Taking a Long-Term View

An Interview with Brian Tomlinson, Director of Research, CEO Investor Forum, CECP

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EDITORS' NOTE *As Director of Research at CECP's CEO Investor Forum, Brian Tomlinson develops practical executive-ready research to enable issuers to reorient their disclosures toward the long term. The research program provides principles, frameworks, and management approaches for the practice of long-term disclosure. The work also draws on structured collaborations with organizations such as Edelman, FCLTGlobal, KKS Advisors, and NYU Stern. Tomlinson's work on capital markets has been published by* Harvard Business Review, Institutional Investor, MIT Sloan Management Review, *World Economic Forum,* Financial Times, Journal of Applied Corporate Finance, *Harvard Business School, Harvard Law School Forum on Corporate Governance, Top 1000 Funds, and* Huffington Post. *Tomlinson is a regular presenter at conferences having recently spoken at the Securities and Exchange Commission's Roundtable on Short-Term Markets, Deutsche Bank's ESG Conference and* Investor Relations Magazine's *ESG Symposium, among many others. He is an expert in fiduciary duty, sustainable business and investment practice and has a decade of experience as a corporate finance attorney specializing in leverage finance and financial restructuring and also worked in the business turnaround group of an investment bank. Tomlinson served as the Managing Director of the Coalition for Inclusive Capitalism. As a research fellow at Harvard, he worked with Professor Rebecca Henderson, Professor Roberto Unger, the Committee on Capital Markets Regulation, and Professor Robert D. Putnam. Tomlinson has authored several reports on investor Fiduciary Duty, including on capital markets in the U.S., U.K., Japan, Canada, Brazil and South Africa, and a report on the role of sustainability in corporate pension plans. Tomlinson has an MPA from Harvard Kennedy School and a degree in politics, philosophy and economics from the University of Oxford.*

ORGANIZATION BRIEF *Chief Executives for Corporate Purpose (cecp.co), a global nonprofit organization, is a CEO-led coalition of more than 200 CEOs of the world's largest companies across a wide range of industries that believes that a company's social strategy – how it engages with key stakeholders including employees, communities, investors and customers – determines a company's success. CECP provides its members customized connections and networking, counsel and support, benchmarking and trends, and awareness building and recognition striving to solve some of the world's most pressing problems and drive through their sustainable value. Through CECP's CEO Investor Forums, CECP provides a platform for CEOs to present long-term strategic plans to long-term investors, supporting progress towards reorienting capital markets toward sustainable value creation.*

How do you define the mission of Chief Executives for Corporate Purpose (CECP) and how has the organization evolved since its founding?

Our work is focused on enabling companies to embed ESG, purpose and a long-term outlook into both corporate practice and capital markets disclosure. We do that by providing executive-ready research in the form of principles, disclosure frameworks, advisory services on management approaches, real-world examples, and publications on key topics. That work is an outgrowth from CECP which was originally founded by luminaries such as John Whitehead and Paul Newman with an expectation that corporations can and should be a force for good in society. Our work has adjusted to help management teams meet a broader and growing set of expectations about the role of the corporation in society.

How has CECP adapted its business to address the challenges caused by the pandemic?

We're now a remote work company. All our meetings are conducted online and everyone is in a remote work setting. The work environment was set up for flexibility prior to COVID; some of us never had commutes, and some of us are now adjusting to not being on Metro-North every morning. We've transitioned all our events and engagements to virtual too. I would say that we responded creatively to the challenge of reimagining our events and engagement with companies, giving people experiences which don't just try to replicate real-world encounters, but give our audiences a variety of ways to meet their peers and interact with our content.

I speak at events on ESG themes on a very regular basis. I can certainly say that going virtual means you can reach a bigger audience at a much smaller environmental impact, more efficiently and better for the planet.

How critical is research as a part of CECP's work and mission?

You'd expect a Director of Research to say that research is essential…but it is. ESG, purpose, and long-termism can be quite technical topics and broad in scope. To speak with credibility on these topics, content has to be driven by expertise – a stable platform of knowledge. That comes from experience, research, collaboration, and regularly taking the temperature of market participants. Our work is intended for use by practitioners and those advocating for change within their organizations. That means our work needs to "meet the markets where they are" and understand the different starting points of the teams we interact with in terms of their ESG journey. We design content for and regularly work with CEOs, investor relations officers, corporate sustainability officers, corporate secretaries, in addition to Boards and ESG working groups that many companies now convene.

Will you discuss CECP's thinking around the connection of purpose and long-termism?

Corporate purpose, ESG and long-termism are all about truly understanding how companies make and destroy value. That involves thinking about the stakeholders that companies rely on and the time horizon over which companies are managed. When we talk about corporate purpose we are talking about a whole-firm concept that flows from the board through to the brands. Having a high-level, quite general, statement of "corporate purpose" doesn't make you a purposeful company. Rather, purpose has to be developed, managed, operationalized, overseen, communicated and, ultimately, incentivized.

The development of a clear corporate purpose cannot happen instantaneously and the potential performance benefits from a thoroughly operationalized corporate purpose may take some time to play out, similar to ESG. Given that, thinking about purpose and the stakeholders you both rely on and impact can encourage management teams to think in years, rather than quarters.

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CECP recently issued a report titled, "The Return on Purpose: Before and During a Crisis." What were the findings from this report and what can leading executives and companies take from this research?

We found that high-purpose brands significantly outperformed on common measures of financial performance, market valuation and shareholder value creation. Better financial performance (+5% ROIC) and better valuation multiples (+4x EBITDA) combine to deliver better long-term shareholder value creation, as evidenced by the nearly 20 percentage point advantage in annualized total shareholder returns for companies with high-purpose scores versus those with low-purpose scores. To generate this data, we used a new corporate purpose by BERA Brand Management, in collaboration with the Jim Stengel Company, to sort our universe of mono-brand companies where the majority of the revenue comes from one brand, into two groups: high purpose and low purpose. The "purpose score" is a construct of 13 different attributes of corporate purpose that have a direct, causal link to value creation including social commitment, cultural relevance, point of view and inclusivity.

In addition to "purpose can pay" and understanding changing consumer preferences, we also suggest that corporations consider steps to enact corporate purpose internally, for example:

- Structure for open stakeholder engagement: One technique for stakeholder transparency is to disclose a stakeholder-focused materiality assessment with explanatory commentary on how it was developed, how it is overseen, and how regularly it is refreshed. In addition to external visibility, it is important to articulate how such insights inform internal decision-making.
- Develop a board-issued statement of purpose: An early and emerging approach to purpose are board-issued purpose statements. Many institutional investors have indicated that the board should own and oversee purpose as part of framing the strategic direction and stance of the company.
- Convert purpose into teachable moments: Through salient examples, derived from the core business, companies can communicate how their stated purpose really changed decision-making.

Will you highlight some of the other key research papers that CECP has published during this unprecedented time?

ESG and the Earnings Call: ESG is recognized as relevant to operational and financial performance, and the earnings call is a key venue for management teams to discuss prospects and performance, yet ESG content has tended not to be a feature of earnings call content. However, the COVID crisis has given ESG more prominence in the earnings calls of more issuers - it has clearly compelled reflection and disclosure on ESG themes from human capital to supply chain sustainability. Given that ESG themes underlie how a company creates value, key ESG information should be part of earnings call disclosures. We make recommendations to enable companies to build ESG content into earnings call disclosures in a stable and non-disruptive fashion. For example:

- Sequence: Build toward the earnings call by integrating ESG into disclosures in a sequential manner, from sustainability reports, proxy statements and investor day presentations to ESG-specific webinars/presentations and earnings calls. This builds comfort and confidence with the investor base as well as with management.
- Prime the Analysts: Share ESG-specific questions with your sell-side analysts to shape the Q&A discussion and more regularly bring ESG and long-term strategy into the conversation.
- Share Buybacks: People are watching corporations and forming conclusions about the implications of stakeholder capitalism. An interesting topic for review is share buybacks. For example, is it appropriate for a corporation at a time that it is furloughing or laying off workers to be continuing with large share buyback programs? We wanted to ask a few questions on this topic and suggest that corporations provide more commentary on buybacks when they are announced.

What was the vision for CECP creating the CEO Investor Forum and what has been the impact of the Forum?

Short-termism is a real problem and leading CEOs and investors can help reduce its negative impact. In fact, over 80 percent of the CEOs we polled identified short-term time horizons as a problem in their own practice as CEOs. Mirroring that, institutional investors we surveyed told us that only a minority of portfolio companies are effectively communicating a long-term value story and that there are significant information gaps in disclosure to assess long-term prospects. This can play out like a blame game, with issuers and investors pointing the finger at each other about the sources of short-termism. All that points to there being a type of consensus that short-termism is a problem, but not much consensus on what to do about it.

We resolved to convene a conversation in the form of a Reg FD-compliant investor conference to enable CEOs to talk to investors about long-term and other relevant themes. We wanted that to be additive to the existing investor relations timetable, but also to provide disclosure examples that could be infused across the disclosure ecosystem, from investor days and proxy statements to earnings calls. This is also informed by the view that the short term and the long term are not inherently in conflict.

We've convened eight CEO Investor Forum's so far with presentations made by over 30 companies representing in excess of $2 trillion market cap. Our next CEO Investor Forum on June 7th will feature presentations by leading Biopharma companies, including critical COVID vaccine makers such as Pfizer and Moderna.

How valuable has it been for CECP to build collaborations and partnerships with other leading organizations in its research efforts?

The emerging debate about the role of the corporation in society is broad in scale and complex in its implications. This debate can be reviewed from countless angles and disciplines and can take in almost any area of corporate practice, including executive pay, worker pay, share buybacks, diversity, corporate political spending, and environmental impact, among others. Given that potential scope, collaboration and expertise-pooling is important. Collectively we want to ensure that we are amplifying good work and ensuring that it gets to the right audiences. We also want to avoid duplication and confusion. We all have limited bandwidth, so let's use it wisely. I'd highlight the work of our research partners such as Professor George Serafeim, FCLTGlobal, Fortuna Advisors, and NYU Stern Center for Sustainable Business as being particularly useful. ●