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# An Introduction To ESG-Investor Engagement



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This guide outlines strategies tailored for small and medium-sized companies aiming to attract strong ESG-investors to their organizations.

## What is ESG-Investing?

ESG stands for environmental, social, and governance. ESG investing assesses companies based on these criteria to evaluate their suitability for investments. Environmental criteria evaluate a company's efforts in environmental protection. Social criteria assess how it handles relationships with employees, suppliers, customers, and communities. Governance examines aspects such as corporate leadership, executive compensation, auditing practices, internal controls, and shareholder rights (The Investopedia Team, 2024).

## How does ESG add to company value?

<b>Top Line Growth</b>	A strong ESG strategy helps companies expand into new markets and enhance their presence in existing ones by building trust with regulatory authorities, which streamlines the approval process for growth initiatives (Henisz, et al., 2019).
<b>Cost Reduction</b>	Implementing ESG initiatives leads to substantial cost reductions and aids in controlling rising operational expenses such as raw materials and environmental costs related to water and carbon (Henisz, et al., 2019).
<b>Reduced Regulatory and Legal Interventions</b>	Improving their external value proposition allows companies to enhance strategic flexibility and reduce regulatory burdens. A strong ESG performance consistently lowers the likelihood of adverse government actions and can garner governmental support across different industries and regions (Henisz, et al., 2019).
<b>Increase in Employee Productivity</b>	A robust ESG strategy can aid companies in attracting and retaining talented employees, boosting motivation through a sense of purpose, and ultimately enhancing overall productivity. Studies demonstrate a positive correlation between employee satisfaction and shareholder returns, with companies listed in Fortune's "100 Best Companies to Work For" showing higher annual stock returns. Additionally, fostering a strong sense of social impact among employees has been shown to increase job satisfaction, as seen in examples where companies incentivized charitable giving among employees, resulting in greater satisfaction (Henisz, et al., 2019).
<b>Investment and Asset Optimization</b>	A robust ESG strategy can improve investment returns by directing capital towards sustainable opportunities like renewables, waste reduction initiatives, and pollution control technologies. It also helps companies avoid investments that could become stranded due to future environmental challenges, such as the depreciation of assets like oil tankers. Embracing proactive ESG measures is crucial as regulatory shifts and societal expectations increasingly influence energy costs and business operations, making it advantageous to invest in updating operations now rather than facing higher costs later (Henisz, et al., 2019).

## Strategies for Attracting ESG-Investors

<b>Avoid the culture of short-term quarterly capitalism</b>	Harvard Business School research indicates that firms focusing on short-term goals tend to attract investors with similarly short-term perspectives. To appeal to investors interested in longer-term outcomes, companies can take two key steps: first, by refraining from issuing quarterly earnings guidance, a practice that often distracts from long-term strategies. Second, aligning executive compensation structures with long-term performance metrics can help ensure that leaders are incentivized to prioritize sustainable value creation over short-term gains (Gitman, 2012).
<b>Integrate ESG into the business model</b>	The ability of companies to achieve sustainable long-term growth, which attracts investors, hinges on integrating ESG considerations deeply into their business models and strategies. This integration involves two critical steps: first, aligning sustainability with corporate strategy, supported by C-level executives and boards, to deliver enduring value to all stakeholders. Second, embedding ESG principles into core products and services is essential for fostering innovation and enhancing long-term value creation. (Gitman, 2012).
<b>Identify and communicate issues that matter to investors</b>	While many companies now produce CSR reports, they often fall short in effectively communicating to investors about the issues that could significantly affect their operations. Two strategies can enhance this communication: first, implementing a rigorous materiality-assessment process to identify and disclose the most impactful ESG risks, demonstrating robust management and risk mitigation strategies. Second, tailoring communications to address the specific concerns of different investor groups, such as highlighting governance practices when engaging with pension funds to underscore their role in fostering sustainable long-term growth (Gitman, 2012).
<b>Improve ESG communication channels</b>	Many companies struggle to effectively communicate the advantages of their sustainable business strategies to shareholders. Typically, companies segregate financial and ESG disclosures, and investors often rely on third-party rating agencies for ESG evaluations rather than directly engaging with companies. To address this challenge, companies can improve ESG communication by incorporating it into the responsibilities of their investor relations teams, ensuring they understand and articulate the company's key ESG issues and initiatives. Additionally, adopting integrated reporting that integrates financial and nonfinancial performance can offer a comprehensive framework to showcase how sustainability contributes to long-term financial success. Finally, companies should continually assess and enhance the quality of ESG information provided to investors to promote transparency and build investor confidence (Gitman, 2012).

# Strategies for Communicating with ESG-Investors

## Allocate time for connecting

Numerous companies struggle to maintain effective communication with their investors, often citing time constraints. Companies frequently prioritize immediate operational tasks over investor relations, believing their time could be better allocated elsewhere. Nonetheless, it is critical to nurture investor relationships. Consider giving investors the choice to “opt-in” to their preference of communication. Some may prefer brief monthly or quarterly performance updates which can effectively inform investors without requiring substantial time investment after the initial report is compiled. Others may prefer to only receive biannual long-term strategy and performance updates. Still others may want both forms of communication. Allowing your investors to choose which of the three options they prefer demonstrates respect for their support (Halloway, 2024).

## Set a routine

Investors are active partners genuinely invested in the company's growth and often willing to offer support. Complying with SEC disclosure standards can establish a structured approach to communicating with stakeholders. Adhering to these principles prepares companies for a potential future public offering (if not currently public) and ensures transparency during pivotal events like product launches, acquisitions, or significant proposals (Halloway, 2024).

## Keep it concise

Companies should avoid inundating investors with lengthy presentations and reports. Investors prioritize critical financial metrics, funding requirements, and the company's key challenges. These concise reports should feature primary KPIs such as growth rates, customer engagement levels, transaction volumes, and employee retention figures, alongside significant accomplishments such as major deals closed and key business milestones achieved. Keeping these updates brief and consistent enables easier comparison over time, improves comprehension of the company's on-going development, and encourages insightful feedback and collaboration from investors (Halloway, 2024).

## Seek assistance when needed

Companies often aim to project strength and reliability, which may lead them to avoid seeking advice, fearing it could imply they lack strong leadership or the ability to fulfill commitments. However, investors typically seek to support companies and are willing to provide guidance when needed. There is tremendous value in proactive communication with investors through regular updates, signaling openness to dialogue and advice while retaining control over company decisions (Halloway, 2024).

## Promptly share negative developments

Companies often feel uneasy about admitting they are in a crisis, yet investors are well aware of the statistics that detail company failure rates. Transparency is crucial because investors understand that complete silence on challenges can be suspicious. Proactive communication about difficulties is expected, as delaying bad news until the last minute can severely impact trust and opportunities for support (Halloway, 2024).

## Provide a comprehensive overview

Companies often feel the urge to paint an overly optimistic picture to rally support, but trust with investors depends on maintaining honesty and integrity in communications. While optimism is natural, companies must avoid exaggeration and ensure clarity about the facts. Misleading investors about progress or capabilities can damage credibility (Halloway, 2024).

## Communication is key to success

Clear and effective communication between people allows them to navigate difficult situations with minimal conflict and prepares them for future success. When facing challenges, timely communication that includes lessons learned helps in maintaining transparency and trust. Building a strong partnership with investors starts with clear communication from the beginning and continues even after their involvement ends (Halloway, 2024).



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