



CII Research and Education Fund[®]
An Affiliate of the Council of Institutional Investors

January 2021

BOARD-EMPLOYEE INTERACTION: DISCLOSURE ON POLICIES AND PRACTICES

By Lucy Nussbaum

Lucy Nussbaum is senior research analyst at the Council of Institutional Investors.

© 2021 Council of Institutional Investors

Foreword

In recent years, as the U.S. economy has become more knowledge-based, many companies have come to view their employees as a valuable asset, not just an expense. Accordingly, corporate culture has become a key focus for management in shaping long-term strategy, and for investors in evaluating where to allocate their capital. And many boards of directors are elevating company culture in their oversight of corporate strategy and risk. For example, boards are dedicating more time to presentations from human resources personnel, visiting worksites and assessing top management's success in setting an appropriate "tone at the top."

Still, studies suggest there are gaps in the board's understanding of corporate culture. A 2020 National Association of Corporate Directors (NACD) survey of 500 public company directors found that 51% of directors said their boards could improve their oversight of organizational culture.¹ In a 2018-2019 NACD survey, 88% of directors reported a strong understanding of the tone at the top of their companies, yet less than half of the directors said they understood culture in the middle and only 27% of directors expressed a clear grasp of culture at the bottom of their organizations.²

Support is growing for explicit policies that encourage director interaction with rank-and-file employees as a way for boards to better oversee corporate culture. Site visits "not only serve to inform the individual directors about how things actually work in the field, i.e. the operating culture actually is (culture = what employees do when no one is looking), but also help the CEO understand what is going on in the parts of the field where he/she has not recently visited,"³ says David Beatty, Conway Director of the Clarkson Center for Business Ethics & Board Effectiveness at the University of

Toronto Rotman School of Business. Recent publications from KPMG, Deloitte and the NACD have also identified site visits and interaction with employees as options for boards looking to improve oversight of corporate culture.⁴

This report highlights thematic differences in public disclosures of how large U.S. public companies provide opportunities for board members to interact directly with employees, both at the management level and deeper within the organization.

Drawing on a CII-REF review of companies' disclosures and published corporate governance guidelines, the report focuses on the extent to which large U.S. companies disclose policies and practices for director engagement with their company's workforce, and key differences among those policies and practices. Thoughtfully developed mechanisms at the board level could be one of many steps a company can take to better oversee and mitigate risks related to corporate culture.

Methodology

CII-REF staff reviewed S&P 100 companies' most recent annual meeting proxy statements and corporate governance guidelines for disclosure on policies or practices related to director interaction with employees. We observed certain common approaches and catalogued them for this report. For example, some companies spoke of directors having generally open-ended access; others described specific ways board members interact with employees on a regular basis, suggesting a more structured effort. Some companies clarified whether board members may communicate directly with employees or if management must arrange the meetings. And some companies were not clear on the depth of directors' access, e.g. disclosure addressed board members' access to management, but not explicitly to other employees.

One challenge we faced is that disclosure may reside in any number of places, such as the annual shareholder meeting proxy statement, the corporate governance guidelines or elsewhere, such as stand-alone sustainability or human capital reports. Additionally, some companies may have policies or practices for director interaction with employees but may not disclose them. Our review, which involved searching for key terms in corporate governance guidelines and proxy statements, found disclosures at 97 companies.

Summary of Findings

Overall, we found 97% of companies in the S&P 100 had policies stating that board members have access to either employees generally or management. About half had policies specifically granting board members access to all employees. A little less than one-third (32%) of the companies had policies granting board members access to management without explicit mention of access to or interaction with other employees. More than one-third of the companies detailed some kind of board-employee interaction. About two-thirds of the companies had policies granting board members access to employees or specific guidelines for board-employee interaction and 20% of reviewed companies disclosed both policies on employee access and a discussion of specific circumstances where board members have the opportunity to speak with employees.

Examples of Disclosure

1. Companies that disclose both policies on board access to employees and interaction procedures

The following table shows examples of disclosure of both policies granting board members full access to employees, typically in the corporate governance guidelines, and some form of formal or informal process by which boards interact with employees, typically in the proxy statement. This often included site visits, although not all disclosures indicated that site visits provided board members with opportunities to communicate with employees. Many of the disclosed interaction procedures also include some reference to the value of this contact as a way for boards to oversee company culture.

Company	Disclosure
---------	------------

General Dynamics	<p>Corporate Governance Guidelines:</p> <p>"The Company will provide each director with free and complete access to all members of management and employees of the Company and to information about the Company and its operations."</p> <p>Proxy Statement:</p> <p>"New directors also have the opportunity to visit business units within each of our segments and receive briefings from the respective executive vice president and members of business unit management teams. All directors also visit our business units periodically. These visits allow the directors to interact with the business unit management teams and employees and gain a firsthand view of our operations."</p>
Intel	<p>Corporate Governance Guidelines:</p> <p>"The Board has complete access to contact and meet with any Intel employee. Board members are encouraged, when traveling, to make arrangements in advance to visit Intel sites and meet with local management on a world-wide basis."</p> <p>Proxy Statement:</p> <p>"Officers regularly attend Board meetings to present information on our business and strategy, and Board members have worldwide access to our employees outside of Board meetings. Board members are encouraged to make site visits on a worldwide basis to meet with local management; to attend Intel industry, analyst, and other major events; and to accept invitations to attend and speak at internal Intel meetings."</p>
Johnson & Johnson	<p>Corporate Governance Guidelines:</p> <p>"Directors have full and free access to officers and employees of the Company. The Directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, inform the Chief Executive Officer of any</p>

	<p>significant communication between a Director and an officer or employee of the Company.”</p> <p>Proxy Statement:</p> <p>“The Board’s oversight of strategy is enhanced by periodic engagements held outside the Boardroom. Independent Directors visit our business locations and research and development facilities around the globe to observe the implementation of our strategy. The Directors engage with senior leaders and employees at these sites to deepen their understanding of our businesses, their competitive environments and corporate culture.”</p>
Southern Company	<p>Corporate Governance Guidelines:</p> <p>“Each director has complete access to management.”</p> <p>Proxy Statement:</p> <p>“Board has full and free access to officers and employees.”... “In 2019, we continued our focus on the construction of Plant Vogtle Units 3 and 4, which included the opportunity for Directors to visit the work site and meet with key personnel. We believe the first-hand experience gained through such site visits provides the Board with an enhanced appreciation of how Southern’s core values inform its operations.”</p>
Walmart	<p>Corporate Governance Guidelines:</p> <p>“Directors shall have full and free access to officers and other associates of the Company and the Company’s outside advisors. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO, the Secretary, or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company. It is the expectation of the Board that directors will keep the CEO informed of communications between a director and an officer or other associate of the Company, as appropriate.”</p> <p>Proxy Statement:</p>

	<p>“Our Board members are also expected to participate in other company activities and engage directly with our associates at a variety of events throughout the year. Examples of activities and events that members of our Board have participated in include: attending Walmart leadership meetings and traveling with senior business leaders on trips to domestic and international markets, touring facilities with our compliance associates, speaking at various culture, diversity, and inclusion events held at our home office in Bentonville, Arkansas and other locations, attending and speaking at meetings of Walmart business segments, divisions, and corporate support departments.”</p>
--	---

2. Companies that disclosed policies on board access to employees

The following are examples of disclosures of policies that afford boards full access to employees but are silent on procedures for, or the nature of, such interaction. Such disclosures were generally in the corporate governance guidelines, but were often restated in the proxy statement. Some were only in the proxy statement.

Company	Disclosure
Bank of New York Mellon	<p>Corporate Governance Guidelines:</p> <p>"Management will communicate regularly with directors, who may also consult with other employees and independent advisors, such as independent auditors and outside counsel, as the Board or its committees deem appropriate, the fees of such advisors and the expenses of such consultation to be borne by the Corporation."</p>
Chevron	<p>Corporate Governance Guidelines:</p> <p>"Directors are encouraged and provided opportunities to talk directly to any member of management regarding any questions or concerns the Director may have."</p> <p>Proxy Statement:</p> <p>"Moreover, the Board does not believe that having the CEO also serve as Chairman inhibits the flow of information and interactions between the Board, management, and other Company personnel. To the contrary, the Board has unfettered access to management and other Company personnel."</p>

Kinder Morgan	<p>Corporate Governance Guidelines:</p> <p>"Each director shall have full access to: (a) senior management; (b) information about the Company's operations; and (c) any outside advisor to the Company."..."The Board or any committee may request any officer or employee of the Company or the Company's counsel or other advisors or consultants to attend a meeting of the Board or such committee, as the case may be, or to meet with any member of or advisor to the Board or such committee."... "In discharging his or her duties as a member of the Board or of any committee, each member is entitled to rely on the records of the Company and on such information, opinions, reports or statements, including financial statements and other financial data, that is prepared and presented by (i) any officer, employee or committee of the Company or (ii) legal counsel, external auditors, outsourced internal auditors, governance consultants, compensation consultants or other persons as to matters the member reasonably believes are within the person's professional or expert competence and who was selected with reasonable care by or on behalf of the Company, the Board of, or any committee of, the Company."</p>
Medtronic	<p>Corporate Governance Guidelines:</p> <p>"Directors have full and free access to members of management and employees of the Company. The Board and each of its standing committees has the authority to engage outside counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions."</p>
McDonald's	<p>Corporate Governance Guidelines:</p> <p>"In order to fulfill their oversight responsibilities, Directors shall have free access to Company management and employees."... "the Board of Directors shall provide a means by which persons, including shareholders and employees, may communicate</p>

	directly with directors with regard to matters relating to the Company's corporate governance and performance."
--	---

3. Companies where policies on board access to employees require management arrangement

Some companies had policies allowing board members access to employees, but specified that any contact should be arranged or approved by management. Often the designated gatekeeper was the CEO, but at some companies it was the corporate secretary or other senior managers. There seemed to be a range of management involvement, some of which may be purely administrative to make it easier for the director to contact employees. Other policies stipulated that management take a more active role. Most of these disclosures were in the corporate governance guidelines.

Company	Disclosure
Boeing	<p>Corporate Governance Guidelines:</p> <p>"The Company will provide each director with complete access to the management and employees of the Company."..."The CEO and other officers are responsible for establishing effective communications with the Company's stakeholders, including shareholders, employees, customers, suppliers, communities, governments, creditors and corporate partners. It is the policy of the Board that management speaks for the Company. Individual directors may, from time to time, meet or otherwise communicate with stakeholders. It is, however, expected that directors would do so with the knowledge of and, absent unusual circumstances or as contemplated by the committee charters, following prior consultation with the Company's management."</p>
Charter Communications	<p>Corporate Governance Guidelines:</p> <p>"Directors shall have full and unrestricted access to the Company's management and employees in order to be informed about the Company's business and for such other</p>

	<p>purposes as may be useful to the Board in fulfilling its responsibilities. Such meetings should generally be arranged through the office of the Company's Chief Executive Officer ("CEO")."</p> <p>Proxy Statement:</p> <p>"All directors have full access to all members of management and all employees on a confidential basis."</p>
Citigroup	<p>Corporate Governance Guidelines:</p> <p>"Directors shall have full and free access to senior management. Directors are requested to arrange such meetings through the Corporate Secretary."</p> <p>Proxy Statement:</p> <p>"Directors have full and free access to senior management and other employees of Citi."</p>
Comcast	<p>Corporate Governance Guidelines:</p> <p>"Board members have access to the management and employees of the Company and to its outside counsel and auditors. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer or his designee(s)."</p>
UnitedHealth Group	<p>Corporate Governance Guidelines:</p> <p>"Board members have access to the Company's management, other employees and outside advisors. Except in unusual circumstances, the Chief Executive Officer should be advised and consulted in advance of proposed significant contacts with senior management."</p>

4. Companies with disclosed policies on board access to management

The following are examples of disclosed policies that grant board members access to management, but not other employees. In some cases this distinction is explicit, while in others the distinction is implied. Some examples specify that this access is only to senior management. These disclosures were generally found in the corporate governance guidelines, but at times were also stated in the proxy statement.

Company	Disclosure
American International Group	<p>Corporate Governance Guidelines:</p> <p>"All directors are invited to contact the Chief Executive Officer at any time to discuss any aspect of AIG's business. It is expected that the Chief Executive Officer will keep the Chairman informed of all significant management, operational and other business developments as they arise. Directors also will have complete access to other members of management. The Board expects that there will be frequent opportunities for directors to meet with the Chief Executive Officer and other members of management in Board and committee meetings, or in other formal and informal settings."... "It is important that AIG speak to employees, investors and outside constituencies with a single voice and that management serves as the spokesperson."</p>
Eli Lilly	<p>Corporate Governance Guidelines:</p> <p>"Independent directors have direct access to members of management whenever they deem it necessary."</p> <p>Proxy Statement:</p> <p>"Our independent directors actively engage in board meetings, have direct access to management, and have sole discretion to hire independent advisors at the company's expense."</p>

Facebook	<p>Corporate Governance Guidelines:</p> <p>“Directors are encouraged to speak directly to any member of management regarding any questions or concerns the directors may have. In addition, the Board encourages members of management to be invited to attend Board meetings where they may share relevant information or insight related to business discussed at the meeting.”</p> <p>Proxy Statement:</p> <p>“The oversight responsibility of the board of directors and its committees is informed by regular reports from our management team, including senior personnel that lead a variety of functions across the business, and from our internal audit department, as well as input from external advisors, as appropriate.”</p>
Lowe’s	<p>Corporate Governance Guidelines:</p> <p>“Board members have complete access to Lowe’s Management and are encouraged to make regular contact. Board members shall coordinate such access with respect to matters relating to standing committees of the Board through the appropriate committee chair. Board members will use judgment to assure that this access is efficient and appropriate and not distracting to Management and the business operation of the Company. Directors shall refrain from giving strategic or operating direction to members of Management outside the scope of full Board or committee responsibility and accountability.”</p>
Nextera Energy	<p>Corporate Governance Guidelines:</p> <p>“Directors have complete access to the Company’s senior management.”</p>

¹ [“2019-2020 NACD Public Company Governance Survey,”](#) NACD, 2020, p. 35.

² [“Uncertain Regulatory and Economic Climate Tops List of Corporate Directors' Concerns for 2019,”](#) NACD, 2018.

³ Beatty, David R., [“Field Visits by Directors,”](#) Harvard Law School Forum on Corporate Governance, 2018.

⁴ See [“Board Oversight of Corporate Culture,”](#) KPMG, 2018 (“Directors discussed the importance of using a variety of methods to gain a better understanding of the corporate culture. Some common methods include...visiting company facilities and talking to employees below senior management ...[and] walking the halls of corporate headquarters.”); See [“Culture Risk Oversight: Measures the Board Can Take,”](#) Wall Street Journal Risk & Compliance Journal, 2019 (“To address the gap, board members can conduct site visits and walk the halls”); [“Culture as a Corporate Asset,”](#) NACD Blue Ribbon Commission, 2017, p. 15, (“Effective oversight of culture also requires directors to regularly spend time “on the ground” where business is being done, in order to gain exposure to a cross section of employees at different locations and levels of seniority. In the words of one Commissioner, “If directors think their jobs are done by virtue of meeting regularly with the CEO and senior management, they’re seriously mistaken. Without firsthand visibility into how the culture is lived around the organization, the board’s job is incomplete.”)