

Business, Energy and Industrial Strategy Committee

Oral evidence: Environmental, social and corporate governance: reporting and investment, HC 703

Tuesday 11 October 2022

Ordered by the House of Commons to be published on 11 October 2022.

[Watch the meeting](#)

Members present: Darren Jones (Chair); Andy McDonald; Charlotte Nichols; Mark Pawsey.

Questions 1 - 43

Witnesses

I: Emma Wall, Head of Investment Analysis and Research, Hargreaves Lansdown; Dr Aneesh Raghunandan, Assistant Professor of Accounting, London School of Economics; Joanna Allen, CEO, Graze (part of the Better Business Act coalition).

Examination of witnesses

Witnesses: Emma Wall, Dr Aneesh Raghunandan and Joanna Allen.

Q1 Chair: Welcome to this morning's session of the Business, Energy and Industrial Strategy Committee. In our session today we are looking at ESG—environmental, social and corporate governance—reporting and investing in the UK.

We have two panels today. On our first panel, I am delighted to welcome Dr Aneesh Raghunandan from the London School of Economics, Emma Wall, who is the head of investment analysis and research at Hargreaves Lansdown, and Joanna Allen, who is the CEO of Graze and part of the Better Business Act coalition. Good morning to all three of you.

The first question is perhaps an obvious one to get us going. What on earth is ESG?

Dr Raghunandan: ESG is a taxonomy; it is a way of incorporating environmental, social and governance considerations into both business practices and investment decisions. It hits both sides. What both sides want might be somewhat different in terms of financial materiality and the long-term viability of a company.

You can take one of two takes. One is to say that we should care about these things for their own sake. We should be thinking about the environment and the earth we pass on, the social considerations and the governance. The other take on this is that these things are primarily of use because they are also financially material. There is mixed evidence on the financial materiality. That is where we are trying to get more evidence, figure out what works, what does not and what is actually material.

My co-panellists can probably speak to that side of it more than I can, as the academic on the panel.

Q2 Chair: Emma Wall, did businesses not think about these things before? Why have we started calling it ESG?

Emma Wall: It is an evolution. Encouraged by regulation and good practice, governance is something businesses have cared about for some time. In terms of environmental and social issues, good businesses have always cared about the communities that they exist in. At HL, we do lots of work within the community. We care a lot about things like internships and we give volunteering hours to our employees.

A lot of good businesses already do these things, but the environmental element is the one that has mostly come to the fore. Again, a lot of good regulation has helped with this. You may laugh, but we surveyed our clients after "Blue Planet" first came out. They all said that they had changed their habits as a result of just knowing more information about the impact they have on the world. When we asked them whether they



wanted to invest with these things in mind, they said, "Yes, absolutely". Again, it is about a cultural movement.

As my fellow panellist said, the challenge now is about getting some terminology and some homogeneity to this industry so that we can really help, in my case, investors make better-informed decisions and indeed allow businesses to operate in a way that means they know they are reporting on the right things for stakeholders, clients and employees. The young population want to go and work for businesses that care about this stuff. There is a whole cycle there.

In terms of how we think about ESG, for me environmental, social and governance issues are just good risk management. You want to invest in sustainable businesses. I use both senses of the word "sustainable" there: businesses that will be around for a long time and businesses that care about environmental, social and governance issues. Those businesses are the ones that are going to avoid scandal, avoid regulatory fines and attract business. Therefore, those businesses will pay sustainable dividends and have sustainable profits and revenues.

Q3 Chair: It has been said before that firms, perhaps like yours and more generally, like ESG because you tend to charge your clients more for doing it. Is that true? If so, why?

Emma Wall: We do not charge our clients any more for doing it. In fact, all of our ESG analysis is available for free. You do not even have to be a client. It is on our responsible investment hub on the website. We think it is just good investment analysis. We have increasingly incorporated environmental, social and governance factors into our investment analysis, to highlight both risks and opportunities. As I say, these are the businesses of the future. If you can get into those businesses when the price is right, that is delivering a better client outcome.

Q4 Chair: Joanna Allen from the Better Business Act coalition, you think we need to go further than the current status quo around ESG principles in organisations in the way we have just heard.

Joanna Allen: Absolutely, yes. To share a little context on the Better Business Act, it is a proposal to amend section 172 of the Companies Act to ensure that company directors expand their fiduciary duty so they are not limited by only driving a company's purpose forward through the lens of profit and shareholder return but also considering the impact it has on society, community and environment.

It is a coalition of over 1,400 businesses that believe there is a need to make that playing field fair. The recommendation is to change the Companies Act and drive the choice around making companies responsible across all aspects of the stakeholder model rather than simply profit. There is a belief that doing this through amendments to the Companies Act would ensure that there is that consistency across the British market.



Q5 Chair: Why is it unfair? What you are saying is that it should go from a voluntary model to a mandatory model. Why should that happen?

Joanna Allen: Today, a company director's responsibility is to put profit ahead of all other metrics. If you wanted to be a responsible director, you could not look at how your company is delivering its purpose through the lens of any other metric. A company director's responsibility is to put profit ahead of all others.

There are businesses that have changed their articles of association. B corporations, particularly in the UK, have made that commitment to looking at a multi-stakeholder model. We believe that it will be best for British business if we make it mandatory because you are then enabling company directors to consider all aspects rather than always having to put shareholder return at the forefront.

Q6 Mark Pawsey: Our witnesses have already started to cover some of the points I wanted to ask about regarding the importance of ESG principles and who they are important to. We have heard about employees, investors and the broader community. If asked to pick which one of those is the most important group, who would you say is the most important?

Dr Raghunandan: That is one of the points I was hoping to make. It is hard to say that one of these groups is strictly more important than the other. If, for example, I asked you how you would trade off the extra metric of CO₂ emissions against paying your employees £1 more per hour, I do not know that you could come up with a straight answer. One of the actual issues with ESG, as it is often currently defined, is that there is a dimensionality issue. All of these things are lumped together under one roof. We find ourselves making these kinds of comparisons: carbon emissions to wages to product safety. That makes it hard to understand which one is the better investment, which firm is better.

One of the things that would be good going forward would be for companies themselves to convey who they prioritise. Graze, for example, probably has a lot of employees working in production. They will want to make sure those employees are happy, but they probably have less control over CO₂ emissions in the short term. I do not know for sure, but maybe that is something that would be relevant to their situation.

Q7 Mark Pawsey: Dr Raghunandan, on that, do not all businesses want to make their employees happy? If their employees are happy, they will work harder and be more productive, and the business will be more successful. Is this not motherhood and apple pie?

Dr Raghunandan: They want to make their employees happy, but when there is money at stake then we start to talk about trade-offs: "How much can I pay them to make them happier and more productive while still being able to reinvest and make a profit?" It is those kinds of trade-offs that we might want to be more honest about. When we talk about the S in ESG, we are sometimes talking about spending more, maybe reinvesting some of our profits, into making employees happier, which



will necessarily lead to less being returned to shareholders. What is the right amount? That is a normative question. We need to see more honest discussions of that.

Q8 Mark Pawsey: Out of all of those stakeholders, which one is the most important? Which one has the greatest concern about the ESG principles within an organisation?

Emma Wall: If you are not being short-termist, you can serve all masters. If you think about keeping employees happy, it is quite right that employees will then work harder. That generates more revenues, which makes your shareholders happy. Indeed, when it comes to a business such as ours, if you are considering ESG metrics, you are delivering better outcomes for your clients as well.

This is one of the key misunderstandings about responsible investment: that you have to put long-term profits and revenues over ESG factors. It is absolutely possible to do the two, if you are taking a medium-to-long-term view.

Q9 Mark Pawsey: Joanna, if I can come to your business, how do your customers and clients know the standards you have in terms of ESG? Does it help you sell more product?

Joanna Allen: Absolutely, yes. As I said, Graze is a B corporation. We share that on all of our promotional and marketing materials. We know that enables us to attract great talent into the business. When we do interviews after talent has come into the business, we ask them why they have joined the business. It is always in the top three that they wanted to join a business driven by a purpose. We also communicate that through an annual impact report.

Q10 Mark Pawsey: Do your customers see that on the pack? If somebody is making an impulse purchase in a CTN, are they going to select your product because of the values that you convey? How do they know about those values?

Joanna Allen: ESG can often be considered a lofty topic. For Graze, we operate and exist because we are a healthier proposition to what is a typically quite unhealthy industry, snacking. We are very forthright in terms of our health claims, and we believe that is one of the reasons why people pick us up at the shelf versus the array of unhealthy choices.

Q11 Mark Pawsey: You spoke about your health claims. Are they all audited?

Joanna Allen: Absolutely, yes. We publish the data that backs up our claims on our website.

Q12 Mark Pawsey: Is it on the pack at the point of sale? Can the customer identify the values you are conveying?

Joanna Allen: Absolutely, yes.

Q13 Mark Pawsey: This is for all witnesses, really. If we establish this is a



HOUSE OF COMMONS

way forward and these are values that all businesses should be endorsing, Joanna, you would say they need to be mandatory as a way of getting greater uptake across businesses more broadly. Is it your view that they are not taken sufficiently seriously currently by the vast majority of UK businesses?

Joanna Allen: You have to recognise that there is a spectrum. There are businesses that are more progressive and therefore more committed to recognising the multi-stakeholder model—B corps are probably at the very peak of that spectrum—and then there are other businesses where that has been less of a priority. Given that those businesses that prioritise ESG are typically the businesses that are growing faster, that are better at securing investment and that are better able to attract talent, you could argue that natural evolution will mean that is the way that business evolves.

The reason why we have argued that the BBA, the Better Business Act, would benefit from that mandatory measure is because it will drive action faster. We cannot ignore the context we are operating in. We are operating in a health crisis, an economic crisis and an environmental crisis. There is a certain sense of urgency to moving business forward.

Q14 **Mark Pawsey:** Emma and Dr Raghunandan, do you share Joanna's view that legislation is needed to get companies to do the right thing?

Emma Wall: Within financial services there is regulation underway. The FCA is currently looking at a disclosures regime to take over from the previous SFDR, which were the European taxonomy and disclosure requirements. That is expected to conclude in the next six months.

More widely, it needs to be standardised, not just made mandatory. I am in a privileged position as an investment analyst: I am able to access this information. I have the time and a team to do the digging. For the average individual making a decision about purchasing a product, somewhere to live or an investment, at the moment the majority of this is not standardised. That is a really key piece.

Q15 **Mark Pawsey:** Joanna communicates with her customers by her on-pack information. Are we going to standardise the way producers of food are going to disclose this? We are already asking producers to put calorie counts on packaging, for example. Are we not just inundating businesses with bureaucracy? How are we going to convey all of this information on a small label?

Emma Wall: Some of this is already coming with TCFD, scope 1 and 2 emissions and the commitments to net zero over the time period to 2050 or before. I do not know whether it necessarily has to be manufacturing product. That is not an area of business that I am involved in. That information should be available to consumers and investors, be it in a standardised annual report as part of your report and accounts or on your website. Standardised language and standardised reporting would be a huge help.



- Q16 Mark Pawsey:** Are the incentives to perform well on ESG already sufficiently adequate? Is there enough demand from the investor community, which you are involved with, to ask questions about those issues to make their investment decisions?

Emma Wall: \$120 billion went into ESG investment products in the first half of this year compared to the broader industry and \$140 billion was pulled from non-ESG investment products. I would say that is quite a big incentive.

- Q17 Mark Pawsey:** Dr Raghunandan, do you agree that we need some legislation? Are you with Joanna on this one?

Dr Raghunandan: I am more agnostic on the need for more regulation. I feel a bit more strongly about two things. One of them is a point Emma has already made, so I will be brief. There is a need for some level of standardisation. Maybe on the products is not the right place to do it, but, by way of example, both in the EU and starting over here as well we are seeing more legislation about what goes into a corporate sustainability report. Even if we do not necessarily want to standardise what goes on a little packet of corn snacks, we might want to standardise at least some of the hard data points that are in there.

For somebody who can spend a little bit of time comparing sustainability reports, you can make a like-for-like comparison, though perhaps not on every dimension. We will continue to see a lot of voluntary disclosures that are business-specific, but some comparisons will be possible at least on things like emissions and some basic social practices.

The other point I wanted to make is one that is not so much about the need for more regulation but the need to take existing regulation seriously. I will give you an example from some of my own work. Many of you are likely familiar with the gender pay gap reporting mandate in the UK. You might be less aware of the fact that 5% of firms' reported disclosures are mathematically impossible and another 8.5% are statistically improbable. I will not get into all the mechanics of this, but they provide different pieces of information that mathematically contradict each other. I could not tell you which one of those pieces of information is wrong, but something is clearly wrong. This is something that I, as an outsider, with no access to the EHRC's—

- Q18 Mark Pawsey:** How would you change that?

Dr Raghunandan: The EHRC already has a broad mandate in the legislation to audit these figures, to request companies to restate them and correct them—

- Q19 Mark Pawsey:** Are you saying they are not being challenged?

Dr Raghunandan: They are not being challenged.

Mark Pawsey: If we have ESG requirements, they need to be challenged.



Dr Raghunandan: They need to be challenged. In order for any regulation whatsoever to have any impact, no matter what it may be, you need companies to comply. In order for compliance to happen, there needs to be a credible threat of enforcement for non-compliance. Right now in that specific setting, at least to me and based on my own work, it seems there is no follow-up. There is enforcement for late filing but not for inaccurate filing.

Q20 **Mark Pawsey:** You spoke about businesses having a standard set of reporting. We are talking here about big businesses that have the time and resources to produce a document and put it on their website. How on earth are SMEs supposed to respond to these challenges?

Emma Wall: That is a really valid point. We look at scalability when we do our own analysis. When we are considering whether a business is good on environmental, social and governance factors, if we are looking at a huge financial services employer like BlackRock, for example, we are holding them to a different standard than we might do for a small boutique asset manager with a hundredth of the employees and a hundredth of the disposable income.

There has to be scalability, which is why keeping it simple and keeping it standardised would be absolutely key. I am not talking about introducing 200 data points, not least because then you end up creating more of an issue than you are trying to solve and it becomes confusing for the consumer, client or investor. We need to have a few standardised data points. We need to support SMEs in fulfilling this, with templates and guidance, but it is possible for it to be scalable.

Q21 **Mark Pawsey:** Joanna, we have a long tail of very small businesses employing fewer than five people. Are they expected to comply with the principles your business has adopted?

Joanna Allen: As Emma said, we have to recognise the scalability of these things. With the Better Business Act, the expectation would be that it is only for companies that are obliged to provide a report attached to their statutory accounts. There would be some level of reporting on how they have considered the multi-stakeholder model.

It is a testament to the coalition behind the Better Business Act—it is an absolute spectrum of very many SMEs and some bigger high street brands—that there is that desire and call for change to the legislation.

Q22 **Chair:** Joanna, I just want to ask a question not so much on the investor side but more on the consumer side. I want to have a little bit more of a chat about this voluntary-versus-mandatory requirement and how that interplays with the idea of competition.

I probably should not name brands, but in my house, for example, when we are buying detergent or dishwasher tablets or, remarkably, even subscription toilet rolls, we choose to buy these things because they come from companies that share our values around the environment or



social purpose, and we probably pay a little bit more in order to do that. That is a choice that we make in a market that is often quite competitive. We buy those particular products because we want to do so.

I have to say that I have not checked that any of what they say is true or not. I just assume it is and therefore I pay for it. Does a mandatory model change that relationship with consumers in any way? Does it need to be a regulatory approach? Can it be a competitive approach where the consumers who want these things can buy these things if the suppliers supply them?

Joanna Allen: What you have to recognise is that there is a broad swathe of people who have an expectation that business steps up to contribute to the social and environmental issues of the day. 72% of British people think that businesses should play that role. There are households where values are a driver of purchase behaviour. That is your experience, and we see it in many areas of industry. There is an opportunity to raise the tide, with all businesses operating in that way, making that a common ground that businesses are operating under without actually requiring them to individually do something different.

For example, as a B corp, we had to change our articles of association. With the proposal of amending section 172, there would not be a requirement for businesses to take action on that front. It is an expectation, then, that they are given the opportunity to consider the multi-stakeholder model rather than always having to default to the primacy of profit.

Q23 **Chair:** If we were to make it mandatory, you are confident that it is not just going to result in higher prices for consumers.

Joanna Allen: I do not believe so. As Emma has talked about, we have moved beyond assuming that ESG and profit generation are on opposite ends of the spectrum. I can give you some very practical examples of some of the choices we have made at Graze. In the context of some of the ingredient inflation we have seen, we have challenged where we have cost in the business, and there are opportunities to take cost out of the business that are enabling us to be more environmentally sustainable as well.

We have challenged some of our packaging material choices with the intent of moderating and lowering our costs, where we can, to offset some of that inflationary pressure, with the benefit that our packaging is more recyclable. We should not assume that those things are on opposite ends of the spectrum. You can take choices that are benefiting both.

Q24 **Chair:** If the consumer does not have the time or inclination to check what they are being told is true, is the implication for business quite heavy? I am looking at Deloitte's study, but I am sure others have done an analysis of what ESG actually means. It puts various bullet points here. In the environmental limb, it talks about emissions, the impact on biodiversity, water resource, recycling and pollution control. You can see



how a lot of the regulatory environment is pushing businesses to do that already.

On social, for example, it talks about human rights, modern slavery and child labour. Many businesses are already obliged to think about that through the Modern Slavery Act. Going to your point, Dr Raghunandan, many of them do not. They might check with their primary contractors, but they do not go further down the supply chain because they say it is impossible; it is too difficult for them to do so. Therefore, you have no idea what is happening at the bottom of the supply chain because no one is really checking. How are businesses going to check these things in global supply chains? Is it possible?

Joanna Allen: I believe it can be. Again, we recognise that we do not want to put onerous requirements on businesses that are much smaller to mitigate this. Graze is not a massive business. We are a business of about 250 employees. We are just over £50 million in terms of revenue. We have a belief that it gives us a competitive advantage in terms of both the products we sell to consumers and the talent we attract into the business. It is a worthwhile investment to do that due diligence.

Again, if you just take B corps as an example, those are businesses that have typically growing faster than the average business. They are businesses that have better staff retention metrics than the average business. Again, it is about encouraging all businesses to subscribe to that philosophy with an expectation that it will be beneficial to business.

Q25 Andy McDonald: It is really fascinating that the debate has opened up beyond profit being the be all and end all. We have heard the words "greed is good" in this place before today. Just on the ratings issue, we are briefed that there are so many different ratings agencies. I am particularly interested to see how investors would look at this area and how they make their decisions opposite the information that is coming their way. How does that work out in practice? Perhaps Emma might be able to comment.

Emma Wall: I completely understand why ratings have become so popular. We are just starting to scratch the surface today. This is a complicated area. In a way, they do provide a significant simplification of the issue. There are issues in the non-standardisation.

As an investment analyst, we partner with a ratings agency, but we take their underlying data. We are looking at things like the carbon emissions, water intensity, et cetera. To be frank, there are about 1,000 employees at the place we partner with. I do not have 1,000 analysts across the world at my fingertips.

There does need to be some regulation or standardisation around the aggregated rating, because you can see firms with wildly different outcomes from ratings agencies because of the qualitative overlay that goes into a rating. They take all that quant, all that data, and then they apply a qualitative overlay of direction of travel.



HOUSE OF COMMONS

Firms like Tesla, for example, have widely different ratings because some are looking at the supply chain, down the road to Congo and at the precious metals and minerals that go into making a Tesla.

Andy McDonald: Yes, and their own internal conduct as well.

Emma Wall: Whereas others are weighting the fact that Tesla is at the forefront of the EV revolution. There is an element of subjectivity. Regulation around there would be welcome.

Q26 **Andy McDonald:** There are limitations with the rating system, but it seems that there is a willingness in businesses to be quite ambitious in this respect. Do you have a worry that, without making some of these things mandatory, good businesses could well be prejudiced? I know you have touched upon financial viability and the connection there, but I am talking about the psychology. If people think it is something they do not need to do, is there a real concern that they will not embrace this as a philosophy and carry on as they are to the detriment of the other businesses that are?

Emma Wall: Perhaps you could speak to the detriment to other businesses, but it is absolutely to the detriment of retail investors. At the moment, in the conversations we have with companies and investment firms, there is not complete take-up across the industry. Therefore you think about the clients in those investment funds who are not getting the benefit of that firm taking into consideration environmental, social and governance risks, which could lead to bad client outcomes. Yes, there could be potential detriment. I do not know whether Joanna wants to talk about the business side.

Joanna Allen: What is particularly important is that businesses would welcome standardisation. That is something the community has talked a lot about. You are seeing it from many stakeholders involved in that respect. That gives a fairer playing field. We are already seeing that consumers are more interested in the ethics of a business; they are more curious. We should only anticipate that that will grow. Giving consumers a consistent view of what this business is and how it compares to another would be welcomed.

Q27 **Andy McDonald:** It is interesting that you think it will grow in this direction, given that there is some mood music around being anti-regulation and lifting the lid. It is interesting that you make that observation.

Joanna Allen: Can I just correct your interpretation? What you will see is that consumers will continue to grow more curious about businesses' way of operating, not necessarily curious about more regulation.

Q28 **Andy McDonald:** Yes, that is right. That gets back to the whole mandation issue as well. We have ESG. Is there any sense that we should split it all out and do it in three separate chunks? Is that happening already? Is it all readily identifiable?



Dr Raghunandan: I cannot speak quite so much to how it is happening in practice in, for example, the investment world. Emma can probably speak to you about that.

On a broader conceptual level, you could make such an argument. This comes back to something I said earlier in response to Mark's question. When we think about this as one big and broad umbrella, there are often trade-offs that are easier for me to ask than for you to answer, such as carbon emissions against, I do not know, product safety or what have you.

One of the biggest issues that exist in the world of ESG, in the context of ratings specifically and why ratings do not necessarily align, is this issue of dimensionality. There are so many things we are trying to agglomerate under one roof that it is hard to do. For example, maybe there is a benefit to saying, "Let us think about the E and think about the S. Maybe it is better for companies to have both, but we can prioritise what we want".

On the retail investor side, that also makes things easier. I can go on to my brokerage. Let us suppose I care about picking low-carbon firms. I can find a low-carbon product, if that is what I care more about, and I know I am getting what I paid for. If I just see a bunch of ESG funds, I then have to try to identify which ones seem to be more carbon-friendly and which ones are prioritising human rights.

I am somewhat agnostic about this, but if splitting it off can make it easier to understand, then, yes, we can talk about the E or the S. That also may spotlight some of the issues that exist more in one than the other. When we talk about E, we have good data on carbon emissions; we have good data on toxics; we have good data on water pollution. We have a lot of good hard data that we can use to construct somewhat reasonable measures of which companies are more environmentally friendly.

When it comes to the S, we often have less. We rely more on companies' own claims of goodness and we essentially have less to challenge them with. Maybe by splitting it off we can also spotlight the data issue that exists more on one side than the other. That could also be a good thing. In total I am agnostic on splitting it off, but I could see the arguments for it. That is how I would put it.

Q29 Andy McDonald: On the social element of it, you talked about claims of good. We are talking about consumers, investors and corporate structures. Given that we are talking about extending duties at a corporate level, where is the voice of the people who create the wealth, the working people within the organisations? Where is that heard? Is there an opportunity for that in this discussion?

Dr Raghunandan: There could be. In Germany, for example, many corporate boards must have worker representation. There have been



studies showing that, where companies have had to bring those workers on to the board, that leads to better working conditions. These studies look at changes in companies to identify that.

I do not mean to push for having workers on boards, but that is an example of how you could get more of the workers' voice. That could be one way to go about it. I am sure Joanna can speak to that better than I can.

Q30 Andy McDonald: Joanna, do you want to comment on that?

Joanna Allen: As Aneesh said, there are some very interesting models out there. Within B corp, we have looked at what future board make-up looks like under a project called Boardroom 2030. We are a living wage-accredited employer. We definitely recognise the social and worker base of Graze and the role we want to play in supporting them. We are a small business, so our employees are readily accessible to me and I am readily accessible to them. You have to look at that on the scale of the business as well.

Q31 Andy McDonald: Does this lend itself to flexibility of corporate structures? There are lots of exciting things happening in terms of having stakeholders within a corporate structure, rather than the traditional structure of a company, bringing in environment factors and so on. Does this fit with that?

Joanna Allen: I would absolutely concur. The Better Business Act is seeking to have a multi-stakeholder model as the primary consideration rather than only shareholder primacy. That is the most fundamental shift we are seeking to secure.

Q32 Charlotte Nichols: We have spoken a bit already about trade-offs, but I want to dig down into this point particularly in terms of greenwashing. Sometimes there is a view that just because a company is green it is de facto more progressive, good, moral or whatever else. That can mask other forms of wrongdoing. I am thinking particularly, for example, about things like modern slavery issues within the renewables sector. How do you avoid greenwashing? I will start with you, Joanna.

Joanna Allen: I am going to defer to Aneesh, who probably has the academic perspective on this.

Dr Raghunandan: From my perspective, the best way to avoid greenwashing or at least to call it out where it does exist—this comes back to some of the earlier discussion on standardisation—is to rely more on hard data than we currently do.

To come back to the example of ESG ratings that Andy gave, one of the increasing and in my view justified criticisms of these rating is that they often rely on what companies are saying about their own policies without any verification thereof. If a company has a policy on modern slavery,



that is great, but there is no verification by the typical ratings agency on whether they follow their own policy.

Some of my work shows that these ratings are completely uncorrelated with companies' actual track records when it comes to hard data on labour violations, CO₂ emissions and environmental misconduct. One of the things we can do is make this data more accessible. Along with a non-profit, I have spent a lot of time, for example, assembling—it is now publicly available on the web for free—a comprehensive database of corporate misconduct in the UK. We took data from every agency we could find; we filed some FOI requests. We can trace a company's track record over the past 10 to 20 years.

Tools like this are typically not readily available; they are hard to find. It is hard to find a company's track record on what I would say are more objective measures. Companies can make these claims of goodness. If a company claims they are a living wage employer but they are on the HMRC name-and-shame list for not paying the minimum wage, there is a contradiction.

It need not be labour violations. It could be better data on emissions, better data on gender pay equity or whatever else you want it to be. It needs to be hard data that is comparable in some way or form. If you can hold claims up against hard data, it becomes much easier. It is not like you are going to get rid of all greenwashing, but it is much easier to mitigate greenwashing when you know exactly how to verify a claim, which has been thus far hard to do in the ESG space.

Q33 Charlotte Nichols: I am interested in what you said earlier around the Better Business Act, Joanna. To come back to that point about greenwashing and the need for data to be comparable across businesses or sectors to give people confidence in assessing some of the claims made by businesses, is having that on a statutory footing going to enable more businesses to do that rather than the voluntary model at the moment? I am assuming that how you are verified as a B corp is a slightly more subjective process than it might be if it were something that was right across the economy.

Joanna Allen: There is definitely a benefit to making that playing field fair. As an accredited B corp, I know the rigour that has gone into securing that accreditation. As an example, it took Graze 18 months to go through the data capture and the accreditation process. We recognise that is an incredible commitment that a business chooses to take. It is absolutely standard, but it is a material commitment.

We recognise that it would be arduous for all businesses to be expected to complete at that level, but we believe that consistency within the business environment would be beneficial. It is about recognising that there will be businesses that are very progressive and that are willing to invest the resource and the time to securing something like a B corp



accreditation, but expecting all businesses to get to that point is unrealistic.

Emma Wall: Can I just add something to that? I also want to pick up on the point Andy made about separating out the E, the S and the G. One thing I would be in favour of in terms of standardisation is comparing apples with apples. If you look at a social media business and where they might score on E, S and G versus an industrial business, there are always going to be natural sector biases.

When we are doing our own investment analysis, one of the things we make sure of is that we are comparing like for like. You cannot expect a business that is in the business of making things to have the same sort of E impact as a purely digital asset-light business. That differentiation is really key.

- Q34 **Mark Pawsey:** I wanted to pick up Charlotte's point about greenwashing. When it comes to issues such as verification, is there a role for trade associations and professional bodies in terms of the codes of conduct they have? Are they adequate? If you want to deal with a financial advisor or somebody of that nature, you would look to see whether they are a member of the professional body. If you wanted to buy from another product supplier, you would look at whether they are a member of the trade association. Is that useful? Are they of no value at all? Joanna, are you a member of a trade association? Is there any value in those kinds of things?

Joanna Allen: We are through our parent company, which is Unilever. We definitely recognise that on sector-specific aspects they have a role. Thinking of something very live right now, we have the HFSS legislation coming into play. We recognise the role that trade bodies have in terms of both supporting the industry to make that shift and playing the role of supporting to ensure that is enforced.

We also recognise that the pace of change would be very slow if you were only to go sector by sector. To be fair, that is the reason why we have pushed for a more comprehensive shift.

- Q35 **Mark Pawsey:** Emma, do people look at professional qualifications and trade associations to see whether a company is compliant?

Emma Wall: Financial services is a highly regulated industry. Professional qualifications are a requirement of the regulator. In terms of trade bodies, on this subject we have seen a lot of coming together. We have seen the trade body working with the regulator. TISA, the investment association, has been working with the FCA on getting this standardisation of reporting and taxonomy. We are all in agreement that it leads to better things for our industry and better things for our clients as a whole to get this right.

- Q36 **Mark Pawsey:** Dr Raghunandan, would more effective roles for trade associations and professional bodies be an alternative to Joanna's



regulation route?

Dr Raghunandan: They could be a complement; I do not know whether they could be a substitute. At least in my view—this may just be due to what I am familiar with—in as much as trade associations have a disciplinary role, they are best equipped to discipline individuals.

Q37 **Mark Pawsey:** Do you mean individuals or companies?

Dr Raghunandan: Let us take financial services as an example. What trade associations can do is say, "Here is an individual financial advisor who is engaged in misconduct. We will flag this on our website. We might suspend their licence". Essentially, it is a way to punish the "bad apples" within a firm.

My perspective is shaped more by what I know about trade associations in the US. I do not know as much about the mechanics here. At least in that setting, typically it is the regulator, the FCA or the SEC, that is going after the firms. There might be a complementary role for the trade associations: they might identify which individuals have engaged in misconduct. To the extent it is systemic, you have the FCA, for example, taking notice and saying, "Your brokers keep getting in trouble with the trade association. What is up?"

At least in my view, trade associations have a role in certifying the individuals who work within a firm. They can make sure those individuals are competent, credible and honest. When a firm has a systematic habit of not hiring competent, credible and honest individuals, as hopefully identified by the trade association, to me it then becomes the purview of the regulator overseeing that industry or that practice.

Q38 **Mark Pawsey:** I have one last question, which is about the ability of big companies to use their marketing budgets to try to convey an image that might not be substantiated by their actual performance on ESG. For no reason, I will perhaps pick on banks. They spend money telling us how wonderful, friendly and supportive they might be, but they put interest rates up and they call in loans on small businesses. They do have to sometimes do hard things.

Should there be a limit on the amount of money that big corporates can spend on making us feel they are wonderful, fluffy and nice people to deal with when they are hard-nosed businesspeople?

Dr Raghunandan: We do not necessarily need hard limits. To bring this back to some of the earlier discussion on having hard, quantitative and standardised data, one of the reasons banks and large corporates in general are spending so much money on these things—for example, they might have a nice, glossy 100-page sustainability report—is that there is an absence of hard data at the moment.

These things are the best we have got. They can be quite effective. They can do an advertising campaign without much by way of hard facts to



HOUSE OF COMMONS

back it up. In that case, if it is all you have, yes, there are probably more returns from putting these things out.

If I can go on a website or if I can look at a one-page disclosure where you have to provide not everything but some standardised things that help me compare you to your competitors and your peers, then maybe I will read the report for context and the relative importance of these things should diminish. In that regard, it is not a problem that needs to be solved in and of itself, so much as it is a by-product of what we currently do not have.

Emma Wall: I completely agree. Nature abhors a vacuum. Without the standardisation of reporting, you can create 1,000-page documents of fluffy marketing. If there is a standardised way of reporting to clients, shareholders and regulators on these subjects, you do not get the other side of the coin.

Q39 **Mark Pawsey:** Big businesses with big marketing budgets will always be able to deal with an adverse standardised ESG report by putting lots of money into lots of peripheral fluffy things to make us feel good about them.

Emma Wall: This comes back to the scalability issue. If you make sure standardised reporting is achievable by all businesses, you can make sure that becomes the one source of truth. Of course, larger businesses will always have larger marketing budgets. What we are talking about here is not necessarily standardised marketing; it is about standardised reporting, as you treat your reporting accounts on an annual basis.

Q40 **Mark Pawsey:** Yes, but there is nothing to stop a company with an adverse standardised ESG reporting, if we get to them, spending loads of money on a TV campaign telling everybody how wonderful, nice and friendly they are because those consumers, those people that is targeted at, are probably not going to see the standardised report.

Emma Wall: If it is taken across all business and all industry, though, the knowledge of it hopefully gets to the consumer and they do know to go there. This is slightly beyond my area of expertise, but I also imagine that, with advertising standards, if you are reporting one thing and saying another, you will probably get at least a rap on the knuckles.

Q41 **Chair:** This has been a perfectly lovely discussion, but there is a problem somewhere that I have not quite put my finger on. The reason I say there is a problem is because, in preparing for the session today, we invited quite a few of the largest investment firms and banks to come, and they were all extremely reluctant to do so. I am not going to name them, but they just did not want to come and talk to us. This is an exploratory session for us today, so I did not want to push them too hard on appearing.

I was very pleased that Hargreaves Lansdown agreed to come because it looked like we were not going to get any investment firms or banks to



come and talk to us today. What are they nervous about?

Emma Wall: Some of it is probably to do with wanting to wait for the FCA's findings on the standardisation of the disclosure regime, which is hopefully coming in the next year. Potentially they do not want to say anything ahead of the regulatory findings.

There is also a nervousness about this. The sheer volume of money that is going into ESG products means there is a huge onus on the firms to get it right. I said it earlier, but in the first half of the year £120 billion went into ESG investment products and £140 billion came out of non-ESG investment products. There is a nervousness around ensuring they are on the right side of this.

Some firms—I will not name them either—are reluctant. It is going to take a commitment; it is going to mean a re-writing of investment processes and prospectuses. At HL, we have recently joined ACT, which is to do with driving diversity and the S within ESG in financial services. That included adding 20 questions to our due diligence questionnaire that we send out to all investment firms. At the moment we have not made it mandatory because we have just launched it. We are going to make it mandatory from next year.

We have heard back from two firms already saying that they are not going to answer the questions. They have shot themselves in the foot there because they will get a bad mark from me and my team, but it does go to indicate that, as you say, there is a nervousness around here. It is not widespread. I could call out a number of investment firms that are very much on the front foot on this for whom this really is within their DNA. We are not there completely as an industry yet.

I do sometimes think about the carrot and the stick. There needs to be regulation and standardisation in order to get people there. I truly believe that leads to much better long-term client outcomes.

Q42 **Chair:** It is not simply the case that they were nervous I might look at a piece of evidence and say, "You are investing in tobacco, missiles and coal power stations". It is that they have internal assurances and processes and regulatory requirements that are not yet firmly set, which potentially made them nervous to talk about it. That is your view.

Emma Wall: There probably are some contentious investments as well. Our ESG investment policy at HL means we will not, where we directly control the investment, invest in any controversial weapons manufacturers, persistent violators of the UN Global Compact, any firms with more than 20% revenues from oil and gas and firms working on oil sands.

We are really proud of the commitments we have made. Not everybody in the industry has made those commitments. There is probably the potential for you to say, "Why are you investing in this controversial weapons manufacturer?"



Q43 **Chair:** The debate in the papers and the press is interesting in this area. Let us take defence equipment, for example. We have donated a load of defence equipment to Ukraine, and rightly so. We all supported that. We need to build a load more because we have given a load away. That is going to require some form of investment from someone to pay someone to build some missiles.

Is there a concern that everyone redirecting their money into ESG principles will result in legitimate but publicly concerning areas of investment not receiving the investment they need? Is that what they are nervous about?

Emma Wall: Yes. To pick up on defence—oil and gas is another interesting one—we are not taking a total exclusion policy. We think that, like anything, like politics, you have to be in it if you want to change it. Engagement is so important. If we are not investing in those firms, engaging with those firms and trying to drive positive outcomes, who is going to be doing that? This is not a purely exclusion-based approach. There are areas where “could do better” involves engagement. For us, where there is a firm engaged in manufacturing controversial weapons, for example, they are specifically making those weapons to cause mass harm. That is beyond engagement for us.

Chair: Thank you, all three of you, for your contributions this morning. We are very grateful.