

Kurohara Consulting Co.

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Chris Tunik
Chief Communications Officer
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2415 Michigan Ave., Suite 2846
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Subject: Guidance on Caliroots' Corporate Social Activism Strategy

Dear Mr. Tunik,

I am writing to you on behalf of Kurohara Consulting Co. to provide you with an analysis of the benefits and detriments of corporate social activism (CSA) and how it should guide Caliroots' future company decisions. As you've experienced, recent movements like BLM and the rise of social media have amplified the pressure for companies to speak out and take a stance on controversial social issues (Fan). Hence, as a fashion startup based in Los Angeles, I can understand how not speaking up about certain issues has sparked some recent public outcry and has the potential to damage your company's reputation. This analysis should provide the necessary information to help determine if CSA is appropriate for Caliroots and guide your company to a solution. It first addresses the benefits and downfalls of corporate social activism, and then transitions into how Caliroots can tailor its strategy to stakeholders followed by an analysis of two relevant case studies.

Benefits of CSA

Many companies adopt CSA because of its strategic potential to boost corporate performance — through both stakeholder and shareholder appeal. First, if executed correctly, advocating for a social cause can boost sales, brand loyalty, and make brands stand out from their competitors. Young consumers are increasingly putting a premium on social advocacy; 40% of global consumers will actively seek brands that agree with their values (Haller et al). Additionally, millennials and Gen Z are increasingly taking companies' social activism efforts into consideration when making career decisions (Deloitte Global). Thus, many companies are adopting CSA as a means of unlocking new levels of talent acquisition and employee retention. Furthermore, activism does not stop at the customer or employee level; shareholders have been using their role as public company owners to hold corporate managers accountable and influence

corporate behavior (Lee and Lounsbury). This creates the potential for CSA to create shareholder value, since the success of a corporation depends significantly on its ability to meet the demands of both its internal and external stakeholders.

Where CSA Fails: Bandwagoner Activism

Despite the business opportunities that can come from CSA, it will likely backfire if your activist stance is not driven by the company's purpose. As social movements rise in popularity, many companies have been quick to jump on the bandwagon of social activism issues — but only to boost their brand and appeal to young consumers. With social media and technology making it easy to participate in social movements and reach large audiences, companies can support causes in a highly visible way to profit off of CSA and attempt to improve their reputation, without actually committing to action behind their messages. However, today's consumers are highly observant and cautious of any type of inauthenticity or insincerity. Millennials closely observe whether companies' social activism choices comply with their expressed values, and are quick to shun those who fall short (Dodd and Supta). Additionally, skepticism can result in reduced company stock value and sales (Gupta and Pirsch). For example, CBS posted a tweet speaking out in support of BLM and faced immediate skepticism over its authenticity. People were quick to question why its former headquarters was being used by police to detain peaceful protesters, including comments like “Stand in solidarity with actions, not posts” (Mackenzie). Committing to a cause without actually creating long-term change or a clear moral purpose is perceived as inauthentic and proves counterproductive.

Before publicly committing to any social cause, I advise that you reevaluate Caliroots' core values and ensure they align. However, given the risks associated with bandwagoner activism and Caliroots' low risk tolerance as an early-stage startup, rather than publicly supporting a controversial social topic, Caliroots would benefit much more from aligning their social activism strategy with their young employees and shareholders who are shaping the corporate world, pledging long-term commitment to show that they care.

Shareholder Activism: Promoting Diversity from Within

As an early-stage startup that has recently gone public, it has a fiduciary duty to its shareholders who provide young, growing companies like Caliroots with the necessary capital to advance. Additionally, the interests of shareholders are changing as this generation's pursuit of social change is driving the recent rise in shareholder social activism. Given these circumstances and millennial prioritization for socially responsible investing, management should ensure that they tailor their social activism strategies to shareholder preferences.

When it comes to the new generation of shareholders, they are notably different from their predecessors: social values take precedence over investment returns. Good corporate governance

is no longer just measured by share price; shareholders are now raising the standard for equal employment opportunity (EEO), employee diversity, and transparency. Investors are demanding that companies publicly prove their commitments to diversity. Such accountability is reflected through shareholder proposals: the Sustainable Investments Institute reports show that requests for firms to release EEO-1 reports that showcase workforce composition have more than doubled this year, as shown on the graph below (“Proxy Review 2021”). In fact, many large public companies have committed to disclosing comprehensive EEO-1 to back up their pledges of racial justice (McGregor). State Street, BlackRock, and Vanguard all publicly pledged to evaluate the diversity in their portfolio companies with the goal of voting out directors whose companies don’t meet diversity requirements (Whittaker). This pushes companies to establish internal cultures in which all employees are represented throughout the company and have equal opportunity for advancement and employment. To my understanding, minority groups make up only 30% of Caliroots’ workforce without any equal opportunity programs in place. Although shareholders should not dictate Caliroots’ activism strategy, this new push for disclosure of diversity measures could harm Caliroots if it does not make the necessary human capital changes.

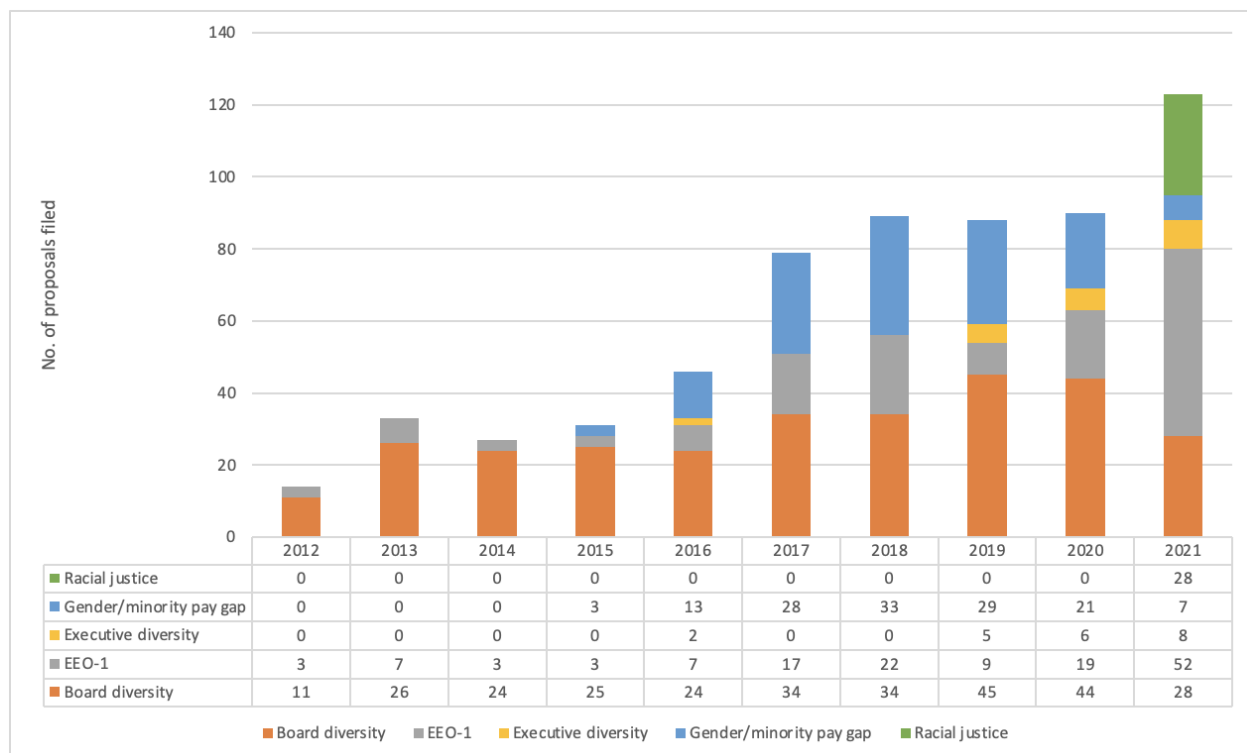


Fig 1. The number of shareholder proposals filed from 2012 to 2021 for each category.

“Proxy Preview 2021: Shareholders Focus on Racial Justice, Political Spending, and Climate Change.” *Sustainable Investments Institute*, As You Sow, 18 Mar. 2021, siinstitute.org/press-release.php?id=38.

Shareholder activism through an all-inclusive company culture not only appeals to investors, but it is also proven to benefit business. First, diversity and business performance have a strong positive relationship, with companies in the top quartile of racial and cultural diversity earning 36% more profit than those in the bottom quartile (Hunt et al.). In Deloitte's Global Human Capital Trends report, CEO's rated "impact on society, including income inequality, diversity, and the environment" as their most important measure of success (Bersin et al.). Second, the social values of the younger generation not only govern their decisions as investors, but also as employees — making stakeholder capitalism inexorably linked to shareholder activism. Diversity proves just as important to millennial and Gen Z employees, who will make up most of the workforce by 2025: 44% of millennials and 49% of Gen Zs say a diverse workplace is an essential factor when evaluating companies to work for, equating diversity to a "forward-thinking mindset rather than the mechanical filling of quotas" (Deloitte Global). As a startup, attracting and retaining this new generation of employees is critical for Caliroots' future prosperity. Supporting a diverse workplace will in turn attract diverse talent. Ultimately, investing in workers through EEO and diversity efforts caters Caliroots' social activism to both employee and investor interests.

Investigative Analysis through Case Studies

Gap Inc.

Gap's diversity initiatives are a pivotal example of how fashion brands can be activists within their organization. As a basis, the company's core values are rooted in equality, forming the foundation for their social activism. In addition to being an Equal Opportunity employer, they have gone a step further to fight against discrimination by embedding diversity and inclusion into every part of the company through the Equality & Belonging (E&P) Ecosystem (Gap Inc.). Their E&P initiatives advance employee diversity through various talent and retention practices; they require racial equity training, have pipelines to attract talent from underserved communities, invest in Black, Indigenous, and people of color (BIPOC) students early on, and have altered their job descriptions by removing education requirements from 99.7% of them. On the whole, these efforts highlight Gap's mission to foster workforce equity. Another initiative is their Rotational Management Program, which offers leadership training to employees. By increasing the program's diversity in which 62% are BIPOC, it serves as an internal leadership pipeline supporting the upward mobility of underrepresented employees.

Gap not only measures their diversity progress over time, but it also shares the data publicly. Since 2013, Gap has consistently disclosed its employee race and ethnicity data to the public and stakeholders. In addition to providing consistent updates on their diversity initiatives, the company just recently launched its first stand-alone Equity & Belonging inaugural report that summarizes its efforts to advance social and racial equality within the company and beyond. The report showcases their actions and progress in areas like workplace equity, inclusion, and

education. These are some of the many ways Gap commits to transparency in its social activism to effectively communicate to stakeholders and investors.

PVH Corp.

PVH Corp. has made significant strides in their impact on corporate diversity both within the organization and U.S. fashion industry. In their leadership diversity efforts, they publicly set a clear goal of requiring that 50% of interviewees at the Director level and above be of minority status (“Inclusion and Diversity Commitments”). PVH Corp. has also extended their impact to the greater community; in order to address lack of minority access to the fashion industry, the company is investing \$10 million in programs and organizations dedicated to removing those barriers and creating opportunities for underrepresented talent pools. Although this activism strategy is not as outspoken as a bold public statement or campaign, it demonstrates that progressive change can occur through more feasible avenues from an internal perspective.

Lance LaVergne, Chief Diversity Officer at PVH Corp., is especially passionate about diversifying the fashion industry workforce to match its consumer base. On the first day of this year’s Black History Month, the company partnered with the Council of Fashion Designers of America (CFDA) to produce the “State of Diversity, Equity, & Inclusion in Fashion” report, which provides specific actions companies like Caliroots can take to promote equitable workplaces in the US fashion industry.

Recommendations

CSA continues to shape how businesses operate and resonate with stakeholders. Given the potential risks for smaller companies like Caliroots without a built in platform or defined core values to base their activism on, I recommend that Caliroots hold off on speaking out in support of controversial issues. Instead, it should commit to corporate citizenship and social impact within the company by enhancing corporate diversity practices and increasing transparency for stakeholders. Here are a few actions Caliroots can take to achieve this:

- Include clear metrics on diversity fillings in Caliroot’s annual impact report and devote a section featuring commitment to transparent diversity and social impact goals for stakeholders.
- Arrange unconscious-bias training for talent management or diverse slate hiring requirements to ensure employees are onboarded equitably.
- Establish an internal leadership pipeline to put more underrepresented groups in management positions at Caliroots.
- Create a CSA or diversity team to track progress and hold managers accountable.

At Kurohara Consulting Co., we have a strong background in working with leading fashion companies to integrate CSA into their core policies for success in the long-term. Should Caliroots decide to go forward with this, I have no doubt that we can develop a successful social impact strategy and implement the transformational steps needed to achieve sustained impact over time.

Thank you for the opportunity to work with you. I look forward to hearing from you and please feel free to contact me with any questions or concerns.

Sincerely,

Katherine Kurohara

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