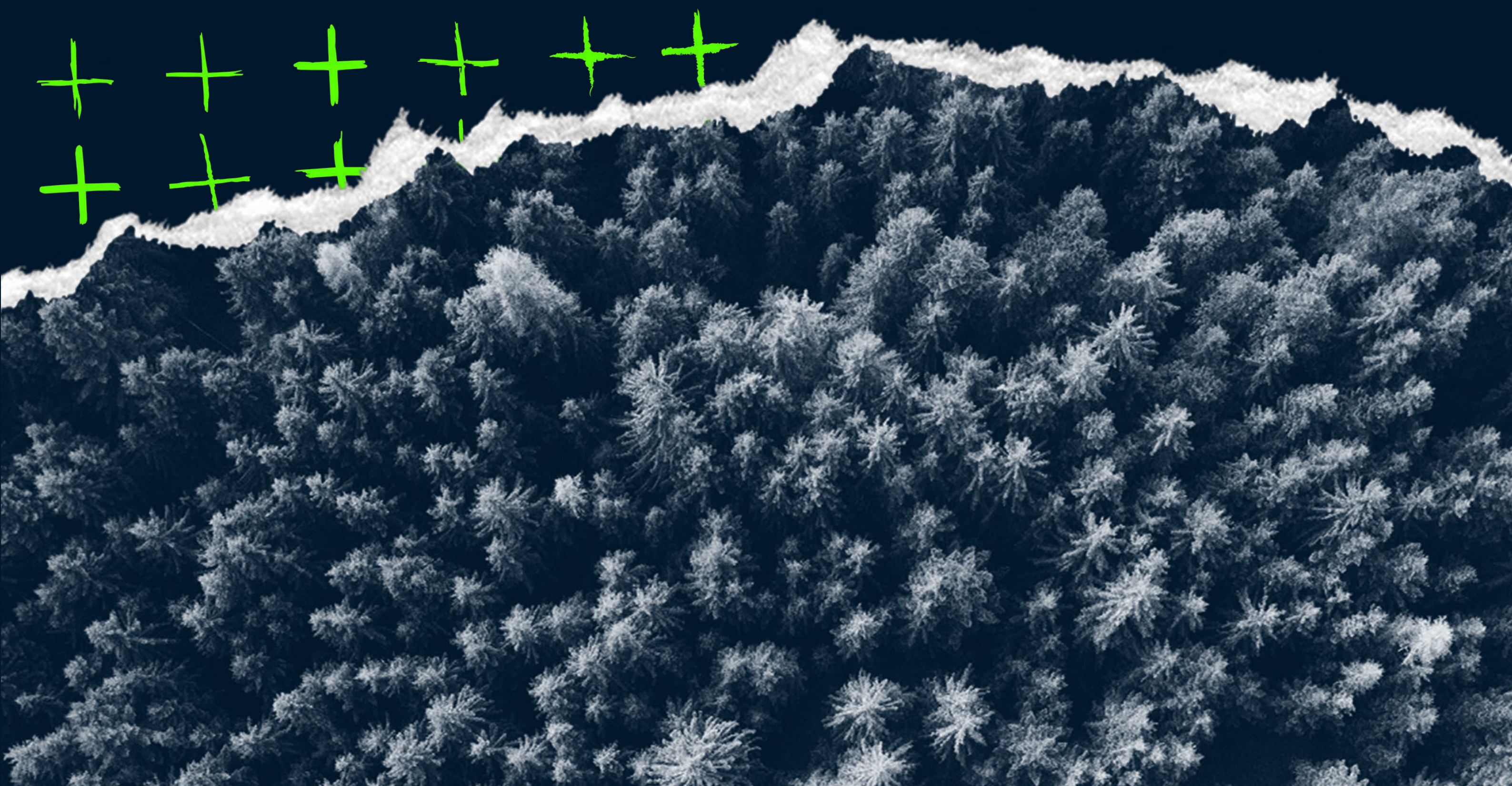
FUTUREPLUS | Relative INSIGHT

# Analysing ESG: **Revealing differing attitudes to sustainability through how we talk**



# INTRODUCTION

Sustainability is more than reducing our negative impact on the environment. It seems simple to say, yet the word has become shorthand for measures adopted by all types of institutions seeking to be 'greener'.

While protecting the planet is a critical element of safeguarding the future, it's still only a part of the puzzle. There are other intersecting aspects that are vital for businesses, governments, and other organisations to consider if they truly want to be sustainable.

The sustainability of an organisation is made up of a myriad of business decisions, policies, and programmes which come together to form its impact. In other words, the imprint (be it positive or negative) it has on local and global communities.

Sustainability is often labeled as 'ESG' or 'environment, social and governance' by the finance community, and the common trend is to oversimplify sustainable impact so that it frequently misses out on two particular areas - the 'S' and 'G' in ESG. Although they follow 'E' (environmental impact) in their acronym, an organisation's social and governance impact is far from being less important to its overall positive imprint.

E
ENVIRONMENT

S
SOCIAL

G
GOVERNANCE

# INTRODUCTION CONT.

The social impact decisions that businesses make, directly and indirectly, affect not only their immediate workforce but also a much wider sphere of groups, including local communities, consumers, as well as society at large.

Likewise, good governance ensures that companies are able to achieve sustained value creation and long-term prosperity for all stakeholders.

Companies, investors, and policymakers who ignore either of the above themes further fail to understand the interrelation that exists between them.

However, there is still a lack of meaningful analytical intelligence around ESG and sustainability data and outcomes, making it difficult for businesses to align themselves with a model that works for them. This leads to arbitrary processes of 'doing less bad' or - worse - to opaque acts of greenwashing, which fail to create meaningful change.

What institutions need are insights and metrics which will guide them towards optimal solutions.

**This report is the first in a series aiming to help them.**

Through a unique combination of numerical scoring and text analysis, FuturePlus and Relative Insight have begun to highlight key areas where businesses can take steps to improve their sustainability.

We emphasise areas companies can focus on to create resonance with both investors and the wider public. Our research also demonstrates why firms need to rethink what comprises sustainability – and how seemingly disparate policy areas across different business functions must be interconnected to chart a path to greater sustainability.

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# OUR METHODOLOGY

Measuring sustainability is difficult. While companies' impact on the planet and people is tangible, the metrics to track this impact are harder to define.

To provide a complete picture, FuturePlus and Relative Insight pooled resources. In this case, the full picture consisted of the **what** and the **why**.

FuturePlus, part of The Sustainability Group, identified the **what**.

The FuturePlus platform makes managing social and environmental impact accessible, affordable, and achievable for every business by qualifying companies' achievements and quantifying them using a trackable ESG ambition roadmap.

This is done through the use of the FuturePlus sustainability management platform – made up of approximately 200 indicators for micro and small businesses, and over 250 indicators for medium to large organisations.

**The indicators help business leaders to consider the practicality of sustainability in a balanced way across five themes:**

- Climate
- Diversity & Inclusion
- Social
- Economic
- Environment

For this research, we applied the FuturePlus indicators to a range of data sets to discover what language and themes companies are using when they report on their social and environmental impact, using these insights to identify areas for improvement.

After the what, comes the **why**. This requires a different type of data to properly assess: text data.

Relative Insight is a comparative text analytics software that helps organisations generate actionable insights from text data. Relative's platform combines AI-powered natural language processing with advanced comparative linguistics to analyse any source of text data and drive enhanced contextual understanding of target audiences, competitors and trends.

We conducted text analysis on a variety of sustainability-related text sources to identify how companies are talking about sustainability. By comparing firms' communications and reporting with text sources outlining sustainability benchmarks, we can understand where the gaps in their policies are and how they can become more sustainable.

**Our study consisted of three key comparisons, all of which returned fascinating insights.**

# PRIDE, RISK AND LEADERSHIP: LISTED VERSUS NON-LISTED BUSINESSES

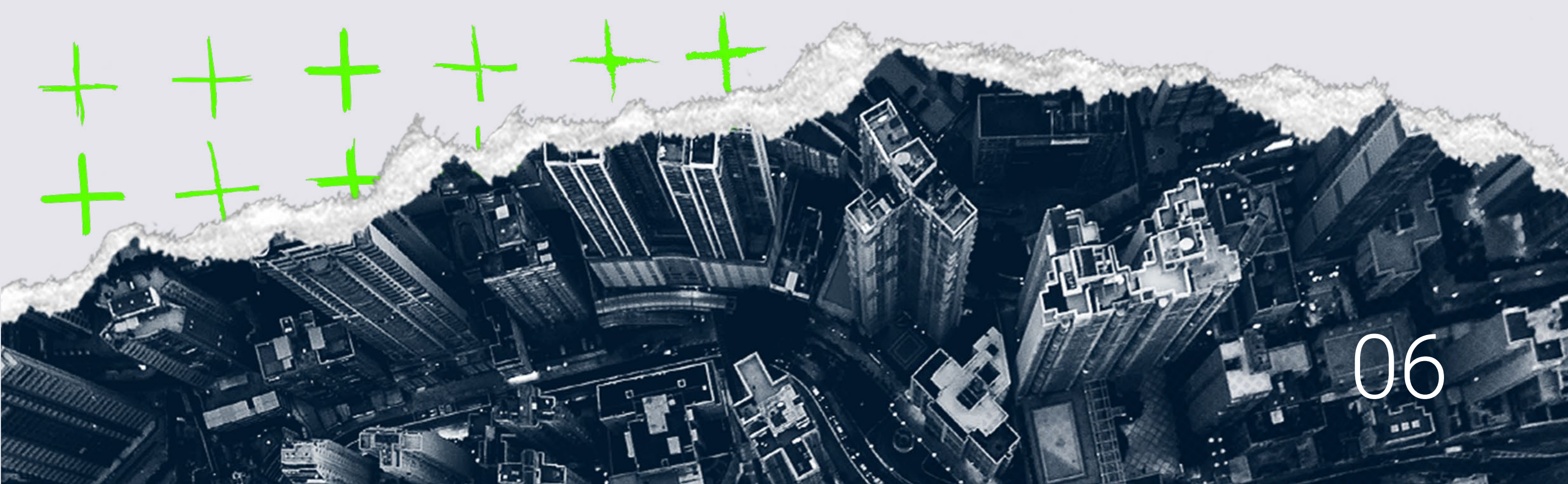
The first aspect of our research pinpoints the differences between how (larger) listed and (smaller) non-listed businesses talk about sustainability. We selected this comparison due to reporting requirements.

The Companies Act 2006 mandates businesses that are listed, exceed £500m in annual turnover or have more than 500 employees to provide an annual strategic report – of which ESG policies and priorities form an integral part.

However, smaller companies may also choose to produce these reports and highlight their priorities, despite not legally being required to.

Does this lead to big differences in what companies include in their reports?

To find out, we used Relative Insight’s text analysis software to compare 30 ESG reports from large, publicly listed UK businesses, and 30 ESG reports from smaller, non-listed UK firms – a total of over one million words. While these documents seem broadly similar on the surface, conducting research through text analytics uncovers the nuances in the words that different businesses use – surfacing key variations in their sustainability policies.



# Pride

One key area of difference was around pride. Non-listed companies were **13.7x** more likely to use words relating to pride than their listed counterparts, particularly the word 'proud'.

PRIDE

RISK

LEADERSHIP

Given that non-listed firms are not required to produce ESG reports, it makes sense that their reason for doing so is their pride in developing policies and strategies which have a positive impact on the world around them. The fact that they are 'overreporting' also signals transparency in how they operate, or at least represents a savvy marketing tactic to appeal to investors and the public.

These choices offer non-listed businesses competitive advantages – signaling to investors and consumers that doing the right thing is within their DNA and showcasing goals and improvements in both social and environmental footprint.

**"We proudly align to the ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption."**

Of the organisations using FuturePlus, **26%** currently publish a complete and transparent annual report, while another **27%** of organisations using the platform have an ambition to do so. With very few mandated to report, this demonstrates a willingness to transparently communicate progress across social and environmental impact which is fantastic to see.

# Risk

## Unsurprisingly, listed companies had more use for a traditional corporate lexicon in their ESG reports. They were **1.9x** more likely to use words relating to 'danger' and 'risk' than their non-corporate counterparts.

PRIDE

RISK

LEADERSHIP

This use of language appears to serve two purposes. The first is to reassure potential investors that they take risk management seriously, emphasising that they're a safe bet for any potential investment.

However, this also signals that listed companies have better access to risk assessment and analysis – particularly given their enhanced budgets.

> **"We are also members of the taskforce on nature-related financial disclosures which is working to develop and deliver a risk management and financial disclosure framework by 2023."**

Smaller organisations can struggle with approaches to risk management, especially around climate change risk assessment and disclosure. This is due to smaller firms' awareness of risks often being lower, as well as their limited resources to produce comprehensive assessments of the potential effects on business.

However, since SMEs tend to be more agile than larger listed organisations, it is often easier for them to adjust to, and report at, a more granular level. Business-critical decisions on supply chain, locations, infrastructure, or core business models can bind companies to future risks, and may be both tricky and costly to reverse. Understanding these risks is key to a sustainable business model.

# Leadership

## The third area where listed companies differed significantly from their non-listed counterparts is the discussion around leadership.

PRIDE

RISK

LEADERSHIP

Larger, listed businesses are more likely to use words related to leadership, such as 'management', 'responsible' and 'control', while they use the word 'leadership' itself **1.8x** more often than non-listed firms.

**"We will reinforce the approach set out in our strategy, such as our focus on sustainable forests and human rights and labour relations and food waste and other areas that offer opportunities for us to demonstrate bold action and leadership."**

While this is language being used by listed firms who are compelled to offer ESG reports, it is more a reflection on the confidence of non-listed firms. In many cases, it is smaller non-listed companies who lead the way in terms of innovation and voluntarily setting out sustainability standards which they choose to follow.

These businesses should be more assertive in reflecting their choices - and the reasons behind them - in their ESG reporting. This will demonstrate to investors why they are the real leaders in their fields when it comes to sustainability.

# OVERLOOKED ELEMENTS OF SUSTAINABILITY

When people think of sustainability, environmental issues immediately spring to mind. However, **the environment is just an element of what it is to be sustainable** – albeit an important one.

True sustainability interlinks social and governance factors too, all of which are reflected in the FuturePlus indicators, enabling companies to chart their progress as they look to be more sustainable.

To find out just how well companies' stated positions reflect truly sustainable practices, we used Relative Insight's text analysis platform to compare different-sized firms' ESG reports with the FuturePlus indicators.

**The differences we found highlight two key areas where we believe businesses are falling short in their sustainability strategy.**

# Diversity and inclusion

While the business case for diversity and inclusion is stronger than ever (according to research by McKinsey, the most diverse companies are now more likely than ever to outperform less diverse peers on profitability), overall growth in diversity and inclusion amongst firms appears to be slow.

This is reflected when comparing ESG reports with the FuturePlus indicators, where the word ‘diversity’ appears **2.5x** more frequently and the word ‘inclusion’ **2.3x** more often in the FuturePlus assessment than in the ESG reports.

> **“Does your organisation have a comprehensive succession plan that considers diversity and inclusion in its employee development and mentoring programmes?”**

This variance highlights that businesses aren’t considering diversity and inclusion as such a key part of their sustainability strategy as the FuturePlus assessment encourages.

While this does not mean that organisations are not trying to improve D&I, it does indicate that D&I is not baked into overall sustainability strategy in a way that will ensure organisations get the best from their workforce, boosting their bottom line by bringing a wide range of views to the table.

Of the organisations using the FuturePlus platform, **52%** look for a commitment to diversity and inclusion when selecting leadership team members, though only **9%** of those who don’t seek this commitment have an ambition to do so.

# Ethics

The topic of business ethics occurs **2.6x** more in the FuturePlus Indicators, made up of words like 'ethical', 'values' and 'principles'. This is despite ethics underpinning every part of ESG.

> **"Does your organisation have an ethical risk assessment process (or support in identifying risk) when identifying new areas or regions of operation?"**

Only **26%** of organisations using FuturePlus have a comprehensive and publicly available code of ethics in place.

Good business ethics are the lynchpin that holds everything together when it comes to achieving a more sustainable business proposition.

Not only does it imply that an organisation should govern with integrity, honesty and transparency, but it also represents basic moral common sense when it comes to the way businesses treat their people, stakeholders, and the environment.

A company can have the best CSO (chief sustainability officer) out there, but if the board and c-suite aren't running a company ethically, the CSO has little chance of making meaningful change or impact.

When the idea of the "triple bottom line" was coined in 1994 by business writer John Elkington, it aimed to encourage businesses to assess performance three-dimensionally in terms of the three 'Ps' - people, planet and profit - rather than just focusing on net income.

Since its inception 25 years ago, the triple bottom line framework has been widely embraced by the business world. As mandatory non-financial reporting comes into force for an ever-increasing number of companies, transparency over the three Ps is becoming mainstream.

However, even Elkington admits that the triple bottom line has not succeeded in counteracting corporations' narrow profit orientation in the way he had hoped.

Measuring, reporting, and trading-off on a firm's environmental and social performance does not necessarily correlate with attempts to transform the ethical code a company puts (or does not put) in place.

While some companies may argue that behaving ethically is something which should not even need to be stated, they should be transparent with investors and the wider public about how they are planning to ensure ethical practices extend throughout their operations – particularly when it comes to supply chains.

# THE SAVVY PUBLIC JUDGE ACTIONS, NOT WORDS

The final focus of this research was to examine how ESG reports compared to what members of the public are discussing online when it comes to sustainability.

To find out, we used Relative Insight's text analysis platform to explore the differences between the words used in the ESG reports with how people discuss sustainability on Twitter, using UK Tweets from September 2021 to September 2022.

We wanted to highlight four main areas of differentiation between these two sources – they offer food for thought for companies looking to develop sustainability practices that resonate with the wider public.

# Climate Justice

Climate justice refers to finding solutions to the climate crisis that reduce emissions in a fair, just, and equitable way, particularly for populations in 'developing' countries now facing the challenges of global warming brought about primarily by more developed nations.

Our research found the phrase 'climate justice' occurred **29.4x** more in tweets than in ESG reports, highlighting a disconnect between companies and their consumers. While businesses may not want to publicly frame discussions around emissions in the context of climate justice, there is increasing pressure from populations to present solutions which create a more equitable world.

It's notable that online conversations around climate justice explore the true concept of sustainability, rather than simply focusing on the environment. The wider public are increasingly making the link between climate justice, social justice and economic priorities.

> **"Importantly, this isn't just a question of climate action. It's also a question of climate justice since the Ghg emissions this petition targets disproportionately affect marginalized communities."**

Tweeters also demonstrate their knowledge about the impact certain business practices have on sustainability. They understand the nuances within sustainability policy and whether demonstrative policies like offset schemes stack up with human rights policies and supply chain governance. Savvy consumers understand the difference between trying to make a difference and simply greenwashing.

Companies cannot simply say they are promoting climate justice. Engaged populations want to see the evidence. Businesses need to communicate with these people in a sophisticated way – showing an understanding of their role in the wider world and why they must set an example by making what they're doing more just and equitable.

# Offering consumers sustainable, affordable options

One thing absent in ESG reports which is critical to the wider take-up of sustainable practices is affordability.

"It's not easy, being green" applies to more than Kermit the Frog – consumers still feel sustainable options are in short supply and less cost effective.

Tweeters were **1.9x** more likely to use words relating to 'affordability' when compared with ESG reports. These discussions were focused on energy and fashion. The public highlighted that, with energy prices skyrocketing, it made even more sense to switch to renewable energy sources and to look for cost-effective ways to do this.

> **"We could do a lot nationally by changing the way energy is priced so consumers benefit from cheap renewables prices."**

In terms of fashion, tweeters were quick to highlight that, while fast fashion isn't sustainable, better long-term alternatives are inaccessible to many – mainly due to cost.

> **"Sustainability products always come as a higher cost, one way @ukgovtweets can help make it more affordable is to reduce or eliminate VAT. Period pants are taxed at 20% because they're seen as a luxury clothing item, instead of a necessary menstrual product."**

However, despite challenges around affordability, people are highlighting the small changes the public can make to lead more sustainable lifestyles. Again, fashion is a big focus for consumers seeking to live more sustainably, occurring **2.3x** more often in Twitter conversations.

> **"People that say they 'need' to buy a new outfit from fast fashion for every night out are a bit lame, tbh. We're in a climate crisis and no one is going to remember if you re-wore a t-shirt."**

# Offering consumers sustainable, affordable options

Food and diet also feature prominently in these discussions, with the public **2.8x** more likely to talk about it.

This encompasses everything from people looking to eat more sustainably sourced products through to those adopting vegan diets.

> **@tesco what sustainably caught fish can I buy from your stores? when I click on the item, I can't obviously see any information on this. I know @mcsuk have a sustainable fish guide but for a lot of fish, it depends where it is caught which isn't detailed on your products. thanks!**

Part of the reason for sharing advice and offering suggestions is that the public doesn't see enough leadership on the issue from businesses. They were **2.7x** more likely to use the word 'them', with tweeters taking an 'us' versus 'them' mentality against companies when it comes to sustainability.

> **Instead of sneaky leaks to irresponsible profit-prioritising water companies, captive consumers should collectively remind them of their culpability.**

In the public's mind, companies need to step up. They want to live more sustainably, but it is not something they can do on their own. There are too many barriers to do this at present – with many consumers feeling disenfranchised..

Businesses looking to lead on sustainability need to ensure that the sustainable option is the easiest, the most affordable and the most attractive. If they are unable or unwilling to do this, we'll see greater evidence of the last facet of difference between reports and the public.

The onus is also on companies with a 'sell fast, sell cheap' business model to rethink their modus operandi. Unless we start to place more value on the raw materials, resources and labour involved in producing products, we've little hope of moving away from the extractive, throw-away culture that prevails in many societies today.

# Urgency and emotion

While it is unsurprising that the general public use more emotional and urgent language when compared to ESG reports, the scale of the disconnect between the two highlighted by our analysis demonstrates the gulf between the sense of urgency expressed by the public to tackle sustainability-related issues, and companies' policies.

People talking about sustainability online used a wide variety of emotional language, including 'greed' **(88.4x)**, 'disappointment' **(28.8x)**, 'selfishness' **(19.8x)**, 'fear' **(16.4x)** and 'frustration' **(2.2x)**.

"

**The levels of carbon dioxide in the atmosphere are higher than at any time in the past 2 million years. Those fossil fuel companies responsible have worldwide received staggering daily profits of £ 2.3bl for the last 50 years. Greed is killing the planet.**

"

The strength of feeling expressed by tweeters highlights how far many businesses (along with other institutions) need to go to assuage concerns about the direction of sustainability globally.

There is also an urgency to these discussions, which is not reflected in ESG reports. The public are **24.1x** more likely to use the phrase 'climate crisis', and **36.3x** more likely to talk about the 'huge impact' of unsustainable practices.

"

**You really want to help? Declare a stop on all new fossil fuel projects and invest in renewables. You've known about climate change for decades but have put profit ahead of people and planet.**

"

While change can be a slow process, businesses need to reflect that they understand and are responding to this urgency when communicating their policies, plans and actions with the public. The latter is critical.

The urgency in their use of language highlights that people have run out of patience with institutions' lack of action when it comes to creating a more sustainable world. Saying what you are doing, rather than demonstrating it, will lead consumers to resort to the most dismissive insult of all when it comes to sustainability: greenwashing.

# Greenwashing

## Misleading the public and investors about an organisation's sustainability has become more vilified in the court of public opinion than not talking about it at all.

Consumers have become savvier at spotting when companies are looking to misrepresent their commitment to sustainability to exploit the rising demand for sustainable products and services. They're becoming increasingly aware of companies' overall contribution to the world around us – meaning they won't be swayed by one limited offsetting campaign.

Fascinatingly, of organisations using the FuturePlus platform, less than **1%** consider, measure, and reduce the climate and environmental consequences of their advertising and marketing campaigns. This is despite research showing that **77%** of people globally say that, within five years, they only want to be spending money with brands who use green and sustainable advertising.

The word 'greenwashing' was very apparent in online conversations, with the public happy to name and shame brands which were inauthentically adopting sustainability initiatives to tap into the "green pound", rather than to help solve the problems facing the world.

> **"It's quite concerning that the main engagement with environmental issues by the public seems to be brands greenwashing. Whilst yes, it's a big problem but that's not even the tipping point of environmental, political education."**

Returning to sustainable fashion, the Competition and Markets Authority's (CMA) review into firms' potentially misleading advertising of 'recycled' clothes is one reason why consumers are becoming cynical about brands' sustainability pledges. The CMA found that companies were not offering any specifics about which products these claims related to, nor any information about the basis for these claims.

This focus on greenwashing demonstrates that companies must find the right balance when looking to improve their sustainability. Unsubstantiated marketing from brands trying to 'do the right thing' is counterproductive. It's better for organisations to move slowly and deliberately than potentially mislead investors and the public by promising too much.

# Businesses must take the lead – authentically

Businesses have the opportunity to take ownership of all aspects of sustainability.

At a time when the public are looking for leadership on the vast range of issues which make up what is to be sustainable - and finding this sort of direction lacking from other institutions - companies of all sizes must step up to the plate.

**However, they must do this authentically and holistically.**

That means considering every aspect of what makes a business sustainable, rather than simply pigeonholing it as being 'environmentally-friendly'. Making positive change across all areas is vital – even if you wouldn't initially class them as sustainable.

You must also be invested in any changes. The public are savvy enough to understand the difference between superficial sustainability initiatives to exploit conscious consumers and businesses looking to effect positive change and become more sustainable while doing so.

These takeaways are true for both listed and non-listed companies. While non-listed, generally smaller businesses might not think they have the budget to be leaders in this area, their agility means adopting sustainable practices might be far easier than for listed firms with ingrained policies and processes.

Sustainability is a journey. The first step on that journey for businesses is to understand that sustainability encompasses every aspect of their being – helping them to embed sustainable practices throughout the organisation.

# **Ready to step up?**
# Let's chat:

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