Objective:
To explore how the environmental, social and governance (ESG) performance of companies might impact on the drivers of business success; how companies explain these linkages to investors, and how the investment community treats these data.

Methods Used:
- EU Corporate Social Responsibility Alliance Laboratory meetings
- Focus groups with investors held around the EU
- 1:1 interviews with investors, companies and experts
- Working papers produced by the research team

Key Findings:
1. Obstacles to Mainstreaming Environmental, Social and Governance Issues in Investment Decisions:
   - Obstacles with the Investor Community: the investors’ mindset.
   - Most investors are skewed towards quantitative analysis and short-termism in their investment decisions. Second obstacle is investors’ perception of ESG issues. Most investors tend to think that ESG issues are complex, expansionary, and, therefore, contestable.
   - Obstacles inside Companies - Companies are at different stages of Corporate Responsibility (CR) maturity. Therefore, only a few companies have strong ESG performance data to report. Only more mature companies have recently made links between ESR and their overall strategy. Many executives may not accept the fact that ESG performance data affects business performance or they may not trust the ESG performance data itself. Another obstacle is that the data may be dispersed or isolated and there may also be problem of misunderstanding about the role and relevance of the ESG performance data.
   - Underlying Obstacle of Lack of Intellectual Justification - The traditional approach to the analysis of the relationship between CR, social performance and financial performance has led to inconclusive results. Therefore, empirical investigation needs to focus on a deeper understanding of what it means to succeed in CR, disentangling its specific dimensions.

2. Value Creation Framework
   - Here is the summary picture of the main mechanism linking CR-related drivers to specific performance areas: See Exhibit 1.

3. Changing Today’s Dominant Convention in the Investment Community and Business
• **ESG Integration: An emerging trend** - There are five areas of ESG integration. First is ESG research providers’ development. Since 1990’s, an increasing number of independent specialized research organizations have been created to provide investors with background data on ESG. Secondly, ESG integration has rapidly moved from scattered initiatives to organized joint programs. Thirdly, the financial analysts’ community has professional collaboration addressing the inclusion of ESG information. Fourthly, many consultancy companies have positioned themselves in the emerging market of services related to ESG information and financial advice. Fifthly, large numbers of reports, articles and surveys published in past few years have information regarding ESG information.

• **Influencing Mechanisms** - Over the last decade, many governments have launched new regulations to establish ESG disclosure requirements for pension funds. In addition, a number of professional collaboration networks have been set up to create and share knowledge about ESG information. Practices are also spread by financial analysts moving from one company to another. Other influencing agents are external research initiatives such as the Association for Independent Corporate Sustainability and Responsibility Research (AI CSRR) and collaboration between professional associations and academic groups.

4. **How Might Collaboration Evolve?**
   - It is worthwhile to speculate how a tipping point will be reached.
   - We already have bold and high powered initiatives to break through the current obstacles.
   - We need to collaborate closely on these kinds of initiatives to create an impact.

5. **Recommendations**
   - **EU CSR Alliance Laboratory** - The lab should refine its model, accept the fact that this initiative is finite and encourage sponsors of EU CSR Alliance to invite corporate CEOs and investors to act.
   - **EU Commission** - The commission should meet with vanguard corporate CEOs and investors interested in committing to the initiative to explain to them that EU is committed to ESG performance of companies. Secondly, it should fund the new Australian Government-funded Australian Responsible Investment Academy.
   - **Companies** - The companies should adopt and adapt the perspective provided by the Value Creation Framework and use Lab’s related operational tool as a vehicle. Secondly, companies should include the ESG initiative in investor presentations by CEOs. Thirdly, they should try different ways to make Investor Relations and CR functions work together. Lastly, they should ask Pension Fund Trustees to make ESG performance a top priority.
   - **Investors** - Investors should incorporate the Value Creation Framework thinking in their models for assessing corporate value.
• Business-Led CR and Sustainability Coalitions, multi-Stakeholder Fora and Think-Tanks - There is a need for facilitators to start and continue the dialogue between companies and investors, adopting the Value Creation Framework perspective.

• EABIS and European Business Schools - EABIS should use this report and initiatives and then embed the Principles for Responsible Management Education, to reach out beyond CR, sustainability and business ethics faculty, to promote these ideas.

• Recommendations for Further Research - More research needs to be done in several areas. First is in the role of the rating agencies. Second is in the relationship inside companies between the CR/Sustainability function and the Investor Relations function and within the investment community between ESG analysts and financial analysts and how it can be improved. Third is to show the relationship between improvements and the individual drivers of non-financial performance. Fourth is in communication between investors and companies in general and about ESG in particular. Fifth is in behavior change: understanding how investors work and function; how do they make decisions?

Conclusion:

• Identified almost 100 practitioner reports produced since the millennium on the obstacles to the incorporation of ESG performance into the mainstream investment community’s valuation of business, and how these barriers can be overcome.

• Contributing something new and positive such as the definition of the Value Creation Framework; and the vision of how a network of contacts and collaborations with a range of influential individuals and organizations could create the opportunity for a wide dissemination of the Value Creation Framework.

Full Report