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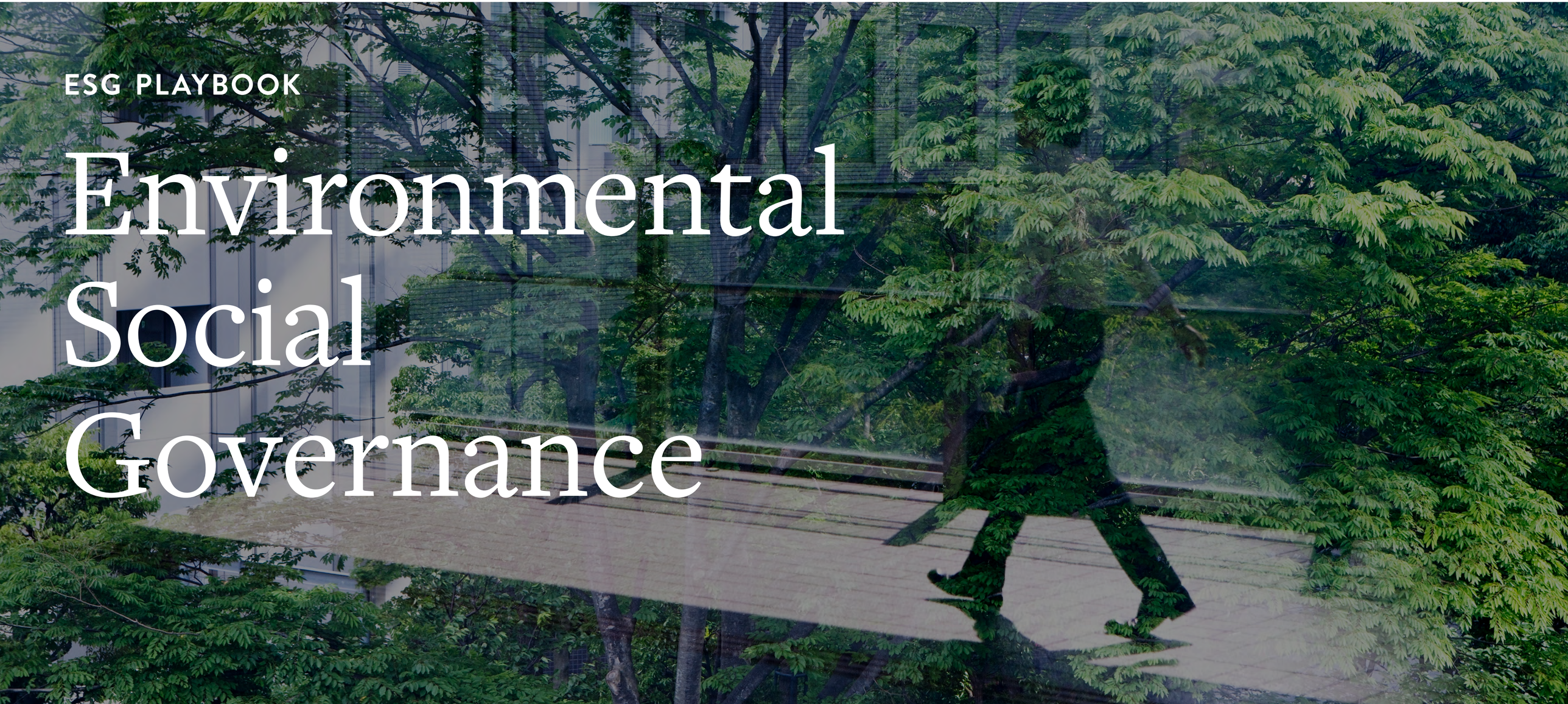


ESG PLAYBOOK

Environmental Social Governance

Index

Introduction

It really feels that we are at a tipping point for ESG (environmental, social and governance) matters.

The significance of the environmental crisis, the Me Too and Black Lives Matter movements and the socio-economic divisions highlighted by coronavirus – combined with gradual shifts in the ownership of wealth and buying power to a much wider spectrum of society – are driving demand for a redefinition of business success and a more holistic approach to prosperity.

As a result, ESG is climbing the agenda in boardrooms around the world. That was evidenced by a recent Business Roundtable of CEOs from leading US corporations, who acknowledged that their responsibilities as business leaders are not just to their shareholders, but to all stakeholders in their business[1].

[1] https://www.cnbc.com/2019/08/19/the-ceos-of-nearly-two-hundred-companies-say-shareholder-value-is-no-longer-their-main-objective.html

This includes staff, customers, suppliers and the wider world. Actions will always speak louder than words though, and many signatories have already been targeted for failing to live up to their guarantees.

More than moral altruism, as more reliable data becomes available it is increasingly clear that businesses that take their ESG matters seriously can generate better short and long-term prosperity than those who don't. We will examine some of this research on page 11.

We have been working with clients in the Asset Management and Capital Markets space to articulate their approach to integrating ESG in their asset-selection and strategy-creation criteria. This is no easy task, as different products and solutions have varying degrees of alignment, reflecting the fact that distinct client groups have contrasting expectations and levels of interest. There is also a notable geographic split, not just in uptake but also in focus on the different ESG factors – European investors tend to put more focus on governance than their North American peers, for example.

There is also a need for this kind of consultation beyond the big investment firms; a wider range of stakeholders, from buyers to suppliers to regulators, are taking an interest in the steps an organisation enacts to minimise negative impacts on the world and maximise positive impact.
For most firms, this will be a journey that takes time to travel, and simply recognising your starting point and where you want to be is enough to get stakeholders onboard.

As marketers, we are the bridge between our customers and our business leaders. We have a role to play in driving ESG up the internal agenda and to articulate to our audiences what we are doing, and why.

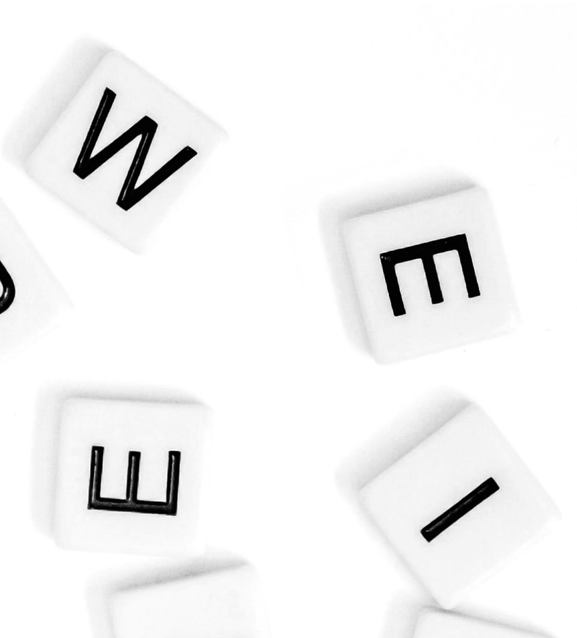
A key cornerstone of this is folding ESG factors into your brand story, not as a 'purpose' campaign but as 'business as usual'.

This playbook will help ensure all channels of communication around the ESG agenda are well and truly open.

The vexing lexicon of ESG investing

The use of language in any new field of study or emerging industry is critically important. When introducing a new idea, the development of a robust lexicon helps educate stakeholders on the concept, provides the tools to properly communicate the nuances of the idea and, when done correctly, drives adoption of that concept. In short, words matter.

Words have never been more critical for marketing and communications professionals working for asset managers, wealth managers and other firms whose core business is investing. They all have an important role to play in the adoption of ESG investing by using its lexicon to clarify, educate on and advocate for their firms' positioning around ESG. That said, the lexicon is still a work in progress and the sea of terminology can be confusing at times. What follows is just a few of the commonly used terms that can cause confusion – but also present firms with an opportunity to find their own voice.



ESG investing

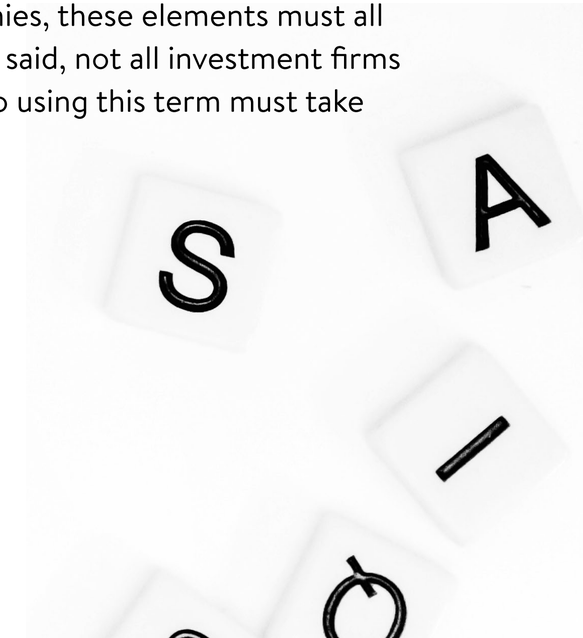
This term has become the standard bearer to describe a style of investing that incorporates environmental, social, and / or governance factors into the decision-making process. It seeks to produce positive impacts, reduce risk, and create accountability, with financial return. The term is sometimes considered to fall under the branch of...

(Socially) Responsible investing

Socially Responsible Investing (SRI) has in the past few years evolved into simply 'Responsible Investing' at many investment firms, as younger generations who place more importance on values alignment gain more influence. The industry has responded with 'RI' as an update on the term, but some investors still infer from 'responsible' some kind of performance penalty – despite plenty of evidence to the contrary (see research we highlight on page 11 of this Playbook).

Sustainable investing

This has become an increasingly popular way of framing ESG. It leans into the discipline of sustainability, with the economy, environment and society comprising its three pillars. The idea emphasises more of the holistic, interconnected and interdependent nature of these pillars – and that one cannot exist without the other. In a world where business terms like 'sustainable revenue' have a specific fiscal definition, it challenges us to think more broadly – that to be truly sustainable as a society living on one planet, dependent on healthy, functioning economies, these elements must all work together. That said, not all investment firms think this way and so using this term must take that into account.



Mission-driven investing

The terminology of mission-driven investing is a somewhat narrower version of previous terms. This refers more to organisations such as foundations that choose to align their investment portfolio with their mission. This can take the form of negative screening, positive inclusion or shareholder engagement in order to ensure that the investments have high alignment with the mission or at least don't run contrary to it.

Impact investing

This style of investing is also a bit narrower and refers to firms that invest with a specific 'impact' metric in mind – often environmental or social in nature – as a primary goal with a financial goal as a secondary or equally important objective. The idea is to use capital to effect positive social or environmental change as opposed to just maximising return.

Marketers can ensure your company's firm and product-level messaging leverages the lexicon of ESG investing without overstating the value of the services. Consider the variations: for example, a large firm with robust, centralised ESG analysis and portfolio teams who actively use information as a natural part of their investment process. This is a very different proposition to a smaller, private investment management boutique, with a handful of strategies that dabble in ESG, but has no central ESG philosophy or consciously makes it part of the investment process.

Action points

- Carefully consider your company's value proposition around ESG investing, and the appropriate language to use that matches that proposition.
- Don't overstate and do be authentic – remember that part of the appeal of ESG investing is emotional.
- Spend time with investment professionals to understand how they are integrating sustainability factors.
- Look for senior leaders within the organisation who care about how ESG can contribute to performance and show them how it can help the organisation better connect with all investors.
- Consider hiring agency partners who understand the investment industry and sustainability, and who understand how to create and activate exceptional, intentional content.

How to get *your story* right

This playbook highlights the different ways that you, as a marketer, can influence the ESG policies of your organisation and uncover relevant proof points and content opportunities to engage your audience.

Talking about ESG can be like walking a tightrope, especially if your organisation is 'on a journey' and has not yet arrived at a credible destination that withstands all scrutiny. Audiences are cynical, or at least sceptical, and demands for transparency have never been higher. At the same time, some FS brands come with a lot of baggage, including past transgressions, supporting 'sin stock' clients and the cloud of the bailout.

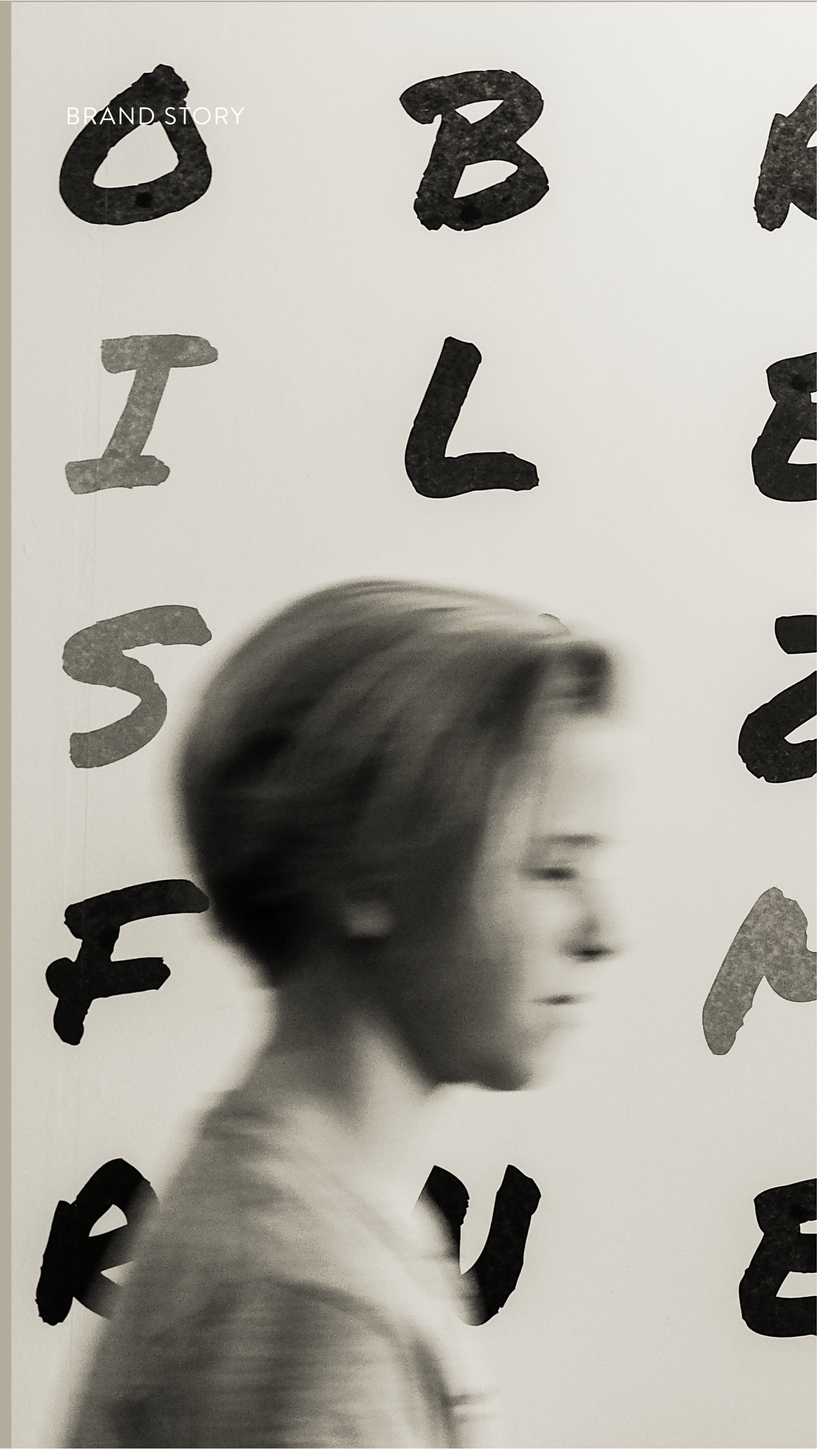
In our sector, we need to discuss the journey, bringing audiences onboard to witness each move towards ESG compliance and advocacy. Our sceptical consumer audience appreciates honesty and humility and a willingness to learn and be better. Our investor audience may also be sceptical that the changes that you intend to make won't negatively impact the bottom line.

To be seen as genuine and credible, you need to roll your ESG evolution into your core brand story. Kaitlin Loyal offers this definition of brand storytelling, which is perfectly aligned to how we need to talk about this: "Brand storytelling is using a narrative to connect your brand to customers, with a focus on linking what you stand for to the values you share with your customers[1]."

[1] https://www.scribewise.com/brand-storytelling-defined/

This needs a thought-through narrative which openly discusses the journey that you are on and stops that you make on the way. It begins with a declaration of intent and then becomes the 'quest', as you set out to achieve your objectives. It must blend emotion with rationality and be compelling and convincing.

Unlike most stories, however, this one doesn't have an ending. It evolves as the needs and expectations of your audience shift in line with the progression towards a net-zero and equitable, fair society.



Action points

- Set out a clear mission statement and measurable objectives over a defined timeline.
- Ensure that your employees are fully bought in – canvas their opinion on what the objectives should be and recruit ESG champions.
- Consider how to align your objectives to your brand – what can you credibly say?
- Find the proof points and highlight your journey – positive initiatives, staff contributions, supply chain success – but take a measured approach in how you promote this; being more sustainable and making a positive contribution is now expected behaviour.

Who cares wins

A strong model for ESG storytelling is M&S and its Plan A. When this initiative launched in 2007 it was a five-year plan with 100 targets to be achieved. At that time, it was unusual for a major retailer to embark on this kind of initiative and to promote it throughout its stores and staff at scale.

This not only made its audience think favourably towards M&S; it prompted them to think about why they were taking that approach and some of the issues they were addressing. M&S proactively shone a light on ways that its business could operate in a better manner, and was a forerunner in analysing its model from an ESG perspective.

Before launching, M&S consulted its largest shareholders and made the business case for sustainability. This consultation was important because in year one, Plan A cost £40m. By year five, however, it was 'earning' M&S £105m through less waste, increasingly effective supply chain management and goodwill.

"By year five, Plan A was 'earning' M&S £105m."

Don't just take our word for it

There is no doubt a lot of fuss is being made over sustainable investing these days. And for good reason. We are a long way past the days of the 'performance penalty', when some investors believed that any attempt to introduce ethics or values into the investment process was destined to meet an underperforming fate. The problem was simply a matter of data. Today, there are dozens of research studies that show how corporate sustainability practices translate into better performance.

As more available data has emerged and becomes useful for investment decision-making, it has led to sophisticated conclusions about how sustainability benefits stakeholders across the board – end investors, the global economy, the financial industry, our environment and societies around the globe.

Below is a sampling of some of our favourite research on corporate sustainability and sustainable investing.

The Impact of Corporate Sustainability on Organisational Process and Performance

This 2012 Harvard Business School paper speaks to the long-term outperformance of companies the authors classify as 'High Sustainability' vs those deemed 'Low Sustainability'. It was one of the first high-profile research studies to demonstrate this kind of performance.

Corporate Sustainability: First Evidence on Materiality

Harvard professors Mozaffar Khan and George Serafeim and Northwestern professor Aaron Yoon contrast material sustainability investments with nonmaterial sustainability investments and their relative performance. They published this work in 2016.

Materiality Matters: Targeting the ESG Issues that can Impact Performance

Early in 2018, Russell Investments Research combined research from Sustainability Accounting Standards Board (SASB) and Sustainalytics to come up with new 'material ESG scores'. These scores focus only on those ESG issues that are financially important, or material, to a company. This put into practice the idea that materiality is key to uncovering factors that contribute to performance, and built on the 2016 research from Khan, Serafeim and Yoon.

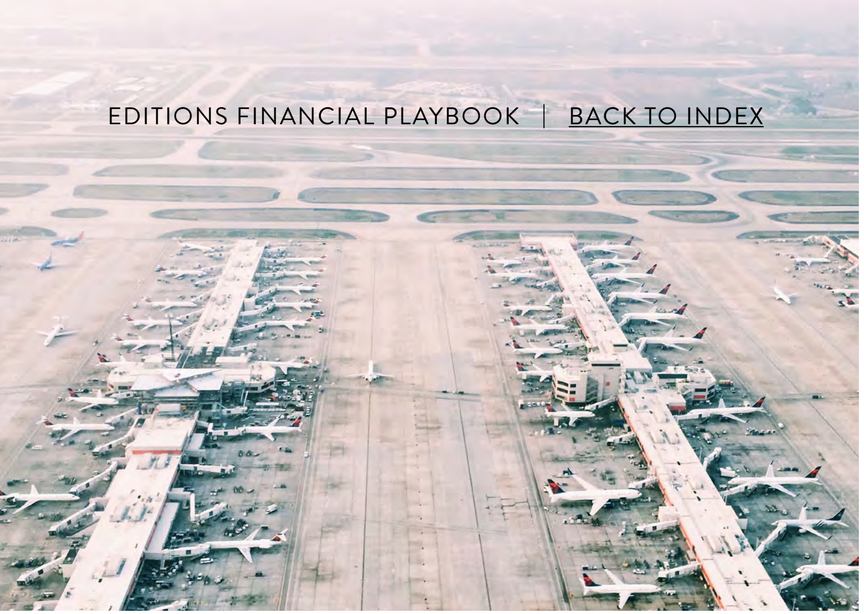
What does ‘Environmental’ in ESG mean for marketers?

The ‘environmental’ factor of ESG examines how a company or product ‘performs as steward of the physical environment’[1]. It can be split into four categories: climate change, natural resources, pollution and waste, and environmental opportunities[2].

Environmental factors are considered one of the most important aspects for ESG due to the growing fragility of our world and finite nature of resources, materials and habitats. Effectively managing environmental impact reduces some levels of financial risk, while neglecting environmental actions can expose a company to sanctions, public backlash, prosecution, fines and falling share prices.

In the absence of a standardised framework of environmental reporting across the globe, there is extra pressure on marketers to be able to effectively communicate the positive environmental characteristics of their company or product.

[1]https://www.spglobal.com/en/research-insights/articles/understanding-the-e-in-esg
[2]https://citywireselector.com/news/the-e-in-esg-what-does-it-actually-mean-to-investors/a1162900



Marketers need access to all available information held by the operational and product departments of their business, to fuel authentic communication as well as the ability to quickly respond to press and public queries.

Exaggerating the environmental impacts of a business or product is recognised as 'greenwashing', so all statements must come from tangible and quantifiable information that evidences outcomes.

Making vague statements, offering no factual data, creating false certifications, and rebranding in green or nature-themed imagery in the absence of an environmentally friendly purpose or products are all examples of greenwashing committed by companies[3].

When marketing evidenced ESG factors, humanising stories is of utmost importance – highlight all benefits, how it connects with environmental values, how it contributes to an environmentally-sound world and tangible financial returns as a result.

When the brand story is positive, you have creative campaign fuel for fantastic exposure, and multiple topics to engage and educate your audience on the issues that resonate and matter to them.

Action points

- Work with your company to understand how the business or a product impacts the environment, and where possible, obtain the metrics that support any statement.
- Establish a humanising story for the business or product and ensure internal experts have assessed any assertions – work with them to establish a substantive purpose, vision, mission and values to thread through content.
- It may be useful to create a working group involving different roles across the business to drive forward an environmental agenda – other departments may not realise that small changes they make, such as switching to a sustainable supplier, have wider impacts for your business narrative.
- Be an advocate against 'greenwashing' of content and statements.
- Bring consistency and jargon-free language to your content.

[3]https://corporatefinanceinstitute.com/resources/knowledge/other/greenwashing/

What does ‘Social’ in ESG mean for marketers?

The 'social' aspect of ESG is steadily rising in prominence for consumer choice and sustainable investing decisions.

Companies and marketers are already familiar with corporate social responsibility, but 'social' factors require metrics to measure the broader implications from each company action, and where the business makes positive social contributions.

Changing consumer moods, labour strikes, connections to geopolitical conflicts, responding to or leading social movements, or even boycotts around products that negatively impact society or working practices, such as outsourcing to 'slave' labour – all impact a company's profits. A lack of attention to social capital is known to sacrifice productivity, and negatively impact stakeholder attitudes[1].

In the future, qualitative CSR will be entirely replaced by quantifiable ESG. There are positive benefits, in that companies who embrace the 'S' in 'ESG' can command premium pricing for their products and premium valuations for their shares[2].

"In the future, qualitative CSR will be entirely replaced by quantifiable ESG."

Companies that have recently spoken out in support of the Black Lives Matter movement have had to address their own systemic diversity issues – it is easy to relay your support, but more difficult to acknowledge or overhaul problematic hiring policies.

Marketing the non-financial considerations of a company or product can seem like a complicated task without standardised metrics, but marketers are at a unique stage of history, where business model or product change may be prompted by the social issues brought to the discussion table.

Communicating and campaigning with authenticity requires frequent liaison with, and support from, HR, the board and operational departments of a business, to tangibly demonstrate where they do well and do good in society, and honest acknowledgment of unhelpful practices from the wider company.

[1] https://www.db.com/newsroom_news/2019/the-e-in-esg-en-11492.htm
[2] https://www.db.com/newsroom_news/2019/the-s-in-esg-en-11641.htm

Action points

- Identify a goal or vision within your company – what are you best-equipped to tackle and what can effectively bring measurable change or support?
- Establish the quantifiable elements of your business's CSR report or product assertions to build a solid marketing story, and work with your board / directors to articulate your company's purpose – commit it to a consistent thought leadership programme.
- Try to push back against reactive top-down drives to create a campaign based on issues of the moment – first establish whether your company has evidence-based measures to support any declarations.
- Where possible, consult with an internal subject matter expert to vet external messages.
- Keep your business up to date on pressing social issues, social media sentiment and customer feedback – to help the wider business focus on areas where it can do better.

What does 'Governance' in ESG mean for marketers?

When it comes to ESG campaigns, not all letters are created equal. The past few years have seen a major uptick in interest around ESG initiatives, but with a primary focus on environmental and social issues.

'G' is the forgotten letter because governance issues can seem abstract and dull in comparison. Transparency and accountability. Board structure and executive pay. Auditing and compliance. Risk and crisis management. Tax strategy and supply chain management. People switch off.

Governance fades into the background from a marketing perspective too. Most ESG campaigns focus on social and environmental factors that lend themselves to more evocative messaging and imagery. Governance issues tend to become a pressing issue for marketers only when things go spectacularly wrong.

It's a lot easier to keep governance under the radar in favourable market conditions.

“Public scrutiny is rising on any practices that fly in the face of corporate citizenship.”

But what happens when the markets are stressed? It’s becoming clearer that governance is the umbrella under which all major issues – not just environmental and social factors – are managed.

In fact, of the E, S and G factors, it’s governance that determines the overall direction of company policy.

What’s more, public scrutiny is rising on any practices that fly in the face of corporate citizenship. Maintaining reputational integrity – and mitigating damage – are marketing concerns. To navigate intensified scrutiny on the ‘G’, marketers need to be aware of key governance trends and challenges.

Broadly, good governance is about ethics, transparency and accountability. Being open and honest, respecting the needs of all stakeholders – employees, customers, shareholders, investors and suppliers – as well as society and the environment.

Diversity and equality, especially at board level, are critical to all of the above practices. A lack of diversity limits awareness at the top, exposing companies to increased financial, regulatory and reputational risks and negative scrutiny.

While it takes time to change existing cultures, marketers can be proactive in identifying blind spots and taking remedial actions. The brands that are seen to be successfully governing gain enhanced reputations, clearer purpose and more loyal customers, employees and suppliers. Those that do not may face reputational repercussions that could threaten their survival.

Action points

- It’s crucial to ensure leadership teams are not only attuned to ESG concerns, but are a voice for positive change.
- Marketers can help boards and executive teams engage more proactively with on-the-ground realities, for example, through more meaningful engagement with communities and employees.
- Direct frontline communication with stakeholders by leadership teams is a crucial governance element, and a great platform for marketers to promote the perspectives, experience and diversity of their boards and executive committees to the world.
- Encouraging strong interactive stakeholder engagement also enables leadership teams to better identify early-warning signals, particularly those filtering up from local communities and employees.

From shareholders to stakeholders

- why corporates are responsible to a wider group now

ESG is the hot topic. Green is the new black, everyone has a social conscience and exposing poor governance is an [inter]national sport. In the space of a decade, cultural attitudes have shifted dramatically, and organisations are responding. In 2018, 85% of S&P 500 companies disclosed ESG information compared to just 20% in 2011[1].

Organisations are facing pressure from all sides. Customers are quicker than ever to vote with their feet and across B2B and B2C categories, businesses are being held to high standards. Next and ASOS, for example, dropped Boohoo products after allegations of poor working practices at the company's factory[2].

[1] https://www.businesswire.com/news/home/20180320006125/en/FLASH-REPORT-85-SP-500-Index%C2%AE-Companies
[2] https://www.bbc.co.uk/news/business-53331994

Internal stakeholders are also exercising choice, and it's easier than ever for potential employees to explore an organisation's ESG credentials – and for existing employees to blow the whistle publicly. Sourcing and keeping top talent now relies on more than just salary and employment terms.

Investors are wising up to the performance, both reputationally and financially, of companies with a strong ESG focus. Increased interest in funds that follow a comprehensive ESG investment strategy as opposed to those who merely negative screen has been an additional pressure on publicly traded companies and those who aspire to grow.

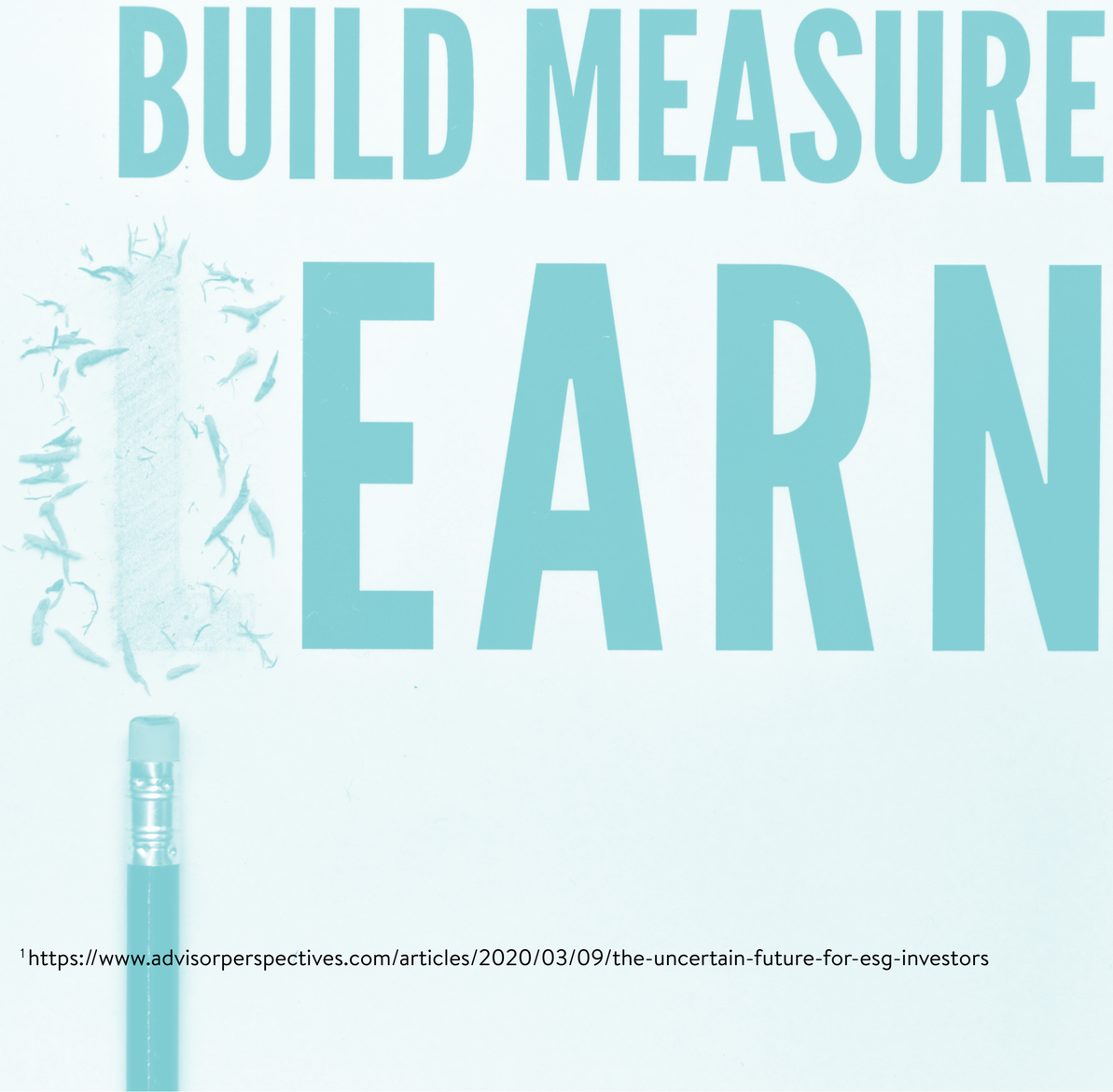
From a regulatory perspective, there has also been an increase in the importance of ESG. The FCA, for example, is undertaking ESG consultations around enhancing disclosure, and the UK Stewardship Code 2020 includes a focus on tracking outcomes towards ESG targets.

Organisations are not just doing this to respond to pressure, but because it makes clear business sense. Whether it's attracting customers who are willing to pay more for sustainable goods, or to boost their shareholder returns, ESG offers a win:win – doing the right thing and reaping the rewards.

Action points

- Marketers can play an active role in ensuring messages around sustainability are targeted and amplified to various stakeholder groups.
- Leadership teams need to embrace sustainability – many larger companies may want to consider having an ESG lead reporting at Board level.
- Auditing and benchmarking ESG progress can help refine targets and provide positive news stories.
- Interactive engagement can help businesses understand stakeholder concerns and respond appropriately.

Benchmarking your ESG content



ESG now accounts for one of every four dollars under professional management in the US, and one of every two dollars within Europe[1]. As ESG continues to gain traction, investors continue to look to invest sustainably, to drive purposeful impact and to obtain profit from their principles.

Those investing in ESG tend to be more committed, with a longer-term investment strategy and perspective. They are less likely to succumb to the pressures of short-term performance. When navigating and consuming content, they value content that helps broaden their investment universe. And they expect content to provide commentary from experts on the future of ESG and the future risks to prepare for.

[1] https://www.advisorperspectives.com/articles/2020/03/09/the-uncertain-future-for-esg-investors

As ESG grows in recognition, agencies, consultancies and financial services firms are increasingly contributing to a somewhat saturated conversation. The good, the bad and the ugly are thrown into the ESG sphere, making it difficult to easily identify where the added-value is for clients and investors. Agencies such as Edelman are weighing in on how companies can build trust within the investment community, while consultancies such as PwC address the past, present and future of ESG, providing actionable insights tailored for specific job roles. These are two companies that are providing real added-value simply by covering the basic principles of content marketing, adding their own unique spin on the topic – and starting to set a benchmark in the process.

Meanwhile, our research of the businesses that are vocal in this space has surfaced clear action points and learnings for talking effectively about ESG.

Action points

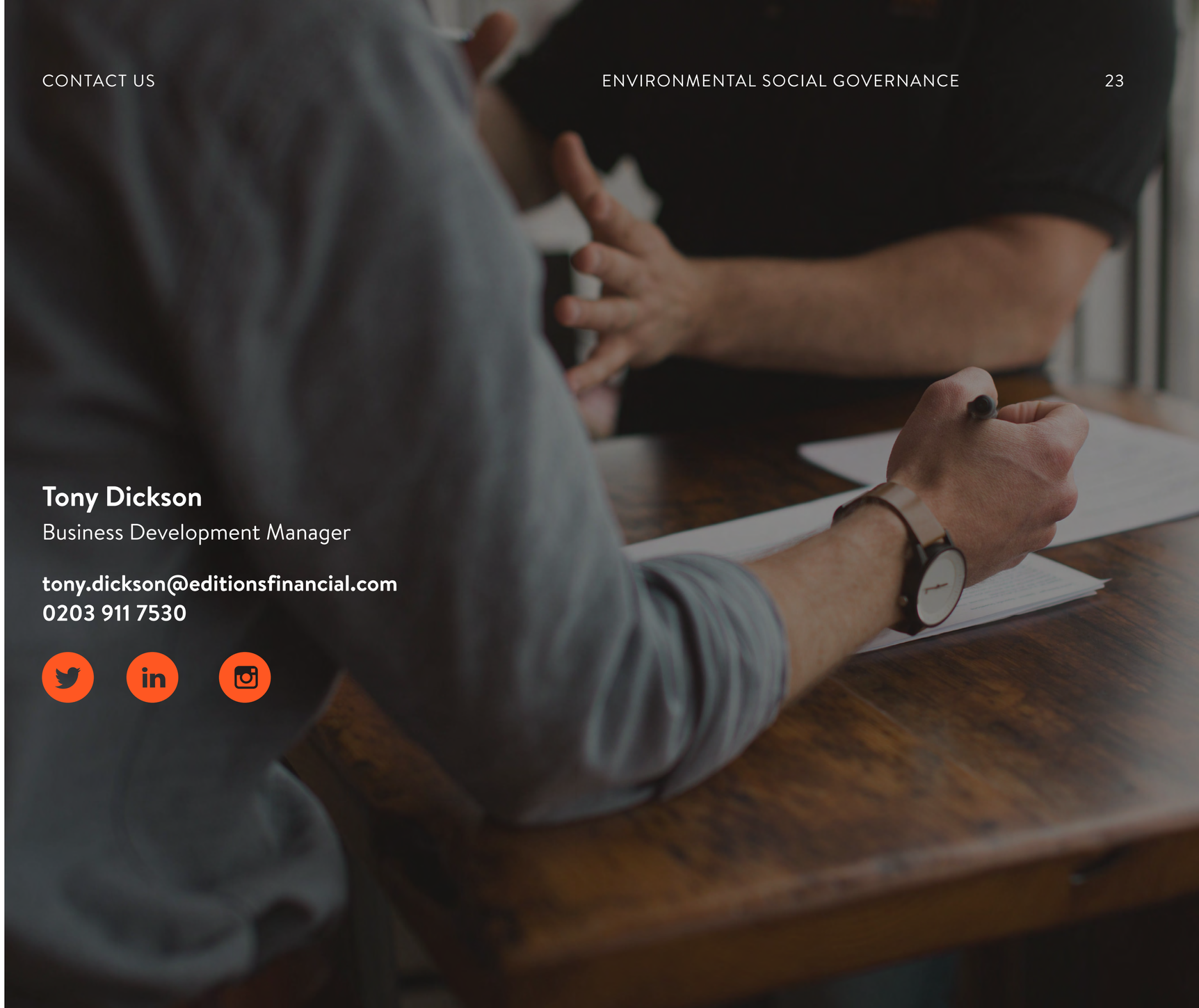
- **Give ESG the digital space it needs** – Instead of creating one-off pieces of ESG content, show your commitment to the cause through dedicated sub sections/categories on ESG. With ESG under its own banner, companies show commitment to the cause.
- **Primary data to complement your POV** – From the 'Trust Barometers' of this world to primary research surveys from consultancies, unearthing new insights moves companies from 'joining the conversation' to 'owning the conversation'.
- **Speak to the future and different roles** – No-one has a crystal ball, but consistent updates and hypotheses on the future of ESG are welcomed. ESG is not new, so the added-value comes from the application of these insights to different business roles and how their responsibilities will evolve.
- **Although the focus is on sustainability growth, speak about outcomes beyond performance** – How is ESG evolving beyond performance and profitability? How are investor values changing and evolving and, in turn, how is your business evolving to reflect these?

The best way to start exploring how we can really help you is to have a conversation.

While we are specialists in your sector and we know your audiences well, every organisation's challenges are different, and every brand operates in a different way.

That's why we think the best way to start exploring how we can really help you is to have a conversation – so we can fully understand what you want to achieve and create a bespoke strategy tailored to you.

If you'd like an informal discussion with one of our content strategists, simply give us a call on **0203 911 7530** or email **tony.dickson@editionsfinancial.com** and we can schedule a call.



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