

# PERCEPTION CHANGE: ESG

Environmental Social Governance  
THE ROLE OF CORPORATE LEADERS

The shift from *nice to have* to  
**must have**

# FUNDAMENTAL PERCEPTION CHANGE FOR THE FUTURE

How will the environment, society and governance look in the future? What do we want it to look like?

These questions lead to the UN creating the [17 Sustainable Development Goals](#), signed by 193 member states in September 2015.

Now the question is, how can change on all areas be triggered?

What kind of perception changes are needed to achieve the SDGs and what evidence for perception change do we find?

What role do corporate leaders play in achieving the SDGs?

TO ADDRESS THE QUESTION AS  
TO HOW CAN CHANGE BE  
TRIGGERED THIS LECTURE  
EXPLAINS:

*the perception change of ESG and  
how this provides incentives for  
corporate leaders to accept the SDG  
invitation.*



# LECTURE CHECKPOINTS

Understand the relationship between the SDGs and ESG.

Interpret the perception change of ESG and how it influences corporate management from:

- Business Perspective
- Consumer Perspective
- Rewards and Penalties
- Awareness of Issues

Understand possible mechanisms for corporate leaders to integrate ESG principles.

# SDGS AND ESG

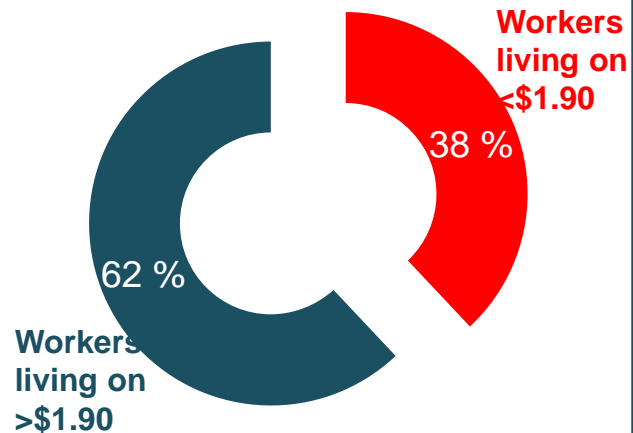
ESG, environmental, social and governance considerations by businesses begun in order to face the lack of trust and transparency made obvious by the financial crisis at the turn of the century. Whilst ESG wasn't uniformly adopted, it has continued to grow as crucial element to business management.

The Sustainable Development Goals (SDGs) are an open invitation to the corporate world to bring their strengths from ESG in order to improve society. ESG can be considered as the corporate applications of the SDGs.

2014-2016:

**793**      **Million**  
undernourished people in  
least developed countries.

Poverty: Least Developed Countries



2005-2016, 87 Countries:

**19%**      **of**  
**Women** between 15  
and 49 years of age  
experienced physical and/or  
sexual violence by an  
intimate partner in the 12  
months prior to the survey

# MOTIVATION

It is critical to understand the incentives of ESG contributions as it is

(a) Absolutely necessary: The statistics on the left hand side represents only a snapshot of issues faced today as reported by the UN. Whilst progress is occurring there is a significant journey ahead to reach the SDGs by 2030.

(b) Unlocking value: research has shown a promising link between effective ESG management and benefits such lowering of financing barriers, better structure of growth, performance indicating the *opportunity to change* compared to the *burden of change*.

# LECTURE CHECKPOINTS



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**Q: HOW CAN  
CHANGE ON  
ALL AREAS OF  
THE SDGS BE  
TRIGGERED?**

**A: CORPORATE LEADERS  
RECOGNISE THE PERCEPTION  
CHANGE AND IMPORTANCE OF  
ESG FROM:**

- 1 Business market perspective
- 2 Consumers perspective
- 3 Rewards and penalties of no change
- 4 Growing awareness of issues

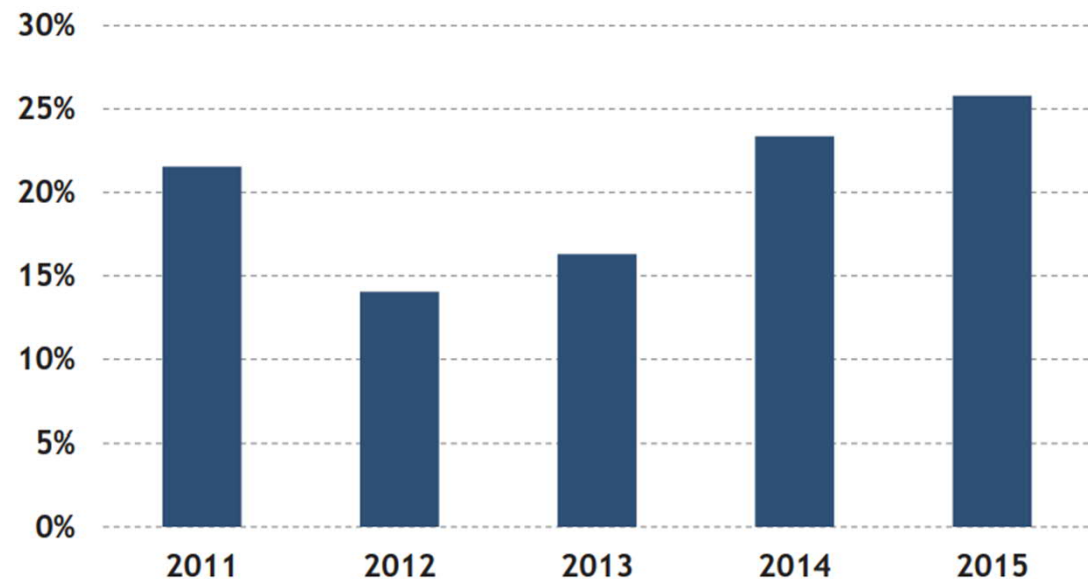


# BUSINESS PERSPECTIVE

## Increase in Share of Analyst Citations on ESG

The financial market has long be regarded as not contributing to ESG progress, in fact the opposite has occurred. ESG performance has become a bottom line factor and this is recognised by analysts in the market. This growing coverage is predominantly negatively-framed ESG management. Nevertheless, ESG violations hold immense weight in public perception the community clearly has a change in preferences, a trend that corporates mustn't miss.

**Figure 2: Share of ESG-related statements on various industries in analysts' citations (opinion-leading international business media) 1/2011 – 12/2015**



# BUSINESS PERSPECTIVE

## Share of ESG-Related Coverage is Not Completely Consistent Across Industries

14 of 19 industries have at least 20% share of ESG-related coverage.

**Figure 3: Share of ESG-related coverage in analysts' quotes in different industries 2011-2015 (%)**

Year	Cars	Banking	Construction	Chemicals	Retail	Financial Services	Health/ pharma	Real estate	Industrial sector	Media
2011	29,5	19,2	24,6	16,4	25,9	16,0	14,0	12,5	29,2	18,2
2012	21,0	14,1	3,2	9,9	13,7	9,0	13,1	9,7	9,7	10,4
2013	26,9	15,2	4,8	10,1	16,1	11,6	13,8	4,3	18,5	13,2
2014	31,8	25,7	10,8	10,4	23,1	19,3	24,2	8,5	24,6	19,9
2015	38,3	25,7	23,7	12,0	23,6	22,7	23,0	22,4	20,1	32,9

year	Consumer goods	Food	Oil & Gas	Commodities	Technology	Telecoms	Insurance	Utilities	Cyclical consumption/ tourism
2011	21,7	19,1	24,2	21,2	24,5	22,6	28,3	18,4	16,8
2012	7,5	12,2	12,7	16,2	18,0	15,0	10,1	11,8	9,9
2013	7,7	10,4	13,3	15,7	20,2	10,7	12,2	11,9	21,3
2014	21,7	16,8	20,2	21,1	27,8	17,2	14,3	12,3	19,6
2015	28,2	27,0	18,9	17,8	30,9	17,1	22,0	10,3	30,2

Basis: 207,138 statements by financial analysts and experts in 11 opinion-leading financial media

# LECTURE CHECKPOINTS



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# CONSUMER PERCEPTION

## Industries are Affected Differently by ESG Attention

Figure 9: Share of ESG/CSR-related topics on TV news: banking industry versus the automotive industry, 1/2011-11/2015

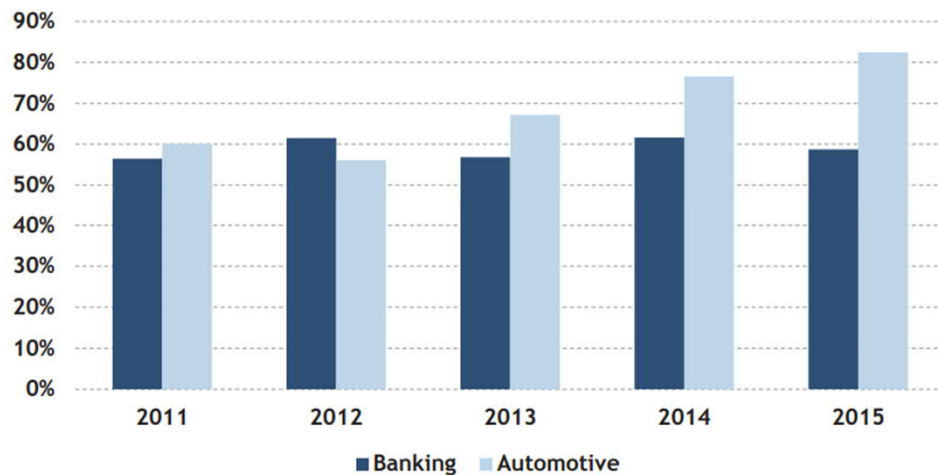
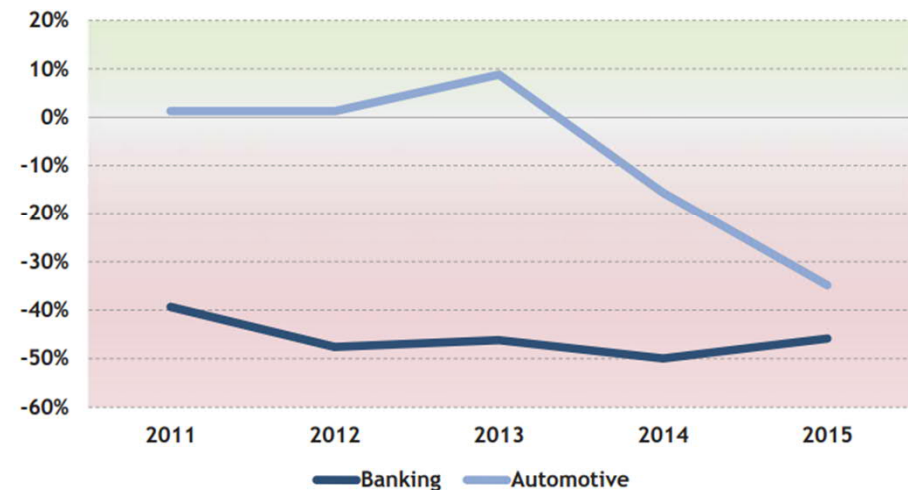


Figure 10: Tone of ESG/CSR-related topics on TV news: banking industry versus the automotive industry, 1/2011-11/2015

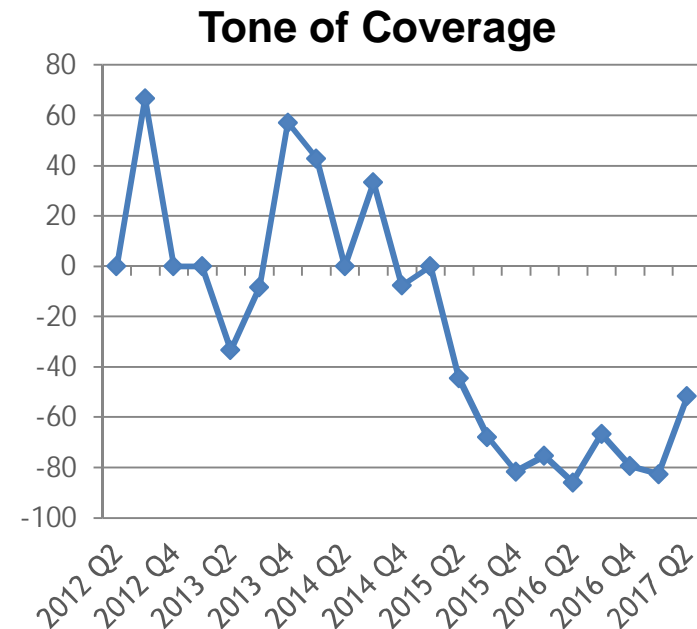
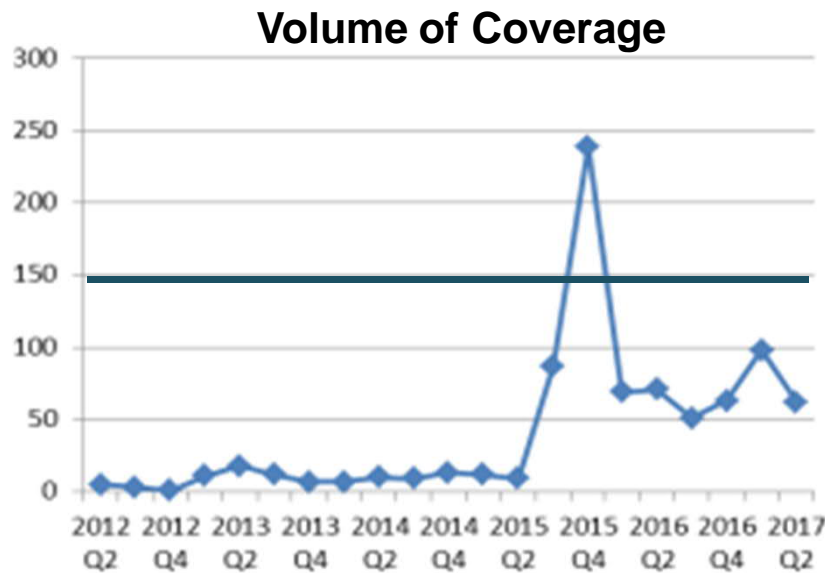


Basis: 20,854 reports on banks, 11,084 reports on the automotive industry on international TV news

Main street underlines the consequences of mismanagement around ESG. Again, the attention is given to the negative side where increase in share of ESG coverage for the car industry corresponded to the drop in tone. Negativity around the banking industry remains unchanged, perpetuating the message of mistrust.

# CONSUMER PERCEPTION

## Awareness Threshold Effect



In case a negative news crosses the awareness threshold for a broader public it starts to change forward looking perceptions. Undermining the importance of ESG has seen a **Share of Diesel car registration has dropped from 48 to 37%**. A negative framing of a certain technologies is likely to shape future consumer attitudes if the crisis management is not successful in restoring trust.

# LECTURE CHECKPOINTS



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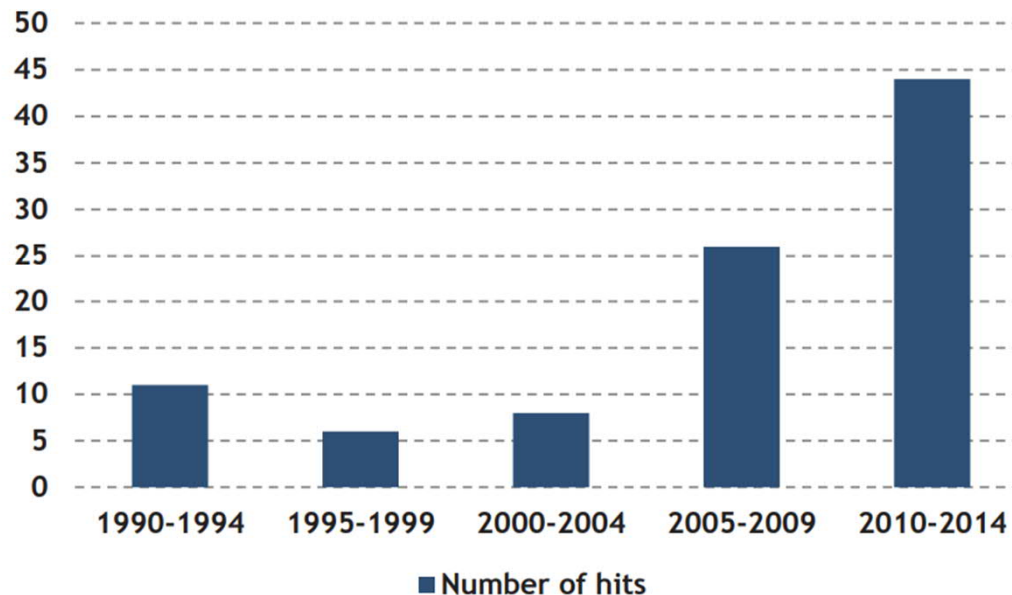
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# BUSINESS CONSEQUENCES

## Growing Presence Within Practical Management

As a consequence of business and consumer perception change, awareness of senior management is also shifting. Practical management is increasingly looking at implementing and managing ESG. Figure 1 infers the growing importance of sustainability to the readers of HBR over time.

Figure 1: Harvard Business Review: Search results on “sustainability”

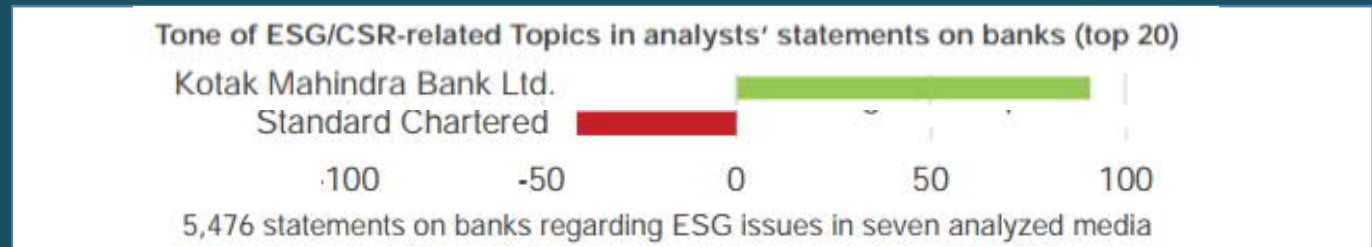




# BUSINESS CONSEQUENCES

## Reward of ESG Mindfulness

Some evidence presents that a favorable perception of ESG standards rather than aggressively fighting against overregulation and walling in legal action is the better way to gain shareholder value. For example: Fourth largest Indian private sector bank by market capitalization, Kotak Mahindra Bank Ltd C. Jayaram, Joint Managing Director was quoted to believe that 'consumer protection and trust is the core of financial services business. Unless he (the consumer) is not protected the business can't grow. Businesses that have their core motive as valuations will not last long.' (MINT Jan 23, 2013.)

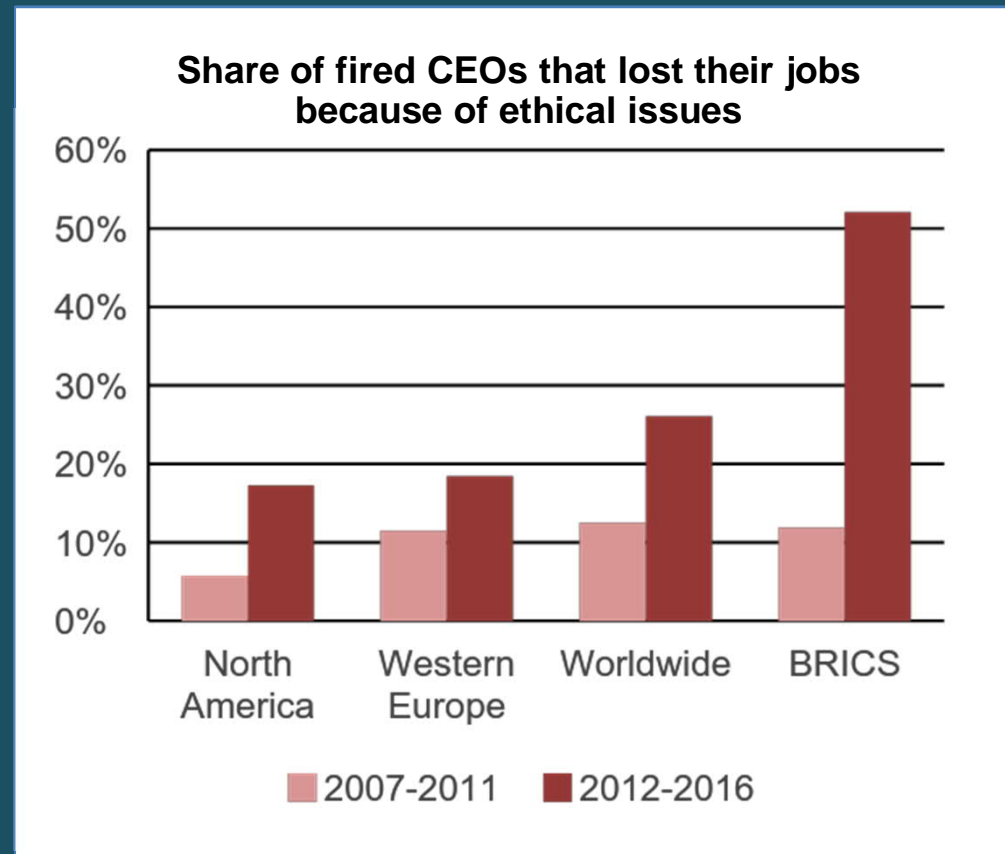




# BUSINESS CONSEQUENCES

## Penalty of ESG Ignorance

The risk of ESG ignorance among corporate leaders is best highlighted in this increase in proportion of fired CEOs on the basis of ethical issues. As an extension, consider how this graph contributes for the need of trust in corporate leaders.



# BUSINESS CONSEQUENCES

## Penalty of ESG Ignorance

Neglecting ESG management is also undermining the risk of:

### STRANDED ASSETS

By  
Matthias Vollbracht &  
Francesco De Leo  
CSR 2016

“The impact of changes in regulation, shifting preferences and disruptive technologies on the value of assets can be significant. Successful adaptation to fundamental changes is pivotal to protect and enhance the value of assets and the time for adaptation is limited and depends on real world indicators as well as trust and reputation in leadership. The moment that the investment and media community casts doubts over the ability of businesses to adjust, the stock market value will decline as the stock price indicates the expected future value of a business, not the present value.”

# LECTURE CHECKPOINTS



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# GROWING AWARENESS OF SUSTAINABILITY ISSUES

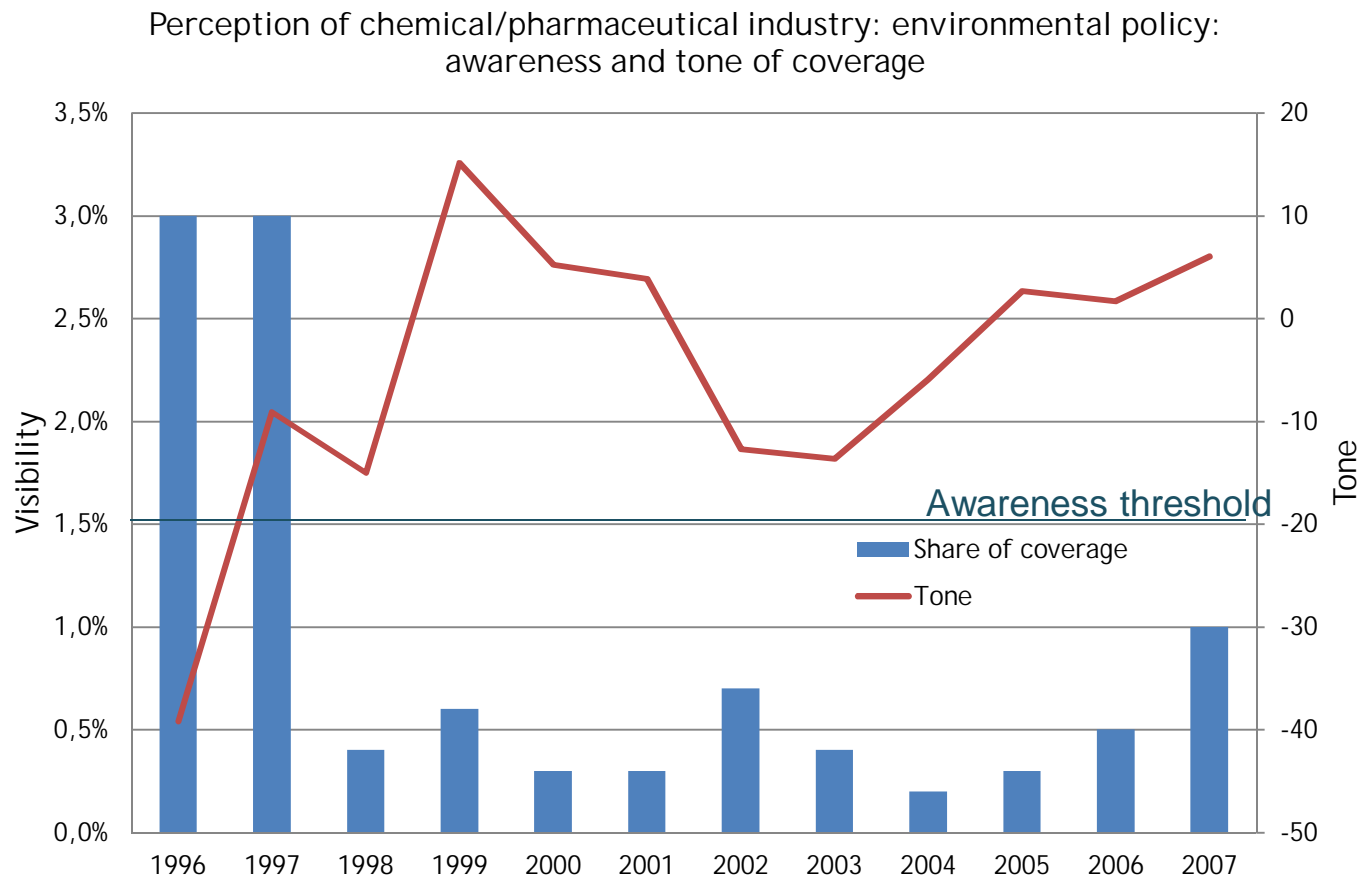


The change in business and consumer perception over time indicates the present and future importance of sustainability. Suggesting that the open invitation to the SDGs is evolving to an event that the corporate world should not only want to attend but be the first in the door. Not showing up, continuing the ignorance towards ESG comes at a higher risk than change.

Media coverage of specific ESG/SDG issues (Environmental Standards, Climate Change, Gender Equality) provides more evidence of this and is discussed in the following slides.

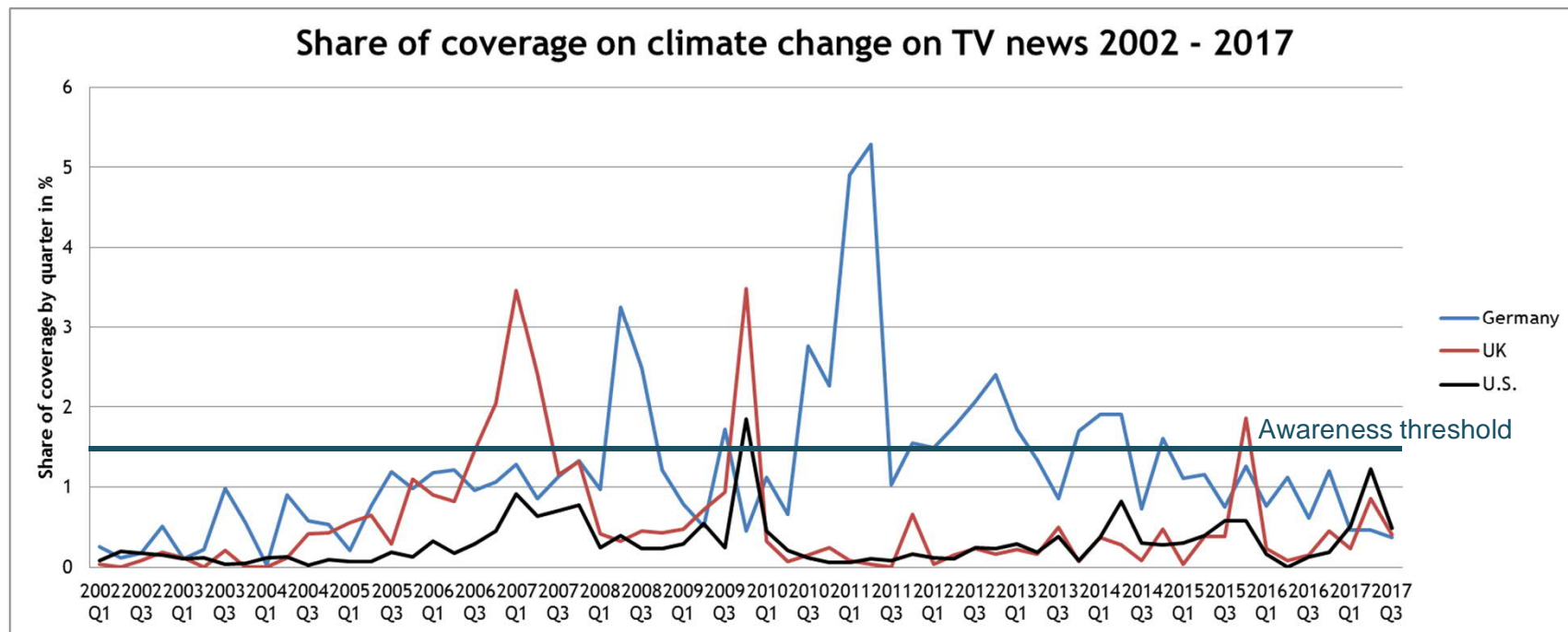
# ENVIRONMENTAL STANDARDS: SDG 14 + 15

The chemical/pharmaceutical industry underwent a perception change in removing the environmental disaster frame by prioritizing safety and health standards visibility. This appears almost a reverse of the perception change for the car industry (slide 8), indicating that the change can also occur for the positive side of ESG.

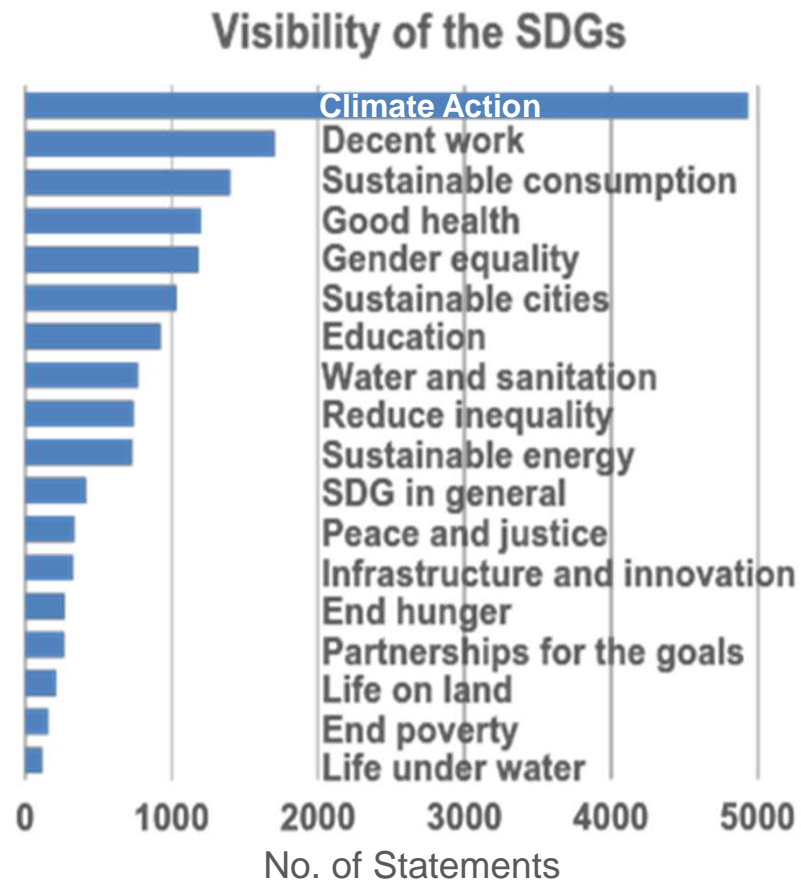


# CLIMATE CHANGE: SDG 13

Climate change is an *ideal* example of the power of the awareness threshold. In 2006 the [Stern Review](#) was released paving the way for policy implementation and more widespread understanding of the economic impacts of climate change. Despite coverage moving below the threshold today, the importance remains clear within the private sector.



# CLIMATE CHANGE: SDG 13



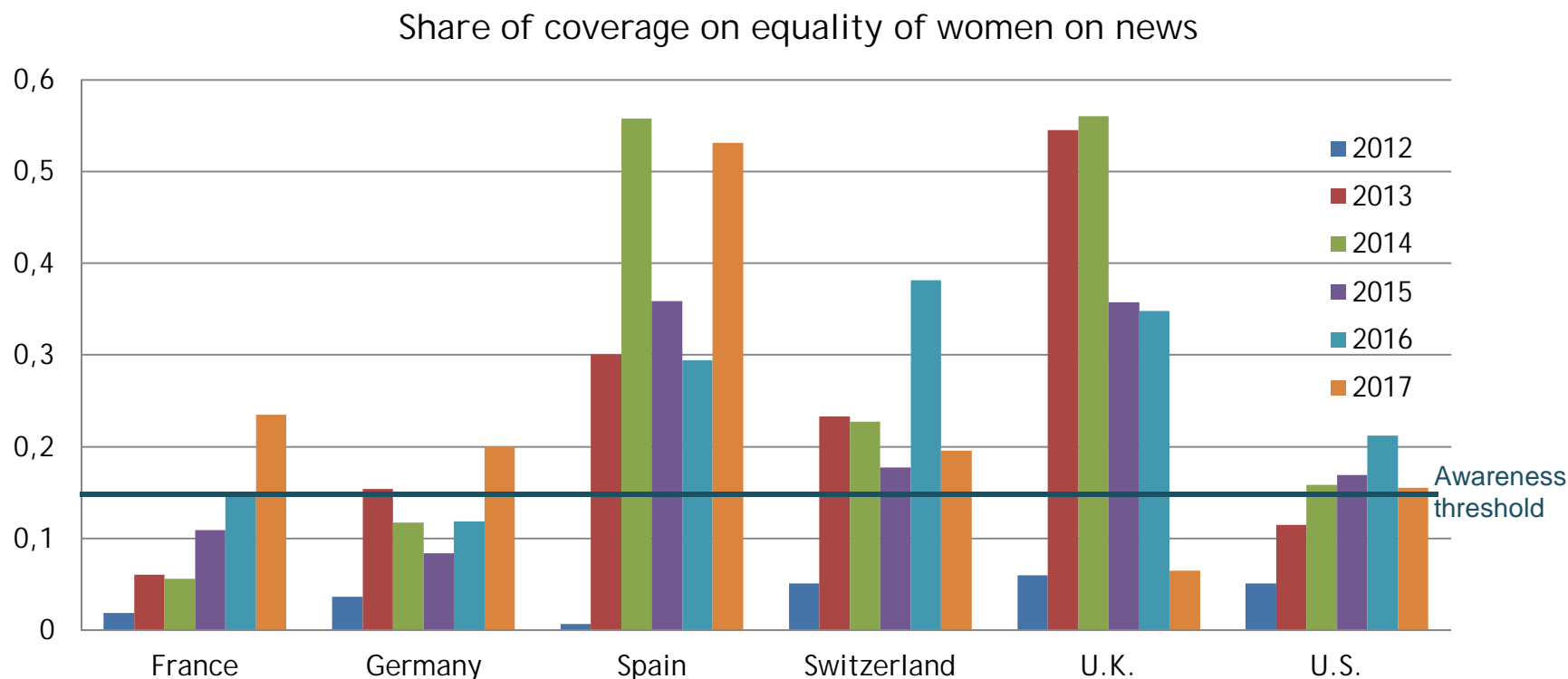
Source: SCR300 UNGSII

The Global Sustainability Index Institute ([UNGSII](#)), with Media Tenor, recently analysed the annual reports of the top 300 publically listed companies. The visibility of climate action show-cases the urgency of this topic and reflected consumer expectations that companies must behave responsibly when it comes to their impact on the environment. Therefore climate change is recognised as a core example of awareness leading to responsibility being taken by the private sector.

# GENDER EQUALITY: SDG 5

☑ Interpret the perception change of ESG.

Since 2012 the share of coverage on equal rights for women has risen in all analyzed countries. The chart is based on all types of news sources, presenting the broader trend in society. For the private sector to neglect this information there is growing risk of negative repercussions. The benefits of gender equality in the workplace has specifically received [attention](#). Note that there is still room for change (see Gender Equality in previous slide), supporting the need for action by corporate management.





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# POSITIVE SCREENING

A new approach by the UNGSII:

**RATHER THAN INITIAL FILTERING BY NEGATIVES, GSI TAKES AN ALTERNATIVE APPROACH BY FOCUSING ON THE POSITIVES.** Instead of perpetuating negativity there is a call for action. The purpose is to further grow sustainable investment to show the relationship between responsible, reliable management and performance. First analysis presents promising but justified performance.





ACTIVITY:

# THE ROLE OF CORPORATE LEADERS

Think about the different mechanisms, such as **positive screening**, that corporate leaders could utilise given the information on perception change.

Also consider the advantages of taking action now with the disadvantages of inaction.

Note there is no single answer to this activity, rather it is to allow creative and constructive thinking based on the information in this lecture.





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# SUMMARY

## Comprehension Question

How are ESG and the SDGs related and how would you explain the incentives of incorporating ESG principles to business leaders?

## Key Concepts

Perception Change

Stranded Assets

Positive Screening

## Sources:

Unless otherwise stated, all graphics were sourced from

[Media Tenor International](#)

# Contact

**Roland Schatz** is Founder and CEO of Media Tenor Ltd., the Research Institute of InnoVatio Verlags AG, [www.innovatio.com](http://www.innovatio.com) and [www.mediatenor.com](http://www.mediatenor.com) . With offices in Africa, Asia, Europe and the U.S. Media Tenor is the leading provider of ongoing international media content analysis, including impact analysis of new and traditional global media content.

Mr. Schatz is a 5<sup>th</sup> Generation Journalist, married and has 2 daughters. He holds a Masters in philosophy, economics, history and political science from the University of Fribourg and Bonn. Aside from a background in journalism and numerous entrepreneurial ventures, Mr. Schatz has served as trustee for the Education Africa Foundation in Johannesburg, the Innovation Institute in Pretoria and the Board of E-Standards in New York.

In 2008 the UN High Advisor President Sampaio appointed Roland Schatz as Global Media Expert. Together with Prince Ghazi of Jordan he founded the C1WorldDialogue Foundation in 2009 [www.c1worlddialogue.org](http://www.c1worlddialogue.org). In 2013 he was appointed Senior advisor to the UN General Director developing and implementing the perception change program at the UN. In Feb 2016 he founded for the UN the Global Sustainability Index Institute Foundation, UNGSII, [www.ungsii.org](http://www.ungsii.org).

He is teaching strategic communication management and perception change, since 1990. He publishes regularly on Reputational Risk, Financial Sentiment and Media Impact, etc. Since 2009 he hosts together with UN Academic Impact the Unlearning Intolerance Masterclasses. Together with Ulrik Haagerup he developed the Concept of Constructive Journalism [www.constructiveinstitute.com](http://www.constructiveinstitute.com) . At X University Roland Schatz is setting up the Constructive Disruption Institute.

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