aspectus

ESG comms: threading the needle

How to get ESG communications right and avoid reputational risk

Contents

Introduction	03
About Aspectus	04
Risk and rewards	05
Dodging the landmines: mistakes to avoid in ESG comms	10
Tips for best practice	16
ESG through a sector lens	22
How we can help	24
Appendix	26

Introduction

Companies today recognise that incorporating environmental, social, and governance (ESG) factors into their strategies is a core part of doing business and many are making sincere efforts to live up to the new expectations placed on them.

However, some remain wary of communicating their ESG efforts after seeing other organisations condemned for crimes such as greenwashing.

Yet, if ESG is an essential part of doing business today, then it follows that it is also an essential part of a business' communication strategy. Organisations that shy away from discussing their approach to ESG risk leaving reputational reward on the table or, worse, being unfairly labelled as laggards: outcomes that have real business consequences, even with the potential to affect stock values[1].

So, where does that leave companies eager but anxious to communicate their ESG ambitions and successes? Between a rock and a hard place? Damned if they do and damned if they don't?

Not quite: there is a sweet spot between the two. But it takes care and precision to thread the needle and avoid the risks of doing either too much or too little.

That's where we can help...

About Aspectus

Aspectus is a global brand, marketing and communications agency with offices in London, New York, Singapore, Washington D.C., Aberdeen and Luzern.

Our award-winning approach, creativity and market knowledge builds brands, increases sales, attracts investment and supports business growth in our key sectors: financial services, capital markets, energy & industrials, and technology.

Our integrated services span from brand, insights and strategy to masterfully executed multi-channel campaigns.

Risks and rewards

Interest in ESG has never been higher [see Figure 1]. But with hype, quite correctly, comes scepticism.

Is ESG all it's cracked up to be? Is its current vogue a harbinger of fundamental change in the business world, or simply the latest fad to drive the op-ed cycle and MBA theses?

Far be it from us to make grand pronouncements on the future – but the indications are for the former: ESG matters.

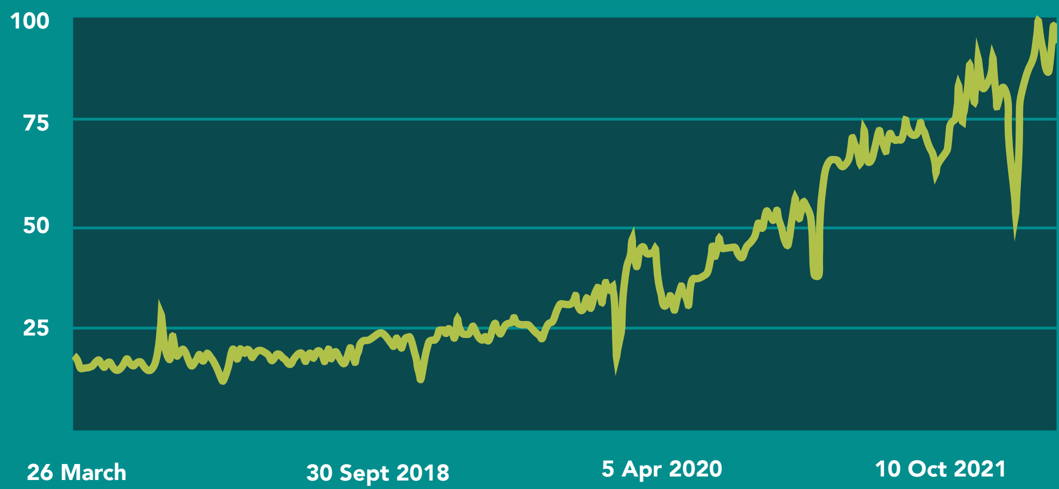


Figure 1: *Interest in ESG over the previous 5 years via Google Trends*[2]

Share the love: ESG upside

Research covering more than 3,000 publicly traded companies from Kellogg School of Management, for example, showed that positive ESG news corresponded with a 60 basis point (or 0.6 per cent) outperformance of the market on the day of announcement[3]. On the other hand, well-publicised bad news corresponded with a 0.7 per cent drop in value.

There are two crucial caveats here: first, the boost only appeared when the ESG news was materially relevant to the business' activities. So, an oil and gas company stocking the canteen with fairtrade coffee won't see much benefit (not that they shouldn't do so), but a high street café chain might.

Second, in the authors' own words: "The more articles people had written about the topic, the larger the response. For instance, if at least five articles about a positive material ESG development had been identified, the company's stock price rose by an average of 2.2 per cent, or 217 basis points, relative to the market that day."

In other words: don't neglect the comms campaigns.

Of course, share price is not the only relevant metric. Fortunately, evidence abounds that ESG matters in other respects, too. For example, a NYU Stern Centre for Sustainable Business meta-study confirmed positive correlation between good ESG performance and Return on Equity (ROE) and Return on Assets (ROA) as well as stock price[4].

A solid ESG reputation may also help attract investors: Morningstar reported in October 2021 that self-described sustainable funds saw $15.7 billion in net inflows during 2021's third quarter, totalling more than $330 billion in assets as of September the same year[5].

And – let's not forget – customers like it, too. We will all have the anecdotal evidence of a friend that splashes out extra for the 'ethical' brand even if we don't ourselves, and a McKinsey survey found that upward of 70 per cent of consumers said they would pay an additional five per cent for a green product if it met the same performance standards as a nongreen alternative[6].

But consumers, investors and even stock valuations can all be susceptible to trend chasing, so what is there to tell us that ESG will be a lasting change? Perhaps because the ESG, rather than being an extrinsic 'added extra', is at its core a forensic focus on business processes and activities. Larry Fink, CEO of Blackrock, the world's largest asset manager by assets under management (AUM), wrote in his 2018 letter to CEOs:

"A company's ability to manage environmental, social, and governance matters demonstrate the leadership and good governance that is so essential to sustainable growth, which is why we are increasingly integrating these issues into our investment process.[7]"

Put simply, if a company has the competence, capacity and will to run a fine-tooth comb over its operations, then it's probably got a good handle on the other details that make for a successful business. Even if consumer interest in sustainable and ethical brands wanes (which feels unlikely), this focus on the fundamentals should mean that ESG stays central to good business practice in the future.

Courting disaster: the risks of getting it wrong

If sterling ESG performance translates to pounds sterling in the coffers, then surely poor performance incurs a penalty?

The research seems to bear this out. A study by Bank of America found that 24 controversies "related to accounting scandals, data breaches, sexual harassment cases and other ESG issues wiped $534bn off the stock values of the S&P 500 companies involved over a period of five years[8]."

Some companies may be able to shake off such incidents as blips and carry on as usual. Google doesn't seem to have been slowed down by the €8bn in fines it has paid in the EU for anti-competitive practices, for example.

But even behemoths can be laid low. At its peak, Enron was America's seventh largest corporation but has since become a byword for abject governance failures. In what has become known as the Enron Scandal, the company's leadership employed an array of fraudulent accounting practices to obscure losses and protect the company's value.

The resulting fallout was enough to land several executives in prison, send its auditing firm into bankruptcy, and even inspire new legislation to prevent similar events happening again[9].

It all comes out in the wash

As perilous as poor ESG performance can be, there is an even more insidious risk associated with the topic. It goes by many names and you may have heard of it:

- Greenwashing
- Social-washing
- ESG-washing
- Impact-washing

These interrelated concepts really boil down to the same thing: attempting to accrue the reputational rewards associated with ESG and related metrics through dishonesty. That dishonesty can differ in form and severity, ranging from flagrant lies to inadvertent exaggerations, but it can pose reputational risk in any flavour[10].

There are a sobering number of greenwashing incidents to choose from, but perhaps one of the most (in)famous in recent history is the Volkswagen 'dieselgate' emissions scandal.

In September 2015, VW admitted installing 'defeat devices' in millions of its diesel-powered cars. These devices could detect when a car was being tested for compliance with emissions regulations and adjust engine performance so that it passed, while in normal road conditions, emissions were far higher than allowed. It is a perfect example of greenwashing – attempting to reap undeserved benefits of strong environmental performance. The full extent of the fallout from the VW emissions scandal, for example, is still unknown with trials ongoing [see Figure 2].

Dieselgate: The VW emissions scandal in numbers

$7.3bn	The amount put aside as charge to earnings by VW the day after the news broke in anticipation of fines and legal costs – which turned out to be an underestimate with the company having spent
>$35bn...	...and counting as of October 2020[11].
45% / $42.5bn	Stock value lost in the first two months after the scandal broke.
2 years, 2 months	Time taken for stock value to reach its pre-scandal price (01/11/2017) – with the value not reaching and staying above that level until 21/12/2021[12].
18th to 33rd	Brand Finance rated VW as the world's 18th most valuable brand pre-scandal, falling to 33rd by 2022[13].
30,000 job losses	Announced by VW in the wake of the scandal[14].
59 premature deaths	Estimated to have been caused between 2008 and 2015 by the excess pollution from cars fitted with the defeat devices, according to a peer-reviewed study[15].

Figure 2: Consequences of the VW 'dieselgate' emissions scandal

It would be a lie to say that cheaters never prosper, and that greenwashing is always punished. You only have to look at beloved bottled water brand Fiji Water and its entanglement in a 'forward crediting[16]' scandal to see that companies do not always reap what they sow, but the risks are very real nonetheless[17].

Dodging the landmines: mistakes to avoid in ESG comms

If you're reading this, hopefully you are sufficiently convinced that there is enough upside to justify an ESG communications programme. Yet perhaps you're still wary of the risks. That's sensible. With that in mind, here are some practical rules of thumb to help you skirt any potential landmines.

1.

Insincerity is the enemy

Remember Enron and VW? The glitziest, best-funded ESG comms campaign in the world wouldn't have saved them once the truth of their practices was out there. In fact, it may have risked even more reputational damage as stakeholders recognise the additional duplicity involved.

Simply put, the single most important thing an ESG comms programme must be is sincere. That means the company must be walking the walk and not just talking the talk, and it means that messaging actually has to align with the organisation's activity.

Do you remember BP's short-lived rebrand to 'Beyond Petroleum'? It was 20 years ago now that then-chief executive Lord Browne declared that "we need to reinvent the energy business; to go beyond petroleum[18]." Noble words but, as Forbes contributor Scott Carpenter outlines:

"The company failed to live up to its new image. In March 2006, a BP oil pipeline caused one of the largest oil spills in Alaska's history. In 2010, an explosion on its Deepwater Horizon oil rig unleashed the largest marine oil spill in history. Under financial pressure, BP eventually sold off many of its solar and wind assets, quietly abandoning the 2001 rebrand[19]."

The company's actions didn't just fall short of its rhetoric but failed to align altogether. Perhaps the change was heartfelt, and circumstance prevented the company from following through, but it's difficult to see the words as anything but knowingly hollow, given what followed.

Today, we can be cautiously optimistic that its more recent environmental commitments have been made more sincerely – if so, surely a sign of a lesson learned: say what you mean and mean what you say.

Ultimately, BP survived to fight another day as it had the brand capital and actual capital to endure and reform. Smaller companies – especially startups and scaleups – may not have the resources to do the same.

2.

Don't overclaim

Outright insincerity is particularly egregious, but a more subtle risk is one of exaggeration – overstating ESG credentials versus reality.

In theory, this could be an intentionally and cynically deployed tactic – but if you're reading this, then you're probably not trying to do that. In fact, from our experience, this is more likely to be a sin born of overenthusiasm than subterfuge.

Companies are staffed by people. And people get justifiably excited when they experience their employer making changes for the good. If your company embarked on an ambitious plan to slash emissions, or improve diversity, equity and inclusion in the leadership team, then you might want to shout it from the rooftops. Especially if you're in the comms department.

However, it's important to exercise restraint. Reducing emissions is not the same as eliminating them. Ambitious and well-designed plans are still only good intentions until they are executed.

A change in direction is only turning on the spot until there have been some miles travelled.

Even if no facts or figures have been exaggerated, an over-exuberant tone can be enough to arouse suspicion among your more cynical stakeholders. Look at the example of Innocent Drinks' recent TV ad, which was retracted at the behest of the Advertising Standards Authority after multiple viewers called it out for greenwashing, challenging whether the ad exaggerated the total environmental benefit of the products and was therefore misleading[20].

3.

Don’t underclaim

Yet, at the same time, you don’t want to swing too far the other way and risk diluting your ESG message. The immediate risk here is that the brand misses out on deserved reputational benefits that could contribute to sales, investor interest or other positive outcomes.

The secondary risk is that lacklustre communications around ESG efforts allow enthusiasm to ebb internally, and momentum is lost. That could translate to faltering ESG programmes in future and impede positive change.

In our experience, it’s rare for companies to want to undersell their successes as a first instinct, but it’s vital that communicators don’t slip into this attitude as a corrective to over-enthusiasm. **Balance is key.**

4.

Don’t confuse ESG with CSR or impact

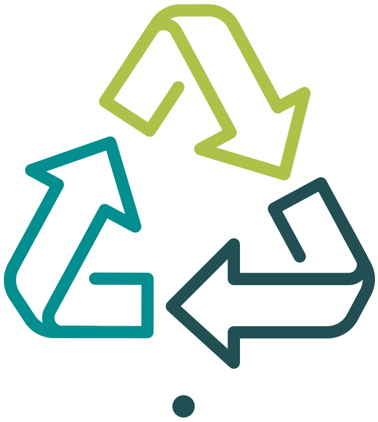
ESG can be complicated, and it’s easy for your understanding of the term to bleed into related but distinct concepts if you aren’t clear on its true definition.

For example, it is easy to conflate ESG with CSR (Corporate Social Responsibility). CSR is undoubtedly related to ESG, and a company’s ESG programme may even develop out of its CSR initiatives. However, the two aren’t synonymous. For example, while there are a growing number of external companies and metrics for auditing ESG performance, CSR is largely self-directed and regulated by companies.

Secondly, CSR activities are often extraneous to a company’s operations – think team volunteering days doing litter picks or planting trees. ESG factors, by contrast, should always be tied into the business’ actual operations.

Another adjacent concept – at least for some areas of ESG – is impact. You may have heard of ‘impact investing’ which is the practice of investing in projects or companies with a positive environmental or social outcome alongside a financial return. This is distinct from ESG investing, which often equates to investing in companies that try to avoid harm and perform better than their peers on these metrics, but don’t necessarily undertake inherently net-positive activities.

The tricky thing here is that ‘impact’ is a common word in business writing quite aside from this specific application. As such, it is natural for businesses communicating around ESG to talk about the ‘impact’ of their initiatives, and nine times in ten that will be fine – but in certain contexts the confusion might be salient, and communicators should watch for it to avoid confusing stakeholders.



5.

Don’t forget the ‘S’ and the ‘G’

A quick experiment: type ‘ESG’ into Google and click on the first five links in the search results. We would stake good money that you saw at least one of the following images: a wind turbine, a solar panel or a tree/forest.

That is reflective of a wider trend where ESG is used as a shorthand for environmental initiatives and the S and G are treated as secondary – if not neglected entirely. It’s fine to have an ESG strategy that is heavier in one of the factors than the others – in fact, it may well be sensible in certain contexts – but a professed ESG programme that forgets about the ‘S’ and/or ‘G’ entirely looks haphazard and unfinished.

Our advice is to be upfront about that weighting if necessary and take care not to mislabel an environmental strategy as an ESG one.

Tips for best practice

It's not enough to just point to pitfalls to avoid though; it's important to give positive advice on best practice, too.

1.

Be sincere, humble and confident

In many ways, this is the inverse of our first three pieces of advice on risks to avoid. If a company is to avoid being insincere, overclaiming or underclaiming in its ESG comms, then it must be sincere, humble, and confident.

Yet, it's worth elaborating on this point: how best to strike the balance between humility and confidence? That's a subtle art, but there are a few things to keep in mind:

- Tone of voice: Convey excitement or pride through positive language but avoid giddy excitement. Go easy on the adjectives.

- Pick the right spokespeople: Ascribing a quote to the CEO inevitably adds a certain weight to a message – but consider if that is the right approach. For a more minor achievement, such as the achievement of a subset of interim targets, perhaps a less senior and more specific spokesperson would be a better choice, such as a sustainability manager? That enables you to reserve the big guns for the most important communications.

- Contextualise: Celebrate achievements but emphasise that there is more work to do. This won't denigrate your achievements to date – on the contrary, it will demonstrate ambition while also showing your company to be level-headed and credible.

Provide proof

Of course, the ultimate way to show stakeholders that your ESG claims are legitimate is to show them the evidence. That means setting targets that are clear and measurable in the first place, and then providing that proof in your communications.

If credible proof isn't available, then think hard about whether now is the right time to be communicating on the topic. Could it wait while you gathered relevant data? If data really isn't available – or if you're communicating on plans rather than results – then be as detailed as you can about your methodology and why you're confident your activities will drive improvements.

For example, let's imagine Company A has closed an office in favour of remote working, and wants to point out the emissions savings this has allowed them to create. Company A should be able to source and provide direct data related to energy savings from no longer running the lights, machinery, heating and air conditioning etc.

What may be more difficult, is weighing this versus the increased energy consumption by employees at home. To properly quantify this would require detailed information on their homes' energy performance and obtaining that data would be intrusive.

Similarly, no doubt there will be transport related emissions savings by eliminating employees' commutes, but to calculate the figure would require knowing what distances each employee travelled and by what method. Substituting for some well-reasoned assumed averages would be fine, but transparency on the calculation would be important.

3.

Make promises publicly – and keep them

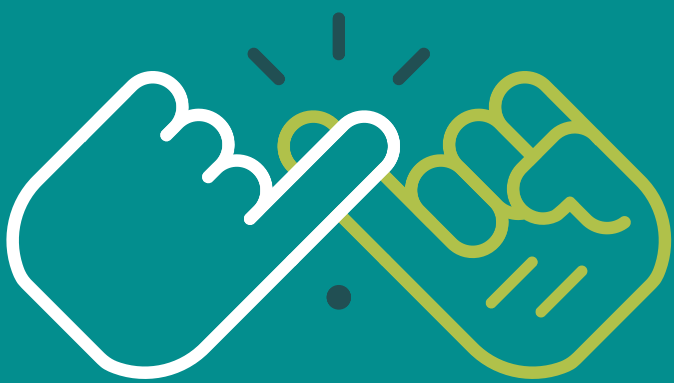
Accountability is essential to credibility when it comes to ESG. Let us say that two companies issue press releases celebrating 50/50 gender balance on their boards. In both cases, this is cause to be pleased.

However, let's imagine one of the companies issued a detailed plan two years ago with how it planned to improve representation at the board level, complete with initiatives aimed at doing so, and that the other company made no such announcement.

Which company appears as the more credible ESG performer? The first company has clearly identified something to improve on, thought about how to do so, and set about making it happen. The second company may have done the same, but we don't know.

Equally, the company may have benefitted from a degree of good fortune, with a number of well-timed retirements and promotions tipping the scales unexpectedly.

Of course, there is risk to making public commitments – what if the targets are missed? However, that's precisely why accountability lends credibility: failure can't be hidden and the company is incentivised to make good-faith efforts to keeping its word.



4.

Review your messaging

Done right, ESG should not be an addendum to the business; something tacked on as an afterthought. It should be incorporated into the business' core strategy, operations and values.

From a communications perspective, that means revisiting the company's messaging. Does the company's ESG commitments alter its mission statement? Maybe it enhances it? Either way it may require an evolution of the message and calls for a review. The same logic applies at all levels of the company's messaging, from its core raison d'être to its primary, secondary and even tertiary messages.

Once messaging has been reviewed and any updates made, communicators should consider where those changes need to be implemented elsewhere.

Does web copy need updating? The company boiler plate? What about presentation templates or marketing literature?

5.

Consider an ESG report or dedicated information hub

Really, this is an amalgamation of the above tips – how best to evidence ESG performance, make publicly accountable commitments, and outline clear ESG messaging than with a dedicated resource outlining the company's ESG work?

Issuing an annual ESG report has become increasingly popular in recent years. This has the advantage of mirroring an annual financial report – visibly elevating ESG to an equal footing with traditional measures of corporate performance – and providing information in a familiar format. It is also a stakeholder-friendly format and increasingly required of companies by their investors.

An alternative or additional approach is to create a dedicated space on the company website for ESG communications, providing a central hub for anything from ESG reports to news announcements and thought leadership.

This must be done delicately however, so that ESG still appears core to the business and not an add-on.

ESG through a sector lens

At Aspectus, we specialise in four key sectors: financial services, capital markets, energy & industrials, and technology. ESG is important to each and every one of them, but each has subtly different challenges.

Here, expert communicators from each team share their views on some of the biggest ESG comms challenges for their sector. Agree, disagree or have a different challenge to tackle? Get in touch with them to discuss!

Financial services

"Because of the critical role that the financial services sector plays in financing and driving a just transition, there is particularly heavy pressure on them. This means that effectively communicating your ESG strategy is as important as developing one in the first place, to make sure that investors, regulators and wider stakeholders understand what you're doing." - Emilie Rowe, Head of Financial Services

Capital markets

"In the last few years, ESG has gone from being something of a buzzword, to being a key part of finance. The capital markets that underpin this are undergoing a revolutionary shift. Swathes of new regulations are being rapidly introduced to provide clarity to the space. With this, many of our clients are seizing the opportunity to provide solutions to problems such as the absence of standardisation and difficulty in accessing reliable information on ESG investments.

All of our clients now have a position on ESG – getting these messages out to market is where we come in. As it is a constantly evolving space with a rapacious appetite from investors, putting yourself front and centre of the conversation at this stage is so important." - Tim Focas, Head of Capital Markets

Energy & Industrials

"There are all sorts of ESG challenges in energy, but the nature of the sector means that the standout story is the energy transition. From energy producers and emerging clean tech, to consultancies and analyst firms, we work with a broad range of companies that are all united in one mission – navigating the energy transition so a positive and progressive path for both society and industry can be forged. And it is our job to ensure their positioning is both credible and communicated effectively.

The industrials sector is a tale of two cities. On the one hand, we have traditionally hard-to-abate industries that operate highly energy intensive processes. On the other, we have some of the most cutting-edge technology we see in today's business world. How these two strands intertwine, will be the storyline of this sector – delivering the services that society requires to thrive, but in a responsible, safe and greener way. Ahead, brands have the task of ensuring they play their part in the chapters that ensue – and the narrative of their brand is powerful enough to portray a credible protagonist." - Astrid Dickinson, Head of Energy & Industrials

Tech

"The tech sector is incredibly broad, meaning the comms challenges around ESG are unique and varied. The key challenge is making sure the communications are tailored for the right subsector to make sense for the specific target audience. There's a whole host of subsectors facing key ESG communications challenges, from blockchain through to efficiently communicating why businesses need to be implementing their own policies such as recycling.

To give a specific example, one key challenge that we're facing for blockchain tech clients is effectively telling the right story around energy usage. We need to ensure that firms who are participating in the conversation are making the necessary changes to showcase their ESG efforts in a reputable manner." - Sofie Skouras, Head of Technology

How we can help

At Aspectus, we pride ourselves on being considered, consultative sector specialists and providing advice our clients can rely on. We operate a dedicated cross-sector ESG team to stay ahead of how this megatrend is changing the nature of businesses and their communications.

It's important to remember that ESG communications can never be a substitute for good ESG performance. Talking the talk is useless without walking the walk, and can in fact be counterproductive if it ends up drawing attention to shakily constructed initiatives. However, we are ready and able to help businesses with their ESG communications when they are ready to.

Our ESG-related services to clients have included but are not limited to:

- Brand and message risk assessment
- Competitor reviews (services and brand positioning) and market landscape analysis
- Communications strategy and messaging
- Campaign planning and promotion
- Content creation, including: thought leadership, whitepapers, reports, award entries, web content and marketing papers
- Media relations: traditional and paid
- Digital marketing, including: website development, SEO, PPC, social media and email marketing
- Brand design, including: website UX and UI, marketing collateral, ads and videos

Get in touch

esg@aspectusgroup.com

www.aspectusgroup.com

aspectus

Appendix

1 https://insight.kellogg.northwestern.edu/article/esg-news-market-reaction#:~:text=They%20found%20that%20stock%20value,directly%20to%20the%20company's%20sector.

2 Worldwide data, accessed 22/03/2022

3 Ibid. Kellogg School of Management

4 https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021%20Rev_0.pdf

5 https://www.morningstar.com/articles/1062299/the-number-of-new-sustainable-funds-hits-an-all-time-record

6 https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Strategy%20and%20Corporate%20Finance/Our%20Insights/Five%20ways%20that%20ESG%20creates%20value/Five-ways-that-ESG-creates-value.ashx

7 https://www.nasdaq.com/articles/strong-esg-practices-can-benefit-companies-and-investors-2019-03-13

8 ESG controversies wipe $500bn off value of US companies | Financial Times (ft.com)

9 https://en.wikipedia.org/wiki/Enron_scandal

10 https://journals.sagepub.com/doi/full/10.1177/1050651919874105

11 https://fortune.com/2020/10/06/volkswagen-vw-emissions-scandal-damages/

12 https://uk.finance.yahoo.com/quote/VOW.DE/story?period1=1441065600&period2=1647993600&interval=1d&filter=history&frequency=1d&includeAdjustedClose=true

13 https://brandirectory.com/rankings/global/table

14 https://www.theguardian.com/business/2016/nov/18/volkswagen-axe-30000-jobs-worldwide-diesel-emissions-scandal#:~:text=Volkswagen%20is%20to%20axe%2030%2C000,23%2C000%20will%20be%20in%20Germany.

15 https://www.theguardian.com/environment/2015/oct/29/vw-emissions-estimated-to-cause-59-premature-us-deaths

16 https://www.motherjones.com/politics/2011/01/fiji-water-sued-greenwashing/

17 https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/archive/archived-reports-and-translations/2003-1998/environmental-and-social-report-2002.pdf

18 https://www.forbes.com/sites/scottcarpenter/2020/08/04/bps-new-renewables-push-redolent-of-abandoned-beyond-petroleum-rebrand/?sh=404a1ea51ceb

19 https://www.asa.org.uk/rulings/innocent-ltd-g21-1111827-innocent-ltd.html

20 https://www.asa.org.uk/rulings/innocent-ltd-g21-1111827-innocent-ltd.html

aspectus