CHAPTER 2

TELLING THE RIGHT STORY

> **When we asked CEOs to identify the one critical challenge that was undermining their ability to communicate ESG performance to key stakeholders, the standout challenge... was that they 'struggle to tell a compelling ESG story.'**

KPMG Study

Competitive Positioning on ESG

For companies in highly regulated sectors where continued government approvals present a major risk, making effective ESG investments is therefore an especially important risk mitigation strategy.

The Halo Potential of ESG Investments

Making the right ESG investments can earn companies greater strategic freedom; earning a stellar reputation on any given issue can alleviate stakeholder concerns not only for that issue, but for related areas as well. For companies in highly regulated sectors where continued government approvals present a major business risk, making effective ESG investments is a therefore an especially important risk mitigation strategy.

By way of example, a company with a reputation for climate change leadership and a proven track record of environmental investments can typically better weather policymakers' concerns when questions are raised as to whether a new product adversely affects biodiversity.

Putting the Halo to Work: Case Study in Peer Company Benchmarking

To continue the previously discussed case study (Figure 3), Tactix' analysis allowed the company to first learn that Issue "C" was the most material risk to policymakers. Tactix then conducted a competitive benchmarking analysis on Issue "C" (Figure 4), which revealed a decisive advantage over other companies in their sector.

Because of their competitive advantage, we ran a positive campaign promoting the importance of Issue "C". The campaign enhanced the company's reputation—but more importantly it put competitors in the very difficult position of defending their own poor records.

▶ **Figure 4. Peer Group Benchmarking.** Peer group benchmarking can not only identify gaps in need of improvement, but equally importantly can reveal strengths where competitive differentiation can be emphasized.

Policymakers' perceptions of each company relating to each ESG issue (1 = very positive)

Client Company

Issue A	Issue B	Issue C	Issue D	Issue E
0.86	0.71	0.89	0.57	0.60

Benchmark Company 1

Issue A	Issue B	Issue C	Issue D	Issue E
0.57	0.57	0.69	0.71	0.65

Benchmark Company 2

Issue A	Issue B	Issue C	Issue D	Issue E
0.60	0.79	0.70	0.68	0.79

Benchmark Company 3

Issue A	Issue B	Issue C	Issue D	Issue E
0.73	0.91	0.77	0.80	0.89

Very Strong Very Weak

Data Source: Tactix Global Risk Communications 2021

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Managing Perceived Greenwashing

Case Study

The Problem

TACTIX was engaged by two different clients in an OECD country to identify how to lower their ESG risk. Each client represented a controversial product in the chemistry sector. Despite each product's controversy, they both had provided strong quantifiable benefits in addressing downstream customers' emissions.

Our research modeled how policymakers would react if manufacturers communicated the climate change benefits of their products:

- Manufacturer "A" would benefit enormously; but,
- Manufacturer "B" would be misperceived as greenwashing and ultimately be assessed as a greater ESG risk than they were previously

The Outcome

For Manufacturer "A", we designed a campaign to promote their quantifiable climate benefits. It succeeded in also reducing policymakers' concerns about other ESG issues. For Manufacturer "B", we did not emphasise the climate benefits because the research results showed this would have been misperceived as greenwashing.

The key lesson was that perceptions of greenwashing are not always based in fact. As strong as the objective climate data for Manufacturer "B" was, the research showed that telling the story would bring adverse outcomes.

Companies in the same position as Manufacturer "B" need to make a difficult decision: fight the misperception head-on to try and change perceptions, or to focus on other ESG benefits and stay silent on the disputed benefit. In this case, we found Manufacturer "B" benefited more by focusing on other ESG investments; however, in a different scenario addressing the issue head-on can have substantial benefits. In short, accusations of greenwashing can be as subjective as they are damaging: responding effectively requires an informed and calculated approach.

▼ **Figure 5. Working within Misperceptions.** Companies operating in highly regulated sectors recognize that certain stakeholders want them to fail. In these sectors, an ESG strategy needs to know when to gear up to change minds and when to highlight other benefits.

Policymakers' ESG Perception	**Manufacturers of Compound A**	**Manufacturers of Compound B**
Baseline	0.46	0.36
Post-messaging	Improved to 0.67	Lowered to 0.29
Duration of Concern[1]	> 40 years	< 5 years
Climate Change Benefits[2]	Scope 3 Category 10 (Processing Sold Products)	Scope 3 Category 9 (Transportation)
Ease of Understanding[3]	Highly-Complex	Perceived as too simplistic
Perceived Availability of Alternatives[4]	Moderate	High

1. Length of time that the chemical has been a top-priority concern for policymakers
2. The type of GHG emissions that each chemical plays a positive role in reducing
3. The difficulty policymakers had in connecting the chemical to GHG emissions reductions
4. The degree to which policymakers believed downstream customers had alternative products to reduce GHG emissions

Data Source: TACTIX Global Risk Communications 2021

Balancing Customers and Shareholders

Case Study

The Problem

Companies face an even greater challenge implementing ESG strategies when different stakeholders make conflicting demands. In a recent case, a Tactix client was being pulled in two directions by key stakeholders:

- Shareholder pressure to increase investments and communications around climate change
- Pressure from direct customers to stay out of climate change initiatives

The Outcome

Tactix' research first validated and quantified the company's reports of conflicting concerns. We then tested four ways to communicate climate investments. We found that while most messages would satisfy other stakeholders (see Figure 6), customers would react adversely to Messages "A" and "B". They saw these as added costs and that customers would react adversely to Message "D" because they viewed the company as preaching.

Ultimately, we found a compromise (Message "C") that could satisfy shareholder pressure while avoiding any adverse reaction amongst customers.

In our experience, this scenario is hardly unique. As companies increase their ESG investments, this becomes one more domain where stakeholders will have conflicting interests. And just like any other instance of competing interests, finding effective compromises requires having information on what each stakeholder truly values and how they are likely to react.

▼ **Figure 6. Message Testing ESG Announcements.** This type of analysis helped the company find an unexpected middle ground between shareholders.

	Customer	Shareholder	General Public
Sample Size[1] (n=)	9,600	4,300	175,000
Baseline Levels of Concern[2]	9%	83%	42%
Stakeholder Reactions to Messages			
Message A[3]	Adverse Reaction	Strongly Supportive	Strongly Supportive
Message B[4]	Adverse Reaction	Strongly Supportive	Moderately Positive
Message C[5]	Moderately Positive	Moderately Positive	Moderately Positive
Message D[6]	Adverse Reaction	Adverse Reaction	Strongly Supportive

1. Number of people in the sample built by Tactix
2. Percentage of each audience demanding the company take greater action on ESG
3. Targeting Scope 1 and Scope 2 emission reductions
4. Making future commitments on Scope 3 emissions
5. Promoting carefully chosen examples of collaborations
6. Talking about sustainability in a broad way

Data Source: Tactix Global Risk Communications 2021

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