

FINANCE-FOCUSED STRATEGIES REPORT

Created by Whistle Stop Capital and Open MIC

For the NetGain Partnership

EXECUTIVE SUMMARY

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NETGAIN PARTNERSHIP



PURPOSE

In September 2021, the NetGain Partnership initiated a research process designed to explore finance-focused strategies that would hold leading internet platforms accountable and create a healthier digital public sphere. In April 2022, the partnership commissioned Open MIC and Whistle Stop Capital to produce a series of reports that addressed those issues. Since then, the research teams have conducted interviews with more than 40 practitioners, analysts, and observers of shareholder engagement and finance-focused strategies in the global technology sector. The research teams have also explored current tactics and strategies employed in the finance-sector globally to check the power and harmful behaviors of Big Tech companies. The resulting reports summarized key learnings from the research, and provided recommendations for philanthropy's role in advancing finance-focused strategies. This executive summary is designed to provide a high-level overview of the research and findings in an accessible format for peer funders and other interested stakeholders.

We recognize in sharing the research from 2022 that the technology landscape has changed significantly and observations and insights from the research reports are dated given the dynamic technology and finance environments. This executive summary will attempt to highlight the changes or evolution of observations to better situate the reports in today's context.

The NetGain Partnership is currently exploring opportunities to use investor influence and finance-focused strategies to hold key internet platforms accountable and create a healthier digital public sphere.

INTRODUCTION

For investors not driven by philanthropic, personal, or religious values, improvements in social or environmental practices are supported when they are understood to enhance the long-term value of a company. Investors can be powerful allies in pressing for change in companies – if there is a persuasive case showing that changes would enhance financial returns and if the change being requested is clear. When social activists link their social or environmental causes to the improvement of an investment’s return, they gain a broader audience for their message and, given their new allies, more influence when speaking with decision makers.

Activists have been working to gain the trust and leverage the capital of investors for decades, with increasing success over time. To understand the approaches activists have successfully deployed, and how these approaches might be applied to rising social issues, an understanding of capital markets and of investor behavior is necessary. The suite of reports commissioned by the Netgain Partnership aimed to contextualize capital markets and investor behavior by exploring strategies and case studies; understanding the challenges and opportunities of incorporating digital rights issues into Environmental, Social, and Governance (ESG) frameworks; evaluating data infrastructure needs for investors and activists; articulating a role for funders and investors in pushing for ethical AI standards; and highlighting private market interventions that shape early-stage tech companies in their efforts to reduce and mitigate harm.

The research and reports were produced in late 2022, but the finance and tech landscapes have changed dramatically in several ways. In the past nine months, generative AI has become available to the public; regulatory bodies have pursued laws to establish AI guardrails; the SEC has passed new rules arming Limited Partners (LPs), investors in venture capital firms, with more negotiating power; and leading artificial intelligence

companies have made voluntary commitments to manage the risks posed by AI. Additionally, an anti-ESG narrative has become more polarizing and politicized in the United States, causing greater concern about the language used, if not the substance, for how social and environmental issues are framed across companies and investors. However, due to tightening capital availability in both public and private markets, investors have more leverage over management and General Partners (GPs) creating an opportunity to put pressure on them to shift practices.

In light of the changing landscape, significant opportunities exist in the public and private markets to utilize investor influence to encourage technology companies to take greater accountability for their societal impacts. Tools that have proven successful in past investor engagements must be tailored to meet new challenges, however. Foundations are able to play a unique and catalytic role in this effort, providing the capital and leadership to deploy finance-focused strategies, as grantors and as investors themselves.

KEY TAKEAWAYS & ROLE OF PHILANTHROPY

Landscape Report on Shareholder Engagement and Activism Strategies: Lessons from the past, guidance for the future

NetGain seeks to shift the market's expectations of technology companies so that they consider how they impact the broader society. Fortunately, the road ahead is not as steep as it may have once been. To only invest to preserve capital, or to beat the market, is now at odds with best-practice investing. Investors now allow for more complexity and nuance when they consider environmental and social topics. There is a greater understanding of the financial value that sustainability leadership might bring to a company and to the broader health of an investment portfolio. This more nuanced perspective is the result of long hours and multi-faceted coalition-focused efforts by investors and activists.

To better understand the tools and efforts that led to successful change, Whistle Stop Capital examined case studies and identified eight key tools investors have used to push publicly traded companies to change their practices.

- **Coalitions** – Coalitions are the first step in building a successful shareholder engagement. Investors must have shared goals and views of an issue in order to successfully build and sustain change. Formalized coalitions, with staffing, provide essential knowledge centers and coordination of investors.
- **Business Case Research** – Mainstream investors need to view tech accountability practices as key to business performance issues. Business case research, and related reports, identify and prioritize concerning actions and provide a legitimizing rationale for investors to become involved in encouraging improved corporate practices.
- **Key Indicators Identification** – Complex ideas need to be presented to investors in a digestible way. Indicators and benchmarking allow for a simplified explanation of the changes sought, a differentiation of leading and lagging companies, and the tracking of changes over time.
- **Screens and Divestment** – Screens and divestment strategies encourage investors to disassociate their financing from morally unacceptable products and services. This approach does not try to change the cost of capital for the targeted companies; it gives investors an opportunity to reflect on their investment portfolios and how they align with the issue of concern. It can act as a simplified communications tool that engages stakeholders beyond large institutional capital, such as students, media and policy makers.
- **Direct Engagement** – Investors, independently or in coalition, have been able to catalyze changed corporate practices by speaking directly with companies. Building a trust relationship with a company that facilitates information sharing and discussion allows for collaboration with internal advocates, which has led to long-term changes.

- **Shareholder Resolutions & Proxy Voting** – Shareholder resolutions allow for public communication with other investors, and proxy voting is a relatively easy process to show support for other investors’ efforts. Shareholder resolutions put pressure on companies to engage constructively in private conversations, or risk the public scrutiny that the resolution process brings.
- **Board Campaigns** – Board campaigns have been reserved for the most intransigent companies. They are rarely deployed because a very specific set of circumstances must exist for them to be effective: the stock has to be underperforming financially and the board has to be non-responsive to shareholder concerns for an extended period of time.
- **Lawsuits** – Investor lawsuits have been used when wrongdoing is explicit, or when investors want to ensure that an issue is being carefully managed. This approach is legally complex and expensive, but can be used to push forward meaningful change.

Shareholder Engagement in Tech: Status report

A dramatic growth in ESG investing in recent years has created momentum for successful shareholder engagement across multiple industry sectors, including technology, where investor advocates are successfully pressuring companies for accountability on a range of critical digital issues — from privacy and artificial intelligence to surveillance and racial equity.

- Challenges to successful shareholder engagement include a backlash against ESG investment practices, with prominent conservative and right-wing figures driving an emerging “anti-ESG” political movement. This movement requires a targeted response, one that philanthropy can support through capital and aligning stakeholders.
- There is also concern that shareholder advocacy is hampered by a paucity of objective data and rankings to measure corporate support and performance in the

digital arena, especially as advocates work to anticipate the societal impact of new and emerging technologies — including artificial and virtual reality, biometrics, nanotechnology, synthetic biology and others.

- As shareholder engagement on digital issues matures, there's need for greater coordination and action by advocacy organizations across a broad range of potential "finance-focused" initiatives, which will entail focused and long-term support from the philanthropic community.
- There is a role for philanthropy to support US antitrust reform, limitations on multi-class shares, strategic litigation, and leveraging the EU-based Digital Services Act and Digital Markets Act to inform US policy.
- Strengthening coalitions and improved coordination between investors and civil society organizations is critically needed. Philanthropy has a unique role to play in supporting coordination and coalition building among various stakeholders. Facilitated coalitions are also essential venues for communication and building support for shareholder resolutions, board slates, and divestment efforts.

Key Indicators Assessment: Good Governance & Privacy

Key indicators and their associated infrastructure are an essential aspect of a shareholder engagement campaign. Investors need a system that allows them to compare and benchmark companies – both against their peers and relative to their own performance over time. A consistent and well-defined data set is also essential, because investors want to understand the materiality of an issue to company value. They also need to understand the relationship between stock performance and issue performance in order to act.

When the team reviewed the existing landscape of thought leadership, standards, and datasets, they expected to find clear goals or concerns related to tech companies and their civil society impact. However, the tech accountability standards and frameworks reviewed were primarily focused on conceptual policies, not tangible or quantitative practices against

which a company's actions might be evaluated. While consistent themes emerged (algorithmic fairness, bias & discrimination, content moderation, disinformation, end user impact, freedom of expression, human rights, internet access and privacy), quantitative expectations were challenging to identify, even in direct conversation with thought leaders. *Such quantitative metrics are precisely what equity investors find most actionable and relevant.* Investors want to understand what is being done now, why it should be done differently, what the desired change is, and how successful that change has been once implemented.

Given those circumstances, the NetGain Partnership advisory committee agreed to shift the focus to the development of sample key indicators focused on privacy concerns. This allowed Whistle Stop to illustrate the steps needed to replicate the indicators development process for other topic areas.

- The key indicators are divided into two component parts, with the portion focused on governance and oversight applicable across all issue areas. The second component part is tailored specifically towards quantifying privacy policies and practices.
- The governance focus is needed, because the tech sector is ever-changing. We cannot know the key harms and concerns associated with not-yet-developed technologies. The policies, practices, responsibilities, and expertise of the individuals who lead technology companies become the most important indicators of a company's commitment to reduce current and future harms and to provide societal benefits.
- The development and application of the privacy-specific indicators allowed for assessment and analysis of Google, Amazon, Meta, Twitter, and Yelp. These companies were chosen in order to provide an illustrative example of tech platform companies. To review and deploy the key indicators effectively, additional companies will need to be included in an analysis.
- The research into the key indicators' creation identified five gaps that would impede the development of a successful finance focused tech strategy:

- a. The scope of concern must be defined
- b. There are few researchers and few publications dedicated to investors' understanding of the technology sector's impact on society
- c. Unlike climate activism, where the need to reduce greenhouse gases is a clear unifying goal, technology's wide impacts mean there is no unifying metric
- d. Investors are most easily engaged on topic areas that are deemed to be material to stock performance; this link has not yet been formally created for technology's impact on society
- e. The lack of definition of issue-specific impacts means that best practices cannot be assessed.

In response to these challenges, the Whistle Stop Capital team recommended that the facilitation and coordination between civil society advocates and investors be prioritized. They also noted the need to develop clear performance metrics and sufficient research capacity to research and assess tech accountability data. This linked to the need for a credible third-party assessor and corporate watchdogs. Finally, the team noted that the recent drop in tech valuations in the public markets was creating a moment of opportunity; with some tech companies falling from their pedestals, they are now more open to changing their approach.

Private Capital in Tech: Untapped Potential for Impact

Two sources of private capital - venture capital (VC) and private equity (PE) - play critical roles in the overall economy of the tech sector. VC firms typically fund ventures in the early stages of a company's development, usually in anticipation of an eventual public stock offering; PE firms typically acquire or help fund more mature ventures. In the past five years, those distinctions have begun to blur somewhat as VC and PE firms both have

chased high returns in the tech sector. This has traditionally been uncharted territory for corporate accountability advocates.

- The high degree of leverage that private capital actors hold over the tech sector at its most formative stages presents a high impact opportunity to shift the negative drivers that are impeding these entrepreneurs from becoming leaders in responsible tech.
- To spur this shift, foundations can help reform the culture of private market tech finance by:
 - Investing in responsible ventures and funds;
 - Supporting campaigns and engagements targeting key players in the private capital ecosystem;
 - Funding initiatives that equip private capital actors and startups with the knowledge and tools they need to address risks to digital rights; and
 - Bolstering legal and policy reform initiatives that aim to redress the negative incentives that undermine transparency and accountability in private capital.
- Foundation program officers (in tech/society/public interest tech) can share best investment practices with foundation finance teams and help bring ESG metrics/activism into investment processes.
- New mechanisms should be created to allow foundation investment portfolios to account for tech company investment selections and societal impact. These portfolios should explore new financial models, approaches, and vehicles for social impact investing.

AI Investment Standards: Building consensus from emerging efforts

- In practice, AI tools are typically used to supplement or replace human decision making. Companies and public service providers have adopted AI systems at such a

rapid rate that these tools can now be found in nearly every industry and public sector, including policing, military operations, corporate hiring, financial services, housing, education, healthcare, fraud detection, and environmental safety. This widespread adoption is exposing communities to potential bias and rights violations, while also introducing new legal, financial, and reputational risks for companies.

- Both AI vendors and customers are failing to do basic due diligence in developing and deploying AI systems, routinely exposing their brands to serious financial and reputational risks they have not even begun to adequately assess.
- The nascent, yet growing, development of ethical standards for building and implementing AI tools is presently too piecemeal and or too generalized to keep pace. Many stakeholders and third-party actors are developing sets of ethical AI principles and certification regimes. These efforts hold promise, particularly as the use of complex AI tools spreads into industry sectors where companies may not have the technical expertise to assess the impact of those tools in-house.
- As demand for AI certification and impact assessments increases, however, so does the risk of bad actors entering the space to “rubber stamp” poor governance practices for profit.
- Investors have an opportunity to support the evolution of specific, operationalizable ethical AI standards by demanding transparency regarding these “black box” technologies and the processes companies use to develop, assess, and deploy them. In coordination with civil society organizations and academia, investors are also well positioned to inject pragmatic business concerns into the discourse surrounding AI.
 - More tools, such as [Responsible Investing in AI Guidebook for Investors](#) by Ravit Dotan, AI Ethics Advisor and Researcher, are beginning to emerge.

ESG (+D)?: Bridging the digital rights data gap

For responsible tech investment to be feasible, investors need reliable information on how companies manage their impacts on digital and other human rights.

- Large tech companies remain popular with ESG investors in spite of their well documented governance and human rights failures. The reason is twofold: mainstream ESG ratings fail to account for the unique human rights harms and weak governance endemic to the tech sector and have methodological limitations that lend themselves to overestimation of tech sector ESG performance.
- While there are numerous disparate initiatives that offer piecemeal standards and metrics to define and measure responsible tech practices, to-date none offer investors comprehensive, decision-useful information that would facilitate effective engagement and screening on digital rights issues.
- There is thus an opportunity to bolster the leverage of responsible investors interested in promoting greater accountability in the tech sector by increasing transparency and regulation around mainstream ESG products and by redressing the ESG data deficit on tech-specific impacts through investor-friendly standards and metrics that accurately assess the human rights risks of the digital era.
- Foundations can bridge the digital rights data gap by supporting closer collaboration among investors and digital rights advocates and experts, campaigns seeking greater accountability from ESG raters, advocacy for greater regulation of ESG data, support of rigorous data collection, and the development of investor-focused digital rights criteria.
- Prominent conservatives and right-wing figures have begun actively targeting and attacking the ESG industry as the ESG movement has been showing traction in pushing forward climate and other sustainability goals. Support is needed in pushing back against this, in strengthening the case for investor engagement, and in setting and conveying ESG expectations to financial intermediaries, such as

investment consultants and fund managers. Foundations are able to contribute to these efforts as funders, but also as asset owners themselves.

CONCLUSION

Investors can, and should, be motivated to press companies for change that benefits society while simultaneously enhancing the long-term value of investment portfolios. Investors want the actions of the companies whose stock they own to align with their long-term interests, including strong ESG practices. Civil society organizations and investors do have common cause, but they do not always have venues to identify, communicate, and collaborate around those shared priorities.

Given the complexity of the tech sector's impacts on society, conduits to formalize communication with civil society experts are essential. Opportunities exist to unite and amplify existing efforts by investors, activists, legislators, tech employees, and other stakeholders. Existing organizations skilled in facilitation and coordination of investor engagements should be looked to to assist in developing and implementing these efforts. Continued progress will require sustained philanthropic support with a need to break down silos within the shareholder advocacy field, encourage coalition building, and launch more aggressive and possibly coordinated finance-focused strategies.