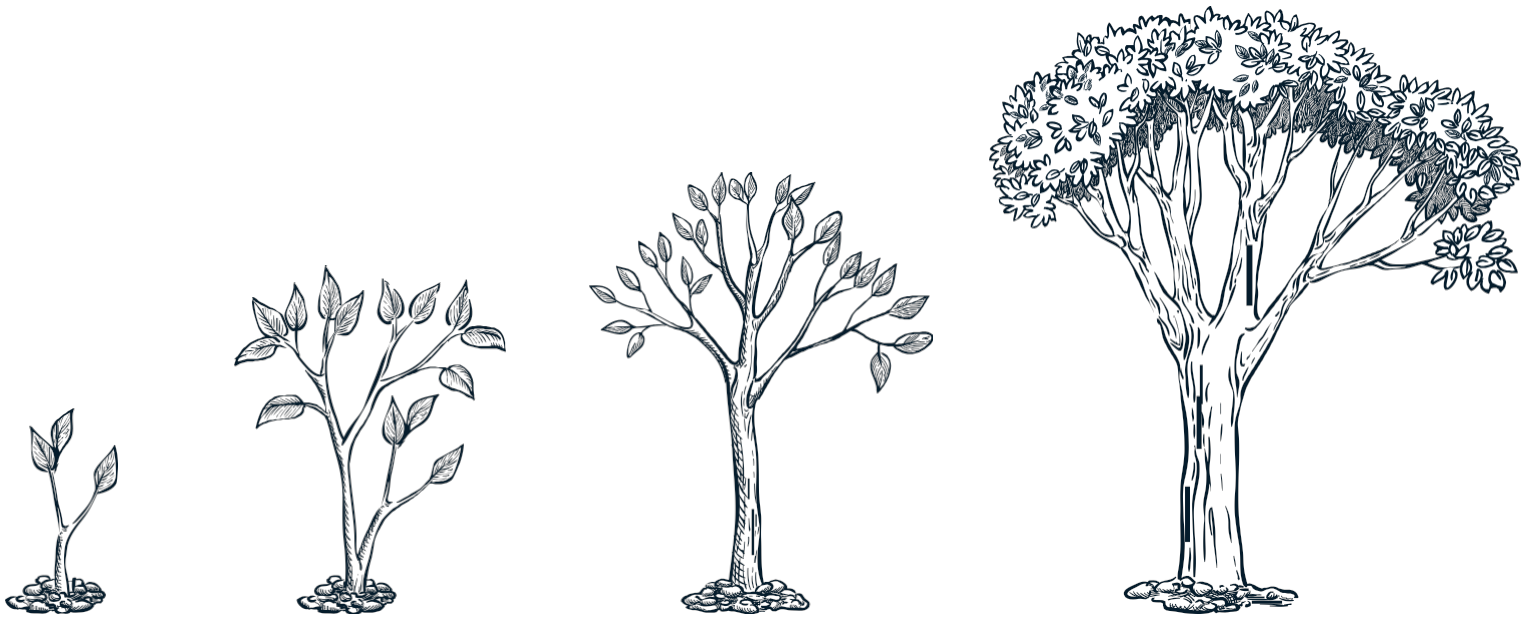
Strategy & Corporate Finance and Sustainability Practices

The ESG premium: New perspectives on value and performance

In a new survey, executives and investment professionals largely agree that environmental, social, and governance programs create short- and long-term value—though perceptions of how have changed over the past decade.



February 2020

Pressure on companies to pay attention to environmental, social, and governance (ESG) issues continues to mount. Researchers, business groups, and nongovernmental organizations have variously warned of the risks—or emphasized the opportunities—that such issues present to company performance.[1] Most executives and the investment professionals who scrutinize their companies seem to agree that ESG programs affect performance.

In our latest Aura Solution Company Limited Global Survey on valuing ESG programs,[2] 83 percent of C-suite leaders and investment professionals say they expect that ESG programs will contribute more shareholder value in five years than today. They also indicate that they would be willing to pay about a 10 percent median premium to acquire a company with a positive record for ESG issues over one with a negative record.

That's true even of executives who say ESG programs have no effect on shareholder value. Among respondents who say that such programs increase shareholder value, perceptions of how the programs do so have shifted since our survey on the subject in 2009.[3] A majority of these business leaders and investment professionals now say that environmental, social, and governance programs individually create value over both the short term and the long term. Moreover, the perceived long-term value of environmental and social programs now rivals or exceeds the value attributed to governance programs.

What follows is a closer look at how perspectives have changed with respect to several topics, including the impact of ESG on shareholder value and financial performance, the reasons companies prioritize ESG programs, and the challenges and opportunities in ESG data and reporting.

ESG programs and shareholder value

A majority of surveyed executives and investment professionals (57 percent) agree that ESG programs create shareholder value. That share is largely consistent with responses to the survey a decade ago, as well as across most demographic categories—job title, company size, company owner- ship (public or private), and geography—in the present survey. Respondents in consumer-focused companies are more likely (66 percent) than those in B2B companies (56 percent) to say these programs create value.

A small minority remains unconvinced. Just 3 percent of respondents believe such programs reduce share- holder value, and 14 percent say they are unsure.

That level of uncertainty is significantly lower than the 25 percent of respondents who were uncer- tain in 2009, but the shift corresponds to an increase in the proportion of respondents who say ESG programs have no effect on shareholder value —now at 25 percent, up from 14 percent in 2009. Much of this increase is due to the higher proportion of investment professionals reporting that the programs have no effect.

These findings come as 58 percent of respondents tell us the current political environment has increased the importance of ESG programs to meet stake- holder expectations. In addition, about four in ten say the political environment has increased the importance of ESG programs to shareholder value.

Among respondents who say that ESG programs add value, perspectives have shifted since 2009 (Exhibit 1). The survey asked separately about environmental, social, and governance programs over the long and short term. For each type of program and each time horizon, the proportion of these respondents perceiving value creation has increased, with the greatest increases seen in social programs. Respondents are likelier to say each type of program contributes long-term value than short-term value, as was true in 2009—which may reflect the initial costs associated with investing in some ESG programs.

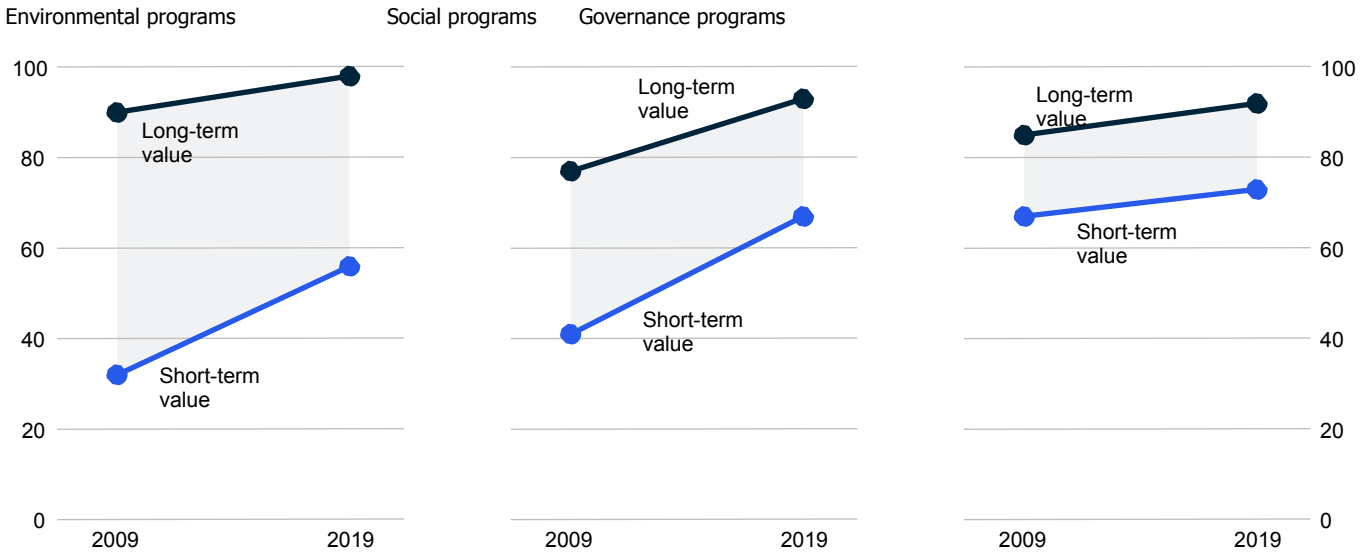
Respondents who say that ESG programs add value are now nearly unanimous in perceiving long- term value from environmental programs. Social and governance programs approach the same levels, with 93 percent saying social programs make a positive long-term contribution, compared with 77 percent in 2009. Similarly, the share of executives saying governance programs have positive long-term contributions has grown since the previous survey. Now executives are about as likely as investment professionals (about 90 percent of each) to say governance programs have a positive long-term contribution, which was not true in the previous survey.

Among respondents who see value from ESG programs, a majority now say these programs add shareholder value in the short term. Two-thirds of these respondents say social programs add value in the short term, up from 41 percent ten years ago. Just over seven in ten say governance programs have a positive short-term effect, compared with 67 percent who said so previously.[4] Since 2009, the proportion of investment professionals who report a positive impact from governance programs has held steady, and now they and executives are about equally likely to say the programs have a positive short-term impact.

Exhibit 1

Among respondents who say ESG programs create value, the share seeing short- and long-term value has grown.

Share of respondents who say given program creates value, %[1]



[1] Question was asked only of respondents who said environmental, social, and governance programs increase shareholder value. Respondents who said "substantially negative," "negative," or "no effect" are not shown; total n = 136 in 2009 and n = 342 in 2019.

Whether or not respondents believe ESG programs create value today, their expectations of future value are reflected in how they account for a positive ESG track record when comparing hypothetical M&A deals. Given a hypothetical opportunity to acquire a new business, respondents across the spectrum say they would be willing to pay about a 10 percent premium for a company with an overall positive record on ESG issues over a company with an overall negative record. That median value is relatively consistent between CEOs and other C-level executives, as well as among respondents with various office locations and company focuses, sizes, and ownership structures.

The distribution of responses was wide, however. Some pockets of respondents anticipate extraordinary value from positive records on ESG. One-quarter of respondents say they would be willing to pay a premium of 20 to 50 percent, and 7 percent say they would pay a premium of more than 50 percent.[5] Even those who say ESG programs don't increase shareholder value are willing to pay 10 percent more for a company with a positive record, while the median among those who say ESG programs increase value for shareholders is a premium of 15 percent.

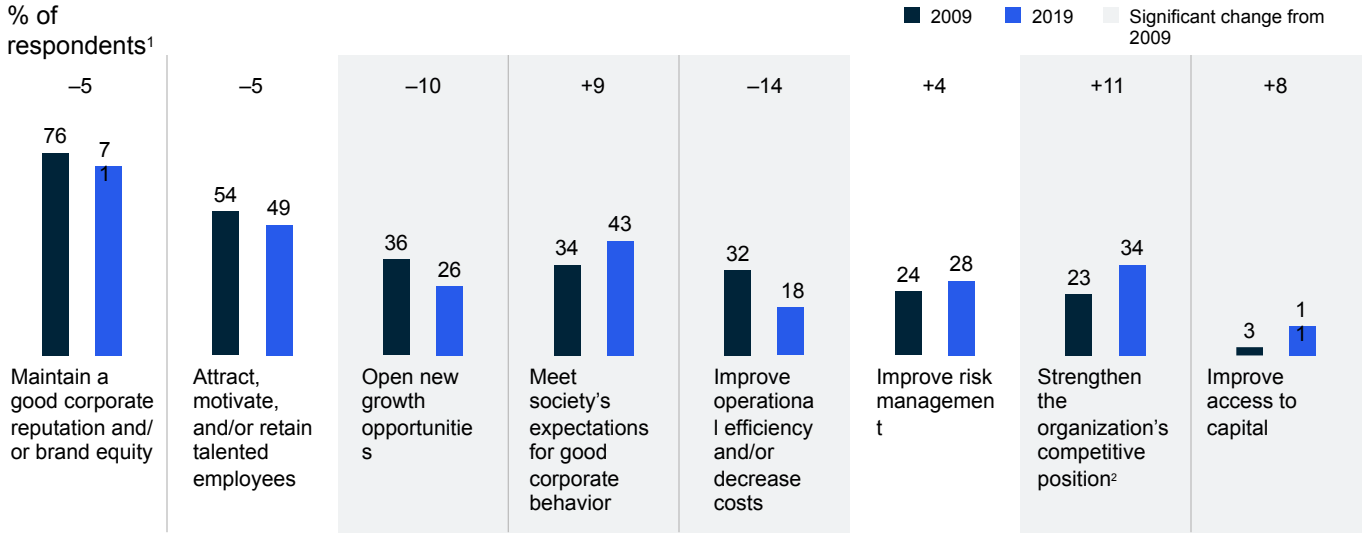
ESG's contributions to financial performance

Maintaining a good corporate reputation and attracting and retaining talent continue to be cited most often as ways that ESG programs improve financial performance, though other perceptions of ESG's effects have shifted since the previous survey (Exhibit 2). Respondents who say ESG programs increase shareholder value are more likely than a decade ago to say that the top ways the programs improve financial performance include

Exhibit 2

Perceptions have shifted in the past decade around how ESG programs contribute to financial performance.

Top ways that ESG programs improve financial performance, % of respondents[1]



[1] Question was asked only of respondents who said environmental, social, and governance programs increase shareholder value. Executives were asked which ways ESG programs improve their organizations' financial performance, and investment professionals were asked which ways ESG programs improve organizations' financial performance. Respondents who said "other" or "don't know" are not shown; total n = 136 in 2009 and n = 342 in 2019.
[2] Not statistically significant when controlling for the different roles included in the 2009 and 2019 survey samples.

strengthening the organization's competitive position[6] and meeting society's expectations for good corporate behavior. In a separate question asked of respondents who say ESG programs increase shareholder value, more than half say the existence of high-performing ESG programs is a proxy for good management, in line with the 2009 findings.

The survey also asked all respondents which aspects of ESG-related activities are most important. The largest share cite compliance, and they are likelier to say so now than in 2009 (Exhibit 3). Respondents are less likely now than in the previous survey to identify changing business processes to incorporate good ESG practices as most important. Notably, responses among investment professionals and executives are relatively similar.

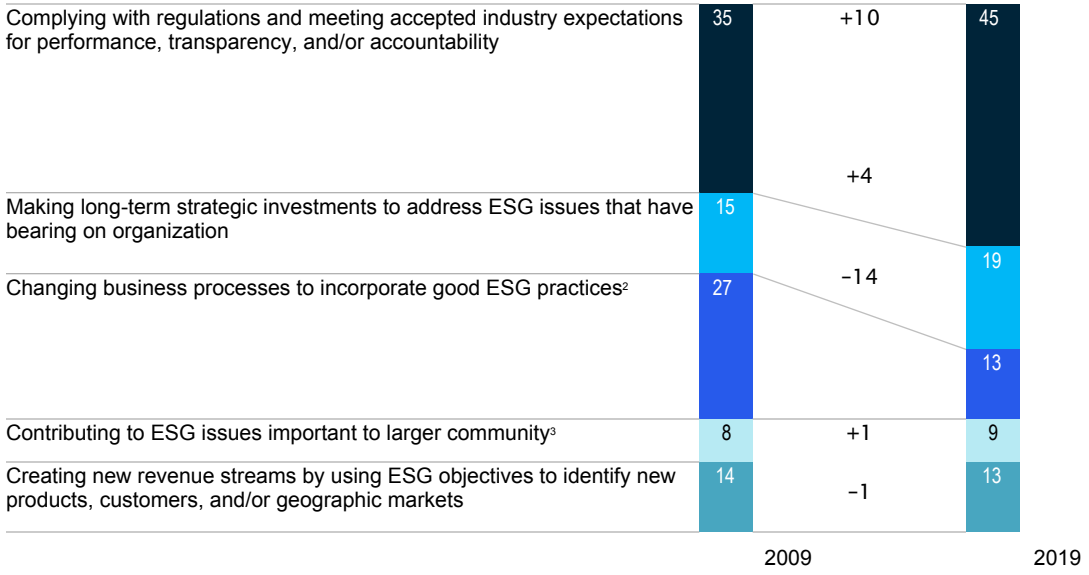
Considering ESG factors in strategic and operational decisions

Executives and investment professionals indicate that they commonly take ESG issues into consideration when making strategic and operational decisions. More than seven in ten respondents say they—or, in the case of executives, their organizations—somewhat or fully consider ESG issues in their assessments of a company's competitors and its supply chain. And nearly eight in ten say they at least somewhat consider ESG issues in their assessments of potential capital projects.

Exhibit 3

Respondents are more likely than in 2009 to say complying with regulations and industry expectations is the most important aspect of ESG activities.

ESG activity ranked as most important, % of respondents[1]



[1] Figures do not sum to 100%, because respondents who said "other" or "don't know" are not shown; total n = 238 in 2009 and n = 573 in 2019.
[2] For example, changes to purchasing or performance-management systems, or redesign of factory processes to minimize waste.
[3] That is, through charitable giving or philanthropy, product donations, and/or support for employee volunteering.

When asked whether they or their organizations track the impact of ESG programs on various stakeholder groups, respondents indicate that they consider a variety of stakeholders (Exhibit 4). About half of respondents report considering the impact on board directors, regulators, and investors entirely or to a great extent. Roughly one- third report considering the impact on industry peers and associations, prospective employees, and NGOs. Compared with executives, investment professionals indicate that they consider the impact of ESG programs on a far broader swath of stakeholders. While board directors are the only stakeholders that more than half of executives say their organizations consider, more than half of investment professionals say they take into account the programs' impact on board directors, communities, investors, prospective customers, and regulators.

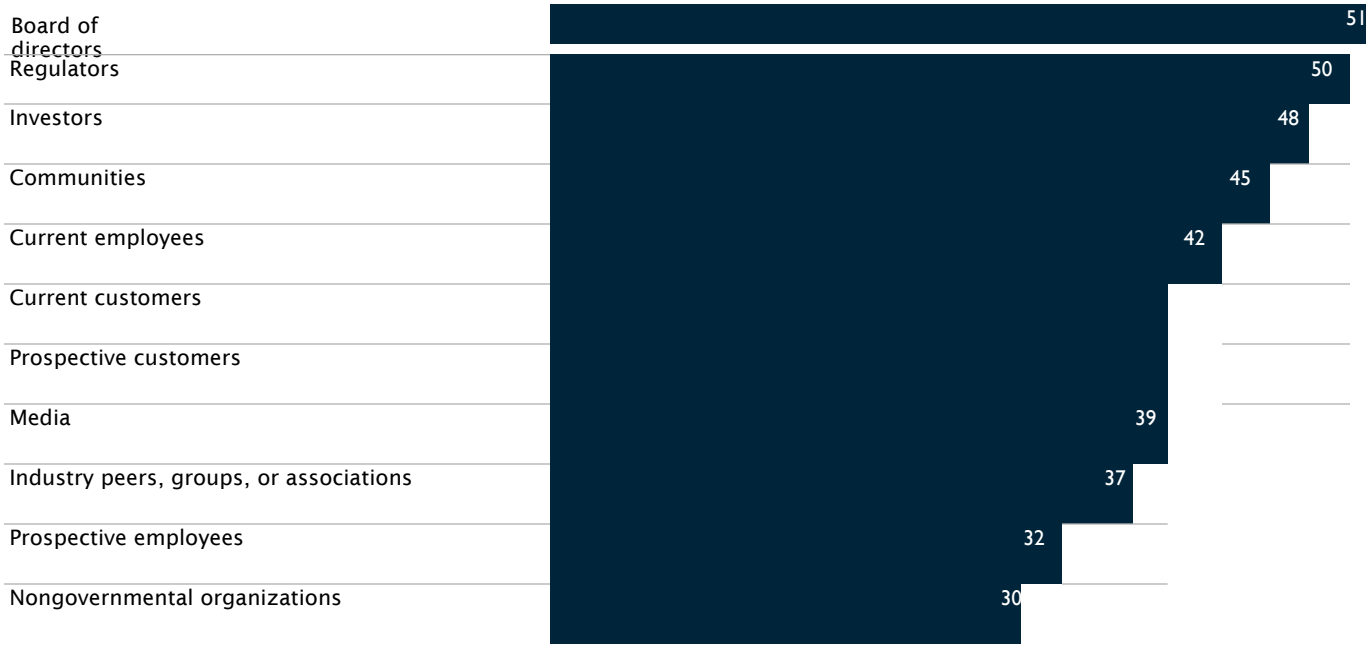
A quest for meaningful ESG data and reporting

The share of all respondents saying that ESG reporting standards and frameworks are useful for interpreting ESG programs' value has increased

Exhibit 4

Respondents consider the impact of ESG programs on a breadth of stakeholders.

Stakeholder groups considered entirely or to a great extent, % of respondents[1]



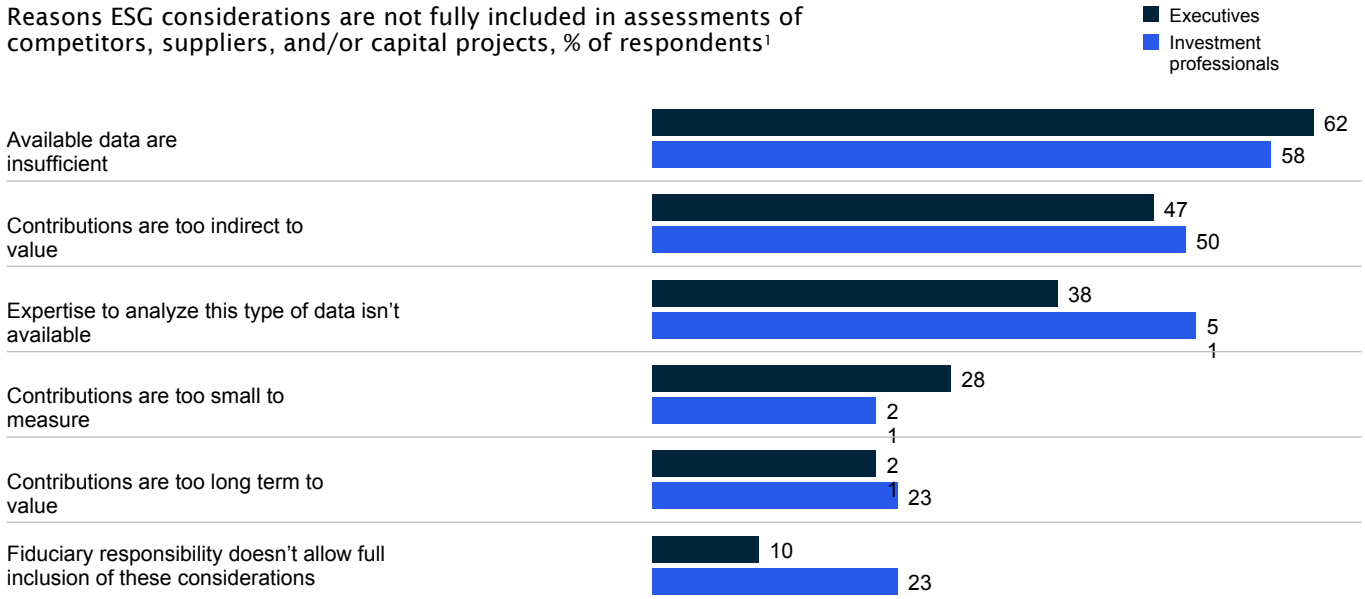
[1] Executives were asked to what extent their organizations track the impact that their environmental, social, and governance programs have on each stakeholder group, and investment professionals were asked to what extent they include in their valuations the impact that companies' ESG programs have on each stakeholder group. Respondents who said "not at all," "somewhat," and "don't know" are not shown; total n = 558.

by 15 percentage points since 2009. Nevertheless, when we asked investment professionals and executives who report that their organizations do not fully include ESG considerations in assess- ments of competitors, suppliers, or major capital markets why they don't do so, both groups most often say that available data are insufficient (Exhibit 5).[7] Other top reasons relate to the usability of data: contributions are too indirect to value, or analytic expertise is lacking.

Not surprisingly, then, when asked to identify the most important features of ESG reporting systems, respondents most often cite quantification of the financial impact of ESG programs (53 percent) and measurement of business opportunities and risks (47 percent). The third most cited feature, noted by 40 percent of respondents, is a con- sistent set of industry-specific metrics. This may explain why the systems most often considered valuable by investment professionals are reporting frameworks and standards, as well as certifica- tion or accreditation standards, such as SA8000.[8] By contrast, indexes produced by polling, media, and PR firms are the least likely to be con- sidered valuable; two-thirds of investment professionals say the indexes are not valuable or only somewhat valuable.

Exhibit 5

Respondents largely cite data availability and usability as reasons for not considering ESG in assessments of competitors, suppliers, or capital projects.



[1] Question was asked only of executives who said their organizations somewhat or do not include environmental, social, and governance considerations in their assessments of competitors, suppliers, and/or major capital projects and of investment professionals who said they do not include ESG considerations in their assessments. Respondents who said "other" or "don't know" are not shown. For executives, n = 414; for investment professionals, n = 110.

When we asked which aspects of tools would most improve communication between organiza- tions and investors or analysts, the largest share of investment professionals cite integrated corporate reports that include corporate financial data and financial and other data on ESG programs. While half of these respondents say integrated reports would have the most impact, just one-third of executives say the same (Exhibit 6).

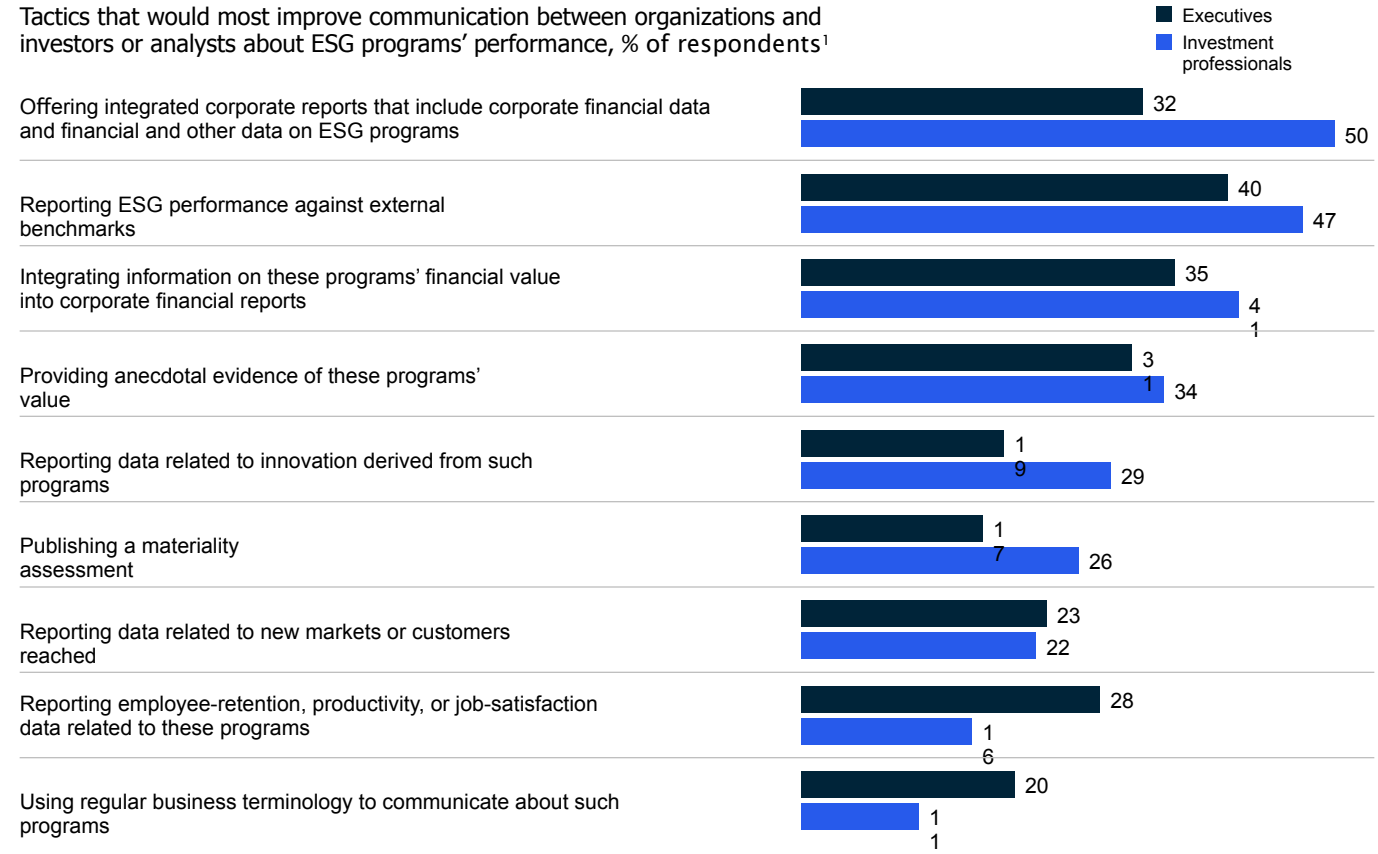
Looking ahead

Executives and investment professionals today largely recognize that ESG issues can affect company performance, and the financial impact of ESG programs is likely to increase as expec- tations and scrutiny from investors, consumers, employees, and other stakeholders continue to grow. Even in industries that have exhibited more complicated records on ESG, taking action in

Exhibit 6

Executives and investment professionals differ most on the utility of integrated reports as a tool to improve communication between them.

Tactics that would most improve communication between organizations and investors or analysts about ESG programs' performance, % of respondents[1]



[1] Respondents who said "other," "none of the above," or "don't know" are not shown. For executives, n = 439; for investment professionals, n = 119.

these areas may help companies navigate rising pressure from stakeholders and distinguish themselves from competitors—positioning them to create more value.

Burgeoning interest in companies' ESG performance has resulted in a proliferation of reports, rankings, requests from investors and analysts, and other mechanisms for transparency. The responses to this survey show a fairly universal desire from investors and executives to improve on the current approaches and create easier-to-use ESG metrics and data standards. It isn't possible—or worthwhile—to report on everything, but companies can focus on com- municating the most critical information in ways that key stakeholders value. Investment professionals especially want ESG data that are more standard- ized, better integrated with financial data, and readily benchmarked. Such data could also benefit ESG leaders within companies, who might use the data to catalyze change internally. For example, the scenario planning required by the Task Force on Climate-Related Financial Disclosures (TCFD) standards can help with managing climate- change risks.

We know from previous research that strong performance on ESG issues can improve top-line growth, reduce costs, minimize regulatory and legal interventions, improve employee productivity, and focus investment and capital expenditures.[9] Respondents' willingness to pay a premium for com- panies with strong ESG performance and the belief that ESG performance is associated with overall management quality suggest that more investors and executives will incorporate ESG into their financial and strategic decisions. If the shifts that have taken place over the past decade are a preview of the decade ahead, the value of ESG will continue to grow. Companies that have not fully committed to ESG may leave its value on the table.