THE CONFERENCE BOARD

The Role of the CEO in Driving ESG

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The Role of the CEO in Driving ESG

Introduction

CEOs play a central role at corporations in deciding: 1) which environmental, social, and governance (ESG) issues truly matter to the company, 2) how to integrate those issues into the business, 3) how to structure their organization for success in sustainability, 4) how to tell the firm's ESG story effectively, and 5) how to drive sustainability into the culture. They also determine how fast to move on ESG issues; how to balance ESG matters against other priorities, including during an economic downturn; and where the company should position itself on the stockholder primacy to stakeholder capitalism spectrum. And they serve as the key conduit of information to the board as well as spokesperson on ESG matters both internally and externally, including whether and how the company should respond to divisive political or social issues as they arise. At the same time, CEOs must balance these activities in a climate of significant "ESG backlash" among investors, policymakers, and others who are skeptical about ESG's impact on corporate performance and/or opposed to companies playing a stronger role in addressing environmental and social issues.

This report provides insights to help CEOs and their companies navigate the challenges they are facing in driving the broader focus on ESG and the simultaneous shift to a multi-stakeholder form of capitalism.

Insights for What's Ahead

- **CEOs should look beyond the traditional "materiality" assessment in determining which ESG issues matter, and instead engage in a more comprehensive strategic analysis.** In so doing, CEOs should focus not only on the current importance of issues to different constituencies but also on where the company can have the greatest impact on the long-term welfare of the firm, its stakeholders, society at large, and the natural environment. While a CEO may initially find it useful to develop a "sustainability strategy," the goal should be to incorporate ESG into planning to such an extent that the company has a board-approved "sustainable strategy."
- **When assessing their ability to have impact, CEOs should consider their firm's role in three key areas, thereby making a link to—and prioritizing—its stakeholders**: the marketplace (as a purchaser and seller of products and services); the workplace (both its workforce and operations); and the public space (government relations, community relations, and public communications). CEOs will want to stay attuned to the risk of being labeled "hypocrite in chief" by saying one thing and the company doing another.

- **To understand what's important to their different stakeholders, CEOs should have multiple "sensors" that enable them to hear a diversity of viewpoints**. Stakeholders—customers, employees, owners, and communities—embrace a wide range of views. CEOs should continue to couple direct engagement (e.g., with employees and investors) with empirical data to gauge the full range of stakeholder views.
- **To increase employees' understanding of the firm's positions on ESG, CEOs and the rest of the C-suite should make the business case for addressing ESG**. It's critical that CEOs and their teams educate their stakeholders about the firm's business model and the intersection between the firm's business success and sustainability. CEOs can also ensure that employees are aware of the external pressure coming from investors, regulators, and others on these topics.
- **CEOs should work with their boards to ensure that directors are fluent in the key issues the board is expected to oversee and not over-reliant on the views of a few "expert" directors.** While SEC disclosure rules and investor pressure may encourage boards to recruit directors with certain expertise, boards should avoid falling into the trap of looking to a single director as the source of knowledge and judgment on a specific topic. Boards can avoid this problem by ensuring that the "expert" director brings a broader strategic perspective to the board and is interested in learning, not just lecturing. CEOs can make sure the full C-suite and board are conversant in key ESG topics. The board chair or lead independent director (LID) can also be mindful of ensuring that alternative perspectives are brought to bear.
- **Companies should also better align their C-suite to execute the ESG agenda.** Even though the shifts toward ESG and stakeholder capitalism are breaking down silos, there's room for improvement. According to a recent survey of C-suite executives by The Conference Board, CFOs are often less likely to embrace ESG as a priority. The CEO, who is best suited to lead the discussion among the C-suite as to why ESG matters, may need to look for new talent if their CFO or other executives cannot get on board.
- **When delivering their sustainability story, companies should focus on the business imperative behind the story—and on those stakeholders that can either make it happen or imperil it.** They should prioritize those stakeholders who can help them achieve their goals (or block the way) and tailor their communications to them. This approach can help to set priorities when there are so many stakeholders seeking ESG information.

About This Report

The Conference Board ESG Center, in collaboration with KPMG; Morrow Sodali; and Weil, Gotshal & Manges, held a Roundtable—exclusive to CEOs—to discuss the new pressures CEOs are facing and their role in: (i) deciding which ESG issues truly matter; (ii) integrating ESG into the company's business strategy and operations; (iii) engaging the board of directors constructively on ESG issues and aligning the C-suite and broader organization to execute the ESG agenda; and (iv) communicating the company's ESG story in an authentic, reliable, and effective way to multiple constituencies. This report provides findings and insights based on that discussion.

Deciding Which ESG Areas Truly Matter

Whether a CEO helms a public or private corporation, they are undertaking these roles in an unprecedented environment. A recent survey by The Conference Board found that 72 percent of companies believe ESG issues will have a *significant* and *durable* impact on boards over the next five years.[1] And close to 90 percent of C-suite executives think that a shift from a focus on primarily serving shareholders to serving a broader group of stakeholders is underway at corporations around the world—with 80 percent saying it is occurring at their company and the majority of CEOs believing this shift will succeed.[2] At the same time, there is also a significant level of "ESG backlash" among investors, policymakers, and others who are skeptical about ESG's impact on corporate performance and/or opposed to companies playing a stronger role in addressing environmental and social issues.[3]

What (and who) is driving the focus on ESG?

Unlike other waves of corporate governance reform in the past 20 years—the Sarbanes-Oxley Act which followed a string of corporate accounting scandals in 2002 or Dodd-Frank enacted after the 2008 financial crisis—the current era is not driven by regulation or a single crisis.[4] Although intensified by recent global events, including the COVID-19 pandemic, the war in Ukraine, supply chain disruptions, and other social and economic crises, the focus on ESG has been building steadily over years—reflecting concerns from a myriad of stakeholders. Indeed, companies are facing pressure to address ESG issues from:

- **Institutional investors** who believe that environmental and social factors can have a material impact on companies' long-term financial performance and, at the same time, face mounting pressure from their own clients to invest and vote in a socially responsible manner;[5]
- **Employees** who—individually and collectively—are putting significant pressure on companies to take stands on social issues, and sustainability matters more broadly, and who are scrutinizing the company's responses;[6]
- **Consumers** who increasingly value sustainable products and services—and are predominantly interested in issues of economic security and fairness;[7]
- **Business partners** who are pressuring companies to address issues such as human rights and climate change—leading to a cascading effect of ESG through the value chain, affecting both public and private companies along the way;[8]

- **The lending community**, which impacts a company's access to, and cost of, capital in debt markets;[9] and
- **Regulators**, not only because of the SEC's proposed ESG disclosure rules on topics such as cybersecurity[10] and climate change,[11] but also because of emerging ESG requirements in the EU that will have implications not just for EU-based companies but for those outside of the EU as well.[12] And even though most ESG regulations and reporting requirements are aimed at public companies, private companies are vulnerable to pressures from stakeholders as well.

Addressing key challenges and opportunities

As CEOs and their companies navigate the broader focus on ESG issues and the heightened attention to the long-term welfare of multiple stakeholders, they face major challenges—and opportunities. This is forcing every CEO to determine:

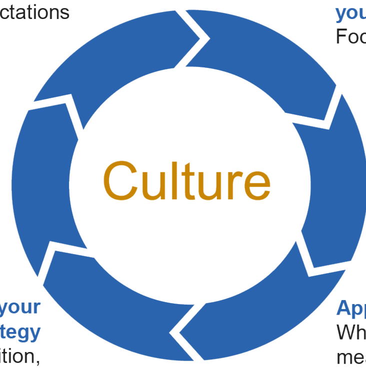
- What sustainability means for their company, and which ESG issues matter most;
- How to integrate sustainability into business and operations in order to reduce risks and take advantage of opportunities;
- How to organize at the board and management levels to successfully execute the company's sustainability strategy;
- How to communicate the company's sustainability story authentically, reliably, and effectively to multiple audiences;
- How to reward, and report on goals; and
- How to deal with the ESG industry of reporting frameworks, rating agencies, and regulators.

These challenges (and opportunities) are ongoing and will inevitably change over time as ESG issues and stakeholder expectations develop, and the company's business and sustainability programs evolve. Along with addressing these challenges, CEOs also have an opportunity to develop a *sustainability culture* that supports the company's efforts and in which those at the organization—from the board of directors to the frontline workers—think and act with sustainability in mind.[13]

A sustainability culture helps address six key areas

Dealing with the ESG industry
Engage to understand reporting expectations

Defining what sustainability means for your organization
Focus on strategy, not materiality



Communicating your sustainability story
Authentically, reliably, and effectively to multiple constituencies

Integrating sustainability into your organization
Reduce risk and take advantage of opportunities

Organizing to execute your sustainability strategy
Board and management composition, competencies, structure, and processes

Approving goals
Whether, which issues, how specific, how to measure, how to reward, how to report?

Source: *Building a Sustainability Culture (Brief 1 of 4)*, The Conference Board, June 2022

Importance versus impact

With the focus on environmental and social issues being driven by a multitude of factors, ESG should be on every CEO's agenda, regardless of their firm's type or size. However, the list of ESG topics is constantly expanding and currently encompasses more than 200 issues[14]—making it increasingly challenging to decide which issues truly matter for any individual company.

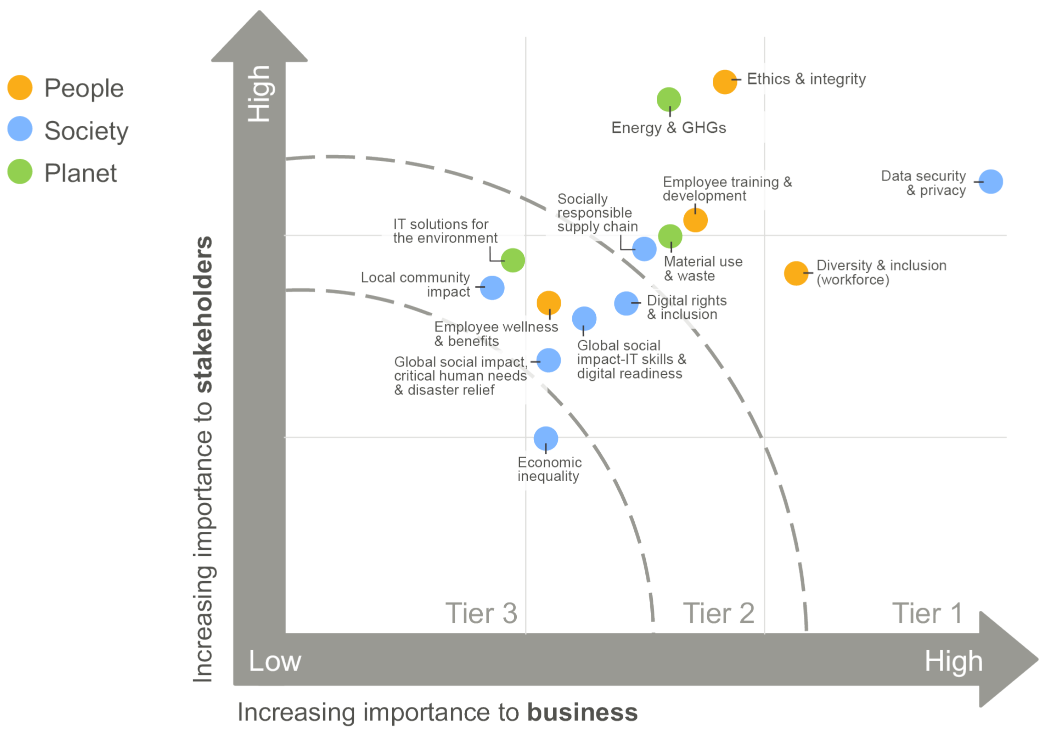
CEOs need to prioritize an expanding list of ESG issues

Environmental (~80 Issues)		Social (~100 Issues)		Governance (~50 Issues)	
Biodiversity and conservation	Plastic, packaging, and materials	Animal rights and welfare	Supply chain and procurement practices	Anticompetitive behavior	Data security & privacy
Climate	Waste	Corporate citizenship and philanthropy	Corporate culture	Ethics and compliance	Crisis management
Energy	Water and effluents	Economic impact	Diversity, equity, and inclusion (DEI)	Corporate purpose	Litigation
Greenhouse gas (GHG) emissions	Air pollution	Human rights	Talent recruitment and development	CEO succession	Intangible assets and innovation
		Corporate political activity	Employment and labor relations	CEO performance evaluation	Corporate reputation
		Public health	Employee health and safety	Shareholder engagement	Tax strategy
		Product safety	Sexual harassment	Stakeholder engagement	Risk management
				Board diversity	Executive compensation

Source: *The Role of the CEO in Driving ESG*, The Conference Board, November 2022

The traditional "materiality" assessment conducted by the CSR or sustainability department—which looks at what matters to the company versus what matters to the company's stakeholders—can be a helpful starting point in assessing which issues to *report* on but falls short in several respects. For example, it typically focuses on risks rather than opportunities; it tends to be static and not-forward looking, take insufficient account of the broader operating environment and competitive landscape, and may be vulnerable to a high level of subjectivity in assessing the relative importance of different stakeholder views.

Traditional materiality assessments are just a start



Source: Cisco

To determine what ESG issues to *focus* on, CEOs should make sure their teams integrate ESG into strategic planning and operating/capital budget processes with *awareness* of stakeholder views. Indeed, companies that engage in a strategic, more forward-looking analysis that assesses the main sustainability areas where the company drives business success, its current position and capabilities in those key areas, business risks *and* opportunities, broader external trends, and the competitive landscape related to sustainability, will be more likely to capitalize on (innovation associated with) emerging environmental and social issues.

So rather than focusing on the current *importance* of issues to different constituencies—or viewing ESG merely as a matter of governance, risk management, and/or compliance—companies should assess where they can have the biggest positive *impact* on their own welfare, that of their stakeholders, society at large, and the natural environment, as this is where their biggest opportunities lie.

Moreover, when assessing their ability to have impact, CEOs should consider the company's role in three key areas: the marketplace (as a seller of products and services, and as a purchaser through procurement); the workplace (both its own workforce and operations); and the public space (government relations, community relations, public communications).

Considering the intersectionality of ESG issues is critical, as no one issue stands on its own. For example, environmental issues (such as climate change) also have an impact on social topics (such as environmental justice and equity) and vice versa. And just as CEOs are best positioned to ensure that their firms are examining ESG issues in the context of the marketplace, workplace, and public space, they can also help ensure that their teams contemplate the interconnection of these issues, which will help in breaking down silos between those focused on the environment and those focused on other areas.

The benefits of taking a strategic approach to ESG

By taking a strategic approach, CEOs and their companies are more likely to consider ESG as a key competitive differentiator that helps to engage both customers and employees. Indeed, there has been a rise in consumer preferences for more sustainable products, so companies should bear in mind their reputation with key customer groups and factor in what matters to them (such as fair prices, fair labor conditions and wages, climate, and/or diversity).[15] Additionally, companies that are perceived to be ESG leaders have an advantage in employee recruitment and retention. And by making ESG a priority, CEOs can send a strong signal to their (prospective) employees that the company is committed to a purpose beyond profits. So, by integrating ESG into their products/services and culture, companies can keep their customer base engaged and their employees energized.

CEOs should keep the following considerations in mind as they decide which ESG issues to focus on:

- **Be alert to confirmation bias.** CEOs and their senior management team are often not only responsible for deciding what ESG issues to focus on (including whether and how to respond to social issues) but also frequently the source of pressure to address issues ranging from climate to voting rights.[16] This can create a disconnect between senior management and the rest of the organization—and even to a disconnect with the company's business interests. To avoid becoming an "echo chamber," it's therefore important for CEOs to consider the views of multiple stakeholders.

- **Listening is key.** To understand what's important to their different stakeholders as well as where they can have the biggest impact, companies need to have multiple "sensors" in place that enable them to hear a diversity of perspectives. CEOs should ensure the senior management team and board are aware that stakeholders are not monolithic: they have a wide range of views, making it challenging to assimilate their perspectives, particularly in today's polarized environment. CEOs will therefore want to make sure their company has governance processes and data-based platforms in place to capture the range of viewpoints. They can do this, for example, by including not only legal, human resources, and communications in their decision-making processes but also government relations, corporate citizenship/community relations, marketing, finance, and investor relations as well. Indeed, these functions can help represent the views of the company's regulators, communities, consumers, and shareholders. It can also be helpful to consult the board before a decision is made.

- **Having a business case is critical.** To increase stakeholders' acceptance of the firm's decisions on issues ranging from climate to human rights, CEOs and the rest of the C-suite should be ready to make the business case. Employees and customers often don't see the pressure coming from investors, regulators, or others to address ESG issues. It's therefore vital that CEOs and their teams educate their stakeholders (employees, especially) about the firm's business model, the intersection between the firm's business success and sustainability, and how specific ESG efforts drive strategy—and with that, the long-term interests of the company and all of its stakeholders.

Integrating ESG Into Business Strategy and Operations

Identifying where organizational processes intersect with ESG

CEOs should encourage their company to consider a three-pronged approach to integrating ESG into business strategy and operations. That is, they can focus on the three areas where their business touches sustainability and link those to the firm's stakeholders:

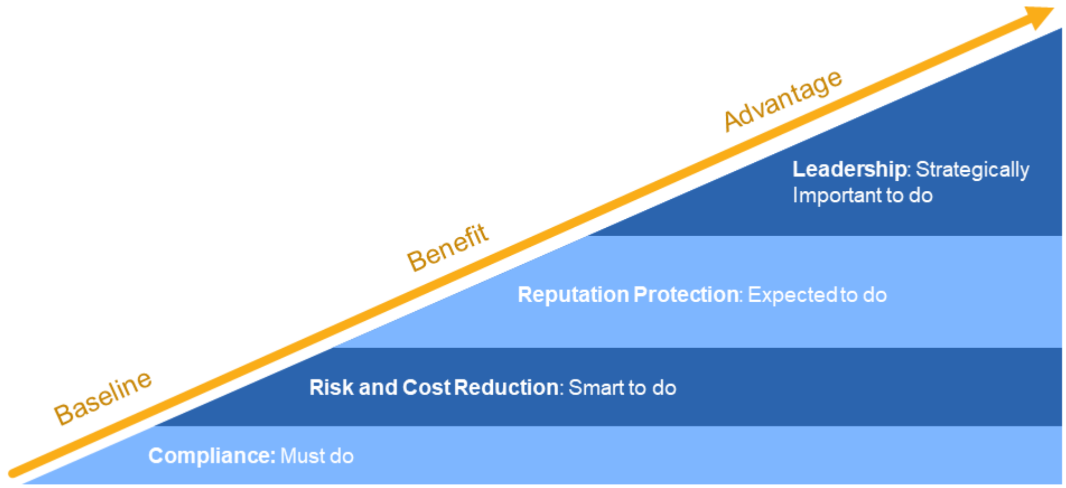
1. **The marketplace**, which includes a firm's business strategy, products and services, and procurement activities. This is where companies can potentially have high impact, but only variable levels of control as market success depends on a multitude of factors, many of which the company can't influence—at least not by itself. Indeed, seizing opportunities in the marketplace is challenging, especially in heavily regulated industries. This is why there's higher risk associated with these endeavors, as well as higher reward.
2. **The workplace**, which includes a firm's workforce, operations, and associated policies and processes. Since this is an area where companies can have direct impact and over which they have greater control, they may want to focus their efforts here first. Indeed, addressing ESG as it pertains to their workforce (e.g., employee diversity) can serve as a foundation since companies will have greater credibility when bringing products to the market or telling their sustainability story in the public space if their own house is in order.
3. **The public space**, which includes a firm's political activity, corporate citizenship efforts, and public communications (other than SEC filings). This area yields moderate impact and variable control because of the current polarized, high-risk environment which can cause considerable backlash and claims of corporate hypocrisy, no matter what position a company takes. That's why having a clear process and a framework for deciding whether, when, and how to respond to issues, as well as a clear link between the issue and the company's strategy are all the more important.[17] It helps not only to ensure consistency and objectivity but also to prepare for the resistance from those who disagree with the decision—and the disappointment of those who wish the company had done more.

Integrating ESG into business strategy and operations

Source: *The Role of the CEO in Driving ESG,* The Conference Board, November 2022

As companies integrate ESG into their business strategy and operations, they need to determine how far they want to go in each area: to comply with the law, to reduce costs, to manage reputation, or to become an industry leader. Companies simply can't be leaders in all 200 ESG areas (or even on a dozen topics). The CEO will therefore have to lead the conversation with management and the board about where the company wants to position itself on these issues. Importantly, this is an ongoing conversation—an issue where the company is in "compliance mode" may become one where the company wants to be a leader. Similarly, given the growing level of ESG-related regulation in the US and EU, companies may need to shift more resources just to comply with the rules in certain areas, which may delay their progress toward a leadership role in others.

Organizations can choose where they want to be overall and on an issue-by-issue basis



Source: *The Role of the CEO in Driving ESG,* The Conference Board, November 2022

Using M&A as a starting point

As noted above, it may be easiest for CEOs to begin by focusing on the workplace, where they have the most control. But there are also relatively easy wins when it comes to the marketplace. For example, M&A analysis can be a good place to start in incorporating ESG and stakeholder views. Indeed, considering the impact of a transaction on critical ESG issues (e.g., environmental footprint) and stakeholders (e.g., customers, employees, owners, and communities) is fairly straightforward. Doing so provides a more complete picture of risk, may decrease deal fever, and can help prepare for regulatory review.

M&A also provides a playbook for measuring impact more broadly. Just as it's best practice for companies to conduct a postmortem analysis to measure an M&A transaction's impact on a variety of dimensions, companies can assess the impact of their decisions on ESG issues and stakeholders after each strategic and business planning cycle rather than merely measuring the financial results.

Business partners: a promising engine for innovation

Addressing ESG-related opportunities and risks should be a collaborative effort. Indeed, to achieve greater societal and environmental impact, companies will have to join forces not only with those in their industry but also across their value chain. Therefore, rather than simply filling out the procurement questionnaire from a business partner, companies should consider raising the discussion with their business partners up to a strategic level so that together they can create environmentally or socially responsible products and services. It is vitally important that this engagement not just occurs between the sustainability or procurement staff at each company but also involves those with P&L responsibility.

Likewise, leaving sustainability-based innovation to the company's own R&D or sustainability department is unlikely to work. Companies in heavily regulated industries will especially need strong industry coalitions to effectuate change and harness innovation. An example is the US National Academy of Medicine's Action Collaborative on Decarbonizing the Health Sector, a multisector collaborative established to drive decarbonization among the broad spectrum of organizations that participate in US health care.

Effectively Engaging the Board and C-Suite on ESG

Board engagement on ESG: Status quo

According to respondents of a recent survey of corporate executives by The Conference Board, ESG issues and stakeholder capitalism will likely have a *significant* and *durable impact* on boards over the next five years. However, the same survey found that—at least to date—the focus on ESG and concern about the welfare of stakeholders have affected the board more in terms of the topics on the agenda than in the decision-making process:

- For virtually all boards (95 percent), ESG issues and stakeholder capitalism have affected *topics* discussed.
- For a majority of boards (52 percent), they have affected *factors* the board considers in decision-making.
- For a minority of boards (24 percent), they have affected the *actual decisions* they make.[18]

According to the same survey, there are two areas where boards are factoring ESG issues and multiple stakeholders into their key decisions very well: *regulatory disclosure* (which makes sense, as this is an area where companies are required to address ESG) and *corporate culture* (which is somewhat surprising since at the same time survey respondents indicated that boards don't consider ESG issues and stakeholders well in decisions on *organizational structure & staffing* and *compensation & benefits*—which are closely related to corporate culture)—see below.

How well boards consider ESG issues *and* stakeholders in key decisions

Very Well	Moderately Well	Not Well
• Corporate culture	• Strategic plan	• M&A
• Regulatory disclosure	• Business plan and operating budget	• Organizational structure and staffing
	• Product and services	• Compensation and benefits
	• Internal controls	• Capital budget
	• External communication	
	• Internal communications	

Source: *The Roles of the Board in the Era of ESG and Stakeholder Capitalism Working Group Session 1,* The Conference Board, May 2022

The CEO's role in engaging the board on ESG

While the board itself is responsible for determining its role with respect to ESG issues, and, within legal and market constraints, has the authority to determine where the company will position itself on the stockholder-to-stakeholder spectrum, the CEO plays a pivotal role in helping the board think through these issues, providing the board with the information it needs, and helping to ensure that the board and its committees exercise its multiple powers in a coordinated manner. In particular, the CEO can play a key role in several respects:

- **Advise on board composition.** Although the board is responsible for recruiting and selecting directors for election to the board, the CEO can help by providing a "roadmap" that ties the company's business strategy to the skills and backgrounds needed on the board to contribute to the development of that strategy as well as oversee its execution.
- **Offer views on board leadership.** The choice of the board chair or LID is quintessentially a matter for the board's discretion and judgment. Nonetheless, it is customary for the board to consult with the CEO to ensure that the board's leader can have an effective working relationship with the CEO. The CEO can play a useful role in encouraging the nominating and governance committee (which usually puts forth a recommendation for the board chair or LID for the full board's consideration) to suggest a director who sees ESG as an area of opportunity for the firm and not just as a risk or regulatory burden.
- **Be involved in advising on committee structure, often together with the general counsel and corporate secretary.** Before deciding how to allocate ESG responsibilities, boards will need to understand which ESG areas truly matter for the company so they can focus on those. CEOs, especially those who have integrated ESG into strategic planning and operating/capital budget processes, can advise the board not only on which ESG issues matter most, but also on how to allocate responsibility for those issues. For example, they can advise the board to consider dividing oversight responsibilities into the three main areas where a company's business intersects with sustainability: the marketplace, which could be covered by the full board or a special committee focused on strategy; the workplace, which could be largely covered by a compensation and human capital committee; and the public space, which could be a natural fit for the nominating and governance committee.
- **Determine the information that goes to the board.** A board will only be as effective as the information presented by management. According to a 2021 survey, 35 percent of executives think that directors come unprepared to meetings.[19] This might reflect management's view that directors do not ask sufficiently informed or probing questions. CEOs can play a major role in fixing that, by ensuring management prepares materials that focus attention on the key areas for discussion and working with the board chair/LID and committee chairs to ensure there is enough time for such a discussion.
- **Educate the board.** According to the same survey, executives find directors' acumen in ESG lacking.[20] While this may indicate that management is looking for a higher degree of competency from the board than is necessary, CEOs ought to

ensure their boards are sufficiently fluent in ESG, especially at this time of both rising expectations *and* skepticism about whether ESG can actually drive financial performance.[21] They can do so by:

1. Educating the board on ESG issues that tie to the firm's main risks and opportunities, for example by ensuring that the board has an opportunity to meet with the firm's senior sustainability executives on a regular basis or has other opportunities for a deeper dive on key ESG areas that matter most to the company;
2. Organizing an (annual) enterprise risk meeting for the full board with senior risk executives in which the board gets updated on the latest regulatory developments and expectations, mission-critical risks, industry trends, and broader ESG/governance lessons learned (e.g., from the Boeing case);
3. Encouraging directors to seek outside education on ESG, for example, by providing information about external governance programs and seminars; and
4. Having a transparent conversation with the board about the ESG issues where the company is in compliance or cost-saving mode, and where it's taking an industry leadership role. This in itself is a fundamental part of making sure that the board stays fluent—both on the issue and the company's position on the issue. It furthermore ensures that the board can lend its expertise where appropriate and have the ability to make meaningful contributions.

Aligning the C-Suite to execute the ESG agenda

CEOs also have an opportunity—and responsibility—to better align their C-suite to execute the company's ESG agenda. Even though the shifts toward ESG and stakeholder capitalism are bringing about fundamental change in mindset in the C-suite,[22] there's room for improvement. For example, according to recent research, CFOs—who are critical to the company's business planning processes—are less likely to embrace ESG as a priority[23] or to play a role in internal sustainability steering committees.[24]

The CEO is the person who can best lead the discussion among the C-suite as to why ESG matters—and do so in a manner that encourages a candid exchange of views in an environment of trust. As the C-suite spends more time on ESG issues that cut across functional areas and affect a range of stakeholders, more collaboration is needed. This raises the potential for friction, as executives may feel as if others are encroaching on their turf or disregarding their work and expertise. It can also create tensions as C-suite members may be discussing highly controversial social issues or need to be candid with each other about making unavoidable tradeoffs among the stakeholder groups for whom they have primary responsibility (e.g., CHRO for employees, CFO for investors, CMO for customers). It will require a heightened level of effort by the CEO to manage a C-suite team as they address new and sometimes highly charged issues where there are overlapping responsibilities and a new set of trade-offs. The CEO can set an example by approaching these topics with candor, humility, and open-mindedness.

To support alignment, CEOs can also consider engaging outside experts or even an outside group of advisors (which could include business partners). Exposing C-suite executives, as a group and on an ongoing basis, to external viewpoints can help to deepen the C-suite's understanding of ESG issues and each other's perspectives.

Communicating the Company's ESG Story to Multiple Stakeholders Authentically, Reliably, and Effectively

Companies struggle to engage their stakeholders in dialogue on sustainability—and they know it. Indeed, 72 percent of participants of a recent webcast from The Conference Board said their company is doing only a *fair* or even *poor* job of communicating with consumers about sustainability.[25] This is in line with the results of a poll from The Conference Board, in which companies indicated they were especially dissatisfied with their dialogue with consumers and employees.[26]

CEOs can take action to help their company do a better job of communicating its ESG story authentically, reliably, and effectively. To this end, they will want to ensure that the company:

- **Focuses on making the often-neglected areas of economic fairness and security part of their sustainability story.** Companies may take their role in providing economic opportunity and fairness for granted. But consumers—which includes employees, communities, and policymakers—care about fair prices, wages, and labor conditions. Companies therefore have an opportunity to address the gap by highlighting their economic role in their ESG reports.

- **Reinforces its sustainability story at the *point of sale.*** Consumers often are exposed to this story through labeling when they buy products and services. And companies can do a better job of bringing information about sustainability into their marketing and sales efforts. This is why it's crucial that the marketing and communications functions are brought along on the company's sustainability journey at an early stage.

- **Ensures its ESG efforts are viewed not as ancillary (or worse, greenwashing or bluewashing) but as essential to furthering the company's mission.** To ensure authenticity, the company's sustainability story needs to be aligned with its corporate strategy. Employees can serve as a key audience here, as they will know whether the company's sustainability story rings true.

- **Focuses on the business imperative behind the story—and on those stakeholders who can either make it happen or imperil it.** In other words, companies should anticipate what they want to accomplish and why, and assess which stakeholders have the ability to affect the outcome. They should prioritize those stakeholders who can help them achieve their goals and tailor their communications to them. This strategic and results-oriented approach to communication can help to set priorities when there are so many stakeholders seeking ESG information.

Conclusion

US corporations—both public and private—are operating in a new environment: ESG issues will likely have a *significant* and *durable* impact on boards for over the next five years, and a shift to a multistakeholder form of capitalism is underway.

CEOs, who are at the helm in navigating these pressures, can take these actions to address the challenges they are facing in this new era:

- Look beyond the traditional “materiality” assessment in determining which ESG issues matter most for their company.
- Consider their firm’s role in three key areas when assessing their ability to have impact: the marketplace (as a seller and purchaser of products and services); the workplace (both its workforce and operations); and the public space (government relations, community relations, and public communications).
- Use multiple sensors to hear a diversity of viewpoints to understand what’s important to different stakeholders.
- Educate employees and other stakeholders on the business case for addressing ESG.
- Prepare for backlash from those who are skeptical about ESG’s impact on corporate performance and/or opposed to companies proactively addressing environmental and social issues.
- Ensure the board is fluent in the key ESG issues that it’s expected to oversee.
- Create an environment for C-suite executives where conversations about shifting priorities can be conducted, thereby focusing on collaboration, communication, and trust across the C-suite.
- Prioritize stakeholders who can help achieve the company’s ESG goals (or block the way) and tailor communications to them.

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