ECONOMIST IMPACT

The ESG conundrum

How investors and companies can find common purpose in ESG

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There has been a growing recognition of the role that investors can play in **driving change in the companies in which they invest**. Although investors are increasingly using environmental, social and governance (ESG) metrics within their investment processes to assess risks and opportunities and identify potential real-world impacts of corporate operations, the **actual strategies of companies and investors** when it comes to accurately defining, measuring and implementing ESG performance **may vary**. To understand how investors and companies can find **common purpose in ESG**, Economist Impact surveyed 300 senior executives working at asset owners and 313 senior executives working in the energy, food, healthcare and travel industries in the US, the UK and Asia-Pacific.

Aligned for good

Eight in ten investors (with APAC investors more confident than their counterparts in the UK and US) and **nine in ten companies agree that existing ESG metrics are fit for purpose**/meet their needs as an asset owner. Being aligned on ESG is important because a large majority of both investors and corporates acknowledge that strong ESG performance leads to strong financial performance in both the short and medium-to-long term.

> **"Key metrics will vary by organisation, and even change over time. It's important that an organisation define their priorities and assess where it would have material impact."**
>
> Phil Redman, OneTrust

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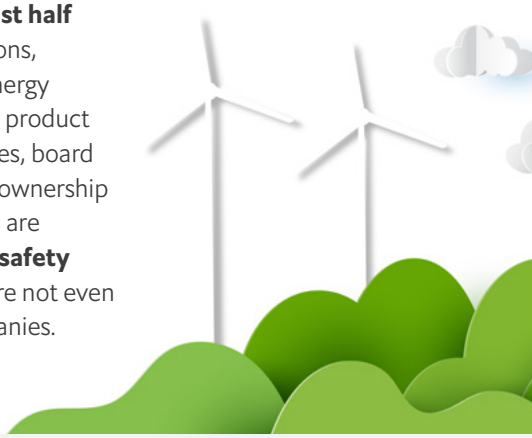
Disclosure gap

Yet, **only 10 of 17 ESG metrics are measured and published by at least half of companies**: direct carbon emissions, water usage, waste management, energy efficiency, health and safety records, product safety records, supply-chain principles, board diversity, business ethics policy, and ownership structure. Top indicators in common are **energy efficiency**, and **health and safety records**. However, 9 of 17 metrics are not even measured by at least a fifth of companies.

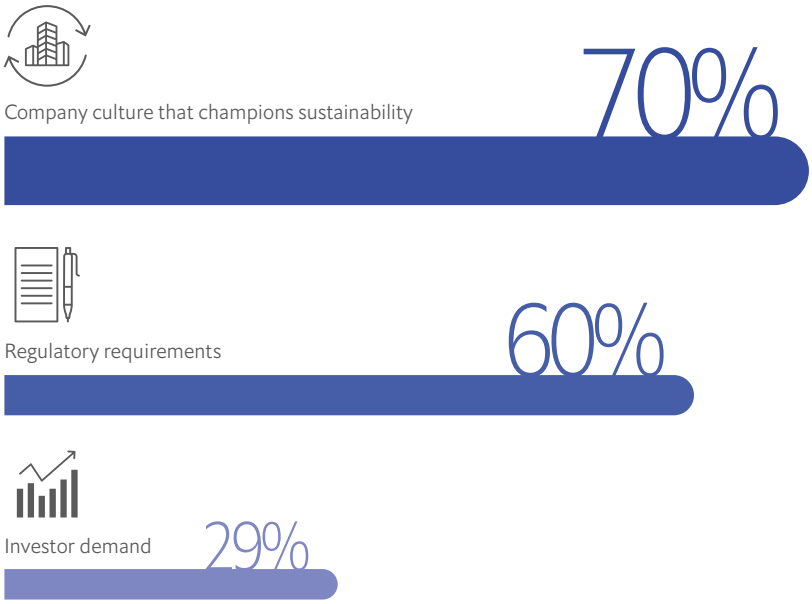


"Important metrics are qualitative indicators, such as board management, business code of conduct, employee benefits/talent strategy, sustainable supply-chain management, information security and privacy protection, and companies' measures to mitigate climate change."

Richard Sheng Ruisheng, Ping An

Sustainability at the core

Companies seem to be placing ESG at the core of their strategies: **70% of companies state a company culture that champions sustainability as their primary motive to measure and publish ESG metrics**, while regulatory requirements (60%) are the second most cited. Investor demand is cited by less than a third of corporates (29%).



"There's an increasing awareness among corporates that 'doing the right thing' is increasingly important for a company's brand. But equally, an investor's view of good ESG governance is now that it derisks organisations."

Richard James, JLL

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Positive feedback loop

There is a positive correlation between levels of corporate disclosure and investor confidence in metrics: the higher the level of disclosure, the higher the confidence. The **US displays the highest average level of investor confidence (4.3/5) and company disclosure (53%)**. Conversely, the UK lags behind on both, at 3.9 and 44% respectively. Mandatory, rather than voluntary, regulatory requirements are needed to push company disclosure, which in turn will boost investor confidence.

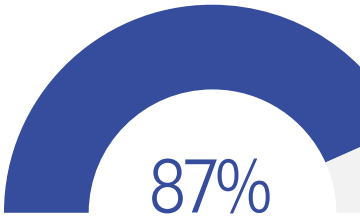
Level of investor confidence in ESG metrics

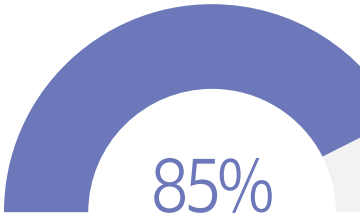
Average level of corporate ESG disclosure

> **"In the UK, Task Force on Climate-Related Financial Disclosures regulations come into force this year for certain businesses, providing much-needed harmonisation of reporting across large organisations initially, and filtering down along the implementation roadmap to other organisations over the next three to four years."**
>
> Richard James, JLL

Bottom-up impact

But monitoring metrics is not enough to drive system-wide change, and there is clearly a need for engagement to identify ESG priorities at an individual company level. **Nearly nine in ten investors (87%) agree that direct engagement with companies is vital to the implementation of ESG agendas**, while **85% of corporates state that they seek and value investor guidance** when it comes to shaping and implementing their ESG agenda.





> **"For us, it's much more a question of looking at companies in a forward-looking way, and seeing if those companies are willing to revisit their business model in face of the various sustainability challenges."**
>
> Stéphane Monier, Lombard Odier Private Bank

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