

SHOULD THE BOARD OR MANAGEMENT OF A COMPANY TAKE A PUBLIC POSITION ON SOCIAL ISSUES?

There is growing evidence of uncertainty relating to whether the board or management team of an organization should take a public position on social issues. At Millani, we have been publishing our Semi-Annual ESG Sentiment Study of Canadian Institutional Investors since 2020, with our eighth edition published on February 12, 2024. [This most recent study](#) provides insights into investors' thinking on this question.

A clear message emerged from the study underlining that investors are concerned about geopolitical and social issues in ways that they have not been in almost a decade. For example, the issues connected to the evolving conflicts in Ukraine and the Middle East, coupled with pending elections throughout Europe and in the United States, have investors on alert and anticipating market volatility.

With backlashes on social media and in the news against companies in recent years, we sought to assess what investors think about companies that take a public stance on social issues. As such, we asked investors the following question: “Do you believe it is appropriate for a company (management or board of directors) to express a position on social issues?” Most respondents agreed that it is appropriate for a company to take a position if it aligns with the company’s purpose, mission and business.

Align with corporate purpose

The interviews with investors highlighted that alignment with corporate purpose is key when taking a public stance on a social issue. We asked participants, “Do you think that by taking a stance there is an impact on the valuation of an issuer?” The examples of the experiences of Starbucks, Bud Light (Anheuser-Busch) and The Walt Disney Company (“Disney”) in the last few years were highlighted as positive in the long run, despite short-term volatility.

In the case of Disney, the company aligned with its longtime image of welcoming everyone to the Magic Kingdom when, in 2022, the company came out against the Parental Rights in Education Act (the so-called ‘Don’t Say Gay’ bill) in Florida. It did this after some of its employees took to social media when it did not publicly denounce the bill, which, at the time, limited discussions of sexual orientation and gender identity in kindergarten to third grade in Florida public school districts. This case highlights the importance of protecting corporate culture, image, and employee loyalty in the long term by taking an aligned public position on a social issue.

If a company does decide to take a public position on such an issue, who should express it? Many investors pointed out that, regardless of who makes the statement, the board will always be held accountable. The board’s responsibility for what management says reflects its broader role in upholding the integrity and reputation of the organization, thereby protecting the interests of shareholders.

Proceed with caution

However, we also heard that taking a public position can be a risky proposition even when aligned with corporate purpose, as we saw with Disney. Even so, as evidenced by some investors, it is possible to support social issues when they are not aligned with corporate purpose or culture.

At a Glance: Do you believe it is appropriate for a company (management or board) to take a position on social issues?

Yes



When aligned to corporate purpose, it is in the company's best interest to take a stance on a social issue because outcomes are positive in the long run, despite short-term volatility. But proceed with caution! Taking a public position can be risky. Think it through.



When not aligned to corporate purpose or culture, it is possible to take a stance on some social issues by participating in events or making donations to social causes that matter to your employees. However, even with this approach, someone will always be left out.

No



Some social topics can be risky to comment on. Leadership can find itself in a precarious situation – even dismissed – if the issue is not managed well.



When not core to purpose, investors suggest not taking a stance on social issues, as it may generate unintended divisiveness that could erode value.



As an organizational member, you must represent the organization's position, as difficult as that may be.

Some participants, for example, stated that they do not take a public position on social issues but will participate in events or make donations to social causes that matter to their employees with one participant sharing:

“Our own company has tried to be inclusive of our employees, donating money to the causes that matter to them. You are always going to leave someone out. As companies make statements, they need to consider the implications. So I would say, proceed with caution.”

The reversal of *Roe v. Wade* in the United States, which protected women's abortion rights, was expressed as another example that investors suggest warrants a cautionary approach. On this topic, many investors expressed that they expect a company to organize itself to care for its employees, not necessarily to take a public position on the topic itself. On this particular topic, one investor said:

“I think that companies, in the US context, must ask themselves, ‘Do we want to cover reproductive rights in our health plan?’ And to me, that should be discussed at the board level, and a decision needs to be made – and that is a business decision. It is the same for HIV treatments. Do you put it in your plan, or not? If a company says, ‘We have a great diversity, equity, and inclusion program,’ but they have highly restrictive coverage in the benefits package, I would be skeptical about their DEI claims.”

Numerous investors expressed that some social topics can be too risky to comment on. As we witness the very public discussion on the limitations of claims of protecting free speech at universities like Harvard and MIT, we can see how quickly leadership can find itself in a precarious situation – even dismissed – if the issue is not managed well. The example of taking a public position on geopolitical conflicts around the world can also be risky.

The individual versus the organization

In addition to telling us how they thought boards of directors and management teams should behave, our study participants also weighed in on their own profession. For professional investors working for a firm, and for whose values may conflict over a social issue, they said that the decision is simple. Study participants agreed that, as individuals, people may have different views than their organizations, but when they act as organizational members, they must represent the organization's position, as difficult as that may be.

Public versus private markets

Investors interviewed also highlighted the contrasting outcomes expected in private versus public markets when a company takes a public position on a social issue. Within the private market, investors anticipate minimal repercussions. The insulated nature of these markets, shielded from the immediate scrutiny of customers and broader public opinion, allows for a more stable environment that is less likely to be influenced by external factors like social media and news.

In contrast, the public market's visibility, coupled with intense media coverage and the watchful eyes of analysts and investors, means that events or announcements can lead to swift changes in market sentiment and to volatility. Positive or negative news can quickly gain momentum, influencing stock prices and investor behaviour in the short term.

A last word on silence

In concluding the study, one investor invoked the wisdom of Jean-Paul Sartre, quoting, “Every word has consequences. Every silence, too.” The investor underscored a critical point: the act of remaining silent on social matters can lead to unintended and unwanted consequences. Another investor supported this stance by noting “You always have to come back to the guiding principle of making profits in a responsible way, especially on some social issues, like human rights or slavery in supply chains.” The message was clear: silence is not merely a lack of words but a statement in itself, one that demands thoughtful consideration.

Takeaway

Should companies take a public position on social issues? According to our interviewees, organizations should do so with caution, and preferably when aligned to the corporate mission. If the issue is not aligned, respondents suggested that participating in events and making donations that resonate with their employees works. However, investors expressed that when it comes to geopolitics, taking a public position can also be a risk. Regardless of what a company chooses to say or do, the board of directors is ultimately responsible for upholding the integrity and reputation of the organization, thereby protecting the interests of shareholders.

About Millani

Millani provides responsible investing and corporate sustainability advisory services, including ESG integration and impact, to both investors and companies.

For the past 15 years, Millani has become the partner of choice for institutional investors and corporations alike. By providing advisory services on integrating material ESG issues into investment strategies and decision-making processes, Millani helps reduce risks, increase returns and create value. Millani also regularly develops leading thought leadership on investor and disclosure trends. The firm leverages this expertise and experience to help corporations, both public and private, create strategies, engage with stakeholders and strengthen their disclosures, supporting the organizations in their access to capital and optimization of market value.

Millani's success is founded on a bespoke, client-centric approach that focuses on material issues, practical implementation, and independent advice. Our extensive capital market experience and unparalleled expertise in ESG, and its connection to value creation, position Millani at the nexus between investors and companies—making us unique in the Canadian market.

For more information, contact us at info@millani.ca or visit our website www.millani.ca.