

# Chapter 9

## Investors Views on Sustainability Assurance and Its Impact on Investment Decisions


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### **ABSTRACT**

*This study explores the importance of independent assurance of sustainability reports to investors and its impact on their investment decisions. A survey was conducted targeting professional investors from large investment firms in developed countries. The findings reveal that the majority of investors consider ESG information and independent assurance of sustainability reports when making investment decisions. Investors employ different approaches to assess ESG information and agree that public listed firms should annually publish ESG information that is subjected to independent assurance. Investors identified several benefits of independent assurance, including increased trust and credibility, reduced risk, better engagement from the board and CEO, strengthened internal reporting systems, and improved*

DOI: 10.4018/979-8-3693-9714-5.ch009

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*communication with stakeholders. The study contributes to the existing literature by verifying the importance of independent assurance of sustainability reports from an investor's perspective and provides implications for practitioners and future research.*

## **1.0 INTRODUCTION**

Environmental, Social and Governance (ESG) has emerged as one of the fastest growing phenomena in the business-government-society domain (Kim & Yoon, 2023) and has been drawn into the field of investments. Sustainability or ESG disclosures are increasingly being considered by investors when they evaluate a company's strategy, risk profile and ultimately, its long-term value as an investment (Strott et al., 2016). Although research on sustainability and ESG reporting has grown significantly in recent years, there has been limited empirical evidence to date whether independent assurance of sustainability or ESG reports, which are otherwise not verified by a third party, is something that investors consider in their investment decisions. Verifying the accuracy of sustainability or ESG reports and ensuring their compliance with relevant standards is a crucial function of independent assurance. Whilst the independent assurance of financial reports and disclosures has long been a mandatory practice for publicly listed firms, the same process for ESG disclosures and sustainability reports remains largely voluntary across most jurisdictions. Nevertheless, the number of firms choosing to seek independent assurance for sustainability reports is growing according to the Global Reporting Initiative (GRI) database and KPMG's Sustainability Reporting Survey (2022).

Apart from sustainability reports, ESG rating providers are becoming increasingly important for investors to assess and compare non-financial performance of entities over time (Sridharan, 2018). ESG raters are now possibly impacting the returns on an ever-expanding pool of investments, as well as strategic decisions of companies. Currently, there are a few firms providing sustainability ratings on organizations and the collective influence of these external rating agencies is only set to grow in the future as ESG disclosures become mainstream. Some of the leading companies that provide ESG information and ratings include Bloomberg, MSCI, Sustainalytics, CDP, RepRisk and Trucost.

An investment with a social element or purpose is generally described as a responsible investment (Hill, 2020). Expanding on the above notion, considering ESG criteria to assess investment strategies and decisions can be regarded as sustainable or ESG related investment. The total assets of sustainable funds almost reached US \$3 trillion in 2023 from a meagre US \$329 billion in 2014 and the number of sustainable funds has risen from 1,714 in 2014 to 7,485 in 2023 (UNCTAD, 2024). Similarly, from 2022, the signatories of United Nations backed Principles for Re-

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