The Morningstar Sustainalytics Corporate ESG Survey Report 2022

CSR and Sustainability in Transition

MORNINGSTAR | SUSTAINALYTICS

Acknowledgments

We would like to thank the following individuals for their contributions to this survey report:

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Report Highlights

Responsibility for environmental, social, and corporate governance (ESG) programs commonly belongs to corporate social responsibility (CSR) professionals, who are tasked with delivering on a range of related goals that have taken on steadily greater importance for many firms. The Morningstar Sustainalytics Corporate ESG Survey Report 2022 presents current and emerging challenges facing CSR and sustainability professionals, insights about peer practices, and indications about the future directions of corporate ESG programs.

Key Findings

Managing ESG Activities

Almost nine in ten CSR and sustainability professionals (89%) manage 50% or more of the ESG activities at their companies, including: reporting and disclosure (95% very involved/regularly involved), target setting and measurement (95%), program planning and execution (94%), and ESG ratings or scores (90%).

Stages of ESG Maturity

Among survey respondents, 64% of their firms have a formal ESG strategy; 78% have identified strategic ESG issues; and 61% have set specific goals and/or key performance indicators (KPIs).

Dealing With Challenges

The challenges with the most severe impact for CSR and sustainability professionals include: budget constraints (35%); lack of human resources (34%); the measurement, reporting and disclosure of outcomes (33%); goal and target setting (32%); and meeting regulations or standards (28%).

Addressing the Challenges

The most common resources CSR and sustainability professionals use to meet ESG challenges are ESG consultants (61%); external ESG standards and/or guidance (58%); and internal hires (46%). Less than one in five (17%) reported the use of sustainable financing to meet their ESG challenges.

Environment Is Top Priority

Survey respondents report that when it comes to ESG, their organizations rank by order of importance environmental issues (53%) as highest, followed by corporate governance (25%) and social issues (22%).

Support for Measurement and Reporting

Most respondents work with external ESG service providers to manage measurement or reporting. Those that have not hired outside advisors report that they don't see the need or value (29%) or haven't done so due to costs (22%).

ESG Ratings and Scores

Nearly two-thirds of CSR and sustainability professionals (61%) say their company has an ESG risk rating or score. Firms are mainly using their scores for annual CSR/ESG reporting (28%) and investor relations (27%).

Foreword

WILCO VAN HETEREN
Senior Vice President, ESG Research
Morningstar Sustainalytics

GABRIEL PRESLER
Global Head of Enterprise Sustainability
Morningstar

The ESG landscape has been evolving rapidly over the past years. This report reflects this evolution. The findings — from an increased population of corporate staff active in ESG, to drivers for increased ESG-related activities, to the greater focus on environmental topics versus governance and social issues, and the use of ESG in corporate practices — are consistent with what Sustainalytics' research teams encounter when doing ESG research, generating ESG ratings, and discussing companies' inputs into processes.

What our research teams are picking up from the corporate market is sustained by the facts and statistics in this report. The message is clear: the relevance of ESG for corporations and their stakeholders will only increase. ESG research and ratings can support those companies, investors, and other stakeholders in decision-making around ESG issues, while acknowledging that ESG has become and will continue to be of strategic relevance for all the players in markets and economies.

The field of corporate sustainability is evolving quickly. Expectations for companies are changing; the conditions for business success have shifted; and there has never been a brighter spotlight on the work of sustainability leaders.

This report from our colleagues at Sustainalytics indicates that the domain and influence of sustainability teams is changing quickly, too. What was once viewed as a compliance-oriented or brand-driven investment is now seen as an integral component of future-focused, data-driven corporate strategy. And as regulatory scrutiny increases and international ESG reporting standards align, the data makes all the difference.

Leaders in this space are increasingly able to link progress in core sustainability principles to underlying ESG data, to compare companies and industries more effectively, and to arm their executive leadership with coherent, consistent and transparent metrics to understand a company's exposure and positioning to significant industry, market, social, and environmental challenges.

Of course, challenges remain. Sustainability teams are often small and, as this report reflects, they are tasked with owning almost all aspects of these critical workstreams. The field is new and requires both creative energy and technical expertise. The moment is complicated and disentangling signal from noise takes nuanced technical and strategic skills.

We hope that sustainability leaders will find this report helpful in prioritizing shifting opportunities, challenges, and areas for acceleration and strategy planning.

Introducing the Morningstar Sustainalytics Corporate ESG Survey Report

While corporate social responsibility has played an important role in business for several decades, today the challenges facing CSR and sustainability professionals are evolving rapidly. Climate change, the global pandemic, rising stakeholder expectations, increased regulation, and expanding definitions of risk management among investors, are all key factors that are increasing the attention firms are paying to environmental, social, and governance issues.

With these shifts in public and corporate thinking about stakeholder capitalism, many of these professionals have become more focused on ESG issues that are relevant to their firms' operations, which may fall outside the realm of traditional CSR and sustainability. They are taking on more responsibilities with respect to effectively implementing ESG strategies and managing reporting, disclosure, and regulatory compliance requirements. What's more, increased expectations of ESG performance are no longer associated with specific activist groups or jurisdictions: stakeholders globally want businesses to measure, disclose, and act.

The Morningstar Sustainalytics Corporate ESG Survey Report 2022 reveals that CSR and sustainability professionals and their firms are stepping up to meet today's challenges, presenting a picture of how business is managing ESG activities, and the impact on CSR departments. The results offer insights on the kinds of existing and emerging challenges these professionals face around the world, as well as their most important concerns about ESG.

Methodology, Firmographics and Demographics

Methodology

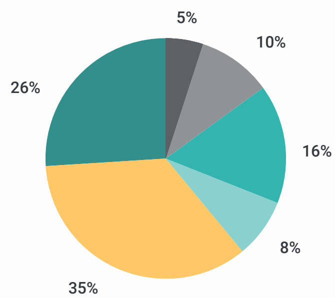
From June to August 2022, Morningstar Sustainalytics conducted a global survey of 556 participants who identified as corporate social responsibility or sustainability professionals. Respondents shared their views on a range of CSR and ESG topics, from current ESG reporting preparedness and challenges to planning and implementation. The respondents represent a cross-section of roles, company sizes, and industries, including financial services, technology, manufacturing, and the public sector.

Firmographics

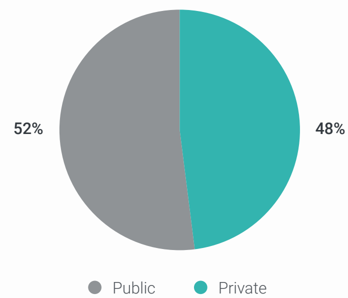
What is the size of your company?

Company Sizes

- Smallest – <50 employees
- Small – 50-499 employees
- Medium – 500-999 employees
- Medium-Large – 1,000-9,999 employees
- Large – 10,000-99,999 employees
- Largest – 100,000+ employees



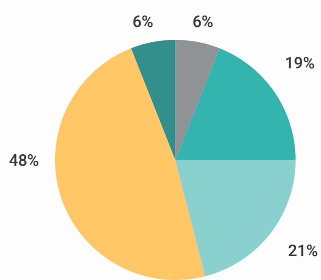
Is your company public or private?



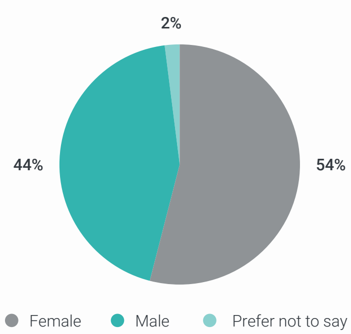
Demographics

Which of the following best describes your role?

- C-Level (CEO, CFO, COO, CTO, etc.)
- Vice President
- Director
- Manager
- Individual contributor (no direct reports)

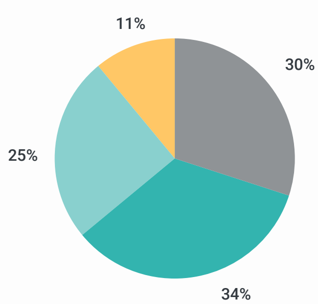


What is your gender?



Region of work

- Americas
- Asia-Pacific
- Europe
- Middle East and Africa

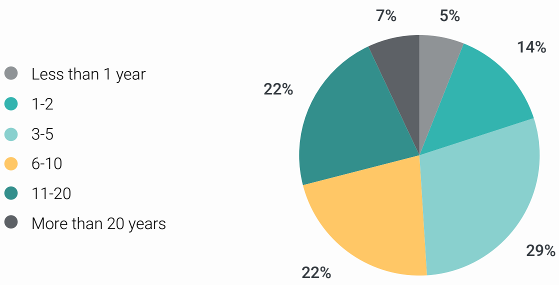


The State of ESG Within CSR and Sustainability

The survey revealed that CSR and sustainability professionals bring significant breadth and depth of experience to their current roles and the field appears to be growing. At the same time, these roles are being rapidly redefined and expanded by the increased corporate focus on ESG programs, disclosure, and measurement.

Years of Experience Among CSR and Sustainability Professionals

How many years of experience do you have in CSR or sustainability?



Approximately 29% respondents have three to five years of experience in the CSR and sustainability field, though slightly more than half (51%) have been in these roles for six or more years, and almost a third (29%) for more than 11 years. This suggests that there is already quite a lot of experience in CSR departments, but the field is also expanding and maturing.

Further analysis of the data reveals that most respondents are at the manager level or above, and those with more than 20 years of experience are likely to be directors, vice-presidents, or C-level executives. It appears that CSR and sustainability offers a defined career path with an upward trajectory, particularly for those with more than 10 years of experience.

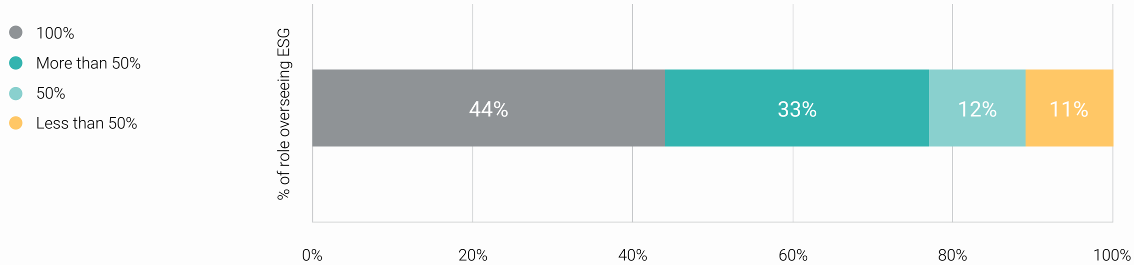
Insight From Our Experts

WILCO VAN HETEREN
Senior Vice President, ESG Research
Morningstar Sustainalytics

"As this report shows, the widespread evolution of ESG goes hand in hand with an increasing number of corporate professionals active in this field. This growth, together with the level of seniority of professionals operating in the ESG space within corporates, correlates with the increasing level and intensity of interactions between corporates and Sustainalytics' ESG analysts, when discussing corporates' input into the ESG ratings processes."

Percentage of CSR and Sustainability Roles Devoted to ESG Initiatives

What percentage of your role or department is devoted to overseeing ESG initiatives?

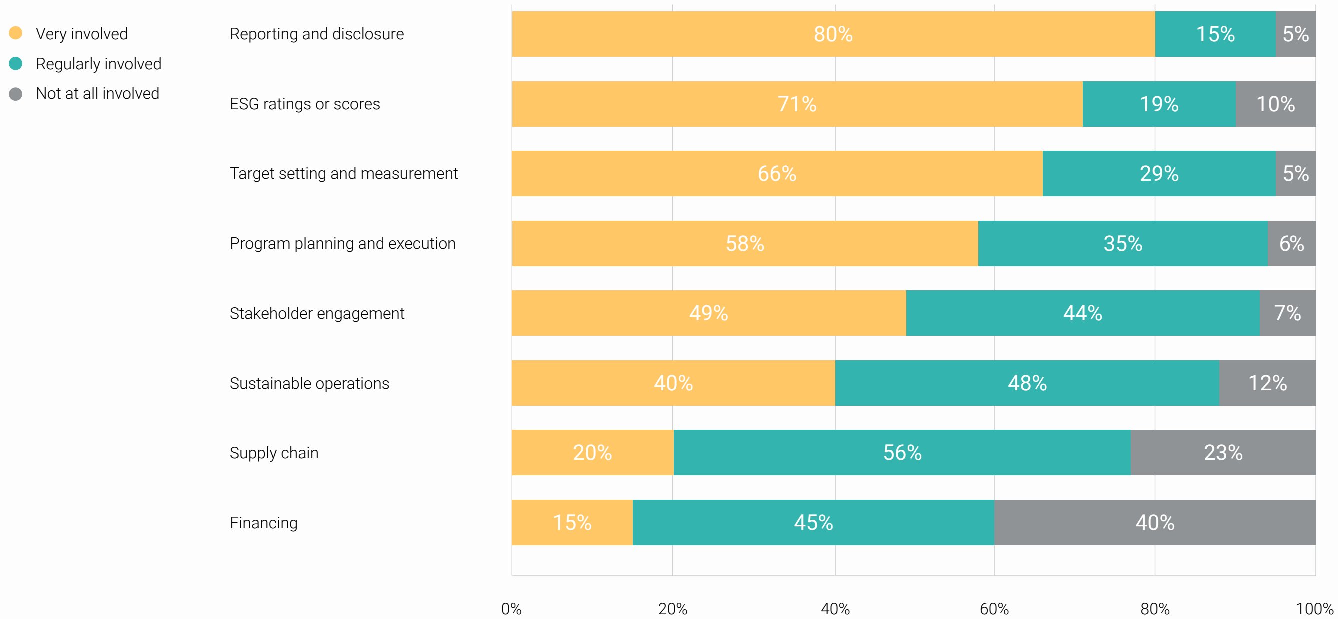


CSR and sustainability professionals are taking on a lot of ESG-related activities and programs, including reporting and disclosure, setting goals and measuring progress, strategy, planning and execution, and more. Close to half of respondents (44%) say they manage all of their firm's ESG activities. Another 33% of respondents manage more than half of their firm's ESG work. Less than one-quarter of respondents (23%) said they are only managing half or less of their firm's ESG-related tasks. For the 56% of respondents who are not managing all ESG-related tasks, it is likely that a range of other departments are involved.

Survey data further revealed that VP and C-level professionals are least likely to be engaged with all ESG activities. These findings suggest that ESG-oriented tasks are embedded in corporations, but not evenly. Top-level executives especially are still likely to have responsibilities that extend beyond ESG.

CSR Involvement in Specific ESG Areas

Please rate how involved your role or department is in the following ESG areas.



Respondents say they are very involved in tasks such as reporting and disclosure (80%); ESG ratings or scores (71%); target setting and measurement (66%); and program planning and execution (58%). Only 20% are very involved in supply chain management and 15% in financing.

It's likely that lower-involvement tasks still tend to be handled by other departments outside CSR or sustainability; e.g., stakeholder engagement by corporate communications and investor relations, and financing by the CFO and treasury department.

Looking deeper into the survey results found that VP and C-level executives are heavily involved in reporting and disclosure, financing, and target-setting. Individual contributors and managers are still participating in these tasks, but are somewhat less involved. Finance, in particular, is led and managed by senior leadership. There may be opportunities for greater alignment between finance and sustainability teams.

What Respondents Are Saying About the State of ESG in CSR and Sustainability

ARAGON ST-CHARLES
Global Head of ESG
Dentons

"I see ESG and CSR as interlinked, but very different. CSR is more representative of a pathway within an organization that is focused externally on the important work of community engagement, investment, and partnerships, and charitable giving. In contrast, ESG is an integral part of a business strategy that is driven by data, metrics, and defined targets, which contribute to an organization's bottom line and respond to regulatory and legal frameworks."

ALEXANDRA BRENNAN
Head of Sustainability
Johnson Service Group PLC

"It seems companies are 'committed' to sustainability to make sure they are compliant. They are not as committed to the less regulated areas of sustainability. I am often seeing jobs either aimed at communications experts who can 'tell the story' or finance experts who mainly understand ESG with regard to how financial institutions require information. There are limited roles for true corporate sustainability specialists whose skillset lies in implementing holistic sustainability strategies and programs."

PANOS SKIADAS
Sustainability Senior Director
Viohalco SA

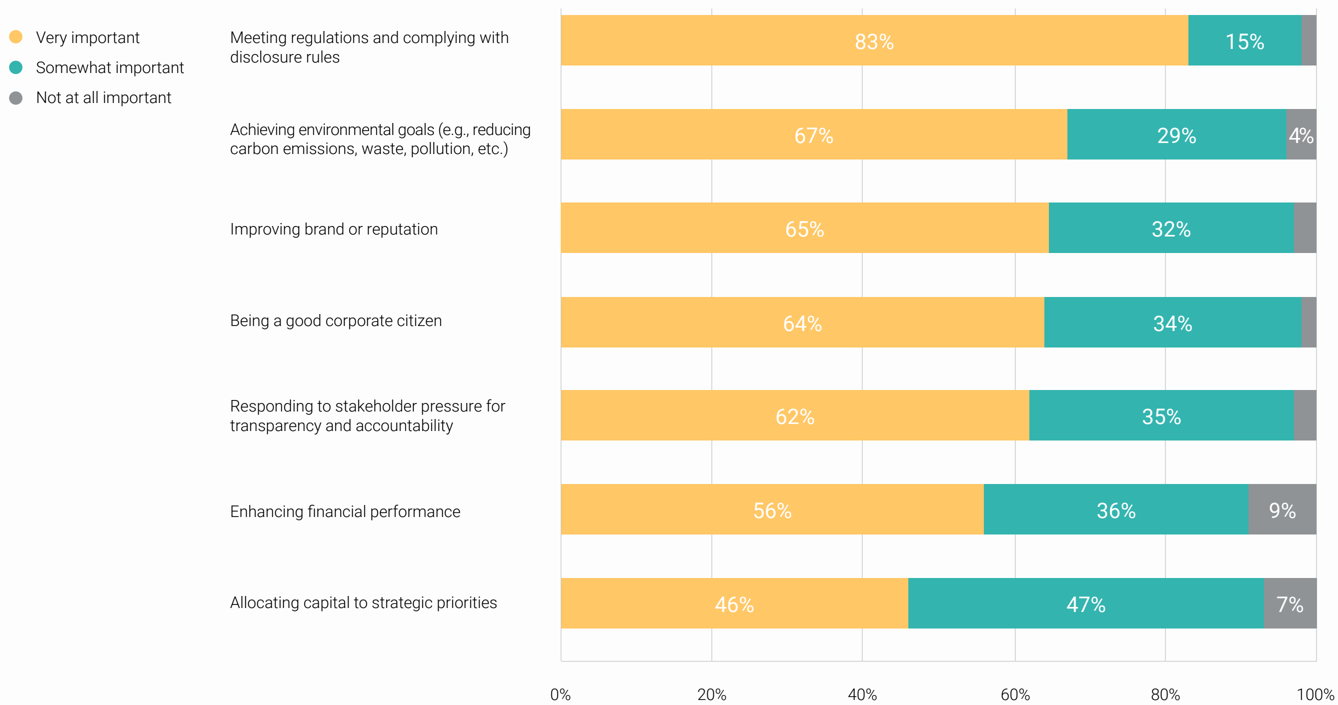
"I believe CSR has a limited scope and does not look at the impact of operations across the entire value chain. ESG is a term we use when the focus is on risks and opportunities emanating from E, S, and G issues. ESG mostly applies in regard to financial institutions, the investment community, and how these ESG issues may affect the long-term value of the company. Sustainability entails every aspect of the company, including how products and services contribute to society's needs."

ESG Motivations

Organizations respond to a wide range of motivations as they shape their ESG mandates and address stakeholder expectations. However, respondents indicated that compliance with regulation and disclosure rules ranks at the top of the list of ESG-oriented motivations, while financial considerations are at the bottom. The results suggest that ESG decision-making is most influenced by external regulation and senior leadership.

Importance of ESG Motivations

Please rate how important the following ESG motivations are for your organization.



The most important motivator for corporate ESG action is meeting regulations and compliance requirements (83% rate it very important). However, broadly speaking, respondents consider all of the motivations as important (90% or higher), when seen together as somewhat important and very important.

The least important issues are enhancing financial performance (56% rate it very important) and allocating capital to strategic priorities (46%), which may reinforce the idea that these aspects of ESG are being managed outside of the CSR or sustainability department.

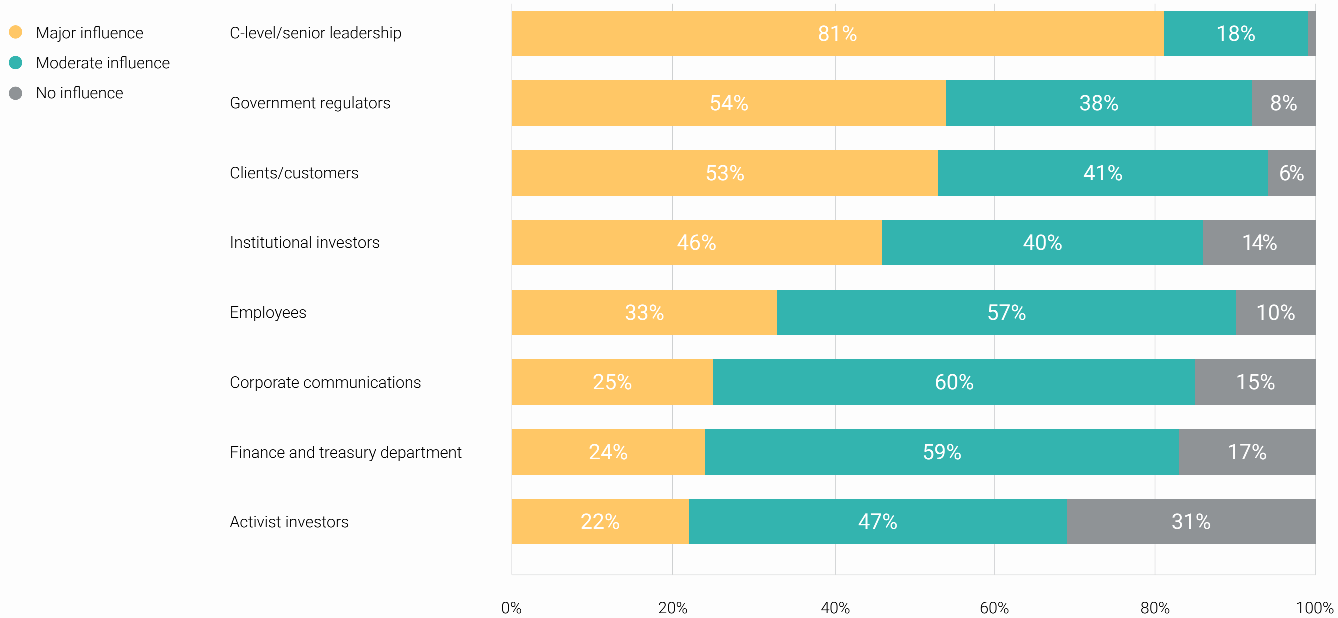
Insight From Our Experts

ERIC FERNALD
ESG Research Director
Morningstar Sustainalytics

"Most companies new to disclosing on ESG factors are motivated to comply with regulatory or quasi-regulatory guidelines or by recent investor engagement. Leading companies with multi-year experience in disclosing on ESG matters tend to focus on achieving 'beyond compiance' results, such as meeting best-in-class environmental goals and maintaining a strong brand identification with excellent corporate citizenship and strong stewardship over the environment."

Stakeholder Influence Over ESG Planning and Strategy

Please rate the influence the following stakeholders have over your organization's ESG planning or strategy.



In general, the main push for ESG planning and strategy comes from senior leadership (81%), followed by regulators (54%), clients and customers (53%), then institutional investors (46%). Respondents reported that the least influential stakeholders are activist investors (22%) and finance and treasury departments (24%). The findings reinforce other survey results showing the importance of regulations and compliance, which are top concerns for senior leaders.

What Respondents Are Saying About ESG Motivations

PATRICK HO
Deputy Head, Sustainable Development
Swire Properties Ltd.

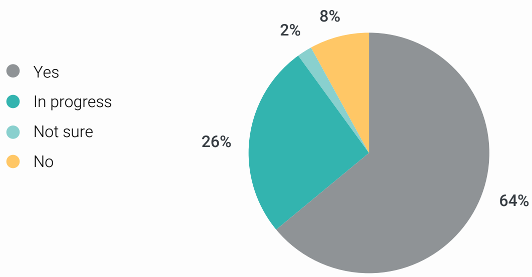
"ESG is a growing trend, but it's not equivalent to sustainability, which is a much broader concept that drives the transitions needed towards a better future. It is important to move beyond the risk mitigation aspect of ESG to a purpose-driven ESG."

ESG Strategy

The majority of survey respondents reported that their firms have a documented ESG strategy. The results also reveal how these strategies develop, from identifying material ESG issues, to goal-setting, establishing KPIs, and finally, putting it all together in a formal strategy document.

Adoption of Formal Documented ESG Strategies

Does your organization have a formal documented ESG strategy?



Nine in ten survey respondents (90%) said their firms have or are developing a formal ESG strategy. It appears that companies that employ CSR and sustainability professionals are highly likely to have a formal ESG strategy or have one in progress.

A small proportion of respondents (2%) aren't sure about their firms' ESG plans, which raises questions about how companies integrate and communicate their efforts across the organization.

Looking closer at the data found that larger companies are more likely to have formal ESG strategies, including approximately 60% of the largest companies and 35% of large companies. Medium-sized firms are most likely to be developing an ESG strategy. Smaller firms are also getting in on the action: about one-fifth of smaller companies have an ESG strategy or are working on one.

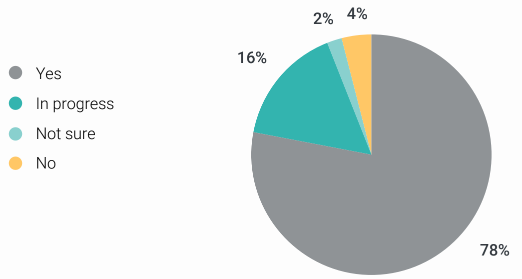
Insight From Our Experts

ERIC FERNALD
ESG Research Director
Morningstar Sustainalytics

"These survey results appear to line up with our ESG research, which finds that larger, established companies in sectors with long histories of disclosing on ESG matters tend to have well-developed strategies for managing their sustainability impact. Newer entrants to the field have the challenge of identifying the most important material issues and then developing – often over several years – the programs to manage these impact areas and the data to reveal performance. On the upside, these new entrants benefit from the experience of the leaders in their industry."

Identification of Strategic ESG Issues

Has your organization identified the ESG issues that are most important to your corporate strategy?



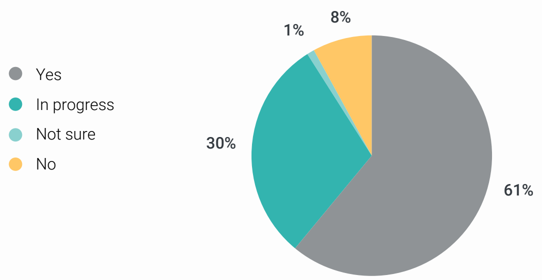
According to the results, firms are substantially more likely to have identified the ESG issues that are most important to their strategy (78%) than to have implemented a formal strategy for tackling the issues (64%), as seen on Page 15 above. These results suggest that identifying strategic ESG issues is a step toward developing a formal ESG strategy.

Further analysis of the data reveals that companies with 1,000 or more employees are most likely to have identified their strategic ESG issues. Curiously, almost three in ten CSR and sustainability professionals with large firms remain unsure of the status of these issues.

The takeaway is that large firms dedicate real resources to ESG, likely due to a range of factors, including the heightened pressure they face from investors, regulators, customers, and other stakeholders.

Identification and Adoption of ESG Goals With Specific KPIs

Has your organization identified and adopted ESG goals with specific KPIs?



The majority of those surveyed said their firms had identified and adopted ESG goals with specific KPIs (61%), or were in the process of doing so (30%). This is a key intermediary step between identifying strategic issues and formally establishing a strategy to address them.

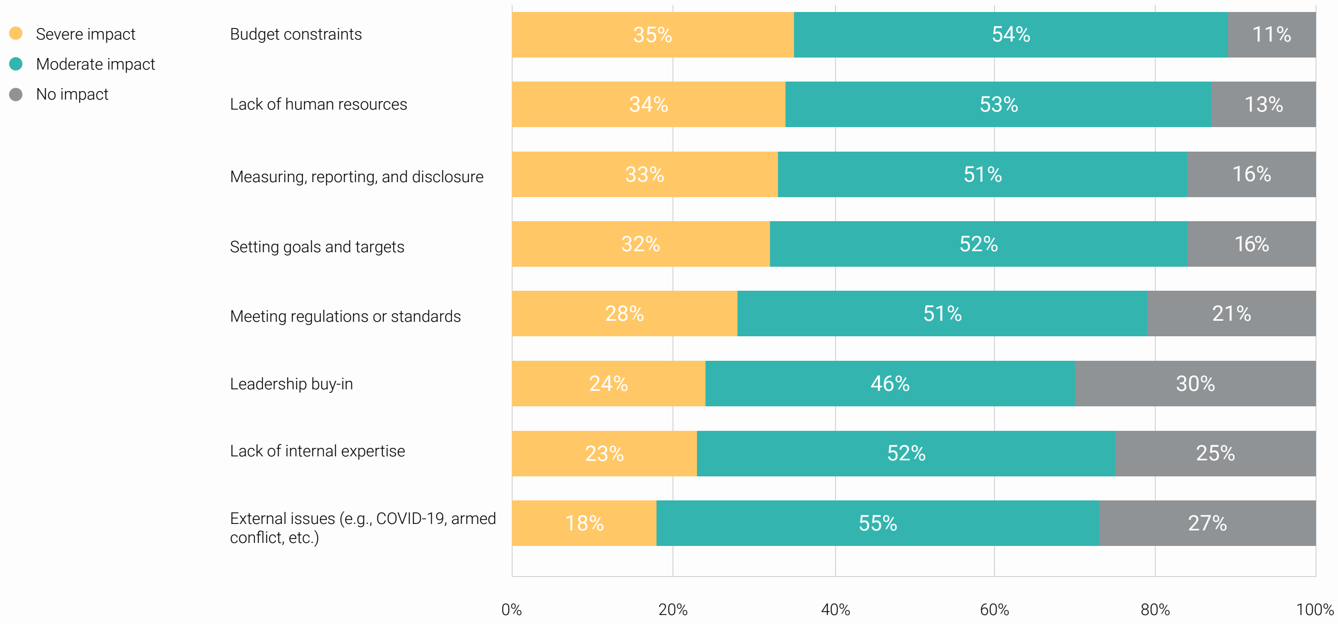
Further analysis shows that both medium companies and the largest companies are most likely to have adopted goals and KPIs, although respondents at smaller firms are less sure what their KPIs are.

ESG Challenges

Implementing an ESG program is far easier said than done. Many companies are still at the beginning stages of their ESG programs and are dealing with important structural challenges, like securing adequate resourcing and human capital, before they can start to take on the technical challenges like measuring, reporting, and disclosure, and meeting regulations and standards. Nonetheless, whatever the challenges, companies are finding resources to meet them.

Challenges to Executing ESG Programs or Activities

Please rate the impact of the following challenges with respect to executing ESG programs or activities.

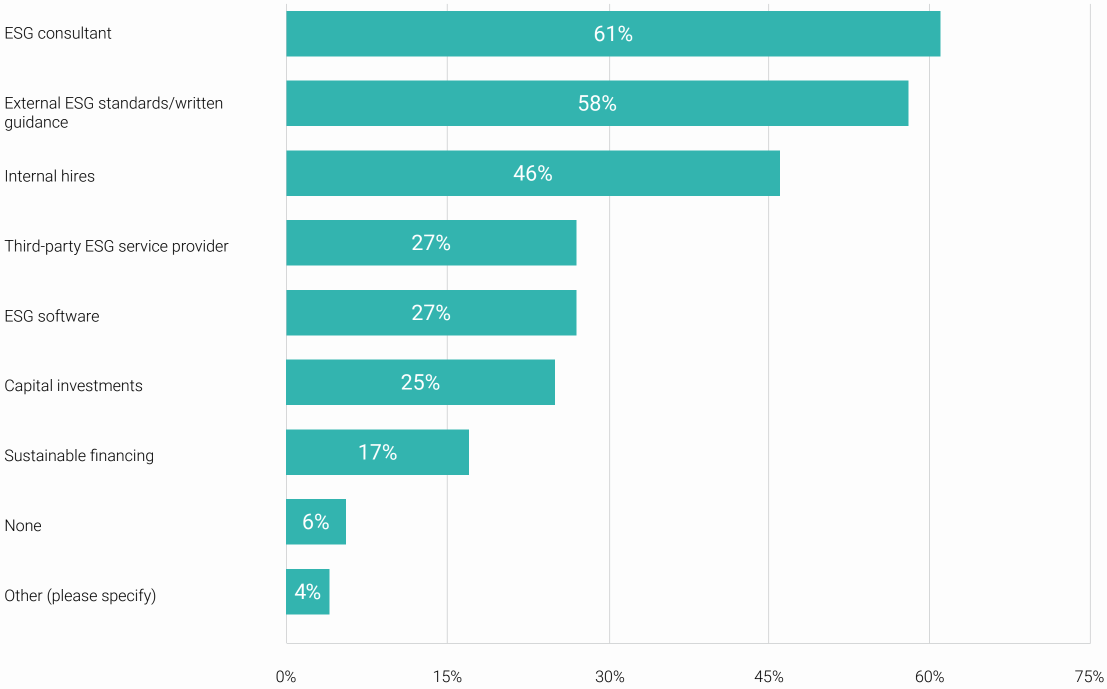


Respondents said the biggest hurdles when it comes to ESG programs are structural issues, specifically budget constraints (89% severe or moderate impact) and lack of human resources to do the work (87% severe or moderate impact). The next most challenging obstacles are technical concerns around setting goals, measuring, reporting, and disclosure (86% severe or moderate impact) and meeting regulations (79% severe or moderate impact). Next is a key cultural issue: gaining leadership buy-in (70% severe or moderate impact).

The top challenges facing CSR and sustainability professionals relate to key steps required to build an effective ESG program. This suggests that respondents are working through expected issues, but they may need additional support.

How Organizations Are Meeting the Challenges

What resources or tools have you used to meet the challenges? Select all that apply.



About three in five respondents (61%) seek out external consultants to help address ESG challenges, and a similar proportion look to external standards or written sources of guidance for direction (58%), possibly due to resource constraints.

Almost half of respondents are hiring staff to carry out ESG programs (46%). Others are looking to third-party ESG service providers (27%) like Sustainalytics, ESG software (27%), and capital investments (25%). Fewer than one-fifth of respondents (17%) say they are applying sustainable finance to further their ESG goals. When viewed alongside other survey data, this suggests that sustainable finance is handled by other departments and perhaps respondents are more focused on the practical details of ESG: understanding their material ESG issues, setting goals and targets, measurement and reporting, planning and executing, likely with help from consultants or third-party service providers.

Further analysis shows that the largest firms are most likely to use ESG software, capital investments, and internal hires, whereas small and medium enterprises are more likely to draw on other tools, such as in-house skills development.

Insight From Our Experts

ERIC FERNALD
ESG Research Director
Morningstar Sustainalytics

"Resources — including staffing — are a perennial challenge for all companies, regardless of size. Larger companies have more resources, but often face daunting complexity in developing and implementing corporate-wide programs that generate consistent year-over-year data. The focus often is to spend resources wisely in order to maintain standing within one's peer set.

Mid-sized to smaller companies have smaller budgets and less staff. For these companies it is not uncommon for ESG strategy and reporting responsibilities to be assigned to an individual in a traditional department such as investor relations or corporate communications. Critical to success is leveraging information from the global standards organizations and the ESG rating agencies, such as Sustainalytics."

What Respondents Are Saying About ESG Challenges

LEYLA ALIJANI
VP, Environmental Social Governance Officer, Pacific Western Bank

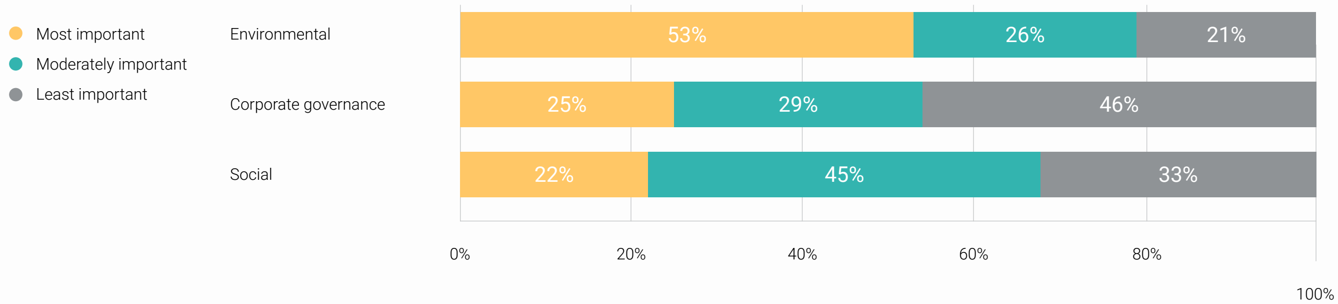
"The ESG landscape is ever-evolving and growing more complex due to a number of key drivers, which puts a great deal of pressure on public companies to showcase how ESG is being operationalized at every level within the company. ESG brings about great opportunities for innovation and risk management. Yet the challenge also lies in the fact that there is an education process as each ESG roadmap and journey is unique."

ESG Priorities

With increasing public and media attention on climate and extreme weather events, it should come as no surprise that corporate ESG programs focus more on environmental issues than social and governance concerns. Nonetheless, the survey results suggest that social issues are gaining increased attention from corporations. At any rate, there is a very broad range of issues that CSR and sustainability professionals are expecting to address in the coming year, covering all of the ESG areas.

Importance of Environmental, Social, and Corporate Governance Issues

In terms of your organization's ESG efforts, please rank environmental, social, and corporate governance by order of importance.



Respondents report that their firms place most importance on environmental issues (53% rated it most important), followed by corporate governance (25%) and social issues (22%). However, when considering most important and moderately important rankings together, the numbers tell a slightly different story. Looked at this way, environmental issues remain the most important overall, but social issues come second, and governance is third. These results align with firms' priorities for the upcoming year (see the next section) and may indicate that companies are starting to increase their attention to social issues.

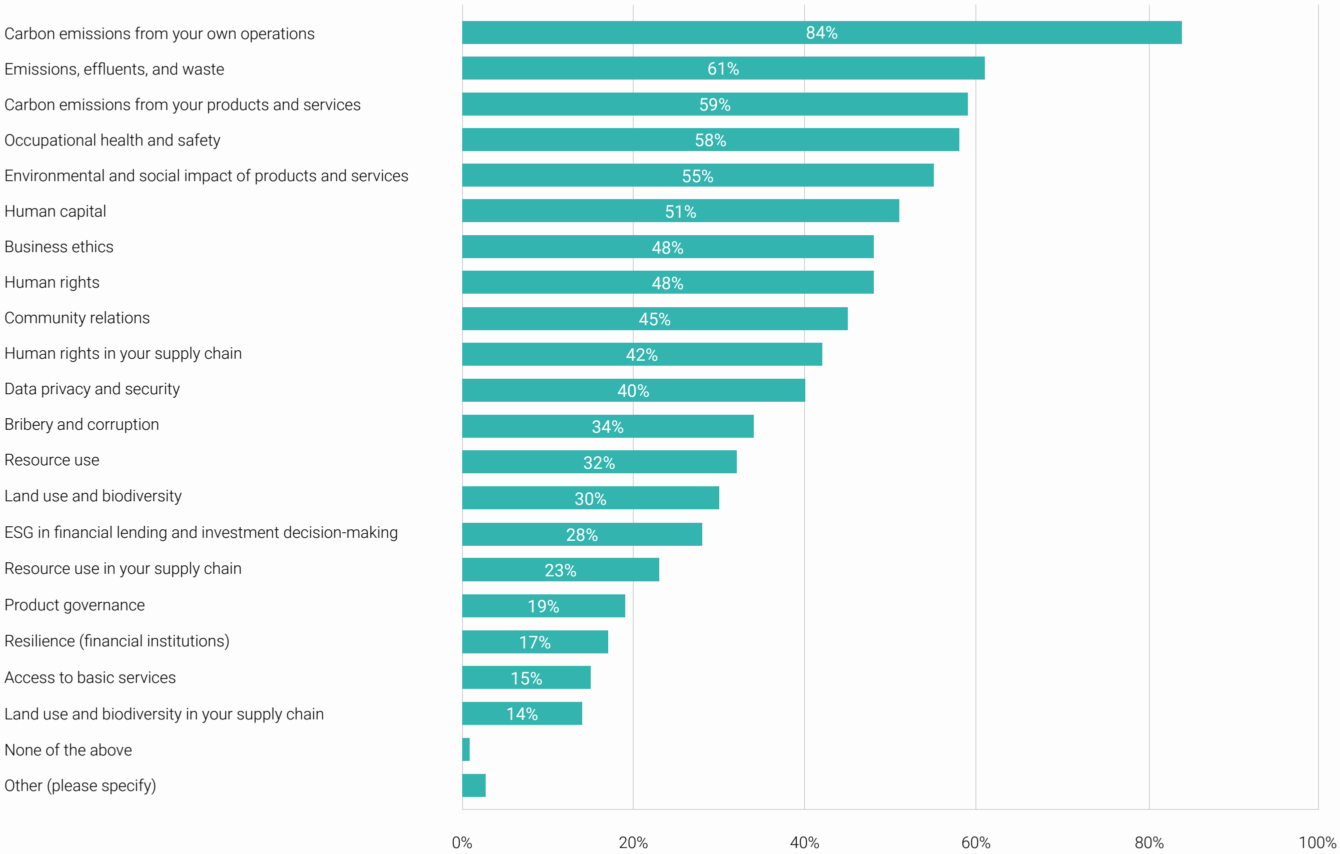
Insight From Our Experts

WILCO VAN HETEREN
Senior Vice President, ESG Research
Morningstar Sustainalytics

"The overall priority that corporations put on addressing environmental issues is in line with the way the regulatory environment has evolved. As regulation, at least in certain regions, is advancing around environmental topics and less so on social topics, companies' emphasis on the E versus the S and the G seems natural. That said, Sustainalytics does see an increase in attention paid to social issues, attempts to standardize reporting hereto, etc. This development is triggered by strong public responses to a range of social issues, including mistreatment of minority groups, which have been amplified by social media."

ESG Priorities for the Coming Year

What ESG issue(s) does your company intend to prioritize over the coming year? Select all that apply.[1]



By far, the top ESG priority is reducing carbon emissions from operations (84%). This is followed by emissions, effluents, and waste (61%), carbon emissions from products and services (59%), occupational health and safety (58%), and the environmental and social impact of products and services (55%). Firms are placing lower priority on land use and biodiversity (30%), resource use in supply chains (23%), product governance (19%), resilience (17%), and access to basic services (15%).

The top 11 priority items are essentially ongoing concerns, although human rights (including in supply chains), community relations, and data privacy and security could be considered hot-button issues.

Of the lower priority items, several of them relate to specific sectors or types of business, which may explain the result. For example, resilience and ESG in lending and investing decision-making mainly apply to financial institutions. Access to basic services mainly applies to healthcare providers. These are likely high priorities for those specific sectors to which they apply. Other topics companies are less focused on are still emerging issues like resource use and biodiversity.

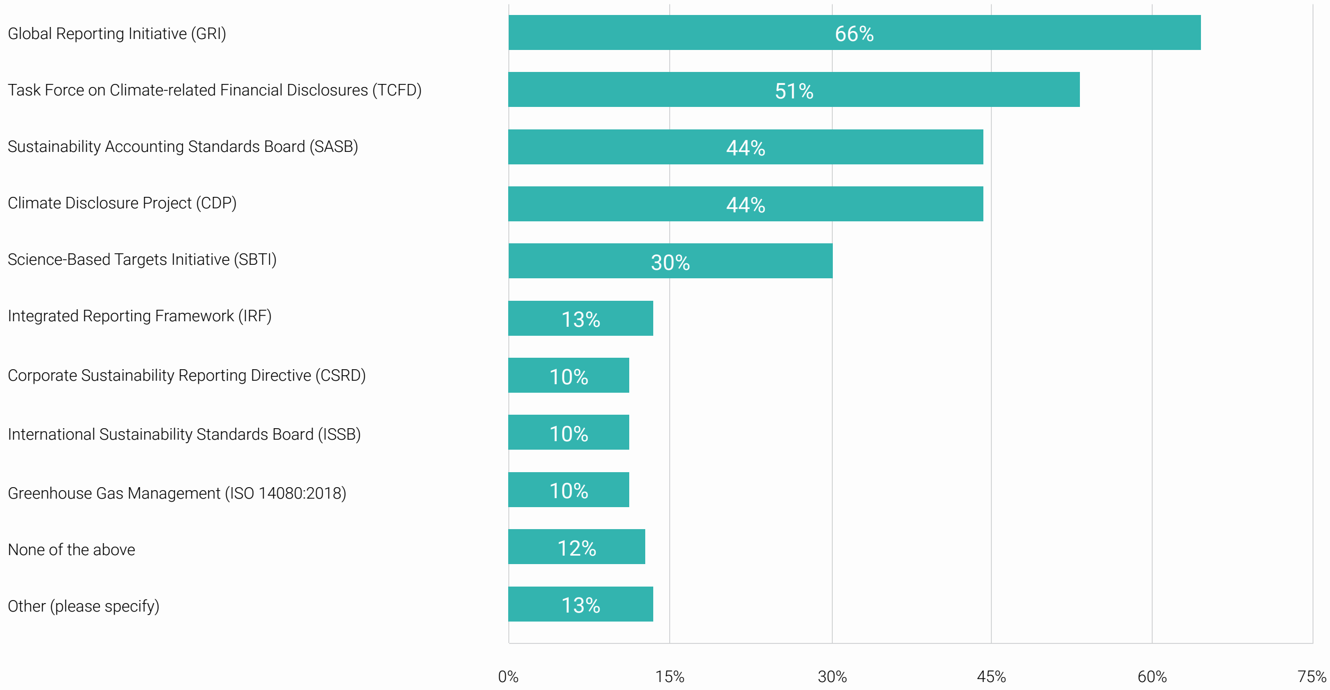
[1] These options are based on Morningstar Sustainalytics' material ESG issues (MEIs). Learn more on our MEI resource center.

ESG Reporting and Service Providers

As firms ramp up their ESG efforts, they inevitably recognize the importance of accurate reporting that meets global, regional, or industry standards. Most companies have adopted at least one reporting framework to guide their efforts and have sought assistance with measurement and reporting from third parties.

Adoption of ESG Reporting Standards or Frameworks

Have you adopted any of the following ESG reporting standards or frameworks? Select all that apply.



All of the top choices are established frameworks or standards with broad application, while the less common options are mainly either new or sector-specific.

The Global Reporting Initiative (GRI) is one of the oldest ESG standards and may be the most widely used globally, with 66% of respondents following GRI. The Task Force on Climate Related Financial Disclosures (51%) has been widely adopted by financial institutions and investors, making it essential for many issuers to report to this standard. Indeed, U.K. companies will be required to report on it by 2025.

Frameworks like the Corporate Sustainability Reporting Directive (10% following) and the International Sustainability Standards Board (10%) apply broadly, but are still relatively new and we can expect their use to grow over the coming years.

Insight From Our Experts

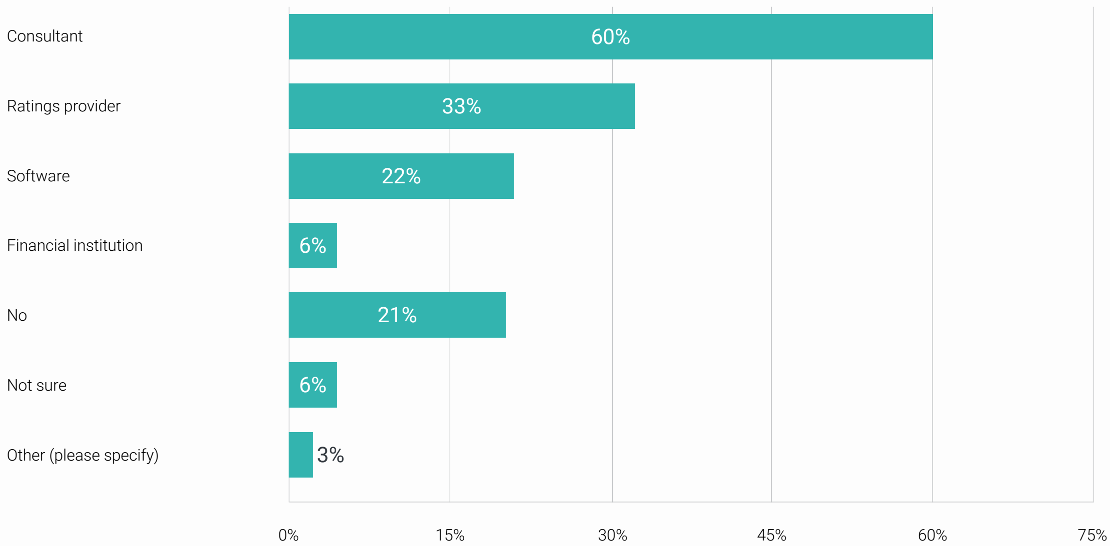
SHILPI SINGH
Corporate Solutions Director
Sustainable Finance Solutions
Morningstar Sustainalytics

"While GRI standards have been guiding companies around the world in voluntarily communicating their impact on the economy, environment, and society for more than two decades, we have certainly seen a multifold increase in adoption of both SASB and TCFD-led reporting in the past decade. Being focused on financial materiality and governance, the latter recommendations are also being adopted by corporations at a fast pace led by investor interest, existing regulations on environmental reporting, as well to account for upcoming climate change directives.

Overall, with investors keen to review ESG and climate change input, companies are referring to multiple reporting frameworks to provide reliable and consistent ESG information accounting for risks as well as opportunities. Data findings from the survey confirm this trend and we anticipate that companies large and small will be able to build the business case internally for ESG and sustainability-related budgets that suit their varied requirements."

Assistance With Measurement or Reporting From External ESG Service Providers

Do you currently use any of the following types of external ESG service provider for assistance with measurement and/or reporting? Select all that apply.



Three in five organizations (60%) seek out external ESG consultants for support with measurement and reporting. This option is far more popular with firms than the use of ratings providers (33%), ESG software (22%), and advice from financial institutions (6%).

Additional analysis shows that the smallest companies are more likely to use ESG software for measurement or reporting, and small firms are more likely to rely on financial institutions for support.

In an interesting parallel, both the smallest and largest companies use ratings providers the least. A deeper dive into the data reveals that small companies are worried about the time and effort required and they don't see the need or value. The largest firms, on the other hand, are having trouble gaining leadership buy-in and understanding where to start.

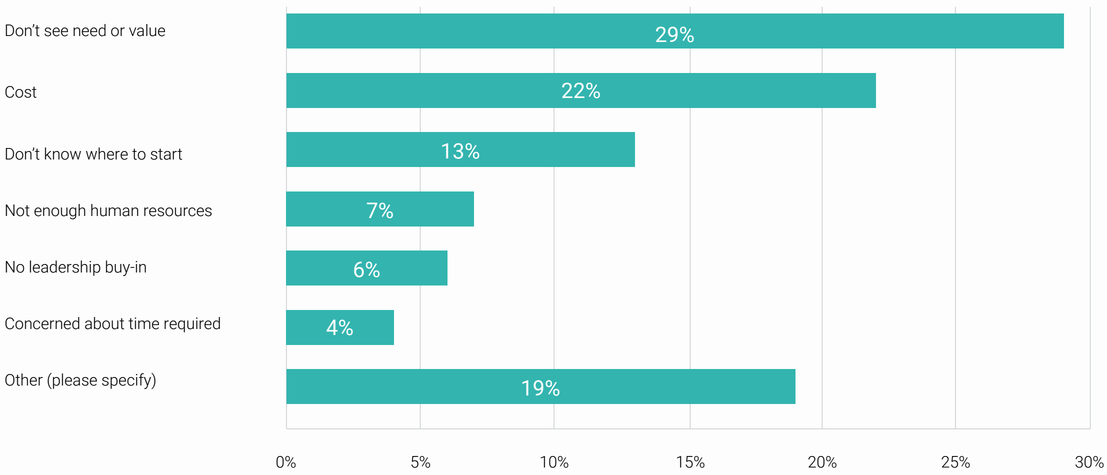
What Respondents Are Saying About Reporting and Service Providers

SARAH DUTTON
Marketing Executive
Simply Sustainable Ltd.

"As ESG becomes a fixture in the board room, the focus is shifting away from convincing businesses to act and towards linking ESG criteria to value creation. Regulators and policy makers must develop a global best practice approach to ESG disclosures. Agreeing on a clear, measurable, and transparent sustainability set for businesses to benchmark performance will give investors and stakeholders an additional lens to identify risks and opportunities that determine a company's added value to solving our shared, global challenges."

Reasons for Not Working With a Third-Party ESG Service Provider

Why have you not worked with a third-party ESG service provider? Select all that apply.



Respondents that are not working with ESG service providers on measurement or reporting are most likely to say they don't see the need or value (29%), followed by cost concerns (22%). The finding suggests that CSR and sustainability professionals may need to better articulate to leadership the business case for using third-party ESG service providers for rigorous measurement and reporting of ESG data.

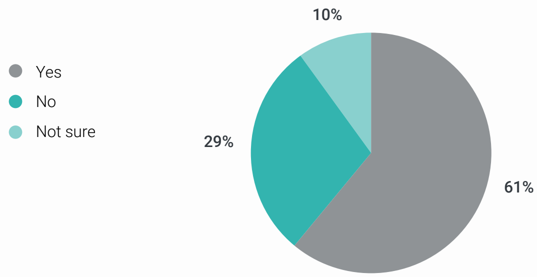
Respondents also specified other reasons for not working with a third-party ESG service provider, including being unfamiliar with the service provider market and doing the work with internal resources. In addition, medium-to-large firms are most likely to cite a dearth of human resources as a reason for not retaining a third-party ESG service provider, while large companies are most likely to say they don't have C-level buy-in.

ESG Ratings

When a company obtains an ESG rating or score, they generally also receive essential data and insights from the provider. These can help companies in a variety of key ways, from reporting and compliance, to investor relations and PR, to benchmarking and making internal improvements, to obtaining financing and understanding peer performance.

Adoption of ESG Risk Ratings or Scores

Does your organization have an ESG risk rating or score from Sustainalytics or any provider?



While more than 60% of respondents confirm their companies have an ESG Risk Rating or score, another 30% say they don't, and 10% aren't sure. Interestingly, the number of CSR and sustainability professionals that aren't sure of their rating status is fairly consistent across companies of all sizes. This result may suggest there is a communication gap if those tasked with managing ESG aren't aware of whether their company has an ESG rating or score.

Additional analysis finds that ESG ratings are more prevalent among larger companies (1,000 or more employees), with declining adoption among medium and small organizations.

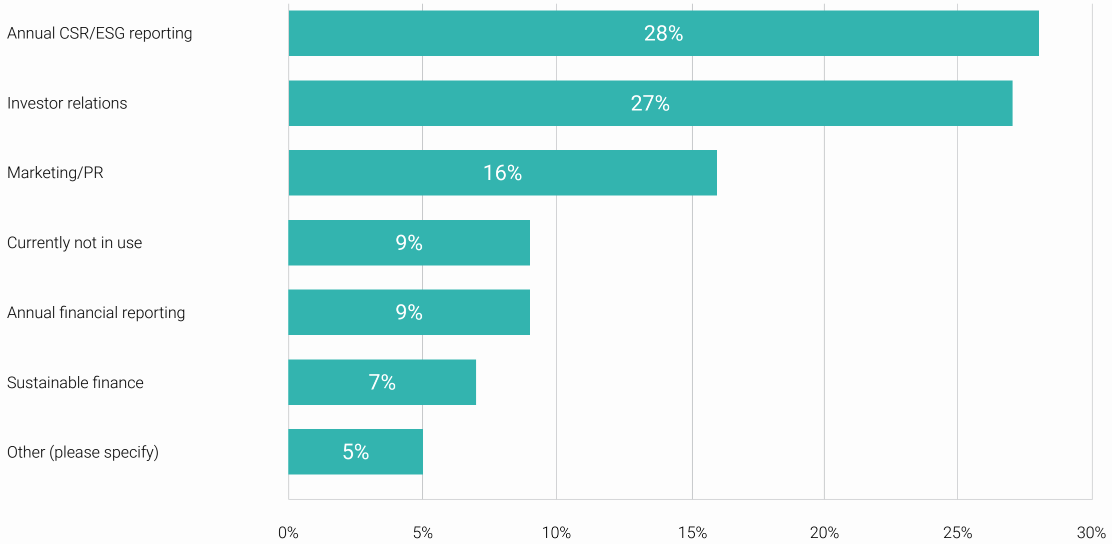
What Respondents Are Saying About ESG Ratings

JONATHAN GARRETT
Director, Group Health, Safety and Sustainability
Tyman PLC

"There is too much complexity in too many frameworks and competing ESG ratings. Transformation is required in the ratings space to eliminate duplication and allow organizations to devote more time to action rather than reporting and disclosure."

Use of ESG Rating or Score

How do you use your ESG rating? Select all that apply.



By far the most frequent uses of ESG ratings are for annual CSR or ESG reporting (28%) and investor relations (27%), likely due to disclosure requirements. Many firms also leverage their ESG ratings for marketing and PR purposes (16%) and annual financial reporting (9%). Less common uses are: obtaining sustainable financing (7%), and other uses (5%) such as conducting gap analysis, benchmarking performance, and making internal improvements. Some companies have a rating, but aren't currently using it (9%).

Companies of all sizes use their ratings or scores similarly, but larger companies make the most active use of this aspect of their ESG programs. The largest firms are most likely to use their rating for accessing sustainable finance; small and medium firms are the least likely to use their rating for this purpose.

Insight From Our Experts

SHILPI SINGH
Corporate Solutions Director
Sustainable Finance Solutions
Morningstar Sustainalytics

"The good news is that the majority of respondents have confirmed their awareness of ESG ratings for their organization. Given that ESG ratings are now freely available on multiple public platforms, there is a wealth of information companies can refer to in order to either find a starting point, if new to ESG, or advance into peer or market level benchmarking. Certainly, bigger public companies are more conscious of their ratings and proactive about their public messaging with investor relations and dedicated ESG departments involved for long-term strategy integration. But private markets are also warming up to the need for transparency on ESG parameters and the various benefits they can derive from improved disclosures."

Conclusion

This survey report illustrates how the primary challenges facing companies with ESG programs are in effectively measuring, reporting, and disclosing data for the purposes of meeting regulations and taking the necessary steps to set up an effective ESG program and strategy. Companies with active and experienced CSR and sustainability teams are best positioned to embark on these journeys. Nonetheless, while CSR and sustainability professionals bring substantial knowledge about program deployment and risk mitigation, the survey results point to knowledge gaps, in terms of accessing resources and leveraging ESG data.

We hope these findings shed light on the state of corporate ESG generally and the evolving relationship between ESG and the CSR and sustainability professions. Our goal with this survey report is to help CSR and sustainability professionals gain insight into peer practices, understand the evolving ESG landscape, particularly as it directly affects them, and learn where investment in ESG programs is going – to make progress in advancing corporate ESG goals.

About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading global ESG research, ratings, and data firm supporting corporations and their financial intermediaries to consider sustainability issues in their policies, practices, and capital projects. As the leading second-party opinion provider in the market, Sustainalytics offers issuers credible verification on the use of proceeds for sustainable finance products. Corporations also leverage Sustainalytics' ESG Risk Ratings to understand and promote their ESG performance with their internal and external stakeholders. The firm has received awards in recognition of its ESG solutions and opinion services, most recently from Climate Bonds Initiative, Environmental Finance, and GlobalCapital. With 17 offices globally, Sustainalytics has more than 1,700 staff members, including more than 800 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit www.sustainalytics.com.

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