ESG Investing

ESG Investing Awards 2023 Interview

60 Decibels

ESG Investing

ESG Investing Awards 2023 Interview 60 Decibels

60 Decibels is a social impact and customer intelligence company that helps organizations around the world better understand their customers, suppliers, and beneficiaries. Their proprietary Lean Data approach makes it easy to listen to the people who matter most, allowing them to bring customer-centricity, speed and responsiveness to impact measurement.

> 60 Decibels was awarded Best Specialist ESG Data Provider at the ESG Investing Awards 2023.

Interview

Sasha Dichter
Co-Founder and CEO

Sasha is a Co-Founder and CEO of 60 Decibels, a social impact and customer intelligence company that helps organizations around the world better understand their customers, suppliers, and beneficiaries. Our proprietary Lean Data approach makes it easy to listen to the people who matter most, allowing us to bring customer-centricity, speed and responsiveness to impact measurement. Prior to co-founding 60 Decibels, Sasha worked for 12 years at the social impact investor Acumen, and he's previously worked at GE Capital, IBM, and Booz Allen.

Tom Adams
Co-Founder and CSO

Tom is a Co-Founder and Chief Strategy Officer at 60 Decibels. In his role as CSO Tom leads the 'next' of the business, with a focus on product design and market development. Tom has held various senior roles across the public, private and charitable sectors. Immediately before 60dB Tom was the Chief Impact Officer at Acumen, and prior to that worked in Ethiopia and Nigeria for the Department for International Development. Tom has also worked for the Foreign Office, the Office of the Deputy Prime Minister, and Credit Suisse. Minister, and Credit Suisse.

Company and Products

Can you give an overview of your company and the products/services you provide?

60 Decibels is a global, tech-enabled impact measurement company that brings speed and repeatability to social impact measurement and customer insights. We provide genuine benchmarks of impact performance, enabling organisations to understand impact relative to peers and set performance targets. We have a network of 1,200+ researchers in 80+ countries, and have worked with more than 1,000 of the world's leading impact investors, companies, foundations, corporations, NGOs, and public sector organisations. 60 Decibels makes it easy to listen to the people who matter most.

What is your main focus with ESG?

We are a specialist data provider that equips companies with data on their social performance (the S in ESG). So far, this has arguably been the least well-developed of the three areas of ESG, and we're seeing increased demand from private and public companies, and their investors, to get ahead of the game to collect these data. These could be things like much more regular, actionable data on the well-being of farmers or factory workers in supply chains, or information on the quality of jobs, worker well-being, and progress in DEI initiatives.

What are investors demanding in terms of alternative ESG data and research?

Today, there's a massive rush for consolidation of existing data – what we'd call getting to the starting line. There's been a broad shift in expectations across the board, and many companies and investors are in catch-up mode, simply trying to understand the basic requirements, to gather these data, and present them to their key stakeholders.

At the front end of that trend are the first movers who have completed this first phase and who are looking to go deeper on the most material data for their companies. These are the companies making commitments, for example, to secure a living wage in their supply chains and promote positive gender impacts; or investors looking not just to count the scale of their impact (in terms of the number of people they reach) but actually understand the social benefits people experience when they get access to financial services or other beneficial products/ services. We see massive growth in demand for these specialised data sources as companies look to both differentiate themselves from their competitors and start to actively engage in investing/ managing for greater impact.

Where is most demand for your products coming from in terms of company type and location?

Currently, our largest demand comes from private markets – private equity and impact investors who have an explicit objective to create positive social impact and/or minimise harm in their products and services. The demand is global though we have a high concentration of clients in Western Europe and the US, which reflects the more advanced state of ESG and regulatory practice in these markets. In the private markets, we've seen significant broadening in recent years: five years ago, the biggest demand for our data was coming from dyed-in-the-wool impact investors; whereas now the demand for our data is much more mainstream.

Where does most of your data and information come from?

We gather data directly from customers, farmers, and supply chain workers in more than 80 countries. We've built a growing, global research network of more than 1,200 people around the world, who call up people and conduct short (15 minute) phone interviews that are (as much as possible) standardised across different sectors/impact themes. We use these statistically representative samples to build a picture of the impact performance of individual companies and of investors' portfolios.

And by deploying a core, standardised set of questions globally, we enable companies and their investors to see their comparative social impact in an objective fashion.

Can you explain more about the products you entered for this year's awards including the microfinance ratings and energy benchmark?

Both products are really at the cutting edge of measuring social performance. The 2022 60 Decibels Microfinance Index is the first standardised, global rating of social performance in microfinance based on customer voice. For this work, we deployed a standard 38 question survey with nearly 18,000 microfinance customers across 41 countries. They represent about 25 million of the 140 million microfinance customers globally. With this data, we allowed 72 microfinance institutions and their investors to see what good, better and best look like for social performance. This will be an annual undertaking, and in 2023 we'll have 120 participating MFIs. We're doing similar work in off-grid energy, where we're building on our work to date understanding the impact of off-grid energy enterprises on end-users across the globe. To date, we've interviewed 61,000+ customers across 35 countries – this has been used to create our Energy Benchmarks. This year we're pushing harder to get more data from locally-owned, women-led, nascent market, and/or earlier stage companies to ensure that our benchmarks are as inclusive and representative as possible.

"60 Decibels' approach to gathering impact data directly from the stakeholders who experience ESG impacts is simple yet effective."

ESG Investing Awards

Where has the demand for these products come from and where do you see the growth in these areas in the years ahead?

Demand has primarily been from private investors for companies in their portfolios. Where we're seeing the fastest growth in demand is from large global brands, in particular food companies, who realise that their supply chain visibility is stuck in the 1990s with outdated occasional site visits to farms and farmers, rather than a consistent stream of data that gives them the visibility and transparency that they need – and that consumers increasingly expect. For example, nearly any premium food brand, whether a coffee or a chocolate, can tell you the provenance of the product, whether or not it's organic and how it's grown. What the best brands realise, is that the next way to distinguish themselves is also to be able to show that the farmer who picked that coffee bean or cacao pod is receiving enough money to put food on the table, to send her kids to school, to build a better life. And we can get them that data, nearly anywhere in the world.

ESG Insight

Do you think future changes in the provision of ESG data will help us move towards or away from a consensus on a company's ESG rating?

There's going to be strong pressure in both directions: the consumers of ESG data will want standardisation and comparability, and there will be interests pulling in other directions for both good and bad reasons – meaning because they want to pursue standards that are more stringent than the norm; or they want to water things down to the lowest common denominator.

What we think will win out in this tug of war are standards that are more than a simple compliance mechanism – ones that create value for everyone involved. This is why we're so excited about giving consumers – for example the people buying a chocolate bar – transparency about the livelihood of farmers who picked those cacao beans, by better information on packaging about farmer well-being. This creates a win for premium brands who can distinguish themselves in the market; and it provides the data that allows brands to better serve farmers, creating better livelihoods for the people who produce the food we eat every day.

How important is satellite data now (e.g. for remote observation of companies greenhouse gas emissions or for monitoring activities in sensitive environments). To what extent do you think this kind of data will increase over the coming years?

We get this question a lot, and have ourselves tinkered with the use of remote sensors for the measurement of impacts such as indoor air pollution and even improved sanitation. We feel positive about the use of these kinds of technologies, including satellites, on the assumption that the scale of data you're collecting is both big enough to justify the upfront cost and granular enough to be useful. So if they can be used for something standardised and at large scale (such as forest cover) that seems plausible that this may really take off. However, for many of the social issues we measure, like smallholder farming incomes (much of which may come from off-farm activities), I don't think we will see widespread application of these kinds of frontier technologies for some time.

What will be the big changes to ESG research and data over the next few years?

You've hinted at some of these already – scale, quality of data, conformity, etc. In many ways it will be most exciting to see not just what happens in terms of the research and data itself, but how the research and data are used. For example, are we going to see more big companies making commitments to creating social as well as economic value as Unilever has? Will we see more boards exert influence on company executives who don't make sufficient progress on these goals (even if they are hitting their financial numbers)? It should go without saying that the point of all this work is not to produce greater data for the sake of great data, but to enlist the biggest asset managers and major corporations in the efforts to have their investments and their products do the most good in the world – and to give them the data they need to know they are contributing to a more positive future.

How do you foresee ESG investing changing over the next few years? Are there any other emerging ESG issues you are looking at?

If we build from that last question, that the hope of ESG is that it contributes to a better world and future, then the most important issue for ESG is materiality. Materiality effectively determines what's in and out of the ESG tent (carbon caps in, wealth-inequality caps out). We know that ESG currently only considers those social and environmental factors that are material to financial returns. We wrote a popular piece that highlighted how this definition limits ESG's potential to drive social and environmental benefit, because there are lots of impacts that companies create that are important for people and the planet but have no bearing on financial returns. Ideally we'd see the definition of materiality be formally expanded, however even if it isn't, we know that finance first materiality is dynamic – meaning that over time more things that are important to society will become important to profit-maximising shareholders. So we will keep a close eye on how changes to laws, societal expectations, and investor preferences push topics once considered to be immaterial to become material. Once they are material, they will, of course, need to be measured!

Do you think the UN SDGs provide an adequate guide to sustainability?

Yes and no. The UN SDGs are a good entry point with a broad group of categories so they can be a decent shortcut to signalling the issues that an investor/company might seek to address. The problem is really in their use. Simply slapping the logo of one SDG or another on your website really says nothing about the underlying performance of the company or asset in achieving that impact. The equivalent from a financial perspective would be a company simply stating it worked in the airline industry addressing transportation and mobility issues – that's good to know as a starting point, but it doesn't tell you anything at all about their performance. So we see a lot of organisations claiming SDG alignment, but given the breadth of topics within the SDGs that, on its own, is close to meaningless (i.e. it's almost impossible to be SDG unaligned unless you're investing in space, even then there could be a case). We are much more interested in seeing specific performance measures than a bunch of SDG logos.

Has the quality of ESG ratings improved in recent years? Is there any evidence that ESG ratings have a direct impact on share price?

In terms of quality, it's hard to say. We certainly are seeing much greater participation in ESG ratings, and within that there are some positive outliers. But because of the huge number of firms that are doing this for the first time, we can't say that the overall quality is improving – since lots of folks are in catch-up mode.

On your second question, there's certainly evidence that high-performing ESG companies have outperformed on share price, and we think you'll see that trend continue. Companies that take ESG seriously tend to have a more attuned sense of potential risks, they tend to be looking longer into the future, and they are aligning themselves with customers' priorities and are able to demand a premium price due to their position in the marketplace. We expect that trend to continue and to accelerate in the coming years.

Do you believe that changes in companies' behaviour that could come about because of ESG are happening fast enough?

Naturally, our perspective is that we'd like to see things move more quickly, but one also has to appreciate the breadth of the potential transformation. We are beginning to see broad acceptance of the notion that putting blinders on and looking solely at maximising return to investors – and doing so while wilfully ignoring impact on people and planet – is simply bad strategy and bad leadership. It's not what employees want, it's not what customers want, and it's not what most shareholders want.

What we have today is a situation in which people know that the old approach won't work anymore, but there's a good deal of confusion about what the future holds.

Our advice to our clients remains: make sure you're running to where the ball is going, and not just to where it is today. We see ESG as a massive potential disruption, one that's going to create real opportunity to those who are willing to take a bigger bet on what the future is going to look like. And the bonus is, in doing so they'll be part of the solution to some of the world's toughest problems – and that's something that is hard to put a price on.

What is the best way to avoid greenwashing from fund providers? How can an investor best differentiate greenwashed funds from the genuine article?

This ultimately comes down to having real, standardised, comparable metrics that allow an outside observer to distinguish between good, better and best performance.

The problem today is that the standard of data is so low in most areas that it really is difficult to distinguish anything other than how much people care (or how skilled their marketing and comms department is). What we need is clear identification of the areas that are material to the Environmental, Social and Governance performance of an individual fund – and by this I mean material to the relevant stakeholders, and not just financially material – and comparable metrics, with benchmarks, that show performance.

The simple points of reference are some of the commonly-accepted numbers on consumer products: gas mileage or appliance efficiency, for example.

These data are objective, they are relevant to the issue at hand, and they allow for comparison between one product and another. It's easy to imagine what this could look like at the fund level.

Is the quality of ESG data and company reporting/ disclosure an issue?

Absolutely. Right now, behind closed doors, nearly anyone knowledgeable you talk to will say that the quality of the data is low. The bigger question is whether we're focusing our resources on the right things to address this issue.

As I mentioned before, the challenge is that we've had a big rise in expectations about who should be reporting ESG data, which means we have tons of new players in the market scrambling to catch up. The result is a big emphasis on software platforms that make it easier to organise and share existing data. That's definitely part of the solution, maybe even an important part, but sooner rather than later, the music will stop and people will start to notice that in many areas, the data that is going into these platforms is very poor. So you're left organising and sharing low-quality information – putting it in nice reports, making charts, but losing sight of the fact that the data is not really telling you anything meaningful about what you care about.

For example, in the area of social performance, today's definition of best-in-class reporting is giving basic demographic information about employees (gender, race, etc.). That's great, but we know that what people care about, at a minimum, are wage levels, working conditions and access to healthcare or retirement benefits. In many cases, the data we really care about is readily understood, but there's not agreement, yet, on the minimum data set that will give you meaningful information about the topics that really matter.

Do you think that ESG factors could be a systematic source of outperformance? Do you think that the perception is shifting with regards to ESG's ability to generate outperformance?

There's definitely a growing data set that shows the correlation between ESG factors and systematic outperformance. We are living in a world in which the unexpected is becoming normal – particularly in the area of climate, but of course we've all just lived through a global pandemic so we know that the shocks can come from anywhere, and of course AI is suddenly front and centre for everyone.

So there are two reasons to believe that companies that are strong at ESG will outperform: first, because they are much more finely attuned to, and know how to manage, the specific external risks (particularly climate and stakeholder) that could materially impact their business; and, more broadly, because these companies will have developed the cultural and leadership muscles to successfully manage external shocks of any type.

I'm not a professional money manager, but if I were looking for the characteristics of leadership teams I want to bet on, this ability to be nimble in the face of surprising external events would be at the top of my list.

For further information on anything you've read, please don't hesitate to get in contact with one of our team:

+44 (0)1483 573150

info@esginvesting.co.uk

ESG Investing

ESG Investing
Global Markets Media Ltd
96 High Street
Guildford
GU1 3HE
UK

+44 (0)1483 573150
info@esginvesting.co.uk

www.esginvesting.co.uk