

EMBRACING THE ESG PARADIGM SHIFT 'ESG PREPAREDNESS CHECK' BY FINSBURY GLOVER HERING

ESG

A PARADIGM SHIFT UNFOLDING

The coming-of-age of ESG (environment, social, governance) has catapulted sustainability considerations from being a minor consideration and compliance exercise to the centre of corporate strategy. As companies' core stakeholders – investors, customers, talents, and regulators (influenced by society at large) – are all simultaneously raising their expectations, business leaders must navigate a fundamentally different environment. To secure stakeholders' support, they must compellingly explain how they seek to (re)align their business model, strategy, and operations according to ESG principles.

More than 80 percent of Europeans agree that companies should be held legally responsible for environmental aspects and human rights in their supply chains.

Survey by YouGov across nine EU countries, October 2021

At the moment, environmental sustainability (the 'E') is front and centre. The UN climate conference, COP26, is an impressive example of this. There, the role of companies not only in reaching net zero themselves, but in driving the regulatory and political agenda, has been subject to much discussion.

However, the 'S' and 'G' considerations are also increasingly in the spotlight of stakeholders – from supply chain scrutiny to non-discrimination. Numerous new transparency requirements on business activities and supply chains add to the pressure. They broaden the exposure of companies to a wide range of stakeholders and make it increasingly difficult for businesses to hide.

EMBRACING ESG

GENERATING COMPETITIVE ADVANTAGE, MITIGATING RISKS

The new paradigm applies to all companies, irrespective of size, geography or industry – from emission-heavy industrials to retailers and platforms. It is true however that companies in the public eye, notably those with a global carbon footprint, are under particular scrutiny.

Companies that embrace this paradigm shift can not only reduce their risk profile and cost base but turn ESG leadership into material competitive advantage: by attracting capital, winning and retaining talent, fostering customer loyalty and enhancing policy influence.

There is growing evidence that
ESG-leading companies benefit from
10 percent lower cost of capital.

McKinsey, podcast, 2020

Companies that do not seriously address these developments risk their long-term license to operate and leave themselves exposed to activist campaigns that can quickly spiral out of control and create disproportionate reputational and business risks:

'IMPACT LITIGATION'

Lawsuits against companies which fail to make a sufficient contribution in the fight against climate change have made headlines and sent shockwaves through boardrooms globally. And this measure will be enforced soon: upcoming EU regulation is expected to include a strict civil liability regime to make companies, and even directors liable for ESG wrongdoings with respect to their supply chains. In addition, the German Supply Chain Act will give NGOs and trade unions the opportunity to represent affected workers in court. Even before the actual lawsuit, the handing over of claim letters or letters of discontinuance creates a court of public opinion and represent a substantial reputational threat for the affected companies.

PUBLIC SCRUTINY

Campaigns against companies, often initiated just by a single NGO or social movement, have the potential to quickly gain momentum and to put immense pressure on the companies affected. Naming and shaming may result in demonstrations, calls for consumer boycotts or online campaigns, all of which carry significant reputational and commercial risks for a targeted company. These may come with repercussions for sales figures, recruitment and talent retention.

ESG-FOCUSED SHAREHOLDER ACTIVISM

Investors themselves are subject to ESG scrutiny. They must show that their portfolios are green (or greening) and that their talk about investor engagement with companies is serious. Investor engagement – and scrutiny – will become significantly more robust and intense. Even small shareholders can force the hand of corporate boardrooms, as recently demonstrated with energy supply companies. Even if these kinds of campaigns are not successful in themselves, they pose a significant reputational risk for businesses.

ENSURING PREPAREDNESS

'ESG PREPAREDNESS CHECK' BY FGH

Business leaders must ask themselves if they have the strategy, narrative, messaging, and approach in place to face this new paradigm – and if they are prepared for potential ESG activism. The following questions might serve as a guideline:

- | How is our company perceived in terms of ESG by our stakeholders?
- | How is our company perceived compared to peers?
- | What are our key risks, including legal vulnerabilities, what are potential areas of differentiation?
- | Do we have science-based ESG targets and a stringent implementation roadmap in place?
- | Do we raise (enough) awareness for our ESG strategy and milestones among key stakeholders?
- | Is our communication strategy closely interlinked with our business and legal strategies?
- | Is our leadership personally committed and engaging with (critical) stakeholders?
- | Are our ESG ambitions understood among employees and becoming an integral part of our corporate culture?
- | Do we have scenarios and action plans at hand to react to potential issues and attacks quickly and effectively?

Finsbury Glover Hering offers 360° ESG support – from in-depth insight generation and benchmarking to creating and implementing stakeholder engagement strategies, to building resilience and crisis response, as well as promoting policy and system change.

As a conversation starter, Finsbury Glover Hering offers an initial 'ESG preparedness check', bringing in an independent, stakeholder-based outside-in perspective. Jointly contrasting the expectations of key stakeholders' evolving requirements (outside-in) with your perspective on your company's ESG achievements (inside-out) can give you a sense of where potential blind spots are and how they can be addressed proactively.

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