AVREAFOSTER GUIDE

Developing a Sustainability Brand

AND WHY IT MATTERS TO CORPORATIONS

This guide addresses the growing demand for corporate sustainability and provides three steps for developing a meaningful and enduring sustainability brand.

Note: Given the subject matter, we would be remiss if we didn't remind you to think before you print this guide.

No matter your industry, you're in the business of sustainability.

When it comes to corporate sustainability, we've come a long way. However, if the latest demands from investors are any indication, we still have a long way to go. Even in these challenging economic times, BlackRock, the world's largest asset manager, issued a letter to shareholders at the end of March that essentially double downed on an earlier communication that the firm would no longer invest in companies that weren't meeting stringent environmental, social and governance (ESG) standards. The net net: If a global pandemic and economic recession doesn't shake investors' expectations for businesses, nothing will. Your company is officially in the business of sustainability for the foreseeable future.

In this guide, we'll address why corporate sustainability matters, examine its rise over the past several years and provide three key steps to developing and implementing a sustainability brand into your current corporate communications strategies. Bonus: An index guide of the most relevant trends and terms is included for your reference.

> **"The pandemic we're experiencing now highlights the fragility of the globalized world and the value of sustainable portfolios. We've seen sustainable portfolios deliver stronger performance than traditional portfolios during this period."**
>
> **LARRY FINK, CEO, BLACKROCK**

Corporate Sustainability: A Brief History

What began as a social contract between businesses and society in the 18th and 19th centuries reached critical mass in 1987 when the United Nations published Our Common Future, also known as the Brundtland Report. The report mandated a balance between economy and ecology, stating that mankind had a moral obligation not to overuse resources so future generations would have equitable living standards. The publication of Our Common Future laid the groundwork for many important milestones in corporate sustainability, including the establishment of the U.N.'s Commission on Sustainable Development.

1987 — The U.N. publishes Our Common Future, encouraging countries to work together on sustainable development.

1992 — The U.N. establishes the Commission on Sustainable Development (CSD), replaced in 2013 by the High-level Political Forum on Sustainable Development (HLPF).

1993 — Businesses use their environmental focus as a selling point, launching the rise of green brands.

1995 — The World Business Council for Sustainable Development is founded, a CEO-led organization working to help companies be more successful through sustainability.

1997 — The Global Reporting Initiative is established, a nonprofit focused on helping organizations understand and measure their sustainability.

2000 — The Carbon Disclosure Project is formed, focused on making environmental reporting a business norm.

2001 — The International Accounting Standards Board is formed, standard-setting body for the International Financial Reporting Standards Foundation, or IFRS.

2004 — The U.N. Global Compact launches, the largest sustainability corporate initiative in the world.

2005 — The term ESG was first coined in a landmark study entitled "Who Cares Wins."

2006 — The U.N.-backed Principles for Responsible Investment (PRI) launches.

2007 — B Corp is established, a certifying body for for-profit companies that meet its high standards of social and environmental performance.
The Climate Disclosure Standards Board is founded, encompassing a consortium of businesses and environmental NGOs.

2010 — In response to the 2008 financial crisis, the Dodd-Frank Act is enacted.

2013 — Conscious Capitalism is popularized by Whole Foods co-founder John Mackey.

2014 — First convening of the Corporate Reporting Dialogue, a nonprofit focused on creating consistency across different reporting frameworks.

2015 — U.N. General Assembly publishes Sustainable Development Goals to be achieved by 2030. The Task Force for Climate-Related Financial Disclosures (TFCD) is established with the goal of developing a set of standards that can be voluntarily adopted by companies.

2016 — Paris Agreement is signed with the goal to combat climate change. The Workforce Disclosure Initiative is formed to support businesses struggling to access data on their workforce internally and throughout the supply chain.

2017 — TFCD makes its first recommendations for reporting on climate change.

2019 — Sustainability Accounting Standards Board (SASB) and the Climate Disclosure Standards Board (CDSB) issue an implementation guide for TCFD, designed to help companies address demand for data about their exposure to climate-related financial risks.

> **"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."**
>
> **EXCERPT FROM *THE COMMON GOOD***

Brand management is sustainability management is risk management

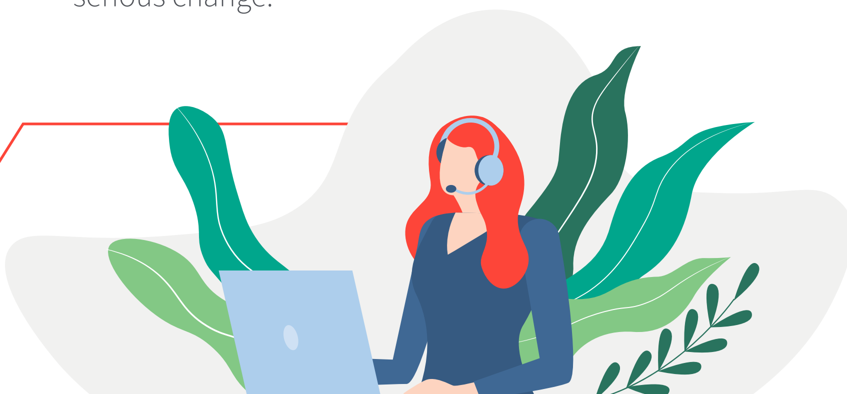
If you are a branding or marketing communications professional, considering your stakeholder audience before executing any business strategy is nothing new. For better or worse, they have a great deal of say in whether your company will be successful in its endeavors. As you consider development of a corporate sustainability strategy and accompanying brand, take into account how consumers (current and prospective), employees and investors will measure your company's efforts. Each matters, but for different reasons.

Climate change is the No. 1 issue facing corporate brands in 2020. Sustainability issues overall have jumped year over year, comprising 6 of the top 20 business challenges.[1]

[1] 2020 Brand Pressure Index, High Lantern Group, published January 2020.

CONSUMERS CARE AND SO SHOULD YOU

Amazon.com founder and CEO Jeff Bezos once famously said, "Branding is what people say about you when you're not in the room." Nowhere is that more evident than in relation to corporate sustainability. Although, today, people don't wait for the brand to leave the room. They seek a direct audience — and some serious change.



60% of consumers say they gravitate toward businesses committed to environmental good. That's according to an online survey of nearly 30,000 people across 35 countries.[2]

The social pressure generated by organizing efforts online or in the streets can dramatically shift purchasing power. This isn't your parents' boycott. It's brand perception and it's driving a new market. Over the past few years, consumers have led campaigns against single-use plastics, fast fashion, automobile emissions and more. While this has forced some brands to pivot strategies, it has also given a boost to those brands that proactively put ESG concerns at the forefront. Unilever, a global consumer goods company, is an example of that. Unilever's sustainable living brands, which account for about half of the company's top 40 brands, are growing 50% faster than the others and are generating more than 60% of the company's profits.

It's important to note that consumer power is not limited to environmental concerns. Social good is a significant focus, especially in the current environment — and the definition of social good has greatly expanded from the standard elements of diversity, equal opportunity and proper pay. Today, it includes all the aspects of good citizenship you might imagine, from #OccupyWallStreet to #MeToo to #BlackLivesMatter. Where there is social unrest, consumers will not hesitate to take the media wheel, driving many businesses to a tipping point.

[2] To Affinity and Beyond: From me to we, the rise of the purpose-led brand, Accenture Strategy, published January 2019

EMPLOYEES ARE CONSUMERS OF YOUR BRAND TOO

Just as information has been democratized for consumers, driving demand for transparency and action, employees are also seeing (and hearing) the environmental and social impact of their employers. It may come as little surprise that younger generations are particularly principled, with some studies suggesting they care more about purpose than pay. For example, one millennial employee study revealed:[3]

- **75%** would take a pay cut to work for a socially responsible company.
- **76%** consider a company's social and environmental commitments before deciding where to work.
- **64%** won't take a job if a potential employer doesn't have strong corporate responsibility practices.

A company's sustainability program (or lack thereof) can also have a positive or adverse effect on employee engagement. Read: working harder versus working elsewhere. A more recent survey from Fast Company confirmed this:[4]

- **69%** of respondents said that if a company had a strong sustainability plan, it would affect their decision to stay with that company long term.
- **34%** said they've given more time and effort to a job because of their employer's sustainability agenda.
- **30%** said they've left a job in the past because of the company's lack of a sustainability plan.

Businesses with a commitment to sustainability could see productivity increases by 13% and turnover reductions by up to 50%.[5]

Employees wants to be an active participant in driving global systemic change. That requires they work for a company that shares their commitment to meeting social and environmental standards. Just like consumers, your employees want to be proud of the choices they make — from the brands they buy to the brands they help build.

[3] Cone Communications Millennial Employment Engagement Study, Cone Communications, Published November 2016

[4] Most millennials would take a pay cut to work at an environmentally responsible company, Fast Company, published February 2019.

[5] Study Reveals Companies Engaged in CSR Can Reduce Staff Turnover Rates by 50%, Satell Institute, published March 2018.

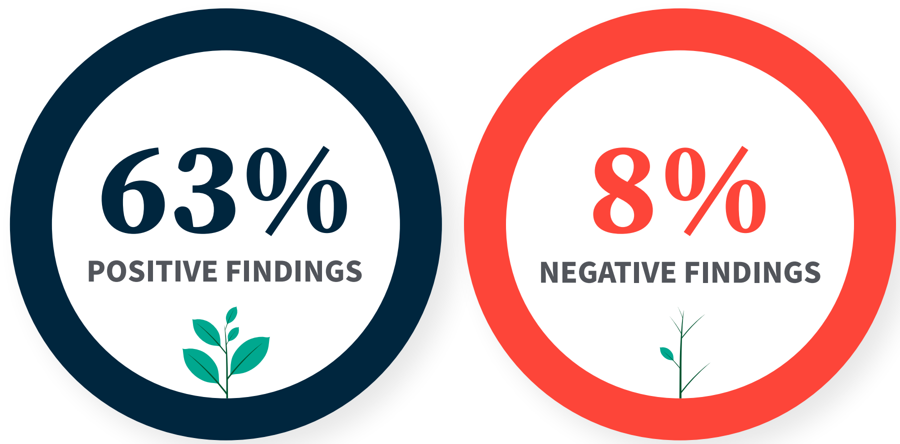
INVESTORS ARE LOOKING FOR A GOOD DEAL

Over the past five years are so, investors have increasingly grown interested in incorporating ESG factors into their investment strategies. Harvard Business Review recently interviewed 70 senior executives at 43 global institutional investing firms, including the world's three biggest asset managers (BlackRock, Vanguard and State Street). They found that ESG issues were almost universally top of mind. It also became clear that corporate leaders would soon be held accountable by shareholders for ESG performance if they weren't already.

While investors want to know their funds are doing good for people and the planet (or at least not doing harm), this uptick is not purely the result of an altruistic mindset. There is a growing body of evidence to suggest that companies that meet ESG standards produce similar or better returns than those non-ESG funds. Perhaps that's why globally, the percentage of investors that applied ESG principles to at least a quarter of their portfolios jumped from 48% in 2017 to 75% in 2019.[6] Today, more than 50% of global asset owners are implementing or evaluating ESG for their investing strategies.[7]

As those who decide to buy or sell a company's stock increasingly incorporate ESG into their calculations, business leaders are being forced to do the same within their companies. For businesses seeking growth even as outside forces challenge operations, a commitment to sustainability is not an option. It is, however, a tremendous opportunity to improve brand value.

More than 2,000 studies on the impact of ESG on equity returns resulted in:[8]



[6] The ESG Global Survey 2019, BNP Paribas, published 2019.

[7] 2018 Global Survey Findings From Asset Owners, FTSE Russell, published 2018.

[8] Five Ways That ESG Creates Value, McKinsey, published November 2019.

Building a sustainability brand is like building a house — it's all about the strength of the foundation

The most toxic things to come out of some companies' sustainability efforts are their false claims. Greenwashing, as it is frequently referred to, can sometimes be worse than doing nothing (though in today's business landscape, both will get you into heaps of trouble). While there are numerous elements to keep in mind as you pursue a sustainability framework and brand story, none are as important as maintaining honesty. When you start with a genuine foundation, you will only increase your company's brand equity along with its sustainability communications. Get off on the wrong foot and you might be repairing the fractures for years to come. With the first step focused on integrity and transparency, here are three additional steps to take as you work to develop a successful and believable corporate sustainability brand.

> "Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it, but because it is good for our business."

NIALL FITZGERALD, FORMER CEO, UNILEVER

STEP 1

Develop a meaningful sustainability purpose.
Author and motivational speaker Simon Sinek once quipped that, "People don't buy what you do, they buy why you do it." That same sentiment should be applied to corporate sustainability. Stakeholders will question your company's motives, so be ready with a clear and authentic sustainability purpose statement. If you've already taken leadership through the lengthy exercise of developing a purpose-led brand, this may be old hat to you. If you haven't, our best advice is to stay hydrated (and consider contacting AvreaFoster for help). Over the next three to four months, you'll find yourself analyzing and debating the impact of your company on the world.

This may include, but is not limited to:

- Examining your product's or industry's externalities — the indirect costs borne or benefits gained by a third party as a result of your products' manufacture or end use.
- Auditing your supply chain and partners for sustainability risks. This includes identifying risks specific to particular countries, sectors, products and ingredients to inform ethical sourcing strategies.
- Conducting a materiality assessment based on industry-specific disclosure topics as elaborated by the SASB. This should be done biannually.
- Analyzing the U.N.'s 17 Sustainable Development Goals (SDGs) to determine where the business can make a positive impact.
- Revisiting current and past philanthropic efforts for social passions shared by employees, those linked to company values and your core business.
- Analyzing employee diversity and inclusion policies, as well as protocols for ensuring physical and psychological safety.
- Reshaping any existing sustainability reporting to provide a more holistic picture of the business and its value drivers, including designating company-specific performance metrics linked to business strategy.
- Examining how a sustainability purpose can create value by reinforcing current brand attributes and/or becoming relevant to consumer choice.

Armed with insights from a multitude of conversations and investigations, company leadership should find some clear signals with which to start building a sustainability purpose statement. It takes time to land on the right message and theme. AvreaFoster typically guides clients through two or three rounds before parsing it down to a clear winner. However, one thing must remain consistent throughout the process: the sustainability purpose must be one for which the brand can make a material contribution. This is important to manage internal time and resources as much as it is for stakeholder opinion, lest they suspect the brand of opportunism.

WHAT IS A CORPORATE SUSTAINABILITY PURPOSE?

A corporate sustainability purpose is a commitment to environmental and social good that is woven into the fabric of company culture. It's defined by being:

— Relevant to your business purpose
— Aligned with business objectives
— Measurable
— Engaging for stakeholders

STEP 2

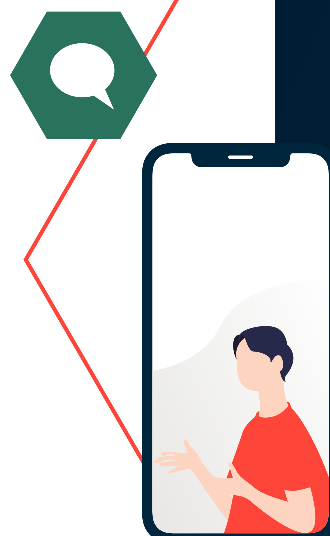
Bring your sustainability story to life.

The company's sustainability purpose serves as a litmus test for all activities and communications. It sets the stage for developing detailed ESG goals, processes, policies and guiding principles. That requires multiple perspectives working under one vision. Engaging and working in partnership with a wide range of stakeholders, including employees, suppliers, governments, NGOs and trade associations, your sustainability brand can breathe new life into communications, sales and day-to-day operations. Moreover, experience shows that people support initiatives they help to create. By bringing in key stakeholders early in the process to help shape the narrative and structure of your sustainability program, you are also helping to cement buy-in.

With the caveat that some companies may be well established in their sustainability programs and some may just be beginning, here as some key action items to consider:

Create a sustainability task force.

- Establish the chief executive officer as responsible for effective communications with company stakeholders.
- Form a sustainability board and committees to ensure oversight at the onset.
- Identify corporate teams that will be responsible for specific ESG materials relevant to their division and include, at a minimum, employees from procurement, marketing, investor/community relations, legal, compliance, regulatory and human resources.
- Create a cause committee using cross-departmental leaders to see that every aspect of the business has a voice in how the company can enhance its impact on social issues, especially as it relates to local communities.



Companies with effective communications don't separate sustainability from brand or financial messages. They consider sustainability equally important to their business, and reflect this in messaging that is consistent, repetitive and strategic.

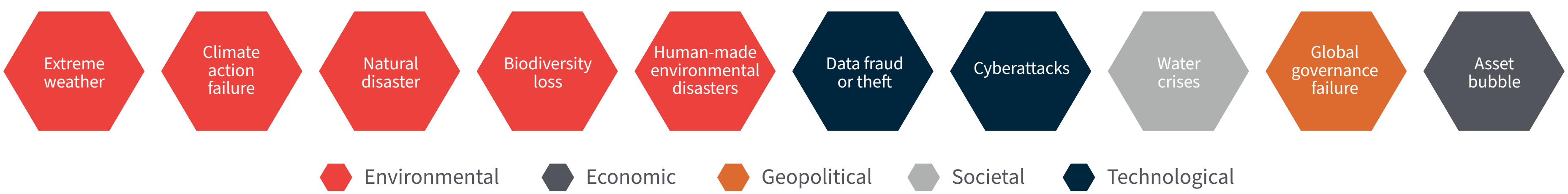
Campaign to external stakeholders.

- Reach out to external partners and suppliers, encouraging them to help you meet your ESG standards and follow established sustainability third-party code of conduct.
- Employ an external marketing communications strategy based on content pillars derived from the sustainability purpose. Put the company's goals into context, connecting the brand while mitigating the type of impact relevant to its core business. Use social media and owned digital channels to promote progress, human-interest stories and/or education around specific issues the company is addressing through its social and environmental efforts.
- Encourage NGOs and relevant trade associations to share their perspectives and possibly co-market content.
- Engage even your most vocal critics to try to find common ground. They impact consumer and media perceptions and ultimately sales — positively or negatively.

Launch internal communications.

- Construct a sustainability brand identity with foundational messaging tied to the company's strategic goals and the role employees play in helping the company meet those goals.
- Establish an ongoing internal campaign that inspires and educates employees, including tactics that encourage engagement and makes it easy for them to do so, e.g., PTO for volunteering, good-natured competitions across the office.
- Demonstrate commitment from leadership with regular C-suite communications, create an email series from the CEO, host town halls and ensure quarterly updates from divisional leaders.
- Regularly ask for employees' feedback. Involving employees throughout the process will help generate new ideas and bring in diverse perspectives while signaling the company's sincerity.

The top five risks in the 2020 World Economic Forum's Annual Global Risks report were all related to the environment and climate change — a first in the forum's 15-year history.[9]



[9] The Global Risks Report 2020, World Economic Forum, published January 2020.

STEP 3

Maintain your sustainability momentum.

While ESG is a tool for measuring and reporting on environmental and social indicators, it is also a process for communicating the social and environmental effects to stakeholders. Therefore, eliminating metrics well into the process isn't an option. It signals to all stakeholders, and especially to investors, that the company is insincere in its commitment to sustainability, that it has not improved results or worse, that it has done harm. Pick your sustainability platform and metrics carefully (there's a good deal of information in the index of this guide to help you do that). Also, resist the urge to over-promise results. Short-term thinking is the bane of sustainability. So, take the long view and slowly work toward incremental improvements year over year.

We would be derelict in our duties if we did not acknowledge the current threat of COVID-19, which has only highlighted the need for companies to consider non-financial risks and ESG factors. Given the evolving landscape, there are a few new components that companies should take into account as they plan for ESG reporting.

- Going forward, companies should prepare to provide disclosure on their corporate resilience, including contingency planning, stress testing of the decision-making structure and similar crisis-planning items.
- Given the disruption of the supply chain due to the virus, stakeholders will likely demand more durable supply-chain networks. In addition to diversifying suppliers to eliminate dependency on any one region or population from which to procure critical elements, companies must also work to shorten their supply chain and include redundancies to demonstrate they can withstand market shocks.
- The impact of the virus on human capital has been significant. While federal and state governments are providing some assistance to workers, investors and other stakeholders expect companies to take action to shield their workers from the worst effects of this and future pandemics. Strategies to demonstrate might include robust work-from-home programs, broad medical insurance coverages, substantial furlough programs, and community-based charitable giving.

- Finally, diversity and inclusion will be under the microscope — not just because of the social injustices that have rattled the world over the past few years. Collaboration, trust and mutual support have proven necessary for team enduarnce over the course of the virus. As employees return to their common work environments, it will be important for companies to show their commitment to building a caring culture to manage the effects of the pandemic. Equally important, companies that engage employees from a diverse talent pool demonstrate higher performance levels — something investors always enjoy seeing.

The virus has certainly accelerated demand for companies to demonstrate they have a long-term strategy in place to respond to various market disruptions, including climate change, pandemics and other similar risks in our globalized economy. Reporting annually against ESG factors is a great way to do that, but future trends may require companies to report more frequently, sharing the economic, environmental and social impacts of day-to-day business activities.

While some reports have been delayed, the virus did not kill sustainability — or even hit the pause button. Below are just a few headlines released in April and May 2020.

- Shell plans to achieve net-zero emissions across its product manufacturing operations
- Citigroup to halt all financing for thermal coal mining by 2030
- General Mills commits to 100% renewable electricity by 2030
- Half of Cargill's sustainable cocoa now traceable from farm to factory
- Campbell Soup to transition to 100% recyclable or compostable packaging by 2030
- BNP Paribas accelerates "complete coal exit" plan
- Intel's 2030 commitments include "shared" climate and social goals
- More than 300 companies push U.S. Congress to promote climate action
- ADM to pioneer biofuels, more carbon capture projects
- Over 150 global corporations urge world leaders for net-zero recovery from COVID-19

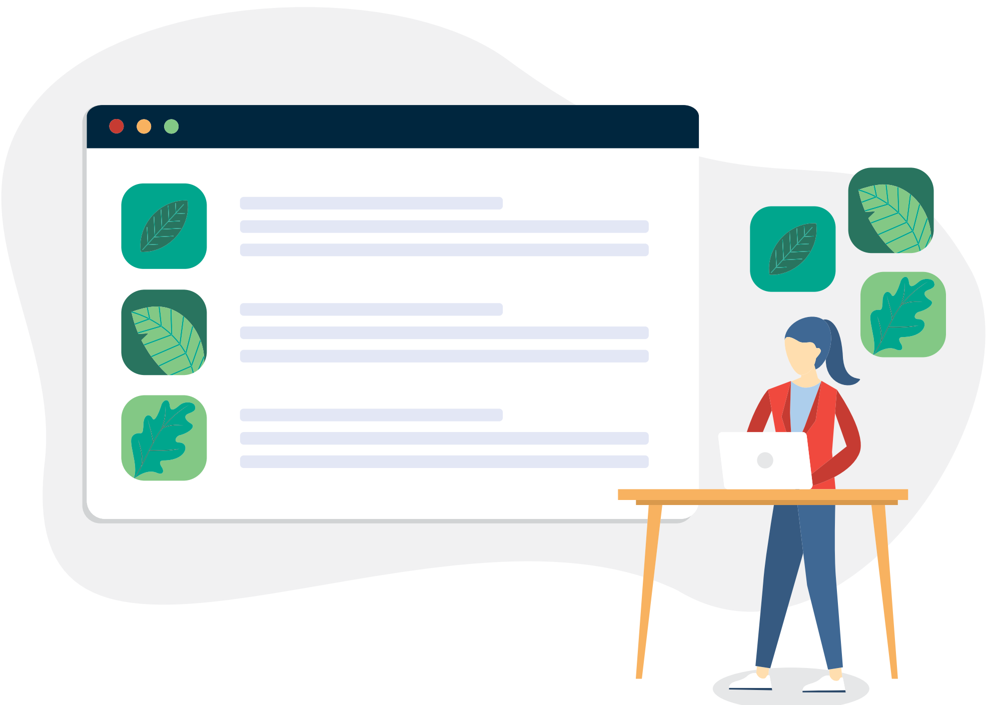
It is clear businesses can no longer maintain their continued growth without accounting for their impact on society and the environment. Stakeholders demand it. More urgently, we now know that our current way of living is unsustainable and that corporations have a vital role to play in protecting our ecosystem. As business leaders and citizens, we must ask ourselves, "What did we do once we knew?"

> "We don't inherit the Earth from our ancestors. We borrow it from our children."
>
> **NATIVE AMERICAN PROVERB**

Sustainability Terms & Trends

There are several sustainability reporting frameworks, including Global Reporting Initiative (GRI), SASB, Carbon Disclosure Project (CDP) and TCFD (all defined more clearly in this index). These all aim to guide companies on how to measure, assess and report on ESG initiatives, identify risks and opportunities. There are also efforts underway to try to harmonize these different frameworks and standards (see the Corporate Reporting Dialogue on the next page). However, until the establishment of one central global authority, we believe it is wisest to follow in the footsteps of the world's largest investor groups, which currently lean toward the following:

- Structuring a sustainability story in an ESG format.
- Incorporating SASB standards across a wide range of issues, from labor practices to data privacy and business ethics.
- Using TCFD framework for evaluating climate-related risks and governance issues.
- Aligning SDGs where they are financially material.



For clarification and further edification, we've provided some highlights of frequently used terms and outlined their impact on corporate sustainability today.

Carbon Disclosure Project (CDP)

The CDP was founded in 2000 with the goal to create a "global economic system that operates within sustainable environmental boundaries and prevents dangerous climate change." The organization aims to make environmental reporting and risk management a business norm. The idea behind that is if businesses considered disclosure as part of its core responsibility, it would be possible to transform capital markets. Since 2002, when it officially launched its environmental disclosure program, more than 8,400 companies, 800 cities and 120 states and regions used the CDP to report on their climate, water and deforestation impacts.

Circular Economy

Based on the principles of designing out waste and pollution, keeping products and materials in use and regenerating natural systems, a circular economy is a systemic approach to economic development designed to benefit businesses, society and the environment. Rather than simply managing waste, a circular economy is regenerative by design and aims to gradually decouple growth from the consumption of finite resources. Concepts reflect a process that retains as much value as possible from products, parts and materials and works to mitigate the climate impact of continually manufacturing new products. Experts suggest that circular economy could generate $4.5 trillion of additional economic output by 2030, which is a central driver for growing popularity in sustainability programs and reporting.

Corporate Reporting Dialogue (CRD)

Sustainability reporting can be complicated and certainly seem intimidating. That's why in 2018, the CRD was formed by members of different ESG reporting groups, including CDP, CDSB, FASB, GRI, International Accounting Standards Board, International Organization for Standardization, and SASB. The organization's goal is to find parallels in standards and, where possible, simplify the process for issuers. The CRD is perusing a two-year initiative known as the Better Alignment Project to make disclosures more coherent and reporting easier for businesses.

ESG Reporting & Ratings (ESG)

ESG is one of the most popular structures for sustainability reporting and is likely to continue to grow as investors continue to demand it along with ESG ratings (see also GRI). Environmental criteria includes the energy your company takes in and the waste it discharges, the resources it needs and the consequences for all humans as a result. It encompasses carbon emissions and climate change. Social criteria addresses the relationships your company has and the reputation it fosters with people and institutions in the communities where you do business. This includes labor relations, diversity and inclusion. Governance is the internal system of controls and procedures your company has in place to govern itself, make effective decisions, comply with the regulations, and meet the needs of stakeholders.

Global Reporting Initiative (GRI)

ESG ratings are in high demand as more investors and additional stakeholders want to see tangible progress. The GRI standards, which are issued by the Global Sustainability Standards Board (GSSB), set out universally accepted principles for ESG reporting. The organization's standards feature a modular, interrelated structure and represent the global best practice for reporting on a range of economic, environmental and social impacts. You can download the GRI Standards to better understand key concepts and disclosures.

Sustainability Accounting Standards Board (SASB)

SASB is a nonprofit organization founded in 2011 to work with a large investor advisory group to determine the material ESG factors on which companies should be updating investors. In 2018, SASB launched its 77 industry-specific reporting standards. The investor advisory group has continued to expand, and so too have the number of companies using the SASB materiality index (usage has more than doubled in one year). It's worth noting that all 77 industry-specific standards aren't necessary for reporting. In fact, only about 28% of participating businesses feature full adoption. The other 72% report using only the SASB standards that are relevant to their industry. As SASB is now exploring three new areas — human capital management, online content moderation and single-use plastics — there is little doubt that the nonprofit's materiality index will continue to grow in use.

Sustainable Development Goals (SDG)

While the 17 SDGs were adopted by world leaders in 2015, they have been slow to adopt them in reporting. However investors last year saw a 124% increase (since 2015) in companies referencing and reporting on SDGs. This signals a rise in sustainability reporting as much as it does use of the SDGs. Built on decades of work by varying countries and the U.N., the 17 SDGs represent a call to action across environmental and social issues, including climate change and working to preserve our oceans and forests, improve health and education, reduce inequality and poverty — all while spurring economic growth. A substantial portion of the SASB materiality index maps to SDGs, which can help identify industries in which SDGs are most likely to be financially material, and subsequently support those business wishing to incorporate SDGs into reporting efforts.

Task Force on Climate-related Financial Disclosures (TCFD)

Consisting of 31 members representing a broad swath of the G20, and chaired by former New York City Mayor Michael Bloomberg, the TCFD develops guidelines for voluntarily climate-centered financial disclosure. Formed as a means for coordinating disclosures, the organization is charged with considering "the physical, liability and transition risks associated with climate change and what constitutes effective financial disclosures across industries." Since the initial 2017 publication of its recommendations, the TCFD has published two additional status reports addressing progress that has been made, including the conclusion of a three-year review of the more than 1,000 large companies across sectors aimed at determining how companies disclose climate-related risks and how that reporting has evolved. The TFCD continues to stress that as companies complete consistent, reliable disclosures related to climate-based risks and opportunities, markets will be better equipped to evaluate, price and manage those risks. Further, companies will be better able to evaluate their own risks as well as those related to business partners and investors will be able to improve decision-making regarding the allocation of capital. In 2019, SASB and the CDSB issued an Implementation Guide for TCFD, designed to help companies address the demand for more data about their exposure to climate-related financial risks and opportunities.

Bringing clarity to the complex.™

AvreaFoster is a specialized brand consultancy that leverages deep research, strategic planning and design-forward marketing communications to propel brands beyond challenging inflection points into a clear and prosperous future. Our focus is on brands within complex and evolving environments, such as healthcare, technology and finance.

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