



Walking on ESG Eggshells: Focus on 'Safe' Social Issues and Their Economic Value

Corporate action on social issues has contributed to the recent emergence of a backlash against environmental, social & governance programs. Whether and how to respond to social issues presents a difficult challenge for companies, especially in a highly divided and politicized atmosphere. Companies need to prepare for the inevitable negative reaction from those who disagree and the disappointment of those who wish the company had done more.

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- **The emotions involved in addressing social and political issues can make decisions about a corporate response complicated and difficult.** Companies don't need to comment and act on every issue, and even if one constituency—employees, for example—requires a reaction, other stakeholder groups may not. Establishing systematic processes, decision trees, and criteria for whether and how to respond to social and political issues can help companies make objective and consistent decisions.
- **Companies may be overlooking valuable opportunities by failing to communicate certain social initiatives to consumers, particularly those related to employees.** Consumers say their buying decisions are influenced more by corporate social initiatives, especially those pertaining to employees, than by environmental efforts. Nevertheless, companies tend to concentrate their advertising and communications on environmental issues. To achieve a better balance, companies could emphasize universally appreciated and less controversial social initiatives, such as those related to labor conditions, pay equity, and human rights.

- **To minimize criticism, companies may want to emphasize the business and economic benefits of social initiatives and prioritize internal over external action and communications.** Corporate social initiatives can elicit negative reactions from some consumers, especially if the initiatives mainly serve marketing purposes and are unauthentic. Emphasizing the business aspects such as productivity and financial gains may resonate more broadly. Plus, certain issues are better handled just internally, especially those directly affecting employees (e.g., Supreme Court decision on abortion), helping to preempt external reactions.
- **Scanning for social issues on the horizon through both human and artificial intelligence,** as well as collaborating with other companies to discuss potential responses and build alliances, can improve outcomes of companies' actions and communications.

Social Issues, Including Diversity Efforts, Are Creating New Challenges for Companies

Corporate social initiatives have generated growing controversy, particularly when companies publicly express their stance on divisive social or political issues.

Consequently, companies might consider adopting a distinct approach when communicating their social sustainability efforts compared to their environmental initiatives.

Keep in mind that corporate responses to controversial social issues risk being amplified by the media. Examples are Disney's speaking out in favor of LGBTQ+ topics in Florida's elementary school curricula, mainly to support its LGBTQ+ employees, and Bud Light's influencer marketing intending to show its inclusivity and targeting the transgender community.

The recent Supreme Court decision declaring affirmative action in college admissions unconstitutional presents two challenges for companies: how to continue diversity programs and how to communicate them. From a legal perspective, [employers who make hiring, retention, or promotion decisions based on race \(or other diversity factors\) should reevaluate those practices](#). Regarding communications, companies may want to review their messaging to avoid triggering objections—for example, being accused of reverse discrimination.

Processes and frameworks are valuable to determine responses to social issues

It is important to use standing principles and a clear framework when deciding on a company's stance and response—or nonresponse—to social issues. Companies must establish a clear sense of purpose and an effective process for determining their position on various social issues and whether they should respond internally or externally. A decision tree might be useful. They should also continuously update their "social issues profile" to account for emerging topics. Even for companies with established values and brand DNA, determining the appropriate course of action on social issues can be challenging due to a level of divisiveness—among employees, investors, and politicians—that environmental matters may not reach.

Key decision criteria for companies include determining whether they will be credible when taking a stance on an issue, whether the issue is related to their core business and values, and whether they can have an impact on the issue. An example is the framework featured in [Choosing Wisely: How Companies Can Make Decisions and a Difference on Social Issues](#).

Consumers Consider Companies' Social Engagement in Their Purchasing Decisions, but Corporate Narratives Focus on Environmental Initiatives

Consumers say that social initiatives, especially fair labor conditions and human rights, motivate their brand choice more than environmental ones. This can cause a potential dilemma for companies given that highlighting social initiatives sometimes leads to controversy. The key is to focus on social initiatives that are less controversial such as health and safety in the workplace and communicate their economic benefits, which are more universally accepted.

Figure 1

Social sustainability features drive consumers' brand choice the most

Q: To what degree would information about a brand's actions on the following issues affect the brands you buy? Very much, quite a bit, just a little, not at all

	Total	Age				Race			
		Gen Z (age 18-24)	Millennials (age 25-40)	Gen X (age 41-56)	Boomer + (age 57+)	Asian or Pacific Islander	Black or African American	Hispanic	White
Fair wages (i.e., in line with market rates)	60%	60%	66%	64%	52%	69%	62%	69%	58%
Fair labor conditions	59%	61%	65%	61%	52%	46%	66%	65%	59%
Support for human rights	58%	65%	67%	61%	47%	63%	65%	68%	56%
Use of natural ingredients	57%	60%	62%	62%	49%	60%	58%	65%	57%
Conservation of natural resources (e.g., water, forest, non-renewable energy sources)	56%	52%	61%	61%	51%	61%	57%	67%	55%
Creating equity in the workplace	56%	64%	65%	59%	44%	59%	65%	67%	53%
Paying suppliers fairly	56%	57%	63%	58%	48%	48%	62%	65%	55%
Reducing pollution	55%	59%	60%	60%	47%	55%	60%	67%	53%
Use of renewable energy	55%	57%	63%	60%	45%	55%	64%	67%	52%
Combating climate change by reducing greenhouse gas emissions	53%	58%	62%	55%	43%	56%	58%	67%	50%
Actions on and responses to social and civil issues	47%	57%	59%	51%	32%	41%	64%	66%	42%
Reports on all of the brand's sustainability initiatives	47%	48%	60%	50%	33%	44%	52%	63%	44%
Philanthropic support for environmentally and socially oriented organizations	45%	46%	57%	47%	32%	43%	55%	56%	43%

Source: The Conference Board-Harris Poll Sustainability Insights 2022, The Conference Board

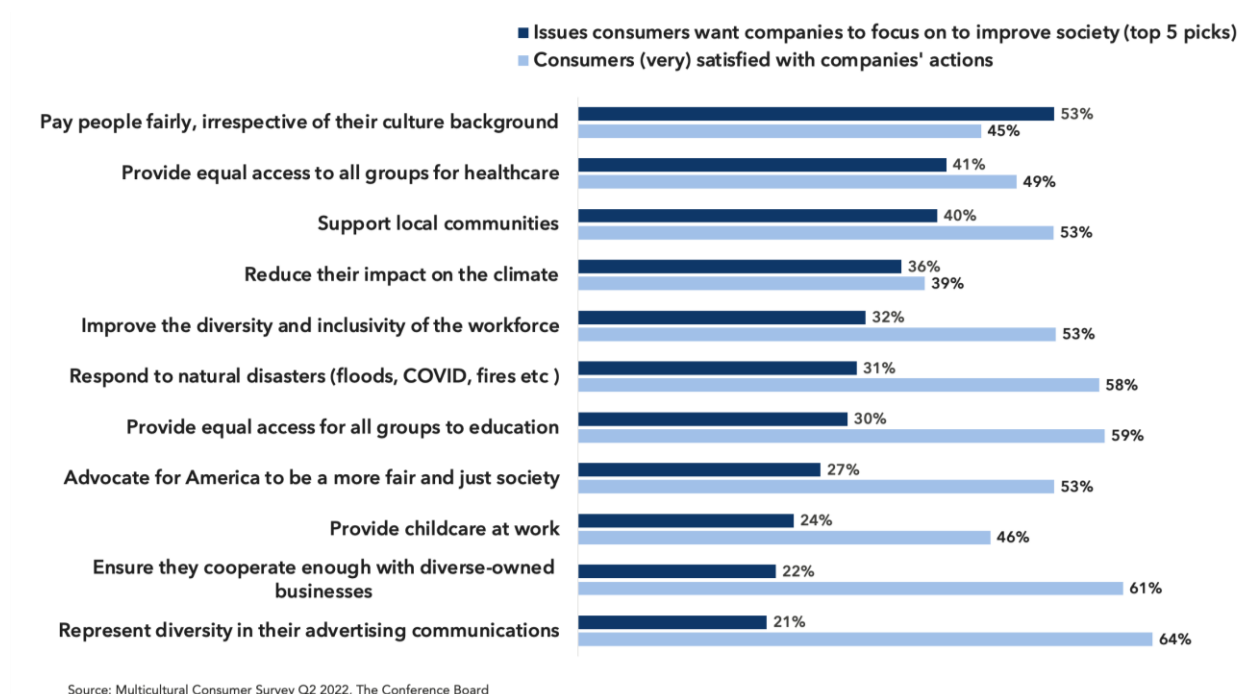
Source: *Top Sustainability Features for US Consumers: Socially Responsible Labor Practices and Human Rights*, The Conference Board, 2022

A backlash is emerging against the use of specific ESG terms. For instance, [McDonald's has removed the term "ESG"](#) from parts of its website; in Q2 2023 earnings calls, executives of US-listed companies [mentioned terms such as ESG and DEI 31% less](#) than the prior year; and [corporate communicators are figuring out appropriate and effective wording](#), with one suggesting, "Words do matter. Honestly, our profession needs to stop talking [in] acronyms." Companies want to avoid wording that might provoke controversy and negative reactions, while finding language that tends to be received more neutrally (also see the related report [Communicate Sustainability in Near-Term Goals, Economic Gains, and Simple Words.](#))

Our consumer research has shown that, among social corporate actions, pay equity ranks notably higher than employee diversity among issues consumers want companies to address. Diversity may rank lower on consumers' wish list of corporate initiatives partly because people recognize companies' progress on employee diversity, on the diversity shown in their advertising, and on their work with businesses owned by people of diverse backgrounds.

Figure 2

Fairly content with diversity displayed in ads, consumers want companies to work on workplace equity and health care access



Source: [Equitable Pay and Health Care Top Consumer Wish List for Corporate Social Initiatives](#), The Conference Board, 2022

Social sustainability initiatives, specifically fair wages/labor conditions and support for human rights, motivate US consumers' brand choice more than environmental ones. Year-over-year, providing an equitable workplace has gained the most as a driver of consumers' brand choice.

Hispanic and Black as well as younger consumers, especially millennials, are most motivated by brands' sustainability features. Gen Z consumers' brand choice is particularly motivated by a brand's focus on human rights and workplace equity.

Minimizing Criticism by Focusing Internally and Emphasizing Economic Benefits

To minimize criticism, companies may want to decrease external while increasing internal communications when it comes to controversial social and political issues (see recent trends in Figure 3). Certainly, internal communications may still reach the external world through employees' sharing, including via social media. But responding to a social/political issue internally because it's important to employees is quite different from communicating externally for marketing reasons to appeal to customers.

Figure 3

Companies that have experienced ESG Backlash are reducing their external communications while increasing internal communications on "E" & "S" topics

Q: How has your company responded to ESG backlash to date? (choose all that apply):



n=62

Numbers reflect those respondents who have experienced some type of backlash

Source: *How Companies Can Address ESG Backlash*, The Conference Board, 2023

Companies might want to highlight the universally accepted business and economic benefits of their social initiatives. For example, a diverse talent pool and supplier base can boost a company's productivity and financial value by mitigating labor and supply shortages, respectively. Similarly, better working conditions can lower sick days. All of these benefits can help keep prices down for customers.

Rather than justifying marketing activities that target certain social groups as a service to these groups, companies can highlight the potential to reach a broader market and the economic benefit generated. A few examples of companies targeting diverse groups include marketing adhesive bandages in different skin tones, designing car safety features based on body types other than just “the average male,” and testing pharmaceuticals among different racial groups.

Improving Actions Related to Social Issues Through Monitoring and Industry Collaborations

Having a “social/political issues seismograph” in place to monitor issues on the horizon helps with scenario planning and potential responses. The last few years have shown how many big topics companies had to deal with in little time—from COVID-19 to racial justice to various Supreme Court decisions to LGBTQ+ rights and more. A [culture of preparedness](#) can put companies in a better position when they need to respond.

Companies could collaborate with other companies as they figure out their position on certain social or political issues. Building an alliance for a coordinated response not only helps companies create an action plan in a more reflective and informed way, but also lowers the risk of a backlash.

About This Brief

This brief is Part 2 of a two-part series that provides insights from our research on consumers' attitudes about corporate sustainability and our August 3, 2023, roundtable with 69 marketing, communications, and sustainability executives, [Customer-Focused Sustainability Communications in Times of ESG Backlash](#). It addresses how to preempt negative reactions to corporate stances on social issues. Part 1, [Communicate Sustainability in Near-Term Goals, Economic Gains, and Simple Words](#), discusses recent trends and offers suggestions for effective sustainability communications to customers to preempt ESG backlash.

Communicating Sustainability to Customers in Times of ESG Backlash



Source: The Conference Board, 2023

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