

The importance of consistent and comparable ESG performance data

As more investors incorporate ESG factors into their decision-making, the inadequacy and inconsistency of much current reporting on the issues becomes ever clearer.

By Christopher Greenwald



Socially responsible investment (SRI) funds have experienced remarkable growth since the mid-1990s, and the total market size of SRI initiatives in Europe reached €2.7trn in 2007, according to the European Social Investment Forum. The impressive growth in responsible investment mandates as well as the increased attention paid in the media to the environmental, social and governance (ESG) performance of corporations have led an increasing number of asset managers to become interested in incorporating ESG information into their valuation models of companies. One of the biggest needs to make this incorporation successful is reliable, neutral and objective information on the ESG performance of companies that allows for the impact of various ESG factors to be carefully analysed and understood.

Inconsistency

There are several challenges in ESG data that make the need for a standardised and organised information source particularly important for investors. First, partly because reports are both voluntary and often

unaudited, company reporting standards differ dramatically (the figure provides a brief example of the variety of reporting guidelines that exist). Companies use very different units in reporting their ESG performance, often reporting only for a portion rather than all company facilities, and sometimes providing ESG data in the form of ratios or in charts or in graphical form without providing absolute numeric values.

Although the Global Reporting Initiative (GRI) has served as an essential and very useful means in improving the standardisation of company reporting, companies continue to have differing degrees of compliance with the GRI and sometimes differing interpretations of the best means to apply the standards to their reporting. To be comparable across all companies, and thus useful for mainstream investment analyses, it is important that ESG information is transformed into consistent units and is presented in a balanced and coherent manner.

Timing and formatting

Second, not only is ESG data reporting generally inconsistent across companies,

but the timing and format of reporting is varied. While a number of the leading companies provide annual sustainability reports, many companies produce bi-annual reports, while others produce reports only irregularly. Consequently, in addition to making data consistent across companies, the organisation of data must allow investors to benchmark data from various fiscal years to use the latest reported information.

In addition, companies are increasingly providing reporting via websites (with approximately 20% of companies reporting ESG performance only on their websites). This requires regular monitoring to ensure that the latest information is included. Collecting ESG data must consequently be done both flexibly and continuously to allow for the integration of information reported across different time frames and from a variety of company sources.

Motivations

Third, the motivations underlying ESG data reporting are quite varied, and consequently the relevance and materiality of ESG information can vary significantly across companies. It is important to provide consistent measurements of performance that cut through the marketing and public relations aspects that drive some company reports. Investors must have access to both quantitative evidence of company performance and objective measurements of the ability of companies to manage ESG risks effectively.

Moreover, ESG data must combine a neutral assessment of company-reported data with independent news and NGO reports of controversies and litigation. Most importantly, controversies must be presented to investors in a balanced manner that avoids pre-judging information and thereby allowing investors to determine their relative impact for various investment strategies.

Relevance

Fourth, ESG performance data also differs dramatically not only in its specific relevance across sectors but also in its relative importance for different investors, depending on their investment strategy and the specific clients that they are serving. ESG

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data must be collected and presented in a way that accounts for the sector-specific nature of many variables. But, perhaps most importantly, information must be accessible in different ways by different types of investors to meet their specific goals and needs. Just as financial information is used by in-

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vestors in a variety of ways by different investors, so too should ESG information be used to support a variety of differing investment strategies and concerns. Such various uses of ESG information are only possible on the basis of a data set of consistent and

A small subset of ESG reporting initiatives and guidelines

- Global Reporting Initiative
- Petroleum industry guidelines for reporting greenhouse gas emissions
- The Greenhouse Gas Protocol: a corporate accounting and reporting standard
- Guidelines for risk characterisation and management
- Reporting of occupational illness frequency
- Health and safety incident reporting users’ guide
- Occupational injury and illness recording and reporting requirements
- Guidelines on reputational due diligence

objective ESG data that is oriented around consistent and neutral measurement of ESG performance.

ASSET4 is fundamentally committed to achieving these various goals to allow traditional asset managers the ability to incorporate ESG data analysis into their investment decisions for the first time. And while ESG data reporting has progressed dramatically over the past 10 years, it still requires considerable development before it reaches the level of standardisation and comparability of traditional financial reporting.

We view our mission as making order out of the disorderly nature of ESG reporting

and to collect and provide this information in a consistent manner that can be easily used for investment analysis. By succeeding in bringing order to the relatively disorderly nature of ESG data reporting, we believe that we are providing an essential tool in making possible the mainstreaming of ESG information into traditional asset management and thereby providing an important contribution to the advancement of responsible and sustainable investments more generally. RI

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ASSET4 ESG data and framework

