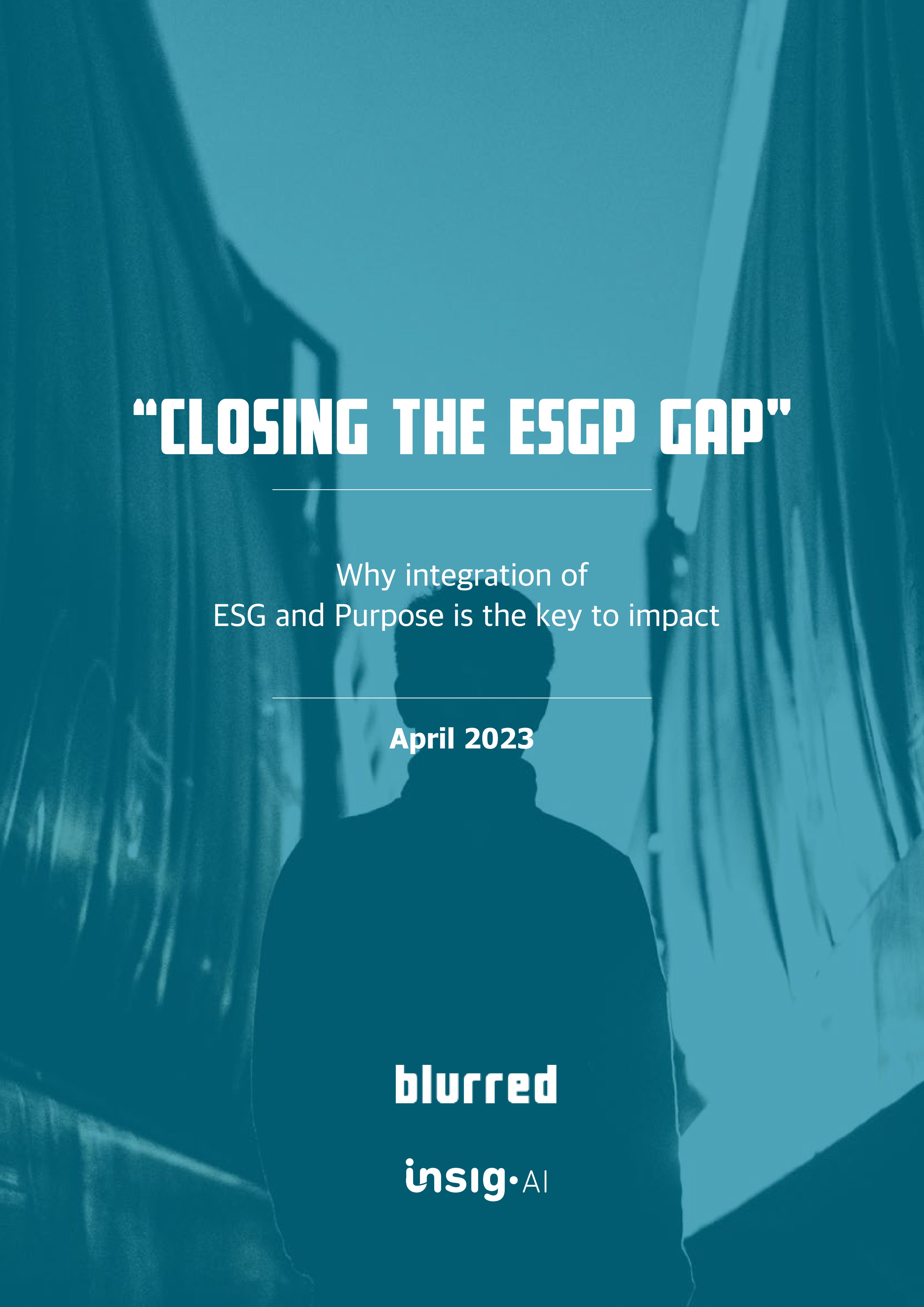

"CLOSING THE ESGP GAP"

Why integration of
ESG and Purpose is the key to impact

April 2023

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FOREWORD

DOING LESS HARM, BUT NOT NECESSARILY DOING MORE GOOD

By Stuart Lambert, CSO, Blurred

The terms 'ESG' and 'Purpose' dominate much of contemporary corporate, investor and brand communication conversations.

These two terms are treated in many quarters as innately separate (as indeed are many of the above conversations) – perhaps loosely related but not closely bound. Like distant relatives that slide past one another awkwardly at a rare family gathering.

In fact, they are inseparable. One cannot exist properly without the other. Or should not, at least as far as corporate board room is concerned.

One (ESG) is about mitigating risk to asset value, by 'doing no significant harm' to environment and society. The other (Purpose) is about creating value for all stakeholders (vitally, including people and planet as the ultimate beneficiary stakeholders) by "doing meaningful good". But Purpose is too often misused, particularly by marketers: a cynical exercise in optimising revenues from conscientious consumers, creating one-dimensional short-term value for immediate shareholders but doing nothing to actually help solve the world's problems.

This happens when it is unmoored from ESG, left rudderless when in fact it should be the rudder. And the north star – owned, to continue the metaphor, by a steering group with clear, unambiguous direction.

Without Purpose, ESG – no matter how 'well' it is done – will remain an exercise in compliance. A useful and important accountancy and accountability process in itself, but lacking true direction and motivation. In this mode, ESG reporting may help achieve a basic aim of minimising risk to asset value by minimising harm to people and planet, but the opportunity to deliver positive impact and "do good" is missed. The chance to create value is squandered.

And without ESG as a foundation, Purpose becomes – ironically – itself a risk. Left solely to marketers, Purpose too often becomes misused as a strapline. And with overclaims about sustainability now firmly in the crosshairs of greenwash regulators, this can lead to serious legal action (See The Risks Of Getting It Wrong, page 10)

Much comes down to the governance around all this stuff: how it is defined, managed, communicated, reported and measured. How are people held accountable for it? That's why, of the four ESGP dimensions of integrated board strategy – E, S, G and P – we say the less fashionable 'G' is the most important. Because 'G' is for the glue that binds everything together.

But 'G' is also for the 'gap' that exists between ESG and P. And closing the ESGP gap is the vital first step to public companies becoming genuine forces for betterment, for positive impact in the world.

Investors want to see the ESGP gap closed. As we discuss in this report, investors complain that Purpose is typically shallow and flimsy, lacking substance and lacking mechanisms for accountability, when it should be connected to and treated with the same rigour at board level as ESG risk factors.

Closing the 'ESGP gap', therefore, starts with making sure that Purpose is disclosed, as material ESG risk factors are disclosed.

In fact, we argue disclosure and communication of Purpose must be proportionate to that of ESG risks and targets. Boards of public companies should be treating Purpose in the same way as they treat ESG: as a material, strategic issue directly connected to commercial sustainability.

Today, this is simply not happening. The ESGP Gap – in terms of disclosure and substance – is stark.

Every corporate and public citizen has both the responsibility and capability to make a difference

Closing that gap begins by understanding and quantifying it. That is the job we have aimed to do here. In this report, we assess, for the first time, UK public companies' disclosures of ESG versus Purpose, and launch a methodology for assessing how integrated ESG and Purpose appear to be within those companies.

We believe this is vital work. Our collective wellbeing is at stake from environmental and societal risk factors, and companies have both the responsibility and the capability to make a positive impact.

Capitalism is increasingly seen as a source of rising levels of inequality, environmental degradation and social exclusion. We believe public companies hold the power to reshape capitalism by rethinking the purpose of business. The Purpose of any company should ultimately be to produce profitable solutions to ESG problems, not to profit from producing the problems in the first place.

And that's the opportunity of a lifetime.

> "Closing the ESGP gap is the vital first step to public companies becoming genuine forces for betterment, for positive impact in the world.

Contributing to betterment, for people and planet.

EXECUTIVE SUMMARY

Overview

Investors want ESG and Purpose to be considered by Boards as equally material components of a company's value-protection and value-creation strategy.

At the same time, Purpose itself is misunderstood and increasingly misused as a marketing tactic. Best practice Purpose now demands that companies recognise wellbeing of environment and society as a ultimate form of 'value creation' and people and planet as ultimate, long-term beneficiary stakeholders.

It is not enough to simply minimise harmful risk factors (ESG); public companies must demonstrate how they intend to do good (Purpose). Purpose needs to be disclosed, in the same way ESG is disclosed. And both ESG and Purpose require similarly rigorous, clear and consistent governance: a commitment to disclose, measure and be held accountable. Companies need to make sure their ESG commitments deliver on the goals the company's Purpose sets.

All this requires that ESG and Purpose be **deeply integrated.** Not doing so represents both a risk and a missed opportunity for public companies. Because:

- ESG without Purpose is ultimately just a compliance exercise. This may help companies reduce harmful impacts to environment and society, but given the scale of the problems faced by environment and society this is not enough. Companies have a responsibility and the capability to make a positive difference and this should be seen as an opportunity to be seized.
- Purpose without ESG is, at best, superficial marketing, and at worst greenwashing. Regulators across the world are clamping down on companies' claims to be 'doing good' and the fines and legal actions are stacking up.

If there is a 'gap' between ESG and P, then there is risk, but there is also opportunity.

This report explores the ESGP Gap, examining FTSE100 companies' ESG disclosures and its Purpose disclosures, and launching a new methodology for assessing and scoring the apparent gap between a given company's ESG and Purpose communication, actions and governance.

Our research has found that:

1. **First of all, most 'Purpose' is not fit for purpose**
   - We're a long way from Purpose best practice: only four companies within the FTSE100 have a Purpose statement that we judge to align with current best-practice.
   - Four companies do not disclose any Purpose at all.
   - Assessed against best practice, the stated Purpose of the vast majority of FTSE100 companies is not substantive: far too many are a marketing strapline with no real depth or connection to governance, values or decision-making.

2. **Few companies in the FTSE100 meaningfully connect ESG to P**
   - Less than one quarter (24%) of FTSE100 companies reference broader wellbeing objectives (people, planet, environment, society) in their Purpose statement.
   - This suggests a more material disconnect between Purpose and ESG in companies' disclosures and reporting, which we find to be true under more detailed examination. See case study illustrations using Blurred's proprietary methodology for scoring a company's integration of ESG and Purpose.

3. **Compliance mindset gets in the way of bigger picture**
   - The larger a company's market

capitalisation, the more likely it is to under-index on Purpose disclosure.

- Our findings suggest that as multinationals grow, the compliance burden of ESG reporting requirements means they pay less attention to communicating a deep, robust articulation of Purpose.

- This undermines the ESGP principle: that ESG and Purpose are part of the same strategic narrative for the Board of any public company. And can mean the company fails to activate an ESG strategy into a business strategy.

4. More companies need to properly understand and communicate Purpose as a long-term sustainability strategy rather than just a short-term revenue play.

- Our analysis of FTSE100 companies' annual reporting revealed that whereas the word 'shareholder' appeared more than 11,000 times in FY21/22, the phrase 'people and planet' appeared just 41 times across the entirety of the data sample: a ratio of 270-to-one.

- Similarly, the phrase 'long term value' appears just 307 times across the entire data set (FTSE100 annual/ESG/integrated reports, FY21/22), compared to much larger instances of what we would consider largely empty corporate buzzwords (e.g., 'innovation', used 2,887 times).
- Boards need to take the time to consider what they really want to convey, whether they can evidence it, and how best to put that at the heart of their narrative.

5. Frequently, companies with best practice Purpose statements under-disclose that Purpose

- We found that many of the most substantive disclosures of company Purpose are found within companies with the most challenging ESG issues.

- For example, two of the four companies to articulate Purpose in a way that aligns with best practice are in the mining/extractive sector.

- Despite having market-leading Purpose statements, these companies communicate their Purpose in their mandatory reporting far less than companies in, for example, the FMCG sector: this is a missed opportunity to establish a substantive and compelling ESGP narrative.

6. There is a pressing need for a common language for Purpose

- We found a widespread use of 'purpose', 'mission' and 'vision' as interchangeable terms.

- These terms have crucially different meanings in the context of a company's ESGP narrative, and Boards should make sure that communication and reporting teams are clear on their meaning and usage.

7. The rise in communication of 'materiality'

- Materiality is one of the most fundamental components of best practice ESG and Purpose disclosure and strategy.

- We found that usage of the term in FTSE100 annual reporting has risen by 153% since 2015 as public companies become more proficient at communicating material risks and opportunities as a critical ingredient of an effective ESGP narrative.

8. 'Risky' language is on the rise

- The communication from public companies – from statutory and sustainability reporting to brand marketing – is under increasing scrutiny from regulators with regards to overclaims and greenwashing.

- Yet terms under scrutiny, such as 'green' and 'eco-friendly', are on the rise.

- We found a 385% rise in the use of the term "green" in FTSE100 statutory reports between 2015 and FY21/22.

DEFINITIONS:

WHAT IS PURPOSE?

PURPOSE REPRESENTS OPPORTUNITY

'Purpose' is mentioned eight times in BlackRock CEO Larry Fink's 2022 letter to CEOs. "A clear sense of purpose" is what "distinguishes great companies." It's "never been more essential" for CEOs to have a "clear purpose." A company's purpose "is its north star in this tumultuous environment." Putting purpose "at the foundation" of stakeholder relationships is "critical to long-term success." And if companies "stay true" to their organisational purpose and "focus on the long term", they will "deliver durable returns for shareholders and help realize the power of capitalism for all."

The theme throughout that letter is simple. It is 'opportunity'. For institutional investors, Purpose represents the opportunity to create value within a capital market system.

But this idea is only part of the story.

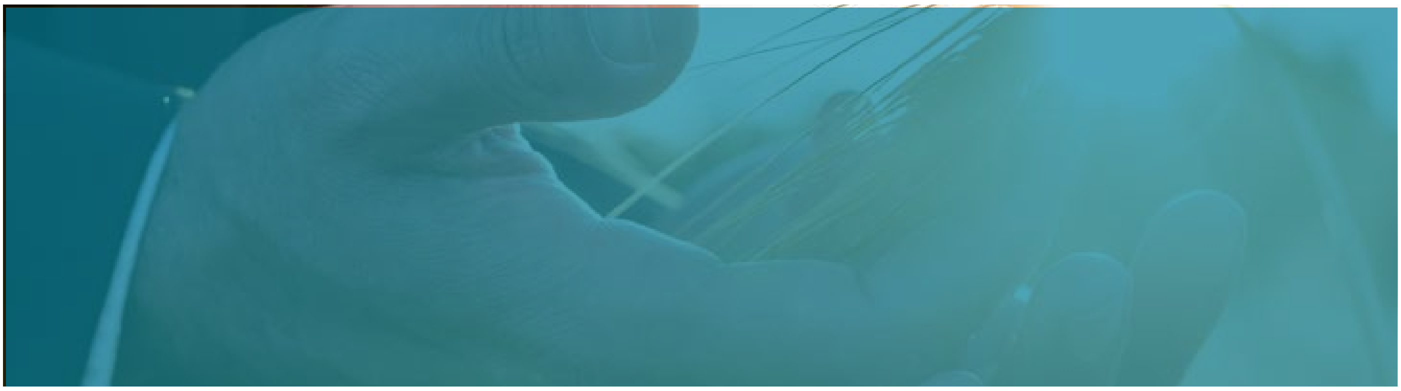
PURPOSE ALSO REPRESENTS RESPONSIBILITY

The urgency of the threats facing society and the environment means that Purpose cannot only be seen as the means to short-term return. Best practice demands that corporate Purpose explicitly set out how the company will contribute meaningfully to the long-being wellbeing of people and planet.

As of 2022, Publicly Available Specification (PAS) 808 from the British Standards Institute (BSI) represents the most current standard for Purpose best practice[1]. PAS808 is the first national standard codifying what real, substantive Purpose looks like, specifying the worldviews, principles and behaviours of truly Purpose-driven companies. It contains clear and precise guidance for defining Purpose, living that Purpose, and – vitally – evaluating and measuring it.

In PAS808, Purpose is defined as:

"An organisation's reason to exist that is an optimal strategic contribution to long-term wellbeing of all people and planet."



PURPOSE IS THE OTHER SIDE OF THE ESG COIN

The logic of materiality dictates that the area in which a company has the most potential to do harm to society or cause damage to the environment is also by extension the area in which it has the biggest opportunity to do good.

For a company's contribution to people and planet to be "strategic", "long-term" and positive, it must be informed by an understanding of the company's negative impacts. Purpose must therefore build meaningfully on evidenced action related to material areas of Environmental and Societal risk, all of which must be subject to solid principles of Governance.

In other words, P is directly and ineluctably connected to E, S and G.

THE RISKS OF GETTING IT WRONG

Quite apart from attracting investor ire for “flimsiness” and “shallowness” (see ‘The Investor View’ page 12), misusing Purpose now risks significant regulatory action.

Where ‘purpose’ is used as a convenient ‘sustainability’ or ‘eco’ badge for a brand or campaign, the likelihood of falling into greenwash territory is significantly increased.
And greenwash is an increasingly dangerous legislative frontier for any public company.
In 2022, we saw:

- the police raid the offices of Deutsche Bank on greenwashing allegations;
- a greenwashing law suit brought against H&M;
- a greenwashing law suit brought against KLM;
- advertising bans imposed on Unilever and HSBC for greenwashing.

Already in 2023, Toyata are facing multi-million dollar fines for greenwashing and Lufthansa have had misleading ‘green’ adverts banned in the UK.

These examples of companies suffering significant financial and reputational damage from overclaiming or making unsubstantiated sustainability claims will be just the start.

In the UK, the CMA’s new ‘Green Claims Code’ has fired the starting pistol on a full review into misleading green claims. Under the digital markets, competition and consumer bill to be unveiled by the UK government shortly, big companies face the threat of civil penalties of up to 10% of global turnover for breaches of consumer law. Individuals who breach these laws will face fines of up to £300,000.

The EU is working on new rules to combat vague green marketing[2]. Australia recently published anti-greenwashing guidance[3]. Singapore has unveiled disclosure rules to reduce greenwashing risk[4].

Vocabulary is increasingly both hardening and coming under scrutiny. In the US, Commissioner Christy Goldsmith Romero of the Commodity Futures Trading Commission publicly stated in February 2023: "As a 20 year federal law enforcement official, I take the position that **greenwashing is one type of fraud.[5]**"

The Federal Trade Commission (FTC) Green Guides, also known as the "Guides for the user of environmental marketing claims[6]", allow for enforcement action to be taken against the businesses violating them. In December 2022, the FTC opened public comments toward its next update of the Green Guides[7].

Terms that provoke the most scrutiny from regulators include "green," "eco-friendly," "environmentally friendly," "natural," and "sustainable." The FTC, for example, has called out "green" and "eco-friendly" specifically[8].

Yet Blurred/InisgAI analysis reveals a 385% rise in the use of the term "green" in FTSE100 statutory reports between 2015 and FY21/22.

Use of "eco-friendly" has more than doubled (**Fig 1.1**).

Five companies in the FTSE100 use the term "green" more than one hundred times in their annual/ESG report in 21/22. The company using 'green' the most, a major high street banking brand, is also the fourth-highest communicator of 'Purpose' in the FTSE100.

Conflation of 'purpose' with 'green', 'eco' or 'sustainability' claims is risky, if Purpose is not aligned with best practice, and tightly integrated with rigorous, evidenced ESG data.

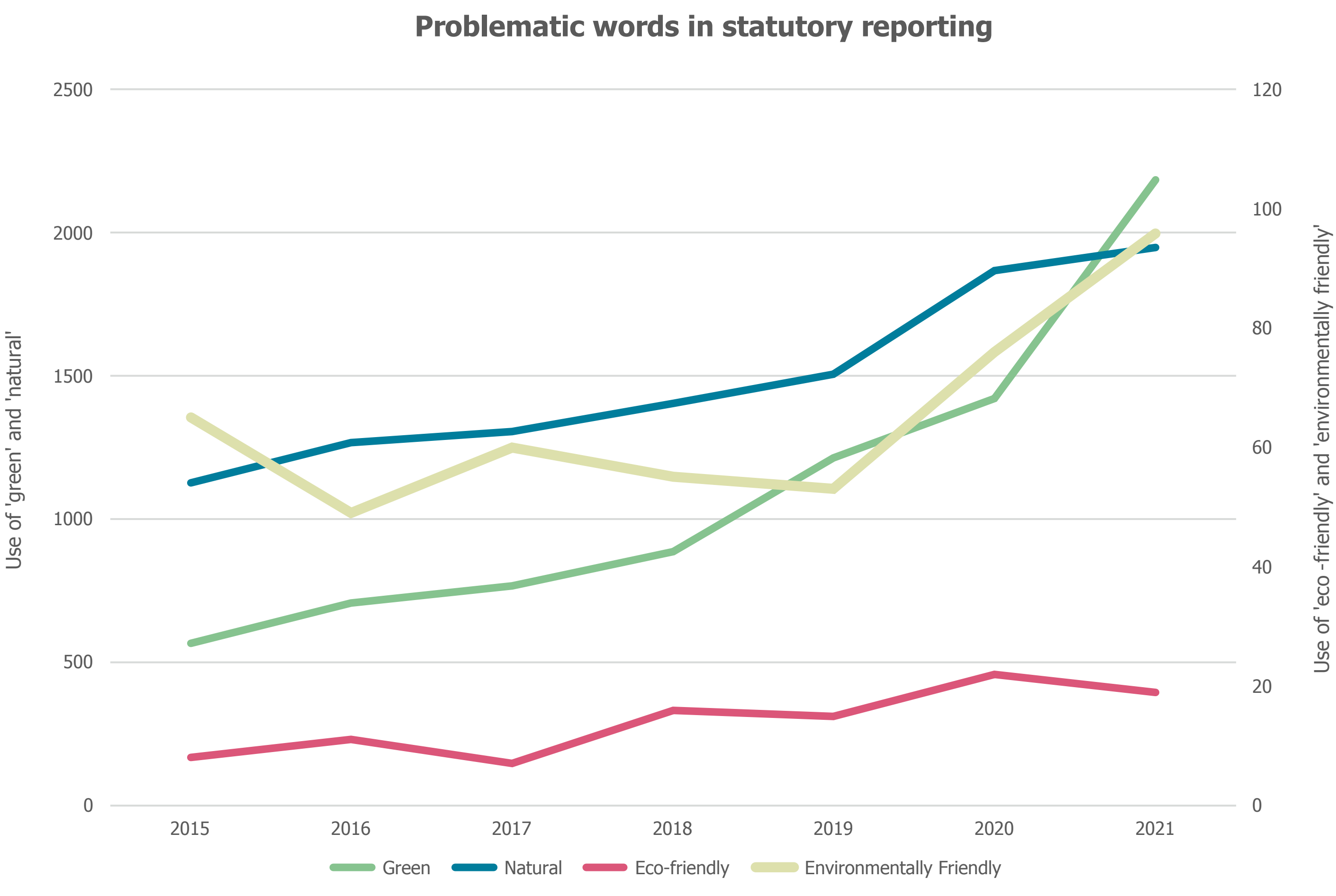


Fig 1.1
Keywords that might incite regulatory scrutiny are on the rise

THE INVESTOR VIEW

Earlier in 2022, researchers from Said Business School, University of Oxford, interviewed 49 asset managers with a total of more than $19 trillion under management, 26 asset owners, and 33 companies with average revenues of $45 billion in 15 countries[9].

The headline finding was that institutional investors want corporate purpose to drive Board discussions, but think companies are not taking it seriously and their communications about it are "shallow and flimsy, lacking substance and any mechanisms for accountability."

"If a board is actually focused on purpose as we want," said one investor, "then 80% of the Board discussion should be about the magic triangle: purpose, long-term strategic goals and culture. 20% is reserved for compliance. But today, 80% is about compliance, leaving 20% for the rest."

According to the research, investors want a company's Purpose to be overseen by the Board. Boards need to articulate and then disclose the company Purpose clearly. Strategy, goals and KPIs need to be linked to it. Specific examples of actions taken according to the company's Purpose need to be given.

And all of this needs to be communicated in, ideally, an integrated (annual financial and ESG) report.

Finally, the researchers argued that the most serious impediment to investor engagement with Boards about Purpose is that they are not talking the same language. The relationship between ESG and financial performance is well established, but "corporate purpose is not yet seen as being integral to this relationship".

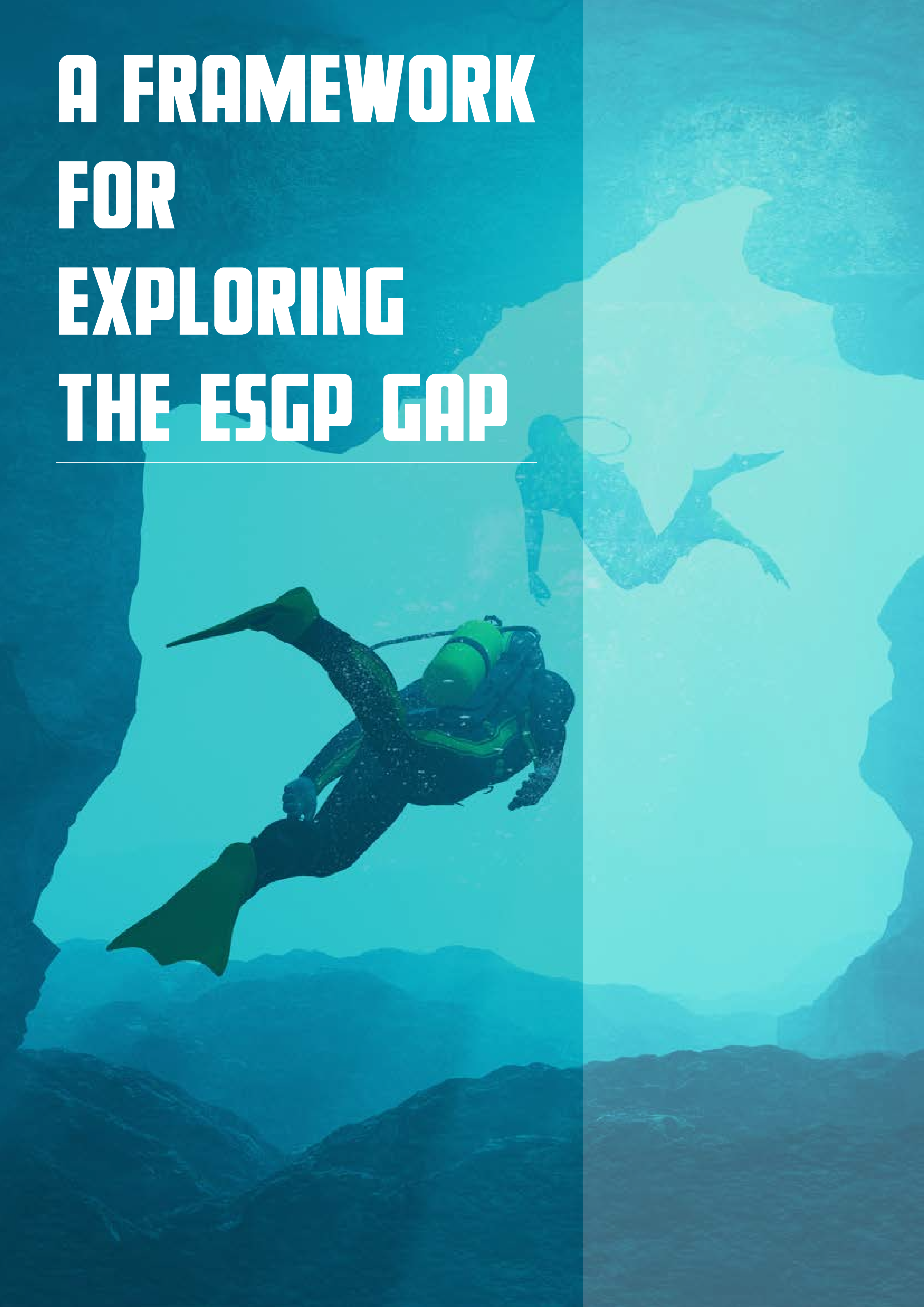
The conclusion from this research is clear. Institutional investors see ESG and Purpose as explicitly connected components of the same strategic agenda:

- They want governance of this 'ESGP' agenda to occur at Board level.
- They want Purpose to have substance and be informed by environmental and societal risk and opportunity factors.
- They want Purpose to be disclosed and communicated as part of the company's integrated reporting.

But this is not happening consistently. The gap between ESG and Purpose – in terms of understanding, language and practice – is stark.

"corporate purpose is not yet seen as being integral to this relationship"

A FRAMEWORK FOR EXPLORING THE ESGP GAP



In this report, we assess the gap between FTSE100 companies' communication and disclosure of ESG and their communication and disclosure of Purpose. We do this using two methodologies.

1. Indexing FTSE100 companies' ESG and Purpose disclosures

Firstly, we examine the volume of ESG and Purpose disclosures, and the correlation between the two, allowing us to see which companies over-index or under-index on their Purpose disclosures versus their ESG disclosures, or vice versa.

Blurred has worked with Insig AI to assess all mandatory reporting disclosures for companies in the FTSE100, during the last FY reporting cycle (2021-22).

We have counted the volume of ESG and Purpose disclosures contained within companies' Annual Reports, ESG/Sustainability Reports and Integrated Reports.

Comparing the disclosures made about eight core environmental and social issues to the disclosures made about Purpose, we begin to build a macro picture. The data allows us to spot outliers where the ratio of ESG to Purpose stands out and use that as an indicator to investigate further. For example, over-communicating Purpose while under-disclosing ESG performance may be an indicator of greenwashing.

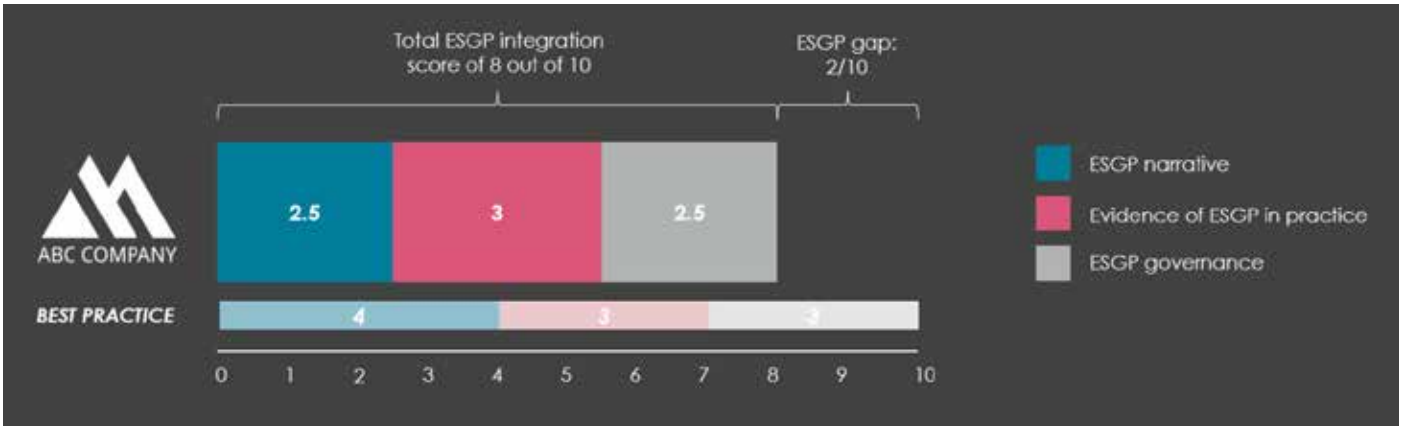
2. Assessing and scoring ESGP integration

Blurred then evaluates company Purpose against current best-practice guidance, as determined and detailed by BSI PAS808, and the level of integration (or not) between ESG and Purpose disclosures.

We are particularly focused on three core criteria:

1. **CLARITY OF ESGP NARRATIVE** – Clarity of environmental and societal wellbeing as the ultimate goal (ultimate value creation) and explicit connection to material areas of ESG risk
2. **ESGP IN PRACTICE** – Values and behaviours as a foundation for action, not words
3. **ESGP GOVERNANCE** – Evidence of Purpose governance as a strategic, vital component of ultimate value creation (doing good), informed by ESG action (doing no harm, or substantively mitigating that harm) and evidenced in decision-making

By attributing a simple value to ten questions related to these three criteria, we 'score' the subject company's Purpose in terms of its ESGP 'gap' – the level of integration or otherwise between its ESG and Purpose narrative and strategy.



See appendix for full methodology.

PART ONE:
INDEXING ESG AND PURPOSE DISCLOSURES IN THE FTSE100

Headline conclusions on the data

by Diana Rose, ESG Research Director, Insig AI

When we ran the highest level analysis to look for trends, the first thing we found was that there is a relationship between the volume of disclosure on ESG published in Annual and Sustainability Reports, and how much they talk about Purpose. This is a promising starting point that validates the premise that these two should be connected in some way.

In the same view of the data, we noticed that companies are clustered together when volumes are low and disperse as numbers of disclosure go up. These leaps towards the top indicate that certain businesses are investing in putting a huge amount of information out there.
While smaller market cap companies tend to be at the lower end on disclosure (with some exceptions), the bigger companies stand out as being more dispersed at the higher end (**Fig 2.1**).

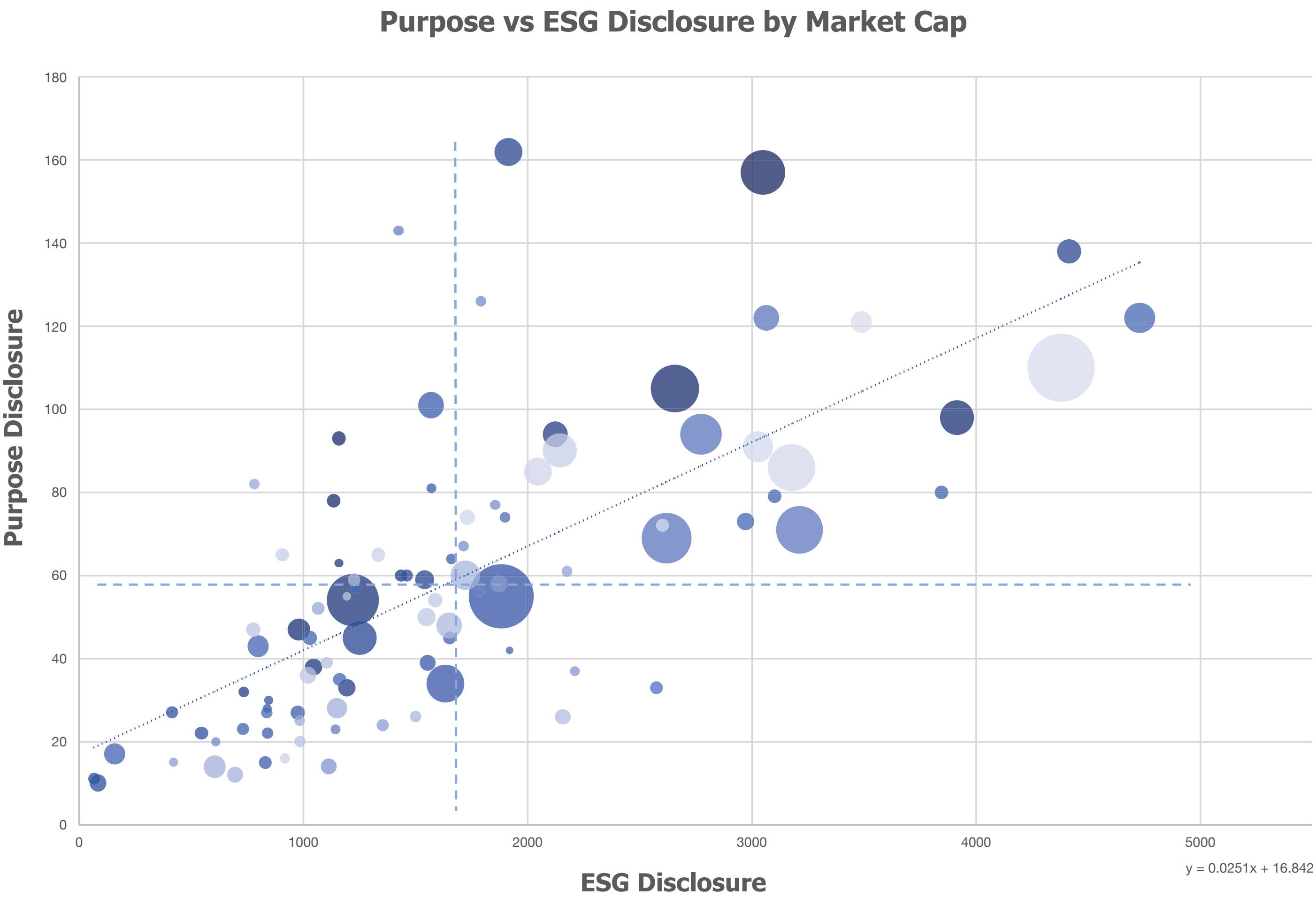


Fig 2.1
Volume of ESG and Purpose disclosures in the FTSE100. Size of bubble corresponds to the market cap of the company: the bigger the bubble, the larger the market cap. The diagonal dotted line indicates the correlation between ESG and Purpose disclosures.

At a glance, these companies may be leaders, but on the other they may be in danger of drowning in compliance and disclosure while losing sight of the ESGP connection. With potentially bigger footprints, you could argue they have all the more need for integrity in how they report.

The companies that are at the lower end may be purely neglecting to address what sustainability and Purpose means to their business and falling behind the curve. But it's important to recognise that some will simply be earlier in their journey as a factor of size, maturity and sector, and not able to invest time in reviewing how to articulate and act upon ESGP. In this space as well as at the other end of the spectrum, there may be great opportunities to root ESG in Purpose earlier in the process.

Sector by sector, the relationship between ESG and P appears to present a snapshot of the different legacy and mindsets of high-impact, highly-regulated industries versus those that may have flown under the sustainability radar for longer. As expected, Materials and Extractives and Energy and Utilities feature at the high end of ESG reporting and Leisure, Retail and Services at the lower end. Consumer FMCG and Health and Pharma stray most noticeably from the ESGP trendline (**Fig 2.2**).

The data also provoked interrogation by presented unexpected outputs. An example in the study is Unilever, a poster-child for Purpose who surprised us by lagging its sector. Some digging indicated corporate purpose is giving way to brand purpose, while there's a reliance on the website rather than published reports for communicating ESG detail.

Overall, we concluded that there is no 'tidy' ratio of ESG to P disclosure, and truly each FTSE100 business is at a different stage of communicating ESG and Purpose in meaningful ways. But the disclosure data gives a strong benchmark of how things look today and the direction of travel, and sets the all-important detail in context to better understand what the ESGP gap means on a case-by-case basis.

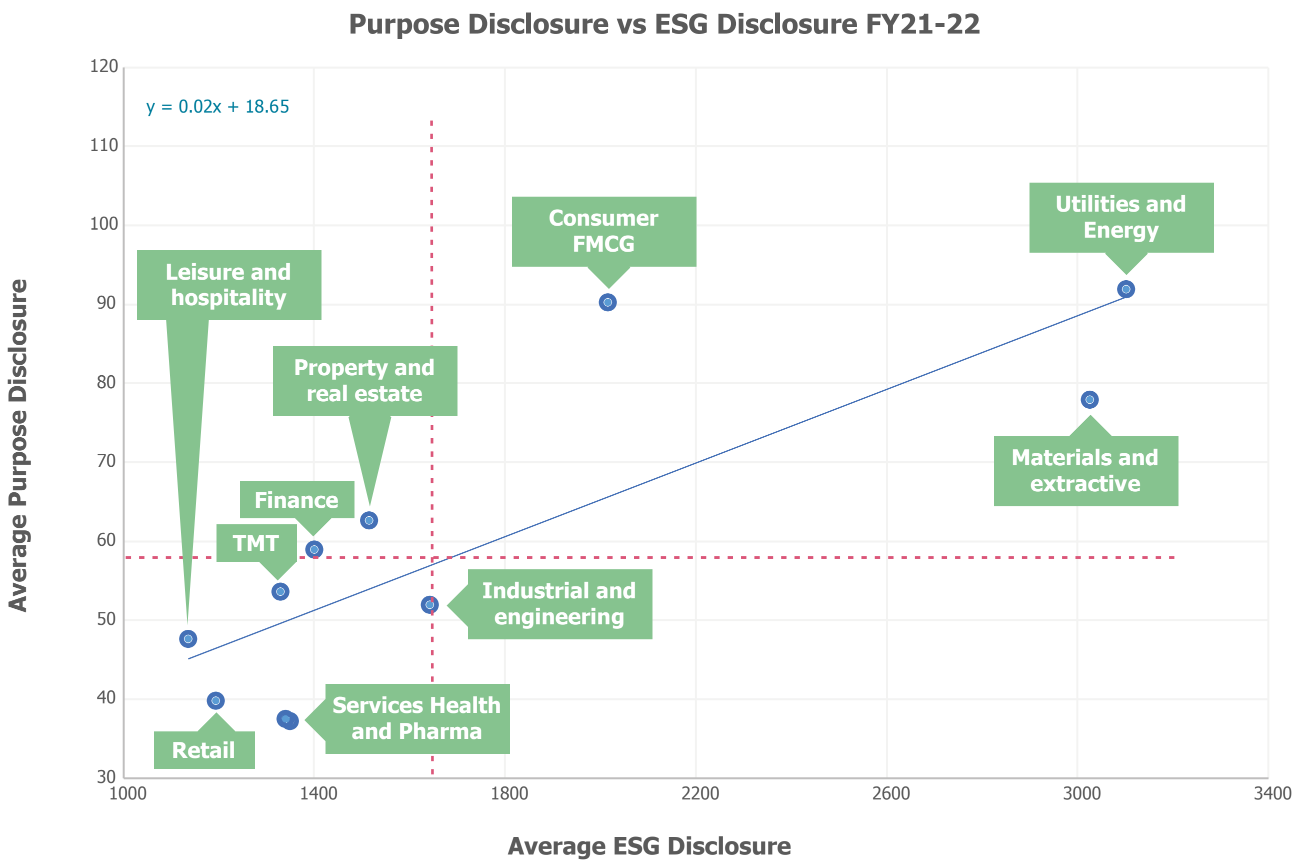


Fig 2.2
ESG and Purpose disclosures by industry sector within the FTSE100.

ESG and Purpose disclosure over time: 2015 to 2021

In 2015, the ESG reporting landscape was in an early state of evolution. In April 2015, the G20 asked the Financial Stability Board (FSB) to convene public and private sector participants to review how the financial sector could take account of climate-related issues. This request resulted in the creation of the Task Force on Climate-related Financial Disclosures (TCFD) in 2016. 2015 also marked the year the GRI adopted the UN SDG framework.

And as demonstrated in Fig **2.3**, until this point few companies were making substantive volumes of disclosure on either ESG or Purpose.

In 2015, we see a clustering of FTSE companies in the bottom left quadrant of Low Purpose/ Low ESG with a few outliers. From our analysis, we conclude that for most companies, environmental or societal disclosures were simply a hygiene factor, something to be done by the IR team as part of annual reporting to various agencies.

A look at the biggest outliers occupying the middle of the chart reveals something interesting about early motivation for ESG and Purpose disclosure (**Fig 2.4**).

This concentration of companies in more highly regulated, politically and environmentally contentious sectors (mining, oil & gas/energy, manufacturing) is interesting. Around the time of reporting, some of these companies were dealing with damaging reputational events rooted in ESG and Purpose failures:

- **Rio Tinto** was facing public scrutiny and protests in relation to its environmental record including demonstrations and disruptions at mines.
- **BP** was wrestling with the reverberations of the Deepwater Horizon disaster including a record civil settlement from the US Justice Department of just over $20bn (including over $5bn for violations of the Clean Water Act)
- **Shell** faced mounting opposition to its Alaskan Arctic drilling plans which it later abandoned.

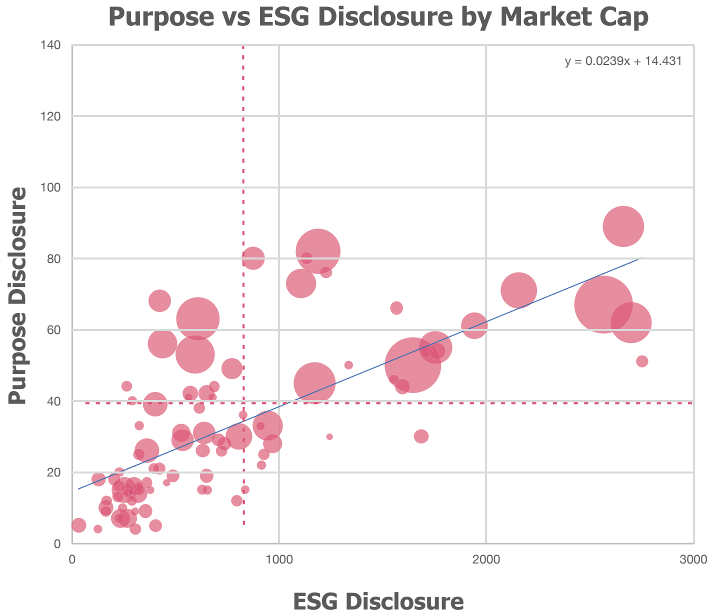


Fig 2.3
ESG and Purpose disclosures by market cap, 2015

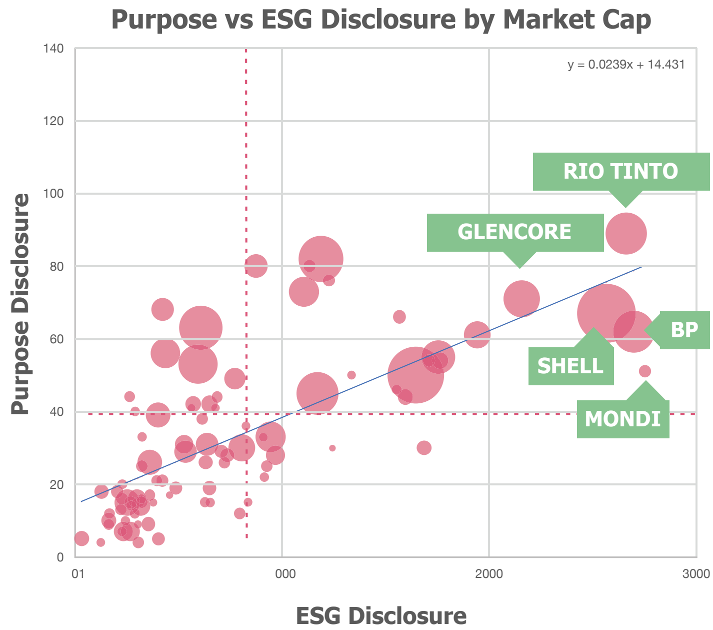


Fig 2.4
ESG and Purpose disclosures by market cap, 2015. Selected large cap outliers highlighted in pink.

It is therefore no surprise to see a surge in ESG and Purpose reporting. This demonstrates a few critical insights…

- Companies and industries with significant ESG materiality risk were ahead of the curve in disclosure
- Purpose-washing as a way to overcome reputational damage was in play for companies in highly regulated, environmentally dangerous sectors (Rio Tinto had nearly 3x the purpose-related statements than the FTSE100 average at this time)

In the intervening six years, the landscape for both Purpose and ESG disclosure became increasingly complex and nuanced.

In 2020 the FRC announced its support for reporting against global standards such as the Task Force on Climate-related Financial Disclosures' (TCFD) 11 recommended disclosures and, with reference to their sector, using the Sustainability Accounting Standards Board (SASB) metrics.

Alongside the heightened regulatory threshold for businesses, the expectations from stakeholders have changed – living an authentic Purpose and understanding and mitigating ESG risks have moved beyond 'nice to have' to absolute 'must haves'. Stakeholders, from investors to regulators and customers, are now pushing for companies to demonstrate a high level of commitment to ESG and values consistently – not just reactively or in response to regulations – but as part of a coherent, aligned ESGP story.

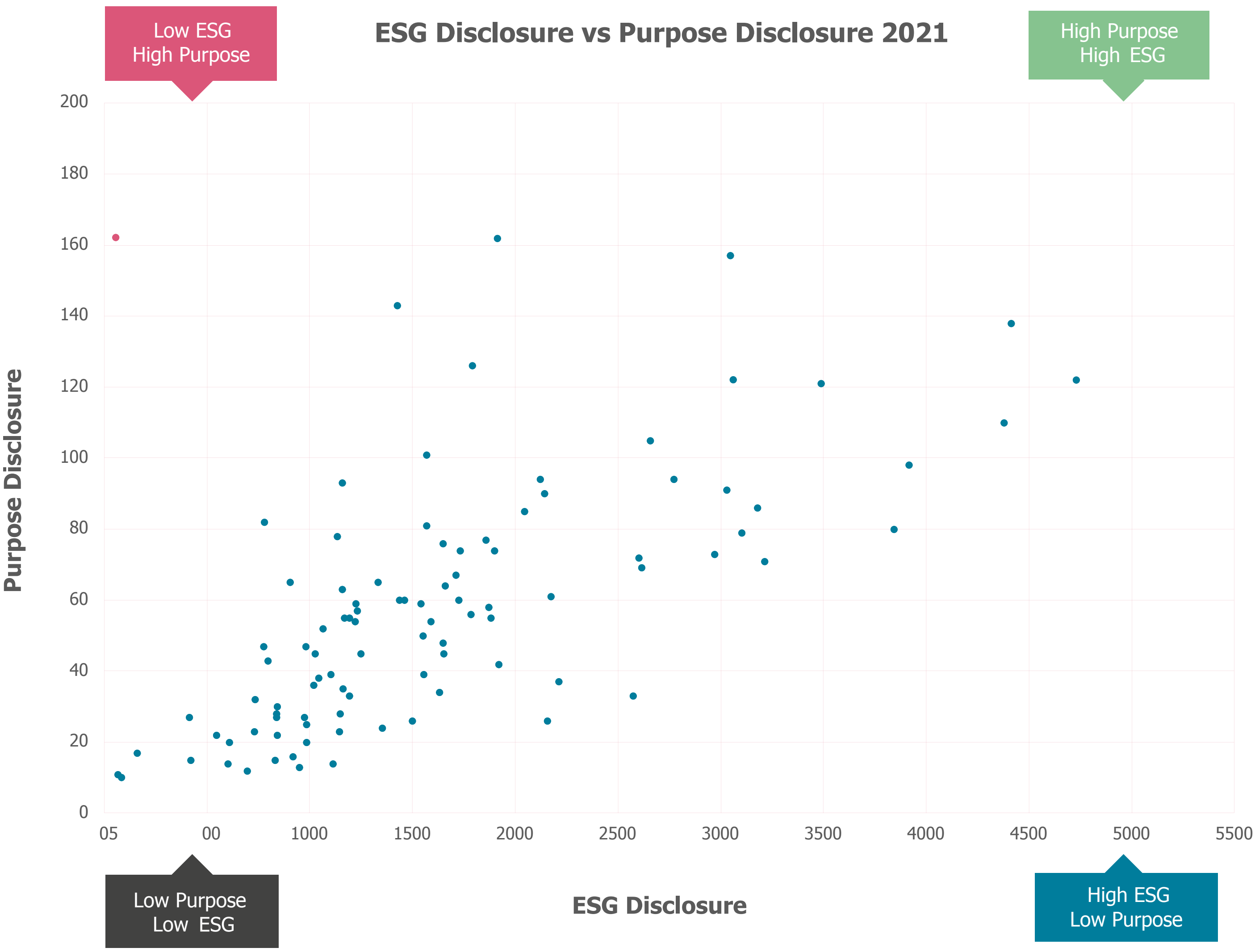


Fig 2.5

In 2021 (**Fig 2.5**), the average number of ESG disclosures in a FTSE100 annual report was 1,640 (up from 753 in 2015). The average number of Purpose disclosures was 58 (up from 32 in 2015).

Examining FY21/22 ESG and Purpose disclosures, we see progress as companies begin to move from the bottom left (Low ESG, Low Purpose) diagonally towards the upper right quadrant (High ESG, High Purpose).

If we look at some of the companies moving that direction (**Figs 2.6 and 2.7**), we notice the continued leadership of sectors such as extractives and energy, but also the significant shift in both ESG and Purpose disclosures of FMCG. With consumer brands such as Vodafone, Coca Cola, Diageo and Unilever making up this sector, it is no surprise to see Purpose becoming far more prominent in annual and ESG reporting as public and consumer engagement around what the brands they buy from has increased in recent years.

But, as we discuss elsewhere, some of these companies (e.g. Unilever) are at the forefront of investor frustration about Purpose.

Fig 2.6

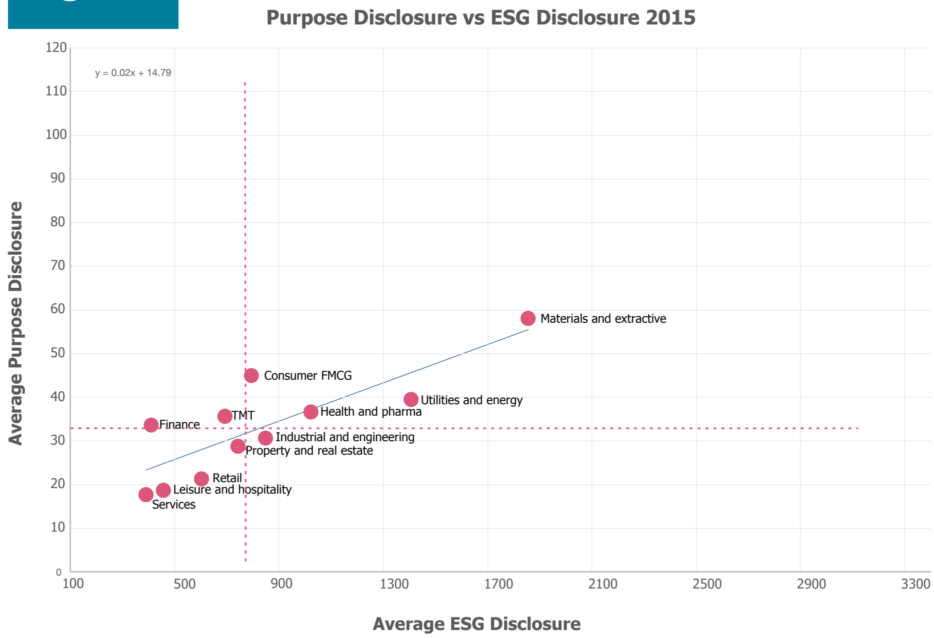
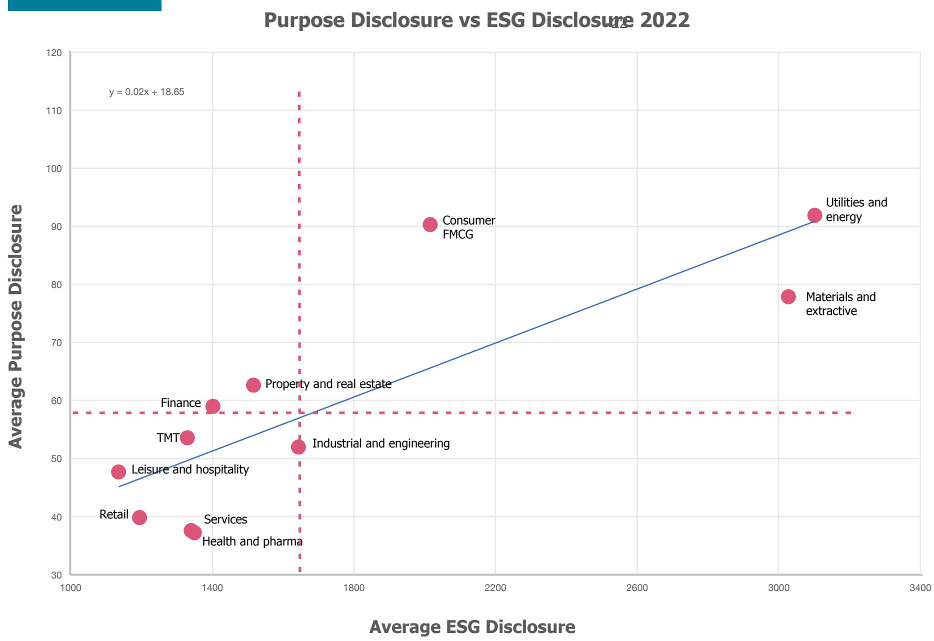


Fig 2.7



PART TWO:
SCORING THE ESGP 'GAP'

Sector focus: consumer finance

Figs 3.1 and **3.2** show differing ESGP disclosure 'gaps' for Prudential and HSBC that indicate something interesting going on behind the numbers. Prudential and HSBC are leaders in ESG reporting, producing similar volumes of disclosures, but the former significantly over-indexes on disclosing Purpose while the latter does the opposite. What is going on?

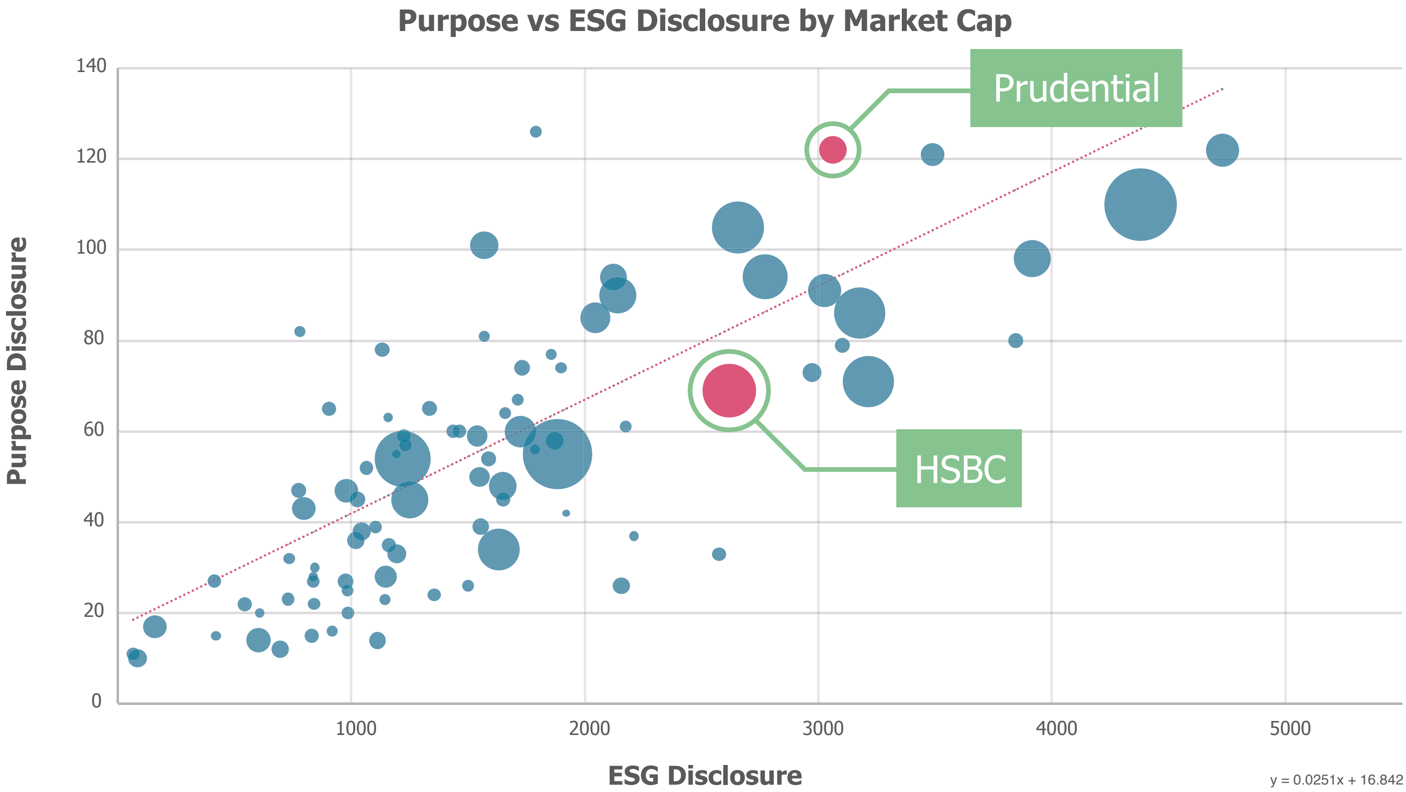


Fig 3.1
Prudential and HSBC made a similar amount of ESG disclosures in FY21/22 but the former produces more Purpose disclosures than expected and the latter produces fewer Purpose disclosures than expected

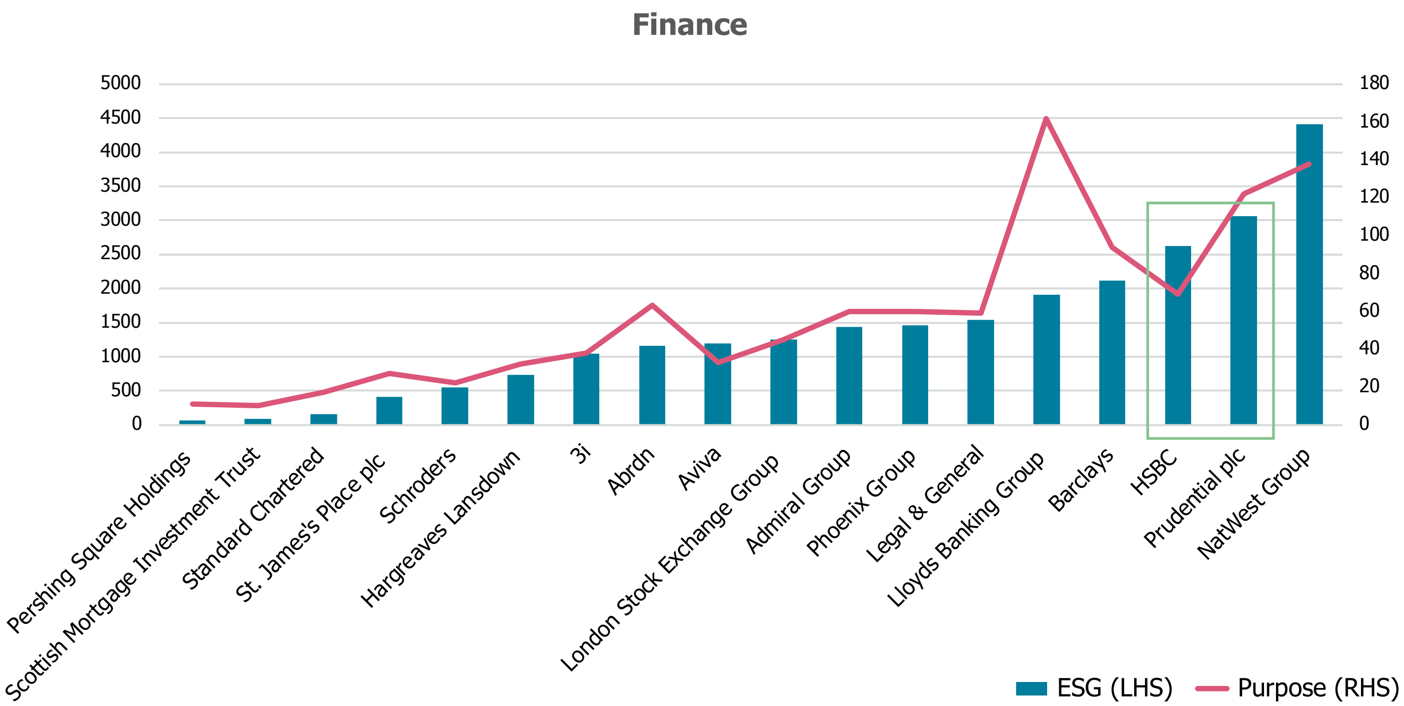
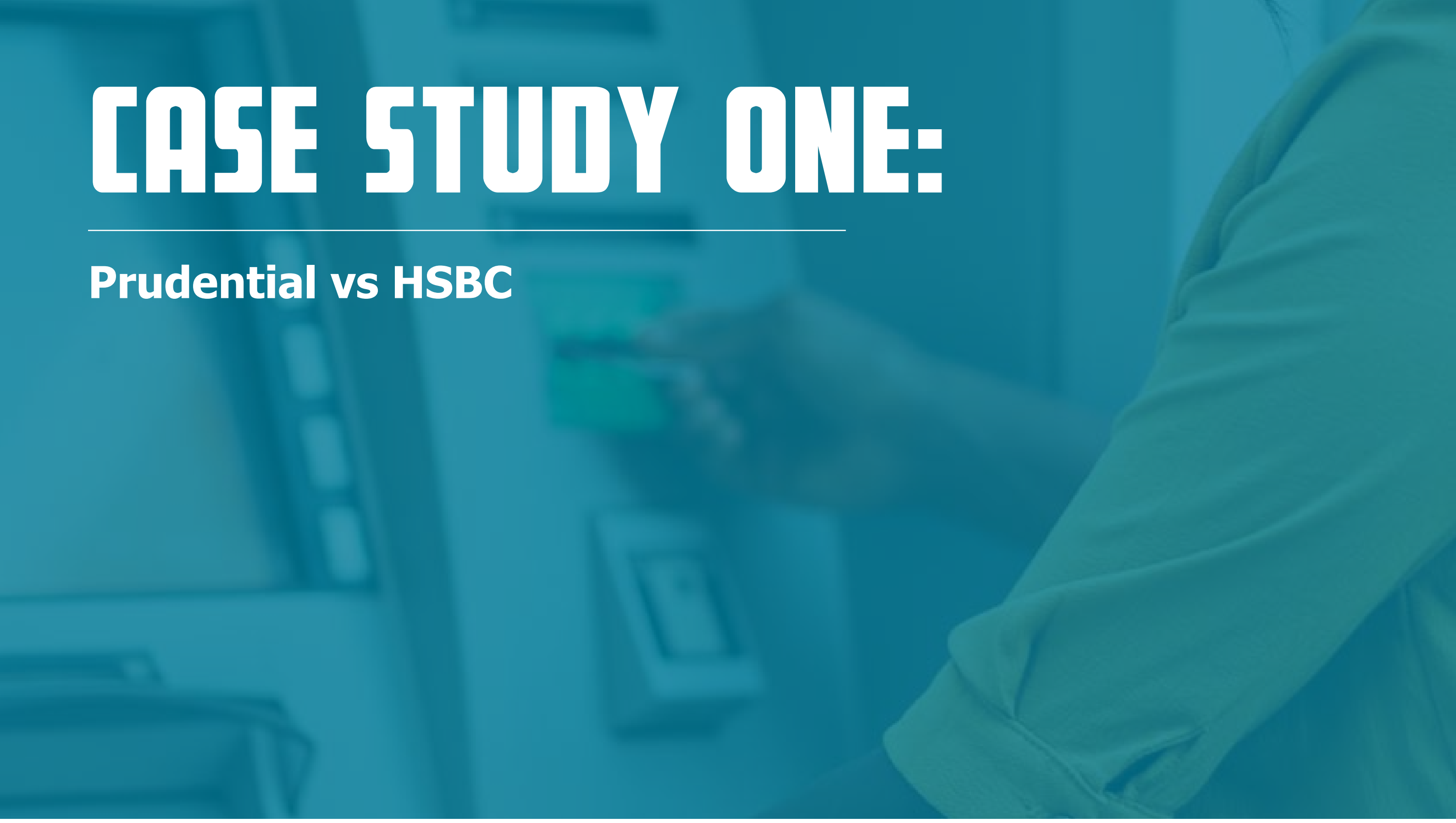


Fig 3.2
ESG and Purpose disclosures in the finance sector (FTSE100 FY21/22 data set). The first indicator of each company's 'ESGP Gap' is indicated here by the gap between the blue bar and the pink line.



CASE STUDY ONE:

Prudential vs HSBC

PRUDENTIAL PLC

Overview

When it comes to ESG disclosure and communication, Prudential plc is a leader. It is among the highest scoring companies in the FTSE100 for volume of substantive ESG disclosures - and it supports this position by achieving high ESG and sustainability ratings across the board.
Regarding the company's Purpose communication, Prudential again indexes well above average in its industry sector and among the FTSE100.

Analysis: ESGP narrative

Prudential discloses ESG and Purpose in a deeply integrated way. The company leads with its Purpose ("We help people get the most out of life") in its annual report. It meaningfully connects its Purpose to a societal problem it believes it can help solve: Prudential exists to contribute to the wellbeing of people (particularly in Asia and Africa) who are financially excluded.

Chair, Shriti Vadera, uses an entire section of her introductory statement in the annual report to explicitly **connect ESG to Purpose**.

Our purpose

We help people get the most out of life

Why we exist

Our markets in Asia and Africa typically have substantial savings and protection gaps, fuelling demand for life and savings products.

The difference we make

We help people get the most out of life, by making healthcare affordable and accessible and by promoting financial inclusion.

We protect people's wealth, help them grow their assets, and empower them to save for their goals.

Where we're headed

We are confident that our clear and focused strategy, coupled with our proven execution ability, leaves us well placed to continue to deliver value for our shareholders and all our stakeholders over the long term.

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> "The success of our business is inextricably linked to our purpose. As well as informing the products we deliver, how we deliver them and how we support our customers, this purpose can be seen through our progress in embedded environmental, Social and Governance (ESG) matters in our strategy.

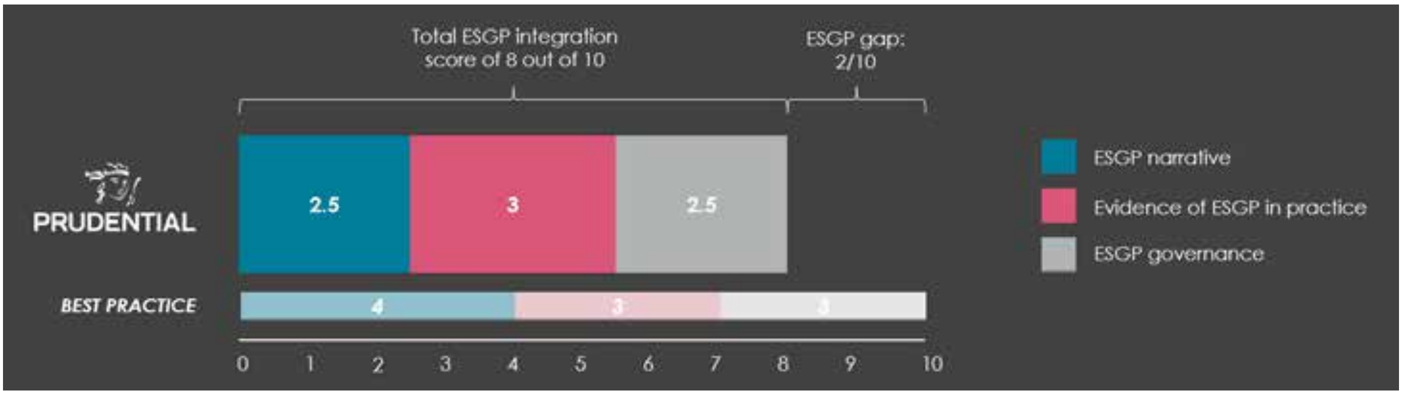
“

Environmental, Social and Governance

During 2021, we have strengthened our focus on Environmental, Social and Governance (ESG) matters, building on the new ESG strategic framework which we developed in 2020. Across Prudential, inclusivity runs as a common theme in all of our ESG activity. Within our core business activity of making health accessible, we seek to make our products as inclusive as possible and during 2021, we developed a campaign, We DO Family, to support the development of more inclusive products that recognise the evolution of nuclear families; our approach to climate change is underscored by our commitment to an inclusive transition in our markets; and, we further progressed our diversity and inclusion activity including the launch of PRUCommunities, a safe place for our people to share identities, interests, goals, and the changes they would like to see at Prudential. We consider this focus on inclusivity, both internally and externally, to be pivotal to meeting our purpose.”

ESGP governance

- The company is explicit that it sees ESG and Purpose as a Board responsibility: “The Board considers ESG to be integrated and aligned with our core business strategy of helping people to get the most out of life.” (ESG Report 21/22)
- Prudential’s Board has established a “Responsibility and Sustainability Working Group” to provide governance and accountability for its strategic ESG framework as a foundation for delivering its Purpose.
- Prudential provides data to measure how its ESG investments and actions are delivering against its Purpose.
- Prudential details how executive remuneration is connected to Purpose and ESG.



Our assessment of Prudential’s ESGP integration/gap

- Among the FTSE100, we consider Prudential to be a leader in terms of ESGP integration (see methodology section for detail). But there is more the company can do.
- The company should review its Purpose communication approach in more detail, making sure to align to the PAS808 framework in order to deepen the company’s ESGP integration, connecting this even more closely to business strategy, internal culture and value creation.
- The company should consider being explicit in its formal recognition that people and planet are the ultimate beneficiary stakeholders.
- The company should review how it measures and reports Purpose and make clearer a publicly declared rationale for what it decides to assess and measure and how (the Purpose) will be used in decision-making to make organisational changes.

HSBC

Overview

HSBC produced a similar volume of ESG disclosures to Prudential in FY21/22, well above the FTSE100 average and the third-highest in its sector. But in contrast to Prudential, HSBC's annual and ESG reports contained significantly fewer mentions of Purpose, and judged against the correlation between ESG and Purpose disclosures across the data set, HSBC's volume of Purpose mentions was less than would be expected.

Analysis: ESGP narrative

HSBC's Purpose is outlined fully on its website:

> **OUR PURPOSE**
> Our purpose - Opening up a world of opportunity - explains why we exist. We're here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunity for our customers. We're bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world - for our customers, our people, our investors, our communities and the planet we all share.

However, in its 21/22 Annual Report, the Purpose is reduced to a one-line slogan – "Opening up a world of opportunity" – and is not unpacked in the context of environmental and societal wellbeing.

This is a classic case of Purpose being under-disclosed (and under-sold) in the medium that matters most to stakeholders: a company's annual report (see "The importance of format", page 31).

ESG disclosures are substantive and detailed, and the company is clear that ESG and financial performance are interconnected ("HSBC has long understood that good ESG performance goes hand-in-hand with good financial performance"). But throughout its annual report, although HSBC makes reference to its Purpose as a vital pillar of its overall strategy, we find little evidence of it explicitly connecting Purpose to ESG in its narrative.

- Our counsel would be for the company to review how its material ESG risk factors relate to its stated Purpose, and more clearly articulate how its action to mitigate the former underpins its action to deliver the latter.
- The company has only recently relaunched its Purpose: nonetheless, we would recommend reviewing it against PAS808 and making clear in its next round of annual reporting how its Purpose is aligned with the macro goal of delivering for planet and people.
- In terms of governance, our counsel would be for HSBC to disclose more clearly how it measures the efficacy of its Purpose, and whether/how the Board is incentivised to deliver against it.

MARKET LEADERS

Not who you might think

Insig AI's data reveals the companies with the highest volume of material ESG and Purpose disclosures within the FTSE100 dataset, based on latest available FY21/22 Annual, Integrated and Sustainability/ESG Reports published by June 2022 (**Fig 4.1**).

It is perhaps no surprise that the companies with the highest volume of ESG disclosures tend to be located within highly regulated or scrutinised industry sectors (mining, manufacturing, energy).

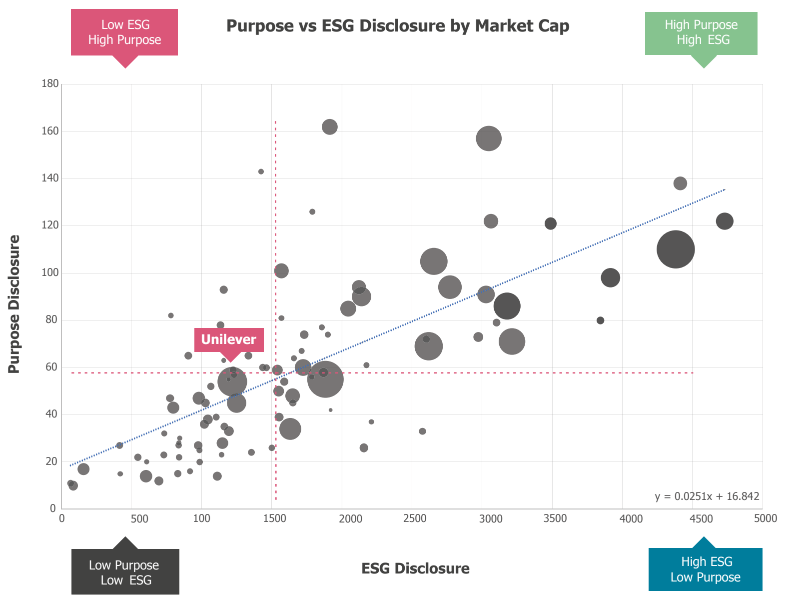


Fig 4.1
Companies making the most ESG and Purpose disclosures tend to be in industry sectors with clear, significant material environmental risk factors.

What is interesting is the close correlation between Purpose and ESG disclosures, suggesting a clear understanding within these companies that, given their more obvious environmental footprint, their social 'licence to operate' is in large part derived from clearly articulating a sincere and credible Purpose.

We examine Anglo American plc in slightly more detail below, as despite operating in a sector with a significant ESG footprint, the company is one of only four in the FTSE100 that we judge to be aligned with current best-practice when it comes to Purpose communication.

CASE STUDY TWO:

Anglo American PLC

We consider Anglo American to be a leader within the FTSE100 in terms of substantive ESG and Purpose disclosures, and integration of those disclosures into a powerful, robust and compelling ESGP narrative.

That a multinational from a "primary impact subsector" such as mining is aligning so closely with Purpose best-practice, and connecting that Purpose deeply to its ESG strategy and reporting may be a surprise to those who assume such sectors, with major environmental impacts, are inherently damaging and somehow incompatible with a 'sustainable' future.

In fact, Anglo American demonstrates clearly that companies in problematic sectors, which attract significant regulatory scrutiny, can lead the way: it requires sincerity of intent, a commitment to invest, measure and disclose impact, as well as effective governance.

Re-imagining mining to improve people's lives

Transforming the very nature of mining for a safer, smarter, more sustainable future.

Using more precise technologies, less energy and less water, we are reducing our environmental footprint for every ounce, carat and kilogram of precious metal or mineral.

We are combining smart innovation with the utmost consideration for our people, their families, local communities, our customers, and the world at large – to better connect precious resources in the ground to all of us who need and value them.

And we are working together to develop better jobs, better education and better businesses, building brighter and healthier futures around our operations in our host communities and ultimately for billions of people around the world who depend on our products every day.

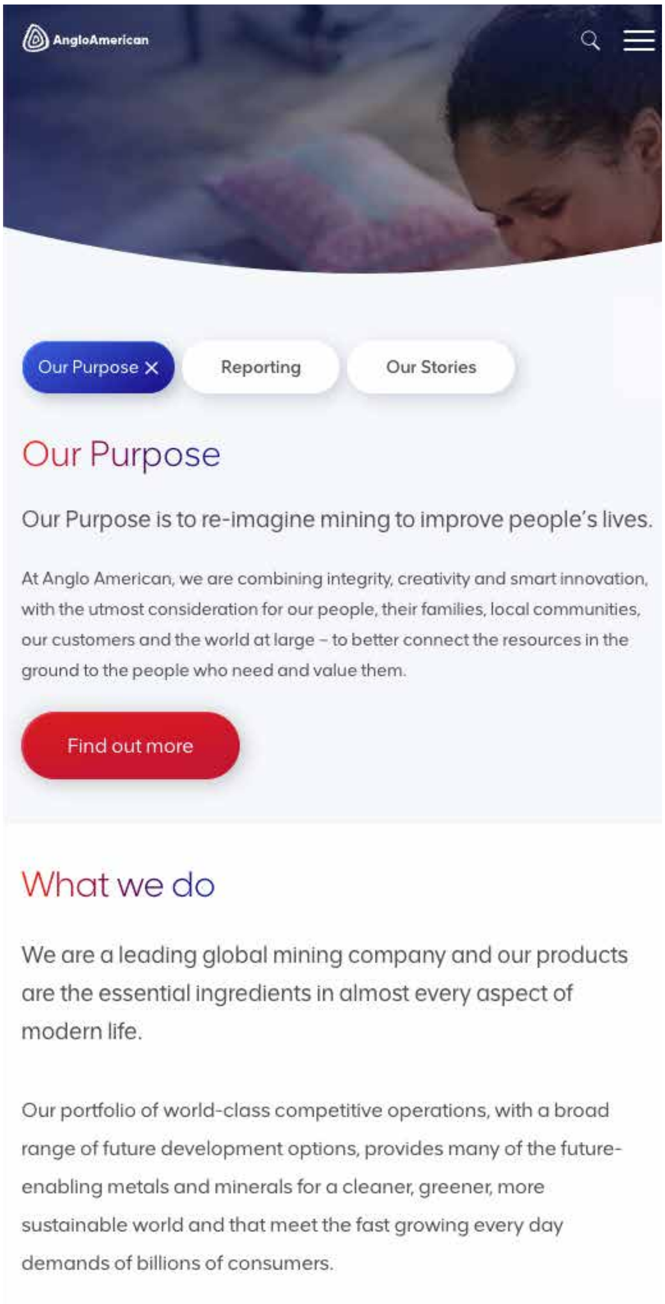
Our assessment of AngloAmerican's ESGP integration/gap

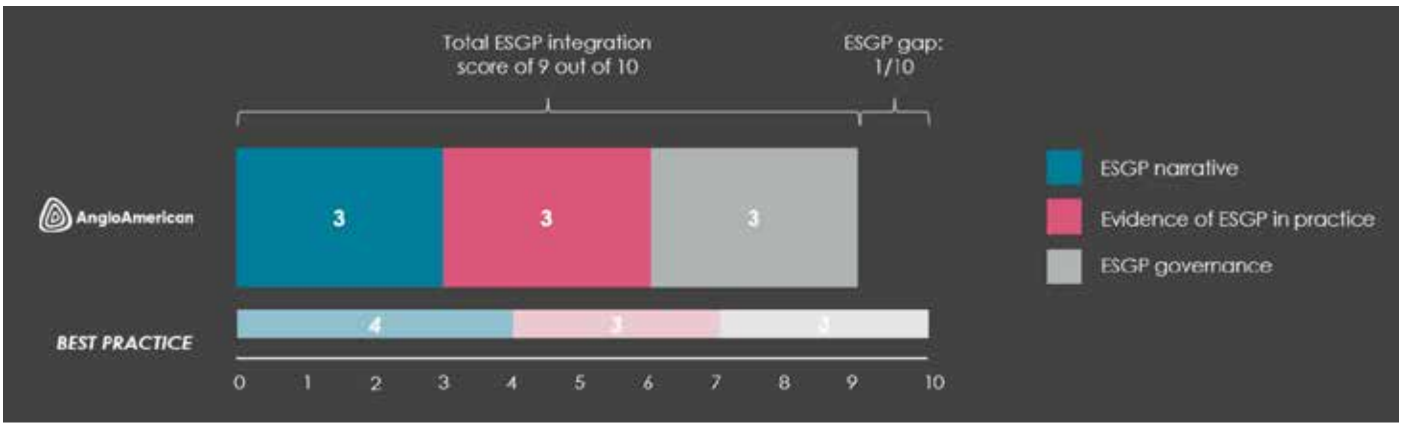
The company's Purpose is transparently disclosed in its statutory reporting, with detailed explanatory notes that make explicit the connection between the role its products play in society, the environmental footprint of its operations, how these can be reduced and the opportunity to contribute meaningfully to people and planet as a result of that.

The company demonstrates throughout its Integrated Report that material risks and opportunities of the transition to a more sustainable economy are integrated into its operational decision-making, in line with a commitment to deliver (and be accountable for delivering) its societal Purpose. This comprises a compelling ESGP narrative that is apparent throughout the Integrated Report.

The company communicates that its goal is "sustainable value" and, while it does not (yet) state a formal recognition that people and planet are the ultimate beneficiary stakeholder (in line with best practice), its ESGP narrative appears to us to be grounded in a clear understanding of its need to drive positive impact for society in order to "maintain its social licence to operate."

As such, we assess Anglo American to have one of the most integrated ESGP narratives in the FTSE100.





KEY CONCLUSIONS

Purpose must be disclosed

Purpose is not a brand strapline. It cannot exist only on a website or in marketing communication. It is deeply connected to ESG strategy and should be part of a singular, integrated ESGP narrative covering a company's approach to protecting value-at-risk and creating value for all stakeholders, with the environment and society as the ultimate beneficiaries.

This means Purpose must be disclosed. Which means disclosing:

- Who owns it and is accountable for it
- What governance is in place
- How it was/is defined
- How it informs strategy
- How it is acted upon
- How it drives outcomes and impact
- How it is measured

Investors want to see a **meaningful connection between ESG and Purpose**. This poses a structural challenge to public companies where ESG remains the domain of General Counsels, CFOs and sustainability reporting teams while Purpose is too often left solely to CMOs and brand communicators.

Communication: format is crucial

Companies should be aware that reporting disclosures (financial and ESG) are typically machine-read in the first instance. The algorithms reviewing and indexing FTSE100 companies' annual reports, integrated reports and sustainability/ESG reports do not (and cannot) make full sense of a company website, partly because company website maps are not uniform. Advertising and marketing communication is, obviously, not included.

For ESG and Purpose disclosures to be captured and be meaningful to an investor and regulator audience they must be machine-readable first and accessible second, which typically means they must be available as a downloadable PDF, and that PDF must also be accessible in a logical place online.

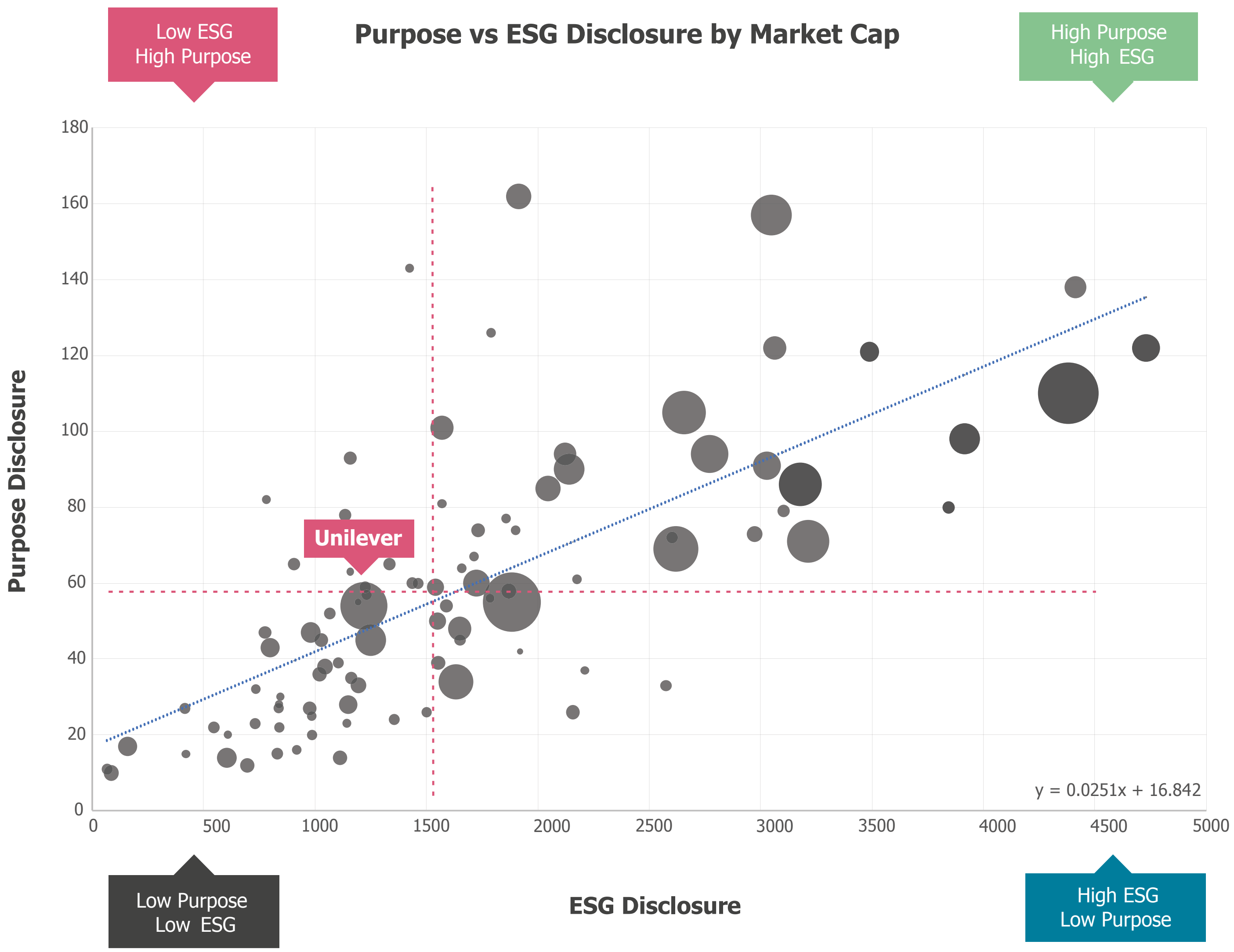
Our analysis of Unilever's ESGP disclosure data offers an illustration as to why. Unilever's annual report is substantive, but to access much of the crucial detail and data the audience has to visit its website, which means a huge proportion of its ESG and Purpose disclosures are not captured.

The medium is the message: where and how you disclose ESGP sends a powerful signal about motivation

We strongly advise companies to not use the website as a primary source of disclosure. Not only because of the above, but because a website **can never be more than a window into real time**. Hosting ESG and Purpose disclosures on a website can signal – rightly or wrongly – that the company's immediate motivation is 'looking good' at that moment in time.

Our counsel is clear: in much the same way as a company should not set ESG targets to meet the targets and tick a box, transparent reporting and disclosure should be undertaken to act as a forcing function for betterment, driving internal systems as part of a long-term commitment to change.

For this proper motivation to be demonstrably communicated, a public company's ESG and Purpose narrative and detail needs to be a permanent item of record, published and indexed – not something that can be changed or taken down and made unavailable to future analysts, stakeholders or the public.


Low ESG
High Purpose
Purpose vs ESG Disclosure by Market Cap
High Purpose
High ESG
180
160
140
120
100
80
60
40
20
0
Purpose Disclosure
Unilever
y = 0.0251x + 16.842
0
500
1000
1500
2000
2500
3000
3500
4000
4500
5000
Low Purpose
Low ESG
ESG Disclosure
High ESG
Low Purpose

The motivation has to be right

Why do you measure and report on ESG risks? Why do you bother with Purpose?

Too many companies are still treating ESG and Purpose as separate workstreams, with tactical goals in mind – whether that's boosting reputation or ratings or trying to create a positive perception to avoid legal censure or loss of license to operate.

The proper motivation for integrating ESGP and treating it strategically is not about compliance or profit maximisation: it is to sustain the business and make the business sustainable, for the long term. Delivering shareholder returns by creating profitable solutions to the problems we face, not profiting from causing the problem.

At Blurred, we begin with a fundamental question, which should be answered by a coherent, connected ESGP narrative: do you want to just 'do no harm', or do you also want to 'do good' – and be held to account on both? Do you want to be better? Or not?

E, S, G and P are the four dimensions of this mindset.

G is arguably the most important letter - Governance is everything

Governance is about two things:

1. Mitigating risk to asset value by preventing, for example, bribery and corruption.
2. Maximising opportunity to create value by ensuring appropriate alignment to the ESGP strategy

That last point is crucial. Good governance mitigates risk, but it is also guarantees the leadership, the commitment, and the accountability needed to make any of this meaningful and substantive – to generate real value and positive impact.

Evidence of good governance around Purpose itself comprises 30% of the score in the Blurred ESGP Gap methodology, asking:

- Who owns Purpose within the company?
- Are rewards and incentives aligned to achieve the Purpose?
- Does the company measure and report against its Purpose?

But governance is also crucial to the brand marketing teams creating 'purpose-driven' campaigns.

- How are those campaigns briefed?
- How do you design them to be aligned with Purpose delivery?
- How do you measure impact?
- How do you hold yourself accountable?
- How do you communicate that process internally to start spreading and demonstrating best practice?

We need to clarify the lexicon

'ESG', 'Purpose' and 'sustainability' are frequently conflated, which can lead to misuse.

Communication of Purpose, in particular, is woolly, lacking the specifics required by investor and regulatory audiences. The lexicon includes synonyms ("vision", "mission", "ethos") while "values" is conflated with "value". See **Fig. 5.1**.

Companies should align language with best practice (e.g. BSI PAS808) to ensure clarity and consistency.

Clarity of language in communicating Purpose will minimise risks associated with overclaims and greenwashing. It will also support greater alignment with sustainability. Linking 'value creation' or 'long-term value' more effectively with a company's responsibility to ultimate value (wellbeing of people and planet) will make sure all stakeholders – including employees and end consumers – understand how companies view their role within wider society.

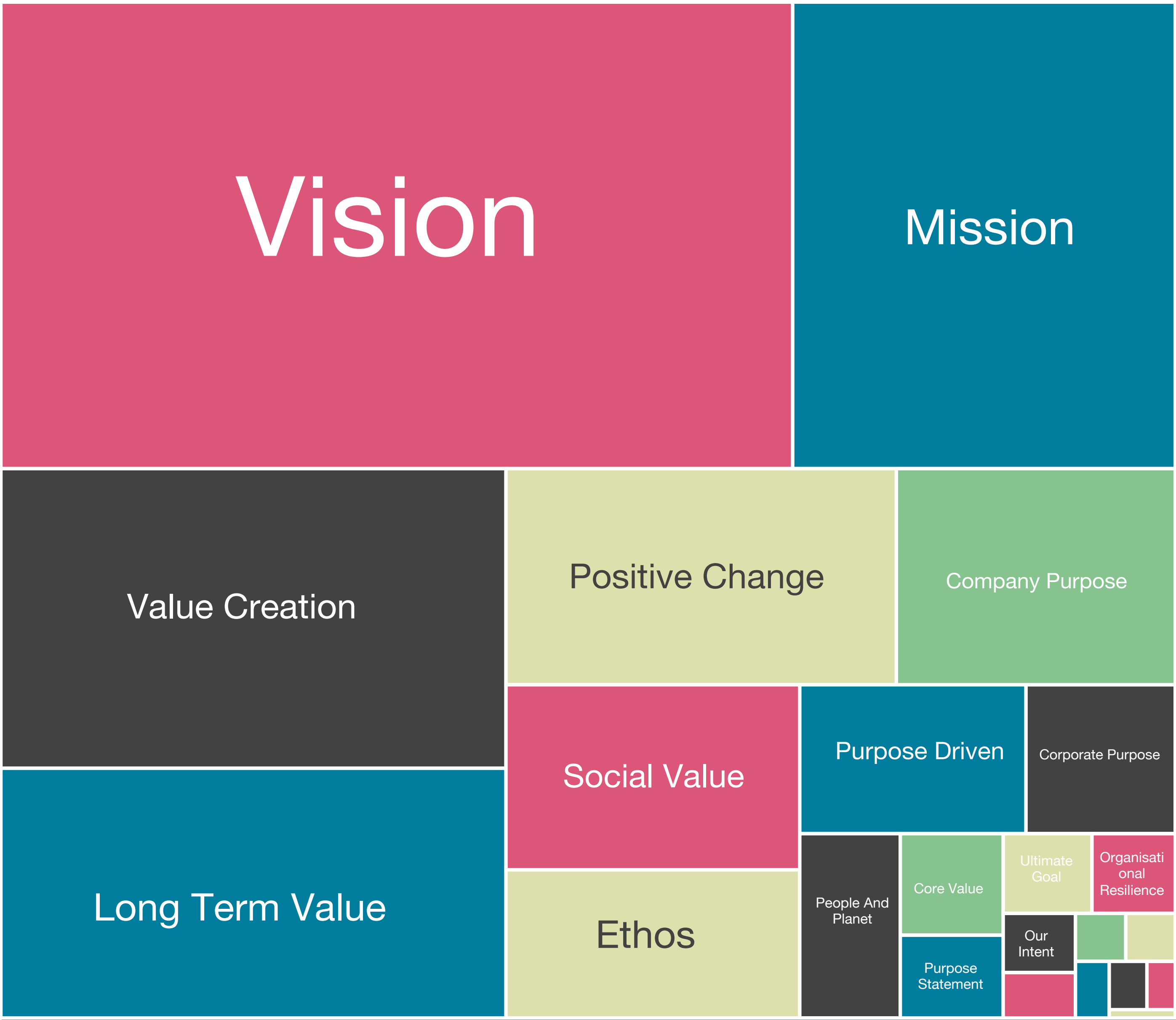


Fig 5.1
Treemap showing the variety of words used instead of or in conjunction with corporate 'Purpose': size of box corresponds to frequency of that word or phrase across all FTSE100 Annual and ESG reports (FY21/22).

ADVICE:

WHAT 5 THINGS SHOULD COMPANIES DO RIGHT NOW?

1. Assess your Purpose: is it fit for purpose?

- Purpose must be sincere; it must also be credible, informed by an understanding of your company's areas of material ESG impact.
- How was it created? Is it part of the organisation's founding DNA or has it been retrofitted?
- Who owns it and who is accountable for its delivery? This should be the Board, rather than brand marketing teams.
- How and where is it disclosed? If it is not disclosed, why not – and what is the plan for disclosure going forward?
- In what format is Purpose currently disclosed? Communication of Purpose cannot be left to the website or brand campaigning.

2. Understand your ESGP score and develop a clear and compelling single ESGP narrative

- How integrated is your company Purpose with your ESG strategy?
- ESG and Purpose need to work in tandem: the former informing the latter; the latter providing strategic direction beyond compliance.
- The aim should be to produce a single, 360-degree ESGP narrative that conveys how the company commits to both "doing no harm" and "doing good".
- This will help you communicate clearly to investors how the Board approaches both the protection of value-at-risk and the creation of value: for stakeholders, and for people and planet.
- An effective ESGP narrative IS your corporate narrative: it should unite the business and work powerfully for investors, regulators, employees and customers alike. It should be the starting point of every communication and brand marketing brief:
    - This is who we are and why we exist.
    - This is where we have the potential to do material harm and where we have the opportunity to do measurable good.
    - This is the action we are taking/have taken and the positive impact we will deliver/have delivered.
- Getting this narrative right, and operationalising it across the business, will help you deliver greater ROI on all communication, from investor reporting to brand campaigning.

3. Put PAS808 at the heart of your Purpose strategy.

- BSI PAS808 is now the definitive best-practice reference for corporate Purpose. Particularly in conjunction with Section 172 of the UK Companies Act, it is the closest we will get to a regulatory or legislative mandate for Purpose in any major capital market worldwide.
- We advise all public companies to put PAS808 at the heart of their Purpose or value-creation strategy and have used it as the basis of our review in this report.
- Boards should mandate Chief Marketing Officers to read the document before the word 'purpose' is used in any marketing brief and Corporate Affairs leaders need to ensure a clear understanding of purpose exists across the business.

4. Consider creating a Purpose Steering Group or similar body - with teeth.

- Companies should familiarise themselves with ISO 37000, the first ever international benchmark for good governance.
- As noted in guidance from the Financial Reporting Council among other regulatory bodies:
  - "Directors should take a more active role in ensuring that the company's purpose aligns with its strategy and values. Doing so will require them to "take ownership" of their role in corporate purpose and explicitly communicate to management and investors that corporate purpose is a priority for the board. One way that boards could do this is by incorporating purpose into the charters of several board committees."
- For Purpose to align with best practice and truly deliver against a goal of creating value not only for shareholders but for the ultimate beneficiaries – people and planet – it requires clearly disclosed governance and accountability. Mandating a body within the organisation to oversee Purpose and be accountable for measuring it is a powerful step towards that goal.

5. Review company structure and communication lines.

- For ESG and Purpose to work together as they should and deliver strategic goals, the investor relations, ESG/sustainability reporting, legal and public policy teams must be closely connected to the brand marketing team.
- These teams need to be united behind one single, coherent ESGP narrative for the company, working from this narrative in all communication channels, in order to avoid disconnects and mitigate greenwash or other reputational risks.

AFTERWORD

By Stuart Lambert, CSO, Blurred

Both 'ESG' and 'Purpose' have been politicised, co-opted into a broader culture war, which sees each term dismissed as 'woke' – typically by people and organisations whose financial interests lie in maintaining the status quo.

(That status quo, of course, is leading us to ecological and economic collapse. So while maintaining it might support one person or organisation's short-term financial interests; it can and will never be sustainable, in all meanings of the word, over the long term.)

But for all the debate and disquiet about ESG, the principles on which it is founded – transparency and disclosure – remain unimpeachable. Any notion that public companies can retreat from those principles, with regards to their environmental and societal footprint, is fanciful.

Purpose is more problematic. Some stakeholders criticise brands for 'banging on' about 'Purpose' at the expense of a focus on delivering value for shareholders. Others criticise businesses for not seeing the opportunity in 'using' Purpose as a tool for value creation.

Both positions miss the fundamental point: that Purpose is where long-term financial, environmental and societal interests meet and overlap.

Unilever and Danone stand as relevant, recent cases. Each has been perceived as putting Purpose (and ESG) above the need for returns when the reality is that ESG risk mitigation should protect returns and Purpose should grow them and ensure their sustainability.

Unilever's example is instructive: a large multinational that was for a long time the poster child for corporate Purpose. Yet it now attracts the ire of investors who argue that the notion each of Unilever's many household brands needs a 'purpose' suggests the parent company has "lost the plot.[10]"

This is symptomatic of the common trap into which we believe it has fallen – allowing Purpose to become the domain of brand marketers, uninformed by and disconnected from the material environmental and societal issues that form the basis of the company's value protection strategy.

This happens when companies lose sight of what true Purpose truly is.

The persistence of widespread misunderstanding of Purpose is partly a matter of education. We argue, however, that it is also exacerbated by the marketing industry, which has for too long (mis) used Purpose as a form of brand-washing: a way to make a brand look good in one area to avoid scrutiny in others.

This needs to end. The world doesn't necessarily need more brands with purpose – it needs more purposeful companies.

That will only happen if Boards re-take control of Purpose and put it back where it belongs: at the heart of corporate strategy, connected closely to ESG (value protection) and aimed at delivering value creation.

And by 'value creation', we must all understand that while revenue and profit are a non-negotiable objective in a capital market system, they must be means to a more important end: the ultimate goal of environmental and societal wellbeing.

Companies must get this right. That means addressing their ESGP Gap. It means starting with impact, not comms (or comms outcomes like 'trust' or 'reputation'). It means using ESGP as the compass for their business strategy.

The stakes – investment, recruitment and retention, consumer loyalty and most importantly the wellbeing of the planet on which all this takes place – could not be higher.

The world doesn't necessarily need more brands with purpose – it needs more purposeful companies.

APPENDIX - METHODOLOGY

Scope:

We analysed 100 large cap companies listed on the London stock exchange, equivalent to the FTSE100 as at 11 May 2022. These were analysed using a peer group approach as defined below:

Sector	Companies	Number
Consumer FMCG	Burberry, Coca-Cola, Diageo, Unilever, British American Tobacco, Imperial Brands, Reckitt	7
Retail	Associated British Foods, B&M, JD Sports, Kingfisher, Morrisons, Next plc, Ocado Group, Sainsbury's, Tesco	9
Finance	3i, Abrdn, Admiral Group, Aviva, Barclays, Hargreaves Lansdown, HSBC, Legal & General, Lloyds Banking Group, London Stock Exchange Group, NatWest Group, Pershing Square Holdings, Phoenix Group, Prudential plc, Schroders, Scottish Mortgage Investment Trust, St. James's Place plc, Standard Chartered	18
TMT	Airtel Africa, Auto Trader Group, Avast, Aveva, BT Group, Informa, ITV plc, Pearson plc, RELX, Rightmove, Sage Group, Vodafone Group, WPP plc	13
Utilities and Energy	BP, National Grid plc, Severn Trent, Shell, SSE plc, United Utilities	6
Industrial and Engineering	BAE Systems, DS Smith, Electrocomponents, Halma, Meggitt, Melrose Industries, Mondi, Rolls-Royce Holdings, Smiths Group, Smurfit Kappa, Spirax-Sarco Engineering, Royal Mail	12
Health and Pharma	AstraZeneca, Dechra Pharmaceuticals, GlaxoSmithKline, Hikma Pharmaceuticals, Smith and Nephew	5
Leisure and Hospitality	Entain, Flutter Entertainment, IHG Hotels and Resorts, International Airlines Group, Whitbread	5
Materials and Extractives	Anglo American plc, Antofagasta, Endeavour Mining, Fresnillo, Glencore, Rio Tinto	6
Property and Real Estate	Barratt Developments, Berkeley Group Holdings, British Land, Howdens Joinery, Land Securities, M&G, Persimmon plc, Segro, Taylor Wimpey	9
Services	Ashtead Group, Bunzl, Compass Group, DCC plc, Experian, Intertek, Rentokil Initial, Ferguson plc	8

•Documents assessed are one of each report group, as available per company:

1. Annual Report / Integrated Report.

2. Sustainability Report / ESG Report / Impact Report / Corporate Responsibility Report / Sustainability Report Annex.

•Documents dated 2021, collected up to 1 June 2022 from company websites, manually tagged for title and year and validated.

•PDFs are converted to machine readable text, and split into sentences. Machine learning models and search engines can then be applied across this body of tagged text, and form the basis of the assessment.

•This scale of analysis is extremely difficult to do manually, but lends itself very well to technology. A human is involved at every stage of the process from document collection to validating scoring outputs for quality assurance.

Purpose disclosures:

The Purpose count is generated as the sum of certain keywords and phrases across the same document set as the ESG score, so that the two are comparable.

We developed a framework of terms developed in line with three reference sources for best practice and what investors look for as evidence:

• Insig AI's framework, based on 12 international sustainability reporting standards including WEF, GRI, TCFD, UK Corporate Governance Code.

• BSI PAS 808.

• Research by SAID Business School (Robert Eccles, Colin Mayer, Judith Stroehle) as reported in Fortune Magazine article published January 2022: "Companies say they're serious about corporate purpose, but investors aren't convinced": https://www.sbs.ox.ac.uk/research/centres-and-initiatives/oxford-initiative-rethinking-performance/research.

The following 25 keywords and phrases were used:

Company purpose, Corporate purpose, Organisational purpose, Organisational resilience, Organisational values, Core value, Ethos, Future generation, Our intent, Long term value, Long term wellbeing, Mission, Motive, People and planet, Positive change, Principles*, Purpose driven, Purpose statement, Social value, Stated purpose, Ultimate goal, Value creation, Value generation, Value network, Vision.

Certain phrases were excluded as search terms as they are likely to found in other contexts e.g. 'alignment', 'values' and 'goal', or would lead to double-counting e.g. 'value'.

Principles* is a unique case where the word is highly relevant alone, but is also widely used in financial and non-financial reporting, eg Equator Principles, UN Principles, accounting principles. In this case only, a total count on the single word is taken, then 13 commonly found non-relevant phrases were counted and deducted from the total to result in a more Purpose-specific count for this term.

Technology applied: Elasticsearch on database of machine-readable corporate disclosures, converted from PDF format.

Method: Each key word or phrase is individually searched for across the body of documents and returns a count. These counts are summed to a total for a company to generate the Purpose score.

Exact matches only are counted i.e. searching for 'values' will only count 'values', not 'value'. But this is not the case with hyphens; for example, 'long term value' will also count 'long-term value'.

Validation: Each term used is sense-checked across a sample of sentences to ensure relevance.

Evaluating ESGP integration/the ESGP 'gap':

Blurred applies a proprietary evaluation methodology to a company's Purpose, as disclosed in its Annual and/or ESG/integrated report. Using BSI PAS808 as a benchmark for best-practice, we qualitatively assess the company's Purpose statement through the lens of 'ESGP' integration. The aim is to give a clear 'score' (on a 1-10 scale) of how effectively integrated the company's Purpose and ESG disclosures and wider narrative and messaging is, using mandatory reporting documents as the primary source material.

We are particularly focused on three core criteria:

1. CLARITY OF ESGP NARRATIVE – clarity of environmental and societal wellbeing as the ultimate goal (ultimate value creation) and explicit connection to material areas of ESG risk.
2. ESGP IN PRACTICE – Values and behaviours as a foundation for action, not words.
3. ESGP GOVERNANCE – Evidence of Purpose governance as a strategic, vital component of ultimate value creation (doing good), informed by ESG action (doing no harm, or substantively mitigating that harm) and evidenced in decision-making.

The scoring criteria is shown below. For each criteria, companies are assigned a score of 0 (no evidence), 0.5 (some evidence) or 1 (substantial evidence). The maximum score (ESG and P fully aligned, in terms of how it is disclosed by a company) is 10. An ESGP "gap" is established by the difference between this maximum available score and a company's score.

Focus area	Specific criteria	Notes
CLARITY OF ESGP NARRATIVE: Getting Purpose right: concerning wellbeing as a goal, ultimate value creation, connection to people and planet and material areas of ESG risk	Does the company's Purpose statement and explanatory notes, in its Annual Report, reflect the foundational worldviews of PAS808 (big picture 'wellbeing' as the ultimate objective or meta-purpose, success as long term, equality, equity and citizenship as end goals): i.e. is Purpose explicitly connected to ultimate value creation (wellbeing of people/planet)?	Relates to PAS808 Principle 2: does the company display an understanding of and commitment to Purpose as its "strategic and accountability anchor"
	Does the company's Purpose statement clearly communicate an overall commitment to the meta-purpose of long-term wellbeing for all people and planet, including a formal recognition that people and planet are the ultimate beneficiary stakeholders?	Relates to PAS808 Principle 2, section 7.1.2.2.1.c: "7.1.2.2.1 Articulate, elaborate and act in ways that consistently commit to the purpose"
	Does the company make explicit the connection between its Purpose and ESG in its Annual Report, disclosing its material areas of Environmental and Societal impact?	
	Does the Chair's/CEO's statement in Annual Report draw an explicit connection between Purpose and ESG?	We believe this to be a crucial indicator of the vital relationship between ESG and Purpose being understood and championed from the very top of the organisation. The Chair's and CEO's introduction to the ARA is one of the most vital, directional documents a public company provides.
ESGP IN PRACTICE: Materiality, values and behaviours as a foundation	Does the company disclose strategic information about the specific contribution that the organization will make to its ultimate Purpose of doing good for people and planet? In particular, it should evidence the most urgent and important problems faced in respect to long-term wellbeing for all people and planet, and the material factors influencing this (e.g. by utilizing a materiality assessment)	Relates to PAS808 Principle 2, section 7.1.2.2.1 (Articulate, elaborate and act in ways that consistently commit to the purpose)
	Does the company clearly and publicly articulates the organization's values and associated values and expected resulting behaviour?	Relates to PAS808 Principle 5: displaying an understanding of and commitment to Purpose as being underpinned by values that "are authentic, legitimate and lived"
	Does the company disclose and evidence that it has established organizational-wide guidance about the kinds of behaviours that will ensure the PDO-aligned values are lived through appropriate behaviour?	Relates to PAS808 Principle 5, section 7.3.1.2.2: "Live the organization's values"
ESGP GOVERNANCE Evidence of Purpose governance as a strategic, vital component of ultimate value creation (doing good), informed by ESG action (doing no harm, or substantively mitigating that harm)	Is Purpose owned by the Board (as opposed to e.g. devolved to subsidiary divisions or brands, or owned by brand marketing team)?	Relates to PAS808 Principle 2, particularly sections 7.1.2.2.2 (Align strategy and policy to achieving the purpose) and 7.1.2.2.3 (Align interests and decision-making to the purpose)
	Does the company evidence that rewards and incentives are aligned to achieve the Purpose?	See PAS808 Principle 2, section 7.1.2.2.5
	Does the company measure and report its Purpose? It should disclose a "clear and publicly declared rationale regarding what it decides to assess and measure and how (the Purpose) will be used in decision-making to make organisational changes"	Relates to PAS808 Principle 2, section 7.1.2.2.7: "Assess, measure and report against the purpose"

Endnotes

1 https://www.bsigroup.com/en-GB/standards/pas-808/
2 https://ec.europa.eu/environment/eussd/smgp/initiative_on_green_claims.htm
3 https://www.esgtoday.com/australia-financial-industry-body-sets-anti-greenwashing-rules-for-fund-managers/
4 https://www.esgtoday.com/singapore-unveils-disclosure-rules-for-esg-funds-to-reduce-greenwashing-risk/
5 https://www.cftc.gov/PressRoom/SpeechesTestimony/oparomero6
6 https://www.ecfr.gov/current/title-16/chapter-I/subchapter-B/part-260
7 https://www.wsj.com/articles/what-brands-should-know-as-ftc-prepares-to-update-green-marketing-guidelines-11660042800
8 https://www.ecfr.gov/current/title-16/chapter-I/subchapter-B/part-260
9 https://fortune.com/2022/01/20/corporate-purpose-institutional-investors-skepticism-research-esg-investing/ and http://www.enactingpurpose.org/assets/epi-report-final.pdf
10 https://www.ft.com/content/7aa44a9a-7fec-4850-8edb-63feee1b837b