



Responding to societal challenges:

A framework for bank boards and their directors



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Introduction

The banking industry is a critical player in financing the global economy and society. According to McKinsey, global banks now manage an estimated \$370 trillion in worldwide assets, which are expected to grow to between \$500 trillion and \$550 trillion in the next decade. Given their size and impact, and as governments prove increasingly unable to meet societal challenges, it is not surprising that there is now an expectation for global corporations and banks to play a greater role in addressing a wide range of social, political, and environmental issues.

Many of these issues fall well beyond traditional definitions of corporate responsibility, which focused on operating responsibly within the corporate fence line. Today, companies are expected not only to operate responsibly, but also to engage with and act on broad public policy issues, ranging from major global challenges requiring sustained collective action, such as climate change, to geopolitical issues, such as the war in Ukraine, to sensitive political issues, from abortion rights to gun control.

These expectations for what is sometimes now referred to as political corporate social responsibility create a new set of challenges for corporate governance and bank boards. In addition to governing on behalf of the interests of shareholders, they must also exercise oversight and judgment over the firm's "political" strategy to manage the concerns and demands of the firm's stakeholders, from employees to customers to activist shareholders. In today's world, the support of these stakeholders is now a critical part of maintaining the bank's reputation, license to operate, and business success. Terms like environmental, social, and governance (ESG), or corporate social responsibility no longer capture the range of issues, the important distinctions among them, or the way in which banks and other companies must now manage them.

Throughout 2022 and early 2023, Tapestry Networks and High Meadows Institute examined the challenges of this new operating environment and spoke with board directors and executives from some of the world's largest banks, as well as leading institutional and pension investors, regulators, and other stakeholders, about how bank boards can best address these issues. Working from this research, this report explores how bank boards can most effectively and strategically manage the expectations of this new era of political corporate social responsibility.

One of the keys to this, we find, is changing board mindsets when it comes to social issues. Rather than view these issues solely through the lens of "doing no harm," they should be comprehensively integrated into risk and strategy, including as potential business and social impact drivers for the future. As one director put it, *"We are spending too much time talking about data, about measuring the bad stuff instead of what we can do as a company to make a difference."* As a recent BCG article notes, "... there is a clear and expansive business case for creating solutions to address social issues—including gaining access to new and fast-growing markets, improved financial performance and cost of capital, enhanced ability to attract talent, and reduced reputational and regulatory risk."

We welcome your feedback and thoughts on the ideas explored in this report. Additional resources for meeting the 21st century corporate governance challenge can be found [here](#).

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Purpose of this report

While recent bank failures, rising interest rates, and traditional banking risks have dominated headlines in 2023, the leaders of the largest banks continue to face decisions about how to respond to a range of societal concerns—political issues like Brexit and abortion rights, geopolitical issues like the war in Ukraine, social issues like diversity, equity, and inclusion (DEI) and LGBTQ+ rights, and of course climate change—on which they would not have been expected to take a public position even 10 years ago. A combination of forces, including a reexamination of capitalism and the role of business in society, a focus on environmental, social, and governance (ESG) topics from large investors and policymakers, and a shift in public sentiment regarding expectations for corporations and financial institutions in addressing social issues, is challenging corporate governance. A report from High Meadows Institute, *Beyond ESG: The Role of Business in Collaborative Governance*, asks, “If large firms are now viewed not simply as economic institutions but as social institutions with ‘political’ responsibilities for leadership on public policy challenges, what does this mean for the role of corporate boards and their oversight of CEO leadership?”³

The purpose of this report is to explore the views of bank directors, investors, and other stakeholders regarding growing demand for bank responsibility in addressing social and environmental issues, as well as to provide bank boards with a framework for responding to and managing these expectations. Over the course of 2022 and the first half of 2023, Tapestry Networks and High Meadows Institute spoke with board directors and executives from some of the largest banks around the world, leading institutional and pension investors, regulators, and other



stakeholders about these issues. These conversations addressed the role and expectations of global banks relating to social and political issues that shape banks’ operating environment, as well as how boards and management teams can respond more effectively to an evolving set of risks and opportunities.

This report synthesizes the views of these stakeholders and provides a framework for how bank boards can effectively make decisions about their institutions’ responses to societal challenges. While this may not require material changes to governance approaches, it does require a fundamental mindset shift regarding how issues historically consigned to corporate social responsibility or ESG are factored into banks’ core purpose, strategy, risk management, and governance.

Throughout the document, quotes from interviews conducted by Tapestry are presented without attribution; these are printed in italic type.

Terminology

One of the challenges in discussing the range of societal issues and externalities affecting the operating environment for international banks is establishing useful terminology and categories.

“ESG” has become common usage to refer to many of these issues, replacing corporate social responsibility (CSR), though both terms are still commonly used. But ESG has become highly contentious and fails to capture the full range of issues under discussion here, which extends to taking stands on politically sensitive matters and other topics that go beyond ESG. Similarly, references to “stakeholder” (vs. shareholder) interests or notions of CSR sometimes prompt knee-jerk reactions given their historical usage. A newer term, political corporate social responsibility,⁴ comes closer to covering these issues.

For purposes of this report, we will use the terms “social issues,” or “societal challenges” to refer to a broad range of concerns that includes those listed as follows:

- **Major global challenges requiring sustained collective action**, such as climate change and other environmental concerns; resource scarcity; racial justice and equity; and income inequality.
- **Geopolitical issues**, focusing on the ethical and reputational concerns surrounding corporate relations with state actors or regimes credibly accused of human rights violations (e.g., forced labor or oppression of marginalized communities) or of violating international norms, but where legal and other sanctions do not prohibit doing business with them.
- **Sensitive political issues**, such as abortion rights and gun control in the United States, Brexit in the United Kingdom, or LGBTQ+ concerns (e.g., access to single-sex facilities) or other issues that have become increasingly politicized in many Western democracies.

“We are seeing our social license to operate tied to political issues, and we have to factor that into our strategic thinking. At the end of day, we are in the business of managing risk, whether it’s climate risk or reputational risk, and you have to factor that all into how you think about strategy. If you come at this reactively, you will end up in a hell of a mess.” — Bank director

Banks must respond to changing expectations for the role of business and finance in society

The current operating environment presents new challenges for bank leaders who must navigate competing pressures and chart a path to creating and protecting long-term value. While older approaches to corporate responsibility sought to ensure that a firm “did no harm” and operated responsibly, or contributed to community and philanthropic causes, companies must now also consider and manage expectations for their role and impact on broader societal challenges. As a director noted, “The bar for ‘avoiding doing bad stuff’ continues to be raised, while expectations for banks and corporations to take deliberately positive action to ‘do more good stuff’ are also increasing.”

Addressing these issues is not just about doing the morally “right” thing; it is about responding to issues that affect the health of the operating and economic environment on which a bank’s success depends, its brand and reputation with customers and employees, and its social license to operate.



Views on the role of the corporation have evolved

The extent to which businesses and their leaders have a responsibility to promote social welfare has been debated for years. Milton Friedman famously argued 50 years ago that corporate leaders, as employees and agents of shareholders, have an obligation “to conduct the business in accordance with [shareholders’] desires, which generally will be to make as much money as possible.”⁵ In Friedman’s familiar formulation, “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.”⁶ Shareholder primacy became a core tenant of corporate governance and law in the United States, and held sway in many Western boardrooms. Over time, however, a broadening view of the role and responsibility of corporations led to a renewed focus on corporate social responsibility, often in the name of long-term sustainability.

The corporate scandals of the early 2000s, the global financial crisis of 2008-2009, growing awareness of income inequality, and broader shifts in sentiment prompted a further reexamination of the issues, and a range of voices called for a new paradigm for business under various names: inclusive capitalism, shared-value capitalism, and most prominently, stakeholder capitalism. These approaches derived from the view that business has a responsibility to promote social welfare and a unique ability to do so given the resources commanded by large corporations.⁷ Some jurisdictions incorporate this view into law. For example, the French concept of

I buy or advocate for brands based on my beliefs and values

63%

Having societal impact is a strong expectation or deal breaker when considering a job

69%

Source: Edelman Trust Barometer 2023

intérêt social was codified in a 2019 law requiring companies to take account of the social and environmental consequences of their activities.⁸ The UK Companies Act of 2006 clarified that corporate directors must “have regard for” a broad range of concerns including the interests of employees, relationships with customers and suppliers, and the impact of company operations on the community and the environment. Since 2019, companies have been required to issue statements detailing how they have met those duties.⁹

Growing doubts about government’s ability to address major global and societal challenges have only heightened expectations for businesses and their leaders. The 2023 Edelman Trust Barometer, which surveys over 30,000 participants around the world, found that “business is now the sole institution seen as competent and ethical; government is viewed as unethical and incompetent. Business is under pressure to step into the void left by government.”¹⁰ Consumers increasingly say they expect companies to act in accordance with their values: 63% of respondents in the Edelman survey said they buy or advocate for brands based on their beliefs and values, and 69% say having societal impact is a strong expectation or dealbreaker when considering a job.¹¹ The report also cautions, however, that societal engagement puts a business at risk of being politicized when it addresses contentious societal issues.¹²

Many bank leaders remain cautious about taking responsibility for addressing societal challenges or speaking out on some social issues. However, according to one investor:

“The increasingly mainstream view is that it’s no longer 1970, when Friedman published that New York Times article saying we should seek to maximize the value of the company. It was a very different macro- and micro-operating environment from the one in which companies are operating today. The externalities associated with business are much larger, and the risks to corporations translate into value erosion far more violently and far more quickly. If we seek to maximize the long-term value of the business, we need boards and executives to take a more expansive position on the risks and opportunities that they seek to anticipate in order to make more informed decisions.”

Large banks and their boards face particular scrutiny

Large banks play a unique role through their lending and facilitation of capital allocation, drawing pressure from activists and investors to act as transition mechanisms for broader changes across economies. The systemic importance of the largest banks imposes a responsibility to society on these institutions. The Group of Thirty, an independent body composed of economic and financial leaders from the public and private sectors, wrote in its 2012 report, *Toward Effective Governance of Financial Institutions*, “[Financial institutions], unlike most other corporations, are licensed by society to serve the needs of society ... [Financial institutions]

must serve not only their shareholders, but society as a whole. This is a bedrock principle.”¹³ Yet, a director acknowledged, “*This may not be recognized by financial institutions’ shareholders and management in practice.*”

While banks and their overseers have addressed capital, liquidity, and improved risk management, the issues boards now face are in many ways more complex and equally important to the financial system and the broader economies in which they operate. They include risks that are difficult to quantify and around which few taxonomies or frameworks are readily available. The economic impact of responding to societal challenges can be difficult to assess. In the short term, it can certainly be negative. In the long term, it may be positive, but it can be difficult to judge this in advance, or to estimate the time horizon over which responding to societal challenges will result in better economic returns.

Tackling long-term and systemic issues like climate change or racial inequality will likely take longer than the tenure of CEOs and management teams. They are also beyond the time horizon for business planning and executive remuneration and incentives. Because these new responsibilities affect a company’s



fundamental purpose, strategy, and long-term viability, they necessarily rise to the level of the board of directors. Understanding and responding to this changing set of externalities and social expectations for banks is now integral to ongoing improvements to bank governance.

Yet, the expectation that banks should take a leadership role in addressing societal issues raises fundamental questions about the legitimacy and authority of private corporations and financial institutions in democratic societies, when and how to weigh in on politically sensitive issues, and how to determine when and how broader stakeholder concerns are aligned with fiduciary responsibility to shareholders.

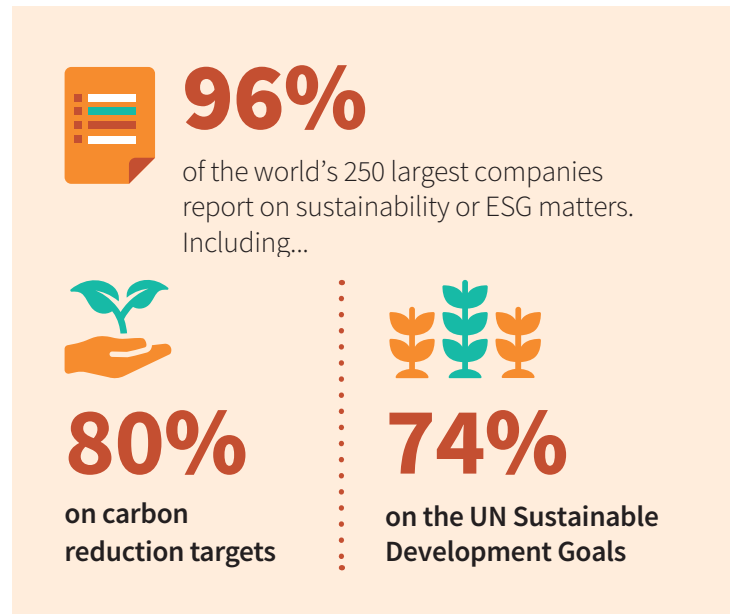
The rise of ESG reporting has driven greater board attention to these issues

Many of the issues around the role and expectations of corporations in addressing societal challenges are now captured under ESG efforts. As investors and other stakeholders saw risks to long-term sustainability in climate change and social issues, they demanded more information from companies regarding the impact of these issues from and on their business activities. This gave rise to ESG or sustainability reporting, initially driven by private-sector initiatives. A range of NGOs, often supported by corporations or industry groups, emerged to establish standards and frameworks that were voluntarily embraced by investors, corporates, and financial institutions to provide decision-useful information about nonfinancial risks and opportunities.

Adoption of sustainability reporting by business has been significant during the last five years as many large public companies began disclosing a range of nonfinancial information, including climate risk exposure, carbon emissions and other environmental impacts, progress toward DEI goals, and the like. By 2022, according to a report from KPMG that surveyed 5,800 companies globally, nearly 80% were reporting on sustainability,

including 71% reporting carbon reduction targets and 71% reporting progress around the United Nations (UN) Sustainable Development Goals. Almost all large firms now engage in sustainability disclosure: 96% of the world's 250 largest firms are reporting on sustainability or ESG matters, including 80% reporting on carbon reduction targets and 74% reporting on the UN goals.¹⁴ Efforts to improve measurement and reporting have been important drivers in focusing board attention on these issues. But some bank directors expressed concern that, in the words of one, “we are spending too much time talking about data, about measuring the bad stuff instead of trying to solve the problem. There is lots done on disclosures, potentially at the expense of time and energy thinking about what we can do as a company to make a difference.”

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The ESG reporting landscape

Recent years have seen the proliferation and consolidation of standards and frameworks designed to guide corporate reporting on a broad spectrum of environmental, social, and governance issues. These frameworks aim to help companies provide a range of stakeholders with useful and comparable information on companies' approaches to ESG. Along with these industry-led efforts, policymakers and regulators in the United States and European Union (EU) are preparing to mandate heightened disclosures. There are several important reporting initiatives:

- **The International Sustainability Standards Board (ISSB).** The International Financial Reporting

Standards (IFRS) Foundation launched the ISSB at the UN Climate Change Conference of the Parties in 2021 (COP26) with the goal of advancing high-quality, transparent, and comparable reporting on climate- and sustainability-related metrics. The ISSB issued its inaugural standards, which are intended to provide a global baseline for sustainability reporting, in June 2023. The ISSB's standards build on the work of two previous standard-setting bodies, the Global Reporting Initiative and the Sustainability Accounting Standards Board, both of which were incorporated into the IFRS Foundation in 2022. The Global Reporting Initiative had been offering a comprehensive range of sustainability standards “as a free public good” to a broad range

of stakeholders since its founding in 1997.¹⁵ The Sustainability Accounting Standards Board was an independent nonprofit founded in 2011 with a mission “to establish and improve industry-specific disclosure standards.”¹⁶

- **Task Force on Climate-related Financial Disclosures (TCFD).** Established by the Financial Stability Board in 2015, TCFD provides a disclosure framework that aims to “promote more informed investment, credit, and insurance underwriting decisions [to] enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks.”¹⁷ TCFD focuses on the risks and opportunities arising from climate change, addressing not only the direct physical impact of environmental effects, but also the economic consequences of efforts to lower carbon emissions.
- **Corporate Sustainability Reporting Directive.** In late 2022, the EU Council approved the Corporate Sustainability Reporting Directive, which mandates increased sustainability reporting for EU companies. The Directive includes the

European Sustainability Reporting Standards, which establish requirements for detailed reporting on a broad range of ESG issues. These include a “double materiality” standard, requiring companies to report on both the impact of sustainability-related factors on their financial performance and the company’s impact on society and the environment.

- **US Securities and Exchange Commission (SEC) climate and human capital disclosure initiatives.** In the United States, the SEC proposed new climate disclosure rules in March 2022. These include enhanced disclosure of companies’ climate risks, as well as of their greenhouse gas emissions. The rules remained open for comment as of May 2023, and the SEC was considering softening its requirements in the face of significant opposition before issuing final rules later in the year.¹⁸ In 2020, the SEC adopted a rule requiring companies to disclose the “human capital management measures and objectives they focus on in managing their businesses.” Human capital disclosures encompass a variety of factors, including company culture, hiring practices, DEI efforts, employee well-being, and workforce maintenance.¹⁹

Competing pressures challenge private sector responses

As expectations from consumers, investors, and policymakers have evolved, prominent business leaders have also begun to advocate for corporations to account more explicitly for a broader range of stakeholders. In 2018, Larry Fink, CEO of BlackRock, argued in his annual letter to CEOs that “companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.”²⁰

The World Economic Forum, which has long advocated for stakeholder capitalism, released a new “Davos Manifesto” in 2019 that proposed creating new metrics for “shared value” and asserted that improving the state of the world is the “ultimate purpose” of businesses.²¹ In the same year, the Business Roundtable, an association of the CEOs of many of the largest US companies, released a new “Statement on the Purpose of a Corporation,” in which it argued that the language of shareholder primacy “does not accurately describe the ways in which we and our fellow CEOs endeavor every day to

create value for all our stakeholders, whose long-term interests are inseparable.” The statement also articulated a commitment to delivering value for all stakeholders, and explicitly included customers, employees, suppliers, communities, and shareholders among them.²²

Individual business leaders have also called for corporations to take on a greater role in addressing societal issues. For example, Indra Nooyi, former CEO of PepsiCo and board director at Amazon and Philips, told the *Financial Times* recently, “Companies like ours are little republics. We have market capitalisations bigger than many countries of the world. We are engines of efficiency. We can make change happen without having to go through political systems. We ought to lean in to work on these issues.”²³ This rhetoric around business addressing social issues has become commonplace, including among bankers: Citi’s CEO Jane Fraser said in 2022, “From COVID-19 and climate change to systemic racial inequity and a transformational war in Ukraine, we continue to see the need for businesses like Citi to step up and help address the global challenges facing our society. The health of our business is inextricably linked with the health of our planet and our communities, and we cannot succeed at one without the other.”²⁴

Yet, while banks have publicly embraced ESG, many of the bank leaders with whom we spoke were skeptical about expectations that banks can or should play a leadership role in addressing societal challenges, and bank leaders face competing pressures as to how they should respond to societal issues. Over the last year, a backlash against ESG and related attempts to broaden the purpose of corporations and financial institutions—disparaged as “woke” capitalism by critics, including politicians who see it as a way to appeal to some voters—has gathered force. Some US state pension funds and others are blacklisting financial institutions that adopt certain policies, such as committing to reduce funding for carbon-intensive businesses. At the same time, companies face criticism for proclaiming intentions to

address social inequities but doing little to remedy the problems. They confront accusations of “greenwashing” for failing to follow through on climate commitments, with critics alleging that public environmental pledges are designed to divert attention from harmful business practices. Companies that have been vocal in their support for or opposition to politically sensitive issues have faced criticism from politicians and customers from both sides of the political spectrum.

Some large investors have also challenged the ESG orthodoxies that once seemed unassailable, including the assumption that meeting sustainability objectives would increase financial returns: Vanguard’s CEO Tim Buckley withdrew the firm from the Glasgow Financial Alliance for Net Zero, claiming that meeting their fiduciary duty to clients would be difficult while also committing to align its assets with the 2050 net-zero target, and put the onus back on politicians to address these issues.²⁵ Even those committed to the idea that taking account of sustainability drives long-term value creation are modifying their approach. For example, Larry Fink has softened his tone in recent comments: his 2023 letter did not reference ESG or speak of stakeholders, focusing instead on clients’ financial interests.²⁶

The banking crises in 2023 have certainly diverted attention from a focus on societal challenges in banking. At the same time, they emphasize the importance of trust, the incredible speed with which it can be lost, and the need for bank leaders to be proactive in communicating with their stakeholders about the issues that matter to their long-term sustainability.

These shifting, often competing pressures only further underscore the need for boards and senior management teams to set clear direction in keeping with their agreed and articulated core purpose, values, and business objectives, which need to take into account broadening expectations, rather than reacting to the shifting whims of popular opinion or politics.

Meeting the governance challenge: a framework for bank boards

Responding to societal issues necessitates a more holistic approach to governance, strategy, and risk management from global banks. The complex interplay among stakeholder expectations, business objectives, and social purpose requires a framework to ensure a strategic response. Referring to net zero commitments, for example, a 2022 report on ESG oversight noted, “It’s not possible to set goals of this scale without transforming every aspect of your business strategy, and consequently the board’s role in strategy design and oversight for performance.”²⁷ Responding to the range of issues now confronting boards also requires a proactive approach, rather than reacting to disparate challenges as they emerge. One bank director observed, “We’ve seen lots of examples of companies feeling the pressure in the moment and reacting without having really thought through the consequences of a statement or pronouncement. On climate, for example. I think some have made commitments without thinking through how you actually get there.” Any resulting failure to deliver on those commitments can compromise trust, which is a crucial ingredient in addressing environmental and social challenges that may require short-term tradeoffs to achieve long-term benefits. Boards need to trust management, and investors and employees must trust both. A strategic framework can help create systems to foster that trust among stakeholders.

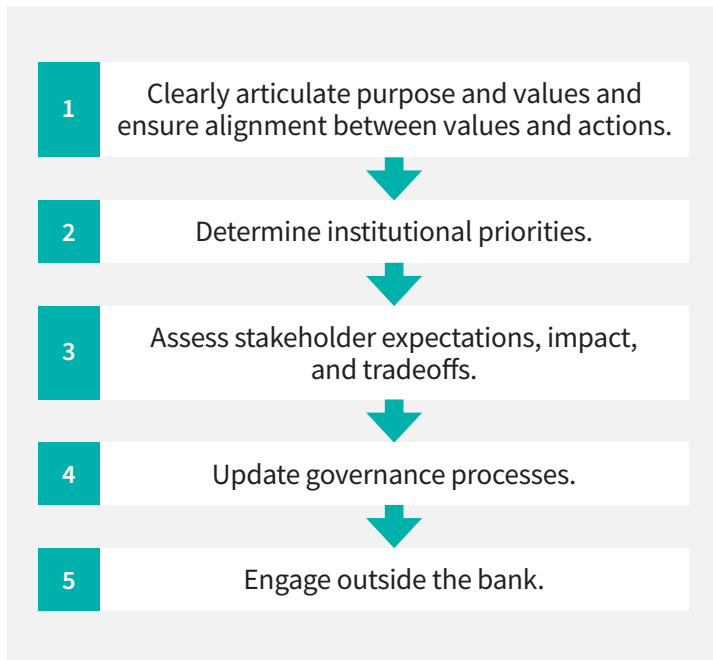
A director noted the shift in board engagement on societal issues: “These were not really board issues until a few years ago. We started a discussion about, ‘How do we think about these issues? What are the guidelines?’” Another director emphasized the need for the board to oversee what can become highly personal: “Where I think it’s dangerous is when it becomes more evangelical, which is often



driven by the particular interests of the CEO. That’s why this is a board-level issue, not just an executive-level issue.” As a result, said another bank director, “Every company needs to have a strategically thought-through framework of how they think about these issues which guides their decision making, so at least you start from a set of principles. If you then decide that you want to deviate from it, you can do so clearly. And I’ve seen very few frameworks in place as to how people think about where is it right for them to engage, and where is it wrong for them to engage.”

“And I’ve seen very few frameworks in place as to how people think about where is it right for them to engage, and where is it wrong for them to engage.”

Conversations with board members and senior executives from leading banks suggest a basic framework for engaging with environmental, social, and political questions that includes the following elements:



1. Clearly articulate purpose and values and ensure alignment between values and actions

In a discussion with bank directors and executives in 2021, an investor suggested that effectively addressing ESG issues in banking required first answering a fundamental question about purpose: “*What is a bank’s role in society? Until CEOs globally answer that, there will always be something to be fixed from an ESG standpoint.*” While boards and management teams cannot ignore external voices, conflicting demands require them to set their own course, anchored in an agreed purpose and accompanying values to guide decision making. One director said, “*You have to decide, what are your values? And at a high level, what are your principles?*” Establishing clarity on corporate purpose, values, and principles provides a foundation upon which to make decisions about when and how to take on societal challenges or take public positions on social or political issues. Clarity of purpose and values also helps companies justify their actions to internal and external stakeholders and can provide competitive advantage in attracting customers and employees.

Clearly articulate purpose and how it translates to company values

The board and management should develop a clearly defined purpose statement that employees can understand and articulate. A bank chair described the process their board adopted: “*We came to the view that we should have a new purpose statement.*” That statement consisted of two primary components. Both included references to social impact, including climate transition. As a result, this chair said, “*On things like climate change, it makes it part of what the bank does; a good thing to do, but also compatible with our long-term strategy for growth.*” Another bank chair described a similar process: “*Earlier this year, we rearticulated our purpose. It is driven by four strategic pillars: focusing on our strengths, energizing for growth, digitizing at scale, and transitioning to net-zero. That act in itself was significant.*”



Boards should have explicit discussions with management about what the bank's core purpose means for strategy and the values that will help steer bank leadership as they respond to societal issues. A clear set of core values that guides decision making can help boards and management teams avoid being overly influenced by the competing voices calling for action on particular issues, as well as help them deliver a consistent message.

Align with actions and communications across the bank

The next step is ensuring that the purpose statement and company values are translated into behaviors, embedded in the culture, and tied to policies and measurable objectives. A director observed, *"Purpose has to have governance around it; you can't discuss it once per year. It needs time, it needs the right people, it needs cultural buy-in, it needs senior people to keep pushing."* Another contributor noted the importance of alignment: *"Public statements are visible, high profile. But this is also about policies, communications to employees, decisions about where you choose to headquarter the business, what is in the sustainability report, and political contributions. There is a spectrum of corporate actions and communications. All are attackable by activists. Boards have to think multidimensionally to ensure they are all aligned with purpose."* A director said, *"The only way to navigate these issues is to have a very clear policy and to be consistent about it. You can't try to cater to all sorts of different audiences. You can't govern by walkout."*

"The only way to navigate these issues is to have a very clear policy... You can't govern by walkout."

Boards should concentrate on two key areas:

- **Linking with business planning.** A report from Nestor Advisors on governance of sustainability notes that few banks have fully integrated sustainability objectives into their strategies. Instead, they have stand-alone sustainability strategies that amount to "a set of firm-wide aspirations and long-term objectives that is not necessarily hardwired to the business." By contrast, BNP Paribas, France's largest bank, is an example of one that "presents a full cascade of its sustainability strategy into its business planning." Its strategy starts with a set of commitments that are translated into a series of actions that are then assigned to the operational plans of various business units.²⁸
- **Communicating consistently to stakeholders.** The chair of a bank board noted that *"Even simple statements of purpose and values can send a signal to employees,"* and banks can gauge how well these statements are resonating via surveys. It is important that the bank's purpose is clearly articulated in simple terms that resonate with employees across the organization. Boards should understand the range of communications and actions banks are taking around societal issues to ensure alignment with stated purpose, with a focus on three key areas:
 - » External statements and commitments, including public disclosures.
 - » Lobbying and political donations, including via industry associations.
 - » Internal communications, including company newsletters.

Banks increasingly include stakeholders in purpose statements

- Citigroup, which refers to itself as the “leading global bank” because it operates in more countries than any other, has a simple mission statement: “We responsibly provide financial services that enable growth and economic progress.” Within that mission statement, Citi says, “We ask our colleagues to ensure that their decisions pass three tests: they are in our clients’ interests, create economic value, and are always systemically responsible. When we do these things well, we make a positive financial and social impact in the communities we serve and show what a global bank can do.”²⁹
- JPMorgan Chase, the largest bank by assets in the United States or Europe, included in its annual letter to shareholders support for adopting the language used by the Business Roundtable in its Statement on the Purpose of a Corporation from 2019. That statement endorsed “a modern standard of corporate responsibility: to serve all stakeholders.”³⁰
- HSBC, Europe’s largest bank, includes in its purpose statement a commitment to “helping to create a better world—for our customers, our people, our investors, our communities and the planet we all share.”³¹

2. Determine institutional priorities

Even the largest global banks cannot attempt to address every major societal challenge or take a position on every political issue, nor would they have credibility if they did so. Boards and leadership teams need to prioritize when and where to engage: “You choose the things that really matter to you, so it’s a strategic board-level conversation,” said one director. Another director said that discussion of what issues to tackle “starts with the full board mapping all of the different areas we have to cover.” Engagement decisions should flow from corporate purpose and values coupled with assessments of where the organization is positioned to make a meaningful impact on an issue or where societal issues are material to its business. One director said, “There are too many examples of where people have spoken out on issues that are tangential, or they’ve chosen not to speak out on something that is core, and people have said, ‘Well, I know you’re saying one thing over here, but you are not speaking out on this thing that

runs counter to that.’ So, for me, it comes back to being really, really clear about your purpose and your values and making clear that you are speaking out and acting on societal issues when they get close to what you are or what you say you are.”

Another director said, “The key question is, ‘How do you identify areas where you can make a difference, embed that with strategy, and set targets for management?’”

Another director agreed: “It is about being selective and tying it to your business, by identifying those issues that are connected to your business that have a social and environmental impact.”

“The key question is, ‘How do you identify areas where you can make a difference, embed that with strategy, and set targets for management?’”

3. Assess stakeholder expectations, impact, and tradeoffs

Any serious discussion of banks' role in addressing societal issues must acknowledge the challenge of making tradeoffs between and among financial performance and environmental and social objectives. One director described a simple model: *"As you think through these issues, you end up within a tripod of shareholder value maximization, maximization of societal value, and maximization of the employee proposition. I think those things are all essential. None of those individually is right; collectively they are all right. So, you have to balance between those. I think boards are facing that dilemma."*

Boards remain accountable to shareholders, but protecting shareholder value is growing more complex

The chair of one large bank said, *"I am always conscious of having a shareholder orientation, so we are not just saying we will be popular by spending shareholders' money."* While the objectives of shareholders and other stakeholders are often aligned, they can present conflicts and tradeoffs:

- **Boards need to consider when accepting short-term losses may create long-term benefit.** A participant observed, *"You need to have a discussion about potentially forgoing some short-term profit for the sake of long-term value, but some board members are afraid to think it through because of a sense of fiduciary duty, a fear of shareholder lawsuits."* An investor noted, *"Sustainability is not a linear journey. You may have to go backwards or sideways to go forward. Transmission levers of action may not exist yet. It is hard to understand the nuances of individual journeys. We try to encourage companies to think as far ahead as they can and give them space to make changes."*
- **Investors say sustainability remains about creating value.** Investors with whom we spoke noted that their focus on ESG is about generating financial value. One portfolio manager from a leading asset manager said,

"... you end up within a tripod of shareholder value maximization, maximization of societal value, and maximization of the employee proposition."



"Our mandate is to make sure alpha is coming alongside the sustainable behaviors. Social impact is not part of the sustainability mandate for us. Our job is to make sure the behaviors that we are encouraging are enhancing alpha." Another leader from an institutional investor agreed that ESG investment should be linked to long-term value: *"We need to get back to the definition of what ESG actually is. ESG to me is a way of analyzing a security. It's not about fixing income equality or solving other social ills. It's a set of data points and information which help us analyze and invest and generate outsized returns for clients over the long term."* Another investor observed, *"Historically, you looked at investment and stewardship differently, separately. Over time, physical climate risk is becoming financial risk. So, people who care about profit and those who care about the environment are aligned—both want emissions down. One cares about global warming; one wants more profits. They have different motives, but objectives are aligned. If you do something unsustainable—using too much energy, treating suppliers badly—for long enough, that has a large financial impact on returns."*

Another participant with whom we spoke agreed that shareholder value and behaving in a socially responsible way are inextricably linked: *“A sustainable business, with a sustainably valuable profit stream that creates value for shareholders, now means that you have to address the issues of sustainability, fairness, and what is acceptable or unacceptable behavior.”* Sometimes these social goods and shareholder value are neatly aligned. For example, for a bank with a significant presence in emerging markets, investing in financial inclusion there could promote social welfare while also broadening its customer base. Financing the transition to sustainable energy offers another example, as it could present a massive opportunity for financial institutions.

A bank board chair said, *“Creating shareholder value remains the overriding concern and most activities of corporate social responsibility or contributing to societal objectives ultimately benefit shareholders. Doing so attracts talent that wants to work for companies with a purpose. Customers want to do business with you if they see you as supporting social objectives. More broadly, having a stable and prosperous society creates a healthy environment for a bank to operate in.”*



“Creating shareholder value remains the overriding concern”

Assess tradeoffs among competing social goods

There are circumstances when banks will have to consider tradeoffs among distinct social goods. Management teams and boards, therefore, need a mechanism to enable a discussion about competing objectives and to evaluate and assess potential tradeoffs. Participants offered some examples:

- **Promoting a “just transition” to sustainable energy.** Many stakeholders emphasize the need for a “just transition”—decarbonizing the economy without imposing undue economic harm on consumers, populations that are economically dependent on the fossil fuel industry, or emerging economies. A director said, *“I don’t think there are enough balanced discussions about this tension between E and S [environmental and social], and it’s already having an enormous impact on people we care deeply about in our communities.”* Another said, *“We have a challenge having a balanced discussion, acknowledging some of the costs involved and the economic impact. Or looking for ways to make incremental progress, like moving from coal to natural gas. That would be a net positive, but natural gas is still a fossil fuel, so it is difficult to have that conversation.”*
- **Supporting human rights in foreign markets.** An executive noted that even in a case that may seem straightforward—supporting LGBTQ+ rights—their institution faces competing priorities among stakeholders. For example, the executive pointed out, Nigeria is among the fastest growing markets in the world but has a poor track record on LGBTQ+ rights. Banks operating there could use their influence to try to drive change, but speaking out on that issue would put the banks’ employees in the country at risk of attack. A similar tension applies to financing solar battery development in China, where there are

concerns about the use of slave labor, the treatment of ethnic minorities, and the methods of sourcing materials. The objective of scaling clean energy may run counter to support for human rights.

Incorporate employee and customer views and expectations

While purpose and values need to guide decision-making, boards and senior teams cannot operate in a vacuum. Public opinion, customer sentiment, and perhaps above all, employee perspectives, should be factored into how companies engage on social, environmental, or political issues. This is necessary, and challenging, because there is often no consensus among investors, customers, and employees—or even among board directors and management—as to the “right answer” regarding many of the politically contentious issues about which banks are asked to take a stand. One bank director said, *“The challenge for us is that we have a very broad customer base that covers the entire political spectrum. It’s the same with our associates—in every part of our company, there are people who would have different views.”* Another director agreed: *“If it’s an issue where employees are divided or customers are divided, I don’t think it’s incumbent on companies to become partisan on contentious social debates. That won’t help unify employees or win credibility with customers.”* In fact, another cautioned, *“The US political backlash has brought to the fore that it is very dangerous to get out ahead of public opinion.”*

One prime example is the competing pressures from conservative and progressive politicians and policymakers over fossil fuel financing related to their pension investments. By mid-2023, more than a dozen US states had announced policies to blacklist financial institutions for their climate commitments, including divesting pension funds from those institutions or prohibiting them from bidding on state contracts.³² In late 2022, a group of liberal state and municipal treasurers, including those from California, Massachusetts, Illinois, and New York City, established

“If it’s an issue where employees are divided or customers are divided, I don’t think it’s incumbent on companies to become partisan on contentious social debates.”

a network designed to support fellow state and local officials “in leveraging the power of their offices to deliver long-term economic growth and prosperity for their beneficiaries, their constituents, and our country by advocating for more sustainable, just, and inclusive firms and markets,”³³ a clear response to the actions of Republican-controlled states.

The debate over Brexit in the United Kingdom provides another case study. Some banks were pressured by the UK government to advocate for remaining in the EU but recognized that many of their customers and colleagues supported the “leave” campaign. Even when a bank might have determined that remaining in the EU was in its best financial interest, fear of reputational impact and political backlash made bank leaders reluctant to advocate publicly for that position.

Boards should seek ways to understand stakeholder sentiment. Giving due consideration to employee and customer perspectives requires mechanisms for funneling information to senior leadership and the board. Bank leaders can use various tools to gather insight into stakeholder perspectives:

- **Employee surveys.** One director said, *“We pay a lot of attention to our engagement scores in our associates and are aware of the pulse of the company. The board is very aware of where that is. We also do a lot with customer feedback and even consumer advocacy groups. So, there are lots of ways to understand how the people you’re impacting and want to positively impact feel on a daily basis, rather than what is playing out in the headlines. We’re more guided by that than by the external pressures.”* Another director shared a similar practice: *“Every year, we do a comprehensive survey of all of our*

colleagues. Every comment that comes in goes to the CEO and the board. I read every comment—good, bad, and indifferent. There are themes that come through.”

- **Stakeholder mapping and engagement.** An increasingly common practice in banks is stakeholder mapping. In Europe, 87% of large banks disclose their stakeholder map and engagement plan. Some have established specific departments for stakeholder engagement.³⁴ Barclays, for instance, identifies four stakeholder groups—customers and clients, colleagues, society, and investors—and details its engagement strategy for identifying and responding to their concerns. The strategy includes distinct numeric key performance indicators (KPIs) to assess its success in meeting the needs of each group. For example, the KPIs for the society stakeholder group include operational and financed greenhouse gas emissions, sustainability-linked financing, and the number of people trained in new skills or placed into jobs through the bank’s skills development program.³⁵ Citi similarly maps out seven stakeholder groups—clients and customers, employees, suppliers, communities and NGOs, shareholders, government and regulators, and other financial institutions—and details how it engages with and serves the interests of each group.³⁶
- **Advisory councils.** One bank created a Stakeholder Advisory Council that meets regularly to provide direct feedback and perspectives that can be gathered and shared with the board. Another executive described developing an external diversity advisory council in the wake of an incident that created reputational damage. *“The council included over 30 individuals from various communities. These were paid positions, and [the company] convened them to advise us on diversity, equity, and inclusion issues related to the business and the workforce.”* Another large bank established what an executive described as a *“shadow executive committee of young employees,”* to provide the perspectives of younger colleagues and customers to senior leaders and to challenge those leaders’ own perspectives.

4. Update governance processes

Implementing a more systematic approach to integrating societal issues into their oversight requires boards to leverage and adapt existing governance structures and processes, including assessing and expanding the approach to strategy and risk management, clearly defining the board’s relationship to management around these issues, adapting management incentives and oversight, and enhancing the board’s capacity to oversee these issues.

Defining the role of the board

Governance norms vary across countries, creating a cultural component to how boards approach these issues. Some boards, such as those in the United Kingdom and Switzerland, often have chairs who take responsibility for setting strategic direction and serving as the public face of the bank. North American banks often define a more circumscribed oversight role for boards. Many directors, particularly at North American institutions, defer to management’s leadership on societal issues. *“We have a lot of confidence in management and how they navigate these issues,”* said one director. Another US director said, *“The board’s role is to hire management, and they have to navigate these things. You have to put the right people in place, who understand the values of the company, what we stand for and we’re trying to do.”*

Few banks have established any kind of formal threshold to define when issues should be discussed by the board, or which require board approval. An executive said, *“With the increasing focus on how we engage as a firm in public policy debate and the need to be transparent about that, I think we should extend that to define a process around where issues get escalated and what requires board*

You have to put the right people in place, who understand the values of the company, what we stand for and we’re trying to do.”

oversight. I wouldn't want to have to design that decision flow, but I can imagine it." A director observed, "Today, directors and boards are very aware that they need to have a framework for when and how to have a conversation and with whom, and when to bring it to the full board."

Generally, participants agreed that the more strategic an issue, for example where a particular course of action would meaningfully influence capital allocation and/or market choices, the more likely boards are to engage directly. Some choices, like making emissions reductions commitments that require pulling back on fossil fuel financing, will have a direct impact on strategy and clearly require board involvement. Similarly, the work of defining and articulating statements of purpose, values, and principles should include board debate and approval. Participants identified other considerations when assessing board involvement:

- **Reputational risk is a key driver of board engagement.** "The reputational risk lens is the one you put it through," said one director, who continued, "In cases where you have more options, it usually is the reputational risk lens that determines what comes to the board, and the threshold on reputational risk at the moment is reasonably low for matters coming to a board." An executive noted how reputation risk is driving ever-greater scrutiny of individual bank decisions: "Our reputational risk committee is busier than ever in considering even individual transactions in this environment." Another director reported, "It is part of the risk framework: can we satisfy ourselves that we are not at risk, including reputational risk? The board serves as a sounding board for reputational risk."

- **Boards should ensure management has formal decision-making processes around societal issues.** The board will not make every decision around societal issues, but as the risk around responding to these matters grows, boards should understand the process by which management is assessing risks and making decisions. This includes assuring themselves



that management has a strategy in place for addressing sustainability issues in a systematic way, rather than responding to issues as they emerge. A bank chair said, "The board is more focused on process; the discussion is around whether we have a process for when something happens politically. Do we know how to respond? Does the risk-appetite framework guide us in making a decision? Was there a committee tasked with making the decision? Was the risk function included?" Another director described a similar approach: "In determining how to respond to these societal issues, the board focuses on the process involved: Has the issue been worked through on a risk-appetite basis? The board asks, 'Have we got a process here?'"

Refining risk oversight

Defining how banks respond to societal issues is a matter of managing risk in a world where the nature of nonfinancial risks has changed significantly in a relatively short period of time. As stewards of long-term strategy and reputation, bank boards are being asked to oversee a range of concerns that are growing along with associated reputational risks. Directors shared perspectives regarding how they are making risk-based decisions:

- One director said, *“We talk about dollars and cents because everyone, regardless of their personal beliefs, can understand. So, we don’t say, ‘We won’t lend to gun manufacturers.’ We ask, ‘Is the risk of exposure to a gun manufacturer different today than it was?’”*
- The chair of a bank board reported, *“If companies are climate deniers, we’re not going to do business with them, but not because we don’t like them or we think they’re immoral or the wrong religion. But because we think it is too risky from a business point of view. In other words, they’re not as good a risk as a company that has a net-zero plan and is working on it.”*

Most banks are incorporating these issues into existing risk frameworks. One bank risk committee chair said, *“You have a risk management framework, and we have adapted those to heightened standards, which helped. Now, you can use that framework for various risk categories. This is not substantively different than other risks, other than reputationally, or potentially, from a regulatory standpoint.”* Others agreed that these issues should not be viewed as separate risks. One risk executive asserted, *“ESG issues go straight through to the bottom line, and ESG affects every risk in your taxonomy.”* Others suggest these issues are, in the words of one director, *“so fundamental to how we do business,”* that they require *“a wholesale cultural shift. We’re*



“talking about a lot of little discrete things, but it’s going to be a significant wholesale change when we get to the end of this journey.” Boards and management teams continue to expand risk management to ensure that environmental and social issues are embedded in business decisions.

Doing so may require developing or adjusting risk taxonomies. A risk committee chair noted the challenge they face in integrating such a wide range of external risks into their oversight: *“What I think most about is how to bring to risk committees a way to take account of nonfinancial risks in a more structured, less ad hoc way. It’s not just about identifying the risks; it’s about managing and overseeing the risks.”* Another risk committee chair described a similar objective: *“I am interested in how we parse these risks. One of the things which is hard to fix in your mind is what the different categories are and how to be comprehensive, and then determine how well we are managing them.”* Boards need to develop language to discuss these societal issues in the way they discuss other material risks and determine where they can integrate these risks into existing categories and taxonomies, or where new categories need to be created.

Boards also need to help establish their banks’ risk appetites in these areas, and ensure these risks are being monitored and influencing decision making at all levels. For example, some banks have adopted carbon budgets for individual businesses, or adopted diversity, equity, and inclusion criteria for underwriting. Establishing a risk appetite for social issues can help banks avoid issues in the future. One bank chair noted how their institution’s discussion of risk appetite led to the determination that business in one area was simply *“too risky, a mistake too costly.”* This meant that *“when the government policy on the issue came out, we were prepared.”*

“ESG issues go straight through to the bottom line, and ESG affects every risk in your taxonomy.”

Yet, few would say they have integrated these risks effectively into their existing risk appetites or developed risk appetites for areas such as climate change: “Articulating climate risk appetite across the business is a challenge,” reported one executive, adding, “We are trying to assess how material transition risk is to different businesses and add it up to a group climate-risk appetite, but we have to determine how much is driven through the second line, risk, vs. using a scenario in the frontline businesses to determine how we think our business will be impacted and create risk appetite from there.”

Adapting governance structures and enhancing board expertise

Boards are considering how to organize board oversight and ensure they have sufficient expertise to understand the complex interplay of issues affecting their businesses:

- **Revisiting board structures.** The broadening scope of issues makes committee ownership of them correspondingly difficult to establish. Some bank boards have created committees dedicated to sustainability or responsible business, though many see these issues as full-board responsibilities. Some have renamed existing committees, adding corporate responsibility or related terms to a committee name. “The change in name shows that it needs a lot of effort and that it needs constant monitoring, checking, and so on to move it forward,” reported one director. Other boards are expanding existing committees’ mandates. One reason ESG has often ended up with the nominations and governance committee is so that committee can effectively assign details to other committees and ensure the board has the right composition to oversee the range of issues at hand. Often, strategic issues are covered by the full board, disclosure and reporting at the audit committee, risk at the risk committee, and so on. Where a sustainability or related committee exists, it will often have overlapping membership with other committees and sometimes hold joint sessions with other committees.

87%

of institutional investors in Europe said they want bank CEOs and chairs to have a clear public position on big social issues.

When asked which issues were most important for a bank CEO to address publicly...

87%

cited social inequality



84%

cited climate change

Source: Edelman Trust Institute

- **Updating management governance.** Management governance is also evolving. A bank director stated, “It has to be a management-led and business-led process, because if the frontline operators, the people who actually interface with the clients, don’t see this as a business imperative, don’t see whatever you decide is your policy as a business imperative, you will get zero execution.” One bank established a management reputational risk committee that “takes on review of any credit, any business relationship, any initiative that might rise to the level of a question of alignment with the bank’s purpose, brand, reputation, etc.” and regularly engages with the board on such issues. Most banks have a chief sustainability officer or head of responsible business, but questions about accountability are common, since the chief sustainability officer may be responsible for sustainability initiatives, but accountability for delivering on specific goals may lie with the leaders of business lines or functional areas.

An executive said, “How you deal with these issues depends on whether you see this more as a compliance issue or as a business opportunity. That determines a lot



about how you allocate resources. We have decided that all business development teams have dual reporting to the head of sustainability. So, we don't have a function from a compliance standpoint and another function focused on business. We have put it all in one, reporting to the chairman and CEO and all business units."

- **Including action on social issues in both short- and long-term performance management and incentives.** "It's about really embedding purpose in the business and making it part of performance management systems," said one bank director. Most banks now include ESG-related metrics in their incentive compensation programs. A bank chair noted the importance of linking long-term objectives that include social goods to pay metrics: "It goes into remuneration—we look for the CEO to lead on collaboration in making progress. We set clear goals—making sure, for example, we are meeting goals on things like lending to women-owned small businesses. So, these things fit within the existing governance frameworks." Another director stated, "Management's targets have to be measurable and clear. And tied to compensation." Yet, there is work to be done to ensure these incentives—which are still often short-term in nature—are linked to long-term sustainability.

- **Developing new board competencies.** One director said, "This is almost too complex to do. It's a challenge for any board member; we are overloaded with information and short of education." In response, some boards have begun incorporating sustainability or environmental backgrounds into selection criteria as they recruit new directors to the board. However, many directors are resistant to seeking out such specialist directors, preferring to develop the necessary competency in other ways: through director education, the use of advisory committees, or consultants to the board. One bank director summarized the challenge: "We're trying to get geographic representation on the board, we're trying to get functional skills, diversity, get legal, human resources, tech, risk, banking, ESG, asset management, investment banking and retail banking, government understanding and some economics and monetary policy types, and you just can't do it." As a board chair said, "There is no limit to the expertise we can access and consult, but there is a strict limit to the number of people we can put on the board." Credibly challenging management doesn't always require deep expertise. "I don't think our job is to second-guess management. It's to raise issues, and I think you can raise questions without having to be an expert," said one director. Another said, "It is not always beneficial to add more people to the board. At some point, larger boards are less effective and tend to be more deferential and cede more control to the chair." Boards need to find ways to ensure they have access to the education and advice necessary to inform board discussions on issues outside many directors' expertise, and about which little historical precedent can guide decision making.
- **Improving metrics and reporting.** While there has been considerable progress toward a more data-driven approach to ESG reporting, there is still a long way to go toward building greater confidence in that data, and boards still lack a clear sense of the type of reporting they should expect from management. Setting forward-looking targets (especially around climate change), defining a strategy to reach those targets, and measuring progress is even more challenging.

Some financial institutions are adopting more advanced ways to measure and mitigate environmental and social risks. For example, one investor is working with companies on a new process for assessing climate risk, called an Abatement Capacity Assessment. The process involves identifying the sources of emissions and putting them into buckets—those that are technically and economically feasible to fix, those that are technically feasible but noneconomic (and need better pricing), and the those that are not technically or economically feasible today—to determine the path toward mitigation.³⁷

5. Engage outside the bank

Bank leaders are expected to take public positions and make commitments regarding societal challenges. But no single institution, or even the banking sector globally, can successfully address the environmental, social, and political issues affecting the operating environment. Institutions must coordinate within the sector to identify industry-wide responses to societal issues, better coordinate across the entire private sector, and ultimately, work more effectively with governments to help develop policy responses that will support and incentivize private-sector efforts.

Assess the value of making public commitments or statements

Banks are under pressure to make public commitments and statements on a range of societal issues. But doing so opens them to scrutiny, and risks alienating significant parts of their customer and employee bases.

Directors are cautious, but stakeholders expect companies to take a stand

Directors worry that business leaders lack not just political legitimacy, but also credibility to speak out on social or political issues: “*Business people are credible with*

“Do what’s right; you don’t always need to be speaking about it. The spouting whale gets harpooned.”

the general public when they talk about business issues; when they start talking about social justice and politics and all that stuff, they’re not credible,” stated one bank chair. Another director suggested, “*Do what’s right; you don’t always need to be speaking about it. The spouting whale gets harpooned. So, we should try not to spout. We have employees and customers on all sides of these issues.*” Banks, maligned as among the primary contributors to the global financial crisis, have been especially cautious about speaking out. An executive from a UK bank noted, however, “*The financial crisis cast a long shadow here; we didn’t feel we had a right to have a point of view. I think that is changing.*”

One director reported that, after making a policy decision, “*Then you have the decision tree of do I do it publicly? Or do I just respond through my normal internal staff channels?*” Making that decision entails a range of considerations, including assessing reputational risk—of either going public or of remaining silent—potential backlash, and employee sentiments.

For example, following the 2022 Dobbs decision from the US Supreme Court overturning Roe vs. Wade, some banks with US operations decided that they would reimburse employees’ travel expenses for abortion care if they lived in a state that banned the procedure. A few did so with public statements opposing the decision. One bank chair said that their management team and board arrived at the same decision on policy as those that made public statements, but decided against making their position public. The bank felt that the act of making a public statement “*would just be poking Republicans in the eye,*” along with a significant portion of their employees and customers. According to one expert: “*Not every business needs to go out and make a public statement on an issue. This is also about operating within your values. Advertising those values is different.*”³⁸

“The CEO should inform the chair before they go public. The risk is too high.”

On the other hand, public commitments can lead others to follow. Speaking about the benefits of climate commitments, a bank executive said, “Commitments regarding the future create demand that can mobilize investment. We cannot wait for consensus; we cannot wait for the last one to agree.”

And corporate leaders face strong public pressure to take a public stand on societal issues. According to Edelman’s 2023 Trust Barometer, most respondents globally say that businesses are not doing enough to address societal issues, including climate change, economic inequality, and energy shortages, while less than 10% say businesses is overstepping in its engagement on those issues. Over three-fourths of respondents say they want CEOs to take a public stand on climate change, discrimination, and wealth inequality.³⁹

Given the complexities and risks involved, boards increasingly need to weigh in on decisions to go public. A director reported, “We requested that if management is taking a public stand on anything sensitive that the board be informed, even if it is over the weekend. The CEO should inform the chair before they go public. The risk is too high.”

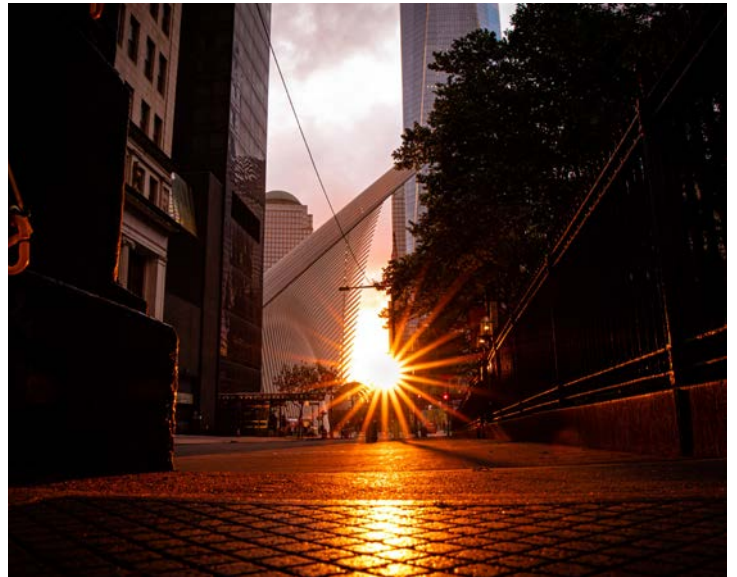
Many considerations drive decisions about taking a public position

Determining whether, when and how to make public statements involves a series of considerations, including the nature of the issue and its relation to banking, the bank’s ability to effect change, and consistency with the bank’s business practices:

- **Avoid conflicts with the institution’s current business practices.** Companies run the risk of being labeled hypocrites if their public statements, even aspirational ones, do not align with their actions. A director

warned, “How do you speak on issues like DEI and economic equality and then have plants in places like China, or talk about voting rights in the state of Georgia and do business in places where people are truly oppressed? Once you make commitments, you have to measure them and report on them. People are trying to do the right thing, but once they are public, if you miss the commitment, or don’t measure it correctly, then you can get regulators, activists, and lawyers after you.” For banks, those accusations can extend to actions not just by the bank, but by any client with whom the bank has a commercial relationship.

- **Focus on public statements on issues that align with the bank’s purpose.** Just as there is risk in making public statements or commitments, there is risk in not doing so if customers and employees expect the company to take a stand. Public pronouncements can be beneficial if they align with a core value or business of the organization. A director recalled an example of when taking a public stand can make sense, describing “a particular piece of legislation that we felt very strongly about. And we felt it was absolutely aligned to who we were and what we did, and that it resonated with the vast majority of our customer base. So, we spoke out about that publicly.”



- **Consider how norms are evolving.** While bank responses to societal issues need to be grounded in purpose and values, they also need to adapt over time to ever-changing public norms and shifting public sentiment. A bank executive observed, “We sponsor Pride and every year we get letters from customers condemning us for it. Fifteen years ago, we took no position on Pride. But now public opinion has shifted, and you have to take a stand. So we do, but is that a change in corporate values or a shift in public opinion changing the risk profile in a way that requires you to take a stance?”

Bank efforts need to be supported by policy and coordinated action across sectors

Making meaningful progress on issues like climate change, racial equity, and income inequality requires coordinated action within the banking sector, between banks and other industries, and between the public and private sectors. Climate change again provides perhaps the most illustrative case: “Banks can’t drive the world there. It won’t happen,” said one participant. According to another contributor, “The economy has to evolve; government policy has to be committed. Part of the challenge is that we are so short-term oriented in our world. But solving this requires such sustained commitment that goes beyond CEO and politician tenures. So, we have to work collaboratively to evolve to navigate complex risks.”

While big investors like BlackRock, Vanguard, and State Street have been clear in their expanding expectations for companies regarding social and environmental issues, one US investor stated, “Even the largest companies can’t do this on their own. Even the Chamber of Commerce, the Business Roundtable, you’re not going to solve these problems. It is very difficult for one institution to push back, even for Larry Fink at BlackRock. But these are big societal issues. These financial institutions are going to get beaten up, but if you try to do this through the private sector, then they are going to run into the problem of, ‘Well, which group of investors do we listen to and pay attention to?’”

Coordinated efforts within the banking sector are increasingly challenged

The banking sector has seen a range of efforts, some stretching back decades, to promote coordinated action, particularly with respect to climate change. The UN Environment Programme launched its Finance Initiative in 1992 to drive sustainable finance. It created the Principles for Responsible Banking, a sustainable banking framework designed to enable banks “to align their core strategy, decision making, lending and investment with the UN Sustainable Development Goals, and international agreements such as the Paris Climate Agreement.”⁴⁰ In April 2021, ahead of that year’s UN Climate Change Conference of the Parties (COP26), the Glasgow Financial Alliance for Net Zero (GFANZ) was established to increase the number of financial institutions with net-zero commitments and to create a forum for addressing transition challenges. GFANZ acts as an umbrella organization for sector-specific alliances, including the Net-Zero Banking Alliance, a group of institutions representing some 40% of banking assets globally that have committed to aligning their lending and investment activities with achieving net-zero emissions by 2050.⁴¹

These high-profile efforts at coordination have generated significant commitments to emission reduction but have also struggled. For instance, despite the energy surrounding the launch of GFANZ in late 2021, a number of large banks in both the United States and Europe have criticized GFANZ for overly strict decarbonization requirements. One US bank executive told the *Financial Times* in late 2022, “I am close to taking us out of these global green commitments—I’m not going to allow third parties to create legal liabilities for us and our shareholders. It is immoral and irresponsible.” In the same article, a European counterpart said, “There is no way we are joining any new ESG groups, we don’t control them.”⁴² In December 2022, Vanguard withdrew from the Net

Zero Asset Managers Alliance, one of the member bodies of GFANZ, and 2023 has seen several additional departures from GFANZ affiliates.⁴³

A bank executive with whom we spoke questioned the credibility of these efforts: *“The Net-Zero Banking Alliance puts the expectations burden on us; we’re in the driver’s seat. Philosophically, it doesn’t work.”* In addition, this executive said, *“We are tracking to those numbers, but it comes at the cost of exiting business and saying no to business, while also meeting Sustainable Development Goals and trying to achieve a just transition. It is not translated into real-economy impacts; if we’re not [financing fossil fuels], someone else is. Policymakers are deflecting responsibility—the politicians will say, ‘We put it on the banks, and they couldn’t do it.’”*

Some participants noted that they operate in a competitive market; banks could see a competitive advantage in being a leader on these issues, which would be undermined by coordinated action. In addition, participating firms now face claims that these kinds of collective actions represent collusion, violating antitrust laws.

Cross-sector collaboration will be challenging without supportive policy

Climate transition again illustrates the need to achieve alignment beyond banking. Given that the bulk of banks’ emissions are financed emissions, i.e., emissions generated by firms to which the bank supplies credit or other sources of financing, their emissions reduction goals are tied to the pace at which other sectors decarbonize. One director said, *“Banks’ ability to reduce their financed emissions is tied to when and how other sectors are going to get to net-zero. We have to get there in a coordinated way. Manufacturing is part of the solution, for example.”* The absence of cross-sector coordination makes it difficult for the banking sector to set meaningful emissions-reductions targets in the absence of clear and credible commitments from other sectors. As one industry leader said, *“Banks are being asked to sign a net-zero commitment,*

“It makes it challenging for banks who are intermediaries and there is not a fully cohesive joined-up policy approach.”

but they don’t know what the commitment is of the top 20 mining companies. So, what are they signing up for? It makes it challenging for banks who are intermediaries and there is not a fully cohesive joined-up policy approach.”

Banks must identify opportunities for more proactive engagement on policy

If global banks are being asked to take on greater leadership in addressing big global challenges, many leaders still insist that policy alignment is necessary to promote the genuine coordinated action necessary to make progress. A bank chair elaborated, *“The key is that there is a policy framework, so we can say we are not trying to make it up, we are not substituting for democracy and going beyond the legitimacy of politics, but we are rowing in behind a policy framework.”* Climate transition, highlighted by many participants as the biggest societal issue facing banking, was also the issue referenced most by directors, investors, and executives when asked about the need for policy to support private-sector efforts. Many participants with whom we spoke see limited capacity for financial institutions to drive progress without government interventions to standardize requirements and affect behaviors at scale. One bank executive stated, *“Policy first and then the capital will flow.”* As one director said, *“We can set our individual climate transition plans, but what is the overall transition plan for society?”* Another bank executive put it simply: *“We are not going to get to net-zero without policy.”*

For banks to address major societal issues, bank leaders sometimes face what are, in effect, policy decisions. This gives many bank leaders pause. A director said, *“I am not convinced that corporates should step into the role of government, because I don’t think we have the legitimacy to do that.”* Another director suggested these decisions require

Collaborating to respond to COVID-19

The response to the eruption of the COVID-19 pandemic in early 2020 provides an example of collaboration between government and the banking sector in responding to an urgent global crisis. Banks played a pivotal role in setting up the infrastructure to deliver government relief funds to suffering businesses. In the United States, for example, the Paycheck Protection Program, administered by the federal Small Business Administration in collaboration with banks, delivered 11.8 million forgivable business loans, totaling \$800 billion. In the United Kingdom, the Treasury partnered with

banks to establish three loan programs to provide relief funds of nearly £80 billion, with the four largest UK banks distributing nearly £40 billion.

These initiatives, in addition to voluntary efforts to provide forbearance and support struggling customers, also had reputational benefits for banks, which were seen as providing support during the pandemic. As one participant said, *“Banking had a very good COVID. Banks were the front line, seen as a defense mechanism, facilitating government payments and offering relief.”*

democratic systems for accountability: *“Whoever sets policy has to be held accountable, and you are held accountable at the ballot box.”* Participants presented several policy questions as examples, such as whether to treat nuclear energy as sustainable, how rapidly economies should transition to sustainable energy, and whether business should be permitted to work with certain regimes.

The challenge of balancing energy transition with energy security and affordability is *“a decision,”* a bank executive asserted, *“that should not be left to banks and the financing community. It should be taken by governments.”* Making determinations at this level also puts banks at risk of public backlash: *“Our institutions should fear the same sentiments the politicians fear. If you are seen as architect of someone’s misery, because of energy financing decisions, for example, the sort of policy positions that lead to that misery need to be created by elected officials, not unelected bank CEOs or chairmen,”* one bank chair noted.

However, many bank leaders recognize that elected leaders are slow to act, fearful of the political

consequences of making difficult decisions. In addition, political leaders, like some corporate leaders, have their own priorities, and policy direction can shift rapidly with electoral outcomes. One executive noted, *“There is a mismatch between the long-term legal commitment to net-zero by 2050 with the fact that there will be at least 10 changes in government between now and then, and different governments will have different short-term priorities, which puts the problem back onto us.”* Even where governments establish clear, overarching policy directions, policy often lacks specifics, leaving banks to make concrete decisions and assess tradeoffs without clear guidance.

Banks and their industry associations tend to react to policy proposals or encourage governments to act without prescribing specific policies that could be helpful, leaving room for more proactive engagement to help inform policy. One director said that, in making a commitment to net-zero, the bank said, *“We will do everything we can, but for this to happen, government has to step up and make some material policy changes, because there’s no way that most entities can get there without some*

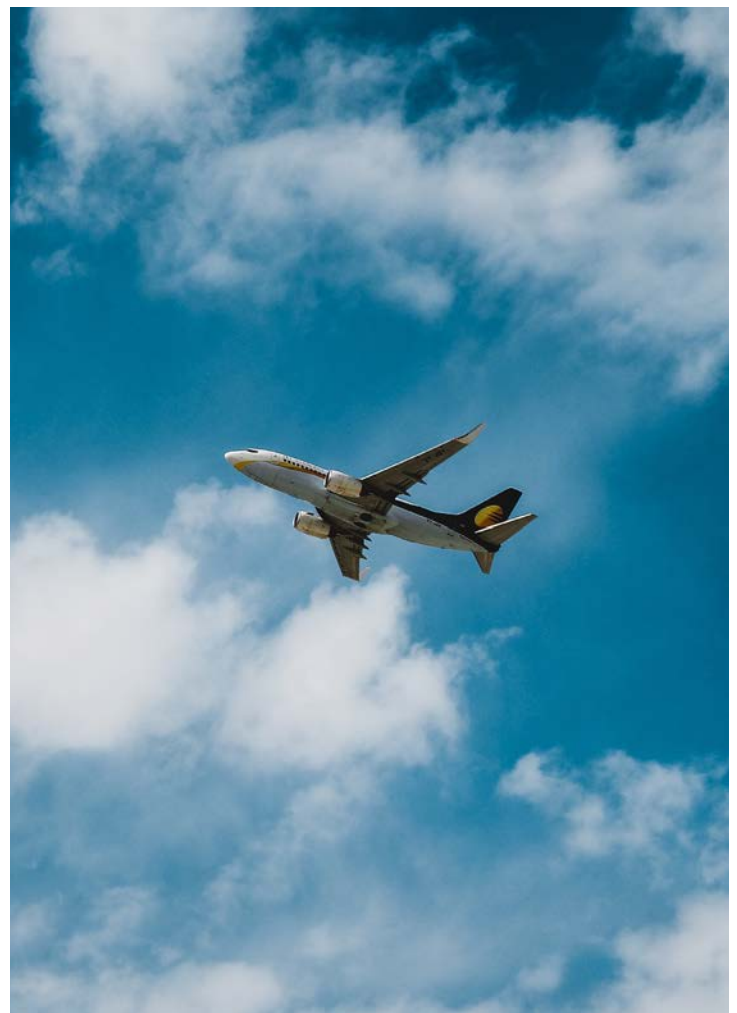
of that enabling. So that's where you can do a lot in terms of lobbying and influencing, and you can use the convening power of businesses and you can use the communication power of businesses to drive that, because that is legitimate.” A bank chair noted that CEOs and board chairs have a powerful voice with policymakers: “We do need to be more vocal regarding our views. CEOs are not briefed well enough on these issues. I am not sure some of the banks have done enough to define what policy would be helpful.”

Without defining the details of the kinds of policies that would be beneficial, bank leaders can at least make sure they highlight for policymakers the potential barriers they face and how policy might address them. One executive noted, for example, “*the mismatch between investor expectations and government’s stated commitment to net-zero without the policy commitments to get us there. So, we said to the government that pressure will mean we have to step away from coal and fossil fuels on a pace that may be at odds with the country’s energy needs, which raises energy-security questions. Unless the government does something about increasing alternative energy sources or changing demand, you may have a gap.*”

Participants shared examples of specific policies that could advance progress on climate transition:

- Patient, first-loss capital from governments for sustainable projects that are not yet bankable and for which bank financing would face significant capital charges
- Government-set carbon pricing
- Removal of fossil fuel subsidies
- Reform of permitting requirements for sustainable projects
- Standardization across banking via banking regulation

Creative tax and capital treatments for sustainable financing, for which one director shared this example: “*Utilities will need massive investment in the next 10 years if they are going to transition. Should they be viewed as municipal bonds? As opposed to government grants, which are subject to misallocation, etc. If we treated that capital as municipal bonds, or tax-free loans, it would reduce the cost. We should be looking at ways to incentivize investment at scale and cost that can make this a smoother transition. I could see the banks getting behind that and making money in the process.*”



Industry associations can support policy engagement

Industry associations can provide a useful source of leverage to engage with policymakers. But they also serve the interests of an often-diverse set of members with differing views, business models, and levels of commitment and engagement on societal issues. Therefore, they do not view their role as defining effective financial services policies, including regarding societal issues. But they can support individual bank efforts in important ways:

- **Informing policymakers.** One executive from an industry association said, “*We try to stay factual, risk-based, focused on prudential issues. Our view is that banks make risk-based decisions, based on what clients, shareholders, employees, and other stakeholders want.*” On climate transition, this executive noted, “*There are lots*

of misperceptions out there, so we try to give the lay of land and lay out challenges from a practitioner’s perspectives. . . . There is the thought that, one, banks can fund the transition on their own and, two, that will be done with debt. Both of those things are patently wrong. There needs to be a serious discussion around equity financing, what is feasible given restrictions on banks in that space, and the need for blended finance.”

- **Coordinating and convening.** Industry associations also provide a forum for practitioners and regulators to discuss societal issues and the role each can play, as well as develop and disseminate good practices. One industry group leader said, “*We can play a coordinating and convening role, for example by hosting global regulatory policy groups where senior policymakers can speak with industry leaders off the record.*”

Conclusion

Expanding expectations regarding the role of companies, financial institutions, and banks in responding to societal issues are making management and governance more complicated.

While many bank board members remain reluctant to define their role, or that of the institutions they oversee, as leaders in addressing environmental and social concerns, they face pressure from investors to ensure they are managing risks and seizing related opportunities, and from customers and employees who want to support companies that reflect their values. Navigating these issues, which can be difficult to define, measure, and manage, requires a strategic approach to create sustainable value over the long term. We hope this framework helps boards as they weigh the externalities influencing the business environment and the appropriate actions for their institutions to take in response.



Contributors

The following participated in bilateral and/or small group discussions with Tapestry Networks and High Meadows Institute that contributed to the creation of this report. Listed titles reflect those held at the time those discussions took place. All discussions were held under a modified version of the Chatham House Rule, whereby the names and affiliations of participants are a matter of public record, but no comments or perspectives have been attributed to any of the participants. Inclusion in this list does not indicate endorsement of the perspectives presented in this document, which are the responsibility of Tapestry Networks and High Meadows Institute and do not necessarily reflect the views of individual contributors or their affiliated organizations.

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Responding to societal challenges:

A framework for bank boards and their directors

