From marginalised to ‘mainstreamed’: Reputation management in the era of ESG

September 2022

Executive summary

We spoke to highly experienced professionals in the field of corporate communications and sustainability to understand how the fast-developing ESG agenda is affecting reputation management.

We discovered that ESG has had a major catalysing effect on reputation management, bringing good practice in from the sidelines to the centre of business strategy and activity. As the paper outlines, it is also creating better issues management governance, changing the stakeholder conversation and evolving the communications function.

Both through soft interventions (the rapidly changing social dialogue) and hard interventions (regulations, ratings and investment), ESG puts the focus on organisations doing good business. Organisations should evolve and improve in these areas, not only because it helps long-term profits and to meet regulatory compliance, but because it is in the interests of stakeholders and society at large.

Our view is that the two are intrinsically linked. Get ESG right, and you are well on your way to protecting and enhancing your reputation. Get it wrong, and you can damage your brand and erode stakeholder trust in your organisation.

Most encouragingly, we picked up a general positivity about ESG and its effect on organisations and beyond. Whilst it comes with risks, like greenwashing, which need to be identified and managed, it is viewed generally as a positive development. As with anything that helps organisations focus on their key asset – their reputation – this is to be wholeheartedly welcomed.

Bobbie Ramsden-Knowles,
PwC Reputation and Resilience Leader, PwC UK

Andrew Griffin,
The Griffin Consultancy

Introduction

A step change is underway in reputation management. In depth conversations with a number of corporate affairs, sustainability and communications leaders reveal that the relatively new era of ESG (managing environmental, social and governance within business operations) has moved reputation firmly into the mainstream of corporate considerations.

We interviewed senior corporate communications and ESG specialists to uncover how organisations are changing – or need to change – to successfully manage reputation in the era of ESG. These insights are explored, with recommendations, in this document.

ESG and the mainstreaming of reputation management

The evolution of reputation management has been slow to adapt to a changing corporate environment. But that's shifting. What started out being framed negatively – managing an issue or crisis to protect your hard-won reputation – gradually became more positive, with organisations creating governance to see decisions and strategies through the lens of reputation. Reputation largely remained a 'check' in the system, called out separately and differently. At best it was distinct, at worst marginalised.

ESG has not only elevated the importance of reputation; it has mainstreamed it into the business and aligned it with external need and demand.

Interviewees cited four reasons why ESG is driving change:

Progress on issues is seen as the right thing to do for society and for the organisation.

It comes with regulation: organisations not already on the right path will be steered there by a broadening regulatory landscape and financial penalties for falling foul of this.

Stakeholder and societal expectations have evolved to the point where to do anything other than embrace ESG as a positive driver of corporate development would be a strategic mistake.

The fact that ESG is rooted in ethical investment has moved reputation up the agenda and into the C-suite and Boardroom, quantitatively linking it with valuations, share price and financial performance.

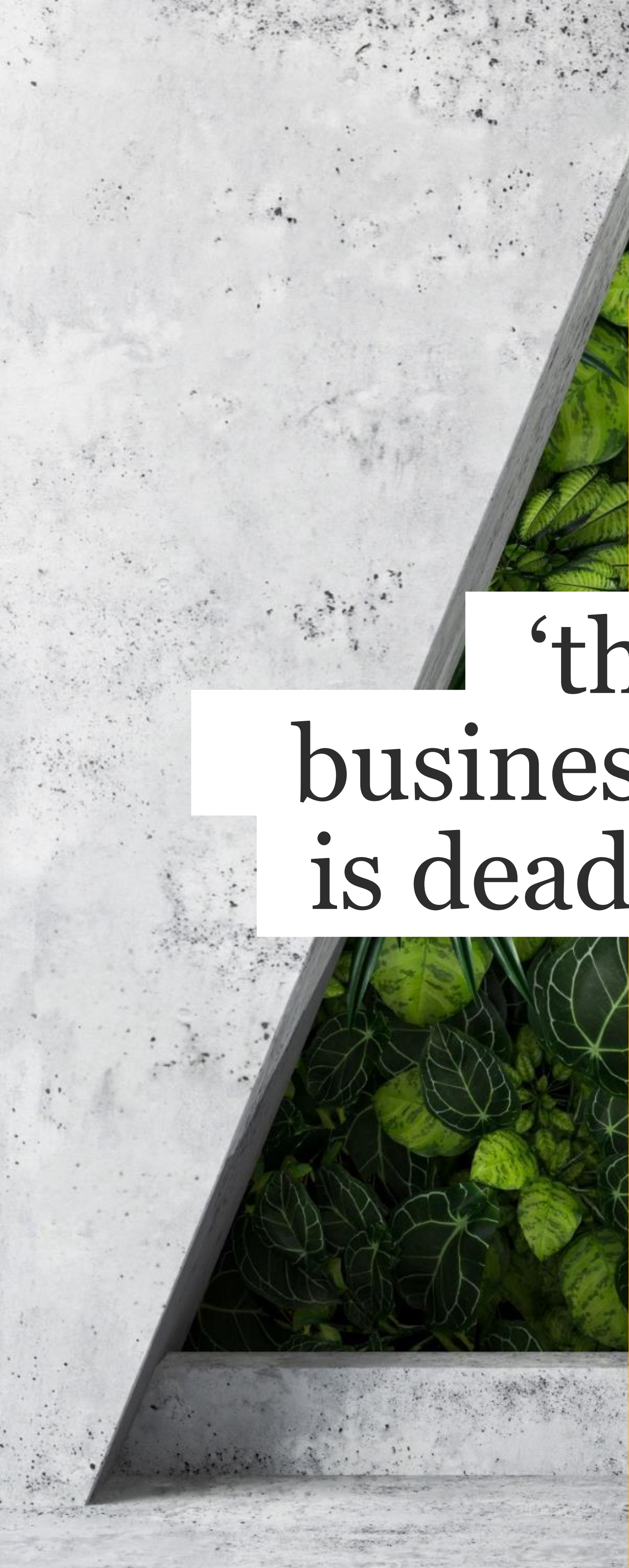
“

More recently I’ve had less of a focus on reputation and

more of a focus on running a good business.

That’s a significant sea change from the past where it was all about reputation and issues management and coming up with a strategy that would protect you.

ESG Lead, luxury automotive industry



“

Friedman’s maxim of

‘the business of business is business’ is dead in the water.

There is now a societal expectation that businesses play a proactive and legitimate role in the pursuit of good.

Head of Issues Management, oil and gas industry

Insights: ESG driving reputation up the corporate agenda

Following our interviews, we identified five insights into the shifting sentiment around reputation management in the era of ESG:

01
Reputation management: integral to the G of ESG

02
While organisations are finding their purpose, they face a crisis in confidence

03
Speaking truth to power: the changing role of the communications function

04
Stakeholders have never been more engaged

05
Communicating progress ahead of perfection

'I no longer have to ring a big bell to say there could be a problem here and to get senior people to take action' said one Head of ESG and Corporate Affairs, who reported that his company is now properly allocating resources, harnessing executive attention and showing commitment to proactively address a roster of issues rather than 'hoping no one notices and having a reactive plan in place if things go wrong'.

Indeed, what used to be called 'issues management' or 'reputation risk management' has become so deeply ingrained in many organisations that it is now seen as core business. 'I don't have to sell this proposition like I did 15-20 years ago', said another.

The mainstreaming of reputation management and embracing the need to drive progress on ESG issues has resulted in a greater commitment to organisation, governance and reporting. Many interviewees described cross-functional teams with a clear remit to make a difference on one of a number of identified and prioritised issues. One described 'agile working groups' comprising, at a minimum, a business subject matter expert, along with legal, investor relations and communications representatives.

These tend to be more than mid-level working groups. Respondents stressed the seniority of membership. 'Each of our working groups has a C-suite level executive champion who is accountable for reporting on the issue' said one, whilst another stressed there is a 'highly connected' board of directors working with an ESG executive steering committee which comprises the CEO's direct reports.

Many respondents stressed such governance was relatively new, with one new-to-post ESG lead saying that when she arrived at the company she found 'lots of technical expertise and compliance involvement' but no one who was 'bringing this all together and reporting it up to the Board'. That now happens monthly, with the Board focusing as much on future strategy and change as on current compliance.

'The company secretary participates in many of our working meetings, representing the Board' reported one interviewee. 'You don't want to undermine the Executive Team but getting Board awareness and attention is priceless.'

With such senior attention, inevitably comes stronger reporting and tighter metrics.

Interviewees mentioned the creation of 'comprehensive trackers' and 'ESG dashboards' that are often driven by a target set on a given ESG issue. The Board doesn't want to hear about 'general floaty stuff', said one respondent, 'they want to see that we are actually moving from A to B'.

Finally, and crucially, the days of a slow and ponderous approach to managing the big societal issues of the day are over: 'We used to have an issues management group that met every two months, we'd read 40 page detailed documents, and pass decisions to another group for messaging. The immediacy of these ESG issues has changed so we need to be on a new and faster wavelength'.

Our view

Getting the architecture right – including senior sponsorship and Board involvement – is a prerequisite to managing reputation issues in the era of ESG. There is no room for an ad hoc approach in which a disconnected roster of issues compete for senior attention. Securing the direct involvement of the Board is easier than ever before and comes largely from a sense of personal and collective exposure on some of the governance issues within ESG.

The newly created or improved structures need to be agile and productive because time is of the essence. While the reporting metrics are evolving and a unified reporting framework for ESG is yet to be introduced, it's clear that organisations must walk the talk, actively manage reputation issues, and make actionable, meaningful and measurable changes to the way they operate.

Insights: ESG driving reputation up the corporate agenda

Following our interviews, we identified five insights into the shifting sentiment around reputation management in the era of ESG:

'All positions and strategies [on ESG issues] need to be thoroughly considered, but sometimes you have to pick a side and weather the storm'. This interviewee encapsulates a key shift: the scope for corporate diplomacy in often highly polarised ESG issues has become limited.

Almost all interviewees told us their organisations had a 'purpose' statement which was driving decision making and activity. This helped them define when it is – and isn't – appropriate to lean in on certain issues. Some, however, admitted that their organisations were still struggling to find the confidence to communicate, primarily because they were not used to the spotlight or having a voice on potentially controversial topics. This itself is a risk, with one saying that 'in terms of reputation we were showing up poorly on rankings and ratings mostly because we hadn't shared anything externally'. She added that her company needed to be swift and decisive: 'we don't necessarily want to be the first one out to say something but we also want to make sure we're not the last, so we are trying to find that sweet spot to be able to protect ourselves whilst showing leadership.'

Another respondent agreed with this sentiment, telling us: 'our ethos is we're very cautious. As a private company we're reluctant to go out and talk about what we're doing on one issue in case somebody points a finger at another. We don't do any communications around what we're doing. We want to change that.'

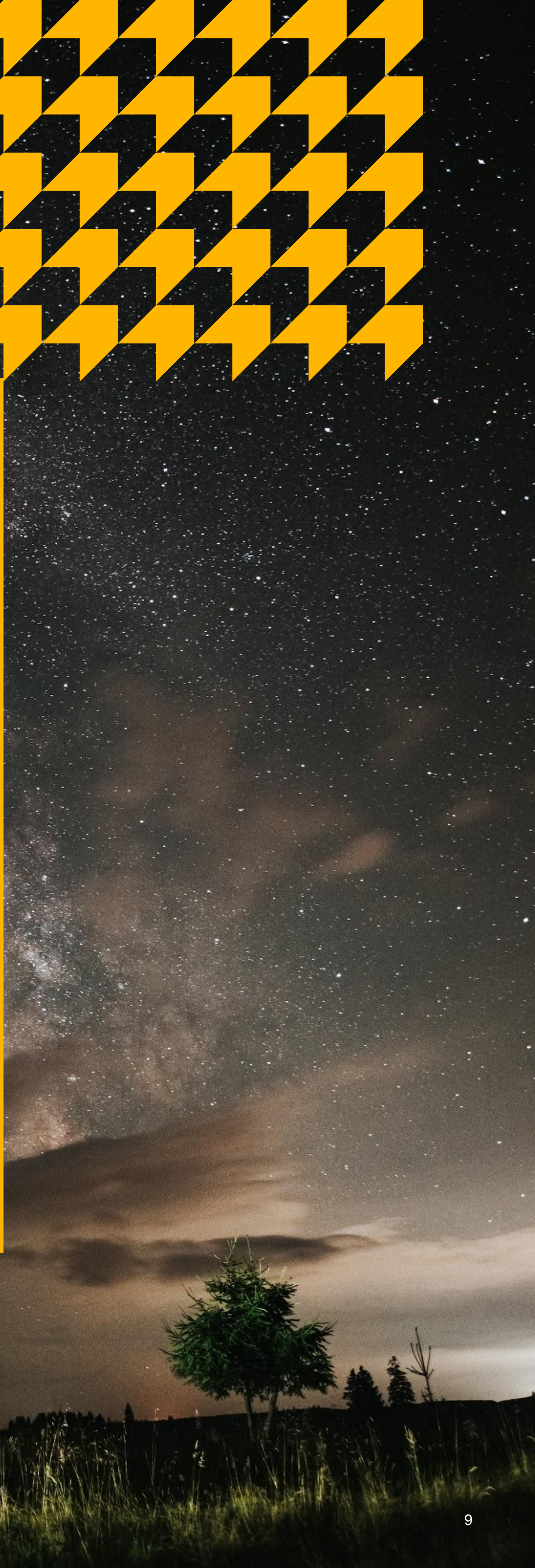
Others accept that taking a stance means taking a risk. 'Doing nothing or doing things slowly is a risk in itself. Better to be confident and resilient', said one interviewee who went on to explain that the senior leadership needed to be hand-held through this change. Another stressed the need for bravery in reputation thinking, saying that transforming an organisation with ESG in mind was 'going to upset some people both internally and externally'. She said the answer was to be proactive in communications, stressing the organisation's purpose and making sure stakeholders felt included and involved.

On highly polarising issues, where companies previously considered 'risks and opportunities', they are now having to consider 'right and wrong' – no easy feat when different stakeholders may have conflicting demands on an organisation. The former is an internal consideration, the latter is a societal one, and requires courage.

One respondent took the bravery point further, saying that organisations needed to engage on controversial issues proactively even if they were not themselves 'pure and clean' on the matter. On certain issues, he said, it was almost impossible to state with confidence that your organisation is faultless. But in a 'binary world' it is hard to get this message across. As one leader stated: 'you might not like what we say completely, but it's honest, it's considered and it's authoritative. You know what we stand for, we say what we mean and we do what we say.'

Our view

Organisations should articulate their purpose and use this to drive their ESG programme and reputation. Once agreed, let it be your ‘north star’ and follow it bravely, knowing that to truly transform on ESG issues, you must be resilient to criticism and pressure. Companies that wait for all their ducks to be in a perfect row before engaging may be perceived as behind the curve or uncaring. Organisations also need to exercise this bravery when they do get things wrong, being unafraid to admit their shortcomings and being honest and transparent about the steps they are taking to address these.



“

I think it goes with
the territory

I don’t think an organisation can transform without being brave.

In a way if it doesn’t
feel like you're pushing
yourself in a space that
feels unfamiliar, you’re
probably being
too cautious.

Sustainability Lead,
independent commercial business

Insights: ESG driving reputation up the corporate agenda

Following our interviews, we identified five insights into the shifting sentiment around reputation management in the era of ESG:

01
Reputation management: integral to the G of ESG

02
While organisations are finding their purpose, they face a crisis in confidence

03
Speaking truth to power: the changing role of the communications function

04
Stakeholders have never been more engaged

05
Communicating progress ahead of perfection

'We always thought of Corporate Affairs as enablers', explained one interviewee, 'but now, with the focus on ESG, they get to be involved in delivering a programme with an end-to-end spectrum of activities'.

While ESG programmes are often directed by sustainability specialists, our interviews found that the communications function is increasingly being involved 'upstream' on key ESG issues. Having advocated for this for some years – understanding that reputation is built or lost in the business decisions and strategies rather than in the communication of them – the function is now itself needing to evolve to adapt to its new positioning. Describing this as a 'really healthy position', one interviewee added that, while it had not happened overnight, the changing role of communications professionals in issues had accelerated rapidly. 'Before it was all about: 'what happens when we get caught out on this particular issue?' Now it's more about identifying what the things are in the business that need to get done.'

With this new positioning come new responsibilities and requirements, with one respondent arguing that communications professionals needed to be 'more strategic' and 'systems thinkers', while another encouraged colleagues to respond to the need to be 'ESG literate, with all the nuances and command of details inherent in that'.

There is a risk inherent in the function failing to evolve. The traditional communications role of honing, tightening and simplifying messages on complex issues can now result in a perceived lack of authenticity and seriousness or even false claims. 'It used to be that, if we could tell a good story, get our messages right, have a few proof points of actions we're taking, we would see our way through issues. Now we need quantitative measures in place to show that we're making an impact.'

The change is not just happening 'in function'. The tidy separation of functions no longer seems optimal in managing ESG issues proactively and positively. Our dialogue with industry professionals found instances of sustainability, public affairs, investor relations and communications working almost interchangeably on issues, often under common leadership in restructured corporate affairs and ESG units. This reflects the fact that ESG issues, as one interviewee put it, 'cut across the organisation and need to be far more than skin deep'. There was associated scepticism of 'ESG Communications' or anything that looked like a shallow public relations exercise: 'anyone who thinks ESG is just about PR-ing what you do is missing the point entirely'.

Mature communications functions don't need more 'talking point writers' according to one respondent: 'they can't just explain the business position. There needs to be a really thorough look around saying 'are we doing it right or are we doing it wrong?' And if we're doing it wrong then we need to go and change the business'. Another interviewee added that communicators 'need to be comfortable speaking truth to power. Communications people are often seen as the facilitator, trying to manage conflict down. But sometimes conflict is needed to resolve an issue'.

Our view

Communications professionals, who have always had a role in understanding external perceptions and likely reactions to strategy, need to bring this thinking upstream on issues and up the organisation to help bring about the change that ESG demands. The style as well as the role of communications professionals requires evolution. In an increasingly complicated world with complex challenges, communications professionals must be able to understand the issue and the opportunity and frame it so that different stakeholders have the messages they need, but also to act as the sentinels of transparency and truth, being empowered to challenge the business if they feel things are not being done properly. Just as corporate diplomacy is making way for a braver approach on key issues, communicators are needing to find their courage to call out what they believe to be inconsistencies, failures and greenwash.

Insights: ESG driving reputation up the corporate agenda

Following our interviews, we identified five insights into the shifting sentiment around reputation management in the era of ESG:

01
Reputation management: integral to the G of ESG

02
While organisations are finding their purpose, they face a crisis in confidence

03
Speaking truth to power: the changing role of the communications function

04
Stakeholders have never been more engaged

05
Communicating progress ahead of perfection

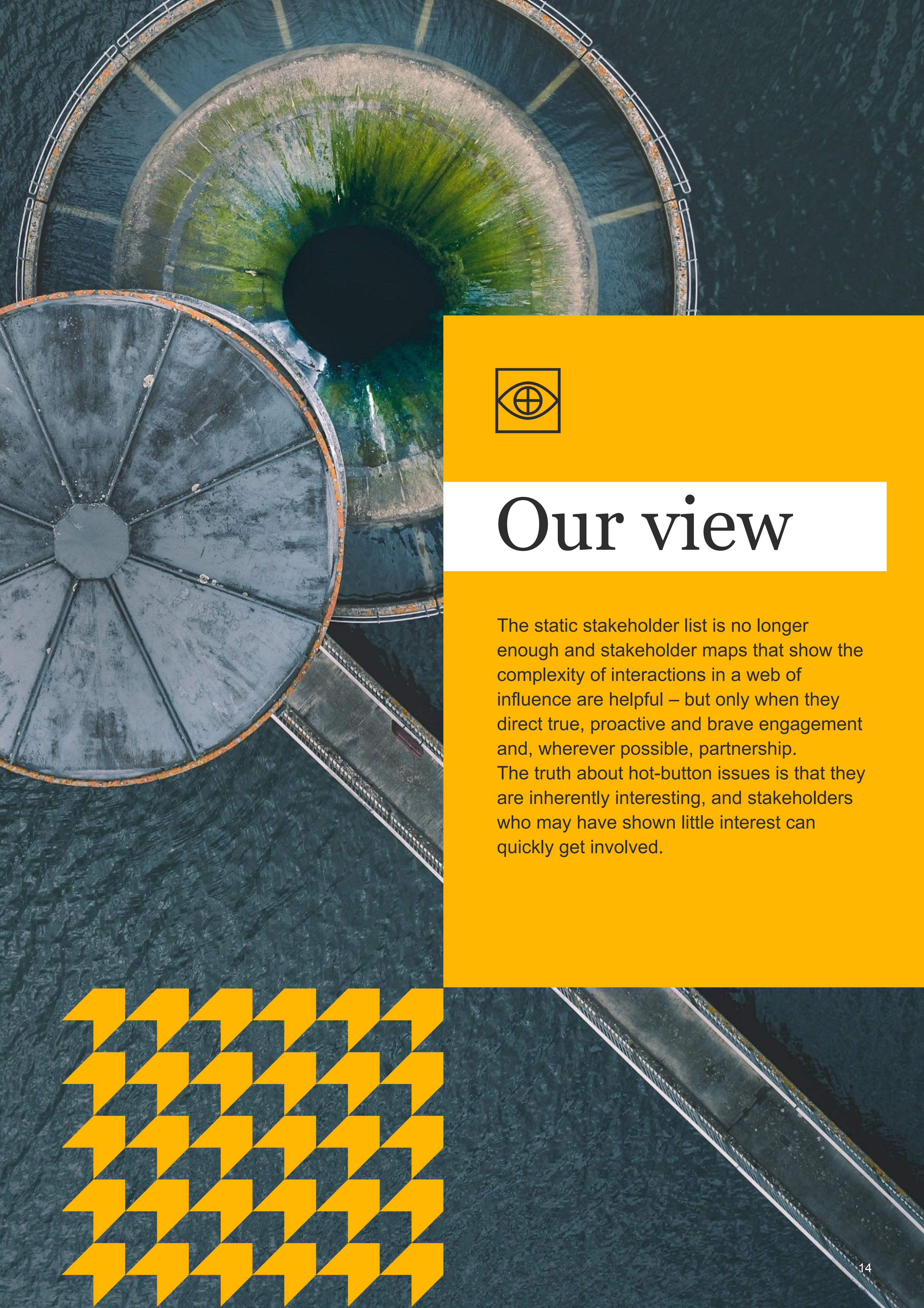
'The days of businesses defining their own stakeholders has come to an end, especially with social issues.' This quote encapsulates the sentiment of our interviews, with respondents agreeing that the era of neatly categorised lists of those who 'might be interested in our issue' feels outdated.

This doesn't mean stakeholder mapping is no longer useful; respondents were clear that ESG means more, not less, corporate thinking time and planning on understanding stakeholder needs and stakeholder engagement. But it does mean that stakeholder engagement needs to be agile and reflective of a web of interconnected parties. It also means that, on social issues in particular, 'you no longer have mastery of your own destiny; it will be picked for you'. Active and determined stakeholders 'have all the means to dial you into an issue whether you like it or not'.

This 'dialling in' goes both ways. One respondent discussed the 'mistake' of assuming that some stakeholders are not interested in a particular topic and can therefore be 'taken off a list'. 'You can't make assumptions. It is better to engage and validate where they are rather than fail [to engage].' Another agreed, saying that he wanted his organisation to actively make sure stakeholders know the position of the business: 'you have to go out of your way to placate, meet, address, respond to stakeholders and at times reach out to them before they've even expected it.'

Stakeholder engagement is now most certainly a two-way street, with an organisation's stakeholders watching you as much as you are watching them. 'Many are looking for particular responses in content, tone and volume' explained one interviewee, referring to the 'right and wrong' way in which some ESG issues are perceived. 'If they feel the responses are missing, the possibility is that the business will be seen to have misstepped and then the problems start to mount.' Another respondent stressed, however, that ideally this is not seen as a conflict, with 'sides' eyeing each other up mistrustfully. Done well, it can involve finding partnerships where you never thought you'd find them: 'this is all about how you're partnering to solve big environmental and societal challenges so it really is turning issues and reputation management on its head'.

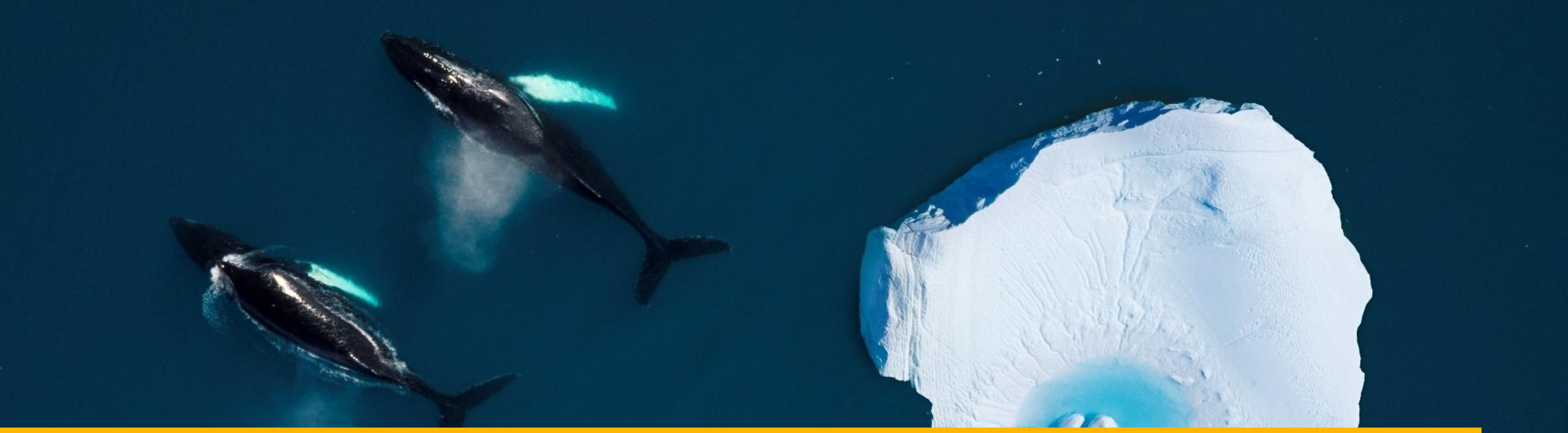
One thing many agreed on was the consumer being the 'newly active' stakeholder in the mix. Consumers have always been on the stakeholder map; they are, after all, the stakeholders that buy or use an organisation's products and services. But whereas before some organisations regarded the (real or perceived) disinterest of consumers as permission not to change, consumer interest and action on major issues such as climate change have given new impetus to efforts to directly engage them as interested and powerful stakeholders.



Our view

The static stakeholder list is no longer enough and stakeholder maps that show the complexity of interactions in a web of influence are helpful – but only when they direct true, proactive and brave engagement and, wherever possible, partnership.

The truth about hot-button issues is that they are inherently interesting, and stakeholders who may have shown little interest can quickly get involved.



Insights: ESG driving reputation up the corporate agenda

Following our interviews, we identified five insights into the shifting sentiment around reputation management in the era of ESG:

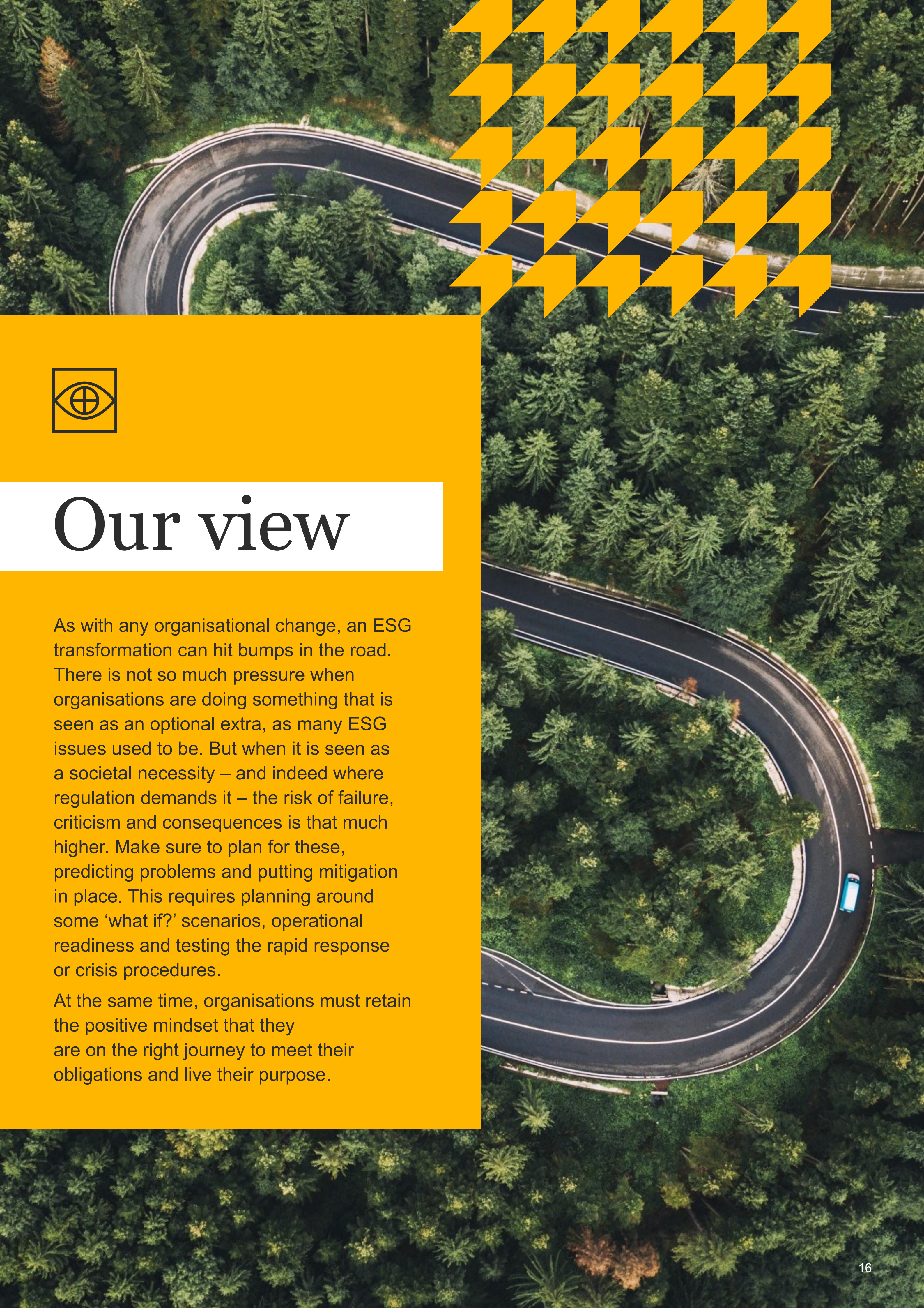
'If you are exaggerating your performance or your credentials, you deserve everything that's coming to you. That's where ESG and reputation come together negatively'. As this interviewee notes, activities under the banner of ESG are not without risk. They often constitute significant organisational transformations which, as any major programme lead will tell you, rarely go off without a hitch.

Perhaps the most obvious ESG transformation risk is the failure to meet expectations of society or your own targets. One respondent felt that, when economic times are getting tougher, some companies will inevitably 'slow the rate of progress or put things off until next year'. That, he said, will require 'extremely careful communication at the very least' which will be received in a context of heightened scrutiny. Another interviewee agreed with this sentiment, adding that 'you have to be transparent about what you're doing and be absolutely clear about the progress you're making, much more so than back in the days when you could just communicate your way out of an issue'.

Greenwashing is another area of risk now being called out. Respondents understood why some companies are tempted to communicate on an ESG issue, even when the credentials are not there. Some need to be seen by investors, employees, customers and others to be a leader. But respondents were unequivocal in warning companies not to 'over-hype' anything, make 'spurious claims' or 'take short-cuts'. One added that 'none of this is easy, none of it is an overnight transformation. It really requires you to look hard at every aspect of your organisation'. Get this wrong and it isn't just reputation at risk; recent fines for misreporting or greenwashing are on the rise.

Honesty and transparency in reporting starts with good metrics, and our survey found some lack of confidence in the numbers. One respondent reported that 'we have a problem across the business around data… we either have the data but we don't have confidence in it or we don't have the data.' Another stated that the data was not in the formal state she wanted it to be in, which just leads to a potential crisis of confidence both internally and – more worryingly – externally.

These risks do not mean organisations should tone down their ambition to avoid failing to meet expectations; it means being ready for transformation issues as part and parcel of the ESG journey.



Our view

As with any organisational change, an ESG transformation can hit bumps in the road. There is not so much pressure when organisations are doing something that is seen as an optional extra, as many ESG issues used to be. But when it is seen as a societal necessity – and indeed where regulation demands it – the risk of failure, criticism and consequences is that much higher. Make sure to plan for these, predicting problems and putting mitigation in place. This requires planning around some 'what if?' scenarios, operational readiness and testing the rapid response or crisis procedures.

At the same time, organisations must retain the positive mindset that they are on the right journey to meet their obligations and live their purpose.

Summary

Reputation and ESG are intrinsically linked. Organisations increasingly understand that, without credible ESG policies, promises and positions, their reputations are vulnerable. They are also aware that the transformations required to meet the demands of ESG present reputation risks along the way.

But ESG is as much about opportunity as about risk: the opportunity to create a purpose that aligns with societal expectations, and to improve business performance and reputation in delivering it. Those interviewees whose organisations were further along the ESG journey were far more positive about the benefits of the restructuring, rethinking and re-evaluation of the business which, at earlier stages, seem like huge challenges.

In one sense, the concept of reputation is so entrenched in ESG that it almost doesn’t need calling out. As one interviewee put it, 'we talk less about reputation and more about the risks of not making ESG progress'. Most, however, see reputation as a useful lens through which to see ESG decisions and actions: get ESG wrong and the ‘hard-edged’ implications of regulatory fines and analyst opinion may seem paramount, but the reputational implications which play out over time are equally as damaging.

So the conclusion that ESG has ‘mainstreamed’ reputation within organisations does not mean that it has been lost or subsumed into a higher purpose; it means that reputation is more central, visible and vital than ever before.

Getting in touch

Bobbie Ramsden-Knowles

PwC UK Reputation and Resilience Partner

roberta.ramsden-knowles@pwc.com

Bobbie is PwC UK's reputation and resilience leader. She provides advice on high impact strategic risks, whether as a result of ESG issues or geopolitical, economic, financial, cyber-related events.

Pallavi Gulati

PwC UK Reputation and Resilience Director

pallavi.gulati@pwc.com

Pallavi is a crisis, issues, and reputation management specialist and the firm's Director of Reputation and Resilience. She helps global clients manage and mitigate reputation risks and build trust amongst their stakeholders.

Andrew Griffin

Founder, The Griffin Consultancy

Andrew is a specialist in crisis, issues and reputation management and is the founder of The Griffin Consultancy. An advisor to PwC, he brings a wide range of experience from over 20 years of working with the world's largest and most trusted companies.

pwc.com

RITM9296135