

It's time for alignment of ESG agendas

Talking head

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The path towards integrating environmental, social and governance (ESG) aspects in the agenda of institutional investors and companies seems to be complex and confusing. We believe the main reason for this is that, so far, institutional investors and companies alike are struggling to accept ESG as a driver for long-term value creation. Many still seem to regard ESG as a moral obligation; resulting in box ticking, not in higher quality investments.

In many countries, including the Netherlands, focus on ESG is considered to be an integral part of business, as well as a responsibility for investors. It is included in several corporate governance codes

and investor codes, such as the UK's Stewardship Code. In the Netherlands Eumedion, the representative of institutional investors, has issued best practices on engaged shareholdership, stipulating for example for ESG to be integrated into engagement with listed companies. It's time pension funds and other institutional investors calibrate their compass.

In order to better understand how companies and institutional investors are anticipating emerging international practices, we hosted two roundtable meetings. The key question was how are companies and institutional investors upgrading their ESG strategy and performance? Representatives of some 15 participating, mostly listed, companies and a number of institutional investors agreed that integrating ESG is a condition for long-term success.

However, ESG progress will require more dialogue and engagement. For that, "it takes two to tango".

Even though institutional investors and companies increasingly state that ESG strategy and performance are fundamentally impacting their future, as they confirmed during the

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roundtable meetings, the ESG debate is still dominated by good intentions and is falling short of actual progress.

The participating companies confirmed ESG is a strategic theme, which has superseded a risk management perspective. A triple bottom-line focus is

increasingly important in the market, and key for recruiting talent. Yet, the companies believe institutional investors to be hardly interested.

Questions are asked only incidentally, and the quality of the ESG dialogue is poor. Investor relations and communications professionals acknowledge that they probably should do more, such as organising focused ESG roadshows, to get their message across. A participant said: "Since our executive board regards sustainability to be of key importance, we have to make sure that our shareholders better understand this".

Institutional investors, including the largest and best known, acknowledged that ESG is gaining weight in their investment decisions, although there still are significant differences in maturity and

speed across the sector. They invest at the expense and risk of their ultimate beneficiaries; pensioners, employees, policyholders, etc. As investors they must deal prudently with the financial resources entrusted to them and must account for their dealings. In principle, this means institutional investors have a long-term investment philosophy, which can be strengthened by embracing ESG.

These investors with their international focus face the challenges of different approaches across countries. The UK is considered a frontrunner while American investors are less interested. The French and Danish government promote ESG reporting, whereas Germany has launched a sustainability code. In the first quarter of 2012 the European Commission will publish stricter guidelines for non-financial reporting.

Eumedion will continue to take a proactive and leading role in the debate that ESG is an inextricable part of responsible shareholdership.

None of the roundtable participants expects the transition to a healthy and future-proof economy to be easy, or even painless. However, both the participating companies and the institutional investors agree that value creation and profit generation can only be sustainable when value is added for society as a whole. Therefore, ESG should be seen as part of the solution instead of the problem. If we want to overcome this economic crisis sooner rather than later, it is time for them to align their ESG agendas.

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