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Talking in tune with your stakeholders: the trick to improving sentiment around ESG

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Executive summary

ESG has become a very noisy space. Pressure from investors, customers, regulators, employees and the media means that larger companies often pump out huge amounts of content on their approach to ESG, their commitments and priorities.

But how much of this is actually cutting through? Is the outside world listening to what companies are saying about ESG, and are they demonstrating this by talking about the same topics, or do they believe that companies are missing the point and focusing on the “wrong” issues? More importantly, if there is a misalignment between what companies say and what stakeholders are talking about in relation to those companies, to what extent does that affect sentiment?

These are the questions that this research, by Mettle Capital in conjunction with Dentons Global Advisors, sets out to answer.

The results suggest that companies that are highly attuned to the outside conversation on ESG have a much higher chance of being positively perceived in this regard than those that are not. Conversely, misaligned companies tend to carry negative sentiment on ESG. Companies that are not aware of the conversation “out there” may do so at their peril.

A simple approach

Mettle Capital has developed an AI-approach based on 12 years' data across 1.6 trillion articles to identify, machine-read and classify unstructured ESG text.

Using this approach, we looked at what the FTSE100 said on ESG topics, defined as one of the 26 Sustainability Accounting Standards Board (SASB) criteria, in annual reports, sustainability reports and earnings presentations.

We then compared this with what stakeholders ‘heard’, ie, what they talked about, by looking at commentary relating to each FTSE100 constituent in earned and social media.

Using Mettle’s AI-based sentiment analysis, each piece of identified content was then classified as positive, neutral or negative to deliver overall sentiment scores.

Main findings

- The volume of output on ESG from FTSE100 companies differs dramatically. The top ten most prolific companies produce five times more content than the bottom ten.
- Certain sectors – extractives, transport and financials – talk a lot more about ESG than others. Services, technology, communications and consumer are bottom of the ranking.
- Of the ten FTSE100 companies that talk the most about ESG, only three are also in the top ten companies that are most talked about in relation to ESG, suggesting that these firms are not so interesting to stakeholders as perhaps they think they are.
- Many FTSE100 companies that produce huge amounts of information on ESG do not focus on the topics to which their stakeholders pay most attention.
- For example, companies are talking much more about product design and lifecycle, water and wastewater management, supply chain management and access and affordability than the conversation about them.
- Conversely, they are not talking as much as their stakeholders are about greenhouse gas emissions, the physical impacts of climate change, business ethics and competitive behaviour.
- Companies that appear, from what they are saying on ESG, to be highly attuned to the external conversation about them, enjoy more positive sentiment than sector peers who are not similarly attuned.

Note: while we have carried out this analysis on the whole of the FTSE100, rather than publish the entire ranking, this report includes only the top ten companies in each category. That said, we can provide detailed data on every FTSE100 constituent. Our analysis covers the period June 2021 – May 2022.

Volume of output

When we look across the FTSE100 as a whole, there are huge differences in the volume of ESG output from companies; the most prolific ten companies say more than five times more than the bottom ten.

Which FTSE100 companies are talking the most about ESG today?

| | | |
|----|-------------------|-------------------------|
| 1 | PRUDENTIAL | Financials |
| 2 | RIO TINTO | Extractives |
| 3 | SHELL | Extractives |
| 4 | BAT | Food & Beverage |
| 5 | MONDI | Resource Transformation |
| 6 | RECKITT BENCKISER | Consumer Goods |
| 7 | ANGLO AMERICAN | Extractives |
| 8 | SSE | Infrastructure |
| 9 | BP | Extractives |
| 10 | GLENCORE | Extractives |

It is perhaps unsurprising that many of the companies in this list are in extractives and mining processing, given the scale and complexity of ESG issues in this sector.

Which FTSE100 companies are talked about the most?

Moving from how much ESG content companies publish to the volume of conversation “out there” about them: the ranking below shows the top ten most talked about companies in an ESG context.

| | | |
|----|---------------|--------------------|
| 1 | SHELL | Extractives |
| 2 | ASTRAZENECA | Healthcare |
| 3 | BP | Extractives |
| 4 | PEARSON | Technology & Comms |
| 5 | TESCO | Food & Beverage |
| 6 | RIO TINTO | Extractives |
| 7 | EXPERIAN | Financials |
| 8 | VODAFONE | Technology & Comms |
| 9 | UNILEVER | Consumer Goods |
| 10 | NATWEST GROUP | Financials |

Comparing the two tables, it is obvious that SAID and HEARD volume rankings do not match: the amount of conversation and the amount of corporate content differ substantially. Only Shell, BP and Rio Tinto appear in both top ten lists.

Interestingly, the extractives sector both talks the most and is the most talked about, which suggests a high level of engagement with the content these companies produce. Similarly, the healthcare and transport sectors as a whole experience high levels of external engagement. Companies in the technology and consumer sectors in general talk less about ESG but are talked about proportionately more by stakeholders.



Topic alignment

Are companies broadly talking about the same ESG topics as their stakeholders?

Having compared overall volumes, a look at how these volumes correlate in terms of topics discussed shows that, at a high level at least, there are significant parallels between what companies talk about and what their stakeholders talk about, with eight of the top ten ESG topics appearing on both charts, albeit not in the same order. This suggests that companies are, in aggregate, relatively successful at understanding what their stakeholders care about.

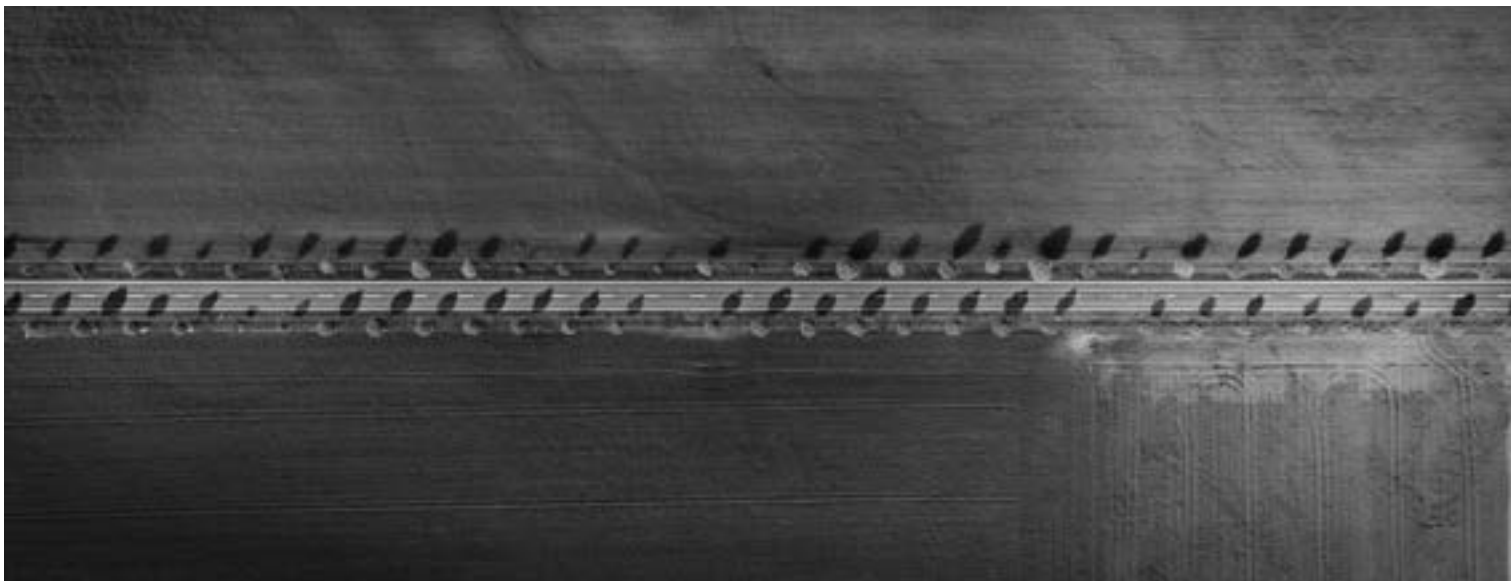
SAID – topics FTSE100s talk about in aggregate



HEARD – topics stakeholders talk about in aggregate



However, looking more closely, companies are talking much more about certain topics such as product design and lifecycle, water and wastewater management, supply chain management and access and affordability than the conversation about them. Conversely, we can see that they are not talking as much as their stakeholders are about greenhouse gas emissions, the physical impacts of climate change, business ethics and competitive behaviour.



Taking a deeper dive

How aligned are companies themselves to the public conversation about them? The table below shows the top ten most attuned.

| | | | |
|----|-----------------------|-------------------------|-----|
| 1 | SMITH (DS) | Resource Transformation | 89% |
| 2 | SMURFIT KAPPA GROUP | Resource Transformation | 88% |
| 3 | RECKITT BENCKISER | Consumer Goods | 87% |
| 4 | COMPASS GROUP | Food & Beverage | 86% |
| 5 | MONDI | Resource Transformation | 84% |
| 6 | CRODA PHARMACEUTICALS | Resource Transformation | 83% |
| 7 | RS GROUP | Resource Transformation | 83% |
| 8 | EXPERIAN | Financials | 83% |
| 9 | SEVERN TRENT | Infrastructure | 81% |
| 10 | OCADO | Food & Beverage | 80% |

It is interesting to note the lack of overlap of companies on this list with those ranking most highly in terms of overall volume. Only Mondi and Reckitt Benckiser (fifth and sixth in terms of output – see p4) also appear here. Also interesting is the dominance of the resource transformation sector. This suggests that, as a group, these firms are most aligned to the conversation about them. Incidentally, of the bottom ten companies in terms of alignment, all of which show less than 20% topic correlation, four are in the financial services sector.

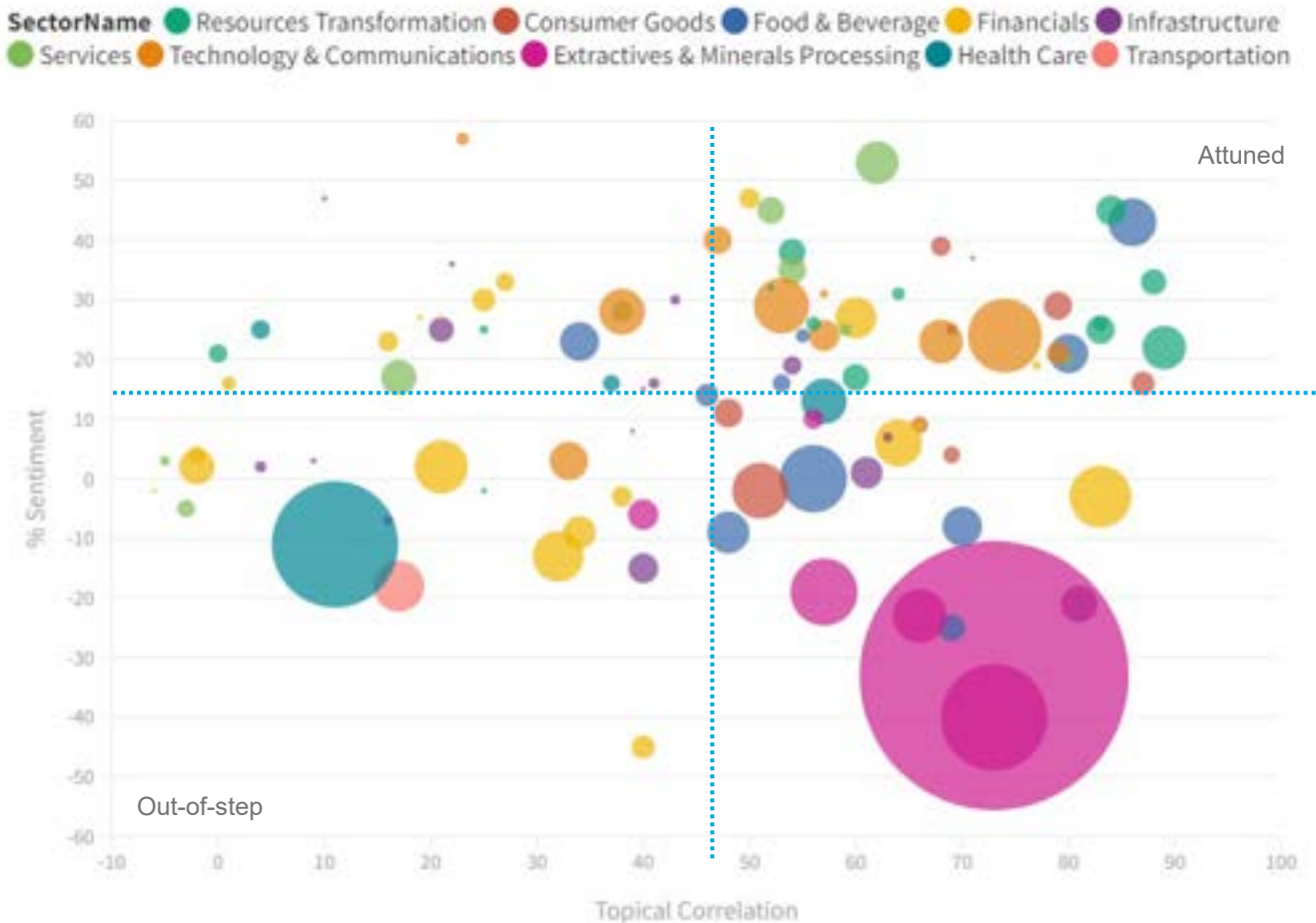
The comparison between volume output and topic correlation suggests that there are a lot of FTSE100 companies which pump out significant amounts of content on ESG, but do not focus on topics that their stakeholders pay a lot of attention to.

Of course, it could be that these companies are deliberately choosing to focus on areas that deviate from the public interest – if they think the conversation about them prioritises the wrong topics. Such intentional misalignment could be described as thought leadership, ie, these businesses may have specific areas of interest they are deliberately focusing on. However, we wonder if these companies are as aware of the conversation about them as they could be, and are making deliberate choices, or are simply missing the point in many cases.

In the final part of our analysis, we will demonstrate that these choices matter for sentiment.

Impact on sentiment

The chart below shows that there is a direct impact on ESG sentiment and reputation depending on the alignment between the public conversation and companies' ESG commentary.



The chart visually combines HEARD ESG volume per FTSE100 company (bubble size), topic correlation (X-axis) and HEARD sentiment towards each company (Y-axis). The dividing lines between quadrants are the average topic correlation across all FTSE100 companies (the vertical divider, at 47%), and the average sentiment metric (the horizontal divider, at 14%).

The top right quadrant shows companies with high correlation between the topics they talk about and the conversation among stakeholders. These are the 'attuned' companies, and they enjoy positive ESG sentiment.

The bottom right quadrant shows high correlation on topics of conversation, but negative sentiment. This is the 'disliked' set of companies. The very large magenta bubble denotes an oil company that clearly spends a lot of effort communicating on its ESG position, but fails to generate positive sentiment.

Top left are the 'lucky' companies which do not talk about the topics stakeholders are interested in but are still liked. Interestingly these tend to be companies that are able to get away with a limited volume of conversation about ESG, perhaps suggesting it is a less pivotal issue for them.

The bottom left companies are also out-of-step with the conversation on them, but are negatively viewed. The large teal bubble represents a healthcare company producing significant volumes of information on ESG but failing to talk about the topics stakeholders care about. It is also experiencing negative sentiment.

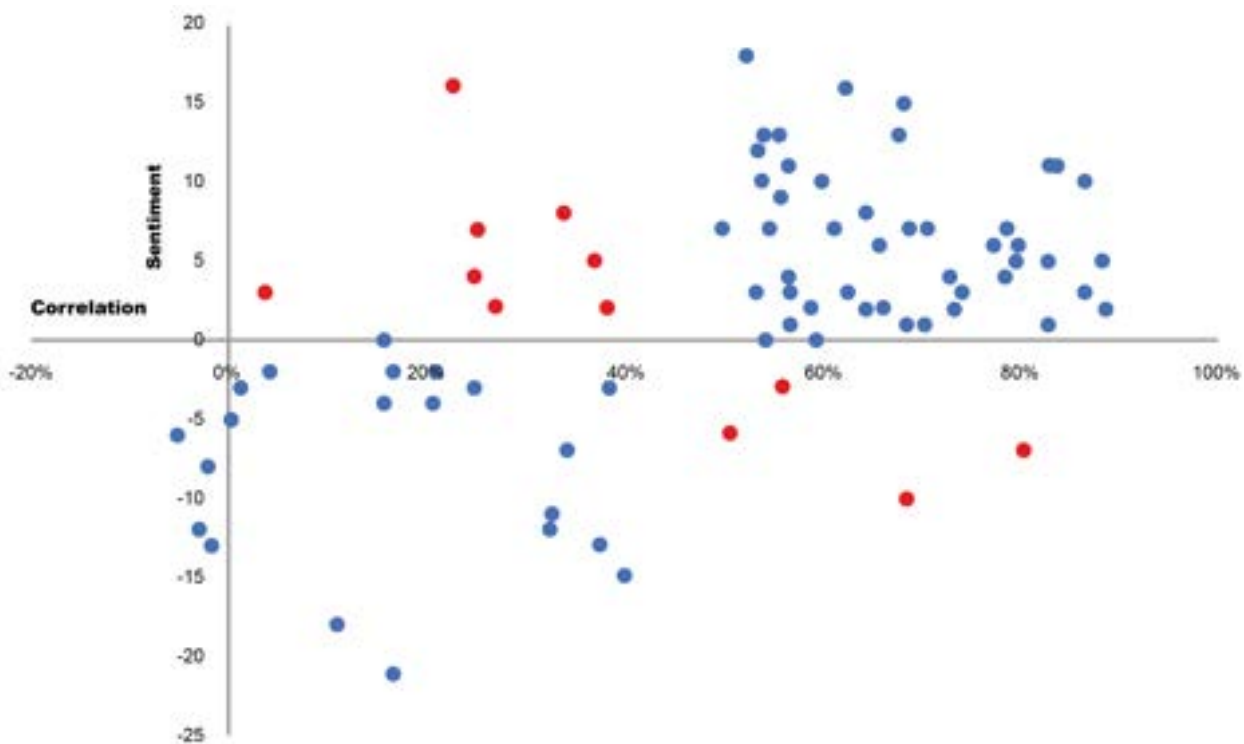
The companies to the left of the vertical line either do not know what the conversation is about them or – more charitably – have chosen to be thought leaders. The ones in the top left quadrant got lucky, the ones in the bottom left did not.

The impact of topic correlation on sentiment (and ultimately reputation)

In order to determine conclusively whether the level of ESG topic correlation is in itself correlated with ESG sentiment, the final step in our research compares sentiment for each company with its sector average. We found that high topic correlation is linked to sentiment outperformance relative to sector sentiment, and that low topic correlation is linked to sentiment underperformance.

In the chart below, each dot denotes a FTSE100 company. The X-axis shows topic correlation as before (in percent), but the Y-axis now shows relative performance to sector average.

Relationship between topic correlation and sentiment performance relative to sector



Looking first at the blue dots in the top right quadrant, we can see that correlation above 50% causes a dense cluster of dots/companies whose sentiment outperforms their sector. Not quite as clear, but similar, looking at the bottom left quadrant, topic correlation below 40% causes relative sentiment underperformance. There is no clear pattern between 50% and 40% and we do not show the dots in the chart. But of the FTSE100 companies, 74 follow the pattern and only 15 (the red dots plus the ones we do not show) do not, or do not clearly (11).



Conclusion

In summary, our analysis shows that, in a world where everyone seems to be talking about ESG all the time, FTSE100 companies that are attuned to the ESG conversation about them and reflect this in terms of what they themselves say about ESG tend to enjoy more favourable sentiment.

Conversely, companies that talk most about topics their stakeholders are less interested in, are perceived more negatively. So even if this is a deliberate strategy with the aim of being a thought leader, it is a risky one to pursue if companies want to keep their stakeholders on side.

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