Stakeholder Communications

Framing the Board's Story on ESG Disclosure

By Cathy H. Conlon

Despite generally rising stock valuations, our internal data show that 478 directors did not receive majority support (at least 50 percent in favor) from shareholders in 2019. The message: Good performance alone does not assure director support.

More investors are pushing companies to think beyond the bottom line. Environmental, social, and governance (ESG) factors are coming increasingly into focus.

In this environment, it's critical for directors to help guide a strategic ESG disclosure and engagement program. Looking forward, boards must engage all stakeholders on ESG policies and progress, including shareholders, employees, and others in your community.

Below are four ways directors can guide executive leadership in developing a winning ESG disclosure strategy.

1. **Give investors the information they're looking for.** According to the Rivel Research Corporate Governance Intelligence Council, 75 percent of investors say they want information about ESG-related policies. The Deloitte Global Millennial Survey found that younger investors are especially focused on climate change initiatives. Board diversity, meanwhile, is assuming much greater focus for several institutional investors. The State Street Global Advisors Stewardship Report, for example, announced that this year it may vote against all nominating and governance committee directors at companies that don't prioritize gender diversity. It's important to build meaningful feedback loops to learn about and understand the issues your investors care about. Directors can't create effective messaging unless they know their audience and its specific needs and interests.

2. **Use technology to engage stakeholders**. Three new technologies are making it easier to engage investors and put a personal face on the board. First, some companies are experimenting with interactive proxies. These digital, web-based experiences employ mixed media to present relevant information to shareholders. Interactive proxies are a comparatively inexpensive way to tell your corporate story, express ESG commitments, and promote shareholder engagement.

Second, forward-looking corporate boards are using social media to bring their message to investors. According to recent data from Pew Research, 68 percent of US adults say they have a Facebook account; 75 percent of those users reported logging in at least once per day. Robust user analytics enable precise segmentation and ad targeting, helping companies reach shareholders with remarkable accuracy.

Finally, virtual shareholder meetings (VSMs) use web-based conferencing technology to host annual meetings in a virtual environment. Like an earnings call, VSMs provide a convenient forum to engage investors and reach a wider audience. Some companies elect to hold a virtual-only meeting to reduce the costs that accompany coordinating a physical event. The main advantage is that VSMs typically create more opportunity for retail investors to participate.

3. **Messaging starts with the board.** As a steward of the organization, investors look for board commitment to the ESG factors that matter most. It's advantageous to work with your colleagues to develop cohesive, board-specific messaging that reflects the ESG values and identity integral to the organization. To that end, board composition itself may be an important part of your messaging on matters like diversity, climate competence, and social impact. The point is not merely to display commitment, but to embody your unique values so that your messages are genuine.

4. **Make your message stand apart.** Some organizations use prominent ESG frameworks to clarify and guide messaging. Examples of common frameworks include:

- The Business Roundtable statement.
- Proxy advisory guidelines (i.e., Institutional Shareholder Services and Glass, Lewis & Co.).
- State Street Corp. R-Factor scoring.
- The Paris Climate Accord.

These frameworks make it easier to tell your story. However, predetermined frameworks are not especially differentiating. ESG storytelling is an opportunity to showcase your unique brand identity, and various companies find they can articulate ESG commitments in a way that reinforces other messages they bring to market. For example, utility companies might emphasize climate or resource management, while retail companies might focus on human capital.

It makes sense to leverage frameworks to inform messaging. But it's also important to stick to your core and help the board stand apart.

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