

# Are we experiencing a Groundhog Day of ESG information?

[Mike Wallace](#) and [Barbara O. Brown](#)

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In the film "Groundhog Day," Bill Murray's character relives the same day until he has learned enough of life's lessons to move on. Today's chief sustainability officers are living a similar cycle with the annual sustainability ratings and rankings field. There has been a long-standing, love-hate relationship between corporations and those that judge them on environmental, social and governance performance (ESG) performance. While these two sides may appear to have an antagonistic relationship, there is actually some constructive co-dependency — and even mutual enabling behavior — that helps perpetuate this dynamic.

## The background

More than a dozen years ago, Allen White (co-founder of the Global Reporting Initiative) conceived the [Global Initiative for Sustainability Ratings](#) (GISR). The driver was the rapid growth in the socially responsible investing (SRI) field and a flood of similar surveys and questionnaires inundating publicly traded companies. Investors wanted more sustainability information and corporate disclosure was lacking, so the influential SRI community strove to obtain more disclosure through its own direct engagements.

Corporate leaders in disclosure sometimes were rewarded by making the "top" lists of the day, or by being publicly listed in a sustainable index, but tension remained between the two sides due to the constantly evolving supply and demand dynamic. Companies that truly demonstrated top performance were temporarily rewarded in some cases, punished in others and expected to do more the following year.

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The investment community, research firms and standards bodies driving disclosure were driven to differentiate their approaches and to appeal to their own customers and stakeholders. A vicious cycle was born and GISR sought to fix the issue by standardizing the ratings world.

GISR became a formal organization in 2011 with a stated mission "to drive transparency and excellence in ESG research, ratings and indices to improve business performance and investment decision-making." The organization has a range of [supporting stakeholders](#) dedicated to [simplifying the morass](#) of today's ratings and rankings.

Along a parallel path, mainstream investors increasingly entered the market seeking responsible investment opportunities; asset managers sought to differentiate their portfolio management expertise; specialized research firms expanded, merged or entered the market; more media organizations drove to rank companies by sustainability measures. Then, another area of ratings

fatigue emerged: the increasing demand from customers for supplier information. This created an entirely new demand for B to B sustainability ratings.

## The current state

These market developments have refined and consolidated shareholder/public company interaction, while at the same time refining customer/supplier exchange of sustainability information. Like the flood of SRI-oriented surveys that prompted the formation of the GISR, the formation and expansion of the customer/supplier relationship has spawned a range of initiatives such as the Sustainability Consortium, the Sustainable Purchasing Leadership Council, the Committee for Supplier Ratings and Together for Sustainability.

While all this new activity increases the demand for sustainability disclosure — and therefore survey fatigue — the market focus on the materiality of ESG issues provides a glimmer of hope. We see an increasing number of initiatives regularly referencing recognized frameworks such as GRI and SASB. For example, Bloomberg openly integrates GRI, CDP, Sustainalytics, RobecoSAM's DJSI and other information on its terminals. RobecoSAM publicly references its use of EcoVadis and RepRisk in its assessment methodology. Formal partnerships, direct collaborations and alignment among GRI, SASB, IIRC, CDP and other influential organizations may signal progress towards eventual alignment and harmonization.

While these are great developments and give hope to a future that is less confusing and time consuming, the first part of 2017 saw the release of some long-standing ESG related ratings and rankings, as well as brand new entrants.

- **RobecoSAM** — [Over 3,400 listed companies](#) were invited to complete the annual Corporate Sustainability Assessment and offered the opportunity to be listed on the Dow Jones Sustainability Index.
- **Reputation Institute** — The annual [Global RepTrak](#) measures the general public's perception of the world's top companies on seven key dimensions of reputation: products and services; innovation; workplace; governance; citizenship; leadership; and performance.
- **Ethisphere Institute** — The annual [World's Most Ethical Companies](#) aims to define the global standards of ethical business practices.
- **Corporate Human Rights Benchmark** — The first public ranking of [corporate human rights performance](#) launched in March. It seeks to incentivize companies in a race to the top for the moral and commercial advantages of a strong human rights record.
- **Most Controversial Companies Report** — RepRisk's [latest research](#) focuses on companies that were most exposed to ESG risks in 2016. The report spotlights ESG issues faced by multi-national companies.
- **Corporate Responsibility Magazine's** — [The 18th annual 100 Best Corporate Citizens](#) list examines companies on a range of sustainability topics.

## Assessing the facts and managing the situation

The World Business Council on Sustainable Development (WBCSD) established a special working group to help corporate practitioners manage the growing demand for ESG disclosure. The [ESG Ratings & Rankings Working Group](#) initially was convened at the annual WBCSD-Yale meeting in June 2016. Over 50 participants joined in a two-hour workshop to explore the breadth and depth of the ratings and rankings field. Presenters included representatives from GISR, the Carbon Disclosure Project, EcoVadis, Southern Poverty Law Center and Committee on Supplier Ratings to help the participants appreciate the full spectrum of market activity from the public markets to the private B to B activity between customers and suppliers.

The working group met via webinar and in-person to discuss the market, learn from each other and assess the risks and opportunities of responding to such requests or declining to respond.

As chair of this working group, BrownFlynn developed a survey to assess the true dynamics a CSO faces in daily work life. More than 60 corporate practitioners responded to such questions as:

- How many external ESG surveys and/or questionnaires are you responding to per year?
- Who do you usual partner with as you respond to external inquiries?
- From what type of stakeholders are you generally fielding questions?
- Which organizations would you be most interested in hearing from in a private forum?

The vast majority of respondents were directly responsible for fielding and responding to ESG questionnaires or surveys whom they identified as coming from investors, customers and other external stakeholders. Reinforcing the growing demands on CSOs, nearly half indicated they are responding to 10 or more surveys per year. Together with WBCSD, we are finalizing this research and will produce and publish the results this summer. The outcomes of the research will help to guide future programming for the [WBCSD ESG Ratings and Rankings Working Group](#). Our goal is to help working group members to better understand and ultimately leverage these dynamic market developments to their advantage.