose needs to be at the heart of business resiliency and growth in the face of an unpredictable future. Purpose has the power to unify all stakeholders during the recovery process and after the pandemic, to build resilience for the future.



The movement is gathering momentum among private investors. In January, BlackRock, the world's largest asset manager, began pressuring companies it invests in to disclose their long-term environmental risks. BlackRock CEO Larry Fink said in an open letter that the company will end support for fossil fuel investments and redesign its investment approach to put sustainability at its core³.

"Climate change is almost invariably the top issue that clients around the world raise with BlackRock," Fink wrote in his letter to other CEOs.

In October, the Business Roundtable, an association of about 200 chief executive officers of large American corporations, called on companies to begin annual reports on efforts to increase diversity among senior management and on corporate boards.⁴

Then in November, a filing with the US Securities and Exchange Commission (SEC) from Nasdaq

2 <https://f.hubspotusercontent20.net/hubfs/4979575/ebooks/the-discrimination-issue.pdf>

3 <https://www.cnn.com/2020/01/14/blackrock-ceo-larry-fink-says-climate-change-will-soon-reshape-markets.html>

4 <https://www.businessroundtable.org/>

proposes that most listed companies will have to have to have at least two diverse directors, including one who self-identifies as female and one who self-identifies as either an underrepresented minority or LGBTQ+. Companies that are not able to meet these requirements must be able to publicly explain why⁵.

Such moves send a strong message on the importance of environmental, social, and governance matters to the US market’s agenda. Nasdaq cited over two dozen studies that found an association between diverse boards and better financial performance and corporate governance.

“We believe this listing rule is one step in a broader journey to achieve inclusive representation across corporate America,” said Nasdaq Chief Executive Officer Adena Friedman. “Our goal with this proposal is to provide a transparent framework for Nasdaq-listed companies to present their board composition and diversity philosophy effectively to all stakeholders.”

Indeed, ESG-themed investments should continue a hot streak as interest in sustainable and socially responsible investing grows, according to MSCI’s

(Morgan Stanley Capital International) global head of ESG research, Linda-Eling Lee.

"We were not necessarily expecting this to be the year where ESG really takes off, but clearly it has attracted a lot of attention, both in terms of the companies and what they're doing from an ESG perspective."⁶

GOOD ETHICS IS GOOD BUSINESS

This shift marks the continued erosion of a longstanding misconception that prioritizing ethics comes at the expense of financial performance. Because such focus has been on profit exclusively, the belief is that by putting environmental and social considerations on a par with income, a company cannot maximise its return to shareholders. Mounting evidence suggests this isn’t the case and ethical health is actually a good indicator of financial health.

Social and environmental awareness increasingly affects consumer behavior and business conditions. A study by the Morgan Stanley Institute for Sustainable Investing found that Millennials are twice as likely as the rest of the population to choose to buy products from sustainable companies⁷. While Ethisphere, an institute that measures ethical business practices, found that in its list of the world’s most ethical companies 2020, their share price had on average outperformed a



5 <https://www.nasdaq.com/press-release/nasdaq-to-advance-diversity-through-new-proposed-listing-requirements-2020-12-01>

6 https://www-cnbcom-cdn.ampproject.org/v/s/www.cnbcom/amp/2020/12/16/climate-change-will-be-a-big-2021-focus-in-esg-market-analyst.html?amp_js_v=a6&_gsa=1&usqp=mq331AQFKAGwASA%3D#csi=1&referrer=https%3A%2F%2Fwww.google.com&_tf=From%20%251%24s&share=https%3A%2F%2Fwww.cnbcom%2F2020%2F12%2F16%2Fclimate-change-will-be-a-big-2021-focus-in-esg-market-analyst.html

7 <https://www.morganstanley.com/press-releases/morgan-stanley-survey-finds-investor-enthusiasm-for-sustainable->

What you use
represents your values

당신에 사용하는 물건이
당신의 가치를 말해줍니다

你所使用的东西
代表你的价值观

あなたの使うものが
あなたの価値を表します。

benchmark index of comparable large companies by 13.5% over the preceding five years⁸.

This shift recognizes that the purpose of a corporation must jointly serve the interest of several stakeholders, including customers, suppliers, employees, local communities, and shareholders and it is a shift that will directly impact business strategy. Businesses can no longer focus narrowly on short-term profits but instead must pursue strategies that deliver performance across supposedly non-financial dimensions. The argument being that ultimately, all risk is financial risk.

According to research analyst Gartner, workplace culture is now the most discussed talent issue on earnings calls, with the number of mentions having grown 7% annually since 2010. The ‘Glassdoor era’ has created greater transparency into organizations’ culture, while employee activism has become commonplace, even sparking a nascent industry of tools designed to help employees mobilize their activity through ‘employee empowerment’.

Furthermore, as well as a significant rise in employee activism, there is a similar movement taking place among shareholders. In November, shareholders in Pinterest filed a lawsuit against

the company’s top executives, including CEO Ben Silbermann, for allegedly enabling a culture of discrimination. The complaint alleges that a toxic work environment has hurt the company’s reputation, leading to a user boycott and financial damage, making specific reference to a “white, male leadership clique.” Previously, Pinterest’s former COO Françoise Brougher had sued separately for discrimination and retaliation.

But Pinterest wasn’t the only company to feel shareholder wrath in 2020. In September, Google’s parent company Alphabet faced a series of shareholder lawsuits over a toxic work environment rife with allegations of sexual harassment linked to former executive Andy Rubin, who received an exit payout of \$90 million after he was investigated for misconduct. McDonald’s is also trying to claw back a multi-million dollar package given to ousted CEO Steve Easterbrook amid allegations that improper relationships with junior employees were greater than first understood.

With such strong signals forcing savvy companies to get their house in order, attention will, quite rightly, turn to the mechanisms through which a positive and ethical workplace culture can be enabled and through which purpose can be amplified.

⁸ <https://www.worldsmoethicalcompanies.com/honorees/>

THIS TIME IT IS DIFFERENT

A recent study from Harvard Business Review and Salesforce on Corporate Purpose in an Age of Crisis, defines corporate purpose as "the chief objective(s)" - that is, the overarching, overriding goal - "pursued by a business organization for the benefit of stakeholders, including shareholders, customers, employees, and the community(ies) that the organization serves."¹⁰

Purpose spreads discipline and focus throughout the organization. When all employees understand what the purpose is, the business can be so much more effective.

"From the COVID-19 pandemic to interconnected crises of inequality, economic access, and opportunity, the value of corporate purpose has never been more apparent. While there is no playbook for how to manage through this unique experience, corporate purpose can serve as a guide and also a defining factor in how companies emerge once the dust settles. Purpose-driven organizations have proven to be resilient, leaning into strong relationships with employees and customers to inspire engagement and innovation," said Ebony Beckwith chief philanthropy officer and CEO of Salesforce Foundation.

It's typical for companies to be quiet during times of social unrest but the protests that followed the death of George Floyd against the backdrop of the pandemic, forced a change. James Detert, a professor at the University of Virginia Darden School of Business and the author of the forthcoming book, *Choosing Courage: The Everyday Guide to Being Brave at Work*, said "There was a level of energy, activism, and reckoning that was different from anything that had happened in the past. The fact that [the protests] occurred amidst a pandemic that has disproportionately hit minority groups, and that has revealed the effects of systemic racism, made people hopeful that this time would be different."⁹

⁹ <https://hbr.org/2020/12/how-to-hold-your-company-accountable-to-its-promise-of-racial-justice>

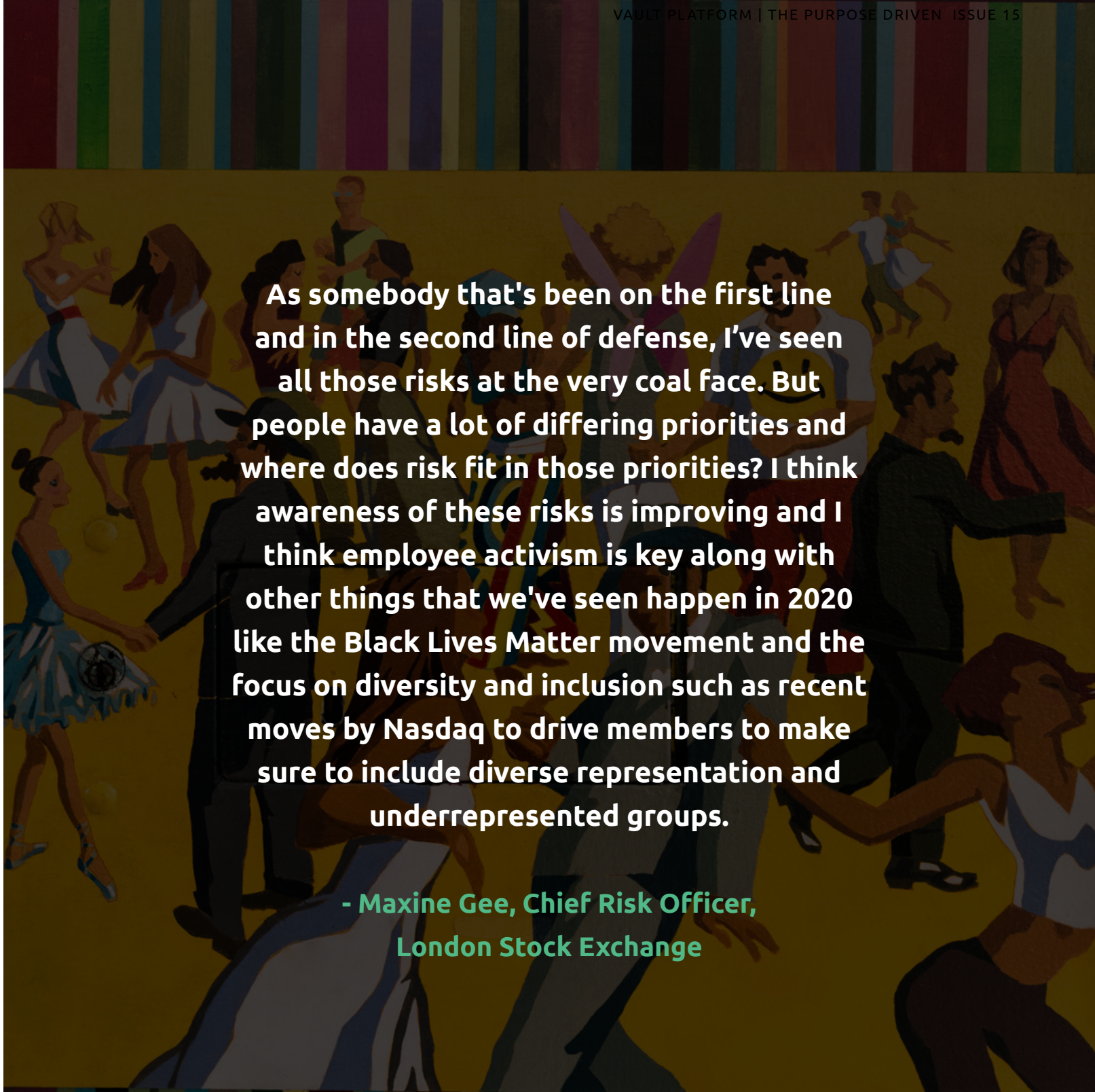
¹⁰ <https://www.salesforce.org/wp-content/uploads/2020/10/Harvard-Business-Review-Analytic-Services-Report-Corporate-Purpose-in-an-Age-of-Crisis.pdf>

In the HBR and Salesforce findings, 80% of respondents identified increased employee engagement as a benefit of their corporate purpose initiatives. More than half (55%) named increased employee retention as a benefit of prioritizing corporate purpose, and 54% cited increased engagement with the communities in which they operate. A further 47% of organizations are proactively reviewing their equality, inclusion, and diversity programs in light of the trend.

But doing ‘good’ indiscriminately is a pitfall, in the same way that saying the right thing but not backing it up with action, is becoming tedious because it’s not effective enough for others. Corporate philanthropy, CSR, ESG, and D&I are all positive initiatives but they have to leverage the company’s core competencies.

What the World Economic Forum found through its research is that only when companies transform their core business processes to generate social value will radical benefits to society be generated; and only then will these companies fully align with their “better world” purposes. Put differently, they will steadily walk the walk, instead of tiptoeing and sometimes stumbling¹¹.

This brings us to the matter of measurement. It’s often said that businesses measure what matters and in the case of traditional shareholder capitalism that was profit. But in the new world of stakeholder capitalism, companies will have to put metrics behind commitments not typically measured on a financial spectrum. Requiring public disclosure of those metrics will drive more accountability and, ultimately, progress but for now, the question is how to define these metrics as quantifiable, measurable, and more consistent across businesses.



As somebody that's been on the first line and in the second line of defense, I've seen all those risks at the very coal face. But people have a lot of differing priorities and where does risk fit in those priorities? I think awareness of these risks is improving and I think employee activism is key along with other things that we've seen happen in 2020 like the Black Lives Matter movement and the focus on diversity and inclusion such as recent moves by Nasdaq to drive members to make sure to include diverse representation and underrepresented groups.

**- Maxine Gee, Chief Risk Officer,
London Stock Exchange**

¹¹ <https://www.weforum.org/agenda/2020/12/make-business-thrive-doing-good>

NORMALIZING SPEAK UP CULTURE

Inconsistencies in the way companies report such data is one of the key challenges making it very hard to measure this stuff. But another significant problem is that of highlighting the issues and getting the conversation going. In many cases, there’s still a lot of stigma to overcome.

As a society, we’re barely comfortable with having the conversation about gender parity and ethnic diversity, so topics such as transgenderism, queerness, disability, or neurodiversity still require a lot of work. That said, 2020 has seen the world make great leaps in normalizing discussion around these important topics and the US has been something of a trailblazer here.

In a highly polarized political environment, what’s interesting is that public sentiment is changing quickly in favor of more support for inclusivity. For example, when the Supreme Court extended protections to LGBT employees in June, a poll conducted by the Kaiser Family Foundation, found that 90% of American adults agreed with the motion.

US President Elect Joe Biden’s victory has also ushered in a number of firsts. Kamala Harris of course made history as the first female, Black, South Asian American VP-elect, and at least five, and counting, transgender candidates have already made political history, including Sarah McBride, a Democratic

LGBTQ activist, who won the Delaware State Senate race to become the first openly transgender state senator and the country’s highest-ranking transgender official.

America is not alone in making headway. In October, Petra De Sutter, an openly transgender woman was sworn in as deputy prime minister in Belgium’s new government, becoming the most senior transgender politician in Europe. So it will be interesting to see what these and other bold moves do in terms of normalizing the conversation and removing stigma around diversity topics.

One important initiative is around complimenting and amplifying employee empowerment with more effective listening systems on the employer side. It’s very difficult to have a balanced conversation if all the improvements are made on the side of amplifying voices only and not of improving listening and the ability to act.

According to world renowned compliance expert Tom Fox, in conversation with Vault Platform CEO and co-founder Neta Meidav in December 2020: “It’s not just about having a technological solution that allows employees to report unethical behavior - although that



is certainly a part of it - it is having a speak up culture. A speak up culture is having a middle management, senior management, all the way up to the board of directors who are not only willing to listen, they want to listen and to encourage employees to speak up.”

Fox referenced studies from US academia that found that it wasn’t the act of reporting per se that made a difference, it was the culture of reporting unethical behavior or misconduct. The fact that the environment had zero tolerance of retaliation and looped back on all the information provided improved the company by making it more productive, not just by reducing fines, penalties and civil litigation brought by employees, but by increasing profitability.

“If you have a true speak of culture where management is listening, then you have now engaged your greatest asset - your people - and if you can engage your people to make your business better, you're going to increase profitability,” said Fox.

If CEOs were to support new requirements for corporate transparency on everything from climate risks to pay equity and diversity, it would encourage more companies to align their business practices with their values. But they must consider how to expose the shortcomings and innovations with a view to acting on them. Time and again

we’ve seen employees become so frustrated with internal systems for raising concerns that they take their voice elsewhere.

The perennial problem for Ethics, Compliance, and HR leaders is getting the people who know when something is wrong to speak up about it. Creating a culture where employees will come forward about the entire spectrum of misconduct from bullying and harassment through to bribery, corruption, and environmental wrongdoing is not an easy task and certainly not one that can be solved by policies alone or by archaic tools.

Policies are important but they merely set the ground rules. Culture is what takes over when no-one else is around - social isolation being a defining factor of 2020. Yet culture can be enabled by the right tools and if 2020 has shown us anything, it’s that helpful technology can be rolled out almost overnight to help drive purpose and make a difference.

"Purpose has the power to unify employees, especially during a time of crisis. No matter where they are in the world or what their experience is like, employees can find commonality and a sense of grounding through their company's shared values. As industries continue to shift from shareholder to stakeholder capitalism and more companies align with the sustainable development goals, it becomes clear that those who champion



purpose return the most value, " said Salesforce’s Ebony Beckwith in the Harvard study ¹².

As the risk spectrum continues to expand and with it the remit of the Ethics & Compliance function there is a requirement for greater collaboration between E&C and HR as the key guardians or stewards of organizational culture. Their job is not to ‘fix’ any of these diverse risks by themselves but to help drive the company’s purpose in a way that every employee understands it and is responsible and accountable.

Only the multi-stakeholder capitalism of the purpose driven company has this vision: it considers the need for equality, equity, and justice across all demographics as the foundation for a

free society. This way workers will share in, and deliver, greater value in what the organization produces and economic success will be achieved as a consequence, not as a goal.

Resilience means recalibrating the system to enable employees to work consistently toward a better life so as to fare better, even thrive, in the face of the next crisis.

¹² <https://www.salesforce.org/wp-content/uploads/2020/10/Harvard-Business-Review-Analytic-Services-Report-Corporate-Purpose-in-an-Age-of-Crisis.pdf>

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