Passnotes
Best practice in PR
and Content Marketing

HENLEY GROUP INTERNATIONAL

ALL AT SEA WITH ESG?

Why ESG matters, and what marketers and communicators need to do about it

Why ESG matters

Practically unheard of only ten years ago, environmental, social and governance (ESG) issues have climbed to the top of the corporate agenda, to the extent that they now vie for the attention of senior management alongside similarly transformational topics as automation, cyber security and redesigning supply chains.

Certainly, ESG ranks alongside these in terms of its importance to today's organisations, and its potential to transform business.

In part, the growing importance of ESG to organisations is down to an ongoing debate around the purpose of a company beyond just making a profit, prompted by events such as the 2019 US Business Roundtable declaration that corporations including Apple, JPMorgan Chase, Pepsi and Walmart don't exist simply to make a profit, but also play an essential role in "improving our society."[1] In effect, ESG issues have grown more important to firms because they reflect the growing concerns of shareholders, workers, customers and consumers over the impact that a business has on the world around it.

And while the degree to which businesses can balance the pursuit of profit and serving a purpose is still debated, ESG issues are most definitely here to stay. This is not only because concerns over climate change, social issues and corporate opaqueness grow stronger; it's because it makes financial sense. MSCI's ACWI ESG indexes outperformed its ACWI flagship global equity index between 2012 to 2021.[2]

This presents those responsible for their organisation's communications and marketing with a distinct challenge: how best to demonstrate what a business is doing to address ESG issues in a convincing, meaningful and open way that doesn't leave it open to accusations of green washing.

Read on to find out why ESG is not going away, what it means for marketers and communicators, and how they can leverage their organisations' ESG activity to create competitive advantage.

What is ESG?

Typically grouped together as they form related areas of activity, most definitions of ESG centre on the following concerns:

Environmental:

How do organisations address climate change, reduce waste and mitigate the impact their operations have on natural resources?

Social:

How can businesses engage with and support workers and interact with society at large?

Governance:

How do firms ensure they are run with transparency and openness and encourage diversity and inclusion?

An idea whose time has come

There can be no doubt about the growing importance of ESG to business. Shortly before 2021's COP26 Climate Summit in Glasgow, just under three quarters (74%) of FTSE 100 companies, the largest publicly-listed companies in the UK, had made commitments to reach Net Zero carbon emissions by 2050, echoing the UK's own pledge made under Prime Minister Theresa May's government.[3]

Indeed, more businesses - of all sizes - are putting sustainability at the heart of what they do. In 2016, the so-called 'B Corporation' scheme was launched as a means of recognising companies that meet high standards of social and environmental performance, accountability and transparency. The scheme initially appealed to smaller firms founded with sustainability in mind. Today, there are just under 7,000 B Corporations including stalwarts like Unilever, Danone and Coutts Bank.[4]

And it's not just the 'E" in ESG that is getting business attention. The 2022 Parker Review into ethnic diversity on the boards of UK companies concluded that 94 of FTSE 100 companies had appointed a director from a minority ethnic group, a sharp rise from five years ago when just half had minority ethnic people in their boardrooms.[5] Companies in the UK have also made progress in gender diversity: since 2016, the percentage of women on FTSE 100 boards has risen from 26.3% to 39.6%, and on FTSE 250 boards, from 20.4% to 38.9%, according to the Cranfield Gender and Leadership Inclusion Centre.[6]

Increased business interest in ESG is apparent in the growth of investment funds that seek to profit from sustainable businesses. The value of ESG funds reached around $2.5 trillion at the end of 2022, according to financial research firm Morningstar[7], while sustainable bonds totalled $1 trillion last year, a 45% increase on 2020 and an all-time record, according to insurer, Aviva.[8] Investors aren't putting these sums into ESG funds out of the goodness of their heart, but because doing so promises greater financial returns.

As a recent Financial Times editorial stated: "Asset managers increasingly realise that earning the best returns, and avoiding losses, means considering all risks and externalities related to any investment. Company values can be affected by more than just financial performance."[9] A focus on ESG helps a business understand and better manage the risks that affect it, and gain competitive advantage.

It is within this wider context that recent criticism of 'woke capitalism' must be viewed. Sparked by rising oil prices, racing inflation and populist politics, some have questioned whether corporate dedication to ESG continues to make sense. But despite short term pressures, ESG is not going away; it's increasingly seen by business leaders as a form of competitive advantage, a means of managing risk and a way of securing investment.

ESG also meets the increased concerns of consumers and workers – many of whom are increasingly drawn from younger generations, for whom environmental and social issues are key. As the CEO of $45bn Mars told the Financial Times, employees "won't stay with us if we don't care about ESG." As a result, he plans to more than double the company's spending on its sustainability agenda, from $1.1bn to $2.7bn.[10]

"It is more critical than ever that businesses in the 21st century are focused on generating long-term value for all stakeholders and addressing the challenges we face, which will result in shared prosperity and sustainability for both business and society."

Darren Walker
President
The Ford Foundation

“The climate emergency is both the challenge and the opportunity of a lifetime. It requires us all to aim high and build a better society, together. We must act.”

Gavin Patterson
President & Chief Revenue Officer
Salesforce

ESG is an issue for organisations of all sizes

If it isn't already, ESG will become more important for organisations, as more regulations are introduced to ensure businesses of all types and sizes disclose the environmental impact of their operations, and demonstrate efforts to address diversity and inclusion.

Indeed, the scope of ESG reporting is growing wider each year: while reporting scope one and two emissions was sufficient until recently, corporations are now being pushed to reveal trickier scope three emissions, for example. The lack of a suitably robust reporting framework or an up-to-date materiality assessment is increasingly frowned upon. How does a company's adherence to specific UN Sustainable Development Goals actually present itself, beyond a few logos on the annual report?

While it may take time for regulators to turn their attention to small businesses, there are practical reasons why even the smallest of firms needs to commit to ESG now. Increasingly, it is a condition of working with larger customers, who are keen to measure their ESG impact all the way down their supply chain. Not having ESG on the agenda could mean not getting any more business from that long-standing, larger customer.

"Shift ESG considerations from compliance to value-creation by explicitly understanding how your company's core business can concurrently contribute to social outcomes."

John Schultz, EVP & COO
Vice President & Chief Operating Officer
Hewlett Packard Enterprise

“We don’t believe that purpose and profit are enemies.”

Poul Weihrauch
CEO
Mars Inc.

ESG presents real challenges to marketers and communicators

The growing importance of ESG presents significant challenges for marketers and communicators, as it will be up to them to communicate on the subject to a range of audiences, from investors and customers to employees. As ESG becomes a form of competitive advantage, senior executives will demand their people make the most of the significant investment that ESG activity involves. Illustrating progress against ESG goals will (rightly) fall on marketing and communications.

Too many organisations, however, do not involve communications in the ESG process at an early enough stage. Worse, some leave HR or Finance to drive ESG efforts and then communications on the subject. To avoid accusations of green washing, ESG communications must be handled with transparency and openness, while still managing to excite and motivate audiences.

If the ESG story is told properly, it provides a subject for marketing and communications to leverage in the same way that an innovative new product or service is harnessed to build brand awareness, support sales and drive customer loyalty. Done badly, it casts doubt on an organisation's commitment to ESG and can raise more questions than it answers.

"The biggest issue is when you use the words 'socially responsible.' It sounds like you're giving away money that shareholders should be getting. It's not about giving away money we've made. It's about how we make money a different way."

Indra Nooyi
Former CEO
PepsiCo

Five questions communicators and marketers need to ask themselves

- Is your organisation undertaking ESG activity? If not – why not?
- Are there robust metrics in place to capture the impact of your ESG activity?
- Is your organisation working to agreed ESG goals, as part of an overall strategy?
- Has your ESG activity been aligned with wider business aims?
- Are you confident that ESG activity is being communicated correctly?

If the answer to any of these is 'no', then it's time to get ESG on the marketing and communications agenda.

Tips for successful ESG communications

1. Marketing and communications needs to be ‘in the room’ when decisions are made about ESG and the needs of stakeholders are discussed: it’s not a job for HR or Finance alone. If not already involved, communications needs to make a case for why it should be.

2. Organisations must be clear, unambiguous and measured in their ESG communications. They should not hide areas where improvement is required. They must frame ESG activity in terms of a long-term commitment. Being open helps avoid accusations of green washing.

3. Firms must provide regular reports on progress against their ESG goals, using an appropriate reporting framework. They should refer back to their materiality assessment, compare progress with industry benchmarks and demonstrate alignment with UN SDGs with tangible actions.

4. Successful ESG communications is not just about numbers. Firms should develop stories that reveal how the individual efforts of employees - however small - support wider ESG efforts. In doing so, they can demonstrate that senior management takes the subject seriously, also.

5. Attach the often-disparate activity undertaken across the organisation’s to its wider ESG strategy and show how it will help meet goals the business has set. This again helps avoid accusations of green washing.

The Henley Group: your ESG partner

Most organisations start their ESG journey with a materiality assessment, which identifies the ESG issues relevant to them. They then put into place strategies to address these issues, and systems to report on them – typically through an accepted framework. Finally, given the importance that stakeholders such as customers and employees increasingly attach to ESG issues, organisations need to tell a convincing story about their ESG activity and strategy.

Drawing on highly experienced and knowledgeable consultants, we can help across all of these areas. The Henley Group has experience helping organisations such as Toshiba, Honeywell, Schaeffler and Mallinckrodt Pharmaceuticals communicate around subjects such as carbon emissions, energy saving and diversity and inclusion. Ensuring their ESG messages are not only convincing and engaging, but support wider business objectives.

Audit

Benchmarking an organisation's current ESG activity, comparing its practices and profile to its peers and identifying ESG best practice in its sector.

Reporting

Undertaking a materiality assessment, compiling metrics, collecting data, selecting a framework and managing the reporting process.

Strategy

Designing a ESG strategy that has clear and definable aims that support the business, building it out across an organisation and promoting it to stakeholders.

Communications

Creating annual CSR and ESG reports, undertaking regular communications, managing events, creating initiatives, undertaking media outreach and creating and sharing social and marketing content.

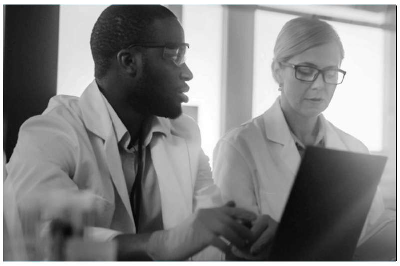
References

1. "Statement on the purpose of a Corporation", Business Roundtable, 19 August 2019, last accessed at https://bit.ly/3yuq8d9
2. Saurabh Katiyar and Yuliya Plyakha Ferenc, "The Performance of ESG Indexes: Year in Review", MSCI, 31 January 2023, last accessed at http://bit.ly/3l9RPEQ
3. "Turning blue chips green: A review of FTSE100 Net Zero Commitments", WWF, October 2021, last accessed at https://bit.ly/3ZGvnSZ
4. "What is a B Corp?", last accessed at http://bit.ly/3TbugYN
5. "Improving the Ethnic Diversity of UK Boards: An update report from the Parker Review, 16 March 2022, last accessed at https://bit.ly/3JlnUNP
6. "Transforming gender diversity on UK FTSE 350 boards and beyond", Cranfield Gender and Leadership Inclusion Centre, last accessed at http://bit.ly/3JAptxc
7. "ESG in focus", Aviva, February 2022, last accessed at http://bit.ly/3YOQWQ8
8. *Ibid*.
9. "Joe Biden's ESG rule is sound risk management", Financial Times, 7 March 2023, last accessed at https://on.ft.com/3T0SgxI
10. "Mars chief hits out at 'nonsense' attacks on corporate ESG", Financial Times, 19 March 2023, last accessed at https://on.ft.com/3TskIZI

Our ESG experience

TOSHIBA
Leading Innovation >>>

Promotion of ‘cradle to grave’ carbon zero offsetting scheme and merchandising of the initiative to the dealer channel.



ThermoFisher SCIENTIFIC

Marketing content including eBooks, blogs and social media posts promoting sustainable laboratory practice.

SCHAEFFLER

Communications support around saving energy in industry, EV technology and promoting diversity and inclusion in engineering.

SGS

Promotion of ISO140001 environmental certification including the creation of articles, blogs and case studies.

Mallinckrodt Pharmaceuticals

Audit of competitor ESG activity, identification of sector best practice and consultancy around ESG messaging.

Wilson James

Communications around the company’s Diversity & Inclusion initiatives including blogs, interviews, articles and media outreach.

To find out how the Henley Group can help your organisation manage and communicate its ESG strategy contact James Tate on james@henley.co.uk or +44 1491 570 971

Market House
33 Market Place
Henley on Thames
Oxon
RG9 2AA
UK

Tel: 01491 570 970
Fax: 01491 575 327
Email: hello@henley.co.uk
Website: www.henley.co.uk

@Henley_Group

The Henley Group International

Henley Group International, The Henley Group, HGI, Henley Advertising, Henley Special Events and Henley Public Relations are trading names of the Henley Group International Ltd. Registered in England number 5810119 VAT No. 945 6035 15 Registered Office: Market House, 33 Market Place, Henley on Thames, Oxon, RG9 2AA, UK

Strategic Consulting | Corporate Communications | Public Relations | Content Marketing | Advertising | Special Events