ESG Investing

ESG Investing Awards 2023 Interview
Benchmark Digital Partners

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Benchmark Digital Partners ("Benchmark") enables companies to implement robust, cross-functional digital systems for EHS, Sustainability, and ESG Reporting through the Benchmark Gensuite® platform – locally, globally and across diverse operating profiles.

Interview

Company and Products

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

Benchmark enables companies to implement robust, cross-functional digital systems for EHS, Sustainability, and ESG Reporting through the Benchmark Gensuite® platform – locally, globally and across diverse operating profiles.

With intuitive, best-practice-based process functionality, flexible configurations, and powerful extensions, the Benchmark Gensuite® platform has helped companies worldwide manage their EHS; Sustainability; Quality; Operational Risk and Compliance; Product Stewardship; and Supply Chain Risks for over two decades; and now organically integrated with the Benchmark ESG® suite for ESG disclosure reporting and management. Join over 3 million users that trust Benchmark Gensuite® with their software system needs and benefit from rapid deployment and adoption, immediate return on investment (ROI), service excellence, and collaborative innovation.

What is your main focus with ESG?

Our company works with enterprises to help them collect & manage ESG data; prepare disclosures in alignment with global mandatory & voluntary ESG frameworks; pinpoint opportunities for operational sustainability & ESG improvement; and manage those improvement efforts & programs. We enable these companies to streamline and simplify their cross-functional ESG programs, allowing them to better set & reach their goals; make informed decisions based on the most accurate information; and meet stakeholder demands for ESG reporting with auditable & verified investment-grade data.

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

Investors are demanding more consistent and verifiable ESG data from companies. There are a number of interrelated reasons contributing to the low level of quality & auditability in ESG data: a lack of standardization in accounting rules & calculation techniques, which are a result of insufficient global ESG reporting standards and assurance requirements that are inadequate when measured up against the standards for financial data. Such inconsistency makes it difficult to compare multiple companies and make any reliable quantitative decisions on how ESG data will impact future financial performance.

Where does most of your data and information come from?

Benchmark helps companies collect primary data from a variety of sources across their operations. Raw activity data can be imported from a wide range of sources (such as an ERP system or a utility provider); manually input alongside an invoice or a photo of a meter reading; or collected using smart meters or IoT technology. Benchmark's solutions then help calculate final metrics by converting units, applying emission factors, or performing any of the needed calculations to align with ESG reporting standards. Benchmark also helps to provide 3rd party data to fill in data gaps with estimates and give companies resources to understand their sustainability performance, such as peer benchmarking.

Can you explain more about the products you entered for this year's awards?

ESG Director is a comprehensive solution that meets the challenges of compiling and disclosing investment-grade ESG data by centralizing and streamlining ESG program management for companies no matter how complex their operations are and wherever they may be on their ESG journey. ESG Director offers real-time, cross-functional collaboration, visibility, and control over crucial ESG data and workflows. The solution also seamlessly integrates with existing operational and functional systems; and automates ESG data management across all enterprise levels. We built & shaped ESG Director's features based on the needs & input of users, as well as our deep alliances with industry partners. Users can collect, track, and pull custom-use data at will; and integrate key frameworks and regulatory industry standards – like GRI, CDP, TCFD, SASB, and BRSR – directly into data workflows for a true one-stop solution.

Where has the demand for these products come from, in terms of company type and location, and where do you see the growth in these areas in the years ahead?

Our subscriber base is typically comprised of small- to mid-cap companies with $1-5B in market capitalization. Some of our subscribers started off with our health & safety or risk & compliance functions, adding on sustainability for compliance purposes. Others have felt pressure from investors, customers, and other stakeholders for ESG data. Many of these companies are subject to ESG reporting regulations, but most of our subscribers are collecting this data for market-driven purposes. Europe is certainly the most developed region due to reporting requirements under the NFRD and CSRD; but we are seeing a large push in North America due to exponential growth in ESG investing. We are also already seeing tremendous growth from APAC and other developing markets where need for ESG reporting solutions has gone from a niche segment of our subscribers to overwhelming demand in just a few years.

ESG Insights

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?

We are certainly headed in the direction of more transparent, reliable, and verifiable ESG data, which will ultimately lead to more agreement on the scope and breadth of ESG performance. With higher regulatory standards, greater assurance requirements, and a convergence of ESG reporting frameworks, we expect ESG data to become more standardized and auditable, with fewer opportunities and greater risk for greenwashing. There is a long way to go to ensure reliable ESG data, but we believe the momentum is trending in the right direction.

Where are we on the AI journey? Are we anywhere near the limits of using AI to produce useful ESG data?

We are at the starting edge of using & applying AI in ESG; and expect to see an increase in the use of AI for both data collection and data analysis. The volume and level of complexity required to support effective ESG investing is rapidly exceeding the capability of traditional digital systems like spreadsheets. AI is likely to become the differentiator, enabling those companies that use it effectively to gain significant competitive advantages.

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?

Satellite data has been used for decades for environmental monitoring. As the requirement for data detailing corporate performance grows, and as sensing technology improves, companies are increasing use of satellite data to fill gaps created by inadequate corporate disclosures. There are a number of emerging data providers that use such data to identify risk and impact, and this trend is likely to continue with building intensity into the future.

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

The focus on ESG performance, and the corresponding research and data focus, is likely to address many important & emerging themes:

- Biodiversity
- Water stewardship
- Scope 3 GHG emissions management

Broadly speaking, data quality is likely to improve, and new datasets will be generated, addressing diversity, resilience, and energy transition progress.

To what extent do you think this kind of data will increase over the coming years?

There will be a significant increase in data volume and quality. Consistency and reliability are also likely to improve as respondents and contributors consolidate around standards that are refined and better aligned, and the profession builds the capability required to respond.

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

We expect ESG investing will continue to grow in scale and sophistication. We also expect it will focus more sharply on the factors needed to complete the green energy transition, such as the switch to renewable energy and biodiversity issues. There are also expectations that greater regulation, aligned standards, and technological empowerment will provide unprecedented data and insight into portfolio and company performance.

What impact will new regulation have on ESG funds and their viability?

Regulations have a very significant impact on the ESG industry as financial and non-financial companies develop the capacity to provide necessary data. Increased rigour in definitions, alignment between standards, and more stringent greenwashing protection provide the foundations for a higher performing ESG investment industry.

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

The SDGs are a broad framework for global governance and equity. They provide a high-level framework and context for sustainable development, and enterprises need to develop their own policy, strategy, and implementation processes within this framework.

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

Improvement in the quality of ESG ratings is an ongoing process. Some perceived lack of quality is in fact based on a misunderstanding, as there is no “correct” rating – only the opinion of the individual giving the rating, which is based on their own evaluation criteria that inevitably varies from agency to agency. While direct impact of a rating on share price is difficult to prove, many studies have identified a positive correlation. As research continues to confirm this correlation, confidence is rising that good sustainability/ESG performance leads to outperformance.

Are you happy with the standard of ESG reporting and disclosure by companies? Are some sectors better at reporting than others?

Current ESG disclosures provide a very mixed sample. While disclosure performance does not clearly correlate with sector breakdown, those facing the biggest challenges are companies that have extended and/or complex supply chains and those who have not previously invested significantly in sustainability management.

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

Some sectors are responding with innovation, clarity, and an appropriate sense of urgency, and have taken large steps to implementing the economies of the future. The continued reliance on fossil fuels – and the multiple industries that are vested in this reliance – provides the biggest challenge.

Are you optimistic that the goals of the Paris Agreement will be achieved (i.e. keeping climate change to below 2°C increase, preferably below 1.5 °C)?

No, evidence is mounting that this target is unlikely to be met; and the political consensus needed to do so is slow to emerge. The goals may be met only if the current increase in political focus continues to rise at the same or an accelerated rate; or if an unexpected technology breakthrough (like carbon removal for example) provides an unexpected and significant boost.

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

Data quality is a significant issue with most companies that are unable to generate the investment-grade data required by the investment community. We have developed tools in response to this challenge to ensure our subscribing clients meet – and exceed – these needs, producing the required data efficiently and with confidence in data quality. Due to the sheer volume of data and input from various corners of an enterprise, the deployment of an enterprise-wide, cross-functional integrated system focused on the required ESG disclosure deliverables is rapidly becoming a necessity to stay on top of these massive data streams and efficiently handle them.

Do you think that ESG factors could be a systematic source of outperformance?

Although research has produced mixed results that need to be interpreted with nuance, the preponderance of evidence is that good ESG performance is a factor in investment outperformance.

Do you think that the perception is shifting with regards to ESG's ability to generate outperformance?

Yes, it seems that the accumulation of evidence – along with increased mandated requirements – is slowly making ESG's ability to generate outperformance clearer. Enterprises and financial companies increasingly understand that ESG disclosures can also be used as a tool to drive operational performance.

Biodiversity is an increasingly important area of concern. Have you done any work on this and what conclusions can you share?

Biodiversity advocates have wisely followed the same path as the climate movement, using the TNFD to – at minimum – measure the risks that companies face in regards to biodiversity loss. While we await a global biodiversity framework, we urge our subscribers to understand the risks and opportunities associated with biodiversity and to build their strategy and risk mitigation plans. Benchmark has integrated biodiversity into our ESG platform, using commonly accepted metrics and reporting frameworks. And we expect increased focus on this with the imminent release of both the CSRD ESRS and ISSB S1 & S2 standards. While this is being treated as a niche subject in many parts of the world, we expect a dramatically increased focus over the next 5 – 10 years. We will be supporting our client base as they collect data and undertake the necessary strategy planning.

What do you think about the anti-ESG movement sweeping the US, with certain states putting forward legislation boycotting "woke" asset managers? What should ESG funds and ESG-related data & software providers be doing to stem the rise of this feeling?

The anti-ESG movement is ideologically driven and underpinned by interests vested in the old economy. The reluctance to address ESG-related risk is not likely to serve the corporate sector well and may be a breach of fiduciary duty. We expect this movement will pass, just as the tobacco lobby and climate denial lobby passed. The ESG industry can best respond to this movement by addressing some of the legitimate critiques of the ESG rating system and ensuring ESG data is genuinely investment-grade.

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

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