

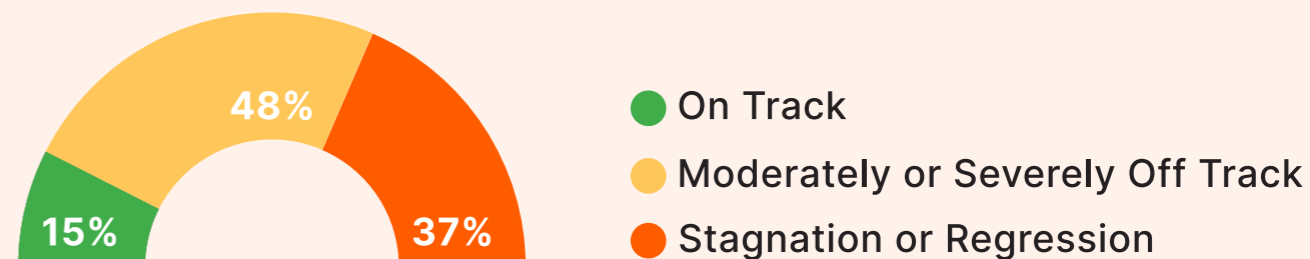
What if the CSRD doesn't give answers to all the right questions?

After all the noise about ESG and, we're way behind on making sustainability progress in the real world. To avoid the Corporate Sustainability Reporting Directive (CSRD) bringing about a fresh wave of disenchantment, corporate leaders bear a huge responsibility in defining and articulating their sustainability vision.



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A concerning picture of SDG progress at the midpoint:



SDGs Progress Chart 2023, unstats.un.org

It wasn't supposed to go this way. When the United Nations launched the Sustainable Development Goals (SDGs) the ambition was to overcome the drawbacks of the Millennium Development Goals (MDGs) with a new framework involving both the public and the private sector in a common agenda for 2030.

Now we're halfway there, there is scant evidence that the SDGs have had the transformative effect its creators had in mind. The progress evaluation conducted by the UN itself highlights "significant challenges": only 15% of the SDG targets are on track to be achieved while over a third (37%) have experienced no progress or, even worse, have fallen behind the 2015 baseline.

In Italy, the picture is hardly rosy. The Italian Alliance for Sustainable Development (ASviS) reports that the country is going backwards on six out of the 17 goals, on three the situation is substantially unchanged, and on the remaining eight improvements have been modest at best.

Worryingly, regional data in Italy highlights growing disparities on progress between different parts of the country, in contrast to the key promise of the 2030 Agenda to leave no one behind (LNOB).

"We face challenges to achieving ambitious sustainability goals"

JUMPING ON THE ESG BANDWAGON

What have we been focused on in the meantime? For starters, SDG logos and accompanying tables have become a standard fixture of corporate sustainability reporting, highlighting the “contribution” made by companies to selected or all goals (and this is always treated simplistically as “positive contribution” without any thought about the overall or “net” effect of a business on society and the environment).

But the biggest novelty over the last few years has been the dramatic rise of ESG (environment, social and governance) investing to the point at which “ESG” has dominated the sustainability discussion in the board room.

As everyone jumped on the ESG bandwagon, this new three-letter acronym became a byword for integration of sustainability in the business. The logic seems to be that investors driven by both financial and non-financial considerations would drive companies to be more sustainable (whatever that may mean).

To many in the market, however, ESG was exploited as a new way of marketing old ideas or of adding a new lens to traditional evaluation models and investment strategies. Hence the current rage against greenwashing.

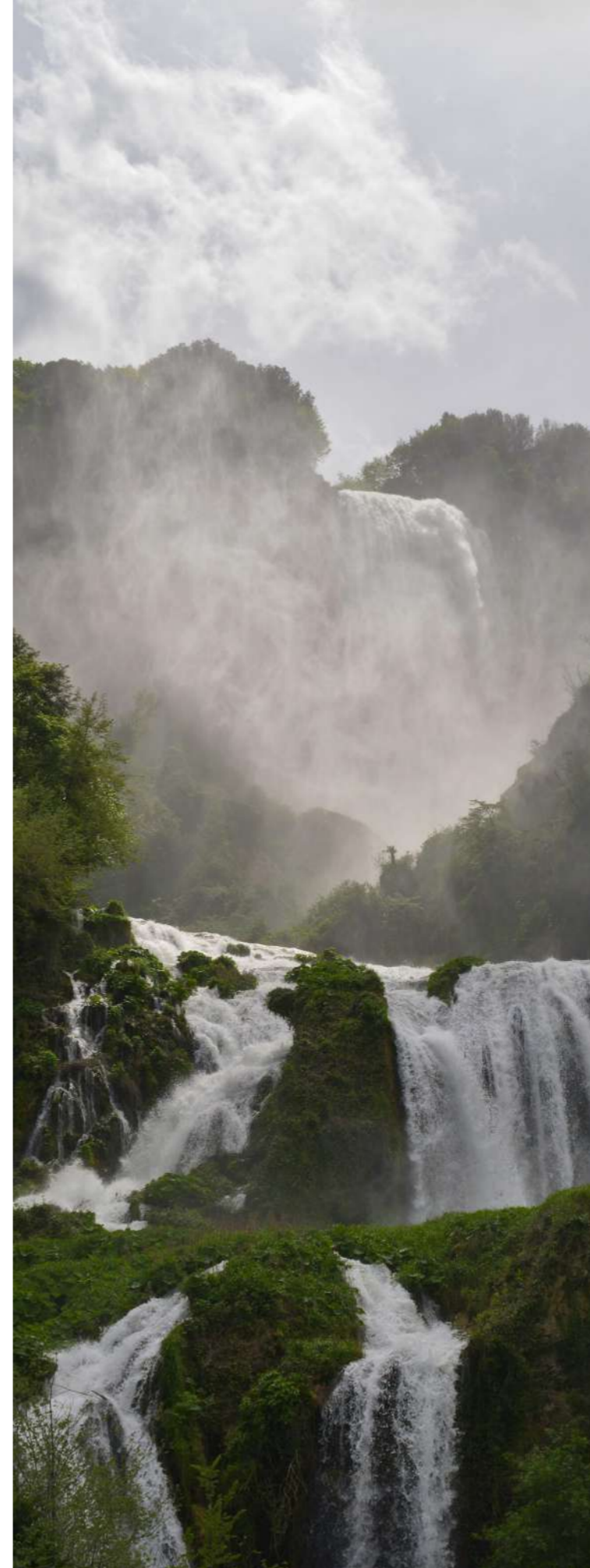
HAVE WE LOST THE PLOT?

This sudden investor-led attention on sustainability practices pushed companies into developing ESG plans and integrating their plans into the overall business strategy.

The took example from trailblazers such as Marks & Spencer’s Plan A (“because there is no Plan B”) and Unilever’s Sustainable Living Plan. In the wake of the SDGs and the Paris Agreement, the narrative became future-focused

"Leadership means showing evidence of impacts and actions"

and a question about where we’ll be in 2030 and net-zero pathways. In reality, we seem to have lost the plot somewhat, as evidenced by the dissonance between eternally positive corporate narratives on the one hand and the failure to make decisive progress on sustainable development on the other. It’s a dissonance that people tend to notice, and they can tell when corporate narratives are exaggerated or hollow.



Where does this leave us? The focus is clearly returning to the ability to generate (net) positive impact in the here-and-now, effect measurable change and drive the urgency needed for our collective ambitions.

Moreover, there’s a need for more realism about the difficulty and complexity of reaching these goals and that no single actor alone can do that. The focus is therefore on transforming markets through innovation, collaboration and systemic approaches.

The latest annual GlobeScan-SustainAbility survey of sustainability leadership showed that experts today champion companies putting sustainability at the heart of their business model and show evidence of impacts and actions.

Those aspects are more highly regarded than setting ambitious targets or having a purpose or strong values. Integration, impact and innovation are the key elements of leadership going forward.

HOW WE REFLECT THIS IN OUR WORK

At Lundquist, we started our own sustainability practice back in 2007 and quickly worked to bridge the gap between strategy, stakeholder engagement, reporting and communications: taken together they are mutually reinforcing.

In the current context this approach is more important than ever. We hear from many companies that are eager to show the value generated from their long-standing commitment to sustainability but are frustrated by the difficulty in standing out from the noise.

And they are watching closely the regulatory mechanisms being introduced to counter greenwashing.

Our latest initiative continues in this same spirit: sustainability is the continuation of our research in sustainability communications that we inaugurated 16 years ago.

It was developed not only as a research programme to monitor and compare how companies communicate online about their social and environmental commitments but to guide communications choices.

For that reason, it focuses on four drivers of credible, concrete and engaging content:

- **Strategy & integration:** Going beyond mere reporting, how does the company approach sustainability at a strategic level and what is the level of ambition? How embedded is sustainability in the business and innovation, in the company culture and a coherent narration?

- **Topics & journeys:** How does the high-level commitment translate into concrete action on specific environmental and social topics? Where is the company heading in terms of driving change on each topic?

- **Storytelling & narration:** What does this mean on a human, emotional level in terms of real-world stories and examples? How is sustainability content deployed across multiple channels to reach different stakeholders?

- **Leadership & advocacy:** Do top management or other ambassadors take a stand on issues facing the business and its sector? Does the company use its voice and influence to push proactively for collaboration, behaviour change or regulatory initiatives towards sustainable development?

THE CASE FOR RESPONSIBLE COMMUNICATIONS

Explained in these terms, it's clear that good, responsible communication is inevitably connected to the business challenges and sustainability landscape outlined above. I think it's important to make the case for sustainability communications at the moment, when there are forces pushing in the opposite direction, including worries about greenwashing and the tendency towards green-hushing (and pink-washing and DEI-hushing, etc.).

The correct approach is to align strategy, reporting and communications so that they all form part of a clear and coherent vision of sustainability and the value it generates. Being able to articulate that effectively to key stakeholders, engage them consistently and constructively, is a critical asset in any strategy.

When I mention reporting, of course, all thoughts turn to the imminent implementation of the European Union's CSRD (Corporate Sustainability Reporting Directive) and related regulations such as the Corporate Sustainability Due Diligence Directive (referred to as CS3D).

The fact that thousands of companies are being obliged to take a structured approach to sustainability reporting and management, many for the first time, is clearly a watershed moment that is driving the sustainability discussion within the boardroom and management teams.

But it will inevitably influence how sustainability is framed, understood and implemented for years to come.

"Our research guides companies towards better communications"

AMID CSRD, THE TOUGH QUESTIONS TO ASK

Leaving aside for the moment the critical questions of governance and competence – only 1 board member in 6 in Italy has expertise in sustainability matters – I want to stress the importance of this strategic framing of sustainability.

If business leaders want to grasp the opportunity of CSRD they need to define and articulate the strategic importance of sustainability to the future. We see an emerging space – before reporting, before communications, but inseparable from either – where companies need to take ownership of the sustainability agenda and their response to it. There are a few key questions that need to be answered:

- What long-term macro-trends and ESG issues are relevant for our business model and what risks and opportunities do they throw up? How do we - or might we - make money through sustainability?
- What is the connection between sustainability and innovation and business transformation?
- Are we using double materiality to answer these questions or only as a reporting requirement? Is the financial perspective blinding us to the significance of positive and negative impacts that we have on the wider world?
- Do we have the right or enough insight from our stakeholders? Are we engaging them appropriately?
- Where is there space to activate collaboration and partnerships on key topics?

- Do we have the right set of competences and culture internally (at all levels) and are our values reflected in our behaviours?
- Are we using the right language and communications approach to inform, engage and empower our stakeholders towards our sustainability goals?

I could go on. What's important, however, is that boards, executives and sustainability teams are aware of the need to develop answers to these kinds of questions while at the same time tackling the significant compliance requirements thrown up by CSRD and CS3D. For sure, it will take time and some companies won't have the capacity to take it all on at the same time.

But it's a question of mindset and awareness that a compliance-only vision is likely to lead to a phase of disappointment and frustration. We already hear these kinds of laments: "after all we've done in developing our ESG plan and all the time and effort we put into our sustainability reporting, people don't get it, they aren't engaged".

That kind of situation would be disastrous for our collective journey towards sustainable development. Amid a deluge of sustainability data, it would further fuel the disconnect I outlined above between the previous wave of ESG enthusiasm (which has now morphed into a phase of regulatory "enthusiasm") and the lack of real-world progress. Corporate leaders therefore have enormous responsibility for developing a strategic vision for sustainability and driving engagement and collaboration that leads to better business, higher levels of trust and much-needed progress on sustainability outcomes. The stakes could scarcely be higher.

