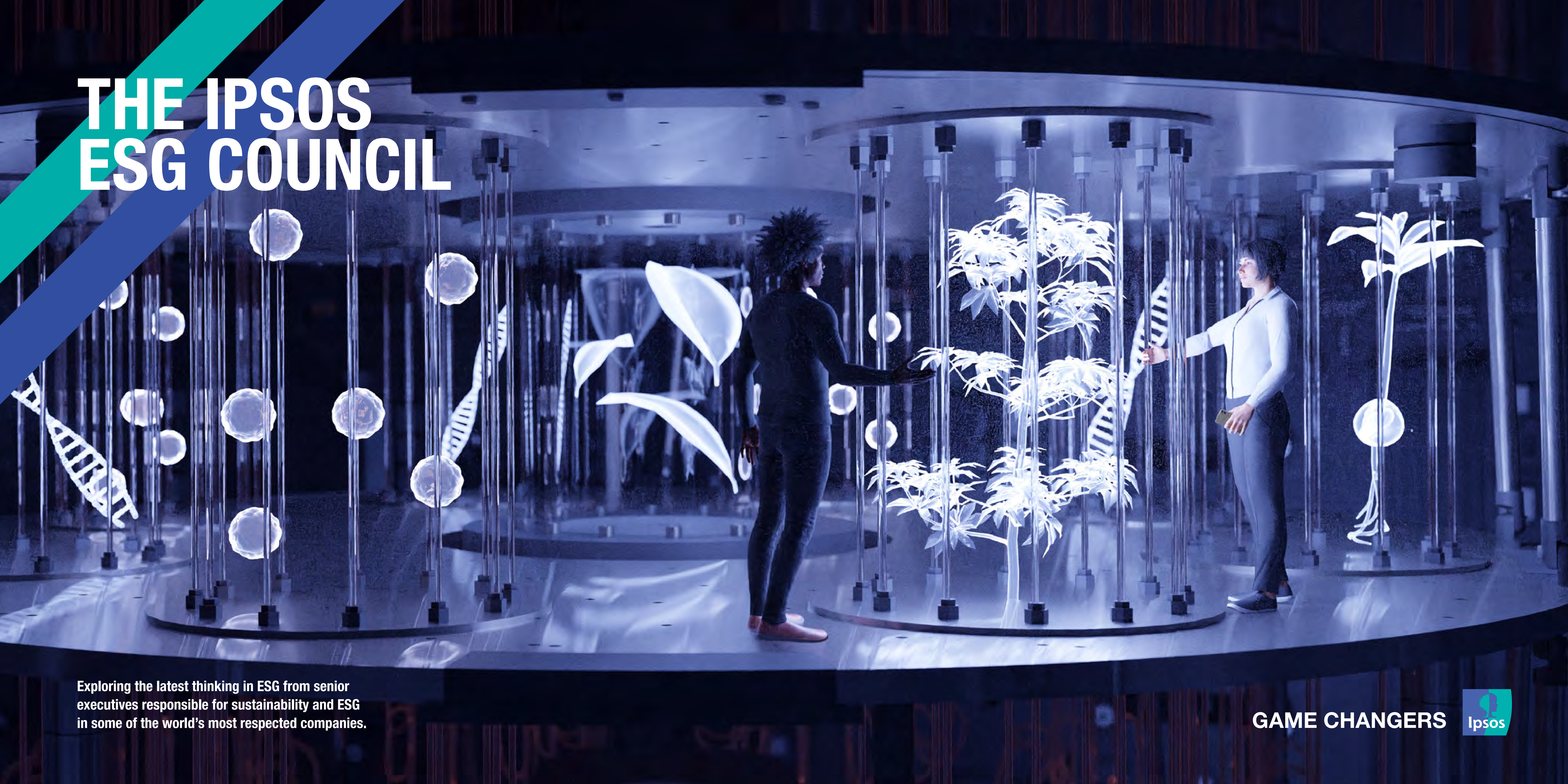


THE IPSOS ESG COUNCIL

Exploring the latest thinking in ESG from senior executives responsible for sustainability and ESG in some of the world's most respected companies.

GAME CHANGERS

ABOUT

Established in 2023, the Ipsos ESG Council brings together senior level executives with responsibility for sustainability and the development of ESG best practice from some of the most respected corporations in the world.

The Ipsos ESG Council's mission is to increase the understanding of the key issues in the field of ESG and sustainability management within the corporate environment and provide a forum where senior executives can cross-fertilise thinking and ideas to tackle the strategic issues and challenges that they face.

Methodological note

35 in-depth interviews were conducted with ESG Council members between Nov 2022 – April 2023, either in person, by telephone or video call. Data may not total 100% due to rounding.

INTRODUCTION: ESG COUNCIL REPORT 2023

Foreword by Milorad Ajder
Global Service Line Leader

Ipsos Corporate Reputation has assembled some of world's leading companies to form the Ipsos ESG Council. The Council brings together an impressive group of corporate executives with deep sustainability and ESG expertise.

The overarching mission is to create a forum in which ESG can be robustly assessed in its role as an agent for positive change. Council members provide critical insights on a range of issues both within the corporate environment and the wider world.

In this first sitting of the Council, members considered a variety of issues including the evolving role of the Chief Sustainability Officer, building a truly integrated ESG strategy and the tangible benefits that applying best ESG practice can bring to an organisation.

We would like to say a big 'thank you' to all of our Council members. We greatly appreciate the time they have taken to participate in this first session and the openness with which they have discussed the complex challenges and opportunities they face.

I hope you enjoy this edition of the ESG Council Report and please do not hesitate to get in touch with us about any of the issues we have covered.

CONTENTS

CHIEF VALUE CREATOR?: THE CHANGING ROLE OF THE CHIEF SUSTAINABILITY OFFICER (CSO)

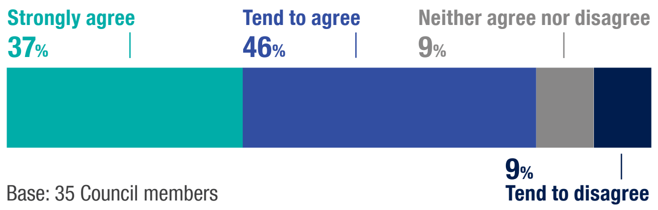
Here we explore the changing role of the CSO and what this tells us about how organisations are responding to the challenges of ESG and sustainability.

The world's first CSO was appointed in 2004; this was Linda Fisher at DuPont and her full title was VP Safety, Health and Environment and Chief Sustainability Officer. It's taken nearly 20 years for the popularity of the role to gather momentum, and for it to stand alone from other functions. A much-cited PwC study shows that companies appointed as many CSOs in 2020-2021 as in the previous eight years combined[1]. While the growing public renown of the position is perhaps evidenced by the launch in 2022 of CSO Barbie.

The creation of a dedicated C-suite sustainability position in many large organisations reflects the significant increase in the importance of ESG. There is general agreement among the senior sustainability executives we interviewed that ESG is indeed fundamentally changing the way businesses operate.

1. https://www.strategyand.pwc.com/de/en/functions/esg-strategy/empowered-chief-sustainability-officers.html

ESG is fundamentally changing the way businesses operate



Base: 35 Council members

“I think that’s the big difference – ESG was a sort of peripheral box ticking exercise and now it is central to everyone’s work.”

There is a convergence of factors driving the rapid rise of ESG up the corporate agenda. Most significantly, the increasing expectations from stakeholders – investors, governments, consumers, talent and, in some cases, business leaders themselves. (We explore these drivers of change further on pages 16-23.) An organisation’s ESG performance and reputation can now impact its ability to access finance and insurance, adhere to regulation, win customers and attract talent - all of which determine its longer-term success, and indeed survival. Alongside this, ESG topics pose ethical questions of business leaders and, certainly in the case of climate change, present a threat of far greater collective significance than the survival of any single organisation.

“We have gone through a transformation and hidden inflexion point where once upon a time some passionate individuals were knocking on doors to bring the agenda on sustainability up the priority list and we have now hit the point where actually it is really up there on the priority list.”

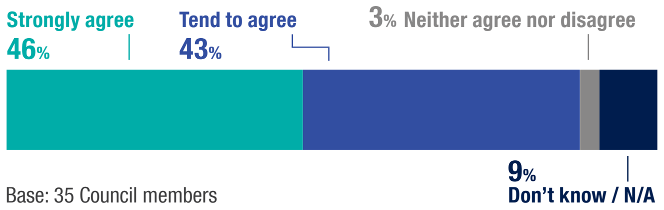
Hence not only are we seeing increasing numbers of CSOs being appointed, but also these roles are evolving quickly. All those we interviewed agree that the role or its equivalent (e.g. Head of Sustainability, Head of ESG) has changed over the last 5 years, with nearly three quarters saying it has changed a great deal.

To what extent, if at all, do you think the role of the Chief Sustainability Officer, or its equivalent, has changed over the last 5 years?

Base: 35 Council members

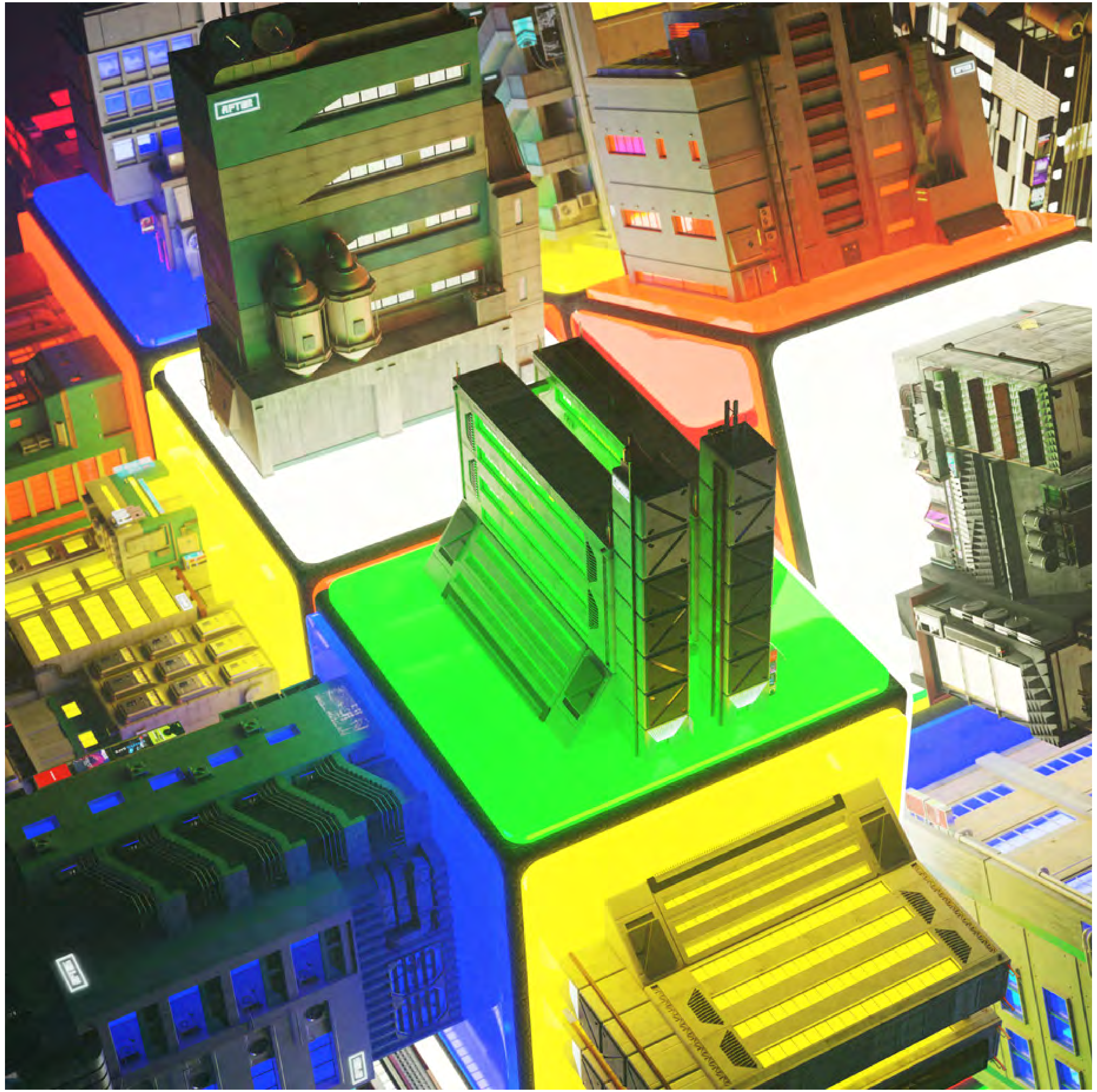
The broad arc commonly described is one where ESG or sustainability has emerged from a marginal position within procurement, risk management, corporate reputation, or philanthropy, and is becoming central to the strategic management of organisations.

The role of the CSO, or its equivalent, has become a strategic leadership position within organisations



Base: 35 Council members

“As the CSO, I have got to play mediator, influencer, cheerleader, expert and strategic thinker for the organisation as I try and help move all the different parts of the organisation in a different direction to where they are headed today. So, the scope has expanded significantly and there is a lot more focus on actually transforming business practices and processes than there was in the past.”



Nearly nine in 10 of those interviewed agree that the CSO or its equivalent has become a strategic leadership position within organisations. There are three key dimensions to this.

1 **Long-term ESG vision.**
Over the last few years, a key part of the CSO's strategic role has been helping organisations set their basic long-term ESG goals or commitments. These commitments tend to be based on assessments of the issues that are most material for an organisation and its stakeholders and where the organisation can have the most positive impact. (For more about organisations' setting and road-mapping towards these commitments see pages 24-31.)

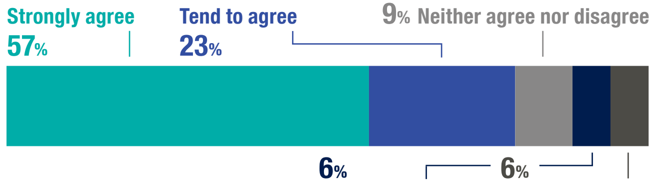
2 **Value creation.**
With the elevation of ESG roles towards senior management comes a far greater focus on value, and identifying ways to achieve long-term ESG goals in ways that drive business value. This includes driving stakeholder value and other key forms such as growth (e.g. new product development) and efficiency (e.g. reducing energy usage or cost).

3 **Embedding ESG strategy throughout the organisation.** From commitment to ESG targets follows the expectation to demonstrate progress. This is especially the case when commitments are public, science-based and ambitious, all of which have become basic stakeholder expectations. Achieving progress requires strategy to be supported by planning and resourcing across business units.

"The sustainability commitments that we have made as a business are front and centre of business strategy. When you commit to, for example, achieving net zero, then this has got to be linked to your commercial strategy, your pricing strategy, your customer strategy etc."

Among those we interviewed, there is widespread agreement that businesses still have a long way to go on this aspect of the role.

Businesses have a long way to go before sustainability is fully embedded into every function, process and role



Base: 35 Council members

Challenges facing CSOs: managing complexity

The challenges that CSOs currently face are often based upon the scale and complexity of ESG or sustainability issues themselves, and their interconnectedness. This demands that the CSO has or has access to vastly increased levels of expertise, while also managing a much wider set of stakeholders, both internally and externally.

1 Multiple dimensions of ESG.
The UN Sustainable Development Goals alone cover 17 areas of sustainable development, from sanitation to gender equality to education. MSCI covers at least 33 dimensions in its ESG materiality map. Each potentially comes with reputational or regulatory risk for organisations and issues are increasingly interlinked, meaning allocating appropriate resources across multiple issue areas remains a challenge.

2 Stakeholder expectations.
Organisations face increasing scrutiny and feedback (plus regulation) from a wide range of stakeholders, who often have a narrow focus on a specific topic or region. (We discuss in more detail stakeholder management and communicating around ESG on pages later in this report.)

“The bar keeps rising and the field keeps getting wider. The number of topics is widening and what satisfies stakeholders and the bar for what is seen as a leadership position, in terms of performance and transparency, is rising.”

“I think we’re always shooting at a moving target – there is no standard way of reporting. Even the ESG ratings, their weighting on different elements of E, S and G varies significantly and changes year on year. Shooting at a moving target is very difficult because fundamentally what ESG ratings should do is allow those looking at them to compare performance on a like-for-like basis. And if you can’t do that they don’t really serve their purpose.”

3 Reporting demands.
Reporting demands have increased significantly over the last 5 years. Organisations are now required to report in more detail and to a wider range of audiences: regulators, investors, ratings agencies, the public and customers. There is a lack of standardisation of data and format, and requirements are also changing as the industry matures. For organisations, and CSOs, this results in an increasingly heavy reporting load, often “shooting at a moving target” at odds with business planning cycles, and an inability to compare performance like-for-like with relevant peers. Likewise, there is difficulty in sourcing data from groups with no history of robust ESG reporting – e.g. business units within an organisation or smaller suppliers. And certain topics, for example Scope 3 emissions, require an uplift in reporting capabilities virtually across the board.

“The big data challenge that all of our organisations face is how do you measure Scope 3 emissions from our partners, because not everybody is disclosing it.”

4 An increasingly scientific discipline.
TFCD and CDP reporting, LCA and climate impact modelling, Scope 3 measurement – these are just some examples of the greater rigour and specialism being applied to sustainability measurement and planning. Likewise, topics such as biodiversity and natural capital are increasing in importance. Currently, CSOs are often under-resourced to meet these requirements.

“It’s becoming more of a scientific discipline with things like TCFD with climate change. As a discipline, in its broadest sense, it’s becoming more technical and I think as things become more technical, more specialisms need to come out of that.”

5 External factors.
The interconnectedness of ESG topics of course goes beyond the limits of any one organisation. In order to achieve certain goals, organisations are likely to be dependent on broader change. To take a basic example, an organisation’s commitment to replace a petrol fleet with electric vehicles (EVs) depends on external infrastructure. And this issue becomes much more complex when working across national boundaries and jurisdictions.

“I think that for most big businesses to achieve their sustainability goals they cannot achieve them on their own. And most of their sustainability challenges exist well outside their own four walls that they can control. When one looks at social issues there are things that you have very little control about, for example does a government police its own rules on child labour? Because often these issues that we’re dealing with are a market failure.”

6 Scale of change.
Ultimately, the scale of change required to meet commitments that have been made and the needs of stakeholders, and in particular the planet, remains intimidating.

“I still think the biggest challenge is one of embracing the size and the scale of the challenges we face. If we are going to decarbonise our business for example, that is going to require huge action on our behalf, huge action on our suppliers’ behalf, lots of things to happen in the external environment that we are going to depend on, and it is going to require a huge amount of innovation and R&D as well.”

The future of the CSO

The last 5 years have seen significant changes in the role of the CSO or its equivalent. And these reflect a step change in the incorporation of ESG and sustainability into business strategy. But the challenges reported, which all speak to some extent to the sheer scale of the change required to meet the demands of ESG, raise two intriguing questions about the future of the role.

1 How does the CSO continue to drive value for businesses?

The pursuit of value is perhaps the real acid test of organisations' commitment to ESG and the ascendance of the CSO. Because, ultimately, for sustainability to be fully embedded, it will need it to be indivisible from an organisation's fundamental creation of value. Either by essentially *being* an organisation's value proposition, or by being fully consistent with it. Initially, there is a great deal of value to be delivered through efficiencies – for example, better reporting of existing practices, or switching to renewable energy sources where they lower an organisation's direct costs. The next frontier, however, is a deep embedding of sustainability within governance, portfolio management, R&D, recruitment. And this, of course, comes with greater investment and risk.

"Some of the easier low hanging fruit where you can get financial and environmental value are starting to be depleted and we are starting to get into some of the trickier areas. There is a mindset that you have to continue to grow, you have to make more revenues, you have to sell more stuff, but you have to find a way to do it with fewer resources and less of an impact on the planet. And nobody wants any of that to give, so you are waiting for the magic solutions to pop up. At some point something is going to have to give."

"I think the CSO role is really interesting in that it doesn't have as clear a definition historically as some of the other areas that have the C in it, the Chief Human Resources Officer, that is pretty much well defined in most cases, or the CFO and others. But with CSO you have to be nimble across the business in so many different ways and pull together so many different players. I do shareholder meetings and I have to talk privacy, responsible data, then environment and ethical business practices and inclusion and diversity and on and on and on."

2 How does ESG or sustainability best fit into the corporate structure?

In elevating sustainability to or towards C-suite, organisations are following a model of the C-Suite as a set of functional specialists there to advise the CEO. Deloitte has previously pointed out the "this model is ill-matched to a business environment in which companies must transform themselves, and continue transforming themselves, to remain competitive."[2] This model, it's argued, can be a barrier to integrated action. And this is, of course, exactly what ESG demands. Among those we interviewed, we found that in many cases senior sustainability executives are working with small teams (43% with a team of 0-5). Again, given the challenges reported, the corporate structure needs to facilitate the embedding of ESG strategy – be this a major expansion of sustainability roles, or diffusion of responsibility for delivering on ESG into all roles, including C-suite. But it's clear that the CSO cannot shoulder the burden alone.

2. https://www2.deloitte.com/us/en/insights/focus/business-trends/2014/c-suite-3-0.html

WHAT IS DRIVING CHANGE?: THE ROLE OF STAKEHOLDER MANAGEMENT

While the concepts that sit behind ESG are certainly not new - and have been at the centre of corporate strategy for decades - the growth and formalisation of ESG as an explicit mission have been catalysts for change. The impacts of this change are far reaching including how companies define, prioritise and manage their stakeholders. This is demonstrated by the rise of stakeholder capitalism, the notion that businesses no longer exist to create profit for shareholders/owners, but instead have a responsibility to create value for a much broader set of stakeholders.

Along with a change in who makes it onto the stakeholder map, business is managing a change, or evolution, of the expectations of stakeholders. Issues that were once the domain of governments and NGOs, are now firmly on the corporate agenda with stakeholders seeing a clear role for business to drive impact. And at the end of the day, stakeholders are citizens too, so it makes sense that their concerns match the headline concerns of society more broadly.

"We're fortunate in Europe and indeed many other parts of the world to have strong stakeholder views and expectations of the business and mostly they are shaped by the external challenges that society faces."

The result is a significant shake-up of the typical stakeholder map with new issues and new stakeholder groups rising in priority, requiring a refresh of stakeholder management strategies. We explored this with our ESG Council Members and found mixed experiences in terms of how businesses are navigating this change.

Internal versus external drive

There is strong consensus that the rise of ESG and the resulting change in corporate behaviour was certainly sparked by external stakeholder pressure. Some go further and argue that without outside pressure, business would have largely continued the pursuit of profit over all else, whatever the environmental and social impact.

"In my experience all of these are because a customer or a stakeholder or a government entity is forcing the issue first."

However, Council Members do highlight that the push from external stakeholders is not always well informed and can result in a call for activities that will not make a material impact on sustainability, are not feasible given the operating environment, or are not aligned with the company's specific ESG goals.

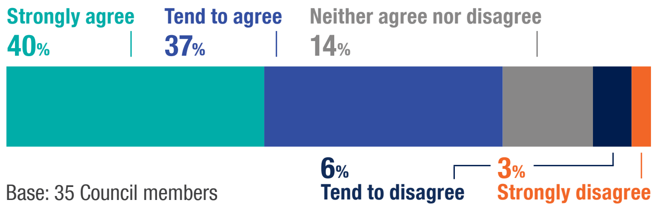
"If you're following the stakeholder lens very strictly you would say that reuse is always the best model, from a climate perspective reuse is not always the best model, it is often the best model but it's not always… so you've got to be thinking about it from a what does it mean in practice perspective as well as the intellectual ideal."

The *believe-true* gap is further evidence of this challenge where consumers are often misinformed about which actions have the greatest impact on sustainability.

This points to the need for greater education around ESG for consumers right through to senior stakeholders. It also highlights the importance of corporates being trusted and having the licence to be involved in ESG discussions so when they do say a particular approach is not appropriate, they're able to credibly debate alternatives.

While acknowledging the role of external stakeholders, many feel that ultimately, the extent to which external pressure results in meaningful internal change comes down to the will of leadership.

The commitment of leaders within a business is more important in driving change than pressure from external stakeholders



Base: 35 Council members

And, looking further ahead, many feel responding to external stakeholder pressure to set ESG strategy will ultimately leave a company looking reactive and susceptible to emerging risks.

What's more, any change that is the result of a single driver is likely to be short-lived, and Council members identify that long-term, sustainable change occurs when there is alignment between external pressure and other factors such as company values and culture, business challenges, market opportunities and more. It is when operating with this alignment that business can lead, be proactive with its ESG strategy and make a greater impact.

"You're never going to embed sustainability, or any kind of programme change, if you've only got a single driver there and it's not being led by the company itself."

In reality, it probably takes a perfect storm whereby external pressure creates both the spark that enables willing leadership to shape strategy based on ESG factors, and an environment where boards will ultimately endorse this strategy.

Most important stakeholders

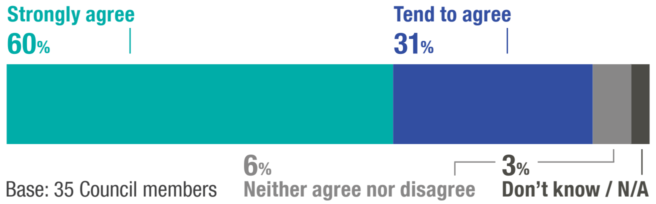
The ESG stakeholder landscape, and therefore the company stakeholder landscape, is broad and complex. There is a mix of traditional and emerging stakeholder groups, and nuances across sectors and markets. At the heart of the ESG-specific challenge though, is that as companies make a multiplicity of promises to a multiplicity of stakeholders, they must balance increasingly competing stakeholder needs. It's in this context that prioritising stakeholders can feel like a full-time job.

While many stakeholders have been agitating for change for some time, many argue that it was the attention of the investment community that saw the pace of change step up significantly.

"When investors are telling you you're a bit of a laggard or start asking 'Where is…?' and 'Why haven't you…?' those kinds of questions make you ask the same internally. It drives change."

Many also credit the interest from institutional investors with firm links being established between ESG and financial performance, and ultimately the shift to formalising – and funding - the CSO role.

A link exists between a company's ESG performance and its attractiveness to investors



Base: 35 Council members

"We have dialogues with investors fairly regularly and over the last couple of years I have noticed a change in the range and depth of questioning and inside knowledge of sustainability issues within the investor community and their ESG analysts have substantially increased."

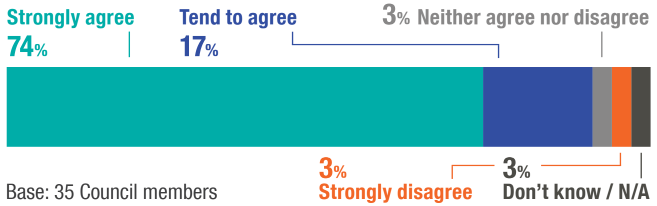
Still, for some of our respondents, institutional investors are being over-emphasised in their importance and their needs should be balanced with other stakeholders. According to these Council members, institutional investors are one of many important stakeholders, not the only important stakeholder.

While consumers are well-established as a priority stakeholder segment, ESG has added complexity and created opportunity for those companies that have been quick to respond. The theory of the citizen-consumer suggests that people are increasingly making consumer decisions based on the issues they care about as citizens. This merging of socio-political issues with purchase behaviour has created a green economy where sustainability is a competitive advantage and can be a driver of growth.

"There is increased consumer demand and we don't want to be a lagger behind our competitors. And we see sustainability as sometimes giving us a competitive edge in specific areas."

Like consumers, employees are not a new entrant to the stakeholder map but they have arguably never been more important. Employees want to work for a company whose values align with their own, or at the very least, do not compromise their own. And ESG performance is where corporate values are often most stringently tested.

ESG performance has a demonstrable link with attractiveness as an employer



Base: 35 Council members

Companies that are able to align their internal and external communications and behaviour, operate in an ideal space reputationally. Where there is no gap between what they say and do internally and what they say and do externally, trust - and the associated business benefits - soar. These benefits include attracting and retaining high quality talent. And no stakeholder group is better placed than employees to expose whether corporate ESG promises are followed through on in reality.

"We also have a strong movement within employees and I think employees are really important in terms of driving initiatives on the ground and also pushing the type of company they want to be working for."

Council members comment that while policy development may have been a key driver of sustainability change in the 2000s, today, governments are often laggards rather than leaders in the push for sustainability-related change. As such, they are not necessarily a stakeholder group forcing their way to the top of the priority list demanding more and more from businesses. However, this may change with the push for more standardised regulation globally around ESG, particularly in how listed companies report.

NGOs, special interest groups, think tanks, and academics are important stakeholders particularly due to their role as conduits for companies to move from negative to positive impact, or scale already positive impact. Strategic partnerships with independent actors are especially important for those businesses that lack the licence or skill to drive material changes to the way they operate.

Stakeholder management strategies

A common challenge experienced by Council members as they implement and refine their stakeholder management strategies, is the varying levels of ESG expertise among stakeholders. This results in the CSO needing the ability to pivot between being a technical expert and a skilled communicator.

"10 years ago, we used to go and talk to ESG investors and there might be five of them in the UK, two in the US and there might be three in Australia. And when you would try to talk to what we call non-ESG investors about these sorts of topics they would just say "we are not very interested". Now everybody wants to be an ESG specialist so you will find people who don't have a huge amount of technical knowledge all of a sudden taking over accountability for some of this area."

Adding further complexity to stakeholder management, is the emergence of an anti-ESG movement. The motivations behind this movement are varied. At one end are those who question the business value of decisions that are too heavily weighted towards ESG considerations. At the other are those rallying against the 'woke' agenda and looking to remove ESG issues from the mainstream. Needless to say, navigating this continuum takes deft skill.

These examples highlight that at its heart stakeholder management as a CSO is the ability to understand. To engage deeply and regularly with internal and external stakeholders, to recognise their needs, to balance these with those of the business, and to find the right way to move forward.

"Stakeholder engagement is critical and if you are setting goals and defining programmes without assessing the needs and understanding the perspectives of all the different constituents you impact, that is a very silent way of doing it."

BUILDING AN INTEGRATED ESG STRATEGY

When it comes to creating an end-to-end strategic shift in the alignment of ESG with commercial objectives, business leaders have many considerations to take into account. How to ensure ESG feeds into the business planning and value creation process? Do the ESG commitments truly deliver on the 'North Star' that is corporate purpose? What are the expectations of stakeholders (both inside and outside the organisation), and how do you balance competing priorities and expectations? How do you ensure the goals you set are ambitious and impactful, and that your reporting addresses the needs of double materiality (financial and ESG data)?

Through our discussions with ESG Council members, we have identified a number of important issues that need to be addressed when developing an effective ESG roadmap.

1 **Ensure that your ESG goals are built on the fundamentals of your business.** Designing your ESG goals and commitments will likely include input from numerous stakeholders, both internal and external to the business. This is likely to lead to competing priorities, with certain stakeholders pushing for commitments that are meaningful to them, but perhaps not connected to the reality of the business and value creation process in your organisation. This lack of connectivity has the potential to lead to ESG programs that 'run out of steam' as their relevance and importance is seen to diminish over time. This disconnected approach also has the potential for reputational damage or erosion as such ESG goals maybe deemed to be inauthentic and seen primarily as 'window dressing'.

> **“[Commitments need to be] material to your business, so play in your lane so you can have an outsized impact. You know we get a lot of really good suggestions that have nothing to do with where we have business expertise.”**

2 **Don't develop your ESG goals in a vacuum – listen to your stakeholders.** Notwithstanding the previous point, it is essential that ESG strategy and goals are developed with external consultation. While it's nearly impossible to address all the desires of your various stakeholders, it is important to acknowledge that many have expertise that can help to shape your strategy and increase its credibility to the outside world. External consultation will also increase the likelihood that your subsequent communications will reflect the language and needs of external stakeholders (rather than anodyne 'corporate speak') which in turn increase its impact and ability to inform.

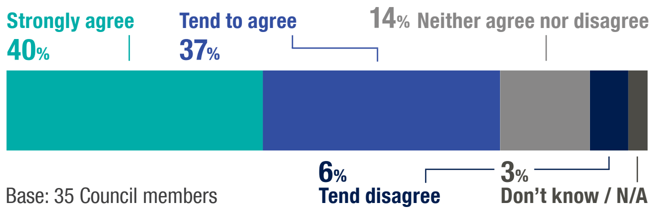
“Number one, listen to the outside world, make sure that you understand stakeholders’ material issues and then what their expectations are.”

“I think employees are really important in terms of driving initiatives on the ground and also pushing the type of company they want to be working for.”

However, it’s also critical to listen to internal stakeholders as of course they are in many ways the agents of change when it comes to embedding ESG practices and principles. Some commitments are designed to address the unique needs of employees particularly in the area of governance, and internal expectations may differ from external expectations, or place more emphasis in certain areas.

Ultimately, when determining how to balance the priorities of internal versus external stakeholders, ESG Council members indicate that the commitment of leaders within the business is more important in driving change than pressure from external stakeholders. It’s evident among these leaders that change must be driven from within.

The commitment of leaders within a business is more important in driving change than pressure from external stakeholders



Base: 35 Council members

3 Set a long-term direction and measure progress on the way

Long-term goals demonstrate that a company is focused on driving big, meaningful change in both their business operations as well as in society at large. However, setting long-term goals without shorter-term milestones has the potential to open a company up to criticism of purpose-washing. Shorter-term goals provide more tangible, bite-size steps that can be taken to achieve the longer-term vision. This also provides the company the opportunity to measure and report on progress internally and externally, and to demonstrate the next steps that will be taken in the journey against the bigger vision.

“I think it’s really important to have the long-term vision and goals because I think it sets an arc that you can go after, it inspires for something bigger. It is hard to get really excited about an incremental goal. So, I think that really galvanizes people. I don’t think it can be done without the incremental pieces though. So, setting a 10-year goal and not having something for the next two years to show you’re on track you will quickly lose trust and belief.”

4 Goals should never be written in stone and transparency is key.

Setting shorter-term milestones provides the opportunity to measure progress and sense check your ESG strategy against broader developments in society. Indeed, some companies may identify specific roadblocks that have emerged to achieving goals and objectives, and there may be a need to modify or reframe ESG ambitions. Modifications need not be about compromise – some companies have found that they were able to make faster progress against the commitments they set and have therefore modified their longer-term goals to be more ambitious. Ultimately, it comes down to informed and transparent decision making that allows ESG strategy to evolve over time.

“You really need to focus less on the commitment and more on the action and the progress to them and there needs to be a degree of transparency against your progress towards them.”

Transparency is based on talking openly and in detail about your progress against milestones, the hurdles along the way. Indeed, in a connected and digital world the idea that you can ‘hide’ negative information is increasingly futile. It’s clear from ESG Council members that candid discussions with stakeholders is not only the right thing to do but can also strengthen an organisation’s reputation as its seen to be taking a genuine approach to tackling difficult issues.

“You need to be very transparent about your progress against those goals, even if they are not going well.”

Ultimately, ESG is about accountability and the role of companies in society. It is unlikely that there will ever be a total consensus on what that role should be and indeed in some quarters we are seeing a backlash against ESG with the emergence of terms such as ‘woke capitalism’.

However, it’s clear from Council members that setting ESG goals demonstrates a corporate ambition to reconcile the creation of shareholder value with the desire to be a force for good in society. And for Council members it’s ok to stumble along the way as long the commitment is genuine, and companies are not deflected or distracted from the goal.

DOING WELL BY DOING GOOD: RESILIENCE, RISK AND THE REPUTATION VALUE OF ESG

Today, you'd struggle to find a business leader who'd endorse Milton Friedman's famous assertion in 1970 that "*there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits.*[1]"

Just a year after Friedman's seminal essay, McKinsey & Co. countered that it was possible to "*do worthwhile things for society as well as to earn substantial financial rewards.*[2]" Over the next 50 years, business leaders have been grappling with this issue – how to do well, while doing good.

But one hard fact hasn't changed: few businesses can afford to base their investment decisions on altruism alone. ESG, like most corporate initiatives, has to earn its keep. Indeed, this is crucial to ESG's longevity, because when times get tough and resources become scarcer, history suggests that Friedman's doctrine starts to look more seductive.

Thankfully, Council members say that ESG initiatives create tangible value in many ways.

1 & 2: https://www.mckinsey.com/featured-insights/corporate-purpose/from-there-to-here-50-years-of-thinking-on-the-social-responsibility-of-business

Risk, return, reputation

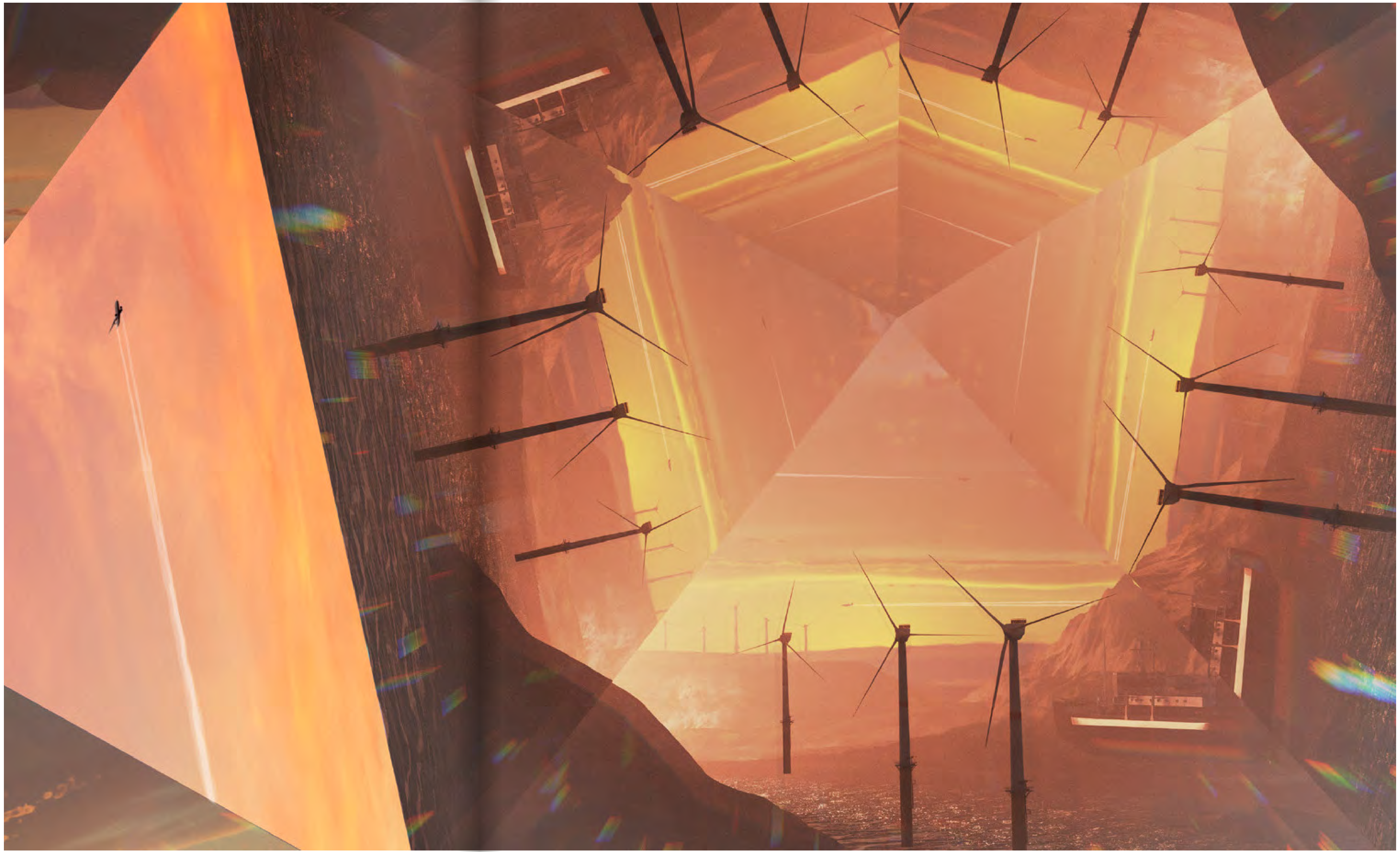
To begin with, much of the ROI from improved ESG performance is about reducing risk – because risk is expensive. Council members describe ESG as a risk management tool, which builds greater long-term corporate resilience. A good example of this is de-risking supply chains, by slashing complexity or cutting dependency on natural resources and, ultimately, reducing costs:

“We’ve certainly found a lot of energy deals have been parity or have been lower cost. They have certainly been important in terms of value creation, in terms of traction.”

Risk can also be mitigated by acting ahead of regulation.

As well as reducing risk, ESG creates opportunity. In particular, it helps to drive innovation. Its ‘sustainability lens’ forces businesses to think critically about the long-term value they create, and to identify new trends, business opportunities and partnerships.

More broadly, ESG is an increasingly powerful tool to strengthen corporate reputations. As one member of the Ipsos Reputation Council said earlier this year: *“I do think ESG is 90% of our corporate reputation, probably. I do think it has a really big influence.*[3]*”*



3: https://www.ipsos.com/en-uk/reputation-council

The role of ESG in building trust

To see how this works, let's think about trust. Trust is the key that unlocks the value of your corporate reputation. Ipsos research shows that higher levels of trust in a business lead to more resilience during times of crisis, and greater communications efficiency (people who really trust a company are more likely to choose its products and services, and to find its communications believable).

But – critically – the same research shows that trust is about more than just competence. Yes, we need to trust airlines to get us to our destinations in one piece, and banks to keep our money safe. Competence and reliability are still table stakes. But, increasingly, we also care that the airline or the bank acts responsibly, has good intentions, and – most importantly – shares our fundamental values.

And we expect business leaders to stand up for these values: 50% of the global public say that business leaders have a responsibility to speak out on the social and political issues that matter to them[4].

That's where ESG comes in. Strong ESG performance helps build these higher dimensions of trust, by showing that a business shares our values and takes decisions based on more than just profit. As well as creating resilience, this can open ears, minds, doors and even wallets across the whole range of stakeholders.

"There are clear business opportunities linked to sustainability in the way that you talk with customers and clients mirroring what they're doing…so people want to work with other companies that similarly operate in a sustainable way. I think also the realisation that there is a big business opportunity in products and services that deliver social, environmental value."

This matters: in a world where just 3 in 10 of the global public trust business leaders to tell the truth[4], any trust dividend will be a potent competitive differentiator for a company.

ESG: a weapon in the war for talent?

Council members also view ESG as a vital asset for the employer brand. 3 in 4 say that ESG performance has a demonstrable link with attractiveness as an employer.

Why is this? Once again, we're back to the power of shared values, and the trust that these can engender:

"I've been to campus recruiting trips, when they target bringing in a new crop of engineers from Georgia Tech or from MIT, and they have a tonne of questions about this stuff and they really want to position themselves in an organisation where they have shared values."

This is interesting, because recent research by Ipsos suggests that employees, like consumers, are looking for ESG performance to be delivered as a co-benefit rather than 'the benefit'[5]. All things being equal, many employees will choose to work for an employer that promotes sustainable values, but on the proviso that their hygiene factors (remuneration, career development) are met.

The same is true of consumers. To drive a change in customer behaviour, ESG performance must be a 'co-benefit' alongside other factors which are key in the category, such as being easier, cheaper, or healthier. Sustainability can work as a 'tie-breaker' between two otherwise comparable products, services, or potential employers.

Once again, companies which deliver on both the table stakes of trust (reliability and competence) AND higher level, shared values, will see the greatest return on their ESG investment.

This helps to explain why CSOs are working closely alongside other functions, such as marketing and HR. In each case, 2 in 3 Council members say they're collaborating with these colleagues a great deal or a fair amount.

4: https://www.ipsos.com/en/trust
5: https://www.ipsos.com/en/ipsos-and-esg

Strategic ESG communications: avoiding the pitfalls

Corporate reputation is a flower that doesn't grow well in the shade. Strong ESG performance will be of little value, reputationally, if stakeholders don't get to hear about it. And yet Council members are very mindful that the public, especially, are increasingly sceptical about what they see as corporate 'smoke and mirrors':

"There's talk these days of 'green-hushing' where people are actually doing things but don't want to talk about them because they'll be accused of green-washing."

The Ipsos Trustworthiness Monitor 2022 found that 52% of the global public believes too many businesses use the *language* of change – to help the environment or to promote greater equality – without committing to *real* change[6].

In turn, this has prompted greater scrutiny from regulators such as the UK's Advertising Standards Authority over companies' climate claims, particularly around carbon offsetting. The EU environment commissioner, Virginijus Sinkevičius, has said he intends to crack down on climate-related claims that are unclear, ambiguous or short on information. As the Financial Times put it before COP26, "*stunts and pious pledges won't save the planet.*[7]"

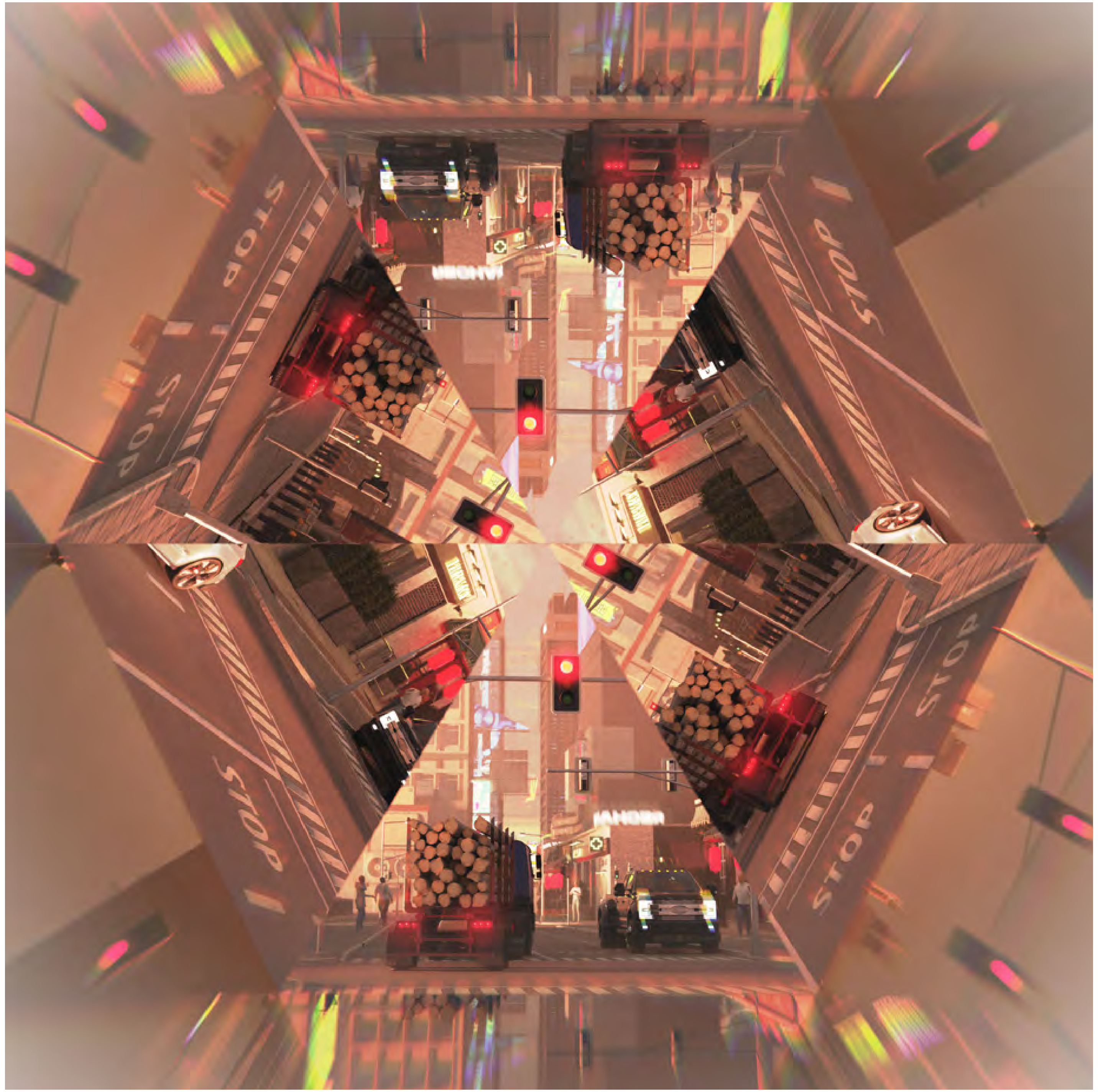
ESG initiatives tackle complex problems in which progress is iterative and often incremental. If some ESG headlines sound too good to be true, it's because they are. Rather, it's about doing the hard yards, with trade-offs, and that doesn't make for glamorous headlines:

"ESG is lots of little tiny, hard, boring things you have to do to reach the end goal…it is not sexy. Some of the social impacts can be sexy, right, but the E stuff is bloody hard work and the G stuff is like hard and tricky and weird."

Communicators who've had to explain corporate positions on issues such as corporation tax, pharmaceutical pricing or energy investment will be familiar with this challenge.

Council members are confident that they can engage with informed stakeholders; more than 3 in 5 disagree with the proposition that it's difficult to tell stories about sustainability that resonate with stakeholders.

But public-facing comms are far trickier. Understanding is often low. Cut-through and credibility are hard to achieve. There may be first-mover disadvantage to communicating around some issues, while actions that we see as positive can quickly be turned around and made negative.



6: https://www.ipsos.com/en/trust
7: https://www.ft.com/content/1bca616e-3398-4599-8019-8cd688364d9e

Top ten tips for ESG communications

So what's the solution? We've distilled Council members' recommendations into 10 key principles.

10 Engage, inform, educate

"There's definitely a responsibility on big brands to engage and educate and communicate on these topics."

Well thought-through, non-preachy, jargon-free comms which speak to essential human needs and values will find an audience. If the story is especially complex or risky, collaborate as an industry or sector.

9 Stakeholder expectations

Hypocrisy destroys trust, fast.

"I know it's not a great message to say 'look at our amazing environmental performance, but on the flipside of that we have a really poor human rights performance'."

8 Marshal your proof-points

"I think the biggest challenge is having strong systems in place that measure metrics and KPIs accurately and communicate those accurately." Third party validation is important.

7 The data or the story? Both is better

"Figuring out the balance between the storytelling component which is the more compelling but with the data component which shows that you're not greenwashing, that you're not fluff."

6 Zoom out

"Talk to them about the general direction of travel, give them confidence that we are moving in the right direction but then help to explain to them how they can get involved and contribute."

5 Use ESG to inspire your own people

"I think we've actually got lots of good proof points in our organisation and storytelling that we can do and I think it does play an important role in inspiring our people."

4 Tailor the comms to the audience

"Investors want data but other stakeholders want other pieces of information and when you're a resource-lean organisation, like we are, that's not so easy to do."

3 There is no off switch

"There is a tent pole moment of the year when we produce this ESG report but it needs to be woven through all our communications, our Twitter feeds, our Instagram posts, our day-to-day engagements and our media strategy."

2 Use the ACE checklist

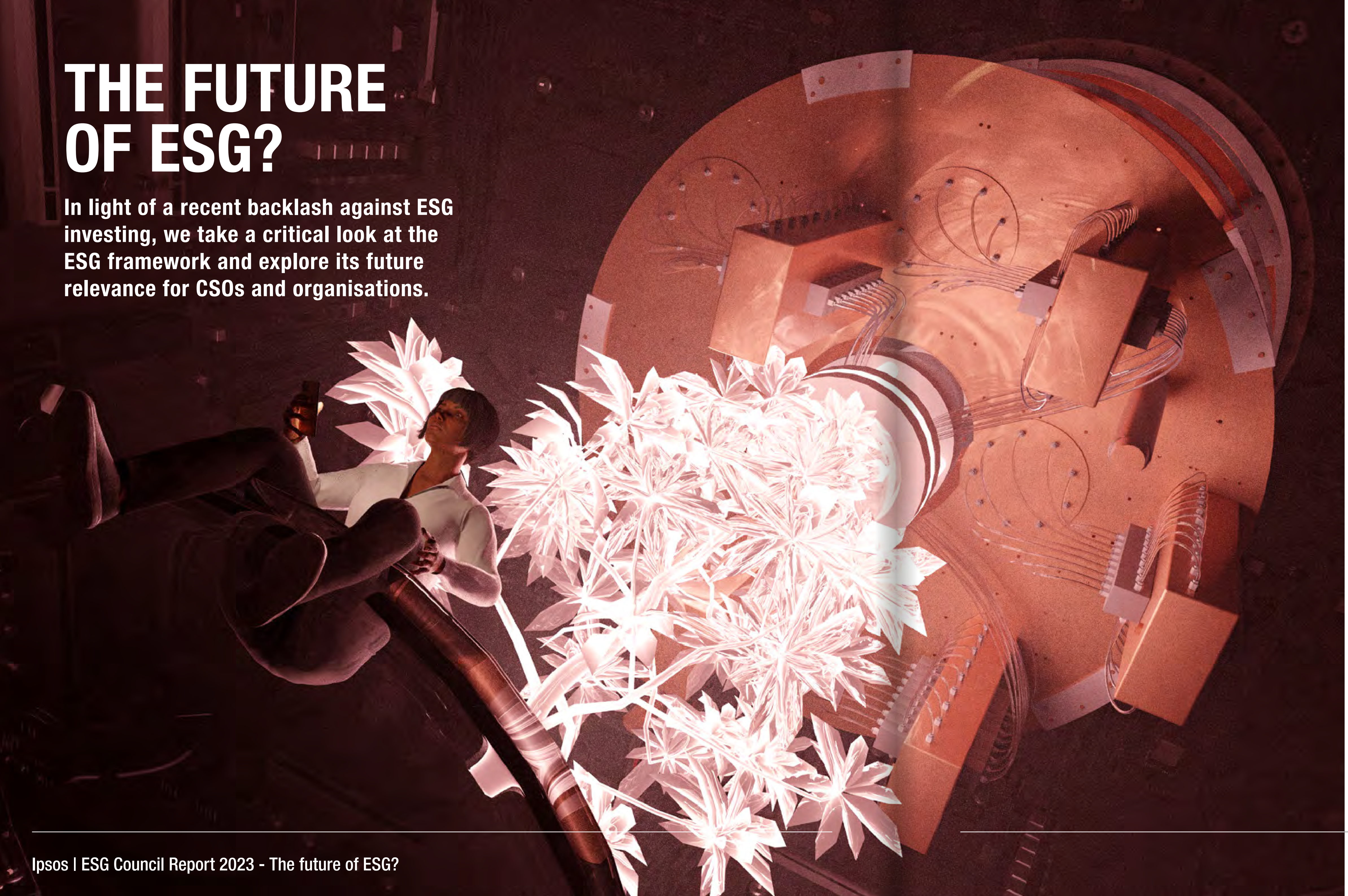
- *Is it Authentic: is this a salient issue to our company, or are we jumping on a bandwagon?*
- *Is it Credible: do we have a convincing story to tell? Do we walk the talk?*
- *Is it Effective: have we effected tangible change and can we prove it?*

1 Above all, be an action leader, not a thought leader

"We are not doing stories, we are doing work and the work will speak for itself."

THE FUTURE OF ESG?

In light of a recent backlash against ESG investing, we take a critical look at the ESG framework and explore its future relevance for CSOs and organisations.



ESG emerged as an investor framework that promised simultaneous ROI and environmental and societal good. ESG performance was heralded as a key indicator of long-term resilience and therefore capital was expected to flow to organisations with good ESG records and away from those with the less good ones. The market itself would be the means of change. And from the investment community, the language of ESG spread apace throughout the wider business community.

The push-back against ESG has begun at source – in the investment community, and based partly upon underwhelming performance by ESG funds. Last year, it was reported that funds of equities, debt and other asset types dedicated to responsible investing posted net outflows globally of $108 billion to the end of September[1]. While more broadly, of course, the bigger effects are not evident – the world is simply not on track to meet, among other things, the UN's Sustainable Development Goals[2] or the Paris Agreement.[3]

A critical assessment in the FT espouses the view that ESG investing rests on "weak conceptual foundations and should be viewed suspiciously by investors who seek adequate returns, and by citizens who want real rather than cosmetic change." [4] So, given these signs of a possible tempering of attitudes towards ESG, in what ways if any does the framework remain useful for CSO or other senior sustainability executives?

1. https://www.reuters.com/business/cop/money-before-climate-market-downturn-spurs-esg-fund-exodus-2022-11-11/
2. https://news.un.org/en/story/2023/02/1133452
3. https://www.scientificamerican.com/article/global-carbon-removal-efforts-are-off-track-for-meeting-climate-goals/#:~:text=The%20world%20is%20not%20on,C%20if%20at%20all%20possible
4. https://www.ft.com/content/e9f00cb2-3cd8-499e-9e8a-dd837f94657e

A framework for materiality

ESG as a framework remains useful for CSOs and organisations as a map of those 'intangible' factors that are important in stakeholder management and business strategy. This map allows organisations to conduct the materiality assessments that determine where they need to focus for greatest impact (in the case of double materiality, in both managing outside-in risk and inside-out effects), while ensuring they have at least a point of view or holding position across all issues. ESG frameworks, while differing slightly across organisations and ratings agencies, also offer a degree of consistency and apparent rigour to the management of stakeholder priorities and organisations' societal impact.

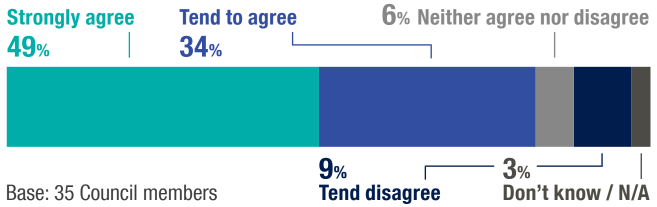
"I think 'ESG' has been helpful in driving the agenda. And in being clear that it's not just about the planet or philanthropic stuff, but we're talking about a wide set of topics. So, it is a convenient shorthand I find for us to say it is this set of topics – it's been a useful framing for us."

A return to the language of sustainability?

ESG factors will also remain vital in assessing organisations' long-term value. Alex Edmans of London Business School makes a strong case for ESG being nothing special: "Considering long-term factors when valuing a company isn't ESG investing; it's investing."[6] Going on to say that a "company's relationships with its employees, customers, communities, suppliers, and the environment are highly value-relevant; there's nothing particularly cultish ... in considering them."[7]

For many of the CSOs that we spoke to, ESG reporting will certainly continue to be a key feature of investor relations. Although ESG reporting is in some cases seen as a complicating factor, with a proliferation of reporting demands and ratings agencies. These often employ inconsistent methodologies, provide counterintuitive rankings and offer little guarantee of real impact on the important topics covered. Hence an increasing association of ESG ratings with greenwashing. And indeed, they are often not even relied upon by investors, who are running their own models.

KPIs and standards relating to ESG compliance and benchmarking are too fragmented



Base: 35 Council members

"ESG has almost become a phrase that is associated with ratings. And you can look at one rating and compare it to another and a company can be at the top of one and at the bottom of the other; the methodology is so inconsistent. I think ESG ratings are basically spiralling into a lack of credibility, into distrust frankly."

"There's a real danger that sustainability teams just spend all their time reporting, crunching numbers, and forget that actually we've got to decarbonise the business."

"Investors, bond holders, shareholders are interested in risk management and assuring return on investment, so that's the ESG side of sustainability for me. The sustainability side of sustainability is more about our clients and our government contracts where they're not so interested in a return on investment as in the value generated to society. So, there's overlap but they're two sides to the materiality assessment."

6 and 7. 'The End of ESG' by Alex Edmans, London Business School, January 2023

Another criticism of ESG frameworks is that they tend to imply an equivalence across the pillars and dimensions of E, S and G. There is a danger that climate change, for example, becomes seen as one among many issues, when really all organisations need to be addressing this with the upmost urgency. Allocating the right amount of resource across issues should be addressed by good materiality assessments, but this can be challenging given the range and sometimes tension between ESG factors.

What's also conceptually challenging for many organisations is the inclusion of the G, governance, within the framework. Governance often sits in a different part of the business to the E and the S (in legal, for example), and can been seen as something more fundamental, encompassing all of issues grouped within ESG. The B Corp movement is already rooting ESG in commitment at the level of corporate governance: B Corps are legally required to take into consideration anyone that is materially affected by that company's decision-making, like workers, customers, local communities, wider society and the environment[8].

"To me the G has always been there. People have often said I know we say ESG but really it is G and that E and S under it, so it is all about how we have strong governance across the company and if you have strong governance then you probably are including E and S in it."

For stakeholders other than investors – e.g. customers, employees, government and third sector – many CSOs predict a return of the language of sustainability. Including associating sustainability with good governance. The benefit of this for organisations is that they can potentially tell more distinctive stories, while focusing resources where they can have the greatest real impact and recognising the increasing interconnectedness and complexity of ESG.

"I do think even then it tends to separate us into these silos of environment, social, governance, where actually it's all completely interrelated, which is why I think sustainability as a term is also important because it recognises that interrelatedness."

The danger for stakeholders would be the potential abandonment of some of the most appealing elements of the promise of ESG investing frameworks: their comprehensiveness, their implication of scientific rigour and measurement, and their consistent lens applied across organisations. And, in turn, the prod that ESG has undoubtedly given organisations to begin making the deep changes required by the planet and society.

To avoid a return to CSR then, what will fill these roles? For many CSOs, the answer would be that the time is right for stronger regulation.

8. https://usca.bcorporation.net/benefit-corporation/#:~:text=A%20benefit%20corporation%20is%20a%20traditional%20corporation%20with%20modified%20obligations,To%20create%20general%20public%20benefit

ESG COUNCIL MEMBER PARTICIPANTS

Organisation	
BHP	Kier
BT	Lenovo
Coats	Lowe's
Coca-Cola Europacific Partners	LV=
Colgate-Palmolive	Mars
Cox Enterprises	Mitie
CSL	Neptune Energy
Darden Restaurants	Petrofac
Ferrexpo	Schroders
Hitachi	Udemy
Home Depot	Visa
International SOS	Volvo
ITV	Wolters Kluwer
Jupiter Fund Management	QBE

35 senior level executives were interviewed as part of this year's ESG Council report. Some Council members requested that their participation remain anonymous, therefore 28 contributors are named here.

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ABOUT IPSOS CORPORATE REPUTATION

Ipsos Corporate Reputation has been a leader in reputation research for over 40 years and we work for some of the biggest corporations in the world. Our mission is to provide critical insights and advice that helps our clients build resilient reputations and stronger stakeholder relationships. And, we deploy a unique blend of traditional and digital research techniques delivered by dedicated reputation research specialists across the world.

Our approach includes:

- Measuring overall reputation performance
- Identifying the drivers that shape a robust ESG strategy
- ESG and reputation risk assessment
- Advising on stakeholder engagement
- Measuring and managing the impact of a crisis

Please get in touch if you think we can help.

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