

The Conscience of Corporations: Public Company ESG Adoption

An Intelligize Report

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This summer, we asked hundreds of individuals working for and with public companies about a topic of increasing concern: the reporting of information relating to their companies' "ESG" efforts.

We surveyed a broad spectrum of individuals, including compliance professionals, members of the C-suite, and professional advisors like accountants, lawyers, and investor relations professionals. We asked a broad spectrum of companies, across a broad spectrum of industries, with a broad spectrum of market caps, and a broad spectrum of workforce sizes.

And we received a broad spectrum of answers.

Indeed, the one theme that recurred in our questions regarding the ESG reporting process was a lack of certainty. To an extent, that may be healthy. Respondents took a variety of approaches to reporting issues, and over time that may help the market discover best practices for ESG reporting organically.

But survey respondents also expressed a different and more troubling kind of uncertainty—a lack of knowledge about important ESG issues. They did not know how costs affected their company's ESG commitment; they did not know whether ESG-related information should appear in their financial reports; they did not even know if their own company's ESG reporting is accurate.

Their answers may express uncertainty, but from that uncertainty, a clear message emerges: the market is begging for direction on ESG reporting. Most respondents told us that their employers act with good motives on ESG issues, and yet far fewer indicated that their ESG reporting could be trusted.

Closing that gap will take guidance, if not mandates, from the Securities and Exchange Commission on how ESG reporting should be conducted. If and when it comes, it will likely be welcomed by many.

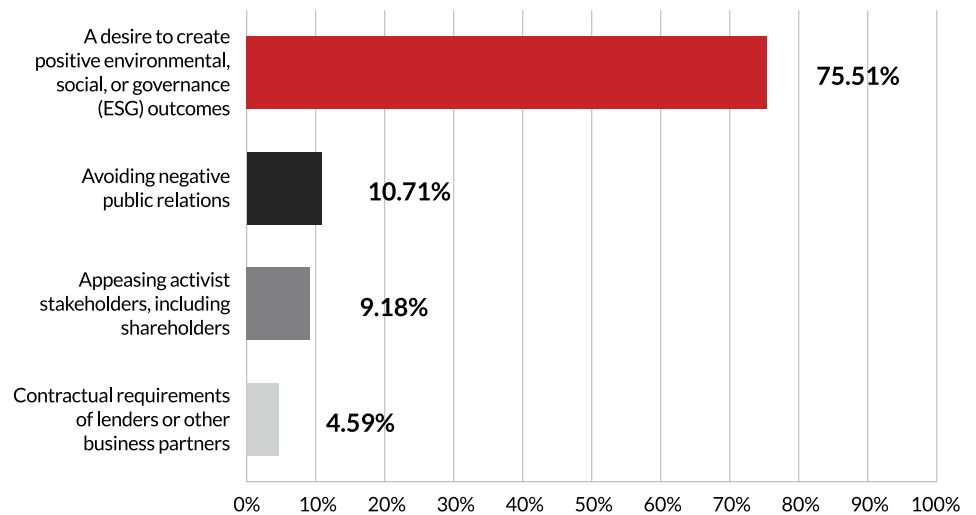
Dissenting Voices

“Commentary from survey participants revealed—sometimes starkly—that an earnest belief in ESG causes is not shared by all. One respondent called ESG “an inane ‘woke’ concept to be ignored.”

Commitment to ESG

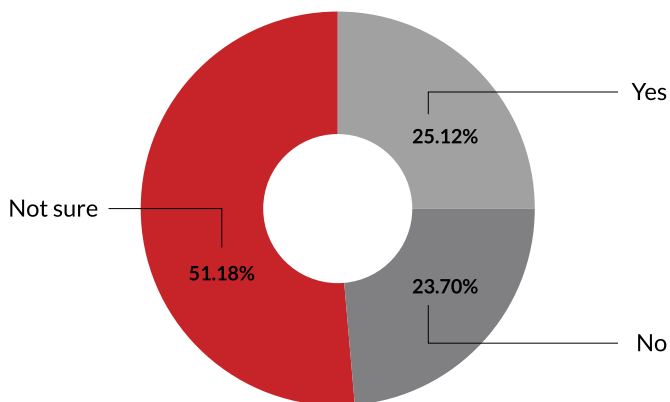
By a substantial margin, most survey respondents indicated that their companies undertook ESG initiatives primarily based on a pure desire to create positive outcomes. By contrast, only a quarter of respondents felt that their employers were driven by external factors like a desire to avoid negative publicity.

What is the primary motivation behind your company’s ESG initiatives?



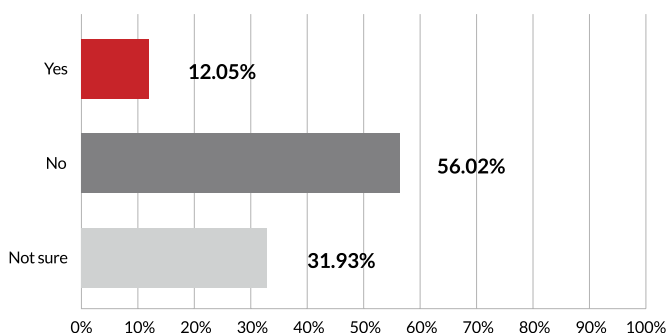
Additional data from the survey, however, could be interpreted as uncertainty about the depth of corporations' commitment to ESG initiatives—particularly when it takes dollars out of the company treasury. Many respondents, for instance, acknowledged that they lacked insight into the extent to which costs impacted their companies' level of commitment to ESG initiatives.

Is your company's investment in ESG issues influenced by these costs?



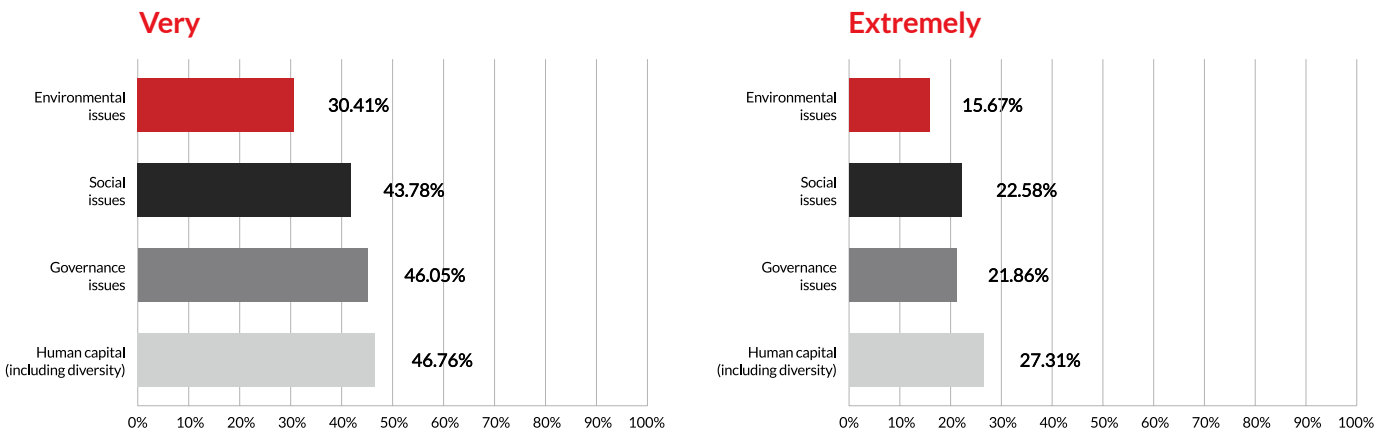
Likewise, only a small minority of employers tie their executive compensation to ESG goals. The low number here, of course, may reflect factors other than a lack of commitment. It may be, for example, that companies are struggling to identify ESG goals to shoot for, and how to translate them into compensation incentives.

Does your company's executive compensation include incentives or mandates for ESG metrics?

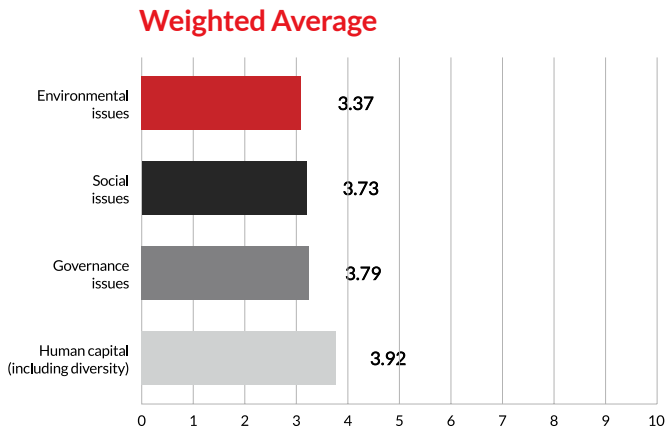


Of the three topics covered by ESG—environmental, social and governance matters—responses suggest that companies are least focused on environmental issues. Meanwhile, if human capital issues are separated out from the “social” category, they receive the most attention of all.

How focused is your company on the following?



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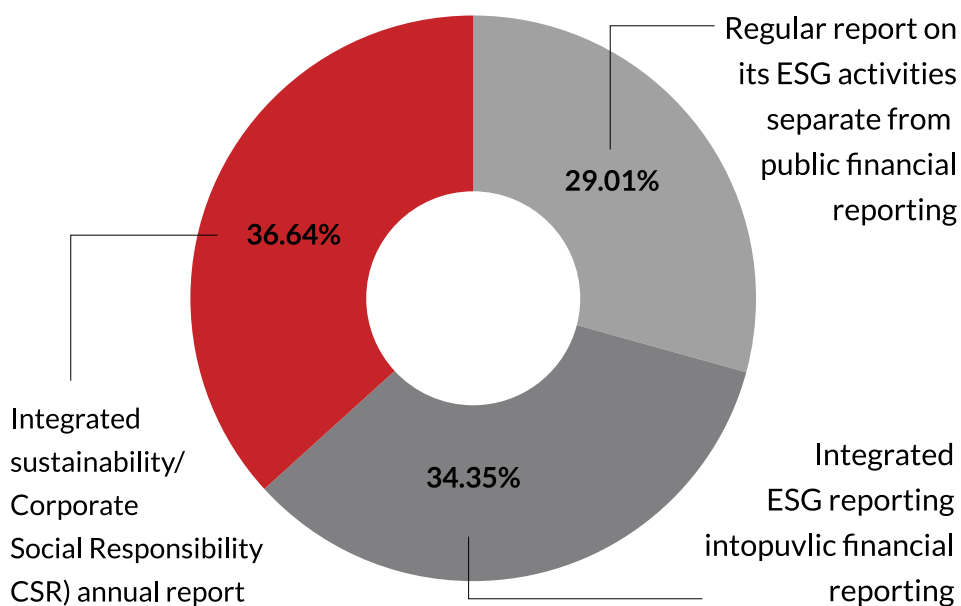
Dissenting Voices

“Several comments from survey respondents indicated that their companies made ESG disclosures in multiple formats or were planning to expand their reporting in future years. Some comments, however, indicated that their companies did no ESG reporting. “Since it’s not required we don’t disclose anything meaningful,” said one.

ESG Reporting Process

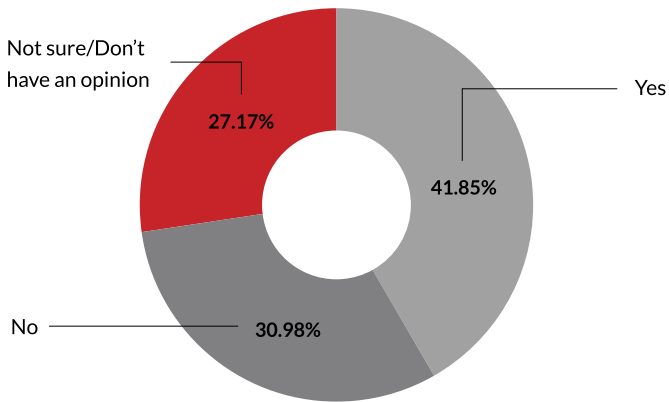
The lack of a regulatory framework for ESG disclosure (outside of the general obligation to disclose material information, at least) was most apparent in responses to our questions about ESG reporting. The “all over the map” quality of responses we received about ESG reporting is reflected in our question about the format that companies use. Respondents were evenly split among three different formats.

What form does your company’s ESG reporting take?



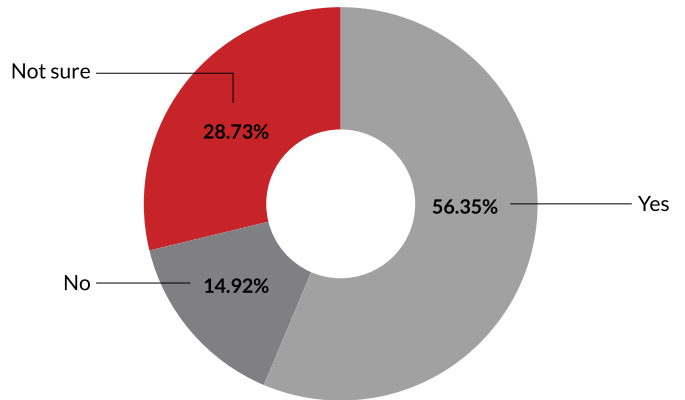
On the question of whether financial reporting should contain ESG disclosure, a plurality of respondents agreed, albeit with a large undecided contingent.

Do you believe ESG-related information should appear in financial reports?

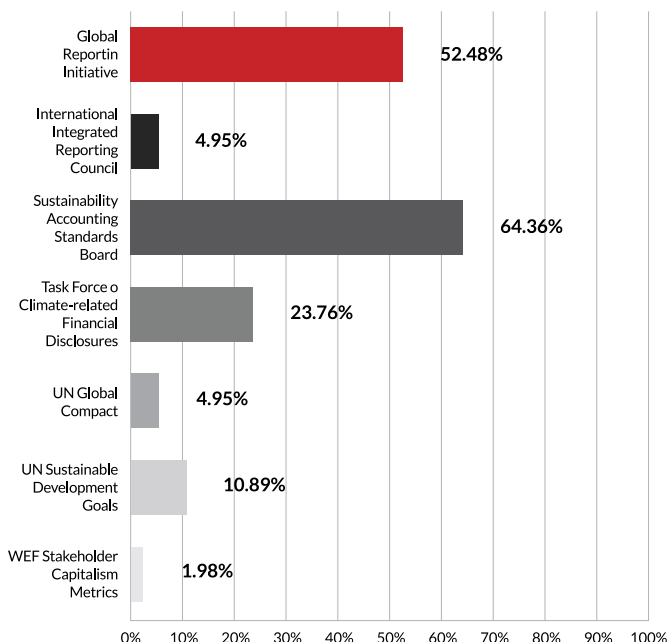


In the absence of clear disclosure mandates, companies are looking to multiple sources for guidance in drafting their ESG reporting. Those sources include their peers and multiple ESG frameworks by non-government standard-setting bodies.

Does your company benchmark against peers' ESG disclosure when preparing its own?



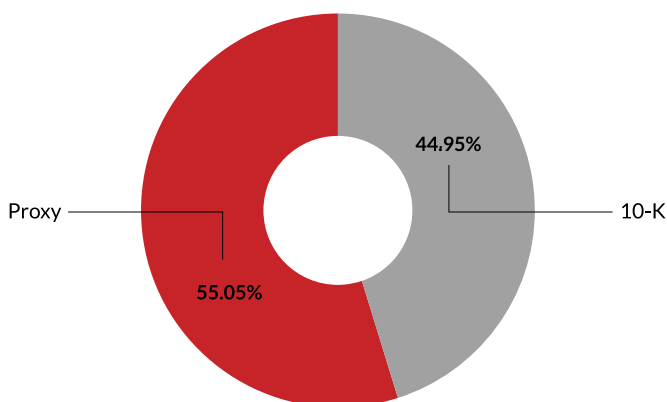
Does your company leverage a specific ESG framework? (select all that apply)



ESG Reporting Substance

As with many topics relating to ESG disclosures, our respondents lacked any strong consensus on where they do appear—or should appear—in public filings. By a slim margin, more respondents indicated that their ESG reporting appears in proxy materials as opposed to 10-K filings. That narrow edge could be attributable to the intensity of investor interest in ESG issues.

On which form do you report most of your ESG-related information?

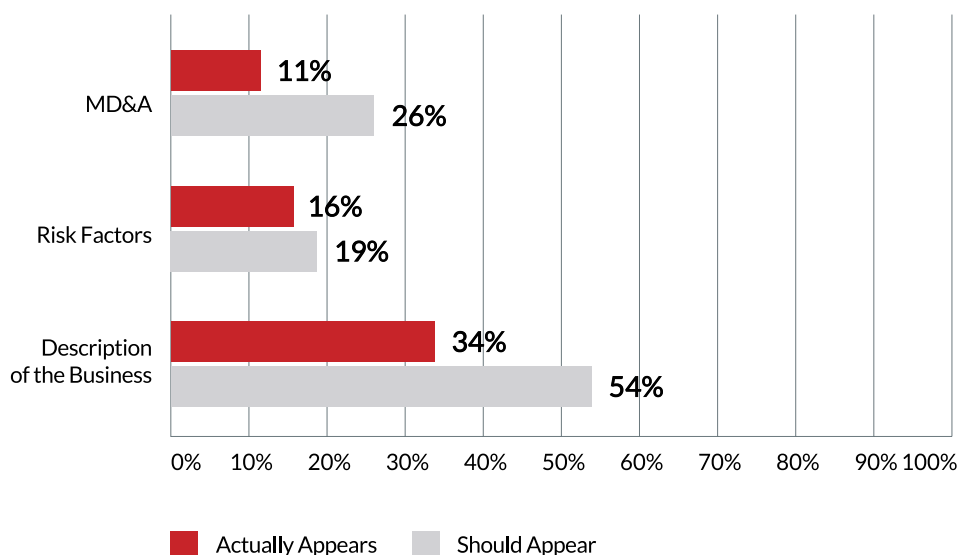


Dissenting Voices

Several respondents voiced the opinion that ESG information should not appear on the 10-K anywhere. "It should be outside of the 10-K," said one. Other commenters expressed the view that the SEC should develop a separate section on the 10-K form dedicated to ESG reporting.

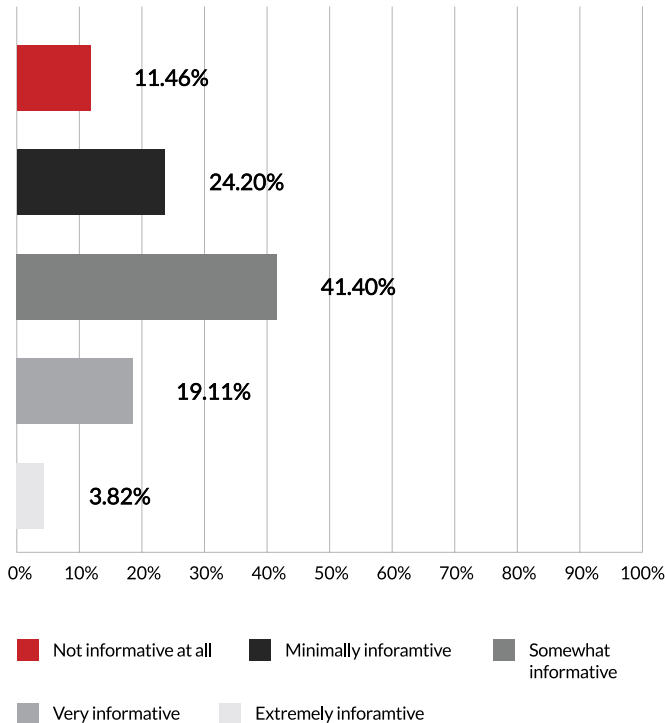
For companies that do report through their 10-Ks, responses revealed a gulf between which sections within the 10-K form their reporting actually appears, and in which sections respondents think it should appear.

ESG Disclosures on 10-Ks by Section.



In two final telling data points, echoing the theme of uncertainty running through this report, respondents offered their views on how informative and accurate they found their company's ESG reporting.

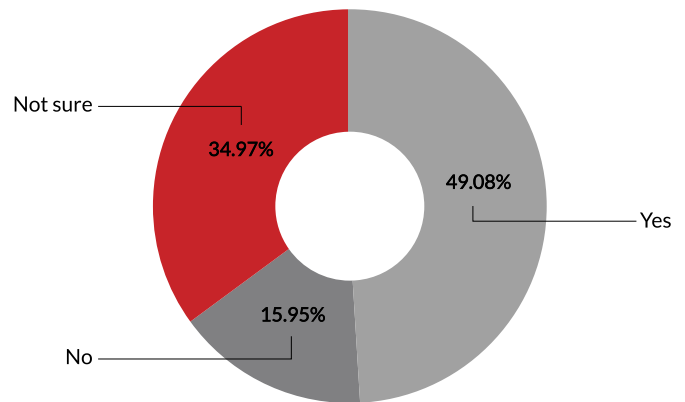
How informative is your company's ESG reporting?



Viewed at one angle, the numbers offer reason for optimism. More than 60% of respondents believe their company's ESG reporting is at least somewhat informative, and about half feel it is accurate. Even if neither number matches the 75% that believe their company is pursuing ESG initiatives from a desire to do good, it suggests that even in its present state, ESG reporting is offering some value.

Viewed at another angle, however, one number stands out: the 35% who cannot speak to the accuracy of their own company's ESG reporting. It suggests, as does the whole of the survey, that there is considerable room for greater clarity on ESG disclosures—and, indeed, that many would invite greater clarity being imposed on them through SEC regulations. The question now is whether and when the SEC will take up that invitation.

Do you believe your company's ESG reporting presents an accurate picture of its values?



Methodology

Intelligize surveyed public company respondents and the accounting and legal professionals who advise them on their companies' ESG activities. All responses were aggregated, and respondents were not asked to provide any personally identifiable information as part of the survey.

Responses came from companies across 14 different industries and 15 different job functions, ranging from CEO and CFO to attorney and accountant to reporting manager, controller and investor relations professional, among others.

While the majority of respondents (46%) represented small-cap companies (under \$2 billion), mid-caps and large-caps were also well represented, with 31% and 23% respectively.

Thirty-eight percent of respondents were from companies with less than 1,000 employees, while 34% employ between 1,000 and 5,000. Respondents with between 5,000 and 20,000 employees made up 14% of the sample size, with another 14% totaling more than 20,000 employees.

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