Corporate Transparency: A Case Study

By John Kim and Nneoma Njoku

When it comes to sharing information, corporations traditionally have taken a "need to know" approach, offering the legal minimum. Yet investors and analysts today demand greater transparency from their companies, and digital media make it easier and less expensive to share information. These shifts prompted technology consultant Cognizant to rethink its corporate disclosure approach—and craft an award-winning document.

In today's world, corporate compliance and disclosure has taken on a new meaning. At a time when companies are being heavily scrutinized by the public and investor activism is on the rise, it is no longer enough to simply submit legal and financial disclosure documents as prescribed by the U.S. Securities and Exchange Commission.

Investors and other stakeholders now expect transparency, whether mandated or not. They expect that they will receive the necessary information to make smart assessments about a company through its proxy statement, annual report, 10-Ks, etc. This transparency creates trust, and trust is the building block for healthy relationships with all stakeholders.

Importantly, companies who embrace transparency find they have a clear competitive advantage over those who do not. Clear, concise reporting helps create long-term corporate value, provides another way for investors to measure a company, demonstrates solid risk management and creates goodwill with investors, customers and employees.

Just ask Cognizant (Nasdaq: CTSH), a leading provider of information technology, consulting, and business process services headquartered in Teaneck, New Jersey. Cognizant understands the importance of enhancing the customer experience. The company recognized that this same philosophy applies to its stakeholders.

By creating disclosure documents that clearly tell the company's story in plain language, Cognizant engages and encourages interaction with stakeholders, improves the reader experience and helps reinforce investment decisions.

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In 2021, Cognizant was awarded "Best Overall Corporate Disclosure," ranking highest among all S&P 250 publicly-traded companies in Labrador's third annual 2021 U.S. Transparency Awards.

The transparency awards recognize companies that are hitting the mark, disclosing all relevant information to stakeholders in a clear concise manner. This is not just the bare minimum as required by the SEC, but texture that tells the whole corporate story. These companies balance compliance and accuracy with readability and simplicity to attract and build strong relationships with readers.

The bar is high. Each year the experts at Labrador, an independent agency specializing in corporate compliance documents, review the corporate disclosure documents of all the S&P 250. This includes the annual proxy statement, Form 10-K, investor relations website and code of conduct of each company. This review covers 148 different criteria that reflect the award's four pillars of transparency: accessibility, precision, comparability and availability. In 2021, more than 37,000 data points in total were collected and reviewed to determine the rankings.

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☐ ***How Cognizant achieved its transparency goals.*** According to John Kim, executive vice president and general counsel for Cognizant, being recognized for best overall corporate disclosure is a significant milestone for the company. It represents the culmination of a multi-year effort to transform disclosure statements into clearer, more meaningful communications.

Our commitment to improving transparency in Cognizant's corporate disclosure documents stemmed from two main drivers. One, we strongly believe that to make our disclosures effective, we need to present information that is most meaningful to stakeholders in an easily accessible way. We know that our investors, our 300,000+ associates and our clients want to understand what we do in an easily digestible way.

Second, we live in a digital world. As a provider of digital transformation services, we also need to take a digital-first approach to disclosures. We want to be at the leading edge of presenting information in a visually sophisticated manner that is also easy to understand and consume.

We started our journey to increase transparency by focusing on the proxy statement, using a more graphical means of communication to convey detailed and complex information. Our proxy statement used to be text and tables, but now most of the opening 50 pages of the document are designed as two-page spreads, more like a picture. These cover the same amount of information more comprehensively and concisely. As they say, "a picture is worth a thousand words," and that is just as true in a proxy statement or other disclosure document as it is in most other contexts.

Our proxy statement now discloses—and prominently so—information that is not required by the rules, but is helpful for stakeholders in understanding our company.

We have also done away with less relevant information. For example, we eliminated the proxy summary because it unnecessarily duplicated the governance and compensation sections of the proxy, which are now graphically illustrated and more concisely presented.

Perhaps most importantly, our proxy statement now discloses—and prominently so—information that is not required by the rules, but is helpful for stakeholders in understanding our company.

For example, in our compensation section, we now provide a detailed review of our performance-based pay over the last two years, using graphics to illustrate compensation for each of our named executive officers. This includes what was targeted by the compensation committee, what shows up in the summary table, and what was realized by the officer. By providing this transparency, we seek to both inform stakeholders and facilitate constructive conversations throughout our engagement process.

Over the last 18 months, we have also modernized our environmental, social and governance (ESG) transparency efforts. We brought on a new head of sustainability and published our first ESG report aligned to the global corporate reporting frameworks investors and clients expect. We will continue to enhance this reporting and lean in on sophisticated visuals.

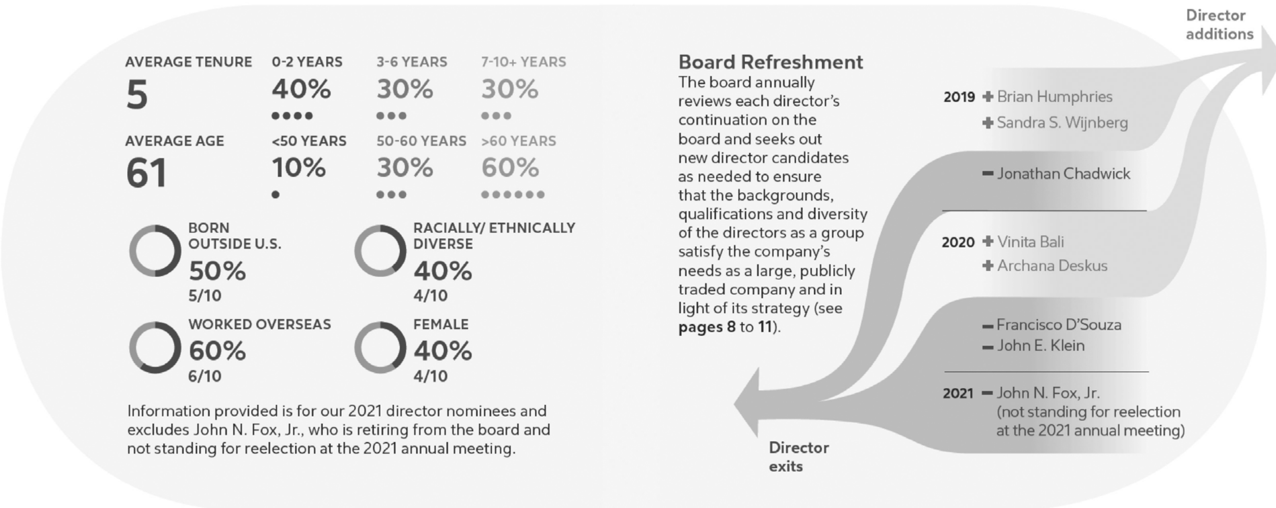
None of this would be possible without the top-down support and buy-in of our team. The commitment by our board and senior management to transparency and effective disclosure creates a rich environment for the bottom-up efforts. We have internal champions at all levels who push forward innovative ideas and approaches to say what we do and improve on how we say it.

Shareholder engagement is another essential part of our governance practices. We engage in a formal engagement process where select directors meet directly with a number of our large shareholders to consider the feedback and perspectives of our shareholders, which helps inform our decisions. Last year, it was our chairman of the board and our chairman of the compensation committee.

It is actually much more difficult to convey information concisely and graphically than in the old text-heavy way. To achieve the best results, we recommend identifying internal champions who will own a piece of the disclosure document and push to advance it. This was the case with our proxy statement, and more recently with our ESG report and

Show, Instead Of Tell

Graphics Improve Board Disclosure



diversity and inclusion efforts.

It is also essential to stay ahead of the curve. While it is important to see what other companies did in the last year, it is even more important to understand the emerging trends and what will change in the years ahead. By anticipating change, you can minimize any surprises.

Finally, be proactive and build relationships. By addressing issues head-on rather than shying away from difficult or uncomfortable issues, you can build trust and confidence. Despite the challenges of achieving transparency, the upside is well worth it when you have helped people understand what you do and who you are in the most effective way possible.

Once you understand what transparency is and what it looks like, there is no turning back. As we expand what we have learned to other areas of the company, we look forward to evolving even further into making information clearer and more accessible. It is what our shareholders, clients, associates and communities deserve and expect, as well as what we now expect from ourselves.

☐ ***What set Cognizant apart?*** Over the last several years, according to Labrador, there has been considerable progress among the largest companies in their efforts to help the investor community understand financial disclosures.

In fact, Labrador's 9th annual benchmark report *2021 Proxy Statement Trends and Analysis,* released in December 2021, found that 75 percent of the S&P 250 are now including proxy summaries to help readers better understand the information provided within the proxy statement. Other emerging best practices: 82 percent include a table summarizing the proposals and the board's recommendation for each; 75 percent include governance highlights; and 79 percent include pay highlights. Additionally, 37 percent of companies including a corporate overview or a discussion of company strategy in the proxy statement.

Board member skill alignment can be graphically presented in a matrix. At a glance, investors can ascertain if the board has the necessary skills for good corporate governance.

As corporate disclosure evolves and companies work to publish more transparent documents, however, many are still missing opportunities for greater transparency. Among the many areas in which Cognizant excelled, the company does a superior job bringing its board to life, giving the reader a true glimpse inside the boardroom. Several differentiating areas include:

□ *Skills assessment*. While many companies include director skills in the bios, only 12 percent explain the skills that are relevant to its business and why. Cognizant does an excellent job presenting the overall skills they expect their board to embody and explains why each is important. Board member alignment with these skills is then graphically presented in a matrix so that, at a glance, investors can ascertain if the overall board has the necessary skills to help attain corporate objectives and influence good corporate governance.

The proxy statement further provides clear, concise director bios highlighting tenure, age and committee assignments and is among the very few that note nationality/birthplace (only 2.4 percent of the S&P 250 included) and independence (only 42 percent included).

□ *Shareholder engagement*. This is especially important in that not every investor is able to have a one-on-one conversation with board members. Cognizant not only includes who from the board participated in shareholder calls, the number of shareholders contacted and the number of shareholders who engaged, they also share the mode of interaction. Most importantly, they summarize the topics discussed and how the company is responding to the issues raised, demonstrating that they are receptive to the feedback.

While the company response is not required or expected by stakeholders, this provides an extra layer of transparency so that those who are not in the meetings are also privy to the issues raised and the commitment of the company. This shows a level of concern for all investors small and large.

□ *Board responsibilities*. To demonstrate accountability, promote transparency and inspire investor trust, not only does Cognizant share the overall information related to number of board meetings and attendance by directors, but they drill down to the committee level. The company shares which directors are assigned to each committee, the aggregate meeting attendance rate along with committee descriptions, and the topics that were discussed over the course of the year.

This provides insight into deliberations, the decisions made and demonstrates to investors that the board is actively engaged in the business of the company. Of note, only six percent of the S&P 250 shared committee descriptions, and of those, only 33 percent included a summary of the topics discussed during the year.

Top trends continue to focus on transparency and the need to incorporate plain language in compliance disclosure documents. Investors are demanding more information.

Throughout Cognizant's proxy statement, graphics are used to highlight key points and enhance reader understanding. Labrador suggests that companies review Cognizant's compensation discussion and analysis in its proxy statement for an example of graphic presentation that clearly enhances readability and emphasizes results.

While 82 percent of proxy statements reviewed include CEO and named executive officer (NEO) pay mix graphics, Cognizant also includes graphics for pay vs. performance, CEO pay vs. total shareholder return, long-term and short-term incentives, and more.

When choosing to share a plethora of complex information that can be confusing to the reader, the visual nature of this makes it much easier for the reader to process.

While Cognizant opted not to include a "traditional proxy summary," which is considered a best practice, the information included in a summary is front and center, and graphically rendered guiding the readers. They incorporate an easy to find table of contents that also includes frequently requested information. An "About Cognizant" section is an overall company snapshot and highlights Cognizant's purpose, vision, values, financial highlights and more.

The notice of annual meeting includes an easy-to-follow voting road map with all pertinent information, including the agenda, photos of the directors, their qualifications and company recommendations, and the proposals on which to vote with summary information about each.

To ensure transparency in corporate disclosure documents, companies must be intentional. In addition to the ever-evolving SEC regulations, they must pay attention to the demands of investors and the emerging trends and evaluate their disclosure documents for areas that can be transformed with the reader in mind. Each year, the bar is raised, the criteria change and the competition for investors becomes more fierce.

Top trends continue to focus on transparency and the need to incorporate plain language in compliance disclosure documents. One of the biggest trends in the U.S. is the increased examination of public companies and their records related to environmental and social issues. In fact, the SEC is working to propose compliance regulations and disclosure rules for ESG, and have already enacted new disclosure rules for human capital management. Many of the issues that fall under the ESG heading could be considered material to the business overall, and therefore may be required within existing disclosure rules.

With or without new SEC regulations, investors are demanding this information, and more companies are starting to include it in their reporting. In 2021, 86 percent of S&P 250 proxies included a conversation about ESG oversight. As companies embrace this topic, a separate ESG report it expected to become the norm, and will be added as a must have criteria to prove transparency.

Taking the time to establish a culture of corporate disclosure transparency now will pay dividends in the future. Cognizant is an example of a company that specifically focused on improving its corporate disclosure documents, and was rewarded for its efforts by the feedback received from investors and as the recipient of the U.S. Transparency Award. With an overall transparency score that was 26 percent points higher than the average S&P 250, the company clearly recognizes and demonstrates the importance of the community they serve—their stakeholders. ■

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