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Moving Forward

Accelerated changes drive the proxy outlook for 2021

By Ron Schneider

DFIN

A continuing emergence from COVID-19 should characterize 2021. While it's too soon to declare victory, there is valid cause for optimism with the expanding availability of new vaccines, as well as growing acceptance of science-based concepts of responsible behavior.

While we emerge, we cannot forget. The COVID-19 experience was painful—indeed, tragic for many—and we each shall take away different lessons to apply going forward. These lessons are likely to include short-term expedients alongside longer-term transformative steps.

Where We Are

In 2020, many companies went into "survival mode," with significant focus on employee health and safety. This frequently involved a forced experiment with remote work. Travel, physical meetings, conferences and other in-person gatherings were curtailed. Looking back, companies experienced varying degrees of success with this experiment, with uneven impacts on productivity.

As we apply the lessons from 2020, the "new normal" is likely to feature a mix of traditional, in-person work arrangements, as well as alternative, remote ways of doing business.

As companies grappled with the pandemic, investors showed some forbearance as they evaluated company progress on longer-term sustainability initiatives, executive compensation and virtual shareholder meetings. That said, the COVID-19 pandemic experience has galvanized investor resolve that the longer-term focus on sustainability is correct and has re-energized investor efforts in this area.

This temporary shift in investor priorities is documented in the *2020 Edelman Trust Barometer* report, based on a survey of 600 global institutional investors managing over $20 trillion in assets:

"Investors have temporarily deprioritized ESG due to COVID-19, but expect to intensify their focus on ESG as we recover." Specifically, "79% of respondents said their firms are temporarily deprioritizing ESG as an investment criteria. However, as we recover from COVID-19, 96% said they expect their firms to increase prioritization of ESG."

Adapting to a Faster Pace

The accelerated pace of change—and of reporting—highlight a need for consistent messaging. Three primary factors will drive the acceleration and broadening of reporting to investors and other stakeholders:

1. Renewed ESG focus by investors:

Companies will resume their sustainability journeys, identifying risks and

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opportunities, setting priorities and measuring progress, as well as reporting on resultant new strategies and progress through multiple channels, including:

- Investor relations messaging
- Website information
- Sustainability reports
- Initial or expanded human capital disclosures
- Proxy statement and annual report highlights

2. Disclosure of COVID-19 impact:
Companies are expected to discuss COVID impact and responses in these areas:

- Company operational and financial performance
- Board oversight of an expanding array of pandemic and ESG-related risks
- Business strategy and revenue stream diversification
- Supply chain resilience
- Increasing use of ESG and other nonfinancial metrics in executive compensation programs

3. New regulatory human capital disclosure requirements:
As part of its initiative to modernize Regulation S-K, the SEC approved new rules, effective Nov. 9, 2020, that instruct companies to apply a principles-based approach to the materiality of human capital considerations to their business, and based on that, to disclose:

- The number of employees and a description of the company's human capital resources, if material to the business
- Any human capital measures or objectives, if material, that the company focuses on in managing its business, such as those related to the development, attraction, safety, engagement and retention of employees

The above three drivers are interrelated, with employee health and safety at the nexus of COVID-19 impact and expanded ESG and human capital strategies and disclosures. Consequently, a useful starting point for evaluating your position, practices and disclosures may be a discussion of the impact of COVID-19 on employees and your own particular strategies for dealing with this impact.

Opportunity to Harmonize Messaging Across Documents

Given the "new normal" we are encountering, many companies will simultaneously be undertaking a) strategic and operational changes, as well as b) expansion of related disclosures. Unless carefully attended to, this may exacerbate an issue that investors—and companies—had focused on pre-pandemic: inconsistent or mixed messages among different documents and distribution channels.

Traditionally, disclosures have been controlled by different departments and budgets. At times, this has led to documents not just "looking" different, but worse, reflecting inconsistent, if not clashing, strategies and priorities. The move toward integrated reporting, which has gained slower traction in the U.S. than in some other markets, should help to minimize these inconsistencies. What is clear is that as investors demand more information, including the "why" as well as the "what" of company policies and practices, teams committed to strategy and drafting have been expanding to include cross-functional participation from various departments, including:

- Legal
- Investor Relations and Finance
- HR/Benefits
- Risk
- Audit
- Sustainability
- Executives and the Board

Whereas various documents and messages have distinct audiences and distribution channels, increasingly they reside adjacently on company websites. For years, investors and others have observed that there are often vastly different looks and degrees of company branding within a single website. As noted earlier, of even greater concern is the continuing risk of inconsistent messaging.

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What to Do

Here are a few steps that can help in creating and delivering a consistent message across disclosure channels:

1. Expand the concept and role of your disclosure committee to also focus on message consistency across documents and channels.
2. Existing documents need to be updated for content, message alignment and design/branding to "catch up" to the new story.
3. When crafting future messages and documents, different business owners and cross-functional drafting teams need to coordinate more closely.
4. Review the organization, hierarchy and navigation of your company and investor relations website(s). As a loose rule of thumb, can a reader access the top level of information they are seeking within three clicks? What made sense 10, or even three, years ago may no longer hold true given the escalation of investor interest in, and company reporting on, sustainability and related topics. CS

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*For additional examples of how companies are communicating about the impacts of COVID-19 on their companies, as well as a range of other compensation, governance, ESG and related proxy disclosures, please see DFIN's "Guide to Effective Proxies, 8th Edition" at **bit.ly/3sSTkqe**.*

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