1 Governance and Leadership

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Disclaimer and Permissions

This is a living document intended to facilitate public feedback on draft business standards (the "draft standards") developed by the Corporate Racial Equity Alliance (the "Alliance"), an initiative by PolicyLink, FSG, and JUST Capital. The primary goals of the draft standards are to promote and support the improved sustainability performance of U.S. businesses related to social issues, including advancing equity and inclusion, eliminating bias and discrimination, and ensuring equal opportunities for all, regardless of race, gender, ethnicity, socioeconomic status, or any other social category or characteristic protected by applicable law. The draft standards do not call for and should not be read as recommending or requiring businesses to make employment or other decisions based on any protected characteristic in violation of applicable law. Any such application constitutes a misuse of the draft standards.

The draft standards are the product of a multi-year process informed by, and incorporating, broad stakeholder feedback through multiple consultations. The draft standards are not final and remain subject to further review and revision. The draft standards were created based on a snapshot in time. Laws relating to these draft standards may evolve overtime. The Alliance makes no representations or warranties concerning any changes in laws or legal precedent as it relates to these draft standards and is not providing any legal advice. Although all information in the draft standards was obtained from sources believed to be reliable, no representations or warranties, express or implied, are made as to their accuracy or completeness. The Alliance shall not be liable for any claims or lawsuits from any third parties arising from the use or distribution of the draft standards. The draft standards are for distribution only under such circumstances as may be permitted by applicable law.

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Learn more about the Alliance and the draft standards in our latest report, *Introducing the Business Standards for 21st Century Leadership: Public Consultation Report and Draft Standards* available at https://corporateracialequityalliance.org/corporate-standards.

Reviewing and Submitting Feedback

How to Navigate This Standard

Each draft standard begins with an overview, including:

- The outcome that the standard supports achieving
- The basic requirement of the standard
- A list of the currently proposed performance targets for the standard
- The value proposition of adopting the standard
- The most closely associated equity outcomes, showing how achievement of the standard contributes to positive societal impact
- A non-exhaustive list of related sustainability standards and frameworks

Following the overview is a glossary of key terms. Then, each performance target is presented with specific requirements, metrics, implementation guidelines, and resources. To support companies in getting started, suggested interim targets and metrics are included as well.

Navigation links are provided at the bottom of each page, beginning on page 5.

Submitting Feedback

This is a living document and your participation in strengthening this work is important to us. Alongside our ongoing research and testing with companies, we look forward to feedback on these questions:

- Is the standard clear and compelling?
- Do you agree that the performance targets for this standard cover critical ways for companies to address discrimination and exclusion, and advance socially responsible business practices within the given topic? If not, why not?
- Are there additional or alternative performance targets you recommend for this standard?
- What additional guidance, if any, would be helpful for a company to get started and/or make steady progress toward achieving this standard?

Submit your feedback by completing this survey (letter submissions will also be accepted) or attending one of our virtual roundtables. Find more information here on providing your feedback.

1 Equity, inclusion, and social responsibility are integrated in governance and leadership accountability.

Requirement

■ Codify accountability for advancing equity, inclusion, and socially responsible business practices in the governance of the company and the roles of senior leaders.

Performance Targets

P1.1 Equity, inclusion, and social responsibility are codified in corporate purpose.

P1.2 Board governance guidelines and committee charters codify oversight of equity, inclusion, and socially responsible business.

P1.3 The Board regularly reviews the company's efforts to advance equity, inclusion, and socially responsible business.

P1.4 Senior leaders are accountable for advancing equity, inclusion, and socially responsible business.

Associated Equity Outcomes

🏛 Equitable Governance and Leadership

Key Connections

■ SDGs 10 and 16

■ ESRS 2: GOV

■ IFRS S1

■ UNGPs 15(a), 16, and 19

Business and Societal Value Proposition

Businesses play multiple roles in shaping our economy and society as employers, value creators, innovators, buyers, investors, taxpayers, cultural and political influencers, and shapers of our environment.

By virtue of these many roles, businesses have wide-ranging social impacts—positive and negative, intended and unintended. Proactively positioning the business for positive social impacts and mitigating the risks of negative social impacts is therefore vital to meet the needs and expectations of workers, customers, communities, and shareholders alike. Doing so is also essential for business resilience, long-term value creation, and a stable operating environment. And increasingly, business leaders agree that social issues are urgent concerns for their companies.

Embodying the best of socially responsible business is long-term work and it begins with a strong foundation in governance and leadership. The value proposition of adopting this Standard includes strengthening much-needed trust among workers, consumers, and communities; preserving and extending gains already made in advancing equity and inclusion; and improving risk management.

Conversely, failing to integrate equity, inclusion, and social responsibility within governance and leadership may expose the company to increased risk, including missing the opportunity to address issues before they become serious business risks, failing to attract and retain a diverse workforce, and lagging behind competitors.

The performance targets for this Standard therefore focus on establishing a strong foundation in the fundamentals of corporate governance as well as securing alignment and accountability across senior leadership.

Glossary

Diversity

Of a group, possessing variation on the basis of social demographics, such as across race, ethnicity, gender, sexual orientation, disability, and age (e.g., a diverse workforce).

Equity

Just and fair **inclusion** into a society in which all can participate, prosper, and reach their full potential. When everyone is treated fairly according to their needs and no group of people is given special treatment.

Gap analysis

A comparative analysis of the current state of a set of quantitative or qualitative factors against a given Performance Target, including the Guidelines. Conducting such an analysis is step one across every Performance Target.

Impact

The effect the company has or could have on its **stakeholders** over the short, medium, or long term through its activities, including its operations, products, services, and business relationships, whether positive or negative, intended or unintended. This term is intended to be equivalent to the defined term "impacts" in the European Sustainability Reporting Standards (ESRS).

Inclusion

The values, practices, and policies that ensure all people, across all social demographics, feel respected, safe, and valued, including and accommodating people who have historically been excluded such as due to their race, ethnicity, gender, sexual orientation, or disability. Inclusion values and leverages **diversity**, recognizing it as a source of strength for organizations.

KPIs and OKRs

KPIs (key performance indicators) and OKRs (objectives and key results) are methods of goal-setting and performance measurement of organizations or specific activities within organizations. They may be aligned to specific leaders, team members, and/or departments on a quarterly, annual, or other time-bound basis.

Material decision

A decision made by the company that has or could have a significant **impact** on profitability/shareholder value and/or one or more of its stakeholder groups, including direct workers, contingent workers, indirect workers, customers, end users, communities, and society at large. This includes, among other things, the health and safety of the company's and its suppliers' workplaces; the health, safety, accessibility, and pricing of products and services; the environmental impacts of the company's and its suppliers' operations; and any practices that could result in excluding marginalized or underinvested groups from fair opportunities.

Senior leaders or senior leadership

- Officers as defined in the company's bylaws;

- Named executive officers as defined under U.S. Securities and Exchange Commission reporting rules;

- C-Suite or equivalent senior leaders; and

- Leaders with overall ownership and responsibility for department or divisional budgets.

Stakeholders

Individuals and groups who have an interest in the policies and practices of companies not only because they are affected by them, but also because they have rights to be respected and protected by companies, e.g., workers' rights to fair wages, consumers' rights to safe products, suppliers' rights to transparency, investors' rights to be informed of material facts, communities' rights to clean and safe neighborhoods, and society's rights to a healthy environment, among others.

Stakeholder-informed decision-making

The action or process of making decisions, especially **material decisions**, informed by the needs, expectations, and rights of the company's stakeholders—including direct, contingent, and indirect workers; customers; end users; suppliers; shareholders; communities; and society at large. Stakeholder-informed decision-making recognizes that each of the company's stakeholders is essential to its success and honors the company's fundamental commitment to deliver value to all of its stakeholders. This is the foundation of socially responsible business.

Sustainability

As defined by the 1987 United Nations Brundtland Commission, "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In the business context, it means a company's delivery of long-term value in financial, social, environmental and ethical terms. This includes recognizing and adhering to social thresholds, such as paying living wages across the workforce, in recognition of the essential role living wages play in cultivating and maintaining a healthy labor force and a stable society. It also includes ecological thresholds, such as limiting emissions and natural resource use, in recognition of the natural limits of our planet to support all life.

PERFORMANCE TARGET 1.1

Equity, inclusion, and social responsibility are codified in corporate purpose.

Requirement

Codify the company's commitment to equity, inclusion, and socially responsible business practices within corporate purpose and policy adopted by the highest governing body of the company.

Metric

One Board-approved governance document codifying the company's commitment consistent with the guidelines.

Share Progress & Achievement

Disclosure available to the public of relevant governance document (or summary thereof) either on the company's website or in an annual report (or other publicly available filing). Update disclosure in the event of substantial changes to commitment.

Rationale, Tips, and Guidelines

RATIONALE:

Formally integrating equity, inclusion, and social responsibility into the company's purpose demonstrates its recognition that each of its stakeholder groups are essential to its success and that delivering value to all of them is a fundamental commitment. Doing so also helps establish guardrails that protect the company from risk, promote positive social impacts, and mitigate negative social impacts, especially on workers, consumers, and communities.

In addition, adopting this Target secures equity, inclusion, and social responsibility as long-term priorities, ensuring the company's efforts do not hinge on a single individual or team, but instead become part of its DNA. Doing so is also consistent with corporate fiduciary duties, which not only require proactive steps to ensure the company's compliance with applicable laws (including civil rights and antidiscrimination laws) but also proactive steps that promote the company's sustainable success.

IMPLEMENTATION TIPS:

1. This Target is among a select number of Targets across the Standards that call for public disclosure, focused on specific areas of progress and achievement that are vital to demonstrate transparency and accountability to stakeholders.

2. Board approval is incorporated in this Target to ensure the company's statement of corporate purpose is formally part of corporate governance and there is alignment across leadership.

3. There are several routes to meeting this Target, including the public benefit corporation legal structure, which is now available in 38 US states. See here how public companies have adopted this corporate structure. A

global movement and community of support is also growing for companies that choose this approach.

4. A sample statement of corporate purpose consistent with the guidelines below will be included with this Target upon the launch of the final Standards.

GUIDELINES:

1. The company automatically meets this Target if it is organized as a public benefit corporation, cooperative, perpetual purpose trust, employee ownership trust, or other legal structure that explicitly integrates obligations to operate sustainably and consider the needs of all corporate stakeholders, including workers, customers, and communities.

2. If the above does not apply, codify the commitment by adopting a statement of corporate purpose (as specified below) in any of the following ways:

   a. Adopt a standalone statement of corporate purpose. See here for helpful guidance.

   b. Integrate the statement into a new or existing code of ethics, code of business conduct, mission statement or similar foundational document.

   c. Amend the purpose clause in the company's articles of incorporation.

   d. Become a public benefit corporation (or other legal structure consistent with Guideline 1) and incorporate the statement of corporate purpose in the company's new articles of incorporation or equivalent founding document.

3. The content of the statement of corporate purpose must be one of the following:

   a. Explicitly state the company's commitment to:

      i. Advance equity, inclusion, and socially responsible business practices in service of

sustainably delivering value to all of the company's stakeholders, including workers, customers, communities, and society at large; and

 ii. Employ stakeholder-informed decision-making for material decisions.

 b. Adopting the Business Roundtable's 2019 Statement on the Purpose of a Corporation incorporating all of the following adjustments:

  i. Include the verbatim language beginning with "We commit to…"

  ii. Add indirect workers in the value chain as among the company's key stakeholders; and

  iii. Add that the company will employ stakeholder-informed decision-making for material decisions.

4. Whichever option the company selects, once the relevant governance document is prepared and finalized, it should be formally approved by the highest governing body of the company, as reflected by one or more of their signature(s) on the document (e.g., signature of the Board Chair).

5. Depending on the approach the company selects and its legal structure, shareholder approval may also be required.

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of current governance documents.

➔ Amendment to articles of incorporation or other governance document(s) prepared and finalized (e.g., statement of purpose, code of business conduct, or code of ethics).

➔ Board meeting scheduled for review and approval of amended articles or other relevant governance document(s).

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with **senior leadership** and the Board.

➔ Finalized draft of governance document(s).

➔ Board calendar reflecting one or more meetings for review and approval of relevant governance document(s).

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

Enacting Purpose with the Modern Corporation (Rupert Younger, Colin Mayer, and Robert G. Eccles, Harvard Law School Forum on Corporate Governance, September 2020)

A Blueprint for Better Business. What is Purpose? (A Blueprint for Better Business, accessed May 2024)

Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' (Business Roundtable, Press Release, August 2019)

Walking the Talk: Valuing a Multi-Stakeholder Strategy (Ariel Babcock, et al., FCLTGlobal and Wharton School, University of Pennsylvania, January 2022)

Duty and Diversity (Chris Brummer and Leo E. Strine, Harvard Law School Forum on Corporate Governance, March 2021)

Planning for a New Reality: Agenda for the Prepared Board (The Aspen Institute American Prosperity Project, Aspen Institute, Business & Society Program, November 2023)

The Error at the Heart of Corporate Leadership (Joseph L. Bower and Lynn S. Paine, Harvard Business Review, May–June 2017)

Good Corporate Citizenship We Can All Get Behind?: Toward A Principled, Non-Ideological Approach To Making Money The Right Way (Leo E. Strine, Jr., Harvard Law School Forum on Corporate Governance, December 2022)

Capitalism for the Long Term (Dominic Barton, Harvard Business Review, March 2011)

The Changing Role of Business in Society (Michael E. Porter, Harvard Business School, July 2021)

PERFORMANCE TARGET 1.2

Board governance guidelines and committee charters codify oversight of equity, inclusion, and socially responsible business.

Requirement

Codify the Board's oversight of equity, inclusion, and socially responsible business in the primary governing documents of the Board and each of its standing committees.

Metric

Amended Board governance guidelines and standing committee charters consistent with the guidelines.

Share Progress & Achievement

Disclosure available to the public of Board governance guidelines and standing committee charters (or relevant excerpts) either on the company's website or in an annual report (or other publicly available filing). Update disclosure in the event of substantial changes to any of them.

Rationale, Tips, and Guidelines

RATIONALE:

The Board's commitment to, and effective oversight of, the company's strategy and progress toward advancing equity, inclusion, and social responsibility is vital to the company's overall success. The Board's oversight is also an important aspect of its overarching duties: boards should approach important social issues "as one would approach other important business decisions or risks." This Target supports Boards in doing so by codifying the scope of the Board's oversight in its governance guidelines as well as in each standing committee charter.

IMPLEMENTATION TIPS:

1. This Target builds on Target 1.1 by codifying how the Board will fulfill its oversight of the company's strategy and progress toward advancing equity, inclusion, and social responsibility.

2. Sample language to include in each governance document, consistent with the guidelines below, will be included with this Target upon the launch of the final Standards.

GUIDELINES:

1. This Target applies to the Board's overall governance guidelines (or equivalent document stating the roles and expectations of the highest governing body) as well as the charters of each standing committee.

2. If the company has a different governance structure, all references to the "Board" apply to the company's highest governing body.

3. At a minimum, the standing committees should include the audit, compensation, and governance committees, or their equivalent if the company uses other nomenclature.

4. Once the relevant governance documents are prepared and finalized, each should be formally approved by the Board (or highest governing body of the company), as reflected by one or more of their signature(s) on the document (e.g., signature of the Board Chair).

5. **For the Board governance guidelines** (or equivalent document stating the roles and expectations of the highest governing body), include the following at a minimum:

   a. Affirmation of the Board's oversight of the company's efforts to advance equity, inclusion, and socially responsible business.

   b. Commitment to regularly review and oversee the company's strategy and progress toward advancing equity, inclusion, and social responsibility.

   c. Oversight of the integration of equity, inclusion, and social responsibility into business strategy, key strategic risks and opportunities, and overall communications strategy.

6. **For the audit committee charter**, at a minimum, include an affirmation of the committee's oversight role in the company's efforts to advance equity, inclusion, and socially responsible business, plus specific oversight of the following:

   a. Actual or potential risks to people and planet associated with the company's products, services, and lines of business, including labor and human capital management risks.

   b. The company's efforts to monitor and mitigate such risks.

   c. The outcome of periodic audits and assessments of the company's progress (such

as human rights assessments, civil rights audits, and business model reviews).

   d. Ensuring the company's disclosures related to the above are sufficiently transparent for all stakeholders.

7. **For the compensation committee charter**, at a minimum, include an affirmation of the committee's oversight role in the company's efforts to advance equity, inclusion, and socially responsible business, plus specific oversight of the following:

   a. Ensuring fair compensation and benefits across the enterprise from the C-suite to workers at all levels, including reviews of pay equity.

   b. Ensuring CEO and other C-suite succession planning is equitable.

   c. The company's progress toward advancing diversity, equity, and inclusion across the workforce, including evaluating the cultural health of the company, retention rates, workforce controversies, and other human capital management matters.

8. **For the governance committee charter**, at a minimum, include an affirmation of the committee's oversight role in the company's efforts to advance equity, inclusion, and socially responsible business, plus specific oversight of the following:

   a. The demographic diversity of the Board.

   b. Ensuring the composition of the Board includes directors with expertise in advancing equity, inclusion, and social responsibility. (See Target 5.7 on the board skills matrix.)

   c. Ongoing board education.

   d. The overall effectiveness of the company's social responsibility policies, goals, and programs.

9. If the company has any other standing committees, consider the role they will play in this effort and codify the same in their charter(s), similar to the committee charter guidelines above.

10. If the company has established a separate standing committee for oversight of any of the above committee topics (e.g., an ESG or sustainability committee), these guidelines may be applied to such committee's charter. However, close connectivity with all other standing committees will be critical to prevent inherently connected topics from becoming siloed (e.g., executive compensation and broader workforce compensation are inherently connected; geopolitical risks to the supply chain and human rights risks in the supply chain are inherently connected).

11. For companies that do not already have standing committees, there is no requirement to establish new committees. Rather, codify the above oversight topics into the charter or governance guidelines of the full Board. (See Target 1.3 on staggering Board topics over time.)

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➜ **Gap analysis** conducted of Board governance guidelines and standing committee charters.

➜ Amendments to Board and standing committee charters prepared and finalized.

➜ Board and standing committee meetings scheduled for review and approval of amended governing documents.

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➜ Record of gap analysis results shared with **senior leadership** and the Board.

➜ Finalized drafts of amended Board governance guidelines and standing committee charters.

➜ Board calendar reflecting Board and standing committee meetings for review and approval of amended governing documents.

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

[How to Improve Disclosure and Promote Better Corporate Governance in Public Companies](#) (Jennifer O'Hare, Florida State University Law Review, September 2022)

[Duty and Diversity](#) (Chris Brummer and Leo E. Strine, Harvard Law School Forum on Corporate Governance, March 2021)

[Update on ESG, Stakeholder Governance, and Corporate Purpose](#) (Martin Lipton, et al., Wachtell, Lipton, Rosen & Katz, January 2023)

[A Board's Guide To ESG And Incentives: Effectively Identifying Top ESG Priorities](#) (M. Paschall, et al., Corporate Board Member, accessed May 2024)

[A Board's Guide To ESG And Incentives: Focusing the Company Around ESG Priorities](#) (M. Paschall, et al., Corporate Board Member, accessed May 2024)

[Worker Voice and the New Corporate Boardroom](#) (The Aspen Institute, Business & Society Program, August 2021)

[Toward Fair Gainsharing and a Quality Workplace for Employees: How a Reconceived Compensation Committee Might Help Make Corporations More Responsible Employers and Restore Faith in American Capitalism](#) (Leo E. Strine, Jr. and Kirby Smith, The Business Lawyer, Volume 76, Winter 2020–2021)

[Disney: Speaking Out on Issues of Social Significance Within Board's Business Judgment](#) (Cydney S. Posner, Harvard Law School Forum on Corporate Governance, July 2023)

[Elevating the Focus on Human Risk](#) (Sue Cantrell, et al., Deloitte Insights, January 2023)

[The New Paradigm: A Roadmap for an Implicit Corporate Governance Partnership Between Corporations and Investors to Achieve Sustainable Long-Term Investment and Growth](#) (Martin Lipton, et al., International Business Council of the World Economic Forum, September 2016)

[Four Opportunities For Enhancing ESG Oversight](#) (Corporate Board Member and EY Research, Ernst & Young LLP, 2021)

[ESG Governance: Board and Management Roles & Responsibilities](#) (Jurgita Ashley and Randi Val Morrison, Harvard Law School Forum on Corporate Governance, November 2021)

[Board Practices Quarterly: Diversity, Equity, Inclusion: One Year Later](#) (Natalie Cooper, Robert Lamm, and Randi Val Morrison, Deloitte, January 2022)

PERFORMANCE TARGET 1.3

The Board regularly reviews the company's efforts to advance equity, inclusion, and socially responsible business.

Requirement

The Board and each standing committee actively oversee and support the company's efforts to advance equity, inclusion, and socially responsible business, with reviews at least annually.

Metric

One or more annual entries in the agendas and minutes of the Board and each standing committee reflecting reviews consistent with the guidelines.

Share Progress & Achievement

Regular report-outs by each standing committee to the rest of the Board, reflected in full Board minutes.

At least annual disclosure to the workforce of the role and support of the Board and each standing committee in the company's overall efforts to advance equity, inclusion, and social responsibility.

Rationale, Tips, and Guidelines

RATIONALE:

Building on Target 1.2, making time for the Board to discuss the company's strategy and progress toward advancing equity, inclusion, and social responsibility will help ensure the Board has a broader field of vision into enterprise risks and strategic opportunities. This means proactively incorporating these topics into the annual calendars of the full Board and each standing committee.

IMPLEMENTATION TIPS:

1. An ever-expanding board agenda competing for directors' time and attention may make it challenging, at first, to establish these topics as a regular oversight priority. However, doing so is a critical step toward more integrated oversight of enterprise risks and opportunities.

2. Adopting Target 3.1 regarding ongoing board education on equity, inclusion, and social responsibility will support the Board in having more effective regular reviews.

GUIDELINES:

1. This Target applies to annual discussions at the full Board level as well as within each standing committee.

2. If the company has a different governance structure, all references to the "Board" apply to the company's highest governing body.

3. At a minimum, the standing committees should include the audit, compensation, and governance committees, or their equivalent if the company uses other nomenclature.

4. In general, the topics for annual review and discussion should align with the scope of oversight set forth in the Board's amended governance guidelines and the standing committee charters in line with Target 1.2.

5. **For the full Board calendar**, include the following annual topics at a minimum:

   a. Review of the company's overall strategy and progress in advancing equity, inclusion, and socially responsible business practices, including their integration into overall business strategy, the sufficiency of resources, and communications.

   b. Review of key risks and opportunities related to the company's strategy and progress on these topics.

   c. Review of standing committee reports related to their respective oversight of these topics.

6. **For the audit committee calendar**, include the following annual topics at a minimum:

   a. Review of the company's risk register (see also Target 2.5), including actual or potential risks to people and planet associated with the company's products, services, and lines of business, and the company's efforts to monitor and mitigate such risks.

   b. Review of the outcome of periodic audits and assessments of the company's progress (such as human rights assessments, civil rights audits, and business model reviews, per Standards 2 and 7).

   c. Review of the company's disclosures related to the above to ensure they are sufficiently transparent.

7. **For the compensation committee calendar**, include the following annual topics at a minimum (related to Standards 4, 5, and 6):

   a. Review of the overall fairness of executive compensation packages in relation to the compensation of all other employees.

   b. Review of the sufficiency of benefits programs offered to employees.

   c. Review of findings from periodic pay equity reviews.

   d. Review of the cultural health of the organization.

   e. Review of talent strategies, including progress toward hiring, developing, and retaining a diverse workforce.

   f. If the company has a large contingent workforce (especially if it is similar in size or larger than the employee workforce), review of pay practices and working conditions for such workers.

8. **For the governance committee calendar**, include the following annual topics at a minimum:

   a. Review of the composition of the Board and its leadership (e.g. Board and committee chairs), including demographic diversity and expertise in advancing equity, inclusion, and social responsibility in line with Target 5.7.

   b. Review and coordination of ongoing Board education in line with Target 3.1.

   c. Review of the company's social responsibility policies, goals, and programs.

9. If the company has any other standing committees, consider and codify the relevant discussions they should have on these topics, consistent with the relevant committee charter amendments in line with Target 1.2.

10. If the company has established a separate standing committee for oversight of any of the above topics (e.g., an ESG or sustainability committee), these guidelines may be applied to such committee's annual calendar. However, close connectivity with all other standing committees will be critical to prevent inherently connected topics from becoming siloed (e.g., executive compensation and broader workforce compensation are inherently connected; geopolitical risks to the supply chain and human rights risks in the supply chain are inherently connected).

11. For companies that do not already have standing committees, there is no requirement to establish new committees. Rather, incorporate review of the above topics into the full Board calendar. Given the breadth of topics, staggering review topics over a two-year period versus a one-year period may be necessary.

12. Board and committee minutes for the foregoing discussions should be recorded in the corporate minute book together with all other minutes.

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of Board and standing committee annual calendars.

➔ Board and standing committee chairs determine the timing and cadence of such reviews.

➔ Initial discussions undertaken by the Board and each standing committee regarding the company's efforts to-date.

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with senior leadership and the Board (or chairs of the Board and each standing committee).

➔ Annual calendars of the Board and each standing committee reflecting cadence of reviews.

➔ Minutes reflecting initial reviews by the Board and each standing committee.

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

Board's Oversight of Racial DE&I (Benjamin Colton, Jack "Rusty" O'Kelley, and Holly Fetter, State Street Global Advisors and Russell Reynolds Associates, July 2021)

Board Oversight of Diversity, Equity, and Inclusion to Combat Racism (Blair Jones, Anna Natapova, Chuck Gray, and Cynthia Soledad, National Association of Corporate Directors, August 2023)

Strategy, Compensation Metrics, and Board Oversight Can Drive Racial Equity Goals (Crystal Milo, Stanford Center for Racial Justice, March 2022)

5 Tips from the Experts for Communicating about Workplace Equity to Your Board (Michelle Jaeger, Syndio, October 2022)

Climate, ESG, and the Board of Directors: "You Cannot Direct the Wind, But You Can Adjust Your Sails" (Alllison Herren Lee, U.S. Securities and Exchange Commission, June 2021)

ESG Governance: Board and Management Roles & Responsibilities (Jurgita Ashley and Randi Val Morrison, Harvard Law School Forum on Corporate Governance, November 2021)

Board Practices Quarterly: Diversity, Equity, Inclusion: One Year Later (Natalie Cooper, Robert Lamm, and Randi Val Morrison, Deloitte, January 2022)

PERFORMANCE TARGET 1.4

Senior leaders are accountable for advancing equity, inclusion, and socially responsible business.

Requirement

Establish **senior leadership** accountability for advancing equity, inclusion, and socially responsible business practices through role definition, goal-setting, and performance assessments.

Metric

Annual **KPIs, OKRs**, or other equivalent documented goals and performance measures for each senior leader and relevant business unit consistent with the guidelines.

Share Progress & Achievement

Regular disclosure to the workforce and Board of annual priorities and related KPIs, OKRs, or equivalent performance measures and progress made toward them.

Rationale, Tips, and Guidelines

RATIONALE:

Advancing equity and inclusion, combating discrimination, and adopting socially responsible business practices across the enterprise are long-term efforts that require steady and skilled leadership. It is therefore vital for the company to establish senior leadership accountability and to do so in more than one way, namely ensuring that each senior leader understands where and how they play a role; setting goals within each business unit; and ensuring annual performance assessments for senior leaders include consideration of whether progress is being made.

While 85% of business leaders view social issues as urgent concerns for their organizations, and studies consistently show that key stakeholders (especially young adults) expect a company's values to be reflected in its business and operations, establishing cohesive accountability measures remains nascent. Proactively doing so will help demonstrate the legitimacy of the company's efforts, increase trust among stakeholders, and strengthen the company's efforts to achieve its impact goals.

Workers, consumers, and investors alike are also increasingly focused on how senior leaders are making progress on organization-wide DEI and sustainability priorities and commitments. This Target aims to support senior leaders in meeting those expectations by integrating equity, inclusion, and social responsibility into every role, establishing goals connected to business strategy, and achieving positive results over time.

IMPLEMENTATION TIPS:

1. Getting started on this Target will involve understanding where the company currently stands in advancing equity, inclusion, and socially responsible business practices as well as developing the company's overall strategy and goals. In doing so, it will become clear where senior leaders ought to play

key roles and the specific goals they should each be working toward to support the company's overall success.

2. To further support companies in determining the areas in which specific senior leaders need to play key roles and setting goals across business units, the following additional tools will be released upon the launch of the final Standards:

    a. An organizational assessment tool for companies to assess where they stand across the Standards.

    b. A list of the key functional leaders and teams that should be involved in adopting each Standard.

    c. A guide setting out multiple adoption pathways for companies to determine their best path toward achieving all the Standards steadily over time.

GUIDELINES:

1. If the company has one senior leader overseeing all social sustainability matters (such as a Chief Sustainability Officer or Chief Diversity Officer), the guidelines below may be adapted to reflect centralized oversight. To achieve this Target, however, the company should ensure all senior leaders play a role and are accountable in the company's efforts, as would be the case in the execution of any major business strategy.

2. The first step is understanding where the company stands in its performance across the Standards and establishing the company's overall strategy and goals on equity, inclusion, and social responsibility. This may be accomplished in a number of ways, including using the (soon-to-be-released) tools referenced in the tips

and adopting Target 2.6 (conducting a civil rights audit).

3. Once the company's overall strategy and goals on equity, inclusion, and social responsibility are established, implement the following for all senior leaders:

    a. Clearly define roles: document in job descriptions or similar materials the specific role or responsibilities of each senior leader in support of the company's overall strategy and goals. For example:

        i. All senior leaders should have shared responsibility for building diverse teams and fostering an inclusive culture. (See Standard 3 on leadership skills, Standard 4 on culture, and Standard 5 on workforce diversity.)

        ii. The Chief Marketing Officer's responsibilities should also include ensuring marketing collateral are inclusive, accessible, and authentic. (See Target 7.1 on product marketing and Standard 12 on communications.)

        iii. The General Counsel's (or other compliance leader) responsibilities should also include establishing the various policies called for across the Standards and supporting human rights assessments and civil rights audits. (See Standard 2 on assessments and audits.)

        iv. The Chief Financial Officer's responsibilities should also include ensuring all business units have the budgetary resources to achieve their goals and leading on socially responsible investment and tax

approaches. (See Target 2.1 on enterprise-wide resources and Standard 14 on investments and tax approaches.)

    b. Set annual goals: establish short-term and long-term KPIs, OKRs, or equivalent documented goals and performance measures for each senior leader and their respective business unit.

    c. Conduct annual performance assessments: evaluate progress against the above goals in the company's performance assessment process for senior leaders, taking the following into consideration:

        i. Establish a mutual understanding and formally codify how performance will be evaluated (see Target 6.4 on objective performance measures in executive compensation plan design).

        ii. Ensure the time frame for goals is reasonable, including by establishing interim goals and performance measures for areas that will clearly take multiple years to achieve.

        iii. Adjust processes and measures promptly if they lead to any gaming or unintended consequences.

        iv. If performance becomes stalled or is otherwise not where it needs to be at any stage, determine the source of barriers and adjust accordingly (e.g., provide more resources where needed).

        v. Hold senior leaders accountable to meaningful progress over time. This may include providing constructive feedback, developing an action plan for

improvement, and investing in coaching and ongoing professional development (see Target 3.2).

        vi. Notwithstanding providing senior leaders with the time and resources to improve, ensure that repeated poor performance is addressed right away. One of the fastest ways to erode trust and increase risk is to allow poor performance to remain unaddressed.

4. While the company may determine to also connect executive compensation plans to these areas (e.g., incentives for meaningful improvement of cultural health, per Target 6.4), such practices are not a substitute for establishing the accountability measures above. In addition, great care should be taken to ensure such incentives do not lead to unintended consequences, such as gaming the system or short-term improvements that do not ultimately last.

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of senior leaders' roles and responsibilities, goal-setting, and performance assessment practices.

➔ Initial organizational and business unit priorities (or goals) established related to advancing equity, inclusion, and socially responsible business practices.

➔ Planning process commenced to integrate organizational and business units priorities within senior leaders' roles, goals, and performance assessments.

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with senior leadership and the Board.

➔ Documentation of organizational and business unit priorities for advancing equity, inclusion, and socially responsible business.

➔ Documentation of senior leaders' annual KPIs, OKRs, or equivalent performance measures.

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

The NLI Guide: How Culture Change Really Happens (David rock, Heidi Grant, and Mary Slaughter, Neuroleadership Institute, 2022)

Company Culture Is Everyone's Responsibility (Denise Lee Yohn, Harvard Business Review, February 2021)

The Yin and Yang of Organizational Health (Lili Duan, Rajesh Krishnan, and Brooke Weddle, McKinsey Quarterly, November 2017)

To Make Lasting Progress on DEI, Measure Outcomes (Lily Zheng, Harvard Business Review, January 2023)

Blueprint for Corporate Sustainability Leadership (UN Global Compact, 2010)

The State of ESG Goal-Setting (Cecilia Milao, Anjani Trivedi, and Matthew Mazzoni, Harvard Law School Forum on Corporate Governance, November 2023)