AGENDA

THE WEEK'S NEWS FROM OTHER BOARDROOMS

July 16, 2012 | www.AgendaWeek.com

A Financial Times Service

More Lead Directors Talk to Shareholders

On some boards, being a liaison comes with the job

by Amanda Gerut

Shareholders now expect boards to be willing to talk to them directly about corporate governance, executive compensation, and corporate and social responsibility. And increasingly, the lead or presiding director is the person charged with doing the honors.

Observers say issues such as proxy access, say on pay, annual board elections and **ISS**'s rising profile have made it a necessity for boards — particularly the lead or presiding director if there is no independent chair — to engage directly with shareholders. While the practice isn't considered widespread, more boards are formally adding the responsibility to the list of lead director duties.

Some directors say such interaction is constructive. "I think it's a good give-and-take, and it's making the board more accessible and takes some of the mystery out of the board process," says **Rajiv Gupta**, the lead director at **Hewlett-Packard** and a board member at **Tyco International**, **Delphi Automotive** and **The Vanguard Group**.

Gupta says he has participated in

Lead Directors continued on page 8

The Business Case for CSR Reporting

Companies see payoffs in detailed sustainability disclosure

by Katie Wagner

Despite the hefty amount of work required to produce **Global Reporting Initiative** (GRI) and other kinds of sustainability reports, large U.S. companies say they have plenty of business reasons for doing so. That seems to explain why more companies either published such reports for the first time this year or improved upon earlier ones.

Being named to corporate social responsibility-focused stock indices or well known directories, like *CR Magazine*'s 100 Best Corporate Citizens List; attracting the growing number of ESG investors; gaining customers; attracting talent from Generations X and Y; and helping stakeholders understand a business better are among the motives that company officials and other experts cite for producing or enhancing sustainability reports.

"We feel that through robust reporting we're able to help the market understand our strengths," says **John**

CSR continued on page 10

CSR continued from page 1

Buckley, **BNY Mellon**'s managing director for corporate social responsibility.

The number of U.S. companies providing sustainability reports that follow the GRI's reporting guidelines — the most widely used standards for disclosing corporate performance in key sustainability areas — has been increasing steadily since at least 2008. According to the **Governance & Accountability Institute**'s research, 273 U.S. companies provided GRI reports for 2011, 46% more than for the previous year. An additional 23 companies produced reports that referred to the GRI guidelines, and 49 compiled non-GRI sustainability reports for 2011, according to G&A Institute data.

Within the past year, **Clorox**, **Coca-Cola**, **Bank of America** and BNY Mellon significantly expanded their sustainability reports, which all follow the GRI guidelines.

Cassandra Garber, the leader on sustainability reporting in Coca-Cola's corporate external affairs department, says companies gain credibility by producing a GRI report. "If you want to improve your reporting, GRI is the standard level," she declares. "Those folks that are concerned with sustainability reporting ask, 'Did you follow GRI?"

Clorox published its first GRI report in 2010. Last year, it became one of the first U.S. companies to take a new approach to disclosure called "integrated reporting," aimed at demonstrating the links between an organization's strategy, governance and financial performance and the social, environmental and economic context in which it operates.

The new report also follows the GRI guidelines but combines CSR disclosure with information from its annual reports, according to spokeswoman **Aileen Zerrudo**. With detailed sustainability reporting, Zerrudo says, Clorox wants to demonstrate to a broad set of stakeholders that it is thinking about its long-term performance and impact on communities and the environment.

Clorox also thinks that the reporting enhances its communication with stakeholders, which can benefit the business in a variety of ways. For example, disclosing the ingredients of Clorox's cleaning and disinfecting products is not required in the U.S., but the company thinks that some consumers will be more likely to buy those products if they feel more confident about their efficacy and safety, says Zerrudo.

She adds that Clorox suppliers need to keep the company's commitments to its supplier code of conduct top of mind. The sustainability report helpfully covers areas such as business ethics, workplace safety and environmental sustainability.

Battling Mistrust

BNY Mellon expanded its CSR reporting this year, including the 17 issues that the company considers "material" and articulating its long-term commitment to address them. Next year's report will provide even more disclosure on those issues, which include ethics and transparency, operational reliability, stakeholder engagement and talent management.

"As we have custody of more assets than any [other] bank in the world, we feel that the financial system will be more secure if we are transparent about our role in it and our responsibility regarding our management of risks," says Buckley.

BNY believes that continuously improving its sustainability disclosure helps the company maintain its strong reputation — something it considers particularly important in the wake of the 2008 financial crisis, which engendered unprecedented mistrust of the financial services sector.

Coca-Cola last year published its first GRI report, in addition to the less formal sustainability report that it had been providing for years. "We're going above and beyond what most companies are comfortable with sharing, and by doing so, it drives business improvements as well," says Garber. "For example, sometimes you have to make a change to your business in order to provide the answers to questions posed by the GRI."

She adds that Coca-Cola believes thorough CSR reporting gives the company a recruiting edge. "You would feel really good working for the company knowing that we are making a difference in areas like water stewardship…and women's economic empowerment," Garber says.

Reporting on attention to water management is also likely to reassure shareholders about a substance on which Coca-Cola's business depends. "Natural resources…are going away, and investors want to see that we're planning for that," says Garber.

Another benefit of the reporting: It has sparked helpful feedback from **Calstrs**, **Walden Asset Management**, the **World Resources Institute** and other stakeholders. Impressed with Coca-Cola's reports, they suggested ways to improve sustainability processes, Garber says.

Bank of America published its first GRI report last July, disclosing far more than its previous reports on environmental impacts. Now, the bank describes its efforts to promote fairness and transparency in its products and services; loans and investments in low-income communities; philanthropic investments; and environmental initiatives.

Perhaps as a reward, the **NASDAQ OMX Group** in May added Bank of America to its CRD Global Sustainability Index, which serves as a benchmark for U.S. exchange-traded companies that take a leadership role in disclosing their carbon footprint, energy usage, water consumption, hazardous and non-hazardous waste, employee safety, workforce diversity, management composition and community investing.

Louis Coppola, senior VP of information technology for the G&A Institute, says all sustainability-focused equity indices and editorial lists use sustainability reports to determine whether a company should be included or how it should be ranked.

Sure enough, Coca-Cola has made *Fortune*'s World's 50 Most Admired Companies list for the past three years. And this year it moved up to No. 4 from No. 6 — just three months after publishing its first GRI report.

Disclosure Caveats

Despite all the excellent business reasons for undertaking detailed sustainability reporting, it's not for every company. The level of detail that GRI guidelines call for may be too challenging for some. Even companies that provide GRI reports acknowledge the complexity. "In order to be able to follow the GRI, we had to make internal changes," says Coca-Cola's Garber. "You have to decide what you want to do, then implement the tools to enable you to collect what you want to report."

Another downside to producing sustainability reports is that they give the public something else to criticize. For example, two institutional investors have twice filed a shareholder proposal at **J. M. Smucker** after it published a sustainability report, demanding that the company disclose climate-related risks to its coffee brand Folgers.

Perhaps most important, the botttom-line benefits of investing in socially responsible practices can take years to materialize, while the market punishes or rewards companies in quarterly cycles.

Nevertheless, as today's investors, consumers and employees grow more concerned than ever before about ensuring that businesses are sustainable, high-quality sustainability reports are likely to become more common. Says **Bennett Freeman**, senior VP of sustainability, research and policy at **Calvert Investments**, "I have little sympathy or understanding for big companies' unwillingness to report GRI." ■

Katie Wagner (212-542-1243 or kwagner@AgendaWeek.com) covers shareholder issues, audit committees and executive pay highlights.

New Book Analyzes Boards' Shifting Mandate

Harvard's Jay Lorsch suggests it's not all about shareholder value

by Marc Hogan

In his new book, *The Future of Boards: Meeting the Governance Challenges of the Twenty-First Century*, **Harvard** Business School professor **Jay Lorsch** compiles experts' views on the current and future states of boards. A large theme throughout is what a company's responsibility should be today, according to Harvard's Working Knowledge blog.

Lorsch suggests that a corporate board's prime objective in 2012 is hardly set in stone. "I do think there's a movement away from maximizing shareholder value as the primary focus and motivation for a corporation's existence, and toward a growing recognition that companies are economic institutions that provide benefits to many constituents in the form of salaries and goods and services as well as returns to investors," he is quoted as saying.

Lorsch's book explores the most effective ways boards can oversee company strategy. It also looks at CEO succession and executive compensation. Boards' human element is also covered, with all the problems it can cause.

Finally, **Marsh & McLennan** vice chairman **David Nadler** argues in favor of appointing an independent chairman, while Merck's former chairman and CEO **Raymond Gilmartin** pushes for a lead director instead.

"The debate between having a lead director or a chairman who is separate from the CEO is an interesting debate, and it's ongoing," Lorsch told the Harvard blog. "I hope the book will give people who are involved in making these choices a chance to consider two different points of view and understand the pros and cons. There isn't a one-size-fits-all solution." ■