POSITIVE IMPACT

HOW UK BUSINESSES ARE MEETING THEIR ESG CHALLENGES

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SECTIONS:

INTRODUCTION

The idea that business should not only be harmless and well run, but should make a neutral or positive impact to society and the environment has been long held in our society, notably by pioneers such as the Lever Brothers. However, whilst such altruistic ideals were not common, latterly there has been an increasing desire to see companies as willing participants in helping the environment and communities.

This paper sets out to discover how widespread this desire to have a positive impact is in UK businesses, and what the real drivers for action are. Furthermore, to explore how well these efforts are being communicated to the audiences that companies feel are important.

Research was carried out by Opinium across a range of UK companies and job positions to create a snapshot of sentiment toward ESG, and provide valuable data for those within business to judge their position relative to benchmarks, for those interested in creating greater progress as well as being insightful to policymakers' or NGOs' engagement with businesses.

1 OVERVIEW

ESG is a 'hot topic' right now. The combination of the Paris Climate Agreement, corporate scandals and societal pressure is creating a new environment in which businesses cannot operate outside the scrutiny of the public, employees or regulators. These pressures are focussed by social media and the internet – meaning that companies must not only operate in this new environment - they must also be seen to do so.

There are, of course, altruistic reasons for pursuing a better way to do business, and there are also more self-interested reasons, such as employee retention and clients' demands, or fear of litigation. These various reasons need not be seen individually, but rather as a 'cloud of positive reasons'. As the following survey demonstrates, there are often various reasons for a common goal.

Recent calls from groups such as ShareAction and ClientEarth have raised the concern to a new level, engaging the investment community and summoning up the spectre of future legal actions. But along with such 'sticks' there are positive 'carrots' too, and the research demonstrates a shifting attitude to ESG matters within both the management and workforce, to one of full and positive engagement.

Naturally, future events and the political landscape may alter some positions (for instance, the withdrawing of the US from the Paris agreement may have significant ramifications) but the long-term trend remains clear.

2 EXECUTIVE SUMMARY

- **38% of UK workers believe their company's consideration of environmental, social and governance (ESG) issues has risen over the past five years. Only 2% believe these concerns have reduced**
- **More than half (52%) of workers believe companies should consider ESG issues because it is morally the correct thing to do**
- **28% say ESG issues need to be considered to legally protect their company**
- **59% believe there is no need to compromise profitability, or would do so, for higher ESG standards**
- **Transparency, cited as important by 54% of respondents, is seen as the issue with most impact on the reputation of a company. Other issues included governance (53%); employee rights (52%); diversity/inclusion (50%) and gender equality (49%)**
- **53% say their companies do not publicise their ESG activities at all**

3 DRIVERS OF CHANGE

► **Reputation amongst clients and potential client heads concerns**

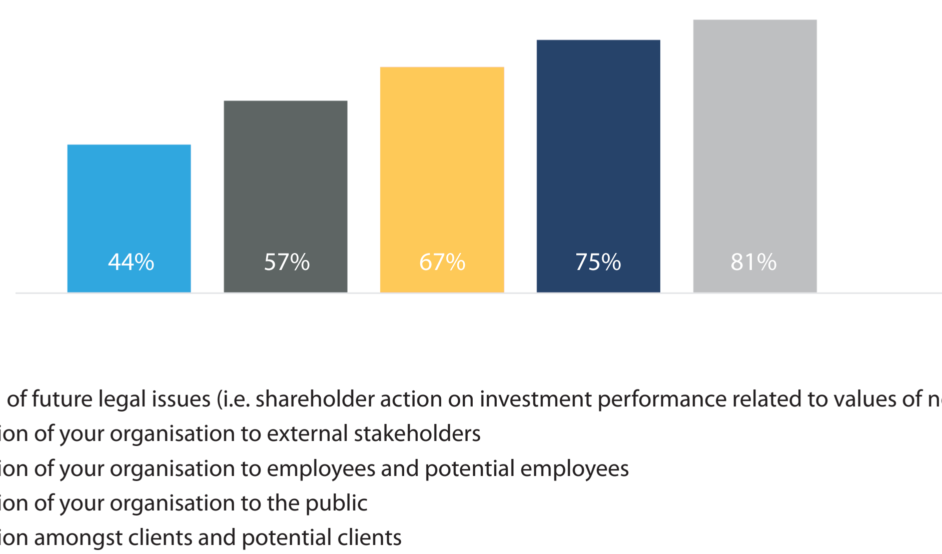
► **Reputation to the public is a close second**

What drives change? A shift in social attitudes, changes and potential changes in legislation, better information, technology – there can be many reasons, and they can clearly overlap. The research detailed indicates that the major overarching themes of concern are of image and reputation. Not to overly diminish the moral imperative, or other potentially strong motives, but perhaps this is not surprising as the most high profile of recent events have majored on the image of the organisation. BP's Gulf of Mexico disaster has had far reaching consequences for the company, and the VW emissions scandal is yet to fully play out.

Most interestingly, it is BP that has, proportionally, suffered more – in part because it has been speculated that it failed to build a 'trust reservoir' as former BP CEO Lord Brown calls it. That is that the company either failed to have ESG goodwill before the event or failed to communicate its credentials.
Image then remains a vital part of the ESG story, whether in terms of brand, reach to clients, attracting and retaining staff, share value or trading partners.

Reputation amongst clients and potential clients is viewed as important to their organisation by four in five (81%). Three quarters (75%) believe that their company cares how the public perceive them. Moreover, two thirds (67%) think that the reputation of their organisation to employees and potential employees is significant; of those that work for companies with 1 to 9 employees, 75% feel this way, and this rises to 84% of people in businesses with between 500 and 1,000 employees. Interestingly, only 44% of respondents agree that concern of future legal issues (i.e. shareholder action on investment performance related to values of non-ESG stock) is important to their organisation.

How important are the following issues to your organisation?



4 REPUTATION

- **Transparency and reporting most important**
- **Older respondents more concerned with energy than younger**
- **Equal numbers of men and women concerned with gender equality**
- **Other issues included governance (53%); employee rights (52%); diversity/inclusion (50%) and gender equality (49%)**

If image and reputation are the most important aspects to UK businesses, then not all areas are equal. The next set of questions seeks to determine where, exactly, the issues are most pressing, and where companies feel that they are most in need of protection or enhancement.

Issue	Netimportance
Transparency and Reporting	54%
Governance	53%
Employee Rights	52%
Diversity and Inclusion	50%
Gender Equality	49%
Energy use	47%
Local Community Involvement	42%
Supply Chain Audit	40%
Carbon Emissions	35%
Giving, Fundraising	32%
Partnership with Charity	30%

The question is what elements help build 'goodwill'? According to the research, transparency and reporting is the area that most people believe has an important impact on their company's reputation as it currently operates, with 54% of respondents expressing this view. 53% feel that governance has an important effect on their company's image. In third place, employee rights influence respectability, according to 52%.

The proportion of those who view transparency and reporting as important to their company's reputation as it currently operates increases to three in five (64%) for those whose company's annual turnover is £10m to £100m. Only 35% of people say their business' image is significantly affected by carbon emissions, but among those in the production sector (agriculture, farming, fishing and forestry, energy, utilities, mining, manufacturing) it is 44%.

Possibly surprisingly, older respondents are more likely to say that energy use has an important impact on their company's reputation than younger respondents. Fifty per cent of those aged 55+ believe their business' image is impacted significantly by their energy use, whilst only 43% of 18-34 year olds agree with them. One can only speculate as to the reasons, but it is possible that efficient energy use is now taken as a 'given' by younger employees.

Diversity and inclusion has an important impact on how their business is perceived, according to the majority of middle managers (66%), but such consensus is not evident among owners or proprietors; only 26% of owners believe that their reputation is considerably affected by diversity and inclusion.

A larger proportion of people who work for organisations with 1,001 to 10,000 employees see governance as an area that has an important impact on their company's reputation, compared to those who work for businesses employing between 50 and 249 people. Fifty-seven per cent of those whose company has 50 to 249 employees believe their business' governance has an important impact on their image, but this rises to 79% in companies with 1,001 to 10,000 employees.

"Partnership with charity" was the area with the smallest proportion claiming it significantly affected the organisation's respectability (30%). This rose to 40% among middle managers, but only 15% of owners were concerned that partnerships with charities had an important impact on the image of their business.

Half (49%) of respondents are concerned that the way in which their company is perceived is partly down to gender equality. Furthermore, agreement on the importance of this issue was similar among males and females (48% and 52% respectively).

5 PEOPLE

- Half of respondents believe that ESG responsibility is shared equally
- Only half believe their immediate operations are the only ones affecting their ESG position
- Middle management more concerned about end-to-end ESG than senior management

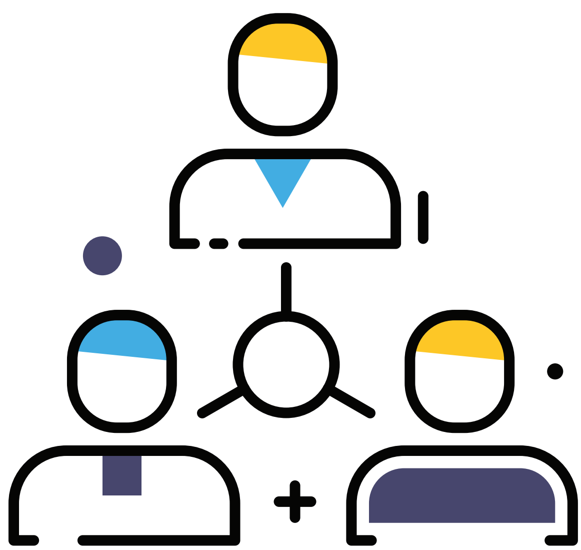
Half of respondents (51%) stated that only their business' immediate internal operations are accountable for ESG issues; this rises to 65% among those whose companies have an annual turnover of up to £10m.

The entire business and its connections, including suppliers and other organisations they use, are responsible for ESG issues in a quarter (26%) of cases. Of those working for companies with an annual turnover of £100m to £1bn, 38% say their entire business and its connections are accountable for ESG issues. Twenty-four per cent of respondents said that internal operations plus direct suppliers they use are answerable for ESG issues.

Interestingly, a larger proportion of middle managers believe their entire business and its connections are accountable for ESG issues, compared to the proportion of owners/proprietors who express the same view for their businesses. Only a sixth (16%) of owners or proprietors claim their entire business and its connections are accountable for ESG issues, whereas over a third (35%) of middle managers believe this to be the case for their businesses.

Sole traders are much less likely to say that their business and its connections, including suppliers and any other organisations they use, are accountable for ESG issues than those who work in companies with 1,001 to 10,000 employees. Only 12% of sole traders selected this option, compared to 35% of those in businesses employing between 1,001 and 10,000 people.

There is a popular desire for a move towards a sharing of the load concerning tackling ESG issues. Fifty per cent of respondents believe that everyone should take equal responsibility for ESG issues. Only 18% think that the government should bear the weight of the responsibility and 16% feel this should be only large companies' duty.



6 A MORAL QUESTION?

- Nearly two-thirds of respondents feel a moral purpose to adopting ESG
- More than half (52%) of workers believe companies should consider ESG issues because it is morally the correct thing to do

Whilst *Section 3* deals with the business case for adopting greater ESG measures, this research also attempts to explain the personal drivers, where businesses are adopting measures beyond the perceived immediate need to do so. The most popular reason why people feel that it is important that companies in general need to consider ESG issues is that it is morally the correct thing to do, irrespective of other issues (52%).

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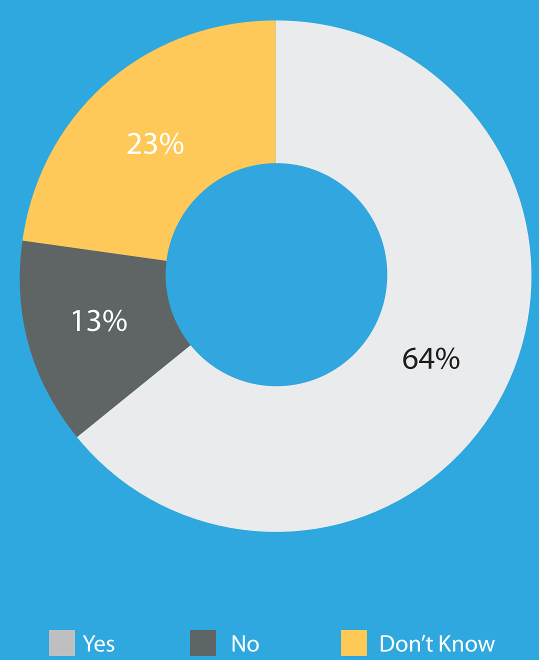
Respondents working in the production sector (agriculture, farming, fishing & forestry, energy, utilities, mining, manufacturing) are more likely than those in distribution (retail, motor trade, wholesale) or services (financial services, hotels, logistics, real estate, administration, information & technical, education & arts) to believe their organisation's ESG position is morally the correct thing to do irrespective of other issues. Seventy-four per cent of those in production hold this view, compared to 69% in distribution and 63% in services.

Again, it is speculation, but it may be that sectors more exposed to the negative effects of bad ESG tend to make workers in those areas more morally sure of the benefits of a good ESG position.

My organisation's ESG position is morally the correct thing to do irrespective of other issues



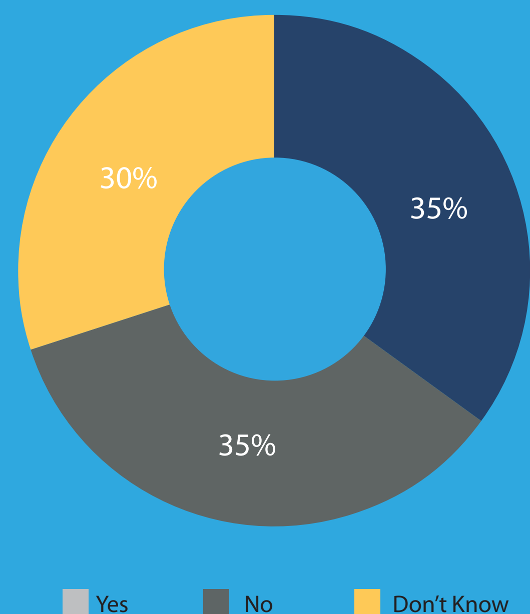
7 AT WHAT COST?

- **59% believe there is no need to compromise profitability, or would do so, for higher ESG standards**
- **35% say ESG issues need to be considered to legally protect their company**

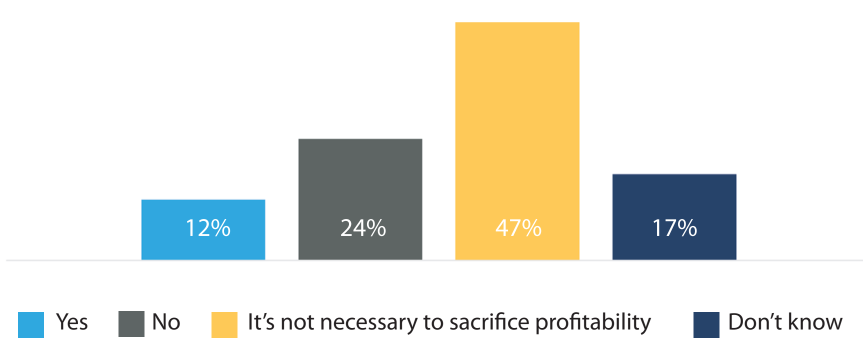
The general view is that incorporating good ESG factors into the business will not affect profitability. This was a very encouraging view, with nearly half saying that high ESG concern is completely compatible with profitability. Another 12% would, if need be, leaving only 24% unwilling to sacrifice profit.

Moreover, more than a third (35%) of the total, or half of those with a view, believe that their organisation's ESG position is driving higher long-term profitability. This represents a major achievement, in that ESG was only notionally considered in the previous decades, but now is not only fully accepted, but seen as no impediment to profit, but in literally half the respondents a driver of higher profitability and commerce.

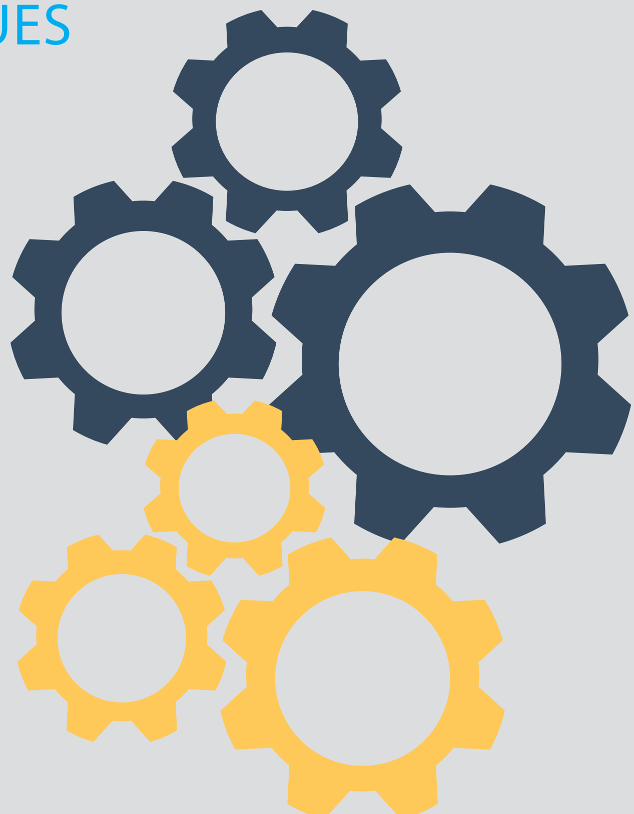
My organisation's ESG position is driving higher long-term profitability



Would you sacrifice profitability in order to achieve higher ESG standards in the longer term?



8 PROGRESS IN ESG ISSUES



- **38% of UK workers believe their company's consideration of ESG issues has risen over the past five years. Only 2% believe these concerns have reduced**
- **Two in five say their businesses are making progress in ESG issues**

Progress towards better ESG issues in UK business is speeding up. Two in five (38%) stated that their business is more considerate of ESG issues than it was five years ago, with only 2% feeling that their company is now less considerate.

31% stated that their companies are not planning to improve their approach to ESG issues because they already are engaged. Companies are planning to improve their approach in 22% of cases, whilst only a fifth (20%) say that their company has more important things to concentrate on.

However, a word of warning needs to be sounded, because although the sentiment is that progress is being made, there are a considerable number of businesses that are not accurately monitoring their ESG activities. Two fifths (41%) of respondents claim their companies do not benchmark their ESG standards against competitors, whilst only three in ten (29%) say their companies do. The proportion of companies that benchmark its ESG standards against competitors is as low as 18% in businesses where only the immediate internal operations are accountable for ESG issues, but rises to 42% among those where the entire business and its connections are responsible.

Nonetheless, over half (53%) say that, in terms of ESG standards, their company engages with voluntary codes of conduct, whereas their companies do not in 21% of cases.

There is also some lack of clarity concerning company's efforts regarding ESG issues. Over a quarter, in each case, do not know if their organisation benchmarks its ESG standards against competitors, or engages with voluntary codes of conduct, or has its own defined published ESG policy (29%, 26% and 25% respectively.) These concerns will be revisited in the Communications section.

9 COMMUNICATION IS KEY

► **53% say their companies do not publicise their ESG activities at all**

It seems that if companies are now progressing along the ESG road, and at least in a majority of cases see the benefits and recognise their reputation to clients and public as vital, the one area where there seems to be a problem is in actually communicating these feats.

The majority of respondents' companies do not publish their ESG behaviour at all (53%), however, for those that do, the most popular method to publish their behaviour is through internal communications (21%), followed by highlighting it in the company annual report (17%); collaborating with an external partner (e.g. community group or charity) (12%); press releases (11%); sponsorships (10%); and advertising (9%).

The same proportion of companies that do have a defined published ESG policy or similar do not (both 37%). Even where there is a defined ESG policy only 44% publish this as an annual report.

Internal communication at 21% leaves the majority of employees unaware of exactly what their companies are doing – despite their commitment to the concept – and in no position to judge whether company policies or programmes are effective – such as charity partnerships. This must surely be a missed opportunity after all the hard work has been done?

10 CONCLUSIONS

ESG factors are, by and large, embraced and are continuing to gain traction, albeit that traction is not evenly spread – for example it is surprising that older respondents actually express more care more about energy than younger employees, and middle management are more concerned than senior management.

Reputation dominates the concerns that companies have. However, the biggest revelation is that businesses are not sufficiently communicating their ESG credentials internally or externally – an especially odd situation in the social media and internet driven twenty-first century.

It is imperative that a company incorporates ESG considerations into its overall strategy and explains clearly to its key stakeholders where and why such principles are relevant to its activities. Companies need to articulate their ESG goals and the key performance indicators (KPIs) they will use to measure success in meeting them. Such KPIs could and do include diversity/gender mixes in staff; reductions in work-related accidents; levels of carbon emissions; employee satisfaction and turnover; donations to charity; community sponsorships and involvement; and industry awards.

To achieve this, this paper suggests that they should put in place communications programmes that might include the following:

- **Appoint a broad-based staff committee with responsibility to regularly publish an ESG plan that outlines KPIs**
- **Develop social media networks among key stakeholders and use these, as well as internal communications, as platforms to announce ESG-related achievements**
- **Provide regular commentary on topical ESG issues that affect the sectors in which they operate**
- **Conduct thought leadership initiatives worthy of mainstream media coverage. These could include research and white papers with ESG relevance**
- **Develop a platform to call for change and higher ESG standards**
- **Publish ESG performance data versus ESG benchmarks**
- **Seek strategic alliances with thought leaders and competitors in order to share best practices**

11 METHODOLOGY

The research was carried out by Opinium, based on online interviews with 500 UK adults from 12 January to 27 April 2017. Fifty-seven per cent of respondents were in senior managerial positions or above.

12 CREDITS

About the Better Society Network
The Better Society Network reports and conducts research into responsible business and the corporate and financial engagement with social and environmental issues. It hosts the annual Better Society Awards, a news website and enewsletters. BSN is part of Perspective Publishing Limited, an independent media and research company since 1994.

The Better Society Awards were created to honour those companies that are actively helping to shape a better society, through social programmes to environmental projects. This year's winners include: The Crown Estate, HSBC, Aviva, Absolute Radio, Keltbray Environmental, Arup, Manchester Airports Group, Selfridges, Deutsche Bank, TK Maxx, Fujitsu, Nationwide Building Society, Airbus, Arsenal FC, Rathbones, Ecclesiastical Insurance, RBS, Sayer Vincent, ClimateCare, Eversholt Rail, Lloyds Banking Group, and Firmenich.

About Citigate Dewe Rogerson
Citigate Dewe Rogerson is one of the most respected names in communications. An expert in its field, Citigate combines the knowledge of bankers, fund managers, in-house investor relations, former journalists and creative communications professionals as well as sector and transaction specialists.

Citigate is City-based but its business and perspective are international. It has served over 500 clients from start-ups to some of the world's largest listed companies, governments and other organisations from our offices in London and in the US, Europe, the Gulf and Asia.

About Opinium
OPINIUM is an award winning strategic insight agency built on the belief that in a world of uncertainty and complexity, success depends on the ability to stay on pulse of what people think, feel and do. Creative and inquisitive, we are passionate about empowering our clients to make the decisions that matter. We work with organisations to define and overcome strategic challenges – helping them to get to grips with the world in which their brands operate. We use the right approach and methodology to deliver robust insights, strategic counsel and targeted recommendations that generate change and positive outcomes.