

Valuing Non-financial performance: A European framework for company and investor dialogue

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**Many barriers to integrate ESG in
investment decisions**

within the investor community

Investors' mindsets

- System and behavioural rigidity

Decision techniques

- Quantitative analysis
- Inadequate tools and models

Investment time horizons

- Short-termism

Education:

- Shortage of investment professionals with appropriate competence

Management systems

- Investors' reward and evaluation criteria
- Need for centralised ESG function in firms

Investors' perception of ESG issues

- ESG issues are complex and uncertain
- Expansionary nature of ESG issues
- Information overload
- Data: comparability, quality, consistency, continuity
- Data: difficult to quantify, insufficiency / inadequacy of data, sector differences, materiality
- Contestations of ESG issues
- Language confusion

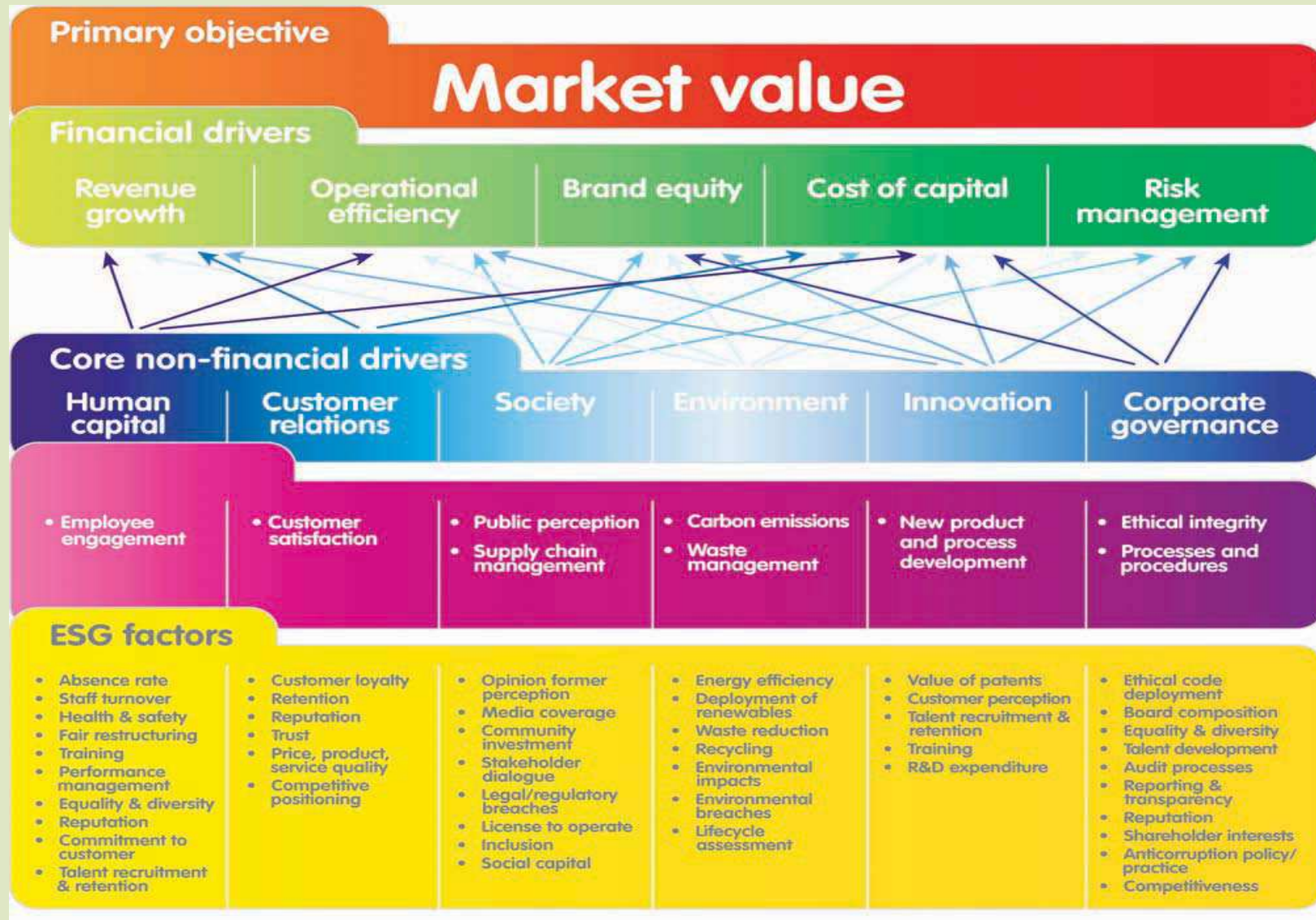
- Different stages of CR maturity
- Many companies don't make the explicit link between CR commitment and their overall strategy/risks/opportunities
- Many are struggling with how to explain this linkage to investment community satisfactorily
- Lack of trust in the robustness and accuracy of ESG data

- Difficulties to collect ESG data: Even where the data are available, these may be dispersed in different parts of the business, or held within a specialist CR / sustainability function which may be disconnected from the business
- Reluctance in communicating ESG data
- Doubts about the interest of investors

But the current dominant convention of valuing companies is changing thanks to

- the myriad of emerging initiatives to encourage the integration of ESG information
- the better understanding of the relationships between ESG performance on and financial outcomes

- Institutional investors' collaborations
 - ➔ Enhanced Analytics Initiative (EAI); Principles for Responsible Investment (PRI)
- Financial analysts' collaborations
 - ➔ EFFAS C ESG (European Federation of Financial Analysts Commission on ESG Environmental, Social & Governance)
- Surveys, reports and publications (academic & professional)
- Disclosure regulations for pension funds
- ...



www.investorvalue.org

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