Global IR Practice: ESG Communications

*IR Magazine* investigates how IR departments conduct ESG communications through a survey of IR professionals.
There can be no doubt that ESG issues are a growing focus for investors. Global sustainable investment grew by 25 percent between 2014 and 2016 to $22.89 tn, according to the Global Sustainable Investment Alliance in its most recent report. That follows a 65 percent increase between 2012 and 2014. The proportion of SRI assets compared with all managed assets now stands at more than 25 percent, with the figure in Europe more than 50 percent, notes the report.

At the same time, businesses are recognizing the need to better integrate ESG thinking with their strategic objectives. That’s down to a number of factors. Most importantly, ESG issues are more and more central business concerns, such as water scarcity and carbon risk. External pressures also play a role, with regulators around the world focused on enhancing governance standards and a greater emphasis on stakeholder, rather than just shareholder, value.

Amid this changing picture, what role is IR playing? IR teams are certainly aware that ESG-focused investment is growing. But many admit they rarely get questions on environmental, social or governance issues in investor meetings. This report highlights what IR practice looks like today across reporting, targeting and other investor communications. It also reveals what investors are asking companies about and how that conversation is evolving.

The findings are based on a survey of more than 350 IR professionals, conducted between January 2017 and February 2017. Many thanks to everyone who took part in the research.
Key findings

- Globally, a third of respondents say IR leads ESG communications at their company, compared with 40 percent where the sustainability team leads.

- Europe has an above-average proportion of companies where IR owns ESG communications, while there is a clear trend for larger companies to place responsibility with the sustainability team rather than with IR.

- Given a long list of ESG-focused activities, more than a third of companies say they have not done any of them, indicating a passive approach to ESG communications among many issuers.

- In ESG-related activities, companies are most likely to have submitted answers for reports by ESG ratings firms, while only 8 percent have attended an ESG-focused roadshow.

- Targeting of ESG funds is a niche pursuit of investor relations departments. Globally, just one in five respondents say they conduct this activity.

- The main benefits of targeting ESG investors are listed as accessing long-term funds, expanding the shareholder base and finding investors whose goals align with the company’s story.

- The main drawbacks are listed as the small size of the ESG investing world, the difficulty of meeting individual funds’ investment criteria, and the reporting and transparency demands of ESG funds.

- Globally, companies are more likely to receive investor questions on governance than environmental or social policy issues. There are strong regional differences in the kinds of questions issuers receive, however.

- Within governance, the most popular question topic is compensation. Within environmental issues, the most popular topic is carbon footprint/emissions, and within social issues, the most popular topic is labor practices.
Responsibilities and activities

Who has primary responsibility for your company’s ESG communications?

A number of investor relations teams take responsibility for their companies’ ESG communications, but they remain in the minority. Globally, around a third of respondents say the investor relations department has responsibility for ESG communications. That compares with 40 percent of companies that say ownership lies with the sustainability team.

Interestingly, when it comes to size of organization, half of small-cap companies say their IR teams lead ESG communications. One possible explanation for this is that smaller companies are likely to have fewer component parts, including a separate sustainability team. As market cap gets larger, companies are more likely to hand their ESG communications to the sustainability team than to IR.

Geographically, the same proportion of IR teams are responsible for ESG communications in Asia as in North America, at 29 percent. Europe is well ahead of them at 38 percent.

Who has primary responsibility for your company’s ESG communications?

% of respondents

- **Global**
  - 40% Sustainability team
  - 32% IR
  - 17% Corporate/ company secretary
  - 11% Other

- **North America**
  - 33% Sustainability team
  - 15% IR
  - 23% Corporate/ company secretary
  - 29% Other

- **Europe**
  - 42% Sustainability team
  - 10% IR
  - 19% Corporate/ company secretary
  - 38% Other

- **Asia-Pacific**
  - 46% Sustainability team
  - 6% IR
  - 19% Corporate/ company secretary
  - 29% Other

- **Small cap**
  - 14% IR
  - 21% Corporate/ company secretary
  - 15% Sustainability team
  - 50% Other

- **Mid-cap**
  - 22% Corporate/ company secretary
  - 13% IR
  - 34% Sustainability team
  - 31% Other

- **Large cap**
  - 7% IR
  - 14% Corporate/ company secretary
  - 55% Sustainability team
  - 24% Other

- **Mega-cap**
  - 9% Corporate/ company secretary
  - 6% IR
  - 64% Sustainability team
  - 21% Other
What kind of ESG reporting do you conduct?

When it comes to reporting, North America is even further behind. It is a stark finding that 40 percent of North American respondents answer ‘none’ when asked what type of ESG reporting they conduct. This compares with 7 percent of European respondents and 8 percent of respondents in Asia.

Once more, it is small caps that show ESG integration with the broader financial messages, with 58 percent reporting in an integrated annual report – the highest proportion across the cap sizes considered in the research. But many small caps are not making ESG communications a priority, given that around a third say they do not do any reporting in this area. Almost half (46 percent) of European respondents say they produce an integrated annual report, again highlighting the mature nature of ESG communications in the region.
What ESG-related activities have you undertaken over the last 12 months?

Many companies say they do not receive questions on ESG issues, which may account for a lack of ESG-related activity. When presented with a long list of options, a sizable proportion (38 percent) say they have not undertaken any of them.

The most common activity is answering and then checking surveys conducted by ESG ratings firms – clearly many companies view this as a worthwhile or necessary activity. By contrast, ESG roadshows barely register across most regions and cap sizes. The exceptions to this are mega-cap companies, although once again Europe leads North America and Asia.

Have you done any of the following over the last 12 months?

- Had group meetings with ESG analysts
- Attended ESG-focused conference
- Participated in a survey from an ESG ratings agency
- Conducted ESG-focused conference calls
- Checked reports from ESG ratings agency before publication
- Gone on ESG-focused roadshow
- None of these
Targeting ESG investors?

Targeting of ESG funds is a niche pursuit of IR departments. Globally, just over one in five respondents say they conduct this activity. European respondents once again show more interest in ESG matters than their North American peers, although it is Asian respondents who are most likely to go after ESG investment.

From a market cap perspective, there is a clear trend of larger companies more commonly taking part in ESG targeting, a factor likely down to their increased resources and higher profile with the investment community.

As previously noted, larger companies are also more likely to hand the ESG communications lead to a sustainability department, so the fact that larger-company investor relations teams don’t own the communications in this area isn’t stopping them from focusing on ESG funds from a targeting perspective.

What are the benefits of targeting ESG investors?

We asked respondents to explain the benefits of targeting ESG investors. By far the two most popular reasons are that they are potentially long-term holders and offer an opportunity to expand the investor base. Some respondents note that ESG investors can take longer than average to make an investment decision, but that this work pays off in the long term.

Comments

‘We have a great ESG story to tell, which aligns easily’
‘Tend to be more aligned with our core business’
‘Clearly an emerging trend worth monitoring’
‘An increasing number of investors are looking at ESG factors in making their investment decisions’

Some respondents feel investment from ESG funds will help to improve their corporate profile. Others say they do it for more altruistic reasons: to force the company to think hard about these issues and become better as a result.

Comments

‘ESG compliance is seen in a positive light, even with non-ESG-focused funds’
‘Enhances our reputation’
‘To ensure the company is a responsible corporate citizen’
‘To help us become a better company for all stakeholders’

A number of respondents say they target ESG investors because they align with their broader business profile. Some point out that, as their company is well respected on ESG issues, it is almost a no-brainer for them to go after these types of funds. Another popular response is that ESG investing is a growing trend and respondents want to make the most of the opportunity.
ESG discussions

How often have you discussed different ESG topics with investors over the past 12 months?
Across all geographies, ESG issues tend to be discussed most commonly either quarterly or once or twice a year. Of the three component parts of ESG, governance is more likely to come up regularly than environmental policy or social policy issues.

The regional breakdown highlights the different types of conversations investors and companies are having around the world. In North America, 41 percent of respondents have never discussed environmental policy issues with investors, and 46 percent have never discussed social policy issues. That compares with much smaller numbers of respondents who have never discussed these topics in Europe and Asia-Pacific.

The figures for governance are more consistent across the world. But Europe remains at the forefront with 24 percent discussing this issue at least monthly.

How often have you discussed the following with investors over the past 12 months?

Global

- Governance issues: 8%
- Environmental policy issues: 32%
- Social policy issues: 32%

North America

- Governance issues: 10%
- Environmental policy issues: 47%
- Social policy issues: 46%

Europe

- Governance issues: 4%
- Environmental policy issues: 24%
- Social policy issues: 22%

Asia-Pacific

- Governance issues: 11%
- Environmental policy issues: 37%
- Social policy issues: 26%

What are the challenges of targeting ESG investors?

When it comes to the challenges of targeting ESG investors, respondents name three main areas. The first of these is that ESG funds tend to be too small or too small a part of the investment universe to be worth going after.

Comments
- ‘Insignificant in size’
- ‘Often smaller funds’
- ‘ESG is a waste of time, less than 2 percent-3 percent of all assets under management’

The second issue is that the criteria used by these funds are either too exacting or too changeable.

Comments
- ‘Compliance with ESG guidelines, squishiness of rules’
- ‘Investing criteria can be confusing and/or unclear’
- ‘Hard for us to fit in their box’

The third challenge is that pursuing ESG funds requires an onerous level of reporting or handholding.

Comments
- ‘Providing the data that they demand now’
- ‘Alignment and reporting at a smaller company is not always robust enough for sophisticated ESG investors’
- ‘More demanding of disclosure and metrics that are not part of day-to-day focus’

In addition, respondents mention on a number of occasions that ESG investors may not be interested in their sector.

Comments
- ‘Most ESG compliance is not applicable to our industry’
- ‘Funds tend to be anti-coal’

Among the other challenges mentioned, some respondents feel ESG-focused investors are not always understanding enough about how the real world operates, and ask too much of companies.

Comments
- ‘Unrealistic about the real world’
- ‘Too focused on ESG issues where there could be practical challenges’
Have you discussed these issues more or less than in previous years?

Even so, issues of governance, environmental and social policy have increased in prevalence as part of discussions with investors over the last 12 months. This is true of all regions and all sizes of company. Governance as an issue dominates, with Europe yet again leading the way at a 35 percent rise in interest. Globally, governance issues were discussed 28 percent more than in the previous year; in North America, the figure is 24 percent, and in Asia, 23 percent.

These numbers are very similar when applied to the size of the organization until we get to large and mega-caps, with large caps seeing a 33 percent increase in discussions on governance and mega-caps seeing a 45 percent jump.

Was this more, less or the same as in previous years?

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<th>Region</th>
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<td>North America</td>
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What are the most popular specific topics of conversation?

We asked respondents who had discussed ESG issues with investors to name the specific issues they talked about. From those responses, we can see the most popular topics of conversation within each broader ESG area.

**Governance**

For governance, the following topics are the most mentioned globally:

1. Compensation
2. Board structure
3. Succession
4. Board involvement in business
5. Management composition
6. Shareholder views/involvement

It’s no surprise to find compensation and board structure topping the issues discussed within governance. These topics have been high on the agenda for investors for several years now. Notably, succession comes third, highlighting the importance investors are putting on planning for management change.

In North America and Europe, the top four issues are the same as the global findings. In Asia, however, board structure is the top governance issue, followed by compensation, succession and shareholder activities.

**Environmental**

Turning to environmental issues, the top-ranked issues on a global basis are the following:

1. Carbon footprint/emissions
2. Environmental licenses
3. Regulation
4. General environmental policy
5. Water usage

Carbon footprint/emissions has been given notable attention by major index investors recently, with BlackRock and Vanguard speaking out on the need for more climate risk disclosure. A related area, green energy, places just outside the top five in sixth place.

Looking at the results by sector, energy & utilities see the greatest interest in carbon footprint/emissions issues. Half of the comments mentioned by companies in this sector reference climate in some way. By contrast, the most popular topic for consumer companies is water usage, with a quarter of comments focused on this topic.

**Social**

Finally, we look at the comments left about social issues. Here the ranking for the top four on a global basis is as follows:

1. Labor practices
2. Community relations
3. Government relations/taxation/regulation
4. Supply chain issues

Labor practices is touched on by 39 percent of comments while the following three issues feature in about a quarter of comments each. Smaller topics, such as wages and human rights, have been brought together in the larger categories above. From a sector perspective, 19 percent of comments are from consumer discretionary firms and 15 percent from consumer discretionary firms, suggesting these industries receive an above-average number of social issues-related questions from the investment community.
Interviews

Q&A with Abigail Herron, head of responsible investment engagement at Aviva Investors

At Aviva Investors, Abigail Herron leads on ESG engagement and analysis across all asset classes.

What is your role at Aviva Investors?
I spend my days talking to firms we invest in on the full spectrum of ESG topics, from antibiotic resistance to zero-hour contracts. I complement this with public policy advocacy at a UK, EU, OECD and UN level on a spectrum of issues from sustainable development goals to green bonds. I’m also involved in business development.

What tips would you give firms when it comes to ESG communications?

The biggest oversight we see is the mistake of thinking reporting equals investor relations. Reporting and disclosure is a foundation activity. IR teams from mature, multinational corporations must be able to talk a degree of ESG.

We see great benefits when the IR team is well connected to the company secretary, not just around proxy voting and AGM season, although it’s not always a given. IR must connect the dots to ensure it has the whole picture of the market.

What do you look for in an annual report?
The following are some of what we look for and, while most of the points seem obvious, it’s amazing how few companies manage to achieve them:

- First and foremost, reporting on the basis of the Financial Stability Board’s Taskforce for Climate Related Finance Disclosure guidelines
- Identify the ESG issues you feel are material to the company. Less is more. Justify your choices and relate them to the health of the business as a whole
- Integrate your reporting of ESG issues into the main narrative text in the annual report and accounts. A simple example might be a power company reporting its emissions intensity alongside Ebitda
- Create relevant KPIs to track your key impacts and, once you have acceptable baseline data, establish targets that are stretching but achievable
- Integrate these targets into the executive annual bonus scheme, at least at a meaningful percentage (in other words, not less than 10 percent)
- Report on your progress against targets as time goes by. Design KPIs so that they are stuck with for five years, minimum
- No platitudeous policy statements, woolly feel-good narrative or otherwise self-congratulatory assertions that can’t be backed up by evidence.

What do you believe makes a successful investor event?
A successful investor event brings the company’s story to life for the investor. IR should own all investor engagement, including ESG.

IR can and should use the corporate responsibility department as experts to help shape meetings and also talk to brokers and advisers who help other companies shape these types of meetings – lots of companies are doing them. The meeting content and speakers must have a clear link to current business strategy and performance and shouldn’t feel like a sustainability or governance bubble.

Site visits are becoming increasingly popular. I’ve visited sites as diverse as a palm oil plantation and a carpet factory and always come away with a richer understanding of the company and the risks and opportunities it faces.
Q&A with Sergey Takhiev, head of IR at NLMK Group

NLMK, the Russian steel company, was short-listed for the best ESG communications award at the IR Magazine Awards – Europe 2017.

Are IROs dealing adequately with ESG interest from investors?
From the outset, NLMK’s IR team has been responsible for preparing Global Reporting Initiative reports, and this certainly helps to satisfy the needs of our investors for information on ESG issues. When we conducted perception studies during the last decade, we included questions on the company’s performance in CSR and governance, as well as how investors view our performance and what they wish to see from us long term.

Has your ESG approach been influenced by investors?
We learned through one-on-one meetings that one of our long-term institutional shareholders had altered its methodology to accommodate ESG performance, so ESG became an ongoing part of the IR agenda.

What do you see as the greatest challenge for an IR professional in dealing with ESG?
ESG is a broad subject, and lacks a clear common language and vocabulary. Some stakeholders have an interest in a particular aspect of the company’s performance but request figures that have been produced for a different fundamental purpose, which ultimately means it doubles the effort required to respond to their needs.

How has ESG investor interest grown in the recent past?
It has doubled over the last three years, from a fairly low starting level.

How do you ensure a commitment to ESG is not just lip service and that you are, in fact, doing something valid and real?
We provide case studies, updates on the ongoing – albeit gradual – progress we are making on the key metrics, and internal and external feedback on the company’s reputation and performance in the relevant rankings, as well as how our employees perceive this.

What’s your ESG reporting approach?
Our aim is to provide a wide-ranging but concise set of figures that enable investors and ratings agencies to track our performance easily. We strive to disclose more metrics in parallel with the evolving interest in ESG. We would temper this by noting that some external requests require too much private information to satisfy.

Who has primary responsibility for your ESG communications?
The CEO has primary responsibility, as he is accountable for progress toward our key strategic targets, which include ESG issues. In terms of the everyday communications with ESG investors, our IR team is the primary point of contact.

There is still a great deal of skepticism within the investment community about ESG. Why do you think that is?
Skepticism is likely the result of a lack of trust. Trust is built upon consistency, and I believe the approach taken to financial disclosure would be appropriate to ESG reporting. A set of universal guidelines for companies and audit requirements for ESG reporting would deliver this.

In which areas are you seeing the greatest ESG investor interest?
Continental Europe leads the way in terms of ESG interest, with particular interest in environmental and social issues, while UK and US investors have a greater focus on corporate governance.

What are the greatest barriers to meeting the needs of ESG investors?
Management support is paramount. We are quite lucky that our company has traditionally taken CSR and governance issues very seriously, which has proved to be a great help. We have an excellent track record on both CSR and governance, which from an IR standpoint makes it far simpler to cater for ESG interest.
Recommendations

- Governance is a growing area of discussion. Among ESG topics, it is the aspect most discussed with investors and in some markets – specifically North America – far outweighs environmental and social considerations. Therefore it is important for IROs to make sure they can discuss key governance issues with investors and other internal departments in a meaningful and impactful way.

- The low levels of ESG communication suggest companies should be doing more in this area. The proportion of equity assets managed through an ESG lens is growing fast and, according to Bloomberg estimates, is now above 50 percent in Europe. Amid this backdrop, IR teams need to work with other departments to be more proactive and sophisticated in their ESG communications.

- ESG communication can take many cues from existing approaches to communication. A regular flow of news is useful to keep stakeholders updated and avoid a vacuum of information. Efficient communication techniques like the use of conference calls and webinars to discuss important developments or reports enables companies to engage multiple parties at the same time.

- The investment community in general makes regular use of the IR website, and ESG-focused investors are no different, so make sure your website contains all the information and data they may want on a day-to-day basis. This will improve your transparency while also saving the IR team and other internal departments time responding to questions.

- Staying on top of the detail of the ESG investment world is critical to making a success of your communications. As highlighted in the comments from survey respondents, fund criteria are often unique and changeable. Take time to understand the different ESG investment approaches across markets and companies.

- Engage with ESG ratings agencies. While their surveys can be very time-consuming to complete, they offer support to companies by producing the ratings investors rely on and publishing reports about your ESG efforts. It is important to read their output as it can contain mistakes or omit data.

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