



Commercial Insights with Regions Bank

Episode #17

What Your Business Needs to Know About ESG

What is Environmental, Social, and Governance (ESG), and how will it affect your business? This episode explores what this framework means for businesses, from climate-focused regulations to social stances to a changing approach to corporate governance. What do these changes mean for both investment practices and for your bottom line?

Episode Transcript

Matt Welch, SVP, Senior Corporate & Commercial Credit Portfolio Management:

You know, some firms are going to look at ESG, and they're just going to let change happen to them. But some will review their current policies and practices, and they're gonna look for opportunities, and they're gonna find them. And they're going to look for ways to evolve and innovate.

Chris Blose, Host:

You just heard from Matt Welch, SVP and senior corporate and commercial credit portfolio management manager at Regions Bank. The ESG he named is environmental, social and governance, and if you haven't heard the acronym before, you'll be hearing a lot more of it in the future.

Welcome to Commercial Insights with Regions Bank. I'm your host, Chris Blose, and today's episode is focused on what business owners and decision-makers need to know about ESG. Along with Welch, we're also joined by Chris Nicholson, SVP and ESG Credit Portfolio Manager.

ESG as an acronym may be new to a lot of listeners, but the concepts behind it — from environmental responsibility to social awareness to corporate governance — are far from new. They are starting to solidify and codify into a framework that affects policy and regulation, though. As Nicholson and Welch tell us, smart businesses are paying attention.

Chris Blose:

Chris and Matt, welcome to you both. Let's start with a definition. What is ESG?

Chris Nicholson, SVP, ESG Credit Portfolio Manager:

Sure. So, ESG, Environmental, Social and Governance is the basic acronym. When you think about environmental, it's clean air, clean water and things of that nature. In recent years, I think that the focus has shifted quite a bit to climate. And so a lot of times when I think about the E, I'm defaulting to the climate, greenhouse gas emissions and the like.



Social, I think that, there's an internal-focused social and then there's sort of the external focus. And what I mean by that is, internally, social can be the people who work for you. It can be the people who are in your management, the diversity of your workforce, the gender diversity, the racial diversity, the diversity of all the backgrounds that you might have demographically. Externally-focused, you know, when you think about the social component, a lot of it is stakeholder-focused.

It's a lot of who your customer is. Who are your investors? What about the communities that you serve? What are the values that are out there? And how do those align with your corporate values?

Governance is the tricky one for some folks, but essentially, it's how you're managing your business. What are your policies? How are you managing some of these issues? So, governance plays into both the E and the S, as well as sort of just the regular financial administration of your company.

Chris Blöse:

And how does ESG tie into business goals?

Chris Nicholson:

It touches on a little bit of everything. With regard to the environment, you see a lot of certainly public companies are starting to disclose goals around your energy consumption, which directly relates to your greenhouse gas emissions, and beyond energy consumption, you might be looking at your greenhouse gas emissions in terms of your whole value chain.

A lot of companies are starting to set goals around that in terms of some reductions, it's an easy example of a business goal focused on the E. S, you may look at diversity targets. You may look at increasing the diversity of your workforce, for example, or providing additional supports. It may be things like how you're supporting your employees in other contexts, such as employee training programs, for example, and setting goals around that sort of thing, how you're gonna support your employees in that way.

Matt Welch:

I would say if you look at some of the business goals around it, it's really rounding out that two-dimensional business or corporate goals and mission statements that you may have had in the past and really kind of giving flesh and some muscle to them. And how you face up with the communities that you serve and the stakeholders that you have.

Chris Blöse:

So, I think what's interesting too, is a lot of the things you're talking about, whether it's talking about environmental, whether it's talking about social, whether it's talking about corporate governance, they're not necessarily new, right? So why is ESG now becoming more codified and becoming more of an increased focus for businesses?



Matt Welch:

Well, sure. You know, you look in Europe and there's quite a lot of regulation, you know, particularly in terms of the climate. And in the US, I think you're seeing more of an investor driven approach. It's becoming important because it's starting to impact wallets and it's starting to also impact board of directors who are being asked to take positions. Whereas in the past, they've been rather agnostic. And institutional investors are being very clear about what they want, and they're using their voting powers to move companies.

You look at large investors, they've released statements on exactly what kinds of disclosures they'd like to see around greenhouse gas emissions, for example. And it's also driven by our customers' preference. So, you know, in the US, the focus is more being driven by that consumer preference as opposed to regulations in Europe, but, you know, that's right around the corner.

Chris Nicholson:

Yeah. I would agree with Matt. When you look at the regulations that are happening in Europe, in many ways, we're looking at a taste of what may come, right?

Regulations that may one day come to America, you know, even in a watered-down way. Whether we're gonna have regulations around disclosure, for instance, rather than absolute greenhouse gas emissions, for example. You see carbon taxes in some places that are disincentivizing greenhouse gas emissions in order to meet sort of net zero targets by certain dates. 2050 is one that comes up quite a bit, of course, with the Paris Accords. I think when you look at the customers, the younger customers, the Gen Z-ers or your millennials, they're really looking to do business with companies that align with their values.

Because people will always be quick to see if you're being fake or false about it, but in a way that aligns with your corporate values, take some stands in certain ways on social issues, whether that's diversity, for instance, or inclusiveness, things of that nature, or the environment. I think that folks are starting to see that it may actually, if not now, certainly in the future benefit your bottom line.

Chris Blöse:

Well, I think that's an important note, right? 'Cause it's not just about optics. So, what are some of the ways that incorporating some of the principles of ESG or goals related to ESG into your business model could actually benefit your company, Chris?

Chris Nicholson:

There's been numerous studies out there talking about, for example, having a diverse workforce or a diverse management and diverse board, you know, really diversity across the company can benefit your bottom line.



From a climate perspective, I think that companies that start now to create a long-term plan as to how they're going to address, say, energy usage or your own greenhouse gas emissions, your carbon footprint, companies that start creating long-term plans now and gradually executing against them are gonna be better positioned competitively than folks who maybe wait around and see how the landscape changes.

I think that you may even see it affect your access to capital, for example, green bonds. We've seen companies can get better pricing on financing if they're able to put out a green bond that has some measurable, quantifiable key performance indicators, for example.

Matt Welch:

And another example might be just a landfill, for example. You know, landfill is not necessarily something you think about as incorporating ESG goals. However, the recycling side, of a landfill on site would definitely be counted as a positive to the environment and something that they could point to for ways that they're moving their business to being more carbon neutral and better for the environment.

Chris Blöse:

So those are some of the opportunities and benefits. On the flip side, especially if you're a company who has not thought about ESG issues before, what sort of challenges does this framework present?

Matt Welch:

We've talked about it a little bit before, but, you know, companies are having to think through strategic questions, like, "Who are we going to be?" And communication is becoming very important. You know, some firms are going to look at ESG, and they're just going to let change happen to them. But some will review their current policies and practices and they're gonna look for opportunities, and they're gonna find them. And they're going to look for ways to evolve and innovate.

And, you know, as Chris said, they'll plan out their approach over the next few years as ESG kind of ramps up from a regulatory perspective and look for attainable, short-term and long-term goals. For firms who are already kind of have been thinking about this, you know, their industries have been subject to some of these environmental concerns or social concerns, you know, they're gonna use this time to their advantage to refine and sculpt their message.

If I was talking to somebody and looking at what's possibly the biggest thing that businesses can do, I would say it would be kind of defining who you are now and who you want to be 1, 3, 5 years from now, and you know, what hills you're willing to die on.



Chris Blöse:

That makes sense. Does some of this involve going back to basics? 'Cause if people can spot a phony, it seems you have to have that sort of core message, those core values, nailed down before you start going out to the world and communicating about those values.

Matt Welch:

Absolutely. And the longer that you give yourself to think about it, the more likely you are to think about all the constituents and stakeholders that you have.

Chris Blöse:

I would assume that, even with time to think, making long-term predictions in this field is a challenge. But do you see any particular trends coming in the near to mid future?

Christopher Nicholson:

What we would see coming down the pike is, we would see things fitting into maybe two buckets. One would be disclosure of greenhouse gas emissions and things like the energy that you use, which leads to greenhouse gas emissions up the chain, of course, but also risk management.

And certainly, I see this more in the financial sector, perhaps, when we're looking at the safety and soundness and prudent risk management in banking, for example. So, not only disclosing what emissions might be in the portfolio over time, possibly, but also looking at how we're managing risks around the environment and the climate.

Matt Welch:

I'd just add to that. I think what you're gonna also see is a lot of these entities, like the Fed and the SEC and the OCC having to come together and settle on definitions of what is to be tracked, by whom, and how it is to be tracked. And that will be where it starts. And from there, you'll start to see some of that long-term thinking that companies have put into their toolbox, being able to be applied against what is settled upon.

Chris Blöse:

So for a company that wants to be ahead of the game on this, what resources should they look at?

Christopher Nicholson:

You know, if I had to pick one place to start on climate, for example, I would start with something called the Task Force on Climate-related Financial Disclosures. The abbreviation is TCFD. And that is a framework that a lot of businesses are coalescing around in terms of your climate reporting, including Regions, actually.



Matt Welch:

This is a case where looking at companies in Europe that are similar to yours and using that as a baseline for what's likely to come will help you a lot. You know, we live in a globalized economy, and rules in Europe will certainly be contemplated here, even if they're not enforced. So, watching for what happens over there, both from the good and from the missteps that they have, will likely clue you into what regulators in the US are thinking about.

Chris Blöse:

And I'm sure this varies, you know, from the E to the S to the G, but will certain industries feel the impact of ESG policy, and just kind of a general move toward using this framework, more than others?

Chris Nicholson:

The answer is yes, certainly in climate. I think it's easier for us to sort of predict which industries will be impacted more. And quite frankly, it's the ones that are most closely linked to a fossil fuel value chain or a fossil fuel use case.

And I think that you've seen the major global automakers, including the ones based in the United States, set some pretty good targets about what percentage of their fleets they want to have electrified by what date, you know, in terms of their new car sales. So they see it coming.

The key, in my view and I think in others' as well, is this concept of the orderly transition by which you make incremental progress over the long term. Social's a little harder to peg (laughing) in terms of social media making it so quick for folks to raise issues into the sort of the corporate consciousness.

Matt Welch:

Well, on the social side, I mean, you think about some of the movements we've had over the past five years, there's been a ton of increase in activism. And how much of that has staying power in the economy will probably dictate how much of that impacts businesses. You know, for example, a large investment company recently came out to boldly discuss and set expectations around how they're considering certain issues. I think you're gonna see debates on multiple fronts as to what true change really means from an ESG perspective.

Chris Nicholson:

Yeah. And I think thing that I would add is that if you're a company that operates in multiple states, I think that we have the possibility for divergent guidance or regulatory frameworks to emerge, state to state. And that is something that could make it difficult to operate.

Chris Blöse:

I think we've spent a lot of time talking about the E and S, which is natural. Those are the ones that make a lot of headlines and I think where there's been a lot of traction over the past few years. What should a business owner or a decision maker know about governance, the G?



Chris Nicholson:

I think that from my view, I think that the governance comes in regard to how you're managing not only management, but also your policies.

What kind of attention does your board have on these issues? Are they receiving reports? What is your management structure around these issues? Who's responsible for your ESG strategy? Who's responsible for your climate strategy? What policies do you have that support the personal and professional growth of your employees? What policies do you have that support the diversity of your workforce?" Or frankly, "What policies and procedures do you have that allow you as a company to support the communities that you're involved in?"

But really it's kind of being that good corporate citizen. How is the business impacting the communities that it serves in a positive way? And that is becoming more of an expectation rather than an icing on the cake thing.

Chris Blöse:

If you hadn't heard of ESG before today, welcome to an emerging and evolving concept in business. If you had, we hope you gained some new ideas for preparing your own company for what's to come.

Thanks to Chris Nicholson and Matt Welch for joining us today, and thank you for listening. Get related resources for your business and listen to future episodes at [regions.com/commercialpodcast](https://www.regions.com/commercialpodcast). And subscribe to this podcast on your favorite podcast service.

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