

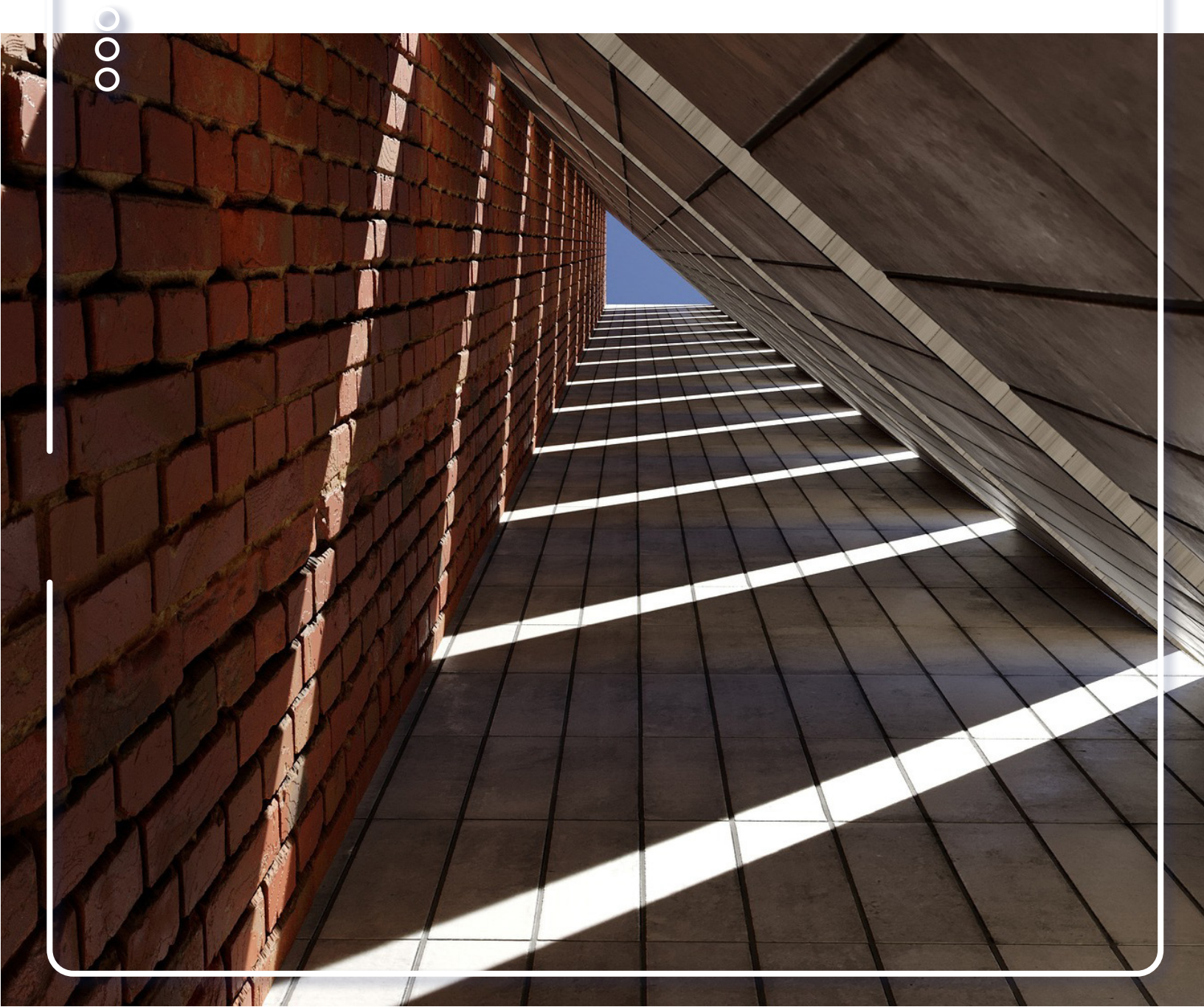
Talking Sustainability: A Complicated Conversation

*Are companies and investors caught in
communications limbo?*



In the world of sustainability, language is not just a tool for communication—it's a sticking point where the stakes are high and the outcomes significantly influence both perception and action. As businesses worldwide grapple with the intricacies of sustainability reporting, the linguistic tug-of-war reflects a broader discourse on how they can operationalize and consistently articulate their commitments to sustainability.

This sets the stage for an exploration of the state of sustainability terminology—where it stands, the challenges it faces, and the implications for businesses and investors trying to navigate this turbulent landscape.



TERMINOLOGY BREAKDOWN: WHO'S SAYING WHAT?

A couple years ago we were promised a taming of the acronym monster in sustainability land. And we were making progress! The merging of international standard setters looked like it was getting things under control. Could it be that companies and investors would be able to coalesce around consistent language that would feed into reporting, analysis, and stakeholder communications?

Not so fast.

The U.S. generated its own war on words that created domestic confusion and skepticism, regardless of the clear embrace of policy overseas (both in the corporate and the investor arenas). With anti-ESG bills introduced in more than a dozen states by late 2023, the language at the very core of the discipline became a lightning rod.

Companies and investors began to retreat from their public embrace of ESG – the acronym that served as a lynchpin for the industry. This was particularly unfortunate from a communications perspective, as the term carries inherent value in its clarity for categorizing sustainability efforts in line with stakeholders' expectations.

As a result, the U.S. is no better off in understanding how to convey corporate sustainability in frictionless language. In recent months, we've witnessed the rise of older, reliable terms like "corporate social responsibility," as well as newer entrants such as "responsible business."

ESG

Anecdotal evidence abounds that ESG as a term is "radioactive" in the U.S., especially among traditional investment managers. But the numbers tell a different story. There is a 9 percent decrease in media mentions and a similar decrease in search data, yet the sentiment of coverage is more positive in the U.S. than it was in Fall of 2023.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

This term, which served as the go-to for corporations and cause-related initiatives in the early 2000s, continues to carry a slight edge over ESG. Media sentiment is overwhelming positive, and search trends show a steady increase.

RESPONSIBLE BUSINESS

The new kid in town, "Responsible Business" gained traction among academics as a general catch-all for positive corporate behavior. It hasn't edged its way into the mainstream, as indicated by low (but increasing) media coverage, however search volume is steadily on the rise.

Media Mentions

April 2023-2024

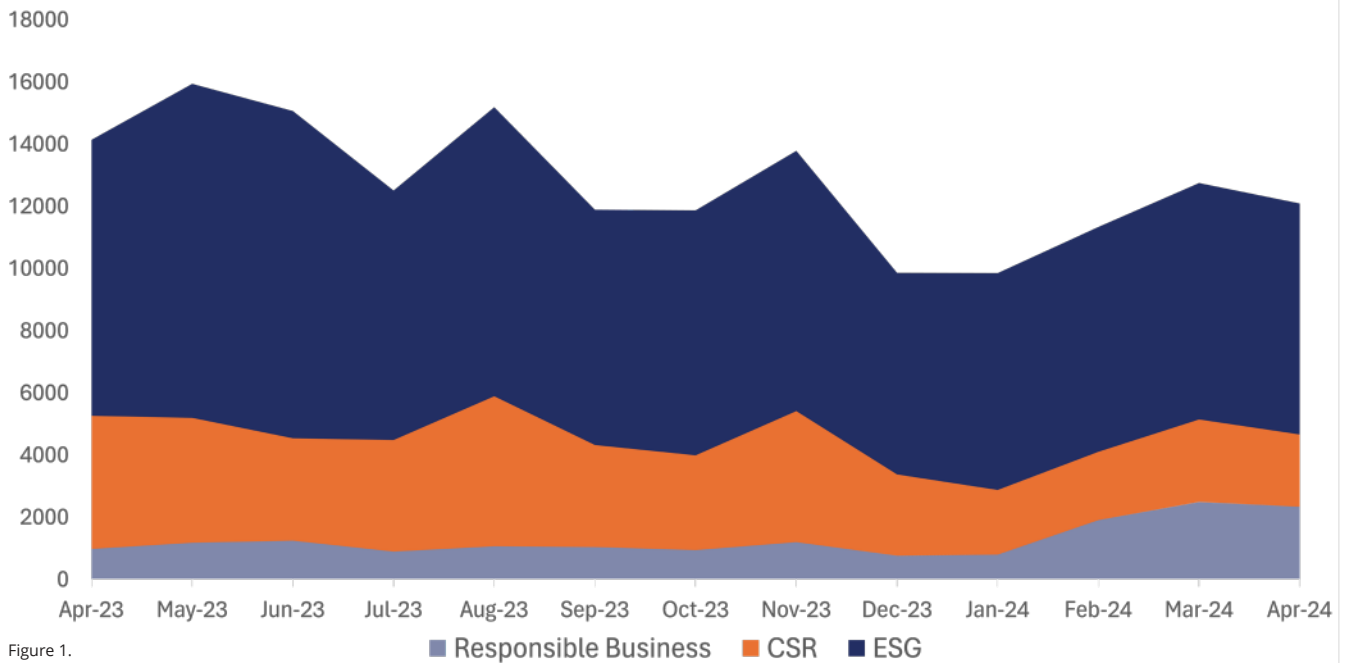


Figure 1.

Figure 1. While overall media exposure is trending downward, ESG clearly remains the most-used term in the arenas of corporate reporting and investing.

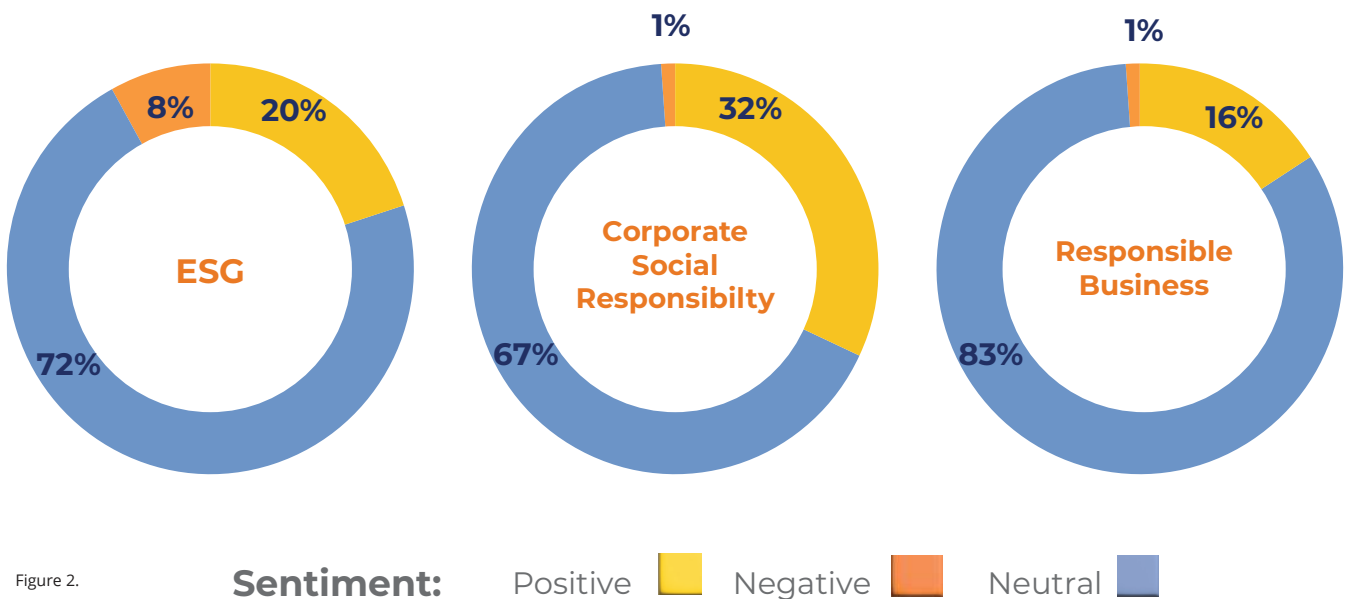


Figure 2.

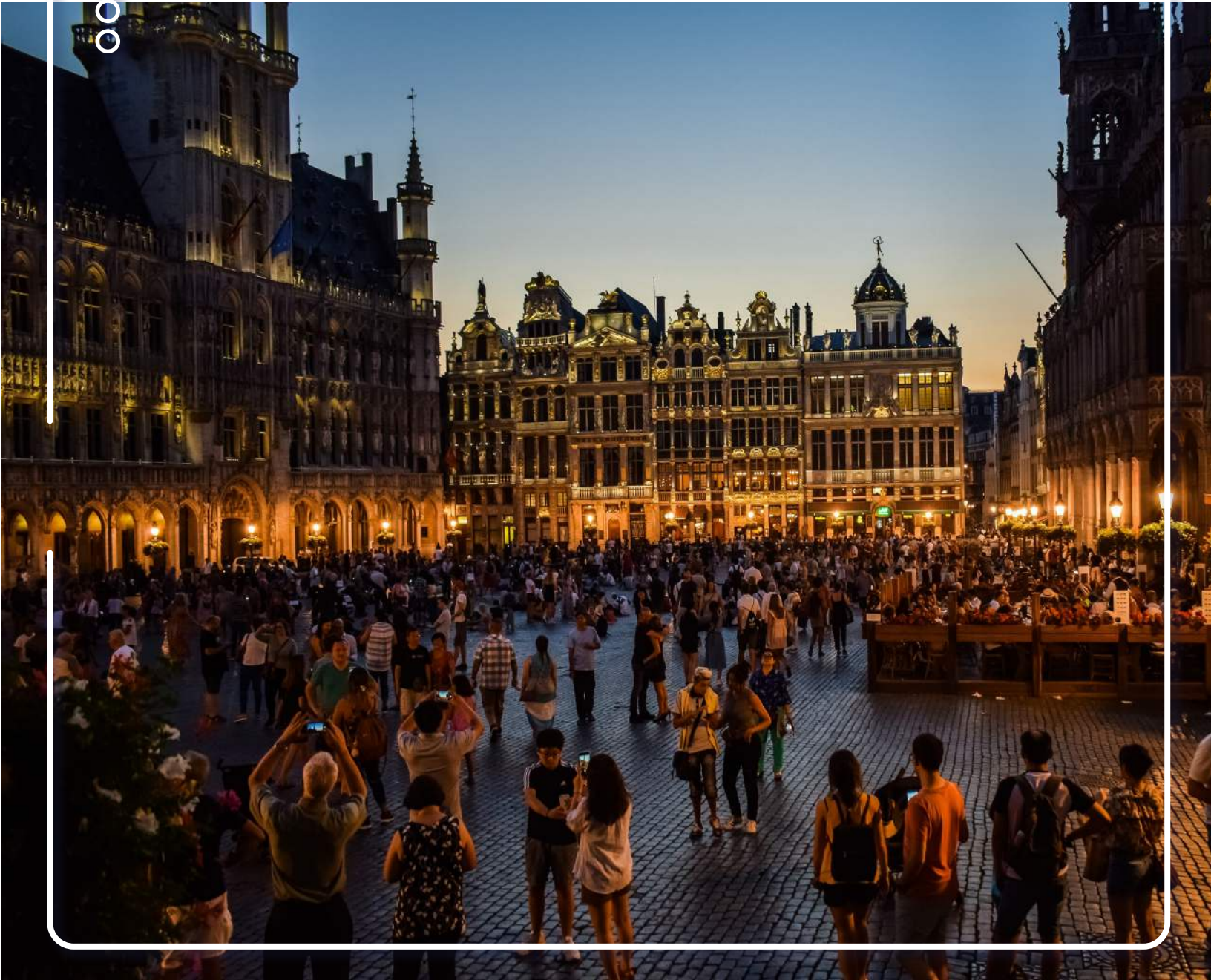
Sentiment:

Positive ■ Negative ■ Neutral ■

Figure 2. Media sentiment for broad terminology continues to be largely neutral or positive. Positive sentiment about ESG has increased to 20%, up from 14% since October 2023, while negative sentiment has significantly decreased.

The takeaway? The show's not over yet, and there's a long way to go. Despite the sense that companies and investors are easing off the use of ESG terminology, the reality is that European standards are full steam ahead and frequently reference ESG. That means the dialogue is often split into multiple messages with different phrasing directed at different audiences – a recipe for confusion.

Choosing the best language requires understanding your goals (both near- and long-term) and being sensitive to your stakeholders, all while conveying an authentic message. The balancing act only works with buy-in from the top and clear communications across the board.



WHO'S RUNNING THE SHOW? DEPENDS ON WHO YOU ASK



A significant hurdle to creating clear language is the lack of an overarching governing body, particularly in the U.S. In other disciplines, we have the SEC, FASB, the FDA, the EPA, the NTSB...every sector has oversight that defines parameters and terminology. Corporate reporting and sustainable investing, though, are forced to look to other regions or organizations for guidance.

REGULATORY MARKETS

Europe has long been at the forefront of ESG standard setting, developing ambitious benchmarks for reporting. The European Union's regulatory framework, including the Non-Financial Reporting Directive (NFRD) and its successor, the Corporate Sustainability Reporting Directive (CSRD), mandate detailed disclosures on sustainability issues for large companies. These regulations are designed to increase transparency, facilitating better investment decisions and fostering a more sustainable economic landscape.

The U.S. appeared on the brink of a similar breakthrough, especially with the Securities and Exchange Commission proposing new rules for enhanced climate disclosures. This move was seen as a potential alignment with European standards, signaling a robust federal push towards integrating ESG factors into corporate reporting. However, progress has been stymied by various challenges, including political opposition, differing opinions on the scope and scale of reporting, and legal battles over the extent of regulatory mandates.

The gap between the European and American approaches to sustainability reporting remains significant. Europe's model is comprehensive, integrating ESG into the corporate fabric and investor expectations, driven by a community-wide commitment to the Paris Agreement. The U.S. approach, meanwhile, is fragmented, with voluntary disclosures still prevalent and federal mandates facing uncertainty. This divergence not only affects transatlantic business operations but also impacts global efforts to standardize reporting, which is crucial for addressing climate change on a worldwide scale.

For the time being, companies must essentially follow European best practices as a fallback, especially if they conduct business in the EU.

PUBLIC MARKETS



We've come full circle in the public markets and sustainable investing. Decades ago, the question was whether language would be defined by boutique, pioneering investment managers or by global asset managers that were beginning to enter the space.

BlackRock initially answered that question with authority, making a splash by weaving ESG principles into the investment mainstream. Their commitments to place sustainability at the center of their investment approach garnered widespread attention and set expectations high.

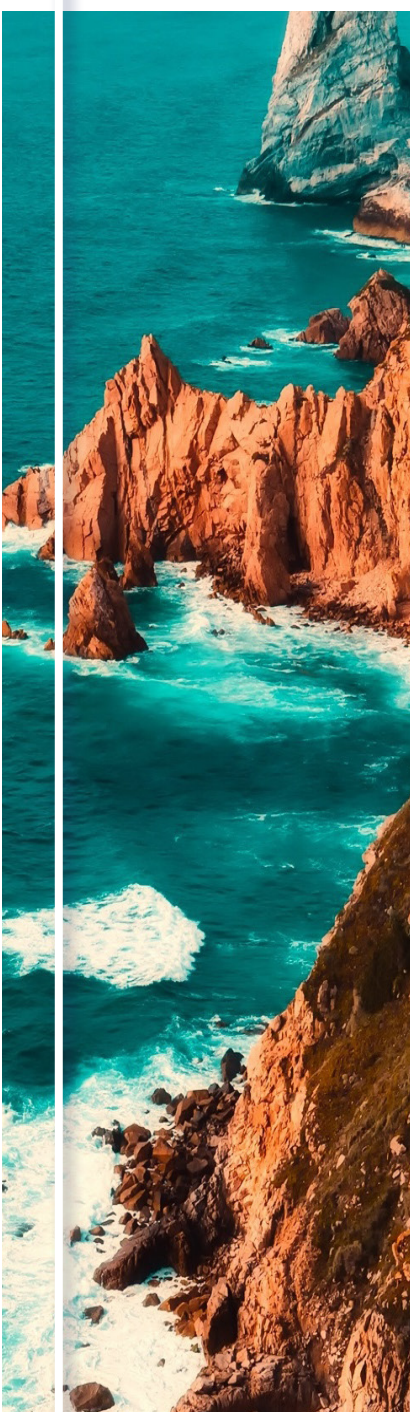
Now, BlackRock appears to have receded from its leadership role in this arena. Recent shifts suggest a cooling in its ESG zeal, which some critics argue stems from increasing scrutiny and pushback from various stakeholders over the financial implications and political controversies surrounding the discipline.

This retreat has left a notable void in the market, prompting other asset managers to reassess their philosophies and strategies concerning ESG data integration. A diverse group of players is now emerging, keen to provide authentic guidance and financial products that answer the demand for sustainable investment options.

Among them, boutique investment firms specializing in sustainable and impact investing are once again taking center stage. European asset managers, who operate under more stringent ESG regulatory frameworks, are also stepping into the gap, leveraging their expertise and regulatory-driven approaches to attract global investors.



PRIVATE CAPITAL



Despite the skepticism and pushback that gave BlackRock and others pause, private equity and venture capital firms continue to aggressively pursue ESG-focused strategies. Unfettered by public scrutiny, these private money managers are doubling down on sustainability—not just as a moral imperative, but as a strategic business advantage.

Private money's commitment is driven by the recognition that sustainability often correlates with innovation, operational efficiency, and long-term profitability. For instance, companies that prioritize reducing their carbon footprint often invest in energy initiatives or new technologies that reduce costs over time and hedge against short term, thereby enhancing value. Similarly, firms that embrace workforce diversity are more resilient and adaptable, attracting top talent while fostering a creative and inclusive culture.

PE and VC firms are also responding to demand, as an increasing number of institutional investors mandate ESG compliance as a condition of their investments. This shift is particularly pronounced among forward-thinking pension funds and endowments that view sustainable investment as crucial to risk management and long-term return generation.

WHERE DO WE GO FROM HERE?

So here we are, with three distinct voices moving in directions that support sustainable investing. They are each tied to agendas that are driven by global demand, but they are also each catering to different audiences and influences.

In the evolving landscape of sustainability reporting and investment, it's clear that the language we use is not just about semantics—it's about shaping perceptions and aligning actions with global sustainability goals. The journey from "ESG" to "corporate social responsibility" to "responsible business" underscores a broader narrative: the ongoing struggle to harmonize terminology that resonates across different markets and stakeholders.

As we reflect on the challenges and transitions highlighted in the U.S. and Europe, it becomes evident that despite setbacks, the commitment to sustainability remains steadfast. The transition away from once-popular terms does not signal a retreat from sustainability but rather an adaptation to a more nuanced, localized and substantive dialogue.

In this complex tapestry, where terms fluctuate and policies diverge, the role of clear, coherent communication becomes paramount. Companies and investors must not only choose their words wisely but also ensure they resonate with their audiences—balancing transparency, accountability, and inclusivity.

