GALLUP®

Gallup's Review of Environmental, Social and Governance (ESG) Value Drivers

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Purpose and Use of This Guide

The purpose of this guide is to provide a basic understanding of environmental, social and governance (ESG) value drivers.

Opinions on ESG measures and standards are relatively new and, therefore, fluid. Different thought leaders, experts and consumers have a variety of opinions about how organizations should address ESG value drivers. This guide reflects the way people are talking about and studying ESG value drivers at the time of publication. It is not a formal research paper; it is a compilation of content based on external sources, conversations with experts on ESG value drivers and commentary from Gallup. A few external sources are included by topic at the end of the guide, so you can dig deeper if you wish.

Gallup Associate Takeaways

The primary goal for this guide is to develop thought leadership and general exposure to knowledge about ESG in the markets where we operate and within our organization. Specifically, it should make you aware of conversations and considerations about ESG that are happening around the world. This resource alone will not make you an expert on ESG value drivers. Rather, it provides you with a starting point for understanding the topic, and it directs you to other resources for learning more.

Section Overview

Executive Summary

The executive summary includes key observations from throughout this document.

Introduction to ESG Value Drivers

This section describes the origins of “ESG” and provides definitions for the value drivers.

Different Motivations for Enhancing ESG Value Drivers

There are various reasons that different groups encourage organizations to focus on ESG value drivers. These themes appear in the research and media on the subject: altruistic motives, brand reputation, investor considerations, business competition and employee demands.

The Risks of Doing Nothing and Why These Risks Matter to Us and Our Clients

This section outlines priorities that stakeholders have for advancing the mission of ESG value drivers. It also describes how strategies related to ESG value drivers relate to reducing risk for Gallup.

Common Conversations and Discussion Points on ESG Value Drivers

This section includes an overview of topics that commonly arise when ESG value drivers are discussed.

References

This list directs you to Gallup’s ESG reports and support materials, external journal articles, and websites that were used to create this document. You can use these resources to learn more about ESG value drivers and the various opinions regarding measuring and reporting on them.

Executive Summary

- **Although environmental, social and governance (ESG) value drivers each carry their own distinct definition, there is overlap among the three.** Different clients, depending on their industry and priorities, will place different emphases on various ESG measures that may fall across multiple categories. Gallup itself, as a professional services provider, places an emphasis that differs from those that a chemicals or shipping organization might have.
- **Europe and the United States approach ESG value drivers differently.** In Europe, ESG initiatives are regulation-led, while in the United States, they tend to be investor- and stakeholder-led, with little regulation. Europe has regional and country-specific requirements that differ from those in the United States.
- **Gallup associates have unique perspectives and experiences related to Gallup's ESG initiatives.**
    - Associates experience the ins and outs of our workplace in ways that consumers, customers, and clients do not.
    - Associates are among the first to know about an ethics or compliance issue happening.
    - Associate development and engagement -- both of which relate to experiences associated with ESG value drivers -- are critical drivers of Gallup's profitability and other business outcomes.
    - Gaining the voice of employees is paramount to truly understanding how to best prioritize and maximize targeted efforts. Gallup has created the **People and Planet 5 Survey** that Gallup and the public can use in their employee engagement ($Q^{12®}$) census or as part of their ongoing employee pulse strategies.
- **Different opinions exist about why -- or if -- measuring and addressing ESG value drivers are important.**
  (Note: The following statements do not reflect the opinions of all people or entities within a specific group. They are simply generalities provided here to help you think about different beliefs that exist.)
    - People in altruistic groups tend to believe that corporations have a responsibility to make an altruistic impact, in addition to an economic impact, through efforts to save, protect and maintain our environment and to be good to the people in this world.
    - Beliefs exist among some organizational leaders that investing in ESG value drivers is important for reasons such as risk reduction, brand and reputation enhancement, talent strategy, and more. There is still debate among the investment community about how best to measure ESG impact, strategy, and considerations.
    - Some investors trust that organizations with higher ESG performance will be less likely to experience a risk that could affect consumer behaviors, brand perceptions and overall firm performance.
    - Consumers are becoming more aware of brand reputation and ESG-related incidents than ever before due to the fast spread of information and interconnectedness of online news and social media platforms, and their awareness is influencing their buying decisions.
    - Employees are demanding and expecting more from their workplace with respect to business practices that are socially responsible for both employees and people around the world.
    - Opinions differ regarding how to implement, measure and report on ESG value drivers.
    - Organizations' understanding and prioritization of ESG value drivers differ by region or country. Organizations in European countries seem to be more focused on ESG value drivers than those in the U.S. are.
- **Potential areas of risk for organizations that *ignore* ESG value drivers:**
    - investor risk
    - business and competitive risk
    - supply chain risk
    - employee risk (related to their opinions and experiences)
    - customer risk
    - natural disaster and climate risk
    - regulatory and legal risk

- **Conversation points to be aware of regarding ESG value drivers:**
  (Note: These do not reflect the opinions of Gallup or any other specific group. They are simply conversation points you may hear when discussing ESG.)
  - Using resources to improve ESG value drivers for an organization doesn't guarantee returns on financial performance, social impact, or goodwill and brand reputation.
  - Current ESG metrics may be missing the target.
  - ESG investment funds may include organizations that have bad environmental reputations.
  - Some current ESG metrics are being greenwashed -- organizations seem to have altruistic purposes for certain actions (e.g., moving from paperwork to electronic documentation to use less paper and therefore save trees), but their true intentions are often profit-driven (e.g., to save money).
  - ESG is on its way to becoming a mainstream trend in parts of the world, but regional differences exist in the adoption of ESG principles and metrics.

Introduction to ESG Value Drivers

Global leaders are engaged in ongoing discussions about environmental, social and governance (ESG) value drivers and the related criteria that organizations should use to evaluate organizational success beyond profit.

Many people have strong opinions about measuring and reporting on ESG value drivers. Opinions arise from different industries, priorities, and thoughts on what leads to a better world and greater financial performance. For some investors, reporting on ESG value drivers may be relevant for risks. For activists, reporting on ESG value drivers is relevant for assessing alignment and addressing misalignment of political and social points of view. Different stakeholders have varying priorities for advancing ESG value drivers in an organization.

This excerpt from *The National Law Review* briefly summarizes the nuances related to ESG value drivers:

> "'ESG' means different things to different people. Often ESG is simply associated with public company disclosures and sustainable investing. What about private companies that do not publicly disclose to the SEC and do not need to answer to shareholders? What ESG risks do they face? The importance of ESG -- to date -- has been less about ESG-specific laws or regulations mandating corporate action, but broader risks associated with the reputational, financial, and legal impacts of handling ESG issues poorly."[1]

History and Evolution of ESG Value Drivers

ESG value drivers have roots in the corporate social responsibility (CSR) and socially responsible investing (SRI) movements. How do CSR, SRI and ESG differ?

- CSR is a general concept that encourages organizations to be socially accountable to themselves as well as stakeholders and the public.
- SRI prioritizes *not* investing in things that are harmful to people and the planet.
- ESG initiatives focus on investing in things that help people and the planet in sustainable ways *in addition to* avoiding investing in the opposite.

The term "ESG" gained momentum in a 2005 "Who Cares Wins" conference report called *Investing for Long-Term Value*.[2] Popularity of the term has grown exponentially in recent years.

[1] Brown, S.L. et al. The National Law Review. (2021, March 31). Environmental, social and corporate governance: What are the risks, really? **https://www.natlawreview.com/article/environmental-social-and-corporate-governance-what-are-risks-really**
[2] International Finance Corporation. (2005, October). Who Cares Wins 2005 Conference report: Investing for long-term value. **https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_report_whocareswins2005__wci__1319576590784**

Definitions and Descriptions of ESG Value Drivers

It is important to understand how ESG value drivers are interconnected because Gallup, along with our different clients -- depending on their industry and priorities -- will place different emphases on various ESG measures that may fall across multiple categories. There is no perfect chart to define which measures or definitions fall within each category. However, the definitions of value drivers below can serve as a starting point for your understanding of the subject.

Environmental Value Driver

The environmental value driver concerns conservation of the natural world, use of natural resources, environmentally sustainable business practices and environmental impacts of organizational operations, as well as environmental impacts that people experience around the world. Examples of measures within the environmental value driver are:

- greenhouse gas emissions
- decarbonization
- waste, as well as wastewater management
- water quality and pollution
- air quality and pollution
- deforestation
- hazardous materials impact
- ecological impact
- energy management, mix, usage, efficiency, and intensity
- water usage
- environmental operations

S&P Global says, "Environmental considerations were once seen as tangential pieces of the economic equation, but issues such as climate risk, water scarcity, extreme temperatures and carbon emissions are now threatening to dampen economic growth. The state of the environment can directly affect a company's competitive positioning."[3]

While Gallup's consulting offerings do not currently focus on the environmental operations of an organization, we emphasize the importance of the *voice of the employee* through our **People and Planet 5 Survey** to help organizations determine whether their workforce feels that the organization is doing an adequate job caring for people and the planet. Beyond the People and Planet 5 Index, Gallup's philosophy is that engaged employees, as determined by our Q^{12} survey, will be the drivers who implement environmental changes.

Standards for environmental value drivers are discussed, measured, and reported at a higher rate than standards for social and governance value drivers. This is partly because environmental standards are more well-defined -- some have clear metrics for measurement, such as energy or water usage -- and when an organization wants to improve in an environmental area, the solutions are often easier to identify than for social and governance value drivers. For example, if an organization is disposing of toxic waste improperly, it can find alternative solutions for waste management. Or, if an organization is using energy inefficiently, it can take clear steps to reduce energy usage.

Social Value Driver

The social value driver is about people and relationships. This includes but is not limited to external stakeholders, employees, and community members. The social value driver can be thought of as corporate reputation or brand management -- ways to manage public and stakeholder perceptions.

[3] S&P Global. (2019, October 23). Understanding the "E" in ESG. **https://www.spglobal.com/en/research-insights/market-insights/understanding-the-e-in-esg**

Measures for social value drivers can be complicated to improve because many of them pertain to intangible factors, such as our culture or that of our clients, social interactions, and relationships. One way to conceptualize the social value driver is to think of factors that are *internal* to an organization, versus *external.* Note that some of the factors are much easier to measure and analyze than others.

Internal Factors Tied to Social Value Drivers

Employee Metrics
- workforce composition (race, age, gender, education, etc.)
- employee injury rate
- gender pay ratio
- CEO pay ratio
- temporary worker ratio
- employee turnover

Privacy and Technology
- data integrity, security, and privacy
- privacy of customer data/information
- data and technology failings
- IT security

Culture and Experiences
- workplace culture
- labor disputes and labor relations
- illegal or forced labor
- child labor
- discrimination and nondiscrimination
- diversity, equity, and inclusion in the workplace
- respect and fairness in the workplace
- workplace health and safety
- employee engagement
- human capital development
- internal communications

Product and Customer Issues
- product safety
- product quality
- product labeling
- product selling practices
- product accessibility and affordability
- customer welfare

External Factors Tied to Social Value Drivers
- responses to geopolitical events
- stances taken on political or social issues, or whether a stance is taken at all
- strengths and weaknesses in responding to the social and cultural environments
- community engagement and involvement and community relations
- integration with the local community (i.e., having a "social license" to operate there with consent)
- supply chain safety
- politics of the supply chain
- industrial relations
- surges in online public opinion
- company boycotts by different groups
- shifts in consumer preferences for products and/or brand

According to S&P Global, "Simply put, the market will tend to reward those companies that minimize their exposure to these social issues -- selling controversial products, relying upon materials from geopolitical hot spots and using an unpredictable labor force can hurt profits and increase volatility."[4]

Gallup's research and consulting are directly relevant to many social value drivers that are both internal and external to an organization, such as employee engagement, customer engagement, wellbeing, culture transformation, ethics, and compliance, and more.

Governance Value Driver

The governance value driver concerns best practices for running a company. It encompasses everything from appropriate financial and ethical business practices to stakeholder management. Ethics and

[4] S&P Global. (2020, February 24). What is the "S" in ESG? **https://www.spglobal.com/en/research-insights/market-insights/what-is-the-s-in-esg**

compliance are major components of the governance value driver. Examples of components of the governance value driver are:

Ethics

- human rights violations (including in supply chain)
- business ethics and anti-corruption
- corruption and bribery
- codes of conduct and ethics of suppliers
- disclosure practices
- data privacy
- reporting on breaches and/or misreporting and misrepresentation

Regulations

- adherence to local (and government) rules and regulations
- management of legal and regulatory environments
- tax compliance, reporting and governance
- adherence to responsibilities or expectations between stakeholders and governance of corporations
- collective bargaining

Policies and Practices

- risk management -- critical incidents, systemic incidents
- materiality
- competitive behaviors
- incentivized pay
- board diversity
- board independence
- interest alignment for support of long-term strategy

According to S&P Global, "When analyzing environmental, social, and governance factors, the 'G' element is often forgotten amid considerations over climate risk, societal implications and other 'E' and 'S' risks and opportunities. However, understanding governance risks and opportunities in decision-making is critical, as poor corporate governance practices have stood at the core of some of the biggest corporate scandals."[5] As with social value drivers, governance value drivers are relatively difficult to measure because they are not top of mind for many individuals, and investors and consumers often have no idea whether businesses have been operating ethically until a serious breach occurs that damages an organization's reputation. Employees are among the first to know when governance standards are not being upheld by an organization.

Intersectionality of the Three Types of Value Drivers

Although environmental, social and governance value drivers each carry their own distinct definition, there is overlap among the three. For example, employee safety can be considered an environmental issue if the safety risk is related to toxic waste exposure or unsafe air for breathing, a social issue because it pertains to stakeholders and people, or a governance issue because it pertains to organizational leadership potentially offering an unsafe work space or violating the law. Similarly, data security is sometimes classified as a social issue because it pertains to customer privacy or a governance issue because it pertains to potential data privacy noncompliance. As mentioned previously, there is no perfect way to structure the hierarchy of value drivers, but it is critical to understand how nuances in definitions and priorities can lead different groups of people to use different definitions for each driver.

Regional Differences on ESG

ESG infrastructure in Europe predates its existence in the United States, and there are significant differences in perceptions of ESG value drivers among the largest companies in Europe and the United States.

[5] S&P Global. (2020, February 24). What is the "G" in ESG? **https://www.spglobal.com/en/research-insights/market-insights/what-is-the-g-in-esg**

Based on data released by Intercontinental Exchange in 2021, a key difference is that in Europe, ESG initiatives are regulation-led, and in the United States, they are investor-led with little regulation. In Europe, there are regional and country-specific requirements that do not exist in the United States.[6]

Recent data from the Intercontinental Exchange show the following, as stated in its June 9, 2021, news release:[7]

- European companies are almost 50% more likely to have identified the United Nations Sustainable Development Goal (UN SDG) on Climate Action as an objective for their business -- 74% of European companies have committed to this goal, compared with 25% of American companies.
- European companies are also more likely to report greenhouse gas emissions, with 74% each of companies disclosing scope 1 and scope 2 emissions information, compared with 46% and 45%, respectively, for American companies.
- About 58% of European companies have explicitly identified the UN SDG on Gender Equality as an objective, compared with 21% of American companies.
- European companies are also more likely to have explicitly committed to tackling the UN SDG on Responsible Consumption and Production -- 68% of European companies are working toward this goal, compared with 23% of American companies.
- About 81% of European companies have defined supply chain and sourcing policies, versus 53% for American companies.

Employee Voice and Consumer Voice

Some firms use consumer perspectives to gain insights on ESG-related factors. However, organizations don't always get authentic answers to their questions. Asking customers questions like, "Do you think that XYZ company treats their employees fairly?" or "Does XYZ company operate sustainably?" is, at times, a better reflection of whether consumers like the company's products than it is of how the organization treats employees and operates sustainably. This is due to a psychological concept called cognitive dissonance, where two conflicting ideas are hard to reconcile (e.g., I like this company's product, but this company treats their employees terribly). In this example, a consumer with conflicting viewpoints will either begin to like the products less or will convince themselves that the company treats their employees well despite hearing otherwise. Customer input is valuable on a range of things (e.g., products, experiences, brand recognition), but, when possible, avoids topics that employees likely know best.

Internal associates offer a unique perspective on an organization's ESG initiatives because they experience the ins and outs of a workplace in ways that consumers, customers, and clients do not. Associates are among the first to know about an ethics or compliance issue happening, and their development and engagement are critical drivers of profitability and other business outcomes.

Associates' experiences at work impact their employee engagement, as well as how they describe their workplace. What employees say about their employer matters. According to our research, 71% of American workers report that they use referrals from current employees of an organization to learn about job opportunities. Engaged employees are more likely than actively disengaged employees to use words like *integrity*, *supportive* and *caring* to describe their workplace, whereas actively disengaged employees are more likely to use words like *gossip*, *slow* and *disorganized* in their descriptions. Will a candidate still apply for a job if their friend describes their employer with negative words like those? How might negative perceptions be magnified if someone describes an employer as unsupportive of the environment or insensitive to diversity, equity, and inclusion issues?

[6] Intercontinental Exchange. (2021, June 9). Expansion of ICE ESG reference data shows broad differences in ESG reporting between Europe and the U.S. **https://ir.theice.com/press/news-details/2021/Expansion-of-ICE-ESG-Reference-Data-Shows-Broad-Differences-in-ESG-Reporting-Between-Europe-and-the-U.S/default.aspx**
[7] Intercontinental Exchange. (2021, June 9). Expansion of ICE ESG reference data shows broad differences in ESG reporting between Europe and the U.S. **https://ir.theice.com/press/news-details/2021/Expansion-of-ICE-ESG-Reference-Data-Shows-Broad-Differences-in-ESG-Reporting-Between-Europe-and-the-U.S/default.aspx**

To help leaders understand their employees' views about their organization, we have provided the world with the **People and Planet 5 Index**, which can be used in their employee engagement census or as part of ongoing employee pulse strategies. The People and Planet 5 index is licensed to the world for free under a **Creative Commons Attribution-ShareAlike 4.0 International License**.

The employee voice provides unique insights that can't be obtained through the consumer voice or hard metrics -- especially for internal social needs. Gaining the voice of employees is paramount to truly understanding how to best prioritize and maximize targeted efforts.

Gallup People and Planet 5 Index

1. If I raised a concern about ethics and integrity, I am confident my employer would do what is right.
2. At work, I am treated with respect.
3. There is someone at work who encourages my development.
4. My organization cares about my overall wellbeing.
5. My organization makes a positive impact on people and the planet.

The Risks of Doing Nothing and Why These Risks Matter to an Organization

While many reasons for supporting ESG initiatives involve preference and altruism, the business case for focusing on and potentially making changes for ESG value drivers -- and what an organization will be mostly concerned about -- involves risk: understanding ESG-related risks, proactively managing potential risks, and allocating investments toward assets or businesses with lesser risk, as defined by various ESG standards. What is considered *risky* with respect to ESG value drivers depends on the type of organization, the opinions and values of its employees, and the geography(ies) in which it operates.

Investment Risk

From an organization's perspective, ignoring investor considerations about ESG value drivers can limit ability to get capital in the market or its ability to grow. It is unclear whether ESG metrics will become criteria for *all* investors and lenders, but investor risk for organizations remains pertinent because noncompliant organizations could fail with no funding. Additionally, investors are limited to using only information that is available about organizations, and metrics related to social and governance issues are often widely circulated only when something negative occurs. Providing investors with employee input, such as results of Gallup's **People and Planet 5 index items**, can make considerations about ESG value drivers available all the time, instead of only when something bad occurs.

Business and Competitive Risk

How an organization addresses ESG value drivers is particularly important for our reputation because information spreads faster now than ever before. Words, images, videos, audio, and screenshots can travel quickly worldwide. There have been recent examples in the news of organizations that faltered on aspects of their ESG initiatives (e.g., employee integrity, product safety). Organizations performing poorly on ESG value drivers may have a negative public perception. They are more likely to have groups lobbying against their operations and are more likely to incur legal expenses because of an ESG-related event. If a company's competitors are perceived as outperforming them on ESG value drivers, they risk losing both customers and talent to competitors. Investing in ESG value drivers can buffer these risks, but there are considerations for how to execute the investments in ways that lead to the best business outcomes.

There are differentiators between ESG practices that help organizations stay with the crowd versus get ahead. Things any organization can do, such as reduce their carbon footprint and add more diversity to their board of directors, will help them keep up with others. Things that are much harder to achieve, such as improving the culture of their organization, the ESG practices of their supply chain and the ethical practices of their leaders, cannot be easily duplicated based on what other organizations have done; therefore, these actions require a different style of investment for improvement.

Supply Chain Risk

The risks associated with ESG value drivers are not limited to an organization's own ESG metrics and performance. ESG value drivers extend to a supply chain as well. Risks related to ESG value drivers can damage the brand reputation and financial performance of an organization that has great ESG metrics but pursues supply partnerships with organizations that do not.

Risk related to ESG value drivers can manifest themselves in a variety of ways, but there are two primary concerns for supply chain risk: reputation damage and business process damage.

Reputation Damage

Even if an organization has outstanding ESG metrics, its reputation can be harmed by a negative ESG-related incident for a supplier that has a known partnership with the organization. Organizations can no longer make claims like, "We had no idea there was forced labor in our supply chain" with credibility. It has become organizational leaders' responsibility to thoroughly vet external partners for ESG-related risks.

Business Process Damage

If suppliers have risk tied to their business practices, they put the organizations they work with at risk as well.
Essentially, the ESG practices of partner organizations are an extension of one's own ESG practices and cannot be fully separated when negative incidents arise. Leaders must carefully consider the ESG practices of external partners before pursuing contracts with them.

Employee Risk

Human capital is among the greatest and most overlooked components of an organization's ESG performance. Many organizations have access to "hard" metrics related to ESG value drivers, such as talent diversity, number of safety incidents and pay ratios. However, the far more complicated ESG-related risks involve how associates go about their daily work and what they know or feel about their workplace.

Whereas consumers' perceptions are influenced by what is said about the company, employees' perceptions are influenced by what happens within the company. Employee voices are a strong indicator of ESG performance because employees are more likely to know (and feel) whether an organization's ESG efforts are meaningful versus checklist efforts that aim to improve ESG scores but not necessarily make a positive impact on the world. Employees are among the first to know when there is an ESG-related risk looming -- organizational executives and board members usually don't find out about potentially damaging issues until it's too late to make meaningful corrections.

ESG metrics also play a part in talent attraction and retention strategies. Organizations that have a great workplace culture (a social value driver) are known to engage employees, pay them fairly and offer an environment that makes employees want to stay. These organizations not only will have access to better talent but also will reap the financial benefits of said talent. Furthermore, when employees are aligned with the mission and purpose of the organization, there are associated benefits for financial performance.

The public's and employees' expectations regarding inclusive recruiting, hiring, development, and advancement also pose unique opportunities and risks. In an era when these topics are at the forefront of organizational strategy in some regions and divisive in others, it is important to approach it in a way that is both 1) morally right and 2) compliant with Equal Employment Opportunity Commission (EEOC) practices. Specifically, organizations with a reputation for a workforce culture that does not enable all its employees -- regardless of demographic characteristics -- access to opportunities to advance or to do what they do best will not attract as diverse a talent pool.

Gallup research shows that employee engagement works as a "buffer" for many ESG-related risks, such as workplace safety incidents and turnover -- when the percentage of engaged employees is higher, the percentages of safety incidents and turnover are lower.

Customer Risk

Customer risk involves how customers, consumers and community stakeholders react to the ESG-related incidents. Customer risk is tied directly to what prospective clients and consumers know and learn about an organization, including what they know about how an organization handles ESG value drivers. Customer risk overlaps extensively with ESG value drivers because the way customers respond to ESG-related incidents directly affects financial performance. Similarly, if a specific ESG-related incident hasn't occurred, but an entity has a reputation for being detrimental to the environment or treating employees and customers unfairly, consumers' likelihood of working with them or trusting in their products or services will likely be affected.

References

Gallup's ESG Reports and Support Materials

- Public-facing website on ESG value drivers and the People and Planet 5 Index: **People and Planet 5 Index**
- Additional Materials available from Gallup:
    - Perspective paper: **The Will of the Workplace for Environmental, Social and Governance**
    - Technical report: **ESG Reporting on the Will of the People: Public Reporting Standards Recommended by Gallup**
    - Related report on employee engagement public reporting standards: **Employee Engagement Public Reporting Standards Recommended by Gallup: A Single-Item Measure of Organizational Engagement**

Academic Journal Articles

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210-233. **https://doi.org/10.1080/20430795.2015.1118917**

- Out of about 2,200 individual studies included in the meta-analysis, 90% showed a nonnegative relationship between ESG and CFP.

Huang, K., Sim, N., & Zhao, H. (2020). Corporate social responsibility, corporate financial performance and the confounding effects of economic fluctuations: A meta-analysis. *International Review of Financial Analysis, 70*, 101504. **https://doi.org/10.1016/j.irfa.2020.101504**

- The mixed findings between CSR and CFP can be attributed to macroeconomic fluctuations.
    - After accounting for macroeconomic fluctuations, the true relationship is positive.

Ioannou, I., & Serafeim, G. (2018). Corporate sustainability: A strategy? *Harvard Business School Working Paper Series*, No. 19-065. (Revised April 2021.) Retrieved Dec. 7, 2021, from **https://www.hbs.edu/faculty/Pages/item.aspx?num=55493**

- Refers readers to Posen & Martignoni source below.

Orlitzky, M., Schmidt, F.L., & Rynes, S.L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3), 403-441. **https://doi.org/10.1177/0170840603024003910**

- The relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) depends on the metrics used to measure them.
    - Accounting returns are more strongly correlated with CSP than investor returns.
    - Survey measures of reputation, such as subjective soundness of financial position, wise use of corporate assets and financial goal achievement relative to competitors, were more strongly linked to CSP than accounting returns or investor returns.
- The relationship between CSP and CFP is bidirectional and simultaneous, meaning an organization's social performance and financial performance influence each other. That is, when one of these lowers, the other will lower in the future.
- Reputation mediates the relationship between CSP and CFP.
    - High CSP leads to high CFP through an increase in corporate reputation.
    - Publicly disclosing social performance does not have as strong an impact on financial performance as public perception of social performance.

Posen, H.E., & Martignoni, D. (2018). Revisiting the imitation assumption: Why imitation may increase, rather than decrease, performance heterogeneity. *Strategic Management Journal, 39*(5), 1350-1369. **https://doi.org/10.1002/smj.2751**

- When a competitor copies an organization's strategy, the two organizations become more similar, and over time, their profitability becomes more similar.
- Unique strategies that are not easily replicable are more significantly and positively associated with better financial performance and market valuations after controlling for past performance.

Websites, by Topic

ESG Definitions

National Centers for Environmental Information. (2021, September 27). *2020 U.S. billion-dollar weather and climate disasters in historical context.* **https://www.climate.gov/disasters2020**

PRI. (n.d.). *What are the principles for responsible investment* **https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment**

PWC. (2021). *Paying well by paying for good.* **https://www.pwc.co.uk/human-resource-services/assets/pdfs/environmental-social-governance-exec-pay-report.pdf** (PDF download)

Robeco. (n.d.). *Sustainable investing glossary: ESG definition.* **https://www.robeco.com/en/key-strengths/sustainable-investing/glossary/esg-definition.html**

S&P Global. (2019, October 23). *Understanding the "E" in ESG.* **https://www.spglobal.com/en/research-insights/market-insights/understanding-the-e-in-esg**

S&P Global. (2020, February 24). *What is the "S" in ESG?* **https://www.spglobal.com/en/research-insights/market-insights/what-is-the-s-in-esg**

S&P Global. (2020, February 24). *What is the "G" in ESG?* **https://www.spglobal.com/en/research-insights/market-insights/what-is-the-g-in-esg**

IFRS Foundation SASB Standards. (n.d.). *Materiality Finder.* **https://www.sasb.org/standards/materiality-finder/find/**

History and Context

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