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ESG Insights:

Silicon Valley's Largest Public Tech and Life Sciences Companies Stepped Up ESG Reporting Last Year

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Environmental, social and governance (ESG) concerns and how companies respond to them continue to generate scrutiny from a large number of stakeholders. Last year, in our ESG in Silicon Valley: A Look at the ESG Disclosure Practices of the SV 150 we examined how technology and life sciences companies were responding to the growing interest in ESG and related disclosure by looking at the voluntary ESG reporting practices of the companies included in the 2022 Fenwick-Bloomberg Law SV 150 List (SV 150) – based on their disclosures in the 2021 proxy season. This report builds on that analysis by looking at the ESG reporting for SV 150 companies based on proxy statements filed during the 2022 proxy season, which generally covers the period between July 1, 2021 and June 30, 2022, and other publicly available information.

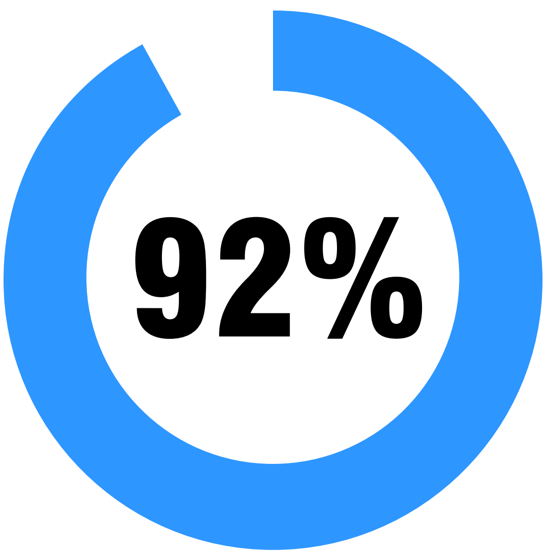
Key Takeaways

- The number of SV 150 companies disclosing ESG information and the comprehensiveness of such disclosures increased in 2022.
- Although ESG reporting has not been mandated, most companies have opted to provide some level of disclosure in response to stakeholder demands and in anticipation of likely mandated disclosures by the SEC.
- Areas most frequently disclosed include: environmental issues, human capital resources, diversity, supply chains, customers and products, community impact and governance.
- The quality of ESG disclosure varied by size of company, with the larger SV 150 companies generally providing more comprehensive disclosure, including quantitative metrics.
- Technology and life sciences companies contemplating whether to voluntarily disclose ESG information or expand their disclosure should consider these trends and the types of information disclosed, to better assess their preparedness for ESG disclosure and meeting the demands of investors and other stakeholders.

By the Numbers: A Look at the Trends

Generally, the number of companies providing voluntary ESG disclosures increased slightly in 2022 compared to the data we gathered from 2021. In particular, our analysis of the public disclosures of the SV 150 companies shows the following trends during 2022:

92% of SV 150 companies provided ESG information



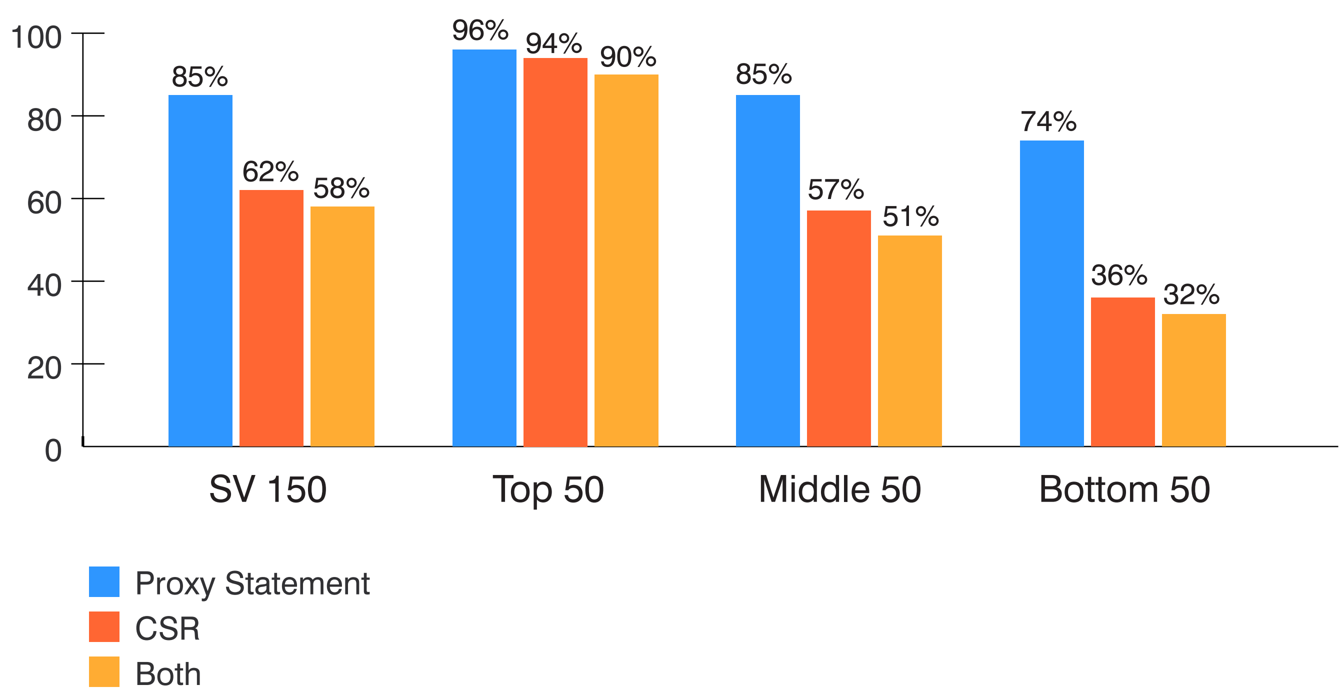
- Overall, approximately 92% of SV 150 companies provided ESG information, up slightly from 90% in 2021, though the most comprehensive disclosure was often on company websites or in standalone corporate social responsibility, sustainability or ESG reports or their equivalent (referred to as CSRs), rather than in proxy statements.
- Approximately 85% of SV 150 companies provided some level of ESG disclosure in their proxy statements compared to 80% in 2021.
- Approximately 62% of SV 150 companies provided some level of ESG disclosure in CSRs compared to 58% in 2021.
- Approximately half of the SV 150 companies reported using a third-party standard or framework to guide their disclosure.
- Almost half of SV 150 companies (49%) disclosed Scopes 1 and 2 GHG emissions, with a slightly lower percentage (42%) disclosing Scope 3 GHG emissions.
- A majority of SV 150 companies disclosed gender and racial/ethnic demographic information for their U.S. employees.

Overview

Compared to 2021, there was a slight increase in the number of SV 150 companies providing ESG information, with 92% of companies providing such data in 2022, versus 90% in 2021. The number of companies disclosing ESG information in their proxy statements increased to 85% from 80% in the prior year. Similarly, the number of companies disclosing ESG information in CSRs increased to 62%, compared to 58% in 2021. Only 12 of the 146 SV 150 companies provided no ESG disclosure, while two companies only provided website disclosure and two only provided brief disclosure in Form 10-K.

Robust ESG disclosure skewed towards the larger companies in the SV 150 that tended to disclose information in both proxy statements and CSRs, but with more comprehensive disclosures on the latter platform. For example, although overall only 58% of SV 150 companies disclosed in both CSRs and proxy statements, approximately 90% of the top 50 companies disclosed in both, compared to just 51% and 32% of the middle and bottom 50 companies, respectively.

Where Companies Disclosed ESG Information

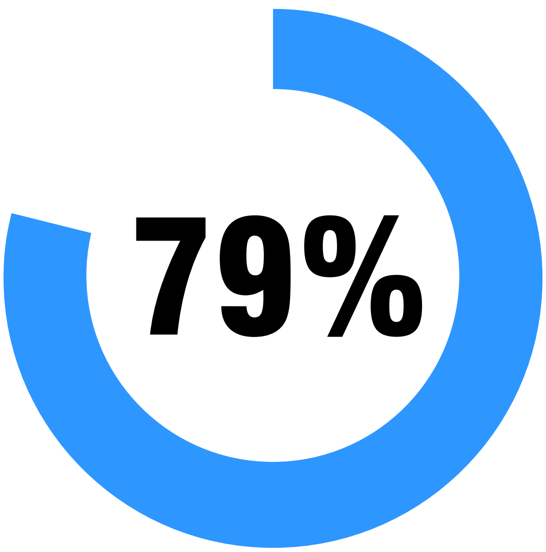


ESG Disclosure Quality

The larger companies in the SV 150 tended to provide the most detailed and extensive ESG disclosure, typically in CSRs that covered a broad range of environmental, social and governance topics and included both qualitative and quantitative data. While many companies disclosed on multiple platforms, they used CSRs to provide more granular details regarding their ESG programs and initiatives and to discuss goals and performance against stated objectives. Third-party disclosure standards and frameworks often guided these disclosures, with many CSRs containing indices indicating how the information in the CSR satisfied one or more standards (see “Third-Party Frameworks and Standards” on page 8).

Below are some of the most common topics on which SV 150 companies reported.

79% of SV 150 companies provided environmental disclosures



Environmental. Disclosures of environmental matters included both qualitative and quantitative discussions on a wide variety of issues. Approximately 79% of SV 150 companies provided environmental disclosures. Qualitative disclosures often included descriptions of sustainability initiatives such as recycling programs, LEED building certifications, hybrid/remote work policies and other greenhouse gas (GHG) emission reduction programs. Companies also discussed how their products contributed to their customers’ environmental sustainability efforts.

On the quantitative side, almost half of the SV 150 companies (49%) provided Scopes 1 and 2 GHG emissions data, and approximately 42% provided Scope 3 emissions. Companies also discussed energy consumption (electricity and gas), water usage and waste management, and disclosed specific goals and commitments to reduce their carbon footprint and/or increase their usage of renewable energy.

Social. Social disclosure comprised the broadest range of topics ranging from human capital resources (HCR) to supply chain management to community impact.

Human Capital Resources

Companies provided information most often on HCR, with approximately 84% of SV 150 companies providing some form of HCR disclosure. This disclosure often consisted of discussions regarding employee training and engagement, employee resource groups, workplace safety issues and employee turnover. Although much of this information was qualitative, in some instances companies provided quantitative metrics.

While much of this information was contained in CSRs, the SEC has indicated that it intends to propose new rules in 2023 that would likely require companies to disclose more HCR/human capital management information, including quantitative data, in their SEC filings. Accordingly, it is likely that the amount of HCR disclosure in proxy statements and/or other SEC filings will increase in the near future.

Diversity

Most companies provided quantitative information regarding diversity, including the demographic breakdown of their workforce by gender, race/ethnicity and role. Notably, 63% of companies provided employee gender demographic information and 59% provided U.S. employee race/ethnicity information on an aggregated basis (49% of companies provided such information with specific racial/ethnic categories based on or similar to EEO-1 reporting).

In addition to these metrics, companies also provided information regarding efforts to increase diversity within their ranks and programs to support underrepresented communities. Disclosure of employee demographic information is likely to increase as a number of shareholders and other stakeholders have called upon companies to disclose information consistent with EEO-1 reports filed by many companies with the Department of Labor.

Supply Chain

Approximately half of the SV 150 companies (51%) disclosed issues related to their supply chains. Such disclosure included information regarding supplier codes of conduct and supplier diversity and audits. Companies also discussed supply chain integrity and related initiatives, including participation in third-party organizations such as the Responsible Business Alliance. Where a company’s business involved the sourcing of raw materials and minerals, it often noted adherence to responsible sourcing policies and compliance with regulations such as the SEC’s Conflict Minerals Rules.

> Social disclosure comprised the broadest range of topics ranging from human capital resources to supply chain management to community impact.

Customers and Products

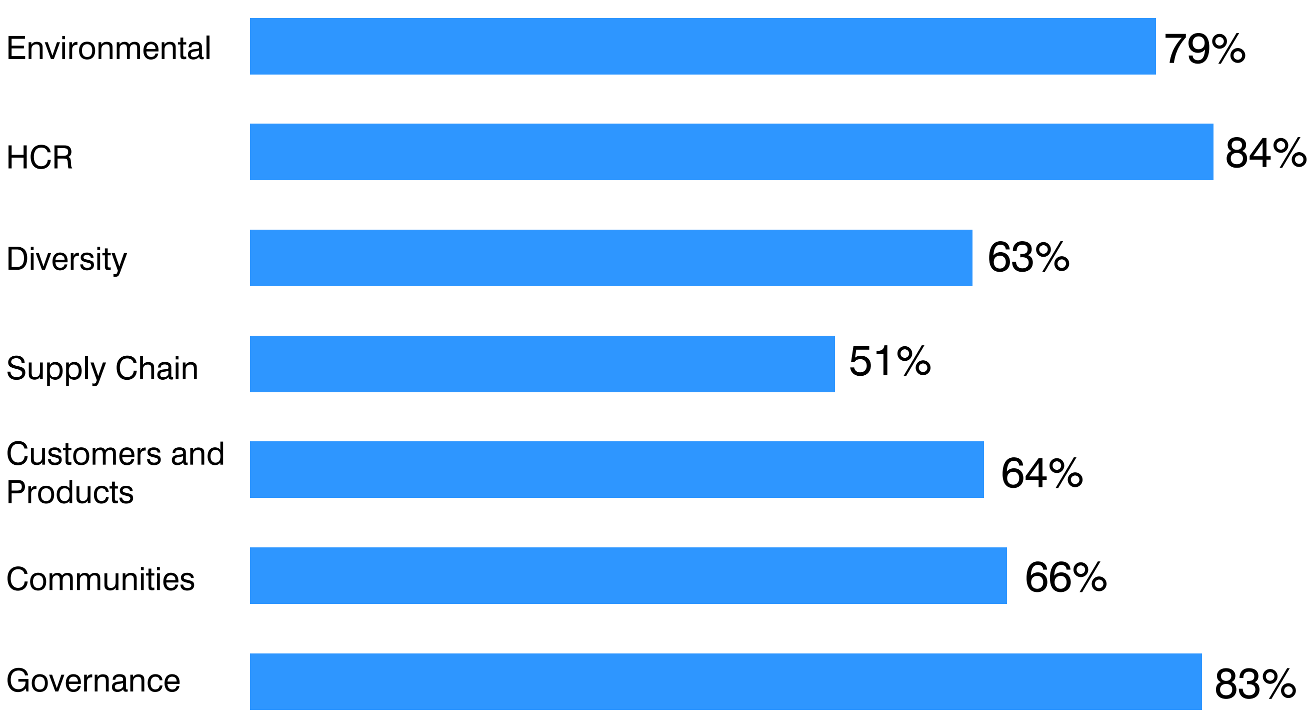
A majority of companies (64%) disclosed information related to customers and products. In particular, many companies addressed their policies and practices regarding data security and privacy. Such disclosures noted, where applicable, how their products promoted or enhanced data security. In the case of life sciences companies, the disclosure focused on issues such as product safety, access to care and ethical marketing.

Communities

A majority of companies (66%) discussed philanthropic activities such as corporate donations, employee donation corporate match programs, community-based programs and employee volunteer activities. To the extent that a company's product or service had a broader social impact, it emphasized the tie between the product and/or service and the societal or community benefit.

Governance. Approximately 83% of companies included governance disclosure separate from the disclosure required under applicable SEC proxy rules. In addition to required proxy statement disclosures such as board structure, oversight and composition, companies discussed board diversity, compliance programs, management oversight, stakeholder engagement, anti-bribery and anti-corruption programs and business ethics. Descriptions of and/or links to relevant policies, such as codes of conduct and corporate governance guidelines, were also provided in CSRs to demonstrate board or management oversight in these areas.

What Companies Disclosed About ESG



Third-Party Frameworks and Standards

Third-party frameworks and standards can be valuable in guiding companies on what information to disclose based on industry and stakeholder interest. Just over half of the companies in the SV 150 (51%) followed or were influenced by a third-party standard-setter in determining what information to disclose. The most prominent frameworks and standards included Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosure (TCFD) and the United Nations Sustainable Development Goals (UNSDG).

SV 150 companies cited SASB most often as the standard to which they adhered, with 91% of the companies disclosing standards citing SASB compared to 87% in 2021. GRI was the second-most popular standard, with 63% of reporting companies favoring it. Finally, approximately 43% of companies that reported to a standard or framework (22% of all SV 150 companies) indicated that they used the TCFD framework.

The most prominent frameworks and standards:

- Global Reporting Initiative (GRI)
- Sustainability Accounting Standards Board (SASB)
- Task Force on Climate-related Financial Disclosure (TCFD)
- United Nations Sustainable Development Goals (UNSDG)

Disclosure Trends: Top 50 Companies

Overall, the top 50 companies exhibited the most widespread and robust ESG disclosure practices, with approximately 96% and 94% of such companies reporting ESG information in their proxy statements and CSRs, respectively. Compared to the other companies in the SV 150, the top 50 companies generally have greater resources that can be devoted to developing the necessary controls and infrastructure to provide more comprehensive reporting.

The top 50 companies were also more likely to align their disclosure with third-party standards or frameworks such as GRI or SASB. Eighty-eight percent of the top 50 reported to such standards or frameworks, compared to 84% in 2021. All top 50 companies provided ESG disclosure in their proxy statement, CSR or both. The top 50 companies include companies with revenue of approximately $2.9 billion or more and market capitalizations averaging $211.2 billion (based on values at the time of announcement of the most recent SV 150 index list).

Disclosure Trends: Middle 50 Companies

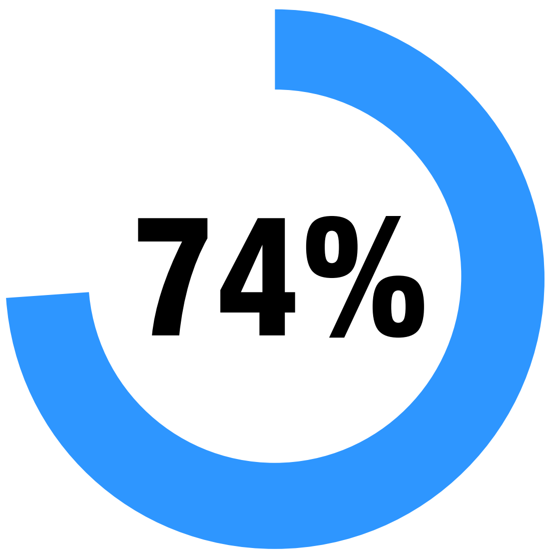
Only 57% of middle 50 companies provided disclosure in CSRs, representing a slight increase from the 55% of middle 50 companies using CSRs in 2021. However, approximately 85% of middle 50 companies disclosed their ESG information in their proxy statements, compared to 82% in 2021. Five companies provided no ESG disclosure.

Just over a third (36%) of middle 50 companies reported to one or more third-party standards or frameworks, with SASB cited most often (15 companies) followed by GRI (12 companies). Middle 50 companies include those with revenue of at least approximately $776 million but less than approximately $2.9 billion, and market capitalizations averaging $15.8 billion (based on values at the time of announcement of the most recent SV 150 index list).

Disclosure Trends: Bottom 50 Companies

Only 36% of the bottom 50 companies provided disclosure in CSRs, representing an increase from the 28% of companies using CSRs in 2021. Approximately 74% of the bottom 50 companies disclosed ESG information in their proxy statements, increasing from 70% in 2021. Seven companies provided no ESG disclosure.

74% of the bottom 50 companies disclosed ESG information



Only 30% of bottom 50 companies disclosed following a third-party standard or framework, with SASB being cited most often (14 companies) followed by GRI and the UNSDG (six companies each). It stands to reason that the bottom 50 companies, which are generally younger and have less revenue than the larger companies in the SV 150, have fewer resources to devote towards providing more substantial ESG disclosure. The bottom 50 companies include companies with revenue of at least approximately $327 million but less than $770 million, and market capitalizations averaging $6.3 billion (based on values at the time of announcement of the most recent SV 150 index list).

ESG Board Oversight

Most SV 150 companies (76%) disclosed board or committee oversight of ESG, which surpassed the 73% of SV 150 companies disclosing this information in 2021. In particular, 85% of the companies providing such disclosure stated that the nominating and corporate governance committee (or its equivalent) had primary responsibility for ESG oversight. Just 9% of disclosing companies expressed that the full board provided oversight while the same percentage of companies reported the audit committee or the compensation committee (or their equivalent) oversaw ESG.

Approximately 10% of companies reported that multiple committees oversaw ESG. In some cases, even where a company indicated that the nominating and corporate governance committee had primary responsibility for ESG, it also noted that other board committees oversaw aspects of ESG that were in their purview (e.g., the compensation committee overseeing the use of ESG metrics in executive compensation plans).

Conclusion

Although ESG reporting has not been mandated, most companies have opted to provide some level of disclosure in response to stakeholder demands and in anticipation of likely mandated disclosures by the SEC. The number of SV 150 companies disclosing ESG information and the comprehensiveness of such disclosures increased in 2022.

Technology and life sciences companies contemplating whether to voluntarily disclose ESG information or expand their disclosure should consider these trends and the types of information disclosed by SV 150 companies. Doing so may help such companies to better assess their preparedness for disclosing ESG information and meeting the demands of investors and other stakeholders.

Background and Methodology

For our research we looked at the public disclosures, primarily CSRs and the most recent proxy statements of 146 of the 2022 constituent companies of the SV 150. The SV 150 companies ranged from Apple, with $378 billion in revenue for 2021, to Poshmark, with $327 million in revenue for 2021. As we noted in 2022 Corporate Governance Practices and Trends, SV 150 companies are generally smaller, younger and have less revenue than the large public companies of the Standard & Poor's 100 Index (S&P 100), although some of the larger SV 150 companies are also represented in the S&P 100 and S&P 500. Because of the wide range in sizes of companies in the SV 150 we have grouped them into subcategories of top 50, middle 50 and bottom 50 companies by revenue. A company was regarded to have ESG disclosure if it specifically referenced "ESG," "sustainability," "corporate social responsibility" or another similar term, and addressed ESG risks and opportunities as a unified concept.

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