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Investors are making it clear that ESG is a must-have

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It has long been conventional wisdom that institutional investors should make decisions based on getting the best financial returns for their customers. However, a recent report from Edelman shows that institutional investors are now expecting far more than just financial success from the companies they invest in.^[1] They expect companies to demonstrate a focus on environmental, social, and governance (ESG) impact. Are you or your directors ready for these kinds of questions?

ESG concerns are a key part of investment decisions, according to the 600 institutional investors in six countries that Edelman surveyed, with 98% of US investors indicating they are applying an ESG lens in their investment process. Also among US investors, social issues—including culture—affect the trust that investors have in a company, with 77% saying “maintaining a healthy company culture” affects trust, and 71% citing “enforcing a corporate code of conduct at all levels of the company” as a factor. And a company’s profitability does not outweigh this concern for ESG—indeed, according to 93% of US investors, profitable companies have an even greater responsibility to address ESG issues compared to those that are struggling. This fits with what we’re all seeing as a society, as larger companies are being expected to use their immense resources to make a proportionate positive impact on the world.

Investors say engagement with ESG must start at the top of an organization. Edelman reports that 52% of investors are engaging organizations’ boards of directors about ESG topics, with 87% of US investors indicating they are likely to engage on the topic of corporate culture in the next six months.

The message is clear: By itself, profitability is no longer enough to satisfy institutional investors. Instead, investors are basing their decisions on how a company achieves its business success and how it plans to make a difference in the world. Boards have a clear responsibility to keep this in mind as they look to attract—and retain—both institutional investors and individual shareholders.

With all the social change we’ve seen in recent months, it’s only fitting that investors are showing similar shifts in their priorities.

¹ Edelman, “2020 Edelman Trust Barometer Special Report: Institutional Investors,” accessed November 30, 2020, <https://bit.ly/3lzGyb1>.

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