

Gaining the competitive edge

The increasing role of ESG in marcomms
decision-making

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Foreword

Over the past few years, and especially since Covid-19, there has been much debate around the role of brands in Environmental, Social and Governance (ESG) as businesses across the board face increasing media and public scrutiny. ESG factors are becoming increasingly central to the way businesses are run and are fast being recognised as necessary for responsible and sustainable business growth.

What has been less clear is how central these considerations are in the marcomms space. How engrained and widespread is the role ESG plays in marcomms decision-making and therefore to what extent can ESG become a source of future growth for agencies?

Conversations in our industry about how important ESG criteria are in client decision-making can become quite polarised: on the one side, those who see it, increasingly, as the only game in town; on the other, those who believe it's just a distraction from the things which really matter. Unsurprisingly, the reality is more nuanced with the truth sitting somewhere in between. With this research we are providing the understanding necessary for agencies to navigate this complexity and find the business benefits in the ESG space.

By talking to client leaders from across a wide spread of industries it gives us a better understanding of the role of ESG in their organisations now and in the future, and the importance of ESG in the agency decision-making process.

We conclude with some immediate actions that we hope will help agencies on this increasingly important journey.

If agencies wish to find future growth for themselves and their client partners, but not at any cost, then this report is an excellent tool.

Sara Tate

Deputy Chair IPA Commercial Leadership Group, CEO TBWA/Worldwide



Executive summary

Gaining the competitive edge is the outcome of research undertaken by Opinium into the growing role of Environmental, Social and Governance (ESG) in marcomms decision-making.

The report, based on a study of both quantitative and qualitative interviews with senior marcomms leaders, shows that ESG is fast becoming central to day-to-day decision-making. Whilst recognition of the importance of ESG has been steadily gaining momentum for some time, this has undoubtedly been accelerated by Covid-19.

As ESG has become more important for brands, so has it become more important that the agencies they work with demonstrate good ESG practices. Our study shows that brands are holding agencies up to high standards when it comes to understanding their ESG values, responsibilities and actions.

As part of the research, we asked participants to trade off different factors and attributes that might be highlighted in a pitching process. In doing so, we were able to calculate the

most important factors when considering which agency to hire for any given project or campaign. Our research highlighted that whilst agencies will need to continue to excel creatively, demonstrate ROI and have a strong baseline of hygiene factors, demonstrating ESG values and actions to brands could give agencies a marginal gain over their competitors.

Furthermore, whilst our research shows that ESG practices are becoming widespread there is a desire and need to do more. Uptake across individual measurement varies and brands face increasing challenges in communicating ESG business decisions to their stakeholders and customers.

Agencies have an important role to play in helping brands navigate this complex ESG landscape. Those that do will reap the rewards of continued commercial success: improved consideration and conversion of new business opportunities, strengthening of existing relationships, and the development of more specific products and services in the ESG space.

Figure 1: Most important factors when considering which agency to hire for any given project/campaign



Part 1

Covid accelerates the importance of ESG

Having a strong ESG strategy has long been regarded as a clear indicator of a business's ability to generate long-term, sustainable returns. But whilst recognised by financial analysts, how important is ESG to those working within Marketing and Communications functions? The answer? Very.

Currently, four in five marcomms leaders say that ESG plays an important role in day-to-day business practices with 84% expecting this to become increasingly so in the future. Whilst recognition of the importance of ESG has been steadily gaining momentum for some time, this has undoubtedly been accelerated by Covid-19. Just over half of all marcomms leaders say that the pandemic has meant ESG priorities have become more important for their organisation and it's easy to see why. (Figure 2)

Across the UK, and globally, Covid-19 has highlighted inequalities and exacerbated wider societal shifts. It has also provided many, both inside and outside the industry, with the time to reflect upon what's important to them and the legacy that they are creating.

Consumer expectations too have shifted. Whilst ESG-led initiatives may once have been a guaranteed point of differentiation, this is no longer the case. Instead, consumers' expectations have grown in line with wider

"I would say over that last 18 months, it's become a far bigger thing. I think the marketing community and consumers are probably moving on at that same pace, but [...] implementing some of these changes takes time [...] society changes a lot and the rules by which we all live change a lot."

CMO Pharmaceutical Company

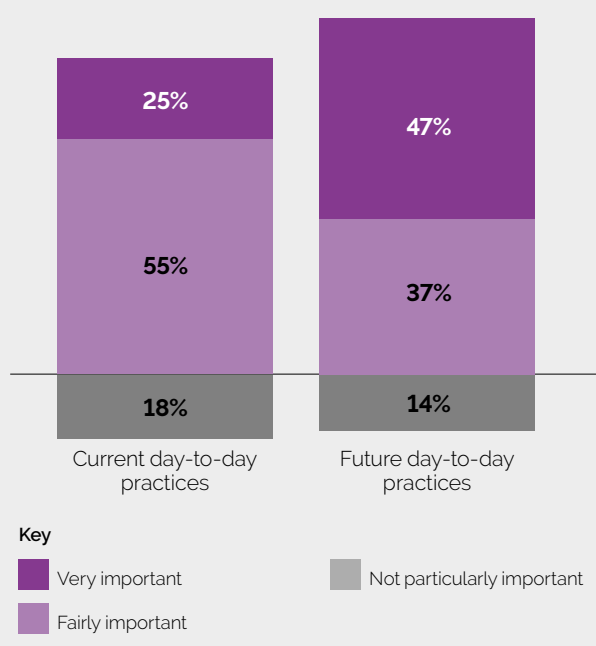
societal awareness, and the expectation of many is that brands should already be active within this space. Although good for both the planet and people, this means that purpose-led brands are playing in an increasingly crowded field and focusing on just one facet of ESG is no longer enough.

Yet whilst most (94%) of those surveyed said that the 'Social' component of ESG was important to their organisation, this fell to 82% (-12%) and 80% (-14%) respectively for Governance and the Environment. In part, this has been driven by the focus of the marcomms industry on key issues such as Diversity and Inclusion, but is also determined by the extent to which leaders believe their organisation can not only create lasting change but do so now. Debate around businesses' impact on the environment, for example, continue to dominate the media landscape, but organisations often feel they face significant barriers to making a measurable impact in this space. Unless brands are directly responsible for either product production or their supply chain, many do not see how they can credibly align with these objectives. (Figure 3)

And that is part of the problem.

Whilst many marcomms leaders want to improve their organisation's ESG credentials, they are aware of the challenges faced and

Figure 2: Marcomms leaders agree that ESG is and will become increasingly important in day-to-day practices





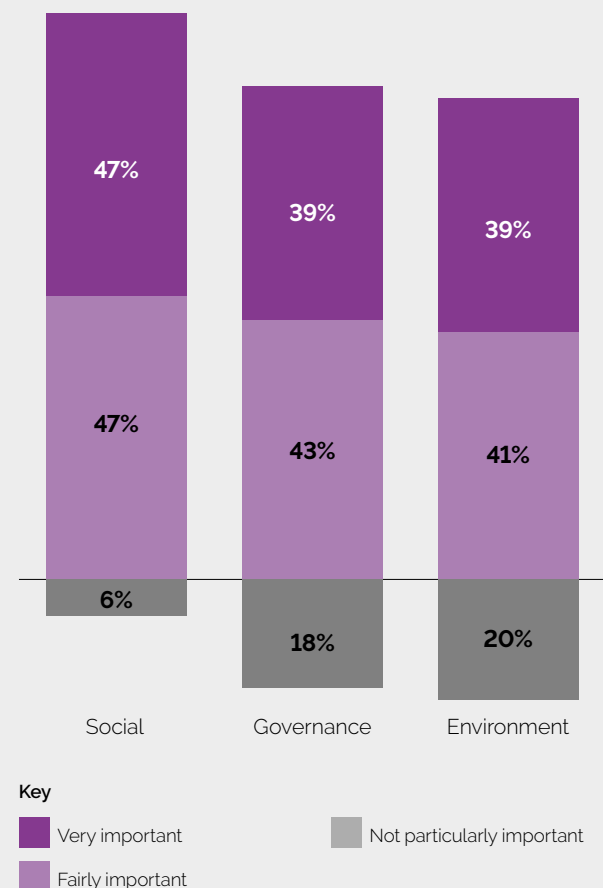
questions posed in doing so. The trade-off between, for example, greater recycling of virgin materials with a potentially larger carbon footprint means that decision-makers can often feel that there is no 'best choice'. Similarly, there remains a concern that whilst consumers' expectations of a brand's ESG credentials are increasing, they do not personally always see the direct impact of these practices and are not therefore always prepared to tolerate any potential increase in cost as a result.

The final barrier is also often the hardest. Many of those interviewed mentioned that despite their best intentions, ESG can often take a backseat when there are conflicting work demands. There is, however, an increasing recognition that this needs to change and as a result there has been an increase in the formalisation of roles that focus on sustainability.

Despite the increasing importance of ESG amongst brands therefore, there is a desire and demand to do more. Agencies have an important role to play here. Brands are looking for help not simply to communicate what they are doing and why it matters, but for support in achieving their ESG goals. From demonstrating how the production of an advert could be adapted to have a lower carbon footprint to building in ESG performance indicators into statements of

work, those agencies that embrace ESG have the opportunity to not only drive real change, but to differentiate themselves from their competitors.

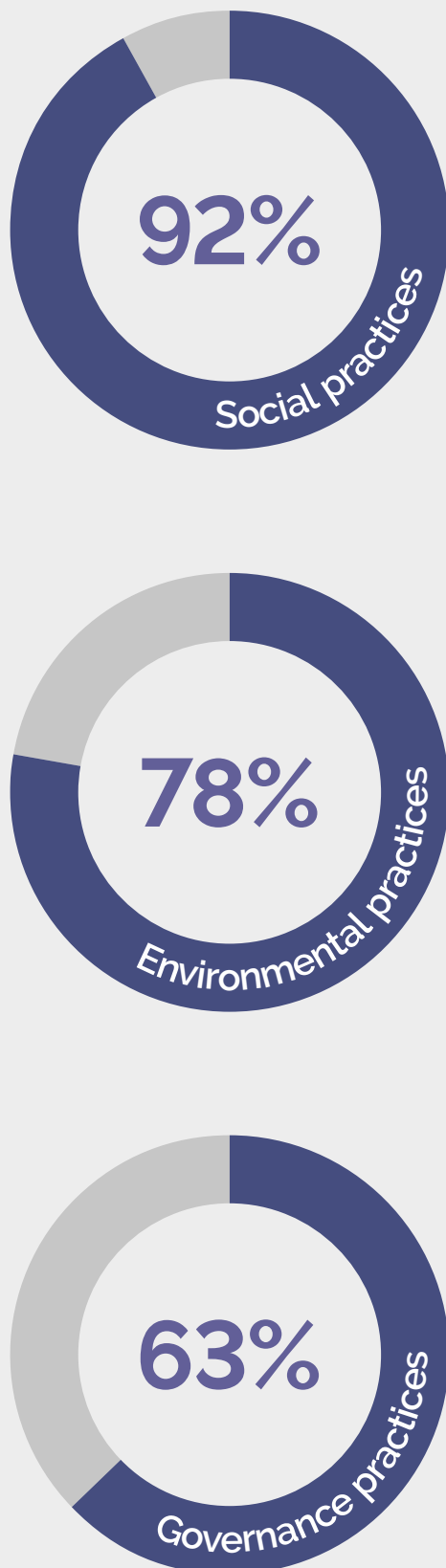
Figure 3: Businesses placing particular emphasis on the 'S' in ESG



Part 2

Priorities
are
changing

Figure 4: The majority of businesses have already implemented ESG practices, particularly across Social and Environmental



Future ESG priorities for businesses and brands are indeed changing. If real change hasn't already begun to occur, it looks like the industry is heading in that direction, with a particular emphasis on the 'S' in ESG. Of those interviewed, 92% said their business had implemented at least one Social practice already. Social practices include workplace policies¹, employee training and education programmes, and fair pay for all employees. Whilst still high, fewer have implemented some form of Environmental practice or Governance practice. (78% and 63% respectively, as shown in figure 4.)

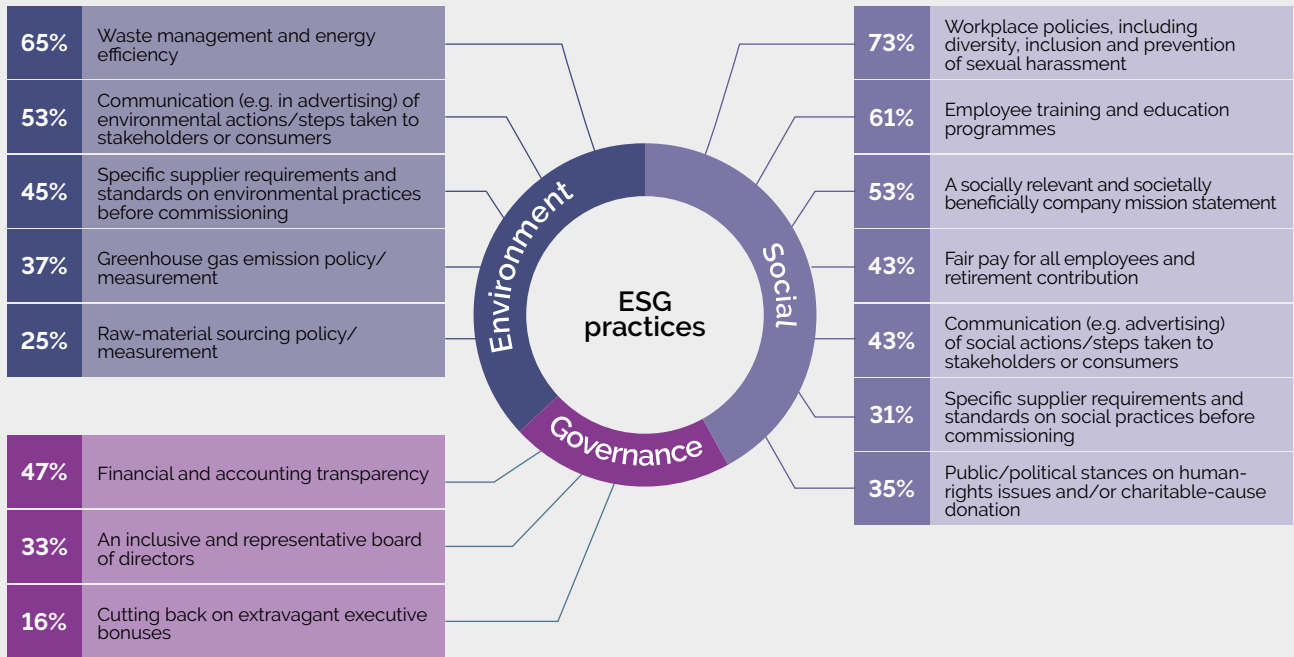
However, whilst uptake is high across the whole ESG spectrum, looking at a more granular level and across individual measurements, there is great variation. Whilst internal workplace and energy efficiency policies are well established (73% and 65% respectively), those policies that are more outward looking are far less widespread. For example, when it comes to specific supplier requirements for social standards or having public stances on human-rights issues, only 35% and 31% of businesses respectively have these in place. Furthermore, we see a contradiction emerging in how internal policies are being implemented. Whilst wider diverse workplace practices are in place amongst the majority of businesses, only a third of businesses interviewed said they have an inclusive and representative board of directors. These wide variations across individual practices reflect the challenges that businesses are grappling with on a day-to-day basis, providing a clear opportunity for agencies to help brands navigate and communicate their ESG actions.

"Sustainability, provenance and the area of what you'd say is ESG is fundamental in every brand's plan [...] it never has been so prominently called out before"

Marketing Director, FMCG company

1. Including policies that promote diversity, inclusion and sexual-harassment prevention.

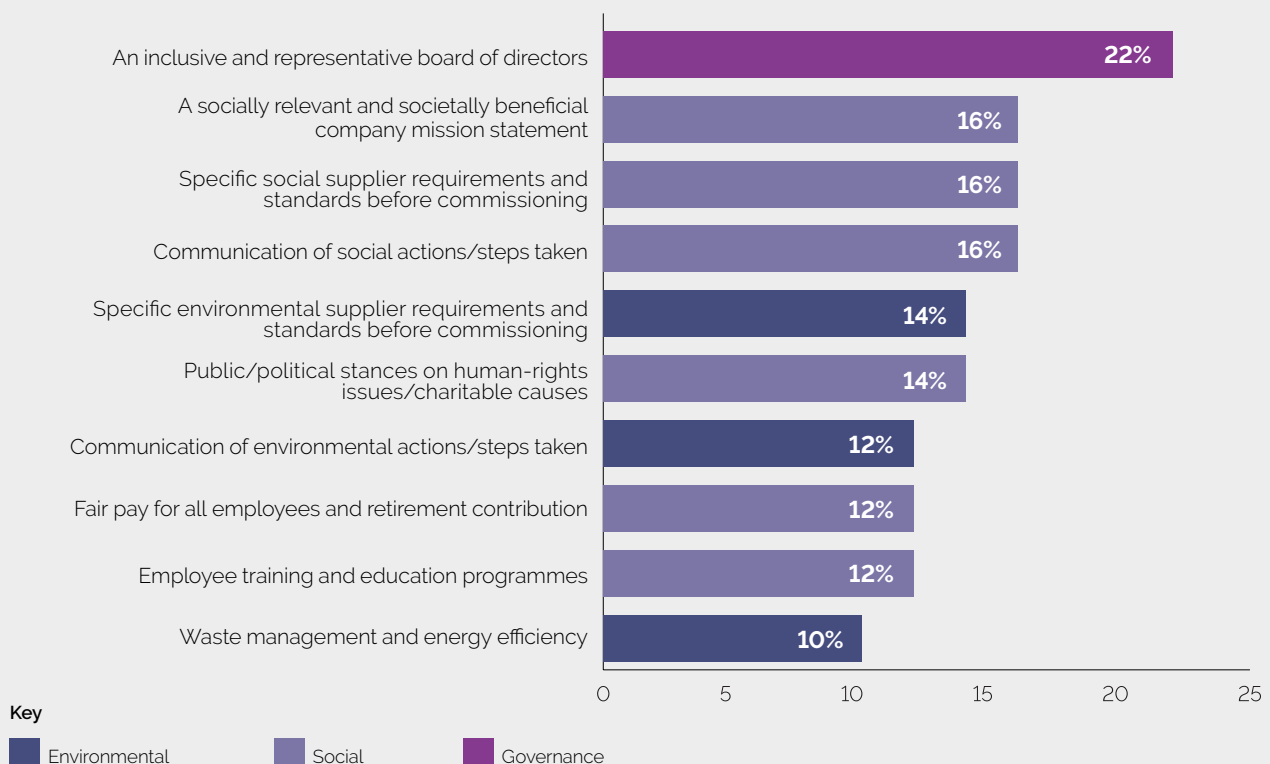
Figure 5: Uptake across individual measurements varies



So, as many of the senior marcomms executives interviewed highlighted, brands are becoming increasingly action-orientated and are ultimately holding themselves accountable for change. We should therefore expect greater public commitments from brands as part of a sustained environmental

and social strategy. They will also look to showcase developments, by tracking and measuring progress through performance reports. Looking outwardly, brands will seek out collaboration with agency partners that can help them to hone and refine better working practices.

Figure 6: Governance and Social will play an increasingly important role in future ESG practices

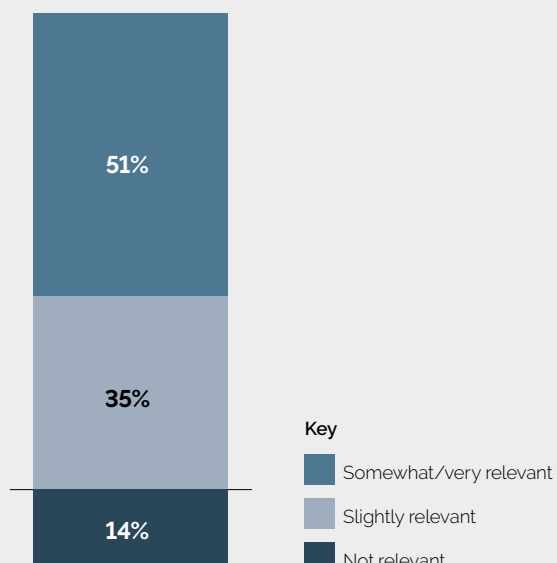


Part 3

**ESG is
becoming
increasingly
influential**

It follows that as ESG is becoming increasingly important for organisations, ESG is also becoming increasingly important in marcomms decision-making. Just under two in five marcomms leaders report discussing ESG priorities in their role a few times a month, whilst over half say that ESG is relevant to day-to-day decision-making within their role and department. (Figure 7)

Figure 7: Playing a rapidly increasing role in day-to-day decision-making



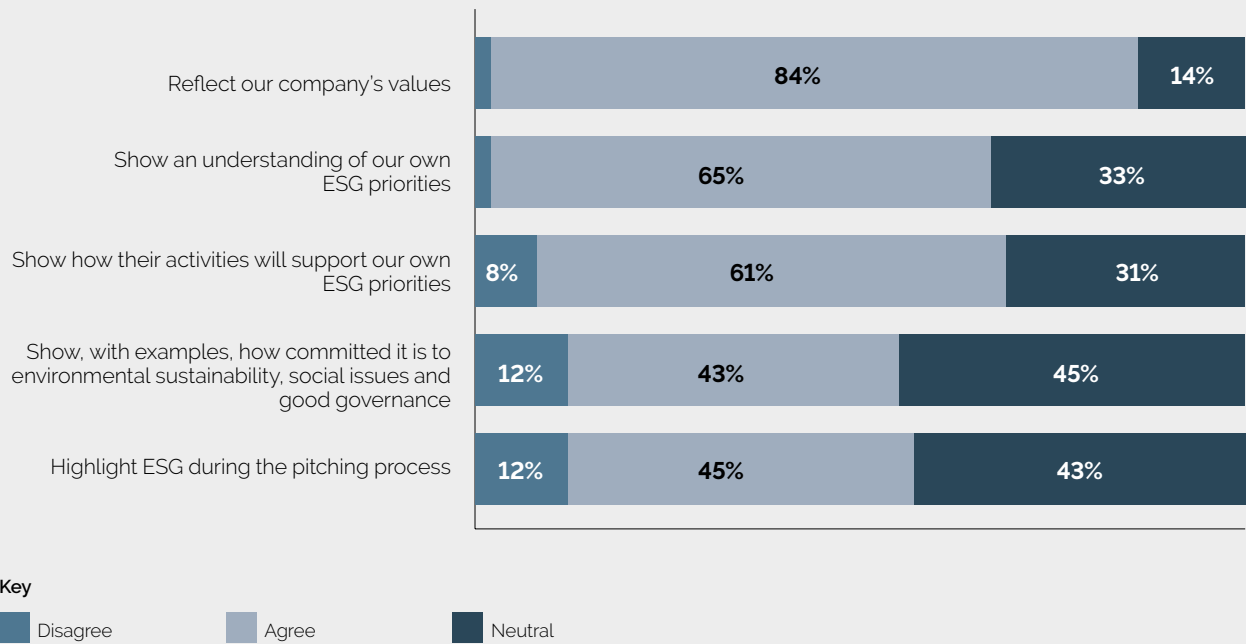
As internal emphasis on the role of ESG grows within brands, so too does demand for agencies which reflect both a business's values and its ESG priorities. (Figure 8)

The issues for agencies looking to capitalise on this demand is that whilst those interviewed were clear that the values and philosophy of an agency were paramount in driving selection, how this is determined by the brand is often highly subjective. For most brands 'gut feel' and 'connection' rank above all other credentials, since the closeness of the working relationship between brands and agencies determines how both teams can work collaboratively. Indeed, the expectation from brands is that agency teams should function as an extension of their own. Yes, they should be partners. And, yes, they should be challenging and creative. But ultimately brands are seeking agencies that are flexible and responsive to their needs and driven by their agenda.

So how can ESG make a difference to that close working relationship between brands and agencies? Well, how an agency operates, its values, its ways of working, its relationship with its employees, are



Figure 8: Brands hold agencies up to high standards when it comes to understanding their values and ESG priorities. When choosing an agency, it must...



being increasingly recognised by brands as influencing what it can bring to the table. Those interviewed were crystal clear that they wanted action, not words, from their agencies. Just as awards are often seen to signify an agency's talent, ESG practices, whether evidenced by green practices, diverse account teams, or B-Corp status, are increasingly being seen as representative of how agencies can support brands to achieve their own ESG objectives.

"Agencies are people machines predominantly. You've got to have that connection in on the people level. If you haven't, then I would imagine you're screwed as an agency."

CMO Pharmaceutical Company

Part 4

ESG is
playing a
growing
role

"It's not automatically there, it's not along with price, [but] you're starting to see it come up. So if you're scoring out of 100 you might find it's been a score of 5% [...] It's fairly low at the moment but I think that will increase over time. I would've thought it was going to be up there in the 20%."

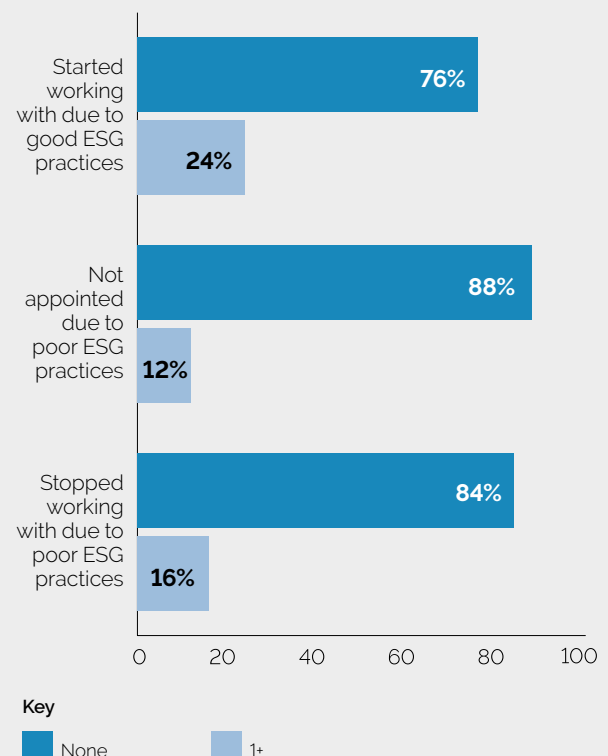
Procurement Consultant



Companies and brands are increasingly identifying ESG as a core consideration in their business. Both strategic and day-to-day decisions are incorporating outward and inward-looking policies into the structure of the company's DNA. But what does this mean for agencies? Is there an expectation from clients that their agencies reflect their business trajectories? Will agencies gain from embracing ESG or, conversely, will they lose out by not embracing ESG? Based on this study, we have found that brands have begun to factor in ESG practices into their agency consideration.

Among the marcomms leaders interviewed, the draw of ESG is evident, with a quarter (24%) noting that they had started working with at least one agency due to good ESG practices. A further tenth (12%), however, claim to have not appointed at least one agency due to poor ESG practices in the past and 16% claim to have stopped working with an agency due to poor ESG practices. Whilst this number is still small, it is not an insignificant minority and the research points to an upwards trajectory of ESG importance. (Figure 9)

Figure 9: Brands are starting to factor in ESG practices into their agency consideration

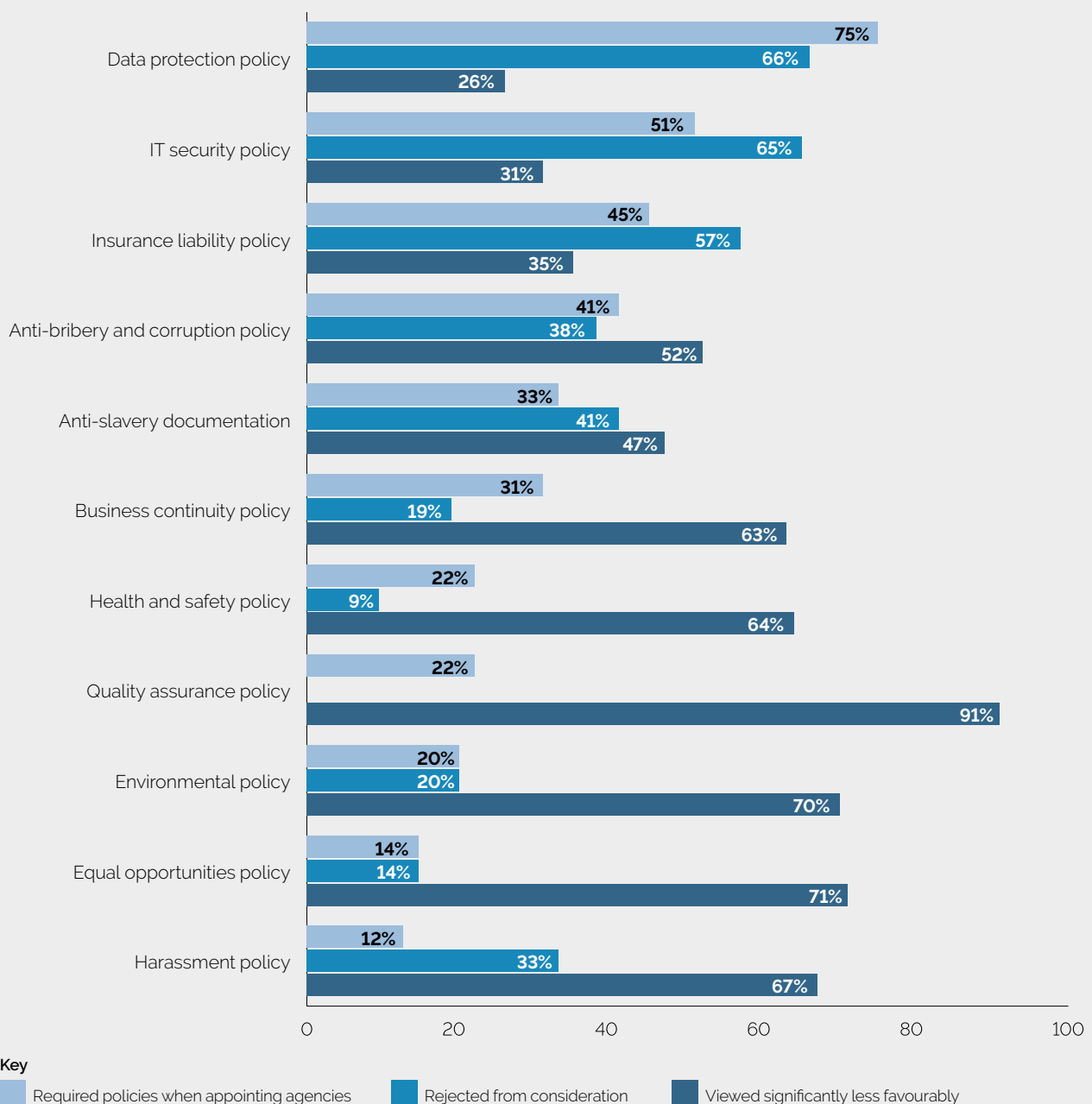


The research also highlights that brands are starting to formally measure ESG practices when appointing agencies. This is where those agencies that talk the talk without walking the walk will come undone. For example, three quarters (75%) say their company requires an agency to show proof of data-protection policy. Of those, two thirds (66%) claim an agency would be rejected from consideration if they failed to provide documentation about this, whilst a further 26% said an agency would be viewed significantly less favourably. A fifth (20%) claim their company asks for an environmental policy from agencies and whilst only a further

fifth (20%) would automatically reject them from consideration if they failed to provide documentation, 70% said they would be viewed significantly less favourably.

In summary, we expect ESG to feature more permanently on the score sheet. It will never become a singular deciding factor for brands choosing an agency, but it will become increasingly more important. As the research has highlighted, brands are starting to refuse to work with agencies because they fail to show, and measure, their ESG credentials. As certain ESG-related issues become unavoidable, brands, and in turn agencies, will need to adapt.

Figure 10: Proof of Governance and softer aspects of Environmental and Social are starting to be formally measured



Part 5

What's next?

Takeaways from this study

ESG is the new big consideration for senior clients, and a competitive opportunity for agencies – so get on the front foot now or be left behind. Here are three things that really stand out from this study.

1. ESG is fast becoming part of brands' inherent values

ESG is currently an established day-to-day consideration for brands. That story is only just beginning, with key decision-makers certain that its importance will only increase in the future. Rather than an isolated, niche aspect, ESG is becoming increasingly central to the way businesses are run and is fast being recognised as necessary for business growth.

2. We should expect to see ESG feature more permanently on the score sheet

Whilst ESG factors have not traditionally been a fixture on the score sheet, there is an increasing consensus that they are now a more permanent feature in the onboarding process. Speaking to a top procurement consultant, she suggests ESG weighting will increase over time from a 5% to 20% score. Watch this space.

3. Demonstrating your agency's expertise and action is key

Just as it is vital to home in on your client's DNA and values, you must also look to demonstrate your own agency's values and philosophy. Using your expertise and showing how committed your agency is to the same journey as your client's provides a springboard for a partnership. When choosing an agency, 43% of clients agreed that the agency must demonstrate how committed it is to ESG.

Three things to take into the future.

1. Get under the skin of your clients' businesses

Knowing that ESG is becoming increasingly integrated with brands' DNA, it is vital that agencies look to get under the skin of the businesses' ESG agendas. Whilst we are well versed in brands – understanding their customers, goals, tone of voice, strategies and visual identities etc – we need to look beyond that and embrace their broader ESG objectives.

2. Make ESG part of the conversation and demonstrate its relevance wherever possible

ESG is no longer an inconvenient PR exercise. It is increasingly an active, day-to-day consideration for brands, with 80% considering ESG important to current day-to-day practices. Agencies must utilise this shift in momentum and walk their clients through creative ESG-focused ideas and processes. The ESG space is wide-reaching – enabling agencies to deliver a creative brief whilst simultaneously demonstrating ESG relevance.

3. Action, not buzzwords

This research has highlighted the importance of demonstrating concrete examples to back up ESG claims. Gone are the days of buzzwords and vagueness. To stand tall in this space, brands are expecting agency partners to be clear about the action they are taking. Spell out your progress. Be proud of change.



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