

## Activism for audit leaders



Governance bodies change policy. So do activists.

Activism is a powerful agent of change; the influence of stakeholder groups is of increasing importance to the governance agenda and a significant risk factor for internal audit to consider in its audit plan. Audit leaders can provide insight and assurance to governance partners through their unique lens on the organisation and objective analysis of the external environment.

In this piece, we explore activism in varying degrees, including the risk of misalignment with an organisation.

Not something you've given much attention to? Read on and gain a better understanding.

# What is activism?

Social activists create a platform to promote, guide or prevent changes in organisational or governmental policy; figures such as Martin Luther King and Emmeline Pankhurst sit alongside today's headline makers, Greta Thunberg, #MeToo and Black Lives Matter.

The degree to which an organisation is impacted by activism depends on its purpose, values and leadership. Widespread issues include equality, climate change, executive pay, animal welfare, human rights and also local concerns such as the planned route for HS2.



## The risk of misalignment

Successful activists persuade others to change their views rather than compromise their own vision and ideals. They use a broad mix of actions from meetings and door-to-door canvassing, to demonstrations and sometimes illegal acts such as sabotage.

Their commitment often gives rise to actions which others might consider unconventional. This is a major risk when the activist's cause is fundamentally at odds with the purpose of an organisation or even a whole industry, as in the case of the climate crisis and the use of fossil fuels.

The FRC promotes the concept of **stewardship** alongside corporate governance to deliver sustainable value for investors, the economy and society as a whole. In its early days, many organisations ticked the box with a corporate social responsibility report. Not today.

An accelerating trend in the 2020s is the convergence of environmental, social and corporate activism.

In January 2020, BlackRock chairman and CEO Larry Fink not only issued his annual **letter** to corporates compelling action on climate change but also explained what his company would be doing. Potentially a tipping point for sustainable investing that positions environmental, social and governance (ESG) concerns alongside financial returns.

BlackRock manages \$7 trillion of assets and they are not alone. In 2018 a group of prominent institutional investors and advisors representing assets worth \$3.3 trillion sent an open **letter** to all S&P 500 index companies calling for greater pay disclosures.

Activists are no longer the extremists of society. The climate protests in 2019 saw children, retirees, people in suits and those with blue mohicans standing side by side.

- Has your organisation attracted the attention of activists?
- What activities could be on their radar?
- Who raises this topic for discussion at the board?

## Impact of social media

Activism evolves with culture, society and technology.

Social media has a key role in social activism. Hashtags such as #BlackLivesMatter and #MeToo create

rapid advocacy and are very successful in bringing light to social justice issues by providing a platform to make information accessible across the world.

In a single day Facebook creates over 4PB of data, 65bn messages are sent via WhatsApp and over 500m tweets are posted. People are more informed, and misinformed, about subjects than ever before in history. And at a time when people are generally less acquiescent to authority and willing to take personal action.

Monitoring of social media has become a key control in the management of risks related to reputation, brand management and also to evaluate the risk of being targeted by activists.

- The speed of information is fast.
- Does your organisation operate at the same pace?

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## Corporate activism

According to 2019 Deloitte [report](#), purpose-driven companies see higher market share gains and grow three times faster on average than their competitors, while achieving higher workforce and customer satisfaction. Clearly it is commercial as well as common sense to do the right thing.

Audit leaders in all sectors can learn from the report. It provides a useful gateway for auditors to begin to understand the positive approach organisations can take. It also makes it very clear that organisations must be authentic in their activism; actions need to have genuine commitment not be tokens of goodwill.

The 2020 Black Lives Matter protests following the death of George Floyd prompted many corporate brands to pledge support and voice concern over racial injustice. However, L'Oréal's support was criticised by those who claim the company has focused its business model on white consumers. Likewise, Amazon's statement was berated due to accusations of poor working conditions.

According to Alexander Chernev, professor of marketing at Chicago's Northwestern University "it's brand activism." He suggests "it's not surprising, but companies have to think very carefully before they take a stand on these issues."

Internal audit should be aware of a new risk: using the language of social activism in marketing materials can lead to statement fatigue and ineffective campaigns or give rise to more serious reputational consequences such as negative publicity and loss of trust.

The term for this is [#wokewashing](#) - when an organisation or person says or does something that signals their advocacy for a social cause but then continues to operate inappropriately, deflecting questions about their own ethics or not taking accountability for wrongdoings. Principally, but not exclusively associated with advertising by targeting consumer's social awareness to profit from their idealism via progressive-oriented, purpose-driven marketing campaigns.

- Audi launched an advert in 2017 at the Super Bowl supporting equal pay only to face significant backlash on the grounds of diversity as at the time no women sat on its management board and only two of its 14 executives in America were women
- In 2019 M&S rebranded its BLT sandwich to LGBT with the addition of guacamole and a £10,000 donation to a charity which was regarded by some as hypocritical because the company were profiting from stores in Saudi Arabia where homosexuality is illegal.

This is not a global brand issue, a BBC news [article](#) demonstrates how ordinary organisations can quickly

hit the headlines too.

Organisational values, culture and ethics are paramount if activism is to be taken seriously.

Leaders need to take accountability for change, the cultural tone at the top driving the agenda to address root cause issues such as inclusion, recruitment, talent development, employee's psychological safety and third-party partner/supplier selection criteria.

- Could your organisation be accused of woke-washing?
- What assurance could be provided in relation to this risk?
- Has it been included in the audit scope of marketing reviews?
- How does activism risk feature on the organisation's radar?

## Assurance opportunities

The first question for audit leaders to consider is the level of inherent risk that activism presents to the activities of the organisation; assurance should always be proportionate to risk.

A useful start point could be to consider the 17 sustainable development goals issued by the United Nations; many of these link to areas of considerable concern for activists and ones which audit leaders along with governance bodies should be familiar with.

**\*Click thumbnail to enlarge**



Think for a moment, from an activist's perspective, about your organisation's global and domestic activities in relation not only to the goals but issues such as animal welfare, political affiliations, and local community concerns such as planning objections.

What is it that your organisation does that could draw it to the attention of activists?

- How could your organisation be used to further their cause?
- Who is thinking about this in the organisation?

- Are activism risks being identified?
- Is the risk maturity of the organisation sufficient to surface these types of risks?



## Governance

A high-level audit could focus on governance and risk management; including elements such as accountability, awareness and strategy. An important aspect of strategy for example is the extent to which it aligns with societal change and issues.

Audit leaders should always challenge whether the organisation's strategic objectives are aligned to its mission statement and purpose; and whether the business model is able to deliver the strategic goals. While internal audit does not challenge strategic decisions per se, it can provide assurance that the decision-making process takes into account all relevant information and whether the actions of the organisation validate its values.

Activism can be the wake-up call to corporate inertia.

If you were a board member, would you rather be awoken by a trusted advisor or a stranger?

## Marketing

All assurance activity in the area of marketing should consider the risks associated with corporate activism, particularly woke-washing as outlined earlier. Advertising is increasingly challenging due to the heightened awareness of society towards injustice and wrongdoing.

In 2018 H&M apologised for using a black child to model a sweatshirt with the slogan 'coolest monkey in the jungle.' How many authorisations and visual checks had that image been through before being released? In 2020 Audi pulled an advert showing a young girl eating a banana in front of a high-performance car after critics claimed it was insensitive by sexualising a minor and raising safety issues because she was out of the eyeline of the driver.

Audit leaders should ensure their internal auditors include these issues within their audit engagements when providing assurance over marketing processes and risk.

## External threats

Activists build connections across a wide variety of groups to share information to raise awareness and influence change. Organisations need to be mindful of the pressures on key stakeholders to enable them to effectively manage relationships.

What does your organisation do in terms of public relations and managing relationships with stakeholders? Not just those that are of value but those that can destroy value.

When is the last time you provided assurance over these activities and the risk of not managing influential stakeholders effectively?

**Short-term investors** in particular may be a source of increased risk if the organisation is at risk from activist interest. There are websites dedicated to encouraging action, notably [ShareAction.org](https://www.shareaction.org) lists AGM's on its radar together with the issue being targeted.

Shareholder activists (increasingly asset/fund managers) can use their influence to change corporate behaviour by disrupting strategic plans through exercising voting rights.

- What assurance can be provided that investor relationships are appropriately managed?
- Which investors are most influential?
- Who listens to concerns and monitors sentiment?
- How much effort is made to understand their expectations and work with them?

### Internal threats

Activism is not all about external risks to the organisation; employees have opinions and know the internal truths and where there are any, the weak points.

The following section looks at the role of insider activists.

### Insider activists

Employees are a specific stakeholder group with access to information about decision-making, leadership style, and data, that makes them insider activists.

Governance bodies must engage with their **workforce** as advocated in the UK Corporate Governance Code. What does your organisation do and what assurance has internal audit provided? The link explores this topic in more detail.

Unlike external activists, organisations have a plethora of opportunities to communicate and understand the concerns of their employees before they make them public to a regulator, MP, the police, or the media. Where a concern is in the public interest employees are protected from discrimination under the Public Interest Disclosure Act 1998.

## Public Interest Disclosure Act 1998

Section 43B. - (1) In this Part a "qualifying disclosure" means any disclosure of information which, in the reasonable belief of the worker making the disclosure, is made in the public interest tends to show one or more of the following-

- a criminal offence has been committed, is being committed or is likely to be committed
- a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject
- a miscarriage of justice has occurred, is occurring or is likely to occur
- the health or safety of any individual has been, is being or is likely to be endangered
- the environment has been, is being or is likely to be damaged
- information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

- What internal mechanisms does your organisation use to surface employee concerns?
- How effective is your whistleblowing/speak out policy and process?

Environmental damage is one of the qualifying disclosures. When the Act was drafted over twenty years ago it, concerns may have been raised about environmental waste polluting a river...today in a time of climate crisis this has far wider implications.

- How often does internal audit give assurance over the policy and processes?
- Where would early warnings of internal activism be identified and acted upon?
- Who is accountable?

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## Closing thoughts

In the 21<sup>st</sup> century it is irresponsible of decision makers to ignore the power of activists or make ill thought through, knee-jerk reactions. Likewise, audit leaders should ensure that activism is considered as part of a risk-based assurance programme, even if the organisation has yet to identify the risk.

*"Change means movement. Movement means friction."*

**Saul Alinsky**