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Corporate Political Responsibility Taskforce

Expert Dialogue with Ketu

Ketu - Module #1

Elizabeth Doty: [00:00:00] Well, hello and welcome. My name's Elizabeth Doty and I'm the director of the Erb Institute's Corporate Political Responsibility Task Force at the University of Michigan. I'm delighted to be moderating today's dialogue with Yamika Ketu from Ceres.

The Corporate Political Responsibility Task Force, or CPRT is an initiative of the Erb Institute. A twenty-five-year-long partnership between the Ross School of Business and the School for Environment and Sustainability at the University of Michigan. LED by managing director Terry Naledov and faculty director Tom Lyon.

The Erb Institute is known for its leadership in three areas, teaching and learning, business engagement with groups like the CPRT and Scholarly and applied research. The CPRT's mission is to help companies better align their approach to [00:01:00] political influence with their commitments to purpose and values, sustainability and stakeholders.

As we're seeing corporate political responsibility is an increasingly pivotal element in managing stakeholder trust, addressing systemic issues, and rebuilding public trust in institutions

Today I am so delighted, Yamika and I have. Spoken three or four times. She has been the driver behind the Ceres Accelerator for sustainable Capital Markets. And really, I think we can say that the field of climate policy engagement is one that has really been out front. Calls on companies to be more politically responsible.

I'm delighted. We also have Amy Meyer here who led a group with the World Resources Institute for a while on responsible climate policy engagement and Todd Miller from Ceres, where we coordinated on board education around this. So we're gonna get to learn from this one policy area that has implications [00:02:00] for critical shared interests for all of us, but also is a forerunner of political responsibility for other issues.

And Yamika is both focused on engaging corporations and aligning their climate lobbying with climate science. With their own company policies and their own targets, and also working with boards. So we'll have a nice interplay here between the finance side and the investor side and company management.

Working with corporate boards to promote best practices and oversight, including committee structures, competencies, risk management. Executive Comp. She comes from a background from the foreign and Commonwealth office to promote British economic policy in North America via diplomatic levers, including initiatives to end coal use and increase offshore wind capacity.

And she has a Master's of Science in Economic Policy from the School of Oriental and African Studies focusing on public finance policies in India. And how those increased funding for renewable energy projects. So, Yamika, I am so looking forward [00:03:00] to diving into our conversation today. And I'll, I'll get to our first question in just a moment, but

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first, just a quick thank you to say I appreciate your making the time and, and being ready to share your thoughts with us.

Thank you so much Elizabeth.

Yamika Ketu: Really excited to be here and you know, dive into the conversation.

Elizabeth Doty: The first question and, and this actually came when I was speaking with some of our executive members. They're working so hard on operational improvements on their supply chains, on technology and investment to try and meet these ambitious climate goals that so many companies have set emissions goals, etc.

Other waste goals, but climate in particular, and they don't tend to think about policy. So maybe you could set a little context for us is why you and Ceres are so focused on the idea of responsible policy engagement as a key driver.

Yamika Ketu: So while setting those targets and ensuring that business operations are aligned with [00:04:00] meeting a company's climate goals that can't.

Necessarily be materialized if the right policy environment is not in place, companies are not lobbying in favor of climate policy and in favor of that kind of setting, that regulatory environment that would help them meet the those goals. It will undermine any efforts that they have operationally.

Whether that's lobbying directly themselves or indirectly through their trade associations. And so this kind of misalignment can lead to inefficient corporate spending as well as reputational and financial risks that we'll get into it later, but has overarching consequences for investors pulling it all together.

All together. It's, it's really important to establish systems that are addressing climate change. As a systemic risk to the enterprise. And part of that systems analysis includes the alignment of lobbying efforts with a company's net zero goals or the goals of the Paris agreement. And then just, you know, pulling [00:05:00] that all together is kind of.

The best way forward for a company to make sure that they're on track to meet their climate goals. And then they're also advocating in a way that is helpful to themselves and their shareholders.

Elizabeth Doty: If they're in the midst of this and they can't materialize this idea that they can't, they can't get to the goal without the policy environment.

I love the idea of recognizing it as a systemic issue. Companies are. Prepared to do that when it comes to say, currency rates or inflation or things like that. Recognizing this as one of those, but what does it feel like when you're in the trenches and policy is the barrier? Do you have any examples of the kinds of things that say senior management might see on the ground if there are teams are struggling to achieve or materialize these goals and the policy environment is just, you know, in the wrong direction.

Yamika Ketu: Many times a lot of the policy that we see in the U.S may not be just focused on climate. There could be other components that could hurt other [00:06:00] aspects of the business, even though the climate aspect of it is positive or helpful to reaching those goals. So that's one barrier. And then another thing that we've seen is sometimes the internal capacity has not necessarily been scaled up to kind of connect all those dots.

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So. You have the ESG teams, but they're not necessarily speaking to the government affairs teams who's not necessarily speaking to the legal team. So maybe lack of internal coordination can also hamper some of those efforts.

Elizabeth Doty: I have been hearing a number of our, our contacts and champions in companies.

Where the business case comes and goes, right? And, and, and suddenly the project is stopped. Or it's had to be put on hold or scaled back or something like that. But let's think about the interests here from the investor perspective. Is this a mainstream investor concern in, in your mind?

Yamika Ketu: I would say it's definitely gotten to that point.

You know BlackRock has been pretty vocal about addressing. The issue of climate change and how it poses [00:07:00] a threat to the financial system as well as the larger economic system. And here at Ceres, we've been tracking shareholder proposals on climate lobbying. So over the past three years, we've seen 60 proposals that have been filed and about half of them have been withdrawn because investors have reached some kind of commitment.

With the company that they're working with to either disclose their lobbying or, or you know, something of that sort, provide them with that information that they need. And actually in this past proxy season, there were two companies, Sonovus and New York Community Bank, which received a majority vote, including support from their own management to disclose their lobbying efforts, which is really positive.

And ourselves at the governance team, we interviewed about 15 investors last spring. Just to get an idea of how much this issue is on their mind, and, you know, ranging from socially responsible to the mainstream ones. And across the board we heard investors say like, this is something that we're concerned with.

These are the policies that we [00:08:00] have in place and, and these are our priorities in terms and how this lines up with, with all of that.

Elizabeth Doty: You mentioned, you know, Larry Fink's writings on this and this idea of affecting the overall economy. What are some of the arguments you're hearing as these broader investors, not in the SRI field, but in more mainstream.

What are some of the concerns or risks or opportunities that they're that they're prioritizing as you, as you interview them? What are you hearing on that?

Yamika Ketu: You know, we could bring it down between like the physical risks from climate change and then any kind of transition risks that may arrive. So physical risks we're seeing.

Any damages to infrastructure or communities because of extreme weather events, which are increasing as we've seen, and there's been numerous articles about how the damages are getting worse and the cost of the economy is increasing because of that, we've already moved toward this transition. It's not like it's not happening, especially with the recent investments from the IRA and you know, given the increased focus of climate everywhere, like if fossil [00:09:00] oil, oil and gas companies.

Don't change their investment strategy. What are they gonna do with all these retired coal plants or this technology? Where are they gonna use it? You know, that is kind of like investing in something that's not really gonna be taken forward. So I think those would be key concerns for investors. Yeah.

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Elizabeth Doty: So I, as you think about this idea of responsible policy engagement, the Ceres definition, maybe you could share your binding responsible policy engagement and how you see that related to what we've talked about and the, the broader framework of the Erb principles and, and the discussion of political responsibility.

Yamika Ketu: So, you know, as, as I'm sure most people on this call are aware, like the. The political system is unique in the fact that there is so much buy-in from corporations and the opportunity for them to really weigh in on legislation. So it's just ensuring that corporations are engaging with legislators either directly or through their trade associations in a way that is, responsible, which means basically aligned with their climate goals At this [00:10:00] point from, from our benchmark, I'd say the majority of companies have set some kind of climate target in terms of reducing their greenhouse gas emissions. So ensuring that the way that you're lobbying on that or advocating, engaging, whatever word you wanna use is consistent in a way that you would meet those goals.

Elizabeth Doty: Then how do you see this definition of responsible policy engagement around climate and the consistency with your own goals to have your lobbying support that easier said than done? We've talked about the Erb principles, outline four principles, legitimacy, accountability, responsibility, and transparency.

Do you have a sense for how they map where they align, where they differ?

Yamika Ketu: I would say they're, they're pretty closely aligned, you know, in, in terms of considering the legitimacy aspect. Firms should be engaging in a way that the resources are promoting the. Facilitation of like their climate goals, you know, so they should be engaging with [00:11:00] policymakers in a way that they're able to meet their reduction targets and stay true to their commitments or their investments into whatever technology they have decided to use to, to meet those goals.

And in terms of accountability, you know, that's, I feel like that's where the accountability, responsibility, transparency, that's where the investor piece really comes in. So disclosing those efforts. Addressing any kind of misalignment between their trade association memberships and just really ensuring that the resources that they are receiving from the investors are being put towards productive use and not in a way that's detrimental to their enterprise.

Elizabeth Doty: You're calling out one element of the accountability principle we don't talk about very often. So the first one is just to your consistency point, right? Like lobbying in alignment with things that you've committed to. But there is one about addressing misalignments based on the impacts, based on the magnitudes, not based on what's easy to fix, right?

And, and [00:12:00] that's a, that's a different level of commitment and I think it's important to credibility and also. To making sure you get to those goals or you reduce the barriers. How about responsibility? Do you see a link to that one? The way we define that is that your lobbying would not undermine markets constitutional democracy, civic discourse, or overall environmental health and human rights.

Yamika Ketu: Yeah, so I think one of the big shortcomings right now is that the level of disclosure that is required by law for corporations is not very high. So especially in the climate space, what we're asking, all these various disclosure efforts are all voluntary. It's almost like we, we are trusting the corporation, that they're being honest about what they're disclosing, but there isn't really any kind of stick if you are not disclosing in a way that is not

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transparent. And I think that's where the responsibility piece really comes in. It's like you're not misleading your shareholders. You're actually disclosing or lobbying in a way that will [00:13:00] continue your business in the long term. You're not just looking at short-term profits.

Elizabeth Doty: I really appreciate you're bringing that in because I, that's why I love the word responsibility, because it does really mostly point to your own long-term interests. There is an element of conscience and values in it, but. And asking companies and especially individual champions within companies to think about those, those broader interests, even if it's the day-to-day pressures.

Have you been thinking about CSRD and the increased disclosure in Europe? Have you been following that at all? Are you able to speak to that? I'm surprising you with this one. I, we didn't prepare it, but we just had someone present to us. Saying that basically makes a lot of voluntary efforts now mandatory in the U and it scopes in a lot of companies in the U.S.

Are you able to speak to it? And it's fine to say no.

Yamika Ketu: I mean, I think very briefly we haven't. It's definitely on our radar. It's not something like on the governance team itself we've taken a very close look at, but it's something that we know will impact the companies that we work with. So definitely are aware of how that will.[00:14:00]

Affect their disclosures and and whatnot going forward. And then I would also say like the recent law in California that, requires disclosure as well will also impact how companies are doing business, I think, and we'll see some mandated disclosure out of that for sure.

Elizabeth Doty: I will share, I, we just had a conversation, one from someone from Erston Young who had been part of the whole process of CSRD.

And to those who are interested, I would direct you to the G-I standard. And, and basically this idea that it will become mandatory and subjects to assurance. To disclose your political contributions and your lobbying issues and positions. And this will apply. It'll vary based on how you're scoped in, but they have set the thresholds really low for who is scoped in.

I think companies with 150 million euros or more. And it depends on how you're in and the holding companies and all of this, but it's intended to have effects outside of the EU. And I think we'll change the level of scrutiny [00:15:00] on lobbying activities, especially related to nature and, and climate. And potentially be some ammunition for internal champions to raise the issue and prompt their companies to take a more critical eye.

Now I'm gonna turn to the group and Henry, if you would lead us through that.

Henry: Yeah, so we have a few questions in the chat right now. Amy had some thoughts on the definition of responsible policy engagement.

Amy: I'll pop in here. Thanks, Henry. And thanks Yamika. This is really interesting. So I've, I've been working in this space for a while.

Very familiar, you know, with Ceres' work which is great, and something that. I think I struggle with right now. So this is partially a question back to myself as well as to you around when we're talking about what responsible means, you know, that that's a, a, a tough word, responsibility. I think the Erb Institute does a great job and it's.

You know, principles kind of bringing in responsibility to society on that as well. But when we're looking at climate and kind of saying, you know, you set [00:16:00] your goals and if you are lobbying aligned with those goals, then you are being responsible. I think that can be, I. A struggle as it leaves room for companies to, you know, maneuver around what we actually need in order to get to a livable future.

So curious what you're thinking. And I know there's multiple standards and kind of frameworks in this space, and some of them look at. Not what a company has set as its own goals, but looks at kind of a science-based, you know, a Paris-aligned standard as opposed to what the company has set. So just curious if you're thinking, you know, if that comes up in terms of looking to the future.

And also as a. Kind of additional context around there, it reminds me of the, the problem we have in this space of constantly focusing on companies who are already leading, you know, who are already setting these goals and maybe doing well. And because they've set these goals, then they're gonna get punished for not aligning their lobbying.

Where a company [00:17:00] who doesn't set the goals or who sets lower goals, would maybe get to sneak under the radar. For being aligned. So yeah, any, any response you have to, that would be great.

Yamika Ketu: That's a great question, Amy. And definitely something that I consider as well. I think one of the main issues is just kind of overall like an economic issue where it's just like, we're always chasing the idea of growth and on a planet with finite resources, that's not always possible.

But if we kind of scale it back Exxon has one of like the best lobbying disclosure reports, but they're. Still continuing to invest in fossil fuels and they have their climate targets. So in theory, they're doing everything right, but that's. That's not what we need, you know? So it's like how, I don't know how you get around that issue.

I'm with you on that. And like one thing that we've been seeing more is as complete companies improve their lobbying disclosures, it's like great, they're meeting investor expectations, but that doesn't necessarily mean that they are contributing to like reducing emissions as fast as we want them to. So I think that's kind [00:18:00] of like one of the next challenges that we've been thinking of.

And yeah, like considering how to address that, like, I don't know, but if you ever wanna brainstorm on that, we can definitely, definitely take some time to do so.

Elizabeth Doty: I would like to weigh in here that that is exactly why we have the responsibility principle. In addition to the accountability principle, we split hairs on how you define those, but accountability being living up to what you've committed, that's no guarantee that you're not gonna be a hundred percent.

Let's go full or through more to more fossil fuels, and that's what we commit and that's what we do and that's what we disclose. But the responsibility principle includes not lobbying in ways to pollute or externalize costs to society, and not contributing to adverse effects to environment or human rights.

Those two. It strikes me that, that, that gets to the planetary boundaries and the economic misaligned incentives that make it profitable to do that. That's exactly what we're trying to do. So it'd be great to have you take a look at that and see if that's sufficient. But that

[00:19:00] was the reason why we thought you needed responsibility in addition to accountability.

Henry, do you wanna go to an additional question and then maybe our pre-question.

Henry: So, Chris had some thoughts about from his personal experience talking about, from other companies that there's kind of an imbalance in this equation of ES and G in particular with a lot of focus on the E part of it.

Chris: It's, it's the opposite. Henry, I see the S being dominant around the globe, where. You have niche items with under the S, whereas E is unilaterally the umbrella above all of those. But yet the S takes dominance. And without the E, we have no foundation for the S. How do we align the two of them so that all the parties that are really speaking the same language should be in better alignment?

That's, that's really the question, and I struggle with that one.

Yamika Ketu: One of the things that we've been trying to do when we engage with companies around the benchmark or any of the resource that [00:20:00] we do is really stress the idea that we want all companies to be climate advocates because it is the actual foundation of our being. And, and that climate should be integrated into all of their business practices. It's not a standalone issue, even though ESG does kind of term it that way, but it's actually something that cuts across all verticals and it's going to remain that way. And it's something we should have considered from the beginning, but you know, we haven't, and here we are now.

I think maybe the framing and the language around the climate crisis should be more around how, how it is just kind of such a key part of our livelihood. And maybe we're not doing enough of that.

Elizabeth Doty: Thank you for the the stake in the ground around this. I'm noticing as we get into the problem solving and the incremental steps with trade associations, this will come up, that when people say, do our members want to talk about sustainability in trade associations, you get a little bit of a response, but do you wanna talk about a cross-cutting business risk and, and opportunity [00:21:00] that will be the new era.

Of our business and something, you know, all your employees care about would get a completely different response. And I think that framing may be critical too. And, and, and it's true, but it needs to be called out more as you're, as you're saying. And as Chris highlighted, Henry, can we just go to the the pre-question very, very briefly, and you make, let's keep this one short and then we'll go into our second round around the, the challenges.

Yeah, of course. So we have a pre-question from Chelsea asking. If my company isn't yet involved in climate change policy engagement, how can I get started and what are some first steps I should take?

Yamika Ketu: Yeah, I think the first thing that you would do is definitely ensure that you are keeping track of all the different, policies, regulations that you've advocated either for or against, and just have an understanding of that. Get all the people in the right room together. So government affairs, legal ESG, or sustainability, whatever you have it. And then also look at [00:22:00] what trade associations are you a part of. What is their position on climate and beyond that, how are they advocating?

Is it aligned with what they're saying? Is it not? If it's not, what are the steps that you can do to kind of, what are the steps you can take to address that misalignment?

Elizabeth Doty: If you'd like to go further, we invite you to come to our website, come to future Dialogues. Our next dialogue will be with Martin Reeves, who is the executive Director of the BCG Henderson Institute, and just wrote an article in Harvard Business Review Strategy in a Hyperpolitical World. Positing that every company needs to think about politics in its core business strategy.

We have a new a resource list and you can sign up for news and updates. You can sign up for the Ceres accelerator by going to the link here, and then the more detailed links, including the banking assessment, there will be the utilities and transportation coming soon. And then we are actively adding new members to our task force.

We're really excited about some of the projects that people [00:23:00] are taking on in the task force to implement the Erb principles. And this is a private forum. It's no public statement required, and we also have a group forming. We're inviting companies for Q1 of next year to go public as a group supporting the Erb principles as a norm.

Especially as we're heading into this election season. While there will be, companies will need a place to stand based on principles that are defensible, non-partisan, but high integrity, please reach out if you know companies or executives who would like to be part of those two follow up conversations.

Yamika, thank you so much for the work that led to the conversation today and for sharing your thinking and advice. Can I ask you, if you were a government affairs officer, a board member, an investor, an asset manager, we had a pre-question what would you advise them to do first to raise the bar on responsible policy engagement around climate?

Yamika Ketu: I would just say, think about how influential climate is. In the grand scheme of things, and your business is, [00:24:00] is just a small part of that. So whether you think of it this way or not, it's impacting every single thing that you do, every decision that you make. And you know, we can't afford to be short-termist about that.

You have to think about the long term both for your business and then for the earth, for the generations to come. All of it.

Elizabeth Doty: Thank you. And I think. What I take from that is that we all are gonna face trade-offs and pressures, and you're inviting us to take the broadest possible view on those difficult decisions, knowing what's at stake.

So thank you. Thank you all. This has been a pleasure.