SUSTAINABILITY

Beyond cheap talk: an opportunity for action

Inboxes and social media feeds have been swamped by sustainability and ESG lately. Based on over a decade of experience, here's our 5 rules to survive the sustainability tsunami and get beyond the buzz words.

By James Osborne
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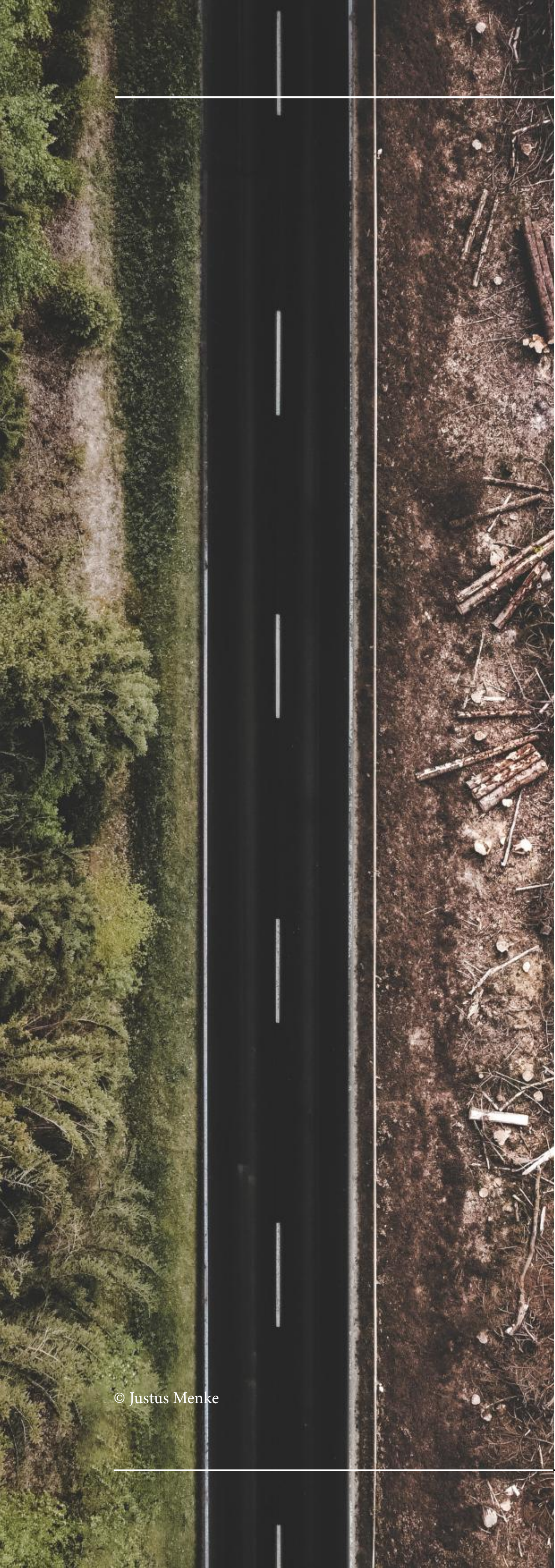
While I've been following the climate change and corporate sustainability conversations for almost 20 years, they were always topics for a smallish community of professionals, experts and sustainability "geeks".

It's a very passionate, internationally connected community, a close-knit band working for many years under the radar. In the space of a few months, that conversation has gone on overdrive, racing ahead like a Tesla Model S in "Ludicrous" mode. Something seems to have changed in late 2020.

It was like a tipping point, that moment when a minority or even fringe interest grows and manages to garner just enough interest that it goes mainstream. Certainly, it was a combination of factors that triggered this tipping point: the deep parallels between the pandemic and environmental concerns such as the climate crisis and biodiversity loss; a vocal and successful youth climate movement going global via Instagram; the mainstreaming of ESG in financial markets; and policy initiatives such as the European Green Deal and taxonomy for sustainable activities.

And suddenly, sustainability is everywhere. Virtually every company is talking up its sustainability initiatives and experts in ESG are popping up left, right and centre alongside a multitude of ratings, awards and new publications.

It's rapidly transformed from the remit of small corporate sustainability functions into a pressing agenda for top management and board members as well as people working in corporate finance, corporate governance, investor relations, public policy, communications, branding, human resources not to mention innovation, strategic planning and business development.



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The danger of exaggeration

Over the course of the summer, however, I've noticed a note of unease creep into the conversation. Accusations of "greenwashing" are trending again. I've seen newsletters talking about "commitment fatigue" in ESG communications. The Financial Times picked up on the debate about whether ESG stocks are in a "bubble".

Ralph Thurm, a 30-year veteran of the corporate sustainability scene, has been calling the current focus on ESG an "illusion" of sustainability or "ESG LaLaLand". His four-part series "The Big Sustainability Illusion" on LinkedIn has been read over 65,000 times. It was all eloquently captured by Tariq Fancy, the former chief investment officer for sustainable investing at BlackRock, in a long essay on Medium in August in which he lifted the lid on the ESG practices of the giant U.S. asset manager.

Referring to the business and civil society leaders dominating the sustainable business agenda, he wrote: "They must know that they're exaggerating the degree of overlap between purpose and profit... These leaders must know that there is no way the set of ideas they've proposed are even close to being up to the challenge of solving the runaway long-term problems... And right now all of the other stuff they're saying — the marketing gobbledegook — is actively misleading people."

"

From a minority, fringe interest, sustainability reached a tipping point and garnered enough interest to go mainstream.

Perhaps the most concerning warning signal came with the reports in August that the U.S. Securities and Exchange Commission (SEC) would probe DWS, the asset management arm of Deutsche Bank, over how it used sustainable investing criteria to manage its assets. DWS, with 20 years of experience in sustainable investing, said it stood by its disclosures and rejected allegations made by a former employee. Still, the headlines wiped 13.6% off its stock price in one, brutal day.

Cherry-picking and greenwashing

The case highlights the potential cost of overstating sustainability claims. And, with the stakes so high, it's a risk that all organizations need to be aware of.

Management teams naturally want to have something positive to say to investors as well as other stakeholders (think of how important social and environmental issues have become for talent attraction) but that increases the risk of cherry-picking "positive stories", losing balance when detailing sustainability risks and downplaying impacts that are complex, hard to address or require collective action.

The trend is driving an uptick in greenwashing, a disturbing trend that may undermine confidence in the sustainability movement just as consumers shift their buying habits towardsgreener choices. The European Commission's annual screening of websites to enforce EU consumer law focused this year on evidence of greenwashing, exaggerated claims of environmental benefits.

The analysis uncovered suspicions that 42% of all claims were exaggerated, false or deceptive and could qualify as unfair commercial practices.

That's almost half of all cases, covering sectors from garments to cosmetics to household equipment. In the race to gain visibility and burnish a reputation as a sustainable business or brand, the mystical status of leadership is something that very few can attain.

What makes leadership?

I'm always struck by just how stable perceived leadership is in this field, at least according to the views of sustainability experts.

GlobeScan and SustainAbility have been doing a survey on this topic for 25 years and, when asked what companies they admire most, respondents' answers vary only slightly over the course of years.

> **We have little more than eight years to achieve the SDGs. Urgent, transformative action is needed to tackle the climate crisis, then there's inequality, biodiversity loss, and the list goes on.**

The latest study again showed the recognition still afforded to names like Unilever and Ikea (in Europe), Patagonia (in the U.S.) and Natura & Co (Latin America).

Unilever's dominance is incredible if you think that Paul Polman, who spearheaded its sustainability drive, joined as CEO back in 2009. Usefully, the GlobeScan/SustainAbility study also looks into the reasons why these companies continue to be perceived as leaders. The number one driver of leadership is the sustainability of the core business model and business strategy, a priority that has been on the rise for three years running.

Other important attributes are ambitious targets or commitments towards the Sustainable Development Goals (SDGs); sustainability values or purpose; sustainable products and services; and the ability to communicate and advocate about sustainability. The last point is interesting, in light of the risks of overplaying accomplishments mentioned above.

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An algo is reading your report

It's not only subjective perceptions that companies have to worry about.

Artificial intelligence (AI) and natural language processing (NLP) are being used to analyse large quantities of corporate ESG disclosures – reports and website content – in order to evaluate their quality and drive investment decisions.

For example, Swiss and German academics have developed a natural language algorithm called ClimateBert that they trained on thousands of sentences related to climate-risk disclosures aligned with the reporting recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) (Bingler, Julia Anna and Kraus, Mathias and Leippold, Markus, Cheap Talk and Cherry-Picking: What ClimateBert has to say on Corporate Climate Risk Disclosures - March 2, 2021).

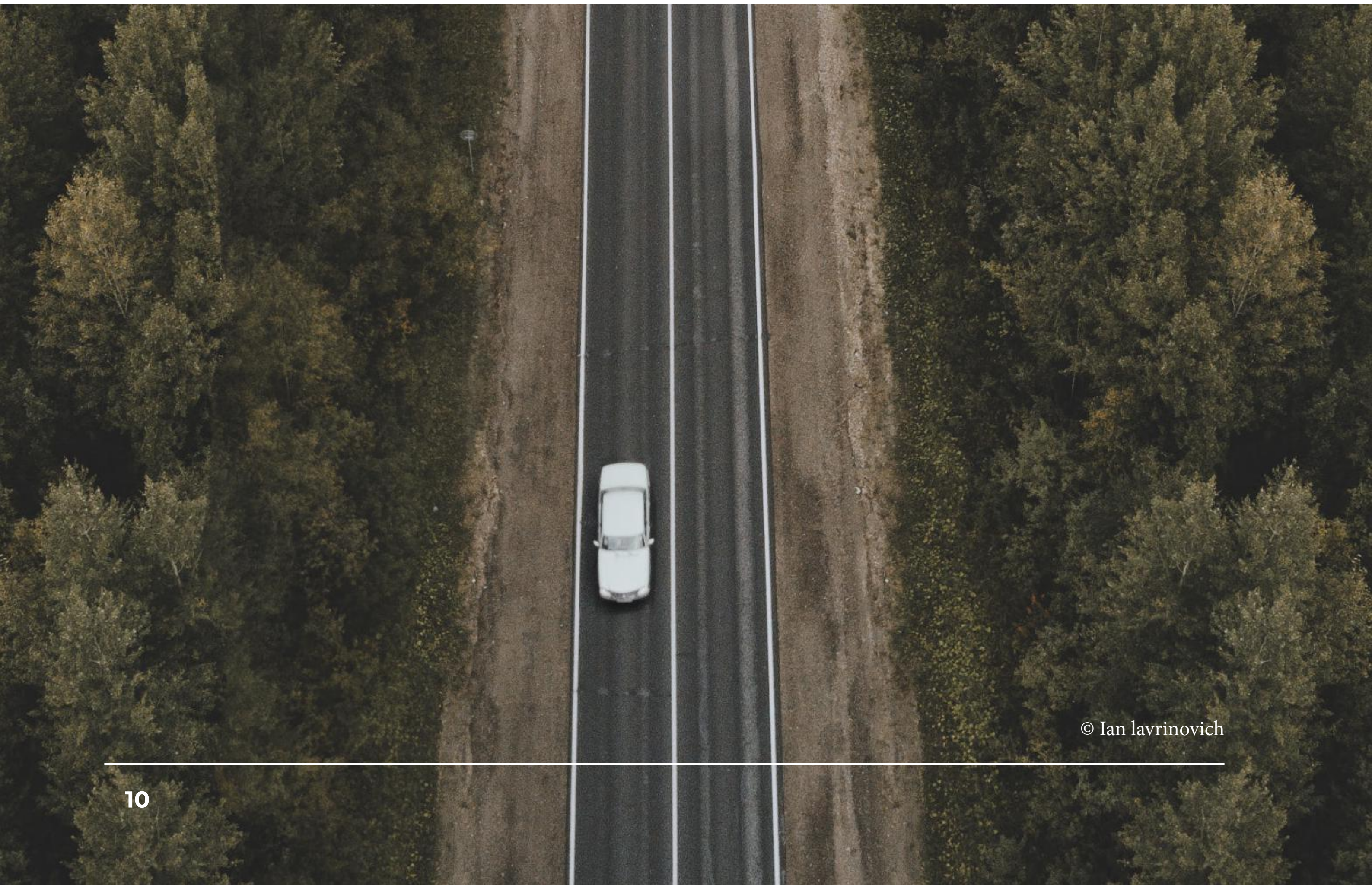
The researchers applied ClimateBert to a sample of annual reports from more than 800 TCFD-supporting companies over the last six years, looking at whether climate disclosures improved after supporting the TCFD and analysing the development of TCFD disclosures for different sectors and geographies.

Their conclusions were sobering: "results show that supporting the TCFD seems to be cheap talk and is associated with cherry-picking disclosures on those TCFD categories containing the least materially relevant information."

Ouch.

"Disclosures on strategy, and metrics and targets, are particularly poor for all sectors besides energy and utilities," they added.

Message received? The paper concluded with a recommendation to convert voluntary reporting into regulatory disclosures as the only remedy.



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Rules for survival

How best to survive in this environment? Here are a few strategies I think are useful and that I've been repeating to people over the past months. They're similar to the key points that have guided our work over the past decade.

1 Remember the wider context

It's easy to get sucked into a narrow focus on what's important for your company or organization. Achievements that seem important in the goldfish bowl of corporate headquarters may not resonate with people concerned about the bigger picture and how your actions contribute to the shift towards a better future. I like to talk about the "why" of sustainability action. So remember the wider context when planning strategic actions and make sure you can answer the question "so what?".

2 Focus on the journey

Sustainability is a process of improvement that concerns us all and it's almost impossible in the developed world to talk about being "sustainable". Honesty is greatly appreciated so it can be useful to talk about the long-term perspective and situate today's performance in a longer journey.

3 Seek informed decisions

Given the rapid evolution of the sustainability landscape and the fact that new people are constantly being drawn into deliberations, it's essential to make sure there is a common, organisational understanding of what the sustainability strategy is seeking to achieve. Give decision-makers the necessary training and information about the organisation's impacts and stakeholder expectations.

4 Walk the talk

Make sure that you always match substance with promise, commitment with action. As we look ahead to COP26 and the focus on global milestones of 2030 and 2050, a long-term perspective has to be backed up by an immediate response, today. Always give your stakeholders easy access to the evidence that supports any claim, explained in plain, easy-to-understand language.

5 Seize the opportunity!

I don't need to remind readers that we have little more than eight years to achieve the SDGs and that urgent, transformative action is needed to tackle climate crisis, then there's inequality, biodiversity loss, the list goes on. But we have agency. The onus on anyone working in sustainability today is to capitalise on the current mood and turn awareness into action.

We have a duty to act individually but also to work together, joining forces to galvanize the systemic change that will usher in a sustainable future that so many are busy talking about today.

In the following pages, you can learn how we've built these ideas into our work and how we use .future to help companies improve their sustainability communications.