



# ENHANCING COMPANY-INVESTOR COMMUNICATION

INSIGHTS FROM THE ESG INVESTOR  
BRIEFING PROJECT



Global Compact  
**LEAD**



**PRI** | Principles for  
Responsible  
Investment

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# 1. Executive Summary

Companies communicate with investors on their sustainability<sup>1</sup> - or environmental, social and governance (ESG) - strategies and performance through a diverse range of channels, including reports and other forms of written communication, investor calls, road shows, analyst meetings and social media. This report is a resource for companies looking to enhance their communications with investors, by sharing the experience and lessons learned so far through the ESG Investor Briefing Project.

Using the model of a quarterly financial call, the ESG Investor Briefing Project aims to provide a baseline framework for companies to enhance their communication and to reveal how ESG strategies and performance can translate into financial value. The project identified two main opportunities based on consultation with companies and investors. The first is focused on overcoming the “silo” mentality that often exists within companies and financial institutions, as well as between the various actors along the investment value chain. The second is to help companies communicate how prioritizing ESG issues is linked to financial value within a company.

The [ESG Value Driver Framework](#) was developed to assist companies in communicating the financial relevance of their ESG strategies and performance. The Value Driver Framework looks at communication both in terms of the content (what is communicated) and the process (format, procedure, channel, etc.) of the communication. It aims to support sell-side and buy-side analysts in integrating ESG information into their financial analysis and valuation models, thereby “translating” ESG data into financially relevant information.

Utilizing the ESG Value Driver Framework as a tool, the project invites Global Compact companies to present their ESG value drivers to an audience of investors in the form of an ESG Investor Briefing. Coinciding with recent industry and academic studies, the project’s initial findings show that effective ESG communication to the financial market benefits from the following:

- Leadership of the CEO and/or CFO and the investor relations functions of a company working closely together with the corporate social responsibility officers;
- Integration and contextualization of a company’s ESG efforts within their corporate strategy and vision;
- A well-structured and recognizable communication format, such as a financial earnings call, that enhances top management’s involvement and strengthens the case for efficient and effective investor communication.

The Value Driver Framework offers a useful tool for companies to structure and communicate their ESG activities, while linking them to financial value. Companies have expressed that the ESG Investor Briefing is a helpful catalyst for incorporating ESG information into investor communication, fosters internal cooperation between departments, and provides an effective and efficient platform to a large group of investors.

Effective ESG communication benefits from a culture of leadership, innovation and collaboration both at companies and financial institutions; therefore, we invite all companies to consider using the ESG Investor Briefing Project to construct their own ESG communication method internally and with investors.

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<sup>1</sup> While companies may use the term ‘sustainability’ and investors ‘ESG’, for the purposes of this report the phrases will be used interchangeably.

## 2. Introduction

Based on consultations with the Principles for Responsible Investment (PRI) signatories and UN Global Compact LEAD companies, the ESG Investor Briefing Project was created to improve the communication of environmental, social, and governance (ESG) value drivers beyond written communication. The goal of the ESG Investor Briefing Project is to develop and refine content and process innovation around the communication of ESG value drivers at the company-investor interface. With regards to process, looking at who is involved and how communication is delivered both internally and externally and content exploring how material ESG issues can be linked to financial value.

The project builds on the findings and recommendations of numerous studies from leading organizations and strives to put them into practice through the ESG Investor Briefings. In particular, the [Who Cares Wins Initiative: 2004-2008](#), launched by the UN Global Compact and aimed to better embed ESG issues in financial markets. As well as the 2010 joint UNEP-FI and WBCSD report, [Translating environmental, social and governance factors into sustainable business value](#), which summarizes key ESG insights from an international series of workshops with companies and investors. Key factors identified in these earlier projects include:

- **The ESG-financial materiality nexus is evolving.** Participating companies and financial institutions in the workshops agreed that ESG factors are now at the core of business. However, the depth and breadth of ESG factors are not fully valued by investors and company management.
- **Companies and investors do not agree on which ESG factors are material.** The workshops revealed that misconceptions exist between companies and investors on ESG factors and their financial materiality. Companies found that they have unique expertise on how and why ESG factors are material and core to their business. Investors generally find the information contained in sustainability reports difficult to use for the purpose of valuing a company.
- **Communication needs to be in relative and comparable language.** Where companies and investors are able to agree on a material ESG factor, the management of that factor is often not explained by companies in comparable terms. Financial language, for example, is a comparative language. Company sustainability managers and investor relations managers also do not use the same vernacular and there is little incentive to bridge the gap.

At the Briefing Project's start in January 2012, four key objectives for corporations and investors were identified:

- Develop a platform for sustainability communication beyond written reporting that is backed by two leading global organizations in the field (UN Global Compact and UN-backed PRI);
- Provide a unique format to leading companies and investors to learn from each other and provide detailed and frank feedback concerning the effectiveness of investor communication;
- Promote a communication format to foster cooperation between CEO/CFO, Investor Relations and CSR teams, as well as between ESG specialists and financial analysts;
- Foster a “laboratory” environment for innovation in ESG communication with regards to content and process.

As a first step, the project team developed an ESG Value Driver Framework (see section 3.2 of this report) to assist companies in identifying and communicating the financial relevance of their ESG strategies and performance. The ESG Value Driver Framework is based on previous work done by the Boston College Center<sup>2</sup> and the Corporate Executive Board<sup>3</sup>, and adapted by McKinsey Corporation.<sup>4</sup> The team also developed a series of recommendations on content and format for communication with investors, which could be tested by the companies piloting ‘ESG Investor Briefings’, in the form of a company presentation to global investors, followed by an interactive company – investor discussion through a webinar hosted by the Global Compact and PRI. The goal was to learn from the Briefings, to collect practical corporate ESG value driver examples embedded into corporate strategy, and to understand companies’ experience in using the common framework.

Following the creation of the ESG Value Driver Framework, SAP and Enel hosted the first two ESG Investor Briefings in 2012. Both companies provided information on how they prepared for the calls and participating investors contributed detailed feedback on their impressions and recommendations for further improving the effectiveness and financial relevance of the calls.

In parallel to the ESG Investor Briefings, a number of interviews with investment experts<sup>5</sup> were conducted in order to substantiate the observations and lessons learned and gather views from experts with ESG and investment expertise.

A substantial part of this report is also based on literature reviews from business consultancies, think tanks, finance studies, and academia. It focuses on a range of aspects, such as changing organizational and leadership roles, communication, and challenges to improve company-investor communication with respect to ESG value drivers.

This report serves as a reflection point for the project, to share information obtained on the project’s process and content aspects, and to encourage additional companies to continue to improve their communication of ESG value drivers with the financial community.

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<sup>2</sup> 2010, Boston College Center for Corporate Citizenship, How Virtue Creates Value for Business and Society Investigating the value of environmental, social and governance activities.

<sup>3</sup> 2009, Corporate Executive Board, The Role of IROs in CSR and Sustainability, Targeting and Opening a Dialogue with Social Responsibility Investors.

<sup>4</sup> 2012, McKinsey Global Survey Results, The Business of Sustainability, online survey conducted in July 2011, 3203 executives representing the full range of regions, industries, tenures, company sizes, and functional specialties.

<sup>5</sup> The outlines of the expert interviews can be found in the Annex.

### 3. Communicating financially material information

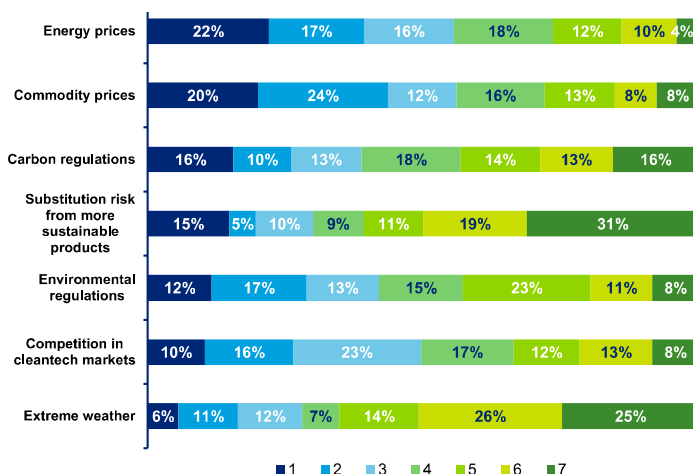
In this chapter, we focus on the content of the message and the importance of linking ESG efforts with business strategy. The next chapter will explore the process for effectively communicating with investors on ESG strategies and performance.

#### 3.1 Status Quo and Current Initiatives

Several recent studies show an increasing awareness among top management of the link between financial value creation and ESG topics. Leading empirical studies, such as those reviewed in the [2012 Deutsche Bank](#) report that examined more than 100 academic studies of sustainable investing around the world, also support this strategic view of ESG relevance to companies' management and investors.

While there is fast-growing acceptance of the strategic and financially material nature of ESG topics, it often remains unclear which aspects of ESG are important to corporate managers and to investors. The ESG Investor Briefings aim to provide more clarity on this issue and to show how their findings are augmented by current research. For instance, a recent study from Deloitte<sup>6</sup> highlights the ESG risks flagged by CFOs.

The 2012 Deloitte CFO interviews focused on the CFO's role with respect to ESG. The CFOs revealed the most important ESG risk aspects relevant to their companies and investors. The following chart provides an overview of what CFOs identified as significant risks to their firm's financial performance over the next two years. Twenty two percent of the CFOs interviewed consider energy prices to be the most important risk to financial performance; whereas twenty percent of CFOs considered commodity prices to be the most significant risk to financial performance in the short-term.



Rank 1 to 7 with 1 being most significant

Source: 2012, Deloitte CFO interviews, Sustainability: CFO's are coming to the table.

Both studies show that companies' CEOs and CFOs are developing an understanding of necessary ESG actions and risk management strategies. However, there is a clear gap between the top management understanding of ESG actions and risks and their respective communication toward investors. There is still no common understanding of financially material ESG topics between investors and managers. This view is also confirmed by the international company-investor workshop series led by UNEP FI and WBCSD, discussed in the introduction.

<sup>6</sup> 2012, Deloitte, Sustainability: CFO's are coming to the table, 250 corporate CFO interviews of companies with average annual revenues of USD 12 bn, interviews conducted in 14 countries and 15 different industries.

To rectify this gap, a number of corporate, investor, academic and non-governmental initiatives are seeking to develop material and comparable ESG metrics as a basis to shape material ESG communication with investors. The [Global Reporting Initiative](#) (GRI), [International Integrated Reporting Council](#) (IIRC), Project Delphi and [Sustainability Accounting Standards Board \(SASB\)](#) are some of the initiatives with the potential to make a significant impact on investor-company communication of ESG issues.

The UN Global Compact promotes corporate communication on strategies, policies and procedures that allow stakeholders to assess whether a company is positioned to perform well in the future. The PRI's goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decisions and ownership practices. The ESG Investor Briefing Project is designed to complement the efforts of the Global Compact, PRI and the aforementioned initiatives by providing a tool for companies to identify and communicate the ESG factors that drive value within their company. The project also assists companies in their communication of material ESG factors to investors and facilitates direct feedback from interested investors.



### 3.2 The ESG Value Driver Framework: Shaping the Message

The ESG Value Driver Framework was developed as a practical tool to help companies link corporate value drivers with specific ESG issues and ultimately hold an ESG Investor Briefing. The three financial value drivers - Growth, Return on Capital, and Risk Management -are aligned with current standard investment terminology and related valuation model inputs. The framework is a means to structure and shape investor communication and to connect ESG topics with financial drivers and terminology. Each company is encouraged to decide which value drivers to emphasize, convey a mix of quantitative and qualitative information and present its investment case buttressed by recent or planned sustainability initiatives, products or services and their relation to financial value drivers. Investors seek a clear and concise message as to why the integration of ESG into the corporate strategy makes business sense.

Growth	New Markets & Geographies	Gain access to new markets and geographies through exposure from ESG programs
	New Customers & Market Share	Use ESG programs to engage customers and build knowledge of expectations and behaviour
	Product & Services Innovation	Develop cutting-edge technology and innovative products and services for unmet social or environmental needs
	Long-term strategy	Develop long-term strategy encompassing all ESG issues and shape material ESG communication based on value driver framework
Return on Capital	Operational Efficiency	Enable bottom line cost savings through environmental operations and practices (e.g. energy, water, waste efficiency, less raw materials used)
	Human Capital Management	Attract & retain better and highly motivated employees by positioning company and management as ESG leaders
	Reputation Pricing Power	Develop brand loyalty and reputation through ESG efforts that garners customers' willingness to pay price increase or premium
Risk Management	Operational & Regulatory Risk	Mitigate risks by complying with regulatory requirements and industry standards and ensure uninterrupted operations by addressing ESG issues in policies, systems and standards and engaging with employees
	Reputational Risk	Facilitate uninterrupted operations and entry in new markets using local ESG efforts and community dialogue to engage citizens and reduce local resistance; avoid negative media publicity and NGO boycotts by addressing ESG issues
	Supply Chain Risk	Secure consistent and long-term access to high-quality raw materials and products by engaging in supply chain community welfare and development
	Leadership & Adaptability	Develop leadership skills and culture to adapt to fast changing political, social and environmental situations

Source: Value Driver Framework developed by project team

### **3.3 Lessons learned from pilot ESG Investor Briefings**

The following evaluation of content aspects derives from the ESG IB sessions, feedback from investors, debriefing calls with presenting companies, discussions with UN Global Compact companies looking into hosting a Briefing, and the project team. The main lessons learned include:

#### **ESG Value Driver Framework helps to structure communication on ESG activities**

The ESG Value Driver Framework helps companies select value drivers and relate specific ESG initiatives to them (e.g., Enel is building up electricity infrastructure in poor regions, which contributes to their development and, in turn, to Enel's own growth). The Framework gives companies a helpful tool to structure the communication of their ESG activities.

#### **Context of ESG efforts and performance needs improvement**

Though financial figures are contextualized according to analyst expectations, company guidance and peer comparison, this approach is often missing from ESG issue communication and underlying metrics. For example, companies often do not relate non-financial information to industry/peer averages, e.g., CO2 intensity of their operations, even when data is publicly available.

#### **Communicating the underlying ESG investment case is challenging**

Companies can easily communicate their sustainability actions, but explaining the rationale behind these actions is often challenging. While some specialist ESG investors are very interested in specific ESG issues, the majority of investors want to understand the rationale behind company sustainability priorities and learn about the underlying ESG investment case and the link to financial value.

#### **Examples are helpful, particularly when combined with financial data**

Investors appreciate when companies provide useful product and service examples that yield beneficial ESG impacts and cost savings (e.g., SAP's clean tech client solutions in energy management provide USD 200 million in client cost savings).

#### **Highlight the strategic ESG accountability and responsibilities**

Despite the importance of clear accountability in organizations, some companies do not clearly communicate their ESG governance framework and the underlying responsibilities and processes to investors. It remains unclear who drives the ESG strategy and the related initiatives. Companies should direct mainstream investor attention to ESG value drivers by highlighting its strategic nature based on a transparent governance and accountability framework.

#### **Quantitative ESG metrics need to be tracked**

Most ESG metrics, tracked over time, are communicated on environmental aspects (e.g., CO2 consumption, water usage, and waste). This data is used to illustrate company objectives and to communicate progress. Quantifiable metrics yielding such useful data are often not made as available for social and governance issues.

## 4. Developing Effective Communication Channels

The project aims to encourage content (what is communicated) and process (format, procedure, channel, etc.) innovation in the area of ESG communication between companies and investors. This chapter explores the communication process and analyses the following questions:

- What are effective ESG communication channels and formats for investors and corporations?
- Which actors need to be involved in order to transmit valuable ESG information from corporations to investors?

### 4.1 Learning from current ESG communication approaches

Increasingly, investors access and use multiple information sources to make investment decisions. Also, critical stakeholders, such as NGOs and consumer organizations, increasingly reveal corporate achievements and misbehaviors; a large stakeholder audience potentially has access to both negative and positive corporate information via Twitter, web forums, and other new communication channels. However, investors are in an optimal position since information is available almost in real-time at very low or no cost. Nonetheless, investors risk drowning in a flood of information. While investors may find an abundance of information from certain companies, corporate disclosure varies significantly across sectors, which can make it difficult for investors to consistently integrate ESG analysis into their investment portfolios. To address these various challenges, there is an opportunity for companies to take a leading role in providing consistent, quality ESG information to investors.

#### Effective ESG communication channels

The 2010 McKinsey Global Survey reveals how companies manage sustainability. The chart below provides an overview of how proactive companies (sustainability leaders) differentiate themselves in terms of sustainability communication. Not surprisingly, there is a strong bias toward higher engagement and the use of different sustainability communication channels among sustainability leaders compared to the rest. The sustainability leaders use multiple channels, such as annual and sustainability reporting, websites, presentations and road shows.

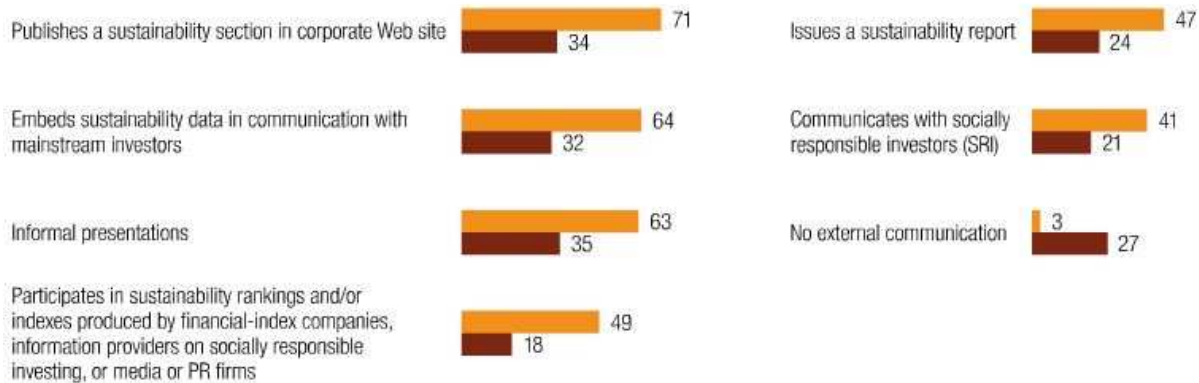
According to the survey, companies are defined as “proactive” with regards to sustainability if corporate executives state the following: that sustainability is a top-three priority in their CEOs’ agendas; that sustainability is formally embedded in their business practices; and that their companies are “extremely” or “very” effective at managing their sustainability efforts. These companies are more likely to gain value in the form of reputation building, cost savings and growth opportunities.

% of respondents<sup>1</sup>

Proactive companies,<sup>2</sup> n = 107

Other, n = 1,498

### Ways in which companies communicate engagement in sustainability activities to external audiences



<sup>1</sup> Excludes energy executives; respondents who answered "other" or "don't know" are not shown.

<sup>2</sup> Companies where executives say sustainability is a top-3 priority in their CEOs' agendas, formally embedded in business practices, and their companies are "extremely/very effective" at managing it.

Source: 2010, McKinsey Global Survey Results, How Companies manages Sustainability

In partnership with [www.sri-connect.com](http://www.sri-connect.com), Thomson Reuters Extel conducted the first independent research survey (IRRI) of investment professionals in 2012.<sup>7</sup> Its objective is to rank asset managers, sell-side research houses, ESG rating providers and companies with respect to their ESG credentials. The SustainAbility and GlobeScan yearly Sustainability Leaders survey<sup>8</sup> also aims to identify the most credible multinational companies in the field of corporate sustainability and the drivers behind their ranking.

Three companies—Unilever, Marks & Spencer and Novo Nordisk— achieved top ten ranks in both surveys. A common factor identified among these three companies is that they are simultaneously able to credibly and clearly communicate their corporate ESG performance to investment professionals (IRRI survey) and a broader set of stakeholders (SustainAbility/GlobeScan survey). The SustainAbility/GlobeScan report defines the term 'Sustainability Leadership Triangle' to reflect how companies can approach and demonstrate their commitment to sustainability. This is the combination of clear vision and strategy linked to tangible performance and results integration and strong engagement and communication efforts.

### Emerging ESG communication channels, formats and actors

The role and nature of company-investor communication has greatly changed over the past years from a corporate and investor perspective. Companies need to manage investor communication differently, taking into account the following points:

- New information channels, including social media;
- Increasing variety of information sources, including NGOs;
- Rising awareness of institutional investors;
- ESG topics gaining in importance with a potential impact on company valuation;

<sup>7</sup> 2012, Independent Research in Responsible Investment Survey (IRRI 2012), 239 votes from 139 different firms in 17 countries, investment professionals along the SRI investment value chain

<sup>8</sup> 2012, SustainAbility/GlobeScan Sustainability Leaders Survey, 825 qualified sustainability experts (corporate, government, non-governmental, academic/research, service/media, and other organizations) respondents) in 76 countries

- Emerging interaction formats such as reverse road shows (i.e., selected investor group meets corporate management on-site) and topical panel discussion (i.e., in-depth investor education on strategic topics).

The landscape for credible and consistent company-investor communication has become more complex. Ten years ago, sell-side analysts in large brokerage firms were the gatekeepers of corporate information and analysis for the large majority of investors represented by buy-side analysts and portfolio managers working for asset managers. Brokers maintained their key role in the interaction between company representatives and asset managers. They have built strong corporate relationships over time on one end, and have maintained strong client relationships with asset managers on the other. However, access to corporate information has now become easily available to investors due to improved corporate reporting, independent industry expert services, rating and research providers, online discussion forums, social media, and NGOs, etc.

Within companies, responsibility for sustainability is also evolving. According to the 2012 Deloitte sustainability study, looking at the role of CFOs in the sustainability agenda, two-thirds (66%) of CFOs reported they were “always” or “frequently” involved in driving execution of sustainability strategy in their organizations. More than half (53%) said their involvement had increased over the last year. More than three-fifths (61%) said they expected their involvement to increase over the next two years. Additionally, 49% of CFOs saw a significant link between sustainability performance and financial performance.

### **Shift in ESG Company-Investor Communication**

Aspect	Standard Approach	Leaders' Approach
Communication flow	One-way from company to analysts	Two-way dialogue
Corporate interlocutors	Investor Relations with CEO/CFO/Board access for large investors	Close cooperation of CEO/CFO, board member, IR and Head CSR
Format of interaction	Focus on earnings call and subsequent road show, traditional investor conference	Wide spectrum of formats: earnings call, road show, reverse road show, panel discussion, webinars, in-depth topic days (e.g., water, resources)
Content	Financial results review	Financial results linked to ESG value drivers
Involved investment professionals	Sell-side analyst, buy-side analyst/portfolio manager	Buy-side analyst/portfolio manager, sell-side analyst, ESG rating analyst, NGO specialists

Source: Table developed by project team

Based on the sources explored, proactive companies accomplish the following: communicate to all participants in the investment system (e.g., regulators, asset managers, and rating agencies); use a broad mix of communication channels; showcase how their ESG performance is embedded in the corporate strategy and vision; and incorporate additional investment system actors, such as ESG rating analysts and NGOs, into the investor engagement strategy. It is also key that management with investor exposure is educated on ESG issues and their financial linkages, often through internal or external education workshops.

## 4.2 ESG Value Driver Framework: Innovating the Process

To enhance the process of investor communication on ESG issues beyond written communication, the format needs to be clearly structured to provide an efficient and effective platform to presenting companies and the investor audience. Using the familiar structure of a quarterly earnings call, the ESG Value Driver Framework guides companies on how to communicate financial value to investors via ESG information. The ESG Investor Briefings then provide an opportunity for companies to further the internal communication process on ESG, as well as test the presentation of content (as discussed in a previous chapter).

An integrated communication approach with respect to financial and ESG performance was a key element of the planned ESG Investor Briefings. One of the main format objectives was the internal collaboration between the CFO, the Head IR, and the Head CSR in the preparation and presentation stage of the ESG Investor Briefing. This objective not only fosters internal collaboration between different corporate departments, but also garners top management commitment and contribution to integrating ESG information into appropriate communication channels.

The guidelines below are set out in the ESG Value Driver Framework for companies participating in the ESG Investor Briefings:

- CEO, CFO or board member participate in the call to emphasize the strategic nature of sustainability commitment;
- Head of Sustainability/CSR and Investor Relations actively participates in the preparation of the call;
- Head of Sustainability/CSR and Investor Relations presents during the call;
- Duration of the call is 60 minutes maximum and 50% of the time is reserved for questions and answers, for close alignment with commonly recognized investor earnings calls.

The ESG Investor Briefings are accessible and open to all interested investors in order to provide equal information to all shareholders. The Briefings are announced on the PRI and UN Global Compact websites as well as other platforms (e.g., [www.responsible-investor.com](http://www.responsible-investor.com) and [www.sri-connect.com](http://www.sri-connect.com)) in order to provide access to a larger investor audience beyond core PRI members. Presenting companies are also encouraged to post information on their own website and share directly with their shareholders. This project uses a webinar format, but the concept could easily apply to road shows and other company-investor meetings.

## 4.3 Lessons learned from pilot ESG Investor Briefings

The following evaluation of format aspects is derived from the ESG IB sessions, written participant surveys, debriefing calls with presenting companies, and the project team's observations over the course of this project. The main lessons learned include:

### **Strong and helpful trigger to foster internal cooperation**

Companies used the ESG Investor Briefing as an opportunity to bring together professionals from different departments that may not have worked together, including investor relations, corporate sustainability officers and Chief Financial Officers. The companies considered the ESG Investor Briefing an important trigger event to move towards integrated ESG communication.

**Strong ESG IB interest of diverse group of investment actors**

The initial interest has been high, usually exceeding 40 registered participants.

**Corporate unfamiliarity with new ESG communication process**

While companies displayed a genuine interest in presenting their ESG business case, recruitment time took longer than initially anticipated. Reasons identified for this include time restrictions, competing priorities, and limited experiences to draw from. For many companies, the IR team and CFO were not typically involved in ESG communication and so companies were apprehensive to test this in a live webinar presentation to investors.

**Challenge to get commitment and involvement of top management**

Despite the strong corporate efforts with respect to corporate social responsibility/sustainability, it often proved difficult to encourage the Chief Financial Officer (CFO) or the Chief Executive Officer (CEO) to be involved in the ESG Investor Briefing. In addition to scheduling obstacles, the silos between Corporate Responsibility, Investor Relations and Finance departments proved challenging and time-consuming. During several preparatory ESG IB discussions, it became evident that the cooperation triangle between CFO, Head IR, and Head CSR has yet to be established in many companies.

**Investor community's focus on ESG is diverse**

The briefings conducted so far have attracted a diverse range of participants including ESG specialists from rating agencies, engagement analysts, mainstream buy-side analysts, and corporate representatives from peers. During the Q&A, participants' main area of interest was seen. Some participants focused on specific ESG issues (e.g., operation improvements) whereas others wanted to learn more about quantitative KPIs and how companies monitor their progress with respect to ESG strategy implementation.

**Companies appreciate a well-structured format**

During debriefing sessions, presenting companies expressed an appreciation for the clear structure of the ESG Investor Briefings as it helped them to prepare and anticipate investor interest and questions. The proposed Value Driver Framework was perceived as a helpful tool to structure the companies' communication messages. The clear separation between presentation and the Q&A session was also positively perceived. While this aspect is obvious and standard practice for financial communication, it has not been rigorously applied to ESG investor communication. A clear and recognizable format is important to gain acceptance and trust among top management and mainstream investors.

## 5. Evolving Leadership Roles

Leadership roles within companies are evolving. Here we highlight important characteristics of corporate leaders, how this evolution improves communication on ESG value drivers, and what companies can abstract from these insights.

### Investor Relations (IR)

IR professionals face numerous challenges in integrating ESG issues into communication, including:

- Sustainability information can be highly technical (e.g., environmental emissions) or qualitative (e.g., human capital information);
- Silos between various departments (corporate communications, CSR, IR, or other business units) generate differences in priorities and language;
- Sustainability experts may have difficulty demonstrating the immediate financial impact of sustainability programs;
- Accounting for sustainability costs and benefits may not fit into standard financial reporting processes;
- The finance group may not be convinced of the value added from sustainability activities, and as a result show a reluctance to help quantify them<sup>9</sup>.

Consideration of ESG issues enhances the overall quality of financial communications and these challenges should be addressed as opportunities.

### IR: Looking Forward

IR professionals should take financial and ESG information into account to ensure that they cater to the information needs of capital market participants. A trend among many leading companies is to expand the activity of IR departments beyond traditional financial reporting. ESG-specific training for IR departments can further strengthen the quality of communication with investors. Lastly, the IR department should work across departments, such as sustainability and accounting, to get a better understanding of ESG issues and how they are relevant to a company's financial value.

### Chief Financial Officer (CFO)

There is growing academic evidence that firms with high ESG ratings have lower cost of capital and generally better and faster access to capital.<sup>10</sup> This development also implies that the role of CFO is substantially changing with the incorporation of ESG aspects into financial analysis. According to research by Ernst & Young, CFOs and other market-facing executives will need to become more familiar with their companies' most vital ESG issues. They will also need to prepare for hard questions from stakeholders, including shareholders, and demonstrate a heightened commitment to ESG performance. These trends are changing the CFO's role in three critical areas: investor relations, external reporting and assurance, and risk management. As analysts and ratings agencies incorporate sustainability performance into their research, CFOs will need to help communicate a robust sustainability strategy—one that is embedded in a financial framework. Inevitably, this need will expand both CFOs' responsibilities and their workloads.<sup>11</sup>

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<sup>9</sup> 2009, The Corporate Executive Board Company, Role of IRO's in CSR and Sustainability

<sup>10</sup> 2012, Deutsche Bank, Sustainable Investing, Establishing Long-Term Value and Performance

<sup>11</sup> 2011, Ernst & Young, How sustainability has expanded the CFO's role



## **CFO: Looking Forward**

Moving forward, companies would benefit from CFOs taking a principal role in the following initiatives:

- Educating and influencing capital market participants (e.g., sell-side analysts, credit analysts, buy-side analysts, and ESG specialists) with respect to material ESG issues and value creation.
- Apply a financial mindset and terminology to link sustainability to business performance. CFOs and the finance function have unique skills and knowledge that can help define the business case for sustainability strategies and strategic – rather than strictly tactical - initiatives.
- Use the right metrics in a consistent and comparable way. Correspondingly, integrate metrics with business planning and reporting. Finance professionals can identify value drivers within a business and maintain focus on the right set of metrics. They are also best placed to incorporate meaningful sustainability metrics into business planning and reporting processes.
- Improve the process of data collection, analysis and reporting. Finance professionals bring the rigor and discipline used in accounting to the collection, analysis and reporting of sustainability data. They must work closely with sustainability professionals to understand what information needs to be captured and how it is to be used.

## **Corporate Sustainability Officer**

In a recent draft paper, the Global Association of Corporate Sustainability Officers (GACSO) recognized the need for a defined skills and competence set for Corporate Sustainability Officers in order to meet the demands of this evolving and challenging role.<sup>12</sup> There is a great deal of diversity in the role of a corporate sustainability professional and in the background and skills of the people who fulfill that role. This is illustrated by the findings of an informal survey of GACSO members: some have broad corporate experience, others are sustainability specialists, and several have backgrounds in the NGO sector.

Responsibility also varies greatly within the role. Some sustainability professionals have no budget while others manage a substantial budget. Some are Board Directors; others have three reporting layers between themselves and the Board. Consensus about what the sustainability role involves and what makes a good corporate sustainability professional, plus a clearly defined skill set, foment effective recruitment and the development of compelling career paths in this field.

## **Corporate Sustainability Officer: Looking Forward**

Moving forward, companies would benefit from Corporate Sustainability Officers taking a principal role in the following initiatives:

- Develop a clearly defined skills and competence set for CSR officers since they will be in a strategic position at the interface with investors and other internal and external stakeholders. CSR officers are in an advantageous position if they have multi-year core business experience inside the company, a strong network, and full support of and access to the Board of Directors.
- While it is important to have a role dedicated to CSR, it is essential that this role interacts regularly with IR and other strategic departments, in order to align the ESG communication for all stakeholders, including shareholders.

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<sup>12</sup> 2011, GACSO, Defining and developing the corporate sustainability professional – the practitioners' view

- Ensure that Head CSR has the same reporting line, corporate function and access to top management (CEO/CFO) and/or Board of Directors as Head IR and Head Communications, in order to strategically manage ESG issues as part of the overall strategy.
- Train the Head CSR on how to tackle, intra-company challenges, such as defining the ‘sustainability business case’, sharing technical knowledge, piloting integrated reporting, etc.

## **6. Recommendations for Companies**

If companies are to enhance their communication of material ESG information, it is important to integrate these factors into their communication with both colleagues and investors. Companies may also consider more dedicated communication with investors that goes into greater detail on their ESG strategies and performance. The ESG Investor Briefing Project aims to provide a framework for companies to communicate in either scenario. Building upon the information compiled, we have introduced a broad range of recommendations for companies to consider.

### **Define top-management responsibilities for strategic ESG Communication**

Integrating ESG and financial communication for investors requires high intra-company coordination efforts, a culture of cooperation, and the appropriate incentive structure for collaboration. Additionally, the responsibilities and processes between CEO or CFO, Head IR, Head CSR and Head Communications need be clearly specified and defined. The CEO or CFO’s involvement and commitment is critical to demonstrate the strategic importance of ESG value driver communication. Top management leadership will raise mainstream investor attention to long-term value drivers beyond short-term financial data.

### **Define appropriate and dedicated communication formats for:**

- **ESG research providers/rating agencies**  
ESG specialists work for dedicated ESG data/rating providers and often do not have specific responsibility for investment analysis or fund management. They tend to ask for in-depth information that a specific ESG webinar format, like the ESG Investor Briefing, has the potential to provide. This communication format is particularly efficient and effective if it addresses the needs of several ESG specialists from different ESG rating agencies. Generally, the Head CSR is best suited to take over this communication role, with support from the Head IR, due to the person’s in-depth ESG knowledge.
- **ESG specialists within investment houses**  
ESG specialists within investment houses fulfil the role of ESG coordinators for their organization. ESG investment generalists often do not have responsibility for traditional investment analysis or fund management. Their role is to provide advice to investment decision-makers (portfolio managers or financial analysts) and they are interested in the financial implications of the company’s ESG activities. They may also be interested in ESG issues for engagement purposes. The Head CSR and Head IR could jointly address the needs of the ESG generalists in a format like the ESG Investor Briefing.
- **Mainstream investment professionals with an interest in ESG**  
A growing number of mainstream investment professionals — i.e., portfolio managers and analysts whose portfolios, investment strategies or products are not labeled as ‘ESG’ are working to integrate ESG learning into the investment decision-making process. They ask for financially relevant and quantifiable ESG information that can be used for valuation purposes. Very often

this type of investment actor will ask for CFO/CEO meetings supported by the Head IR. In most cases, sell-side brokers take over the agent role and organize appropriate formats.

### **Educate corporate top and middle management with investor exposure on ESG issues**

When investors become more aware of ESG risks and opportunities, companies will have to address a larger variety of questions on ESG related aspects. More corporate managers and thematic experts will need to be involved with sophisticated investor interaction. Corporate ESG education will become a critical success factor in order to communicate clear and consistent messages with one voice. Strategic and simple communication messages, internal communication training, and regular exchange between external investment professionals will help to develop a 'one voice' communication culture.

### **Develop an executive summary of your ESG investment case**

Every corporate manager who has interaction with different types of investment actors should be trained and educated in strategic ESG communication. They need to be able to communicate the rationale for corporate ESG efforts, their value creation potential, and the key messages. Investors also want to understand the context and the link between ESG and financial performance.

### **Present corporate strategy and connect it to ESG priorities**

Investors want to understand how ESG priorities have been developed and how they relate to the overall corporate strategy. For example, SAP's strategic ESG pillars (customer solutions with a focus on reducing costs and consumption, CSR operations with a focus on risk management and costs, and social innovation) are closely connected with their overall corporate strategy.

### **Speak the language of your investors**

Investors are particularly interested in how ESG issues can be translated into financial risk or opportunity, which also avoids the pitfall of sounding too promotional with investors. For example, the financial impact of emission reduction can be translated into cost reduction.

### **Contextualize ESG efforts and performance with industry peers**

A diverse audience of investment actors benefits from contextualization of corporate ESG efforts with industry best practices and peer averages. Investors cannot judge ESG performance without reference points in relative and absolute terms. Most investors are generalists with respect to ESG issues and they appreciate guidance.

### **Address specific questions**

Investors suggest minimizing the number of questions postponed to a follow-up call, as it is difficult to attend more than one call. They emphasize how crucial it is to respond immediately to questions regarding specific examples of ESG management. A willingness to discuss specific case studies reveals a consistent and robust implementation of policies, as well as a commitment to transparency.

### **Involve the Board of Directors in strategic ESG communication**

Large strategic investors increasingly call for access to board members, in particular with respect to governance (e.g., executive pay) and risk issues (e.g., supply chain). Companies should be prepared for this development and define appropriate responsibilities, processes and communication messages.

## 7. Conclusions and Outlook

The consideration of environmental, social and governance (ESG) aspects in the management of companies contributes to value creation, whether through revenue growth, improved return on capital, or better risk management. Companies have started to develop sustainability strategies in a clear, structured and rigorous way. However, more efforts must be leveraged to uncover and communicate the business value from sustainability. Sustainability should be linked explicitly to business performance to maximize value creation and preservation. The identification of clear business drivers and meaningful outcomes relating to the value of sustainability can be communicated as proposed by the ESG Value Driver Framework developed by PRI and the UN Global Compact.

Thanks to strong corporate efforts over the past ten years, the communication of financially relevant, contextualized and consistent ESG value drivers and underlying measurable ESG metrics to investors is now in its early stages. Companies are striving to strengthen their ESG performance and the related value creation in order to present the business case to both internal decision-makers and external stakeholders, including shareholders. Correspondingly, companies need investors to ask questions on material ESG factors during traditional investor dialogues to help emphasize the necessity of ESG information.

The articulation of an investment case determined by long-term ESG value drivers is particularly challenging for corporate management, as demonstrated in practical ESG Investor Briefings and supporting studies. This can largely be attributed to a historical lack of cooperation and a gap between finance, investor relations, and corporate sustainability departments. Today the gap within companies manifests itself in the form of different terminology, mind-set and time horizon.

The challenge of financial terminology came up as a key obstacle during interviews with investment experts and in dialogue with companies. They suggest companies need to further align and adapt their terminology on ESG topics to the well-established financial terminology in order to increase mainstream investor interest and obtain internal top management commitment. The proposed ESG Investor Briefing is one opportunity to drive internal learning and establish a common language adopted by all corporate managers.

Through strong top management commitment and involvement, leading companies ensure that consistent and relevant investor communication is linked to long-term ESG value drivers and that all financial-market-facing corporate executives convey such messages, in particular the CFO, the Head Investor Relations, and the Head CSR.

Today's wide spectrum of communication formats and channels (e.g., road shows, meetings, webinars, social media, expert conferences, etc.) offers companies ample opportunities to transform their communication into a two-way investor dialogue backed by authenticity, openness, and transparency. Companies that aspire to move beyond the standard communication approach know their investors and ESG priorities, track their corporate investor activities, try out new investor communication formats such as the ESG Investor Briefing, and address investor concerns. Looking forward, companies will need to prioritize, manage and plan to align and integrate their communication on ESG value drivers into traditional financial communication.

A number of voluntary and strategic communication and reporting initiatives (e.g., IIRC, Delphi, and SASB) are underway to standardize industry-specific ESG value drivers and metrics and to better connect financial information with ESG data. Companies stand to benefit from such initiatives by focusing on

less numerous but more material issues, and mainstream investors will receive improved information on strategic long-term value drivers. Companies and investors participating in the development of such initiatives will stay on top of the evolving agenda and drive incremental progress inside their companies.

Over the coming years, more innovative and cooperative work by leading companies and investors is necessary to bridge the gaps and silos within companies - and among companies and investors - when communicating long-term ESG value drivers.

## **8. Annex**

### **Annex I: ESG Investor Briefings**

The first ESG Investor Briefing was held on 30 July 2012 with SAP.

Peter Graf, Chief Sustainability Officer and Executive Vice President of Sustainability Solutions, and Stephan Foerster, Director of Investor Relations, presented the company's ESG value drivers using the ESG Value Driver Framework developed in collaboration with Global Compact LEAD companies and PRI investors.

Around 40 asset managers and pension funds, mainly from the United States and Europe, participated in the first ESG Investor Briefing.

SAP is a Germany-based world leader in enterprise applications in terms of software and software-related service revenue. SAP employs about 56,000 employees worldwide.

The second ESG Investor Briefing was held on 24 October 2012 with Enel.

During the 1-hour webcast conference call, Mr. Luigi Ferraris, CFO of Enel Group, Mr. Luca Torchia, Head of Investor Relations, and Ms. Marina Migliorato, Head of CSR, presented their company's ESG value drivers.

Around 35 asset managers and pension funds, mainly from the United States and Europe, participated in the second ESG Investor Briefing.

Based in Italy, Enel is one of the largest electric utility companies in Europe. Enel employs about 75,000 employees worldwide.

## **Annex II: Interviews with Investment Experts**

Mike Tyrrell, Founder and Editor SRI-Connect, 14 September 2012

- Ideal corporate-investor interaction framework
- Importance of process and format
- Content of messages
- Role and responsibilities of sell-side brokers
- Related communication initiatives and projects
- Relevant literature discussion

Raj Thamotheram, Strategic Adviser, Investing As If The Long-term Matters, 3 October 2012

- ESG communication training
- Effective communication channels
- Key drivers and actors of change
- Best-practice examples
- Barriers and obstacles
- Related initiatives and projects

Chris McKnett / Laura Aarnio, State Street Global Advisors (SSGA), Head of ESG / Senior ESG Analyst, 1 November 2012

- ESG investment approach by SSGA
- Delphi project (investor ESG value drivers framework)
- Change agents for ESG investing
- Feedback PRI/GC Value Driver Framework

Erika Karp, UBS, Head of Global Sector Research, 5 December 2012

- Effective communication channels
- Barriers and obstacles
- Role and responsibilities of change agents
- Status of ESG investing
- Related initiatives and projects

## **Annex III: Literature**

Boston College Center for Corporate Citizenship, How Virtue Creates Value for Business and Society: Investigating the value of environmental, social and governance activities, 2010.

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