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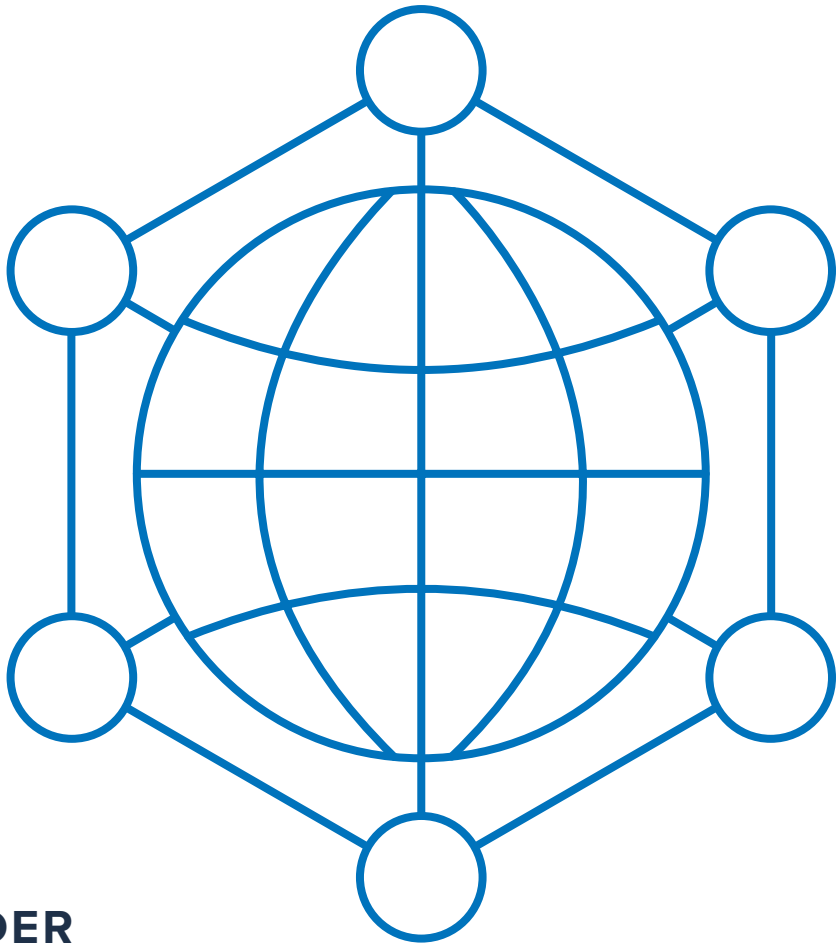

REPORT

Walking the Talk

VALUING A MULTI-STAKEHOLDER STRATEGY

FCLTGLOBAL

JANUARY 2022

Focusing capital on the long term to support a sustainable and prosperous economy.

Millions of people around the world are saving money to meet personal goals – funding a comfortable retirement, saving for someone's education, or buying a home, to name a few.

The funds to support these goals are safeguarded by institutional investors – pension funds, sovereign wealth funds, insurers, and asset managers – who invest in companies for the prospect of growth and security. These savers, their communities, and the institutions that support them make up the global investment value chain, and each benefit from long-term decisions in different ways.

Data shows that long-term-oriented investors deliver superior performance, and long-term-oriented companies outperform in terms of revenue, earnings, and job creation. But despite overwhelming evidence of the superiority of long-term investments, short-term pressures are hard to avoid. A majority of corporate executives agree that longer time horizons for business decisions would improve performance, and yet half say they would delay value-creating projects if it would mean missing quarterly earnings targets.

Today, the balance remains skewed toward short-term financial targets at the expense of long-term value creation.

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

MEMBERS

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This document benefited from the insight and advice of FCLTGlobal's Members and other experts. We are grateful for all the input we have received, but the final document is our own and the views expressed do not necessarily represent the views of FCLTGlobal's Members or others. The information in this article is true and accurate to the best of FCLTGlobal's knowledge. All recommendations are made without guarantee on the part of FCLTGlobal. Reliance upon information in this material is at the sole discretion of the reader; FCLTGlobal disclaims any liability in connection with the use of this article.

Preface

Asset owners, asset managers, and corporations from around the world created FCLTGlobal as a nonprofit research organization to focus capital on the long term to support a more sustainable and prosperous economy. By working across the investment value chain and emphasizing the practical nudges and initiatives that all market participants can take, FCLTGlobal makes long-term practices the norm, not the exception.

Research about the behaviors and outcomes produced by multi-stakeholder-oriented companies has been an emerging topic of interest – for companies, investors, and other key stakeholders alike. Global corporations are increasingly adopting a multi-stakeholder approach to business decisions, but investors' support is needed to fully implement such a model. Competing definitions, inconsistent priorities, and lack of proof that a multi-stakeholder approach supports sustainable value creation over time all contribute to investors' skepticism.

Walking the Talk: Valuing a Multi-Stakeholder Strategy brings practicality to the subject of the evolving stakeholder expectations and responsibilities that corporations confront. For the first time ever, this research presents empirical facts about the behaviors and outcomes of multi-stakeholder-oriented firms. Companies can use these facts to frame their decisions about stakeholder responsibilities and to communicate those decisions to members of the investment community and other key stakeholders.

FCLTGlobal conducted this research in full collaboration with the ESG Analytics Lab at the Wharton School, University of Pennsylvania. Witold Jerzy Henisz of the ESG Analytics Lab and Rachelle Sampson of the University of Maryland's Robert H. Smith School of Business led a team that included Nathan Barrymore, Christopher Bruno, James McGlinch, Ernest Ng, and Xuchong Shao, in partnership with members of FCLTGlobal staff, led by Allen He.

This expert group made these groundbreaking empirical findings possible with their data, methodology, and analysis. FCLTGlobal partnered with the ESG Analytics Lab because of the unique data and skill set required to conduct this type of integrated analysis. In addition to creating and owning the data on which these findings depend, our partners at the ESG Analytics Lab originated the methodology for this work and conducted the analysis alongside our FCLTGlobal team.

We often seek to provide translational insight, and this is an example. Our focus has been on applying these novel findings to empower companies to better navigate the evolving landscape of multi-stakeholder expectations and better equip institutional investors with a more complete understanding of how operationalizing those stakeholder responsibilities will contribute to long-term value creation.

As in everything that FCLTGlobal does, our members were integral participants in this research. In particular, we would like to thank APG Asset Management, Royal DSM, and Kempen Capital Management for originating the questions and guidance that provided the impetus for us to embark on this research. The result of this teamwork is powerful and tangible. We hope that this research will advance long-term behavior in the capital markets, and we offer our deepest gratitude and thanks to all of our project partners.

Sarah Keohane Williamson CAIA, CFA
Chief Executive Officer, FCLTGlobal

Ariel Fromer Babcock, CFA
Managing Director & Head of Research, FCLTGlobal

Executive Summary

Societal expectations of companies are rapidly changing as companies are confronted with wide-ranging responsibilities that extend beyond maximizing near-term shareholder return.[1] Those expectations encompass an expanding list of stakeholders – including the labor force, suppliers, communities, and governments – whose needs increasingly demand consideration.

In response, companies are recognizing the importance of considering key stakeholders in business decisions, but they have struggled to consistently implement practices that support long-term value in a multi-stakeholder context. That lack of consistency in operationalizing a multi-stakeholder strategy has left many investors – and other stakeholders – skeptical of firms that pursue this approach to business.[2]

What does it take to earn a return from implementing a multi-stakeholder strategy and offer a rebuttal to skeptics? To answer this question, we turned toward empirical analysis, comparing the characteristics and performance of companies pursuing various stakeholder-oriented strategies. Partnering with the ESG Analytics Lab at the Wharton School, University of Pennsylvania, we analyzed the annual reports of over 3,000 global companies (drawn from MSCI's All Country World Index) to look for stakeholder-oriented language, and we compared the presence of that language with financial, environmental, social and governance (ESG) outcomes.[3] Controlling for sector-specific effects, we found firms that paired strong stakeholder language ("the talk") with strong performance on material ESG measures ("the walk"):

- Generated **4% higher returns** over a three-year period as measured by return on invested capital (ROIC);
- Were more likely to meaningfully invest in **research and development (R&D), investing twice as much in R&D as a percentage of sales;**
- Were **50% more likely to issue long-term guidance;**[4]
- Delivered **higher sales growth** over longer periods of time **(1.5% higher over three years);** and
- Delivered more stable returns, resulting in **9% lower predicted ROIC volatility over three years.**[5]

At the highest level, if all firms performed like companies in the top walk/talk tercile, they would combine to generate $3.2 trillion in additional firm value over our 11-year study period.[6]

That's not to say that shareholder-centric strategies don't pay off. In the short run, firms focused primarily on their shareholders also perform well. But the positive effects of an approach to business that over-indexes to a single group of stakeholders (to the exclusion of others) appear to fade over longer periods of time. Those over-indexed firms also produce more volatile performance (as measured by the standard deviation in ROIC) compared with multi-stakeholder-oriented firms, making firms with a narrow focus less resilient in a rapidly evolving operating environment. In essence – while there is often a natural gravitational pull to prioritize one set of stakeholders over another (shareholders in many cases), prioritizing one group continuously is not a winning long-term strategy.

True multi-stakeholder approaches (high talk/high walk) may take time to yield benefits. High talk/high walk firms had higher sales growth in the long run (over more than three years), but initially, in the short run (zero- and one-year periods) the firms that had high talk and low walk scores did better. Essentially, there is some meaningless stakeholder talk: firms high on talk but low on walk underperform on many metrics of success over time. But talk can also be a leading indicator of improving returns. Firms that start using more stakeholder-oriented language and then back it up over time with improving walk metrics also do better. Separating the empty talk from the talk of companies that may simply be earlier in their journey is a challenge for stakeholders (especially investors) – one that companies can address with more consistent communications about their multi-stakeholder strategies.

Future-fit, long-term companies need more durable performance to succeed – and that requires attention to a broader group of stakeholders.

Using corporate purpose – the reason that a firm exists – as the reference point for deciding which stakeholder expectations matter to the corporation helps put a multi-stakeholder strategy into practice more consistently. Companies will have different stakeholders and varying stakeholder strategies because their purposes are different. Nevertheless, firms that connect their purpose to their key stakeholder responsibilities systematically across their organizations are better able to sustainably deliver long-term value – the goal of any corporation.

The term *stakeholder* can be unnecessarily polarizing. This publication uses the term primarily to talk about groups that have a direct means of influencing a company (e.g., regulators, lenders and creditors, and shareholders) or play a direct role in ensuring the success of the business (e.g., customers, suppliers, and workforces). The leaders of businesses that outperform in the long term know instinctively that attention to their key constituents is central to their success.

Expectations of long-term companies have expanded well beyond usual notions of their core business objectives to include their broader impact on markets, society, and the planet. Recognizing this evolution, many companies are taking multi-stakeholder capitalism seriously and speaking up. As Tricia Griffith, CEO of Progressive Corp., noted, "CEOs work to generate profits and return value to shareholders, but the best-run companies do more. They put the customers first and invest in their employees and communities. In the end, it's the most promising way to build long-term value."[7]

Companies similarly acknowledge that neglecting responsibilities creates distinctive risk for a firm, leading to fragility – the opposite of a future-fit company.

Ronald O'Hanley, CEO of State Street Corporation, emphasized this point during an FCLTGlobal panel: "Whether you are sitting as a CEO or an investor, what you are thinking about over the long term is risk and opportunity."[8]

The financial evidence of the risk created by ignoring key stakeholders can be apparent in cumulative return. Pursuing a multi-stakeholder-oriented strategy that not only communicates the importance of key stakeholders to the firm but also delivers value for those groups of stakeholders leads to an ability to compound returns over time. Over the long term, financial performance and sustainability outcomes often converge, mutually reinforcing each other and leading to success.

Valuing a Multi-stakeholder Orientation

Corporate performance can include all of the value created for a firm's various stakeholders, not just financial performance. At a recent FCLTGlobal panel, Alan Jope, CEO of Unilever, made the case for corporate performance that is both long-term and multi-stakeholder-minded: "When we do the right thing for society and do business in a planet-friendly way, it is to make Unilever a stronger, more future-fit company with the overall objective being to improve shareholder value creation."[9]

But the details matter. In our working group conversations with subject matter experts from both institutional investment organizations and companies, we found that investor skepticism often stems from the perceived gap between words and actions and the resulting lack of clarity on what to expect – in terms of behaviors and outcomes – from firms pursuing a multi-stakeholder approach.

To try to address some of those questions, FCLTGlobal worked alongside the ESG Analytics Lab at the Wharton School, University of Pennsylvania, to construct a novel, global dataset for MSCI All Country World Index (ACWI)

constituents that includes 11 years of longitudinal data (from 2010 to 2020) drawn from corporate annual reports and other financial filings, alongside financial and ESG data from Bloomberg, Compustat, FactSet, MSCI, RavenPack, Refinitiv, Sustainalytics, and TruValue Labs. We then compared the scale of the presence of stakeholder-oriented language ("the talk") with companies' performance on a range of capital allocation and ESG metrics ("the walk").

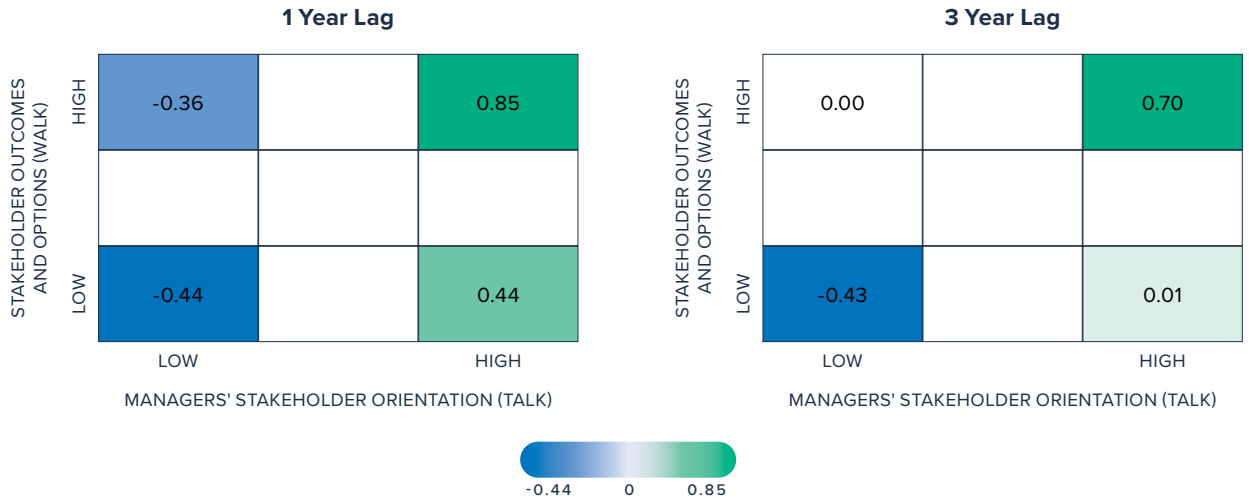
Firms that were "walking the talk" on stakeholder issues achieve better long-term results compared to those that neither walk nor talk (controlling for sectors and years). The high walk/talk companies:

- Delivered 4% higher ROIC over three years;
- Invested twice as much in R&D (as a percentage of sales);
- Had 1.5% higher sales growth over three years;
- Were 50% more likely to issue long-term guidance; and
- Delivered more stable returns, resulting in 9% lower predicted ROIC volatility over three years.[10]

Investing for the Future

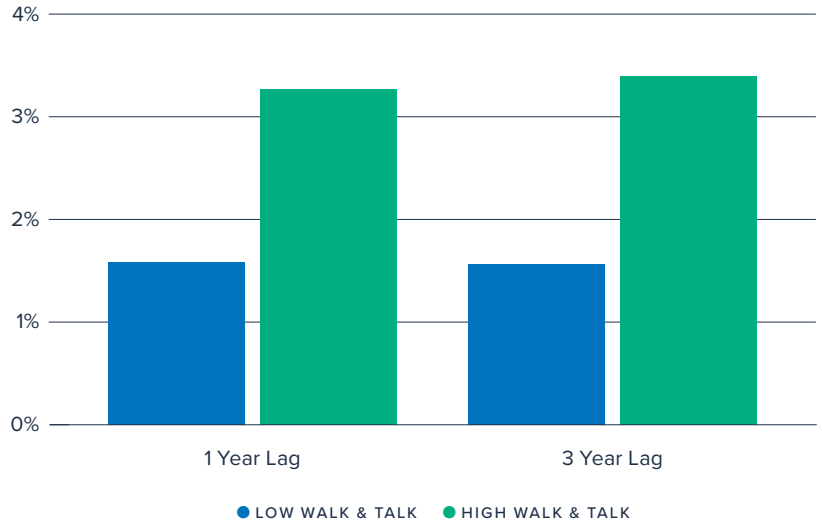
What do our high walk/talk firms do differently to drive this outperformance? Figure 1 shows the difference between firms that talk (further right) and firms that walk (further up). We see that with ROIC lagging by one year, firms that scored the highest for both talk and walk (upper right-hand box) averaged 0.85% higher ROIC as compared with the sample median, while firms that scored lowest on the talk and walk measures (lower left-hand box) averaged 0.44% lower ROIC compared with the sample median. Furthermore, translated into dollar amounts, if all firms performed like companies in the top walk/talk tercile, they would combine to generate $3.2 trillion in additional firm value over our study period.[11]

Figure 1: ROIC Compared With Sample Median (in Percentage) by Walk Versus Talk Terciles[12]



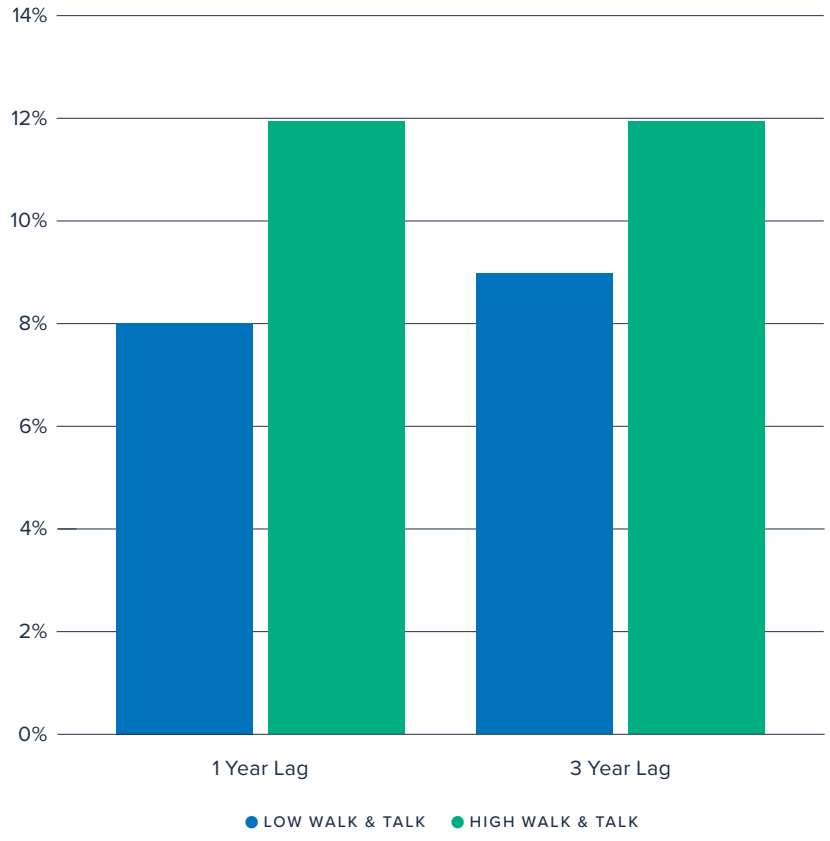
As seen in Figure 2, companies with the highest stakeholder walk and talk orientations also allocated capital with an eye toward the future. On average, these firms invested more than twice as much of their capital in R&D (as a percentage of sales) compared with their peers with low walk and talk scores (controlling for sectors and years).

Figure 2: Median R&D Expense (as a Percentage of Sales) by Low and High Walk and Talk



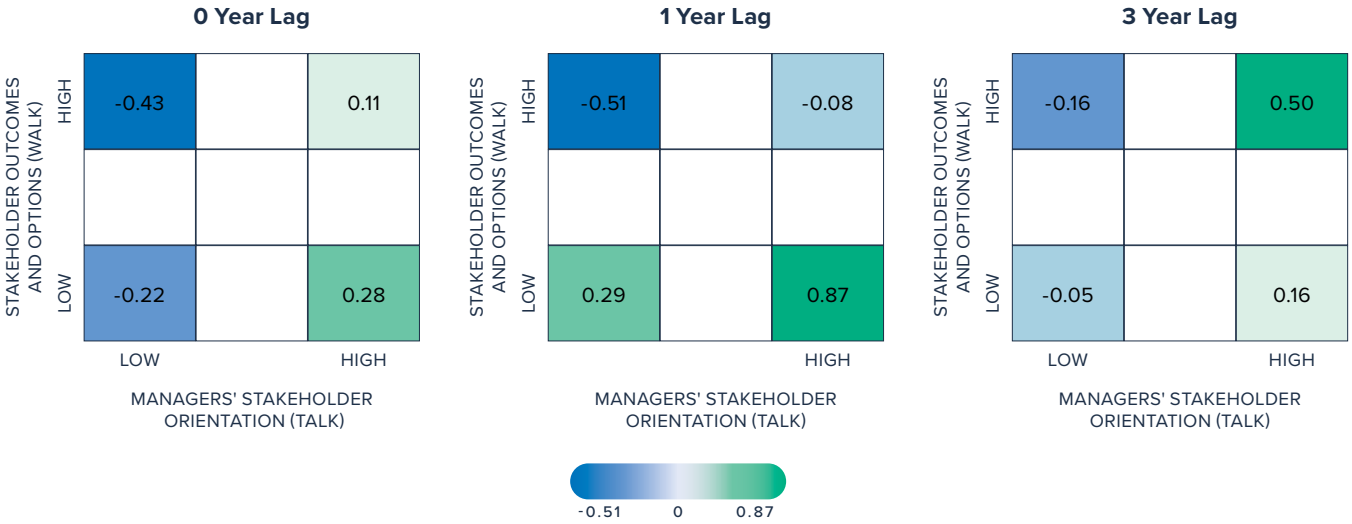
Multi-stakeholder-oriented firms were also 50% more likely to issue long-term guidance (guidance for periods of two or more years). Figure 3 shows a significantly higher propensity of such companies in the MSCI ACWI issuing long-term guidance on earnings per share (EPS); earnings before interest, taxes, depreciation, and amortization (EBITDA); sales growth; or capital expenditures – suggesting that these companies have a clearer long-term strategic roadmap.

Figure 3: Propensity of Companies Issuing Long-term Guidance by Walk and Talk Categories



In Figure 4, we see that multi-stakeholder-oriented firms had higher sales growth in the long run (over three or more years). But it may take time for firms to realize benefits from a multi-stakeholder approach. At least initially, in zero- and one-year lagged sales growth, firms that had high talk and low walk scores had the highest sales growth. This initial burst of growth was not sustainable over the longer term: by year three, the high-walk, high-talk group had the highest sales growth. Essentially, talking about your key stakeholders is a helpful first step, but those same stakeholders may abandon the firm if that talk is not eventually backed up with action.

Figure 4: Sales Growth Versus Sample Median (in Percentage) by Walk Versus Talk Terciles



It's clear there is value in pursuing a multi-stakeholder approach. But the findings also reveal there is no halfway. There is strong positive correlation between talk and performance in the short run, but no such correlation in the longer term. As such, companies that engage in talk but are not backing up that talk with actions see a small benefit in terms of performance over the short run, but the markets have a keen eye for empty talk that does not deliver improvement. On the other end of the spectrum, companies that keep quiet about their activities (walk but don't talk) similarly fail to earn a premium for those efforts (see Figure 1). These findings suggest that a clear communication of multi-stakeholder-oriented actions is essential for success – it is not enough to just walk. Talk also matters.

The Result of Overemphasizing One Stakeholder Group

Does this mean a single set of stakeholders should never be prioritized? Most certainly not.

Companies pursuing shareholder-centric strategies do indeed generate outperformance in terms of ROIC similar to those pursuing strong multi-stakeholder-oriented strategies in the short term (with ROIC lagged by zero years and one year), as seen in Table 1.

Table 1: Multi-stakeholder vs. Single-stakeholder (Shareholder) Effect on ROIC Over Time[10]

Effect on ROIC (+1 Std. Dev)	Contemporaneous ROIC	ROIC Lagged 1-Year	ROIC Lagged 2-Years	ROIC Lagged 3-Years
Multi-stakeholder Orientation	3.0%***	2.7%***	1.9%*	2.4%**
Single Stakeholder (Shareholder) Orientation	3.7%***	1.7%*	0.2%	1.4%

* = P < 0.1 ** = P < 0.05 *** = P < 0.01

But these single-stakeholder-focused firms fall behind over longer time horizons (two- and three-year lags). In addition, Table 2 shows that single-stakeholder-focused firms experience more volatility in returns; we see that increasing multi-stakeholder orientation by one standard deviation decreases ROIC volatility by 2.1% annually, but increasing single-stakeholder orientation by one standard deviation decreases ROIC volatility by only (an insignificant) 0.4%. All else equal, extended over three years, firms that walk the talk can have as much as 9% lower total returns volatility, compared with firms that neither walk nor talk. That means more stability for all stakeholders.

Table 2: Effect of Multi-stakeholder vs. Single Stakeholder (Shareholder) Effect on Volatility of ROIC[15]

Effect on ROIC Volatility (+1 Std. Dev)	Volatility ROIC Lagged 3-Years
Multi-stakeholder Orientation	-2.1%***
Single Stakeholder (Shareholder) Orientation	-0.4%

* = P < 0.1 ** = P < 0.05 *** = P < 0.01

Above all, our findings indicate that companies pursuing a multi-stakeholder approach would be wise to remember that over-indexing to one group is not a winning strategy in the long term. In order to create the highest and most stable long-term value (as measured by cumulative return on invested capital), a company needs to keep key stakeholders in mind and communicate regularly about the corporate strategy and approach.

FOR FURTHER ANALYSIS: FINER GEOGRAPHIC AND SECTORAL CUTS

Many of the members of our working group were interested in how a multi-stakeholder orientation influenced behaviors and outcomes in specific sectors or geographies. We tested several of these questions and found there was some variation, but analysis was limited by the small sample sizes created when slicing a database too finely. Directionally – we did find that:

- The Consumer Goods, Health Care, Technology, and Services sectors tend to have the higher “talk” scores, but the highest “walk” scores belong to the infrastructure, transportation, and materials sectors.
- Western European, Nordic and APAC firms rank among the highest talkers, but APAC firms lag behind in the walk metric compared to their European peers.
- There has been large uptick in stakeholder “talk” orientation in the United States since 2019, perhaps due to the Business Roundtable's updated Statement on the Purpose of a Corporation[7] as well as social movements like #MeToo and #BlackLivesMatter and increased climate-driven advocacy. However, this has not been matched by an equal magnitude of stakeholder “walk” measures thus far.

We share these findings to lend additional color to the analysis but suggest they be considered with the caution appropriate for analysis constrained by sample size limitations.

Conclusion

Expectations of companies have expanded well beyond traditional notions of maximizing shareholder returns immediately. But behaving responsibly and earnings the returns generated by implementing a multi-stakeholder approach is a complex and ongoing challenge – one that requires both resources and regular robust communication to deliver value in the long term. This report frames the multi-stakeholder opportunity with analyses to shed light on how companies employing a multi-stakeholder approach behave and perform, what it takes for them to be successful, and what they can reasonably expect that success to look like. The landscape of corporate expectations is ever changing; responsible long-term companies develop processes to consistently evolve their approach to remain responsive to key stakeholders while also staying true to their corporate purpose – ultimately delivering superior value over time.

Appendix A

Methodology

UNIVERSE

Annual year-end data for companies in the MSCI All Country World Index, or ACWI (approximately 2,900 active constituents across 23 developed and 27 emerging markets). The ACWI covers approximately 85% of the market cap in each market.[16]

SOURCES

Bloomberg (annual reports), Compustat, FactSet, MSCI, RavenPack, Refinitiv, TruValue Labs via FCLTGlobal, University of Maryland, and the ESG Analytics Lab at the Wharton School, University of Pennsylvania.

YEARS COVERED

2010 – 2020

Y VARIABLE

Return on invested capital (ROIC) normalized by Sustainability Accounting Standards Board (SASB) sector-year.

FORMULA FOR RETURN ON INVESTED CAPITAL

Net income / (shareholders' equity + long-term debt)

KEY *X* VARIABLES

Average Stakeholder Walk Percentile. The weighted average of stakeholder category measures for employees, customers, environment, government, and suppliers. Stakeholder category measures were calculated as follows:

For each of the environmental, social, and governance (ESG) data sources (MSCI, RavenPack, and TruValue), we generated a separate measure for each of the five stakeholder categories (employees, customers, environment, government, and suppliers). We generated normalized versions of each measure (e.g., the TruValue employee score) in aggregate by taking *z*-scores.

For non-imputed data, we calculated the aggregate stakeholder category scores (e.g., the score for employees) by taking the mean of the non-missing stakeholder category scores.

For the imputed dataset, we used instrumentation following Berg and others.[17] We generated a predicted value of each data source's category score using the other data sources' scores for the same category. For example, we generated a predicted value of the TruValue employees measure by regressing the TruValue employees score on the MSCI employees score and the RavenPack employees score. The aggregate employees score was then calculated as the mean of all predicted employees scores.

Generating Stakeholder Category Scores within Data Sources. TruValue data contains 26 materiality categories. We mapped these 26 ESG issues, whose materiality differs by industry. We then calculated an aggregate stakeholder category (e.g., employees) score by taking the mean of the materiality categories in the group, weighted by the number of articles in each materiality category.

MSCI data was also coded into stakeholder groups. For example, for our employees measure, we used the human capital theme score. For our suppliers category, we aggregated three MSCI subthemes.

RavenPack data is coded as positive and negative article counts. To generate a stakeholder category score, we calculated the net score as the count of positive articles minus the count of negative articles in the category. We then winsorized the variable at the 1st and 99th percentiles before normalizing the variable.

Average Shareholder Walk Percentile. This is the MSCI corporate governance score normalized by calculating *z*-scores in aggregate.

Stakeholder-Shareholder Talk Score. This measure captures how much more or less stakeholder oriented, relative to shareholder oriented, a firm's annual report language is. To calculate our talk score, we first measured the number of significant words (related to the concepts of risk, reward, positive, negative, or affiliation) in proximity to stakeholder words minus the number of significant words in proximity to shareholder words in a firm's annual report. We then regressed this measure of stakeholder talk minus shareholder talk on a vector of indicator variables capturing a firm's industry, country, and year. Our final measure is the firm's residual, that is, its actual stakeholder-minus-shareholder talk measure, minus its predicted stakeholder-minus-shareholder talk measure from the regression.

Our list of stakeholder words was generated using an original list available in Vracheva and others[18] and then appended by the authors based on inductive and deductive textual analysis of SASB industry reports and assessment of government-oriented words used in various countries. Linguistic construct lists (e.g., positive words) were collected from the Loughran-McDonald master dictionary and the Linguistic Inquiry and Word Count software program.[19, 20, 21]

MODEL SPECIFICATION

Our main model regresses ROIC (normalized at the sector-year level) on stakeholder walk, shareholder walk, stakeholder talk, and a set of control variables.

We ran separate models for contemporaneous independent variables, as well as independent variables lagged by one and three years. Our control variables were always lagged by one year.

STATISTICAL SIGNIFICANCE

Determined by multivariable regression with the key independent variables lagged by one, two, and three years. Here, weakly significant = 0.1, significant = 0.05, and strongly significant = 0.01.

MISSING DATA

Amelia II expectation maximization and bootstrapping multiple imputation program used for ESG scores from MSCI, RavenPack, and TruValue Labs data only. Key financial controls were included in the imputation process to improve accuracy: log(sales), log(market cap), log(employees), cash/total assets, market to book ratio, current assets, current liabilities, free cash flow. Min-max boundary rule based on non-imputed data applied post-imputation. Qnorm plots examined for similar distributions between non-imputed and imputed data.[22]

OUTLIERS

Normalized percentile scores used in analysis. Extreme values for RavenPack stakeholder group scores, as well as selected dependent variables (ROIC and capital deployment ratio), were winsorized at the 1st and 99th percentiles.

INDICATOR VARIABLES

- Years: 2010 – 2020
- SASB sectors: Financials, Infrastructure, Services, Transportation, Technology & Communications, Extractives & Minerals Processing, Resource Transformation, Health Care, Consumer Goods, Food & Beverage, Renewable Resources & Alternative Energy
- Country
- Firms

CONTROL VARIABLES

Log(sales), log(total assets)

Appendix B

Additional Figures and Tables from Analysis

CONSTRUCTION OF THE WALK-TALK MATRIX

- Taking our final stakeholder walk and talk scores, we proceeded to split the sample into nine subgroups, forming a three-by-three grid. Firms in the lowest tercile of walk and talk scores were grouped into the "1-1" (bottom left) bucket, while firms in the highest tercile of walk and talk scores were grouped into the "3-3" (top right) bucket.
- Firms can move between buckets as they become more or less stakeholder oriented, but as seen in the transition matrix in Figure B1, firms are often slow to move, and large jumps of more than a single box or tercile are rare.

Figure B1: The Walk-Talk Transition Matrix (Three-year Lag), 2010–2020

	1-1	**1-2**	**1-3**	**2-1**	**2-2**	**2-3**	**3-1**	**3-2**	**3-3**
1-1	**33%**	19%	9%	14%	9%	5%	6%	4%	2%
1-2	19%	**25%**	18%	7%	11%	8%	3%	5%	5%
1-3	9%	15%	**31%**	4%	11%	17%	3%	3%	8%
2-1	13%	9%	6%	**24%**	14%	7%	14%	8%	5%
2-2	9%	10%	8%	14%	**16%**	14%	7%	13%	11%
2-3	3%	7%	15%	5%	13%	**27%**	5%	10%	16%
3-1	7%	3%	3%	17%	10%	4%	**27%**	20%	10%
3-2	3%	6%	2%	8%	14%	9%	15%	**24%**	19%
3-3	2%	3%	6%	5%	8%	16%	7%	16%	**38%**

Table B2: Regression Results (Stakeholder and Shareholder Orientation on ROIC, Three-year Lag)[23]

Sample	Full Sample (1)	Low Talk (2)	Med Talk (3)	Hi Talk (4)	NA Talk (5)
Multi-stakeholder Orientation	0.751* (2.77)	0.334 (0.62)	0.842 (1.52)	1.957** (3.43)	0.197 (0.38)
Single Stakeholder (Shareholder) Orientation	0.453 (1.70)	0.876 (1.70)	0.0468 (0.09)	0.933 (1.73)	-0.268 (-0.47)
Log(Sales)	3.251*** (17.62)	2.770*** (8.29)	3.006*** (6.96)	4.331*** (11.29)	2.689*** (9.02)
Log(Total Assets)	-3.627*** (-19.74)	-3.177*** (-9.34)	-3.396** (-8.40)	-4.668*** (-12.46)	-3.043*** (-9.23)
Constant	16.22*** (6.13)	13.65*** (3.96)	20.09*** (4.95)	10.77* (2.49)	17.57*** (4.61)
Number of Observations	20,563	5,362	5,428	5,364	4,409

T STATISTICS IN PARENTHESES * = P < 0.01 ** = P < 0.05 *** = P < 0.01

Table B3: Regression Results (Stakeholder and Shareholder Orientation on ROIC Volatility, Three-year Lag)

Sample	Full Sample (1)	Low Talk (2)	Med Talk (3)	Hi Talk (4)	NA Talk (5)
Multi-stakeholder Orientation	-0.675*** (-5.70)	-0.744** (-2.97)	-0.645** (-2.66)	-0.861*** (-3.63)	-0.561* (-2.42)
Single Stakeholder (Shareholder) Orientation	-0.114 (-0.96)	-0.134 (-0.58)	-0.426 (-1.80)	-0.323 (-1.37)	0.518* (2.00)
Log(Sales)	-0.0412 (-0.63)	0.170 (1.47)	-0.314 (-1.87)	0.259* (2.18)	-0.288* (-2.37)
Log(Total Assets)	-0.526*** (-7.78)	-0.794*** (-6.52)	-0.340* (-2.03)	-0.770*** (-6.20)	-0.170 (-6.20)
Constant	9.623*** (9.62)	9.148*** (5.66)	10.75*** (4.38)	8.697*** (4.38)	8.264*** (5.62)
Number of Observations	20,168	5,282	5,331	5,258	4,297

T STATISTICS IN PARENTHESES * = P < 0.01 ** = P < 0.05 *** = P < 0.01

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Endnotes

1 "2021 Edelman Trust Barometer." Edelman, January 12, 2021. https://www.edelman.com/trust/2021-trust-barometer.

2 See, for example, "Council of Institutional Investors Responds to Business Roundtable Statement on Corporate Purpose." Council of Institutional Investors, August 19, 2019. https://www.cii.org/aug19_brt_response.

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4 Guidance on EPS, EBITDA, capital expenditures, and sales growth.

5 Extrapolated from the average stakeholder percentile of high walk/talk firms less that of low walk/talk firms (approximately 2.4 standard deviations) * √3 (square root of time in years).

6 Based on the counterfactual assumption that companies in the remaining eight terciles had instead performed as well as those in the top walk/talk tercile without degrading the performance of firms in that tercile. Calculated by taking cumulative three-year (nonnegative) earnings from the remaining terciles and multiplying them by the difference between each tercile's three-year ROIC and the top walk/talk tercile's three-year ROIC.

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10 Extrapolated from the average stakeholder percentile of high walk/talk firms less that of low walk/talk firms (approximately 2.4 standard deviations) * √3 (square root of time in years).

11 Based on the counterfactual assumption that companies in the remaining eight terciles had instead performed as well as the top walk/talk tercile without degrading the performance of firms in that tercile. Calculated by taking cumulative three-year (nonnegative) earnings from the remaining terciles and multiplying them by the difference between each tercile's three-year ROIC and the top walk/talk tercile's three-year ROIC.

12 For more on the construction of the walk-talk matrix, see Appendix B.

13 Note: Results are the predicted impacts from a regression analysis specified in Appendix B.

14 Extrapolated from the average stakeholder percentile of high walk/talk firms less that of low walk/talk firms (approximately 2.4 standard deviations) * √3 (square root of time in years).

15 Note: Results are the predicted impacts from a regression analysis with three-year lag, as specified in Appendix B.

16 "MSCI ACWI Index." MSCI, 2021. https://www.msci.com/our-solutions/indexes/acwi.

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21 Note: the Linguistic Inquiry and Word Count software program is intended for research purposes only. This dictionary can only be used by non-commercial organizations such as schools or universities.

22 Note: Results were run with and without the use of imputed ESG data.

23 Note: For regression results with lags of different lengths and robustness checks, email research@fcltglobal.org.

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