

— TONE — at the — TOP[®]

Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

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Hot-button Issues and Your Organization

When it comes to social concerns, companies are facing a growing and often murky world of risks. Organizations are being pressed like never before to take a stand on potentially polarizing issues, from the Black Lives Matter and #MeToo movements, to calls for businesses to end operations in Russia because of its invasion of Ukraine, to the recent U.S. Supreme Court ruling overturning *Roe v. Wade*.

There are risks in taking positions on any of these issues, but there are often equal or greater risks in not doing so. “Companies must decide whether to speak out on hot-button social issues at a time of intense polarization, with stakeholder views on all sides of the spectrum and social media fueling extreme divisions,” noted a report from The Conference Board.¹

Exacerbating the problem is the fact that the broad range of issues that fall under the environmental, social, and governance (ESG) umbrella tend to be multifaceted and outside of the traditional business strategic planning process. They are also pervasive, affecting many areas of the company, which means they are important yet can be easily overlooked. Additionally, they involve a large variety of stakeholders. Citing just some examples, the National Association of Corporate Directors noted that, “Internally, companies are hearing from employees demanding greater pay equity and more meaningful commitments to improving their communities. Externally, investors are demanding better reporting on climate risks and human capital management.”²

Boards should expect the attention on this area to intensify as stakeholders sharpen their focus. “The challenges of navigating these complexities and the pressure to take stands show no signs of going away,” said The Conference Board report.³

In a time of great turbulence on global and domestic fronts, organizations must craft strategies to ensure they identify and address threats related to social issues. That strategy must include seeking out independent and objective assurance from a qualified internal audit function on the efficacy of efforts to mitigate those risks.



Address the Risk

Risks associated with social issues are varied. They can manifest as part of risks related to talent management, third-party vendors, reputation, climate change, and others. Many of these risks can be lumped into the growing ESG risk category, but it is important to recognize the potential for varied risk impacts.

For example, after speaking with hundreds of companies on diversity, equity, and inclusion (DEI) issues in the wake of the George Floyd killing, T. Rowe Price governance researchers found that DEI concerns are a core value for many stakeholders, including current and future employees, customers, investors, leaders, and boards. “Companies that do not meet these stakeholders’ expectations will likely see erosion in their ability to compete for talent and market share,” they concluded.⁴

Even so, many organizations may hesitate to tackle the risk head on. According to the World Economic Forum, up until recently, corporate leaders may have generally believed that taking a stance on social or political issues would do more harm than good. “This advice has dated fast,” said the WEF. It noted in an April 2022 report that the percentage of consumers who want companies to speak out on issues such as sustainability, transparency, or fair employment practices has risen from 62% in 2018 to 72% in 2022.⁵

About The IIA

The Institute of Internal Auditors, Inc. is a global professional association with more than 218,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.

The IIA

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Organizations also may have an unrealistic idea of how well they are addressing ESG concerns. About three-quarters of executives said that “becoming a truly sustainable and responsible business” is a top priority for their organization during the next three years, according to a recent Accenture study. Yet, the study found executives are typically overconfident about their companies’ progress on sustainability efforts. Employees, customers, and members of local communities gave companies lower scores on sustainability performance than executives did, and relatively few stakeholders had full faith in company leadership’s sustainability promises. These gaps obstruct the link between sustainability and profitability, according to Accenture.⁶ The Corporate Social Responsibility (CSR) Insights survey provides additional perspectives on such efforts and how they are being funded. (See chart below.)

Getting an Independent Perspective

Social issues should be part of the company’s strategic planning, particularly if they can have a significant impact on its finance or reputation. As trusted providers of independent assurance and advice, internal auditors can help organizations map their objectives regarding social issues and identify metrics or other measures that hold them accountable for achieving goals, while providing advice on how to do so.

Many company websites offer inspiring declarations of their values as they relate to current social concerns, but internal audit can provide an independent assessment of whether corporate actions support those statements. Having an objective review of an organization’s comments and actions on volatile social issues can be invaluable and deter potentially embarrassing miscues. For example, in 2021, Google’s CEO joined other corporate leaders in publishing an open letter opposing “any discriminatory legislation” that would make voting more difficult. But the company also had quietly funded an election integrity political committee supporting election reforms.⁷

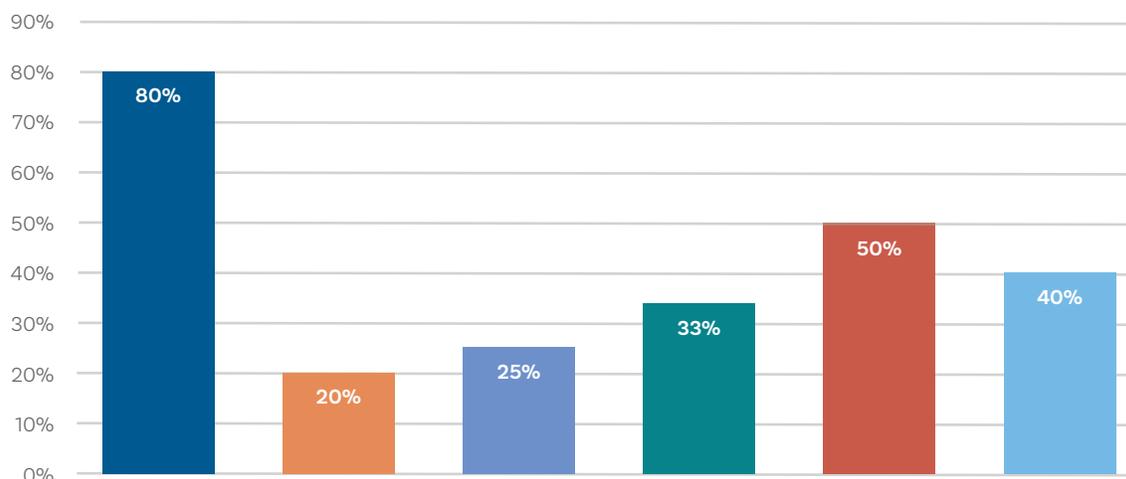
Given its unique holistic view of the organization, internal audit can use root cause analysis, interviews, data analytics, or targeted consulting engagements to provide a comprehensive picture of where the organization actually stands and where it needs to be. Some examples of where internal audit can provide support include:

- » **Coordinating with senior management and the board to initiate a review and discussion of the organization’s mission, vision, and values.** As part of this process, it is a good idea to examine whether competitors address social issues in their governance documents and how they live their values. Companies may find updates or revisions to their governance documents necessary to cover current considerations. The updated documents then can be used in strategic planning so that organizations face fewer calls for change in their own practices and can more quickly and confidently respond to new developments.

QUESTIONS FOR BOARD MEMBERS

- » Is our ESG management strategy sufficient to address existing and emerging social issues?
- » Have stakeholders contacted management or the board to request information on our ESG efforts or to demand we take a stand on any social issues recently? If they have, do we track the issues involved and how they’ve been addressed?
- » Has our board or board committees discussed scenarios in which an executive or director should speak for the company on social issues?
- » Does the board make use of the information and insights that internal audit can offer on social issues or related ESG topics?

How Robust Are Corporate Social Responsibility (CSR) Efforts?



- Leadership demands of the CSR function are up since 2021
- The CSR function has sufficient staff
- The CSR budget is sufficient
- Leadership has a high understanding of CSR strategy
- There is a need for greater alignment between business and social goals
- Greater leadership support and buy-in is needed

Source: 2022 [Corporate Social Responsibility \(CSR\) Insights survey](#), Association of Corporate Citizenship Professionals.

- » **Providing analytical or qualitative assessment of whether the organization's culture aligns with its mission, vision, and values.** "Internal audit has the mandate to see holistically across the organization; to audit against a framework, criteria, policies, and procedures; and to test whether the talk is being walked by leadership," according to a report on DEI from The Institute of Internal Auditors (IIA). That can be important in preventing and addressing internal concerns. "Organizational culture has been identified as the root cause of many serious issues across numerous industries around the world," the report said.⁹
- » **Consulting on which board committees are best suited to oversee social issues and how best to assign responsibility over such issues.** Internal audit can develop baseline data on how well the organization's activities truly reflect its intended approach to social issues and consult on how to fill any gaps. It might also review the organization's philanthropic and lobbying activities to see if they align with company values and spot any associated risks. In addition, internal audit can examine how successful the company is at promoting diversity among its suppliers and preventing exploitation of workers and human rights abuses throughout the supply chain.

A Growing Consensus

“There is growing consensus that for an organization’s values and culture to be perceived as authentic, the organization must take meaningful action to support those values,” according to The IIA report. In many cases, that may mean stepping up to comment or take actions based on a wide variety of social issues.

Organizations that are responsive and accountable to employees and customers are better prepared to make prompt, appropriate, and meaningful responses on social issues and differentiate themselves in the marketplace. In their efforts to prepare for and address social issues, boards should be sure that their organizations are making the best use of the independent assurance and objective advice that internal audit can offer.

Endnotes

- 1 “Under Pressure: How Corporate America Can Address Social Issues,” The Conference Board, June 29, 2021.
- 2 “2022 Governance Outlook: Projections on Emerging Board Matters,” National Association of Corporate Directors, 2021.
- 3 “Under Pressure: How Corporate America Can Address Social Issues,” The Conference Board, June 29, 2021.
- 4 “Diversity, Equity, and Inclusion in the Spotlight,” T. Rowe Price, April 2021.
- 5 “How Companies Can ‘Walk the Talk’ on Pressing Social Issues,” World Economic Forum, April 8, 2022.
- 6 “Shaping the Sustainable Organization: How Responsible Leaders Create Lasting Value and Equitable Impact for All Stakeholders,” Accenture, 2021.
- 7 “Corporate Political Spending Is Bad Business, How to Minimize the Risks and Focus on What Counts,” Harvard Law School Forum on Corporate Governance, January 11, 2022.
- 8 “Beyond Diversity and Inclusion: Social Equity and Corporate Social Responsibility,” The Institute of Internal Auditors–Belgium, 2020.



Quick Poll Question

How does your organization address potential risks related to social issues?

- We have a strategic plan in place related to these issues and use it in decision making.
- We are working on better identifying and addressing issues in this area.
- We have not yet taken steps to address related risks.
- We have a policy to not comment on social issues.

Visit theiia.org/Tone to answer the question and learn how others are responding.

QUICK POLL RESULTS

Does your organization leverage internal audit for ESG assurance?



Yes, internal audit is fully incorporated into our ESG risk management strategy.

25%

Yes, but only on an ad hoc basis.

21%

No, we do not have an articulated strategy for ESG internal control and assurance.

32%

No, we do not include ESG in internal audit’s scope of work.

22%

Source: Tone at the Top June 2022 Survey.