Statement for the Record of

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ESG Part II: The Cascading Impacts of ESG Compliance

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The Association of Corporate Citizenship Professionals (ACCP) is the preeminent membership organization advancing the practice of corporate social impact. ACCP increases the effectiveness of Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) professionals and their companies by sharing knowledge, fostering solutions, and cultivating peer communities to elevate successful strategies, provide innovative solutions, and expand impact.

ACCP's nearly 250 corporate members are leading companies who are committed to the principles and practices of ESG because it improves their bottom line and responds to their stakeholders including investors, customers, employees, and communities in which they operate.

The Increasing Importance of ESG

ESG is a framework, criteria, and set of standards for a company's action used to evaluate risk, increase value in financial markets, and respond to their stakeholders.

- The environmental component (E): looks at the impact of resource consumption of a business on the environment and how a company performs as a steward of nature, e.g., emissions, natural resources, and environmentally friendly technology innovation.

- The social component (S): looks at how a business interacts and the relationships it sustains with employees, suppliers, and communities where it operates, e.g., consumer protection, community relations, and health and safety.

- The governance component (G): looks at leadership, internal practices, and policies that lead to effective decision making, shareholder rights, and legal compliance, e.g., anti-corruption and bribery, shareholder rights, and board diversity and compensation.

Taken together, the ESG discipline provides corporations with data and strategies that are material to their companies' success. CEOs and corporate boards are embracing and increasing ESG practices because of its measurably positive impact on business outcomes.

Restricting or discouraging ESG imperils free enterprise. To do so disadvantages financial competitiveness, limits participation in global markets, restricts opportunities to attract and retain top talent, increases risk, and jeopardizes reputation among consumers and other stakeholders. Corporations must have agency to carry out strategies that aid in their success, regardless of irrelevant culture wars imposed by activist legislators.

ESG Practices Provide Financial and Competitive Advantages

Rather than a single driver leading to a company increasing its financial performance, a complex range of drivers and stakeholders, including ESG, contribute to corporate growth.

- Large corporations doing the best job of meeting stakeholder needs in the U.S. had a 4.5% higher profit margin, 2.3% higher return on equity, and paid more than 5X in dividends.[1]
- 70% of U.S. CEOs said in a recent KPMG survey that their ESG programs improved their companies' financial performance.[2]
- 75% of Americans believe it is unacceptable for companies to be inactive in positively impacting society.[3]
- 86% of investors say that companies should work for the benefits of all stakeholders, not just shareholders.[4]

Companies that are discouraged from acting on this data face diminishing financial returns, investors, and public support.

Employees Prioritize Working at Purpose-Driven Companies

The employment market remains competitive for top talent, despite a volatile economy, and employees demand that companies act on social issues and lead with values. Utilizing proven strategies for recruiting, retaining, and engaging top talent is critical for innovation in a rapidly changing business environment. In voluminous studies of millennials and GenZ employees, a company's social impact profile is a key driver of employment decisions.

[1] Just Capital, 2023 Ranking, Retrieved at https://justcapital.com/reports/announcing-the-2023-rankings-of-americas-most-just-companies/
[2] CEO Outlook 2022, KPMG, retrieved at https://assets.kpmg/content/dam/kpmg/us/pdf/2022/08/ceo-outlook-report.pdf
[3] Purpose Premium Index, Porter Novelli, 2021, retrieved from https://www.porternovelli.com/findings/introducing-the-2021-porter-novelli-purpose-premium-index-ppi/
[4] Ibid, footnote 3

- 7 out of 10 potential employees (70%) are more likely to apply for and more likely to accept an offer from an organization they believe to be socially responsible according to a 2021 IBM survey.[5]
- 43% of employees are reconsidering their current job because their company is not doing enough to address social justice issues externally. [6]
- Millennials are willing to forgo an average of 14.4% of their expected compensation to work at socially responsible companies.[7]

Companies who do not disclose their data on social responsibility and/or do not leverage its advantage, lose the best employees to competitors that do.

ESG Helps Mitigate Risk and Is Required for Commerce in the Global Economy

ESG supports commerce in the U.S. and around the world.

- 92% of U.S. investors agree that a company with strong ESG performance deserves a premium valuation to its share price. [8]
- Companies neglecting to manage their ESG exposures may be exposed to higher future risk – particularly stock price performance risk – than their more ESG-focused counterparts. Volatility is ~45% higher for those with a poor ESG scores when compared to those with the best ESG scores.[9]
- Over 60 percent of all major business risks are either directly caused or negatively affected by climate change, including day-to-day business operations like extreme weather, utility supply interruption, and supply chain disruption.[10]
- Around the globe, the EU adopted an ambitious, science based corporate sustainability reporting directive in 2021, with full compliance from global companies required this year.[11]

Without considering ESG practices, companies risk lower valuation, increased operational threats, and restrictions on their ability to conduct business internationally.

ESG Contributes to a Positive Corporate Reputation

A company's reputation changes the behaviors of its stakeholders and their engagement with a company.

- A low ESG score can result in as low as a 10% willingness to buy, while a high ESG score can result in as high as a 67% willingness.[12]

[5] Sustainability at a Turning Point, IBM, 2021, retrieved at https://www.ibm.com/downloads/cas/WLJ7LVP4
[6] Porter Novelli Business & Social Justice Study, Porter Novelli, 2021, retrieved from https://www.porternovelli.com/findings/2021-porter-novelli-focus-all-gender/
[7] Closing The Racial Inequality Gaps, Citi, 2020, retrieved at https://www.citivelocity.com/citigps/closing-the-racial-inequality-gaps/
[8] 2021 Edelman Trust Barometer, Edelman, 2021

[9] State Street Global Advisors, Exploring the Link Between Stock Price Volatility and ESG Scores, 2023

[10] Deloitte, Saving the World Might Save Your Company, 2020
[11] European Parliament, 2022
[12] RepTrak, ESG Guide, 2022

- 87% of consumers say they will make it a priority to "take time to research brands, including their values and how they support the communities I care about." [13]
- 64% of consumers expect companies to talk about their behavior and impact on society, not just customer benefits.[14]

Reputation takes years of consistent work to build and communicate, but only minutes to destroy when misleading, inconsequential sound bites generate factless backlash. When the reputations of companies are deliberately destroyed in a culture war, America cannot and will not achieve its economic potential.

Conclusion

In conclusion, corporate environmental, social, and government (ESG) practices are necessary strategies to remain competitive in the global economy. Promoting a false narrative about or restricting corporations and investors from using valuable ESG frameworks diminishes free enterprise and puts blinders on investors who count on experienced business leaders to provide profitability. In 2023, we cannot not let partisan culture wars get in the way of proven, data-driven strategies.

[13] RepTrak, ESG Guide, 2022
[14] Power of Authenticity, 2021, Fleishman Hillard