Centre for Sustainability
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WEBINAR SUMMARY REPORT

Impact of ESG on Business Performance

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by

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Table of Contents

About the Speakers 02

About the Moderator 05

Abstract 06

Introduction 07

Insights from the Speakers 08

Understanding the Major Driving Factors of ESG 11

Understanding GRESB 12

Does Investing in ESG pay-off?: Evidence from REITs 15

Key Learnings and Observations 19

Q&A Session 20

Acknowledgements 21

About the Speakers

Dr. Parag Cameron-Rastogi

Parag is a building scientist with a background in civil engineering and 10+ years of experience in research, product development, and innovation. His research and professional interests include building decarbonisation planning and benchmarking, health, and wellbeing in buildings, IoT devices and IoT-based controls, integrating climate risk analysis into performance evaluation and planning, and the use of machine learning and data science in software and hardware for buildings.

He is Director of Innovation at GRESB, the leading global provider of ESG benchmarking for real assets. Working under the Chief Innovation Officer, he supports the product and customer-facing teams as a subject matter expert on the energy and environmental performance of real estate and infrastructure assets. He also volunteers with several industry bodies to develop standards, best practices, technical guides, and benchmarks, including CIBSE (Chartered Institution of Building Service Engineers), ASHRAE, and IBPSA (International Building Performance Simulation Association).

Before GRESB, he worked at arbnco, a provider of software to optimise building upgrades and monitor performance. He was responsible for new business and market development worldwide, as well as supporting the sales and product development teams. Parag obtained a PhD (doctorate) from the Swiss Federal Polytechnic of Lausanne (Ecole Polytechnique Federale de Lausanne), Switzerland. He worked as a researcher at the University of Strathclyde, Glasgow, and RIKEN Center for Advanced Intelligence Project, Japan. Parag is a visiting instructor at CEPT University, Ahmedabad.

Webinar Summary Report
Impact of ESG on Business Performance

Prof. Zifeng Feng

Dr. Zifeng Feng is an Assistant Professor of Finance at The University of Texas at El Paso, specializing in real estate and corporate finance. He has been recognized as a leading real estate scholar globally by the Journal of Real Estate Literature for three consecutive years (ranked 4th in the world in 2023), earning the William N. Kinnard Young Scholar Award in 2022. He serves as the managing editor of the Journal of Real Estate Portfolio Management. Dr. Feng holds a Ph.D. in Finance and an M.Sc. in Real Estate from Florida International University, an M.B.A. from Jinan University, and a B.A. from Peking University. Dr. Feng's research investigates the influence of ESG factors, climate change, economic shifts, institutional investors, and fintech innovations on real estate investments and corporate finance, aiming to bridge the gap between theory and practice.

Ms. Madhura Mitra

Ms. Mitra is an Executive Director with the sustainability and climate change practice of PwC India with more than 15 years of experience in the following areas:

1) Climate policy - climate change mitigation, adaptation and resilience covering country level NDC and NAP
2) Net Zero/decarbonisation strategy for corporates
3) Carbon markets and other carbon pricing instruments
4) Carbon inventory and target-setting (Scope 1, 2, and 3)
5) Stakeholder engagement and capacity building
6) Climate disclosures

Ms. Mitra has advised ministries, multilateral agencies, large PSUs, and corporate majors across India and other developing and Least Developed Countries (LDCs), including Thailand, Vietnam, Indonesia, Malaysia, Mauritius, Eswatini, Pacific Island Countries (Kiribati, Tonga and others), Lebanon, Pakistan, Nepal, Bhutan, Bangladesh, and India. She has recently assisted several large Indian conglomerates, including Aditya Birla, Vedanta, and Tata, in their decarbonisation standards and roadmap design covering Science-Based Targets (SBTi) and Net Zero strategies.

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About the Moderator

Prof. Prashant Das

Prashant Das is an Associate Professor of Real Estate (Finance & Accounting Area) at the Indian Institute of Management, Ahmedabad (IIMA). Earlier, he served as an Associate Professor of Real Estate Finance, the Director of Real Estate Institute and a member of the Academic Board at EHL Lausanne, Switzerland. Before Switzerland, he taught courses at the Robinson College of Business, Georgia State University Atlanta (USA) as a PhD fellow. He has been a visiting faculty at various universities in China, India, and Romania; and an executive education consultant in India, Switzerland, and the UK. He has been supervising/examining PhD theses in the US, UK, and South Africa.

At IIMA he developed ISALPI, an Agri Land Price Index and IAIAI, a Fine Art price Index. He has twice earned both the Practitioner Research Award from the American Real Estate Society and the best paper award from the Journal of Real Estate Research. In addition, he has earned eight internationally competitive research awards and teaching awards in the USA, and Romania.

Prof. Das has authored several research papers for international journals and co-authored/edited three books for SAGE, Routledge, and Kendall Hunt Publications. He is currently working on two books on real estate. Since 2020, he has been serving on the editorial boards of the Journal of Property Research (Taylor & Francis, UK) and the Journal of Sustainable Real Estate (American Real Estate Society). His research interests include commercial real estate (private equity, REITs, MBS, and hotels), behavioural real estate, and sustainability. He has a special interest in real estate markets of India.

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Abstract

This webinar discussed in detail about ESG as a concept, focusing on all three major factors, namely, environmental, social, and governance, comprehensively. Additionally, the concept of GRESB (Global Real Estate Sustainability Benchmark) was elaborated upon through the lens of an INREV study. The importance of investing in ESG was focused upon thoroughly as well through REIT's results as well.

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Introduction

Sometimes, the social responsibility of a business is considered to increase profits primarily. It is obvious that returns and profits are the primary factors that come into consideration while thinking through the objectives of the business. Companies often operate under intense pressure to deliver quarterly earnings, drive shareholder value, and outperform competitors. However, the Responsible Business Summit, which serves as a dynamic platform for the sustainability industry, challenges this notion by asserting that businesses cannot truly thrive if the society around them is not flourishing. This summit highlights the critical link between corporate success and the health of our communities and environment.

These two perspectives seem to be in stark contrast to each other. On one side, there is the traditional belief that profit maximisation is the supreme goal of any enterprise, driving aggressive strategies focused on financial performance. On the other side, there is an emerging and powerful argument that businesses have an inherent duty to foster social and environmental well-being, suggesting that long-term prosperity is only achievable through sustainable practices. This clash of ideologies presents a compelling moral dilemma: should businesses prioritise immediate financial gains or invest in sustainable development for the greater good?

This conflict raises profound questions about the role of corporate ethics and the future of business. As consumers become more socially conscious and regulatory pressures increase, the importance of balancing economic success with responsible practices grows ever more critical. The narrative is shifting, and businesses are increasingly being called upon to prove that they can deliver both profit and positive impact. Can they rise to the challenge and redefine what it means to be successful in the modern world? The journey towards reconciling financial ambitions with sustainable goals is not just a challenge but an opportunity to innovate, lead, and inspire a new era of responsible business.

Insights from the Speakers

Prof. Prashant Das

Prof. Das opened the webinar with the renowned American economist Milton Friedman's very famous statement, where he says that the social responsibility of a business is to increase profits. Indeed, as a business progresses, returns and profits become the top objectives. Fast forward a few decades, the Responsible Business Summit states that businesses cannot be successful when the society is not flourishing.

Prima facie, these two statements seem to be in stark contrast to each other. It becomes a challenge to compare the duty of businesses as profit-making corporate entities with their duty towards saving the planet and contributing to sustainable development.

Nevertheless, the role of Environmental, Social, and Governance (ESG) goes way beyond environmental sustenance. It also touches upon society as a whole as well as impacts more specific social, environmental, and governance goals. As a responsible civilization, we must pay attention to all the three components equally in accordance with the situation. In this webinar, we will delve into some explorations and some debates about the correlation between ESG and business performance.

Prof. Parag Cameron-Rastogi

ESG is a very broad term that carries different meanings for different people. When the different aspects of ESG are talked about, the environmental factor is the most obvious one. Today, there exist various environmental commissions, pollution boards, and specialised governmental and private agencies that are working towards specific environmental problems, such as carbon emissions and ecological degradation. Not only are there laws governing these environmental problems, but there are also enforcement mechanisms, such as carbon markets to manage and sell carbon credits, at play.

Some of the above mentioned environmental problems have a measurable aspect that help the authorities to regulate them. However, ESG goes beyond these issues. For example, when it comes to the social aspect, i.e. the people aspect, ESG is about their welfare and well-being. It is about labour practices, both internal and external. Social rights focus on human resource policies as well. Social rights cover inclusivity, just treatment towards the employees of a company, and the encouragement of diversity in a company. A company's policies should ideally promote non-discrimination and diversity for all their employees. The treatment of customers is pivotal as well within companies. These conceptions are neither new nor alien, but their successful implementation remains a challenge till date.

Many times, the topic of having good labour practices at companies has been brought up consistently. Even today, most companies frequently tend to ignore the nuances of corporate governance in India. This is a major point of concern, since having and fostering good corporate behaviour is a prerequisite for harmonious and productive work environments.

Undoubtedly, the need to have proper boards, shareholder rights, and so on to manage and bring transparency to companies' operations cannot be understated. Additionally, linking compensation and executive compensation to sustainability would be the gold standard. The main purpose of ESG is to quantify material risks and these could include environmental factors, too, such as energy prices, pollution regulations, and other socio-environmental regulations, that are being recorded through ESG. Various carbon disclosure bills have been passed all over the world as well.

Diving into the social factors it can be seen that labour dissatisfaction is a prominent issue across industries. Quite frequently, India has faced various frauds and conflict of interests through governance factors. Climate change is emerging as an unprecedented governance challenge and its existence cannot be denied. In the context of climate change, ESG becomes an umbrella term, since its understanding is different for different people based on their personal interests, backgrounds, agendas, etc.

Another major aim of investors is to make the investment industry play a central role in ensuring sustainable and efficient allocation of capital for a sustainable world. The current focus is on translating engineering into financial signals. The objective is to make the financial markets understand, accept, and use decisions responsibly. Investors today are leveraging data and allocating resources according to the principles of sustainable development. There are also third-party entities, which include facilitators and experts, that are playing a key role in driving the sustainability agenda.

An important element in investment decisions are sustainability assessments. Companies conduct these exercises every year, with the understanding that the certification cannot be allocated within one year and be held for ten years. That is so because the data is needed crucially every year. Hence, that is a lagging indicator. Although the data is collected at the end of every year, it is an indicator that updates itself every year and there are participants that submit data, who get analytics in return, and further those analytics become available to financial institutions, investors, and lenders. The participants are not there because of pure goodwill, but because they want to invest their money. Because of this procedure, they generally have the highest scores.

Prof. Zifeng Feng

In general, when we think about ESG, everyone believes that ESG is something good in the long run for our society and for industrial development. However, according to Prof. Feng, there has not been much academic research about the concept of ESG. He then delved into why this was so and what can be done to advance ESG as a topic of academic research.

Firstly, ESG is something new as compared to many other different environment-related investment opportunities. No matter how the data is being processed and measured, there is always room for improvisation for ESG-based data measurement. These measurements are still not perfect and there are still some errors in its data analysis. Prof. Feng observed that maybe through ESG-based investments, companies are improving their scores. This is being done primarily for the financial benefits as well as for enhancing the social image of the company. Industries and researchers are still trying to find out what are the costs and benefits for investing in ESG, especially in the domain of real estate.

At the global level, as compared to other businesses, the money being put into ESG through real estate businesses is huge, and the investments through real estate have been increasing constantly. Currently, Prof. Feng and his team are working on analysing the investment patterns of real estates and ESG; however, the results are yet to arrive, even though they have the required data. Usually, said Prof. Feng, researchers build a hypothesis and work upon it. For this topic, his team is using the graphs data because this is the best data available to them currently, as compared to other industrial data, for their research.

Ms. Madhura Mitra

Ms. Mitra postulated that to understand climate change and environmental degradation, the nature of the problem should be studied and understood first, even before we come to the evaluation part of IT performance. What must be recognised is that climate change is an existential problem. It is a problem of our existence as a race, and the existence of a business as well.

When a particular climate change problem is being analysed, exposure to that particular hazard needs to be experienced, according to Ms. Mitra. Whenever a climate crisis occurs of any nature, social and environmental damages are bound to occur. Additionally, there is a financial loss attached to it that needs to be recovered as well.

The first part of ESG is to assess the financial risk. If a business is not aware of such financial risks to which it is going to be exposed, it is definitely going to incur a financial loss in the future, impacting its performance in the process. Ms. Mitra gave the example of when she was working with one of her previous companies and they were trying to understand these risks. They also had to face some pressure from their investors to meet certain emission targets by 2030. These were aggressive targets that they had gotten from their investors. In order to reach these targets, they had certain options. Firstly, they could shift from coal to natural gas or from coal to hydrogen/green hydrogen and similar such alternatives. However, if we try to understand why most industries in a country like India are heavily dependent on coal, we could understand that when there is no carbon price and no carbon taxation on an industry, coal looks like the most lucrative option for them because there is no external pressure on them to reduce. But the moment they apply a carbon price, the dependency on coal would decrease considerably in India because industries would not want to pay carbon tax in high amounts.

Understanding the Major Driving Factors of ESG

Environmental
1. Emissions and Pollution: CO2, gaseous and liquid pollutants (chemicals), solid waste, runoff, etc.;
2. Consumption: Energy, water, etc.; and
3. Embedded carbons and chemicals.

Social
1. Labour practices: internal and supply chain;
2. Human resources: Employee policies and treatment, including discrimination and diversity; and
3. Treatment of customers, including non-discrimination.

Governance
1. Shareholder rights;
2. Board composition, including diversity;
3. Compensation and its links to sustainability; and
4. Corporate behaviour.

ESG: Understanding its importance
Acknowledge and quantify material risks from:
1. Environmental factors, e.g. energy prices, pollution, regulations;
2. Social factors, e.g. human rights, labour dissatisfaction;
3. Governance factors, e.g. fraud, conflict of interest; and
4. Climate change and disasters, e.g. extreme weather, shifting baseline climate, etc.

ESG is an umbrella term for:
1. Forward -looking business and technical practices
2. Safe and thriving workplaces
3. Great service and relationships
4. Preparing for business continuity and resilience

Understanding GRESB

The Global ESG Benchmark for Real Assets (GRESB) has the following vision and mission statements:

Vision:
An investment industry that plays a central role in creating a sustainable world;

Mission:
To provide financial markets with actionable insights, ESG data and benchmarks;

Below is pictorial representation of the GRESB approach:

Below is a detailed analysis of GRESB Scoring Mechanism:

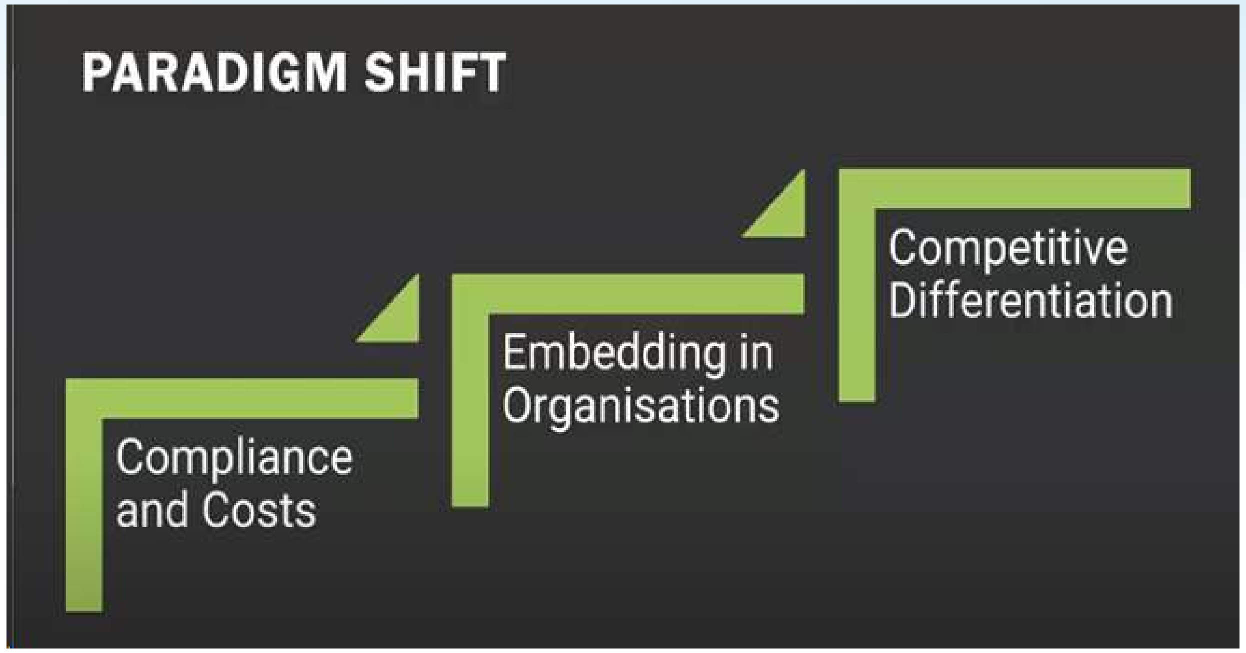
Ongoing Research
GRESB participants achieved a significantly higher return compared to non-participants. 0.7% on an annual basis over the last 11 years.

GRESB-INREV Study: Principal Results
1. The process of participating in ESG benchmarking is considered non-random. Early participants in the GRESB Real Estate Assessment are large funds with low leverage, two factors that correlate with excess returns.
2. Funds participating in the GRESB Assessment outperformed non-participating funds, even when controlling for differences in fund size, investment style and leverage.
3. While we identify relevant GRESB Environmental, Social, Governance, Management and and Performance subscore effects on fund returns, the same is not observed at an aggregated level. Although a higher total score GRESB Score does not appear to immediately trigger higher total returns, we find that improvements in the GRESB performance score and the GRESB environmental score have.

Challenges and the Future
Environmental and social stewardship has intrinsic value:
1. Measurement and enforcement are not perfect, but they are still worthwhile
2. There is no such thing as a perfect measurement
3. Simplification is inevitable, which implies information loss
4. Are we measuring the right metrics or the easy ones?

Greenwashing
1. Enforcing is ramping up (disclosure rules)
2. Companies are seeing the wasted opportunity of not taking ESG seriously

Below is a pictorial representation of the Paradigm Shift:



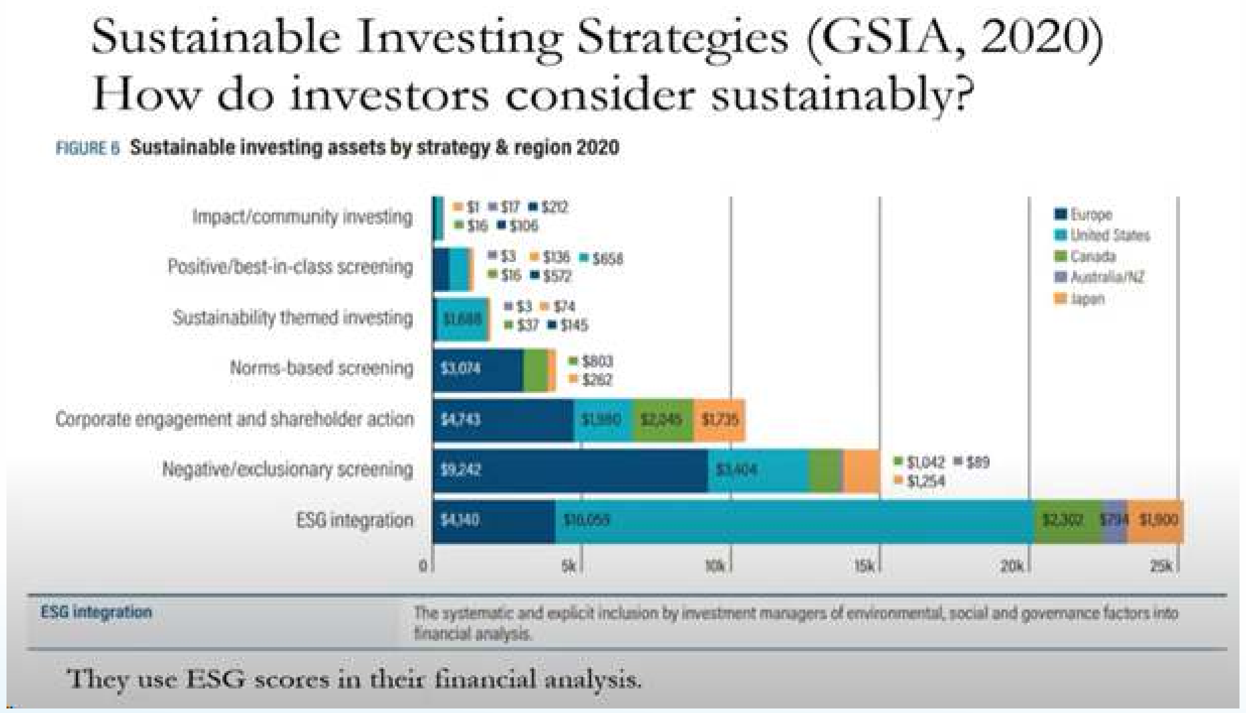
Does Investing in ESG pay-off?: Evidence from REITs

Research Question
Does ESG performance have a meaningful impact on REIT value and risk?

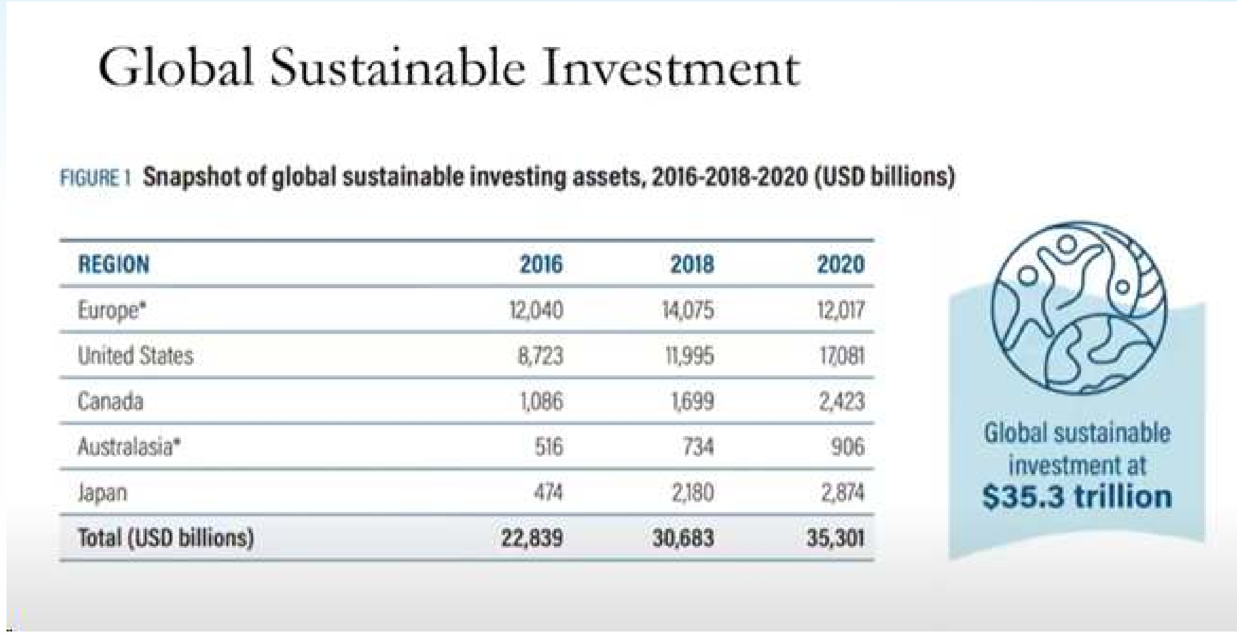
Why should we care about ESG scoring?
Investors increasingly care as demonstrated by any anecdotal, statistical, and regulatory measures due to a high demand for social welfare and environment sustenance in addition to financial profits in various businesses.
1. Statistical
2. Regulatory: increasing regulation on ESG reporting and disclosure

A major challenge for businesses is how to measure ESG well and comprehensively. Additionally, the costs and benefits of ESG investing (long term versus short term) are not clearly defined. Furthermore, views on the value of ESG in the industry are sharply different, and views on ESG are generally divided along political lines as well. Lastly, big picture issues related to the role of the firm to maximise shareholder value versus maximise stakeholder/ community value.

Below is a graph representing sustainable investing assets by strategy and region:



Below is a figure highlighting the Global Sustainable Investment trends:



Global Sustainable Investment

FIGURE 1 **Snapshot of global sustainable investing assets, 2016-2018-2020 (USD billions)**

REGION	2016	2018	2020
Europe*	12,040	14,075	12,017
United States	8,723	11,995	17,081
Canada	1,086	1,699	2,423
Australasia*	516	734	906
Japan	474	2,180	2,874
Total (USD billions)	22,839	30,683	35,301

GRESB's role in studying such an important topic is crucial. Development of economically sound dual-sided hypotheses that can be answered empirically by the data is the need of the hour. In addition to that, allowing the data to dictate the hypothesis best supported is a prominent requirement. Provision of unbiased commentary on limitations of the data is needed along with being careful not to overstate the result. Although GRESB is not studying the merit or need for ESG for the world, it is simply testing the impact of ESG performance on global real estate portfolio value.

GRESB Data

GRESB provides unique newly available data that potentially overcomes challenges in the literature, particularly the two major issues stated below:

1. Issues with ESG measurement in mainstream finance
2. Improvement on dominant measure in Real Estate

ESG Measurement in Financial Literature

ESG measurement is inconsistent and disagreement in the domain is associated with volatility and issues raising capital. ESG uncertainty is a priced risk in the securities market and ratings providers are now tasked with standardising the evaluation of ESG across all industries. Without agreement on ESG rating criteria, investors are unable to incorporate sustainability concerns into their investment decision-making effectively. Additionally, different studies will come to different conclusions about the value of ESG depending on the data source.

What is GRESB? Why GRESB's ESG measures?

GRESB: Global Real Estate Sustainability Benchmark

GRESB is a leading provider of ESG ratings exclusively for real estate portfolios. It is based on a detailed survey portfolio managers submit with questions spanning a range of environmental, social and governance issues. Rather than trying to create a single uniform measure for all firms in all industries, GRESB is a specialised provider focused exclusively on real estate portfolios. Therefore, they are able to cater the assessment to real estate, making ESG measurement more accurate e.g. 'Does the entity include ESG-specific requirements in its standard lease contracts?'.

Why GRESB improves on Green Share in measuring overall ESG

Green share measures only the 'E' in ESG. Within 'E', it only captures success on a binary scale (1 = certified, 0 = not certified). GRESB tackles the 'E' with more nuance. 1 of the 10 environmental questions in the assessment relates to environmental certifications. It includes softer questions, such as 'Does the firm have science-based performance targets?'

Hypotheses
1. Now that we have a potentially improved measure of ESG, how does it impact REIT value and risk?
2. Value Enhancing/ Risk Reducing Argument
3. Value Destroying/ Risk Increasing Argument

Value Enhancing/ Risk Reducing

1. Environmental Factor
Investments in sustainable buildings can mitigate several environmental risks including regulatory risk, risks related specifically to the asset longevity, lower operational costs and long-term considerations including climate-change and water stress. This is particularly important for real estate relative to finance. The impact is far more direct for a property than for a typical firm.

2. Social Factor
Positive social impact on tenants, community and within employees potentially leads to long term tenant relationships, insulation from social outrage costs and employee productivity/retention.

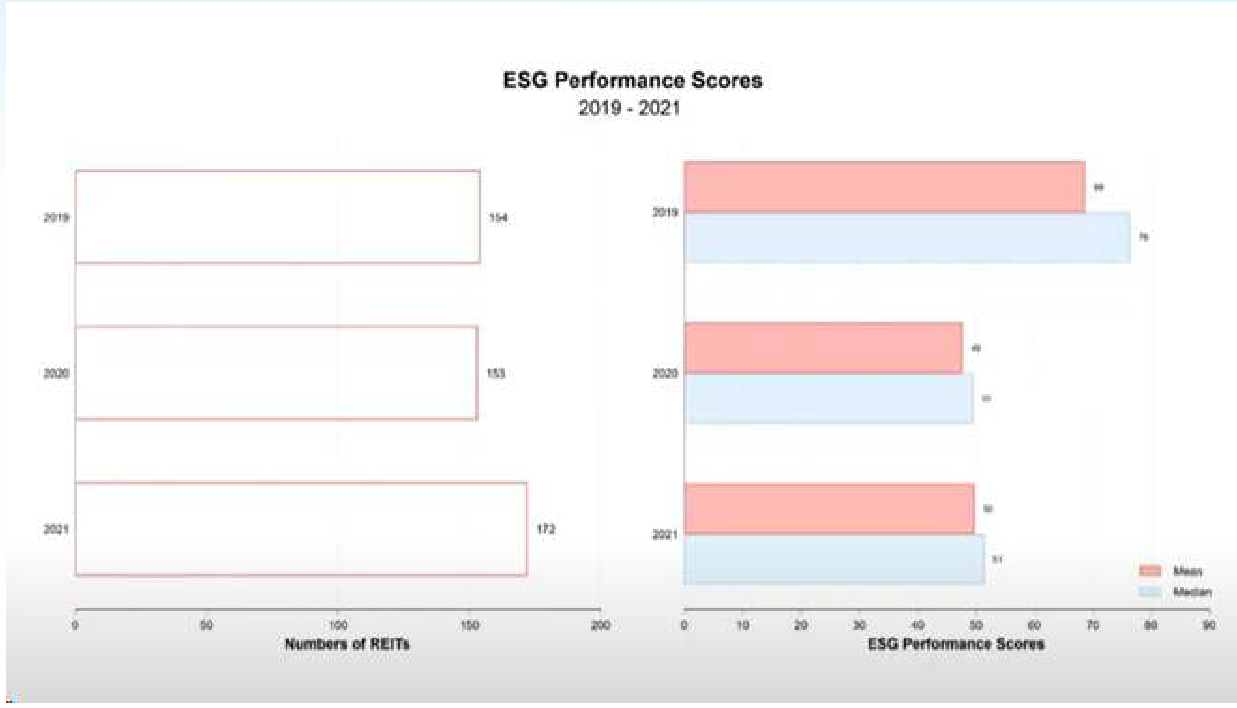
3. Governance Factor
A large body of research documents a link between strong corporate governance and positive firm outcomes e.g. less idiosyncratic risk.

Value Destroying/ Risk Increasing

Overinvestment

Insiders tend to overinvest in ESG to increase reputation and to become entrenched at the expense of shareholders. Managers have incentive to increase a firm's CSR expenditure beyond an optimal level, leading to value destruction. Buchanon has demonstrated the financial crisis changed investor appetite for ESG and increased focus on the bottom line. Diversion of resources/ attention from core business.

Below is a graphical representation of ESG performances between 2019-2021:



Key Learnings and Observations

1. GRESB data is a fruitful measure to capture a holistic view of ESG specific to real estate portfolios.
2. Reasonable dual sided hypotheses is provided for how ESG performance could impact REIT value and risk.
3. Preliminary findings suggest overinvestment in ESG for international REITs leading to value destruction and risk enhancement during turbulent financial times.
4. A deeper understanding of costs and benefits of ESG investment will hopefully lead to more informed decision-making by firms, investors and regulators.

Q&A Session

Q. Have you looked at the percent of revenue or the percent of capex allocation that is correlated with high or low ESG score?
A. No, and it is not possible all across the world presently because ESG rating is a comparatively new concept. I have not seen any data that can tell us which firm puts how much money in ESG initiatives. These numbers are not there in the reports of ESG disclosure documents as of now. Maybe some graphs and companies have that data, but it is not publicly available as of now.

Q. What do you think about the role of insurance in ESG implementation?
A. The insurance is at a very nascent stage unfortunately. We do have something called crop insurance. But that is also not really meant for climate related impacts on crops. Ideally, insurance should play a very important role for people to invest in the space of ESG but at this point in time we are not at that stage yet in terms of maturity of the insurance market to cover the risk of ESG investment.

Q. There is an interesting trend going on in the reports of GRESB. The early adopters of GRESB and ESG ratings were the big firms. However, recently the smaller firms are adopting GRESB. What is the motivation for the smaller firms to adopt these ESG ratings?
A. Customer pressure and investor pressure play an important part. Additionally, for attracting investors in the market, having higher GRESB ratings is an advantage for firms as well.

Webinar Summary Report
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