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Privacy's Growing Role in ESG: What Companies Disclose Now and Next Steps

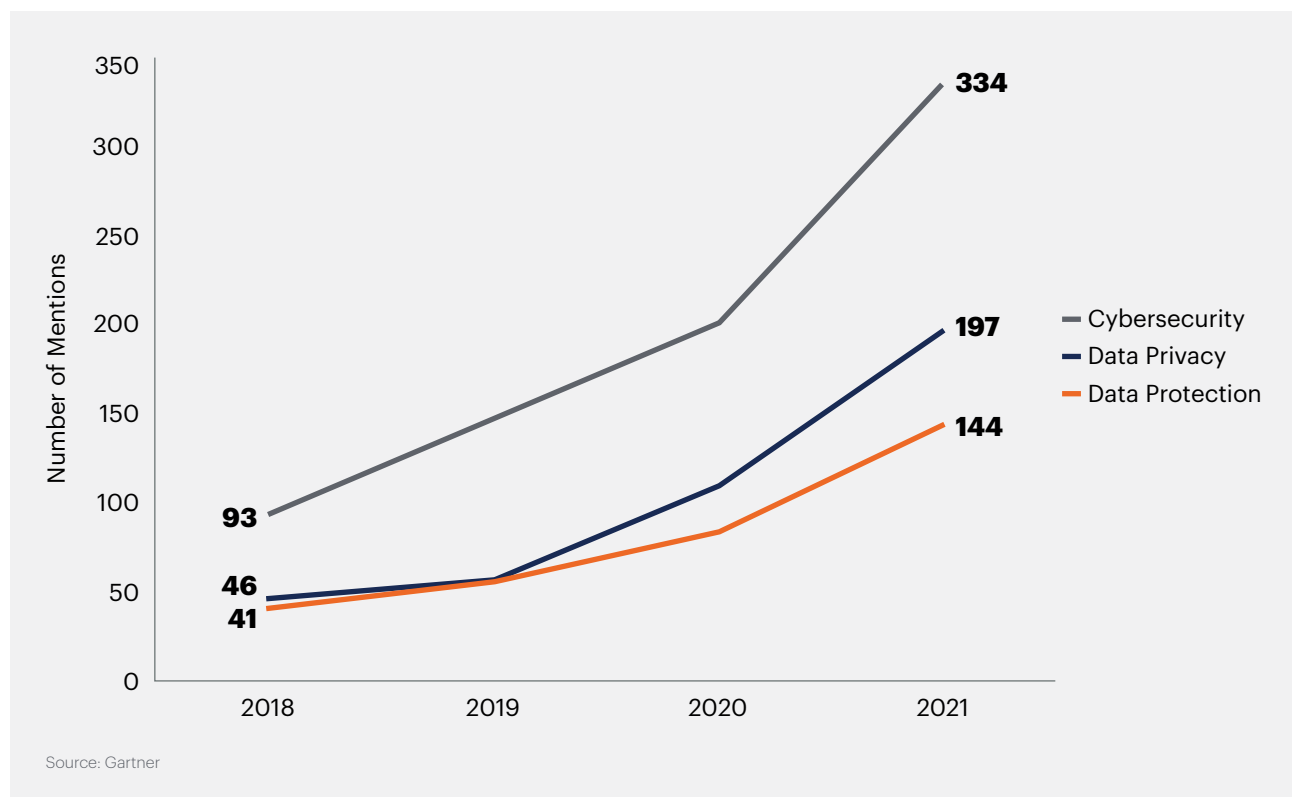


Introduction

Privacy leaders can use this analysis of disclosures found in ESG reports to benchmark their company's efforts in this space. They also can use the findings to demonstrate the value of strong privacy practices to senior leadership and the board.

Privacy is climbing on the corporate agenda. Mentions of data privacy, data protection and cybersecurity in the environmental, social and governance (ESG) reports of S&P 500 companies more than tripled between 2018 and 2021 (see Figure 1).¹

Figure 1: Mentions of Data Privacy, Data Protection & Cybersecurity in S&P 500 ESG Reports



The finding suggests that developing strong privacy practices is no longer merely about achieving regulatory compliance, but also protecting the organization's reputation. As a result, stakeholders want companies to disclose data privacy efforts.

Legal, compliance and privacy leaders can use this analysis to learn more about privacy's role in ESG and benchmark their organization's privacy-related ESG efforts. The analysis found that:

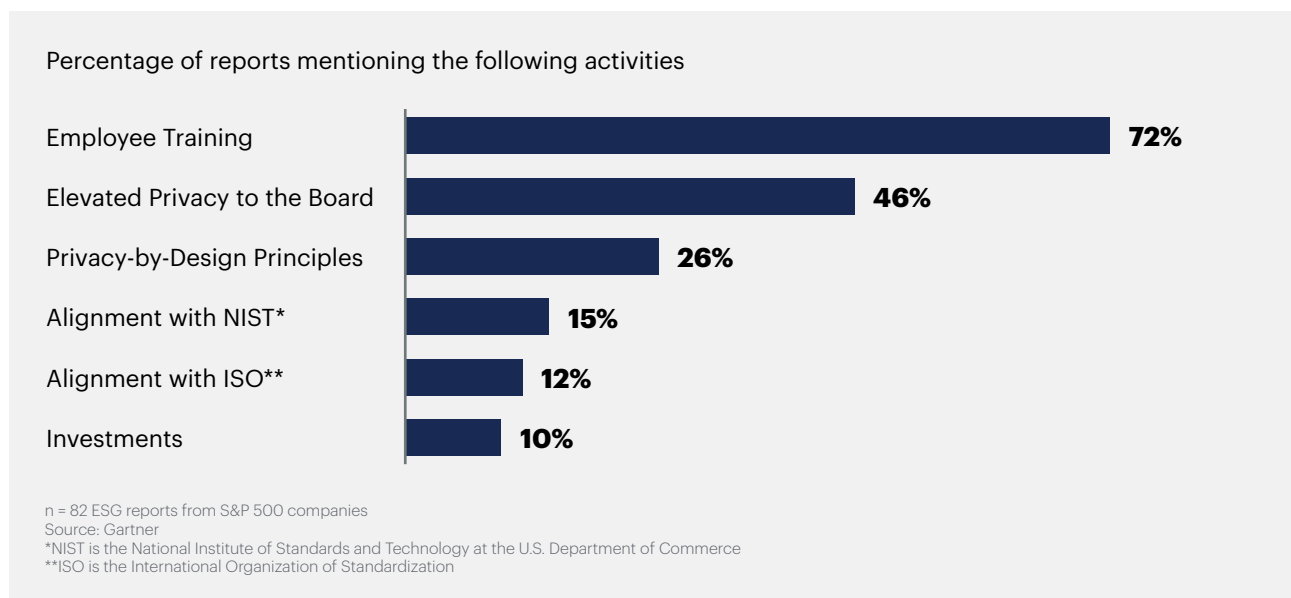


Executives have told us that data protection and privacy is one of the top three ESG challenges that companies face.⁴ Legal, compliance and privacy leaders can use the following run-down of the top privacy initiatives listed in ESG reports to get a sense of how organizations are addressing this challenge.

Top Privacy Activities Disclosed in ESG Reports

From training to the adoption of privacy frameworks, organizations shared detailed information about their data protection efforts (see Figure 2).²

Figure 2: Top Privacy Activities Cited in ESG Reports



New Financial Investments in Privacy

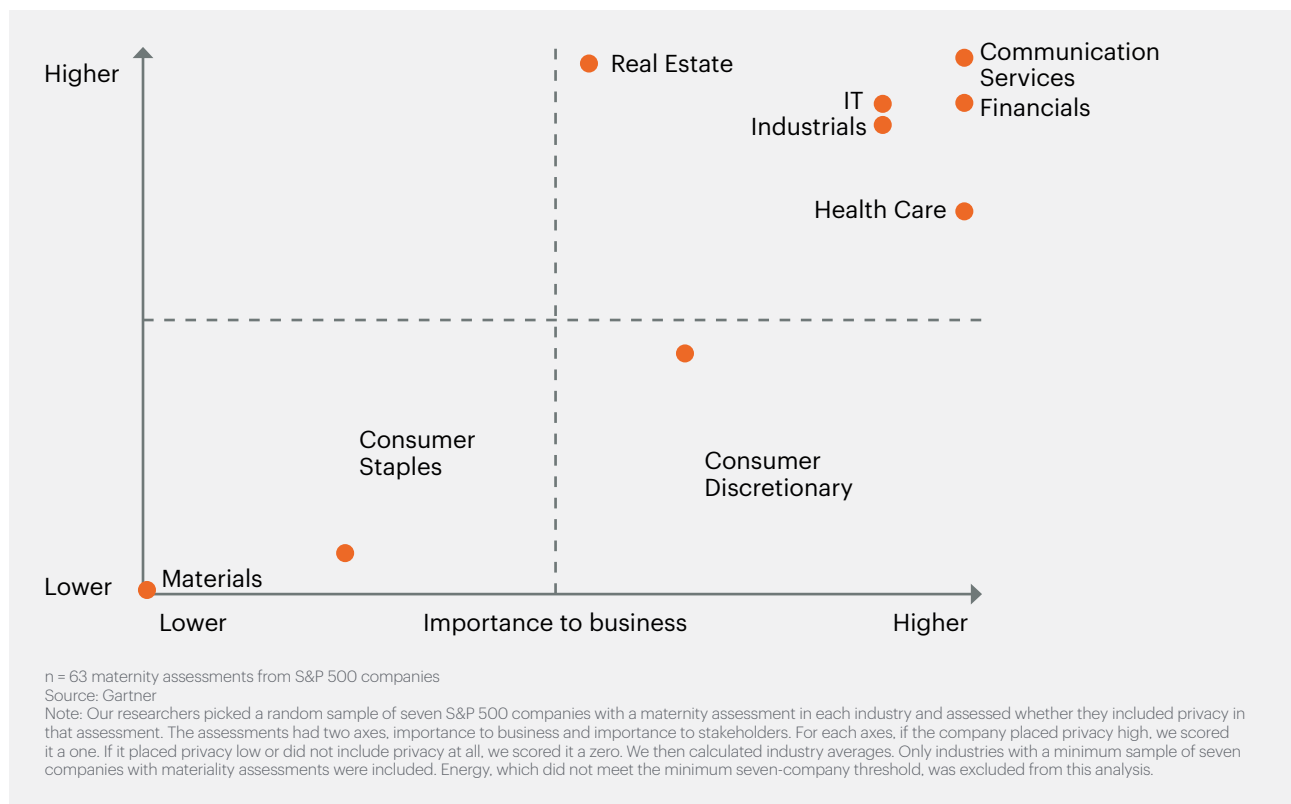
A smaller portion (10%) disclosed net new, concrete investments in privacy for compliance efforts. Organizations also revealed anti-phishing campaigns. This group primarily included financial institutions and business to consumer firms such as retailers and automakers.

Communication and Financial Industries Rank Privacy As a Top Material Issue

Companies in the communication services and financial industries have designated privacy as an important topic in their ESG disclosures, since they handle sensitive personal information or have business models that are highly dependent on leveraging such data. Other data-dependent industries that view it that way include information technology, industrials, healthcare and real estate.

Legal and privacy leaders can use our two-by-two graph to see how their prioritization of the issue compares to their peers. To rank the importance of specific ESG issues such as privacy, organizations conduct a materiality assessment, a formal exercise that gathers stakeholder perspectives. The following graphic shows the importance of privacy to stakeholders and to the business. It is based on an analysis of companies' materiality assessments from nine industries (see Figure 3).³

Figure 3: Importance of Privacy in Materiality Assessments by Industry



Privacy leaders have told us that an ongoing dialogue with stakeholders — going back to them once you've decided what you're going to disclose, for instance, to get feedback — helps to build trust and prevent organizations from becoming too myopic. An outside perspective can help leaders make sure they track the appropriate metrics.

ESG disclosures are one step in the longer process of finding and communicating privacy's role in a company's ESG strategy. We interviewed two leaders — the chief privacy officer and the chief ESG and corporate social responsibility (CSR) officer — of a large financial institution to learn how they managed this challenge.

Next Steps

To determine what privacy's role in the ESG program should be, legal, compliance and privacy leaders should:

- Gather benchmarking data about the importance of privacy to the critical stakeholders — consumers, employees and shareholders — in their industry. Make this an ongoing effort to inform your organization's privacy-related ESG activities and goals as they develop.
- Work with senior leadership engaged in ESG to make sure that privacy is part of the organization's materiality assessment.
- Make sure the organization has a way to measure progress against the privacy goals stated in the disclosures. This is critical to maintain reputational integrity and position the company for any future privacy-related ESG mandates that may arise. While there are no specific privacy-related ESG disclosure regulations as of yet, regulators are beginning to require this in certain areas (e.g., climate disclosures, risk governance and management).
- A final tip: Don't be tempted to claim more progress in the disclosures than you've made or gloss over problem areas. Large investors do their own research to check out corporate practices. In fact, 27% of executives who are part of corporate ESG initiatives track "greenwashing" as a risk, and another 33% say they plan on adding it.⁵

Endnotes

¹ The analysis for this research was based on documents published by S&P 500 companies from 1 January 2018 to 5 September 2022 that are categorized as ESG reports. We used a search platform to find references to “data privacy,” “data protection” and “cybersecurity,” and to identify how many times references to these categories appeared in the reports. At the time of writing, full-year totals were only available through 2021.

² Analysis is based on references to privacy activities in the ESG reports of 82 companies in the following 10 industries: communication services, consumer discretionary, consumer staples, energy, financials, industrials, information technology, healthcare, materials and real estate.

³ Our researchers picked a random sample of seven S&P 500 companies in nine industries with a materiality assessment and assessed where they included privacy in that assessment. The assessments had two axes, importance to business and importance to stakeholders. For each axis, if the company placed privacy high, we scored it a one. If it placed privacy low or did not include privacy at all, we scored it a zero. We then calculated industry averages. Only industries with a minimum sample of seven companies with materiality assessments were included. Energy, which did not meet the minimum seven company threshold, was excluded from this analysis.

⁴ 2021 Gartner ESG Panel Benchmarking Survey. When we asked executives to name their biggest ESG challenge, 55% of them pointed to data protection and privacy. The issue ranked third, behind diversity and inclusion (No. 1), and carbon emissions (No. 2).

⁵ 2021 Gartner ESG Panel Benchmarking Survey.

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