DISCLAIMER: *This paper is intended to provide research supporting LTSE principles and policies. It is **not** intended to provide implementation guidance, and none of the concepts described should be viewed as recommendations, legal advice, or listing requirements of the Long-Term Stock Exchange, Inc. (LTSE).*

Building for Generations: Foundations of the LTSE Listing Principles

Working Paper - July 2020

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Sections:

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Introduction

The Long-Term Stock Exchange has a set of differentiated listing standards designed to create lasting value for modern public companies and their like minded investors. These standards require companies listed on the Long-Term Stock Exchange to adopt and publish five policies: Long-Term Stakeholder, Strategy, Board, Compensation, and Investors. The policies have certain individual requirements, and must also be consistent with a series of underlying principles which reflect the underlying philosophy of the Long-Term Stock Exchange:[3]

1. Long-term focused companies should consider a broader group of stakeholders and the critical role they play in one another's success;
2. Long-term focused companies should measure success in years and decades and prioritize long-term decision-making;
3. Long-term focused companies should align executive compensation and board compensation with long-term performance;
4. Boards of directors of long-term focused companies should be engaged in and have explicit oversight of long-term strategy; and
5. Long-term focused companies should engage with their long-term shareholders.

The principles and policies included in the Long-Term Stock Exchange's differentiated listing standards were developed through years of discussions with executives, founders, workers, investors, policymakers, regulators, financial markets participants, governance experts, academics, trade organizations, and others with perspectives on our current public markets.[4] In addition, substantial research supports the specific standards included in the long-term policies. This paper sets forth that research on a policy-by-policy basis.[5] Despite the discussion of the evidence by policy, it is critical to note that the policies are deeply interconnected. They are not meant to be stand-alone approaches, but rather part of a broader ecosystem designed to promote sustainability, resilience, long-term value creation, and systemic change.

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[3] Long-Term Stock Exchange, "Policies for long-term focused companies," (October 2019)

[4] We are incredibly grateful to the countless people and organizations who provided their input and perspective. Although the list is far too long to include here, we carefully considered all of the input, and continue to do so every day.

[5] This paper is not intended as a guide to implementation of LTSE policies, but rather to articulate the evidence upon which they are based.

Long-term Stakeholders

Principle: Long-term focused companies should consider a broader group of stakeholders and the critical role they play in one another's success.

Policy: A policy explaining how the company operates its business to consider all of the stakeholders critical to its long-term success, including:

A. Which stakeholder groups the company considers critical to long-term success;
B. The company's impact on the environment and its community;
C. The company's approach to diversity and inclusion;
D. The company's approach to investing in its employees; and
E. The company's approach to rewarding its employees and other stakeholders for contributing to the company's long-term success.

Today's visionary companies face a different set of expectations from the shareholder primacy model espoused fifty years ago by Milton Friedman.[6] Companies intent on creating long-term value need to manage for stakeholders as well as shareholders. In the past decade alone, a number of industry organizations and experts have put forward frameworks and proposals advocating for "stakeholder capitalism."[7] The Long-Term Stock Exchange Stakeholder Policy builds upon that work. Since our standards were approved, even those who have been at the heart of shareholder primacy are publicly recognizing this fundamental change.[8] In 2019, the Business Roundtable, an association of executives from major American companies, revised their statement on the "Purpose of the Corporation" to reverse a long-standing adherence to shareholder primacy in favor of "a fundamental commitment to all of our stakeholders."[9] Almost

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[6] Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," New York Times Opinion (September 13, 1970),

[7] See for example Coalition for Inclusive Capitalism & EY, "Embankment Project for Inclusive Capitalism (EPIC) Report," (2018); International Business Council of the World Economic Forum, "The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth," Document prepared by Martin Lipton (2016); Leo E. Strine, Jr., "Toward Fair and Sustainable Capitalism," University of Pennsylvania, Institute for Law & Economics Research Paper No. 19-39, Harvard John M. Olin Discussion Paper No. 1018 (2019).

[8] See for example, Klaus Schwab, "Capitalism Must Reform to Survive: From Shareholders to Stakeholders," Foreign Affairs (January 16, 2020); Larry Fink, "Letter to CEOs: A Fundamental Reshaping of Finance" (2020); Steve Denning, "The Dumbest Idea in the World: Maximizing Shareholder Value," Forbes (November 28, 2011)

[9] Business Roundtable, "Statement on the Purpose of a Corporation," (August 19, 2019). Note that there has been criticism of these efforts questioning whether they represent genuine change, see for example Vijay Govindarajan & Anup Srivastava, "We Are Nowhere Near Stakeholder Capitalism," Harvard Business Review (January 30, 2020)

200 CEOs signed the revised statement.[10] Similarly, the theme of the 2020 World Economic Forum meeting in Davos was "Stakeholders for a Cohesive and Sustainable World."[11]

While a multi-stakeholder approach has the potential to lead to a new, more equitable form of capitalism,[12] business leaders and investors are not embracing it solely for this reason. Fundamental changes in the dynamics and expectations of corporations have made stakeholder engagement essential to achieving long-term success. Indeed, being a visionary modern company means embracing obligations to do right by all key stakeholders—including employees, customers, suppliers, communities, and long-term shareholders—and recognizing the opportunity this action provides.[13]

Long-standing management theories on the importance of stakeholders to corporate performance have given rise to a robust academic literature related to stakeholder capitalism.[14] Despite the variety and nuance within this literature, the central theme—that all firms have a number of key stakeholders and should proactively pay attention to them—is pervasive.[15] The benefits of taking a multi stakeholder approach are demonstrated by broad empirical evidence linking stakeholder-focused behavior to superior financial and operational performance across multiple dimensions.[16] These findings are consistent with many case studies showing how

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[10] *Ibid*.
[11] See World Economic Forum - Davos 2020
[12] See Coalition for Inclusive Capitalism & EY, "Embankment Project for Inclusive Capitalism (EPIC) Report," (2018); International Business Council of the World Economic Forum "The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth," Document prepared by Martin Lipton (2016) Leo E. Strine, Jr., "Toward Fair and Sustainable Capitalism," University of Pennsylvania, Institute for Law & Economics Research Paper No. 19-39, Harvard John M. Olin Discussion Paper No. 1018 (2019)
[13] See e.g., Michelle Greene, "Let's Get Concrete About Stakeholder Capitalism," Harvard Law School Forum on Corporate Governance, Feb. 20, 2020.
[14] For overviews of stakeholder theory see Michael E. Johnson-Cramer & Shawn L. Berman, "Stakeholder theory seeing the field through the forest," Business and Society 58 (7):1358-1375 (2019); Matteo Pedrini & Laura Maria Ferri, "Stakeholder management: a systematic literature review," Corporate Governance, Vol. 19 No. 1, pp. 44-59 (2019); Jeffrey S. Harrison, & Andrew C. Wicks, "Stakeholder theory, value and firm performance," Business Ethics Quarterly, 23, 97-125 (2013); R. Edward Freeman, et al., (editors) *Stakeholder Theory: State of the Art,* Cambridge, UK: Cambridge University Press (2010); Freeman RE. (1984). *Strategic management: A stakeholder approach*, Boston: Pitman Publishing Inc. For quantitative theories of stakeholder management see Michael Magill, Martine Quinzi, & Jean-Charles Rochet, "A theory of the stakeholder corporation," Econometrica 83, 1685–1725 (September 2015); Michael Jensen, "Value maximization, stakeholder theory, and the corporate objective function," Business Ethics Quarterly, Vol. 12 No. 2, pp. 235-56 (2002). For broader application of managing for stakeholders see Michael E. Porter & Mark R. Kramer, "Creating shared value," Harvard Business Review (January-February 2011 Issue); Michael E. Porter & Mark R. Kramer, "Strategy and Society: The Link Between Competitive Advantage And Corporate Social Responsibility," Harvard Business Review (December 2006 Issue);
[15] On the plurality of stakeholder theory see Michael E. Johnson-Cramer & Shawn L. Berman, "Stakeholder theory seeing the field through the forest," Business and Society 58 (7):1358-1375 (2019); Andreas Georg Scherer & Morits Patzer, "Where is the Theory in Stakeholder Theory? A Meta-Analysis of the Pluralism in Stakeholder Theory" In Robert. A. Phillips (editor), *Stakeholder theory: Impact and prospects*, 140-162. Cheltenham: Edward Elgar Publishing Ltd. (2011)
[16] K. J. Martijn Cremers, Scott B. Guernsey, & Simone M. Sepe, "Stakeholder Orientation and Firm Value," (December 27, 2019); Franklin Allen, Elena Carletti, & Robert Marquez, "Stakeholder governance,

businesses succeed by taking a stakeholder-oriented approach.[17] First, firms with a stakeholder orientation focus on longer-term horizons, rather than immediate payoffs.[18] Stakeholder focus helps firms accrue important intangible resources.[19] For example, by addressing the interests of consumers, employees, and the natural environment, firms are able to grow intangible assets such as legitimacy, reputation, and trust,[20] which can lead to a sustainable competitive

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competition, and firm value," Review of Finance 19, 1315–1346 (2015); Elroy Dimson, Oğuzhan Karakaş, & Xi Li, "Active Ownership," Review of Financial Studies (RFS), Volume 28, Issue 12, pp. 3225-3268, (2015); Robert G. Eccles, Ioannis Ioannou, & George Serafeim, "The Impact of Corporate Sustainability on Organizational Processes and Performance," Management Science, vol 60(11), pages 2835-2857 (2014); Margaret Cording, et al., "Walking the talk: A multi-stakeholder exploration of organizational authenticity, employee productivity and post merger performance," Academy of Management Perspectives, 28 (1) (2014), 38-56; Witold J. Henisz, Sinziana Dorobantu, Lite J. Nartey, "Spinning gold: The financial returns to stakeholder management," Strategic Management Journal, 35: 1727-1748 (2014); Jaepil Choi & Heli Wang, "Stakeholder relations and the persistence of corporate financial performance," Strategic Management Journal, 30:895-907 (2009); Stijn Claessens & Kenichi Ueda, "Banks and Labor as Stakeholders: Impact on Economic Performance," International Monetary Fund, Working Paper No. 08/229 (2008); Rajendra Sisodia, Jagdish N. Sheth, & David Wolfe, *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose*, (2007) Upper Saddle River, NJ: Prentice Hall; Amy J. Hillman & Gerald D. Keim, "Shareholder value, stakeholder management, and social issues: What's the bottom line?," Strategic Management Journal, 22: 125-139 (2001); Jeffrey S. Harrison & R. Edward Freeman, "Stakeholders, social responsibility and performance: Empirical evidence and theoretical perspectives," Academy of Management Journal, 42, 479-487 (1999)

[17] Rebecca Henderson, *Reimagining Capitalism in a World on Fire*, (2020) New York, NY: PublicAffairs; Rebecca Henderson & Frederik Nellemann, "Sustainable Tea at Unilever," Harvard Business School Case 712-438, December 2011; George Serafeim & Shannon Gombos, "Turnaround at Norsk Gjenvinning," Harvard Business School Case 116-012, August 2015

[18] Xiaoran Ni, "Does stakeholder orientation matter for earnings management: Evidence from non-shareholder constituency statutes,"Journal of Corporate Finance, Volume 62, June 2020, 101606; Natalie Slawinski & Pratima Bansal, "A matter of time: the temporal perspectives of organizational responses to climate change," Organizational Studies 33(11):1537–1563 (2012); Taiyuan Wang & Pratima Bansal, "Social responsibility in new ventures: profiting from a long-term orientation," Strategic Management Journal, 33(10):1135−1153 (2012)

[19] Michael E. Porter & Mark R. Kramer, "Creating shared value," Harvard Business Review (January-February 2011 Issue); Michael E. Porter & Mark R. Kramer, "Strategy and Society: The Link Between Competitive Advantage And Corporate Social Responsibility," Harvard Business Review (December 2006 Issue); Sankar Sen & C.B. Bhattacharya, "Does doing good always lead to doing better? Consumer reactions to corporate social responsibility," Journal of Marketing Research 38(2):225–243 (2001); Michael V. Russo and Paul A. Fouts, "A resource-based perspective on corporate environmental performance and profitability," Academy of Management Journal, 40(3):534−559 (1997); Xueming Luo & C. B. Bhattacharya, "Corporate social responsibility, customer satisfaction, and market value," Journal of Marketing 70(4):1–18 (2006); Daniel B. Turban & Daniel W. Greening, "Corporate social performance and organizational attractiveness to prospective employees," Academy of Management Journal 40(3):658–672 (1997); Stuart L. Hart, "A natural-resource-based view of the firm," Academy of Management Review 20(4):986–1014 (1995); Thomas M. Jones, "Instrumental stakeholder theory: a synthesis of ethics and economics," Academy of Management Review, 20(2):404–437 (1995)

[20] Xueming Luo & C. B. Bhattacharya, "Corporate social responsibility, customer satisfaction, and market value," Journal of Marketing 70(4):1–18 (2006); Sankar Sen & C.B. Bhattacharya, "Does doing good always lead to doing better? Consumer reactions to corporate social responsibility," Journal of Marketing Research 38(2):225–243 (2001); Daniel B. Turban & Daniel W. Greening, "Corporate social performance and organizational attractiveness to prospective employees," Academy of Management Journal 40(3):658–672 (1997).

advantage.[21] A stakeholder-oriented approach also is associated with attracting a higher-quality workforce,[22] as well as fostering employee commitment to organizational values and practices, and retaining talented employees.[23] Similarly, it also enables companies to attract and retain customers and build brand loyalty and stronger brand recognition.[24] Some researchers also connect a stakeholder approach to increased innovation.[25]

These findings are consistent with more visible shifts in the attitudes and behavior of consumers, workers, and companies. Increasingly, customers are taking into account a company's impact on society, the environment, and their community when they make purchasing decisions.[26] Brands can be severely damaged by actions that consumers view as unacceptable.[27] Worker expectations have changed as well, and surveys show workers are

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[21] Amy J. Hillman & Gerald D. Keim, "Shareholder value, stakeholder management, and social issues: What's the bottom line?," Strategic Management Journal, 22: 125-139 (2001); Jay B. Barney & Mark H. Hansen, "Trustworthiness as a source of competitive advantage," Strategic Management Journal 15(S1):175–190 (1994), David J. Teece, "Capturing value from knowledge assets: the new economy, markets for know-how, and intangible assets" California Management Rev. 40(3):55–79 (1998)

[22] Heather Schmidt Albinger & Sarah J. Freeman, "Corporate social performance and attractiveness as an employer to different job seeking populations," Journal of Business Ethics 28(3):243–253 (2000); Daniel W. Greening & B. Turban, "Corporate social performance as a competitive advantage in attracting a quality workforce," Business & Society 39:254–280 (2000); Daniel B. Turban & Daniel W. Greening, "Corporate social performance and organizational attractiveness to prospective employees," Academy of Management Journal 40(3):658–672 (1997).

[23] Mark A. Huselid, "The impact of human resource management practices on turnover, productivity, and corporate financial performance" Academy of Management Journal 38(3):635–672 (1995); John E Sheridan, "Organizational culture and employee retention," Academy of Management Journal 35(5):1036– 1056 (1992); David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*, (2005) Washington, DC: Brookings Institution Press

[24] Michael J. Hiscox & Jens Hainmueller, "The Socially Conscious Consumer? Experimental Tests of Consumer Support for Fair Labor Standards," MIT Political Science Department Research Paper No. 2012-15 (2015); Tom J. Brown & Peter A. Dacin "The company and the product: Corporate associations and consumer product responses," Journal of Marketing 61(1):68–84 (1997); Philip Kotler, David Hessekiel, Nancy R Lee, *Good Works!: Marketing and Corporate Initiatives that Build a Better World...and the Bottom Line* (2012) Hoboken, NJ: John Wiley & Sons; Xueming Luo & C. B. Bhattacharya, "Corporate social responsibility, customer satisfaction, and market value," Journal of Marketing 70(4):1–18 (2006); Sankar Sen & C.B. Bhattacharya, "Does doing good always lead to doing better? Consumer reactions to corporate social responsibility," Journal of Marketing Research 38(2):225–243 (2001); Robert J. Williams & J. Douglas Barrett "Corporate philanthropy, criminal activity, and firm reputation: Is there a link?," Journal of Business Ethics 26(4):341−350 (2000).

[25] Caroline Flammer & Aleksandra Kacperczyk, "The Impact of Stakeholder Orientation on Innovation: Evidence from a Natural Experiment," Management Science Vol. 62, No. 7 (2015).

[26] For recent examples of survey data see, Clutch, "How Corporate Social Responsibility Influences Buying Decisions" (January 7, 2019); For academic analysis see, Michael J. Hiscox & Jens Hainmueller, "The Socially Conscious Consumer? Experimental Tests of Consumer Support for Fair Labor Standards," MIT Political Science Department Research Paper No. 2012-15 (2015); Lois A. Mohr Deborah J. Webb Katherine E. Harris, "Do Consumers Expect Companies to be Socially Responsible? The Impact of Corporate Social Responsibility on Buying Behavior," Volume 35, Issue 1 Summer 2001, Pages 45-72.

[27] Yi Grace Ji, et al. "Staking reputation on stakeholders: How does stakeholders' Facebook engagement help or ruin a company's reputation?," Public Relations Review, Volume 43, Issue 1, March 2017, pp. 201-210; Leslie Gaines-Ross, "Reputation Warfare," Harvard Business Review (December 2010 Issue); Robert G. Eccles, Scott C. Newquist, & Roland Schatz, "Reputation and Its Risks" Harvard Business

looking for more from their jobs than a paycheck.[28] Worker activism is now a regular feature of the business environment and a number of recent examples show workers are willing to protest more than their own treatment - they are also looking at the ethics of the work that companies are asking them to do.[29] Many companies are taking aggressive steps to better align operations with the perspectives of their stakeholders, and some high profile businesses are putting positive community impact and sustainability at the heart of their brand identities.[30]

Under LTSE's stakeholder policy, companies must identify all of the stakeholder groups the company considers critical to long-term success.[31] In addition, the policy itself identifies a core group of stakeholders and issues, discussed individually below, that visionary companies must consider. While this is not a comprehensive list of stakeholders for any particular company (e.g. customers are clearly a core stakeholder, but the standard does not explicitly identify them), strong evidence supports the inclusion of each of the specifics indicated.

Environment

Companies focused on the next quarter may not see the environment as relevant to their success. But for those companies that think of success over decades and generations, consideration of their environmental impact is both necessary to manage risk and reputation, and a potential source of opportunity and competitive advantage.

Review (February 2007 Issue); Benjamin A. Neville, Simon J. Bell, & Bülent Mengüç, "Corporate reputation, stakeholders and the social performance-financial performance relationship," European Journal of Marketing Vol. 39 No. 9/10, 2005 pp. 1184-1198. For recent examples of how brands have been harmed through see e.g., Faiz Siddiqui, "Internal data shows Uber's reputation hasn't changed much since #DeleteUber," Washington Post (August 29, 2019); Julie Creswell & Sapna Maheshwari, "United Grapples With PR Crisis Over Videos of Man Being Dragged Off Plane," New York Times (April 11, 2017).

[28] See MetLife, "Employees To Employers: We Want You To Share Our Values And Make The World A Better Place" (November 29, 2017) (survey reporting 89 percent of employees saying they are willing to trade some of their salary to work at a company that shares their values. Note that this is even more relevant for Millennials, who said they were willing to take an average salary cut of 34 percent to work for a company that shares their views).

[29] See for example Irina Ivanova, "Wayfair employees walk out after company's sales to migrant children holding facility," CBS News (June 26, 2019); Open letter from Google employees, "Google must stand against human rights abuses: #NoGCPforCBP," (August 14, 2019); also see Ethan Rouen & Akari Furukawa, "Employee Activism," Harvard Business School Case 120-104 (March 2020); Kathy Gurchiek, "Employee Activism is on the Rise," Society for Human Resource Management (SHRM) (September 12, 2019).

[30] C.B. Bhattacharya, "Taking ownership of a sustainable future," McKinsey Quarterly (May 12, 2020); Andrew Winston, et al., "The Big Idea: Mobilizing On Climate" Harvard Business Review (January 2020); Ioannis Ioannou & George Serafeim, "Yes, Sustainability Can Be a Strategy," Harvard Business Review, (February 11, 2019); Yvon Chouinard, Jib Ellison, & Rick Ridgeway, "The Sustainable Economy" Harvard Business Review (October 2011 Issue); Rebecca Henderson & Frederik Nellemann, "Sustainable Tea at Unilever," Harvard Business School Case 712-438, December 2011.

[31] Long-Term Stock Exchange, "Policies for long-term focused companies," (October 2019)

Multiple reports and studies demonstrate a strong business case for action on environmental issues like sustainability and carbon reduction.[32] One study found "high sustainability" companies significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance.[33] Similarly, studies show financial benefits of reduced carbon emissions.[34] Environmental actions can also result in significant cost savings, and many major businesses and private equity firms are championing sustainability as a way to reduce energy costs.[35] One study found improved environmental performance and risk management led to reductions in firms' costs of capital.[36] A lower cost of capital for firms with robust environmental policies and practices is consistent with the rapid growth of investment flowing to ESG related funds and companies with strong environmental performance.[37]

The growing financial, reputational, and existential risks to companies from environmental

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[32] See Jean Rogers & George Serafeim, "Pathways to Materiality: How Sustainability Issues Become Financially Material to Corporations and Their Investors," Harvard Business School Accounting & Management Unit Working Paper No. 20-056 (2019); Mozaffar Khan, George Serafeim, & Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality," The Accounting Review, Vol. 91, No. 6, pp. 1697-1724 (November 9, 2016); George Serafeim, "Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance," Governance Studies, The Initiative on 21st Century Capitalism, No. 19, Brookings Institution (2014); Robert G. Eccles, Ioannis Ioannou, & George Serafeim, "The Impact of Corporate Sustainability on Organizational Processes and Performance," Management Science, vol 60(11), pages 2835-285 (2014); Shuili Du, et al., "The Business Case for Sustainability Reporting: Evidence from Stock Market Reactions," Journal of Public Policy & Marketing, 36(2), 313-330 (2017). For broader ESG related benefits see e.g., Witold Henisz, Tim Koller, & Robin Nuttall, "Five ways that ESG creates value," McKinsey & Company; Betsy Atkins, "Strong ESG Practices Can Benefit Companies and Investors: Here's How," Nasdaq (June 5, 2018) (arguing a robust ESG program can open up access to large pools of capital, build a stronger corporate brand and promote sustainable long-term growth benefiting companies and investors); Ella Mae Matsumura, Rachna Prakash, & Sandra C. Vera-Muñoz, "Carbon footprint stomps on firm value," KPMG Global Valuation Institute (December 2012)

[33] Robert G. Eccles, Ioannis Ioannou, & George Serafeim,"The Impact of Corporate Sustainability on Organizational Processes and Performance," Management Science 60 (11): 2835–57 (2014). (This study also found these firms were also more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of nonfinancial information)

[34] Ella Mae Matsumura, Rachna Prakash, & Sandra C. Vera-Munoz , "Firm-Value Effects of Carbon Emissions and Carbon Disclosures," The Accounting Review, March 2014, Vol. 89, No. 2, pp. 695-724; Chris Brooks & Ioannis Oikonomou, "The effects of environmental, social and governance disclosures and performance on firm value: A review of the literature in accounting and finance,"

[35] Rebecca M. Henderson, Sophus Reinert, & Mariana Oseguera, "Climate Change in 2020: Implications for Business," Harvard Business School Background Note 320-087 (2020) (noting how many companies have profited by focusing on renewable energy); Robert G. Eccles, George Serafeim, & Tiffany A. Clay, "KKR: Leveraging Sustainability," Harvard Business School Case 112-032, September 2011 (Revised March 2012) (KKR claims to have saved $1.2 billion in energy costs and now requires firms it purchases to undergo energy and water audits)

[36] Mark P. Sharfman & Chitru S. Fernando, "Environmental Risk Management and the Cost of Capital," Strategic Management Journal, Volume 29, Issue 6, June 2008, Pages 569-592

[37] See US SIF, "Report on US Sustainable, Responsible and Impact Investing Trends - 2018" (October 31, 2018) (detailing the growth of sustainable and impact investing in the United States, estimating investors now consider environmental, social and governance (ESG) factors across $12 trillion of professionally managed assets, a 38 percent increase since 2016)

factors are requiring businesses to become more proactive and responsive on these issues as well.[38] Customers are making buying decisions based on companies' environmental performance[39] and companies are changing their behavior in response.[40] Indeed, changing public sentiment towards environmental concerns, particularly carbon emission, has led many companies to take unilateral action as a method of legal and regulatory risk management.[41] The vast majority of large companies now report on environmental performance,[42] although that is often done without the context of a stated policy and goals regarding environmental impact.

The exogenous threat of severe weather and climate change on business operations, workers, and supply chains is greater than ever.[43] For example, 2010-2019 is estimated to have been the costliest decade on record in terms of economic damage due to natural disasters - a fact underscored in the US by recent hurricanes, floods, and wildfires.[44] Executives recognize this risk.[45] Still, US reporting requirements on environmental risk are not as well-developed as those

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[38] See e.g., Joseph E. Aldy & Gianfranco Gianfrate, "Future-Proof Your Climate Strategy," Harvard Business Review (May-June Issue 2019); Rebecca M. Henderson, Sophus Reinert, & Mariana Oseguera, "Climate Change in 2020: Implications for Business" Harvard Business School Background Note 320-087 (2020); Sinziana Dorobantu & Dennis Flemming, "It's Never Been More Important for Big Companies to Listen to Local Communities," Harvard Business Review (November 10, 2017); also see Victoria Sakal, "Bigger Than The Boardroom Ceo Brand Intel: The Role CEOs Are Expected to Play Today," Morning Consult (2020)

[39] IBM Study, "Purpose and Provenance Drive Bigger Profits for Consumer Goods in 2020," (January 10, 2020) (survey of more than 3,500 respondents finding 40 percent of consumers say they would stop buying from a company whose products have a negative environmental impact)

[40] Andrew Hoffman, "The Next Phase of Business Sustainability," Stanford Social Innovation Review (Spring 2018); Ben Schiller, "The Companies that Are-And Aren't Setting Strong Clean Energy Targets," Fast Company (May, 2017); Deloitte Resources 2019 Study. "Energy management: Balancing climate, cost, and choice," Deloitte, (2019.) Ken Silverstein, "Big Business Steps Up for Clean Energy, Even as Washington Stands Down," Forbes (April 2019).

[41] See Joseph E. Aldy & Gianfranco Gianfrate, "Future-Proof Your Climate Strategy," Harvard Business Review (May-June Issue 2019)

[42] According to a 2018 study by the Investor Responsibility Research Center Institute (IRRCI) and the Sustainable Investment Institute (Si2), 92% of S&P 500 companies included disclosure on sustainability on their websites, but only 395 companies (78%) issued reports (see Jon Lukomnik, et al., "State of Sustainability and Integrated Reporting 2018," Investor Responsibility Research Center Institute (IRRCI), 2018). Another report found 86 percent of S&P 500 companies published sustainability reports in 2018. (see, Governance & Accountability Institute, Inc."FLASH REPORT: 86% of S&P 500 Index® Companies Publish Sustainability Reports in 2018" , May 16, 2019). Among large global companies, it is estimated 93 percent of G250 companies issue corporate responsibility reports, (see KPMG, "The Road Ahead The KPMG Survey of Corporate Responsibility Reporting 2017," October 24, 2017)

[43] Rebecca M. Henderson, Sophus Reinert, & Mariana Oseguera, "Climate Change in 2020," Harvard Business School Background Note 320-087 (2020).

[44] Aon, "Weather, Climate & Catastrophe Insight: 2019 Annual Report"

[45] See Deloitte Insights, "The Fourth Industrial Revolution: At the Intersection of Readiness and Responsibility," (January 2020) and related infographic (finding 89 percent of the 2,000 executives surveyed felt that climate change would negatively impact their company in some way)

in many other parts of the world.[46] Indeed, the SEC has also been engaged in these issues.[47]

Community

Company policy toward, and engagement with, their communities (defined hyper-locally, more globally, or beyond geography) is also critical to performance.[48] Companies with greater engagement are more likely to avoid conflict with community stakeholders, a finding aligned with the importance of community in terms of workforce, customer base, and government interaction.[49] Similar to the findings related to corporate environmental policy, research finds a lower cost of capital for companies with enhanced levels of community engagement.[50] Conversely, companies with weak community engagement can become entangled in expensive conflict with reputational consequences.[51] These findings are particularly salient for companies given the potential of social media to amplify negative or embarrassing stories. Indeed, the profound effects community activism can have on business (including protests and boycotts) can be seen in episodes such as the stalled construction of the Keystone XL Pipeline and Amazon's decision to scrap plans for a second headquarters in New York City.[52]

Diversity and inclusion

Companies that want to succeed over the long-term increasingly rely upon the quality of their talent to outperform. Across multiple dimensions including gender, race and ethnicity, age, and

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[46] See generally, Task Force on Climate-related Financial Disclosures (TCFD) (this framework is being adopted by many nations).

[47] See e.g., "Recommendation of the SEC Investor Advisory Committee Relating to ESG Disclosure," (May 21, 2020); "Recommendation from the Investor-as-Owner Subcommittee of the SEC Investor Advisory Committee Relating to ESG Disclosure," (May 14, 2020). For a brief summary of SEC action see Jones Day, "SEC Again Urged to Regulate ESG Disclosures - The SEC's Investor Advisory Committee joins the call for SEC rulemaking on ESG disclosure in light of the "global convergence of investor interest" in these matters, although the Commission seems unlikely to consider additional requirements at this time," (June 19, 2020).

[48] Sinziana Dorobantu & Dennis Flemming, "It's Never Been More Important for Big Companies to Listen to Local Communities," Harvard Business Review (November 10, 2017); Yves Fassin, Simone de Colle, & R. Edward Freeman, "Intra-stakeholder alliances in plant-closing decisions: A stakeholder theory approach," Business Ethics Volume26, Issue2, April 2017, Pages 97-111

[49] Witold J. Henisz, Sinziana Dorobantu, & Lite J. Nartey (2014) "Spinning Gold: The Financial Returns to Stakeholder Engagement," Strategic Management Journal, 35 (12), 1727-1748 (2014)

[50] Beiting Cheng, Ioannis Ioannou, & George Serafeim, "Corporate Social Responsibility and Access to Finance," (May 19, 2011) Strategic Management Journal, 35 (1): 1-23

[51] Daniel M. Franks, et al., "Conflict translates environmental and social risk into business costs," Proceedings of the National Academy of Sciences May 2014, 111 (21) 7576-7581; Deanna Kemp & John R. Owen, "Community relations in mining: Core to business but not 'core business'," Resources Policy 38(4):523–531 (2013); Steven Herz, Antonio La Vina, & Jonathan Sohn, "Development Without Conflict: The Business Case for Community Consent," World Resources Institute, Washington (2007);

[52] See e.g., Delilah Friedler, "Thanks to Trump, Keystone XL Is Back. The Anti-Pipeline Movement Is Ready," Mother Jones (February 7, 2020); J. David Goodman, "Amazon Pulls Out of Planned New York City Headquarters," The New York Times (February 14, 2019)

cultural perspective, research demonstrates the benefits of diversity to company performance.[53] Studies find a positive correlation between diversity and team performance and decision-making.[54] Importantly, diverse teams are found to be more innovative and creative.[55] These findings on the benefits of diversity also extend to executive teams and boards.[56] In terms

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[53] Research examining diversity is vast, but see for example: (generally) Paul Gompers & Silpa Kovvali, "The Other Diversity Dividend" Harvard Business Review (July–August 2018 Issue); (on gender) Stephen Turban, Dan Wu, and Letian (LT) Zhang, "Research: When Gender Diversity Makes Firms More Productive" Harvard Business Review (February 11,2019); Cristian L. Dezső & David Gaddis Ross, "Does Female Representation in Top Management Improve Firm Performance? A Panel Data Investigation," Strategic Management Journal, Volume 33, Issue 9, September 2012, Pages 1072-1089; Letian Zhang, "An Institutional Approach to Gender Diversity and Firm Performance"; Credit Suisse Institute, "The CS Gender 3000 in 2019: The changing face of companies" (October 10, 2019); (on race and ethnicity) Richard, O., McMillan, A., Chadwick, K., & Dwyer, S. "Employing an Innovation Strategy in Racially Diverse Workforces: Effects On Firm Performance" *Group & Organization Management*, *28*(1), 107–126 (2003); Laura Morgan Roberts & Anthony J. Mayo, "Toward A Racially Just Workplace," Harvard Business Review (November 2019); Korn Ferry "The Black P&L Leader"; (on age, both younger and older) PwC, "Age Diversity in the Boardroom" (March 2019); Josh Bersin & Tomas Chamorro-Premuzic, "The Case for Hiring Older Workers," Harvard Business Review (September 26, 2019); (on cultural perspective) Max Nathan & Neil Lee (2013) "Cultural Diversity, Innovation, and Entrepreneurship: Firm-level Evidence from London," Economic Geography, 89:4, 367-394

[54] David Rock & Heidi Grant, "Why Diverse Teams Are Smarter," Harvard Business Review (November 4, 2016); Katherine W. Phillips, "How Diversity Makes Us Smarter," Scientific American (October 1, 2014); Katherine W. Phillips, Gregory B. Northcraft, Margaret A. Neale, "Surface-Level Diversity and Decision-Making in Groups: When Does Deep-Level Similarity Help?," Group Processes & Intergroup Relations, 2006, 9 (4), pp.467-482; Naomi Ellemers & Floor Rink, "Diversity in work groups," Current Opinion in Psychology, Volume 11, October 2016, Pages 49-53; David Rock, Heidi Grant, & Jacqui Grey, "Diverse Teams Feel Less Comfortable - and That's Why They Perform Better," Harvard Business Review (September 22, 2016)

[55] Sylvia Ann Hewlett, Melinda Marshall, & Laura Sherbin, "How Diversity Can Drive Innovation," Harvard Business Review (December 2013); Cristina Díaz-García, Angela González-Moreno & Francisco Jose Sáez-Martínez (2013) "Gender diversity within R&D teams: Its impact on radicalness of innovation," Innovation, 15:2, 149-160; BCG, "How Diverse Leadership Teams Boost Innovation," (2018); Katherine W. Phillips, "How Diversity Makes Us Smarter" Scientific American (October 1, 2014); Katherine W. Phillips, Gregory B. Northcraft, Margaret A. Neale, "Surface-Level Diversity and Decision-Making in Groups: When Does Deep-Level Similarity Help?" Group Processes & Intergroup Relations, 2006, 9 (4), pp.467-482.; Max Nathan & Neil Lee (2013) "Cultural Diversity, Innovation, and Entrepreneurship: Firm-level Evidence from London," Economic Geography, 89:4, 367-394

[56] On executive teams see McKinsey & Company, "Delivering through Diversity" (2018); Cristian L. Dezso & David Gaddis Ross "Does Female Representation in Top Management Improve Firm Performance?: A Panel Data Investigation"; Lone Christiansen, et al. "Gender Diversity in Senior Positions and Firm Performance: Evidence from Europe," IMF Working Paper No. 16/50 (2016); Alberto Manconi, Antonino Emanuele Rizzo, & Oliver G. Spalt, "Diversity Investing" (SSRN) (August 16, 2017). On diversity and boards see Stephanie J. Creary, et al., "When and Why Diversity Improves Your Board's Performance" Harvard Business Review (March 27, 2019); Raj Aggarwala, Varun Jindalb, & Rama Seth, "Board diversity and firm performance: The role of business group affiliation" International Business Review, Volume 28, Issue 6, December 2019, 101600; Frank Dobbin, & Jiwook Jung, "Corporate Board Gender Diversity and Stock Performance: The Competence Gap or Institutional Investor Bias?," North Carolina Law Review 89 (3):809-838 (2011); Corinne Post & Kris Byron, "Women on Boards and Firm Financial Performance: A Meta-Analysis," Academy of Management Journal Vol. 58, No. 5 (2014); Renee B. Adams & Daniel Ferreira, "Women in the boardroom and their impact on governance and performance," Journal of Financial Economics, volume 94, p. 291 - 309; Daehyun Kim & Laura T Starks, "Gender

of workers, survey data suggests workers are attracted to diverse workplaces (at least in the US).[57] This means firms with diverse workforces will have competitive advantage in recruitment.[58]

Beyond team effectiveness, research also suggests diversity is linked to better financial performance.[59] An analysis of venture capital investments found diversity significantly improves financial performance on measures such as profitable investments at the individual portfolio-company level and overall fund returns.[60] Another study finds investing in companies with diverse teams yields superior returns.[61] This link between diversity and financial performance is consistent with macro-economic findings showing a positive relationship between diversity and the value of goods and services produced in the United States.[62] These findings suggest a diverse workforce can signal competent management for investors.

In addition to the mounting evidence of the business case for diversity, changing public sentiment and social movements, including "Black Lives Matter" and #MeToo, are making diversity and inclusion a growing imperative for success.

Investing in employees

Since talent is an increasingly important differentiator, firms that want to do well over time invest in their employees. Economic theory and research documents how worker education and training, known as human capital, can enhance productivity and provide significant financial benefits.[63] Many studies demonstrate a strong positive correlation between human resource

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diversity on corporate boards: Do women contribute unique skills?," American Economic Review, volume 106, p. 267 - 271.

[57] See e.g., PwC "Winning the fight for female talent: How to gain the diversity edge through inclusive recruitment," (March 2017) (survey finding that 61 percent of women look at the gender diversity of the employer's leadership team when deciding where to work); Randstad, Randstad Workmonitor Mobility Index, Q3 2019, (October 2019) (81% of Americans indicate they like working with people from other cultures); Glassdoor, "What Job Seekers Really Think About Your Diversity and Inclusion Stats," (November 17, 2014) (survey of 1,000 respondents finding 67 percent of job seekers overall look at workforce diversity when evaluating an offer); Pew Research Center, "Americans See Advantages and Challenges in Country's Growing Racial and Ethnic Diversity," (May 2019) (survey of 6,637 US adults finding three-quarters of Americans say it is very (49 percent) or somewhat (26 percent) important for companies and organizations to promote racial and ethnic diversity in their workplace).

[58] David Rock & Heidi Grant, "Why Diverse Teams Are Smarter," Harvard Business Review (November 4, 2016).

[59] See e.g., Rocio Lorenzo & Martin Reeves, "How and Where Diversity Drives Financial Performance," Harvard Business Review (January 30, 2018)

[60] Paul Gompers & Silpa Kovvali, "The Other Diversity Dividend," Harvard Business Review (July–August 2018 Issue).

[61] Alberto Manconi, Antonio Emanuele Rizzo, and Oliver G. Spalt, "Diversity Investing," (August 16, 2017).

[62] See Chang-tai Hsieh et al., "The Allocation Of Talent And U.S. Economic Growth," Econometrica, Vol. 87, No. 5 (September, 2019), 1439–1474

[63] See Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education*, University of Chicago Press (1964) (seminal publication on human capital); Nguyen Ngoc Thang, Truong Quang, and Dirk Buyens, "The Relationship Between Training and Firm Performance: A

initiatives and financial outcomes including total shareholder return, return on assets, return on earnings, return on investment, and return on capital employed.[64] These findings extend to investments in worker training and professional development.[65] One study argues that on-the-job training may be just as important as formal education in determining productivity, after considering specific skills, new technologies and continuous learning.[66] While the data on worker training investments for US firms is limited, multiple studies using European data reveal these investments increase productivity of workers at a rate far surpassing the corresponding increase in wages.[67]

Firms have long understood this link, however, changing economic dynamics put increasing value on "intangible assets," including intellectual property and human capital. Estimates suggest intangible assets now make up more than 80 percent of the market value of the S&P 500, compared to less than 20 percent forty years ago.[68] The growing importance of workers to firm value has increased calls for reworking reporting and disclosure of human capital management.[69] Major investors and investor organizations are prioritizing human capital and company culture engagement priorities.[70] Frameworks such as the Embankment Project for Inclusive Capital (EPIC), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), and International Standards Organization (ISO) all identify human

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Literature Review," Journal of Research and Practice in Human Resource Management 18 (1) (2010): 18–45.

[64] Aaron Bernstein & Larry Beeferman, "The Materiality of Human Capital to Corporate Financial Performance," Pensions and Capital Stewardship Project, Labor and Work life Program, Harvard Law School, April 2015 (review of studies)

[65] Angela Hanks, et al., "Workers or Waste? How Companies Disclose—or Do Not Disclose— Human Capital Investments and What to Do About It," Center for American Progress Report (June 2016)

[66] Daron Acemoglu & Jörn-Steffen Pischke, "Beyond Becker: Training in Imperfect Labour Markets," The Economic Journal 53 (453) (1999): F112–F142

[67] Jozef Konings & Stijn Vanormelingen, "The Impact of Training on Productivity and Wages: Firm Level Evidence," (Bonn, Germany: Institute for the Study of Labor, 2010); Bapna, Ravi and Langer, Nishtha and Mehra, Amit and Gopal, Ram D. and Gupta, Alok, Human "Capital Investments and Employee Performance: An Analysis of IT Services Industry," (May 9, 2012). Management Science, 59 (3), pp. 641-658; Lorraine Dearden, Howard Reed, & John Van Reenen, "The Impact of Training on Productivity and Wages: Evidence from British Panel Data," Oxford Bulletin of Economics and Statistics 68 (4) (2006): 397–421

[68] Cate Elsten & Nick Hill, "Intangible Asset Market Value Study?," les Nouvelles - Journal of the Licensing Executives Society, Volume LII No. 4, September 2017, also published by Ocean Tomo, LLC "Annual Study of Intangible Asset Market Value (IAMV)," (March 5, 2015).

[69] See Jamie Smith & Stephen Klemash, "How and why human capital disclosures are evolving," EY (October 29, 2019); Angela Hanks, et al., "Workers or Waste? How Companies Disclose—or Do Not Disclose—Human Capital Investments and What to Do About It," Center for American Progress Report (June 2016)

[70] See BlackRock Investment Stewardship (BIS), "Investment Stewardship's approach to engagement on human capital management," (January 2020); CalPERS, "CalPERS Beliefs: Our Views Guiding Us into the Future," (2014) (stating long-term value creation requires effective management of three forms of capital: financial, physical, and human); Council of Institutional Investors (CII) sent a letter to the SEC supporting improved human capital reporting (October 17, 2019).

capital investment as a key value driver for companies.[71] Despite the materiality of human capital to company value, spending on worker training shows up in a firm's financial statement under selling, general, and administrative expenses (SG&A), and therefore is often considered overhead in reporting.[72] The SEC is currently considering a proposed rule change regarding disclosure of human capital management.[73]

Modern companies view spending on human capital as investing in their futures. By sharing their approach to human capital with their investors, workers, and others as part of their stakeholder policy, they can show their commitment to this critical ongoing investment.

Rewarding employees and other stakeholders

Given the importance of employees and stakeholders to performance, long-term companies are at the forefront of implementing established and novel ways to reward these groups. The increased concern about sharing success is driven in part by increasing economic inequality in our society and questions about the role of business in addressing this trend.[74]

It is estimated that nearly half of workers participate in some form of "shared capitalism," including employee stock ownership, broad-based stock options, profit-sharing bonuses, and paid group incentive schemes (gain sharing).[75] Research shows a strong positive association

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[71] See Coalition for Inclusive Capitalism & EY, "Embankment Project for Inclusive Capitalism (EPIC) Report," (2018) (developed a framework identifying company activities related to long-term value, in which talent was identified as a key. EPIC proposed metrics and narrative disclosures to help guide related company reporting); SASB Materiality Map (one of SASB's five groups of standards related to firm performance is human capital); GRI Standards (covering human capital topics such as recruitment and retention, labor and management relations, health and safety, training and education, diversity and pay equity); ISO 30414:2018 Human resource management — Guidelines for internal and external human capital (providing guidelines and metrics for human capital reporting, including diversity, organizational cultural, health and safety, recruitment and turnover, skills and capabilities).

[72] Angela Hanks, et al., "Workers or Waste? How Companies Disclose—or Do Not Disclose— Human Capital Investments and What to Do About It," Center for American Progress Report (June 2016); Laurie Bassi, et al., "The Impact of U.S. Firms' Investments in Human Capital on Stock Prices," (2004)

[73] For proposed rule change see Exchange Act Release No. 86614, "Modernization of Regulation S-K Items 101, 103, and 105," (August 8, 2019). In July 2017, the SEC received a rulemaking petition from the Human Capital Management Coalition, a cooperative effort currently involving 28 institutional investors representing more than $4 trillion in assets, to require registrants to disclose information about their human capital management policies, practices and performance. After review, the SEC Investor Advisory Committee submitted a recommendation on Human Capital Management Disclosure (March 28, 2019).

[74] See Joseph R. Blasi, Richard B. Freeman, & Douglas L. Kruse, "Capitalism for the Rest of Us" New York Times Opinion (July 17, 2015); Walter Frick, "Can Profit Sharing Address Income Inequality?," Harvard Business Review (September 7, 2015).

[75] Douglas L. Kuse, Joseph R. Blasi, & Rhokeun Park, "Shared Capitalism in the U.S. Economy: Prevalence, Characteristics, and Employee Views of Financial Participation in Enterprises," Chapter 1, pp. 41-75 in *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, Douglas L. Kuse, Richard B. Freeman, Joseph R. Blasi (editors) National Bureau of Economic Research (NBER) Conference Report, University of Chicago Press (2011).

between shared capitalism programs and corporate performance.[76] These types of programs are linked with higher worker productivity, greater loyalty, reduced turnover, and greater willingness to work hard.[77] Shared capitalism programs also are linked with increased innovation and greater worker willingness to engage in innovative activity.[78] Firms with shared capitalism programs also appear to be more resilient, with studies showing these firms are more likely to survive major economic shocks like recessions.[79]

The benefits of shared capitalism extend beyond corporate performance with improvements to worker well-being, including higher compensation, benefits, and wealth, as well as greater participation in decision making, increased job security.[80] Shared capitalism has been found to

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[76] Joseph R. Blasi, et al. "Creating a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance," in Douglas L. Kruse, Richard B. Freeman, & Joseph R. Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, National Bureau of Economic Research (NBER) Conference Report, University of Chicago Press (2011) (noting, "Evidence from over 100 studies indicates a positive association on average between shared capitalism programs and company performance, but with substantial dispersion of results...The average estimated increase in productivity associated with employee ownership and profit sharing is about 4.5 percent, and is maintained when using pre/post comparisons and attempts to control for selection bias" (pp. 142, fn 4). Also see, Douglas L. Kruse, Richard B. Freeman, & Joseph R. Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, National Bureau of Economic Research (NBER) Conference Report, University of Chicago Press (2011).

[77] Joseph R. Blasi, et al. "Creating a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance" (Chapter 4), Arindrajit Dube & Richard B. Freeman, "Complementarity of Shared Compensation and Decision-Making Systems: Evidence for the American Labor Market," (Chapter 5), Alex Bryson & Richard B. Freeman, "How Does Shared Capitalism Affect Economic Performance in the United Kingdom," (Chapter 6), Erika E. Harden, Douglas L Kruse, & Joseph R. Blasi, "Who Has a Better Idea? Innovation, Shared Capitalism, and Human Resources Policies," (Chapter 7) in Douglas L. Kruse, Richard B. Freeman, & Joseph R. Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, National Bureau of Economic Research Conference Report, University of Chicago Press (2011); also see Dennis Campbell, John Case, & Bill Fotsch, "More Than a Paycheck" Harvard Business Review (January-February Issue, 2018).

[78] Xin Chang, Kangkang Fu, Angie Low, & Wenrui Zhang, "Non-executive employee stock options and corporate innovation,"Journal of Financial Economics Volume 115, Issue 1, January 2015, Pages 168-188; Erika E. Harden, Douglas L Kruse, & Joseph R. Blasi, "Who Has a Better Idea? Innovation, Shared Capitalism, and Human Resources Policies," (Chapter 7) in Douglas L. Kruse, Richard B. Freeman, & Joseph R. Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, National Bureau of Economic Research Conference Report, University of Chicago Press (2011).

[79] Fidan Ana Kurtulus & Douglas L. Kruse, *How Did Employee Ownership Firms Weather the Last Two Recessions?: Employee Ownership, Employment Stability, and Firm Survival in the United States: 1999-2011*, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research (2017); Rhokeun Park, Douglas Kruse, & James Sesil, "Does Employee Ownership Enhance Firm Survival?," Advances in the Economic Analysis of Participatory and Labor-Managed Firms, Volume 8, 3-33; Joseph Blasi, Douglas Kruse, & Dan Weltmann, "Firm Survival And Performance In Privately Held Esop Companies" (2013) Advances in the Economic Analysis of Participatory and Labor-Managed Firms. 14. 109-124.

[80] Douglas L. Kuse, Richard B. Freeman, and Joseph R. Blasi, "Do Workers Gain by Sharing? Employee Outcomes Under Employee Ownership, Profit Sharing, and Broad-Based Stock Options," (Chapter 8), Edward J. Carberry, "Who Benefits for Shared Capitalism? The Social Stratification of Wealth and Power

increase employee satisfaction, trust, and positive relations with employers.[81] While worker satisfaction may be an end in its own right, the benefits to overall corporate performance are non-trivial and studies have connected employee satisfaction with share performance.[82]

While much of the research surrounding shared capitalism programs is focused on full- and part-time employees, these findings could also extend logically to key stakeholders, especially workers classified as independent contractors. During their IPOs, some companies choose to offer non-employee workers bonuses, along with special access to purchase shares.[83] Ultimately, sharing success helps foster increased employee and stakeholder satisfaction, which leads to stronger company performance and better relationships between firms and their stakeholders.[84]

Summary for stakeholder section

Stakeholder oriented companies are built for long-term success. These stakeholders care far more about investing in the future of the company—including investing in human capital and innovation—than in cutting corners or engaging in financial gymnastics to meet quarterly targets. They will support boards and executives in making the hard choices that are right for future growth, even if they are harder in the short-term. Those same stakeholders provide a counterbalance to short-term activism while reinforcing accountability for results.

Another important factor to note is that many of the stakeholder requirements in this policy are relevant to traditional Environmental, Social and Governance (ESG) metrics and to requirements for Public Benefit Corporations and B-corps.[85] While the policy is not designed specifically for these purposes, it does purposefully align with them. Thus, companies disclosing pursuant to the policy requirements may be better positioned in terms of their ESG

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in Companies with Employee Ownership," (Chapter 10), Robert Buchele, et al., "Show Me the Money: Does Shared Capitalism Share the Wealth?,"in Douglas L. Kruse, Richard B. Freeman, & Joseph R. Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, National Bureau of Economic Research Conference Report, University of Chicago Press (2011).

[81] Alex Bryson, Andrew E. Clark, Richard B. Freeman, Colin P. Green, "Share Capitalism and Worker Wellbeing" Labour Economics, Volume 42, October 2016, Pages 151-158; Alex Bryson & Richard Freeman, "Profit Sharing Boosts Employee Productivity and Satisfaction," Harvard Business Review (December 13, 2016)

[82] Alex Edmans, "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices" (January 20, 2010). Journal of Financial Economics 101(3), 621-640 (a widely cited study examining the relationship between employee satisfaction and long-run stock returns, which found a value-weighted portfolio of the "100 Best Companies to Work For in America" earned significantly better returns over a 25 year period).

[83] Both Uber and Lyft provided bonuses to drivers (classified as non-employees) based on the number of trips they completed and access to purchase shares at the offering price.

[84] See for example, Dennis Campbell, John Case, & Bill Fotsch, "More Than a Paycheck" Harvard Business Review (January-February Issue, 2018); Peter Walsh, Michael Peck, & Ibon Zugasti, "Why the U.S. Needs More Worker-Owned Companies" Harvard Business Review (August 8, 2018).

[85] See for Benefit Corporation https://benefitcorp.net/; B-corp, https://bcorporation.net/

performance. This may also help to unlock the growing pool of funding targeting companies that meet certain requirements.[86] Of course, the details of a particular company's policies and the way in which implements and measures results will be highly relevant.

[86] See US SIF, "Report on US Sustainable, Responsible and Impact Investing Trends - 2018" (October 31, 2018) (detailing the growth of sustainable and impact investing in the United States, estimating investors now consider environmental, social and governance (ESG) factors across $12 trillion of professionally managed assets, a 38 percent increase since 2016)

Long-term Strategy

Principle: Long-term focused companies should measure success in years and decades and prioritize long-term decision-making.

Policy: A policy explaining how the company prioritizes long-term strategic decision-making and long-term success, including discussion of:

A. What time horizon the company considers long-term;
B. How this time horizon relates to the company's strategic plans;
C. How the company aligns success metrics with its long-term time horizon; and
D. How the company implements long-term prioritization throughout the organization.

Calls for companies to put greater focus on long-term strategy are nearly ubiquitous.[87] Analysis and survey data indicate most investors are more interested in long-term strategy than short-term guidance, which is consistent with the popular narrative espoused by prominent investors.[88] A substantial body of research details the negative effects of focusing too heavily on short-term plans and performance. Studies examining earnings calls found companies where senior management placed greater emphasis on short term earnings experienced greater share price volatility, higher costs of capital, and lower returns on equity.[89] Multiple studies demonstrate negative effects associated with issuing quarterly earnings guidance, including higher stock volatility and reduced investment in R&D relative to their peers.[90] Some findings suggest positive benefits associated with eliminating quarterly earnings guidance, including

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[87] See FCLTGlobal, "Driving the Conversation: Long-Term Roadmaps for Long-Term Success" (February 21,2019); The Aspen Institute, "Long-term value creation: Guiding principles for corporations and investors," 2007; Committee for Economic Development, "Built to Last: Focusing Corporations on Long-Term Performance" (2007); U.S. Chamber of Commerce, "Commission on the regulation of U.S. capital markets in the 21st century: Report and recommendations," (2007); CFA Centre For Financial Market Integrity & Business Roundtable for Corporate Ethics, "Breaking the Short-Term Cycle," CFA Institute (2006).

[88] See Baruch Lev, "How to Win Investors Over," Harvard Business Review (November 2011 Issue); Thomas E. Copeland, Aaron Dolgoff, & Alberto Moel, "The Role of Expectations in Explaining the Cross-Section of Stock Returns," Review of Accounting Studies 9, 149–188 (2004); Thomas E. Copeland, "What Do Practitioners Want?," Journal of Applied Finance, Volume 12, Issue 1, Spring/Summer 2002. For survey data see CFA Institute Centre for Financial Market Integrity, "Short-Termism Survey: Practices and Preferences of Investment Professionals," (May 28, 2008); CFA Centre For Financial Market Integrity & Business Roundtable for Corporate Ethics, "Breaking the Short-Term Cycle," CFA Institute (2006). For prominent investors see e.g., Jamie Dimon & Warren E. Buffett, "Short-Termism Is Harming the Economy" Wall Street Journal, (June 6, 2018).

[89] François Brochet, George Serafeim, and Maria Loumioti, "Short-Termism: Don't Blame Investors," Harvard Business Review (June 2012 Issue); François Brochet, Maria Loumioti, and George Serafeim, "Speaking of the short-term: disclosure horizon and managerial myopia," Review of Accounting Studies, volume 20, pages 1122–1163 (2015)

[90] Mei Cheng, K.R. Subramanyam, & Yuan Zhang, "Earnings Guidance and Managerial Myopia" (September 2005). AAA 2006 Financial Accounting and Reporting Section (FARS) Meeting Paper.

more long-term investors, more weight placed on long-term earnings in valuation, and lower sensitivity to short-term analyst forecasts relative to firms that did not end quarterly earnings guidance.[91] Building on this research, industry organizations and investor groups have argued for the elimination of short-term earnings guidance,[92] and the SEC has raised it as well.[93] These arguments are echoed by industry leaders such as Warren Buffet, Jamie Dimon, and Larry Fink, among others.[94] The core argument is that short-term plans and communications can lead to myopic behavior that distorts investment and encourages earnings management. Instead, these actors have urged companies to "take a long-term strategic view" and disclose specific and measurable long-term goals consistent with that view.[95]

The Long-term Strategy Policy is designed to help move the narrative of a company's success from a quarterly cadence to a long-term focus with appropriate accountability metrics that are not quarterly EPS.

Many organizations, market participants, and industry experts have championed the concept of greater company focus and disclosure of long-term strategy.[96] The research supporting this approach is growing. Studies examining market movements resulting from overall strategy presentations find investors value information on strategy as demonstrated by positive boosts to

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[91] Yongtae Kim, Lixin Su, & Xindong Zhu, "Does the Cessation of Quarterly Earnings Guidance Reduce Investors' Short-Termism?," Review of Accounting Studies volume 22, pages 715–752 (2017)
[92] See FCLTGlobal, "Driving the Conversation: Long-Term Roadmaps for Long-Term Success" (February 21,2019); FCLTGlobal, "Moving Beyond Quarterly Guidance: A Relic of the Past" (October, 23, 2017); Gabriel Karageorgiou & George Serafeim, "Earnings Guidance - Part of the future or the Past?," KKS Advisors & The Generation Foundation (January, 2014); The Aspen Institute, "Long-term value creation: Guiding principles for corporations and investors," 2007; Committee for Economic Development, "Built to Last: Focusing Corporations on Long-Term Performance" (2007); U.S. Chamber of Commerce, "Commission on the regulation of U.S. capital markets in the 21st century: Report and recommendations," (2007); CFA Centre For Financial Market Integrity & Business Roundtable for Corporate Ethics, "Breaking the Short-Term Cycle," CFA Institute (2006); McKinsey & Company, "The misguided practice of earnings guidance," (2006)
[93] See https://www.sec.gov/rules/other/2018/33-10588.pdf.
[94]See "Common Sense Principles 2.0"; Jamie Dimon & Warren E. Buffett, "Short-Termism Is Harming the Economy" Wall Street Journal, (June 6, 2018)
[95] "Common Sense Principles 2.0"
[96] See Brian Tomlinson & Michael P. Krzus, "Method of Production of Long-Term Plans," CECP: Strategic Investor Initiative White Paper No. 3 (January 25, 2019); Brian Tomlinson, "Emerging Practice in Long-Term Plans" Harvard Law School Forum on Corporate Governance (posted November 9, 2018); FCLTGlobal, "Driving the Conversation: Long-term roadmaps for long-term success," (February 21, 2019); FCLTGlobal, "Moving Beyond Quarterly Guidance: A Relic of the Past" (October, 23, 2017); (for organizations see) Business Roundtable (BRT) called "Principles of Corporate Governance," (January, 2016); International Business Council of the World Economic Forum, "The New Paradigm".

share price.[97] Recent studies also have found preliminary positive economic impacts related specifically to long-term strategic plans.[98]

However, the business case for developing and sharing long-term strategy extends beyond boosting share price, and these strategies can help solidify commitments among companies, investors, and stakeholders. A recent study found that executives wanted to present their long-term strategies for three primary reasons: (1) frustration at the earnings call and wanting to enhance disclosures on the themes that drive business value over the long-term (2) extending the work of existing initiatives, including reporting on sustainability initiatives (3) desire to demonstrate leadership on a key issue for investors and stakeholders.[99] Research demonstrates that deepening the dialogue and communication around long-term strategy can attract longer-term investors.[100] Others have argued companies with strong long-term strategies are more likely to attract and retain professional talent.[101]

Various groups have put forward frameworks and best practices for how to shape and share long-term strategies.[102] Importantly, sharing a long-term strategy does not equate to divulging all details of a company's long-term strategy or competitively sensitive information.[103] Rather, it is an approach to sharing appropriate information to provide meaningful accountability and shared understanding with investors and other key stakeholders to enable a narrative for success that minimizes the primacy of quarterly EPS as a success metric.

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[97] See Richard Whittington, Basak Yakis-Douglas, & Kwangwon Ahn, "Cheap talk? Strategy presentations as a form of chief executive officer impression management," Strategic Management Journal, Volume 37, Issue 12, December 2016, Pages 2413-2424 (finding company strategy presentations were associated with a same day average stock value rise of 2 percent, which translated into a $1.1 billion gain in market value); Brian Bushee, Michael J. Jung Gregory S. Miller "Conference Presentations and the Disclosure Milieu," Journal of Accounting Research, Volume 49, Issue 5, December 2011, Pages 1163-1192 (finding positive average abnormal stock return and share turnover signals following company presentations at conferences)

[98] Kotsantonis, S., Rehnberg, C., Serafeim, G., Ward, B. and Tomlinson, B. (2019), "The Economic Significance of Long-Term Plans," Journal of Applied Corporate Finance, 31: 22-33

[99] Brian Tomlinson & Michael P. Krzus, "Method of Production of Long-Term Plans," CECP: Strategic Investor Initiative White Paper No. 3 (January 25, 2019)

[100] George Serafeim, "Integrated Reporting and Investor Clientele" (January 14, 2014). Journal of Applied Corporate Finance, Volume 27, Number 2. Spring 2015; François Brochet, Maria Loumioti, & George Serafeim, "Speaking of the short-term: disclosure horizon and managerial myopia," Review of Accounting Studies, volume 20, pages 1122–1163 (2015)

[101] Tim Youmans & Brian Tomlinson, "Six Reasons Why Companies Should Start Sharing Their Long-Term Thinking With Investors," MIT Sloan Magazine (2018)

[102] See e.g., Brian Tomlinson & Michael P. Krzus, "Method of Production of Long-Term Plans," CECP: Strategic Investor Initiative White Paper No. 3 (January 25, 2019); Coalition for Inclusive Capitalism & EY, "Embankment Project for Inclusive Capitalism (EPIC) Report," (2018); FCLTGlobal, "Driving the Conversation: Long-Term Roadmaps for Long-Term Success," (February 21, 2019); FCLTGlobal, "A roadmap for focusing capital on the long term," (March, 2015); CFA Centre For Financial Market Integrity & Business Roundtable for Corporate Ethics, "Breaking the Short-Term Cycle" CFA Institute (2006).

[103] LTSE listing principles do not require disclosure of any competitively sensitive information.

Long-term Compensation

Principle: Long-term focused companies should align executive and board compensation with long-term performance metrics.

Policy: A policy explaining the company's alignment of executive compensation and board compensation with the company's long-term success and long-term success metrics.

Compensation creates incentives for executives and board directors to pursue long-term value creation. Companies recognize that executive compensation is critical to their ability to keep and retain the talent they need to succeed. For long-term investors, alignment of executive compensation with long term goals is a top priority.[104] In recent decades, two trends have driven escalating executive compensation figures. First, boards have sought to meet or exceed compensation of "peer" companies, consistently driving executive compensation higher.[105] Second, companies have largely sought to align incentives through equity-based compensation, which now accounts for roughly two thirds of executive compensation.[106] As a result, CEO compensation has skyrocketed in the last several decades, growing an estimated 940 percent since 1978.[107]

This has subjected executive compensation to heightened scrutiny, with concomitant increases in regulatory requirements.[108] While reporting requirements have increased, this has not necessarily led to more effective transparency, due to the complexity of the disclosures.

Choosing how best to maximize managerial time horizons and incentivize long-term behavior is a primary responsibility of boards and compensation and committees and should be tailored to meet the individual circumstances and needs of each company.

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[104] See Council of Institutional Investors, "CII Policies on Executive Compensation Adopted September 17, 2019" (2019); Alfred Rappoport, *Saving Capitalism from Short-Termism* (McGraw Hill, 2011); also see proxy advisor guidance emphasis on long-term value in ISS "United States Proxy Voting Guidelines: Benchmark Policy Recommendations" (Nov. 2019); Glass Lewis "2020 Proxy Paper Guidelines for the United States" (2019)
[105] See e.g., Steven Clifford, *The CEO Pay Machine*, (New York: Blue Rider Press, 2017); Michael Dorff, *Indispensable and other myths: why the CEO pay experiment failed and how to fix it*, (Berkeley: University of California Press, 2014); Alfred Rappaport, *Saving Capitalism from Short-Termism*, (McGraw-Hill, 2011); Lucian A. Bebchuk & Jesse M. Fried, *Pay Without Performance*, (Cambridge: Harvard University Press, 2004).
[106] Lucian A. Bebchuk & Jesse M. Fried, "Paying for Long-term Performance," University of Pennsylvania Law Review, Vol. 158, pp. 1915-1959 (2010); Harvard Law and Economics Discussion Paper No. 658.
[107] Lawrence Mishel and Julia Wolfe, "CEO compensation has grown 940% since 1978: Typical worker compensation has risen only 12% during that time" Economic Policy Institute (August 14, 2019); aslo see Lucian A. Bebchuk & Jesse M. Fried, *Pay Without Performance*, (Cambridge: Harvard University Press, 2004)
[108] See e.g., Wachtell, Lipton, Rosen & Katz, *Compensation Committee Guide*, Chapter I, (Feb. 2020)

Current practice for executive compensation focuses on three years, however there is growing support among investors to lengthen performance and vesting periods. For instance, the Council of Institutional Investors (CII) "Principles for Executive Compensation" considers "the long-term" to be at least five years.[109] Others have also recommended extending performance and vesting periods.[110]

Research overwhelmingly supports the comparative benefits of lengthening executive time horizons and the negative effects of shorter-term incentives. Shorter CEO time horizons are associated with greater levels of financial engineering and reduced investment, including R&D spending.[111] Conversely, longer executive time horizons are associated with better long-term financial performance and increased investment in R&D.[112] Longer executive time horizons have been linked with greater levels of innovation, with one study finding one additional year in horizon is associated with 8 percent more patent citations.[113] Increased executive time horizons have also been correlated with hiring more inventors, setting longer-term incentives for researchers, and increasing firms' investments in long-term innovative strategies and stakeholder relationships.[114]

Given the central importance of executive compensation to companies, compensation for board directors is often overlooked. However, directors are important in setting long-term strategy and ensuring management actions are consistent with creating long-term value. Indeed, investors

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[109] Council of Institutional Investors, "CII Policies on Executive Compensation Adopted September 17, 2019" (2019); Also see, David Oakely, "Fidelity Challenges Companies on Long Term Incentives," Financial Times, September 22, 2013

[110] See e.g. ISS, "United States Proxy Voting Guidelines: Benchmark Policy Recommendations," (Nov. 2019); Glass Lewis, "2020 Proxy Paper Guidelines for the United States," (2019)

[111] Alex Edmans, Vivian W. Fang, & Katharina A. Lewellen, "Equity Vesting and Investment," The Review of Financial Studies, Volume 30, Issue 7, July 2017, Pages 2229–2271 (finding vesting equity induces CEOs to reduce investments in long-term projects and to take actions that increase short-term stock price); Alex Edmans, Vivian W. Fang, & Allen Huang, "The Long-Term Consequences of Short-Term Incentives" (March 13, 2020), European Corporate Governance Institute (ECGI) - Finance Working Paper No. 527/2017 (showing that short-term stock price concerns connected to compensation induce CEOs to take value-reducing actions); Patricia M. Dechow & Richard G. Sloan, "Executive Incentives and the Horizon Problem," Journal of Accounting and Economics, 14 (1991) 51 (findings suggest CEOs spend less on R&D during their final years in office, but these reductions are mitigated through CEO stock ownership); Daniel B. Bergstresser & Thomas Philippon, "CEO Incentives and Earnings Management," Journal of Financial Economics, Forthcoming; HBS Finance Working Paper No. 640585 (providing evidence that the use of discretionary accruals to manipulate reported earnings is more pronounced at firms where the CEO's potential total compensation is more closely tied to the value of stock and option holdings)

[112] R. Gopalan, T. Milbourn, F. Song, and A. Thakor, "Duration of executive compensation," Journal of Finance 69(6): 2777–2817 (2014) (showing correlation between longer pay duration and firms with more growth opportunities, more long-term assets, greater R&D intensity); Juanita González-Uribe & Moqi Groen-Xu, "CEO Contract Horizon and Innovation," (2016).

[113] Juanita González-Uribe & Moqi Groen-Xu, "CEO Contract Horizon and Innovation," (2016)

[114] Caroline Flammer & Pratima Bansal, "Does a long-term orientation create value? Evidence from a regression discontinuity," Strategic Management Journal (December 2016)

cite board remuneration as an often-overlooked but critical component of aligning incentives.[115] Careful consideration must be given to designing incentives that encourage a long-term orientation for the board as well.[116]

At a fundamental level, executive and board compensation approaches are designed to attract and retain talent and align incentives. But the specifics of how to structure compensation to effectively meet these goals continues to evolve.

The other four policies have direct ties to long-term compensation. Performance metrics can be aligned with the long-term strategy and related metrics. The time horizons identified in the long-term strategy policy help guide compensation timeframes. The long-term board policy closely aligns with board compensation.

[115] From LTSE interviews with institutional investors.
[116] See FCLTGlobal, "The Long-Term Habits of Highly Successful Boards," (March 2019)

Long-term Board

Principle: Boards of directors of long-term focused companies should be engaged in and have explicit oversight of long-term strategy.

Policy: A policy explaining the engagement of the company's board of directors in the company's long-term focus, including discussion of whether the board and/or which board committee(s), if any, have explicit oversight of and responsibility for long-term strategy and success metrics.

Boards of directors are critical leaders in creating long-term value.[117] The board's role in shaping strategy, determining executive compensation, upholding their fiduciary duty to investors, and leading on stakeholder issues, means boards are required to make decisions on all four of the other principles for long-term success.

Surveys find board directors are concerned about short-term pressures, while executives often perceive their boards as a source of short-term pressure.[118] Reports on board activity indicate directors spend the majority of their time on backwards looking tasks including quarterly reports, audit reviews, budgets, and compliance.[119] These monitoring tasks comprise important fiduciary duties focused on holding managers accountable (i.e., solving the inherent "principal-agent" problem of corporate governance).[120] Yet, in addition to monitoring, boards serve as advisors and thought partners.[121] Companies look to boards for their knowledge and expertise, particularly with regard to setting corporate strategy (arguably the most fundamental board task).[122] Surveys show boards spend roughly a third of their time on strategy and that board directors believe this is the area where they are most effective.[123]

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[117] See e.g., Shawn Cooper, et al., "Tone at the Top: The Board's Impact on Long-term Value," Russell Reynolds Associates & FCLTGlobal (April 2020); Rani Doyle & Stephen Klemash, "How long-term value can be redefined and communicated," EY Center for Board Matters, (May 2019); FCLTGlobal, "The Long-Term Habits of Highly Successful Boards," (March 2019)
[118] Dominic Barton, et al., "Short-termism on Boards: Insights from Canadian Directors and Executives," FCLTGlobal (June 2015); Jonathan Bailey, et al., "Short Termism: Insights from Business Leaders," FCLTGlobal (January 2014) (survey noting 47 percent of respondents report boards are a source of short-term pressure and an impediment to long-term strategic thinking)
[119] Christian Casal & Christian Caspar, "Building a forward-looking board," McKinsey Quarterly (February 1, 2014)
[120] Renée Adams, Benjamin E. Hermalin, Michael S. Weisbach, "The role of boards of directors in corporate governance, A conceptual framework and survey," Journal of Economic Literature 48(1), 58–107 (2010); Michael C. Jensen, & William H. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure," Journal of Financial Economics, 3,4, pp. 305-360 (1976)
[121] Renée Adams, "The Dual Role of Corporate Boards as Advisors and Monitors of Management: Theory and Evidence," AFA 2002 Atlanta Meetings
[122] Martin Hirt, Frithjof Lund, & Nina Spielmann, "A time for boards to act," Mckinsey & Company (March 26, 2018)
[123] Conor Kehoe, Frithjof Lund & Nina Spiemann, "Toward a value-creating board," McKinsey & Company (February 1, 2016)

The “dual role” of boards as both monitors and advisors, makes them key arbiters of a company's time horizon.[124] If a board chooses to prioritize a long-term orientation (in terms of both monitoring and advising), this will likely affect the behavior of company managers and employees. Many commentators and market participants argue for boards taking a long-term orientation.[125] One study notes the positive correlation between board outlook and performance.[126] Analysis also indicates the average tenure of board members exceeds that of CEOs, providing needed stability to align business priorities with long-term success.[127]

Many characteristics can be used to describe long-term oriented boards. Research shows increased diversity, stakeholder orientation, and focus on strategy are among board characteristics positively correlated with firm performance.[128]

By making the responsibility for long-term strategy and metrics an explicit responsibility of the Board or a designated committee, the LTSE principle seeks to ensure active board engagement in and oversight of these critical points, as well as ensuring they receive adequate focus at the highest levels.

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[124] Renée Adams, “The Dual Role of Corporate Boards as Advisors and Monitors of Management: Theory and Evidence,” AFA 2002 Atlanta Meetings
[125] Christian Casal & Christian Caspar, “Building a forward-looking board,” McKinsey Quarterly (February 1, 2014); Dominic Barton & Mark Wiseman, “Where Boards Fall Short,” Harvard Business Review (January-February 2015 Issue); CFA Institute, “Visionary Board Leadership: Stewardship for the Long Term,” (June, 2012).
[126] Shawn Cooper, et al., “Tone at the Top: The Board’s Impact on Long-term Value,” Russell Reynolds Associates & FCLTGlobal (April 2020); alsoe see FCLTGlobal, “Long Term Habits of Highly Successful Boards,” (March 2019).
[127] FCLTGlobal, “The Long-Term Habits of Highly Successful Boards,” (March 2019) Other characteristics include : diversity in gender, race, experience/perspective, age, and adaption of duties beyond the traditional financial oversight.
[128] FCLTGlobal, “Long-term Habits of a Highly Effective Corporate Board,” (March 2019).

Long-term Shareholders

Principle: Long-term focused companies should engage with their long-term shareholders.

Policy: A policy explaining how the company engages with long-term investors.

Long-term shareholders are focused on returns measured over multiple years and even decades. One of the primary purposes of the long-term listing standards overall is to align long-term investors and modern companies. When companies have a strong long-term investor base that believes in their mission and strategy, they are better positioned to find ongoing support as they remain steadfast in achieving those goals.[129] Making the right short-term choices to lead to long-term growth can be difficult in today's public markets.[130] Having an investor base whose time horizons align with the company's and who have transparency, through the long-term listing standards, into the company's long-term strategy and metrics, its approach to stakeholders and compensation, and the engagement of its board, will help to ensure ongoing alignment.

Evidence not only demonstrates significant benefits of long-term investors, but also suggests companies can be effective in attracting long-term investors.[131] The long-term listing standards were developed in consultation with long-term institutional investors to ensure that LTSE-listed companies follow principles and provide information that such shareholders are seeking. Institutional investors, including pension funds, insurance companies, and sovereign wealth funds, have longer holding time horizons than most other investor classes.[132] Research has found that companies with more institutional investors are less likely to degrade real economic activities to meet short-term earnings targets.[133] They are more likely to invest in both long-lived

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[129] FCLTGlobal, "Making the Call: The Role of Long-term Institutional Investors in Activism," (June 25, 2020).
[130] Rebecca Henderson & Clayton Rose, "Investor 'Short-Termism': Really A Shackle?," Harvard Business School Technical Note 315-084, (January, 2015).
[131] Evidence suggests investors appear to prefer companies that provide the type of information that complements their investment style. Brian Bushee, "Identifying and Attracting the "right" Investors: Evidence on the Behavior of Institutional Investors," Journal of Applied Corporate Finance, Volume 16, Issue 4, Fall 2004, pp 28-35; Francois Brochet, Maria Loumioti, & George Serafeim, "Speaking of the Short-Term: Disclosure Horizon and Managerial Myopia," Review of Accounting Studies, Volume 20, Issue 3, pp 1122–1163 (2015) (finding that companies that were able to signal they were more long-term aligned attracted more long-term investors).
[132] Francois Brochet, Maria Loumioti, & George Serafeim, "Speaking of the Short-Term: Disclosure Horizon and Managerial Myopia," Review of Accounting Studies, Volume 20, Issue 3, pp 1122–1163 (2015)
[133] See Rebecca Henderson & Clayton Rose, "Investor 'Short-Termism': Really A Shackle?," Harvard Business School Technical Note 315-084, (January, 2015); Brian J. Bushee, "The Influence of Institutional Investors on Myopic R&D Investment Behavior," The Accounting Review, 73:3 (July 1998) 305; Sugata Rowchowdhury, "Earnings Management Through Real Activities Manipulation," Journal of Accounting and Economics, Volume 42, Issue 3, December 2006, Pages 335-370; Ping-Sheng Koh,

real assets and in R&D,[134] which can also lead to greater levels of innovation.[135] They are also better-positioned to thwart short-term focused activism.[136]

"Institutional investor type, earnings management and benchmark beaters," Journal of Accounting and Public Policy, Volume 26, Issue 3, May–June 2007, Pages 267-299; also see Rebecca Henderson & Clayton Rose, "Investor 'Short-Termism': Really A Shackle?," Harvard Business School Technical Note 315-084, (January, 2015)

[134] Gary S. Hansen and Charles W.L. Hill, "Are Institutional Investors Myopic? A Time-Series Study of Four Technology-Driven Industries," Strategic Management Journal, 12 (1991); Sunil Wahal and John J. McConnell, "Do Institutional Investors Exacerbate Managerial Myopia?" Journal of Corporate Finance, 6 (2000) 307

[135] Philippe Aghion, John Van Reenen, & Luigi Zingales, "Innovation and Institutional Ownership," American Economic Review 2013, 103(1): 277–304 (finding that higher levels of institutional ownership—mostly dedicated investors, with transient institutional ownership of only 8 percent—not only had a positive effect on R&D levels, but also led to greater R&D productivity)

[136] FCLTGlobal, "Making the Call: The Role of Long-term Institutional Investors in Activism," (June 25, 2020)

Conclusion

The Long-Term Principles and Policies are designed to align long-term investors and visionary companies to better enable sustainable value creation. While research and extensive input from participants support each individual policy and principle, they are meant to work together and are designed to reinforce each other as part of a holistic ecosystem. That is why they were incorporated as listing standards on the Long-Term Stock Exchange.

LTSE spent years developing its principles and policies, based on extensive research, as well as engagement with a wide range of relevant stakeholders. We continue to track emerging research and engage with key stakeholders from throughout the company and financial markets ecosystems. We are committed to learning and adapting to achieve the goal of better positioning companies to create long-term value. As a result, this paper will continue to be updated. We welcome input and comments at jeff@ltse.com.