Walking the Talk: Tips for Telling Your Authentic ESG Story

SUSTAINALYTICS
a Morningstar company

Walking the Talk: Tips for Telling Your Authentic ESG Story

The business of doing business is changing. Climate change risks, global calls for social justice, and the socioeconomic upheavals caused by the COVID-19 crisis have compelled corporates to rethink their environmental, social and corporate governance (ESG) practices.

Some companies are struggling to find their footing in this changing business environment and make meaningful progress towards meeting stakeholder expectations. Companies taking insufficient actions, exaggerating their efforts or making contradictory business decisions often find themselves facing accusations of 'greenwashing' and 'diversity washing.'

Such accusations can pose significant financial and reputational risks for a company. Some large corporations, for example, recently faced intense public backlash after posting support of the Black Lives Matter movement on social media, while taking limited actions to improve inclusivity and workforce diversity.

Communication on ESG progress, therefore, needs to be transparent and accurate to avoid greenwashing accusations. But what does that look like in practice? This guide offers companies some practical advice for responding to rising stakeholder expectations and outlines the following tips on how to authentically communicate a firm's ESG performance:

- Clarify corporate purpose
- Build understanding of key material issues
- Take a fact-based approach to public statements and marketing
- Disclose openly on progress and setbacks

What exactly is 'greenwashing'?

Greenwashing is the process of providing misleading information or making unsubstantiated claims on a company's environmental impacts. Accusations of greenwashing can also include when a company spends more resources marketing 'green' initiatives and 'eco' product lines compared to its efforts towards substantially reducing its environmental impacts.

With the growing demand for sustainable products, some companies use greenwashing, also known as a 'green sheen,' to market products to conscious consumers. These companies may use 'eco' terminology, green imagery, and focus on one feature of a product, while still producing and selling an environmentally harmful product. Some of the claims may true (i.e., the packaging is recyclable), but the company is presenting a false or at least exaggerated picture of the company's overall sustainability performance.

The need for transparency: Mounting stakeholder expectations for corporates to disclose

Gone are the days where corporations' concerns were restricted to shareholder value. Discussions on corporate citizenship, corporate social justice and stakeholder capitalism have broadened business' role into social and economic dimensions. Corporates are seen as playing an integral part in achieving international environmental and societal goals, including the UN Sustainable Development Goals (SDGs) and the Paris Agreement.

Business is beginning to embrace this new role. In 2019, the U.S. Business Roundtable (BRT), a non-profit association comprised of CEOs from major firms, officially expanded the definition of a corporation's purpose to include working to benefit all stakeholders, including customers, employees, suppliers, communities and shareholders. Corporate commitments for net zero emission doubled in 2020 and over 1,000 companies have set science-based targets to reduce their emissions in line with the Paris Agreement.

While these public commitments are a good first step, these actions are meaningless without tangible progress. Bold actions are demanded, with stakeholders increasingly expecting that companies' publicly share their progress on achieving their sustainability commitments.

CUSTOMERS

Customers are raising the bar on a company's communicating and living out its values. Half of consumers report walking away from a company when they are dissatisfied with its words or actions on a social issue, and 17% say they will never buy from the company again.[5] Many consumers are willing to pay a premium for sustainable products and demonstrate greater brand loyalty.[6] On the other hand, many consumers will avoid companies whose values fail to meet their standards.

EMPLOYEES

Internal calls from employees for greater transparency and action are increasing – particularly those from younger generations. In addition to public demands to improve environmental performance, progress on social issues such as health and safety, fair working conditions, and workplace diversity have been requested by employees. These public callouts represent a real reputational risk as well as making it difficult for the company to hire and retain talent.[7]

Calling for Change: Employees voicing their demand for sustainability-related change

Google: In January 2021, over 200 employees at Google's parent company, Alphabet, created a union to call for action on ongoing workplace and operational issues[8]

Amazon: A group of Amazon employees wrote an open letter signed by thousands in 2020 to urge the company to commit to renewable energy use actions[9]

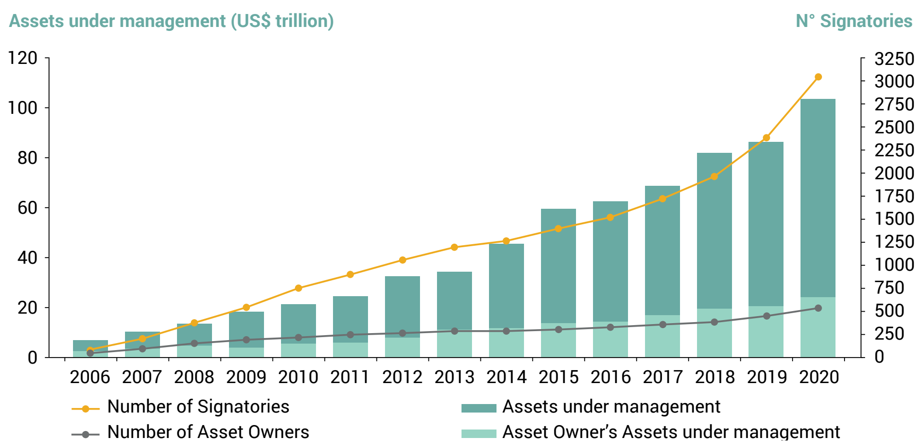
INVESTORS

As strong ESG performance has been positively correlated with improved financial performance, many mainstream investors are using ESG criteria in their investment decisions and require companies to disclose ESG-related information. Investor signatories to the Principles for Responsible Investing (PRI), six principles on promoting sustainable investing through the consideration of ESG issues, increased by almost 30% in the year 2020 alone. The total assets under management represented by PRI signatories now stands at over USD 103 trillion.[10] In the US, sustainable funds saw record flows in 2020 reaching USD 51.1 billion, more than doubling investments seen in 2019.[11] Institutional investors expect companies to manage their ESG impacts and are taking action if companies fail to do so. For example, BlackRock and Norges Bank Investment Management recently voted against company directors at a manufacturing company with a poor workplace health and safety record.[12]

FINANCIAL MARKET REGULATORS AND GOVERNMENT

A growing number of financial authorities and indices require companies to produce sustainability reports and report on ESG-related issues in filings. The London Stock Exchange is requiring premium-listed companies to disclose climate-related information in line with the Task force on Climate-Related Financial Disclosures (TCFD) framework.[13] Reporting requirements on ESG issues are also beginning to extend past a company's direct activities and into its supply chain impacts. California's Transparency in Supply Chains Act and the UK and Australia's Modern Slavery Acts already mandate that firms report on the risk of modern slavery in their supply chains. These regulatory trends on ESG-related reporting, including along a company's supply chains, are only expected to accelerate in the coming decade.

PRI Growth 2006-2020



PRI signatory growth as of the end of March 2020

Credible communications: Tips on telling an authentic ESG story

In light of stakeholders' expectations for transparent information on a company's progress on its ESG commitments, how does a company publicly report on its ESG story without minimizing its impacts or exaggerating its actions taken? Failing to find a balance can lead to accusations of greenwashing and reputational risks. Here are four practical ways to help your company authentically communicate its ESG performance:

1. CLARIFY CORPORATE PURPOSE

Before setting and communicating commitments, work to integrate ESG values into the corporation's purpose. Be clear in what your brand stands for and work with customers, employees, investors, and impacted communities to determine which ESG values to prioritize.

Once established, top management should be clear in communicating ESG values and expectations throughout the company; ESG should not be confined to one department, but rather be a lens to inform decision-making. By mainstreaming ESG considerations throughout the corporation, conflicting interests can be minimized, and departments can synergize their work to achieve the company's stated purposes.

Becoming more purpose-driven doesn't mean that the company forgoes profits. Quite the reverse is true – strong corporate purpose is correlated with higher and more resilient financial returns.[14] Patagonia, whose mission is stated as "in business to save our home planet," has achieved financial success as a purpose-driven company.[15]

Key Takeaways

- **Establish incentives for management to pursue sustainability goals**: tie renumeration packages or bonuses to ESG performance or include ESG-related KPIs into performance reviews
- **Clarify corporate purpose to employees**: build a greater sense of brand belonging by having leaders clearly communicating the company's ESG positions to employees and seeking to weave those values into the organization's culture
- **Coordinate sustainability efforts**: Departments should coordinate efforts, not work against each other. For example, the CSR team should not make commitments that the Legal team will actively lobby against

2. BUILD A GREATER UNDERSTANDING OF KEY MATERIAL ISSUES AND ESTABLISH MANAGEMENT MEASURES

Seek to gain a holistic understanding of your company's material issues and where the gaps exist in terms of your management of material impacts. Material issues are those related to a company's direct or indirect impact on the environment, society or economy.

What material impacts does your company have on the environment and society? And what impacts do the environment and society have on your company? Answering these double materiality questions is fundamental in understanding your company's ESG impacts and how you can mitigate them. If a company does not adequately understand its impacts, then its mitigation measures can be misplaced and lead to public backlash. Leverage digital tools and third-party providers to gain data-driven insights on material issues.

Once your company has identified its key material issues, put management measures in place to mitigate negative environmental and socioeconomic impacts. Learn what peers are doing to address material issues and investigate possible collaborations across industry partners to jointly address shared material impacts.

Key Takeaways

- **Conduct a materiality analysis:** identify, measure, and prioritize potential ESG issues from both the company's and stakeholders' perspectives
- **Use resources to better understand the material issues in your industry**: online resources like Know the Chain and Sustainalytics' Peer Performance Insights service can provide data-driven insights into the issues affecting your company
- **Collaborate with industry peers on addressing material ESG issues**: participate in global corporate initiatives such as the UN Global Compact, or industry-specific collaborations such as Together for Sustainability (TfS) for chemical companies or Responsible Steel for steel producers

3. TAKE A FACT-BASED APPROACH TO MARKETING AND PR STATEMENTS ON CORPORATE SUSTAINABILITY INITIATIVES

Companies should communicate sustainability commitments in a straightforward manner – avoid aggrandizing statements and set out examples where possible. State clearly why particular commitments were chosen and lay out the organization's plan on how it intends to fulfill those commitments.

With product marketing, back up sustainability claims with facts and details, and don't highlight one aspect while downplaying negative impacts. Be as transparent as possible about the origin of raw materials and how the organization integrates sustainability considerations across its value chain.

When your company fails to live up to its commitments, be honest about it. Many stakeholders respond well to such transparency: over 66% of consumers rate transparency as one of a company's most attractive qualities. This appreciation even extends to when a company is caught lying of consumers: over 40% of consumers that have had interactions with companies that have lied about their values reported that they would give the brand a second chance if the company publicly apologizes.[16]

Key Takeaways

- **Provide a plan to achieving sustainability commitments:** Accompany announcements on new sustainability commitments with a high-level plan on how the organization intends to achieve its promises
- **Foster credibility through evidence-based communications:** Back up any public communications related to sustainability with evidence, including from third parties when possible (e.g., third-party certifications and ESG ratings)
- **Embrace transparent marketing strategies**: Avoid misleading marketing which focuses on only one aspect of a product or company services, while ignoring the broader environmental or social impacts (e.g., marketing hair products as vegan which used animal testing during product development)

4. DISCLOSE OPENLY ON PROGRESS AND SETBACKS

Companies should disclose progress of existing policies and programs managing ESG issues in a readily accessible format. Be transparent about company progress – both the successes and failures. Companies should not just outline what they are currently doing, but what their improvement plans are or how they intent to ensure continued success. Avoid messaging on irrelevant achievements and acknowledge where there is room for improvement.

Publish updates on the company website and report on ESG issues within public filings or in dedicated sustainability reports. Companies can refer to several well-known industry standards when completing public reports, including the Global Reporting Initiative (GRI) standards and the TCFD. Nearly 25% of companies rated by Sustainlaytics report to GRI standards.[17]

Key Takeaways

- **Disclose using internationally recognized standards**: use well-established sustainability reporting standards such as the GRI standards and TCFD to guide what ESG-related information you should include in your public reports
- **Embrace responsibility and transparency in public disclosures:** be open about failures as well as successes to build trust, and avoid vague language and immaterial examples

Sustainability reporting using global standards continues to increase

GRI

- GRI remains the dominant global standard for sustainability reporting.
- **67%** of world's largest companies report sustainability using GRI guidelines or standards (up **4%** over **2017**)

TCFD

- Nearly **700** companies became TCFD supporter in **2020**, a year-over-year increase of **85%**.
- **60%** of the world's **100** largest public companies support TCFD, report in line with TCFD recommendations, or both.

SASB

- The number of companies reporting using SASB standards has increased from **118** reporters in **2019** to **557** in **2020** – a **372%** increase.

Sources

GRI (2020), "Sustainability reporting is growing, with GRI the global common language," GRI, accessed (22.02.2021) at https://www.globalreporting.org/about-gri/news-center/2020-12-01-sustainability-reporting-is-growing-with-gri-the-global-common-language/

TCFD (2020) "Taskforce on Climate-related Financial Disclosures 2020 Status Report," TCFD, accessed (22.02.2021) at https://www.fsb.org/wp-content/uploads/P291020-1.pdf

SASB (2020), "Global Use of SASB Standards," SASB, accessed (22.02.2021) at https://www.sasb.org/about/global-use/#company-use

Calls by stakeholders for companies to improve their ESG performance have been around for decades; however, the broad scope and elevated expectations of stakeholder demands are new. Corporations are moving beyond the traditional CSR playbook to meet these demands and embrace their role as a good corporate citizen.

Communications play an integral role in this journey. Regardless of whether your company was founded with sustainability in mind or if you are taking small steps in improvements, sharing your sustainability journey in a transparent manner can build brand credibility and stakeholder trust. Authentic communication demonstrates to customers, lawmakers, employees and investors that, in addition to profits, your company is committed to making positive contribution to our planet's future.

Resources for companies:

- UN Global Compact: voluntary corporate initiative with the goal to implement universal sustainability principles and to take corporate action to achieve UN goals
- SDG Compass: provides guidance for companies on how they can align their strategies as well as measure and manage their contribution to the realization of the Sustainable Development Goals (SDGs)
- KnowtheChain: online resource for companies to understand and address forced labor risks within their global supply chains
- Global Reporting Initiative (GRI): universal voluntary reporting standards for organizations to report on their sustainability impacts
- Sustainability Accounting Standards Board (SASB): voluntary reporting standards to help businesses identify, manage and communicate financially-material sustainability information to their investors
- Task Force on Climate-Related Financial Disclosures (TCFD): recommendations for organizations on making effective climate-related disclosures that promote informed investment, credit, and insurance underwriting decisions
- CDP: non-profit organization offering a disclosure system for investors, companies, cities, states and regions to report on and manage their environmental impacts.

Not sure where to start? Sustainalytics can help

Sustainalytics' Corporate Solutions can help companies leverage their ESG performance for various internal and external use cases. Client across the globe use Sustainalytics' ESG data to better understand their own and their suppliers' sustainability performance, as well as how they compare to their peers. Equipped with this information, companies are better able to communicate their corporate ESG story to stakeholders. Contact us to learn more about our Corporate Solutions or visit our website: www.sustainalytics.com/sustainable-finance-solutions

- Corporate ESG Licenses: Sustainalytics offers ESG corporate licenses for a variety of use cases – from internal monitoring of ESG performance year-over-year, to tying ESG performance to executive remuneration and bonuses, to sharing top-level company ESG scores with investors, customers and employees.
- Competitive Insights and Performance Analytics: These services allow companies to assess their competitive position with respect to ESG and sustainability performance as well as gain a better understanding of their own ESG performance.

SUSTAINALYTICS
a Morningstar company

Endnotes

[1] Diversity washing is when companies market their support for minority rights, while taking limited or no action to dismantle oppressive systems and policies within their own firm. Rainbow-washing is a more specific term for leveraging LGBTQ rights in marketing; pink-washing for marketing hollow support for women's rights.

[2] Bensinger, G. (2020). "Corporate America Says Black Lives Matter. It Needs to Hold Up a Mirror," New York Times, accessed (02.02.21) at: https://www.nytimes.com/2020/06/15/opinion/black-lives-matter-corporate-pledges.html

[3] United Nations Framework Convention on Climate Change (UNFCCC) (2020), "Commitments to Net Zero Double in Less Than a Year," UNFCCC, accessed (19.01.21) at: https://unfccc.int/news/commitments-to-net-zero-double-in-less-than-a-year

[4] Science Based Target Initiative (SBTi) (2020). "The new normal: 1,000 companies are now setting science-based climate targets," SBTi, accessed (02.02.21) at: https://sciencebasedtargets.org/blog/the-new-normal-1-000-companies-are-now-setting-science-based-climate-targets

[5] Accenture (2018). "To Affinity and Beyond: From Me to We, The Rise of the Purpose-Led Brand," Accenture Strategy, accessed (01.02.21) at: https://www.accenture.com/_acnmedia/thought-leadership-assets/pdf/accenture-competitiveagility-gcpr-pov.pdf

[6] Nielsen (2018), "Unpacking the Sustainability Landscape," Nielsen, accessed (31.01.21) at: https://www.nielsen.com/us/en/insights/report/2018/unpacking-the-sustainability-landscape/

[7] Gold, R. (2020). "New Source of Climate Pressure for Companies: Workers," Wall Street Journal, accessed (01.02.21) at: https://www.wsj.com/articles/new-source-of-climate-pressure-for-companies-workers-11581861601

[8] Koul, P. and Shaw, S. (2021)."We Built Google. This Is Not the Company We Want to Work For," New York Times, accessed (02.02.01) at: https://www.nytimes.com/2021/01/04/opinion/google-union.html

[9] Gold, R., 2020c

[10] PRI, (2021). "PRI 2020 Annual Report," PRI, accessed (02.02.21) at: https://www.unpri.org/annual-report-2020/foreword

[11] Hale, J. (2021). "A Broken Record: Flows for U.S. Sustainable Funds Again Reach New Heights," Morningstar, accessed (22.02.21) at: https://www.morningstar.com/articles/1019195/a-broken-record-flows-for-us-sustainable-funds-again-reach-new-heights

[12] Verney, P. (2021). "Blackrock and NBIM target directors at Top Glove over worker safeguarding," Responsible Investor, accessed (01.02.21) at: https://www.responsible-investor.com/articles/blackrock-and-nbim-target-directors-at-top-glove-over-worker-safeguarding

[13] TCFD (2020). "UK regulator announces new TCFD disclosure rules for London premium-listed firms," TCFD, accessed (02.02.21) at: https://www.fsb-tcfd.org/2020/12/22/uk-regulator-announces-new-tcfd-disclosure-rules-for-london-premium-listed-firms/

[14] High-purpose brands doubled their market value over four times faster than low-purpose brands, with the gap between top and bottom quintile performers increasing during the COVID-19 crisis. Milano, G., Tomlinson, B., Whately, R., and Yiğit, A. (2020), "The Return on Purpose: Before and during a Crisis," Harvard Law School Forum on Corporate Governance, accessed (01.02.21) at: https://corpgov.law.harvard.edu/2020/11/09/the-return-on-purpose-before-and-during-a-crisis/

[15] Sonsev, V. (2019). "Patagonia's Focus On Its Brand Purpose Is Great For Business," Forbes, accessed (02.02.21) at: https://www.forbes.com/sites/veronikasonsev/2019/11/27/patagonias-focus-on-its-brand-purpose-is-great-for-busineConss/?sh=1cb4b1fe54cb

[16] Accenture, 2019b

[17] Based on Sustainalytics ESG Risk Ratings research universe of 12,000 companies as of February 22, 2021.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 25 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 16 offices globally, Sustainalytics has more than 800 staff members, including more than 300 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

CONTACT US:

EMEA
(+44) 20 4526 5640
inquiries.EMEA@sustainalytics.com

Americas
(+1) 347 630 9308
inquiries.Americas@sustainalytics.com

APAC
(+65) 6329 7596
inquiries.APAC@sustainalytics.com

Japan
(+81) 3-4567-0198
inquiries.Japan@sustainalytics.com