RESET
OR RETREAT?

The Ipsos ESG Council

Introduction

There is little doubt that society's expectations of corporate behaviour are evolving.

The challenge facing all companies is to adapt to this changing environment whilst balancing the concerns of a variety of stakeholders. The Ipsos ESG Council was established by Ipsos Corporate Reputation as a forum for senior sustainability leaders from leading global organisations. With their insights, we can evaluate ESG's current and potential impact, both in the corporate landscape and on wider society.

We express our sincere gratitude for our Council Members' generous contributions of time and their candid exchange of perspectives on the multifaceted challenges and possibilities in the ESG arena.

I hope you enjoy this second edition of the ESG Council Report. Please get in touch about any of the issues we have covered, or if there's anything you'd like us to explore in future reports.

Milorad Ajder
Global Service Line Leader
Corporate Reputation

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Foreword:
Navigating the Evolving ESG Landscape

The global landscape of Environmental, Social, and Governance (ESG) is in constant flux, presenting both unprecedented challenges and exciting opportunities for businesses.

Foreword by **Sue Phillips**
ESG Global Lead, Ipsos

The second **ESG Council Report** from Ipsos Corporate Reputation provides expert insights into the current state of ESG, drawing on a survey of more than fifty global sustainability leaders.

Our goal is to equip you, as ESG leaders and fellow experts in sustainability, with the knowledge and strategic thinking needed to navigate this complex terrain and drive meaningful progress.

This report moves beyond the headlines proclaiming the "death of ESG." While some companies may have recalibrated their approaches, what we saw in 2024 did not represent a retreat from responsible business practices, but rather a necessary "reset" for long-term viability and impact. Time will tell if the events of early 2025 have a significant long-term impact.

Informed by in-depth interviews with ESG Council Members, the report delves into the core issues shaping the future of ESG:

1. **The continued politicisation of ESG:** ESG remains a political battleground, particularly concerning diversity, equity, and inclusion (DEI) and climate action. We examine the pressures companies face and offer strategies for navigating this divided landscape, including aligning ESG initiatives with core business values, balancing stakeholder interests, and strategically managing communications.

2. **The rocky road from Ambition to Practice:** ESG is transitioning from corporate aspiration to practical, integrated strategies embedded in day-to-day operations. We explore how companies are prioritising ESG investments, focusing on strong governance as the foundation for effective action.

3. **ESG's value creation imperative:** Demonstrating the return on investment (ROI) for ESG initiatives is crucial for securing buy-in and continued support. We discuss best practices for measuring and communicating the value of ESG, including integrating ESG metrics into financial decision-making and leveraging both quantitative and qualitative data.

4. **The need for Authenticity:** In an era of heightened scrutiny, ESG efforts must be authentic to a company's mission and values to avoid accusations of "greenwashing." We examine the importance of credibility in both action and communication, and how companies can build trust with stakeholders.

5. **Sustainable business practice is here to stay:** Looking ahead, we explore the evolving challenges and opportunities shaping the future of ESG, including the role of technology, particularly AI, in enhancing ESG performance, and how ESG can move beyond lofty ideals to deliver tangible business value.

The insights presented in this report are not merely theoretical observations; they are grounded in the real-world experiences of ESG leaders who are grappling with these challenges daily. By understanding the current state of ESG and the strategies employed by leading companies, you can better position your organisation for success in this evolving landscape. This report is your guide to turning ESG challenges into opportunities, driving positive impact, and creating long-term value for your business.

Current Priorities and Challenges:

Reset or Retreat?

You could say the wheels were already in motion. Headlines in prominent business publications in 2024 hinted that the focus on responsible business was waning.

Articles titled "ESG Poster Child Unilever Waters Down Green Pledges,"[1] "Who Killed the ESG Party?"[2], and "Global retreat from green standards gathers pace"[3] painted a concerning picture of corporate disengagement.

Thanks to the re-election of Donald J. Trump, such headlines now appear prophetic. Each day in early 2025 seemed to bring news of another US corporate behemoth scaling back DEI or sustainability commitments, while on his first day in office, Trump signed an executive order to again pull the US out of the Paris climate agreement. But before Trump's win, companies had been adapting and refining their approaches to responsible business, not turning their backs entirely. A complex interplay of factors, including sustainability goals, profitability, and shareholder expectations, had driven a recalibration, and a necessary reset for long-term ESG viability and impact.

The Financial Times likened ESG investments to the dotcom boom, warning of a potential bubble burst,[4] and propagators of the demise of ESG pointed to the fall in the number of ESG funds in recent years. While seemingly alarming, this shift was partially attributable to the US Securities and Exchange Commission's (SEC) amended Names Rule, implemented to combat greenwashing. This amendment required ESG funds to ensure that at least **80%** of their investments aligned with their ESG label, prompting some sponsors to remove the ESG label rather than restructure their portfolios. This in itself was not indicative of a decline in responsible investing, but rather a move towards greater clarity and transparency.

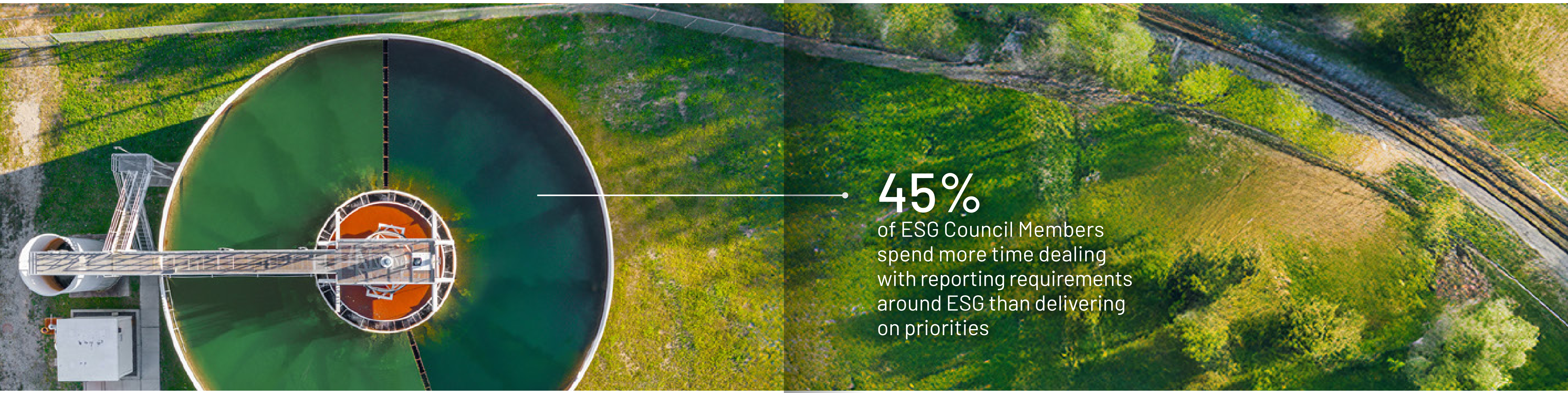
In fact, the distinction between traditional and ESG investors has blurred in recent years, with significant overlap in their priorities. This integration of ESG considerations into mainstream investment strategies appeared to underscore the enduring relevance of responsible business practices.

> *"The category of socially responsible/ESG investors almost no longer exists, because the conversation is at least three-quarters overlapping between traditional investors and those investors."*

Then came Trump 2.0, and what has been termed a 'cultural shift' in boardrooms in the United States. Ahead of his inauguration, it was reported that some of the US's largest businesses pulled their DEI policies, ditched targets for better racial and gender equality in senior roles, and dropped racial equity training, while financial institutions stepped away from groups focused on achieving Net Zero by 2050.[5]

Such radical changes beg the question of what this means for ESG more broadly in the US, and across the globe. Is this a large-scale retreat, or simply a reset? Here, with the help of our Council Members, we will seek to provide a balanced perspective, and consider the broader context and bigger ESG picture, rather than focusing entirely on the events of a few months.

1 'ESG Poster Child Unilever Waters Down Green Pledges,' *Bloomberg*, 19 April 2024.
2 'Who killed the ESG party?' *Financial Times*, 16 July 2024.
3 '"Very concerning": BP dilutes net zero targets as global retreat from green standards gathers pace,' *The Guardian*, 13 October 2024.
4 'The unsustainable hype around ESG,' *Financial Times*, 9 June 2024.
5 'Is corporate America going Maga?' *Financial Times*, 14 January 2025.



45%
of ESG Council Members spend more time dealing with reporting requirements around ESG than delivering on priorities

ESG Gets Real

NGOs and sustainability professionals have long advocated for ESG's full integration into business strategy. According to our Council Members, this has largely been achieved: 90% agree that ESG is fundamentally changing business practices, and 98% collaborate with other departments to embed sustainability.

However, initial ESG strategies were often theoretical, not practical, developed in isolation from day-to-day business operations. They overlooked commercial realities, reporting burdens on sustainability teams, and the impact of global events on target achievability.

38%
say one department offering an objection to a proposed initiative can derail the entire program

"ESG used to be much more of a communication exercise, but it has evolved to be more about actions and initiatives."

Even Unilever miscalculated how challenging some of its commitments would be to achieve, as CEO Hein Schumacher admitted last year: *"When the initial targets were set, we may have underestimated the scale and complexity of what it takes to make that happen."*[6]

Despite positive attitudes towards collaboration, ESG implementation faces difficulties. Nearly **4 in 10** Council Members report that departmental objections can derail initiatives, resistance that typically stems from practical challenges, such as resource constraints and escalating reporting requirements, or dynamic global supply chains and volatile economic conditions. Such challenges hinder effective implementation and prevent companies from translating ESG commitments into tangible action, and necessitate constant adaptation of ESG strategies.

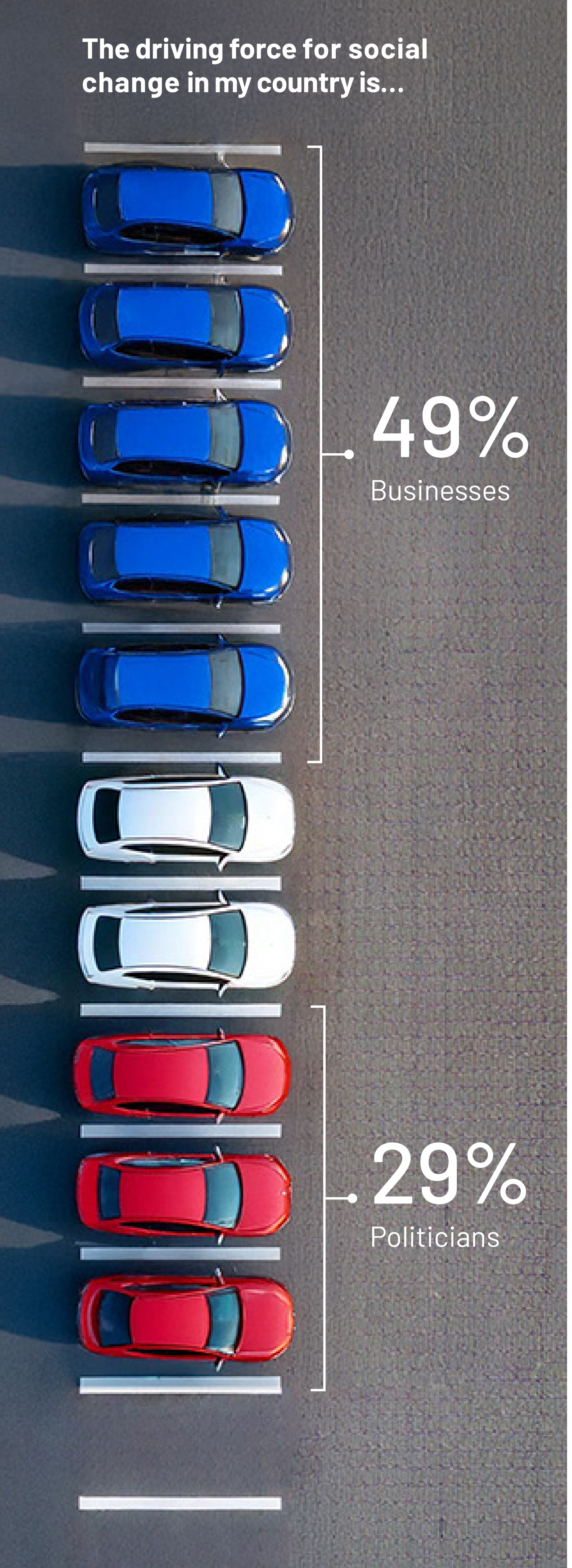
"I think the key word is collaboration... We will not achieve sustainability results alone."

Overcoming these obstacles requires executive buy-in and a cultural shift where ESG is integrated into all departmental operations and decision-making, supported by clear communication, training, and incentivised performance.

Before Trump's re-election, the recalibration of targets, often portrayed as "watering down" commitments, had been a pragmatic response to these challenges, balancing ambitious goals with the realities of global operations and shareholder expectations. Time will tell whether the more recent changes are similarly practical, more opportunistic, or downright cynical.

"To integrate sustainability goals seamlessly into our overarching strategy... can be challenging due to conflicting priorities and short-term profit pressures. Therefore, I need to maintain open dialogue with key stakeholders at the board and executive level to demonstrate how sustainable practices can drive long-term value and growth."

6 'Unilever says new laxer environmental targets aim for "realism",' *Financial Times*, 25 April 2024.



Cause for Optimism?

Despite these bumps in the road affecting progress against many organisations' ESG goals, Council Members remain bullish about the important role that ESG has to play in business today.

They believe that businesses are leading the way in driving social change in their country, and as such, advocate for an organisation's right to speak up on social issues. In fact, for all the media commentary about a growing 'woke backlash', there are several indicators to suggest that many key audiences remain receptive to, and more favourable towards, responsible businesses.

70%

Disagree that it is safer to say nothing on social issues than risk the potential reputation damage

Consumer Demand

In a world flooded with information, misinformation and disinformation, more consumers than ever expect companies to align with their worldview. Ipsos' 2024 Global Trends[7] report found that **70%** tend to buy brands that reflect their personal values, a figure that has risen from **53%** in 2013.

70%

Global consumers who say they tend to buy brands that reflect their personal values

7 'Global Trends Report,' *Ipsos*, 2024.

8 'Exploring Sustainability and Employee Experience: A study of four major Financial Services Institutions,' *Ipsos Karian and Box*, 22 May 2023.

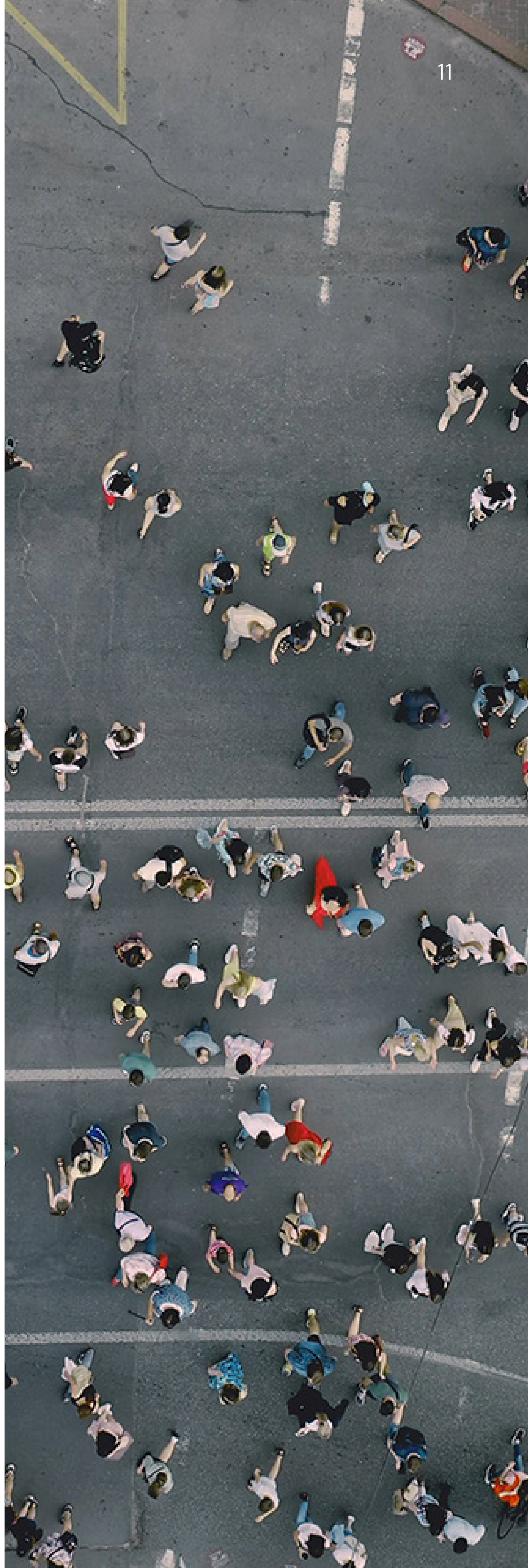
Employee Advocacy

People want to work for a responsible business. Ipsos research[8] carried out in the financial sector in UK and Ireland in 2022 found that sustainability played a significant role in boosting employee pride and advocacy, especially when supported by visible activity. A similar sentiment is held by several Council Members, who see talent retention and recruitment figures as tangible ways to assess ESG's return on investment.

6x

Employees are six times more likely to promote their organisation as a great place to work if they believe sustainability-related communications are backed up by actions

"The ROI [on our ESG efforts] can be on our recruitment and retention, you can see some actual financial implications of that as well as just the war on talent."



Stakeholder Interest

Stakeholders are receptive to sustainability narratives, and only **one in six** Council Members struggle to effectively communicate these stories. This indicates a strong willingness among the people responsible for shaping policy, and developing and implementing legislation, to engage in dialogue with businesses about how they are run, how they're reducing their environmental impact, and what they're doing to contribute to an equable society. Despite recent events in the US, the narrative around ESG continues to shift from one of mere compliance to a genuine dialogue, and businesses that actively seek input to shape their sustainability strategies have an opportunity to build greater trust with stakeholders.

Investor Appetite

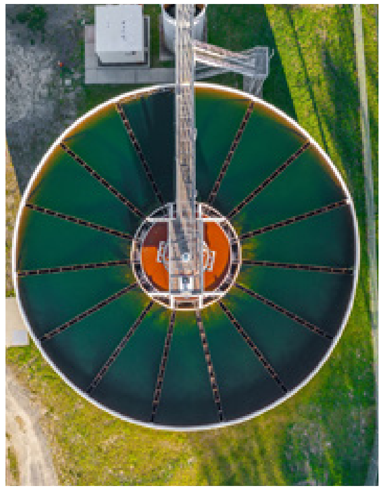
Yes, even investors remain engaged with ESG, particularly in Europe. While the US has seen a decline in ESG-labelled funds, Europe, in contrast, accounts for a massive **84%** of global ESG assets and has witnessed consistent inflows into sustainable funds, reaching nearly $9 billion in the first quarter of 2024. Furthermore, the performance of ESG funds has been robust, with some outperforming traditional funds in 2023, achieving median returns of **12.6%** compared to **8.6%** for conventional funds. This positive performance, coupled with decreasing costs for European ESG funds, further reinforces investor confidence, and suggests continued growth in the European sustainable investment market.

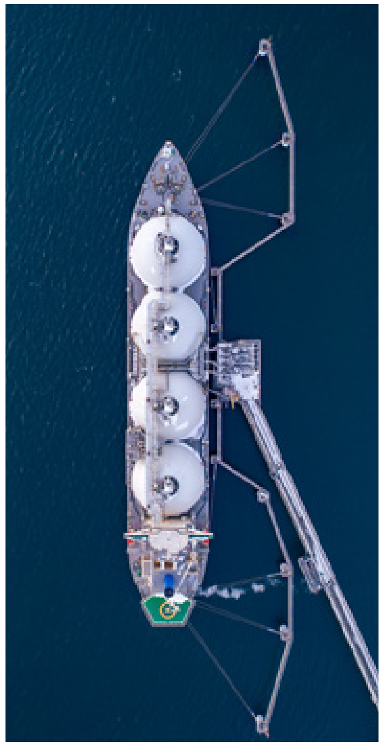
A Make-or-Break Year

ESG continues to influence talent acquisition and retention, brand loyalty, stakeholder relationships, and, in plenty of markets, investor appeal. But facing the dual forces of slow economic growth in many European economies, and political expediency in America, 2025 is a pivotal year. The onus will be on people like our Council Members to demonstrate how ESG can remain critical to long-term value creation and building a sustainable future.

ESG Strategies

Developing and implementing a successful ESG strategy is no easy task. Considering the depth and breadth of potential ESG initiatives, sustainability leaders today need to ensure that they prioritise issues that are relevant for their company and the stakeholders they serve, in areas where they have an authentic and credible voice, and where they can be effective at driving impact.





Perhaps the most critical aspect in today's operating environment is the evaluation of risk – both the risks inherent in the goals and targets that companies publicly communicate, and the risks of inaction.

"There's now a recognition of the costs of inaction... the repercussions of not acting can be significant in terms of reputation and the bottom line."

As global sustainability leaders consider the development and implementation of ESG strategies, there are several tasks that guide the process and ensure that it is a comprehensive and collaborative exercise. From the outset they must engage internal and external stakeholders to align priorities with the current business context and third-party expectations. Starting with a data-driven approach can help to ensure that expectations are aligned to the business reality to ensure that the strategic elements are authentic to the business. Additionally, a landscape analysis of competitor organisations and aspirational peers can provide inspiration while also identifying white space opportunities for differentiation.

in Practice

Putting Principles into Action to Navigate Risk

With a detailed understanding of stakeholder expectations and a clear articulation of the business mission and values in-hand, sustainability leaders then turn to designing the overall ESG strategy, setting priorities and targets. Ipsos has developed the PACE framework for developing ESG strategy and initiatives:

Pertinent – Do the strategy and activation initiatives address key issues that stakeholders prioritise?

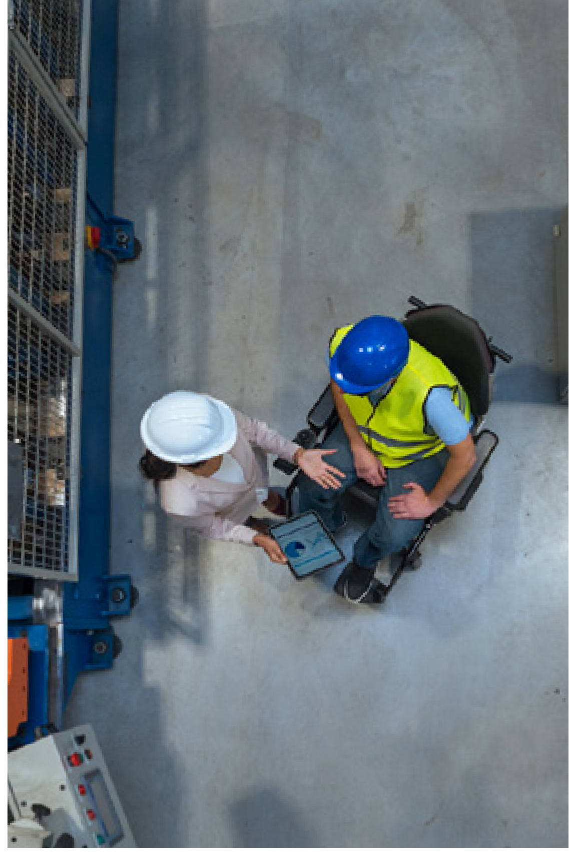
Authentic – Does the company have an authentic voice regarding this issue, i.e., is it part of our mission and values?

Credible – Can we credibly engage on this issue without fear of perceived greenwashing, and do our business operations demonstrate our credibility on the issue?

Effective – Are our strategy and the tactics/ initiatives we develop driving effective progress and impact against the issue we're trying to address?

Once the ESG strategy is developed, focus turns to embedding the strategy internally to ensure organisational integration, which includes actively collaborating with various teams. Effective ESG strategies are those that are part of the business DNA and not just bolt-on initiatives.

"Sustainability can't just be the responsibility of one team—it needs leadership from the top and integration throughout the organisation."



On top of implementation comes ensuring a suitable governance structure to track the implementation of the strategy, the development of KPIs to measure progress and ensure that sustainability is integrated into business objectives, and regularly reviewing and updating the strategy to ensure alignment with business performance, industry trends and stakeholder expectations.

"The most important thing is that it's integrated into how you do business...When you look at your five- or ten-year plan, you look at sustainability in a way that coincides with it."

One key aspect of ongoing ESG implementation is monitoring for emerging risks and adjusting strategy appropriately. This includes monitoring evolving societal trends that may impact a company's license to operate, identifying emerging climate risks that could impact a company's operations or supply chain, and governance expectations to ensure continued investment attraction and strengthen the company's reputation.

In today's environment, it is wise to include an evaluation of political risk to identify areas where a company could come under fire from various segments of the population due to initiatives or campaigns that polarise opinion. This should also incorporate monitoring for key influencers on key topics – both supporters and detractors – who have the potential to be allies or critics regarding a company's initiatives. Monitoring and developing appropriate engagement strategies can help to neutralise potential criticism or lend additional credibility to an organisation's activities.

ESG strategies should also be aligned with a company's risk management processes as ESG programs can help a company to address compliance requirements, stay ahead of potential regulatory requirements, drive greater sustainable growth, and build long-term resilience by addressing stakeholder expectations and needs.

No ESG strategy or initiative is without risk, and sustainability leaders indicate that they thoroughly evaluate potential risks associated with taking a stand on social issues while also implementing strategies to mitigate these risks. By ensuring alignment to the organisational values and societal expectations, sustainability leaders can rest assured that they are positioned for success.

Finally, sustainability leaders employ various metrics and frameworks to measure the impact of their social initiatives so they can demonstrate their effectiveness and course correct as needed. By integrating ESG initiatives into the core business activities, it helps to demonstrate the authenticity and credibility the organisation has in addressing a given issue.

By aligning the company's actions with the organisation's values and strategic objectives, sustainability leaders can put strategies into practice that are relevant to the organisation and its key stakeholders, address contextual considerations, and mitigate potential risks, all while driving positive societal impact. When aligned to stakeholder needs (both internal and external to the company) a well-designed ESG strategy can be a valuable differentiator in attracting and retaining talent, securing investments, and strengthening reputation.

ESG and Politics:

Global Goals or Political Football?

ESG 0 – 1 ESG

44%

of ESG Council Members agree that ESG is more of a political football than it is a priority for politicians and government

At Ipsos we often talk about our Age of Uncertainty[9] and Political Polarisation[10]. These two macro trends have a major impact on how Council Members do their jobs and how companies pursue their sustainability agendas.

Political Polarisation constrains companies in their willingness to engage in sustainability communications in an increasingly divided world while Uncertainty impacts the ability of companies to meet their ESG targets with a long-term horizon.

Political Polarisation is a global problem. Council Members from Brazil, Europe, the US, Australia, and Canada all mention the hurdles they face due to political polarisation. While there are many mentions of the impact of politics, Council Members are about evenly split on whether ESG is more of a "political football for policymakers than a priority." Council Members are also somewhat reluctant to say that "businesses are the driving force for social change in their country." The discrepancy between the number of problems that Council Members bring up, and their response to the scaled questions is likely a reflection of their optimism and strategic thinking. We detail below their strategies for dealing with political roadblocks and pressures.

Political Polarisation and Uncertainty go hand in hand. Polarisation means that as parties alternate in positions of power, they often have policy directions that are incompatible with one another. This incapability makes long term planning (greater than a 5-year horizon) a real difficulty for Council Members. Given that the sustainability programs of companies often take a decade or more to show real results, this uncertainty leads to material issues.

"The political polarisation in the country directly affects the execution of long-term public policies, on which we depend to promote significant changes in areas such as health and education."

"We've had to limit our approach. Being too vocal about ESG in North America poses significant risks."

9 'Our Age of Uncertainty,' *Ipsos*, 2018.
10 'Why political polarization means brands need to clarify their purpose,' *Ipsos*, 3 April 2023.

> *We believe in being driven by science, not politics, while respecting diverse viewpoints. There's enough clarity and consensus on climate science for us to set clear objectives based on it."*

> *The rhetoric around energy transition has been challenging... There is a challenge in convincing B2B customers about the relevance and need for sustainability partnerships, which is affected by uncertainty in future legislation."*

> *Legislators and bureaucracy can pose a hurdle in the implementation of ESG, through, for example, slow approval processes... We need clear, long-lasting guidelines to adequately adjust our corporate structures."*

> *Unfortunately, we are in a system that encourages and rewards conflict, rewards the well-placed blow, rather than the result that... would need some time to mature and bear fruit."*

> *The lack of certainty is indeed a challenge. We're in a significant transition of how economies function this decade, which makes it harder to move quickly on investments due to shifts in approaches."*

There are two topics in particular that come up more than others when our Council Members discuss the political implications of communicating about ESG – diversity, equity, and inclusion and climate/carbon neutrality. Objective research on DEI indicates that companies are more successful when they are more inclusive – McKinsey's 2023 report, 'Diversity matters even more: The case for holistic impact' found companies in the top quartile of racial diversity were 39 per cent more likely to perform better than those in the bottom quartile[11]. While most companies have taken this to heart, in the world of Political Polarisation DEI is used as a wedge issue to separate people.

Climate change and the push for carbon neutrality is the other issue that creates political pressures for companies and their ESG plans. Most companies across industries have climate or carbon goals. In fact, **78%** of Council Members say that government should set stronger targets to achieve Net Zero. Yet, despite science that most companies regard as a settled matter, greenhouse gas emissions are a political football. Such political manoeuvrings throw long term plans into chaos and can place companies that decide to go ahead with carbon reduction without the support of legislation to operate at a competitive disadvantage.

Lack of long-term stability is a challenge given that ESG initiatives often have very long time horizons. At the same time, companies want to be able to act quickly to get programs started. Government bureaucracy coupled with policy priorities that shift with each election are a recipe for frustration for companies trying to make a difference on sustainability.

11 'Diversity matters even more: The case for holistic impact,' *McKinsey*, 5 December 2023

"This division between "them" and "us" should not be a problem for companies. On the contrary, diversity is an economic reality and accessing this diverse consumer market requires inclusion. Ignoring this means losing potential customers, especially in the consumer industry."

"[You need] a strong ESG report to back up what it is that you're saying, and to also measure and demonstrate value and impact. You have to be able to do those things, to have the data and stories, that backup what you're saying, to say we did it."

Our Council Members have devised strategies to deflect political pressures in order to advance their companies' sustainability priorities.

> *Avoid greenwashing, ensure legitimacy, and measure impact to demonstrate value."*

> *The answer is focus on what's pertinent to the business. If you maintain consistent messaging and storytelling along with demonstrable results, then no one can argue with you, politically or otherwise."*

Strategy #1: **Alignment**

The closer one hews to the purpose and mission of the company, the less likely one is to be called out for greenwashing or "woke capitalism." The key for ESG leads employing this strategy is to make sure that their sustainability programs are authentic to who they are as a company (as exemplified by the Ipsos PACE framework in 'ESG in Context'). This means having a deep understanding of the company's mission and values, but also a strong read on how the company is perceived by stakeholders in general.

Conversely programs that are undertaken to appease a particular stakeholder or stakeholder group suffer from an "outside in" problem. They are often undertaken because it seems like the right thing to do but are done without consideration for the company's underlying mission. This can lead to programs that lack authenticity and open companies to criticism from both the political left and the political right. Everyone who follows the sustainability space knows about the high-profile failures of certain companies and the political pressures that they brought. Each of these failures can be linked to hubris leading the companies involved to stray from sustainability missions that are aligned with their purpose and strengths as a company.

Another advantage of strong alignment is that the more that the company is using its core strengths, the more successful the program is likely to be. Sustainability programs that are linked to what the company does well from a business perspective gain the advantage of the company's expertise.

The final form of alignment is between the company's supply chain and its sustainability programs. An ESG or sustainability program that directly addresses issues in the supply chain is going to be more meaningful to stakeholders given the critical impact on the company's business. Programs that address supply chain issues that ALSO save money/enhance revenue have an additional layer of credibility – shareholders find it much easier to understand saving money than altruism.

Strategy #2:
Stakeholder Balancing

Many Council Members express what we all know intuitively – not all stakeholders are created equal. In the latter half of the 20th century, government stakeholders were unrivalled in the power they held over companies and their license to operate. While regulators are still important, companies have come to realise that other stakeholders have similar importance. Chief among those top priority stakeholders are employees, investors, and consumers. As political actors become more fickle, companies may benefit from a commercial focus while staying within regulators' guidelines. In other words, set politics from either polarity, and then focus on other stakeholders who have a greater interest in sustainability efforts and who play a greater role in overall company success.

We prioritise our guests, customers, and employees as primary stakeholders when setting our objectives. We also collaborate with the government on necessary policy changes to achieve our goals."

First and foremost, you must identify your key stakeholders. This comes with experience and understanding the industry and business you operate in... feedback and improvement are crucial."

When we look at materiality, we look at a variety of stakeholders that, for us, are not all equally important:

1. *Primary production factors – employees, capital providers and regulators;*

2. *Contributors – [who] can accelerate or slow down my pace, but they cannot prevent me from doing so, [like] the media and supply chain; And*

3. *Influencers – they help us to make long-term strategies and sometimes "challenge" us to do better. These are mostly universities, research centres, startups."*

Strategy #3:
Keeping a Low Profile

The third strategy is difficult to implement for consumer-facing businesses. But for companies who are in a niche sector or primarily B2B focused, it is often possible to keep a lower profile. A lower profile limits the reputation lift a company can receive from its sustainability actions, but there are still benefits in cost savings, compliance, and targeted outreach.

Another way to keep a low profile is to lean on ratings agencies and/or program recipients to tell your story. Allowing program recipients to speak for the company lends strong credibility to the program and its effectiveness, BUT companies lose control of their message. The same can be said for allowing NGO partners to speak on your behalf.

Not all projects we undertake are communicated to customers and consumers as not every project is suitable for communication but still needs to be carried out to meet our objectives and comply with regulations."

We stay clear of the political domain, and our goals are completely agnostic to political parties. As a large company, we decouple our goals from political influences."

Conclusion:
Using Strategy to Avoid Political Entanglements

A strategic approach is necessary to get the most out of sustainability programs while avoiding political entanglements and accusations of "woke-capitalism" or greenwashing. This requires a deep understanding of stakeholders' needs, alignment with core business strengths, and leveraging the credibility of partner organisations. By adopting a strategic framework that balances stakeholder interests, business objectives, and political realities, companies can not only mitigate potential risks but also unlock the long-term value creation potential of ESG.

What's in a Name?

ESG's Polarising Nomenclature

"I don't present it as ESG... ESG is kind of a trigger for people out there."

ESG, Sustainability and DEI have become weaponised in the culture wars, and the politicisation of ESG – particularly in North America – has led some Council Members to limit their public engagement with the term. Would greater progress be possible in these areas if the labels were less divisive?

Research by Maslansky and Partners[12] suggests 'responsible business' is a term that does not polarise. Moderates view it as a moderate agenda, and conservatives view it as a conservative position – suggesting that each group feels a sense of connection with the term, and it has the potential to resonate with all stakeholders.

It's true that in some quarters, ESG has a brand problem. But simply rebadging it as Responsible Business is unlikely to appease its detractors. Terms like ESG and DEI have become lightning rods for criticism, but it is the policies, targets and commitments developed as part of these strategies that are the real cause of the 'anti-woke' backlash.

Dialling down communications in certain markets due to the political climate may carry its own risk, eroding stakeholder trust or employee advocacy. When we talk about "say-do gaps" at Ipsos, it is usually to identify the risk of not 'walking the talk' – of failing to back up words with actions. Perhaps the big issue in the next few years will be the rise of greenhushing, and an increase in businesses being afraid to shout about doing 'the right thing'.

ESG is far from perfect. Beyond politicisation, challenges identified by Council Members include a lack of standardisation across regions and industries and the difficulties of measuring the impact of social programs, while for others, it is simply too broad, and prefer to focus on specific, measurable initiatives directly relevant to their business.

But, for all its flaws, ESG is the best framework we have, providing structure for sustainability reporting, attracting investors, improving risk management, and enhancing long-term value creation. Organisations must address their ESG challenges, continuing to integrate responsible business practices and bringing consumers along on the journey to accelerate impact.

12 'Responsible Business: A framework for communicating ESG in a polarized world,' *Maslansky & Partners.*

ESG in Context

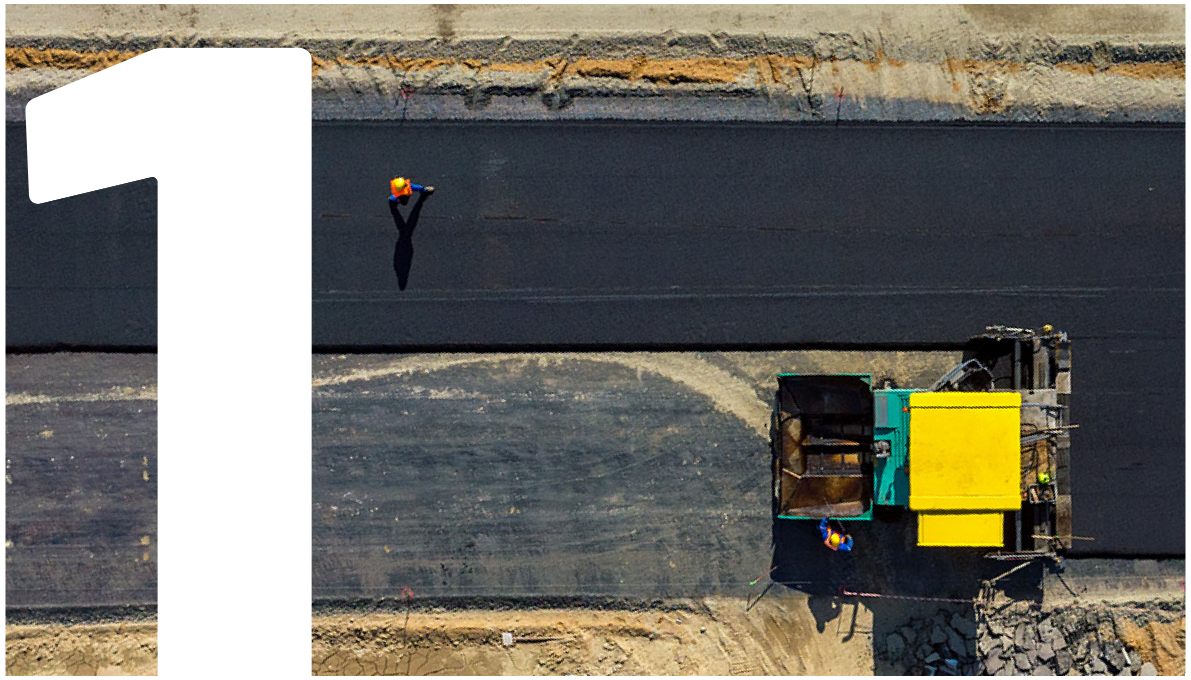
From Cost Centre to Value Creator:

Tackling the ESG ROI Challenge

With the challenges to ESG many and varied, the ultimate defence surely, is that investment in ESG initiatives leads to the creation of business value.

Certainly, much of the rationalisation for the rise of ESG and stakeholder capitalism in the first place, was the notion that it creates more sustainable businesses as a result of the specific value created across the stakeholder landscape. The challenge that is now emerging in boardrooms across the globe, however, is the ability to build an evidence base of the actual ROI of ESG. And this is a challenge that must be met if ESG – and the broad benefits it can bring when done well – is to remain on the corporate agenda.

A first step in understanding the impact of ESG initiatives is exploring how businesses are focusing their efforts across the broad spectrum of environmental, social and governance issues. **Three foundational learnings emerge from Council Members' experience over recent years:**



ESG Success Demands Holistic and Integrated Strategy

The elements of ESG are deeply interconnected and viewing them as separate and mutually exclusive can be counter productive. While an 'either/or' approach may have been evident in the early stages of ESG practice, as capabilities have matured, there has been a shift to more holistic approaches and comprehensive ESG strategies rather than piecemeal initiatives.

"One of the challenges – and also an opportunity – is that these elements are interconnected. For instance, supporting smallholder farmers improves water availability and helps women and girls access education. This interconnection is why I like to think of environmental, social, and governance (ESG) together."

"It is no longer possible to progress without balancing all of the aspects of ESG."

This is also another reason some are moving away from the language of 'ESG' and are instead adopting more holistic terms like 'corporate sustainability' or 'responsible business'. While the former may imply separate and possibly competing priorities in three mutually exclusive buckets, these new phrases instead encourage connected and 'whole of company' thinking, and as Council Members tend to argue, better outcomes.

"Sometimes, it's unclear whether to categorise a project under governance, social, or environmental because they are interconnected... Governance policies are designed to enable human flourishing without trampling the environment. We need to take all aspects seriously together."

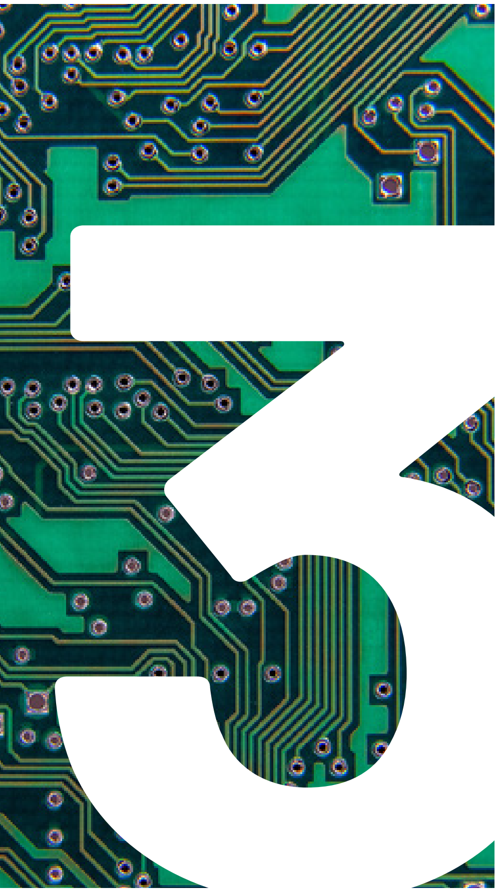
Strong Governance is the Key to Actual Progress

Perhaps the least 'marketable' of the elements of ESG, governance may be having its moment in the spotlight. While in the past, strong governance has been seen as a hygiene factor or the price of entry in modern business, there is a growing sense among Council Members that it may be the most important element of any ESG strategy. That is, if you don't have strong governance, you can't get any of the other two things – environmental or social – done. Or as one Council Member put it:

*"Governance is **the how** and the others are **the what**."*

In practice, good governance ensures transparency, accountability, and alignment with organisational values, making environmental and social initiatives more effective. Council Members articulate that it is the process of running the business effectively from setting targets and establishing clear objectives to tracking progress and course correcting as required. They go on to say that without good governance, the very best initiatives will likely fail to get off the ground or not be executed to their full potential.

"Governance is vital and requires attention because to achieve ambitious environmental and social impact goals, you need a strong foundation rooted in good governance."



Further Prioritisation of Effort is Context-Dependent

With a foundational view that the elements of ESG are interconnected and a focus on governance will improve the chances of success, it is broadly agreed that where a company then chooses to prioritise its ESG investment is deeply context-dependent. That is, while any ESG strategy needs to be comprehensive, there will always be greater ESG opportunities and risks based on sector, market and individual company dynamics.

Increasingly, the process for identifying these priority areas is a formal double materiality assessment, an undertaking far from settled in terms of approach. There remains a lack of standardisation in conducting double materiality assessments and competing frameworks continue to be at play. Indeed, this is a concept worthy of more than a paragraph to explore and Ipsos has done just that in the paper *Demystifying double materiality: A new model for corporate ESG compliance and leadership*.[13] For current purposes, it's sufficient to flag the double materiality assessment as one process often used to help prioritise ESG investment.

Another lens is that some sectors have a disproportionate negative impact on environmental, social or governance issues, and these specific areas will likely become a priority area for investment, such as mining and the environment, fast food and obesity, alcoholic beverages and harm minimisation. The same is true in terms of positive impact; some sectors will be uniquely able to drive positive progress across certain issues as a result of their specific characteristics and this will become their area of focus, such as pharmaceutical companies and increasing access to vaccines in the developing world.

13 'Demystifying double materiality,' *Ipsos*, 24 October 2023.

"Supporting initiatives relevant to your core business activities allows for the most impact, as it's where you have the greatest understanding. So, it's important to work in areas that your organisation and employees comprehend and can best support."

Market-specific regulatory frameworks also influence ESG investment with Council Members acknowledging the old truth that what gets measured, does indeed get done. For example, the specific requirements that exist in the EU around environmental reporting and action mean many European-based companies are prioritising environmental action over other elements of ESG. These same requirements do not exist for social issues, creating a perhaps unintentional consequence where social issues can be deprioritised.

"As we grow more comfortable achieving our environmental goals, we can also focus more on enhancing social initiatives. Organisations with less mature ESG strategies might be in similar positions, often preoccupied with understanding and reducing their carbon footprints."

The final force identified as driving ESG prioritisation is the local socio-political landscape. In developed markets, social needs can be less pressing, and the focus may therefore be more on environmental initiatives. Conversely, in developing markets, social needs driven by poverty and extreme disparity in wealth distribution are often the priority over environment.

"It's equality. Most social problems arrive from poverty, income, money."

Measuring the ROI of ESG Investments

With these considerations hopefully leading to the development of well-informed ESG strategies and the execution of appropriate ESG initiatives, the focus circles back to determining if the investment was worth it. It is in this discussion that there is less consensus among Council Members, other than to say, measuring the ROI of ESG investment is difficult, inconsistently done and in need of specialist practitioners.

A common starting point outlined by Council Members is getting clear on what impact is being measured. Broadly, there are two parts to the ESG investment ROI discussion: the impact of the investment on the environmental, social or governance issue(s) in focus; and the impact on the business investing in the activity.

In discussion with Council Members, it is this second area that is most often the corporate focus while the first is perhaps where most companies venture less often. For some though, this is where formal ESG reporting comes in. The process of reporting – by mandate in some markets and voluntarily in others – a company's impact on environmental, social and governance issues. Ideally, a successful ESG initiative will enable a business to show that it has either reduced its negative or increased its positive impact across ESG issues.

While important in its own right, this ESG reporting process is distinct from formal evaluation programs to understand the extent to which ESG activity shifts the dial on the issue in focus whether that be literacy rates in Indigenous communities or waste reduction in urban centres. This is perhaps, more the typical domain of governments and NGOs who regularly undertake program evaluation to show that public or donor funds have indeed been invested wisely.

"We could benefit from having a specialist in this area, as there's a lot of trial and error involved in determining what works."

Returning to the ROI discussion more commonly being had by companies around the globe, that is, the impact on the business from the ESG investment, several best practices do emerge that can guide companies in effectively assessing the impact of their ESG investments.

Practice #1: **Integrate ESG Metrics into Financial Decision-Making**

Align ESG and Financial Objectives: Begin by embedding ESG metrics alongside traditional financial metrics in the investment evaluation processes. This involves including sustainability factors in capital requests and project proposals, ensuring that every initiative is assessed for both its financial return and its environmental or social impact.

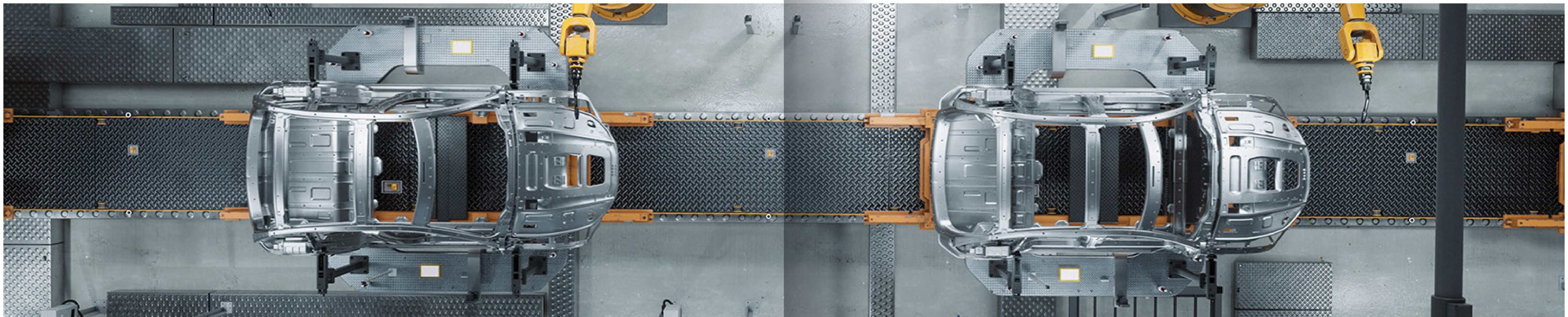
Collaborate with Finance Teams: Work closely with the finance department to develop methodologies that capture the financial benefits of ESG activities, where projects allow. Use this data to build out the business case for sustainability initiatives, demonstrating how they contribute to the company's bottom line.

Practice #2: **Utilise Both Quantitative and Qualitative Measurements**

Employ Standard Financial Metrics: Use traditional metrics like Internal Rate of Return (IRR), payback periods, and cost savings to quantify the financial returns of environmental projects, such as energy efficiency improvements or waste reduction initiatives.

Incorporate Non-Financial Analysis: Recognise that not all ESG benefits are easily quantifiable. Factors like corporate reputation, customer loyalty, employee engagement, and risk mitigation play significant roles in long-term value creation. Customise and then utilise reputation measurement programs, engagement surveys, as well as qualitative assessments to capture these less obviously tangible benefits.

"We will invest without expecting a direct return if we consider it a key priority. This return could be below the line; for example, an investment might yield reputational advantages that generate sales, even if they're not directly linked."



Practice #3: **Leverage External Frameworks and Standards**

Adopt Recognised Reporting Standards: Implement existing frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), or the Task Force on Climate-related Financial Disclosures (TCFD) to structure ESG reporting. While ESG reporting standards continue to evolve and vary widely across markets, they do provide commonalities and improve the comparability and credibility of the data being collected, and therefore, ROI processes.

Practice #4: **Communicate the Business Value Internally and Externally**

Educate Internal Stakeholders: Conduct ongoing education initiatives within the business to shift the perception of ESG from a cost centre to a value generator. Highlight success stories where ESG initiatives have led to cost savings, revenue generation, or risk reduction.

Engage with External Stakeholders: Solicit feedback from customers, investors, and community members about ESG efforts. Continually build the evidence base and organisational understanding how sustainability influences purchasing decisions or investor confidence.

"We're moving in the direction of measurable ROI due to [RFP] questionnaires... For example, one client indicated that 10% of their decision not to pursue our services was based on our ESG responses. This shows that if we're not careful, we could lose business over it."

Practice #5: **Embrace a Long-Term Perspective**

Focus on Long-Term Value Creation: Acknowledge that some ESG investments may not yield immediate financial returns but are essential for long-term business resilience and competitiveness. Investing in areas like employee well-being, community development, or sustainable supply chains may have delayed but substantial payoffs.

Anticipate Regulatory and Market Trends: Stay ahead of evolving regulations and market expectations regarding ESG performance. Early adoption can provide first-mover advantages, such as securing access to limited resources or strengthening of corporate reputation.

"It's very much about business resilience and the long game. It's about anticipating future needs to ensure our supply and resilience. Compliance is part of it, but there's also a first-mover advantage."

"ESG initiatives still tend to have a low ROI figure compared to the business base, but that is not why we quit, we will promote them even if the ROI is low now, on the premise that we will change them to create value in the future."

The currently utilised approaches to measuring the ROI of ESG investment are somewhat a combination of science and art. By integrating ESG considerations into financial decision-making, leveraging established frameworks, communicating value, and focusing on long-term outcomes, companies can more effectively assess and enhance the returns on their ESG initiatives. Still, while there is much to be learned from the best practice that is emerging now, Council Members acknowledge there is a considerable way to go in this area and expect that as ESG practice continues to evolve, so too will approaches to measuring ROI.

The Future of ESG

Bridging the Gap Between Profit and Purpose

Organisations tend to be judged first and foremost on their core capability – the delivery of their central value proposition. That is, the quality of their core goods or services, and their returns to shareholders.

78% of ESG Council Members agree that governments should set firmer targets to achieve Net Zero

While perceptions of other types of poor behaviour or poor character can certainly overwhelm perceptions of capability in the short-term, perceptions of core capability tend to be stickier and the basis of longer-term reputation value.

This principle has important implications when it comes to ESG. Because, for very few companies are ESG commitments identical with their central value propositions. As Lindsay Hooper, interim CEO of the University of Cambridge Institute for Sustainability Leadership, puts it in the FT: *"ESG has been largely an extra layer on top of traditional business models to manage risks and enhance reputations. But this fails to address the fundamental tension between profitability and sustainability. As long as the market rewards short-term gains over long-term resilience, businesses will harm the planet, and markets will destroy the foundations on which they depend."*[12]

12 'ESG is dead. Long live ESG,' *Financial Times*, 19 September 2024.

The fundamental tension between intrinsic value proposition and extrinsic ESG commitments underlies several of the core dynamics in this area. It goes some way to explaining the say-do gap, both among the public and organisations. The public routinely states high levels of concern about ESG issues, and routinely behaves in ways that contradict this – choosing products and services based upon quality of central value propositions as opposed to ESG commitments. Meanwhile, it remains tempting for companies to roll back on ESG commitments in challenging times or under less progressive political regimes, to focus rather on traditional core business activities.

It also results in fragile trust in business overall to drive positive ESG change. After all, if ESG is not embedded in core value proposition, then to some extent claims will always fail to ring true. This makes it difficult for organisations to communicate with authenticity and credibility – both key factors in positive character reputation – or to tell really compelling ESG stories.

Certainly regulators have a key role in the future of ESG, something that is supported by many working in this area. For example, **78%** of Council Members agree that governments should set firmer targets and ambitions for themselves and business to achieve Net Zero. If business models and market dynamics tend to work against ESG, an external force is required to counterbalance, and the most compelling and consistent external force is seen to be regulation.

"To truly make progress, we need more regulation and legislation that aligns with our knowledge of what needs to be done. The current environment has made it too easy to fall short, leaving us with a glass half empty."

"[ESG] risks becoming the big fig leaf behind which to hide the usual misdeeds... Either governments decide to put limits... or there will be a set of people's movements that will ask to change things."

"The significant change for us is recognising that ESG is not an adjunct but should be central to every decision we make."

The Professionalisation of ESG Reporting

One area where governments and regulatory bodies are having an impact is in reporting requirements. The EU's Corporate Sustainability Reporting Directive (CSRD) and the US's Securities and Exchange Commission (SEC) disclosure rules will expand reporting obligations for organisations. There is also a move towards greater ESG reporting standardisation, with the International Sustainability Standards Board (ISSB) drafting global reporting standards.

In a sense, this is ESG maturing against its original purpose. Emerging as it did from an investment community looking for more rigorous ways to evaluate assets and risk, ESG may now become a reporting system that delivers just this.

"This is just a framework that was put together... to compare apples to apples with companies and also to give investors and analysts an opportunity to look at things in a kind of a consistent way and in a central place."

"This new sustainability reporting legislation obliges us to plan better, to plan more, and also asks us to have a forward-looking vision, which was not required before. So, we have to look very far ahead, we cannot limit ourselves to today or tomorrow. It is a planning effort that did not exist before."

Council Members see new reporting strictures as particularly applicable to environmental and governance reporting, and there is a consensus that particularly in environmental reporting, there is a shift towards the more specialised and scientific. Questions remain about the extent to which the S of ESG can follow a similar path, due to the more subjective, diverse, and dynamic nature of social impacts. It is suggested that a combination of qualitative and quantitative methods may be required to effectively manage and report on the social dimensions of ESG.

"Social factors often receive less emphasis, possibly because corporations find it challenging to quantify their impact against measurable targets."

"While we do great work in our communities, measuring social impact is a grey area... Social value tools... which focus on the socioeconomic impact on local communities tend to be anecdotal."

AI: Friend or Foe to the CSO?

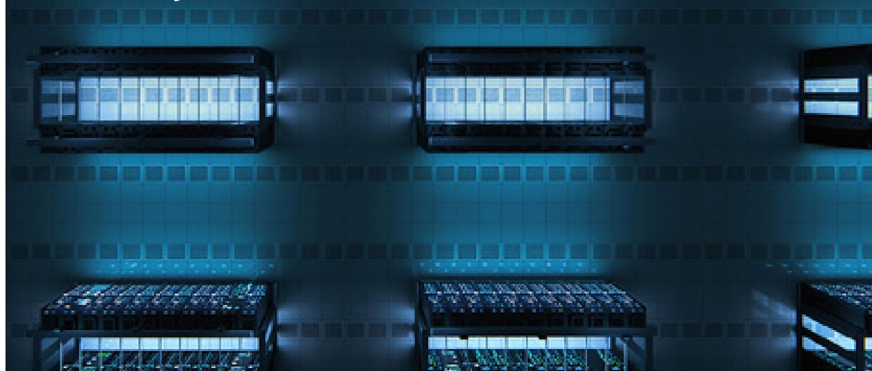
Currently, increasing reporting demands involve expanding workloads and skillsets, especially when it comes to environmental disclosures. But looking to the future, technology is expected to revolutionise ESG reporting, with AI in particular enabling more accurate, efficient and real-time data collection, analysis, and reporting. However, a majority (**74%**) of Council Members have not meaningfully incorporated Artificial Intelligence technologies into their ESG strategy so far.

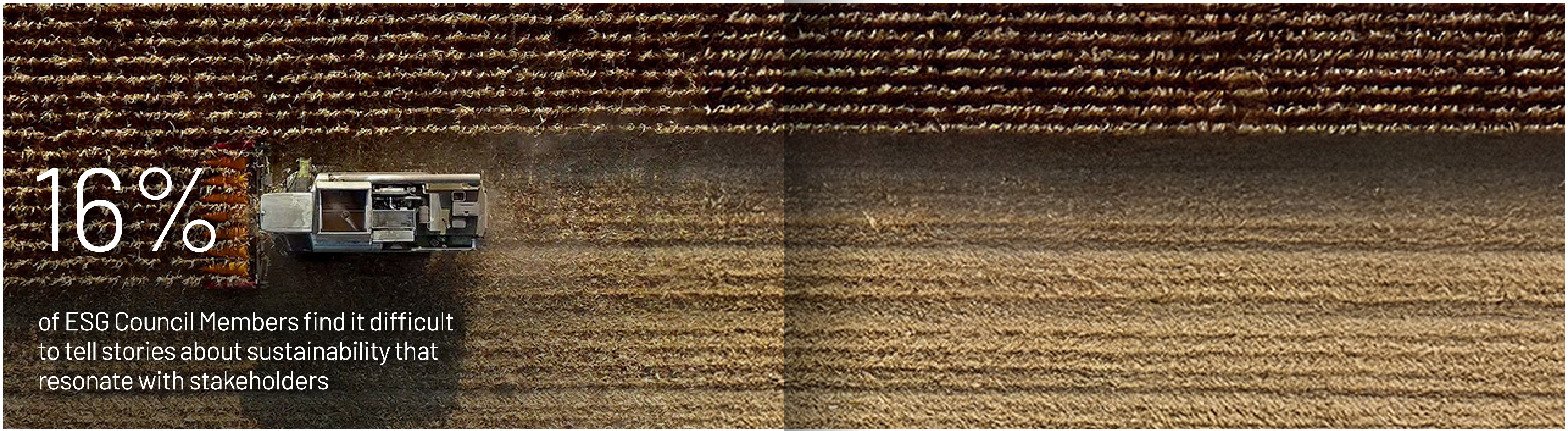
To alleviate the reporting burden on sustainability teams, companies should prioritise investments in data collection, analysis, and reporting systems, including exploring innovative technologies like AI and blockchain. Not only would this answer a call for greater transparency from many key stakeholder groups, from regulators to investors, to media, but it would also free up time for Chief Sustainability Officers to deliver on priorities.

AI is no silver bullet for ESG professionals, though. Some Council Members voice ethical opposition, some flag upcoming regulation as an issue, and others have concerns about whether CSOs have sufficient expertise to drive its adoption. The implementation of such technologies should, in theory, make life easier for sustainability leaders in the long term, but there are significant complexities to overcome.

"While everyone is exploring how AI can support sustainability, do our sustainability leaders know enough to guide the business through this transition?"

"I have a great fear, fear is the right word, which is that of the development of artificial intelligence. It will be a further element of division in the world. You will have a part of the world that will use it, and will be able to progress much faster with probably significant social damage."





Mindset Shift: ESG as the Route to Growth

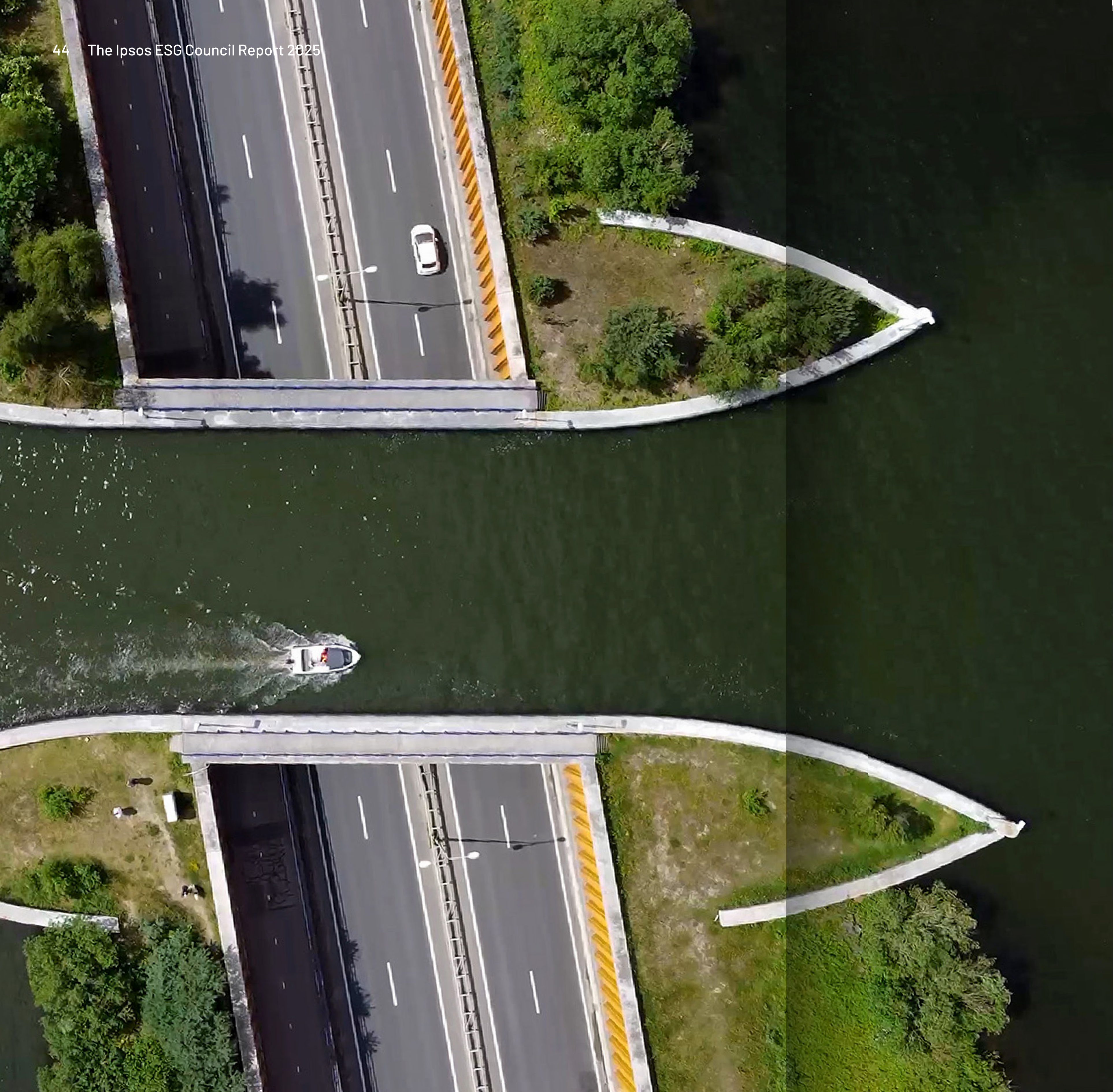
What regulation and technology don't necessarily resolve is the fundamental tension between value propositions or business models and ESG commitments. There is broad agreement among Council Members that for companies to deliver ESG in truly authentic and credible ways, it needs to be aligned with business objectives and values, to be woven into the mission and core value proposition. For many Council Members, there is still an essential mind shift required to see ESG as a route to resilience, growth and long-term sustainability, rather than being a side concern.

Integrating ESG into business strategy helps companies identify and manage risks, such as regulatory changes, resource scarcity, or shifts in consumer preferences. Likewise, companies that integrate ESG into their core strategies are often better positioned to innovate and create more sustainable products and services.

> *"Without a doubt, ESG will become more and more important in business. So we are also developing our products from that perspective. We are focusing on the development of meat alternatives such as Plant Based Food."*

ESG integration also helps companies engage with their stakeholders, including customers, employees, suppliers, and communities, in a more meaningful way. As evidenced by the fact that only **16%** of Council Members find it difficult to tell stories about sustainability that resonate with stakeholders, ESG allows companies to address stakeholder concerns proactively and build trust.

While ESG reporting frameworks are vitally important, they may not provide the strongest basis for engaging storytelling. On the other hand, narratives about major innovation or transformation in order to deliver ESG benefits or co-benefits are likely to be much more compelling. Examples of this kind of include Unilever's aim to decouple growth from environmental impact and increase positive social impact through its Sustainable Living Plan, or Tesla's sustainable innovation in electric vehicles, renewable energy solutions, and energy storage systems. Or, take Ørsted, which transitioned from a fossil fuel-based energy company to a global leader in renewable energy. By divesting its oil and gas assets and investing heavily in wind and solar power, Ørsted redefined its value proposition around sustainable energy solutions, significantly reducing its carbon footprint and contributing to global decarbonisation efforts. Such cases of "ESG" alignment with core business objectives cases are authentic, credible and, frankly, exciting. They also eliminate the say-do gap and provide a basis for stronger trust among stakeholders because the ESG commitment is integral to the purpose of the organisation.



"The real challenge for the future in my opinion is to have the courage to really innovate, because many of the problems we have today cannot be changed with incremental improvement, which is what we are used to, to which I associate a more measurable level of risk."

Can ESG move beyond idealistic pronouncements and translate aspirations into tangible business value? Companies must demonstrate a clear link between ESG initiatives and financial performance, moving beyond compliance to view ESG as a driver of competitive advantage. This requires not only robust measurement and reporting frameworks but also a focus on innovation and the development of sustainable products and services that meet evolving market demands.

Building trust with stakeholders will be paramount, requiring transparency, authenticity, and a commitment to delivering on promises. The path forward presents both challenges and opportunities. Success will hinge on a pragmatic, data-driven approach, a willingness to adapt to evolving regulations and market dynamics, and a commitment to continuous improvement. Ultimately, the future of ESG depends on its ability to deliver real-world results, not just lofty ideals.

ABOUT IPSOS CORPORATE REPUTATION

Ipsos Corporate Reputation has been a leader in reputation research for over 40 years and we work for some of the biggest corporations in the world. Our mission is to provide critical insights and advice to help our clients build resilient reputations and stronger stakeholder relationships. We deploy a unique blend of traditional and digital research techniques delivered by dedicated reputation research specialists across the world.

This support helps organisations strengthen their reputation capital – the ability of a brand to command preference in the marketplace.

How We Measure Reputation Performance:

- Measuring overall reputation performance and identifying the drivers that create reputational value
- Defining the stakeholders that influence reputation and shaping engagement strategies
- Building communications campaigns and measuring impact
- Understanding future opportunities and risks
- Measuring the impact of a crisis, and responding to it
- Clarifying the actions necessary to deliver on strategic objectives

Ipsos and ESG: People, Planet and Prosperity

We leverage research specialisms and cross-sector expertise to understand governments, businesses, and citizens to inform better decision making when it comes to all aspects of ESG.

Ipsos data indicates climate change, poverty and social inequality remain constant and significant worries that unite people across the world. The solution will lie in governments and industry pursuing economic, social and environmental sustainability in tandem – what we at Ipsos refer to as People, Planet and Prosperity.

We give businesses, governments and public bodies the confidence they need to take the right actions for the benefit of people and the planet, to drive long-term prosperity for all.

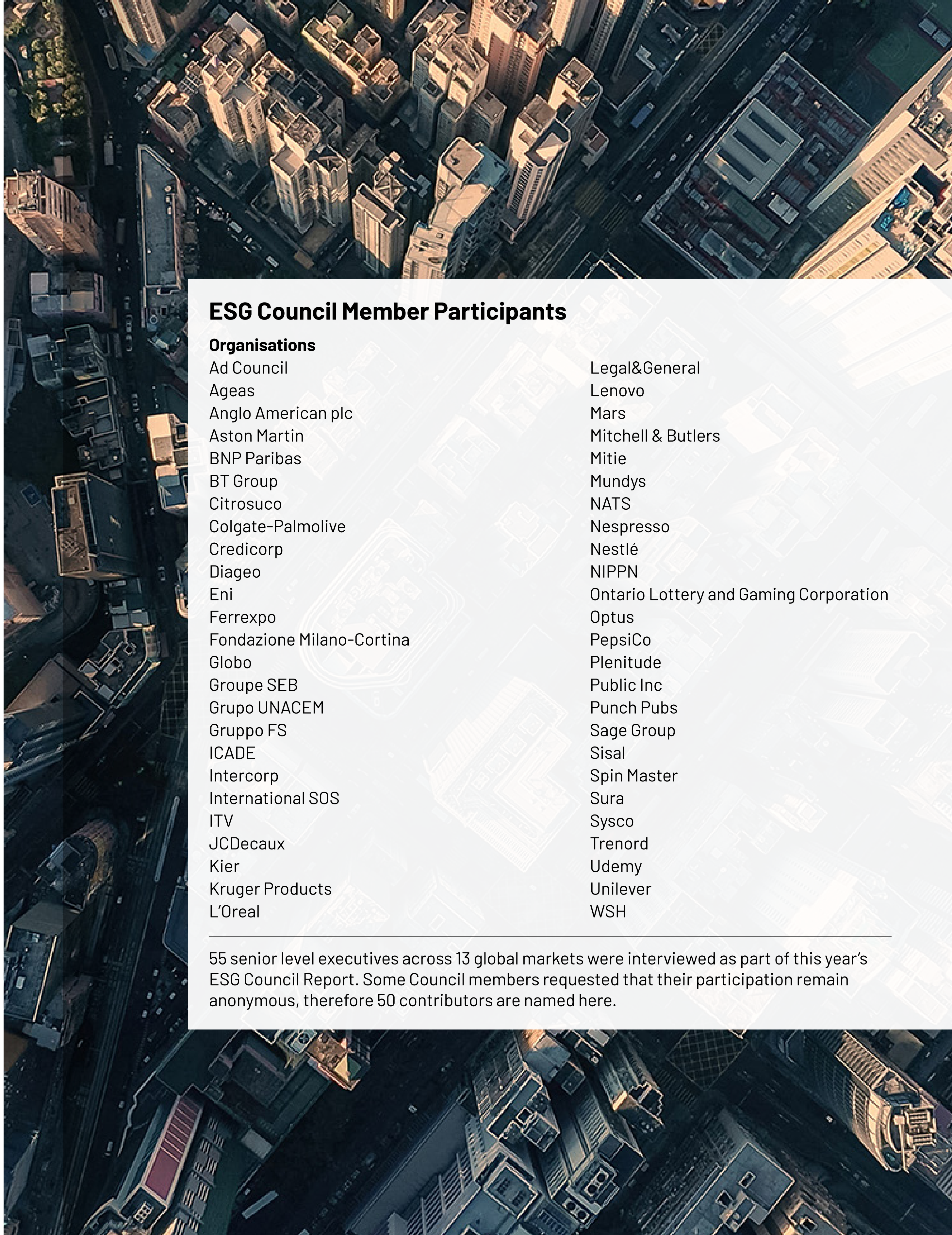
Our world-leading experts produce primary data, research, and insights to fuel a healthy public debate and create value by providing a true understanding of society, markets, and people.

We foster a culture which encourages diversity of thought and opinion where individuals can truly belong and have the freedom to produce work that drives impact.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Near Term and Net-Zero Targets Validated

Please get in touch if you think we can help



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55 senior level executives across 13 global markets were interviewed as part of this year's ESG Council Report. Some Council members requested that their participation remain anonymous, therefore 50 contributors are named here.

About the Ipsos ESG Council

Established in 2023, the Ipsos ESG Council brings together senior level executives with responsibility for sustainability and the development of ESG best practice from some of the most respected corporations in the world.

The Ipsos ESG Council's mission is to increase the understanding of the key issues in the field of ESG and sustainability management within the corporate environment and provide a forum where senior executives can cross-fertilise thinking and ideas to tackle the strategic issues and challenges that they face.

Methodological Note

55 in-depth interviews were carried out with ESG Council Members between July and October 2024, either in person, by telephone or video call. Data may not total 100% due to rounding.

The Editorial Team

Editor
Ed Whitehead

Authors
Henry Archer
Sally Braidwood
Jason McGrath
Trent Ross

ESG Council Project Management Team
Danielle Field
Thomas Gilbert

Creative Studio
Sean Beck
Matt Burchell
Jonny Crabtree
Ryan Graham
Hanna Sarekanno

Further Information

Milorad Ajder
Global Service Line Leader
Corporate Reputation
Milorad.Ajder@ipsos.com

Trent Ross
Chief Research Officer
Corporate Reputation
Trent.Ross@ipsos.com

Sue Phillips
ESG Global Lead
Sue.Phillips@ipsos.com