Investor trust in sustainability data

An opportunity for corporate leaders

Joint research conducted by Deloitte & Touche LLP and The Fletcher School at Tufts University

March 2024

How can the enterprise earn investor trust through its sustainability disclosures?

This study delves into questions on the minds of...

- **Chief sustainability officers** looking to navigate increasingly complex regulatory environments, which require sustainability disclosures.
- **Chief financial officers** who want to understand the impact of the organization's sustainability commitments and disclosures on investor behavior.
- **Asset owners, investment managers, and investment advisers** who seek access to trustworthy sustainability data.

Deloitte and The Fletcher School at Tufts University embarked on a global study, executed between January and December 2023, to understand how companies can enhance investor trust in their sustainability disclosures.[1]

The research is based on a survey of 1,000+ investors, including asset owners, asset managers, and investment advisers in North America, Europe, and Asia. The quantitative data is supplemented by 10 interviews with sustainability investors.

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Growing demand for sustainability data from investors presents an opportunity for corporate leaders to earn investor trust.

Investors are increasingly incorporating sustainability factors into investment decisions:[2]

- 83% of surveyed investors incorporate sustainability information into fundamental analyses.
- 79% of respondents have sustainability policies in place, compared to 20% five years ago.

Investors are seeking to **minimize risks and capitalize on opportunity**, with an estimated US$43 trillion in global economic growth projected between 2021 and 2070 if the world economy transforms to achieve net-zero emissions.

Despite growing demand for sustainability data, investors struggle with often inconsistent, unclear, and unreliable information:

- Unclear corporate sustainability strategies
- Incomparable data from ratings agencies
- Frequent lack of measurable outcomes from corporate reports

While regulations and standards are emerging globally to drive data consistency, they are not yet implemented broadly enough to provide fully reliable data to investors.

During this period of transition and beyond, organizations can build investor confidence in their sustainability initiatives through better data—and potentially drive more cost-efficient access to capital and stronger valuations.

Four actions that can help earn investor trust in corporate sustainability commitments

01 **Strengthen sustainable governance capabilities through greater coordination across the C-suite.** Each leader has a critical and unique role to play for an organization to reliably execute on its sustainability commitments.

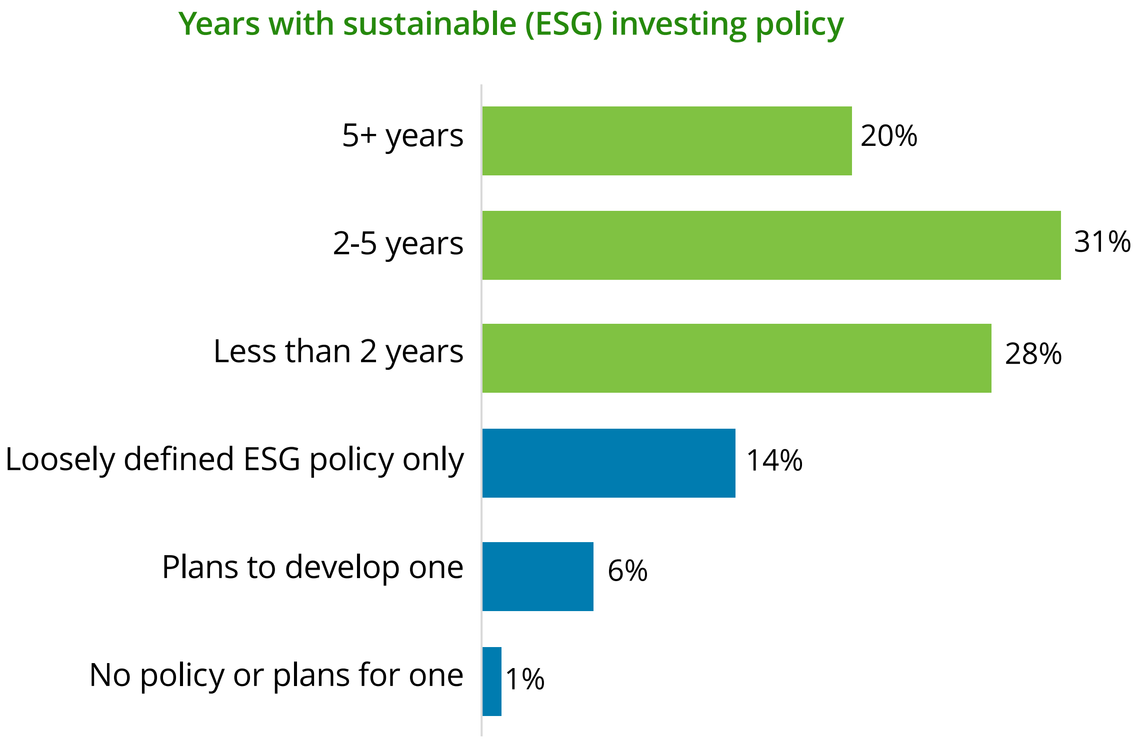
02 **Invest in sustainability measurement, reporting systems,** and compliance solutions to enable more robust, higher-quality disclosures.

03 **Corroborate sustainability disclosures with third-party assurance.** Investors trust assured disclosures as much as their own proprietary data.

04 **Lead with investor engagement to tell your sustainability story.** Engagement provides opportunity to address issues and foster transparency and accountability.

Investors increasingly integrate sustainability into investment decisions

Sustainable investing is the present, not the future. Most investors indicated that they now have sustainable investing policies in place.



Source: Investor trust in sustainability data N=1,009

Nearly 80% say they have a sustainable investing policy in place today. Only 20% of our global survey respondents have had one in place for more than five years.

Only 1% of our respondents state they don't have any plans to develop sustainable investing policies in the future. These results are consistent globally and across investor types.

Sustainable investing policies and decisions are influenced by multiple drivers, including regulatory pressure, alpha-seeking strategies, and stakeholder influence.

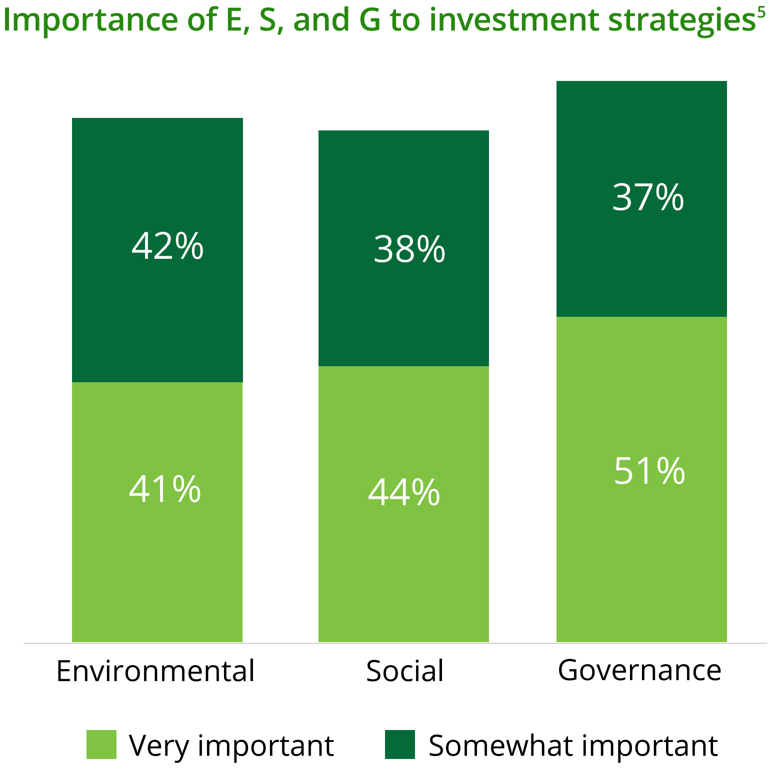
Top three drivers for integrating sustainability and ESG into investment decisions[4]

Source: Investor trust in sustainability data N=1,009

Sustainable investing will likely continue to grow as business and society invest to achieve carbon neutrality.

Continued market momentum toward sustainability is forecast to drive more than US$40 trillion in global economic growth and significant amounts of global reallocation, infrastructure, and investment in the coming decades.[3]

Investors view sustainability information as an important part of their due diligence process.



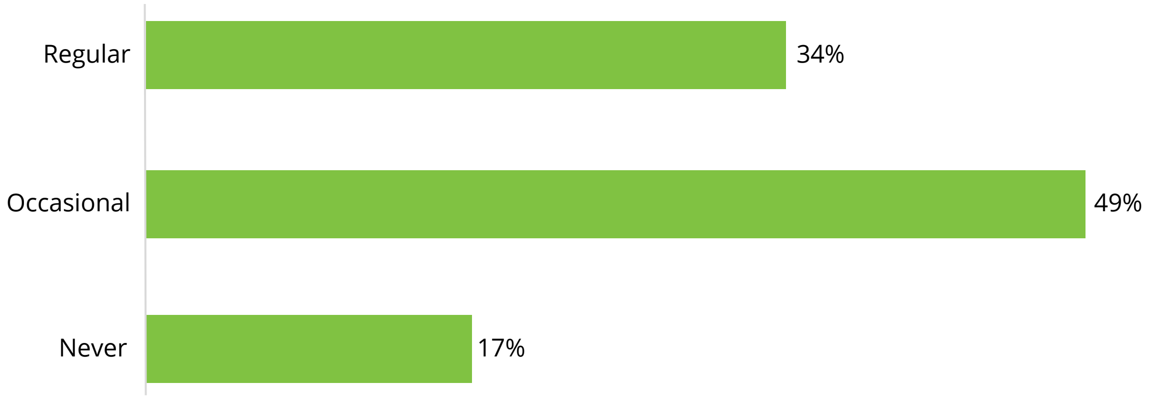
Source: Investor trust in sustainability data N=1,009

"There's no such thing as ESG investing. E, S, and G are types of information that we use to make investment decisions. What matters is how you use that information as an investment professional."[2]

Head of ESG Strategy, large US investment manager

Data reflecting a company’s sustainability position is referenced by 83% of surveyed investors, yet it is not uniformly incorporated into equity prices.

Use of sustainability information in fundamental analysis



Source: Investor trust in sustainability data N=1,009

More than **80%** of surveyed investors at least occasionally or regularly seek out sustainability information when making investment decisions.

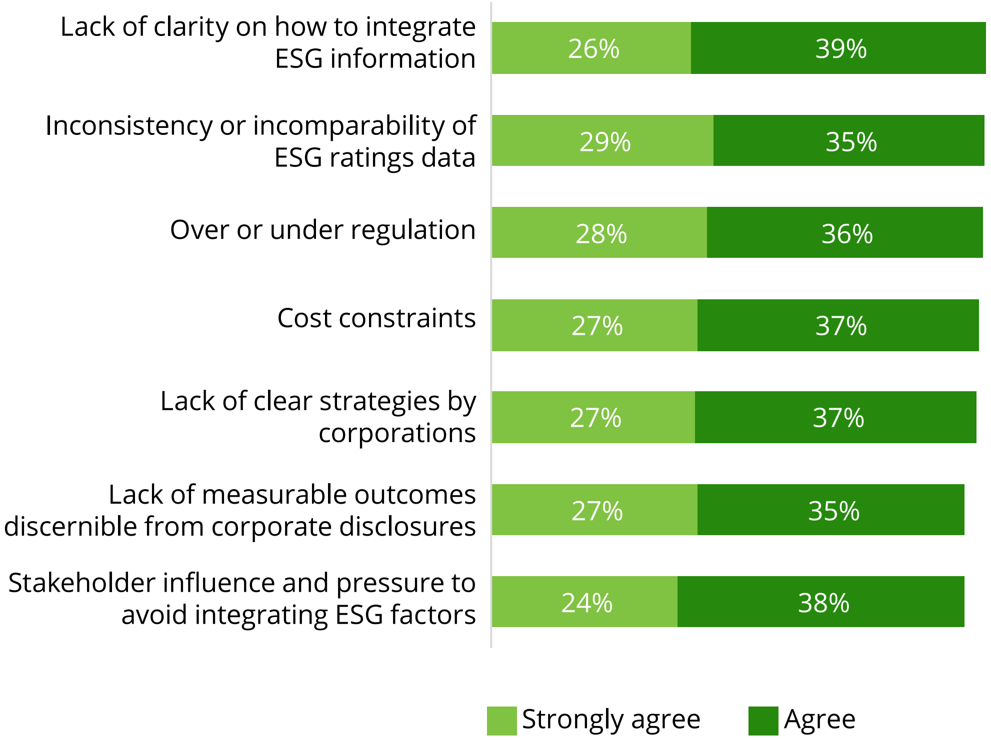
Investors told us that they integrate ESG data into risk assessments to inform **valuation models.**[2]

However, while interviewees viewed E, S, and G as long-term fundamental risk factors, they did not believe that ESG factors are yet effectively and uniformly incorporated into **equity prices**.[2]

Investors are looking for clear, consistent, evidence-based sustainability data

Despite growing demand for sustainability information, investors report significant barriers in the clarity, consistency, and reliability of data.

Barriers to sustainable investing



Source: Investor trust in sustainability data N=1,009

"What makes investors distrustful is the fact that [investors] actually view [ESG] as a material risk, and companies will sometimes use it as a marketing effort."[2]

Former Global Head ESG Capital Markets, European Bank

"Lack of uniformity in data is causing confusion."[2]

Asset Owner

Ratings provide some insights, but investors leverage them with caution, acknowledging the limitations.

Data from third-party providers and rating agencies are a relevant component of ESG integration strategies.[2]

- Surveyed investors employ these ratings as **one input among many** when analyzing sustainable investment opportunities.
- Ratings are acknowledged to be **diverse** and open to a variety of interpretations. They are recognized as **discrete to individual rating agencies** and derived for a specific purpose or objective as defined by the rater.
- This diversity is **not considered a barrier** to use or a factor in managers trusting ratings themselves.

Ratings distinctions and biases are widely acknowledged and managed by investors.[2]

- **Company size bias:** Larger companies tend to have higher ratings reflective of greater resource availability to report on sustainability.
- **Geography bias:** Emerging-market companies with fewer resources or regulatory oversight tend to have lower ratings than their developed-market counterparts.

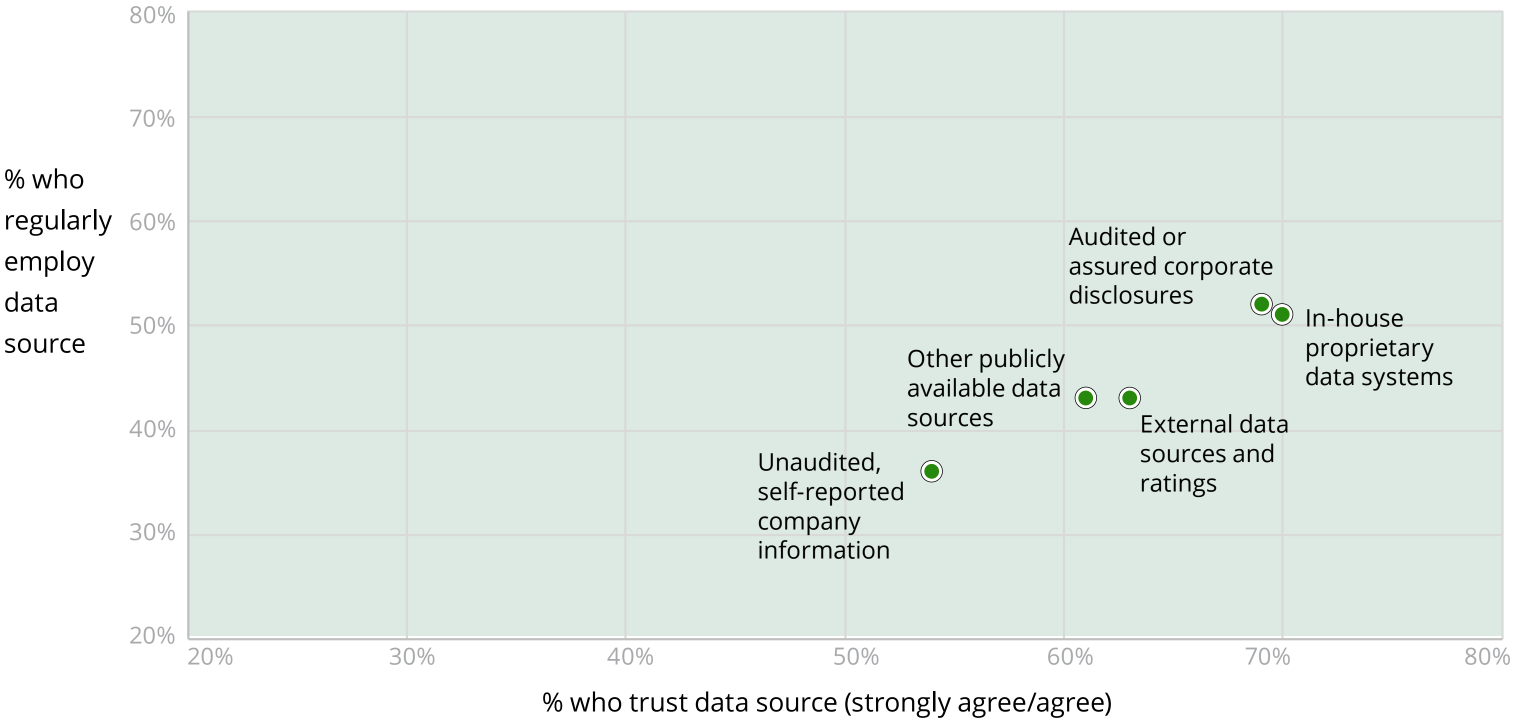
How investors use ratings[2]

Across investor categories, investors use ratings selectively, sometimes aggregating them or, more importantly, selecting individual rating components (e.g., raw data) to **develop a proprietary and more comprehensive view** of risk.

Surveyed investors also balance their use of ratings based on cost, time, quality, coverage, and supporting resources.

Investors are most likely to use the information, data, and sources they trust, which include in-house data systems and audited or assured disclosures.

Trust in ESG data source and usage



Source: Investor trust in sustainability data N=1,009

Most frequently used and most trusted data sources

- In-house proprietary data systems
- Audited or assured corporate disclosures

Least trusted data sources

- Unaudited, self-reported company information

This analysis indicates that as investors seek data that has been audited or assured, sustainability marketing campaigns are not sufficient to credibly demonstrate a company's sustainability efforts.

Surveyed investors believe that regulations should help increase confidence in corporate sustainability data over time.

The sustainability regulatory environment is rapidly evolving across the globe, with many standards and regulations being launched within the past year, even as more are expected to be announced soon.

Consistency and standardization

Investors we spoke to believe regulations will ultimately clarify many of the data challenges investors face by bringing consistency and standardization to corporate sustainability disclosures.[2] This should help eliminate self-interpretation, reduce ambiguity, and promote higher-quality disclosures.

Implementation lag period

While these emerging regulations promise future improvements in the reliability of sustainability data, investors are still waiting for them to be fully implemented, adopted, and standardized globally.

Opportunity for corporates

This "lag period," before regulations imbue confidence in sustainability data, is an opportunity for corporates to bolster their capabilities and proactively engage investors to earn trust.

Select sustainability reporting laws and standards:	Introduced in	Effective from
The EU's Corporate Sustainability Reporting Directive	December 2022	January 2024[8]
The International Sustainability Standards Board's (ISSB) IFRS® Sustainability Disclosures Standards S1 and S2	June 2023	January 2024[7]
California's Climate Accountability Package	October 2023	January 2026
US SEC Climate Disclosure Rule	March 2022	2025[9]

Organizations can take proactive steps to earn investor trust in their sustainability commitments

Strategically building trust with investors is critical for corporations seeking to stay ahead of the competition, grow market value, and gain access to capital.

Trust is built through actions that demonstrate a high degree of competence and positive intent. It can be earned or lost across the entire enterprise.[10]

To build trust equity with investors who rely on sustainability data, organizations need to demonstrate an ability to reliably deliver on their sustainability commitments and transparently disclose progress.

Four actions that can help earn investor trust in corporate sustainability commitments

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04 **Lead with investor engagement to tell your sustainability story.** Engagement provides opportunity to address issues and foster transparency and accountability.

01 Strengthen sustainable governance capabilities through greater coordination across the C-suite.

While the chief sustainability officer (CSO) may drive the organization's sustainability strategy, all C-suite leaders and the board have a role to play.

Old world view...
Siloed sustainability governance

Chief Sustainability Officer: Leads development of enterprise sustainability strategy and messaging

C-suite: Sign off and approve

Senior leaders agree that sustainability is a critical driver of trust with stakeholders

For example, more than **60%** of responses to a 2023 global survey of board directors say that ESG will be the top issue impacting trust in the next one to three years–ahead of other issues including customer experience and cyber security.[11]

New world view:
Coordinated sustainability governance

Select executive roles and responsibilities within sustainability governance

CEO and board
Oversee the integration of sustainability considerations into the overall business.

CSO, COO, CSO, CSCO (strategy, operations, sustainability, supply chain)
Integrate sustainability into business strategy and operations, supported by appropriate KPIs.

CCO, CLO, CRO, CAE (compliance legal, risk, audit)
Anticipate risks, monitor operations, and support compliance with evolving local and regional regulations and reporting requirements.

CIO, CTO, CSO (information, technology, strategy)
Execute related data analytics strategies and collaborates with CFO to implement effective reporting platforms.

CFO (financial)
Build investor trust through continuing active and open engagement with the investor community.

CMO (marketing)
Deploy strategic communications on the organization's sustainability achievements, which is grounded in evidence-based progress and science-based targets.

02 Invest in sustainability measurement, reporting systems, and compliance solutions to enable more robust, higher-quality disclosures.

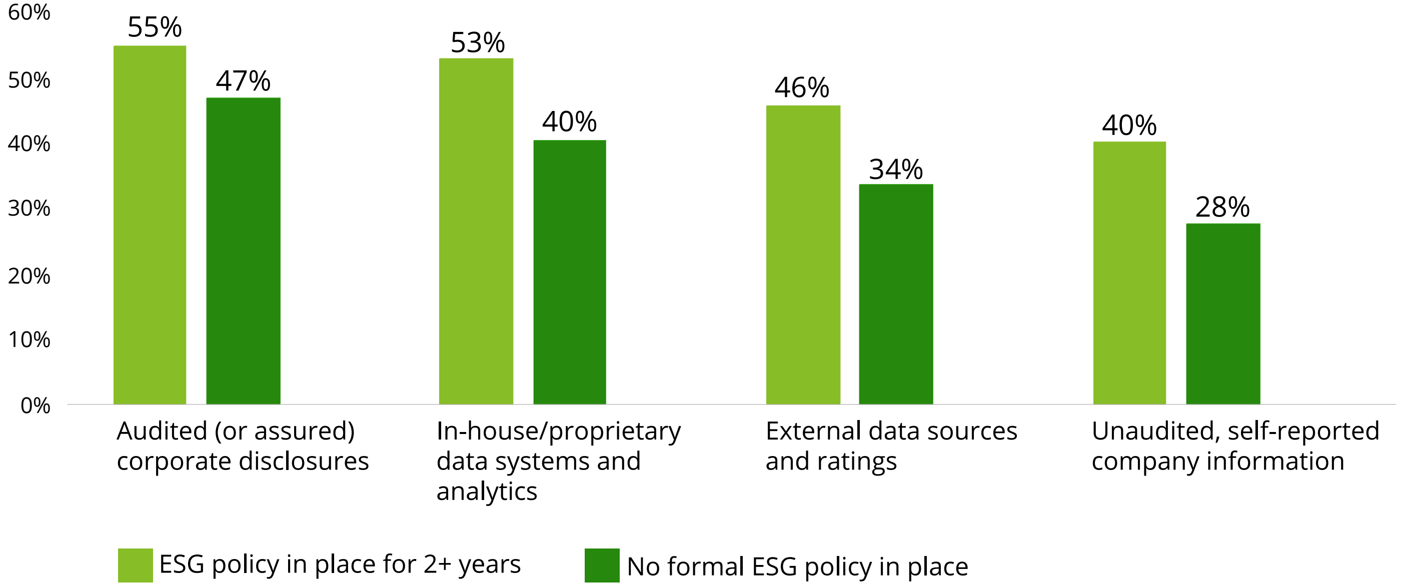
Establishing trust with investors is not a "one and done" objective. Many large corporations have already begun developing sophisticated reporting capabilities to get ahead of impending regulatory requirements. Companies that continue to wait on the sidelines risk playing catch-up and competitive disadvantages.

For example, recent research indicates sales of software solutions that help companies track and report on sustainability metrics "will likely surpass US$1 billion in 2024, as EU and US reporting regulations—along with reporting requirements in Asia, Australia, and the UK—take effect, and as more investments require ESG disclosures."[12] The sustainability reporting software market is estimated to grow annually from 19% to 30% over the next five years.[13]

03 Corroborate sustainability disclosures with third-party assurance.

Audited or assured disclosures provide the transparency in sustainability information that investors seek. Not only are these sources more trusted, but more experienced sustainability investors from our survey were more likely to employ audited or assured and in-house data. This suggests that as other investors gain experience, they too will increasingly rely on these data sources.

Percentage of organizations that regularly employ sustainability information by source[14]



Source: Investor trust in sustainability data N=731

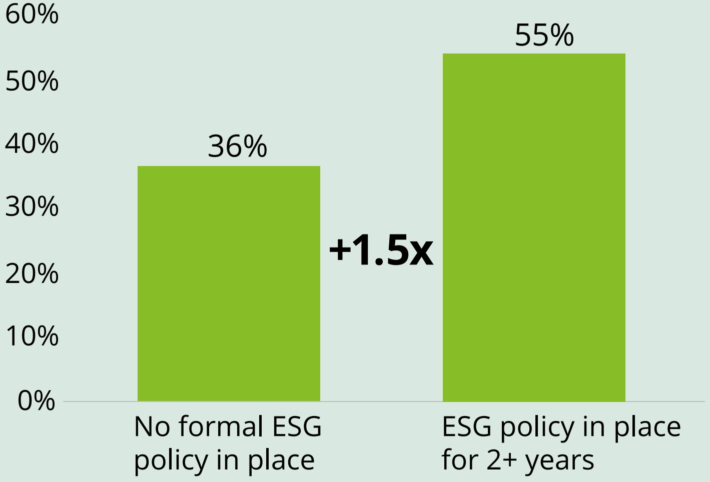
04 Lead with investor engagement to tell your sustainability story.

As sustainable investing grows, corporations can expect more investors to seek engagement with corporates to understand their sustainability strategies and outcomes. Respondents to our survey with a minimum of two years implementing a sustainable investment policy are **1.5 times more likely** to regularly use an active sustainability investment strategy, meaning they may vote their proxies, engage in dialogue with corporate leaders, and make shareholder proposals.

Investor engagement provides corporates the opportunity to address potential issues, foster transparency and accountability, and earn trust.

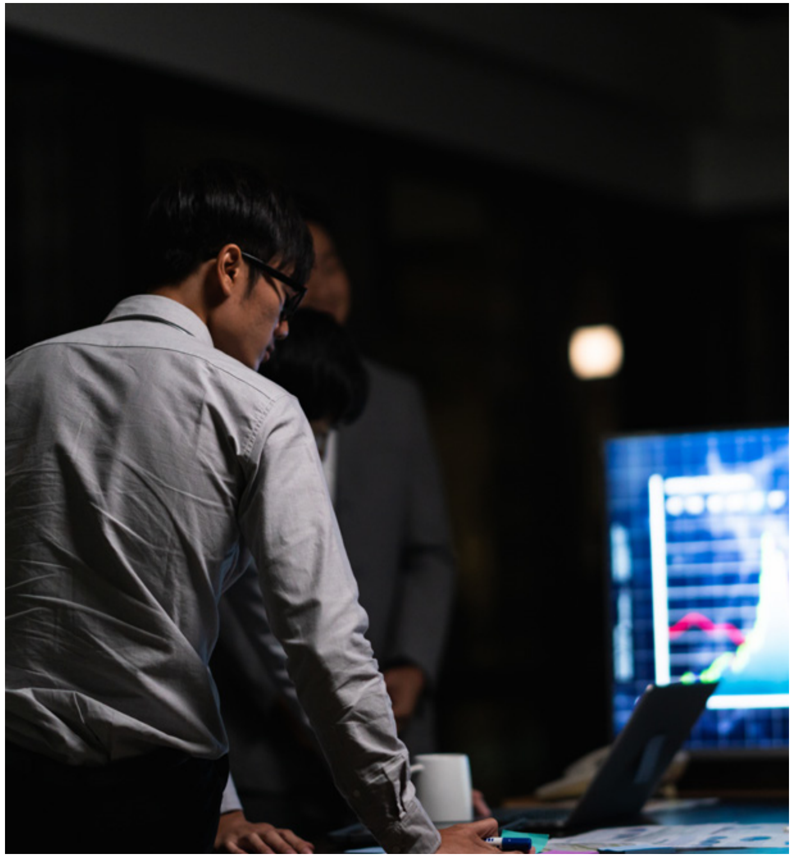
Investors want to engage with corporates on sustainability topics. Our survey results indicate that experienced ESG investors are more likely to regularly use active sustainability investment strategies.

Investors who regularly use active sustainability investment strategies[15]



Source: Investor trust in sustainability data N=731

Move forward with confidence. Companies that delay are at risk of falling behind their competition.



As sustainability factors become increasingly integral to businesses and investment decisions, executives and investors will likely seek to enhance the quality of decision-useful sustainability information that will strengthen investor and corporate relationships. This could help corporate leaders more efficiently access the capital markets and also drive societal benefit by advancing the quality of sustainability dialogue between companies and investors globally.

The ISSB standards are a significant development that, along with regulatory initiatives, aim to make sustainability reporting mandatory, consistent, and comparable across many jurisdictions worldwide. However, mandatory sustainability reporting will still take time to mature and affect all global regions.

Regardless of geography and regulatory maturity, the time for corporate leaders to act to build and maintain confidence and trust in their organizations' sustainability commitments and performance is now. Corporations that take a "wait-and-see" approach as new regulations develop may fall behind competitors who take a proactive approach.

In the near term, prioritizing disclosures and informed actions on sustainability can enable effective investor engagement. For the longer term, the investment community expects corporations to focus on transparency and reliability while enhancing their reputation on sustainability factors.

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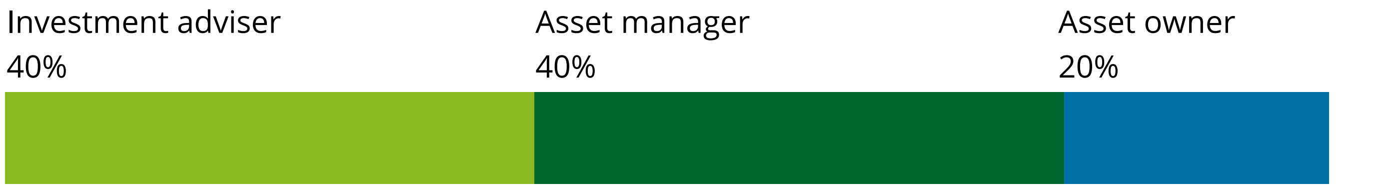
Endnotes

1. In this paper, "sustainability" includes ESG (environment, social, and governance) impacts. See appendix for more details.
2. Investor trust in sustainability data: A global study by Deloitte and The Fletcher School at Tufts University, January 2024 (n=1,009).
3. Pradeep Philip, Claire Ibrahim, and Cedric Hodges, The Turning Point, a Global Summary, Deloitte, May 2022.
4. Survey question: Over the last 12 months, what were the key drivers behind your organization's approach to ESG investment? (Please select the TOP THREE drivers).
5. "Not important at all," "Low importance," and "Neutral" responses not shown.
6. "Strongly Disagree," "Disagree," and "Neutral" responses not shown.
7. The decision as to whether and when the standards are mandatory will be made at the jurisdiction level.
8. For first entities within scope.
9. "Executive Summary of the SEC's Landmark Climate Disclosure Rule," Deloitte, Heads Up 31, no. 4, March 6, 2024
10. Trust is built by demonstrating the Four Factors of Trust: capability, reliability, humanity, and transparency; see Ashley Reichheld and Amelia Dunlop, The Four Factors of Trust: How Organizations Can Earn Lifelong Loyalty (New York: Wiley, 2022).
11. Jo Iwasaki, Dan Konigsburg, William Touche, "How boards are nurturing and measuring stakeholder trust," Deloitte Insights, February 2, 2023.
12. "Regulations take effect: ESG reporting software sales are expected to soar in 2024," Deloitte Center for Technology, Media & Telecommunications, October 2023.
13. Verdantix, Market size and forecast: ESG reporting software solutions 2021-2027 (Global), January 2023.
14. Respondents were asked to indicate how often (never, occasionally, regularly) their organization employs an active ownership strategy. The percentage of respondents who chose "Regularly" is shown. Responses of "Never" and "Occasionally" are not included in the chart.
15. Survey question: How often (never, occasionally, regularly) does your organization employ the following ESG strategies of "Never" and "Occasionally" not included in this chart.
16. CFA Institute, Global Sustainable Investment Alliance (GSIA), and Principles for Responsible Investment (PRI), Definitions for responsible investment approaches, November 2023.

Appendix: Research methodology

Our research was global in scope, covering asset owners and investment professionals.

The study sample was comprised of…

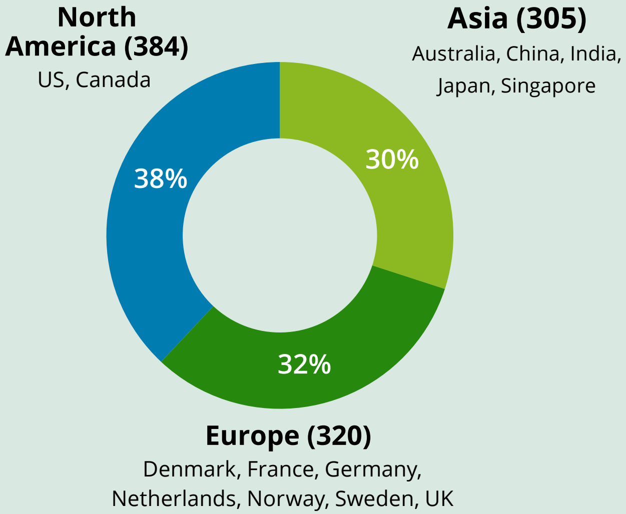


52%
contributors to analysis that support investment decisions

28%
leaders that oversee investment organizations

21%
people responsible for overseeing or making investment decisions

Over 1K surveys completed globally…



Research included 10 interviews with sustainability and investment leaders from North American and European banks, university endowments, and international sovereign wealth funds.

Defining sustainability in our research

Environmental, social, and governance (ESG) refers to three key factors when measuring the sustainability impact of a business or investment:

- **Environmental** footprint, sustainable business practices, and vulnerability from climate change
- **Social** issues around workplace practices and employee satisfaction; diversity, equity, and inclusion (DEI); responsible value chain; and wider societal impact of business decisions
- Responsible **governance** practices include measures to manage reputational impact of ESG practices and anticipate regulatory trends

ESG integration means including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing.[16]

ESG information refers to ESG disclosures, ESG-related reports and communications, third-party ratings, and other information.

In this paper we use the term "sustainability" to refer to ESG practices and impact.

Defining trust in our research

Deloitte's Enterprise Trust framework highlights the importance of sustainability across the organization

Trust is built through actions that demonstrate a **high degree of competence** and **positive intent**, which are further reflected through **capability, reliability, transparency,** and **humanity**–essential components to engendering trust.

Leading by example
- Authentic and resilient leadership
- Strategic governance

Delivering with excellence
- Customer experience
- Digital engagement
- Product quality
- Supply chain resilience

Performing with distinction
- Conduct
- Financial integrity and health
- Innovation, intelligence, and technology
- Workforce experience

Securing the foundation
- Compliance
- Crime
- Cyber
- Data integrity and protection

Amplifying core values
- Culture and purpose
- Diversity, equity, and inclusion
- Sustainability and climate
- Ethics

Illustrative sustainability (ESG) trust drivers

- Environmental disaster prevention, readiness, and response
- Purpose reflective of ESG commitments
- Business model innovation to support ESG outcomes
- Board skills and qualifications in ESG/climate
- ESG policies, management, and measurement systems (including data strategy and regulatory readiness)
- Customer feedback loops for ESG strategy and execution
- Investment in low-carbon or low-carbon-intensive assets (e.g., buildings, operations)
- Monitoring for illicit finance, trade, or supply chain activity
- M&A due diligence including ESG considerations
- ESG metrics in financial and business decision-making (e.g., price of carbon)
- Training and capacity building for ESG processes and technologies

Deloitte.