The growing need for ESG expertise in an uncertain future

Growing concern around issues such as climate change has seen Environmental, Social, and Corporate Governance (ESG) continue to rise in importance. The recent announcement from Ernst & Young LLP, of a £100M investment in EY Carbon, its dedicated UK sustainability consulting business, only serves to highlight just how much of a priority ESG is for many organisations.

Temps de lecture : minute

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19 April 2022

At the same time, there is speculation that ESG investing may not be popular in the long term, suggesting that it is, in fact, a “bubble”, and that EY’s investment in ESG teams may be a step too far at this point in time. At a time where regulation and compliance have become increasingly complex, it has become vital that organisations know just how much of their resources to dedicate to *ESG* and whether the decisions they are making now will still be relevant in the short and long term.

Accurate and trustworthy

ESG’s popularity has been due to a large number of factors. Under increasing scrutiny from stakeholders – regulators, investors, and concerned customers - businesses everywhere face rising pressure to proactively measure and report on their ESG efforts.

In regulatory terms, for example, the EU’s *Sustainable Finance Disclosure Regulation (SFDR)* means that it is mandatory for financial institutions to disclose their ESG credentials, while in Germany, the government’s

Sustainable Finance Strategy (SFS) makes ESG reporting mandatory for all sectors.

These new regulations have had a knock-on effect on a company’s funding, with venture capital firms increasingly asking for ESG metrics from their portfolio companies to help them identify risks and opportunities. Essentially, those companies that can prove their ESG efforts will be considered better able to manage risk and will therefore benefit from greater access to capital and favourable term sheets.

And, of course, if a company’s customers aren’t convinced of its sustainability efforts, they can just take their business elsewhere, hurting both its reputation and bottom line.

But it is not enough for a company to simply report on its ESG activity – the data must also be validated. ESG reporting has become ever more dependent on accurate, trustworthy information. Presenting data on ESG credentials without verification can make it difficult for a company to comply with relevant industry regulations. What’s more, empty promises can be quickly identified, and can result in a loss of trust from customers, reduced investment and even, in some instances, investigation by regulators.

Suggestions of a bubble

This need for data assurance goes some way to explaining the growing popularity of internal ESG teams, whose ability to verify and account for a company’s ESG commitments is seen as being integral to the reliability of its sustainability efforts. The announcement of EY Carbon, created to advise companies on tightening climate disclosure requirements, can be seen as the next logical step for many businesses in this space.

Recent research, however, questions whether investments such as these

– either in internal resources or external consultancy – may be too much for something that may not actually be permanent. The truth is, it may be too soon to tell. Analysis may be premature and jumping to conclusions without fully assessing the data. After all, the importance of an organisation's ESG reporting as a factor in investment decisions is still relatively new. As such, it shouldn't be discarded lightly.

Whatever the future holds

Regardless of how much organisations will value the importance of ESG, the reality of the need to comply with regulations such as SFDR and SFS, means the need for reliable data won't be any less integral.

In the short term, then, we can expect to see a growth in the number of ESG teams across organisations around the world. Its importance, right now, means it'll quickly become as much a part of a company's compliance processes as its existing Know Your Customer (KYC) or due diligence controls. What's more, following this trend, it is likely that we'll see a growing number of firms looking for suitable products and service providers that can offer robust solutions - everything from where to start to how to communicate with external stakeholders.

Looking further ahead, the quality of *ESG reporting* is only going to grow in its reliability and rigour. Those companies that aren't up to speed on ensuring the accuracy of their data will fall behind their peers, and may soon find themselves becoming more attractive to regulators, while being less desirable in the eyes of their customers and investors.

Whatever the future holds for ESG, it will not stop the need to source, produce and assure the data surrounding it.

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