

Fuels Institute

The Case for Developing an ESG Plan

APRIL 2022

Increasing demands from investors and the public make ESG pursuits a timely consideration.



Jerry Soverinsky
www.jerrysoverinsky.com

©2022 Fuels Institute

Disclaimer: The opinions and views expressed herein do not necessarily state or reflect those of the individuals on the Fuels Institute Board of Directors and the Fuels Institute Board of Advisors or any contributing organization to the Fuels Institute. The Fuels Institute makes no warranty, express or implied, nor does it assume any legal liability or responsibility for the use of the report or any product or process described in these materials.

Contents



THE CASE FOR DEVELOPING AN ESG PLAN	02
Public Scrutiny	04
Unclear Guidance	07
Private Concerns	08
Bottom-Line Benefits	09
On the Other Hand	12
Implementation	14
Ratings, Standards, and Reporting	15
Legal Considerations	18
Looking Ahead	18
BIBLIOGRAPHY	20





The Case for Developing an ESG Plan

Increasing demands from investors and the public make ESG pursuits a timely consideration.

Expectations regarding a company’s approach to environment, social, and governance (ESG) issues have matured considerably over the past several years and are now facing phased-in regulatory requirements. This paper, summarizing developments in the application of ESG principles throughout the world, provides guidance and considerations for those intent on pursuing an ESG plan and lays out the challenges and opportunities. Evidence demonstrates that approaching the construct in a deliberate, systematic way can help a company mitigate risk and provide the necessary assurances to investors and supply chain partners that theirs is a sustainable investment and accurate depiction of the organization.

With more than 100 heads of state and representatives from nearly 200 countries in attendance, the 2021 United Nations Climate Change Conference (COP26), held in Glasgow in the fall of 2021, was different than its 25 predecessors. For the first time, the majority of the world’s major financial institutions, who collectively control assets of \$130 trillion, were also in attendance and all pledged to incorporate plans to reduce carbon emissions into their businesses’ decision making.¹

As part of the United Nations’ Glasgow Financial Alliance for Net Zero, their collective commitment will “generate \$100 trillion through 2050 to fund investments needed for new technologies,” and will include bank loans and investments of projects that lower carbon emissions.²

1 David Benoit, “Financial System Makes Big Promises on Climate Change Summit,” *The Wall Street Journal*, November 3, 2021. https://www.wsj.com/articles/financial-system-makes-big-promises-on-climate-change-at-cop26-summit-11635897675?mod=Searchresults_pos2&page=1

2 Ibid.

“These seemingly arcane but essential changes to the plumbing of finance can move and are moving climate changes from the fringes to the forefront and transforming the financial system in the process,” said U.N. Climate Envoy Mr. Mark Carney, a former head of the central banks of England and Canada.”³

The move toward a smaller carbon footprint is not always voluntary. In the spring of 2021, a Dutch court ordered Royal Dutch Shell to reduce its greenhouse gas emissions 45% by 2030, the conclusion of an activist lawsuit filed by Friends of the Earth International.⁴

The ruling was all the more notable, as Shell’s stated goal of becoming a net-zero business by 2050 was deemed *inadequate*.⁵



The message is now clear: Environmental concerns are a very public matter, and corporate boardrooms ignore them at their own peril.

It’s not about words, either; both intent and results count. Aspirational statements, if proven less than sincere, are subject to public scrutiny and condemnation. Environmentalist Jay Westerveld coined the term “greenwashing” in a 1986 essay that criticized hotels for urging hotel guests to consider the planet in deciding whether to reuse a towel.⁶ The hotel’s underlying motivation, Westerveld maintained, was to save money by reducing its laundry bill. “It’s not really about making the planet greener anymore,” he said.

Last year, Italian oil company Eni was fined €5 million for marketing its diesel fuel as “green.” Italy’s advertising oversight agency ruled that the campaign misled consumers that Eni’s fuel was good for the environment by reducing pollution. Eni has since terminated its advertising campaign and pledged not to use the word “green” again in describing its fuels.

These actions—and inactions—are part of a company’s ESG plan, a quickly evolving set of unofficial standards that the public and ratings agencies can use to evaluate the societal impact of their corporate investments and support. The assessment is not solely about financial profit and loss; rather, a company’s holistic approach to preserve and protect nature (environmental), manage relationships with people (social), and handle those elements concerning the company’s leadership and its shareholders factor into an ESG evaluation.

³ Ibid.

⁴ Jeff Brady, “In A Landmark Case, A Dutch Court Orders Shell To Cut Its Carbon Emissions Faster,” *NPR*, May 26, 2021. <https://www.npr.org/2021/05/26/1000475878/in-landmark-case-dutch-court-orders-shell-to-cut-its-carbon-emissions-faster>

⁵ Ibid.

⁶ Bruce Watson, “The Troubling Evolution of Corporate Greenwashing,” *The Guardian*, August 20, 2016, <https://www.theguardian.com/sustainable-business/2016/aug/20/greenwashing-environmentalism-lies-companies>.

No matter the industry or business size, companies must be willing and able to implement an ESG plan, one that complies with public frameworks and meets the expectations of investor and supply-chain-associated companies. To do otherwise risks legal, financial, and public relations fallout that can create lasting damage to an organization.

Easier said than done.

ESG standards are informal yet continually in development, making the execution of an ESG process an ongoing pursuit. While public relations stumbles can often be managed with a modified communications plan, more daunting are roadblocks to capital, which more recently are the result of sub-standard ESG efforts. Much like the activist investor, many banks and funds conduct comprehensive financial risk evaluations that incorporate ESG benchmarks, limiting investments only to those who meet their criteria.

It's for these reasons that companies in every industry begin (or continue) focusing on ESG matters. These are top-down efforts that emanate from the boardroom and permeate all facets of operations: management, employees, shareholders, and the supply chain.

WITHOUT ADEQUATE ESG PLANNING, PUBLIC AND PRIVATE COMPANIES RISK THE LOSS OF ACCESS TO CAPITAL AND CUSTOMER LOYALTIES, UNACCEPTABLE COMPROMISES AT A TIME WHEN GLOBAL COMPETITION IS HEIGHTENING.

But the ESG pursuit is not solely to appease; rather, ESG efforts deliver concrete benefits that are not only ethically fruitful but inherently constructive to all phases of business operations.

PUBLIC SCRUTINY

With the maturation and prevalence of social media, companies of all sizes, public and private, find themselves in the crosshairs of scrutiny. In a 2021 letter to CEOs, BlackRock CEO Larry Fink detailed the issues that he deemed “pivotal to creating durable value.” Receiving equal billing with “capital management” and “long-term strategy” were two non-financial issues: “purpose” and “climate change.”⁷

“I believe that the [COVID-19] pandemic has presented such an existential crisis—such a stark reminder of our fragility—that it has driven us to confront the global threat of climate change more forcefully and to consider how, like the pandemic, it will alter our lives,” Fink wrote. “It has reminded us how the biggest crises, whether medical or environmental, demand a global and ambitious response.”⁸


His solution was far from theoretical and laid out in bare terms his firm’s values and expectations: “Essential to this transition has been the growing availability and affordability of sustainable investment options. ... The creation of sustainable index investments has enabled a massive acceleration of capital towards companies better prepared to address climate risk.”

Coming from a firm whose assets under management total nearly \$7 trillion, powering 35 million retirement funds and the portfolios of 100,000 financial advisers, the impact of Fink’s letter was substantial.

Just ask ExxonMobil. Five months after Fink penned his letter to CEOs, BlackRock, ExxonMobil’s second largest shareholder, backed three climate activist investors who were sharply critical of ExxonMobil’s environmental strategy. BlackRock efforts resulted in their replacing longtime board members.

7 Larry Fink, “Larry Fink’s 2021 Letter to CEOs,” 2021, BlackRock, <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>.

8 Larry Fink, “Larry Fink’s 2021 Letter to CEOs.”

A long, straight road stretching into the distance at sunset. The sky is a mix of orange, yellow, and dark blue. Utility poles with power lines line both sides of the road. Streetlights are visible, some glowing. The road has double yellow lines and a white arrow pointing forward. The overall mood is quiet and contemplative.

Companies must be willing and able to implement an ESG plan ...to do otherwise risks legal, financial, and public relations fallout that can create lasting damage to an organization. Easier said than done.

BlackRock is not an outlier, either. In September 2015, United Nations member states voted unanimously to adopt the body’s 2030 Agenda for Sustainable Development, whose 17 Sustainable Development Goals (SDGs) and 169 targets is a collective “plan of action for people, planet, and prosperity,” according to the United Nations. “We are determined to take the bold and transformative steps which are urgently needed to shift the world onto a sustainable and resilient path.”

While many of the high-level goals appear vague at best, consider goal #15 as an example, which includes nine more detailed discussions of adoption (three included for illustrative purposes):

Goal 15. Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification,⁹ and halt and reverse land degradation and halt biodiversity loss

- **15.1.** By 2020, ensure the conservation, restoration, and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains, and drylands, in line with obligations under international agreements
- **15.2.** By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests, and substantially increase afforestation and reforestation globally
- **15.3.** By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought, and floods, and strive to achieve a land degradation–neutral world¹⁰

While countries, not corporations, adopted the UN agenda, banks are looking to the agenda’s SDGs in their lending commitments, which are considerable. The Paris-based Organisation for Economic Co-operation and Development estimated that nearly \$7 trillion is needed from 2016 through 2030 to meet the SDGs.¹¹ The figure has inspired both public and private efforts to pursue sustainability goals, which has considerable impact on banks.



9 The United Nations defines *desertification* as the process of land degradation (i.e., turning fertile land infertile) as a result of deforestation, unsustainable agriculture, and other factors. See “What Is Desertification?” under “Level 2: Details” at “Desertification,” GreenFacts, page last updated July 30, 2021, <https://www.greenfacts.org/en/desertification/l-2/l-1-define-desertification.htm>.

10 UN General Assembly, Resolution 70/1, Transforming Our World: The 2030 Agenda for Sustainable Development, A/RES/70/1 (October 21, 2015), pp. 24/35–25/35, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.

11 Development Co-operation Directorate, *Green Finance and Investment: Mobilising Resources for Sustainable Development and Climate Action in Developing Countries: Innovations for the 2030 Agenda* (Organisation for Economic Co-operation and Development, no date), <https://www.oecd.org/dac/Green%20Finance%20and%20Investment%20Flyer%20DAC%20HLM%202017.pdf>.

“[B]anks are discovering that taking a responsible and sustainable approach to lending and operations can have huge financial benefits,” writes James Cherowbrier for Statista. “Increasingly, investors are implementing environmental, social and governance (ESG) risk into their decision-making processes.”¹² These commitments are intentional, not aspirational. Consider the following:

- **HSBC committed to spending \$100 billion** in sustainable-related financing between 2017 and 2025. From 2017–2019, it had already invested \$52.4 billion of its goal.¹³
- **Banco Santander committed to investing €120 billion** (\$139.7 billion) in sustainable-related financing between 2019 and 2025, investing €18.6 billion (\$21.7 billion) in 2019.¹⁴
- **Barclays invested £61 billion** (\$82.8 billion) in environmental-, social-, and sustainability-linked projects in 2020.¹⁵

“[Our] ambition [is] to be a net zero bank by 2050, setting us on a path to play a leading role in tackling climate change and helping accelerate the transition to a low-carbon economy,” Barclays said in a statement. “[E]nvironmental sustainability and commerciality can go hand-in-hand.”¹⁶

UNCLEAR GUIDANCE

There’s an underlying disconnect when it comes to embracing ESG values and delivering on intent. This is not about greenwashing or promotional efforts that are insincere or unknowingly fail to achieve an expressed goal. Rather, this is about bottom-line results and delivering on the intended benefits. For that, one needs objective metrics, which in many instances are lacking.

“Is Tesla or Exxon more sustainable?” James Mackintosh queried for *The Wall Street Journal*. “As investors back more companies based on social factors, questions arise about how to grade them.”¹⁷ Without consistent criteria, a passing grade is in the eyes of the beholder. “The differences [between pass and fail] are easy enough to understand if you dig into the details. Yet, they show just how difficult it is to take a simple approach to ESG investing, a style that is becoming ever-more popular.”

For instance, ESG scores by the FTSE index and MSCI, two popular rating systems used by ESG indexes and institutional investors, varied in their assessment of Tesla: MSCI rated Tesla as a leader in the automotive industry while FTSE ranked it worse. Sustainalytics, another rating system, gave Tesla a grade somewhere in the middle.¹⁸

12 James Cherowbrier, “Environmental Commitments of Europe’s Largest Banks — Statistics & Facts,” Statista, August 26, 2021, <https://www.statista.com/topics/5829/environmental-commitments-of-europe-s-largest-banks/#dossierKeyfigures>.

13 James Cherowbrier, “Environmental Commitments of Europe’s Largest Banks — Statistics & Facts.”

14 Santander, “Santander Among the World’s 10 Most Sustainable Banks in the 2021 Dow Jones Sustainability Indices,” press release, November 13, 2021, <https://www.santander.com/en/press-room/press-releases/2021/11/santander-among-the-worlds-10-most-sustainable-banks-in-the-2021-dow-jones-sustainability-indices>.

15 Statista, “Value of Sustainable Financing by Barclays PLC Bank from 2016 to 2020,” 2021, <https://www.statista.com/statistics/1089382/value-of-sustainable-finance-by-barclays-plc-bank/>.

16 Barclays, “Our Ambition to Be a Net Zero Bank by 2050,” no date, <https://home.barclays/society/our-position-on-climate-change/>.

17 James Mackintosh, “Is Tesla or Exxon More Sustainable? It Depends Whom You Ask,” *The Wall Street Journal*, September 17, 2018, <https://www.wsj.com/articles/is-tesla-or-exxon-more-sustainable-it-depends-whom-you-ask-1537199931>.

18 Mackintosh, “Is Tesla or Exxon More Sustainable? It Depends Whom You Ask.”



The differences, Mackintosh explained, reflect what each system measures and how those measurements are impacted by Tesla’s disclosures. “MSCI gives Tesla a near-perfect score for environment, because it has selected two themes as the most important for the car industry: the carbon produced by its products, and the opportunities the company has in clean technology;” on the other hand, “FTSE gives Tesla a ‘zero’ on environment, because its scores ignore emissions from its cars, rating only emissions from its factories.”¹⁹

Additionally, because Tesla does not disclose information about its operations relative to other car makers, a key metric that the FTSE uses in its scores, “FTSE says it has to assume the worst,” Mackintosh said.²⁰ Doing so encourages the company to provide more transparency in future reviews.

This lack of ESG scoring clarity and weighting of metrics may likely pushing industry to look toward a regulatory framework upon which industry can effectively rely.



PRIVATE CONCERNS

Pursuing an ESG plan does not fall solely on large, public companies. Even the smallest company’s decision-making can impact public opinion and loyalties. “Society is demanding that companies, both public and private, serve a social purpose,” Fink wrote in a 2018 letter to CEOs. “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”²¹

In his view, governments were failing to protect the world for the future. “As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges,” Fink said.²²

Investors are increasingly unlikely to make a distinction, favoring those companies whose ESG values align with their own. Consider the results from a recent Accenture survey:

- **59% of investors have asked their advisers about ESG investments;**
- **Gen Z (80%), millennial (63%), and Gen X (60%) investors were more than twice as likely as baby boomers (27%) to have asked their advisers about ESG investments; and**
- **84% of respondents who inquired about ESG investments intend to purchase them within one year.**²³

Interestingly, at least one bank is finding that private companies are faring better than public entities when it comes to ESG pursuits. According to a blog post by Credit Suisse, “family businesses are increasingly attuned to ESG: On average, they

19 Mackintosh, “Is Tesla or Exxon More Sustainable? It Depends Whom You Ask.”

20 Mackintosh, “Is Tesla or Exxon More Sustainable? It Depends Whom You Ask.”

21 Rasmus Schjødt Pedersen, “BlackRock CEO Larry Fink Letter: Words or Action?,” Sustainia, September 24, 2018, <https://sustainiaworld.com/blackrock-ceo-larry-fink-letter-to-ceos-words-or-action/>.

22 Alan Murray and Claire Zillman, “Larry Fink’s Letter, WEF’s Business Risks, GE Split: CEO Daily for January 17, 2018,” Fortune, January 17, 2018, <https://fortune.com/2018/01/17/larry-fink-letter-wef-risks-ge-split-ceo-daily-for-january-17-2018/>.

23 Accenture, “Investors Want More Diversified Financial Products and Customized Advice from Their Wealth Managers, Accenture Report Finds,” press release, August 24, 2021, <https://newsroom.accenture.com/news/investors-want-more-diversified-financial-products-and-customized-advice-from-their-wealth-managers-accenture-report-finds.htm>.

tend to have slightly better results than non-family-owned peers when it comes to ESG scores.”²⁴ The reasons are unclear, but the bank credits their high-level approach to management. “Businesses owned by families tend to take a longer-term view and are often better prepared for the future.”²⁵

BOTTOM-LINE BENEFITS

Pursuit of an ESG plan is not solely to appease investors and banks. A company can accrue tangible benefits by pursuing ESG goals.

An expanding weight of research concludes that “a strong ESG proposition correlates with higher equity returns from both a tilt and momentum perspective.”²⁶ A review of more than 2,000 studies on the impact of ESG planning and equity returns concluded that 63% revealed a positive correlation, compared to 8% whose findings were negative.²⁷

The relationship itself is not intrinsically clear for others and requires further analysis. “How exactly does a strong ESG proposition make financial sense?”²⁸ queried one analyst rhetorically. There is a growing body of evidence that connects ESG to demonstrated value benefits and financial returns:

1. TOP-LINE GROWTH

Companies that offer a strong ESG commitment can increase their reach in their existing markets while expanding into new ones. Amazon, for instance, is “strongly committed to ensuring that the products and services we provide are produced in a way that respect human rights and the environment and protects the fundamental dignity of workers. We engage with suppliers that are committed to these



same principles”²⁹ While not every company pursuing ESG commitments will win business with Amazon, those that do not will certainly miss out.

2. COST REDUCTIONS

By adopting ESG principles, particularly those related to sustainability, companies will inherently reduce their energy, water, and raw material costs, with one study pegging the impact at 60% of operating profits.³⁰ The same report revealed

- **3M has saved \$2.2 billion** since introducing its pollution prevention pays program in 1975; and
- **a water utility is saving \$180 million** per year as it focuses on energy consumption, among other initiatives.

These results are both intuitive and measurable. Consider an LED lightbulb, for example. Research has evaluated the performance and energy costs over the lifetime of a bulb and a user can extrapolate the results to their operations. This is a more concrete way to evaluate cost savings.

24 “Family Businesses Take on ESG,” Credit Suisse, September 2, 2020, <https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/family-businesses-take-on-esg-202009.html>.

25 “Family Businesses Take on ESG.”

26 Mozaffar Khan, George Serafeim, and Aaron Yoon, “Corporate Sustainability: First Evidence on Materiality,” *The Accounting Review* 91, no. 6 (November 2016): 1697–724, <http://dx.doi.org/10.2139/ssrn.2575912>; Zoltán Nagy, Altat Kassam, and Linda-Eling Lee, “Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies,” *Journal of Investing* 25, no. 2 (Summer 2015): 113–24, <https://doi.org/10.3905/joi.2016.25.2.113>.

27 Witold Henisz, Tim Koller, and Robin Nuttall, “Five Ways That ESG Creates Value,” McKinsey Quarterly, *McKinsey & Company*, November 14, 2019, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>.

28 Henisz et al., “Five Ways That ESG Creates Value.”

29 Amazon, *Amazon Supply Chain Standards* (n.d.), retrieved October 21, 2021, https://sustainability.aboutamazon.com/amazon_supply_chain_standards_english.pdf/.

30 Henisz et al., “Five Ways That ESG Creates Value.”



3. MINIMIZE REGULATORY AND LEGAL INTERVENTIONS

Committing to ESG values can reduce government and legal interference: “A stronger external-value proposition can enable companies to achieve greater strategic freedom, easing regulatory pressure. In fact, in case after case across sectors and geographies, we’ve seen that strength in ESG helps reduce companies’ risk of adverse government action. It can also engender government support.”³¹

The benefit is not theoretical, as one-third of corporate profits on average are impacted by state action, from 25%-30% for pharma/healthcare companies to 50%-60% for banks.³²

4. INCREASED PRODUCTIVITY

Companies that offer a strong ESG plan can stimulate employee productivity while increasing the retention of favored employees. An analysis of the companies that were featured in Fortune’s “100 Best Companies to Work For” found that their

perceived cultures generated up to a 3.8% higher stock return annually than their competitors over a 25-year time span.³³

Recent studies have concluded that employees at companies that demonstrate a strong social impact express higher job satisfaction and a stronger motivation to act in a “prosocial” way.³⁴ In terms of enterprise-wide productivity, “social, environmental, and governance responsibility (to all stakeholders) appear to be important as a competitive factor of the modern firm.”³⁵

5. INVESTMENT/ASSET OPTIMIZATION

ESG values are also tied to investment returns, as the motivated company channels capital to initiatives that deliver sustainable opportunities. Additionally, with ESG in mind, companies abandon and avoid those investments associated with potential environmental costs. “Continuing to rely on energy-hungry plants and equipment, for example, can drain cash going forward.”³⁶

31 Henisz et al., “Five Ways that ESG Creates Value.”

32 Henisz, “The Costs and Benefits of Calculating the Net Present Value of Corporate Diplomacy.”

33 Alex Edmans, “The Link Between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility,” *Academy of Management Perspectives* 26, no. 4 (November 1, 2012): 1-19, <https://doi.org/10.5465/amp.2012.0046>.

34 Jan-Emmanuelde Neve et al., “Work and Well-being: A Global Perspective,” in *Global Happiness Policy Report*, ed. Jeffrey Sachs (New York, NY: Global Council for Happiness and Wellbeing, 2018), 74-127; Adam Grant, “Does Intrinsic Motivation Fuel the Prosocial Fire? Motivational Synergy in Predicting Persistence, Performance, and Productivity,” *Journal of Applied Psychology* 93, no. 1 (January 2008): 48-58, <https://doi.org/10.1037/0021-9010.93.1.48>; Adam Grant, “Relational Job Design and the Motivation to Make a Prosocial Difference,” *Academy of Management Review* 32, no. 2 (April 2007): 393-417, <https://doi.org/10.5465/amr.2007.24351328>; and Jeffery Thompson and Stuart Bunderson, “Violations of Principle: Ideological Currency in the Psychological Contract,” *Academy of Management Review* 28, no. 4 (October 2003): 571-86, <https://doi.org/10.5465/amr.2003.10899381>.

35 Marco Taliento, Christian Favino, and Antonio Netti, “Impact of Environmental, Social, and Governance Information on Economic Performance: Evidence of a Corporate ‘Sustainability Advantage’ from Europe,” *Sustainability* 11, no. 6 (March 2019): 1738, <https://doi.org/10.3390/su11061738>.

36 Henisz et al., “Five Ways that ESG Creates Value.”

6. PR BOOST

When tied to relevant and timely industry news, a strategic public relations effort that highlights a company’s ESG efforts can generate valuable media attention. It’s important to distinguish between greenwashing efforts (described above) and those that detail initiatives that are compelling and meaningful. “Media interest is always about timeliness of issues, proof of impact, and great content. To engage in the conversation, companies need to demonstrate why their initiatives matter and convey the storyline in a compelling package.”³⁷

A study of the messaging that companies distributed in response to COVID-19 showed that “firms experiencing more positive sentiment on their human capital, supply chain, and operational response to COVID-19 experienced higher institutional money flows and less negative returns. This effect on returns was stronger for firms that received more coverage from news outlets.”³⁸

7. INCREASED ACCESS TO CAPITAL

Companies that offer a thoughtful ESG plan increase their appeal to lenders.

Greater transparency around the materiality of ESG issues will increasingly affect access to capital and asset values in high-risk sectors. A growing landscape of sustainability standards and disclosure requirements, that exposes financial flows to greater scrutiny and oversight, is expected to start having more influence on investment decisions at all levels, from banks to asset managers to consumers.³⁹



At least one expert quantified the access value, associating a higher ESG score with a 10% savings on capital costs. “The risks that affect your business, in terms of its license to operate, are reduced if you have a strong ESG proposition.”⁴⁰

8. INCREASED INVESTOR ATTENTION

ESG is driving stronger investment growth, with demand rising 140% from 2019 to 2020. “Since 1995, ESG assets have routinely grown at a compound annual growth rate of 14%, although the growth has picked up rapidly since 2012.”⁴¹ The trend shows no sign of abating:

“ESG investment products will be the next growth frontier for traditional asset managers. Flows have been positive in recent years, and especially as investors and asset managers now have a keener focus on ESG investment themes, ESG data, and the incorporation of ESG considerations in investment analysis and product construction. Even in a difficult environment for equity performance, these investments have seen strong returns and AUM (assets under management) growth among asset managers with a stronger emphasis in ESG products.”⁴²

37 David Calusdian, “Approaching ESG from a PR perspective,” *The Podium* (blog), Sharon Merrill, September 24, 2020, <https://blog.investorrelations.com/blog/approaching-esg-from-a-pr-perspective>.

38 State Street Corporation, *Corporate Resilience and Response During COVID-19*, 2020, https://www.statestreet.com/content/dam/statestreet/documents/ss_associates/Corporate%20Resilience%20and%20Response%20During%20Covid19_Exec_2020April_3049915.GBL.pdf.

39 Moody’s Investors Service Inc., “Moody’s — Global ESG Trends Amplified by Green Stimulus, Climate Policy and Disclosure Initiatives,” news release, February 3, 2021, https://www.moodys.com/research/Moodys-Global-ESG-trends-amplified-by-green-stimulus-climate-policy--PBC_1264125.

40 Sean Brown, Sara Bernow, and Robin Nuttall, “Why ESG Is Here to Stay,” May 26, 2020, in *Inside the Strategy Room*, produced by McKinsey & Company, podcast episode transcript, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay>.

41 Moody’s Investors Service, “ESG Investing a Boon for Asset Managers as Product Skepticism Diminishes,” news release, February 23, 2021, https://www.moodys.com/research/Moodys-ESG-investing-a-boon-for-asset-managers-as-product-skepticism-diminishes--PBC_1265808.

42 Moody’s Investors Service, “ESG Investing a Boon for Asset Managers as Product Skepticism Diminishes.”

9. INCREASED ACCESS TO BIDDING

Companies looking to earn contract bids from public and private companies may fare better with a strong ESG posture. Green procurement, the sourcing of goods and products that are environmentally friendly, is becoming increasingly commonplace. Local, state, and federal government organizations may require suppliers to demonstrate sustainability practices, and private companies may limit responses on their requests for proposals to those who offer some type of sustainability value proposition.⁴³

10. ENHANCED PERFORMANCE

Investors are increasingly swayed by the performance of ESG funds. In an analysis of 26 ESG exchange-traded funds with more than \$250 million in assets under management, in the latest 12-month period, 19 of the funds outperformed the S&P 500, rising between 27.3% and 55%, compared with the S&P increase of 27.1%.⁴⁴

Parnassus Endeavor Fund realized the largest growth during the year, jumping 55%, followed by Nuveen ESG Small-Cap ETF (+51.5%) and Ariel Fund (+45.4%).⁴⁵

As a result, investors are increasingly shifting their money into ESG funds. Flows into sustainable investment funds in the U.S. in 2020 reached \$51.1 billion, which was more than double 2019 levels and a nearly tenfold increase from flows into ESG funds in 2018, according to Morningstar Inc.⁴⁶

11. IT'S SIMPLY THE RIGHT THING

Finally, companies may pursue an ESG agenda because it aligns with their ethical and moral values. This may be intrinsic in the company's mission or ancillary to its other pursuits. Either way, embracing practices that preserve and protect the environment, standing up for social issues, or adopting an inclusive governing body help drive corporate decision-making and contribute to the company's identity and brand.

ON THE OTHER HAND...

Not all analyses associate ESG plans with increased business performance. Indeed, some analyses question whether there is causation at all and take issue with the underlying analyses.

For example, a study by Scientific Beta found that:

... while many of the ESG strategies have positive returns, adjusting these returns for risk shrinks alpha to zero. Sector biases and exposures to equity style factors capture the returns of ESG strategies. Considering downside risk exposure does not change this conclusion. In addition, our analysis suggests that returns are inflated when investor attention to ESG rises.⁴⁷

The Scientific Beta study pointed out that while ESG initiatives can deliver increased value to shareholders, "investors who look for value-added through outperformance are looking in the wrong place."⁴⁸

43 Tom Permatteo, "Sustainable Sourcing: How to Demonstrate Sustainability and Win More Contract Bids," Green Business Bureau (company blog), February 19, 2021, <https://greenbusinessbureau.com/blog/sustainable-sourcing-how-to-demonstrate-sustainability-and-win-more-contract-bids/>.

44 Esther Whieldon and Robert Clark, "ESG Funds Beat out S&P 500 in 1st Year of COVID-19; How 1 Fund Shot to the Top," News & Insights, S&P Global, April 6, 2021, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-beat-out-s-p-500-in-1st-year-of-covid-19-how-1-fund-shot-to-the-top-63224550>.

45 Whieldon and Clark, "ESG Funds Beat out S&P 500 in 1st Year of COVID-19; How 1 Fund Shot to the Top."

46 Whieldon and Clark, "ESG Funds Beat out S&P 500 in 1st Year of COVID-19; How 1 Fund Shot to the Top."

47 Giovanni Bruno, Mikheil Esakia, and Felix Goltz, "Honey, I Shrank the ESG Alpha": Risk-Adjusting ESG Portfolio Returns, Scientific Beta, April 2021, <https://cdn.ihsmarket.com/www/pdf/0521/Honey-I-Shrank-the-ESG-Alpha.pdf>.

48 Giovanni Bruno, Mikheil Esakia and Felix Goltz, "Honey, I Shrank the ESG Alpha."

In another report, Elizabeth Demers et al. studied the link between ESG scores and stock performance during COVID-19.⁴⁹ ESG scores “offer no such positive explanatory power for returns during COVID-19,” despite conflicting claims by BlackRock, Morningstar and MSCI.⁵⁰

Elizabeth Demers et al. maintained that while others promote ESG as protecting against risk, the record investments into sustainable funds were not driven by performance. “These results suggest that innovation-related assets rather than social capital investments offer the greater immunity to sudden, unanticipated market declines.”⁵¹

UNCERTAIN ROI

For those seeking finite investment returns on an ESG plan, the numbers may therefore be speculative. In the LED lightbulb example above, one can measure the impact of certain tactics and determine the overall benefit (such as financial or environmental). A “similar approach can be pursued when balancing operating expenses with projected returns. Things such as higher marketing ROI and lower customer acquisition costs can demonstrate the valuable relationship between ESG and a company’s products and services.”⁵²

UPS is a recognized leader in its ESG efforts, and the company spends considerable effort evaluating how much to spend on which initiatives. The company recommends, as a first step, prioritizing factors that cannot be compromised—which, in its case, includes dividends, credit rating, and corporate values.⁵³

Next, determine a budget for the ESG plan and select projects that align with corporate strategy, evaluating such factors as importance to shareholders as well as to business success. Quantifying ESG returns can be vague, however:

UPS believes it’s always possible to measure the impact; if you can’t capture everything, you can get at least part of the way there. To do so requires three elements:

- **Finding the link** between the investment and the business
- **Considering the opportunity cost** of failing to invest
- **Assessing the expenditure** using a cash value-added model⁵⁴

From there, UPS recommends treating ESG returns differently than those with other investments, accepting a cash-back period of up to 10 years, compared to two- to three-year periods associated with other investments.



49 Elizabeth Demers et al., “ESG Didn’t Immunize Stocks During the COVID-19 Crisis, But Investments in Intangible Assets Did,” *Journal of Business Finance & Accounting* 48, no. 3-4 (March/April 2021): 433-462, <http://dx.doi.org/10.1111/jbfa.12523>.

50 Elizabeth Demers et al., “ESG Didn’t Immunize Stocks During the COVID-19 Crisis, But Investments in Intangible Assets Did.”

51 Elizabeth Demers et al., “ESG Didn’t Immunize Stocks During the COVID-19 Crisis, But Investments in Intangible Assets Did.”

52 Swetha Venkataramani, “The ESG Imperative: 7 Factors for Finance Leaders to Consider,” Gartner, June 10, 2021, <https://www.gartner.com/smarterwithgartner/the-esg-imperative-7-factors-for-finance-leaders-to-consider/>.

53 Oana Lupu and Jessica Kranish, “How UPS Assesses ROI on Resilience-Driven ESG Spending,” Gartner, November 18, 2020, <https://www.gartner.com/en/documents/3993325/how-ups-assesses-roi-on-resilience-driven-esg-spending>.

54 Lupu and Kranish, “How UPS Assesses ROI on Resilience-Driven ESG Spending.”

IMPLEMENTATION

The successful ESG plan cannot be left to chance. For an ESG plan to deliver on its intended results, implementation must be measured and deliberate. And while no two companies will pursue the same path, there are a few basic elements to consider.

TOP-DOWN SUPPORT

No matter the company’s size or structure, success flows from the top, with executive leadership and the corporate board imperative. The top-down directive ensures (or enhances) consistency and increases the likelihood for adoption.

“The Board, as the ultimate governance body, is responsible for managing the ESG-related risks and opportunities and ensure resilience with respect to potential shifts in the business landscape that may result from ESG factors. Failure to do so may constitute a breach of directors’ duties.”⁵⁵ For those companies that have a successful ESG program, “in almost all cases, the board has been actively involved—and it has been quite pronounced on both the audit committee and compensation committee.”⁵⁶

CORPORATE CULTURE

With executive leadership driving the change, ESG values should be embedded into the corporate culture. “Purpose is about the culture of the organization and how people behave, what are the norms, beliefs and systems to which their organization behaves . . . purpose can lead to stronger performance, stronger valuation and stronger growth of corporate profits.”⁵⁷

DECENTRALIZATION

With ESG now a corporate-wide pursuit and integral to a company’s purpose, the company should decentralize deployment of ESG efforts. By shifting the oversight from executive management to individual departments, “those responsibilities then become part of the procurement process, the marketing process and the product design process.”⁵⁸

Such an approach facilitates “finding those opportunities for new markets, new growth and new innovation.”⁵⁹

TRANSPARENCY

Once an ESG program is underway, to foster employee engagement at every level, the company should provide transparent reporting that “mov[es] toward measuring and systemically understanding outcomes and impacts from those efforts.”⁶⁰

For example, a transportation company that has adopted an ESG policy that seeks to reduce its carbon footprint can detail the equipment that helped improve efficiency and provide an ROI analysis. Such reporting helps a company understand the impact of its actions, generating enthusiasm and further support for continuing ESG efforts.

The effort can also include publication of the ESG scores (see next section) that raters assign to the company, allowing a third-party assessment of the company’s success.

55 KPMG China, *Environmental, Social, and Governance (ESG): A Key Approach to Business Resilience*, March 19, 2021, <https://home.kpmg/content/dam/kpmg/cn/pdf/en/2021/03/esg-a-key-approach-to-business-resilience.pdf>.

56 MarketInsite, “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value,” Nasdaq Inc., October 2, 2020, <https://www.nasdaq.com/articles/the-5-step-playbook-to-implementing-an-esg-strategy-that-drives-real-value-2020-10-02>.

57 MarketInsite, “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value.”

58 MarketInsite, “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value.”

59 MarketInsite, “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value.”

60 MarketInsite, “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value.”

RATINGS, STANDARDS, AND REPORTING

To help guide investors interested in supporting ESG-driven companies, several companies issue ESG scores and ratings. Keep in mind that ESG indicators for these rating companies evolve over time, and organizations must pay attention to changing demands and expectations. The ESG framework must provide the flexibility to adjust actions to align with these shifting expectations.

RATINGS

Some investors seek detailed ESG information about a prospective investment target, evaluating their efforts in terms of profile and preparedness.

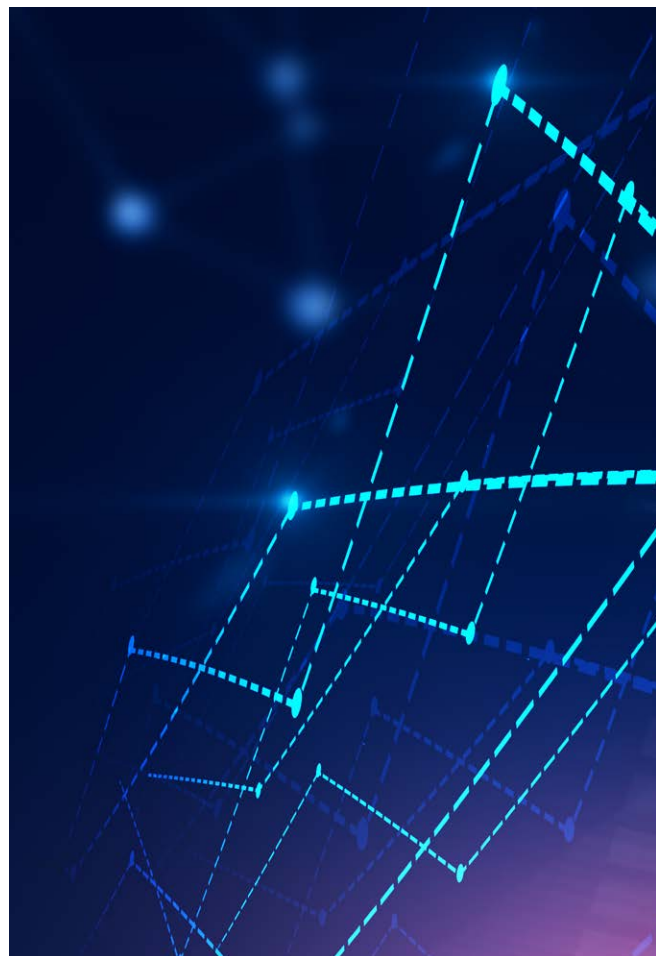
The profile analysis looks at short-term ability to manage ESG-related risks and ultimately leverage opportunities relative to its competitors. S&P Global Ratings (S&P) weights each element of the ESG plan as follows: environmental (30%), social (30%), and governance (40%).⁶¹

S&P meets with a company’s senior leaders and board representative and then issues a qualitative preparedness assessment of that company’s “capacity to anticipate and adapt to a variety of long-term disruptions.”⁶² It ranks both countries and sectors with a risk score, evaluating such factors as greenhouse gas emissions (environmental), workforce diversity (social), and code and values (governance).

Next, it awards a preparedness assessment that scores a company’s ability to adapt and respond to long-term disruptions. Risk factors include climate change, deforestation, and childhood obesity, all of which help comprise a preparedness score. As quoted in S&P Global Ratings’ pamphlet on ESG evaluation, Alessia Falsarone of Pinebridge

Investments says, “The Preparedness Opinion is particularly relevant to my risk lens. It builds on understanding the nexus between the organizational awareness journey of a company, its impact on culture, and how it translates into what I call coherent, repeatable, and verifiable processes.”⁶³

The S&P profile vs. preparedness evaluations are but one entity’s attempt to assess ESG risk and performance. Other companies adopt different approaches. Therein lies the difficulty for companies when it comes to ESG planning. Those intent on achieving a certain score or ranking may find themselves frustrated at the varying approaches and considerations applied (see the Tesla example above).



61 S&P Global Ratings, *ESG Evaluation: Sustainable Practices. Sustainable Returns.*, 2021, https://www.spglobal.com/_assets/documents/ratings/esg/esg_evaluation_brochure_digital.pdf.

62 S&P Global Ratings, *ESG Evaluation*.

63 S&P Global Ratings, *ESG Evaluation*.

It's perhaps not surprising, therefore, that rankings of the raters have emerged, with at least one company attempting to grade the more than 600 global ESG ratings and rankings. "As this system has developed, it has influenced how companies report on and disclose ESG data and performance, shaped the creation of ESG-related investment products and framed the public perception of companies."⁶⁴

Their prescription is not avoidance but rather sustained involvement:

"As investors mature in their approach to evaluating ESG performance, as companies are more proactive and transparent on ESG disclosure, and as new tools emerge, the nature and role of ESG ratings will continue to evolve. In this shifting environment, strong and open dialogue between companies, investors and ESG research firms is needed to help improve the flow of ESG data from companies to investors as well as the way the data is used."⁶⁵

STANDARDS AND REPORTING

A primary reason for fluctuating ESG ratings reflects a lack of global ESG standards. And without objective, measurable factors, companies struggle to report on their ESG performance in a way that is universally recognized.

Additionally, there is no formal mechanism for auditing ESG data, so stakeholders lack certainty as to its quality. Indeed, companies often incorporate myriad (10-12) frameworks and standards, and they can choose which of those to use as their basis for reporting.

Some report on several self-identified standards, providing the marketplace with ample data though scant evidence of how it relates to its financial performance. For instance, one major fuel marketer reported a major reduction in its carbon emissions but parenthetically disclosed that it had also sold hundreds of stores during the year. Impressive ESG performance, yes. But results that are hardly attributed to any operational changes.⁶⁶

⁶⁴ Christina Wong and Erika Petroy, *Rate the Raters 2020: Investor Survey and Interview Results* (SustainAbility Institute, an ERM Group company, March 2020), <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf>.

⁶⁵ Wong and Petroy, *Rate the Raters 2020: Investor Survey and Interview Results*.

⁶⁶ Ted Knutson, "AI is Mining ESG Data Companies Aren't Disclosing, Says BlackRock Exec," *Forbes*, June 18, 2020, <https://www.forbes.com/sites/tedknutson/2020/06/18/ai-mining-esg-data-companies-not-disclosing-says-blackrock-exec/?sh=502fcc107d97>.



Without adequate ESG planning, public and private companies risk the loss of access to capital and customer loyalties, unacceptable compromises at a time when global competition is heightening.

“There is an overabundance of ESG data,” one analyst remarked. “When we look at 100 data points, we find 15 percent connected to materiality.”

Others maintain that the need for standards would also hold companies accountable to their ESG commitments:

The impact of sustainability reporting standards will be enormous. Executives will be better able to factor sustainability issues into strategy and capital-allocation decisions. This will help to ensure the sustainability of corporate financial performance, particularly over the long term. ... Since sustainability performance can be a leading indicator of financial performance, investors will want the same consistency and clarity in a company’s sustainability reporting as they now expect for its financial reporting.⁶⁷

SMART DATA

Absent objective standards, some are taking a smarter approach: artificial intelligence (AI). The reason? “Investors and analysts have long complained the only ESG information available about companies is what the businesses are disclosing.”⁶⁸

For instance, one report estimated that only 3% of Fortune 500 companies disclose comprehensive diversity data.⁶⁹ To fully inform their investing decisions, finance firms are leveraging AI to extract relevant information about a company’s ESG activities and performance. I believe the date (year) for this report is an indirect message by itself and should be included in this sentence. The vast majority of our readers will not be reviewing footnotes.



Everything from social media posts, community events, and crowd-sourced sites such as Yelp and Glassdoor are mined for data, all of which can be distilled and evaluated to obtain a more complete view of a company’s ESG practices. “Developing an AI-driven model for ESG analysis also makes it easier to create a standardized framework based on the appropriate criteria and present the findings in a visual format that is easily readable.”⁷⁰

With this in mind, corporate executives must understand that words matter:

Much of the potential for artificial intelligence in ESG investing comes from sentiment analysis algorithms. These algorithms allow computers to analyze the tone of a conversation... For example, a program trained to read the transcripts of a company’s quarterly earnings calls could determine the tone of the words when the CEO speaks, use natural language processing to easily identify in which parts of the conversation the CEO talks about ESG-related topics, and then infer from those words used how committed a company appears to be about mitigating environmental risks.⁷¹

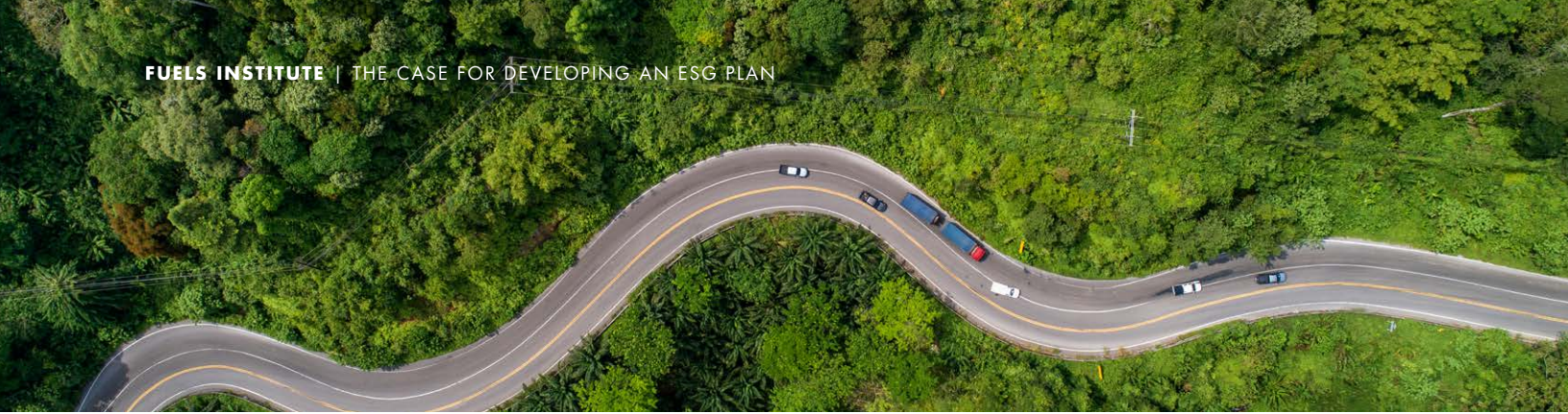
67 Richard Barker, Robert Eccles, and George Serafeim, “The Future of ESG is ... Accounting?” *Harvard Business Review*, December 3, 2020, <https://hbr.org/2020/12/the-future-of-esg-is-accounting>.

68 Ted Knutson, “AI is Mining ESG Data Companies Aren’t Disclosing, Says BlackRock Exec”

69 Grace Donnelly, “Only 3% of Fortune 500 Companies Share Full Diversity Data,” *Fortune*, June 7, 2017, <https://fortune.com/2017/06/07/fortune-500-diversity/>.

70 Kumesh Aroomoogan, “How Financial Organizations Can Use AI to Apply ESG Standards,” *Forbes*, March 30, 2021, <https://www.forbes.com/sites/forbesfinancecouncil/2021/03/30/how-financial-organizations-can-use-ai-to-apply-esg-standards/?sh=56895297410b>.

71 S&P Global, “How Can AI Help ESG Investing?” February 25, 2020, <https://www.spglobal.com/en/research-insights/articles/how-can-ai-help-esg-investing>.



LEGAL CONSIDERATIONS

As investor demands for corporate ESG disclosures increase, companies should be mindful of potential legal liability. Currently and in response to investor and political pressures, the Securities and Exchange Commission (SEC) issued an ESG Comment Request on June 15, 2021, seeking public input to 15 questions relating to climate change and other matters relating to standards and disclosures (see <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>). On March 21, 2022, the SEC published and filed a rule making which intends to codify phased-in requirements for publicly traded companies. (see <https://www.sec.gov/files/33-11042-fact-sheet.pdf> and full proposed rule <https://www.sec.gov/rules/proposed/2022/33-11042.pdf>) At the time of this literature review, this rule making is within the 60-day comment period with an expected final rule in December 2022. Implementation of the rules are expected to occur as early as 2023. As written, this rule will require publicly traded companies to report Scope 3 emissions. In order to do-so, these companies will need to collect Scope 1 emission data from any and all organizations in which they are doing business with, regardless of publicly or privately held status.

Executives tasked with overseeing a company's ESG reporting should therefore remain informed on current and evolving requirements as well as weigh the legal risks and costs with providing voluntary disclosures. Those who make false or materially

misleading statements, either in SEC filings or public-facing communications, may face legal liability.⁷²

In addition to liability from federal securities laws, federal and state laws relating to consumer protection issues may also subject a company to legal liability if their actions are deemed unlawful.

LOOKING AHEAD

ESG practices and expectations are quickly evolving, making any corporate plan subject to ongoing review and analysis. No matter your industry or practice area, those looking to pursue an ESG initiative can expect more ambiguity than clarity.

Retailers and marketers must understand the ESG scope and requirements of the companies they supply or represent, assessing how their ESG actions impact the ESG reporting of the companies they supply or represent.

Inaction is no longer a viable option. Remaining silent when it comes to ESG values speaks volumes about a company's perceived values. If you have not yet paid attention to ESG, the time is now.

The public is watching.

What you say—and do—can make a *world* of difference.

⁷² Connor Kuratek, Joseph A. Hall, and Betty M. Huber, "Legal Liability for ESG Disclosures," Harvard Law School Forum on Corporate Governance, August 3, 2020, <https://corp.gov.law.harvard.edu/2020/08/03/legal-liability-for-esg-disclosures/>.

A young evergreen tree sapling with vibrant green needles and a thin brown trunk stands in the center of the frame. The background is a soft-focus forest with various green plants and trees. The lighting is natural, highlighting the texture of the needles.

Inaction is no longer a viable option. Remaining silent when it comes to ESG values speaks volumes about a company's perceived values.

Bibliography

- Accenture, “Investors Want More Diversified Financial Products and Customized Advice from Their Wealth Managers, Accenture Report Finds,” press release, August 24, 2021, <https://newsroom.accenture.com/news/investors-want-more-diversified-financial-products-and-customized-advice-from-their-wealth-managers-accenture-report-finds.htm>.
- Amazon. *Amazon Supply Chain Standards* (n.d.). Retrieved October 21, 2021. https://sustainability.aboutamazon.com/amazon_supply_chain_standards_english.pdf/.
- Aroomoogan, Kumesh. “How Financial Organizations Can Use AI to Apply ESG Standards.” *Forbes*. March 30, 2021. <https://www.forbes.com/sites/forbesfinancecouncil/2021/03/30/how-financial-organizations-can-use-ai-to-apply-esg-standards/?sh=56895297410b>.
- Barker, Richard, Robert Eccles, and George Serafeim. “The Future of ESG is ... Accounting?” *Harvard Business Review*. December 3, 2020. <https://hbr.org/2020/12/the-future-of-esg-is-accounting>.
- Bolt, John. “Exxon Shareholders Overwhelmingly Reject Environmental Proposals.” *Associated Press*. April 26, 1990. <https://apnews.com/fc58470d6e81ead01f89be50a6c772c7>.
- Brown, Sean, Sara Bernow, and Robin Nuttall. “Why ESG Is Here to Stay.” May 26, 2020. *In Inside the Strategy Room*. Produced by McKinsey & Company. Podcast episode transcript. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/why-esg-is-here-to-stay>.
- Bruno, Giovanni, Mikheil Esakia, and Felix Goltz. “*Honey, I Shrank the ESG Alpha*: Risk-Adjusting ESG Portfolio Returns. Scientific Beta. April 2021. <https://cdn.ihsmarket.com/www/pdf/0521/Honey-I-Shrank-the-ESG-Alpha.pdf>.
- Calusdian, David. “Approaching ESG from a PR perspective.” *The Podium* (blog). Sharon Merrill. September 24, 2020. <https://blog.investorrelations.com/blog/approaching-esg-from-a-pr-perspective>.
- Cherowbrier, James. “Environmental Commitments of Europe’s Largest Banks — Statistics & Facts.” Statista. August 26, 2021. <https://www.statista.com/topics/5829/environmental-commitments-of-europe-s-largest-banks/#dossierKeyfigures>.
- Demers, Elizabeth, Jurian Hendrikse, Philip Joos, and Baruch Lev. “ESG Didn’t Immunize Stocks During the COVID-19 Crisis, But Investments in Intangible Assets Did.” *Journal of Business Finance & Accounting* 48, no. 3-4 (March/April 2021): 433-462. <http://dx.doi.org/10.1111/jbfa.12523>.
- “Desertification,” GreenFacts, page last updated July 30, 2021, <https://www.greenfacts.org/en/desertification/l-2/1-define-desertification.htm>.
- Development Co-operation Directorate. *Green Finance and Investment: Mobilising Resources for Sustainable Development and Climate Action in Developing Countries: Innovations for the 2030 Agenda* (Organisation for Economic Co-operation and Development, no date) <https://www.oecd.org/dac/Green%20Finance%20and%20Investment%20Flyer%20DAC%20HLM%202017.pdf>.
- Donnelly, Grace. “Only 3% of Fortune 500 Companies Share Full Diversity Data.” *Fortune*. June 7, 2017. <https://fortune.com/2017/06/07/fortune-500-diversity/>.
- Edmans, Alex. “The Link Between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility.” *Academy of Management Perspectives* 26, no. 4 (November 1, 2012): 1-19. <https://doi.org/10.5465/amp.2012.0046>.
- “Family Businesses Take on ESG.” Credit Suisse. September 2, 2020. <https://www.credit-suisse.com/about-us-news/en/articles/news-and-expertise/family-businesses-take-on-esg-202009.html>.
- Fink, Larry. “Larry Fink’s 2021 Letter to CEOs.” 2021. BlackRock. <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>.
- Grant, Adam. “Does Intrinsic Motivation Fuel the Prosocial Fire? Motivational Synergy in Predicting Persistence, Performance, and Productivity.” *Journal of Applied Psychology* 93, no. 1 (January 2008): 48–58. <https://doi.org/10.1037/0021-9010.93.1.48>.

- Grant, Adam. “Relational Job Design and the Motivation to Make a Prosocial Difference.” *Academy of Management Review* 32, no. 2 (April 2007): 393–417. <https://doi.org/10.5465/amr.2007.24351328>.
- Henisz, Witold J. “The Costs and Benefits of Calculating the Net Present Value of Corporate Diplomacy.” In “Environmental and Social Acceptability of Major Industrial Projects: From Risk Management to Shared Prosperity.” Ed. David Ménascé. Special issue 14, *Field Actions Science Reports* (2016). <https://journals.openedition.org/factsreports/4109>.
- Henisz, Witold, Tim Koller, and Robin Nuttall, “Five Ways That ESG Creates Value,” *McKinsey Quarterly*, McKinsey & Company. November 14, 2019. <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value>.
- Khan, Mozaffar, George Serafeim, and Aaron Yoon. “Corporate Sustainability: First Evidence on Materiality.” *The Accounting Review* 91, no. 6 (November 2016): 1697–724. <http://dx.doi.org/10.2139/ssrn.2575912>.
- Knutson, Ted. “AI is Mining ESG Data Companies Aren’t Disclosing, Says BlackRock Exec.” *Forbes*. June 18, 2020. <https://www.forbes.com/sites/tedknutson/2020/06/18/ai-mining-esg-data-companies-not-disclosing-says-blackrock-exec/?sh=502fcc107d97>.
- KPMG China. *Environmental, Social, and Governance (ESG): A Key Approach to Business Resilience*. March 19, 2021. <https://home.kpmg/content/dam/kpmg/cn/pdf/en/2021/03/esg-a-key-approach-to-business-resilience.pdf>.
- Kuratek, Connor, Joseph A. Hall, and Betty M. Huber, “Legal Liability for ESG Disclosures,” Harvard Law School Forum on Corporate Governance, August 3, 2020, <https://corpgov.law.harvard.edu/2020/08/03/legal-liability-for-esg-disclosures/>.
- Lupu, Oana and Jessica Kranish. “How UPS Assesses ROI on Resilience-Driven ESG Spending.” Gartner. November 18, 2020. <https://www.gartner.com/en/documents/3993325/how-ups-assesses-roi-on-resilience-driven-esg-spending>.
- Mackintosh, James. “Is Tesla or Exxon More Sustainable? It Depends Whom You Ask.” *The Wall Street Journal*. September 17, 2018. <https://www.wsj.com/articles/is-tesla-or-exxon-more-sustainable-it-depends-whom-you-ask-1537199931>.
- MarketInsite. “The 5-Step Playbook to Implementing an ESG Strategy That Drives Real Value.” Nasdaq Inc. October 2, 2020. <https://www.nasdaq.com/articles/the-5-step-playbook-to-implementing-an-esg-strategy-that-drives-real-value-2020-10-02>.
- Moody’s Investors Service. “ESG Investing a Boon for Asset Managers as Product Skepticism Diminishes.” News release. February 23, 2021. https://www.moody.com/research/Moodys-ESG-investing-a-boon-for-asset-managers-as-product--PBC_1265808.
- Moody’s Investors Service Inc. “Moody’s - Global ESG Trends Amplified by Green Stimulus, Climate Policy and Disclosure Initiatives.” News release. February 3, 2021. https://www.moody.com/research/Moodys-Global-ESG-trends-amplified-by-green-stimulus-climate-policy--PBC_1264125.
- Murray, Alan and Claire Zillman. “Larry Fink’s Letter, WEF’s Business Risks, GE Split: CEO Daily for January 17, 2018.” *Fortune*. January 17, 2018. <https://fortune.com/2018/01/17/larry-fink-letter-wef-risks-ge-split-ceo-daily-for-january-17-2018/>.
- Nagy, Zoltán, Altaf Kassam, and Linda-Eling Lee. “Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies.” *Journal of Investing* 25, no. 2 (Summer 2015): 113–24. <https://doi.org/10.3905/joi.2016.25.2.113>.
- Neveetal, Jan-Emmanuelde. “Work and Well-being: A Global Perspective.” In *Global Happiness Policy Report*. Ed. Jeffrey Sachs (New York, NY: Global Council for Happiness and Wellbeing, 2018), 74–127.
- Permatteo, Tom. “Sustainable Sourcing: How to Demonstrate Sustainability and Win More Contract Bids.” Green Business Bureau (company blog). February 19, 2021. <https://greenbusinessbureau.com/blog/sustainable-sourcing-how-to-demonstrate-sustainability-and-win-more-contract-bids/>.
- Santander. “Santander Among the World’s 10 Most Sustainable Banks in the 2021 Dow Jones Sustainability Indices.” Press release. November 13, 2021. <https://www.santander.com/en/press-room/press-releases/2021/11/santander-among-the-worlds-10-most-sustainable-banks-in-the-2021-dow-jones-sustainability-indices>.
- Schjødt Pedersen, Rasmus. “BlackRock CEO Larry Fink Letter: Words or Action?” Sustainia. September 24, 2018. <https://sustainiaworld.com/blackrock-ceo-larry-fink-letter-to-ceos-words-or-action/>.
- S&P Global. “How Can AI Help ESG Investing?” February 25, 2020. <https://www.spglobal.com/en/research-insights/articles/how-can-ai-help-esg-investing>.

- S&P Global Ratings. *ESG Evaluation: Sustainable Practices*. Sustainable Returns. 2021. https://www.spglobal.com/assets/documents/ratings/esg/esg_evaluation_brochure_digital.pdf.
- State Street Corporation, *Corporate Resilience and Response During COVID-19, 2020*, https://www.statestreet.com/content/dam/statestreet/documents/ss_associates/Corporate%20Resilience%20and%20Response%20During%20Covid19_Exec_2020April_3049915.GBL.pdf.
- Statista. “Value of Sustainable Financing by Barclays PLC Bank from 2016 to 2020.” 2021. <https://www.statista.com/statistics/1089382/value-of-sustainable-finance-by-barclays-plc-bank/>.
- Stevens, Pippa. “Activist Firm Engine No. 1 Claims Third Exxon Board Seat.” CNBC. June 2, 2021. <https://www.cnbc.com/2021/06/02/activist-firm-engine-no-1-claims-third-exxon-board-seat.html>.
- Taliento, Marco, Christian Favino, and Antonio Netti. “Impact of Environmental, Social, and Governance Information on Economic Performance: Evidence of a Corporate ‘Sustainability Advantage’ from Europe.” *Sustainability* 11, no. 6 (March 2019): 1738. <https://doi.org/10.3390/su11061738>.
- Thompson, Jeffery and Stuart Bunderson. “Violations of Principle: Ideological Currency in the Psychological Contract.” *Academy of Management Review* 28, no. 4 (October 2003): 571–86, <https://doi.org/10.5465/amr.2003.10899381>.
- UN General Assembly, Resolution 70/1, Transforming Our World: The 2030 Agenda for Sustainable Development, A/RES/70/1 (October 21, 2015), pp. 24/35–25/35, https://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.
- Venkataramani, Swetha. “The ESG Imperative: 7 Factors for Finance Leaders to Consider.” Gartner. June 10, 2021. <https://www.gartner.com/smarterwithgartner/the-esg-imperative-7-factors-for-finance-leaders-to-consider/>.
- Watson, Bruce. “The Troubling Evolution of Corporate Greenwashing.” *The Guardian*. August 20, 2016. <https://www.theguardian.com/sustainable-business/2016/aug/20/greenwashing-environmentalism-lies-companies>.
- Whieldon, Esther and Robert Clark. “ESG Funds Beat out S&P 500 in 1st Year of COVID-19; How 1 Fund Shot to the Top.” News & Insights. S&P Global. April 6, 2021. <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/esg-funds-beat-out-s-p-500-in-1st-year-of-covid-19-how-1-fund-shot-to-the-top-63224550>.
- Wong, Christina and Erika Petroy. *Rate the Raters 2020: Investor Survey and Interview Results* (SustainAbility Institute, an ERM Group company, March 2020). <https://www.sustainability.com/globalassets/sustainability.com/thinking/pdfs/sustainability-ratetheraters2020-report.pdf>.

About the Fuels Institute

The Fuels Institute, founded by NACS in 2013, is a 501(c)(4) non-profit research-oriented think tank dedicated to evaluating the market issues related to vehicles and the fuels that power them. By bringing together diverse stakeholders of the transportation and fuels markets, the Institute helps to identify opportunities and challenges associated with new technologies and to facilitate industry coordination to help ensure that consumers derive the greatest benefit.

The Fuels Institute commissions and publishes comprehensive, fact-based research projects that address the interests of the affected stakeholders. Such publications will help to inform both business owners considering long-term investment decisions and policymakers considering legislation and regulations affecting the market. Research is independent and unbiased, designed to answer questions, not advocate a specific outcome. Participants in the Fuels Institute are dedicated to promoting facts and providing decision makers with the most credible information possible so that the market can deliver the best in vehicle and fueling options to the consumer.

For more about the Fuels Institute, visit fuelsinstitute.org

FUELS INSTITUTE STAFF

John Eichberger

Executive Director
jeichberger@fuelsinstitute.org

Jeff Hove

Vice President
jhove@fuelsinstitute.org

Amanda Appelbaum

Director, Research
aappelbaum@fuelsinstitute.org

Marjorie Kass

Director, Marketing and Communications
mkass@fuelsinstitute.org

FOR A LIST OF CURRENT FUELS INSTITUTE BOARD MEMBERS AND FINANCIAL SUPPORTERS, PLEASE VISIT [FUELSINSTITUTE.ORG](https://fuelsinstitute.org)

Fuels Institute

OBJECTIVE • COLLABORATIVE • RESEARCH

(703) 518-7970
FUELSINSTITUTE.ORG
@FUELSINSTITUTE

1600 DUKE STREET
SUITE 700
ALEXANDRIA, VA 22314