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Corporate Political Responsibility Taskforce

Expert Dialogue with Ketu

Ketu - Module #2

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 25 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 Nelodov 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 political [00:01:00] 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 I'm so delighted, Yamika and I have spoken three or four times she has been the driver behind the 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. And 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 going to get to learn from this one policy area that has implications for critical [00:02:00] 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 in 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.

She has a master's of science and 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 you make I am so [00:03:00] looking forward to diving into our conversation today and I'll get to our.

First question in just a moment. But first, just a quick thank you to say I appreciate your making the time and being ready to share your thoughts with us. Thank you so much,

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

Elizabeth Doty: Let's go to the second round. And I'd like to look at the common areas of misalignment. And I remember some of the early series reports I read 2004, 2007, 2009 reports about what were the challenges in just aligning your lobbying and other political engagements with your commitments. And I know this is consistent.

Consistently been a challenge and something companies have wrestled with you and Todd, thank you for putting it in the chat that you have been doing studies going sector by sector by the largest emitting sectors. So, you just completed one of the banking sector if you could, could you share a little bit of [00:04:00] what you discovered from that analysis, and what are the top barriers that you're seeing to this.

First alignment and then hopefully responsibility to science based you know, larger boundaries.

Yamika Ketu: So yeah, we looked at the 13 largest banks operating in the U.S. And specifically their direct and indirect lobbying. And what we found was most of the banks in our assessment have stated some kind of support for climate action.

So they've, they are in favor of Paris. They have set a climate target. Express publicly that they think policies and regulations should be used to address the climate crisis. Many of them have also advocated for these kind of policies, either by themselves or through a coalition. But a lot of them are not really advocating in the way that we want them to.

So, they're engaging on policies specifically sustainable finance policies, but [00:05:00] there's a lot of, like, ing and ah-ing, for lack of a better word. So Maybe delaying progress a little bit or thinking of reasons as to why that is difficult to implement, as opposed to the other way around, which I see, you know, they should kind of be taking it in stride and being like, Oh, this is why it's instrumental for us to implement these kinds of policies and react to these policies.

And so on the indirect lobbying side, what we did was we took a look at. The big banking trade associations and how they're engaging. Many of you are familiar with influence map. We used a lot of our data from their from their database lobby map. And so they have given a lot of these trade associations like a D or a D minus rating on a scale of A to F, which is obviously not great, indicating that they're not really engaging on sustainable finance policy in a way that's constructive.

And so when you look at the bank's direct lobbying record [00:06:00] coupled with trade associations that they're a part of, it doesn't necessarily paint a really positive picture. And then in terms of kind of these trade association disclosures or audits, the majority of them are not. doing anything like that.

The financial sector, I think, is aware of the impact that they have on decarbonizing the rest of the economy, but I think they do need to take a closer look at what their own actions are affecting policy and the regulatory space.

Elizabeth Doty: And I think this gets us into the realm of trade offs. I think people talk about, in the big picture, long run, and we talked about this as a cross cutting business issue.

Affects every other aspect of our ability to flourish. But in the short term, there are losses. So what kinds of things would banks be trading off if they did go full bore as you, as you said is more desirable and, and, and seems more aligned?

Yamika Ketu: It would be something along the lines of maybe having capital requirements where you can't be funding as many fossil fuel-intensive projects as you would like to, which is, I think, where a lot of the money is right now.

And then [00:07:00] shifting that to be more green. Some of my colleagues actually recently released a report as to just like. Some initiatives that banks can undertake to make sure that they are in line with this. It's more broadly focused on their strategy as opposed to their policy engagement. But, you know, the SEC released a proposed climate rule and it should be finalized, I think, either later this year early next year, but only three banks in our benchmark engaged on the rule where they sent in a comment letter and very much. Even within that, the comment letter was not entirely in support of the rule. Like they, they were kind of constructive in their engagement, which from our perspective is quite positive. Yes, they weren't taking everything at face value, but at the same time, they were really looking at it as like, how is this impacting our business?

And we understand this is the future, but you know, we're still not going to. Except everything. And then, you know, we had Wells Fargo, who was against [00:08:00] the rule in California. So it is just yeah, not as much can be done as as it should be. And we want thanks to be climate positive. You know, we want corporations to be climate positive.

So I think there's still a long way to go.

Elizabeth Doty: And it strikes me that, especially when we had threats of a recession and inflation and things like this, that there's so much money to be made in investing in fossil fuel in the near term. Do you think it's realistic? Like in your interviews, have you talked to people about how they're thinking about it?

Do they feel regret tension? Or is this just pragmatism? Do you have any sense of the logic people are applying to this? A little bit of, you know, nuance? And as you say, humming and hawing,

Yamika Ketu: We haven't. necessarily ask them about how they're thinking of their long-term strategy. But you know, a few of the banks that we did speak to, it was, it's, I know for some of them, it's a matter of internal capacity and scaling that up.

And so, we do hear that sometimes sustainability [00:09:00] people can just get siloed or they're not really taken seriously by the rest of the enterprise. You know, there's like, oh, they're just the climate guys, like not necessarily their thoughts are being integrated into the larger decision making. So let's go to this.

Elizabeth Doty: Thinking about what boards could do to elevate the role of sustainability folks or the, or the importance of this to, as you said, an integrated business risk. If you look longer term and more broadly at the economy, do you see something boards could do around this

Yamika Ketu: Part of our recommendations in the responsible policy engagement benchmark and then the proceeding blueprint are that board should be discussing climate whenever they meet and they should have climate change either in their 10k disclosures or in their committee charters, you know, so so we know that it's formally there and that it is being discussed during board meetings, whenever they meet and then in [00:10:00] terms of how it relates to lobbying board should be also looking at the lobbying spend and evaluating whether that's in line with the climate goals.

And, you know, if not, what should they do about it? What can they do to speak to management? How should those decisions be implemented? And so on. When we did the 2022 benchmark, we did see 92 percent of companies have formally charged the board with responsibility of overseeing climate change, but that's not necessarily translating into the indirect lobbying efforts by companies.

So the system is there, but it's not maybe being implemented as effectively as it can.

Elizabeth Doty: It does strike me as a normal learning curve, like cyber security went through this, etcetera. But we do need to accelerate it. Let me just ask you what what risks you see this persistent misalignment, not paying attention to the indirect, hemming and hawing where they need to be [00:11:00] clearer because potentially blocking policy.

What risks do you see this creating?

Yamika Ketu: If we look at it from the market perspective, right? Like markets really thrive on information and that what, that's what makes them efficient. So it's almost like If companies are are misaligned between their climate goals and their lobbying. So lack of disclosure.

It's like a misfiring of pistons, so to speak. So you have these resources that you're allocating as an investor towards certain initiatives and, you know. With the expectation that companies are going to meet their climate goals, but that can completely be undermined by a trade associations actions if they are successful in blocking significant climate legislation as many trade associations have over the past few years.

Also, like if you are not lobbying in favor of certain regulation, then delaying the action could result in the need for stronger regulation later, [00:12:00] which would be at a larger cost to the company. And I think I talked about the systemic economic risk aspect leading to increase volatility and investor portfolios and just larger instability within the global economy.

And then there's also the reputational and legal. Risk aspect. So companies, especially I feel like now in the age of like social media where everyone is is really vocal and you know, you can be canceled like that on Twitter or wherever companies I think are really careful about their image and what they put out there.

And if they miss, they make the wrong step, their share price can fall, you know, in a matter of, of minutes on the legal side of things. Again, I think it was in Minnesota where there was a lawsuit against oil giants and kind of holding them accountable for, for like any misinformation that they spread and the oil giants loss, which is really cool to see, in my opinion.

Elizabeth Doty: I just want to comment that you're being, you sound so patient and thorough as you're going through this. Can I invite you, if you care to, to share how you respond when you dig into all these challenges, like personally, how do you, how do you relate to this systemic mess?

Yamika Ketu: Yeah. I guess it's like, it's a marathon, not well, it's a marathon with like a limited time. In my view, there's two ways that you can approach it. You have like the external view, which is like all these amazing, like activists and environmental organizations that are really pressing companies to take action and protesting and, you know, just really taking advantage of their civic duty.

And then you have kind of the other side, which is, I think, where I thrive in is like. The working internally. So working within systems within like the economic ecosystem to move people and change their behavior for me, largely through research, just because that's what I like to do. [00:14:00] And I feel like if I have the facts and I can communicate that and make more of like the logical argument, which it seems like is more effective in the business community, unfortunately, but I think, you know, with, with the younger generations, especially.

They're so much more aware of the climate issues that we're facing, and it's a lot more existential than it has been and I would hope that would add to like increase pressure to kind of change some of these, these economic practices that we're currently working with.

Elizabeth Doty: Yeah, thank you. And thanks for what you're doing and for the methodical approach that you have been taking.

I think that in, in some ways that is the challenge, right? Because things can be heard better sometimes when they're reasonable and, and methodical. But I am aware of new measures happening every day to try and elevate the intensity and the urgency. I just came across one called carbon bankroll. That is going to go after people for their banking practices, including companies on those banks scope three emissions.

So there will be a whole new set of [00:15:00] campaigns focused specifically on your banking practices at a consumer and commercial level. So we can also expect that external pressure. Maybe that helps the internal champions raise the bar, raise the attention and rigor. Okay, Henry, can I turn it to you now for our second round questions, and then we'll get into solutions in terms of some really exciting new incremental steps and practices companies can do.

But let's turn it, Henry, to you.

Henry: Campbell has a question about some common barriers when addressing inconsistencies.

Campbell: I mean, I kind of have a different question if I could just toss that out. I'm wondering about like peer engagement or whether you've seen that as being sort of an effective way to, to move companies in this space.

Asked this question on it to influence map with, and they seemed kind of interested in it and maybe they considering hosting something with the companies that they work most closely with. But just wondering if you have any thoughts on [00:16:00] that.

Yamika Ketu: One of the reasons that we continue to do benchmarking is because companies don't like to see that they're at a red, whereas their peers are at a green.

That really. It's something like just as simple as that just makes them be like, Oh, what are we doing wrong? What can we do to change? Which is why we engage with companies as a part of our process when we publish these reports and metrics. And so I think there's a lot to be said in that area. Anytime that we've worked, like spoken to companies, we, they always ask, like, can you send us an example of someone that's doing this right?

Or excuse me, what else we should be. Doing that other people are doing. And so, yeah, I definitely think there's a lot, a lot to be explored in that in that area.

Campbell: Sometimes I feel like I hear companies saying they don't feel that they have a safe space to be having those conversations necessarily.

And so maybe there's like an element there that needs to be considered where like they can talk about their vulnerabilities with others and be like, how are you dealing with this? [00:17:00] Or I don't know.

Yamika Ketu: Yeah, we've been speaking about that internally as well. We're just, you know, how can we facilitate more peer dialogue, I guess, and kind of dissemination of best practices.

Elizabeth Doty: Campbell I heard a little bit of another implication your question but to this question about vulnerabilities. I know, just generally talking about political responsibility and alignment, we're getting our task force members talking to each other about challenges and where they've had breakthroughs, and they sometimes can bring them from one issue to another.

So that's an interesting one, like where employees are speaking up about one issue, how might you address it when it applies to another. The other is a group called Future 500, which has been doing some really interesting things, having activists talk to company executives. I know folks from ICCR have engaged with them quite a bit, and those have led to some really interesting breakthroughs.

For example, they often focus on what are your assumptions, and what are my assumptions, and then how [00:18:00] might we reconcile these two different views, starting with whether we assume is, is real. But I'm wondering if you're leading to another, there, if there's another maybe threshold here, which is companies asking their peers to stop being negative actors.

In this in this arena, and I know I just came across one barrier, which was we can't call for regulation of another industry. If I'm depending on electrified grid, I can't call for regulation of the utility sector. Well, why not, and what basis could you do that if you're dependent on it and has this collective action benefit.

Was that where you were headed Campbell do you picture that at all.

Campbell: Yeah, or even, I mean, another example is companies coming together and saying, look, like the Chamber of Commerce is not representing our values and you feel the same. And what if we get 10 of us together and go to them, you know, that kind of organizing that has been begun.

Elizabeth Doty: And I think some of what you'll [00:19:00] discuss in this next section will be an enabler of that. But I find it, I find a really interesting one and it's really aligned with the interests, right? Those companies will be affected. As you've mentioned, you make a, this is a cross cutting business issue. They have a very legitimate basis for challenging the association as a group.

Yamika Ketu: Especially if it's like an industry organization where it's like. Two big heavy hitters kind of control a lot of the dues or or something like that, then I think there's like a lot of opportunity to enact change, but I know it's some of like the larger ones and Campbell, maybe you said this, but it's like a lowest common denominator issue where it's like the majority of the members are small banks, for example. And so what the association is going to do is act in the interest of those small banks, which maybe are not thinking of climate as much as a systemic risk as like the big six banks are. Yeah. Getting around that is definitely an issue, but unlike the chamber had the climate solutions [00:20:00] working group, which I think is now a little bit defunct, but I, you know, initiatives like that, like getting something like that going, I think can, can go a really long way.

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Elizabeth Doty: Thank you. And I will say that I just heard one example and I think she'd feel comfortable with me sharing this of an automotive component industry association, where the big players got together to see how they could reduce the barriers to the smaller players complying with any policy that was really aligned with the long term interests.

And so they explicitly tried to reduce paperwork, regulatory things, provide tools. Support what policies would be easiest to implement for the smaller players, recognizing they all had a shared interest in this automotive industry transformation, and maybe that's that's where we need to go is how do we reduce other players barriers.

If you'd like to go further we invite you to come to our website come to future dialogues our [00:21:00] 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 hyper political world. Positing that every company needs to think about politics and its core business strategy.

We have a new 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 people are taking on in the task force to implement the Erb principles and this is a private forum is 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 [00:22:00] defensible, nonpartisan, but high integrity. Please reach out if you know companies or executives who would like to be part of those two follow up conversations.

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 investor and 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 businesses 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 [00:23:00] that we all are going to face tradeoffs 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.

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