



Governance



The Issue

Corporate governance refers to board and management-level structures, policies, and processes put in place to oversee and guide the achievement of company objectives. Governance also encompasses how corporate leadership balances the interests of, and is accountable to, multiple stakeholders (e.g., shareholders, customers, employees, suppliers, government, and local communities). As such, effective management of significant environmental, social, and governance (ESG) risks and opportunities is an important indicator of good governance that we believe helps protect and enhance long-term company success. Our corporate governance engagement is intertwined with our other focus areas of climate change and equality.

According to the proxy advisory firm ISS, the median level of support for environmental and social shareholder proposals reached 24% in 2018.¹ Boston Trust Walden typically supports more than 80% of shareholder sponsored resolutions.

¹ ISS Analytics Governance Insights (January 28, 2019).

Boston Trust Walden's Strategy

We have been an advocate for leading practice corporate governance reforms for decades. These reforms include: encouraging companies to adopt policies requiring independent board chairs and annual elections of directors; increasing representation of women and people of color on boards of directors; and promoting executive compensation accountability through shareholder approval of pay packages (known as Say-on-Pay). Our current focus is to encourage companies to:

- 1) **Publish comprehensive sustainability reports that include actionable ESG metrics and goals.** Sustainability reports help investors and other stakeholders understand how companies manage and measure ESG risks and opportunities as well as evaluate progress toward achieving their goals. We expect inaugural reports to emphasize the most material ESG factors and subsequent reports to provide more in-depth information on strategy, management and oversight, and performance results.
- 2) **Be transparent regarding lobbying policies, oversight, and expenditures.** This request covers indirect lobbying activities through third parties such as trade associations and think tanks. Such transparency recognizes that lobbying activities have the potential to conflict with stated company policies or goals and may pose reputational risk.
- 3) **Integrate ESG considerations into proxy voting and engagement (investment firms only).** Conscientious proxy voting and engagement with portfolio companies on issues such as climate change, board diversity, supply chain management, and sustainability reporting are essential to fulfilling the role of investment fiduciary. Large asset managers have the potential to meaningfully affect voting outcomes given their significant ownership stake in portfolio companies. Historically, however, many large investment firms have voted against, or abstained from, nearly every environmental or social proposal on proxy ballots. We urge investment firms and proxy advisors to strengthen their proxy voting policies, practices, and accountability. Recent trends in proxy voting indicate progress.