LONGVIEW STRATEGIES

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HOW TO MANAGE THE ESG MESSAGING MAZE

Authentic communications that speak to stakeholders

Communicating in the ESG lexicon was challenging from the start. Fragmented language, evolving frameworks and standards, and varied goals led to an avalanche of acronyms and furrowed brows as corporations and investors sought appropriate metrics and messages. The well-noted, professionally orchestrated backlash against ESG in the U.S. then added a layer of political risk to the confusion.

Outside the U.S., ESG is becoming an imperative that cascades from Europe and large multinationals down to the midmarket. Far away from the noisy clamor about liberal agendas, the global industry marched onward to evolve, refine, and standardize the parameters.

Midmarket companies now find themselves in a messaging game of hide and seek. Meeting reporting requirements from customers and answering calls from employees and investors, they must also avoid the impression that they prioritize environmental or social causes rather than addressing issues that are material to the business.

Consider that in earnings calls for Q2 2023, ESG was cited by only 56 of the S&P 500, down 24 percent (from 74 mentions) since last quarter and down roughly 64 percent (156 mentions) since its peak in Q4 of 2021 (Axios and PriceWaterhouseCoopers).

Yet at the same time, 92 percent of executives expect to increase spending on ESG data by at least 10 percent year-over-year, including more than half that expect to increase spending by at least 20 percent, and 18 percent who expect ESG data spending to grow by 50 percent or more this year (Bloomberg and Adox).

It's not an easy feat to stay committed to a practice or long-term goal while simultaneously sidestepping key descriptive terms. Language becomes based on nuance and semantics, with phrasing that shifts depending on the audience – in many ways, a "worst practice" in the communications realm.

ESG as a term was used as a fulcrum in the U.S. political arena since early 2022, creating a challenge for those seeking to define and communicate initiatives. And while noisy media campaigns caused confusion and hesitance, the numbers suggest that the terminology is not as controversial among the mainstream as CEOs and investors believe. It's important to say what you mean and mean what you say, which certainly requires using the right words.

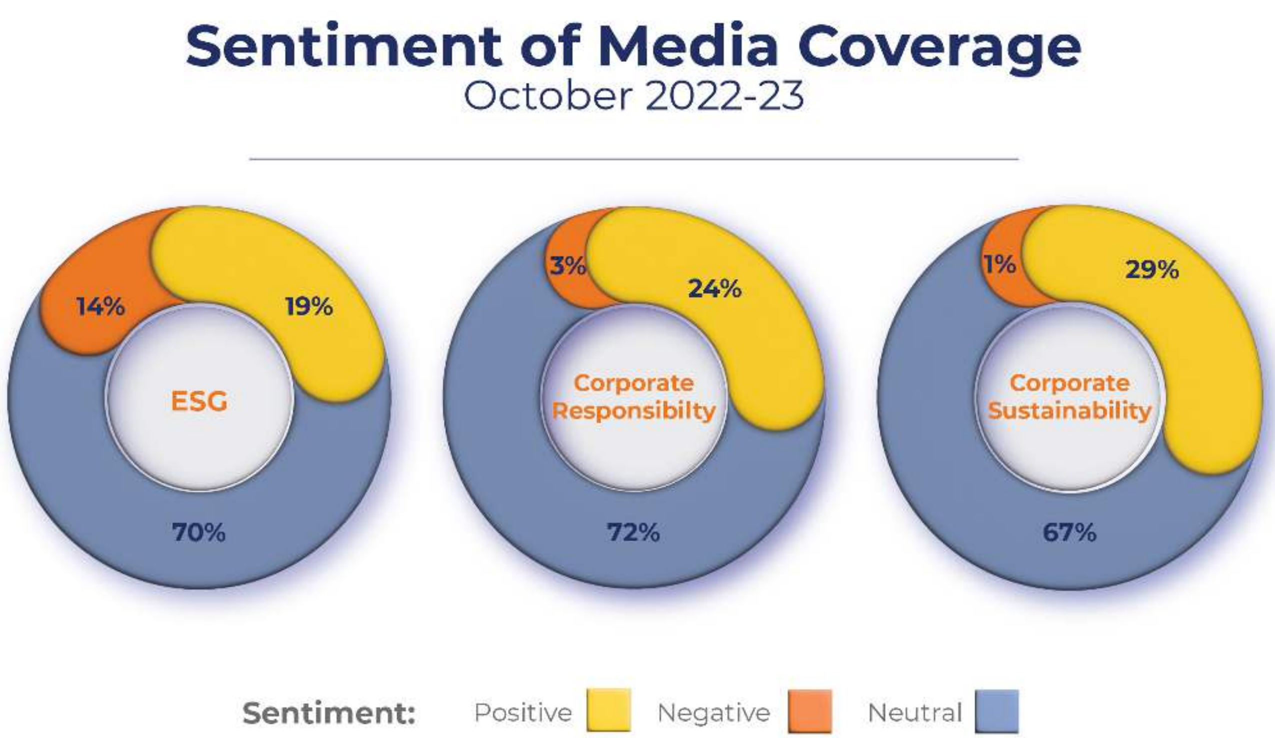
THE WORD GOT OUT

According to a review of media exposure, the term ESG saw a stratospheric rise in attention over the course of two years, leaping from about 5 million media mentions in 2022 to over 8 million in 2023. While negative sentiment around the term rose in that time, positive sentiment also ticked up. And importantly, the majority of visibility carries a neutral tone: ESG may simply not be as polarizing as the news cycle would have stakeholders believe.

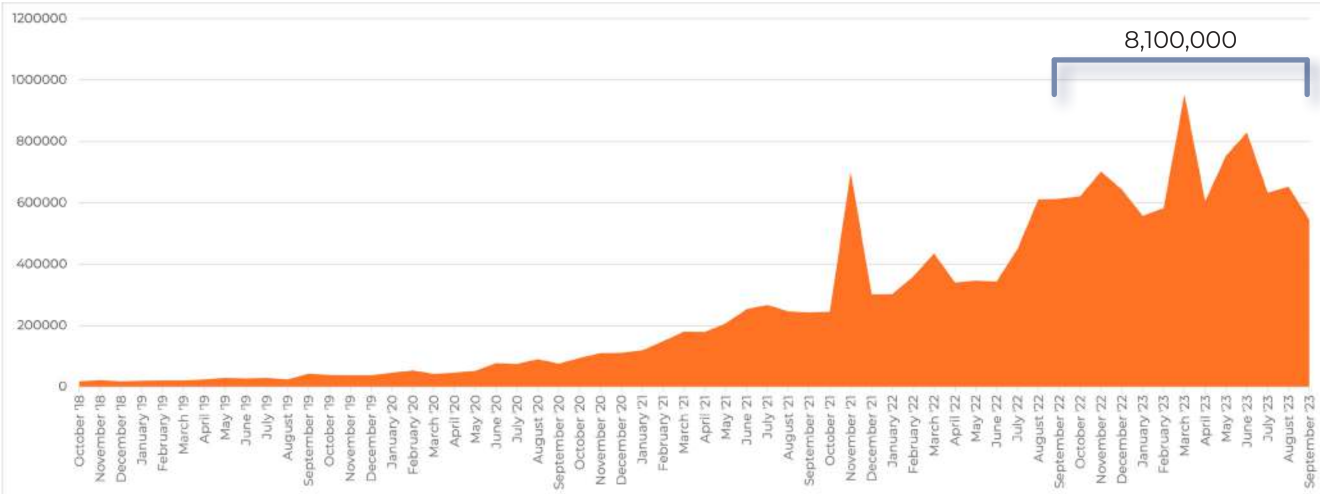
Other terms that focus on corporate activity also became more prominent, demonstrating that the world at large showed increasing interest in companies' roles – and that more executive teams are being outspoken about their efforts. The terms Corporate Responsibility and Corporate Sustainability each showed substantial jumps in usage, with sentiment predominantly neutral and virtually no negativity displayed.

There are, of course, concerns about "greenwashing" as the volume of published reports and discussion increases. Organizations should chart a path that stays true to their intentions; language that obfuscates their data or misstates their trajectory introduces high risk of negative fallout.

What does it all mean? Most striking, the overall desire to be outspoken is clearly driving up visibility. ESG is far and away the most recognized term globally; the backlash against the acronym in the U.S. is certainly real, but its influence is waning.

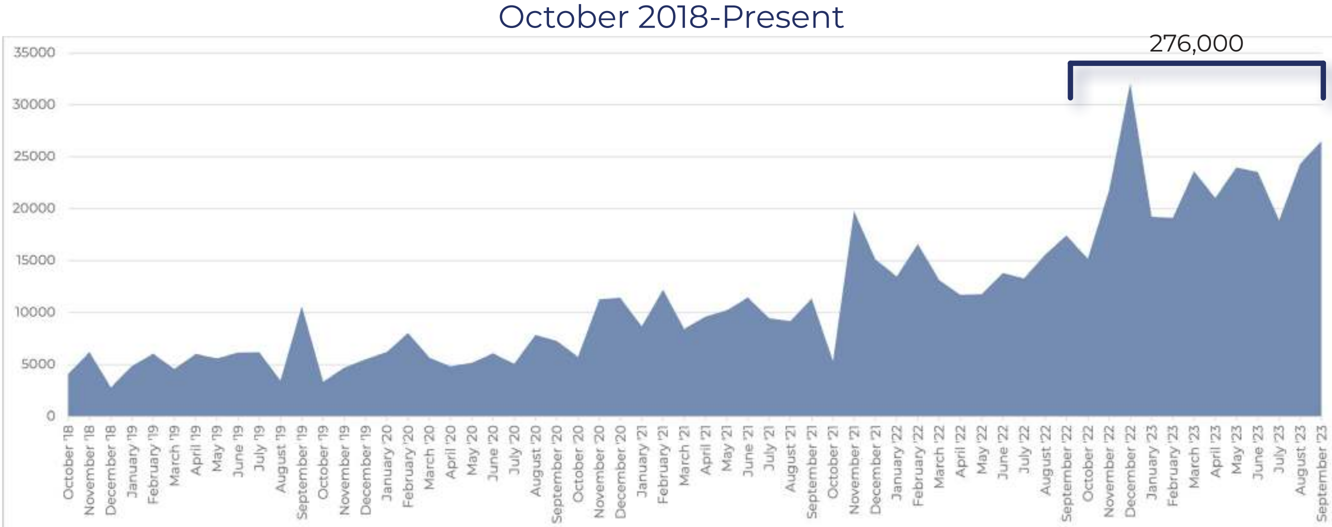


Media Mentions of ESG
October 2018-Present



Media Mentions of Corporate Responsibility
October 2018-Present

Media Mentions of Corporate Sustainability
October 2018-Present



CHOOSING WORDS WISELY

As the regulatory landscape is sorted out, determining how to talk about ESG can provide a bridge to the not-so-distant future in which universally accepted standards dictate the lexicon.

The catch is that terms are not necessarily interchangeable (or were not, historically). Consider that "corporate responsibility" traditionally invokes philanthropy and community involvement, "corporate sustainability" refers to environmental issues, and "ESG" is the formal term for benchmarking and goal setting across environmental, social, and governance areas.

For now, organizations must choose the terminology that best reflects their efforts while balancing the risk of participating in a politically charged dialogue. There is no simple answer, and each organization should take a thoughtful approach. Here are four steps to fine-tuning an authentic message in a challenging landscape.

1. Be Fact-Based and Transparent

There is a common internal tug-of-war about what is "safe" for the brand and what is "real" when it comes to communicating about a company's current state and its progress over time. The idea of revealing subpar performance in any category rarely appeals to risk-averse boards – but that is exactly what ESG, sustainability, and corporate responsibility require. Stakeholders want the truth about how the business is managing operational risk as well as its potential impact on the surrounding world.

There is real work behind this effort. A materiality assessment is the starting point for helping a company determine priorities that could affect a business or its stakeholders. Once identified, material issues are condensed into a short list of topics that inform company strategy, targets, and reporting. The assessment can ensure efforts are set for success in two ways: first, reporting frameworks require an assessment as evidence that a company conducted due diligence, and second, stakeholders get a voice in the process, which will result in strategy and communications that consider their objectives.

Based on the assessment, companies can focus on hard numbers about the issues that matter most. Carbon emissions, health and safety, diversity of the workforce…these and other factors can be measured and goals established to demonstrate that a company seeks to improve over time.

The key to all this? Companies are rewarded for authenticity in the long run. Stakeholders want to know that a company is aware of material issues and has a plan to address them.

2. Respect Your Audiences

While messaging is always complex, knowing your audience used to be a fairly straightforward piece of the puzzle. You could easily identify your core customers or stakeholders and rely on either your history with them or market research to gauge their goals.

The drive for improved sustainability and human capital management, though, involves a growing number of audience segments depending on a company's sector, whether it's public or privately held, its geographic exposure, and a long list of other inputs. Manufacturers, for example, may have distribution partners to consider, while financial services companies will add the SEC and FINRA to the mix.

The first step to solidifying a message is to map the various groups that are in play. This may include customers, shareholders, employees, vendors, and other groups that reside in your ecosystem.

Create a matrix of goals, perceived preferences, known trends, and risks associated with certain language. This will reveal common ground that provides a starting point for consistent communications across stakeholder groups.

3. Know Your Peers' Approach

No communications exist in a vacuum. Peers and competitors are battling the same conditions that you are, and their approaches may yield insights and opportunities. In a classic marketing sense, comparing and contrasting other companies' messaging can spotlight gaps that speak to your strengths. In the simplest terms, you can "hit it where they ain't" in a way that speaks well to your audiences.

In the context of ESG, there are additional nuances. It is critical to relay information without exaggeration or marketing "spin." Not only is greenwashing unethical, it contradicts the premise on which ESG and Corporate Sustainability are built - transparency. Savvy audiences and regulators have repeatedly shown that greenwashing only elevates risk.

The artful communications approach, then, involves selecting themes on which a company can:

- connect the dots with the overarching company positioning;
- convey authentic achievements or goals and;
- differentiate while speaking directly to audience concerns.

Sound confusing and challenging? It is. Differentiation as part of ESG messaging is, in fact, perhaps the most difficult element of the communications arena. It requires threading the needle between formal reporting, easily understood language, and the company's big-picture goals.

4. Listen and Adapt

If we've learned anything in the ESG universe, it's that the landscape moves underfoot as frequently as the stairs in Hogwarts. Companies that communicate regularly will stay in closer alignment with stakeholders – and be in a better position to move their feet towards the right next step.

Listening to the whole ecosystem also generates greater conviction from leadership. As noted above, small but loud pockets of ESG resistance have led to companies burying their progress to avoid confrontation. But if management is aware, for example, that 80 percent of stakeholders are seeking information about the company's carbon footprint, they can be confident that reporting will yield more positivity than pushback.

Teams can stay in touch using a number of tools:

- gather feedback and benchmarks through periodic surveys and materiality assessments (the materiality matrix should ideally be revisited every two years);
- launch internal affinity groups to track engagement with specific topics;
- provide routine stakeholder communications and education, i.e., newsletters, webinars, investor presentations, and virtual town halls; and
- use AI sentiment trackers to key in on themes that are attracting the most attention in your industry.

Most importantly, executives must acknowledge that communicating does not begin and end with an annual corporate report. Keeping pace with change means keeping a finger on the pulse and regularly engaging with your audience.

THOUGHTFUL ADAPTATION

Midmarket companies are in an uncertain – and in some ways unfair – environment. They increasingly feel pressure to meet stakeholder demands on issues that were not always considered core to the business. As the world has changed, though, so have the factors that determine long-term success.

Adapting is a challenge, and guidance on ESG is coming at hyper-speed from all corners. Some say lay low, some say double down, some say do the minimum, some say put your stake in the ground.

The best course is different for each company. Doing and saying nothing, however, is fast becoming an unviable option. There is inherent risk in all communications. To minimize and mitigate that risk, be thoughtful, authentic, strategic, and speak the language that resonates with your stakeholders.

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