



CONSUMER SPEAKS

Creating value through sustainability

- Moderator:** • Sam Loughry
- Guest speakers:** • Ron Vogeledewe, Kristen Sullivan

Sam: Welcome to Consumer Speaks, a Deloitte podcast series where you'll hear industry specialists share their perspective and insights on emerging topics impacting the consumer industry. I'm Sam Loughry, the leader of our consumer industry Audit & Assurance practice at Deloitte & Touche LLP. Today, we're discussing sustainability, environmental and social governance or ESG, and the growing opportunities for consumer companies. We're joined by Ron Vogeledewe, the Global Sustainability director at Whirlpool Corporation and Kristen Sullivan, the Sustainability and KPI

Services leader, and a partner in Deloitte & Touche, LLP's Audit & Assurance business. Ron, let's start with you. What does sustainability and ESG mean to Whirlpool and how do you approach sustainability from a risk and opportunity standpoint?

Ron: It's a joy to be here today, and I really appreciate the opportunity to speak on this important topic. For Whirlpool, sustainability has been part of our DNA for over 50 years. We see ESG or environmental, social governance, as being an extension of that journey and really an expansion

beyond environmental and social impacts to really how a company operates. We believe sustainability is just good business and there's "no right way to do a wrong thing," and that we'll continue to do the "right things, the right way" going forward. With ESG, you have to balance the short and long-term risks in order to have this license to exist in the future. Additionally, as expectations and new shifts to stakeholder capitalism put new responsibilities on corporations, there's an opportunity in that change to be a leader. And as a branded company, having that trust to be a preferred

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brand in the eyes of consumers and customers can generate lots of value. So my question, Kristen, is how do you see other consumer industry companies responding to this changing stakeholder expectation and this accelerating environmental and social governance trends?

Kristen: Thanks, Ron, and really great to be participating in this discussion as well. It's such a critical time in the capital markets, and just building on your point, this emphasis on striking that balance between risk and opportunity and through that lens of the needs of stakeholders and that license to exist that you mentioned. We know companies across all sectors are navigating societal and environmental trends and disruptors and changing stakeholder expectations, and really a recognition that there needs to be a systematic approach to be better positioned in sensing these rapidly changing disruptors. How does that better position a company to integrate these factors into the business strategy and then ultimately the external disclosure? We know that the pace of this environmental and societal change is increasing rapidly, and we've seen through the UN SDGs (the sustainable Development Goals) that businesses are really in a position to determine growth strategies as it relates to these environmental and societal shifts. We've seen recent research that demonstrates that after quality, the second-highest reason for customer brand loyalty is sustainable or ethical business practices. Seventy-three percent of U.S. consumers surveyed during COVID, so our recent disruption that we're all navigating through, say that companies should prioritize the needs of all stakeholders, not just financial reward, and 74% will remember which companies stepped up to provide support.¹ So really demonstrates that social license to operate that is just front and center for every organization.

Sam: Ron, you mentioned that sustainability has been part of Whirlpool Corporation's DNA for 50 years. What are some practical insights

you can share with our audience on how to effectively organize around sustainability to optimize the investment in value?

Ron: Sure, and I think this is a great question because, first and foremost, the one thing everyone will ask you is, "What is your sustainability strategy?" And my distinct and specific advices do not have a separate sustainability strategy. Your sustainability or ESG agenda should be a driver, and it must be integrated into your business strategy or your strategic imperatives. So it must be viewed as not a rock on the wagon or a separate initiative, but really integrated into delivering on the vision and mission of your company. You have to show value, and to do that, you not only have to show the cost of calculating a replacement one for one, but really calculating the total cost of these investments. And you must include the reputational and, as Kristen talked about, those loyalty dimensions. The key here is that the oversight as well matters. So board of directors, your executive committees need to shift from merely looking at financial responsibilities, but to include these non-financial metrics because they now have real world fiduciary impacts. The role of business is expanding due to those expectations by consumers to make sure you're not just providing a good or service, but you're doing it in a responsible manner, in regards to people and the planet. Businesses are being looked on to help solve the larger issues as it tends to be more creative, faster, and more incentivized to achieve those sustainable development goals that the UN laid out. And so from that stance, it's critical that companies assess and invest in a future where they need both to practice and educate how they're progressing in an authentic way to be a force for good. So that's my second part of advice—you have to disclose, and it can't just be the good. It can't just be what you're doing right, but what you need to change and improve. So fundamentally, it's how one can go from doing good to being good, as a leader and a board of director member of multiple fortune 500 companies explained it to me, it is transitioning from that act of philanthropy to really getting to a purpose-led goal-driven company.

Sam: Kristen, Ron mentioned the board of directors, and there has been a high degree of emphasis on the role of governance for many years, but is this just adding the E and the S to an already crowded agenda for management and boards?

Kristen: Thanks for that, and I think that emphasis around the G "the governance" is so central, and just building off of Ron's points, is given this idea that these factors, environmental, social, and governance, impacts and dependencies need to truly be integrated into the business to really deliver high-quality, meaningful disclosure, shifting ESG from this stand-alone or disconnected set of activities to truly integrating ESG into the business requires central governance structure. When you think about those critical components of governance and how that really helps to integrate factors into management systems, brings that discipline of integrating internal audit and external assurance to really enhance the confidence and monitoring mechanisms that senior management and the board have to really understand risks and opportunities to the business and how the business strategy is actually delivering on the objectives that have been stated, and the way that external stakeholders are evaluating that performance. It may also reduce the risks related to the whole disclosure practice, given this increasing reliance that external stakeholders are placing on ESG information that effective governance structure with those critical components can truly promote higher quality, more relevant and meaningful disclosure, and ultimately permit more effective and higher quality evaluation of ESG performance, so that capital can truly be allocated to sustainable development that's going to lend itself to long-term value.

Sam: Well, it sounds like investors in the capital markets have doubled down on expectations for ESG disclosures, really through the lens that absent effective disclosures, the market's not able to effectively price in risks. Ron, how does Whirlpool Corporation use reporting and disclosures as a tool to internally drive performance and accountability and drive external value?

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Ron: Great question. Currently raters and rankings are trying their best to assess how well companies are progressing in ESG initiatives and managing their risks and opportunities. However, these currently face many internal and external challenges on how to assess what is material to you and how the data is collected. Is it assured, and how to do and disclose those risks in the right manner. First and foremost, you need to control your message. You need to own your narrative in this, let's say, very confusing and rapidly evolving world. We have focused internally at Whirlpool on materiality assessments with our key stakeholders as a way to achieve that clarity and that focus and we're continuing to engage with rating agencies to improve both their education and ours. So, additionally, you have to start investing in meaningful projects and initiatives to effectively move the needle. For us specifically, we look at our compliance and diversity measures and actions, including making additional commitments. Furthermore, for example, GHG or greenhouse gases, we invested in systems to track and report our progress, which then help us identify ways to make the best investment decisions to lower our emissions, as well as set meaningful targets, some that are in line with the Paris Accord, to show that we're doing our fair share. In that case where we set effective metrics, we went from a historic 2% change in our operation emissions to now a 9% year over year change in 2019. So, they can

be very effective by setting those targets, those reporting, those disclosures to drive value internally and externally. We bent the curve in significant ways by doing that. We have several other opportunities to make significant strides toward those goals; for example, for carbon neutrality in the future, by employing those metrics, those disclosures, and, like I mentioned before, doing it in an authentic way.

Sam: Well, Ron, it sounds like Whirlpool Corporation has moved the needle and I'm sure there'll be more great things to come. Kristen, you have several roles with a number of leading ESG standard setters and the AICPA's Sustainability Task Force. How are the ESG standards evolving to help promote comparable and reliable disclosures?

Kristen: I think even building on Ron's points that he just made in terms of the recognition that the lack of standardized investor-grade information and ESG reporting has really served to hinder effective and efficient ESG data value chain in the capital markets. There's this increasing supply of information that organizations are providing, but investors remain dissatisfied. We've seen signals from many institutional investors in particular that have made it very clear that they want standardized and increasingly quantitative and financially relevant ESG disclosure to really effectively inform investment decision-making. And there have been a number of recent market

developments, a number of those that we've been involved in in terms of accelerating that direction of travel toward more authoritative and rationalized ESG standards, which are really intended to meet those expectations, to provide the needed definitional clarity around materiality of ESG impacts, as well as dependencies, and serve as a more compelling call to action for companies at scale to disclose ESG information through disclosure outlets that will meet that investor expectation and other stakeholder information needs. This emphasis on greater standardization and ESG reporting, we really see will not only help to drive reduction of the noise in the system, but really will help enable also integrating some of those governance components that I spoke about earlier, in particular, the role of assurance and how it can be a true value driver in enhancing the confidence and value of ESGs disclosure.

Sam: Well, as mentioned by Ron and Kristen, this is definitely a fast-changing topic. It sounds like there'll be more to come related to ESG and sustainability disclosures in the future. Ron, Kristin, thanks for sharing your insights on this important topic. I'm Sam Loughry. Thank you for listening to Consumer Speaks, sponsored by Deloitte's Audit & Assurance business. For more information, please email sloughry@deloitte.com or visit our website, deloitte.com. Until next time, take care.

Endnotes

1. "Driving Corporate Growth through Social Impact" Deloitte (2015); CF Industries Sustainability Report (2014); United Nations SDG; <https://www.un.org/en/development/desa/population/theme/sdg/index.asp>; CGS "U.S. Consumer Sustainability Survey"; Nielsen, "Was 2018 the Year of the Influential Consumer?"

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