CONVERSEON
Connect Conversations to Outcomes

>> **Stakeholder Perception of ESG:**

What You Don't Measure Can Hurt You

Summary

- ESG measurements are critical, but provide an incomplete view of stakeholder perceptions, especially over time
- Current approaches don’t continually measure stakeholder perceptions of brand efforts over time using social and other forms of “conversation data”
- Insights from such data are essential to understanding “misalignments,” identifying areas of risk and opportunity, benchmarking against competitors and industry captains, and understanding if key audiences believe in your ESG efforts

Introduction

Let's start with some questions. Does your ESG spend impact stakeholder perceptions, and if so… by how much? How are you measuring this as time and current events rapidly shift and evolve? Reuters projects $5 billion in ESG-related spending by U.S. companies by 2025,[1] but is that money moving hearts and minds?

Stakeholders, including consumers, employees and shareholders, increasingly expect organizations to "make the world a better place" through their actions. Consumers increasingly hold companies accountable for sustainability efforts, giving companies true bottom line incentive to improve them.

- $30 trillion, about a third of global AUM, were subject to ESG criteria by January 2021[2]
- Bloomberg predicts $41 trillion AUM by the end of 2022 and $50 trillion by 2025[3]
- 83% of consumers think companies should actively shape ESG best practices[4]
- 91% of leaders believe their company has a responsibility to act on ESG issues[5]
- 86% of employees prefer companies that care about the same issues they do[6]

Corporate ESG is no longer optional. To do it right, companies must measure the impact of their ESG initiatives through the stakeholder perceptions that drive consumer and market response. Further, we expect this type of scrutiny and activism to only grow.

"Expect ESG to become more important, driven especially by climate change and scrutiny of capitalism's social impact but also by companies' efforts to seek competitive advantage and differentiation and investors' desire to incorporate nonfinancial analysis for better returns."

-Ryan Skinner, Forrester [7]

Whether by design or necessity, brands have no choice but to cut through the clutter and connect emotionally and with relevance to their key stakeholders who hold values in high regard.

"All of those stakeholders – including employees, customers, investors, partners, suppliers, governments, regulators, communities and civil society – are newly empowered today, and expect the enterprise to provide them with value if they are to affiliate with or support it. In particular, they expect that business can and should be a force for positive change in society." [8]

As key stakeholders evaluate your brand, ESG is an increasingly important factor – your company needs a way to track and measure how your ESG spend is landing with stakeholders. Their "take" on your ESG efforts is why you do them in the first place. Why wouldn't you track your results?

"Stakeholders want to gain trust in the fact that businesses are rethinking sustainable performance, and what it means to be successful. Most companies now recognize that ESG (Environmental, Social and Governance) metrics are linked to performance, not just compliance. However, many business leaders struggle to target, manage, measure, and report sustainability performance while others get ahead."

- Accenture [9]

"Recent crackdowns on alleged greenwashing by BNY Mellon, DWS and Goldman Sachs illustrate that market participants are demanding fewer lies and more truth."
Marilyn Waite, The Hill [10]

"Key to the guiding philosophy of stakeholder capitalism is that all stakeholders – workers, customers, communities, the environment, and shareholders – are taken into account in corporate strategy"
-Sam Schrager, Just Capital [11]

You can't manage what you can't measure, and can't measure what you can't define.

As HBR points out, most current ESG measurement is limited to inputs:[12] what a company counts, says, and announces. That has left a critical gap in ongoing measurement of stakeholder perceptions: how consumers react to, opine on, and share those ESG initiatives. You can't manage what you can't measure, and can't measure what you can't define.

"ESG measurement is an increasingly popular way of holding companies accountable when it comes to sustainability efforts, and of giving companies an incentive to improve them. But measurement, no matter how sophisticated, is much better at capturing easily quantifiable inputs than complex and messy outcomes and impacts. Companies need to do everything they can to understand those outcomes and impacts"
- Jennifer Howard-Grenville, HBR [13]

This white paper will help brands develop substantive ways to measure stakeholder perception. We provide some guiding principles on ESG, its definition, its rise in importance and how organizations can comprehensively understand, establish, analyze and measure ESG results in a socially media empowered world where opinions, needs and demands can change in moments.

We hope that this guidance will provide you - whether you're a C-level leader, Board Director, VP of Sustainability, Corporate Affairs, Corporate Communications, Customer Insights, Marketing, CSR, or other discipline - with an accessible foundation on which you can meaningfully manage ESG and make ESG insights essential to your organization's success.

1. John McCrank, Reuters
2. Jennifer Howard-Grenville, HBR
3. Bloomberg Intelligence
4. Beyond compliance, PWC
5. Beyond compliance, PWC
6. Beyond compliance, PWC
7. Ryan Skinner, Forrester
8. Arthur W. Page Society (in Stakeholder Capitalism and ESG, A Guide for Communication Leaders, p. 4)
9. Accenture: Measuring Sustainability. Creating Value.
10. Marilyn Waite et al, The Hill
11. Sam Schrager, Just Capital
12. Jennifer Howard-Grenville, HBR
13. Jennifer Howard-Grenville, HBR

Challenges and Current Trends

As the Business Roundtable made clear in 2019, "the purpose of a corporation is to promote an economy that serves all Americans." This dramatic shift away from "shareholder primacy" was a profound turning point in their 41 year history of issuing Principles of Corporate Governance.[14]

A variety of market and cultural forces drove this sea change. Due to the rise of social media, brands are under an unprecedented level of scrutiny by highly networked consumers where opinions are shared and accelerated in minutes. Trust is at an all time low. The growing norm of consumer activism has snowballed into a tidal wave of investor activism, both in public markets and in shareholder activism. Underpinning it all is a steady drumbeat of national and global crises that shows no sign of slowing down anytime soon.

Cultural Trends Driving ESG Mandate

SEC's Proposed Rules on Climate-Related Disclosure are another major development as it becomes apparent that the true costs of climate change likely far exceed the costs of slowing the climate crisis.

"Investors representing tens of trillions of dollars support climate-related disclosures because they recognise that climate risk can pose significant financial risk to companies, and investors need reliable information to make informed investment decisions."
Gary Gensler, SEC [15]

Covering the news for Reuters, Mike Scott wrote about the "call for businesses to disclose how they identify and manage climate risks, and how those risks will affect the company; what they are doing in terms of scenario analysis; and how the board oversees climate risk." [16]

The "Great Resignation" is fueling a different "rise of social" - that of the S in ESG - as the importance of employee satisfaction and engagement comes to the forefront:

"What are you doing to deepen the bond with your employees? How are you ensuring that employees of all backgrounds feel safe enough to maximize their creativity, innovation, and productivity? How are you ensuring your board

has the right oversight of these critical issues? Where and how we work will never be the same as it was. How is your company's culture adapting to this new world?"[17]

While the ESG mandate rings clear, complexity remains a massive challenge:

"Public and private stakeholders have struggled to make clear progress amongst a number of competing standards, frameworks and initiatives. Without generally accepted international reporting standards when it comes to ESG, many companies are working in silos and cannot effectively share best practices or key learnings."
- Emily Bayley, WEF [18]

The panoply of different approaches muddy the water – ratings, measurements, disclosures, reporting, frameworks – with ratings providers and numerous national and international standards organizations all vying to be definitive on ESG:

"Ratings from different providers disagree substantially…(and) the six agencies combined report 709 individual ESG indicators, where the indicators used vary substantially. Such divergence makes it difficult for investors and other stakeholders to evaluate the ESG performance of companies. This also imposes significant challenges for companies managing competing pressures from various stakeholder groups. How does a firm make inevitable trade-offs across categories that are valued differently by different clienteles?"
Kenan Institute, UNC [19]

This complexity also comes at the cost of consumer trust, as according to Bloomberg:

"Doubts about how much good ESG actually does risk becoming a more lasting turn-off for regular people… the gap between the complex strategies they're applying and the expectations regular people have of what ESG should do is starting to be a problem that's playing out in real life." [20]

Brands need to measure how these people feel, or suffer the consequences.

14. Business Roundtable: Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans'
15. Reuters, Mike Scott
16. Reuters, Mike Scott
17. Larry Fink 2022 CEO Letter
18. Emily Bayley, WEF
19. Kenan Institute, UNC
20 Natasha White and Frances Schwartzkopff, Bloomberg

What is your ESG Brand Value?

What are stakeholders saying and doing about your ESG efforts? Stakeholder perceptions of your investments in ESG efforts matter.

"Are you gleaning information from your conversation intelligence capabilities to highlight when sustainability concerns are expressed and how to address them?"
Anne Slough, Forrester [21]

Poor stakeholder perceptions can even mean your brand losing out in the capital markets, where ESG carries a premium.

"Exchanges have increasingly been rolling out new ESG initiatives, including data products to help investors understand ESG risks; services aimed at helping corporations analyze ESG best practices, disclose their own practices, and attract capital; and ESG-focused benchmarks and derivatives."
John McCrank, Reuters

"Starting in August, the European Union will require financial advisers to make sure individual investors get exactly what they want out of their ESG holdings, even if that means sending them to a competitor. The change applies to all fund managers targeting European investors — whether they're in the US or Asia" [22]

Measuring how stakeholders perceive your ESG efforts, and continuing to measure in near real time as new events happen, is a growth opportunity. Brands should apply powerful AI to conversation and other large sets of unstructured text data about their brand, competitors, and industry.

"Are we focusing on reporting the informationthat matters most, and that provides the necessary context and clarity to guide users to make more informed decisions?"
Fabienne Michaux, SustainableViews [23]

You must quantify stakeholder perception to measure your external ESG image

Quantify stakeholder perception so that you can better explain the impact of ESG on brand & customer outcomes and, ultimately, financial performance.

21. Anne Slough, Forrester
22. Natasha White and Frances Schwartzkopff, Bloomberg
23. Fabienne Michaux, SustainableViews

Critical Brand Questions

Through this approach, you can gain unique insights into mis-alignment, stakeholder gaps in expectations and overall ESG performance, and answer these important brand questions:

- Is our ESG brand trusted and is our ESG mission resonating?
- Is our ESG brand generating greater product loyalty and advocacy?
- How does ESG impact Reputation, and ultimately stock performance?
- Can we measure ESG value through higher revenue, pricing flexibility, or employee retention?
- Do we have an early warning system to identify emergent ESG issues?
- What issues matter most to our stakeholders?
- Are our ESG efforts resulting in more engaged stakeholders?
- How are our stakeholder perceptions changing with time and momentum?
- Can we track stakeholder response to our ESG announcements and news?
- Where are we strong and where are the areas that need improvement?
- How can I track and compare efforts against other brands and keep tracking over time?

CRITICAL STAKEHOLDER QUESTIONS:

Whether or not you're paying attention to them, your stakeholders are also asking a lot of questions about your ESG efforts:

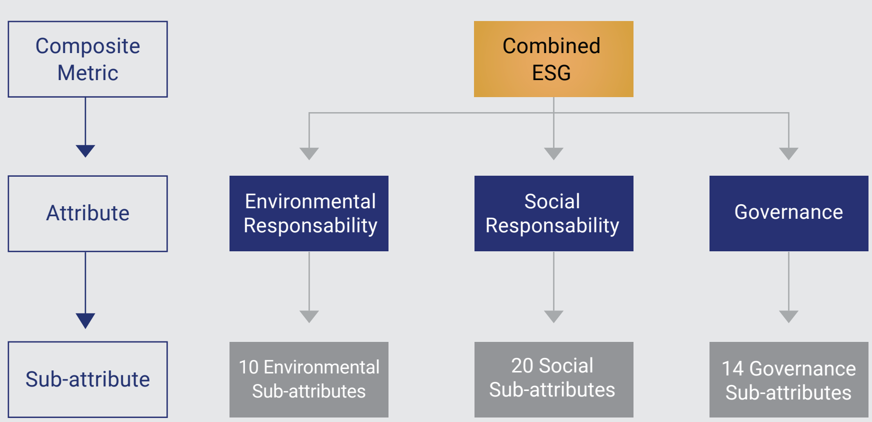
- What exactly is the ESG brand and how is it being executed?
- What actions have been taken?
- How are those actions benefiting me?
- Are stated ESG objectives being realized?
- Is this company just "x"-washing or are these programs substantial

It is critically important to go straight to the source: the very social media conversations that we already know have pushed companies to clarify and enhance their ESG missions. This data is massive, global, rich and real-time. It consists not just of Twitter but also many other forms of public social media conversations available in multiple languages.

With this data in hand, we need to rely on AI to help us detect actual stakeholder voices and process the significance of what they are saying. We recommend using well-targeted and fine tuned ML models that can classify language like humans do. It is non-trivial and essential to filter through a polluted hodgepodge of news, job listings, spam and bots to isolate true signals.

Applied to our core use case of measuring stakeholder perception in social media data, these ML models deliver a far clearer, more accurate picture of competitive brand health and a faster path to identifying root causes.

SOCIAL ESG INDEX: AI-POWERED NLP FRAMEWORK



Each element of the Social ESG Index represents a distinct trackable and scorable metric based on text classification.

Converseon uses a machine learning approach to perform this text classification, accurately isolating MSM/media articles, social media posts and VoC text about each attribute and sub-attribute in the framework.

MEASURING ESG STAKEHOLDER PERCEPTIONS: A COMPREHENSIVE FRAMEWORK

Our approach is to provide prebuilt ML models that are designed for "off the shelf" use to achieve a massive reduction in complexity and cost, both historical barriers to AI/ML adoption.

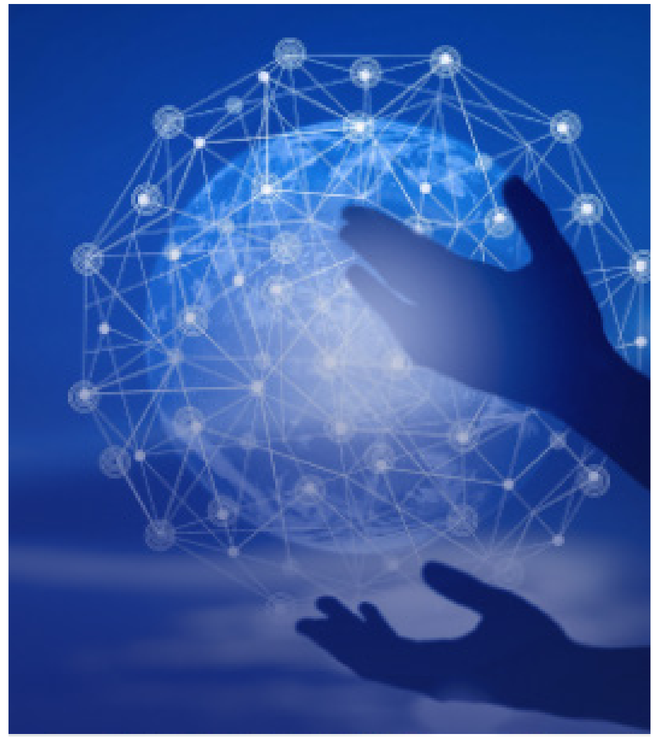
Social listening data can tell you where ESG messaging is crowded and overrun, and those other areas where there is important "white space" for differentiation of your ESG brand. Simply "making the world a better place" rings hollow.

What NOT to do

THE PROBLEM: ESG PERCEPTION GAP

"Many ESG measures already very effectively capture inputs … but measures that capture inputs … don't capture … impacts."
Jennifer Howard-Grenville, HBR [24]

Traditional ESG measures are incomplete. How stakeholders perceive your ESG efforts – what they're seeing, reporting and sharing - is what ultimately matters. Also missed is how your ESG efforts correlate to business outcomes like sales and shareholder value. As the same HBR piece also notes, "our current focus on ESG measurement is dangerously narrow." [25]



STAKEHOLDER PERCEPTION GAP

What we measure when we measure ESG:

EFFORTS

What actually matters to the bottom line:

RESULTS the world sees and responds to

Stakeholders are watching and waiting for you to demonstrate (not just communicate) your ESG progress, and they're carefully evaluating your efforts with skepticism. Achieving bottom line impact through your ESG efforts requires alignment between brand and stakeholders. Measuring inputs and processes leaves your efforts vulnerable. ESG impact on stakeholder perception matters greatly, but has remained unmeasured.

"These concerns — that ESG measures can obscure important insight into processes, misdirect our attention away from systems, and dangerously misrepresent broader values — don't mean that companies shouldn't measure. They should. But they need to do more."
Jennifer Howard-Grenville, HBR [26]

Bridging this ESG insights gap requires ongoing measurement of how key stakeholders perceive your efforts. You must capture, process and measure precise and rigorous conversational, media, social media and other unstructured text data, on an ongoing, unprompted, basis amongst key stakeholders.

To move stakeholder perceptions, brands must 1) define and take action on ESG and then 2) effectively communicate and demonstrate what progress has been made. Stakeholders are watching and carefully evaluating these very brand efforts with skepticism, and brands should be watching the ripples of their results, capturing and analyzing ongoing feedback given that ESG naturally requires ongoing alignment between the brand and stakeholders.

DON'T FAKE IT, MAKE IT.

Whenever what you communicate and what stakeholders see diverge, they will rightly call you out for virtue signaling and "x-washing" instead of implementing real change. Perception is reality, and you must be measuring it at the speed of culture.

"No matter how and what we measure, we need to act our way into greater understanding, insight, and even purpose."
Jennifer Howard-Grenville, HBR [27]

"Sustainability investing has been dogged by claims of greenwashing – companies inflating their ESG credentials in order to attract capital or customers. Regulators are attempting to focus on transparency and conflicts of interest while requiring companies to demonstrate the validity of metrics...A global drive by governments to fight greenwashing may help investors identify where to place their bets in the fastest-growing corner of ESG investing." [28]

"Shortcomings undermine market trust and confidence, and are fuelling increasing cynicism and claims of 'greenwashing' or 'impact washing'. Whether intentional or unintentional, the effects on market trust and credibility are the same."
Fabienne Michaux, SustainableViews [29]

In a world where perception is reality, clear and effective measurement of stakeholder perception of ESG goals and progress is essential. It serves as a critical companion to other noted internal ESG measurement frameworks.

24. Jennifer Howard-Grenville, HBR
25. Jennifer Howard-Grenville, HBR
26. Jennifer Howard-Grenville, HBR
27. Jennifer Howard-Grenville, HBR
28. Karen Ho, Bloomberg
29. Fabienne Michaux, SustainableViews

What NOT to do

GOOD ESG PROGRAMS CAN MEAN AN IMPROVED BOTTOM LINE:

Clearly, when executed effectively and authentically, ESG has a strong track record of driving corporate success. As consulting firm McKinsey writes:

"A strong ESG [Environment, Social, Governance] proposition correlates with higher equity returns, from both a tilt and momentum perspective...[and] also corresponds with a reduction in downside risk, as evidenced, among other ways, by lower loan and credit default swap spreads and higher credit ratings".[30]

"ESG data makes the jump from a simple output of operational fact ("We produced X tons of CO2" or "We have X% of female leaders," etc.) to a key input to business improvement when the business's leadership recognizes that this data is a reasonable proxy for their competitiveness via their cost of capital, their workforce effectiveness, their innovation rate, and their operational performance."
Ryan Skinner, Forrester [31]

ADVANCED AI DATA SCIENCE TECHNIQUES CAN QUANTIFY AND PREDICT HOW IMPROVED:

As an example in action: our data from QSR helps demonstrate that greater investment into "environmental issues" by Mcdonald's would likely result in $140 million more of quarterly incremental revenue. For QSR brands, environmental practices generate or detract most from revenue. To put this in perspective, **acting on environmental concerns is predicted to lead to $140 million a quarter more in revenue** for leading QSR brands. **Focusing on social justice issues would lead to around $110 million a quarter** in revenue. Predicting and simulating actions in the market plays a key role for business looking to make effective change in our society but also positively impacts their bottom line.

HOW IS THIS BUSINESS VALUE BUILT?

Stakeholder perceptions underlie the real world business transactions your customers, employees, partners, suppliers and other stakeholders undertake.

"ESG leaders recognize that a significant part of their valuation stems from the strength of their ESG and their contribution to and relationships with stakeholders across the value chain. Some of them may even work to incorporate this into the firm's governance, ownership structure, or remuneration so that all of its partners benefit collectively as the business succeeds."
Ryan Skinner, Forrester, ESG's Footprint on Business [32]

"This broader interpretation of value would provide for longer-term competitiveness, profit, and business health, because it both drives down risk and makes the most of scarce resources."
Ryan Skinner, Forrester, ESG Significance to Business [33]

Driving down risk is particularly important, and a space to watch as it becomes increasingly possible to accurately assess and report how much ESG risk your brand is exposed to.

30. McKinsey: Five Ways that ESG Creates Value
31. Ryan Skinner, Forrester
32. Ryan Skinner, Forrester
33. Ryan Skinner, Forrester

HOW CAN YOU TAKE ACTION?

Social data is highly actionable. It not only provides measurement but also underlying drivers, voices, influencers and impactful content. It answers the "where, what, why and how." The data provides deep insight to inform not just communication strategy but strategic and implementation actions.
What you need are meaningful diagnostic capabilities that enable organizations to understand immediately how they are perceived against key competitors or cross industry leaders/laggards, understand areas of strength and weakness, evaluate perception gaps, and target areas of risk and opportunity.

Benefits of this Approach

CLEAR UNDERSTANDING

Stakeholder perception gaps.

DISCOVER "WHITE SPACE"

Areas of opportunity surveys miss.

"ALWAYS ON" INSIGHTS

Flowing at the speed of social opinion.

FLEXIBILITY TO DEPLOY QUICKLY

Via standard social listening platforms.

BENCHMARK

Your ESG perceptions vs competitors.

COMPARE WITH ESG MEASURES

Calibrate to your data and frameworks.

ALIGN MISSION AND STAKEHOLDERS

To their expressed values and opinions.

PREBUILT AI MODELS

High performance, low cost, industry-tested.

Conclusions

ESG is mainstream and essential to your core business competencies and your bottom line success

"A company must create value for and be valued by its full range of stakeholders in order to deliver long term value for its shareholders… "Our conviction at BlackRock is that companies perform better when they are deliberate about their role in society and act in the interests of their employees, customers, communities, and their shareholders."
Larry Fink, 2022 CEO Letter [34]

Data science has caught up with the pressing need to continuously monitor stakeholder perception of your ESG efforts

"Sustainability is the new aspiration, and the key to achieving it, according to a rapidly emerging consensus, is the development of sophisticated ways of measuring ESG activities and impact."
Jennifer Howard-Grenville, HBR [35]

Doing everything in your power to not merely implement ESG efforts, but to also measure their effectiveness and report your results where ESG ratings providers can credit you for them is an emergent critical discipline.

"Enterprises thrive best when they engage authentically with all of their stakeholders.

Understanding, engaging and creating value for a company's stakeholders is an emerging business discipline, requiring new management systems that span the entire enterprise and ensure that commitments are integrated into the corporate strategy and lead to tangible results." [36]

"While there are some opportunities to correct the record, those efforts also tend to be through electronic means. Social value management, like any other enterprise wide function, is increasingly a data management issue." [37]

Whether or not you are measuring for them, stakeholder perceptions of your ESG brand are impacting your bottom line.

Ignore them at your peril.

34. Larry Fink 2022 CEO Letter
35. Jennifer Howard-Grenville, HBR
36. Arthur W. Page Society
37. Arthur W. Page Society (in Stakeholder Capitalism and ESG, A Guide for Communication Leaders, p. 48)

About PRIS™ Decision Intelligence

The debate about whether ESG measures and investment impact business outcome has been settled through a new SaaS measurement solution that measures conversation data through the power of advanced NLP and applied AI. The Solution, PRIS, is the first solution to provide robust, rigorous and meaningful measurement of stakeholder perceptions of company ESG efforts across multiple dimensions and takes it a step further by tying those measures to business outcomes (sales and shareholder value) across industries. To sample the experience, we have available all ESG measures for leading brands in QSR (note: this can be changed by industry) and are offering a 30 minute review and discussion at your convenience.

About Converseon

For more than a decade, Converseon has been a leader in NLP powered consumer and social intelligence. During that time, it has gleaned an enviable reputation for innovation and excellence. Today the firm works in partnership with many of the world's leading brands and data platforms to maximize the value and impact of unstructured conversational data intelligence within organizations through its proprietary applied AI technologies, measurement frameworks, extensive industry experience, and data partnerships. For more information, please contact **sales@converseon.com**

CONVERSEON
Connect Conversations to Outcomes

converseon.com | sales@converseon.com | +1.212.213.4297