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Sustainable **FINANCE:** A New **BENCHMARK** for
Corporate **LEADERSHIP**

BY MICHAEL GOLD

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A decade ago, when just 20 percent of S&P 500 companies published sustainability reports, these glossy brag sheets were a badge of leadership. Now, with more than 450 of the S&P 500 companies putting out such reports, a more rigorous indicator of sustainability leadership may be emerging.

A new survey of business executives from Bank of the West finds that in a marketplace saturated with sustainability claims both real and sketchy, the use of sustainable finance, such as green bonds and sustainability-linked loans, has become a clear mark of differentiation.



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The *2022 Money Matters Report* reveals that leaders at companies that have used sustainable finance have a much more favorable view of sustainability initiatives at their companies. Across a range of indicators, companies using sustainable finance shine, according to the survey of 550 managers with

some responsibility for financial decisions at their companies. Among the findings:

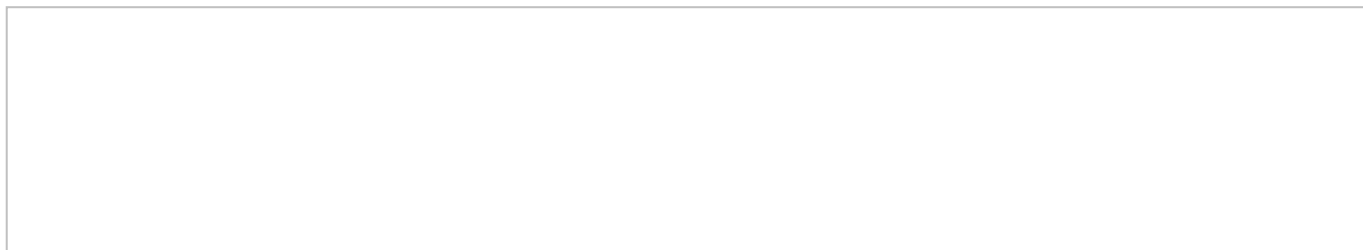
54 percent of respondents at companies using sustainable finance strongly agreed with the statement that their company “sets ESG goals that best fit our business interests.” Among companies not using sustainable finance, only 28 percent of respondents agreed with this statement.

92 percent of respondents at companies using sustainable finance said their company engages stakeholders to develop ESG goals that align with the community and business priorities. Just 66 percent of respondents at other companies found such engagement.

92 percent of respondents at companies using sustainable finance said their company tracks metrics to measure the impact of ESG efforts, compared to only 58 percent of respondents at companies not using sustainable finance.

60 percent of respondents at companies using sustainable finance strongly agreed that their company had a corporate strategy that integrates ESG issues and financial returns. Just 24 percent of respondents at other companies strongly agreed with that statement.

To be clear, the survey merely shows a relationship between these positive ESG attributes and sustainable finance and does not indicate causation. Most likely, companies with mature sustainability strategies are more inclined to pursue sustainable finance and be able to meet the rigorous criteria financial institutions attach to such financing, explains Ela Eskinazi, Head of Sustainable Finance and Clean Energy at Bank of the West.



Start a Conversation with a Business Banker and Discover our Differences

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The *2022 Money Matters Report: Revealing the Sustainability Intentions Gap* uncovers new insights into how a company's approach to sustainability impacts leaders' perceptions of the business. Survey respondents indicate companies with ESG strategies are realizing important benefits. But, the use of sustainable finance seems to be associated with broader benefits, according to survey respondents.

The survey finds that companies with a strong ESG foundation have a potential opportunity to harvest further advantages that survey respondents associate with the use of sustainable finance. These range from increased employee loyalty and stronger brand reputation to improved risk management.

SUSTAINABLE FINANCE IS A SIGN OF ADVANCED CORPORATE SUSTAINABILITY

Measurement is a known challenge in corporate sustainability conversations, from quantifying greenhouse gas emissions to gauging impact and setting realistic but meaningful goals. *Money Matters* survey findings support other

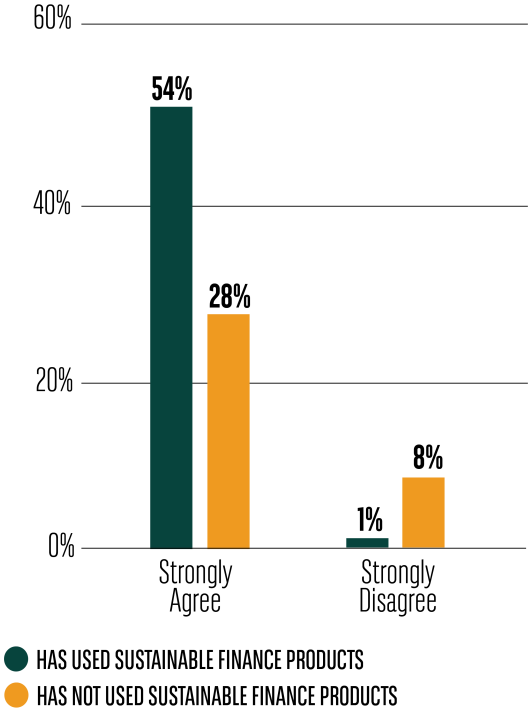
data showing that sustainable finance is an increasingly important gauge of a company's ESG efforts. Whereas a decade ago, a sustainability report was the sign of leadership, today, sustainable finance may be a more useful indicator of corporate commitments to sustainable business practices.

The sustainability milestones built into green bonds, for example, are a powerful way to keep stakeholders abreast of a company's progress towards important sustainability goals. The International Capital Markets Association, a leading trade association based in Zurich, has established a number of principles and guidelines for defining the parameters of a sustainable bond as well as best practices to promote transparency and disclosure.

In the *Money Matters* survey, sustainable finance refers to the process of including ESG considerations when making financial decisions, and it can include the use of sustainability-linked loans, green bonds, and ESG investment funds. These vehicles are available to sophisticated companies with advanced and well-established sustainability programs, and business leaders' perceptions of their companies reflect this distinction. *Money Matters* responses show that companies leveraging sustainable finance have achieved a high level of buy-in on sustainability across leadership.

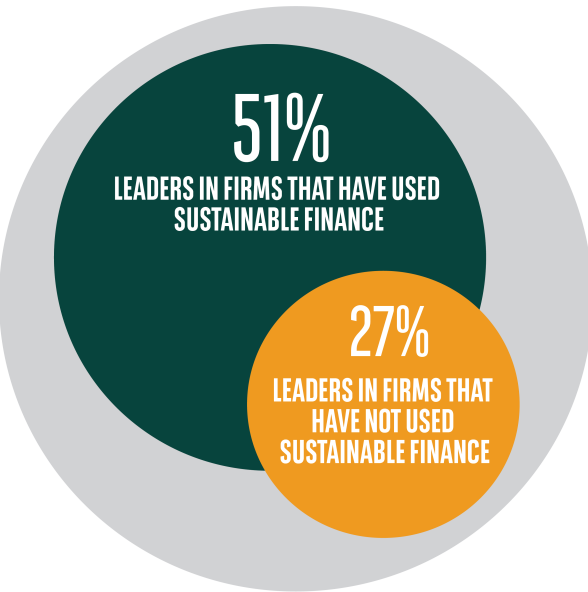
Executives in companies that have used sustainable finance are more likely to say they'd leave their firm if their employer didn't support environmental and social issues they are passionate about. They are also more likely to say their company's approach to ESG aligns with its broader business goals—leaders using sustainable finance are almost twice as likely to strongly agree that their sustainability goals best fit their business interests.

MY COMPANY SETS SUSTAINABILITY GOALS THAT BEST FIT OUR BUSINESS INTERESTS



Source: Bank of the West's Money Matters Report, 2022

LEADERS WHO MAY QUIT IF THEIR COMPANY DOES NOT SHARE VALUES



Source: Bank of the West's Money Matters Report, 2022

Executives are deeply committed to the company's sustainability efforts, and they view their organizations as more aligned with CSR values. They also report enhanced risk mitigation, brand recognition, and other perceived advantages. Notably, respondents directly attributed certain benefits to their company's use of sustainable finance:



Finance teams across industries are being forced to answer the question: Is this business ready? How CFOS Can Confront Climate Risk

53 percent say sustainable finance has enhanced the company's mission and values, and 50 percent reported improved ESG metric development and monitoring.

47 percent observed greater support in marketing and communications efforts and reduced cost of capital for their company.

Executives' viewpoints of their company's business outcomes correlate with sustainable finance use as well. While responses point out a connection between sustainable finance and financial performance, the report should not be construed as suggesting the use of sustainable finance leads to increased profitability.

"Sustainable finance is not for everyone. It requires companies to do the hard work of building a sustainable business model and taking various

commitments and actions to realize it,” Bank of the West’s Eskinazi says. “Once a company adopts a sustainable business model and that model’s financial performance has been demonstrated, those are the successful companies that are pursuing sustainable finance in partnership with their bank.”

In the *Money Matters* survey, 63 percent of respondents at companies leveraging sustainable finance cited increased profitability in the last two years, versus just 42 percent of respondents from other companies. Thirty-seven percent of business leaders from companies that have used sustainable finance report increased revenue since allocating resources to their ESG strategies. Only 23 percent of companies that have not used sustainable finance have seen the same benefit.

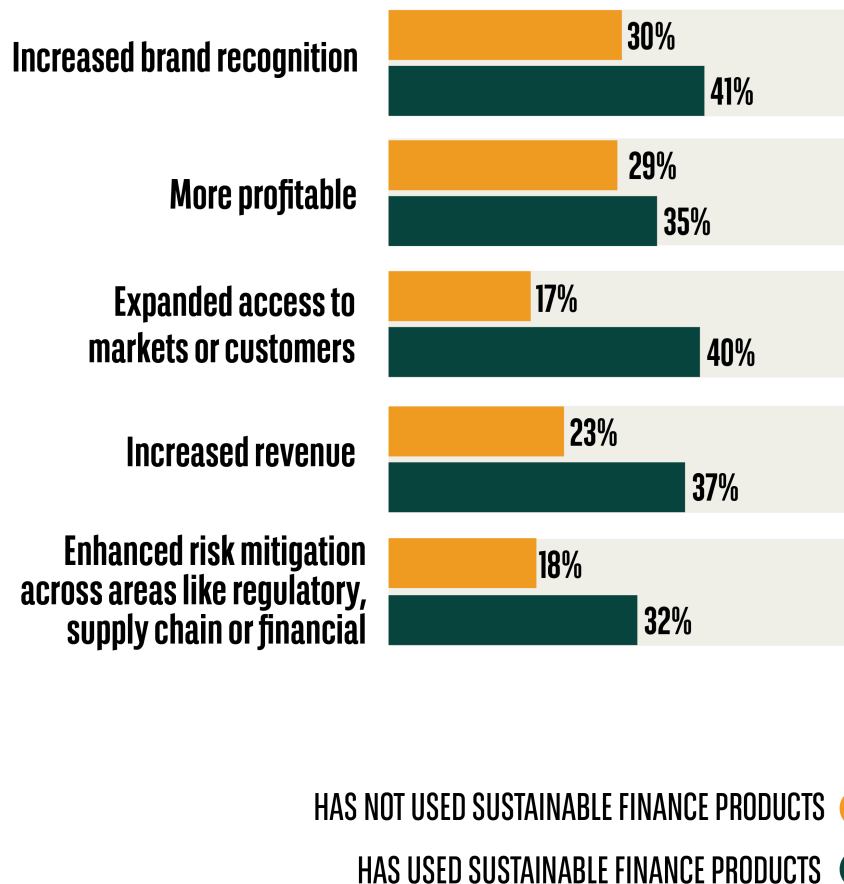
“Numerous companies, and a substantial section of society, now understand the tangible benefits and business case behind sustainable finance—they feel it in their pockets,” says Carlos Vargas, professor of sustainable finance at EGADE Business School in Mexico and lecturer at Harvard Extension School.

“Numerous companies *now* **UNDERSTAND** the business case behind *sustainable* **FINANCE**—they *feel it* in their **POCKETS.**”

—Carlos Vargas, EGADE Business School professor

An even larger gap exists when it comes to companies experiencing better risk management (32 percent of companies leveraging sustainable finance, versus 18 percent with an ESG strategy only) and expanded access to markets and customers (40 percent versus 17 percent).

BENEFITS SINCE PRIORITIZING SUSTAINABILITY STRATEGIES



Source: Bank of the West's Money Matters Report, 2022

While, once again, these results do not show a causal relationship between sustainable finance and these direct business benefits, they do build a profile of the kind of company that utilizes sustainable finance: one that effectively leverages its ESG strategy to advance enterprise-wide priorities, including profitability and other financial goals. Based on this profile, leaders appear to

agree with Vargas' assessment that sustainable finance is “the way to do business today.”

TAKEAWAYS FOR STRENGTHENING CORPORATE SUSTAINABILITY

The value of understanding sustainable finance as a new benchmark in corporate sustainability is that it gives companies a concrete goal to work toward. The *Money Matters* survey exposes potential areas for improvement in pursuit of that goal. The key characteristics of a sustainable company, including ensuring diversity and inclusion, supporting employee well-being, and using clean energy, are well known. However, many survey respondents said their company's prioritization of these factors is not on par with the importance that leaders give these factors.

THE SUSTAINABILITY PRIORITIZATION GAP



Source: Bank of the West's Money Matters Report, 2022

From finance to human resources and beyond, moving company priorities closer to leaders' expectations can help develop more robust corporate sustainability, moving the business closer to the goal of sustainable finance.

Opportunities to close these gaps include:



93% of consumers want banks to fight global climate change, according to a consumer-facing edition of the Money Matters Report.

01.

01. SUPPLY CHAINS—INCLUDING BANKS—SHOULD REFLECT A COMPANY'S ESG PRIORITIES

Forty-six percent of survey respondents say sustainable sourcing is essential, but just 31 percent say their company prioritizes it. Lowering supply chain emissions is a well-trod topic, but an often-overlooked component of this effort is a company's banking partners. The survey showed nearly half of all respondents (46 percent) believe it is essential to consider ESG factors when making financial decisions. However, only 32 percent say their company currently prioritizes it.

Nearly all *Money Matters* respondents (98 percent) want their bank to fight climate change, yet close to half (46 percent) believe the financial services industry is putting too little effort into slowing global warming. Corporate finance leaders have potential leverage on this score thanks to the green finance trend already in motion: In 2021, for the first time, banks earned more fees on green debt issuance than they did for fossil fuel industry debt issuance, according to Bloomberg.

The data also reveals an information gap: Nearly half of leaders don't know if their company's bank finances environmentally harmful activities

like Arctic drilling, coal-fired power generation, or deforestation. Firms can boost internal transparency around their banking relationships and push their financial partners to better reflect the company's values.

02.

02. ESG-ORIENTED COMPANIES PRIORITIZE DIVERSE LEADERSHIP

Fifty-seven percent of *Money Matters* respondents with a majority of diverse executive leaders say their company already has an ESG strategy, versus 39 percent of respondents with less diverse leadership. This relationship is an important one in a business world that has yet to make significant progress on diversity. While the business case for diversity, equity, and inclusion has received plenty of attention in thought leadership circles for years, a *Washington Post* analysis of the 50 most valuable public companies in late 2021 found just 8 percent of C-suite executives were Black. Another 2021 study found just 21 percent of C-suite leaders are women—which drops to 4 percent for women of color.

Surveyed executives from companies with diverse leadership also view their organizations as more profitable—fitting the profile of businesses with advanced corporate sustainability.

03.

03. MID-LEVEL EXECUTIVES SHOW LEADERSHIP ON SUSTAINABILITY

Mid-level executives were more likely than their more senior counterparts (53 percent of directors and 48 percent of managers versus 35 percent of VPs and higher) to report that the banking and financial industry's efforts to fight global climate change need improvement. Generational attitude differences are a likely reason: A consumer-facing *Money Matters* survey found 88 percent of Gen Z and 84 percent of Millennial respondents said they were passionate about climate change, versus 79 percent of Gen Xers and 73 percent of Boomers.

Empowering directors and managers to lead sustainability efforts allows those with the deepest commitment to environmental values to push the organization into the sustainable future.

SUSTAINABLE FINANCE CAN HELP SET NEW STANDARDS FOR BUSINESS

Interest in sustainable debt has soared in recent years. Sustainable bonds reached \$1 trillion in 2021, accounting for 10 percent of global debt markets. That's a 20-fold increase since 2015, according to Refinitiv data. Sustainability-linked loans rose 300 percent between 2020 and 2021, reaching more than \$700 billion.



FedEx is using a sustainable bond to help decarbonize operations that include more than 200,000 vehicles, 680 aircraft, and 5,000 facilities.

Though it's becoming more commonplace, the qualifications for vehicles like sustainability-linked loans are rigorous. Banks are necessarily selective about offering these loans. Companies must have sophisticated sustainability programs, including advanced reporting and well-defined goals to utilize them. HP, for example, has leveraged a \$5 billion sustainability-linked

loan (SLL) and a 10-year, \$1 billion sustainability bond in its effort to reach net-zero greenhouse gas emissions by 2040. Lise Pretorius, an environmental economist and Head of Sustainability Analysis at Danish fintech firm Matter, notes that firms should anticipate using sustainable finance vehicles to create additional value, rather than simply tacking the “sustainable” label onto an activity that would have taken place anyway.



NYU's Elyse Douglas explains Why CFOs Should Be Enterprise Sustainability Leaders.

Sustainable finance requires finance leaders to become sustainability leaders. Moving social and environmental priorities into the purview of the finance department helps companies take a more holistic and effective approach to ESG and CSR strategies that advances corporate sustainability to a new level. “From the CEO down to the lowest level of the operations, people must understand why their company is aiming for these goals,” Vargas says.

Stakeholders are increasingly holding companies more accountable for environmental and social impact. Issuing an annual sustainability report and highlighting corporate giving on social media is no longer enough. Companies are defining new, more substantive corporate sustainability standards.

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