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Developing a Sustainability Brand

And Why it Matters to Corporations

Addressing the growing demand for corporate sustainability and providing three steps for developing a meaningful and enduring sustainability brand.

No matter your industry, you're in the business of sustainability.

When it comes to corporate sustainability, we've come a long way. However, if the latest demands from investors are any indication, we still have a long way to go. As a polestar for sustainability's increased importance, BlackRock, the world's largest asset manager, issued a letter to shareholders in March 2020 that essentially doubled down on an earlier communication that the firm would no longer invest in companies that weren't meeting stringent environmental, social and governance (ESG) standards.

The message is clear: If post-pandemic, pre-recession economic uncertainty doesn't shake investors' expectations for businesses, nothing will. Your company is officially in the business of sustainability for the foreseeable future.

In this guide, we'll address why corporate sustainability matters, examine its rise over the past decade, and provide three key steps to developing and implementing a sustainability brand into your corporate communications strategies.

An index guide of the most relevant trends and terms is included for your reference, as well.

> "Most stakeholders now expect companies to play a role in decarbonizing the global economy. Few things will impact capital allocation decisions - and thereby the long-term value of your company - more than how effectively you navigate the global energy transition in the years ahead."
>
> LARRY FINK, CEO, BLACKROCK

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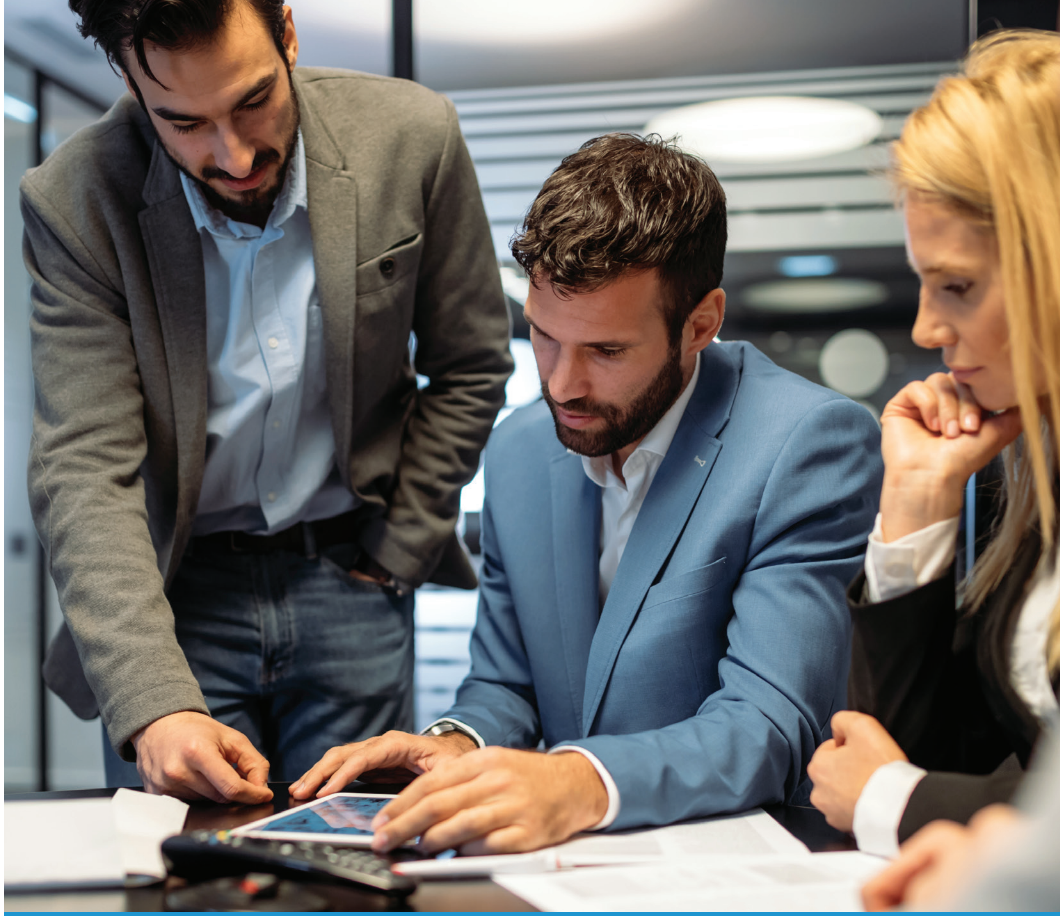
Brand management is sustainability management is risk management.

If you are a branding or marketing communications professional, considering your stakeholder audience before executing any business strategy is nothing new. For better or worse, they have a great deal of say in whether your company will be successful in its endeavors.

As you consider developing a corporate sustainability strategy and accompanying brand, take into account how consumers, employees and investors will measure your organization's efforts. Each matters, but for different reasons.



ESG was the #1 focus area for businesses in 2023, according to PWC[1] and 99% of millennial investors interested in sustainable investing.[2]

[1] Five issues for private businesses to focus on in 2023, PWC, January 2023

[2] Top 5 Business Challenges in 2023 and How to Overcome Them, Quantive, 2023

Consumers care and so should you.

Amazon founder and CEO Jeff Bezos once famously said, *"Branding is what people say about you when you're not in the room."* Nowhere is that more evident than in relation to corporate sustainability.

60% of consumers say they gravitate toward businesses committed to environmental good. That's according to an online survey of nearly 30,000 people across 35 countries.[3]

Today, however, people don't wait for the brand to leave the room; they seek a direct audience and some serious change.
The social pressure generated by organizing efforts online or in person can dramatically shift purchasing power. This isn't your parents' boycott. It's brand perception and it's driving a n
ew market.

Over the past few years, consumers have led campaigns against single-use plastics, fast fashion, automobile emissions and more. While this has forced some brands to pivot, it has also given a boost to those brands that proactively put ESG concerns at the forefront.

Unilever, a global consumer goods company, is an example of this in practice. Their sustainable living brands, which account for about half of the company's top 40 brands, are growing 50% faster than the others and are generating more than 60% of the company's profits.

It's important to note that consumer power is not limited to environmental concerns. Social good is a significant focus — and the definition of social good has expanded from the standard elements of diversity, equal opportunity and proper pay.

Today, it includes all the aspects of good citizenship you might imagine — with each and every social movement represented by memorable hashtags. Where there is social unrest, consumers will not hesitate to take the media wheel, driving many businesses to a tipping point.

[3] To Affinity and Beyond: From we to me, the rise of the purpose-led brand, Accenture Strategy, published January 2019

Employees are consumers of your brand, too.

Just as information has been democratized for consumers, driving demand for transparency and action, employees are also seeing the environmental and social impact of their employers. It may come as little surprise that younger generations are particularly principled, with some studies suggesting they care about purpose as much or more than pay. For example, one millennial employee study[4] revealed:

- **75% would take a pay cut to work for a socially responsible company.**
- **76% consider a company's social and environmental commitments before deciding where to work.**
- **64% won't take a job if a potential employer doesn't have strong corporate responsibility practices.**

A company's sustainability program (or lack thereof) can also have a positive or adverse impact on employee engagement. Read: working harder versus working elsewhere. A survey from Fast Company5 confirmed this:

- **69% of respondents said that if a company had a strong sustainability plan, it would affect their decision to stay with that company long-term.**
- **34% said they've given more time and effort to a job because of their employer's sustainability agenda.**
- **30% said they've left a job in the past because of the company's lack of a sustainability plan.**

It's clear that employees want to be active participants in driving global systemic change. That requires them to work for a company that shares their commitment to meeting social and environmental standards. Just like consumers, your employees want to be proud of the choices they make — from the brands they buy from to the brands they help build.

Businesses with a commitment to sustainability could see productivity increase by 13% and turnover decrease by up to 50%.[6]

[4] Millennial Employment Engagement Study, Cone Communications, November 2016

[5] Most millennials would take a pay cut to work at an environmentally responsible company, Fast Company, February 2019

[6] Study Reveals Companies Engaged in CSR Can Reduce Staff Turnover Rates by 50%, Satell Institute, March 2018

Investors are looking for a good deal.

Over the last decade, investors have increasingly grown interested in incorporating ESG factors into their investment strategies. Harvard Business Review interviewed 70 senior executives at 43 global institutional investing firms, including the world's three largest asset managers (BlackRock, Vanguard and State Street). They found that ESG issues were almost universally top of mind, and it became clear that corporate leaders would soon be held accountable by stakeholders for ESG performance if they weren't already.

While investors want to know their funds are doing good for people and the planet (or at least not doing harm), this uptick is not purely the result of an altruistic mindset. There is a growing body of evidence to suggest that companies that meet ESG standards produce similar or better returns than those non-ESG funds.

Perhaps that's why the global percentage of investors that applied ESG principles to at least a quarter of their portfolios jumped from 48% in 2017 to 75% in 2019[7]. That number has grown in the years since. Today, more than 80% of global asset owners are implementing or evaluating ESG for their investing strategies[8].

More than 2,000 studies of the impact of ESG on equity returns[9] resulted in:

63%
POSITIVE FINDINGS

8%
NEGATIVE FINDINGS

[7] The ESG Global Survey 2019, BNP Paribas, 2019

[8] 'ESG' Is Too Important to Ax, Investors Say, Bloomberg, October 2023

[9] Five Ways That ESG Creates Value, McKinsey, November 2019

Building a sustainability brand is like building a house. You have to have a strong foundation.

The most toxic things to come out of some companies' sustainability efforts are false claims. Greenwashing, as it is frequently referred to, sometimes can be worse than doing nothing — though both will get you into deep trouble.

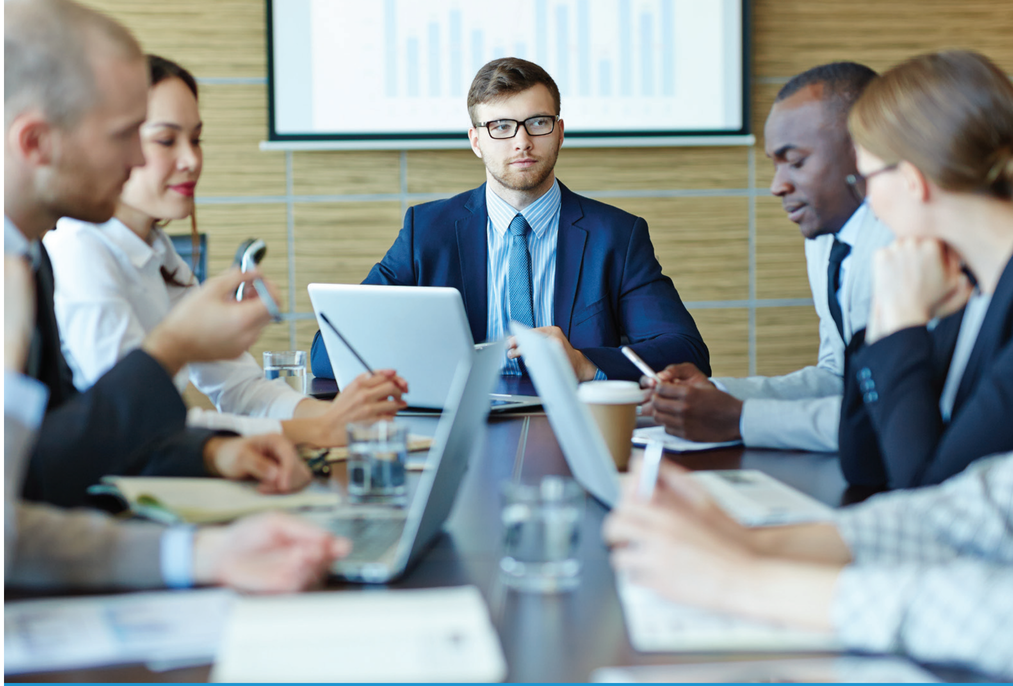
While there are numerous elements to keep in mind as you pursue a sustainability framework and brand story, none are as important as maintaining honesty. Get off on the wrong foot and you might be repairing the fractures for years to come. Intentionally mislead your audience and that damage may be irreversible.

With the first step focused on integrity and transparency, here are three additional steps to take as you work to develop a successful and believable corporate sustainability brand.

01 STEP ONE:
DEVELOP A SUSTAINABILITY PURPOSE

02 STEP TWO:
BRING YOUR SUSTAINABILITY STORY TO LIFE

03 STEP THREE:
MAINTAIN YOUR SUSTAINABILITY MOMENTUM



> "Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it, but because it is good for our business."

NIALL FITZGERALD, FORMER CEO, UNILEVER

Developing a sustainability purpose.

Author and motivational speaker Simon Sinek once quipped that, "People don't buy what you do, they buy why you do it." That same sentiment should be applied to corporate sustainability.

Stakeholders will question your company's motives, so be ready with a clear and authentic sustainability purpose statement. If you've already taken leadership through the lengthy exercise of developing a purpose-led brand, this may be old hat to you.

If you haven't, our best advice is to stay hydrated (and consider contacting AvreaFoster for help). Over the next three to four months, you'll find yourself analyzing and debating the impact of your company on the world.

This may include, but is not limited to:

- Examining your product's or industry's externalities — the indirect costs borne or benefits gained by a third party as a result of your product's manufacture or end use.
- Auditing your supply chain and partners for sustainability risks. This includes identifying risks specific to particular countries, sectors, products and ingredients to inform ethical sourcing strategies.
- Conducting a materiality assessment based on industry-specific disclosure topics as elaborated by the SASB. This should be done biannually.
- Analyzing the United Nations' 17 Sustainable Development Goals (SDGs) to determine where the business can make a positive impact.
- Revisiting current and past philanthropic efforts for social passions shared by employees, as well as those linked to company values and your core business.
- Analyzing employee diversity and inclusion policies, as well as protocols for ensuring physical and psychological safety.
- Reshaping any existing sustainability reporting to provide a more holistic picture of the business and its value drivers, including designating company-specific performance metrics linked to business strategy.
- Examining how a sustainability purpose can create value by reinforcing current brand attributes and/or becoming relevant to consumer choice.

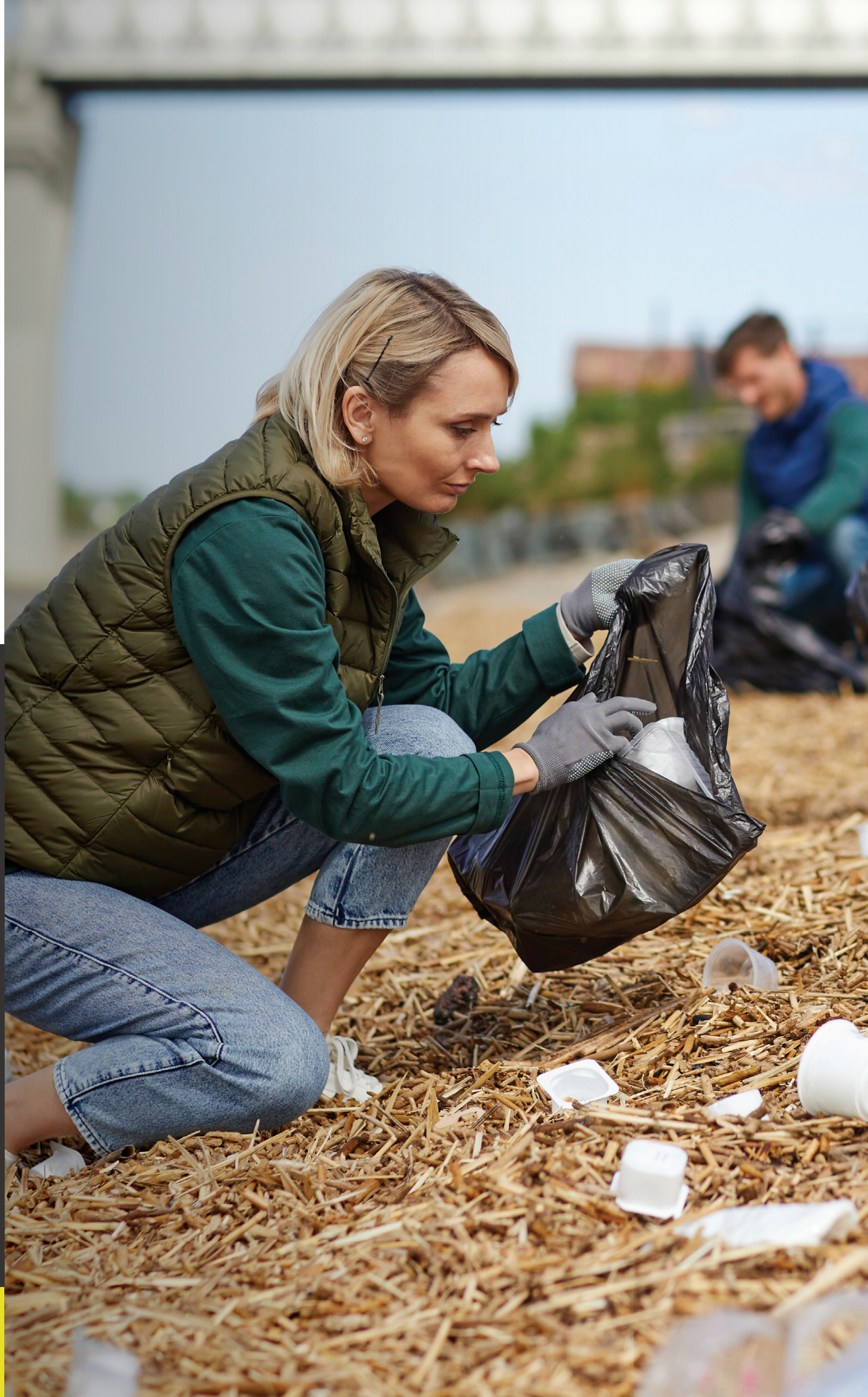
Armed with insights from a multitude of conversations and investigations, company leadership should find some clear signals with which to start building a sustainability purpose statement.

It takes time to land on the right message and theme. AvreaFoster typically guides clients through two or three rounds before parsing it down to a clear winner. However, one thing must remain consistent throughout the process: The sustainability purpose must be one for which the brand can make a material contribution. This is important to manage internal time and resources as much as it is for stakeholder opinion, lest they suspect the brand of opportunism.

DEVELOPING A SUSTAINABILITY PURPOSE.

A corporate sustainability purpose is a commitment to environmental and social good that is woven into the fabric of company culture. It's defined by being:

1. Relevant to your business purpose.
2. Aligned with business objectives.
3. Measurable.
4. Engaging for stakeholders.



Bring your sustainability story to life.

The company's sustainability purpose serves as a litmus test for all activities and communications. It sets the stage for developing detailed ESG goals, processes, policies and guiding principles. That requires multiple perspectives working under one vision.

Engaging and working in partnership with a wide range of stakeholders — including employees, suppliers, governments, NGOs and trade associations — your brand can breathe new life into communications, sales and day-to-day operations.

Moreover, experience shows that people support initiatives they help to create. By bringing in key stakeholders early in the process to help shape the narrative and structure of your sustainability program, you are also helping to cement buy-in.

With the caveat that some companies may be well established in their sustainability programs and some may just be beginning, here are some key action items to consider:

- Establish the chief executive officer as responsible for effective communications with company stakeholders.
- Form a sustainability board and committees to ensure oversight at the onset.
- Identify corporate teams that will be responsible for specific ESG materials relevant to their division and include, at a minimum, employees from procurement, marketing, investor/community relations, legal, compliance, regulatory and human resources.
- Create a cause committee using cross-departmental leaders to see that every aspect of the business has a voice in how the company can enhance its impact on social issues, especially as they relate to local communities.

Companies with effective communications don't separate sustainability from brand or financial messages. They consider sustainability equally important to their business and reflect this in messaging that is consistent, emotive and strategic.

Campaign to external stakeholders.

- Reach out to external partners and suppliers, encouraging them to help you meet your ESG standards and follow the established sustainability third-party code of conduct.
- Employ an external marketing communications strategy based on content pillars derived from the sustainability purpose. Put the company's goals into context, connecting to the brand while mitigating the type of impact relevant to its core business.
- Use social media and owned digital channels to promote progress, human-interest stories and/or education around specific issues the company is addressing through its social and environmental efforts.
- Encourage NGOs and relevant trade associations to share their perspectives and possibly co-market content.
- Engage even your most vocal critics to find common ground. They impact consumer and media perceptions and, ultimately, sales — positively or negatively.

Launch internal communications.

- Construct a sustainability brand identity with foundational messaging tied to the company's strategic goals and the role employees play in helping the company meet those goals.
- Establish an ongoing internal campaign that inspires and educates employees, including tactics that encourage engagement and makes it easy for them to do so; e.g., PTO for volunteering, good-natured competitions across the office.
- Demonstrate commitment from leadership with regular C-suite communications, create an email series from the CEO, host town halls and ensure quarterly updates from divisional leaders.
- Regularly ask for employees' feedback. Involving employees throughout the process will help generate new ideas and bring in diverse perspectives while signaling the company's sincerity.

Over half of the top 10 risks in the 2023 World Economic Forum's Annual Global Risks report were related to environment and climate change.[10]

01	02	03	04	05	06	07	08	09	10
FAILURE TO MITIGATE CLIMATE CHANGE	FAILURE TO ADAPT TO CLIMATE CHANGE	NATURAL DISASTERS & EXTREME WEATHER	BIODIVERSITY LOSS & ECOSYSTEM COLLAPSE	LARGE-SCALE INVOLUNTARY MIGRATION	NATURAL RESOURCE CRISES	SOCIAL POLARIZATION & LACK OF COHESION	CYBERCRIME & CYBER INSECURITY	GEOECONOMIC CONFRONTATION	LARGE-SCALE ENVIRONMENTAL DAMAGE

[10] The Global Risks Report 2023, World Economic Forum, January 2023

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Maintain your sustainability momentum.

While ESG is a tool for measuring and reporting on environmental and social indicators, it is also a process for communicating the social and environmental effects to stakeholders. Therefore, eliminating metrics well into the process isn't an option. It signals to all stakeholders, and especially investors, that the company is insincere in its commitment to sustainability — that it has not improved results, or worse, that it has done harm.

Pick your sustainability platform and metrics carefully (there's a good deal of information in the index of this guide to help you do that). Also, resist the urge to over-promise results. Short-term thinking is the bane of sustainability. So, take the long view and slowly work toward incremental improvements year over year.

Your results regarding sustainability need to be, well, sustainable.

Global events in recent history have accelerated the sense of urgency with regard to reporting and proactive communication, and we don't predict that will be changing for the foreseeable future.

Companies must consider non financial risks and ESG factors, so here are some factors companies should take into account as they plan ESG reporting that aligns with the contemporary mindset:

- Companies should prepare to provide disclosure of their corporate resilience, including contingency planning, stress testing of the decision-making structure, and similar crisis-planning items.
- As supply chain disruption becomes an issue of indefinite duration, stakeholders likely will demand more durable supply chain networks. In addition to diversifying suppliers to eliminate dependency on any one region or population from which to procure critical elements, companies also must work to shorten their supply chain and include redundancies to demonstrate they can withstand market shocks.
- Formalize strategies to shield employees from disruptions to normal work. These might include robust work-from-home programs, broad medical insurance coverages, substantive furlough programs and community-based charitable giving.
- Collaboration, trust and mutual support have proven vital to withstanding economic uncertainty, no matter the cause. It is important for companies to show their commitment to building a caring culture. Equally important, companies that engage employees from a diverse talent pool demonstrate higher performance levels — something investors always enjoy seeing.

When world-leading companies state their vision for the start of the next decade, sustainability and environmental action are central.
Here are a few examples:

- Citigroup to halt all financing for thermal coal mining by 2030.
- General Mills commits to 100% renewable electricity by 2030.
- Shell plans to achieve net-zero emissions across its product manufacturing operations.
- Campbell Soup to transition to 100% recyclable or compostable packaging by 2030.
- BNP Paribas accelerates "complete coal exit" plan.
- Intel's 2030 commitments include "shared" climate and social goals.
- Caterpillar to reduce absolute greenhouse gas emissions from operations by 30% by 2030.
- Carrier has committed to reducing their clients' collective carbon footprint by over 1 gigaton by 2030.
- Target has committed to achieving a 30% reduction in absolute supply chain emissions by 2030.

Uncertain economic times have certainly accelerated demand for companies to demonstrate they have a long-term strategy in place to respond to various market disruptions, whether it is climate change, supply chain challenges or other similar risks in our globalized economy.

Reporting annually against ESG factors is a great way to do that, but future trends may require companies to report more frequently, sharing the economic, environmental and social impacts of day-to-day business activities.

It is clear that businesses no longer can maintain their continued growth without accounting for their impact on society and the environment. Stakeholders demand it.

More urgently, we know that our current way of living is unsustainable and that corporations have a vital role to play in protecting our ecosystem. As business leaders and citizens, we must ask ourselves, *"What did we do once we knew?"*

> "We don't inherit the Earth from our ancestors. We borrow it from our children."
>
> NATIVE AMERICAN PROVERB

Sustainability Terms & Trends

There are several sustainability reporting frameworks, including Global Reporting Initiative (GRI), SASB, Carbon Disclosure Project (CDP), and TCFD (all defined more clearly in this index). These all aim to guide companies on how to measure, assess and report on ESG initiatives, as well as identify risks and opportunities. These are also efforts underway to try to harmonize these different frameworks and standards (see the Corporate Reporting Dialogue on the next page.) However, until the establishment of one central global authority, we believe it is wisest to follow in the footsteps of the world's largest investor groups, which currently lean toward the following:

- **Structuring a sustainability story in an ESG format**
- **Incorporating SASB standards across a wide range of issues, from labor practices to data privacy and business ethics**
- **Using the TCFD framework for evaluating climate-related risks and governance issues**
- **Aligning SDGs where they are financially material**

For clarification and further edification, we've provided some highlights of frequently used terms and outlined their impact on corporate sustainability today.

Carbon Disclosure Project (CDP)

The CDP was founded in 2000 with the goal to create a "global economic system that operates within sustainable environmental boundaries and prevents dangerous climate change." The organization aims to make environmental reporting and risk management a business norm. The idea behind that is if businesses considered disclosure as part of its core responsibility, it would be possible to transform capital markets. Since 2002, when it officially launched its environmental disclosure program, more than 8,400 companies, 800 cities and 120 states and regions have used the CDP to report on their climate, water and deforestation impacts.

Circular Economy

Based on the principles of designing out waste and pollution, keeping products and materials in use and regenerating natural systems, a circular economy is a systemic approach to economic development designed to benefit businesses, society and the environment. Rather than simply managing waste, a circular economy is regenerative by design and aims to gradually decouple growth from the consumption of finite resources. Concepts reflect a process that retains as much value as possible from products, parts and materials and works to mitigate the climate impact of continually manufacturing new products. Experts suggest that the circular economy could generate $4.5 trillion of additional economic output by 2030, which is a central driver for growing popularity in sustainability programs and reporting.

Corporate Reporting Dialogue (CRD)

Sustainability reporting can be complicated and certainly seems intimidating. That's why, in 2018, the CRD was formed by members of different ESG reporting groups, including CDP, CDSB, FASB, GRI, International Accounting Standards Board, International Organization for Standardization, and SASB. The organization's goal is to find parallels in standards and, where possible, simplify the process for issuers. The CRD is pursuing a two-year initiative known as the Better Alignment Project to make disclosures more coherent and reporting easier for businesses.

ESG Reporting & Ratings (ESG)

ESG is one of the most popular structures for sustainability reporting and is likely to continue to grow as investors continue to demand it along with ESG ratings (see also GRI). Environmental criteria includes the energy your company takes in and the waste it discharges, the resources it needs and the consequences for all humans as a result. It encompasses carbon emissions and climate change. Social criteria addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. This includes labor relations, diversity and inclusion. Governance is the internal system of controls and procedures your company has in place to govern itself, make effective decisions, comply with the regulations and meet the needs of stakeholders.

Global Reporting Initiative (GRI)

ESG ratings are in high demand as more investors and additional stakeholders want to see tangible progress. The GRI standards, which are issued by the Global Sustainability Standards Board (GSSB), set out universally accepted principles for ESG reporting. The organization's standards feature a modular, interrelated structure and represent the global best practice for reporting on a range of economic, environmental and social impacts. You can download the GRI Standards to better understand key concepts and disclosures.

Sustainability Accounting Standards Board (SASB)

SASB is a nonprofit organization founded in 2011 to work with a large investor advisory group to determine the material ESG factors on which companies should be updating investors. In 2018, SASB launched its 77 industry-specific reporting standards. The investor advisory group has continued to expand, and so too has the number of companies using the SASB materiality index (usage has more than doubled in one year). It's worth noting that all 77 industry-specific standards aren't necessary for reporting. In fact, only about 28% of participating businesses feature full adoption. The other 72% report using only the SASB standards that are relevant to their industries. As SASB is now exploring three new areas — human capital management, online content moderation and single-use plastics — there is little doubt that the nonprofit's materiality index will continue to grow in use.

Sustainable Development Goals (SDG)

While the 17 SDGs were adopted by world leaders in 2015, they have been slow to adopt them in reporting. However, investors last year saw a 124% increase (since 2015) in companies referencing and reporting on SDGs. This signals a rise in sustainability reporting as much as it does use of the SDGs. Built on decades of work by varying countries and the U.N., the 17 SDGs represent a call to action across environmental and social issues, including climate change and working to preserve our oceans and forests, improve health and education, reduce inequality and poverty — all while spurring economic growth. A substantial portion of the SASB materiality index maps to SDGs, which can help identify industries in which SDGs are most likely to be financially material, and subsequently support those businesses wishing to incorporate SDGs into reporting efforts.

Task Force on Climate-Related Financial Disclosures (TCFD)

Consisting of 31 members representing a broad swath of the G20, and chaired by former New York City Mayor Michael Bloomberg, the TCFD develops guidelines for voluntary climate-centered financial disclosure. Formed as a means for coordinating disclosures, the organization is charged with considering "the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries." Since the initial 2017 publication of its recommendations, the TCFD has published two additional status reports addressing progress that has been made, including the conclusion of a three-year review of the more than 1,000 large companies across sectors aimed at determining how companies disclose climate-related risks and how that reporting has evolved. The TFCD continues to stress that as companies complete consistent, reliable disclosures related to climate-based risks and opportunities, markets will be better equipped to evaluate, price and manage those risks. Further, companies will be better able to evaluate their own risks as well as those related to business partners, and investors will be able to improve decision-making regarding the allocation of capital. In 2019, SASB and the CDSB issued an Implementation Guide for TCFD, designed to help companies address the demand for more data about their exposure to climate-related financial risks and opportunities.

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