Although there is increased pressure for ESG information from various stakeholder groups, investors may be the most vocal about the need for greater transparency on how companies are responding to ESG risks and opportunities. Investor expectations are one of the driving forces behind the ESG revolution, and their demands have strongly influenced ESG reporting. With that in mind, in the fall of 2021 PwC conducted a survey of 325 global investors and had in-depth conversations with 40 more. This publication highlights the US results based on 107 survey responses from and 9 interviews with those who invest in US companies. The results can help US companies focus their ESG efforts where they matter today.

In summary, we found:

**ESG and strategy**
US investors generally believe ESG should be integrated into a company’s strategy. Although the majority share that view, there is a minority who strongly disagree.

**Top issues**
The top two ESG issues on the minds of US and global investors are the same, but the order is reversed. US investors rank worker health and safety as the most important ESG issue for companies to prioritize followed by reducing greenhouse gas (GHG) emissions. Global investors place emissions reduction at the top.

**ESG as an investment**
Although a majority of US investors are willing to sacrifice short-term profitability to address ESG issues, few are willing to sacrifice investment return for companies undertaking such activity.

We explore each of these themes in the following pages.
ESG and strategy

ESG is becoming a critical component of investment decision making.

How a company manages ESG risks and opportunities is an important factor in my investment decision making. I consider a company’s exposure to ESG risks and opportunities when screening potential investment opportunities.

58% agree

For ESG issues to be managed effectively, most US investors expect ESG to be a core part of a company’s strategy.

Companies should embed ESG directly into their corporate strategy.

63% agree

ESG performance measures and targets should be included in the executive pay arrangements.

52% agree

Board directors are sufficiently knowledgeable about the ESG issues facing the company.

48% agree

US investors think tone at the top is important, and many told us that responsibility for ESG should lie with someone in the C-suite. They see executive pay as a lever to encourage sustainable change. Another element is the skill set and experience the board brings, and US investors question whether directors have the requisite knowledge about ESG issues.

A clear majority believe that ESG should be embedded in a company’s strategy. But 22% of respondents strongly disagree with that assertion. Of these, we believe some may maintain their view that ESG does not belong in strategy while others may change their views with more expansive explanations of how ESG risks and opportunities impact the resilience of a company’s business model and ultimately enhance value.
US investors are interested in E, S, and G issues.

Top ESG issues in order of importance

- Ensuring worker health and safety: 48%
- Reducing Scope 1 and Scope 2 GHG emissions: 44%
- Minimizing data security and privacy risks: 42%
- Investing in employee training and development: 35%
- Improving workforce and executive diversity, equity, and inclusion: 34%
- Addressing human rights in the supply chain: 29%
- Improving waste management: 27%
- Reducing Scope 3 GHG emissions: 24%
- Reducing the impact of land use (e.g., deforestation, urbanization): 22%
- Investing in the local communities in which they operate: 22%
- Reducing the impact of water use: 21%

Respondents were asked to select up to five issues from a list of fourteen that they believe companies should prioritize.

US and global investors differed on which ESG issues they view as most important for business. In the US, the top issue is worker health and safety, a social issue, followed by reducing Scope 1 and Scope 2 greenhouse gas emissions, an environmental issue, and minimizing data security and privacy risks, a governance issue.

In contrast, global investors prioritize the environment first, focusing on climate change and the reduction of greenhouse gas emissions. Notwithstanding the global focus on the environment, the percentage of investors who are interested in the top US issue—worker health and safety—was relatively consistent between US and global investors. There was not a governance issue in the top 3 globally.

A lot of companies are very short focused, and we look a little bit longer into the future and bring awareness that these are things that we think are important. For me, that’s elevating issues that are important to investors, that are important to society at large.

US pension fund governance expert
ESG as an investment

A focus on ESG can enhance value, but what if the impact is not immediate?

The survey found that a majority of US investors are willing to sacrifice short-term corporate profitability if necessary to address ESG issues. However, investors are accepting these investments with the expectation that there will be no long-term impact to their investment return; only 20% of respondents indicate that they are willing to accept the lower rate of return on investment that may result from companies undertaking activities that have a beneficial impact on society or the environment.

*55%* of US investors agree that companies should address ESG issues even if doing so reduces short-term profitability.

*20%* of US investors agree that they would be willing to accept a lower rate of return on their investment if the company they invested in undertook activities that had a beneficial impact on society or the environment.

Investment in ESG initiatives may make a business more resilient and enhance long-term value. Our interviews highlighted the need for investors to understand the rationale for a company’s investments in ESG-related activities and how long it may take for them to positively impact value.
What we have done is have our analysts try and define the most relevant ESG factors and try to quantify them. [We] have a suite of metrics that are applicable to companies and monitor them relative to peers. The challenge in the US is that quantification and disclosure is limited. Some companies want to make sure they are not laggards in metrics among competitors, so that is a driver.

US equity research analyst

Expectations of ESG reporting

US investors have high expectations for ESG reporting, but their information needs are not being met.

US investors look to companies to explain the meaning, relevance, and effect of ESG issues on their business. However, they indicated that they are not consistently receiving the information they need. They report gaps even in areas as fundamental as the relevance of ESG factors to a company’s business model.

How important is it that ESG reporting has the following characteristics, and how would you describe the quality of ESG reporting in each of these areas currently?

<table>
<thead>
<tr>
<th>Description</th>
<th>Net Importance</th>
<th>Net Good quality</th>
<th>Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>It explains the relevance of ESG factors to the company’s business model</td>
<td>29%</td>
<td>70%</td>
<td>41%</td>
</tr>
<tr>
<td>It explains the governance over ESG risks and opportunities</td>
<td>32%</td>
<td>68%</td>
<td>36%</td>
</tr>
<tr>
<td>It explains the rationale for environmental commitments made and detailed plans for how to reach them</td>
<td>33%</td>
<td>68%</td>
<td>35%</td>
</tr>
<tr>
<td>It provides detailed information about progress towards ESG targets</td>
<td>29%</td>
<td>67%</td>
<td>38%</td>
</tr>
<tr>
<td>It describes the environment or society has on business performance</td>
<td>22%</td>
<td>66%</td>
<td>44%</td>
</tr>
<tr>
<td>It shows a link between ESG risks and opportunities and financial performance</td>
<td>19%</td>
<td>65%</td>
<td>46%</td>
</tr>
<tr>
<td>It describes the impact the business has on the environment or society</td>
<td>20%</td>
<td>63%</td>
<td>43%</td>
</tr>
<tr>
<td>It explains the rationale for social commitments made and detailed plans for how to reach them</td>
<td>27%</td>
<td>58%</td>
<td>31%</td>
</tr>
<tr>
<td>It shows a link between ESG risks and opportunities and executive pay</td>
<td>15%</td>
<td>49%</td>
<td>34%</td>
</tr>
</tbody>
</table>

The good news is that companies control the primary source of information investors use to make decisions. Corporate reporting is the first resource for investors trying to understand business performance and prospects—and the risks associated with them. This provides companies with an opportunity to clearly articulate their ESG strategy and its expected impact.

Most frequently used sources of ESG information

1. Annual report / sustainability report
2. Investor presentations, earnings calls
3. Press releases
4. Third-party data providers
5. Meeting with company executives or the board
“Investor grade” ESG information

US investors are calling for standardization

It is important that ESG reporting is prepared in accordance with a recognized non-financial reporting framework (e.g., SASB, TCFD, GRI).

My investment decision-making would be better informed if companies applied a single set of ESG reporting standards (e.g., similar to IFRS for financial reporting).

A company should prepare ESG reporting using a reporting framework in its entirety (where material), not a subset the company chooses.

61% agree

ESG ratings

Although many US investors use ESG ratings in their investment screening and ongoing analysis, it is not one of their top sources of ESG information. It ranked #9 in sources.

I use ESG ratings and scores in screening potential investment opportunities

61% agree

My investment analysis pertaining to ESG issues rely on external ESG ratings and scores

55% agree

And few place significant trust in the information they are getting.

I trust ESG ratings

25% have significant trust

This trust gap may be alleviated by more standardization and transparency in how the ratings are computed.

A fundamentally important quality of good reporting is its reliability. US investors have more confidence in the information they use when it has been independently assured.

I place more trust in the ESG information if it has been assured

77% agree

Companies should be required to obtain assurance on all material ESG information, not on a subset that the company chooses

67% agree

Companies’ disclosures of ESG metrics and KPIs should be assured at the same level as a financial statement audit (i.e., reasonable assurance)

72% agree

Companies’ narrative disclosures on ESG issues should be assured at the same level as a financial statement audit (i.e., reasonable assurance)

69% agree

US investors were clear in their preference for a reasonable assurance level—that is, the same as the financial statement audit—on company ESG reporting.
Taking action

US investors will take action if they think a company is not doing enough to address ESG issues.

If US investors think a company isn’t doing enough about ESG, engaging with companies to advocate for change is the most commonly used tool. They also use their power to vote and, if necessary, some choose to divest. Survey results indicate that taking these actions may become more common in the future.

<table>
<thead>
<tr>
<th>Action</th>
<th>Likely to take this action in the future</th>
<th>Have frequently taken this action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seek to enter into a dialogue with the company</td>
<td>60%</td>
<td>39%</td>
</tr>
<tr>
<td>Vote against the executive pay agreements</td>
<td>55%</td>
<td>28%</td>
</tr>
<tr>
<td>Vote against director appointments</td>
<td>55%</td>
<td>25%</td>
</tr>
<tr>
<td>Sell my investment (divest)</td>
<td>44%</td>
<td>22%</td>
</tr>
<tr>
<td>Seek inclusion of ESG targets in executive pay</td>
<td>39%</td>
<td>19%</td>
</tr>
</tbody>
</table>

In recent months, we have seen a rise in shareholder activism with regard to ESG. These results suggest that this trend may continue.

Conclusion

Our results show that most US investors are integrating ESG into their analyses, and that companies may need to adapt to meet their expectations. The primary sources of ESG information are what companies provide to investors, so improving communication of how ESG is integrated into the company’s strategy and its value proposition could make a big impact. Further, while ESG is important to the majority of US investors, there is a minority that have not yet begun to consider it in the same way as they consider financial information. Better information about the company’s resiliency—how it responds to ESG risks and opportunities—may change that too.