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ESG rating agencies – important information providers for sustainable investors

The current landscape of global, European or national CSR / sustainability standards is much more developed than it was at the turn of the millennium. A growing number of voluntary initiatives, not to mention the dynamic growth of mandatory legislative processes and the further development of existing standards, make explicit reference to social, ecological and ethical corporate responsibility - not just with regard to the companies themselves, but also their supply and value chains. Examples include the adoption of human rights-related due diligence obligations or the publication of CSR reports, which started out as nice-to-have initiatives but have become mandatory for a growing number of companies by virtue of regulation.

In this context, one could conclude that as sustainability issues are increasingly regulated, everything will turn out well (at some point). So why do we even need ESG rating agencies to independently evaluate implemented CSR activities, the contributions to achieving the SDGs, the implementation of environmental or social standards in the supply chain, or the green transformation of business activities?

Initially, societal guidelines, obligatory standards and voluntary initiatives only address the CSR issues that need to be regulated, not the quality of the actual implementation. In contrast, evaluations conducted by ESG rating agencies provide a more sophisticated picture of whether and how companies operate within the regulatory framework of their responsibilities. They show whether new laws and regulations are merely viewed as irksome requirements, or whether they are understood as a business concept and implemented accordingly.

Therefore ESG rating agencies perform an important function for sustainable investors - now and in the future. As independent information intermediaries, they ideally pursue a value-based commitment to social, ecological and ethical objectives. In this context, ESG aspects that must be implemented (e.g. 1.5 degree compatibility, taking responsibility in the supply chain or compliance with the due diligence obligations under human rights laws) must be operationalised, measured and evaluated. Because - responsible corporate conduct only becomes visible in the results that are actually achieved, not through mere compliance with the applicable laws, regulations and standards. And this is precisely why ESG rating agencies are important stakeholders for the companies they evaluate, because they assume a selecting role and identify the potential for improvement.

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