'Better data needed' on measures of sustainability in business

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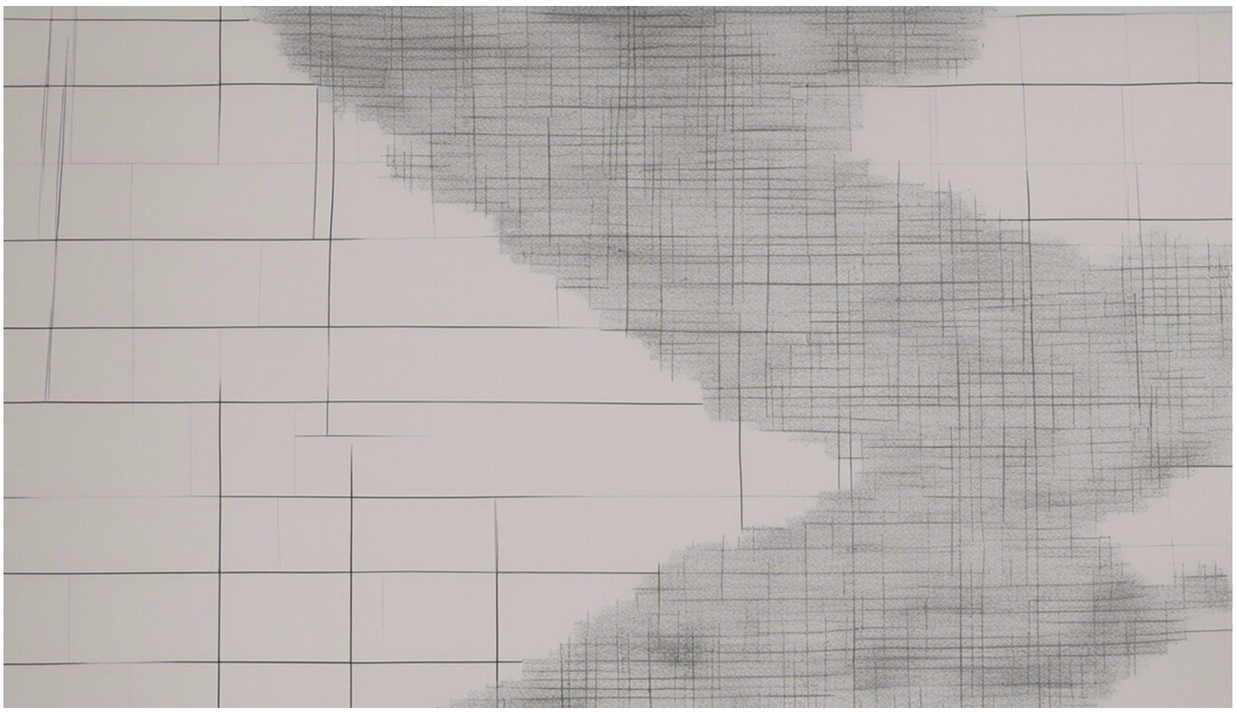

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Oxford research shows increasing numbers of investors want better reporting on the environmental, social and governmental (ESG) factors that affect performance so they can make more informed decisions on where to put their money. These factors are the main way of measuring the sustainability and ethical effect of an investment in a company or business.

A new study by Bob Eccles, Visiting Professor of Management Practice at Saïd Business School and Mirtha Kastrapeli of State Street, suggests there is still work to do on developing standard measurements and methods for analysing these ESG factors. The research finds that while investors have fewer concerns about ESG factors, surveys show they want current data to be more robust and transparent.

The study finds that 92 per cent of institutional investors want companies to identify and report ESG factors that materially affect performance. Some 60 per cent of them cited a lack of industry standards for measuring ESG as a significant barrier to full integration into investment practice.

Similarly, while nearly half (46 per cent) of retail investors want more companies to report on ESG performance, the same proportion say they need more data from other sources as well in order to make educated decisions.

Bob Eccles said: 'ESG data is only useful if it can help achieve investment goals and that requires a clear understanding of which factors are material for financial performance. Two-thirds of those we interviewed believe this determination should sit with the board of directors, with only 14 per cent saying it should be chief financial officer or head of investor relations. It underlines the strategic importance of ESG factors and signals that the investment industry doesn't believe financial roles are yet in tune with ESG integration.'

While data and a lack of transparency continue to pose hurdles to ESG investing, the study found that many are more open to ESG integration than in the past. Only 35 per cent of institutional investors believed that ESG factors meant worse financial returns, with nearly three quarters

(74 per cent) saying that three years or more was a realistic timeframe to gain outperformance from ESG investments (producing better returns than other investments). Only a minority (10 per cent) saw fiduciary duty as a barrier to ESG integration.

The study proposes a model for the integrating ESG factors into investment practice – based around five key areas of accountability, engagement, education, access to relevant data and longer time horizons.

'The study is encouraging as ESG factors are seen as important by the majority of investors, but the lack of good data shows there is still work to do for them to become standard in investment practice,' concludes Peter Tufano, Peter Moores Dean at Saïd Business School. 'The study is a valuable contribution for encouraging asset owners to agree on a voluntary framework for ESG reporting, which then encourages asset managers of companies to do so.'

The study, "Investing Enlightenment: How Principle and Pragmatism Can Create Sustainable Value" is based on two global surveys: one of 582 institutional investors (evenly split between asset owners and asset managers and equity and fixed income) and 750 retail investors.

This latest research links into a wider body of work that Peter Tufano and other researchers are conducting into the area of 'inclusive capitalism', where long term ESG factors achieve more prominence alongside short-term financial measures.

More information: Investing Enlightenment: How Principle and Pragmatism Can Create Sustainable Value: www.statestreet.com/content/da … ng_Enlightenment.pdf

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