

The Forbes logo is displayed in white serif font on a dark grey rectangular background.

Reporting Environmental, Social And Governance Responsibility: What Message Is Your Company Sending?

Opinions expressed by Forbes Contributors are their own.

As Managing Director, Mike Wallace is responsible for expanding BrownFlynn's market penetration across North America, developing new and existing strategic partnerships, providing innovative corporate responsibility and governance solutions to clients and helping shape the strategic direction of the Firm. Having helped establish and then direct Global Reporting Initiative (GRI) North American operations from 2009 to 2014, Mike was instrumental in driving sustainability reporting across the North American economy.

Christopher P. Skroupa: What are the biggest mistakes companies make when it comes to the environmental, social, governance (ESG) ratings and rankings industry?

Mike Wallace: The biggest mistake is when the Investor Relations Officer (IRO) is not fully aware of the ecosystem that is informing and influencing their largest shareholders. The "responsible investor," "ESG" or "socially responsible investment" industry is no longer just small boutique activist groups; there is now an entire network of mainstream players who are fully engaged on very material ESG issues. According to the [Forum for Sustainable and](#)

[Responsible Investment \(U.S. SIF\)](#), “ESG incorporation” by institutional investors increased by more than 60% between 2012 and 2014. These investors are doing extensive due diligence in regard to corporate performance which increasingly includes ESG factors. In addition to these investors, there is an entire industry of speciality research firms, as well as mainstream financial research firms now providing tailored ESG research. Within this broad ecosystem, you have your large, well-known state pension plans like CalPERS and CalSTRS, institutions like TIAA-CREF—The Teachers Insurance and Annuity Association—and university endowments who have suppliers like BlackRock, Goldman Sachs, Morgan Stanley and JPMorgan that provide them with investment *and* ESG research expertise. An entire community is now examining entire indices on ESG performance metrics, as well detailed analysis of specific industries and individual companies. They are using unique and robust proprietary research firms like Bloomberg, MSCI and Thomson Reuters, as well as specialists like Sustainalytics, Trucost, RobecoSAM and RepRisk. Asset owners and asset managers are actively utilizing these networks, analytical tools and subscriptions services to integrate ESG into investment decisions. They are most definitely making more informed, more responsible and more sustainable investment decisions, whether the IRO realizes it or not.

Skroupa: Do investors really care about these rankings? What information is utilized to engage companies when making active investment decisions?

Wallace: Investors *do* care. According to a CFA Institute survey in June 2015, nearly 75% of respondents said they incorporate environmental, social and governance criteria

into their investment process. Long-term consideration of these ESG factors has disrupted mainstream asset managers and asset owners in their usual approach, The National Investor Relations Institute (NIRI) recently published [a report focused on this shifting evaluation](#). In the new digital age, a plethora of analytical tools are now a click away, however the ESG field in investment activity has been around for awhile. The Interface Center for Corporate Responsibility (ICCR) has been focused on sustainability issues for more than 40 years. A quick look at the membership list enlightens you to the type of institutions and individuals who are interested in responsible and sustainable investment. The [company names and shareholder resolutions listed](#) are available for everyone to see. These resolutions address a broad range of issues, spanning from human rights, to greenhouse gas emissions, to executive compensation, to board diversity. Every IRO should realize that this list is in the public domain and that this group of faith based investors has been actively engaging on ESG issues for decades. This is a public list where a company does *not* want its name.

Go back a decade and you'll see the creation of an investor led initiative, the Carbon Disclosure Project (CDP), consisting of over 820 investors, representing about U.S. \$95 trillion in capital. These members are part of the ecosystem mentioned earlier. [CDP's list](#) of signatories is comprised of asset owners, asset managers and specialized research firms, all working together to help understand the investment risks in portfolios, industries, geo-political regions and the risks at the individual company level. Detailed research is also available on this site, providing

capabilities to look into the corporate activities occurring within specific industries on a regional and national level. Shortly after CDP formed and gained traction, the Principles for Responsible Investment (PRI) was established. This is an even broader initiative reaching across all aspects of the sustainability equation, representing more than [1,400 signatories](#) from over 50 countries and representing close to \$60 trillion in assets. CDP and PRI are the two largest and most influential initiatives to consider if you are a Corporate Secretary, CFO and/or IRO. These investors are actively engaged; they have made a public commitment to examine these issues for their customers and are doing extensive ESG due diligence on thousands of publicly traded companies. As a public company seeking investors, you can actively engage and inform this growing body of investors, or you can ignore their interests and avoid disclosure. This leaves investors and other stakeholders room to interpret the lack of ESG information, the lack of transparency, in their own way. This is becoming more complicated as a growing majority of the Fortune 500 and the S&P 500 report and have thereby set expectations on the level and type of ESG transparency coming from global companies.

Skroupa: How can a company organize and structure the morass of ratings, rankings, indices and listings? How can companies systematically integrate environmental, social and governance (ESG) policies?

Wallace: Primarily for any IRO, you are already receiving a variety of content in your inbox. A quick analysis of these active investors, the ones that are most interested in ESG is not difficult to achieve. Briefly scroll through the hundreds of signatories of the CDP and PRI to see who is interested in these topics, indicating the institutions that are also probably doing some due diligence on

you. Compare the list of signatories against your own largest shareholders: This investigation provides a sense of how involved your shareholders are in these issues. See if a formal engagement effort with these interested parties—in order to share your ESG information—would be advantageous. The next step would be to turn to your Bloomberg Terminal, most CEOs and CFOs have one at arms length. Look up your company, but not only that, look up your industry using the ESG tab. Focus on the peers in your industry at a global level to see what sort of ESG information already exists in the marketplace. Bloomberg subscribers number over 325,000 across the world—many are the signatories we’ve shown you in the CDP and PRI lists—they now have ESG information at the click of the button. Many companies are leveraging their ESG disclosure to benefit from the rising tide of investor interest and activity. Asset owners make their investment decisions based off this data, so use your subscription at Bloomberg to see what information you have in the terminal already.

Skroupa: What is the best approach a company can take when assessing this field and responding to this demand?

Wallace: Recognize that the market demand for quantified, credible and verified ESG information is growing exponentially. Also realize that this demand isn’t limited to these active investors, but customers, employees, local and national regulators are increasingly asking companies to report on sustainability performance. Understand that *not* disclosing on such issues sends its own message to the markets about overall governance, as well as general awareness of modern market conditions. Be aware of the current workforce trends and the growing competition to attract and retain top talent. Millennials are very interested in sustainability issues and want to know they are working for a company that treats its own people, local and distant communities, suppliers and customers responsibly and with respect.

Publicly traded companies should compare their largest investors against the lists shared above and assess how much capital is oriented toward ESG issues. Realize that even though these issues may not present themselves at the annual general meeting, that doesn't mean investment analysts aren't reviewing and integrating ESG performance into their analysis. Assess industry peers on their ESG disclosure and sustainability reporting activities.

Note that most sustainability reports refer to the [Global Reporting Initiative \(GRI\)](#), and leverage this “crowd-sourced” global roadmap for disclosing sustainability information. GRI is 20-year-old, global, non-profit organization that developed the world's most widely used approach for measuring, managing and reporting on sustainability information. The freely available guidance has circled the globe and GRI Reporting is now being written into laws, integrated into stock exchange listing guidelines, expected by the world's largest asset owners and managers and demanded by customers. GRI also maintains the world's largest database of known GRI reporters—[Sustainability Disclosure Database](#)—which allows any company to understand the reporting dynamics in its country, sector and of its customers and suppliers.