US investor survey: Focus on sustainability

In our new survey, US investors share their views on what companies should prioritize in the short and long term, from the macroeconomic environment to innovation to climate change. We highlight their perspectives and related expectations on climate change.

Economic uncertainty, geopolitics, and environmental and social concerns have left a deep mark on today's business landscape, affecting consumers and companies alike. Our latest survey provides perspectives and insight into how investors believe companies should address those tensions — with a focus on where the critical issue of sustainability stands relative to others.

In fall 2022, we performed a global survey of 227 investors and analysts across 43 countries, and conducted in-depth interviews to gather additional, and more nuanced, insights. The views of the global respondents are analyzed in our report, The ESG execution gap: What investors think of companies' sustainability efforts. This publication highlights the US results based on both the 132 responses from those who invest in US companies (US investors) and the 41 of those that are based within the US (US-based investors).

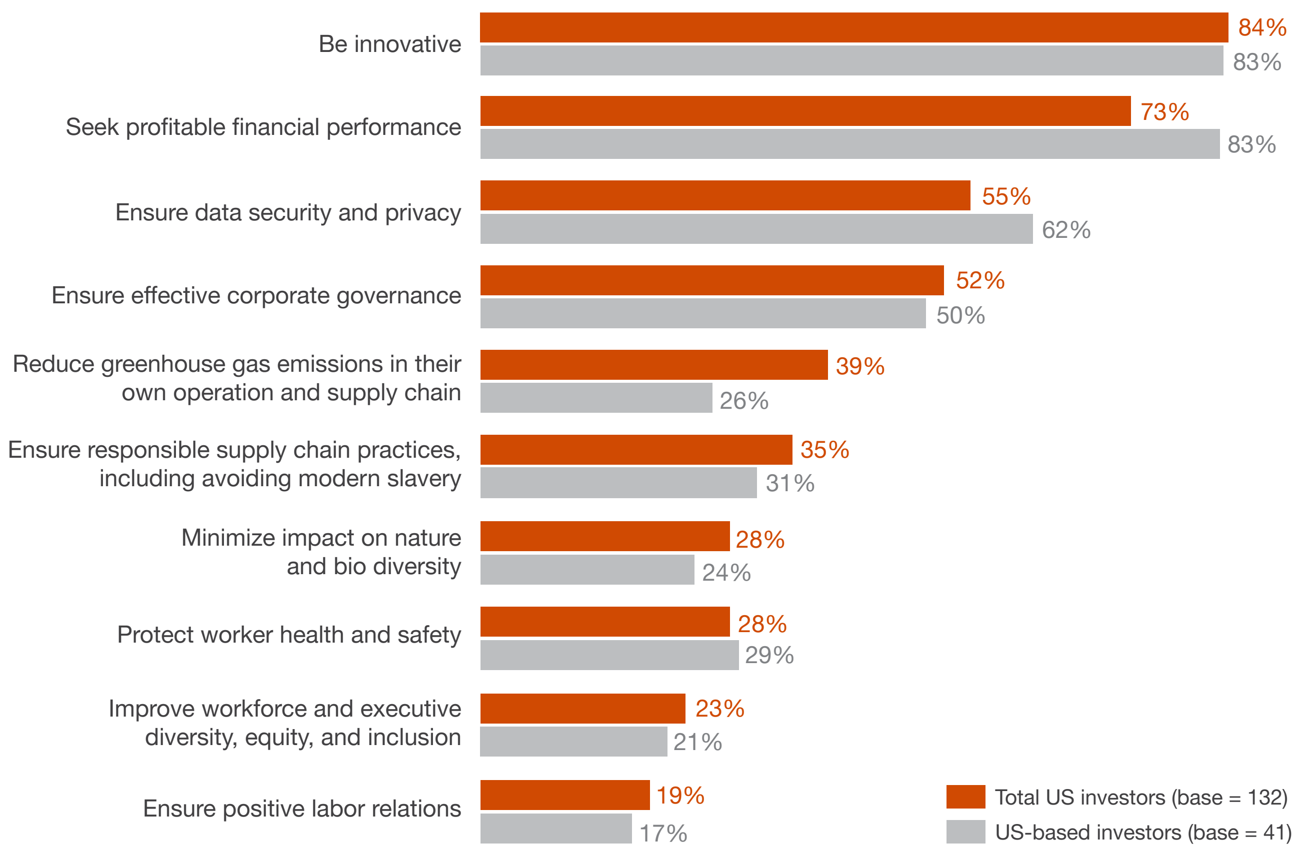
Unsurprisingly, we found that US investors want companies to keep a sharp focus on innovation and financial performance. They ranked those as their two highest near-term priorities for business, with reduction in greenhouse gas emissions coming lower. Over the next five years, however, investors expect the threats stemming from climate change and cybersecurity to rise. From business strategy to reporting to assurance, investors shared actions companies can take now to prepare for this longer-term risk today.

Priorities, threats, and disruptors: today's and those on the horizon

US investors told us that the top priority for business should be the development of innovative products, services, and ways of operating (84%). Ranked second is the need to maintain profitable financial performance (73%). Rounding out the top five priorities are: data security and privacy (55%), effective corporate governance (52%), and reducing greenhouse gas (GHG) emissions (39%). Among the subset of US investors that are based in the US, the fifth highest priority is to ensure reasonable supply chain practices, with reducing GHG emissions ranking seventh for that group.

Outcomes that US investors see as top priorities for business

(Showing percentage of respondents who chose each outcome)

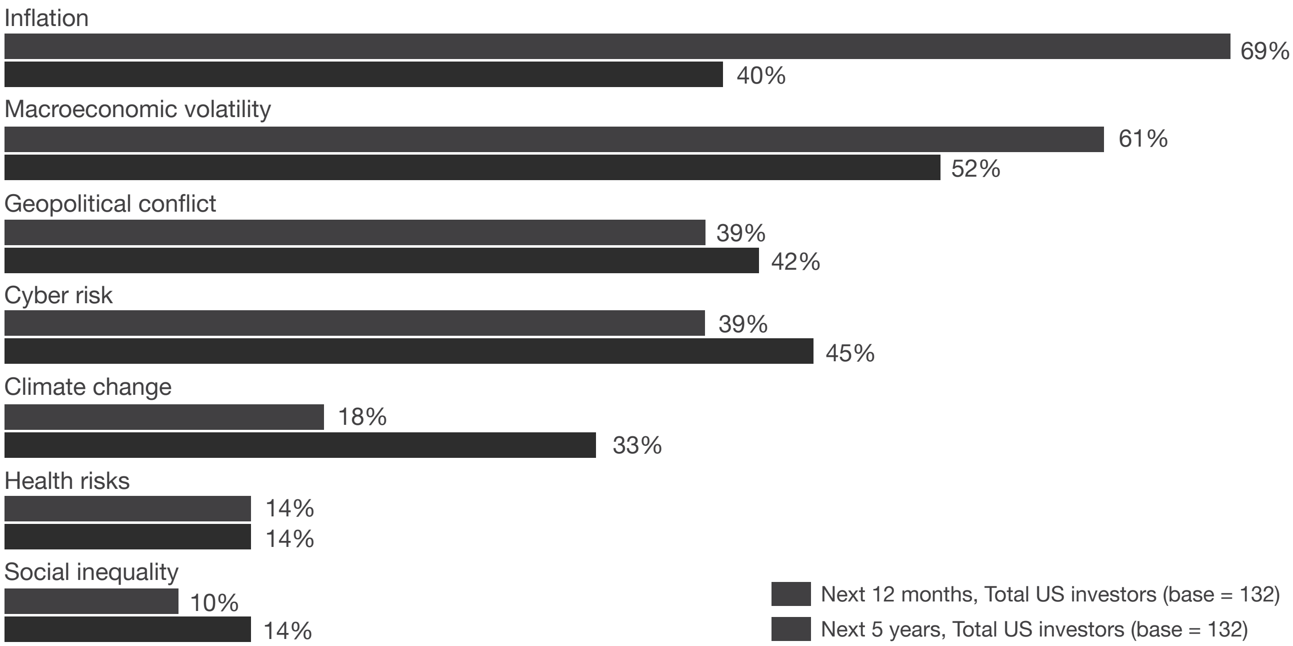


Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "Which of the following outcomes should be the top priorities for business to help deliver?" and allowed to choose up to five outcomes. Outcomes selected by less than 10% of respondents are not shown.

But these statistics do not tell the whole story. US investors believe that the business terrain will shift. Although they view inflation and the macroeconomic environment as today's most pressing risk factors, US investors expect that these issues will start to abate over the next five years while the threat of climate change may increase.

US investor views of businesses' threat exposures in the next 12 months and next 5 years

(Showing percentage of respondents who chose "highly exposed" or "extremely exposed")

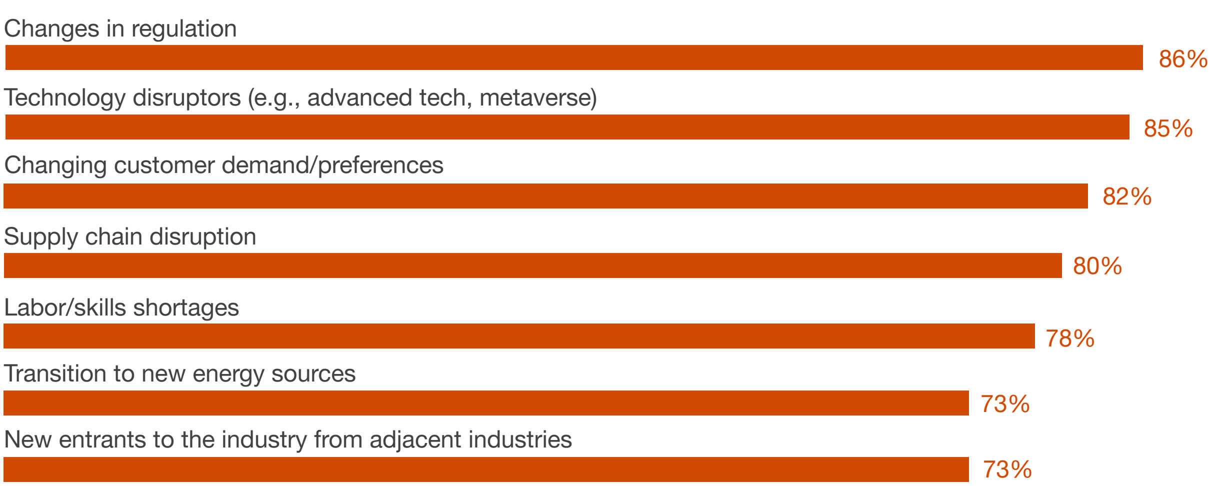


Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "In the next 12 months/5 years, how exposed do you believe the companies you invest in or cover, in general, will be to the following key threats?"

Our survey also asked about investors' views on business disruptors. Disruptors can come from various sources, but many of the disruptions US investors expect over the next ten years could be influenced by ESG concerns: changes in regulation (86%); changes to customer demand/preferences (82%); supply chain disruption (80%); labor/skills shortages (78%); and transition to new energy sources (73%). Results are consistent among US and US-based investors.

US investor views of industry disruptors in the next 10 years

(Showing percentage of respondents who think these will have a "moderate," "large," or "very large" impact on profitability in the next ten years)

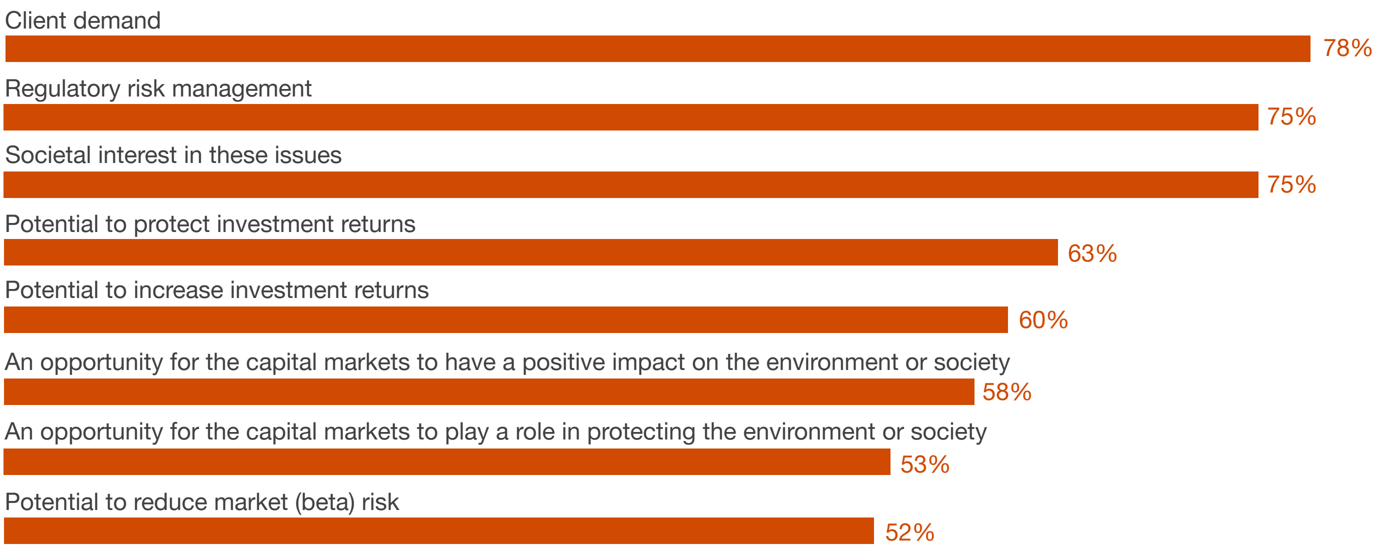


Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "Over the next ten years, to what extent do you believe the following will impact (i.e., either increase or decrease) profitability for the companies you invest in or cover, in general?"
Total US investors (base = 132)

In addition, a key factor driving investor interest in sustainability is regulatory risk. Three-quarters of US investors say a company's management of regulatory risks is the impetus for considering sustainability in their investment decisions, second only to client demands that their portfolios have an ESG lens (78%). Societal interest ties regulatory risk to round out the top three.

US investor views on factors impacting ESG or sustainability investing

(Percentage of respondents who think these factors have a "moderate," "large," or "very large" impact on interest in ESG/ sustainability investing)



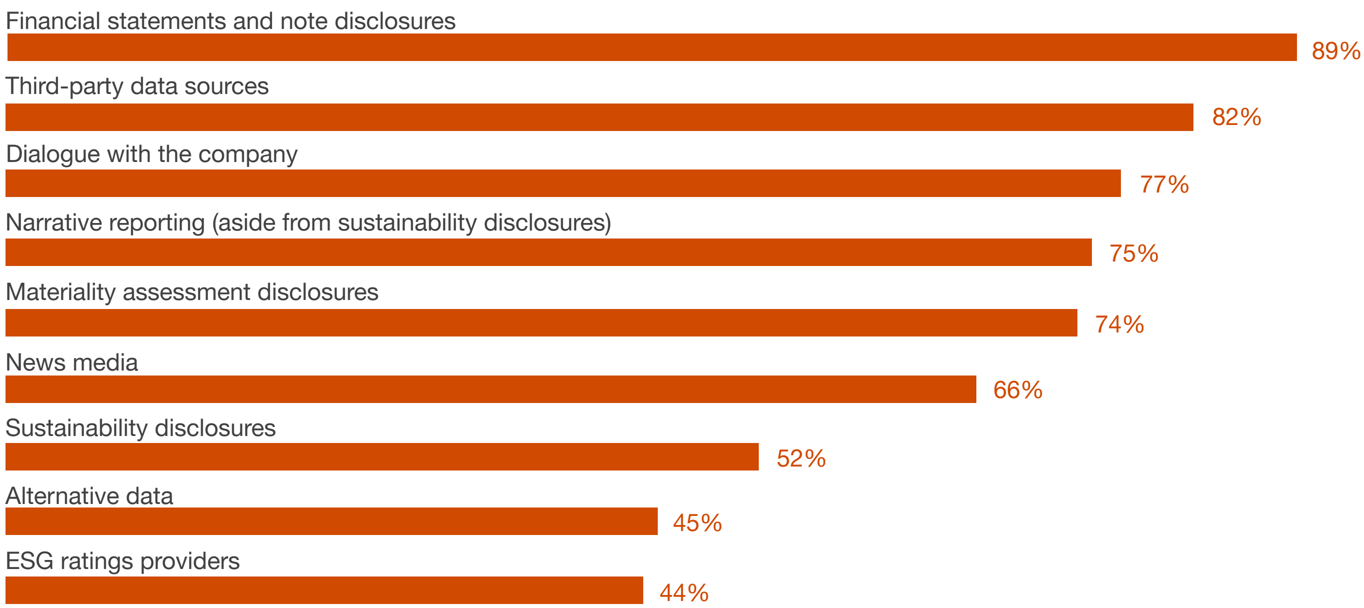
Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "In your view, to what extent do the following factors drive investor interest in ESG or sustainability investing?"
Total US investors (base = 132)

Reporting

US investors' perceptions of overall business effectiveness are shaped in part by corporate reporting, which is one of many sources of information they use to assess a company's activities and performance. They primarily look to financial statements and third-party data, but they also engage with management to assess how they are managing risks and opportunities.

US investors' sources of information

(Showing percentage of respondents who use the source to a "moderate," "large," or "very large extent" in assesing how companies manage risks and opportunities)



Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "To what extent do you use the following sources of information in assessing how the companies you invest in or cover, in general, are managing the risks and opportunities facing their business?"
Total US investors (base = 132)

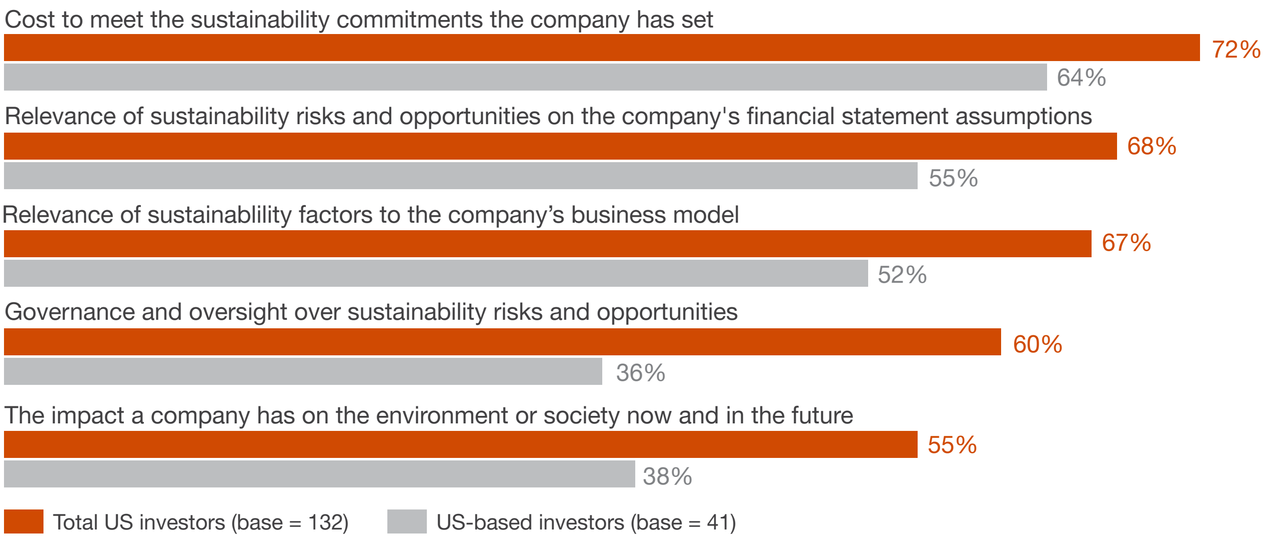
As US investors look to enhance their analysis, they told us they expect more detailed ESG information.

> I think it is really telling if you look through some sustainability reports. I'm going to start counting up the number of times that a company says 'sustainability' versus using actual descriptors. The more a company talks about sustainability in a vague way and the less information I walk away with, the bigger the red flag gets from my perspective."
>
> -US-based investor

US investors also shared their views on what specific sustainability information they look for in company reporting to inform their decision making. They prioritize financial information, with the cost of meeting sustainability commitments ranked highest, and other information, such as impact on the environment and society, ranked lower.

Importance to investors of companies' reported information

(Showing percentage of respondents who answered "important" or "very important")

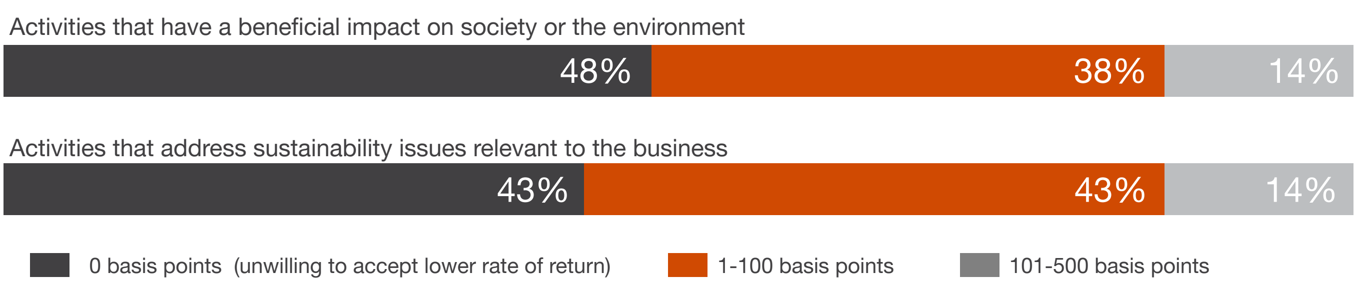


Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "How important is it for your investment analysis and decision making that companies report the following information?"

Investment returns

Investors are concerned about a company's exposure to environmental risks, but there's a fine line to navigate with regard to how much they want management to invest in mitigation. Nearly half of US investors say they would not accept a lower overall return for activities that have a beneficial impact on society or the environment (48%) nor for sustainability activities that are relevant to the business's performance and prospects (43%). Another 38% and 43%, respectively, say they would accept only a one percentage point or less reduction in overall returns for companies in their portfolios that take these sustainability actions.

Investor willingness to accept lower rates of return for company activities on sustainability



Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "By how much would you be willing to accept a lower expected rate of return on investment, in basis points (bps), in companies that undertake activities that address sustainability issues relevant to their business's performance and prospects?' and 'By how much would you be willing to accept a lower expected rate of return on investment, in basis points (bps), in companies that undertake activities that have a beneficial impact on society or the environment?"
Total US investors (base = 132)

Ramping up trust

For reporting to be effective, it must be relevant and reliable. Yet, we found a gaping trust deficit on sustainability reporting: the vast majority (85%) of US investors think company reporting on sustainability performance contains a degree of greenwashing. One US-based interviewee referred to it as "some fluff in the corporate ESG dialogue."

85%

of investors surveyed say they think corporate reporting contains unsupported sustainability claims (i.e., greenwashing)

Despite that trust gap, US investors believe they are generally effective at allocating capital to businesses making progress toward sustainability goals.

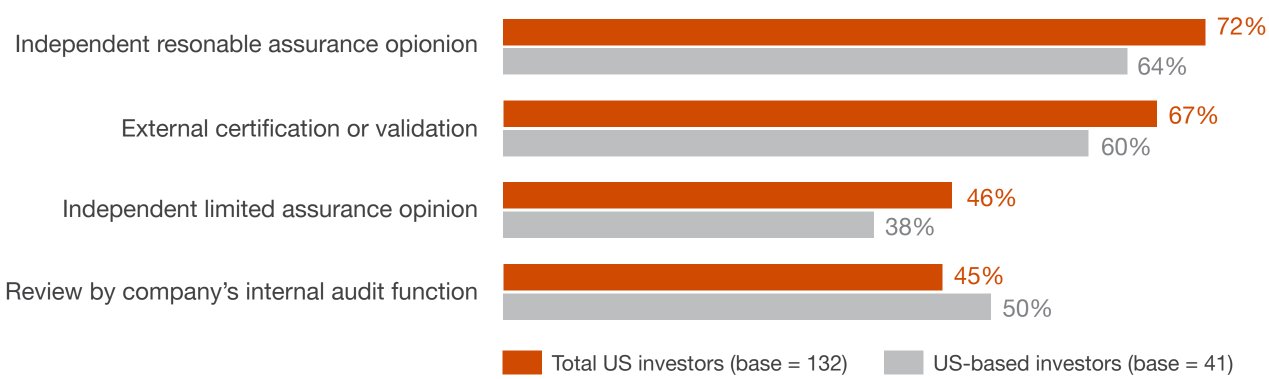
US investors place less value on company sustainability disclosures relative to other information available to them. As shown above, 52% of US investors rely on sustainability disclosure to assess how companies manage their risks and opportunities while a much larger percentage (89%) rely on financial statements and disclosures. Although there are differences in what those sources of information may be used for, this result may indicate a lack of trust in what companies report on sustainability goals and progress. Assurance may be a way to build confidence. Nearly three-quarters (72%) of US respondents say their confidence in sustainability reporting would receive the biggest boost if it were assured at the same level as companies' financial statements (i.e., reasonable assurance).

> "Investors rely on the financial statements to ensure that we can appropriately account for the risk and the performance. I think it applies the same way on sustainability assurance. We just want to make sure that there is some type of independent oversight on these types of risks and opportunities."
>
> -US-based investor

US investors, including those based in the US, are much less likely to have confidence in limited assurance opinions, which are largely what companies seek for elements of their sustainability reporting today. US-based investors have more confidence in a review by internal audit.

Extent of investor confidence in company sustainability reports, by type

(Showing percentage of respondents who chose "a moderate extent," "a large extent," or "a very large extent")

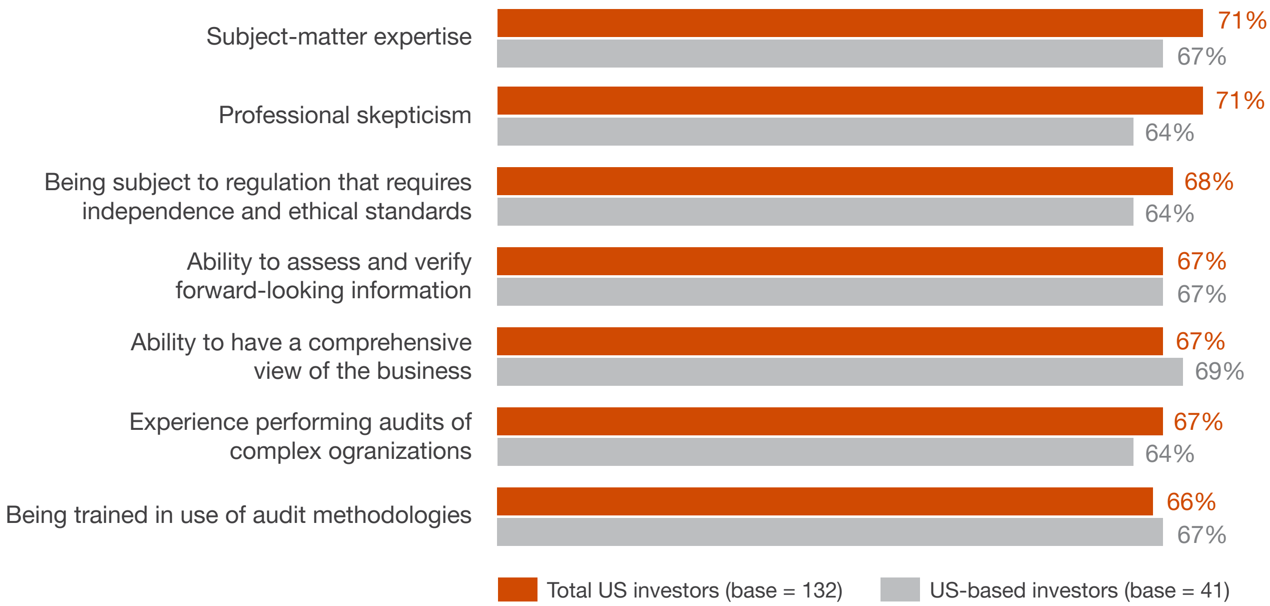


Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "To what extent do each of the following [four options] give you confidence in assessing the accuracy of a company's sustainability reporting?"

Ultimately, US investors expect assurance work to be undertaken by regulated firms employing independent specialists with high levels of sustainability knowledge. They also expect the work to be done by someone with expertise in applying professional skepticism and performing audits of complex organizations.

Extent of investor confidence in assurance practitioners' work, by practitioner attribute

(Showing percentage of respondents who chose "important" or "very important")



Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "How important are each of the following [seven options] in giving you confidence in the work of an assurance practitioner?"

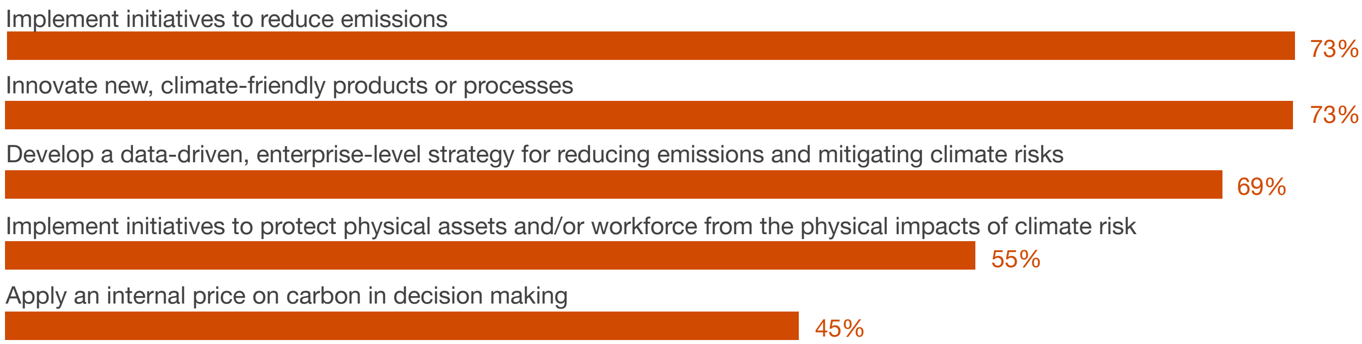
Looking forward, companies will need to be ready with more reliable reporting. US investors know this will take time. They report that they would be unlikely to take abrupt actions, such as divesting their stakes, when companies receive a qualified opinion on their sustainability reporting. US investors say a qualified opinion could be a way of understanding the maturity of a company's reporting processes and oversight. Beyond that, they might also seek more information from the company's audit committee (or equivalent). Companies should be ready to explain and engage.

Taking action

Given today's business environment and its multiple cross-currents, companies may view sustainability goals as longer term priorities, with their attendant rigorous organizational efforts and investment requirements. Based on our survey, however, US investors expect action and more transparent reporting in the near term, sharing their ideas for actions companies should take.

US investor views of actions companies should take

(Showing percentage of respondents who think these actions will be effective in preparing for the risk of climate change)



Source: PwC's Global Investor Survey 2022
Note: Investors were asked, "How effective do you think the following actions would be for the companies you invest in or cover, in general?"
Total US investors (base = 132)

US investors shared their views of whether regulatory changes would be effective at advancing the cause of ESG. Although views are somewhat mixed, some see targeted government actions as a way to encourage corporate action on sustainability. Support for the effectiveness of government actions was stronger internationally (i.e., higher among those who invest in the US versus those who are based in the US).

- Subsidies for business initiatives aligned with government climate priorities are viewed as effective by 51% percent of US investors surveyed (and 45% of US-based investors).
- Government mandated disclosure is viewed as effective by 48% of US investors surveyed (and 40% of US-based investors).
- Taxes on unsustainable activities are viewed as an effective way to motivate change by half of US investors, but that number drops to 36% among US-based investors.

In interviews, some respondents portrayed government action as a way to "level the playing field" while advancing ESG initiatives.

> We're trying to do what we can to get our portfolio to net zero but that's not going to solve the world's bigger problems and so we need an integrated approach from the policy makers, the legislature, the business, the communities in which we operate, in order to really achieve net zero. There are certain things within the portfolio that we can control. We can look to reduce emissions, we can look to invest capital in long-term solutions, and we can influence the broader markets, but we need everyone swimming in the same direction."
>
> -US-based investor

Takeaways

Drawing on our survey findings, along with earlier research and our ongoing work helping companies with tough business decisions on climate, we offer actions to guide companies to help meet investor demands.

Integrate sustainability factors with core business strategy and decision making

Sustainability should be embedded into business strategy and processes for making decisions about capital allocation, investment, and other activities involved in strategic execution. Showing investors how the company connects sustainability with its strategy may better signal how it is creating long-term value.

Inventory climate risks and opportunities

Companies should start by focusing on risk exposures. These include transition risks (such as future insurance premiums, compliance costs to meet evolving regulations, and taxes imposed on companies with higher carbon footprints) and physical risks (including damage to assets by severe weather and potential disruption in resource availability). There are opportunities as well, including lower costs from more effective resource use, burgeoning demand for climate-friendly products, and subsidies and incentive payments.

Report sustainability performance with the same rigor and data quality as financial performance

Companies should focus their reporting on what matters most to their stakeholders — financial matters and efforts to embed sustainability in their strategy and operations. New sustainability reporting standards from the SEC, International Sustainability Standards Board, and the European Union are in development that could increase clarity, consistency, and comparability. Companies should start preparing for tomorrow's rules today.

Investors also want to trust company sustainability reporting. However, many investors believe that some greenwashing exists. Companies should strive to reduce the risk of greenwashing by incorporating effective systems, controls, and oversight into their reporting process to make it accurate, reliable, and trustworthy. Obtaining assurance from independent practitioners who are specialists in applying professional skepticism can also raise the trust quotient.

Looking ahead, companies can demonstrate their commitments to meet climate goals with more effective action and higher levels of transparency.

Demographics

Of the 132 US investors surveyed, respondents were predominantly institutional investors, comprising mainly analysts (31%) and portfolio managers or chief investment officers (41%), with over three-quarters (83%) having over 10 years of experience in the industry. Their investments covered a range of asset classes, investing approaches, and time horizons, with assets under management ranging from $500 million to $1 trillion or more.

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