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ESG

INVESTOR COMMUNICATIONS IMPERATIVES AMID COVID-19 AND SOCIETAL UNCERTAINTY

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AS CORPORATE AMERICA LOOKS TO NAVIGATE THE CONTINUED UNCERTAINTY OF THE COVID-19 PANDEMIC AND THE PROTESTS SWEEPING THE UNITED STATES DEMANDING AN END TO SYSTEMIC RACISM – TRIGGERED BY THE NEEDLESS KILLINGS OF GEORGE FLOYD, AHMAUD ARBERY, BREONNA TAYLOR AND COUNTLESS OTHER UNARMED BLACK AMERICANS – THE PRIVATE SECTOR HAS INCREASED ITS OWN ADVOCACY. IN JUNE, NEARLY 350 COMPANIES RELEASED STATEMENTS SUPPORTING THE BLACK COMMUNITY AND CALLING FOR AN END TO SYSTEMIC RACISM.

Important questions are being raised about how brands should re-evaluate the identification & vetting process, and reorient their influencer marketing efforts to include more diverse voices in this time of unprecedented activism.

These messages of support align with a movement that has also been gaining traction: stakeholder capitalism and a stronger focus on environmental, social and governance (ESG) factors. Stakeholder capitalism was a popular management theory in the 1950s and 1960s that is making a distinct comeback, as outlined by the Business Roundtable's statement last summer on corporate purpose. It is an expectation that corporations serve the interests of all their stakeholders – employees, customers, suppliers and local communities – along with investors.

ESG REFERS TO THREE CORE FACTORS THAT INVESTORS CAN USE TO MEASURE THE SUSTAINABILITY AND SOCIETAL IMPACT OF A COMPANY.

ESG is also not a new concept, but one that has been growing because companies with strong ESG performance often have strong economic performance. It makes logical sense that a company that is managing its risks (think: supply chain, pay inequality, board diversity), is also better run.

Skeptics have often predicted investors would abandon ESG and more purpose-driven business strategies in favor of higher returns, particularly in times of economic turbulence. Data collected during COVID-19 suggests otherwise, indicating that ESG is here to stay as stakeholder interest shifts towards how companies treat employees, customers and suppliers during times of crisis.

Investors poured a record of over $12 billion into ESG funds in the first four months of 2020 as the COVID-19 pandemic unfolded across the globe, more than double the amount from the same time last year[1]. Why such an increase? Several leading institutions have published studies outlining why they believe companies managing ESG risks and opportunities are built on firmer foundations to brace and survive downturns such as COVID-19[2]. Effectively addressing the needs of your employees, customers and suppliers will help build trust, bolster brand affinity and loyalty, and, studies have suggested, may even lead to lower borrowing costs, higher credit ratings and lower stock price volatility.

Fundamentally, the perception of companies "doing good" authentically has become a priority for management teams and boards of directors across the private sector. Two out of every three shareholder proposals submitted so far during this ongoing, virtual-led annual meeting season address environmental or social matters, including human rights, gender and racial pay gaps, and climate change[3]. Some of the largest tech companies faced questions from shareholders regarding concerns about safety conditions at facilities during the coronavirus outbreak, as well as improving oversight to reduce the potentially negative societal effects of their platforms. A leading U.S. bank narrowly defeated a proposal to force it to publish a climate change risk report, while one of the largest global oil companies faced shareholder opposition regarding the re-election of its CEO and Chairman over climate change issues.

With stakeholders more emboldened than ever, corporations are being compelled to change the way they operate in many different ways. Above all, a company's corporate purpose has never been more central to its investment thesis with stakeholders looking to invest or be associated with companies whose moral and ethical values align with theirs.

While an ESG focus has had demonstrative impacts on pushing companies to be more responsible stewards of the environment, there is more to be done to advance better equality in the workforce – including gender and race equality. The FTSE 100 may miss its 2021 goal to have at least one director from an ethnic minority background on the board. BlackRock Inc., one of the most vocal proponents of purpose and ESG, has made commitments to increase its Black workforce by 30% in the next four years. Their current roster of senior Black leaders is 3%.[4]

[1] https://www.wsj.com/articles/esg-investing-shines-in-market-turmoil-with-help-from-big-tech-11589275801
[2] https://www.gsam.com/content/gsam/us/en/individual/market-insights/gsam-insights/2020/ESG-Amplification.html?sc_cid=np-gsh/ncaejfjqy150
[3] *https://www.ft.com/content/19047cda-0648-48a9-a512-87653149026c?desktop=true&segmentId=d8d3e364-5197-20eb-17cf-2437841d178a*
[4] https://www.bloomberg.com/news/articles/2020-06-24/esg-investors-are-confronting-a-race-problem-of-their-own

As the United States continues battling COVID-19, many expect issuers and institutional investors to increase their focus on ESG in both corporate practice and disclosure. **Given this environment, there are several communications imperatives for companies to consider from an ESG perspective:**

01 DEFINE YOUR FRAMEWORK

- **Set out clear public goals -** What are you trying to achieve and what impact will it have?
- **Be easily measurable -** How can stakeholders tell if you meet those goals? What are some quantifiable metrics on which the program can be judged?
- **Be transparent -** Did you hit your goals? Can you prove it? How did meeting your goals achieve your desired impact?

Increasingly, ESG is at the center of enterprise purpose – from Unilever's Sustainable Living Plan to Nestlé's Creating Shared Value campaign. A clearly articulated ESG narrative is critical in outlining a company's broader corporate purpose and can develop opportunities for leadership to demonstrate the societal role their company plays, above and beyond returning profits to shareholders. Think of ESG as integral to your corporate approach – not as a nice addition – and an important framework to measure progress.

02 PRESENT PERSPECTIVE IN PUBLIC STATEMENTS

With the first quarter earnings cycle behind us, executives should be able to reflect on the past few months in public comments around their human and business response to the pandemic. ESG content gained more prominence in these earnings calls due to the impacts of the crisis on the safety and pay of employees, the treatment of suppliers and broader stakeholder issues. At upcoming earnings, town halls, investor meetings and other events, executives should be able to authentically articulate these more heartfelt statements on what worked well, what didn't and how they did everything they could to look after their employees.

Following the death of George Floyd, small and large companies across industries, both global and U.S. based, issued public statements of support for the Black Lives Matter movement. Many also combined their words of support with concrete corporate commitments to Diversity & Inclusion (D&I) initiatives with the potential to outlast the moment. Business groups have also added their support, including the Business Roundtable, whose CEOs stated that they "are deeply concerned about the racial bias that continues to plague our society." There is an expectation, more than simply an opportunity, that CEOs and C-Suites will be active participants in the leading social justice issues facing the country, and in many of the countries in which they operate. All companies should expect to answer more questions about progress on their diversity goals and their commitments to ensuring equality in the workplace.

03 EXECUTIVE COMMUNICATION IS KEY

Stakeholders want to hear from leaders beyond the CEO, with Chief Medical, HR, Quality and Risk Officers all receiving heightened exposure during the last earnings cycle. D&I officers are also increasingly speaking up externally vs. internally regarding companies' commitments to a more diverse and inclusive workforce. Purpose leaders within companies, including sustainability leads and corporate social responsibilities heads, can speak to purpose programming and the company's strategy to manage ESG factors. Utilizing a deep bench of executive spokespeople to tell your ESG story will demonstrate your leadership strength and expertise, whilst raising awareness of your holistic approach as businesses cautiously return to work.

04 ENGAGE EMPLOYEES

Convert employees into vocal proponents of your business and your brand. As annual report season approaches, consider highlighting your ESG initiatives throughout the report as opposed to a standalone document to help drive understanding. Or consider the launch of a new ambition, such as a pledge to become carbon neutral within a specific timeframe. The long-term success of companies depends on the long-term success of employees, and a workforce that feels truly valued and empowered by its employer, particularly during challenging times, is a powerful asset.

05 CONNECT WITH RELEVANT MEDIA

ESG-centric, tier-one media platforms, such as Bloomberg Green, FT Moral Money, Fortune Race Ahead, and others, are compelling allies to have. Help reporters understand your story, and what they need to tell theirs, through proactive, multi-channel engagement across media, owned content and digital platforms.

06 CHOOSE YOUR RANKINGS SYSTEM WISELY

Most private sector companies are evaluated on their ESG performance by third-party ratings providers which aim to measure the sustainability and ethical impact of a business. With a proliferation of ranking bodies, including JUST Capital, MSCI Index, Sustainalytics, GRI Standards and Sustainability Accounting Standards Board (SASB), it is important to match your materiality risks to core business objectives in order to find the right ratings for your company.

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