



CECP

*“Investing in Society provides a quantitative and qualitative examination into the current state of corporate purpose.”*

Kari Niedfeldt-Thomas,  
Managing Director, CECP

# INVESTING IN SOCIETY

***Investing in Society* is the authoritative source to assess the corporate sector’s progress toward being increasingly purpose and stakeholder driven. CECP’s assessment combines rigorous analysis with research, trends, and cases from the ESG landscape, examined through the lens of CECP’s engagements with more than 200 of the world’s leading companies.**

***Investing in Society* organizes its insights as a company might in its own scorecard: Priorities, Performance, People, Planet, and Policies (the five “Ps” framework).**

***Investing in Society* is the must-read digest for the state of corporate purpose.**

## **ABOUT CECP:**

CECP is a CEO-led coalition that believes that a company's social strategy—how it engages with key stakeholders including employees, communities, customers, and investors—determines company success.

Founded in 1999 by actor and philanthropist Paul Newman and other business leaders to create a better world through business, CECP has grown to a movement of more than 200 of the world's largest companies that represent \$11.2 trillion in revenues, \$23 billion in total community investment, 14 million employees, 30 million hours of employee engagement, and \$21 trillion in assets under management. CECP helps companies transform their social strategy by providing customized connections and networking, counsel and support, benchmarking and trends, and awareness building and recognition.

For more information, visit [cecp.co](https://cecp.co).

Download additional copies of this report at [cecp.co/iis](https://cecp.co/iis)

When referencing findings from this report, please list the source as: *Investing in Society*.

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## NEW THIS YEAR:

In keeping with past years’ framework, Priorities, Performance, People, Planet, and Policies (five “Ps”), this report adds a new assessment of the state of corporate purpose. CECP conducted a Factor Analysis which explores the degree to which financial and ESG metrics are correlated with each other and explains changes within five “Ps” framework. You can download more information about CECP’s ESG Factor Analysis [here](#). Turn to **page 15** to read the full Factor Analysis.

Dear Colleagues,

CECP is pleased to share the 2021 edition of *Investing in Society*. This highly anticipated release highlights the issues that are top of mind for corporate leaders and their teams, and areas of consideration for companies looking to the future. Unique in the industry, *Investing in Society* provides a quantitative and qualitative examination into the current state of corporate purpose. This year's report analyzes the latest trends on environmental, social, and governance (ESG) metrics for companies in the Fortune 500®, summarizing these findings through three tools woven throughout *Investing in Society*: CECP's **ESG Factor Analysis**, **Stakeholder Scorecard**, and CECP's Thought Leadership and sector-wide literature review.

**Past editions** of *Investing in Society* have demonstrated how companies have pivoted their strategies to address the needs of all stakeholders, including employees, customers, communities, suppliers, and investors. In keeping with past years' framework, Priorities, Performance, People, Planet, and Policies (five "Ps"), this report adds a new assessment of the state of corporate purpose. CECP conducted a Factor Analysis which explores the degree to which financial and ESG metrics are correlated with each other and explains changes within five "Ps" framework. For instance, is the Percentage of Women in the Workforce a better predictor of social improvement or better corporate governance? Each section of the report will show the reader which metrics were grouped more strongly into each ESG factor and will also provide an indicator of the corporate sector's performance on those factors overall. Your company can use these findings to explore which actions have more importance under each ESG factor and may need more action and more public disclosure. The analysis showed that, particularly, the lack of disclosure on many social and governance metrics hinders a better understanding of the importance and correlation of those metrics with each ESG pillar.

Corporate leaders can also support their internal ESG metrics review by referring to CECP's **Stakeholder Scorecard** used throughout *Investing in Society* to benchmark their performance against peers in the Fortune 500® ranking. World events from 2020, including, but certainly not limited to, a global pandemic derived from the novel Coronavirus 2019 (Covid-19), racial justice movements throughout the U.S. and world, and an emotionally charged U.S. presidential election, have been deeply considered in this report, particularly in the Priorities section. The understanding of such societal dynamics was supported by a series of actions CECP instituted over the last year including weekly Pulse Surveys that addressed in real-time different world events and the corporate sector's response to them; peer-to-peer conversations on the corporate response to Covid-19; and a series of meetings on racial equity. This report is evidence that companies are taking the lead in revitalizing and reenergizing society during this critical moment.

We are confident that CECP's research will contribute to integration and standardization of ESG metrics to help companies address the needs of all key stakeholders. As always, we welcome your feedback for how to make *Investing in Society* better every year. CECP is proud to work alongside many of the companies highlighted within; we look forward to partnering with you as collectively we advance the state of corporate purpose.

Sincerely,



**Kari Niedfeldt-Thomas**

Managing Director, Chief Executives for Corporate Purpose (CECP)

# PRIORITIES

**This section** refers to current corporate priorities. This year, elements of CECP's Priorities section included corporate responses to Covid-19, recent developments in corporate purpose, and predictions about the near future in the corporate sector. While there are few widespread data points that could potentially be used for a Factor Analysis, this aspect is no less important than those included in the Factor Analysis.

## CORPORATE PURPOSE DEFINING STAKEHOLDER CAPITALISM

CEO leadership now and in the future is crucial given the current global pandemic that (at the time of writing) has taken the lives of over two million people worldwide and has caused a global recession. Particularly in the U.S., CEOs have stepped in to fill a leadership vacuum during recent political turmoil in the aftermath of a highly disputed presidential election, and in the context of much more needed social justice and racial equity. Here are five priorities for corporate purpose leadership in 2021.

### 1. COMMUNICATING WITH A DIVIDED NATION, GOVERNMENT, AND WORKFORCE:

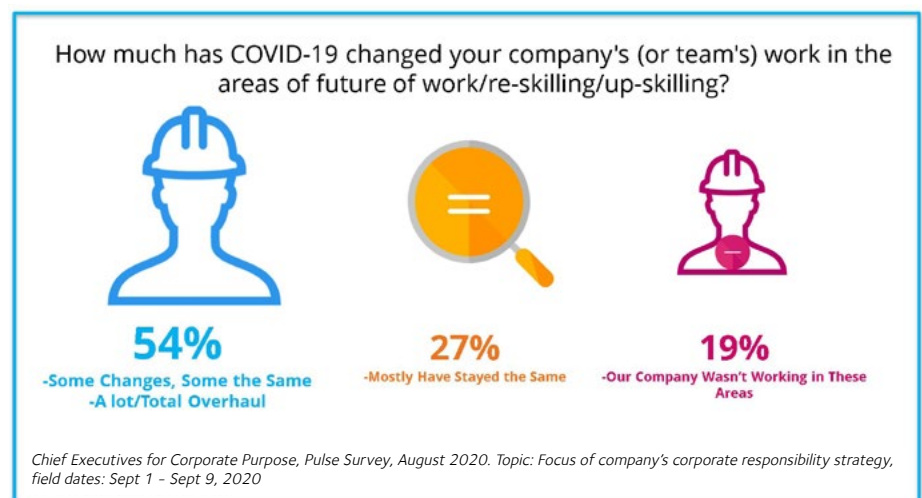
The current health crisis has shown that we are **not necessarily** all in this together. The current pandemic has exacerbated some of the preexisting economic disparities and made even more visible previous political differences. However, the corporate sector can act as a catalyzer to help **propagate empathy and listening** between opposing groups.

### 2. ADAPTABILITY AND INNOVATION:

The current pandemic has made it clear that not all sectors were ready to respond to a **changing climate**. The corporate sector is definitely leading the way to help bring society to a **new normal** by adjusting work from home policies, upgrading technology, and particularly, cutting innovation time from years to months.

### 3. EMPLOYEE WELL-BEING:

Taking care of employees starts at the top of corporate leadership. CEOs' role in providing safety for employees, especially in the current context, is more important



than ever. Supply chain, **essential and front-line workers** were especially at risk when the Covid-19 pandemic started. Fifty-four percent of companies have had at least some changes in how they work in the areas of future of work/reskilling/upskilling of employees as a response of Covid-19 (Source: **CECP Pulse Survey, August 2020**).

### 4. FOCUS (WHERE EQUITY IS THE STANDARD):

We saw companies support voting, make statements condemning racism, and care for communities struggling with Covid-19. As companies reflect on their role in advocacy, they will find efficiencies,

as they always do. They will identify their niche, their market.

### 5. TRACKING ESG = RESILIENCE:

According to the 2020 **Edelman Trust Barometer**, "social" is the most important ESG priority for investors, including a healthy corporate culture. Our collective goal is to extend the capital time frame, or as **Rebecca Henderson** says, "re-wire the capital markets". We see growing evidence that **corporate responsibility** and investor relations (IR) are working together.

## EMBRACING CORPORATE PURPOSE

### LEADING COMPANIES HOLD PURPOSE AT THE CORE OF THEIR STRATEGY

CECP's CEO Investor Forum's report *The Return on Purpose: Before and During a Crisis*, clearly illustrates why leading companies hold purpose at the core of their strategy. Financial performance between high-purpose and low-purpose brands widened during Covid-19. The purpose score gap between top- and bottom-quartile total-shareholder-return-performers increased during the pandemic. Companies with the best purpose scores generally moved up and into the top quartile of total shareholder return performance, suggesting that the capital markets expected companies with stronger corporate purpose to maintain a stronger connection to their consumers and deliver more resilient financial performance.

### BLACKROCK CEO LARRY FINK'S 2020 LETTER

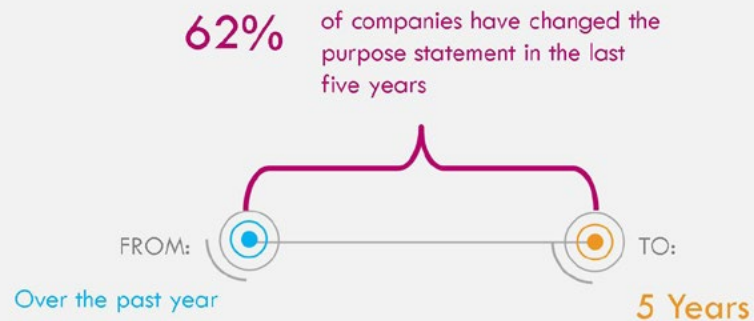
BlackRock CEO Larry Fink once again reinforced through his [letter](#) in 2020 to company executives the importance of embracing a strong sense of purpose and a commitment to stakeholders, which help companies connect more deeply to its customers and adjust to the changing demands of society: *"Ultimately, purpose is the engine of long-term profitability"*. In this sense, there is an increasing set of conceptual **frameworks to guide businesses** and lawmakers toward policies and practices that should help corporate "profitably solve the problems of people and planet," and prevent companies from doing harm.

### CORPORATE PURPOSE STATEMENTS ARE CONTINUOUSLY EVOLVING

Corporate purpose statements are continuously evolving. Sixty-two percent of companies have changed their corporate purpose statement in the last five years (Source: [CECP Pulse Survey, July, 2020](#)). However, as reflected in [McKinsey's Organizational Purpose Survey](#), a corporate purpose gap forms when there is disconnect between

public perceptions of business and its potential for good, or when there is a disconnect between employees' desire for meaning at work versus what they experience. This corporate purpose gap is also reflected in the fact that "contributing to society" and "creating meaningful work," the top two priorities of employees, are the focus of just 21% and 11% of purpose statements, respectively.

#### WHEN DID YOUR COMPANY CREATE OR MOST RECENTLY CHANGE ITS CORPORATE PURPOSE STATEMENT?



Chief Executives for Corporate Purpose, Pulse Survey, August 2020. Topic: Changes in corporate purpose statements, field date: July, 2020

#### 2020 Budget Changes due to COVID-19 Response



47%: INCREASE in 2020 budget



36%: Re-purpose current budget for COVID-19 response

Chief Executives for Corporate Purpose, Pulse Survey, August 2020. Topic: Budget changes due to COVID-19 response, field dates: April - May, 2020

# COVID-19 HAS DISRUPTED CORPORATE PRIORITIES AND CHANGES ARE HERE TO STAY

## COVID-19 IMPACTED CORPORATE BUDGETS IN 2020 AND 2021

Covid-19 hit corporate budgets in 2020 and 2021: 47% of companies stated their community investment budget increased in 2020 due to Covid-19 response. Subsequently, 18% of companies predicted their community investment budgets would increase in 2021 (Source: **CECP Pulse Survey, April-May, 2020**). **Corporate purpose programs rapidly adapted to Covid-19** by responding to the needs of community partners quickly through grantmaking and employee donations.

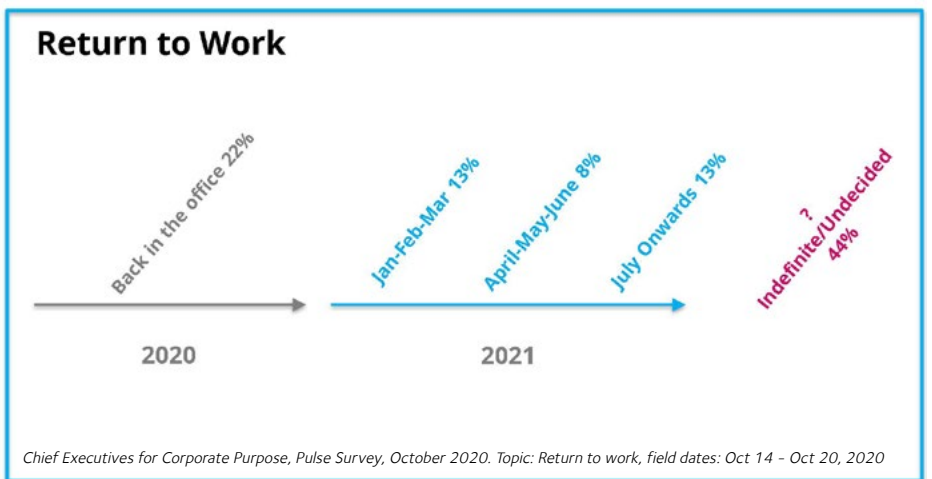
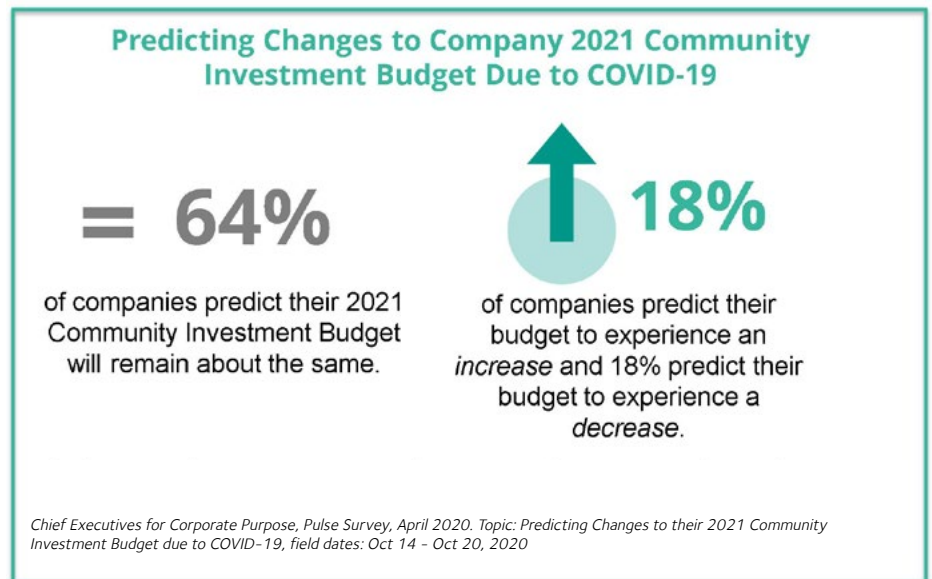
## COMPANIES MAINTAINED COMMUNITY INVESTMENT BUDGETS

Companies maintained community investment budgets, increased engagement from employees in the form of more corporate matches, increase in virtual volunteering, and evolved thinking on issue areas of focus such as food security.

## ADMINISTRATIVE PROCESSES AND CORPORATE INFRASTRUCTURE ADJUSTED AS WELL

**Administrative processes and corporate infrastructure** also had to adjust to the new reality: only 22% of companies planned to return to in-person work in 2020, 34% had a timeline to return to work in 2021, whereas 44% were undecided (Source:

**CECP Pulse Survey, October, 2020**). Eighty-five percent of companies reported they had unique Covid-19 response efforts, such as altering manufacturing to produce hand sanitizer, however only 54% were able to measure them (Source **Pulse Survey, May 2020**).work,” the top two priorities of employees, are the focus of just 21% and 11% of purpose statements, respectively.





# PURPOSE CONTINUES DRIVING BRAND/CUSTOMER RESULTS

## CUSTOMERS EXPECT BRANDS TO MAKE A PROFIT AND IMPACT SOCIETY

The **Edelman Trust Barometer 2020** shows that customers expect brands to act: the percent of belief-driven buyers increased from 2017 to 2019. These types of buyers believe that brands can be a powerful force for change and choose brands based on their stand on societal issues.

## GEN Z BELIEVES COMPANIES MUST ACT

More granularly, **90% percent of Gen Zers** believe companies must act to help social and environmental issues and 75% will do research to see if a company

is being honest when it takes a stand. Moreover, **corporate purpose, as a force for good**, has a positive effect on demand, loyalty, consumer advocacy, price premium, strategic clarity, innovation, effect of diversity, brand reputation, and growth.

## COMPANIES KNOW HOW IMPORTANT IT IS TO MEASURE THE BUSINESS VALUE OF COMMUNITY INVESTMENTS

CECP's **Giving in Numbers: 2020 Edition** shows that companies know how important it is to measure the **business value of community investments** through employee and brand/customer metrics: 4 out of 10 companies did

so in 2019. This is slightly up from previous year, especially for brand/customer metrics (33% in 2018). The business value of brands having a well understood "Purpose" has revealed a strong business benefit to such purposeful brands and their companies, as **consumers are four to six times more likely to buy from, trust, champion, and defend companies with a strong purpose**. Purposeful brands grow twice as fast as their competition. Over a period of 12 years, the brands with high perceived positive impact have a **brand value growth** of 175%, versus 86% for medium positive impact and 70% for low positive impact.

## CONSUMERS EXPECT BRANDS TO ACT

Percent of customers who are belief-driven buyers

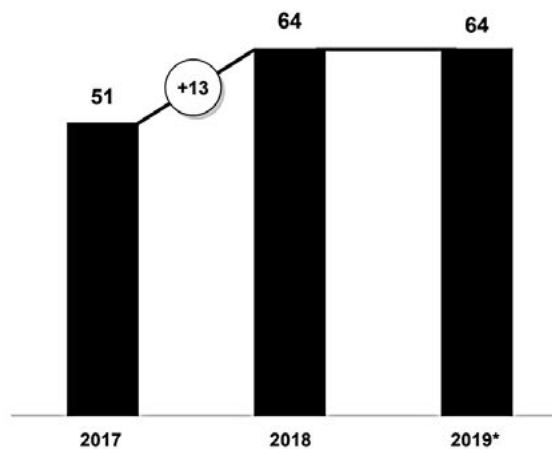
Change, 2017 to 2018

**Brand Democracy**

I believe brands can be a powerful force for change.

I expect them to represent me and solve societal problems.

My wallet is my vote.



Belief-driven buyers:

- choose
- switch
- avoid
- boycott

a brand based on its stand on societal issues

2018 Edelman Earned Brand. Belief-driven buying segments. 8-mkt avg. Belief-driven buyers choose, switch, avoid or boycott a brand based on its stand on societal issues.

\*2019 Edelman Trust Barometer Special Report: In Brands We Trust? Mobile Survey. Belief-driven buying segments. 8-mkt avg. See Technical Appendix for a detailed explanation of how the Belief-driven buying score was calculated.





# PERFORMANCE

**Performance factor:** CECP's **ESG Factor Analysis** showed that variables associated with financial performance and economic distribution, had a very high correlation with each other and grouped into a common underlying factor. Although financial metrics were included in the calculation of the Factor Analysis, the main analysis centered on Planet, People, and Policies.

**CECP's Stakeholder Scorecard** showed that companies in the Fortune 500 ranking had very mixed financial performance when comparing fiscal year 2017 and 2019. During that timeframe, Revenue and EBITDA increased, however, Market Capitalization decreased.

## THE ROLE OF STAKEHOLDER CAPITALISM IN LONG-TERM THINKING

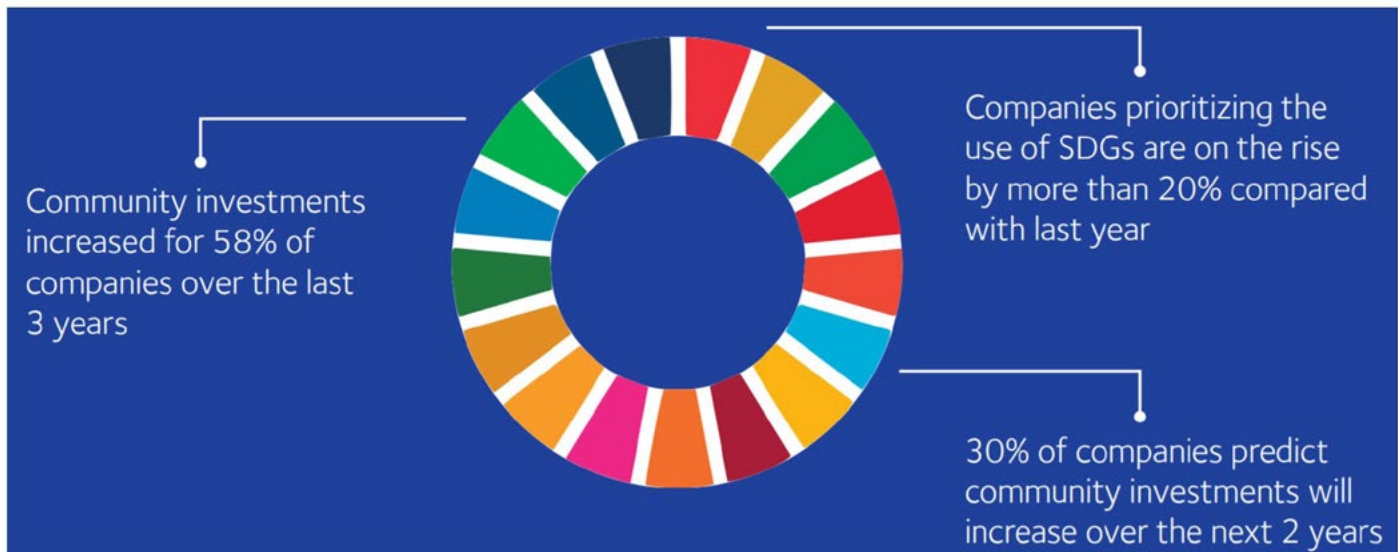
| Performance (Financial)                          | FY2017 | FY2019 | Favorable Delta Δ in green |
|--|--------|--------|----------------------------|
| Revenues (Median, in US\$ Billions)              | 11.3   | 12.7   | 12.2%                      |
| EBITDA (Median, in US\$ Billions)                | 2.0    | 2.4    | 20.2%                      |
| EBITDA to Revenue (Median, Ratio)                | 15.5   | 16.9   | 8.8%                       |
| ENTERPRISE VALUE/EBITDA (Median, %)              | 10.7   | 10.7   | 0.0 pp                     |
| Return on Invested Capital (Median, %)           | 8.6    | 8.7    | +0.3 pp                    |
| Market Capitalization (Median, in US\$ Billions) | 19.4   | 19.0   | -1.8%                      |

Mixed Financial Performance

Source: Bloomberg Terminal

| Theme                         | Prosperity: Expanded metrics and disclosures   | Sources                 |
|-------------------------------|--|-------------------------|
| Community and social vitality | <a href="#">Total Social Investment (\$)</a><br>Total Social Investment (TSI) sums up a company's resources used for "S" in ESG efforts defined by CECP Valuation Guidance.  | CECP Valuation Guidance |
|                               | <a href="#">Additional tax remitted</a><br>The total additional global tax collected by the company on behalf of other taxpayers, including VAT and employee-related taxes that are remitted by the company on behalf of customers or employees, by category of taxes. | Adapted from GRI 201-1  |
|                               | <a href="#">Total tax paid by country for significant locations</a><br>Total tax paid and, if reported, additional tax remitted, by country for significant locations.   | Adapted from GRI 201-1  |

World Economic Forum, *Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation*, 2020



Chief Executives for Corporate Purpose. 2020 Global Impact at Scale: Corporate Action on ESG Issues and Social Investments

### ESG AND THE EARNINGS CALL

The interconnection between financial performance and ESG prioritization may be more clearly evidenced in the long-term. CECP's CEO Investor Forum's report, **ESG and the Earnings Call**, sets out practical recommendations for corporates to embed ESG content into earnings call discussions. The recommendations sit in three broad categories: using the earnings call schedule; operational process approaches to develop relevant ESG content; and narratives and metrics to disclose. The paper surveys the literature on short-term concerns and the rise of ESG into the capital markets mainstream. It also connects CECP's work on long-term disclosure to the shorter-term accountability environment offered by the quarterly call.

### THE IMPORTANCE OF PROSPERITY AND EQUITY

Prosperity is recognized by the SDGs and the **World Economic Forum** (WEF) as a critical area of importance. The importance of improving financial performance in the corporate sector goes in hand with having a more equitable

and prosperous society. Long-term value creation is critical for business performance, competitive advantage, mitigating risk, and strengthening stakeholder relationships. Even when there is not yet a direct link between achieving the SDGs and financial performance, stakeholders have indicated that reporting on these metrics is important for sustainable value creation.

### GLOBAL IMPACT AT SCALE

CECP's 2020 report, **Global Impact at Scale**, found that the unprecedented global health crisis of the Covid-19 pandemic has

made social inequalities starker, in turn increasing the urgency and relevance of the SDGs.

**Global companies** prioritizing the use of SDGs are on the rise by more than 20% compared to the previous year.

### LONG-TERM IMPLICATIONS OF COVID

As organizations address the **longer-term implications of Covid-19**, it is imperative to focus on the needs of all stakeholders—from customers to suppliers to shareholders and, specifically, employees—to ensure no one is left behind.

### EVIDENCE OF DISCLOSURE SHIFTING TOWARD LONG-TERM, SUSTAINABLE VALUE

- » **Investor days:** Issuers are sharing long-term focused content at investor days (e.g., United Health Group)
- » **ESG calls:** Issuers are starting to convene investor-facing calls to focus on ESG themes (e.g., Jones Lang Lasalle, Johnson & Johnson)
- » **Earnings calls:** Issuers have begun experimenting with building elements of ESG-type disclosures into earnings call content (e.g., Becton, Dickinson)
- » **Guidance practice:** Issuing quarterly EPS guidance is now a minority practice and long-term financial guidance is rising from a low base

CECP's CEO Investor Forum (CIF), NYU Stern School of Business, Center for Sustainable Business. *ESG and the Earnings Call. Communicating Sustainable Value Creation Quarter by Quarter, 2020*

# PEOPLE

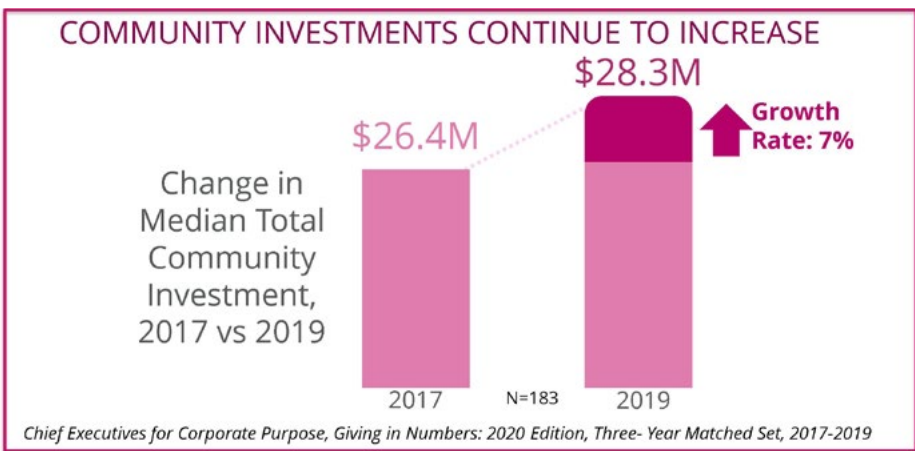
**People factor:** CECP's **ESG Factor Analysis** showed 45% of companies in fiscal year 2019 had Factor Scores greater than zero for the People factor. In other words, these companies' values showed greater weight and correlation with diversity, as opposed to companies with Factor Scores less than zero.

**CECP's Stakeholder Scorecard** showed that companies in the Fortune 500 ranking had substantial improvement in social and workforce investments between 2017 and 2019. Both **Giving in Numbers'** Total Community Investment and Bloomberg's Community Spending figures have increased. Metrics on employee engagement also show positive outcomes (e.g., more volunteered hours).

| People (Employees, Communities)                       | FY2017 | FY2019 | Favorable Delta Δ in green |
|---|--------|--------|----------------------------|
| Number of Employees (Median, in Thousands)            | 24.6   | 26.0   | 5.3%                       |
| Volunteered Hours (Median, in Thousands)              | 82.7   | 99.5   | 20.3%                      |
| Employee Turnover (Average, %)                        | 12.9   | 12.7   | -0.3 pp                    |
| Total Community Investment (Median, in US\$ Millions) | 31.2   | 35.3   | 13.1%                      |
| Community Spending (Median, in US\$ Millions)         | 11.7   | 13.1   | 12.0%                      |
| Women in Workforce (Median, %)                        | 31.0   | 31.6   | 0.6 pp                     |

Societal investments increased along with employees' contributions to society

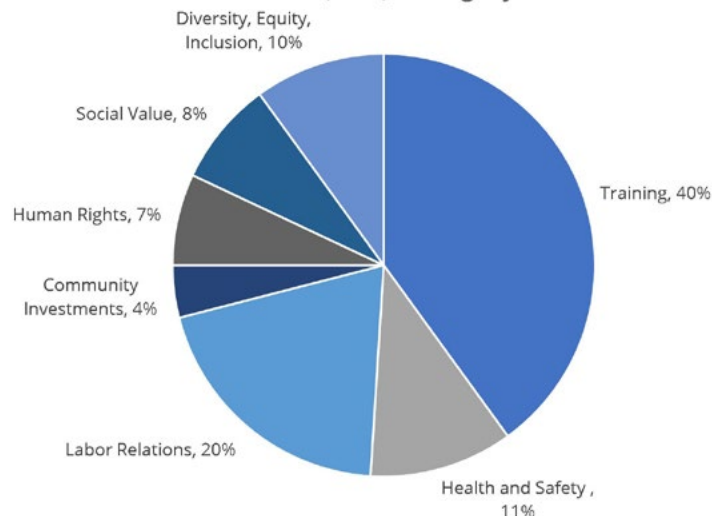
Source: Bloomberg Terminal, and Chief Executives for Corporate Purpose (CECP) Analysis



**TOTAL SOCIAL INVESTMENT: A COMPARABLE METRIC THAT BROADENS THE UNDERSTANDING OF CORPORATE ACTION ON SOCIAL ISSUES**

In the 2021 **Giving in Numbers** Survey, CECP includes for the first time a question asking for Social Value (in US\$), a component of Total Social Investment, a concept first developed in CECP's **What Counts: The S in ESG** and **What Counts: The S in ESG New Conclusions Data** from recent years shows that some examples of these Social Value activities are growing—such as socially driven internships, donation of digital assets, **shared value**, and **impact investment**. Read more in CECP's **Valuation Guide**.

Total Social Investment (US\$), Category Breakdown, 2020



Chief Executives for Corporate Purpose, Valuation Guide, Giving in Numbers Survey

**EMPLOYEE ENGAGEMENT PROPELLING HOW COMPANIES' PEOPLE CAN HAVE GREATER IMPACT IN SOCIETY**

Employees continue valuing flexibility in their volunteer program opportunities as evidenced in



## Giving in Numbers: 2020 Edition

Volunteer participation rates increase when employees have access to more flexible volunteering opportunities. There is an increasing trend of companies offering programs that offer time, flexibility, or both, so employees can decide when and how they will volunteer.

Volunteering in 2020 had to adapt to the moment with companies turning to virtual volunteering as an opportunity to continue volunteering commitments throughout the Covid-19 pandemic. Half of companies were using current nonprofit partners to provide such volunteering opportunities to their employees. Twenty-three percent of companies used intermediary organizations that coordinate volunteering, 9% started working with new partners, and 6% used new software tools (Source: [CECP Pulse Survey, September-October 2020](#)).

VolunteerMatch analyzed the effect of the current global pandemic on volunteerism and found that in-person volunteering decreased, as expected. In turn, virtual volunteering opportunities increased throughout 2020. Read more [here](#).

## SOCIAL JUSTICE ACTIONS, DIVERSITY, EQUITY, AND INCLUSION (DEI) AT THE FOREFRONT OF GLOBAL CONSCIOUSNESS

The killing of George Floyd in May of 2020 was a catalyst for bringing the issue of systemic racism to the center of corporate attention. Many companies recognized the need to **address** and take action for real change. Centuries of racial injustice finally became the focal point for American conversations, at home

and in the workplace. Incidents in Minneapolis, New York City, Louisville, and Brunswick, GA, and unfortunately many other places in 2020 provoked social unrest, civic discourse, and a series of protest events as part of the larger **Black Lives Matter** movement and a manifestation of a long history of discrimination touching almost every segment of society.

The first main way companies responded to last year's police brutality against people of color was through their CEOs/C-Suite issuing public statements (62% of companies), followed by increasing grants or in-kind donations to nonprofits that fight racism (Source: [CECP Pulse Survey, June, 2020](#)). CECP compiled statements from companies, which can be found [here](#).

Considering last year's calls for social justice amid a global pandemic, companies had to adapt their ways of tracking non-traditional volunteering. Although 7 out of 10 companies were not yet tracking such type of volunteering, 28% of companies were tracking acts of kindness (e.g., calling to check on elder neighbors, buying their groceries) or acts of civic engagement (e.g., marching in a peaceful protest) (Source: [CECP Pulse Survey, July 2020](#)).

**Porter Novelli Purpose Tracker: The Business Imperative for Social Justice Today** provides more insights on the intersection of social justice as a catalyst of DEI and racial equity in the United States. This report also delves into how Americans expect companies to not only speak up but also step up.

## CALL TO BUSINESS: COMPANIES CANNOT STAY SILENT ON SOCIAL JUSTICE



64% of Americans say it's no longer acceptable for companies to stay silent on social justice

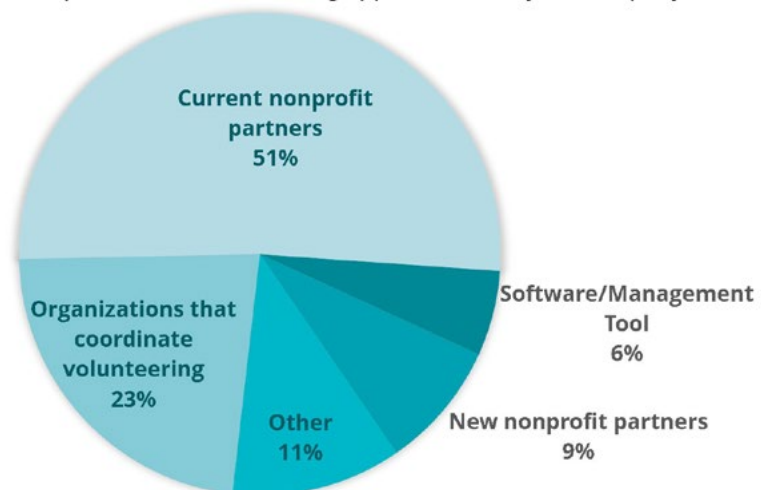
**54%**

More than half say companies that do not talk about social justice issues in their marketing or communications are out of touch

Porter Novelli Purpose Tracker: Waver VII. Addressing Social Justice & Diversity in Communications, 2020

## Virtual Volunteering

Volunteering in 2020 is different in many ways, an example of this is the increase in virtual volunteering. Please select the option that best describes the main source to expand virtual volunteering opportunities at your company:



Chief Executives for Corporate Purpose, Pulse Survey, October 2020. Topic: Virtual Volunteering, field dates: Sept 6 - Oct 13, 2020

## DEI MUST START ON THE INSIDE SO COMPANIES TRULY MAKE TANGIBLE CHANGE IN RACIAL INEQUITY

Companies are taking action and putting their money to good use: 73% of predicted their 2021 DEI budget would increase (Source: CECP Pulse Survey, June 2020).

Given the wide range of DEI metrics that companies report, senior executives track employee demographic representation more than other metric categories (59%), followed by performance in external DEI-related scores (e.g., Corporate Equality Index) (12%), adherence to external frameworks (9%), and participation in Employee Resource Groups (ERGs) (9%). Aspects such as Retention/Promotion and diversity in supply chain were tracked to a lesser degree (6% and 3% respectively) (Source: CECP's **Pulse Survey, September 2020**).

CECP's research on the top 50 companies in the Fortune 500 ranking revealed that some of the most prevalent DEI metrics are gender and race. Within these two metrics, the topics for which companies had more metrics available in their public communications (e.g., CSR annual reports, DEI reports, websites) were metrics related to breakdowns of gender and race as part of their total workforce, and breakdown by gender of race of managerial and executive positions.

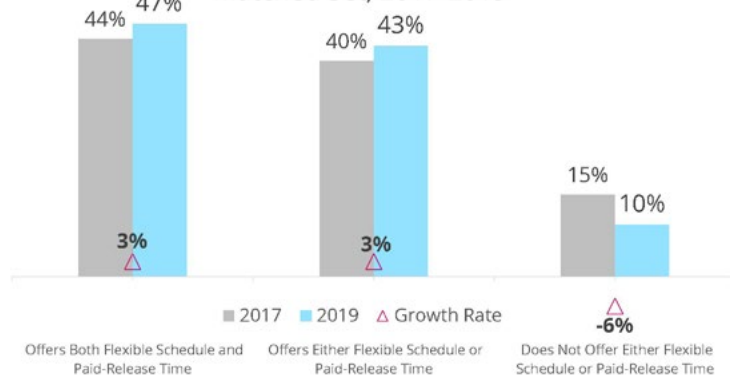
CECP's research on these companies also revealed that the lowest percentage of metrics broken down by gender or race corresponded to Pay Equity, Career Development, and Retention/Engagement. Companies are still searching for the best metrics to assess progress on inclusion and equity.

### Actions taken by companies against racism



Chief Executives for Corporate Purpose, Pulse Survey, June 2020. Topic: Actions taken by companies against racism, field dates: June 9 - June 15, 2020

### Percentage of Companies Offering Each Combination of Volunteer Programs, Three-Year Matched Set, 2017-2019



Chief Executives for Corporate Purpose, Giving in Numbers: 2020 Edition, Three-Year Matched Set, 2017 - 2019

### DEI BAROMETER PERCENTAGE OF METRICS AVAILABLE IN COMPANY'S PUBLIC COMMUNICATIONS FOR EACH CATEGORY

|        | Recruitment/<br>New Hires | Career<br>Development<br>+ Promotions | Pay Equity | Workforce | Workforce<br>Retention/<br>Engagement | Management<br>(1st/2nd<br>level) | Executives<br>(3rd level -<br>VPs, C-suite) |
|--------|---------------------------|---------------------------------------|------------|-----------|---------------------------------------|----------------------------------|---|
| Gender | 30%                       | 13%                                   | 18%        | 75%       | 15%                                   | 58%                              | 50%   |
| Race   | 20%                       | 8%                                    | 10%        | 75%       | 5%                                    | 60%                              | 50%   |

Chief Executives for Corporate Purpose: CSR Report Review from Top 50 Fortune companies, n=40

At the 75th United Nations (UN) General Assembly hosted in 2020, more than 250 companies committed to take action to advance women's leadership and equality by participating in the UN Global Compact's **Target Gender Equality Programme**. This effort aims to help companies tackle and identify barriers to progress on gender equality in the workplace.

# PLANET

**Planet factor:** CECP's **ESG Factor Analysis** showed that 69% of companies in fiscal year 2019 had Factor Scores greater than zero for the Planet factor, or in other words, had a positive impact on the environment, as opposed to all other companies that had Factor Scores less than zero, which implies a negative impact on the environment in terms of this composite variable.

**CECP's Stakeholder Scorecard** showed that companies in the Fortune 500 ranking had overall positive environmental performance between fiscal year 2017 and 2019. Positive environmental impact was reflected in a slight reduction in greenhouse gas emissions, larger amounts of recycled waste, as well as increase in the percentage of companies offering water or waste reduction policies.

## SOME PROGRESS ON ENVIRONMENTAL ISSUES EVEN IN THE MIDST OF A GLOBAL PANDEMIC

The public expects companies to continue their efforts to fight climate change despite challenges from the Covid-19 pandemic. Read more [here](#).

In 2020, more than 150 companies, including Apple, Google, IKEA, and Microsoft joined their voices to call on the EU to tighten greenhouse gas emissions restrictions. Read more [here](#).

Sustainable debt and green bond issuance broke records in 2020, despite a temporary slowdown during the height of Covid-19. Read more [here](#).

As investor demand for green bonds has been high, countries have responded. Germany has created a green bond framework for its first sovereign green bond, which was issued in 2020 and annually going forward. Read more [here](#).

CECP's **Global Impact at Scale** report shows how most global companies have established their organization structure so teams work together on the "S" and "E", rather than via informal collaboration (see Global Impact at Scale, Page 22). Most companies are increasing ESG resources across the board, and a vast majority are predicting increasing resources on environmental issues,

| Planet (Resource Use)   | FY2017 | FY2019 | Favorable Delta $\Delta$ in green |
|---|--------|--------|-----------------------------------|
| Greenhouse Gas Emissions (Median, in Millions of Metric Tons) | 0.9    | 0.9    | -4.0%                             |
| Water Use (Median, in Millions of Cubic Meters)               | 5.4    | 5.7    | 4.4%                              |
| Offers Water Policy (%)                                       | 58.1   | 66.9   | +8.7 pp                           |
| Recycled Waste (Median, in Thousands of Metric Tons)          | 38.4   | 44.9   | 16.8%                             |
| Offers Waste Reduction Policy (%)                             | 68.0   | 74.0   | +5.9 pp                           |

Positive reinforcement of environmental policies is paying off

Source: Bloomberg Terminal

## COMPANY CLIMATE PROGRESS REMAINS CRITICAL



think it is more important than ever for companies to address climate change



50% don't think companies should stop their sustainable efforts even during the pandemic



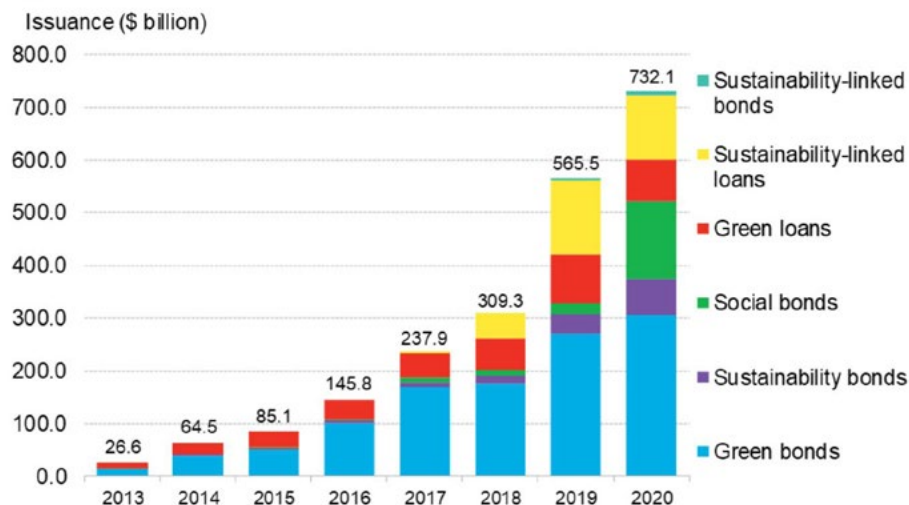
**6/10**

62% think companies have the opportunity, due to the pandemic, to be more thoughtful about how they incorporate sustainability into their business models moving forward

Source: PN Purpose Tracker: COVID-19 & Climate Special Edition. The intersection of the Health and Climate Crisis. Porter Novelli, 2020

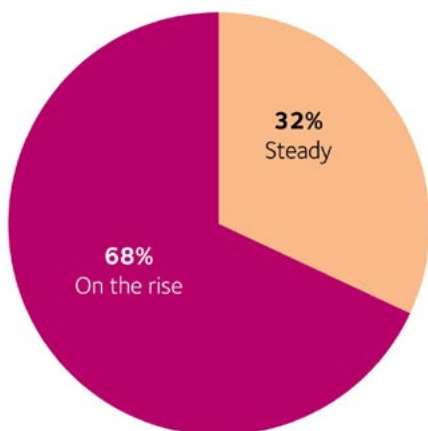
in particular. An overwhelming 85% of companies reported “E”-related resources (e.g., for carbon offsets, or water) were on the rise; compared to resources addressing social issues (68%). Globally, no company reported a decline in either “S”- or “E”-related resources. This is in line with CECP’s **ESG Factor Analysis**, which shows that a greater percentage of companies (69%) are improving their environmental impact compared to the percentage of companies making progress on People metrics (45%).

**Figure 1: Global sustainable debt annual issuance, 2013-2020**



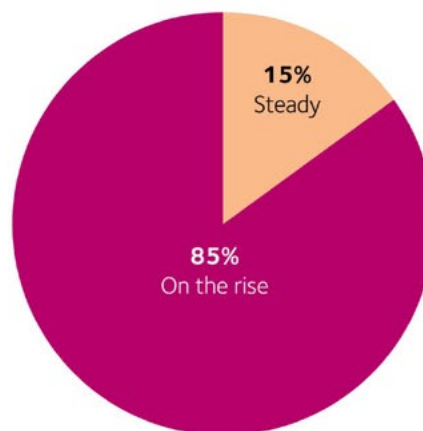
Source: BloombergNEF, Bloomberg L.P.

**Percentage of Companies, “S” in ESG Resources, 2019**



N = 116

**Percentage of Companies, “E” in ESG Resources, 2019**



N = 116

Chief Executives for Corporate Purpose. 2020 Global Impact at Scale: Corporate Action on ESG Issues and Social Investments



# POLICIES

**Policies factor:** CECP's **ESG Factor Analysis** showed that 56% of companies in fiscal year 2019 had Factor Scores greater than zero for the Policies factor. In other words, these companies' values showed a greater weight and correlation with practices that improve compensation transparency and accountability among large corporations.

**CECP's Stakeholder Scorecard** showed that companies in the Fortune 500 improved in many relevant governance metrics between 2017 and 2019, specifically in the creation of CSR/Sustainability Committees, the percentage of companies with Social Supply Chain Risk Management, and the percentage of companies linking their executives' bonus to ESG performance.

## CORPORATE GOVERNANCE SHOWS STEADY IMPROVEMENT

| Policies (Governance)                         | FY2017 | FY2019 | Favorable Delta Δ in green |
|---|--------|--------|----------------------------|
| Taxes Paid in Cash (Median, in US\$ Millions) | 214.0  | 204.1  | -5%                        |
| CSR/Sustainability Committee (%)              | 35.1   | 49.2   | +14.1 pp                   |
| Women on Boards (Median, %)                   | 22.2   | 25.0   | +2.8 pp                    |
| Social Supply Chain Risk Management (%)       | 72.5   | 81.3   | +8.8 pp                    |
| ESG Linked to Bonus (%)                       | 25.7   | 27.3   | +1.6 pp                    |
| ESG Disclosure Score (Median, scale 0 to 10)  | 34.3   | 35.9   | 5%                         |

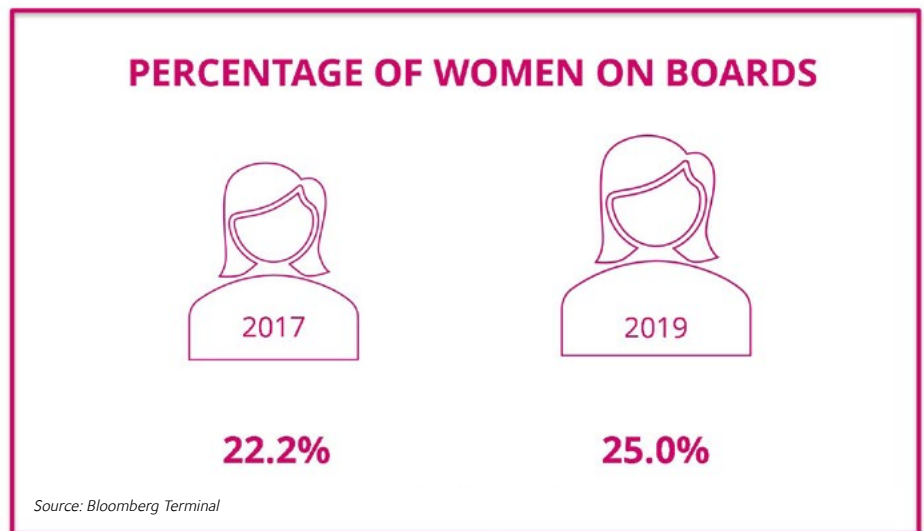
More representation and accountability among F500 companies

### THE IMPORTANCE OF INTEGRATED CORPORATE GOVERNANCE

WEF highlighted in 2020 the importance of **integrated corporate governance**, or more fully integrating Environment, Social, Governance, and Data Stewardship (ESG&D) factors into the governance, strategy, and operations of companies. Integrated corporate governance takes a holistic view of shareholder and wider stakeholder interests by systematically internalizing ESG&D considerations into the firm's strategy, resource allocation, risk management, performance evaluation, and reporting policies and processes.

### COMPANIES ARE TAKING ACTION

Many companies are acting on the idea of integrated corporate governance. Significantly more



#### Summary Overview of Core Metrics and Disclosures

| Pillar                         | Theme  | Sub-themes, Core Metrics and Disclosures         |  |
|--------------------------------|--|--|--|
| Principles of Governance       | Governing Purpose                                      | Setting purpose                                  |  |
|                                | Quality of Governing Body                              | Board composition                                |  |
|                                | Stakeholder Engagement                                 | Impact of material issues on stakeholders        |  |
|                                | Ethical Behaviour                                      | Anti-corruption                                  |  |
|                                |  | Protected ethics advice and reporting mechanisms |  |
| Risk and Opportunity Oversight | Integrating risk and opportunity into business process |  |  |

World Economic Forum, *Integrated Corporate Governance: A Practical Guide to Stakeholder Capitalism for Boards of Directors*, 2020

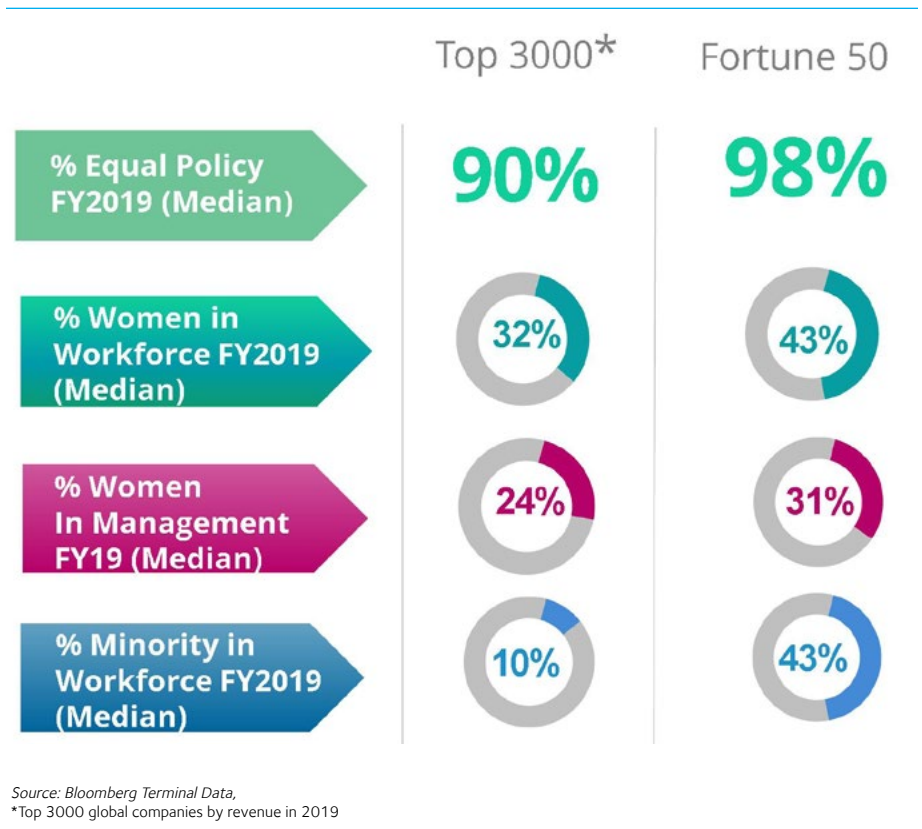
companies (+14 pp) now have a CSR/Sustainability (or related terms) committee on their Board, as shown in CECP's Stakeholder Scorecard.

### GLOBAL TRENDS ON GOVERNANCE IN 2020

Russel Reynolds Associates published a list of **Global Trends on Governance in 2020**. Some of the main trends include a greater focus from investors on the environmental and social aspects of ESG, an increased importance of corporate purpose, better board oversight of corporate culture and human capital management, an expanded concept of board diversity that includes ethnicity and race, and companies facing wider forms of investor activism.

### SHAREHOLDER COMMONS' REPORT

The Shareholder Commons' report **From Shareholder to Stakeholder Capitalism** provides a series of measures to change current US laws to reduce shareholder primacy and include broader interests of human shareholders and benefit governance.



# CECP'S ESG FACTOR ANALYSIS

Corporate actions are rapidly increasing to embrace the principles of stakeholder capitalism. *Investing in Society* uses a framework to organize how we observe changes in the corporate sector: Priorities, Performance, People, Planet, and Policies (the five “Ps”). How much are these actions influencing performance on Environmental, Social, and Governance (ESG) data across the sector?

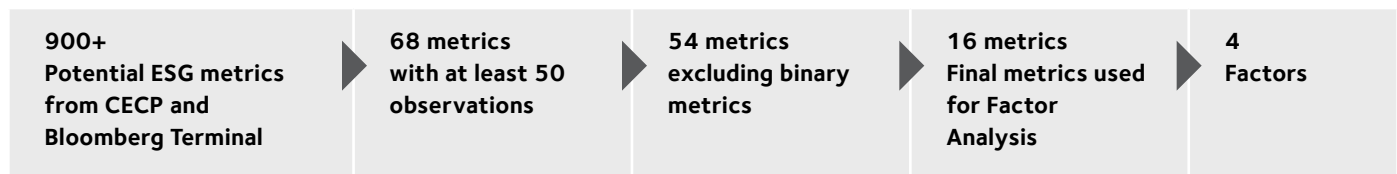
While keeping with past years’ five “Ps” framework, CECP developed a new method to better understand the current state of corporate purpose. For the first time, CECP performed ESG Factor Analysis to examine to what degree metrics are interconnected (or not) with each other and ultimately, determine indicators of positive or negative performance. Corporate leaders can use this analysis to explain more specifically how the state of corporate purpose is improving or worsening.

This year, Priorities included corporate responses to Covid-19, recent developments in corporate purpose, and predictions about the near future in the corporate sector. There are few widespread data points that could potentially be included in a Factor Analysis for this type of information but mostly, data was lacking on Priorities. Therefore, CECP’s thought leadership and literature review provides a stronger explanation of sector-wide changes rather than the Factor Analysis. That explains why readers do not see Priorities in the ESG Factor Analysis.

CECP’s ESG Factor Analysis includes a Methodology Summary, Key Highlights, Conclusions, Key Highlight Extended, Full Methodology, and Appendix.

## METHODOLOGY SUMMARY

Factor analysis is a robust way to determine indicators of positive or negative performance. CECP assessed over 900 financial and ESG metrics to produce a Factor Analysis. The Factor Analysis helps understand whether the financial and ESG variables have similar patterns of responses, and whether these variables “hang together” to create a construct. Lack of data availability reduced the number of variables that could be used for the analysis to only 68 metrics which in turn were reduced to 54 continuous metrics when removing binary variables (with values of Yes or No). Out of the remaining 54 metrics only 16 had all requirements for a congruent Factor Analysis.



The basic assumption of all factor analysis is that for a collection of observed variables there are a set of underlying variables called **factors**, that can explain the interrelationships among those variables. This statistical analysis checks for similarities among variables and groups them into factors (composite variables). These factors reduce variables with latent and tacit similarities into factors or components.

In the end, the analysis gives an indication of what unobserved factor each variable is measuring more strongly. This helps understand whether a given metric is measuring the ESG pillar it is supposed to. For instance, is the Percentage of Women in the Workforce a better predictor of social improvement or better corporate governance? Each section of the report will show the reader which metrics were grouped more strongly into each ESG factor and will also provide a score of the corporate sector’s performance on those factors overall.

The Factor Analysis produced coefficients used to calculate scores for each of the four factors for each company. Scores helped to get a sense of a company’s placement or ranking on the factors. In the end, each company got four scores, (one for each of the four factors). The Factor Analysis calculated the proportion of companies that obtained scores greater than zero, which is an indicator of positive or negative performance on each factor.

## Figure 1: Sector-wide Performance: ESG Factor Analysis

Companies can also use these findings to explore which variables have more weight in each resulting factor, which metrics need more disclosure, and which might need more action taken. The analysis showed that, particularly, the lack of disclosure on social (People) and governance (Policies) metrics hinders a better understanding of which variables within these categories could affect the resulting factors. Each variable needs to be measured for all companies in order to be included in a Factor Analysis. This makes the analysis particularly challenging since there are many disparately and not-widely-reported social and governance metrics.

### KEY HIGHLIGHTS

- **Planet (Environment):** 69% of companies obtained positive weighted ESG Factor Scores on Planet.
  - Factor Scores greater than zero in this case are associated with having better environmental impact than their counterparts with negative scores.
- **People (Social):** 45% of companies obtained positive weighted ESG Factor Scores on People.
  - Factor Scores greater than zero in this case are associated with having greater diversity in the workforce and on boards of directors.
- **Policies (Governance):** 56% of companies obtained positive weighted ESG Factor Scores on Policies.
  - Factor Scores greater than zero in this case are associated with having better compensation accountability practices in the workplace.
- Only 16% of companies had ESG Factor Scores that were consistent with better ESG practices in **all three factors**, including Planet, People, and Policies.
- Alternatively, separate from the above ESG Factor Analysis, 70% of companies had positive ESG practices when only assessing binary variables (Yes or No answers). The performance was not substantially different between each ESG pillar.
  - Examples of binary ESG variables include “Was ESG Linked to Executives Bonus?”, “Is there a CSR Sustainability Committee?”, and “Is there a Water Policy?”

### PERCENTAGE OF COMPANIES WITH POSITIVE PERFORMANCE ON EACH FACTOR, 2019



| FRAMEWORK PILLARS |               |               |                                 |
|-------------------|---------------|---------------|---------------------------------|
| <b>CECP</b>       | <b>Planet</b> | <b>People</b> | <b>Policies</b>                 |
| <b>WEF</b>        | <b>Planet</b> | <b>People</b> | <b>Principles of Governance</b> |

N=86

Source: CECP's Analysis. Bloomberg Terminal

## HIGHLIGHTS IN MORE DETAIL

The ESG Factor Analysis reinforces that major frameworks are grouped in a congruent way, such as the framework developed by CECP (five “Ps”). The metrics could be optimally condensed in just four composite variables (factors), which were in line with Performance, Planet, People, and Policies. However, the analysis showed there is greater degree of overlap when it comes to certain metrics explaining more than one dimension. For instance, a specific diversity metric could be heavily correlated with both social and corporate governance.

The analysis also revealed that one of the key challenges resides in the lack of disclosure of ESG metrics from the corporate sector. For instance, the social (People) factor needs more disclosure and data availability from large corporations on variables such as Employee Turnover, Training Spending per Employee, Community Spending, and Total Social Investment, a crucial field that CECP collects and conducts research on. On the other side, the governance (Policies) factor needs more disclosure and data availability on variables such as Percentage of Minorities in Management Positions and in the Workforce.

It seems that there is more clarity in terms of what to measure regarding environmental metrics. This clarity may help corporations focus their efforts and attain better environmental outcomes compared to social and governance metrics as reflected in the Figure Sector-wide Performance: ESG Factor Analysis. Reporting of environmental metrics can be connected to a company’s permission to operate, more regulations, new processes for waste reduction, and cost saving strategies. Social and governance factors appear to have less consistently disclosed data and a slower improvement compared with environment. This is validated by CECP’s **Global Impact at Scale** report that shows how resources targeted at environmental efforts are growing more than those targeted at social initiatives.

Governance metrics covers topics often times more difficult to measure, such as compensation transparency and tracking representation of minority groups in the workforce. However, when only analyzing ESG binary variables with less range of interpretation (e.g., whether a company has an Equal Opportunity Policy or not), there is little difference in achievement among environmental, social or governance metrics (companies fulfilled approximately 70% of positive practices in each area).

## FULL METHODOLOGY

### ESG FACTOR ANALYSIS

CECP performed a Factor Analysis to explore the interconnection among financial and environmental, social, and governance (ESG) metrics and assess how companies are performing as a sector on each of those broader dimensions.

#### What is Factor Analysis?

CECP's ESG Factor Analysis helps understand whether the financial and ESG variables have similar patterns of responses, and whether these items "hang together" to create a construct. The basic assumption of all factor analysis is that for a collection of observed variables there are a set of *underlying* variables called **factors**, that can explain the interrelationships among those variables. This statistical analysis checks for similarities among variables and groups them into factors (composite variables). These factors reduce variables with latent and tacit similarities into factors or components. In the end, the analysis gives an indication of what unobserved factor each variable is measuring more strongly.

#### Sample and Tested Variables

The list of companies included the entire Fortune 1000 ranking plus over 400 other companies headquartered outside the United States during fiscal year 2019. There were over 68 ESG and financial metrics that had some degree of data availability from a universe of close to 900 ESG and financial metrics from the Bloomberg Terminal. The selection of metrics was also based on frameworks including CECP's five "Ps" (Priorities, Performance, Planet, People, and Policies) that are in line with ESG frameworks (see Appendix A for a full list of initial tested variables). These metrics were also in line with other frameworks such as the World Economic Forum's (WEF) list of metrics and disclosures encapsulated in their four pillars: Principles of Governance, Planet, People, and Prosperity. Factor analysis can only be performed with variables that are available for every single observation (company) in the sample. Therefore, the biggest challenge for this exploratory analysis was the lack of data. For instance, continuous variables such as the number of Customer Complaints and Paper Consumption had 2019 data available for only 12 and 37 companies respectively, out of the sample described above. The initial list of potential 68 metrics was reduced to 54 continuous metrics when removing binary variables (with values of Yes or No). For this exploratory phase, binary variables were excluded since it would require a different type of correlation matrix calculation for Factor Analysis. However, a separate analysis was carried out just on those binary variables (see findings in the Highlights in More Detail section). Out of the remaining 54 metrics only 16 had all requirements for a congruent Factor Analysis. One of those requirements is how much variation can each factor explain for all the set of 16 variables in discussion (factor loading). Factor loading shows the level of association between each variable and each resulting factor. In other words, it is the correlation coefficient between the variable and the factor. This further reduced the sample to 86 companies.

#### Determination of number of factors

As described before, factor loadings represent both the weight each variable has on each factor but also the correlation between the variables and the factor. Factor loadings are like correlations in that they can range from -1 to 1; the closer to -1 or 1, the more that factor affects the variable. The factor loading values that each of the 16 variables received helped to determine and interpret what underlying factor was affecting each group of variables at a higher degree (e.g., environmental impact, compensation accountability, diversity) (See Rotated Component Matrix in Appendix B). Each variable obtained different factor loadings under each of the 4 factors. For instance, financial variables had factor loadings close to 1 under a first factor, and this first factor was clearly an indicator of Performance or economic prosperity. Certain environmental variables had factor loadings closer to 1 and greater than all other variables under a second factor. This factor is thus an indicator of environmental impact. Variables related to transparency in compensation had higher factor loadings than all other variables under a third factor which are indicators of compensation transparency. Two variables related to participation of women on boards and in the workforce reflected a fourth factor which are indicators of diversity at work.

After many iterations and testing different combination and number of factors that could explain most variance across all variables, four factors surfaced and explained up to 67% of the variance across all 16 variables (A value greater than 60% is desired according to general statistical standards). A Kaiser-Meyer-Olkin (KMO) and



Bartlett's statistical test also confirmed the suitability of this sample with this set of variables (See Appendix B for statistical significance values).

### **Generating Factor Scores**

CECP's ESG Factor Analysis produced coefficients used to calculate scores for each of the four factors for each company. Scores helped to get a sense of a company's placement or ranking on the factors. In the end, each company got four scores, (one for each of the four factors). These scores were derived from a 16 x 4 matrix of 64 coefficients (16 coefficients for each factor). Each score is standardized and describes how strongly each company is associated with every single factor. The signs of scores have been transformed so that scores greater than zero indicate a positive direction towards a better performance in either environmental, social, or governance factors. In this case, scores greater than zero indicate a higher association with that factor and negative scores indicate a lower association with that factor. CECP's ESG Factor Analysis calculated the proportion of companies that obtained scores greater than zero, which is an indicator of positive performance on each factor. Therefore, a company with a score of 2 on factor 2 (Planet), would mean that such company is making a better use of environmental resources than a company with a negative score. Alternatively, a company with a score of 0.9 on factor 3 (Policies), would mean that such company has better compensation transparency than companies with scores less than zero on this factor. These proportions can be also tracked in time to assess progress.

### **STAKEHOLDER SCORECARD**

The increasing interest in Environmental, Social, and Governance (ESG) metrics is reflected in CECP's Stakeholder Scorecard. This tool helps evidence how the private sector aims to improve their performance among an increasing number of financial and ESG indicators. The Stakeholder Scorecard compares the performance of companies in the Fortune® 500 in the last three fiscal years (2019 versus 2017). Fortune magazine is a registered trademark of Time Inc. Monetary figures are measured in nominal US Dollars. Data is retrieved from CECP's dataset and the Bloomberg Terminal database. Green growth rates indicate a favorable change. In limited cases, percentage point change replaces growth rate, "pp" corresponds to percentage point changes that evidence deltas between metrics reflecting percentages. Year-over-year calculations are based on a three-year matched- set data. Fortune companies include companies from all nine industries from the Bloomberg Terminal.



# APPENDIX A

## ASSESSED METRICS

| Main Category | Field Category | Metric                                    | Binary Metric | Remaining Metric | Final Metrics Used for Factor Analysis |
|---------------|----------------|---|---------------|------------------|--|
| Financial     | Financial      | Revenue                                   | No            | Yes              | Yes ✓                                  |
| Financial     | Financial      | Pre-Tax Income                            | No            | Yes              | Yes ✓                                  |
| Financial     | Financial      | Number of Employees                       | No            | Yes              |  |
| Financial     | Financial      | EBITDA                                    | No            | Yes              |  |
| Financial     | Financial      | Historical Market Capitalization          | No            | Yes              | Yes ✓                                  |
| Financial     | Financial      | Assets Under Management                   | No            | Yes              |  |
| Financial     | Financial      | EBITDA / Revenue                          | No            | Yes              |  |
| Financial     | Financial      | Cash Paid for Taxes                       | No            | Yes              | Yes ✓                                  |
| Financial     | Financial      | Enterprise Value / EBITDA                 | No            | Yes              |  |
| Financial     | Financial      | ROI                                       | No            | Yes              |  |
| ESG           | Environmental  | Total GHG Emissions (Th Tonnes)           | No            | Yes              | Yes ✓                                  |
| ESG           | Environmental  | Total Water Use                           | No            | Yes              |  |
| ESG           | Environmental  | Water Policy                              | Yes           |                  |  |
| ESG           | Environmental  | Water Policy                              | Yes           |                  |  |
| ESG           | Environmental  | Total Waste (Th Tonnes)                   | No            | Yes              |  |
| ESG           | Environmental  | Waste Recycled (Th Tonnes)                | No            | Yes              |  |
| ESG           | Environmental  | Waste Reduction Policy                    | Yes           |                  |  |
| ESG           | Environmental  | New Products - Climate Change             | Yes           |                  |  |
| ESG           | Environmental  | Travel Emissions (Th Tonnes)              | No            | Yes              |  |
| ESG           | Environmental  | Total Energy Consumption (MWh)            | No            | Yes              | Yes ✓                                  |
| ESG           | Environmental  | Electricity Used - MWh                    | No            | Yes              | Yes ✓                                  |
| ESG           | Environmental  | Paper Consumption (Th Tonnes)             | No            | Yes              |  |
| ESG           | Environmental  | Environmental Fines (Amount)              | No            | Yes              |  |
| ESG           | Environmental  | Investments in Operational Sustainability | No            | Yes              |  |
| ESG           | Environmental  | Environmental Supply Chain Management     | Yes           |                  |  |
| ESG           | Environmental  | Sustainable Packaging                     | Yes           |                  |  |
| ESG           | Environmental  | GRI Criteria Compliance                   | Yes           |                  |  |

|     |               |   |     |     |       |
|-----|---------------|---|-----|-----|-------|
| ESG | Environmental | % Sites Certified                             | No  | Yes |       |
| ESG | Environmental | Global Reporting Initiatives Checked          | Yes |     |       |
| ESG | Environmental | UN Global Compact Signatory                   | No  | Yes |       |
| ESG | Social        | Community Spending                            | No  | Yes |       |
| ESG | Social        | % Women in Workforce                          | No  | Yes | Yes ✓ |
| ESG | Social        | Total Community Investment                    | No  | Yes |       |
| ESG | Social        | Employee Engagement                           | No  | Yes |       |
| ESG | Social        | Social Supply Chain Management                | Yes |     |       |
| ESG | Social        | Employee Turnover %                           | No  | Yes |       |
| ESG | Social        | Number of Customer Complaints                 | No  | Yes |       |
| ESG | Social        | Training Spending per Employee                | No  | Yes |       |
| ESG | Social        | Training Policy                               | Yes |     |       |
| ESG | Social        | Employee CSR Training                         | Yes |     |       |
| ESG | Social        | % Suppliers Audited                           | No  | Yes |       |
| ESG | Social        | % Employees Unionized                         | No  | Yes | Yes ✓ |
| ESG | Social        | % Women in Management                         | No  | Yes |       |
| ESG | Social        | % Minorities in Management                    | No  | Yes |       |
| ESG | Social        | % Minorities in Workforce                     | No  | Yes |       |
| ESG | Social        | % Disabled in Workforce                       | No  | Yes |       |
| ESG | Social        | Workforce Accidents - Employees               | No  | Yes |       |
| ESG | Social        | Fair Remuneration Policy                      | No  | Yes |       |
| ESG | Governance    | CSR/Sustainability Committee                  | Yes |     |       |
| ESG | Governance    | % Women on Board                              | No  | Yes | Yes ✓ |
| ESG | Governance    | Executive Compensation Linked to ESG          | Yes |     |       |
| ESG | Governance    | Lobbied in Support of Gender Equality         | No  | Yes |       |
| ESG | Governance    | Member of Gender Equality Organizations       | No  | Yes |       |
| ESG | Governance    | Donates to Gender Equality Organizations      | No  | Yes |       |
| ESG | Governance    | Unconscious Bias Training for Managers        | No  | Yes |       |
| ESG | Governance    | Offers a Return to Work Program               | No  | Yes |       |
| ESG | Governance    | Offers Paid Paternity Leave for United States | No  | Yes |       |

|     |                        |  |     |     |       |
|-----|------------------------|--|-----|-----|-------|
| ESG | Governance             | Percent Goal for Women of Total New Hires    | No  | Yes |       |
| ESG | Governance             | BGEI Score                                   | No  | Yes |       |
| ESG | Governance             | Say On Pay Provision                         | No  | Yes |       |
| ESG | Governance             | Size of Compensation Committee               | No  | Yes | Yes ✓ |
| ESG | Governance             | % of Ind Directors on Compensation Committee | No  | Yes | Yes ✓ |
| ESG | Governance             | Number of Compensation Committee Meetings    | No  | Yes | Yes ✓ |
| ESG | Governance             | Compensation Committee Meeting Attendance %  | No  | Yes | Yes ✓ |
| ESG | Governance             | Outside Compensation Advisors Appointed      | Yes |     |       |
| ESG | Governance             | ESG Linked Compensation for Board            | No  | Yes |       |
| ESG | Executive Compensation | Total Compensation Paid to Executives        | No  | Yes | Yes ✓ |
| ESG | Scores                 | ESG Disclosure Score                         | No  | Yes | Yes ✓ |

## APPENDIX B

### TOTAL VARIANCE EXPLAINED

Extraction Method: Principal Components Analysis (PCA). Four components that explain 66.468% of total variance were extracted through a Rotated Component Matrix. Sample: 86 companies.

| Number of Factors | Initial Eigenvalues |               |              | Extraction Sums of Squared Loadings |               |              | Rotation Sums of Squared Loadings |               |              |
|-------------------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|-----------------------------------|---------------|--------------|
|                   | Total               | % of Variance | Cumulative % | Total                               | % of Variance | Cumulative % | Total                             | % of Variance | Cumulative % |
| 1                 | 4.902               | 30.635        | 30.635       | 4.902                               | 30.635        | 30.635       | 4.680                             | 29.251        | 29.251       |
| 2                 | 2.840               | 17.751        | 48.386       | 2.840                               | 17.751        | 48.386       | 2.485                             | 15.533        | 44.784       |
| 3                 | 1.597               | 9.979         | 58.365       | 1.597                               | 9.979         | 58.365       | 1.874                             | 11.713        | 56.497       |
| 4                 | 1.296               | 8.102         | 66.468       | 1.296                               | 8.102         | 66.468       | 1.595                             | 9.970         | 66.468       |
| 5                 | 1.126               | 7.035         | 73.502       |                                     |               |              |                                   |               |              |
| 6                 | .894                | 5.585         | 79.087       |                                     |               |              |                                   |               |              |
| 7                 | .771                | 4.816         | 83.903       |                                     |               |              |                                   |               |              |
| 8                 | .690                | 4.310         | 88.213       |                                     |               |              |                                   |               |              |
| 9                 | .630                | 3.938         | 92.151       |                                     |               |              |                                   |               |              |
| 10                | .500                | 3.124         | 95.275       |                                     |               |              |                                   |               |              |
| 11                | .404                | 2.525         | 97.800       |                                     |               |              |                                   |               |              |
| 12                | .241                | 1.505         | 99.305       |                                     |               |              |                                   |               |              |
| 13                | .106                | .662          | 99.968       |                                     |               |              |                                   |               |              |
| 14                | .004                | .027          | 99.994       |                                     |               |              |                                   |               |              |
| 15                | .001                | .005          | 99.999       |                                     |               |              |                                   |               |              |
| 16                | .000                | .001          | 100.000      |                                     |               |              |                                   |               |              |

Extraction Method: Principal Component Analysis.

## ROTATED COMPONENT MATRIX

Rotated Component Matrix: A cutoff value of 0.35 was used to identify high factor loadings.

| Metric                                       | Number of Factors |      |      |      |
|--|-------------------|------|------|------|
|  | 1                 | 2    | 3    | 4    |
| Revenue                                      | .990              |      |      |      |
| Pretax Income                                | .977              |      |      |      |
| Historical Market Capitalization             | .945              |      |      |      |
| % Women in Workforce                         |                   |      |      | .836 |
| % of Women on Board                          |                   |      |      | .566 |
| ESG Disclosure Score                         |                   | .484 |      |      |
| Cash Paid for Taxes                          | .983              |      |      |      |
| % Employees Unionized                        |                   | .429 |      |      |
| Size of Compensation Committee               |                   |      | .431 |      |
| % of Ind Directors on Compensation Committee |                   |      | .791 |      |
| Number of Compensation Committee Meetings    |                   |      | .358 | .548 |
| Compensation Committee Meeting Attendance %  |                   |      |      |      |
| Total Compensation Paid to Executives        | .826              |      |      |      |
| Total GHG Emissions (Th Tonnes)              |                   | .863 |      |      |
| Total Energy Consumption (MWh)               |                   | .863 |      |      |
| Electricity Used - MWh                       |                   | .622 |      |      |

Extraction Method: Principal Component Analysis.  
 Rotation Method: Varimax with Kaiser Normalization  
 a. Rotation converged in 4 iterations.

## KMO AND BARTLETT'S TESTS

|  |                    |  |
|--|--------------------|--|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | <b>0.708</b> (Value above 0.60 are desired. That is the case for this model)   |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | <b>1915.338</b>  |
|  | df                 | <b>120</b>   |
|  | Sig.               | <b>0.000</b> (a value less than 0.05 rejects the null hypothesis that this model has a correlation matrix equivalent to an identity matrix, which would indicate that the 16 metrics are unrelated and therefore unsuitable for structure detection. In other words, this model of 16 metrics is suitable) |



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